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Deliberately searching under the lamp post ? Brazil´s biased fiscal rules and their lessons for Latin American economies

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DELIBERATELY SEARCHING UNDER THE LAMP POST ? BRAZIL´S BIASED FISCAL RULES AND THEIR LESSONS FOR LATIN AMERICAN ECONOMIES

Fernando Moutinho Ramalho Bittencourt

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RESUMO

Este estudo traz um alerta sobre uma séria distorção no desenho de arcabouços fiscais, observado no conjunto de regras fiscais hoje vigente no Brasil. Regras fiscais, para cumprir suas finalidades últimas, devem exibir uma trajetória clara de todas as variáveis afetando a posição financeira consolidada do governo, e fixar metas vinculantes para todas as variáveis sob seu controle. As regras fiscais brasileiras, entretanto, estão definidas como uma lista desconexa de metas parciais com nenhuma conexão entre si nem com a trajetória fiscal consolidada, fixadas exclusivamente (quando vinculantes) para despesas não-financeiras ("primárias"), deixando fora da visibilidade pública e do debate político os fortes efeitos de variáveis relevantes e controláveis tais como os gastos tributários e o financiamento público de operações financeiras por meio do sistema bancário (todas sofrendo influência maior de interesses privados especiais). Os países latino-americanos beneficiar-se-iam ao considerar este aviso: como o Brasil, tendem a encarar crescentes encargos de dívida e de gastos tributários; ao contrário do Brasil, as suas despesas não-financeiras (já comprimidas) ainda estão por incluir o financiamento de uma cobertura mais extensa de benefícios sociais de natureza universal).

Palavras-Chave: REGRAS FISCAIS. COBERTURA E ABRANGÊNCIA. VIÉS DE PROJETO. ACCOUNTABILITY.

ABSTRACT

This paper raises a warning regarding a serious design flaw in fiscal frameworks, which is seen in the Brazilian current set of fiscal rules. Fiscal rules, to reach their ultimate goals, must show a clear projected path of all relevant variables affecting governments´ overall financial balance, and establish mandatory targets to all the variables under government control. Brazilian fiscal rules, however, are defined as a disconnected slate of partial targets with no connection between them and with the consolidated fiscal trajectory, and set (when mandatory) exclusively for non-financial ("primary") expenditures, leaving aside from public awareness and political debate the strong effects of relevant and controllable variables such as tax expenditures and public funding for financial programs through the banking sector (all of which suffer heavier influence from special interests). Latin American countries might well heed these warnings: like Brazil, they tend to face growing debt and tax expenditure burdens; unlike Brazil, their already compressed non-financial expenditures still do not include a more extensive coverage for universalistic welfare benefits.

Keywords: FISCAL RULES. COVERAGE AND COMPREHENSIVENESS. DESIGN FLAWS. ACCOUNTABILITY.

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DELIBERATELY SEARCHING UNDER THE LAMP POST? BRAZIL´S BIASED FISCAL RULES AND THEIR LESSONS FOR LATIN AMERICAN ECONOMIES[1]

Fernando Moutinho Ramalho Bittencourt[2]

1. INTRODUCTION

Fiscal rules are meant to generate fiscal outcomes. This apparent platitude means a few things: a fiscal rule´s value for the polity that adopted it is commensurate to the end results chosen for it; the way from a rule to its outcomes is conditioned to how it´s implemented (which involves both how this implementation is designed to work and how well this intended causal path is enforced on the ground); finally, there may be unanticipated side effects in deploying any fiscal rule that either enhance or jeopardize the achievement of its goals.

Much has been discussed about implementation gaps: non-compliance at large (Cordes *et. al.*, 2015; Alcalin et al, 2025; specifically in Latin America: Valencia & Ulloa-Suarez, 2022), creative accounting (Koen & Van Den Noord, 2005; Milesi-Ferretti, 2000), technical and conceptual shortcomings in fiscal measurement, specially under duress (Mabbett & Schelkle, 2014; Irwin, 2012; Kharas & Mishra, 2007), excessively rigid escape clauses (Eyraud et. al., 2018), political failures in achieving enforcement (FAD, 2009; Roberts, 2015). This kind of enforcement risk seems to be considered the key point in the political economy of fiscal rules and adjustment. This short study tries to take a step back and problematize the effects of some design choices that significantly distort the final outcomes of fiscal rules, taking the Brazilian case as a working example and empirically assessing how the warnings generated by Brazil´s experience might as well be heeded among Latin American countries, where fiscal rules have experienced widespread adoption (Cetrángolo; Morán; Calligaro, 2022; Berganza, 2012).

The study is organized as follows: sections 2 and 3 review the ideas behind fiscal rules design, establishing some expected standards for their comprehensiveness, integration and coverage. Section 4 presents a summary of fiscal rules currently in place in Brazil, discussing their non-compliance to those standards and the consequences thereof. Section 5 delineates some historical trends in public expenditures in Brazil and Latin America (as compared to a

[1] Paper submitted to the 2nd OECD Meeting of Latin American Parliamentary Budget Officials, held in the Federal Senate – Brasília.

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sample of OECD countries), to highlight the similarities that the former show in their trajectories and, thus, the risks Latin American countries may face if they follow down the Brazilian path in designing or updating their fiscal frameworks. Section 6 summarizes the main findings and conclusions.

2. FISCAL RULES MAKE LITTLE SENSE IF THEY DON´T AIM AT A GOVERNMENT´S OVERALL FINANCIAL BALANCE

The extant knowledge on fiscal rules points to their role in protecting some overall financial position for a given government along a pre-set, multi-year time horizon[3] (Chernavsky, 2022; Menguy, 2024; Kopits & Symansky, 1998), thus limiting the use of fiscal discretion and defining a perimeter within which fiscal aggregates can evolve (Eyraud *et. al*., 2018b). To fulfill this role, they may be built around several intermediate steps that concur to that overall financial position (expenditures, budget balances, or any combination of both), as well as take into account (as restrictions to the rule´s workings) macroeconomic variables as GDP growth or other more elaborate models of the economic cycle (Berganza, 2012; Fedelino; Ivanova; Horton, 2009; Schick, 2010; Gobetti, 2014; García, 2013) or yet price volatility of export commodities (Eyraud *et. al*., 2018b).

However, those intermediate steps are means to an end: rules and procedures that focus only on macroeconomic aggregates (such as growth) as their results may be sound Keynesian policies, for instance, but by no means they figure as fiscal rules. Likewise, *ex ante* controls over those intermediate aggregates (expenditures, or yearly fiscal balances) may have whatever rationale their creators wish, but if they do not significantly affect the end result of government net financial position (in other words, if net financial position is materially conditioned by factors outside the fiscal rules´ coverage), those controls will be rendered meaningless for fiscal management. This reasoning is, of course, a matter of degree more than a matter of nature. There will certainly be agents and causes outside the reach of any government regulation: wars, natural disasters, major international supply chain or foreign exchange disruptions, and the like (Cetrángolo; Morán; Calligaro, 2022; Gobetti, 2014). However, the very reason countries enact fiscal rules in the first place is to organize social and institutional actions over those factors that can be dealt with some foresight as the core public finance drivers of a government´s net financial position.

[3] Most frequently, its net debt position (Badia *et al.* 2020). Gobetti (2014) shows how the original Keynesian idea of "golden rules" limiting debt-taking to the amount of public investment was gradually superseded by a combination of targets on several variables, almost always including government debt position among them. On the other hand, the conceptual and operational focus that prevails in the literature (and that is adopted in this paper) lies strictly on financial stocks and flows, not involving the recent (and theoretically promising) discussion about "net worth" encompassing all government assets and liabilities (Chai; Harris. Tieman, 2024; Andrews & Shah, 2005).

3. FISCAL RULES HAVE DIRECT AND INDIRECT IMPACT, AND BOTH RELATE DIRECTLY TO THEIR COVERAGE

Indeed, the first, immediate impact of a fiscal rule is to coercively set the value of some fiscal aggregates and impose such value as mandatory to political agents who control public financial activity, usually under the threat of legal sanctions in failing to do so. This kind of restriction over political agents´ discretion[4] is the very core of the concept of a fiscal rule – to the point that any non-binding rule, or any rule that is merely procedural and does not numerically specify *ex ante* fiscal or economic outcomes is usually discarded as a fiscal rule (European Commission, 2021; Araújo & Rossi Jr., 2024; Chernavsky, 2022; Bittencourt, 2015; Kopits & Symansky, 1998[5]). To that effect, it´s clear that rules should include instrumental targets that are under government control (or at least can be significantly affected by government actions), such as expenditure or yearly fiscal balances, since it would be pointless to require governments to reach goals if such goals only involve economic features that they can´t significantly meddle with[6] (Cordes *et. al.*, 2015; Eyraud *et. al.*, 2018b).

On the other hand, fiscal rules also fulfill another, less mechanismic but not less important, role: they structure public debate and, to a great extent, set agendas in economic and fiscal policies, by highlighting the variables they encompass and affect, and obfuscating public perceptions regarding the impact of the absent ones. That is, if Congress, the Executive, the media, the business community and other relevant stakeholders are engaged in – usually lengthy - discussions regarding rules´ design, implementation, enforcement and sanctions, their scarce time and attention will be probably much more concentrated in the circumstances revolving around the variables that compose said rules, which significantly decreases time and attention devoted to any other phenomena in the domain of fiscal policies[7]. Moreover, debates on fiscal rules often represent the bulk of opportunities for building public understanding in budget matters, and broad public ownership of budget and fiscal reform

[4] Due to several possible instances of "deficit bias", procyclicality incentives or other non-optimal outcomes from those agents´ interactions along the budget process (Milar, 1997; Bittencourt, 2015; Berganza, 2012; Eyraud *et. al.*, 2018b; Gobetti, 2014).

[5] More descriptive approaches differentiate between "procedural" and "quantitative" fiscal rules (García, 2013, pp. 8-9), the former being such things as "pluriannual budgets; transparency regulations and accountability; procedures for the formulation, debate, and approval of annual budgets; and so on", while the latter mean "a restriction or a numerical limit on a determined fiscal aggregate or budget that must be observed as a legal budgetary condition". This latter definition is adopted in this paper.

[6] Such as a given rate of private investment in a capitalist economy or, to a great extent, a given exchange rate under a flexible foreign exchange regime.

[7] In fact, Reuter (2017, p. 13) finds that "[c]ompliance [with fiscal rules] is also significantly higher if rules cover larger shares of the general government finances", both due to policymakers having a larger range of options in the budget to achieve compliance and, precisely, to a higher attention devoted by media and the public to rules that cover larger shares of public finances.

proposals[8] is a key driver for the implementation of sound fiscal measures, however well designed they may have been originally (OECD, 2026a, p. 12).

As a consequence, effective rules can and should include in their design all relevant variables that lead to their ultimate goals (usually, the overall government financial position or public debt), which requires they encompass not only "controllable" variables (that then can be set as binding targets) but also "non-controllable" ones, those outside the government´s direct enforcement. Both kinds of fiscal-economic variables do coexist in reality, and mutually impact one another; therefore, a sound fiscal rule will set a desirable final outcome (such as change in the public debt balance) and deploy the corresponding relationships between that ultimate goal and the several relevant variables, both within or without the government´s policy reach. This way, the causal path between those intermediate variables and the achievement of the rule´s intention will be clearly stated[9], which will allow the disclosure of: the impact by every one of them; the responsibility – or blame – for each causal component in actual policymaking; and the existence of "controllable" variables that were purposedly kept out of goal-setting by the rule[10].

Therefore, the coverage of a fiscal rule[11] (the slate of economic and fiscal variables it encompasses, as well as the relationship between them in the rule´s formulation) will crucially affect its effectiveness, both directly (through the inclusion of the relevant variables as specific targets binding on political agents´ discretion) and indirectly (through the disclosure of the relevant variables – and those who account for them – to the final outcome, keeping them front

[8] Including their understanding and endorsement not only by the public at large, but also by key decision-makers (usually overwhelmed by time and cognitive constraints) and, crucially, by civil society advocates and activists that often represent the spearhead of virtuous change on behalf of public interest. This feature is even more critical in polities whose population faces low educational levels and where disenchantment or other societal factors generate widespread disinterest or cynicism towards political engagement by large swathes of the citizenship.

[9] With the unavoidable uncertainties that surround every exercise in forecasting future economic trajectories (Chernavsky, 2022), which are also present in the rationale to the adoption of whatever fiscal rule, either restricted or comprehensive.

[10] Moreover, the very "controllability" condition is itself contingent upon the time horizon considered: although interest payments and – to a great extent – entitlements for a given budget year can be considered independent from this years´ fiscal policy, the fiscal decisions made over time - disclosed and influenced by an all-encompassing fiscal rule as proposed – will impact their trajectory over the following periods. As Ljungman (2008, p. 14) points out: "*An advantage of an expenditure ceiling is that expenditure development for various policy options can be measured against a firm point of reference—including any deferred effects in the medium term.*"

[11] The same argument applies for an integrated set of individual fiscal rules who are enacted to be implemented together (Eyraud *et. al.*, 2018b; Gobetti, 2014, describing as examples the United Kingdom and the European Union; Mabbett & Schelkle, 2014, also for the European Union). This choice has been criticized recently as inefficient and risky when compared to the adoption of just one or very few rules (Chernavsky, 2022), but Eyraud, et. al. (2018a, p. 1) clearly support "targets for both final and intermediate objectives of fiscal policy" where a "fiscal anchor" rule points the whole fiscal framework to this final objective (a debt-to-GDP ratio being the "natural candidate") and "operational rules that are under the control of governments" with "a close and predictable link to debt dynamics" are deployed instrumentally to achieve the former.

and center in public debates)[12]. Failure to do so will not only obfuscate economic and political debate over variables that are relevant to the country´s ultimate goals in fiscal policy, but also very often provide political actors with "unofficial escape clauses" to indulge in the very misconduct the fiscal rules are meant to curb[13]. Moreover, if the rules´ perimeter is sufficiently large to trace the trajectory of its final goals back to each major causal factor, the political failure to enforce the "controllable", operational goals - even through constant legal changes to formally alleviate them[14] - will be much more easily spotted as to which waiving decision brought which effect on the final debt or net financial position – then, who is to be held accountable for it (Schick 2010)[15].

4. "SEARCHING UNDER THE LAMP POST": BRAZILIAN FISCAL RULES, WHAT THEY DO AND – MOSTLY – WHAT THEY DELIBERATELY CHOOSE NOT TO DO

Fiscal rules currently in place in Brazil involve several disconnected procedural and quantitative requirements (IFI, 2018; Chernavsky, 2022), as summarized in Figure 1 below. Regardless of its sheer number of rules, however, three features stand clearly from them. First, there´s no rule establishing numerical or quantitative targets for overall net financial positions to the public sector (legislation requires the enactment of debt limits for the national

[12] In their recommendations to revamp the fiscal rules landscape in Latin America and the Caribbean after the Covid-19 shocks, Cetrángolo, Morán and Calligaro (2022, p. 79) warn about the need to consider the whole of fiscal equations in order to choose the regulated aggregates:

> *Definir con precisión el agregado fiscal a ser regulado: llegado el momento de redefinir el agregado fiscal para tener en cuenta como objetivo de las reglas, si bien ello depende de la percepción que cada sociedad tenga de los aspectos más críticos de su política fiscal, se deberían considerar aquellas reglas que pongan el acento en el equilibrio fiscal —de ser factible y conveniente, con la inclusión de ajustes por el ciclo económico— y en la sostenibilidad de la deuda pública. Las restricciones sobre otros agregados y su composición pueden servir como guías operacionales en el corto plazo, aunque dependen de la necesidad y oportunidad de diversas políticas de reforma sectorial. Más aún, los límites sobre los niveles de gasto público (en sus diferentes agregados) parecen tener más que ver con una visión particular sobre la presencia estatal en las economías que con la propia sostenibilidad de las cuentas públicas*

[13] For instance, public grants to businesses may be restricted under an expenditure rule, but politicians can grace the same businesses with tax exemptions; direct interest rate subsidies granted to farmers may be traced by a primary (non-financial) deficit rule, but the same financial support may be given by subsidized funding to banks via underpriced government loans to them (Gobetti, 2014, pp. 36-40). All those instances will be exemplified below in the Brazilian case.

[14] See Braun and Gadano (2006) for the Argentine experience, and Afonso (2010), Gobetti (2014), or TCU (2025) for the Brazilian case.

[15] It should be noted that the comprehensiveness issue mentioned here relates to the nature of expenditures included in the fiscal rules. That assessment doesn´t even deal with the traditional "universality" debates that evolve around the exclusion from the budgets of some entities relevant to fiscal rules - specially "economically independent" publicly-owned entities and, in exceptional circumstances such as the 2008-2009 banking crises, financing arrangements for the resolution of systemic bank crises (Bittencourt, 2016; Mabbett & Schelkle, 2014). If materially relevant, however, shortcomings under this kind of "universality" criterion should work in a similar fashion as those coverage failures discussed in this paper.

government[16], as well as an overall framework for assessing debt sustainability and the coherence of fiscal balances to that objective[17]; however, so far none of those requirements has been written into law nor implemented[18]). Secondly, there´s no clear and binding mandate for disclosing the forecasted links between current fiscal policy and future debt or comprehensive government-wide fiscal outcomes[19] - very much so that the National Court of Accounts recently asked the Executive to disclose any studies that show how would actual fiscal balances under the currently enforceable fiscal targets might be numerically and methodologically consistent with debt sustainability in the medium- and long-term (TCU, 2025). Finally, all enforceable quantitative targets are defined in terms of primary (grossly, non-financial) expenditures[20].

Figure 1 – A graphical summary of fiscal rules in Brazil

Source: Chernavsky, 2022, p. 238, with adaptations.

We had already shown in depth (Santos & Bittencourt, 2025) that this single-mindedness towards primary expenditure is not haphazard, being instead the end result of legislative deliberation of the Fiscal Responsibility Law. Its first draft bill tabled by the Executive contained explicit provisions regarding the meaning of fiscal sustainability in terms of

[16] Federal Constitution, articles 52, VI and IX; Fiscal Responsibility Law (Organic Law 101/2000), article 30, I and II.

[17] Federal Constitution, article 163, VIII.

[18] Debt limits for subnational governments were put in place, but not for the federal (national) government. Those gaps in fiscal rulemaking are spotted in red in Figure 1. The yearly Budget Guidelines Act provides some informative forecasts, while the Treasury regularly develops some exercises in debt forecasting for a 10-year horizon (STN, s.d.), but those stand-alone studies are prospective and have no impact whatsoever over neither any binding target or any meaningful political debate on fiscal policy.

[19] A few scattered legal requirements mention forecasts to that end, but with neither binding effect nor any other consequence if inconsistent or disregarded. Currently, those include some features in the "Fiscal Targets Annex" to the yearly "*leis de diretrizes orçamentárias*" (Budget Guidelines Act) created by the Fiscal Responsibility Law (article 4, paragraphs 4 and 5) and the corresponding references in article 2 of the so-called "Sustainable Fiscal Framework" (Organic Law 200/2023).

[20] So called "primary" expenditures exclude those related to the financial sector (more precisely, those which change the government´s net balance with financial institutions). Thus, outside that "primary" perimeter remain public debt transactions (both interest and down payments), as well as government loans to banks and financial institutions (which can be made under several transaction models) and central bank transactions for implementing monetary policy and managing foreign exchange reserves.

balancing government´s debt and net worth, and the instruments to materialize that, enshrined in law, through multi-year frameworks that set fiscal targets and demonstrate their intertemporal consistency with the desired outcomes. The final version of the bill written into law, however, contemplated only the tabling, each year, of a three-year non-binding forecast for government debt, as well as a target for the balance between primary revenues and expenditures with enforcement mechanisms[21].

More than its roots, however, it´s crucial to understand its consequences. In the same study (Santos & Bittencourt, 2025), we point out the bias or myopic[22] effects of setting enforceable targets only for primary balances or expenditures[23]. Paramount among them is the almost complete exclusion from public debate (thus, from the budgetary decision-making arena) of a large slate of factors that add up to the government´s final debt (or net worth) position, which are not classified as "primary", and which have a huge impact on the final outcome. Among them, some are fully in control of economic policymakers: tax expenditures[24]; some "leaked" off-budget earmarked taxes that are not accounted as government revenue[25]; and government lending to banks (public and private) as reimbursable funding for loans to families and (mostly) businesses[26] - some of which are shielded from public scrutiny by their earmarking directly in the Constitution[27]. Another kind is fully outside government intervention, at least in the short term: interests on public debt (Magalhães &

[21] Respectively, the "Fiscal Targets Annex" to the yearly "*Leis de Diretrizes Orçamentárias*" (Budget Guidelines Act), required by article 4, paragraphs 4 and 5; and the yearly primary balance targets (to be written in the same Budget Guidelines Act) created by article 4, paragraphs 1 and 2, and enforced by the impoundment rules stated in articles 8 and 9 of the Fiscal Responsibility Law.

[22] Myopic in the sense of systematic differences between the informational contents of a fiscal rule and the expectations it generates or is meant to generate among economic agents (Silva & Cândido Júnior, 2010).

[23] The other binding target currently in force is the (very flexible) expenditure ceiling designed by the "Sustainable Fiscal Framework" (Organic Law 200/2023), which also encompasses strictly primary expenditures, and nothing more than that.

[24] Although tax expenditures will indirectly affect primary revenues, this effect is only implicit in any kind of primary balance rule (which has no tools to directly regulate tax expenditures themselves). On the fiscal impact and non-neutrality of tax expenditures, see Mendes (2025).

[25] Most notably the mandatory payments owed by businesses to parastatal semi-private institutions known as "Autonomous Social Services" or *Sistema S*, whose legal purpose is to provide some kinds of social assistance and vocational training to workers in the social sector.

[26] Those loans have both stock and flow biases. The stock effect is simply the exclusion from fiscal rules of the amounts of budget allocations that finance the loan the moment it is granted. The flow effect is the recurrent cost borne by the government when it lends the funds at subsidized interest rates below it own cost of capital. That´s an "implicit subsidy" kept entirely out of sight, particularly when, as it´s the case in Brazil, the government incurs in "nominal" (or overall) deficits and has to finance itself in the bond market (however, it would occur even under overall surpluses, due to the opportunity costs to the funds allocated to the loan). For a complete treatment of this issue, see Gobetti (2014, pp. 35-40) and Mendes (2025); for an assessment of their huge impact on aggregate debt balance in Brazil, see Ribeiro and Ribeiro (2026); and for their usage in distorting government debt position and deficit measurements in Brazil, see Werneck (2010) and Roarelli, Neto and Brown (2013).

[27] Basically the earmarked resources diverted from the general revenue fund to support loans to private businesses in some regions labeled as under-developed and for economic development in general (mentioned by the Constitution in articles 159, I, "c" and 239, paragraph 1, respectively).

Costa, 2018)[28]. Finally, revenues and expenditures related to foreign exchange reserves management by the central bank are at least partially under government discretion (Magalhães & Costa, 2018; Cunha & Garcia, 2012)[29].

In other words, as fiscal discipline rules deal only with "primary" fiscal aggregates, they map out and intervene only on a very limited share of public revenues and expenditures that affect public debt. In practice, omitting them means full resignation from any kind of prudential rulemaking in those excluded realms as far as fiscal sustainability is concerned. Probably more important than that, curtailing those variables from the process of fiscal rules′ definition and implementation means hiding from public opinion their actual effect, throwing all the lights on the "selected" variables, that is, primary revenue and – most emphatically – primary expenditure. That ensures fiscal policy acts as "the drunk who looks for his lost keys under the lamp post, not because he can be sure that they are there but because 'that's where the light is' " (Mabbett & Schelkle, 2014, p. 2).

That is the rationale for the full comprehensiveness of fiscal rules. If all components that lead to the final outcome of government financial sustainability are inserted into one integrated framework, some of them will be "controllable" components, able to receive mandatory targets, and the trade-offs between those targets will be fully disclosed[30]. Besides, as seen above, there are many more "controllable" variables in public finances than strictly primary (non-financial) revenues and expenditures. The absence of targets (as happens right now) in relevant components among those will in itself be displayed transparently, becoming visible for public awareness and political debate.

Some arguments against such endeavor will raise concerns about a supposed "unfeasibility" of so comprehensive a set of calculations. Analytical models such as the one proposed here are undoubtedly complex and deal with a lot of uncertainties; however, there is absolutely no evidence that they are beyond the capacities already in place in the Brazilian national government. Quite the opposite: the very existence of the abovementioned non-binding forecasting exercises[31] is proof positive of that. Besides, the withdrawal from the

[28] Albeit in some circumstances the possibility of making down payments to lower the stock of debt may be open for government discretion. Mabbett and Schelkle (2014, p. 27) show how "uncontrollable" interest payments jeopardized the effectiveness fiscal discipline instruments established for European Union countries, even as they attempted to incorporate such payments in their targets for fiscal balances (thus highlighting how ultimately biased and useless are fiscal balance rules without considering those debt costs).

[29] Those expenditures are accounted in the "general government" and "central government" concepts of debt, which include the central bank, since it′s the agency who deals with economic agents in foreign exchange markets. So, the discretion is held by "government" as a whole, not necessarily the Executive, given the different degrees of autonomy enjoyed by the central bank.

[30] For instance, by choosing to keep or expand tax expenditures on behalf of reducing some primary expenses, or vice-versa.

[31] To name but the two main ones, the "Fiscal Targets Annex" to the yearly Budget Guidelines Act and the semiannual "Fiscal Forecasting Report" published by the National Treasury Secretariat at the Finance Ministry.

attempt is the surest way to keep fiscal policy in "blind flight mode" as far as intertemporal fiscal sustainability is concerned.

Putting all dimensions of governmental financial discretion under the same umbrella has another very pragmatic side to it. If Brazilian fiscal rules embed any expectation of having material effects on short- and medium-term debt by constraining primary expenditure decisions, they have already come to a practical deadlock: since discretionary expenditures now represent less than 10% of primary ones, any meaningful impact on financially improving primary balances will have to rely on constitutional or legal changes regarding entitlements, which entail high transaction costs, a protracted and uncertain decision-making process, and lengthy time frames. So, whatever the expected benefits of fiscal discipline (such as better debt market conditions, or improved private mood for investment), they´ll be increasingly outside the direct reach of ordinary government policymaking to achieve, since executives have less and less space to swiftly change fiscal outcomes.

On the other hand, the "non-controllable" components will have their effects estimated *ex ante* and computed *ex post*: if forecasts are biased or otherwise inaccurate, this will be made visible in the framework; if the actual values deviate from sound estimates, the effect of each deviation will also be disclosed.

Everywhere along this process, allocative decisions and their causal links will be made evident, allowing each corresponding decision-maker to be held accountable, and every collective choice to be disclosed and subject to public debate. And that sunlight is not politically neutral: in Brazil (as everywhere among developed and emerging economies), primary expenditures and revenues tend to rely on universal bases. Most primary expenses relate to welfare benefits that reach the majority of citizens and families (retirement benefits, public health and education) – those are the ones who, according to the 1988 Constitution, became non-discretionary under several arrangements, and now stand for more than 90% of primary spending. Primary revenues, for their part, rely heavily on indirect taxes that affect all consumers equally, with no progressivity at all. In simple terms, primary expenditure means "the poor´s budget". The other side of the coin are financial expenditure stakeholders, the ones who benefit from by far the largest share of debt service, tax breaks, or subsidized credit: debtholders, foreign exchange dealers, investors and businesses – agents endowed with much more economic clout and political pressure power than the ordinary citizen (Marques & Toprak, 2024; Lazzarini, 2011; Grimaldi & Ornelas, 2024; Zaourak, 2018; Fairfield, 2015; Martinez, 2026; Pereira, 2019; Shah, 1995; Benumea & Garduño, 2026; Renzio, 2019). This is not to say that "the rich´s budget" is not relevant to the economy – it´s simply recalling that its claims on the public purse deserve neither lighter scrutiny nor less stringent criteria than ordinary citizens´ take.

5. *DE TE FABULA NARRATUR* – NOT JUST A BRAZILIAN IDIOSYNCRASY

Undermining the coverage of fiscal rules (and fiscal debate at large), while shielding from accountability large slices of the public purse of utmost interest to privileged stakeholders became, in Brazil, something of an art form. A warning is in order, though: risks may be more widespread than just finding an idiosyncrasy, especially for Latin American countries. Although a systematic compilation of the region´s fiscal rules is way beyond the scope of this paper[32], we may try a few quantitative comparisons[33] that might ring some bells about the coherence of other countries´ fiscal frameworks.

A more in-depth assessment of the Brazilian case (Santos & Bittencourt, 2025) has depicted a serious misalignment between the range and effects of fiscal rules (circumscribed strictly to primary balances and total expenditures) and the country´s fiscal outlook. From 2008 to 2024[34], the numerical impact of primary balances on raising public sector net debt averaged 0,65 % of GDP[35], while nominal interest payments on the same debt amounted to 4,54% of GDP36; foreign reserve-related factors showed low averages but high volatility, peaking extraordinarily in a few years (as much as -7,14 % in 2015[37]). In other words, in most fiscal years, primary balances were a minor driver among those that affected the government´s financial position. As for unaccounted "controllable" variables, during the same 2008-2024 time frame, tax expenditures amounted to an average of 4,14% of GDP, while primary revenues and expenditures meant 22,45% and 22,92% respectively (that is, about one-fifth of the primary balance variables remained entirely without quantitative targeting by fiscal rules). A very restricted sample of financial expenditures under government discretion (basically funding for loans) averaged another 0,58% of GDP, a non-despicable amount for any fine-tuning in fiscal policies. Worse, from 2008 to 2024, while primary revenues showed very little variation as a share of GDP, and primary expenditure increased less than 10% in the last half of the time frame[38], tax expenditures grew by 40% as compared to the first year (2008) and remained above that level for the last four years. Again, fiscal rules ignore a very relevant portion of public finances, and that portion has been growing over time.

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[32] See Valencia & Ulloa-Suarez (2022) for an attempt at such exhaustive recollection and systematization of cases.

[33] Those exercises input data from heterogeneous sources and merge them into unified time and measurement scales for comparability. So, they can´t be taken as analytical models *per se*; however, they reasonably assess the magnitude of the considered variables along time and across countries.

[34] Except for the 2020 fiscal year, when primary expenditures syrocketed due to pandemic-related emergency income support to families, businesses and local governments.

[35] Standard deviation was 2,89%.

[36] Standard deviation was 1,18%.

[37] Those flows are basically conditioned by the central bank´s net change in asset valuation of its foreign reserves (thus reducing net debt in accounting terms), which is propelled by strong currency devaluations. Additionally, until 2018, the end-of-year net change in foreign reserves´ accounting value was financially transferred to the Treasury as a domestic currency flow, recorded as current revenue in the fiscal balance.

[38] Again, apart from the exceptional pandemic circumstances in 2020.

Should that concern Latin American countries?

In order to assess that, we built different comparative time series of central government budget expenditures for Brazil, Latin America and a sample of OECD countries, disaggregating expenditures around the standardized Cofog classification and adding data on tax expenditure estimates (methodological aspects and full data references available in the Appendix). Table 1 and Figure 2 compare different kinds of expenditures, in Brazil and in the average of other Latin American countries, as a share of total central government outlays (including tax expenditures)[39]. Due to data availability issues, Brazilian data ranged from 2012 to 2024, while Latin American data were restricted to the 2010-2020 time frame[40]. Direct expenditures have been clustered into four categories: "Public debt" (interest and down payments on public debt), "Intergovernmental transfers" (unconditional revenue sharing with subnational governments) "Entitlements" (retirement and social assistance transfers to individuals and families, including unemployment-related benefits), and "Discretionary" (encompassing all other outlays).

Table 1 - Brazil v. Latin America v. OECD Sample – Central government - Total expenditures by category – As % of total outlays – Average

	BRAZIL 2012-2024	LATIN AMERICA (EX-BRAZIL) 2010-2020	SAMPLE OF OECD COUNTRIES 2012-2022
Total outlays (plus tax exp)	100%	100%	100%
Tax Expenditures	12,33%	19,46%	14,84%
Public debt	22,07%	7,78%	6,29%
Intergovernmental transfers	10,96%	2,95%	9,80%
Entitlements	31,82%	20,38%	33,64%
Discretionary	22,82%	49,42%	35,43%

Source: See Appendix

[39] The amount of currency outlays was added to the estimate for tax benefits, in order to provide a comprehensive estimate of central governments´ overall fiscal effort.

[40] Brazilian data was sourced from International Monetary Fund databases, which included almost no other Latin American countries; the alternate source for Cofog deployment of public expenditures, the CEPAL/ECLAC databases, covered only this different – and less recent - period. Tax expenditure data were drawn from the Global Tax Expenditure database.

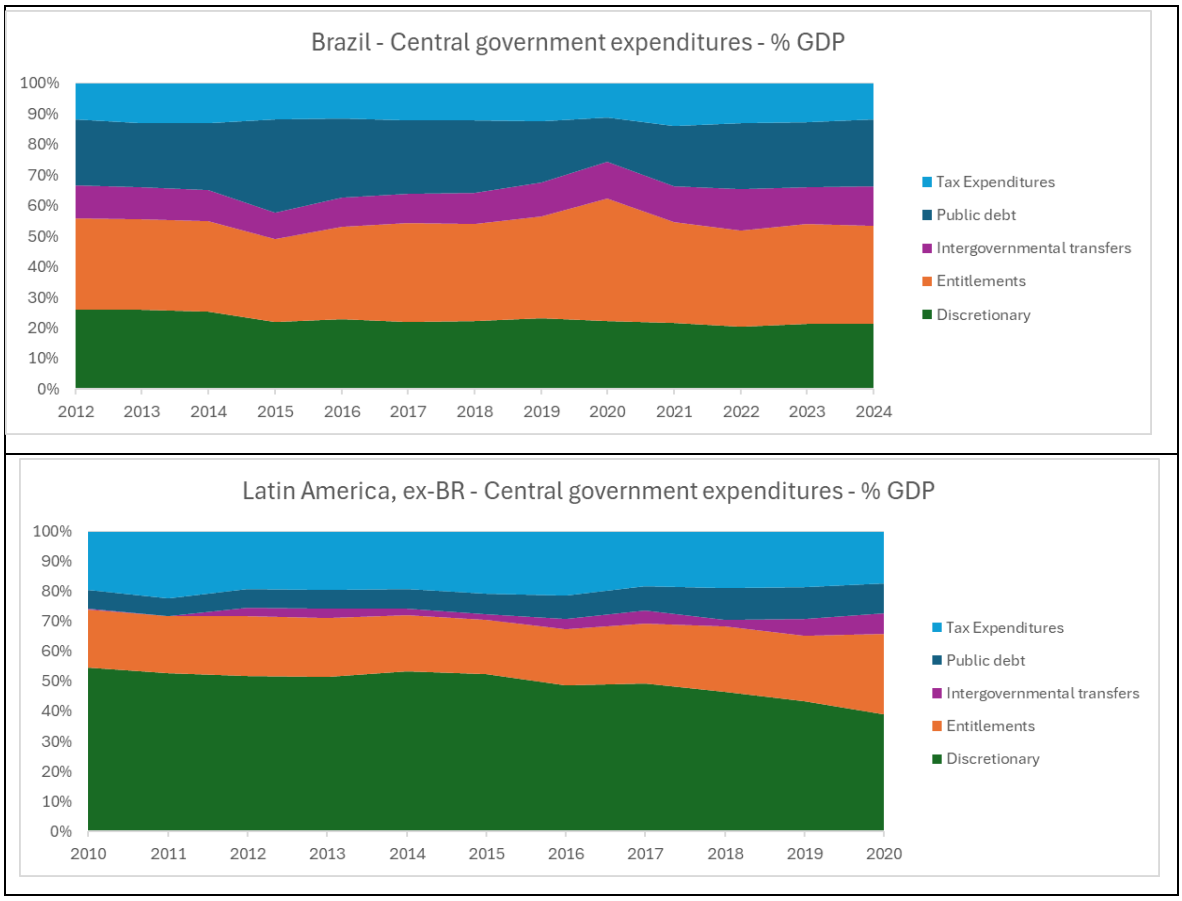


Figure 2 - Brazil v. Latin America – Central Government - Total expenditures by category – As % of total outlays

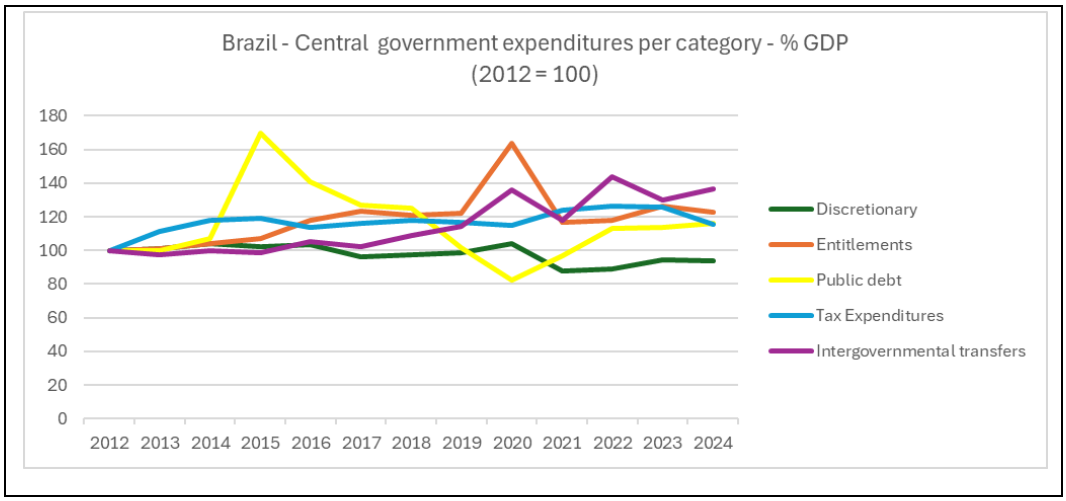
Source: See Appendix

Those numbers suggest that that Latin America is yet to fully face the heavy bottlenecks that affect Brazil in terms of fiscal policies: the amount of fiscal effort (budget outlays added to tax expenditures estimates) averaged 49 % in discretionary spending (the "usual suspect" for targeting by fiscal rules), while public debt amounted to 7,8 % and tax expenditures a huge 19%. Brazil, in comparison, shows a very heavy debt burden (22%), althouth its amount of tax benefits is significantly smaller (11%), while discretionary spending is 2% lower (22%) than the Latin American average, against an entitlements bill 10% higher (31,82% in Brazil and 20,38% in Latin America)[41]. However, an economic lens sheds a more circumspect light on those figures: Latin American countries would still miss 20% (almost one-fifth) of their fiscal effort if they choose to restrict fiscal rules (and fiscal sustainability frameworks) to non-financial items; even in primary expenditure, curtailing them (instead of extending the possibility of adjustments to other items) makes it harder to increase relevant welfare policies

[41] The substantial difference to the abovementioned share of more than 90% of mandatory spending comes from the selection (under the "Entitlements" heading) of only those expenditure categories in the "Cofog" framework involving retirement and social assistance (including unemployment-related) transfers, while legal mandates in Brazil also include most of the government payroll and the spending of earmarked revenues in health and education services, besides revenue-sharing schemes with subnational governments.

(since the low level of 20% for entitlements will suffer more pressure under primary or non-financial expenditure rules taken alone).

A longitudinal view over time reinforces that vision: Figure 2 shows that in Latin America, tax expenditures and entitlements were kept relatively stable as a share of GDP (except for strong growth in the pandemic year of 2020), whereas public debt expenses have consistently raised their take and intergovernmental transfers have shown large volatility[42]. However, Brazilian experience (which already incorporates the post-pandemic last years) shows a sobering warning: while public debt also grows (with a strongly volatile trajectory), entitlements and tax expenditures face a steady increase along time, which puts pressure into the discretionary items. If this dynamics prevails in other Latin American countries, increases in social protection will have to fight for fiscal space with public policies in general (which include other much socially relevant public expenditures such as health and education), both being pressed by heavier debt burdens (which already show up in the years up to 2020) and by the growth of the political "exhaust valve" of powerful special interests embedded in tax expenditure policies.



[42] This volatility is quite unexpected for such a variable, since it displays a very high-level feature of countries´ institutional organization, usually enshrined in the constitution. So, the hypothesis of data inconsistencies (mainly due to changes in accounting methodologies) in the ECLAC repository can´t be discarded here.

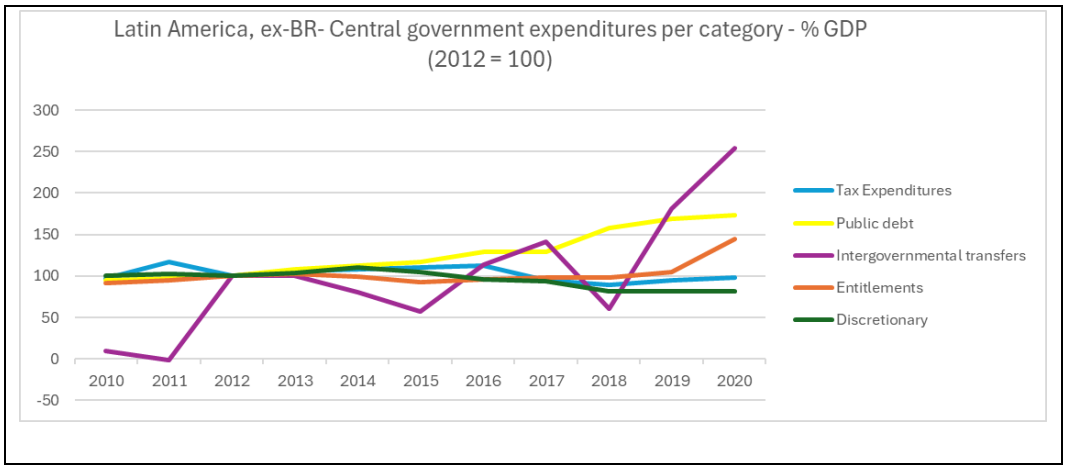
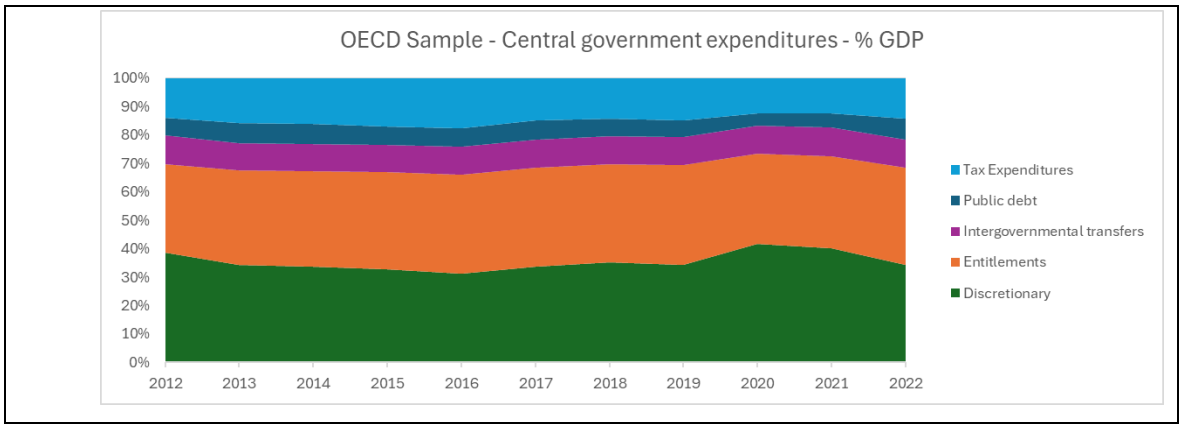


Figure 3 - Brazil v. Latin America – Central Government - Total expenditures by category – As % of total outlays – Relative growth (2012 = 100)

Source: See Appendix

Comparing now with a choice sample of OECD countries[43] in Figure 4 below, we see a much stabler behavior to those "exogenous" items of public debt and tax expenditures; both entitlements and discretionary spending could also be kept relatively constant as a share of GDP, with a spike in 2020-2021 (the pandemic and immediate post-pandemic years), mostly offset by a corresponding decrease precisely in both debt service and tax benefits. In particular, debt charges (whose burden strongly jeopardizes economic policy due to their volatile and strictly exogenous character), are lower and – except for a still very light upward trend in post-pandemic 2021-2022 – decreasing in time. OECD countries, besides, depart from much better starting points, as the 2012-2022 average in Table 1 suggests: their entitlement levels reach 33,64 % of GDP against 20,38 % in Latin America (that is, public budgets are already coping with much higher levels of social coverage).



[43] Which encompasses Australia, Japan, Sweden, Italy, United Kingdom, Spain, Canada, Germany and France (data extracted from the IMF data repositories, as detailed in Appendix 1).

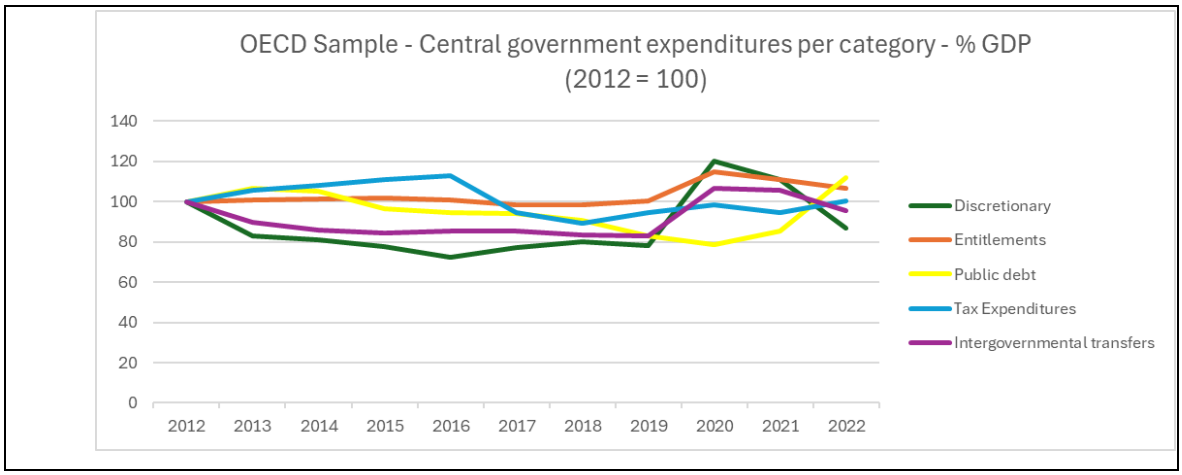


Figure 4 - Sample of OECD countries – Central Government - Total expenditures by category – As % of total outlays - Relative growth (2012 = 100)

Sources: See Appendix

Taking the cue from the Brazilian trajectory, the outlook for Latin America seems worrying: public policy at large (and social welfare policies in particular) will probably face fierce competition from debt services and from usually business-friendly tax benefits – a recipe for the decrease in government leeway to actively promote social and economic development.

That´s the empirical relevance of our warning: if technical and political debates in the region insist on disregarding fiscal drivers beyond non-financial expenditures, governments all across the ideological spectrum will face growing financial bottlenecks both to implement public policies and to balance government books: they´ll be trying to fill larger and larger gaps with lesser and lesser shares of public finances. Therefore, if the selected fiscal rules do not incorporate those same "non-primary" drivers, this obfuscation from public awareness, debate and political pressure will consolidate – as the Brazilian experience shows – that severe bias, a very harmful impact on Latin American fiscal sustainability and development prospects. What´s more, those trends look more pronounced for Brazil and Latin America than for the sample of developed economies; so, the need for sound and comprehensive fiscal anchors is felt even more acutely for the region.

6. CONCLUDING REMARKS

Parliamentary budget offices have been created around the world to empower parliaments by supplying them with enough expertise, information and analysis to overcome the information asymmetry legislators face *vis-à-vis* the resources available to executive agencies (Bittencourt, 2024). To provide that, budget offices must offer more than just bookkeeping (financial forecasting, budgetary scorekeeping): they must (and many actually do) conduct analyses regarding consequences of actual and proposed policy actions, as well as briefing legislators regarding complex budget proposals and concepts (Johnson & Stapenhurst, 2007).

Among the most prominent issues in budgetary matters put before parliaments, OECD best practices for fiscal management list a vast array of extremely relevant responsibilities in their countries´ fiscal strategies, including the review and approval of the fiscal framework (fiscal rules within it), examining long-term fiscal sustainability analysis and debating the fiscal risks associated with it. Nevertheless, parliaments´ performance in such forward-looking fiscal stewardship is found missing, being the weakest point in empirical surveys as compared to business-as-usual yearly budgetary procedures (OECD, 2026, p. 10, 40). That´s a major shortcoming for legislative institutions, since "[i]n a period of high debt, ageing populations and increasing defence demands, these weak points align closely with the capabilities most needed for restoring public finances". (OECD, 2026, pp. 10, 40).

That´s why raising this pressing issue of fiscal rules´ coverage becomes both timely and indispensable, and parliamentary budget offices can - and must – rise up to their task and speak truth to power.

Fiscal rules are the catalysts of public awareness on a country´s fiscal sustainability; they structure the best part of public debate about it, which means that, if prominence is given in that public debate to any feature of public finances, this feature is more likely to be the object of reassessment and reform (whereas the variables and interests kept away from such debates are more likely to be spared from any reevaluation or claim for reform). Fiscal policies tend to act first and foremost upon wherever fiscal rules point to, and quietly look the other way when it comes to issues not touched by fiscal rules.

The main goal of any country´s fiscal rules is, allegedly, to steer and influence government policies towards some desirable outcomes regarding its overall net financial or debt position. This net financial position is directly affected by several variables directly expressed in monetary terms: "typical" government expenditures and revenues (often classified as "primary"); financial expenditures (involving both public debt service and other transactions involving the government and financial institutions); and transactions related to foreign exchange reserves. It´s also directly impacted by other policy decisions which aren´t financially accounted but cut straight into revenue streams: tax expenditures. All categories have material impact on ultimate debt balances; some are under government discretion, while others face different degrees of short- and long-term rigidity.

Given its rationale, fiscal rules should ideally start by composing the projected trajectory to the overall fiscal goal, including all relevant factors that might affect it, which would make transparent each one´s expected contribution to the intended result (which would translate into its actual contribution when compliance to the rule is monitored). From that, rules design should deploy mandatory targets to those variables under policymakers´ control, whose assessment would disclose the amount of sacrifices demanded from each social and economic actor related to each variable.

Brazilian experience shows a clearly vicious pattern in fiscal rules design, though. All the large slate of fiscal rules does not add up to a complete equation to a desired change in public net financial position; besides, each and every one of the stand-alone rules actually in place focuses exclusively on "primary" (non-financial) direct revenues and expenditures.

This way, there´s no *ex ante* disclosure of each rule´s projected role into a final outcome, nor any concrete information on a comprehensive strategy to reach financial sustainability. *Ex post*, final debt outcomes are not systematically assessed from the point of view of components´ contribution to that result.

Much more harmful, however, is the complete absence of disclosure – and mandatory targets – to some massive fiscal decisions (fully under government control): tax expenditures and government transactions with the financial sector outside public debt management[44]. That choice hides their relevance in public debate, indirectly easing pressures for submitting them to the hardships imposed to taxpayers and beneficiaries of public services, since those are the ones affected by "primary" revenues and expenditures. Such unequal transparency is not politically neutral: exempted items benefit primarily businesses and special interests ("the rich´s budget"), and engage in much less scrutiny (thus, are submitted to much less distributive risk) than the "poor´s budget" allocations which tend to social security, health, education and other traditional public policies. By design, the burdens of whatever fiscal adjustment might be induced by Brazilian fiscal rules fall almost exclusively on the latter.

So iniquitous and maladroit institutional features for fiscal policies should serve as a serious warning to other Latin American countries when choosing or overhauling their fiscal frameworks. Indeed, the patterns empirically followed by their national budgets seem to replicate the same trends as in the Brazilian case: increasing shares of debt burdens and tax benefits, weighing over ever-compressed primary expenditures (aggravated by a smaller share of social security entitlements, indicating possible social expectations regarding a wider reach for welfare benefits). In both Brazilian and Latin American cases, there may be few precedents to those challenges, since their tolls from debt service and their profligacy in tax expenditures are significantly higher than in many OECD economies.

That´s the essence of the alert raised here: the Brazilian experience strongly indicates that, to be effective (offering unbiased informational subsidies to assess and implement fiscal sustainability) as well as equitable (submitting every social and economic interest to the same political scrutiny in distributive decision-making), any fiscal framework must encompass in its core formulation all the relevant determinants of a country´s net financial position (regardless of their being "controllable" by the government), and clear mandatory targets to every component under government control must be deducted from this core equation (as a means to make transparent the burden being imposed on those who have stakes on each

[44] Mostly composed of several kinds of deals with public and private banks aiming at funding discretionary loans to businesses and – in a much lesser scale – to families.

component). Otherwise, fiscal management will keep looking for the car keys under the restricted pool of light from the lamp post planted over ordinary citizens´ welfare, while deliberately neglecting the vast shadowy parking lot of special interests´ claims on the public purse.

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8. APPENDIX – DATA AND METHODS

All original downloaded data files and the full steps for processing them in worksheets are publicly available at the Harvard Dataverse repository under the heading "*Deliberately searching under the lamp post? Brazil´s biased fiscal rules and their lessons for Latin American economies. , Paper submitted to the 2nd OECD Meeting of Latin American Parliamentary Budget Officials. Brasília, DF - Brazil.11-12 June 2026*", accessible by the URL https://dataverse.harvard.edu/dataverse/searching_under_lampposts_fiscalrules.

All variables displayed are expressed in percentage of the corresponding countries´ GDP, and all refer to the "Central Government" concept.

Tax expenditure data were sourced from the Global Tax Expenditures Database project (Redonda; Von Haldenwang; Aliu, 2025).

Expenditure data organized by the Cofog framework (UN, 2000) were sourced from the International Monetary Fund database (IMF, 2026; Dataset "IMF,STA:GFS_COFOG(11,0,0)") for Brazil and for a choice sample of OECD countries (Australia, Japan, Sweden, Italy, United Kingdom, Spain, Canada, Germany, France). Since Cofog-structured data were not available in the IMF dataset for most Latin American Countries[45], their source was the CEPAL/ECLAC database (CEPAL, 2026), covering Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Panama, Paraguay, Uruguay and Venezuela. Due to that difference in sources, the time span for each series is different, given the choice for displaying as large a series as available in each repository: 2012-2024 for Brazilian data, 2010-2020 for Latin American countries, and 2012-2022 for OECD countries.

The variables in the tables and figures in the text were built from original data according to the procedures summarized in Table 2 below.

Table 2 - Nature and composition of variables

COMPOSED VARIABLE	NATURE AND COMPOSITION
Total outlays (plus tax exp)	All direct expenditures, added to tax expenditures. Sum of Cofog original variable "Total outlays; Transactions"46 and the amount of the "Tax expenditure
Public debt	Cofog original variable: 01.7 PUBLIC DEBT TRANSACTIONS 01.7.0 Public debt transactions (CS) − Interest payments and outlays for underwriting and floating government loans.

[45] Practically, the IMF database contains Cofog data only for Brazil, Dominican Republic, El Salvador and – in a restricted time frame – Guatemala.

[46] In the CEPAL/ECLAC dataset, the variable is coded as "Total expenditure".

	Excludes: administrative costs of public debt management (01.1.2)
Intergovernmental transfers	Cofog original variable: 01.8.0 Transfers of a general character between different levels of government (CS) − Transfers between different levels of government that are of a general character and not allocated to a particular function.
Entitlements	Expenditures related to basic social protection through transfers to individuals[47]. Sum of Cofog original variables below: 10 SOCIAL PROTECTION Government outlays on social protection include expenditures on services and transfers provided to individual persons and households and expenditures on services provided on a collective basis. Expenditures on individual services and transfers are allocated to groups (10.1) through (10.7); expenditures on collective services are assigned to groups (10.8) and (10.9) 10.1 SICKNESS AND DISABILITY 10.1.1 Sickness (IS) 10.1.2 Disability (IS) 0.2 OLD AGE 10.2.0 Old age (IS) 10.3 SURVIVORS 10.3.0 Survivors (IS) 10.4 FAMILY AND CHILDREN 10.4.0 Family and children (IS) 10.7 SOCIAL EXCLUSION N.E.C. 10.7.0 Social exclusion n.e.c. (IS)
Discretionary	All direct expenditures not comprised in the other variables. Composed variable "Total outlays (plus tax exp)", deducted from composed variables "Public debt", "Entitlements", "Intergovernmental transfers" and "Tax Expenditures"
Tax Expenditures	Revenue forgone by governments by means of tax benefits. Original variable "Revenue Forgone (% of GDP) – GTED" from the Global Tax Expenditure Database

Source: The Author

[47] A few other Cofog variables might be understood as "entitlement" social benefits according to the reader´s interpretation of this concept. Although the chosen coverage for the variable is more restricted in the paper, the data worksheets already incorporate the isolated values for some other welfare-related variables to facilitate alternative elaboration. Those include the following ones:

10.5 UNEMPLOYMENT
10.5.0 Unemployment (IS)
10.6 HOUSING
10.6.0 Housing (IS)
10.8 R&D SOCIAL PROTECTION
Definitions of basic research, applied research and experimental development are given under (01.4) and (01.5).
10.8.0 R&D Social protection (CS)
10.9 SOCIAL PROTECTION N.E.C.
10.9.0 Social protection n.e.c. (CS)
Includes: provision of social protection in the form of cash benefits and benefits in kind to victims of fires, floods, earthquakes and other peacetime disasters; purchase and storage of food, equipment and other supplies for emergency use in the case of peacetime disasters; other social protection affairs and services that cannot be assigned to (10.1), (10.2), (10.3), (10.4), (10.5), (10.6), (10.7) or (10.8).