

What to Expect From a Lula Presidency

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In early November, right after the runoff presidential election won by worker's party candidate (PT) Luiz Inácio Lula da Silva, Brunswick hosted a panel discussion between Partner and São Paulo Office Head [Roberta Lippi](#), New York Director [Daniel Wiedemann](#) and Editor-in-Chief of Americas Quarterly [Brian Winter](#) on what to expect from Lula's third term, beginning January 1, 2023. Below are three key takeaways from their conversation and a note on the most consequential decision made by the president-elect so far, his choice for finance minister.

Fernando Haddad as finance minister

Lula announced on December 9 that Fernando Haddad, former São Paulo mayor and the candidate Lula hand-picked to run against Jair Bolsonaro for the presidency in 2018, is the new administration's choice for finance minister. Haddad is closely aligned with the core of the leftist PT party, and many see him as a likely successor to Lula. Haddad's name has been among those floated as a possibility for the finance post since October, thus the market reaction was mild. Financial markets are holding judgement cautiously, concerned about Haddad's leftist leaning. Investors, however, are hopeful that the choice indicates Lula is not looking for any sharp turns and will stay the course with stable policy.

Haddad is hardly an unprecedented choice. Many pundits argue that this incoming government desperately needs a politician as opposed to a technical economist as finance minister, because Brazil's economic health lies so much in basic common-sense reforms any government would need to pass through congress (such as fiscal and tax reforms). Antonio Palloci, a former Finance Minister for Lula during his first term, had a similar profile and was successful at working with elected officials to pass legislation (though Palloci was later disgraced for his involvement in corruption).

The biggest concerns for the market are who Haddad picks to fill the technical posts of his ministry, and the mixed messaging Lula and his team have used in relation to the federal budget's spending cap and deficit. Recently, the transition team has signalled that keeping fiscal policy under control is a priority, but Lula also has made it clear he sees a big role for government-funded social programs and infrastructure investments.

Webinar takeaways

1. There is optimism around protection of the Amazon

The panellists agreed that the outlook for Brazil's Amazon rainforest is optimistic. They expect conservation to be a priority for Lula's administration, and for the government to act much more forcefully to mitigate deforestation.

However, it is also understood that things may get worse before they get better. Those who are currently profiting from deforestation may ramp up efforts in advance of anticipated regulations. Moreover, given the rainforest's humid biomass, whichever trees are downed in the last months of Bolsonaro's presidency will likely be burned when Lula is already in office, giving the incoming president potentially some unwelcome headlines.

Protection of the Amazon is a massive undertaking – over 2.5 million miles encompassing rainforest but also savannas, grasslands, swamps and more – but the consensus among specialists is that Lula's commitment is genuine, and that the international community is taking it seriously.

Meanwhile, foreign companies who wish to operate in Brazil no longer run the reputational risk of being associated with a government not acting to protect the rainforest. This should lead to an increase in business opportunity, investment and capital in the country.

2. Don't anticipate sharp left turns

Lula is the leader of Brazil's main left-wing party, the Workers' Party (PT). It is clear, however, that Lula understands how thin his margin of victory was – he won with 50.9% of the vote to incumbent President Jair Bolsonaro's 49.1% – and has made early overtures to the country's conservative voters.

His chosen running mate and now vice-president-elect, for example, is former Governor of São Paulo Geraldo Alckmin, a center-right and pro-business politician who appeals to more fiscally conservative voters.

The panelists also noted Lula's invocation of God and religion in his acceptance speech, and his remark that there is "no such thing as two Brazils." With a conservative legislature in place, this emphasis on unity and working together with conservatives would seemingly rule out any chance of Brazil turning dramatically left, or becoming "the next Venezuela," a fear that some conservatives in the country have given voice to.

3. Watch Lula's diplomatic relationships

In his victory speech on October 30, Lula indicated he would work to restore Brazil's diplomatic leadership on the world stage, repairing relationships with Europe and the US. Current President Jair Bolsonaro's cavalier handling of deforestation, as well as his close alignment with former US President Donald Trump, isolated Brazil from the international community. Lula has indicated he will work to revert that standing and engage with governments across the ideological spectrum.

As far as Latin America is concerned, in his previous terms as president, Lula had close relationships with controversial governments, including in Venezuela and Cuba. As president-elect, he has indicated he will restore diplomatic relations with Venezuela – which were severed by Bolsonaro - but that does not necessarily mean he will support Nicolas Maduro.

While we don't yet know what Lula's relationship to anti-democratic Latin American leaders will be in his third term, most of the Brazilian electorate and the business community have signalled they want Lula to strengthen democracy and economic development. It is unlikely he will attempt to establish close ties with Nicolas Maduro, Cuba's Miguel Díaz-Canel or Nicaragua's Daniel Ortega, as that would work against his already tenuous popularity and fractured government coalition.

To continue the conversation:

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