Brazil: Continuity amid constraints

An exception to LatAm's rightward shift; pointing to continued strategic autonomy and BRICS focus

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Brazil's (CareEdge BB+/Stable) recent presidential election signals broad continuity across key policies, although a right-leaning Congress could constrain the government's ability to implement reforms.

Luiz Inácio Lula da Silva (Lula), the left-wing incumbent, won a fourth non-consecutive presidential term, defeating right-wing candidate Flávio Bolsonaro by 51.8% to 48.2% in the October 25, 2026 runoff election in Brazil.

His victory validates our assessment in the February 2026 report (available here), which had highlighted the possibility of Brazil remaining an exception to Latin America's (LatAm) broader shift to the right (detailed ahead).

Meanwhile, on the geopolitical front, Brazil is expected to maintain its focus on BRICS and strategic autonomy, while relations with the US are likely to remain pragmatic despite potential differences over trade barriers and security cooperation.

Going forward, Brazil's sovereign credit profile will be shaped by fiscal performance and debt dynamics.

Sovereign credit assessment

a. Fiscal position to remain stretched

Brazil's government debt remains high and is projected to rise further. According to the International Monetary Fund (IMF), general government debt is expected to increase from 93.3% of GDP in 2025 to 99.3% in 2027.

Lula is likely to pursue gradual fiscal consolidation within the existing fiscal framework, relying more on revenue mobilisation than on substantial expenditure restraint. Sustained reduction in the fiscal deficit will be critical for stabilising debt levels. However, campaign commitments, including higher welfare payments, above-inflation minimum-wage increases, household debt relief and additional support for small businesses are likely to keep spending pressures high.

Effective implementation of Brazil's landmark tax reform will, therefore, be critical to strengthening the fiscal position. While the reform aims to simplify the tax system and improve revenue mobilisation, its benefits will materialise gradually over the phased seven-year transition that began in 2026. Implementation progress and its contribution to improving the fiscal profile will warrant close monitoring.

b. Interest burden could weaken debt dynamics

Continued fiscal spending could keep inflationary pressures elevated and limit the scope for monetary easing. Brazil's policy rate remains high at 13.75% despite recent rate cuts. This has direct implications for public finances, with gross interest payments already absorbing approximately 25% of government revenue, among the highest levels for similarly rated sovereigns as of 2025.

The debt portfolio is sensitive to monetary conditions, given its average maturity of around four years and the share of floating-rate instruments at about 48%. Persistently high interest rates would increase debt-servicing costs, widen the fiscal deficit and weaken debt dynamics.

c. External buffers provide support

Brazil's external position continues to mitigate these risks. Foreign exchange reserves provide comfortable import cover, while external debt remains moderate at 36% of GDP as of 2025. External creditors hold only around 13% of government debt as of 2025 and the predominantly domestic financing profile limits exposure to external refinancing risks. Nevertheless, currency depreciation could increase inflationary pressures and weaken investor sentiment.

Navigating a right-leaning Congress key to policy continuity

Lula faced a right-leaning Congress during his previous term, and will face a similar legislative landscape in his new term, with right parties holding significant representation in both chambers. This could constrain the administration's ability to mobilise additional revenue and secure approval for politically difficult fiscal measures.

Policy implementation will, therefore, remain dependent on broad coalition-building, increasing the likelihood of incremental measures and negotiated compromises rather than comprehensive reforms. The composition of the economic team and the government's initial fiscal announcements will provide important indications of its policy direction and the ability to work with Congress.

Bolsonaro's refusal to concede may contribute to near-term political tensions. However, the more enduring concern is that executive-legislative friction could delay fiscal measures and other structural reforms.

Brazil: A counterweight to LatAm's rightward shift

With the conclusion of LatAm's 2026 election cycle, the region has evolved broadly in line with the scenarios outlined in our earlier report. Colombia shifted from left-leaning to right-leaning presidential leadership, while Peru retained a right-leaning government. Lula's re-election leaves Brazil as an exception to this broader rightward shift. As the region's largest economy, Brazil could position itself as a counterweight to more US-aligned governments while maintaining an independent and pragmatic approach towards major global powers. At the same time, a common regional agenda centred on strategic-resource development, trade diversification and stronger regional integration frameworks could support continued cooperation despite political differences.

Autonomy along with diversified global partnerships

Relations with the US are likely to remain pragmatic, reflecting shared interests in commodity trade and critical minerals, although tensions may persist over tariffs and security cooperation.

Lula is likely to maintain Brazil's emphasis on BRICS and the Global South, with China remaining a key economic partner. Engagement with Europe, India and other markets will continue to support trade and investment diversification.

Against this backdrop, several indicators will be important in assessing the direction of Brazil's sovereign credit profile.

Key credit monitorables

Going forward, the government's initial fiscal measures, inflation expectations, the pace of monetary easing and investor confidence will be key indicators to watch. Signs of weakening fiscal credibility, persistent inflation, delayed monetary easing, currency depreciation or weaker investment could increase economic and policy challenges.

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