

## **Brazil's President-Elect 'Lula' Promises Prosperity but Faces Economic Perils**

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SÃO PAULO—Luiz Inácio Lula da Silva evoked fond memories of his heady two terms in office in the 2000s when commodity prices were soaring, poverty was plunging and Brazil was optimistically seen as a country of the future. “The people will eat steak and drink beer again... they will be happy again,” Mr. da Silva told supporters in the campaign that ended with Sunday’s victory over President Jair Bolsonaro, who has yet to concede or comment on the results. But Brazil’s president-elect will struggle to deliver on those promises in the current economic climate when he takes office Jan. 1 in Latin America’s largest country, economists said. Mr. da Silva—who former President Barack Obama once called “the most popular politician on earth”—is now 77 and faces a different world. China, the biggest buyer of its exports, expects its worst slowdown in years, the US is forecast to enter recession in the next 12 months, and countries worldwide, among them Brazil, are struggling to reduce poverty and jump-start moribund economies as they emerge from the Covid-19 pandemic. When Mr. da Silva first took office in 2003, Brazil’s economy was revving up as a rapidly growing and voracious China consumed everything from Brazilian iron ore to beef, sugar to soybeans. By 2010, Brazil was growing at 7.5%, its fastest rate in a quarter of a century, and Mr. da Silva finished his two terms with an approval rating of more than 80%. With state coffers filling up, Brazil paid off its International Monetary Fund debt early and poured money into social welfare spending and infrastructure projects to jack up oil production and bring industrial jobs to forlorn corners of the country. More than 25 million people were lifted from poverty, the Getulio Vargas Foundation said. “They were really exceptional circumstances... a one-off boom,” said William Jackson, chief emerging markets economist at London-based research firm Capital Economics. “It’s going to be a very challenging environment over the course of this presidential term.” Economists expect Brazil’s economy to grow just 0.6% next year following 2.8% growth this year, according to a survey Monday by the Central Bank. Mr. Jackson said Mr. da Silva could follow the path of Chilean President Gabriel Boric, whose approval ratings sank after he took office in March as the reality of the tough global economic context set in. The risk, said Mr. Jackson, is that Mr. da Silva insists on heavy spending even during an economic downturn to support the poor and prop up approval ratings at the expense of the country’s fiscal health. That was Mr. Bolsonaro’s strategy during the worst of the Covid-19 pandemic, when the economic blow forced him to forego market reforms championed by Economy Minister Paulo Guedes. After Mr. Bolsonaro spent as much as \$10 billion a month on payouts during the pandemic in 2020, Brazil’s government debt reached close to 90% of gross domestic product that year and is now hovering about 80%. Mr. da Silva won 60.3 million ballots in this country of 215 million on Sunday, 50.9% of the vote, in what was the closest presidential race in history. Mr. Bolsonaro got 58.2 million votes, or 49.1%. Many analysts said Monday that they remained optimistic. da Silva would soon name a market-friendly finance minister after surrounding himself with respected economists during the campaign, including former Central Bank President Henrique Meirelles. “The odds are he will govern towards the center and markets will applaud that,” said James Gulbrandsen, chief investment officer of Latin America for NCH Capital, an American investment firm. Brazil’s leftist former President Luiz Inácio Lula da Silva beat conservative incumbent Jair Bolsonaro in the country’s closest presidential race in history. WSJ’s Luciana Magalhaes unpacks the challenges ahead for da Silva in uniting a divided nation. Photo: Sebastiao Moreira/Shutterstock After early declines, Brazilian stocks were up about 0.8% in midday trading in São Paulo, while the country’s currency, the real, strengthened 1.3% against the dollar. Heavy losses for state-controlled companies such as oil company Petrobras were offset by higher share prices for sectors that investors believe will benefit from Mr. da Silva’s policies to reduce social inequality, such as education, housing and construction. “Reactions to the election will be sector-specific: Agribusiness was mostly backing Bolsonaro, as were timber and mining, which will face increased scrutiny under a Lula administration,” said Jay Truesdale, chief executive of Veracity Worldwide, a New York-based risk advisory firm. He added that greater clarity over Mr. da Silva’s economic policy in the coming weeks could help allay some fears among investors, both abroad and in Brazil. “The wheels of the economy will turn once more,” said Mr. da Silva in his victory speech Sunday. He promised to put the poorest families at the center of the country’s economic recovery by increasing the minimum wage and pardoning some debts to boost consumption. Expectations are high. “Now Lula is back things will get better,” said Cilene de Sousa, a 37-year-old single mother in São Paulo. “I hope he’ll reduce prices and help the needy,” recalling how her family used to eat good cuts of meat every day when Mr. da Silva was last in office. “Lula can make a difference again, just like he did before.” But others were less impressed. Like many small-business owners, Luis Fangen said Mr. da Silva wasn’t his choice for president, recalling how Brazil suffered its deepest recession on record under the leftist’s handpicked successor, Dilma Rousseff, in 2015 and 2016. “I hope Lula does a great job in government... as a Brazilian, I’m rooting for my country,” he said. “But I have a Plan B if things go awry—those people who voted for him can stay here and suck it up, but I’ll be moving to Portugal.” Vinod Sreeharsha, Paulo Trevisani and Jeffrey T. Lewis contributed to this article.