Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- Recent Covid-19 new cases bring additional uncertainty to 2022 GDP.
- December inflation remains above target and shows an overall price adjustments picture.
- According to Treasury and Siga Brasil, the central government is expected to have registered a primary deficit of R$ 38.2 billion in 2021.
- IFI expects to worsen the primary deficit in 2022, which should increase to R$ 106.2 billion.
- Economic activity estimates and terms of trade reversal indicate moderate revenue growth in 2022.
- Public sector interest expenditure grew 1.4 p.p. of GDP between June and November 2021.
- The court-ordered debts PEC approval worsened the fiscal picture for 2022.
- The budget approved by Congress was born under pressure to adjustments.

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Covering letter

The Fiscal Follow-Up Report is the IFI's main product. Published monthly, it provides analyses of the fiscal and economic environment and presents the institution's estimates for the main macro-fiscal variables. This month, RAF discusses the leading figures of the Annual Budget Law for 2022 and reassesses the balance of risks for the year.

In the Macroeconomic Context section, we assess that the risks to economic growth in 2022 have increased. As reported in the December 2021 RAF, our baseline scenario points to a growth rate of 0.5%. However, the resumption of the upward trajectory in the Covid-19 cases may hinder the recovery.

On the other hand, the extra expenses to be made in the year from the change in the spending ceiling and the limitation to the payment of court-ordered debts could affect demand. The IFI intends to estimate these effects on a technical note or the RAF itself. In any case, the uncertainties are high, and the low growth picture, below the potential estimated by the IFI, is unlikely to change during the year.

In the Fiscal Scenario section, we anticipated calculating the central government primary balance for December to reach the deficit for 2021. According to data collected from Siga Brasil and compiled by the IFI, the primary deficit should have closed last year at R$ 38.2 billion. The dynamics of tax collection, driven by persistently high inflation, is the primary vector behind these results.

The gross public debt, in turn, showed a drop in November, according to the latest data released by the Central Bank. However, the debt-to-GDP ratio should reach 82.1% and 84.8% in 2021 and 2022, reflecting the increase in the Selic rate and the average cost of public bonds. The average cost upward trend reflects the implicit interest rate evolution. IFI has warned that the risk of making the fiscal adjustment with inflation is known and materializes at some point. High inflation collaborates to increase nominal GDP and reduce the debt-to-GDP ratio, but rising interest rates erode these temporary gains.

In the Budget section, the Annual Budget Law is examined, especially from the point of view of the spending ceiling and the changes promoted by Constitutional Amendments no. 113 and 114, derived from the court-ordered debts PEC. Under the new rules, with the IPCA at 10.1% in 2021, the room for new spending will be R$112.6 billion in 2022. Part of the amount will be destined to the Auxílio Brasil, but a significant volume has been allocated to non-priority spendings, like the expansion of the electoral fund.

In addition, the changes in the ceiling rule will lead to the eventual need to correct the approved Budget. Since the IFI's role is also to watch over the fiscal framework and rules, it should be noted that the practices of the budget process have deteriorated exponentially, to the detriment of basic principles such as transparency. For our part, we will continue to promote alerts and analysis in this regard.

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Summary

- Activity data for Q4 2021 show that economic growth remains negative, reinforcing a picture of lower volume GDP growth for 2022. Despite the progress in vaccination, the Covid-19 new cases caused by the Omicron variant create additional uncertainties regarding this year's GDP performance. Consumer inflation, meanwhile, ended 2021 at 10.1%. December IPCA shows a scenario of widespread price readjustments, while expectations for 2022 remain above the target. The significant rise in the real interest rate, the decrease in energy prices, and the partial reversal of commodity prices are factors that should contribute to the disinflation process throughout 2022. **(Page7)**

- The IFI projects a worsening in the central government's primary deficit in 2022, which should increase to R$ 106.2 billion, up from around R$ 38.2 billion in 2021 (according to Siga Brasil data). The first factor behind this perspective is the more moderate primary revenue growth, especially in revenues collected by the RFB, due to the loss of strength of economic activity and a drop in terms of trade ratio. The second factor relates to the prospect of increases in primary expenditure made possible by Constitutional Amendments no. 113 and 114, which limited the payment of the court-ordered debts by the Federal Government and opened up space in the spending ceiling. The main risk associated with this scenario is creating or expanding new permanent primary expenses, such as adjusting to the civil service currently under discussion. **(Page 14)**

- According to information from the Central Bank, interest expenses for the public sector grew 1.4 p.p. of GDP between June and November 2021. This movement results from the monetary policy tightening promoted by the Central Bank to bring inflation to the center of the target and the more significant spread demanded by public debt securities buyers due to the increased uncertainties associated with the Federal government's fiscal situation. As a proportion of GDP, interest expenses will continue to rise in the coming months and may even reverse the current favorable trend in reducing the nominal public sector deficit. **(Page 24)**

- The approval of the court-ordered debts PEC (Constitutional Amendments no. 113 and 114) opened space for increased expenses and worsened the fiscal picture for 2022. The approved Budget now foresees a deficit of R$ 79.4 billion (0.8% of GDP). The deficit is larger than the government's initial forecast and is close to the IFI's projection of R$106.2 billion (1.1% of GDP). With high-interest rates and low growth, maintaining negative results will not be enough to stabilize the public debt. **(Page 28)**

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- The Budget was born under pressures for adjustments. There is overspending concerning the spending ceiling of R$ 1.8 billion in the Executive Branch, which should be corrected only in 2023. In the other Branches, the expenses did not accompany the limits increase and should change during the year. Besides, part of the requests sent by the Executive Branch to the PLOA General Rapporteur was not attended to, which should also generate an increase in expenses foreseen for 2022. **(Page 28)**

Table of contents

1. MACROECONOMIC CONTEXT

1.1 Economic activity

Consolidated activity indicator suggests a new contraction for fourth-quarter GDP. The Central Bank's Economic Activity Index (IBC-Br), which aggregates information from the GDP sectors on the supply side, advanced 0.7% from October to November on a seasonally adjusted basis (Table 1), influenced by the retail trade and services sectors. Due to the drops in the two previous months (-0.6% in September and -0.3% in October), the November result left a carry-over of -0.3% for the fourth quarter of 2021, suggesting a new GDP contraction in the period. If the index has zero growth in December, the quarter will shrink by 0.3%. According to IBGE, the GDP fell by 0.1% and 0.4% in the second and third quarters, in that order.

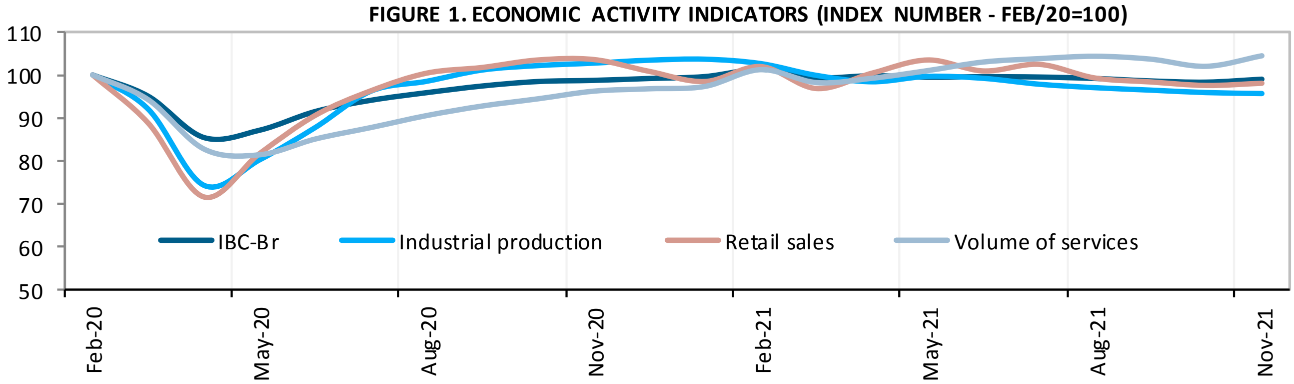
TABLE 1. ECONOMIC ACTIVITY INDICATORS

Indicators	Month x previous month (seasonally adjusted)			Quarter x last quarter (seasonally adjusted)			Carry-over
	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	2021.IV
Industrial production	-0.6%	-0.6%	-0.2%	-2.0%	-2.5%	-2.1%	-1.4%
Retail sales	-0.9%	-0.8%	0.5%	-1.5%	-3.8%	-2.9%	-2.1%
Volume of services	-0.6%	-1.6%	2.4%	2.8%	0.7%	-0.3%	-0.3%
Central Bank's Economic Activity Index (IBC-Br)	**-0.6%**	**-0.3%**	**0.7%**	**-0.5%**	**-0.8%**	**-0.8%**	**-0.3%**

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

Industrial production declines 0.2% between October and November, leaving a carry-over of -1.4% for the fourth quarter of 2021. According to the IBGE's Monthly Industrial Survey (PIM), overall industrial production decreased 0.2% from October to November (seasonally adjusted). Production fell for the sixth consecutive month, standing 4.3% lower than February 2020 (pre-pandemic). The November result left a carry-over of -1.4% for the fourth quarter of 2021. The production decline was concentrated in the capital goods category (-3.0%), while the production of intermediate goods (0.0%) and consumer goods (0.1%) was practically stable.

FIGURE 1. ECONOMIC ACTIVITY INDICATORS (INDEX NUMBER - FEB/20=100)



Source: IBGE. Prepared by: IFI.

Declines in confidence and the Nuci signal further weak production in December. The Industrial Confidence Index (ICI), released by the Getulio Vargas Foundation (FGV), dropped 2 points between November and December, from 102.1 to 100 points on a seasonally adjusted basis. The drop in the ICI reflected the worsening of its two components: the Expectations Index (IE) decreased 1.2 points from November to December, while the Current Situation Index (ISA) decreased 2.7 points. Additionally, the decrease in the Industry Installed Capacity Usage Level (Nuci) - from 80.7% to 79.7% in the same comparison - reinforces the still adverse scenario for production in December. The sector continues to be impacted by the difficulty in obtaining inputs and the high costs in some production chains.

On the other hand, the retail result in November was positive. The expanded retail concept, which includes vehicles and construction materials, grew 0.5% between October and November, considering the seasonally adjusted series from the Monthly Retail Trade Survey, after three consecutive months of decline (-3.1% in August, -0.9% in September, and -0.8% in October). Despite the growth in November, the expanded retail sales index is 1.9% below the pre-pandemic level (February 2020). As the month's advance was not enough to offset previous losses, the carry-over left for the fourth quarter is estimated at -2.1%.

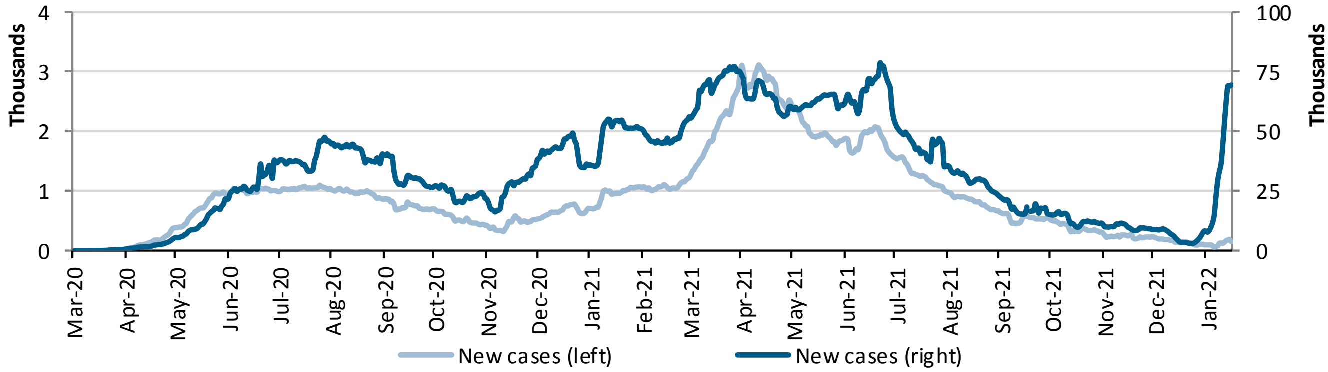
The consumer confidence level rose in December, driven by improved expectations for the coming months. According to FGV data, the Consumer Confidence Index (ICC) rose 0.6 points in December after having retreated 1.4 points in the previous month. While the evaluations about the current situation worsened in December (a drop of 1.3 points), expectations for the coming months rose (2.0 points) - a movement that may be associated with the effects of the Auxílio Brasil program, which started in November 2021 and will last until the end of 2022. Despite the boost in demand resulting from the fiscal expansion, the rise in interest rates, on the other hand, should act to contain the demand for goods that are more sensitive to credit.

The volume of services showed a variation of 2.4% between October and November in the seasonally adjusted series, according to data from the IBGE's Monthly Survey of Services (PMS). The sector's revenues improvement offset the losses recorded in October (-1.6%) and September (-0.6%). Still, the carry-over left for the fourth quarter is estimated at -0.3%. The volume of services advance followed the performance of household services (2.8%), information and communication services (5.4%), transportation (1.8%), and other services (2.9%), benefiting from the advance in mobility.

Services confidence recedes in December. FGV's Services Confidence Index (ICS) slipped from 96.8 to 95.5 points between November and December (a 1.3 point drop on a seasonally adjusted basis). The negative change in the ICS index reflected the worsening of its two components: the Expectations Index (EI) decreased 2.2 points from November to December, while the Current Situation Index (ISA) dropped 0.3 points in the same comparison.

The service sector has been gaining traction with the reopening of the economy. Despite the progress in vaccination, the recent increase in the number of Covid-19 new cases may slow, to some degree, the normalization of mobility and in-person activities, adding more uncertainty to the economy's growth over 2022. As seen in Figure 2, the moving average of cases, considering the last seven days ended January 16, reached 69,400, well above the 3,000 level (the lowest since April 2020) reached on December 24. The moving average of deaths, in turn, rose again at a more moderate pace.

FIGURE 2. NEW CASES AND NEW DEATHS (7-DAY MOVING AVERAGE)

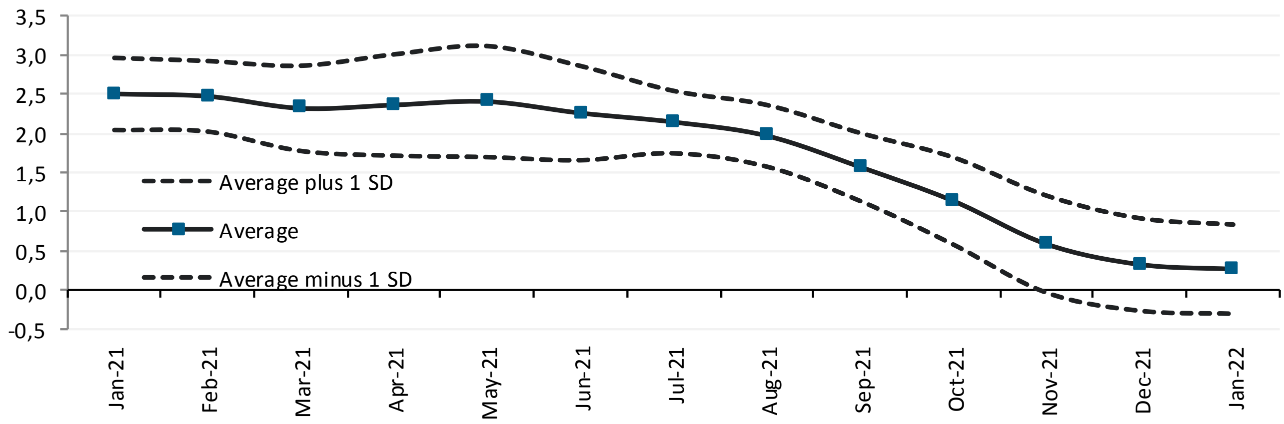


Source: Our World in Data. Prepared by: IFI.

The Focus survey's GDP growth average forecast in 2022 is 0.3%. Among the agents that registered their projections in the Central Bank's Focus survey, the perspective for the 2021 GDP reached 4.5% on January 14, slightly below the December level (4.6%). The average forecast for 2022 growth, in turn, stands at 0.3% (with a standard deviation range between -0.3% and 0.8%). The strong deceleration of the expected GDP growth rate in volume between 2021 and 2022 stems mainly from the economy's weak performance in the last quarter of 2021 (which reduces the influence of the carry-over) and the effect of the rise in the Selic rate on aggregate demand.

The effect on financial asset prices (risk premium, exchange rate, and interest rate) of the rise in interest rates in the United States - given the recent signals from the Federal Reserve about the monetary policy normalization - and the new wave of Covid-19, with the advancement of contagion by the Omicron variant, add more uncertainties to the performance of the economy in 2022. The new wave of contagion may hold back the normalization of in-person services and worsen the low dynamism of industry through the impact on global supply chains. These factors help explain the worsening growth outlook for this year (Figure 3).

FIGURE 3. MARKET FORECASTS - GDP (2022)

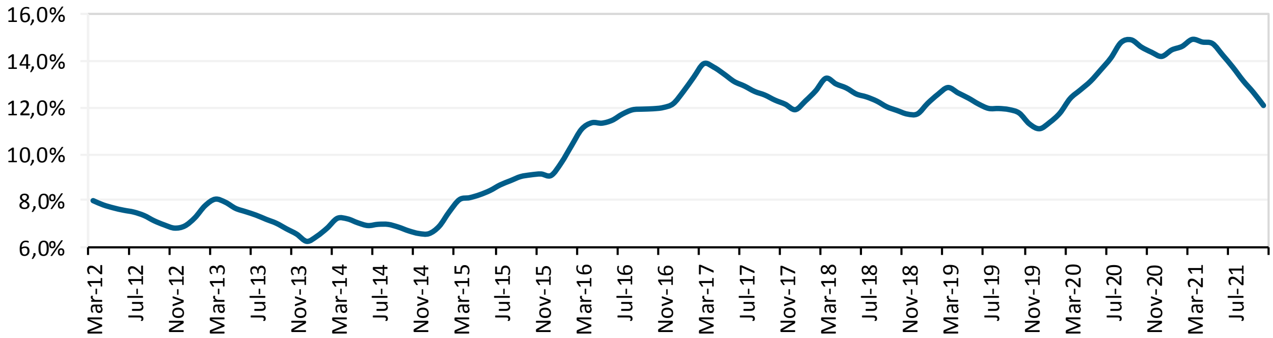


Source: Central Bank. Prepared by: IFI.

1.2 Labor market

The unemployment rate dropped compared to the same period last year. The unemployment rate measured by the Continuous National Household Sample Survey (Pnad Contínua) reached 12.1% of the total labor force in the quarter ended in October, down 2.5 percentage points (p.p.) in comparison with the same period a year earlier (14.6%). Despite the high number of unemployed people (12.9 million), the unemployment rate has been falling since July 2021 (Figure 4).

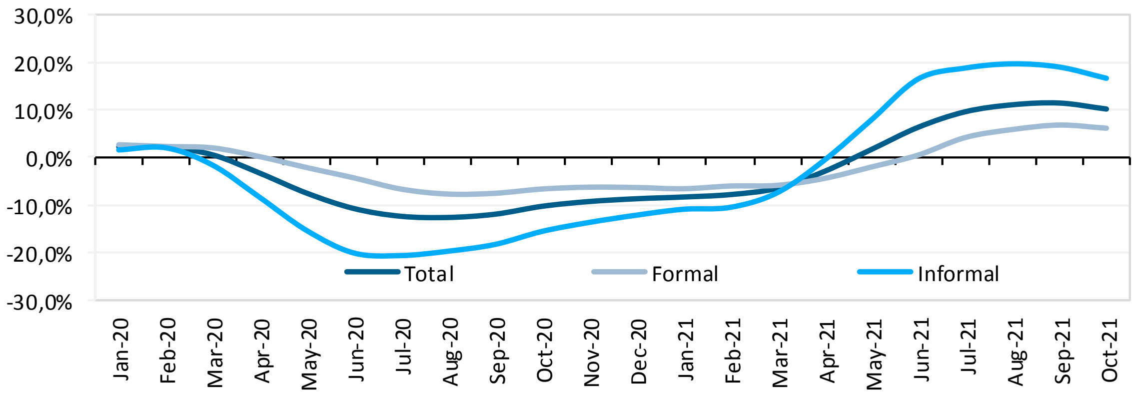
FIGURE 4. UNEMPLOYMENT RATE (% OF TOTAL LABOR FORCE)



Source: IBGE. Prepared by: IFI.

Even with people returning to the labor force, the increase in employment has reduced the unemployment rate. The reduction in the unemployment rate compared to the quarter ended in October of the previous year reflects the increase in the occupied population (10.2%), which exceeded the growth rate of the labor force (7.0%). The occupation continues to be driven mainly by the informal sectors, especially the number of people employed without a signed employment contract in the private sector (up 19.8% year-on-year), domestic workers without a labor contract (26.8%), and the self-employed (15.8%) - positions that are growing above total employment. Formal employment advanced at a more moderate pace (6.1%). In any case, it is worth noting that the impetus for hiring is slowing down in the annual comparison (Figure 5), a movement that may be associated with the weak performance of economic activity during the second half of 2021.

FIGURE 5. WORKING POPULATION (ANNUAL VARIATION %)



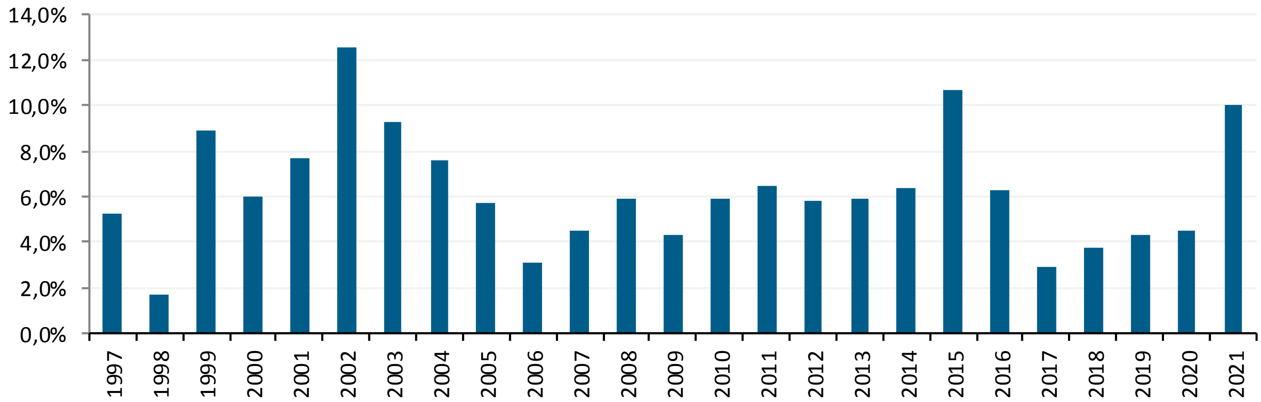
Source: IBGE. Prepared by: IFI.

The worsening of consumer inflation reduces the purchasing power of salaries. Also, according to data from PNAD Contínua, the average real income in the quarter ended in October dropped 11.1% compared to the same period last year, while the payroll indicator, the combination of income and the number of people employed, fell 1.9%. Besides the worsening 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 income trajectory. Despite the unemployment rate reduction in recent months, the fall in income and the payroll indicator act as a vector for reducing household consumption.

1.3 Inflation and monetary policy

Consumer inflation closed 2021 at 10.06%, above the upper limit of the inflation target. As measured by the IPCA, consumer inflation in December was 0.73%, below the November rate (0.95%). The accumulated rate over 12 months dropped from 10.74% in November to 10.06% in December (higher than the 10.4% projected by the IFI). However, it remained above the upper limit of 1.5 p.p. tolerance interval around the target (3.75%) set by the National Monetary Council (CMN) for 2021. As shown in Figure 6, the variation of the IPCA in 2021 is the third highest on a 25-year horizon, surpassing the previous year's result (4.52%).

FIGURE 6. IPCA - ANNUAL VARIATION (%)



Source: IBGE. Prepared by: IFI.

After the release of last year's inflation result, the Central Bank published an open letter[2] to the Minister of Economy (president of the CMN) detailing the reasons for the IPCA having exceeded the target in 2021, as well as the measures to ensure the return of inflation to the established limits in 2022. According to the document, the main factors that led inflation in 2021 to exceed the upper tolerance limit were: a) higher prices for tradable goods in local currency, especially commodity prices; b) electric power flags of water shortage; and c) imbalances between demand and supply of inputs and bottlenecks in global production chains.

[2] Available at: https://www.bcb.gov.br/content/controleinflacao/controleinflacao_docs/carta_aberta/OF_CIO_823_2022_BCB_SECRE_01.pdf

The predictive models[3] used by the Central Bank point out that "the main factor for the deviation of 6.31 p.p. of inflation from the target came from imported inflation, with a contribution of 4.38 p.p. (about 69% of the deviation). Opening this term, we highlight the contributions of 2.95 p.p. from oil prices, 0.71 p.p. from commodities in general, measured by the Commodities Index - Brazil (IC-Br), and 0.44 p.p. from the exchange rate".

As shown in Table 2, the factors mentioned above influenced the price variations of the IPCA components in 2021. In December, the administered prices, which account for approximately 25% of IPCA, dropped from 2.3% to 0.1%. The index, however, ended the year with an accumulated variation of 16.9%, well above the result for 2020 (2.6%). The acceleration in inflation of administered prices was mainly due to the price increases in gasoline (47.5%) - reflecting the depreciation in the exchange rate and the high cost of oil - and electricity (21.2%), driven by the tariff flags charges as a result of the lack of rainfall.

On the other hand, free prices rose 1.0% in December, above the November rate (0.5%). In 12 months, the variation of these prices rose from 7.8% to 7.7% (also surpassing the variation of the previous year, of 5.2%). The opening shows that the pressures came from: a) industrial prices - influenced by the rupture of productive chains; b) food prices, reflecting the high prices of international commodities in local currency; and c) services, which began to react to the decrease in social distancing and the reopening of the economy.

TABLE 2. IPCA: MONTH % CHANGE AND 12-MONTH

Consumer inflation	Month % change			12-month		
	Oct-21	Nov-21	Dec-21	Dec-19	Dec-20	Dec-21
IPCA	**1.3%**	**1.0%**	**0.7%**	**4.3%**	**4.5%**	**10.1%**
Administered prices	**1.4%**	**2.3%**	**0.1%**	**5.5%**	**2.6%**	**16.9%**
Free prices	**1.2%**	**0.5%**	**1.0%**	**3.9%**	**5.2%**	**7.7%**
Food	1.3%	0.0%	0.8%	7.8%	18.2%	8.2%
Services	1.0%	0.3%	0.8%	3.5%	1.7%	4.8%
Industrial	1.4%	1.0%	1.4%	1.7%	3.2%	12.0%
Inflation cores average	**1.0%**	**0.6%**	**0.9%**	**3.2%**	**2.8%**	**7.4%**

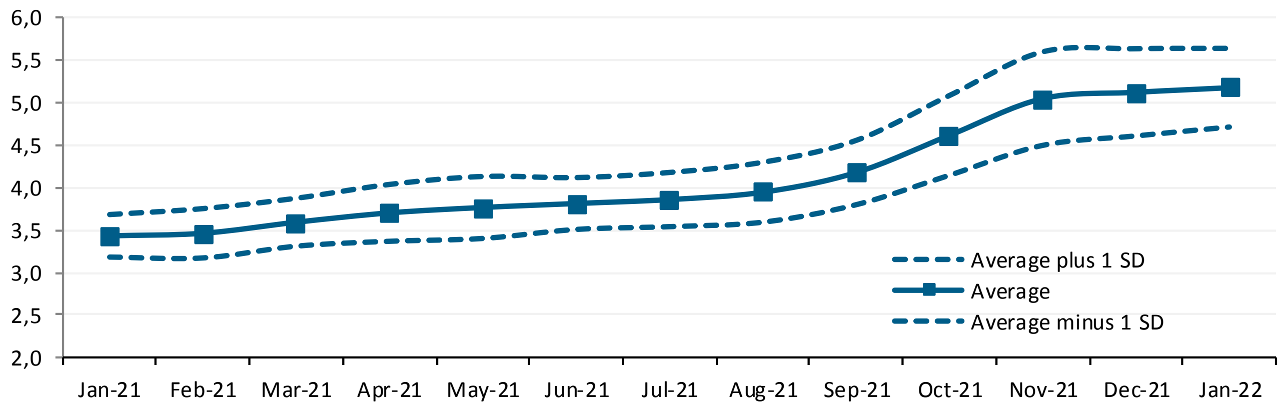
Source: IBGE and Central Bank. Prepared by: IFI.

The diffusion index and the cores' behavior reinforce the persistence of inflation. The IPCA diffusion index, a variable that indicates the share of IPCA sub-items with positive changes in the month, advanced from 63.1% in November to 74.8% in December, displaying a scenario of wide dissemination of price readjustments. Similarly, the average of the inflation cores constructed by the Central Bank (several measures that seek to exclude the influence of more volatile items from total inflation) rose from 0.61% in November to 0.90% in December (from 7.2% to 7.4% accumulated over 12 months, also above the target and the tolerance ceiling).

Inflation expectations for 2022 are above the target. According to the Focus survey, 2022 IPCA average forecast reached 5.2% on January 14 (range of one standard deviation between 4.7% and 5.6%), above what was expected in November (5.0%) and December (5.1%), and also above the target of 3.5% established for next year. The inertial effect of inflation for 2021 and the pressures on the risk premium and the exchange rate from the uncertainties related to the fiscal trajectory and the election period contribute to the maintenance of expectations at high levels.

[3] "Revisão do modelo agregado de pequeno porte" – Inflation Report (December 2021).

FIGURE 7. MARKET FORECASTS - IPCA (2022)



Source: Central Bank. Prepared by: IFI.

In the current monetary tightening cycle, the Selic rate has increased 725 basis points[4] to contain the advance of current inflation and expectations, rising from 2.0% in March to 9.25% by the end of 2021. Copom believes it is appropriate for the cycle of Selic to advance in a contractionary territory (above the neutral interest rate) and anticipates an adjustment of 1.5 p.p. in the February meeting. The median market expectation for the base interest rate at the end of 2022 was 11.75% p.a. in the week ended January 14, with new hikes expected for February (1.5 p.p.) and March (1.0 p.p.). The beginning of an interest rate tightening cycle by the Federal Reserve could affect financial conditions and the Central Bank's task of tame inflation - increasing the chances that the Selic will end the year at a higher level than forecast.

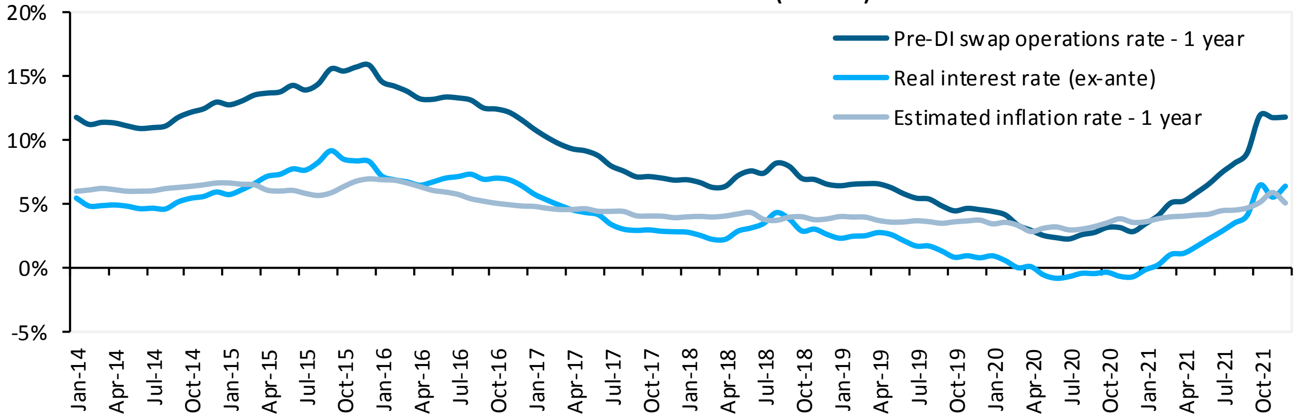
The current rise in the Selic rate and agents' expectations about the future trajectory affect the real interest rate level. The ex-ante rate, obtained based on the rate on pre-DI swap operations[5] for a one-year term, discounting inflation for the same period[6], reaching 6.4% in December (Figure 8) - higher than the neutral level (estimated at around 3.5%). The increase in the real interest rate (which acts to reduce demand), the decrease in energy prices, and the partial reversal of commodity prices are factors that contribute to the disinflation process throughout 2022.

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

[5] Reference rate of the swap contracts between DI and pre-fixed of 360 days: end of the period, obtained in Ipeadata.

[6] Projection of the IPCA 12 months ahead (smoothed) obtained in the Focus survey.

FIGURE 8. REAL INTEREST RATE (EX-ANTE)



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

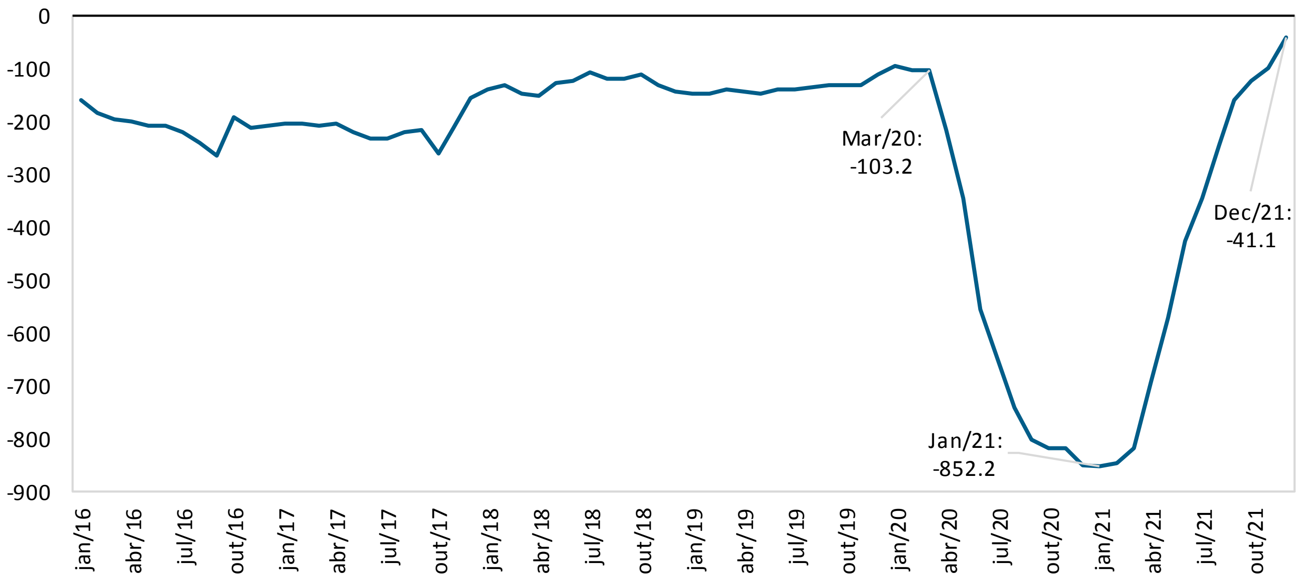
2. FISCAL SCENARIO

2.1 Balances of the Central Government and the Consolidated Public Sector

2.1.1 Central Government Primary Balance

The central government's primary deficit should have been R$ 38.2 billion last year. According to information gathered by the IFI in Siga Brasil of the Federal Senate, compiled with data released by the National Treasury Secretariat (STN), the central government should have registered a primary deficit of R$ 38.2 billion in 2021, in nominal values. This amount is lower than the IFI's projection for the indicator, updated in December, of a deficit of R$ 83.6 billion last year. The difference lies in a lower estimate made by the IFI for net primary revenue (around R$ 18 billion) and a higher projection for primary expenditure (around R$ 27 billion). Considering the series deflated at December 2021 prices, the primary deficit of the Federal Government should have been R$ 41.1 billion in 2021 (Figure 9).

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



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

The IFI's estimate for the Union's primary balance in 2022 is a deficit of R$ 106.2 billion. Figure 9 shows the reversal in the central government primary deficit throughout 2021 after the worsening caused by the emergence of the Covid-19 pandemic in March 2020. In that month, the Union's primary balance had been negative by R$ 103.2 billion, in constant December 2021 values. However, the trajectory is improbable to continue in 2022 due to the economic activity outlook ahead, which will affect the primary revenues dynamics and the possibility of an increase in primary expenditures. The IFI's projection for the primary balance in 2022 is a deficit of R$ 106.2 billion in nominal terms.

By way of comparison, the median of the estimates collected by the Monthly Report from Prisma Fiscal[7] of the Ministry of Economy, updated to January 2022, foresees a primary deficit of R$ 88.7 billion this year.

Higher primary expenditures and lower revenue growth will worsen the Union's primary balance in 2022. Essentially, the worsening in the primary balance estimated for 2022 is due to the increase in expenses made possible by enacting Constitutional Amendments (EC) no. 113 and 114[8] of 2021, which promoted changes in the spending ceiling rule and limited the annual expense of the Federal Government with the payment of the court-ordered debts. Additionally, the reduction in the pace of growth of primary revenues due to the slowdown in economic activity and the terms of trade relative worsening compared to 2021.

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[7] Available at: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2021/relatorio_mensal_dezembro_2021.pdf/view.

[8] Available at: http://www.planalto.gov.br/ccivil_03/constituicao/emendas/emc/emc113.htm and http://www.planalto.gov.br/ccivil_03/constituicao/Emendas/Emc/emc114.htm.

In the year to November, the primary deficit of the central government was R$ 49.3 billion. The STN will release the official fiscal statistics result for December at the end of January. According to the latest National Treasury Results Bulletin, which contains updated information until November 2021, the central government's primary deficit was R$ 49.3 billion (0.6% of GDP) in the accumulated 11 months of last year, against a deficit of R$ 699.1 billion (10.3% of GDP) in the same period in 2020.

In the 12 months ended in November, the central government's primary balance was negative by R$ 93.4 billion (1.1% of GDP), while in the same month of 2020, the deficit was R$ 713.8 billion (9.6% of GDP).

Growth in primary revenues and a reduction in pandemic expenditures have improved the trajectory of the primary balance in 2021. The reversal of the central government's primary deficit in 2021, compared to 2020, occurred due to the growth of revenues and the reduction of expenses, especially those aimed at combating the economic and social effects of the pandemic. The boost in revenues reflected the tax bases increase due to the resumption of economic activity as of the second half of 2020, the terms of trade ratio[9] improvement, the exchange rate depreciation, and inflation. Combining these factors raises nominal GDP and, consequently, primary revenues.

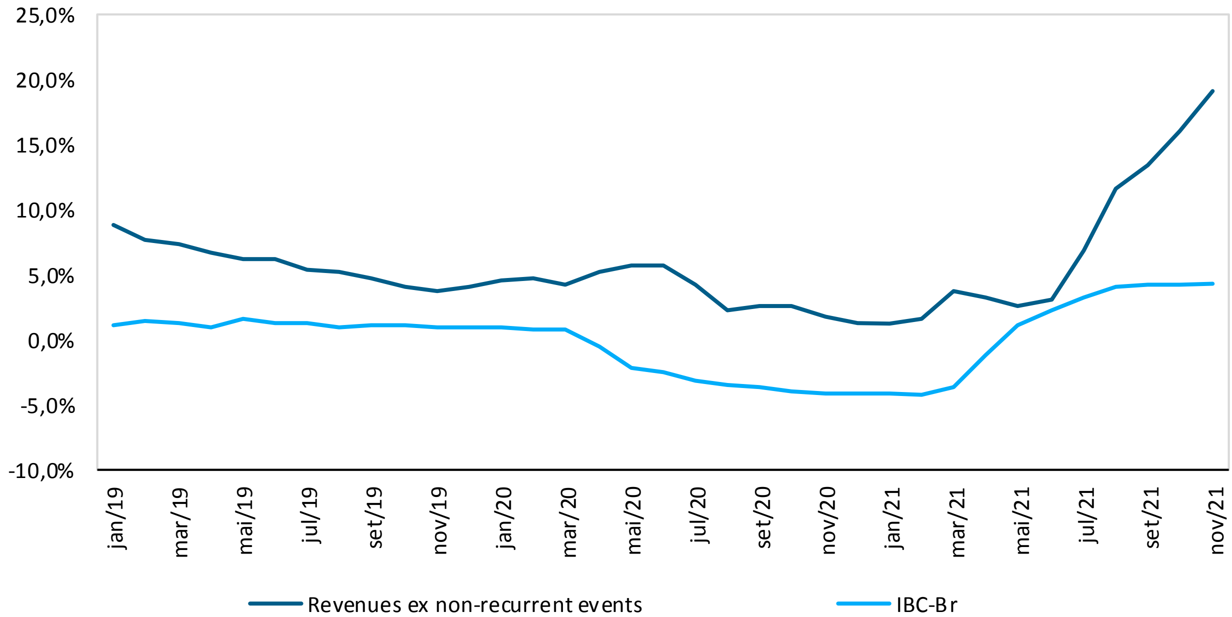
The two charts below link revenues collected by the RFB growth to economic activity and the Brazilian economy's terms of trade. Based on the evolution of the indicators over 12 months, they display the increase in the federal taxes calculation bases and the consequent increase in tax collection. Finally, it is worth mentioning that some non-recurrent events were discounted from the primary revenue series, as described below.

Throughout 2021, the revenue collected by the RFB growth rate was higher than that of the Central Bank's economic activity indicator. Figure 10 shows the 12-month variation rate of the central government's revenues collected by the RFB, which are more sensitive to economic activity, in nominal values and free of the effects of some non-recurrent events[10], and the IBC-Br, an economic activity indicator calculated by the Central Bank. The behavior of the series indicates the influence of the resumption of economic activity for revenues, primarily until August 2021. While revenues grew 11.7% in nominal terms until that month, the economic activity indicator increased 4.0%. In September, October, and November, the IBC-Br grew, on this basis of comparison, 4.1%, 4.2%, and 4.3%, respectively, while the pace of increase in revenues continued to climb until November.

[9] Terms of trade are defined as the ratio between a country's export prices and its import prices. An improvement in the terms of trade ratio indicates that the export prices of a country's trade mix are growing more than the import prices.

[10] The non-recurrent events are described in the IFI's Special Study (EE) no. 17, December 2021, which presents and discusses the central government's structural balance. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/594656/EE17_Resultado_Estrutural.pdf.

FIGURE 10. THE 12-MONTH CHANGE IN CENTRAL GOVERNMENT REVENUES COLLECTED BY THE RFB, EXCLUDING NON-RECURRENT EVENTS, AND IN NOMINAL TERMS, AND THE IBC-BR

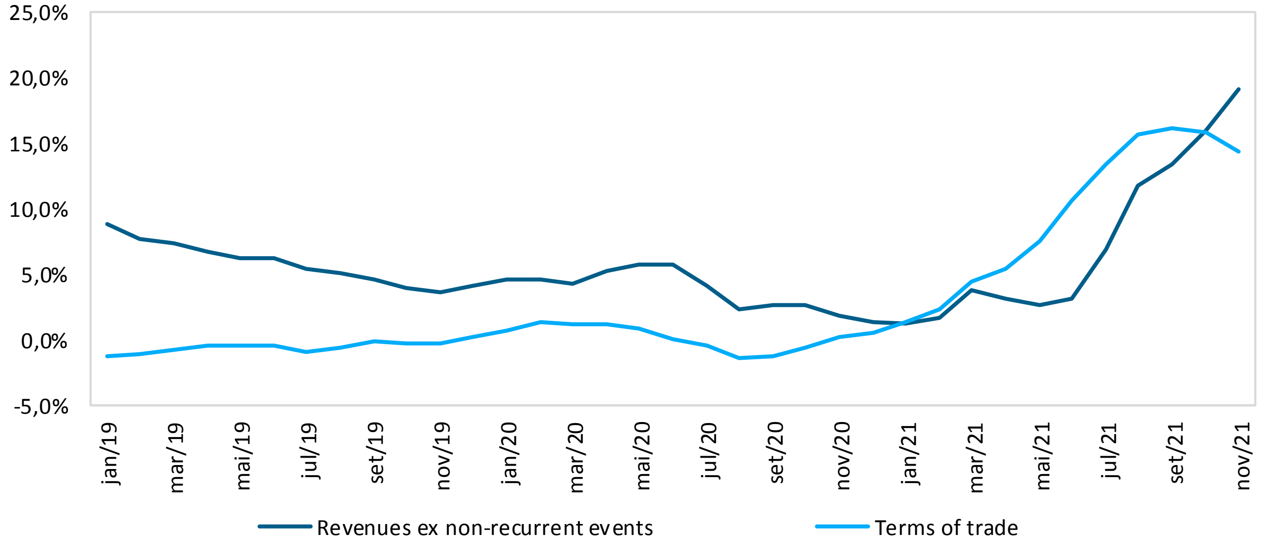


Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

Tax collection in 2021 reflected the terms of trade ratio improvement. Figure 11 compares the evolution of revenues collected by the RFB over 12 months, discounting the non-recurrent events mentioned, with the Brazilian economy terms of trade ratio. The terms of trade ratio increase as of the end of 2020 reflected the higher prices in the international market of some of the major products exported by Brazil, such as iron ore and soybeans. In the comparison in 12 months, the terms of trade ratio rose from 1.4% in January last year to 16.1% in September. From then on, there was a deceleration in the indicator. In November, the last month with available information, the variation in 12 months for this indicator had dropped to 14.3%.

The terms of trade are the relationship between the export prices and the import prices. All other things being equal, they increase a country's income, allowing, for example, an increase in the volume of imports for the same level of exports. The rise in income, in turn, generates an increasing multiplier effect by stimulating other productive activities. This increase in income also allows governments to collect more taxes on consumption, such as PIS/COFINS, ICMS, and ISS, and taxes on imports, such as the import tax and PIS/COFINS-Import.

FIGURE 10. THE 12-MONTH CHANGE IN CENTRAL GOVERNMENT REVENUES COLLECTED BY THE RFB, EXCLUDING NON-RECURRENT EVENTS, AND IN NOMINAL TERMS, AND TERMS OF TRADE



Source: National Treasury Secretariat and Funcex. Prepared by: IFI.

The increase in the central government's revenues collected by the RFB is expected to slow over 2022. The analysis shown in Figures 10 and 11 indicates the influence of economic activity and the terms of trade ratio on tax collection in 2021. However, considering the economic activity evolution since the second quarter and the terms of trade ratio as of September, there should be a loss of momentum in revenue growth throughout 2022. By way of illustration, according to the IBGE, the GDP registered drops of 0.3% and 0.1% in the second and third quarters of last year, in this order, in the seasonally adjusted quarterly comparison. In the last revision of scenarios carried out by IFI last December, the projection of a high GDP was revised to 0.5% this year (against 1.7% projected in the previous revision, in October).

IFI expects a 5.9% increase in total Federal primary revenue this year to R$ 2,019.2 billion. The IFI's projection for the central government total primary revenue in 2022 is a nominal increase of 5.9%, to R$ 2,019.2 billion, against a variation of 30% to be verified in 2021 (R$ 1,905.9 billion). Regarding revenues collected by the RFB, the expectation is to increase 9.4% in 2022 (R$ 1,293.2 billion), after a 31.4% increase to be confirmed last year (R$ 1,182.3 billion).

Between January and November 2021, the total primary revenue of the central government grew 21.9% in real terms. In the accumulated 11 months of 2021, primary revenue totaled R$ 1,720.8 billion (21.7% of GDP), an increase of 21.9% in real terms over the amount calculated for the same period in 2020. Of this amount, R$1,080.8 billion (13.7% of GDP) were revenues collected by the RFB, except those from the General Regime of Social Security (RGPS), with an increase of 23.6% in real terms compared to 2020. RGPS revenues, at R$398.7 billion (5.0% of GDP) in the period, grew 6.1% on this basis of comparison. Finally, revenues not collected by the RFB totaled R$ 241.4 billion (3.0% of GDP), up 49.6% compared to the first 11 months of 2020 in real terms (Table 3).

The depressed comparison base of the second quarter of 2020 contributed to the increase in the collection in 2021. Besides the factors previously mentioned that influence the tax collection dynamics, the depressed comparison basis of the second quarter of 2020 also influences the high rates of increase in revenues in 2021, given the postponement of the collection of some taxes (PIS/COFINS and employer's contribution to social security), the reduction to zero of the IOF rates on credit operations by the government and the drop in tax collection due to the paralysis of economic activity during the first months of the pandemic in 2020.

TABLE 3. CENTRAL GOVERNMENT'S REVENUES – 2019-2021 – JAN. TO NOV. (R$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Nov/19			Jan-Nov/20			Jan-Nov/21		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total Revenue	**1,401.5**	**0.6%**	**20.7%**	**1,306.3**	**-9.7%**	**19.3%**	**1,720.8**	**21.9%**	**21.7%**
Revenues Collected by RFB, except RGPS	*864.2*	*0.7%*	*12.8%*	*809.7*	*-9.3%*	*11.9%*	*1,080.8*	*23.6%*	*13.7%*
Fiscal Incentives	*0.0*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*
RGPS Revenues	*358.9*	*2.5%*	*5.3%*	*347.7*	*-6.2%*	*5.1%*	*398.7*	*6.1%*	*5.0%*
Revenues not Collected by RFB	*178.4*	*-3.7%*	*2.6%*	*148.9*	*-19.0%*	*2.2%*	*241.4*	*49.6%*	*3.0%*
Transfers	**247.0**	**4.1%**	**3.7%**	**234.0**	**-8.2%**	**3.4%**	**315.6**	**24.8%**	**4.0%**
Net Revenue	**1,154.5**	**-0.1%**	**17.1%**	**1,072.3**	**-10.0%**	**15.8%**	**1,405.2**	**21.3%**	**17.7%**
Total revenue without non-recurrent events*	**1,356.6**	**0.8%**	**20.1%**	**1,336.7**	**-4.5%**	**19.7%**	**1,651.4**	**14.3%**	**20.9%**
Net revenue without non-recurrent events*	**1,109.5**	**0.1%**	**16.4%**	**1,102.7**	**-3.6%**	**16.3%**	**1,335.8**	**12.1%**	**16.9%**
GDP (R$ billion current)			**6,755.3**			**6,782.1**			**7,917.6**

** The non-recurrent events consist of R$70 billion received from the review of the pre-salt onerous transfer contract (December 2019), removed from the series, and the deferred and paid taxes, added and paid, respectively, in 2020 and 2021.*

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

In the absence of some non-recurrent events, the increase in the Federal Government's primary revenue would have been 22.1%, in real terms, in the year to November 2021. Total primary revenue discounting non-recurrent events would have registered an increase of 14.3%, in real terms, in the accumulated 11 months in 2021 (against 21.9% of the total revenue realized). Net revenue, in turn, would have expanded 12.1% on this basis of comparison (compared to 21.3% of net revenue observed).

The 24.8% increase in the Union's transfers to the subnational entities, accumulated from January to November 2021, resulted from the collection of shared taxes. The transfers to states and municipalities grew 24.8% in real terms between January and November 2021, reaching R$ 315.5 billion. This result derives from the strong growth in the collection of taxes shared by the Union with the subnational entities, such as the tax on industrialized products (IPI) and income tax (IR), as well as other revenues, such as the exploitation of natural resources (Table 3).

The Union's primary expenditure was R$1,454.5 billion in the year to November, a 24.1% drop in real terms. We now analyze the central government's primary expenditure, which totaled R$1,454.5 billion (18.4% of GDP) in the accumulated 11 months of 2021, R$316.9 billion below the expenditure in the same period 2020, a 24.1% retraction in real terms (Table 4).

Almost all of the main groups of expenditure fell throughout 2021. Between January and November, most of the main expense groups registered a drop or stability, in real terms, compared to 2020: (i) social security benefits under the RGPS (R$ 654.0 billion and reduction of 1.1%); personnel and social charges (R$ 294.1 billion and decrease of

5.1%); (iii) Salary allowance and unemployment insurance (R$ 42.7 billion), with reduction of 27.8% compared to 2020; (iv) Continuous Cash Benefit (BPC), with R$ 62.0 billion and stability; (v) extraordinary credits (except PAC), of R$ 112.2 billion (compared to R$ 396.3 billion between January and November 2020); (vi) compensation to the RGPS for payroll tax exemption (R$ 6.8 billion and an actual decrease of 28.1%); (vii) subsidies, grants and Proagro (Agricultural Activity Guarantee Program), with an amount of R$6.2 billion and an actual reduction of 70.4%; and (viii) discretionary, which reached R$95.9 billion and suffered an actual drop of 0.5% (Table 4).

TABLE 4. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – 2019-2021– JAN. TO NOV. (R$ B CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Nov/19			Jan-Nov/20			Jan-Nov/21		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total Expenditure	**1,234.9**	**-1.0%**	**18.3%**	**1,771.4**	**39.3%**	**26.1%**	**1,454.5**	**-24.1%**	**18.4%**
Social Security Benefits (RGPS)	*560.0*	*3.1%*	*8.3%*	*611.5*	*6.0%*	*9.0%*	*654.0*	*-1.1%*	*8.3%*
Personnel expenses (working and retired employees)	*278.7*	*1.1%*	*4.1%*	*286.6*	*-0.2%*	*4.2%*	*294.1*	*-5.1%*	*3.7%*
Salary allowance and unemployment insurance	*50.8*	*-0.6%*	*0.8%*	*55.1*	*5.2%*	*0.8%*	*42.7*	*-27.8%*	*0.5%*
Continuous Cash Benefit (BPC)	*54.8*	*2.9%*	*0.8%*	*57.4*	*1.5%*	*0.8%*	*62.0*	*0.0%*	*0.8%*
Extraordinary Credits (except PAC)	*3.1*	*-31.4%*	*0.0%*	*396.3*	*12063.3%*	*5.8%*	*112.2*	*-74.0%*	*1.4%*
Compensation to RGPS for Exemption of Payroll Taxes	*9.5*	*-27.3%*	*0.1%*	*8.8*	*-10.7%*	*0.1%*	*6.8*	*-28.1%*	*0.1%*
Fundeb	*13.9*	*4.3%*	*0.2%*	*14.3*	*-0.4%*	*0.2%*	*19.5*	*25.7%*	*0.2%*
Court Rulings and Court-Ordered Debts (current and capital expenditure)	*15.2*	*5.7%*	*0.2%*	*22.5*	*45.0%*	*0.3%*	*18.5*	*-24.1%*	*0.2%*
Subsidies, Grants, and Proagro	*10.2*	*-28.4%*	*0.2%*	*19.2*	*84.1%*	*0.3%*	*6.2*	*-70.4%*	*0.1%*
Mandatory Expenditure	**1,141.9**	**0.4%**	**16.9%**	**1,683.0**	**43.1%**	**24.8%**	**1,358.6**	**-25.4%**	**17.2%**
Mandatory Spending with Flow Control	***125.1***	***-2.2%***	***1.9%***	***117.0***	***-9.3%***	***1.7%***	***126.0***	***-0.3%***	***1.6%***
Discretionary	**93.0**	**-15.6%**	**1.4%**	**88.5**	**-7.6%**	**1.3%**	**95.9**	**-0.5%**	**1.2%**
Total Expenditure without non-recurrent events	**1,234.9**	**-1.0%**	**18.3%**	**1,264.8**	**-0.6%**	**18.6%**	**1,340.5**	**-2.0%**	**16.9%**
GDP (R$ billion current)			**6,755.3**			**6,782.1**			**7,917.6**

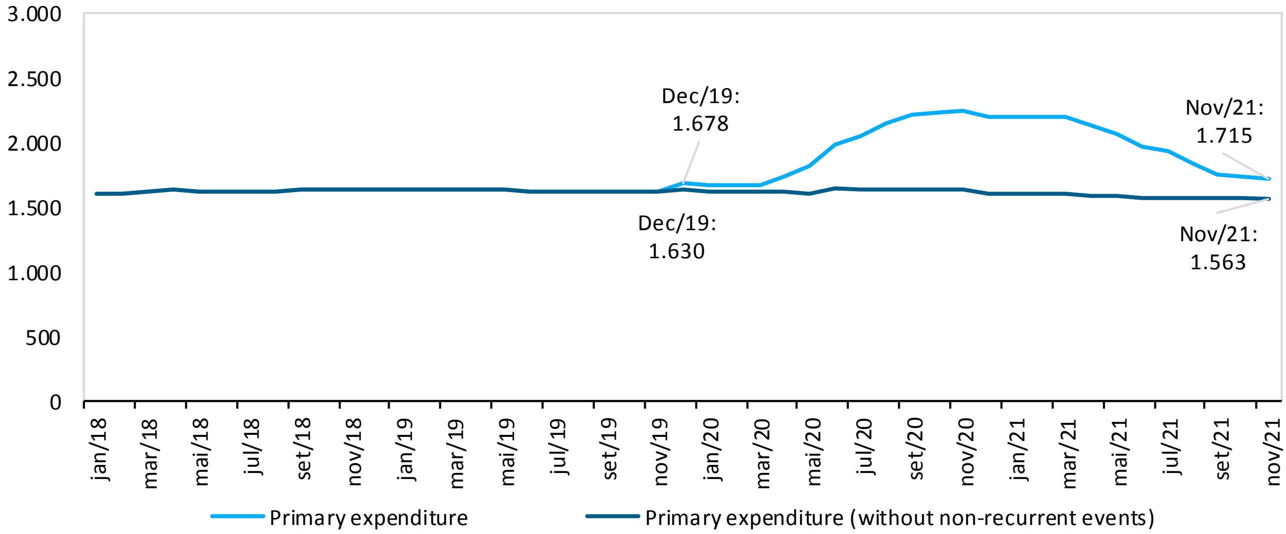
Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

Expenses execution reduction through extraordinary credits corresponded to 89.6% of the fall in the Union's primary expenditure in the first 11 months of 2021. Of the R$ 316.9 billion reductions in total primary expenditure in the year to November 2021 compared to the previous year, R$ 284.1 billion (89.6% of the total) corresponded to the decrease in expenditure executed via extraordinary credits (Table 4). Many expenses carried out in 2020 to combat the effects of the pandemic are classified under this heading. The social security benefits and personnel expenditures contractions also contributed to the relative control of the Union's primary expenditure in 2021.

Isolating some non-recurrent events on primary expenditures, the drop in the indicator would have been 2.0%, in real terms, in the accumulated 2021 through November. Table 4 also presents information relative to total primary expenditure without non-recurrent events, according to the methodology presented in the IFI Special Study no.17 of 2021. In the accumulated 2021 through November, the recalculated primary expenditure decreased 2.0% in real terms (against 24.1% of the total observed primary expenditure).

In the absence of non-recurrent factors, the Union's primary expenditure remained relatively under control until November 2021. Figure 12 presents the evolution in 12 months of total realized primary expenditure and the expenditure series recalculated by the IFI to isolate the effects of the non-recurrent events mentioned above. At constant November 2021 prices, total primary expenditure reached R$ 1,715 billion in the 12-month accumulated until November, while expenditure without the non-recurrent events totaled R$ 1,563 billion. The expenditure curve discounted from the non-recurrent events shows that primary expenditure remains relatively under control.

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

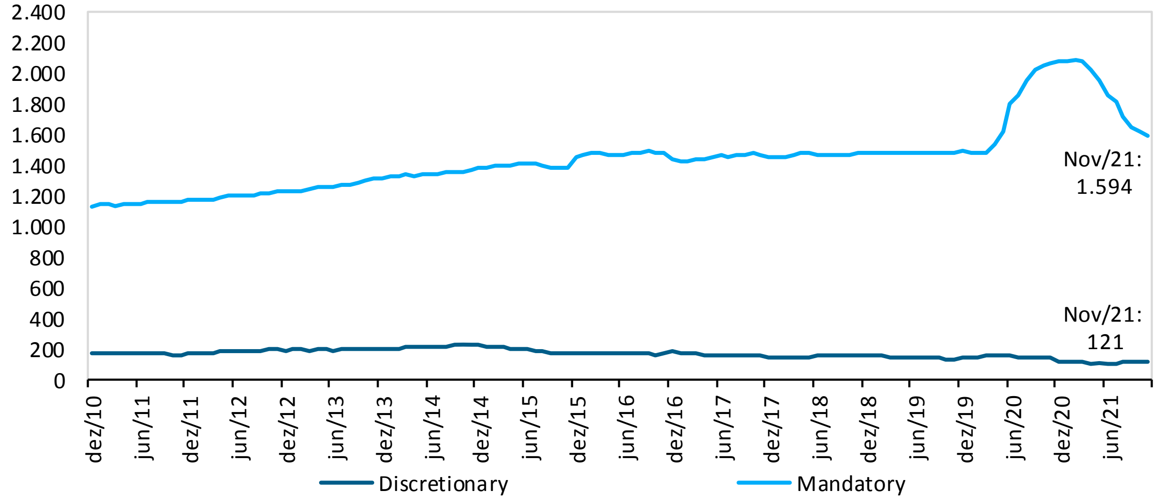


Source: National Treasury Secretariat. Prepared by: IFI.

The reduction in spending to mitigate the effects of the pandemic decompressed primary expenditures throughout 2021. Figure 13 shows the worsening of the central government expenses trajectory as of April 2020, considering the 12-month series of mandatory and discretionary indicators and the reversal of these expenses throughout 2021. In March of that year, mandatory expenses totaled R$ 1,476 billion (at November 2021 prices), which rose to R$ 2,086 billion in February 2021 and fell back to R$ 1,594 billion last November. This series includes expenses aimed at mitigating the effects of Covid-19. The reduction seen as of March 2021 is related to the drop in pandemic expenditures.

Until November 2021, discretionary spending remained at a historically low level. Discretionary spending is presented (Figure 13) disregarding the effects of the capitalization of Petrobras (R$ 42.9 billion), in September 2010, on the occasion of the signing of the onerous transfer contract, and the payment made to the company (R$ 34.4 billion), in December 2019, due to the revision of the agreement. At November 2021 prices, the two sums correspond to R$ 83.4 billion and R$ 39.3 billion, respectively.

FIGURE 13. 12-MONTH ACCUMULATED DISCRETIONARY AND MANDATORY EXPENSES (R$ BILLION - NOV/21 PRICES)



Source: National Treasury Secretariat. Prepared by: IFI.

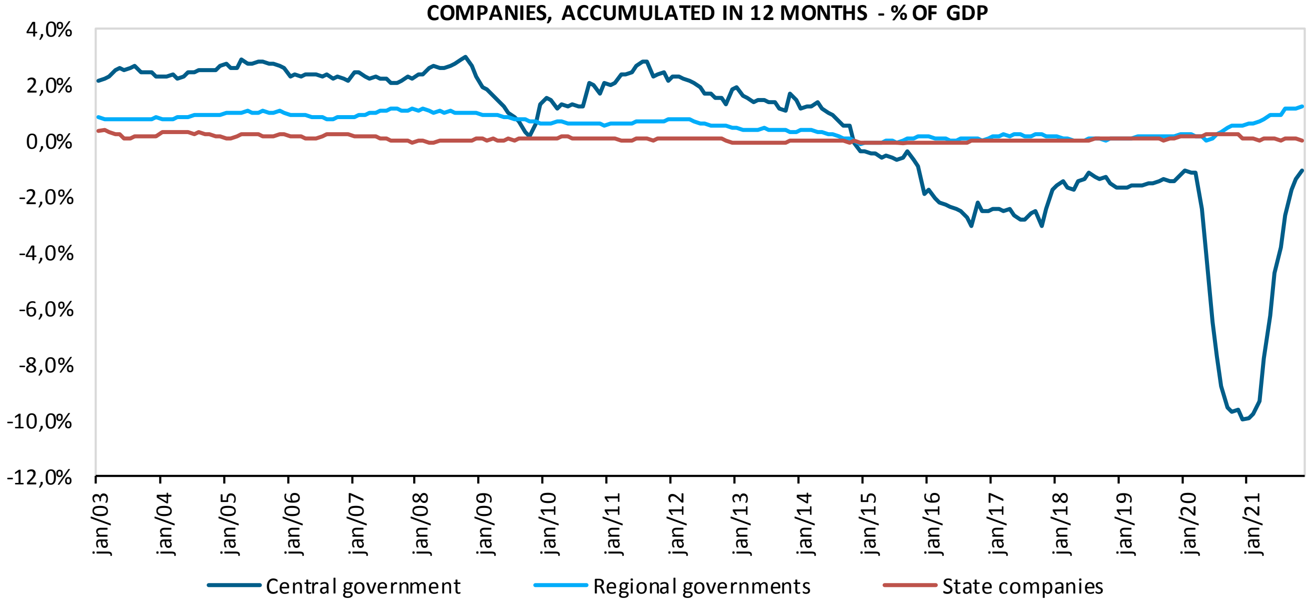
2.1.2 Balance of the Consolidated Public Sector

Subnational entities' primary balance made a relevant contribution to the consolidated public sector's primary surplus of 0.8% of GDP in the year to November 2021. According to information from the Central Bank, whose statistics are obtained by the below-the-line transactions, the consolidated public sector had a primary surplus of R$64.6 billion (0.8% of GDP) in the 11-month accumulated in 2021. The main influence factor came from the states and municipalities, which had a positive primary balance of R$ 110.5 billion (1.4% of GDP) in the period. State companies (at all three levels of government) also reported a primary surplus between January and November of R$ 3.9 billion (0.05% of GDP). Meanwhile, the central government reported a primary deficit of 0.6% of GDP in the year to November, the equivalent of R$ 49.8 billion.

The positive subnational entities' primary balance in 2021 can be attributed to a few factors: (i) collection grew 15.1% (real terms) in the year to November; (ii) transfers from the Union had a substantial expansion; (iii) there was an increase in the participation of ICMS active debt and ICMS on oil, fuels, and lubricants; (iv) expenses remained relatively controlled due to the absence of wage adjustment for civil servants; and (v) there was an inflow of some non-tax receipts, such as the concession of CEDAE in Rio de Janeiro.

In the 12 months ended in November, the public sector primary balance was positive at R$12.8 billion, or 0.1% of GDP. In the 12 months ended in November, the consolidated public sector had a primary surplus of R$ 12.8 billion (0.1% of GDP). The subnational entities contributed to a positive result of 1.2% of GDP or R$ 104.6 billion. In comparison, state companies reported a R$ 2.6 billion surplus (0.03% of GDP) and the central government a R$ 94.5 billion deficit (1.1% of GDP). These trajectories are shown in Figure 14.

FIGURE 14. PRIMARY BALANCE OF THE CENTRAL GOVERNMENT, REGIONAL GOVERNMENTS, AND STATE COMPANIES, ACCUMULATED IN 12 MONTHS - % OF GDP



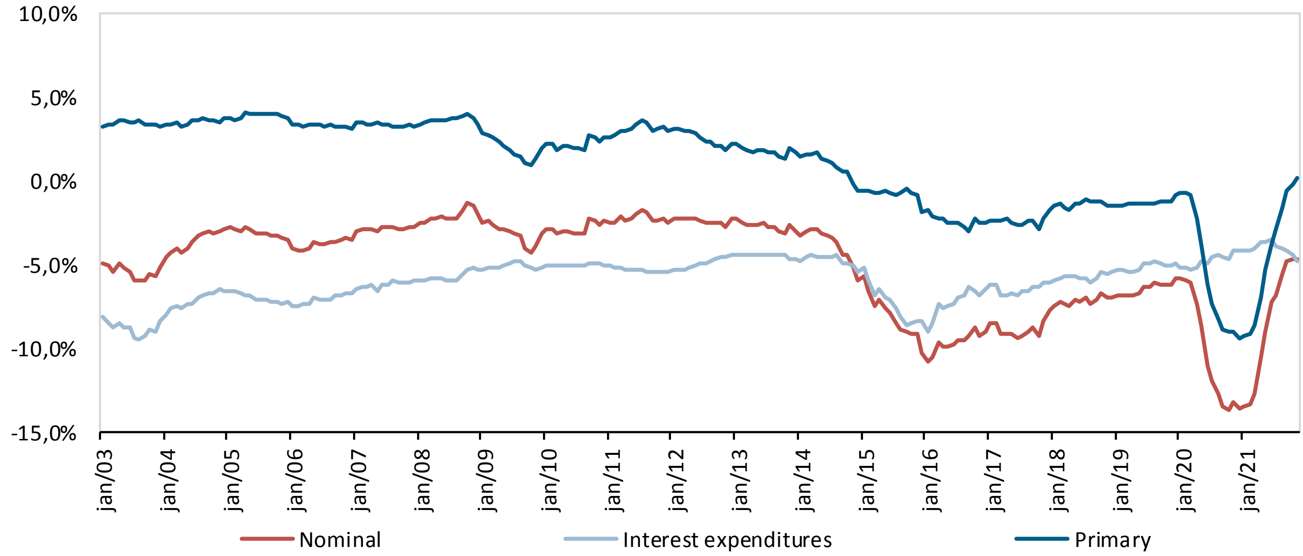
Source: Central Bank. Prepared by: IFI.

From January to November 2021, the public sector nominal deficit was 4.2% of GDP, or R$ 329.4 billion, determined by interest expenses. Considering the public sector nominal result, which includes, besides the primary result, interest payments on public debt, there was a deficit of R$ 329.4 billion (4.2% of the GDP) in the first 11 months of 2021. As mentioned above, the primary balance was positive at R$ 64.6 billion, while interest payments accounted for R$ 394.0 billion (5.0% of GDP) in the period.

In the 12 months through November, the public sector nominal deficit was 4.7% of GDP, influenced by interest expenses of 4.9% of GDP. Figure 15 shows the 12-month trajectory concerning the consolidated public sector's nominal, primary, and interest payment results. The nominal deficit stood at R$ 405.2 billion (4.7% of GDP). Interest payments accounted for 4.9% of GDP, or R$418.0 billion, while the primary surplus totaled R$ 12.8 billion (0.1% of GDP).

The primary result improvement in 2021 will allow the public sector nominal result to grow 8.5 p.p. of GDP compared to 2020. Also, the public sector nominal result improved by 8.5 p.p. between 2020 and 2021, mainly driven by the primary balance (from -9.0% to 0.1% of GDP).

FIGURE 15. 12-MONTH ACCUMULATED PRIMARY AND NOMINAL BALANCES AND INTEREST EXPENDITURES (% OF GDP) OF THE CONSOLIDATED PUBLIC SECTOR



Source: Central Bank. Prepared by: IFI.

Public sector interest expenses rose by 1.4 p.p. of GDP between July and November 2021. As mentioned in previous editions of this RAF, it is worth emphasizing the public sector interest expenses growth since last July. Over 12 months, the indicator rose from 3.5% of GDP in June to 3.9% in July, 4.2% in September, and 4.9% in November. In other words, between June and November 2021, there was an increase of 1.4 p.p. of GDP in this indicator.

The continued rise in interest expenses could reverse the current downward trend in the public sector nominal deficit. The outlook is for new increases in interest expenses in the coming months due to the rise in the Selic rate, which affects the public bonds' remuneration. There is also the possibility that any increases in this expense could reverse the improvement registered so far in the nominal public sector balance, requiring the government to make a more significant effort to generate primary surpluses to offset this movement. The enactment of ECs no. 113 and 114 of 2021, which allowed the payment in installments of court-ordered debts and opened space in the spending ceiling to execute new primary expenses, represents a challenge for the fiscal authority in this regard.

2.1.3 Evolution of Public Sector Indebtedness Indicators

There was an increase in country risk premiums from mid-2021 onwards, with stabilization at higher levels in the recent period. In recent months, the IFI has emphasized that the economic environment of relatively high inflation and rising interest rates may increase the challenges for the National Treasury in managing public debt. Brazil's risk premiums started to rise from June, from a level of 260 points to 370 points in November, having retreated to about 330 points between the end of December and the first half of January 2022. The yield curve embeds expectations of double-digit interest rates in the vertices over 42 days and up to 2,520 days.

The possibility of raising permanent primary expenditures increases uncertainties regarding the fiscal framework. Everything indicates that uncertainties regarding the dynamics of inflation and the fiscal consolidation of the Federal Government will continue to be present throughout 2022. These uncertainties may bring volatility to asset prices and risk premiums, increasing the challenges to public debt management. The risk associated with the possibility of permanent increases in primary expenditures will continue to be monitored by the IFI.

DPMFi stock rose R$ 126.8 billion from October to November due to an increase in the stock of floating-rate and inflation-linked securities, as well as fixed-rate securities. The Federal Domestic Public Debt (DPMFi) rose from R$ 5,105.7 billion in October to R$ 5,232.5 billion in November, an increase of R$ 126.8 billion, according to the STN's Monthly Debt Report. The most significant contribution to this result came from the growth in floating-rate securities, which rose R$ 75.3 billion between October and November. There were also increases in fixed-rate and price-indexed securities in the period.

In November, the net issuance of DPMFi totaled R$ 85.0 billion. In November, the total net issuance of DPMFi was positive in R$ 85.0 billion, meaning that issuances surpassed redemptions in this amount. There were net issuances of R$ 64.2 billion in floating-rate securities and R$ 19.2 billion in fixed-rate securities. This predominance of floating-rate securities issuance reflects an increase in the perception of risk by buyers of public debt securities, as well as an increase in the Selic rate.

The liquidity reserve of the public debt rose from R$ 1,011 billion in October to R$ 1,097 billion in November. Also, according to the Treasury, the liquidity reserve of the public debt was R$ 1,097 billion in November, higher than the R$ 1,011 billion recorded in October. Over the next 12 months, the DPMFi will mature at R$ 1,155 billion.

There was a slight reduction in the average issue rates of some DPMFi bonds in November compared to October. For 24-month fixed-rate bonds, the rates fell from 12.35% per year to 11.98% per year. In the case of 48-month fixed-rate bonds, there was a reduction from 12.24% per year in October to 11.62% in November. This drop in the average issue rates of fixed-rate securities interrupted a sequence of hikes compared to the previous month, which, however, does not mean an improvement in the risk perception of agents regarding the Federal government's fiscal situation.

In December, average auction rates for DPMFi bonds dropped compared to November. Information gathered by the IFI regarding auctions held by the Treasury[11] indicates a drop in the DMPFi auctions in December. For example, the rates for fixed-rate bonds maturing on July 1, 2023, dropped from 12.19% per year in November to 11.62% per year in December. Regarding bonds maturing on January 1, 2025, the average rates fell from 11.90% per year in November to 10.99% per year in December. The IFI will continue to monitor the DPMFi auctions rates to identify an eventual change in the upward trajectory. The economic environment does not suggest the existence of conditions for the shift.

Net Public Sector Debt fell 0.1 p.p. of GDP in November against October. Moving on to the Central Bank's fiscal statistics analysis, the Public Sector Net Debt (DLSP) dropped 0.1 p.p. of GDP between October and November, reaching 57.0% and maintaining the downward trend begun in July (Figure 16). According to the Central Bank, the DLSP result in November reflected the impacts of nominal GDP (-0.5 p.p.), the primary surplus (-0.2 p.p.), and accrued nominal interests (+0.5 p.p.).

In 2021, until November, the DLSP dropped 5.5 p.p. of the GDP. In the accumulated 11 months of 2021, the result reflected from the nominal GDP growth (-8.3 p.p.), the accumulated exchange rate depreciation of 8.1% (-1.3 p.p.), the primary surplus (-0.8 p.p.), accrued nominal interests (+ 4.6 p.p.), and the parity adjustment of the basket of currencies that compose the net external debt (+0.4 p.p.).

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

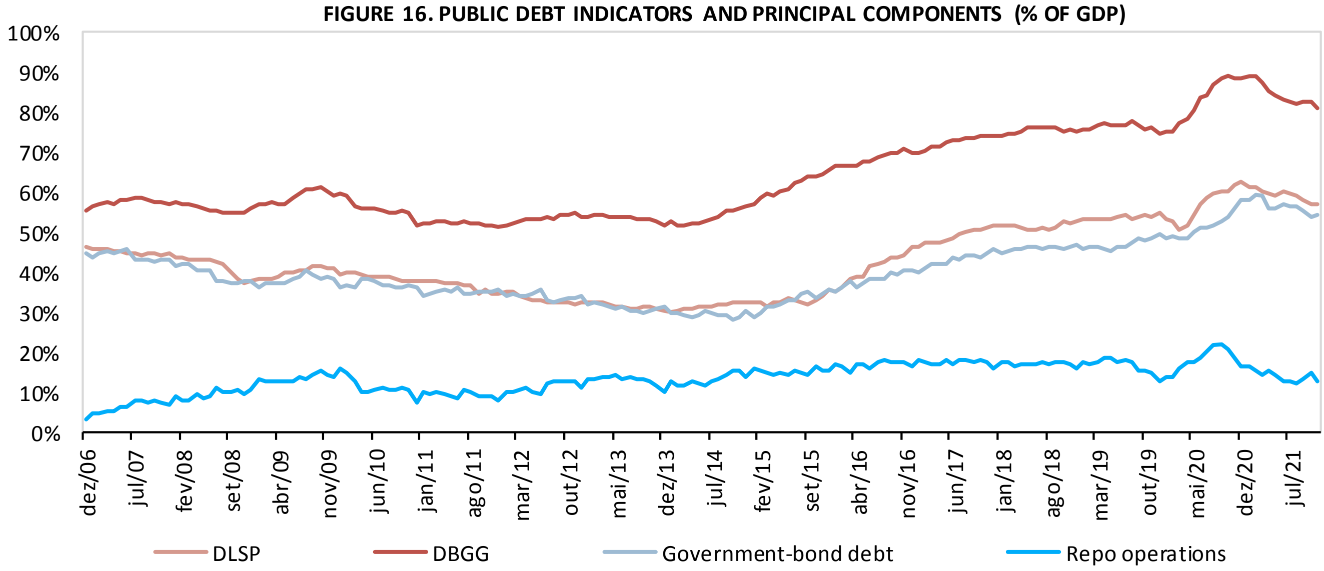
The net issuance of DPMFi explained the increase of 0.8 p.p. in the government-bond debt in November. The government-bond debt rose 0.8 p.p. of GDP in November, compared to October, to 54.3% of GDP, or R$ 4,675.2 billion, reflecting net issuance of floating-rate and fixed-rate securities, as mentioned above. Compared to November 2020, there was a 1.3 p.p. of GDP reduction in the market's government-bond debt (Figure 16).

In November, the gross debt dropped 1.1 p.p. of GDP in the monthly comparison and 7.3 p.p. compared to November 2020. The General Government Gross Debt (DBGG) dropped 1.1 p.p. of GDP in November, to 81.1% of GDP (R$ 6,978.9 billion), after standing at 82.3% of GDP in September and October (Figure 16). Compared to November 2020, the DBGG dropped 7.3 p.p. of GDP. The indicator's behavior in November 2021 reflected net redemptions and debt (a drop of 1.0 p.p.), the increase in nominal GDP (a decrease of 0.8 p.p.), and the incorporation of nominal interest (up 0.6 p.p.).

Nominal GDP growth was the main factor for reducing the DBGG as a proportion of GDP in 2021. In the accumulated 2021 until November, the 7.5 p.p. drop in the GDGBG was due to the increase in nominal GDP (11.7 p.p. drop), net debt redemptions (1.4 p.p. reduction), the incorporation of nominal interest (5.1 p.p. growth), and the accumulated depreciation of the exchange rate (0.5 p.p. high).

DBGG should have been 82.1% of GDP in 2021, and IFI's expectation for 2022 is that the indicator will increase to 84.8% of GDP. The IFI estimates that the DBGG ended 2021 at 82.1% of GDP. By 2022, the indicator is projected to rise to 84.8% of GDP. This expected increase stems mainly from the estimated increase in the interest account in the coming months due to the increase in the Selic rate. Also contributing to the growth of debt in 2022 will be the worsening expected for the central government's primary balance.

FIGURE 16. PUBLIC DEBT INDICATORS AND PRINCIPAL COMPONENTS (% OF GDP)



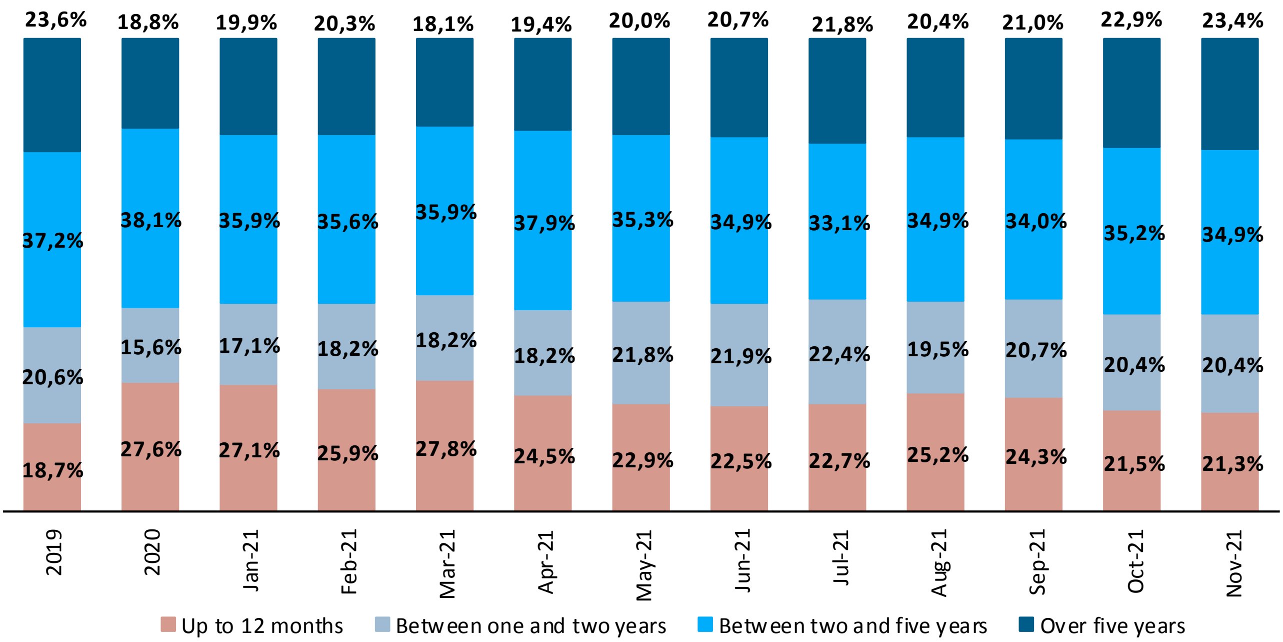
Source: Central Bank. Prepared by: IFI.

In November, repo operations registered declines in both monthly and annual comparisons. Finally, the Central Bank's repo operations fell from 14.8% of GDP in October to 12.9% in November. Compared to November 2020, repo operations suffered a reduction of 5.9 p.p. of GDP, while in the accumulated 2021 through November, there was a reduction of 3.7 p.p. of GDP (Figure 16).

The share of securities with shorter maturities in the DPF stock continued to drop in November. Figure 17 contains the Federal Public Debt (DPF) maturity profile, available in the Monthly Debt Report. In November, in up to 12 months, securities maturing accounted for 21.3% of the DPF stock, maintaining the downward trajectory registered in previous months. On the other hand, securities maturing in over five years reached 23.4% of the DPF stock, a 0.5 p.p. increase concerning October.

After the shortening observed in the federal debt profile in 2020 (increase in the relative share of securities with shorter maturities and reduction in those with longer maturities), the Treasury has managed to lengthen the maturity profile of public securities once again, a positive factor in debt management.

FIGURE 17. DPF MATURITIES



Source: National Treasury Secretariat. Prepared by: IFI.

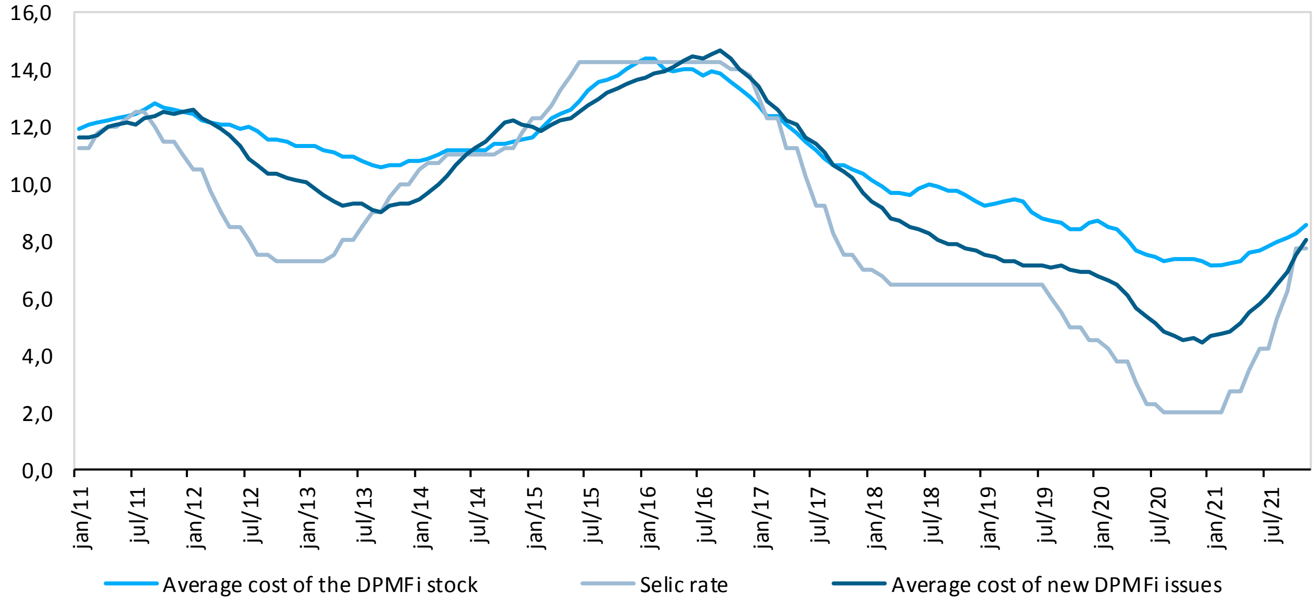
The average cost of the DPMFi stock rose again in November. To conclude the analysis of debt indicators, the 12-month average cost of the DPMFi stock rose from 8.29% in October to 8.52% in November, the ninth consecutive increase in the monthly comparison. Compared to November 2020, the average cost of the DPMFi stock rose 1.16 p.p. (Figure 18).

The average cost of DPMFi issues also rose in November, with a more significant increase when compared to the same month in 2020. The average cost of DPMFi public issues also rose in November to 8.02% p.a., compared to 7.48% p.a. in October. Compared to November 2020, the average cost of DPMFi issues rose 3.45 p.p. (Figure 18).

The increase in the average cost of DPMFi is in line with the increase in the Selic base interest rate. As highlighted in previous issues of this RAF, the increase in the average cost of DPMFi stock and new issues since March have occurred in line with the start of the cycle of increases in the Selic base economic interest rate by the Central Bank in that month. In December, the Selic reached a level of 9.25%. Additional hikes expected for the Selic in the coming months suggest that the average cost of debt will continue to rise. Besides, the risk calculated by economic agents in the yield curve will pressure the average cost of debt, worsening the future scenario, which recently benefited from the rise in nominal GDP under the influence of high inflation.

The IFI's current forecast for the Selic at the end of 2022 is 11.25%. The market consensus captured by the Focus survey foresees Selic at 11.75% at the end of 2022, according to information updated on January 14. High inflation and the government's fiscal area actions have affected Selic's expectation in the months ahead, suggesting that this estimate may continue to rise in the coming weeks.

FIGURE 18. THE AVERAGE COST OF PUBLIC DEBT (STOCK AND NEW ISSUES), ACCUMULATED OVER THE LAST 12 MONTHS (% PER YEAR) AND SELIC RATE - TARGET (% PER YEAR)



Source: National Treasury Secretariat. Prepared by: IFI.

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3. 2022 BUDGET

The 2022 Budget processing was greatly affected by the court-ordered debts PEC. The proposal, which resulted in Constitutional Amendments no. 113 and 114, changed the spending ceiling for the Federal Government and established a limit for spending on court ruling and court-ordered debts. Waiting for the PEC approval, the Auxílio Brasil, of R$ 400.00 per month, the expenses indexed to inflation adjustment, and other demands from the Congress, such as the Rapporteur's amendments to the Budget, and the increase of resources to finance campaigns. With the new constitutional commands enacted, Congress could finally adjust the Budget. At the end of the process, the central government's primary deficit for 2022, foreseen in the Budget, was R$79.4 billion, higher than the R$49.6 billion in the proposal submitted by the Executive in August and the R$38.2 billion calculated by the IFI for 2021 based on data collected in the Siga Brasil. The fiscal picture, already impacted by the recent increase in interest rates, has worsened.

This section analyzes the main points of the Budget approved by Congress in December.

The court-ordered debts PEC[12] approval has created a total fiscal space of R$112.6 billion in the 2022 spending cap. The space stems from two changes in the constitutional text. The first is the change in calculating the spending ceiling (EC no. 95, of 2016), which is now corrected by the IPCA accumulated over twelve months until December (in the original rule, the IPCA accumulated until June). With inflation for 2021 already known (10.1%), it is known that in 2022 the limit will be R$ 67.7 billion higher than that calculated by the former rule (R$ 1,677.7 billion against R$ 1,610.0 billion). The second change is setting a limit for expenses with court ruling and court-ordered debts subject to the spending ceiling. These expenses, previously estimated at R$ 89.1 billion, will be R$ 44.2 billion in 2022, a reduction of R$ 44.9 billion, considering the official inflation rate[13]. The total space amounted to R$112.6 billion. The IFI's estimate, published in the December RAF[14], was R$ 117.9 billion, compatible with our forecast of 10.4% for the IPCA in 2021.

The new spending ceiling for 2022 is lower than the Budget approved by Congress. The PLOA Final Report considered the estimate of 10.18% for the IPCA of 2021, slightly above the official data (10.06%). This difference led the maximum amount for primary expenses used in the approval of the Budget to be R$ 1.8 billion above the spending ceiling calculated under the current rule. The recent changes in the spending ceiling also allow this excess to be compensated only in the 2023 limits calculation, creating the possibility that the budgets will continuously operate above the constitutional limit, postponing any adjustments to the following period.

In the Executive Branch, the higher limit of the Budget is filled with new expenses, generating an excess of R$ 1.8 billion in primary spending subject to the ceiling (Table 5). In the other Branches and autonomous agencies, on the other hand, the Budget contains a R$ 3.1 billion gap to the new limits, leading to a net surplus of R$ 1.3 billion.

Table 5 compares the spending ceiling, already using the IPCA calculated for 2021, with the expenses subject to the ceiling in the Budget approved by Congress. Except for the Executive branch, all other branches and agencies have expenses below their respective limits.

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[12] During its course in Congress, the court-ordered debts PEC was divided into two proposals, PECs 23 and 46, both from 2021. The first originated Constitutional Amendment 113, and the second resulted in Constitutional Amendment 114, as mentioned above.

[13] To calculate the space opened by the limit on spending on court ruling and court-ordered debts, the IFI has considered an expenditure of R$32.2 billion in the base year (2016) - value paid in program 0901, in 2016, plus the expense classified in "expense element" 91 made in other budget programs. Corrected by the new rule, the 2016 expenditure would lead the ceiling to R$ 44.2 billion in 2022. The difference to R$ 89.1 billion (the value initially foreseen in the budget proposal) represents the fiscal space. Given the absence of more information about the calculation memory of the data made available by the Executive or Congress during the Budget process, the value used by the IFI may be different from that calculated by the government.

[14] All Fiscal Follow-Up Reports are available at: https://www12.senado.leg.br/ifi/relatorio-de-acompanhamento-fiscal.

TABLE 5. SPENDING CEILING AND EXPENSES SUBJECT TO THE CEILING (R$ BILLION) BY AUTONOMOUS POWER AND AGENCY

Branch/Agency	Spending ceiling 2022	Spending subject to the ceiling	Excess (+) / Slack (-)
Total	**1,677.7**	**1,676.4**	**-1.3**
Executive Branch	**1,605.1**	**1,606.9**	**1.8**
Other Branches	**72.6**	**69.5**	**-3.1**
Legislative Branch	**14.5**	**13.9**	**-0.6**
Chamber of Deputies	7.0	6.7	-0.3
Federal Senate	5.1	4.9	-0.2
Federal Court of Accounts	2.4	2.3	-0.1
Judicial Branch	**49.9**	**47.8**	**-2.1**
Supreme Federal Court	0.7	0.7	-0.0
Superior Court of Justice	1.8	1.7	-0.1
Federal Justice	12.9	12.4	-0.5
Military Justice	0.6	0.6	-0.0
Electoral Justice	8.5	8.2	-0.3
Labor Justice	22.0	21.1	-0.9
Federal District Justice	3.1	3.0	-0.1
National Council of Justice	0.2	0.2	-0.0
Federal Public Defender's Office	**0.6**	**0.6**	**-0.1**
Public Prosecutor's Office	**7.6**	**7.3**	**-0.3**
Union Public Prosecutor Office	7.5	7.2	-0.3
National Council of the Brazilian Public Prosecutor's Office	0.1	0.1	-0.0

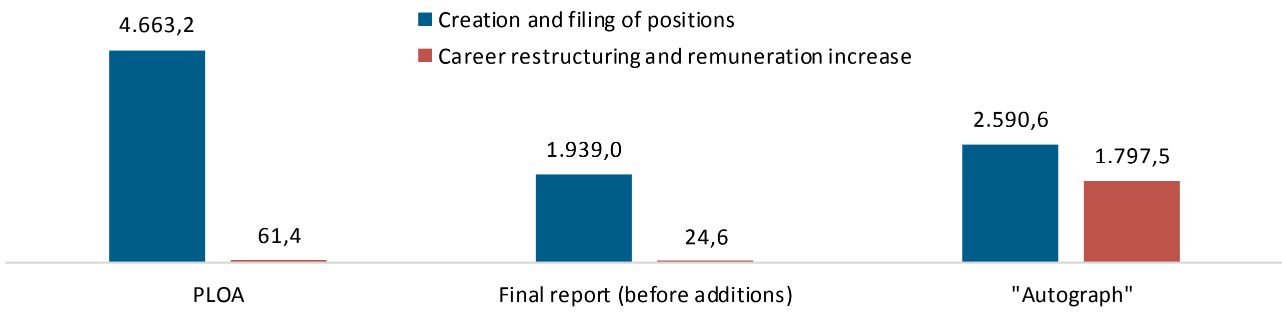
Source: IBGE and CMO's Final Report on PLOA 2022. Prepared by: IFI.

The amount of space generated by the court-ordered debts PEC was R$ 113.1 billion. As the PLOA Final Report considered the IPCA estimate at 10.18%, the margin for expenses increase was R$ 113.1 billion, different from the R$ 112.6 billion calculated based on the IPCA in 2021 (10.06%). Of the R$113.1 billion, R$69.6 billion derive from the recalculation of the spending ceiling and R$43.5 billion from the reduction in spending on court ruling and court-ordered debts subject to the spending ceiling.

Cuts in personnel and reduced fiscal impact of RGPS expenses have increased the room for spending increases. Besides the court-ordered debts PEC, two other factors have increased the fiscal space available to include new expenses in the PLOA. The first refers to the cuts promoted by the General Rapporteur in personnel expenditures. In the PLOA Final Report, before the two additions that would follow, the Rapporteur cut R$ 2.8 billion in personnel expenses. The restraint targeted, in particular, expenses with the creation or filling of positions, which include, for example, hiring via public service entrance exam. The Rapporteur, however, complemented his vote and recomposed, by R$ 651.5 million, part of the cuts made previously and included R$ 1.8 billion for restructuring careers and increasing the public servant's compensation. Personnel expenditures in the Budget total R$336.1 billion, close to the IFI's projection, which is R$335.4 billion (see Table 7, at the end of this section).

Figure 19 summarizes the changes made in PLOA - Annex V, which displays the authorizations for increases in personnel expenditure.

FIGURE 19. CONGRESS CHANGES IN PERSONNEL SPENDING (R$ MILLION)



Source: Executive Budget Proposal and CMO final report. Prepared by: IFI.

The second factor refers to the inclusion, in the General Rapporteur's complementation vote, of R$3.2 billion as a float in the RGPS expenses. The so-called float arises from the fact that part of the expenses foreseen in the Budget is paid only at the beginning of the following year, not impacting the result of the fiscal year. This phenomenon happens because the month of accrual of a budget expense is not necessarily equivalent to the month the actual payment is made (the metric used in calculating fiscal results). Therefore, in every year: (i) expenses foreseen in the Budget of the previous year are paid; and (ii) payments of expenses foreseen in the current Budget are postponed to the following year. The difference between these two values is the float.

When positive, it means that the expenditure, for impact on the primary balance, will be lower than that foreseen in the Budget; when negative, it expresses an effect on the result more significant than the budgeted expenditure. The Rapporteur's complementing vote included a float of R$3.2 billion in the expenditures with RGPS social security benefits. In other words, to calculate the fiscal results, the expense will be R$3.2 billion less than the budgeted endowment. Although the alteration made sense - since the value is compatible with the history of RGPS expenditures - in practice, it represented an additional space for the expansion of expenses.

In total, Congress had R$119.1 billion to allocate in new expenses, R$6.0 billion above the space generated with the court-ordered debts PEC. Table 6 details the origin and destination of this space during the PLOA processing in Congress.

TABLE 6. ORIGIN AND DESTINATION OF FISCAL SPACE OPENED DURING THE BUDGET PROCESS (R$ BILLION)

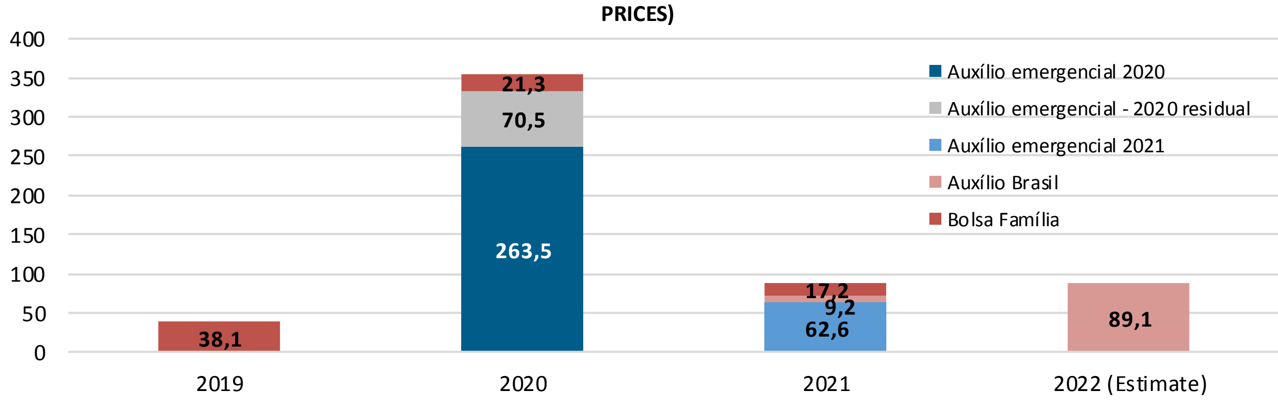
Origin	Amount	Destination	Amount
Court-ordered debts PEC	113.1	Auxílio Brasil	54.6
Spending ceiling recalculation	*69.6*	Social Security	27.5
Expenses reduction on court rulings and court-ordered PEC	*43.5*	Rapporteur's amendments	16.5
Personnel cutbacks (except for sentences)	2.8	Health (floor correction)	4.0
Social security benefits (float)	3.2	Other branches ceiling increase	2.9
		Electoral campaign financing	2.8
		BPC	2.7
		Salary allowance and unemployment insurance	2.4
		Auxílio Gás Social	1.9
		Personnel expenses	2.4
		Of which public servants adjustments	*1.8*
		Other accruals	1.3
Total	**119.1**		**119.1**
IPCA 2021 estimate (%)	*10.18*		

Source: CMO Final Report. Prepared by: IFI.

The leading destination of the space generated by the court-ordered debts PEC is the Auxílio Brasil program. Expenditures resulting from the Auxílio Brasil program, which replaces the Bolsa Família program, reach R$54.6 billion in the Budget approved by Congress. Of this total, R$54.4 billion refer to the transfers themselves and R$200 million to the program's operational expenses. The amount allocated by the Legislative for the transfers adds to the R$34.7 billion provided for in the PLOA. Therefore, the Auxílio Brasil transfers total R$ 89.1 billion in the 2022 Budget.

The expense foreseen with the Auxílio Brasil is almost equal to the social program's expense in 2021. Last year, R$17.2 billion were spent with Bolsa Família, R$62.6 billion with the Auxílio Emergencial, and R$9.2 billion with the Auxílio Brasil (at December 2021 prices). In all, these expenditures totaled R$90.0 billion, an amount almost identical to the R$89.1 billion foreseen for the Auxílio Brasil in 2022 (Figure 20). The amount represents a significant advance over Bolsa Família, which in 2019 cost R$38.1 billion. On the other hand, it is far short of the R$355.3 billion spent in 2020 on welfare programs for people in vulnerable situations.

FIGURE 20. WELFARE PROGRAMS FOR PEOPLE IN VULNERABLE SITUATION (R$ BILLION, AT DEC/21 PRICES)



Source: Siga Brasil (observed data) and CMO Final Report (2022 estimate). Prepared by: IFI.

The adjustment of expenses indexed to inflation was the second leading destination of the fiscal space of the court-ordered debts PEC. Expenses with RGPS benefits, BPC, salary allowance, and unemployment insurance are indexed to the National Consumer Price Index (INPC) of December of the previous year. The budget proposal sent by the Executive to Congress in late August forecasted that the INPC for 2021 would be 6.2%. With more resilient inflation, estimates were being revised upwards during the second half of the year, impacting the projected expenses for 2022. The PLOA Final Report adopted, for the INPC, the same estimated value for the IPCA, 10.18%, which caused an increase of R$32.6 billion in the indexed expenses projections. Of this total, R$27.5 billion were allocated to RGPS benefits, R$2.7 billion to BPC, and R$2.4 billion to salary allowance and unemployment insurance (Table 5).

In the 2022 baseline scenario, the IFI's expenditures with RGPS social security benefits estimate is R$785.7 billion, higher than the value set in the Budget approved by Congress, which is R$777.7 billion. In the case of spending on salary allowance and unemployment insurance, our projection totals R$61.4 billion, R$4.4 billion below the Budget forecast. For BPC, we project expenditure of R$74.4 billion, lower than the R$76.2 billion in the Budget (see Table 7, at the end of this section).

The Rapporteur's amendments filled another R$16.5 billion of the fiscal space of the court-ordered debts PEC. Congress has included the Rapporteur amendments in the Budget for three years. The arrangement seems to be consolidating itself, despite the controversies surrounding the transparency given to the use of these resources. The amount for 2022 is smaller than that of 2020 (R$30.1 billion) and 2021 (R$26.0 billion). However, it still represents a significant amount, close to the total destined to the impositive amendments in the 2022 Budget (R$16.8 billion).

To adapt to the new ceiling rule, the General-Rapporteur has allocated an additional R$ 4.0 billion to Health. The Constitution guarantees a minimum allocation for public health actions and services[15]. Since the institution of the spending ceiling, the constitutional floor, under the Union, started to be corrected in the form of the primary expenditure limit, i.e., the minimum of the previous year corrected by inflation measured by IPCA[16]. Therefore, the change in calculating the spending ceiling by the court-ordered debts PEC also reaches the Health minimum allocation.

15 Art. 198, § 2º.

16 Art. 110 of ADCT.

In the CMO Final Report, the R$139.9 billion floor was considered compatible with the 2021 IPCA estimate of 10.18%. To adapt the Budget to the new floor, the General-Rapporteur added R$4.0 billion to the Health expenses subject to the minimum application[17].

The ceiling recalculation increased by R$2.9 billion the other Branches and autonomous agencies limits. The R$67.7 billion increase in the spending ceiling, resulting from the new rule, is divided among the fifteen individual limits defined by the Constitution. Of the total, R$64.8 billion refers to the Executive Branch and R$2.9 billion to the other Powers and autonomous agencies (understood as those to which the Constitution assigned a specific limit). Table 5, at the beginning of this section, details the limits per branch and agency, according to the new rule, comparing them to the programmed expenses in the Budget. The critical fact is that, despite the limits readjustment, other Branches' expenses have not been increased by Congress, at least so far. During the budget execution course, it is likely that this slack will be converted into pressure for additional credits, including those related to salary increases.

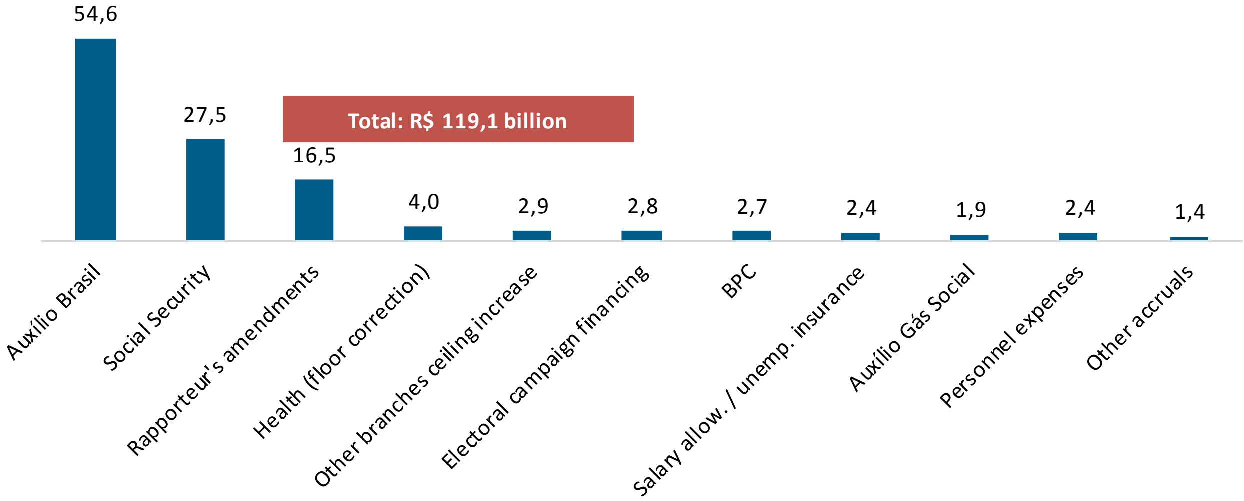
Congress increased the resources to finance campaigns by R$2.8 billion. According to the LDO[18], the "Fundo Especial de Financiamento de Campanha" resources – to finance campaigns - should correspond to the sum of the following amounts: (a) 25% of the 2021 Electoral Justice Budget with the expected expenditure for 2022; and (b) the tax compensation that commercial radio and television broadcasters received for broadcasting partisan advertising made in 2016 and 2017, updated by the INPC. The total is equivalent to R$5.7 billion. In the Budget Proposal sent by the Executive in August, the amount provided was only R$2.1 billion. In Congress, through an amendment by the General Rapporteur, of R$2.8 billion, the resources reached R$4.9 billion, still lower than the amount defined according to the LDO rule, representing another source of pressure on the Budget during execution.

In complement to Table 6, Figure 21 shows how Congress used the fiscal space opened during the processing of the 2022 Budget.

[17] Spending on education maintenance and development is also subject to the minimum application (art. 212 c/c art. 110 of ADCT), whose calculation was also changed by the court-ordered debts PEC. In this case, however, the expenses programmed in the PLOA were already significantly higher than the constitutional minimum, even considering the new form of correction.

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

FIGURE 21. HOW CONGRESS USED THE FISCAL SPACE OPENED DURING THE BUDGET PROCESS (R$ BILLION)



Source: CMO Final Report. Prepared by: IFI.

Part of the spending increased by Congress was below the value indicated by the Executive. During the budget process, the Executive sent five letters to the PLOA General Rapporteur with requests for adjustments in primary expenditure, such as the inclusion of expenses with the Auxílio Brasil and the adjustment of expenses indexed to the INPC. In total, the requests' fiscal impact totaled R$110.1 billion. Of this amount, only R$95.3 billion were granted. Of R$15.1 billion, the difference is one of the factors that enabled the National Congress to allocate part of the space opened by the court-ordered PEC in expenses not indicated by the Executive, such as the General Rapporteur's amendments and campaign financing.

On the other hand, the non-compliance of some requests may generate the need for adjustments in primary expenses during the budget execution. One of the unmet requests refers to the increase of expenses in the other Branches and autonomous agencies due to their primary spending limits. These bodies start the fiscal year with a total of R$ 3.1 billion above the limits.

The following image traces a timeline with the requests made by the Executive to the General Rapporteur.

It is fundamental to point out that, by IFI's estimates, the values fixed in the LOA after the Rapporteur's changes do not seem to be underestimated. They may even, under this criterion, still contain some overestimation. A comparison between the LOA and the IFI scenario involves uncertainties.

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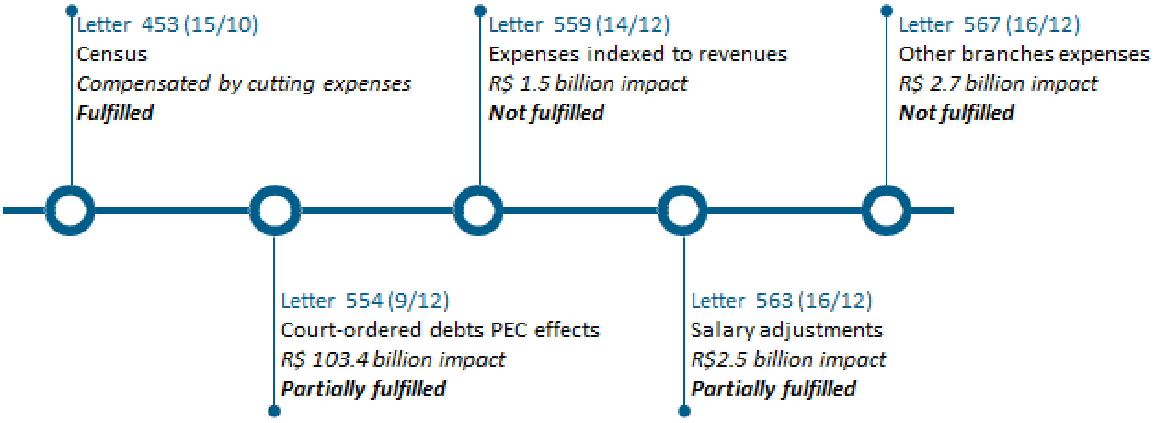
REQUESTS SENT TO CONGRESS BY THE EXECUTIVE BRANCH



Source: Chamber of Deputies. Prepared by: IFI.

The approved Budget of 2022, under the impact of the court-ordered debts PEC, reveals an even more difficult fiscal picture. As seen in the Fiscal Scenario section, the National Treasury Result, officially released on January 28, should display a central government deficit close to R$38.2 billion (0.4% of GDP) in 2021. Although heavily affected by inflation, which has impacted tax collection in particular, it would be the best result since 2014. For 2022, the PLOA initially forecasted a deficit of R$49.6 billion (0.5% of GDP). In a context of high-interest rates and low growth, the value is not enough to stabilize the public debt. The changes promoted with the approval of the court-ordered debts PEC increase this challenge, besides undermining fiscal policy credibility. In the PLOA Autograph, the primary deficit of the central government rises to R$79.4 billion. The IFI foresees an even more significant deficit, around R$106.2 billion (1.1% of GDP), in a scenario that combines a drop in tax collection, as a proportion of GDP, and relatively stable primary expenditures, with expenditures of the Auxílio Brasil replacing to a large extent the reduction in extraordinary expenditures to deal with the Covid-19.

Table 7 details the central government's primary result forecast in the 2022 Budget comparing it with the data collected by the IFI for 2021 and this year's estimates.

TABLE 7. CENTRAL GOVERNMENT PRIMARY BALANCE

Breakdown	2021		2022							
	IFI		PLOA		""Autograph""		IFI estimate		IFI estimate - ""Autograph""	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Gross Revenue	**1,930.9**	**22.2**	**1,958.8**	**20.8**	**2,030.5**	**21.3**	**2,019.2**	**21.4**	**-11.3**	**0.1**
Revenues Collected by RFB, except RGPS	1,197.1	13.8	1,245.0	13.2	1,288.9	13.5	1,293.2	13.7	4.3	0.2
Fiscal incentives	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RGPS Revenues	460.4	5.3	483.0	5.1	499.4	5.2	486.8	5.2	-12.5	0.0
Revenues not Collected by RFB	273.5	3.1	230.8	2.5	242.3	2.5	239.2	2.5	-3.0	0.0
Transfers by revenue sharing	**354.7**	**4.1**	**361.8**	**3.9**	**386.4**	**4.1**	**385.0**	**4.1**	**-1.4**	**0.0**
Net revenue	**1,576.2**	**18.2**	**1,596.9**	**17.0**	**1,644.1**	**17.2**	**1,634.2**	**17.3**	**-9.9**	**0.1**
Primary Expenditure	**1,614.4**	**18.6**	**1,646.5**	**17.5**	**1,723.5**	**18.1**	**1,740.4**	**18.4**	**10.3**	**0.3**
Social security benefits	709.7	8.2	765.6	8.1	777.7	8.2	785.7	8.3	1.4	0.0
Personnel expenses and social contribution	329.5	3.8	342.8	3.6	336.1	3.5	335.4	3.6	-0.7	0.1
Salary allowance and unemployment insurance	45.9	0.5	63.5	0.7	65.8	0.7	61.4	0.6	-4.4	-0.1
BPC	67.7	0.8	73.5	0.8	76.2	0.8	74.4	0.8	-1.7	0.0
Extraordinary credits	117.2	1.3	0.0	0.0	0.0	0.0	19.0	0.2	19.0	0.2
Compensation to RGPS for Exemption of Payroll Taxes	7.3	0.1	3.2	0.0	3.2	0.0	8.1	0.1	4.9	0.1
Supplementation by the Federal Government to Fundeb	22.0	0.3	30.1	0.3	30.1	0.3	33.8	0.4	3.7	0.1
Legislative, Judiciary, Prosecutor's Office, and Public Defender's Office	11.0	0.1	18.0	0.2	18.0	0.2	15.1	0.2	-2.9	0.0
Court Rulings and Court-Ordered Debts (current and capital expenditure)	18.8	0.2	43.7	0.5	27.0	0.3	17.0	0.2	-10.0	-0.1
Subsidies and Grants	7.9	0.1	13.4	0.1	13.4	0.1	11.6	0.1	-1.8	0.0
Electoral Campaign Financing	0.0	0.0	2.1	0.0	5.0	0.1	2.1	0.0	-2.8	-0.1
Other Mandatory Spending without Flow Control	8.4	0.1	27.5	0.3	13.9	0.1	11.0	0.1	-2.9	0.0
Executive expenses subject to the financial programming	269.0	3.1	263.2	2.8	357.1	3.7	365.8	3.9	8.7	0.2
Mandatory Spending with Flow Control	145.2	1.7	164.6	1.8	223.2	2.3	214.2	2.3	-8.9	0.0
Discretionary	123.8	1.4	98.6	1.0	134.0	1.4	151.6	1.6	17.6	0.2
Central government primary balance	**-38.2**	**-0.4**	**-49.6**	**-0.5**	**-79.4**	**-0.8**	**-106.2**	**-1.1**	**-20.3**	**-0.3**

Source: CMO Final Report and IFI. Prepared by: IFI.

Fiscal tables

TABLE 8. 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 9. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – OPTIMISTIC SCENARIO (% OF GDP)

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

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

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

IFI Forecasts

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

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