Independent Fiscal Institution

Fiscal Follow-Up Report

Nº 114

July 23rd 2026

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Risks and Impacts of the Performance of State-Owned Enterprises (SOEs) and PROPAG

In Fiscal Follow-up Report No. 113, released in June 2026, the Independent Fiscal Institution (IFI) updated its short-term (2026–2027) and medium-term (2028–2036) scenarios for the main macroeconomic and fiscal variables. In doing so, we issued the necessary warnings about existing fiscal risks and the complex, challenging outlook facing federal public finance managers, given the prospect of recurring primary deficits and unsustainable growth in public debt.

In this 114th Fiscal Follow-up Report (RAF, kept here in its original acronym, as are the acronyms of other Brazilian institutions, programs, and indicators), we turn our focus to three specific topics of particular relevance to the analysis of Brazil's fiscal future: the output gap, the performance of state-owned enterprises (SOEs), and PROPAG.

One of the core pillars in the work of the various independent fiscal institutions around the world, coordinated under the network promoted by the Organization for Economic Cooperation and Development (OECD), is the principle of transparency and disclosure. Clearly spelling out methodological assumptions is an essential part of our institutional mission. In this context, we open RAF No. 114 by previewing a summary version of the enhancements made to the output gap estimation methodology, along with the initial results of its application. Full documentation on this update will be the subject of a dedicated Technical Note (NT), to be released in August.

The second topic addressed concerns the fiscal risks to the public coffers posed by the financial deterioration observed in federal state-owned enterprises (SOEs). Some public enterprises are wholly owned by the Federal Government, with 100% state-owned capital. This is the case of Caixa and BNDES. Others are mixed-capital companies, with publicly traded shares but under federal control. This is the case of Petrobras and Banco do Brasil. In addition, there are enterprises that depend on the National Treasury, such as Embrapa, and others that are independent, such as Correios (ECT) [the Postal Service]. Since the 1990s, several SOEs have been privatized in the mining, telecommunications, and energy sectors. Among those remaining, some post sound financial performance and even generate dividends for the Treasury. Others, by definition, require subsidies from the Treasury to supplement their own revenues and balance their budgets. And others still, whether dependent or independent, show worrying signs of poor performance, posing future fiscal risks.

This study analyzes the economic and financial indicators of federal SOEs and identifies the deteriorating situation of enterprises such as Correios, Codevasf, Emgepron, and Infraero. The fiscal risks to the National Treasury arise from the weakening capacity of these enterprises to distribute dividends. They also arise from the potential demand for additional budgetary resources by dependent enterprises, and from the need for future capitalization operations involving non-dependent enterprises. A further risk lies in the possible non-payment of installments on debts contracted by these enterprises under federal guarantee.

This RAF analysis further examines the legal framework governing the relationship between SOEs and the National Treasury, as well as recent changes in fiscal governance and their interfaces with the performance of these enterprises.

Lastly, RAF No. 114 delves into a central issue of Brazil's federative organization: the indebtedness of the states and the Federal District. Before the economic stabilization brought about by the Real Plan and subsequent reforms, state governments could issue securities on the market, incurring securities debt. They could also contract short-term operations at market interest rates through revenue anticipation operations (AROs). In addition, they could take on international contractual debt (for example, with the World Bank, the IDB, etc.) and domestic debt (with Caixa, BNDES, Banco do Brasil, and even their own state-owned banks). There was no effective centralized control over aggregate public debt.

In 1997, the first renegotiation of state debt took place, consolidating all obligations into a single contract with the Federal Government. Under this contract, the Federal Government assumed management of the various liabilities and became entitled to receive monthly installments covering amortization and interest on the consolidated stock, under the agreed contractual terms. Most state-owned banks were privatized. States were barred from incurring new securities debt and new short-term debt. Contractual debts with international and domestic financial agents became subject to stricter controls.

Over the past 29 years, several renegotiations of the contract have taken place between the Federal Government and the states, involving extensions of the repayment period, changes in indexation, and reductions in the interest rate. The matter has been the subject of extensive litigation, with the Federal Supreme Court (STF) issuing several preliminary injunctions, including the suspension of debt installment payments by certain federal entities.

To try to reach a definitive solution to the problem, the National Congress passed Complementary Law No. 212 of 2025, establishing the Full Debt Payment Program for the States (PROPAG). The law provides for repayment terms of up to 360 months for full settlement of the debt. It sets interest rates ranging from 0% to 2% p.a., depending on the agreed conditions. It also establishes a five-year transition period before full installment payments begin under the new rules. Lastly, it creates the Federative Equalization Fund to compensate states with low debt levels.

Even with rules favorable to the states, five federal entities chose not to join PROPAG after weighing its costs and benefits: the Federal District, Mato Grosso, Pará, Paraná, and Santa Catarina. If, over the next thirty years, the contractual amendments signed between the Federal Government and the states are fully honored, giving effect to the new arrangement under the rules of Complementary Law 212, the implicit federal subsidy to the states will amount to BRL 190.7 billion (2026 prices), according to the IFI's projections presented in this report, relative to the previously prevailing rules.

We hope you find this report useful.

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

Highlights

Output Gap: Methodological Update and Results for the Brazilian Economy

The IFI estimates that the Brazilian economy operated with a positive output gap in the recent period, standing at 0.9% in the first quarter of 2026, suggesting activity above potential output. The output gap is an unobservable variable that is essential for assessing the cyclical position of the economy and its relationship with macro-fiscal scenarios. The IFI has updated its estimation methodology by expanding the production function, incorporating variables associated with natural capital, such as harvested area and electricity consumption. This approach is combined with univariate and multivariate measures, as well as other production functions. The final estimate uses the median of the different methodologies as the central reference, accompanied by plausibility intervals to qualify the uncertainty of the results. **(Page 7)**

Federal SOEs: Financial Deterioration and Fiscal Risk to the Federal Government

The financial health of dependent and non-dependent federal state-owned enterprises (SOEs) has shown signs of deterioration in recent years. This is evidenced by negative net worth, deficit operating cash flow, and negative operating margins in cases such as Codevasf, Correios (ECT), Emgepron, and Infraero. This deterioration heightens the fiscal risk to the National Treasury. The risk arises both from the possibility of budgetary contributions and supplementations to dependent SOEs, and from the weakening capacity of non-dependent SOEs to distribute dividends. This paper analyzes the accounts and accounting and financial indicators of these enterprises based on data from the Central Bank of Brazil (BCB) and Sest/MGI. It also discusses the legal framework governing SOEs and recent changes in fiscal governance, such as the end of target offsetting between SOEs and the central government starting with the LDO 2026. **(Page 15)**

PROPAG: An Estimate of Federal Receivables

The adoption of PROPAG may reduce federal revenue by BRL 350.3 billion over 30 years, an amount that could fall to BRL 190.7 billion once extraordinary amortizations are taken into account. The Federal Government has refinanced subnational debt several times over the past 30 years. These refinancing operations sought to adjust financial conditions or repayment terms. They also aimed to support states facing fiscal distress. In 2025, the adoption of PROPAG marked a new milestone in state debt. The reduction in charges and the extension of repayment terms brought about a further round of refinancing, extending the contracts for up to 30 years. As a result, federal revenue flow may fall, on average, by 0.2 p.p. of GDP per year until 2046. **(Page 47)**

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First published on: July 23, 2026
File updated on: July 23, 2026
See errata at: https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2026/julho/erratas

Output Gap: Methodological Update and Results for the Brazilian Economy

Rafael Curi, Rafael Bacciotti and Tallita Andrade

Introduction

The output gap remains a central metric for analyzing economic fluctuations and formulating macroeconomic policy. As an indicator of the economy's cyclical position, it contributes to assessing the fiscal stance, the structural balance of public accounts, and the monitoring of fiscal rules. Given this relevance, calculating the output gap is a widespread practice among independent fiscal institutions. However, the output gap is an unobservable variable and is therefore subject to considerable methodological uncertainty. Estimates vary depending on the models used, the data available, and the assumptions adopted about how the economy functions.

In January 2018, the IFI published Special Study No. 4[1], which addressed the methodology adopted for calculating potential GDP and the output gap. In it, the authors presented the production function approach, along with its main limitations and the procedures discussed in the literature at the time. In subsequent years, in line with developments in the literature and the practice adopted by international institutions, the IFI began to consider a combination of estimates produced by different methodologies for calculating the output gap, rather than relying exclusively on a single method. Although the results have been published[2], the methodological concepts have not yet been formally documented.

In addition, the European Commission has strongly advocated for improving the production function methodology used to calculate the output gap. In particular, recent publications have placed significant emphasis on adding natural capital to the function's factors of production[3].

Against this backdrop, the present study has two complementary objectives: i) to propose, in line with recent literature, an expansion of the Production Function to incorporate natural capital as a factor of production; and ii) to document the methodology used by the IFI to calculate the output gap and to disclose the output gap results for the first quarter of 2026.

This publication presents a summary version of the IFI's methodological update and main output gap results. Full documentation of the methodology, including a description of the historical series used, the procedures for estimating trends, the statistical treatments

[1] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/536764/EE_04_2018.pdf.
[2] The estimates are published regularly on the IFI data portal, available at https://www12.senado.leg.br/ifi/dados/dados.
[3] See European Commission (2021), available at https://data.europa.eu/doi/10.2765/217592; and Döhring et al. (2023), available at https://economy-finance.ec.europa.eu/system/files/2023-02/dp180_en.pdf.

applied, the model specifications, and additional results, will be presented in a dedicated Methodological Note, to be released in August 2026.

Expanded Production Function

The Production Function approach is one of the methodologies used by the IFI to estimate potential GDP and the output gap. In its traditional form, it represents the economy's productive capacity based on a combination of capital, labor, and total factor productivity. Although widely used, this specification may not fully capture relevant features of economies in which natural resources play an important role in productive activity.

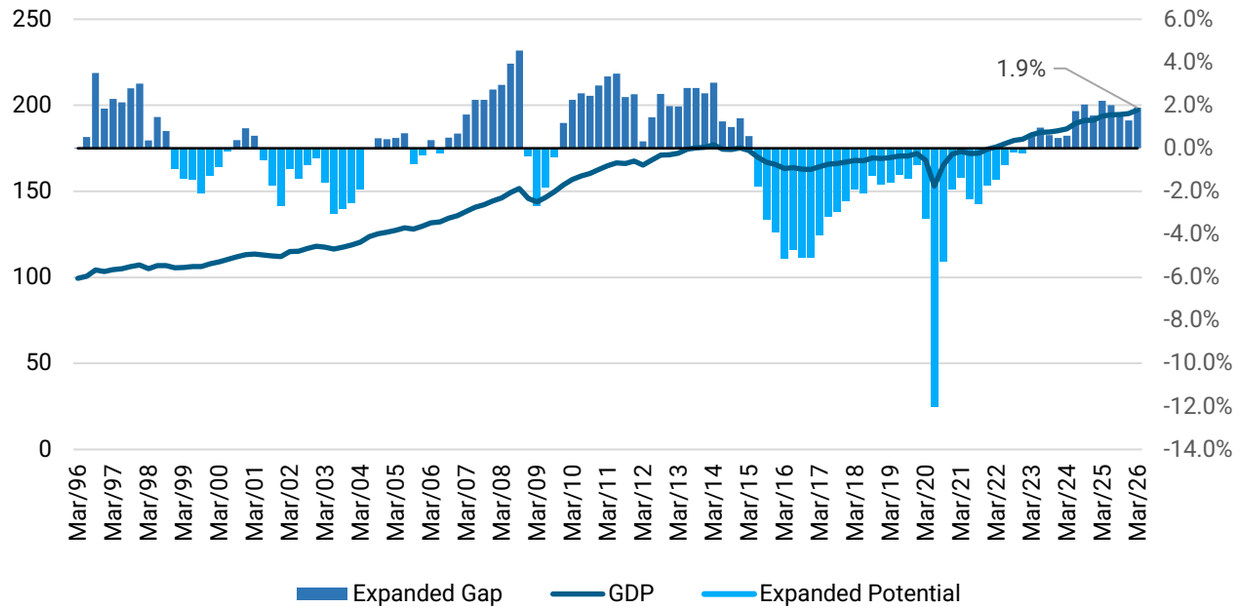
With this goal in mind, the IFI has incorporated an expanded version of the production function, adding variables associated with natural capital. For the Brazilian case, two proxies were considered: harvested area, as an approximation of the natural base mobilized by agricultural production, and electricity consumption, as a cross-cutting input to economic activity. The choice of these variables follows recently applied evidence and takes into account the availability of observable series at a frequency compatible with the calculation of potential output[4].

The results indicate that the expanded specification preserves the logic of the traditional production function, while redistributing part of the explanation of output among additional observable factors. Harvested area shows a positive and statistically significant contribution, while electricity consumption has a positive sign and a magnitude consistent with its economic interpretation. This specification, however, should be understood as an initial and non-exhaustive approximation, subject to refinement in future work.

The output gap in its expanded form, resulting from the difference between observed output and potential output, is illustrated in Graph 1.

[4] In Brazil, the explicit incorporation of factors associated with natural capital into an aggregate production function was first introduced in recent studies by the Secretariat of Economic Policy of the Ministry of Finance (SPE/MF). In these studies, the expansion of the set of productive factors resulted from a specific empirical exercise, in which additional variables were tested and those with greater statistical fit and economic interpretation were incorporated into the final specification. These included metrics associated with electricity generation and the use of agricultural land. For further information, see the RFE Methodological Note and the SPE's output gap calculation methodology.

GRAPH 1. ACTUAL GDP, POTENTIAL GDP, AND THE OUTPUT GAP (1996=100)



Source: IFI

In light of the expanded methodology, actual GDP has been operating above potential in the recent period, following the sharp negative opening of the gap observed during the pandemic. In the first quarter of 2026, according to the IFI's calculations, the expanded gap stood at a positive 1.9%, indicating that the level of activity remains above what is compatible with the trend factors considered in the specification.

Taken together, the results indicate that incorporating variables associated with natural capital preserves the usual properties of the production function approach. At the same time, it redistributes part of the explanation of output among additional observable factors and reduces reliance on TFP as a residual component. In this way, the expanded specification makes it possible to represent relevant dimensions of Brazil's productive capacity, without abandoning the traditional logic of decomposing output into factors of production and productivity.

Methodology for Calculating the Output Gap

The IFI relies on the combined use of three groups of models: i) univariate; ii) multivariate; and iii) production function models, including, in this last case, the possibility of the methodological expansion detailed in the previous section. The central estimate corresponds to the median of the set of measures, an option that reduces the influence of extreme estimates, and is presented alongside a plausibility interval, as defined in the previously referenced Special Study No. 4.

The output gap metrics for groups (i), (ii), and (iii) are presented individually, followed by the IFI's final estimate for the output gap. The results are subject to revision as new information

becomes available, whether through an expanded sample or the revision of previously released data.

Gap Measures

Univariate Gaps

Univariate methods use the series itself to extract the trend component, distinguishing permanent movements from cyclical fluctuations. The underlying assumption is that the trend represents the medium- and long-term evolution of the variable, while the cycle captures temporary deviations around that trajectory. The gap thus corresponds to the deviation of the observed level from the estimated trend.

The following are three traditional univariate methods for extracting the trend component of output used by the IFI to calculate the gap:

i. The Hodrick–Prescott filter (HP)[5];
ii. The Hamilton filter, as proposed by Quast and Wolters (2019)[6]; and
iii. The Band-Pass filter, by Baxter and King (1999)[7].

Multivariate Gap

In addition to the univariate methodologies, the IFI considers a gap measure obtained through a multivariate filter. Unlike purely statistical filters, which extract the trend using only the activity series, this approach incorporates additional information about how the economy functions. This allows the calculation of the cyclical component to be disciplined by macroeconomic relationships.

For the calculation of the median output gap, the IFI includes the multivariate HP filter, as specified in Areosa (2008)[8], which follows the logic of the traditional HP filter but incorporates additional constraints derived from economic relationships, such as the Phillips Curve. As a result, the trend estimation no longer depends exclusively on the statistical trajectory of GDP, but also takes into account information from other variables, particularly inflation, to identify the cyclical position of the economy

Production Function-Based Gaps

The production function methodologies considered in this report represent the economy's productive capacity through a combination of factors such as capital, labor, and total factor productivity. This is one of the approaches most widely used by multilateral organizations

[5] Available at https://business.columbia.edu/sites/default/files-efs/pubfiles/205/post-war.pdf.
[6] Available at https://www.econstor.eu/bitstream/10419/195063/1/1663135398.pdf.
[7] Available at https://people.bu.edu/mbaxter/papers/mbc.pdf.
[8] Available at https://www.bcb.gov.br/pec/wps/ingl/wps172.pdf.

to estimate potential output and the output gap. Unlike purely statistical methods, this class of models imposes a structure derived from economic theory, making it possible to decompose potential output into its productive factors and the residual productivity component[9].

For the calculation of the gap, the following methodologies are proposed:

i. Production function combined with filtering techniques (HP, Band-Pass);

ii. Production function combined with state-space models, following the methodology described in Special Study No. 4; and

iii. Expanded production function, following the methodology proposed in Section 2 of this report.

Results

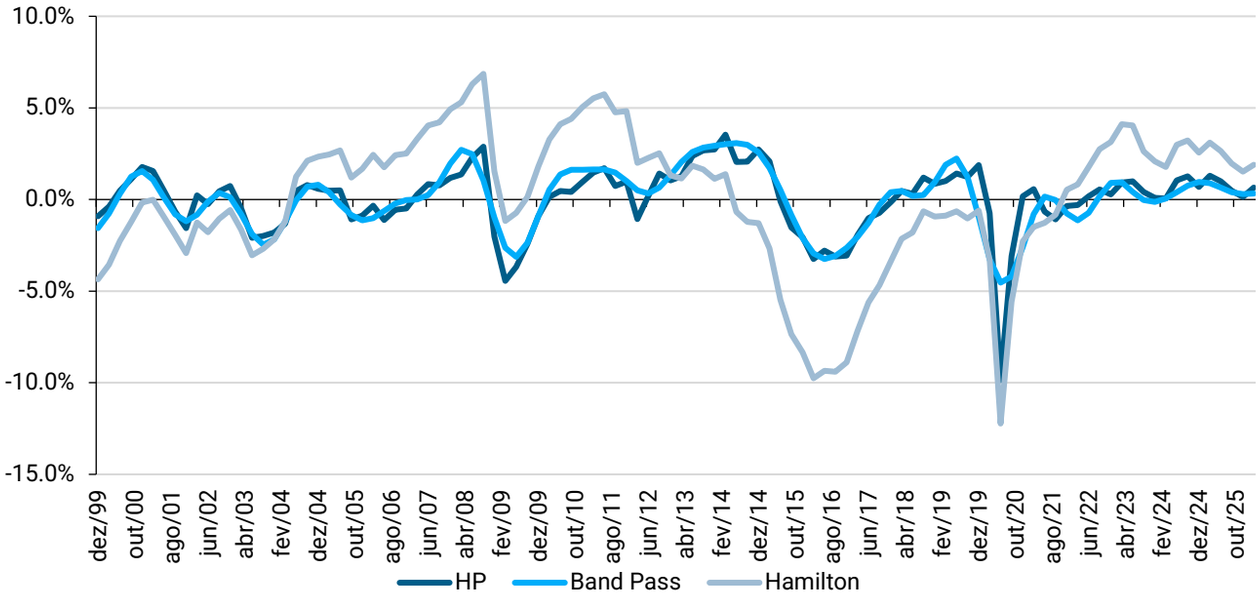
Having described the methods that make up the median output gap, we now turn to analyzing the results obtained for the univariate, multivariate, and production function-based groups. This is followed by the release of the IFI's official figures for the output gap, after applying the median and plausibility interval calculation procedures described in the previous sections.

Univariate, Multivariate, and Production Function-Based Gaps

Graph 2 and Graph 3 illustrate the measures calculated under each methodology. The high dispersion among the different gap measures highlights the degree of uncertainty associated with calculating this unobservable variable.

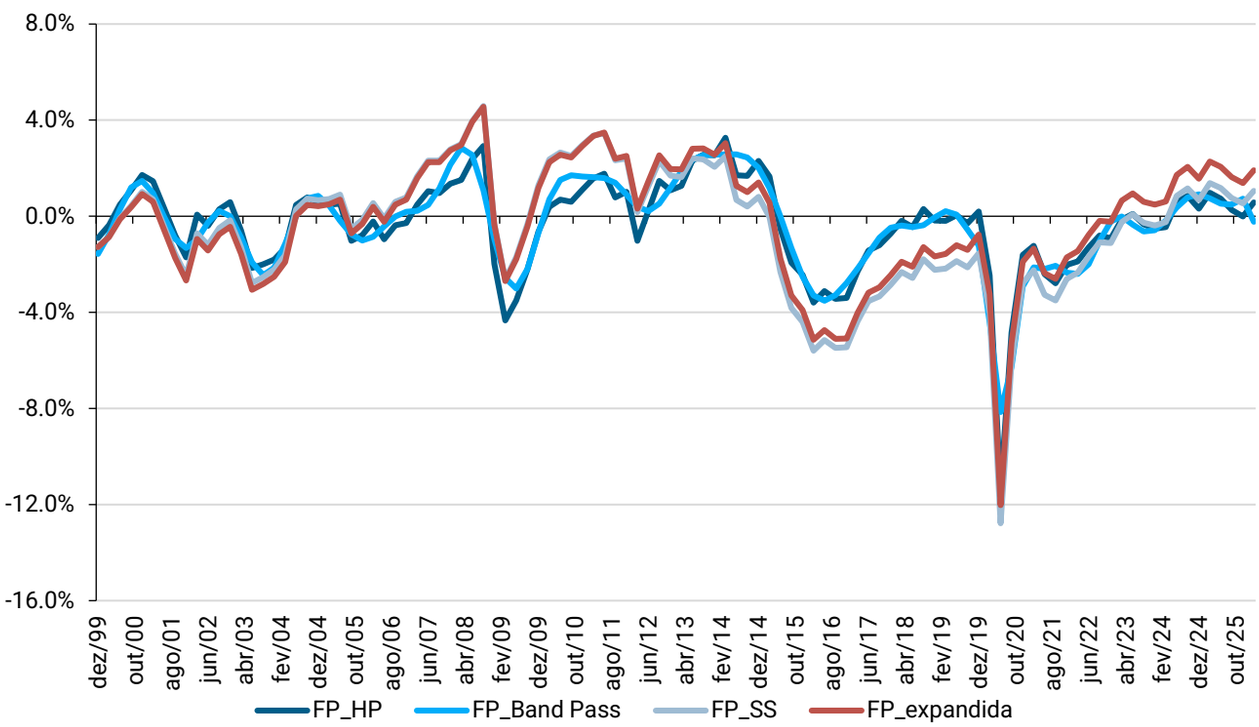
[9] For a review of the main methods for estimating the output gap, see Borio et al. (2014), available at https://www.bis.org/publ/work442.htm; and Blagrave et al. (2015), available at https://www.imf.org/en/publications/wp/issues/2016/12/31/a-simple-multivariate-filter-for-estimating-potential-output-42852.

GRAPH 2. UNIVARIATE GAPS



Source: IFI.

GRAPH 3. MULTIVARIATE AND PRODUCTION FUNCTION-BASED GAPS



Source: IFI.

The point estimate of the gap should therefore not be interpreted in isolation. Instead, it should be assessed together with different methodologies, observable cyclical indicators, and plausibility intervals, which help qualify the diagnosis of the economy's cyclical position. This approach guides the construction of the gap measure released by the IFI, described in detail below.

Consolidated output gap measure

The IFI combines estimates obtained using univariate, multivariate, and production function-based methods to construct its central output gap measure, defined as the median of the different approaches. In addition to the point estimate, plausibility intervals are presented, which help delimit the uncertainty surrounding the cyclical diagnosis. Tabela 1 presents the results of each methodology between the first quarter of 2024 and the first quarter of 2026, as well as the IFI's central measure and its respective intervals. Additionally, the IFI provides potential output estimates for the same period.

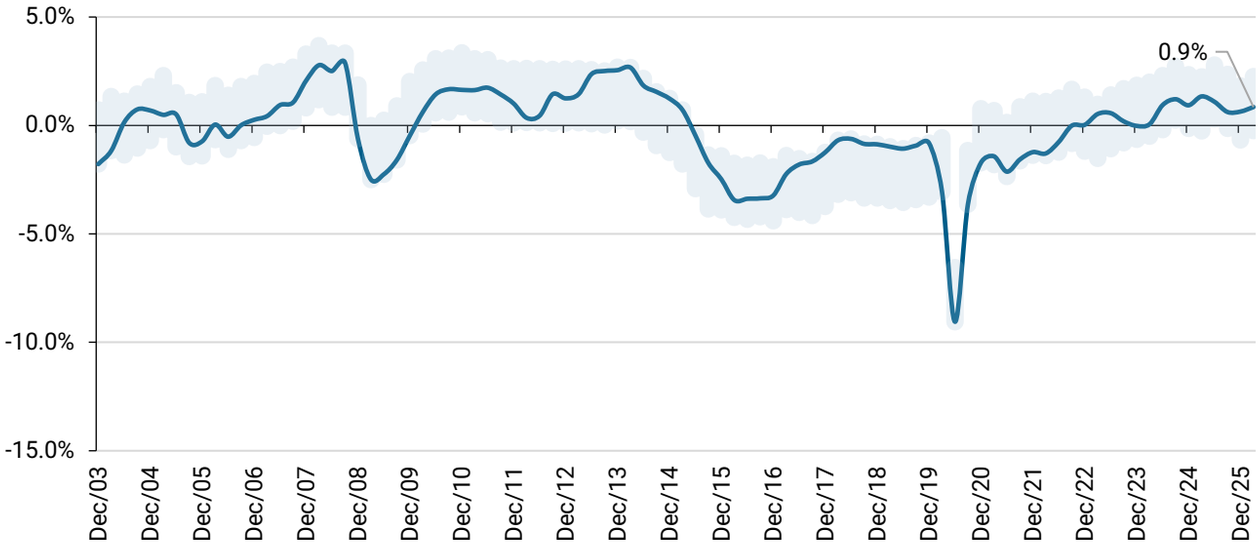
TABELA 1. OUTPUT GAP LEVELS BY METHODOLOGY, Q1 2024 TO Q1 2026

	2024				2025				2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Univariate Gaps									
HP	0.1%	1.0%	1.3%	0.7%	1.3%	1.0%	0.5%	0.1%	0.6%
Band Pass	0.1%	0.4%	0.8%	1.0%	0.9%	0.6%	0.4%	0.3%	0.3%
Hamilton	1.8%	3.0%	3.2%	2.6%	3.1%	2.6%	2.0%	1.5%	1.9%
Multivariate and Production Function-Based Gaps									
Areosa	1.4%	2.0%	2.6%	1.6%	1.9%	3.2%	2.6%	1.6%	2.8%
HP	-0.5%	0.6%	0.9%	0.3%	1.0%	0.7%	0.3%	0.0%	0.6%
Band Pass	-0.2%	0.4%	0.8%	0.9%	0.7%	0.5%	0.5%	0.7%	-0.2%
State-Space	-0.3%	0.8%	1.1%	0.6%	1.3%	1.1%	0.7%	0.4%	1.1%
Expanded	0.6%	1.7%	2.0%	1.5%	2.2%	2.0%	1.6%	1.3%	1.9%
IFI Gap	0.1%	0.9%	1.2%	0.9%	1.3%	1.1%	0.6%	0.6%	0.9%
IFI Potential Output	2.5%	2.5%	2.6%	2.5%	2.6%	2.6%	2.5%	2.5%	2.4%

Source: IFI.

Graph 4, in turn, presents the historical trajectory of the IFI's central output gap measure and its plausibility interval. The series highlights both the main episodes of gap opening and closing over time, and the degree of uncertainty associated with the estimate, represented by the band around the central measure.

GRAPH 4. OUTPUT GAP (% OF POTENTIAL GDP)



Source: IFI.

IFI estimates indicate that the Brazilian economy has been operating with a positive output gap since the second quarter of 2024, suggesting an absence of significant slack and some cyclical pressure on activity. After reaching 1.0% in the first quarter of 2025, the gap eased slightly over the course of that year, standing at 0.9% in the first three months of 2026.

Concluding Remarks

This analysis aimed to present the results obtained by the IFI for the set of methodologies used to estimate the output gap. A dedicated technical note will subsequently present the procedures employed in constructing the central measure released by the institution.

The expansion of the production function to include harvested area and electricity consumption as factors improved the decomposition of potential output and reduced reliance on TFP as a residual component, although it should still be understood as an initial, non-exhaustive formulation, subject to future refinement.

The output gap was calculated by combining univariate, multivariate, and production function models, taking the median of the estimates as the central measure and establishing plausibility intervals. The most recent results indicated that the Brazilian economy has been operating with a positive output gap since the second quarter of 2024. The IFI's central estimate placed the output gap at 0.9% in the first quarter of 2026, suggesting an absence of significant slack and some cyclical pressure on activity.

Federal SOEs: Financial Deterioration and Fiscal Risk to the Federal Government

Alexandre Andrade and Gustavo Queiroz

Introductory Remarks

Analyzing the financial indicators of federal state-owned enterprises (SOEs) is relevant because the results of companies in which the Federal Government holds a majority stake, whether direct or indirect, can affect the National Treasury's financing needs and fiscal programming, regardless of whether they are wholly state-owned or mixed-capital companies.

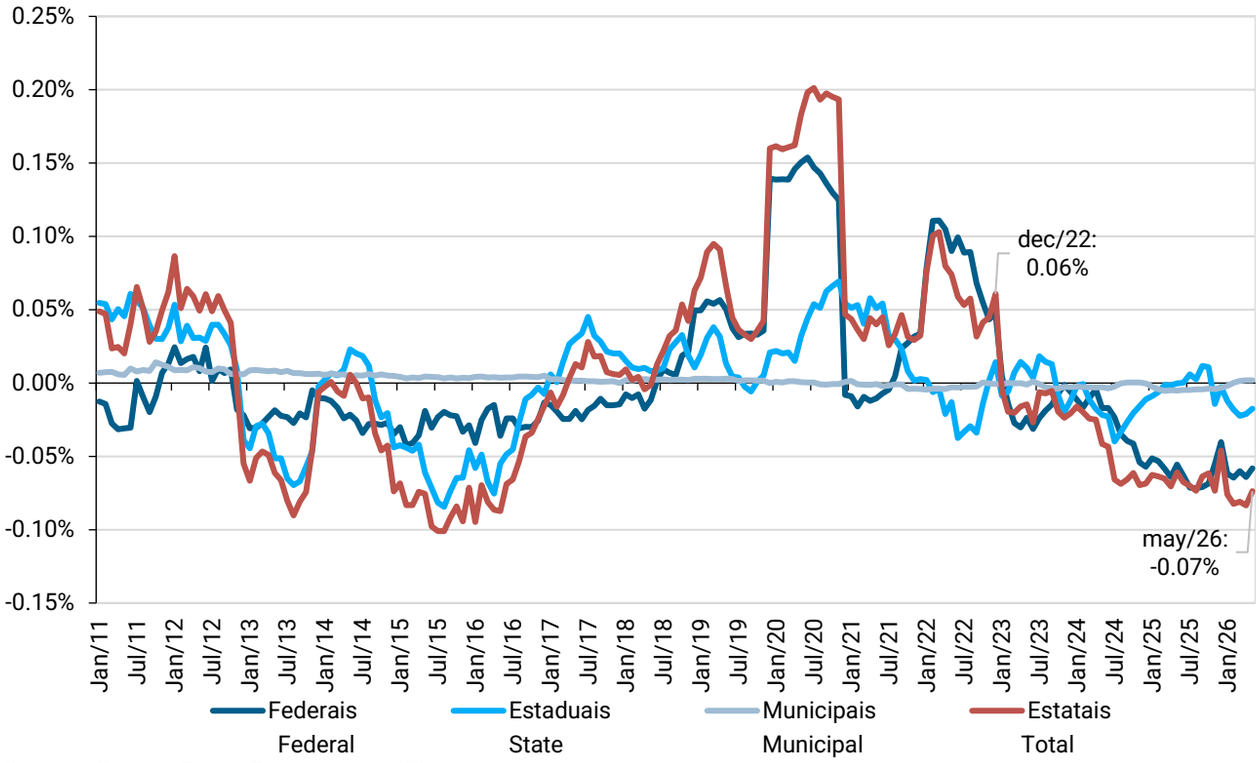
In RAF No. 11[10], released in December 2017, the IFI analyzed the then most recent figures for dependent and non-dependent federal SOEs, with the aim of assessing the potential impacts that the results of these enterprises could have on the central government's primary balance, in the context of the recently approved Constitutional Amendment (EC) No. 95[11], of 2016, which established an expenditure ceiling for the Federal Government.

This report does not aim to weigh in on the possibility of privatizing these enterprises. That debate is complex and involves analyzing not only the costs and benefits of keeping a given company under state control, but also the social returns expected from doing so. The focus here is on a diagnosis of SOEs' accounts and accounting/financial indicators, without any intention of advancing policy recommendations.

According to the Central Bank of Brazil (BCB), which reports the primary balance using the below-the-line criterion[12], state-owned enterprises (SOEs) — including federal, state, and municipal SOEs — posted a primary deficit of 0.05% of GDP in 2025, driven by the performance of federal SOEs, which posted a deficit of 0.04% of GDP last year. By way of comparison, SOEs had posted a primary surplus of 0.06% of GDP in 2022, a result that turned into a primary deficit of 0.02% of GDP in 2023, widening to a deficit of 0.07% of GDP in 2024. In other words, SOEs' primary balance has deteriorated over the past three fiscal years. Considering 2026 data on a 12-month comparison basis, SOEs' primary deficit stood at 0.07% of GDP in May, representing a worsening of 0.03 p.p. of GDP in SOEs' balance between December and May, on this basis of comparison (Graph 5).

[10] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/535500/RAF11_DEZ_2017.pdf.
[11] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc95.htm.
[12] There are two ways to calculate an entity's primary balance: (i) the above-the-line methodology; and (ii) the below-the-line methodology. The above-the-line methodology considers revenue and expenditure flows at a given point in time to calculate the primary balance. The below-the-line methodology considers the change in net debt between two periods, net of nominal interest. This accounting approach is adopted by the BCB and follows international standards (International Monetary Fund government finance statistics manuals).

GRAPH 5. PRIMARY BALANCE OF STATE-OWNED ENTERPRISES (% OF GDP)



Source: Central Bank. Prepared by: IFI.

This aggregate overview will be complemented throughout the report by a company-level breakdown, based on information from the Secretariat of Coordination and Governance of State-Owned Enterprises (Sest) of the Ministry of Management and Innovation in Public Services (MGI)[13]. As will be shown below, Sest data indicate a deterioration in the financial health of certain dependent and non-dependent SOEs, which increases the fiscal risk to the National Treasury due to the potential need for capital contributions or budgetary supplementation. This is primary expenditure that would compete with other expenditures subject to the limits set by Complementary Law (LC) No. 200[14], of 2023, which established the Sustainable Fiscal Regime (RFS).

This report is structured as follows: the next section sets out the legal classification of SOEs and the distinction between those that are dependent and those that are non-dependent on Treasury resources; the following section discusses the fiscal risks associated with these two groups of enterprises, in light of the Federal Government's Fiscal Risks Report and the PLDO 2027; the two subsequent sections present selected financial indicators for dependent and non-dependent SOEs, respectively; and the final section before the Concluding Remarks takes a closer look at four specific companies — ECT, Codevasf, Emgepron, and Infraero — based on their financial statements.

[13] Data available at: https://panoramadasestatais.gestao.gov.br.
[14] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp200.htm.

State-Owned Enterprises (Dependent and Non-Dependent)

In Brazil, the concept, legal status, and operating rules of state-owned enterprises are set out primarily in the 1988 Federal Constitution[15] and in Law No. 13,303[16], of June 30, 2016, also known as the SOE Law. The term "state-owned enterprise" (*estatais*) is a generic concept that encompasses two types of entities within the indirect public administration: wholly state-owned enterprises (*empresas públicas*) and mixed-capital companies (*sociedades de economia mista*).

The first legal instrument to define these entities under Brazilian law was Decree-Law No. 200[17], of February 25, 1967. Item II of Article 5 of the decree defines the Wholly State-Owned Enterprise, while item III of the same article defines the Mixed-Capital Company.

The principal infra-constitutional statute on the subject, however, is the SOE Law, which governs the legal status of wholly state-owned enterprises, mixed-capital companies, and their subsidiaries. Article 3 of Law No. 13,303 defines a wholly state-owned enterprise as an "entity endowed with legal personality under private law, whose creation is authorized by law, with its own assets, and whose capital stock is wholly held by the Federal Government, the States, the Federal District, or the Municipalities" [Unofficial translation; the same applies to all direct quotations of legal text throughout this report]. This concept includes, for example, Caixa Econômica Federal, BNDES, and the Empresa de Correios e Telégrafos (ECT) [the Brazilian postal service].

Article 4 of Law No. 13,303, in turn, defines a mixed-capital company as an "entity endowed with legal personality under private law, whose creation is authorized by law, in the form of a joint-stock company, whose voting shares are majority-held by the Federal Government, the States, the Federal District, the Municipalities, or an entity of the indirect public administration". Examples of companies covered by this definition include Banco do Brasil and Petrobras.

The 1988 Federal Constitution (CF) provides the legal basis for these enterprises to exist and operate in the market, limiting their creation and governing their operating regime. Article 173 of the CF establishes that the State may directly engage in economic activity only when necessary to imperatives of national security or relevant collective interest, as defined by law. Paragraph 1 of the same article determines that the law (which came to be the SOE Law) must structure the legal status of SOEs, subjecting them to the legal regime applicable to private enterprises, including with respect to civil, commercial, labor, and tax rights and obligations. Item XIX of Article 37 of the CF further determines that the creation of a wholly state-owned enterprise or a mixed-capital company depends on authorization by specific law.

[15] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/constituicao.htm.
[16] Available at: https://www.planalto.gov.br/ccivil_03/_ato2015-2018/2016/lei/l13303.htm.
[17] Available at: https://www.planalto.gov.br/ccivil_03/decreto-lei/del0200.htm.

An important classification that can be applied when analyzing SOEs consists of distinguishing between enterprises that are dependent and those that are non-dependent on federal Treasury resources[18]. Under item III of Article 2 of Complementary Law (LC) No. 101[19], of May 4, 2000, also known as the Fiscal Responsibility Law (LRF), an SOE is considered dependent when it requires federal resources to cover personnel, current, and capital expenditures, excluding, in this case, resources arising from equity investment. In other words, a dependent SOE needs Treasury resources to sustain its operations, with such resources made available through appropriations under the Fiscal and Social Security Budget (OFSS)[20].

Table 2 presents a list of dependent federal SOEs in 2025. According to data from Sest and the Siga Brasil Portal, 17 enterprises fell into this category. Comparing this table with Table 9 of the aforementioned RAF No. 11, which listed 18 dependent enterprises, the following changes occurred: (i) Infra S.A. (Table 2) resulted from the merger between the Planning and Logistics Company (EPL) and Valec; (ii) Telebras became a dependent enterprise; and (iii) Brazilian Nuclear Industries (INB), pursuant to Decree No. 11,235[21], of October 13, 2022, was incorporated into the Brazilian Company for Nuclear and Binational Energy Investments (ENBPar), a dependent SOE.

[18] Another possible classification would be to group enterprises according to whether they are under the Federal Government's direct or indirect control.
[19] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp101.htm.
[20] The OFSS represents the largest and most significant share of the federal government's public budget, forming part of the Annual Budget Law (LOA) together with the SOEs' investment budget. The OFSS consolidates all revenue collected by the State (such as taxes, fees, and contributions) and determines how funds will be allocated to keep public administration running and to provide public services to society.
[21] Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2022/decreto/D11235.htm#:~:text=DECRETO%20N%C2%BA%2011.235%2C%20DE%2013,vista%20o%20disposto%20no%20art.

TABLE 2. INFORMATION ON DEPENDENT FEDERAL SOES

Name	Supervising Body	Legal Nature	Business Activity
Amazul - Amazônia Azul Tecnologia de Defesa S.A.	Ministry of Defense	Wholly state-owned enterprise	Trade and Services
CBTU - Companhia Brasileira de Trens Urbanos	Ministry of Cities	Mixed-capital company	Transportation
Ceitec - Centro Nacional de Tecnologia Eletrônica Avançada S.A.	Ministry of Science, Technology, and Innovation	Wholly state-owned enterprise	Industry
Codevasf - Companhia de Desenvolvimento dos Vales do São Francisco e do Parnaíba	Ministry of Integration and Regional Development	Wholly state-owned enterprise	Trade and Services
Conab - Companhia Nacional de Abastecimento	Ministry of Agrarian Development and Family Farming	Wholly state-owned enterprise	Supply
Conceição - Hospital Nossa Senhora da Conceição S.A.	Ministry of Health	Mixed-capital company	Trade and Services
CPRM - Companhia de Pesquisa de Recursos Minerais	Ministry of Mines and Energy	Wholly state-owned enterprise	Trade and Services
EBC - Empresa Brasil de Comunicação S.A.	Office of the President of the Republic	Wholly state-owned enterprise	Trade and Services
EBSERH - Empresa Brasileira de Serviços Hospitalares	Ministry of Education	Wholly state-owned enterprise	Trade and Services
Embrapa - Empresa Brasileira de Pesquisa Agropecuária	Ministry of Agriculture and Livestock	Wholly state-owned enterprise	Trade and Services
EPE - Empresa de Pesquisa Energética	Ministry of Mines and Energy	Wholly state-owned enterprise	Trade and Services
HCPA - Hospital das Clínicas de Porto Alegre	Ministry of Education	Wholly state-owned enterprise	Trade and Services
Imbel - Indústria de Material Bélico do Brasil	Ministry of Defense	Wholly state-owned enterprise	Industry
Infra S.A. - Valec Engenharia, Construções e Ferrovias S.A.	Ministry of Transportation	Wholly state-owned enterprise	Transportation
Nuclep - Nuclebras Equipamentos Pesados S.A.	Ministry of Mines and Energy	Wholly state-owned enterprise	Industry
Telebras - Telecomunicações Brasileiras S.A.	Ministry of Communications	Mixed-capital company	Trade and Services
Trensurb - Empresa de Trens Urbanos de Porto Alegre S.A.	Ministry of Cities	Mixed-capital company	Transportation

Source: Sest/MGI and Siga Brasil. Prepared by: IFI

Non-dependent SOEs are state-controlled enterprises (wholly state-owned enterprises or mixed-capital companies) that do not require federal Treasury resources to finance personnel, current, and investment expenditures, with the exception of capital contributions that increase equity stakes. These are entities that operate on their own revenue generated by their business activities and do not draw on the OFSS. Their investment expenditures are part of the federal government's investment budget.

At this point, it is worth introducing the Comprehensive Plan of Expenditures (PDG)[22]. The PDG brings together the economic and financial information of non-dependent SOEs for a given reference year. In general terms, the program contains the following information: (i) the sources of non-dependent SOEs' resources (operating revenue, capital revenue, credit operations, etc.); (ii) the use of these resources (operating costs, current expenditures, investments, personnel payroll, etc.); and (iii) cash flows and financing needs.

The legal basis for the PDG is a presidential decree issued every year after the LOA is enacted. The program's objectives can be described as follows: (i) planning and controlling

[22] The 2026 PDG was regulated by Decree No. 12,804, of December 29, 2025. Available at: https://www.planalto.gov.br/ccivil_03/_ato2023-2026/2025/decreto/d12804.htm.

SOEs' spending and investments; (ii) assessing the convergence of revenue and expenditure with the central government's fiscal targets; (iii) integrating SOEs' investment budget with the OFSS; (iv) ensuring transparency and monitoring of SOEs' investment policies, credit operations, and financial performance; among others.

The PDG therefore covers all sources and uses of resources by non-dependent SOEs, including expenditures on fixed assets (investments), which correspond to the investment budget, as provided for in Article 165, §5, item II of the 1988 Federal Constitution. As it is formally part of the federal government's Investment Budget, the PDG is prepared according to the LOA calendar[23].

It is important to note that the financial relationship between the Federal Government and its non-dependent SOEs can be characterized as a two-way street. These enterprises act as market agents while also generating returns for the State, which is their controlling shareholder. This relationship therefore takes place, in broad terms, through (i) investments, such as capital increases (capital contributions) and/or grants and service provision contracts; and (ii) receipts, such as dividends, interest on net equity, taxes and charges, and/or special participations and royalties.

Capital contributions represent transfers of resources from the Treasury to the enterprise with a view to replenishing capital that has been eroded by losses in prior fiscal years, or to increasing capital in order to leverage the enterprise's activities. If such contributions become systematic, the enterprise may be reclassified as dependent on Treasury resources.

Service provision contracts occur when the Federal Government hires the SOE to carry out specific public policies, paying for the service rendered. For example, the government pays fees to Caixa for operating payments under Bolsa Família, FGTS, and PIS. This is a commercial relationship involving the provision of services.

Non-dependent SOEs, in turn, generate revenue for public coffers. Through dividends and interest on net equity (JCP), the Federal Government receives a significant share of the profits distributed by these companies. These enterprises also pay taxes and charges. Companies engaged in the exploration of natural resources likewise pay special participations and royalties on production to the State.

[23] It is worth noting that the PDG is also subject to periodic revision. The decree is approved in the preceding fiscal year but undergoes changes over the course of the year, in the same way as the LOA. These changes are made through administrative orders (*portarias*). Example: https://www.in.gov.br/web/dou/-/portaria-mgi-n-3.277-de-15-de-abril-de-2026-699937050.

Fiscal Risks

The 2025 Federal Fiscal Risks Report (RRFU)[24], released in November, and the 2027 Budget Guidelines Bill (PLDO)[25], submitted by the Executive Branch to Congress on April 15, mention several fiscal risks related to federal SOEs. In the PLDO, this detail is presented in Annex V of the document (fiscal risks). Comparing the two documents, the PLDO 2027 reveals a worsening of contingent judicial liabilities[26] and a revision of expected financial returns for the Treasury.

For dependent SOEs, the main fiscal risks mentioned in the PLDO 2027 are: (i) legal claims arising from labor, civil, tax, and social security lawsuits, with the estimated impact of claims classified as possible loss having risen from BRL 13.1 billion in June 2025 (per the RRFU 2025) to BRL 17.2 billion in December 2025 (per the PLDO 2027), with the Energy Research Company (EPE) and Infra S.A. standing out; and (ii) claims classified as probable loss, in which the lawsuits with the highest probability of loss, which totaled BRL 6.5 billion in 2024, mainly involved labor and civil matters.

Regarding the risks associated with non-dependent SOEs, the PLDO 2027 mentions: (i) a shortfall in dividend and interest on net equity (JCP) revenue, with the government potentially collecting BRL 33.5 billion in 2027, against BRL 35.7 billion estimated in the RRFU 2025; (ii) an increase in the financing needs of SOEs as a whole, under the PDG, which is set to reach BRL 7.55 billion in 2027, against projected deficits of BRL 6.2 billion in 2025 and BRL 6.7 billion in 2026; and (iii) monitoring of the potential need for emergency capital contributions to certain enterprises in a delicate financial situation, such as the Empresa de Correios e Telégrafos (ECT), the Casa da Moeda (CMB) [the Brazilian Mint], Eletronuclear (via ENBPar), and Companhia Docas.

It is worth noting that, until 2025, it was possible to offset the primary balance targets of the central government (which includes the National Treasury, the Central Bank of Brazil (BCB), and the National Social Security Institute (INSS)) against those of non-dependent SOEs (PDG). For example, any surpluses posted by SOEs could offset larger deficits recorded by the central government, and vice versa.

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[24] Available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-riscos-fiscais-da-uniao/2025/114.

[25] See the page with information on the document: https://www.gov.br/planejamento/pt-br/assuntos/orcamento/orcamentos-anuais/2027/pldo.

[26] Contingent judicial liabilities represent potential financial obligations arising from ongoing legal proceedings, whose final obligation still depends on a future and uncertain event — in this case, the final court ruling (*trânsito em julgado*, i.e., the point at which a decision becomes final and unappealable). In practical terms, this refers to money that a company, bank, or the State itself may have to pay if it loses a lawsuit, but which has not yet become a certain, outstanding debt. These liabilities are rigorously classified and monitored in public finance, being divided into three risk levels based on the probability of loss: (i) probable loss; (ii) possible loss; and (iii) remote loss. The fiscal relevance of these liabilities materializes as an obligation entering the public budget in the form of court-ordered debt payments or Small Value Requests (RPVs), generating pressure on primary balance targets and public debt projections.

The possibility of offsetting these targets generated two main problems for fiscal management: (i) a loss of transparency regarding the true fiscal position of the central government and/or SOEs; and (ii) the existence of an implicit moral hazard, since the possibility of offsetting targets could alter the incentive to pursue the fiscal targets set out in the budget guidelines.

These risks were mitigated as of the LDO 2026, which eliminated the possibility of offsetting central government and SOE targets against each other. With this change, the calculation of results for each segment became more transparent, while also strengthening the incentives for individual compliance with targets and for the management of associated fiscal risks.

Selected Information and Indicators for Dependent SOEs

Table 3 presents selected financial information for the Federal Government's 17 dependent SOEs. Based on the appropriations under the 2025 OFSS (primary expenditures paid and outstanding liabilities paid), the enterprises were ranked in descending order of expenditure. Other information included in the table comprises: (i) the composition of expenditure (personnel, other current expenditures, and investments and financial investments), in current values and as a share of the total (%); (ii) the federal government's share of expenditure, or degree of dependence on the Treasury (%); and (iii) personnel expenditure per employee, per month, in Brazilian reais (BRL). This last variable was calculated on a per capita basis by the IFI.

TABLE 3. FINANCIAL INFORMATION FOR DEPENDENT SOES IN 2025 — BRL MILLION, UNLESS OTHERWISE INDICATED

Name	Expenses*	Treasury Resources	Composition of Expenditure				Degree of Dependence on the National Treasury (%)**	Personnel Expenses per Employee, per Month (in BRL)***
			Personnel and Current Expenses		Investments and Financial Investments			
			Amount	%	Amount	%		
EBSERH	10,331.9	10,080.4	9,939.3	96.0	392.6	4.0	97.6	13,029.0
Embrapa	4,667.3	4,591.5	4,527.3	97.0	140.0	3.0	98.4	41,771.6
Conceição	2,714.7	2,696.6	2,657.7	98.0	57.0	2.0	99.3	11,808.4
Codevasf	2,573.4	2,539.0	1,001.1	39.0	1,572.3	61.0	98.7	28,307.3
Conab	2,104.8	2,001.0	2,077.4	99.0	27.4	1.0	95.1	26,582.9
HCPA	2,065.6	1,940.3	2,022.2	98.0	43.4	2.0	93.9	18,347.9
CBTU	1,419.4	1,343.4	1,356.9	96.0	62.5	4.0	94.6	29,041.1
EBC	734.4	641.6	716.8	98.0	17.6	2.0	87.4	20,085.0
CPRM	661.1	658.5	643.9	97.0	17.2	3.0	99.6	28,915.9
Amazul	513.2	510.5	513.2	100.0	0.0	0.0	99.5	18,320.3
Infra S.A.	512.6	496.3	288.6	56.0	224.0	44.0	96.8	22,228.2
Nuclep	505.9	447.0	497.8	98.0	8.1	2.0	88.3	37,583.8
Trensurb	500.3	385.3	424.3	85.0	76.0	15.0	77.0	17,093.7
Imbel	359.4	257.1	313.8	87.0	45.6	13.0	71.5	6,978.7
Telebras	295.1	129.7	285.7	97.0	9.4	3.0	44.0	-
EPE	178.5	176.7	176.7	99.0	1.8	1.0	99.0	25,215.9
Ceitec	73.7	71.3	73.6	100.0	0.1	0.0	96.7	32,499.1
Total	**30,211.3**	**28,966.2**	**27,516.1**	**91.1**	**2,695.2**	**8.9**		

** Represents the amounts paid under the 2025 budget, plus outstanding liabilities paid relating to prior fiscal years, including court-ordered debt payments.*
*** Calculated by the IFI based on the sum of Treasury funding sources under the 2025 budget and outstanding liabilities paid.*
**** Represents personnel and social charges expenses divided by the number of active employees. Figures were divided by 13 to account for the 13th-month salary paid to employees.*
Source: LOA 2025, Siga Brasil, and Sest/MGI. Prepared by: IFI.

According to Table 3, dependent SOEs' expenses totaled BRL 30.2 billion in 2025. Of this amount, BRL 27.5 billion corresponded to personnel[27] and current expenses, and BRL 2.7 billion went toward investments and financial investments.

Five enterprises accounted for 77.1% (BRL 21.2 billion) of personnel and current expenses among dependent SOEs: EBSERH, Embrapa, Hospital Nossa Senhora da Conceição, Companhia Nacional de Abastecimento (Conab), and Hospital das Clínicas de Porto Alegre (HCPA).

Regarding investment expenses, three enterprises accounted for 81.2% (BRL 2.2 billion) of the resources allocated to this purpose: Codevasf, Infra S.A. (the merger of Valec and EPL),

[27] It is worth noting that personnel expenses do not include other items, such as medical and dental care and mandatory benefits for civil servants and public employees. These items are classified under "Civil Servant Benefits" in the National Treasury Report (RTN) and are treated as current expenses.

and EBSERH. This result is expected given that the first two, in particular, focus their activities on public works.

The figures included in the "Degree of Dependence on the National Treasury (%)" column represent the share of each dependent SOE's budget financed by the Treasury. As expected, these percentages are relatively high, highlighting the relevance of these resources for the enterprises' operations. In some cases, they approach 100%.

The last column of Table 3 presents an IFI calculation intended as a proxy for each enterprise's per capita personnel expenditure[28]. The figures were obtained through the Access to Information Law (LAI) and made available by Sest/MGI. The IFI divided personnel expenditure by the number of employees at each enterprise, adjusting for the effects of vacation pay and the 13th-month salary. Some enterprises recorded per capita personnel expenditure above BRL 30,000 per month, such as Embrapa (BRL 41,800), Nuclep (BRL 37,600), and Ceitec (BRL 32,500) in 2025.

Table 4 presents the list of dependent SOEs with negative net worth in 2025. The information was collected for the 2018–2025 period. Seven enterprises were in this condition last year, according to data from Sest/MGI: Companhia Brasileira de Trens Urbanos (CBTU), Hospital Nossa Senhora da Conceição (Conceição), Embrapa, Codevasf, Hospital das Clínicas de Porto Alegre (HCPA), Empresa Brasileira de Serviços Hospitalares (EBSERH), and Amazônia Azul Tecnologia de Defesa (Amazul).

The table also shows the trends in these enterprises' net worth over the past eight years. Some recorded a deterioration in this indicator over the period. CBTU, for example, lost BRL 3.0 billion in net worth between 2018 and 2025. Codevasf (BRL 1.7 billion), Embrapa (BRL 1.4 billion), and Hospital das Clínicas de Porto Alegre (BRL 1.0 billion) also recorded significant net worth losses over this period.

TABLE 4. DEPENDENT SOES WITH NEGATIVE NET WORTH IN 2025 — BRL MILLION

Name	2018	2019	2020	2021	2022	2023	2024	2025	Var. 2025-2018
CBTU	-980.1	86.1	-301.3	-1,381.9	-1,603.3	-1,793.7	-2,872.8	-4,026.5	-3,046.5
Conceição	-533.9	-533.9	-431.0	-416.2	-519.6	-527.6	-470.6	-655.5	-121.5
Embrapa	717.7	523.4	593.5	179.4	116.9	-49.8	-365.0	-635.5	-1,353.1
Codevasf	1,472.7	357.7	313.8	377.6	-1,314.2	-935.1	-84.3	-191.7	-1,664.3
HCPA	981.6	420.2	442.8	180.5	40.8	-18.4	10.6	-55.9	-1,037.5
EBSERH	-240.0	-288.4	54.5	-51.2	7.1	55.7	98.9	-19.9	220.2
Amazul	-18.2	-8.5	-6.0	-6.9	-4.0	-8.3	-9.5	-1.5	16.7

Source: Sest/MGI. Prepared by: IFI.

[28] The intent here is to arrive at something close to an "average" salary per enterprise. There is significant heterogeneity among enterprises in terms of personnel composition (enterprises that are more research-, engineering-, or health-intensive may be expected to have higher average expenditure). This indicator should be interpreted with caution, as it may erroneously suggest certain "super-salary" patterns that do not necessarily reflect productivity, which may or may not be the case, but warrants further investigation.

In accounting terms, a company's net worth represents its real wealth — that is, the amount that actually belongs to its owners after all financial obligations have been deducted. It corresponds to assets (everything the company owns) minus liabilities (what the company owes to third parties) and serves as an indicator of a company's long-term financial health. Negative net worth indicates that a company's obligations exceed all the assets it holds, meaning that its assets are insufficient to cover its liabilities.

For dependent SOEs, however, the analysis of net worth differs from that for a private company, since these SOEs receive subsidies from the National Treasury to fund their operations and are not profit-seeking. Nevertheless, examining this indicator is warranted from the perspective of three elements.

The first relates to monitoring insolvency risk and negative equity. Although they are maintained by the government, dependent SOEs have their own legal personality under private law. This means they can be subject to lawsuits, incur obligations, and accumulate accounting losses. Negative net worth at a dependent SOE indicates a negative equity position. It means the enterprise is accumulating debts to suppliers, labor provisions, or contingent judicial liabilities at a pace that outstrips the Treasury's capacity for capital contributions. Consequently, the government may need to provide additional contributions in the future to clean up the balance sheets of enterprises in this situation. This is necessary to prevent enterprises from ceasing operations or facing court-ordered enforcement actions that freeze their accounts.

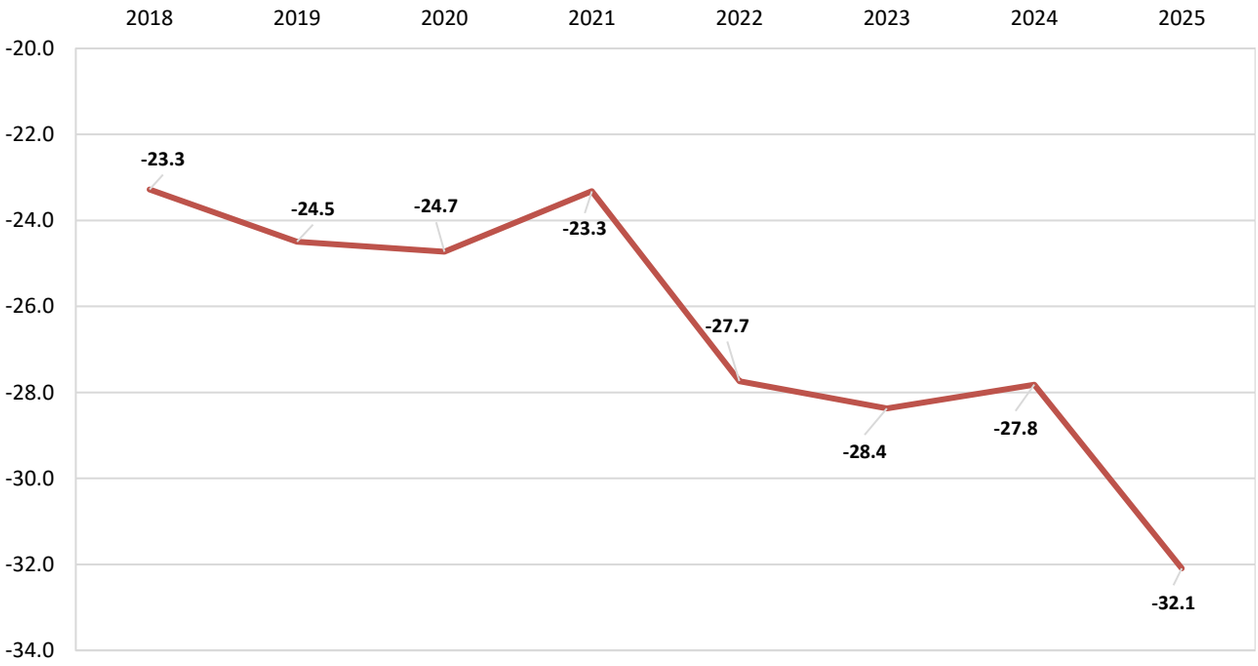
The second element justifying the analysis of net worth as an indicator of an SOE's financial health relates to the efficiency of operating costs. Cross-referencing net worth data with operating losses provides a sense of the pace at which equity is being destroyed. If an SOE needs constant capital contributions from the Treasury to cover longstanding operating losses, net worth serves as an indicator of management inefficiency

Lastly, the third relevant element justifying the analysis of a dependent SOE's net worth relates to the fact that this indicator can serve as an important parameter for potential decisions regarding the enterprise's dissolution, merger, or even privatization.

Another important variable to analyze is operating cash flow (OCF)[29]. Graph 6 presents information on the OCF of dependent SOEs over the 2018–2025 period. The figures are deflated by the IPCA at May 2026 prices. Negative values in the graph indicate negative OCF in the respective years.

[29] Operating cash flow was chosen over operating income because the latter incorporates depreciation and other factors unrelated to the enterprise's cash flow. For the purpose of analyzing the impact on the primary balance, it makes more sense to examine enterprises' operating cash flow. Operating cash flow is constructed on a cash accounting basis and takes into account, for example, any delays in payments to suppliers, an event not captured by operating income.

GRAPH 6. OPERATING CASH FLOW OF DEPENDENT SOES - BRL BILLION, MAY 2026 PRICES



Source: Sest/MGI. Prepared by: IFI

The data show a deterioration in the OCF of the 17 dependent SOEs since 2018. In the private sector, negative operating cash flow can signal a company heading toward bankruptcy. In the public sector, negative values for this variable reveal a condition of budgetary and financial strain on the enterprises, or the existence of coordination failures between the National Treasury and dependent SOEs.

Since the purpose of a dependent SOE is not to generate cash but to carry out a service guaranteed by the State, negative OCF should be interpreted in light of four main elements. The first relates to a mismatch in transfers, which characterizes a liquidity problem, not a solvency problem. The main cause of negative OCF at a dependent SOE may be the timing mismatch between cash outflows (such as payroll and payments to suppliers) and the inflow of financial quotas released by the National Treasury.

Thus, if the Annual Budget Law (LOA) allocated a given amount of resources to the SOE, but the Treasury delayed the actual disbursement of funds, for instance due to spending restraint measures aimed at meeting fiscal targets, the enterprise will show negative OCF. This means the SOE was entitled to receive the resources, but faces a cash liquidity shortfall.

The second element associated with negative OCF can be attributed to internal inefficiency or payment adjustments exceeding the budget. If transfers provided for under the LOA are on schedule and the enterprise still faces persistently negative OCF, the indicator may be signaling a lack of cost control. In other words, the SOE's expenses (such as supplier contracts and/or personnel expenses) may be growing at a faster pace than the subsidy received from the Treasury, indicating that the enterprise's operations have become more

costly than the limit authorized by the State. This financial deficit, in turn, will require a budgetary supplementation.

The third element associated with negative OCF values at a dependent SOE relates to a shortfall in the collection of own-source revenue. Although dependent on the Treasury, some SOEs plan to raise their own resources in the market to supplement the Treasury subsidy. Negative OCF may thus indicate that commercial revenue or fee-based services fell short of expectations, leaving the subsidy insufficient to cover current expenses.

Lastly, a fourth element related to negative OCF concerns the accumulation of outstanding liabilities from prior fiscal years. Dependent SOEs generally face legal restrictions on taking out bank loans for working capital. As a result, delaying payments to suppliers becomes a way of financing operations. In other words, negative OCF may indicate that the enterprise has been sustaining its operations by taking on debt to third parties, failing to pay invoices issued by suppliers, which generates outstanding liabilities carried over to subsequent fiscal years.

Table 5 presents information on the OCF of each of the 17 dependent SOEs over the 2018–2025 period. This information is relevant for making clear which enterprises are in the worst position from a cash flow standpoint.

In general terms, the information in Table 5 indicates a deterioration in OCF among dependent SOEs over the past eight years. According to Sest/MGI, the most negative figures in 2025 were recorded by EBSERH (BRL 13.5 billion), Embrapa (BRL 4.4 billion), Hospital Nossa Senhora da Conceição (BRL 2.6 billion), Codevasf (BRL 2.6 billion), Hospital das Clínicas de Porto Alegre (BRL 1.7 billion), Companhia Brasileira de Trens Urbanos (BRL 1.3 billion), and Conab (BRL 1.3 billion).

Negative OCF among dependent SOEs reveals the true extent of these enterprises' dependence on the National Treasury. Some of these SOEs record the subsidy received from the Treasury as operating revenue in their accounts, which can obscure the actual state of their finances. OCF makes clear the size of the surplus (deficit) these enterprises are generating.

TABLE 5. OPERATING CASH FLOW* OF DEPENDENT SOES (2018–2025) — BRL MILLION

Name	2018	2019	2020	2021	2022	2023	2024	2025
EBSERH	-4,329.1	-5,414.3	-7,032.8	-7,889.5	-9,032.3	-10,184.6	-10,304.2	-13,459.7
Embrapa	-3,471.4	-3,740.0	-3,428.1	-3,438.3	-3,537.0	-3,899.9	-4,049.8	-4,443.9
Conceição	-1,457.3	-1,519.5	-1,488.4	-1,591.9	-1,728.0	-1,833.0	-2,047.4	-2,639.4
Codevasf	-475.9	-779.9	-595.7	-327.3	-3,146.7	-2,585.2	-2,316.1	-2,604.9
HCPA	-1,059.6	-1,310.8	-1,235.5	-1,327.4	-1,423.0	-1,575.1	-1,712.0	-1,703.4
CBTU	-933.2	-1,085.7	-1,032.6	-1,296.1	-1,663.6	-1,061.4	-1,240.9	-1,284.4
Conab	-845.1	-1,005.2	-1,005.7	-994.7	-1,000.4	-1,292.4	-1,251.7	-1,275.8
CPRM	-528.9	-495.7	-491.2	-486.2	-542.7	-662.9	-664.0	-688.3
EBC	-1,081.7	-468.5	-465.5	-455.1	-451.9	-562.9	-598.7	-653.5
Amazul	-312.5	-356.8	-356.7	-314.6	-260.3	-336.9	-434.2	-524.5
Infra S.A.	-249.1	-206.9	-145.6	151.1	147.7	-179.3	-206.1	-396.1
Nuclep	-315.4	-264.2	-208.1	-240.8	-280.9	-327.7	-366.9	-391.2
Telebras	-	-	-89.7	-98.5	-155.0	-123.8	-36.8	-354.8
Trensurb	-222.1	-161.3	-172.1	-178.2	-196.9	-193.5	-262.9	-303.3
EPE	-105.0	-105.6	-100.8	-95.7	-109.6	-116.2	-140.7	-172.9
Imbel	-81.5	-76.9	-104.8	-99.0	-123.7	-168.0	-135.6	-139.1
Ceitec	-74.5	-65.0	-44.2	-	-	-51.4	-85.0	-63.0

** The operating cash flow presented here follows the classification adopted by Sest/MGI, which treats the Grant for Current Expenditure (Subvenção para Custeio) received from the National Treasury as a financing activity, rather than an operating activity. As a result, the OCF figures reported in this table may diverge from the operating cash flow disclosed in each enterprise's audited financial statements, which follow the Corporations Law (Lei das S.A.) and keep the effect of the subsidy within the net income for the year. Adding the OCF in this table to the subsidy received in the same year (Table 6) reconstitutes the operating cash flow as reported in the enterprises' financial statements. In some years, for certain enterprises, there may be a discrepancy in figures due to restatements of accounts without a corresponding adjustment in Sest data, as observed by the IFI in a sample check of Embrapa.*
Source: Sest/MGI. Prepared by: IFI.

For dependent SOEs, OCF also serves as an important indicator of self-sufficiency. Many of these SOEs sell services, charge fees, sell goods, or charge for other services they provide. The fact that some of them have recorded a deterioration in OCF in recent years indicates, as noted above, (i) possible growth in personnel expenses and/or other current expenses; (ii) a mismatch in transfers received from the Treasury; (iii) a shortfall in the collection of own-source revenue; and/or (iv) the need to pay outstanding liabilities from prior fiscal years.

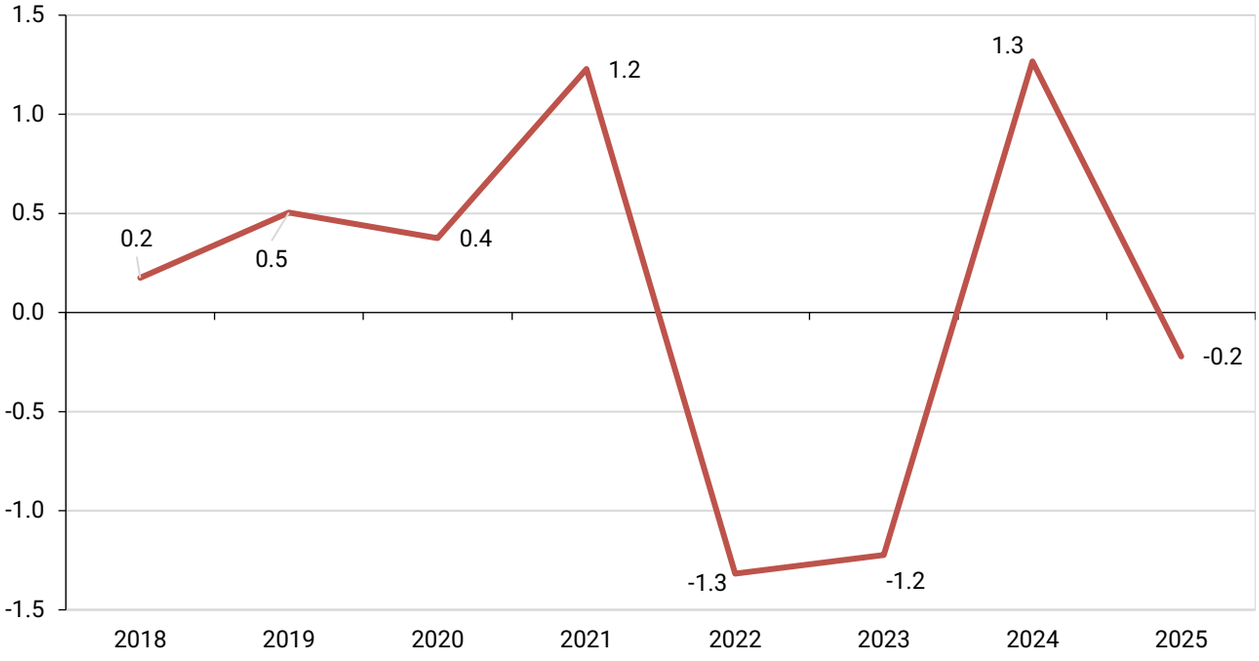
To determine precisely what explains the negative OCF of each enterprise, it would be necessary to examine the income statement of each one, a task beyond the scope of this analysis.

For the State, monitoring the trends in a dependent SOE's OCF is essential, since these enterprises' budgets are part of the OFSS. This means that accumulated losses directly compete with resources that could otherwise be allocated to other areas of the budget, such as health, education, and public safety.

Another important measure to analyze is the sum of a dependent SOE's OCF and the subsidy received from the National Treasury in a given fiscal year, which can be considered an

indicator of the enterprise's cash sufficiency. Graph 7 presents the trends in this indicator, calculated by the IFI for the Federal Government's 17 dependent SOEs as a whole since 2018.

GRAPH 7. CASH SUFFICIENCY INDICATOR FOR DEPENDENT SOES (2018–2025) — BRL BILLION



Source: Sest/MGI. Prepared by: IFI

The figures presented in Graph 7 show that, since 2018, the aggregate cash sufficiency indicator for the 17 dependent SOEs has been negative in three years: 2022, 2023, and 2025. The aggregate result in these three years was influenced by Codevasf's cash flow, as discussed further below. A situation in which the enterprises' cash sufficiency indicator is negative indicates that the subsidies received by the enterprises were insufficient to meet their cash needs in a given year.

Table 6 presents the operating cash sufficiency for each of the Federal Government's 17 dependent SOEs. Based on the information included in the table, the indicator for four enterprises stands out, characterizing a situation of operating insufficiency in 2025: Codevasf (BRL 910.3 million), Infra S.A. (BRL 121.2 million), EBC (BRL 44.0 million), and Amazul (BRL 11.9 million).

Still according to Table 6, Codevasf has shown operating cash insufficiency since 2022. That year, the figure calculated by the IFI stood at BRL 2.2 billion, falling to BRL 1.3 billion in 2023, BRL 289.3 million in 2024, and BRL 910.3 million in 2025. The enterprise influenced the aggregate result for the 17 dependent SOEs, as shown in Graph 7.

TABLE 6. OPERATING CASH SUFFICIENCY* INDICATOR FOR DEPENDENT SOES (2018–2025) — BRL MILLION

Name	2018	2019	2020	2021	2022	2023	2024	2025
EBSERH	211.4	393.7	288.8	286.3	324.3	-191.2	1,077.4	218.3
Embrapa	74.0	10.5	17.6	6.8	25.9	15.0	78.1	57.5
Conceição	-23.4	1.1	-1.3	2.2	13.0	-2.5	51.6	10.7
HCPA	73.2	4.4	24.7	30.1	2.2	32.6	85.8	274.8
Codevasf	146.7	-63.2	126.9	501.8	-2,164.7	-1,344.1	-289.3	-910.3
Conab	54.4	37.3	-28.1	57.6	29.6	19.1	9.0	51.4
CBTU	32.4	35.3	19.1	-25.5	-34.6	11.6	-5.8	1.0
CPRM	9.6	7.5	-12.4	1.4	15.3	-21.4	5.8	10.1
EBC	-603.4	-110.6	-69.2	-53.0	-82.1	-30.7	-24.0	-44.0
Amazul	14.4	10.6	-20.8	7.0	123.5	99.2	15.5	-11.9
Nuclep	40.9	19.5	15.4	34.8	51.8	25.9	48.6	59.3
Telebras	-	-	95.9	118.1	86.5	116.4	121.6	52.1
Trensurb	64.3	106.8	-64.7	-36.5	-15.4	6.4	27.3	20.7
Infra S.A.	7.4	4.2	-10.2	284.8	302.5	22.8	42.2	-121.2
Imbel	70.7	43.5	-19.4	11.6	4.1	22.1	12.0	100.4
EPE	6.9	1.3	-0.9	0.4	0.8	6.3	14.5	3.6
Ceitec	-4.7	1.9	13.5	-	-	-11.3	-3.3	5.7

** The figures in this table represent the OCF of the enterprises in their own financial statements, as observed in a sample check of Embrapa and Codevasf. The explanation is described in the notes to Table 5.*
Source: Sest/MGI. Prepared by: IFI.

A situation in which the subsidy paid by the Treasury to a dependent SOE is insufficient to cover its cash needs results in serious accounting, fiscal, and operational impacts. First, this results in the generation of outstanding liabilities or defaults. That is, if the subsidy received from the Treasury is insufficient to cover all expenses in a given fiscal year, the enterprise may stop paying suppliers and service providers, delay the payment of social security contributions or taxes, and/or accumulate expenses from prior fiscal years.

Negative cash flows tend to translate into losses, which, when accumulated, affect the enterprise's balance sheet, reducing net worth. If this situation recurs over several years, the dependent SOE's net worth will progressively shrink until it becomes negative, characterizing a situation in which the enterprise owes third parties more than the sum of all its physical and financial assets.

The absence of the possibility of bankruptcy for a dependent SOE, given that the enterprise carries out a service or public policy, means that management must turn to the supervising ministry or the National Treasury for a budgetary supplementation (extra subsidy) or a capital contribution. In either case, this generates pressure on the OFSS and the materialization of a fiscal risk.

As discussed in the previous subsection (fiscal risks), in the Fiscal Risks Annex of the PLDO 2027, the Executive Branch mentioned by name only the Energy Research Company (EPE) and Infra S.A., due to the possible risk of impact from legal claims against these enterprises.

Codevasf, for example, was not cited in those documents as one of the main risk drivers among dependent SOEs. The enterprise had been mentioned in the Fiscal Risks Annex of the LDO 2026. In that document, among the enterprise's possible risks, there were legal claims estimated at BRL 1.1 billion (mainly of a civil nature) in 2023, which fell to BRL 277.2 million in 2024. Among Codevasf's probable risks, the LDO 2026 mentioned BRL 141.9 million in 2023 and BRL 74.4 million in 2024.

Selected Information and Indicators for Non-Dependent SOEs

This section analyzes selected financial indicators for non-dependent state-owned enterprises (SOEs). For example, OCF takes on a different significance for non-dependent SOEs than it does for dependent SOEs. The focus of OCF shifts from the cost of public policy to corporate efficiency, governance, and market sustainability.

As previously mentioned, one financial relationship between non-dependent SOEs and the Treasury involves capital contributions or dividend payments. Table 7 shows the capital contributions the Federal Government made to these enterprises from 2018 to 2025.

TABLE 7. FEDERAL GOVERNMENT CAPITAL CONTRIBUTIONS TO NON-DEPENDENT SOES (2018–2025) — BRL MILLION

Enterprise	2018	2019	2020	2021	2022	2023	2024	2025
Autoridade Portuária de Santos (APS)	-	-	0.6	-	-	-	-	-
Companhia Docas do Ceará (CDC)	8.5	-	-	4.2	-6.3	-	-	-
Companhia Docas do Pará (CDP)	-	0.3	0.6	2.2	-	-	10.0	-
Ceagesp	-	-	-	-	-	-	-	2.2
Companhia das Docas do Estado da Bahia (Codeba)	-65.4	-	2.9	8.9	-	-	-	-
Companhia Docas do Rio Grande do Norte (Codern)	-	-	9.3	59.9	-	-	6.8	80.7
Empresa Brasileira de Correios e Telégrafos (ECT)	224.0	-	-	-	-	-	-	-
Emgepron	2,645.8	7,604.2	-	-	-	-	-	-
ENBPar	-	-	-	-	6,323.5	-	-	-
Hemobrás	780.6	-	-	-	-	393.0	-	150.0
Infraero	1,107.3	1,477.2	10.0	-	-	-	-	122.3
PPSA	6.0	3.6	2.4	-	-	-	-	-

Source: Sest/MGI. Prepared by: IFI.

The figures in Table 7 reveal a greater concentration of capital contributions in certain enterprises over the past eight years: Emgepron (BRL 2.6 billion in 2018, and BRL 7.6 billion in 2019), ENBPar (BRL 6.3 billion in 2022), and Infraero (BRL 1.1 billion in 2018, and BRL 1.5 billion in 2019). The ECT received a federally guaranteed loan of BRL 12.0 billion in 2025, of which BRL 7.5 billion was disbursed to the enterprise's cash accounts still last year. Although this loan is not considered a capital contribution, it was made possible through a federal guarantee. This information is relevant, among other reasons, for assessing whether measures may be needed should capital contributions to SOEs become systematic, which was not the case here, as well as for understanding financial revenue flows for certain SOEs in subsequent fiscal years.

Since non-dependent SOEs compete with private companies in the market and do not receive Treasury subsidies to cover their expenses, OCF represents an indicator of cash-generation capacity and financial health for these SOEs, useful, for example, for executing investment plans, estimating the flow of dividends paid to the Federal Government, identifying the impact of subsidy and pricing policies, analyzing the enterprise's leverage level, among others.

Table 8 presents information on OCF for 19 non-dependent SOEs. Petrobras, Nav Brasil Serviços de Navegação Aérea, and financial-sector enterprises (Banco do Brasil, Caixa, BNDES, Banco da Amazônia, Banco do Nordeste do Brasil, and Finep) are excluded from the table. This choice reflects the nature of these enterprises. Petrobras and the financial-sector enterprises are not part of the primary balance calculation, although ENBPar is also excluded from the primary balance calculation.

According to the table, the Empresa Brasileira de Correios e Telégrafos (ECT) posted negative OCF of BRL 692.0 million last year, after having recorded a negative figure of BRL 2.4 billion in 2024. Infraero recorded negative OCF of BRL 375.4 million in 2025, a worsening of BRL 207.9 million compared to 2024.

TABLE 8. OPERATING CASH FLOW OF NON-DEPENDENT SOES (2018–2025) — BRL MILLION

Name	2018	2019	2020	2021	2022	2023	2024	2025
Empresa Brasileira de Correios e Telégrafos (ECT)	415.1	104.9	763.1	3,938.4	1,678.2	682.9	-2,352.0	-692.0
Empresa Brasileira de Infraestrutura Aeroportuária (Infraero)	-46.1	213.6	-792.6	535.4	714.2	1,548.7	-167.5	-375.4
Companhia de Entrepostos e Armazéns Gerais de São Paulo (Ceagesp)	-7.0	10.9	10.5	18.3	10.6	52.1	91.7	-42.9
Centrais de Abastecimento de Minas Gerais (Ceasaminas)**	9.0	5.3	14.2	43.5	31.9	18.1	9.5	-
Companhia Docas do Rio de Janeiro (CDRJ)**	-17.5	-33.8	43.9	220.3	-33.0	145.2	168.5	-
Companhia Docas do Ceará (CDC)	-5.3	45.5	9.8	2.2	-44.5	11.1	9.0	7.9
Empresa Brasileira de Administração de Petróleo e Gás Natural S.A. - Pré-sal Petróleo S.A. (PPSA)	35.8	45.4	80.8	-6.8	23.2	47.1	32.3	31.1
Companhia das Docas do Estado da Bahia (Codeba)	11.1	24.1	15.7	30.6	53.9	104.0	69.5	34.8
Companhia Docas do Rio Grande do Norte (Codern)	14.0	0.1	4.2	8.3	30.1	54.5	16.7	37.3
Agência Brasileira Gestora de Fundos Garantidores e Garantias S.A. (ABGF)	-2.2	4.2	6.9	15.0	26.9	25.7	27.2	43.1
Empresa Brasileira de Hemoderivados e Biotecnologia (Hemobras)	-413.1	159.2	149.4	142.0	134.8	212.2	-166.6	68.5
Casa da Moeda do Brasil (CMB)	230.7	59.8	107.5	634.4	39.4	76.0	8.1	232.8
Companhia Docas do Pará (CDP)	3.8	20.9	74.1	77.5	97.4	126.9	109.5	317.6
Empresa Gerencial de Projetos Navais (Emgepron)	25.5	108.6	-135.5	169.6	605.7	660.1	332.1	412.4
Empresa de Tecnologia e Informações da Previdência Social (Dataprev)	187.7	280.0	521.7	502.5	632.5	755.7	474.8	633.8
Autoridade Portuária de Santos (APS)	-	-	292.8	447.4	867.7	-	1,295.0	796.5
Serviço Federal de Processamento de Dados (Serpro)	390.8	697.7	911.9	572.4	755.1	903.9	354.5	1,272.6
Empresa Gestora de Ativos (Emgea)	137.0	459.8	145.2	150.3	156.6	322.7	3,256.9	1,319.4
Empresa Brasileira de Participações em Energia Nuclear e Binacional S.A. (ENBPAR)*	-	-	-	-	289.5	4,314.5	1,752.0	1546.3

** Includes Eletronuclear S.A., Indústrias Nucleares do Brasil S.A. (INB), and ENBPar.*
*** No cumulative figures for the fourth quarter of 2025 available in Sest data.*
Source: Sest/MGI. Prepared by: IFI.

Due to space limitations in this report, only a few indicators will be analyzed for a small group of non-dependent SOEs. These enterprises were selected based on the Federal Court of Accounts' (TCU) findings in Ruling 1196/2026[30], which addresses the monitoring of the execution of the Investment Budget (OI) and the PDG for federal SOEs in 2025.

One of the relevant indicators to be analyzed is the operating margin, calculated as operating income[31] divided by the enterprise's net revenue[32]. This indicator makes it possible to assess whether the operation, on its own, is efficient and economically viable in the market, for a number of reasons.

The first reason concerns the assessment of the enterprise's operating performance, free from the effects of exchange rate movements and debt. For companies such as Petrobras, for example, exchange rate fluctuations can produce major swings in financial results, generating accounting profits or losses that distort the net margin. The operating margin excludes the weight of debt interest and exchange rate variations from the result. Thus, a SOE's net margin may plunge due to a sharp depreciation of the real, while its operating margin remains high and stable, indicating that the operation remains sound and does not reflect a deterioration in business management.

The second reason for using an enterprise's operating margin relates to tracking any direct impact of controlling-shareholder interference in management, through, for example, pricing and subsidy policies. If the controlling shareholder (the Federal Government) attempts to intervene in fuel prices (Petrobras), electricity tariffs (former Eletrobras), or the final interest rates charged by official financial institutions on credit lines (Banco do Brasil, Caixa), there will be an impact on the enterprise's core revenue. As a result, the operating margin will be affected.

The third reason justifying the analysis of a non-dependent SOE's operating margin is the ability to assess the efficiency of personnel and organizational management. Since the indicator takes into account personnel, selling, and administrative expenses, it is possible to compare a non-dependent SOE's operating margin with that of other competing companies in the market.

The fourth and final reason relates to the enterprise's capacity to generate cash in the future, in the same way as OCF. There is a strong correlation between operating margin and OCF. In general, an enterprise can only achieve a robust cash flow if its operations generate value. The operating margin thus reflects the enterprise's capacity to service its financial debts and invest in its own growth. With a tight or even negative operating margin, the SOE has

[30] Available at: https://pesquisa.apps.tcu.gov.br/documento/acordao-completo/*/NUMACORDAO%253A1196%2520ANOACORDAO%253A2026/DTRELEVANCIA%2520desc%252C%2520NUMACORDAOINT%2520desc%252C%2520COPIACOLEGIADO%2520desc/0.

[31] Operating income represents earnings before interest and taxes (EBIT).

[32] Net revenue is the amount that actually flows into an enterprise's cash or becomes a receivable following the sale of its products, goods, or services, after deducting all direct charges levied on that sale. Based on this revenue, the enterprise calculates its profit margins and pays its operating expenses.

limited capacity to fund its investment plans or even sustain its operations, increasing the likelihood of erosion of net worth or the need for capital contributions from the National Treasury.

Table 9 presents the list of non-dependent SOEs that recorded a negative operating margin in 2025, along with the figures for this indicator over the past eight years.

TABLE 9. OPERATING MARGIN OF NON-DEPENDENT SOES THAT RECORDED A NEGATIVE FIGURE FOR THE INDICATOR IN 2025 (%) — 2018–2025

Name	2018	2019	2020	2021	2022	2023	2024	2025
ECT	0.2	1.0	6.6	12.9	-3.4	-4.0	-12.7	-42.9
Emgepron	-3.3	-2.9	-44.5	-4.8	-10.8	-25.7	-50.5	-24.8
Infraero	-28.6	-9.3	-146.8	-16.6	-9.3	13.9	-123.3	-10.5
CMB	-10.4	-16.7	-24.2	1.0	-6.8	7.0	-4.3	-5.8
Ceagesp	-1.0	-9.2	10.3	23.6	4.7	6.8	4.6	-4.6
CDC	-28.3	-49.2	2.9	0.2	119.0	30.5	15.8	-0.8

Source: Sest/MGI. Prepared by: IFI.

Last year, the ECT recorded a negative operating margin of 42.9%, worsening the trend that began in 2022. Emgepron, which recorded a negative margin of 24.8%, improved compared to 2024 but maintained the indicator's negative trend of recent years. Infraero also recorded a negative figure (10.5%) for its operating margin last year, although it improved compared to the figure recorded in 2024.

A third relevant indicator to be analyzed is the ratio of financial revenue to net revenue of non-dependent SOEs, which measures the exposure of results to financial revenue, that is, revenue unrelated to the enterprise's core activity. The higher this indicator, the more exposed the enterprise is to financial results at the expense of its operating activity, which may raise a warning sign for the Federal Government. Ideally, the values of this indicator are expected to be relatively low and stable, reinforcing the enterprises' operating efficiency.

Assessing this indicator is equally important for identifying any accumulation of cash and retention of dividends by non-dependent SOEs, the distribution of which could help improve the central government's primary balance.

Table 10 presents the list of non-dependent SOEs whose ratio of financial revenue to net revenue exceeded 30% in 2025, meaning that more than one-third of the enterprise's net revenue was influenced by financial revenue. The table shows the values of this indicator for these enterprises since 2018.

TABLE 10. RATIO OF FINANCIAL REVENUE TO NET REVENUE OF NON-DEPENDENT SOES THAT RECORDED A FIGURE ABOVE 30% FOR THE INDICATOR IN 2025 (%) — 2018–2025

Name	2018	2019	2020	2021	2022	2023	2024	2025
Emgepron	45.5	140.9	346.0	169.4	618.7	651.9	460.4	368.9
ABGF	76.3	78.4	52.0	71.8	199.9	225.4	147.1	140.1
Infraero	5.1	5.3	9.4	7.3	17.4	32.3	73.5	77.8
Codern	6.9	6.7	4.4	14.3	12.6	10.9	11.3	77.0
Emgea	7.8	12.6	13.3	-3.7	-14.3	12.2	16.1	47.1

Source: Sest/MGI. Prepared by: IFI.

All the enterprises listed in Table 10 recorded high values for the ratio of financial revenue to net revenue in 2025, which raises a warning sign for the Federal Government due to these SOEs' excessive dependence on financial results. This may indicate a lack of viable investment projects, a preference for financial gains over core business activity, or even operational efficiency problems.

High financial revenue may be related to capital contributions made by the Federal Government in the past. Table 7 highlighted significant amounts received by Emgepron and Infraero since 2018. In the absence of projects for deploying these resources, or in cases involving projects with long deployment periods, the tendency is for these contributions to boost financial revenue in subsequent fiscal years.

The fourth indicator for non-dependent SOEs analyzed here consists of the ratio of operating cash flow (OCF) to net income. This is a measure of earnings quality and financial sustainability over time, indicating the share of accounting profit converted into actual cash. In other words, the indicator measures how much of each unit of accounting profit is actually converted into cash generated by the enterprise's operations.

If the ratio is close to 1 (or slightly above), the SOE's earnings quality is good. That is, the enterprise's accounting result is well anchored in actual cash generation. Mature and operationally efficient enterprises tend to display this pattern.

If the ratio is significantly above 1, operating cash flow exceeds net income. This generally occurs because net income is reduced by non-cash expenses, primarily depreciation and amortization of long-lived assets. In capital-intensive enterprises, such as Petrobras, this pattern is structural and healthy. That is, earnings are considered conservative from an accounting standpoint, while cash generation remains robust.

If the ratio is significantly below 1, net income exceeds OCF, characterizing a worrying scenario, since part of the accounting profit is not converted into cash. This may occur either because of significant growth in receivables, inventories, or other working capital accounts, or because the result was inflated by non-cash revenue, such as asset revaluations, reversals of provisions, or exchange rate gains on assets, among others. In some extreme cases, an enterprise may report positive net income while simultaneously burning operating cash.

If the ratio between an enterprise's OCF and net income is negative, it means either that OCF is negative while net income is positive, or vice versa. The first case, profit combined with a burn of operating cash, represents a warning sign regarding the sustainability of the enterprise's results. The second case, a loss combined with positive cash generation, is less common, but can occur when there is accelerated depreciation or high provisions that do not represent an immediate cash outflow.

For non-dependent SOEs, this indicator has three analytical dimensions: (i) the capacity for self-financing of investment; (ii) the quality of dividends paid to the Treasury; and (iii) the identification of accounting or earnings manipulation.

For the first dimension, non-dependent SOEs are expected to finance their investment plans predominantly with internally generated cash. Robust OCF relative to net income indicates a strong capacity for the enterprise to sustain an investment program without resorting to excessive debt or Treasury capital contributions. Weak OCF relative to net income signals the opposite: the accounting result may be misleading regarding the enterprise's actual investment capacity.

The second dimension is important for assessing whether an SOE's dividend payments are based on robust OCF figures. If an SOE pays high dividends while its OCF is low relative to net income, this distribution stems from profit that has not materialized into cash, which may involve taking on debt to fund dividend payments, a deterioration in working capital, and/or asset sales. From a fiscal standpoint, dividends paid based on earnings of low cash quality represent a sustainability risk.

The third dimension indicates potential political pressure on the SOE to report positive results, whether to justify dividend payments to the Treasury or to avoid scrutiny of its management. Divergences between OCF and net income may signal accounting practices that inflate results without a corresponding generation of cash. Examples of practices that boost an enterprise's profit without a proportional impact on cash include reversals of provisions, early revenue recognition, and/or the deferral of expenses.

Table 11 presents the list of non-dependent SOEs that recorded values below 1 for the ratio of OCF to net income in 2025. Based on the information reported in the table, it can be seen that some enterprises have recorded values below 1 for this ratio over several consecutive years, such as the ECT, Companhia Docas do Rio Grande do Norte (Codern), and Hemobrás. Other SOEs began recording values below 1 in the past year or the past two years, such as Ceagesp, Infraero, and Dataprev.

TABLE 11. NON-DEPENDENT SOES WITH A RATIO OF OPERATING CASH FLOW TO NET INCOME BELOW 1 IN 2025 — 2018–2025

Name	2018	2019	2020	2021	2022	2023	2024	2025
Ceagesp	0.8	-1.0	-3.9	0.7	0.7	4.5	7.2	-24.1
Infraero	0.1	-1.4	0.4	-2.5	46.0	3.2	0.7	-1.2
CDRJ*	0.1	0.0	-3.1	-1.3	0.1	-0.3	0.7	-
Ceasaminas*	2.8	0.9	2.6	-2.5	3.0	-2.6	1.1	-
ECT	2.6	1.0	0.5	1.7	-2.2	-1.1	0.9	0.1
Codern	-0.1	0.0	-0.1	-0.1	-0.1	-2.4	-0.4	0.4
Hemobrás	19.6	1.1	-23.6	0.6	0.7	0.7	-0.7	0.4
Dataprev	1.2	1.9	2.0	1.4	1.2	1.3	0.9	0.7

** No cumulative figures for the fourth quarter of 2025 available in Sest data.*
Source: Sest/MGI. Prepared by: IFI.

This subsection presented a few financial indicators for non-dependent SOEs. The IFI chose to reference only a small number of indicators and the enterprises that reported results considered concerning, from the controlling shareholder's perspective, in fiscal year 2025.

Assessing the situation of each enterprise requires the evaluation of a broader set of indicators, which is difficult given the space constraints of this report. Before concluding, some remarks will be made regarding selected enterprises, namely the ECT, Infraero, Emgepron, and Codevasf, based on the financial statements released by each company.

Remarks on the Indicators and Accounts of Certain Enterprises

Empresa Brasileira de Correios e Telégrafos (ECT)

Based on the information presented in the ECT's financial statements between 2022 and 2025, it can be said that, in general terms, the deterioration in the enterprise's financial figures since 2022 is explained by a combination of falling revenue, rising operating costs, and the recognition of actuarial and contingent liabilities.

Table 12 presents selected information on the ECT over this period. The enterprise's net loss increased significantly, rising from BRL 808.8 million in 2022 to BRL 2.6 billion in 2024, and BRL 8.5 billion in 2025.

TABLE 12. DETAILED FINANCIAL INFORMATION FOR THE ECT (2022–2025) — BRL MILLION

Breakdown	2022	2023	2024	2025	2023/2022 % Var.	2024/2023 % Var.	2025/2024 % Var.
1. Net income	**-808.8**	**-633.5**	**-2,591.2**	**-8,457.8**	**-21.7%**	**309.0%**	**226.4%**
2. Gross revenue from the sale of services	**20.5**	**19.9**	**19.6**	**17.3**	**-2.9%**	**-1.7%**	**-11.4%**
2.1 Parcels	10.5	9.5	9.7	9.6	-9.7%	1.6%	-0.4%
2.2 Mail	4.9	4.6	4.5	4.8	-5.8%	-3.4%	6.8%
2.3 International postage	3.6	4.4	3.9	1.3	23.2%	-12.0%	-65.5%
2.4 Logistics, marketing, mailbags, convenience, and other	1.4	1.3	1.5	1.6	-8.8%	14.0%	5.1%
3. Cost of goods and services sold	**-14.5**	**-15.7**	**-15.9**	**-15.9**	**8.3%**	**1.7%**	**0.2%**
3.1 Personnel	-9.0	-10.0	-10.3	-11.4	11.1%	3.1%	10.0%
3.2 Other	-5.8	-5.6	-5.6	-4.6	-3.7%	-1.0%	-18.2%
4. General and administrative expenses	**-4.6**	**-3.6**	**-4.7**	**-6.3**	**-22.7%**	**32.2%**	**32.9%**
4.1 Personnel	-2.1	-2.4	-3.0	-3.2	15.4%	24.0%	7.1%
4.2 Court-Ordered Debt Payments and RPVs	-0.5	-0.6	-1.1	-2.5	29.8%	79.9%	118.9%
4.3 Postal Saúde – capital contribution	-0.2	0.0	0.0	0.0	-	-	-
4.4 Post-employment benefits	-0.3	-0.2	-0.1	-0.2	-17.2%	-54.4%	56.4%
4.5 Contingencies	-1.3	0.0	0.0	-0.3	-	-	5359.4%
4.6 Equity variations and losses	-0.1	-0.2	-0.4	-0.1	111.2%	101.4%	-82.4%
4.7 Other	-0,2	-0,1	-0,1	-0,1	-44,4%	-33,5%	41,0%

Source: ECT financial statements and explanatory notes. Prepared by: IFI.

Beginning in 2022, some of the enterprise's major sources of gross revenue were affected by external events. Parcel revenue rose sharply during the pandemic period, having leveled off from 2023 onward. Mail and international postage revenue posted significant declines over the past four years, especially international postage.

Regulatory changes affecting purchases of imported goods caused a significant contraction in international postage volumes, reducing revenue in this segment, which has also faced growing competition, according to the ECT's financial reports.

Item 3 of Table 12 shows figures related to the ECT's operating activities, such as postal and logistics services. Item 4, in turn, presents data on general and administrative expenses, which include, for example, spending on personnel allocated to corporate functions, administrative areas, and shared expenses.

While recording a decline in revenue, the ECT also reported certain cost pressures related to personnel and benefits between 2022 and 2025. Collective bargaining agreements raised personnel expenses, including by 9.8% in 2021/2022, 3.5% in 2024, and 4.1% in 2025. In addition, according to the company's financial reports, the recognition of obligations with

Postalis put pressure on financial expenses due to interest payments and monetary adjustments on the settled deficit.

Other sources of pressure on ECT's expenses over the past four years include: (i) the provisioning of new post-employment benefit obligations following the identification of cross-subsidization between active and retired beneficiaries under the Correios Saúde II health plan, in addition to rising health plan costs; (ii) adjustments to air and ground transportation contract values due to increases in fuel prices; (iii) an increase in the balance of provisions due to new lawsuits and risk reassessments in labor and civil proceedings; and (iv) substantial interest and penalty expenses arising from delays in the payment of taxes and contributions, due to a lack of liquidity.

It is also worth noting the significant growth in the ECT's expenses on court-ordered debt payments and Small Value Requests (RPVs) in recent years. According to the company's financial reports, this was due to legal and administrative factors that resulted in the conversion of longstanding contingencies into immediate payment obligations.

Among the factors mentioned in the documents are: (i) the settlement of class actions and reinstatement lawsuits, particularly disputes related to health plan benefits, career plans, salary allowances, and employee reinstatements; (ii) the finalization of rulings (*trânsito em julgado*) and the conversion of provisions for labor lawsuits with unfavorable outcomes; (iii) improvements in the management of judicial data through information gathering from the relevant courts; (iv) ongoing monetary adjustment; and (v) a technical cooperation agreement with the Superior Labor Court (TST).

As mentioned in the subsection discussing fiscal risks, the Executive Branch cites the ECT's situation as a relevant risk for the Federal Government in the 2027 budget guidelines, due to the potential need for capital contributions to the enterprise. According to the ECT's financial reports, a federally guaranteed loan of BRL 12.0 billion was arranged as a central pillar of the restructuring plan aimed at restoring liquidity and sustaining operations.

This transaction was contracted in December 2025, with BRL 10.0 billion expected to be disbursed to the company's cash accounts still that month, and a further BRL 2.0 billion released in January 2026. Due to operational issues at year-end, BRL 2.5 billion that should have been disbursed in 2025 was actually transferred on January 5, 2026. As a result, the ECT recorded BRL 4.5 billion as a "credit operation receivable" at the end of 2025.

For the Federal Government, the arrangement and maintenance of this loan are contingent on a mandatory capital contribution, established by contract, of at least BRL 6.0 billion between fiscal years 2026 and 2027, to support the execution of the rebalancing plan.

In addition to this federally guaranteed loan, the ECT's documents indicate attempts to raise BRL 4.5 billion from the New Development Bank (NDB), also known as the BRICS Bank.

Codevasf

Data compiled by the IFI reveal a deterioration in Codevasf's financial figures in recent years, reflected in recurring net losses and frequently negative net worth. According to documents published by the company, this deterioration in figures does not stem from commercial management failures, but rather from the very nature of its operations as a dependent SOE, as well as from structural accounting adjustments.

Table 13 presents information on Codevasf's revenue, expenses, subsidy, and net income since 2021. According to the company's financial reports, structural accounting adjustments led to a significant increase in losses in 2022, and a return to profit in 2024.

TABLE 13. REVENUE, EXPENSES, SUBSIDY, AND NET INCOME OF CODEVASF (2021–2025) — BRL MILLION

Indicator	2021	2022	2023	2024	2025
Net revenue	17.3	98.6	48.4	62.3	50.9
Administrative expenses	-762.7	-842.0	-950.9	-956.8	-1,028.3
Subsidy for current expenditure	829.1	982.0	1,241.2	2,026.9	1,694.6
Net income	-358.3	-1,312.9	-1,262.8	45.6	-649.4

Source: Codevasf. Prepared by: IFI.

The loss recorded in 2022 was due to the following factors: (i) an accounting cleanup of assets after the identification of BRL 1.6 billion in current expenditures that had been improperly recorded as "works in progress" in prior years due to budgetary constraints, generating a significant impact on the balance sheet and leaving the enterprise with negative net worth; (ii) an increase in the cost of asset derecognition, from BRL 4.7 million in 2021 to BRL 543.6 million in 2022, due to an effort to write off accounts related to construction projects; and (iii) capital losses totaling BRL 634.5 million in 2022, compared to the BRL 255.8 million recorded in the previous year.

The net income of BRL 45.6 million recorded in 2024 was exceptional and was achieved due to: (i) the derecognition of liabilities through the write-off of accountability reports for Decentralized Execution Agreements (TEDs) received in prior years; (ii) revenue of BRL 1.19 billion under the line item "gains from liability derecognition," an amount sufficient to reverse the enterprise's operating loss for the year; and (iii) an increase to BRL 2.02 billion in subsidies for current expenditure received from the Treasury, due to a change in the treatment applied to purchases of goods for donation, which ceased to be classified as investment and came to be classified as a subsidy for current expenditure.

Table 14 presents figures for Codevasf's assets, liabilities, and net worth between 2019 and 2025. The deterioration in the enterprise's net worth, which turned negative in 2022, is explained by the factors mentioned above: structural accounting adjustments and accumulated operating losses.

TABLE 14. TRENDS IN ASSETS, LIABILITIES, AND NET WORTH OF CODEVASF (2019–2025) — BRL MILLION

Indicator	2019	2020	2021	2022	2023	2024	2025
Current assets (CA)	310.7	285.2	350.0	351.0	293.6	599.7	394.5
Current liabilities (CL)	1,835.4	2,272.1	3,187.0	3,865.1	3,851.7	3,465.2	3,176.4
Net worth	357.7	313.8	377.6	-1,314.2	-935.1	-84.3	-191.7
Difference (CA-CL)	-1,524.7	-1,986.9	-2,837.0	-3,514.1	-3,558.1	-2,865.5	-2,781.9

Source: Codevasf. Prepared by: IFI.

The information presented in the company's financial reports also demonstrates its high dependence on Treasury subsidies, as highlighted in Table 3 and Table 6. The latter revealed the enterprise's cash insufficiency starting in 2022, a situation in which the subsidy received from the Treasury is insufficient to sustain operating cash flow.

Another aspect worth mentioning concerns the enterprise's chronic delinquency rate. In 2024 alone, the company recorded an allowance for credit losses (defaults) of BRL 64.1 million, a figure that rose to BRL 69 million in 2025. The accounting notes indicate that a large share of these debts have been overdue for more than two years, forcing the enterprise to write off these receivables as losses or, alternatively, renegotiate these credits at relatively steep discounts.

In addition, data on trade payables indicate high volatility and dependence on the schedule of resource disbursements from the National Treasury. Codevasf lacks cash autonomy to pay its suppliers in a timely manner using its own resources. This has caused sharp swings in the company's balance sheets over the years.

Emgepron

EMGEPRON has an atypical financial structure for an SOE, stemming from its role in executing Brazil's naval fleet renewal program. The positive net income recorded in recent fiscal years is mostly driven by financial returns on resources not yet deployed in vessel construction. The enterprise's core operations have contributed little to its results, which remain in deficit. Naval maintenance activity has been affected by budgetary constraints at the Brazilian Navy, the company's main client.

In recent years, a progressive shift of resources from cash to fixed assets has been observed. The balance of cash and cash equivalents declined from BRL 9.4 billion in 2021 to BRL 7.8 billion in 2022, BRL 6.6 billion in 2023, and BRL 5.2 billion in 2024. Fixed assets, in turn, grew from BRL 1.2 billion in 2021 to BRL 6.8 billion in 2024. The statements of cash flows recorded outflows of BRL 2.2 billion in 2022, BRL 1.7 billion in 2023, and BRL 1.6 billion in 2024, allocated to fixed asset acquisitions.

The explanatory notes to the financial statements indicate that these amounts mainly correspond to the construction of four Tamandaré-class frigates (PFCT) and the Almirante Saldanha polar vessel (NPo). As the construction consortium advances the physical

execution of these projects and corresponding disbursements occur, Emgepron records these amounts as fixed assets.

The reliance on financial revenue to generate net income, even amid a growing operating loss, stems from how resources for the naval program were structured. Between 2017 and 2019, the Federal Government allocated resources to Emgepron through legislative authorizations to capitalize the company: BRL 9.5 billion for the frigates and BRL 750 million for the polar vessel.

These amounts were recorded under net worth as an Advance for Future Capital Increase (AFAC) and remained invested in the company's cash holdings. As required by the National Monetary Council (CMN)[33], the resources are held in exclusive off-market investment funds at Banco do Brasil and Caixa Econômica Federal. The financial revenue recorded in subsequent fiscal years corresponded to the returns on these resources while they remain unused in the construction of the vessels.

Emgepron's operating loss (before financial results) has widened since 2021, from BRL 6.6 million that year to BRL 57.4 million in 2024. Net revenue from sales and services also declined, from BRL 151.3 million in 2022 to BRL 113.6 million in 2024, resulting in a gross loss of BRL 22 million in 2024, after positive gross results in prior fiscal years.

The explanatory notes attribute this decline in net revenue to federal government budget restraint measures, which reduced Navy demand for ship maintenance at the Rio de Janeiro Naval Arsenal, weapons systems, and ammunition supply. In 2025, there was a partial recovery in operating revenue, associated with the resumption of certain services and ammunition exports.

Even so, net income remained positive throughout the period analyzed: BRL 656 million in 2022, BRL 614 million in 2023, and BRL 330 million in 2024, sustained almost entirely by financial revenue, which ranged from BRL 937 million in 2022 to BRL 523 million in 2024. The statement of value added confirms this composition: in 2024, the enterprise's value added produced stood at BRL 61 million, against BRL 549 million in value added received in transfer, related to financial revenue.

To conclude these remarks on Emgepron, it is worth noting a few observations regarding the company's balance sheet structure, made up predominantly of its own resources. Of the total BRL 12.2 billion in assets in 2024, more than BRL 12 billion corresponded to net worth, with liabilities (current and non-current) accounting for a small share, of BRL 201 million. As the resources contributed by the Federal Government are used in the construction of the vessels, the AFAC balance is reduced and converted into capital stock, subject to approval at a general shareholders' meeting. Table 15 details the figures for this conversion over time.

[33] CMN Resolution No. 4,986, of 2022. Available at: https://www.bcb.gov.br/estabilidadefinanceira/exibenormativo?tipo=Resolu%C3%A7%C3%A3o%20CMN&numero=4986.

TABLE 15. BALANCE SHEET STRUCTURE AND CONVERSION OF THE ADVANCE FOR FUTURE CAPITAL INCREASE (AFAC) INTO CAPITAL STOCK AT EMGEPRON (2021–2025) — BRL MILLION

Year	AFAC	Capital Stock
2021	10,171.7	307.2
2022	9,266.4	1,359.4
2023	7,083.9	3,634.4
2024	5,668.8	5,301.2
2025	4,087.0	6,883.4

Source: Emgepron. Prepared by: IFI.

The model planned for the next phase of the program is also set out in the explanatory notes: once completed, the vessels remain among Emgepron's assets[34], with ownership transferred to the Navy, which will then reimburse the company annually for the depreciated value of each vessel, a mechanism expected to generate cash flow for the company in subsequent years.

Lastly, it is worth clarifying that Emgepron carries no debt with financial institutions but does record legal contingencies related mainly to labor lawsuits over overtime pay, disputes concerning the minimum salary floor for engineers, and employee reinstatement proceedings.

Infraero

Between 2022 and 2026, Infraero underwent a business model restructuring associated with the 6th and 7th rounds of airport concessions, which transferred most of the major airports under the company's management to the private sector. The company retained direct management of Santos Dumont Airport and took over the operation of regional airports (such as Mossoró, Ipatinga, and Flores), repositioning itself as an executor of regional aviation development policies, in coordination with the New PAC and the Ministry of Ports and Airports.

The portfolio transition generated significant swings in results. In 2022, the company posted net income of BRL 15.5 million, reversing accumulated negative results. Net revenue remained stable between 2022 (BRL 1.4 billion) and 2023 (BRL 1.5 billion), but fell sharply in 2024, to BRL 422.8 million, a 71% decline associated with the loss of revenue from the major airports auctioned in the 7th round, whose transfer was completed in September 2023. This revenue contraction, combined with transition costs, resulted in a net loss of BRL 228.7 million in 2024.

[34] EMGEPRON's audit report establishes that the transfer of ownership and use of the completed frigates to the Brazilian Navy will occur through a public domain designation instrument, via the allocation of a naval asset. For further details, see the company's annual reports at: https://www.emgepron.gov.br/pt-br/acessoainformacao/receitas-despesas.

Operating pressure continued in 2025. That year, the consolidated result reversed to a net income of BRL 316.2 million, with net revenue of BRL 441.6 million, representing a net margin of 71.6%. This high margin did not reflect a recovery in operating activity, which remained in deficit in 2025 (the result before financial items was negative, at BRL 46.2 million). Subsequent reports indicated net income of BRL 23.7 million in the first quarter of 2026, associated with the stabilization of the restructuring plan.

Since 2022, the ratio between financial revenue and net revenue has remained high because the two figures have moved in opposite directions. Three factors put downward pressure on operating revenue: (i) the loss of the major airports transferred under the 7th round of concessions, historically the company's main source of tariff revenue; (ii) the regulatory limit imposed on Santos Dumont Airport, capped at 8 to 9 million passengers per year, which reduced revenue from boarding, connection, and landing fees; and (iii) the assumption of lower-profitability regional airports, whose outsourcing and adaptation costs initially exceeded the revenue generated, which even led to the termination of some contracts due to government non-payment, as in the case of the regional airports in Ceará.

At the same time, the company came to hold a volume of resources in cash exceeding what its current operations required. Part of these resources came from Advances for Future Capital Increase (AFAC) received from the federal government. The largest share corresponded to BRL 894.5 million paid by the concessionaires that won the 7th-round auctions. This amount was invested in immediate-liquidity funds, composed of federal government bonds indexed to the Selic rate (IRF-M index), managed by Banco do Brasil and Caixa Econômica Federal. In 2024, returns on these investments totaled more than BRL 237 million.

To rein in expenses amid revenue losses, Infraero eliminated three directorates and eight support centers, revised its employees' health plan, and continued the Special Program for Workforce Adjustment (PEAE), which included voluntary severance and retirement plans (PDITA and DIN). In 2023, 639 employees were laid off, with projected savings of BRL 70.6 million. In 2024, an additional 171 layoffs resulted in expense reductions of BRL 16.4 million. Part of the BRL 894.5 million received from the 7th-round concessionaires was earmarked specifically for offsetting and funding these layoffs.

Due to the decline in tariff revenue from its more profitable airports, the company structured a new business plan focused on marketing specialized airport services (a B2B model) to states, municipalities, and private operators. The portfolio includes the management and operation of regional airports under contract or concession, airport planning (master plans), engineering and design, consulting and environmental licensing, digital solutions for airport infrastructure, training (Infraero Educação), and technical and financial support services for operations. At the same time, the company stepped up commercial management of non-tariff revenue sources, such as parking facilities, fuel stations, logistics warehouses, and delinquency collection.

In short, between 2022 and 2026, Infraero completed its transition to a leaner structure focused on providing airport services and developing regional aviation. During this transition period, the company experienced a loss of operating revenue, recurring negative results, and temporary reliance on financial revenue generated by cash received from the concessions, until stabilization was observed in early 2026.

Concluding Remarks

The financial indicators analyzed in this report confirm a discernible deterioration in the financial health of a significant share of federal SOEs, both dependent and non-dependent, which heightens fiscal risk for the National Treasury in a context of tight budgetary constraints imposed by the RFS. This deterioration is neither uniform nor attributable to a single cause, but the data compiled by the IFI make it possible to identify patterns that warrant attention from a fiscal management standpoint.

Among dependent SOEs, the analysis of net worth, operating cash flow, and the cash sufficiency indicator reveals a group of enterprises – notably Codevasf, CBTU, Embrapa, HCPA, and EBSERH – whose financial trajectory has diverged from the pattern observed in the years prior to 2018. For these enterprises, it is worth reinforcing that the problem is not one of solvency in the traditional sense, since their existence depends on Treasury subsidies rather than on generating their own cash. The relevant risk lies in the mismatch between expenses and transfers which, when persistent, tends to translate into pressure for budgetary supplementation or extraordinary capital contributions, competing for fiscal space with other public policies subject to the limits of the RFS.

Among non-dependent SOEs, the operating margin, exposure to financial revenue, and earnings quality (OCF/net income ratio) indicators point to distinct but equally relevant vulnerabilities. Cases such as the ECT, Emgepron, and Infraero show that, even without directly burdening the OFSS, these enterprises may compromise their capacity to distribute dividends to the Federal Government or, in more extreme situations, require capital contributions, as will be the case with the Federal Government's contribution to the ECT in 2027, as provided for in the loan contract entered into by the company in 2025.

The individual remarks on the ECT, Codevasf, Emgepron, and Infraero, although limited by the scope of this report, illustrate the heterogeneity of the causes behind the aggregate figures: structural accounting adjustments that temporarily mask results (Codevasf), business model restructuring associated with regulatory changes (Infraero), reliance on financial revenue from resources not yet deployed (Emgepron), and the accumulation of actuarial and contingent liabilities combined with declining revenue (ECT). This set of cases reinforces the need for individualized analysis, since aggregate indicators can obscure quite different dynamics across enterprises.

From a fiscal governance standpoint, the elimination of the possibility of offsetting the primary balance targets of the central government and non-dependent SOEs, as of the LDO

2026, represents progress in terms of transparency. At the same time, this change removes a mechanism that had previously been able to obscure the visibility of isolated imbalances at certain enterprises. This makes ongoing, individualized monitoring of the indicators discussed here all the more relevant, particularly in light of the signal, in the Fiscal Risks Annex of the PLDO 2027, of closer monitoring of enterprises such as the ECT, the Casa da Moeda, Eletronuclear, and Companhia Docas.

Lastly, it should be noted that this report did not aim to exhaust the topic. The discussion of potential SOE privatization was deliberately left out, as it involves considerations beyond the fiscal scope addressed here. Likewise, due to space constraints, the analysis focused on a limited number of indicators and enterprises, with more detailed qualitative discussion restricted to just four cases. The IFI may revisit these indicators in the future, given the dynamic nature of the fiscal risks associated with federal SOEs.

Propag: An Estimate of Federal Receivables

Pedro Souza

Introduction

Over the past several years, intergovernmental relations have undergone numerous changes. Within the relationship between the Federal Government and the states, this process has been marked by successive renegotiations and debt assumptions, driven by the need to strengthen state public finances. These renegotiations have involved the signing of contractual amendments to change indexation mechanisms and repayment terms, as well as the creation of new payment regimes aimed at states in a more fragile fiscal position.

The most recent change took place under the Full Debt Payment Program for the States (PROPAG), established by Complementary Law (LC) No. 212[35], of January 13, 2025. The program instituted yet another debt renegotiation, extending repayment terms and reducing charges, in addition to allowing for extraordinary amortizations of the principal.

The purpose of this report is to analyze the trends in state public debt in recent years, focusing on refinancing programs, special payment regimes, and PROPAG. The first section provides an overview of these programs, including the conditions and contexts in which they emerged. The second section analyzes PROPAG's rules, the most recent change to the refinancing of state debt with the Federal Government. It also discusses the differences between PROPAG and previous programs. The third section presents an analysis of the impact of PROPAG on the refinancing of state debt with the Federal Government, including the flow of amounts received by the Federal Government under these contracts. Lastly, the report closes with the Concluding Remarks.

Recent Trends

Since the 1990s, the financial relationship between the Federal Government and the states has gone through several stages. Initially, measures sought to curb the expansion of state indebtedness and transfer part of state liabilities to the Federal Government. Subsequently, the financial terms of these contracts were revised, particularly their indexation mechanisms and repayment periods. Lastly, specific regimes were created for states facing more severe fiscal distress. Trends in debt indicators help explain the reasons behind these successive changes.

In the 1990s, Brazilian states and the Federal District exhibited significant financial imbalances. In 1993, for example, an assessment presented within the National Monetary Council (CMN) pointed to the use of state-owned public banks to finance the deficits of their

[35] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp212.htm.

controlling entities[36], which contributed to the issuance of CMN Resolution No. 1,996 that same year. Also in 1993, Constitutional Amendment No. 3 prohibited states, the Federal District, and municipalities from issuing public debt securities, except for those intended to refinance existing securities debt through the end of 1999[37].

The first refinancing measures, however, preceded these restrictions. Law No. 8,388[38], of December 1991, established guidelines for the Federal Government's refinancing of the debt of federative entities. Under Article 2, any portion of refinanced debt service exceeding the limits set by the Federal Senate would be paid in 40 consecutive quarterly installments.

During the 1990s, further renegotiations of federative entities' debt with the Federal Government took place, granting more favorable terms and repayment periods. Law No. 8,727, of 1993[39], established the Public Sector Cleanup Program, which renegotiated debts owed by federative entities to agencies and entities controlled by the Federal Government, covering operations contracted through September 1991. These debts were refinanced over a period of up to 20 years, extendable by a further 10 years, with payments capped at 11% of Net Real Revenue (RLR)[40] while maintaining the original contractual charges[41]. The program represented a first step toward the consolidation of state debt under federal coordination.

This first round of renegotiation, however, did not resolve the states' fiscal problems. According to the assessment contained in CMN Vote No. 162, of 1995[42], the decline in inflation following the implementation of the Real Plan [Brazil's 1994 economic stabilization program] led federative entities into a fiscal crisis. Part of state revenue came from financial investments and was used to fund current expenditures, including personnel and social charges. These losses were partially offset by an increase in tax revenue and federal transfers, particularly through the States' and Federal District's Participation Fund (FPE). This increase, however, was not sufficient to cover mandatory expenditures, which had

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[36] CMN Vote No. 078/93, presented on pages 1179 to 1183. Available at: https://www.bcb.gov.br/conteudo/cmn/AtasCmn/Ata_0540_CMN.pdf.
[37] Available at: https://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc03.htm.
[38] Available at: https://www.planalto.gov.br/ccivil_03/leis/1989_1994/l8388.htm.
[39] Available at: https://www.planalto.gov.br/ccivil_03/leis/l8727.htm.
[40] Senate Resolution No. 11, of 1994, defines RLR in §1 of Article 4:
"§ 1 — For the purposes of this resolution, Net Real Revenue is defined as revenue realized over the twelve months prior to the month immediately preceding the month for which the calculation is being made, excluding revenue from credit operations, asset sales, and transfers or donations received for the specific purpose of covering capital expenditures, and, in the case of states, transfers to municipalities under constitutional and legal revenue-sharing arrangements."
[41] Article 2 of the law establishes that *"the portion of refinancing installments exceeding the revenue commitment limit set by the Federal Senate [...] shall be accumulated for payment in subsequent months, always subject to the limit, with the residual balance refinanced in up to one hundred and twenty consecutive monthly installments, calculated using the Price Table method, due starting from the maturity of the last installment referred to in §10 of Article 1, maintaining the same payment terms and financial charges set out in §§ 8, 9, and 11 of Article 1."*
[42] Available at: https://www.bcb.gov.br/conteudo/cmn/AtasCmn/Ata_0574_CMN.pdf.

grown due to factors including wage adjustments, further aggravating states' financial imbalances.

This assessment led to the proposal of the Program to Support Fiscal Restructuring and Adjustment of the States (PAF), whose implementation was governed by Law No. 9,496, of 1997[43]. The PAF established targets or commitments regarding financial debt, primary balance, personnel expenditure, own-source revenue collection, privatization, permission or concession of public services, administrative and asset restructuring, and investment expenditure. The new refinancing arrangement set an interest rate ranging from 6.0% p.a. to 7.5% p.a., in addition to monetary adjustment based on the IGP-DI. The maximum repayment term for this new refinancing was 360 months (30 years). Payments under these contracts were capped at a share of RLR set contractually, ranging between 11.5% and 15% of RLR. RLR was also used as the denominator for calculating the targets established under the PAF[44].

In practice, capping payments at a fixed share of RLR reduced the immediate pressure on states' cash flow. At the same time, amounts exceeding this cap could accumulate and be incorporated into the outstanding balance, extending the duration of the debt. By the end of the 1990s, therefore, a significant share of state debt had been consolidated into contracts with the Federal Government, accompanied by fiscal adjustment commitments.

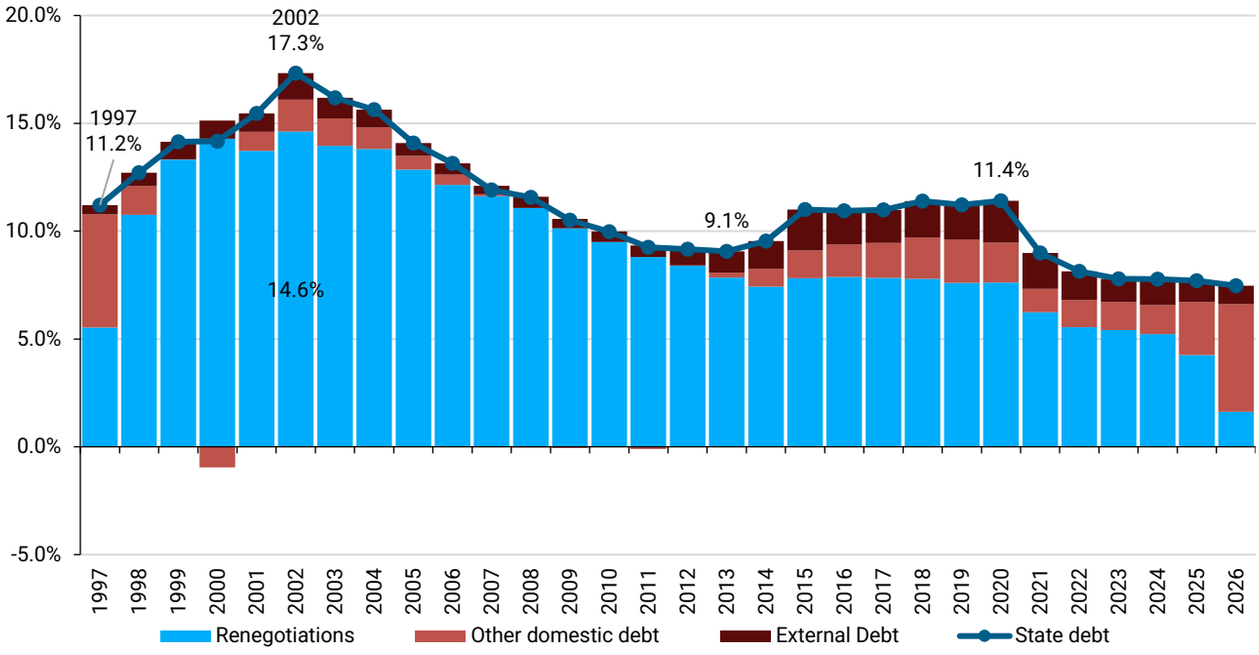
Having established the main refinancing programs, it is worth assessing how the stock of state debt evolved and what share was accounted for by renegotiated debt along this path. In 1997, states' net debt totaled BRL 100.3 billion (11.2% of GDP), rising to BRL 258.0 billion (17.3% of GDP) in 2002. Debt associated with the renegotiations carried out in the 1990s accounted for the largest share of this stock, totaling BRL 217.6 billion (14.6% of GDP).

From 2003 to 2013, state debt declined as a share of GDP, totaling BRL 483.3 billion (9.1% of GDP). This decline stemmed more from GDP growth than from the actual payment of installments, since, among the contributing factors, interest payments more than offset the primary balances achieved over the period.

As shown in Graph 8, renegotiated debt remained the main component of state debt throughout this period. However, state debt worsened from 2014 onward, even though renegotiated debt remained stable between 2014 and 2020. This deterioration stemmed from external and domestic debt, both of which grew during the analyzed period, likely due to deteriorating economic and financial conditions, such as exchange rate depreciation and a decline in primary balances amid the fiscal crisis observed during this period.

[43] Available at: https://www.planalto.gov.br/ccivil_03/leis/l9496.htm.
[44] Regarding the targets and results, annual reports are available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-do-programa-de-reestruturacao-e-de-ajuste-fiscal-paf/.

GRAPH 8. NET DEBT OF STATES BY TYPE OF DEBT (% OF GDP)

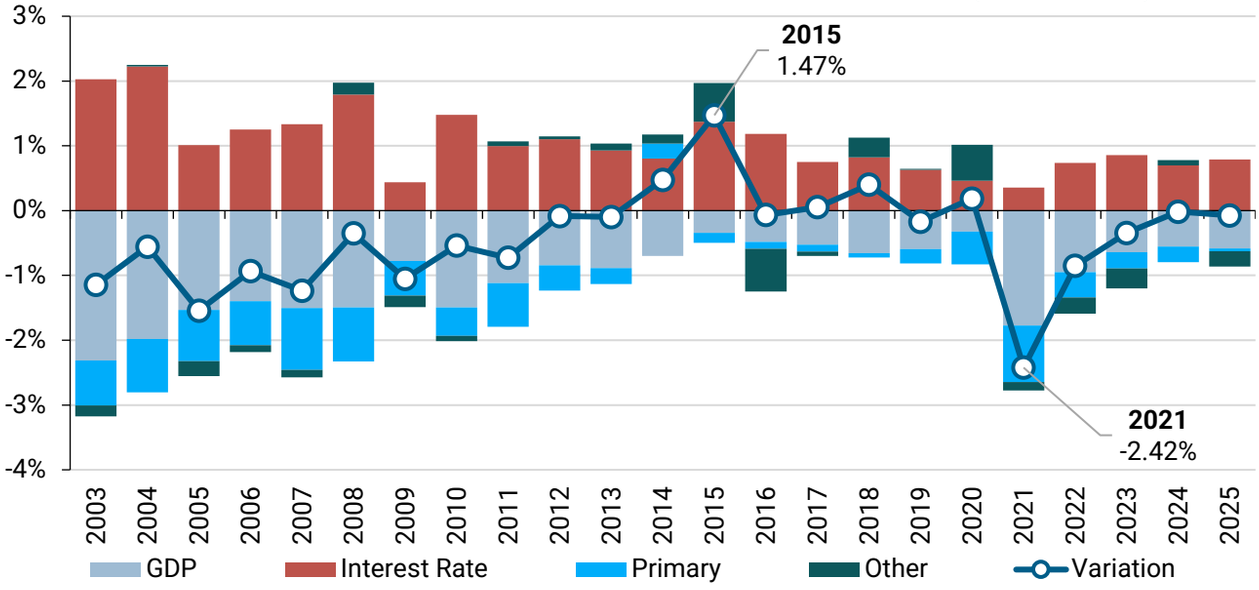


Source: Central Bank of Brazil. Prepared by: IFI.

A reduction in debt as a share of GDP, however, does not, on its own, indicate whether actual amortization took place. To identify the factors driving this trajectory, Graph 9 decomposes the variation in debt into GDP growth, interest, primary balance, and other adjustments.

Between 2003 and 2013, GDP growth was one of the main factors behind the reduction in state debt, contributing to declines of between 0.8 and 2.3 percentage points over the period. Primary balances also had a significant effect on reducing state debt during those years, lowering indebtedness by between 0.2 p.p. and 1.0 p.p. of GDP. Interest, on the other hand, contributed to rising indebtedness, adding pressure to debt of between 0.8 and 2.3 p.p. of GDP over the same period.

GRAPH 9. FACTORS DRIVING THE VARIATION IN STATES' NET DEBT (P.P. OF GDP)



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

From 2014 onward, state indebtedness began rising again. This movement stemmed mainly from slower GDP growth and a deterioration in primary balances. From 2014 to 2018, interest payments contributed to an increase in debt of between 0.8 and 1.4 p.p. of GDP. In 2014, the deficit recorded in state accounts increased debt by 0.2 p.p. of GDP. In subsequent years, states returned to posting surpluses, although at smaller magnitudes than those observed in the previous decade.

It is worth noting that, in 2012 and 2013, the Federal Government provided guarantees for credit operations to state governments on a significant scale, totaling around 1% of GDP in each year. These guarantees were granted for operations with both domestic and foreign creditors, which explains the growing share of other domestic and external debt shown in Graph 8. On this topic, the IFI examined the case of guarantees granted for domestic credit operations in RAF No. 86, of March 2024[45].

Due to the slowdown in economic activity, the contribution of GDP growth to reducing indebtedness also became more modest, ranging between 0.3 and 0.7 percentage point over the period. Other factors were also relevant, including methodological and balance sheet adjustments[46], exchange rate fluctuations and debt recognition. In 2015, these factors increased net debt by 0.6 p.p., an effect stemming from methodological adjustments to

[45] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/648335/RAF86_MAR2024.pdf.

[46] The Central Bank of Brazil's Fiscal Statistics Manual divides these adjustments into five categories: (i) methodological adjustment, arising from the effect of the exchange rate on net debt; (ii) external parity adjustment, applied when debt is composed of liabilities and assets in different currencies, converted to US dollars and then to reais; (iii) cash-accrual adjustment, arising because external interest is calculated on an accrual basis while debt varies on a cash basis; (iv) privatization adjustment, arising from the fact that privatization revenue is not incorporated into the primary or nominal balance but does affect net debt; and (v) debt recognition adjustments, which may occur through the recognition of liabilities or assets, as well as through account reclassifications. For further information, see Chapter 6 of the Manual. Available at: https://www.bcb.gov.br/ftp/infecon/estatisticasfiscais.pdf.

external debt due to exchange rate variation. In 2016, the 0.7 p.p. reduction resulted from a combination of exchange rate variation and debt recognition.

From 2019 onward, the trajectory of state debt remained relatively stable, with a sharp decline in 2021 due to GDP growth, which contributed to a 1.8 p.p. reduction in debt.

Graph 9 shows that, throughout the period, interest expenses had a significant impact on state debt, which largely consisted of debt originating from the renegotiations carried out in the 1990s.

The Support Plan for the States and the Federal District

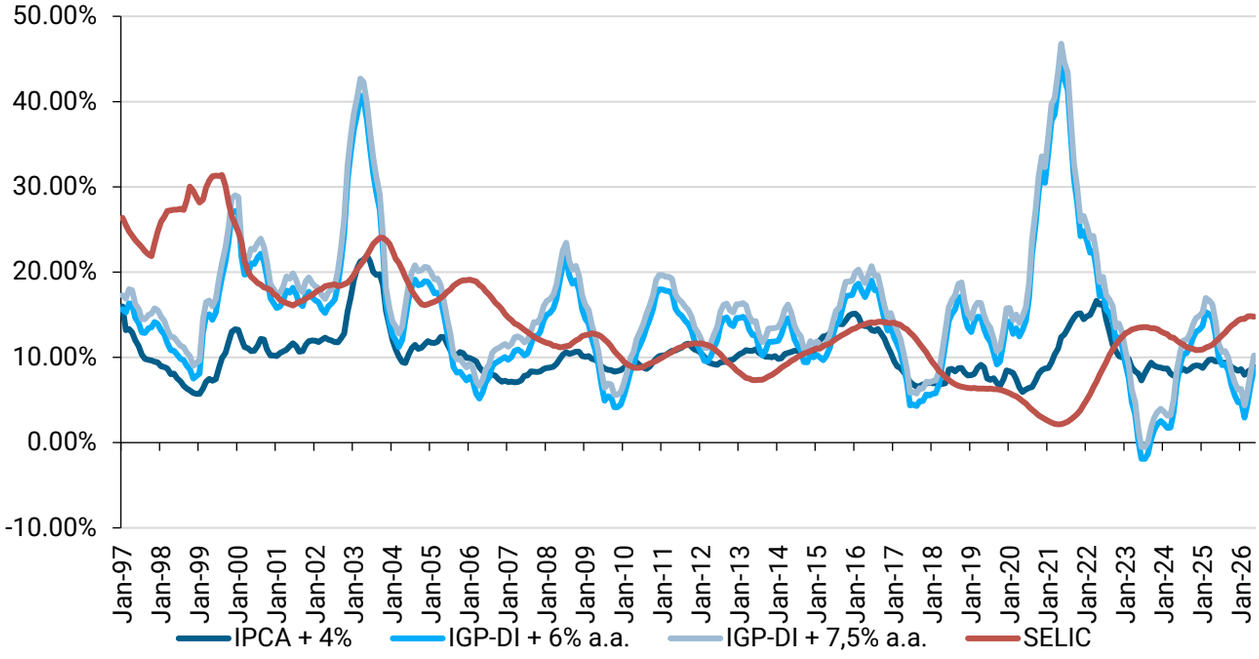
In 2013, the Federal Executive Branch submitted Complementary Bill (PLP) No. 283, of 2013[47], to the National Congress. Among other provisions, the bill authorized the Federal Government to change the indexation mechanisms of debt refinanced under Law No. 9,496, of 1997, and Provisional Measure No. 2,185-35, of 2001[48]. The bill proposed changing the monetary correction index applied to these contracts from the IGP-DI to the IPCA, in addition to setting an interest rate cap of 4% p.a. The measure also provided for a limit on the financial charges on this debt, which could not exceed the monthly variation of the Selic rate

In the explanatory memorandum, the Minister of Finance argued that the agreements reached during the 1990s renegotiations reflected macroeconomic conditions that differed from those observed at that time. The bill therefore changed the monetary correction index to the IPCA, which was less volatile, while the 4% real annual interest rate sought to bring the cost of state contracts closer to the Federal Government's own financing conditions.

Financial charges were a particularly relevant concern. As shown in Graph 10, there was, in fact, significant volatility in the IGP-DI, which was at times higher than the Selic rate. This could have significant effects on the cash flow and/or debt levels of state and district governments. In terms of cash flow, this effect showed up as reduced predictability in disbursements, which could vary considerably from one fiscal year to another. As explained earlier, however, payments on this debt were capped relative to Net Real Revenue, meaning that a large variation could be contained in terms of cash flow, but would instead be incorporated into the outstanding balance, thereby increasing the debt stock.

[47] Available at: https://www.camara.leg.br/proposicoesWeb/fichadetramitacao?idProposicao=564525.
[48] Available at: https://www.planalto.gov.br/ccivil_03/mpv/2185-35.htm.

GRAPH 10. INTEREST RATES ON SELECTED FINANCING ARRANGEMENTS AND THE SELIC RATE (% P.A.)



Source: IBGE, FGV, and the Central Bank of Brazil. Prepared by: IFI.

PLP No. 283 was enacted as Complementary Law (LC) No. 148[49], of November 2014. In its final version, contracts were to be adjusted by the IPCA plus a real interest rate of 4% per year, with charges capped at the cumulative variation in the Selic rate. The law also authorized the issuance of contractual amendments to the refinancing agreements signed under the PAF, in order to incorporate the new terms.

Between 2010 and 2016, the rate composed of the IPCA plus 4% p.a. was close to the Selic rate. Between 2017 and 2022, however, this index was, at various points, higher than the Selic rate, mainly due to the acceleration in inflation observed after the pandemic and the more expansionary monetary policy adopted during the same period. In these situations, the cap on charges based on the cumulative Selic rate came to prevail[50].

Because the final text of LC No. 148 established a comparison between indices accumulated since 2013, rather than between their monthly variations, states could, in certain periods, face charges higher than those corresponding to the IPCA plus 4% p.a., even when this index was below the Selic rate in the month being assessed. The contractual rule, therefore, depended on the accumulated trajectory of the two indicators. As shown in Graph 10, the Selic rate has exceeded the composite rate since mid-2022.

LC No. 151[51], of 2015, amended the enabling provisions of LC No. 148, converting them into a mandatory obligation, requiring the adoption of the new terms. At the time, the bill that

[49] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp148.htm.
[50] Debt charges under these conditions can be consulted at: https://sahem.tesouro.gov.br/sahem/public/consultar_cam.jsf.
[51] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp151.htm.

gave rise to LC No. 151 indicated that the Federal Government was not complying with the law, which forced federative entities to resort to the Judiciary[52].

LC No. 148 was regulated in December 2015 through Decree No. 8,616[53], which set out calculation formulas and criteria for contractual amendments to debt under Law No. 9,496. Data from the Ministry of Finance indicate that, by April 2016, 24 states and the Federal District had requested accession to the new terms under LC No. 148, although some simultaneously sought to challenge the terms in the Judiciary, such as the change from compound to simple interest[54].

In December 2016, LC No. 156 was enacted, establishing the Support Plan for the States and the Federal District and measures to encourage fiscal balance, which became known as the "New PAF"[55]. The law authorized the signing of contractual amendments to states' refinanced debt with the Federal Government to extend the repayment term by up to 240 months, and also allowed for extraordinary reductions in the outstanding balance, as well as an extraordinary and progressive reduction in monthly debt installments, from July 2016 to June 2018.

The law also introduced a requirement to adopt an expenditure ceiling on states' primary expenditure for the two fiscal years following the signing of the contractual amendment, limiting expenditure growth to the variation in the IPCA. If this limit was not met, the law would revoke the additional repayment term and the extraordinary reduction, and would also require the repayment of amounts not paid during the extraordinary reduction period.

Among the changes introduced, the New PAF also aligned the concepts and targets used in refinancing arrangements with those of the Fiscal Responsibility Law (LRF). Net Real Revenue (RLR) was replaced by Net Current Revenue (RCL), and investment-related targets were replaced by commitments tied to cash availability. According to the Ministry of Finance's assessment, 20 states joined the New PAF[56]. In 2021, LC No. 178[57] was enacted, establishing the Fiscal Monitoring and Transparency Program, the Fiscal Balance Promotion Plan, and amendments to other legislation, such as the LRF and the New PAF.

According to the assessment contained in the 2021 Bulletin on Subnational Entity Finances[58], most entities failed to comply with the expenditure ceiling set as a condition for the New PAF renegotiation. LC No. 178 added Article 4-A to the New PAF, which allowed, in

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[52] Available at: https://legis.senado.leg.br/sdleg-getter/documento?dm=4562018&ts=1630410823628&disposition=inline.
[53] Available at: https://www.planalto.gov.br/ccivil_03/_ato2015-2018/2015/decreto/d8616.htm.
[54] Available at: https://www.gov.br/fazenda/pt-br/central-de-conteudo/notas-tecnicas-e-pareceres/2016/nota-tecnica-2016-04-19_06-a-adesao-a-lei-complementar-no-148-de-2014.pdf/
[55] Available at: https://www.tesourotransparente.gov.br/temas/estados-e-municipios/estatisticas-fiscais-de-programas-de-ajuste-fiscal-paf.
[56] Available at: https://web.archive.org/web/20250313093512/https://www.gov.br/tesouronacional/pt-br/noticias/veja-o-balanco-dos-estados-que-aderiram-a-renegociacao-de-divida-com-uniao-e-bndes.
[57] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp178.htm.
[58] Available at: https://www.tesourotransparente.gov.br/publicacoes/boletim-de-financas-dos-entes-subnacionais/2022/114?ano_selecionado=2022.

the event of non-compliance with the expenditure ceiling set out in LC No. 156, for new amendments to be signed under one of the following options[59]:

a) Substitution of penalties, or conversion of penalties already applied, into a recalculation of amounts not paid to the Federal Government due to the extraordinary reduction in refinancing installments, with incorporation into the outstanding balance;

b) Substitution of penalties, or conversion of penalties already applied, into a commitment to comply with the PAF for the three fiscal years following 2020, for states that did not receive an extraordinary reduction in installments, subject to a penalty of 10% of the principal outstanding balance in the event of non-compliance; and

c) Extension of the expenditure ceiling's validity through the 2021–2023 period.

Of the nine states that signed contractual amendments due to non-compliance with the expenditure ceiling, eight chose to substitute or convert the penalties for non-compliance. Goiás was the only one to opt for the adoption of a new expenditure ceiling.

Santa Catarina, which did not sign a contractual amendment due to non-compliance, obtained a suspension of penalties through Original Civil Action (ACO) No. 3485 before the Federal Supreme Court (STF) [60]. Mato Grosso, in turn, chose to pay the penalties for non-compliance.

This historical review shows that PROPAG continues a process of successive renegotiations, marked by reductions in charges, extended repayment terms, and fiscal trade-offs, without definitively eliminating the fiscal imbalances faced by some states.

The Fiscal Recovery Regime

In February 2017, Complementary Bill (PLP) No. 343, of 2017[61], was submitted to the National Congress. The complementary bill established the Fiscal Recovery Regime for States (RRF), designed to promote economic and financial sustainability for state governments facing sensitive fiscal conditions. According to the bill's explanatory

[59] Of the 10 states that failed to comply with the expenditure ceiling, 9 signed amendments under one of the aforementioned conditions.

[60] Available at: https://portal.stf.jus.br/processos/detalhe.asp?incidente=6127267.

[61] On September 21, 2022, Justice Gilmar Mendes partially upheld ACO 3485, ruling:

> "*I partially uphold this original civil action, confirming the preliminary injunction, to suspend any penalty that may be applied by the Federal Government to the State of Santa Catarina, concerning fiscal years 2018 and 2019, for purposes of calculating the limit set out in Article 4 of Complementary Law 156/2016, taking into account the positive difference between the annual variation in the calculation bases for constitutionally mandated minimum spending on health, education, and court-ordered debt payments, and the variation in the IPCA over the same period*".

Available at: https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra?codteor=1527604&filename=PLP%20343/2017.

memorandum, the measure targeted entities with high debt levels, rigid budgets, and the potential risk of illiquidity and insolvency.

Following its passage through Congress, PLP No. 343 was enacted as LC No. 159[62], signed into law in May 2017. Under the terms of the complementary law, eligibility for the RRF, given the measure's focus on states in severe fiscal distress, requires the following conditions:

i. Annual net current revenue lower than consolidated debt in the fiscal year prior to entry into the RRF;

ii. The sum of net personnel expenses and debt service exceeding 70% of RCL in the fiscal year prior to entry into the RRF[63];

iii. Total contracted obligations exceeding available cash and cash equivalents from unearmarked resources.

The RRF allowed, on an extraordinary basis, for full suspension of debt installment payments to the Federal Government for a set period[64]. It also permitted the contracting of credit operations to renegotiate debts with creditors and to finance voluntary severance programs, auditing, and tax modernization, as well as the advance recognition of revenue from company privatizations.

In return, states were required to submit a recovery plan with measures to rebalance revenue and expenditure. The plan was initially limited to 36 months, with a possible extension of an equal period, for a total of up to six years.

The RRF also established a series of limits aimed at containing the growth of mandatory expenditures or the erosion of revenue. These limits are set out in Article 8 of LC 159 and include, among other measures, prohibitions on: granting salary increases, allowances, or other forms of compensation; creating public positions, jobs, or functions that would increase expenditure; hiring personnel, except to replace departing staff; granting or expanding tax incentives; adopting measures that would increase mandatory expenditure beyond the annual variation in the IPCA or the variation in RCL; and creating new mandatory expenditures of a continuing nature.

[62] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp159.htm.
[63] This rule was amended by LC 178, of 2021, which will be presented in the next subsection.
[64] This period could be equal to or shorter than the duration of the RRF, which initially lasted 36 months.

During this initial phase, only Rio de Janeiro formally joined the RRF. The states of Rio Grande do Sul[65], Minas Gerais[66], Goiás[67] and Rio Grande do Norte[68] began the accession process, but did not formally enter the regime at that time.

As noted in the previous subsection, LC No. 178 was enacted in 2021. In addition to the changes made to the PAF and the LRF, the measure also amended the RRF, allowing states that had been unable to join the previous regime to join the new Fiscal Recovery Regime.

The requirements for joining the RRF became:

i. Annual net current revenue lower than consolidated debt in the fiscal year prior to entry into the RRF; and

ii. Expenditure:

   a. Current expenditure exceeding 95% of RCL in the fiscal year prior to the request to join the RRF; or

   b. Personnel expenditure equal to at least 60% of RCL in the fiscal year prior to the request to join the RRF; and

iii. Total contracted obligations exceeding available cash and cash equivalents from unearmarked resources.

In addition, states were allowed to join without meeting the requirement of consolidated debt exceeding RCL, provided there was no extraordinary reduction in installments and no assumption of obligations by the Federal Government. In other words, the accession criteria were relaxed, both by allowing the debt criterion to be disregarded and by allowing entry under alternative expenditure criteria.

Article 9-A of LC No. 178 also allowed for a new refinancing contract to be signed to settle unpaid installments and for the assumption, by the Federal Government, of state debts owed to third parties[69] that are included in the accession request and were contracted prior to the request to join the regime, without enforcement of any counter-guarantees. This contract could have a repayment term of up to 360 months.

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[65] The state filed a request to join in 2017, but its request was denied for failing to meet the requirements of LC 159/2017, as noted on page 65 of the 2019 Bulletin on Subnational Entity Finances. Available at: https://www.tesourotransparente.gov.br/publicacoes/boletim-de-financas-dos-entes-subnacionais/2019/114-2?ano_selecionado=2019.

[66] The state had a lawsuit pending against the Federal Government in 2018, but its formal request to join was submitted only in January 2019, as noted on pages 65 and 66 of the 2019 Bulletin on Subnational Entity Finances.

[67] The state expressed interest in joining the RRF in January 2019, but did not meet the accession requirements of LC No. 159, of 2017, as noted on page 66 of the 2019 Bulletin on Subnational Entity Finances.

[68] The state expressed interest in joining the RRF in January 2018, but did not meet the accession requirements of LC No. 159, of 2017, as noted on page 66 of the 2019 Bulletin on Subnational Entity Finances.

[69] This provision, set out in item II of Article 9 of LC 159, of 2017, covers federally guaranteed credit operations carried out with the financial system and multilateral institutions.

Another significant change concerned the timeline for the extraordinary reduction in debt service. Under the new rule, instead of a full suspension of debt service payments, states joining the regime would benefit from payments that increased progressively over 10 years. In the first year of joining the RRF, the state would have a 100% suspension of the amount owed. Starting in the second year, the share paid would increase progressively by 11.11 p.p. per fiscal year, until reaching 100%.

This change is linked to the extension of the regime's duration, which could now run for up to nine years, rather than the initial three-year period. Amounts not paid due to the temporary suspension would be adjusted for inflation and incorporated into the outstanding balance once payments returned to 100%. This new mechanism alters the previous rule's logic, which provided temporary relief but reinstated the full debt service payment obligation in a single fiscal year once the RRF ended.

Among the trade-offs required, the new RRF also came to require states joining the regime to adopt an expenditure ceiling tied to the variation in the IPCA[70]. In addition to the previous rules, the law also prohibited tax changes that would result in reduced or earmarked public revenue. Filing lawsuits against refinancing contracts signed under the RRF was also added to the list of prohibited measures under LC No. 178.

Lastly, changes were made to the criteria for the termination of the RRF. Under the initial rules, any failure to comply with the requirements would trigger termination, regardless of the nature of the non-compliance. After LC No. 178 was enacted, the state now had to be deemed in default[71] for two fiscal years, or to have filed a lawsuit challenging the debts or refinancing conditions established under the regime. In addition, in the event of the RRF's termination, the Federal Government would be barred from granting guarantees to the state for five years, except in the event of a state of public calamity recognized by the Legislative Branch.

A relevant aspect of the RRF concerns the extent of related litigation. Several states filed Original Civil Actions (ACOs) to obtain the regime's benefits and conditions without formally joining it, which would have meant avoiding the required trade-offs. Other lawsuits stemmed from non-compliance with the program's conditions, the anticipation of RRF effects prior to formal approval, or challenges to the requirements themselves[72].

Part of this litigation had effects on the stock of debt owed to the Federal Government and on amounts honored by it, classified as legal disputes. To address this liability, Article 23 of LC No. 178 allowed for the renegotiation of this accumulated stock, through December 31,

[70] Previously, this restriction was based on the lower of the variation in the IPCA or in RCL, which could result in a real reduction in primary expenditure.
[71] Default conditions are set out in Decree No. 10,681, of 2021, which regulates LC 178. Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2021/decreto/d10681.htm.
[72] On this topic, the Bulletins on Subnational Public Finances for base years 2020 and 2021 provide an analysis of each state involved in litigation. Available at: https://www.tesourotransparente.gov.br/publicacoes/boletim-de-financas-dos-entes-subnacionais/2021/114 e https://www.tesourotransparente.gov.br/publicacoes/boletim-de-financas-dos-entes-subnacionais/2022/114.

2020, over a period of up to 360 months, under conditions similar to those of the RRF. According to National Treasury data, BRL 70.2 billion was contracted under these conditions, with the largest amounts originating from states under the RRF[73].

As of 2025, four states were formally subject to the rules of the RRF: Goiás, Minas Gerais, Rio de Janeiro, and Rio Grande do Sul.

In summary, the 2021 reform broadened the scope of the regime, relaxed accession criteria, and made the resumption of payments more gradual, while preserving the core logic of the RRF: offering temporary financial relief to states in severe fiscal imbalance in exchange for fiscal trade-offs and closer oversight.

Full Debt Payment Program for the States

On January 13, 2025, LC No. 212[74] was enacted, establishing the Full Debt Payment Program for the States (PROPAG). The program proposed a renegotiation of state debt with the Federal Government under Laws No. 8,727/1993 and 9,496/1997; LC No. 159/2017 (RRF), No. 178/2021, and No. 201/2023[75]; and Provisional Measure No. 2,192-70/2001. The renegotiation would take place under more favorable terms, with a repayment period of up to 360 months and interest rates ranging between 0% and 2% per year, depending on the conditions agreed upon in each contract. The deadline for joining PROPAG closed on December 31, 2025.

The renegotiation proposed under PROPAG allows for extraordinary amortization of the principal and a permanent change to the financial charges applied to the remaining balance. As noted earlier, LC No. 148/2014 and LC No. 156/2016 enabled, respectively, a reduction in charges and an extension of the debt repayment term. Under PROPAG, these two changes occur once again.

It is worth noting that joining PROPAG does not imply withdrawal from the PAF, meaning states remain subject to compliance assessments related to the targets agreed upon under their respective programs.

Regarding extraordinary amortization, Article 3 of LC No. 212 lists the instruments that may be used for such payments. These include the transfer of monetary amounts; the transfer, to the Federal Government, of equity interests, as well as movable or immovable assets; the assignment of the state's liquid and certain credits to the private sector; the assignment of state receivables arising from state tax authorities' overdue tax debt; and the assignment of other assets to be negotiated between the Federal Government and the states.

[73] Information contained in the Bulletin on Subnational Public Finances, Base Year 2021, on page 108.
[74] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp212.htm.
[75] Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp201.htm.

Future flows from the National Regional Development Fund (FNDR), receivables arising from financial compensation for the exploitation of natural resources, and resources obtained through the securitization of states' receivables may also be used.

Extraordinary amortization through asset transfers plays a significant role in the program's design, as it helps determine the financial charges applied to the contractual amendments signed under PROPAG.

The outstanding debt balance is reduced by the amount of these amortizations, with the remaining balance refinanced in up to 360 successive monthly installments, beginning in the month following the signing of the contractual amendment. States may also make extraordinary amortizations at any point during the contract term. The valuation of assets varies depending on the type of asset, but falls under the responsibility of specific bodies within the Federal Executive Branch.

Another relevant aspect of PROPAG is the requirement that states previously under the RRF (GO, MG, RJ, and RS) must formally exit the regime in order to join the program. In exchange, they gain access to differentiated payment terms.

Under item I of §6 of Article 4 of LC No. 212, these states' installment payments will be set as follows:

a) 20% of the amount owed in the first year of the contractual amendment;

b) 40% of the amount owed in the second year of the contractual amendment;

c) 60% of the amount owed in the third year of the contractual amendment;

d) 80% of the amount owed in the fourth year of the contractual amendment; and

e) 100% of the amount owed from the fifth year of the contractual amendment onward.

From the fifth year onward, the difference between the amounts owed and those actually paid is incorporated into the outstanding balance, with the corresponding financial charges applied. In this way, the program provides temporary relief to cash flow, while shifting part of the postponed payments onto the debt stock.

The financial charges set under PROPAG depend on the conditions chosen by each state. Monetary adjustment of the contracts is based on the variation in the IPCA from two months prior, a rule common to all contracts. Real interest rates, on the other hand, vary according to the conditions agreed upon.

Unlike other refinancing programs, PROPAG combines different instruments to determine the real interest rate. In addition to the extraordinary amortization of the principal, the program takes into account (i) investments made by the state; and (ii) contributions to the Federative Equalization Fund (FEF).

The first alternative involves making investments in an amount defined as a percentage of the state's outstanding balance. PROPAG's investment requirement focuses on technical secondary-level vocational education[76]. Investments may also include state universities, infrastructure for universal access to early childhood education and full-time schooling, and initiatives related to infrastructure, sanitation, housing, climate change adaptation, transportation, or public safety. The program also sets specific targets for technical vocational education which, until met, require compliance with a minimum allocation of 60% of investment resources to this area[77].

The second alternative relates to the creation of the Federative Equalization Fund, provided for in Article 9 of PROPAG. The FEF is a privately structured fund established for the benefit of the states, intended to create structural conditions for boosting productivity, addressing climate change, and improving infrastructure, public safety, and education. Up to 10% of the FEF's resources, arising from contributions and financial returns, may be allocated to guaranteeing states' credit operations, through the so-called Federative Guarantee Fund (FGF).

Each year, states will be required to contribute the equivalent of 1.0%, 1.5%, or 2.0% of the updated outstanding balance of their debt refinanced under PROPAG, depending on the conditions agreed upon in each contract.

The distribution of FEF resources is based on two criteria:

- RCL/consolidated debt ratio, weighted at 20%; and
- The state's FPE participation coefficient, weighted at 80%.

The FPE coefficient is therefore the main determinant of resource distribution, while the ratio between revenue and indebtedness accounts for the remaining 20%. Table 16 illustrates the conditions applicable to each interest rate, based on the two criteria mentioned above. For a real interest rate of 0% p.a., the state must necessarily contribute to the FEF and allocate resources to annual investments, with these amounts varying depending on the extraordinary amortization option chosen (20% of the total, 10% of the total, or no amortization).

For a real interest rate of 1% p.a., a state that amortizes 20% of the principal may make only the FEF contribution, with no minimum investment requirement. In the other cases, maintaining this rate requires some level of minimum investment, depending on the amount amortized.

[76] This measure is part of the Juros por Educação [Interest for Education] program. Available at: https://www.gov.br/mec/pt-br/juros-por-educacao.
[77] The targets for fiscal year 2026 are set out in Administrative Order No. 5, of February 5, 2026. Available at: https://www.in.gov.br/en/web/dou/-/portaria-n-5-de-5-de-fevereiro-de-2026-685981554.

Lastly, there is the possibility of a real interest rate of 2% p.a., which results from a minimum 10% amortization, with no annual investment requirement, or from a combination of a minimum 0.5% investment and an annual FEF contribution of 1.5%.

TABLE 16. CONDITIONS FOR JOINING PROPAG

Condition	Interest rate	Required Debt Reduction	Annual Investment	Contrib. to the FEF
A1	0% p.a.	Option A: Minimum reduction of 20%	1.00%	1.00%
A2	0% p.a.	Option B: Minimum reduction of 10%	1.50%	1.50%
A3	0% p.a.	Option C: No reduction	2.00%	2.00%
B1	1% p.a.	Option A: Minimum reduction of 20%	-	1.00%
B2	1% p.a.	Option B: Minimum reduction of 10%	0.50%	1.50%
B3	1% p.a.	Option C: No reduction	1.00%	2.00%
C1	2% p.a.	Option A: Minimum reduction of 10%	-	1.00%
C2	2% p.a.	Option B: No reduction	0.50%	1.50%

Source: National Treasury Secretariat.

In return, Article 7 of LC No. 212 stipulates that states joining PROPAG that, as of their joining date, benefit from any suspension or extraordinary reduction in debt payments must adopt an expenditure ceiling. This ceiling limits expenditure growth to the variation in the IPCA. The requirement applies, for example, to states under the RRF and those benefiting from LC No. 206, of 2024[78]. However, unlike the expenditure ceiling required under the RRF, there is a possibility of a real increase in the ceiling, linked to a fraction of the real variation in primary revenue in the prior fiscal year, depending on the primary balance observed, similar to the mechanism under LC No. 200, which established the Sustainable Fiscal Regime for the central government.

If a state's Net Current Revenue (RCL) shows negative real variation, the maximum permitted real increase in expenditure will be 0%. If the state shows positive real variation in primary revenue and a primary balance that is zero or negative, the permitted real growth in expenditure will be 50% of the real variation in primary revenue. Lastly, if the state achieves a primary surplus and real growth in primary revenue, the ceiling will grow in real terms by 70% of the variation in primary revenue.

Another point of divergence between this provision and the ceiling previously established under the RRF concerns its duration. Based on the wording of Article 7 of LC No. 212, it is understood that the expenditure ceiling will remain in force for the same period as the contract signed under PROPAG, which can run for up to 360 months[79]. This requirement may prolong fiscal adjustment in states with weaker fiscal positions, helping offset any mismatches between revenue and expenditure growth.

[78] LC No. 206, of 2024, allows federative entities affected by a state of public calamity resulting from extreme weather events recognized by the National Congress to postpone the payment of their debts and reduce the interest rate on their contracts with the Federal Government. The state of Rio Grande do Sul is currently subject to this rule. Available at: https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp206.htm.
[79] This interpretation is confirmed by Clause 14 of the contracts signed with Goiás and Minas Gerais.

In summary, PROPAG combines a further extension of repayment terms and a reduction in charges with extraordinary amortizations, contributions to the FEF, and requirements for investment and expenditure control. The program broadens the financial relief provided to the states while maintaining trade-offs designed to limit fiscal deterioration and tie part of the benefit to public investment objectives.

Projected Impact of PROPAG

Based on data obtained through requests filed under the Access to Information Law (LAI) and contract excerpts published in the Diário Oficial da União (Official Gazette), a list was compiled of the states that joined PROPAG, along with their access conditions, to serve as the basis for the scenarios.

Of the 27 federative units, 22 joined PROPAG. Participation is voluntary and depends on each state administration's assessment of its merits. The five federative entities that did not join were Mato Grosso, Pará, Paraná, Santa Catarina, and the Federal District. Piauí[80] and Tocantins[81], despite not having debts refinanced with the Federal Government, joined PROPAG in order to access resources from the FEF and the FGF.

Table 17 presents the interest rate conditions, along with the corresponding investment and extraordinary amortization requirements. Of the 20 states that joined PROPAG and have debt with the Federal Government, 18 secured a real interest rate of 0%, of which nine chose not to make any extraordinary amortization to reduce the principal of their debt. The other nine states chose to transfer assets to reduce their debt by 10% or 20%. Of these, six amortized 20% of the outstanding balance.

TABLE 17. CONTRACTUAL AMENDMENTS SIGNED THROUGH JUNE 30, 2026, AND THEIR CONDITIONS

State	Interest rate	Contribution to the FEF	Investment	Extraordinary amortization
AC	0%	2.0%	2.0%	No
AL	0%	1.0%	1.0%	20%
AM	0%	2.0%	2.0%	No
AP	0%	2.0%	2.0%	No
BA	0%	2.0%	2.0%	No
CE	0%	2.0%	2.0%	No
ES	0%	1.5%	1.5%	10%
GO	0%	1.0%	1.0%	20%
MA	0%	2.0%	2.0%	No
MG	0%	1.0%	1.0%	20%
MS	0%	2.0%	2.0%	No
PB	1%	2.0%	1.0%	No
PE	0%	1.5%	1.5%	10%

[80] As stated in Ordinary Bill No. 105, of 2025, of the state government. Available at: https://sapl.al.pi.leg.br/materia/21150.
[81] As stated in Provisional Measure No. 18/2025, of the State of Tocantins, available at: https://sapl.al.to.leg.br/materia/13597.

State	Interest rate	Contribution to the FEF	Investment	Extraordinary amortization
RJ	0%	1.0%	1.0%	20%
RO	0%	2.0%	2.0%	No
RR	2%	1.5%	0.5%	No
SE	0%	1.5%	1.5%	10%
SP	0%	1.0%	1.0%	20%
AMENDMENT NOT YET SIGNED				
RN	0%	2%	2%	No
AMENDMENT NOT YET SIGNED (§3 OF ARTICLE 2 OF LC 212/2025)				
RS	0%	1%	1%	20%

Source: Ministry of Finance, via the Access to Information Law (LAI)[82].

The only states with positive real interest rates are Paraíba and Roraima, at rates of 1% and 2% p.a., respectively.

Regarding contributions to the FEF, all states must contribute between 1% and 2% of the outstanding balance recorded in December of the prior fiscal year, as explained earlier. Similarly, all states must make investments equivalent to a share of this outstanding balance, at percentages ranging between 0.5% and 2%. Another important requirement is that states become subject to PROPAG's rules starting in the month following the signing of the contractual amendment, whenever this information is available. In cases where the signing date is not known, PROPAG is assumed to have entered into force in July 2026.

One state that stands apart from the others is Rio Grande do Sul, which is subject to the rule set out in LC No. 206, of 2024. Through June 2027, the state's debt service payments to the Federal Government will be reduced to zero, with a real adjustment of 0% and the reincorporation of unpaid amounts into the outstanding balance in the following month. From that point on, the state will be subject to the rules applicable to states under the RRF, which involve progressive increases of 20% in charges every 12 months, as explained in the previous section.

For the purpose of estimating payments, the projection of installments was calculated using the French amortization method, based on the outstanding balance in the month prior to the start of payments and the real interest rate applied to the payments.

In exceptional cases, each time a new amount is incorporated into the outstanding balance, a new reference installment is calculated, based on the new outstanding balance, the interest rate, and the remaining term.

Another assumption incorporated into the projections is that states whose refinancing terms were originally set to run through the end of 2030 will sign contracts through

[82] Available at: https://buscalai.cgu.gov.br/busca/11274313.

December of that year, since adopting a 360-month term would result in an excessively long extension of the debt[83]. This assumption was applied to Amazonas, Amapá, and Roraima.

Table 18 presents the terms used for the projection under each of the two scenarios. Under the LC No. 156/2016 scenario, which assumes no policy change, the projection always begins in January, based on the outstanding balance recorded in December 2025. Under the LC 212/2025 (PROPAG) scenario, data from the LC No. 156/2016 scenario are used through the month prior to PROPAG's entry into force. The original dates under LC No. 156/2016 were obtained from the Public Debt Registry (CDP) in the Sadipem system[84]. Sadipem was also used to obtain the balance of refinanced debt as of December 31, 2025.

TABLE 18. TERMS USED IN EACH SCENARIO

	LC 156/2016			LC 212/2025			Difference in Terms Between LC 156/2016 and LC 212
	Start Date	End Date	Term (months)	Start Date	End Date	Term (months)	
AC	Jan/26	Nov/48	275	May/26	Apr/56	360	85
AL	Jan/26	May/48	269	Apr/26	Mar/56	360	91
AM	Jan/26	Nov/28	35	Mar/26	Dec/30	58	23
AP	Jan/26	Nov/28	35	Jun/26	Dec/30	55	20
BA	Jan/26	Oct/47	262	Apr/26	Mar/56	360	98
CE	Jan/26	Sep/47	261	Mar/26	Feb/56	360	99
ES	Jan/26	Feb/48	266	Jun/26	May/56	360	94
GO	Jan/26	Dec/50	300	Jan/26	Dec/55	360	60
MA	Jan/26	May/52	317	Jun/26	May/56	360	43
MG	Jan/26	May/52	317	Jan/26	Dec/55	360	43
MS	Jan/26	Feb/48	266	Apr/26	Mar/56	360	94
PB	Jan/26	Mar/48	267	Apr/26	Mar/56	360	93
PE	Jan/26	Nov/47	263	Mar/26	Feb/56	360	97
RJ	Jan/26	Jun/52	318	Jun/26	May/56	360	42
RN	Jan/26	May/52	317	Jul/26	Jun/56	360	43
RO	Jan/26	Jan/48	265	Jun/26	May/56	360	95
RR	Jan/26	Feb/28	26	Jul/26	Dec/30	54	28
RS	Jan/26	Jul/52	319	Jul/26	Jun/56	360	41
SE	Jan/26	Oct/47	262	Jan/26	Dec/55	360	98
SP	Jan/26	Apr/47	256	Jul/26	Jun/56	360	104

Source: Sadipem, Diário Oficial da União (Official Gazette), and IFI.

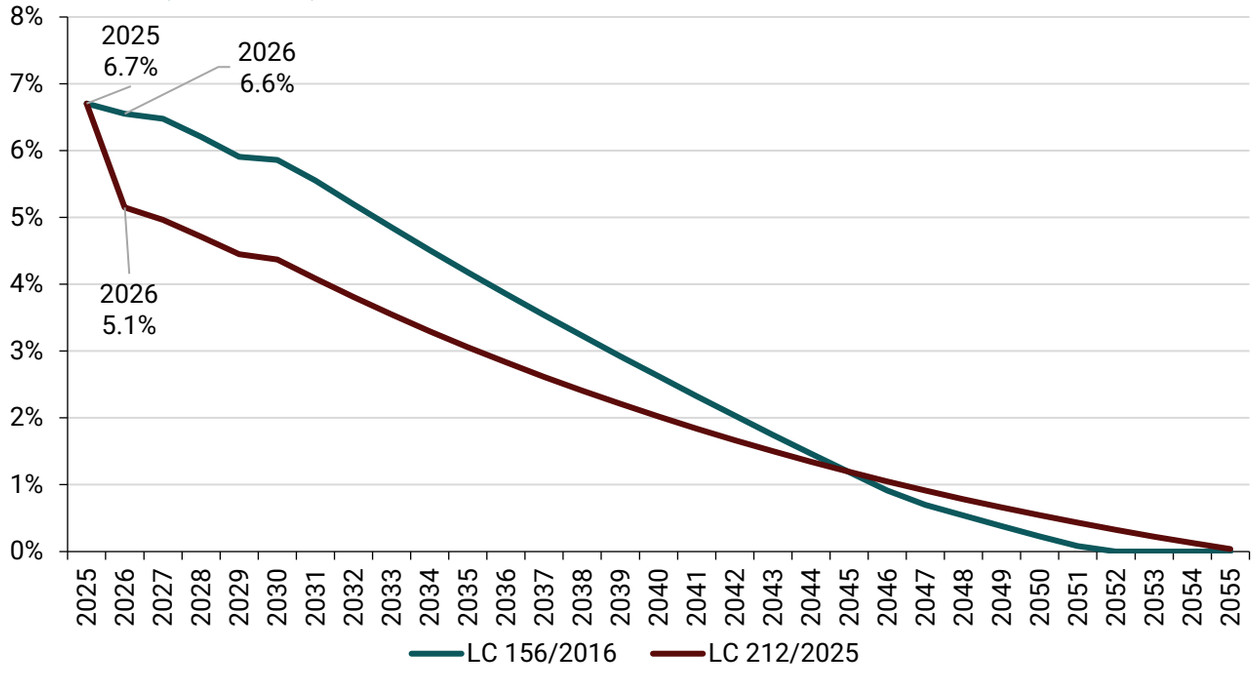
[83] This assumption is based on the terms adopted in the contract with the state of Amazonas, obtained via the Sei! system. Case No. 17944.006758/2025-61, document No. 59429266. Available at: https://colaboragov.sei.gov.br/sei/modulos/pesquisa/md_pesq_documento_consulta_externa.php?EpquHhlBugmZv0GLj1XPp8/oqFM3U39OfHKQdGJLdfKjT3h9+rj71pFltG3YGGA3DtLO4JvC/62VkYfCj+V2so/bZZW9Q6D4h4eAupM5A+o=.

[84] Available at: https://sadipem.tesouro.gov.br/sadipem/private/pages/index.jsf.

Financial Flow

Broadly speaking, PROPAG extended previously established repayment terms and reduced the amount paid as debt service. As a result, in practice, states' debt will tend to last for a longer period, and the Federal Government will receive a smaller amount than it would have received without PROPAG. Assuming extraordinary amortizations occur according to the amounts set out in Table 17, the debt stock would fall from 6.7% of GDP to 5.1% of GDP in 2026. In subsequent years, the trajectory under the PROPAG scenario would be less steep, with the debt stock reaching zero in 2056, rather than in 2052. This trajectory under PROPAG stems from the combination of amortization, extended repayment terms, and financial charges more favorable to the states.

GRAPH 11. OUTSTANDING BALANCE OF STATES' REFINANCED DEBT UNDER EACH SCENARIO (% OF GDP)



Source: Sadipem and IFI. Prepared by: IFI.

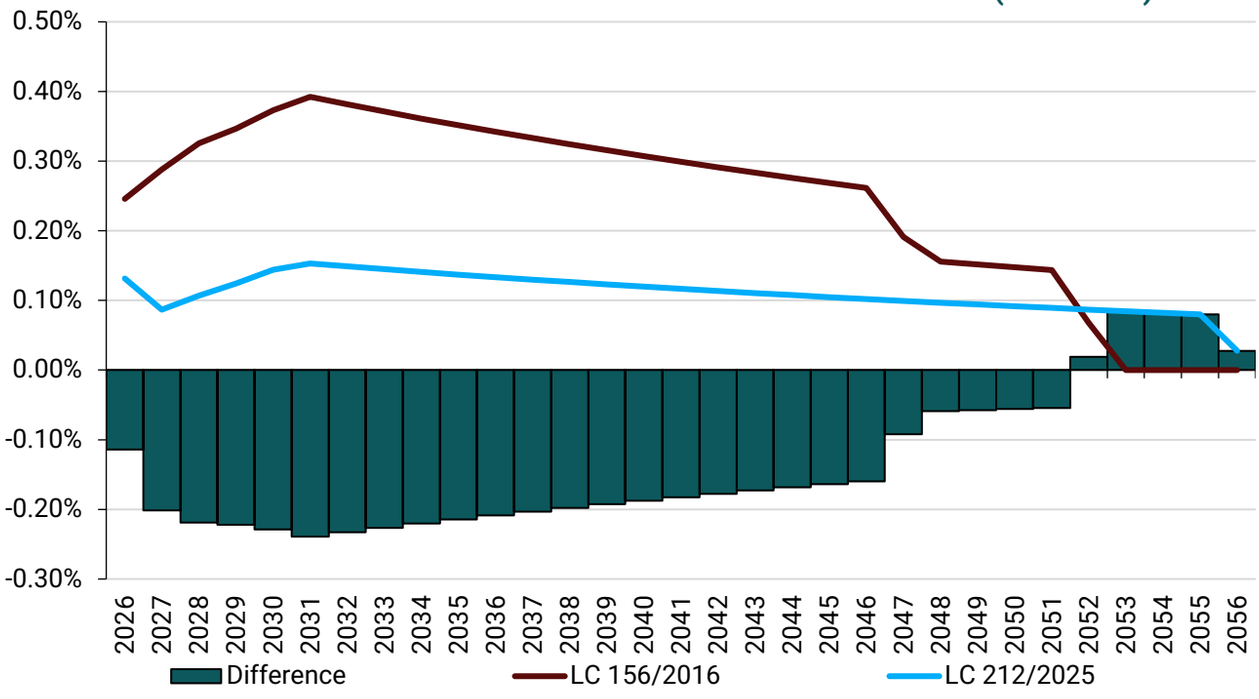
Looking at the trajectory of payments as a share of GDP, the Federal Government would receive a smaller amount. The flow of annual receipts, as a share of GDP, is higher in 2026 than in 2027, for two reasons. For 2026, it is assumed that states partially continue paying the previous charges until their effective accession to PROPAG, meaning that, for most states, there is a mix of installments during that year.

In 2027, once all installments are fully subject to PROPAG, another divergence emerges. States under the RRF and LC No. 206/2024 (GO, MG, RJ, and RS) will pay only part of their debt service under both scenarios, albeit on different scales.

As a share of GDP, the PROPAG scenario tends to converge toward 0.1% in each year. Had the previous rules remained in place, debt service would have reached 0.4% of GDP in 2031, declining from that point onward. The two spikes observed, in 2046 and 2051, result from

the settlement of debt owed by states with high indebtedness, such as São Paulo, Minas Gerais, Rio Grande do Sul, and Rio de Janeiro.

GRAPH 12. STATES' ANNUAL DEBT SERVICE UNDER EACH SCENARIO (% OF GDP)



Source: IFI.

Present Value

An analysis based solely on the nominal flow of installments could lead to a misleading impression of the program's effects. During the term of PROPAG, the flow of receipts to the Federal Government is expected to decline. As discussed, part of this decline stems from extraordinary amortizations, which are transferred to the Federal Government and can, in principle, be used to amortize federal public debt.

In addition, a contribution of BRL 1.0 million today does not carry the same economic value as a payment of an equal amount made 30 years from now. It is therefore appropriate to bring the estimated flows of payments to present value.

Table 19 illustrates this issue for each state. Considering only debt service and discounting it to present value at a discount rate of 12.31% p.a. [85], the Federal Government would forgo an amount equivalent to BRL 350.3 billion during the term of PROPAG. These figures are consistent with the amounts reported by the Ministry of Finance in response to a request filed under the LAI[86].

[85] Average cost of federal public debt, accumulated over the 12 months through May 2026. Figure obtained from spreadsheet 4.2 of the May 2026 Monthly Public Debt Report. Available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-mensal-da-divida-rmd/2026/5.
[86] Available at: https://buscalai.cgu.gov.br/busca/10983367.

When the amounts from extraordinary amortizations are factored into the calculation, the estimated loss to the Federal Government falls to BRL 190.7 billion over the program's 30-year term.

TABLE 19. DIFFERENCE IN RECEIPTS FOLLOWING PROPAG (BRL BILLION, 2026)

	Debt Service (Difference Between PROPAG and LC 156/2016)						
	2026-2030	2031-2040	2041-2050	2051-2060	[A] Accumulated Balance	[B] Extraordinary Amortization	[C] = [A]+ [B]
AC	-0.1	-0.1	0.0	0.0	**-0.2**	0.0	**-0.2**
AL	-1.6	-1.8	-0.5	0.1	**-3.9**	1.8	**-2.1**
AM	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
AP	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
BA	-0.9	-1.1	-0.3	0.1	**-2.1**	0.0	**-2.1**
CE	-0.2	-0.2	-0.1	0.0	**-0.5**	0.0	**-0.5**
ES	-0.3	-0.3	-0.1	0.0	**-0.6**	0.2	**-0.5**
GO	-3.5	-4.3	-1.8	0.3	**-9.3**	4.1	**-5.2**
MA	-0.2	-0.3	-0.1	0.0	**-0.6**	0.0	**-0.6**
MG	-25.8	-37.8	-15.9	0.5	**-79.1**	35.4	**-43.7**
MS	-1.1	-1.3	-0.3	0.1	**-2.7**	0.0	**-2.7**
PB	-0.1	-0.1	0.0	0.0	**-0.3**	0.0	**-0.3**
PE	-0.8	-0.9	-0.2	0.1	**-1.8**	0.4	**-1.3**
RJ	-25.9	-39.8	-16.7	0.7	**-81.8**	38.9	**-42.8**
RN	-0.1	-0.1	0.0	0.0	**-0.2**	0.0	**-0.2**
RO	-0.4	-0.5	-0.1	0.1	**-1.0**	0.0	**-1.0**
RR	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
RS	-9.7	-22.0	-9.3	0.3	**-40.7**	20.9	**-19.8**
SE	-0.2	-0.2	-0.1	0.0	**-0.5**	0.1	**-0.4**
SP	-51.1	-63.0	-15.2	4.2	**-125.2**	57.9	**-67.3**
Total	**-122.0**	**-173.9**	**-60.9**	**6.5**	**-350.3**	**159.6**	**-190.7**

Source: IFI.

The use of the average cost of public debt as the discount rate sought to reflect the opportunity cost associated with the Federal Government's need to raise resources in the financial market to offset the decline in receipts resulting from PROPAG's new terms.

It is worth noting, however, that this exercise has certain limitations that increase the uncertainty surrounding the calculated figures. The calculations presented in this RAF assume that both regimes operate at full capacity. This means that, under both scenarios, states would fully honor their public debt payments, which is not the case in practice.

It is also possible that PROPAG could have a positive effect on the flow actually received by the Federal Government, should the more favorable terms lead states that had previously failed to make regular debt service payments to resume doing so. Another source of uncertainty, with respect to Table 19, concerns the assets accepted for extraordinary

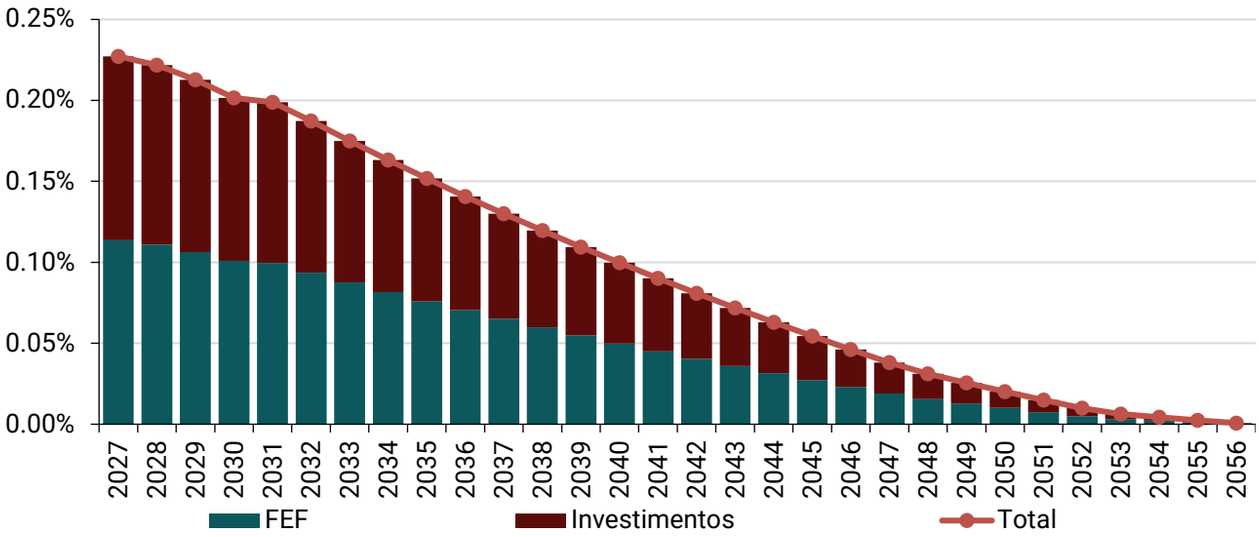
amortization and their respective valuations. The range of assets eligible for amortization is broad, and the amount actually obtained by the Federal Government from their subsequent use may differ from the value applied to the amortization, except in the case of monetary transfers. For example, an asset's value could be underestimated or overestimated. This analysis assumed that all such assets are incorporated in the first month of the simulation, without distinction, which reduces the effective share paid by the states.

In addition, a situation similar to that seen with guarantees granted to the Federal Government in credit operations could arise. Since some assets consist of future receivables, such as resources under the FNDR and revenue shares from the exploitation of natural resources, litigation by states could arise from the loss of future resources. This could make it more difficult for the Federal Government to fully collect the resources received as amortization. Despite this possibility, the current incentive for litigation is lower than previously observed, since any disqualification from PROPAG would result in an increase and recalculation of financial charges under the previous rules.

The reduction in receipts to the Federal Government carries an important implication for public debt dynamics. A decline in financial revenue received by the Federal Government would imply lower amortizations, which could accelerate debt growth or require larger primary balances to achieve effective stabilization. This is because, if the Federal Government needed to raise the same amount of expenditure in the financial market, the cost of issuance would exceed what it received.

Another aspect not directly incorporated into the exercise relates to contributions to the FEF and the investments required as a trade-off, as set out in Article 5 of LC No. 212. Based on the outstanding balance in December of the prior fiscal year, contributions to the FEF combined with investments in education would cost around 0.2% of GDP through 2031, a figure that would decline progressively as the debt stock is reduced.

GRAPH 13. INVESTMENTS AND CONTRIBUTIONS TO THE FEF UNDER PROPAG (% OF GDP)



Source: IFI.

Part of the FEF's balance is allocated to the FGF, used as collateral for potential credit operations. The remainder will be invested through Banco do Brasil and subsequently distributed among participating states, according to the criteria set out[87].

Thus, although the effect of the FEF on the aggregate primary balance is partially neutral (states contribute and subsequently receive back the adjusted amounts, net of the FGF's share and the financial agent's compensation), its distribution may generate gains for some states and losses for others.

It should be noted that the FEF is a privately structured fund established for the benefit of the states. In practice, the Federal Government forgoes some of the resources that would otherwise go toward debt amortization. This makes the mechanism function as an implicit subsidy to the states because it replaces revenue earmarked for reducing federal debt with investments that may support human development and future economic growth.

Lastly, there remains the share related to states' own investments. This requirement could end up increasing states' primary expenditure, should such investments not already be occurring at the scale required or for the purposes set out under PROPAG. As explored by the IFI in RAF No. 109[88], of February 2026, states' primary balance showed a significant reversal in 2025. Requirements such as those under PROPAG could end up worsening this negative result.

[87] For more information, see: https://www.bb.com.br/site/setor-publico/federal/desenvolvimento-socioeconomico/fundo-de-equalizacao-federativa/.
[88] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/863227/RAF109_FEV2026.pdf.

Concluding Remarks

PROPAG is a new program that aims to reduce the debt service charges on states' public debt. The program reduces debt service under refinancing contracts with the Federal Government.

The new charges reduce the real interest rate from 4% p.a. to as low as 0% p.a., subject to a requirement of contributions to a fund to be used for the benefit of the states themselves, as well as public investments, with priority given to technical secondary-level education.

From the Federal Government's perspective, the effect observed is a reduction in the flow of receivables, which could contribute to the growth of federal public debt, since its own borrowing costs exceed the charges levied on the states. In present value terms, the Federal Government would forgo approximately BRL 350.3 billion from the states over PROPAG's 30-year term. When extraordinary amortizations made by certain states are considered, this figure falls to BRL 190.7 billion, still a substantial amount.

Over the past 20 years, these debts have undergone numerous refinancing and extension operations and remain a significant share of general government gross debt. While the adoption of fiscal rules, such as an expenditure ceiling, has positive aspects, this rule only applies to states under the RRF. These states were already subject to this requirement prior to PROPAG's entry into force.

PROPAG also has uncertain effects. For example, lower financial charges and the fiscal space created by the measure could improve compliance among financially fragile states that had previously stopped servicing their debt. Nevertheless, the associated costs are significant and raise concerns about future refinancing programs that extend repayment terms and shift the cost of relief granted to subnational entities onto federal public debt management.

IFI PROJECTIONS

SHORT TERM

IFI Projections	2026			2027		
	Jun/26	Jul/26	Comparison	Jun/26	Jul/26	Comparison
GDP – real growth (% p.a.)	1.7	2.0	▲	2.0	1.8	▼
GDP – nominal (BRL billion)	13,432.1	13,667.1	▲	14,244.8	14,533.4	▲
IPCA – accumulated (% in the year)	3.9	5.0	▲	3.5	4.0	▲
Exchange rate – end of period (BRL/USD)	5.5	5.2	▼	5.5	5.2	▼
Employment – growth (%)	0.8	1.1	▲	0.5	0.7	▲
Wage bill – growth (%)	3.6	5.1	▲	2.7	3.4	▲
Selic – end of year (% p.a.)	12.0	14.0	▲	10.5	12.0	▲
Ex-ante real interest rates (% p.a.)	7.0	7.5	▲	6.2	5.5	▼
Consolidated Public Sector Primary Balance (% of GDP)	-0.7	-0.5	▲	-1.3	-0.7	▲
of which central government	-0.7	-0.4	▲	-1.3	-0.6	▲
Net Nominal Interest (% of GDP)	7.9	8.6	▲	7.5	8.5	▲
Nominal Balance (% of GDP)	-8.6	-9.0	▼	-8.8	-9.2	▼
General Government Gross Debt (% of GDP)	82.7	82.5	▼	86.2	86.4	▲



Federal Senate Translation and Interpretation Service – SETRIN
Angela Silva Brandão (translator)
Vitor Pinhal Landim (translation coordinator)
August 25, 2026.

Independent Fiscal Institution

/ifibrasil
@ifiBrasil
@ifibrasil
/company/ifibrasil
/ifibrasil
github.com/ifibrasil

ifi@senado.leg.br
+55 61 3303 2875

SENADO FEDERAL