

FISCAL RULES AND ECONOMIC POLICY IN BRAZIL

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EXECUTIVE SUMMARY

Since the 1980s, Brazil has implemented restrictive fiscal regulations that have constrained the growth of public expenditure and/or the deficit. This transition marked a departure from the era spanning 1930 to 1980, during which the state increased investment, fostered structural change, and emphasized growth. The Brazilian experience mirrors a global trend: by 2021, over 100 countries had adopted fiscal rules, influenced by the reconfiguration of international power following the 1970s and the diminishing commitment to full employment in core nations.

The global dissemination of fiscal rules manifests in diverse formats: some exclude strategic expenditures, while others integrate national and supranational dimensions. The variables constrained by a fiscal rule of the same category also vary, influencing the degree of fiscal constraint imposed by the rule.

In the Brazilian context, the existing fiscal regime is founded on three principal pillars: the Golden Rule, which limits borrowing to current expenditures; the Fiscal Responsibility Law, which establishes primary surplus targets and stringent controls on spending; and the spending regulations, initially embodied in the Spending Cap and, starting in 2024, in the New Fiscal Framework.

The Spending Cap represented the most stringent fiscal regime in recent history: it sought to freeze primary spending for two decades, impeded the economic recovery from the 2015–2016 recession,

penalized public investment, and failed to stabilize the national debt. Conversely, it resulted in sluggish growth, an escalation in the debt-to-GDP ratio, and a decline in vital public services.

The New Fiscal Framework (NFF) signifies an institutional progression beyond the Spending Cap by permitting real spending growth ranging from 0.6% to 2.5% annually, establishing bands for the primary outcome, and ensuring a minimum execution of 75% of discretionary spending, thereby partially safeguarding public investment. Nevertheless, the NFF continues to prioritize the stabilization of debt through the regulation of primary spending, perpetuating the same restrictive macroeconomic principles of the preceding regime.

While it signifies an advancement over the Spending Cap, the NAF (Natural Fiscal Adjustment) exhibits considerable structural limitations. The constrained range for expenditure growth diminishes economic dynamism and curtails the proactive role of fiscal policy, while subordinating economic policy to a monetary regime characterized by persistently high interest rates—placing Brazil among the nations with the highest interest expenditures as a percentage of GDP. Additionally, the framework exerts pressure on mandatory social policies, such as the minimum wage, the BPC (Continuous Benefit Payment), and social security, exacerbating internal distributive conflicts within the budget and potentially necessitating new constitutional amendments to align social rights with the 2.5% real growth cap.

In 2023, fiscal policy was markedly expansionary due to temporary exceptions, facilitating economic recovery. However, in 2024, the execution of spending exhibits a notable deceleration, resulting in a tangible decrease in total expenditure when extraordinary effects, such as court-ordered payments, are taken into account. This diminishes the ability to maintain the growth cycle and exerts pressure on subnational entities, which are already indicating a slowdown.

The NAF also limits the reactivation of public investment, which is essential for tackling structural bottlenecks, enhancing productive capacity, supporting industrial policy, and mitigating external vulnerability. While municipalities and states have increased investments since 2022, this trend is unsustainable without federal guidance.

Stabilizing Brazil's debt relies less on curbing primary expenditures and more on tackling the fundamental issue: the real interest rate, which consistently exceeds economic growth. As long as this framework endures, fiscal adjustments will adversely impact social spending, investment, and development policies—perpetuating inequality and sluggish growth.

The NAF (National Fiscal Adjustment Act) offers greater flexibility than the Spending Cap; however, it does not modify the essential framework of the Brazilian fiscal regime: fiscal policy continues to prioritize debt stabilization over development initiatives, structural reforms, or the reduction of inequalities. Absent a reassessment of its parameters and the monetary regime, the nation will encounter economic stagnation, a curtailment of rights, and constraints on industrial and environmental policies.

1.INTRODUCTION

This note intends to address the Sustainable Fiscal Regime, also known as the New Fiscal Framework (NFF), approved in 2023, during the first year of the third administration of Lula. Since the 1980s, Brazil began adopting restrictive fiscal rules that seek to limit public spending growth and/or the public deficit. The adoption of these rules constituted a rupture with the period of greatest growth for the Brazilian economy (1930-1980), when objectives related to economic growth and the change in the productive structure had priority over fiscal balance.

The progressive adoption of fiscal rules is far from being an exclusively Brazilian story. As we will see throughout this note, the number of countries adopting fiscal rules has risen dramatically in recent decades. On a political level, this process relates to the change in international power structures since the end of the Golden Age of capitalism in central countries. The end of the United States (US) commitment to a full employment order in advanced countries, the dissolution of the Soviet Union, the US victory in the Cold War, and the retreat of left-wing forces in economic policy management are part of a set of elements that altered the consensus around full employment policies in central countries. Consequently, in several countries, workers saw a fall in their bargaining power and a worsening of income distribution (Barba and Pivetti, 2021).

This shift in power structures had as a consequence, on the analytical level, in line with the development of the marginalist approach, the progressive sidelining of fiscal policy, which became confined to the realm of rules. Meanwhile, monetary policy was elevated to the central role in conducting the main task of economic policy: the correction of deviations of the effective output level relative to what is conceived as the potential level (the level that does not accelerate inflation), and the maintenance of price stability.

In Brazil, the external debt crisis and the consequent inflationary problem in the 1980s were conceived by many economists and economic authorities as being entirely, or at least largely, caused by public deficits. The external crisis was also understood as a fiscal crisis, indicating a supposed exhaustion of the financing pattern that prevailed during the years of high economic growth and structural change. In this sense, there was a near consensus regarding changes that sought to restrict the growth of public spending or public deficits. However, due to the Constitution promulgated in 1988, particularly due to the link between the tax revenue to public spending in social areas, a paradoxical situation was made possible in Brazil: the expansion of social policies and the advance of an incipient Welfare State, amidst a period of advancing neoliberalism in Brazil and globally. It is precisely because it links the growth of tax revenue with the growth of social spending, as a form of promoting citizenship, that the Brazilian Magna Carta became the target of Brazilian neoliberals in the last decade.

Brazilian society must discuss the consequences of adopting restrictive fiscal rules. A critical bibliography has been flourishing over the last decade, seeking to answer the questions raised by how fiscal policy was conducted between 2015 and 2022. The approval of the New Fiscal Framework (NFF) (Novo Arcabouço Fiscal (NAF), in Portuguese in 2023, valid for the Federal Government starting 2024, brings the debate back into focus. This paper intends to make a contribution to this discussion.

From a theoretical/analytical viewpoint, the propositions, evaluations, and comments on fiscal rules written in this note are based on the Principle of Effective Demand and the theory of the Exogenous Interest Rate. In other words, in the short run, the Principle of Effective Demand establishes that, for a given productive capacity, the level of output and employment depends on the economy's aggregate spending decisions, measured at supply prices. In the long run, the growth of productive capacity itself becomes dependent on the evolution of effective demand. Private investment, which generates productive capacity for the private sector of the economy, is spending induced by the elements of effective demand that do not generate productive capacity but help sell the economy's output, such as public spending, exports, and credit-financed consumption^[2]. In turn, the long tradition of the Exogenous Interest Rate theory establishes that, recognizing the state-based nature of money, the interest rate in a capitalist economy that issues its own currency is an economic policy variable fixed according to the priorities and constraints of monetary policy^[3], thereby denying the very idea of a natural interest

rate or that the interest rate has any direct and unambiguous relationship with fiscal variables and/or is determined by market expectations.

The note will be structured in five sections in addition to this introduction. Section 2 will outline the general features of the growth of fiscal rules globally. Section 3 will discuss Brazilian fiscal rules and their relationship with fiscal policy and economic growth. Section 4 will critically discuss the New Fiscal Framework based on its theoretical/analytical assumptions. Section 5 will address the initial impacts of this new fiscal rule and its perspectives for government intervention and the Brazilian economy. Finally, concluding remarks will close the work.

2.INTERNATIONAL CONTEXT

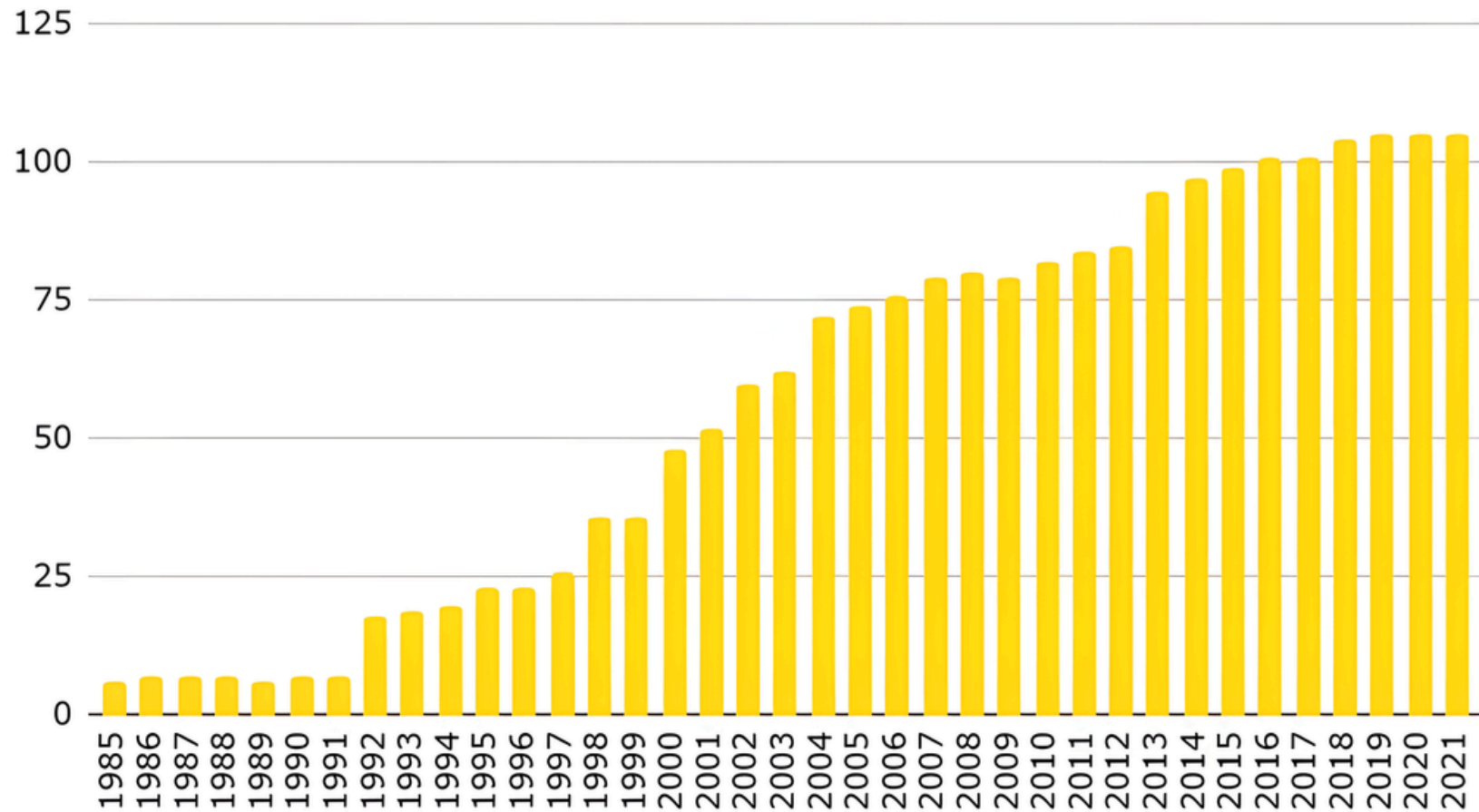
In recent decades, an increasing number of countries have begun adopting fiscal rules. Data from the International Monetary Fund (IMF) (2022) indicate that before 1985, only six countries had such rules, and by the end of 2021, 106 countries had already adopted similar policies^[4]. The evolution of the number of countries during this period can be seen in Chart 1 below.

[2] For this version of the Principle of Effective Demand, see Serrano (1995).

[3] The constraints on monetary policy are of an 'external' nature. They are related to the balance of payments conditions, external interest rates, and the economy's external solvency conditions. For more details, see Serrano and Pimentel (2017).

[4] At the end of 2021, 105 countries had adopted fiscal rules. The complete listing, divided by income groups and compiled by the IMF, totals 108 countries. The 3-country difference (108 - 105) is explained by the fact that i) Canada abolished its fiscal rules in 2006 but was kept in the database; and ii) South Korea and South Africa, countries included in the database, have fiscal councils but do not have fiscal rules as defined by the IMF database.

Chart 1—Number of countries with tax rules

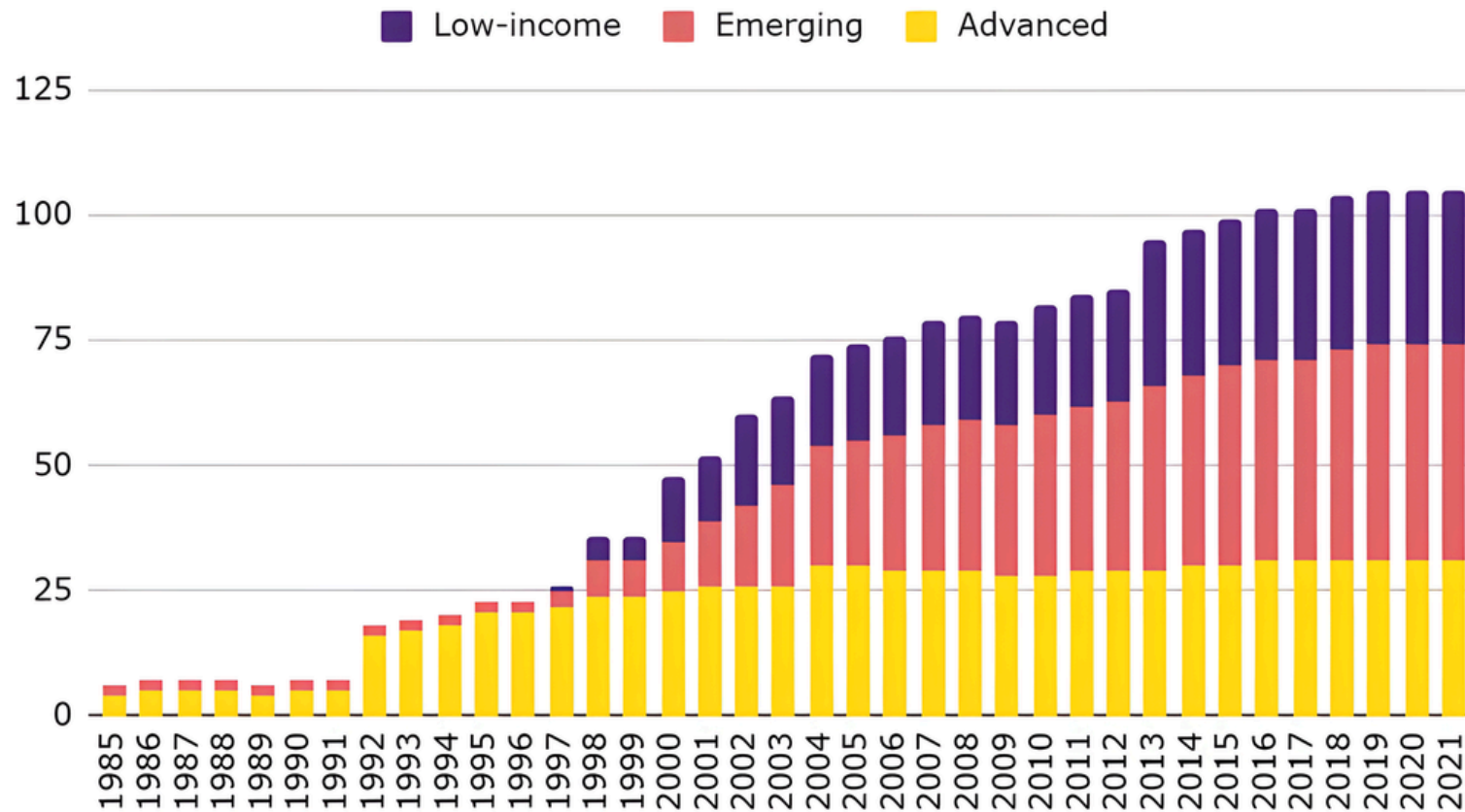


Source: IMF - Fiscal Rules Database (2025). Author's own elaboration

The chart below (Chart 2) shows the evolution of the number of countries that adopted fiscal rules by income level. Of the 105 countries that had adopted fiscal rules by the end of 2021, 34 were

considered Advanced Economies, 46 were considered Emerging Economies, and 25 were considered Low-Income Countries.

Chart 2 - Number of tax rules worldwide by economic group

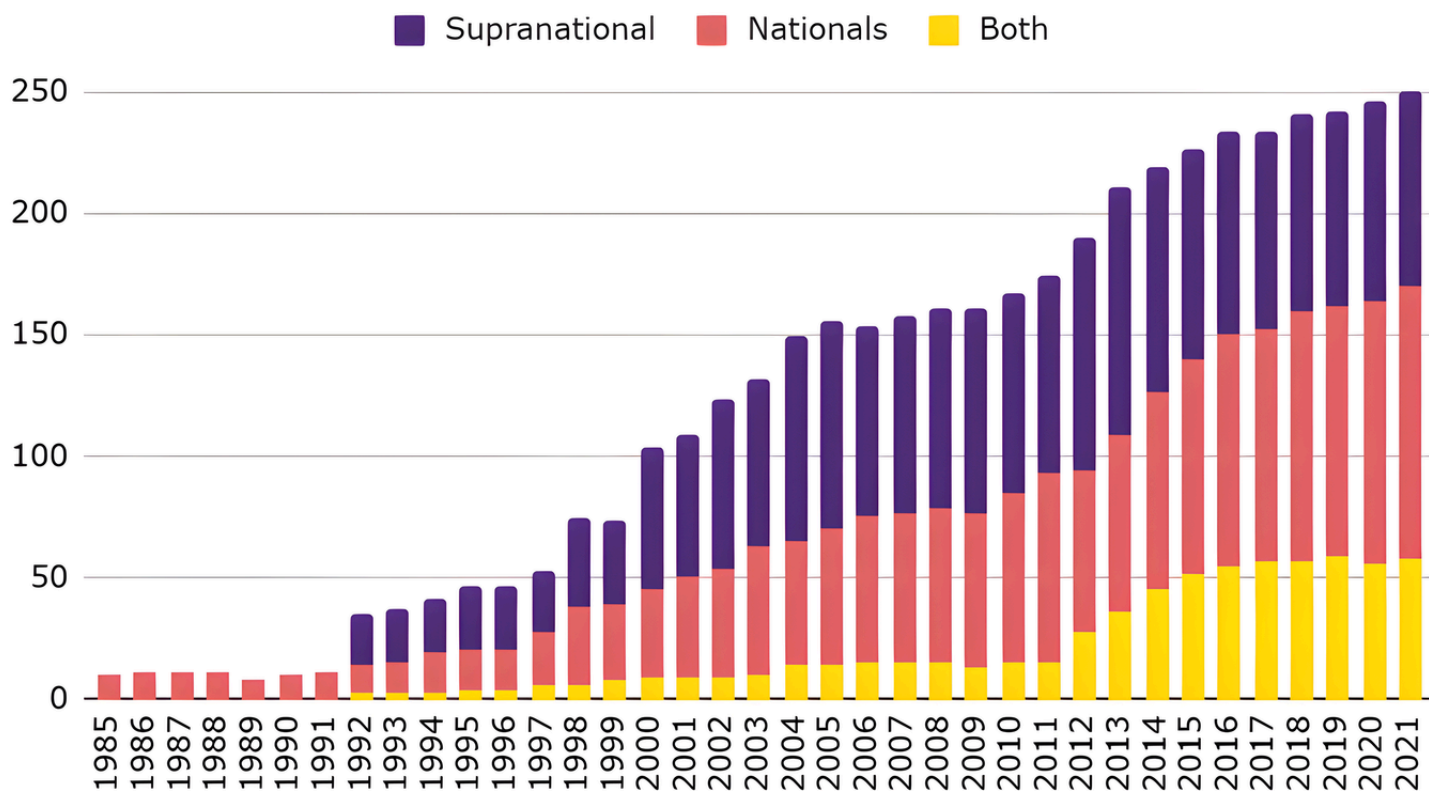


Source: IMF - Fiscal Rules Database (2025). Author's own elaboration

The process of implementing fiscal rules did not occur uniformly or synchronously among the countries that adopted them. Starting with national rules, the number of countries spiked in 1992 with the Maastricht Treaty, which established supranational rules for European countries.

Starting in the 2000s, emerging countries began adhering to fiscal rules through the adoption of national rules, while low-income countries adopted supranational rules (Davoodi et al, 2022). Some countries combine national rules with supranational rules^[5].

Chart 3 - Tax rules by legal source



Source: IMF - Fiscal Rules Database (2025). Author's own elaboration

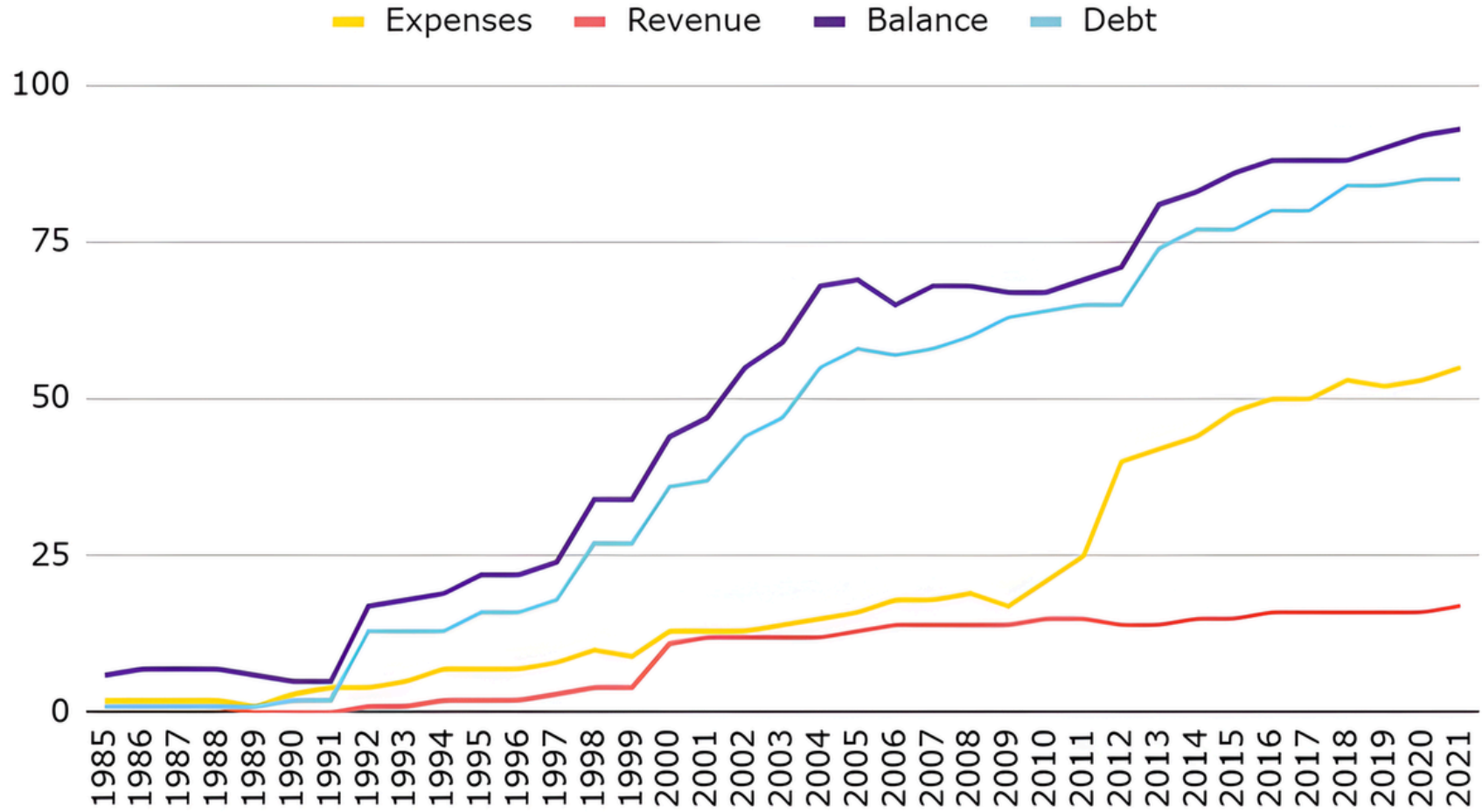
[5] Supranational rules are made based on an agreement between different countries that may be members of an economic bloc, as in the European case with Maastricht in 1992. Such rules may or may not be complemented by national rules that create a domestic path for the commitment established in a supranational rule regarding the limits of fiscal aggregates.

Eyrald et al. (2018) argue that there were two "waves" of fiscal rule implementation, using the 2008 financial crisis as a watershed moment. The first wave, up until the 2008 crisis, consisted of relatively stricter rules and lacked adequate enforcement mechanisms to ensure compliance. The excessive rigidity is said to have led to the emergence of ad-hoc clauses to accommodate contingencies, such as adjustments to adapt the rules to economic cycles. Beginning after the 2008 crisis, the second wave of fiscal rules emerged, admitting greater flexibility and generally making them sensitive to economic cycles. According to the authors, while enforcement and monitoring mechanisms were developed, the fiscal frameworks have become more complicated to the point of losing the capacity to effectively structure and guide fiscal policy^[6].

Let us now look at the most common types of rules through the chart below:

[6] "The past decade has seen the emergence of a second generation of rules that attempts to strengthen the rules' enforceability while continuing to enhance their flexibility. Since the GFC, enforcement and monitoring mechanisms have been upgraded almost everywhere. As a result, fiscal rule frameworks have become more complicated, often to the point of impeding their ability to frame and guide fiscal policy effectively" (Eyrald et al., 2018, p. 6)

Chart 4 - Number of tax rules by type of rule

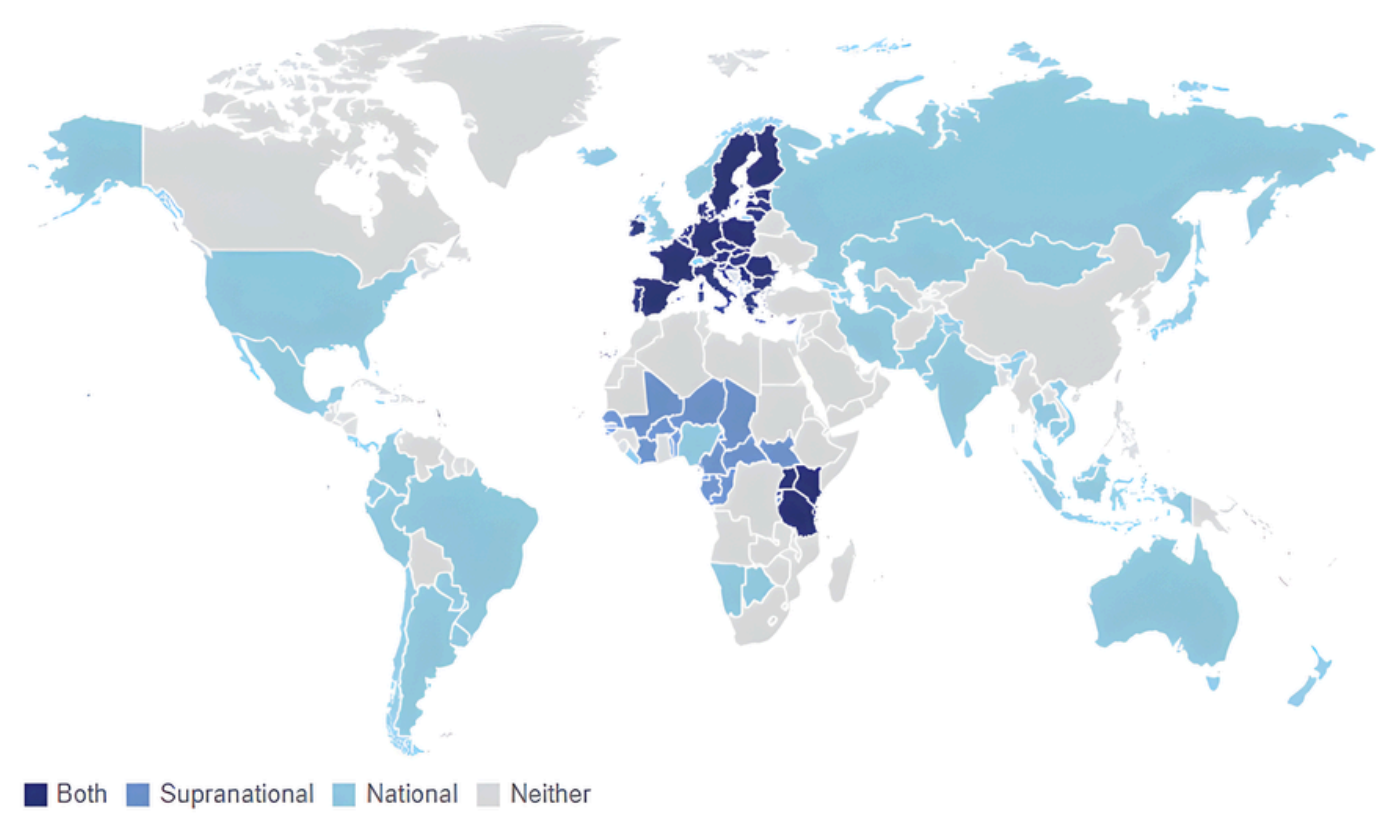


Source: IMF - Fiscal Rules Database (2025). Author's own elaboration

The most common fiscal rules are budget balance rules (93 countries) and debt rules (85 countries). Expenditure rules rank third (55 countries), with strong growth in 2012 due to the rules combined by European Union countries in 2012.

Note that revenue rules are the least common (17 countries) and tend to set a ceiling on revenue collection in developed countries and a floor in low-income countries (Davoodi et al, 2022).

Countries with fiscal rules in 2021



Source: IMF- Fiscal Rules Database

As we have seen, far from being an exclusively Brazilian discussion, fiscal rules have become widespread in international experience. However, this experience points to highly diverse paths among countries with fiscal rules.

There are several countries that lack formal procedures for the execution of the rule, such as Colombia and Finland, and other countries, like Sweden, that exclude certain expenditures from the limits imposed by the rule. Within the same type of fiscal rule, the variables to be constrained by the rule vary. To exemplify, we can cite budget balance rules. The variable to be constrained by the target can be a deficit limit as a proportion of the output level, the primary balance, the structural primary balance, a current budget target, etc. And the chosen variable makes a difference in the achievement of fiscal policy.

In summary, the brief examination of the international experience regarding fiscal rules indicates that despite the progressive increase in the number of countries that adhered to fiscal rules, especially since 1992, a high degree of heterogeneity in their formats is observed. This heterogeneity results in distinct degrees of freedom for the exercise of fiscal policy in favor of achieving pre-defined objectives in terms of revenue, expenditure, primary balance, and public debt trajectory.

Let us now discuss fiscal rules and their relationship with fiscal policy and economic growth in Brazil.

3. FISCAL RULES, FISCAL POLICY, AND ECONOMIC GROWTH IN BRAZIL

In this section, we will address the relationship between fiscal rules, fiscal policy, and economic growth in Brazil between 2003 and 2022, contrasting periods where fiscal policy could be used, to a greater or lesser extent, to stimulate activity and employment levels (2003–2014) with periods where fiscal policy was quite restrictive (2015–2022).

First, it is appropriate to make general considerations about the fiscal rules in Brazil, how they condition fiscal policy and the stimulus for economic growth. Generally speaking, since the 1988 Constitution, Brazil has adopted three fiscal rules^[7]: (1) the so-called Golden Rule, (2) the Fiscal Responsibility Law (Lei de Responsabilidade Fiscal (LRF), and (3) an expenditure rule that establishes a ceiling for the growth rate of primary expenditure, which has taken two formats: between 2017 and 2022, it was Constitutional Amendment 95, known as the Spending Cap (Teto de Gastos), and since 2024, the New Fiscal Framework .

The so-called Golden Rule, via Article 167 of the 1988 Constitution, establishes that: “the undertaking of credit operations that exceed the amount of capital expenditures, except for those authorized by supplementary or special credits for a precise purpose, approved by the Legislative Branch by an absolute majority.” This rule stems from the distinction between capital expenditures and current expenditures and seeks to limit indebtedness solely to the realization of capital expenditures.

[7] There are other fiscal devices that seek to condition the exercise of fiscal policy, such as Article 164 of the Constitution, which prohibits the Central Bank of Brazil from directly financing the National Treasury. However, this same article permits the purchase and sale of public securities to control the interest rate and/or money supply. In this note, we will briefly discuss the three main fiscal rules.

In other words, it aims to prevent the financing of public spending for the payment of current expenditures from being done through public debt^[8].

The Fiscal Responsibility Law, approved in 2000, establishes a comprehensive set of measures that discipline fiscal policy. Among these measures are: a) the limitation of personnel expenditures, imposed on the three spheres of government and each of their Branches; b) the creation of restrictions on generating excessive expenditures in the last year of a mandate; c) the regulation of all new current expenditures lasting longer than two years; d) the imposition that governmental entities assume commitments to fiscal targets and, every four months, present the evolution of their finances to the Legislative Branch and society; etc^[9].

From a macroeconomic viewpoint, the main constraint of the Fiscal Responsibility Law is the establishment of a primary balance target imposed on the three spheres of government. This target conditions budget execution, according to the distance between actual and projected revenue. However, note that the International Monetary Fund does not consider the primary balance target imposed by the Fiscal Responsibility Law to be a fiscal rule, insofar as the target can be altered throughout the year, provided the legislature approves the change.

Rigid outcome rules (not cycle-sensitive) are conceptualized as procyclical. This means that the exercise of fiscal policy by the government tends to accentuate the direction of the economic cycle.

Basically, when observed revenue is above projected revenue, the government could, in theory, spend more than initially projected, since the target is intended to directly control the fiscal outcome—the difference between tax revenue and primary expenditure. The problem arises when, during periods of economic slowdown, revenue starts to fall below projections, and the government is obliged to contingency/block public spending^[10]. The relevance of the central government also stems from the fact that subnational entities in Brazil no longer have access to monetary sovereignty^[11] and are dependent on revenue collection, federal transfers, and the political guidance of the central government to pursue expansionary fiscal policy.

In the Brazilian fiscal framework, the constitutional earmarking between tax revenue and public expenditure has protected the growth of social spending in Brazil since 1988. This placed us in a paradoxical situation, as mentioned in the introduction to this note: the expansion of social welfare policies amidst the neoliberal era^[12].

[8] Dweck (2022) and Villela and Vaz (2021).

[9] For more, see Silva (2022).

[10] As already mentioned, the target can be altered throughout the year, but this implies a political negotiation with Congress. Since 2015, these negotiations have become more politically costly, as pointed out by Dweck (2022).

[11] The history of how states lost access to monetary sovereignty in Brazil is explained in Aranha (2022).

[12] "In short, it is possible to recognize three long waves of institutional innovation and diffusion of social rights in Brazil: the years of corporate welfare, between 1930 and 1964, in which labor and social security legislation was designed and implemented—a phase that extended mainly inertially and incrementally between 1946 and 1964; the period of basic universalism, spanning the years 1964 to 1984, when social security coverage was unified and extended, in a differentiated manner, to traditionally excluded social strata, and a private segment was created simultaneously with a public one in health, the latter aimed at those not covered by the contributory and private segments; and the post-1988 period, with the institutionalization of social assistance, the establishment of a social minimum, the extension of non-contributory social security coverage, the creation of the Unified Health System (SUS), and, more recently, the policy of minimum wage appreciation, foreshadowing, not without setbacks, an extended universalism." (Kerstenetzsky, 2012, p. 181, author's own translation)

This fiscal framework proved effective during periods of economic growth and/or periods of tax revenue growth. In recessive or slowdown periods, fiscal adjustments compromised the execution of primary expenditure on discretionary expenses, particularly public investment.

Between 2003 and 2014, Brazil experienced a period of reasonable economic growth, with fiscal policy being used to stimulate levels of growth and employment. This period is far from being homogeneous in terms of the intensity of the use of fiscal policy to promote growth.

Particularly during Lula's second administration, between 2007 and 2010, the government took responsibility for growth during a troubled period for the international economy (2008 crisis), and it was the period when the central government exhibited the highest rate of public spending growth. Not coincidentally, this was the period when the Brazilian economy grew the most when compared to Lula's first administration and Dilma's first administration, within the 2003–2014 period.

However, in this note, it is more relevant for us to contrast the 2003–2014 period with the 2015–2022 period. In 2015, Dilma's second administration adopted a drastically contractionary fiscal policy and ultimately failed in all its declared objectives: the primary deficit, gross debt, gross debt-to-GDP ratio, and unemployment rose, while production, income, and per capita income plummeted. The contractionary fiscal policy contributed to the country entering the worst recession in its history and the one that would take the longest time for the country to recover.

Table 1, below, suggests that expansionary fiscal policy can, indeed, contribute to economic growth. Periods of higher public spending growth rate are associated with higher rates of economic growth. Periods of lower public spending growth rate are associated with lower growth of the Brazilian economy^[13].

[13] Studies such as Haluska (2023) and Freitas and Dweck (2013) point to public spending as the main engine of growth for the Brazilian economy, based on an analysis supported by the Principle of Effective Demand.

Table 1: Annual Growth Rates of GDP and Aggregate Demand Components (Period Averages)

Aggregate Demand Component	2003-2014	2015-2022
GDP	35%	2%
Household Consumption	42%	2%
Government Consumption	26%	1%
Gross Fixed Capital Formation (GFCF)	50%	-12%
Government Investment	54%	-3%
State-Owned Enterprise Investment	46%	-72%
Residential Investment	38%	-23%
Private Investment	55%	-3%
Exports	44%	27%
Imports	89%	-9%
Transfers to Households	48%	18%

Source: Summa et al (2025)

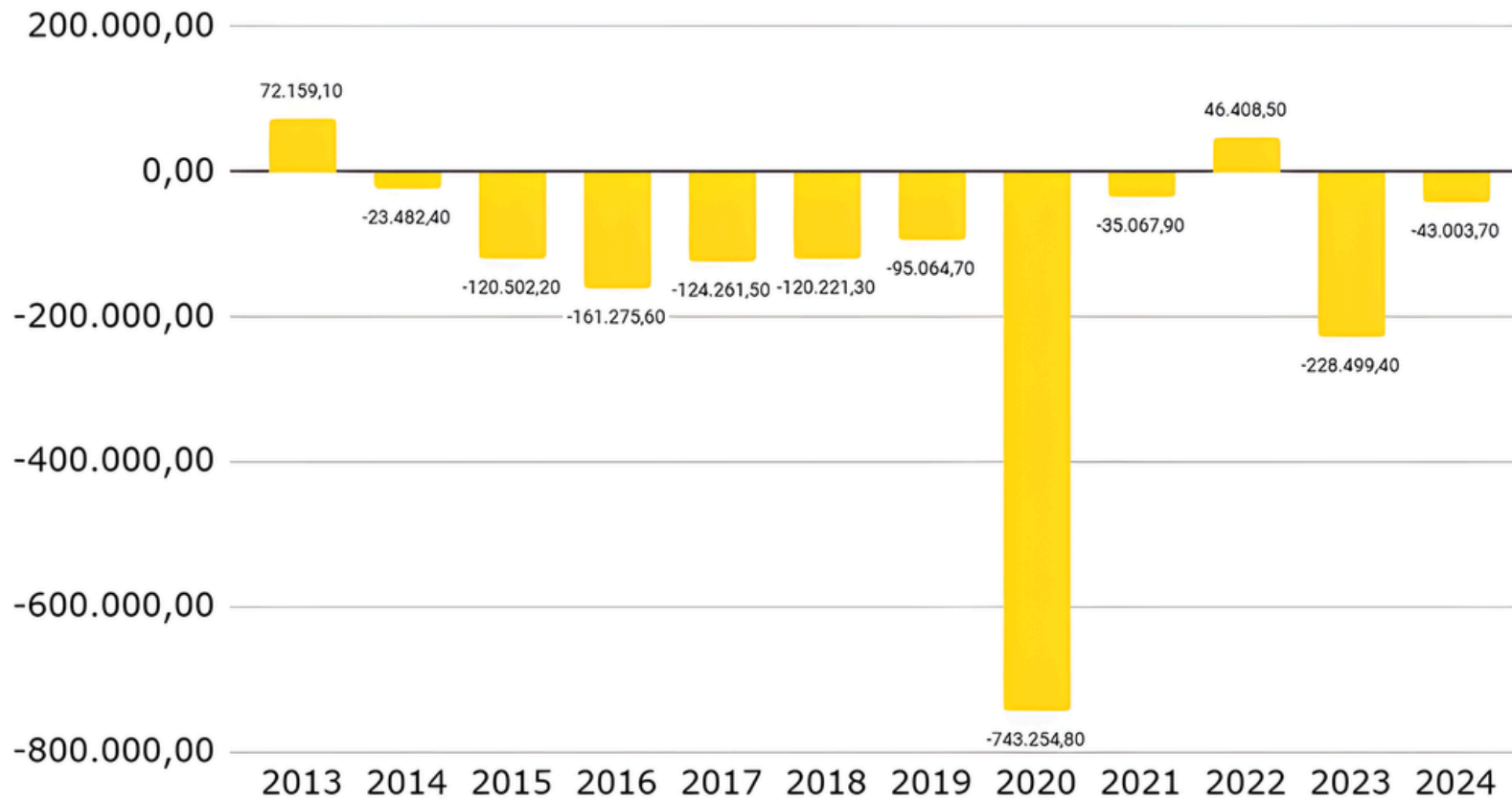
The Gross Domestic Product (GDP) recession that began in 2015 politically weakened the government and paved the way for a program designed by Brazilian liberals, called “A Bridge to the Future,” to be partially implemented by the Temer administration. With the promulgation of Constitutional Amendment 95 (Emenda Constitucional 95), known as the Spending Cap (Teto de Gastos), the interdiction of fiscal policy through the real freeze of central government public spending for objectives of growth, economic development, and income distribution was well underway.

A constitutional amendment was necessary to suspend the constitutional earmarking that protected health and education expenditures. Following this process, there was also a pension reform aimed at slowing the growth rate of pension spending and making the Cap feasible from the standpoint of the totality of the Federal Government's (União) primary expenditures.

Far from the promises made by its creators^[14], the Spending Cap brought a period of very low growth that failed to pull the country out of the recession it was in, considering only the 2017–2019 period, since the pandemic period has other economic determinants. The promises made based on the fiscal measures taken in the 2015–2022 period were to bring back economic growth through the correction of the public debt trajectory and the cut/freeze of primary expenditures, and even considering only the 2017–2019 period, these promises were not delivered.

[14] “A change of course in public accounts is necessary so that the Country can, with the greatest possible urgency, reestablish confidence in the sustainability of public spending and debt. It is important to emphasize that, given the acute state of fiscal imbalance that has developed in recent years, this instrument is essential to put the economy back on a trajectory of growth, generating income and jobs. (...) Correcting the imbalance in public accounts is a necessary condition to remove the Brazilian economy from the critical situation Your Excellency inherited upon assuming the Presidency of the Republic. Thus, actions to ensure the sustainability of public expenditures are not an end in themselves, but the only path to the recovery of confidence, which will translate into a return to growth. The root of the Federal Government's fiscal problem lies in the accelerated growth of primary public expenditure. In the 2008–2015 period, this expenditure grew 51% above inflation, while revenue evolved only 14.5%. It is therefore necessary to stabilize the growth of primary expenditure, as an instrument to contain the expansion of public debt.” (Meirelles & Oliveira, 2016, author's own translation)

Chart 5 - Central Government Primary Result (R\$ million - current values)



Source: Brazilian National Treasury

Recalling Kalecki (1943) and Sayad (2000), given the persistence of the primary deficit, it is interesting to question whether liberals truly prioritized correcting the course of public accounts, insofar as this deficit persisted throughout almost the entire period (recalling that in 2022, the Bolsonaro administration only presented a primary surplus because it deferred precatórios [court-ordered debt payments] that were paid in 2023). As Kaleckian macroeconomics reminds us, profits are a positive function of the public deficit, and this may help explain the persistence of the primary deficit throughout most of the 2015–2019 period^[15], even while there was broad agreement among the capitalist class in Brazil that public spending containment measures were 'necessary.' The continuation of the deficit would serve to deepen public spending containment measures, extending the logic of the Spending Cap to subnational entities, enabling the approval of social security reform, etc.

Within this political economy perspective, in which power relations are constitutive elements of economic phenomena, the actual priority appeared to be limiting the growth of primary spending as much as possible, since it is through the growth of this variable that the government stimulates growth, development, and improves income distribution. This income distribution process can occur directly, for example, via income transfer policies, such as pensions and welfare benefits, and also indirectly, because expansionary policies, by raising the level of activity and reducing unemployment, increase the bargaining power of workers and induce distributive changes that favor the growth of the wage share in national income.

If the “fiscal adjustment” were truly aimed at the primary or nominal

balance, changes on the taxation side would also have been implemented to raise revenue, especially in a country where effective income tax rates are so low in international comparisons.

At the end of 2022, with the election of Lula, an opportunity was given for his third term to propose an alternative fiscal policy aligned with the majority interest. Insofar as the replacement of the Spending Cap (Teto de Gastos) with a new fiscal rule was agreed upon during the transition between the Bolsonaro and the third administration of Lula. As will be shown in Section 5, the year 2023 saw strong fiscal expansion led by the Central Government, governed by a Constitutional Amendment that allowed such expansion, and the New Fiscal Framework was approved in 2023 to take effect starting in 2024. Let us now discuss the priorities and constraints imposed by the New Fiscal Framework on fiscal policy.

4. THE NEW FISCAL FRAMEWORK (NFF)

In this section, we will briefly present the main measures adopted by the New Fiscal Framework and evaluate them from an analytical and theoretical viewpoint. The text of Complementary Law No. 200, which establishes the New Fiscal Framework, states that its promulgation would serve “to guarantee the macroeconomic stability of the Country and create the adequate conditions for socio-economic growth,” and reads that “The Federal Government's fiscal policy must be conducted in such a way as to maintain public debt at sustainable levels, preventing risks and promoting fiscal adjustment measures in case of deviations, guaranteeing the solvency and intertemporal sustainability of public accounts.”

[15] The 2015–2019 period is used here solely to isolate the pandemic, whose determinants are distinct.

From a macroeconomic viewpoint, the main characteristics of the New Fiscal Framework are the following:

1. The growth of expenditure must occur between 0.6% and 2.5% per year. The idea is that the growth of the primary expenditure should not be lower than population growth so that federal expenditure per capita does not fall. The ceiling would be determined by the potential output growth rate. In other words, public spending growing up to 2.5% per year would not be excessive or inflationary.
2. Within this growth range, the rate will be established as 70% of the adjusted net primary revenue.^[16]
3. The primary balance now has two thresholds [a lower threshold (-0.25%) and upper threshold (+0.25%)] around a central target.
4. A floor is established for discretionary expenditures, set at 75% of the discretionary expenditures approved in the Annual Budget Law (Lei Orçamentária Anual).

Regarding the main points enumerated above, some considerations are appropriate. We will divide these considerations into the main positive points and negative points of the fiscal rule in question, relative to the previous fiscal rule, the Spending Cap of the Temer-Bolsonaro administration. Let us begin with the positive points.

POSITIVE POINTS

As a first positive point, it is universally acknowledged that, compared to the previous Spending Cap, the New Fiscal Framework, by permitting real expenditure growth, is a fiscal rule that restores some power to the central government to stimulate levels of activity and employment. Although limited, any positive real growth rate is better than no growth.^[17] And this factor is especially relevant when considering the role the 2015–2022 period played in economic growth, as well as in various social areas and public investment.

The second positive point concerns the adoption of bands for the primary balance, insofar as this grants some flexibility in managing the outcome target throughout the year, which is especially relevant in cases of economic slowdown and slightly reduces but does not prevent the counterproductive contingency (freezing) of public spending throughout the year^[18]. It must also be recognized that the government attempted to eliminate the contingency mechanisms that so disrupt more efficient management of public spending when the New Fiscal Framework was still a Bill, but unfortunately, this measure was also blocked during the negotiation process with Congress.

[16] The Adjusted Primary Revenue deducts the following items from the total primary revenue: (1) primary revenues from concessions and permits; (2) primary revenues from dividends and equity holdings; (3) primary revenues from the exploitation of natural resources; (4) primary revenues referred to in the sole paragraph of Art. 121 of the Act of Transitional Constitutional Provisions (Ato das Disposições Constitucionais Transitórias); (5) revenues from special fiscal recovery programs, intended to promote the regularization of credits with the Federal Government (União), created after the publication of this Complementary Law; and (6) legal and constitutional transfers through the sharing of primary revenues, discounted from those derived from the revenues referred to in items I to V of this paragraph.

[17] As will be discussed in the next section, the strong expenditure growth by the Central Government occurred in 2023, a year in which the New Fiscal Framework was not yet in effect.

[18] The recent conflict with the Federal Court of Accounts (TCU) points out that this achievement will still have to be consolidated. The TCU recently argued that the government could not target the lower band of the goal throughout the year, and this significantly diminishes the relevance of that achievement. The government counter-argued, and this point should be the subject of political dispute in the coming years.

The third positive point is the protection of the level of discretionary expenditures at 75% of the amount approved in the Annual Budget Law (Lei Orçamentária Anual). A novelty of the New Fiscal Framework compared to the previously existing legislation is the protection of some level of budget execution for discretionary expenditures, including public investment. As pointed out by Dweck (2022), since the Fiscal Responsibility Law, when Brazil committed to a primary balance target, no legal provision protected any level of discretionary expenditures; that is, depending on the size of the economic slowdown and the fall in realized revenue compared to projected revenue, there were no guarantees of their budget execution.

NEGATIVE POINTS

The New Fiscal Framework of Lula's third administration fails to alter the priority of fiscal policy, which remains that of producing a specific fiscal outcome to balance the gross debt-to-GDP ratio. Fiscal policy, particularly the definition of the level and growth of primary expenditure and its relationship with primary revenue, continues to prioritize a specific primary balance with the objective of stabilizing the public debt-to-GDP ratio at a certain level.

Primary expenditures comprise practically all relevant government spending that has a direct and indirect impact on goods and public services, except for financial expenditures on interest and amortization of public debt. In general terms, three are the determinants of the variation in the debt-to-GDP ratio (Δb):

$$\Delta b = d_t + \left(\frac{r - g}{1 + g} \right) b_{t-1}$$

The determinants, using the following variables, are:

1. d_t : The primary deficit.
2. g : The real growth rate of the output level (and of tax revenue, for a given tax rate).
3. r : The real tax-free interest rate on public debt.
4. b_{t-1} : The previous debt-to-GDP ratio.

When the real (tax-free) interest rate on public securities is greater than the economic growth rate, a primary surplus is needed so that the debt-to-GDP ratio does not grow. In the expression above, this occurs when $=0$. In this case, the necessary primary surplus so that the debt-to-GDP ratio does not grow is:

$$-d_t = \left(\frac{r - g}{1 + g} \right) b_{t-1}$$

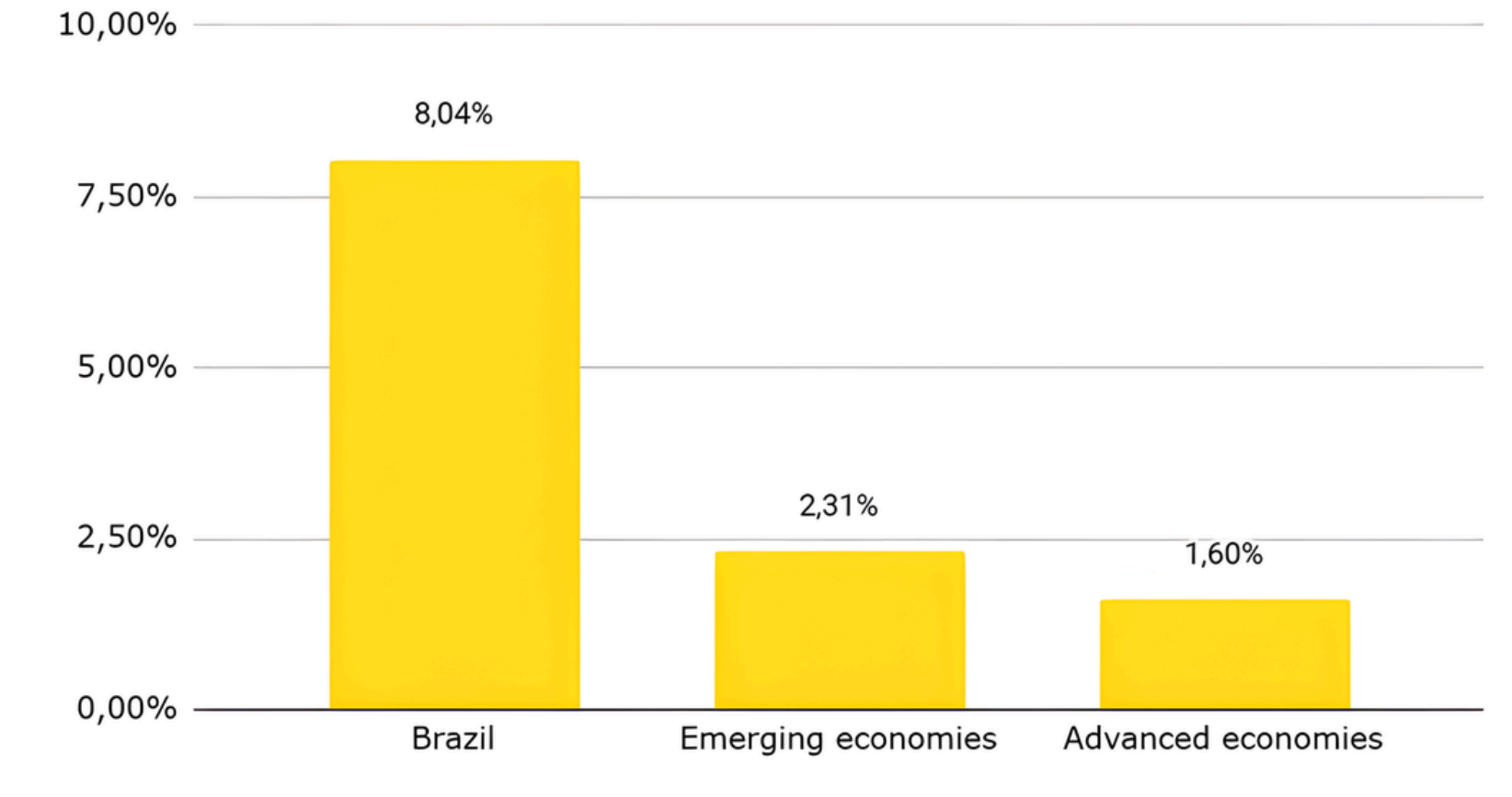
That is, the higher the real tax-free interest rate is relative to the GDP growth rate for a given tax burden, the greater the primary surplus required to stabilize the growth of the debt-to-GDP ratio.

Both the New Fiscal Framework and the Fiscal Responsibility Law aim to balance the debt-to-GDP ratio by placing the entire weight of the fiscal adjustment on the primary balance, and this has led to a set of policies that harm the government's contribution to economic growth. It is a relevant and excessively costly political choice not to question the Central Bank's interest rate policy, which is governed by the Inflation Targeting System established by the National Monetary Council. In turn, the National Monetary Council is composed of government members, such as the Minister of Finance, the Minister of Planning and Budget, and the President of the Central Bank, all appointed by President Lula.

The Chart below shows that Brazil spends between three and five times more on interest as a percentage of GDP than other countries. Approximately three times more than emerging economies and approximately five times more than advanced economies^[19]:

[19] There are different ways to measure the relevance of interest. In this note, the option was to publicize what the Treasury itself recognizes: the difference in the nominal interest account as a percentage of GDP between Brazil and other groups of countries. In the coming months, a note on public debt will be published by Transforma, featuring international comparisons using real interest rates as a comparison criterion.

Chart 6 – Public debt transaction expenses – General government (2022) – Brazil and selected countries (% of GDP)



Source: Tesouro (2025)

Let us recall that a 1% increase in the basic interest rate causes the government to transfer an additional R\$ 50 to 60 billion to rentiers every year. However, the inflation targeting regime remains unquestioned. Public scrutiny of government spending, by control bodies or the media, is restricted to primary expenditures, leaving public debt interest expenditure exempt from questioning, even while fiscal policy is publicly accused of being the culprit for high real interest rates.

Economists from different theoretical affiliations^[20] argue that the 3% inflation target (with a tolerance interval of 1.5 percentage points) is excessively low due to the structural characteristics of the Brazilian economy, which relies on a reasonable degree of contract indexation and is subject to shocks (especially exchange rate devaluations due to the open capital and financial account, etc). With a low inflation target, these characteristics tend to create an environment of persistently high interest rates. Beyond the target, the premises of the inflation targeting system and a greater diversity of instruments could be discussed if the government's objective is, in fact, to present a stable trajectory for the debt-to-GDP ratio. The second negative point is that the expenditure growth threshold is low, and this will tend to lead to an economic growth slowdown in the coming years. The acceptance of the marginalist thesis that spending above 2.5% is 'excessive' is surprising. Lula's first and second administrations demonstrated that it is possible to achieve higher growth with public spending growth by inducing private spending growth, expanding the economy's aggregate output, raising the private investment rate, and increasing the productivity growth of the Brazilian economy. The primary public expenditure growth rate across different political cycles in Brazil is contained in Table 2 below:

[20] Renowned heterodox economists wrote an open letter to the National Monetary Council (CMN) asking for a change in the inflation target to 4%. Available at: <https://www1.folha.uol.com.br/opiniao/2024/10/carta-aberta-ao-conselho-monetario-nacional.shtml>. On the other side, economist Aloísio Araújo from FGV-RJ and IMPA also defended raising the inflation target. Available at: <https://epge.fgv.br/pt/noticia/professor-aloisio-araujo-foi-citado-na-materia-a-encrenca-da-meta-de-inflacao-de-3>.

Table 2: Central Government Revenue and Expenditure Growth Rates (Deflated by the IPCA)

	FHC (1998-2002)	Lula (2003-2010)	Dilma 1 (2011-2014)	Dilma 2 "Adjustment" (2015)
Revenue	8,4	6,1	2,9	-6,8
Revenue Sharing	10,6	5,4	4,1	-6
Primary Expenditure	5,6	7,2	5,2	-3,9
Personnel and Charges	5,9	6,6	1	0,8
Social Benefits	7,5	8,7	5,8	-0,7
Social Security Benefits	7,3	7,1	5,1	1,4
LOAS/RMV	10,5	13,2	7,8	1,3
Unemployment Insurance and Bonus	4,3	12,6	7,9	-14,9
Bolsa Família	n.d	17,6	11	-7,1
Subsidies	-4	20,4	25,9	-7,5
Current and Capital	3,2	6,7	4,6	-13,5
Investments	7,2	10,7	0,3	-37,5
Others	2,3	5,6	6	-6,6

Source: Gobetti and Orair (2017)

In the government's original proposal, the expenditure growth parameters would be readjusted every four years, but this was also struck down during the legislative process and is a relevant issue for the coming years, as it will exacerbate the distributive conflict within the budget and may/should contribute to economic deceleration. Let us remember that the general government consists of the federal, state, and municipal governments. Thus, although the government as a whole transcends the central government, the latter is the most relevant for defining the general government's fiscal policy, as it is the only one with access to monetary sovereignty. The expenditure growth of subnational governments in Brazil is highly sensitive to fluctuations in the level of economic activity (revenue growth, transfers made by the federal government, and exogenous variations in tax revenue), which is why the fiscal rules that condition the spending of the Federal Government are fundamental for the general government's fiscal policy.

This exacerbation of the conflict introduces the third and fourth negative points: the New Fiscal Framework may induce new rounds of constitutional changes to adjust the growth of areas constitutionally protected by rules that link public spending to tax revenue, such as health and education, as well as to address social rights based on the logic of fiscal adjustment. These third and fourth negative points will be better explained throughout the final section, which will address the initial impacts of the fiscal rule.

Table 3: Positive and Negative Points of the New Fiscal Framework (NFF)

Positive points	Negative points
Improvement Compared to the Previous Cap	Priority: Fiscal "Adjustment" through the control of variables pertaining only to the primary balance.
Bands for the Primary Balance	The expenditure growth band is low and contributes to the economic growth slowdown.
Floor for Discretionary Expenditures: 75% of the amount approved in the Annual Budget Law (LOA)	Loss of Social Rights
	It will imply Constitutional changes if current parameters are maintained.

5. THE NEW FISCAL FRAMEWORK INITIAL IMPACTS AND THE PERSPECTIVES CREATED BY THIS FISCAL RULE

In this section, we will discuss the New Fiscal Framework initial impacts, revisiting the relevance of fiscal policy in the recent growth cycle of the Brazilian economy, the slowdown in the government's growth rate, and the rule's impacts on the design and scope of public policies.

5.1 The New Fiscal Framework Initial Impacts: Macroeconomic

Taking as a criterion that, for a given tax burden and structure, the public spending growth rate is the main variable controlled by the government to make fiscal policy expansionary from an analytical viewpoint^[21], we will present the general government expenditure growth rate, which encompasses the three spheres of government.

[21] The different types of government spending (consumption, investment, transfers, etc.) have different impacts or multipliers. We are treating public spending in a general manner.

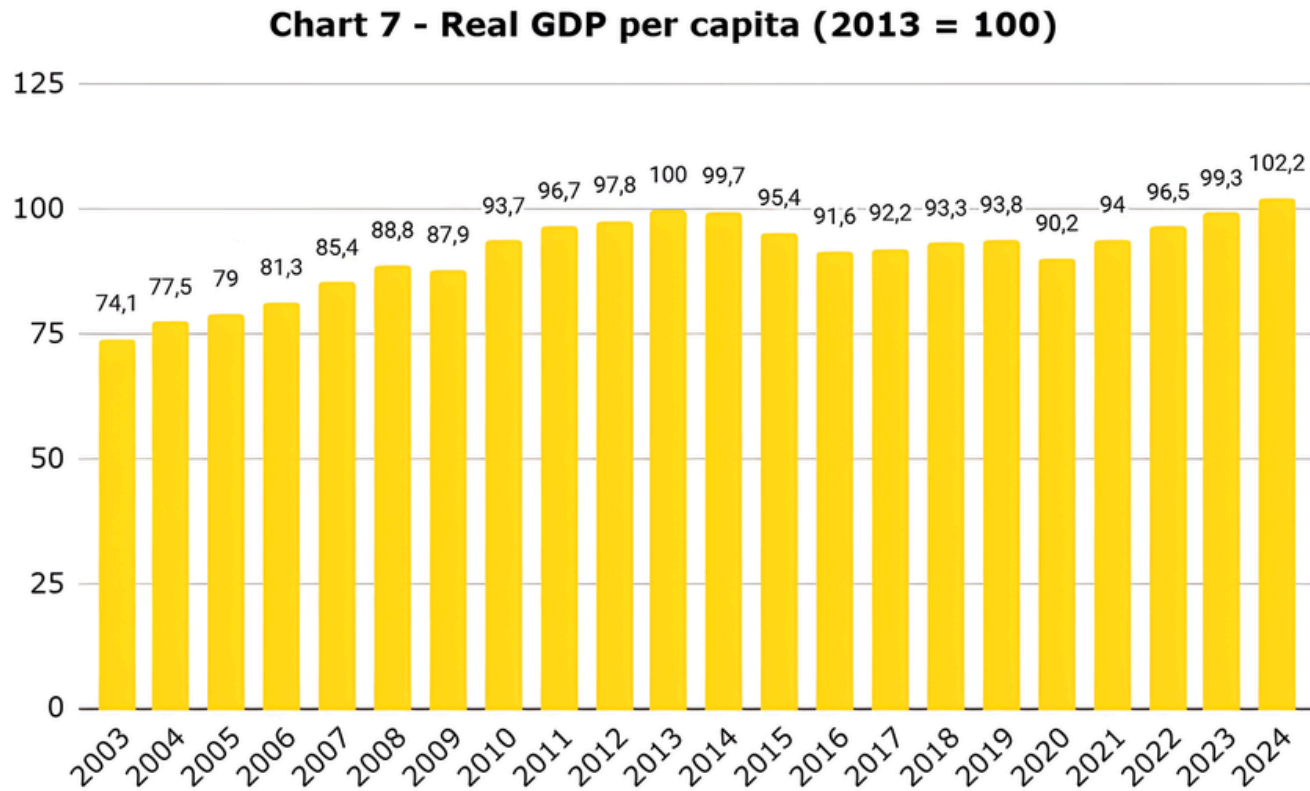
Table 4: General Government – Real Growth Rates (%)

	2022	2023	2024
Government Consumption	2,1	3,8	1,9
Government Investment	52,7	4	14,3
Transfers	4,5	8,8	2,2
Investment by State-Owned Enterprises	-18,7	26,7	30,5
Total Public Spending	4,8	6,5	3,6

Source: IBGE, MAI e MGI

The fiscal expansion in the 2022–2024 three-year period was fundamental for Brazil to exit the most intense and longest-lasting recession in the Brazilian economy^[22].

Note that, considering the causality between spending and output, it is no coincidence that the recession of GDP per capita only ends in 2024, as the data below shows:



Source: Banco Central do Brasil

[22] It is necessary to emphasize that the pandemic deepened and prolonged the recession, meaning that the period's restrictive economic policy was not the sole contributor to the 2015–2016 recession becoming the deepest and longest-lasting in the Brazilian economy. However, note that in 2019, after the 2017–2019 triennium of restrictive fiscal policy, GDP per capita was still 6.2% lower than the peak in 2013. 2021 is not being treated as part of the recent fiscal expansion because it was still within the context of the pandemic, and per capita income remained largely flat between 2019 and 2021. For more, see Carvalho and Carneiro (2022). Finally, it remains to be said that, despite treating 2015–2022 as a period of restrictive fiscal policy, this period is also not homogeneous, and 2022 is indeed a year of fiscal expansion and contributes to explaining why the GDP recession that began in 2015 technically ended in 2022.

It is now appropriate to make some comments on the Federal Government's participation in this triennium. When we look at the Central Government's expenditure growth rates, provided by the National Treasury, we have the following evolution:

Table 5: Central Government - Real Growth Rates (IPCA)			
	2022	2023	2024
Total Expenditure	2,1	12,5	-0,7
Source: Tesouro Nacional			

As shown in the Table above, 2023 was a year of strong growth in central government primary expenditure, made possible by a Constitutional Amendment that prepared the transition between the Temer administration's Spending Cap and the new fiscal rule of Lula's third administration. This political agreement allowed for some partial recomposition in various areas imposed by the restrictive fiscal policy of the 2015–2022 period^[23]. As previously addressed in another note, Pimentel (2025), the growth in subnational spending during this three-year, particularly public investment expenditures, played a role in the change in the direction of political orientation since 2022.

[23] See Resende & Dweck (2022)

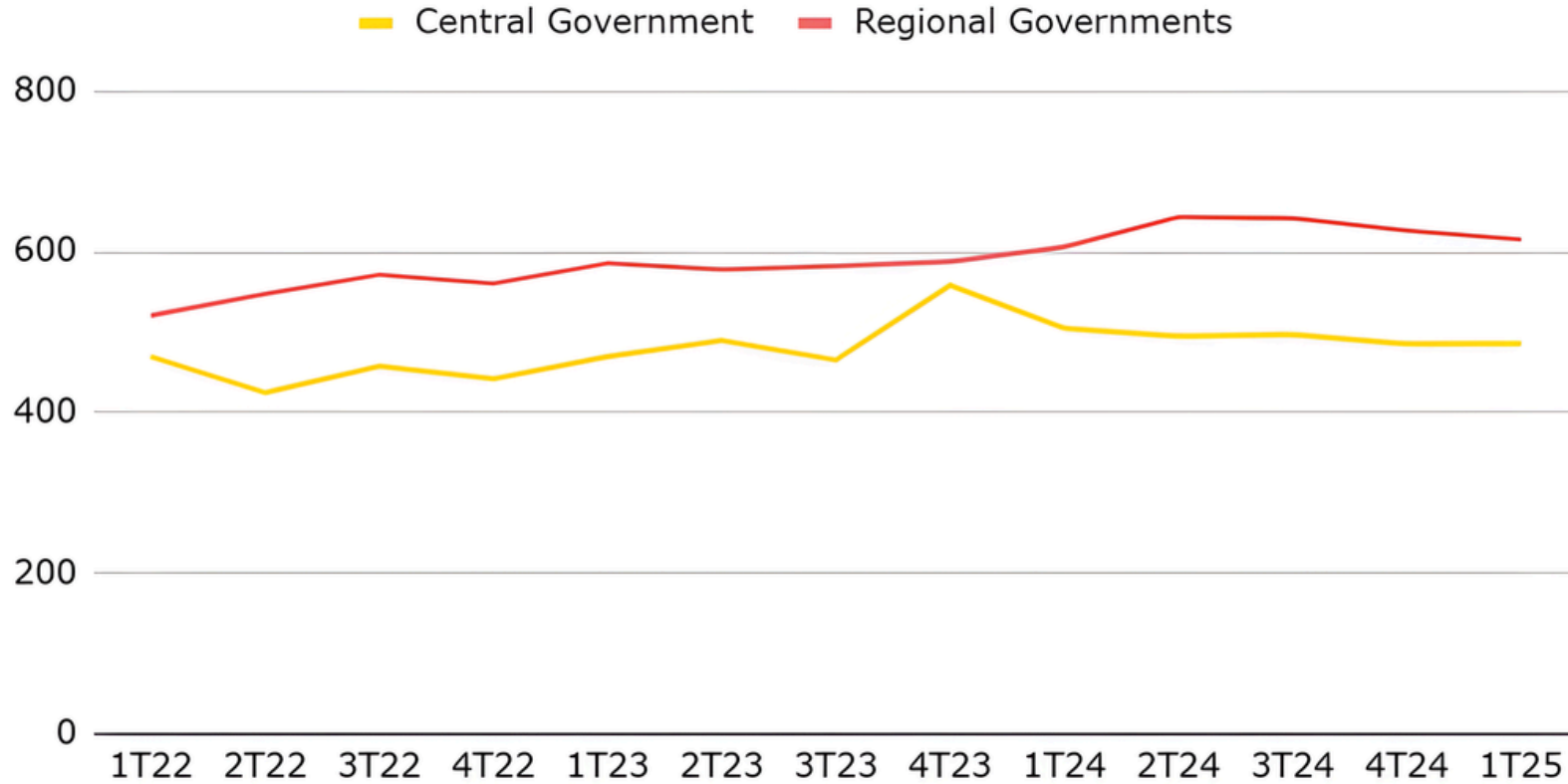
At first glance, in 2024, the central government would not have had an expansionary fiscal policy, since the total expenditure growth rate was -0.7%. However, some qualifications need to be made regarding this data. If we look at the total expenditure growth data between January and November 2024, total expenditure was growing at a real 4.6%^[24]. It is the inclusion of December in the calculation that causes the expenditure growth rate to drop abruptly. Total expenditure in December 2024 fell by a real 33.3% compared to December 2023. This movement is due to the fact that, in December 2023, there was a large payment of court-ordered debt payments left by the Bolsonaro administration. When we remove the effect of this payment by excluding the expenditure spreadsheet line relating to the payment of “Judicial Sentences and Court-ordered Debt Payments (Current and Capital),” the total expenditure growth rate in 2024 would be 1.1%^[25].

Even with these qualifications, the slowdown in the Central Government's expenditure growth rate is quite strong. Although this slowdown has been followed less intensely by subnational entities, questions arise about the sustainability of this growth cycle driven by fiscal expansion. The slowdown in public spending growth initiated by the central government in 2024 has, with some delay, begun to be followed by subnational entities, as illustrated by Chart 8:

[24] See the Treasury result for the month of November 2024.

[25] Other qualifications can be made insofar as the payment of precatórios accounts for just over half of the difference.

Chart 8 - General Government Primary Expenditure (In R\$ billion for the quarter at Q1 2025 prices (GDP deflator) with seasonal adjustment)

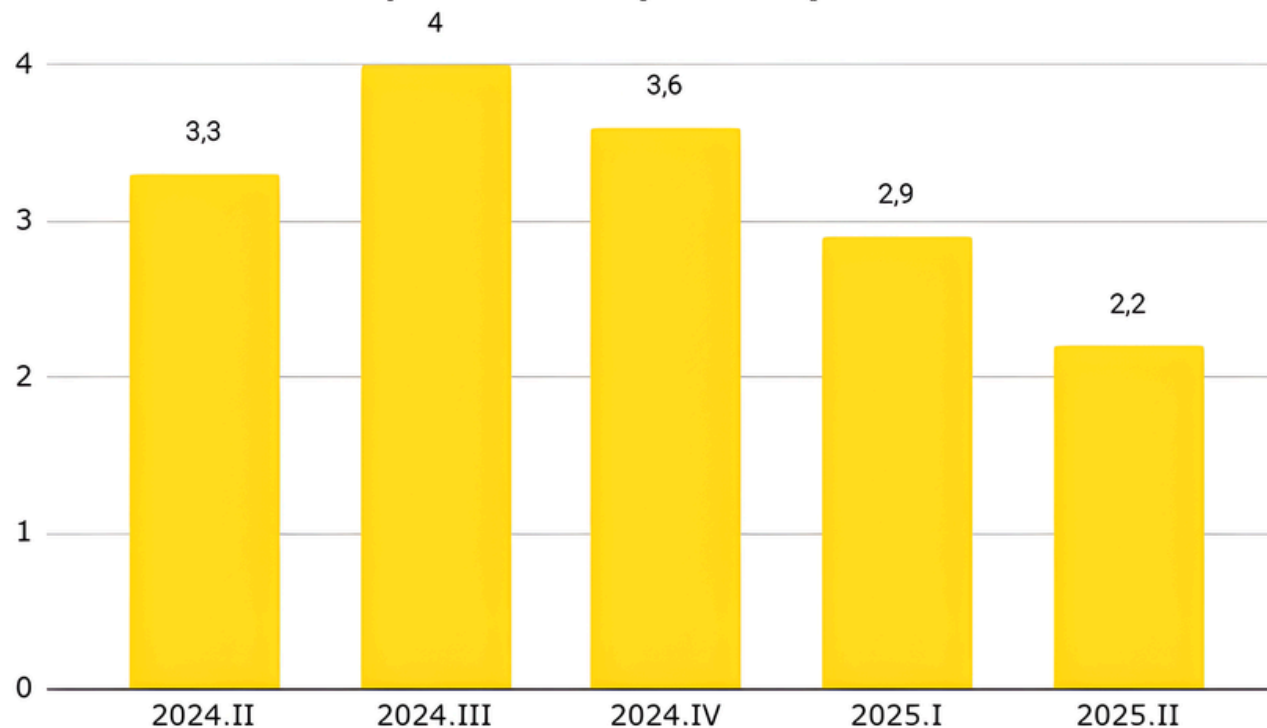


Source: Observatório de Política Fiscal IBRE-FGV

The continuation of this moment of recovery for the Brazilian economy will be at risk if the New Fiscal Framework is maintained. The numbers above show that 2024 is already a year of slowdown in the public spending growth rate relative to 2023, and this may be accentuated in the coming years.

This slowdown was not as strongly felt in 2024 itself because other segments of demand, particularly private investment, were growing above the GDP growth rate. However, with the disclosure of data for the second quarter of 2025, the direction of the Brazilian economic slowdown will become clearer, as illustrated in Chart 9:

Chart 9 - Real GDP growth rates (quarter-on-quarter): quarter/same quarter of the previous year



Source: IBGE

In 2026, expansionary measures may occur on the revenue side, such as the measures being discussed by the National Congress that project income tax exemption for those earning up to five thousand Reais per month and lower taxation for those earning between five and seven thousand. Furthermore, escape clauses may continue to be triggered to justify spending outside the fiscal framework, as in the recent case involving the Trump tariffs (tarifaço) where the defense of sovereignty implied expenditure outside the framework to mitigate the net impact of the tariffs on exports and output and employment levels. Beyond exceptional situations, or "once and for all" changes in spending or revenue that have expansionary impacts, the New Fiscal Framework tends to produce, as we are witnessing, economic slowdown.

5.2 The New Fiscal Framework Initial Impacts: Social Rights

In November 2024, the federal government announced a series of measures to “align the pace of mandatory expenditures with the limits established by the fiscal framework in order to preserve balance and ensure the sustainable advancement of public policies. The fiscal rule that replaced the spending cap established clear limits for the growth of public expenditures, linking them to revenue performance.” Several areas were contemplated in the set of measures aimed at strengthening the fiscal rule^[1].

We are particularly interested in briefly discussing how the logic of adjustment focused solely on primary expenditures functions in reality, despite the government's assertion that such measures serve

“to guarantee the sustainability of public accounts, promote social justice, and stimulate economic growth.” We will briefly discuss the cases of the minimum wage, the Continuous Cash Benefit (Benefício de Prestação Continuada), and public investment.

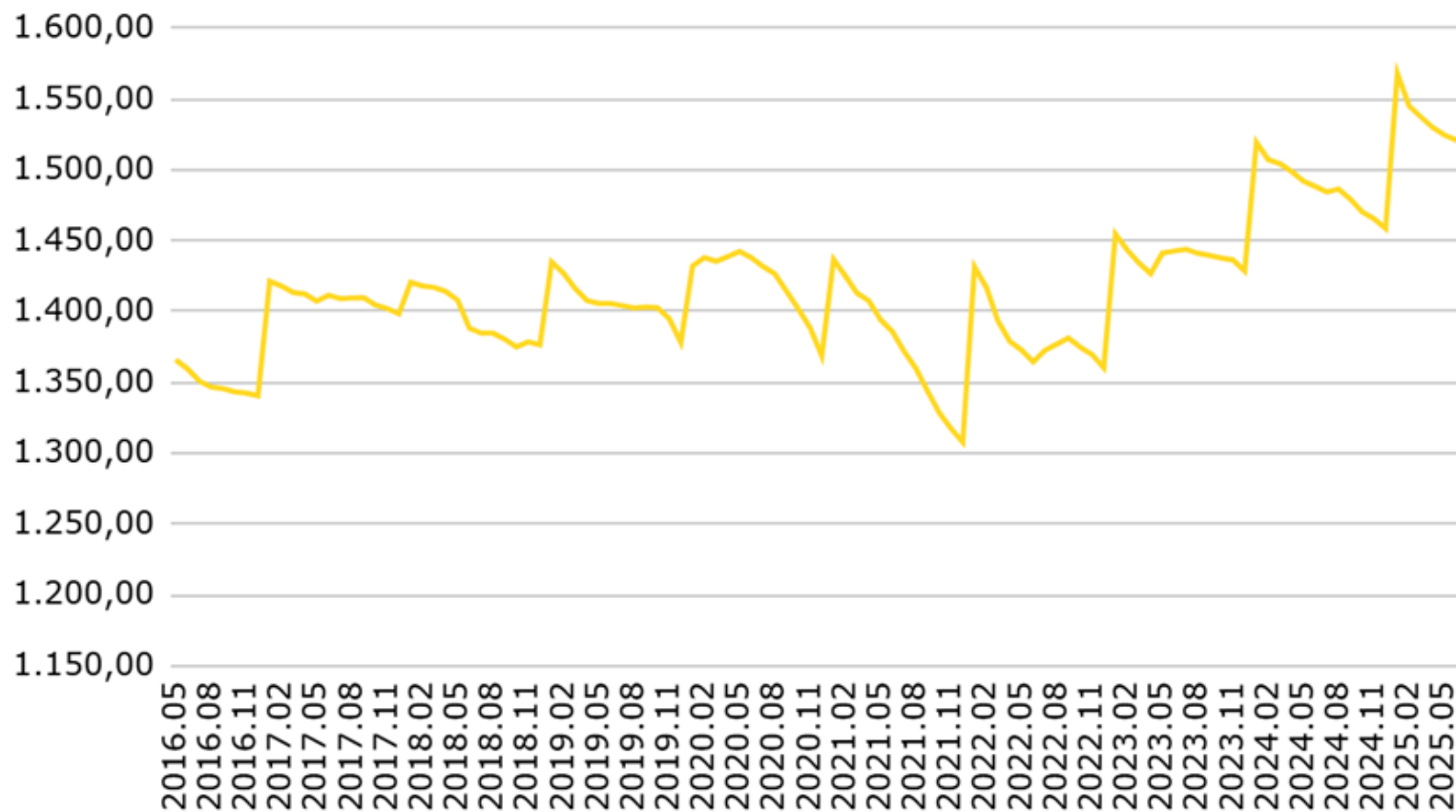
The minimum wage

The minimum wage is relevant as it establishes the wage floor in Brazil, influencing the formation of general wages in the labor market and serving as the floor for retired workers and/or those who receive benefits guaranteed by the constitutional charter.

It must be remembered that between May 2016 (R\$ 1,365.97) and December 2022 (R\$ 1,360.30) there was no real increase in the minimum wage. The variations shown in the chart below are basically annual nominal recomposition, without consistent real increases.

[26] The complete document with the forecast for “savings” in each area can be accessed at: <https://www.gov.br/fazenda/pt-br/aceso-a-informacao/aco-es-e-programas/medidas-de-fortalecimento-da-regra-fiscal>

Chart 10 - Real minimum wage (R\$ for the last month)



Source: Ipeadata

Consistent real minimum wage increases only resumed after 2023, but already in 2024, mainly because of the link between the minimum wage and pensions and benefits. The federal government included in its package of measures a change to place the law establishing the real variation of the minimum wage within the ceiling established by its fiscal framework.

The minimum wage is a relevant price for income distribution, either because the vast majority of benefits paid by Social Security in Brazil are indexed to the minimum wage, or because the minimum wage, in conjunction with the level of employment, plays a role in pushing up general wages in the labor market, as classic and more recent studies indicate^[27].

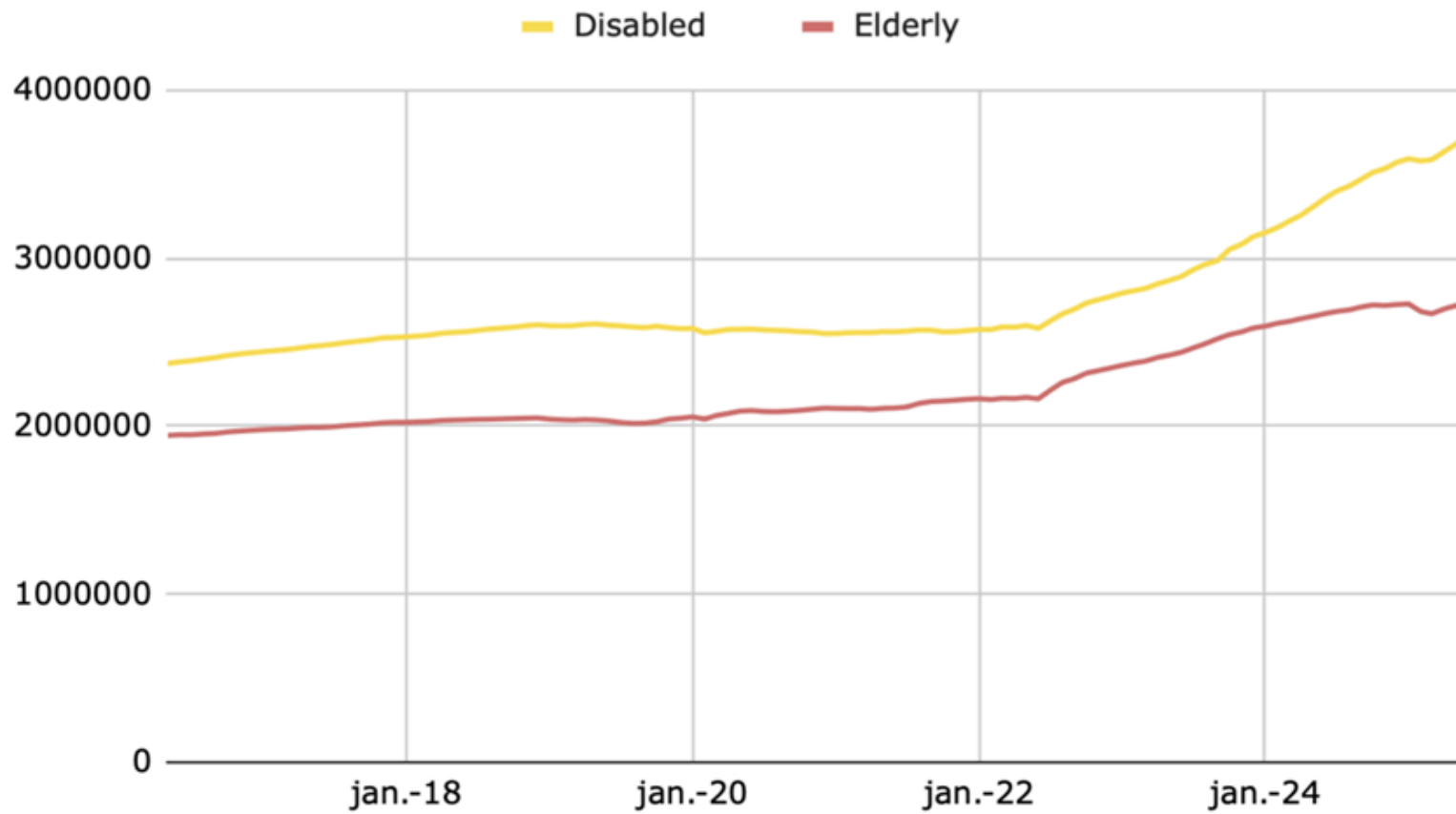
Thus, a smaller increase in the minimum wage directly and indirectly impacts the public sector's contribution to economic growth, insofar as it affects the growth of government transfers and the formation of general wages. The link between the minimum wage and social security benefits in general will continue to be the subject of increasing political dispute in the coming years.

The Continuous Cash Benefit (Benefício de Prestação Continuada)

The evolution of the Continuous Cash Benefit expenditure has two basic determinants: i) the remuneration paid to beneficiaries, which, in the case of the Continuous Cash Benefit, is the minimum wage, and ii) the number of beneficiaries. As we just pointed out in the previous subsection, the real minimum wage returned to growth in 2023 after relative stability in the number of beneficiaries of the program (between 2016 and 2021) due to changes in access criteria. Chart 11, below, illustrates the evolution of the number of Continuous Cash Benefit beneficiaries:

[27] For a classic reference, see Souza and Baltar (1979). For more recent references, see Rolim (2024).

Chart 11 - Number of Continuous Cash Benefit beneficiaries



Source: CECAD

Data from the National Treasury indicate that the real growth rate of the Continuous Cash Benefit expenditure was 6.5% in 2022, 12.4% in 2023, and 14.9% in 2024. The strong growth in Continuous Cash Benefit expenditure has caused the program to become a target of the government, insofar as the growth of the Continuous Cash Benefit expenditure exceeding the rate permitted by the New Fiscal Framework implies a decrease in one or more primary expenditure items. Let us recall that:

The data demonstrate that the Continuous Cash Benefit is a benefit that primarily serves women and Black individuals, who face historical disadvantages in the labor market and income distribution. Furthermore, the program is fundamental for ensuring basic living conditions in regions where poverty is more pronounced and for family groups that rely exclusively on the benefit for their subsistence. (Teixeira et al, 2025, p. 4, author's own translation)

Slowing the growth rate of the Continuous Cash Benefit expenditure is the fundamental reason behind the recent proposition of changes to the Program's access rules, not social justice. Restrictive fiscal rules, such as a ceiling for the growth of primary expenditure (or a large part of it), imply an increase in the distributive conflict within the public budget.

Public Investment

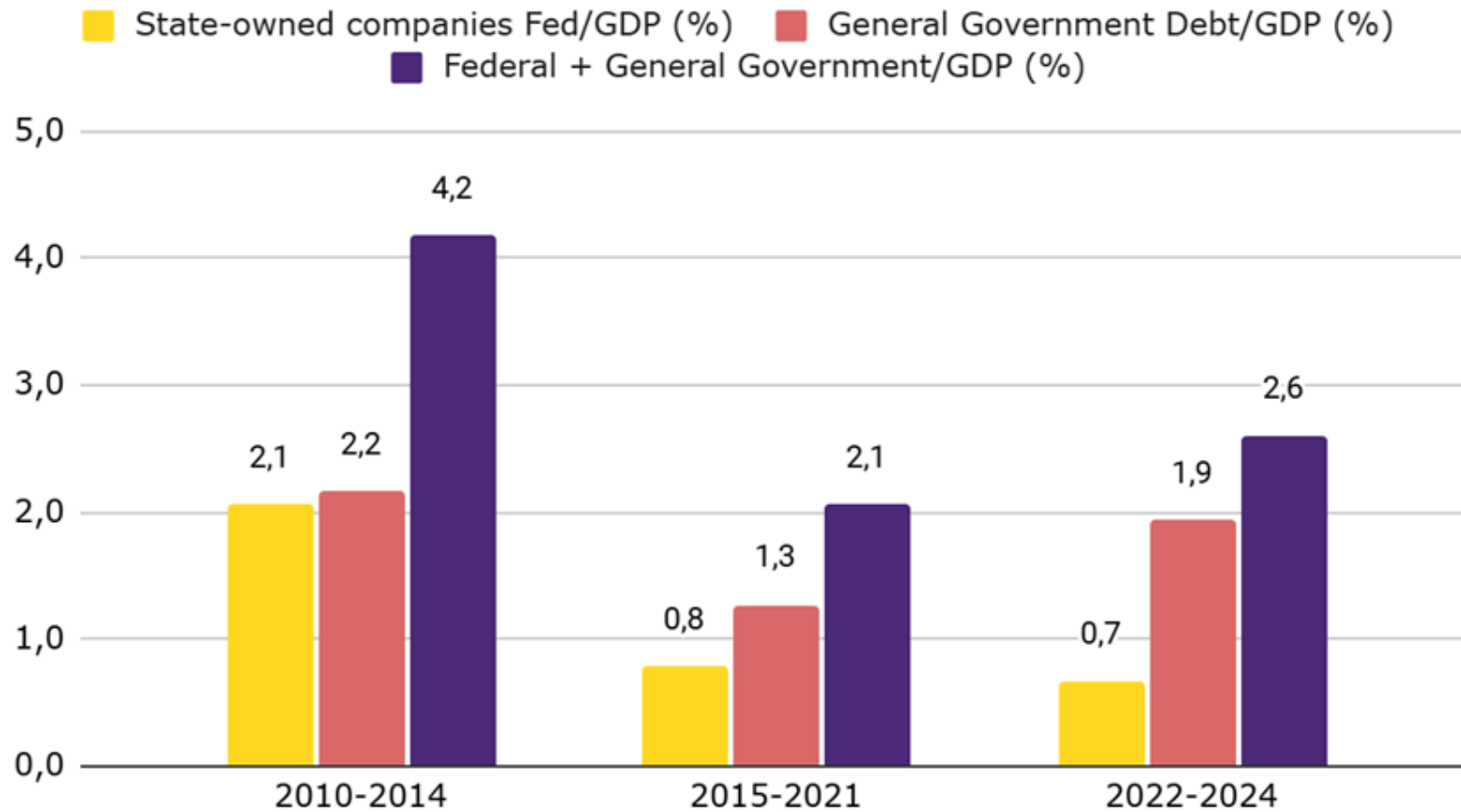
Beyond the distributive aspect, it is also necessary to discuss the consequences of a restrictive policy like the New Fiscal Framework for the structural aspect of the Brazilian economy.

As taught by the old Latin American structuralists, income growth in peripheral countries can lead to balance of payments constraint and development policies are necessary to avoid this scenario.

Thus, policies to increase and diversify Brazilian exports, the only stable and long-term source to raise the import capacity of the Brazilian economy, depends on a series of economic policy instruments, among which is public spending. Additionally, public investments are also relevant for moving the Brazilian economy away from sectoral bottlenecks, such as energy supply and infrastructure, the energy matrix transition relevant for environmental goals, and also to improve the living conditions of the population. It is not reasonable that sanitary conditions like basic sanitation have still not been universalized in a country that has managed to achieve a reasonable degree of productive structure diversification.

From a historical viewpoint, public investment has a declining trend, as a large part of public/state-owned enterprises were privatized over the last decades. Fiscal rules, particularly since the Fiscal Responsibility Law with the establishment of the primary balance target, have made discretionary expenditures, including public investment, the preferred space for fiscal adjustments in periods of economic slowdown. In the period between 2016 and 2021, the net public investment of the general government even became negative. As seen in Chart 12 below, gross public investment has grown since 2022, but does not return to pre-2015 levels:

Chart 12 - Public investment by period (% GDP)



Source: Observatório de Política Fiscal (IBRE - FGV): Author's own elaboration

The recent growth in public investment has occurred primarily through subnational entity investment (Borça Jr, 2025; Pimentel, 2025), with assistance from the central government, particularly in 2023. The sustainability of public investment growth via subnational entities is more doubtful given the Federal Government's current economic policy orientation and insofar as regional governments lack access to monetary sovereignty and depend essentially on revenue growth and federal transfers to increase their spending.

Whether due to macroeconomic, distributive, or structural aspects, the rules affecting public spending growth should be able to engage with strategic and development objectives beyond those related to debt-to-GDP ratio stabilization. Maintaining the fiscal framework as it is in the coming years will imply accentuating the economic slowdown, and may also imply the loss of social and constitutional rights.

5.3 Perspectives for the Brazilian Economy

Recently, Guilherme Mello, Secretary of Economic Policy at the Ministry of Finance, in an interview with Breno Altman, criticized analyses that were critical of the New Fiscal Framework based on the premise that the floor and ceiling parameters regulating primary expenditure growth would remain fixed throughout subsequent administrations.

We emphasize that, although the government did propose that such parameters be readjustable every four years, this is not written into Complementary Law No. 200 and there is no public commitment to readjust these parameters in a potential next administration. On the contrary, as we have seen, the New Fiscal Framework already implies a set of changes to adjust the growth of primary expenditures to the fiscal rule^[28].

[28] Such aspects were anticipated by critical works on the fiscal rule, such as Bastos et al. (2023).

6. FINAL CONSIDERATIONS

Fiscal policy is fundamental to economic growth and social justice insofar as it affects income distribution. On the tax revenue side, the government has taken measures that move in the correct direction toward increasing tax progressivity. On the expenditure side, after the strong fiscal expansion of 2023, the government has taken measures that go against the objective of stimulating growth and promoting social justice.

If the government considers relevant to place the debt-to-GDP ratio on a stable trajectory, it is necessary to critically discuss the Inflation Targeting System, including the 3% inflation target, the underlying assumptions about Brazilian inflation, and the monetary policy instruments, given that the cost of monetary policy in Brazil is significantly higher than the average of emerging and advanced countries.

Although public debt does not constitute a financing problem for public spending, it certainly poses a distributive question. Currently in Brazil, the growth of public debt is mainly due to the real interest rate being systematically greater than the economic growth rate.

The political decision to place the entire weight of the desired debt-to-GDP ratio stabilization on penalizing the growth of primary expenditure (which generates employment and improves income distribution) leads the government away from the objectives it claims to pursue. It is always time to correct the course, and looking at international experience, especially the fiscal policy of the economies that grow the most can be very useful to us.

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