CareEdge Global assigns 'Stable' outlook to the rating of Federative Republic of Brazil

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BB+' (Unsolicited)

Issuer rating	CareEdge BB+/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Federative Republic of Brazil, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BB+ (Unsolicited)'.

The stable outlook reflects CareEdge Global expectations that the economic and fiscal profile of Brazil shall remain steady, as reflected by expected moderate economic growth of an average rate of 2% annually between 2025 and 2028, a resilient labor market, and a narrowing of current account deficit to 1.9% of GDP by 2028 (from 2.8% of GDP recorded in 2024), supported by stronger commodity exports.

However, general government debt is projected to remain elevated at 92% of GDP in 2025, primarily due to increasing interest payments. The Central Bank of Brazil's policy response is expected to bring inflation back within the target range by 2026.

Upside Scenario

The rating could be upgraded if Brazil achieves a higher economic growth rate in the range of 3-4% on a sustainable basis. Along with timely implementation of tax reforms which could enhance government revenue, improve economic efficiency and boost investor confidence. Additionally, a consistent reduction in the fiscal deficit and general government debt levels through disciplined public spending would support fiscal stability combined with monetary policies that result in a lower interest rate environment.

Downside Scenario

The rating could face downward pressure if rising social and public spending weakens the fiscal position, hurts credibility and drives up inflation, forcing the central bank to keep interest rates high and increasing the burden of floating rate debt. A weaker currency, triggered by declining investor confidence and falling investments would further weight on the economy.

Rationale

Brazil's credit assessment is primarily constrained by its low and uneven growth, coupled with weak fiscal metrics, arising from persistent deficits, and reflected by high levels of debt.

This weakness is partly offset by a large and diverse economy coupled with the benefits of an upper-middle-income country. Brazil's comfortable external position and the government's low reliance on external debt also support its credit profile.

Going forward, the success of its ongoing reform efforts, particularly the proposed streamlining of its tax system, would be a key enabler to enhance Brazil's growth potential and address the structural constraints in Brazil's economy.

Key Rating Drivers

Economic Structure & Resilience

Brazil is a diverse and resource-rich economy with nominal GDP of USD 2,171 billion and GDP per capita of USD 19,593 in 2024. Its abundant mineral resources such as iron ore and petroleum and agricultural products including soybeans, sugar, and wood underpin a strong trade presence. However, this commodity dependency also exposes the economy to global price volatility.

Despite its natural advantage, Brazil continues to face significant structural challenges such as infrastructure gaps, low investment levels, and a complex tax system have constrained long term growth. These issues are reflected in its tepid ten-year (2014-2023) average growth rate of just 0.5%. In 2024, Brazil's economy expanded by 3.4% driven by robust performance in agriculture and related sectors. However, growth is projected to moderate to around 2% annually between 2025 and 2028 as domestic demand decreases and global conditions become less favourable.

A major development on the structural front is Brazil's landmark tax reform which aims to simplify the country's tax system by replacing five existing levies with a dual VAT structure, the federal level tax and state/municipal level tax. A third levy, the Selective Tax will apply to goods and services with negative externalities. However, the reform's implementation is gradual and complex with seven-year transition period, beginning in 2026 and ending in 2033. While the reform is expected to improve transparency, reduce compliance costs and enhance investment over the long run, its benefit will take time to materialize. In the interim, business would have to navigate overlapping tax regimes and evolving regulations.

Fiscal Strength

Brazil's weak fiscal position reflects its high and rising debt, projected to reach 92% of GDP by the end of 2025 and further to 99.1% by 2028, together with a high interest to government revenue ratio of 21% in 2024. A small share of foreign currency-denominated debt helps mitigate these risks to some extent.

The fiscal deficit stood at 6.6% of GDP in 2024, driven by expanded social spending. In response to mounting fiscal pressures, the government introduced a new fiscal framework in mid-2023, designed to anchor spending growth to revenue performance. The framework aimed to gradually reduce the deficit and stabilize debt by capping real expenditure growth at 70% of revenue increases.

However, implementation has fallen short of expectations. The government has repeatedly postponed key fiscal targets, including the goal of achieving a primary surplus of 1% by 2026.

These delays coupled with limited changes to government spending have eroded investor confidence raising concern on Brazil's fiscal consolidation path.

While the framework remains a step in the right direction, its effectiveness hinges on consistent policy execution and political will. Without tangible progress, Brazil risks further deterioration in market sentiment and a more constrained macroeconomic environment.

External Position & Linkages

Brazil maintains a relatively comfortable external position, supported by steady foreign direct investment (FDI) net inflows, 2.9% of GDP in 2024. These inflows reflect sustained investor confidence in Brazil's long-term economic potential. The country also benefits from a comparatively low reliance on external debt financing, with external debt at 34.3% of GDP in 2024, lower than many regional peers. Foreign exchange reserves provide coverage of approximately 12 months of imports, providing sufficient liquidity to manage external shocks.

Brazil's external assessment is, however, partly constrained by a modest current account deficit of 2.8% of GDP in 2024 and its significant negative net international investment position, which stood at -34.5% of GDP in 2024.

Monetary & Financial Stability

Brazil operates under a floating exchange rate regime with the Central Bank of Brazil (BCB) having gained operational autonomy in 2021. The National Monetary Council is responsible for setting inflation targets, which are currently set at 3.0% (+/- 1.5%) for 2024-2026.

After easing in 2024, inflationary pressures have re-emerged. CPI inflation rose to 5.5% YoY in April 2025 due to a robust labor market. The IMF now projects inflation to be at 5.3% by the end of 2025, remaining above the upper bound of its target range. In response, the Monetary Policy Committee (COPOM) raised the SELIC rate by 25 basis points in June 2025, bringing it to 15% which is even higher than the covid levels.

Institutions & Quality of Governance

Over the last decade, Brazil has grappled with persistent governance challenges, including corruption, systemic complexities, and rising political polarisation. Bureaucratic inefficiencies and slow judicial processes have further impeded the effectiveness of its government. Despite these obstacles, the current administration has made progress on its legislative agenda, by relying on a diverse coalition. Moreover, Brazil's democratic institutions have shown resilience and notable legislative achievements, such as the tax reform aimed at simplifying the value-added tax system, indicate forward momentum.

Looking ahead, the country is preparing for general elections scheduled for October,2026. While current president Luiz Inacio Lula de Silva remains eligible for re-election, uncertainty surrounds the candidacy of former President Jair Bolsonaro, who is current on trial for an alleged coup attempt. The 2026 elections are expected to be pivotal moment for Brazil's economic performance and policy continuity.

Brazil– Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	1873	1476	1671	1951	2191	2171	2126	2187
GDP Per Capita (Constant-PPP)	USD	17980	17286	18028	18505	19029	19593	19914	20241
Real GDP Growth	%	1.2	-3.3	4.8	3.0	3.2	3.4	2.0	2.0
GFCF/GDP	%	15.5	16.6	17.9	17.8	16.5	16.6	-	-
Gross Domestic Savings/GDP	%	14.9	14.4	17.1	15.9	14.5	14.0	-	-
Exports (G&S)/GDP	%	14.1	16.5	19.1	19.6	18.1	15.5	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.9	69.9	69.9	69.9	69.8	69.7	69.6	69.6
Old-Age (65+) Population (% Share in Total)	%	9.0	9.3	9.6	9.9	10.2	10.6	11.0	11.0
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-4.9	-11.6	-2.6	-4.0	-7.7	-6.6	-8.5	-7.7
Revenue/GDP	%	38.1	34.5	37.7	39.4	37.5	38.8	39.1	39.2
Expenditure/GDP	%	43.0	46.2	40.3	43.5	45.3	45.5	47.7	45.5
GG Gross Debt/GDP	%	87.2	96.0	88.9	83.9	84	87.3	92.0	96.0
GG External Debt (by Creditor)/GG Gross Debt	%	13	12.9	14.1	12.3	11.8	-	-	-
Interest/Revenue	%	18.8	16.7	18.1	20.4	21.6	21	-	-
External Indicators									
Current Account Balance/GDP	%	-3.5	-1.7	-2.4	-2.2	-1.2	-2.8	-2.3	-2.2
FDI, Net Inflows/GDP	%	3.7	2.6	2.8	3.8	2.8	2.9	-	-
Outstanding FII Liabilities/GDP	%	30.4	33.2	26.1	22.8	24.5	-	-	-
NIIP/GDP	%	-41.9	-37.5	-35.9	-42.3	-50.3	-34.5	-	-
Foreign Exchange Reserves	USD Billion	356.9	355.6	362.2	324.7	355.0	-	-	-
Import Cover	Months	15.8	18.5	14.2	10.4	12.3	-	-	-
External Debt/GDP	%	36.1	43.3	40.1	34.9	33.4	34.3	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.7	3.2	8.3	9.3	4.5	4.4	5.3	4.3
Exchange Rate (Average)	LC per USD	3.9	5.2	5.4	5.2	5.0	5.4	-	-
Non-Performing Loans/Total Gross Loans	%	2.7	2.4	2.1	2.5	2.9	2.8	-	-
Private debt, loans and debt securities/GDP	%	77.0	86.4	84.9	86.0	85.5	93.5	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB+/Stable	June 27, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB+	October 03, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

Analytical Contacts

Kiran Kavala
kiran.kavala@careedgeglobal.com

Shobana Krishnan
C-Shobana.Krishnan@careedge.in

Ankita Sharma
ankita.sharma@careedgeglobal.com

Media Contact

Mradul Mishra
mradul.mishra@careedge.in

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CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
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