Brazil Brief

Brazil Agenda: What Matters for Global Investors in 2026

Summary

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2025 in Review: Stability and Opportunities Drive Investment in Brazil

Brazil's economy maintained its expansionary momentum in 2025 while consolidating meaningful institutional progress, despite a global backdrop defined by elevated interest rates, geopolitical tensions, and regulatory uncertainty. A look back at the projections outlined in the January 2025 edition of Brazil Brief—which underscored the importance of tax reform, fiscal discipline, and ongoing opportunities in infrastructure, as well as in sectors such as energy, sanitation, technology, and logistics—shows that Brazil largely evolved in line with expectations, strengthening both its macroeconomic framework and institutional environment.

Improved growth prospects, easing inflation dynamics, and reinforced fiscal credibility over the second half of the year contributed to a more predictable setting for international capital. Measures announced at the end of 2024 to rebalance public accounts advanced gradually, while the regulatory agenda, most notably the rollout of tax reform, progressed broadly as anticipated, confirming its role as the central policy axis of 2025. The expected continuity of concession programs and public-private partnerships also materialized, reinforcing previously identified structural investment opportunities.

In this context, Brazil's role as a platform for capital-intensive investments was further validated. Performance across energy and infrastructure, alongside the maturation of privatization and partnership initiatives, supported the view that 2025 would mark a period of strategic realignment, particularly given a competitive exchange rate and sustained global investor interest in real assets. Stronger macro fundamentals, combined with greater regulatory clarity, helped sustain investment flows, even amid early-year skepticism among some market participants.

This assessment is particularly relevant as Brazil enters 2026, an election year, with indicators that point to stability and continuity. While political developments are likely to influence short-term expectations, the country approaches the electoral cycle with a consistent project pipeline, regulatory frameworks in consolidation, and institutional capacity recognized by international investors. Against this backdrop, this edition examines the domestic political landscape, the regional geopolitical context in Latin America, the first year of tax reform implementation, and the macroeconomic outlook for the year ahead.

Throughout this edition, we also assess the sectors that continue to anchor foreign investment opportunities—energy, water infrastructure, integrated logistics, export-oriented manufacturing, and technology—and outline why these segments remain attractive even in a more selective global investment environment. Overall, the progress recorded in 2025 suggests that Brazil enters 2026 with a stronger foundation for growth, supported by regulatory stability, institutional maturity, and a steadily advancing investment agenda. The objective of this Brazil Brief is to provide a clear, technically grounded overview of the regulatory and economic forces shaping Brazil's business environment in 2026. Enjoy your reading.

Brazil in an Election Year: Structural Stability and a Shifting Regional Landscape

Brazil enters 2026 as an election year, a period in which investor attention typically shifts toward the risk of repricing and the country's ability to preserve economic stability amid political transition. A review of past electoral cycles, particularly developments through 2025, provides a useful reference point for assessing likely market behavior in the months ahead.

Historically, Brazil's electoral cycle tends to influence risk perception in the short term. However, the economic performance of the past year suggests that activity remains anchored in structural foundations capable of absorbing political volatility. Higher infrastructure investment, the continued rollout of social programs, and the expansion of export capacity have strengthened the country's ability to maintain operational stability even during periods of heightened institutional uncertainty. At the same time, greater regulatory predictability, improved fiscal discipline in the second half of the year, and continued progress in concession programs and public-private partnerships helped reduce uncertainty and create a more transparent framework for evaluating financial and legal risk, reinforcing foreign investor confidence.

On the international front, Brazil also demonstrated diplomatic ability by maintaining a position of constructive neutrality amid the trade tensions that intensified over the past year, particularly the escalation of tariffs among major economies. By avoiding automatic alignments and preserving dialogue across multiple blocs, the country expanded its negotiating flexibility, safeguarded export chains, and strengthened its standing as a reliable trading partner.

Regardless of the electoral outcome, the incoming administration is expected to inherit a relatively well-defined public policy agenda. Priorities are likely to include further strengthening the fiscal framework, preserving legal certainty in long-term contracts, and consolidating existing regulatory frameworks. For institutional investors, this points to a scenario of broad continuity in a pro-competitiveness agenda, supported by a robust project pipeline and solid execution capacity.

At the regional level, Latin America is undergoing a political realignment, with the rise of right-leaning platforms in several key markets reshaping expectations around economic integration and trade flows. This shift is influencing the dynamics of multilateral negotiations, prompting revisions to industrial policy priorities and redefining countries' relative positions within international financing channels.

Within this evolving landscape, Brazil continues to stand out as a regional economic and institutional anchor. Its market scale, democratic resilience, and commitment to macroeconomic stability distinguish it from regional peers, particularly during periods of broader political transition. Taken together, these factors reinforce Brazil's position as a strategic destination for long-term investment portfolios.

Macroeconomics, Elections, and Investment in Brazil

In a global environment still characterized by elevated interest rates, heightened risk aversion, and increasingly selective capital allocation, foreign investors have favored markets that offer scale, regulatory predictability, and resilient institutional frameworks. In Brazil, this discussion takes on particular relevance amid the transition to a new tax system, the maturation of regulatory regimes in key sectors, and the approach of an election year—factors that simultaneously expand investment opportunities and reshape risk considerations.

Tax reform, through the unification of consumption taxes and the reduction of longstanding structural complexity, is expected to simplify corporate structures, lower compliance costs, and reduce legal uncertainty over the medium to long term. At the same time, the consolidation of more sophisticated regulatory frameworks, combined with stronger governance practices, effective compliance, and institutionalized dialogue with regulatory agencies, has enhanced the capacity of projects in Brazil to withstand more volatile macroeconomic conditions without sacrificing investment appeal. Across sectors such as infrastructure, energy, finance, and technology, this combination has increased operational predictability and reinforced international investors' confidence.

Today, successful investments in Brazil require not only attractive return profiles but also structures capable of absorbing macroeconomic fluctuations, regulatory adjustments, and political cycles without undermining project viability.

The convergence of market scale, independent institutions, and regulatory stability creates an environment that is more robust than is often perceived externally.

It is within this context that we invited **José Camargo**, Chief Economist at Genial Investimentos, PhD in Economics from MIT, and retired professor at PUC-Rio, to assess the key factors likely to shape Brazil's outlook in 2026. In the following section, Camargo examines the macroeconomic landscape, the implications of the global monetary cycle, the effects of tax reform, and the sectors offering the most balanced risk-return profiles for international investors.

Q&A Interview

José Camargo
Chief Economist

How do you assess Brazil's macroeconomic outlook for 2026, and what factors are currently shaping foreign investors' perception of the country?

JC: The year 2025 consolidated a macroeconomic framework characterized by significant policy imbalances, but also by a degree of cyclical resilience that exceeded expectations at the start of the year. The combination of a persistently expansionary fiscal stance, a markedly contractionary monetary policy, and a relatively supportive external environment resulted in solid economic growth, a tight labor market, and a gradual deceleration of inflation. At the same time, however, fiscal indicators deteriorated meaningfully.

The exchange rate played a central role in the disinflation process. Between January and August 2025, the Brazilian real appreciated by approximately 15%, largely reflecting the wide interest rate differential between Brazil and the United States and, more importantly, a global weakening of the US dollar. Trade policies under the Trump administration, alongside public criticism of the Federal Reserve, increased perceived risks to the dollar, contributing to a sharp decline in the DXY index and favoring emerging-market currencies and assets.

As a result, 2025 was marked by a fragile macroeconomic equilibrium. Economic activity proved resilient, supported by a tight labor market and moderating inflation, albeit still above target. In contrast, fiscal conditions worsened, with public debt rising to 79.5% of GDP, a nominal policy rate at 15.0% per year, and an ex-ante real interest rate exceeding 10.0%.

The absence of a credible debt-stabilization strategy has kept fiscal risk elevated, increasing the sensitivity of domestic assets to political developments and the electoral cycle.

The year 2026 begins amid heightened uncertainty, both domestically and globally. In Brazil, the continued fiscal deterioration observed since the start of President Lula's third term, combined with growing concerns about debt sustainability, is likely to keep fiscal risk high throughout the year. This is further compounded by the electoral cycle, which tends to amplify volatility in key financial variables given uncertainties surrounding presidential succession.

Externally, the main sources of risk include the Trump administration's economic agenda, the potential appointment of a more inflation-tolerant Federal Reserve chair, persistent geopolitical tensions, and the structural slowdown of the Chinese economy.

As in 2025, the behavior of the US dollar will remain a critical variable for the trajectory of the Brazilian Real and domestic asset prices. A scenario of continued DXY depreciation, combined with relatively supportive global financial conditions, could replicate the dynamics seen at the start of the previous year: improved global risk appetite, favoring emerging-market currencies and supporting local assets—even amid domestic fiscal fragilities.

Fiscal risk and the electoral cycle will therefore remain central themes. Our projections point to GDP growth of 2.1% in 2026, broadly in line with the 2.3% estimated for 2025, supported by an expansionary economic agenda.

On inflation, we project an exchange rate depreciation to R$5.72 per dollar by year-end and inflation of 5.0% in 2026, up from 4.3% in 2025. Inflationary pressures are expected to re-accelerate due to demand-stimulus measures and currency depreciation, with fiscal policy partially offsetting the restrictive stance of monetary policy.

We expect the Central Bank to initiate an interest-rate easing cycle in March, starting with a 25-basis-point cut in the Selic rate. Under our baseline scenario, however, inflation should begin to accelerate again toward the end of the first half of 2026, prompting the Central Bank to pause the easing cycle. We project the Selic rate to end 2026 at 13.0%, with the easing cycle interrupted as inflation reaccelerates in the second half of the year.

With real interest rates remaining elevated, debt-servicing costs will continue to exert significant pressure on public finances. Our baseline scenario projects gross public debt reaching approximately 84% of GDP in 2026, an increase of nearly 12 percentage points over the course of President Lula's third term. According to our estimates, stabilizing the debt ratio would require a primary surplus of 3.0% to 3.5% of GDP—well above the official target of 0.25%.

The electoral cycle introduces substantial additional risks to the 2026 outlook. High rejection rates among leading candidates point to a polarized and highly competitive race, with a non-negligible probability of defeat for the incumbent. Should this scenario gain momentum, there is a risk that new expansionary fiscal measures could be adopted during the year, further deteriorating public finances. Conversely, the mere expectation of a change in government could compress risk premia, exerting downward pressure on both the neutral interest rate and the exchange rate, with potentially disinflationary effects over time.

Even if President Lula is re-elected, we do not expect a meaningful shift in the economic policy framework.

We diverge from the prevailing view that a structural fiscal adjustment would become unavoidable under any administration. In our assessment, the priority of a potential fourth Lula term would likely be the consolidation of a political successor, preserving a growth model anchored in fiscal stimulus and demand support.

Under this scenario, we would expect higher risk premia, increased market caution, and renewed depreciation pressure on the real, similar to the episode observed at the end of 2024, when the exchange rate moved from R$5.46 to R$6.29 per dollar in roughly two months.

Elections will therefore play a decisive role in shaping exchange-rate dynamics over the coming year and represent the main risk to our baseline projections for the currency and inflation and, by extension, to the monetary policy path adopted by the Central Bank from 2026 onward.

Ultimately, the key question is which force will prevail: appreciation pressures on the Real driven by a potentially more accommodative stance from the Federal Reserve, or depreciation pressures stemming from domestic political risk.

The market reaction observed at the end of last year, following the announcement of Flávio Bolsonaro's candidacy, underscores the sensitivity of asset prices to the electoral outlook and may foreshadow price dynamics should polling begin to assign a higher probability to President Lula's re-election. Even under a more supportive external environment, we expect domestic political factors to dominate in the short term.

How can foreign investors benefit from the divergence between still-high interest rates in Brazil and global monetary easing in the coming years?

JC: Against this backdrop, investors should focus on two key dynamics. First, US monetary policy will remain a major driver of the dollar's global performance. A more accommodative stance by the Federal Reserve would tend to weaken the dollar and support the appreciation of emerging-market currencies, while a less accommodative stance would have the opposite effect.

In parallel, high-interest rate differentials, particularly in Brazil, support carry trade strategies, increasing demand for local government bonds and contributing to currency appreciation against the dollar.

How might tax reform and the prospect of lower energy costs globally enhance the attractiveness of productive and infrastructure projects?

JC: The year 2026 is widely viewed as a test year for Brazil's tax reform, as implementation will be gradual and its direct economic effects are expected to be limited in the short term. Once fully implemented, however, the reform will introduce a VAT on consumption of goods and services, significantly simplifying the tax system by reducing the number of taxes and consolidating legislation.

Given the significant number of exceptions, the standard rate of Value Added Tax (VAT) will increase by 27.5%. In practice, the structure of taxation is expected to shift meaningfully, with higher effective taxation on services and lower taxation on goods, particularly industrial products. On the other hand, the reform is designed to maintain overall tax neutrality, at least in principle.

In your view, which Brazilian sectors are likely to offer the best balance between risk and return for global investors in the coming years?

JC: Sectors with the most attractive risk-return profiles are likely to be infrastructure, particularly sanitation, ports and airports, and highways—as well as energy, with an emphasis on renewables. That said, despite the still-wide interest rate differential between Brazil and the United States, close attention must be paid to public debt sustainability. The electoral environment remains a potential source of instability and heightened volatility throughout the year.

The Tax Reform Test Year and Its Implications for Foreign Investors

The year 2026 marks the start of Brazil's so-called tax reform "test year," a transitional phase designed to simplify the tax system and enhance predictability. Complementary Law No. 214/2025 established the Dual VAT model, comprising the Tax on Good and Services (IBS) and the Contribution on Good and Services (CBS), with the objective of eliminating cumulative taxation, enabling full recovery of input tax credit, and reducing tax distortions across production chains. For foreign investors, this shift is expected to bring greater transparency regarding the effective tax burden, particularly in industrial operations, foreign trade, and infrastructure-related contracts.

With the test year beginning in the first half of 2026, companies will be required to adapt accounting and tax systems, reconfigure ERP platforms, review pricing policies, and assess the impact of full non-cumulative taxation on margins and cash flow. Detailed IBS/CBS simulations will become essential not only for new investments, but also for the reassessment of existing contractual arrangements.

A critical feature for long-term investments is the economic and financial rebalancing mechanism set out in Article 374, which functions as a de-risking tool. It allows administrative contracts to be adjusted when changes in the tax burden disrupt their original economic equilibrium, protecting investors from unforeseen losses.

This safeguard is particularly relevant for private equity funds, energy and sanitation projects, and other capital-intensive investments, as it reduces exposure to regulatory change and enhances certainty for long-term capital allocation decisions.

Despite these advances, the regulatory phase, particularly the final calibration of tax rates, remains a key area of attention. The effectiveness of the Dual VAT system will depend on appropriate sectoral calibration, the treatment of special regimes, and the stability of the credit refund and offset mechanisms. For foreign investors, the transition period calls for close regulatory monitoring and ongoing technical engagement with local legal and tax advisors.

Those who adopt tax-modeling methodologies aligned with Complementary Law 214/2025, review rebalancing clauses in administrative contracts, and implement periodic tax-risk assessments will be better positioned to navigate the post-transition environment. Overall, the reform offers clear advantages, including greater tax predictability, potential cost efficiencies, and increased stability in concession and infrastructure contracts. At the same time, the complexity of the new framework makes specialized oversight essential, ensuring that investment decisions remain aligned with the evolving regulatory landscape and with robust compliance practices in Brazil.

Opportunities for Foreign Investors in 2026

The strengthening of Brazil's regulatory environment throughout 2025, combined with the expansion of concession programs and public-private partnerships, positions the country favorably for the 2026 investment cycle. The combination of market scale, institutional maturity, and regulatory stability underpins the view that Brazil offers attractive conditions for international investors, particularly those with a long-term asset focus.

Energy remains at the core of the foreign investment agenda. The expansion of transmission networks and the modernization of distribution, alongside the steady advance of renewable generation, form a capital-intensive investment pipeline aligned with long-duration institutional strategies. Brazil's power matrix—already composed of approximately 88% renewable sources—continues to support investment across both traditional and new segments of the sector. Regulatory predictability has been reinforced by the gradual, structured expansion of the Free Energy Market, including the phased increase in the number of eligible consumers. This process was recently consolidated by the conversion of Provisional Measure 1,304 into Law 15,269/2025. At the same time, the sectoral agenda is incorporating new instruments, such as the country's first auction of battery energy storage systems, scheduled for next year, to address renewable intermittency and support system expansion.

Water infrastructure and sanitation are also consolidating as priority areas for global investors. Progress in the regulatory framework, anchored in universalization targets set for 2033, and the formation of regional service blocs that increase operational scale have added greater economic rationality to the sector. As of 2023, approximately 83.1% of Brazil's population had access to water distribution networks, with urban coverage exceeding 93%, while rural areas remain significantly underserved, highlighting service gaps and room for growth. This gap between current coverage levels and universalization targets highlights latent demand and supports long-term contracts with stable return profiles.

Integrated logistics continues to play a central role in the investment landscape. Highways, railways, ports, and airports remain focal points for foreign capital, driven by policies aimed at reducing logistics costs and enhancing export competitiveness. The implementation of the *BR do Mar* program, by expanding coastal shipping and creating more efficient alternatives to road transport, has further strengthened the sector's appeal. Concessions designed to integrate agricultural frontiers and industrial corridors continue to expand capacity and productivity, while airport operations remain attractive due to robust revenue generation and a well-established regulatory framework.

Finally, export-oriented industrial chains and digital infrastructure are gaining prominence in the 2026 investment portfolio. The combination of competitive energy costs, abundant water availability, and growing integration of renewable sources creates favorable conditions for large-scale data centers—an increasingly relevant competitive advantage relative to other emerging markets.

Brazil's leadership in the energy transition, together with the rapid growth of data traffic across Latin America, reinforces the case for investments in technology hubs and highly capital-intensive digital infrastructure.

Taken together, these sectors highlight a market offering asset diversification, long-term contracts supported by legal certainty, and clearly defined competitive advantages. The regulatory consolidation achieved in 2025, combined with rising structural demand and access to strategic natural resources, underpins a constructive outlook for international capital in 2026, reinforcing Brazil's position as a relevant destination within global investment strategies.

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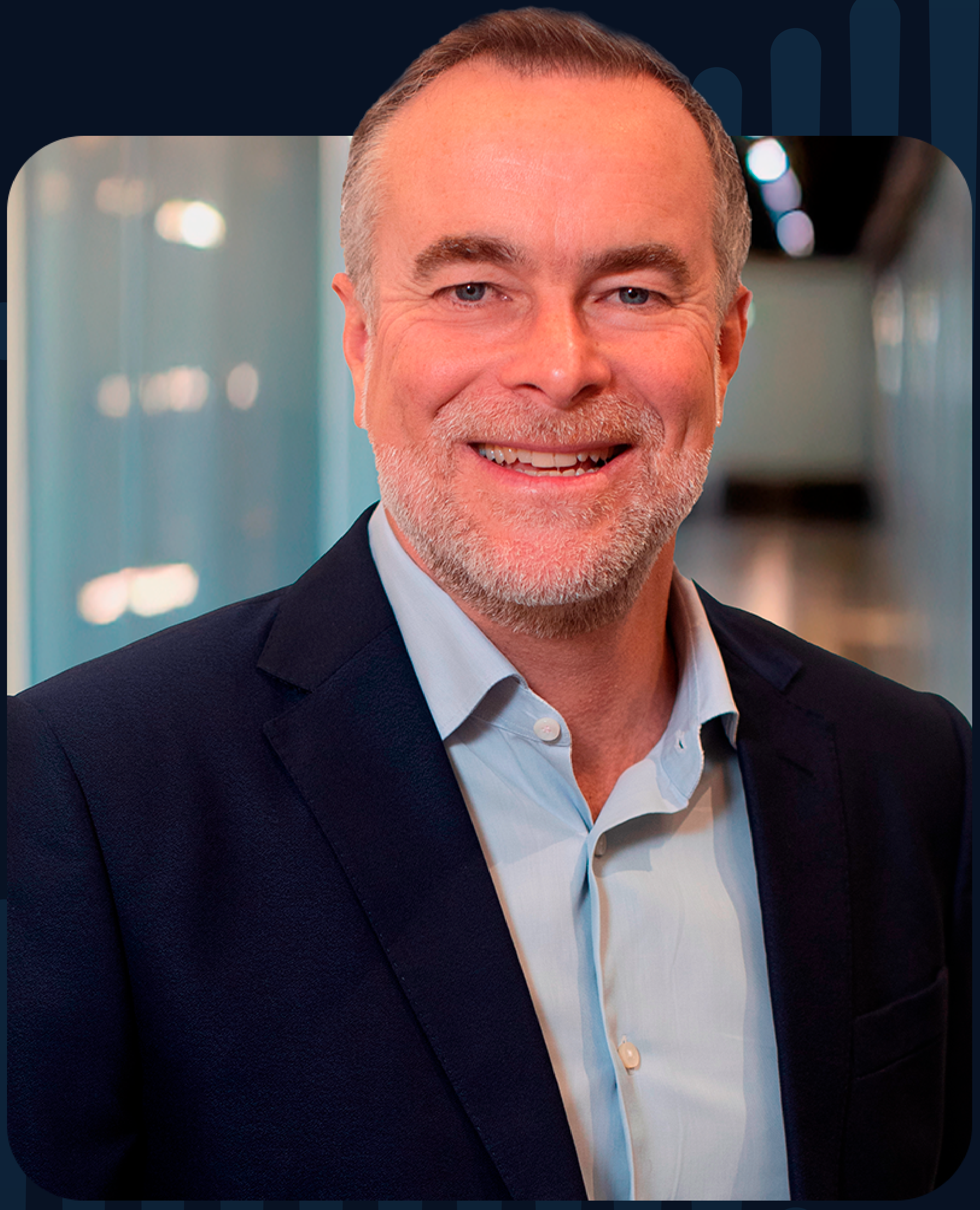

Pedro Hermeto | CEO

Pedro Hermeto currently serves as Vieira Rezende's Managing Partner (CEO).

He has been part of Vieira Rezende's team since its foundation, and has long experience in civil and corporate matters, with emphasis on mergers and acquisitions, negotiations, contracts and administrative proceedings.

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