A History of Brazil's Debt

October 2026

Dear investors,

Brazil has a centuries-long history of debt problems. In 1808, the first Banco do Brasil was founded to finance the heavy deficits of Dom João VI's court by printing money. In 1821, when Dom João VI returned to Portugal, he took most of the Treasury's precious metals with him and left the bank insolvent.

In 1822, independence deepened the country's indebtedness. On top of the debt that already existed, the 1825 agreement with Portugal required Brazil to assume debts of the Portuguese crown. Brazil has struggled with its public accounts ever since; the periods of calm have been few and brief.

In these few pages, we will focus on the debt history of the New Republic, the political regime that began in 1985 and continues to this day. This period alone offers enough varied episodes to paint a vivid picture of what can happen when a government is in debt and fails to reverse its fiscal deficits.

1980 a 1994 – The Lost Decade

The 1980s began with current account deficits and the government's decision to raise foreign debt through state-owned enterprises in order to close the balance of payments. To shield companies and banks from currency exposure, which could have bankrupted them in the event of a sudden devaluation of the Brazilian currency, the government allowed dollar-denominated borrowers to deposit the equivalent amount in cruzeiros at the Central Bank ahead of maturity. The Central Bank was thus left holding the currency risk, and companies kept borrowing abroad.

In August 1982, Mexico announced that it would be unable to pay its debts, and international lenders stopped lending to all of Latin America. Brazil was left with no means of rolling over its external debt and had to turn to the IMF, which imposed an austerity program as a condition for its assistance. In 1983, the government devalued the Brazilian currency by 30% and adopted targets to bring public finances under control. The deficit was contained, but at the cost of an economic recession and runaway inflation, which exceeded 200% a year.

When the New Republic emerged in 1985, public finances were quite fragile. Almost all domestic debt consisted of short-term, inflation-indexed securities, and the IMF debt already had a track record of missed targets and renegotiations.

In 1986 came the Cruzado Plan, with price freezes, a new currency, and the end of the inflation indexation that permeated the entire economy. Inflation was contained in the first few months but, predictably, exploded again shortly afterward. At the end of that same year came the Cruzado II Plan, with tax and tariff increases in an attempt to balance the public accounts. It was not enough. In February 1987, the government declared a moratorium on its external debt to commercial banks, touted as an act of sovereignty but driven by a plain lack of money to pay.

The government's hope was to force the American banks, which were heavily exposed to Brazil, into a deal that would reduce and extend the debt, but the reaction was different: they provisioned for the losses and cut off new lending. The loss of credibility caused by the moratorium severely restricted access to credit, raised interest rates, and all but halted foreign investment until 1994, when the Brady Plan arrived.

Foreign creditors were given the option of exchanging their troubled loans for tradable bonds. Among the alternatives offered were a bond with a 35% discount to the original face value of the debt and a long-term bond carrying below-market interest rates. Between 1983 and 1994, creditors are estimated to have lost about 30% of their investment. Those who could not wait for the Brady Plan and sold their claims on the secondary market in 1989–1990 lost around 70%.

Meanwhile, domestic creditors were not much better off. Galloping inflation eroded anything that was not indexed to it, so the way to protect oneself in fixed income was the "overnight" — securities with daily liquidity and monetary correction. It worked until the Bresser (1987), Verão (1989), Collor (1990), and Collor II (1991) plans came along. The best known is the Collor Plan, which froze roughly 80% of the country's financial assets: savings accounts, checking accounts above a certain threshold, and overnight investments as well. The frozen money was returned in 12 monthly installments starting in 1991, 18 months after the freeze, but adjusted at a rate insufficient to cover the inflation of the period.

This practice of swapping the index on debt securities for adjustments that failed to cover inflation, known at the time as "expurgos", was also adopted in the Bresser, Verão, and Collor II plans. Together, these four plans wiped out about half of the value invested in fixed income. The lawsuits over the expurgos dragged on for nearly three decades and were only brought to a close by an agreement between banks and savers, ratified by the Supreme Court (STF) in 2018. Under the agreement, amounts up to R$5,000 are paid upfront and in full. Above that, discounts of 8% to 19% apply, depending on the amount, and payment is made in installments. In other words, a good part of the losses was permanent.

1994 a 2002 – Stabilization of the economy

In 1994, the Real Plan was implemented, bringing inflation down from ~916% in 1994 to ~22% in 1995. Among its main measures, the economy was indexed to a single daily unit of account (the URV) and, after a few months, the currency was replaced by the Real, which was pegged to the dollar, with the exchange rate kept within a predetermined band. To attract foreign capital, the real Selic rate was kept high, above 20% a year at several points.

Although the stabilization of the economy was successful, public debt kept rising because of high interest rates and the difficulty of generating a fiscal surplus. Even with the privatizations of Vale in 1997 and Telebrás in 1998, net debt rose from ~30% of GDP in 1994 to ~40% of GDP in 1998.

The external environment did not help Brazil during this period. There were three crises involving emerging economies: Mexico (1994), Asia (1997), and Russia (1998). The widespread crisis of confidence affected us and made it harder to roll over the public debt. In 1998 came a new agreement with the IMF. In January 1999, the fixed exchange rate regime gave way and was replaced by the floating exchange rate regime still in use today. The dollar rose ~48% that year.

It was in this episode that the “macroeconomic tripod” that has guided Brazilian economic policy ever since emerged: a floating exchange rate, inflation targeting, and a primary surplus of more than 3% of GDP. In 2000 came the Fiscal Responsibility Law, intended to anchor confidence in Brazil’s public finances.

Even with this effort, the devaluation of the real caused the external debt to jump. In 2001 came energy rationing and the collapse of Argentina. In 2002, the expected victory of Lula triggered a crisis of confidence, and the dollar rose even further. Lula then published the “Letter to the Brazilian People,” committing to honor the fiscal surplus targets, but distrust persisted and net debt peaked at ~62% of GDP in September 2002. The market only calmed down once Lula took office and, in fact, left economic policy unchanged.

2003 a 2016 – The commodities boom and the missed opportunity

China joined the World Trade Organization in December 2001. The following decade saw a rapid expansion of Chinese manufacturing capacity, and the impact of this rise was higher demand and prices for a range of commodities. Brazil had several of them in abundance: iron ore, oil, soybeans, and beef. The country’s trade balance became extremely favorable.

The combination of this external revenue with fiscal responsibility allowed Brazil to build up international reserves and change the profile of its debt. The IMF was repaid early in 2005, and the remaining Brady bonds were retired in 2006. Net debt fell from 60% in 2002 to 38% in 2008 and was now almost entirely domestic, denominated in Brazil’s own currency. In April 2008, Brazil was rated investment grade for the first time.

The Subprime Crisis of 2008–2009 was the first major external shock to hit Brazil while it was in sound financial condition. The government sought to protect the economy with

a stimulus package. It used Banco do Brasil, Caixa, and BNDES to expand credit and allowed private banks to increase their leverage to help keep credit flowing in the country.

The stimulus worked. GDP was flat in 2009 and grew 7.5% in 2010. However, rather than declaring the mission accomplished and returning to normal, the government concluded that the road to prosperity was paved with fiscal stimulus, and it became a permanent part of economic policy under the name “New Economic Matrix.”

The Selic rate was cut from 12.5% in 2011 to 7.25% in 2012. Public banks reduced their spreads to pressure private banks into offering cheaper credit as well. BNDES kept expanding its subsidized lending, funded by the National Treasury. Petrobras and Eletrobras adopted subsidized pricing policies to hold down inflation. Creative accounting practices were adopted so that the public accounts would look balanced even as the government expanded its spending.

At the end of 2013, debt stood at 30.5% of GDP, but the government’s credibility was deteriorating. In 2014, commodity prices plunged and Operation Car Wash (Lava Jato) began, exposing the vast corruption scheme involving Petrobras, large construction companies, and the parties in the governing coalition. In October, Dilma was reelected, and the year ended with the first primary deficit since the late 1990s.

In her second term, Dilma cut back part of the fiscal stimulus and the price subsidies channeled through Petrobras and Eletrobras. In 2015, electricity prices rose more than 50% and fuel prices more than 20%. Inflation reached 10.7%, and the Central Bank raised the Selic rate to 14.25%.

The adjustments lacked political support, and Congress struck down several measures. Revenue fell faster than spending, and the fiscal deficit followed. Brazil lost the investment-grade rating it had earned in 2008, and the Federal Court of Accounts (TCU) rejected the 2014 government accounts because of the accounting practices that became known as “pedaladas.” In 2015 and 2016, GDP fell a cumulative ~7%, and unemployment rose from ~6.5% to more than 12%. The crisis ended with Dilma’s impeachment in August 2016.

Brazil failed to sustain the favorable position it had reached thanks to the commodities boom and returned to its struggles to balance the public accounts and manage its debt. It was one of the worst economic recessions the country has ever experienced, caused by our own misguided economic policies. We ended 2016 with net debt at 46%.

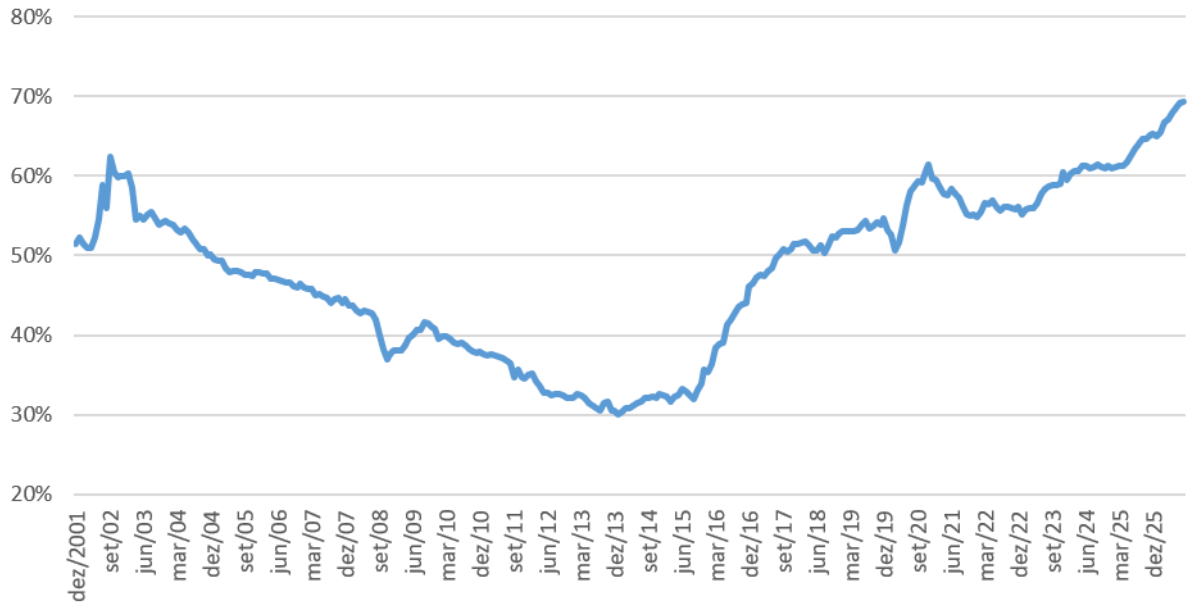
2017 to the present – The rise of public debt

Michel Temer took over the presidency in 2016 and quickly changed course on economic policy. He implemented the spending cap, began reducing BNDES’s debts to the Treasury, ended Petrobras’s price-control policy, and passed the labor reform. Inflation fell below the lower bound of the target range in 2017, and the Central Bank cut the Selic rate from 14.25% to 6.5%. In 2019, under Bolsonaro and Paulo Guedes, Congress approved the pension reform, with estimated savings of R$800 billion for the government over ten years.

This set of measures brought the primary deficit down from 2.5% in 2016 to 0.85% in 2019, but with high interest rates, weak growth, and the accounts still in deficit, net debt kept rising and reached 55% at the end of 2019.

In 2020 came the pandemic. Brazilian GDP fell ~3%, and Congress approved the "War Budget" for crisis-related spending. The primary deficit that year was 9.5% of GDP, and net debt rose to 61%. In 2021 and 2022, the government managed to achieve primary surpluses of 0.75% and 1.28%, bringing debt down to 56% at the end of 2022. We soon reversed course again. In 2023, with Lula back in office, the primary balance returned to a deficit of 2.3% and has remained in negative territory ever since. The latest net debt figure is 69.3% of GDP in August 2026, the highest level in the Central Bank's historical series.

Total net public sector debt (% of GDP)



Source: Brazilian Central Bank

Reflections for Investing

Brazilian investors see fixed income as the safe harbor of their investments because the country's last episodes of severe financial repression were 35 years ago — the Bresser, Verão, Collor, and Collor II plans (1987–1991). In those episodes, the ones who really suffered were those with money in savings accounts. More "sophisticated" securities were better protected, and their returns were still good, though far lower than investors had expected. The lesson that remains is that the government can change the rules in the middle of the game, and it does so from time to time.

Real returns on investments in Brazil

		Real return, above IPCA (% p.a.)		
Period	**IPCA** (% p.a.)	**Floating-rate (CDI/Selic)**	**Savings accounts**	**IBOV**
1983–1994	~611%	~9%*	~ (-2%)*	20.4%
1995–2002	9.1%	15.7%	5.7%	3.2%
2003–2016	6.3%	6.4%	1.5%	6.1%
2017–aug/2026	5.0%	4.0%	0.8%	6.5%
Total (1983-aug/26)	n/a	**8.3%**	**1.4%**	**9.4%**

*Estimated based on the period's rates of return and the impact of the Bresser, Verão, Collor, and Collor II plans, excluding the compensation from the 2018 court settlements.

Today we have record net debt, a primary deficit, high interest rates, and no concrete path to address the problem. Brazil may adopt fiscal responsibility measures from 2027 onward, but austerity is always unpopular, and we do not know how far the next government will be willing to go in a political environment that remains polarized. We believe there is a meaningful risk that the government will resort to inflation and financial repression to reduce the public debt. Our May 2026 letter, "The Future of Indebted Countries," explains why we think this risk exists.

Against this backdrop, we remain favorably disposed toward investing in real assets, which are better protected against inflation and devices such as the "expurgos" of the late 1980s. We have been through many difficult periods with the same equity investment strategy, and we believe it will continue to generate good returns for our investors in the years ahead.