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Fiscal Outlook Report

Executive Summary

Table 1 summarizes the main results of this edition of the Fiscal Outlook Report regarding the medium-term projections for Brazil's fiscal outlook under the reference scenario. The projections, prepared for the period from 2026 to 2036, consider the macroeconomic scenario prepared by the Secretariat for Economic Policy of the Ministry of Finance (SPE/MF) in May 2026; the Primary Revenue and Expenditure Assessment Report (RARDP) for the 2nd bimester of 2026; the primary balance targets set in the 2027 Budget Guidelines Bill; and the rules of the Sustainable Fiscal Regime (Complementary Law No. 200/2023).

Table 1 – Summary of fiscal forecasts in the reference scenario (% of GDP)

Source: Prepared by the authors

Item	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Public Sector Primary Balance	-0.4	-0.4	0.0	0.6	0.9	1.2	1.3	1.4	1.4	1.4	1.4	1.5
Central Government	-0.5	-0.4	0.0	0.6	0.9	1.3	1.3	1.4	1.4	1.4	1.5	1.5
Net Revenue	18.3	18.9	19.0	19.4	19.4	19.6	19.6	19.6	19.1	18.7	18.3	18.0
Total Expenditure	18.8	19.4	18.9	18.7	18.5	18.4	18.3	18.2	17.6	17.2	16.8	16.5
Regional Governments	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal State Enterprises	-0.0	-0.1	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Interest Payments	7.9	8.6	8.0	7.3	6.9	6.5	6.0	5.9	5.8	5.6	5.6	5.6
Public Sector Overall Balance	-8.3	-9.0	-8.0	-6.7	-6.0	-5.2	-4.7	-4.5	-4.4	-4.2	-4.1	-4.1
General Government Net Debt	66.8	70.9	73.0	74.3	74.8	74.7	74.1	73.7	72.8	72.3	71.2	70.6
General Government Gross Debt	78.6	83.5	85.9	87.3	87.9	87.4	86.9	86.2	85.5	84.7	83.9	83.1

Note: The primary balance is presented according to the “above-the-line” concept, which is more relevant for discussing its components and the fiscal events addressed in this report, while the nominal balance is presented according to the “below-the-line” concept, as it is the most appropriate to compare with fiscal statistics related to public debt. Any differences between the sum of the primary deficit with the interest payments and the overall balance will be due to statistical discrepancies.

The macroeconomic scenario underlying this report projects average real GDP growth of 2.8% per year between 2026 and 2036. Over the same horizon, the IPCA converges to 3.0% from 2028 onward, while the GDP deflator remains above consumer inflation, with an average differential of 1.2 percentage points per year. In this context, the wage bill — a relevant variable for fiscal dynamics, especially through its effect on revenues linked to the labor market — posts average nominal growth of 11.0% per year, reflecting the combination of 4.5% annual growth in the employed population with formal contracts and average nominal wage growth of 6.3% per year. The Selic rate, in turn, declines until 2032 and then stabilizes at 6.4% per year.

Under this report's reference scenario, the net primary revenue forecast starts from the estimates of the Primary Revenue and Expenditure Assessment Report (RARDP) for the second bimester of 2026. After reaching 18.9% of GDP in 2026, net revenue is projected to follow an upward path until reaching 19.6% of GDP in 2030. From then onward, it begins to decline, ending 2036 at 18.0% of GDP. This evolution assumes that additional revenue measures will need to be implemented to align revenue with the path outlined for primary expenditure, ensuring the achievement of fiscal targets. The exercise therefore estimates the additional revenue effort that may be required to meet the primary balance targets defined in the 2027 Budget Guidelines Bill - PLDO 2027, namely: 0.5% of GDP in 2027, 1.0% of GDP in 2028,

1.25% of GDP in 2029, and 1.5% of GDP in 2030, assuming that this level is maintained from 2031 onward.

Regarding primary expenditure, the projection also uses the RARDP of the 2nd bimester of 2026 as its basis and projects its evolution, among other assumptions, according to the rules of the Sustainable Fiscal Regime. That is, the real growth of the expenditure ceiling corresponds to a proportion of the real growth of Adjusted Net Revenue, subject to minimum and maximum growth rates of 0.6% and 2.5% per year, respectively. Projections for expenditures not subject to the ceiling are added to this dynamic. As a result, under the reference scenario, primary expenditure starts at 19.4% of GDP in 2026 and declines to 16.5% of GDP in 2036. This reduction in expenditure becomes more pronounced from 2033 onward, with the decline in the impact of the Fiscal Benefits Compensation Fund – FCBF, established under the Tax Reform, which is not subject to the expenditure ceiling.

Mandatory expenditures subject to the ceiling show average real growth of 2.7% per year between 2026 and 2036, with emphasis on the upward evolution of expenditures on social security benefits under the General Social Security Regime – RGPS, the Continuous Cash Benefit – BPC, unemployment insurance, and expenditures associated with the constitutional minimums for health and education. This growth exceeds the projected growth of the expenditure ceiling, making the space available for discretionary expenditures subject to the ceiling more restrictive; such expenditures would require a real reduction of 3.2% per year.

The reference scenario presents the Central Government primary balance in line with the 2nd RARDP for 2026, reaching a deficit of 0.4% of GDP, considering the exclusions, for the purpose of assessing fiscal targets, of expenditures on court-ordered payments (EC 136/2025), spending of R\$ 2.5 billion on strategic national defense projects (LC 221/2025), R\$ 3.5 billion in temporary health and education spending financed with resources from the Social Fund (LC 223/2025), and R\$ 0.5 billion related to outstanding payables for reimbursement of undue deductions from social security benefits (ADPF 1236). From 2027 onward, an upward trajectory of Central Government primary surpluses is expected, following the fiscal targets, rising from 0.05% of GDP in 2027 to 1.5% of GDP in 2036.

Regarding the evolution of public debt, the projections under this report's reference scenario indicate that General Government Gross Debt – GGGD and General Government Net Debt - GGND reach 83.5% and 70.9% of GDP, respectively, by the end of 2026. GGGD follows an upward path until reaching 87.9% of GDP in 2029, then declines to 83.1% of GDP in 2036. GGND follows a similar trajectory, also increasing until 2029 before beginning to decline in subsequent years, reaching 70.6% of GDP in 2036.

The GGGD-to-GDP ratio should record an increase of 4.9 percentage points in 2026 compared with 2025, with interest payments being the main factor pressuring the debt. It should be noted that, on average, the current GGGD-to-GDP trajectory is 1.5 percentage points of GDP below the trajectory presented in the December 2025 Fiscal Outlook Report for the period from 2025 to 2035.

The report also provides GGGD projections for alternative fiscal scenarios, to show how the debt projection is sensitive to different fiscal scenarios and macroeconomic assumptions. The report complements the reference scenario with alternative projections based on the median forecasts from Central Bank's Focus survey for macroeconomic variables and Public Sector Primary Balance, as well as sensitivity exercises that show how shocks in interest rates, growth, and primary balance can significantly alter the debt trajectory. It also presents stochastic simulations for GGGD and NGGD,

highlighting the uncertainty associated with public debt evolution and reinforcing the importance of prudent fiscal management and solid macroeconomic fundamentals.