Brazil's Automotive Sector: Legal and Economic Challenges from 2020 to 2026

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Authors

Tatiana Dratovsky Sister

Winnie Freitas

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Brazil's automotive industry entered 2024 on a path of gradual recovery, driven by a rebound in domestic demand and the normalization of supply chains after the disruptions caused by the pandemic. This recovery unfolded alongside regulatory initiatives aimed at decarbonization and the sector's technological modernization.

Early in the year, vehicle sales rose by more than 13% compared to January 2023, reaching approximately 162,000 registrations, while production remained stable. This performance signaled that logistical constraints and semiconductor shortages had largely been overcome. Consumption patterns also shifted, with hybrid and electric vehicles accounting for a growing share of registrations and reaching record levels.

In 2025, the sector posted its strongest performance since 2020, supported by pent-up demand, the resumption of production, and the recovery of external markets. In the first months of the year, both sales and output increased compared to 2024. At the same time, the share of imported vehicles rose, driven by more competitive pricing and a broader range of available models.

Exports were critical in sustaining growth at the start of 2025, with sales to South American markets expanding sharply. This external momentum helped offset the effects of a still-restrictive monetary policy in the domestic market.

From the second quarter onward, signs of a regional slowdown began to emerge. Truck production declined and sales lost momentum, even as exports continued to grow. At the same time, imports expanded at a faster pace than the production of domestically manufactured models, putting additional pressure on the competitiveness of automakers operating in Brazil.

Conditions became more challenging in the final quarter. Exports fell after the automotive agreement between Brazil and Colombia expired without the renewal of preferential terms, increasing costs and eroding competitiveness. Even so, the domestic market retained some momentum, despite high inventory levels and compressed margins. Abroad, demand for electric vehicles weakened, while competition from Asian manufacturers intensified.

Against this backdrop, *"Programa Mover"* (the Move Program), created in 2024 and implemented in 2025, has emerged as a central initiative for the sector. The program establishes a new industrial-policy framework by combining tax incentives with performance targets related to energy efficiency, emissions reduction, and technological innovation. Access to these incentives is conditional on compliance with specific technical and environmental requirements, increasing the importance of advance planning and ongoing regulatory compliance for industry participants.

The outlook for 2026 remains cautious. While an easing of interest rates is expected, its effects are likely to be felt only toward the final months of the year. At the same time, uncertainties related to component supply chains and key trade agreements persist. Although the sector has recovered following the pandemic, its performance will continue to depend on credit conditions, external volatility, and the stability of the regulatory environment.

Overall, the recent cycle points to an industry in transition. Future growth will hinge on the continuity of industrial policy initiatives and on the existence of a predictable environment capable of sustaining investment and preserving the competitiveness of Brazil's automotive production.

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Tatiana Dratovsky Sister

Winnie Freitas