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Fiscal Institution

# Fiscal Follow-Up Report

## Nº 109

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# Perspectives for Economic Policy in 2026

The Independent Fiscal Institution (IFI) releases its 109th Fiscal Follow-up Report (RAF, kept here in its original acronym, as are the acronyms of other Brazilian institutions, programs, and indicators). The year begins with expectations of no major turbulence and no need for heroic or radical economic policy measures. In monetary policy, inflation has begun to respond to the Central Bank's contractionary stance and to converge toward the center of the target, with general expectations that it will close at 3.9% in 2026. On the external front, the government has expressed some concern about the widening current account deficit, but the floating exchange rate regime, the sizable trade surplus, ample foreign exchange reserves, and the inflow of foreign direct investment ensure a comfortable short-term outlook.

On the institutional front, 2026 marks the beginning of the implementation of the Dual VAT, resulting from the tax reform approved by the National Congress, as well as the introduction of changes to the income tax collection system. It is, however, in the fiscal sphere that concerns are concentrated. The country would need to generate a primary surplus above 2% of GDP to halt the troubling growth of public indebtedness and to shift the profile of public expenditure toward a substantial increase in strategic investment—especially in infrastructure and in science and technology—in order to boost productivity in the Brazilian economy. This agenda has been postponed until 2027 as a challenge for the next presidential term since deep structural reforms rarely occur during election years. The fiscal objectives for 2026 are considerably more modest: to achieve a zero primary deficit by relying on the expenditure exclusions permitted by law for both the spending cap and the calculation of the primary balance, as well as on the lower bound of the tolerance band set out in the fiscal framework.

The 109th Fiscal Follow-up Report (RAF) first examines the Annual Financing Plan for 2026, published by the National Treasury Secretariat of the Ministry of Finance. A high share of floating- rate securities is expected to remain stable in the short term, although economic policy should aim to promote a gradual transition toward a predominance of fixed-rate and inflation-indexed securities. The strategic objective is to change the profile of Brazil's public debt by lowering its cost and extending its maturity structure. The high base interest rate and the lack of firmly anchored expectations regarding the fiscal and external outlook make the intended trajectory more complex and challenging. This report analyzes the drivers of public debt and its recent evolution.

RAF 109 also explores the deterioration of the primary balance of Brazilian states and the Federal District. Fiscal adjustment is centered primarily at the federal level, but the performance of state and municipal public finances is highly relevant and requires careful monitoring. It is essential to reverse the trend of deterioration, given that states and municipalities have partially offset the central government's deficit position.

Lastly, the 109th RAF examines the recent measure incorporated into the 2026 Federal Budget to increase the Import Tax on Capital Goods and Information and Telecommunications Technology Goods. The government's central argument is tied to foreign trade strategies aimed at minimizing the growing trade deficit in these two sectors and its impact on current account results, by restricting imports and inducing their replacement with domestic production. The measure has generated considerable controversy regarding its consistency and effectiveness. Nevertheless, there is an expectation of additional revenue from the Import Tax in the range of BRL 14 billion to BRL 20 billion, contributing to the fulfillment of the fiscal targets set for 2026.

Happy reading!

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Executive Director of the IFI
**Alexandre Andrade**
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# Highlights

## Some Considerations on the 2026 Annual Financing Plan (PAF)

The strategy outlined in the 2026 Annual Financing Plan (PAF) envisions a stable share of floating-rate securities in the short term and a gradual reduction of this segment through 2035. However, the high Selic rate and prevailing risk premia limit the issuance of fixed-rate and inflation-indexed securities, constraining the pace at which the debt profile can be rebuilt. The concentration of LFT maturities in 2027 and 2028 creates a window of opportunity for the Treasury, the realization of which depends on a sustained decline in interest rates. **(Page 5)**

## Primary Balance of the Brazilian States Worsens in 2025

The primary balance of the states worsened in 2025 compared with previous years, reaching 0.04% of GDP due to real expenditure growth outpacing revenue growth last year. The slowdown in revenues suggests, to some extent, a relative weakening of economic activity, which affects primary tax revenues and the transfers received from the Federal Government, both key sources of funding for these entities. On the expenditure side, the progressive increases in primary spending at levels higher than revenue growth may hinder the restoration of meaningful primary surpluses unless there is a reversal in the spending trend or an improvement in revenue sources, which calls for close monitoring of state-level fiscal policy from 2026 onward. **(Page 13)**

## Adjustment Through Revenue and the Import Tax: Regulation Versus Collection

During the congressional deliberations on the 2026 Annual Budget Bill (PLOA), an increase of BRL 14 billion in revenues from import tax collection was added. In February, Gecex Resolution 852/2026 was published, based on Technical Note 501/2026/MF, establishing higher import tax rates on Capital Goods (BK) and Information and Communications Technology Goods (BIT). The measure is grounded in concerns over the trade deficit in these sectors and aims to reduce imports and replace them with domestic production. The strategy is controversial and its results uncertain. What is clear and certain, however, is the increase in revenue resulting from the higher import tax rates on BK and BIT. **(Page 26)**

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Check for errata at: [https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2026/fevereiro/erratas](https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2026/fevereiro/erratas)

# Some Considerations on the 2026 Annual Financing Plan (PAF)

Alexandre Andrade e Rafael Bacciotti[1]

## 2026 Annual Financing Plan (PAF) and the profile of the federal public debt

In January, the National Treasury Secretariat (STN) released the 2026 PAF[2]. The document provides the guidelines for managing the federal public debt throughout the year, presents information on expected financing needs, the maturity structures of Federal Public Debt (DPF) securities, and the strategies the Treasury intends to pursue in order to meet the targets set in the plan. In the long term, the Treasury's objective is to finance itself at the lowest possible cost while extending the debt's maturity as much as possible.

Table 1, reproduced by the IFI from the 2026 Annual Financing Plan, presents the results expected by the Treasury for the Federal Public Debt (DPF) for this year and for 2035 (the long term).

### TABLE 1. EXPECTED RESULTS FOR THE DPF IN THE 2026 PAF – SHORT AND LONG TERM

| Indicadores | 2025 | Limits for 2026 | | Expected for 2035 |
|---|---|---|---|---|
| | | Minimum | Maximum | |
| **Stock (BRL billion)** | | | | |
| DPF | 8.635,1 | 9.700,0 | 10.300,0 | |
| **Composition (%)** | | | | |
| Fixed-rate | 22,0 | 21,0 | 25,0 | 35,0 |
| Inflation-indexed | 25,9 | 23,0 | 27,0 | 35,0 |
| Floating-rate | 48,3 | 46,0 | 50,0 | 23,0 |
| Exchange-rate-indexed | 3,8 | 3,0 | 7,0 | 7,0 |
| **Maturity Sctructure** | | | | |
| Maturing within 12 months (%) | 17,5 | 18,0 | 22,0 | 20,0 |
| Average maturity (years) | 4,0 | 3,8 | 4,2 | 5,0 |

*Source: Reproduced from 2026 PAF by the National Treasury Secretariat. Prepared by: IFI.*

Some conclusions can be drawn from the results presented in Table 1. First, the share of each type of indexation in the composition of the DPF is expected to remain relatively stable this year. As discussed later in this report, there is a greater concentration of fixed-rate (BRL 635.9 billion) and floating-rate (BRL 522.1 billion) securities maturing in 2026. In 2027 and 2028, the volume of floating-rate securities (remunerated mainly by the Selic rate) coming due will be larger.

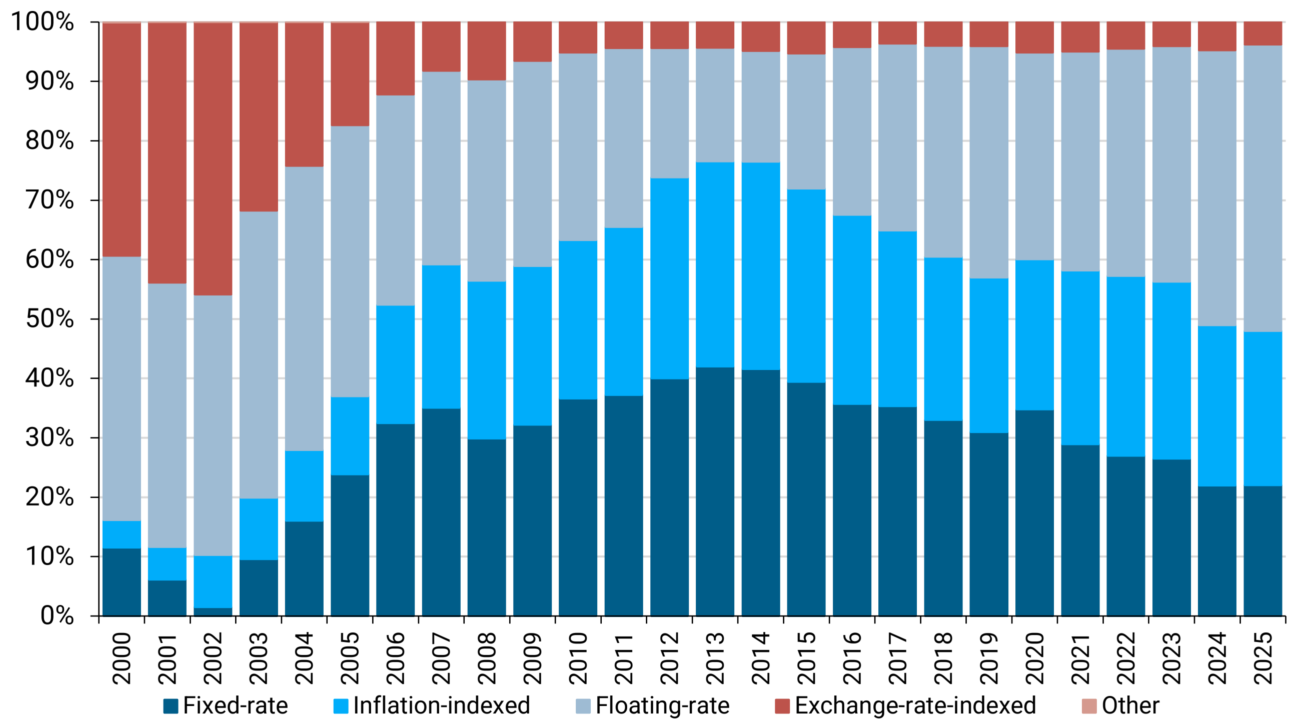
[1] Respectively, director and analyst at IFI.
[2] Link to access the document: https://www.tesourotransparente.gov.br/publicacoes/plano-anual-de-financiamento-paf/2026/114.

The analysis of Table 1 also highlights the Treasury's expectation, for this year, of an increase in the share of DPF securities maturing within the next 12 months. This is not necessarily negative, since historically the portion of the debt maturing within 12 months has been significantly higher than it is today. Broadly speaking, extending the maturity of issued securities is a key element of long-term debt management, provided that prevailing financing conditions faced by the Treasury are observed.

The 2026 Annual Financing Plan also presents the desired composition of the DPF over a ten-year horizon. By 2035, the Treasury aims for 35% of the DPF stock to be fixed-rate securities, 35% inflation-indexed, 23% Selic-linked, and 7% foreign-currency-denominated. In other words, the Treasury intends to reduce by more than half the current share of floating-rate securities in the debt stock over the next decade (Table 1).

Graph 1 shows the composition of the DPF over the past 26 years. Treasury data indicate that the share of floating-rate securities has always been relatively high in the composition of the DPF. Over the period considered, from 2000 to 2025, the lowest share reached by floating-rate securities was 18.7% in 2014, having risen again since then. In 2025, floating-rate securities accounted for 48.3% of the DPF stock, an increase of 2 p.p. compared with 2024.

**GRAPH 1. COMPOSITION OF FEDERAL PUBLIC DEBT BY SECURITIES (%)**




*Source: National Treasury Secretariat. Prepared by: IFI*

Other observations drawn from Graph 1 include the sharp reduction in the share of exchange-rate-indexed securities in the composition of the DPF during the 2000s and the decline in the relative share of fixed-rate securities over the past ten years. The reduction in exchange-rate-indexed securities occurred during a favorable period for lowering the exposure of Brazilian debt to international conditions. In turn, the trajectory observed in the share of fixed-rate securities since 2014 is related to relatively higher risk aversion. Thus, the data suggests that this loss of participation of fixed-rate securities in the composition of the DPF has been offset by an increase in the share of floating-rate securities in recent years.

In the spreadsheet released with the Monthly Debt Report (RMD)[3] the Treasury provides the maturity schedule of the Domestic Federal Public Securities Debt (DPMFi). The difference between the DPF and the DPMFi is that the latter represents the portion of the DPF denominated in reais and paid through the issuance of federal government securities. The DPF is composed of the DPMFi and the External Federal Public Debt (DPFe).

Table 2 presents this schedule for the next five years (from January 2026 to December 2030). The information indicates that BRL 613.7 billion in National Treasury Bills (LTN) and National Treasury Notes series F (NTN-F), fixed-rate securities, will mature within 12 months from January 2026. Over the same period, BRL 497.4 billion in Treasury Financial Bills (LFT) will mature. Within 24 months, maturities of fixed-rate securities will total BRL 1,038.1 billion, while maturities of floating-rate securities will amount to BRL 1,478.1 billion.

### TABLE 2. DPMFI MATURITY SCHEDULE (BRL BILLION)

| Maturity | LTN/NTN-F | LFT | NTN-B | NTN-C | Other | Total |
|---|---|---|---|---|---|---|
| **Within 12 months** | 613,7 | 497,4 | 353,0 | 8,1 | 2,8 | 1.475,0 |
| **Within 24 months** | 1.038,1 | 1.478,1 | 560,1 | 15,5 | 3,6 | 3.095,4 |
| **Within 36 months** | 1.154,4 | 2.107,5 | 841,3 | 22,2 | 6,2 | 4.131,6 |
| **Within 48 months** | 1.538,4 | 2.750,8 | 972,8 | 28,2 | 6,7 | 5.297,0 |
| **Within 60 months** | 1.626,7 | 3.529,0 | 1.204,2 | 33,8 | 7,7 | 6.401,4 |
| **More than 5 years** | 272,3 | 635,1 | 933,7 | 46,6 | 19,9 | 1.907,6 |
| **Total** | 1.899,0 | 4.164,1 | 2.138,0 | 80,4 | 27,6 | 8.309,0 |
| **Share** | **22,9%** | **50,1%** | **25,7%** | **1,0%** | **0,3%** | **100,0%** |

*Source: Reproduced from the December/25 RMD of the National Treasury Secretariat. Prepared by: IFI.*

According to Treasury information, BRL 980.7 billion in LFT will mature in 2027, concentrated in March (BRL 527.8 billion) and September (BRL 452.9 billion). Also next year, BRL 424.4 billion in LTN/NTN-F and BRL 214.5 billion in NTN-B and NTN-C will mature, securities indexed to the IPCA and the IGP-M, respectively. In 2028, a larger volume of floating-rate securities will once again mature.

This information, presented in tab 3.4 of the spreadsheet accompanying the December 2025 RMD, indicates that a window of opportunity will open for the Treasury to attempt to change the composition of the DPF in 2027. Although the Treasury's intention is to reduce the share of floating-rate securities in the composition of the debt, gradually increasing the

[3] Link to access the documents: https://www.tesourotransparente.gov.br/publicacoes/relatorio-mensal-da-divida-rmd/2025/12.

participation of other classes of securities (fixed-rate and inflation-indexed), market conditions will play an important role in this strategy.

During periods of monetary policy tightening, the challenges faced by the Treasury in managing public debt increase. Higher Selic levels affect the risk perception of agents financing the debt and shift preferences toward floating-rate securities, reducing demand for fixed-rate or inflation-indexed securities. In turn, these assets may depreciate and price formation for government securities may become more volatile.

In addition, having a high relative share of securities remunerated by the Selic in the composition of public debt causes the average cost of debt to rise proportionally more during periods of monetary policy tightening. The average cost of debt represents the average interest paid by the Treasury to finance the rollover of this debt. Thus, the higher the average cost of debt, the greater the government's interest expenditures and, consequently, the worse the public sector's nominal[4] balance.

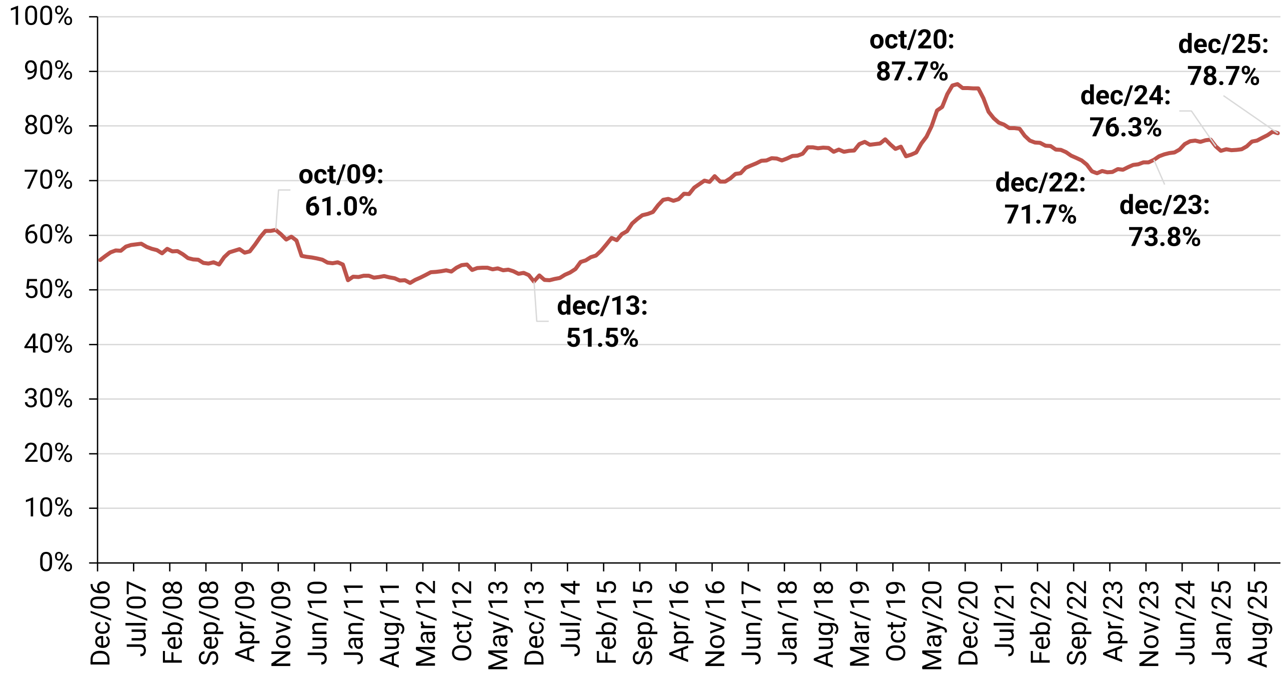
The information regarding the maturity schedule of the DPF indicates that it is possible, though challenging, for the Treasury to meet the strategies defined in the 2026 PAF in the medium term (through 2035). That is, to seek to reduce the share of floating-rate securities in the composition of the debt over time. The volumes of LFT maturities in 2027 (BRL 980.7 billion) and 2028 (BRL 629.5 billion) may support this objective. The materialization of this scenario, however, depends on the economy's base interest rate declining to lower levels, a context associated with addressing the economy's imbalances and the consequent reduction in risk perception in the economic environment.

## Recent Evolution of gross debt and its drivers

According to the Central Bank, the Gross General Government Debt (DBGG)[5] reached 78.7% of GDP in December 2025, 0.3 p.p. of GDP lower than the level recorded in November and 2.4 p.p. of GDP higher than in December 2024 (Graph 2). Gross debt[6] remained relatively stable in the first half of last year and increased in the second half. This occurred due to the behavior of its drivers, particularly interest expenditures, which rose from 8.0% of GDP in the 12 months ending in June to 8.9% of GDP in December.

[4] The nominal result consists of the sum of the primary result and interest payment expenses.
[5] The concept of gross debt differs from that of federal public debt. The DBGG encompasses other aggregates, such as Central Bank repo operations and the debts of states and municipalities, among others. For a more in-depth discussion, see IFI Special Study (EE) No. 7, of October 4, 2018, available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/547744/EE_07_Divida_Bruta.pdf.
[6] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/682438/RAF96_JAN2025.pdf.

**GRAPH 2. GROSS GENERAL GOVERNMENT DEBT (% OF GDP)**




*Source: Central Bank of Brazil. Prepared by: IFI.*

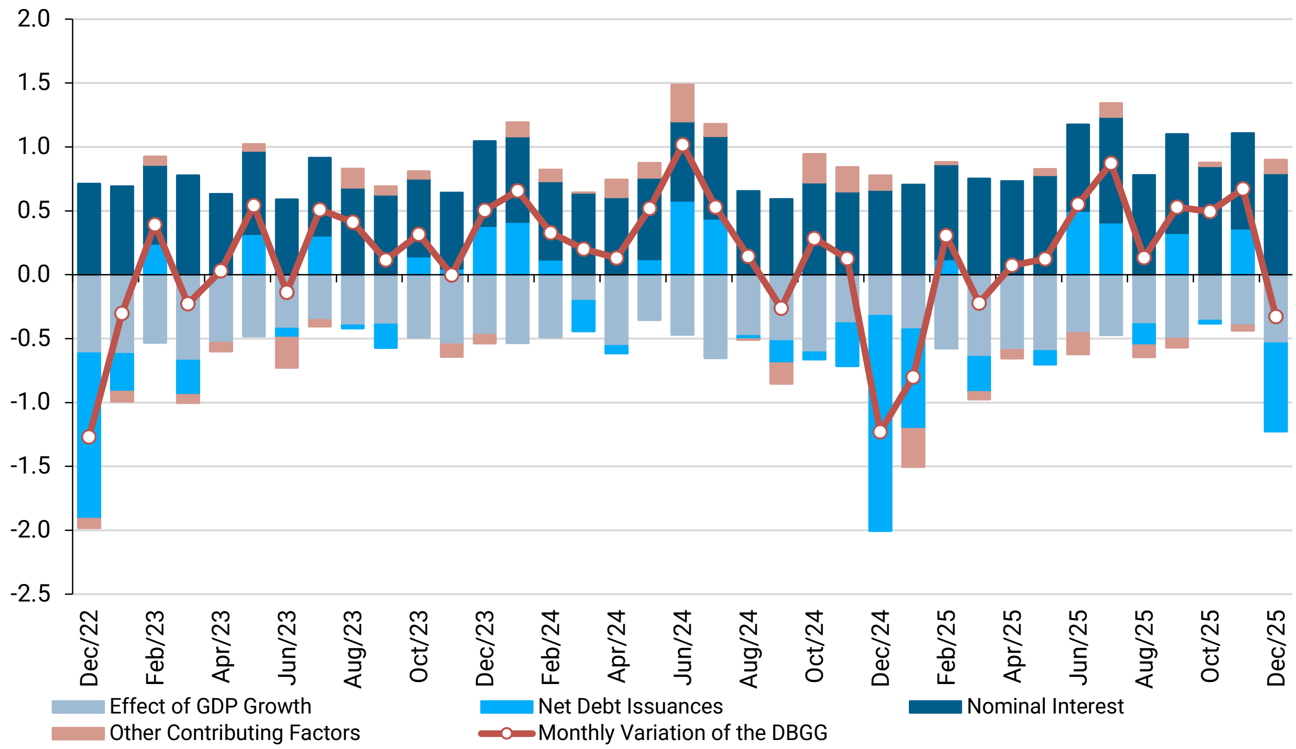
The decline in the DBGG in December compared with the previous month occurred mainly due to the reduction in repo operations[7], which fell from 8.9% of GDP in November to 7.8% of GDP in December. According to data released by the Central Bank on the drivers of the monetary base, secondary market securities operations led to the reduction in repo operations in December, a movement also observed in November.

Finally, Graph 3 presents the recent monthly evolution of the drivers of the DBGG, in p.p. of GDP. As mentioned earlier, after remaining at relatively stable levels, the DBGG increased in the second half of last year due to the behavior of some of its drivers, particularly interest expenditures and net debt issuances.

Indeed, the data presented by the Treasury in the aforementioned Monthly Debt Report (RMD) of December 2025 shows relatively high volumes of securities issuance (securities debt) between August and December.

[7] Repo operations constitute an instrument used by the Central Bank to control liquidity in the economy. Through this mechanism, the monetary authority adjusts the economy's base interest rate (Selic) to the target defined at the meetings of the Monetary Policy Committee (Copom).

**GRAPH 3. MONTHLY EVOLUTION OF THE DRIVERS OF THE DBGG (P.P. OF GDP)**




*Source: Banco Central. Prepared by: IFI.*

Interest expenditure made a significant contribution to the increase in the DBGG, as a share of GDP, last year. Over the 12-month period, interest payments rose from 7.5% of GDP in December 2024 to 8.9% of GDP in December 2025, an increase of 1.4 p.p. of GDP.

The behavior of nominal GDP partially offset the evolution of the drivers of the DBGG in 2025. In the year, the impact of nominal GDP was negative at 5.7 p.p. Even so, GDP growth has been insufficient to contain the increase in the debt-to-GDP ratio over the past three years.

## Outlook for the Selic rate

The prospective path of the Selic plays a central role in the strategy outlined by the Treasury in the 2026 PAF. At present, the base rate stands at 15.00% per year. Although the disinflation process is underway, current inflation and expectations remain above the center of the target, in an environment marked by both external and domestic uncertainties.

In the international context, risks associated with the conduct of economic policy in the United States and global financial conditions persist, with potential effects on capital flows and risk premia. Domestically, perceptions regarding the fiscal trajectory and the stabilization of public debt continue to be a relevant factor in the formation of these premia and in keeping inflation expectations above the target.

The minutes of the Copom meeting held in January of this year[8] signaled the possibility of the beginning of monetary easing in the coming meetings, conditional on the consolidation of the disinflation process and the anchoring of expectations. In the Focus survey, the median projections indicate a reduction in the Selic from 15.00% per year in 2025 to 12.13% per year in 2026, with gradual convergence to 9.5% per year in 2030.

To analyze the determinants of the monetary authority's decisions, a monetary policy reaction function was estimated. In this framework, the Selic rate is described by a Taylor rule[9] which represents the monetary authority's response to deviations of inflation expectations from the target and to the output gap.

According to this formulation, the target level for the Selic rises as the neutral nominal rate increases—defined as the neutral real rate plus the inflation target—and as the deviations of inflation expectations from the center of the target and the output gap become larger.

It should be noted that, in the most recent version of the Central Bank's small-scale semi-structural model[10] the output gap does not directly enter the monetary policy reaction function; its effect occurs indirectly through its impact on current inflation and expectations.

Based on this framework, a Taylor rule[11] was estimated, assuming a neutral real rate of 5.0% per year, as considered in the Central Bank's baseline scenario projections, according to the assessment presented in the Monetary Policy Report of December 2025[12], and incorporating the path of inflation expectations reported in the Focus Bulletin.

The historical simulations reproduce the observed trajectory of the Selic between 2005 and 2024 reasonably well, as shown in Graph 4, lending plausibility to the use of this instrument for forward-looking purposes. Moreover, the trajectory projected in the Focus survey is aligned with the rate prescribed by the reaction function estimated by the IFI.

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[8] Central Bank of Brazil. Minutes of the Monetary Policy Committee. Available at: https://www.bcb.gov.br/publicacoes/atascopom.

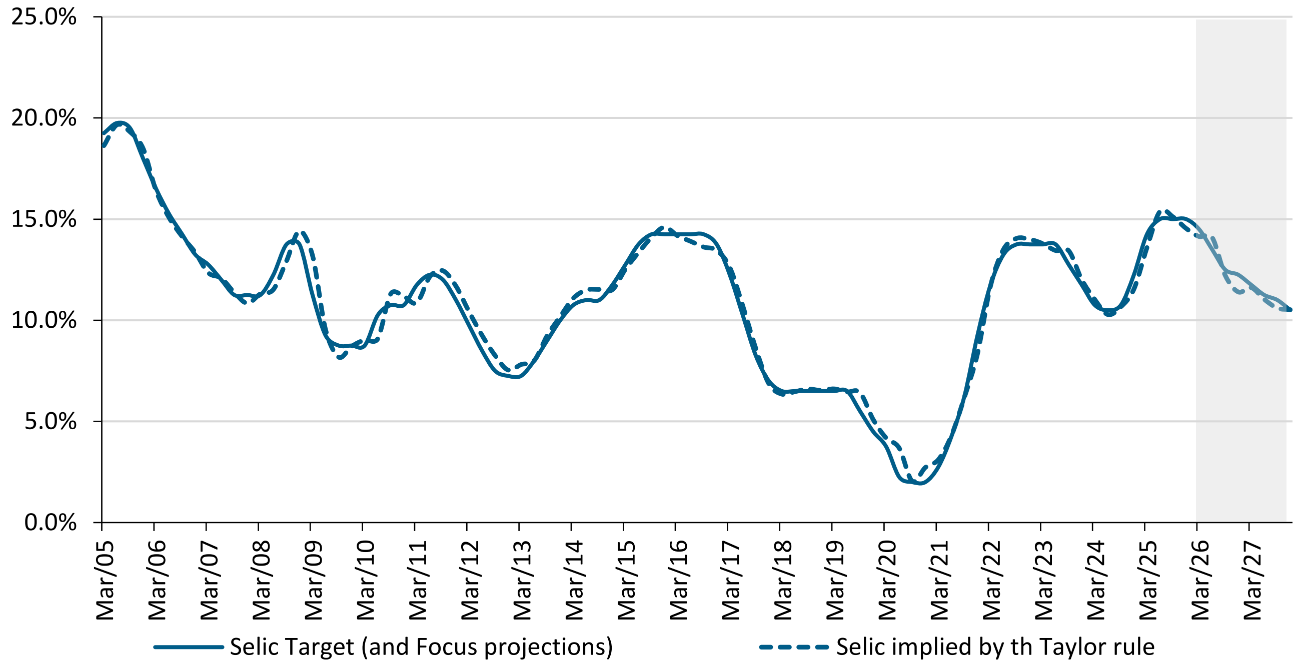
[9] For a conceptual description of the Taylor rule, see Federal Reserve Bank of Atlanta. Taylor Rule Data. Available at: https://www.atlantafed.org/research-and-data/data/taylor-rule_Tab1.

[10] Central Bank of Brazil. Inflation Report,June 2024. Available at: https://www.bcb.gov.br/content/ri/relatorioinflacao/202406/ri202406b11p.pdf.

[11] The estimation was performed using quarterly data for the period from March 2005 to September 2025.

[12] Central Bank of Brazil. Monetary Policy Report, December 2025. Available at: https://www.bcb.gov.br/content/ri/relatorioinflacao/202512/rpm202512p.pdf.

**GRAPH 4. SELIC RATE**




*Source: Central Bank and IFI. Prepared by: IFI.*

The same exercise makes it possible to assess the sensitivity of the prospective path of the Selic to different inflation expectations scenarios. If expectations were to converge to the center of the target (3.0%), the rate observed at the end of the easing cycle would be close to 8.0% per year, below the level implied in the market scenario. Conversely, if expectations were to shift to 4.5% (the upper bound of the band), the target for the Selic would converge to around 11.0% per year, implying a structurally higher interest rate path.

Thus, the feasibility of the Treasury's strategy to reduce exposure to floating-rate securities depends on a sustained reduction in the Selic. This, in turn, is conditioned on the anchoring of expectations of inflation, influenced both by the external environment and by addressing the fiscal imbalances that put pressure on public debt dynamics.

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# Primary Balance of the Brazilian States Worsens in 2025

Pedro Souza[13]

## Introduction

In recent years, the States and the Federal District have shown an improvement in their primary balances compared with the federal government and municipalities. Gains in primary revenue allowed these entities to increase personnel expenditure, invest more, and still ensure an improvement in the primary balance.

In 2025, however, a gradual deterioration in the results of these entities was observed, with the risk that this outcome could turn into a primary deficit. The objective of this section is to examine the primary balance of the states over the past three years, with emphasis on 2025, using the above-the-line methodology, based on data from Annex 6[14] of the Summary Report on Budget Execution (RREO)[15]and the Accounting Balances Matrix (MSC)[16].

It is important to note that, starting in 2023, the primary balance of the states began to segregate revenues and expenditures linked to the RPPS, the social security regimes intended to finance the pensions of public servants of the respective entities. This change stemmed from the need to increase transparency in the reporting of information by avoiding the mixing of revenues and expenditures financed with the social security system's own resources, which may artificially improve or worsen the primary balance of the states.

Within the RPPS, in order to balance the accounts, some entities implemented the segregation of benefit groups. The objective of this measure was to separate active and retired civil servants into two distinct groups from a cutoff date[17].

The first, comprising legacy civil servants, including retirees, was grouped into a Pay-As-You-Go (PAYG) fund (or Financial Plan). This consists of a pure pay-as-you-go pension scheme in which contributions from active employees finance the pensions and retirement

[13] IFI Analyst.
[14] Annex 6 of the RREO presents the primary and nominal balances of the federative entity.
[15] The RREO is a fiscal management transparency instrument provided for in Art. 48 of the Fiscal Responsibility Law, (Complementary Law No. 101 of 2000). Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp101.htm.
[16] The MSC is a standardized framework for submitting detailed information extracted from the accounting systems of federative entities. Standardized through the Chart of Accounts Applied to the Public Sector (PCASP), the MSC allows for queries and the construction of more detailed databases on the accounting aspects of these entities. For further information, access: https://siconfi.tesouro.gov.br/siconfi/pages/public/conteudo/conteudo.jsf?id=12302.
[17] This topic is regulated by MTP Ordinance No. 1,467, dated 2022. Version updated as of October 16, 2025 available at: https://www.gov.br/previdencia/pt-br/assuntos/rpps/destaques/portaria-mtp-no-1-467-de-02-junho-de-2022.

benefits paid in the current period, as in the Federal Government's General Social Security Regime (RGPS). In the event of insufficient resources to pay benefits, the entity must make additional contributions (treasury transfers) to cover the deficit or increase contribution rates, which directly impacts the states' primary balance. This is a closed-group fund with no new entrants and is expected to be gradually depleted over time.

The second group resulting from the segregation described above was the so-called Fully Funded Scheme (or Pension Plan), in which participants begin to contribute and accumulate savings to finance future benefit payments. In the initial phase, this fund only accumulates resources, generating a positive primary impact and artificially improving the entities' revenues. In the future, when disbursements for benefit payments begin, the primary impact would become negative, worsening the entity's fiscal situation if the impact of the RPPS were not accounted for separately.

As stated in the minutes of the 32nd Technical Chamber on Accounting Standards and Fiscal Reports of the Federation (CTCONF):

> *"[...] entities that are in the capitalization phase of the RPPS will collect more revenues during the fiscal year than the expenditures incurred in that period. Therefore, in this capitalization phase, there is a favorable impact on the calculation of the primary balance (PB). In the future, when these accumulated revenues are used to pay pensions and retirement benefits, expenditures may exceed revenues within the fiscal year, generating an unfavorable impact on the calculation of the above-the-line primary balance. The objective, therefore, is to remove from the primary balance the effects that RPPS revenues and expenditures may cause [...]*[18]

With this, Fiscal Reports Manual No. 13[19] introduced an important methodological change in the criteria used to calculate the primary balance. Starting in 2023, the calculation of the primary balance began to consider revenues and expenditures financed with resources linked to the RPPS separately from the others. As an additional element, intra-budgetary revenues and expenditures were also considered. These circulate within the same entity and include employer contributions to the RPPS, which the states use to pay benefits.

For this reason, this analysis focuses on the period from 2023 onward, since the RREO data up to 2022 consider only budgetary revenues, without including this intra-budgetary component. In principle, the inclusion of intra-budgetary revenues and expenditures by type of measure should not affect the primary balance, as a zero balance is expected in this type of operation. Nevertheless, upward changes in the reported values of revenues and expenditures could occur from 2023 onward, which would prevent a proper year-to-year comparison of these items.

[18] Available in the minutes of the 4th day. Available at: https://www.gov.br/tesouronacional/pt-br/contabilidade-e-custos/informacoes-e-eventos/ctconf/copy3_of_31a-ctconf.

[19] Fiscal Statements Manuals available at: https://www.gov.br/tesouronacional/pt-br/contabilidade-e-custos/manuais/manual-de-demonstrativos-fiscais-mdf.

The separation of the impact of resources linked to the RPPS allows for a better diagnosis of each entity's fiscal health. Considering, at an initial stage, revenue gains from the RPPS

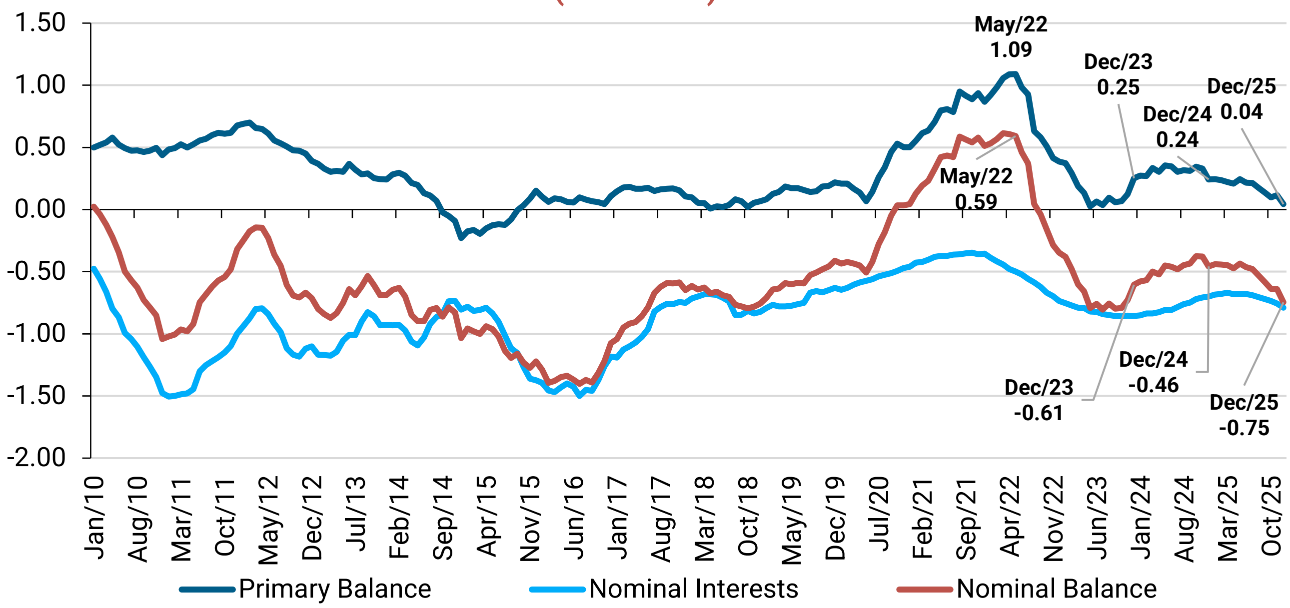
may create the mistaken impression that entities are in sound fiscal condition or that there are surplus resources available for additional spending. In the future, when disbursements begin, the absence of such segregation would show a deterioration in the primary balance without considering that resources had previously been accumulated for these payments. In this regard, MDF 13 stipulates that the fiscal target established in the Budget Guidelines Laws (LDOs) of subnational entities should consider the primary balance excluding the effects of the RPPS[20].

## Recent Fiscal Performance

When the states' below-the-line primary balance is observed, there was an improvement up to mid-2022, when the restrictions established by Complementary Law (LC) No. 173 of 2020[21], adopted to address the pandemic[22], were in force. In addition to transfers received from the federal government, there was a prohibition on increases in continuing expenditures, which generated additional fiscal space. At the same time, gains from the recovery of economic activity led to higher revenues, particularly from oil exploration. As a result of these factors, in May 2022 the states as a whole recorded a nominal surplus—meaning even after accounting for nominal interest payments—of 0.6% of GDP.

[20] See item 02.01.03 INSTRUCTIONS FOR COMPLETION, in MDF 13. Available at: https://thot-arquivos.tesouro.gov.br/publicacao-anexo/20083.
[21] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp173.htm.
[22] Complementary Law (LC) No. 173 established the Federative Program to Combat the SARS-CoV-2 Coronavirus, providing for the transfer of funds from the Union to other federative entities, the suspension of debt payments in 2020, and the granting of salary increases and the contracting of mandatory continuous expenses until 2021, among other measures and trade-offs.

**GRAPH 5. PRIMARY BALANCE, INTEREST PAYMENTS AND NOMINAL BALANCE OF THE STATES AND THE FEDERAL DISTRICT (% OF GDP)**




*Source: Central Bank of Brazil. Prepared by: IFI.*

From mid-2022 onward, two developments contributed to the deterioration of the states' primary balance. On the revenue side, the approval of Complementary Laws No. 194[23] and

No. 192[24] reduced ICMS revenues from communications, fuels, transportation, and electricity by limiting these goods and services to the tax rate applied to general operations. On the expenditure side, the effects of Complementary Law (LC) No. 173 of 2020—which had restricted the creation of permanent expenditures—gradually faded. After the end of the restriction period imposed by this rule, several states granted salary increases to public servants, resulting in a worsening of the expenditure trajectory starting in 2023.

In 2023, a deterioration in the trajectory of the states' primary balance can be observed under the below-the-line methodology, although the result remained positive, albeit at a lower level than in previous years. By the end of that year, many states approved legislation in their respective legislative assemblies to increase the standard ICMS rates, with the aim of mitigating the losses incurred with Complementary Laws No. 192 and No. 194. As shown in Graph 5, this movement led to an improvement in the primary balance of these entities starting in 2024. In 2025, however, there was a new deterioration in the primary balance of the states and the Federal District, the reasons for which will be examined further in this analysis.

[23] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp194.htm.
[24] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp192.htm.

## Primary Revenues

Table 3 presents detailed data on the primary balance of the states over the past three years. The information indicates that the main sources of revenue for these entities are taxes, fees, and betterment contributions, with ICMS being the most significant item.

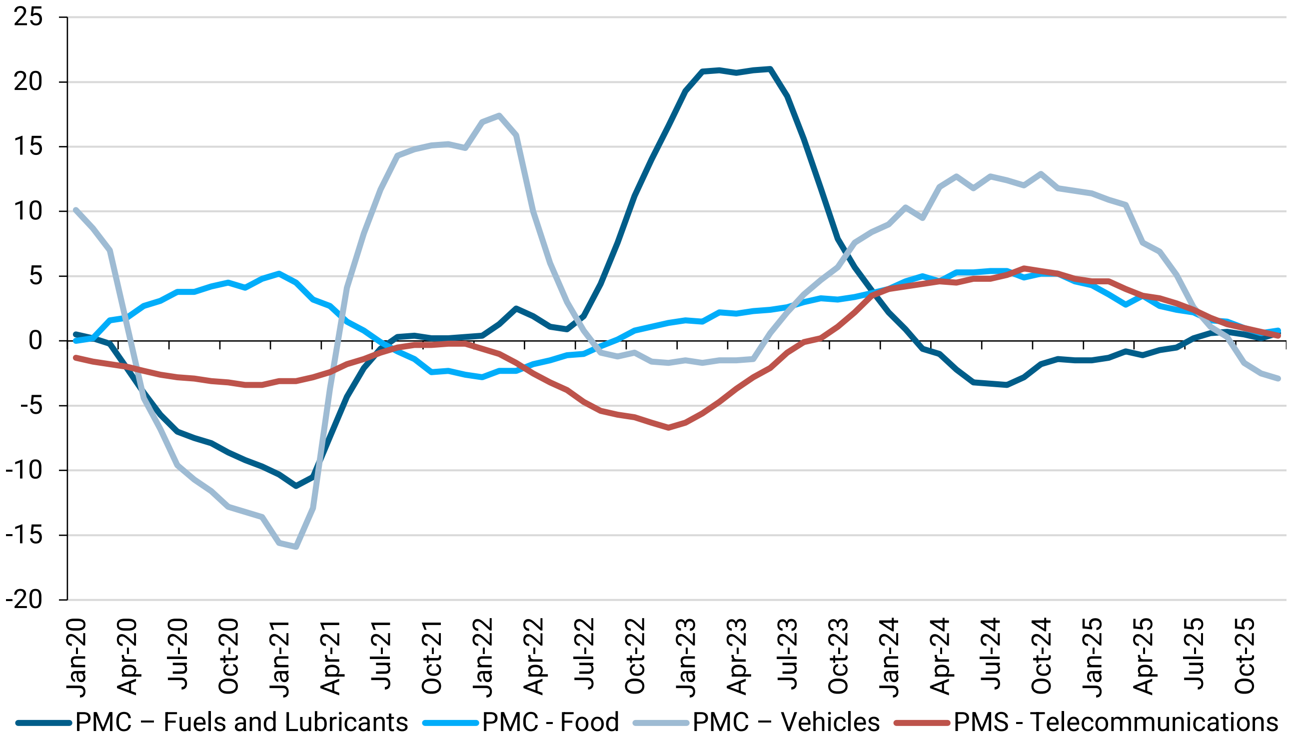
### TABLE 3. PRIMARY BALANCE OF THE STATES AND THE FEDERAL DISTRICT, 2023–2025 (BRL BILLION, CURRENT PRICES, AND REAL % VARIATION)

| Breakdown | 2023 | | 2024 | | 2025 | |
|---|---|---|---|---|---|---|
| | BRL Billion | Real % var. | BRL Billion | Real % var. | BRL Billion | Real % var. |
| **1 - Total primary revenue** | **1.238,7** | **-** | **1.354,1** | **4,8%** | **1.456,0** | **2,4%** |
| 1.1 - Taxes, fees, and betterment contributions | 675,5 | - | 748,9 | 6,2% | 805,5 | 2,5% |
| 1.1.1 - ICMS | 415,8 | - | 482,1 | 11,1% | 514,8 | 1,7% |
| 1.1.2 - IPVA | 40,3 | - | 41,9 | -0,3% | 45,2 | 2,6% |
| 1.1.3 - ITCD | 12,4 | - | 14,7 | 13,6% | 16,1 | 4,3% |
| 1.1.4 - IRRF | 73,2 | - | 81,1 | 6,0% | 90,6 | 6,5% |
| 1.1.5 - Other tax revenues | 47,8 | - | 52,2 | 4,6% | 57,2 | 4,5% |
| 1.2 - Contributions | 36,8 | - | 25,9 | -32,2% | 31,0 | 13,8% |
| 1.3 - Primary Property Income | 40,5 | - | 42,6 | 0,8% | 44,3 | -0,8% |
| 1.4 - Current transfers | 320,7 | - | 347,4 | 3,9% | 369,0 | 1,1% |
| 1.4.1 Share of FPE and FPM Revenues | 128,6 | - | 149,2 | 11,1% | 163,2 | 4,1% |
| 1.4.2 Fundeb transfers | 100,6 | - | 110,6 | 5,3% | 118,8 | 2,3% |
| 1.4.3 Other transfers | 91,5 | - | 87,6 | -7,9% | 87,0 | -5,6% |
| 1.5 - Other current revenues | 50,5 | - | 58,2 | 10,5% | 75,8 | 23,9% |
| 1.6 - Primary capital revenues | 15,5 | - | 17,9 | 10,8% | 18,5 | -1,5% |
| 1.8 - RPPS Revenue | 99,3 | - | 113,1 | 9,2% | 111,9 | -5,6% |
| **2 - Primary expenditures** | **1.216,5** | **-** | **1.325,2** | **4,4%** | **1.455,6** | **4,7%** |
| 2.1 - Personnel and social charges | 552,7 | - | 587,8 | 1,9% | 677,2 | 9,7% |
| 2.2 - Other current expenses | 432,0 | - | 479,1 | 6,2% | 540,9 | 7,6% |
| 2.3 - Investments | 92,3 | - | 99,4 | 3,2% | 110,2 | 5,6% |
| 2.4 - Financial investments | 14,0 | - | 18,9 | 30,0% | 19,6 | -1,4% |
| 2.5 - RPPS | 125,5 | - | 140,0 | 6,9% | 107,7 | -26,5% |
| **3. Primary Balance** | **22,2** | **-** | **28,9** | **25,3%** | **0,4** | **-95,3%** |
| **3. Primary Balance – Excluding RPPS Sources** | **48,4** | **-** | **55,7** | **10,8%** | **-3,8** | **-104,2%** |

*Source: Annex 6 of the Summary Budget Execution Report published in Siconfi – National Treasury Secretariat. Prepared by: IFI.*

In 2023, states' tax revenues totaled BRL 675.5 billion, accounting for 54.5% of primary revenues in that fiscal year, with ICMS amounting to BRL 415.8 billion. In the following two years, these tax revenues increased to BRL 748.9 billion in 2024 (a real increase of 6.2%) and BRL 805.5 billion in 2025 (a real increase of 2.5%). These gains stemmed mainly from the performance of economic activities linked to these taxes and from increases in the standard ICMS rates implemented to offset the revenue losses caused by Complementary Law No. 194 of 2022.

**GRAPH 6. VOLUME OF SALES AND SERVICES (12-MONTH % VARIATION)**




*Source: Monthly Commerce Survey (PMC) and Monthly Services Survey (PMS), IBGE. Prepared by: IFI.*

Information from several IBGE surveys related to the commerce and services sectors supports the recent dynamics observed in states' ICMS collections. The real turnover of companies in telecommunications services, retail commerce in food and beverages, and vehicle commerce increased (12-month cumulative) between 2023 and 2025. Sales in fuels and lubricants rose until mid-2023, reversed in 2024, and stabilized by the end of 2025 (Graph 6).

IBGE indicators for services and commerce activities point to a weakening of economic activity in 2025, particularly in the second half of the year, which is consistent with the pattern observed in states' tax revenues during the period.

In addition, as explained earlier and detailed in Table 4, the states adopted measures to increase the standard ICMS rates in order to restore the tax bases (fuels[25], electricity, communications, and public transportation) reduced by Complementary Law No. 194.

[25] In addition to the limitation on the standard ICMS rate, a single ad valorem rate also applies nationwide. Under this system, the average of the standard rates applied by the states is calculated, considering the average price of the items in the country, resulting in a single amount per unit of measurement. For regular gasoline, for example, the ICMS amounted to BRL 1.47 per liter in 2025.
For 2026, the rate applied is BRL 1.57 per liter. For ICMS values applied to gasoline, see ICMS Agreement No. 15/2023, available at: https://www.confaz.fazenda.gov.br/legislacao/convenios/2023/CV015_23.
For ICMS rates on gas and diesel, see ICMS Agreement 199/2022. Available at: https://www.confaz.fazenda.gov.br/legislacao/convenios/2022/CV199_22.

## TABLE 4. TAX RATES APPLIED TO GENERAL TRANSACTIONS IN THE STATES AND FEDERAL DISTRICT (TAX RATES IN % AND VARIATION IN P.P.)

| UF | Tax rate in Dec/2022 | Tax rate in 2023 | Var. 2023/2022 | Tax rate in 2024 | Var. 2024/2023 | Tax rate in 2025 | Var. 2025/2024 |
|---|---|---|---|---|---|---|---|
| AC | 17,0% | 19,0% | 2,0 | 19,0% | 0,0 | 19,0% | 0,0 |
| AL | 17,0% | 19,0% | 2,0 | 19,0% | 0,0 | 19,0% | 0,0 |
| AM | 18,0% | 20,0% | 2,0 | 20,0% | 0,0 | 20,0% | 0,0 |
| AP | 18,0% | 18,0% | 0,0 | 18,0% | 0,0 | 18,0% | 0,0 |
| BA | 18,0% | 19,0% | 1,0 | 20,5% | 1,5 | 20,5% | 0,0 |
| CE | 18,0% | 18,0% | 0,0 | 20,0% | 2,0 | 20,0% | 0,0 |
| DF | 18,0% | 18,0% | 0,0 | 20,0% | 2,0 | 20,0% | 0,0 |
| ES | 17,0% | 17,0% | 0,0 | 17,0% | 0,0 | 17,0% | 0,0 |
| GO | 17,0% | 17,0% | 0,0 | 19,0% | 2,0 | 19,0% | 0,0 |
| MA | 18,0% | 20,0% | 2,0 | 22,0% | 2,0 | 23,0% | 1,0 |
| MG | 18,0% | 18,0% | 0,0 | 18,0% | 0,0 | 18,0% | 0,0 |
| MS | 17,0% | 17,0% | 0,0 | 17,0% | 0,0 | 17,0% | 0,0 |
| MT | 17,0% | 17,0% | 0,0 | 17,0% | 0,0 | 17,0% | 0,0 |
| PA | 17,0% | 19,0% | 2,0 | 19,0% | 0,0 | 19,0% | 0,0 |
| PB | 18,0% | 18,0% | 0,0 | 20,0% | 2,0 | 20,0% | 0,0 |
| PE | 18,0% | 18,0% | 0,0 | 20,5% | 2,5 | 20,5% | 0,0 |
| PI | 18,0% | 21,0% | 3,0 | 21,0% | 0,0 | 22,5% | 1,5 |
| PR | 18,0% | 19,0% | 1,0 | 19,5% | 0,5 | 19,5% | 0,0 |
| RJ | 18,0% | 18,0% | 0,0 | 20,0% | 2,0 | 20,0% | 0,0 |
| RN | 18,0% | 20,0% | 2,0 | 18,0% | -2,0 | 20,0% | 2,0 |
| RO | 17,5% | 17,5% | 0,0 | 19,5% | 2,0 | 17,5% | -2,0 |
| RR | 17,0% | 20,0% | 3,0 | 20,0% | 0,0 | 20,0% | 0,0 |
| RS | 17,0% | 17,0% | 0,0 | 17,0% | 0,0 | 17,0% | 0,0 |
| SC | 17,0% | 17,0% | 0,0 | 17,0% | 0,0 | 17,0% | 0,0 |
| SE | 18,0% | 19,0% | 1,0 | 19,0% | 0,0 | 20,0% | 1,0 |
| SP | 18,0% | 18,0% | 0,0 | 18,0% | 0,0 | 18,0% | 0,0 |
| TO | 18,0% | 18,0% | 0,0 | 20,0% | 2,0 | 20,0% | 0,0 |
| **AVERAGE** | **17,6%** | **18,4%** | **0,8** | **18,8%** | **0,7** | **18,8%** | **0,1** |

*Source: National Portal on Tax Rate Differences (Difal)[26] and ICMS legislation in the states and Federal District. Prepared by: IFI.*

Current transfers, which account for around 25% of states' revenues, also increased in real terms in the recent period. In 2025, states received transfers totaling BRL 369.0 billion, a real increase of 1.1% compared with 2024. The positive real variation in these revenues reflects increases associated with federal revenue collection, particularly in the states' shares of the FPE, as well as higher transfers from Fundeb[27], both in the form of supplementation and transfers linked to federal taxes. Other current transfers declined from BRL 87.6 billion in 2024 to BRL 87.0 billion in 2025, a real decrease of 5.6%. This category consists largely of

[26] Available at: https://dfe-portal.svrs.rs.gov.br/Difal/aliquotas.

[27] Under Art. 60 of the ADCT, the federal government's supplementation to Fundeb corresponds to 17% in 2023, 19% in 2024, and 21% in 2025. In 2026, the federal government's supplementation reaches its maximum level, corresponding to 23% of the total resources of Fundeb. Available at: https://www.planalto.gov.br/ccivil_03/Constituicao/Constituicao.htm.

transfers from the federal government to finance health expenditures, resources from the FNDE, and other forms of federal revenue sharing.

## Primary Expenditures

Primary expenditures of the states and the Federal District totaled BRL 1,455.6 billion in 2025, a real increase of 4.7% compared with 2024. Table 3 shows that more than half of states' primary expenditures were related to personnel and the RPPS, which together amounted to BRL 784.9 billion in 2025. Unlike what occurred with primary revenues, there was no slowdown in the growth of primary expenditures at the state level in 2025, which raises a warning about the recent trajectory of this variable.

It is worth noting the distinction between personnel expenditures and RPPS spending. Under the Fiscal Responsibility Law[28], personnel expenditures include both active and inactive personnel, encompassing retirees and pensioners. The amounts reported under item 2.5 of Table 3 – RPPS refer only to expenditures financed with resources linked to RPPS sources[29], regardless of their specific use.

As the classification of RPPS expenditures depends solely on the sources of funds earmarked for the RPPS, item 2.5 – RPPS in Table 3 includes expenditures on active and inactive personnel as well as other primary expenditures, considering only the sources linked to the RPPS. This point is important because item 2.1 – Personnel also includes active and inactive personnel, but only the portion not financed with resources linked to the RPPS. A comparison that does not take this aspect into account could lead to the mistaken impression that states' personnel expenditures are lower than they actually are. The distinction is that, in Table 3, the personnel expenditure category reflects personnel spending financed with resources not earmarked for social security, such as taxes, transfers, and other revenues, whereas the portion recorded under item 2.5 – RPPS largely consists of resources from contributions by active civil servants, employer contributions from the sponsoring government entity, and occasional additional revenues, such as those derived from the management of RPPS assets.

Table 5 illustrates this difference using data from the MSC, indicating that a substantial share of expenditures on inactive personnel is financed with resources from the RPPS itself,

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[28] As provided in Art. 18 of the Fiscal Responsibility Law (LRF): "Art. 18. For the purposes of this Complementary Law, total personnel expenditure is defined as the sum of the expenditures incurred by the federative entity with active personnel, retirees, and pensioners, related to elective mandates, positions, functions, or employment—civilian, military, and members of the branches of government—including any forms of remuneration, such as salaries and benefits, fixed and variable compensation, allowances, retirement benefits, military retirement pay, and pensions, including additional payments, bonuses, overtime, and personal benefits of any kind, as well as social charges and contributions paid by the entity to social security institutions." [unofficial translation]

[29] Funding sources: 800 – Resources Linked to the RPPS – Capitalization Fund (Pension Plan); 801 – Resources Linked to the RPPS – Pay-As-You-Go Fund (Financial Plan); and 802 – Resources Linked to the RPPS – Administrative Fee.

while the remainder is funded from other sources. In addition, intra-budgetary expenditures are also recorded as personnel expenditures, such as amounts paid as employer contributions.

It should be noted that expenditures on inactive personnel related to the Social Protection System of Military Personnel of the States, the Federal District, and the Territories are not included under the RPPS category.

**TABLE 5. COMPOSITION OF PERSONNEL AND RPPS EXPENSES IN ANNEX 6 OF THE RREO (CURRENT BRL BILLION)**

| Personnel and RPPS expenses | 2023 | 2024 | 2025 |
|---|---|---|---|
| **2.1 Personnel** | **552,7** | **587,8** | **677,2** |
| * 2.1.1 Personnel and Social Charges – Active personnel | 402,6 | 425,7 | 504,9 |
| 2.1.2 Personnel and Social Charges – Retirees | 116,2 | 123,9 | 133,0 |
| 2.1.3 Personnel and Social Charges - Pensions | 22,1 | 24,1 | 25,3 |
| 2.1.4 Personnel and Social Charges - Court-Ordered Debt Payments | 11,8 | 14,1 | 14,1 |
| **2.5 RPPS** | **125,5** | **140,0** | **107,7** |
| 2.5.1 Personnel and Social Charges – Active personnel | 2,7 | 2,4 | 3,0 |
| 2.5.2 Personnel and Social Charges - Retirees | 77,0 | 84,9 | 87,7 |
| 2.5.3 Personnel and Social Charges - Pensions | 21,2 | 21,4 | 22,4 |
| 2.5.4 Personnel and Social Charges - Court-Ordered Debt Payments | 0,1 | 0,1 | 0,2 |
| ** 2.5.5 Other expenses | 24,5 | 31,1 | -5,5 |
| **Total** | **678,2** | **727,8** | **784,9** |

*Source: Annex 6 of the RREO and the Accounting Balances Matrix (MSC).*
** Estimated as the residual portion of personnel expenditures (GND 1) excluding retirement benefits, pensions, and court-ordered debt payments.*
*** Estimated as the difference between the total reported in Annex 6 of the RREO and the amounts estimated in the other items using the Accounting Balances Matrix (MSC)[30]*

Other current expenditures by the states totaled BRL 540.9 billion in 2025, a real increase of 7.6% compared with 2024. This category includes all primary expenditures not related to investments or personnel, encompassing the operating costs of public administration, procurement of goods and services, court-ordered debt payments, social benefits, and other expenses (Table 3).

According to Table 3, capital expenditures totaled BRL 131.1 billion in 2025, a real increase of 4.5%, comprising investments (BRL 111.3 billion) and financial investments (BRL 19.8 billion). Over the past two years, these expenditures have shown real growth and have been

[30] There are discrepancies between the values obtained from the Accounting Balances Matrix (MSC) and those reported in Annex 6 of the RREO. This is relevant when comparing the two series, as the MSC allows for greater disaggregation. In the case of the RPPS, this difference is limited to a few states

concentrated mainly on expenditure items related to construction works and installations, equipment and permanent materials, grants, as well as the capitalization or equity increases of companies.

## Primary Balance

As explained earlier, since 2023 the primary impact of the states' RPPS has been segregated in the calculation of the primary balance. For the purposes of complying with the fiscal targets established in the Budget Guidelines Law (LDO), Fiscal Statements Manual No. 13 (MDF No. 13) establishes that the primary balance must be calculated excluding RPPS sources.

In other words, in their fiscal policy, states seek to comply with the primary balance target without considering the effect of revenues and expenditures linked to RPPS sources. This does not eliminate the need to calculate the RPPS balance, which must still be covered by the states and by contributors in the event of a deficit, but it is not considered for purposes of meeting the fiscal target.

As Table 3 shows, the primary balance associated with RPPS sources was in deficit for the group of states in 2023 and 2024, worsening the aggregate balance in that period. In 2025, this result reversed, which would indicate an improvement in the states' accounts had the segregation described above not been applied.

To a large extent, the change in the aggregate balance in 2025 stemmed from the primary balance of Rio de Janeiro, strongly influenced by the volume of primary expenditures related to the RPPS in recent fiscal years. As Table 6 shows, 13 of the 27 states recorded negative RPPS results in 2023, and 9 in 2024. Rio de Janeiro posted a primary deficit of BRL 24.2 billion in 2023 and another of BRL 23.0 billion in 2024[31]. In 2025, the combined result of the states' RPPS turned positive, with a surplus of BRL 4.2 billion

[31] The explanatory notes to Annex 6 of the RREO of the State of Rio de Janeiro, as recorded in Siconfi, do not explain the composition or the reasons for the results in the three fiscal years. An estimate of the primary balance carried out by the IFI using the MSC indicates a discrepancy of BRL 0.06 billion in 2023 and BRL 0.15 billion in 2024 in the state's primary balance.
The main divergence lies in the composition: according to the MSC, the RPPS balance would be underestimated by BRL 20.8 billion in 2023 and BRL 22.5 billion in 2024, offset by an overestimation of the balance excluding the RPPS of BRL 20.9 billion in 2023 and BRL 22.3 billion in 2024. In this regard, there are indications that some misclassification may have occurred in the MSC data in relation to the RPPS. Similar discrepancies are also observed in the State of Paraná in 2023 and 2024.

## TABLE 6. PRIMARY BALANCE BY FEDERATIVE UNIT (BRL MILLION, CURRENT PRICES – 2023, 2024 AND 2025)

| UF | 2023 | | | 2024 | | | 2025 | | |
|---|---|---|---|---|---|---|---|---|---|
| | RPPS Balance | Balanceexcluding RPPS | Aggregate Balance | RPPS Balance | Balanceexcluding RPPS | Aggregate Balance | RPPS Balance | Balanceexcluding RPPS | Aggregate Balance |
| AC | 48,9 | 468,0 | **419,0** | -16,4 | 686,3 | **669,9** | 80,8 | 288,5 | **369,4** |
| AL | -43,3 | -130,7 | **-174,0** | 222,2 | 177,1 | **399,3** | 94,0 | 798,1 | **892,1** |
| AM | 732,4 | -1.466,9 | **-734,5** | 441,8 | -37,2 | **404,6** | 539,4 | 521,8 | **1.061,2** |
| AP* | -142,1 | 875,3 | **733,2** | 195,3 | 249,3 | **444,6** | 0,0 | 772,9 | **772,9** |
| BA | -6,2 | -1.101,7 | **-1.107,9** | 356,6 | -302,0 | **54,6** | 566,1 | -1.451,0 | **-884,9** |
| CE | -51,5 | 502,7 | **451,3** | 395,2 | 22,1 | **417,2** | 401,3 | -1.233,7 | **-832,4** |
| DF | 737,2 | 1.821,9 | **2.559,1** | 104,5 | -749,2 | **-644,7** | -105,0 | -821,5 | **-926,5** |
| ES | 243,2 | -711,1 | **-467,9** | 363,7 | 101,4 | **465,1** | 451,5 | -440,5 | **11,0** |
| GO | 298,5 | 1.529,8 | **1.828,3** | 153,9 | 2.196,2 | **2.350,1** | -108,0 | -4.450,5 | **-4.558,5** |
| MA | -165,7 | 1.348,5 | **1.182,8** | 58,0 | 3.303,9 | **3.362,0** | -133,9 | 910,8 | **776,9** |
| MG | -507,0 | 3.619,9 | **3.112,9** | 224,5 | 4.312,4 | **4.536,9** | -32,4 | 4.765,1 | **4.732,7** |
| MS | 168,5 | 70,4 | **239,0** | -147,3 | -668,8 | **-816,0** | 229,6 | -438,6 | **-209,0** |
| MT | 563,2 | -2.003,6 | **-1.440,4** | 411,1 | -1.573,8 | **-1.162,7** | 544,6 | -274,4 | **270,2** |
| PA | -423,0 | -2.373,7 | **-2.796,7** | -626,3 | -1.263,9 | **-1.890,2** | -450,8 | -769,1 | **-1.220,0** |
| PB | 200,9 | 83,6 | **284,5** | 203,3 | -180,2 | **23,1** | 258,1 | -1.701,5 | **-1.443,4** |
| PE | 249,6 | 1.221,1 | **1.470,8** | 93,1 | 1.212,0 | **1.305,1** | 322,9 | -1.225,5 | **-902,6** |
| PI | 59,5 | -138,3 | **-78,8** | 92,9 | -1.825,9 | **-1.733,0** | -2,1 | -1.251,0 | **-1.253,0** |
| PR | -6.315,6 | 6.885,6 | **570,0** | -7.001,2 | 6.184,4 | **-816,7** | 465,5 | -6.061,4 | **-5.595,8** |
| RJ | -23.178,2 | 24.918,0 | **1.739,8** | -22.959,6 | 24.031,2 | **1.071,6** | 372,3 | 852,5 | **1.224,8** |
| RN | -177,6 | 888,1 | **710,5** | 11,0 | 303,1 | **314,2** | -54,0 | 762,8 | **708,8** |
| RO | -4,0 | 905,5 | **901,4** | 224,4 | 287,5 | **511,9** | 256,7 | -293,8 | **-37,1** |
| RR | 288,2 | -19,1 | **269,1** | 251,0 | -26,1 | **224,9** | 230,1 | 166,9 | **397,1** |
| RS | 525,8 | 2.483,8 | **3.009,6** | 422,9 | 1.734,1 | **2.156,9** | 397,1 | -1.989,5 | **-1.592,4** |
| SC | -56,1 | 2.976,8 | **2.920,7** | -50,1 | 2.569,6 | **2.519,5** | -101,2 | 107,3 | **6,1** |
| SE | 53,4 | 1.000,0 | **1.053,4** | -10,5 | 1.679,3 | **1.668,8** | 19,1 | 278,9 | **298,0** |
| SP | 725,9 | 4.742,0 | **5.467,9** | -462,1 | 13.403,6 | **12.941,5** | -27,0 | 8.508,0 | **8.481,0** |
| TO | 93,5 | 24,2 | **117,7** | 197,7 | -85,5 | **112,2** | -11,1 | -141,5 | **-152,7** |
| **Total** | **-26.081,3** | **48.420,0** | **22.240,9** | **-26.850,4** | **55.741,2** | **28.890,7** | **4.203,7** | **-3.809,8** | **393,9** |

*Source: Siconfi, Nacional Treasury.*
*In an explanatory note to Annex 6 of the RREO for the sixth two-month period of 2025 of the State of Amapá, it is reported that, as of the closing date of the document, Amprev had not submitted the data related to the RPPS balance; therefore, the figures in this item are recorded as zero.*

Excluding the effects of the RPPS, the primary balance of the states recorded a surplus in 2023 (BRL 48.4 billion) and 2024 (BRL 55.7 billion), in current values. In 2025, however, an aggregate deficit of BRL 3.8 billion was recorded.

Given the heterogeneity in the fiscal positions of the states, a relevant metric for comparing their results is the primary balance as a share of their respective Net Current Revenues (RCL). Table 7 shows that, even under this metric, the result associated with RPPS funding sources in Rio de Janeiro was above average in 2023 and 2024. For the states as a whole, excluding the impact of the RPPS, the average surplus was 4.6% of RCL in 2023 and 4.8% in 2024.

Regarding this point, it is worth noting that the estimates of primary revenues and expenditures based on the Accounting Balance Matrix show some discrepancies relative to the values reported in Annex 6 of the RREO.

### TABLE 7. PRIMARY BALANCE BY FEDERAL UNIT (AS A PERCENTAGE OF RCL)

| UF | 2023 | | | 2024 | | | 2025 | | |
|---|---|---|---|---|---|---|---|---|---|
| | RPPS Balance | Balance excluding RPPS | Aggregate Balance | RPPS Balance | Balance excluding RPPS | Aggregate Balance | RPPS Balance | Balance excluding RPPS | Aggregate Balance |
| AC | 0,6 | 5,5 | **4,9** | -0,2 | 6,8 | **6,6** | 0,7 | 2,6 | **3,3** |
| AL | -0,3 | -0,9 | **-1,2** | 1,3 | 1,0 | **2,4** | 0,5 | 4,2 | **4,7** |
| AM | 3,2 | -6,4 | **-3,2** | 1,7 | -0,1 | **1,5** | 1,9 | 1,8 | **3,7** |
| AP* | -1,8 | 10,9 | **9,1** | 2,2 | 2,8 | **5,0** | 0,0 | 8,0 | **8,0** |
| BA | 0,0 | -1,9 | **-1,9** | 0,5 | -0,5 | **0,1** | 0,8 | -2,1 | **-1,3** |
| CE | -0,2 | 1,6 | **1,4** | 1,1 | 0,1 | **1,1** | 1,0 | -3,1 | **-2,1** |
| DF | 2,2 | 5,5 | **7,7** | 0,3 | -2,1 | **-1,8** | -0,3 | -2,1 | **-2,4** |
| ES | 1,1 | -3,2 | **-2,1** | 1,4 | 0,4 | **1,8** | 1,6 | -1,6 | **0,0** |
| GO | 0,8 | 4,0 | **4,8** | 0,4 | 5,2 | **5,6** | -0,2 | -9,8 | **-10,0** |
| MA | -0,7 | 5,8 | **5,1** | 0,2 | 11,2 | **11,4** | -0,4 | 2,8 | **2,4** |
| MG | -0,6 | 3,9 | **3,4** | 0,2 | 4,2 | **4,4** | 0,0 | 4,3 | **4,2** |
| MS | 0,9 | 0,4 | **1,2** | -0,7 | -3,3 | **-4,0** | 1,0 | -2,0 | **-0,9** |
| MT | 1,8 | -6,5 | **-4,7** | 1,2 | -4,8 | **-3,5** | 1,5 | -0,7 | **0,7** |
| PA | -1,2 | -6,5 | **-7,7** | -1,5 | -3,1 | **-4,6** | -1,0 | -1,7 | **-2,7** |
| PB | 1,2 | 0,5 | **1,7** | 1,1 | -1,0 | **0,1** | 1,2 | -8,1 | **-6,8** |
| PE | 0,7 | 3,2 | **3,9** | 0,2 | 2,8 | **3,0** | 0,7 | -2,6 | **-1,9** |
| PI | 0,4 | -0,9 | **-0,5** | 0,5 | -10,6 | **-10,1** | 0,0 | -6,7 | **-6,7** |
| PR | -10,6 | 11,6 | **1,0** | -10,6 | 9,3 | **-1,2** | 0,7 | -8,5 | **-7,9** |
| RJ | -26,3 | 28,3 | **2,0** | -24,8 | 25,9 | **1,2** | 0,4 | 0,8 | **1,2** |
| RN | -1,1 | 5,5 | **4,4** | 0,1 | 1,8 | **1,8** | -0,3 | 3,9 | **3,6** |
| RO | 0,0 | 7,2 | **7,2** | 1,6 | 2,0 | **3,6** | 1,6 | -1,9 | **-0,2** |
| RR | 4,2 | -0,3 | **3,9** | 3,2 | -0,3 | **2,9** | 2,7 | 1,9 | **4,6** |
| RS | 0,9 | 4,4 | **5,3** | 0,7 | 2,9 | **3,6** | 0,6 | -3,0 | **-2,4** |
| SC | -0,1 | 7,2 | **7,1** | -0,1 | 5,5 | **5,4** | -0,2 | 0,2 | **0,0** |
| SE | 0,4 | 7,9 | **8,3** | -0,1 | 11,0 | **10,9** | 0,1 | 1,7 | **1,8** |
| SP | 0,3 | 2,1 | **2,4** | -0,2 | 5,3 | **5,1** | 0,0 | 3,2 | **3,2** |
| TO | 0,7 | 0,2 | **0,9** | 1,3 | -0,6 | **0,8** | -0,1 | -0,9 | **-1,0** |
| **Total** | **-2,5** | **4,6** | **2,1** | **-2,3** | **4,8** | **2,5** | **0,3** | **-0,3** | **0,0** |

*Source: Annexes 3 and 6 of the RREO, Siconfi, National Treasury. Prepared by: IFI.*
** In an explanatory note to Annex 6 of the RREO for the 6th two-month period of 2025 of the State of Amapá, it is reported that, as of the closing date of the document, Amprev had not submitted the data related to the RPPS balance, which is why the figures in this item are recorded as zero.*

In 2025, the primary balance of the states deteriorated when measured as a share of RCL, as shown in Graph 5 and Table 7. Last year, the RPPS balance—a surplus of 0.33% of RCL—offset the deficit of 0.3% of RCL associated with resources not linked to the RPPS. As a result, the average primary surplus was 0.04% of RCL in 2025, or BRL 0.4 billion. As explained in the previous sections, the 2025 result is explained by the faster growth of primary expenditures relative to revenues.

## Conclusion

The deterioration in the fiscal position of the states and the Federal District in 2025 resulted from a progressive increase in primary expenditures vis-à-vis slower growth in primary revenues. This scenario calls for attention, as economic activity is currently expected to decelerate in response to the contractionary monetary policy. The cooling of economic activity, in turn, directly affects the states' main source of revenue, the ICMS, and also impacts federal revenues transferred to the states through the FPE. The progressive increase in personnel expenditure is also a relevant factor to highlight, given that these are expenditures of a continuing nature.

In the current context, this is particularly relevant as some states have increased their levels of investment, which could become adjustment variables should there be no improvement in the states' primary balances in the short term.

In 2023 and 2024, the RPPS primary balance worsened the aggregate primary balance of the states and the Federal District, a situation that reversed in 2025. This segregation allows the impact of potential capital injections into the RPPS to be distinguished from the fiscal policy conducted by the states. Despite this, the results of the other activities of the states offset these losses, with primary surpluses sufficient to compensate for the RPPS deficit. In 2025, the situation reversed: the RPPS recorded a primary surplus, while the other activities registered a deficit, resulting in an aggregate balance close to zero.

The recent situation calls for caution and close monitoring of the trajectory of state public finances. The range of measures available to address primary deficits in these entities is limited to increasing selected revenues and/or reducing discretionary expenditures. The states' main source of revenue, the ICMS, is subject to Brazilian legislation under which tax increases take effect only in the following fiscal year, which would push any potential adjustments to the next fiscal year.

On the expenditure side, the adjustment that can be undertaken falls on discretionary spending, which would indirectly imply a reduction in public investment and other current expenditures during the fiscal year, given the high share of state spending committed to personnel and the context of an election year, which would postpone any structural adjustments in public finances to future fiscal years.

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# Adjustment Through Revenue and the Import Tax: Regulation Versus Collection

Marcus Pestana e Gustavo Queiroz[32]

## Introduction

During the processing of the 2026 PLOA in the National Congress, an increase of BRL 14 billion in Import Tax revenue was introduced by the revenue rapporteur, Senator Dorinha Seabra (UB/TO), without detailing the assumptions underlying this budgetary new estimation. On February 4, 2026, the Executive Management Committee of the Chamber of Foreign Trade published Resolution GECEX No. 852[33] in the Official Gazette of the Union (DOU), formalizing the realignment of import tariffs on Capital Goods (BK) and Information Technology and Telecommunications Goods (BIT). The measure is expected to generate additional revenue between BRL 14 billion and BRL 20 billion in 2026. More than 1,200 products had their tariffs increased, including machinery, electronic components, computers, mobile phones, routers, servers, medical equipment, agricultural equipment, and construction equipment, among others.

Art. 153 of the Constitution of the Federative Republic of Brazil[34], included in Section III – Taxes of the Federal Government, provides in item I that the Federal Government has the exclusive authority to institute taxes on the importation of foreign products. Paragraph 1 further establishes that the Executive Branch may, subject to the conditions and limits established by law, change the tax rates of the taxes listed in items I, II, IV, and V, including the Import Tax.

Against the current backdrop of fiscal constraints, characterized by recurring primary deficits since 2014 and the rapid expansion of mandatory expenditures and rigid discretionary spending, the Federal Government has, since 2023, undertaken efforts to increase revenue through targeted tax increases. Within the tax structure, some taxes have a clearly revenue-raising nature and purpose (such as those levied on consumption, income, and wealth), while others are essentially regulatory in character (as is the case of the Financial Operations Tax (IOF) and the Import Tax (II)). Nevertheless, even taxes with a regulatory nature have been used as tools to increase Federal Government revenue. Changes introduced to the IOF contributed to a real increase of 21.3% in revenue in 2025, reaching BRL 86.4 billion, compared with BRL 67.7 billion collected in 2024[35]. Estimates indicate that the changes introduced to the Import Tax by the resolution of the Chamber of Foreign Trade (CAMEX) may generate up to BRL 20 billion in additional revenue, contributing to compliance,

[32] Respectively, Executive Director and Economics Intern at IFI.
[33] Available at: https://www.in.gov.br/web/dou/-/resolucao-gecex-n-852-de-4-de-fevereiro-de-2026- 685397607.
[34] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/constituicaocompilado.htm.
[35] Independent Fiscal Institution - Fiscal Follow-up Report, No. 108, January 2026, p. 15.

in the current year, with the targets established under the fiscal framework.Imposto de Importação e a história econômica do Brasil

## The Import Tax and the Economic History of Brazil

The Import Tax played a central role in public revenue collection during the imperial period and under the republican regime until the early 1940s[36]. This tax base corresponded to the agro-export stage of the Brazilian economy. During the imperial period, the Import Tax accounted for as much as two-thirds of total revenue. In 1889, the first year of the Republic, the Import Tax represented 55.6% of total revenue, reaching its peak in 1896, when it accounted for 76.1% of total collections[37]. From the 1940s onward, its share in total revenue declined sharply, falling to 9.5% in 1949, 5.5% in 1969, and 3.3% in 1987[38]. This shift in the structure of Brazil's tax system reflected the structural transformation of the national economy toward its new urban-industrial profile, beginning in the 1930s and especially in the postwar period, as the revenue function of import taxation was gradually replaced by taxes on consumption and income.

As shown in Table 8, the Import Tax has maintained a modest share of total revenue over the past decade, highlighting its predominantly regulatory role in foreign trade rather than a revenue-raising function. During this period, it reached a maximum of 3.21% in 2021 and a minimum of 2.30% in 2023. Measured as a share of Gross Domestic Product (GDP), the Import Tax also carries relatively little weight, fluctuating between 0.5% and 0.7% of GDP, while the Federal Government's total gross revenue ranged between 19.3% and 23.0% of GDP between 2016 and 2025.

**TABLE 8. IMPORT TAX, TOTAL REVENUE, AND GDP (IN BRL BILLION AS OF DECEMBER 25)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue (BRL) | 2.079,3 | 2.112,0 | 2.193,7 | 2.320,3 | 2.016,2 | 2.451,9 | 2.689,9 | 2.616,1 | 2.852,8 | 2.943,6 |
| Import Tax (BRL) | 49,6 | 49,5 | 59,9 | 61,1 | 62,8 | 78,7 | 68,7 | 60,3 | 82,7 | 91,7 |
| Import Tax in relation to Total Revenue | 2,4% | 2,3% | 2,7% | 2,6% | 3,1% | 3,2% | 2,6% | 2,3% | 2,9% | 3,1% |
| Total Revenue (% of GDP) | | | | | | | | | | |
| Import Tax (% of GDP) | 21,0% | 21,0% | 21,3% | 22,1% | 19,3% | 21,4% | 23,0% | 21,5% | 22,7% | 22,8% |
| Total Revenue (BRL) | 0,5% | 0,5% | 0,6% | 0,6% | 0,6% | 0,7% | 0,6% | 0,5% | 0,7% | 0,7% |

*Source: RTN (National Treasury Report). Prepared by: IFI.*

[36] A Evolução do Sistema Tributário Brasileiro ao Longo do Século: Anotações e Reflexões para Futuras Reformas – Ricardo Varsano - Texto para Discussão nº 405 – IPEA. Available at: https://repositorio.ipea.gov.br/entities/publication/74a96bec-2245-4bcb-9987-ee216908eddb.

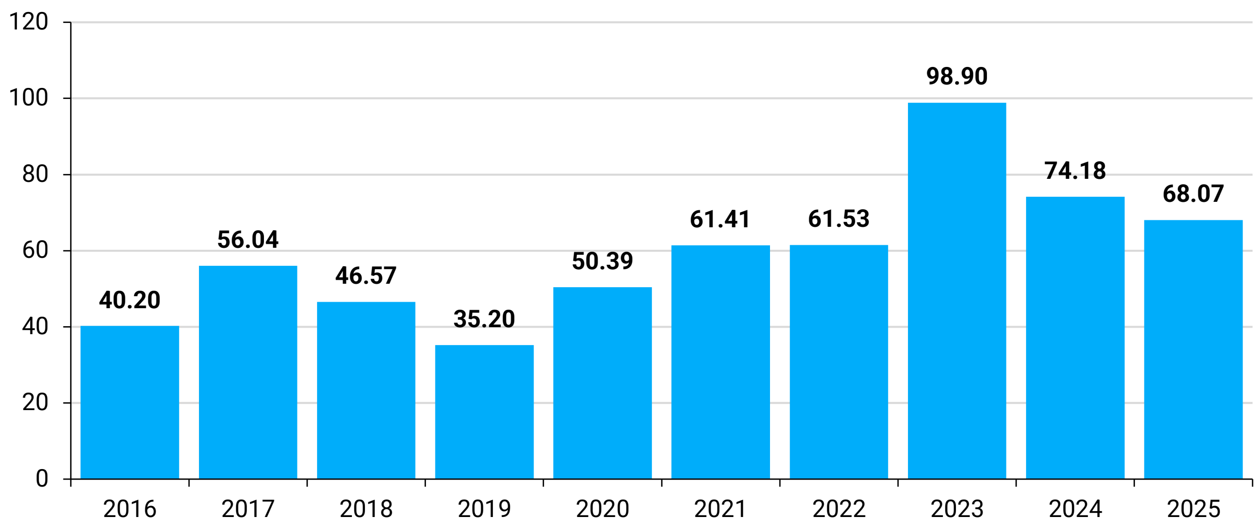
[37] A Ordem do Progresso – Cem Anos de Política Econômica Republicana (1889-1989) – Anexo Estatístico, Pages 388-412 - Marcelo de Paiva (organiz.) -Editora Campus Ed. 1.

[38] A Ordem do Progresso – Cem Anos de Política Econômica Republicana (1889-1989) – Anexo Estatístico, Pages 388-412 - Marcelo de Paiva (organizador) -Editora Campus Ed. 1.

## Context of the change introduced for 2026

The decision to realign the Import Tax rates on Capital Goods and Information Technology and Telecommunications Goods, formalized by Resolution GECEX No. 852 of February 4, 2026, which may generate additional annual revenue between BRL 14 billion and BRL 20 billion, was based on Technical Note SEI No. 501/2026/MF[39]. The document highlights the importance of the trade balance in mitigating the current account deficit arising from negative results in the services and income accounts of the balance of payments. It also expresses concern about the trajectory of the trade balance, shown in Graph 7, which, after reaching a record surplus of USD 98.8 billion in 2023, declined to USD 74.1 billion in 2024 and USD 68.0 billion in 2025.

### GRAPH 7. BRAZIL'S TRADE BALANCE

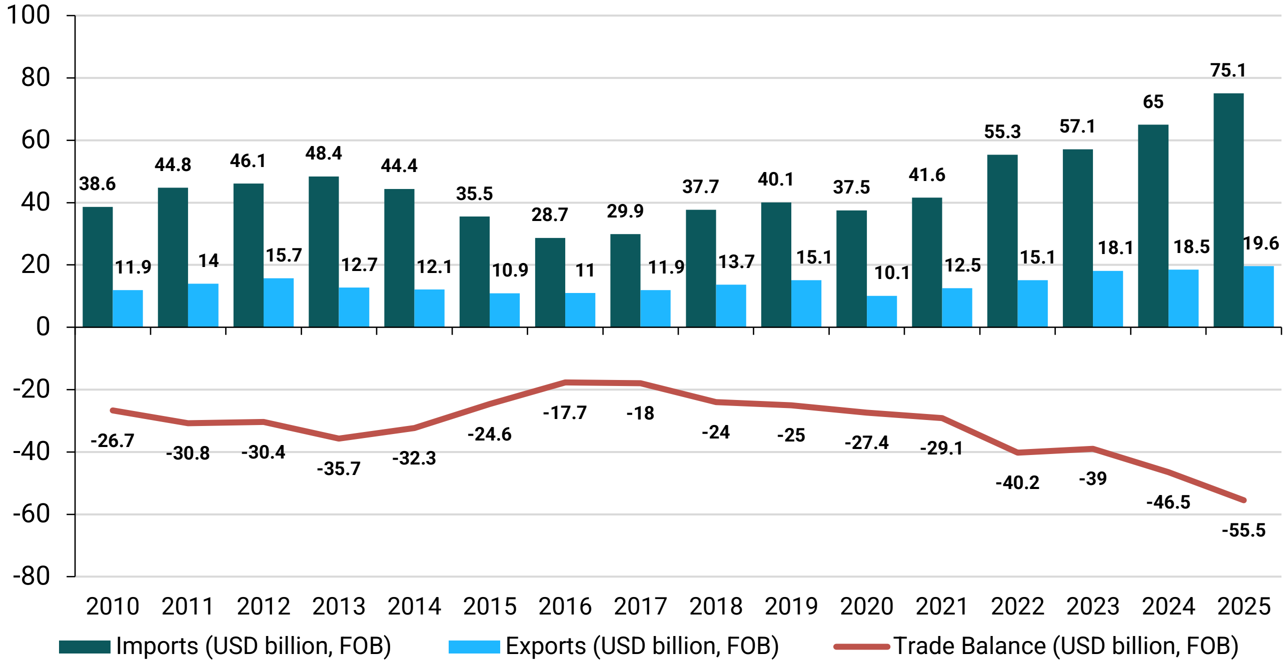



*Source: Ministry of Development, Industry, Trade, and Services*

In the dynamics of the trade balance and its effects on the current account, Technical Note SEI No. 501/2026/MF identifies the growing deficit generated by the gap between imports and exports of Capital Goods and Information Technology and Telecommunications Goods as one of the main drivers. The figures are presented in Graph 8 below:

[39] Available at: https://www.gov.br/mdic/pt-br/assuntos/camex/outros- documentos/notas/deferimentos/233a-reuniao-ordinaria-do-comite-executivo-de-gestao- gecex/nota_tecnica_501_mf_2026.pdf/.

**GRÁFICO 1. BALANÇA COMERCIAL DE BK E BIT – VALORES FOB (EM US$ BILHÕES)**




*Source: Comexstat, compiled in Technical Note SEI No. 501/2026/MF.*

Indeed, the trade balance of these two economic segments reflects a worsening of the sectoral deficit, which rose from USD 17.7 billion in 2016 to USD 55.4 billion in 2025. Accordingly, the increase in the Import Tax rates on BK and BIT would have a regulatory motivation related to foreign trade rather than a revenue-raising one, partially discouraging imports of these goods and stimulating the domestic production of a portion of these items. Therefore, the additional revenue of BRL 14 billion to BRL 20 billion in 2026 would be merely a positive side effect from a fiscal standpoint of a measure centered on correcting a growing and concerning distortion in external trade transactions in the two sectors affected by GECEX Resolution No. 852 of February 4, 2026.

Government officials have emphasized that the measure aims to protect domestic industry from foreign competition and to induce a partial substitution of imports with domestic production. The focus, therefore, would not be fiscal, through the increase in Import Tax revenue included in the budget, but rather on the management of foreign trade policy and the promotion of industrial development. However, while the revenue effect is immediate, the substitution of imported products and inputs with domestic production, if it occurs, will materialize only in the medium to long term. Government spokespersons downplay the possibility of higher prices in the production chains affected by the measure and of difficulties in the supply of inputs, concerns raised by business leaders and specialists. According to representatives of the Ministry of Development, Industry, Trade and Services (MDIC), strategic sectors will not be affected and will continue to be supported through other instruments of the economic development policy, and only products with domestic equivalents will be subject to the tax increase. The industrializing effect of protectionist measures through import tariffs throughout Brazilian economic history remains a controversial issue in the specialized literature[40] and is contradicted by recent empirical evidence, such as the initial results of the tariff increases adopted by the administration of President Donald Trump in the United States.

The following questions remain: How much did the fiscal squeeze and the need for new revenues to balance the 2026 federal budget influence the decision to raise the import tax on BK and BIT? Should Brazil not take a broader view of its trade balance, seeking to offset possible sectoral deficits by expanding the surplus in other sectors where the country is more competitive, such as agribusiness and mining? How effective will the increase in import tax rates be in correcting sectoral imbalances in foreign trade and inducing a new cycle of import substitution? Would a protectionist measure contradict the approach Brazil has taken in discussions about the trade agreement involving Brazil, Mercosur, and the European Union, as well as Brazil's response to the tariff increases imposed by the U.S. government? Most importantly, given that stagnant productivity growth is the country's greatest economic challenge, will raising the import tax on capital goods and information technology and telecommunications goods—essential for investments in the modernization of the Brazilian economy and boosting productivity—exacerbate the structural bottlenecks hindering the technological leap necessary for accelerated and sustained development?

These are strategic issues and warnings raised by the IFI to help inform the debate among the government, the National Congress, and the country's economic and social leaders.

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[40] A Evolução do Sistema Tributário Brasileiro ao Longo do Século: Anotações e Reflexões para Futuras Reformas – Ricardo Varsano - Texto para Discussão nº 405 – IPEA. Available at: https://repositorio.ipea.gov.br/entities/publication/74a96bec-2245-4bcb-9987-ee216908eddb.

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## PROJEÇÕES DA IFI

### CURTO PRAZO

| IFI projections | 2026 | | | 2027 | | |
|---|---|---|---|---|---|---|
| | Jan/26 | Feb/26 | Comparison | Jan/26 | Feb/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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