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“Franco Fontana”

GEOPOLITICAL RISK OBSERVATORY

Brazil

An overview

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GRO Country Profile: Brazil

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

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Summary

- Brazil is a federal presidential democracy with durable constitutional institutions, an assertive judiciary and a competitive electoral system. Its principal political vulnerability is not institutional collapse, but the cumulative strain produced by fragmented coalition government, deep social polarisation and recurrent judicialisation. The October 2026 general election is now intertwined with United States trade pressure, disputes over Pix, organised-crime designations and allegations of foreign interference, raising the cost of political and regulatory miscalculation.
- Latin America's largest economy combines a vast domestic market, a sophisticated financial system and internationally competitive agribusiness, mining, energy and services sectors. Growth is expected to moderate in 2026, while high real interest rates, a heavy public-debt burden and rigid expenditure commitments constrain policy space. Nevertheless, preliminary OECD data place inward FDI at approximately USD 76.9 billion in 2025, underlining Brazil's enduring capacity to attract long-horizon capital in digital infrastructure, renewable energy, logistics and industrial upgrading.
- The main business challenges are territorially concentrated organised crime and cargo theft; a dense and unevenly enforced regulatory architecture; the operational transition to the CBS/IBS consumption-tax system; and a newly finalised 25% United States Section 301 tariff on imports from Brazil, with material exemptions, effective from 22 July 2026. Governance risk has also risen modestly as trade, sanctions, public security and electoral competition converge into a single sovereignty-sensitive dispute.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	3,153	5,230 (2026 proj.)
Population (mn)	208.7	213.6 (2026 proj.)
Population under 25 (%)	n.d.	33.6 (2025)
Population over 65 (%)	n.d.	11.5 (2025)
Urban population (%)	87.1	87.6 (2025)
Unemployment rate (%)	13.5	6.8 (2026 proj.)
Youth unemployment 15-24 (%)	29.8	14.0 (2025)
CPI inflation (% annual average)	3.2	4.0 (2026 proj.)
General government debt (% of GDP)	96.0	96.5 (2026 proj.)
FDI inward flows (USD mn)	28,322	76,877 (2025 prelim.)

Sources: IMF - World Economic Outlook, April 2026 (GDP PPP, unemployment, CPI inflation and general government debt); United Nations Department of Economic and Social Affairs - World Population Prospects 2024 (population and age structure); World Bank - World Development Indicators (urban population); ILO - ILOSTAT (youth unemployment); OECD - FDI in Figures, April 2026 (FDI flows; 2025 preliminary); IBGE and Central Bank of Brazil (labour-market and fiscal context); Office of the United States Trade Representative - Section 301 determination and Notice of Action, June-July 2026; US Department of the Treasury - PCC-linked sanctions, July 2026; Brazilian Federal Senate and Central Bank of Brazil (Pix and financial-autonomy proposal); Reuters and Associated Press (2026 electoral and political developments).

Historical context

Brazil's political economy was formed by a long colonial order based on slavery, plantation agriculture and regional oligarchies, followed by an imperial state that preserved territorial unity after independence in 1822. The abolition of slavery in 1888 and the proclamation of the Republic in 1889 did not remove the country's profound social and spatial inequalities. During the twentieth century, Getúlio Vargas's state-led developmentalism, import-substitution industrialisation and the expansion of federal economic institutions created a diversified industrial base but also entrenched corporatist regulation and a large role for the state in credit, infrastructure and strategic sectors.

The military regime of 1964-1985 combined rapid industrial expansion with political repression, external borrowing and widening inequality. Democratic restoration culminated in the 1988 Constitution, which established an extensive social-rights framework, strong federalism and powerful judicial and oversight institutions. The Real Plan of 1994 ended chronic hyperinflation and created the monetary foundations of contemporary Brazil. During the 2000s commodity boom, successive governments combined macroeconomic orthodoxy with social transfers and rising consumption, reducing poverty while increasing exposure to commodity cycles and fiscal commitments.

Since the mid-2010s, Brazil has passed through severe recession, the Lava Jato anti-corruption investigations, the impeachment of Dilma Rousseff, the polarising presidency of Jair Bolsonaro and the institutional shock of the 8 January 2023 attacks in Brasília. Luiz Inácio Lula da Silva's third presidency restored a more conventional diplomatic and administrative posture, renewed emphasis on social policy, green industrial development and strategic autonomy, and retained an independent central bank. The resulting settlement remains resilient but unsettled: the state is capable, courts and Congress remain operative, yet fiscal conflict, ideological polarisation and the unresolved legacy of the 2022-2023 coup-plot proceedings continue to shape the 2026 election.

Institutional Set-Up and Structural Challenges

Brazil is a federal presidential republic composed of 26 states and the Federal District. Executive authority rests with a directly elected President, while legislative power is divided between the 513-member Chamber of Deputies and the 81-member Federal Senate. The Supreme Federal Court and the Superior Electoral Court exercise unusually prominent constitutional and electoral oversight. This institutional architecture has repeatedly constrained executive overreach; however, highly fragmented party representation makes governing dependent on broad, transactional coalitions, often described as coalition presidentialism. Congressional bargaining, committee control and budget amendments give centrist blocs substantial influence over the pace and design of reform.

Government stability is presently adequate, but the electoral outlook is more contentious than it appeared at the start of 2026. President Lula retains a polling advantage, while Senator Flávio Bolsonaro has emerged as the principal right-wing challenger and the Liberal Party's presumptive nominee; former President Jair Bolsonaro remains ineligible and under court-authorised house arrest on health grounds following his coup-plot conviction. A Lula victory would imply broad continuity: defence of Pix, strategic autonomy, selective industrial policy and continued fiscal support within the existing institutional framework. A Flávio Bolsonaro victory would probably favour a more market-oriented agenda and closer alignment with Washington, but could open new uncertainty over sanctions cooperation, environmental enforcement, public-security policy, Pix's international integration and relations between the executive, courts and regulators. A narrow or contested result would be the most disruptive outcome for firms, prolonging uncertainty over trade, taxation, financial supervision and fiscal measures.

Governance quality is uneven rather than uniformly weak. Federal agencies, the central bank and the higher courts possess significant technical capacity, and sophisticated firms can rely on formal legal processes and international arbitration. At the same time, administrative performance varies sharply across states and municipalities; licensing, procurement, customs, policing and dispute resolution may be slower and less predictable outside the principal commercial centres. Corruption exposure remains material in public works, local procurement, extractive industries, transport and dealings with politically connected intermediaries. For companies subject to the FCPA, UK Bribery Act, sanctions and human-rights due-diligence rules, the decisive governance requirement is therefore granular third-party control rather than a general presumption of state failure.

Economically, Brazil combines the scale of a continental market with competitive positions in agriculture, iron ore, oil, aviation, finance, business services and digital payments. The labour market remains comparatively resilient, but real GDP growth is projected at approximately 1.9% in 2026 and the IMF places general government gross debt at 96.5% of GDP, leaving the economy sensitive to interest costs and fiscal credibility. The consumption-tax reform is a major structural improvement, yet its multi-year implementation creates a demanding period of coexistence between legacy taxes and the new dual VAT. Internationally, Brazil pursues strategic autonomy through Mercosur, BRICS and diversified relations with China, the United States and the European Union. Direct exposure to interstate conflict is limited; geoeconomic pressure, technology dependence and trade-policy fragmentation are the more consequential external risks.

Business implications

Opportunities

Brazil offers an exceptional combination of market depth, financial sophistication and sectoral diversity. Its large urban consumer base sustains opportunities in payments, insurance, health, education, consumer goods, software, cloud services and advanced business services. Pix has lowered transaction costs and broadened financial inclusion, while the domestic banking and capital-markets ecosystem supports scalable partnerships for fintech, cybersecurity and compliance technology. According to preliminary OECD data, inward FDI reached approximately USD 76.9 billion in 2025, confirming that investors continue to look through cyclical volatility when projects are anchored in domestic demand, long-duration concessions or export advantages.

The strongest medium-term investment themes lie in electricity transmission and distribution, renewable generation, biofuels, low-carbon industrial processes, data centres, logistics, ports, rail, sanitation and value-chain upgrading linked to agribusiness and critical minerals. Brazil's resource endowment, relatively clean power matrix and established industrial clusters create a credible platform for energy-transition and digital-infrastructure investment. The tax reform should, over time, reduce cascading taxation and improve interstate neutrality, while rules-based concessions and judicial review offer a degree of formal protection for long-horizon capital. These advantages are substantial, but they are best realised through locally informed compliance architecture, careful tax modelling and explicit allocation of tariff, licensing and political-risk contingencies.

Challenges

- *Security challenges:* Brazil's security environment is defined by high but territorially differentiated criminality rather than insurgency or nationwide political violence. The Primeiro Comando da Capital (PCC), Comando Vermelho and associated networks retain strong positions in drug trafficking, illicit finance, ports, fuel distribution, informal commerce and selected urban territories. Cargo theft, armed robbery and episodic police operations can disrupt logistics and last-mile delivery in exposed metropolitan corridors. The US Treasury's July 2026 action against a PCC-linked laundering network operating between São Paulo and Florida illustrates the sophistication of transnational criminal finance. Enforcement pressure is rising, but current evidence does not indicate a nationwide deterioration in business-disruptive violence. The more likely twelve-month pattern is local adaptation, route displacement and closer scrutiny of payments, crypto assets, gambling, fuel and transport. Firms should combine route-level security planning with sanctions screening, beneficial-ownership checks and cyber-fraud controls.

  Brazil's security risk is assessed as Band 3 (medium-to-high challenges).

- *Regulatory challenges:* Brazil's principal regulatory burden is complexity, density and uneven implementation. Tax, customs, labour and environmental rules generate substantial transaction costs, while the 2026 test phase of the CBS/IBS dual VAT requires systems adaptation, invoice redesign and reconciliation with legacy obligations before the reform's long-term simplification benefits are realised. A second, newly operational risk arises from the United States Section 301 action finalised on 15 July 2026: an additional 25% duty applies from 22 July to imports from Brazil, subject to extensive product exemptions. Exporters and manufacturers must reassess tariff classification, rules of origin, pricing clauses, customs exposure and supply-chain allocation; Brazilian countermeasures under the economic reciprocity framework could widen the compliance burden. Financial institutions face higher AML and sanctions obligations following the PCC-linked designations, requiring enhanced counterparty due diligence, crypto monitoring and review of clients in cash-intensive sectors. PEC 65/2023 would broaden the Central Bank's administrative, budgetary and financial autonomy and constitutionally protect Pix, but still requires two-round approval in the Senate and passage by the Chamber of Deputies.

Brazil's regulatory risk is assessed as Band 3 (medium challenges).

- *Governance challenges:* Governance risk has risen modestly because trade policy, electoral legitimacy, judicial conflict and public security have become mutually reinforcing. The United States tariff decision has moved a sovereignty dispute over Pix, environmental policy, anti-corruption enforcement and market access into the centre of the presidential campaign. Lula has portrayed the Bolsonaro family's engagement in Washington as foreign interference, while Flávio Bolsonaro argues that closer alignment could repair relations and reduce commercial pressure. This fusion increases the probability that technical files - sanctions screening, central-bank autonomy, digital payments, tariffs and environmental enforcement - will be treated as symbols of political allegiance. A contested election or a sharp escalation in reciprocal trade measures would create the greatest short-term disruption through delayed decisions, inconsistent executive signals and heightened litigation. Nevertheless, Brazil's institutional channels remain operative: Congress is active, courts continue to issue binding rulings, the electoral authority retains administrative capacity and political competition remains constitutional. The baseline is therefore a more polarised and externally exposed governance environment, not institutional breakdown.

  Brazil's governance risk is assessed as Band 3 (medium-to-high challenges).

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