

Brazilian Elections: Overview and Outlook



Introduction

Next Sunday, October 25, more than 158 million Brazilians will go to the ballots to elect the president who will govern the country from 2027 to 2030. Polls indicate a very close race between the current president, Lula da Silva - a leftist who has already served three term - and Senator Flavio Bolsonaro, a right-winger and son of former President Jair Bolsonaro, who is currently under house arrest after being convicted of attempting a coup d'état about four years ago.

Case overview

It is almost certain that the winner will have roughly 2% more votes than the loser, mirroring the scenario of the last election, when Lula defeated Bolsonaro by a similarly narrow margin. In short, a deeply divided society—almost split perfectly down the middle.

Although Brazil is a presidential system, there is a considerable system of checks and balances among the three branches of government.

The legislative branch approves and oversees a large portion of the central government's budget, and it is also the arena where the battle for urgent reforms to the regulatory framework plays out. A few weeks ago, elections were held to completely renew the Chamber of Deputies and two-thirds of the Senate.

In the Chamber of Deputies, the right-wing party led by the Bolsonaros won 121 seats, making it the party with the most votes. Next comes the coalition of parties led by Lula, with 88 seats (plus 14 seats for a party even further to the left, totaling 102 seats). Since the Chamber has 513 seats, the majority will be held by centrist parties, which are typically open to forming alliances with governments regardless of their ideological leanings.

In the Senate, the situation is slightly more favorable for Bolsonaro. His party will have 28 senators, compared to just 9 from the left, out of 81 seats. Even so, a two-thirds majority is required for the most sensitive issues - meaning the need to form alliances remains.

The judiciary, on the other hand, plays a very active role in curbing excesses committed by the executive and legislative branches or filling legal gaps. Members of

the Supreme Court serve for life until they reach the age of 75, and although they are nominated by the president, they must be confirmed by the Senate, which also has the power to remove them. Although this has never happened, there is pressure to remove some justices. To ease the crisis, both Lula and Flavio Bolsonaro are floating proposals for judicial reform.

Brazil's economic indicators are good—as far as possible. The country has an annual inflation rate of around 4.5%, an unemployment rate of around 5%, and is expected to grow by just over 2% in 2026. After several years of stagnation, all signs indicate that Brazil will begin 2027 as the 8th largest economy in the world. Brazil's biggest challenge remains fiscal policy, with direct consequences for the benchmark interest rate, which, at over 13% per annum, is one of the highest in the world.

Donald Trump's tariff policies have affected the Brazilian economy, but not in a devastating way. Some sectors that are particularly important to the U.S. economy - such as coffee, beef, orange juice, and the airline industry - were exempted. And those that remained subject to additional tariffs were integrated into efforts to open new markets.

A few months ago, the bilateral trade agreement between Mercosur and the European Union went into effect. During this period, Brazilian exports to Europe grew by more than 30%, bilateral trade increased by more than US\$6 billion, and Brazil began to run a significant trade surplus with the bloc.

Regardless of who is elected president, Brazil's institutional framework and the existence of a solid economy - including international reserves approaching US\$

400MI - suggest that Brazil will continue to be an extremely attractive market for global investors, with changes that are quite subtle and whose impact is focused on the domestic audience (such as social policies and taxation).

Beyond ideological differences, the approach to international trade appears to be the main point of contention between F. Bolsonaro and Lula.

While the current president is an enthusiastic advocate of multilateral trade and closer ties with China, the European Union, and countries such as India, South Africa, and Mexico, challenger Bolsonaro is openly sympathetic to Trumpism and its so-called "Donroe Doctrine," which aims to curb the expansion of trade with China and Europe, prioritizing U.S. dominance in the Western Hemisphere.

News from Brazil

Brazil, in the end, tends to change very little, as has been the norm since the 1990s, with power alternating between governments further to the left or further to the right, but without any drastic measures such as breaking contracts, restricting capital flows, or defaulting on debt securities. All of this seems very far removed from us.



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