Independent Fiscal Institution

Fiscal Follow-Up Report

APRIL 13, 2022 • Nº 63

HIGHLIGHTS

- GDP should present moderate growth in the first quarter.
- Employment expansion is widespread, but hiring in the informal segments predominates.
- Real income from labor continues to fall due to the effect of inflation.
- The commodities price shock intensifies the acceleration of consumer inflation.
- Risk premiums in the yield curve continue under pressure by the rise in the Selic rate and the considerable fiscal risk.
- According to Siga Brasil, the central government's primary deficit was R$ 13.8 billion in the 12 months ended in March.
- Revenues not collected by the RFB grew 66.3% in the year to February due to concessions and oil.
- Net issuance of DPMFi bonds was concentrated on floating (Selic) securities.
- The IFI survey indicates that the average issuance rates of DPMFi bonds continued to rise in March.
- DPMFi's outstanding average cost was 2.1 p.p. higher in February compared to the same month in 2021.
- Even with the recent changes, namely the court-ordered debts EC, the spending ceiling has been restrictive in the short term.
- Evaluation of revenues and expenses in the first two months of the year indicates the need to adjust discretionary spending by R$ 1.7 billion to comply with the spending ceiling in 2022.
- Congressional bill foresees changes in the LDO to adapt it to the new constitutional rules.

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REPORT LAYOUT
COMAP/SECOM and SEFPRO/SEGRAF

Covering letter

The Fiscal Follow-Up Report (RAF) contains our analyses of the economic and fiscal environment and the estimates for the leading indicators every six months in May and November. In the first two sections, we evaluate some of the drivers for the scenario review in May. In the third, we analyze the government's new fiscal estimates for 2022.

In the Macroeconomic Context section, activity indicators signal a resumption of the pre-crisis pandemic level but not of the pace observed until the end of 2019. The economy should grow by 0.5% and, on the balance of risks, on the positive side, the increase in the so-called terms of trade (ratio between the prices of exports and imports) stands out due to the rise in commodity prices.

On the other hand, the increase in interest rates, in a context of persistently high inflation, holds the growth scenario for 2022 uncertain. In the labor market, there is, on the one hand, a drop in real income – 8.8% in the year-on-year comparison – and on the other hand, a recovery in employment, although still concentrated in the informal market, without a signed contract.

The Fiscal Scenario section discusses the dynamics of federal primary revenues and expenses. The tax collection performance remains optimistic in the wake of high inflation and the effects of higher oil prices on revenues not collected by the Federal Revenue Office. On the expenditure side, the expectation is that, over the year, the Treasury's execution will result in a primary deficit exceeding R$ 100 billion, according to the IFI's current projections. It is worth saying that this picture will be revised in May when we will present the complete set of new macro-fiscal estimates.

Still, in this same section, we show that the average cost of public debt issued by the Treasury continued to increase in February and March. The movement reflects the increase in the Selic target by the Central Bank and the dynamics of future interest rates, which continue under pressure for different maturities, in the range of 11% to 12% in nominal terms.

The Budget section presents the most recent figures from the federal government for the fiscal scenario based on the evaluation report on primary revenues and expenses for the first two months of 2022, released at the end of March. The main conclusion is that there is very little room for new spending, including the contingency of R$ 1.7 billion, given the substantial restriction of the spending ceiling, even after the recent changes in the framework planned in 2016.

The IFI will continue to pay attention to the evolution of the economic and fiscal framework, scrutinizing the prospective risks, including those derived from the international scenario marked by the war in Ukraine. The evolution of public debt remains the primary concern, given the rising interest rates and the loss of credibility of the spending ceiling after enacting Constitutional Amendments no. 113 and 114.

Felipe Scudeler Salto
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Summary

- The most recent sectorial data reinforce the low growth expected for the GDP in the first quarter of 2022. The IBC-Br in January dropped 1.0%, and the industrial production in February reversed only part of the decline recorded in the previous month. The fall in wages and the restrictive monetary policy will weigh on domestic demand in the coming quarters. The intensification of the conflict in Ukraine, with ambiguous potential effects on domestic economic activity, adds uncertainty to the future scenario. The rise in commodity prices, amplified by the adverse international scenario, accentuates the upward bias in IFI's estimates for inflation and the base interest rate. The macro-fiscal scenario review will be presented in the May edition of the RAF. **(**Page 6**)**
- The central government's revenues not collected by the RFB totaled R$ 60.5 billion in the first two months, increasing 66.3% in real terms compared to the same period last year. As a proportion of GDP, it rose from 2.5% in the first two months of 2021 to 4.1% in 2022, reflecting the revenues from the exploration of natural resources, dividends, and concessions and permissions. Revenues not collected by the RFB current dynamics indicate that this revenue group will contribute significantly to the Union's total and net primary revenues in 2022. **(**Page 16**)**
- In February, net issues of the Federal Domestic Public Debt (DPMFi) were R$ 78.6 billion. Of this amount, R$ 65.2 billion corresponded to floating-rate securities. Net issues of fixed-rate securities totaled R$ 21.4 billion in the period. In recent months, the net issuance of debt by the Treasury has concentrated on floating-rate securities, which helps to explain the upward movement in the DPMFi outstanding and public offerings average cost. The uncertainties in the economic environment, intensified by the Ukraine conflict, indicate that Selic-indexed securities will continue to gain a share in the outstanding DPMFi while the average cost will continue to rise. **(**Page 23**)**
- The evaluation report on primary revenues and expenses for the first two months of the year, while showing a fiscal space more significant than the R$ 100 billion needed to meet the primary balance target, also highlights the existing restriction in the spending ceiling rule since the Executive Branch expenses exceed the ceiling for 2022 by R$ 1.7 billion. **(**Page 26**)**
- To adequate the budget guidelines to the recent constitutional changes, namely Constitutional Amendments no. 113 and 114, the government has proposed a Bill of the National Congress (PLN) to regulate the execution of expenses with court rulings and court-ordered debts. In addition, PLN no. 2 of 2022 also proposes changes regarding the special electoral campaign finance fund, the contingency of discretionary spending, the government-bond debt monetary correction indexes, and others. **(**Page 33**)**

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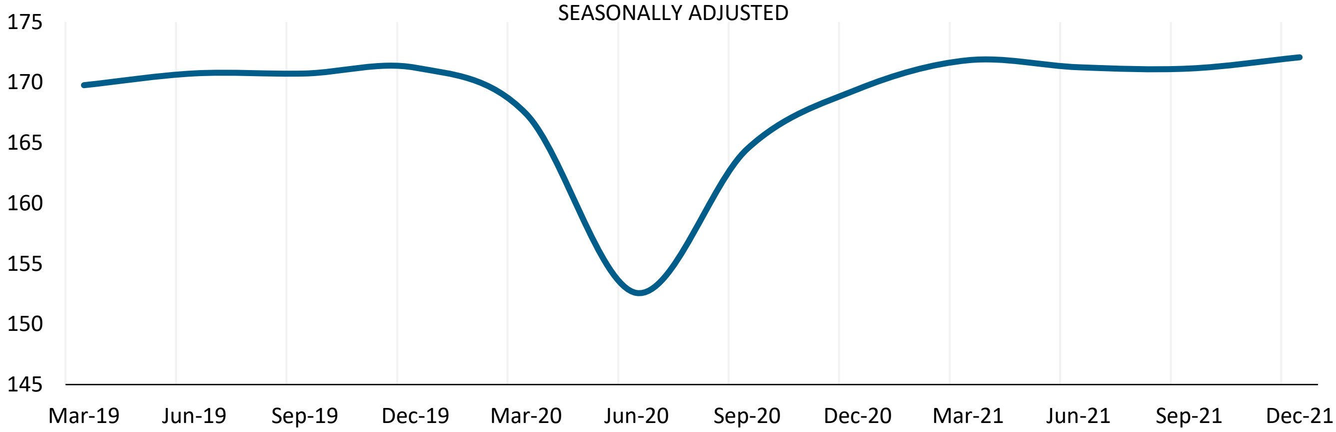
1. MACROECONOMIC CONTEXT

1.1 Economic Activity

Recent data on economic activity reinforce the low growth scenario for GDP in the first quarter of 2022. Between the third quarter of 2020 and the first quarter of 2021, the Brazilian economy has significantly recovered but has since settled down (Figure 1). The gross domestic product (GDP) published by IBGE in the Annual Accounts dropped by 0.2% (on average), considering the changes in the second and third quarters of 2021. The 0.5% advance in the last period of last year reflected the services sector's dynamism and the partial recovery of the agriculture and livestock sector after the significant impact of weather problems on some crops in the last two quarters. The leading indicators showed a slowdown in activity in January, especially industrial production, but there are signs of recovery in February and March data.

FIGURE 1. GROSS DOMESTIC PRODUCT (1995 AVERAGE = 100)
SEASONALLY ADJUSTED



Source: IBGE. Prepared by: IFI.

The IBC-Br dropped 1.0% between January and February. The Central Bank Economic Activity Index (IBC-Br), a variable that aggregates information from the GDP supply side, decreased 1.0% from December 2021 to January 2022, according to seasonally adjusted data (Table 1), influenced by the negative numbers for retail trade, the services sector, and industrial production. The IBC-Br remained relatively stable in the quarter ended in January (up 0.2%).

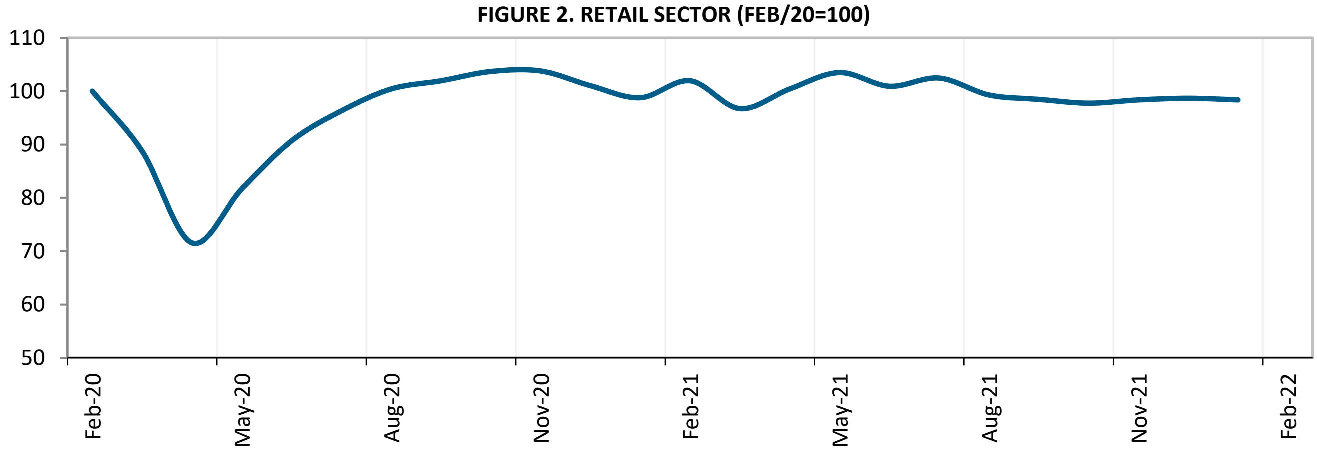
TABLE 1. ECONOMIC ACTIVITY INDICATORS

Indicators	Month x previous month (seasonally adjusted)			Quarter x last quarter (seasonally adjusted)		
	Nov/21	Dec/21	Jan/22	Nov/21	Dec/21	Jan/22
Industrial production	0.1%	2.7%	-2.2%	-0.1%	0.6%	1.3%
Retail sales	0.6%	0.3%	-0.3%	-2.7%	-1.8%	0.0%
Volume of services	2.9%	1.7%	-0.1%	0.0%	0.7%	2.7%
Central Bank's Economic Activity Index (IBC-Br)	**0.5%**	**0.3%**	**-1.0%**	**-0.3%**	**0.1%**	**0.2%**

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

Expanded retail declined 0.3% in January. The volume of sales in retail trade (PMC – Monthly Retail Trade Survey) grew 0.3% between December and January in the expanded concept, which includes vehicles and construction materials. The survey's opening shows that seven of the ten retail activities retreated in January. Retail sales remained stable in the quarter ended in January, after dropping 1.8% in the quarter ended in December, still limited by pressured inflation and the monetary tightening cycle.

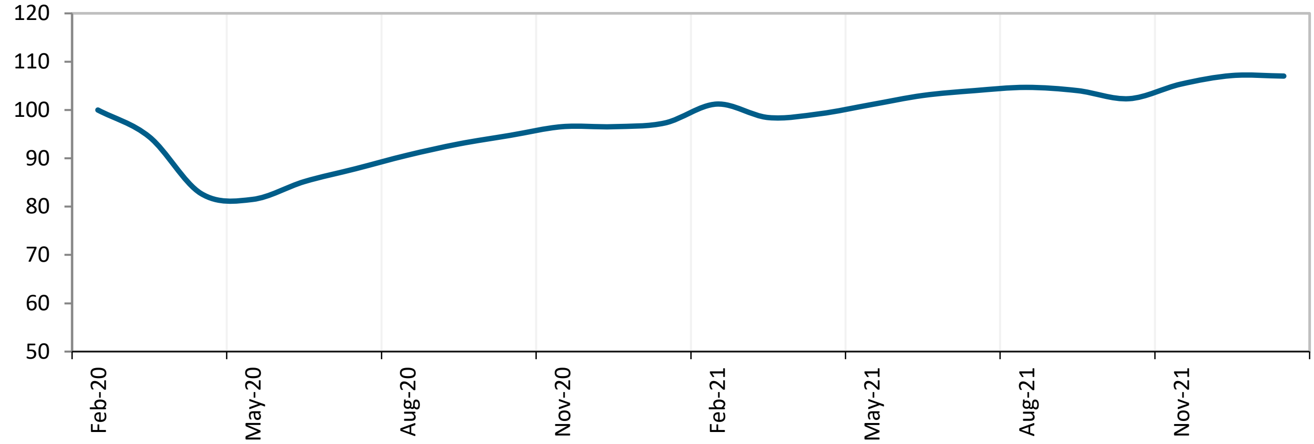
FIGURE 2. RETAIL SECTOR (FEB/20=100)



Source: IBGE. Prepared by: IFI.

Service sector revenue was stable in January. The volume of services dropped by 0.1% between December and January, according to data from the IBGE's Monthly Survey of Services (PMS), considering seasonally adjusted data. In the previous month, the index had grown 1.7%. The decline in the volume of services in January occurred in three of the five surveyed activities, especially the losses in information and communication services (-4.7%) and household services (-1.4%), probably affected by the peak of the Omicron wave. In the quarter ending in January, the indicator increased by 2.7%, a variation higher than that recorded in the quarter ended in December (0.7%), representing so far the primary growth vector of the Brazilian economy.

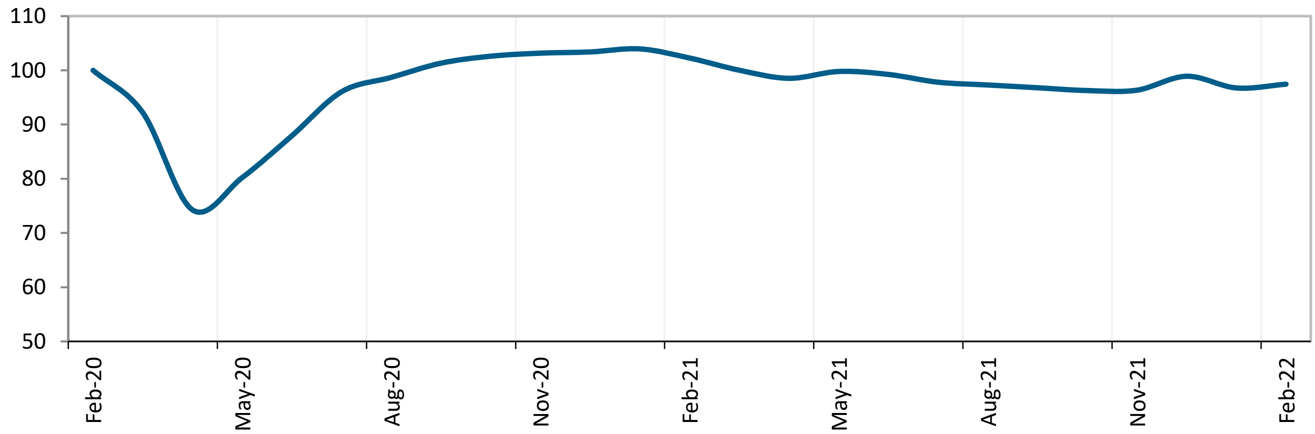
FIGURE 3. VOLUME OF SERVICES (FEB/20=100)



Source: IBGE. Prepared by: IFI.

Industrial production grew 0.7% in February, reversing part of the decline registered in the previous month. According to the IBGE's Monthly Industrial Survey (PIM), industrial production rose 0.7% from January to February (seasonally adjusted), eliminating part of the 2.2% drop registered in the previous month. The month's result was impacted by the mining industry's performance (5.3%), offsetting the 5.1% drop in the previous month caused by the temporary suspension of iron ore production in Minas Gerais due to heavy rains that hit the state. The manufacturing industry (up 0.6%) advanced to a lesser extent, emphasizing food production, which increased for the fourth consecutive month. The advance in industrial activity spread across all four major components: capital goods (1.9%), intermediate goods (1.6%), durable goods (0.5%), and non-durable goods (1.5%). In the quarter ended in January, the indicator advanced 1.3%, a higher variation than that recorded in the quarter ended in December (0.6%). However, domestic production continues at a lower level than before the pandemic (Figure 4), limited by the bottlenecks in global supply chains. The latest lockdowns in China tend to aggravate this process.

FIGURE 4. INDUSTRIAL PRODUCTION (FEB/20=100)

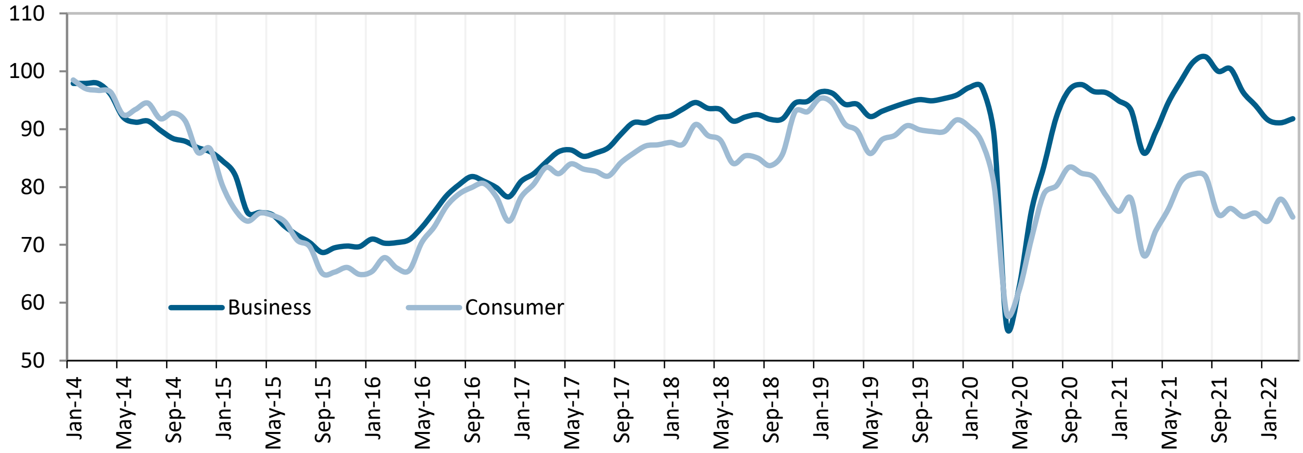


Source: IBGE. Prepared by: IFI.

Declining confidence is widespread across sectors, except services. According to the Getulio Vargas Foundation (FGV), the Consumer Confidence Index (ICC) dropped 3.1 points in March. The performance of the ICC reflected the worsening assessments of the current situation and expectations for the next month, probably influenced by the effect of inflation on the purchasing power of wages and transfers. On the other hand, the Business Confidence Index (ICE), which consolidates the confidence indexes (industry, services, commerce, and construction), rose 0.7 points in the same comparison.

The performance of the ICE, positively influenced by the services sector, primarily reflected the normalization of the services and trade sectors' activity as the peak of the Omicron wave passed and Covid-19 deaths declined. On the other hand, business expectations worsened again due to rising inflation and interest rates and the increased uncertainty in the macroeconomic scenario generated by the invasion of Ukraine by Russia.

FIGURE 5. CONFIDENCE INDEXES (SEASONALLY ADJUSTED)



Source: FGV. Preapred by: IFI.

Effects of the war on the world economy: lower growth and more inflation. The most immediate effect of the worsening geopolitical tensions produced by Russia's invasion of Ukraine is increased international commodity prices, especially for energy and food. The conflict and the economic and financial sanctions imposed on Russia bring volatility to the price scenario due to the reduction in the global supply of raw materials – such as oil, natural gas, grains, metals used in industry, and inputs for the production of fertilizers – supplied by Eastern Europe. The acceleration of the inflationary process, impacted partly by the shock caused by the pandemic, should reduce the purchasing power of wages. The disposable income of families for consumption will be lower.

In a recently published report on the socioeconomic impacts and policy implications of the war in Ukraine, the Organization for Economic Cooperation and Development[2] estimates that global economic growth could be reduced by more than one percentage point (p.p.) by 2022, while global inflation could increase by 2.5 p. p. According to the organization, the calculations – of uncertain magnitude, conditioned to the duration of the conflict and the political responses to mitigate the economic costs – were built on the assumption that the shocks in financial and commodity markets observed in the first two weeks of the conflict persist for at least one year.

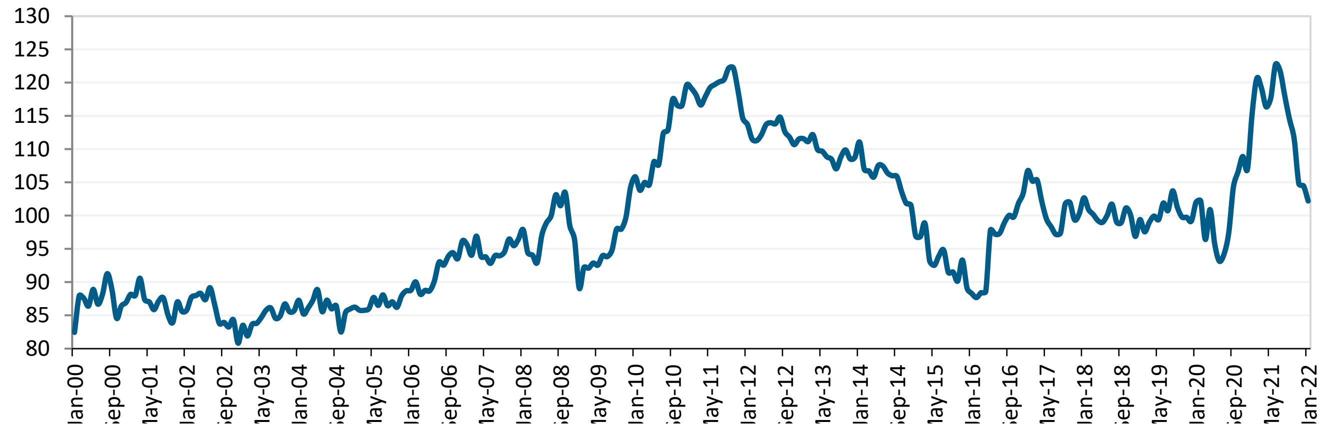
[2] OECD Economic Outlook, Interim Report March 2022. Available at: https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en#section-d1e109

Repercussions on domestic activity: effects in both directions. The prospect of lower global economic growth and that of important trade partners, especially the European Union, the delay in normalizing the global production and logistics chains, the effect of the acceleration of the price level on disposable income, and the maintenance of interest rates at high levels to contain the deterioration of inflation expectations represent negative vectors to domestic activity. On the other hand, the new scenario of commodity prices and the reduced flow of trade between Brazil and the countries involved in the conflict could partially mitigate the adverse effects on activity. That is, Brazil's trade balance exposure to these nations is small.

When commodity prices increase, Brazil gains a comparative advantage, reflected in the so-called terms of trade, defined as the ratio between the prices of the country's exports and imports. All or more constant, an improvement in terms of trade raises real income. This movement in terms of trade favors income growth due to the high share of primary products in the national export mix and the multiplier effect on other production chains.

Although the most recent data show a downward trend in terms of trade until January 2021 (Figure 6), since import prices are growing faster than export prices, it is expected that the further climb in commodity prices will provide gains in terms of trade. The injection of external resources provided by the increase in the ratio between the prices of foreign sales and purchases may also induce an appreciation of the exchange rate. Consequently, to some degree, it may contribute to mitigating inflationary risks, but probably without changing the trend of a positive net effect in this respect.

FIGURE 6. TERMS OF TRADE (2018 AVERAGE = 100)



Source: Funcex. Prepared by: IFI.

The market forecast for 2022 GDP is 0.5%. In the Central Bank's Focus survey, the most recent outlook for 2022 GDP is at 0.5% (with a one standard deviation range between 0.0% and 0.9%). The current IFI's growth outlook (a rise of 0.5% compared to 2021) is in line with the market consensus and slightly above the carry-over left by the GDP result for the fourth quarter of 2021 (0.3%). Stimulus measures such as FGTS withdrawals (potential injection of R$ 30 billion) should support consumption in the short term. However, the scenario marked by the fall in wages and the restrictive monetary policy will weigh on domestic demand in the coming quarters. As discussed above, the conflict in Eastern Europe, with ambiguous potential effects on domestic activity, adds uncertainty to the future scenario (both international and domestic).

1.2 Labor market

In February, the unemployment rate decreased to 11.2% of the total labor force. According to the Continuous National Household Sample Survey (PNAD Contínua), the unemployment rate reached 11.2% of the total labor force in the quarter ended in February, decreasing 3.4 p.p. compared to the same period a year earlier (14.6%). Despite the high number of unemployed people (12.0 million), the unemployment rate has been falling continuously since July 2021, returning to the months before the pandemic. The decline in the unemployment rate in the quarter ended in February, concerning the same period a year earlier, was determined by the growth in the working population (9.1%), whose contingent reached 95.2 million in the quarter ended in February, above the level in February 2020 (pre-pandemic: 94.7 million), surpassing the increase in the labor force (4.9%).

TABLE 2. LABOR MARKET INDICATORS

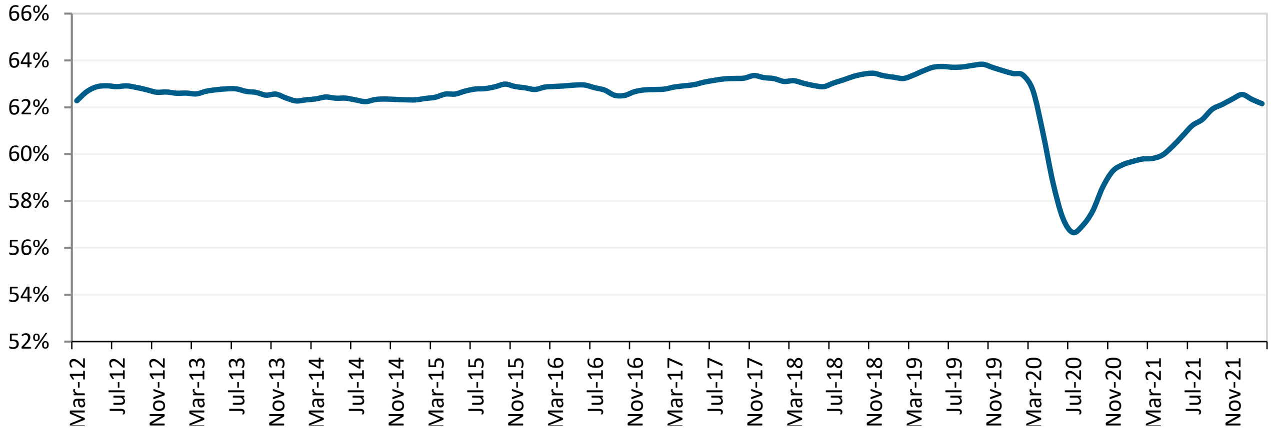
	Values			Quarter x last quarter		
	Dec/21	Jan/22	Feb/22	Dec/21	Jan/22	Feb/22
A – Working-age population*	172.3	172.4	172.5	0.9%	0.9%	0.9%
A.1 – People outside the labor force*	64.5	64.9	65.3	-6.5%	-5.7%	-5.0%
A.2 – Labor force population*	107.8	107.5	107.2	6.0%	5.4%	4.9%
A.2.1 – Unemployment*	12.0	12.0	12.0	-16.7%	-18.3%	-19.5%
A.2.2 – Employment*	95.7	95.4	95.2	9.8%	9.4%	9.1%
Informal employment*	38.9	38.5	38.3	14.4%	12.8%	12.4%
Formal employment *	56.8	56.9	56.9	6.8%	7.2%	7.0%
Unemployment rate (A.2.1/A.2)	11.1%	11.2%	11.2%	-3.0 p.p.	-3.3 p.p.	-3.4 p.p.
Participation rate (A.2/A)	62.5%	62.3%	62.2%	3.0 p.p.	2.6 p.p.	2.4 p.p.

Source: IBGE. Prepared by: IFI.

**Million*

The participation rate decreased and remained below the pre-pandemic level. The pace of expansion of the labor force, composed of people employed or looking for a job, decreased in January and February (Table 2), probably due to the effect of the Omicron wave on the return of people to the labor market. This movement appears in the participation rate, a measure of the working-age population's movement into and out of the labor market. The indicator, expressed as the ratio between the labor force and the working-age population, decreased again (to 62.3% in the quarter ended in February), remaining lower than in the months preceding the pandemic (Figure 7).

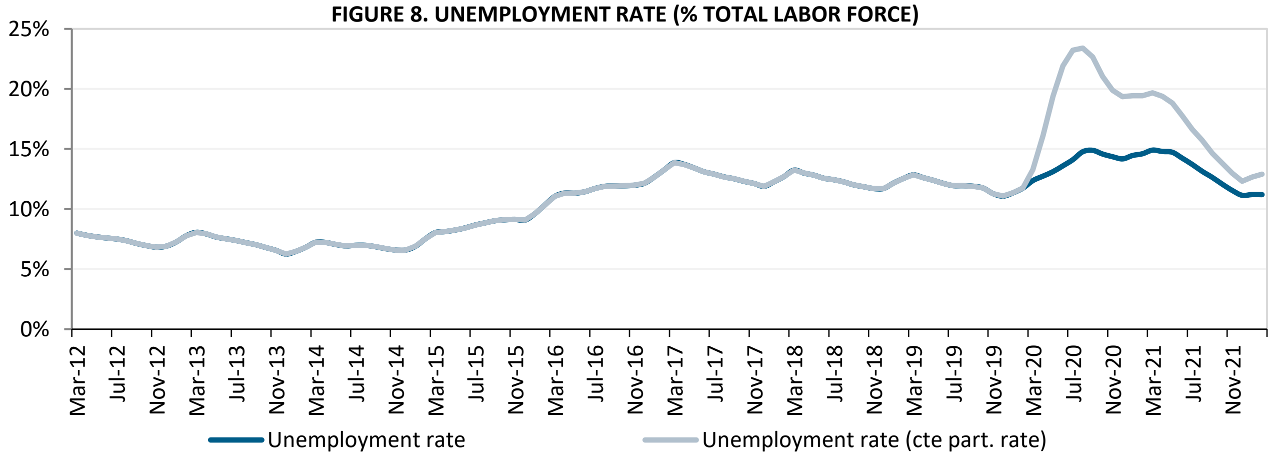
FIGURE 7. PARTICIPATION RATE



Source: IBGE. Prepared by: IFI.

The unemployment rate would have been 12.9% in February, assuming a constant participation rate at the pre-pandemic level. Therefore, the reduction in the unemployment rate reflects, in addition to the advance in the working population (labor demand expansion), the weakening of the participation rate (labor supply reduction). Assuming a stable participation rate at the February 2020 level (63.4%), the unemployment rate would have reached 12.9% in the quarter that ended in February (Figure 8) and would be on an upward trajectory.

FIGURE 8. UNEMPLOYMENT RATE (% TOTAL LABOR FORCE)

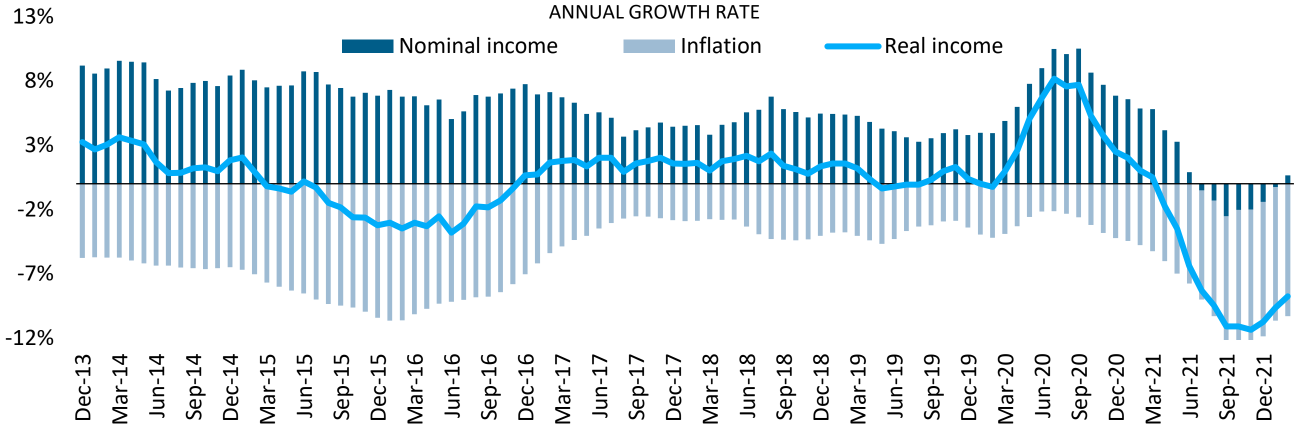


Source: IBGE. Prepared by: IFI.

Employment expansion is widespread, but hiring in the informal segments predominates. Compared to the same quarter of the previous year, the advancement in the working population is widespread. However, it continues to be driven mainly by the informal sectors, especially the number of people employed without a signed employment contract in the private sector (18.5% growth in the year-on-year comparison) and domestic workers without a formal employment contract (22.3%) – positions that are evolving above total employment (9.1%). The population employed in the informal segments of the economy (38.3 million in the quarter ended in February) grew 12.4% compared to the same period a year earlier, while formal employment (total of 56.9 million people) grew 7.0% in the period.

Real labor income falls due to the effect of inflation. Also, according to data from the PNAD Contínua, the average real income in the quarter ending in February decreased by 8.8% compared to the same period last year. The change in labor income, in real terms, persists in the negative territory due to inflation and the salary readjustments weakening, as shown in Figure 9. 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. The payroll, an indicator that combines the evolution of income with the working population, decreased by 0.2% in the quarter ended in February 2022 (in real terms).

FIGURE 9. LABOR INCOME
ANNUAL GROWTH RATE

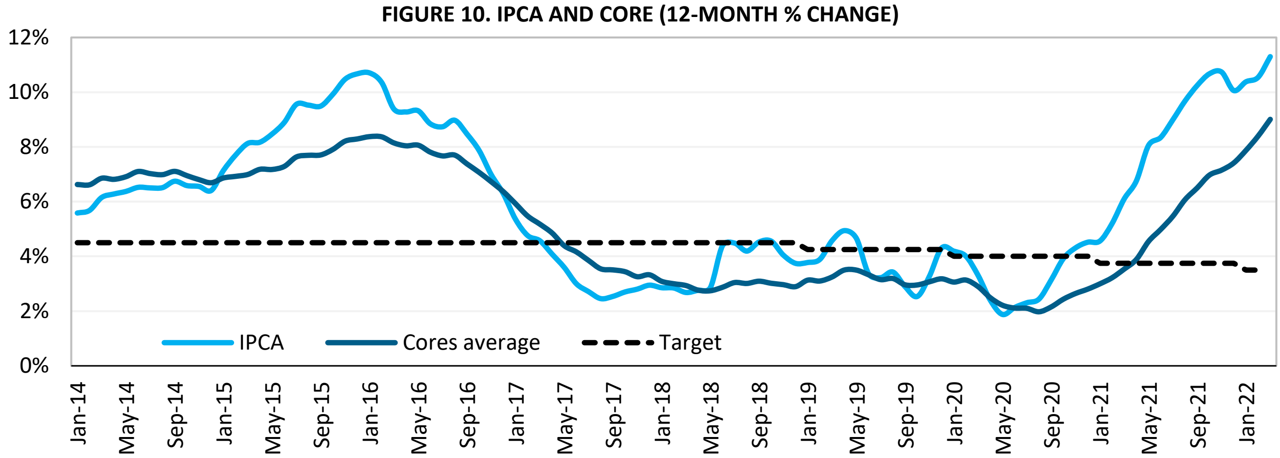


Source: IBGE. Prepared by: IFI.

1.3 Inflation and monetary policy

Consumer inflation remains high and widespread. As measured by the IPCA, consumer inflation change in March was 1.62% (11.3% accumulated over 12 months, above 10.54% in February). The highest result for March since 1994 was 0.61 p.p. above the 1.01% variation in February. Inflation remains above the upper limit of the target (3.5% with an interval of 1.5 p.p. above and below). The core's average acceleration (from 8.4% in February to 9.0% in March) – measures that seek to remove the influence of more volatile items from total inflation – reveals widespread pressures among the components.

FIGURE 10. IPCA AND CORE (12-MONTH % CHANGE)



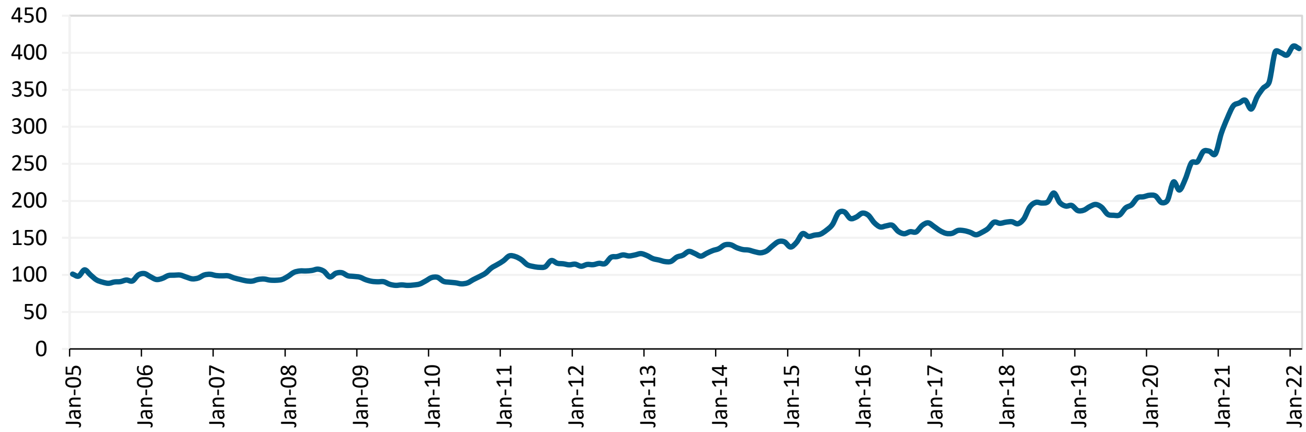
Source: IBGE and Central Bank. Prepared by: IFI.

Significant impacts on the IPCA in March came from fuel and food prices. The group with the most considerable change and impact on the whole index was transportation (3.02% and 0.65 p.p.), mainly influenced by the rise in fuel prices (6.70%) – gasoline rose 6.95% in March and has accumulated a variation of 27.48% over the last 12 months. Subsequently, the food and beverage group (up 2.42% in March and 0.51 p.p. of impact) reflected mainly the behavior of food prices for home consumption (which rose 3.09% in March and accumulated a variation of 13.7% over the last 12 months). The most robust variation within the group came from tubers, roots, and vegetables (up 16.7% in March and 55.9% in 12 months). The two groups together contributed to approximately 72% of the variation rate of the IPCA in March.

Between February and March, the variation of administered prices (or monitored prices), which account for approximately 25% of the total IPCA, rose from 0.1% to 2.7% (accumulated variation of 14.9% in twelve months). Free prices, meanwhile, rose 1.2%, practically the same magnitude as February (1.2%). In 12 months, the variation in these prices rose from 9.0% to 10.0%. The data show that the central pressure came from food-at-home (3.1% in the month and 13.7% in 12 months), industrial prices (1.2% and 13.4%), and services (0.5% and 6.3%).

Commodities shock amplifies pressures on consumer inflation. The rise in commodity prices in the international market, intensified by the unfolding of the conflict in Eastern Europe, is one factor that explains the new pressures on inflation. Figure 11 illustrates the dynamics of the Commodities Index calculated by the Central Bank (IC-Br), which represents a monthly average of commodity prices relevant to the dynamics of Brazilian inflation, aggregated in a weighted manner with indicators relative to the agricultural, metal, and energy segments. In the 12 months up to February 2022, the IC-Br was up 47.6%. As commodity prices are in reais, the indicator also captures the impact of variations in the exchange rate. The current dynamics of the exchange rate appreciation (which went from R$ 5.60/ US$ in December 2021 to R$ 4.70/ US$ at the beginning of April) are explained, in part, by the rise in commodity prices and the increase in foreign investments provided by the increase in the differential between domestic and international interest rates, only attenuates part of the effect on domestic prices.

FIGURE 11. COMMODITIES INDEX (DEC/2005 =100)



Source: Central Bank. Prepared by: IFI.

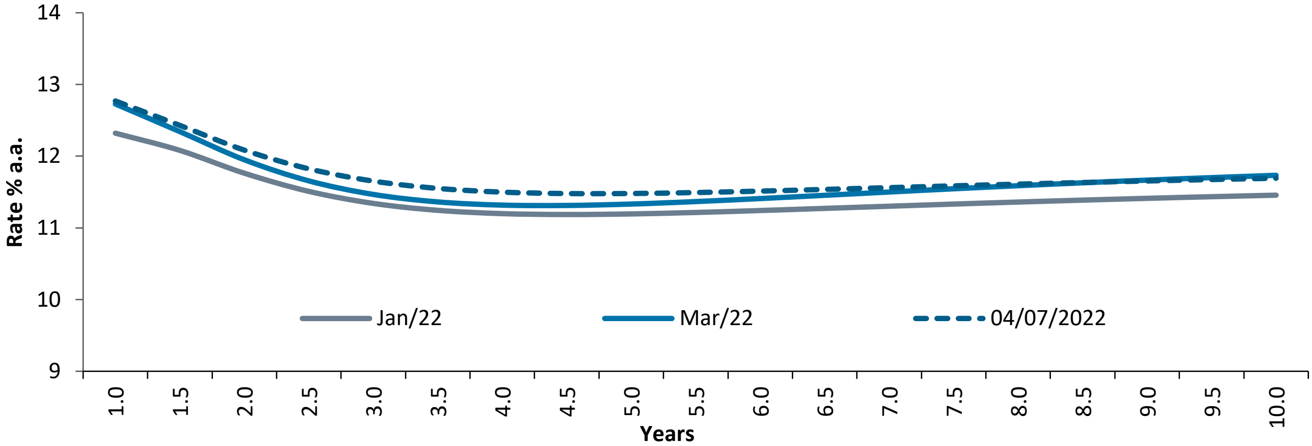
Inflation expectations for 2022 and 2023 remain above the target. In the Focus survey, the average outlook for the 2022 IPCA at the end of March reached 6.9% (range of one standard deviation between 6.3% and 7.3%), standing well above the 3.5% target established by the CMN. The inclusion of the IPCA for March should provoke a new round of upward revisions to at least 7.5%. By 2023, the market expectation rose to 3.8%, incorporating the greater inertia from 2022, distancing itself from the reference center (3.25%). The IFI estimates presented in the December report (5.3% and 3.2%) have an upward bias and will be updated in the May edition.

In its last meeting, Copom decided to raise the Selic rate by one p.p. to 11.75% p.a. The minutes released after the meeting indicate that there will be another increase of the same magnitude in May. In discussing the updated scenario that justified the decision, Copom highlighted that the external environment worsened significantly with the conflict between Russia and Ukraine, impacting financial conditions and rising uncertainty about the global economic scenario. Inflationary pressures were amplified, which had already been building up before the war due to pandemic imbalances.

The Committee assessed that consumer inflation continues to surprise negatively, remaining well above the range compatible with meeting the target and that inflation expectations for 2022 and 2023 are also moving away from the target. The Committee considers that more upside risks are weighing on its reference scenario and that it is appropriate to continue raising interest rates to an even tighter territory for economic activity. On the other hand, decisions ahead are clouded by uncertainty regarding the duration of the conflict and the extent of commodity price shocks.

Risk premiums in the yield curve remain high. Figure 12 displays the term structure of interest rates – calculated by Anbima based on secondary public bond negotiations. The ongoing cycle of interest rate hikes and the maintenance of risks related to public accounts affect financing conditions, with potential adverse impacts on economic activity and the dynamics of public debt. The return on a one-year bond is 12.7% in nominal terms. Interest rates for longer maturities (up to 10 years) are around 11.6% for the entire period (0.3 p.p. above the conditions observed in January).

FIGURE 12. TERM STRUCTURE OF NOMINAL INTEREST RATES



Fonte: Anbima. Elaboração: IFI.

2. FISCAL SCENARIO

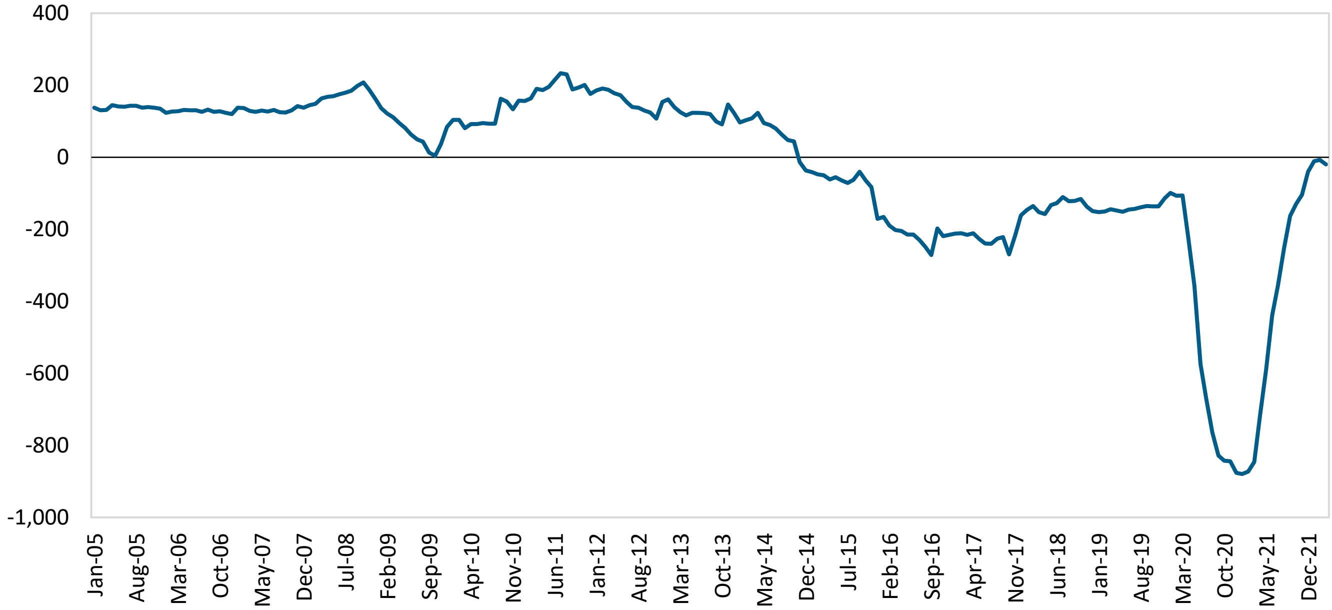
2.1 Central Government Primary Balance

The central government's primary deficit should have been R$ 13.8 billion, in nominal values, in the 12-month accumulated until March. According to the information obtained in Siga Brasil of the Federal Senate, compiled with data released by the National Treasury Secretariat (STN), in the accumulated 12 months ending in March 2022[3], the central government should have presented a primary deficit of R$ 13.8 billion, in nominal values, in the accumulated 12-month period ending in March. This result is larger than the R$ 2.0 billion deficit recorded in February. Considering the data deflated at March 2022 prices, the Union's primary deficit would have been R$ 19.6 billion in the 12 months ended in March (Figure 13).

The central government's primary surplus should have reached R$ 46.2 billion from January to March. In March, the central government should have presented a primary deficit of R$ 9.8 billion, according to the information collected in Siga Brasil. Thus, in the first quarter of 2022, the central government should have sustained a primary surplus of R$ 46.2 billion, derived from net primary revenue of R$ 456.5 billion and primary expenditure of R$ 410.4 billion. The March primary surplus is lower than the R$ 55.9 billion accumulated in the year through February and the R$ 76.5 billion in January. This should not be a trend for the year. March alone may better reflect what tends to be the monthly dynamics until December.

[3] O dado oficial será divulgado pela STN em 28 de abril de 2022.

FIGURE 13. EVOLUTION IN 12 MONTHS OF CENTRAL GOVERNMENT´S PRIMARY BALANCE
(R$ BILLION AT MARCH 2022 PRICES)



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

As warned by the IFI in previous issues of the RAF, the January primary surplus would not set the trend for the rest of 2022. The government itself already expected a deficit for this year. The latest estimate presented in the evaluation report on primary revenues and expenses for the first two months of 2022 improved from R$ 76.2 billion to R$ 66.9 billion. The justification for the review was a more favorable scenario for tax collection this year. The Budget section below explores the revision presented by the government.

Commodity prices and higher inflation may continue to benefit tax collection in the short term. Improved revenues are underpinned by the prospect of relatively high commodity prices and higher inflation this year than initially projected by economists. The conflict outbreak in Ukraine will lead to a significant contraction in the supply of some crops, such as wheat and corn. Even if the conflict does not last much longer, the normalization of the production of these products in Russia and Ukraine could take several months. On the other hand, it is worth saying that in 2022, unlike last year, the USD/BRL exchange rate presents an appreciation movement, which tends to attenuate, in part, the effects of higher commodity prices on domestic inflation.

High commodity prices tend to benefit Brazil in the short term. Brazil, being a relevant country in the production of commodities, should benefit from this condition in the short term due to the dynamism brought to domestic economic activity and the benefit to tax collection of the federated entities. However, the extension of the conflict tends to affect GDP growth in the medium and long term due to the expected slowdown in the global economy.

Short-term revenue gains may more than offset the tax reduction measures already announced. Everything indicates that this effect of inflation and commodities on tax collection in the short term may more than offset the results of the measures adopted by the Executive Branch with impacts on tax collection and discussed in the Budget section of the March edition of this RAF: the linear reduction of the IPI tax for industry sectors, the creation of the fuel price stabilization account, the institution of aid for the purchase of LPG and gasoline by certain groups in society, and the reduction to zero of the PIS/COFINS rates on some items.

Expanding the spending ceiling made room for about R$ 113 billion in new expenses in 2022. On the expenditure side, at the end of 2021, the enactment of Constitutional Amendments no. 113 and 114 made room in the spending ceiling for about R$ 113 billion, with budget allocations already specified, leaving little space for new spending. As discussed in the March issue of this RAF, based on information in the 2022 Federal Budget, there would be room in the ceiling for new expenses of about R$ 1.3 billion.

Some desired expenses in 2022 can be financed through extraordinary credits. This space, however, could be occupied by legislative proposals already approved, such as aid for the purchase of LPG and gasoline by specific groups in society, as well as the creation and eventual regulation of the Conta de Estabilização de Preços de Combustíveis (CEP-Fuels). As highlighted in the March issue of RAF, eventual expenses such as the CEP can be financed through extraordinary credits.

Tracking primary expenditures will be necessary, as will reviewing revenue projections. In short, there are pressures to increase Union primary expenditures in 2022, while revenue estimates will need to be revised upward due to the higher commodity prices and inflation environment. It will be essential to monitor the trajectory of primary expenditure in the coming months. The IFI will publish the revised macroeconomic and fiscal scenarios for the central government and the consolidated public sector and debt in May.

The central government accumulated a primary surplus of R$ 56.0 billion in the first two months of 2022. According to the February numbers in the Central Government Primary Balance (RTN) consolidated by the National Treasury Secretariat, the central government had a primary surplus of R$ 56.0 billion in the first two months of 2022, R$ 33.8 billion higher than in the same period in 2021. January's performance determined the result. In February, there was a primary deficit of R$ 20.6 billion against R$ 21.3 billion in the same month last year. The primary surplus accumulated by the central government in the first two months of 2022 reflected the primary revenue, which grew well above primary expenditure in the period.

According to the Brazilian Federal Revenue Office, the collection increase in the first two months of the year was driven by IRPJ and CSLL collections, predominantly from the adjustment statement. There was also an atypical collection of R$ 12 billion in January from companies that operate in the commodities sector. At February 2022 prices, the difference in IRPJ and CSLL collections between the first two months of 2021 and the same period in 2022 was R$ 20.3 billion. Although to a lesser extent, there were significant increases in the collection of other taxes in the period, such as PIS/COFINS (+R$ 4.9 billion), IRRF – Capital (+R$ 3.5 billion), IOF (+R$ 3.2 billion), and contribution to social security (+R$ 3.0 billion). In revenues collected by other agencies, there was an increase of R$ 12.8 billion in the collection on this basis of comparison, according to the Federal Revenue Office. The most representative item is oil under the heading of revenues collected by other agencies.

Central government primary revenue grew 16.5% (real terms) in the first two months of 2022. Table 3 presents the Union's primary revenue for the first two months of the last three years. The total revenue of R$ 401.4 billion in the first two months of 2022 represents an increase of 16.5% (real terms) over 2021, when there was an increase of 2.7% compared to January and February 2020. This substantial increase in primary revenue can be relativized since it occurred after some non-recurrent events. The growth in tax collection remains a strong net of these effects, which will be better explored later in this text.

TABLE 3. CENTRAL GOVERNMENT'S REVENUES – JAN. AND FEB. (R$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Feb/20			Jan-Feb/21			Jan-Feb/22		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total revenue	**289.9**	**1.1%**	**23.8%**	**311.9**	**2.7%**	**23.4%**	**401.4**	**16.5%**	**27.0%**
Revenues Collected by RFB, except RGPS	*192.3*	*1.1%*	*15.8%*	*211.4*	*4.9%*	*15.9%*	*261.5*	*12.0%*	*17.6%*
Fiscal incentives	*0.0*	*-*	*0.0%*	*0.0*	*-*	*0.0%*	*0.0*	*-*	*0.0%*
RGPS	*65.7*	*-1.3%*	*5.4%*	*67.6*	*-1.9%*	*5.1%*	*79.4*	*6.3%*	*5.3%*
Revenues not collected by RFB	*31.9*	*5.9%*	*2.6%*	*32.9*	*-1.7%*	*2.5%*	*60.5*	*66.3%*	*4.1%*
Transfers	**55.7**	**0.5%**	**4.6%**	**61.0**	**4.4%**	**4.6%**	**81.6**	**21.2%**	**5.5%**
Net revenue	**234.2**	**1.2%**	**19.2%**	**251.0**	**2.2%**	**18.8%**	**319.8**	**15.4%**	**21.5%**
Total revenue without non-recurrent event*	**284.8**	**2.0%**	**23.4%**	**303.5**	**1.7%**	**22.8%**	**362.7**	**8.2%**	**24.4%**
Net revenue without non-recurrent event *	**229.1**	**2.4%**	**18.8%**	**242.5**	**1.0%**	**18.2%**	**281.0**	**5.0%**	**18.9%**
GDP (R$ billion)			**1,218.4**			**1,331.8**			**1,485.9**

** 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.

Revenues collected by the Federal Revenue Office registered an increase of 12.0% in the first two months of 2022 (real terms), at R$ 261.5 billion. According to Table 3, revenues collected by the Federal Revenue Office totaled R$ 261.5 billion in the accumulated two months in 2022, an increase of 12.0% in real terms over 2021. In February alone, revenues collected by the Federal Revenue Office increased 4.6% compared to the same month in 2021.

Income Tax and Social Contribution on Net Corporate Profits (CSLL) made significant contributions to the increase in revenues collected by the Federal Revenue Office in the first two months of 2022. The taxes that contributed the most to the performance of revenues collected by the Federal Revenue Office in January and February were Income Tax (IR) and Social Contribution on Net Corporate Profits (CSLL). In the case of income tax, the variation is explained by increases in collections of corporate income tax (IRPJ) and withheld income tax (IRRF). In addition, there was an atypicality of R$ 12 billion in IRPJ in January. IRRF increased due to wages and capital performance.

Social security revenues grew 6.3% in real terms in January and February compared to last year. The net RGPS revenues of R$ 79.4 billion in the first two months of 2022 represented an increase of 6.3% compared to 2021. Considering only the February result, RGPS revenues totaled R$ 39.7 billion, an increase of 2.8% above inflation compared to February 2021 (Table 3).

The increase in revenues not collected by the Federal Revenue Office was 66.3% above inflation in the first two months. Revenues not collected by the Federal Revenue Office, on the other hand, grew 66.3% in real terms in the first two months of 2022, to R$ 60.5 billion (Table 3). This result was driven by concessions and permissions (R$ 12.0 billion in the first two months of 2022, compared with R$ 729.9 million in 2021), dividends (R$ 3.6 billion in 2022, compared with R$ 961.0 million in 2021), and the exploitation of natural resources (R$ 23.9 billion in 2022, compared with R$ 12.8 billion last year). Revenues not collected by the Federal Revenue Office will likely make an essential contribution to the dynamics of the total primary revenue of the Union in 2022.

The revenue obtained by the central government with concessions and permissions resulted from the receipt of resources from the signing of the onerous transfer contract of R$ 11.2 billion in February 2022, with no counterpart in 2021.

The growth in dividend payments in the first two months of 2022 was due to the receipt of R$ 3.6 billion in dividends transferred to the Union by Caixa Econômica Federal, with no counterpart last year. In the first bimester of 2021, Eletrobras paid R$ 1.0 billion of dividends to the Federal Government, with no counterpart in the first two months of 2022.

The third representative item within revenues not collected by the Federal Revenue Office, the exploitation of natural resources, generated an increase in collections of around R$ 9.9 billion in January and February compared to 2021. This increase resulted from the price of oil on the international market, the exchange rate, and the volume of production.

Transfers of R$ 81.6 billion to subnational entities in the first bimester of 2022 increased 21.2% above inflation. The transfers by revenue sharing to states and municipalities totaled R$ 81.6 billion in January and February, increasing 21.2% over the same period last year when a 4.4% growth was verified (Table 3). In the first two months, the transfer growth reflects the increased collection of taxes shared by the Union with the subnational entities, especially the income tax and revenues from exploiting natural resources.

The central government's net revenue grew 15.4% above inflation in the first two months of 2022 through February. After discounting transfers from total primary revenue, the central government's net revenue was R$ 319.8 billion in the first two months of 2022, an amount 15.4% higher than in the same period of 2021, when there was an increase of 2.2% over 2020 (Table 3).

Table 3 also presents total and net primary revenues free of the effects of atypical or non-recurring factors that could distort these variables' evaluation. IFI's Special Study (EE) no. 17, December 2021, presents the methodology used to obtain these series.[4]

Recurring primary revenue increased 8.2% above inflation in the first two months when discounting the effects of non-recurring events on revenues. In the absence of the non-recurring effects mentioned above, total primary revenue would have been R$ 362.7 billion in the first two months of 2022, an increase of 8.2% in real terms concerning the same period of 2021 (R$ 303.5 billion), when it grew 1.7% compared to 2020 (R$ 284.8 billion). On this basis of comparison, the net revenue of R$ 281.0 billion had an increase of 5.0% in real terms over 2021 (R$ 242.5 billion), when it grew 1.0% compared to 2020 (R$ 229.1 billion). In other words, the isolation of the non-recurrent events on revenues allows us to conclude that the collection's result in January and February remains robust.

As discussed in previous issues of this RAF, economic activity, higher inflation, the depreciation of the exchange rate, the improvement in terms of trade ratio, and the rise in oil prices have positively influenced revenues in recent months. There is the risk of repeating these factors in 2022, except for the exchange rate, which appreciates until April. The USD/BRL exchange rate appreciation tends to offset the increase in commodity prices on inflation and, therefore, on tax collection bases. The new international context is an unforeseen vector that will mainly impose the need to rediscuss the current IFI scenarios for the short term in the review scheduled for May.

In the 12 months ending in February, the federal government's primary revenue rose 24.3% above inflation to R$ 2,022.2 billion (22.9% of GDP). Primary revenue totaled R$ 2,022.2 billion in the 12 months ending in February

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

(22.9% of GDP) through February 2022, representing a 24.3% increase in real terms over the result obtained in the same month in 2021 (R$ 1,490.1 billion or 19.7% of GDP). On this basis of comparison, revenues collected by the Federal Revenue Office increased 24.3% in real terms, while net collection for the RGPS grew 6.8% and revenues not collected by the Federal Revenue Office by 67.6%. The IFI's current projection (referring to the December 2021 scenario revision) for total and net primary revenues for the central government in 2022 is R$ 2,019.2 billion (21.4% of GDP) and R$ 1,634.2 billion (17.3% of GDP), in that order.

By way of comparison, the median projection for federal revenue collection in 2022, contained in the Monthly Report from Prisma Fiscal, is R$ 2,044.7 billion, while the market consensus for net revenue forecasts an amount of R$ 1,682.0 billion this year.

The Union's primary expenditure grew 4.4% above inflation in the first two months. We will now turn to the analysis of central government primary expenditures, which totaled R$ 263.8 billion in the first two months of the year, R$ 35.1 billion more than in the same period last year, a 4.4% increase in real terms (Table 4).

TABLE 4. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – JAN. AND FEB. (R$ B CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Feb/20			Jan-Feb/21			Jan-Feb/22		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total expenditure	**215.9**	**-1.5%**	**17.7%**	**228.8**	**1.0%**	**17.2%**	**263.8**	**4.4%**	**17.8%**
Social Security Benefits (RGPS)	*99.4*	*2.8%*	*8.2%*	*104.7*	*0.5%*	*7.9%*	*114.8*	*-0.8%*	*7.7%*
Personnel (working and retired employees)	*51.3*	*-1.3%*	*4.2%*	*52.1*	*-3.2%*	*3.9%*	*52.9*	*-8.1%*	*3.6%*
Salary allowance and unemployment insurance	*12.3*	*0.7%*	*1.0%*	*16.1*	*24.7%*	*1.2%*	*17.1*	*-3.6%*	*1.2%*
Continuous Cash Benefit (BPC)	*10.3*	*1.9%*	*0.8%*	*10.9*	*1.0%*	*0.8%*	*12.1*	*0.3%*	*0.8%*
Extraordinary Credits (except PAC)	*0.1*	*-95.8%*	*0.0%*	*3.0*	*2906.3%*	*0.2%*	*6.3*	*91.1%*	*0.4%*
Compensation to RGPS for Exemption of Payroll Taxes	*1.3*	*-20.8%*	*0.1%*	*1.0*	*-28.1%*	*0.1%*	*1.1*	*1.5%*	*0.1%*
Fundeb	*4.5*	*4.1%*	*0.4%*	*4.4*	*-7.0%*	*0.3%*	*6.6*	*36.8%*	*0.4%*
Court Rulings and Court-Ordered Debts	*0.3*	*19.1%*	*0.0%*	*0.4*	*18.6%*	*0.0%*	*0.3*	*-26.5%*	*0.0%*
Subsidies, Grants, and Proagro	*3.4*	*-32.5%*	*0.3%*	*2.2*	*-38.4%*	*0.2%*	*4.8*	*101.8%*	*0.3%*
Mandatory expenditure	**204.0**	**-1.7%**	**16.7%**	**220.8**	**3.2%**	**16.6%**	**253.1**	**3.8%**	**17.0%**
Mandatory spending with flow control	***19.3***	***-5.9%***	***1.6%***	***21.9***	***8.4%***	***1.6%***	***33.8***	***39.4%***	***2.3%***
Discretionary	**12.0**	**2.4%**	**1.0%**	**7.9**	**-36.7%**	**0.6%**	**10.7**	**22.1%**	**0.7%**
Total expenditure without non-recurrent events	**215.8**	**-1.5%**	**17.7%**	**222.0**	**-1.9%**	**16.7%**	**256.3**	**4.5%**	**17.2%**
GDP (R$ billion)			**1,218.4**			**1,331.8**			**1,485.9**

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

There was a notable increase above inflation in some expenses in the first two months, such as extraordinary credits, Fundeb, subsidies, compulsory expenses with cash control, and discretionary. According to Table 4, total spending fell in some representative groups in the accumulated two months in 2022 compared to 2021: (i) social security benefits (-1.3% in real terms, at R$ 114.8 billion); (ii) payroll (-8.1%, at R$ 52.9 billion); and (iii) salary allowance and unemployment benefit (-3.6%, at R$ 17.1 billion). On the other hand, there were increases in extraordinary credits, except PAC (+91.1%, to R$ 6.3 billion), Fundeb (+36.8%, to R$ 6.6 billion), subsidies, grants, and

Proagro (+29.4%, to R$ 4.8 billion), compulsory expenses with cash control (+39.4%, to R$ 33.8 billion), and discretionary (+22.1%, to R$ 10.7 billion).

As explored in the February 2022 issue of this RAF, the declines, in real terms, in expenses with the payment of social security benefits are due both to the reduction in the average value of benefits and the slower growth in the number of benefits issued. In payroll expenses, on the other hand, the absence of readjustments in civil service salaries has allowed the government to reduce this expense compared to the previous year.

Emergency Aid and vaccine purchases boosted the expenses executed via extraordinary credits in the first two months of 2022. Regarding the expenses that grew in the accumulated two months in 2022, the execution of expenses related to combating Covid-19, especially the Emergency Aid for people in vulnerable situations (+R$ 2.5 billion), vaccine purchase (+R$ 1.8 billion), and additional expenses from the Ministry of Health and Other Ministries (-R$ 1.0 billion) influenced the extraordinary credits (except PAC).

The growth in Fundeb expenses reflects the promulgation of the Constitutional Amendment that foresees an increase in the Union's complementation to the fund. Fundeb expenses – from R$ 4.4 billion to R$ 6.6 billion – grew due to Constitutional Amendment no. 108, of 2020, which increased the Union's complementation from 12% to 15% between 2021 and 2022.

Expenditures under Proagro boosted spending on subsidies and grants in the first two months of 2022. Expenditures with subsidies, grants, and Proagro jumped from R$ 2.2 billion in January and February 2021 to R$ 4.8 billion in 2022 due to an additional expenditure of R$ 1.3 billion under the Agricultural Activity Support Program (Proagro) this year.

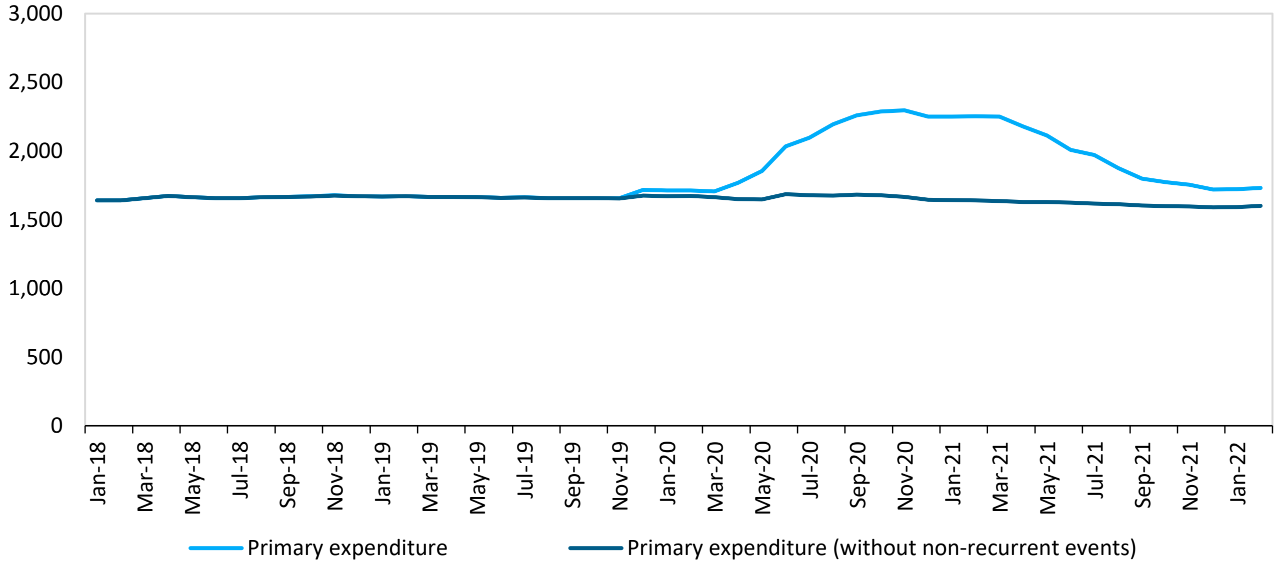
Payment of the Brazil Aid explains the increase in compulsory expenses with cash control in 2022. The increase of 39.4% above inflation in compulsory expenses with cash control in the first two months of 2022 compared to 2021 was due to an increase of R$ 8.6 billion in Bolsa Família (Family Allowance) and Auxílio Brasil (Brazil Aid). This increase is in line with the amount of R$ 89.0 billion authorized by the 2022 LOA. In the first two months of 2022, according to the STN, the expense with the payment of Bolsa Família (Family Allowance) and Auxílio Brasil (Brazil Aid) was R$ 14.5 billion, or R$ 7.25 billion on the monthly average.

Finally, the increase in discretionary spending from R$ 7.9 billion in the first two months of 2021 to R$ 10.7 billion in 2022 resulted from increased expenditures in the Health and Social Protection functions.

Primary expenditure without non-recurrent factors grew 4.5% above inflation in the first two months. As the last observation concerning Table 4, we highlight the behavior of total primary expenditure discounting non-recurrent factors. In the first two months of the year, this primary expenditure recalculated by the IFI totaled R$ 256.3 billion, a 4.5% increase, in real terms, to the same period of 2021 (R$ 222.0 billion).

Primary expenditure without non-recurrent factors events remained relatively under control in the 12 months ended in February. To conclude this subsection, Figure 14 presents the evolution in 12 months of the total primary expenditure and the expenditure series recalculated by the IFI to isolate the effects of the non-recurrent factors mentioned above and discussed in EE no. 17, 2021. At constant February 2022 prices, total primary expenditure reached R$ 1,732 billion in February (against R$ 1,723 billion in January), while expenditure net of non-recurrent factors totaled R$ 1,601 billion (against R$ 1,591 billion in January). The expenditure curve discounted of the non-recurrent factors shows that primary expenditure has remained relatively under control for several months. In any case, the fiscal space of about R$ 113 billion opened in 2022 with Constitutional Amendments no. 113 and 114 should cause the curves presented in Figure 14 to grow in the coming months.

FIGURE 14. EVOLUTION IN 12 MONTHS OF TOTAL PRIMARY EXPENDITURES
(WITH AND WITHOUT SELECTED NON-RECURRENT EVENTS) - R$ BILLION AT FEB/22 PRICES



Source: National Treasury Secretariat . Prepared by: IFI.

2.2 Evolution of Public Sector Indebtedness Indicators [5]

The war in Ukraine raised uncertainties in the international economic environment. The conflict in Ukraine, which, for Brazil, has the potential to put further pressure on domestic inflation, besides bringing more uncertainties, compounded the economic environment of high inflation and an increase in the economy's base interest rates. The risk premiums, which oscillated between 330 and 340 points from the beginning of the year until mid-March, moved back to the level of 290 points at the beginning of April, even though, according to the yield curve presented in the Macroeconomic Context section, interest rates are under continuing pressure.

The uncertainties are more associated with inflationary dynamics and fiscal consolidation for Brazil. Despite the decline in risk premiums in recent weeks, uncertainties persist concerning the dynamics of inflation and the Union's fiscal consolidation, given the potential impacts of the conflict in Ukraine on commodity prices, including oil. The government's concerns with fuel prices have translated into the approval of some legislative proposals that may increase the Union's primary expenses in the coming months. The risk associated with possible increases in primary expenditures or tax waivers, whether permanent or transitory, will continue to be monitored by the IFI.

Federal Public Debt (DPF) rose by R$ 114.1 billion from January to February. According to information published by the STN in the Monthly Debt Report (RMD), the domestic federal public debt securities (DPMFi) shifted from R$ 5,616.2 billion in January to R$ 5,730.3 billion in February, an increase of R$ 114.1 billion. In the period, the

[5] Due to the strike by the Central Bank of Brazil's servers, responsible for calculating the statistics for the consolidated public sector result by the "below the line" methodology and gross and net debt, the February data have not yet been released. For this reason, this topic does not contain evaluations regarding these indicators, as traditionally occurs in the RAF. It is worth saying that this situation is a matter of concern, to the extent that it makes it difficult to follow the overall situation of the public accounts.

outstanding Domestic Federal Public Securities Debt (DPMFi) rose to R$ 123.5 billion, while as regards outstanding Federal External Public Debt (DPFe), the stock declined by R$ 9.4 billion.

This increase in outstanding DPF in February, compared to January, occurred due to the net issuance of securities (issuance minus redemptions) of R$ 78.1 billion and favorable interest appropriations totaling R$ 68.9 billion.

Most of the increase in the DPMFi stock in February occurred in floating-rate securities. Of the R$ 123.5 billion increase in outstanding DPMFi in February, R$ 82.5 billion resulted from floating-rate securities (Selic). The stock of fixed-rate securities rose R$ 30.5 billion in February against January, while the stock of inflation-linked securities rose R$ 11.7 billion.

In net issuance in February, floating-rate securities stood out. The total net issuance of the DPMFi in February was a positive R$ 78.6 billion, meaning that redemptions exceeded issuance in this amount. There was a net issuance of R$ 65.2 billion in floating-rate securities and another R$ 21.4 billion in fixed-rate securities. Inflation-linked securities witnessed net redemptions of R$ 7.9 billion in February due primarily to securities debt payments of R$ 26.7 billion.

Debt liquidity reserve rose from R$ 1,132.5 billion in January to R$ 1,278.1 billion in February. Also, according to the Treasury, the public debt liquidity reserve (or debt cushion) stood at R$ 1,278.1 billion in February, up 12.9% in nominal terms against January (R$ 1,132.5 billion) due to the net issuance of securities and the Central Bank's operating result of approximately R$ 73 billion.

The public debt liquidity reserve comprises a subset of cash available within the National Treasury Single Account at the Central Bank. In the next 12 months, DMPFi maturities totaled R$ 1,314 billion. In other words, the current liquidity reserve is insufficient to pay the Treasury's short-term commitments.

For some fixed-rate securities, the average issuance rates continued to rise in February. Average DPMFi issuance rates rose in February, according to information presented by the STN in the RMD. The average issuance rate for 24-month fixed-rate securities (LTN) was 11.93% p.a. in February, against 11.73% p.a. in January and 11.59% p.a. in December. In 48-month fixed-rate bonds, the rate was 11.46% p.a. in February, compared to 11.31% p.a. in January and 10.73% p.a. in December. In the 10-year fixed-rate bond, with semi-annual interest payments, the average issuance rate rose from 11.43% p.a. in January to 11.69% p.a. in February.

According to a survey conducted by IFI, the average issuance rates of the DPMFi bonds increased in March. Information gathered by IFI regarding public offerings conducted by the Treasury[6] indicates further increases in the rates of the DPMFi public offerings in March. For example, a fixed-rate bond maturing on April 1, 2023, had an average issuance rate of 12.93% p.a. in March. In February, the average rate for this security was 12.35% p.a. For the fixed-rate security maturing on July 1, 2025, the average issuance rate went from 11.40% p.a. in February to 12.16% p.a. in March. The securities (and their respective maturities) are announced quarterly by the Treasury and may change over time.

In February, the percentage of securities in the outstanding DPF with shorter maturities dropped 2.6 p.p. compared to the same month in 2021. Figure 15 contains information on the Federal Public Debt maturity profile available in the Monthly Debt Report. In February, securities maturing in the next 12 months accounted for 23.4% of outstanding DPF, 0.4 p.p. less than in January. Concerning February 2021, the variation was -2.6 p.p.

The percentage of securities maturing in up to 12 months decrease reflects the lower placement of securities with this maturity by the Treasury. The reduction occurred in a context where the Treasury has placed fewer short-

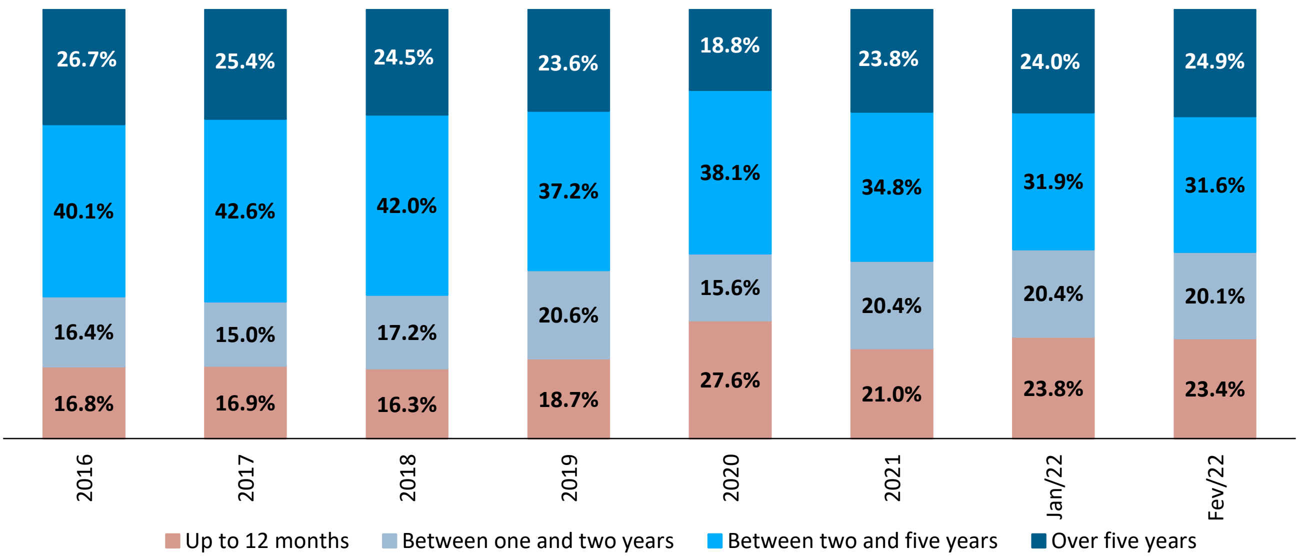
[6] Available at: https://www12.senado.leg.br/ifi/dados/dados.

maturity securities, although the level is higher than that of the last three months of 2021. In the 2022 Annual Borrowing Plan (PAF), the interval set for the DPF stock maturing in 12 months ranges from 19% (minimum) to 23% (maximum).

The share of longer-maturity securities in the DPF stock continued to rise in February. Securities maturing in over five years reached 24.9% of the outstanding DPF in February 2022, up 0.9 p.p. against January and 4.6 p.p. against February 2021. The increased participation of longer-maturity securities in the DPF stock reflects the more significant issuance of long-term debt that the Treasury has been able to carry out, especially floating-rate and inflation-linked bonds.

The lengthening of the debt maturity profile does not reflect a permanent movement. After the shortening observed in the federal debt profile in 2020 (an increase in the relative share of securities with shorter maturities and a reduction in those with longer maturities), the Treasury has managed to lengthen the maturity profile of its public securities, which is a positive factor in debt management. However, it is not a relevant, permanent movement, mainly because an increase in the average cost accompanies it.

FIGURE 15. DPF MATURITIES



Source: National Treasury Secretariat . Prepared by: IFI.

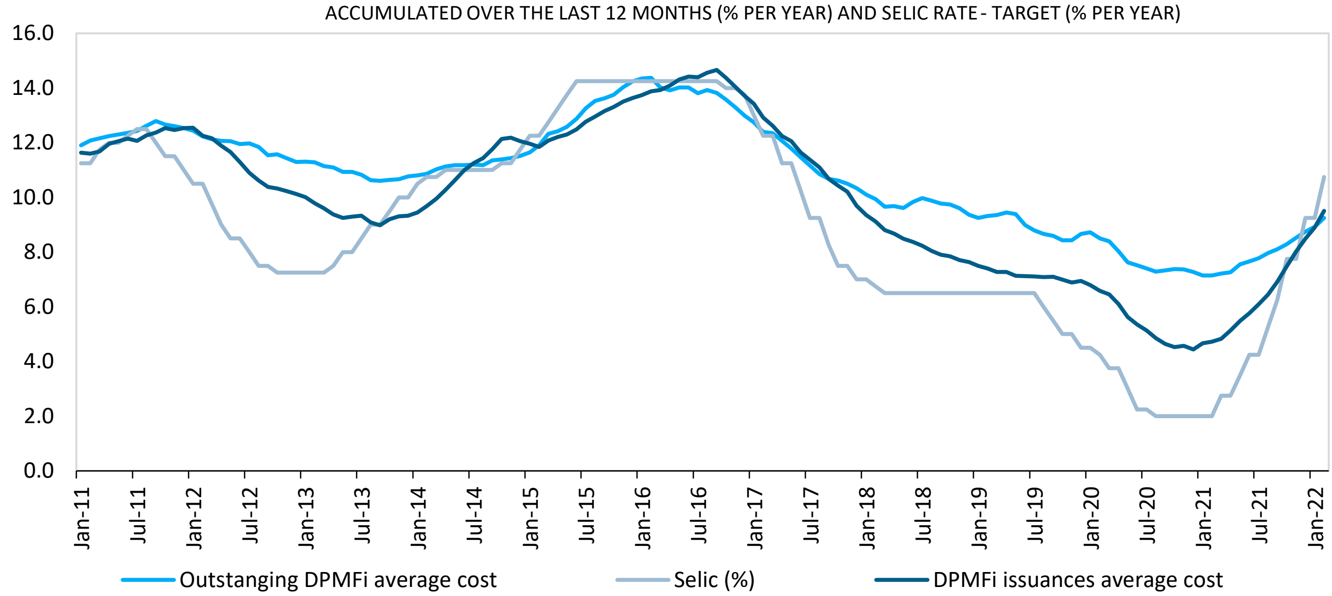
The outstanding DPMFi average cost increased by 2.1 p.p. in February compared to the same month in 2021. To conclude the analysis of indebtedness indicators, the DPMFi cumulative 12-month average cost rose 0.33 p.p. in February, compared to January, to 9.25% p.a., the twelfth consecutive increase in the monthly comparison. Compared to February 2021, the outstanding DPMFi average cost rose 2.10 p.p. (Figure 16).

The average cost of DPMFi public offerings rose 4.77 p.p. in February 2022, compared to the same month of the previous year. The average cost of DPMFi issuances in public offerings rose to 9.50% p.a. over 12 months, compared to 8.90% p.a. in January. Concerning February 2021, the average cost of DPMFi issues rose by 4.77 p.p. (Figure 16). It is worth noting that, on this basis of comparison, the average cost of issuances in public offerings is rising at a fast pace and already exceeds the outstanding average cost, indicating that the latter will continue to rise in the coming months.

The rise in the average cost of DPMFi outstanding and issuances reflects the increase in the Selic rate. This movement is evident considering the increase in floating-rate securities net issuance. In its last meeting, Monetary Policy Committee (Copom) raised the Selic to 11.75%. The last available release of the Central Bank's Focus Survey, with information updated up to March 25, 2022, indicated that the market consensus forecast the Selic at 13% p.a. by the end of 2022.

Expected increases in the Selic rate will make the average cost of the DPMFi rise further in the coming months. Additional hikes expected for the Selic in the coming months suggest that the average cost of debt will continue to rise. Furthermore, the risk calculated by economic agents in the yield curve will pressure the average cost of the debt, worsening the future scenario, which recently benefited from the increase in nominal GDP under the influence of high inflation.

FIGURE 16. AVERAGE COST OF DPMFI (OUTSTANDING AND ISSUANCES)
ACCUMULATED OVER THE LAST 12 MONTHS (% PER YEAR) AND SELIC RATE - TARGET (% PER YEAR)



Source: National Treasury Secretariat . Prepared by: IFI.

3. BUDGET

The purpose of this section is to explore the budget execution figures in 2022, in the light of the evaluation of primary revenues and expenses for the first two months, in addition to analyzing the changes proposed in the Bill of the National Congress (PLN) no. 2 of 2022, which amends the Budget Guidelines Law (LDO) for the 2022 fiscal year.

3.1 Bimonthly evaluation of the Executive's primary revenues and expenses

At the end of March, the Ministry of Economy (ME) published the evaluation of the Union's revenues and expenses for the first two months of 2022. In compliance with art. 9 of the Fiscal Responsibility Law (LRF) and art.

62 of the 2022 LDO,[7] the ME must publish a bimonthly report evaluating primary revenues and expenses.[8] Through this report, it is possible to identify the changes in revenue estimates, mandatory and discretionary spending, and primary balance.

At the end of each two months, this follow-up is essential to allow for course corrections whenever the behavior of primary revenues and mandatory expenses deviates from the projected primary balance from the target set for the year.

For this purpose, the realized results are incorporated (in this case, January and February), the macroeconomic parameters are updated, and the new legal changes that impact the fiscal results are observed. This review adjustments to the contingent expenses to adapt the new scenario to the fiscal rules, namely the primary balance and the spending ceiling.

In case the expected result deviates from the target, the instrument to be used is the limitation of pledges and financial transactions (contingency) of discretionary spending, that is, those whose level of execution can be determined to a certain extent by the government. The contingent expenditures are still foreseen in the Budget but cannot be executed. In later evaluations, a possible reversal of the fiscal scenario restores the possibility of executing the blocked endowments in proportion to the reductions made.

Bimonthly reevaluation shows more significant fiscal space. The primary balance target foreseen in the LDO is a deficit of R$ 170.5 billion, R$ 103.6 billion above the deficit projected by the Executive Branch in the last bimonthly report (R$ 66.9 billion). This difference is understood as fiscal space and allows us to know the margin for the balance expansion (worsening) or the level of effort that the government must make to meet the fiscal target.

Part of the contribution to fiscal space comes from revenues. In the Annual Budget Law (LOA), total primary revenues were estimated at R$ 2,030.5 billion, and, in this first reassessment, the estimate rose to R$ 2,118.0 billion. The R$ 87.5 billion increase is due mainly to revenues not collected by the Federal Revenue Office (RFB).

The bimonthly revaluation incorporates the tax effects of reducing the IPI and PIS/COFINS tax rates. Although total primary revenues have been revised upwards, i.e., an increase of R$ 87.5 billion, the composition of this result incorporates both positive and negative effects. The government has recently made a series of changes in legislation with direct effects on tax revenues. The March edition of the RAF [9] explored the impacts of the measures and compared them to the LOA. With the bi-monthly reassessment, it is possible to observe, in the government's view, the impact of these measures and the reversal of the revenue scenario in light of the revision of macroeconomic parameters and other factors that will be explored below.

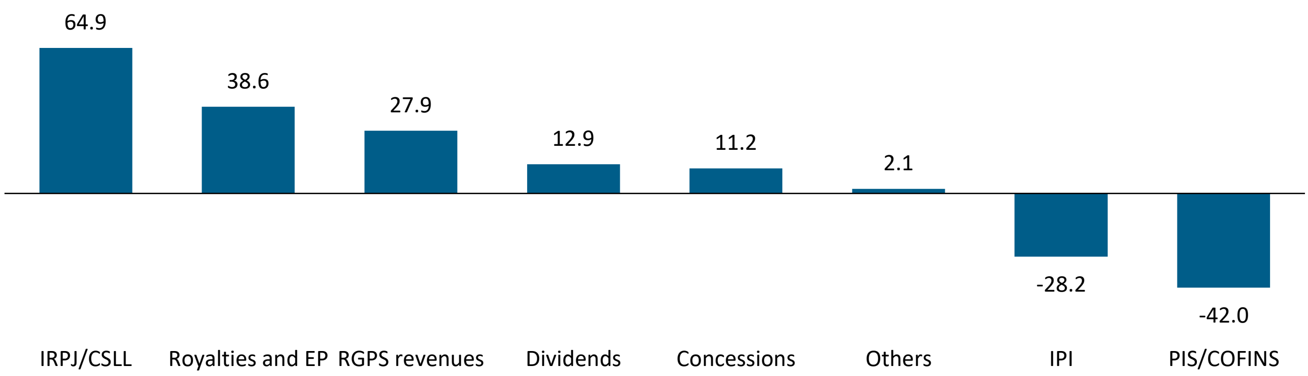
Figure 17 shows the main absolute variations (in R$ billion) in revenues, comparing the figures in the reassessment with the LOA.

[7] The monitoring throughout the year of the variables that affect the fiscal scenario is provided for in the Fiscal Responsibility Law (art. 9) and is regulated annually in the Budget Guidelines Law – LDO (In LDO 2022, art. 62).

[8] Primary revenue and expenditure evaluation report: budgetary and financial programming for 2022. Federal Budget Secretariat. Brasília. March 2022. Available at.: https://bit.ly/19kBdlj.

[9] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/596473/RAF62_MAR2022.pdf#page=31.

FIGURE 17. MAIN CHANGES IN REVENUES: BIMONTHLY REVALUATION - LOA (IN R$ BILLION)



Source: Evaluation report on primary revenues and expenses. Prepared by: IFI.

Reassessment of revenues collected by the RFB reflects the impact of recently granted tax benefits. In the bimonthly evaluation report, the revenues collected by the RFB estimated for 2022 reduced from R$ 1,288.9 billion (LOA) to R$ 1,285.6 billion (1st evaluation), that is, R$ 3.3 billion less. This reduction incorporates the 25% linear reduction in the IPI rates[10] and the reduction to zero of the PIS and COFINS rates on some fuels impacts.

IPI revenue should be R$ 28.2 billion less than in the LOA. The IPI forecast was reduced from R$ 83.8 billion to R$ 55.5 billion, a decrease of R$ 28.2 billion. The revision in the 2022 IPI projection reflects the impact of the linear reduction of 25% in the tax rates (Decree no. 10.979 2022), the authorization for the reduction in the rate, in the case of automobiles, to also apply to vehicles in stock (Decree no. 10.985, 2022), and the industrial production estimates revision which should be worse than that foreseen in the LOA.

PIS and COFINS decreased by R$ 42.0 billion due to lower revenues and the new tax benefits. PIS and COFINS tax collections dropped R$ 42.0 billion in the evaluation report estimates compared to the forecast in the LOA. This reduction is mainly due to Supplementary Law no. 192 of 2022, which, among other measures, reduces to zero the PIS/COFINS rates on diesel, aviation kerosene, liquefied petroleum gas, and biodiesel. In addition, there was frustration in tax collection in the first two months compared to LOA.

Income tax and CSLL were the most significant positive impact items in this reassessment. The joint collection of income tax and social contribution on net corporate profit (CSLL) estimates were revised from R$ 657.8 billion to R$ 722.7 billion, an increase of R$ 64.9 billion. This increase results from the positive surprise in tax collection at the beginning of the year and the revision of macroeconomic parameters, such as interest rates.

Revenues not collected by the RFB are revised upwards, influenced by the rising price of commodities. The forecast increased by R$ 62.9 billion due to the following factors: (i) revision of the average oil price projection in dollars (from US$ 77.4/barrel to US$ 103.4/barrel), which positively impacted the forecast of revenues from royalties and special participations by R$ 38.6 billion; (ii) an increase of R$ 11.2 billion in the collection of concessions and

[10] The exceptions to this 25% reduction were automobiles, for which the reduction was 18.5%, and tobacco products and their manufactured substitutes, which were not covered by the rate reduction.

permissions related to the second round of the onerous transfer contract for oil exploration; and (iii) an increase of R$ 12.9 billion in the dividends estimate due to an increase in the estimated distribution of dividends by Petrobras.

Table 5 shows the composition of revenues not managed by the RFB, comparing the amounts forecast in the LOA and those revised in the bimonthly report.

TABLE 5. COMPOSITION OF REVENUES NOT COLLECTED BY RFB (R$ MILLION AND %)

	LOA 2022	Evaluation 1st bimester	Δ R$ million	Δ %
Revenues Not Collected by the RFB	242,267	305,120	62,853	25.9%
Concessions and Permissions	5,137	16,344	11,207	218.2%
FGTS Complement	0	0	0	-
Contribution to Civil Service Social Security	18,592	17,259	-1,333	-7.2%
Education-Salary (social contribution to education)	25,729	27,511	1,782	6.9%
Exploitation of Natural Resources	95,870	134,509	38,639	40.3%
Dividends	26,285	39,226	12,941	49.2%
Assets Operations	0	0	0	-
Own Revenues and from agreements	18,153	18,081	-72	-0.4%
Other Revenues	52,502	52,191	-311	-0.6%

Source: Evaluation report on primary revenues and expenses. Prepared by: IFI.

The transfers to states and municipalities reflect the revision of primary revenues. According to government forecasts, transfers to subnational entities should increase by R$ 45.5 billion to what was in the LOA. This revision reflects the increase in the primary revenues estimates that serve as the basis for calculating and the payment of R$ 7.7 billion from the onerous transfer contract.

Table 6 displays the Executive Branch's estimates for net primary revenue, which results from the difference between total primary revenue and transfers to subnational entities by revenue sharing.

TABLE 6. COMPOSITION OF TOTAL PRIMARY REVENUE (R$ MILLION AND %)

	LOA 2022	Evaluation 1st bimester	Δ R$ million	Δ %
I. TOTAL REVENUE	**2,030,520**	**2,118,013**	**87,493**	**4.3%**
I.1. Revenues collected by theRFB (except RGPS)	1,288,902	1,285,723	-3,179	-0.2%
I.2. Fiscal Incentives	-2	-116	-114	5700.0%
I.3. Net Social Security Revenues	499,353	527,286	27,933	5.6%
I.4. Revenues not collected by the RFB	242,267	305,120	62,853	25.9%
II. TRANSFERS BY REVENUE SHARING	**386,401**	**431,927**	**45,526**	**11.8%**
III. NET REVENUE (I – II)	**1,644,119**	**1,686,086**	**41,967**	**2.6%**

Source: Evaluation report on primary revenues and expenses. Prepared by: IFI.

The expenditures not subject to the ceiling concentrate the increase in primary expenditures. Total primary expenditures forecast for 2022 increased from R$ 1,720.3 billion (LOA) to R$ 1,753.0 billion (1st evaluation), an increase of R$ 32.7 billion. Of the increase observed in the revaluation of expenditures, R$ 23.8 billion (73% of the increase) was in the "extraordinary credits" item. In the evaluation report on primary revenue and expenditure for the first bimester, the justification for the increase in extraordinary credits was the forecast of spending on reopened credits and last year's outstanding liabilities.

Reassessment of payroll expenditures incorporates the effects of PLN no. 1 of 2022. The reevaluation report foresees an increase of R$ 2.4 billion for payroll expenditures compared to the LOA. Of this increase, R$ 1.7 billion corresponds to the recomposition of resources reduced in the personnel and social charges endowments during the PLOA in Congress (PLN no. 1 of 2022).[11]

Revaluation increased expenses with subsidies, subventions, and Proagro by R$ 5.1 billion. According to the report, "the revision results from the need to cover claims in Proagro and the interest rate scenario updating."

Table 7 summarizes the primary balance of the first two-month revaluation vis-à-vis the LOA.

TABLE 7. COMPOSITION OF THE PRIMARY BALANCE: LOA AND 1ST BIMESTER EVALUATION (R$ MILLION AND %)

	LOA 2022	Evaluation 1st bimester	Δ R$ million	Δ %
I. RECEITA TOTAL	**2,030,520**	**2,118,013**	**87,493**	**4.3%**
I.1. Revenues collected by theRFB (except RGPS)	1,288,902	1,285,723	-3,179	-0.2%
I.2. Fiscal Incentives	-2	-116	-114	5700.0%
I.3. Net Social Security Revenues	499,353	527,286	27,933	5.6%
I.4. Revenues not collected by the RFB	242,267	305,120	62,853	25.9%
II. TRANSFERS BY REVENUE SHARING	**386,401**	**431,927**	**45,526**	**11.8%**
III. NET REVENUE (I – II)	**1,644,119**	**1,686,086**	**41,967**	**2.6%**
IV. TOTAL EXPENDITURE	**1,720,286**	**1,752,991**	**32,705**	**1.9%**
IV.1. Social Security Benefit (1)	777,717	778,064	347	0.0%
IV.2. Payroll	336,102	338,551	2,449	0.7%
IV.3. Other Compulsory Expenses	252,510	281,976	29,466	11.7%
IV.4. Executive Branch Expenses Subject to Financial Programming	**353,956**	**354,402**	**446**	**0.1%**
IV.4.1 Compulsory Expenses with Cash Control	223,164	223,141	-23	0.0%
IV.4.2 Discretionary	130,792	131,261	469	0.4%
V. CENTRAL GOVERNMENT PRIMARY BALANCE (III-IV)	**-76,167**	**-66,906**	**9,261**	**-12.2%**

Source: Evaluation report on primary revenues and expenses. (1) including COMPREV, Judicial Remedies. Prepared by: IFI.

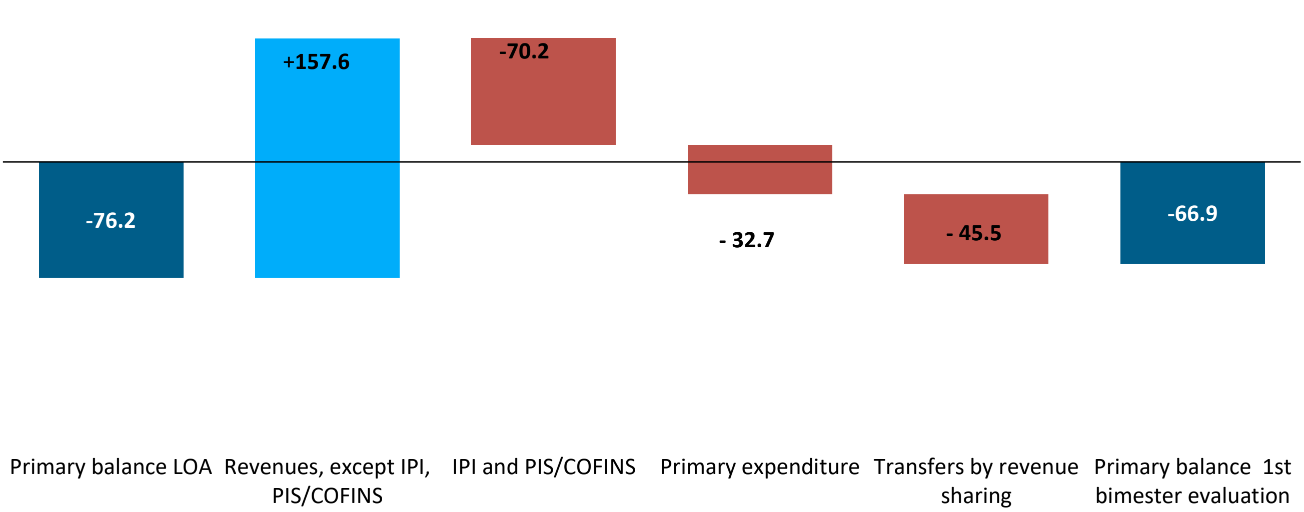
3.1.1 Primary balance target

The evaluation report of the first bimester indicates an increase of R$ 9.3 billion in fiscal space for 2022. The central government's primary result target set in the LDO is R$ 170.5 billion. In the LOA, the deficit forecast for 2022 was R$ 76.2 billion. In March's revenue and expenditure evaluation report, the deficit forecast was R$ 66.9 billion. Therefore, the fiscal space in the primary balance target went from R$ 94.3 billion to R$ 103.6 billion, an increase of R$ 9.3 billion.

[11] We analyzed PLN n.º 1 in the RAF of March this year: https://www2.senado.leg.br/bdsf/bitstream/handle/id/596473/RAF62_MAR2022.pdf#page=33.

The change in the forecast of revenues in a more significant proportion than that of expenditures and tax benefits contributed to a more significant fiscal space. In the evaluation report of the first two months of the year, primary revenues, excluding IPI and PIS/COFINS, had an increase of R$ 157.6 billion to the LOA, while primary expenses increased by only R$ 32.7 billion, and the reduction in the forecast of exempted taxes was R$ 70.2 billion. Thus, the increase in the forecast for revenues was more significant than the forecast reduction in expenses and tax benefits, which grew by R$ 102.9 billion to the LOA. Discounting transfers to subnational entities, the primary balance forecast for 2022 increases by R$ 9.3 billion. Figure 18 illustrates these changes.

FIGURE 18. PRIMARY BALANCE CHANGES: LOA - EVALUATION OF THE FIRST BIMESTER (R$ BILLION)



Source: Evaluation report on primary revenues and expenses. Prepared by: IFI.

3.1.2 Spending ceiling

The spending ceiling limits the expansion of expenses subject to the rule. The 2022 ceiling for the Union was set at R$ 1,681.0 billion, R$ 1,608.3 billion of which for the Executive Branch, but the expenses subject to the constitutional limit, in the evaluation of the first bimester, show an aggregate fiscal margin of R$ 1.3 billion and adjustment need of R$ 1.7 billion for the Executive Branch.

Namely, EC no. 95 of 2016, which created the spending ceiling rule, defined individual limits by branch/agency, requiring an evaluation based on this segregation. Although there is a fiscal margin in the aggregate, some branches may present, during the year, the need for adjustment. The Executive Branch, for example, needs to make contingencies of R$ 1.7 billion to comply with this year's ceiling rule. [12] The table below shows the limit per branch/agency since 2016.

[12] The Decree of budgetary and financial programming no. 11.019, March 30, 2022, presents the limits of movement and pledge compatible with the adjustment evidenced in the evaluation report of the first bimester. The primary expenses and, consequently, the primary balance were reduced by R$ 1.7 billion to meet the spending ceiling. The primary balance compatible with Decree no. 11.019, March 2022, is a deficit of R$ 65.2 billion. See Decree no. 11.019, March 30, 2022. Available at: https://bit.ly/3M08nHp.

TABLE 8. COMPOSITION OF THE SPENDING CEILING (R$ MILLION)

	BASE (2016)	2017	2018	2019	2020	2021	2022
Total	**1,222,161**	**1,310,157**	**1,348,806**	**1,399,387**	**1,459,700**	**1,525,679**	**1,680,993**
I. Executive Branch	**1,169,294**	**1,253,483**	**1,290,460**	**1,338,853**	**1,396,557**	**1,459,682**	**1,608,277**
II. Legislative Branch	**10,550**	**11,309**	**11,643**	**12,080**	**12,600**	**13,170**	**14,510**
Chamber of deputies	5,067	5,432	5,592	5,802	6,052	6,326	6,970
Federal Senate	3,730	3,999	4,116	4,271	4,455	4,656	5,130
Federal Court of Accounts	1,753	1,879	1,934	2,007	2,093	2,188	2,411
III. Judicial Branch	**36,314**	**38,929**	**40,077**	**41,580**	**43,372**	**45,332**	**49,947**
Supreme Federal Court	542	581	598	621	647	677	745
Superior Court of Justice	1,274	1,366	1,406	1,459	1,522	1,590	1,752
Federal Justice	9,398	10,075	10,372	10,761	11,224	11,732	12,926
Military Justice	458	491	505	524	547	572	630
Electoral Justice	6,193	6,639	6,834	7,091	7,396	7,731	8,518
Labor Justice	16,021	17,174	17,681	18,344	19,135	20,000	22,036
Federal District Justice	2,263	2,426	2,498	2,592	2,703	2,825	3,113
National Council of Justice	166	177	183	190	198	207	228
IV. Federal Public Defender's Office	**460**	**493**	**507**	**526**	**549**	**574**	**632**
V. Public Prosecutor's Office	**5,544**	**5,944**	**6,119**	**6,348**	**6,622**	**6,921**	**7,626**
Union Public Prosecutor Office	5,474	5,868	6,041	6,268	6,538	6,833	7,529
National Council of the Brazilian Public Prosecutor's Office	70	75	78	81	84	88	97

Source: Tesouro Transparente. Prepared by IFI.

Still, on the spending ceiling, it is essential to highlight some changes promoted through amendments no. 113 and 114. The first was the limitation on the payment of court-ordered debts, as already evidenced in the January issue of RAF[13], the second stems from the exclusion of court-ordered debts from the Fund for Basic Education Development and Maintenance and for the Valorization of Education Professionals (Fundef) and court-ordered debts installments from the ceiling rule. Together with the change in the rule's correction system, all these modifications have contributed to expanding the fiscal margin in the spending ceiling. However, the increase in the fiscal margin was fully allocated in the LOA, so the ceiling continues to be restrictive in the short term.

Another recent change was adjusting the classification of expenses with inventory formation and maintenance of the minimum price guarantee policy. These expenses were classified as financial expenses and are now classified as primary discretionary expenses. With this change, the ceiling for 2022 was increased by R$ 1.4 billion.

According to EC 114 of 2021, the expenses with court rulings and court-ordered debts related to Fundef and installment payments were removed from the ceiling rule. The appropriation for these expenses in 2022 is R$ 11.6 billion. It should be noted that the evaluation report on primary revenues and expenses of the first bimester does not detail these expenses, despite accounting for them as an exception to the rule.

According to the bi-monthly report, the expenses of the Executive exceeded R$ 1.7 billion, the limit established for the branch. The other branches present an inverse situation, with a margin of R$ 3.0 billion.

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[13] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/595062/RAF60_JAN2022.pdf#page=28.

Table 9 shows the ceiling vis-à-vis the expenses foreseen in the LOA and the reevaluation. It is possible to observe the different fiscal margins for 2022.

TABLE 9. COMPOSITION OF PRIMARY EXPENDITURES SUBJECT TO THE CEILING.

	LOA 2022	Evaluation 1st bimester	Δ R$ million	Δ %
Total primary expenditures	**2,106,687**	**2,184,918**	**78,231**	**3.7%**
Primary expenditures not subject to the ceiling	433,442	505,219	71,778	16.6%
Primary expenditures subject to the ceiling	1,673,245	1,679,699	6,453	0.4%
Primary expenditures	1,659,625	1,666,207	6,583	0.4%
Social security benefits	777,717	778,064	346	0.0%
Payroll	321,964	324,412	2,448	0.8%
Subsidies, grants and Proagro	14,379	19,286	4,907	34.1%
Other	545,565	544,446	-1,119	-0.2%
Other operations that affect the primary result	13,621	13,492	-129	-0.9%
Bills and Coins Manufacturing	1,088	1,088	0	0.0%
Subsidies to constitutional funds	8,942	9,783	842	9.4%
Net lending operations	1,948	1,652	-296	-15.2%
FDA/FDNE Funds	0	0	0	-
Fies primary impact	1,643	969	-675	-41.1%
Limit EC 95, of 2016	**1,679,573**	**1,680,993**	**1,420**	**0.1%**
Annual estimate of excess/need for adjustment	6,327	1,294	-5,033	-79.5%
Ceiling space other branches	3,143	3,016	-127	-4.1%
Ceiling space Executive Branch	3,184	-1,722	-4,906	-154.1%

Source: Evaluation report on primary revenues and expenses. Prepared by: IFI.

3.2 PLN no. 2 of 2022: Changes in the LDO

The PLN no. 2 of 2022 promotes changes in the LDO to adapt it to Amendments no. 113 and 114. The Constitutional Amendments no. 113 and 114, both of December 2021, altered the payment system of court rulings and court-ordered debts, impacting the spending ceiling and the primary balance of 2022. As the amendments were approved after the 2022 LDO entry, the government sent a bill to the National Congress to adjust the LDO to the new constitutional rules, PLN no. 2 of 2022.

According to a Federal Senate briefing note[14] on PLN no. 2, the amendments include:

1. On court rulings and court-ordered debts:
   a. Provision for the expenses with court rulings and court-ordered debts to be subject to specific budgetary programming within the Federal Government's financial charges scope. This measure is essential, as it contributes to greater transparency of spending;

[14] Available at: https://bit.ly/3E07ATY.

   b. It confers to the Federal Budget Secretariat (SOF) the power to distribute among the planning and budgeting agencies the limit for the payment of the court-ordered debts in 2022. It is worth mentioning that this limit does not include that related to Fundef and the installment of large values;
   c. Adequacy of the rules for decentralization of appropriations destined to court-ordered debts payments to the sectorial planning and budgeting bodies of the Judiciary, present in articles 30 and 31 of the LDO, given the new provisions regarding the execution of these expenditures;
   d. Inclusion in the contingency reserve is the monetary correction of the court-ordered debts to be paid up to the limit.

1. Other provisions:
   a. Includes the monetary correction of the court-ordered debts to be paid up to the limit in the contingency reserve;
   b. Authorization for the Executive Branch to block discretionary budget appropriations on a proportional basis among primary balance identifiers;
   c. It waives the need to comply with budgetary and financial adequacy provisions in proposals related to reducing fuel taxes.

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**

TTABLE12. 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

IFI forecasts

									Forecasts		
	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	4.62	0.51	2.02	2.02
Nominal GDP (R$ billion)	5,779	5,996	6,269	6,585	7,004	7,389	7,468	8,679	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	10.06	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	5.58	5.71	5.57	5.30
Employment – growth (%)	1.32	-0.04	-2.01	0.32	1.73	2.23	-7.75	4.99	2.00	0.91	0.91
Payroll – growth (%)	3.69	-1.21	-3.37	1.99	3.29	2.73	-3.69	-2.36	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	6.39	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	-0.75	-0.64	-0.45	-0.29
of which Central Government	-0.41	-2.01	-2.57	-1.89	-1.72	-1.28	-10.06	0.41	-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	5.17	7.43	5.83	4.39
Nominal balance (% of GDP)	-5.95	-10.22	-8.98	-7.77	-6.96	-5.81	-13.60	4.42	-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	80.3	84.8	86.6	87.4

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