Federative Republic of Brazil's rating reaffirmed at 'CareEdge BB+/Stable'

Issuer rating (Long-Term Foreign Currency)	CareEdge BB+/Stable (Unsolicited)

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency Rating of the **Federative Republic of Brazil** at **'CareEdge BB+/Stable'** (Unsolicited).

Rationale

The reaffirmation of Brazil's credit assessment reflects constraints from low, uneven economic growth and weak fiscal metrics, driven by persistent fiscal deficits and high debt. These weaknesses are partly offset by Brazil's large and diversified economy, the benefits of an upper-middle-income status, comfortable external position, and the government's low reliance on external debt.

Going forward, the successful implementation of tax reforms will serve as a key enabler for boosting Brazil's growth potential and addressing its structural constraints.

Outlook: Stable

Brazil's stable outlook reflects expectations of moderate economic growth, averaging 2.2% annually over the next five years, supported by government spending and a resilient labour market despite high interest rates. The current account deficit is expected to narrow from 3% of GDP in 2025 to 2% by 2030, supported by stronger commodity exports and trade diversification efforts. A floating exchange rate, sizable foreign reserves and solid financing buffers, such as predominantly local currency debt held by domestic creditors, further bolster macroeconomic stability.

The federal government's primary deficit has narrowed to below 0.5% of GDP over the past two years. As per the IMF, general government gross debt is projected to remain elevated at 97% of GDP in 2026 before reaching 100% in 2027 (while the Brazilian Central Bank reports 83.6% in 2026 and 86% in 2027, which excludes government's debt holding by the central bank), primarily due to rising interest payments. The Central Bank of Brazil has maintained a restrictive monetary stance, with policy rate at 14.25% as of June 2026. While inflation has reduced from a peak of 12% in April 2022 to 4.7% in May 2026 and remained close to the upper limit of the central bank's tolerance range since October 2025, uncertainty persists amid higher energy prices following the West Asia conflict, making the interest rate trajectory a key monitorable.

Upside scenario
The rating could be upgraded if Brazil achieves a higher-than-expected growth rate on a sustained basis and general government debt consolidates on account of improved fiscal discipline and a moderating interest rate environment.

Downside scenario
The rating could face downward pressure if the fiscal profile deteriorates due to excessive social and public spending, undermining fiscal credibility and fuelling inflation, which would force the central bank to maintain high interest rates, further increasing the burden of floating-rate debt. A weaker currency, triggered by declining investor confidence and falling investments, would further weigh on the economy.

Key rating drivers

Economic structure & resilience

Brazil benefits from being Latin America's largest economy, with a GDP of USD 2,280 billion and a per capita GDP of USD 19,973 (on constant prices PPP basis) as of 2025. The country possesses abundant natural resources and is a major exporter of commodities, including iron ore, crude oil, soybean, sugar, and wood products, underpinning a strong external trade position. However, the economy is exposed to commodity price cycles, while structural challenges such as low investment levels (GFCF was 16.8% of GDP in 2025), a complex tax system, governance rigidities, and high income inequality continue to constrain productivity growth and weigh on medium-term growth prospects.

Economic growth moderated to 2.3% in 2025 from 3.4% in 2024 due to high interest rate environment and trade tensions. Nevertheless, economic activity remained resilient, supported by government spending, a robust labour market, and high commodity prices. Over the medium term, growth is expected to average around 2.2%, broadly in line with estimated potential growth. In addition, Brazil's position as a net oil exporter is expected to provide some support amid elevated oil prices.

A key positive development is the approval of Brazil's landmark tax reform, which aims to simplify the country's complex tax system. The reform is expected to improve transparency, reduce compliance costs, and support investment over the long term. However, implementation remains gradual and complex, involving a seven-year transition period beginning in 2026. As a result, the benefits are likely to materialise only gradually.

Key monitorables include the effective implementation of the tax reform, progress in raising investment and productivity, and the evolution of fiscal and inflation dynamics. Climate-related risks, including the potential impact of El Niño-related weather events on agricultural output and economic activity, also remain important monitorables.

Fiscal strength

Brazil's fiscal position remains weak, characterised by high and rising government debt and elevated interest costs. As per the IMF, general government debt was 93.3% of GDP in 2025 and is projected to reach 100% of GDP by 2027 (while the Brazilian Central Bank reports, 78.6% in 2025 and 86% in 2027, which exclude the government's debt holding by the central bank). Debt affordability is weak, with gross interest payments accounting for approximately 25% of government revenues in 2025 (while net interest payment is around 18.5% in 2025), among the highest levels compared with similarly rated peers. Debt dynamics are primarily driven by elevated interest payments, reflecting high domestic interest rates and Treasury yields, which continue to weigh on the overall fiscal balance despite improvements in the primary balance.

Brazil's debt profile remains vulnerable to interest rate shocks due to its relatively short average debt maturity of 4 years and the sizeable share of floating-rate securities, which account for approximately 48% of total government debt. These features increase the sensitivity of debt-servicing costs to changes in market interest rates and inflation. As a result, interest payments are expected to remain elevated over the medium term, contributing to wide fiscal deficits and a rising debt burden.

Mitigating these risks is the relatively low share of external government debt by creditors, which accounts for only 13% of total government debt, reducing exposure to exchange rate fluctuations and external financing shocks. In addition, the government aims to restore fiscal discipline through a gradual improvement in the primary balance, targeting a return to a primary surplus of 0.25% of GDP in 2026 from a deficit of 0.5% in 2025, as outlined in the 2027 Budget Guideline Law's referential targets, with further improvements envisaged over the medium term.

The fiscal strategy relies on both revenue and expenditure measures. On the revenue side, the successful implementation of the tax reform is expected to broaden the tax base, optimise efficiency, and support revenue mobilisation over time. On the expenditure side, the government has sought to improve spending efficiency through more targeted programmes and expenditure-control measures, including a new spending cap that limits expenditure growth to 70% of real revenue growth if a primary surplus was recorded in the previous year, or 50% if there was a primary deficit. Nevertheless, achieving the fiscal targets will remain challenging given elevated interest costs, implementation risks, and potential spending pressures.

Key monitorables include progress in achieving primary balance targets, the implementation and effectiveness of the tax reform, the trajectory of interest payments, and the government's ability to stabilise the debt burden over the medium term.

External position & linkages

Brazil's external position is a key credit strength, supported by sizeable foreign exchange reserves, low external debt, and strong FDI inflows. Gross international reserves were approximately USD 371 billion as of May 2026, providing import cover of 11 months and serving as a buffer against external shocks. External debt remains low at 36% of GDP (as of 2025), while net FDI inflows averaged 3.3% of GDP over 2021-2025, financing current account deficit of 2.4% of GDP during the same period, reducing reliance on more volatile capital flows.

The current account deficit is expected to narrow to an average of 2.2% of GDP in the next five years, supported by resilient commodity exports and ongoing trade diversification efforts. As a net exporter of oil, Brazil is also expected to benefit from higher export earnings amid elevated crude oil and other commodity prices.

While exports to the United States have declined following tariff-related measures, the trade balance remains robust, with the goods trade surplus reaching USD 11.8 billion in Q1 2026. Weaker exports to the US have been partly offset by diversification of export markets such as China and other Asian countries. New trade agreements and market-access initiatives, including with India and Europe, are expected to further support export diversification over the medium term.

Key monitorables include commodity price trends, global trade tensions, FDI inflows, and the high primary income outflow over the past three years. The country's ability to further diversify its export base and maintain adequate reserve buffers will remain important determinants of external resilience.

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 sets the inflation target, currently at 3.0% ±1.5% for 2024-2026.

The latest reading of May 2026 pegged inflation at 4.7%. While inflation risks persist amid geopolitical tensions in West Asia, it remains well below the peak recorded in recent years. In response to moderating inflationary pressures, the BCB has reduced the SELIC rate by a cumulative 75 bps over the past three meetings to 14.25%. Nevertheless, monetary conditions remain restrictive, with the real policy rate at approximately 9.6%, among the highest globally.

Elevated interest rates remain a key macroeconomic vulnerability, weighing on private investment, increasing debt-servicing costs, and contributing to higher interest payments on government debt. While further policy easing is expected over the medium term, the pace and extent of rate cuts will likely remain dependent on inflation dynamics, fiscal developments, and external conditions.

Non-performing loans stood at 3.9% of gross loans as of December 2025. However, the banking sector remains broadly resilient, supported by capital adequacy and liquidity ratios of 18% and 2.34, respectively. Continued monitoring of asset quality indicators and credit conditions is important, particularly if interest rates remain elevated for longer than expected.

Institutions & quality of governance

Over the past decade, Brazil has grappled with persistent governance challenges, including corruption and systemic complexities. 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.

The country's general elections scheduled for October 2026, are expected to be pivotal for its economic performance and policy continuity. The outcome will likely determine whether ongoing reforms are sustained or expanded, thereby shaping investor confidence, fiscal stability, and long-term growth prospects.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	1,476	1,671	1,952	2,191	2,186	2,280	2,636	2,767
GDP per capita (constant-PPP)	USD	17,286	18,028	18,505	19,030	19,598	19,973	20,286	20,619
Real GDP growth	%	-3.3	4.8	3.0	3.2	3.4	2.3	1.9	2.0
GFCF/GDP	%	16.6	17.9	17.8	16.4	16.9	16.8	-	-
Gross domestic savings/GDP	%	14.5	17.2	15.9	14.5	14.0	13.8	14.1	14.3
Exports (G&S)/GDP	%	16.1	18.9	19.5	17.8	17.8	17.8	-	-
Working age (15-64) population (% share in total)	%	69.8	69.7	69.7	69.6	69.4	69.3	69.1	68.9
Old age (65+) population (% share in total)	%	9.6	9.9	10.3	10.7	11.1	11.5	11.9	12.4
Fiscal indicators – general government									
Fiscal balance/GDP	%	-11.6	-2.6	-4.0	-7.7	-6.2	-8.1	-7.7	-6.9
Revenue/GDP	%	34.5	37.7	39.5	37.6	39.4	39.3	40.2	39.8
Expenditure/GDP	%	46.2	40.4	43.4	45.3	45.5	47.4	47.9	46.7
GG gross debt/GDP	%	96.0	88.9	83.9	84.0	87.0	93.3	96.5	100.0
GG external debt (by creditor)/GG gross debt	%	12.4	13.9	12.5	11.9	13.4	13.0	-	-
Interest/Revenue	%	16.8	18.1	20.4	21.6	21.0	25.1	-	-
External indicators									
Current account balance/GDP	%	-1.6	-2.4	-2.2	-1.2	-3.0	-3.0	-2.7	-2.4
FDI, net inflows/GDP	%	2.6	2.8	3.9	2.9	3.4	3.4	-	-
Outstanding FII liabilities/GDP	%	33.1	26.1	22.7	24.5	19.6	24.2	-	-
NIIP/GDP	%	-37.4	-36.0	-42.2	-50.2	-38.2	-49.4	-	-
Foreign exchange reserves	USD billion	355.6	362.2	324.7	355.0	329.7	358.2	-	-
Import cover	Months	18.8	14.5	10.5	12.5	10.5	10.9	-	-
External debt/GDP	%	43.3	40.1	34.9	33.4	32.8	35.9	-	-
Monetary and financial indicators									
CPI inflation (average)	%	3.2	8.3	9.3	4.6	4.4	5.0	4.0	3.4
Non-performing loans/total gross loans	%	1.9	2.1	2.6	2.8	3.9	-	-	-
Exchange Rate (Average)	LC Per USD	5.2	5.4	5.2	5.0	5.4	5.6	-	-
Private debt, loans and debt securities/GDP	%	86.4	84.9	86.1	85.5	93.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, Haver Analytics 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 2025

Solicitation status

The rating is unsolicited, but with limited interaction with relevant authorities of National Treasury, Ministry of Finance, Government of Brazil.

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency	CareEdge BB+/Stable	June 24, 2026
Issuer Rating	Long-Term Foreign Currency	CareEdge BB+/Stable	June 27, 2025
Issuer Rating	Long-Term Foreign Currency	CareEdge BB+	October 3, 2024

Criteria applied

CareEdge Sovereign Rating Methodology

Analytical contacts

Kiran Kavala
Kiran.Kavala@careedgeglobal.com

Mihika Sharma
Mihika.Sharma@careedgeglobal.com

Utkarsh Kumar
Utkarsh.Kumar@careedgeglobal.com

Media contact

Mradul Mishra
mradul.mishra@careedge.in

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer
This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is solely for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 l www.careedgeglobal.com
CIN-U66190GJ2024PLC151103