Independent Fiscal Institution

Fiscal Follow-Up Report

Nº 112

May 21st 2026

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The Budget Guidelines Law and the Outlook for 2027

The 112th Fiscal Follow-up Report (RAF, kept here in its original acronym, as are the acronyms of other Brazilian institutions, programs, and indicators), now released by the Independent Fiscal Institution (IFI), confronts a situation that could be described as a kind of "precarious equilibrium." On the one hand, the current fiscal framework remains in place through compliance with established targets, achieved by making use of the significant legal discounts provided for under the rules and the limits of the tolerance band around the central target. On the other hand, actual primary deficits remain recurring and public debt continues on a worrying upward trajectory.

The Iran War and its impact on oil and fuel prices produced, as a side effect, an unforeseen fiscal windfall in 2026 — one that not only allowed for the adoption of mitigating measures — tax relief and subsidies — in response to the external shock, but also created the fiscal environment for decisions such as eliminating the so-called “blusinhas tax” levied on low-value imported goods, while building a safety buffer against the risk of missing fiscal targets in the current year.

Given the increasingly close electoral environment, deeper and more far-reaching fiscal adjustment measures are not a credible expectation. Beyond the votes on the 2027 Budget Guidelines Law (PLDO) and the 2027 Annual Budget Law (LOA), only unavoidable decisions are anticipated — such as the regulation of the Selective Tax (IS), which will replace the Tax on Industrialized Goods (IPI) next year, as provided for under the tax reform recently approved by the National Congress. Beyond that, the necessary federal fiscal and budgetary restructuring will be deferred to the next presidential term.

The May RAF focuses first on the dynamics of the main budgetary expenditure item: spending on the General Social Security Regime (RGPS). Despite having undergone a structural reform in 2019, RGPS expenditures resumed a path of real growth after 2021. RGPS spending was equivalent to 8.1% of GDP and 42.9% of total federal primary expenditure in 2025. The analysis presented on the growth in the number of urban and rural retirement benefits and the behavior of other benefits — such as temporary disability benefits — clearly illustrates that social security policy, given demographic pressures and its budgetary weight, will remain a priority item on the agenda in society-wide debate and a central point of attention for policymakers.

The RAF also examines the 2027 Budget Guidelines Law (PLDO 2027) submitted by the Executive Branch to the National Congress, which is expected to be voted on by July 17. The IFI analyzes the macroeconomic parameter framework underlying the proposal, as well as the derived fiscal projections, against an increasingly challenging backdrop, given that the primary balance targets set for 2027, 2028, 2029, and 2030 are 0.5%, 1.0%, 1.25%, and 1.5% of GDP, respectively.

It is worth noting that the macroeconomic parameters used by the government to underpin the figures in the 2027 PLDO are considerably more optimistic than those used by the IFI. These discrepancies — regarding inflation, GDP growth, interest rates, exchange rates, and other variables — inevitably lead to substantial divergences in revenue and expenditure projections and, consequently, in primary balance forecasts for the coming years and in the resulting public debt trajectory.

Finally, the RAF presents a detailed analysis of the Fiscal Risks Annex, which is part of the PLDO and sets out the elements that may threaten the Federal Government's fiscal performance. The list of risks examined includes court-ordered claims, overdue tax debt, state-owned enterprise performance, and the risk of default by states, municipalities, companies, and individuals on obligations owed to or guaranteed by the Federal Government, among others.

We hope you find this report us

Marcus Pestana
Executive Director of the IFI
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Highlights

Trends in Expenditure on RGPS Benefits

General Social Security Regime (RGPS) expenditure resumed a path of real growth after 2021, reflecting predominantly the increase in the stock of benefits, with a relatively smaller contribution from the average real benefit value. Retirement benefits remained the main driver of social security expenditure growth, while temporary disability benefits began showing significant acceleration from 2022 onward, in contrast with the trajectory observed through 2021. At the same time, the growing backlog of pending applications may signal additional pressure on the future flow of benefit approvals. **(Page 6)**

Remarks on the PLDO 2027

The figures presented in the PLDO should be interpreted with caution. The projections set out in the document are relatively optimistic and point to compliance with the primary balance targets established for the central government over the coming years. The projected gradual improvement in the primary balance is achieved through an increase in net revenue and a decline in primary expenditure as a share of GDP. This, combined with certain favorable macroeconomic parameters, implies a stabilization and subsequent reduction in gross debt as a share of GDP from 2030 onward. **(Page 18)**

Fiscal Risks in the PLDO 2027 and Recent Track Record

The Fiscal Risks Annex is an essential document for monitoring events with the potential to impact public finances. The PLDO 2027 lists specific risks with potential impacts equivalent to 37.9% of GDP in 2025. Within the scope of primary revenue and expenditure, the greatest risk lies in court-ordered claims, which totaled a potential impact of 17.8% of GDP in 2025. These claims may materialize as court-ordered debt payments or as a reduction in tax revenue. An additional source of risk stems from federal state-owned enterprises, which may require emergency capital injections or performance target compensation in the coming fiscal years, as classified as a probable risk in the case of Correios. There is also a significant risk associated with macroeconomic projections, should those projections fall short of expectations. This may affect primary revenue and expenditure estimates from 2026 onward, with particular emphasis on GDP growth, inflation, and the wage bill. **(Page 39)**

First published on: May 21, 2026
File updated on: May 21, 2026
See errata at: https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2026/maio/erratas

Instituição Fiscal Independente

Trends in Expenditure on RGPS Benefits

Rafael Bacciotti and Gustavo Queiroz[1]

Introduction

General Social Security Regime (RGPS) expenditure is the main mandatory item within federal primary expenditure. In 2025, total spending under the regime reached BRL 1.027 trillion in nominal terms, equivalent to 8.1% of GDP and 42.9% of total federal primary expenditure, based on data from the National Treasury Report (RTN).

The trajectory of social security expenditure is relevant to the fiscal debate given its weight in the federal budget and the resumption of real expenditure growth in recent years, against a backdrop of persistent demographic pressures associated with population aging — even following the changes introduced by the 2019 pension reform. Given its high share of total mandatory expenditure, RGPS dynamics also have significant implications for the budgetary space available for other federal primary expenditures over time.

Between 2010 and 2019, social security expenditure grew at an average rate of 4.7% per year in real terms. Between 2020 and 2021, a period marked by the effects of the Covid-19 pandemic, the pace slowed to 0.8% per year. From 2022 onward, real expenditure growth resumed, averaging 3.6% per year between 2022 and 2025.

This section analyzes recent trends in expenditure on RGPS benefits, focusing on the behavior of the stock of benefits and the average benefit value. The following section describes the general characteristics of the RGPS. Subsequently, the text presents a decomposition of expenditure between the stock of benefits and the average real benefit value. Finally, several factors that may be associated with recent trends in social security expenditure are identified.

General Characteristics of the RGPS

The RGPS, administered by the National Social Security Institute (INSS), is the main social security regime covering private sector workers, established under the Federal Constitution of 1988 and regulated by Laws No. 8.212[2] and No. 8.213[3], both enacted in 1991. The regime operates on a pay-as-you-go basis, whereby contributions collected from active workers finance the payment of current benefits.

RGPS benefits can be organized into two broad groups according to the nature of the risk covered: social security benefits and occupational accident benefits. The main social

[1] Analyst and intern at IFI, respectively.
[2] Available at: https://www.planalto.gov.br/ccivil_03/leis/l8212cons.htm.
[3] Available at: https://www.planalto.gov.br/ccivil_03/leis/l8213cons.htm.

security benefits include scheduled retirement pensions, permanent disability pensions, survivors' pensions, temporary disability benefits, accident benefits, incarceration benefits, and maternity pay. Occupational accident benefits, which account for a relatively smaller share of the total stock of benefits, are related to workplace accidents and occupational diseases.

One of the main changes introduced by the 2019 social security reform — Constitutional Amendment (EC) No. 103[4] of 2019 — was the establishment of a minimum retirement age under the RGPS, with the gradual replacement of contribution-length retirement by permanent eligibility rules. For urban insured workers, the general rule now requires a minimum age of 65 for men and 62 for women, while differentiated rules were preserved for rural special insured workers, whose minimum retirement age remains 60 for men and 55 for women. The changes introduced by the reform sought to moderate the pace of growth in social security expenditure in the face of pressures associated with population aging.

The reform also amended the rules for calculating benefits, shifting to a calculation based on 100% of the contributory history since July 1994, replacing the previous rule that allowed the lowest 20% of contributions to be excluded from the calculation, a change that tends to reduce the relative value of some new retirement pensions granted after the reform. In the case of survivors' pensions, the reform replaced the full replacement rule with a family quota system (a fixed 50% plus 10% per dependent) [5], which tends to reduce the replacement rate for some new benefits.

The reform also introduced additional restrictions on the accumulation of benefits. In cases where accumulation remained permitted, only the most advantageous benefit is paid in full, with reduction factors applied to the benefit of lesser value.

RGPS benefits are subject to a floor and a ceiling. In 2026, the social security floor corresponded to the prevailing minimum wage (BRL 1,621.00), while the RGPS ceiling reached BRL 8,475.55. In 2025, these values were BRL 1,518.00 and BRL 8,157.41, respectively. Benefits equivalent to the social security floor are adjusted in line with minimum wage increases, while benefits above the floor are indexed to the National Consumer Price Index (INPC/IBGE).

Eligibility, calculation, and adjustment rules directly influence the dynamics of social security expenditure and help explain the trends in the stock of benefits and average real benefit value discussed in the following section.

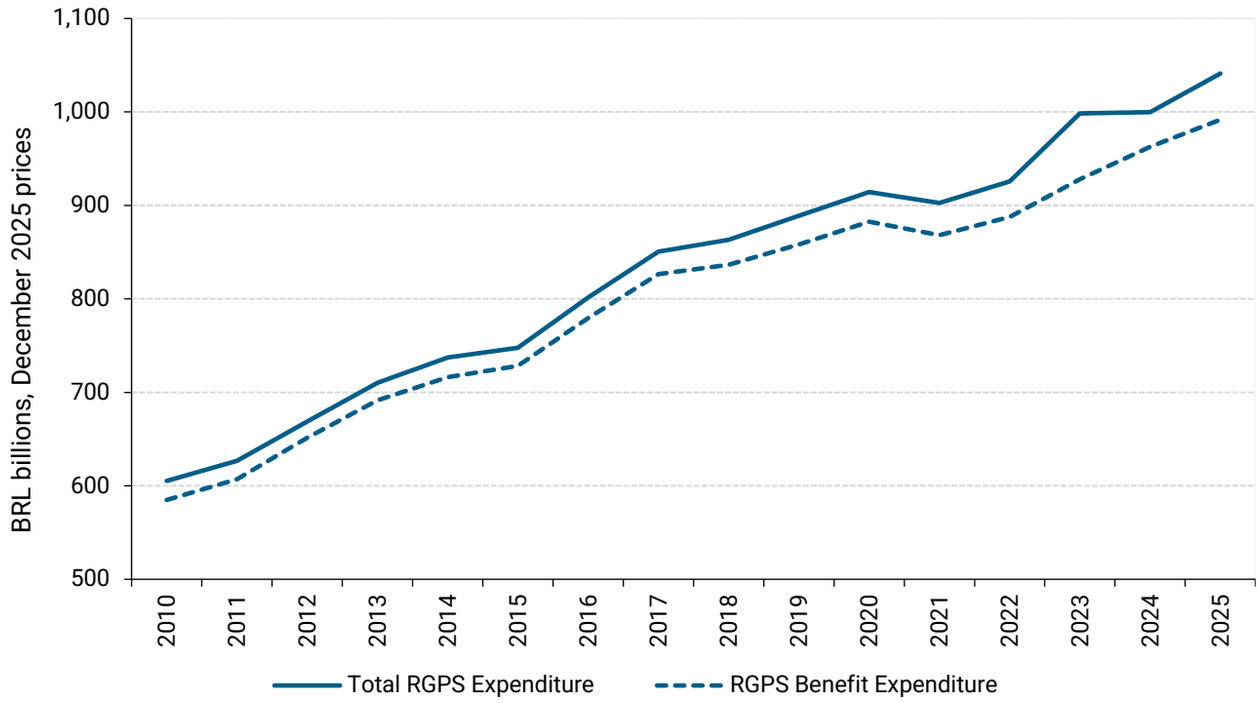
Trends in RGPS Expenditure

Graph 1 presents trends in RGPS expenditure since 2010, based on two series. The first corresponds to total RGPS expenditure as reported in the National Treasury Report (RTN),

[4] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc103.htm
[5] As provided for in Article 23 of Constitutional Amendment No. 103 of 2019.

which includes social security benefits, court rulings, and social security compensation (Comprev)[6]. The second covers expenditure on social security benefits exclusively, excluding court-ordered debt payments and Comprev, constructed from data from Siga Brasil. Both series show a path of real growth since 2010, with the exception of the contraction observed in 2021.

GRAPH 1. FEDERAL EXPENDITURE ON RGPS



Source: Tesouro Nacional and Siga Brasil. Prepared by: IFI. BRL billions at December 2025 prices (IPCA).

As shown in Table 1, between 2010 and 2019, expenditure on RGPS benefits grew at an average rate of 4.7% per year in real terms, above the expansion in total primary expenditure (3.5%). Between 2020 and 2021, a period marked by the effects of the Covid-19 pandemic, both items decelerated. From 2022 onward, real growth resumed, with average annual variation of 3.4% in expenditure on RGPS benefits and 4.3% in total primary expenditure.

[6] Comprev (Social Security Compensation) is the financial compensation mechanism between the RGPS and the Social Security Regimes for Public Servants (RPPS), pursuant to Law No. 9.796 of 1999. Available at: https://www.planalto.gov.br/ccivil_03/leis/l9796.htm.

TABLE 1. FEDERAL PRIMARY EXPENDITURE: AVERAGE ANNUAL REAL GROWTH*

	2010-2019	2020-2021	2022-2025
Total primary expenditure	3.5%	0.1%	4.3%
Total RGPS Expenditure	4.7%	0.8%	3.6%
RGPS benefit expenditure	4.7%	0.6%	3.4%
Other primary expenditure	2.8%	-0.2%	5.0%

Source: Siga Brasil and RTN. Prepared by: IFI.
** Geometric mean of annual real variations for each period.*

Excluding court-ordered debt payments and Comprev does not materially alter the trajectory of RGPS expenditure, but allows for a more precise analysis of the specific behavior of social security benefits. This separation is particularly important for the decomposition of expenditure between the stock of benefits and the average real benefit value.

Stock of Benefits and Average Benefit Value

Expenditure on benefits can be approximated by the product of the stock of benefits, the average benefit value, and the number of installments paid throughout the year. Variations in expenditure therefore stem from variations in the stock of benefits and the average benefit value.

As shown in Table 2, expenditure growth was driven predominantly by the expansion of the stock of benefits, while the average real benefit value showed relatively modest variation throughout the period, including negative variation between 2019 and 2021. Between 2021 and 2025, expenditure on benefits grew 14.2% in real terms, while the stock of benefits advanced 11.6% and the average real benefit value increased 1.8%.

TABLE 2. RGPS: EXPENDITURE, STOCK OF BENEFITS, AND AVERAGE BENEFIT VALUE

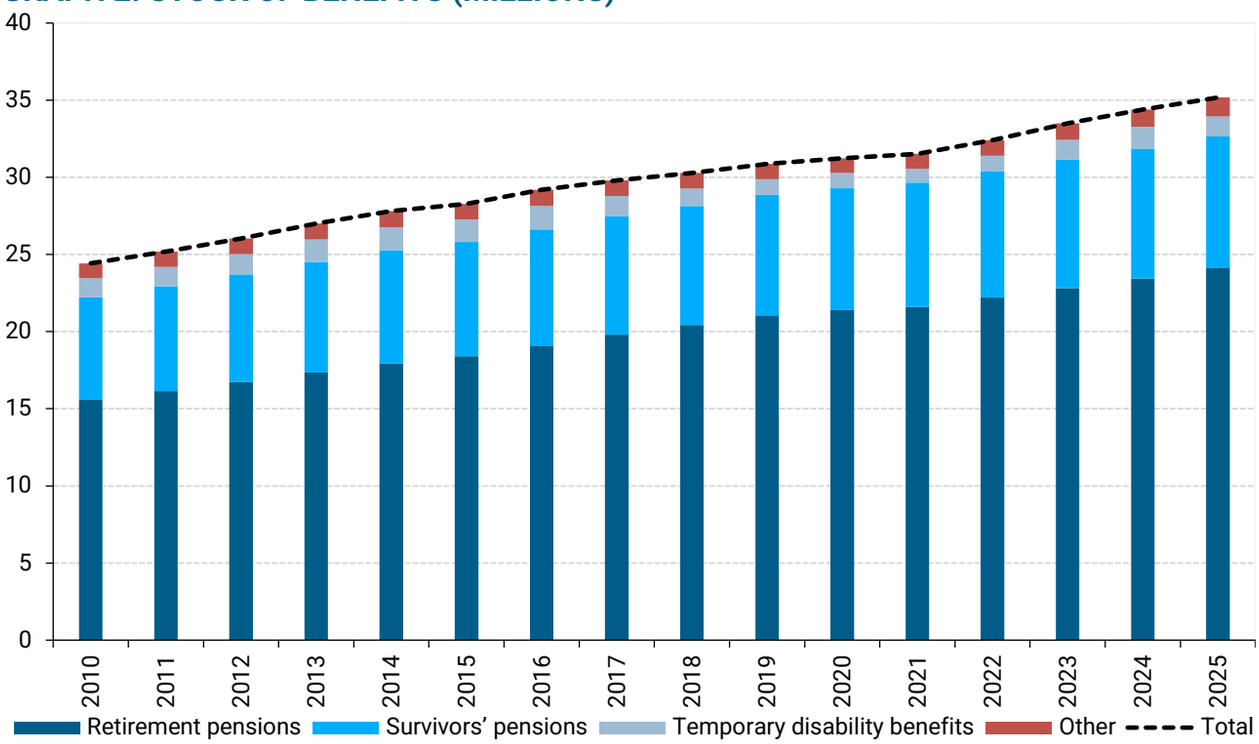
	2010	2019	2021	2025	2010-2019 (% p.a.)*	2020-2021 (% p.a.)*	2022-2025 (% p.a.)*	Cumulative var. 2021–2025
Expenditure on RGPS Benefits (BRL, Dec/2025 prices)	585	858	868	992	4.7%	0.6%	3.4%	+14.2%
Stock (millions)	24.4	30.9	31.5	35.2	2.7%	1.1%	2.8%	+11.6%
Average Benefit Value (BRL, Dec/2025 prices)	1,848	2,055	2,031	2,067	1.4%	-0.6%	0.4%	+1.8%

*Sources: BEPS, Siga Brasil and RTN. Prepared by: IFI. Stock = December position of each year. Average benefit value = annual average. Deflator: IPCA, December 2025 prices. * Geometric mean of annual real variations for each period.*

Graph 2 presents trends in the stock of RGPS benefits between 2008 and 2025. The trajectory shows virtually continuous growth throughout the period, with the exception of

2021. In December 2025, the RGPS had 35.2 million benefits in payment, of which 24.1 million corresponded to retirement pensions (68.6%), 8.5 million to survivors' pensions (24.2%), 1.3 million to temporary disability benefits (3.6%), and 1.2 million to other benefit types (3.6%).

GRAPH 2. STOCK OF BENEFITS (MILLIONS)



Source: BEPS/MPS. Stock in December of each year.

Table 3 shows that between December 2021 and December 2025, the stock grew by 3.7 million benefits, equivalent to an expansion of 11.6%. Retirement pensions accounted for 69.3% of this increase, reflecting an expansion of 2.5 million benefits (a rise of 11.7%). Beyond absolute growth, a gradual increase is observed in the share of retirement pensions within the total RGPS stock, which rose from 63.9% in 2010 to 68.6% in 2025. Survivors' pensions contributed 12.7% of the increase in the stock, while temporary disability benefits accounted for 11.0%, despite their relatively small share of the aggregate stock.

TABLE 3. RGPS STOCK OF BENEFITS (MILLIONS)

	2010	2019	2021	2025	2010-2019 (% p.a.)*	2020-2021 (% p.a.)*	2022-2025 (% p.a.)*	Cumulative var. 2021–2025
RGPS	24.4	30.9	31.5	35.2	+2.7%	+1.1%	+2.8%	+11.6%
Retirement Pensions	15.6	21.1	21.6	24.1	+3.4%	+1.3%	+2.8%	+11.7%
Survivors' pensions	6.6	7.8	8.1	8.5	+1.9%	+1.5%	+1.4%	+5.7%
Temporary disability benefits	1.2	1.0	0.9	1.3	-0.6%	-6.9%	+9.9%	+45.9%
Other**	1.0	1.0	1.0	1.2	+0.7%	-0.5%	+5.9%	+25.9%

*Source: BEPS/MPS. Stock in December of each year, in millions. *Geometric mean of annual variations for each period. **Other = social security accident benefits, incarceration benefits, maternity pay, and occupational accident benefits.*

The behavior of the different benefit types varied significantly across the sub-periods analyzed. Between 2010 and 2019, growth was led by retirement pensions (+3.4% per year), while temporary disability benefits posted an average contraction of 0.6% per year. Following the slowdown observed during the pandemic, the stock resumed growth from 2022 onward, with temporary disability benefits recording the most notable expansion — at 9.9% per year between 2022 and 2025, the highest rate among the benefit types analyzed.

Table 4 presents the average real benefit value by benefit type. In 2025, the aggregate average benefit value under the RGPS was BRL 2,067, compared with a real minimum wage of BRL 1,539. Between 2021 and 2025, the aggregate average benefit value grew 1.8%, in contrast with the real minimum wage appreciation of 10.1% over the same period. Performance was heterogeneous across benefit types: retirement pensions posted cumulative growth of 2.3%, survivors' pensions advanced 1.0%, while temporary disability benefits recorded a contraction of 4.1%.

TABLE 4. AVERAGE VALUE OF RGPS BENEFITS (BRL, DECEMBER 2025 PRICES)

	2010	2019	2021	2025	2010-2019 (% p.a.)*	2020-2021 (% p.a.)*	2022-2025 (% p.a.)*	Cumulative Var. 2021–2025
RGPS	1,848	2,055	2,031	2,067	+1.4%	-0.6%	+0.4%	+1.8%
Retirement Pensions	1,930	2,218	2,106	2,155	+1.3%	-0.5%	+0.6%	+2.3%
Survivors' pensions	1,662	1,906	1,874	1,893	+1.8%	-0.9%	+0.3%	+1.0%
Temporary disability benefits	2,049	2,057	2,018	1,935	+0.2%	-1.0%	-1.0%	-4.1%
Other	1,576	1,685	1,665	1,649	+1.0%	-0.6%	-0.2%	-0.9%
Minimum wage	1,213	1,417	1,399	1,539	+2.1%	-0.7%	+2.4%	+10.1%

*Source: BEPS/MPS. Stock in December of each year, in millions. Average benefit value calculated as a weighted average by the stock of each benefit type. *Geometric mean of annual variations for each period.*

In summary, the growth in social security expenditure between 2021 and 2025 was driven predominantly by the expansion of the stock of benefits, while the average real benefit value showed relatively moderate variation over the period. In the case of retirement pensions, expenditure growth reflected mainly the expansion of the stock, combined with a moderate increase in the average real benefit value for that benefit type. Temporary disability benefits, in turn, posted the highest stock growth rate among the benefit types analyzed. Nevertheless, the impact on aggregate expenditure remained relatively limited, owing to the benefit type's small share of the total RGPS stock and the contraction in its average real benefit value over the period.

Factors Associated with the Dynamics of RGPS Benefit Expenditure

The recent dynamics of social security expenditure appear to reflect a combination of structural, institutional, and operational factors.

In the case of retirement pensions, the expansion of the stock remains driven primarily by demographic factors, particularly population aging and rising life expectancy. According to Sidone and Afonso (2025)[7], life expectancy at age 65, for both sexes, rose from 12.8 years in 1950 to 16.4 years in 2020, and is projected to reach 21.1 years in 2050 and 24.8 years in 2100. Rising longevity tends to increase the average duration of permanent benefits — especially retirement and survivors' pensions — exerting persistent upward pressure on social security expenditure over time.

At the same time, the changes introduced by Constitutional Amendment (EC) No. 103 of 2019 may have contributed to moderating part of this trajectory through the introduction of a permanent minimum retirement age and the redefinition of eligibility requirements, particularly through the gradual replacement of contribution-length retirement by permanent eligibility rules. Changes of this nature tend to directly affect the flow of new benefit grants and, consequently, the dynamics of expansion of the social security stock.

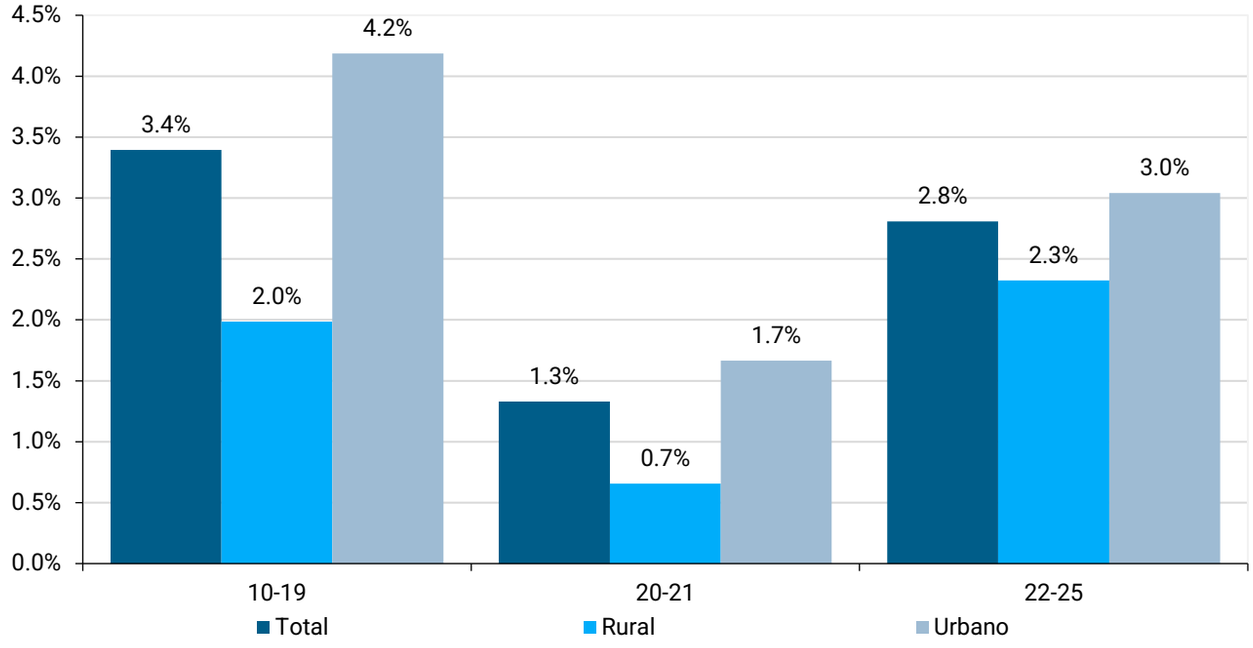
The effects of the reform, however, do not appear to have been uniform across the different segments of the RGPS. While the parametric changes introduced by EC No. 103 affected primarily urban benefits, the rules applicable to rural special insured workers remained relatively unchanged.

As shown in Graph 3, the deceleration in retirement pension growth observed after 2019 was relatively more pronounced among urban beneficiaries, while rural benefits maintained a comparatively more stable trajectory. That said, the period immediately following the reform also coincided with the operational effects of the Covid-19 pandemic on INSS

[7] SIDONE, Otávio José Guerci; AFONSO, Luís Eduardo. *Economia da previdência: teoria, desenho e avaliação*. Colaboração de Ana Cristina de Souza Queiroz e Emmilly Elisabeth César Félix. São Paulo: FEA/USP, 2025. Available at: https://www.livrosabertos.abcd.usp.br/portaldelivrosUSP/catalog/view/1642/1498/5958

functioning and the flow of benefit approvals, making it difficult to precisely disentangle these factors.

GRAPH 3. AVERAGE ANNUAL VARIATION IN THE STOCK OF RETIREMENT PENSIONS, BY BENEFICIARY GROUP (%)

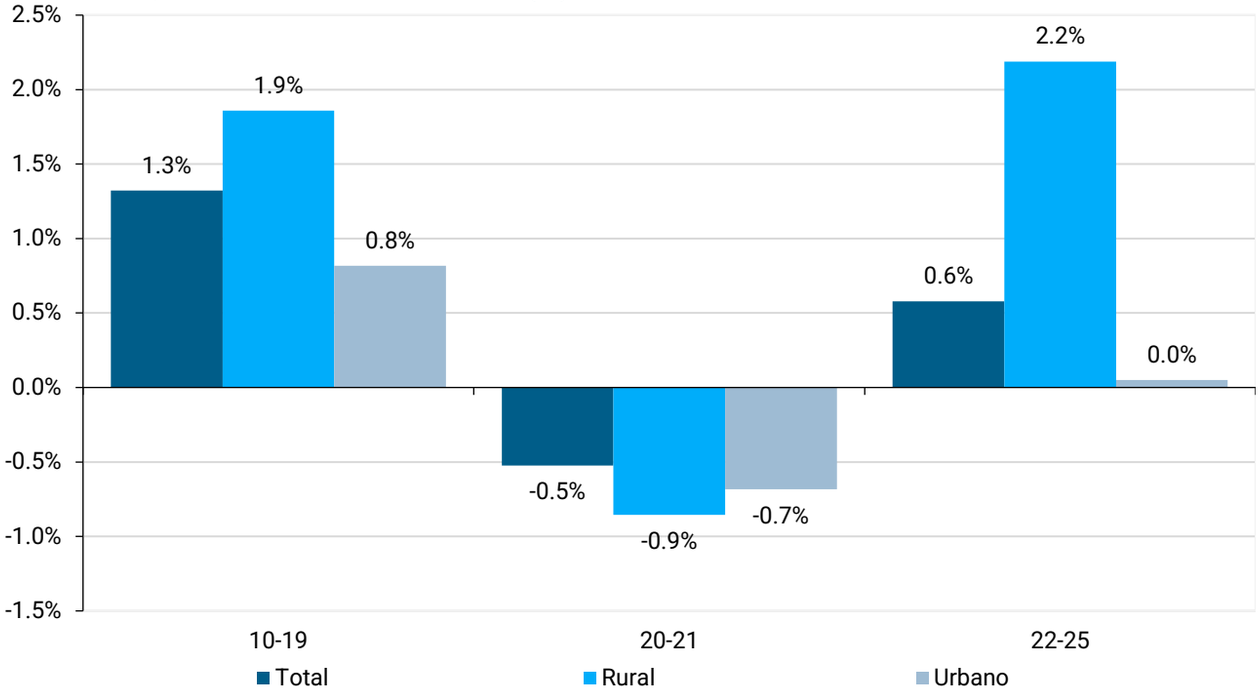


Source: BEPS/MPS. Prepared by: IFI.

The relatively moderate trajectory of the average real benefit value in the recent period may be associated with the benefit adjustment and calculation rules. Benefits equivalent to the social security floor are adjusted in line with minimum wage increases, while benefits above the floor are indexed to the INPC. Although approximately 62% of benefits in payment in 2025 had a value equivalent to the social security floor, benefits above the floor accounted for a relatively larger share of total expenditure due to their higher average value. As the minimum wage posted real appreciation above the INPC over a significant part of the period analyzed, the aggregate average benefit value of the regime grew at a slower pace than the social security floor.

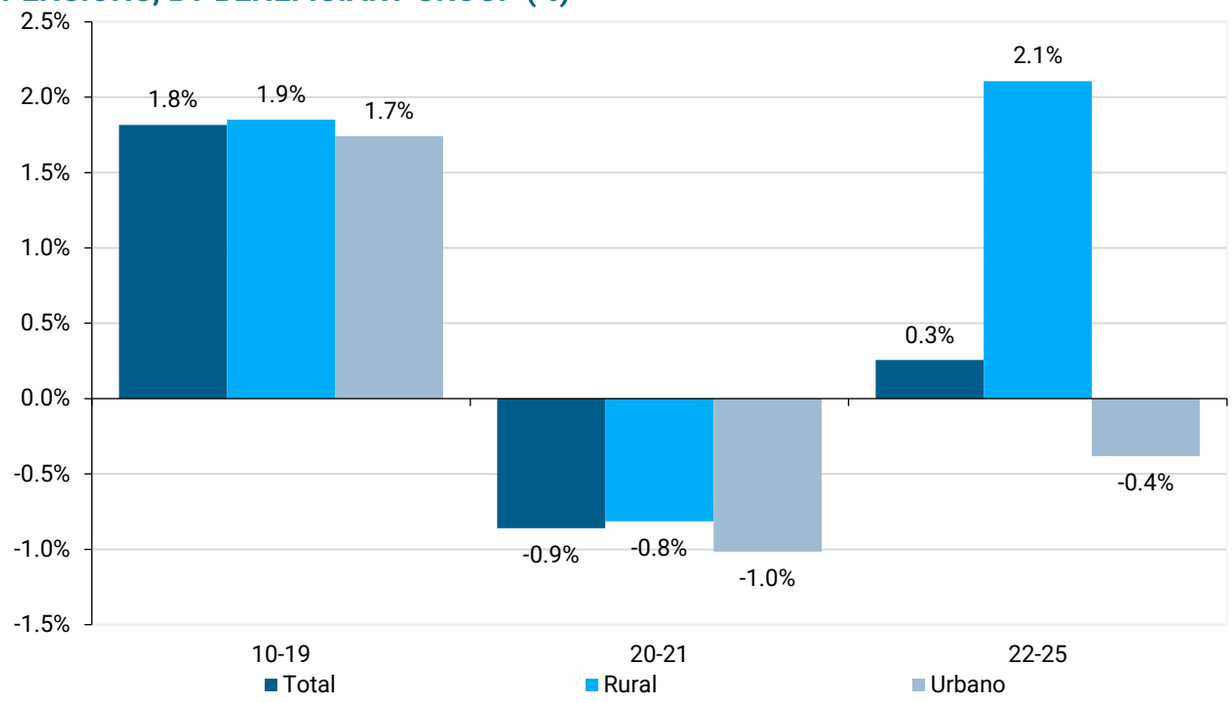
Furthermore, changes in the composition of benefit grants and in the calculation rules introduced by EC No. 103 may also have contributed to limiting the growth of the average real benefit value in the recent period. The expansion of the contributory average used in the calculation of retirement pensions and the changes to survivors' pension rules tend to reduce the relative value of some new benefits granted after the reform (GraphsGraph 4 andGraph 5).

GRAPH 4. AVERAGE ANNUAL VARIATION IN THE AVERAGE VALUE OF RETIREMENT PENSIONS, BY BENEFICIARY GROUP (%)



Source: BEPS/MPS. Prepared by: IFI.

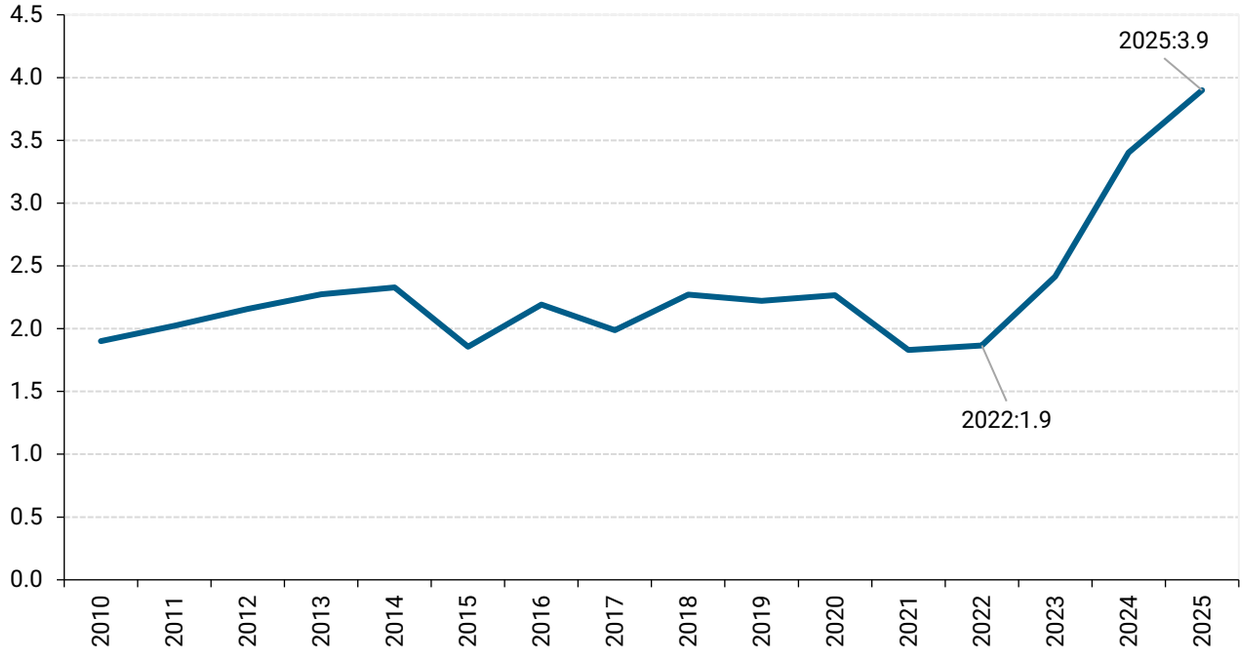
GRAPH 5. AVERAGE ANNUAL VARIATION IN THE AVERAGE VALUE OF SURVIVORS' PENSIONS, BY BENEFICIARY GROUP (%)



Source: BEPS/MPS. Prepared by: IFI.

Temporary disability benefits underwent a significant shift in trajectory from 2022 onward. Following a period of relative stability or contraction through 2021, grants and the stock of this benefit type began growing at a pace significantly above that of other benefit types. As shown in Graph 6, annual grants rose from 1.9 million in 2022 to 3.9 million in 2025.

GRAPH 6. TEMPORARY DISABILITY BENEFIT GRANTS (MILLIONS)



Source: BEPS/MPS. Prepared by: IFI.

Constanzi (2026)[8] and the Federal Court of Accounts (TCU)[9] associate this trend with the expansion of benefit grants through the Atestmed system, in a context of partial replacement of in-person medical assessments by remote documentary analysis. The model emerged during the Covid-19 pandemic, following the suspension of in-person assessments, and was subsequently incorporated on a permanent basis by Law No. 14.441[10], of 2022. From July 2023 onward, use of the tool intensified, culminating in the adoption of Atestmed as a mandatory step for initial temporary disability benefit applications from April 2024 onward.

The temporal coincidence between the intensification of Atestmed use and the acceleration in benefit grants suggests a possible change in the mechanisms governing entry into the social security stock for this benefit type.

[8] COSTANZI, Rogério Nagamine. As causas da chocante evolução dos benefícios do INSS. Brazil Journal, 13 abr. 2026. Available at: https://braziljournal.com/opiniao-as-causas-da-chocante-evolucao-dos-beneficios-do-inss/

[9] Audit Report TC 007.857/2025-0. Available at: https://portal.tcu.gov.br/uploads/noticias/pdf/2025/11/27/007.857-2025-0-JGO-Auditoria%20Atestmed.pdf

[10] Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2022/lei/l14441.htm.

Although temporary disability benefits account for a relatively small share of the total RGPS stock, the strong growth observed from 2022 onward has begun to contribute more significantly to the recent dynamics of social security expenditure.

Alongside the increase in benefit grants, the backlog of administrative and medical assessment requests at the INSS also grew substantially in the recent period. The stock of pending requests rose from 371,000 in December 2019 to 1.8 million in 2021 and 3.0 million in December 2025.

In response to the growing backlog, the INSS adopted extraordinary benefit processing measures, including the Social Security Queue Management Program (PEFPS), implemented between 2023 and 2024, and the Benefit Management Program (PGB) in 2025. The INSS 2025 Management Report[11] states that the PGB was suspended in October of that year due to budgetary constraints.

Although the backlog includes both social security and social assistance requests and does not imply automatic benefit approval, its expansion may indicate increased demand on the INSS's operational capacity and potential future pressure on the flow of social security benefit grants.

Concluding Remarks

The analysis of RTN and BEPS data indicates that the real growth in social security expenditure between 2021 and 2025 was driven predominantly by the expansion of the stock of benefits in payment, with a relatively smaller contribution from the average real benefit value.

The decomposition of expenditure points to the coexistence of distinct structural and institutional components in the recent trajectory of the RGPS. In the case of retirement pensions, the expansion of the stock remains driven primarily by demographic factors, particularly population aging and rising life expectancy. Although EC No. 103 of 2019 contributed to slowing retirement pension growth in the period immediately following the reform, the structural upward trend in social security expenditure was not reversed.

Temporary disability benefits, in turn, posted acceleration significantly above the trend observed through 2021, against a backdrop of expanding benefit grants and administrative and operational changes in the mechanisms for benefit assessment and approval. Although this benefit type accounts for a relatively smaller share of the total RGPS stock, the strong growth observed from 2022 onward has begun to contribute more significantly to the recent expansion of social security expenditure.

[11] Available at: https://www.gov.br/inss/pt-br/acesso-a-informacao/transparencia-e-prestacao-de-contas/pretacao-de-contas-anual/relatorio-de-gestao/copy_of_RelatoriodeGestao2025.pdf

In line with the long-term demographic pressures identified throughout this analysis, the IFI projections presented in RAF No. 107[12], of December 2025 point to an increase in RGPS expenditure from 8.1% of GDP in 2025 to 9.1% of GDP in 2030.

[12] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/816727/RAF107_DEZ2025.pdf.

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Remarks on the PLDO 2027

Alexandre Andrade

Introductory Remarks on the PLDO 2027

Following the submission of the 2027 Budget Guidelines Bill (PLDO 2027) [13], by the Executive Branch to the National Congress[14] on April 15, the IFI examines selected aspects of the proposal: (i) the macroeconomic parameter framework and fiscal projections, including, for example, the estimates presented for overall spending and federal tax expenditures; and (ii) fiscal risks, particularly those associated with court-ordered debt payments and the materialization of projected revenue and expenditure savings.

In compliance with the provisions of Article 165, § 2, of the Federal Constitution of 1988[15] and Article 4 of Complementary Law (LC) No. 101[16] of May 4, 2000, also known as the Fiscal Responsibility Law (LRF), the 2027 budget guidelines establish the framework for the preparation and execution of next year's budget.

The text details the structure of the budgets, establishing rules for expenditure management, resource transfers, and primary expenditure caps. Among the central elements, the primary surplus target for the central government and the rules for financing the New PAC [Growth Acceleration Program] stand out. The proposal also regulates the payment of court-ordered debt payments and sets criteria for investments in state-owned enterprises. Additionally, the bill ensures public transparency and legislative oversight over the use of federal funds.

The PLDO 2027 maintained the central government primary balance targets set out in the PLDO 2026[17]. For 2027, it projects a surplus of 0.5% of GDP (equivalent to BRL 73.2 billion), rising to 1.0% of GDP in 2028 and 1.25% of GDP in 2029, with a tolerance band of 0.25 p.p. of GDP around the central target. For 2030, the PLDO 2027 sets a surplus target of 1.5% of GDP.

As will be analyzed in greater detail later in this text, in light of the IFI's most recent projections, the fiscal targets set for the coming years appear relatively ambitious. This becomes more evident when considering the expected trajectory of primary revenue and

[13] PLDO 2027 documents: https://www.gov.br/planejamento/pt-br/assuntos/orcamento/orcamentos-anuais/2027/pldo.
[14] The bill is proceeding as PLN No. 2 of 2026. Legislative record available at: https://www.congressonacional.leg.br/materias/pesquisa/-/materia/173677.
[15] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/constituicao.htm.
[16] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp101.htm.
[17] See: https://www.gov.br/planejamento/pt-br/assuntos/orcamento/orcamentos-anuais/2026.

expenditure in the years ahead. According to the IFI's most recent baseline scenario, the need to identify new revenue sources to finance spending persists.

Assessment of 2025 Target Compliance

In Annex IV.1 of the PLDO 2027, which addresses the assessment of compliance with the 2025 fiscal targets, the Executive Branch details compliance with the zero primary balance target set for that fiscal year. Compliance was achieved at the lower bound of the tolerance band — a deficit of BRL 31.0 billion (0.25 p.p. of GDP) — taking into account the expenditure deductions authorized under the legislation.

In 2025, the central government recorded an actual primary deficit of BRL 58.7 billion (0.46% of GDP), based on the below-the-line methodology of the Central Bank of Brazil (BCB)[18]. The expenditures deducted from the 2025 primary balance calculation were: (i) the excess of court-ordered debt payments provided for under Direct Actions for the Declaration of Unconstitutionality (ADIs) 7064[19] and 7047[20], in the amount of BRL 41.4 billion (the sub-limit for court-ordered debt payments established under Constitutional Amendment No. 114[21] of 2021); (ii) the opening of extraordinary appropriations following the ruling on the Constitutional Claim for Breach of a Fundamental Precept (ADPF) 1236[22], in the amount of BRL 2.8 billion, allocated to the reimbursement of unlawful discounts applied to social security benefits; (iii) BRL 2.5 billion in spending on strategic national defense projects, governed by Complementary Law (LC) No. 221[23] of 2025; and (iv) BRL 2.2 billion in health and education expenditure funded by the Social Fund, governed by LC No. 223[24] of 2025.

After the legally authorized adjustments and deductions, the central government's fiscal outcome for the purposes of target assessment was a deficit of BRL 9.9 billion in 2025. State-owned enterprises, in turn, recorded an actual primary deficit of BRL 4.9 billion (0.04% of GDP) last year. The target set in the 2025 Budget Guidelines Law for the Global Disbursement Program (PDG) provided for a deficit of up to BRL 6.2 billion. Taking into account the deductions provided for under the legislation — primarily BRL 3.1 billion for the New PAC [Growth Acceleration Program] [25] — state-owned enterprises posted a result of BRL 4.5 billion above the Budget Guidelines Law target in 2025[26]. The 2025 Budget

[18] See the Central Bank of Brazil's Fiscal Statistics Manual. Available at: https://www.bcb.gov.br/ftp/infecon/estatisticasfiscais.pdf.
[19] Available at: https://portal.stf.jus.br/processos/detalhe.asp?incidente=6330822.
[20] Available at: https://portal.stf.jus.br/processos/detalhe.asp?incidente=6318731.
[21] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc114.htm.
[22] Available at: https://portal.stf.jus.br/processos/detalhe.asp?incidente=7287062.
[23] Page for accessing the regulation: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp221.htm.
[24] Access link: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp223.htm.
[25] Article 3 of the 2025 Budget Guidelines Law caps the deduction of New PAC [Growth Acceleration Program] investment expenditure at BRL 5.0 billion. As the primary balance accounts for amounts actually executed, the figure recorded for deduction may be lower.
[26] Law No. 15,080, of December 30, 2024. Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2024/lei/l15080.htm.

Guidelines Law also provided for offsetting between the central government and state-owned enterprises' fiscal targets.

The central government's fiscal target, formally met in 2025, was achieved through expenditure deductions from the target, as well as the collection of considerable non-recurring revenue, as analyzed by the IFI in RAF No. 108[27]of January 2026. Similar events were recorded in fiscal year 2024, when the target was likewise met through expenditure deductions and the realization of non-recurring revenue[28].

Macroeconomic Projections in the PLDO 2027

In the Fiscal Targets Annex of the PLDO 2027, the Executive Branch presents the macroeconomic parameter framework used in the preparation of the 2027 budget guidelines, as well as the projections considered for the 2028–2030 period. Table 5 compares the macroeconomic variable projections contained in the PLDO 2027 with the IFI's most recent estimates, presented in RAF No. 107[29], of December 2025.

TABLE 5. PROJECTIONS FOR SELECTED MACROECONOMIC VARIABLES (PLDO 2027 AND RAF 107) — 2026 TO 2028

	2026		2027		2028		2029		2030	
	PLDO 2027	IFI - RAF 107 (Dec/25)	PLDO 2027	IFI - RAF 107 (Dec/25)	PLDO 2027	IFI - RAF 107 (Dec/25)	PLDO 2027	IFI - RAF 107 (Dec/25)	PLDO 2027	IFI - RAF 107 (Dec/25)
Real Growth (% var.)	2.3	1.7	2.6	2.0	2.6	2.2	2.6	2.2	2.7	2.3
Nominal GDP (in billions of BRL)	13,606	13,432	14,643	14,245	15,726	15,109	16,887	15,988	18,145	16,923
IPCA (%)	3.74	3.89	3.04	3.52	3.00	3.26	3.00	3.00	3.00	3.00
Selic - Annual Cumulative (% p.a.)	13.53		10.55		9.27		8.27		7.27	
Selic - end of period (% p.a.)		12.00		10.50		9.25		8.00		8.00
Average exchange rate (BRL/US$)	5.32	5.44	5.47	5.49	5.45	5.55	5.50	5.62	5.53	5.67
Nominal Wage Bill (% var.)	10.32	7.65	11.19	6.35	11.08	5.56	11.06	5.31	11.12	5.34
Average Brent Crude Oil Price (USD/barrel)	73.09	66.50	67.69	66.50	66.60	66.50	66.92	66.50	67.44	65.00

Source: PLDO 2027, SPE macroeconomic parameter framework of March 2026[30], RAF No. 107 of December 2025.

The PLDO 2027 sets out the macroeconomic parameter framework for the 2026–2030 period. In light of the IFI's most recent projections (RAF No. 107 of December 2025), the

[27] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/817388/RAF108_JAN2026.pdf.
[28] See RAF No. 96 of January 2025, available at:https://www2.senado.leg.br/bdsf/bitstream/handle/id/682438/RAF96_JAN2025.pdf.
[29] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/816727/RAF107_DEZ2025.pdf.
[30] See: https://www.gov.br/fazenda/pt-br/central-de-conteudo/publicacoes/conjuntura-economica/estudos-economicos/2026/nota_grademarco_vff.pdf.

figures presented in Table 5 point to a more optimistic scenario underlying the preparation of the budget guidelines.

Regarding economic growth, while the Executive Branch projects 2.3% for 2026, 2.6% for 2027, and increases of around 2.6% through 2030, the IFI projects more modest figures: 1.7% for 2026, 2.0% for 2027, and increases of around 2.2% from 2028 to 2030. For inflation, as measured by the IBGE's Broad Consumer Price Index (IPCA), the Executive Branch projects 3.74% for 2026, 3.04% for 2027, and 3.00% from 2028 onward. The IFI's most recent IPCA estimates are 3.89% for 2026, 3.52% for 2027, 3.26% for 2028, and 3.00% for 2029 and 2030, indicating a slower convergence toward the target.

Particularly notable are the PLDO 2027 projections for nominal wage bill variation, which show double-digit increases between 2026 and 2030. For 2026, the Executive Branch projects a 10.3% increase in the indicator (compared with the 7.7% rise expected by the IFI). In subsequent years, the estimates are: 11.2% (PLDO) and 6.3% (IFI) for 2027, 11.1% (PLDO) and 5.6% (IFI) for 2028, 11.1% (PLDO) and 5.3% (IFI) for 2029, and 11.1% (PLDO) and 5.3% (IFI) for 2030. These figures point to relatively optimistic assumptions by the Executive Branch regarding labor market performance in the coming years, which differ from the IFI's expectation of more moderate wage bill growth. Part of this discrepancy stems from the contractionary monetary policy pursued in 2024 and 2025.

Another point worth noting concerns the PLDO 2027 wage bill projections for the period from 2031 onward, when a sharp drop in the rate occurs relative to the 2026–2030 period. In Table 5.1 of "Annex IV.10. Actuarial Projections for the General Social Security Regime," while the wage bill growth rates are those reported in the paragraph above, the projected variation for 2031 falls to 4.81%, reaching 4.77% in 2032, and so on. It is not clear whether a methodological change in the projections took place from 2031 onward, for example.

In RAF No. 100[31], of May 2025, the IFI analyzed the projections presented by the Executive Branch in the budget guidelines between 2021 and 2026, comparing them with the observed values for selected indicators in the macroeconomic parameter framework. Although the Executive Branch's estimates showed a smaller deviation between projected and observed values for economic growth in recent years, significant deviations occurred in other variables, such as inflation and the base interest rate (Selic) over the period.

Such deviations are relevant because they imply more optimistic estimates for certain fiscal variables, such as federal primary expenditure and public debt interest payments. Given that approximately half of the central government's primary expenditure consists of social security and social assistance benefit payments, and that these payments depend on minimum wage adjustments — which are indexed to past inflation — deviations in inflation

[31] Page for accessing the document: https://www2.senado.leg.br/bdsf/bitstream/handle/id/696036/RAF100_MAI2025.pdf.

estimates ultimately translate into more optimistic primary expenditure projections for the years ahead.

Revenue projections in the PLDO 2027

Also in the Annual Fiscal Targets Annex of the PLDO 2027, the Executive Branch presents projections for the primary balance of the central government and federal state-owned enterprises. Table 6, compiled by the IFI from data in the PLDO and the aforementioned RAF No. 107, contains a comparison of revenue and revenue-sharing transfer estimates for 2027.

TABLE 6. PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY REVENUE AND REVENUE-SHARING TRANSFERS (PLDO 2027 AND RAF NO. 107) — 2027 (BRL BILLIONS AND % OF GDP)

Variables	2027					
	PLDO 2027		IFI (RAF No. 107/Dec25)		Diff. PLDO 2027 - IFI (RAF No. 107)	
	BRL billions	% of GDP	BRL billions	% of GDP	BRL billions	p.p. of GDP
1. Total primary revenue	3,408.2	23.3	3,280.5	23.0	127.7	0.2
Administered revenues	2,210.0	15.1	2,147.4	15.1	62.6	0.0
Net revenue for the RGPS	879.8	6.0	777.5	5.5	102.3	0.6
Non-administered revenue	318.4	2.2	355.6	2.5	-37.2	-0.3
2. Revenue-sharing transfers	640.0	4.4	661.8	4.6	-21.8	-0.3
3. Net primary revenue [1-2]	**2,768.2**	**18.9**	**2,618.7**	**18.4**	**149.5**	**0.5**

Sources: PLDO 2027 and RAF No. 107, December 2025.

According to Table 6, there is a difference of BRL 127.7 billion, in favor of the Executive Branch's estimates, between the Executive Branch and IFI projections for total central government primary revenue in 2027. The analysis of the revenue groups comprising primary revenue indicates the following deviations between the PLDO 2027 and IFI projections: (i) BRL 62.6 billion (0.0 p.p. of GDP) higher in administered revenues [revenue collected by the Federal Revenue Office/RFB]; (ii) BRL 102.3 billion (0.6 p.p. of GDP) higher in net RGPS revenue collection; and (iii) BRL 37.2 billion (0.3 p.p. of GDP) lower in non-administered revenues.

The discrepancy in the figures for administered revenues and net RGPS revenue collection is explained in part by the Executive Branch's expectation of stronger economic growth next year[32]. Furthermore, as discussed above, the PLDO incorporates an assumption of more favorable labor market performance in the coming years, with nominal wage bill variation reaching double digits through 2030. This positively affects the projected collection of social security contributions.

[32] It is worth noting that the projections — both from the Executive Branch and the IFI — do not account for the effects of the conflict in Iran, which began in February 2026.

In the PLDO 2027 document, the Executive Branch details the effects of the payroll tax relief reversal[33] on social security revenue collection in 2027 and subsequent years. The IFI also examines this effect in its projections. However, the Executive Branch appears to incorporate more favorable assumptions regarding employment and income trends in the labor market in the coming years.

For revenue-sharing transfers, there is a difference of BRL 21.8 billion — lower in the PLDO 2027 projection relative to the IFI's (RAF No. 107) — resulting in a difference of BRL 149.5 billion in favor of the Executive Branch's estimate of central government net primary revenue in 2027 (Table 6).

According to the IFI's assessment of the PLDO document, further explanation is lacking for the revenue-sharing transfer projections for next year and subsequent fiscal years. For 2027, the estimate points to a decline in transfers (4.4% of GDP) compared with 2026 (4.5% of GDP).

Regarding non-administered revenues, which encompass receipts from natural resource extraction, neither the PLDO 2027 nor the RAF No. 107 projections account for the effects of the conflict in Iran on international oil prices. In RAF No. 111 [34], of April 2026, the IFI presented an analysis of the potential impacts of a higher oil price environment on selected macroeconomic variables (inflation and nominal GDP) and fiscal variables (revenue, expenditure, and the central government primary balance) in 2026 and 2027.

In general terms, the impact tends to be inflationary and to benefit government revenues through direct and indirect effects in the short term. Subsequently, there would be an impact on the primary expenditure trajectory due to higher inflation. In any case, should oil prices remain elevated relative to pre-conflict levels, the central government primary deficit projected by the IFI for 2026 and 2027 would be reduced.

Table 7 presents the revenue and transfer estimates contained in the PLDO 2027 and RAF No. 107 for the 2028–2030 period, as a share of GDP. The Executive Branch's total revenue estimate exceeds the IFI's primarily due to the projections for net RGPS revenue collection.

[33] Pursuant to Law No. 14.973 of 2024. Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2024/lei/l14973.htm.
[34] Available at: https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2026/abril/relatorio-de-acompanhamento-fiscal-abr-2026.

TABLE 7. PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY REVENUE AND TRANSFERS (PLDO 2027 AND RAF NO. 107) — 2028–2030 (% OF GDP)

Variables	2028			2029			2030		
	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107
	% of GDP	% of GDP	p.p. of GDP	% of GDP	% of GDP	p.p. of GDP	% of GDP	% of GDP	p.p. of GDP
1. Total primary revenue	23.4	23.0	0.4	23.4	22.9	0.6	23.5	22.8	0.7
Administered revenues	15.0	15.0	0.0	14.9	15.0	-0.1	14.9	14.9	0.0
Net revenue for the RGPS	6.2	5.5	0.7	6.4	5.5	0.9	6.5	5.5	1.0
Non-administered revenue	2.3	2.5	-0.2	2.2	2.4	-0.2	2.1	2.3	-0.3
2. Revenue-sharing transfers	4.3	4.6	-0.3	4.3	4.6	-0.3	4.2	4.6	-0.4
3. Net primary revenue [1-2]	**19.1**	**18.4**	**0.7**	**19.1**	**18.2**	**0.9**	**19.2**	**18.2**	**1.1**

Source: PLDO 2027 and RAF No. 107, of December 2025.

The administered revenue estimates in the PLDO 2027 account for: (i) the reconstitution of tax bases for certain levies; (ii) measures to reduce disputes between the tax authority and taxpayers, such as tax settlement arrangements; (iii) a neutral impact from the implementation of the tax reform, meaning that the taxes introduced under the reform, such as the Contribution on Goods and Services (CBS) and the Selective Tax, had their collection estimates calculated on the same tax bases as the taxes they will replace (the Contribution to the Social Integration Program/PIS, Contribution to Social Security Financing/Cofins, Tax on Industrialized Goods/IPI, and IOF Seguros [Financial Transactions Tax on insurance]); and (iv) the prohibition on creating, expanding, or extending tax incentives in 2027, which prevents new revenue waivers.

Regarding item (iv) above, a more detailed explanation is warranted. Paragraph I of Article 6-A of Complementary Law (LC) No. 200[35], of August 30, 2023, inserted by LC No. 211[36], of December 30, 2024, establishes that, in the event of a central government primary deficit from fiscal year 2025 onward[37], the enactment of legislation granting, expanding, or extending tax incentives or benefits is prohibited from the year following the deficit assessment until an annual primary surplus is recorded.

In other words, in preparing the PLDO 2027, the Executive Branch assumed that, specifically in fiscal year 2027, no new tax benefits will be granted, which broadens the tax base for certain administered taxes. Given the primary balance projections presented in the document, this prohibition would not apply to 2028, 2029, or 2030, in view of the expected materialization of primary surpluses from 2026 onward.

[35] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp200.htm.
[36] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp211.htm#art1.
[37] This assessment took place in January 2026. Although it is possible to argue that Article 6-A of LC No. 200 applies to fiscal year 2026, the interpretation adopted for this provision was that the prohibition enters into force as of fiscal year 2027.

The figures presented in Table 6 andTable 7 indicate that, based on the Executive Branch's projections, central government net primary revenue will grow in the coming years, from 18.9% of GDP in 2027 to 19.1% of GDP in 2028 and 2029, reaching 19.2% of GDP in 2030.

Before concluding this subsection, a note on the revenue-sharing transfer estimates presented in the PLDO is warranted. In the proposal document, the Executive Branch justifies the decline in transfers as a share of GDP in the coming years, which would fall from 4.5% of GDP in 2026 to 4.4% of GDP in 2027, then to 4.3% of GDP in 2028, 4.3% of GDP in 2029, and 4.2% of GDP in 2030, returning to the historical average.

However, in 2021, Constitutional Amendment No. 112[38] was enacted, amending Article 159 of the Constitution to increase Federal Government transfers to the States' and Municipalities' Participation Funds, with a gradual boost to the Municipal Participation Fund (FPM) over the years. EC No. 112: (i) raised the share of income tax and IPI revenue allocated to the participation funds; (ii) created a specific additional transfer for municipalities, to be phased in over time; and (iii) established that this increase would be implemented gradually.

In other words, if the Executive Branch is projecting a decline in transfers as a share of GDP in the coming years, this reduction should reflect lower estimates for the revenue from taxes shared by the Federal Government with states and municipalities. However, that is not the case. The Federal Revenue Office spreadsheets with projected revenue figures for the 2027–2030 period indicate, for example, a constant share of IPI and income tax collection as a proportion of GDP.

In the IFI's most recent baseline scenario (RAF No. 107), net revenue would decline from 18.4% of GDP in 2027 to 18.2% of GDP in 2030. The discrepancy between the Executive Branch and IFI estimates lies in total primary revenue (particularly net RGPS revenue collection) and in transfers to states and municipalities. The IFI expects certain revenue-enhancing measures to be exhausted, such as tax settlement arrangements, and projects lower amounts from the reduction of tax benefits[39]. The assumptions for labor market performance foresee less favorable conditions regarding employment and income growth. In addition, the IFI projects higher transfer values as a share of GDP relative to the Executive Branch in the coming years.

Expenditure Projections in the PLDO 2027

Table 8 presents central government primary expenditure projections for 2027, at current prices and as a share of GDP. The table also includes the IFI's most recent expenditure projections, as set out in RAF No. 107, of December 2025.

[38] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc112.htm.
[39] See the explanations in the aforementioned RAF No. 107 of December 2025.

TABLE 8. PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY EXPENDITURES (PLDO 2027 AND RAF NO. 107) — 2027 (BRL BILLIONS AND % OF GDP)

Variables	2027					
	PLDO 2027		IFI (RAF No.107/Dec25)		Diff. PLDO 2027 - IFI (RAF No. 107)	
	BRL billions	% of GDP	BRL billions	% of GDP	BRL billions	p.p. of GDP
Total primary expenditure	**2,760.2**	**18.9**	**2,798.9**	**19.6**	**-38.7**	**-0.8**
Social Security benefits	1,204.6	8.2	1,220.7	8.6	-16.1	-0.3
Personnel and social charges	459.3	3.1	453.9	3.2	5.4	0.0
Continuous Cash Benefits (BPC/LOAS)	137.9	0.9	158.0	1.1	-20.1	-0.2
Salary allowance and unemployment benefit	104.8	0.7	110.2	0.8	-5.4	-0.1
Supplementation to Fundeb	73.5	0.5	83.7	0.6	-10.2	-0.1
Court rulings and court-ordered debt payments — current and capital[1]	30.1	0.2	56.4	0.4	-26.2	-0.2
Subsidies, grants and Proagro	30.7	0.2	27.2	0.2	3.5	0.0
Legislative and Judicial Branches, MPU and DPU -	41.4	0.3	22.6	0.2	18.8	0.1
Other mandatory expenses	18.6	0.1	12.3	0.1	6.3	0.0
Executive Branch expenditures subject to financial programming	659.3	4.5	635.8	4.5	23.5	0.0
Mandatory with flow control	384.6	2.6	410.0	2.9	-25.5	-0.2
Discretionary expenditure	274.7	1.9	225.7	1.6	49.0	0.3

[1] Court rulings, pursuant to § 21 of Article 165 of the Federal Constitution, Complementary Law No. 221, of 2025, and Complementary Law No. 223, of 2025.
Source: PLDO 2027 and RAF No. 107, of December 2025.

Based on the figures presented in Table 8, there is a downward deviation of BRL 38.7 billion (0.8 p.p. of GDP) in total Executive Branch primary expenditure relative to the IFI's most recent projection for 2027. In other words, the PLDO estimates are more optimistic than those in RAF No. 107. The downward deviation between the projections occurs in the following expenditure aggregates: (i) social security benefits (BRL 16.1 billion, or 0.3 p.p. of GDP); (ii) Continuous Cash Benefit (BRL 20.1 billion, or 0.2 p.p. of GDP); (iii) salary allowance and unemployment benefit (BRL 5.4 billion, or 0.1 p.p. of GDP); (iv) Supplementation to Fundeb (BRL 10.2 billion, or 0.1 p.p. of GDP); and (v) court rulings and court-ordered debt payments — current and capital (BRL 26.2 billion, or 0.2 p.p. of GDP).

The Executive Branch's lower estimates for social security benefit expenditure (item i above) and social assistance benefit expenditure (items ii and iii above) stem, among other factors, from its inflation assumption for 2026 (3.74%, compared with the IFI's 3.89%). In addition, the PLDO estimates incorporate more conservative assumptions regarding benefit issuance in 2027 and subsequent years.

For expenditures subject to financial programming, while the Executive Branch estimates execution of BRL 659.3 billion (4.5% of GDP), the IFI projects BRL 635.8 billion (4.5% of GDP) in 2027. The upward difference of BRL 23.5 billion in this category is explained by an upward deviation of BRL 49.0 billion between the Executive Branch's estimate for discretionary expenditures (including BRL 264.0 billion in discretionary expenditures subject to the caps

under Complementary Law No. 200 and BRL 10.7 billion in discretionary expenditures excluded from the expenditure caps under LC No. 200) relative to the IFI's projection.

For mandatory expenditures with flow control, which concentrate, among others, the Bolsa Família Program (PBF), the PLDO projection for 2027 is BRL 25.5 billion below the IFI's estimate as presented in RAF No. 107. PBF expenditure has declined over the past two years for two reasons: (i) beneficiaries leaving the program; and (ii) the absence of an adjustment to the benefit value.

A few additional remarks on discretionary expenditures. The Executive Branch's projected execution of BRL 274.7 billion under this category in 2027 is attributable to the budgetary space that would be opened by the restraint of certain mandatory expenditures. The factors cited in the PLDO 2027 document underpinning this outlook are: (i) savings of BRL 16.0 billion in 2027 alone, arising from efficiency measures and fraud prevention in Proagro and in the granting of INSS benefits, BPC, and the seguro-defeso [unemployment insurance benefit granted to professional fishers during the closed season]; and (ii) the activation of triggers under the aforementioned Article 6-A of LC No. 200, of 2023, as inserted by LC No. 211, of 2024, which limits the real growth of personnel expenditures (across all branches) to 0.6%[40], in the event of a primary deficit in fiscal year 2025.

In light of the content presented in RAF No. 107, the projected savings of BRL 16.0 billion from fraud reduction in the granting of social security and social assistance benefits appear relatively optimistic and depend on the effectiveness of this restraint over expenditure aggregates that recorded growth above the caps defined under LC No. 200 (the fiscal framework) in 2024 and 2025.

Although the activation of the triggers set out in Article 6-A of LC No. 200 represents an important constraint on the dynamics of personnel expenditure, the magnitude of such expenditure (around 3.0% of GDP) is significantly lower than that of outlays directed at the payment of social security and social assistance benefits[41]. Furthermore, in recent years, personnel expenditure has remained at relatively controlled levels. This dynamic differs from that observed in certain social assistance and social security benefits.

[40] The provision reads as follows: "Art. 6-A. In the event of a primary deficit of the Central Government, pursuant to § 4 of Article 2 of this Complementary Law, from fiscal year 2025 onward, the following are prohibited in the year following the deficit assessment, and until an annual primary surplus is recorded:
I — the enactment of legislation granting, expanding, or extending tax incentives or benefits; and
II — until 2030, in the annual budget bill and the annual budget law, the programming of annual real growth in personnel expenditures and personnel-related charges of each Branch or autonomous body above the lower bound referred to in § 1 of Article 5 of this Complementary Law, excluding amounts granted by virtue of a court ruling." [Unofficial translation]

[41] For a discussion of an expenditure item that has shown a concerning trajectory in recent years, namely BPC payments, see the analysis published by the IFI in RAF No. 110, of March 2026. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/863708/RAF110_MAR2026.pdf.

Table 9, compiled by the IFI from information in the PLDO 2027 document and the projections of RAF No. 107, of December 2025, presents the Executive Branch and IFI expenditure estimates for the 2028–2030 period, as a share of GDP.

TABLE 9. PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY EXPENDITURES (PLDO 2027 AND RAF NO. 107) — 2028–2030 (% OF GDP)

Variables	2028			2029			2030		
	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107
	% of GDP	% of GDP	p.p. of GDP	% of GDP	% of GDP	p.p. of GDP	% of GDP	% of GDP	p.p. of GDP
Total primary expenditure	**18.5**	**19.6**	**-1.1**	**18.2**	**19.8**	**-1.6**	**18.0**	**20.0**	**-2.0**
Social Security benefits	8.2	8.6	-0.5	8.1	8.7	-0.6	8.0	8.8	-0.8
Personnel and social charges	3.0	3.1	-0.1	2.9	3.1	-0.1	2.8	3.0	-0.2
Continuous Cash Benefits (BPC/LOAS)	0.9	1.1	-0.2	0.9	1.2	-0.3	0.9	1.2	-0.4
Salary allowance and unemployment benefit	0.7	0.8	-0.1	0.7	0.8	-0.1	0.7	0.8	-0.1
Supplementation to Fundeb	0.5	0.6	-0.1	0.5	0.6	-0.1	0.5	0.6	-0.1
Court rulings and court-ordered debt payments — current and capital[1]	0.3	0.4	-0.1	0.3	0.4	-0.1	0.3	0.4	-0.2
Subsidies, grants and Proagro	0.2	0.2	0.0	0.2	0.2	0.0	0.2	0.2	0.0
Legislative and Judicial Branches, MPU and DPU -	0.3	0.2	0.1	0.3	0.2	0.1	0.3	0.2	0.1
Other mandatory expenses	0.1	0.1	0.0	0.2	0.1	0.1	0.4	0.1	0.3
Executive Branch expenditures subject to financial programming	4.2	4.4	-0.2	4.1	4.3	-0.2	4.0	4.3	-0.3
Mandatory with flow control	2.5	2.8	-0.3	2.4	2.8	-0.4	2.3	2.8	-0.4
Discretionary expenditure	1.7	1.6	0.2	1.7	1.5	0.2	1.7	1.5	0.2

(1) Court rulings, pursuant to § 21 of Article 165 of the Federal Constitution, Complementary Law No. 221, of 2025, and Complementary Law No. 223, of 2025
Source: PLDO 2027 and RAF No. 107, of December 2025.

According to Table 9, the Executive Branch projects a decline in total central government primary expenditure as a share of GDP over the coming years. From 18.9% of GDP in 2027, it would fall to 18.5% in 2028, then to 18.2% in 2029, reaching 18.0% of GDP in 2030. Part of this reduction, vis-à-vis the IFI's projections, is attributable to the higher nominal GDP estimated for the coming years. According to Table 5, in 2030, the difference between the nominal GDP estimated by the Executive Branch and that projected by the IFI exceeds BRL 1.0 trillion.

This projected reduction in primary expenditure is also premised on decreases and/or control of the expenditure share (as a % of GDP) in certain significant categories, such as: (i) social security benefits, which would fall from 8.2% of GDP in 2028 to 8.0% of GDP in 2030; (ii) personnel expenditure, from 3.0% of GDP in 2028 to 2.8% of GDP in 2030; (iii) BPC payments, which would remain at 0.9% of GDP through 2030; and (iv) mandatory expenditures with flow control, which would fall from 2.5% of GDP in 2028 to 2.3% of GDP in 2030.

The primary expenditure projections for the coming years take into account Executive Branch spending review actions[42]. According to the PLDO 2027, the potential savings to be achieved amount to BRL 55.4 billion between 2026 and 2029. These actions cover expenditures such as social security benefit payments, BPC, Proagro, and the seguro-defeso benefit. In the estimates for social security benefit expenditure, for example, the PLDO projects savings of BRL 12.9 billion from the expansion of Atestmed[43] between 2026 and 2029.

The remaining actions (also covering the 2026–2029 period) consist of: (i) savings of BRL 25.8 billion in BPC payments (Organic Law of Social Assistance — LOAS) arising from the biennial benefit review and the adoption of administrative measures, such as mandatory biometric registration of beneficiaries; (ii) savings of BRL 15.1 billion in Proagro, through a reduction in the eligibility threshold and improved climate risk management; and (iii) savings of BRL 1.6 billion in seguro-defeso benefit payments, associated with the requirement to demonstrate uninterrupted fishing activity.

Also according to the PLDO 2027, other elements justify the projected trajectory of mandatory central government primary expenditure as a share of GDP through 2030. One such element is the aforementioned activation of the fiscal triggers set out in Article 6-A of LC No. 200, of 2023. These triggers will limit the real growth of personnel expenditure to 0.6% until the 2025 primary deficit is reversed into a surplus, and underpin the projected trajectory of personnel expenditure between 2027 and 2030.

A third element presented in the PLDO for the control of certain mandatory expenditures in the coming fiscal years concerns the change introduced by Article 4 of Law No. 15.077[44], of December 2024, which caps the real variation of the minimum wage, as defined under Law No. 14.663[45], of August 2023, at 2.5% (the Federal Government's primary expenditure growth cap under LC No. 200).

A fourth element consists of the amendment introduced by Article 38 of Law No. 15.265[46], of November 21, 2025, which amended Law No. 14.818[47], of January 16, 2024, to classify the Pé-de-Meia Program as a scholarship paid to upper secondary students, with the associated expenditure henceforth counted toward compliance with the minimum education spending requirement. The same Law No. 15.265, in Article 35, amended the disbursement rules governing compensation between the RGPS and the social security regimes for public servants of the Federal Government, states, municipalities, and the

[42] Also referred to in English as spending reviews.
[43] An INSS system that replaces in-person medical assessments with documentary analysis for the granting of temporary disability benefits.
[44] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2024/lei/l15077.htm.
[45] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2023/lei/l14663.htm.
[46] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/lei/l15265.htm.
[47] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2024/lei/l14818.htm.

Federal District. Such compensation was capped at the respective budgetary appropriation for that expenditure.

Another significant expenditure aggregate projected to decline as a share of GDP through 2030 is mandatory expenditures with flow control. According to the PLDO 2027 document, the estimated trajectory for this category is based on: (i) zero real growth for expenditures in this group, with adjustment limited to the prior year's inflation; and (ii) improved efficiency in the Bolsa Família Program, through greater targeting of the policy.

The PLDO 2027 also considers the impact of contributions to be made by the Federal Government to the tax reform's compensatory funds, namely the Fiscal Benefits Compensation Fund (FCBF) and the Regional Development Fund (FNDR). The document identifies these contributions as the primary source of upward pressure on Federal Government primary expenditure from 2029 onward[48].

The PLDO estimates an impact of 0.18 p.p. of GDP from Federal Government contributions to the FCBF, which are expected to occur between 2029 and 2032. The estimated contributions to the FNDR, of 0.11 p.p. of GDP from 2029 onward, will extend beyond 2033 and will follow an upward disbursement trend.

As will be explored in greater detail further in this analysis, the increase in expenditures in the coming years due to contributions to the tax reform's compensatory funds will occur during a period in which the Executive Branch has set more ambitious primary surplus targets: 1.25% of GDP in 2029 and 1.50% of GDP in 2030. The rise in these expenditures will therefore require more stringent control of other budgetary categories for the targets to be met. The restraint envisaged for certain significant mandatory expenditure aggregates appears intended to absorb the impact of contributions to the tax reform's compensatory funds.

In any case, in light of the IFI's most recent projections, the outlook for primary expenditure dynamics over the coming fiscal years appears optimistic, for several reasons. First, the recent trajectory of certain expenditures, such as social security and social assistance benefit payments, has been driven not only by the minimum wage adjustment rule[49] but also by the number of benefits granted.

As analyzed in the first section of this RAF, INSS benefit issuance has been influenced by temporary disability benefits. In fiscal years 2024 and 2025, the savings achieved through the use of Atestmed fell short of projected figures, which reinforces skepticism regarding the significant savings projected for the coming fiscal years.

[48] For an analysis of the fiscal impacts and risks for the Federal Government of the compensatory funds created by the tax reform on consumption taxes, see IFI Technical Note (NT) No. 53, of December 2023. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/644753/NT53_DEZ2023.pdf.
[49] The rule considers past inflation and past economic growth, the latter constituting a factor of real increase for the variable.

BPC benefit issuance, in turn, has been affected by claims from persons with disabilities. Moreover, benefits granted through judicial channels have grown considerably since 2021[50]. It therefore seems unlikely that this benefit issuance dynamic will change without amendments to the legislation governing benefit granting.

Although the triggers inserted in LC No. 200 to limit personnel expenditure growth are relevant, the trajectory of this expenditure has remained relatively controlled in recent years. The triggers designed to limit the creation of tax benefits and incentives, in turn, may have their reach undermined by certain recently approved benefits — see, for example, the enactment of LC No. 228[51], of 2026, and LC No. 229[52], of 2026.

Another important element to consider concerns the cap on minimum wage variation imposed by Law No. 15.077. Although aligning the ceiling on minimum wage variation with the expenditure cap defined under LC No. 200 is a sound measure, payments of social security and social assistance benefits linked to the minimum wage also depend on the number of benefits granted. As noted, the issuance of certain such benefits has been driven by specific groups (as in the cases of temporary disability benefits and BPC for persons with disabilities, as well as judicially granted BPC).

It is equally relevant to consider the ongoing aging of the Brazilian population, which will continue to exert upward pressure on the issuance of social security benefits and certain social assistance benefits (BPC) in the years ahead. For all these reasons, it appears relatively optimistic to assume that INSS and BPC expenditure will decline as a share of GDP over the coming years.

Finally, regarding the trajectory presented in the PLDO 2027 for mandatory expenditures with flow control, it seems reasonable to expect a decline as a share of GDP, provided that labor market conditions continue to improve in the coming years, sustaining the current trend of families exiting the Bolsa Família Program. However, it is worth noting that this estimated trajectory likely assumes no adjustments to the program's benefit values. Any such adjustments could result in a smaller decline or even stabilization of this expenditure in the years ahead.

Projections for the Primary Balance in the PLDO 2027

This subsection analyzes the figures presented in the PLDO regarding the central government primary balance in 2027 and from 2028 to 2030. Table 10 presents the PLDO 2027 and RAF No. 107 projections for fiscal year 2027.

[50] See the analysis published by the IFI in the aforementioned RAF No. 110, dated March 2026.
[51] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp228.htm.
[52] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp229.htm.

TABLE 10. PROJECTIONS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE (PLDO 2027 AND RAF NO. 107) — 2027

Variables	2027					
	PLDO 2027		IFI (RAF No.107/Dec25)		Diff. PLDO 2027 - IFI (RAF No. 107)	
	BRL billions	% of GDP	BRL billions	% of GDP	BRL billions	p.p. of GDP
1. Net primary revenue	2,768.2	18.90	2,618.7	18.38	149.5	0.5
2. Total primary expenditure	2,760.2	18.85	2,798.9	19.65	-38.7	-0.8
3. Actual Primary Balance [1-2]	8.0	0.05	-180.3	-1.27	188.3	1.3
4. Central government - deductions from the primary balance target(1)	65.7	0.45	118.2	0.83	-52.6	-0.4
5. Central government - primary balance after deductions [3+4]	73.6	0.50	-62.0	-0.44	135.7	0.9
6. Central government — primary balance target midpoint	73.2	0.50	73.2	0.51	0.0	0.0
7. Central government — lower bound of the primary balance target	36.6	0.25	36.6	0.26	0.0	0.0
8. Difference relative to the lower bound of the primary balance target [5-7]	37.0	0.25	-98.6	-0.69	135.7	0.9

(1) Court rulings, pursuant to §21 of Article 165 of the 1988 Federal Constitution, LC 221/2025, and LC 223/2025.
Source: PLDO 2027 and RAF No. 107, December 2025.

According to Table 10, there is an upward difference of BRL 188.3 billion (1.3 p.p. of GDP) between the Executive Branch's estimate of the actual central government primary surplus for next year (BRL 8.0 billion, or 0.05% of GDP) and the primary deficit calculated by the IFI in RAF No. 107, of December 2025 (BRL 180.3 billion, or 1.27% of GDP).

Also according to the table, the PLDO 2027 projects central government net primary revenue BRL 149.5 billion higher than the IFI's estimate for next year, while the primary expenditure estimate is BRL 38.7 billion lower.

The deductions from the primary balance target assessment considered for 2027 merit closer examination. The Executive Branch accounts for BRL 65.7 billion (0.45% of GDP) in deductions in the PLDO. This amount reflects the assumption that 39.4% of court-ordered debt payment expenditures (BRL 95.4 billion) will be counted toward the target, while BRL 57.8 billion will be recorded outside the fiscal target assessment for next year. Constitutional Amendment (EC) No. 136[53], of 2025, amended provisions of the Transitional Constitutional Provisions Act (ADCT) to establish new annual payment caps for court-ordered debt payments, as well as installment arrangements and temporary exceptions to the general regime under Article 100 of the Federal Constitution of 1988.

For the purposes of compliance with the fiscal rules governing the expenditure cap and the central government primary balance target assessment, court-ordered debt payment expenditures were removed from the expenditure caps, as defined under LC No. 200, and from the primary balance target assessment, starting in 2027. In the case of the primary balance target, total court-ordered debt payment expenditures will be reintegrated gradually — at a minimum rate of 10% per year over a ten-year horizon.

[53] https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc136.htm.

In addition to a portion of court-ordered debt payments (BRL 57.8 billion), the expenditure exceptions from the 2027 primary balance target assessment considered in the PLDO also include: (i) up to BRL 5.0 billion per year in strategic defense investments, pursuant to the aforementioned LC No. 221, of 2025; and (ii) BRL 2.86 billion in temporary health and education expenditures funded by the Social Fund, pursuant to the aforementioned LC No. 223, of 2025.

In RAF No. 107, of December 2025, the IFI considered BRL 118.2 billion in expenditures deducted from the primary balance target assessment in 2027. Of this amount, (i) BRL 113.2 billion would correspond to 90% of court-ordered debt payments recorded outside the primary balance target assessment for next year[54]; and (ii) BRL 5.0 billion would constitute defense expenditures (LC No. 221).

In sum, the main factor explaining the difference between the Executive Branch and IFI projections regarding expenditures excluded from the primary balance target assessment for next year is the share of court-ordered debt payment expenditures to be included in that assessment. While the PLDO 2027 considered 39.4% of such expenditures as counted within the target, the IFI considered 10%.

After applying the expenditure deductions from the target assessment, the PLDO projects a primary surplus of BRL 73.6 billion (0.5% of GDP) in 2027, while the IFI projects a primary deficit of BRL 62.0 billion (0.44% of GDP). Thus, according to the IFI's most recent projections (RAF No. 107), the Executive Branch would fall BRL 98.6 billion (0.7 p.p. of GDP) short of the lower bound of the target (BRL 36.6 billion) set for next year.

Although it falls outside the scope of this analysis, the persistence of the oil price shock stemming from the Middle East conflicts may favor central government primary revenues. As noted earlier, RAF No. 111, of April 2026, presented an exercise on this topic. In general terms, depending on the intensity and duration of the shock, the impact on the central government primary balance is expected to be positive, which would reduce the primary deficit projected for 2027.

Table 11 presents the PLDO 2027 and IFI estimates for the central government primary balance over the 2028–2030 period. The figures in the table indicate, in light of the Executive Branch's projections, an improvement in the primary balance over time as the primary balance target becomes more ambitious.

The revenue and expenditure projections discussed earlier pointed in this direction. The PLDO estimates assume that central government net primary revenue stabilizes above 19.0% of GDP through 2030, while primary expenditure declines from 2027 to 2030, reaching 18.0% of GDP. As noted earlier, this scenario is relatively optimistic for the reasons already set out.

[54] In RAF No. 107, the IFI considered total court-ordered debt payment expenditures of BRL 125.8 billion in fiscal year 2027.

On the other hand, according to the IFI's most recent projections, the estimated primary deficit deteriorates over time (both in actual terms and for target compliance purposes), due to the accommodation of revenues[55] and the increase in mandatory expenditures.

TABLE 11. PROJECTIONS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE (PLDO 2027 AND RAF NO. 107) — 2028–2030

Variables	2028			2029			2030		
	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107	PLDO 2027	IFI (RAF 107)	Diff. PLDO 2027-RAF 107
	% of GDP	% of GDP	p.p. of GDP	% of GDP	% of GDP	p.p. of GDP	% of GDP	% of GDP	p.p. of GDP
1. Net primary revenue	19.09	18.36	0.7	19.14	18.24	0.9	19.24	18.16	1.1
2. Total primary expenditure	18.48	19.63	-1.1	18.21	19.80	-1.6	17.98	19.96	-2.0
3. Actual Primary Balance [1-2]	**0.62**	**-1.27**	**1.9**	**0.93**	**-1.56**	**2.5**	**1.26**	**-1.80**	**3.1**
4. Central government - deductions from the primary balance target[(1)]	0.38	0.75	-0.4	0.32	0.66	-0.3	0.24	0.57	-0.3
5. Central government - primary balance after deductions [3+4]	**1.00**	**-0.52**	**1.5**	**1.25**	**-0.90**	**2.1**	**1.50**	**-1.23**	**2.7**
6. Central government — primary balance target midpoint	1.00	1.00	0.0	1.25	1.25	0.0	1.50	1.50	0.0
7. Central government — lower bound of the primary balance target	0.75	0.75	0.0	1.00	1.00	0.0	1.25	1.25	0.0
8. Difference relative to the lower bound of the primary balance target [5-7]	**0.25**	**-1.27**	**1.5**	**0.25**	**-1.90**	**2.1**	**0.25**	**-2.48**	**2.7**

(1) Court rulings, pursuant to §21 of Article 165 of the 1988 Federal Constitution, LC 221/2025, and LC 223/2025.
Source: PLDO 2027 and RAF No. 107, December 2025.

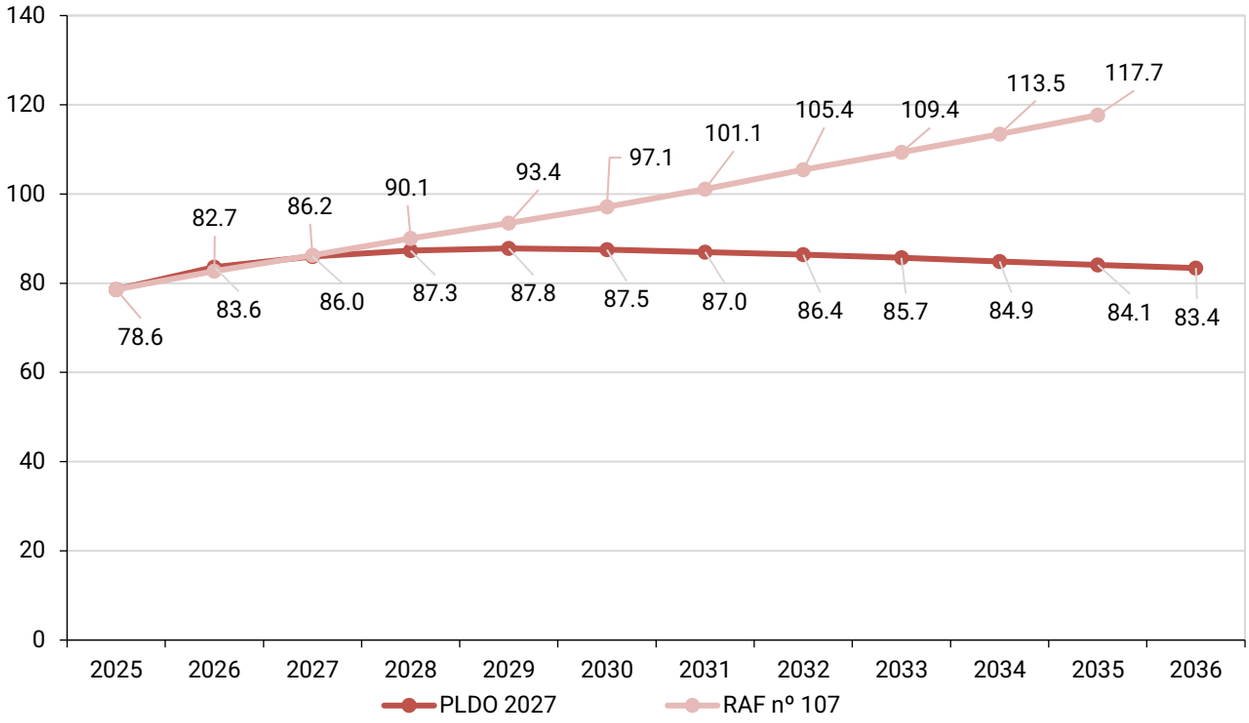
Projections for the General Government Gross Debt (DBGG) in the PLDO 2027

In compliance with certain legal requirements, the PLDO sets out public debt projections over a ten-year horizon. LC No. 200, of 2023, inserted a provision into the aforementioned Fiscal Responsibility Law (Article 4, § 5, item III) requiring a demonstration of the compatibility of primary balance target compliance with the public debt convergence trajectory over a decade. This time horizon allows the Executive Branch to demonstrate what level of fiscal results is needed to achieve stabilization of the DBGG as a share of GDP.

Graph 7 presents the PLDO 2027 and IFI projections for the DBGG over the coming years. In RAF No. 107, the projections published by the IFI covered the 2025–2035 period. The Executive Branch's estimates show that the indicator would reach 87.8% of GDP in 2029 and begin to decline from 2030 onward. By the end of the projection horizon, the PLDO projects the DBGG to reach 83.4% of GDP. The IFI, in turn, projects the DBGG to follow an upward trajectory over the next decade. The detailed information provided below underpins these projections.

[55] For further details, see the aforementioned RAF No. 107, of December 2025. This is attributable to the exhaustion of certain revenue-enhancing measures and the convergence of the revenue-to-GDP elasticity toward 1.

GRAPH 7. GENERAL GOVERNMENT GROSS DEBT – 2026 TO 2036



Source: PLDO 2027 and IFI. Prepared by: IFI.

Table 12 presents a comparison of selected parameters considered in the PLDO 2027 and RAF No. 107 for the 2026–2036 period that underpin the DBGG trajectory estimates shown in Graph 7.

TABLE 12. PROJECTIONS FOR SELECTED PARAMETERS IN THE PLDO 2027 AND RAF NO. 107 — 2026–2036

	Implicit real interest rate on the DBGG (% p.a.)		Selic (end of year - % p.a.)		GDP var. (%)		GDP deflator (%)		Exchange rate (BRL/USD) – end of year		Actual central government primary balance (% of GDP)	
	PLDO 2027	IFI (RAF 107)	PLDO 2027	IFI (RAF 107)	PLDO 2027	IFI (RAF 107)	PLDO 2027	IFI (RAF 107)	PLDO 2027	IFI (RAF 107)	PLDO 2027	IFI (RAF 107)
2026	7.8	8.0	11.9	12.0	2.3	1.7	4.4	4.0	5.4	5.5	-0.4	-0.7
2027	6.6	6.7	9.7	10.5	2.6	2.0	4.9	4.0	5.5	5.5	0.1	-1.3
2028	5.9	5.8	8.9	9.3	2.6	2.2	4.7	3.8	5.5	5.6	0.6	-1.3
2029	5.3	4.9	7.9	8.0	2.6	2.2	4.7	3.5	5.5	5.6	0.9	-1.6
2030	4.8	4.9	6.9	8.0	2.7	2.3	4.7	3.5	5.6	5.7	1.3	-1.8
2031	4.3	4.9	6.4	8.0	2.7	2.3	4.4	3.5	5.6	5.7	1.3	-2.0
2032	4.2	4.9	6.4	8.0	2.8	2.3	4.2	3.5	5.7	5.8	1.4	-2.2
2033	4.1	4.9	6.4	8.0	2.9	2.3	4.0	3.5	5.7	5.9	1.4	-1.8
2034	4.1	4.9	6.4	8.0	3.0	2.3	3.9	3.5	5.8	5.9	1.5	-1.9
2035	4.1	4.9	6.4	8.0	3.0	2.2	3.9	3.5	5.8	6.0	1.5	-1.9
2036	4.1		6.4		3.0		3.8		5.9		1.5	

Source: PLDO 2027 and RAF No. 107, of December 2025.

Based on the figures presented in Table 12, the discrepancy between the DBGG trajectories as a share of GDP in the PLDO 2027 and RAF No. 107 scenarios is clear. While the Executive

Branch assumes that economic growth will rise from 2.3% in 2026 to 2.7% in 2030 and further to 3.0% in 2036, the IFI projects that growth will converge toward the currently estimated potential, at around 2.2%.

Regarding the implicit real interest rate on the DBGG, the figures reflect the Executive Branch's assumption of convergence toward 4.1% p.a. by 2036, while the IFI estimates it will reach 4.9% p.a. by 2035. As the implicit real interest rate is closely associated with the Selic rate, these figures provide a useful proxy for the economy's neutral interest rate.

Finally, considering the estimates presented for the actual central government primary balance, while the PLDO 2027 indicates a trajectory of rising surpluses over time, the IFI projects the materialization of primary deficits throughout the entire projection horizon (Table 12).

In sum, the discrepancy between the Executive Branch and IFI expected trajectories for the DBGG as a share of GDP in the coming years is explained by: (i) higher economic growth rates assumed by the Executive Branch; (ii) a lower neutral interest rate assumed by the government; and (iii) the materialization of rising primary surpluses in the coming years as assumed by the Executive Branch, whereas the IFI projects primary deficits throughout the entire projection period. Accordingly, based on the IFI's projections, the DBGG would not stabilize over the next decade.

Conclusion

This analysis examined aspects of the macroeconomic and fiscal variable projections in the PLDO 2027, comparing them with the most recent IFI estimates published in RAF No. 107, of December 2025.

The figures presented in the PLDO represent relatively optimistic estimates, starting with the macroeconomic parameter framework. The Executive Branch expects economic growth to rise gradually over the coming years, reaching 2.7% in 2030 and 3.0% in 2036, which suggests a favorable assumption regarding the economy's potential growth rate.

This upward momentum in the PLDO projections stems from the expected effects of the consumption tax reform on economic activity. One of the reform's main impacts on economic activity is a productivity boost resulting from greater allocative efficiency in the economy.

The IFI also considers a positive impact of the tax reform on the economy's potential growth rate. However, the expected effects, as currently estimated, are more modest, on the order of 0.2 p.p. of GDP, for two main reasons: (i) the difficulty of measuring the reform's impacts on potential growth; and (ii) the need to gather further information to carry out the estimate. For these reasons, the IFI assumes potential economic growth of 2.2% per year.

Still on the macroeconomic parameter framework, the IFI identified optimistic assumptions in the estimates for other variables, such as the base interest rate and inflation. As discussed throughout this analysis and, in accordance with the text published in RAF No. 100, of 2025, although the Executive Branch has outperformed the market consensus in projecting economic activity in recent years, deviations between projected and observed values for other macroeconomic variables were significant over the period. The effects of these projection deviations create difficulties in budget execution in the following fiscal year.

The expectation of stronger economic growth embedded in the PLDO 2027 is reflected in more optimistic estimates for administered and non-administered tax revenues. In light of the most recent projections published by the IFI, the largest discrepancy with the Executive Branch's figures lies in social security contribution collections, which point to the government's expectation of a highly favorable labor market performance in the coming years.

The primary expenditure projections for the central government in the years ahead likewise embed highly optimistic assumptions regarding the behavior of certain mandatory expenditure aggregates that have posted a strong expansion trajectory in recent years.

In the PLDO 2027, the Executive Branch announced its intention to achieve BRL 55.4 billion in mandatory expenditure savings between 2026 and 2029 through the so-called spending reviews. The reported figures are notable because they involve expenditure categories that have recently posted strong growth, such as social security benefits (BRL 12.9 billion to be achieved through improvements to Atestmed) and BPC (BRL 25.8 billion to be obtained through administrative measures, such as mandatory biometric registration of beneficiaries). These amounts appear significant.

Given the assumptions underlying the primary revenue and expenditure estimates, the trajectory set out in the PLDO 2027 for the central government primary balance is favorable and would indicate compliance with the fiscal targets established for the coming fiscal years. In light of the relative optimism described above and the fact that the fiscal targets become more ambitious in the coming years, the PLDO figures warrant cautious interpretation.

Accordingly, the gross debt projections also warrant skeptical scrutiny, as they are grounded in highly optimistic scenarios for economic growth, the economy's neutral interest rate, and the materialization of rising primary surpluses over time.

In the most recent macroeconomic and fiscal scenario published in December 2025, the IFI projected a path of continuous increase in gross debt as a share of GDP through 2035. On that occasion, the institution reported that the public sector primary surplus required to stabilize the debt would be 2.3% of GDP.

Taken together, and considering the exercises presented by the IFI in RAF No. 107 regarding the diminishing effectiveness of the current Federal Government expenditure cap rule from 2028 onward — even following the enactment of EC No. 136, of 2025 — it is fair to say that the challenges facing fiscal policy management in the coming years remain substantial, requiring measures to control the trajectory of mandatory primary expenditure aggregates.

Fiscal Risks in the PLDO 2027 and Recent Track Record

Pedro Souza

Introduction

Pursuant to § 3 of Article 4 of Complementary Law (LC) No. 101, of 2000[56], also known as the Fiscal Responsibility Law (LRF), the ARF assesses contingent liabilities and other risks capable of affecting public finances, also setting out the measures to be taken in the event of the materialization of such risks.

The ARF of the 2027 Budget Guidelines Bill (PLDO), currently before the National Congress as PLN 2/2026[57], is divided into six sections: 1) Fiscal Risk Management; 2) Executive Summary; 3) Analysis of Macroeconomic Risks (General Risks); 4) Analysis of Specific Risks; 5) Measures in the Event of Fiscal Risk Materialization; and 6) Concluding Remarks.

The objective of this text is to analyze the ARF data across the PLDOs submitted over time and compare them with risks that may have materialized[58].

Risk Categorization

The ARF categorizes fiscal risks into general risks (or macroeconomic risks) and specific risks.

General risks are those that affect fiscal variables as a result of changes in macroeconomic parameters, such as GDP, inflation, exchange rates, interest rates, commodity prices, and the wage bill. This mapping is important because it allows for anticipating the behavior of fiscal variables, such as revenues and expenditures, in response to shocks in macroeconomic variables. One example is the impact of higher oil prices on inflation and primary revenues and expenditures, as explored by the IFI in RAF No. 111, of April 2026.

Specific risks are divided into three categories. The first encompasses liability-related risks, associated with the potential emergence of new federal obligations. This category includes legal claims, liabilities in the process of being recognized, and guarantees extended.

[56] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp101.htm.
[57] Available at: https://www.congressonacional.leg.br/web/orcamento/acompanhe/diretrizes-orcamentarias/-/ldo/2027.
[58] The Fiscal Risks Annexes of past Budget Guidelines Laws are available on the National Treasury portal for transparency (Tesouro Nacional Transparente). ARFs available at: https://www.tesourotransparente.gov.br/publicacoes/anexo-de-riscos-fiscais-da-ldo/2027/20?ano_selecionado=2027.

Mapping and categorizing these items allow for monitoring potential obligations that may translate into new primary or financial expenditures or result in revenue shortfalls.

The second category encompasses asset-related risks, which involve the possibility that property rights may not be fully realized. These risks include the Federal Government's overdue tax debt registry (DAU) and financial assets. In the case of asset-related risks, they arise from situations in which the right to receive or exploit a given item cannot be fully exercised.

The third category of specific risks covers distinct components. These risks involve the Federal Government's relationship with subnational entities; its relationship with state-owned enterprises; concessions and public-private partnerships (PPPs); the Student Financing Fund (FIES); environmental risks; demographic changes; financial system risks; among others.

These risks may affect Federal Government revenues and expenditures, whether primary, affecting the primary balance, or financial, affecting the federal public debt. In mapping their effects, risks that increase expenditure or reduce expected revenue are taken into account.

General Risks

Regarding general risks, the ARF assesses the sensitivity of primary revenues, primary expenditures, and public debt to shocks in macroeconomic variables. Based on these estimates, the document also presents stress tests of macroeconomic parameters to evaluate the combined impact of multiple random shocks on the trajectories of fiscal variables.

Graph 8 presents the estimated impact of 1 p.p. shocks in different macroeconomic variables on revenues administered by the Federal Revenue Office. For each item, the graph shows the expected percentage change in revenues in response to a 1 p.p. change in the respective macroeconomic variable.

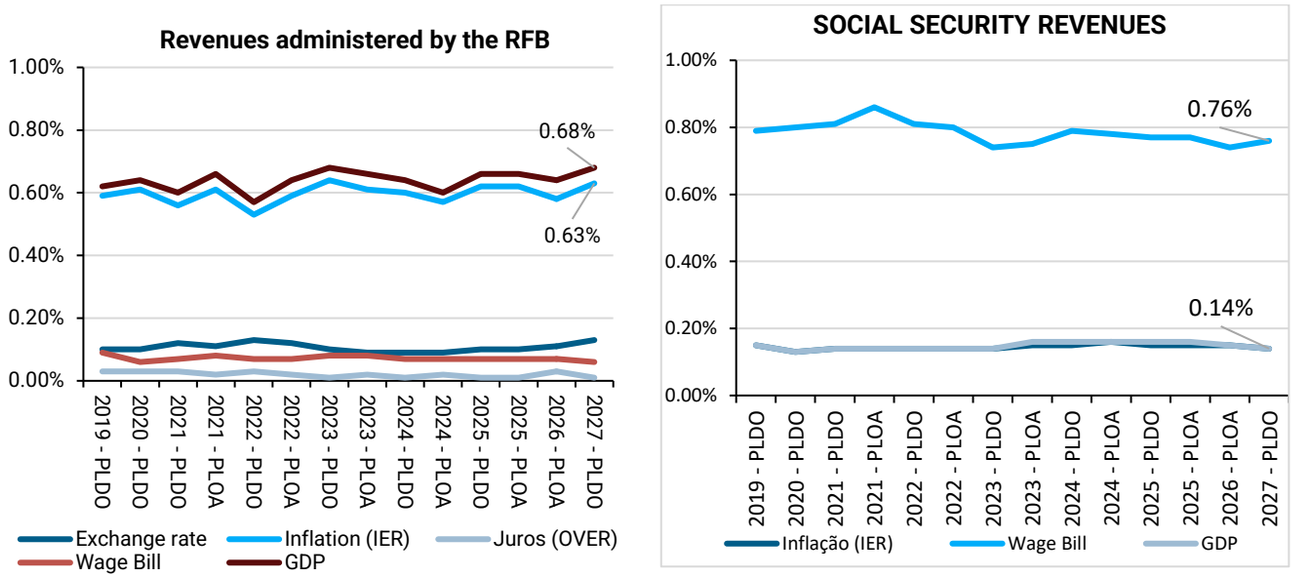
Analyzing the impact of a 1 p.p. change in real GDP growth, it is observed that, since 2019, this shock has been associated, on average, with a 0.64% change in administered revenues. For 2027, this impact is estimated at 0.68%, equivalent to BRL 15.0 billion.

For inflation[59], the average impact since 2019 is a 0.6% increase in administered revenues for a 1 p.p. rise in the IPCA. For 2027, the impact on administered revenues is equivalent to BRL 13.9 billion.

[59] The PLDO considers the so-called Revenue Estimation Index (IER), which is composed of a weighted average assigning a weight of 55% to the average IPCA rate and 45% to the average IGP-DI rate for each year.

The remaining macroeconomic variables have a low impact on administered revenues, as they affect tax bases of limited representativeness. For 2027, the estimated impacts range from BRL 0.2 billion to BRL 2.9 billion, with the exchange rate standing out.

Graph 8. ESTIMATED IMPACT OF A 1 P.P. CHANGE IN MACROECONOMIC VARIABLES ON PRIMARY REVENUES (% VAR.)

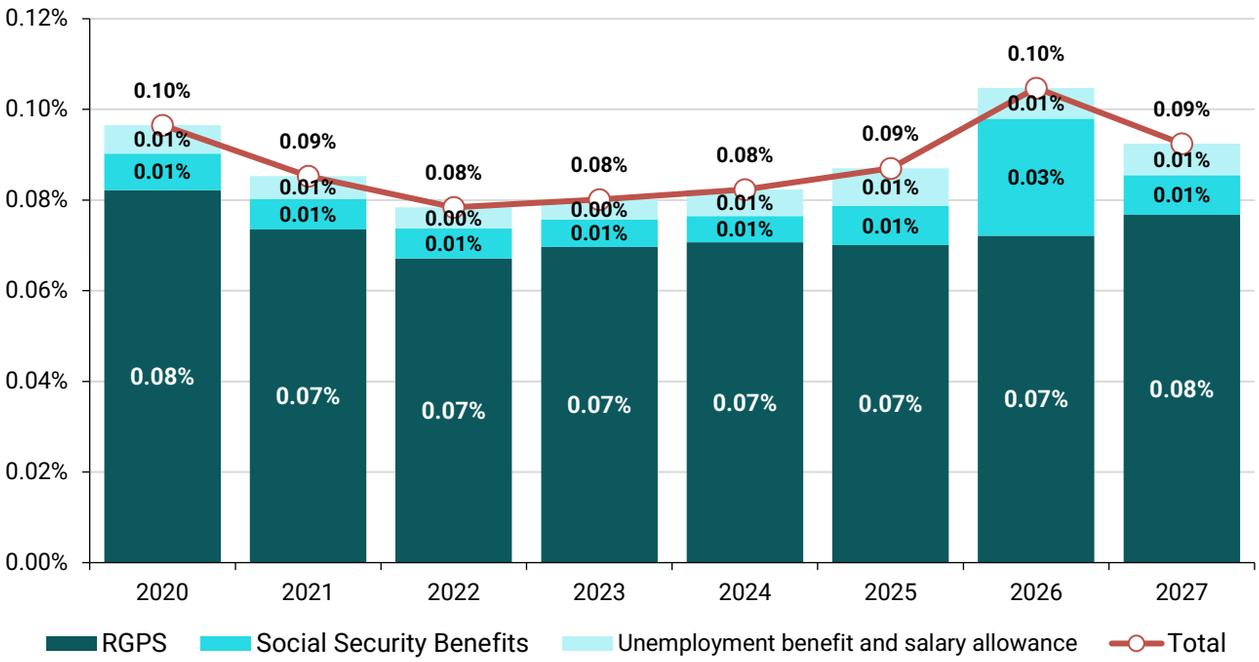


Source: PLDOs and PLOAs from 2019 to 2027. Prepared by: IFI.

Within social security revenues, the macroeconomic variable with the greatest impact is the wage bill, with an average 1 p.p. change yielding a 0.78% variation in revenues. For 2027, the impact of a 1 p.p. shock is 0.76%, equivalent to BRL 6.7 billion. For shocks in inflation and GDP, the impact is smaller, at around 0.14%, with the 2027 impact estimated at BRL 1.2 billion (Graph 8).

On the expenditure side, changes in inflation and the minimum wage produce the most significant effects among the macroeconomic aggregates analyzed. In particular, for expenditures linked to the minimum wage, a 1 p.p. shock in the INPC corresponds to a 0.1% of GDP increase in primary expenditures in 2027, equivalent to BRL 13.5 billion (Graph 9).

GRAPH 9. IMPACT OF A 1 P.P. CHANGE IN THE INPC ON SELECTED EXPENDITURES (% OF GDP)



Source: PLDOs from 2020 to 2027. Prepared by: IFI.

In terms of composition, a 1 p.p. increase in the 2026 INPC is equivalent to an increase of BRL 11.2 billion in RGPS social security benefit expenditures. For social assistance benefits, which include the Continuous Cash Benefit (BPC) and the Lifetime Monthly Income benefit (RMV), the impact is BRL 1.3 billion. Finally, for unemployment benefit and salary allowance, the combined impact would be BRL 1.0 billion.

Another group of primary expenditures sensitive to macroeconomic variables is subsidies and grants, which encompass operations sensitive to domestic market interest rates (Selic, TR, TJLP, and TLP), as well as the IPCA. Considering a 0.5 p.p. increase in these interest rates and in the IPCA, the ARF estimates a BRL 1.1 billion impact on central government primary expenditure.

Finally, it is also worth recalling the effect of inflation on the calculation of the primary expenditure cap, a rule established by LC No. 200, of 2023. Based on the PLDO 2027 parameters, the cap set for next year is BRL 2,544.1 billion (18.7% of GDP). A 1 p.p. increase in the IPCA, measured in June 2026, would raise the expenditure cap by BRL 24.5 billion (0.18% of GDP). Additionally, the PLDO also shows that a 1 p.p. increase in the real growth of the adjusted net revenue (RLA), which anchors the real growth of the LC No. 200 cap, would raise the expenditure cap by BRL 17.4 billion (0.13% of GDP)[60].

[60] It should be noted, however, that the real growth of primary expenditure is limited to a range of 0.6% to 2.5%. Even if a revenue shock were to increase the RLA by 10 p.p., the maximum growth of the expenditure cap would be 2.5%. The cap projection estimated in the PLDO 2027 already incorporates this maximum growth of 2.5%.

Currently, considering the IPCA estimated in the PLDO 2027 at 3.62% over the twelve months ending in June 2026, and the values actually recorded through April 2026, this scenario appears unlikely, particularly given the rise in international oil prices stemming from the war in the Middle East. Even under the assumption that the IPCA recorded in May and June 2026 is equal to zero — meaning only the statistical carryover of past inflation would apply — the twelve-month cumulative IPCA would be 3.87%, above the PLDO 2027 estimate. The expectation is therefore that the expenditure cap adjustment will exceed the PLDO estimate based on current figures, which may also produce an impact on other expenditures over the course of the year.

It should be noted that numerous other factors affect fiscal variables, such as changes in the composition of GDP, legislative changes to tax rates and bases, technological and social changes, among other aspects. Moreover, macroeconomic shocks tend to occur simultaneously, given the correlation among the variables analyzed. This caveat is important because, as highlighted by the IFI in RAF No. 100, of May 2025, the values actually observed have shown significant deviations from the parameters estimated in the respective PLDOs in recent years. In the case of the IPCA, for example, the value recorded in 2025 was 4.26%, 1.2 p.p. above the PLDO 2025 estimate. For the INPC, the value actually recorded in 2025 was 3.9%, 0.9 p.p. above the estimate. This situation may give rise to shocks on revenues, prompting the pursuit of extraordinary revenue collection, and to shocks on expenditures, creating the need for further discretionary spending cuts.

Furthermore, there is an additional effect on the expenditure cap under LC No. 200, arising from the difference between the inflation rate recorded in December and that recorded in June. Pursuant to § 1 of Article 4 of the law, the difference between the IPCA recorded over the twelve months ending in December and the IPCA recorded in June may be used to expand the Executive Branch's expenditure cap through the opening of additional appropriations. This cap increase, however, is not incorporated into the calculation base, and it is important, as flagged by the IFI, that it not be used to finance permanent expenditures. This warning is relevant because, in addition to the cap expansion not being carried forward to subsequent fiscal years, there is no guarantee that inflation at the end of the fiscal year will always exceed that recorded in June, as noted in RAF No. 106[61], of November 2025.

Specific Fiscal Risks

This subsection is devoted to the analysis of specific risks, which are uncertain in nature. In the PLDO, much of the analysis of this aspect is qualitative, with discussions of short-term risk and the potential associated cost. The scope of specific fiscal risks may classify the impact of measures as either primary or financial.

[61] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/816059/RAF106_NOV2025.pdf.

In the analysis of this section, the most relevant items will be segmented according to their value and associated risks.

Table 13 presents the stock of specific risks recorded in the PLDOs. The data reflects the volume of potential risk events. This does not in itself represent an effective fiscal impact, but rather a potential exposure to losses or future resource requirements. These items may entail both the non-collection of revenues from financial assets and claims, and the need for unforeseen expenditures on liabilities, which may affect both the primary and financial balances.

TABELA 13. STOCK OF FEDERAL GOVERNMENT EXPOSURE TO SPECIFIC FISCAL RISKS (% OF GDP)

Type of Impact	2018	2019	2020	2021	2022	2023	2024	2025
Financial	**20.3%**	**18.1%**	**17.9%**	**14.6%**	**11.9%**	**13.3%**	**13.4%**	**13.2%**
Financial Assets Related to Federative Entities	8.9%	8.4%	8.5%	7.1%	6.9%	6.9%	6.9%	7.0%
Federal Guarantees	3.7%	3.8%	4.0%	3.4%	2.8%	2.5%	2.9%	2.6%
Financial Assets Not Related to Federative Entities	5.6%	3.6%	3.5%	2.2%	1.1%	0.9%	0.8%	0.8%
Contingent Liabilities in the Process of Being Recognized	1.7%	1.7%	1.5%	1.2%	1.0%	0.8%	0.5%	0.4%
Other Financial Risks	0.4%	0.6%	0.4%	0.7%	0.2%	2.3%	2.3%	2.4%
Primary	**30.0%**	**29.2%**	**26.8%**	**32.1%**	**45.2%**	**40.5%**	**29.8%**	**24.7%**
Liabilities Related to Legal claims	21.8%	20.8%	17.3%	23.7%	37.3%	32.9%	22.6%	17.8%
Overdue Tax Debt	5.7%	6.0%	6.4%	5.8%	5.7%	5.7%	5.6%	5.6%
Student Financing Fund (FIES)	1.6%	1.5%	1.5%	1.3%	1.1%	0.9%	0.8%	0.7%
Other Primary Risks	1.0%	0.8%	1.6%	1.4%	1.2%	1.0%	0.9%	0.6%
Total	**50.3%**	**47.3%**	**44.7%**	**46.7%**	**57.2%**	**53.8%**	**43.2%**	**37.9%**
Memo:								
GDP (BRL billions)	**7,004.1**	**7,389.1**	**7,609.6**	**9,012.1**	**10,079.7**	**10,943.3**	**11,779.3**	**12,738.6**

Source: PLDOs from 2021 to 2027 and IBGE.
Note: The figures show the stocks recorded in fiscal years already closed at the time of PLDO submission. Thus, the 2021 PLDO, submitted in 2020, presents the stock of fiscal risks for 2018 and 2019. The 2022 PLDO, submitted in 2021, presents the stock for 2019 and 2020, and so on.

As shown in Table 13, the Federal Government's total exposure to specific fiscal risks reached BRL 4,828.6 billion (37.9% of GDP) in 2025. Although this stock has declined since 2022, mainly due to the reduction in primary-impact risks associated with legal claims, the volume remains significant.

Financial risks

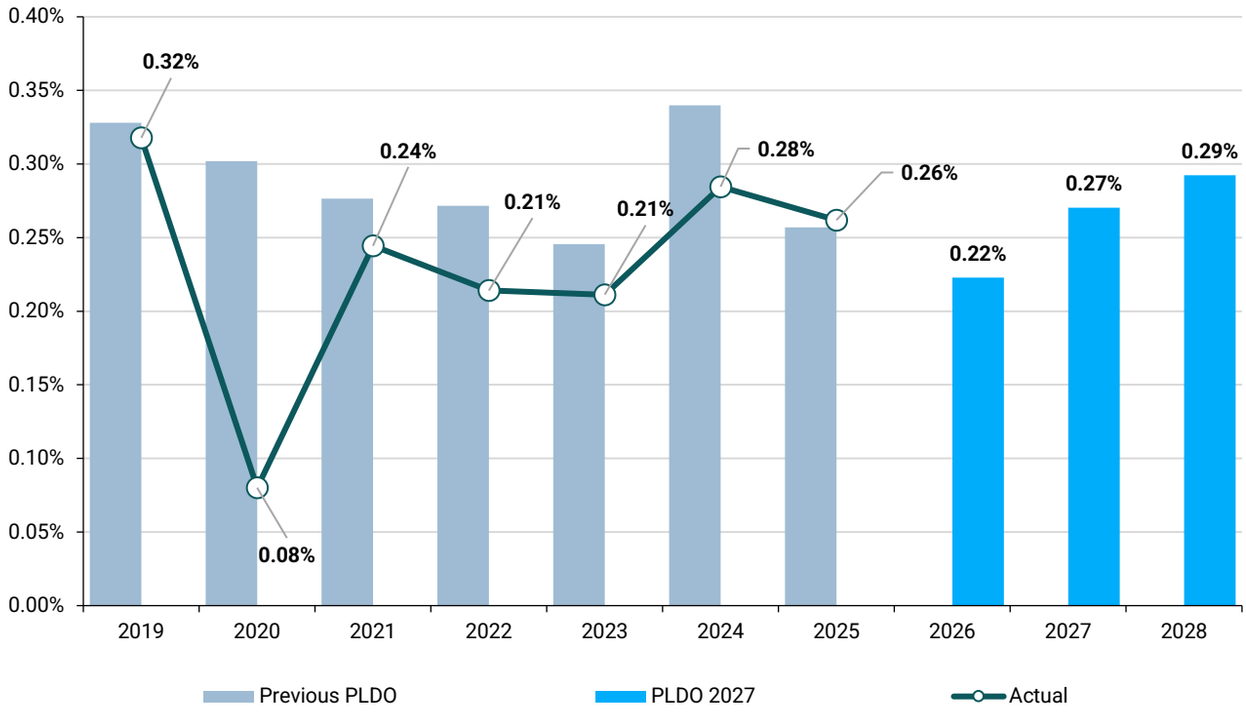
The stock of financial risks totaled BRL 1,679.3 billion (13.2% of GDP) in 2025. Since 2018, when it reached 20.8% of GDP, these risks have followed a declining trajectory. Although they have decreased in recent years, they remain at significant levels with potential impact on the nominal balance.

Financial assets related to federative entities

The primary source of financial-impact risk stems from **financial assets related to federative entities**, which totaled BRL 888.8 billion (7.0% of GDP) in 2025. The risks arising from financial relationships with regional governments stem from the possibility of non-payment of financial obligations owed to the Federal Government, as well as judicial decisions or legislation that expand federal transfers or reduce the Federal Government's expected revenue flows[62].

Graph 10 shows that, since 2020, there has been a relative shortfall in interest and charge payments received on financial assets from states and municipalities compared to estimates, except in 2025. In that year, the observed value was BRL 33.4 billion (0.26% of GDP). The ARF projects receipts of BRL 30.3 billion (0.22% of GDP) in 2026 and BRL 39.6 billion (0.27% of GDP) in 2027.

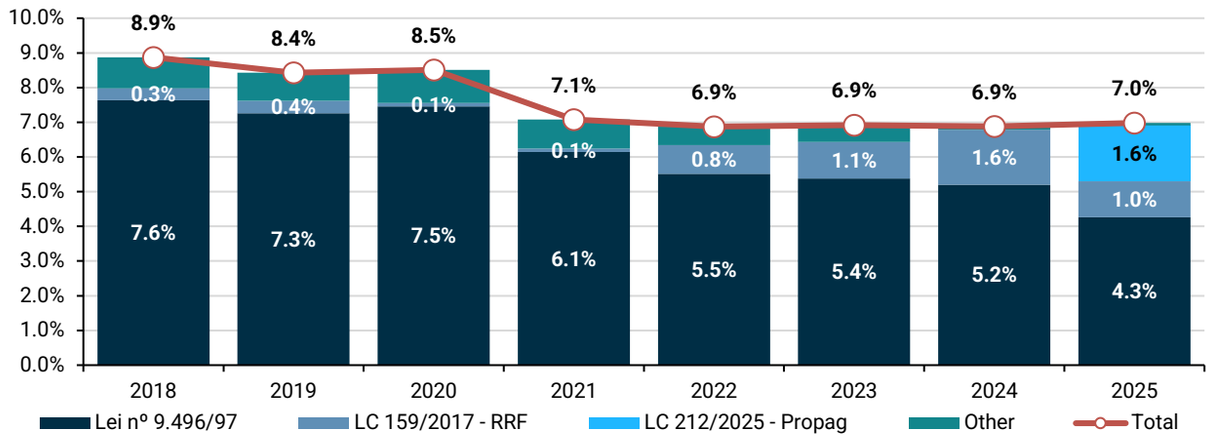
GRAPH 10. ESTIMATED AND REALIZED FLOW OF FINANCIAL ASSETS AND CREDITS (% OF GDP)



Source: PLDOs from 2020 to 2027 and IBGE. Prepared by: IFI.

[62] Federal financial assets related to federative entities arise from various debt financing and refinancing programs.

GRAPH 11. STOCK OF FINANCIAL ASSETS OF FEDERATIVE ENTITIES BY ASSET/PROGRAM (% OF GDP)



Source: PLDOs from 2020 to 2027 and IBGE. Prepared by: IFI.

Elaborating on the figures reported in Tabela 13 regarding financial assets, Graph 10 shows that the largest share of debt between federative entities relates to the refinancing arrangements under Law No. 9.496[63], of 1997, which represented between 7.3% and 7.6% of GDP through 2020. From 2022 onward, there has been greater uptake of the Fiscal Recovery Regime (RRF), established by LC No. 159[64], of 2017, reaching BRL 186.9 billion (1.6% of GDP) in 2024[65]. Finally, in 2025, the Federal Government's financial assets with other federative entities totaled BRL 888.8 billion (7.0% of GDP), of which BRL 204.3 billion (1.6% of GDP) related to the State Full Debt Payment Program (Propag), established by LC No. 222[66], of 2025, aimed at renegotiating the terms of state and Federal District debts with the Federal Government. According to information in the ARF of the PLDO 2027, approximately 22 states have joined Propag[67].

In addition to financial assets, the ARF also cites the possibility of additional risks arising from EC No. 136, of 2025, which set limits on court-ordered debt payments by states and municipalities[68], and from a legal action seeking to overturn EC No. 109[69], of 2021, which revoked the Federal Government's obligation to finance the settlement of federative entities' outstanding court-ordered debt payment balances due through 2015[70]. Considering the potential increase in the stock of court-ordered debt payments of these entities, given the payment limits, there would be a risk that the Federal Government could be required to incur new expenditures to honor these commitments or to finance a credit line for this purpose.

[63] Available at: https://www.planalto.gov.br/ccivil_03/leis/l9496.htm.
[64] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp159.htm.
[65] At this stage, four states are under the RRF: Rio de Janeiro, Goiás, Rio Grande do Sul, and Minas Gerais.
[66] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp212.htm.
[67] As stated on page 77 of the ARF: "Almost all states have joined Propag, with the exception of the Federal District, Mato Grosso, Pará, Paraná, and Santa Catarina." [Unofficial translation]
[68] The limits were set in § 23 of Article 100 of the Federal Constitution.
[69] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc109.htm.
[70] See article "OAB questiona novo prazo para quitação de precatórios devidos por estados, DF e municípios". Available at: https://portal.stf.jus.br/noticias/verNoticiaDetalhe.asp?idConteudo=465693&ori=1.

In total, the stock of court-ordered debt payments of regional entities amounts to BRL 196.9 billion[71], the majority owed by municipal entities, which, as demonstrated by the IFI in RAF No. 110[72], of March 2026, face greater difficulties in generating own-source revenues.

Primary risks

According to the PLDO 2027, the stock of **primary risks** totaled BRL 3,149.3 billion (24.7% of GDP) in 2025, and has been declining since 2022, when it reached 45.2% of GDP. This risk category encompasses measures with the potential to increase primary expenditures or reduce revenue collection, making it an important element to be monitored given the constraints imposed by the fiscal rules.

Legal claims

The largest stock of measures with primary impact involves liabilities related to legal claims. These proceedings are managed by the Office of the Attorney General of the Union (AGU) and by federally dependent state-owned enterprises and the Central Bank of Brazil, and are classified as possible or probable risks.

The ARF measures judicial risks based on the criteria of AGU Normative Ordinance No. 68, of 2022[73], which filters cases with an estimated impact of at least BRL 1.0 billion[74]. Among the loss probability levels established by the AGU (probable, possible, and remote), the ARF incorporates only risks classified as probable or possible.

A legal action, or a group of actions, ceases to be classified as a probable risk when a final and unappealable ruling is issued and the risk materializes (through the issuance of a court-ordered debt payment or a tax credit in favor of the taxpayer), or when an event occurs that prevents payment. There is also the possibility of a risk being reclassified into another category.

As shown in Tabela 13, risks related to legal claims totaled BRL 2,273.2 billion (17.8% of GDP) in 2025. Since 2022, this stock of matters under risk has been declining, whether through rulings against or in favor of the Federal Government, or through revisions to values and risk classifications.

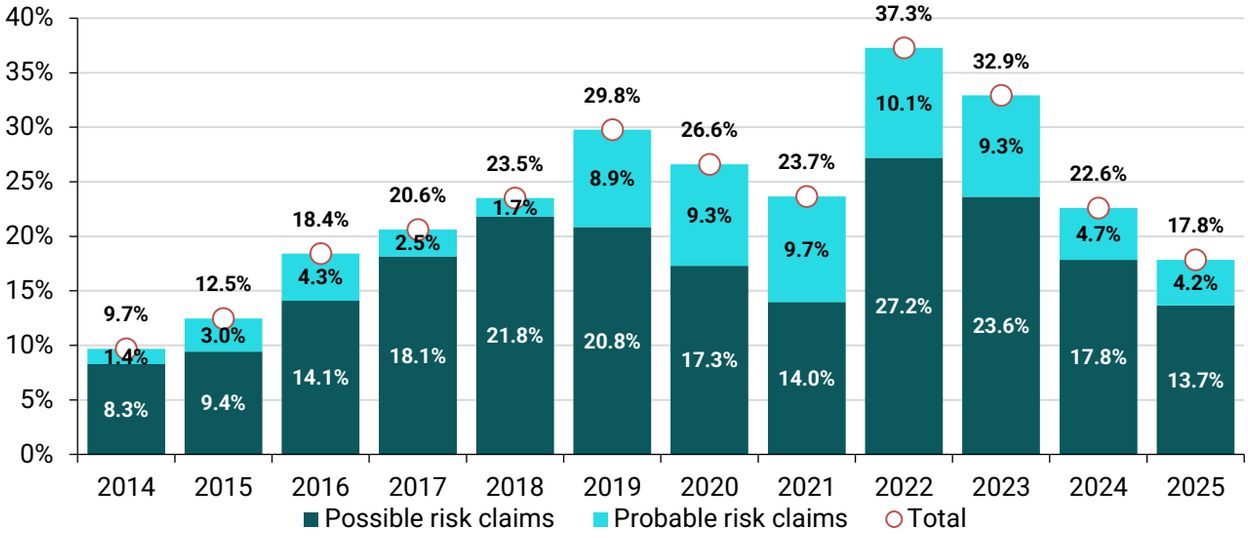
According to the ARF of the 2024 Budget Guidelines Law, AGU Normative Ordinance No. 68, of 2022, was the primary driver of the increase from 2021 to 2022, having promoted a broad

[71] Stock recorded as of March 20, 2026, pursuant to EC No. 136/2025, as per Table 54 — 'Riscos Fiscais Decorrentes de Relações Intergovernamentais' [Fiscal Risks Arising from Intergovernmental Relations], presented on page 74 of the ARF of the PLDO 2027.
[72] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/863708/RAF110_MAR2026.pdf.
[73] Available at: https://legis.agu.gov.br/busca-avancada/ato/159888.
[74] It should be noted that actions based on an identical point of law will be considered jointly for the purposes of the minimum financial impact threshold.

reclassification of actions[75]. The main highlight in 2022 was the incorporation of a series of Direct Actions for the Declaration of Unconstitutionality (ADIs) challenging the social security reform introduced by EC No. 103, of 2019, totaling BRL 621.0 billion, and the incorporation of ADI 5090[76], which concerned the monetary adjustment of the FGTS. In the fiscal years following 2022, these measures were maintained or revised, and new ones were incorporated.

As Graph 12 illustrates, historically, the largest share of the stock consists of possible-risk actions. However, from 2019 onward, there has been a shift in profile, with an increase in the stock of probable-risk actions. This shift stems from several factors. A legal action, for example, may be tracked by the Federal Government but present high uncertainty regarding its financial impact, such that no valid estimate exists for it to be classified.

GRAPH 12. POSSIBLE AND PROBABLE-RISK LEGAL CLAIMS (% OF GDP)



Source PLDOs 2023, 2025, 2026, and 2027[77] and IBGE. Prepared by: IFI.

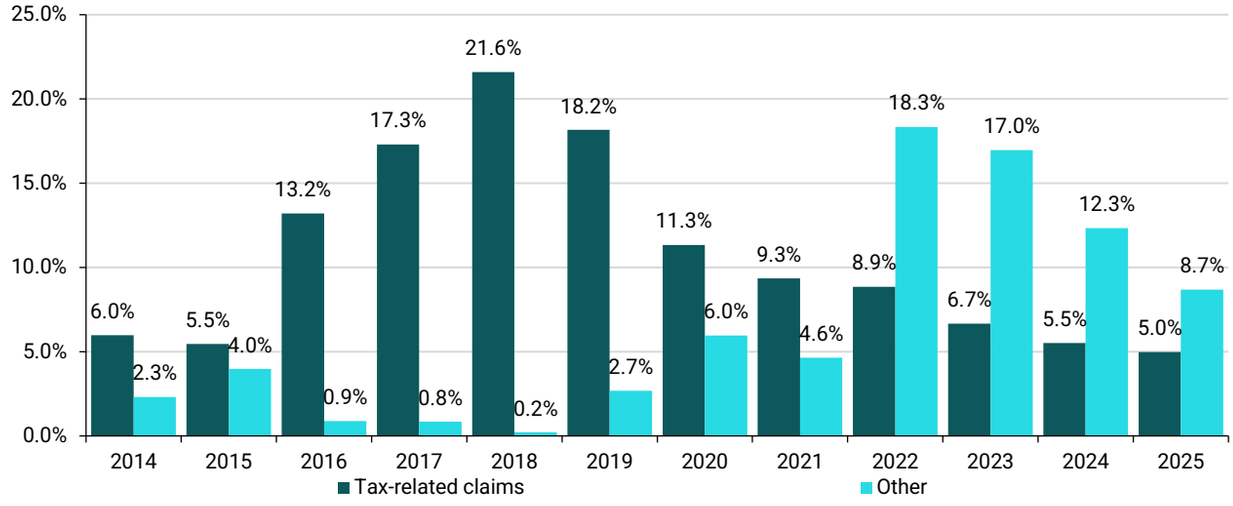
The recognition and advancement of other actions also generate changes in the stock of legal claims. The stock of court claim risks increased overall, rising from 23.7% of GDP in 2021 to 37.7% of GDP in 2022. This occurred primarily due to the recognition of possible-risk actions. In 2025, the stock of possible fiscal risks amounted to BRL 1,740 billion (13.7% of GDP), while probable risks totaled BRL 533.2 billion (4.2% of GDP).

Analyzing court claim risks by category, it is possible to observe heterogeneity in their composition. As Graph 13 illustrates, through 2021, the largest share of possible-risk legal

[75] As stated in the ARF of the PLDO 2024, on page 43: "*It should be noted that, due to recent amendments to AGU Normative Ordinance No. 68/2022, several legal actions were reclassified and are now included in the table below*." [Unofficial translation].
On page 59 of the same document, the reclassification is cited as the primary reason for the increase in values between 2021 and 2022.
[76] Available at: https://portal.stf.jus.br/peticaoInicial/verPeticaoInicial.asp?base=ADI&numProcesso=5090.
[77] Based on the tables titled "Demandas Judiciais de Risco Possível e Risco Provável" [Possible and Probable-Risk Legal Claims]. Uses the PLDOs 2023 to 2026 for the years 2014 to 2016 and, from 2017 onward, the PLDO 2027, which covers values from 2017.

actions consisted of tax-related claims. From 2022 onward, however, other claims came to represent the majority of such proceedings. This stems primarily from social security claims added in 2022 (challenges to EC No. 103 and disputes over the remuneration nature of the meal allowance) and from the monetary adjustment of the FGTS[78]. In subsequent fiscal years, these items decline in value through re-estimation or are written off upon conclusion of the proceedings.

GRAPH 13. POSSIBLE-RISK LEGAL CLAIMS BY TYPE (% OF GDP)



Source: PLDOs 2023, 2025, 2026, and 2027 and IBGE. Prepared by: IFI.

In fiscal year 2025, despite a 0.5 p.p. of GDP reduction in tax-related claims relative to 2024, the largest reduction stemmed from social security claims reclassified as remote risk, which in 2024 totaled BRL 1,180.3 billion (10.0% of GDP), falling to BRL 584.4 billion (4.6% of GDP) in 2025.

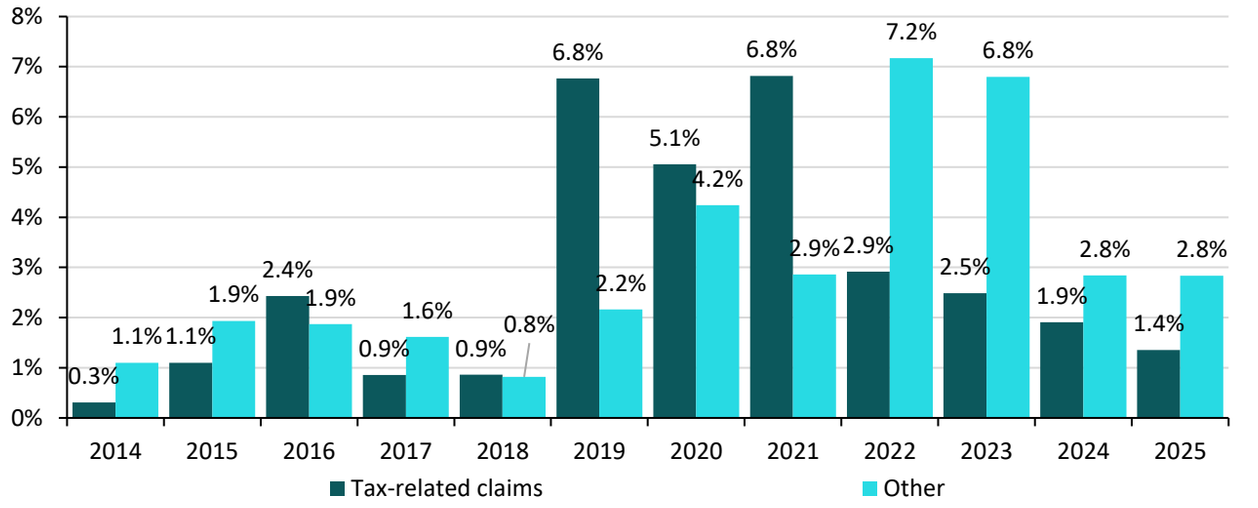
For probable-risk legal claims, presented in Graph 14, the behavior is more heterogeneous. From 2019 to 2021, tax-related claims represented the largest share of fiscal risks, with particular emphasis on those related to the inclusion of the ICMS in the PIS and Cofins calculation base (the so-called "Tese do Século")[79]. This action was concluded in 2022, with a corresponding reduction in the value of probable risks, as the risk effectively materialized with the STF ruling[80].

[78] Pursuant to ADI 5090. The associated fiscal risk arose primarily from the potential need for retroactive adjustment of balances under the new criteria. The STF ruled that FGTS account balances must be adjusted by at least the IPCA, but that the decision applies from the date of publication of the judgment record in 2024. Available at: https://portal.stf.jus.br/peticaoInicial/verPeticaoInicial.asp?base=ADI&numProcesso=5090.

[79] Refers to Extraordinary Appeal 574.706 (STF Theme 69), with general repercussion, which established the principle that ICMS does not form part of the PIS and Cofins calculation base. Available at: https://portal.stf.jus.br/jurisprudenciaRepercussao/verAndamentoProcesso.asp?incidente=2585258&numeroProcesso=574706&classeProcesso=RE&numeroTema=69.

[80] According to estimates by the Federal Revenue Office, through NOTA SIC CETAD/COPAN No. 041/2025, of February 17, 2025, BRL 346 billion in tax credits arising from the exclusion of ICMS from the PIS/Cofins base under Theme 69 had been used through December 2024. Available at: https://buscalai.cgu.gov.br/busca/8242597.

GRAPH 14. PROBABLE-RISK LEGAL CLAIMS BY TYPE (% OF GDP)



Source: PLDOs 2023, 2025, 2026, and 2027 and IBGE. Prepared by: IFI.

From 2022 onward, the "Revisão da Vida Toda" [a social security benefit recalculation claim][81] was incorporated into administratively granted benefits, and was subsequently removed in 2024 following a ruling favorable to the Federal Government in that year. For 2025, the largest share of probable-risk claims consists of non-tax claims, totaling BRL 360.7 billion (2.8% of GDP). Despite the possibility of reversal, it should be noted that this risk has significant impact given its potential to become a court-ordered debt payment.

Unlike recent ARFs, however, the PLDO 2027 changed the classification methodology, grouping items by macro-themes rather than listing all actions considered in the classification, which in this case represents a deterioration in transparency.

Federal Overdue Tax Debt Registry

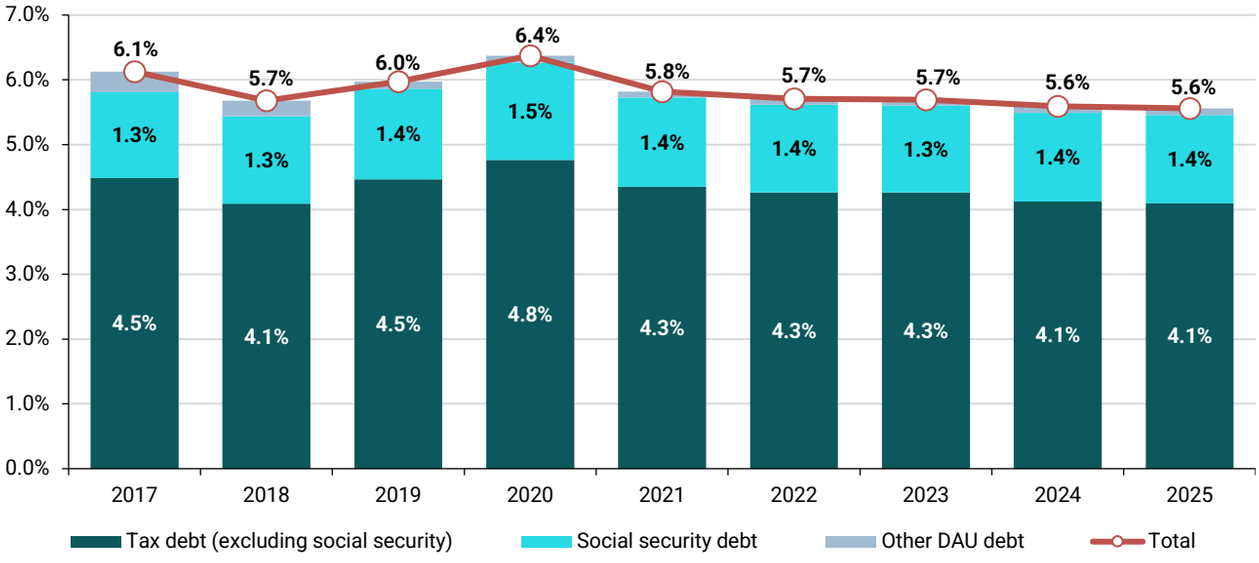
Another item of significant relevance involves the Federal Overdue Tax Debt Registry (DAU). The DAU represents a risk associated with federal assets, corresponding to claims of various natures in favor of the Public Treasury, under the collection authority of the Office of the Attorney General of the National Treasury (PGFN). The stock of risks associated with overdue tax debt recovery totaled BRL 708.3 billion (5.6% of GDP) in 2025.

This value represents a fraction of the total overdue tax debt, comprising claims of various natures that, precisely because of these differences, cannot be considered entirely as fiscal risk, given that the majority of these claims are deemed irrecoverable[82].

[81] Refers to Extraordinary Appeal 1.276.977 (STF Theme 1102), with general repercussion.
[82] The total stock of overdue tax debt in 2025 was BRL 3,226.0 billion (25.32% of GDP). Of this total, 15% of GDP had a low probability of recovery and the remainder is partially recoverable.

As Graph 15 shows, considering only the recoverable overdue tax debt, the largest share of overdue tax debt carrying fiscal risk is of a tax-related nature, standing at levels above 4.1% of GDP since 2017. The second largest group consists of social security tax debts, with values ranging between 1.3% and 1.5% of GDP over the same period. The remaining items, of a non-tax nature, range between 0.1% and 0.3% of GDP across all years.

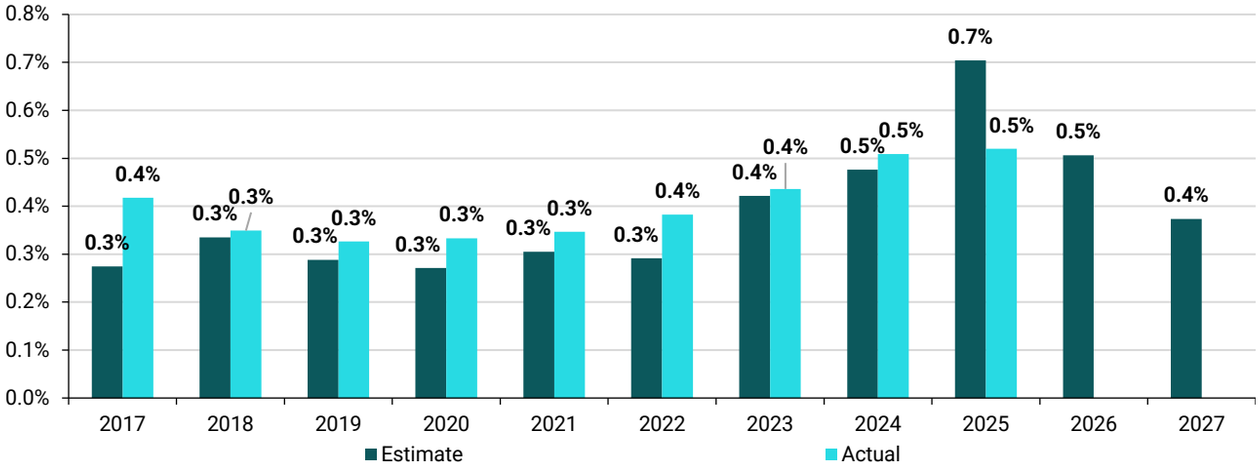
GRAPH 15. RECOVERABLE OVERDUE TAX DEBT BY ORIGIN OF MATTER (% OF GDP)



Source: PLDOs 2020 to 2027 and IBGE. Prepared by: IFI.

The ARF also adds another important piece of information: the historical annual credit recovery relative to estimates. Through 2024, actual collection exceeded estimates in each fiscal year. In 2025, however, the recovery estimate was BRL 89.7 billion (0.7% of GDP), while actual recovery amounted to BRL 66.2 billion (0.5% of GDP). For 2026 and 2027, the recovery estimates are BRL 68.9 billion (0.5% of GDP) and BRL 54.7 billion (0.4% of GDP), respectively (Graph 16).

GRAPH 16. HISTORY OF OVERDUE TAX DEBT CREDIT RECOVERY — ESTIMATE AND ACTUAL VALUE (% OF GDP)



Source: PLDOs 2020 to 2027 and IBGE. Prepared by: IFI.

Note: Estimated values based on the tables titled "Créditos por exercício segundo o tipo de crédito e classe" [Credits by fiscal year according to credit type and class], following the criteria of Article 12 of Ordinance No. 293, of June 12, 2017, of the Ministry of Finance. This criterion considers a recovery rate of 70% for rating A credits and 50% for rating B credits.

The risk associated with this type of measure is the potential need for spending cuts during the fiscal year, should these revenues fall short. Revenues recovered from the overdue tax debt registry are considered in the preparation of the Annual Budget Law, which implies the need to seek new compensatory primary revenues or to contain primary expenditures.

Other Fiscal Risks

The ARF also cites additional risks that do not arise directly from a stock of measures with an impact upon execution, but involve potential revenue shortfalls and the unforeseen emergence of expenditures. Among the main risks in the ARF are Public-Private Partnerships (PPPs) and Public Concessions; federal state-owned enterprises; demographic and environmental changes; and financial risks. Given the magnitude of these measures and the associated uncertainty, this subsection will focus on state-owned enterprises, as they represent risks with a more significant impact on budget execution.

Non-dependent federal state-owned enterprises

The risks associated with federal state-owned enterprises may unfold across three distinct dimensions. On one hand, the National Treasury may need to make an emergency capital injection in the event of cash shortfalls, which would increase primary expenditure. On the other hand, should results deteriorate, there may be a shortfall in dividend revenues, an important source of revenue collection in recent fiscal years. Finally, should the combined fiscal result of federal state-owned enterprises fall short of the fiscal target, the Central Government would need to make a fiscal effort, whether through revenue increases or primary expenditure reductions.

In 2025, there were 28 non-dependent state-owned enterprises[83], with enterprise groups counted as a single entity[84]. It should be recalled that state-owned enterprises engaged in financial activities, such as public banks and the Studies and Projects Financing Agency (FINEP), do not form part of the consolidated public sector for primary balance purposes. Furthermore, Petrobras group companies are not considered in the primary balance target assessed by the Central Bank of Brazil, as explored in RAF No. 106, of November 2025.

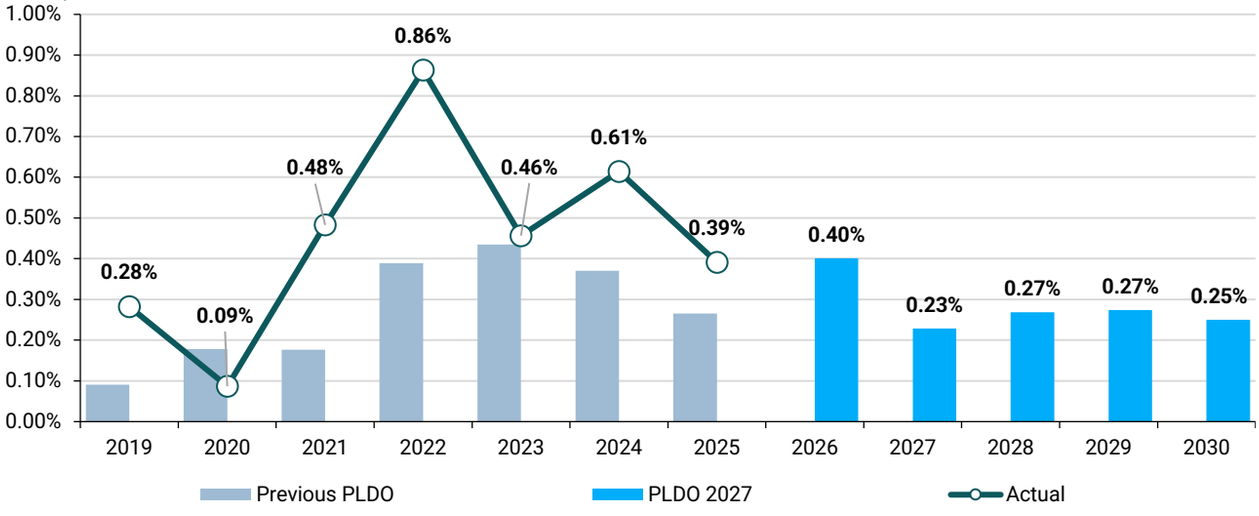
On the primary revenue side, the risks involve the potential amounts receivable from dividends or interest on net equity (JCP). The amounts to be received via dividends or JCP may vary for various reasons, such as the results obtained by the companies, dividend

[83] Non-dependent state-owned enterprises are those that do not rely on financial resources from the controlling entity for the payment of personnel expenditures, general operating costs, or capital expenditures.
[84] As is the case for Banco do Brasil; Caixa Econômica Federal; Brazilian Development Bank (BNDES); ENBPar; NavBrasil; and Petrobras.

prepayment measures, the Federal Government's equity stake, and the risk of dividend retention, which may occur in situations of cash difficulties.

As Graph 17 illustrates, with the exception of 2020, in every fiscal year since 2019, revenues from dividends and interest on net equity exceeded the projections in the respective PLDOs. In 2025, for example, the LDO 2026 projected BRL 33.8 billion (0.27% of GDP), while actual collection amounted to BRL 49.8 billion (0.39% of GDP). For the coming fiscal years, the PLDO 2027 signals that dividends will correspond to between 0.23% and 0.27% of GDP in each fiscal year, levels below those recorded over the past five years.

GRAPH 17. PROJECTED AND ACTUAL DIVIDEND AND PARTICIPATION REVENUES (% OF GDP)



Source: ARFs of the PLDOs 2020 to 2027 and IBGE. Prepared by: IFI.

Considering the recent track record, the risk of a dividend revenue shortfall may be considered low. Should such a shortfall occur, the government must project the impact in the RARDP for the fiscal year and proceed, if necessary, with adjustments to ensure effective compliance with the primary balance target for that year.

The risk associated with the need for capital injections impacts the budget on the expenditure side. When a company faces cash difficulties or requires capital injections to meet regulatory requirements (a requirement for financial institutions), this creates a risk that the federal government will be obliged to fulfill these obligations.

The ARF identifies the Brazilian postal and telegraph company (Empresa de Correios e Telégrafos — ECT) as a probable risk, given the company's financial situation over recent quarters. Despite the signing, last year, of a BRL 12 billion credit operation and the authorization to contract an additional BRL 8.0 billion in 2026, the ARF does not rule out the possibility that the Federal Government may need to inject capital into the company by 2027.

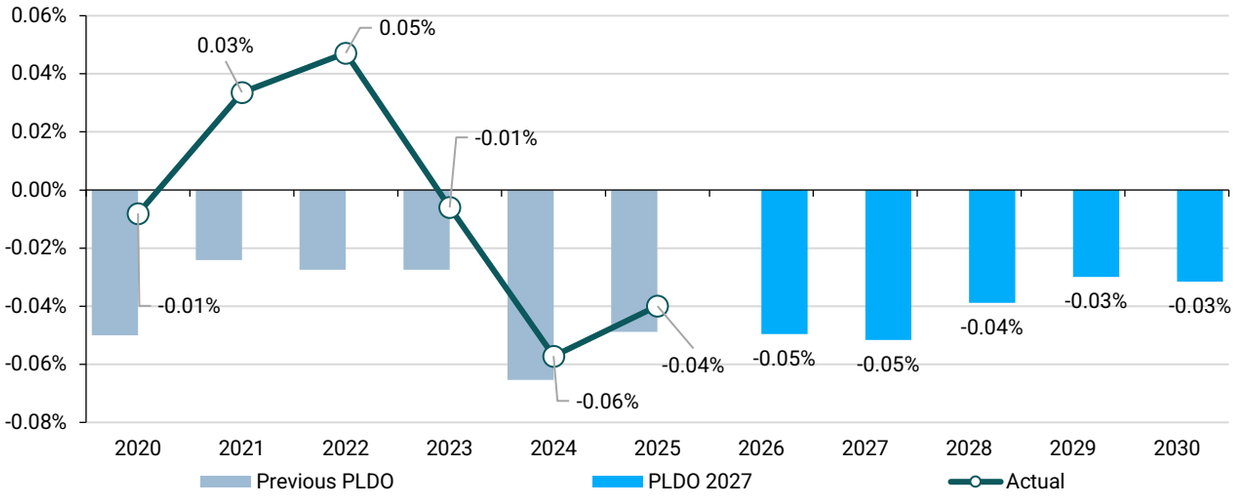
The ECT case was examined by the IFI in RAF No. 105[85], of October 2025. The company made a significant contribution to the primary deficit of state-owned enterprises in 2025.

More broadly, the ARF estimates that capital injections into state-owned enterprises will amount to BRL 15 million in 2026, although the updated appropriation as of May 8, 2026, stands at approximately BRL 305.0 million. Historically, this risk tends to materialize at values higher than those estimated in the PLDOs. These projected figures are often set to zero in the PLDO, given the uncertainty surrounding whether the effects will actually materialize

It is worth noting that capital injections are not used solely to cover financial difficulties at state-owned enterprises. In some cases, these injections serve as a source of funding for investment[86], which may explain why they are not always estimated as emergency capital injection risks. Budget execution data does not always allow for identifying the reasons behind such injections, resulting in a blurring of the line between what might constitute the materialization of a risk and what is injected to finance investments.

Finally, the last risk associated with state-owned enterprises concerns the compensation of primary balance targets. As Graph 18 illustrates, since 2021, the primary balance target estimate for state-owned enterprises has been negative.

GRAPH 18. PRIMARY BALANCE TARGET ESTIMATES FOR STATE-OWNED ENTERPRISES AND OBSERVED VALUES FOR TARGET COMPLIANCE PURPOSES (% OF GDP)



Source: ARFs of PLDOs 2020 to 2027 and IBGE. Prepared by: IFI.

[85] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/774149/RAF105_OUT2025.pdf.
[86] For example, in 2023, the National Treasury injected BRL 393 million into the Brazilian blood derivatives and biotechnology company (Empresa Brasileira de Hemoderivados e Biotecnologia — Hemobrás). According to a press release published by the Ministry of Health, the funds were earmarked for the operationalization of domestic immunoglobulin production. Available at: https://www.gov.br/saude/pt-br/assuntos/noticias/2024/janeiro/hemobras-recebe-aporte-de-r-393-milhoes-para-conclusao-da-fabrica-de-imunoglobulina.

However, when examining the primary balance for target compliance purposes, certain divergences from estimates become apparent. Since 2024, the outcome for compliance purposes has drawn closer to the established targets, indicating a heightened risk of fiscal target compensation. In 2025, for example, the Executive Branch factored in the compensation between the targets set out in the 5th bimonthly DPOF[87], resulting in an additional BRL 2.9 billion in spending cuts. The primary balance actually recorded showed improvement and compensation proved unnecessary, but the proximity of the primary balance target to actual expenditure levels illustrates this risk. For 2026 and 2027, the ARF considers the materialization of this risk as possible.

Accordingly, considering the recent risks associated with state-owned enterprises, there is a greater potential for primary expenditure to be affected, whether through the need for capital injections or through compensation between fiscal targets. This risk is particularly relevant because, in recent fiscal years, the margin for such compensation has narrowed, given that fiscal policy has effectively been tracking the lower bound of the primary balance target[88].

Concluding Remarks

The Fiscal Risks Annex (ARF) is an important document providing information on the federal fiscal risks. Given the inherent uncertainty of the real world, forecast errors regarding the impacts associated with the federal assets, liabilities, and receivables may arise.

Macroeconomic risks, or general risks, capture the behavior of primary revenues and expenditures in response to shocks in macroeconomic variables such as inflation, exchange rates, interest rates, and GDP growth. GDP and inflation shocks are the most prominent drivers of primary revenue growth, with an impact exceeding 0.6% when a 1 p.p. shock occurs in either variable. On the expenditure side, the most relevant variable is inflation, which influences social benefit payments linked to the minimum wage. For 2027, a 1 p.p. shock in the INPC raises primary expenditure by BRL 13.5 billion (0.1% of GDP). This is particularly relevant in the context of the oil crisis, which may affect inflation recorded in 2026.

The ARF also shows that, in 2025, the stock of potential risks stood at approximately BRL 4,828.6 billion (37.9% of GDP). This figure encompasses the volume of measures that may affect either the primary balance or public debt.

In 2025, the stock of financial risks totaled approximately BRL 1,679.3 billion (13.2% of GDP). The most significant item in this group involved federal financial assets related to other federative entities, amounting to BRL 888.8 billion (7.0% of GDP). A substantial share of this risk stemmed from the possibility of non-payment of these obligations, given the

[87] Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/d12763.htm.
[88] This topic was examined in the RAF of November 2025.

volatility of subnational finances. As additional risk factors, there is also the risk associated with Constitutional Amendment (EC) No. 136, of 2025, which has the potential to increase the stock of court-ordered debt payments owed by states and municipalities, potentially requiring federal assistance.

Within the stock of primary risks, which totaled BRL 3,149.3 billion (24.7% of GDP) in 2025, the most significant items were liabilities related to legal claims. The primary consequence of these liabilities, should they materialize, would be to increase primary expenditure on court-ordered debt payments, which have been subject to numerous legislative changes in recent years. In addition, there is the possibility that these measures may also affect revenue collection, given the presence of tax-related risks among the legal claims.

Regarding federal state-owned enterprises, the risks involve dividend and JCP revenues and potential capital injections or target compensation. Revenue-related risks are considered low, given the recent track record, as actual collection has exceeded estimates in recent fiscal years. On the capital injection front, however, there is some future risk involving the Brazilian postal and telegraph company (Correios), should the deteriorating financial trajectory observed in recent balance sheets fail to reverse. The ARF classifies a capital injection into the company in 2027 as a probable risk. Additionally, there is also the risk that the central government's primary balance may need to compensate for the result of state-owned enterprises.

The two most recent fiscal years show that the primary balance recorded for the purpose of meeting the fiscal target of federal state-owned enterprises has been tracking closely to the values established in the Budget Guidelines Law (LDO), heightening the risk of non-compliance and potential target compensation in the event of shocks. This risk is further compounded by the fact that the Executive Branch has effectively been targeting the lower bound of the primary balance target over the past three fiscal years and in the current one, which worsens the situation should compensation become necessary.

IFI PROJECTIONS

SHORT TERM

IFI Projections	2026			2027		
	Apr/26	May/26	Comparison	Apr/26	May/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	=
Payroll - growth (%)	3.6	3.6	=	2.7	2.7	=
Selic - end of period (% p.a.)	12.0	12.0	=	10.5	10.5	=
Ex-ante real interest rate (% 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	=



Federal Senate Translation and Interpretation Service- SETRIN
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June 11, 2026.

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