Independent Fiscal Institution

FFR

# Fiscal Follow-Up Report

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## HIGHLIGHTS

- Activity indicators surprise positively in December, but GDP should remain stable in the fourth quarter.
- Rising international commodity prices pressure consumer inflation.
- Central government's 12• month accumulated primary deficit reached R$ 7.3 billion in January.
- Total primary revenue corresponded to 22.3% of GDP in 2021, above the 2019 level (22.1% of GDP).
- Employment of different deflators allows better assess the fiscal dynamics of 2021.
- Nominal GDP significantly influenced the 8.3 p.p. drop in DBGG, which ended 2021 at 80.3% of GDP.
- Public sector interest expenditure grew by 1.0 p.p. of GDP in 2021 and is expected to rise further over 2022.
- The 2022 Budget is sanctioned with a partial veto of R$ 3.2 billion.
- Decree on budgetary and financial programming presents R$ 33.9 billion in parliamentary amendments, R$ 16.8 billion of which are mandatory.

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Senator Rodrigo Pacheco (PSD-MG)

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# Covering letter

The Fiscal Follow-up Report (RAF) is the IFI's most important product and complies with Senate Resolution No. 42 of 2016. In this edition, the RAF presents an updated analysis of the main results of the public accounts and economic activity and details the final figures of the 2022 Budget after the presidential vetoes.

The Macroeconomic Context section highlights the better-than-expected performance of economic activity at the end of last year. The industry, however, is not recovering beyond the pre-crisis levels. There has been an occupation improvement in the labor market faster than the total labor force, reducing unemployment. However, job creation is concentrated in informal sectors, without a formal contract.

Inflation continues to be a concern, with market expectations collected by the Focus survey indicating IPCA at 5.5% by the end of the year and the Selic at 12.25%. Public debt will suffer the effects of this adverse macroeconomic scenario, as shown in the Fiscal Scenario section. We separate the factors that will determine the evolution of fiscal indicators in 2021. For 2022, inflation will have the opposite effect: tax collection will grow in the wake of decelerating inflation, and expenses will be fixed based on last year's inflation.

The IFI has been warning about the unsustainability of inflation-based fiscal adjustments since mid-2021. After closing 2021 at 80.3% of GDP, gross debt is expected to grow in the coming years. Interest expense, for example, has already grown by one percentage point of GDP over 2021, and interest rates on new Treasury issues are advancing month by month.

Finally, the Budget section presents the numbers for the Annual Budget Law after the presidential vetoes and the programming decree. The official justification for the vetoes, which hit the Education and Social Security areas the most, is that it will be necessary to restore personnel expenses cut by Congress during the Budget process. For now, the budgeted personnel expenses are in line with the IFI's forecast for the year. However, as recently reported, the pressure for salary adjustments and hiring should be high during the year.

We reiterate the IFI's view on the fiscal framework: this is a fragile situation, despite the improvement seen in 2021, which must be qualified, anchored on a macroeconomic performance that has lost strength over the year. So far, we are forecasting a 0.5% rise in GDP in 2022. Public revenue dynamics will worsen, and the challenges of maintaining some credibility regarding the fiscal rules and the ceiling, significantly modified by the mentioned ECs, will be relevant.

**Felipe Scudeler Salto**
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# Summary

- Despite the better performance of sectorial indicators in December (especially the industry's recovery, interrupting a sequence of negative results), the IBC-Br, a kind of monthly thermometer of economic activity, points to GDP stability in the fourth quarter of 2021. The uncertainties regarding the pandemic and the less favorable external scenario may affect the evolution of the level of economic activity throughout the year. On the other hand, the inflation scenario continues to be pressured by rising commodity prices in the international market. The IPCA in January accumulated a 10.4% rise over twelve months, with core inflation measures (underlying inflation) remaining well above the interval compatible with compliance with the inflation target. **(Page 6)**
- The use of different price deflators in the fiscal variables (revenues and expenditures) directly influences the evaluation of the behavior of the series. The exercise carried out by the IFI, using the implicit GDP deflator, the IPCA, and the IGP-M, shows that revenues grew less when deflated by the latter indicator, which more appropriately captures the effects of exchange rate and terms of trade variations on the tax basis of some taxes. It is possible to affirm that inflation is beneficial for the government in the short term because it inflates revenues. At the same time, an essential part of the expenses follows past inflation, which was lower in 2020 compared to 2021. **(Page 13)**
- The average cost of the Federal Domestic Public Debt (DPMFi) issues in public offers in the last 12 months reached 8.49% p.a. in December, up 4.05 p.p. compared to December 2020. Since June, the pace of increases in this cost has intensified, reflecting the cycle of Selic hikes and the uncertain environment regarding the credibility of fiscal policy. The higher average cost of debt also affects public-sector interest expenses, which have risen again as a proportion of GDP since July of last year. This, in turn, will affect the trajectory of the nominal public sector result in the coming months, reversing the improvement registered in 2021. Gross debt will increase in 2022. **(Page 23)**
- The LOA was approved with a partial veto of R$ 3.2 billion. The justification for the veto states that the President of the Republic decided to "partially veto it, for being unconstitutional and contrary to the public interest." The veto was concentrated on committee amendments (R$ 1.8 billion) and discretionary expenses not covered by the impositive amendments or those of the General Rapporteur (R$ 1.4 billion). The Ministry of Labor and Social Security and the Ministry of Education were most affected by the veto. **(Page 27)**



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# 1. MACROECONOMIC CONTEXT

## 1.1 Economic activity

**Economic activity data reinforce a scenario of stability for the GDP in the fourth quarter of 2021, compatible with growth estimated by the IFI at 4.6% for the year.** The Central Bank's Economic Activity Index (IBC-Br), a variable that aggregates information from GDP sectors on the supply side, advanced 0.3% from November to December 2021, seasonally adjusted (Table 1), influenced by the positive numbers from industry, retail trade, and the service sector. In the quarter ending in December, the indicator was stable compared to the quarter ending in September, pointing to a zero variation for the GDP in the period. In 2021, the IBC-Br increased 4.5% after a contraction of 4.0% in 2020. It is worth noting that the December result left a carry-over effect of 0.4% for 2022 - that is, if it remained unchanged throughout this year, the index would close the year with a variation of 0.4%.

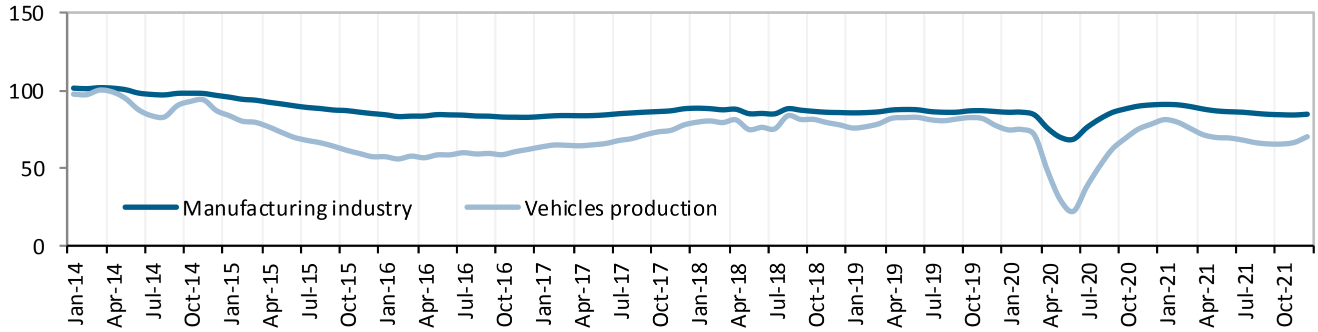
**TABLE 1. ECONOMIC ACTIVITY INDICATORS**

| Indicators | Month x previous month (seasonally adjusted) | | | Quarter x last quarter (seasonally adjusted) | | |
|---|---|---|---|---|---|---|
| | Oct-21 | Nov-21 | Dec-21 | 2Q/21 | 3Q/21 | 4Q/21 |
| Industrial production | -0.5% | 0.0% | 2.9% | -2.0% | -1.6% | 0.0% |
| Retail sales | -0.8% | 0.7% | 0.3% | -3.8% | -2.8% | -1.9% |
| Volume of services | -1.6% | 2.7% | 1.4% | 0.9% | -0.1% | 0.4% |
| **Central Bank's Economic Activity Index (IBC-Br)** | **-0.1%** | **0.5%** | **0.3%** | **-0.3%** | **-0.4%** | **0.0%** |

*Source: IBGE and Central Bank. Prepared by: IFI.*

**Industrial production advanced 2.9% between November and December, remaining stable at the end of the fourth quarter.** According to the IBGE's Monthly Industrial Survey (PIM), general industry production increased 2.9% from November to December (seasonally adjusted), reflecting the performance of the mining industry (1.6%) and the manufacturing industry (2.2%), especially the automotive sector (12.2%). In the previous month, the null variation (0.0%) had interrupted a sequence of five months of decline in production, a period in which the index accumulated a loss of 3.3%. In the quarter ending in December, the indicator was stable compared to the quarter ending in September. In 2021, production recorded a positive variation of 3.9%, without, however, recovering the losses of 2019 (-1.1%) and 2020 (-4.4%). Figure 1 displays the trend of manufacturing industries and vehicle production indices through the three-month moving average.

FIGURE 1. INDUSTRIAL PRODUCTION (SEASONALLY ADJUSTED SERIES - 3-MONTH MOVING AVERAGE)




*Source. IBGE. Prepared by: IFI*

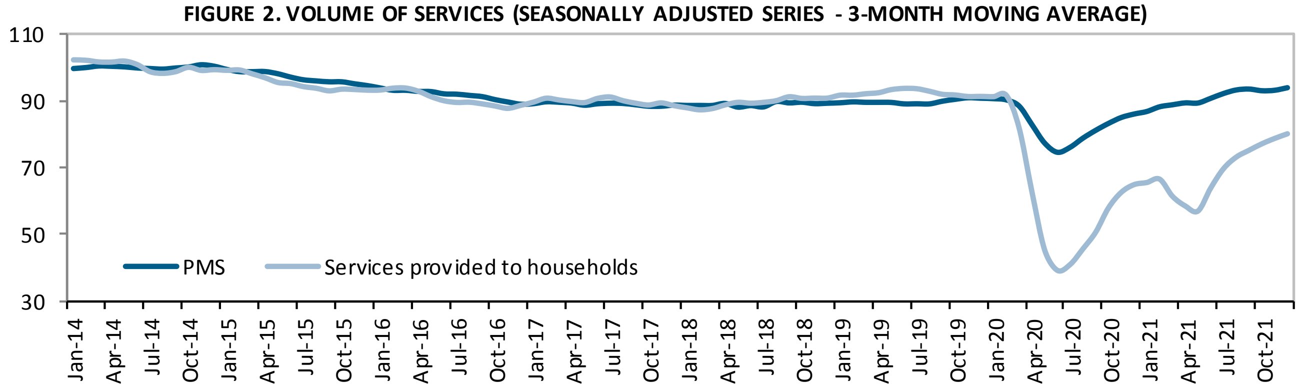
**Industrial confidence shrinks for the sixth consecutive month.** Despite the advance in production in December, the uncertainties brought about by the pandemic's resurgence on the organization of production chains suggest that it is still premature to foresee a reversal of the weakening trend in the sector. In this sense, it is worth noting that the Industry Confidence Index (ICI), released by the Getulio Vargas Foundation (FGV), dropped 1.7 p.p. between December and January, from 100.1 to 98.4 points in the seasonally adjusted series. The drop in the ICI reflected the worsening of its two components: the expectations index declined 2 points from December to January, while the current situation index decreased 1.2 points. The Industry Installed Capacity Usage Level (Nuci), on the other hand, advanced from 79.7% to 80.7% in the same comparison, which indicates, to some degree, a recovery of activity in the industrial sector.

**Expanded retail sales advance little in December and end the fourth quarter with a variation of - 1.9%.** The volume of retail sales (Monthly Retail Trade Survey) grew 0.3% between November and December in the broad concept, including vehicles and construction materials. The survey highlights the positive performance of sales of "pharmaceutical, medical, orthopedic, perfume and cosmetic articles" (3.2%) and "vehicles, motorcycles, parts and pieces" (1.2%). In the previous month, the index had grown 0.7%. In the quarter ended in December, however, the indicator fell 1.9% compared to the quarter ended in September. In 2021, sales were expected to increase by 4.5%, dropping 1.4% in 2020.

**The consumer confidence level declined in January.** The positive performance of the retail sales in the last two months of 2021 provided some strength to the economic activity at the end of the year. However, the income level falling in real terms and rising inflation and interest rates had negative consequences on confidence and consumption. According to FGV data, the Consumer Confidence Index (ICC) dropped 1.4 points between December and January, from 75.5 to 74.1 points. The performance of the ICC reflected the worsening of expectations for the coming months - the expectations index fell 2.7 points - while the assessment of the current situation accommodated after two consecutive months of decline - the current situation index rose 0.5 points.

**Service sector revenue reacts to the reopening of the economy.** The volume of services showed a variation of 1.4% between November and December in the seasonally adjusted series, according to data from the IBGE's Monthly Survey of Services (PMS). In the previous month, the index had grown 2.7%. The increase in the volume of services in December was accompanied by four of the five activities investigated, highlighting the gains coming from transportation (1.8%) and professional, administrative, and complimentary services (2.6%). The other expansions came from other services (1.4%) and services provided to households (0.9%), benefiting from mobility advances. In the quarter ended in December, the indicator advanced 0.4% compared to the quarter ended in September. In 2021, the service sector's revenue recorded a positive variation of 10.9%, offsetting the loss in 2020 (-7.8%).

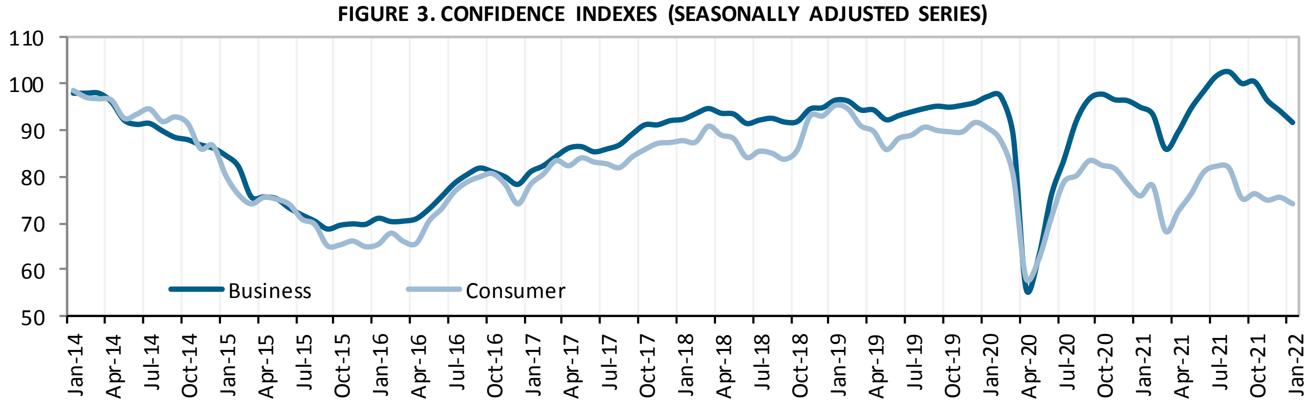
FIGURE 2. VOLUME OF SERVICES (SEASONALLY ADJUSTED SERIES - 3-MONTH MOVING AVERAGE)




*Source. IBGE. Prepared by: IFI*

**Service confidence, in any case, drops sharply in January.** FGV's Services Confidence Index (ICS) went from 95.5 to 91.2 points between December and January (retreat of 4.3 points in the seasonally adjusted series). The negative change in the ICS reflected the worsening of its two components: the expectations index decreased 5.5 points from December to January, while the current situation index dropped 3.1 points in the same comparison.

FIGURE 3. CONFIDENCE INDEXES (SEASONALLY ADJUSTED SERIES)

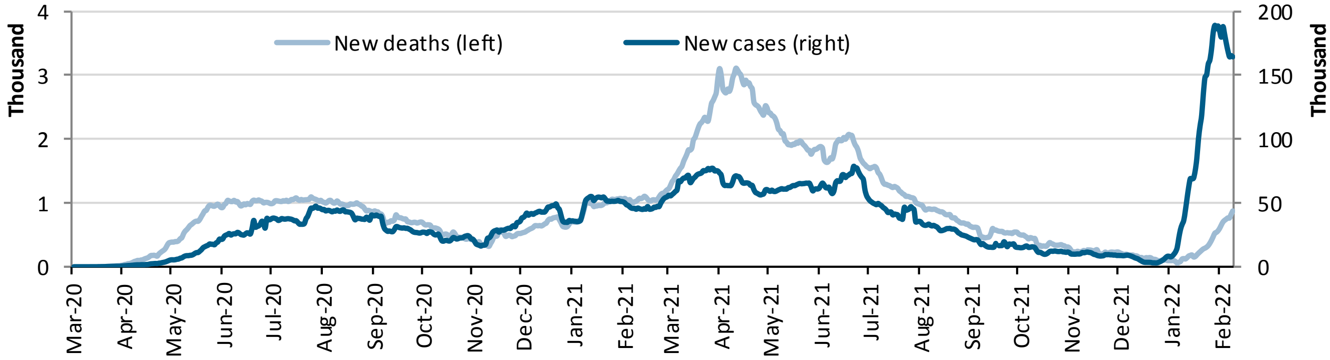



*Source. FGV. Prepared by: IFI*

**Weakening confidence is generalized among sectors.** It is also worth noting that the Business Confidence Index (ICE), which consolidates the confidence indexes of the sectors covered by the surveys produced by FGV (industry, services, commerce, and construction), dropped 2.5 points between December and January, from 94.1 to 91.6 points, intensifying the trend observed in the previous months. The loss of dynamism, which also occurs in consumer confidence (Figure 3), reflects mainly economic factors (such as high inflation and the contractionary effect of monetary policy on activity) but may have been amplified in January by the resurgence of the pandemic in the country.

**New cases slow down, but deaths are rising.** The increase in the number of Covid-19 new cases and the adoption of restrictive measures may slow the normalization of mobility and face-to-face activities, adding further uncertainty to the economy's growth over 2022. As shown in Figure 4, the moving average of cases remains relatively high, although it is possible to observe an initial deceleration movement. The moving average of deaths, in turn, continues to accelerate, returning to the level of mid-August 2021.

**FIGURE 4. NEW CONFIRMED COVID-19 CASES AND DEATHS (7-DAY ROLLING AVERAGE)**




*Source: Our World in Data. Prepared by: IFI.*

**2022 GDP average market forecasts stand at 0.3%.** Among the agents that registered their projections in the Central Bank's Focus survey, the most recent outlook for 2021 GDP reached 4.5%. The average forecast for 2022 growth, in turn, is at 0.3%, with a standard deviation range between -0.3% and 0.8%.

**Omicron spreading brings challenges for global chains.** In the January update of the World Economic Outlook[2], the International Monetary Fund (FMI) expects global growth to moderate from 5.9% in 2021 to 4.4% in 2022, 0.5 p.p. below the estimate presented in October, reflecting cuts in estimated GDP in China and the United States, mainly. The withdrawal of fiscal and monetary stimulus and continued supply shortages produced a downward revision of 1.2 p.p. for the United States (to 4.0%). In China, pandemic-induced disruptions related to the zero-tolerance Covid-19 policy and the ongoing retrenchment of the real estate sector induced a 0.8 p.p. reduction in the GDP projection (to 4.8%). For Brazil, the IMF projects a growth of 0.3% for 2022, an estimate aligned with the Focus survey's current average.

**TABLE 2. OUTPUT ESTIMATES**

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| World | -3.1% | **5.9%** | **4.4%** | **3.8%** |
| Advanced economies | -4.5% | **5.0%** | **3.9%** | **2.6%** |
| Emerging markets and developing economies | -2.0% | **6.5%** | **4.8%** | **4.7%** |
| China | 2.3% | **8.1%** | **4.8%** | **5.2%** |
| United States | -3.4% | **5.6%** | **4.0%** | **2.6%** |
| Brazil | -3.9% | **4.7%** | **0.3%** | **1.6%** |

*Source: FMI. Prepared by: IFI.*

**There is considerable uncertainty about the global economic recovery.** According to the IMF, new variants, financial stability risks to emerging and developing economies as advanced economies lift policy rates, and worsening geopolitical tensions are elements that may hinder economic recovery, indicating the possibility of even lower global growth.

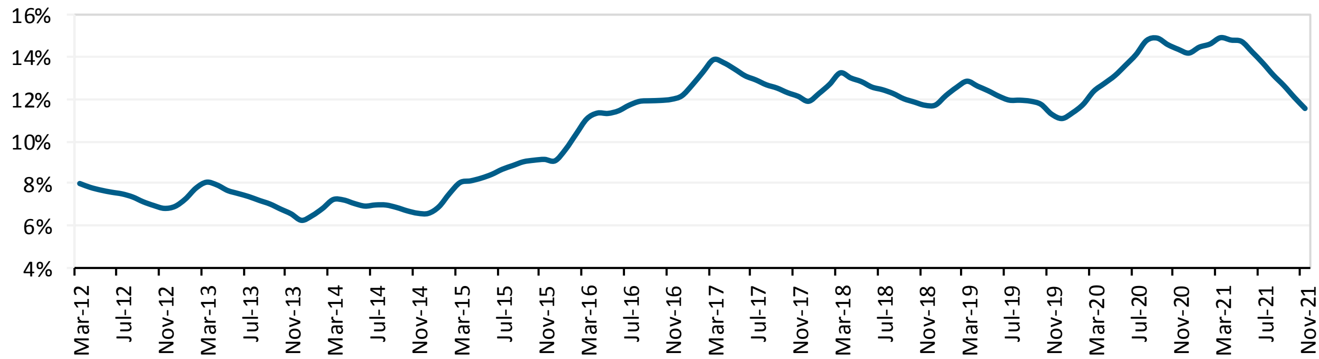
[2] Disponível em: https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022

**The IFI has not revised its current 4.6% and 0.5% projections, respectively.** Despite the better performance of sectorial indicators in December (emphasizing the industry's recovery, interrupting a sequence of negative results), the baseline scenario's uncertainty is more significant than usual. The advance of the pandemic and the less favorable external scenario may affect the evolution of the level of economic activity throughout the year.

## 1.1 Labor market

**The unemployment rate maintains a downward trajectory.** The unemployment rate measured by the Continuous National Household Sample Survey (PNAD Contínua) reached 11.6% of the total labor force in the quarter ended in November, down 2.8 p.p. compared to the same period a year earlier (14.4%). Despite the high number of unemployed people (12.4 million), the unemployment rate has been falling since July 2021 (Figure 5).

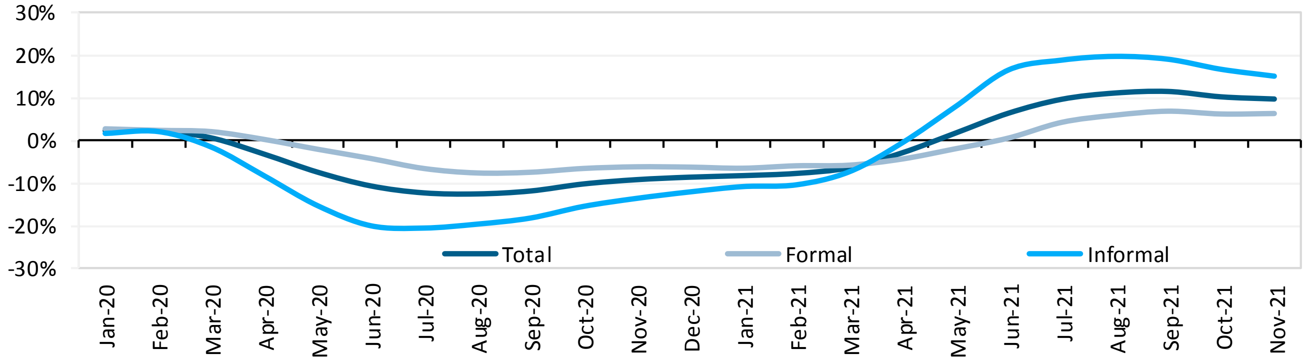
**FIGURE 5. UNEMPLOYMENT RATE (% OF TOTAL LABOR FORCE)**




*Source: IBGE. Prepared by: IFI.*

**Even with the return of people to the labor force, the increase in employment has made it possible to lower the unemployment rate.** The reduction in the unemployment rate compared to the quarter ended in November of the previous year reflects the advance in the occupied population (9.7%), which outpaced the growth in the labor force (6.2%). The occupation is driven mainly by the informal sectors, especially the number of people employed without a formal job contract in the private sector (18.7%), domestic workers without a formal job contract (25.1%), and the self-employed (14.3%) - positions that are growing above total employment. Formal employment advanced at a more moderate pace (6.3%).

FIGURE 6. WORKING POPULATION (ANNUAL VARIATION %)




*Source: IBGE. Prepared by: IFI.*

**Although the unemployment rate has decreased in recent months, with a consistent increase in hiring, the drop in the salary mass acts as a vector for reducing household consumption.** Also, according to data from PNAD Contínua, the average real income in the quarter ended in November fell 11.4% compared to the same period last year, while the payroll indicator, the combination of income and employment, fell 2.6%. Besides the worsening of purchasing power due to high and persistent inflation, the more concentrated increase in hiring in lower-paid activities (the composition effect) also negatively affects the trajectory of average income.

## 1.2 Inflation and monetary policy

**Consumer inflation remains pressured.** Consumer inflation measured by the IPCA was 0.54% in January, below the rate recorded in December (0.73%) - but it was the highest result for January since 2016 (1.27%). The survey's breakdown shows that eight of the nine groups of products and services rose in January, with the most significant impact (0.23 p.p.) coming from food prices (variation of 1.11%).

**IPCA's twelve-month trajectory accelerated in January.** The IPCA's accumulated change in 12 months, in turn, accelerated once again, from 10.1% in December to 10.4% in January. Inflation remains well above the upper limit of the inflation target (3.5% with an interval of 1.5 percentage points above and below).

As can be seen in Table 3, between December and January, the change in administered prices, which account for approximately 25% of the total IPCA, went from 0.1% to -0.4% (an accumulated variation of 16.8% in the last 12 months), influenced by the reduction in electricity prices (-1.07%), whose variation in December had been 0.50%. Free prices, meanwhile, showed an increase of 0.9%, slightly lower than that observed in December (1.0%). In 12 months, the variation in these prices rose from 7.7% to 8.2%. The pressure came from industrial (change of 1.2% in the month and 12.7% in 12 months), services (0.4% and 5.1%), and food prices (1.4% and 8.6%).

**TABLE 3. IPCA: MONTH % CHANGE AND 12-MONTH**

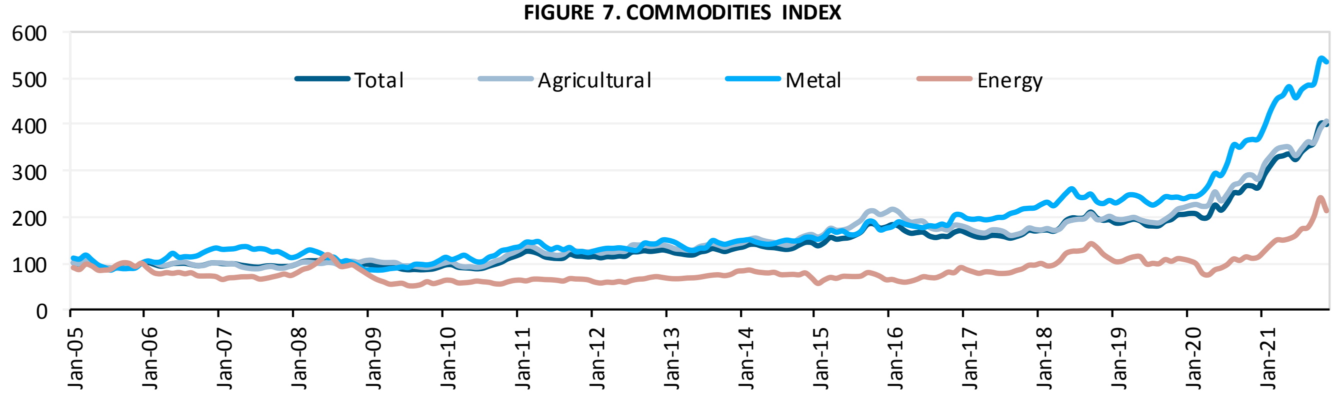
| Consumer inflation | Month % change | | | 12-month | | |
|---|---|---|---|---|---|---|
| | Nov/21 | Dec/21 | Jan/22 | Nov/21 | Dec/21 | Jan/22 |
| **IPCA** | **1.0%** | **0.7%** | **0.5%** | **10.7%** | **10.1%** | **10.4%** |
| **Administered prices** | **2.3%** | **0.1%** | **-0.4%** | **19.2%** | **16.9%** | **16.8%** |
| **Free prices** | **0.5%** | **1.0%** | **0.9%** | **7.8%** | **7.7%** | **8.2%** |
| Food | 0.0% | 0.8% | 1.4% | 9.7% | 8.2% | 8.6% |
| Services | 0.3% | 0.8% | 0.4% | 4.8% | 4.8% | 5.1% |
| Industrial | 1.0% | 1.4% | 1.2% | 11.4% | 12.0% | 12.7% |
| **Inflation cores average** | **0.6%** | **0.9%** | **0.9%** | **7.2%** | **7.4%** | **7.9%** |

*Source: IBGE and Central Bank. Prepared by: IFI.*

**The diffusion index remains high, and cores are accelerating.** Despite the slowdown in the IPCA compared to November, there is widespread pressure across components. For example, the IPCA's diffusion index, a variable that indicates the portion of IPCA sub-items with positive variation in the month, remained high, dropping from 74.8% in December to 73.2% in January. The scenario of pressured and persistent inflation is also in the core inflation behavior, representing several measures constructed to exclude the influence of more volatile items from total inflation. The average of the five cores monitored by the Central Bank (EX-0, EX-3, MS, DP, and P55) maintained a monthly variation of 0.9% in January and advanced from 7.4% in December to 7.9% in January in the accumulated 12-month period (also maintaining itself above the target and the tolerance ceiling for 2022).

**Rising commodity prices reinforce the global environment contribute to persistent inflation.** The rise in international commodity prices, which is well above the pre-pandemic level, is one factor that explains the high level of inflation. The recent appreciation of the exchange rate (which went from R$ 5.60/ US$ in December to R$ 5.40/ US$ in January) only partially offsets the effect on domestic prices. Figure 7 illustrates the dynamics of the Commodities Index calculated by the Central Bank (IC-Br), which represents a monthly average of the prices of commodities relevant to the dynamics of Brazilian inflation, aggregating the agricultural, metal, and energy segments. In the 12 months to January 2022, the IC-Br was 49.7%. Since commodity prices are in Brazilian real, the indicator also captures the inflationary impact of changes in the exchange rate.

**FIGURE 7. COMMODITIES INDEX**




*Source: Central Bank. Prepared by: IFI.*

**Inflation expectations for 2022 and 2023 remain above the target.** Among the agents that registered their projections in the Focus survey, the average perspective for the IPCA for 2022 at the beginning of February reached 5.5% (range of one standard deviation between 5.0% and 5.9%), standing above the 3.5% target established by the

CMN for next year. In addition to the pressures on the risk premium and the exchange rate arising from the uncertainties related to the fiscal trajectory and the election period, the inertial effect contributes to the maintenance of expectations at high levels. For 2023, the market's estimate is 3.6%, also above the reference center (3.25%).

**Besides the effect on consumer purchasing power, high inflation has led Copom to continue raising the base interest rate.** In February, the Monetary Policy Committee (Copom) decided to raise the base interest rate by 1.50 p.p. to 10.75%, maintaining the pace of the October and December meetings. The minutes of the meeting brought a challenging diagnosis about current inflation, highlighting recent data above expectations, with emphasis on the dynamics of service prices, the persistent rise in industrial goods, and the evolution of core inflation measures (underlying inflation) above the interval compatible with compliance with the inflation target.

**Minute indicates a reduction in the pace of tightening.** The Committee pointed out that it will reduce the pace of tightening in the March meeting, given the stage of the tightening cycle, whose cumulative effects will become evident over the relevant horizon for the conduction of monetary policy (2022 and, to a greater extent, 2023). However, it did not indicate the magnitude of the additional adjustments. In the current monetary tightening cycle, the Central Bank has raised the Selic rate by 875 basis points[3] (from 2.0% in March 2020 to 10.75% in February 2021) to contain the advance of inflation and anchor expectations.

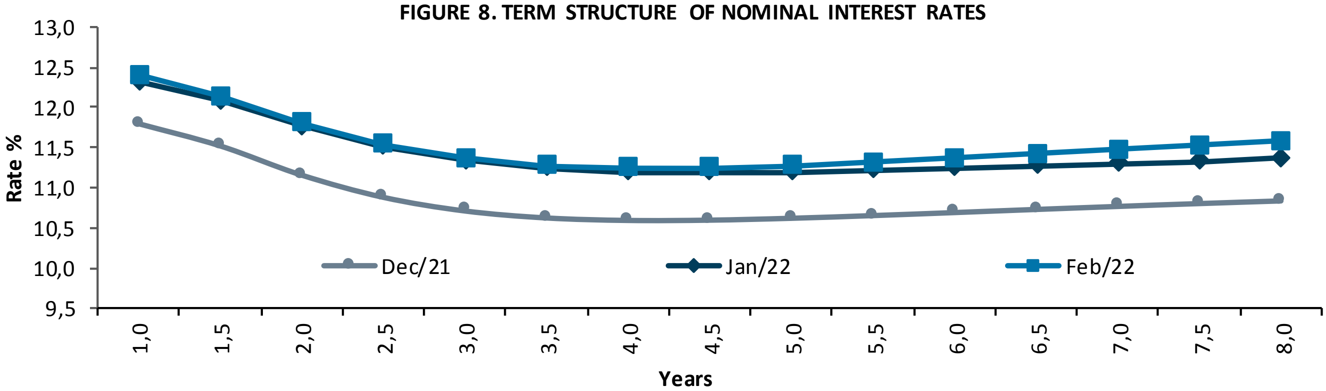
Given the Central Bank signals, the Selic rate's market estimate is 12.25% at the end of 2022. For 2023, the forecast is 8.0%. By indicating that it will maintain monetary policy at a contractionary level to reduce inflation and anchor the estimates around the target, the interest rate may remain at a high level for a more extended period.

**Fiscal risk puts pressure on the yield curve.** When commenting on the balance of risks to inflation, the Committee emphasized the high uncertainty regarding the path of prices in reais of international commodities and regarding the future of the fiscal framework[4], which results in a high-risk premium and increases the risk of unanchoring expectations. It is worth saying, in this sense, that the perception of risk regarding the conduct of fiscal policy contributes to the displacement of the yield curve, as can be seen in Figure 8, according to Anbima data regarding secondary public bond negotiations. This movement represents a tightening in financing conditions, adversely affecting economic activity and the debt/GDP dynamic.

[3] Each point is equivalent to 0.01 percentage point.

[4] "In spite of the more favorable public accounts data, the Committee assesses that the uncertainties regarding the fiscal frame work maintain elevated the risk of deanchoring inflation expectations and, therefore, the upward asymmetry in the balance of risks. This implies a higher probability of inflation paths above the one projected under the reference scenario." Minutes of the Monetary Policy Committee, 224th Meeting.

FIGURE 8. TERM STRUCTURE OF NOMINAL INTEREST RATES




*Source: Anbima. Prepared by: IFI.*

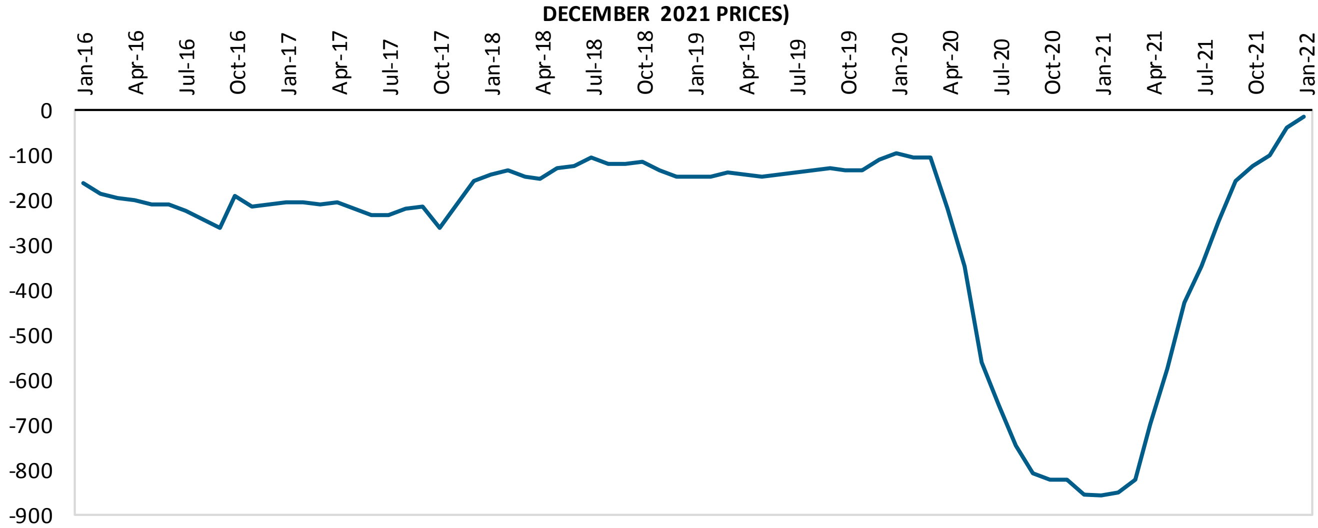
## 2. FISCAL SCENARIO

### 2.1 Balances of the Central Government and the Consolidated Public Sector

#### 2.1.1 Central Government Primary Balance

**The central government's primary deficit accumulated in 12 months should have receded from R$ 35.1 billion in December to R$ 7.3 billion in January 2022.** According to information gathered by the IFI in Siga Brasil of the Federal Senate, compiled with data released by the National Treasury Secretariat (STN), the central government's primary deficit should have been R$ 7.3 billion in the 12-month accumulated until January 2022, in nominal values. This result is lower than the R$ 35.1 billion primary deficit of 2021, analyzed below. In January alone, the central government's primary balance, according to the information gathered by Siga Brasil, would have been a R$ 71.9 billion surplus. At January 2022 prices, the federal government's primary deficit would have been R$ 15.0 billion in the 12 months ending in January (Figure 9).

FIGURE 9. EVOLUTION IN 12 MONTHS OF CENTRAL GOVERNMENT´S PRIMARY BALANCE (R$ BILLION AT DECEMBER 2021 PRICES)




*Source: National Treasury Secretariat and Siga Brasil. Prepared by: IFI.*

**The IFI's forecast for the central government's primary deficit in 2022 is R$ 106.2 billion.** The promising path for the central government's primary balance is not expected to continue in the coming months. The most recent IFI's projection for the indicator, included in the scenario revision published in December 2021, is a deficit of R$ 106.2 billion in 2022, in nominal values. The IFI's estimate is higher than the most recent government projection, of a deficit of R$ 76.2 billion[5], as well as the median of the projections collected by the Monthly Report from Prisma Fiscal, of the Secretariat of Economic Policy (SPE) of the Ministry of Economy, updated until February 2022, of a deficit of R$ 74.0 billion[6].

**Tax revenue collection in 2022 is not expected to repeat last year's strong growth.** The worsening foreseen by the IFI in the trajectory of the federal primary balance in 2022, as presented in December, is due to two factors. The first relates to the behavior of tax collection, for which another substantial increase is not expected, in real terms, as the one observed in 2021. The economy's growth should decelerate from 4.6% in 2021 to 0.5% in 2022, according to the most recent IFI projection; inflation will be lower this year, and substantial exchange rate depreciation is not expected.

**Constitutional Amendments 113 and 114 of 2021 expanded the fiscal space to increase primary expenditures this year.** The expected primary expenses dynamics is the second factor that justifies an expected worsening in the central government's primary deficit between 2021 and 2022. The Constitutional Amendments (EC) no. 113 and 114 of 2021 promoted the spending ceiling rule changes and established a limit for spending on court-ordered debts. The space opened in the spending ceiling with these two legal rules was R$112.6 billion.

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5 According to Decree No. 10,961, February 11, 2022. Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2022/decreto/D10961.htm.

6 Available at: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2022/relatorio-mensal-2022_02.pdf/view.

**Proposals aimed to reduce taxes on fuel have created new risks to the fiscal framework.** Besides these two factors, new risks to the fiscal framework have emerged at the beginning of this year. The press has been reporting the possibility of consideration by the National Congress of proposals to reduce the tax levied on fuel and granting eventual aid and transfers to specific groups in the society. These proposals would result in a vital tax waiver in case of approval. The IFI is following the eventual passage of these proposals and will release, at the appropriate moment, estimates of the budgetary impact.

**The central government's primary deficit fell from 10% in 2020 to 0.4% in 2021.** Regarding the December numbers of the National Treasury Result (RTN), as previously reported, the central government's primary balance was a deficit of R$ 35.1 billion (0.4% of GDP) in 2021, well below the deficit of R$ 743.3 billion (10% of GDP) registered in 2020. This result reflected the substantial increase in primary revenue and decrease expenditures due to lower spending on fighting the pandemic.

**The central government's total primary revenue reached 22.3% of GDP in 2021, slightly above the result for 2019 (22.1% of GDP).** Table 4 presents information regarding the Union's primary revenue over the last three years. The total revenue grew, in 2021, by 21.6% in real terms, to R$ 1,932.4 billion (22.3% of GDP), practically returning to the 2019 level (22.1% of GDP). By 2020, the contraction in economic activity and the tax deferrals practiced by the government to alleviate the effects of the pandemic had knocked down total revenue, which had retreated to 19.7% of GDP. For 2022, the IFI projects total primary revenue of R$ 2,019.2 billion, equivalent to 21.4% of GDP.

**As a proportion of GDP, the revenues collected by the RFB in 2021 were one p.p. above the 2019 level.** Also, according to Table 4, revenues collected by the RFB reached R$1,195.7 billion (13.8% of GDP) in 2021, 22.9% higher than the amount collected in 2020. As a percentage of GDP, the managed collection was one p.p. higher in 2021 compared to 2019. Net collection for the RGPS, in turn, grew 5.4% in real terms over the 2020 result, to R$462.2 billion (5.3% of GDP). Finally, revenues not collected by the RFB registered an increase of 54.4% in 2021 compared to 2020, at R$274.6 billion (3.2% of GDP).

**Net revenue increased 21.2% in 2021 compared to 2020, in real terms, returning to the 2019 level as a proportion of GDP.** After discounting the transfers to subnational entities of R$ 353.6 billion (4.1% of GDP) from total primary revenue, net revenue totaled R$ 1,578.8 billion (18.2% of GDP) in 2021, a real increase of 21.2% compared to the previous year and returning to the 2019 level as a percentage of GDP. The IFI expects net revenue to reach R$1,634.2 billion this year.

TABLE 4. CENTRAL GOVERNMENT'S REVENUES – 2019-2021 – JAN. TO DEC. (R$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

| | Jan-Dec/19 | | | Jan-Dec/20 | | | Jan-Dec/21 | | |
|---|---|---|---|---|---|---|---|---|---|
| | R$ B current | Real % change | % GDP | R$ B current | Real % change | % GDP | R$ B current | Real % change | % GDP |
| **Total revenue** | **1,635.1** | **5.8%** | **22.1%** | **1,467.8** | **-13.1%** | **19.7%** | **1,932.4** | **21.6%** | **22.3%** |
| *Revenues Collected by RFB, except RGPS* | *946.1* | *0.7%* | *12.8%* | *899.5* | *-8.1%* | *12.0%* | *1,195.7* | *22.9%* | *13.8%* |
| *Fiscal incentives* | *0.0* | *-* | *0.0%* | *-0.1* | *-* | *0.0%* | *-0.2* | *-* | *0.0%* |
| *RGPS revenues* | *413.3* | *1.8%* | *5.6%* | *404.8* | *-5.3%* | *5.4%* | *462.2* | *5.4%* | *5.3%* |
| *Revenues not Collected by RFB* | *275.7* | *37.7%* | *3.7%* | *163.6* | *-42.2%* | *2.2%* | *274.6* | *54.4%* | *3.2%* |
| **Transfers** | **288.3** | **8.2%** | **3.9%** | **263.8** | **-11.4%** | **3.5%** | **353.6** | **23.8%** | **4.1%** |
| **Net revenue** | **1,346.8** | **5.3%** | **18.2%** | **1,204.0** | **-13.5%** | **16.1%** | **1,578.8** | **21.2%** | **18.2%** |
| **Total revenue without non-recurrent events *** | **1,504.0** | **0.7%** | **20.4%** | **1,489.6** | **-4.1%** | **19.9%** | **1,854.9** | **14.9%** | **21.4%** |
| **Net revenue without non-recurrent events *** | **1,227.4** | **0.1%** | **16.6%** | **1,225.8** | **-3.3%** | **16.4%** | **1,501.3** | **13.0%** | **17.3%** |
| **GDP (R$ billion)** | | | **7,389.1** | | | **7,467.6** | | | **8,674.5** |

** The non-recurrent events are presented and described in the IFI's EE no. 17, 2021.*
*Source: National Treasury Secretariat and Central Bank. Prepared by: IFI*

Table 4 also displays information regarding total and net primary revenues free of the effects of non-recurring events that may eventually distort the evaluation of these variables. Special Study (EE) of IFI no. 17, 2021, presented the methodology to obtain these series[7].

**Primary revenue free of non-recurring events grew 14.9% in 2021 compared to 2020, in real terms.** In the absence of the atypicality considered, the total primary revenue of R$ 1,854.9 billion in 2021 was 14.9% higher (in real terms) than the sum recorded in 2020, which fell 4.1% compared to 2019. The net revenue, in turn, had an increase of 13.0%, in real terms, over 2020, when it fell 3.3% compared to 2019.

**Revenues collected and not collected by the RFB exerted the most significant influence on tax collection in 2021.** Table 4 shows that of the 2.6 p.p. of GDP increase in primary revenue in 2021, 1.7 p.p. was due to the increase in revenues collected by the RFB, 1.0 p.p. to the increase in revenues not collected by the RFB (primarily dividends and exploitation of natural resources), while RGPS revenues fell 0.1 p.p. of GDP. The performance of the economic activity in the first half of last year, higher inflation, the depreciation of the exchange rate, and the improvement in terms of trade ratio positively influenced the revenues collected by the RFB. Some of these variables affect the behavior of revenues not collected by the RFB. For example, the more depreciated exchange rate and the rising international oil prices affect the collection of royalties and special participations from the federal government and sub-national entities.

**Primary expenditure decreased 23.6% in real terms in 2021 compared to 2020.** We will now analyze the central government's primary expenditure, which totaled R$ 1,613.9 billion (18.6% of GDP) in 2021, with R$ 333.3 billion below the 2020 level. The retraction was 23.6% in real terms. As a percentage of GDP, the expense fell 7.5 p.p. between 2020 and 2021 (Table 5).

[7] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/594656/EE17_Resultado_Estrutural.pdf.

TABLE 5. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – 2019-2021 – JAN. TO DEC. (R$ B CURRENT, REAL % CHANGE, AND % OF GDP)

| | Jan-Dec/19 | | | Jan-Dec/20 | | | Jan-Dec/21 | | |
|---|---|---|---|---|---|---|---|---|---|
| | R$ B current | Real % change | % GDP | R$ B current | Real % change | % GDP | R$ B current | Real % change | % GDP |
| **Total expenditure** | 1,441.8 | 2.7% | 19.5% | 1,947.2 | 31.1% | 26.1% | 1,613.9 | -23.6% | 18.6% |
| *Social Security Benefits (RGPS)* | *626.5* | *3.0%* | *8.5%* | *663.9* | *2.8%* | *8.9%* | *709.6* | *-1.3%* | *8.2%* |
| *Personnel (working and retired employees)* | *313.1* | *1.3%* | *4.2%* | *321.3* | *-0.6%* | *4.3%* | *329.3* | *-5.4%* | *3.8%* |
| *Salary allowance and unemployment insurance* | *55.6* | *0.1%* | *0.8%* | *59.6* | *3.9%* | *0.8%* | *45.9* | *-28.3%* | *0.5%* |
| *Continuous Cash Benefit (BPC)* | *59.7* | *2.5%* | *0.8%* | *62.7* | *1.7%* | *0.8%* | *67.7* | *-0.2%* | *0.8%* |
| *Extraordinary Credits (except PAC)* | *3.3* | *-42.6%* | *0.0%* | *429.6* | *12254.5%* | *5.8%* | *117.2* | *-74.9%* | *1.4%* |
| *Compensation to RGPS for Exemption of Payroll Taxes* | *10.2* | *-27.5%* | *0.1%* | *9.4* | *-10.5%* | *0.1%* | *7.3* | *-28.5%* | *0.1%* |
| *Fundeb* | *15.6* | *8.7%* | *0.2%* | *15.0* | *-6.7%* | *0.2%* | *22.0* | *34.9%* | *0.3%* |
| *Court Rulings and Court-Ordered Debts (current and capital expenditure)* | *15.5* | *6.4%* | *0.2%* | *22.9* | *44.3%* | *0.3%* | *18.8* | *-24.3%* | *0.2%* |
| *Subsidies, Grants, and Proagro* | *11.0* | *-30.6%* | *0.1%* | *20.9* | *85.0%* | *0.3%* | *7.3* | *-67.9%* | *0.1%* |
| **Mandatory expenditure** | 1,277.6 | 0.7% | 17.3% | 1,839.0 | 39.7% | 24.6% | 1,490.1 | -25.2% | 17.2% |
| **Mandatory spending with flow control** | *142.8* | *0.3%* | *1.9%* | *133.5* | *-9.5%* | *1.8%* | *145.2* | *0.4%* | *1.7%* |
| **Discretionary** | 164.2 | 22.2% | 2.2% | 108.2 | -35.8% | 1.4% | 123.8 | 4.6% | 1.4% |
| **Total expenditure without non-recurrent events** | 1,407.4 | 0.3% | 19.0% | 1,426.3 | -1.8% | 19.1% | 1,478.8 | -4.3% | 17.0% |
| **GDP (R$ billion)** | | | 7,389.1 | | | 7,467.6 | | | 8,674.5 |

*Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.*

**The most significant contribution to the fall in primary expenditure in 2021 came from extraordinary credits, which concentrated on fighting the pandemic.** Also, according to Table 5, of the 7.5 p.p. of GDP reduction in the Union's primary expenditure between 2020 and 2021, 6.1 p.p. occurred in the following expenditure groups: (i) social security benefits (-0.7 p.p. of GDP); (ii) personnel (-0.5 p.p. of GDP); (iii) salary allowance and unemployment insurance (-0.3 p.p. of GDP); (iv) extraordinary credits (-4.4 p.p. of GDP); and (v) subsidies, grants and Proagro (-0.2 p.p. of GDP). The decreases in these expenses (6.1 p.p. of GDP) accounted for 81.3% of the drop in central government primary expenditures last year.

According to the Social Security Statistical Bulletin (BEPS) updated to November 2021, the decrease in expenditure with benefits under the RGPS, of 1.3% in real terms compared to 2020, reflects the drop in the average value of the benefit and lower growth in the number of benefits issued. Table 6 presents these results.

**TABLE 6. DATA ON BENEFITS AND AVERAGE BENEFIT VALUE UNDER THE RGPS**

| | Jan-Nov/2016 | | Jan-Nov/2017 | | Jan-Nov/2018 | | Jan-Nov/2019 | | Jan-Nov/2020 | | Jan-Nov/2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unity | Real % change | Unity | Real % change | Unity | Real % change | Unity | Real % change | Unity | Real % change | Unity | Real % change |
| **Quantity (average)** | **33,321.5** | **2.6%** | **34,060.1** | **2.2%** | **34,734.6** | **2.0%** | **35,229.7** | **1.4%** | **35,779.9** | **1.6%** | **36,062.7** | **0.8%** |
| *Urban sector* | *23,893.4* | *3.2%* | *24,541.8* | *2.7%* | *25,160.4* | *2.5%* | *25,656.9* | *2.0%* | *26,163.9* | *2.0%* | *26,422.2* | *1.0%* |
| *Rural sector* | *9,428.2* | *1.3%* | *9,518.3* | *1.0%* | *9,574.2* | *0.6%* | *9,572.8* | *0.0%* | *9,616.0* | *0.5%* | *9,640.5* | *0.3%* |
| **Value (R$)** | **1,219.6** | **2.8%** | **1,306.3** | **3.5%** | **1,336.8** | **-1.3%** | **1,396.5** | **0.8%** | **1,471.4** | **2.3%** | **1,541.3** | **-3.1%** |
| *Urban sector* | *1,357.5* | *2.6%* | *1,453.6* | *3.5%* | *1,487.2* | *-1.3%* | *1,549.1* | *0.5%* | *1,630.9* | *2.3%* | *1,708.3* | *-3.1%* |
| *Rural sector* | *869.9* | *2.8%* | *926.6* | *3.0%* | *941.5* | *-2.0%* | *987.3* | *1.2%* | *1,037.6* | *2.1%* | *1,083.6* | *-3.3%* |
| **Average value (R$ million)** | **40,668.1** | **5.6%** | **44,521.7** | **5.8%** | **46,449.5** | **0.6%** | **49,220.5** | **2.2%** | **52,641.7** | **3.9%** | **55,577.2** | **-2.3%** |
| *Urban sector* | *32,463.8* | *5.9%* | *35,699.5* | *6.3%* | *37,435.7* | *1.1%* | *39,768.5* | *2.5%* | *42,663.7* | *4.2%* | *45,130.7* | *-2.1%* |
| *Rural sector* | *8,204.4* | *4.2%* | *8,822.2* | *4.0%* | *9,013.8* | *-1.5%* | *9,452.0* | *1.2%* | *9,978.0* | *2.5%* | *10,446.5* | *-3.1%* |

*Source: Ministry of Labor and Social Security. Prepared by: IFI.*

**Social security statistics show a reduction in the growth rate of benefits issued as of 2019.** According to Table 6, until 2018, the average number of benefits issued under the RGPS registered an annual increase of over 2.0%. From 2019 on, the growth rate dropped, with a 0.8% increase in 2021. One hypothesis for the dynamics observed in 2021 would be the effects derived from the approval of the pension reform in 2019.

**In 2021, the average value of benefits paid under the RGPS dropped due to inflation for the year.** The average benefit value fell by 3.1%, discounting the effects of inflation calculated by the IPCA. In the last five years, only in 2018 had there been a retraction in the average value of the RGPS benefit in real terms. The explanation for the 3.1% drop that occurred in 2021 is the inflationary dynamics of the economy last year. It is worth remembering that, since 2019, the minimum wage, the variable that sets the RGPS benefits, has been corrected by inflation measured by the INPC, from IBGE, from the previous year. In 2020, the INPC varied 5.45%, while last year's increase was 10.16%. In other words, the higher inflation registered in 2021 eroded part of the variation granted to the minimum wage and, consequently, to the social security benefits under the RGPS.

**It is expected that the average value of RGPS benefits will have a real gain in 2022.** Considering that inflation in 2022 should be lower than in 2021, the average value of the RGPS benefits trend for 2022 is increasing in real terms. The IFI projects a variation of 5.4% for the INPC and 5.3% for the IPCA this year.

**The reduction in personnel expenses in 2021 occurred due to the absence of adjustments for most categories of the civil service.** The 0.5 p.p. of GDP drop in personnel expenditures in 2021 compared to 2020 (Table 5) was due to the absence of readjustments in civil service salaries, except for the military. The reduction in the hiring pace via public service entrance exam has also contributed to the performance in recent years. The 5.4% drop in this expense in 2021, in real terms, occurred after a 0.6% retraction registered in 2020.

**Expenditure through extraordinary credits fell from R$ 429.0 billion in 2020 to R$ 116.6 billion last year.** The extraordinary credits (except PAC), which fell 74.9% in real terms in 2021 (or 4.4 p.p. of GDP), concentrates the expenses with the Auxílio Emergencial, the Bolsa Família Program expansion, the Programa Emergencial de

Manutenção do Emprego e da Renda, the purchase of vaccines, among other expenses. In 2020, this item totaled R$ 429.0 billion, having been reduced to R$ 116.6 billion last year.

**Expenses aimed at mitigating the effects of the pandemic will total R$ 120.8 billion in 2021, compared to R$ 520.9 billion in the previous year.** Also, according to the Treasury, the primary expenditures to combat pandemic totaled R$ 520.9 billion in 2020, an amount reduced to R$ 120.8 billion in 2021. These data illustrate that the extraordinary credits item concentrates a large part of the expenses to alleviate the impacts of the pandemic.

**Primary expenditure without non-recurrent events was reduced by 4.3% in 2021 compared to 2020, in real terms.** As the last observation concerning Table 5, we highlight the behavior of total primary expenditure without non-recurrent events. Last year, this primary expenditure recalculated by the IFI totaled R$ 1,478.8 billion (17.0% of GDP), having registered a decrease of 4.3% in real terms to 2020, when there was a retraction of 1.8% compared to 2019.

To better evaluate the impact of inflation on the fiscal variables of the central government, Table 7 presents the annual variation rates of net primary revenue and primary expenditure in nominal and real terms, adjusted by the GDP price deflator, by the IPCA, and by the IGP-M. In the case of the implicit deflator, we considered the IFI's projection of 11.1% in 2021, taking into account that the IBGE will only publish the results of the National Quarterly Accounts relative to the fourth quarter of 2021 at the beginning of March.

**TABLE 7. CENTRAL GOVERNMENT'S NET PRIMARY REVENUE AND PRIMARY EXPENDITURE % YEAR CHANGE**

| | Net primary revenue | | | | Primary expenditure | | | |
|---|---|---|---|---|---|---|---|---|
| | Nominal change | Change adjusted by the GDP price deflator | Change adjusted by the IPCA | Change adjusted by the IGP-M | Nominal change | Change adjusted by the GDP price deflator | Change adjusted by the IPCA | Change adjusted by the IGP-M |
| 2015 | 2.0% | -5.1% | -7.8% | -7.7% | 11.3% | 3.4% | 0.5% | 0.7% |
| 2016 | 4.2% | -3.6% | -1.9% | -2.7% | 7.3% | -0.7% | 0.9% | 0.1% |
| 2017 | 6.1% | 2.4% | 3.1% | 6.7% | 2.4% | -1.3% | -0.6% | 2.9% |
| 2018 | 6.6% | 2.1% | 2.8% | -0.8% | 5.7% | 1.1% | 1.9% | -1.7% |
| 2019 | 9.4% | 4.9% | 4.8% | 1.9% | 6.7% | 2.3% | 2.3% | -0.6% |
| 2020 | -10.6% | -15.0% | -14.5% | -27.4% | 35.1% | 28.4% | 29.2% | 9.7% |
| 2021 | 31.1% | 18.0% | 19.1% | 11.3% | -17.1% | -25.4% | -24.7% | -29.6% |

*Source: National Treasury Secretariat, IBGE, and FGV. Prepared by: IFI.*

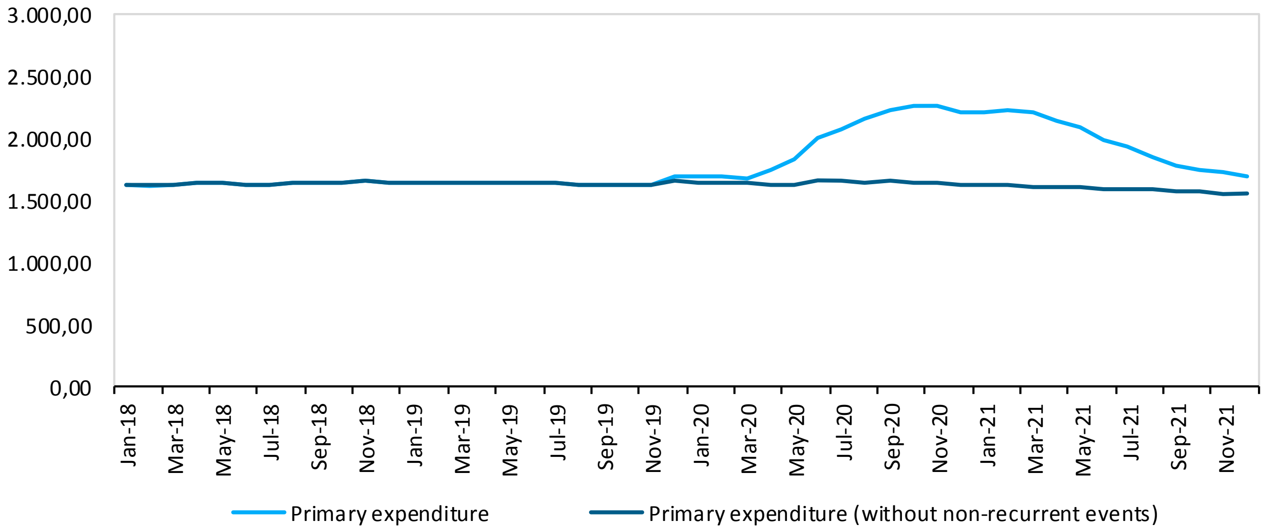
**The exercise to adjust fiscal variables with different price deflators highlights the existing differences in the compositions of the indexes.** The exercise presented in Table 7 shows the effect of inflation on the federal primary revenue and expenditure and the discrepancies between the price deflators. For example, the IGP-M, which has in its composition 60% of wholesale prices (IPA-M), captures more properly the exchange rate and terms of trade variations on prices.

**When deflated by the IGP-M, net revenues grew by 11.3% in 2021, while primary expenditure fell by 29.6%.** While the central government's net primary revenue rose 31.1% in 2021, in nominal terms, the increases in this variable discounting the GDP price deflator, the IPCA, and the IGP-M would have been 18.0%, 19.1%, and 11.3% in that order. On the other hand, the primary expenditure fell 17.1% in nominal terms in 2021 and registered falls of 25.4% when adjusted by the implicit GDP deflator, 24.7% by the IPCA, and 29.6% by the IGP-M.

Table 7 also displays that, from the fiscal authority's point of view, inflation is beneficial from the point of view of the fiscal results, in the short run, by inflating revenues (via increases in nominal GDP) and reducing expenses (in real terms). This occurs because, while revenues represent a portion of production and directly relate to nominal GDP, an essential portion of primary expenditures follows past inflation. Thus, in situations such as that of 2021, where inflation was higher than in the previous year, current inflation reduces the value of expenses in real terms, making it easier for the government to improve the primary result. For a reasoned discussion, see Bacha (1994)[8].

**At constant prices, the central government's primary expenditure without non-recurrent events would have been R$ 1,551 billion in the accumulated 12 months to December.** Figure 10 presents the evolution of total primary expenditure in 12 months and the expenditure series recalculated by the IFI to isolate the effects of non-recurrent events. At constant December 2021 prices, total primary expenditure reached R$ 1,694 billion in 2021, while expenditure without non-recurrent events totaled R$ 1,551 billion. The expenditure curve free of non-recurrent events shows that primary expenditure has remained relatively under control for several months.

FIGURE 10 - EVOLUTION IN 12 MONTHS OF TOTAL PRIMARY EXPENDITURES (WITH AND WITHOUT SELECTED NON-RECURRENT EVENTS) - R$ BILLION AT DEC/21 PRICES




*Source: National Treasury Secretariat. Prepared by: IFI*

### 2.1.1 Balance of the Consolidated Public Sector

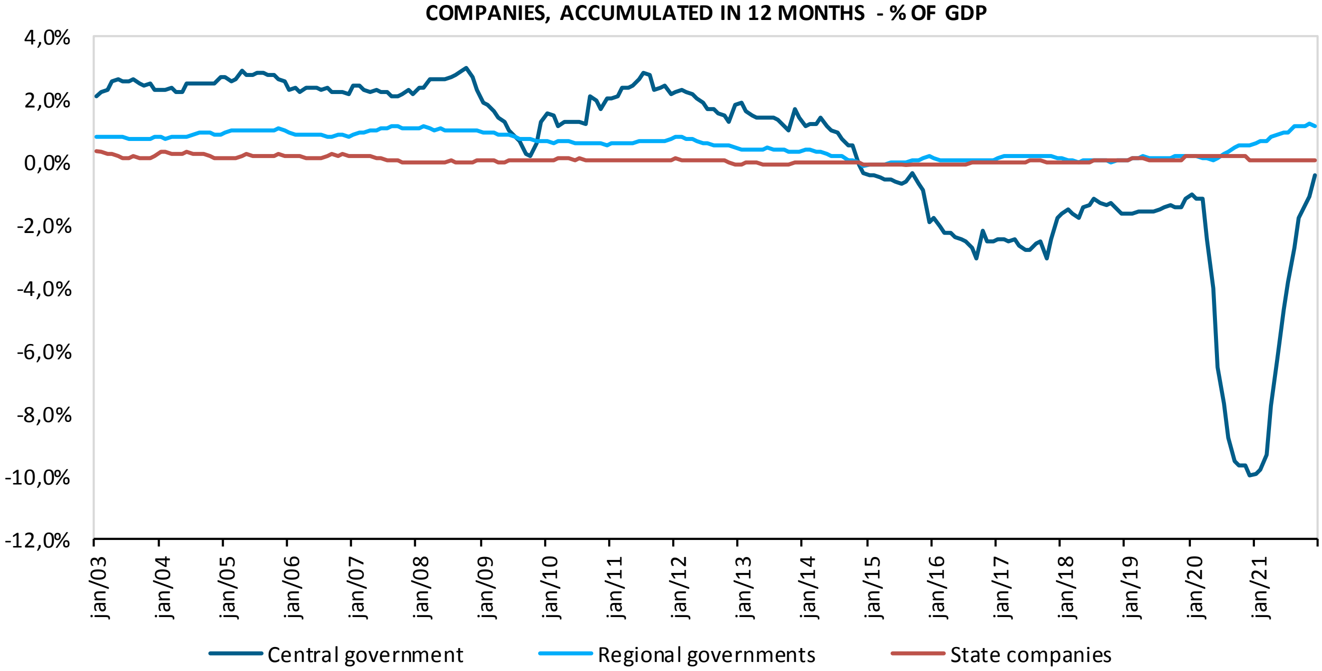
**Influenced by states and municipalities, the consolidated public sector recorded a primary surplus of 0.7% of GDP in 2021.** According to information from the Central Bank, the consolidated public sector had a primary surplus of R$ 64.7 billion (0.7% of GDP) in 2021. The most significant influence on this result came from the states and

[8] Bacha, E. L. O Fisco e a Inflação: Uma Interpretação do Caso Brasileiro. Revista de Economia Política, vol. 14, nº 1, jan-mar 1994. Available at: https://centrodeeconomiapolitica.org.br/repojs/index.php/journal/article/view/1264.

municipalities, which had a positive primary balance of R$ 97.7 billion (1.1% of GDP) last year. State-owned companies (at all three levels of government in the federation) also recorded a primary surplus of R$ 2.9 billion (0.03% of GDP) in 2021. On the other hand, the central government had a primary deficit of 0.4% of the GDP in the period, equivalent to R$35.9 billion (Figure 11).

The positive primary balance of the states in 2021 can be attributed to a few factors: (i) the collection increased 15.1% in the accumulated from January to November in real terms, according to National Finance Policy Council (CONFAZ)[9]; (ii) transfers from the Union to these entities had a substantial expansion; (iii) there was an increase in the participation of the ICMS active debt and the ICMS on oil, fuels, and lubricants; (iv) expenses remained relatively controlled due to the freezing of public servants' salaries; and (v) there was an inflow of some non-tax revenues, such as the CEDAE concession in Rio de Janeiro.

**FIGURE 11. PRIMARY BALANCE OF THE CENTRAL GOVERNMENT, REGIONAL GOVERNMENTS, AND STATE COMPANIES, ACCUMULATED IN 12 MONTHS - % OF GDP**




*Source: Central Bank. Prepared by: IFI*

**The public sector registered a nominal deficit of 4.4% of GDP in 2021, or R$ 383.7 billion; interest expenses reached 5.2% of GDP.** Turning to the public sector nominal deficit, which includes, besides the primary result, the interest payment on the public debt, there was a deficit of R$ 383.7 billion (4.4% of GDP) in 2021. Contributing to this result was a primary surplus of R$ 64.7 billion and interest expenditures of R$ 448.4 billion (5.2% of GDP) in the period (Figure 12).

**The public sector nominal result improvement in 2021 was due to the primary result.** Throughout 2021, there was an improvement of 9.2 p.p. of GDP in the nominal public sector result, reflecting the 10.2 p.p. of GDP increase in the

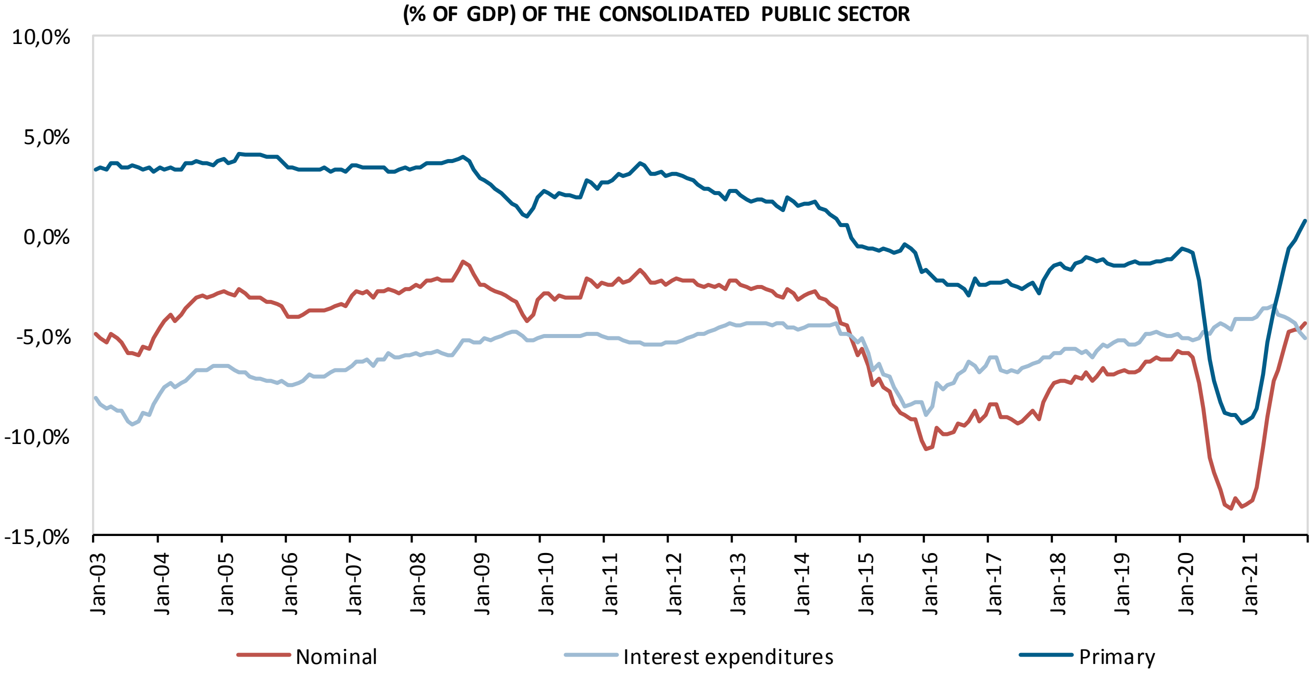
[9] Available at: https://dados.gov.br/dataset/boletim-de-arrecadacao-dos-tributos-estaduais.

primary balance. Interest expenditure, which fell from 4.2% in January to 3.5% in June, began to rise in the second half of the year, ending 2021 at 5.2%. There was an increase of 1.0 p.p. of GDP in this expense in 2021 compared to 2020.

**Further increases in the Selic rate and the agents' perception of risk will pressure public sector interest expenses.** Figure 12 displays that the 12-month trajectory of public sector interest expenses, as a proportion of GDP, is on the rise, reflecting the monetary tightening and the worsening perception of risk on the part of agents financing the federal public debt. The greater aversion to risk is related to the loss of credibility and the uncertainties concerning the fiscal policy conduction. Depending on public sector interest expenses dynamics, the government will need to increase the effort to generate primary surpluses to offset that movement.

The enactment of ECs no. 113 and 114 of 2021 allowed the payment in installments of court-ordered debts and opened space in the spending ceiling to execute new primary expenses. Besides, other legislative proposals under discussion to relieve the tax levied on fuel may further increase the Federal Government's primary expenditures, besides causing a significant revenue waiver. As mentioned previously, the IFI follows the discussions surrounding these matters to release budget impact estimates in due course.

FIGURE 12. 12-MONTH ACCUMULATED PRIMARY AND NOMINAL BALANCES AND INTEREST EXPENDITURES (% OF GDP) OF THE CONSOLIDATED PUBLIC SECTOR




*Source: Central Bank. Prepared by: IFI*

### 2.1.2 Evolution of Public Sector Indebtedness Indicators

**Since December, risk premiums have stabilized at levels higher than those registered in the first half of 2021.** In recent months, the IFI has emphasized that the economic environment of relatively high inflation and rising interest rates may increase the challenges for the National Treasury in managing public debt. Brazil's risk premiums started to rise from June, from 260 points to 370 points in November, having retreated to around 330 points by the end of

December. The yield curve embodies expectations of double-digit interest rates in all vertices over 21 days, as seen in the Macroeconomic Context section of this report.

**Uncertainties regarding fiscal policy conduction may worsen the financing agents' risk perception of public debt.** It appears that uncertainties regarding the dynamics of inflation and fiscal consolidation will persist throughout 2022. These uncertainties may bring volatility to asset prices and risk premiums, increasing the challenges to public debt management. The risk associated with eventual increases in primary expenditures or tax waivers of a permanent or transitory nature will continue to be monitored by the IFI.

**DPMFi stock rose R$ 116.4 billion between November and December 2021.** According to the STN's Monthly Debt Report (RMD), the Federal Domestic Public Debt (DPMFi) rose from R$ 5,232.5 billion in November to R$ 5,348.9 billion in December, an increase of R$ 116.4 billion. This growth was the result of increases in floating-rate securities (R$ 54.3 billion), price-indexed securities (R$ 31.7 billion), and fixed-rate securities (R$ 25.3 billion).

**Net issuance of DPMFi totaled R$ 68.9 billion in December.** In December, the total net issuance of DPMFi was positive in R$ 68.9 billion, meaning that issuances surpassed redemptions in this amount. In the period, the most significant contribution to this result came from floating-rate securities (net issuance of R$ 34.4 billion), fixed-rate securities (R$ 23.1 billion), and price-indexed securities (R$ 11.5 billion). As in previous months, this predominance of floating-rate bond issues reflects an increase in risk perception among buyers of debt securities and the rise in the Selic rate.

**The liquidity reserve reached R$ 1,185.9 billion in December, an amount higher than the Treasury's commitments for the next 12 months.** Also, according to the Treasury, the public deb liquidity reserve was R$ 1,185.9 billion in December, higher than the R$ 1,096.9 billion recorded in November. The liquidity reserve integrates the Treasury's cash available deposited in the Treasury Single Account at the Central Bank. Over the next 12 months, DPF maturities should reach R$ 1,180.7 billion and DMPFi maturities of R$ 1,163.6 billion. In other words, the liquidity reserve is at a relatively comfortable level for paying the Treasury's short-term commitments.

**A survey carried out by the IFI shows that the DPMFi bond's average auction rates rose in January.** Information gathered by the IFI regarding auctions held by the Treasury indicates an increase in the rates of DPMFi auctions in January. For example, a fixed-rate bond maturing on April 1, 2023, had an average issue rate of 12.02% per year in January. In December, the average rate of fixed-rate security maturing on July 1, 2023, was 11.62% per year. The securities (and their respective maturities) are announced quarterly by the Treasury and may change over time. The IFI will continue to monitor the movement of the rates at DPMFi auctions.

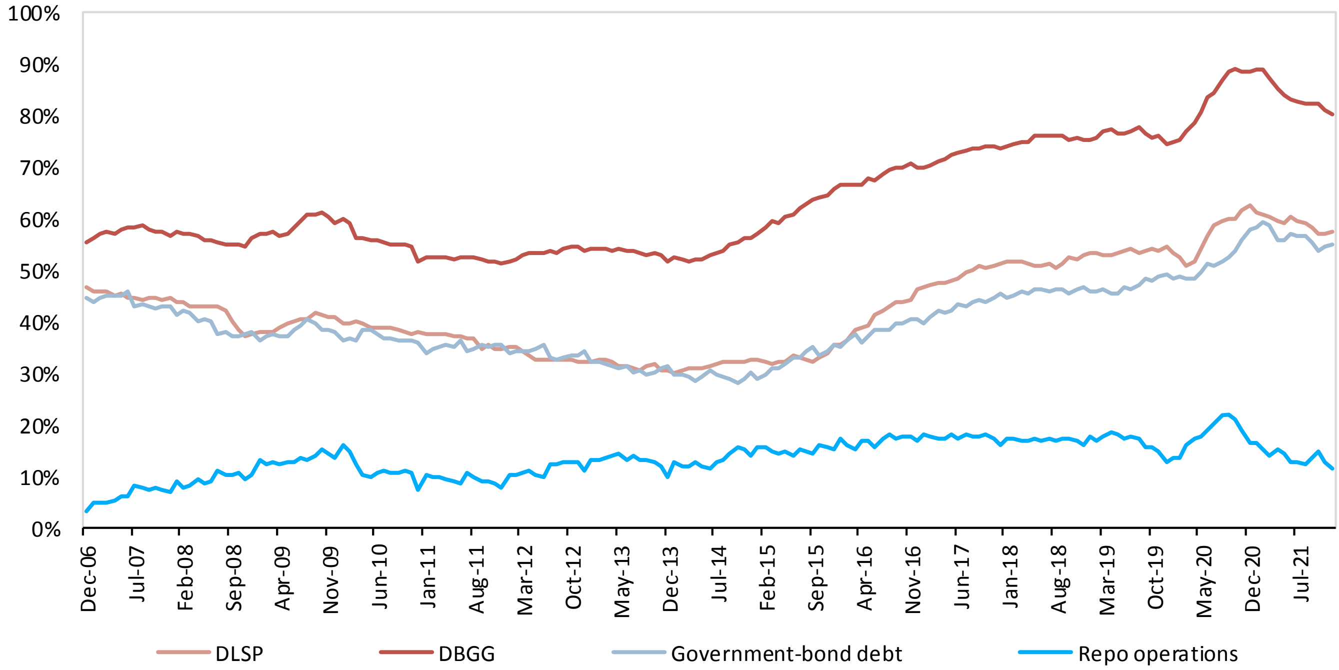
**Net Public Sector Debt fell 5.3 p.p. of GDP in 2021.** The Central Bank's fiscal statistics analysis shows that the Public Sector Net Debt (DLSP) rose from 57.0% of GDP in November to 57.3% in December. Compared to December 2020, there was a 5.3 p.p. of GDP drop in the indicator (Figure 13). According to the Central Bank, the decline of the DLSP in 2021 reflected the impacts of nominal GDP (- 8.7 p.p.), the accumulated exchange rate depreciation of 7.4% (- 1.2 p.p.), the primary surplus (-0.7 p. p.), partially offset by the accrued nominal interests (5.2 p.p. of the GDP in the DLSP) and the parity adjustment of the basket of currencies that compose the net external debt (0.4 p.p.).

**Government-bond debt fell 2.9 p.p. of GDP last year to 55.0%.** The market's government-bond debt rose 1.6 p.p. of GDP in December compared to November, to 55.0% of GDP or R$ 4,774.8 billion, in line with the information released by the Treasury regarding the DPF stock. Compared to December 2020, there was a reduction of 2.9 p.p. of GDP in the stock of government-bond debt (Figure 13), although the indicator grew by R$ 449.3 billion, in nominal terms, in 2021.

**The nominal GDP increase influenced the 8.3 p.p. of GDP drop in the DBGG, which reached 80.3% in 2021.** The General Government Gross Debt (DBGG) reached 80.3% of GDP in 2021, equivalent to R$ 6,966.9 billion, a reduction of 8.3 p.p. of GDP compared to 2020 (Figure 13). This reduction in the DBGG occurred due to the nominal GDP growth (-12.7 p.p.), the net redemptions of debt (-2.1 p.p.), accrued nominal interest (5.8 p.p.), and exchange rate depreciation (0.4 p.p.).

**IFI estimates DBGG to expand in 2022.** The IFI estimates DBGG will continue to rise in the coming months and end 2022 at the level of 84.8% of GDP. This expected increase stems mainly from the estimated increase in the interest account due to the rise in the Selic rate. The expected worsening of the central government's primary balance will also contribute to the debt expansion in 2022.

FIGURE 13. PUBLIC DEBT INDICATORS AND PRINCIPAL COMPONENTS (% OF GDP)



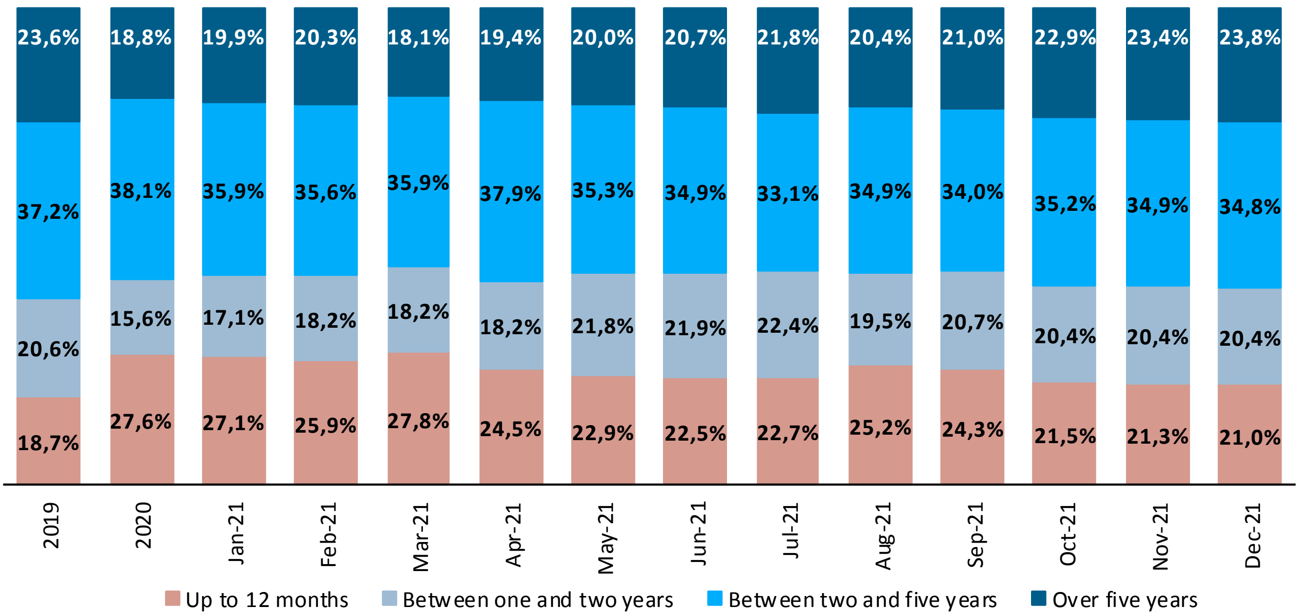

*Source: Central Bank. Prepared by: IFI.*

**Repo operations decreased by 5.2 p.p. of GDP last year.** Finally, the Central Bank's repo operations decreased by 5.2 p.p. of GDP in 2021, to 11.3% of GDP. As explored in past issues of this RAF, the repo operations reduction, as a percentage of GDP, is related to the measures announced by the Central Bank in October 2020 to limit the amounts of repo operations so as not to influence the issues made by the Treasury in the primary market of Financial Treasury Bills (LFT). Besides, in December 2021, there was an amount of R$ 35.0 billion from the sale of foreign exchange reserves, worsening the fall in repo operations as a proportion of the GDP. The sale of reserves increases the relative quantity of dollars to the quantity of Brazilian real, which requires an adjustment in repo operations to guarantee the system's liquidity (Figure 13).

**The relative share of securities maturing in up to 12 months fell in 2021.** Figure 14 contains information on the profile of Federal Public Debt (DPF) maturities made available in the Monthly Debt Report. In December, securities maturing in up to 12 months accounted for 21.0% of the DPF stock, maintaining the downward trajectory of previous months. By way of comparison, in December 2020, this proportion was 27.6%. In turn, securities maturing in over five years reached 23.8% of the DPF stock, up 0.4 p.p. to November and 5.0 p.p. compared to December 2020.

**The Treasury managed to lengthen the DPF maturity profile in 2021.** After the shortening observed in the federal debt profile in 2020 (increase in the relative share of securities with shorter maturities and reduction of those with longer maturities), the Treasury has once again managed to lengthen the maturity profile of public securities, which is a positive factor in debt management. However, this is not a relevant and structural movement, mainly because of the increase in the average cost.

**FIGURE 14. DPF MATURITIES**




*Source: National Treasury Secretariat. Prepared by: IFI.*

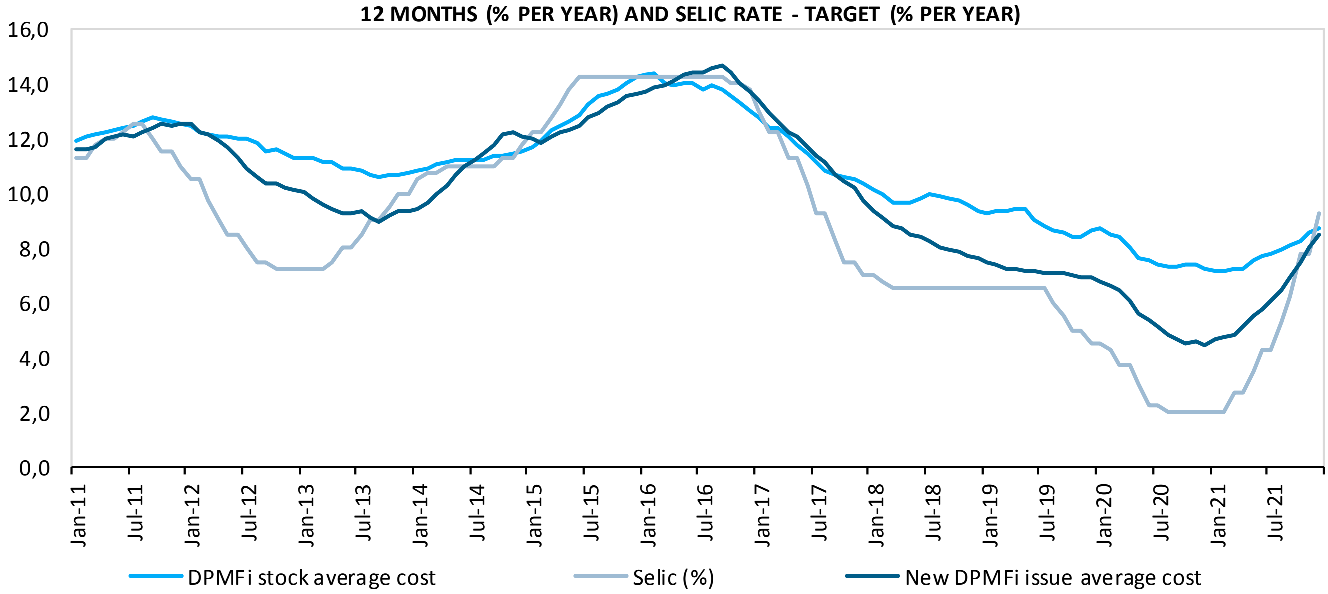
**The average cost of the DPMFi stock reached 8.75% p.a. in December.** Concluding the analysis of debt indicators, the 12-month average cost of the DPMFi stock rose from 8.52% in November to 8.75% in December, the tenth consecutive increase in the monthly comparison. Compared to December 2020, the average cost of the DPMFi stock rose by 1.48 p.p. (Figure 15).

**The average cost of DPMFi reached 8.49% p.a. in December and continues to rise at an accelerated pace.** The average cost of DPMFi also rose in December to 8.49%, compared to 8.02% in November. Compared to December 2020, the average cost of DPMFi issues rose by 4.05 p.p. (Figure 15). The average cost of DPMFi issuance is rising at an accelerated pace in this comparison.

**Monetary tightening will continue to pressure the average cost of debt in the coming months.** As highlighted in previous editions of this RAF, the increase in the average cost of the DPMFi stock and new issues, starting in March, has occurred in line with the start of the cycle of increases in the economy's base interest rates by the Central Bank that month. In February 2022, the Selic reached the level of 10.75%. Additional hikes expected for the Selic in the coming months suggest that the average cost of debt will continue to rise. Moreover, the economic agents' risk displayed in the yield curve will pressure the average cost of debt, worsening the future scenario, which recently benefited from the rise in nominal GDP under the influence of high inflation.

The IFI's estimate for the Selic at the end of 2022 is 11.25%. According to the Focus survey, the market consensus foresees base interest rates at 12.25% at the end of 2022 (information updated on February 11). High inflation and the government's fiscal area actions have affected Selic's expectation in the months ahead, suggesting that it may continue to rise in the coming weeks.

**FIGURE 15. THE AVERAGE COST OF PUBLIC DEBT (STOCK AND NEW ISSUES), ACCUMULATED OVER THE LAST 12 MONTHS (% PER YEAR) AND SELIC RATE - TARGET (% PER YEAR)**




*Source: National Treasury Secretariat. Prepared by: IFI.*

## 3. BUDGET

**The veto to the LOA is the main discussion in the budget area.** Through Message no. 26, of January 21, 2022 (VET no. 11, of 2022),[10] the President of the Republic partially vetoed Bill (PLN) no. 19 of 2021, related to the Annual Budget Bill (PLOA) of 2022 approved by Congress on January 3, 2022. The justification for the veto states that the President decided to "partially veto it, due to unconstitutionality and contrary to the public interest" (VET 11/2022).

Thus, Law no. 14.303, of January 21, 2022 (LOA 2022),[11] was sanctioned with a partial veto to the budget endowments contained in volumes IV and V,[12] in the total amount of R$ 3.2 billion. The veto was concentrated in the committee amendments (R$ 1.8 billion) and the discretionary expenses not covered by the impositive amendments or by the

[10] Available at: https://www.camara.leg.br/internet/comissao/index/mista/orca/orcamento/or2022/lei/Veto14303.pdf.

[11] Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2022/lei/l14303.htm.

[12] Volumes IV and V present, respectively, the detailing of the executive branch's actions (except the Ministry of Education) and the Ministry of Education. In this way, the other powers' budget allocations were not affected by the Presidential Veto.

general rapporteur (R$ 1.4 billion). The Ministry of Labor and Social Security and the Ministry of Education were most affected by the veto.

The present section analyzes the main points of the budget veto sanctioned in January.

**The veto has the objective of recomposing personnel expenses.** The PLOA vetoes express the President's disagreement with parliamentary amendments made during the Budget's passage through Congress. A veto can occur contrary to the public interest or unconstitutional. In the case in question, two justifications for vetoes were presented, namely:

(i) **Unconstitutionality defect: s**ubparagraph 'a', item II, paragraph 3, of article 166 of the Federal Constitution establishes that amendments to the annual budget bill or to projects that modify it cannot be approved if the necessary resources come from the cancellation of expenses with personnel and social charges. Thus, the presidential message argues that the resources were vetoed, as they would be incompatible with the aforementioned constitutional rule.
(ii) **Contrary to the public interest:** "since it would not be related to the hypotheses of errors correction, omissions or inadequacies of a technical or legal nature verified in the 2022 Budget Bill or the amendment process, given that the expense estimate would be under the provisions of article 102 of Law no. 14,194, of August 20, 2021 - 2022 Budget Guidelines Law." (VET no. 11, of 2022).

**The vetoes intend to restore personnel expenses cut during the budget process.**[13] As highlighted in the January RAF,[14] personnel cuts made through the general rapporteur's amendments totaled R$ 2.8 billion. The containment targeted, in particular, expenses with the creation or filling of positions, which include, for example, hiring through public service entrance exam. The rapporteur, however, complemented his vote and recomposed, by R$ 651.5 million, part of the cuts made previously and included R$ 1.8 billion for restructuring careers and increasing the civil servant's remuneration.

The IFI scenario for personnel expenses is similar to the Budget, suggesting no underestimation of expenses in this item. The personnel expenses foreseen in the 2022 LOA were R$ 336.1 billion, close to the IFI's base scenario of R$ 335.4 billion.[15] Thus, when comparing the values set in the LOA with the IFI's estimates, it is observed that the values do not seem underestimated after the rapporteur's changes. They may even, under this criterion, still contain some overestimation. It is important to emphasize that the IFI scenario does not consider hiring and readjustments since it is a forecast. Evidently, this is a comparison between the LOA and the IFI scenario, which involves uncertainties. If there is a supplementation equivalent to the total vetoes to the PLOA, as suggested in the Veto Message, the budget endowments for expenses with personnel and social charges would reach R$ 339.3 billion.

**The Ministry of Labor and Social Security and the Ministry of Education were most affected by the veto.** The partial veto of the Budget totaled R$3,184.1 million. Looking at the composition of the veto by the ministries, it can be seen that more than half occurred in the ministries of Labor and Social Security (31.6% of the total vetoed) and

[13] "Because of the decision of the Budget Execution Board, referred to in Decree No. 9,884, of June 27, 2019, in the public interest, considering the projected need to recompose the primary expenses with personnel, to be carried out after the publication of the Annual Budget Law, in the manner provided for in § 8 of art. 166 of the Constitution, which authorizes the resources that remain without corresponding expenses" (VET 11/2022).

[14] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/595062/RAF60_JAN2022.pdf.

[15] December 2021 scenario. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/594517/RAF59_DEZ2021.pdf.

Education (23.2%). The Ministry of Labor and Social Security cuts concentrated on discretionary spending not covered by mandatory amendments (individual and state party amendments). At the same time, the Ministry of Education had a more significant cut in spending from commission amendments.

Table 8 details the distribution of the vetoed amounts by agency, primary result identifier (PR), and expenditure by nature (GND).

**TABLE 8. COMPOSITION OF THE VETOES BY MINISTRIES, PRIMARY RESULT INDICATOR, AND EXPENDITURE BY NATURE. (R$ MILLION AND % OF THE TOTAL)**

| Órgão | RP 2 - Discretionary and not covered by individual and state bench amendments | | | RP 8 - Resulting from programming included or added by committee amendments | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | Current Expenditure | Investment | RP 2 Total | Current Expenditure | Investment | Financial Inversion | RP 8 Total | BRL (1.0) | Part. % do Total |
| Ministry of Labor and Social Security | 996 | 5 | 1.001 | 2 | 2 | | 5 | 1.005 | 31,6 |
| Ministry of Education | 283 | 14 | 297 | 275 | 168 | | 443 | 740 | 23,2 |
| Ministry of Regional Development | 4 | 371 | 374 | 11 | 74 | | 84 | 459 | 14,4 |
| Ministry of Citizenship | 79 | 5 | 84 | 84 | 116 | | 200 | 284 | 8,9 |
| Ministry of Infrastructure | | | | 1 | 177 | | 178 | 178 | 5,6 |
| Ministry of Agriculture, Livestock, and Supply | | | | 22 | 65 | | 87 | 87 | 2,7 |
| Ministry of Health | | | | 15 | 60 | | 74 | 74 | 2,3 |
| Ministry of Science, Technology, and Innovation | | | | 37 | 36 | | 73 | 73 | 2,3 |
| Ministry of Communications | | 32 | 32 | 25 | 7 | | 32 | 64 | 2,0 |
| Ministry of Defense | 12 | 15 | 27 | 2 | 33 | | 35 | 62 | 2,0 |
| Ministry of Justice and Public Security | | | | 54 | 1 | 0 | 55 | 55 | 1,7 |
| Ministry of the Environment | | | | 22 | 13 | | 35 | 35 | 1,1 |
| Ministry of Tourism | | 9 | 9 | 11 | 14 | | 25 | 34 | 1,1 |
| Ministry of Women, Family and Human Rights | | | | 9 | 7 | | 16 | 16 | 0,5 |
| Ministry of Mines and Energy | | | | 8 | 3 | | 11 | 11 | 0,4 |
| Ministry of Foreign Affairs | | | | 4 | | | 4 | 4 | 0,1 |
| Presidency of Brazil | | | | 1 | 1 | | 2 | 2 | 0,1 |
| Central Bank of Brazil | | | | 0 | 0 | | 0 | 0 | 0,0 |
| Ministry of the Economy | | | | 0 | 0 | | 0 | 0 | 0,0 |
| Official Credit Operations | | | | | | 0 | 0 | 0 | 0,0 |
| Total | 1,373 | 450 | 1,823 | 584 | 777 | 0 | 1,361 | 3,184 | 100.0 |

*Source: VET nº 11, 2022. Prepared by: IFI.*

The Decree of budgetary and financial programming indicates a primary deficit of R$ 76.2 billion for 2022, incorporating the effect of the presidential veto. The Decree 10.961, of February 11, 2022, which presents the budgetary and financial programming and establishes the monthly schedule of disbursements of the Federal Executive Branch, showed a deficit of R$ 76.2 billion, compared to R$ 79.4 billion in the Autograph. The difference corresponded to the presidential veto of R$3.2 billion and was restrained to discretionary spending. Table 9 presents a comparison between the LOA estimates, the Decree, and the base scenario outlined by the IFI in December 2021. It is worth pointing out that the Executive intends to use the space opened with the vetoed appropriations to recompose personnel expenditures, which, all other things being equal, would bring the deficit foreseen in the Decree to the previous level.

The Decree also details the volume of parliamentary amendments, both mandatory and non-mandatory. The endowment for the mandatory amendments was R$ 16.8 billion, while the other amendments totaled R$ 17.1 billion. The total of parliamentary amendments fixed in the Decree of budgetary and financial programming is R$ 33.9 billion.

**The resources for campaign financing were set at R$ 5.0 billion.** According to the LDO[16], the "Fundo Especial de Financiamento de Campanha" resources – to finance campaigns - should correspond to the sum of the following amounts: (a) 25% of the 2021 Electoral Justice Budget with the expected expenditure for 2022; and (b) the tax compensation that commercial radio and television broadcasters received for broadcasting partisan advertising made in 2016 and 2017, updated by the INPC. The total is equivalent to R$5.7 billion. In the Budget Proposal sent by the Executive in August, the amount provided was only R$2.1 billion. In Congress, through an amendment by the General Rapporteur, of R$2.8 billion, the resources reached R$5.0 billion, still lower than the amount defined according to the LDO rule, representing another source of pressure on the Budget during execution.

**Provisional measures open extraordinary credits to mitigate the effects of the high volume of rain.** On January 20, the central government published two provisional measures to open extraordinary credits in favor of the Ministries of Regional Development and Infrastructure to mitigate the effects of the high volume of rain in January. Thus, MPV 1.096 of 2022 opened an extraordinary credit of R$ 550 million for the Ministry of Regional Development, and MPV 1.097 of 2022 opened an extraordinary credit of R$ 418 million for the Ministry of Infrastructure.[17]

**The approved Budget of 2022, even with presidential vetoes, reveals a problematic fiscal picture.** As seen in the Fiscal Scenario section, the National Treasury result showed a primary deficit for the central government of R$ 35.1 billion (0.4% of GDP) in 2021. Although heavily affected by inflation, it was the best result since 2014. For 2022, the PLOA initially forecasted a deficit of R$ 49.6 billion (0.5% of GDP). In a context of high-interest rates and low growth, the amount is not enough to stabilize the public debt. As highlighted in the last edition of RAF, the changes promoted with the approval of the court-ordered debts PEC increase this challenge, besides undermining fiscal policy credibility. In the PLOA Autograph, the central government's primary deficit rises to R$ 79.4 billion, and with the presidential vetoes, the figure reduces to R$ 76.2 billion.

The IFI foresees a more significant deficit, around R$ 106.2 billion (1.1% of GDP), in a scenario that combines a drop in tax collection, as a proportion of GDP, and relatively stable primary spending, with Auxílio Brasil replacing to a large extent the reduction in extraordinary expenditures to face Covid-19.

**TABLE 9. CENTRAL GOVERNMENT PRIMARY BALANCE (R$ BILLION AND % OF GDP)**

| Breakdown | 2021 | | 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Realized | | "Autograph" | | Decree 10961/2022 | | IFI estimate (Dec/21) | | IFI estimate - Decree | |
| | R$ billion | % GDP | R$ billion | % GDP | R$ billion | % GDP | R$ billion | % GDP | R$ billion | % GDP |
| **Gross Revenue** | **1,932.4** | **22.3** | **2,030.5** | **21.3** | **2,030.5** | **21.3** | **2,019.2** | **21.4** | **-11.3** | **0.1** |
| Revenues Collected by RFB, except RGPS | 1,195.7 | 13.8 | 1,288.9 | 13.5 | 1,288.9 | 13.5 | 1,293.2 | 13.7 | 4.3 | 0.2 |
| Fiscal incentives | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| RGPS Revenues | 462.2 | 5.3 | 499.4 | 5.2 | 499.4 | 5.2 | 486.8 | 5.2 | -12.6 | 0.0 |
| Revenues not Collected by RFB | 274.6 | 3.2 | 242.3 | 2.5 | 242.3 | 2.5 | 239.2 | 2.5 | -3.1 | 0.0 |
| **Transfers by revenue sharing** | **353.6** | **4.1** | **386.4** | **4.1** | **386.4** | **4.1** | **385.0** | **4.1** | **-1.4** | **0.0** |
| **Net revenue** | **1,578.8** | **18.2** | **1,644.1** | **17.2** | **1,644.1** | **17.2** | **1,634.2** | **17.3** | **-9.9** | **0.1** |
| **Primary Expenditure** | **1,613.9** | **18.6** | **1,723.5** | **18.1** | **1,720.3** | **18.0** | **1,740.4** | **18.4** | **20.1** | **0.4** |
| Social security benefits | 709.6 | 8.2 | 777.7 | 8.2 | 777.7 | 8.2 | 785.7 | 8.3 | 8.0 | 0.2 |

[16] Article 12, item XXVII, Law 14.194/2021.

[17] MPV 1.096/22 available at: https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/151481. MPV 1.097/22 available at: https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/151480.

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Personnel expenses and social contribution | 329.3 | 3.8 | 336.1 | 3.5 | 336.1 | 3.5 | 335.4 | 3.6 | -0.7 | 0.1 |
| Salary allowance and unemployment insurance | 45.9 | 0.5 | 65.8 | 0.7 | 65.8 | 0.7 | 61.4 | 0.6 | -4.4 | -0.1 |
| BPC | 67.7 | 0.8 | 76.2 | 0.8 | 76.2 | 0.8 | 74.4 | 0.8 | -1.8 | 0.0 |
| Extraordinary credits | 117.2 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 19.0 | 0.2 | 19.0 | 0.2 |
| Compensation to RGPS for Exemption of Payroll Taxes | 7.3 | 0.1 | 3.2 | 0.0 | 3.2 | 0.0 | 8.1 | 0.1 | 4.9 | 0.1 |
| Supplementation by the Federal Government to Fundeb | 22.0 | 0.3 | 30.1 | 0.3 | 30.1 | 0.3 | 33.8 | 0.4 | 3.7 | 0.1 |
| Legislative, Judiciary, Prosecutor's Office, and Public Defender's Office | 11.0 | 0.1 | 18.0 | 0.2 | 18.0 | 0.2 | 15.1 | 0.2 | -2.9 | 0.0 |
| Court Rulings and Court-Ordered Debts (current and capital expenditure) | 18.8 | 0.2 | 27.0 | 0.3 | 27.0 | 0.3 | 17.0 | 0.2 | -10.0 | -0.1 |
| Subsidies and Grants | 7.3 | 0.1 | 13.4 | 0.1 | 13.4 | 0.1 | 11.6 | 0.1 | -1.8 | 0.0 |
| Electoral Campaign Financing | 0.0 | 0.0 | 5.0 | 0.1 | 5.0 | 0.1 | 2.1 | 0.0 | -2.9 | -0.1 |
| Other Mandatory Spending without Flow Control | 8.8 | 0.1 | 13.9 | 0.1 | 13.9 | 0.1 | 11.0 | 0.1 | -2.9 | 0.0 |
| Executive expenses subject to the financial programming | 269.0 | 3.1 | 357.1 | 3.7 | 354.0 | 3.7 | 365.8 | 3.9 | 11.8 | 0.2 |
| Mandatory Spending with Flow Control | 145.2 | 1.7 | 223.2 | 2.3 | 223.2 | 2.3 | 214.2 | 2.3 | -9.0 | 0.0 |
| Discretionary | 123.8 | 1.4 | 134.0 | 1.4 | 130.8 | 1.4 | 151.6 | 1.6 | 20.8 | 0.2 |
| **Central government's primary balance** | **-35.1** | **-0.4** | **-79.4** | **-0.8** | **-76.2** | **-0.8** | **-106.2** | **-1.1** | **-30.3** | **-0.3** |

*Source: Law 14.303/2022, Decree 10.961/2022, and IFI. Prepared by: IFI.*

## Fiscal tables

**TABLE 10. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – BASELINE SCENARIO (% OF GDP)**

| Breakdown | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Revenue** | 19.7 | 21.9 | 21.4 | 21.5 | 21.3 | 21.2 | 21.0 | 20.9 | 20.7 | 20.6 | 20.4 |
| **Transfers to States and Municipalities by Revenue Sharing** | 3.5 | 4.0 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.0 | 4.0 | 3.9 | 3.9 |
| **Net Revenue** | 16.1 | 17.9 | 17.3 | 17.3 | 17.2 | 17.1 | 17.0 | 16.8 | 16.7 | 16.6 | 16.5 |
| **Primary Expenditure** | 26.1 | 18.9 | 18.4 | 17.9 | 17.4 | 16.9 | 16.5 | 16.0 | 15.7 | 15.3 | 15.0 |
| **Mandatory Expenditure** | 24.6 | 17.3 | 16.7 | 16.4 | 16.1 | 15.7 | 15.5 | 15.1 | 14.8 | 14.5 | 14.1 |
| Social security benefits | 8.9 | 8.2 | 8.2 | 8.1 | 7.9 | 7.7 | 7.5 | 7.2 | 7.0 | 6.8 | 6.6 |
| Personnel expenses and social contribution | 4.3 | 3.8 | 3.6 | 3.5 | 3.5 | 3.4 | 3.3 | 3.3 | 3.2 | 3.1 | 3.1 |
| Salary allowance and unemployment insurance | 0.8 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 |
| Salary Allowance | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Unemployment Insurance | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| BPC [Continuous Cash Benefit Program] | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Compensation to RGPS for Exemption of Payroll Taxes | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Supplementation by the Federal Government to Fundeb | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| Legislative, Judiciary, Prosecutor's Office and Public Defender's Office | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Court Rulings and Court-Ordered Debts (current and capital expenditure) | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Subsidies and Grants | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Mandatory Spending | 8.7 | 3.2 | 2.6 | 2.4 | 2.3 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 |
| without Flow Control | 6.9 | 1.5 | 0.3 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| with Flow Control | 1.8 | 1.6 | 2.3 | 2.2 | 2.2 | 2.1 | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 |
| Of which Bolsa Família [Family Grant] | 0.3 | 0.3 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| **Discretionary of the Executive Branch** | 1.4 | 1.6 | 1.6 | 1.5 | 1.3 | 1.2 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| **Primary Balance** | -10.0 | -1.0 | -1.1 | -0.6 | -0.2 | 0.2 | 0.5 | 0.8 | 1.1 | 1.4 | 1.6 |
| **Note:** | | | | | | | | | | | |
| Spending on Covid-19 | 7.0 | 1.4 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nominal GDP (R$ billion) | **7,467.6** | **8,684.3** | **9,448.1** | **10,119.5** | **10,730.4** | **11,382.3** | **12,069.4** | **12,799.7** | **13,574.8** | **14,399.5** | **15,278.0** |

**TABLE 11. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – OPTIMISTIC SCENARIO (% OF GDP)**

| Breakdown | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Revenue** | 19.7 | 22.0 | 21.5 | 21.6 | 21.4 | 21.2 | 21.0 | 20.9 | 20.7 | 20.5 | 20.4 |
| **Transfers to States and Municipalities by Revenue Sharing** | 3.5 | 4.0 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.0 | 4.0 | 3.9 | 3.9 |
| **Net Revenue** | 16.1 | 18.0 | 17.4 | 17.4 | 17.3 | 17.1 | 17.0 | 16.9 | 16.7 | 16.6 | 16.5 |
| **Primary Expenditure** | 26.1 | 18.9 | 18.3 | 17.7 | 17.1 | 16.5 | 16.0 | 15.4 | 14.8 | 14.3 | 13.7 |
| **Mandatory Expenditure** | 24.6 | 17.3 | 16.7 | 16.1 | 15.6 | 15.1 | 14.8 | 14.3 | 13.9 | 13.4 | 13.0 |
| Social security benefits | 8.9 | 8.1 | 8.2 | 8.0 | 7.8 | 7.5 | 7.2 | 7.0 | 6.7 | 6.5 | 6.3 |
| Personnel expenses and social contribution | 4.3 | 3.8 | 3.5 | 3.4 | 3.3 | 3.2 | 3.0 | 2.9 | 2.8 | 2.7 | 2.6 |
| Salary allowance and unemployment insurance | 0.8 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Salary Allowance | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Unemployment Insurance | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| BPC [Continuous Cash Benefit Program] | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Compensation to RGPS for Exemption of Payroll Taxes | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Supplementation by the Federal Government to Fundeb | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| Legislative, Judiciary, Prosecutor's Office and Public Defender's Office | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Court Rulings and Court-Ordered Debts (current and capital expenditure) | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Subsidies and Grants | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Mandatory Spending | 8.7 | 3.2 | 2.6 | 2.3 | 2.3 | 2.2 | 2.1 | 2.0 | 1.9 | 1.8 | 1.8 |
| without Flow Control | 6.9 | 1.5 | 0.3 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| with Flow Control | 1.8 | 1.6 | 2.3 | 2.2 | 2.1 | 2.0 | 2.0 | 1.9 | 1.8 | 1.7 | 1.7 |
| Of which Bolsa Família [Family Grant] | 0.3 | 0.3 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| **Discretionary of the Executive Branch** | 1.4 | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 0.7 |
| **Primary Balance** | -10.0 | -0.9 | -0.9 | -0.2 | 0.2 | 0.7 | 1.0 | 1.4 | 1.9 | 2.3 | 2.8 |
| **Note:** | | | | | | | | | | | |
| Spending on Covid-19 | 7.0 | 1.4 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nominal GDP (R$ billion) | **7,467.6** | **8,702.9** | **9,503.6** | **10,185.1** | **10,879.2** | **11,644.2** | **12,472.7** | **13,368.8** | **14,340.2** | **15,394.0** | **16,530.7** |

**TABLE 12. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – PESSIMISTIC SCENARIO (% OF GDP)**

| Breakdown | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Revenue** | 19.7 | 21.8 | 20.7 | 20.5 | 20.1 | 19.9 | 19.7 | 19.5 | 19.3 | 19.1 | 18.9 |
| **Transfers to States and Municipalities by Revenue Sharing** | 3.5 | 4.0 | 4.0 | 4.0 | 4.0 | 3.9 | 3.9 | 3.8 | 3.8 | 3.7 | 3.6 |
| **Net Revenue** | 16.1 | 17.9 | 16.7 | 16.5 | 16.1 | 16.0 | 15.8 | 15.7 | 15.5 | 15.4 | 15.3 |
| **Primary Expenditure** | 26.1 | 18.9 | 18.4 | 17.7 | 17.1 | 17.0 | 17.1 | 17.1 | 17.1 | 17.0 | 17.1 |
| **Mandatory Expenditure** | 24.6 | 17.3 | 16.8 | 16.5 | 16.4 | 16.4 | 16.4 | 16.5 | 16.5 | 16.4 | 16.5 |
| Social security benefits | 8.9 | 8.2 | 8.3 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 |
| Personnel expenses and social contribution | 4.3 | 3.8 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.7 | 3.7 | 3.8 | 3.8 |
| Salary allowance and unemployment insurance | 0.8 | 0.5 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| Salary Allowance | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Unemployment Insurance | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |
| BPC [Continuous Cash Benefit Program] | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Compensation to RGPS for Exemption of Payroll Taxes | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Supplementation by the Federal Government to Fundeb | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| Legislative, Judiciary, Prosecutor's Office and Public Defender's Office | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Court Rulings and Court-Ordered Debts (current and capital expenditure) | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Subsidies and Grants | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Mandatory Spending | 8.7 | 3.2 | 2.6 | 2.4 | 2.3 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 |
| without Flow Control | 6.9 | 1.5 | 0.3 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| with Flow Control | 1.8 | 1.6 | 2.3 | 2.2 | 2.1 | 2.1 | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 |
| Of which Bolsa Família [Family Grant] | 0.3 | 0.3 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| **Discretionary of the Executive Branch** | 1.4 | 1.6 | 1.6 | 1.2 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| **Primary Balance** | -10.0 | -1.0 | -1.7 | -1.3 | -1.0 | -1.1 | -1.3 | -1.4 | -1.6 | -1.6 | -1.8 |
| **Note:** | | | | | | | | | | | |
| Spending on Covid-19 | 7.0 | 1.4 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nominal GDP (R$ billion) | **7,467.6** | **8,678.2** | **9,418.4** | **10,085.8** | **10,697.4** | **11,342.2** | **12,033.3** | **12,769.3** | **13,551.2** | **14,381.2** | **15,255.9** |

## IFI Forecasts

| | | | | | | | | Projections | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| GDP - real growth (% per year) | 0.50 | -3.55 | -3.28 | 1.32 | 1.78 | 1.22 | -3.88 | 4.63 | 0.51 | 2.02 | 2.02 |
| Nominal GDP (R$ billion) | 5,779 | 5,996 | 6,269 | 6,585 | 7,004 | 7,389 | 7,468 | 8,684 | 9,448 | 10,119 | 10,730 |
| IPCA – accum. (% in the year) | 6.41 | 10.67 | 6.29 | 2.95 | 3.75 | 4.31 | 4.52 | 10.42 | 5.32 | 3.20 | 3.12 |
| Exchange rate - end-of-period (BRL/USD) | 2.66 | 3.90 | 3.26 | 3.31 | 3.87 | 4.03 | 5.20 | 5.60 | 5.71 | 5.57 | 5.30 |
| Employment - growth (%) | 1.32 | -0.04 | -2.01 | 0.32 | 1.73 | 2.23 | -7.75 | 4.60 | 2.00 | 0.91 | 0.91 |
| Payroll - growth (%) | 3.69 | -1.21 | -3.37 | 1.99 | 3.29 | 2.73 | -3.69 | -1.95 | 0.51 | 2.02 | 2.02 |
| Selic rate - end-of-period (% per year) | 11.75 | 14.25 | 13.75 | 7.00 | 6.50 | 4.50 | 2.00 | 9.25 | 11.25 | 7.50 | 7.00 |
| Real interest *ex-ante* (% per year) | 5.93 | 8.32 | 6.41 | 2.82 | 2.61 | 0.79 | -0.70 | 4.72 | 2.89 | 3.40 | 3.46 |
| Public Sector Consolidated Primary Balance (% of GDP) | -0.56 | -1.86 | -2.48 | -1.68 | -1.55 | -0.84 | -9.41 | 0.14 | -0.64 | -0.45 | -0.29 |
| of which Central Government | -0.41 | -2.01 | -2.57 | -1.89 | -1.72 | -1.28 | -10.06 | -0.96 | -1.12 | -0.70 | -0.44 |
| Net Nominal Interest (% of GDP) | 5.39 | 8.37 | 6.49 | 6.09 | 5.41 | 4.97 | 4.18 | 5.71 | 7.43 | 5.83 | 4.39 |
| Nominal balance (% of GDP) | -5.95 | -10.22 | -8.98 | -7.77 | -6.96 | -5.81 | -13.60 | -5.56 | -8.07 | -6.29 | -4.68 |
| General Government Gross Debt (% of GDP) | 56.3 | 65.5 | 69.8 | 73.7 | 75.3 | 74.4 | 88.6 | 82.1 | 84.8 | 86.6 | 87.4 |

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