

Fiscal Follow-Up Report

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Short-term Adjustments, Day-to-Day Management, and the Postponement of Structural Reform

The Independent Fiscal Institution (IFI) presents its first Fiscal Follow-up Report (RAF, kept here in its original acronym, as are the acronyms of other Brazilian institutions, programs, and indicators) for 2026.

As this is a year of general national elections, a focus on day-to-day management and on fine-tuning the monitoring of revenues and expenditures included in the Federal Government's General Budget is to be expected. This involves tracking the behavior of the main fiscal variables, mitigating risks and threats, pursuing less ambitious objectives with respect to a deeper structural adjustment of federal public finances, and preparing the necessary and inevitable fiscal reform for 2027.

In other words, no heroic or radical measures are expected—neither increases in taxes nor cuts in expenditures—given the difficulty of securing congressional support for more ambitious actions in an electoral year. The objective to be pursued is compliance with the primary balance target, using the legally authorized exclusions (Court-Ordered Debt Payments, national defense expenditures, and extraordinary expenditures on education and health) and aiming for the lower bound of the tolerance margin, bringing the primary deficit to zero in 2026. The midpoint of the target would correspond to a surplus of 0.25% of GDP.

Modest objectives for fiscal policy in a country that would need to generate a primary surplus above 2.0% of GDP to halt the growth of the public debt-to-GDP ratio and substantially change the expenditure profile, enabling the federal government to make a more meaningful contribution to the necessary increase in the economy's investment rate. In other words, in a FIFA World Cup year, in fiscal terms, the federal government will play not for a transformative victory but for a decent tie which, although it postpones structural solutions, prevents the situation from getting out of control.

The RAF 108 begins by showing that the Brazilian economy remains heated. It estimates the output gap at 0.5%, with the pace of growth running above potential GDP based on the third quarter of 2025. It projects a structural primary balance of -0.9% of GDP. The structural deficit excludes from the calculation the cyclical effects of the economic cycle as well as nonrecurring revenues and expenditures. What is stated here is that we face a systemic fiscal imbalance to be addressed in the years ahead.

Next, the RAF examines the primary balance recorded in 2025. The legally calculated deficit was BRL 9.5 billion, or 0.1% of GDP. The effective deficit, which does not exclude any expenditure, reached BRL 61.7 billion, or 0.5% of GDP. It is worth recalling that the midpoint of the fiscal target was a zero deficit, with a tolerance margin of 0.25% of GDP. In this sense, the fiscal target was formally and legally met, even though the effective deficit of 0.5% of GDP will further increase the central government's gross debt.

Despite the economic deceleration compared with the previous year, revenue grew 3.2% above inflation. However, primary expenditure increased even more in real terms, rising 3.4% above the Broad Consumer Price Index (IPCA) and bringing primary expenditure to 18.8% of GDP. The primary imbalance in federal accounts led public debt to increase by 7.3 percentage points of GDP from December 2022 to November 2025, reaching 79% of GDP.

The first RAF of 2026 also provides an X-ray of the legislative process of the 2026 Federal Government's General Budget. It shows the changes made between the initial proposal and the approval by the National Congress of Brazil, as well as the vetoes issued by the President of the Republic. Notably, with the various changes introduced in recent months, the legal exclusions of expenditures for calculating the expenditure ceiling under the fiscal framework increased from 6.7% of total primary expenditures in the 2026 Annual Budget Bill submitted by the Executive in August to 8.2% in the enacted Annual Budget Law, totaling BRL 230.7 billion in excluded expenditures. It is evident that these successive changes in fiscal parameters weaken the anchoring power of expectations under the current framework.

Lastly, the RAF analyzes the dramatic decline in the federal government's investment capacity over recent decades as yet another symptom of the growing strain on the public budget and a troubling factor for the resumption of stronger and sustained economic growth. Even when adding financial inversions to investment proper, the federal government invests only 0.76% of GDP and 3.9% of total primary expenditures. This is one of the main factors behind Brazil's average investment rate in the current decade—just 17% of GDP—while Asian emerging economies are expected to invest 37.5% of their GDP, European emerging economies 26.1%, and Latin American countries 19.8%. Changing the profile of public spending and altering the current budgetary dynamics are essential for the federal government to contribute more to gross fixed capital formation in the country.

Enjoy your reading! Have a great 2026!

Marcus Pestana
Executive Director of the IFI
Alexandre Andrade
Director of the IFI

Highlights

Output gap and structural balance: estimates for the third quarter of 2025

We present the IFI's estimates for the output gap and the structural primary balance of the Brazilian economy in the third quarter of 2025. The output gap stood at 0.5% in the period, indicating that the economy was operating above its potential level. On the fiscal side, the structural primary balance remains negative, moving from -1.9% of GDP in September 2024 to -0.9% of GDP in September 2025, on a year-over-year basis. **(Page 7)**

Central Government Primary Balance

The central government formally met the fiscal target set in the 2025 Budget Guidelines Law, according to the IFI's analysis based on information from the Siga Brasil portal combined with data already released by the Treasury. As in 2024, compliance with the target resulted from extraordinary revenue collections and legal exclusions of expenditures from the calculation of the primary balance. This does not indicate an improvement in the country's fiscal position. The challenges highlighted by the IFI in previous editions of this report remain, such as the need for continual increases in revenue to offset the projected dynamics of primary expenditure. **(Page 11)**

2026 LOA may have underestimated mandatory expenses

The primary expenditure set in the final version of the 2026 Annual Budget Law amounted to BRL 2,625.3 billion, a figure BRL 13.2 billion higher than the expenditure included in the 2026 Annual Budget Bill submitted in August. During the budget's legislative process, important changes occurred in fiscal legislation, such as the approval of Constitutional Amendment (EC) No. 136/2025, Complementary Law (LC) No. 221/2025, and Complementary Law (LC) No. 223/2025. As a result, the expenditure ceiling under the fiscal framework now applies to 91.2% of primary expenditures, 2.1 p.p. less than projected in the 2026 Annual Budget Bill. The reduction of BRL 6.9 billion in social security benefits during the budget process may lead to a spending freeze during financial execution in 2026. **(Page 23)**

Low investment levels: a symptom of fiscal constraints

The construction of the public budget is an exercise in setting priorities. Brazil depends critically on increasing the productivity of its economy. This will occur through investment in well-designed projects with strong multiplier effects. Merely transferring income from taxpayers to beneficiaries of public expenditures will not generate the transformative momentum required, even though social programs play an essential role in combating social inequality and poverty. A significant expansion of federal public investment requires loosening the current Brazilian budgetary dynamics and changing the profile of public spending. **(Page 31)**

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Check for errata at: <https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2026/janeiro/erratas>

Output Gap and Structural Primary Balance: Estimates for the Third Quarter of 2025

Rafael Bacciotti

Estimated Output Gap in the Third Quarter Of 2025

The IFI's estimate for the output gap in the third quarter of 2025, calculated from observed GDP data, was 0.5%, down from 1.0% in the previous quarter. As this is a non-observable variable subject to a high degree of uncertainty, the output gap is calculated using different methodological approaches¹.

The Central Bank of Brazil also estimated a positive gap for the period, also at 0.5%, according to the Monetary Policy Report (RPM) for December 2025². The Pre-Copom Questionnaire (QPC), sent to participants in the Market Expectations System before the December meeting of the Monetary Policy Committee (Copom) and released by the Brazilian Central Bank³, indicated a median of 0.7% for the third quarter gap.

Taken together, these results – similar in magnitude – indicate convergence between the estimates produced by the IFI, the Central Bank of Brazil, and the market regarding the continuation of the economy operating above its potential level. The gradual deceleration of activity reflects primarily the lagged effects of contractionary monetary policy, through a high real interest rate, on domestic demand.

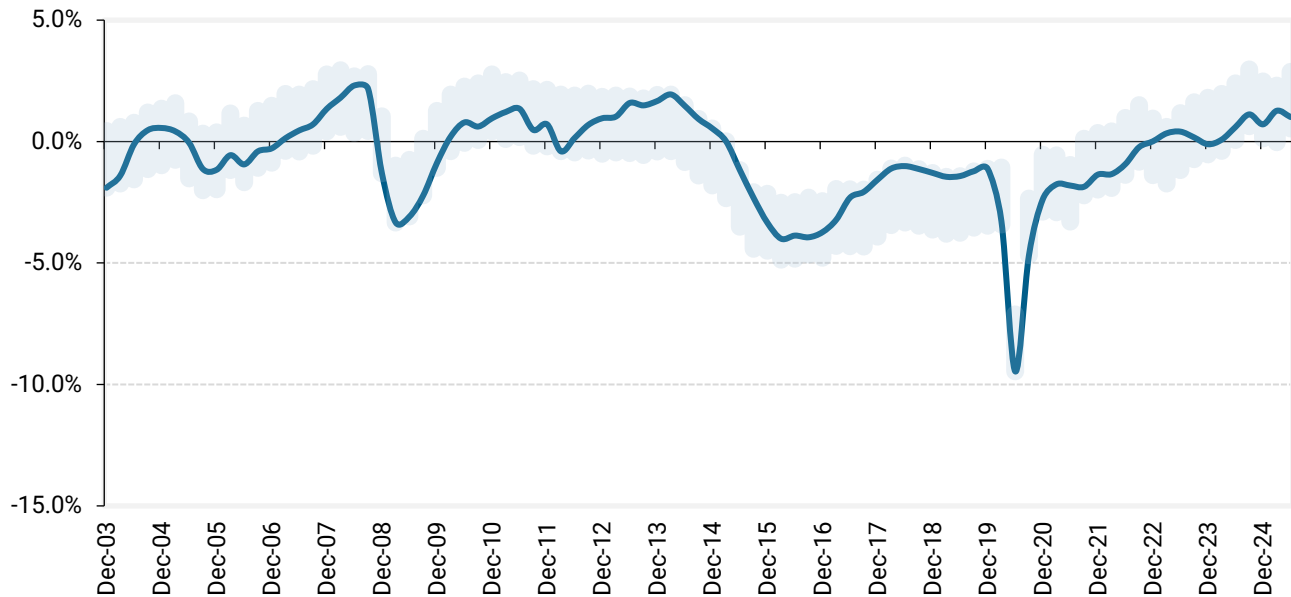
The resilience of the labor market, characterized by an unemployment rate near its historical minimum and real wage growth – albeit at a more moderate pace than before – indicates that the Brazilian economy continues to operate with low slack, even in the face of signs of cooling activity.

¹ The following methods are used: the Hodrick–Prescott (HP) filter; the Hamilton filter, as proposed by Quast and Wolters (2019); the Baxter and King Band Pass filter; the multivariate HP filter, as specified in Areosa (2008); and the production function approach, associated with the use of filters (HP and Band Pass) and state space models. The central estimate is presented with a plausibility interval, as recommended by the European Commission.

² Available at: <https://www.bcb.gov.br/content/ri/relatorioinflacao/202512/rpm202512p.pdf>.

³ Available at: <https://www.bcb.gov.br/controleinflacao/precopom?ano=2025>.

GRAPH 1. OUTPUT GAP (% OF POTENTIAL GDP)



Source: IFI.

The relevance of the output gap manifests itself on several fronts. As an indicator of the economic cycle, a positive gap signals that the economy is operating above its trend, with a greater likelihood of inflationary pressures. A negative gap, in turn, indicates slack in the factors of production. Central banks often incorporate this indicator into the definition of the interest rate as an instrument for calibrating monetary policy.

In addition, the output gap plays a central role in assessing fiscal policy by feeding into the calculation of the structural balance—a metric that enables a more accurate reading of the fiscal position by isolating temporary effects of the economic cycle. This adjustment is particularly important in contexts involving debate over the role of fiscal policy in controlling inflation and anchoring expectations.

In its communications, Copom has emphasized the importance of the effects of fiscal policy on the conduct of monetary policy. The Committee reiterates that fiscal impacts manifest differently in the short and medium terms: in the short term, through the direct stimulus to aggregate demand; in the medium term, through their influence on the risk premium and the slope of the yield curve. In this context, a countercyclical fiscal policy, by helping reduce the risk premium, supports the convergence of inflation toward the target.

Given this scenario, the monitoring of indicators that reflect the structural position of fiscal policy becomes even more relevant. The estimates presented below refer to the third quarter of 2025, with data through September from the National Treasury Secretariat (STN).

Estimated Structural Primary Balance in the Third Quarter of 2025

The fiscal performance of the central government can be assessed on the basis of two main indicators: the conventional primary balance and the structural primary balance. The former, released by the National Treasury Secretariat (STN), corresponds to the balance between revenues and primary expenditures without any adjustments, and is also referred to as the above-the-line primary balance. The structural primary balance, in turn, is an alternative measure for monitoring fiscal policy. It can be interpreted as an approximation of the discretionary fiscal effort, as it corresponds to the observed primary balance excluding the effects of the economic cycle and nonrecurring factors—namely, atypical revenues and expenditures that do not reflect the underlying fiscal position.

In this sense, the historical series of the central government's primary balance, in its conventional measure, can be decomposed into three components: cyclical, nonrecurring, and structural. This decomposition makes it possible to identify the relative contribution of cyclical, temporary, and structural factors to the evolution of the fiscal outcome.

On a year-over-year basis, the conventional primary balance improved by 1.9 p.p., moving from -2.2% of GDP in September 2024 to -0.3% of GDP in September 2025, considering the four-quarter cumulative figure. Over this same comparison period, the cyclical component remained practically stable at 0.2% of GDP, while the nonrecurring component rose from -0.5% of GDP to 0.4% of GDP, representing a positive contribution of 0.9 p.p. The structural primary balance also became less negative, moving from -1.9% of GDP to -0.9% of GDP, indicating an improvement in the underlying fiscal position, although it remains in deficit territory.

On the margin—that is, in the comparison between the second and third quarters of 2025—there was a deterioration in the conventional primary balance, which moved from 0.1% of GDP in June 2025 to -0.3% of GDP in September 2025, on a four-quarter cumulative basis. This deterioration was accompanied by declines in all of its components: the cyclical component fell from 0.3% to 0.2% of GDP; the nonrecurring component declined from 0.5% to 0.4% of GDP; and the structural primary balance worsened from -0.6% to -0.9% of GDP.

Table 1 presents the historical series of the central government's primary balance as a share of GDP, based on Treasury data, along with the decomposition—prepared by the IFI—into its three components: cyclical, nonrecurring, and structural.

TABLE 1. DECOMPOSITION OF THE CENTRAL GOVERNMENT’S PRIMARY BALANCE AS A PERCENTAGE OF GDP IN THE RECENT PERIOD

	Conventional Balance	Cyclical Component	Nonrecurring Component	Structural Balance
Mar/22	-0.1	-0.3	-0.3	0.5
Jun/22	0.8	-0.2	0.0	0.9
Sep/22	0.8	0.0	0.4	0.5
Dec/22	0.5	0.0	0.2	0.3
Mar/23	0.3	0.1	0.1	0.2
Jun/23	-0.4	0.1	0.0	-0.5
Sep/23	-0.9	0.1	0.0	-1.0
Dec/23	-2.4	0.0	-0.9	-1.5
Mar/24	-2.5	0.0	-0.4	-2.0
Jun/24	-2.6	0.1	-0.7	-2.0
Sep/24	-2.2	0.2	-0.5	-1.9
Dec/24	-0.4	0.3	0.8	-1.5
Mar/25	-0.1	0.3	0.5	-0.9
Jun/25	0.1	0.3	0.5	-0.6
Sep/25	-0.3	0.2	0.4	-0.9

Source: IFI, STN. Prepared by: IFI.

Another form of analysis derived from the structural primary balance consists in examining the fiscal impulse, defined as the change in the structural balance between two periods, with the aim of indicating the orientation of fiscal policy – expansionary, neutral, or contractionary. The year-over-year comparison between September 2024 and September 2025 indicates that fiscal policy was contractionary, with an estimated fiscal impulse of – 1.0 p.p. of GDP. In contrast, on the margin, the quarterly change in the structural balance suggests a slightly expansionary fiscal impulse in the third quarter of 2025, estimated at 0.3 p.p. of GDP.

Despite the improvement in the conventional primary balance and the progress observed in the structural balance on a year-over-year basis, the level of the fiscal balance remains far from the estimated threshold of around 2.3% of GDP, considered necessary to stabilize public debt at the level observed in 2025 (79.0%).

Analysis of the Central Government Primary Balance in 2025

Alexandre Andrade

Initial Considerations

This section presents an analysis of the central government's primary balance in 2025 based on information provided by the National Treasury Secretariat (STN) and the Central Bank.

The central government met the primary balance target set for 2025, recording a deficit of BRL 9.5 billion (0.1% of GDP), considering the exclusions allowed under legislation. Without these exclusions, the primary deficit stood at BRL 61.7 billion (0.5% of GDP) last year.

Despite the economic deceleration in 2025, revenue performance remained favorable throughout the year and supported compliance with the target. In 2025, total primary revenue grew 3.2% in real terms compared with 2024. On the same basis, net primary revenue rose 2.8%.

In addition to the behavior of economic activity, this increase in revenue was achieved with the help of atypical (nonrecurring) factors, albeit to a lesser extent than in 2024. Revenues were also boosted by the recovery and expansion of the tax base for certain levies over the past three years. In 2025 specifically, there was an increase in the Financial Operations Tax (IOF) rates.

The central government's primary expenditure grew 3.4% in real terms in 2025 (18.8% of GDP), compared with 2024 (18.7% of GDP), when it had fallen 0.7% relative to 2023 (19.5% of GDP). In 2025, there were significant increases in some expenditure aggregates, such as social security and social assistance benefits, as well as personnel spending and discretionary expenditure, although from a partially depressed comparison base, as will be explained later.

As discussed in RAF No. 96⁴ of January 2025, certain nonrecurring events⁵ affecting primary expenditure have distorted the comparison base for this variable since 2022. After adjusting the series for some of these events, primary expenditure grew 2.5% in real terms in 2025 compared with 2024, when it had increased 3.8% relative to 2023. In other words, analysis of this adjusted primary expenditure series shows that primary spending continued to rise last year, although at a slower pace than observed in 2023 and 2024.

⁴ https://www2.senado.leg.br/bdsf/bitstream/handle/id/682438/RAF96_JAN2025.pdf.

⁵ Among the nonrecurring events considered are, by way of illustration, expenditures related to combating the calamity in Rio Grande do Sul, the climate emergency, and the payment of Court-Ordered Debts that had been withheld in December 2023.

Analyzing the outlook, although the Executive Branch has formally met the primary balance target for 2025 (and for 2024), the dynamics of fiscal variables continue to warrant caution regarding compliance with the target set in the budget guidelines for the coming years. This is because the fiscal target was formally met in 2024 and 2025 through the use of expenditure exclusions under the fiscal rules and nonrecurring revenue collections, which does not necessarily constitute a fiscal effort.

As a result of decisions adopted between late 2022 and late 2023 (the reinstatement of the minimum wage valorization policy and the restoration of the constitutional floors for health and education), the increase in social security and social assistance benefits and the growth of health and education expenditures in the coming years will require a rising effort by the Executive Branch to increase primary revenues. This represents a considerable challenge unless changes occur.

In the short term, as explored in RAF No. 107⁶, published in December 2025, the 2026 budget contains some revenue sources whose materialization is uncertain. Since the expenditure limit under the fiscal framework came into effect, IFI has been calling attention to the inconsistencies within the rule, such as the need for an incessant search for revenues to compensate for the projected growth of primary expenditures over the coming years. Certain expenditure aggregates that grow above the limits defined by the rule exert additional pressure on this increase in primary expenditure.

Furthermore, pursuing the lower bound of the tolerance margin for the targets set in the budget guidelines has been insufficient to contain the growth of gross debt as a share of GDP. The general government gross debt (DBGG) increased by 7.3 p.p. of GDP between December 2022 and November 2025, the latest month for which the Central Bank of Brazil has released data for the indicator. In November, the DBGG reached 79.0% of GDP, and the outlook is for further increases in the coming years, as discussed in the previously referenced RAF No. 107. The expectation of primary deficits in the years ahead, combined with the high real interest rate of the economy, will put additional pressure on the government's gross indebtedness.

Central Government Primary Balance in 2025

Based on the information released by the National Treasury Secretariat (STN), Table 2 presents the consolidated primary balance of the central government for the last three fiscal years (2023, 2024, and 2025).

⁶ https://www2.senado.leg.br/bdsf/bitstream/handle/id/816727/RAF107_DEZ2025.pdf.

TABLE 2. ABOVE-THE-LINE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT

Breakdown	2023		2024		2025	
	Amount	% of GDP	Amount	% of GDP	Amount	% of GDP
1. Total primary revenue	2,353.4	21.5%	2,679.4	22.7%	2,902.3	22.8%
2. Revenue-sharing transfers	452.0	4.1%	517.7	4.4%	569.7	4.5%
3. Net primary revenue [1-2]	1,901.4	17.4%	2,161.8	18.4%	2,332.6	18.3%
4. Primary expenditure	2,129.9	19.5%	2,204.7	18.7%	2,394.2	18.8%
5. Above-the-line primary balance [3-4]	-228.5	-2.1%	-42.9	-0.4%	-61.7	-0.5%
6. Methodological adjustments and statistical discrepancy	-36.0	0.1%	-2.4	-0.3%	3.5	0.0%
7. Below-the-line primary balance [5+6]	-264.5	-2.0%	-45.4	-0.7%	-58.2	-0.5%
8. Expenses not included in the target	241.3	2.2%	31.8	0.3%	48.7	0.4%
9. Primary balance for compliance with the LDO [7+8]	-23.2	0.2%	-13.6	-0.4%	-9.5	-0.1%

Source: National Treasury Secretariat, Siga Brasil and IFI. Prepared by: IFI.

According to data from Siga Brasil and the National Treasury Secretariat, the central government recorded a primary deficit of BRL 61.7 billion in 2025 (0.5% of GDP), representing a deterioration compared with the deficit observed in 2024, of BRL 42.9 billion (0.4% of GDP). After methodological adjustments and consideration of the statistical discrepancy⁷ for the purpose of calculating the below-the-line primary balance, the 2025 deficit amounts to BRL 58.2 billion (0.5% of GDP), compared with a deficit of BRL 45.4 billion (0.7% of GDP) in 2024.

For the purpose of formally meeting last year's primary balance target, it is necessary to exclude from the BRL 58.2 billion the expenditure deductions provided for in legislation⁸, which totaled BRL 48.7 billion. Thus, the primary balance used to assess compliance with

⁷ For the purpose of assessing compliance with the fiscal target, the relevant figure is the primary balance calculated by the Central Bank, which uses the below-the-line methodology. This methodology measures the public-sector balance based on the change in indebtedness (net debt) from one period to another. The National Treasury Secretariat (STN), in turn, uses the above-the-line methodology to calculate the primary balance, which measures the difference between primary revenues and primary expenditures (excluding interest payments) at a given point in time – that is, it considers the budgetary flow over time. The figures relating to methodological adjustments and the statistical discrepancy are released by the STN to reconcile the two methodologies. In the case of 2025, the data used by the IFI as methodological adjustments and statistical discrepancy are available for the period from January to November.

⁸ The expenditures excluded from the target set in the 2025 Budget Guidelines Law (LDO) are as follows: (i) Direct Action for the Declaration of Unconstitutionality (ADI) 7064 and ADI 7047, which limit the payment of Court-Ordered Debt Payments (BRL 41.1 billion); (ii) Constitutional Claim for Breach of a Fundamental Precept (ADPF) 1236, which concerns reimbursements to INSS retirees for undue deductions (BRL 2.8 billion); (iii) Complementary Law No. 221 (Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/Lcp221.htm), of November 18, 2025, which addresses strategic national defense projects (BRL 2.5 billion); and Complementary Law No. 223 (Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/Lcp223.htm), of December 19, 2025, which excludes from the computation of the primary expenditure limits and fiscal targets the temporary expenditures on public education and health (BRL 2.2 billion) referred to in Article 6 of Law No. 15,164, (Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/lei/l15164.htm) of July 14, 2025.

the fiscal target set in the 2025 Budget Guidelines Law (LDO)⁹ was a deficit of BRL 9.5 billion (0.1% of GDP)¹⁰.

This deficit of BRL 9.5 billion falls within the tolerance range set by Complementary Law (LC) No. 200¹¹, of 2023, of plus or minus 0.25 p.p. of GDP¹². The primary balance target set in the aforementioned 2025 LDO was zero, with a lower tolerance band allowing for a deficit of BRL 31.0 billion

As will be further detailed below, meeting the 2025 primary balance target was made possible, on the revenue side, by a number of revenue-boosting measures adopted throughout the year, such as the increase in IOF rates, as well as by nonrecurring revenue collections, including the early distribution of dividends from federal state-owned companies. On the expenditure side, the deductions allowed under current legislation also contributed to meeting the target last year.

Another important factor that helped meet the 2025 fiscal target was the issuance of Decree No. 12,416¹³, of March 21, 2025, which imposed a phasing mechanism on the execution of discretionary expenditures throughout the year. The measure restricted the commitment of these expenditures to specific limits as the year progressed.

According to information collected by the IFI on the Siga Brasil portal, at the end of 2025 there was a deviation of BRL 21.0 billion in executed primary expenditure compared with the amount set out in the Budgetary and Financial Programming Decree¹⁴. This deviation was mainly concentrated in: (i) personnel expenditure (BRL 5.9 billion), for which the IFI had already noted that the budgeted amounts were relatively high; (ii) other mandatory expenditures (BRL 10.6 billion), especially salary allowance and unemployment benefit (BRL 2.2 billion), extraordinary appropriations (BRL 4.5 billion), which were not fully executed (such as reimbursements to INSS beneficiaries and the low execution of outstanding liabilities related to the 2024 public calamity expenses carried over into the fiscal year), and subsidies, grants, and Proagro (BRL 1.7 billion); and (iii) flow-controlled expenditures (BRL 2.5 billion), of which BRL 2.0 billion relates to mandatory parliamentary amendments and BRL 5.0 billion to discretionary expenditures of the Executive Branch.

⁹ Law No. 15,080, dated December 30, 2024. Available at: https://www.planalto.gov.br/ccivil_03/.

¹⁰ This figure does not consider methodological adjustments and statistical discrepancies for the month of December 2025.

¹¹ Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp200.htm.

¹² It should be noted that, under paragraph 3 of Article 5 of Complementary Law No. 200, of 2023, the primary balance of the Central Government for the purpose of meeting the primary balance target is calculated by the Central Bank of Brazil. Accordingly, the figure anticipated above is an indication of compliance but does not, by itself, determine compliance with the target, which may show discrepancies between the above-the-line and below-the-line methodologies.

¹³ Available at: <https://www.in.gov.br/en/web/dou/-/decreto-n-12.416-de-21-de-marco-de-2025-619281491>.

¹⁴ Decree No. 12,763, dated November 28, 2025 (available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/D12763.htm), which amended Decree No. 12,448, dated April 30, 2025 (available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/D12448.htm).

Primary Revenue and Transfers

Table 3 shows the amounts and variations in total primary revenue of the central government and the main components of revenue. In 2025, total revenue grew by 3.2% compared to 2024, in real terms. As a proportion of GDP, revenue rose marginally from 2024 to 2025, from 22.7% of GDP to 22.8% of GDP.

TABLE 3. CENTRAL GOVERNMENT PRIMARY REVENUES – 2023 TO 2025 – JANUARY TO DECEMBER (BILLION BRL, % REAL VAR. AND % OF GDP)

	Jan-Dec/23			Jan-Dec/24			Jan-Dec/25		
	BRL bi (current)	Real % var.	% PIB	BRL bi (current)	Real % var.	% PIB	BRL bi (current)	Real % var.	% PIB
Total revenue	2,353.4	-2.7%	21.5%	2,679,4	9,0%	22,7%	2,902,3	3,2%	22,8%
Administered revenues, except RGPS	1,439.3	-1.0%	13.2%	1,690,0	12,5%	14,3%	1,859,8	4,8%	14,6%
Tax Incentives	-0.1	-	0.0%	0,0	-	0,0%	0,0	-	0,0%
Net collection for the RGPS	592.7	5.8%	5.4%	641,2	3,6%	5,4%	709,7	5,4%	5,6%
Non-administered revenues	321.5	-20.6%	2.9%	348,3	3,6%	3,0%	332,7	-8,9%	2,6%
Transfers	452.0	-5.5%	4.1%	517,7	9,7%	4,4%	569,7	4,8%	4,5%
Net revenue	1,901.4	-2.1%	17.4%	2,161,8	8,9%	18,4%	2,332,6	2,8%	18,3%
GDP (current BRL billion)			10,943.3			11,779.3			12,733.6

Source: Secretaria do Tesouro Nacional, Banco Central e Siga Brasil, Prepared by: IFI.

According to Table 3, the largest contributions to tax collection performance last year came from administered revenues and net collection for the RGPS. Administered revenues registered real growth of 4.8% compared to 2024. These revenues continued to be driven by economic activity, even though the economy weakened in the second half of 2025.

The increase in IOF rates¹⁵, in the middle of the year, also affected administered revenues in 2025. According to data from the National Treasury Secretariat, IOF collections rose 21.3% in 2025 in real terms, reaching BRL 86.4 billion (compared with BRL 67.7 billion collected in 2024). A large share of this increase in 2025 resulted from IOF collections on foreign-exchange transactions (outflow of currency), which grew 113% last year, from BRL 6.6 billion in 2024 to BRL 14.9 billion in 2025.

Net revenue for the General Social Security System (RGPS) grew 5.4% in 2025 in real terms. This performance is mainly the result of two factors: (i) the maintenance of relatively robust conditions in the labor market, with increases in employment levels and earnings; and (ii) the gradual reversal of payroll tax relief between 2025 and 2027, as established by Law No. 14,973, of September 16, 2024¹⁶.

¹⁵ This was achieved through three decrees: Decree No. 12,466 (available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/d12466.htm), Decree No. 12,467 (available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/d12467.htm) and Decree No. 12,499 (available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/d12499.htm).

¹⁶ Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2024/lei/l14973.htm.

The net revenue for the General Social Security System (RGPS) grew 5.4% in 2025 in real terms. This performance is mainly the result of two factors: (i) relatively robust conditions in the labor market, with increases in employment and earnings levels; and (ii) the gradual reintroduction of payroll taxation between 2025 and 2027, under Law No. 14,973 of September 16, 2024.

Non-administered revenues (those not collected by the Federal Revenue Office) fell 8.9% in real terms in 2025, due to declines in several significant categories, such as: (i) concessions and permits (a real reduction of 56.3% in 2025 compared with 2024); (ii) dividends and profit sharing (a real decline of 31.2%); and (iii) other non-administered revenues (a real reduction of 12.9%).

Table 4 presents the amounts of primary revenues, divided into the main groups and separated according to the presence or absence of nonrecurring items (based on the criteria used by IFI) in 2024 and 2025¹⁷. The purpose of the table is to show the importance that atypical (nonrecurring) factors had for revenue performance in the last two fiscal years.

An analysis of Table 4 makes clear the relevance of atypical revenues for revenue performance, especially in 2024, when BRL 102.8 billion of total primary revenue consisted of nonrecurring items¹⁸. In 2025, the impact of nonrecurring revenues on conventional revenue was smaller, totaling BRL 35.2 billion. This decline may suggest that this avenue is becoming exhausted, particularly in a context of expected economic slowdown, which would affect collections from some components, such as dividends.

Of this BRL 35.2 billion, BRL 17.1 billion resulted from advance or interim dividend payments (compared with BRL 38.1 billion collected in 2024), BRL 10.1 billion came from the sale of intangible assets (versus zero in 2024), and BRL 7.2 billion reflected collections from special tax settlement programs (compared with BRL 9.5 billion in 2024).TABLE 2. Receitas primárias do governo central com segregação para eventos recorrentes e não recorrentes – 2024 e 2025 (BRL bilhões).

¹⁷ As nonrecurring revenue events, IFI considered: (i) special installment programs (Refis); (ii) concessions and grants in amounts above historical patterns; (iii) advance dividend payments and extraordinary dividends; (iv) taxation of the stock of exclusive funds and offshore accounts (Law No. 14,754); (v) revenue from the sale of intangible assets; (vi) PGFN–RFB Tax Settlement 6/2024; and (vii) regularization of deposits at Caixa (Law No. 14,973). The methodology is explained in IFI’s Special Study (EE) No. 17, of December 2021, which details how IFI calculates the central government’s structural primary balance. The study is available at the following link: https://www2.senado.leg.br/bdsf/bitstream/handle/id/594656/EE17_Resultado_Estrutural.pdf.

¹⁸ For further explanations, see the aforementioned RAF No. 96, dated January 2025.

Breakdown	Jan-Dec 2024			Jan-Dec 2025		
	Conventional revenue	Recurring revenue	Non-recurring revenue	Conventional revenue	Recurring revenue	Non-recurring revenue
1. Total primary revenue	2.679,4	2.576,6	102,8	2.902,3	2.867,1	35,2
Administered revenues	1.690,0	1.645,0	45,0	1.859,8	1.852,5	7,3
Tax Incentives	-	-	-	-	-	-
Net collection for the RGPS	641,2	639,8	1,3	709,7	709,0	0,7
Non-administered revenues	348,3	291,8	56,5	332,7	305,6	27,1
2. Revenue-sharing transfers	517,7	505,0	12,7	569,7	569,7	0,0
3. Net primary revenue [1-2]	2.161,8	2.071,7	90,1	2.332,6	2.297,4	35,2

Source: National Treasury Secretariat, Siga Brasil and IFI. Prepared by: IFI.

In relation to dividends, the IFI found that, in the last two months of 2025 alone, BNDES paid BRL 6.2 billion in extraordinary dividends to the Federal Government, while Petrobras paid BRL 2.5 billion over the same period, totaling BRL 8.7 billion in advance and extraordinary dividend payments. In other words, of the BRL 17.1 billion in atypical dividends received by the Treasury in 2025, BRL 8.7 billion flowed into the public treasury in the final two months of the year.

Primary expenditure

Table 5 presents the amounts and variations of total primary expenditure of the central government and of its main components. In 2025, total expenditure rose 3.4% compared with 2024, in real terms. As a share of GDP, expenditure increased from 18.7% of GDP in 2024 to 18.8% of GDP in 2025.

TABLE 3. CENTRAL GOVERNMENT PRIMARY EXPENDITURE – 2022 TO 2024 – JANUARY TO DECEMBER (BRL BILLION, REAL % VAR., AND % OF GDP)

Breakdown	Jan-Dec/23			Jan-Dec/24			Jan-Dec/25		
	BRL bi (current)	Real % var.	% PIB	BRL bi (current)	Real % var.	% PIB	BRL bi (current)	Real % var.	% PIB
Total expenditure	2,129.9	12.5%	19.5%	2,204,7	-0,7%	18,7%	2,394,2	3,4%	18,8%
Social security benefits (RGPS)	898.9	7.9%	8.2%	938,5	0,1%	8,0%	1,026,9	4,1%	8,1%
Personnel (active and inactive)	363.7	2.8%	3.3%	367,4	-3,2%	3,1%	402,6	4,3%	3,2%
Salary Allowance and Unemployment benefits	72.9	7.9%	0.7%	80,7	6,2%	0,7%	87,8	3,5%	0,7%
Continuous Cash Benefit (BPC)	92.7	12.4%	0.8%	111,1	14,9%	0,9%	127,2	9,1%	1,0%
Extraordinary appr. (excluding PAC)	2.8	-94.3%	0.0%	25,7	777,5%	0,2%	6,4	-76,3%	0,0%
Compensation to the RGPS for Payroll Tax Relief	0.0	-	0.0%	0,0	-	0,0%	0,0	-	0,0%
Fundeb	37.5	9.0%	0.3%	47,5	21,5%	0,4%	59,7	19,7%	0,5%
Judicial rulings and Court-ordered debt payments (current and capital)	71.4	291.8%	0.7%	34,3	-52,9%	0,3%	42,8	17,0%	0,3%
Subsidies, grants, and Proagro	21.7	34.4%	0.2%	17,8	-20,8%	0,2%	25,5	35,8%	0,2%
Mandatory	1,946.5	12.2%	17.8%	2,021,0	-0,4%	17,2%	2,189,3	3,1%	17,2%
Mandatory with flow control	326.4	42.4%	3.0%	356,7	4,7%	3,0%	369,4	-1,4%	2,9%
Discretionary	183.4	15.3%	1.7%	183,7	-3,8%	1,6%	204,9	6,1%	1,6%
GDP (current BRL billion)			10,943.3			11,779.3			12,733.6

Source: Secretaria do Tesouro Nacional, Banco Central e Siga Brasil, Prepared by: IFI.

In 2025, data from the National Treasury indicate real growth across several components of central government primary expenditure: (i) social security benefits (a real increase of 4.1% in 2025); (ii) personnel expenditure (+4.3% in this comparison); (iii) Salary Allowance and Unemployment Benefit (+3.5%); (iv) Continuous Cash Benefit (BPC) (+9.1%); (v) supplementation to Fundeb (+19.7%); (vi) judicial rulings and Court-Ordered Debt Payments, current and capital (+17.0%); (vii) subsidies, grants, and Proagro (+35.8%); and (viii) discretionary expenditure of the Executive Branch (+6.1%). Mandatory expenditures with flow control fell 1.4% in real terms in 2025 compared with 2024. This reduction was influenced by the behavior of spending under the Bolsa Família program.

The growth in expenditure in 2025 is partly explained by the lower base for comparison in 2024. This was due to the deferred payment of court-ordered debt from 2022 and 2023, which totaled BRL 92.4 billion and was settled in December 2023. Of this sum, BRL 32.3 billion was an advance payment for court-ordered debt payments in 2024.

In other words, out of the BRL 92.4 billion amount in court-ordered debt payments made in December 2023, BRL 15.8 billion referred to payments deferred from 2022, BRL 44.3 billion to payments deferred from the 2023 fiscal year, and BRL 32.3 billion to payments originally due in 2024 that were brought forward. As discussed in RAF No. 96¹⁹, of January 2025, the BRL 92.4 billion paid in December 2023 significantly distorted the comparison base for central government primary expenditures.

¹⁹ Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/682438/RAF96_JAN2025.pdf.

To adjust the series and refine the comparison of primary expenditure aggregates that include court-ordered debt payments, Table 6 presents the figures prepared by IFI to clarify the distortion caused by the advance payment of court-ordered debt in December 2023 on the central government’s primary expenditure base.

For this purpose, selected groups of primary expenditure were separated from their respective court-ordered debt payments. This approach makes it possible to observe the dynamics of these expenditure groups w/o the influence of judicial rulings. The following groups were considered: (i) social security benefits; (ii) personnel and social charges; (iii) Salary Allowance and Unemployment Benefit; and (iv) Continuous Cash Benefit (BPC). The figures and variations shown in the table cover the past four years.

TABLE 4. SELECTED PRIMARY EXPENDITURES, WITH SEPARATION FOR COURT-ORDERED DEBT PAYMENTS (CURRENT BRL BILLION AND REAL % VAR.)

	2022		2023		2024		2025	
	BRL bi (current)	Real % var.	% PIB	BRL bi (current)	Real % var.	% PIB	BRL bi (current)	Real % var.
Social security benefits	797.0	2.6%	898.9	7.9%	938.5	0.1%	1.026.9	4.1%
<i>Total</i>	27.9	3.1%	56.5	92.3%	26.5	-54.8%	42.3	51.7%
<i>Court-ordered debt payments</i>	769.0	2.6%	842.3	4.8%	912.0	3.8%	984.6	2.8%
<i>w/o Court-ordered debt payments</i>								
Personnel and social charges	337.9	-6.1%	363.7	2.8%	367.4	-3.2%	402.6	4.3%
<i>Total</i>	10.9	4.1%	19.8	72.2%	3.7	-81.9%	9.5	143.6%
<i>Court-ordered debt payments</i>	327.0	-6.4%	343.9	0.5%	363.7	1.3%	393.1	2.9%
<i>w/o Court-ordered debt payments</i>								
Salary allowances and unemployment benefits	64.3	27.6%	72.9	7.9%	80.7	6.2%	87.8	3.5%
<i>Total</i>	0.0	-	0.1	121.1%	0.1	11.0%	0.1	-15.3%
<i>Court-ordered debt payments</i>	64.2	27.6%	72.8	7.8%	80.6	6.2%	87.8	3.6%
<i>w/o Court-ordered debt payments</i>								
Continuous Cash Benefits (BPC)	78.8	6.5%	92.7	12.4%	111.1	14.9%	127.2	9.1%
<i>Total</i>	2.3	21.8%	3.8	60.3%	5.3	35.6%	6.0	8.0%
<i>Court-ordered debt payments</i>	76.6	6.1%	88.9	11.0%	105.7	14.0%	121.2	9.2%
<i>w/o Court-ordered debt payments</i>	797.0	2.6%	898.9	7.9%	938.5	0.1%	1.026.9	4.1%

Source: National Treasury Secretariat, Siga Brasil and IFI. Prepared by: IFI.

Considering expenditure on social security benefits, the real increase of 4.1% in 2025 shown in Table 5 is influenced by the payment of court-ordered debt. **Isolating court-ordered debt payments** from the series of **social security benefit expenditures** – amounting to BRL 26.5 billion in 2024 and BRL 42.3 billion in 2025 – shows that the BRL 984.6 billion paid in 2025 corresponds to a **real increase of 2.8% compared with 2024**, when expenditures grew 3.8% relative to 2023. These variations are presented in Table 6.

According to Table 6, court-ordered debt payments within social security benefits fell 54.8% in real terms in 2024 compared with 2023, after having increased 92.3% relative to 2022. In

2025, these payments totaled BRL 42.3 billion, a real increase of 51.7% compared with 2024. As can be seen, these variations are related to the BRL 92.4 billion paid in December 2023.

In a similar manner, the payment of court-ordered debt distorted the comparison of personnel expenditure over the past three years. The real increase of 4.3% observed in 2025 was influenced by the 2024 court-ordered debt payments brought forward to December 2023. Isolating this effect from the series results in a real increase of 2.9% in personnel expenditure in 2025 compared with 2024, when there had been a 1.3% increase relative to 2023 (Table 6).

Between 2024 and 2025, expenditure on the Continuous Cash Benefit (BPC) rose from BRL 111.1 billion to BRL 127.2 billion, a real increase of 9.1%. Court-ordered debt payments related to BPC rose from BRL 5.3 billion in 2024 to BRL 6.0 billion in 2025, a real increase of 8.0%. A possible explanation for the increase in BPC expenditure is Law No. 14,176²⁰ of 2021, which allowed the expansion of per capita monthly household income from $\frac{1}{4}$ of the minimum wage to $\frac{1}{2}$ of the minimum wage, under certain conditions. In addition, Law No. 14,441²¹ of 2022 authorized INSS to enter into partnerships for conducting social assessments, speeding up the pace of benefit awards. Excluding the effect of Court-Ordered Debt Payments on BPC expenditure, spending increased in real terms by 9.2% last year and by 14.0% in 2024.

Some additional considerations regarding flow-controlled expenditures, which comprise two main aggregates: (i) mandatory flow-controlled expenditures; and (ii) discretionary expenditures.

As shown in Table 6, discretionary expenditures of the Executive Branch totaled BRL 204.9 billion in 2025, representing a real increase of 6.1% compared to 2024. This increase in the execution of discretionary expenditure was driven by several factors:

- (i) A real increase of 9% in parliamentary amendments directed toward health expenditures, causing discretionary health expenditures to record a real rise of 6.9% in 2025. By way of illustration, amendments accounted for 44.3% of the financing of discretionary expenditures in the health area in 2025; and
- (ii) A real increase of 8.5% in discretionary education expenditures, with more significant increases in spending directed to the granting of scholarships and the operation of educational institutions. There was also the full allocation of quotas under the Pé-de-Meia Program, totaling BRL 1.0 billion, with no counterpart in 2024.

In sum, the real increase of 3.4% in the central government's primary expenditure in 2025 was significant, although it is important to consider the relatively depressed comparison base of 2024 due to the BRL 32.3 billion in Court-Ordered Debt Payments for that year that

²⁰ Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2021/lei/l14176.htm.

²¹ Available at: https://www.planalto.gov.br/ccivil_03/_Ato2019-2022/2022/Lei/L14441.htm.

were brought forward to December 2023. Even so, there were substantial increases in many components of primary expenditure, such as social security and assistance benefits, personnel and charges, and discretionary expenditures.

Final considerations

Based on the data released by STN, the central government's formal target of a zero primary balance in 2025 was met. This does not indicate, however, an improvement in the country's fiscal position last year.

First, the primary deficit worsened in 2025 (BRL 61.7 billion, using the above-the-line methodology) compared with 2024 (BRL 42.9 billion).

In 2025, as in 2024, formal compliance with the target set in the budget guidelines was achieved through extraordinary revenue collections and expenditure deductions provided for in the legislation. As shown in the analysis, the amounts of nonrecurring revenues were lower than those recorded in 2024.

From a broader perspective, as highlighted by IFI in previous editions of this report, the challenges in meeting fiscal targets will increase. This is because there are significant sources of pressure in some expenditure components for the coming years. The dynamics of some of these components are related to the rules that govern expenditure formation.

For example, the amounts of social security and assistance benefits are directly linked to the minimum-wage indexation policy, even though the minimum-wage adjustment was capped at 2.5% under Art. 4 of Law No. 15,077²² of 27 December 2024. In any case, the number of benefits granted also influences the expenditure dynamics.

It is important to note that expenditures linked to revenues may also grow above the limits set by Complementary Law No. 200²³ of 2023, due to the reinstatement of the constitutional floors for health and education, provided for in Constitutional Amendment No. 126²⁴ of 2022, also known as the transition amendment. This ends up partially offsetting the efforts made by the Executive Branch to increase revenue over the past three years with the aim of improving the central government's fiscal results.

As discussed by IFI in previous editions of this RAF²⁵, the minimum-wage valorization policy and the constitutional floors for health and education will exert strong pressure on the dynamics of the central government's primary expenditures in the coming years.

²² Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2024/lei/l15077.htm.

²³ Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp200.htm.

²⁴ Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc126.htm.

²⁵ See, for example, RAF No. 91, August 2024 (available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/658531/RAF91_AGO2024.pdf) and RAF No. 94, November 2024 (available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/661748/RAF94_NOV2024.pdf).

Even though Court-Ordered Debt Payments have been fully excluded from the fiscal framework's expenditure limits starting in 2026, and from the calculation of primary balance targets starting in 2027, IFI's simulations indicate that there will be an insufficiency of the fiscal framework's expenditure cap beginning in 2028²⁶, causing the rule to lose effectiveness.

Finally, it should be noted that pursuing the lower bound of the fiscal target defined in the LDO has been insufficient to contain the trajectory of the country's gross indebtedness. As shown in the data published by the Central Bank of Brazil, the General Government Gross Debt (DBGG), as a share of GDP, has been rising since the end of 2022 and is expected to close 2025 at 79.0% of GDP, according to IFI's most recent projection for the indicator.

²⁶ See RAF No. 107, published in December 2025. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/816727/RAF107_DEZ2025.pdf.

2026 Budget Law May Have Underestimated Mandatory Expenses

Pedro Souza

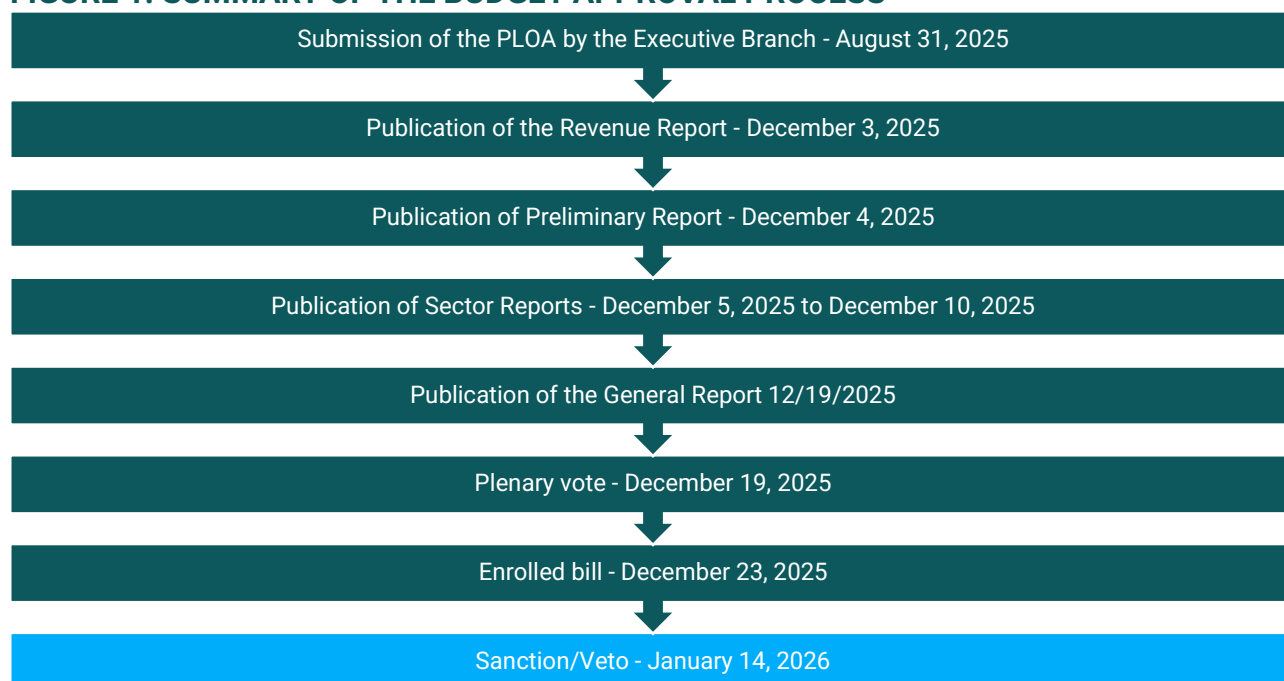
Introduction

The 2026 Annual Budget Bill (PLOA) was approved on 19 December 2025²⁷ and enacted on 14 January 2026, with partial vetoes to some budget appropriations²⁸. Considering that the preparation of the annual budget is a process subject to modifications, this analysis aims to assess the changes introduced in the 2026 Budget Law during its passage and to present the impact of these amendments.

Analysis of primary expenditures

The passage of the Budget Law goes through several stages, as illustrated in Figure 1.

FIGURE 1. SUMMARY OF THE BUDGET APPROVAL PROCESS



Source: Prepared by IFI based on National Congress Resolution (RCN) No. 1/2006²⁹ and PLN No. 15/2025.

²⁷ Page of the proceedings of PLN No. 15/2025, available at: <https://www.congressonacional.leg.br/web/orcamento/acompanhe/orcamento-anual/-/loa/2026>.

²⁸ See 2026 LOA (Law No. 15,346, dated January 14, 2026), available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2026/lei/L15346.htm.

²⁹ Available at: <https://www.congressonacional.leg.br/web/orcamento/acompanhe/orcamento-anual/-/loa/2026>.

The first stage consists of the submission of the Annual Budget Bill (PLOA) by the Executive Branch to Congress³⁰. This is the initial proposal, establishing expenditures and some budgetary reserves allocated to the Legislative Branch. The 2026 PLOA was submitted on 31 August 2025, with projected primary expenditures of BRL 2,612.1 billion. Of this total, BRL 229.8 billion were allocated to discretionary expenditures, of which BRL 40.8 billion were reserved for mandatory parliamentary amendments (Table 7).

TABLE 5. PRIMARY EXPENDITURES IN THE PASSAGE OF THE 2026 BUDGET LAW – BUDGETARY PERSPECTIVE (IN BRL BILLION)

	PLOA	Sectorial Reports' Stage	Geral Report's Stage	Enrolled Bill	Difference Between Enrolled Bill and PLOA
Primary expenditures	2,612.1	2,625.3	2,625.3	2,625.3	13.2
Social Security Benefits	1,133.7	1,133.7	1,127.6	1,127.6	-6.2
Personnel & Social Charges	459.9	459.9	459.9	459.9	0.0
Other Mandatory Expenses	417.0	417.0	421.3	421.3	4.2
Flow-controlled expenses	601.4	614.6	616.5	616.5	15.1
Mandatory expenses with cash flow control	371.6	371.6	373.1	373.1	1.5
Discretionary	229.8	243.0	243.4	243.4	13.7
Of which reserve for mandatory parliamentary amendments	40.8	0.0	0.0	0.0	-

Source: Siga Brasil. Prepared by: IFI.

The sectoral stage involves the review of budget proposals in 16 thematic areas, with the allocation of parliamentary amendments³¹. At this stage, discretionary expenditure increased by BRL 13.3 billion compared with the PLOA, stemming from the reserve for amendments, the revenue re-estimation and the prior cancellation of discretionary appropriations.

The preliminary report of the 2026 PLOA³², in Annex II, detailed the reserve of resources for meeting parliamentary amendments and rapporteurs' adjustments. As Table 8 shows, the reserve of resources for amendments amounted to BRL 55 billion. Most of this came from the BRL 40.8 billion reserve for mandatory amendments included in the PLOA, as shown in Table 7. Another BRL 13.2 billion originated from the net revenue reestimate presented in the Revenue Report³³, a topic discussed in the aforementioned RAF No. 107 of December 2025. The remaining BRL 1.9 billion resulted from prior cancellations arising from the partial cancellation of discretionary expenditures included in the PLOA.

³⁰ Available at: <https://www.congressonacional.leg.br/web/orcamento/acompanhe/orcamento-anual/-/loa/2026/etapas/apresentacao-loa>.

³¹ As determined by Article 26 of RCN No. 01/2006.

³² Available at: <https://www.congressonacional.leg.br/documents/150599582/152603854/PARECER.pdf/>.

³³ Available at: <https://legis.senado.leg.br/sdleggetter/documento?dm=10123465&ts=1769019792399&disposition=inline>.

TABLE 6. STATEMENT OF THE RESOURCE RESERVE (BRL BILLION)

	BRL BILLION
1. RESOURCE RESERVE	55.0
1.1. Contingency Reserve	40.8
1.2. Net revenue re-estimation	13.2
1.3. Prior Cancellation	1.9
2. DEDUCTIONS	53.0
2.1. Individual amendments	26.6
2.2. Mandatory caucus amendments	11.2
2.3. Special Campaign Financing Fund (FEFC) IN 1/2025-CMO	3.9
2.4. RP-8 Commission Amendments	12.1
3. BALANCE AVAILABLE FOR DISTRIBUTION IN COLLECTIVE AMENDMENTS	2.0
3.1. Sectoral Rapporteurs (55%)	1.1
3.2. State Caucuses (25%) (25%)	0.5
3.3. General Rapporteur (20%)	0.4

Source: Preliminary Report on PLOA 2026. Prepared by: IFI.

Thus, based on the resource reserve, there would be room for a net increase of BRL 13.2 billion in discretionary expenditures, given that the original version of the PLOA contained a reserve for amendments and that the prior cancellation involves the reduction of discretionary appropriations. The actual increase implemented was BRL 13.3 billion.

In the general stage of the budget process, despite no change in the overall amount of primary expenditures, there was a change in its composition. The general report of the 2026 Budget Law modified not only discretionary appropriations but also the amount of mandatory expenditures. There was a reduction of BRL 6.2 billion in social security benefit expenses, bringing this expenditure item to BRL 1,127.6 billion. This negative variation was used to supplement other mandatory expenditures and discretionary expenditures.

It is worth noting that in RAF No. 104³⁴, published in September 2025, IFI had already warned that there could be an underestimation of social security benefit expenditures in the 2026 PLOA. Despite the improvement in inflation indicators in 2025, which reduces the value of the average benefit compared with what was estimated in the PLOA, the projection of BRL 1,127.6 billion may be insufficient for 2026, requiring greater constraints during the fiscal year.

Within other mandatory expenditures, there was an overall increase of BRL 4.2 billion. This increase consisted of a BRL 3.9 billion rise in expenditures related to Electoral Campaign Financing, which totaled BRL 5.0 billion, and an increase of BRL 0.9 billion in the Continuous Cash Benefit (BPC), partially offset by a BRL 0.6 billion reduction in salary allowance and unemployment benefit expenditures.

³⁴ Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/757658/RAF104_SET2025.pdf.

Within mandatory flow-controlled expenditures, BRL 1.5 billion was allocated to supplement health expenditures. This increase likely resulted from the re-estimation of primary revenue in the Revenue Report, which raised the estimate for Net Current Revenue and, consequently, required an increase in health expenditures to comply with the constitutional floor for Public Health Actions and Services (ASPS).

In discretionary expenditures, there was a net increase of BRL 0.4 billion at this stage of the budget process. Table 9 provides a breakdown of the data in Table 7. The figures indicate that, in the budget process, the largest supplementation occurred in the health area, which had an estimated amount of BRL 42.1 billion and concluded the process with BRL 70.6 billion, an increase of BRL 28.5 billion.

This change in budget appropriations resulted from the constitutional and legal linkages established for parliamentary amendments, which determine a minimum amount to be allocated to the health area. In addition, it was necessary to supplement resources to meet the ASPS floor during the budget process due to the revenue re-estimation presented in the Revenue Report.

TABLE 7. DISCRETIONARY EXPENDITURES AT EACH STAGE OF THE 2026 LOA PROCESS (BILLION BRL)

	PLOA	Sectorial Reports' Stage	Geral Report's Stage	Enrolled Bill	Difference Between Enrolled Bill and PLOA
Discretionary	229.8	243.0	243.4	243.4	13.7
Health	42.1	62.5	70.6	70.6	28.5
Education	41.6	42.9	42.2	42.2	0.6
Defense	13.1	13.2	13.3	13.3	0.2
Transport	16.6	16.7	17.4	17.4	0.8
General Administration	9.9	9.8	10.2	10.2	0.3
Science & Technology	11.6	11.8	11.6	11.6	0.0
Public Order and Safety	3.5	4.3	4.3	4.3	0.8
Social Assistance	10.2	11.2	11.2	11.2	1.0
Other	81.2	70.6	62.6	62.6	-18.7

Source: Siga Brasil. Prepared by: IFI.

In contrast, the group of other discretionary expenditures decreased from BRL 81.2 billion to BRL 62.6 billion, a difference of BRL 18.7 billion. The reason for this is that, in IFI's analysis, the reserve for amendments was classified using the Budget Functions, so the reserves for amendments in the 2026 PLOA were all included in this category, including those for health.

In discretionary education expenditures, totaling BRL 42.2 billion, the category with the largest share refers to the Pé-de-Meia Program, with an appropriation of BRL 11.5 billion, BRL 0.5 billion below the amount originally provided in the PLOA.

In the appropriation for social assistance, which totals BRL 11.2 billion, the largest expenditure item is the Gas Assistance Program, approved with an appropriation of BRL 4.7 billion, BRL 0.4 billion below the amount included in the PLOA.

Veto to the Budget Law

In Message No. 37/2026³⁵, the President of the Republic vetoed the equivalent of BRL 0.4 billion in discretionary expenditures, most of which was concentrated in health actions (BRL 350 million). The remaining amount was distributed across isolated actions in the Ministry of Integration and Regional Development (BRL 30.4 million), Education (BRL 7.5 million), and other ministries (BRL 2.3 million). As a result, the total primary expenditure provided for in the 2026 Budget Law was reduced to BRL 2,624.9 billion compared with the amount contained in the original version of the budget.

Expenditure Cap in 2026

It is important to make a few remarks regarding the expenditures subject to the limits established by Complementary Law No. 200 of 2023. When the PLOA was submitted to the National Congress, Constitutional Amendment No. 136/2025³⁶, which removed Court-Ordered Debt Payments from the expenditure limit calculation under the fiscal framework, had not yet been promulgated. Table 10 presents the expenditures subject to the cap at each stage of the process.

³⁵ Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2026/Msg/Vep/VEP-37-26.htm.

³⁶ Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc136.htm.

TABLE 8. PRIMARY EXPENDITURES SUBJECT TO THE CAP IN 2026 (BRL BILLION)

	PLOA	Enrolled Bill	2026 LOA
I. Expenditure Cap	2,428.21	2,392.70	2,392.70
II. Total primary expenditures	2,602.62	2,615.87	2,615.48
III. Expenses not subject to the cap	174.41	230.73	230.73
III.1 Court-Ordered Debt Payments EC 136/2025	-	117.92	117.92
III. Defense expenditures - LC 221/2025	-	5.00	5.00
III.3 Health and education expenses - LC 223/2025	-	1.97	1.97
III.4 Other expenses not subject to the cap	174.41	105.84	105.84
IV. Expenses Subject to the ceap	2,428.21	2,385.14	2,384.74
IV.1 Mandatory expenses	2,203.76	2,154.19	2,154.19
IV.2 Discretionary expenses	224.45	230.95	230.55
V. Cap deviation [IV - I]	0.00	7.56	7.96
VI. Commitment of total expenditures to the cap [IV/II]	93.30%	91.18%	91.18%
VII. Share of discretionary expenditures subject to the cap [IV.2/IV]	10.18%	10.72%	10.70%

Source: 2026 PLOA, 2026 LOA and Siga Brasil. Prepared by: IFI.

The primary expenditure cap still included part of the Court-Ordered Debt Payments in its calculation. As discussed in RAF No. 103³⁷, published in August 2025, with the change, the portion of Court-Ordered Debt Payments subject to the cap established by LC 200/2023 was removed from the cap calculation, and the cap was reduced by the same amount. In addition to this exclusion, the measure allowed additional appropriations opened up to the promulgation of Constitutional Amendment No. 136 to be incorporated into the final calculation of the expenditure cap, which provided an additional space of BRL 13.6 billion in 2026. This space was used to increase expenditure during the passage of the 2026 Budget Law.

In December, as discussed in RAF No. 107, of December 2025, two complementary laws were enacted that exempted two components of primary expenditures from the calculation of the spending cap.

LC No. 221 of 2025³⁸, excludes capital expenditures of the Ministry of Defense, limited to BRL 5 billion per fiscal year. LC No. 223 of 2025³⁹, in turn, excludes health and education expenditures that, together, are equivalent to 5% of the annual revenue of the Social Fund. Thus, for 2026, based on the available data, it is estimated that BRL 5 billion in defense investments will be excluded due to LC No. 221, and another BRL 2.0 billion in health and education expenditures will be excluded under LC No. 223. These expenditures will also be

³⁷ Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/757438/RAF103_AGO2025.pdf.

³⁸ Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/Lcp221.htm.

³⁹ Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/Lcp223.htm.

excluded from the calculation of the primary balance for purposes of assessing compliance with the target set in the LDO.

The two measures described above result in an estimated margin of BRL 8.0 billion within the expenditure cap contained in the Enrolled Bill of the 2026 Budget Law. If this space is not used to increase other expenditures, it may be used to accommodate shocks that raise primary expenditures, eliminating the need for new constraints throughout the year. It should be noted that this margin was estimated by IFI, as the 2026 Budget Law does not incorporate the effect of these measures.

Thus, considering the 2026 PLOA, 93.3% of primary expenditures were subject to the limits established by LC No. 200, with BRL 174.4 billion outside the cap. The approval of the aforementioned measures, considering the vetoes to the 2026 Budget Law, indicates that expenditures subject to the cap were reduced to 91.2% of total expenditure, which shows a loosening of the limit established by LC No. 200 of 2023. With the legislative changes and the reallocation of expenses during the process, BRL 230.7 billion in primary expenditure will not be subject to the spending limits.

In the PLOA, discretionary expenditures (including amendments) accounted for 10.2% of the expenditures subject to the cap. With the legislative changes and reallocations during the approval process, this percentage rose to 10.7% in the enacted Budget Law.

If mandatory expenditures come under pressure during execution, creating a risk of breaching the cap, this percentage will tend to fall, since discretionary spending is the adjustment variable when mandatory expenditures increase. In 2025, for instance, discretionary expenditures accounted for 7.6% of the expenditures subject to the cap, according to the RARDP for the 5th two-month period⁴⁰. If the impact of LC No. 223 of 2025 is considered, this share would rise to 7.7%. At the beginning of 2025, this percentage was 8.0%.

Conclusion

Based on the above, the 2026 Budget Law presents significant changes compared with the 2026 PLOA (the original version of the budget). The reduction in the appropriation for social security benefits poses a risk for the 2026 fiscal year, given that this expenditure has shown real growth in recent years. Even with the more favorable macroeconomic indicators in 2025 and, based on IFI's December projections, it may be necessary to supplement social security benefit expenditures in 2026, which would require some level of spending freeze in discretionary appropriations.

The incorporation of the measures approved last year to exclude expenditures from the calculation of the limits highlights a weakening of the fiscal rules, which now exempt 8.2%

⁴⁰ Available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2025/17?ano_selecionado=2025.

of primary expenditures, equivalent, based on the PLOA data, to BRL 230.7 billion. In the PLOA, these exceptions corresponded to 6.7% of primary expenditures, or BRL 174.4 billion of what had been proposed. The main reason for the increase in these exceptions was the removal of Court-Ordered Debt Payments, which had previously been included within the expenditure limit.

The incorporation of Complementary Laws No. 221 and 223, approved at the end of 2025, together with the BRL 0.4 billion in vetoes, provided a margin of BRL 8.0 billion within the fiscal framework's expenditure cap. This space may provide some safety in the face of potential shocks that increase mandatory expenditure, but it requires caution to ensure that it is not used as a source for increasing other spending categories.

Low Level of Investment: A Symptom of Fiscal Tightening

Marcus Pestana, Gustavo Queiroz and João Pedro Bottino⁴¹

Initial Considerations

The Independent Fiscal Institution has warned in recent years about the unsustainability of the current fiscal rules and the resulting budgetary dynamics. Three symptoms underpin this assessment:

a) the absence of primary surpluses – the primary deficit will be close to 0.48% of GDP in 2025, tending to reach –2.2% of GDP in 2032 – capable of halting the growth of the General Government Gross Debt, which is expected to close 2025 at 79.0% of GDP and shows a trajectory of continuous expansion, being projected at 117.7% in 2035⁴²;

b) the growing budgetary tightening driven by the permanent increase in mandatory expenditures and rigid discretionary expenditures, resulting in an almost complete compression of the government's ability to allocate budgetary resources to implement its governing program, including the prospect of a future insufficiency of the expenditure cap set under the Sustainable Fiscal Regime (RFS) ⁴³;

c) the dramatic reduction in the scope for investment in infrastructure, science and technology, and improvements in educational standards, among other public-policy drivers that could boost productivity in the Brazilian economy and, therefore, expand potential GDP and the prospects for stronger and more sustained development.

The expenditure profile of the Federal Government's General Budget in recent years has been predominantly composed of income-transfer programs. Spending on social security, compensation for civilian and military personnel across the three branches, Bolsa Família, Continuous Cash Benefits, unemployment benefit, salary allowance, the FUNDEB supplementation, Court-Ordered Debt Payments, and the constitutionally linked expenditures on education and health represent more than 91% of net primary revenues. When other current expenditures needed to operate the public administration are taken into account, the amount left for investment is clearly insufficient for a country of continental dimensions, marked by deep regional and social inequalities and by extensive needs that require the presence of the Brazilian State.

⁴¹ Respectively, Executive Director and Economics Trainees at IFI.

⁴² Published in RAF No. 107, December 2025. Available at:
https://www2.senado.leg.br/bdsf/bitstream/handle/id/816727/RAF107_DEZ2025.pdf.

⁴³ Complementary Law No. 200 of 2023. Available at:
https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp200.htm.

As previously noted, investment carries the seeds of a future in which Brazil can potentially overcome the middle-income trap. Raising the productivity of the economy is the country's central challenge, heightened by the imminent end of its demographic bonus. Investments in highways, railways, ports, airports, energy, irrigation projects, water solutions, housing, sanitation, and innovative technological solutions, among others, are what can drive the country toward building an efficient and dynamic economic system. Despite the relative success in combating poverty and hunger and the social results achieved, Brazil has seen its productivity stagnate, has not advanced in the global ranking of per-capita income, and has not managed to sustain average growth rates comparable to those of other emerging economies.

It is clear that most Gross Fixed Capital Formation – usually measured as the investment rate relative to GDP – must, under the concrete historical conditions of the 21st century, come from private investment. Even so, the Brazilian State has historically played a central role in national development, as seen in periods such as the industrialization efforts of the Vargas Era (1930–1954), the Target Plan under President Juscelino Kubitschek (1956–1960), the so-called Brazilian Miracle (1969–1973), and the implementation of the Second National Development Plan (1974–1978). In all these moments, the federal government was the main driver of development.

Successive exchange-rate and monetary crises eventually caused Brazil to lose its trajectory of rapid growth. After economic stabilization was achieved with the Real Plan (1994), fiscal constraints became increasingly evident, though they were temporarily eased by cycles such as the commodity boom (2003–2010). Over time, the central government gradually lost its capacity to invest and provide solutions. Beginning in 2022, states and municipalities even started investing more than the federal government, including when state-owned enterprises are taken into account.

Despite the privatization policy and the concession of public services adopted by governments at all three federal levels in recent decades, which boosted private investment and partially filled the gap left by the decline in public investment capacity, it remains inevitable that increasing Gross Fixed Capital Formation will require a significant recovery of the public sector's ability to save and invest. Many projects do not offer sufficient economic returns to be undertaken solely by the private sector and therefore depend on government investment or, at a minimum, public-private partnerships. This imposes an additional objective on the fiscal-adjustment process. It is not enough to achieve primary surpluses and stabilize the public-debt-to-GDP ratio, thereby creating an environment conducive to a substantial decline in interest rates and fostering confidence in the strength of the Brazilian economy. The profile of public spending must also change, expanding its investment capacity as a contribution to greater productivity and efficiency in the economy.

To gauge the scale of this challenge, it is important to compare investment rates in Brazil with those in other countries, according to IMF data, as shown below:

TABLE 9. INVESTMENT RATE (% OF GDP): DECADE AVERAGES IN EMERGING ECONOMIES AND IN BRAZIL

	1981-1990	1991-2000	2001-2010	2011-2020	2021-2029
Emerging Economies	24.9	24.3	27.9	31.9	31.9
Emerging Countries in Asia	29.9	32.6	36.5	40.0	37.5
Emerging Countries in Europe	26.6	19.5	22.6	24.5	26.1
Latin America and the Caribbean	20.0	20.1	20.6	20.3	19.8
Middle East and Central Asia	25.0	24.6	28.0	26.8	27.3
Sub-Saharan Africa	20.8	16.8	18.3	19.8	21.3
Brazil	18.7	19.0	18.8	17.9	17.0

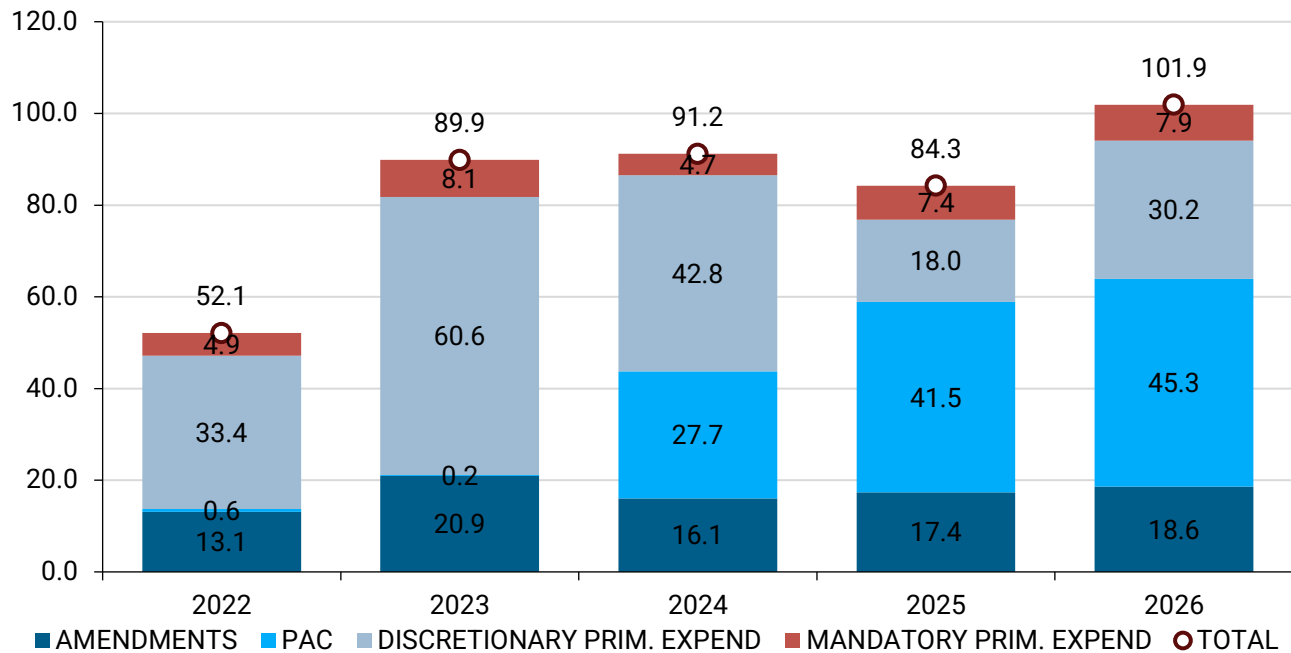
Source: FMI, World Economic Outlook database: October/2025.

The data speak for themselves. They are self-explanatory. Brazil’s investment rate, which remained between 17% and 19% of GDP over the past four decades and is projected at 17% for the current decade, places the country well below Asian, European, and Middle Eastern and Central Asian emerging economies, and also below the average for Latin America and the Caribbean. It is evident that this trajectory needs to change if the country is not to miss the “train of history” and if it wishes to project a more promising development horizon for future generations. There is no doubt that a significant share of the additional investment effort must come from public-sector action, particularly from the federal government. As we will see, federal public investment today is minimal, both as a proportion of GDP and as a share of available revenues. Even worse, under the current rules governing fiscal policy and the Federal Government’s budget, the outlook for the coming years points to a further tightening of investment capacity rather than a correction of course.

In Graph 2, one can see the extremely limited margin for investment when compared with the net total revenues available, derived from federal tax collection and other revenues after deducting constitutional transfers to states and municipalities. Included are not only expenditures on investment strictly speaking, but also financial inversions⁴⁴, which are capital expenditures – such as the acquisition of finished real estate, used capital goods, transfers to OGU funds, subsidies, the purchase of capital-representative securities, the establishment or increase of capital in companies, and transfers to state-owned enterprises – which do not necessarily translate into the immediate formation of new productive assets. Even so, the amount of capital expenditure is insignificant when compared with current expenditures.

⁴⁴ It should be noted that 9.75% (2022), 27.6% (2023), 30.1% (2024), 16.1% (2025), and 23.1% (2026) of primary capital expenditures are Financial Inversions (GND 5). These do not necessarily generate services and products that immediately increase gross fixed capital formation; rather, they simply transfer resources or alter the composition of assets. They differ from investments that produce new goods. This further reinforces the conclusion presented here regarding the low impact of the federal budget on the economy’s investment rate.

CHART 2. PRIMARY CAPITAL EXPENDITURES (BILLION BRL AS OF DECEMBER 25)



Source: Siga Brasil, SIDRA (IBGE) and IFI. Prepared by: IFI.

The lowest recent level of federal investment was recorded in 2022, with only BRL 52.1 billion (in December 2025 values) in primary capital expenditures, of which BRL 5.0 billion corresponded to financial inversions. For comparison, net primary revenues totaled about BRL 2.3 trillion in 2025 and are budgeted at BRL 2.60 trillion in 2026. Investments combined with financial inversions will account for only 3.6% and 3.9% of available resources in 2025 and 2026, respectively. In other words, for every BRL 100 the government has to allocate, only BRL 3.60 and BRL 3.90 will be converted into investment.

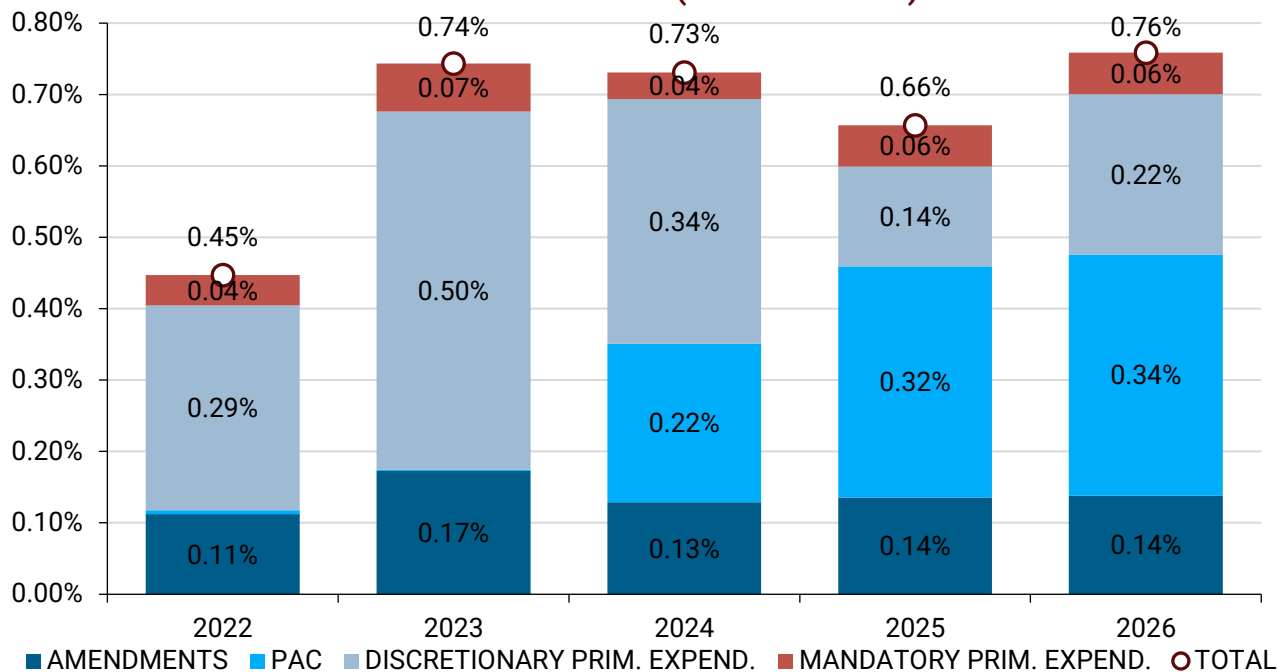
Examining the composition of these expenditures is interesting. It should be noted that the New PAC (Growth Acceleration Program) was only reintroduced in 2024 as part of an effort to resume the concept of priority investments of strategic importance to the country. These investments have a structuring effect and differ from other, lower-impact investments, which occur as mandatory or discretionary primary expenditure and follow different budget-execution rules and management models. PAC investments are therefore expected to increase, rising from BRL 27.7 billion in 2024 to a projected BRL 45.3 billion in 2026.

In turn, parliamentary amendments – generally focused on investments with local and regional impact – have remained between BRL 16 billion and BRL 20 billion. As the various types of amendments (individual, state caucus and committee) should total around BRL 50 billion in 2025 and 2026, it is clear that a significant proportion of these resources will be used to finance current expenditure and support the operating costs of public policies.

In Graph 3, primary expenditure on investments and financial inversions programmed in the Federal Budget is shown as a share of GDP. The central government, historically the main driver of Brazil’s development prior to the 1980s, currently invests less than 0.8% of GDP. As presented in Table 11, IMF projections indicate that, in the current decade, Brazil will invest,

on average, 20.5 percentage points less per year than Asian emerging economies. This comparison underscores the scale of the adjustment that future fiscal reforms will need to support in order to address the bottlenecks that currently constrain public investment, enabling the federal government to contribute, for example, 3% or 4% of GDP to Gross Fixed Capital Formation.

GRAPH 3. PRIMARY CAPITAL EXPENDITURES (AS A % OF GDP)



Source: Siga Brasil, SIDRA (IBGE) and IFI. Prepared by: IFI.

* Amount of GDP for 2025 and 2026 projected by the IFI.

** 2026 considers the updated allocation.

The preparation of the public budget is an exercise in choosing priorities. Brazil depends, in a vital way, on raising the productivity of its economy. This will occur through investment in well-designed projects with a strong multiplier effect. Merely transferring income from taxpayers to the beneficiaries of public expenditure will not generate the transformative impetus required, even though social programs play an essential role in combating social inequalities and poverty. A significant expansion of federal public investment requires loosening the current budgetary dynamics and changing the profile of public spending. It is up to Brazil's elected officials to assess the current state of affairs, its limits and prospects, and to shape the desired future based on the choices they make.

IFI PROJECTIONS

SHORT TERM

IFI projections	2026			2027		
	Dec/25	Jan/26	Comparison	Dec/25	Jan/26	Comparison
GDP – real growth (% p.a.)	1.7	1.7	=	2.0	2.0	=
GDP – nominal (BRL billion)	13,432.1	13,432.1	=	14,244.8	14,244.8	=
IPCA – accumulated (% in the year)	3.9	3.9	=	3.5	3.5	=
Exchange rate – end of period (BRL/USD)	5.5	5.5	=	5.5	5.5	=
Employment – growth (%)	0.8	0.8	=	0.5	0.5	=
Wage bill – growth (%)	3.6	3.6	=	2.7	2.7	=
Selic – end of year (% p.a.)	12.0	12.0	=	10.5	10.5	=
Ex-ante real interest rates (% p.a.)	7.0	7.0	=	6.2	6.2	=
Consolidated Public Sector Primary Balance (% of GDP)	-0.7	-0.7	=	-1.3	-1.3	=
of which central government	-0.7	-0.7	=	-1.3	-1.3	=
Net Nominal Interest (% of GDP)	7.9	7.9	=	7.5	7.5	=
Nominal Balance (% of GDP)	-8.6	-8.6	=	-8.8	-8.8	=
General Government Gross Debt (% of GDP)	82.7	82.7	=	86.2	86.2	=

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