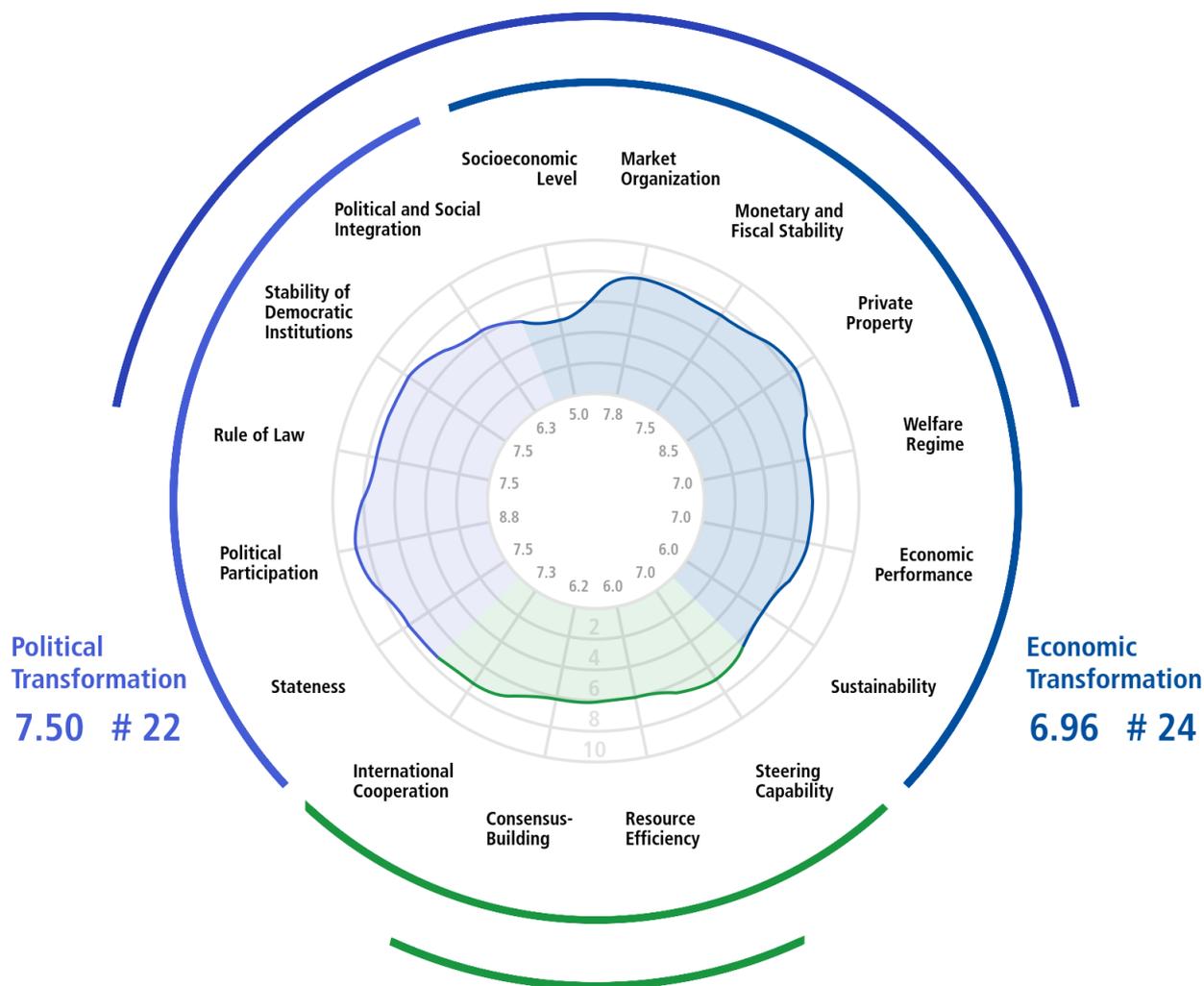


# Brazil

## Status Index

**7.23 # 21**

on 1-10 scale out of 137



**Political Transformation**  
**7.50 # 22**

**Economic Transformation**  
**6.96 # 24**

## Governance Index

**5.69 # 34**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>212.0</b>	HDI	<b>0.786</b>	GDP p.c., PPP \$	<b>22333</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.4</b>	HDI rank of 193	<b>84</b>	Gini Index	<b>51.6</b>
Life expectancy	years	<b>75.8</b>	UN Education Index	<b>0.720</b>	Poverty <sup>3</sup>	% <b>8.4</b>
Urban population	%	<b>88.0</b>	Gender inequality <sup>2</sup>	<b>0.390</b>	Aid per capita \$	<b>3.3</b>

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

This report focuses on the first two years of President Luiz Inácio Lula da Silva's third term. Following the challenges and threats to Brazilian democracy presented by the Jair Bolsonaro government, the political situation has stabilized somewhat since 2023. This is reflected in slight improvements in the scores for many indicators throughout Brazil's Democracy Status section. This is especially true with regard to political participation, as the incumbent government has resumed the respectful treatment of opposition actors and has respected the freedoms of assembly and expression. Significant improvements occurred in the protection of civil and human rights in 2023 – 2024. The overall performance of democratic institutions has improved slightly, while performance on indicators assessing political and social integration has not changed.

Brazil's economic status has changed only slightly. Scores on indicators relating to socioeconomic barriers, market organization and competition, monetary and fiscal stability, and private property remained stable, often at high levels. Under Lula, there have been improvements in equal opportunity. Economic performance improved slightly compared with the previous reporting period. There have been positive developments in the government's environmental and education policies. However, this was precisely where the agricultural lobby's considerable power in the National Congress became apparent. This sector's interests diverge fundamentally from the government's goals. The government was unable to prevent enactment of the so-called Marco Temporal (Time Frame) Law, which stipulates that Indigenous people may claim only the land they occupied when the current Brazilian constitution took effect on October 5, 1988. The law also contains provisions that restrict Indigenous land rights and open traditional territories to mining and agribusiness, which the constitution prohibits. Lula's veto of the law was overridden in both chambers of parliament by a large majority. Parliament also disregarded a vote by the Supreme Court that declared the bill's contents to be unconstitutional. Another law pushed through by the agricultural lobby drastically relaxed the rules governing pesticide use.

The level of difficulty has not changed. Civil society traditions remain strong, and the intensity of conflict is low, especially by international standards. There have been positive developments in governance quality, as reflected in some significant improvements in scores. The Lula administration set clear policy priorities and, despite the complex majority situation in the National Congress, achieved at least some of its goals. The government's management of available resources has improved slightly, with regard both to efficiency and policy coordination. There have been significant improvements in consensus-building, particularly in addressing divisions and conflicts and in the use of opportunities for public consultation. Although Lula was careful not to further inflame the tense relationship with the armed forces, a series of measures was taken in 2023 – 2024 that are important for reconciliation with the victims of the military dictatorship and their families.

Internationally, the performance of the Bolsonaro and Lula administrations could not be more different. The current government has restored Brazil's reputation and credibility as an international actor. However, Lula has made several statements on the international stage that have drawn strong criticism. In the Ukraine crisis, he was accused of being overly pro-Russian, particularly for saying the West and the Ukrainian government were partly to blame for Russia's invasion. The Israeli government condemned his position on the Israeli army's actions in Gaza after Lula referred to them as constituting genocide.

The Lula administration is actively engaged regionally and globally. However, it has had to acknowledge that the international environment has undergone fundamental changes since Lula's first two terms. Geopolitical conflicts and new forms of warfare pose major challenges to Brazil's foreign policy preference for a multipolar and multilateral world order. The Lula administration's efforts to overcome the crisis of Latin American regionalism have been only partly successful.

## History and Characteristics of Transformation

Brazil's democratic transformation spanned almost 20 years. The first steps toward liberalization of the authoritarian regime (1964 – 1985) were taken in 1974. In January 1985, Tancredo Neves was elected president by an electoral assembly but died before taking office. Vice President José Sarney took office instead (1985 – 1990). A new democratic constitution came into force in October 1988. In March 1990, the first directly elected democratic president, Fernando Collor de Mello, took office. Implicated in a corruption scandal, Collor was removed from office in September 1992, and Vice President Itamar Franco served out the remainder of Collor's term. The economy began to stabilize under President Fernando Henrique Cardoso, who was elected in 1994 and re-elected in 1998, and served until 2002. In 2002, leftist Luiz Inácio Lula da Silva (popularly known as "Lula"), a former union leader and head of the Workers' Party (Partido dos Trabalhadores, PT), was elected president. He was re-elected in 2006 for a second term (2007 – 2010). In 2011, Lula's protégé Dilma Rousseff took office as Brazil's first female president. She was re-elected to a second term in 2014. After a highly controversial impeachment process, Rousseff was suspended in May 2016 and removed from office in August 2016. Vice President

Michel Temer became acting president in May 2016 and was sworn in as president for the remainder of the term in August 2016. In October 2018, right-wing politician Jair Bolsonaro was elected president for the 2019 – 2022 term. His presidency was a stress test for Brazilian democracy. He broke with numerous decades-old traditions of Brazilian politics, repeatedly challenged the country's democratic institutions and led the country into widespread international isolation. In the 2022 presidential election, Bolsonaro narrowly failed in his attempt to be re-elected. A broad alliance from left-wing to democratic conservative forces enabled Lula to win the election and thus begin a third term as the country's president in January 2023. However, his power base is fragile in the face of a majority of conservative to ultraconservative forces in the federal parliament and many individual states.

After World War II, Brazil's transition to a market economy followed an import-substitution industrialization model. Until the 1980s, state-owned enterprises dominated numerous sectors, and the state development bank funded areas that government planners deemed highly important. In the 1990s, policymakers partially shifted away from the developmentalist model, paving the way for privatization and economic liberalization. The first two governments under President Lula adhered to the Cardoso administration's macroeconomic stability policy while expanding social policy on a large scale. Thanks to favorable external conditions such as the commodity boom, the administration combined economic growth with social development, lifting millions of Brazilians out of poverty. Since 2013, Brazil's economy has faced mounting difficulties and has slipped into recession. President Rousseff loosened fiscal discipline, adopted an expansionary monetary policy, increased trade protectionism and pursued an active state industrial policy. These policies proved inadequate to overcome the recession. President Temer began pursuing a much more neoliberal agenda in 2016. Although the economy has stabilized since 2017, high unemployment rates and a strained budget situation have persisted. Ultraliberal economist Paulo Guedes served as President Bolsonaro's "super-minister" of economics and finance. He steered Brazil through the severe economic consequences of the COVID-19 pandemic with a measure of stability. He sought policies focused on comprehensive neoliberal deregulation and privatization, achieving only partial success. During his third term in office, President Lula is once again seeking to combine a stability-oriented economic policy with an active social policy.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

While the state holds a monopoly on force in principle, it is not fully maintained in practice. In the slums of cities such as São Paulo, Rio de Janeiro and Belo Horizonte, multiple authorities coexist, shaping the dynamics of order and violence. Alongside state laws, unwritten criminal codes govern these areas, and the boundaries between normative orders are fluid.

Local gangs often act as de facto authorities, enforcing codes of conduct and wielding power over life and death. Their interactions with state security forces range from open conflict to corruption-fueled collaboration. Powerful gangs such as Primeiro Comando da Capital and Comando Vermelho operate nationwide, engage in arms and drug-trafficking and control many prisons, where massacres are common.

Another source of extralegal violence is militias – paramilitary groups, often formed by off-duty police officers – that dominate numerous favelas. Controlling entire neighborhoods, they extort residents, impose their own rule and commit extrajudicial killings. Millions live under the influence of these criminal actors, who challenge the state’s authority at every level.

There were 46,328 intentional violent deaths (22.8 per 100,000 inhabitants) in 2023, 3.4% fewer than in the previous year. This category includes intentional homicides, femicides, robberies, bodily injury followed by death, police killings and deaths resulting from police intervention. With these figures, Brazil remains 18.8% above the regional average for Latin America and the Caribbean and almost four times the global average (5.8 deaths per 100,000 inhabitants).

After President Bolsonaro relaxed firearms purchase restrictions in 2019, the number of registered firearms rose by 473% during 2018 – 2022. By contrast, under President Lula, who tightened the regulations again, new registrations fell significantly, from 111,044 in 2022 to 20,822 in 2023. However, from a medium-term perspective, the total number of registered weapons in 2023, at 2,088,048, was still 227.3% above the 2017 figure.

Question  
Score

Monopoly on the  
use of force

6

'06 '26 10

7 6

1

The vast majority of the population accepts the nation-state as legitimate and – most fundamentally – acknowledges the state’s constitution. All citizens are accorded the same civic rights. Ethnic, religious and cultural minorities are not systematically excluded from political citizenship, on either a de jure or de facto basis. In 2003, Brazil ratified the International Labor Organization’s Convention 169, which guarantees the Indigenous and quilombola (descendants of Afro-Brazilian slaves) populations the right to self-determination, participation in decisions affecting their ways of life and ownership of their traditional territories, among other things.

The state is secular. Religious dogma has not significantly influenced the country’s legal order or political institutions in the past. However, the political power of religiously motivated groups has grown in recent years. The share of citizens identifying as evangelicals has risen from about 7% in 1980 to about 30% today. In the National Congress elected in 2022, 132 deputies and 14 senators are members of the Frente Parlamentar Evangélica (FPE) evangelical caucus, an increase relative to the previous legislature (112 deputies and 11 senators). This corresponds to just over 25% of deputies and 17% of senators.

Moreover, not all evangelicals are members of the FPE. The caucus opposes policies supporting gender equality, abortion and same-sex marriage, as well as those imposing criminal penalties for violence and discrimination against homosexuals, bisexuals and transsexuals. It also rejects penalties for parents who use corporal punishment on their children.

Surveys show that evangelical radicalism poses a threat to Brazilian democracy. Evangelical bishops such as Silas Malafaia have repeatedly defended the January 2023 attack on government buildings in Brasília, discredited the Brazilian electoral system, attacked the Supreme Court and condemned the legal proceedings against former President Bolsonaro as a malicious plot. In 2023, evangelical pastors called for President Lula’s restrictions on private firearm ownership to be lifted. About 10% of evangelicals hold far-right positions, but this radical minority has extensive access to Brazilian media and financial resources and is well connected internationally.

State administrative structures provide most basic public services nationwide, but their operation is somewhat deficient. This applies to the provision of judicial functions, tax administration and law enforcement, as well as administrative functions in areas such as communication, transportation and basic infrastructure. In 2022, 99.6% of the population had at least basic access to a water source; 87.3% had safely managed access to a water source; 90.9% had at least basic access to sanitation; 49.6% had safely managed access to sanitation; and 100% had access to electricity. The state apparatus operates efficiently and professionally in some regions, while the northern and northeastern states remain characterized by clientelism and patronage. Many cities face challenges in delivering infrastructure services, reducing water and air pollution, minimizing disaster risks, and addressing issues of water scarcity and inadequate access to basic services.

#### State identity

9



1

#### No interference of religious dogmas

8



1

#### Basic administration

7



1

State capacity at the local level is a growing concern. A number of federal policies are not being implemented at the local level because municipal bureaucracies lack the capacity to enact local legislation and administer federal funds. The recent dengue fever crisis and rampant flooding in many areas of the country – with disastrous consequences in many states – point to increasing difficulties in dealing with the growing challenges posed by climate change.

## 2 | Political Participation

There are no significant obstacles to free and fair elections. This was confirmed by the 2022 presidential and parliamentary elections, as well as the 2024 local elections. Despite a heated political and social atmosphere, the country’s electoral institutions function adequately. Parliamentary elections are held regularly at the national level, with universal suffrage by secret ballot. Various parties with different platforms may run for office, and political posts are filled based on election results. Legislation provides for a fair registration process for all elections and prevents discrimination against candidates and parties. The electoral administration works impartially and effectively. All citizens may run for office if they are nominated by a registered political party. The Supreme Electoral Court enforces electoral regulations and sanctions politicians and organizations that violate the law. Political parties are free to operate. All adult citizens are eligible to vote in national elections, and registration and voting are compulsory. In practice, nearly all citizens of voting age are registered to vote. Voting is accessible, secure and secret to ensure effective participation. Brazilian voters have cast their ballots electronically since 1996.

In the run-up to the 2022 election, former President Bolsonaro repeatedly claimed the country’s voting system was vulnerable to fraud, but no evidence supporting this contention was found. In recent years, the Brazilian judiciary – mainly through the Supreme Electoral Tribunal (TSE) and the Federal Supreme Court (STF) – has implemented innovative measures to mitigate the harmful effects of disinformation and ensure the integrity of the electoral process. One of the main instruments in this regard is the Permanent Program to Combat Disinformation, launched by the TSE in 2021. In 2024, the TSE issued a resolution on the use of artificial intelligence (AI) in elections. It requires explicit disclosure of AI use in political advertising. Another innovation is the Electoral Disinformation Alert System (SIADE), which aims to facilitate detection of and rapid response to false content that could influence the electoral process. These initiatives place Brazil at the global forefront of countries that view digital regulation as crucial to defending democracy.

Free and fair elections

10



1

Democratically elected representatives exercise governmental power, with no explicit veto power in place. However, it took years after the last military dictatorship for the armed forces to be fully subordinated to civilian authority. The Ministry of Defense was established only in 1999; before that, the commanders in chief of the various military branches sat at the cabinet table. Under former President Bolsonaro, Brazilian politics experienced a significant degree of militarization. Many of his appointed ministers came from the armed forces, and more than 6,000 officers were placed in administrative positions, often blurring the lines between civilian and military governance. This frequently violated the legal principle that requires active military personnel who serve in civilian office for more than two years to leave active service.

The constitution guarantees full freedom of association and assembly, and these rights are enforced. Brazil has ratified international human rights treaties that require the government to protect freedom of expression and association. There are no restrictions on the assembly and association of particular groups. Groups generally operate without unwarranted government interference in their affairs. Public debate is vigorous but highly polarized. While President Bolsonaro's government repeatedly defended the use of excessive police violence against anti-government demonstrators, no such actions are known to have been taken by Lula's government.

Constitutional guarantees of the freedom of expression and press freedom are strong. President Lula's government restored normal relations between the media and state authorities after President Bolsonaro's tenure, which was marked by constant hostility toward the media. However, violence against journalists, highly concentrated media ownership patterns and the effects of disinformation continue to pose major challenges to press freedom. Brazil was ranked at 110th place in Reporters Without Borders' 2022 World Press Freedom Index, then rose to 92nd in 2023 and 82nd in 2024.

Media ownership in Brazil is highly concentrated, producing biased coverage that often favors private interests. There are no government restrictions on internet access, and Brazilians are among the world's most active internet users. They spend a great deal of time on social media, exceeding the global average. More than 85% of Brazilians are active on various social media platforms.

Brazil has had a freedom of information law since 2011. It requires the government to proactively publish certain information and gives citizens the right to request information from government institutions. In principle, the law has improved the transparency of government operations, but critics argue that the state's information obligations do not go far enough, and that the ability to classify information as a matter of national security can be abused to keep such information under wraps.

Physical violence against journalists has long been a major problem in Brazil, especially in remote parts of the country. In addition, daily threats against critical journalists, a general lack of resources and inadequate infrastructure severely limit

Effective power to govern

9



1

Association / assembly rights

9



1

Freedom of expression

7



1

independent reporting and lead some journalists to self-censor. The Lula administration faced the challenge of countering the climate of open hostility toward independent and anti-government media that had intensified under Bolsonaro. According to international rankings, the government has been successful in this endeavor. In the Global Expression Report 2024, Brazil moved from 87th to 35th place, rising from the “restricted” to the “open” category with a score of 81 on a scale of 0 to 100. The country made progress in the areas of freedom to publish political content, government surveillance of the internet, transparency of laws and their application, political violence, and freedom of religion and science.

### 3 | Rule of Law

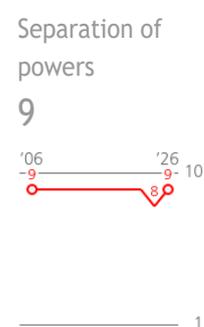
The separation of powers is enshrined in Brazil’s 1988 constitution. The country has a federal system in which powers are divided among the federal, state and local governments. The powers of the federal government are divided horizontally among the executive, legislative and judicial branches. The legislature may require any executive minister to appear in person to testify or answer written questions. The National Congress has the power to legislate, but this power is not exclusive to it.

Considerable legislative power is vested in the executive branch. The president has the authority to issue delegated laws and provisional measures that have the force of law for a limited period. The president may also veto legislation, and only an absolute majority in both houses of the National Congress can override the veto. The National Congress may approve only those programs included in the annual budget law. This gives the executive branch extraordinary power to prevent the passage of legislation it opposes.

The courts ensure that the government and the administration comply with the law. Judges have broad authority to assess the constitutionality of government actions and provide a check on the legislative and executive branches through judicial review. In specific cases, all Brazilian courts, including lower courts, have the authority to conduct judicial review. However, only the Supreme Court has the direct authority to invalidate laws and executive acts that violate the constitution.

During President Bolsonaro’s time in office, the Supreme Court repeatedly blocked the executive from implementing undemocratic measures. Yet the court’s increasing politicization over the past two decades is controversial in the country, and has led to various initiatives aiming to limit its power. In particular, these initiatives seek to restrict the ability of individual judges to act without consulting other Supreme Court judges, a practice that has often occurred in recent years.

After a four-year effective state of emergency under former President Bolsonaro, relations between the executive and the other branches returned to normal under President Lula. In April 2024, the country’s Supreme Court unanimously ruled that



the constitution does not allow the armed forces to act as a “moderating force” between the executive, legislative and judicial branches. Bolsonaro had promoted such an interpretation of Article 142 of the constitution to justify possible military intervention in the event of conflicts between the branches of government.

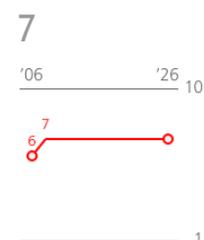
The judiciary is institutionally differentiated, largely independent of government intervention and professionally organized. However, its efficiency is somewhat hampered by limited capacity and corruption. The system is heavily overloaded. Brazilian law is highly procedural. Despite repeated attempts at reform, the legal system continues to operate with these weaknesses. The judiciary is divided into the Common Justice and the Specialized Justice. The latter includes the subdivisions of Electoral Justice, Military Justice and Labor Justice. The Common Justice has two jurisdictions: the Federal Justice, which operates within the Union, and the State Justice, which operates within the Brazilian states and the Federal District. It is responsible for all cases that do not fall under the jurisdiction of the Specialized Justice. The Supreme Federal Court is the highest body.

The Brazilian judiciary is organized on a professionalized basis. Career judgeship positions are filled after an open competition involving tests and titles, with appointments made in order of rank. The country’s president appoints the justices of the Supreme Court, the judges of the Federal District and Territorial Courts, and the judges of the Regional Courts after these selections are made and approved by the competent constitutional body (the Federal Senate, for electoral or judicial appointments). The governors of the states appoint the judges of their local courts. Magistrates are appointed by the president of the respective court. Federal judges, labor judges, among others, are appointed by the president of the regional court in accordance with the law and their respective internal regulations. A National Council of the Judiciary supervises the administrative performance of the courts and the duties performed by the judges.

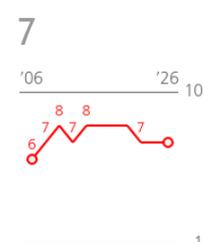
Corruption has long been a serious problem in Brazilian society and politics. For many years, corrupt officials had little fear of prosecution. This has changed over the past 25 years. Brazil has significantly expanded and strengthened its anti-corruption laws. The major corruption scandals of the past two decades, such as “Operation Car Wash” (Lava Jato), were partly a consequence of law enforcement agencies becoming much more capable of combating abuse of office and corruption than before. More recently, however, a politicized judiciary resorting to unlawful means has emerged.

Former President Bolsonaro was elected on an anti-corruption platform at a time when corruption remained a top concern for voters. However, the Lava Jato corruption investigation was closed during his administration. Bolsonaro’s attempts to protect his sons and inner circle from corruption investigations by interfering with the federal police dealt a serious blow to the country’s efforts to prevent and combat corruption. At the close of the review period, he was facing numerous investigations,

#### Independent judiciary



#### Prosecution of office abuse



including one focusing on an alleged plot to incite a rebellion following his loss in the 2022 presidential election. In June 2023, the electoral court banned him from running for office until 2030 for using the state television channel and official meetings with diplomats to campaign for his re-election and to sow distrust in the election.

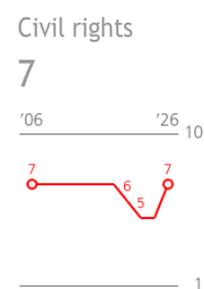
Although the Supreme Court ruled in 2022 that the opaque practice of Congress passing so-called secret budgets was unconstitutional, negotiations between the executive and legislative branches remain heavily influenced by patronage. Lawmakers distribute and use federal funds with little oversight or transparency, creating fertile ground for corruption.

In the current Lula administration, fighting corruption is not a priority. Instead, it has focused on economic and environmental issues.

The Brazilian constitution provides comprehensive guarantees protecting civil rights without distinction based on origin, race, sex, color, age or any other ground of discrimination. Men and women have equal rights and duties. Religious freedom is guaranteed. Mechanisms and institutions exist to prosecute, punish and redress violations of civil rights, but they often prove ineffective. Because of the extreme inequalities in Brazilian society, there are wide disparities in citizens' access to legal counsel and the administration of justice. Despite the constitutional guarantees, violations occur in practice, particularly in rural areas and urban slums. Brazil has a very high rate of firearm-related homicides.

Following the significant erosion of civil rights protections under President Bolsonaro, President Lula's return to power ushered in positive developments for human rights in Brazil. For the first time in Brazilian history, he created a Ministry for Indigenous Peoples. There are also ministries for human rights and citizenship, women and ethnic equality. The government reintroduced several social and human rights programs, reopened spaces for civil society, settled its debts to international organizations, and generally adopted a more respectful attitude toward human rights defenders. The number of violent incidents against journalists decreased significantly.

Shortcomings persist in some areas. Prison overcrowding, poor prison conditions, collective punishment and abuse in detention remain a reality. Brazil also has a high rate of police violence. In 2023, 6,393 deaths were attributed to the police (2022: 6,145), a 188.9% increase compared with 2013. In January – September 2024, the number was 4,565. While some of these killings by the police are in self-defense, many are attributed to the illegal use of force. More than 80% of those killed were Black. Discrimination against people of African descent and the LGBTQ+ community continued, and the incidence of violence against women has increased. Human rights defenders continued to face risks in the absence of an effective national protection program. Environmental crimes in the Amazon region have decreased in frequency but have not disappeared completely.



#### 4 | Stability of Democratic Institutions

After four years in which democratic institutions were tested under the Bolsonaro administration, President Lula is trying to restore normalcy. That has been a challenge, given that Lula's government initially lacked a majority in the National Congress, and the fact that Bolsonaro's government had systematically dismantled the country's public administration in many areas, undermining the guarantees of social, political and human rights enshrined in the 1988 constitution. Bolsonaro's radical budget cuts and disruptive policies in areas such as health, culture, education, the environment, the economy and foreign relations continued to be felt after Bolsonaro's term ended. However, Lula's government has restored budgets and reversed at least some of the previous administration's disruptive measures.

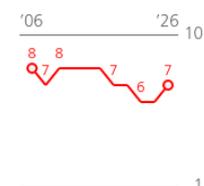
Bolsonaro initially attempted to govern without compromising with parliament, but ultimately had to negotiate. Lula returned to the practices of Brazilian "coalition presidentialism" at the beginning of his third term. He first secured support from nine parties, and two more joined in 2023, giving the government broad majorities in both houses of parliament. However, doing so required that he make numerous concessions to the bloc of center-right *Centrão* parties. These *Centrão* parties have been a mainstay of Brazilian politics since the end of the military dictatorship. They are less interested in ideological issues than in clientelism. In exchange for their approval of government projects, they expect funding for their home districts. In particular, support from the powerful speakers of the two chambers of parliament was crucial for the Lula government, and it came at a price – a growing deficit in 2024.

Most relevant actors accept democratic institutions. In particular, with the end of Jair Bolsonaro's term, the country once again has a president committed to consolidating democracy. Bolsonaro made no secret of his admiration for the military dictatorship that ruled the country during the 1964 – 1985 period. He carried out a militarization of Brazilian politics, fueled doubts about the ability of democratic institutions to function, often denied the legitimacy of his political opponents and supported undemocratic actors. As the review period closed, he had been charged in court with planning a coup to prevent President Lula from taking office after Bolsonaro's election defeat in 2022. The broad electoral alliance formed by Lula in 2022, spanning the political spectrum from the left to the democratic right, served, not least, to prevent Bolsonaro's re-election and thus further endangerment of democracy.

However, Bolsonaro's departure from office does not mean the end of *Bolsonarismo*. This was clearly evident on January 8, 2023, when radical supporters stormed government buildings in Brasília. While democracy proved resilient – public approval of democratic institutions peaked at the time – the courts continue to address the fallout. Far-right forces within Bolsonaro's base remain active in politics, organizations and parties. Though barred from running for office until 2030,

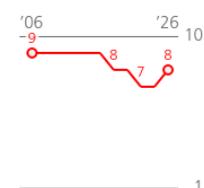
Performance of democratic institutions

7



Commitment to democratic institutions

8



Bolsonaro continues to undermine trust in democratic institutions. While the immediate threat to democracy has diminished since 2023, political polarization persists. Judicial investigations into his alleged coup plans suggest that at least some military factions were willing to prevent Lula's inauguration by supporting a coup.

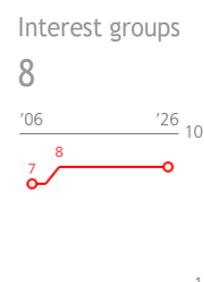
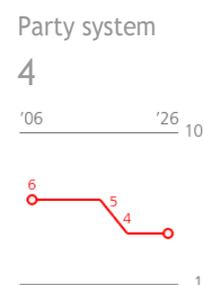
## 5 | Political and Social Integration

The Brazilian party system is characterized by a high degree of fragmentation, volatility and polarization, as well as weak social roots. Patronage practices are common. As of September 2024, 29 parties were registered with the Supreme Electoral Tribunal. The system's significant fragmentation and volatility have multiple causes related to the country's political polarization – which has increased significantly over the past 15 years – as well as anti-establishment attitudes and protest voting. The party system's dynamics have also been shaped in recent years by strong negative feelings among significant segments of the electorate toward individual candidates. This applies to both anti-petismo (strong opposition or hostility toward Lula's PT party) and anti-bolsonarismo. Other explanatory factors include political parties' organizational weaknesses and the fact that voters primarily vote for individuals rather than parties. Eleven parties are represented in both houses of Congress, eight solely in the Chamber of Deputies, and none solely in the Senate. Nine have no representation at all in either house of Congress.

For some time, Brazil has had a barrier clause in place, and as a result, the effective number of political parties (ENPP) has fallen from 16.5 in 2019 to 12.7 in 2022. Even so, the ENPP remains extremely high by international standards, and the reduction has not made negotiations with Congress easier because parties remain large and continue to be powerful veto players. The clause will not take full effect until 2030.

The most influential political parties in the Chamber of Deputies elected in October 2022 are the Partido Liberal (PL) with 99 seats; the Partido dos Trabalhadores (PT) with 68 seats; União Brasil (UNIÃO) – formed by the merger of Democratas (DEM) and Partido Social Liberal (PSL) – with 59 seats; the Progressistas (PP) with 50 seats; the Partido Social Democrático (PSD) with 45 seats; and Movimento Democrático Brasileiro (MDB) and Republicanos (REP) with 44 seats each. In the Senate, the PSD holds 15 seats; the PL, 14; MDB, 10; the PT, nine; and UNIÃO and PP, six each.

Brazil's network of interest groups is relatively dense, reflecting most social interests but dominated by a few strong ones. Labor and capital organizations are the most important groups. The country's current labor movement emerged from struggles against the military dictatorship that ruled from 1964 – 1985. After democratization, there was a gradual shift away from traditional corporatist state models. The 1988 constitution eliminated the Ministry of Labor's previously extensive powers to intervene in union affairs, but other elements of the corporatist system remained intact. The 2017 labor-law reform abolished the mandatory annual union tax.



Workers must now opt in to pay it. This has resulted in massive revenue losses for unions. Nevertheless, the number of individual unions has continued to increase, from 16,517 in 2017 to 17,969 in 2022. Unions increasingly provide additional services to their members in order to sustain themselves financially. There are 13 union confederations, the strongest of which is the Central Única dos Trabalhadores (CUT). The unionization rate is about 20%. About 60% of formal workers are covered by collective agreements. Even in difficult times, unions have demonstrated relatively high mobilization capacity and forged broad political and social alliances. Since 2016, however, their room to maneuver has been reduced because of the ongoing economic crisis and a shift to the right in politics and society. The National Confederation of Industries represents 27 industry federations in the states and the Federal District, with more than 1,000 affiliated employers' associations and nearly 100,000 industrial enterprises.

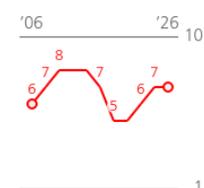
Brazil has long had among the lowest levels of popular support for democracy in Latin America. In 2024, 45% of those surveyed by Latinobarómetro said they preferred democracy to any other form of government, up from 34% in 2018. While 54% of respondents said they did not care whether a government was undemocratic as long as it solved the country's problems, 71% agreed that democracy was the best system of government, even if it might have flaws. According to the 2024 Face of Democracy survey, 45% of Brazilians said they would support a military coup in a situation in which crime rates were high, and 49% said they would support a coup in a situation of widespread corruption.

The share of respondents expressing satisfaction with democracy increased from 9% in 2018 to 28% in 2024. By 2023, this figure had reached 31%. Other surveys have elicited more positive results. The Pew Research Center cites a satisfaction rate of 41% in 2019, falling to 37% by early 2023 and rising again to 44% by 2024. At the same time, ideological orientation strongly influences satisfaction. Fifty-six percent of people with a leftist orientation were satisfied with democracy under the Lula government, compared with only 35% of people with a conservative orientation. A survey conducted during the Bolsonaro government showed the opposite pattern: in 2019, 47% of people on the ideological right expressed satisfaction with democracy; among those who supported the parties of the Bolsonaro government, the figure was as high as 56%, compared with only 29% of those on the ideological left.

In 2024, 41% of Brazilians said they believed that democracy could function without political parties, while 34% said they could imagine democracy functioning without Congress. Thirty-seven percent said they thought an opposition was unnecessary. The church was trusted by 63% of respondents, the armed forces by 47% and the police by 44%. In contrast, trust in democratic institutions was significantly lower: 37% of respondents said they trusted the president, 36% trusted the electoral institutions, 35% trusted the judiciary, 28% trusted the government, 26% trusted Congress and only 16% trusted the political parties.

Approval of  
democracy

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Brazil has a strong network of autonomous, self-organized groups and civil society organizations (CSOs). According to official figures, nearly 900,000 CSOs were active in 2024, compared with 782,000 in 2018. The sector plays an economic role in the labor market and addresses issues of public interest. Organizations dedicated to defending rights and advocating for the public interest account for 32% of CSOs, while organizations with a religious orientation make up about 30%.

The level of interpersonal trust has traditionally been very low in Brazil. In the 2024 Latinobarómetro poll, only 5% of respondents said that most people can be trusted. Latin America is the region of the world with the lowest levels of interpersonal trust, with no country exceeding 26%. However, Brazil ranks last, behind Ecuador (8%) and Peru (10%). Pew Research Center findings for 2024 were slightly more positive. According to that report, 81% of respondents said most people cannot be trusted, and 74% said people look out for themselves most of the time; however, 17% said most people can be trusted, while 24% said people are generally willing to help others.

Social capital

6

'06 '26 10



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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Brazil has a high level of human development, according to key indicators. The country's Human Development Index (HDI) score for 2022 was 0.760, placing it 89th out of 191 countries and territories. However, social exclusion is pronounced and structurally entrenched. With a Gini coefficient of 52.0 in 2022, Brazil has one of the most unequal income distributions in the world. In 2022, the total HDI loss due to inequality was 24.1%, and the inequality-adjusted HDI was 0.577. The gender gap in economic opportunity is narrowing, but women remain at a significant disadvantage. In 2022, Brazil had a Gender Inequality Index score of 0.391. The HDI scores for women and men were identical at 0.758, resulting in a Gender Development Index score of 1.000. Racial inequality remains a serious problem. The high-income population is predominantly white, while most Brazilians living in poverty are Black.

In 2024, Brazil reached its lowest levels of poverty and extreme poverty since 2012, according to the Institute of Geography and Statistics. In one year, 8.7 million people were lifted out of poverty, with the poverty rate falling from 31.6% to 27.4% of the population. Over the same period, the number of people living in extreme poverty fell from 12.6 million to 9.5 million, and the rate from 5.9% to 4.4%. The federal government's social programs contributed to these improvements. Without them, the extreme poverty rate would have risen to 11.2% and the poverty rate to 32.4%.

Question  
ScoreSocioeconomic  
barriers

5

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However, progress has been uneven across regions and social groups. The proportion of the population living in poverty is 47.2% in the Northeast and 38.5% in the North, compared with only 18.4% in the Southeast and 14.8% in the South. The pattern is similar for the extremely poor, who make up 9.1% of the population in the Northeast, 6% in the North, 2.5% in the Southeast and 1.7% in the South. Women (with a rate of 28.4%) are more likely to be poor than men (26.3%).

Economic indicators		2021	2022	2023	2024
GDP	\$ M	1670647.4	1951923.9	2191131.8	<b>2179412.1</b>
GDP growth	%	4.8	3.0	3.2	<b>3.4</b>
Inflation (CPI)	%	8.3	9.3	4.6	<b>4.4</b>
Unemployment	%	13.2	9.2	7.9	<b>7.6</b>
Foreign direct investment	% of GDP	2.8	3.8	2.8	<b>3.3</b>
Export growth	%	4.4	5.7	8.9	<b>2.9</b>
Import growth	%	13.8	1.0	-1.2	<b>14.7</b>
Current account balance	\$ M	-40409.0	-42156.8	-27932.8	<b>-57890.2</b>
Public debt	% of GDP	88.9	83.9	84.0	<b>87.3</b>
External debt	\$ M	571530.9	579468.1	607115.5	-
Total debt service	\$ M	161925.8	125800.0	226403.3	-
Net lending/borrowing	% of GDP	-4.5	-4.5	-6.9	-
Tax revenue	% of GDP	14.1	14.7	14.0	-
Government consumption	% of GDP	18.5	18.4	19.0	<b>18.8</b>
Public education spending	% of GDP	5.5	5.6	-	-
Public health spending	% of GDP	4.3	4.1	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.2	1.1	1.1	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Brazil has a robust institutional framework for market competition, but the informal sector remains significant. In 2023, about 37% of the active labor force was engaged in informal employment. Pricing is largely unrestricted and determined by market forces. Federal authorities regulate administered prices, including for gasoline, motor oil and bottled gas; fuel alcohol; residential electricity rates; telephone and postal rates; public transportation (including air and interstate bus fares); and health plans and insurance. Goods and services with prices set at the local or state level include piped gas, vehicle registration and licensing fees, water and sewer taxes, and public transportation.

The use of profits and remittances is unregulated, and the government treats foreign and domestic capital equally. A new foreign-exchange law, in effect since December 2022, significantly improved rules on currency exchange and the treatment of foreign investors.

Brazil has been an OECD key partner since 2007 and a candidate country since 2022. It adheres to more OECD instruments than any other non-member, participates fully in OECD statistical reporting and has undergone multiple economic and sectoral reviews. However, the Lula administration's decision to exclude the OECD from the G-20 summit in Rio de Janeiro (November 2024) has raised concerns internationally. While Brazil's OECD candidacy remains active, progress has stalled since Lula's return to office.

According to the Ministry of Economy, Brazil has about 200 state-owned companies, including 46 that are directly controlled (wholly or majority-owned) by the state. Another 157 operate as subsidiaries of five state-owned business groups: Eletrobras (71), Petrobras (52), Banco do Brasil (26), Caixa Econômica Federal (5) and BNDES (3). While the total number of federally owned enterprises has declined from 228 in 2016, several remain economically significant, with three ranking among the world's 500 largest companies.

In 2024, Brazil's state-owned enterprises faced a \$1.6 billion deficit, up sharply from the previous year. This figure excludes financial institutions and major firms such as Eletrobras and Petrobras, and federal companies were responsible for most of the losses.

The process for organizing new investments remains highly bureaucratic. Entrepreneurs face high costs to start a business, register property, access credit, pay taxes, enforce contracts and trade across borders. The Brazilian economy is highly regulated, with a complex legal framework, a burdensome tax system and a relatively closed trade and competition regime. Domestic competition is weak, with many firms favoring rent-seeking over innovation.

Market  
organization

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Competition laws exist and are enforced with the goal of preventing monopolistic structures and conduct. Brazil's antitrust framework is based on Law No. 12,529/2011. The Administrative Council for Economic Defense (CADE) is an independent agency under the Ministry of Justice. CADE's mission is to ensure free competition. CADE analyzes and approves or rejects all mergers between large companies that could undermine free competition. It investigates and adjudicates cartels and other anti-competitive practices. CADE also provides public advice on business practices that may adversely affect free competition. However, CADE is underfunded and understaffed and lacks a civil service career path. This limits its ability to recruit and retain staff. This has made it difficult to reduce the backlog of investigations and shorten their duration; some have lasted up to 10 years.

The Brazilian economy is characterized by complex regulations and heavy administrative burdens in its goods and services markets. These have often resulted in limited competition and restricted the entry of new suppliers. Recently, significant efforts have been made to reduce red tape and simplify existing regulations. In 2019, Brazil conducted a comprehensive review of federal regulations, analyzing more than 74,000 legal provisions and repealing more than 31,000 because they were obsolete or duplicated other texts. As a result, Brazil's position with respect to the overall economic indicator on the issue of product market regulation has improved. The gradual introduction of a new credit registry in 2021 has improved the exchange of customer data among financial institutions and promoted competition in the financial intermediation sector.

Brazil is an original member of the World Trade Organization (WTO) and a founding member of the Southern Cone Common Market (Mercosur). The country considers the multilateral trading system to be the foundation of its trade regime. Brazil has agreed to the 2005 Protocol amending the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the 2014 Protocol on Trade Facilitation. However, Brazil has retained significant remnants of its protectionist foreign trade policies from the era of industrialization. Exports and imports account for less than 30% of GDP. Brazilian companies have very limited participation in global value chains. Various trade barriers impede foreign competition, including about 450 tariff lines with a maximum tariff of 35%, primarily affecting sectors such as textiles, apparel, leather and automobiles. The average applied most-favored nation (MFN) tariff rate in 2023 was 11.2% (10.9% for agricultural products and 19.2% for non-agricultural products). In addition, there are various non-tariff barriers, including local content requirements.

Procedures for importing and exporting goods are burdensome. Brazil is an active user of anti-dumping measures. Most technical regulations affecting trade are based on international standards. The country's export financing program (PROEX) aims to provide access to credit for companies that otherwise would have difficulty obtaining it. BNDES-EXIM is an export credit program designed to promote exports

## Competition policy

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## Liberalization of foreign trade

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with local content. Legal rules authorize an export tax of 30% that can be reduced or increased up to 150%. In principle, the tax can be applied to all exports, but in practice applies to only a few products.

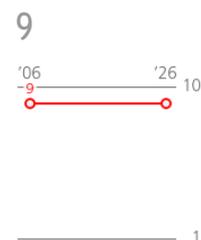
Brazil's banking system and capital markets are well differentiated, internationally competitive and aligned with international standards. The banking infrastructure is robust, and a functioning system of banking supervision is in place. Capital markets are open to domestic and foreign capital. The banking sector is dominated by domestic financial institutions, with public banks also constituting a significant share of the market. Regulatory institutions place high demands on financial institutions, which must report regularly on their condition and activities. The system provides mechanisms to address financial institutions that are facing liquidity problems. International investors play important roles in the capital and derivatives markets. The capital-to-assets ratio in Brazil's banking sector was 8.8% in 2022. The share of non-performing bank loans was 2.6%. Brazil's external solvency and liquidity positions remain strong, and the financial sector has a low degree of external vulnerability. The country has been experiencing sizable capital inflows over the past decade. Reserve requirements are higher than in many other emerging economies.

In recent years, the central bank and the National Monetary Council (CMN) have worked to improve the regulatory environment to foster innovation and competition. One of the most important changes is the introduction of Pix, the central bank's real-time government payment system. Pix is available 24/7 and allows funds to be sent or transferred in real time to deposit and payment accounts (e-wallets), including on non-business days. Pix is free to use. As part of ongoing efforts to streamline its technology policy, Brazil passed a cryptocurrency law that regulates the use and trading of cryptocurrency assets. In 2021, Congress approved the Foreign Exchange and Foreign Capital Law, which establishes general principles for foreign exchange and foreign investment and regulates the operations of the foreign-exchange market. The central bank is authorized to regulate this market by issuing specific rules and guidelines, particularly on technical and operational matters. The new legal framework increases the flexibility of the foreign-exchange market and reduces bureaucracy.

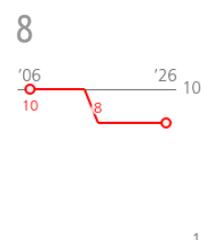
## 8 | Monetary and fiscal stability

Since 1999, Brazil has followed an inflation-targeting framework for monetary policy and a floating exchange-rate regime. Foreign-exchange regulations have been liberalized, but they have not allowed full convertibility of the real, the country's currency. The National Monetary Council (CMN) is responsible for the formulation and conduct of monetary policy and for coordinating this with the government's fiscal policy. The CMN sets annual inflation targets and monetary policy goals, ensuring that inflation and foreign-exchange policies align with other economic policy

### Banking system



### Monetary stability



objectives. The Brazilian Central Bank (BCB) implements this policy and, since 2021, has operated with autonomous status and fixed terms for its top positions that do not coincide with the president's term. This was the source of turbulence in the early days of Lula's third term, with strong criticism of the BCB president appointed by Bolsonaro. The BCB's primary responsibility is to guarantee price stability. The president of the republic nominates the BCB president for a fixed four-year term.

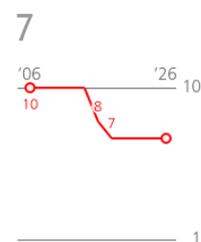
The benchmark interest rate in Brazil, the SELIC, plays a key role in shaping loan, financing and investment rates. The BCB adjusts the SELIC to manage inflation, making it the primary tool of monetary policy. In recent years, the SELIC has seen significant fluctuations. It rose from 2% in February 2021 to 13.8% by August 2022, then dropped to 10.5% in May 2023 before climbing again to 13.3% in February 2025. Similarly, the inflation rate has varied considerably. It peaked at 12.1% in April 2022, declined to 3.2% by June 2023, then increased to 4.6% in August 2023. Throughout early 2024, inflation steadily decreased, reaching 3.7% by April. In December 2024, the inflation rate was 4.8%. The real lost significant value over the course of 2024. It depreciated by more than 25% against the U.S. dollar, and the nominal exchange rate reached record highs. In January 2024, \$1 was worth less than BRL 5; in December it exceeded BRL 6, despite the BCB's intervention to mitigate exchange-rate fluctuations. The real effective exchange rate (2005 = 100) was 63.3 in 2023, compared with 70 in 2019.

Brazil has several mechanisms aimed at ensuring a stability-oriented budget and spending policy, including the Fiscal Responsibility Act of 2000 and a constitutional spending cap introduced in 2016, which prevents the federal government from increasing public spending from one year to the next. The so-called golden rule prohibits issuing debt to finance current spending. Because of the spending cap, most of the budget – approximately 90% to 95% – is fixed. This means there is very little room to maneuver in the remaining 5% to 10% of discretionary spending.

The federal legislative branch has steadily gained power over the budget, both by ensuring that budget changes sponsored by Congress become mandatory and by increasing appropriations. This adds another layer of complexity to the task of maintaining fiscal discipline.

The annual primary deficit of the federal government totaled BRL 45.4 billion in 2024; state governments recorded an aggregate primary surplus of BRL 5.9 billion, while state-controlled corporations incurred a primary deficit of BRL 8.1 billion. The public sector's nominal deficit, which includes the primary result and debt interest payments, amounted to BRL 998.0 billion (8.45% of GDP) in 2024, up slightly from BRL 967.4 billion (8.84% of GDP) in 2023. Interest payments on the public debt increased from BRL 718.3 billion (6.56% of GDP) in 2023 to BRL 950.4 billion (8.05% of GDP) in 2024.

#### Fiscal stability



Total public debt was 84.7% of GDP in 2023, down from 96% in 2020. This was Brazil's lowest debt-to-GDP ratio since July 2017. Total external debt was \$607.1 billion in 2023; total debt service in 2023 was \$226.4 billion. Government consumption declined to 18.2% of GDP in 2023, down from 20.1% in 2020. Total foreign-exchange reserves were \$346.4 billion in 2023, down from \$354.6 billion in 2021.

The expenditure ceiling has stabilized Brazil's economy, but it has become increasingly unpopular because of the perceived fiscal rigidity it requires. In August 2023, Congress approved a new fiscal framework introduced by President Lula. The policy centers on three objectives: ensuring financial stability to curb inflation, increasing tax revenue and simplifying Brazil's consumption tax system. The new fiscal framework establishes a "fiscal anchor" with an annual primary budget target, shifting from a deficit of 0.5% of GDP in 2023 to a surplus of 1% by 2026. In addition, under the terms of the framework, government spending can increase by at most 70% of the year's increase in revenue. If the target for the annual primary budget surplus is not achieved, government spending can increase by at most 50% of the increase in revenue.

In November 2024, the government announced spending cuts and a new income tax reform proposal. The cuts are expected to save \$55 billion over the 2025 – 2030 period, including \$12 billion in 2025 and 2026. Most savings will come from cuts to social programs, including cuts to minimum wage growth, unemployment benefits, cash transfers, and support for the elderly and people with disabilities. Additional savings are to stem from increased efficiency, including cuts to education funding and the elimination of regional development subsidies.

## 9 | Private Property

Private property rights are well-defined, and property acquisition is adequately regulated. The property registration process is well-developed and secure. Foreigners may buy land and property. Few restrictions apply to the conversion or transfer of funds related to a foreign investment. Foreign investors may repatriate dividends, capital and capital gains. Contracts are considered safe.

Once criticized for weak intellectual property (IP) protections, Brazil has recently strengthened its implementation and enforcement of international IP rules. The country is a signatory to several key agreements, including the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the Agreement on Trade-Related Aspects of Intellectual Property Rights, the Berne Convention, the Patent Cooperation Treaty, the International Convention for the Protection of New Varieties of Plants, and the Paris Convention.

Property rights



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Brazil's Industrial Property Law largely aligns with international standards for patent and trademark protection and covers patents, industrial designs and trademarks. The National Intellectual Property Strategy (2021 – 2030) outlines guidelines aimed at promoting competitiveness and development by improving IP procedures; balancing IP with competition and social interests; and ensuring legal certainty, transparency and predictability.

Progress has been made on the issue of Indigenous land rights. While the Bolsonaro government neglected the protection of Indigenous people, failed to demarcate any new Indigenous territories and explicitly encouraged illegal invasions of those territories, 13 Indigenous territories were demarcated under President Lula by the end of 2024.

However, demarcation has been complicated by a law pushed through Congress by the agribusiness lobby in 2023. The Marco Temporal law stipulates that only those Indigenous communities that can prove they were occupying their territories in 1988, the year the Brazilian constitution was adopted, can apply for demarcation. As of the close of the review period, a total of 261 Indigenous territories were still awaiting formal recognition.

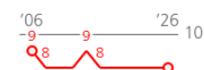
For decades, state-owned enterprises dominated nearly all sectors of Brazil's economy. In the 1990s and early 2000s, the Brazilian government privatized state-owned enterprises across a wide range of industries. According to the Ministry of Economy, state-owned companies accounted for 5.3% of Brazil's GDP in 2020.

Foreign and domestic private entities may establish, own and sell businesses. Tax regulations do not differentiate between foreign and domestic companies. Foreign individuals or foreign-owned companies may purchase real estate in Brazil.

President Lula has opposed privatizing large state-owned companies. He criticized the 2022 privatization of Eletrobras under the Bolsonaro government. At that time, new shares were issued, reducing the federal government's stake to less than 50%. Lula also criticized the 1997 privatization of the mining company Vale. In his view, had they not been privatized, both companies, along with Petrobras, could have served as engines of the country's economy.

Private enterprise

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## 10 | Welfare Regime

Brazil's social protection policies include noncontributory programs, contributory social insurance and health care services. The country has a universal public health system, the Unified Health System (SUS), which covers about 75% of the population and provides free health services to all citizens, regardless of employment status. SUS also plays a key role in the distribution of medicine. In 2023, health care spending was estimated at 10.7% of GDP. Life expectancy in 2024 was 76 years, a 6.4-year increase from 2000.

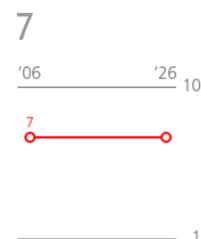
Introduced in the late 1980s, SUS is funded by the federal government and local communities and is considered a successful model in Latin America. However, despite these high levels of health care spending, the system faces challenges, including pressures created by the presence of tropical diseases such as chikungunya and Zika, as well as health issues tied to economic development and an aging population, such as obesity, diabetes and cancer.

For contributory pensions and insurance, a dual system has been in place since the adoption of the 1988 constitution, with different benefit structures for public and private sector workers. The 2019 pension reform introduced a minimum retirement age of 65 for men and 62 for women and established a minimum contribution period of 15 years for women and 20 years for men.

Noncontributory social transfers play a key role in ensuring social protection for people without access to contributory benefits. Cash transfer programs in Brazil have made significant contributions to reducing absolute poverty and inequality. The Bolsa Família program, introduced during President Lula's first administration, is the most influential conditional cash transfer initiative in recent Brazilian history, and has lifted millions of people out of poverty.

The Bolsonaro administration initially opted to maintain the Bolsa Família program. In 2021, it was replaced by Auxílio Brasil, a program with many similarities to its predecessor. After Lula's re-election in 2022, he renamed the program Bolsa Família, and the government relaunched the program with a benefit model that accounts for family size and characteristics. The program aims to integrate public policies and improve families' access to basic services such as health, education and social assistance.

Social safety nets



In Brazil, 56% of the population identifies as Black or pardo (mixed race). Yet this group remains under-represented among the political and economic leadership, and is disproportionately affected by poverty, unemployment and violence. While women are legally equal to men and have made educational gains, today outperforming men in secondary and tertiary education, economic disparities persist. Women earn significantly less (GNI per capita: \$10,535 versus \$18,120 for men), and their labor force participation rate stood at 43.5% in 2023. In 2024, Brazil's gender gap index score was 0.716, indicating that women had 28% fewer opportunities than men.

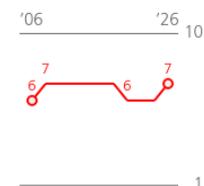
Recent reforms include a new “equal pay for equal work” law and a legislative package on ethnic equality, signed by President Lula, which promotes affirmative action, anti-racism measures and cultural initiatives. The Brazilian Inequality Monitoring Center, established in 2023, tracks disparities using 42 indicators. While some improvements were recorded in 2023 and 2024, many gaps remain. Racial and gender inequalities are especially persistent – Black women face the highest rates of moderate and severe food insecurity, with 12.5% of their households falling into one of these categories, compared with 5.5% among non-Black men. Median monthly earnings are only 42% of the comparable figure among non-Black men, and the unemployment rate among Black women is more than double that among non-Black men (11.5% for Black women vs. 5.2% for non-Black men). Black men, on the other hand, continue to be excluded from the educational system more often.

In the 2022 general election, a record 49.3% of candidates were Black. There are 135 Black members of the Chamber of Deputies, representing 26% of the 513 deputies. In the last municipal elections, only 12% of city halls elected women to executive positions, and only 4% of those women were Black. Of the 5,570 municipalities, only one elected an Indigenous person to office. In municipal councils, women held only 16% of the seats, and only 6% of these were held by Black women. The judiciary is also characterized by an enormous and persistent underrepresentation of Black people. Of 16,000 judges, only 13.6% are Black or of mixed race.

Brazil's Indigenous population numbers about 900,000, with about 58% of these people living on Indigenous lands. In addition to the very high poverty rate, estimated at 96% for Indigenous people, other vulnerabilities are evident. Nearly a third of this population has no access to electricity, a figure much higher than the 2% among the rural poor. Approximately 51% have no access to a water supply. Despite improvements in recent decades, 42% of Indigenous household heads have not completed primary education. To address these issues, the Lula government has established a Ministry of Indigenous Peoples and appointed a respected Indigenous person to the authority responsible for Indigenous affairs, Funai. Representatives from environmental authorities have returned to the regions to take action against illegal gold miners and loggers.

## Equal opportunity

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## 11 | Economic Performance

Following a pandemic-induced slump in its macroeconomic indicators, the Brazilian economy has recovered in recent years, in some cases exceeding growth expectations. In 2024, GDP grew by 3.6%. GDP per capita (on a purchasing-power parity basis) was \$20,584 in 2023, up from \$19,399 the previous year. Gross fixed capital formation as a percentage of GDP reached 19.5% in 2021, 18.1% in 2022 and 16.1% in 2023. Industrial production in 2024 was 3.1% higher than in 2023. Oil production was 3.36 million barrels per day (bpd) in 2024, down 1.29% from 3.40 million bpd in the previous year. Annual natural gas production was 153 million cubic meters per day (m3/d), up 2% from 150 m3/d in 2023.

The inflation rate in 2024 was 4.83%, up from 4.62% in 2023. Brazil ended 2024 with its lowest unemployment rate (6.1%) since 2012. A record 103.9 million people were employed, and 3.7 million formal jobs had been created since January 2023. The total public sector primary deficit for 2024 was \$8.15 billion. This represented 0.4% of GDP and marked a decline from the deficit of 2.28% of GDP in 2023. The current account deficit totaled \$56.0 billion (2.55% of GDP) in 2024, a significant increase from 2023, when the annual deficit was \$24.5 billion (1.12% of GDP).

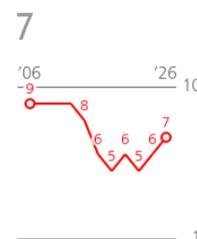
Brazil has an export-oriented economy dependent on shipments of raw materials (which constitute 50% of total exports) and manufactured goods (36%). In recent years, Brazil has reported trade surpluses, primarily due to strong exports of mining and agricultural products. In 2024, the trade surplus totaled \$66.2 billion, down 28.2% from 2023. Foreign direct investment (FDI) rose in 2024 to \$71.1 billion (3.24% of GDP), up 13.8% from 2023. Federal tax revenue totaled BRL 2.65 trillion in 2024, up 9.6% in real terms from the previous year.

## 12 | Sustainability

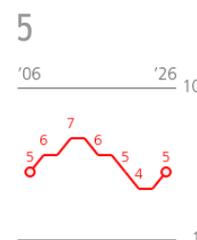
Brazil has a comprehensive legal and institutional framework to balance development and environmental protection. Key elements include the Ministry of Environment; the National Council of the Environment; regulatory bodies; and laws governing water, forests and biodiversity. Tools for sustainable development include environmental licensing, standards and zoning, as well as economic instruments such as water use charges, forest concessions, environmental easements and insurance. Deferred prosecution agreements allow prosecutors to negotiate directly with polluters, encouraging compliance without litigation.

Environmental policy suffered significant setbacks under the Bolsonaro administration. However, President Lula's government has worked to reverse this trend since 2023. The overall amount of new deforestation in the Amazon was halved in 2023 and continued to decline in 2024. The Amazon Fund and Climate Fund were

Output strength



Environmental policy



relaunched to support initiatives to reduce deforestation and emissions. Brazil also offered to host the 2025 U.N. Climate Change Conference. In August 2024, the top branches of government signed a Pact for Ecological Transformation, committing to making sustainability, development and climate justice central to public policy.

However, faced with an extremely conservative Congress – in which the agribusiness lobby is one of the strongest factions – the government has been unable to stop passage of legislation that rolls back environmental protections in favor of agribusiness interests. At the start of Lula’s third term, Congress passed a law that restricted the powers of the Ministry of the Environment and Climate Change and the newly created Ministry for Indigenous Peoples. In 2023, the agribusiness lobby pushed through legislation that undermined Indigenous land rights and drastically reduced pesticide regulations. In addition, the agribusiness lobby used its influence to block or undermine government environmental initiatives.

Many environmentalists are disappointed with Lula’s actions. The president has announced that he plans to make Brazil the world’s fourth-largest oil producer (the country currently ranks ninth). The plan includes the development of new hydrocarbon deposits onshore and offshore, including in the Amazon. The more the Lula government has pushed for oil exploration off the Amazon coast, the more the issue has become a focus of heated national debate. The Environmental Protection Agency, Ibama, has insisted that adequate planning and safeguards accompany any oil exploration studies in the region. So far, the agency’s position has been respected, demonstrating that institutional constraints are in place.

The government also plans to build a controversial road through the middle of the rainforest. There are fears that this will encourage land grabbing and illegal logging, and that it could increase emissions from deforestation by 8 billion tons by 2050.

The Brazilian education system was severely affected by the COVID-19 pandemic and the Bolsonaro government’s anti-science stance. Budgets were drastically cut, and key positions were filled by individuals with limited expertise. The Lula administration has reinstated qualified experts, but increasing funding for public educational institutions remains challenging because of financial constraints and a legislature that still holds some of the previous administration’s anti-science views.

In 2021, Brazil’s public spending on education amounted to 5.5% of GNP, down from 6.3% in 2017. Government spending per public school student was \$3,668 for primary education, \$3,745 for lower secondary, \$4,058 for upper secondary and \$13,569 for tertiary education. Public investment in early childhood education increased by 29% during the 2015 – 2021 period. Funding for primary schools comes from local (76%), regional (14%) and central (10%) governments, with most central government funds allocated to the lower levels of education. Education spending in Brazil accounts for 10.6% of total public spending, slightly above the OECD average of 10%. However, public education spending fell by 2.5% annually during 2015 – 2021, reducing its share of total public spending from 11.2% to 10.6%.

Education policy /  
R&D

7

'06 '26 10



1

According to Statista's research department, there were 47.3 million primary school students in Brazil in 2023. In the same year, lower secondary enrollment totaled 11.68 million. High school enrollment totaled 7.67 million. The number of students enrolled in universities and other higher education institutions was expected to reach 9.9 million in 2023, up from 4.6 million in 2005. Public institutions enrolled 82% of primary school students, while private institutions enrolled 18%. Enrollment rates among 15- to 19-year-olds in 2022 were 12% in lower secondary education, 51% in upper secondary education, 1% in postsecondary non-tertiary education and 8% in tertiary education, totaling 72% across all levels. In the 2022 U.N. Education Index, Brazil received a score of 0.710.

Among short-cycle tertiary graduates, 53% graduated from public institutions and 47% from private institutions. For bachelor's degrees, 19% were awarded by public institutions, compared with 81% by private institutions. In contrast, 81% of master's degrees and 86% of doctoral degrees were awarded by public institutions, with the remainder granted by private institutions. One paradox in the Brazilian university system is that students attending public universities, known for high prestige and positive outcomes, often come from families that can afford expensive schooling and private tutoring. Conversely, students from less privileged backgrounds often study at lower-ranked private universities.

According to the World Bank and the Ministry of Science, Technology and Innovation, Brazil currently allocates about 1.2% of its GDP to research and development.

## Governance

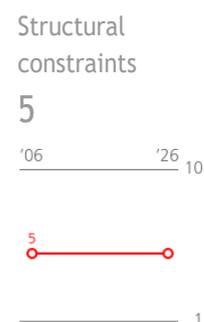
### I. Level of Difficulty

Structural constraints on governance in Brazil remain moderate to high. While not a poor country, Brazil faces deep socioeconomic and regional inequalities that influence voter behavior and social cohesion. It is a diverse, secular society with average levels of development and education (literacy rate: 94.7%). However, the political influence of religion has grown. Though conditions for women have improved, gender inequality and discrimination persist. Violence, impunity and insecurity continue to hinder development, especially in urban and remote areas. Poverty, malnutrition and hunger rates – once significantly reduced – rose again during the COVID-19 pandemic and under the Bolsonaro administration, worsening existing disparities.

Brazil has immense economic potential, but its resources have been underutilized. A major challenge is to reconcile economic growth with social development while addressing sustainability and promoting greater equality of opportunity. In the past, foreign investors have expressed concerns about endemic bureaucracy and corruption, which significantly increase transaction costs. Additionally, efforts to realize the country's economic potential are hindered by a significant infrastructure deficit with respect to roads, airports and ports that affects both domestic and foreign trade. As a result, significant additional investment is needed.

Brazil has a moderate-to-strong civil society, which has grown more organized and influential since the return to democracy in 1985. It includes NGOs, community organizations, social movements and professional associations, with religious groups playing a key role in supporting the urban poor. Recently, conservative civil society groups, which blend various forms of conservatism, have gained significant support. These groups oppose leftist economic and social policies; advocate anti-corruption measures; and promote traditional conservative moral values, economic liberalism and nationalism. Some of these groups exhibit ambivalence toward core democratic principles and even advocate a return to military rule, thereby contributing to Brazil's political polarization.

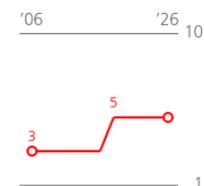
Available data provide little basis for reliable statements about social trust in Brazil. According to the 2024 Latinobarómetro opinion poll, only 5% of respondents felt that most people could be trusted. According to the OECD's Better Life Index, Brazil has a moderate sense of community and high levels of civic participation. Eighty-three percent of people say they know someone they could rely on in an emergency, which is lower than the OECD average of 91%.



Brazilian society and politics have become deeply polarized over the past 10 – 15 years. Politicians such as Jair Bolsonaro and Lula da Silva are either revered or despised by different segments of the population. While Lula, who was elected president for a third term in October 2022, presents himself as a unifier, Bolsonaro, who was narrowly voted out of office, actively seeks division. His political style includes provocative rhetoric, attacks on opponents and statements that resonate with his radicalized supporters. The country’s democratic institutions have been severely tested by rising polarization. However, the widespread rejection of the violent January 2023 attack on Brazil’s democratic symbols reflects a public desire for peace and democracy. The polarization between Lula and Bolsonaro eased slightly following the 2024 municipal elections, in which centrist and right-of-center candidates prevailed in many large cities.

Conflict intensity

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## II. Governance Performance

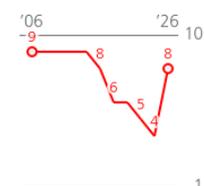
### 14 | Steering Capability

From the outset, the Lula administration pursued relatively clear strategic goals and priorities. On the socioeconomic front, it sought to stimulate growth and job creation while promoting gender equality, social inclusion and environmental sustainability. This included the adoption of a new fiscal framework, the elimination of tax loopholes and a comprehensive tax reform to simplify the tax system at the federal, state and municipal levels. On the political front, the government’s main concern was to contain far-right forces, which were perceived as a threat to Brazilian democracy. To this end, it introduced legislative initiatives that it considered key to strengthening democracy, including a new regulatory framework for social media, instant messaging and search-engine companies.

Question  
Score

Prioritization

8



However, the government’s loss of power relative to Congress, which is now evident in negotiations between the two branches, has made it much harder to set and maintain strategic priorities. The president has lost much of his former bargaining power, as he now has less control than previously over the federal budget and faces restrictions on provisional measures and vetoes, among other constraints. This complicates negotiations with Congress and results in more negative media coverage. Under such conditions, the administration is more likely to pursue short-term measures and focus on immediate interests.

In the foreign policy sphere, the government aimed to reassert Brazil as an active, neutral and influential global player. It pursued diplomacy with key economic and trade partners – such as the U.S., China, Europe (notably France, Germany and the United Kingdom), Japan and Argentina. Regionally, the Lula administration worked

to revive Latin American cooperation and integration. Globally, it promoted a multipolar world and active multilateralism, using Brazil's independent stance to engage in shuttle diplomacy and pursue strategic gains amid U.S.-China rivalry.

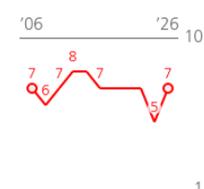
Since 2023, the Lula administration's priorities and its strategy to implement them have overlapped with the goals and approaches the president pursued in his first two terms. These include a relatively conservative fiscal and monetary policy aimed at stability, combined with an active social policy aimed at reducing poverty; an active role for the state in key economic sectors; and a foreign policy based on multilateralism and multipolarity that seeks to strengthen Brazil's soft power. To implement his policies, Lula relies on bipartisan compromises in Congress, achieved through bargaining processes in which the allocation of budgetary resources and key positions play a central role. However, both the domestic situation in Brazil and the global situation have changed fundamentally compared with 20 years ago. The conservative and far-right spectrum in Brazil is much stronger today than it was then. Congress has gained independence from the executive branch, and the country is highly polarized. All of this makes it difficult to form a parliamentary majority to pass legislation. At the international level, geopolitical rivalries have deepened, and the multilateral order is facing a profound crisis. These developments pose mounting challenges to the Lula administration's strategy of non-alignment.

The current government's track record is mixed. It has pushed through important legislation (tax reform, social media legislation); economic development has been relatively successful; and the social situation has improved significantly. However, the degree of polarization in the country remains high. The president also was unable to prevent Congress from advancing legislative initiatives that clearly ran counter to the government's strategic direction. The best example of this is the so-called Marco Temporal Law, which regulates Indigenous land claims. In the foreign policy realm, the Lula administration was unable to establish itself as a neutral mediator in Ukraine, as it had hoped. The president's efforts to overcome the crisis of Latin American regionalism have been only partially successful at best.

After four years under President Bolsonaro, during which Brazil withdrew from numerous forms of international cooperation, rejected academic expertise in many policy areas and failed to monitor policy measures effectively, the country has shifted to a different position under President Lula. While Lula's first term is seen as a moment of political innovation, consolidated in his second term, the potential for innovation in Lula's third government is rather limited. There are few initiatives to involve the public in politics. This is due in part to the need to rebuild parts of the administration that were disrupted by the Bolsonaro government. Facing a Congress that is largely hostile to his progressive political views, Lula has nevertheless managed to advance at least some of his goals through skillful negotiation, albeit repeatedly at the cost of painful compromises. At the international level, Brazil has re-engaged in programs and agreements that the Bolsonaro government had abandoned. Brazilian politics, therefore, has shown a renewed emphasis on evidence-based policymaking, with greater consideration given to scientific and expert input.

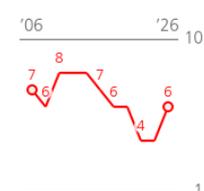
#### Implementation

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#### Policy learning

6



## 15 | Resource Efficiency

Brazil's public administration functions relatively well, especially at the federal level. Regulations require the civil service to be impartial, independent and administered fairly. The structures and quality of administration at the regional and local levels vary widely. Some municipalities have introduced participatory budgeting, which gives civil society organizations significant opportunities to contribute to budget preparation and oversight. In a significant proportion of municipalities, however, patronage patterns prevail. Overall, there are significant disparities between “islands of excellence” and “bastions of incompetence and corruption.” One of the Lula administration's major challenges has been to undo the damage to the public administration caused by the previous government's arbitrary personnel decisions and politically motivated budget cuts.

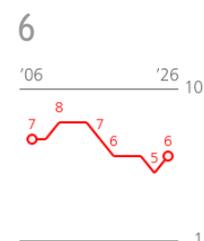
In many areas, the public administration is characterized by established traditions of civil service examinations and merit-based recruitment. At the same time, political appointments at the top levels of the civil service exhibit a high degree of patronage. To hold together fragmented political coalitions, executive appointments and legal and illegal perks are often awarded regardless of merit. Ministerial posts and lower-level appointments are often given to parties other than the president's in the hope of forging coalitions that can advance policy and shore up the government against challengers. The size of President Lula's federal cabinet – with 40 ministries – is no exception.

For several years, the government has used artificial intelligence (AI) tools to classify financial data from subnational governments, making data collection far more efficient, timely and reliable. The Federal Government Expenditure Report, published in 2024 and supported by AI, was a milestone in financial statistics and received widespread international recognition.

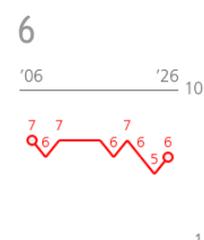
The government's capacity to coordinate, and particularly that of the president, is challenged by two key factors. First, the governing coalition comprises a diverse range of parties, from the left to the democratic right; this was the only way to eke out even a narrow win in the 2022 presidential election. Second, Congress is dominated by conservative and ultraconservative forces that limit the government's freedom of action and constantly force President Lula to compromise, especially on economic and social policies. Thanks to its pragmatism in the first two years, the government has been relatively successful in this constant balancing act between progressive aspirations and neoliberal realpolitik.

Lula is a skilled, experienced negotiator, but power dynamics in Congress and with the mostly conservative state governments require a constant willingness to compromise. In Congress, this has been evident; for example, although Lula criticized the “secret budget” during the Bolsonaro administration, he has at least

Efficient use of assets



Policy coordination



partially accepted the same practices as president, further strengthening the power of the speakers of both chambers of Congress. Without a willingness to accept such questionable practices, there would have been gridlock in Congress.

Under the Lula administration, cooperation between the government and the central bank has at times been difficult. The central bank gained formal autonomy in 2021, and the terms of central bank presidents were staggered to extend beyond national elections. The central bank president who served until the end of 2024 was appointed by President Bolsonaro. In this respect, cooperation between the government and the central bank was expected to be less complicated beginning in 2025 under a new central bank president appointed by President Lula.

Brazil has numerous laws and government bodies intended to combat abuse of office and corruption. The penal code includes legislation addressing both active and passive corruption, breaches of public servants' functional duties, and the practice of influence peddling. Bodies responsible for combating corruption include the Federal Public Prosecutor's Office, the General Prosecutor's Office, the Comptroller General of the Union, the Solicitor General of the Union, the Federal Audit Court, the Council for the Control of Financial Activities, and the Department for Asset Recovery and International Legal Cooperation.

Brazil is a founding member of the Open Government Partnership. The Fiscal Responsibility Law holds all levels of government accountable for fiscal performance and helps curb corruption. Citizens have the right to access government information and key records. All public procurement procedures are widely advertised, and the government must publish the results of procurement decisions.

In an effort to enhance transparency and reduce corruption, campaign contributions from private legal entities were declared to be unconstitutional in 2015. The current legal framework permits individuals to contribute up to 10% of their income to electoral campaigns. To prevent multimillionaire candidates from gaining an unfair advantage over others, a 2019 law adds to the 10% of income limit for candidates by stipulating that candidates' contributions to their own campaigns must not exceed 10% of total campaign spending. Parties are supported through a Campaign Fund, subsidized by the federal budget, which helps finance their electoral campaigns. In 2020, an Abuse of Authority Act took effect, broadening the definition of abuse of authority and providing detailed descriptions of about 30 acts or omissions that are deemed to fall under this definition. The measure also significantly increased penalties for criminal conduct.

After three years of decline, Brazil's score on the 2023 Capacity to Combat Corruption (CCC) Index showed improvements on indicators assessing the independence and effectiveness of anti-corruption agencies and the judiciary. However, performance on indicators rating the quality of legislation and decision-making processes deteriorated. The Lula administration has not prioritized the fight

Anti-corruption  
policy

6

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against corruption, and President Lula openly criticized the conduct of “Operation Car Wash.” He has proposed changing the law on state-owned companies to allow political appointments to top positions. The Supreme Court rejected this proposal, but ruled that appointments made since the law was suspended in March 2023 would remain valid.

In 2022, the Supreme Court ruled that the opaque practice of “secret budgets” in parliament was unconstitutional. However, negotiations between the executive and legislative branches remain heavily influenced by patronage. The distribution and use of a significant portion of federal funds by lawmakers receive little oversight and lack transparency, creating fertile ground for corruption.

## 16 | Consensus-Building

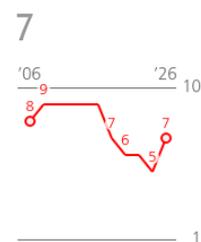
A 2024 survey showed that about 70% of Brazilians preferred democracy over any other form of government, and 81% viewed it as the best political system despite its flaws. “Freedom” – particularly religious freedom – was the value most associated with democracy, followed by equality, rights and participation. Two-thirds said they believed Brazil was on the path toward an ideal democracy, with 36% optimistic about further progress, especially in the areas of education, health care and public safety. However, 70% said they saw democracy as being under threat, with 59% citing a perceived coup attempt in 2023. Only 25% said they considered democracy to be fully secure. Additionally, 70% said they supported the regulation of social media and messaging platforms to curb fake news.

In 2023, a congressional commission of inquiry into anti-democratic acts reported that the armed forces’ special units had retained significant autonomy and secrecy even after the return to democracy, making it difficult to monitor potential breaches of military impartiality.

Since returning to power, President Lula has sought to normalize civil-military relations, but tensions persist. The government has accused the military intelligence service of failing to prevent the January 8, 2023, storming of government and parliamentary buildings in Brasília by radicalized supporters of former President Bolsonaro.

In November 2024, the federal police recommended charges against Bolsonaro and 36 others for allegedly planning a military intervention to block Lula’s inauguration. Among the suspects were several individuals with military backgrounds. According to information released from the investigation as of the time of writing, the coup plans did not have the support of the army and air force commanders, but the navy was reportedly willing to provide troops.

Consensus on goals



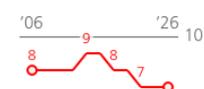
A large majority of Brazilians want to live in a society that follows market economy principles. According to a representative survey conducted in 2023, a majority of Brazilians expect the state to play a guiding role. At the same time, they want greater efficiency and a smaller state apparatus. Regarding economic principles, about half the population wants more economic freedom and less bureaucracy. Seventy percent favor public sector spending cuts, and 83% favor more entrepreneurial freedom. Sixty-nine percent of the population considers the regulations introduced in 2016 to limit government spending to be the right approach. According to a survey by the Global Entrepreneurship Monitor (GEM), Brazil had the top-ranked entrepreneurship culture globally, ahead of countries such as China and the United States. According to the survey, three in 10 Brazilians ages 18 to 64 own a company or are setting up their own. The proportion of digital entrepreneurs in Brazil is higher than in any other country.

Because President Bolsonaro was denied re-election in the 2022 presidential election, the threat to Brazilian democracy has been reduced. However, the country is still recovering from the attacks on democracy under the former president. Under President Lula, a number of measures have been taken to prevent further democratic backsliding. Open hostility toward government critics has ceased, the media are free to play their role and civil society is no longer criminalized. Channels of dialogue between the government and civil society as well as institutional spaces for social participation in all ministries have been restored.

However, democracy and the separation of powers remain contentious in Brazil. Nearly half of the electorate backed Bolsonaro in 2022 despite his openly anti-democratic stance. Far-right candidates won numerous seats in federal and state governments. Even after Bolsonaro's defeat and disqualification from the presidency through 2030, Bolsonarismo remains a potent political force. Though he cannot run for office, Bolsonaro continues to shape Brazilian politics. A striking example was the massive February 2024 demonstration in São Paulo, where hundreds of thousands of people turned out to support him as he faced prosecution for crimes against democracy. While not constantly in the spotlight, he strategically reemerges to assert his influence. Not all of his voters oppose democracy, but a radicalized faction has actively worked against it, most notably in the January 2023 attacks on government, parliamentary and judicial buildings in Brasília. There is a strong movement among Bolsonaro supporters in Congress to grant amnesty to those involved in the January 8, 2023, coup attempt, which would serve to downplay their actions. This would also have implications for overturning Bolsonaro's conviction and for his loss of the right to run for office until 2030. Bolsonaro himself remains defiant of the court's decision, claiming he will run in 2026. Anti-democratic forces remain strong and vocal.

Anti-democratic actors

7



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Brazil is a country characterized by several fundamental cleavages. These include, in particular, contrasts between the country's extremely poor and extremely rich, as well as between advocates of values ranging from conservative to arch-conservative and defenders of diversity and liberal values. Because Brazilian politics is highly personalized, cleavages often form around well-known political figures, as in the case of supporters and opponents of former President Bolsonaro and current President Lula. These divisions are only partially reflected in the Brazilian party system. There are certainly radical parties that stand for clear partisanship in one direction or another, but most relevant parties have a limited programmatic profile and react flexibly to social developments.

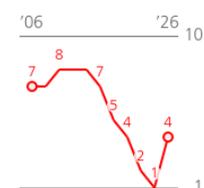
Lula's government has sought to keep social conflicts from escalating further. While extremists involved in the January 2023 attack on federal buildings were prosecuted, the government has taken a conciliatory approach toward its opponents. However, a 2024 Pew Research Center survey showed that 80% of Brazilians still see the country as being strongly politically divided. Many also perceive tensions between ethnic and religious groups. President Lula is viewed more favorably than Bolsonaro (48% vs. 40% approval ratings), though both face significant levels of disapproval. The data suggest that social polarization remains significant despite Lula's attempts to restore democratic normalcy.

Participation by organized civil society groups in Brazilian politics has intensified since (re)democratization. One important factor enabling civil society's political involvement was the implementation of participatory budgeting processes in many Brazilian cities. The National Public Policy Conferences, which were forums for deliberation and participation aimed at providing guidelines for federal policy formulation, offer another example of civil society participation. Representatives from both the government and civil society participated in these conferences.

While the Bolsonaro government sought to dismantle existing civil society participation in the formulation, deliberation, decision-making, implementation and monitoring of state policies, the Lula administration quickly resumed dialogue with social movements. As early as January 2023, Lula signed two decrees creating the Social Participation Council (Conselho de Participação Social) and the Interministerial Social Participation System (Sistema de Participação Social Interministerial). Both bodies focus on sustaining ongoing communication with popular movements and civil society organizations to develop and evaluate public policies. There has also been an attempt to create online mechanisms for participation in defining the Multiannual Plan (PPA), a key planning instrument in Brazil that serves as the basis for the annual budget law.

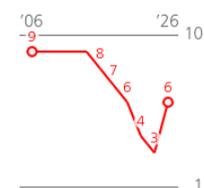
#### Cleavage / conflict management

4



#### Public consultation

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The current government has taken steps to overcome the breaches in the memory of the military dictatorship that occurred during the Bolsonaro administration. Bolsonaro defended the military dictatorship, attacked its victims and justified torture. Particularly at the beginning of Lula's third government, relations with the armed forces were marked by mistrust, as many military officers were involved in the Bolsonaro government and some were even involved in the actions of January 8, 2023. Tensions were exacerbated by the judicial investigation into an alleged coup attempt plotted after Lula's election victory in October 2022.

In the run-up to the 60th anniversary of the 1964 military coup, Lula sought to ease relations with the armed forces by describing the event as part of history. He said he wanted to focus on the country's present and future rather than dwelling on the past. In this regard, he aimed to restore loyalty in the armed forces and did not want society and the military to be at odds. In 2024, the Special Commission on Political Assassinations and Disappearances, whose work had been halted by the Bolsonaro government, was reactivated. In December 2024, the National Council of Justice ordered the country's civil registry offices to update the documents of hundreds of people who had been murdered or disappeared during the dictatorship to record that they were victims of the regime. This is intended as a form of historical reparation. A ceremony was planned for April 2025 in which the commission and the Ministry of Human Rights were to apologize to the families of those murdered by the military dictatorship.

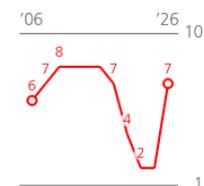
## 17 | International Cooperation

Following the Bolsonaro government's suspension of cooperation with many international organizations, the Lula administration resumed active and constructive engagement in all policy areas, including climate policy and poverty reduction. Since 2024, Brazil has been an active partner in international forums and organizations such as the World Bank, the IMF and the UNDP. By assuming the G-20 presidency in 2024 and hosting the 2025 U.N. Climate Change Conference (COP30) in Belém, Brazil has regained lost international prestige. The UNDP Brazil Country Program Document for 2024 – 2027 supports Brazil's national priorities for implementing the 2030 Agenda for Sustainable Development, with a focus on economic transformation, social inclusion, climate change mitigation and governance. In its 2024 – 2028 partnership with the World Bank, Brazil aims to become an inclusive, green, high-income country and a leader in the Global South. Following a period of avoidance by Western governments between 2020 and 2023, delegations from various countries have been visiting Brazil since Lula's return to power.

Nevertheless, the situation has become more complex and challenging than in the past for an actor oriented toward multipolarity and multilateralism, such as the current Brazilian government. The crisis of global governance; the stagnation of numerous

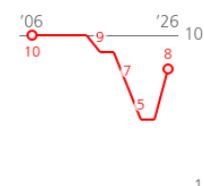
### Reconciliation

7



### Effective use of support

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global negotiation processes; and ongoing attacks by a growing number of governments on organizations and processes such as the WHO, the WTO, the International Criminal Court and the Paris Climate Agreement, as well as the increase in the number and intensity of geopolitical conflicts, are making long-term international cooperation increasingly difficult.

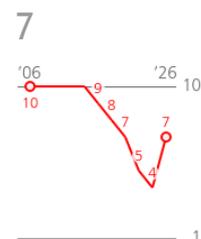
Brazil has long been an active participant in global affairs, engaging in various international forums and organizations. While critical of certain post-1945 global institutions, such as the Bretton Woods organizations and the WTO, Brazil has consistently pursued a foreign policy aimed at reducing global inequalities. Its involvement in alternative forums, such as the BRICS group of states, has supported this goal. However, during the Bolsonaro years, Brazil shifted dramatically from its foreign policy tradition, replacing pragmatism with an anti-globalist ideology. This ideology viewed “globalism” as a secretive network that undermines national borders, cultures and state sovereignty. As a result, Brazil became an unpredictable actor, frequently threatening to withdraw from international agreements and organizations, including the Paris Agreement, the WHO and BRICS, and it actually withdrew from the U.N. Migration Pact.

Under Lula, the Brazilian government has returned to traditional foreign policy positions and is again perceived as a reliable and credible partner.

In 2024, Brazil re-engaged with the Paris Agreement and reaffirmed its commitment to sustainable development by launching the Ecological Transformation Plan. Its updated Nationally Determined Contribution (NDC) outlines a vision for 2035, acknowledging the urgency of the climate crisis and charting a path toward a low-carbon, resilient future. That same year, Brazil joined the Global Alliance Against Hunger and Poverty, pledging to uphold its mission and principles. These initiatives are part of a broader reorientation toward international cooperation and sustainable growth. The UNDP Country Program Document for 2024 – 2027 supports Brazil in four key areas: economic transformation, social inclusion, environment and climate change, and governance. Likewise, the 2024 – 2028 Partnership Framework with the World Bank reflects Brazil’s ambition to become an inclusive, green, high-income country and a leader of the Global South. However, critics argue that the government has deprioritized Brazil’s accession to the OECD.

At the same time, President Lula’s foreign policy has produced mixed results. His attempt to cast himself as a mediator in Russia’s war against Ukraine was unsuccessful, drawing criticism for his adoption of a neutral stance and suggestion of shared blame between Russia and Ukraine. His accusations that NATO countries were escalating the conflict by shipping arms also sparked controversy. Similarly, his remarks on the Gaza war drew negative reactions in several countries. While the BRICS group has expanded, Brazil has remained cautious, favoring a smaller, more exclusive group of emerging powers. Meanwhile, Brazil’s long-standing aspiration for a permanent seat on the U.N. Security Council has made no significant progress.

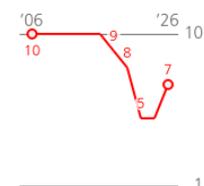
Credibility



The Lula government has tried to restore good-neighbor relations and reactivate Latin American regionalism, with mixed success. Lula's attempts to contribute actively to resolving the crisis in Venezuela were unsuccessful. Some of his statements have caused international consternation for strongly relativizing the nature of authoritarian rule under President Maduro. The hope that Lula's personal prestige could persuade the Venezuelan government to recognize its defeat in a democratic election also proved unfounded. Contrary to what the country's claim to regional leadership might suggest, Brazil refused to support creating a multinational force to restore order in Haiti. Relations with the governments of Colombia and Chile, which are politically closer to Brazil's current government, have been largely constructive, but there was friction as well. Intergovernmental relations with Brazil's most important neighbor, Argentina, have been very frosty since Javier Milei assumed the presidency. Brazil's efforts to reactivate the Union of South American Nations (UNASUL) and the Community of Latin American and Caribbean States (CELAC) have been only partially successful. Latin America is highly fragmented, and even governments politically close to Brazil are now less willing than previously to accept a Brazilian leadership role. The future of the Common Market of the South (Mercosur) is uncertain. Although the Association Agreement with the European Union was signed after two decades of negotiations, its ratification remains uncertain. Moreover, centrifugal forces within Mercosur are now so strong that its future is in doubt.

## Regional cooperation

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## Strategic Outlook

In the coming years, Brazil must strengthen democratic forces across the political spectrum in order to counter the rise of ultraconservative and anti-democratic movements and prevent a resurgence of Bolsonarismo in 2027. The democratic right, weakened by corruption scandals in the 2010s, has only partially regained credibility. Meanwhile, the democratic left – particularly Lula’s PT party – faces the challenge of preparing for a post-Lula era.

Lula himself remains an obstacle to this transition. Despite previously insisting that the 2022 election would be his last, he is now widely expected to run again in 2026 at the age of 81. His recent health issues could complicate a bid, but he appears unwilling to step aside. It is unclear whether this benefits his party and the broader democratic left. At the start of 2025, Lula declared Brazil to be back in campaign mode, though a focus on long-overdue reforms would be a wiser use of the year.

At the 2024 U.N. General Assembly, President Lula warned that sluggish economic growth, persistent inequality and accelerating climate change could fuel public mistrust and dissatisfaction with democracy. Recent polls suggest Brazilians recognize the importance of fiscal discipline for sustained economic progress. A stable environment – built on fiscal responsibility, manageable debt and sound economic policies – is key to attracting investment.

Lula’s administration has pursued this agenda through the establishment of a new fiscal framework, tax reforms and other measures aimed at creating a fairer tax system. Economic growth has outpaced expectations, unemployment is at a record low and wages are rising. However, Brazil still faces medium-term challenges, particularly the need to balance fiscal stability with sustainable growth. GDP growth is projected to slow to 2.5% in 2025. While recent fiscal reforms offer hope, they may not fully ease financial pressures.

The government aims for a balanced budget in 2025, but rising debt remains a concern. The country’s currency, which has weakened in recent years, is expected to remain under pressure. As the 2026 elections approach, foreign investors may grow cautious if uncertainties regarding economic and fiscal policies arise.

Looking outward, navigating relations with the U.S. government under Donald Trump and with the Latin American governments aligned with it, especially the Milei government in Argentina, will be a major challenge for the Lula administration’s foreign trade and foreign policy. However, because Brazil’s foreign trade is roughly equally divided into thirds between the United States, Asia (mainly China) and Europe, the country’s economic dependence on the United States is limited. In principle, Brazil is interested in constructive relations with the Trump administration, but it is unlikely to back down if the U.S. government were to take aggressive action against the country or its government. Any attempts by the Trump administration to curb Brazil’s cooperation with China are likely to have the opposite effect. Brazil is an extremely status-conscious country

that will not be dictated to regarding whom it trades with or which standards it adopts. In this respect, further rapprochement with China can be expected in the event of growing conflict with the U.S., although this is also highly controversial in Brazil in terms of domestic policy.

In South and Latin America, the next two years are unlikely to bring a dynamic revival of regional cooperation and integration projects. Ideological differences and centrifugal forces caused by global developments are too great. Only the ratification of the Association Agreement between Mercosur and the European Union – a scenario only the most optimistic expect to come about – could give new impetus to regional cooperation with Mercosur partners.