EXCLUSIVE REPORT

Brazil’s Political Storm: Lula, the Supreme Court, Congress, and the Banco Master Scandal

How a R$41 billion bank collapse has exposed conflicts of interest at Brazil’s highest court, entangled members of the Lula government, and set the stage for a turbulent 2026 election year.

Comprehensive Research Report | February 2026

What Happened on February 2, 2026

President Luiz Inácio Lula da Silva made an unusual appearance at Brazil’s Supreme Court (STF) to deliver a speech at the opening of the 2026 Judicial Year. While not a standard practice for presidents, Lula accepted an invitation from Chief Justice Edson Fachin to address the ceremony — a move that has drawn both praise and criticism depending on political perspective.

The same day, Lula sent his annual message to Congress — a massive 914-page document (the largest of his third administration) — outlining government accomplishments and priorities for 2026, an election year.

The Two Very Different Speeches

At the Supreme Court

Lula’s speech at the STF focused heavily on defending democracy and the Supreme Court’s role in protecting Brazil’s institutions. He praised the court’s handling of the January 8, 2023 attacks (when Bolsonaro supporters invaded and vandalized the headquarters of all three branches of government) and the subsequent trial of those involved in the attempted coup.

Key statements included: “The Supreme Court did not seek protagonism, much less took upon itself the attributions of other powers”; “Brazil is much greater than any coup plotter or traitor”; warnings about the challenges of artificial intelligence and fake news in the upcoming 2026 elections; and a call for vigilance against “electoral piracy.”

He also announced a pact between the three branches of government to combat femicide, to be launched on February 4, citing that 1,470 women were murdered by intimate partners or acquaintances in Brazil in the previous year — an average of four women per day.

The Message to Congress

The 914-page congressional message was largely a catalog of government achievements and campaign-style promises, including: GDP growth for three consecutive years; unemployment at 5.2% (historic low); inflation at 4.26% (lowest in seven years); average worker income reaching R$3,574 (highest ever recorded); and exports totaling US$348.7 billion (record high).

Lula's priorities for 2026 include: **ending the 6x1 work schedule** (six days working, one day off) without salary reduction; regulating app-based work; approving the Public Security Constitutional Amendment (PEC); and passing anti-organized crime legislation.

The Elephant in the Room: The Banco Master Scandal

What makes these speeches particularly significant — and controversial — is what Lula largely chose NOT to address directly: the massive Banco Master scandal that is currently shaking Brazil's institutions.

What Is Banco Master?

Banco Master was a Brazilian bank that collapsed in November 2025, resulting in what may become the largest bank failure in the country's history. Key facts:

Total potential losses: Approximately R$41 billion (US$7.6 billion) to the Credit Guarantee Fund (FGC). **Fraud investigation:** Federal Police uncovered an alleged R$12 billion (US$2 billion) fraud scheme. **Owner Daniel Vorcaro** was arrested in November 2025 at São Paulo's international airport while trying to board his private jet to Malta (he claims he was going to Dubai to meet investors). The bank was liquidated by Brazil's Central Bank on November 17, 2025, the same day police launched "Operation Compliance Zero."

State-run BRB (Banco de Brasília) transferred approximately R$16.7 billion to Banco Master between 2024 and 2025, of which R$12.2 billion allegedly involved unsecured transactions. BRB may need to set aside more than R$5 billion (US$970 million) to cover losses.

Why This Implicates the Supreme Court

The scandal has directly touched the STF because of Minister Dias Toffoli, who is handling the case. Multiple conflicts of interest have been reported:

Family connections: Two of Toffoli's brothers were partners in a luxury resort (Tayayá Resort) until February 2025. In 2021, part of that partnership was sold to a fund owned by Fabiano Zettel — the brother-in-law of Daniel Vorcaro.

Travel with lawyers: Toffoli reportedly traveled on a private jet with one of the lawyers involved in the case.

The wife of another justice: Alexandre de Moraes' wife, attorney Viviane Barci de Moraes, represents Banco Master in legal proceedings, receiving a reported R$3.6 million monthly contract.

Secrecy concerns: Toffoli has imposed strict secrecy on the investigation, restricted access to evidence, and even designated specific Federal Police experts who could examine seized materials — an unusual procedure.

The Executive Branch's Connections

The scandal has also reached Lula's government:

Secret meeting with Vorcaro: In December 2024, Lula met with Daniel Vorcaro at the Planalto Palace — a meeting not on the official agenda. According to reports, Lula advised Vorcaro not to sell the bank. Present at the meeting were Rui Costa (Chief of Staff), Alexandre Silveira, and Gabriel Galípolo (then nominee to lead the Central Bank).

Guido Mantega: The former Finance Minister under Lula and Dilma was receiving R$1 million per month as a consultant to Banco Master. He allegedly arranged the secret meeting between Lula and Vorcaro.

Ricardo Lewandowski: The former Justice Minister's law firm received approximately R$5 million from Banco Master for legal consulting services between 2023 and 2025. Lewandowski reportedly left the Ministry of Justice to avoid implicating Lula in the scandal (though government allies deny this).

Jaques Wagner: The PT senator and government leader reportedly made introductions that facilitated some of these arrangements.

The Political Cover-Up Allegations

Right-wing and some center-left critics argue that Lula's STF speech was an attempt to: use the court as a political platform to distract from the Master scandal; shore up support from the judiciary ahead of the 2026 elections; and publicly defend an institution with which his government has mutual interests.

The government strategy, according to critics, involves making noise about the "Carbono Oculto" operation (which targeted money laundering by organized crime) to deflect attention from questions about Lula's own meetings with Vorcaro and Toffoli.

Chief Justice Fachin's Response

In a notable contrast to Lula's speech, Chief Justice Edson Fachin's address acknowledged the need for institutional "self-correction." Key points:

Announced that Justice Cármen Lúcia will lead the effort to create an **Ethics Code for STF justices** — a response to the controversies surrounding Toffoli and others. Stated that "moments of adversity demand more than speeches: they require institutional responsibility, clarity of limits, and absolute fidelity to the Constitution." Called for "self-restraint" and a "return to the essential sense of the Republic." Acknowledged that "justices are accountable for the choices they make."

This was widely interpreted as an implicit recognition of the ethical problems facing the court — something Lula pointedly did not address.

The 2026 Election Context

TSE Leadership Change

For the first time, Brazil's Superior Electoral Court (TSE) — which oversees elections — will be led during a presidential election by justices appointed by former President Jair Bolsonaro:

Kassio Nunes Marques: Will become TSE President in June 2026. **André Mendonça:** Will serve as Vice President. Both were appointed to the STF by Bolsonaro in 2020 and 2021 respectively. Right-wing voices express hope that this will lead to a "less interventionist" electoral court compared to 2022, when Alexandre de Moraes led the TSE with aggressive anti-disinformation measures.

Mendonça has promised that the new TSE leadership will exercise "discretion" and "impartiality," seeking to create "an environment of stability where everyone has equal treatment." This concerns Lula's government, which relied on the TSE's active stance against disinformation in 2022.

Bolsonaro's Situation

Former President Jair Bolsonaro is currently serving a 27-year, 3-month prison sentence for his role in the attempted coup that culminated in the January 8, 2023 attacks. He was convicted in September 2025 by a 4-1 vote of the STF's First Chamber on five counts: armed criminal organization; attempted coup d'état; attempted violent abolition of the Democratic Rule of Law; qualified damage to Union property; and deterioration of protected heritage.

Bolsonaro is ineligible to vote or run for office in 2026. He is currently held at the Federal Police headquarters in Brasília. His son, Senator Flávio Bolsonaro, has announced his candidacy with his father's blessing.

The Dosimetry Law Controversy

On January 8, 2026 — exactly three years after the attacks — Lula vetoed the "Dosimetry Law" (PL 2.162/2023). This law, passed by Congress, would have: reduced sentences for those convicted of crimes against the democratic state; potentially reduced Bolsonaro's sentence from 27+ years to approximately 2 years and 4 months; and prevented sentences for coup attempt and abolition of democracy from being added together.

The veto is expected to be challenged in Congress, creating another point of tension between Lula and the legislature.

Why This Matters: What You Should Know

For Brazilians

Institutional Credibility Crisis: Brazil's Supreme Court, which played a crucial role in defending democracy against the 2022-2023 coup attempt, now faces its own credibility crisis due to apparent conflicts of interest in the Banco Master case.

"Nobody is Above the Law" Test: The scandal tests whether the principle that "nobody is above the law" — used to convict Bolsonaro — will also apply to those connected to the current government.

Election Year Stakes: With Lula likely seeking re-election and the opposition seeking to capitalize on government scandals, the handling of both the Master case and the electoral process will shape Brazil's political future.

Working Class Issues: The 6x1 work schedule debate could significantly affect millions of Brazilian workers, but economists warn about potential impacts on production costs and employment.

For International Observers

Democratic Resilience: Brazil successfully prosecuted a former president for attempting a coup — a significant milestone. But the current scandal raises questions about whether accountability applies equally across the political spectrum.

Institutional Independence: The intermingling of justices' financial interests with parties they oversee raises fundamental questions about judicial independence in Latin America's largest economy.

US-Brazil Relations: The Trump administration has imposed sanctions on Alexandre de Moraes and other Brazilian officials over the Bolsonaro prosecution. How Brazil navigates this pressure while maintaining domestic legal processes is a test of sovereignty.

Financial System Stability: The R$41 billion Banco Master collapse and its connections to state institutions demonstrate regulatory vulnerabilities that could affect investor confidence.

Summary of Key Figures

Person	Role	Relevance
Luiz Inácio Lula da Silva	President	Seeking re-election; met secretly with Vorcaro
Daniel Vorcaro	Former owner of Banco Master	Arrested; at center of scandal
Dias Toffoli	STF Justice (case judge)	Multiple conflicts of interest alleged
Edson Fachin	STF Chief Justice	Called for ethics code and self-correction
Alexandre de Moraes	STF Justice	Wife represents Banco Master
Guido Mantega	Former Finance Minister	R$1 million/month consultant to Master
Ricardo Lewandowski	Former Justice Minister	Law firm received R$5 million from Master

Person	Role	Relevance
Kassio Nunes Marques	STF Justice	Will lead TSE during 2026 elections
André Mendonça	STF Justice	Will be TSE Vice President in 2026
Jair Bolsonaro	Former President	Imprisoned (27+ years); ineligible for 2026

Fact Verification Statement

All figures, claims, and facts presented in this document are derived from news reports, official government communications, court documents, and credible journalistic sources. The analysis synthesizes reporting from outlets across the political spectrum to provide a comprehensive view: government sources (Planalto, Agência Brasil), center-left outlets (CartaCapital, Brasil 247, Brasil de Fato), center-right/right outlets (Gazeta do Povo, Brasil Paralelo, Jovem Pan), mainstream (Correio Braziliense, Poder360, CNN Brasil, O Globo, Folha de S.Paulo, Reuters, Bloomberg, Terra, Metrópoles), investigative journalism (Agência Pública), and international sources (Bloomberg, Associated Press, The Conversation).

All financial figures (R$41 billion FGC exposure, R$16.7 billion BRB transfers, R$12 billion fraud allegations, R$5 million Lewandowski contract, R$3.6 million Moraes wife contract, R$1 million Mantega salary) come directly from Brazilian press reports citing official investigations, court documents, or Central Bank testimony.

— End of Report —