Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

MAY 18, 2022 • Nº 64

HIGHLIGHTS

- GDP forecast is revised from 0.5% to 1.0% in 2022 and from 2.0% to 1.0% in 2023.
- IPCA forecast is revised from 5.3% to 7.9% in 2022 and from 3.2% to 4.0% in 2023.
- Because of the worsening inflation, the Selic rate should rise to 13.25% in 2022, decreasing to 9.5% in 2023.
- Higher nominal GDP and inflation have increased the tax collection forecasts between 2022 and 2031.
- Measures adopted by the Executive Branch will affect tax collection in the coming years.
- The central government's net revenue is expected to reach 18.0% of GDP in 2022.
- Limit spending on court-ordered debt relief budgetary execution in the short but pressures in the medium term.
- In 2027, the payments not made under the court-ordered debt rule will worsen the primary budget by two percentage points of GDP.
- Auxílio Brasil of R$400 does not change the balance of risks for compliance with the expenditure ceiling in the short term.
- The risk of non-compliance with the ceiling until 2024 is still low.
- In 2025, the risk of non-compliance with the expenditure limit is moderate and from 2026 onward becomes high.
- The General Government Gross Debt (DBGG) forecast was revised to 78.9% of GDP in 2022.
- In the recent period, high inflation has reduced the DBGG as a proportion of GDP.
- In the baseline scenario, the trend for the DBGG is of relative stability until 2031.
- Reduction of current debt levels will require the generation of higher primary surpluses.

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REPORT LAYOUT
COMAP/SECOM and SEFPRO/SEGRAF

Covering letter

The Fiscal Follow-up Report (RAF) is the IFI's monthly analysis and meets the purposes outlined in art. 1 of Senate Resolution no. 42 of 2016. The RAF also presents a broad review of the coming year's outlook. This edition updates our macro-fiscal scenario for 2022 to 2031.

Since the last scenario revision in December, the external environment has worsened. The world will experience less growth in 2022. Brazil has extra breathing space: the positive performance of the economic activity in early 2022 and the effect of measures such as the release of the FGTS on household consumption have raised the GDP growth projection from 0.5% to 1%. However, inflation remains resilient. The IPCA ends 2022 at 7.9% in the baseline scenario and drops to 4% in 2023. The Selic rate, in turn, reaches 13.25% this year and drops to 9.5% in 2023. The restrictive monetary policy will weaken domestic demand in the quarters ahead. The GDP forecast for 2023 has halved: from 2% to 1%. Potential GDP is expected to grow at 2.1%, lower than the historical average (around 2.5%). Internal conditions prevent optimism: the aging of the population holds back the labor force's pace of expansion, and we continue to lack reforms with a substantive effect on productivity.

The macro projections, data from the fiscal year and recent legal changes subsidize the Federal Government's revenue and expenditure estimates, the subject of the report's second section. Tax collection continues to thrive but is still strongly influenced by inflation and cyclical factors, such as commodity prices. Estimates have improved throughout the forecast horizon. After discounting the transfers to states and municipalities, the primary revenue should be 18% of GDP in 2022. The trend is for a slowdown in the coming years, falling to 16.6% of GDP in 2031.

Recent changes in the spending ceiling, which have expanded the space for new expenses, and the deceleration of the two main federal expenses – social security and payroll – produce a benign scenario for compliance with the rule in the coming years. This scenario is despite the conversion of the extraordinary benefit of Auxílio Brasil (Brazil Aid) into a permanent one and the possible concession of a 5% salary readjustment for public servants. Nevertheless, the rule remains under pressure: new demands (depending on the magnitude) would only become viable via compensatory cuts, and discretionary spending, including investments, remains at a historically low level. In the medium term, one of the main risks is the liability created by the limitation of spending on court rulings and court-ordered debt. The rule ends in 2026, and under the hypothesis that the flow of new obligations from the courts remains high, it will leave a significant liability to be paid off in 2027.

Influenced by the revenue better performance, the baseline primary deficit should be R$ 19.2 billion, or 0.2% of the GDP, in 2022, lower than the R$ 33.7 billion, or 0.4% of the GDP in 2021. In 2025, the primary balance would reach positive territory, with a surplus of 0.2% of the GDP. In 2027, the payment of court-ordered debt liabilities would lead to a new deficit, which would be reversed in the following year, reaching 0.8% of the GDP in 2031, the last year of the projections. The expectation of better fiscal results is not limited to the central government. The consolidated public sector estimate, which also considers the sub-national entities and state-owned companies, involves a primary surplus of around R$ 71.5 billion, or 0.7% of the GDP, in 2022. The gross debt (DBGG) should end at 78.9% of GDP. The debt remains relatively stable over the projection horizon in the baseline scenario, oscillating around 80% of GDP until 2031.

Despite the better fiscal picture, we must be aware of the risks. Controlling inflation hurts activity and will slow down tax collection and the debt-to-GDP ratio decline. The eyes turn to the spending, and recent experience shows that the expenditure ceiling has been the weakest link.

Daniel Veloso Couri
IFI Executive Director

Vilma da Conceição Pinto
IFI Director

Summary

- Since the last scenario revision in December, the external environment has worsened sharply with the invasion of Ukraine. The IMF revised its estimates downward for the global economy in a recent report. Inflationary pressures built up before the war with the imbalances generated by the pandemic and have now increased. **(Page 7)**
- On the activity side, short-term data show resilience, and the support of stimulus measures, such as the release of FGTS funds, should provide an additional impulse to the GDP in 2022. The ongoing rise in the Selic rate should reduce the impetus of domestic demand in the coming quarters. Despite the pandemic's evolution improvement, the economic outlook carries a degree of volatility and uncertainty above the usual because of the prolonged military conflict and the proximity of the elections. **(Page 7)**
- Some measures adopted by the Executive Branch will generate revenue losses in the coming years. The IFI has estimated the impact of these actions on primary revenue, transfers, and net revenue. The scope of most measures will be restricted to 2022. Others, such as reducing IPI rates, will produce permanent revenue losses for the Federal Government and the subnational entities. The IFI estimates, in the baseline scenario, an impact of R$ 31.4 billion on the central government's net revenues in 2022. **(Page 17)**
- Influenced by the revenue performance and nominal GDP, the fiscal scenarios for the central government's primary balance improve. On the expenditure side, some medium-term risks are still of concern. With the approval of Constitutional Amendments (ECs) 113 and 114, the government managed to open space in the expenditure ceiling to accommodate new expenses. This increased social spending, which became permanent through the Bill of Conversion no. 6 of 2022. One of the EC's innovations was limiting court-ordered debt spending. This limit relieves the budget execution in the short term but puts pressure on the medium term. In 2027, the payments not made due to the court-ordered debt ceiling rule will worsen the primary by two percentage points of GDP. **(Page 33)**
- The IFI's projection for the General Government Gross Debt (DBGG) in 2022 was revised to 78.9% of GDP. The revision was motivated by expectations of a higher public sector primary surplus in the year due to the positive performance of federal entities, especially the regional governments. The surplus is expected to fall by 2025, causing the gross debt to rise slightly. Considering the forecast horizon (2022-2031), the DBGG should remain relatively stable in the IFI's baseline scenario, oscillating around 80% of the GDP until 2031. In 2027, the need to pay the suspended court-ordered debt liabilities should add 1.3 p.p. of GDP to the DBGG. **(Page 44)**

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1. MACROECONOMIC CONTEXT

The Fiscal Follow-Up Report (RAF) for May presents the update of the IFI's projections for the macro-fiscal variables. The incorporation of realized data and the reassessment of the hypotheses behind each of the scenarios Rivers (base, optimistic and pessimistic) allow forecasts to reflect the current state of the economy. Special Study no. 13[2] presents a methodological overview of the macroeconomic parameters estimates supporting the IFI fiscal scenarios.

1.1 Economic scenario update: 2022-2031

Since the last review of the economic scenario carried out in December last year, the external environment has worsened significantly with the invasion of Ukraine. The military conflict and sanctions imposed on Russia are affecting the food and energy price scenario, mainly due to the region's reduced supply of raw materials. The acceleration of the inflationary process, hitherto impacted by the shock caused by the pandemic, reduces the household income available for consumption. The environment permeated by uncertainties generates risk aversion in the financial markets, with the flow of capital to lower-risk assets. The external scenario becomes even more challenging with the rise in interest rates in developed economies due to the advance of inflation and the Chinese zero-tolerance policy against Covid-19. Lockdown measures accentuate bottlenecks in global supply chains.

In a recent report, the International Monetary Fund (IMF) revised downward estimates for the world economy. The institution expects global economic growth to decelerate from 6.1% in 2021 to 3.6% in 2022, 0.8 percentage points (pp) below what was expected in the *World Economic Outlook*[3] (WEO) of January. The outlook is for inflation to remain high, driven by war-induced commodity price increases.

Inflationary pressures built up before the war with the imbalances generated by the pandemic and have now increased. In April, consumer inflation surprised the upside again, reflecting the rise in food and fuel prices, but it remains widespread among the components. The 12-month variation is well above the range compatible with the target, and the Central Bank is responding by raising the Selic rate, which in the current cycle walked from 2.0% in March 2021 to 12.75% in May this year. The inflation rate (IPCA) should reach 7.9% in 2022 and 4.0% in 2023, a revision of 2.5 and 0.8 pp concerning the scenario released in December 2021.

On the activity side, the projection is that GDP will advance 1.0% in 2022 (0.5 pp above the December scenario), reflecting the resilience of economic activity in the short term and the support of stimulus measures, such as the release of FGTS resources in the second quarter. Lower purchasing power and higher interest rates should weigh domestic demand in the coming quarters. The Brazilian economy is expected to advance moderately in 2023 (revised projection from 2.0% to 1.0%).

Despite the pandemic's evolution improvement, the economic outlook carries a higher than usual degree of volatility and uncertainty due to the prolonged military conflict and the proximity of the presidential elections.

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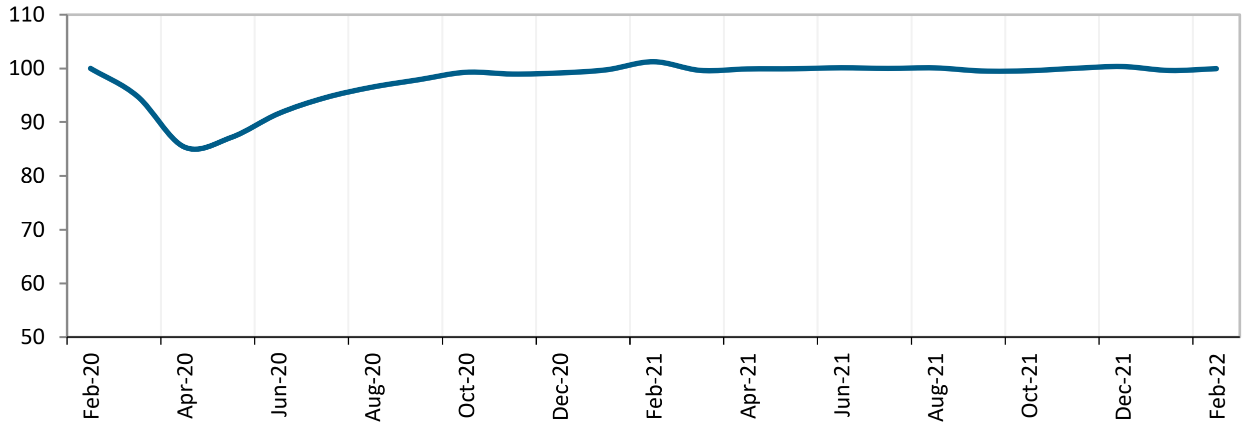
[2] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/577405/EE13.pdf.

[3] Reports available at: https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022 and https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022

1.1.1 Economic activity

Sectoral data indicate expansion of the economy in the initial months of 2022. The Central Bank Economic Activity Index (IBC-Br), which aggregates information on the GDP sectors on the supply side, rose 0.3% from January to February (in the seasonally adjusted series), eliminating part of the down 0.7% recorded in the previous month. The IBC-Br also registered a variation of 0.3% in the quarter ended in February.

FIGURE 1. IBC-BR (FEB/20= 100)



Source. Central Bank. Prepared by: IFI

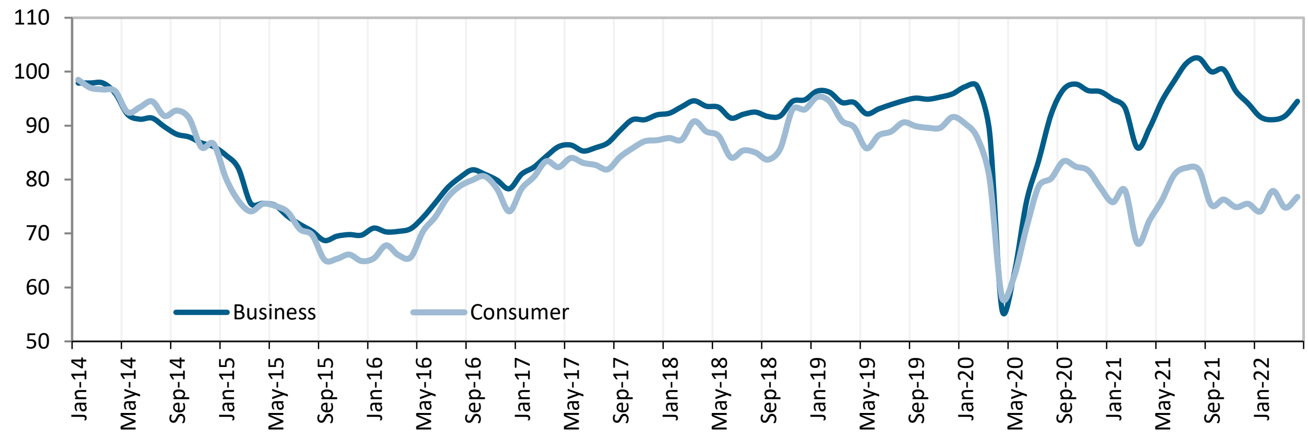
Industrial production grew 0.3% in March. According to the IBGE's Monthly Industrial Survey (PIM), the output of the general industry rose 0.3% from February to March (in the seasonally adjusted series). In the previous month, the index had grown 0.7%. The result reflected the performance of the mining industry (0.9%), while the manufacturing industry fell by 0.6%. In the quarter ended in March, the industrial production increased by 0.3%, a variation lower than that registered in the quarter ended in February (1.4%). The advance of the industrial sector in March was accompanied by three of the four major economic categories: capital goods (8.0%), intermediate goods (0.6%), durable consumer goods (2.5%), and consumer goods semi-durable and non-durable (-3.3%). Despite the positive dynamics of the capital goods production sector, possibly driven by the rise in commodity prices, domestic production remains lower than before the pandemic, limited by the disorganization of global production and logistics chains.

Retail sales increased 0.7% in March. The sales volume in the retail trade (PMC – Monthly Trade Survey) grew by 0.7% between February and March in the expanded concept, including vehicles and construction material. In the previous month, the index had grown 2.1%. The opening of the survey shows that seven of the ten retail activities increased in March, with emphasis on the expansion of sales of construction material (2.2%). Retail sales remained stable and increased 2.3% in the quarter ended in March, reversing the 1.8% drop recorded in the quarter ended in December.

Service sector revenue grew 1.7% in March. The volume of services rose 1.7% between February and March in the seasonally adjusted series, according to data from the IBGE's Monthly Service Survey (PMS). In the previous month, the index had grown 0.4%. The expansion in the volume of services in March was accompanied by the five activities surveyed, especially transport (2.7%) and services provided to families (2.4%). In the quarter ended in March, the indicator increased by 1.8%, a variation lower than that registered in the quarter ended in February (3.2%), representing, so far, the primary growth vector of the Brazilian economy.

Consumer and business confidence rises in April. According to Fundação Getulio Vargas (FGV), the Consumer Confidence Index (ICC) rose 3.8 points between March and April. The Business Confidence Index (ICE), which consolidates the confidence indices of the sectors covered by the Business Surveys produced by FGV (industry, services, commerce, and construction), increased 2.7 points in the same comparison. The buoyant confidence index trend probably reflects the perception of control of the health crisis, improvement in the labor market, and the effect of short-term fiscal stimulus measures, such as the release of FGTS resources and the reduction of the IPI tax rates. In any case, the resilience of inflation, low purchasing power, the maintenance of the base interest rate at high levels, and the increase in uncertainty around the macroeconomic scenario contribute to keeping confidence indices at levels even lower than before the pandemic (Figure 2).

FIGURE 2. CONFIDENCE INDEXES (SEASONALLY ADJUSTED)

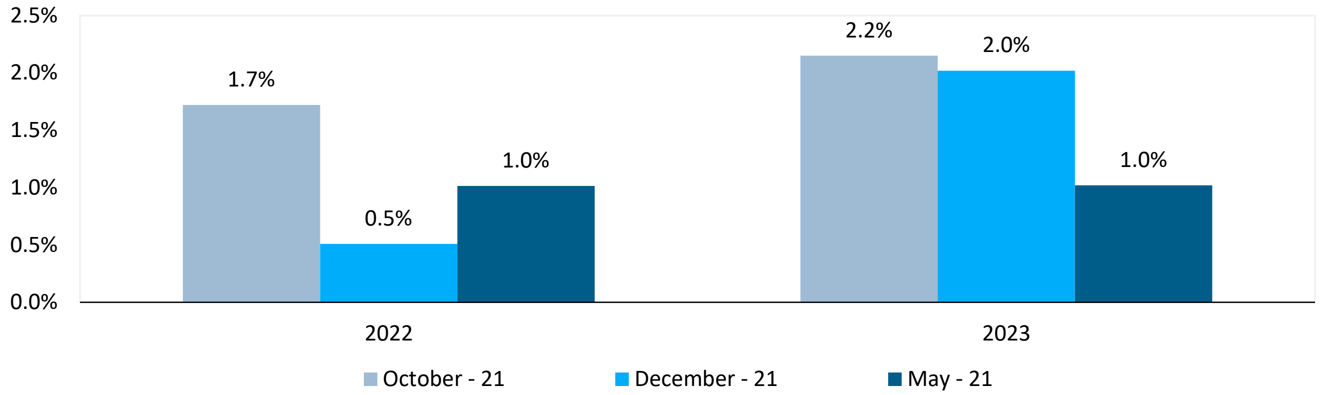


Source: FGV. Prepared by: IFI.

The inflow of funds from FGTS withdrawals into the mass of earnings should positively affect activity in the second quarter. In the short term, the economy will have a stimulus vector from around R$ 30 billion from the FGTS to workers between April and June. As it is unlikely that the amount to be made available will immediately enter the economy, we assumed that 30% of these resources would go for consumption (with the remainder for debt settlement and savings accumulation). The economic activity impact is obtained through the inflow of resources on the payroll, household consumption, and GDP change. According to the exercise, if the expected amount enters the mass of income between April and June, there will be a positive effect of 0.3 pp on GDP in 2022.

Real GDP growth rate is revised from 0.5% to 1.0% in 2022 and from 2.0% to 1.0% in 2023. The improvement in economic activity compared to the end of last year and the positive effect of the releases of FGTS resources on household consumption in the second quarter motivated the upward revision in the projection of GDP growth in volume in 2022, from 0.5% to 1.0%. For 2023, the most significant revision – from 2.0% to 1.0% – is largely justified by the influence of the more restrictive monetary policy on the performance of domestic demand.

FIGURE 3. GROWTH OUTLOOK BY RAF EDITION



Source: IFI.

Despite the pandemic's evolution improvement, the economic outlook carries a higher than usual degree of volatility and uncertainty, both due to the prolonged military conflict and the proximity of the elections. Although the Brazilian economy may benefit from gains in terms of trade (translated positively into GDP), the extent and magnitude of the shock in international raw materials markets increase production costs and affect the recovery of domestic demand both by maintaining interest rates at high levels as well as the impact on the economic growth of the main trading partners.

Less vigorous global growth. In the context of the international economy, the assumptions used by the IFI derive from the scenarios constructed by the International Monetary Fund (IMF) in the *World Economic Outlook* (WEO)[4]. In the April edition, the IMF reduced the expectation for world GDP growth in 2022 and 2023 by 0.8 and 0.2 pp compared to the January edition. The global GDP growth in 2022 was revised from 4.4% to 3.6%, while the outlook for the following year was from 3.8% to 3.6%. The slowdown in global growth primarily reflects the direct impacts of the war on the economies of Russia and Ukraine and the indirect effects on other economies, especially in the Euro Area. China's GDP growth rate is expected to slow this year to 4.4% (from 8.1% in 2021), revised by -0.4 pp.

TABLE 1. GLOBAL GDP GROWTH FORECASTS

		Forecasts		Dif. relative to Jan 22 WEO	
	2021	2022	2023	2022	2023
World	6.1	3.6	3.6	-0.8	-0.2
Advanced economies	5.9	3.3	2.4	-0.6	-0.2
Emerging Market and developing economies	6.8	3.8	4.4	-1.0	-0.3
United States	5.7	3.7	2.3	-0.3	-0.3
European Union	5.3	2.8	2.3	-1.1	-0.2
China	8.1	4.4	5.1	-0.4	-0.1

Source: FMI. Prepared by: IFI.

Table 2 displays the GDP and the demand side components estimates for 2022 and 2023. The contribution of domestic demand to economic growth this and next year is estimated at 0.6 pp and 0.5 pp, respectively. The minor contribution

[4] Available at: https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022

of domestic demand from 2022 to 2023 is explained, above all, by the household consumption deceleration. Net exports (external demand), in turn, should present positive contributions of 0.4 pp and 0.6 pp.

TABLE 2. GDP VOLUME GROWTH FORECASTS

	2021	2022	2023
Volume GDP and demand-side components (% growth)	**4.6%**	**1.0%**	**1.0%**
Household consumption	3.6%	1.2%	0.6%
Government consumption	2.0%	1.5%	0.8%
Gross fixed capital formation	17.2%	-2.4%	-0.6%
Exports	5.8%	2.5%	3.0%
Imports	12.4%	0.5%	0.1%
Contributions to the GDP volume growth (p.p.)			
Domestic demand	**5.6**	**0.6**	**0.5**
Household consumption	2.3	0.8	0.4
Government consumption	0.5	0.3	0.2
Investment (GFCF and changes in inventories)	2.9	-0.5	-0.1
Net exports	**-1.0**	**0.4**	**0.6**

Source: IBGE. Prepared by: IFI.

The projection for medium-term GDP growth is 2.1%. Economic activity's expected recovery path was maintained through the 2024–2031 horizon. The estimated value for the economy's potential growth, 2.1%, is slightly lower than the historical average (2.5%), as the labor force is expected to grow more slowly than in the past due to the population aging. The estimation of potential growth (a concept that expresses the maximum production growth that the economy can achieve without generating inflationary pressures) is performed from the production function approach[5], taking into account an assumption for the evolution of total factor productivity and the capital stock and labor force outlook.

1.1.2 Labor market

The data released by the IBGE in the Continuous National Household Sample Survey (Continuous PNAD) show a trajectory of recovery in the labor market. The drop in the unemployment rate has been accompanied by an increase in hiring and a decrease in discouragement, which means inactive people are more encouraged to search for a job. On the other hand, the scenario for earnings shows no progress. When discounting the effect of inflation, salaries show a significant drop compared to last year's period.

[5]Special Study (EE) no. 4, available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/536764/EE_04_2018.pdf.

TABLE 3. LABOR MARKET INDICATORS

	Values			Quarter x last quarter		
	Feb-20	Feb-22	Mar-22	Feb-20	Feb-22	Mar-22
A – Working-age population	**169.3**	**172.5**	**172.7**	**1.0%**	**0.9%**	**0.9%**
A.1 – People outside the labor force	62.0	65.3	65.5	0.6%	-5.0%	0.0%
A.2 – Labor force population	107.3	107.2	107.2	1.3%	4.9%	4.8%
A.2.1 – Unemployment	12.6	12.0	11.9	-5.2%	-19.5%	0.0%
A.2.2 – Employment	94.7	95.2	95.3	2.2%	9.1%	9.4%
Informal employment	38.1	38.3	38.2	2.0%	12.4%	12.2%
Formal employment	56.6	56.9	57.1	2.3%	7.0%	7.6%
Unemployment rate (A.2.1/A.2)	11.8%	11.2%	11.1%	-0.8 p.p.	-3.4 p.p.	-3.8 p.p.
Employment rate (A.2.2/A)	55.9%	55.2%	55.2%	0.6 p.p.	4.1 p.p.	4.3 p.p.
Participation rate (A.2/A)	63.4%	62.2%	62.1%	0.1 p.p.	2.4 p.p.	2.3 p.p.

Source: IBGE. Prepared by: IFI.

The unemployment rate reached 11.1% of the workforce in the quarter ended in March, 3.8 pp below the rate registered in the same period of the previous year (14.9%). The unemployment rate has been falling since July 2021, reaching a lower level than in the months before the pandemic. The number of unemployed people (11.9 million) is still high but has decreased and is below March 2021 (15.3 million). The decline in the unemployment rate in the quarter ended in March, compared to the same period of the previous year, reflects the growth of the working population (9.4%), whose contingent reached 95.3 million people, above the level of February 2020 (pre-pandemic: 94.7 million), surpassing the advance of the workforce (4.8%) – which includes the population that is looking for a job and the employed population.

Labor demand: working population expansion is widespread, but hiring in informal segments predominates. The increase in employment is taking place in a generalized way. However, it continues to be driven mainly by the informal sectors, with emphasis on the number of employed people without a formal contract in the private sector (growth of 19.3% in the annual comparison) and domestic workers without a formal contract (21.7%) – positions that are evolving above total employment (9.4%). The population employed in the informal segments of the economy (38.2 million people) – including lower-paid occupations – showed a growth of 12.2% compared to the same period of the previous year, while formal employment (57.1 million) grew 7.6% in the period.

It is also worth mentioning that the level of occupation (ratio between the working population and the population of working age) reached 55.2% in the first quarter of 2022, slightly below the value of February 2020 (55.9%), approaching the pre-pandemic period.

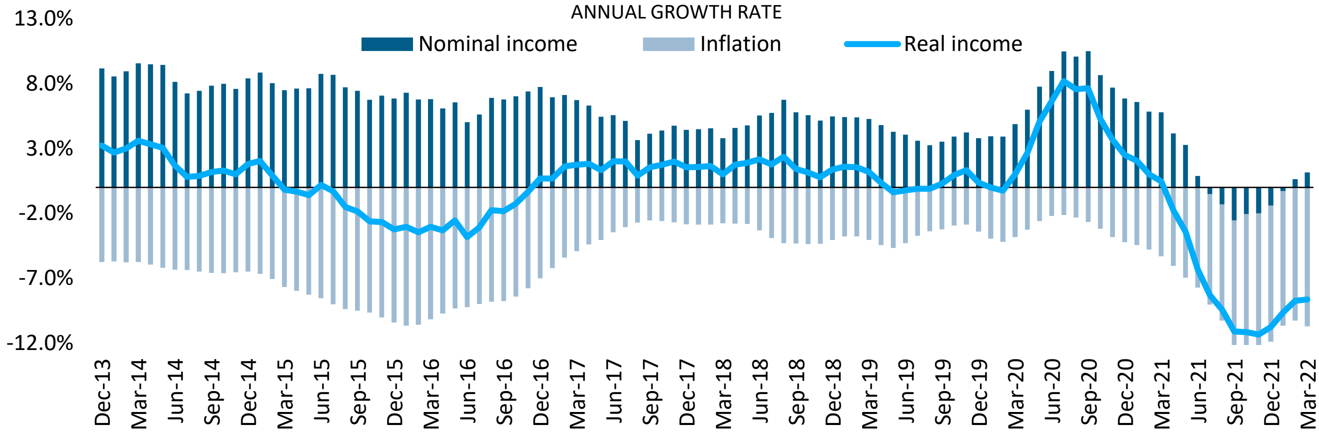
Labor supply: the participation rate advances but remains lower than in the pre-pandemic period. The expansion of the labor force, composed of people employed or seeking employment, positively impacts the participation rate, which measures the movement of the working-age population into and out of the labor market. The indicator – the ratio between the labor force and the working-age population – rose from 59.8% in March 2021 to 62.1% in March 2022. The participation rate is evolving positively since vaccination, less fear of infection, and fewer mobility restrictions allow people to return to the labor market, although it remains lower than the months before the pandemic (63.4%).

The number of discouraged workers is decreasing. Discouraged workers consist of individuals who, although willing and able to engage in a job, are not looking for or have stopped looking for a position because they believe there are no suitable vacancies available. In the quarter ended in March, there were 4.6 million people in this condition – 22.4% less than the same period in 2021 (5.9 million). The percentage of discouraged workers in the population outside the labor force dropped from 8.7% to 7.0%. This movement reinforces the improvement in the employment picture.

Salaries continue to fall (real terms) due to inflation. The average real income in the quarter ended in March dropped 8.6% compared to the same period last year. The variation in labor income, in real terms, persists in the adverse terrain due to inflation and the weakening of readjustments. Besides the worsening of purchasing power due to high and persistent inflation, the more concentrated increase in hiring in lower-paid activities (the composition effect) also negatively affects the trajectory of average income.

FIGURE 4. LABOR INCOME

ANNUAL GROWTH RATE



Source: IBGE. Prepared by: IFI.

The payroll indicator, which combines income with the working population, advanced only 0.2% in March 2022. As household consumption responds to labor market conditions (summarized in the payroll indicator) and to credit conditions (in the evolution of interest rates), the domestic demand and the GDP scenario continue to be challenging.

Baseline projections. In the current baseline scenario, the expected growth for the working population in 2022 was revised from 2.0% to 5.0% due to the short-term generalized improvement seen in employment data. This movement is in line with the gradual resumption of economic activity and the diminishing effects of the pandemic on the labor market. The unemployment rate follows this trajectory, falling from 13.2% in 2021 to 11.2% in 2022. In the following years, employment expansion is expected to evolve more moderately (1.0% on average between 2024 and 2031), with the unemployment rate stabilizing at around 11.5% of the labor force. Despite the short-term improvement in the employment indicator, the payroll estimate in 2022 was reduced from 0.5% to 0.3%, reflecting the negative effect of the acceleration of the inflation rate on real income. In the medium term, the variation in the payroll will be expected to accompany GDP.

1.1.3 Inflation and monetary policy

Consumer inflation reached 12.1% in the 12 months ended in April. As measured by the IPCA, consumer inflation in April registered an increase of 1.06% (12.1% accumulated over 12 months, above the 11.3% observed in the immediately previous 12 months). The highest result for April since 1996 was 0.56 pp, below the 1.62% rate in March. Inflation remains well above the upper limit of the inflation target (3.5% with an interval of 1.5 percentage points above and below). The acceleration of the average of the cores (from 9.0% in March to 9.7% in April) – measures that seek to remove from total inflation the influence of items of greater volatility – reveals disseminated pressure among the components.

The most significant impacts on April's IPCA came from food and fuel. Of the nine groups of products and services surveyed, eight showed an increase in April. The group with the most significant variation in the month and impact on the total index was food and beverages (up 2.06% in April and an effect of 0.43 pp), influenced mainly by the hike in food-at-home prices. Then came the transportation group, which reflected primarily the behavior of fuel prices (gasoline rose 2.48% in April). The two groups together contributed approximately 80% of the variation rate of April's IPCA.

The housing group was the only one to register a negative variation (-1.14%), influenced by the drop in electricity prices (-6.27%). The green tariff flag has been in effect since April 16, with no extra charge on the electricity bill, and will be fully incorporated in May.

Between March and April, the administered prices, which account for approximately 25% of the total IPCA, went from 2.7% to 0.6% (accumulated variation of 15.0% in twelve months). Free prices, meanwhile, showed an increase of 1.3%, accelerating to March (1.2%). In 12 months, the variation in these prices rose from 10.0% to 11.1%. The central pressure came from food-at-home (2.6% in the month and 16.1% in 12 months), industrial prices (1.2% and 14.2%), and services (0.7% and 6.9%).

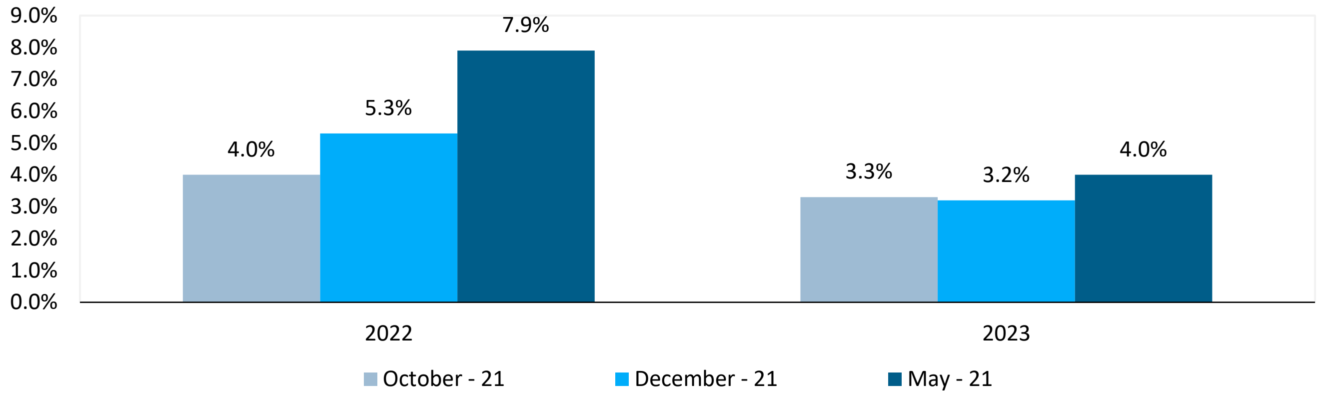
In the base scenario, the IPCA should end 2022 with a high of 7.9%, and we adjusted the projection for 2023 to 4.0%. The IPCA should end the year at 7.9%, well above the previous forecast (5.3%), reflecting the shock in commodity prices and the hypothesis of maintenance of these prices (measured by the commodity index of the Commodity Research Bureau – CRB) at high levels until the end of the year and a gradual return to the average. The shock in the international raw materials markets, intensified by the prolonged military conflict, is one factor that explains the inflation pressure. The measure to reduce the IPI tax rates may generate short-term relief, but upside risks prevail in the future scenario. The adoption of measures to restrict mobility in China in the face of the new wave of Covid-19, for example, aggravates the problems in the industrial input chains. On the other hand, the IFI estimates that the output gap[6] will become more negative this year due to the higher interest rate path, exerting downward pressure on the inflation rate.

Current inflation at a higher level translates into greater inertia for inflation in 2023 – we adjusted the IPCA estimate for next year from 3.2% to 4.0%. The rise in the real interest rate (which acts to reduce demand) and the possibility of some correction in commodity prices in the Brazilian *real* (R$) helps the disinflation process, but it is still expected that the IPCA will be above the target ceiling 2023.

[6] The output gap is an unobservable variable that seeks to measure the deviations of GDP from what would be the potential growth, measuring the cyclical fluctuations of the economy. A positive gap occurs when the economy operates above its trend (or potential) and is an indication that it is overheating and subject to inflationary pressures, in contrast to the negative output gap, which suggests an economy operating with idle productive factors.

One can obtain the most current estimate at: https://www12.senado.leg.br/ifi/dados/arquivos/estimativas-do-hiato-do-produto-ifi/view

FIGURE 5. IPCA OUTLOOK BY RAF EDITION



Source: IFI.

The cycle is expected to end with the Selic rate at 13.25% p.a. In May, the Monetary Policy Committee (Copom) decided to raise the base interest rate by 1.0 pp to 12.75%. Given the balance of risks with a higher than usual variance for future inflation, Copom believes that the cycle of Selic hikes will continue and foresees a likely extension of the process with an adjustment of lesser magnitude. The Selic rate, in the base scenario, should reach 13.25% in 2022, dropping to 9.5% in 2023.

The inflation rate is expected to reach the target (3.0%) in the medium term, while the Selic rate converges to 7.0%. In the medium term, when actual GDP is equal to potential GDP (output gap = 0) and the inflation rate is anchored to the target, the estimated value for the Selic rate moves towards the value of the neutral nominal interest rate. Over the projection horizon, the real interest rate follows a parity relationship. The domestic interest rate equals the international interest rate, the country's risk premium, and expected exchange rate depreciation. Between 2024 and 2031, the outlook for the Selic rate is consistent with the neutral real interest rate (heading towards 4.0%: average around 3.9% in the period) plus the inflation target (3.0%).

1.1.4 GDP price deflator and nominal GDP

GDP price deflator. In 2022, the GDP price deflator forecast (10.6%) is obtained through a weighted average between IPCA and IGP-DI. From 2023 on, the deflator forecast (5.9% in 2023 and 3.8% between 2024 and 2031) derives from the following hypotheses: (i) the average difference between the rates of change in the household consumption deflator and the IPCA, observed historically, will remain in the coming years, (ii) the government consumption deflator and the gross fixed capital formation (GFCF) deflator will grow in line with the IPCA, and (iii) the export deflator will grow in line with the import deflator (implying a neutral scenario for the evolution of the terms of trade).

Nominal GDP. The real growth of 1.0% and the GDP price deflator of 10.6% produce nominal GDP growth of 11.7% between 2021 and 2022. This variation would lead the nominal GDP to R$ 9.7 trillion in 2022, higher than the projection of R$ 9.4 trillion presented in the December 2021 RAF. The nominal GDP change in 2023 is estimated at 7.0% (to R$ 10.4 trillion), slowing down to 6.0% on average between 2024 and 2031.

1.2 Alternative scenarios

The alternative scenarios – optimistic and pessimistic – consider the balance of risks, which is particularly important in this context of high uncertainty above the usual. Deviations from the central projection result from changes – based on assumptions and judgments – in the path of exogenous variables (determined outside the model), such as country risk premium and total factor productivity, which produce more or less benign frames to the baseline scenario.

Table 4 summarizes the baseline and alternative scenarios macroeconomic forecasts. Keeping them updated highlights the degree of uncertainty within the projections and their dependence on different economic configurations.

TABLE 4. IFI'S BASELINE, OPTIMISTIC AND PESSIMISTIC SCENARIOS – CURRENT AND PAST RELEASE[7]

	Baseline			Optimistic			Pessimistic		
a. Current release	**2022**	**2023**	**2024-2031**	**2022**	**2023**	**2024-2031**	**2022**	**2023**	**2024-2031**
GDP at current prices (R$ bi)	9,697.1	10,369.2	13,602.3	9,738.8	10,434.0	14,356.2	9,693.9	10,451.5	13,916.9
GDP at current prices (%)	11.7	6.9	6.0	12.2	7.1	7.1	11.7	7.8	6.3
GDP at constant prices (%)	1.0	1.0	2.1	1.8	1.6	3.2	0.3	0.3	1.2
GDP price deflator (%)	10.6	5.9	3.8	10.3	5.4	3.8	11.3	7.5	5.0
IPCA (%)	7.9	4.0	3.0	7.3	3.7	3.0	9.5	5.1	4.2
Unemployment rate (%)	11.2	11.5	11.5	10.8	10.9	10.9	11.6	12.3	13.1
Working pop. (%)	5.0	0.5	1.0	5.5	0.8	1.5	4.5	0.1	0.6
Embi (end)	350	300	300	250	250	250	450	400	400
Exchange rate R$/US$ (end)	5.1	5.2	5.3	4.7	4.7	4.8	5.6	5.5	6.0
Real interest rate (%)	5.7	4.5	3.9	5.7	3.9	2.9	6.9	5.1	5.3
Selic (%)	13.3	9.5	7.1	13.0	9.0	6.1	14.5	11.5	9.5
b. Past release	**2022**	**2023**	**2023-2030**	**2022**	**2023**	**2023-2030**	**2022**	**2023**	**2023-2030**
GDP at current prices (R$ bi)	9,448.1	10,119.5	12,544.2	9,503.6	10,185.1	13,101.9	9,418.4	10,085.8	12,514.5
GDP at current prices (%)	8.8	7.1	6.2	9.2	7.2	7.2	8.5	7.1	6.2
GDP at constant prices (%)	0.5	2.0	2.1	1.6	3.0	3.2	-0.5	1.3	1.2
GDP price deflator (%)	8.2	5.0	4.0	7.5	4.1	3.8	9.1	5.7	4.9
IPCA (%)	5.3	3.2	3.0	4.1	2.7	3.0	6.1	4.1	4.2
Unemployment rate (%)	12.8	12.8	12.7	11.9	11.5	11.5	13.9	14.2	14.5
Working pop. (%)	2.0	0.9	0.9	3.0	1.3	1.4	1.0	0.6	0.5
Embi (end)	400	350	306	350	300	256	450	400	356
Exchange rate R$/US$ (end)	5.7	5.6	5.4	5.5	5.1	4.9	6.0	6.1	6.5
Real interest rate (%)	2.9	3.4	3.7	2.2	2.5	2.7	4.2	4.7	5.1
Selic (%)	11.3	7.5	7.1	10.0	6.5	6.1	12.3	9.5	9.5

Source: IFI.

Baseline. The ongoing monetary tightening and the permanence of fiscal risks put pressure on future interest rates. The worsening financing conditions should weigh on domestic demand in the coming quarters. In parallel, the evolution of the external scenario, marked by rising interest rates in developed economies in reaction to the advance of inflation, brings increasing risks to domestic prices. To contain the advance of inflation, the monetary tightening cycle undertaken by Copom would take the Selic rate from 2.0% in March 2021 to 13.25% in mid-2022, remaining at this level until the end of the year. In the baseline scenario, the risk premium, also impacted by the proximity of the presidential election, would advance to 350 points by the end of 2022, and the exchange rate would reach US$/R$ 5.10. Between 2024 and 2031, the average GDP growth rate is 2.1%, and the real interest rate would be 3.9% yearly.

Pessimistic. The intensification of uncertainties present in the baseline scenario – the possibility of a worsening of the military conflict, the effect of a more accentuated slowdown of the Chinese economy on exports, and the accentuation of fiscal risks at the domestic level – could result in a further deterioration of economic agents' confidence, of financial asset prices, and inflation expectations, demanding an even more intense adjustment of monetary policy. In this

[7] The spreadsheet with the projections is available at: https://www12.senado.leg.br/ifi/dados/arquivos/projecoes-ifi/view

environment, it is assumed that the risk premium will increase to 450 points by 2022 when the exchange rate could reach US$/R$ 5.57. The pessimistic scenario is marked by a slower product and labor market reaction. The nominal interest rate is higher as inflation expectations are positioned above the inflation target throughout the projection horizon. Between 2024 and 2031, the average GDP growth rate is 1.2%, and the real interest rate converges to a higher level, around 5.3% per year.

Optimistic. In the optimistic scenario, the dissipation of the shocks caused by the pandemic and the military conflict on raw material prices, in addition to a peaceful passage through the electoral year, would open space for higher economic growth and a faster reduction in the unemployment rate compared to what is observed in the baseline scenario, in addition to reducing inflationary pressures. In this environment, the risk premium would reach 250 points by the end of 2022, and the exchange rate would reach US$/R$ 4.70. Between 2024 and 2031, the average GDP growth rate would be 3.2%, and the real interest rate would rise to 2.9% per year.

2. TOTAL REVENUE, TRANSFERS, AND NET REVENUES SCENARIO

2.1 Introduction

Higher nominal GDP and inflation produced higher estimates for federal revenues over the projection horizon. The revision in the IFI's macroeconomic scenario projections led to a change in the expected values for tax collection over the projection horizon (2022-2031). Compared to the scenario revision presented in December 2021, the expectation of higher nominal GDP in 2022 and higher inflation this year has produced higher estimates for revenues collected by the Federal Revenue Office and net collection for the General Social Security System (RGPS).

War in Ukraine keeps commodity prices higher for longer. Part of the worsening inflationary picture is due to commodity prices being maintained at higher levels in the short term due to the outbreak of the conflict in Ukraine. Countries that produce these items, such as Brazil, benefit from this movement through the positive impact on economic activity and tax collection.

Expectations of higher oil prices influenced the projection for revenue not collected by the Federal Revenue Office. The revenue not collected by the Federal Revenue Office was also significantly revised due to higher commodity prices, especially oil prices, which influence collections derived from the exploitation of natural resources. The IFI has changed the assumption regarding the behavior of oil prices in the international market for the entire projection horizon.

Nominal GDP is expected to grow by 11.7% in 2022. In the macroeconomic scenario released in December 2021, the expectation was for nominal GDP hikes of 8.8% in 2022 and 7.1% in 2023. The IFI forecasts an increase of 11.7% this year and 6.9% in 2023.

We maintained the revenue-GDP elasticity parameters applied last December in the current scenario revision. The parameters considered are those presented in the Special Study (EE) no. 16[8] of November 2021, which updated estimates from the Technical Note (NT) no. 19[9] of August 2018.

Tax collection sensitivity to GDP in the short run was higher than in the long run. The results presented in EE 16 suggest, for example, a higher value for the revenues collected by the RFB short-run elasticity to GDP (1.02) compared

[8] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/593776/EE16.pdf.

[9] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/545264/NT_Elasticidade.pdf.

to the long-run (between 0.90 and 0.98, depending on whether the output gap is positive or negative). The estimated RGPS revenue elasticity was below unity in the short term and equal to 1.06 in the long run.

Measures announced by the government affect the projected tax collection revenues in the coming years. Another consideration in this introductory section concerns the measures adopted by the government in the recent period that will impact tax collection. These actions will result in a loss and an increase in revenues in the coming months and years and transfers to states and municipalities (sub-national entities) in 2022. Some measures will bring revenue losses to the subnational entities in the coming years due to the revenue sharing of some taxes in the Federal Constitution.

The PIS/COFINS tax reduction on fuels will diminish federal tax collection by R$ 17.6 billion between March and December 2022. The first measure incorporated into the revenue scenarios was the reduction to zero of the Contribution to the Social Integration Program (PIS), the Civil Service Asset Formation Program (PASEP), and the Contribution to Social Security Financing (COFINS), PIS/COFINS, for some fuels, such as diesel oil, liquefied petroleum gas – LPG derived from petroleum and natural gas, aviation kerosene and biodiesel, made through Supplementary Law (LC) no. 192, of 2022[10]. In the March RAF[11], the IFI presented an estimated revenue loss for the Federal Government of R$ 17.6 billion between March and December 2022.

The increase in the CSLL will produce a revenue gain of R$ 400 million between August and December 2022. The second measure considered in the revenue projection scenario was the increase in the Social Contribution on Net Corporate Profits (CSLL) of companies in the financial sector, such as banks and insurance companies, among others, to partially offset the loss in tax collection resulting from Supplementary Law (LC) 193, of March 17, 2022[12], which creates a Refis for small companies. The estimated revenue waiver with the measure is R$ 1.2 billion. The Provisional Presidential Decree (MP) 1,115 of 2022[13] increased the CSLL rate for banks from 20% to 21% and for exchange brokers, insurance, and capitalization companies from 15% to 16%. The IFI estimates a positive impact on tax collection of R$ 400 million in the five months the law is in force (August 1 to December 31, 2022).

Decree 11,055 extended the IPI reduction announced by the government at the end of February. The third decision of the Federal Executive Branch with an impact on federal tax collection considered in this scenario review was the reduction of the IPI rates by 35%. Decree 11,055, of April 28, 2022[14], revoked Decree 10,979, of February 25, 2022, which had established a linear reduction of the IPI rates by 25%. In the IFI's Technical Note (NT) no. 51, of March 8, 2022[15], we presented simulations of the IPI reduction foreseen in Decree no. 10,979.

The 35% reduction in the IPI rates will imply a revenue loss of R$ 7.6 billion for the Federal Government in 2022. Updating the permanent decrease in IPI rates impact simulation was necessary for this scenario revision. The IFI now estimates a revenue loss for the Federal Government of R$ 7.6 billion between April and December 2022. In 2023, the loss would be R$ 10.2 billion. It was assumed, as a hypothesis, that the fiscal waiver evolution over time is given by

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[10] Available at: http://www.planalto.gov.br/ccivil_03/leis/lcp/Lcp192.htm.

[11] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/596473/RAF62_MAR2022.pdf.

[12] Available at: http://www.planalto.gov.br/ccivil_03/leis/lcp/Lcp193.htm.

[13] Available at: http://www.planalto.gov.br/ccivil_03/_Ato2019-2022/2022/Mpv/mpv1115.htm.

[14] Available at: https://www.in.gov.br/web/dou/-/decreto-n-11.055-de-28-de-abril-de-2022-396475510.

[15] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/596233/NT51_IPI.pdf.

the nominal GDP change presented in the Macroeconomic Scenario section. Table 5 displays the fiscal waiver associated with the IPI tax reduction in the three projection scenarios (baseline, optimistic and pessimistic).

TABLE 5. SIMULATION OF THE IMPACT ON THE UNION'S REVENUES OF REDUCING THE IPI RATES ESTABLISHED IN DECREE 11,055/2022 (R$ MILLION)

	Baseline and alternative scenarios		
	Baseline	Optimistic	Pessimistic
April – December/2022	-7,648.4	-7,653.5	-7,470.7
2023	-10,197.9	-10,204.6	-9,960.9
2024	-10,847.6	-10,933.2	-10,624.4
2025	-11,488.5	-11,685.6	-11,282.9
2026	-12,160.5	-12,497.6	-11,982.7
2027	-12,876.7	-13,377.6	-12,731.1
2028	-13,638.9	-14,332.6	-13,531.8
2029	-14,452.2	-15,367.4	-14,387.7
2030	-15,320.8	-16,481.9	-15,295.3
2031	-16,235.9	-17,649.1	-16,273.3

Source: IFI based on information from Decree number 11,055, April 28, 2022.

The subnational entities' loss with the reduction of IPI rates would be R$ 11.1 billion between April and December 2022. It is essential to mention two aspects. The first concerns the loss of revenue for states and municipalities in the coming years with the reduction of the IPI tax rate, considering that the tax is shared with the subnational entities. The IFI estimates that between April and December 2022, the loss to subnational entities, including states, municipalities, and regional funds, will be R$ 11.1 billion. In 2023, this loss would be R$ 14.8 billion.

The IPI fiscal waiver impact calculation did not consider the scope of the STF decision. The second aspect concerns the fact that the simulation did not consider the suspension by the Federal Supreme Court (STF), on May 6, 2022, of the IPI reduction on goods that compete with items produced in the Manaus Free Trade Zone. The STF decision occurred due to the Direct Action of Unconstitutionality (ADI) no. 7,153[16], which questions the reduction decrees of this tax by the Federal Executive.

The pessimistic scenario also includes a possible correction of the IRPF collection brackets. The fourth action considered in the federal tax collection scenarios from 2022 to 2031 was potentially updating the Personal Income Tax (IRPF) frames. The Executive has not yet adopted the measure, but there is an intention. Thus, the IFI has updated the simulation presented in NT no. 49, September 29, 2021[17], considering the Annual Social Information Report (Rais) with data referring to 2020.

Two aspects should be considered. First, updating the income tax bracket for federal tax collection was felt only in the pessimistic scenario, precisely because of the uncertainty regarding the moment of implementation. Second, the IFI

[16] Available at: https://portal.stf.jus.br/processos/detalhe.asp?incidente=6395417.

[17] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/592976/NT49_Reforma_IR.pdf.

considered that the measure would only be effective in July 2022. Table 6 presents the values of this new simulation in the pessimistic scenario, considering the revenue loss for the Federal Government and the subnational entities.

TABLE 6. IMPACT SIMULATION OF UPDATING THE IRPF COLLECTION BRACKETS FOR THE FEDERAL GOVERNMENT (R$ MILLION), INCORPORATED INTO THE IFI'S PESSIMISTIC SCENARIO FOR CENTRAL GOVERNMENT REVENUES

	Pessimistic scenario		
	Total	Subnational entities	Union
2022	-13,204.4	-4,557.2	-8,647.2
2023	-28,256.3	-9,752.0	-18,504.2
2024	-30,056.5	-10,373.3	-19,683.2
2025	-31,919.3	-11,016.3	-20,903.1
2026	-33,899.1	-11,699.5	-22,199.5
2027	-36,016.2	-12,430.2	-23,586.0
2028	-38,281.6	-13,212.1	-25,069.5
2029	-40,702.9	-14,047.7	-26,655.2
2030	-43,270.4	-14,933.8	-28,336.6
2031	-46,037.2	-15,888.8	-30,148.5

*** Considering July 2022 as the starting date of the measure*
Source: IFI based on information from PL no. 2,337, of 2021.

In case of alteration in the IRPF bracket, the federal government would lose R$ 8.6 billion in 2022. Just as in reducing the IPI rates, updating the IRPF collection brackets will result in a loss of revenue for the Union and subnational entities. For the federal government, the loss would be R$ 8.6 billion in 2022, considering this change takes effect in the second half of the year and would reach R$ 30.4 billion in 2031. For the subnational entities (states, municipalities, and regional funds), the loss would be R$ 4.6 billion in 2022 and reach R$ 16.0 billion in 2031 (Table 6).

Import Tax rates for food and other products are reduced until 2022. The fifth measure announced by the government with an impact on the central government's revenue scenario concerns reducing the Import Tax (II) rates for some items, on May 11, 2022, through inclusion in the List of Exceptions to the Mercosur Common External Tariff (Letec)[18]. Some rates on food imports were zeroed, while rates on two inputs for agricultural production and steel rebar decreased. The measure is in force from May to December 2022.

The impact calculated by the government for the import tax reduction was R$ 700 million on revenues in 2022. We considered the amount of R$ 700 million, as announced by the Executive Branch, due to the difficulty in assessing the measure's impact.

Law 14,337 allowed the opening of a special credit of R$ 7.7 billion for transfers to subnational entities in 2022. The last action taken by the government and considered in the central government's revenue scenarios was the opening of special credit for R$ 7.7 billion, contained in Law 14,337, of May 11, 2022[19], in favor of transfers to the

[18] Available at: https://www.gov.br/economia/pt-br/assuntos/noticias/2022/maio/governo-reduz-a-zero-as-tarifas-de-importacao-de-alimentos-da-cesta-basica.

[19] Available at: https://legis.senado.leg.br/norma/35847334/publicacao/35849459.

States, Federal District, and Municipalities, resulting from the incorporation of the excess collection of resources from permissions and concessions. The IFI incorporated this amount of R$ 7.7 billion into the projections of transfers from the Federal Government to subnational entities in 2022.

The impact of the fiscal waiver measures would be around R$ 31.4 billion on the central government's net revenues in 2022. Table 7 summarizes the effects discussed above on the central government revenues in the coming years. In 2022, the impact would be R$ 23.8 billion on total primary revenue and R$ 31.4 billion on net primary revenue, considering the R$ 7.7 billion increase authorized by Law 14,337 for transfers to subnational entities. The revenue loss in the pessimistic scenario is higher than that of the other two scenarios due to the assumption considered for the readjustment in the IRPF collection brackets.

TABLE 7. SUMMARY: IMPACTS OF THE MEASURES TAKEN BY THE EXECUTIVE BRANCH ON THE UNION'S REVENUES IN THE PERIOD – 2022 TO 2031 (R$ MILLION)

Ano	Baseline			Optimistic			Pessimistic		
	Total revenue	Transfers	Net revenue	Total revenue	Transfers	Net revenue	Total revenue	Transfers	Net revenue
2022	-23,762.3	7,676.2	-31,438.5	-23,767.3	7,676.2	-31,443.5	-32,231.7	7,676.2	-39,907.9
2023	-10,197.9		-10,197.9	-10,204.6		-10,204.6	-28,465.2		-28,465.2
2024	-10,847.6		-10,847.6	-10,933.2		-10,933.2	-30,307.6		-30,307.6
2025	-11,488.5		-11,488.5	-11,685.6		-11,685.6	-32,185.9		-32,185.9
2026	-12,160.5		-12,160.5	-12,497.6		-12,497.6	-34,182.2		-34,182.2
2027	-12,876.7		-12,876.7	-13,377.6		-13,377.6	-36,317.1		-36,317.1
2028	-13,638.9		-13,638.9	-14,332.6		-14,332.6	-38,601.3		-38,601.3
2029	-14,452.2		-14,452.2	-15,367.4		-15,367.4	-41,042.9		-41,042.9
2030	-15,320.8		-15,320.8	-16,481.9		-16,481.9	-43,631.9		-43,631.9
2031	-16,235.9		-16,235.9	-17,649.1		-17,649.1	-46,421.8		-46,421.8

Source: Federal Government. Prepared by: IFI.

The IFI considers the absence of significant changes in the tax burden over the projection horizon. To conclude this initial section, an assumption underlying the primary revenue scenarios is that the tax burden will be maintained at current levels, with no significant tax rates or base changes. Naturally, this is an instrument that the government can use at some point to improve the trajectory of the primary balance. The eventual tax burden increase can be included in the future if the government signals actions in this direction.

2.2 Revenue forecasts: 2022 and 2023

Revenue forecasts consider information updated until March 2022. Table 8 presents the IFI's estimates for the central government revenues in 2022 and 2023, compared to the December 2021 scenario review. In December, information was available until October, while, in the current review, the data from the National Treasury Secretariat (STN) refer to March 2022.

TABLE 8. CENTRAL GOVERNMENT´S REVENUE IN 2022 AND 2023: DECEMBER/21 AND MAY/22 UPDATES

Baseline (R$ million)	Dec/21		May/22		Dif. May/22-Dec/21	
	2022	2023	2022	2023	2022	2023
1. Total Revenue	**2,019.2**	**2,171.9**	**2,151.8**	**2,289.0**	**132.5**	**117.1**
Revenues Collected by RFB, except RGPS and fiscal incentives	1,293.2	1,398.9	1,338.9	1,461.4	45.7	62.5
RGPS Revenues	486.8	521.4	511.3	541.2	24.5	19.8
Revenues not Collected by RFB	239.2	251.6	301.6	286.3	62.4	34.7
Fiscal Incentives	0.0	0.0	0.0	0.0	0.0	0.0
2. Transfers by revenue sharing	**385.0**	**418.6**	**406.5**	**437.3**	**21.4**	**18.7**
3. Net revenue [(1)-(2)]	**1,634.2**	**1,753.3**	**1,745.3**	**1,851.7**	**111.1**	**98.4**

Source: National Treasury Secretariat. Prepared by: IFI.

IFI expects the Union's primary revenue in 2022 to be R$ 2,151.8 billion. For the central government's total primary revenue in 2022, the IFI forecasts R$ 2,151.8 billion, R$ 132.5 billion higher than the December projection. For 2023, the expectation is for a primary revenue of R$ 2,289.0 billion against R$ 2,171.9 billion projected last December.

The new projection for revenues collected by the RFB is R$ 1,338.8 billion in 2022. Of the R$ 132.5 billion increase forecast for total revenues in 2022, R$ 45.7 billion are concentrated in revenues collected by the RFB, which are now projected to rise from R$ 1,293.2 billion in December to R$ 1,338.8 billion (Table 8). This revision was motivated by the recent month's dynamics. The revenues collected by the RFB nominal increase in the 12 months went from 24.5% in October 2021 to 27.6% in March 2022.

As presented in the first section, the IFI started forecasting higher nominal GDP values this year and throughout the projection horizon (2022-2031). The expected variation rate for the indicator in 2022 went from 8.8% in December to 11.3%. For 2023, the IFI expects an increase of 7.0% (against 7.1% in the last scenario revision).

Social security revenues should reach R$ 511.3 billion in 2022. For the RGPS net collection, the IFI projects R$ 511.3 billion in 2022, R$ 24.4 billion more than expected in December 2021. By 2023, this collection is expected to reach R$ 541.2 billion, even with the extension of the payroll tax exemption until 2023[20] (Table 8).

The 2022 revision was motivated not only by the higher nominal GDP but also by the improved conditions in the labor market. Even though unemployment remains relatively high and the average real income is registering a solid contraction due to inflation, employment, including the formal sector, has shown improvement according to information from IBGE released until March, which will result in an 8.1% increase in the payroll indicator, in nominal terms, in 2022.

For 2023, the RGPS net collection projection was revised upwards by R$ 19.8 billion due to the expectation of a 5.1% increase, in nominal terms, in the payroll indicator. The higher Selic rate will weaken domestic economic activity, causing unemployment to rise from 11.2% in 2022 to 11.5% in 2023.

[20] Law 14,288, of December 31, 2021, extends until December 31, 2023, the payroll exemption for companies in 17 sectors of the economy. Available at: https://legis.senado.leg.br/norma/35395664/publicacao/35402280.

The revenues not collected by the RFB estimates are R$ 301.6 billion this year. The IFI's projection for revenues not managed by the RFB in 2022 was raised from R$ 239.2 billion to R$ 301.6 billion (an increase of R$ 62.4 billion) due to a higher expectation for collections of the exploration of natural resources (oil), dividends, and concessions, mainly. For 2023, the projection increased by R$ 34.7 billion, from R$ 251.6 billion to R$ 286.3 billion (Table 8).

The revenue projection for natural resource exploration rose to R$ 131.3 billion in 2022. The IFI's forecast for natural resource revenues in 2022 rose to R$ 131.3 billion from R$ 90.9 billion in the December 2021 revision. Due to the Ukraine conflict, the assumptions regarding oil prices changed in the international market in the coming years. The expectation is that the economic sanctions applied to Russia will last for a few years, causing prices to remain at higher levels due to restrictions in supply.

The IFI considered the evolution of oil prices adopted by the ANP. Table 9 presents the oil prices and the exchange rate assumptions from 2022 to 2031. For the price of petroleum, the IFI uses the same projections as the National Agency of Petroleum, Natural Gas, and Biofuels (ANP)[21]. The exchange rate projection comes from the IFI's macroeconomic scenario.

For 2022, we considered the average barrel price of US$ 105.22. In December 2021, the IFI estimated an average cost for Brent oil of US$ 66.00 from 2022 to 2025 and US$ 65.00 from 2026 to 2030. The expectation is an average oil price of US$ 105.22 in 2022 and US$ 88.98 from 2023 to 2031. The changes in the oil price assumptions increased the projections for natural resource exploration revenues by R$ 34.1 billion for this year, R$ 23.5 billion for 2023, R$ 37.4 billion for 2024, and more than R$ 50 billion for 2025 onwards.

TABLE 9. ASSUMPTIONS FOR OIL INTERNATIONAL PRICES AND THE EXCHANGE RATE – BASELINE (2022-2031)

	Brent (US$)		Average exchange rate	
	December – 2021	May – 2022	December – 2021	May – 2022
2022	66.00	105.22	5.67	5.26
2023	66.00	88.98	5.62	5.14
2024	66.00	88.98	5.39	5.18
2025	66.00	88.98	5.32	5.21
2026	65.00	88.98	5.35	5.24
2027	65.00	88.98	5.38	5.27
2028	65.00	88.98	5.41	5.30
2029	65.00	88.98	5.44	5.33
2030	65.00	88.98	5.48	5.36
2031		88.98		5.40

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

Federal transfers to states and municipalities should reach R$ 406.5 billion in 2022. The new IFI projection for transfers from the central government in 2022 is R$ 406.5 billion, against the previous forecast of R$ 385.0 billion. For 2023, the expectation is for transfers of R$ 437.3 billion, R$ 18.7 billion more than projected in December (Table 8).

[21] Available at: https://cpl.anp.gov.br/anp-cpl-web/public/sigep/consulta-estimativa-royaties/consulta.xhtml.

The upward revision in 2022 occurred due to the behavior of tax collections shared by the Union with the sub-national entities (IPI and IR) and Law 14,337 of 2022, which provides an additional R$ 7.7 billion.

The evolution of transfers over the projection horizon follows the behavior of revenues collected by the RFB. By December 2021, the projection of transfers for 2023 increased by R$ 18.7 billion due to the greater expectation of tax collections. As explained in previous versions of this scenario revision report, the IFI projects transfer based on percentages of revenues collected by the RFB. Starting with the December 2021 revision, in particular, it was necessary to consider the enactment of EC no. 112, which increased by another percentage point the sharing of IPI and IR collections with the FPM, to be implemented gradually between 2022 and 2024.

The new projection for the central government's net revenue is R$ 1,745.3 billion in 2022. Based on the recent estimates for total primary revenue and transfers, the central government's net revenue expectation[22] in 2022 is R$ 1,745.3 billion, an increase of R$ 111.1 billion from the December projection. By 2023, the IFI expects net revenue of R$ 1,851.7 billion against R$ 1,753.3 billion in December (Table 8).

2.3 Revenue forecasts: 2022-2031

Tables 10, 11, and 12 display the total gross revenues and their components (revenues collected by the RFB, RGPS, and not collected revenues), transfers to the subnational entities, and net revenues in the base, optimistic and pessimistic scenarios (2022 to 2031).

In the long run, the revenues collected by the RFB growth converge with the economy's volume growth. On the revenue side, the scenarios consider a continuous increase from 2022 onwards, with the economy's growth around 2.0% (baseline scenario), 3.2% (optimistic), and 1.2% (pessimistic). Economic activity also impacts the RGPS net collection and subgroups of non-managed revenues, such as dividends, exploration of natural resources, and educational salary contribution.

In the pessimistic scenario, the improved projection for economic growth in 2022 also altered the evolution of revenues over the next few years. The volume growth projection of the pessimistic scenario also improved for 2022 and worsened for 2023. The increase in the nominal GDP values in the pessimistic scenario in the projection horizon influences the trajectory of managed revenues, making the nominal values higher in the years ahead.

Continued economic growth favors the recomposition of the tax bases. The maintenance of continued real growth of the GDP may also benefit the collection of taxes such as concessions and permissions by attracting the interest of foreign capital for infrastructure assets in Brazil. The economic growth also enables the recomposition of tax bases and may eventually increase the elasticities of government revenues for a certain period. The IFI's EE no. 16, mentioned above, estimated elasticities of tax collections to GDP considering short and long-term horizons and situations in which the output gap is positive or negative.

[22] The Union's net revenue corresponds to total revenues minus the transfers by revenue sharing destined for subnational entities. An example of this deduction is the Municipalities and States Participation Funds (FPE and FPM), which consist of the apportionment of the Income Tax and the Tax on Industrialized Products (IR and IPI) collection.

TABLE 10. BASELINE SCENARIO – R$ BILLION

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total revenue	**1,932.6**	**2,151.8**	**2,289.0**	**2,418.2**	**2,553.7**	**2,683.9**	**2,817.5**	**2,959.9**	**3,090.6**	**3,229.0**	**3,367.0**
Revenues Collected by RFB, except RGPS	1,195.7	1,338.9	1,461.4	1,538.9	1,613.4	1,690.6	1,772.1	1,858.1	1,929.2	2,004.0	2,080.9
RGPS Revenues	462.2	511.3	541.2	575.7	609.7	645.4	683.4	723.9	767.0	813.1	861.7
Revenues not Collected by RFB	274.9	301.6	286.3	303.6	330.6	348.0	362.0	377.9	394.4	411.9	424.4
Transfers by revenue sharing	**353.5**	**406.5**	**437.3**	**465.0**	**487.5**	**510.8**	**535.5**	**561.5**	**583.0**	**605.5**	**628.8**
Net revenue	**1,579.1**	**1,745.3**	**1,851.7**	**1,953.2**	**2,066.2**	**2,173.1**	**2,282.1**	**2,398.4**	**2,507.7**	**2,623.4**	**2,738.2**

Source: National Treasury Secretariat. Prepared by: IFI.

TABLE 11. OPTIMISTIC SCENARIO – R$ BILLION

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total revenue	**1,932.6**	**2,170.9**	**2,330.5**	**2,509.6**	**2,671.5**	**2,832.9**	**3,002.0**	**3,185.3**	**3,382.0**	**3,592.5**	**3,804.8**
Revenues Collected by RFB, except RGPS	1,195.7	1,344.7	1,485.3	1,607.3	1,700.7	1,800.5	1,907.9	2,023.5	2,147.8	2,280.3	2,417.2
RGPS Revenues	462.2	513.5	544.6	583.5	623.7	667.0	714.0	764.9	820.2	879.6	941.9
Revenues not Collected by RFB	274.9	312.7	300.6	318.8	347.1	365.4	380.1	396.8	414.1	432.5	445.6
Transfers by revenue sharing	**353.5**	**408.2**	**444.4**	**485.7**	**513.9**	**544.1**	**576.5**	**611.5**	**649.0**	**689.1**	**730.4**
Net revenue	**1,579.1**	**1,762.7**	**1,886.1**	**2,023.9**	**2,157.6**	**2,288.8**	**2,425.5**	**2,573.8**	**2,733.0**	**2,903.4**	**3,074.4**

Source: National Treasury Secretariat. Prepared by: IFI.

TABLE 12. PESSIMISTIC SCENARIO – R$ BILLION

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total revenue	**1,932.6**	**2,077.5**	**2,189.3**	**2,299.2**	**2,424.6**	**2,547.1**	**2,673.3**	**2,808.0**	**2,950.3**	**3,099.9**	**3,254.6**
Revenues Collected by RFB, except RGPS	1,195.7	1,303.2	1,411.4	1,482.4	1,550.2	1,621.1	1,696.0	1,775.0	1,858.4	1,945.3	2,038.0
RGPS Revenues	462.2	505.9	534.6	558.8	593.4	630.2	669.6	711.7	756.7	804.4	855.9
Revenues not Collected by RFB	274.9	268.3	243.3	258.1	281.0	295.8	307.7	321.2	335.2	350.1	360.8
Transfers by revenue sharing	**353.5**	**395.9**	**422.3**	**447.9**	**468.4**	**489.9**	**512.5**	**536.4**	**561.6**	**587.8**	**615.8**
Net revenue	**1,579.1**	**1,681.6**	**1,767.0**	**1,851.3**	**1,956.2**	**2,057.2**	**2,160.8**	**2,271.6**	**2,388.7**	**2,512.0**	**2,638.8**

Source: National Treasury Secretariat. Prepared by: IFI.

Revenues collected by the RFB would account for an average share of 13.5% of GDP between 2022 and 2031. Figure 6 presents the central government's revenues collected by the RFB trajectories in the baseline scenario, excluding the RGPS revenues, as a proportion of GDP, from 2022 to 2031. On average, it corresponds to 13.5% of GDP over the period.

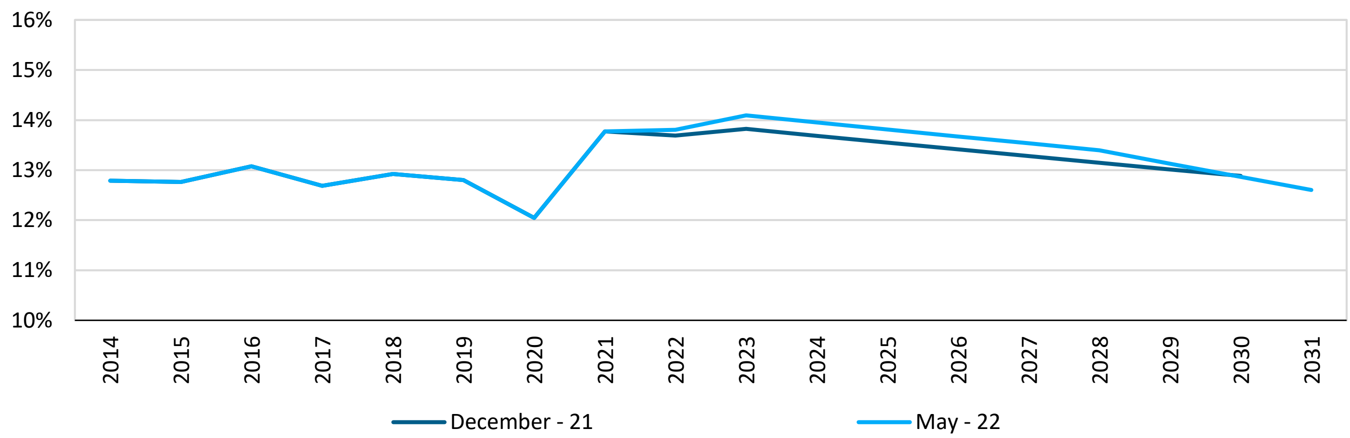
Collected revenue recovery as a proportion of GDP began in 2021 and should continue until 2023. After the drop in 2020 due to the pandemic's effects on economic activity, the collected revenues recovered in 2021 (13.8% of GDP). The 2021 result should be maintained in 2022, rise to 14.1% of GDP in 2023, and gradually fall to 12.6% by 2031). The reason is due to the incorporation, in the present revision, of the revenue-GDP elasticities parameters from EE 16.

In the primary revenue and sub-groups estimates, we considered the short-term 2022-2023 and the long-term 2024 to 2031.

The revenue-GDP elasticities considered in the scenarios derives from EE no. 16 of 2021. According to EE no.16, the collected revenues elasticity to GDP was 1.02 in the short term (both for the positive and negative output gap). For the long run, the estimated elasticities were 0.98 in the case of a positive output gap and 0.90 in a negative output gap. The elasticity behind the revenues collected by the RFB estimates is 1.02 in 2022, 1.01 in 2023, 0.99 from 2024 to 2028, and 0.98 from 2029 to 2031.

In sum, adopting an elasticity of collected revenues to GDP greater than 1 in the short term and lower than 1 in a long time causes the collection to grow as a proportion of GDP until 2023 and then gradually fall after 2024 (Figure 6).

FIGURE 6. REVENUES COLLECTED BY THE RFB (% OF GDP): DEC/21 AND MAY/22 UPDATES (BASELINE)



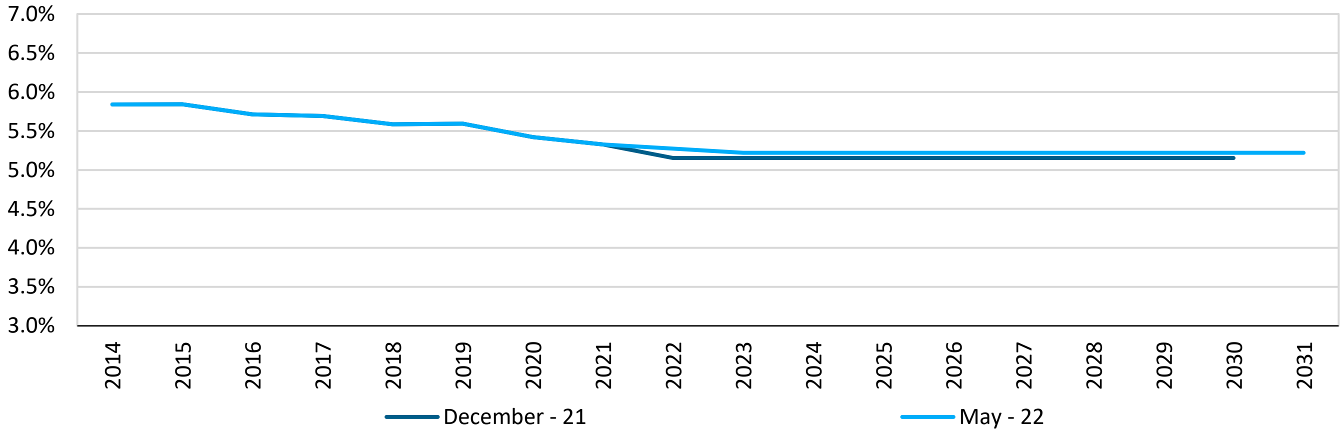
Source: National Treasury and IFI. Prepared by: IFI.

The revenue-GDP elasticities considered in the scenarios are close to unity over the projection horizon. The net RGPS revenue elasticity to GDP in EE no. 16 is 0.90 (positive gap) and 0.60 (negative gap) in the short-run, and 1.06 (positive/ negative gap) in the long-run. The forecasts presented in this report contemplate the following values for this elasticity: 0.99 in 2022 and 2023, and 1 from 2024 onwards – necessary adjustment because of the unintuitive projections found with the parameters presented in EE no. 16.

The net social security revenues as a proportion of the GDP are expected to be relatively stable until 2031. In the long run, an elasticity of 1.06 would configure a situation where RGPS revenues would gradually increase their share as a proportion of GDP. In recent years, however, this proportion has decreased. As an illustration, in 2014, the net social security revenues accounted for 5.8% of GDP. In 2019, before the pandemic, this share had fallen to 5.6% of

GDP. In 2022, the IFI projects that this proportion will be 5.3%. As of 2023, we maintained its participation at 5.2% of GDP.

FIGURE 7. RGPS REVENUES (% OF GDP): DEC/21 AND MAY/22 UPDATES (BASELINE)

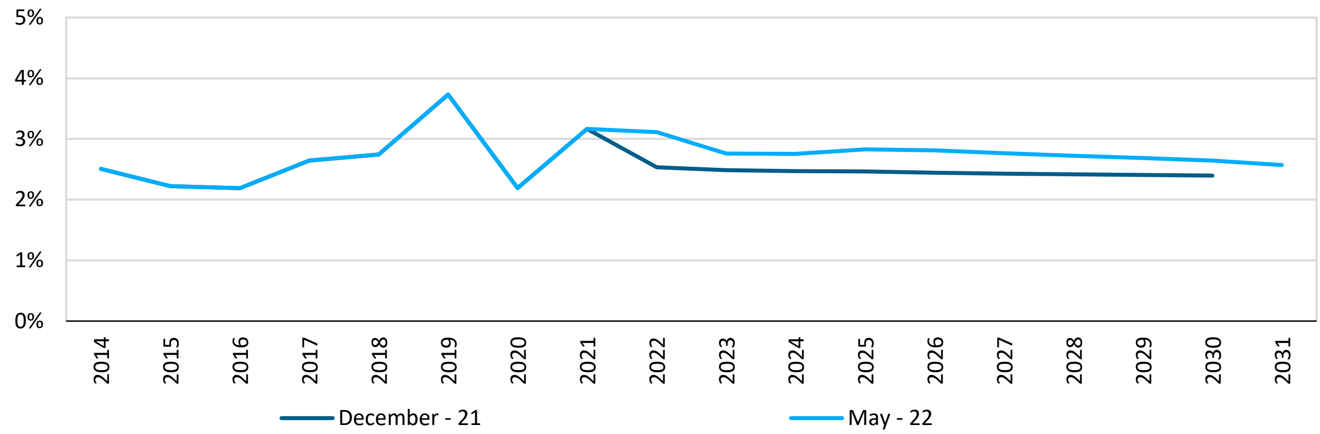


Source: National Treasury and IFI. Prepared by: IFI.

The most significant revision in revenues from oil exploration caused the biggest change in the forecasts for revenues not collected by the RFB. For the revenues not collected by the RFB scenario, the most critical change occurred, as mentioned above, in the expectation of collections from natural resource exploration and, to a lesser extent, from dividends and concessions and equity in 2022. The IFI assumes that the not collected revenues remain relatively constant to GDP over the long term, considering that the government will continue to increase revenues, for example, from auctions and concessions of infrastructure assets, even though there is a limit to this. Moreover, the economic growth (2.2% in the baseline) favors some not collected revenues related to economic activity.

The highest average price of a barrel of oil will cause not collected revenues to reach the level of 3.1% of GDP in 2022. Figure 8 compares the revenues not collected by the RFB trajectories, as a proportion of GDP, for the current, October, and December 2021 revisions, in the baseline scenario. The relative stability between 2021 (3.2% of GDP) and 2022 (3.1% of GDP) stems from the expectation of higher oil prices this year, as explained above. The maintenance at 2.8% as of 2023 occurs due to the expected royalties and participation (average barrel price lower than 2022) and the subgroups affected by economic activity stability.

FIGURE 8. REVENUES NOT COLLECTED BY THE RFB (% OF GDP): DEC/21 AND MAY/22 UPDATES (BASELINE)



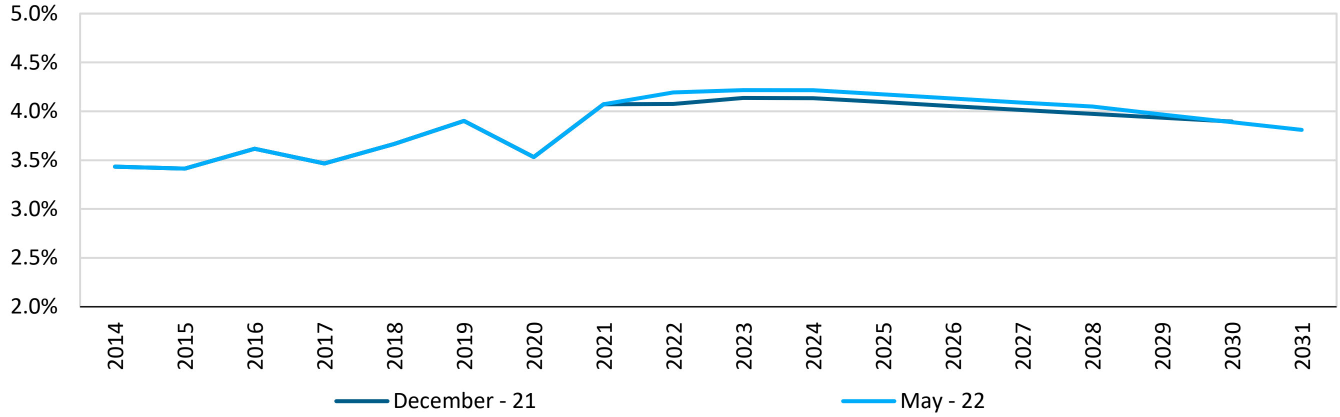
Source: National Treasury and IFI. Prepared by: IFI.

Transfers will grow in line with managed revenues and by the enactment of EC no. 112. Figure 9 displays the transfer projections by central government revenue breakdown until 2031. After the retraction in 2020, the transfers should increase in the next few years due to the expected growth of managed revenues and the modification introduced in the sharing of the IPI and IR collection by EC no. 112 of 2021.

In the long run, transfers will converge to 3.8% of the GDP. Given the lack of projections for the taxes on which the percentage of transfers is levied (IPI and IR), the transfers forecasts relate to the managed revenues scenario. In the short term (2022 to 2024), the transfers increase the share in GDP, while in the long-term, this percentage gradually drops back to 3.8% of GDP.

Higher percentage sharing in IPI and IR collections and R$ 7.7 billion authorized will boost transfers in 2022, 2023, and 2024. The increase in the sharing of IPI and IR collections foreseen in EC no. 112 (0.25% in 2022, 0.5% in 2023, and 1.0% from 2024 onwards) will produce, as of 2024, an impact of about R$ 15 billion on the Municipality Participation Fund (FPM). Currently, the participation of transfers in managed revenues is about 30%. With the increase in transfers by R$ 7.7 billion in 2022, this percentage would reach 30.4% in 2022. In 2024, the participation of transfers in managed revenues would fall to 30.2%, remaining at a relatively high level.

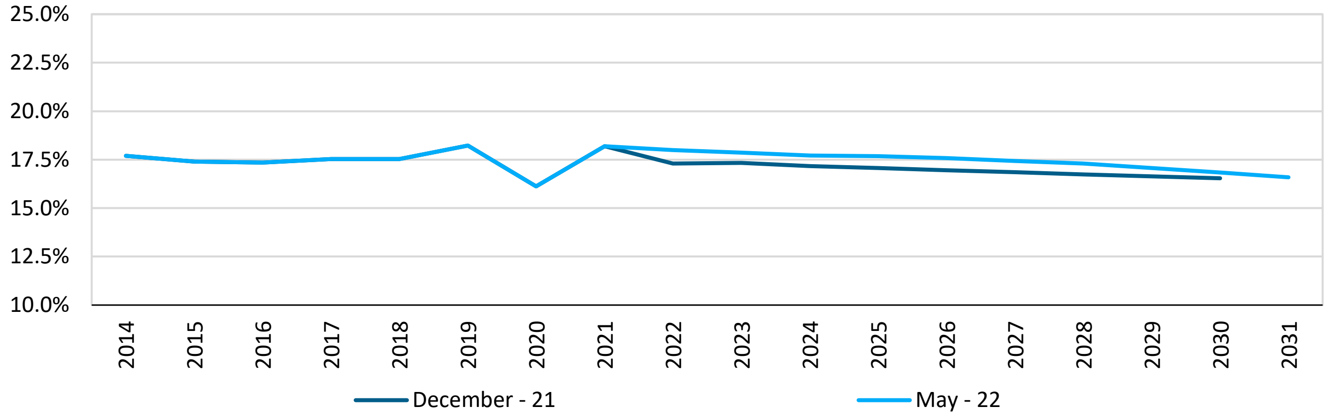
FIGURE 9. TRANSFERS (% OF GDP): DEC/21 AND MAY/22 UPDATES (BASELINE)



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

Net revenue should reach 18.0% of the GDP in 2022, falling marginally in the subsequent years. Finally, Figure 10 presents the net revenue forecast (2022 to 2031). In 2022, the IFI projects that the variable will reach 18.0% of GDP. In the following years, this share should drop, mainly due to the expected trajectories for managed revenues, which will lose share in GDP and transfers to the subnational entities. Net revenues should reach 16.6% of GDP in 2031.

FIGURE 10. NET REVENUE (% OF GDP): DEC/21 AND MAY/22 UPDATES (BASELINE)



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

3. PRIMARY EXPENDITURE AND PRIMARY BALANCE SCENARIO

The central government's new primary deficit estimate for 2022 is R$ 19.2 billion or 0.2% of GDP. The deficit is lower than the R$ 99.6 billion projected by the IFI in December. The main factor is the expected growth in tax collection, as discussed in the previous section. On the expenditure side, the projection grew by R$ 30.7 billion. For 2022, the scenario outlined for personnel expenditures incorporates the expectation of a 5% linear salary adjustment for federal employees starting in July. Besides this, expenses with court-ordered debt and social expenses related to Brazil Aid (Auxílio Brasil) increase the risk of non-compliance with the spending ceiling rule in the medium term.

The government has signaled its intention to grant, in a linear way, a 5% salary readjustment for federal civil servants. Recent trikes and shutdowns indicate that some adjustments should occur.[23] The fiscal impacts resulting from the 5% pay increase for federal public servants were considered in the IFI scenarios, given the high probability of formalizing this measure.

The spending ceiling rule limits additional measures on the expenditure side. With the spending ceiling, adopting fiscal measures that imply an increase in expenses has limited space. To promote actions that increase public spending, the government must adjust other expenses to accommodate them within the constitutional limit.[24] This partly explains the public servant's readjustment has not yet been formalized and why most of the fiscal measures are being adopted in revenues. If the salary readjustment for federal civil servants is confirmed in percentages and composition different from the hypotheses adopted in this RAF, the IFI will publish evaluations regarding its fiscal impacts.

With these considerations in mind, the scenario for this year and the following has improved, with growth in revenues and nominal GDP playing a predominant role. In addition, the evolution of inflation throughout 2022 and the change in the spending ceiling rule may also make it easier to comply with the spending ceiling in 2023.

On the other hand, the outlook for the medium term is worse. The spending ceiling rule with court-ordered debt generates a liability that will have to be paid in 2027, leading the primary balance to a deficit of 1.0% of GDP. We analyze these and other issues in the following topics.

3.1 Primary expenditure

In the baseline scenario, primary expenditure should reach R$ 1,764.5 billion or 18.2% of GDP in 2022 (Figure 11). We used values realized until March 2022, considering the data released by the National Treasury Secretariat in its latest monthly bulletin. The decrease from 18.6% of GDP in 2021 results from the expected increase in nominal GDP above the projected increase in expenditures.

In the baseline scenario, spending is expected to reach 15.8% of GDP in 2031. In the alternative scenarios, primary expenditure varies basically as a function of macroeconomic parameters, such as inflation and GDP.

Throughout this topic, we will comment on the main factors behind the central government's new primary spending projections.

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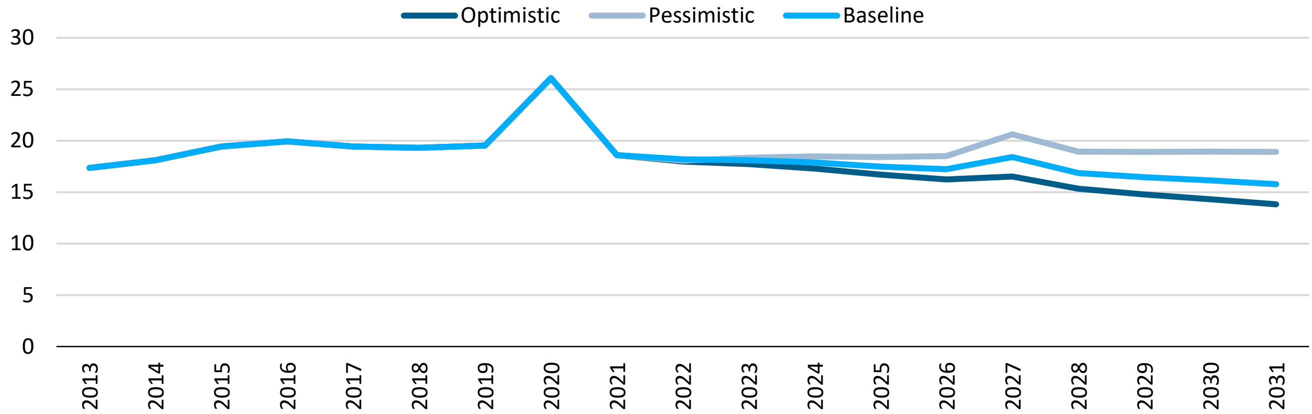
[23] Some news published on the subject can be accessed at: https://www.poder360.com.br/economia/funcionarios-do-tesouro-nacional-ameacam-entrar-em-greve/, https://valorinveste.globo.com/mercados/brasil-e-politica/noticia/2022/05/16/banco-central-nao-publicara-ibc-br-e-focus-hoje-devido-a-greve-de-servidores.ghtml e https://economia.estadao.com.br/noticias/geral,quatro-carreiras-servidores-publicos-cruzarao-bracos-reajustes,70004066152.

[24] It is essential to highlight that this adjustment is made through contingencies so that the scenario foreseen in the bimonthly evaluation report on primary revenues and expenses must be considered. The first two-month evaluation report, released in March and analyzed by the IFI in April's RAF, indicated the need for a contingency of R$ 1.7 billion in discretionary spending to comply with the spending ceiling. This contingency was formalized through the budgetary and financial programming decree no. 11,019, of 2022. Thus, to increase expenses, there must be a reduction in other expenditures subject to the spending ceiling for the rule to be respected. The budgetary and financial programming decree can be accessed at: https://www.tesourotransparente.gov.br/publicacoes/decreto-de-programacao-orcamentaria-e-financeira-dpof/2022/181.

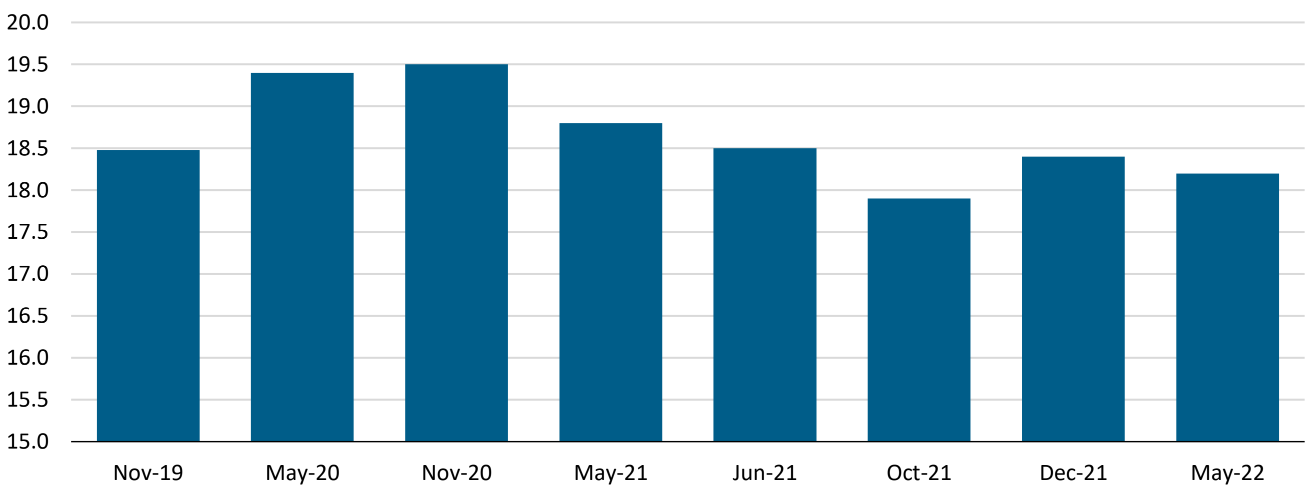
FIGURE 11. PRIMARY EXPENDITURE - IFI SCENARIOS (% OF PIB)



Source: Treasury and IFI. Prepared by: IFI.

The new expenditure projection for 2022 indicates a nominal growth of 1.8% compared to December. As a percentage of GDP, however, there is a drop of 0.2 p.p. (Figure 12), explained by the significant growth in the IFI's nominal GDP estimate in the period. In other words, the expenditure estimate increased, but the evolution of nominal GDP was even more remarkable, causing the expenditure to drop as a percentage of GDP. Figure 12 shows how the IFI's central government primary expenditure projection for 2022 evolved. It reached 19.5% of GDP in November 2020. Once again, the role of nominal GDP was predominant. Although the expectation for real GDP growth was higher than this RAF, the expected inflation was lower.

FIGURE 12: 2022 PRIMARY EXPENDITURE (% OF GDP) BY RAF EDITION



Source: IFI.

Table 13 compares the IFI's primary expenditure baseline in 2022 with a) the realized 2021 data, b) the Executive's most recent outlook, and c) the IFI's projections in the December scenario. We then comment on some of the most relevant variations over the period.

TABLE 13. 2022 PRIMARY EXPENDITURE FORECASTS OF MAY/22 *VERSUS* DEC/22 – BASELINE SCENARIO (R$ BILLION AND VAR. %)

	2021	2022 forecasts			Comparative					
		Executive	IFI		IFI (May/22) *vs.* 2021		IFI (May/22) *vs* Executive (Mar/22)		IFI (May/22) *vs* IFI (Dec/21)	
		Mar/22	Dec/21	May/22	var.	var. %	var.	var. %	var.	var. %
Primary expenditure	1,612.8	1,751.3	1,733.8	1,764.5	151.7	8.6	13.2	0.8	30.7	1.8
Mandatory	1,489.0	1,621.7	1,582.2	1,628.2	139.2	8.9	6.6	0.4	46.0	2.9
Social Security (RGPS)	709.5	778.1	779.1	782.2	72.6	9.7	4.1	0.5	3.1	0.4
Payroll	327.9	338.6	335.4	340.8	12.9	3.3	2.3	0.7	5.4	1.6
Allowance and insurance	45.9	64.4	61.4	62.1	16.2	40.3	-2.3	-3.5	0.7	1.2
BPC	67.7	76.0	74.4	75.0	7.4	12.4	-1.0	-1.3	0.6	0.8
Bolsa Família	25.8	89.1	84.7	88.4	62.6	245.4	-0.7	-0.8	3.7	4.4
Other mandatory	312.2	275.6	247.2	279.8	-32.5	-11.7	4.1	1.5	32.5	13.2
Discretionary (Executive)	123.8	129.6	151.6	136.3	12.5	4.7	6.7	5.1	-15.3	-10.1
Memo:										
Spending on Covid-19	*120.8*	*23.8*	*15.0*	*30.6*	*-90.3*	*-80.3*	*6.7*	*28.2*	*15.6*	*103.8*
Others	*1,492.0*	*1,727.4*	*1,718.8*	*1,733.9*	*242.0*	*15.8*	*6.5*	*0.4*	*15.1*	*0.9*

Source: National Treasury, Primary Revenue and Expenditure Evaluation Reports, and IFI. Prepared by: IFI.

The RGPS expenditure forecast was revised upward by incorporating the execution up to March 2022 and updated macroeconomic parameters. Excluding the expenses with court-ordered debt, the social security expenses nominal growth from January to March was 10.6% compared to the same period in 2021. This percentage (excluding court-ordered debt) is slightly lower than the 2022 baseline scenario forecast. Until the December revision, we expected nominal growth of 10.9%, and the projection indicates an increase of 11.6% in 2022. Considering court-ordered debt – which, worth mentioning, is limited by Constitutional Amendments (ECs) no. 113 and no. 114 – the growth was 9.8%, and now it becomes 10.2%. With this, the RGPS expenses forecast rose from R$779.1 billion to R$ 782.2 billion, compared to R$ 778.1 billion estimated by the Executive in the last bimonthly evaluation.[25] Concerning 2021, the R$ 782.2 billion would represent a nominal growth of 10.2%, reflecting the effect of inflation.

The expenses with personnel and social charges forecast increased between the last two revisions. From January to March, the personnel expenditures nominal growth, excluding court-ordered debt, was 1.7%. With the expectation that there will be readjustments of at least 5% still in 2022, in this revision, we adopted the dynamics observed in the first quarter to project the year, plus 5% in remunerations from July. When adding the expenses with court-ordered debt and the expected 5% readjustment, the personnel expense would go from R$ 327.9 billion in 2021 to R$ 340.8 billion in 2022, an increase of 3.3%. The IFI's estimate is slightly higher than the R$ 338.6 billion forecast by the government in March.

In line with the RGPS, BPC spending should also increase. According to IFI projections, in 2022, the BPC spending increase, excluding court-ordered debt, would be 10.7%, and the expense would reach R$ 73.0 billion. When incorporating the court-ordered debt forecast, the estimate for 2022 reaches R$ 75.0 billion, above the R$ 74.5 billion estimated in December 2021. The Executive Branch's current projection is a little higher, R$ 76.0 billion.

[25] Available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2022/13.

Auxílio Brasil program (Brazil Aid) expenditure is expected to be R$ 88.4 billion, reflecting the regular and extraordinary benefits. The Brazil Aid program expense was R$ 29.1 billion from January to April. According to data from the Ministry of Citizenship, an average amount of R$ 409.82 per family was paid in April, totaling R$ 7.4 billion in monthly expenses with the program. The IFI's projections consider maintaining this value for the rest of the year without significant changes in the number of families benefited or in the average monthly ticket.

The Brazil Aid program, which replaced the Bolsa Família (Family Allowance), was created by Provisional Measure (MP) No. 1,061 on August 9, 2021.[26] The benefit consists of a direct cash transfer to families that fit into at least one of three situations: (i) in extreme poverty, that is, families that have a per capita monthly family income of up to R$105.00; (ii) in poverty, that is, per capita monthly family income between R$105.01 and R$210.00;[27] or (iii) in emancipation rule.[28]

The program has eight categories of benefits, four of which are core benefits (benefícios cesta-raiz) and four additional ones for those who are eligible and have at least one of the core benefits, that is, for the participants of the Brazil Aid program. In 2022, the beneficiaries of Brazil Aid also receive an extraordinary benefit, so the minimum monthly value per family is R$ 400.00. Thus, if in calculating a family aid value, the sum of the benefits that make up the core benefits goes below R$ 400.00, that family will be entitled to the extraordinary benefit. Table 1 summarizes the Brazil Aid program benefit categories and the extraordinary benefit.

Of the 18.1 million beneficiary families in the program, 16.2 million are eligible for the extraordinary benefit, meaning that 90% of the families participating in the Brazil Aid program need the additional amount to reach R$ 400.00 a month. Without the extraordinary benefit, the average monthly ticket would be R$ 216.17 per family.

CHART 1. TYPES AND RULES OF THE BRAZILIAN AID AND EXTRAORDINARY BENEFIT

Benefit	Access rule	Number of installments	Benefit value
Core benefits (Benefícios cesta-raiz)			
Benefício Primeira Infância (BPI)	Families whose members include children aged up to 36 months are incomplete.	-	R$ 130 per eligible child
Benefício Composição Familiar (BCF)	Families whose members are pregnant;	9	R$ 65 per eligible person
	Families whose members are nursing mothers; and/or	6	
	Families whose members include persons between the ages of 3 and 21 are incomplete.	-	
Benefício de Superação da Extrema Pobreza (BSP)	Families in which the monthly per capita family income, including the BPI and/or BCF benefits, continues to be less than R$ 105. They receive the equivalent to reach the amount of R$ 105, respecting the minimum per family member.	-	Variable, with a minimum of R$25 per family member

[26] MP no. 1,061 of 2021 was converted into Law no. 14,284 of December 29, 2021. Available at: http://www.planalto.gov.br/ccivil_03/_ato2019-2022/2021/Lei/L14284.htm.

[27] Families that meet the poverty situation will only be eligible for the Brazil Aid program if they have in their composition pregnant or nursing mothers or people up to 21 (twenty-one) incomplete years of age.

[28] Beneficiary families of the Brazil Aid program with an increase in monthly per capita family income that exceeds the income limit (extreme poverty or poverty) will remain in the program for up to 24 months. The rules for emancipation can be found in art. 20 of Law 14,284, of 2021.

Benefício compensatório (BComp)	Bolsa Família Program (PBF) beneficiary families that reduced the total value after migrating from PBF to Auxílio Brasil. They receive the equivalent needed to reach the amount they previously received in the PBF.	-	Variable
Additional benefits (for those who are already beneficiaries of the Auxílio Brasil)			
Bolsa iniciação científica júnior	Students who have excelled in academic and scientific competitions nationwide.	12	R$ 100 for each student
		1	R$ 1,000 for each family
Esporte escolar	Students from 12 to 17 years old have excelled in the Brazilian School Games.	12	R$ 100 for each student
		1	R$ 1,000 for each family
Inclusão produtiva rural	Families whose members are small farmers.	-	R$ 200 for each family
Inclusão produtiva urbana	Beneficiaries of the Brazil Aid program can provide proof of a signed employment contract.	-	R$ 200 for each family
Benefício extraordinário (for those who are already beneficiaries of the Auxílio Brasil)	Families whose core benefit value is less than R$ 400. They receive the equivalent of the amount needed to reach R$ 400.	-	Variable

Source: Ministry of Citizenship. Prepared by IFI.

The Provisional Measure (MP) 1,076 of December 7, 2022, created an extraordinary benefit. The MP forecasted the benefit payment only for December 2021 but with the possibility of an extension for 2022. While the MP was being processed, Congress changed it so that the extraordinary benefit would be granted permanently. Thus, on May 5, 2022, the Bill of Conversion (PLV) no. 6 of 2022[29] was approved, making it permanent and integrated into the Brazil Aid law. Table 2 summarizes the changes to articles 1 and 2 of MP 1,076.

CHART 2. LEGISLATIVE AMENDMENT OF THE EXTRAORDINARY BENEFIT OF THE BRAZILIAN AID – ARTS 1 AND 2

Original text (MP 1,076, of 2021)	The text approved (PLV 6, of 2022)
Art. 1 The Extraordinary Benefit for the Brazil Aid Program beneficiary families is established from December 2021.	Art. 1 The Extraordinary Benefit for beneficiary families of the Brazil Aid Program is instituted permanently as part of extending the basic citizenship income referred to in the heading and 1st paragraph of Art. 1 of Law no. 10,835, of January 8, 2004.
Sole Paragraph. An act of the Federal Executive Branch may extend the grant of the Benefit referred to in the caput for January to December 2022, considering the beneficiary families in the month of reference of the payment of said Benefit and with due regard for budgetary and financial availability.	-
Art. 2 The Extraordinary Benefit intended for beneficiary families of the Brazil Aid Program:	Art. 2 The Extraordinary Benefit intended for beneficiary families of the Brazil Aid Program:

[29] The PLV no. 6 of 2022 awaits sanction. Available at:: https://bit.ly/37Q7TFk.

I – Will be calculated from the sum of the financial benefits dealt with in items I to III of the caption and item VI of Paragraph 1 of Article 3 of Provisional Measure no. 1,061, of August 9, 2021, in the month of reference;	I – Will be calculated from the sum of the financial benefits dealt with in items I, II, III, and IV of the caput of Art. 4th of Law 14,284, of December 29, 2021, in the reference month;
II – It will be equivalent to the amount necessary to reach the amount of R$ 400.00 (four hundred reais);	II – It will be equivalent to the amount needed to reach the amount of R$ 400.00 (four hundred reais);
III – It will not be continuous;	III – It will be continuous;
IV – It will be paid together with the ordinary installment for December 2021 of the Brazil Aid Program within the limit of one Benefit per family; and	IV – It will be paid along with the ordinary installment of reference of the Brazil Aid Program, with a limit of one (1) benefit per family; and
V – It will not integrate the benefits instituted by Provisional Measure 1,061 of 2021.	V – It will integrate the set of benefits instituted by Law no.14,284 of December 29, 2021.

Source: PLV 6, of 2022 and MP 1,076, of 2021. Prepared by IFI.

The IFI's December scenario already forecasted future Brazil Aid expenditures at the same level as in 2022. The great discussion with PLV no. 6 of 2022 concerns the temporary expense transformation into a permanent one without any sign of compensation, either through a reduction in other expenses or an increase in revenue. Given the political difficulty of reducing social expenditures, the IFI scenarios of December 2021 already contemplated the maintenance, in the following years, of the 2022 expense with the Brazil Aid. More recently, the Multi-Year Plan and the Budget Guidelines Bill (PLDO) for 2023 also considered the extension of this extraordinary expense in the budget.[30]

Spending on tackling Covid-19 is expected to reach R$ 30.0 billion by 2022. Expenditures mainly involve vaccination and health services. Last year, these expenditures reached R$ 120.8 billion, or 1.4% of GDP. Therefore, a significant reduction in the fiscal stimulus. The 2022 previous estimate was R$ 15.0 billion. The difference to the current forecast is basically due to the government's higher projections for vaccine acquisition and additional ministry expenses. The IFI projection considers the updated allocation for Covid-19-related spending.[31]

IFI's projection for spending by the Legislative, Judiciary, Public Prosecutor Office (MP), and Public Defender's Office (DPU) remain below the Executive's forecast. The Executive estimates for the other branches' spending reflect the budget allocation and, therefore, are not very sensitive to the execution in the year. In the first quarter of this year, these branches' current and capital expenses nominal growth was 22%, but even if this rate is extrapolated for the rest of the year, the expense should end at a lower level than that foreseen in the official projections. Besides, it is essential to highlight the space existing in the spending ceiling of these branches, as shown in the bimonthly evaluation of the Executive's primary revenues and expenses and analyzed in the last edition of RAF. By incorporating the most recent performance and considering that the other Branches may increase expenses to consume part of the fiscal margin, its projection reaches R$ 16.3 billion, higher than the R$ 10.8 billion in 2021 but lower than the R$ 18.9 billion forecast by the government in the first bimester evaluation report.

The salary allowance expenditure will stand at R$ 22.6 billion in 2022. In 2021 the last payments were made in June, referring to the base year 2019. Those related to the 2020 base year, carried out between July 2021 and June 2022, will be made between January and December 2022. This is due to CODEFAT's Resolution no. 896 of March 23, 2021, which changed the benefit payment calendar. The practical consequence is that the expenditure that would be made in the second half of 2021 was postponed to 2022, generating a gap specifically in 2021. From this year on, the

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[30] O The value can be consulted in process number 18101.100496/2022-61, referring to document 24334894. Available at: https://bit.ly/3wjSRkp

[31] The information source is the STN's Covid-19 spending monitoring dashboard. Access occurred on May 12, 2022. The updated information can be accessed at: https://www.tesourotransparente.gov.br/visualizacao/painel-de-monitoramentos-dos-gastos-com-Covid-19.

expense will normalize with the payments of the base year 2020. The increase compared to R$ 10.2 billion in 2021 does not refer to a beneficiaries expansion but a change in the program operation. Expenses with unemployment benefits were revised downwards concerning the IFI's December scenario when considering the revision of some macroeconomic parameters and the realization of expenditures in the first quarter. The projection for 2022 is R$ 39.5 billion, compared to R$ 41.8 billion in the December 2021 scenarios.

In the baseline scenario, primary expenditure should decline to 15.8% of GDP by 2031. The new mid-term projections, especially as a percentage of GDP, are slightly above the scenario outlined previously for 2022 to 2026. As of 2027, the expenditure in the base scenario presents a broader gap and is systematically above the scenario outlined in December. The main factor refers to ECs 113 and 114 impacts, which created a payment limit to court-ordered debt between 2022 and 2026.

The January RAF explored the impact of ECs 113 and 114 on the 2022 budget. We present below an analysis of the implications of these regulations on the medium-term fiscal scenario.

The ECs 113 and 114, both of December 2021, among other measures, promoted two alterations that directly impact the elaboration of fiscal scenarios, namely: a) a change in the correction factor of the spending ceiling; and b) the creation of a ceiling for the execution of expenses with court-ordered debt.

Regarding the changes in the spending ceiling, we highlight two of them. The first corresponds to the index that corrects the spending limit. Previously, the inflation was equivalent to the June IPCA accumulated in 12 months, and, with the changes in ECs no. 113 and no. 114, the December inflation in 12 months is now used.

The idea behind the previous rule was that, at the time of the elaboration and presentation of the Annual Budget Bill (LOA), it would be possible to set expenses knowing the exact value of the annual ceiling. With the change, obtaining the realized value of the IPCA to calculate the limits is no longer possible. To get around this issue, ECs 113 and 114 establish that the inflation will be calculated for the first semester with actual data and the second semester with estimated data. During the Budget Bill's passage through Congress, the estimate for the second half of the year and the other macroeconomic parameters will be updated monthly by the Executive Branch and sent to the Joint Committee on Public Budgets (CMO).

If the actual inflation is different from the inflation considered in the approved Budget, the following year's ceiling must incorporate the difference. Chart C shows the before and after comparison of the spending ceiling rule.

Still, on the spending ceiling analysis, it is observed that ECs 113 and 114 also revoked art. 108 of the Transitory Constitutional Dispositions Act (ADCT). Art. 118 provided that, from the tenth year, the government could change the correction factor of the fiscal rule. With this repeal, the medium-term scenario is more predictable concerning the spending ceiling.

CHART 3. SPENDING CEILING RULES COMPARATIVE

Before:

- The ceiling corresponds to the previous year's limit corrected by inflation assessed in the 12 months ended in June of the year before the budget law refers.
- Change the correction method in the tenth year as of the ceiling's validity is possible.

Now:

- The ceiling corresponds to the previous year's limit corrected by estimated inflation for the 12 months ended in December of the year before the budget law refers.
  - The Budget was prepared based on realized inflation from January to June and estimated inflation from July to December.
  - The difference between the inflation considered in the Budget and the realized inflation will be compensated in the following year's ceiling.
- Change the correction method in the tenth year as of the ceiling's validity is not possible.

Source: Federal Constitution. Prepared by IFI.

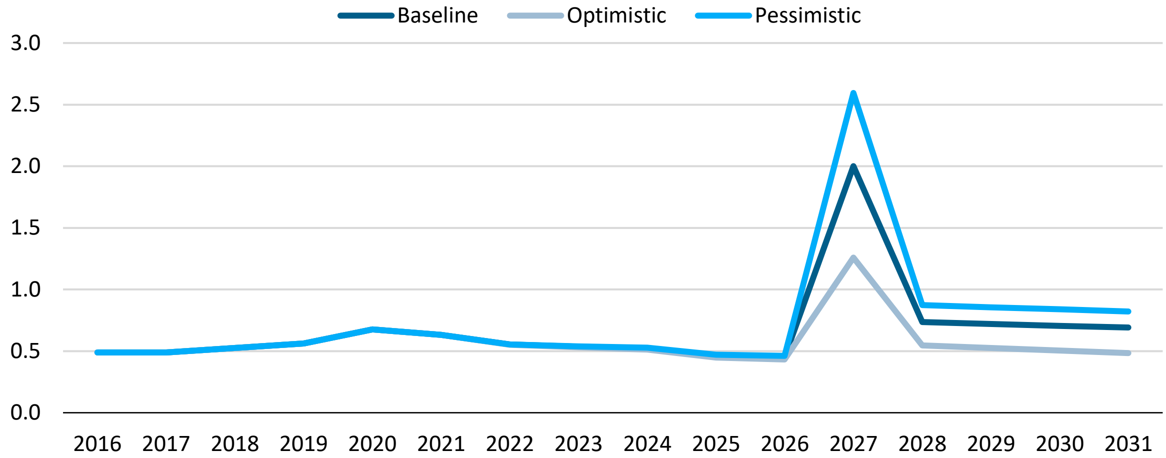
Concerning court-ordered debt expenses, ECs 113 and 114 established the following rules for 2022 to 2026:

a) Creation of a ceiling for court-ordered debt, whose limit correction factor is equal to that of the spending ceiling correction rule.
b) Exclusion of the Fund for Basic Education Development and Maintenance and for the Valorization of Education Professionals (FUNDEF) court-ordered debt from the spending ceiling rule and the court-order debts ceiling: payments will be 40% this year, 30% in 2023, and 30% in 2025.
c) Agreements with a 40% discount: if the option is to receive in the year it is issued, one can do so with a 40% discount on the amount the Union has to pay. This agreement is outside the spending ceiling rule and tends to contribute positively to reducing liabilities; the doubt is related to the potential for adhesion of these agreements. Our scenarios start from the budget allocation in 2022. We consider that this volume paid under the agreements will vary according to the inflation rate.

As the spending limit on court-ordered debt is expected to last until 2026, we understand that all liabilities accumulated in the period – assuming that the flow of the Union's new obligations exceeds payments in the year – must be paid in the year immediately following, i.e., 2027. In the years following the liability settlement, the evolution respects the flow of court-ordered debt issued. The limit interruption without a transition rule for the liability payment breaks the primary balance improvement trajectory.

For both the pessimistic and optimistic scenarios, the flow of court-ordered debts issued evolves with inflation. In addition, the starting point, the projection of court-ordered debt issued for 2023, varies between the optimistic and pessimistic scenarios. The optimistic scenario corresponds to the average from 2018 to 2020; in the pessimistic, we adjust the 2022 value with the inflation. The baseline scenario, in this case, is defined by the average of the optimistic and pessimistic scenarios. The liability to be paid in 2027 will be higher or lower depending on the hypothesis adopted. The figure below displays the estimated amount in the three scenarios outlined by the IFI.

FIGURE 13: COURT-ORDERED DEBT EXPENDITURES (% OF GDP)



Fonte: Treasury and IFI.

3.2 Spending ceiling

Uncertainties about the medium-term expenditure ceiling have increased. When tracking the adherence of fiscal indicators to the primary expenditures constitutional limit, the IFI measures non-compliance risk based on the amount of discretionary spending. Since they are the primary adjustment variable in the short term, the IFI monitors the compatibility of discretionary expenditures with compliance with fiscal rules and, simultaneously, the possibility of maintaining public services.

Although it is difficult to measure, the IFI calculates the minimum level of discretionary spending below which the functioning of the public machine would be compromised. Nevertheless, uncertainty today is not restricted to the possibility of complying with the current rules. In this context, the new scenarios for the spending ceiling are analyzed.

In the baseline scenario, the risk of non-compliance with the ceiling would become high in 2026. It is difficult to predict the behavior of discretionary spending from the moment it reaches the minimum level. Given this difficulty, we allow discretionary spending to grow by inflation without falling to even lower levels, nor assuming any more vigorous recovery.

When the discretionary spending estimate is between 90% and 110% of the minimum level, the non-compliance risk is moderate; below 90%, high, and above 110%, low. This objective parameter can be complemented with other information that allows us to evaluate the general picture of the expenditure ceiling in a given year.

Table 14 shows that in 2026, discretionary spending would fall below 90% of the minimum level and, thus, the risk of non-compliance with the ceiling would become high. In the optimistic scenario, the risk of non-compliance goes from low until 2026 to high as of 2027. This reversal, without a period of moderate risk, reflects the risks associated with the court-ordered debt rule.

TABLE 14. RISK OF NON-COMPLIANCE WITH THE SPENDING CEILING.

Balance of risks: spending ceiling	2022-2023	2024	2025	2026	2027-2031
Baseline	Low	Low	Moderate	High	High
Optimistic	Low	Low	Low	Low	High
Pessimistic	Low	High	High	High	High

Source: IFI.

With Constitutional Amendment no. 109 of 2021, to trigger the compulsory adjustment measures to return spending to the limit (the ceiling triggers), the mandatory spending foreseen in the budget law must reach the 95% level of total primary expenditures subject to the ceiling. This would not occur in any years up to 2026, making the rule innocuous. In imminent non-compliance with the spending ceiling, the most plausible alternative would be to change it in Congress.

3.3 Primary balance

In the baseline scenario, the IFI estimates a primary deficit of R$ 19.2 billion, or 0.2% of GDP, in 2022 (Table 15). The deficit is slightly lower than the R$ 33.7 billion of 2021. The reduction is due to the recovery in tax collection, as we commented in the previous section. The current government projection for the primary deficit is R$ 65.2 billion.

TABLE 15. CENTRAL GOVERNMENT´S PRIMARY BALANCE – BASELINE SCENARIO (R$ BILLION)

	2021		2022 (IFI forecast)		Difference	
	R$ bi	% GDP	R$ bi	% GDP	R$ bi	% GDP
Total revenue	1,932.6	22.3	2,151.8	22.2	219.1	-0.1
Transfers	353.5	4.1	406.5	4.2	52.9	0.1
Net revenue	1,579.1	18.2	1,745.3	18.0	166.2	-0.2
Primary expenditure	1,612.8	18.6	1,764.5	18.2	151.7	-0.4
Mandatory	1,489.0	17.2	1,628.2	16.8	139.2	-0.4
Discretionary (Executive)	123.8	1.4	136.3	1.4	12.5	0.0
Primary balance	-33.7	-0.4	-19.2	-0.2	14.5	0.2
Primary target	-247.1		-170.5		76.6	0.0

Source: STN and IFI. Prepared by: IFI.

In the base scenario, the primary result would return to a surplus in 2025 (Figure 9). The current projections until 2031 are similar to that of December. Some distinctions, however, are relevant. In the December scenario, the evolution of the primary balance was gradual, reaching positive territory in 2025 and remaining in surplus until the end of the projection horizon. In the new scenario, the primary balance improves until it reaches surplus in 2025, but in 2027 it returns to deficit due to the end of the rule limiting the payment of court-ordered debt.

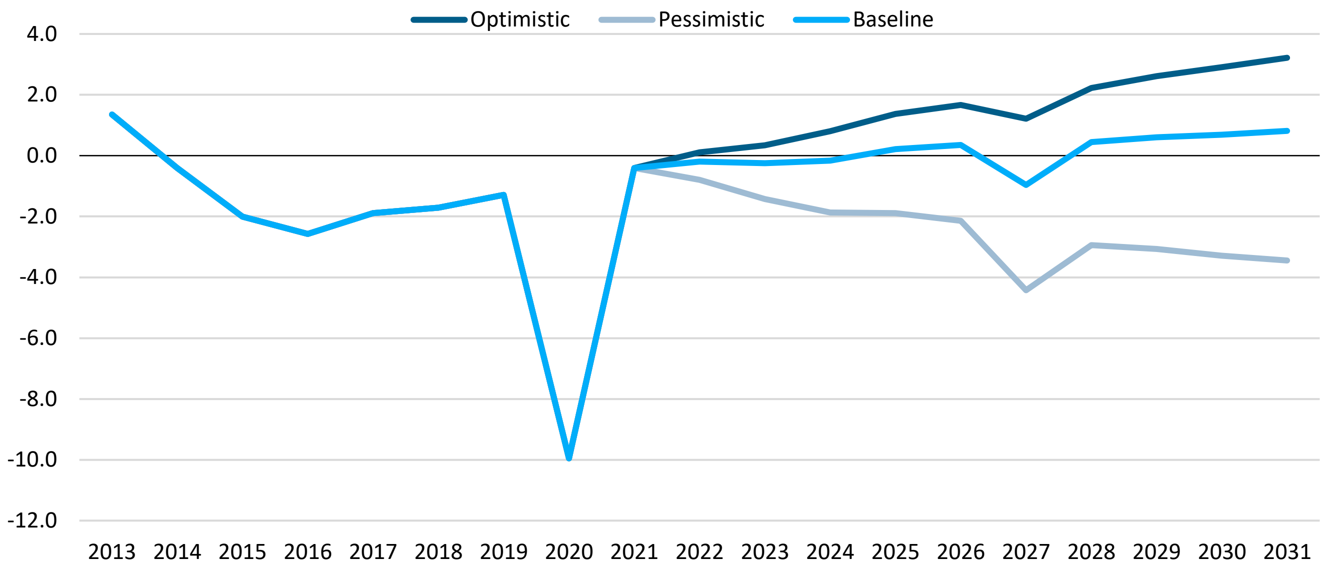
The optimistic and pessimistic scenarios contemplate the negative and positive risks behind the main macroeconomic parameters. Tables 20, 21, and 22, at the end of the report, detail the IFI's projections for the central government's primary balance under the baseline and the alternatives.

In the optimistic, we estimate a primary surplus of 0.1% in 2022 against a deficit of 0.2% in the baseline (Figure 14). From 2023 to 2031, the projected net revenues should average 17.7% of the GDP, above the 17.3% of the GDP projected in the current baseline scenario for the same period. On the other hand, expenditures present an average of 15.9% of GDP, below the base scenario average of 17.1%. In the optimistic scenario, the primary result forecast varies from + 0.1% in 2022, after a deficit of 10.0% in 2020 and 0.4% in 2021, to +3.2% in 2031.

The primary deficit estimated in the pessimistic scenario is R$ 70.9 billion or 0.8% of GDP in 2022. From 2023 to 2031, net revenues are estimated at 16.2%, around 1.2 pp, below those estimated in the baseline scenario. On the expenditure side, the annual average projected for the period is 18.9% of GDP, 1.7 pp, higher than the baseline average. Unlike the other two scenarios, in the pessimistic one, the primary balance does not become positive, and the deficit grows again at the end of the forecasting period.

Figure 14 compares the central government primary balance curves in the three current scenarios: baseline, optimistic and pessimistic, as a percentage of the GDP.

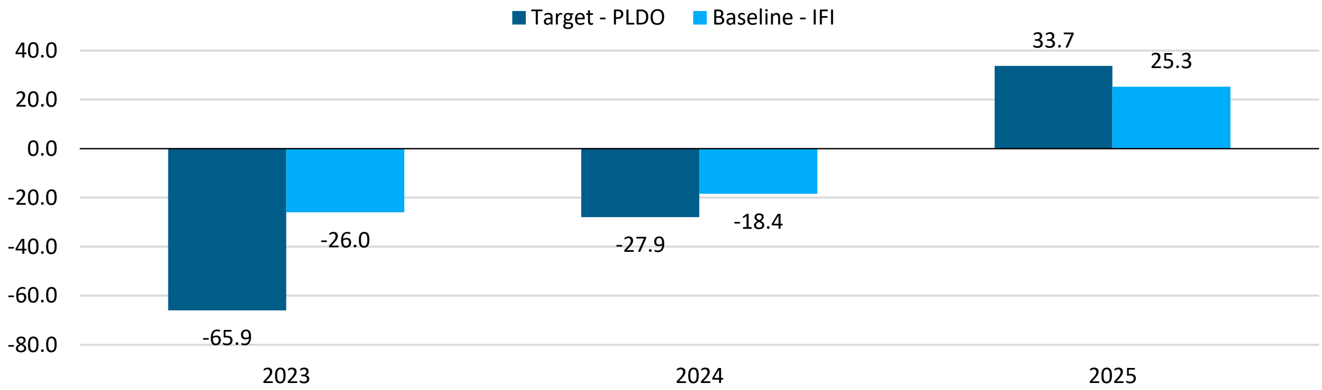
FIGURE 14. PRIMARY BALANCE - IFI SCENARIOS (% OF GDP)



Source: Treasury and IFI.

The fiscal targets for the next three-year period (2023-2025) contained in the 2023 PLDO foresee a deficit of R$ 65.91 billion and R$ 27.30 billion for 2023 and 2024, respectively. According to the PLDO, only in 2025 would the central government return to a primary surplus of R$ 33.70 billion. Comparing the primary balance targets in the time horizon of the 2023 PLDO with the IFI's baseline scenario, one can see that for 2023 and 2024, the primary projected by the IFI should be better than the fiscal target. In 2025 the IFI's base scenario indicates a moderate risk of not meeting the primary target since its value should be below the fiscal target established in the PLDO. The figure below summarizes these differences.

FIGURE15. PRIMARY TARGET AND IFI SCENARIO (R$ BILLION)



Source: PLDO 2023 and IFI.

4. GROSS DEBT SCENARIO

We present the revised scenarios for the General Government Gross Debt (DBGG) to GDP (Debt to-GDP ratio) for 2022 to 2031, considering the macro-fiscal projections described in the previous sections. As we have been warning for several months, fiscal risks and the rise in interest rates, directly associated phenomena, affect the public debt average cost.

According to the Central Bank, the debt-to-GDP ratio showed a downward trend throughout 2021 and the first quarter of 2022. This movement is due to the more significant increase in nominal GDP (denominator) to the DBGG outstanding (numerator). The projections indicate that this downward debt trajectory will continue in 2022 in the baseline and optimistic scenarios. In the pessimistic one, the DBGG would remain stable in 2022 compared to the previous year.

Although the decline in the debt-to-GDP ratio is a positive factor, it is necessary to emphasize the context of the increase in the debt average cost, in line with the rise in the economy's base interest rate (Selic). In response, the public sector's interest expense, as a proportion of the GDP, started to rise in June 2021. Even though the higher interest expense has not reversed the nominal public sector balance trajectory, it is necessary to be cautious regarding the pressure for higher expenditures in the Federal budget and the loss of credibility of the spending ceiling rule, which changed last December to accommodate new expenses in the budget. These factors add uncertainty to the scenario and may put further pressure on the average cost of debt in the future.

In 2023, the debate regarding revising the current fiscal rules adopted by Brazil is likely to gain strength. The challenge will be to resume a credible budgetary framework that makes it possible to stabilize and reduce the debt-to-GDP ratio.

4.1 Interest and debt recent evolution

Between January and March 2022, nominal GDP grew by R$ 173.8 billion, while debt rose by R$ 36.0 billion. Table 16 contains information regarding the gross debt and the GDP in nominal terms. The second and fourth columns show the differences between the debt and GDP figures for January and March 2016 to 2022. Between January and March 2020, the GGBD increased by R$ 207.9 billion, while the GDP grew by R$ 56.9 billion. In 2021, the DBGG rose by R$ 50.8 billion between the same months and the GDP by R$ 175.1 billion. In 2022, on the same basis of comparison, the DBGG had an increase of R$ 36.0 billion, while the GDP grew by R$ 173.8 billion.

This comparison is fundamental to understanding that the fall in the debt-to-GDP ratio throughout 2021 and the first three months of 2022 does not necessarily reflect an improvement in the fiscal picture, as an isolated analysis of the indicator might suggest.

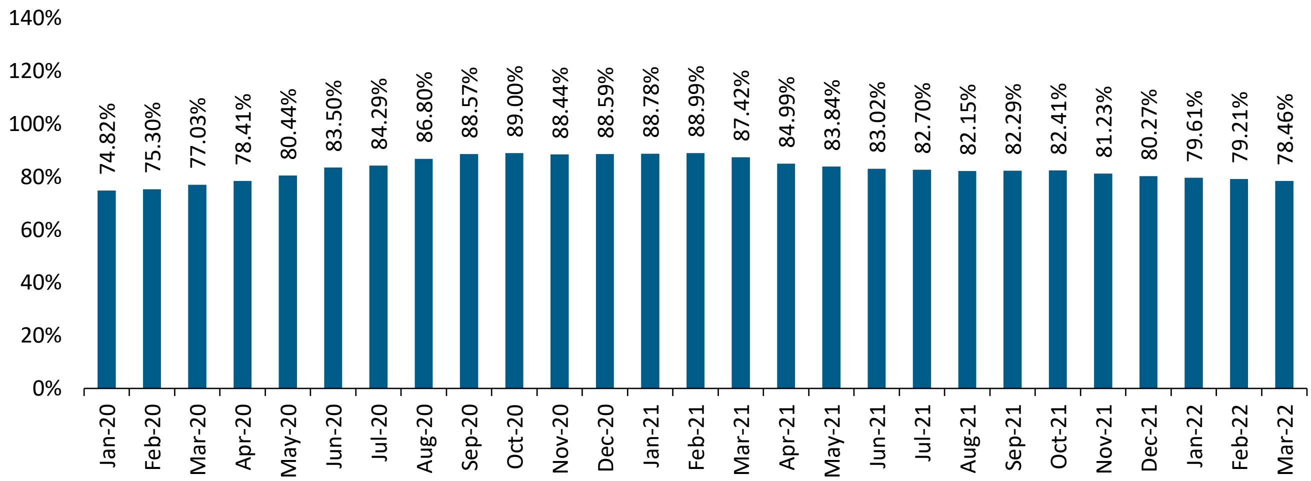
TABLE 16. DBGG AND GDP EVOLUTION IN NOMINAL TERMS (R$ BI)

	DBGG	Dif. (Jan-Mar)	GDP	Dif.(Jan-Mar)
Jan/16	3,992.8		6,003.1	
Mar/16	4,005.7	12.9	6,039.4	36.2
Jan/17	4,399.0		6,301.3	
Mar/17	4,527.0	128.0	6,354.9	53.5
Jan/18	4,904.3		6,624.2	
Mar/18	4,984.7	80.4	6,681.3	57.1
Jan/19	5,302.7		7,030.8	
Mar/19	5,431.0	128.3	7,081.9	51.0
Jan/20	5,550.5		7,418.5	
Mar/20	5,758.4	207.9	7,475.4	56.9
Jan/21	6,670.3		7,512.9	
Mar/21	6,721.1	50.8	7,688.0	175.1
Jan/22	6,973.2		8,759.7	
Mar/22	7,009.3	36.0	8,933.5	173.8

Source: Central Bank. Prepared by: IFI.

Debt has fallen recently, reaching 78.5% of GDP in March. Figure 16 presents the debt-to-GDP ratio evolution since January 2020. According to the Central Bank, indebtedness has reduced throughout 2021, interrupting the third and first quarters of 2022. In March, the DBGG fell to 78.5% of GDP, the same level as at the beginning of 2020. By the end of 2022, as presented later in this section, the DBGG should stabilize at around 78% of GDP.

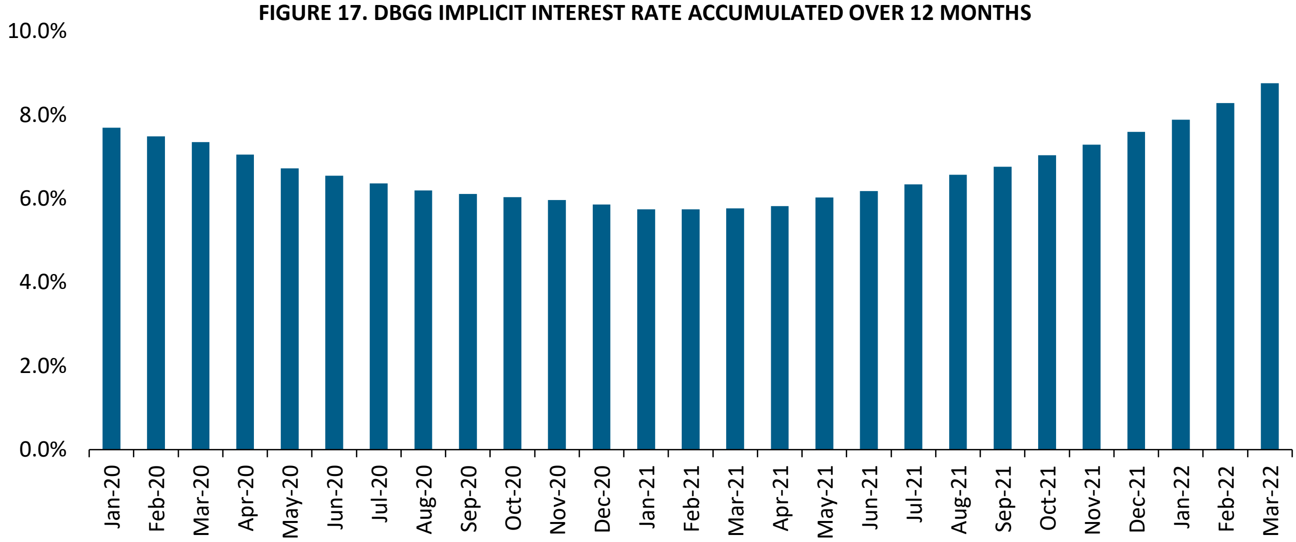
FIGURE 16. DEBT-TO-GDP RATIO



Source: Central Bank. Prepared by: IFI.

The implicit rate of gross debt accumulated in 12 months has registered an increase since March 2021. The result arising from the decrease in the debt-to-GDP ratio, caused by a period of high inflation, with effects on the nominal GDP, is temporary. This occurs because, in a second moment, the increase in interest rates to contain the rise in prices by the Central Bank affects the average cost of the debt and makes the issuance of new bonds more expensive. This is already happening, as seen in Figure 17, which contains the DBGG implicit rate evolution in the recent period.

FIGURE 17. DBGG IMPLICIT INTEREST RATE ACCUMULATED OVER 12 MONTHS



Source: Central Bank. Prepared by: IFI.

An increase in the implicit rate affects public-sector interest expenses. The increase in the implicit rate accumulated in 12 months, from 5.7% in February 2021 to 8.8% in March 2022, impacts the public sector interest account and debt dynamics. In the last editions of the RAF fiscal scenario section, the IFI has presented the increase in the debt average cost and the relation with the interest rate tightening promoted by the Central Bank. Currently, the Selic rate is at 12.75% p.a. and is expected to rise again in the June meeting of the Monetary Policy Committee (Copom).

Public sector interest expense rose from 4.03% of GDP in March 2021 to 4.52% in March 2022 in the 12-month accumulated. In a 12-month comparison, the net interest payments by the public sector rose from R$ 309.9 billion in March 2021 to R$ 403.8 billion in March 2022. As a proportion of the GDP, this expense grew from 4.03% to 4.52% of the GDP in the period. According to the Central Bank, the currency swap operations in the period (a loss of R$ 16.6 billion in March 2021 and a gain of R$ 40.3 billion in March 2022) more than offset the Selic rate increases and inflation in the period.

The increase in interest expenses cancels out part of the gains obtained in the public sector primary balance, partly explained by the movement of revenues – influenced by inflation and commodities – and partly by the states' and municipalities' substantial surplus.

The regional government's primary surplus reached 1.4% of GDP in the 12-month accumulated until March. The subnational entities (states and municipalities) dynamics also reflect the increase in tax collection, influenced, in turn, by inflation. According to information from the Central Bank, the subnational entities' primary balance stands at R$ 52.0 billion in the first quarter of 2022. In the 12 months to March, the surplus of these entities reached R$ 123.3 billion (1.4% of GDP), compared to R$ 97.7 billion accumulated from January to December 2021 (1.1% of GDP). In other words, the data shows that the regional governments' primary surplus continues to grow, supported by gains in tax collection and relatively controlled spending. Possible readjustments in civil service salaries have not yet influenced the dynamics of the subnational entities' primary balance, which represents a risk to be monitored by the IFI.

Table 19, at the end of the section, presents the consolidated public sector's nominal balance projections. In addition to the central government's primary balance, already discussed in the previous section, the trajectories for the states, municipalities, and state-owned companies and interest payments are considered.

4.2 Forecasts

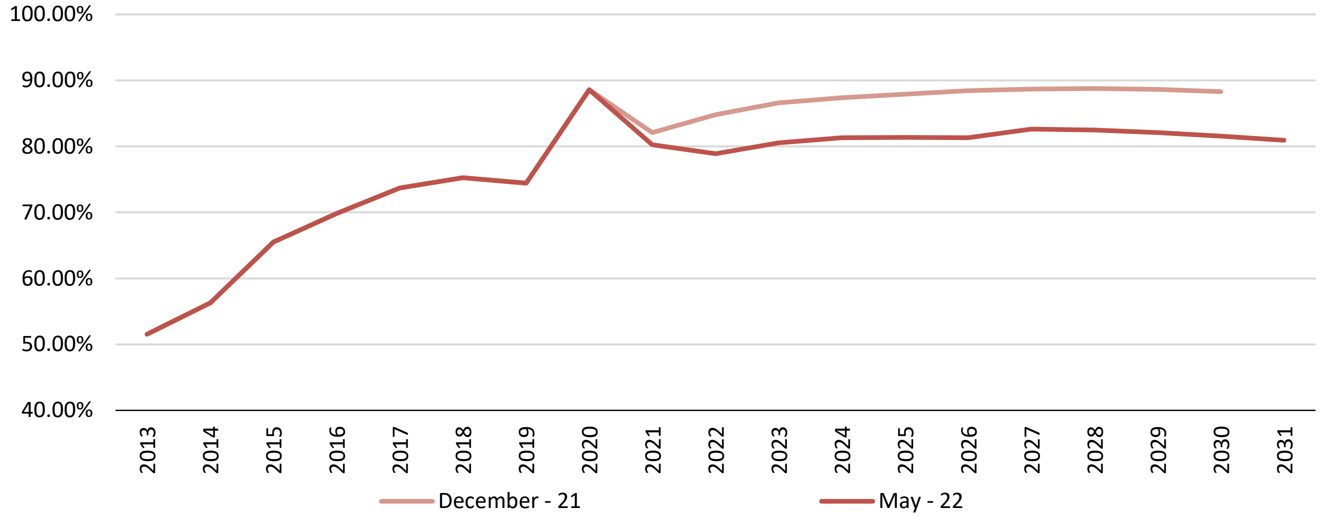
IFI expects the DBGG to reach 78.9% of GDP in December 2022. In the scenario review presented in December 2021, the IFI projected the gross debt at 84.8% of GDP in 2022. Now, despite the Selic upward revision, the consolidated public sector primary balance improvement will contribute to a level of the DBGG at 78.9% of GDP by December (Figure18).

The primary surplus of the consolidated public sector should reach R$ 71.5 billion (0.7% of GDP) in 2022. The projected increase in the DBGG as a proportion of GDP starting in 2023 is explained by the reduction in the expected public sector primary surplus from R$ 71.5 billion (0.7% of GDP) in 2022 to R$ 24.2 billion next year (0.2% of GDP). In 2024, this surplus would fall to R$ 6.8 billion (0.06% of GDP), according to the IFI's new projection. The reduction in the consolidated public sector primary surplus over the next few years would result from a slowdown in the growth rate of tax collection as well as an increase in expenditures.

Payment of court-ordered debt starting in 2027 will cause a worsening in the public sector's primary balance. As mentioned in the previous section, the introduction of a limit for court-ordered debt in the Constitution alleviates the budget execution in the short term, favoring the central government's primary balance until 2026. However, according to the constitutional rule, as of 2027, the accumulated liability will need to be paid off, which will worsen the central government's primary balance (and consequently of the public sector).

In the baseline scenario, the IFI estimates an increase of 1.3 pp in the general government deficit as a proportion of the GDP in 2027 with the court-ordered debt payment. The return of court-ordered debt payments in 2027 influences the projection of the DBGG for that year, when the public sector primary balance should be negative by R$ 126.4 billion, compared to a surplus of R$ 43.8 billion to be calculated in 2026. The court-ordered debt payment will generate a leap of 1.3 pp in the DBGG in the baseline scenario, which will rise from 81.3% in 2026 to 82.6% of GDP in 2027.

FIGURE 18. DBGG (% OF GDP) - PREVIOUS AND CURRENT FORECASTS (BASELINE)



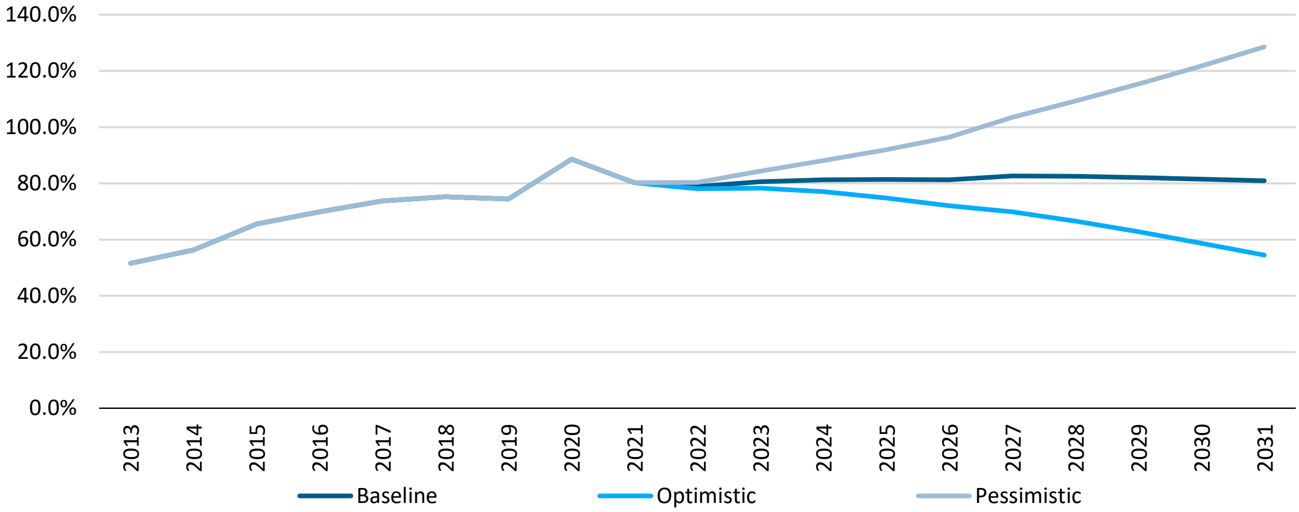
Source: Central Bank. Prepared by: IFI.

The DBGG forecast is 78.0% in the optimistic scenario, and 80.4% of GDP, in the pessimistic scenario, in 2022. For 2022, in the optimistic and pessimistic scenarios, respectively, the IFI estimates the debt-to-GDP ratio at 78.0% and 80.4%. The baseline scenario foresees the DBGG reaching 80.9% of GDP in 2031. In the pessimistic one, debt would achieve 128.6% of GDP, and in the optimistic one, 54.5% of GDP by 2031.

A drop in debt levels will depend on the capacity to generate higher primary surpluses. Still, regarding the trajectory of the DBGG about the GDP in the 2022 to 2031 horizon, the perspective is of relative stability, considering the macroeconomic parameters presented in the first section and given the supposed trend of public sector primary balances. It is essential to observe the risk factors that may compromise the growth projected for the economy and the dynamics of primary balances, which would cause the debt to grow. The eventual decrease in the public sector's indebtedness involves increasing the capacity to generate primary surpluses in the coming years.

Figure 19 consolidates the expected trajectories in the three IFI scenarios.

FIGURE 19. DBGG FORECASTS (% OF GDP)



Source: Central Bank. Prepared by: IFI.

The main assumptions for the debt trajectories and the complete forecasts in the baseline, optimistic and pessimistic scenarios are in Tables 17 and 18 below.

TABLE 17. MAIN MACRO-FISCAL ASSUMPTIONS FOR THE DEBT SCENARIOS – AVERAGE 2022 TO 2031

Baseline								
	Nov/19	Nov/20	Feb/21	May/21	Jun/21	Oct/21	Dec/21	May/22
Primary balance (R$ billion)	63.2	-135.8	-85.2	-51.7	37.4	0.4	34.2	45.1
GDP at current prices (R$ billion)	11,238	10,569	10,865	11,145	11,604	11,997	12,200	12,852
GDP at constant prices (%)	2.3%	2.4%	2.3%	2.3%	2.3%	2.2%	2.0%	1.9%
Real interest rate (%)	3.0%	2.7%	3.1%	3.2%	3.2%	3.4%	3.6%	4.1%
Optimistic								
	Nov/19	Nov/20	Feb/21	May/21	Jun/21	Oct/21	Dec/21	May/22
Primary balance (R$ billion)	236.2	46.89	150.4	124.5	181.4	140.6	168.83	269.4
GDP at current prices (R$ billion)	11,856	11,289	11,428	11,747	12,313	12,533	12,702	13,413
GDP at constant prices (%)	3.4%	3.5%	3.4%	3.5%	3.5%	3.3%	3.1%	2.8%
Real interest rate (%)	2.2%	2.2%	2.6%	2.6%	2.6%	2.6%	2.7%	3.3%
Pessimistic								
	Nov/19	Nov/20	Feb/21	May/21	Jun/21	Oct/21	Dec/21	May/22
Primary balance (R$ billion)	43.0	-305.2	-300.6	-252.2	-83.5	-135.4	-242	-336.2
GDP at current prices (R$ billion)	11,519	10,521	10,744	11,170	11,549	12,099	12,171	13,110
GDP at constant prices (%)	1.2%	1.4%	1.3%	1.3%	1.3%	1.2%	1.1%	1.0%
Real interest rate (%)	4.6%	4.8%	4.6%	4.7%	4.7%	5.2%	5.0%	5.4%

*** In the Nov/19 to Dec/21 reviews, the average considers the period from 2022 to 2030. As of May/22, we take the end of the projection horizon in 2031.*
Source: IFI.

TABLE 18. DEBT-TO-GDP RATIO FORECASTS UNTIL 2031

	Baseline		Optimistic		Pessimistic	
	Dec-21	May-22	Dec-21	May-22	Dec-21	May-22
2017	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%
2018	75.3%	75.3%	75.3%	75.3%	75.3%	75.3%
2019	74.4%	74.4%	74.4%	74.4%	74.4%	74.4%
2020	88.6%	88.6%	88.6%	88.6%	88.6%	88.6%
2021	82.1%	80.3%	81.6%	80.3%	82.5%	80.3%
2022	84.8%	78.9%	82.9%	78.0%	87.1%	80.4%
2023	86.6%	80.6%	83.0%	78.3%	91.3%	84.3%
2024	87.4%	81.3%	81.6%	77.0%	95.3%	88.1%
2025	87.9%	81.4%	79.9%	74.8%	100.0%	92.0%
2026	88.5%	81.3%	78.1%	72.1%	105.4%	96.4%
2027	88.7%	82.6%	75.8%	69.9%	111.4%	103.5%
2028	88.8%	82.5%	73.0%	66.5%	118.1%	109.2%
2029	88.6%	82.1%	69.6%	62.8%	125.4%	115.3%
2030	88.3%	81.5%	65.9%	58.7%	133.4%	121.8%
2031		80.9%		54.5%		128.6%

Source: IFI.

IFI expects a primary surplus of R$ 71.5 billion for regional governments in 2022. The current debt-to-GDP projection for 2022 in the baseline scenario is affected by the primary surplus of the consolidated public sector. The R$ 12.4 billion forecasts of last December were revised to R$ 71.5 billion due mainly to the prior balance of the regional governments, for which the IFI estimates R$ 90.7 billion this year. In 2021, the surplus of states and municipalities was R$ 100.7 billion. The IFI estimates a primary deficit of R$ 19.2 billion for the central government in 2022.

Higher inflation has led to a sharper reduction in public debt as a proportion of the GDP. The debt-to-GDP ratio will end in 2022 at 78.9% in the baseline scenario, 5.9 pp below the previous projection from December, and 4.4 pp higher than in 2019 (before the pandemic). Although the results of fiscal variables have been better than projected in the most acute phase of the pandemic, it is essential to be clear that, to a large extent, this performance was due to higher inflation, which boosts tax revenues in the short term, affecting the primary balance.

In a second moment, this higher inflation provokes a reaction from the monetary authority, which increases the economy's base interest rates to bring inflation to a path of convergence to the target. In this context, the average cost of public debt rises. The trajectory for the DBGG in the pessimistic scenario reflects this situation well. In the baseline scenario, conversely, the convergence of economic growth to a rate of 2% ensures a continued increase in tax collection and the primary balances generation that keep the debt relatively stable as a proportion of GDP.

The structural challenge of the public accounts continues to guarantee a less uncertain path for public debt. The recent changes in the spending ceiling, enshrined in the so-called court-ordered debt PEC, have worsened expectations and explain, to some extent, the deterioration in market interest rates priced for the medium term. Due to the cooling of economic activity, lower economic growth next year will affect the dynamics of tax collection and, therefore, the primary balance.

The tax collection trajectory follows the economy's medium and long-term growth. The tendency is that regional governments will use part of the positive balances accumulated in 2021 and 2022 to increase expenses this year and next. In the central government, on the other hand, tax collection – according to Special Study no. 16, published by the IFI – is not expected to grow above GDP. The medium-term revenue-GDP elasticity is around unity. Central government spending will also be pressured by the change in the ceiling and the court-ordered debt regime.

The outlook is for a modest economic recovery in the context of high-interest rates and persistent inflation. The pessimistic scenario exacerbates adverse risks, as shown in Figure 19. Recent decisions in the field of fiscal policy – limitation of the payment of court-ordered debt and the change in the spending ceiling rule – reinforce the likelihood of this version of the IFI scenarios. For now, the IFI understands that the way out of the crisis will combine low growth, high-interest rates, and still persistent inflation. In this sense, the rebalancing of public accounts (but without the collaboration of inflation) will be on the country's agenda even during the election year.

A higher Selic rate will pressure public sector interest expenses in 2022 and 2023. Table 19 indicates the persistence of significant nominal deficits after the improvement project for 2022. The interest account, which stood at 5.2% of GDP in 2021, is expected to close in 2022 at 6.7%. By 2023, the increase in the Selic and the implicit debt rate, in the wake of rising prices required in National Treasury auctions, could lead to interest of 6.0% of GDP, with a nominal deficit of 5.7% of GDP in the consolidated public sector. The projections for the optimistic and pessimistic scenarios are below.

TABLE 19. NOMINAL RESULT OF THE CONSOLIDATED PUBLIC SECTOR (% OF GDP)

	Baseline			Optimistic			Pessimistic		
	Nominal result	Primary balance	Interest	Nominal result	Primary balance	Interest	Nominal result	Primary balance	Interest
2018	-7.0%	-1.5%	5.4%	-7.0%	-1.5%	5.4%	-7.0%	-1.5%	5.4%
2019	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%
2020	-13.6%	-9.4%	4.2%	-13.6%	-9.4%	4.2%	-13.6%	-9.4%	4.2%
2021	-4.4%	0.7%	5.2%	-4.4%	0.7%	5.2%	-4.4%	0.7%	5.2%
2022	-5.9%	0.7%	6.7%	-5.1%	1.1%	6.2%	-7.4%	0.2%	7.6%
2023	-5.7%	0.2%	6.0%	-4.3%	0.9%	5.2%	-8.6%	-1.0%	7.6%
2024	-4.5%	0.1%	4.6%	-2.9%	1.1%	4.0%	-8.0%	-1.7%	6.3%
2025	-3.7%	0.3%	4.0%	-1.7%	1.5%	3.2%	-8.1%	-1.8%	6.3%
2026	-3.5%	0.4%	3.9%	-1.2%	1.7%	2.9%	-8.9%	-2.2%	6.7%
2027	-5.0%	-1.0%	4.0%	-1.6%	1.2%	2.9%	-11.9%	-4.5%	7.4%
2028	-3.6%	0.5%	4.1%	-0.5%	2.3%	2.7%	-11.0%	-3.0%	8.0%
2029	-3.5%	0.6%	4.1%	0.1%	2.6%	2.6%	-11.7%	-3.1%	8.6%
2030	-3.3%	0.7%	4.0%	0.6%	2.9%	2.3%	-12.5%	-3.3%	9.2%
2031	-3.2%	0.8%	4.0%	1.1%	3.3%	2.1%	-13.4%	-3.5%	9.9%

Source: IFI.

Fiscal tables

TABLE 20. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – BASELINE SCENARIO (% OF GDP)

Breakdown	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Revenue	**22.3**	**22.2**	**22.1**	**21.9**	**21.9**	**21.7**	**21.5**	**21.3**	**21.0**	**20.7**	**20.4**
Transfers to States and Municipalities by Revenue Sharing	**4.1**	**4.2**	**4.2**	**4.2**	**4.2**	**4.1**	**4.1**	**4.0**	**4.0**	**3.9**	**3.8**
Net Revenue	**18.2**	**18.0**	**17.9**	**17.7**	**17.7**	**17.6**	**17.4**	**17.3**	**17.1**	**16.8**	**16.6**
Primary Expenditure	**18.6**	**18.2**	**18.1**	**17.9**	**17.5**	**17.2**	**18.4**	**16.8**	**16.5**	**16.1**	**15.8**
Mandatory Expenditure	**17.2**	**16.8**	**16.7**	**16.5**	**16.1**	**15.9**	**17.1**	**15.6**	**15.2**	**15.0**	**14.6**
Social security benefits	8.2	8.1	8.3	8.2	8.1	8.0	8.6	7.9	7.8	7.6	7.5
Personnel expenses and social contribution	3.8	3.5	3.6	3.5	3.4	3.3	3.5	3.2	3.1	3.1	3.0
Salary allowance and unemployment insurance	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Salary Allowance	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.7	0.7	0.7	0.7
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debt (current and capital expenditure)	0.2	0.3	0.2	0.2	0.2	0.2	0.7	0.3	0.2	0.2	0.2
Subsidies and Grants	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Other Mandatory Spending	3.1	2.8	2.4	2.4	2.2	2.2	2.1	2.1	2.0	2.0	1.9
without Flow Control	1.5	0.5	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
with Flow Control	1.7	2.3	2.2	2.2	2.1	2.1	2.0	2.0	1.9	1.9	1.8
Of which Bolsa Família [Family Grant]	0.3	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Discretionary of the Executive Branch	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.3**	**1.3**	**1.2**	**1.2**	**1.2**	**1.1**
Primary Balance	**-0.4**	**-0.2**	**-0.3**	**-0.2**	**0.2**	**0.4**	**-1.0**	**0.4**	**0.6**	**0.7**	**0.8**
Note:											
Spending on Covid-19	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (R$ billion)	**8,679.5**	**9,697.1**	**10,369.2**	**11,029.9**	**11,681.4**	**12,364.7**	**13,093.0**	**13,868.0**	**14,695.0**	**15,578.1**	**16,508.7**

TABLE 21. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – OPTIMISTIC SCENARIO (% OF GDP)

Breakdown	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Revenue	**22.3**	**22.3**	**22.3**	**22.4**	**22.4**	**22.2**	**21.9**	**21.7**	**21.5**	**21.3**	**21.1**
Transfers to States and Municipalities by Revenue Sharing	**4.1**	**4.2**	**4.3**	**4.3**	**4.3**	**4.3**	**4.2**	**4.2**	**4.1**	**4.1**	**4.0**
Net Revenue	**18.2**	**18.1**	**18.1**	**18.1**	**18.1**	**17.9**	**17.7**	**17.6**	**17.4**	**17.2**	**17.0**
Primary Expenditure	**18.6**	**18.0**	**17.7**	**17.3**	**16.7**	**16.2**	**16.5**	**15.3**	**14.8**	**14.3**	**13.8**
Mandatory Expenditure	**17.2**	**16.6**	**16.3**	**15.9**	**15.4**	**15.0**	**15.3**	**14.2**	**13.7**	**13.2**	**12.8**
Social security benefits	8.2	8.1	8.2	8.0	7.8	7.6	7.8	7.3	7.1	6.9	6.7
Personnel expenses and social contribution	3.8	3.5	3.5	3.4	3.3	3.1	3.2	2.9	2.8	2.7	2.6
Salary allowance and unemployment insurance	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Salary Allowance	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debt (current and capital expenditure)	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.2	0.2	0.2
Subsidies and Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	3.1	2.7	2.3	2.3	2.1	2.0	1.9	1.9	1.7	1.7	1.6
without Flow Control	1.5	0.5	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
with Flow Control	1.7	2.2	2.2	2.1	2.0	1.9	1.8	1.7	1.6	1.6	1.5
Of which Bolsa Família [Family Grant]	0.3	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5
Discretionary of the Executive Branch	**1.4**	**1.4**	**1.4**	**1.4**	**1.3**	**1.3**	**1.2**	**1.2**	**1.1**	**1.1**	**1.0**
Primary Balance	**-0.4**	**0.1**	**0.3**	**0.8**	**1.4**	**1.7**	**1.2**	**2.2**	**2.6**	**2.9**	**3.2**
Note:											
Spending on Covid-19	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (R$ billion)	**8,679.5**	**9,738.8**	**10,434.0**	**11,178.9**	**11,948.3**	**12,778.5**	**13,678.2**	**14,654.7**	**15,712.7**	**16,852.3**	**18,045.7**

TABLE 22. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – PESSIMISTIC SCENARIO (% OF GDP)

Breakdown	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Revenue	**22.3**	**21.4**	**20.9**	**20.6**	**20.5**	**20.3**	**20.0**	**19.8**	**19.5**	**19.3**	**19.1**
Transfers to States and Municipalities by Revenue Sharing	**4.1**	**4.1**	**4.0**	**4.0**	**4.0**	**3.9**	**3.8**	**3.8**	**3.7**	**3.7**	**3.6**
Net Revenue	**18.2**	**17.3**	**16.9**	**16.6**	**16.5**	**16.4**	**16.2**	**16.0**	**15.8**	**15.7**	**15.5**
Primary Expenditure	**18.6**	**18.1**	**18.3**	**18.5**	**18.4**	**18.5**	**20.6**	**18.9**	**18.9**	**18.9**	**18.9**
Mandatory Expenditure	**17.2**	**16.7**	**16.9**	**17.1**	**17.0**	**17.2**	**19.3**	**17.6**	**17.6**	**17.7**	**17.7**
Social security benefits	8.2	8.1	8.5	8.5	8.6	8.6	9.6	8.9	8.9	8.9	9.0
Personnel expenses and social contribution	3.8	3.5	3.7	3.8	3.8	3.9	4.3	4.1	4.1	4.2	4.2
Salary allowance and unemployment insurance	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Salary Allowance	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.4	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	0.7	0.7	0.7	0.7
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.4
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debt (current and capital expenditure)	0.2	0.2	0.2	0.2	0.2	0.2	0.9	0.3	0.3	0.3	0.3
Subsidies and Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	3.1	2.8	2.4	2.4	2.4	2.4	2.3	2.3	2.2	2.2	2.2
without Flow Control	1.5	0.5	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
with Flow Control	1.7	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.1	2.1	2.1
Of which Bolsa Família [Family Grant]	0.3	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Discretionary of the Executive Branch	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.3**	**1.3**	**1.3**	**1.2**	**1.2**
Primary Balance	**-0.4**	**-0.7**	**-1.4**	**-1.9**	**-1.9**	**-2.1**	**-4.4**	**-2.9**	**-3.1**	**-3.3**	**-3.4**
Note:											
Spending on Covid-19	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (R$ billion)	**8,679.5**	**9,693.9**	**10,451.5**	**11,147.7**	**11,838.6**	**12,572.8**	**13,358.1**	**14,198.3**	**15,096.3**	**16,048.6**	**17,074.8**

IFI forecasts

						Forecasts					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GDP – real growth (% per year)	1.32	1.78	1.22	-3.88	4.62	1.02	1.02	1.99	2.01	2.06	2.09
Nominal GDP (R$ billion)	6,585	7,004	7,389	7,468	8,679	9,697	10,369	11,030	11,681	12,365	13,093
IPCA – accum. (% in the year)	2.95	3.75	4.31	4.52	10.06	7.85	4.04	3.23	3.00	3.00	3.00
Exchange rate – end-of-period (R$/US$)	3.31	3.87	4.03	5.20	5.58	5.10	5.15	5.19	5.22	5.25	5.28
Employment – growth (%)	0.32	1.73	2.23	-7.75	4.99	5.00	0.49	0.95	0.97	0.99	1.01
Payroll – growth (%)	1.99	3.29	2.73	-3.69	-2.36	0.28	1.02	1.99	2.01	2.06	2.09
Selic rate – end-of-period (% per year)	7.00	6.50	4.50	2.00	9.25	13.25	9.50	7.50	7.00	7.00	7.00
Real Interest *ex-ante* (% per year)	2.82	2.61	0.79	-0.70	6.39	5.68	4.49	3.95	3.92	3.90	3.89
Public Sector Consolidated Primary Balance (% of GDP)	-1.68	-1.55	-0.84	-9.41	0.75	0.74	0.23	0.06	0.32	0.36	-0.97
of which Central Government	-1.89	-1.72	-1.28	-10.06	-0.39	-0.20	-0.25	-0.17	0.22	0.35	-0.97
Net Nominal Interest (% of GDP)	6.09	5.41	4.97	4.18	5.17	6.68	5.98	4.60	3.98	3.88	4.02
Nominal Balance (% of GDP)	-7.77	-6.96	-5.81	-13.60	-4.42	-5.94	-5.75	-4.54	-3.66	-3.52	-4.99
General Government Gross Debt (% of GDP)	73.7	75.3	74.4	88.6	80.3	78.9	80.6	81.3	81.4	81.3	82.6

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