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The War with Iran and Its Fiscal Impacts

The 111th Fiscal Follow-up Report (RAF, kept here in its original acronym, as are the acronyms of other Brazilian institutions, programs, and indicators), published by the Independent Fiscal Institution (IFI), focuses on the macroeconomic and fiscal impacts of the conflict involving the United States and Israel against Iran.

For more than six weeks, the global economy has been feeling the effects of this conflict, which has spread across an expanded area encompassing Saudi Arabia, Qatar, Bahrain, Iraq, Kuwait, and Lebanon. The sharp rise in oil prices, the primary commodity still capable of disrupting the global energy matrix, production chains, and international trade flows, has pushed the economy into a spiral of uncertainty and concern. The surge in Brent crude prices from USD 71 to over USD 100 per barrel has raised warnings about the possibility of a cycle marked by multiple consequences: a sharpening of inflation on a global scale, a contraction in trade and economic activity, disruptions to logistical supply chains, or even a persistent global energy crisis, depending on the extent to which the oil production infrastructure of the Middle East is compromised.

The recent period has been marked by high volatility, with expectations and projections shifting in response to developments related to the escalation or de-escalation of the armed conflict and the ongoing political impasse. The initial failure of negotiations, mediated by Pakistan, has sustained uncertainty regarding the scope and duration of the conflict's effects. The intensification of tensions between the United States and Iran over maritime transit through the Strait of Hormuz — the waterway connecting the Persian Gulf to the Indian Ocean, through which around 20% of global oil production is transported — has reinforced a risk environment that threatens the economic outlook for 2026.

Although Brazil is an oil-producing country with a relatively strong external sector and exchange rate position, it is expected to be affected, to some extent, by the international crisis through other macroeconomic variables, including inflation, interest rates, foreign trade, and economic growth.

RAF No. 111 seeks to provide a preliminary, non-conclusive assessment of some of the impacts of the oil shock, as the high volatility of the current environment does not allow for firm forecasts. The report estimates effects on inflation, public revenues, and expenditures, and projects the gains and costs of the main government measures.

On the one hand, subsidies were granted to diesel producers and importers and to LPG (Liquefied Petroleum Gas), credit lines were introduced to support airlines' working capital, the collection of air navigation charges was deferred, and PIS/Cofins exemptions were applied to biodiesel and aviation kerosene — measures that entail additional expenditure and foregone revenue. On the other hand, there are direct positive effects on Petrobras dividends, improved revenue from royalties and special participations on domestic oil production, higher proceeds from the sale of oil by the Federal Government under the production-sharing regime, and indirect effects from rising inflation on tax revenues. The increase in revenue will also have positive effects on states and municipalities.

It should be noted that, in an effort to preserve the fiscal neutrality of the set of measures adopted to mitigate the effects of the crisis, the Federal Government imposed taxes on oil and diesel exports — a measure provisionally suspended by the Federal Court — and enacted an increase in the Industrialized Product Tax (IPI) on cigarettes, as compensatory revenue measures.

The 111th Fiscal Follow-up Report (RAF) also points to a subsequent increase in mandatory expenditures, driven by the impact of rising inflation on the adjustment of the minimum wage from 2027 onward. The minimum wage indexes the floor of social security benefits, the Continuous Cash Benefit (BPC), the unemployment benefit, and the salary allowance. Impacts on financial expenditures related to interest payments are also expected, due to the slowdown in the pace of the anticipated decline in the Selic rate.

As noted, the IFI presents in this RAF simulation exercises of the impacts under an extremely volatile and unpredictable scenario. In June, the Independent Fiscal Institution will update its medium-term macroeconomic and fiscal scenarios.

We hope you find this report useful.

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Independent Fiscal Institution

Highlights

A Preliminary Assessment of the Oil Shock on the Economy and the Federal Government's Fiscal Position

The IFI presents a sensitivity analysis to assess the impacts of the conflict in the Middle East on inflation and nominal GDP in Brazil in 2026 and 2027, based on two scenarios for the Brent crude oil price. The estimates indicate an impact of 0.7 to 1.0 p.p. on the IPCA in 2026, driven by direct and indirect effects along the production chain, with some persistence in 2027. The results suggest that a 10% increase in the Brent price is associated with an increase of approximately 0.2 p.p. in the IPCA. This association, however, is not fixed, as it depends on the assumptions of the exercise, the degree of pass-through to domestic prices, and the implementation of stabilization measures in the fuel market. **(Page 6)**

Analysis of the Impact on Selected Government Revenues (2026–2027)

The exercises conducted by the IFI indicate that higher oil prices will have a positive impact on federal revenue in the short term. This occurs through both direct and indirect effects. The direct effects stem from higher collections related to the exploitation of natural resources, as this revenue is directly linked to oil prices in the international market. The indirect effects arise from the impact of oil prices on inflation indices, which affect tax bases. This expansion of the tax base leads to positive effects on collections of administered revenues [those collected by the Federal Revenue Office (RFB)] and on net revenue for the General Social Security System (RGPS). **(Page 14)**

Analysis of the Impact on Primary Expenditure

An exercise conducted by the IFI shows that, despite the deterioration in macroeconomic parameters, there would be some relief in the primary balance of the central government in 2026 and 2027, driven by revenue gains from oil. Primary expenditure measures to mitigate the oil crisis, including subsidies for diesel and liquefied petroleum gas (LPG), currently total BRL 14.3 billion. The Executive Branch has proposed compensatory measures through an export tax. Although the exercise indicates improvement, the situation calls for caution, given the degree of uncertainty in the international environment. **(Page18)**

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Independent Fiscal Institution

A Preliminary Assessment of the Oil Shock on the Economy and the Federal Government's Fiscal Position

Initial considerations

This report presents exercises conducted by the IFI to quantify selected impacts of the conflict in the Middle East on the domestic economy in 2026 and 2027. So far, the conflict has increased uncertainty in the global economic environment due to its effects on oil supply. The resulting scarcity may worsen inflation and interest rate outlooks across countries, thereby reducing global economic growth.

The IFI conducted simulations to assess the initial impacts of the conflict on selected macroeconomic variables, including domestic inflation, the GDP implicit deflator, and economic growth. The exercises considered two distinct scenarios for oil prices in the international market. In addition, the analysis sought to quantify the effects on selected fiscal variables and on the primary balance of the central government in 2026 and 2027.

As expected, the results suggest higher inflation in the economy. Although not discussed in the text, given that the purpose of the analysis is not to revise the IFI's projections for macroeconomic and fiscal variables at this time, higher price levels will influence the conduct of monetary policy by the Central Bank and, consequently, fiscal policy itself.

Higher oil prices will affect fiscal variables in several ways. First, through their impact on government revenues and expenditures. The shock supports revenues through both direct and indirect effects. The direct effects occur on certain non-administered revenues, such as dividends (through their impact on Petrobras' profits) and revenues from the exploitation of natural resources, including collections of royalties and participations from oil extraction, as well as proceeds from oil sales by the Federal Government under production-sharing contracts. The indirect effects will materialize in administered revenues and in net revenue for the General Social Security System (RGPS), as a result of the expansion of tax bases for certain taxes.

With the exception of measures adopted to mitigate the effects of the shock on fuel prices and the indexation of certain expenditures to revenue performance, the impact on expenditures materializes at a later stage, mainly due to the effect of inflation on the adjustment of the minimum wage. Slightly more than half of the Federal Government's primary expenditure corresponds to the payment of social security and assistance benefits, which are linked to the variation of the minimum wage, which in turn is adjusted based on past inflation.

Another indirect effect of the shock on fiscal variables arises from potential changes in the conduct of monetary policy. Higher Selic rates and inflation affect public sector interest expenditures. The most relevant impact stems from the Selic rate, given that about half of public debt consists of floating-rate securities.

The next subsection of this document summarizes the measures adopted so far by the Executive Branch to mitigate the effects of oil price fluctuations on fuel costs in Brazil. The following subsections present the direct and indirect impacts on macroeconomic and fiscal variables (revenues, primary expenditure, and the primary balance).

Measures adopted by the government

In March and April, the Executive Branch adopted measures to mitigate the effects of a global energy crisis, stemming from the conflicts in the Middle East, on the domestic economy. The first instrument used by the government was Provisional Measure (MP) No. 1,340[1], of March 12, 2026, which granted a subsidy of BRL 0.32 per liter of diesel to producers and importers, with validity limited to December 31, 2026, and capped at BRL 10.0 billion. To offset this subsidy, export tax rates were introduced, set at 12% on oil and 50% on diesel, for the duration of the subsidy. The MP also amended existing legislation to strengthen enforcement against abusive practices and ensure the pass-through of the subsidy to final consumers.

Subsequently, on April 7, 2026, Provisional Measure (MP) No. 1,349[2] was enacted, expanding government actions in response to the oil shock. To this end, the measure established financing and oversight mechanisms, in addition to integrating and expanding the diesel subsidy created by MP No. 1,340.

Provisional Measure (MP) No. 1,349 established a special legal framework to ensure energy sovereignty and the national supply of petroleum derivatives. It also created a model of federative cooperation under which states and the Federal District may voluntarily participate. Under this model, a subsidy for road diesel will be granted in the amount of BRL 1.20 per liter, to be financed equally by the Federal Government (BRL 0.60) and the states (BRL 0.60). The MP also created a subsidy for Liquefied Petroleum Gas (LPG), or cooking gas, of up to BRL 850.00 per ton imported. These measures will remain in effect until May 31, 2026.

With respect to the provisions of the earlier measure (MP No. 1,340), the subsequent MP No. 1,349: (i) incorporated the subsidy into the framework established by the new measure (Emergency Regime for the Domestic Supply of Fuels); (ii) added BRL 0.80 per liter to the original subsidy of BRL 0.32 for the period from April 7 to May 31, 2026; (iii) revised the

[1] Bill Processing Page: https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/173051.
[2] Legislative Proposal Processing Page: https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/173530.

pricing formula so that the eligible operator deducts the total amount of subsidies (from both measures) from the regional reference price; (iv) specified that the export tax levied on diesel applies to road diesel; (v) authorized the Executive Branch to relax the overall cap of BRL 10 billion originally set for financing the subsidy measures; and (vi) established new eligibility requirements for diesel importers.

Provisional Measure (MP) No. 1,349 also established a credit line for working capital for companies in the aviation sector, in the amount of BRL 1.0 billion, with credit risk borne by the Federal Government. It also deferred the payment of air navigation charges by airlines from June, July, and August 2026 to December.

In addition to the two provisional measures, the Executive Branch issued three decrees to regulate the measures introduced by those legal instruments, as well as the compensatory revenue measures. Decree No. 12,922[3] increased the IPI tax burden on cigarettes. Decree No. 12,923[4] established a temporary exemption, from April 7 to May 31, including on imports, from PIS/Cofins rates levied on biodiesel. Finally, Decree No. 12,924[5] reduced PIS/Cofins rates, from April 8 to May 31, on aviation kerosene.

Sensitivity analysis of the oil shock on inflation and nominal GDP (2026–2027)

This subsection presents a sensitivity analysis of inflation and nominal GDP to the energy supply shock associated with the conflict in the Middle East. The analysis is limited to quantifying the conditional impacts on these variables in 2026 and 2027, while, for the time being, keeping the IFI's baseline scenario projections, published in RAF No. 107, of December 2025[6], unchanged. A comprehensive review of the scenarios is scheduled for June.

Oil price scenarios

The conflict between the United States, Israel, and Iran in the Middle East led to a sharp increase in oil prices, from USD 71 at the end of February to USD 102 at the end of March. This movement reflects heightened military and geopolitical risks, as well as concerns about supply disruptions, given the restrictions on commercial traffic through the Strait of Hormuz, through which around 20% of global oil production is transported.

[3] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2026/decreto/D12922.htm.
[4] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2026/decreto/D12923.htm.
[5] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2026/decreto/D12924.htm.
[6] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2026/decreto/D12924.htm.

GRAPH 1. BRENT CRUDE OIL PRICE



Source: U.S. Energy Information Administration (EIA)

Given the uncertainty regarding the extent, depth, and nature of the shock — whether temporary or structural — alternative paths for oil prices were considered. As a reference, the IFI's baseline scenario, released in December 2025, assumed an average Brent price of USD 66.50 in 2026 and 2027.

In the first scenario, the price of Brent crude oil follows the futures curve traded on the Intercontinental Exchange (ICE)[7], implying a gradual dissipation over time. Based on data collected on April 1, convergence is observed toward an annual average of USD 86.90 in 2026 and USD 74.00 in 2027.

In the second scenario, Brent follows the futures curve in the short term and subsequently grows at a rate of 2% per year. This assumption aims to stabilize prices in real terms and results in a more persistent scenario, consistent with potential structural damage to energy infrastructure, which would keep oil prices at elevated levels for a prolonged period. In this case, the average price would rise to USD 96.80 in 2026 and USD 107.90 in 2027.

Impact on inflation

With the oil price paths established, the effect on inflation is analyzed. Transmission occurs through direct and indirect channels, conditioned both by the level of Brent prices and by the degree of pass-through to domestic prices, particularly through adjustments aimed at reducing the gap between domestic fuel prices and international prices.

[7] Intercontinental Exchange (ICE). Brent futures contract data. Available at: https://www.ice.com/products/219/Brent-Crude-Futures/data?marketId6018433.

The direct impact is concentrated on gasoline prices. Given the gap relative to international prices, estimated by the Brazilian Association of Fuel Importers (Abicom)[8] at 54% in early April, a formal adjustment by Petrobras of 25% in refinery selling prices is assumed, with the aim of reducing this difference. This assumption is intended to be consistent with the company's current pricing policy, which no longer follows strict parity with international prices, seeking instead to smooth the pass-through of short-term external shocks to domestic consumers. The impact is calculated considering the weight of gasoline in the index (5.24%) and Petrobras' share in the final price (27%)[9].

The indirect impact occurs through higher diesel and freight costs, with spillovers along the production chain. This effect is captured by an equation that relates market-determined price inflation to past inflation, expectations, imported inflation (commodity prices in BRL), and economic activity, following the methodology of the Central Bank of Brazil's projection models[10].

In both scenarios, the assumptions for inflation expectations, the exchange rate, and the output gap follow those of the baseline scenario — derived, respectively, from the Focus Report, purchasing power parity, and the IS curve — with only the oil price varying, which constitutes the main differentiating factor between the scenarios. The Central Bank's Commodity Price Index (IC-Br) is used, in which energy commodities account for about 30%, with only the Brent price varying.

Table 1 summarizes the assumptions of the exercise, while Table 2 presents the inflation results under the two oil price scenarios.

TABLE 1. ASSUMPTIONS

Stage	Element	Scenario 1: normalization	Scenario2: persistence
External shock	Brent Oil Prices	Futures contracts (ICE, April 1 data)	Futures contracts in the first three months + 2% per year
Direct pass-through	Gasoline (refinery price adjustment)	25%	40%
Indirect pass-through	Diesel (freight and production chain)	Lower impact via the Commodity Price Index	Higher impact via the Commodity Price Index

Source: IFI.

[8] PPI Reports. Available at: https://abicom.com.br/ppi/ppi-01-04-2026/.
[9] Petrobras. Gasoline pricing structure. Available at: https://precos.petrobras.com.br/sele%C3%A7%C3%A3o-de-estados-gasolina.
[10] Central Bank of Brazil. Inflation Report, June 2024. Available at: https://www.bcb.gov.br/content/ri/relatorioinflacao/202406/ri202406b12p.pdf.

Overall, the total effect on the IPCA in 2026 would be +0.7 p.p. (under the normalization scenario) and +1.0 p.p. under the persistence scenario. For 2027, an additional effect of +0.2 to +0.5 p.p. is estimated, reflecting the inertia of the 2026 shock, without assuming further gasoline price adjustments

TABLE 2. IMPACTS OF THE SHOCK ON THE IPCA

Scenario	2026	2027
Normalization	+0.7	+0.2
Persistence	+1.0	+0.5

Source: IFI.

The exercise implicitly suggests that a 10% increase in the Brent price is associated with an increase of around 0.2 p.p. in the IPCA. This result, however, depends on the assumptions adopted and should not be interpreted as a fixed relationship, as it is sensitive, among other factors, to the degree of pass-through to domestic prices and to the effects of measures aimed at stabilizing the fuel market.

In this context, Provisional Measure (MP) No. 1,349 expanded the diesel subsidy and introduced a subsidy for cooking gas (LPG), while Decrees No. 12,923 and 12,924 reduced PIS/Cofins rates on biodiesel and aviation kerosene. The effect of these measures on the IPCA, through costs along the production chain, is difficult to quantify.

Finally, the results do not incorporate additional pressures associated with potential disruptions in the global supply of fertilizers, which could affect agricultural costs and inflation in 2027.

Impacts on nominal GDP

Real GDP growth is assumed to remain constant at 1.7% in 2026 and 2.0% in 2027, in line with the baseline scenario presented in the previously referenced RAF No. 107, of December 2025. This assumption reflects a broadly neutral balance of the effects of the shock in a net oil-exporting economy.

On the one hand, higher oil prices improve the terms of trade, increasing external income, the profitability of the extractive sector, and revenue collection. On the other hand, this effect is offset by adverse factors, such as the compression of households' real income, tighter financial conditions — with higher interest rates for longer — and weaker external demand. The OECD[11] highlights that the resilience of the global economy observed in 2025 has been tested by the conflict, with rising costs and declining demand.

[11] OECD. Economic Outlook – Interim Report, March 2026. Available at: https://www.oecd.org/en/publications/2026/03/oecd-economic-outlook-interim-report-march-2026_254a8d56.html.

Although the exercise maintains the assumption of neutrality for real GDP in both scenarios, for simplicity, the risks to activity are asymmetric and tilted to the downside in the more persistent shock scenario. A prolonged increase in oil prices may take on the characteristics of a classic supply shock, combining higher inflation with lower growth, as tighter financial conditions, income compression, and weaker global momentum outweigh gains from improved terms of trade.

Table 3 summarizes the effects on inflation and nominal GDP over the 2026–2027 period. The increase in nominal GDP this year and the next reflects the rise in the deflator, given that real GDP is held constant in the exercise.

TABLE 3. EFFECTS OF THE SHOCK ON INFLATION AND NOMINAL GDP

Variable	IFI: baseline scenario Dec/25	Scenario 1: normalization	Scenario2: persistence
2026			
Brent (USD/barrel)	66.5	86.9	96.8
IPCA	3.9%	4.5%	4.9%
GDP Deflator	4.0%	4.4%	5.4%
Real GDP (Var.)	1.7%	1.7%	1.7%
Nominal GDP (BRL bi)	13,432.1	13,522.8	13,657.6
2027			
Brent (USD/barrel)	66.5	74.0	107.9
IPCA	3.5%	3.7%	4.0%
GDP Deflator	4.0%	4.2%	4.7%
Real GDP (Var.)	2.0%	2.0%	2.0%
Nominal GDP (BRL bi)	14,244.8	14,372.4	14,581.8

Source: IFI.

Comparison with the 2026 Annual Budget Law (LOA) and the RARDP

The projections of the 2026 Annual Budget Law (LOA) and the IFI (RAF No. 107, of December 2025) reflect a pre-shock scenario, with oil prices at levels below those observed after the intensification of the conflict, while the Primary Revenue and Expenditure Assessment Report[12] (RARDP) for the 1st two-month period of 2026 only partially incorporates this increase. In this context, the LOA projects IPCA inflation of 3.6% in 2026, compared with 3.74% in the RARDP, whereas the simulations presented in this subsection indicate inflation between 4.5% and 4.9%.

Part of this difference reflects the time lag in setting assumptions in a highly volatile environment. While the Primary Revenue and Expenditure Assessment Report (RARDP) for

[12] Brazil. Ministry of Finance. Primary Revenue and Expenditure Assessment Report – RARDP (1st two-month period de 2026). Available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2026/13.

the 1st two-month period uses the set of parameters from the Secretariat of Economic Policy (SPE) of the Ministry of Finance, as of early March, the IFI's estimates are based on information from early April, which takes into account the rapid increase in oil prices to levels above USD 100 over the course of March.

TABLE 4. MACROECONOMIC VARIABLES

Variable	2026 LOA	RARDP 1st two months of 2026
2026		
Brent (US$/barril)	64.9	73.1
IPCA	3.6%	3.7%
Deflator do PIB	5.3%	4.4%
PIB real (Var.)	2.4%	2.3%
PIB nominal (R$ bi)	13.286	13.605
2027		
Brent (US$/barril)	65.6	67.7
IPCA	3.1%	3.0%
Deflator do PIB	5.0%	5.0%
PIB real (Var.)	2.6%	2.5%
PIB nominal (R$ bi)	14.897	14.643

Source: SPE/MF and the Ministry of Planning.

Analysis of the Impact on Selected Government Revenues (2026–2027)

This section presents the results of simulations conducted to assess the effect of the oil price shock on selected government revenues. The impacts would be both direct and indirect. Higher oil prices directly affect revenues from royalties and special participations received by the Federal Government, which are part of the central government's natural resource revenues and are shared with states and municipalities.

Another direct effect on revenue in 2026 would arise from the introduction of a 12% export tax on crude oil (MP No. 1,340). For the purposes of the simulation, the IFI did not consider the impact of the 50% export tax on diesel, as it assumes that export volumes will be zero. Revenue from the export tax is part of the central government's administered revenues [those collected by the Federal Revenue Office (RFB)].

In Simulation 1, the IFI's estimates assume BRL 14.8 billion in revenue from the export tax on oil. In Simulation 2, the revenue obtained would amount to BRL 16.5 billion. These collections would be recorded over four months of the year.

There are also indirect effects of the oil shock on revenue collection. As discussed in the previous subsection, higher oil prices affect domestic inflation and the GDP implicit deflator, increasing tax bases and thereby influencing administered revenues and net revenue for the General Social Security System (RGPS). The impact on Petrobras' dividend payments is more difficult to estimate, as it depends on several assumptions, such as the price gap maintained by the company between domestic fuel prices and international prices. The larger the gap, the greater the impact on the company's cash flow and, consequently, on profits. In any case, higher oil prices tend to increase Petrobras' profits, generating a positive effect on dividend payments.

For the purposes of the simulation, the IFI considered the direct impacts (royalties and special participations, and the export tax on oil) and the indirect impacts on administered revenues and net revenue for the RGPS. The exercise did not consider potential impacts on Petrobras' dividend payments.

Table 5 presents the results of the IFI's simulations for the central government's administered revenues. As shown in Table 3, Scenario 1 (normalization) assumes an average Brent price of USD 86.90 in 2026 and USD 74.00 in 2027; Scenario 2 (persistence) assumes Brent prices of USD 96.80 in 2026 and USD 107.90 in the following year. The comparison is made with the IFI's baseline scenario presented in RAF No. 107, of December 2025.

According to the results, under Simulation Scenario 1, administered revenues could increase by BRL 25.9 billion in 2026 and by BRL 42.0 billion in 2027, if the average Brent price remains at the assumed levels (USD 86.90 and USD 74.00, respectively). Under Scenario 2, the gains

would be larger: BRL 56.9 billion in 2026 and BRL 82.2 billion in 2027. The effects on administered revenue would be both direct (export tax) and indirect (expansion of tax bases for certain taxes).

TABLE 5. SIMULATIONS OF IMPACT ON CENTRAL GOVERNMENT ADMINISTERED REVENUES (BRL BILLIONS) – 2026 AND 2027

Ano	Receitas administradas				
	RAF nº 107 (dez/25)	Cenário 1	Cenário 2	Dif. Cen.1-RAF107	Dif. Cen.2-RAF107
2026	2.055,4	2.081,3	2.112,3	25,9	56,9
2027	2.147,4	2.189,4	2.229,6	42,0	82,2

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

Table 6 presents the same simulation for net revenue for the RGPS. According to the analysis, the impact on this revenue under Scenario 1 would be BRL 6.6 billion in 2026 and BRL 5.2 billion in 2027. Under Scenario 2, the increase in revenue would be BRL 14.0 billion and BRL 16.7 billion, respectively. The comparisons were made with the estimates presented by the IFI in the previously mentioned RAF No. 107, of December 2025.

TABLE 6. SIMULATIONS OF IMPACT ON NET REVENUE FOR THE RGPS (BRL BILLIONS) – 2026 AND 2027

Year	Net revenue for the RGPS				
	RAF No. 107 (Dec/25)	Scenario 1	Scenario 2	Dif. Cen.1-RAF107	Dif. Cen.2-RAF107
2026	726.3	732.9	740.3	6.6	14.0
2027	777.5	782.7	794.2	5.2	16.7

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

Table 7 presents the results of the impacts of higher oil prices on revenues from royalties and special participations from oil extraction in the short term. Under Scenario 1, the difference in collections would reach BRL 24.5 billion in 2026 and BRL 28.4 billion in 2027, compared with the projections of the baseline scenario in RAF No. 107. Under Scenario 2, the additional revenue would amount to BRL 45.8 billion in 2026 and BRL 102.9 billion in the following year.

TABLE 7. SIMULATIONS OF IMPACT ON ROYALTIES AND OIL SPECIAL PARTICIPATIONS REVENUES (BRL BILLIONS) – 2026 AND 2027

Year	Royalties and Oil Special Participations Revenues				
	RAF No. 107 (Dec/25)	Scenario 1	Scenario 2	Diff. Scen.1-RAF107	Dif. Scen.2-RAF107
2026	149.4	173.9	195.1	24.5	45.8
2027	121.3	149.7	224.2	28.4	102.9

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

The potential increase in federal revenues driven by higher oil prices in the international market would raise transfers to states and municipalities, given the legal requirement to share certain revenues affected by the energy shock. The increase in transfers would occur mainly through the Income Tax (IR) and revenues from the exploitation of natural resources (a category that includes royalties and oil special participations).

Table 8 presents the impacts of the IFI's simulation on revenue-sharing transfers. According to the results, the sharing of federal revenues with other federative entities would increase by BRL 19.3 billion in 2026 and BRL 26.4 billion in 2027 under Scenario 1. Under Scenario 2, transfers would increase by BRL 35.4 billion in 2026 and BRL 76.8 billion in 2027.

TABLE 8. SIMULATIONS OF IMPACT ON TRANSFERS TO STATES AND MUNICIPALITIES (BRL BILLIONS) – 2026 AND 2027

Year	Revenue-sharing transfers				
	RAF No.107 (Dec/25)	Scenario 1	Scenario 2	Diff. Scen.1-RAF107	Dif. Scen.2-RAF107
2026	625.4	644.7	660.8	19.3	35.4
2027	661.8	688.2	738.7	26.4	76.8

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

For illustrative purposes, the impact of higher royalty revenues on transfers to states and municipalities would be as follows: (i) under Scenario 1, of the BRL 19.3 billion increase in 2026, BRL 13.6 billion would come from royalties and special participations, while of the BRL 26.4 billion increase in 2027, BRL 15.7 billion would come from oil exploitation; and (ii) under Scenario 2, the impact of oil revenues on transfers would amount to BRL 25.4 billion in 2026 and BRL 57.1 billion in 2027.

To conclude this subsection, Table 9 presents the effects of the simulations on the central government's Net Primary Revenue After Transfers this year and the next. Net revenue corresponds to total primary revenue net of revenue-sharing transfers to states and municipalities.

TABLE 9. SIMULATIONS OF IMPACT ON CENTRAL GOVERNMENT NET REVENUE (BRL BILLIONS) – 2026 AND 2027

Year	Net Revenue				
	RAF nº 107 (dez/25)	Cenário 1	Cenário 2	Dif. Cen.1-RAF107	Dif. Cen.2-RAF107
2026	2,530.4	2,582.7	2,630.1	52.2	99.6
2027	2,618.7	2,660.8	2,740.0	42.1	121.4

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

According to Table 9, the effects of higher oil prices on the Federal Government's net revenue would be, under Scenario 1, BRL 52.2 billion in 2026 and BRL 42.1 billion in 2027. Under Scenario 2, the impacts would reach BRL 99.6 billion in 2026 and BRL 121.4 billion in the following year, always in comparison with the projections of the baseline scenario presented in RAF No. 107.

Analysis of the Impact on Primary Expenditure

Relative to the IFI's current baseline scenario, published in RAF No. 107, of December 2025, the simulations conducted to assess the effects of the oil price shock on fiscal variables indicate limited changes in primary expenditure. This holds even when considering, for 2026, the incorporation of additional appropriations, the effects of revenue indexation for certain groups of primary expenditures, and the impact of inflation on some expenditure items.

For 2027, however, there is greater uncertainty regarding the impact of the shock, due to inflationary effects and the increase in revenues from royalties and special participations in the Federal Government's primary revenue.

Table 10 illustrates the differences between the projections of RAF No. 107 and the scenarios of oil price normalization (Scenario 1) and persistence (Scenario 2) for 2026.

TABLE 10. IMPACTS ON THE ABOVE-THE-LINE PRIMARY BALANCE (BRL BILLIONS AND % OF GDP) – 2026

	RAF No. 107 (Dec/25)		Scenario 1		Scenario 2	
	BRL billions	% of GDP	BRL billions	% of GDP	BRL billions	% of GDP
Total Primary Revenue	**3.155.8**	**23.5%**	**3.227.3**	**23.9%**	**3.290.9**	**24.1%**
Transfers to States and Municipalities *	**625.4**	**4.7%**	**642.7**	**4.8%**	**658.8**	**4.8%**
Net Primary Revenue After Transfers	**2.530.4**	**18.8%**	**2.584.7**	**19.1%**	**2.632.1**	**19.3%**
Total Primary Expenditure	**2.621.1**	**19.5%**	**2.640.9**	**19.5%**	**2.648.2**	**19.4%**
Social Security Benefits	1.132.7	8.4%	1.132.7	8.4%	1.132.7	8.3%
Personnel and Social Charges	434.6	3.2%	434.6	3.2%	434.6	3.2%
Other Mandatory Expenses	443.4	3.3%	459.5	3.4%	461.4	3.4%
Mandatory expenses subject to Cash Flow Control	393.1	2.9%	395.8	2.9%	399.4	2.9%
Of which Health	189.8	1.4%	192.3	1.4%	195.9	1.4%
Of which Education	9.2	0.1%	9.3	0.1%	9.4	0.1%
Discretionary Expenses	**217.2**	**1.6%**	**218.3**	**1.6%**	**219.9**	**1.6%**
Of which Health	58.9	0.4%	59.7	0.4%	60.8	0.4%
Of which Education	35.2	0.3%	35.5	0.3%	36.0	0.3%
Primary Balance	-90.6	-0.7%	-56.3	-0.4%	-16.1	-0.1%

Source: IFI.
** Includes a deduction of BRL 2 billion from the FPE under Transfers to States and Municipalities.*

In 2026, the oil shock affects selected groups of primary expenditures linked to revenue parameters. With regard to mandatory primary expenditures, the impact occurs mainly in the Fundeb and the Federal District Constitutional Fund (FCDF). Among expenditures subject to cash flow control, the impact is observed on expenses related to the constitutional minimums for health and education.

Based on the amounts set out in Provisional Measures No. 1,340 and No. 1,349 regarding subsidies for diesel and cooking gas, the IFI assumes that BRL 14.3 billion in extraordinary appropriations will need to be disbursed in the 2026 budget to mitigate the effects of the oil price shock. This amount would be allocated to:

- Granting an economic subsidy for the commercialization of diesel, both imported and produced in Brazil, in the amount of BRL 0.32 per liter;
- Granting an additional subsidy of BRL 1.20 per liter on imported diesel, capped at BRL 4 billion, with 50% financed by the states and the Federal District;
- Granting an additional subsidy of BRL 0.80 per liter on diesel produced in Brazil; and
- Granting a subsidy of BRL 820 per ton of Liquefied Petroleum Gas (LPG) imports, capped at BRL 330 million.

Provisional Measure (MP) No. 1,349 also provides for a mechanism of financial cooperation with the states and the Federal District to finance the subsidy for imported diesel. If a federative entity chooses to participate in the mechanism, its contribution will be made through the withholding of amounts transferred by the Federal Government via the State Participation Fund (FPE) or, if provided for in regulation, through direct payment to the Federal Government. This would result in the withholding of up to BRL 2.0 billion in Transfers to States and Municipalities. Accordingly, taking into account this financial cooperation amount, the net impact of these measures on the Federal Government's primary balance may reach BRL 12.3 billion in 2026.

It should be noted that, in accordance with MP No. 1,340 and No. 1,349, these measures are limited in duration until May 31, 2026. In addition, if the subsidies disbursed by the deadline fall short of the projected amount, the remaining balance cannot be used for additional subsidies, unless there is a legislative change.

Considering the compensatory measures, Table 11 presents the net impact of these measures on the primary balance in 2026. With the introduction of the export tax on oil, a positive balance of BRL 2.5 billion is expected under Scenario 1, and BRL 4.2 billion under Scenario 2.

TABLE 11. PRIMARY IMPACT OF MEASURES TO ADDRESS THE INCREASE IN OIL PRICES (BRL BILLIONS)

Breakdown	Scenario 1	Scenario 2
I. Additional primary expenses	**14,3**	**14,3**
Subsidies for Domestic and Imported Diesel	14,0	14,0
Subsidy of BRL 820 per ton of LPG	0,3	0,3
II. Compensatory Measures	**16,8**	**18,5**
Financial Cooperation with States and the Federal District	2,0	2,0
Export tax for 4 months[13]	14,8	16,5
III. Net primary impact [III = II - I]	**2,5**	**4,2**

Source: IFI.

Given the effects presented in the simulations for revenue dynamics, a positive impact on the primary balance is expected in 2026. Under Scenario 1 (normalization), the primary balance of the central government would improve by BRL 34.3 billion relative to the IFI's baseline projection, published in RAF No. 107, of December 2025. As a result, the central government would post a primary deficit of BRL 56.3 billion (0.4% of GDP) in this year. Under Scenario 2 (persistence), the improvement in the primary balance would be BRL 74.5 billion, resulting in a deficit of BRL 16.1 billion (0.1% of GDP) in this year (Table 10).

The results of the simulations for 2027 are presented in

Table 12. Regardless of whether the oil price shock is temporary or persistent, there would be a positive impact on the Federal Government's primary expenditure from 2027 onward, although the magnitude of the effect would be smaller if the shock is temporary.

[13] The collection of export tax on oil was suspended by the 1st Federal Court of Rio de Janeiro on April 9, 2026. See, for example: https://www.conjur.com.br/2026-abr-09/imposto-sobre-exportacao-de-petroleo-e-suspenso-por-desvio-de-finalidade/ and https://valor.globo.com/empresas/noticia/2026/04/10/juiz-reconhece-erro-grave-mas-mantem-suspenso-imposto-de-exportacao-para-petroleiras.ghtml. The Office of the Attorney General of the National Treasury (PGFN) filed an appeal, but the first-instance decision remains in effect. The IFI considers it likely that the Federal Government's initiative will prevail and therefore conducted the impact simulations assuming revenue from the tax.

TABLE 12. IMPACTS ON THE ABOVE-THE-LINE PRIMARY BALANCE (BRL BILLIONS AND % OF GDP) – 2027

	RAF Dec/25		Scenario 1		Scenario 2	
	% of GDP	BRL billions	% of GDP	BRL billions	% of GDP	BRL billions
Total Primary Revenue	**3.280,5**	**23,0%**	**3.348,9**	**23,3%**	**3.478,7**	**23,9%**
Transfers to States and Municipalities	**661,8**	**4,6%**	**688,2**	**4,8%**	**738,7**	**5,1%**
Net Primary Revenue After Transfers	**2.618,7**	**18,4%**	**2.660,8**	**18,5%**	**2.740,0**	**18,8%**
Total Primary Expenditure	**2.791,7**	**19,6%**	**2.808,7**	**19,5%**	**2.823,5**	**19,4%**
Social Security Benefits	1.220,7	8,6%	1.226,2	8,5%	1.232,1	8,4%
Personnel and Social Charges	453,9	3,2%	459,6	3,2%	461,0	3,2%
Other Mandatory Expenses	481,3	3,4%	486,0	3,4%	490,6	3,4%
Mandatory expenses subject to Cash Flow Control	410,0	2,9%	410,5	2,9%	410,5	2,8%
Of which Health	198,2	1,4%	198,0	1,4%	203,9	1,4%
Of which Education	9,6	0,1%	9,7	0,1%	9,9	0,1%
Discretionary Expenses	**225,7**	**1,6%**	**226,4**	**1,6%**	**229,3**	**1,6%**
Of which Health	61,5	0,4%	61,4	0,4%	63,3	0,4%
Of which Education	36,7	0,3%	37,3	0,3%	38,0	0,3%
Primary Balance	**-173,0**	**-1,2%**	**-148,0**	**-1,0%**	**-83,5**	**-0,6%**

Source: IFI.

The exercises indicate that the effect on primary expenditure results from the impact of the shock on domestic inflation, given the existing indexation rules for certain components of the Federal Government's primary expenditure. The most notable example is expenses subject to minimum wage adjustments. In any case, despite the impact of inflation on the dynamics of some expenditure components, the simulation points to an improvement in the central government's primary balance in 2027, driven by revenue developments.

An additional point to consider concerns the expenditure ceiling under Complementary Law (LC) No. 200[14], of 2023. Paragraph 1 of Article 4 of the law provides that any positive difference between inflation recorded in December and in June of the year may be incorporated into the expenditure limit for the following fiscal year. Based on the current baseline, there would be scope to incorporate, in 2027, an additional gain of BRL 14.6 billion under Scenario 1 and BRL 20.7 billion under Scenario 2.

It is important to note that this gain would be temporary and would not be incorporated into the calculation base of the expenditure ceiling for subsequent years. Therefore, using this space to create permanent mandatory expenditures would pose a risk, given the possibility that the expansion of the ceiling may not be repeated in subsequent years, which would

[14] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp200.htm.

require reallocations in other expenditure appropriations to comply with the limits set out in LC No. 200

Finally, it should be noted that the simulations presented here consider only the impact of revenue and inflation on the adjustment of certain primary expenditure aggregates based on the expenditure ceiling set for the 2026 fiscal year. Given the high uncertainty surrounding the dynamics of these variables, these estimates may fluctuate or may not materialize, such that any fiscal planning based on an expansion of the ceiling space may be frustrated.

Conclusion

The impact exercises of the oil price shock on selected domestic macroeconomic and fiscal variables indicate that the effects will be inflationary. The extent of this inflationary impact depends on several factors, such as the level at which oil prices in the international market will stabilize and the pass-through by Petrobras to reduce, or even eliminate, the current gap between domestic fuel prices and international parity, among others.

All indications are that oil prices will stabilize at levels higher than those observed in the period preceding the outbreak of the conflict in the Middle East. Accordingly, the outlook points to a more inflationary global environment, which would require tighter monetary policies by central banks. In this context, global economic growth is likely to be weaker.

From the perspective of Brazilian fiscal policy, the inflationary shock benefits tax revenue and revenues associated with oil exploitation in the short term, improving the central government's primary balance. States and municipalities would also benefit from this situation due to higher transfers received from the Federal Government, given the existing rules for sharing revenues from natural resource exploitation and from other taxes affected by the inflation surprise, such as the Income Tax (IR).

At a later stage, higher inflation will affect the dynamics of primary expenditure due to: (i) existing linkages between revenues and expenditures (such as the constitutional minimums for health and education); and (ii) the effects of higher expected adjustments to the minimum wage on certain expenditure aggregates, particularly social security and assistance benefits.

Depending on the level at which oil prices stabilize, the net effect may improve the central government's primary balance, either by reducing the primary deficits projected by the IFI for the coming years or even by turning the balance into a surplus in the short term. In any case, it is important to note the possibility that the shock may reduce real economic growth in the coming years, which would affect the capacity to generate primary balances and to control the debt-to-GDP ratio.

All things considered, the exercises provide an indication of the impacts of the inflationary shock but do not constitute a revision of the IFI's macroeconomic and fiscal scenarios. They are intended to serve as a basis for updating the projections in June, when the underlying assumptions will also be revised.

IFI PROJECTIONS

SHORT TERM

IFI Projections	2026			2027		
	Feb/26	Mar/26	Comparison	Feb/26	Mar/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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