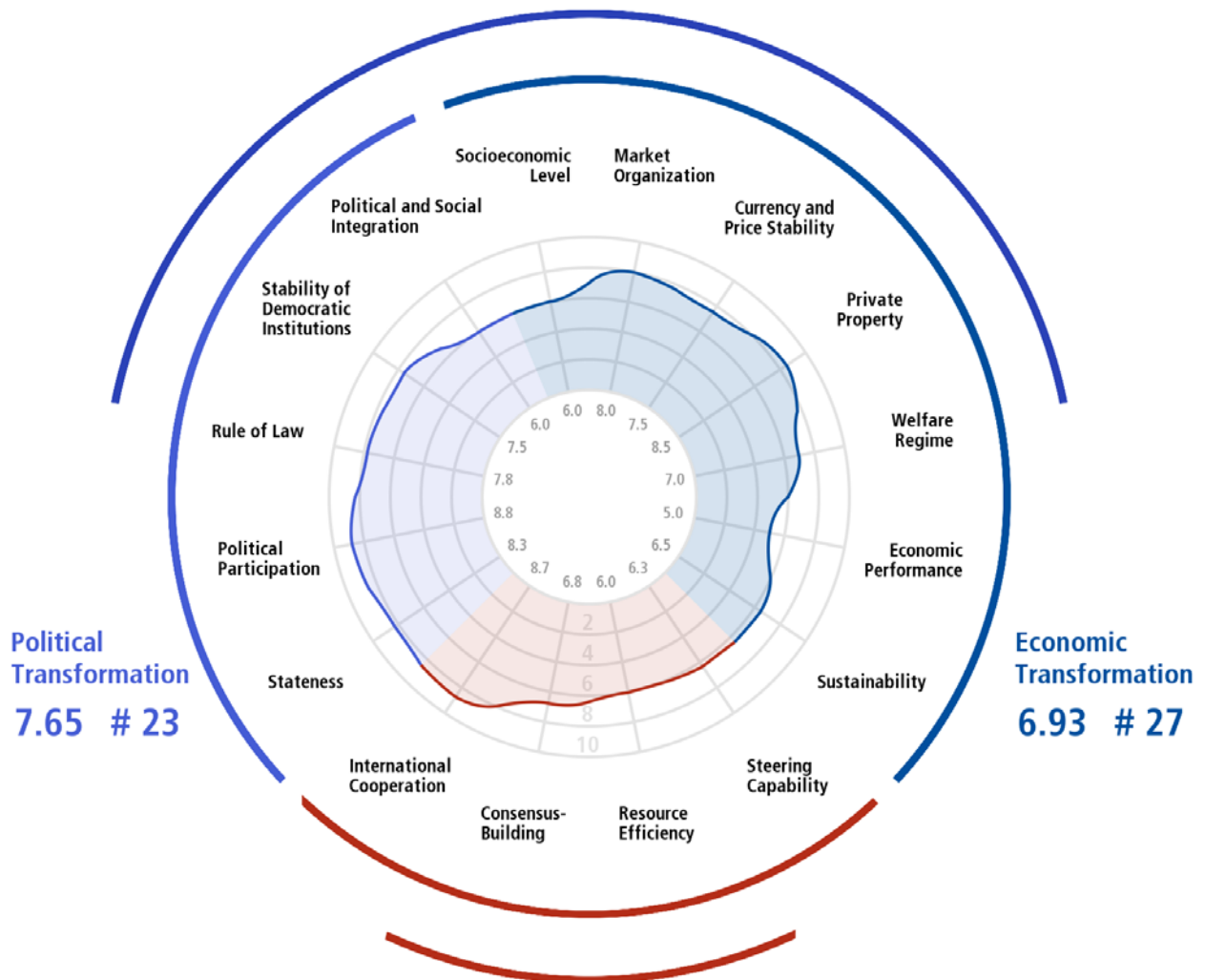


# Brazil

## Status Index

**7.29 # 22**

on 1-10 scale out of 129



**Political Transformation**  
**7.65 # 23**

**Economic Transformation**  
**6.93 # 27**

## Governance Index

**5.95 # 30**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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## Key Indicators

Population	M	207.7	HDI	0.754	GDP p.c., PPP \$	15128
Pop. growth <sup>1</sup>	% p.a.	0.8	HDI rank of 188	79	Gini Index	51.3
Life expectancy	years	75.2	UN Education Index	0.722	Poverty <sup>3</sup>	% 9.3
Urban population	%	85.9	Gender inequality <sup>2</sup>	0.414	Aid per capita	\$ 4.8

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The period under review was characterized by the most serious political and economic crisis since Brazil's return to democracy, with one of the biggest corruption scandals in Brazilian history. The scandal at state oil company Petrobras led to dozens of indictments of corporate executives and high-ranking politicians, among them several members of Congress and heads of Brazil's largest construction companies. 2015 and 2016 saw numerous mass demonstrations against corruption. After a highly controversial impeachment process, President Dilma Rousseff was suspended in May 2016 and removed from office in August. The impeachment proceedings against Rousseff were justified not by allegations of corruption, but rather of breaching budgetary laws. In public statements, however, impeachment proponents repeatedly attempted to link Rousseff with corruption. While the judiciary's fundamental role in the fight against corruption is generally acknowledged, critics point out that politicization of the courts has exacerbated the crisis.

This significant deterioration has challenged the stability of democratic institutions. Among elites, a secure democratic consensus and solid behavioral compliance with democracy no longer exists. Powerful social groups and large segments of the political class were prepared to use the instrument of impeachment provided by the constitution to remove a democratically elected president from office. Even if this is not a "cold coup," and the legality of the impeachment is ultimately accepted, the whole process made clear that the singular objective was to remove Rousseff. The volatility and fragmentation of the party system has become very evident during the review period. Likewise, social capital and approval of democracy have witnessed palpable decreases.

While there have been no major changes to Brazil's market economy, slowing revenues and growing real expenditures have put the country's macroeconomic stability under pressure. A record primary deficit and rising gross public debt are but two examples. Economic performance has been acutely disappointing. Brazil ended 2015 with an economic contraction of 3.8%, its worst result in 25 years. In 2016, the economy fell by 3.5%. Industrial production contracted by 6.6% in

2016, its third consecutive year of negative growth. The average number of unemployed in 2016 was 11.8 million (11.5%), the highest in the country's history.

Particularly serious are intensifying conflict and polarization in Brazilian society. This polarization is primarily the outcome of reforms initiated by former Worker's Party-led (PT) governments. Many of the rich became even richer, while many of the poor rose to what in Brazil is called "the new middle class." The more the political and economic crisis has intensified in recent years, the more regional and social cleavages have resurfaced. While the former PT governments' policies were increasingly perceived negatively in the rich southeastern states, the much poorer northeastern states continued to support President Rousseff. The repolarization of social conflicts also manifests itself within the party system, especially in the fierce hostilities against the PT among their conservative opponents (parties and media).

## 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 1984, Brazil experienced the most massive political mobilization in its history in connection with a campaign calling for the direct election of a democratic president. However, the armed forces insisted on the indirect election of the first civil government since 1964. Tancredo Neves was elected president by an electoral assembly in January 1985, but died before he could take office. The office was assumed by the elected vice-president, José Sarney (1985 – 1990). A new democratic constitution took effect in October 1988. The transition to democracy was completed in March 1990, when 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 internationally renowned sociologist Fernando Henrique Cardoso won the presidential elections in October 1994. In 1998, after the constitution was amended to allow his reelection, Cardoso became the first president in Brazilian history to be elected to a second term of office (1999 – 2002). On October 27, 2002, Luiz Inacio da Silva (popularly called "Lula"), a former union leader and Workers' Party (Partido dos Trabalhadores, PT) chairman, was elected president. In October 2006, Lula was reelected to a second term of office (2007 – 2010). Lula managed to ensure the nomination and election of his protégé, Dilma Rousseff, as his successor. Rousseff was elected in October 2010 and took office as Brazil's first female president in January 2011. In October 2014, Rousseff was reelected for a second term, receiving 51.65% of the vote, the narrowest victory by a candidate in all presidential elections held since the 1980s. After a highly controversial impeachment process, Rousseff was suspended in May 2016 and removed from office in August. The impeachment proceedings were justified by allegations of breaching budgetary laws. In public statements, however, impeachment proponents repeatedly tried to link Rousseff with the enormous corruption scandal at state oil company Petrobras. Vice-President Michel Temer became Acting President in May 2016 and was sworn in as President for the remainder of the term in August.

After the end of World War II, Brazil's transformation toward a market economy was guided by the concept of import substitution industrialization. The developmentalist period lasted until the 1980s. During this time, the Brazilian government set priorities for industrialization and was a primary actor in industry. State-owned enterprises played a central role in many sectors and the state development bank provided funding for areas deemed by government planners to be of high priority. During the 1990s, a partial reversal of the developmentalist model took place, preparing the ground for privatization and a liberalization of the economy. When President Lula took office in 2003, the government decided the state needed to resume a more active role in industrial development, while taking decisive steps to relieve poverty and reduce inequality. The Lula administration followed a course of fundamental continuity with the macroeconomic policies mapped out under Cardoso. Until 2012, Brazil experienced a period of unbroken macroeconomic stability and noticeable improvements in well-being. Sound economic policies and countercyclical measures helped the country weather the 2008 global financial crisis with relatively minor hardship. However, changes in the external environment (i.e., the end of the commodity boom) have revealed structural problems in Brazil's development model. Slowing revenues and growing real expenditures have put the country's macroeconomic stability under pressure, causing a record primary deficit and a rising gross public debt. Economic performance in 2015 and 2016 has been acutely disappointing.

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

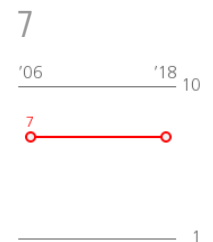
#### 1 | Stateness

The state's monopoly on the use of force is established nationwide in principle, but does not function completely. Civilian authorities generally maintain effective control of the federal security forces, but there are reports that state-level security forces have committed numerous human rights abuses such as unlawful killings, use of excessive force, beatings, abuse, and torture of detainees and inmates. Federal, state and military police often enjoy impunity in cases of torture, as in other cases of abuse. In several large cities, the state is unable to completely guarantee private and public security. There are generalized problems related to the failure of security policies and persistent deficiencies in law enforcement. Organized crime funded by weapons and drugs trafficking is extremely powerful in several metropolitan areas, including São Paulo, Rio de Janeiro and Recife. The so-called Triple Frontier, between Argentina, Paraguay and Brazil, serves as a transnational hub of organized crime, including illegal drugs smuggling, sex trafficking and money laundering.

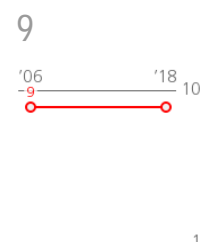
All citizens are accorded the same civic rights, and the vast majority fundamentally acknowledge the state's constitution. Although a large number of people continue to encounter major difficulties in exercising their basic rights, ethnic, religious and cultural minorities are not systematically excluded from political citizenship, on either a de jure or de facto basis. Migration to Brazil has increased in recent years. A large number of Haitians have come to Brazil, through the Amazon, in search of jobs and better living conditions. Other countries that stood out in sending immigrants were Ghana, Bangladesh, Senegal and Angola. This expansion in immigration has brought challenges. Despite its internationally recognized receptivity, Brazil has observed an increase in cases of xenophobia. Also, many foreigners in Brazil suffer from precarious living conditions. With the country becoming more attractive for illegal immigrants, the incidence of human trafficking is increasing.

Question  
Score

Monopoly on the  
use of force



State identity



The state is secular. Religious dogmas have no noteworthy influence on the country's legal order or political institutions. Nevertheless, the number of elected representatives from evangelical and Pentecostal churches has increased in the recent past. Evangelical politicians form the “biblical bloc” in Congress, accounting for a total of 199 seats in the 513-seat lower house. These legislators have had significant influence in the discussion of gender-related issues such as abortion, same-sex marriage and family planning in the Chamber of Deputies. Hence, an increased and organized presence of religious dogma can be seen as affecting specific decisions within Brazil. Eduardo Cunha, President of Congress when the impeachment proceedings against former President Dilma Rousseff began and the main figure promoting the process, is one of the most prominent examples of political evangelicalism. While some critics spoke of “evangelical pressure” against Rousseff, the impeachment has not been a specifically evangelical process; it would have taken place without the evangelicals.

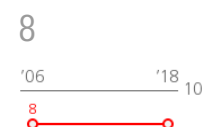
No interference of religious dogmas



1

The administrative structures of the state provide most basic public services throughout the country, but their operation is to some extent deficient. In 2015, 98% of the population had access to a water source and 83% to sanitation. The state apparatus operates efficiently and professionally in some regions, while others are still characterized by clientelism and patronage, demonstrating considerable need for reform. Further problems are caused by widespread corruption and organized crime and violence. A climate of lawlessness in certain remote parts of the country and in the slums of some large cities is aggravated by a weak judiciary and an often violent police apparatus.

Basic administration



1

## 2 | Political Participation

There are no essential constraints on free and fair elections. General elections are conducted regularly on the national level, universal suffrage with secret balloting is ensured, diverse parties with varying platforms are able to run and political posts are filled according to the outcome of elections. Legal regulations provide for a fair registration procedure for all elections; candidates and parties are not discriminated against. The electoral management body is impartial and effective. All citizens are allowed to compete in elections if nominated by a registered political party. Elections are regulated by Law No. 9.504/97, which is periodically adjusted so as to reduce inequalities in the electoral process caused by abuses of economic and political power. The Supreme Electoral Court enforces these rules and actively sanctions politicians and organizations that do not respect the law. Political parties operate without restriction. Candidates and parties have largely equal opportunities of access to the media and other means of communication. All adult citizens can participate in national elections. Registration and voting are compulsory. In practice, nearly all

Free and fair elections



1

citizens of voting age are registered. Voting is accessible, secure and secret to ensure effective participation.

Given the huge corruption scandals linked to undeclared campaign funds, campaign funding practices have tainted the electoral process in Brazil. The abuse of economic and political power is of concern. Bribe monies obtained for public contracts are allegedly being used in campaigns.

Elected rulers have the effective power to govern. There are no individuals or groups who have the power to undermine democratic procedures. The military is effectively subordinated to civilian decision-makers. The clergy, business elites and external actors cannot be regarded as veto powers. However, there are powerful landlords in some rural areas who have strong influence on the local judiciary and police forces, and who respond violently to attempts at agrarian reform and other legal activities.

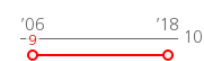
The constitution guarantees the unrestricted freedoms of association and assembly, and these rights are enforced. Brazil has also ratified international human rights treaties that obligate the government to safeguard the freedoms of expression and association. There are no restrictions on assembly and association for particular groups. The government does not use intimidation, harassment, nor threats of retaliation to prevent citizens from exercising their rights to association and assembly. Groups are able to operate free from unwarranted state intrusion or interference in their affairs.

The freedom of assembly and organization is not threatened by the government, though it is somewhat constrained by the threat of violence from organized crime in urban and rural areas. In 2015 and 2016, numerous mass demonstrations against corruption took place, many directed against the government of then-President Dilma Rousseff. Most demonstrations were peaceful, but in some cases independent organizations reported the excessive use of force by police and law enforcement officials.

The constitutional guarantees of freedom of expression are strong. Generally speaking, the freedoms of opinion and the press are unrestricted and respected. There are no government restrictions on access to the Internet. Brazil is a cofounder of the Open Government Partnership and enacted an Access to Information Law in 2011. However, violence against journalists, especially those who focus on organized crime or corruption, often compromises these guarantees. Seven journalists were murdered in 2015 alone. The rising level of violence against journalists and lack of political will to protect journalists effectively have caused Brazil to fall from rank 58 in 2010 to rank 104 out of 180 countries in the 2016 World Press Freedom Index.

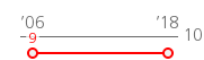
Effective power to govern

9



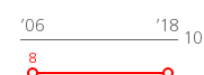
Association / assembly rights

9



Freedom of expression

8





The national media are free from federal government pressures and provide vigorous reporting on controversial issues and government performance. While Brazil's national media enjoy unrestricted freedom, in some regions major landowners or industrialists are also legislators or state governors and own the most important local media outlets. As a result, these individuals control opinion-making in their regions. Media ownership in general is highly concentrated and information is often biased in favor of private power interests.

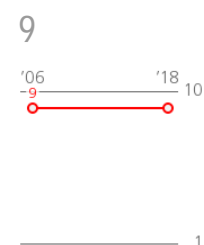
### 3 | Rule of Law

The principle of the separation of powers is explicitly contained in the 1988 constitution. The powers of the federal government are divided horizontally among the executive, the legislative and the judicial power. There are almost no restraints on the basic functions involved in the separation of powers, and 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. In addition, 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. On numerous occasions, the Supreme Court has abolished laws because of perceived constitutional violations. Brazil has a federal system of government in which governmental powers are divided among the federal government, the states and the local authorities.

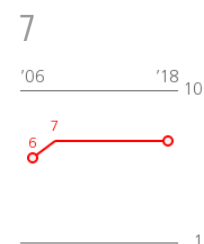
During the current review period, the de facto separation of power has not always functioned. One example is the recent instrumentalization of the constitution by Congress to remove a democratically elected president.

The judiciary is institutionally differentiated and largely independent from government intervention. Courts usually manage to control whether government and administration conform with the law. There is ample authority granted to judges to evaluate the constitutionality of the government's acts. The efficiency of the judicial system is partially restricted by limited capacity and corruption. The judicature is heavily overburdened. There are vast disparities in citizens' abilities to access legal counsel and the administration of justice, due to extreme inequalities in the resources available to citizens. Brazilian law is heavily procedural. Despite repeated attempts at reform, the legal system still operates inefficiently. Corruption within the judiciary is also a problem. Pressure on the judiciary by powerful political and economic

Separation of powers



Independent judiciary



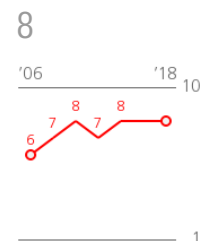
interests was, until a few years ago, a problem particularly at the local and regional level. However, in the corruption investigations that have been ongoing since 2015 and the impeachment proceedings against President Rousseff carried out in 2016, the national judicial institutions have also been criticized. Legal means have been exploited to remove a democratically elected president. Federal Judge Sérgio Moro, the lead prosecutor of Operation Lava Jato (Operation Car Wash), an investigation into state corruption involving the awarding of public contracts to private companies, was accused of unilaterally investigating members of the PT. He published an illegally obtained recording of a telephone conversation between then-President Dilma Rousseff and former-President Lula da Silva for political reasons. The judiciary has never objected to the instrumentalization of the impeachment process to remove a democratically elected president from office. In a country experiencing a profound political crisis of representation, the politicization of the judiciary has helped to exacerbate this crisis.

Widespread corruption has long been a central problem for Brazilian society. Politics and the economy are confronted with systemic corruption. Political impunity has historically been deeply ingrained in the country. The introduction of transparency mechanisms has significantly increased the detection of corruption over the past 10 years. However, political corruption has not decreased, but rather increased. The number of public servants and elected officeholders suspended or removed from office by the courts or by government agencies responsible for oversight of the bureaucracy has increased tremendously in recent years.

Since the middle of the last decade, two major corruption scandals have shaken the country and its political system; these involve politicians, political operatives, and businessmen accused of corruption. The first, a vote-buying scheme in Congress, was revealed in 2005. The investigation originated in Congress with a Parliamentary Commission of Investigation and concluded in 2012 with guilty verdicts from Brazil's Supreme Federal Court for twenty-five persons. Twelve were sentenced to unprecedented prison terms, including a former presidential chief of staff, the speaker of the lower House of Congress, and the president and the treasurer of the PT.

The second case was brought to light in early 2014 on allegations of large-scale corruption against state oil company Petrobras. This investigation has led to dozens of indictments of large-scale entrepreneurs and high-ranking politicians, among them a significant number of members of Congress and the heads of Brazil's largest construction companies. The imprisonment of top corporate executives and politicians has receded the feeling of impunity in the country. The corruption scandal fueled a national crisis that led to the impeachment and removal of President Dilma Rousseff. The impeachment proceedings against Rousseff were justified not by allegations of corruption, but rather of breaching budgetary laws. In public statements, however, impeachment proponents repeatedly tried to link Rousseff with corruption.

Prosecution of  
office abuse



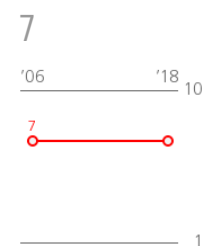
There is no doubt that numerous PT politicians were corrupt. However, politicians of almost all other parties were also involved in corruption. Some politicians from other parties have been condemned, but the zeal of the judiciary has been particularly directed against the PT. Critics also stress that the impeachment procedure against Rousseff was set in motion by a Senate president who faced numerous corruption charges and who has since lost his own office because of corruption. In addition, dozens of deputies who voted for the impeachment of Rousseff were themselves under investigation for corruption. Existing laws and transparency mechanisms have helped to uncover cases of corruption, but have not been able to prevent them.

The Brazilian constitution contains comprehensive guarantees for the protection of civil rights. It promises to promote the well-being of all citizens, without prejudice as to origin, race, sex, color, age or any other potential ground for discrimination. Men and women have equal rights and duties. The freedom of religion is guaranteed. Mechanisms and institutions to prosecute, punish, and redress violations of civil rights are in place, but often prove ineffective. In spite of constitutional guarantees, violations exist in practice, particularly in rural areas and urban slums. Brazil has a very high firearms-related homicide rate. Most violent crime is related to the illegal drug trade. In many states, police groups referred to as “death squads” terrorize shantytown dwellers and intimidate human rights activists. The prison system is anarchic, overcrowded and largely unfit for human habitation. Recurring mass killings in Brazil’s prisons are proof of the authorities’ failure to provide humane conditions and maintain control within the prisons. Many prisons are informally “privatized,” not run by representatives of the state, but rather by the very gangs they incarcerate. Thousands of poor Brazilians work under conditions analogous to slavery. As a consequence of violent crime, corruption, mistrust of the police and highly centralized federal legal codes, many Brazilians do not feel that they are in a position to ensure their personal safety.

On February 24, 2016, the Brazilian Chamber of Deputies approved Bill 2016/2015, legislating the crime of “terrorism” for the first time. Several social movements and organizations had expressed their opposition to the bill due to challenges that it poses to civil rights, especially freedom of expression and assembly. The United Nations Commissioner for Human Rights in South America also criticized the law because it could infringe upon civil rights. He above all criticized that the bill includes provisions and definitions that are too ambiguous. President Rousseff signed the bill, but vetoed some particularly controversial parts. Other provisions criticized by NGOs, social movements and international organizations became law.

After the impeachment of President Rousseff in 2016, many social organizations feared that the takeover by the conservative transitional government under Acting President Temer might threaten civilian achievements made over the past 12 years. These organizations perceived a reversal of recently won rights.

Civil rights



#### 4 | Stability of Democratic Institutions

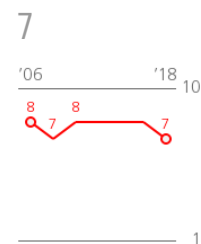
Democratic institutions exist and perform their functions, but they are not free from counterproductive friction. Governing Brazil is a complex challenge, not only because of the size, complexity and heterogeneity of the country, but also because the 1988 constitution is characterized by a tendency toward over-regulation. It gives great weight to the separation of powers between the executive and legislative branches, the cooperation between federal, state and local governments as well as the representativeness of the legislative chambers. The judicial system and autonomous institutions received extensive powers and became protagonists in recent years, consolidating themselves as important players in the Brazilian political system.

Since the return of democracy, no party has achieved an absolute majority in Congress. This means that all governments have been formed of coalitions of parties. Given the large number of parties represented in parliament, these coalitions are often composed of more than a dozen parties. This system of “coalition presidentialism” (the president obtaining the cooperation of Congress through negotiation and the use of budgetary clientelism) has permitted the implementation of far-reaching reforms. While this system has gone from being described as a “dilemma” to being understood as “ordinary politics,” it does pose challenges. Negotiation processes between the executive and legislative branches are often held in secret. This has led some experts to speak of systemic corruption. Furthermore, the stability of the system depends heavily on the negotiating skills of the president. President Rousseff, who was removed from office in 2016, did not have the necessary prerequisites to adequately play this role. She was incapable of holding the government coalition together, pursuing efficient policies and preventing her own impeachment.

The events of 2015/2016 have shown that the constitutional provisions on impeachment of the president are too vaguely formulated. Unlike in 1992, when there was consensus among the vast majority of lawyers and the political class on the validity of the charges against President Collor, lawyers, social scientists, and politicians were deeply divided on the legitimacy of the case against Dilma Rousseff. Opponents saw no valid reason for an impeachment and spoke of a “cold coup.” Even if one accepts the formal legality of Rousseff’s impeachment on the basis of what the constitution refers to as “crimes of responsibility,” the process remains illegitimate from a democratic perspective.

Other problems regarding the functioning of democratic institutions in Brazil are at the municipal and state levels. At the municipal level, in particular in small to mid-sized cities, there is a growing oligopolization of power, with a few families or clans controlling mayoral offices, very little opposition or political competition, and low levels of accountability. This is a perfect breeding ground for corruption, which is indeed a severe problem in most of these municipalities.

Performance of democratic institutions



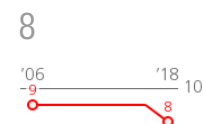
The events of 2015 and 2016 have shown that past editions of the BTI were too optimistic when assessing the acceptance of the democratic institutions by all relevant political actors. In principle, democratic institutions are accepted as legitimate by all relevant actors. The military does not play a political role. The Landless Workers Movement (Movimento dos Trabalhadores Rurais Sem Terra, MST) is not an anti-democratic organization, though it sometimes uses extralegal means and has been criticized for its confrontational relations with governing institutions. It can no longer be said, however, that at the level of elites a secure democratic consensus and solid behavioral compliance with democracy exists. Powerful social groups and large sections of the political class were prepared to use the instrument of impeachment provided for by the constitution to remove democratically elected President Rousseff from office. Even if this is not a “cold coup,” and the legality of the impeachment is ultimately accepted, the whole process made clear that the singular objective was to remove Rousseff. Low popularity, a disconnection between campaign promises and post-ballot performance, and problems in the management of key sectors are not justifications for the removal of a head of government in a presidential regime. The president’s removal for fairly technical violations of budgetary law by a Congress where a majority of members themselves face charges of corruption was a purely political move.

Another worrisome development is the increase in anti-democratic displays in the general population and from certain politicians. The increase in popularity of figures such as Federal Deputy Jair Bolsonaro, a former army parachutist who openly defends the military’s participation in politics and holds a hardline position against urban crime, is of much concern.

## 5 | Political and Social Integration

The Brazilian party system is among the most fragmented, both in the region and globally. The effective number of parties in the National Congress was 13.2 in 2015. At only 13%, the share of deputies from the president’s party in the Lower Chamber was the lowest in Latin America. The party system has been characterized by moderate polarization, a poor social support base (with the PT as an exception) and high voter volatility. The Chamber of Deputies has an open-list system of proportional representation without a barring clause. The parties present regional lists of candidates, but voters may vote directly for individual candidates. Approximately 90% of voters in fact do so. This system makes it difficult for national party leaderships to discipline elected representatives, and fosters a focus on personalities rather than institutions, particularly because political campaigns are planned and financed less by political parties than by candidates themselves. At the national level, most parties are organizationally weak. There is little party coordination or loyalty among congressional representatives.

Commitment to democratic institutions



1

Party system



1

After the end of the PT/PMDB coalition and the PT's dramatic losses in the 2016 municipal elections, the volatility and fragmentation of the party system has become even more evident. Several fringe political parties came out victorious in large cities across the country, while the PT was expelled from virtually all major Brazilian cities. In the state capitals, there are now 13 to 14 parties in charge.

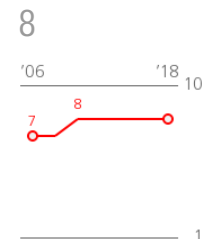
Brazil's network of interest groups is relatively close-knit reflecting most social interests, but dominated by a few strong interests. Labor and capital associations are paramount. The country's contemporary union movement was born in the struggles against the military dictatorship that ruled the country from 1965 to 1985. Following democratization there was a gradual estrangement from traditional corporatist state models. The constitution of 1988 removed the Labor Ministry's extensive powers to intervene in union affairs, but other elements of the corporatist system remained intact. All workers have to pay an annual union tax, and the power to represent all workers of a given socio-professional category in a given territory is granted to only one union. Brazilian trade unions are powerful actors. There are around 18,000 labor unions and several labor federations. The largest and most important federation, representing over 7.4 million workers in all productive areas, is the Central Única dos Trabalhadores (CUT). Entrepreneurs have a national umbrella organization. The National Confederation of Industries represents 27 industry federations in the states and Federal District with more than 1,000 associated employers' unions and almost 100,000 industrial establishments.

Brazil is one of the countries with the lowest support for democracy in Latin America. In 2016, the share of respondents that prefer democracy over any other form of government was only 32%, the second lowest percentage, ahead only of Guatemala. Support for an authoritarian regime under some circumstances reached 55% in 2016, compared to 19% in 2013. The degree of satisfaction with democracy was only 26% in 2013.

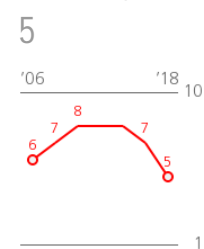
There are growing outbursts of support for the military and for military intervention. Furthermore, conservative positions have solidified in the political system, reducing tolerance toward minorities and equal rights. At the same time, important sectors linked to the left and the PT have become extremely critical of the political system due to their assessment that the impeachment process was a coup. Hence, disenchantment with the Brazilian political system runs high.

Acting President Michel Temer has not managed to convince Brazilians that his government is better than that of his ousted predecessor Dilma Rousseff. Temer took office in May 2016, following the beginning of the political trial against Rousseff. The impeachment process ended in August with the dismissal of Rousseff. The drastic austerity measures his government has pushed in Congress, coupled with accusations of corruption that forced the resignation of several senior cabinet members, quickly led to a growing rejection of his government. According to pollster IBOPE, the number of people who considered the Temer government to be "bad" or

Interest groups

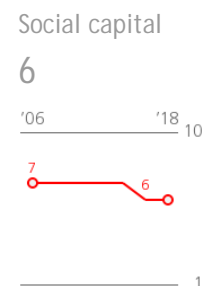


Approval of democracy



“terrible” rose to 46% in December 2016 from 39% in October. The proportion of those who believe that the Temer government was “grandiose” or “good” fell from 14% in the previous survey to 13%. Disapproval of the way Temer is governing rose from 55% to 64%.

There is a robust network of autonomous, self-organized groups and civic organizations in Brazil. Data from the Brazilian Institute of Geography and Statistics (IBGE) show that the number of NGOs is increasing. In 2010, more than 290,000 private foundations and nonprofit associations were registered, collectively employing 2.1 million persons across the country. Interpersonal trust has traditionally been very low in Brazil. In the 2011 Latinobarómetro opinion survey, only 9% of respondents considered that one could trust most people. As a consequence of the serious economic, political and social crisis, interpersonal trust has been further reduced to only 3% in 2016.



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Brazil exhibits a moderate to high level of human development according to key indicators. The country’s HDI score for 2014 was 0.755 with Brazil ranked 75 out of 188 countries. Poverty fell markedly, from 20% in 2004 to 6.8% in 2012, while extreme poverty dropped from 10% to 4%. In 2013, 2.9% of the population were multidimensionally poor while an additional 7.2% lived near multidimensional poverty. National average measures mask great disparities between Brazil’s relatively developed southern and southeastern regions and the socioeconomically disadvantaged northern and northeastern regions.



Brazil’s inequality levels remain among the highest in the world and millions of people still live in poverty. Social exclusion is pronounced and to some degree structurally ingrained. With a Gini coefficient of 51.5 in 2014, Brazil still shows one of the world’s most unequal distributions of income. The gender gap in terms of economic opportunity seems to be narrowing, but women remain at a substantial disadvantage. In 2014, Brazil had a Gender Inequality Index value of 0.457, ranking it 97 out of 155 countries. The female HDI value was 0.752 in contrast with 0.754 for males, resulting in a Gender Development Index value of 0.997. 9.6% of parliamentary seats were held by women and 54.6% of adult women had reached at least a secondary level of education compared to 52.4% of their male counterparts. For every 100,000 live births, 69 women die from pregnancy related causes. The adolescent birth rate is 70.8 births per 1,000 women of ages 15 to 19. Female participation in the labor market is 59.4% compared to 80.8% for males. Racial inequality remains a serious problem. The high-income population is essentially white, while most Brazilians who live in poverty are black.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	2472806.9	2455993.2	1803652.6	<b>1796186.6</b>
GDP growth	%	3.0	0.5	-3.8	<b>-3.6</b>
Inflation (CPI)	%	6.2	6.3	9.0	<b>8.7</b>
Unemployment	%	7.1	6.8	8.5	<b>11.5</b>
Foreign direct investment	% of GDP	2.8	3.9	4.1	<b>4.4</b>
Export growth	%	2.4	-1.1	6.3	<b>1.9</b>
Import growth	%	7.2	-1.9	-14.1	<b>-10.3</b>
Current account balance	\$ M	-74788.0	-104181.3	-59434.3	<b>-23529.6</b>
Public debt	% of GDP	60.2	62.3	72.5	<b>78.3</b>
External debt	\$ M	483765.4	556920.8	543397.3	<b>543257.3</b>
Total debt service	\$ M	82045.6	62169.5	89844.5	<b>117496.1</b>
Net lending/borrowing	% of GDP	-2.5	-5.0	-7.7	-
Tax revenue	% of GDP	13.4	12.8	12.8	-
Government consumption	% of GDP	18.9	19.2	19.7	<b>20.2</b>
Public education spending	% of GDP	6.0	-	-	-
Public health spending	% of GDP	3.8	3.8	-	-
R&D expenditure	% of GDP	1.2	1.2	-	-
Military expenditure	% of GDP	1.3	1.3	1.4	<b>1.3</b>

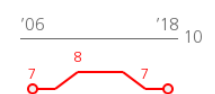
Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but the informal sector remains significant. According to a 2012 ILO study, the share of persons in informal employment in non-agricultural activities was 24.3% (20.1% of female workforce and 27.7% of male workforce). Pricing is largely unrestricted, but the government has controlled some important prices, such as electricity, fuel and transport tariffs. The use and transfer of profits is not regulated. The national currency, the real, is only partially convertible. Brazil is open to and encourages foreign direct investment. The government generally makes no distinction between foreign and national capital. Foreign and Brazilian investors in principle receive the same treatment, but specific

Market-based competition

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laws impose restrictions on foreign investment in areas such as rural property, health care, the mass media, and maritime and air transport. Some state-owned enterprises such as Petrobras are conceded preferential terms. Organizing new investment remains a quite bureaucratic process. According to the World Bank's Doing Business Report 2016, Brazil ranked 116 out of 189 economies on the ease of doing business. Recent corruption scandals have revealed that informal practices have undermined the formal institutional framework more strongly than previously assumed.

Brazil's antitrust framework is based on Law No. 12,529/2011. This law provides for a mandatory pre-merger notification system and filing thresholds. The Administrative Council for Economic Defense (CADE) may issue resolutions to regulate specific aspects of the merger control system. CADE issues a binding statement after ruling in the same direction 10 or more times. To date, CADE has issued nine binding statements. CADE has not yet issued horizontal merger guidelines. Additional sector legislation applies to regulated industries such as energy, oil and gas, banking, and telecommunications, which are enforced separately by regulatory agencies. These sector-specific rules may establish that certain mergers are subject to review by the regulatory agency. There has been a long-running dispute between Brazil's central bank and CADE over which agency has jurisdiction to enforce competition rules in the financial sector.

Brazil is an original member of the WTO and a founding member of the Southern Common Market (Mercosur). The country considers the multilateral trading system to be at the core of its trade regime. However, Brazil has retained significant vestiges of the foreign-trade policy paradigm inherited from the period of protectionist industrialization. Special exemptions and complicated registration formalities remain. Trade openness in Brazil is among the lowest in the world. The country's Most Favored Nation applied tariff rate averaged 13.5% in 2013. There are wide variations in the tariff levels applied across different industries. Average tariffs on capital and intermediate goods are among the highest in the world. Tariffs on capital goods averaged 12.1% in 2012 and the average tariff rate on intermediate goods was 11%. Brazil has also made frequent use of non-tariff measures; among the most important are local content requirements. There are burdensome procedures associated with the export and import of goods. The 2016 Doing Business Report ranks Brazil 145th out of 189 economies on the ease of trading across borders. The low efficiency of the clearance process by border control agencies is the most significant bottleneck.

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 at providing 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

Anti-monopoly  
policy

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Liberalization of  
foreign trade

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increased up to 150%. Taxes may in principle be applied to all exports, but in practice are levied on only a few products.

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. 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. Meanwhile, international investors have important roles in the capital and derivatives markets.

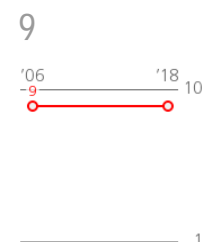
Due to appropriate policy responses and built-in financial-system buffers, the country managed to get through the global crisis remarkably well. However, the Brazilian financial system operates in a challenging environment. 121 million individuals used services provided by financial institutions in 2012. The credit to GDP ratio rose to more than 50%. This partially corrected the insufficient medium and long-term private credit supply to SMEs. Brazil's bank capital to assets ratio was 9.3% in 2013, 9.0% in 2014 and 8.5% in 2015; in 2016 it increased again to 9.3%. Bank nonperforming loans amounted to 2.9% in 2014 and 3.3% in 2015 and further increased slightly to 3.85% in 2016. Brazil's external solvency and liquidity positions remain strong, while 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.

## 8 | Currency and Price Stability

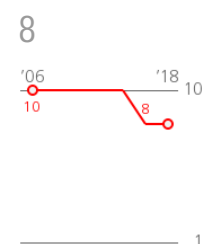
Since 1999, Brazil has followed an inflation-targeting framework for monetary policy and a floating exchange rate regime. Foreign exchange regulations have been liberalized, but without allowing full convertibility to the real. Responsibility for the formulation and conduct of monetary policy lies with the National Monetary Council (CMN), which is responsible for coordinating monetary and fiscal policies. The CMN sets annual inflation targets and monetary policy goals. Inflation and foreign exchange policies are synchronized with other economic policy goals and are institutionalized by the central bank of Brazil (BCB). The BCB is a largely independent federal institution under the organizational chart of the Ministry of Finance.

Over the last few years, annual inflation targets and the tolerance intervals remained stable at a target rate of 4.5% with a tolerance of +/-2 percentage points. However, the government found it increasingly difficult to keep inflation within this tolerance margin. Administered price increases and one of the largest depreciations among emerging market currencies have driven up inflation, forcing the BCB to raise interest rates. After reaching 9% in 2015, the inflation rate ended 2016 at 6.3%, narrowly

### Banking system



### Anti-inflation / forex policy



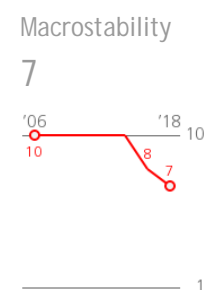
within the tolerance margin. The market expects Brazil to close 2017 with a price increase of 4.7%.

Between 2011 and mid-2013, Brazil registered record low interest rates. Since March 2013, the BCB began to raise the rate continuously, reaching 12.25% in January 2015. In January 2017, the benchmark rate was 13%.

In the aftermath of the international financial crisis, the Brazilian currency (the real) had started to appreciate vis-à-vis the U.S. dollar. Between 2009 and 2011, the real appreciated by some 20% in nominal terms against the dollar, arriving to a rate of close to BRL 1.50 to the dollar. Since then, the real has become more volatile with multiple devaluations. Between 2011 and the end of 2015, the real lost more than half of its value against the dollar.

Since the Cardoso era, Brazil has mostly followed a consistent stability policy supported in part by institutional self-constraints, but during the last four years performance weakened significantly. The 2000 Fiscal Responsibility Act subjected all levels of public administration to criteria of transparency and coordination, and made them responsible for their individual fiscal performances. Since 2012, however, slowing revenue and growing real expenditure put Brazil's macroeconomic stability under pressure. The country ended 2016 with a record primary deficit in its public accounts of BRL 155.8 billion (about \$50.3 billion), equivalent to 2.5% of GDP, the highest measured thus far by the central bank. It was the third consecutive year in which Brazilian state spending exceeded revenues. Despite the record deficit, the result for 2016 was within the government's target, which projected a deficit of BRL 163.9 billion (about \$52.9 billion). Taking into account the payment of interest on debt, which in 2016 totaled BRL 407 billion (about \$131.3 billion), the nominal deficit of Brazilian public accounts reached BRL 562.8 billion (about \$181.6 billion) in 2016, equivalent to 8.93% of GDP. The huge deficit in public accounts has become Acting President Temer's main concern. Temer has proposed to Congress a severe fiscal adjustment that would freeze public spending for the next twenty years.

The increase in expenses also caused Brazil's gross public debt to jump from the equivalent of 65.5% of GDP in 2015 to 69.5% of GDP in 2016. After reaching an all-time high of about \$379 billion in August 2014, foreign exchange reserves decreased to \$365 billion in December 2016.



## 9 | Private Property

Private property rights are well defined and property acquisition is adequately regulated. 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 gains. Contracts are considered secure. In 2016, registering property took an average of 32 days and 14 procedures.

While once criticized for lax intellectual property (IP) rights protection, Brazil has been stepping up 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 of 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 the international standards regarding patent and trademark protection. Patent processing is still very slow: The average time a patent spends awaiting approval is eight years.

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, including mining, steel, aeronautics, banking, energy, and electricity generation and distribution. The government maintains partial control over some previously state-owned enterprises, including energy giant Petrobras and power utility Eletrobras.

The World Bank's Doing Business Report 2016 ranked Brazil 116 out of 189 countries overall. 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. Foreign investment in domestic airline companies is restricted to a maximum of 20%.

In September 2016, the Temer government launched a multibillion-dollar plan to auction off oil, energy distribution rights and infrastructure concessions in an attempt to bolster private investment. The government will sell operating licenses for airports in the cities of Porto Alegre, Salvador, Florianopolis and Fortaleza. It also plans to sell rights to operate federal roads in the central-western and southern regions. The government will also privatize six power distributors owned by state-run power holding company Eletrobras.

### Property rights

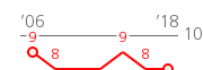
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### Private enterprise

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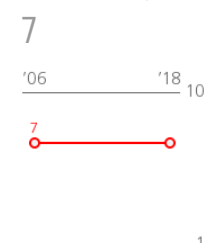
## 10 | Welfare Regime

Social welfare networks to compensate for old age, illness, unemployment and disability are somewhat developed, but do not cover all risks for all strata of the population. Over the past two decades, Brazil has carried out significant reforms to expand the coverage, quality and efficiency of its health system and strengthen its safety net. Nevertheless, significant portions of the population still lead an existence on the margins of poverty and hunger. Public expenditure on health accounted for 3.2% of GDP in 2013. Life expectancy at birth was 74.4 years in 2014.

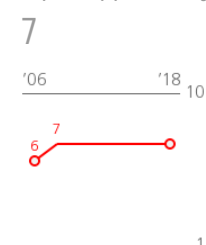
PT governments launched several high-priority social initiatives, including efforts to eradicate hunger (Fome Zero), create youth employment (Primeiro Emprego) and unify conditional cash transfer programs to enhance effectiveness in reducing poverty (Bolsa Família). The Bolsa Família program has been credited with helping to significantly reduce levels of absolute poverty and inequality. Launched in 2003 and funded on less than 0.5% of the country's GDP, it facilitates small cash transfers to more than 50 million Brazilians whose income places them below the poverty line. Prerequisites for obtaining benefits are school attendance and health checks for children. Impact evaluations demonstrate that the program has significant positive impacts on poverty reduction and human capital. After taking office in 2011, President Rousseff launched a new federal program aimed at wiping out extreme poverty. The aim of the Brazil Without Extreme Poverty (Brasil Sem Miséria) scheme is to expand other health and education programs, while directing more money to Brazil's poorest regions. The plan has three axes: income transfers, access to services and productive inclusion. By the end of 2012, the program had added 2.8 million extremely poor people to a new, single list of potential welfare recipients. Taken together, spending on social assistance programs has increased substantially from 1.5% of GDP in 2000 to about 2.6% in 2014.

Equality of opportunity is still only partially achieved. 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 ratio of 1.1 in secondary and 1.4 in tertiary education (though overall tertiary gross enrollment is significantly lower than in Chile or Argentina). Women's rights have expanded in the home, the work place and in land ownership. In 2014, women comprised 46.1% of the work force and earned about 74.2% of the income earned by men. Brazil imposed quotas on political parties, requiring that 30% of candidates be women. In 2014, 2,057 women ran for congress (30.45% of congress candidates) and 4,880 for state legislators (30.04% of state legislator candidates). However, women won a mere 51 of the 513 seats in the federal lower house and 11 out of 81 in the senate. Among a total of 171 candidates for Brazil's 27 state governorships, only 17 were women and only one woman was elected governor. While President Rousseff's cabinet, during her first term, featured a record number of female ministers (a total of 10, comprising

Social safety nets



Equal opportunity



26% of cabinet members), less than half a dozen women were part of President Rousseff's second term cabinet. The first cabinet of Acting President Temer was much more disappointing; all cabinet members were white men. Temer's government marks the first time since the 1970s that a Brazilian cabinet features no women.

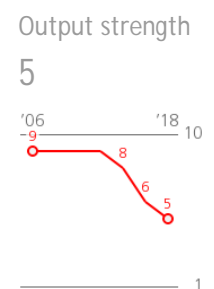
While the law prohibits racial discrimination, the PT administration's social investment initiatives seem to have had only a limited impact on the country's historically marginalized communities of African or indigenous descent. There are approximately 90 million Afro-Brazilians. They continue to represent a large percentage of the country's poor, and only a small percentage of the professional and managerial middle and upper classes. Most urban Afro-Brazilian women still work mainly as cleaners, laundry workers, maids or nannies. A sizable education gap continues to be a major constraint to any rapid change.

According to the 2010 census, there are about 817,000 indigenous people living in Brazil, or 0.42% of the total population. Brazil has signed the Universal Declaration of Human Rights; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social and Cultural Rights; ILO Convention 169; and the U.N. Declaration on the Rights of Indigenous Peoples. Human rights monitors often report confrontations over land ownership or resource exploitation rights. Due to limited state presence in remote areas, authorities are often unable to provide the required protection. Critics have blamed the Rousseff administration for failing to comply with international agreements on the rights of indigenous peoples, for example by pushing forward with the construction of hydroelectric power stations on indigenous lands and by generally turning a blind eye to indigenous issues.

## 11 | Economic Performance

Brazil ended 2015 with an economic contraction of 3.8%, its worst result in 25 years. The economy fell by 3.5% in 2016. 2015 and 2016 represent the first consecutive years of negative growth since the 1930s. Industrial production contracted by 6.6% in 2016, its third consecutive year of negative growth. The sectors whose retraction weighed most on the fall of industrial production were mineral extraction (-9.4%), refining and fuel production (-8.5%) and automotive production (-11.4%). The average number of unemployed in 2016 was 11.8 million, 37% higher than in 2015 (8.6 million) and the highest number in the country's history. The average unemployment rate also reached a record level in 2016, reaching 11.5% of the economically active population, well above the 2015 average (8.5%) and the highest since the measure became more rigorous in 2012. The average number of people employed fell from 92.1 million in 2015 to 90.4 million in 2016.

In January 2017, Brazil recorded a surplus in its trade balance of \$2.725 billion, the highest balance in January since 2006 and almost three times higher than January 2016. The January trade balance result maintained a trend from 2016, when Brazil



obtained a record surplus of \$47.690 billion, more than twice the 2015 surplus (\$19.69 billion). In 2016, however, the high trade balance was attributed to a sharp fall in imports rather than an increase in exports. While exports were down 3.18% in 2016 compared to 2015, imports fell 19.78%.

Foreign direct investment (FDI) totaled 4.2% of GDP in 2015, up from 4% in 2014 and 2.8% in 2013. Brazil collected BRL 1.29 trillion (\$416 billion) in federal taxes in 2016, down 2.97% in real terms from 2015. Gross capital formation reached 17.7% of GDP in 2015, down from 20.9% in 2014.

## 12 | Sustainability

Brazil has developed many of the legal and institutional instruments necessary to reconcile development and environmental protection, including water management, forest protection and biodiversity regulations. Nevertheless, it has shown only mixed success in dealing with deforestation and other major environmental challenges. Ecologically sustainable development is an issue in some sectors of the economy, but often tends to be subordinated to economic growth targets.

One of the greatest challenges is the achievement of sustainable development of the Amazon Basin. The boom in the Brazilian agribusiness industry is pushing agricultural frontiers toward the Amazon region, with a significant environmental impact. Other factors contributing to deforestation include mining, oil and gas projects. The country ranks third worldwide in terms of annual greenhouse gas emissions, accounting for 8% of the world's total. About 75% of Brazil's emissions come from rainforest clearing, as vegetation burns and felled trees rot. In 2015, deforestation jumped 29% over 2014, representing a sharp increase over the historically low deforestation rate seen just five years ago and the highest level recorded in the region since 2008.

Brazil is the world's second-largest producer of ethanol, and is the largest ethanol exporter. Environmental and social impacts associated with ethanol production are important challenges to biofuel production in Brazil. The expansion of sugarcane crops to areas presently cultivated for soybeans represents a further threat because it may increase deforestation pressure associated with soybean crops in the Amazon region.

Brazil gets 46% of its energy and 89% of its electricity from renewables, of which the bulk comes from large-scale hydropower plants. The construction of new hydroelectric power plants requires the construction of dams and the flooding of large areas, thus altering the ecosystem. The Rousseff government combined its strategy of hydropower expansion in the Amazon with an increased reliance on fossil fuels. In its ten-year national plan, the Ministry of Mines and Energy expected more than 70% of energy investments to go into fossil fuels, much of it for offshore drilling, and

Environmental  
policy

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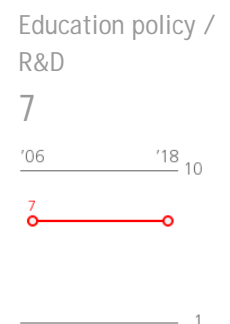
only 9.2% of it for renewables. Not only are renewable sources like wind, solar and biofuels still marginal, but between 2008 and 2013, Brazil's investment in renewables fell from \$12 billion to \$3 billion. The trend then reversed: in 2015, Brazil invested \$7.7 billion in renewables energy, a 40% growth on 2014.

After the 2014 parliamentary elections, numerous representatives of the agribusiness lobby became members of Congress. The conservative National Congress has begun to pass a wave of legislative initiatives, which taken together, would dismantle much of the nation's body of law protecting the environment and indigenous people.

Brazil's investment in education is higher than in most OECD countries. It increased from 4.1% of GDP in 2005 to 5.5% of GDP in 2013. Public spending on education represented 16.1% of total public expenditure in 2013, well above the OECD average of 11.3%. Spending has also become more equitable, through measures such as the provision of additional federal funds to poorer states. In recent years, Brazil has experienced impressive developments in education, especially concerning enrollment rates. The average number of years spent in education for adults aged 25 years or over increased from 6.4 in 2004 to 7.7 in 2013. During the same period, the proportion of the population aged between 25 and 34 years that had achieved a tertiary education doubled from 8.1% to 15.2% of the respective population. Brazil's Gender Parity Index (GPI) ratio for gross enrollment is 1.0 for primary education, 1.1 for secondary education and 1.4 for tertiary education.

Brazil's most pressing educational problems are related to the quality of teaching. This is demonstrated by the 2015 PISA study in which Brazil's results were significantly lower than the OECD average. The average performance of students in Brazil in science was 401 points (OECD average: 493), in reading 407 points (OECD average: 493) and in mathematics 377 points (OECD average: 490). However, the fact that Brazil has managed to integrate newly enrolled students without a decline in its overall performance is a positive development. While results have remained stable in science since 2006 and in reading since 2000, Brazil's performance in mathematics has improved by 21 points since 2003. The National Plan for Education approved by Congress in 2014 called for increasing educational expenditure to 10% of GDP, reaching universal enrollment in preschools for children aged 4 to 5 and enrollment of at least 50% for children up to 3 years of age by 2021.

Brazil's emerging economy has some leading firms and is excellent in some high technology fields. A few universities undertake high-quality research. This performance, however, does not spill over to the economy as a whole. Research output is still low compared to OECD countries both in terms of articles published in leading international scientific journals and patents and trademarks. Gross expenditure on research and development between 2012 and 2014 was equivalent to 1.3% of GDP. Availability of funding for higher education, research and development diminished drastically in 2016 at the federal level. CNPq and Capes significantly reduced funding both to institutions and individual researchers.



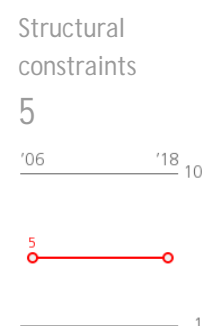


## Governance

### I. Level of Difficulty

Structural constraints on governance range from moderate to high. Brazil is not a poor country; nonetheless, serious socioeconomic inequalities divide population groups and regions. The country exhibits an average level of development and educational standards. It is an ethnically heterogeneous and highly secular society. Although around 40 million people have overcome poverty since 2003 and extreme poverty has almost been eradicated, inequality and significant regional disparities continue to present major challenges. The literacy rate is 92.6% (2015 U.N. estimate). Functional illiteracy continues to be a major problem throughout Brazil. Child mortality has fallen, maternal health has improved, and efforts to combat HIV/AIDS, malaria and other diseases all have steadily strengthened. Brazil's AIDS program has had a significant impact both on attenuating the epidemic and on improving the quality of life for people living with HIV/AIDS. A major challenge to development is urban violence, the incidence of which has increased alarmingly, affecting the population's security and quality of life. Brazil's economic growth potential is limited by the so-called Brazil cost (*custo Brasil*). This refers to the increased operational costs associated with doing business in Brazil, making Brazilian goods more expensive than those produced elsewhere. Brazil's transportation infrastructure, including airports, roads, rail and ports, requires significant improvement.

Brazil has moderate to strong traditions of civil society. Historically, political and social participation was a habit of the elites, while the inclusion of significant portions of the population was not deemed a high priority. This has changed somewhat since the final years of the military regime and the early years of civilian government. The country's 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 in helping the urban poor organize to claim public goods. There is also a group of associations strongly connected with the state in the implementation of public policies. This group has deep links with the left political tradition in Brazil and strong ties with the Workers Party. There has been a change in the focus of civil society participation during the last three decades. During the eighties, 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-nineties on,

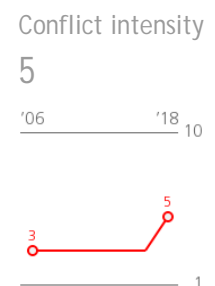


it became concerned with participation in various areas of public policy and with joining the state in the implementation of participatory forms of public deliberation. In recent years, civil society has undergone a significant transformation. A wave of unanticipated public protests reflected a society shaped by new technologies, new ways of organizing, and people's newfound confidence in expressing their concerns and claiming their rights.

The available data make reliable statements about social trust in Brazil difficult. While in the 2016 Latinobarómetro opinion survey, only 3% of respondents considered that one could trust most people, the OECD's 2015 Better Life Index states that there is a moderate sense of community and high level of civic participation in Brazil. 90% of people believe that they know someone they could rely on in time of need.

The intensity of social and political conflicts has increased in recent years. The massive social protests since 2013 have shown that Brazilian society is increasingly polarized. This polarization is primarily the outcome of reforms initiated by PT governments since 2003. Many of the rich became even richer, while many of the poor rose to what in Brazil is called "the new middle class." The latter were suddenly able to afford goods and services that had previously been reserved for the upper middle class (who suddenly saw their own "privileges" and lifestyle threatened). Many progressive young people and movements favor deepening democracy based on values such as equality, justice, plurality, and diversity. They protest against hierarchies, oppression, and abuses conducted by the state: for example, violence, institutionalized racism, and criminalization. They demand from the state improvements in public services and human-friendly cities. On the other extreme are those who see their privileges threatened: a large share of economic and media elites. A common theme among all, however, is the fight against endemic corruption. The PT has become a vilified obsession for a large share of conservative elites. This has nothing to do with normal political confrontation, but rather tends toward thinking in categories of friend and foe.

There are no irreconcilable ethnic, religious or social clashes in Brazil, but there are extreme social and regional disparities. Social life in Brazil is characterized by the largely peaceful manner in which a multiplicity of ethnic groups lives together. However, racial inequality is still a serious problem. Brazil continues to be an extremely unequal country, and racism is an important element in understanding the dynamic of this framework of inequality. The high-income population is essentially white, while most Brazilians who live in poverty are black. The main source of violence in Brazil is criminal rather than political. There is a high rate of criminal activity in major cities, where 25% of the population is believed to live in favelas or shantytowns. Violence is no longer purely an urban phenomenon, but has spread to the countryside. An imbalance in land distribution leads to episodic violence in rural areas, a particular problem in the Amazon. In spite of some experiments with



innovative policies to reduce crime and violence in major cities, it has not been possible to systematically reduce the endemic violence afflicting Brazilian society.

## II. Governance Performance

### 14 | Steering Capability

Brazilian governments are obliged to present a mid-term plan, which should guide the government's formulation of the annual budget. The successive Workers Party (PT) administrations have been strongly committed to the goals of constitutional democracy and a socially responsible market economy.

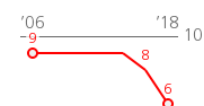
The economic, political, and social crisis of the past few years, increasing social polarization, and frictions within the government coalition have led to strategic priorities being replaced by short-term measures. Since the 2014 elections, there have been two heads of government in Brazil. Until May 2016, Dilma Rousseff held the presidency. In the course of the impeachment proceedings, President Rousseff was suspended for six months. Vice-President Temer took over the business of government. On August 31, 2016, the Senate voted for Rousseff's removal. On the same day, Michel Temer was sworn in as president for the remainder of the legislature, forming a conservative government. Even if Rousseff (PT) and Temer (PMDB) had previously represented a joint government, their basic orientations diametrically differ. Rousseff stood for a continuation of policies pursued since 2003, but due to the economic crisis, since 2013 she had been obliged to take ever more austerity measures. From 2015, her capacity to act was severely impaired, as she was confronted with a largely hostile Congress. In addition, her attention was increasingly diverted to the impeachment process. Acting President Temer advances much more conservative policies. He has deepened the austerity course and tried to get the economic crisis under control. To what extent he will succeed in the remainder of his term is unclear at present.

Former President Rousseff, suspended in May 2016 and finally removed from office in August, was unable to set and implement strategic priorities during her second term (beginning in 2015). Her successor, Acting President Temer, stressed the need to rebuild the domestic economy as the top priority of his administration. Temer signaled to investors his orthodox economic policy stance, emphasizing fiscal consolidation. Temer has been able to implement at least a some of his goals in the nine months since assuming the presidency. He reduced the number of federal ministries from 32 to 22. In June, he canceled more than 90,000 government-funded scholarships for Brazilians to study both at home and abroad. The president justified

Question  
Score

Prioritization

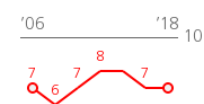
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Implementation

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these measures by arguing that they are part of efforts to improve the domestic economy and help the country emerge from its current recession.

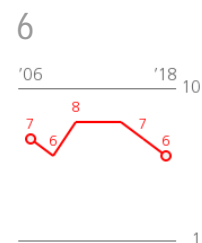
Shortly after his appointment, Temer announced a new investment partnerships program that focuses on encouraging private sector investment and job creation, with a particular emphasis on new infrastructure. It will prepare asset sales or concessions as well as public-private partnerships covering the electricity sector, oil and gas, highways, and airports. A first step is to review existing legislation, with a view to removing obstacles to private sector participation in these sectors. In late 2016, Brazil's Federal Congress voted through a constitutional amendment freezing federal government spending for the next 20 years. Budget increases will be limited to the rate of inflation in the preceding year.

Unlike his predecessor, Temer was able to fill key positions in Congress with his followers. In August 2016, the lower house of Congress elected Rodrigo Maia as its speaker. In early February 2017, elections of the new parliamentary authorities strengthened the interim president's political power. His base retained control of the Chamber of Deputies and the Senate. This was interpreted as opening the door to the approval of controversial projects presented to the parliament. These include liberal proposals to reform labor laws and the pension system, which are resisted by most unions and greeted by employers. Even so, although Temer has succeeded in stabilizing the macroeconomic situation, his government is far from solid. An onslaught of corruption allegations has threatened to destabilize his administration. These implicate at least half a dozen members of Temer's cabinet and even the president himself.

The interim government was also unable to deal with the country's serious security problems. This became particularly evident by the deadly riots and other minor uprisings in Brazilian prisons that left a toll of 135 deaths in the first two weeks of 2017. These have been attributed to feuding among rival local criminal gangs.

Brazilian governments have proven capable of learning from past experiences by means of effective monitoring and evaluation. They have promoted international knowledge exchange and cooperation. Brazil is a strong and active partner of international organizations, including the OECD and the World Bank. It values the opportunity to discuss major policy issues and challenges in a multilateral context. For several years, the Brazilian government has engaged in competency management as part of a strategy to strengthen the capacity of the public service. It has undertaken considerable efforts to strengthen human resources capacities in the public service by increasing entry-level skills and emphasizing continuous training. The administration established a System for Institutional Organization and Innovation of the Federal Government, which is aimed at building collaborative networks to improve public management, developing quality standards, reducing operational costs, and securing the continuity of the processes of institutional organization and innovation.

Policy learning



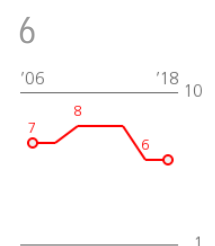
To overcome the unfavorable economic situation, Acting President Temer has decided to implement a rigid austerity course, making budget cuts in all areas. The cuts are also affecting policy areas such as education and research, which are central to the future development of the country. The Temer government's policies could jeopardize the social achievements of the past two decades.

## 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 of 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 show rather low scores especially on policy efficiency and regulatory quality. The structures and quality of the administration at the regional and local level show great variation. Some municipalities have introduced a participatory budgeting procedure that grants civic organizations substantial opportunity for input in budget preparation and oversight. However, clientelistic patterns have prevailed in a considerable proportion of municipalities. Total government employment at the federal, state and municipality level is below the average for developed countries, but the wage bill is comparatively high. Public employment grew by more than 40% between 2003 and 2013, largely due to a growth in municipal employment. The average salaries of federal employees are about three times that of employees in the private sector.

The Brazilian budget is one of the most rigid in the world. This is, among other things, attributable to the earmarking of tax revenues, constitutionally prescribed levels of spending on social protection, education, and health, transfers to states and municipalities, contributions to social security, and other non-discretionary expenditures that include legal or constitutional obligations. Almost 90% of current expenditure is fixed and line items such as social security benefits and pensions are inflation and/or minimum-wage indexed. Both the budget preparation and budget execution processes are politicized and used as a bargaining device within the political process rather than as a means of allocating resources. The Fiscal Responsibility Law (FRL) approved in 2000 imposed order and accountability on spending by the states through a general framework of budgetary planning, execution, and reporting that is applicable to all levels of government. Nevertheless, during Brazil's economic boom years, both the federal government and the individual states spent much more than the budget rules actually allowed. The collective deficit of all states was more than 50% of GDP. Though this was technically in violation of the

Efficient use of assets

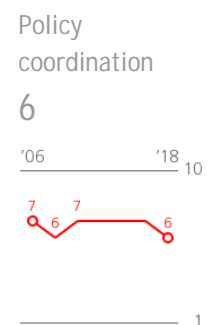


FRL, several governors became well-versed in the art of “creative accounting” to conceal the true extent of their debts.

Economic expansion during the boom years led to increasing revenues and primary fiscal surpluses of 2% to 3% of GDP over most of the past decade. This led to a decline in the gross-debt to GDP ratio, from about 70% of GDP in the early 2000s to 63% of GDP by 2010. The economic slowdown in recent years caused growing imbalances and resulted in an increase in gross public debt from 61.2% of GDP in 2011 to 69.5% in 2016. Experts warn against Brazil’s fiscal “time bomb,” among other things due to legally required expenditure increases to 10% of GDP over the next 10 years for the education sector and the rising cost of pensions. In order to stabilize Brazil’s mounting public debt load, the government must cut spending and/or create new tax revenues.

In recent years, various assessments by international organizations have pointed out that poor coordination between, and in some cases within government and public administration, have prevented government policies from achieving their intended effects. The formation of a broad and very heterogeneous governing coalition ensured that important reforms could be passed, but many positions within the government and public administration had to be conceded to junior coalition parties to secure their support. The ideological spectrum of former President Rousseff’s coalition ranged from left-wing to right-wing parties. The president allocated around 46% of cabinet positions to the PT and 37% to the catch-all Brazilian Democratic Movement Party (PMDB). Notwithstanding the nominally comfortable majority of the ruling coalition, the president always had difficulty ensuring congressional support for her proposals. Tensions within the government coalition since the beginning of Rousseff’s second term resulted in a growing political stalemate during 2015 and the first half of 2016. The government inadequately distributed power between members of the coalition and did not give them the opportunity to participate in defining the main government agenda. Exclusion from power positions in the executive branch resulted in a dramatic reaction in Congress, with Dilma’s government losing the presidency of the chamber to Eduardo Cunha. Instead of learning from this, Rousseff ignored Congress’s demands and coalition members’ insistence to influence government. Instead of coordinating, Rousseff centralized power further.

The cabinet of Acting President Temer is much more conservative than that of former President Rousseff. Seven ministers belong to the PMDB and three to the PSDB. A key position was assumed by Henrique Meirelles, a former central bank governor, who took over the finance ministry. The ideological homogeneity of the new cabinet was thus considerably greater than under Rousseff. In addition, the government has solid majorities in Congress. These factors made it easier for the Temer government to coordinate conflicting objectives and act in a coherent manner. The work of the new government, however, was burdened by corruption investigations of more than half a dozen cabinet members.

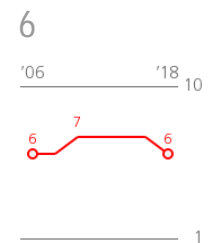


Brazil has a strong legal anti-corruption framework, but implementation and effective enforcement remain a huge problem. The Office of the Comptroller General (CGU) is a central body of internal control in the federal executive branch. It undertakes inspections and audits of municipalities and states and carries out awareness-raising campaigns aimed at the private sector. Brazil is a founding member of the Open Government Partnership, a multilateral initiative that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption and harness new technologies to strengthen governance. The Fiscal Responsibility Law makes each government level responsible for its own fiscal performance, and helps to check corrupt behavior. Regulations govern private contributions to political parties. Individuals can donate up to 10% of their declared income to candidates. All contributions are made public after the elections. Citizens have a right of access to government information and basic government records. The judiciary can review the actions of the executive and the legislative branches. All public procurements are widely advertised. The government is required to publicly announce the results of procurement decisions.

Despite the abovementioned laws, regulations and institutions for combating corruption, endemic corruption remains a central challenge for Brazilian politics and the economy. While for many years there appeared to be general impunity, in recent years Brazilian institutions have displayed more capacity to bring individuals in high office to justice. This became evident in two high profile cases involving politicians, political operatives, and businessmen accused of crimes of corruption: the mensalão vote-buying scandal uncovered in 2005 and Petrobras “Operation Car Wash” scandal brought to light by a federal criminal investigation launched in early 2014. These investigations have exposed the inner workings of political bargaining in Brazil as well as the sources of poor service delivery and inefficient investment decisions. Politicians from across the political spectrum have been implicated in the corruption scandals.

The media is able to report on corruption and has increased its coverage in recent years. Since 2013, social movements have been active in protesting against corruption. Nevertheless, there are growing complaints about violence against journalists and media who have reported on corruption. In 2016, a local daily in Rio de Janeiro state was stormed by a group of 20 presumed criminals after it published corruption charges against a PMDB politician. In September 2015, in view of the Petrobras corruption scandal that involved the country’s leading construction companies, the Supreme Court (STF) approved new rules on campaign financing, barring businesses from making donations. According to investigators, in previous elections much money donated by private companies to political campaigns was channeled through public companies via the payment of over-priced contracts. The money was then redistributed to political parties through donations from private companies that won contracts with the government. The new rules are intended to fight corruption, but also may give an unfair advantage to larger parties and the richest

Anti-corruption  
policy



candidates, who are not dependent on company donations. A new bill approved in 2016 intends to tighten the criteria for those wishing to run Brazil's major state-owned companies. The law provides that no active politicians, no recently defeated political candidates, and no one who has served as a political advisor for the previous three years will be eligible to run one of the country's top state-owned firms.

Acting President Temer has given indications that the battle against corruption is not a focus of his presidency. Various corruption allegations have threatened to destabilize his government, implicating at least half a dozen members of his cabinet and even the president himself.

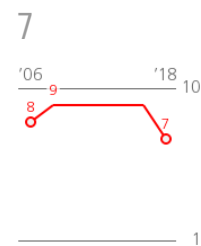
## 16 | Consensus-Building

There is a basic consensus among the relevant political actors on democracy as a strategic, long-term goal of transformation. However, the crisis of recent years has made it clear that there is considerable disagreement over the interpretation of the rules provided by the constitution. While some in the political class regarded the impeachment proceedings against Dilma Rousseff as completely constitutional, many others spoke of a "cold coup." For many years, there has been a vague consensus on the need for political reforms to improve the governability of the country. Despite repeated attempts, however, all efforts to implement concrete political reforms of greater magnitude have failed.

All major political actors agree on the general goals of reducing poverty, maintaining macroeconomic stability and fostering growth. There are conflicting political positions with regard to questions such as the appropriate degree of market-economic regulation, size of state interventionism or magnitude of social welfare. During the 2014 election campaign, ideological differences between the two major political camps became evident. While the governing PT promised to continue its prioritization of social inclusion and interventionist economic policies, the opposition PSDB announced a series of public spending cuts, pro-business policies and tax reforms. However, after the elections, it became apparent that President Rousseff had changed course herself adopting a more economically liberal policy approach based on a fiscal adjustment program. After the dismissal of President Rousseff, Acting President Temer has tightened the austerity course and declared the recovery of state finances his top priority.

There are no relevant political anti-democratic veto actors in today's Brazil. Neither the military, influential economic actors nor other significant groups stand in opposition to the country's democratic constitution. In some rural areas, powerful landlords exert strong influence on the local judiciary and police and respond violently to attempts at agrarian reform. Over the past few years, organized crime has proved to be a major challenge for democracy. During the election campaign leading up to the municipal elections of 2016, twenty candidates were assassinated. Most of

Consensus on goals



Anti-democratic actors

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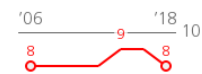
the killings took place in Rio de Janeiro state and were carried out by so-called militias who demand that electoral candidates pay protection money in exchange for their safety. Besides demanding extortion money, the militias can also exert powerful influence over elected candidates, pressuring them on which officials to appoint.

For more than a decade, Brazil's political leadership has been able to depolarize cleavage-based conflicts. Remarkable economic and social progress was created by a combination of macroeconomic stability, consumption-led growth, a rapid expansion in labor income, household credit, and government transfers. The more the political and economic crisis has intensified in recent years, the more regional and social cleavages have reemerged. The regional division of the country has expressed itself in recent election results. While the former PT government's policies were increasingly perceived negatively in the southeastern states, the economic powerhouse of the country, the much poorer northeastern states continued to support President Rousseff. The exact opposite is visible with the government of Acting President Temer. His austerity policy is welcomed in the southeastern states, while poorer regions are concerned that they may lose state transfers. The repolarization of social conflicts also manifests itself within the party system, especially in the fierce hostilities against the PT among their conservative opponents (parties and media). Elite and middle-class hostility toward minorities, the poor, and their political patrons have come to light in unprecedented ways. In response to the demonstrations against Dilma Rousseff, former Finance Minister Luiz Carlos Bresser-Pereira remarked that he was witnessing, for the first time in his life, collective hatred on the part of elites (i.e., the rich) against a party and president.

Since the 2014 electoral campaign, political discourse in Brazil has become extremely polarized. Some politicians openly advocated for policies such as torture and the extermination of indigenous peoples. Congress now includes a sizable group of deputies who support militaristic responses to crime, a substantial evangelical caucus opposed to gay rights, and a large rural caucus that opposes land reform and indigenous rights.

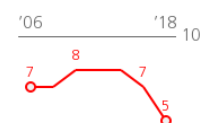
The participation of organized civil society groups in Brazilian politics has intensified since (re)democratization. An important element in enabling the participation of civil society in the political process has been the introduction of participatory budgeting in many Brazilian cities.

Further examples of civil society participation are the National Public Policy Conferences, consisting of spheres of deliberation and participation aimed at providing guidelines for the formulation of public policy at the federal level and involving representatives from both government and civil society. A wide range of public policy areas are covered by the conferences, though their reputation has eroded somewhat in the past few years and they rarely met in 2015 and 2016. With President Rousseff blocked by the impeachment process and subsequently replaced by the



Cleavage /  
conflict  
management

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Civil society  
participation

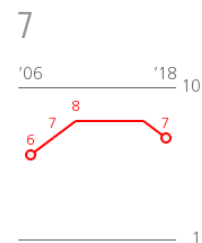
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conservative Temer, civil society participation diminished. The tendency to engage in top-down agenda setting and policy formulation grew during the review period.

It is thought that more than 400 dissidents and guerrillas were killed during Brazil's military dictatorship (1964 – 1985), and more than 160 “disappeared.” Thousands were tortured, jailed or exiled. A 1979 amnesty law was upheld in 2010 by the Supreme Court, indicating that neither military officials accused of torture nor left-wing guerrillas accused of violence can be prosecuted. The armed forces have gradually accepted democratic rule, but no process of national reconciliation involving the military has taken place. In December 2014, the National Truth Commission created in 2009 presented its final report. The commission highlighted that a state apparatus of repression, devised at the highest levels of the armed forces and executive branch, operated during the period of military rule. Despite the well-documented atrocities committed during military rule, there appears to exist some authoritarian nostalgia in parts of Brazilian society. In a 2014 poll, half of respondents expressed the belief that Brazilian streets were safer during the military regime. Right-wing politicians, such as conservative Congressman Jair Bolsonaro, preach a nostalgic interpretation of the military dictatorship, arguing that there was less corruption and more decency and respect for family at the time.

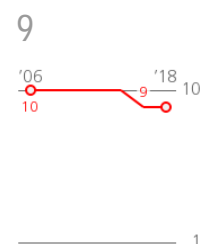
#### Reconciliation



## 17 | International Cooperation

The Brazilian government actively, though not always effectively, uses the support of international partners to implement its long-term strategy for development as outlined in the governments' mid-term plans. In many areas, the PT governments' reform policies were consistent with the programs of such international organizations as the World Bank, the UNDP and the Inter-American Development Bank, and they have often been implemented in close cooperation with these organizations. Conversely, international development organizations appreciate the close collaboration with the Brazilian government, and concede that it is guided by a vision of a more equitable, sustainable and competitive future. However, especially during the final years of the Rousseff administration, international organizations warned of inconsistencies in Brazilian economic and financial policy.

#### Effective use of support



Acting President Temer has repeatedly emphasized the importance of international cooperation, stating that Brazil's success requires more cooperation with the world, exchange of viewpoints and experiences, and political dialog with countries from different continents.

International organizations, other states, and international NGOs consider the Brazilian government to be a credible and reliable partner. The country has generally shown compliance with existing international agreements and is cooperating with institutions and mechanisms that monitor compliance. Nevertheless, since September 2015, all international rating agencies have viewed Brazil's outlook as negative. In

#### Credibility

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addition, during the period under review Brazil's credibility has been further undermined by the government's economic policies, the "Operation Car Wash" scandal and impeachment process.

There is no legal provision for the implementation of decisions from international organizations. In practice, implementation has occurred in a casuistic way – depending on the peculiarities and uniqueness of the concrete case. In 2016, the Brazilian government ratified its participation in the Paris Agreement on climate change. Using 2005 levels as the baseline, Brazil committed to cutting emissions 37% by 2025 and an "intended reduction" of 43% by 2030.

Brazil maintains good relations with all its neighbors and is interested in expanding and deepening bilateral cooperation. The country's regional policy is pragmatic and interest-driven, rejecting any form of regional institutionalization that might restrict its autonomy. During the Cardoso and Lula presidencies, Brazil provided numerous impulses for regional cooperation and integration in Latin America. President Rousseff did not change this basic course, but was hardly active in international politics. Her government focused almost exclusively on issues related to regional stability and global economic policies that affected Brazilian interests.

Acting President Temer appointed José Serra, from the PSDB, as new foreign minister. Serra introduced a distinctive change in Brazil's foreign policy, seeking to deepen relations with the more liberal-oriented neighboring countries (e.g., the Macri government in Argentina). At the same time, Brazil was openly criticizing the left-wing Venezuelan government under President Maduro and, together with Argentina, prevented Venezuela from assuming the presidency of Mercosur. Serra also responded without diplomatic restraint to a statement from the ALBA countries critical of the Temer government, accusing them of propagating falsehoods about the Brazilian government. The new foreign policy course is thus not only more conservative than that of its predecessor, it also deviates from the traditional Brazilian preference for cooperative strategies, even with difficult partners such as Venezuela. For several years, Brazil has not paid its membership contributions to the Union of South American Nations (UNASUR).



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Regional cooperation

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## Strategic Outlook

The major challenges facing Brazil in the coming years lie both in the political and economic spheres. Until recently, the development of Brazilian democracy was viewed optimistically. The crisis of the past few years has surfaced challenges that urgently require policy solutions. The most imperative tasks for policymakers are to halt growing fragmentation of the party system, counteract political polarization, promote a democratic political culture and prevent misuse of the constitution to damage political opponents. Without the introduction of a barring clause in both houses of Congress, this fragmentation cannot be effectively counteracted. Brazil's "coalition presidentialism" appears more problematic in terms of corruption and clientelism than experts had previously anticipated. Mechanisms must be considered that allow for constructive interactions between the executive and legislative branches and ensure governability without creating incentives for corruption and clientelism. Moreover, Brazil requires a new public system of election and party funding; it is not enough to ban campaign donations from private companies. Such a system must ensure a minimum of equal opportunities between candidates and parties.

The Temer administration has declared that the recovery of state finances and return to a growth path are its top priorities. If Brazil does not want to jeopardize the social achievements gained over the past decade and a half, conscientious solutions are necessary. For example, fiscal adjustment: some of the largest public expenditure items in the social sphere mostly benefit the well-off, public pensions being an obvious case. Budgetary cuts should be surgically made primarily in these ineffectual expenditures. In other policy areas, including health care and education, there is much potential for greater efficiency. The government should reform social security, abolish inefficient subsidies and reallocate resources. However, care must be taken to ensure that the most vulnerable groups remain adequately supported by the state.

Much has been written about the underlying causes of Brazil's productivity challenges. These range from high financial costs to deteriorating infrastructure to excessive regulation. Yet, the solution is not to simply replace the regulatory excesses of the past PT governments with a neoliberal strategy. Instead, finding the right mix of intervention and laissez faire will be of crucial importance. There is also an urgent need to provide incentives for private companies to invest much more in professional and on-the-job training.

Brazil is among of the countries with the highest biodiversity. The preservation of its natural environment, especially the Amazon, is of immense importance not only for Brazil, but for the entire planet. Brazil should position itself as a global leader in exploring green growth pathways, using the country's natural assets without destroying them. Such a strategy will only be possible, however, if the state invests in education and research, with particular emphasis on those fields critical for sustainable economic development.

There are, of course, many other challenges facing Brazil: from the grim security situation to endemic corruption. These must also be effectively confronted.