Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- GDP estimate is revised from 1.0% to 1.4% in 2022 and from 1.0% to 0.8% in 2023.
- IPCA estimate is revised from 7.9% to 8.6% in 2022 and from 4.0% to 4.2% in 2023.
- Tax cuts can reduce inflation by up to 2.8 p.p. in 2022 and raise it by up to 1.0 p.p. in 2023.
- According to the IFI, the central government's primary revenue grew by 10.8% in real terms until May.
- The IFI's projection for the central government's primary deficit in 2022 rose from R$ 19.2 billion to R$ 49.9 billion.
- In the 12 months ending in April, the public sector primary surplus reflected the subnational entities' results.
- Interest expenditures continued to rise in the 12-month accumulated until April, worsening the nominal result.
- IFI's primary expenditure projection for 2022 now incorporates the Federal Government's payment related to the "Campo de Marte" court ruling.
- IFI's projection for gross debt in 2022 slightly dropped, from 78.9% to 78.7% of GDP.

Covering letter

The Fiscal Follow-Up Report (RAF) is the IFI's monthly conjuncture analysis and serves the purposes in Art 1 of Senate Resolution 42 of 2016. Periodically, usually in May and November, the RAF also presents a broad review of the fiscal scenario for ten years ahead. Starting with this issue, we will update the short-term forecasts monthly, particularly those for the current and following year.

The first part of RAF analyzes the macroeconomic context. This month, we highlight the inflation data. The IPCA for May slowed down: up 0.47% compared to 1.06% in April. In 12 months, 11.73%, better than the 12.1% registered in the previous month. However, the devil is in the detail. The diffusion index remains high (72.4%), and the average of the cores accelerated (from 9.69% in April to 10.11% in May). In other words, the index has not cooled down without the influence of more volatile items. The commodity prices, which continue their upward trajectory, and the resilience of economic activity throughout the year's first half compose the inflationary picture.

The most recent data authorize an upward revision in the IFI's projections for the IPCA in 2022 and 2023. From 7.9% to 8.6% this year and from 4.0% to 4.2% next year. On the other hand, proposals to reduce fuel taxes, particularly the PEC 16 and PLP 18, are advancing in Congress. These initiatives should reduce inflation by up to 2.8 p.p. in 2022 and raise it by up to 1.0 p.p. in 2023. Their effects will be reviewed and incorporated into our projections as soon as they are approved.

The second part of the RAF deals with the fiscal environment. With the delay in releasing official data, we based the analysis for April and May on data collected through Siga Brasil and Tesouro Gerencial. The performance of revenues continues to draw attention. From January to May, the real growth was 10.8% compared to the same period in 2021. Without considering non-recurring collections, the increase remains high: 9.9%. The IFI's forecast for net primary revenue in 2022 is 17.9% of GDP.

Primary expenditure also increased. From January to May, in comparison with the same period in 2021, the IFI estimates that spending has advanced 5.8% in real terms. The data are still heavily influenced by the confrontation of Covid-19, particularly relevant in 2021. Without this and other non-recurring events, the increase in the year goes to 8.0%. Despite this, the series without atypicality remained steady over the last few years, undoubtedly impacted by the federal spending ceiling. The main change in the IFI's estimates for primary expenditure in 2022 is incorporating the expense with Campo de Marte Airport at R$ 23.9 billion.

The expenditure resulting from the dispute over Campo de Marte Airport is also responsible for the increase in the IFI's estimate for the central government's primary deficit in 2022, which rose from R$ 19.2 billion to R$ 49.9 billion. The gross debt, in turn, should end the year at 78.7% of GDP, slightly lower than the 78.9% projected in the May RAF.

The imminent approval of reducing the ICMS tax on fuels increases the fiscal risk. It is not a question of evaluating the merit of the policy in terms of mitigating the effects of inflation on the families' lives but of recognizing the high fiscal cost involved. Tax collection performance continues to captivate, but the IFI has repeatedly warned about the influence of conjuncture factors that sooner or later will cease their effects. In the face of this, will there be a willingness to reverse the stimuli granted in 2022?

Daniel Veloso Couri
IFI Executive Director

Vilma da Conceição Pinto
IFI Director

Summary

- Even with the May IPCA deceleration, the inflation scenario is still persistent, evidenced by the substantial increase in the cores, motivating the revision of the IPCA for 2022 from 7.9% to 8.6%. The maintenance of commodity prices at high levels and the resilience of economic activity throughout the year's first half compound this environment. The greater inflationary inertia impacts the variation expected for 2023, from 4.0% to 4.2%. **(Page 11)**
- The inflation forecasts carry much volatility, mainly due to the potential effects of the recently proposed tax cuts (in particular, PEC 16 and PLP 18 of 2022). The set of initiatives should decrease inflation this year and increase in 2023. The impact could reach -2.8 p.p. in the IPCA of 2022 and +1.0 p.p. in the IPCA of 2023. The estimates, however, will be calibrated with more factual information obtained during processing. **(Page 11)**
- Our revised forecasts for inflation and nominal GDP for 2022 have raised the year's managed revenues expectations. The revenues not collected by the RFB and transfers to states and municipalities estimates were also marginally increased. The revised projection for tax collection does not consider possible impacts from the approval of PLP no. 18 of 2022, which reduces the rates of PIS/Cofins and Cide on gasoline and ethanol to zero. **(Page 13)**
- The budgetary and financial programming decree for the second bimester brings a more pessimistic fiscal scenario than the one predicted by market economists and the IFI. The pessimism is due to a worse expenditure environment, with the incorporation of R$ 23.9 billion related to the Campo de Marte Airport. On the revenue side, despite a more benign scenario due to inflation, there are uncertainties concerning legislative proposals that reduce federal and state taxes on fuel and LPG. **(Page 21)**
- According to the Central Bank, in April, the General Government Gross Debt (DBGG) maintained its downward trajectory as a proportion of the GDP, reaching 78.3%. Contributing to this result is the strong growth in nominal GDP in the year to April and the net redemptions of debt in the first months of the year. By the end of 2022, the indicator should grow marginally and close the year at 78.7%, reflecting the central government's primary balance expected deterioration, which should go from a surplus of 0.04% of GDP in April to a deficit of 0.5% of GDP in December. **(Page 27)**

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1. MACROECONOMIC CONTEXT

1.1 Economic activity

Nominal GDP growth in the first quarter is reflected mainly by the increase in the price level. According to the Quarterly National Accounts by the Brazilian Institute of Geography and Statistics (IBGE), the Gross Domestic Product (GDP) totaled R$ 2.249 trillion in current values (R$ 8.863 trillion accumulated in four quarters). Compared to the same period in 2021, the nominal GDP (monetary value of domestic production) rose by 8.9%, influenced, above all, by the expansion of the price level, according to the implicit deflator (which registered a high of 7.1%). The real GDP change (volume produced) was 1.7%, with highlights on the performance of the services sector, on the supply side and the household consumption, government consumption, and exports on the demand side. Table 1 summarizes the nominal GDP in current values and the quarterly change rates (associated with nominal GDP, GDP in volume, and the GDP price deflator).

TABLE 1. NOMINAL GDP, GDP IN VOLUME, AND GDP PRICE DEFLATOR (QUARTER ACCUMULATED GROWTH RATE)

	Nominal GDP	Nominal GDP	GDP in volume	GDP price deflator
	(R$ trillion)	Quarter accumulated growth rate		
2019.I	1.759	4.6%	1.0%	3.5%
2019.II	1.829	5.5%	1.3%	4.1%
2019.III	1.881	6.4%	1.1%	5.2%
2019.IV	**1.920**	**5.5%**	**1.4%**	**4.0%**
2020.I	1.846	4.9%	-0.1%	5.0%
2020.II	1.722	-5.8%	-10.7%	5.5%
2020.III	1.888	0.4%	-3.7%	4.3%
2020.IV	**2.011**	**4.7%**	**-0.9%**	**5.7%**
2021.I	2.066	11.9%	1.3%	10.5%
2021.II	2.141	24.3%	12.3%	10.7%
2021.III	2.215	17.3%	4.0%	12.8%
2021.IV	**2.258**	**12.2%**	**1.6%**	**10.4%**
2022.I	2.249	8.9%	1.7%	7.1%

Source: IBGE. Prepared by: IFI.

GDP grew by 1.7% over the first quarter of 2021. From the supply (or production) side, GDP growth in volume in the year-on-year comparison was driven by the expansion in services (3.7%), while the industry sector and agriculture and livestock dropped by 1.5% and 8.0%, respectively (Table 2). The latter fell even with the upward trend in commodity prices, absorbing the effect of adverse weather conditions on some crops, especially soybeans.

Regarding the aggregate demand (or expenditure) components, the household consumption (2.2%) and government consumption (3.3%) performances stood out. The gross fixed capital formation, in turn, dropped by 7.2% in the annual comparison, following five consecutive quarters of growth. In addition to Repetro in the first quarter of 2021, the GFCF performance followed the reduction in domestic production and imports of capital goods. In the external sector, exports of goods and services grew by 8.1%, while imports of goods and services dropped 11.0%.

TABLE 2. GDP GROWTH RATE

	Var. (%) over the same quarter of the previous year			Var. (%) over the previous quarter (seasonally adjusted)		
	3T-21	4T-21	1T-22	3T-21	4T-21	1T-22
GDP	**4.0%**	**1.6%**	**1.7%**	**0.1%**	**0.7%**	**1.0%**
Supply						
Agriculture and livestock	-9.0%	-0.8%	-8.0%	-7.8%	6.0%	-0.9%
Industry	1.3%	-1.3%	-1.5%	-0.2%	-1.2%	0.1%
Services	5.8%	3.3%	3.7%	1.4%	0.6%	1.0%
Demand						
Household consumption	4.2%	2.1%	2.2%	0.8%	0.7%	0.7%
Government consumption	3.5%	2.8%	3.3%	1.1%	0.9%	0.1%
GFCF	18.8%	3.4%	-7.2%	-1.1%	0.8%	-3.5%
Exports	4.0%	3.3%	8.1%	-7.4%	-0.2%	5.0%
Imports	20.6%	3.7%	-11.0%	-5.6%	0.1%	-4.6%

Source: IBGE. Prepared by: IFI.

The GDP, from the point of view of aggregate demand, can be separated into two parts: internal absorption and net exports (exports minus imports), also called external absorption. Domestic absorption, which represents the sum of household consumption, government consumption, and investment, deducted 1.9 percentage points (p.p.) from the GDP change in the first quarter. At the same time, net exports (exports minus imports) exerted a positive influence, adding 3.5 p.p. to the GDP's interannual result. Within domestic absorption, household consumption represented the GDP growth's leading source in the period (1.3 p.p.), followed by government consumption (0.6 p.p.). Gross fixed capital formation (-1.4 p.p.) and the change in inventories (-2.3 p.p.) jointly reduced the interannual GDP change by 3.7 p.p. Table 3 displays the contributions of each aggregate demand component to the interannual GDP change since the first quarter of 2021.

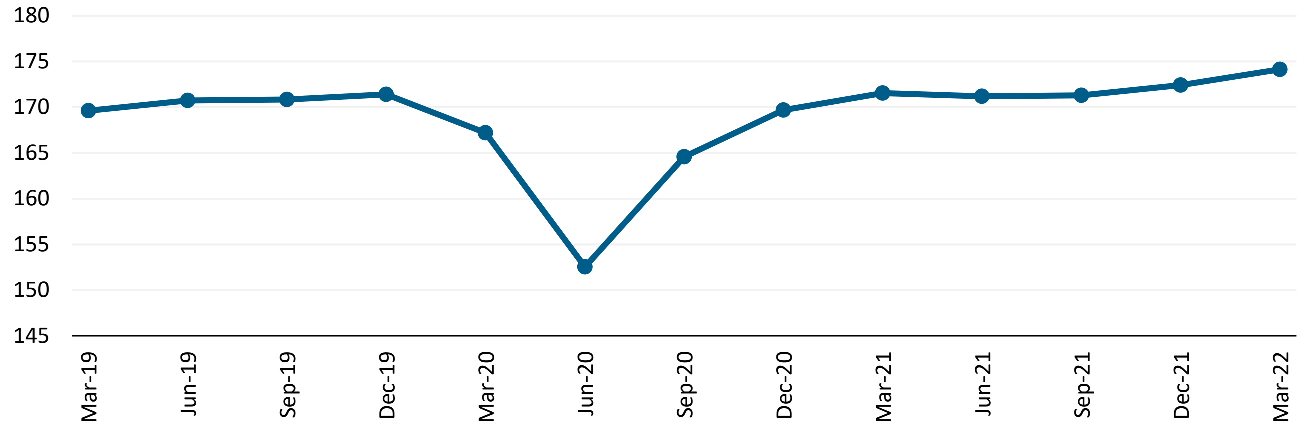
TABLE 3. CONTRIBUTIONS (P.P.) TO THE GDP ANNUAL (YOY*) GROWTH RATE

	1T-21	2T-21	3T-21	4T-21	1T-22
GDP	**1.3**	**12.3**	**4**	**1.6**	**1.7**
Agriculture and livestock	0.5	0	-0.6	0	-1
Industry	0.6	3.3	0.3	-0.3	-0.3
Services	-0.5	7.9	4.1	2.5	2.5
Taxes on products	0.3	1.7	0.9	0.3	0.1
Domestic absorption	**2.3**	**12.8**	**6.4**	**1.7**	**-1.9**
Household consumption	-1.1	6.4	2.6	1.3	1.3
Government consumption	-0.7	1.3	0.7	0.6	0.6
GFCF	2.9	5	3.1	0.6	-1.4
Change in inventories	1.3	0.2	0	-0.8	-2.3
Net exports	**-1.1**	**-0.5**	**-2.4**	**-0.1**	**3.5**

*Source: IBGE. Prepared by: IFI. *YoY is an acronym for "year over year," the usual way of referring to the variation between two periods separated by a year.*

GDP grew 1.0% to the fourth quarter of 2021 in the seasonally adjusted series. Compared to the last period of the previous year, the GDP performance came in slightly above our expectation (0.6%). The economy is 1.6% higher than in the last quarter of 2019 (pre-pandemic).

FIGURE 1. GDP - QUARTERLY VOLUME INDEX (1995 AVERAGE = 100)
SEASONALLY ADJUSTED DATA



Source: IBGE. Preparation and forecasts: IFI.

The services sector was the positive highlight of the first quarter, up 1.0%, accompanied by more modest results from industry (0.1%) and agriculture and livestock (-0.9%). Within services, the most significant growth in comparison to the last quarter of 2021 occurred in the Other Services[2] component, benefiting from the reopening of the economy. As these activities were held back during the most critical moments of the pandemic, it is natural that there is this expansion movement now. The industry was practically steady (0.1%), interrupting the negative sequence observed in the last three quarters. Except for the mining industry (-3.4%), the other segments advanced. On the other hand, the agriculture and livestock sector shrank 0.9%.

GDP growth projections in 2022 and 2023 changed to 1.4% and 0.8%. The release of the first quarter GDP left a statistical carry-over of 1.5% for 2022, i.e., assuming zero variations for the next three quarters, the GDP would register a 1.5% expansion in the year. Based on the high-frequency data available, the preliminary estimate for the second quarter indicates an increase of 0.4% when discounting the effect of seasonality. Household consumption will have a stimulus vector coming from the release of the FGTS for workers between April and June. The activity resilience in the first quarter led us to adjust the 2022 GDP projection from 1.0% to 1.4% (just below the carry-over). Throughout the second half, we expect GDP to contract, given the influence of tighter monetary policy and slowing global growth on the economy's performance. The lower carry-over left by the negative GDP performance at the end of 2022 motivated a slight adjustment in the estimate for GDP growth in 2023 from 1.0% to 0.8%.

1.2 Labor market

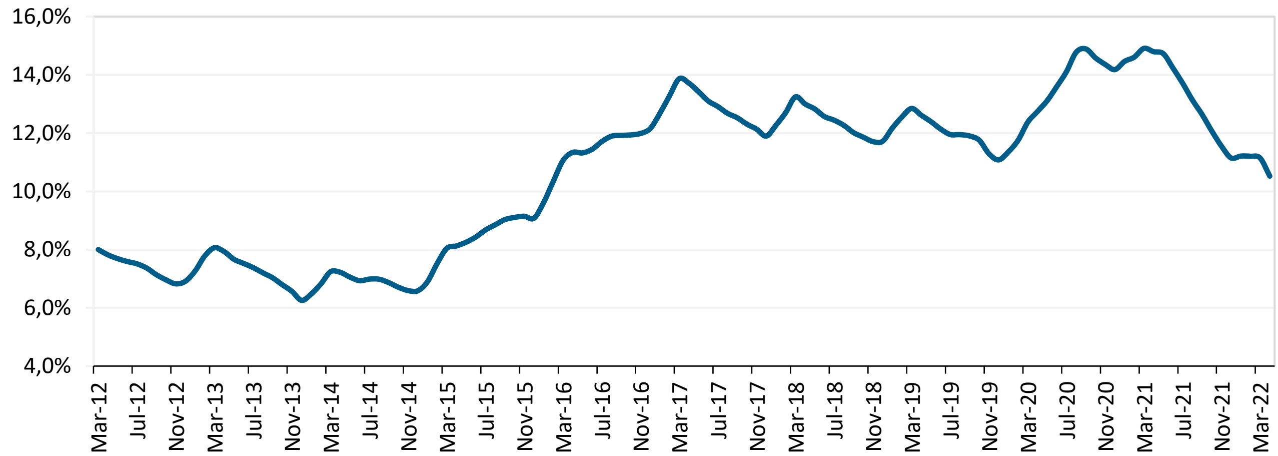
Labor market behavior remains positive. The data released by the IBGE in the Continuous National Household Sample Survey (Continuous PNAD) showed a recovery path in the labor market. The drop in the unemployment rate occurs in parallel with the increase in hiring and the decrease in discouragement. Real income is recovering, which is also a good sign, but it remains in negative territory, eroded by rising inflation.

The unemployment rate has dropped significantly. The unemployment rate reached 10.5% of the labor force in the quarter ended in April, 4.3 p.p. below the rate recorded in the same period a year earlier (14.8%), positioned at a lower

[2] "Other services" include accommodation, food, and artistic and cultural activities.

level than in the months preceding the pandemic. The number of unemployed people (11.3 million) is still high, but it has decreased and is below April 2021 (15.2 million).

FIGURE 2. UNEMPLOYMENT RATE (% OF LABOR FORCE)



Source: IBGE. Prepared by: IFI.

The reduction in unemployment reflects the positive hiring performance. The drop in the unemployment rate in the quarter ended in April reflected the employment growth, which reached 96.5 million people (a 10.3% expansion in the year-on-year comparison), surpassing the increase in the labor force (5.1%), which includes both the population that is seeking employment and the employed population. The employed population in the informal segments of the economy (38.7 million people) – including lower-paid jobs – grew by 12.8% compared to the same period last year, while formal employment (57.8 million) rose 8.8% in the period. The occupation level (the ratio between the employed and working-age populations) reached 55.8% in the quarter ended in April, returning to the pre-pandemic level (55.9%). With solid job creation, the positive labor market behavior reduced the average unemployment rate expected in 2022 from 11.2% to 11.0%.

TABLE 4. LABOR MARKET INDICATORS

Item	Values			Quarter x last quarter		
	Apr-20	Apr-21	Apr-22	Apr-20	Apr-21	Apr-22
A – Working-age population	169.6	171.2	172.8	1.0%	1.0%	0.9%
A.1 – People outside the labor force	66.3	68.6	64.9	8.4%	3.4%	-5.3%
A.2 – Labor force population	103.3	102.7	107.9	-3.2%	-0.6%	5.1%
A.2.1 – Unemployment	13.2	15.2	11.3	-2.2%	15.4%	-25.3%
A.2.2 – Employment	90.1	87.5	96.5	-3.3%	-3.0%	10.3%
Informal employment	34.6	34.3	38.7	-8.4%	-0.6%	12.8%
Formal employment	55.6	53.1	57.8	0.2%	-4.4%	8.8%
Unemployment rate (A.2.1/A.2)	12.7%	14.8%	10.5%	0.1 p.p.	2.1 p.p.	-4.3 p.p.
Employment rate (A.2.2/A)	53.2%	51.1%	55.8%	-2.4 p.p.	-2.1 p.p.	4.8 p.p.
Participation rate (A.2/A)	60.9%	60.0%	62.4%	-2.6 p.p.	-1.0 p.p.	2.5 p.p.

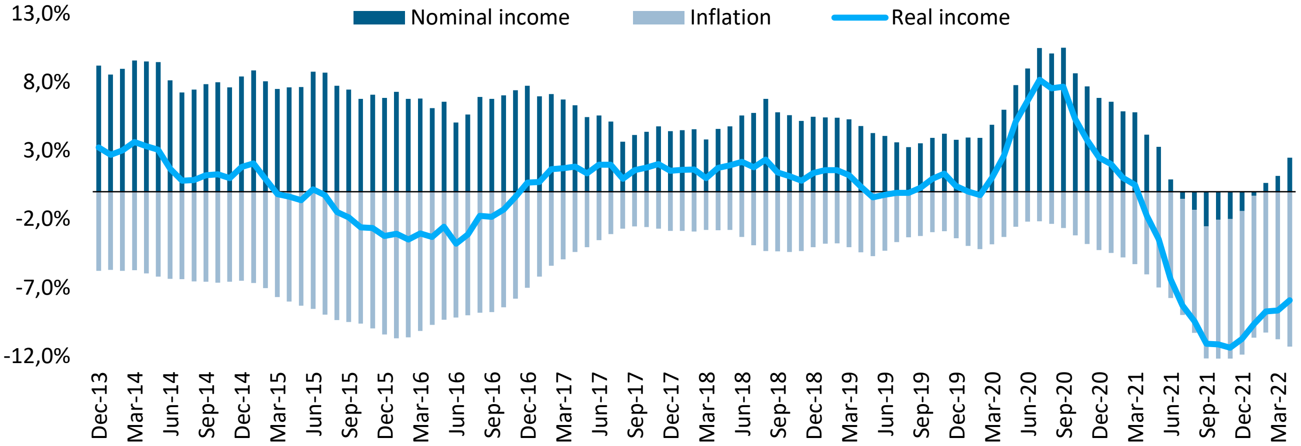
Source: IBGE. Prepared by: IFI.

The participation rate advances but remains below the pre-pandemic period. The labor force expansion (made up of employed people or looking for work) positively impacts the participation rate, which measures the working-age population's movement into and out of the labor market. The indicator, expressed as the ratio between the labor force and the working-age population, rose from 60.0% in the quarter ended April 2021 to 62.4%. The participation rate is evolving positively since the cooling of the health crisis stimulates the return of people to the labor market, although it remains at a lower level than the months before the pandemic (63.4%).

A drop in discouragement is also part of the picture of greater dynamism in the labor market. The discouraged population refers to individuals who would like to work but have given up looking for a job because they believe there are no suitable vacancies available. In the quarter ended in April, there were 4.5 million people in this condition in the country – 24.6% less compared to the same period in 2021 (5.9 million). The percentage of the discouraged in the population outside the labor force dropped from 8.5% in April 2021 to 6.9% in April 2022.

Wages, on the other hand, are eroded by rising inflation. Besides the worsening of purchasing power due to high and persistent inflation, the increase in hiring in lower-paid activities (the composition effect) also helps explain the maintenance of labor income in negative territory. Compared to April last year, the variation in the average real income was -7.9%. The payroll index, an indicator that combines income and employment, advanced 1.9% in the same comparison, sustained by the recovery in employment.

FIGURE 3. LABOR INCOME
ANNUAL GROWTH RATE

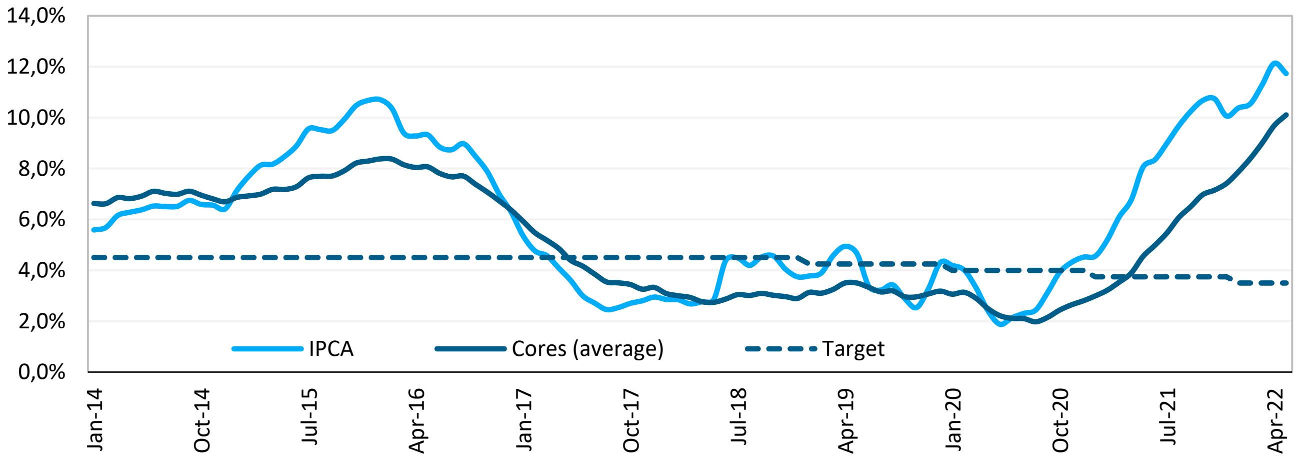


Source: IBGE. Prepared by: IFI.

1.3 Inflation and monetary policy

Consumer inflation slowed down in May. As measured by the IPCA, consumer inflation in May changed by 0.47% (11.73% accumulated over 12 months, below the 12.1% observed in the immediately previous 12 months). The result was lower than the 1.06% rate in April. Despite the slowdown in May, the high diffusion index (72.4%) and the advance in the average of the cores (from 9.69% in April to 10.11% in May) – are measures that seek to remove the influence of more volatile items from the total inflation – reveal still persistent and disseminated inflation among the products. Inflation remained well above the inflation target's upper limit (a reference of 3.5% with an interval of 1.5 p.p. up and down).

FIGURE 4. IPCA AND INFLATION CORE (% CHANGE ACCUMULATED IN 12 MONTHS)



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

Eight out of nine groups of products and services surveyed rose in May. The Transport group had the most significant impact on IPCA (up 1.34% in May and 0.30 p.p. contribution), although it slowed down to the previous month (1.91%). Despite the hike in airfares, the advance in fuel prices was lower than last month, after significant hikes in refinery prices in March, passed on to consumers in March and April. The housing group was the only one to register a negative variation (-1.70%), influenced by the drop in electricity prices. It is worth pointing out that the green tariff flag went into effect on April 16, with no extra charge on the electricity bill.

Relief in the May IPCA comes from administered prices and food-at-home; service prices accelerate. From April to May, the administered prices change, which account for approximately 25% of the total IPCA, moved from 0.55% to -0.51% (accumulated 12.09% over twelve months). Market prices, meanwhile, rose 0.83%, slowing down compared to April (1.25%). Over the next 12 months, the variation in these prices rose from 11.10% to 11.60%. The market price's most significant pressure in May came from services (0.85% change in the month and 8.00% in 12 months). Food-at-home prices eased somewhat (0.4% and 16.3%), while the deceleration in industrial prices was insignificant (1.06% and 13.97%).

TABLE 5. IPCA: MONTH % CHANGE AND 12-MONTH

Breakdown	Month % change			12-month		
	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22
IPCA	**1.62%**	**1.06%**	**0.47%**	**11.30%**	**12.13%**	**11.73%**
Administered prices	**2.65%**	**0.55%**	**-0.51%**	**14.85%**	**15.05%**	**12.09%**
Market prices	**1.24%**	**1.25%**	**0.83%**	**10.04%**	**11.10%**	**11.60%**
Food-at-home	3.09%	2.59%	0.43%	13.72%	16.11%	16.35%
Services	0.45%	0.66%	0.85%	6.28%	6.93%	8.00%
Industrial goods	1.21%	1.22%	1.06%	13.44%	14.22%	13.97%
Average of inflation cores	**0.98%**	**0.95%**	**0.93%**	**9.01%**	**9.69%**	**10.11%**

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

Current pressures motivate the IPCA estimate revision in 2022 and 2023 to 8.6% and 4.2%, respectively. The persistent inflation picture, evidenced by the core acceleration, led to the revision of the IPCA for 2022 from 7.9% to 8.6%. The rise in commodity prices and the strength of consumption reinforce this environment. The greater inertia consequently affects the variation expected for 2023, which went from 4.0% to 4.2%.

A reduction in federal taxes and the eventual approval of the PLP 18 and the PEC 16 from 2022 would significantly change the projections. The impact is up to -2.8 p.p. in 2022 and +1.0 p.p. in 2023. Our initial calculations indicate that the establishment of a limit for the ICMS tax rates on fuels, electric energy, communications, and public transport – contained in the Bill of Supplementary Law no. 18 of 2022 (PLP 18) – would produce an impact of up to -1.8 p.p. on the IPCA of 2022 if there were a full pass-through to the final consumer.

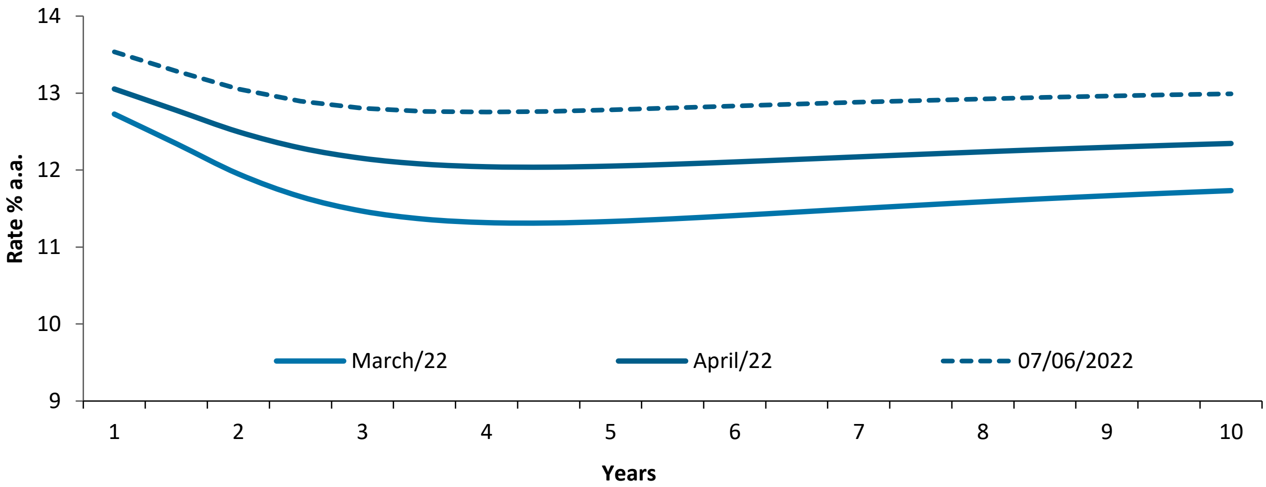
Additionally, the reduction to zero federal taxes (Cide and PIS/Cofins) on gasoline and ethanol and of the ICMS rates on diesel and LPG, effective until the end of the year, could remove an additional 1.0 p.p. from the 2022 inflation. In the case of ICMS, the Constitutional Amendment Bill no. 16 of 2022 (PEC 16) provides for compensation by the Union to the states that: a) zero the ICMS rate on diesel oil and liquefied petroleum gas; and b) establish a 12% rate for the ICMS on ethanol sold in their territory.

The recomposition of the state tax rates and the Cide and PIS/Cofins in 2023 would naturally produce an impact of the same magnitude and opposite sign (+1.0 p.p.) on the variation of the IPCA next year. The initiatives make a downward trend for 2022 and upward for 2023 – an estimated effect of -2.8 p.p. in 2022 and +1.0 p.p. in 2023. The forecasts, however, will be adjusted with more factual information obtained during processing.

The Selic rate estimates were maintained, although the room for interest rate cuts may reduce. Recent data show resilient economic activity and still persistent and widespread inflation. Despite the IPCA deceleration in the last release, the cores continue under pressure, and the diffusion index remains above 70%. In May, the Monetary Policy Committee (Copom) decided to raise the base interest rate by 1.0 p.p. to 12.75%. According to the May meeting statement and minute signals of an adjustment of lesser magnitude and approaching the cycle end, interest rates should rise to 13.25% in the June meeting. Our projections for the Selic rate at the end of 2022 and 2023 were maintained at 13.25% and 9.5%, although the displacement of inflationary pressures for next year could affect the space for reducing the cuts currently foreseen.

The yield curve rises after the initiatives to contain fuel price hikes and inflation in 2022 were announced. Figure 5 shows the future yield curve - calculated by the Brazilian Financial and Capital Markets Association (Anbima), based on secondary public bond negotiations. After the announcement of the measures proposed by the government, the return in nominal terms for a bond with one year rose in comparison to what was observed a month ago, at the same time as the longest part of the curve shifted upwards, probably reflecting the increase in the perception of fiscal risk.

FIGURE 5. TERM STRUCTURE OF NOMINAL INTEREST RATES



Source: Anbima. Prepared by: IFI.

2. FISCAL SCENARIO

2.1 Primary revenues and transfers

Central government primary revenue should have grown 10.8% in the five months in 2022. According to Tesouro Gerencial and Portal Siga Brasil, the central government's primary revenue (federal government, Central Bank, and INSS) should have totaled R$ 941.2 billion in the five-month accumulated in 2022[3], an increase of 10.8% compared

[3] Due to the National Treasury Secretariat (STN) servers' strike, the information on the central government primary balance analyzed and updated for April and May 2022, by the methodology above the line, refer to collections made by the IFI in the Siga Brasil Portal, of the Federal Senate, and in the Tesouro Gerencial. After this Report was ready, the STN released the National Treasury Result Bulletin (RTN) with the data updated up to April. Possible (marginal) differences in the numbers result from this fact.

to 2021 (Table 6). The revenue performance continues to reflect the dynamics of domestic economic activity, especially in the retail trade and services sectors.

Revenues collected by the RFB should have risen 8.5%, in real terms, in the first five months of the year. Also, according to Table 6, managed revenues totaled R$592.6 billion in the first five months of 2022, which represents an increase of 8.5% over the same period of last year. The General Regime of Social Security (RGPS) net collection, on the other hand, totaled R$ 204.1 billion (7.2%), and non-managed revenues were R$ 144.6 billion (28.3%).

Among the managed taxes, I.R., IOF, and CSLL registered the most significant increases in the accumulated until May. As in previous months, collections of Income Tax (I.R.), Financial Operations Tax (IOF), and Social Contribution on Net Corporate Profits (CSLL) stood out in the year to May. The income tax collection totaled R$ 287.0 billion for the year, a 16.1% increase, in real terms, compared to the period from January to May 2021. In this comparison, the IOF rose 29.0%, and the CSLL 34.9%.

Revenues not collected by the RFB grow driven by concessions, dividends, and exploration of natural resources. The non-managed revenues change (28.3% in real terms in the accumulated five months in 2022) reflected the collections of (i) concessions and permissions, up 673.4% in the period, due to the receipt, in February, of R$ 11.2 billion as signature bonus related to the second round of the onerous transfer; (ii) dividends and participations, up 20.5%, with R$ 12.9 billion coming from payments made by Petrobras in May; and (iii) revenues from the exploration of natural resources, up 48.7% due to the combination of high oil prices in the international market, foreign exchange and increased production.

TABLE 6. CENTRAL GOVERNMENT'S REVENUES – JAN-MAY (R$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-May/20			Jan-May/21			Jan-May/22		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total revenue	**577.9**	**-14.2%**	**19.4%**	**764.2**	**24.7%**	**21.9%**	**941.2**	**10.8%**	**24.0%**
Revenues Collected by RFB, except RGPS	*369.1*	*-12.9%*	*12.4%*	*491.7*	*25.7%*	*14.1%*	*592.6*	*8.5%*	*15.1%*
Fiscal incentives	*0*	*-*	*0.0%*	*0*	*-*	*0.0%*	*0*	*-*	*0.0%*
RGPS	*140.6*	*-15.9%*	*4.7%*	*171.1*	*14.7%*	*4.9%*	*204.1*	*7.2%*	*5.2%*
Revenues not collected by RFB	*68.3*	*-17.4%*	*2.3%*	*101.5*	*39.7%*	*2.9%*	*144.6*	*28.3%*	*3.7%*
Transfers	**115.8**	**-6.8%**	**3.9%**	**142.6**	**16.1%**	**4.1%**	**194.2**	**22.4%**	**5.0%**
Net revenue	**462.1**	**-15.9%**	**15.5%**	**621.5**	**26.8%**	**17.8%**	**747**	**8.2%**	**19.1%**
Total revenue without non-recurrent event*	**637.8**	**-3.1%**	**21.5%**	**742.7**	**9.8%**	**21.3%**	**907.6**	**9.9%**	**23.2%**
Net revenue without non-recurrent event *	**522**	**-2.3%**	**17.6%**	**600.1**	**8.4%**	**17.2%**	**713.4**	**6.9%**	**18.2%**
GDP (R$ billion)			**2,972.0**			**3,491.3**			**3,920.2**

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

Transfers from the Union to subnational entities should have increased by 22.4% in real terms in the first five months of 2022. Also, according to Table 6, the transfers by revenue sharing to states and municipalities would have totaled R$ 194.2 billion in the first five months of 2022, an increase of 22.4% in real terms over the same period last year, when there was an increment of 16.1% to 2020. The growth in transfers in the year to May reflects the increased collection of taxes shared by the Union with the subnational entities, especially the income tax and revenues from natural resource exploration.

The central government's net revenue should increase by 8.2% in the year to May 2022 (real terms). Once transfers are discounted from the total primary revenue, the net revenue of the central government should have reached R$ 747.0 billion in the first five months of the year, an amount 8.2% higher, in real terms, than in the same period of 2021, when there was an increase of 26.8% over 2020 (Table 6).

Table 6 also presents information regarding total and net primary revenues free of the effects of non-recurring events that may eventually distort the evaluation of these variables. The Special Study (E.E.) of IFI no. 17[4], December 2021, describes the methodology to obtain these series.

Isolating non-recurring events, the central government's primary revenue would have registered an increase of 9.9% in the five months of 2022. In the absence of the non-recurring effects mentioned above, total primary revenue would have been R$ 907.6 billion between January and May 2022, an increment of 9.9% in real terms to the same period in 2021 (R$ 742.7 billion), when it grew 9.8% compared to 2020 (R$ 637.8 billion). In this comparison, the net revenue of R$ 713.4 billion rose by 6.9% over 2021 (R$ 600.1 billion), which grew by 8.4% compared to 2020 (R$ 522.0 billion). In other words, the isolation of the revenue atypicality allows us to conclude that the collection result from January to May remains robust.

In the 12 months ending in May, primary revenue should have reached 23.2% of GDP, an increase of 15.6% (in real terms) compared to 2021. In 12 months, primary revenue should have reached R$ 2,109.17 billion (23.2% of GDP) by May 2022, an increase of 15.6% in real terms over the result obtained in the same month of 2021 (R$ 1,654.4 billion or 20.7% of GDP). On this basis of comparison, the managed revenues grew 15.1% in real terms, the net collection for the RGPS grew 3.0%, and the non-managed revenues grew 46.5%.

The IFI's forecast for the central government's primary revenue in 2022 is now R$ 2,188.9 billion (22.4% of GDP). The IFI updated the projection for total and net primary revenue of the central government in 2022 to R$ 2,188.9 billion (22.4% of GDP) and R$ 1,743.2 billion (17.9% of GDP), in that order. The change in the total primary revenue forecast for the year to that presented in May (R$ 2,151.8 billion and R$ 1. 745.3 billion, in that order) was due to: (i) the revision in inflation and nominal GDP estimates, which influenced managed revenues (+ R$ 9.3 billion); (ii) the most recent labor market performance, which affects net collection for the RGPS (+ R$ 13.9 billion); (iii) an upward adjustment of R$ 5.6 billion in expected dividend collections; and (iv) an upward revision in the projection for transfers by revenue sharing, from R$ 406.5 billion to R$ 445.6 billion, due to higher realized values than those initially projected.

By comparison, the median estimates for federal revenue collection in 2022, contained in the June edition of the Monthly Report from Prisma Fiscal[5], is R$ 2,149.9 billion, while for net revenue, the market consensus foresees an amount of R$ 1,762.4 billion this year.

Our updated estimate does not consider the impacts on tax collection resulting from the eventual approval of the Bill of Supplementary Law no. 18 of 2022[6] (PLP 18), approved by the Chamber of Deputies and in progress in the Federal

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

[5] Available at: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2022/relatorio-mensal-2022_06.pdf/view.

[6] Available at: https://www.congressonacional.leg.br/materias/materias-bicamerais/-/ver/plp-18-2022.

Senate[7]. The proposal foresees the exemption of PIS/Cofins and Cide taxes on gasoline and ethanol. If approved and sanctioned, the IFI will update the revenue projections considering the impact on federal tax collection.

In 2022, factors influencing tax collection during 2021 remain evident, such as high inflation, rising oil prices in the international market, and an improvement in terms of trade ratio. As discussed in previous issues of this RAF, economic activity, higher inflation, depreciation of the exchange rate, improvement in terms of trade ratio, and higher oil prices have positively influenced revenues in recent months. These factors remain in 2022, except for the exchange rate, which appreciates in the accumulated 2022 until May. The exchange rate appreciation tends to offset the effect of the increase in commodity prices on inflation and, therefore, on tax collection bases.

2.2 Primary expenditure

From 2022 until May, the Union's primary expenditure should have grown 5.8%. According to Siga Brasil, the central government's primary spending should have totaled R$ 708.1 billion in the first five months of 2022, compared to R$ 601.6 billion in the same period last year, an increase of 5.8% in real terms (Table 7). Most of the Union's primary expense components grew in real terms, except for payroll (-8.4%), extraordinary credits (-67.1%), and compensation to the RGPS due to the payroll tax reduction (-21.2%). It is worth remembering that, in the specific case of the Union's complementation to Fundeb, the increase is due to Constitutional Amendment no. 108 of 2020, which increased the portion under federal responsibility from 12% to 15% from 2021 to 2022.

In the case of RGPS social security benefits, the anticipation of the Christmas bonus caused the increase observed in the year. The social security benefits increase from January to May 2022 was due to the Christmas bonus anticipation to INSS retirees and pensioners for April, May, and June. In 2021, these payments occurred in June and July. According to Siga Brasil, R$ 6.4 billion were paid in April and R$ 28.2 billion in May, totaling R$ 34.6 billion.

The RGPS social security benefits would have decreased by 0.3% in real terms in the five months of 2022 without the Christmas bonus anticipation effect.

Primary expenditure isolated from non-recurring events should have grown 5.7%, in real terms, from 2022 through May. As a last remark regarding Table 7, it is worth mentioning the behavior of the total primary expenditure discounted of atypical factors (as described in the already mentioned E.E. of the IFI no. 17 of 2021). Between January and May, this primary expenditure recalculated by the IFI should have totaled R$ 658.2 billion, a 5.7% increase, in real terms, relative to the same period of 2021 (R$ 559.6 billion).

[7] As of this writing, the PLP 18 vote had not been concluded in the Federal Senate.

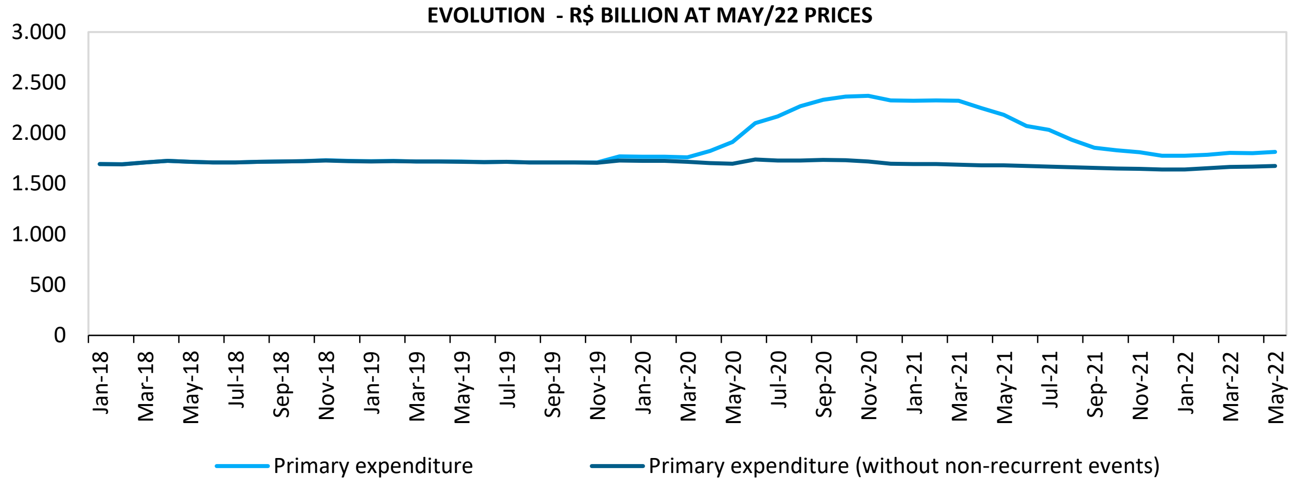
TABLE 7. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – JAN-MAY (R$ B CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-May/20			Jan-May/21			Jan-May/22		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Var.% real	% PIB
Total expenditure	**684.6**	**20.8%**	**23.0%**	**601.6**	**-17.3%**	**17.2%**	**708.1**	**5.8%**	**18.1%**
Social Security Benefits (RGPS)	*280.9*	*12.6%*	*9.5%*	*274.3*	*-8.0%*	*7.9%*	*332.3*	*8.8%*	*8.5%*
Personnel (working and retired employees)	*124.5*	*-3.6%*	*4.2%*	*126.2*	*-4.5%*	*3.6%*	*128.6*	*-8.4%*	*3.3%*
Salary allowance and unemployment insurance	*24.9*	*-1.8%*	*0.8%*	*26*	*-0.9%*	*0.7%*	*39.7*	*37.0%*	*1.0%*
Continuous Cash Benefit (BPC)	*26.1*	*2.4%*	*0.9%*	*27.9*	*0.4%*	*0.8%*	*31.3*	*1.0%*	*0.8%*
Extraordinary Credits (except PAC)	*94.4*	*3572.0%*	*3.2%*	*36*	*-64.4%*	*1.0%*	*13*	*-67.1%*	*0.3%*
Compensation to RGPS for Exemption of Payroll Taxes	*4.8*	*-13.7%*	*0.2%*	*3.5*	*-30.3%*	*0.1%*	*3.1*	*-21.2%*	*0.1%*
Fundeb	*8*	*-1.1%*	*0.3%*	*8.6*	*2.2%*	*0.2%*	*14*	*45.5%*	*0.4%*
Court Rulings and Court-Ordered Debts	*1*	*-92.7%*	*0.0%*	*1.1*	*-2.4%*	*0.0%*	*1.3*	*6.3%*	*0.0%*
Subsidies, Grants, and Proagro	*20.8*	*282.5%*	*0.7%*	*2.8*	*-87.1%*	*0.1%*	*7.8*	*146.8%*	*0.2%*
Mandatory expenditure	**646.4**	**21.9%**	**21.7%**	**573.6**	**-16.5%**	**16.4%**	**670**	**5.0%**	**17.1%**
Mandatory spending with flow control	***52.9***	***-6.2%***	***1.8%***	***57.4***	***2.2%***	***1.6%***	***89.7***	***40.5%***	***2.3%***
Discretionary	**38.2**	**5.2%**	**1.3%**	**28**	**-31.1%**	**0.8%**	**38.1**	**22.0%**	**1.0%**
Total expenditure without non-recurrent events*	**541.5**	**-4.5%**	**18.2%**	**559.6**	**-2.6%**	**16.0%**	**658.2**	**5.7%**	**16.8%**
GDP (R$ billion)			**2,972.0**			**3,491.3**			**3,920.2**

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

Primary expenditure discounted for atypical factors remained relatively under control in the 12 months ending in May. Figure 6 presents the evolution in 12 months of primary expenditure and the series recalculated by the IFI to isolate non-recurring events mentioned above and discussed in E.E. 17, 2021. At constant prices for May 2022, total primary expenditure should have reached R$ 1,815 billion in May (against R$ 1,803 billion in April), while spending without the non-recurring events totaled R$ 1,677 billion (against R$ 1,671 billion in April). The expenditure curve discounted atypical events shows that primary expenditure has remained relatively under control for several months. However, it is possible to perceive an upward sloping movement in spending. The fiscal space of about R$ 113 billion opened in 2022 with the Constitutional Amendments no. 113 and no. 114 should cause the central government's primary expenditure to grow in the coming months.

FIGURE 6. TOTAL PRIMARY EXPENDITURES (WITH AND WITHOUT NON-RECURRING EVENTS) 12-MONTH EVOLUTION - R$ BILLION AT MAY/22 PRICES



Source: National Treasury Secretariat. Prepared by: IFI.

IFI's projection for central government primary expenditure in 2022 rose from R$ 1,764.5 billion to R$ 1,793.2 billion. Also, according to Siga Brasil, in the 12 months to May, the central government's total primary expenditure should have reached R$ 1,720.6 billion (18.9% of GDP), 16.8% lower than in the same month of 2021 in real terms. The IFI's projection for primary expenditure in 2022 increased from R$ 1,764.5 billion to R$ 1,793.2 billion due to the payment to the municipality of São Paulo for the transfer of Campo de Marte Airport (the next section provides more details in this regard). By comparison, the median of the projections in the Fiscal Prism Report (June 2022 edition) for the central government's primary expenditure in 2022 is R$ 1,770.4 billion.

2.3 The central government and the consolidated public sector balance

The central government's primary surplus should have been R$ 38.9 billion in accumulated 2022 until May. According to the Siga Brasil portal and the Tesouro Gerencial, the central government should have reported an accumulated primary surplus of R$ 38.9 billion[8] in the first five months of 2022, R$ 19.0 billion more than in the same period of 2021. This positive result was driven by solid growth in tax collection, as mentioned above, and relative control of primary expenditure.

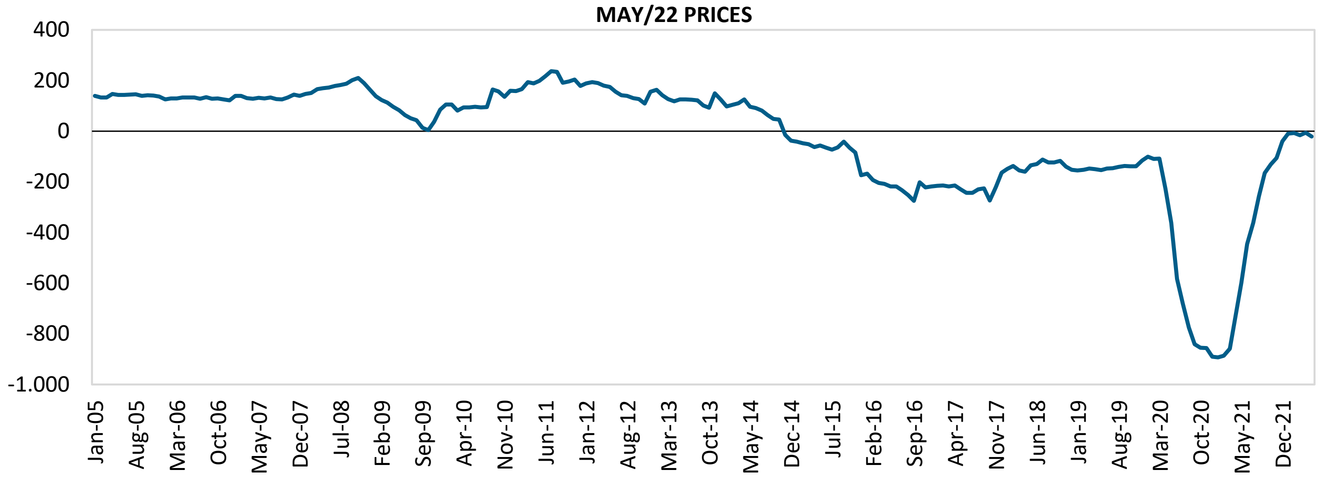
Data collected by the IFI reveal a primary surplus in April and a deficit in May. According to Siga Brasil and Tesouro Gerencial, there was a primary deficit of R$ 38.9 billion, while in April, the primary surplus was R$ 28.2 billion. The collection of R$ 23.1 billion from natural resource exploration helped improve April's primary result. In May, although the amount of R$ 19.1 billion in dividends and participations (R$ 12.9 billion) and exploration of natural resources (R$ 6.2 billion), there was a total payment of R$ 88.9 billion in social security benefits (against R$ 61.1 billion in May 2021), driven by the anticipation of the Christmas bonus to INSS retirees and pensioners.

In the 12 months ending in May, the central government accumulated a primary deficit of R$ 16.0 billion (0.2% of GDP). According to the IFI, the central government's primary deficit in 12 months should have retreated from R$

[8] Above the line concept.

500.9 billion in May 2021 to R$ 16.0 billion in May 2022. At May 2022 prices, the deficit in 12 months is R$ 21.6 billion (Figure 7).

FIGURE 7. CENTRAL GOVERNMENT´S PRIMARY BALANCE 12-MONTH EVOLUTION - R$ BILLION AT MAY/22 PRICES



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

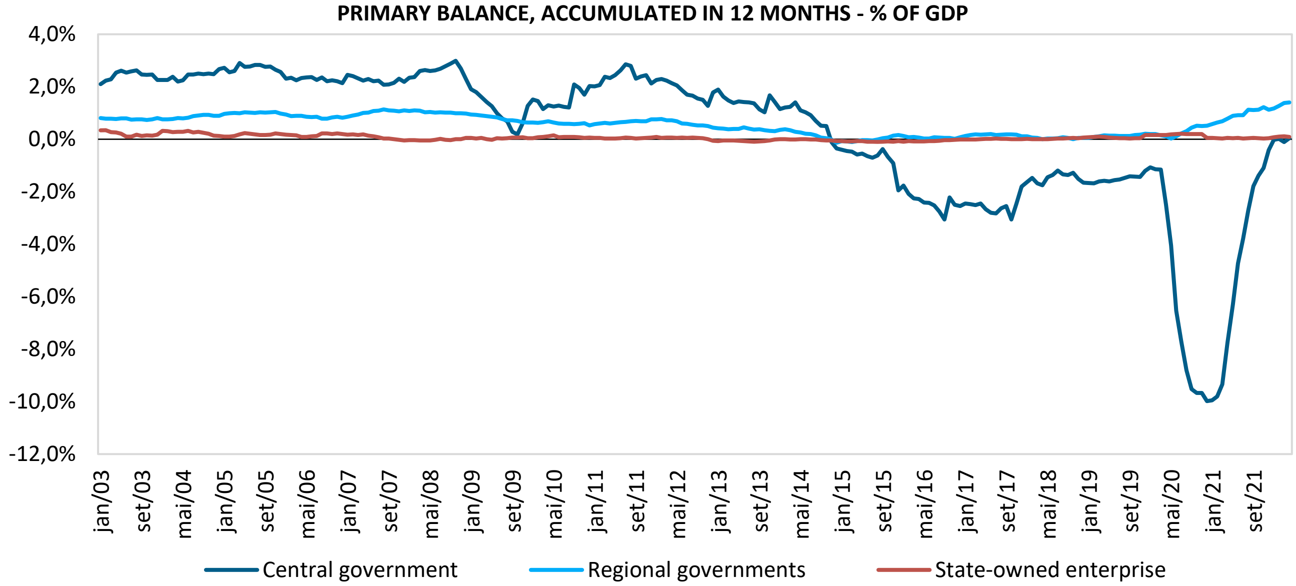
IFI's projection for the central government's primary deficit in 2022 moved from R$ 19.2 billion to R$ 49.9 billion. The worsening in the forecast is due, basically, to the projected increase in expenditure due to the payment made by the Federal Government to the municipality of São Paulo regarding the agreement for the cession of the Campo de Marte (as will be seen in the next section).

The consolidated public sector had a primary surplus of R$ 148.5 billion in the first four months of 2022. Moving on to the analysis of the consolidated public sector, according to the information released by the Central Bank regarding the Public Sector Borrowing Needs[9], the consolidated public sector had a primary surplus of R$ 148.5 billion in the accumulated four months in 2022, against a R$ 75.8 billion surplus in 2021. The central government was responsible for an R$ 80.1 billion surplus between January and April, while the regional governments and state companies had positive results of R$ 62.3 billion and R$ 6.1 billion.

In the 12-month comparison, the public sector had a surplus of R$ 137.4 billion, or 1.5% of GDP, in April. The main contribution to this result came from the states and municipalities, which recorded a positive outcome of R$ 126.6 billion (1.4% of GDP). In the same period, state companies registered a primary surplus of R$ 7.4 billion (0.1% of GDP), while the central government had another R$ 3.3 billion (0.0% of GDP) in the period (Figure 8).

[9] Below the line concept.

FIGURE 8. CENTRAL GOVERNMENT, REGIONAL GOVERNMENTS, AND STATE-OWNED ENTERPRISE'S PRIMARY BALANCE, ACCUMULATED IN 12 MONTHS - % OF GDP



Source: Central Bank. Prepared by: IFI.

The states' primary balance in the 12 months ended in April resulted from revenue growth and relative expenses control. As highlighted in previous issues of this RAF, the positive primary balance of the states in the 12-month comparison derives from factors such as (i) the strong growth in revenue, especially ICMS; (ii) the increase in transfers from the Union; (iii) higher ICMS collections on fuels and oil shares; and (iv) the relative control of expenses due to the freezing of public servants' salaries (several subnational entities announced readjustments in 2022). Atypical tax collections also occurred in some states, such as the CEDAE concession in Rio de Janeiro.

Tax revenue from the states and the Federal District grew 10.3% in real terms in the 12 months ending in April. According to the National Council of Finance Policy (Confaz), the tax collection of the 26 states and the Federal District totaled R$ 788.7 billion in the 12 months to April 2022, a growth of 10.3% in real terms compared to the 12 months immediately before. On this basis of comparison, the ICMS tax collection rose 11.7%.

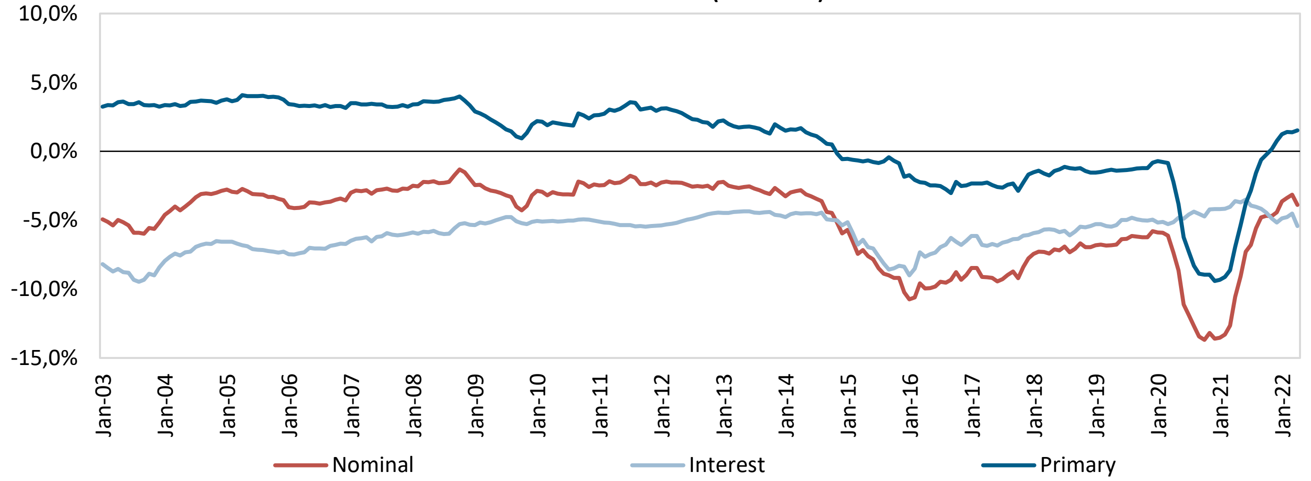
Between January and April, the public sector had a nominal deficit of R$ 6.0 billion. On the other hand, the public sector's nominal balance, which includes, besides the primary balance, the payment of interest on the public debt, had a R$ 6.0 billion deficit in the year to April. The central government had a deficit of R$ 43.1 billion, while the regional governments and state companies recorded a surplus of R$ 39.5 billion and R$ 4.6 billion, respectively.

In the 12 months ending in April, the nominal deficit of the public sector was R$ 352.0 billion or 3.9% of the GDP. The nominal balance up to April was composed of: the central government's deficit of R$ 421.5 billion (4.4% of GDP); regional governments' surplus of R$ 78.2 billion (0.9% of GDP); and state companies' surplus of R$ 2.5 billion (0.03% of GDP).

The reduction in the nominal public sector deficit in the 12-month comparison up to April resulted from the improvement in the primary result. Figure 9 shows the 12-month nominal and primary balances trajectories and the public sector interest expenses as a proportion of GDP. Between April 2021 and the same month in 2022, the 6.7 p.p. of GDP improvement in the nominal public sector balance was due to the 8.5 p.p. of GDP increase in the primary balance.

Interest expenditure as a proportion of GDP rose from 3.6% in April 2021 to 5.4% in April 2022, an increase of 1.8 p.p. of GDP (Figure 9).

FIGURE 9. CONSOLIDATED PUBLIC SECTOR PRIMARY AND NOMINAL BALANCES AND INTEREST EXPENDITURES - 12 MONTHS (% OF GDP)



Source: Central Bank. Prepared by: IFI.

The trajectory of public sector interest expenses as a proportion of GDP is rising, and this movement should continue in the coming months. It is essential to analyze the recent evolution of public sector interest expenses because there was a reversal in the trajectory as a proportion of GDP in July 2021, and the trend is for an increase in the coming months, which will affect the nominal balance. In the 12-month comparison, interest expenditure was 3.5% of GDP in June 2021, rising to 3.9% in July and gradually rising to 5.2% in December and 5.4% of GDP in April 2022. The trend is upward for this indicator due to the monetary tightening underway and the increase in the average cost of public debt (implicit debt rate), which will be better explored later in this report.

The worsening risk perception tends to pressure public sector interest expenses. The greater aversion to risk, among other factors, is related to the loss of credibility and the uncertainties concerning the conduct of fiscal policy. Depending on the dynamics assumed by public sector interest expenses, the government will need to increase its efforts to generate primary surpluses to offset that movement.

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

The Ministry of Economy (M.E.) published a new budgetary and financial programming decree in May. In compliance with article 9 of the Fiscal Responsibility Law (LRF) and with article 62 of the 2022 LDO,[10] the M.E. must publish a bimonthly report evaluating primary revenues and expenses and budgetary and financial programming decree[11]. Through this report, it is possible to identify the changes in revenue forecasts, mandatory and discretionary spending, and primary balance.

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

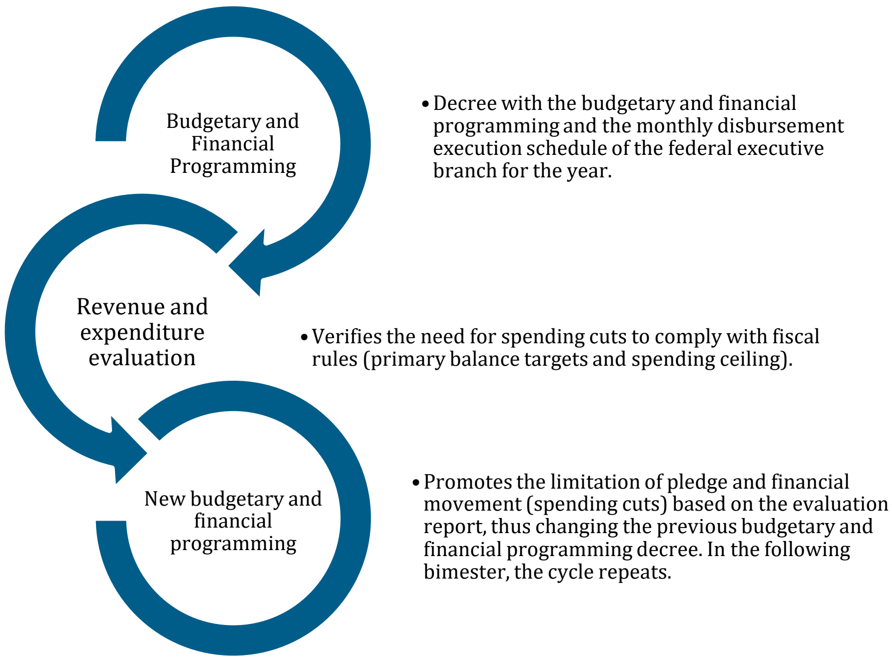
[11] BRASIL. Relatório de avaliação de receitas e despesas primárias: programação orçamentária e financeira de 2022. Secretaria de Orçamento Federal.

This monitoring, at the end of each two months, is essential to allow course corrections whenever the behavior of primary revenues and mandatory expenditures deviates from the projected primary result of the target set for the year.

The report incorporates the existing results (in this case, from January to April), updates the macroeconomic parameters, and observes new legal changes that impact fiscal results. Based on this review, adjustments are made to the contingent expenses to adapt the new scenario to the fiscal rules, namely the primary balance and the spending ceiling.

If the expected result deviates from the target, the instrument to be used is the discretionary spending cuts, i.e., those whose level of execution can be, to a certain extent, determined by the government. These expenditures are still foreseen in the Budget but cannot be executed. In later evaluations, an eventual reversal of the fiscal scenario restores the possibility of running the blocked endowments proportionally to the reductions made. The chart below illustrates the evaluation process during the budget execution.

CHART 1. FEDERAL EXECUTIVE EVALUATION AND BUDGETARY AND FINANCIAL PROGRAMMING PROCESS.



Prepared by: IFI.

The second bimester revenue and expenditure evaluation report identified the need to adjust R$ 10.0 billion to comply with the spending ceiling. When revisiting the fiscal estimates for 2022, the government placed an increase in the budgetary margin to meet the primary spending target and a worsening in the fiscal space of the spending ceiling. That is, in the previous evaluation, relative to the first two months of the year, the primary balance scenario was about R$ 103.6 billion better than the primary spending target, and the primary expenses estimates showed a need for R$ 1.7 billion cuts to comply with the spending ceiling for the executive branch. In the second bimester evaluation, the primary balance scenario is about R$ 111.7 billion, better than the primary goal. However, the primary expenditure

Brasília. Maio de 2022. Available at: https://bit.ly/3zuR7XJ. Amends Decree no. 10.961, of February 11, 2022, provides for budgetary and financial programming and establishes the federal executive branch's monthly disbursement for the fiscal year 2022. Decree no. 11.086, May 30, 2022. Available at: https://bit.ly/39jO3Da.

estimates show a need for an additional R$ 8.2 billion cuts to comply with the expenditure ceiling for the executive branch, that is, R$ 10 billion in addition to the cuts already made.

The primary balance target should be met with a wide margin. The primary balance target set in the Budget Guidelines Law (LDO) is R$ 170.5 billion, and the expected result in the second bimester's evaluation report was R$ 65.5 billion. It is worth mentioning that the 2022 LDO foresees that the expenses concerning the extension of some expenses to the pandemic confrontation may be deducted from the primary balance target. Thus, when we discount from the primary balance the expenditures related to the Pronampe and BEm[12] programs and the health expenses to face the pandemic,[13] the fiscal space increases by R$ 6.7 billion and reaches R$ 111.7 billion in total. It is important to emphasize this margin before any expenditure cuts. The value is even more remarkable when analyzing the margin in the primary target in light of the budgetary and financial programming decree.

According to the government's evaluation report, the spending ceiling is restrictive in the short term. The bimonthly evaluation has shown an increasingly restrictive scenario from allocating primary expenditure subject to the spending ceiling. In the first bimester, there was a need for a pledge limitation of R$ 1.7 billion, and in the second bimester report, the primary expenditure estimates subject to the spending ceiling exceeded the limit by R$ 10 billion. Despite the improvement in the primary balance and the shallow risk of non-compliance with the rule, the spending ceiling for the executive branch has become more restrictive, generating the need for cuts in several areas during the year. Table 8 shows the margin in the ceiling for the Executive and other branches.

TABLE 8. ESTIMATED SPACE IN THE SPENDING CEILING FOR 2022 (R$ MILLION)

	LOA	1st bimester evaluation	2nd bimester evaluation
Total expenditure	**2,106,687.40**	**2,184,918.80**	**2,232,618.60**
Not subject to the ceiling	433,441.60	505,219.20	544,680.30
Subject to the ceiling	1,673,245.80	1,679,699.50	1,687,938.20
Limit	**1,679,572.80**	**1,680,992.80**	**1,680,992.80**
Ceiling space - Total	**6,327.00**	**1,293.30**	**-6,945.40**
Ceiling space – Executive	3,184.00	-1,722.30	-9,961.40
Ceiling space – other branches	3,143.00	3,015.60	3,016.00

Source: Second bimester revenue and expenditure evaluation report. Prepared by: IFI.

Changes in government revenue estimates reflect an increase in inflation. The primary revenue scenario increased by R$ 49.1 billion to the first bimester evaluation, reflecting the macroeconomic parameters update, particularly inflation, and the performance from January to April. The inflation forecast was 4.7% in the Annual Budget Law (LOA). In the first two-month report, the government revised to 6.55%, expecting inflation for 2022 to be 7.9%. With this, the government's estimates for total revenues are R$ 2,167.1 billion, and for net revenues from transfers to subnational entities, R$ 1,722.4 billion.

Changes in the government's spending estimates reflect non-recurring events. The primary expenditure forecast increased by R$ 34.9 billion to the first bimester evaluation. The main contribution comes from a non-recurring event.

[12] Respectively, "Programa Nacional de Apoio às Microempresas e Empresas de Pequeno Porte" (Program to Strengthen Performance of Micro and Small Enterprises) and "Programa Emergencial de Manutenção do Emprego e da Renda" (Emergency Program for the Maintenance of Employment and Income).

[13] According to the second bimester evaluation report, an opinion from the Attorney General of the National Treasury, dated May 16, 2022, recommended not to include the outstanding liabilities of expenses related to confronting the current Covid-19 pandemic expressly mentioned in art. two § 2 of the LDO-2022 in the primary balance target for the fiscal year 2022..

The Bill of the National Congress (PLN) no. 4 of 2022 has been in Congress since March, and in this revenue and expenditure report, the government decided to incorporate its amount into the year's forecast. It is a special credit for paying a court ruling by the Federal Government to the municipality of São Paulo regarding compliance with the Supreme Federal Court (STF) decision involving the ownership of the Campo de Marte Airport. The special credit value is R$ 23.9 billion, i.e., 68.5% of the increase in expenses between the evaluation of the first and second bimester.

The other increases in expenses were, respectively, subsidies, grants, and Proagro (+ R$ 4.5 billion); payroll and social security (+ R$ 2.8 billion), the federal complementation to Fundeb (+ R$ 1.2 billion), salary allowance and unemployment benefit (+ R$ 1.0 billion) and continuous cash benefit - BPC (+ R$ 0.9 billion).

According to the revenues and expenses evaluation report, the rise in the subsidies, grants, and Proagro estimates reflects the revision of the interest rate scenario and the financing need to cover Proagro claims. The Union's complementation to the Fundeb reflects the macroeconomic parameters update and revenue generation until April. Expenses with payroll and BPC had their projections increased about the first bimester evaluation report due to court-ordered government debt payments.

Expenses with social security benefits (increased by R$ 10.6 billion) and court-ordered debt of other current and capital expenses (reduced by R$ 9.9 billion) had their values updated to accommodate the court-ordered debt payment this year. The two changes practically cancel each other out. Along the same lines, adjustments also occurred in payroll and BPC, but in smaller proportions.

The Constitutional Amendments no. 113 and no. 114 limited the court-ordered debt payment to a ceiling. The court-ordered debt payment limit follows the same rule as the spending ceiling, that is, corrected by the previous year's inflation. Since the government will not pay every court-ordered debt issued, it is necessary to define which one will be affected by the ceiling, that is, from the court-ordered debt volume, which to pay this year, and which to postpone to the following years. Once the Judiciary bodies indicated which to settle and delay, there was a need to readjust the court-ordered debt appropriations between the existing items. The amount to pay did not change, but the composition did. The government must pay more social security debts than debts related to other current expenses, for example.

The table below shows the main changes in revenues and expenses, the primary balance referring to the LOA, the first and second bimesters evaluations, and their respective budget and financial programming decrees.

TABLE 9. EVOLUTION OF THE PRIMARY BALANCE FORECASTS MADE BY THE GOVERNMENT FOR 2022 (R$ MILLION)

	Decree 10,961	1st evaluation	Decree 11,019	2nd evaluation	Decree 11,086
1. Total Revenue	**2,030,520**	**2,118,013**	**2,118,013**	**2,167,129**	**2,167,129**
2. Transfers by revenue sharing	386,401	431,927	431,927	444,711	444,711
3. Net revenue (I) - (II)	**1,644,119**	**1,686,086**	**1,686,086**	**1,722,418**	**1,722,418**
4. Total expenditure	**1,720,286**	**1,752,991**	**1,751,269**	**1,787,908**	**1,777,946**
4.1 Social security	777,717	778,064	778,064	788,693	788,693
4.2 Payroll	336,102	338,551	338,551	341,340	341,340
4.3 Other compulsory expenses	252,510	281,976	281,976	279,495	279,495
4.4 Expenses with Cash Control	353,956	354,402	352,679	378,380	368,418
5. Central government primary balance	**-76,167**	**-66,906**	**-65,183**	**-65,490**	**-55,529**

Source: Decree No. 11,086, 2022 and 2nd bimester revenue and expenditure evaluation report. Prepared by: IFI.

The spending ceiling is restrictive only for the Executive Branch. The spending ceiling is defined by branch and agency, so the limit is checked individually. Excess expenditure and the consequent need to limit commitment in 2022 occurs only in the Executive branch. The spending ceiling for the others has been slacking off, especially after the changes promoted by Constitutional Amendments 113 and 114.

Understanding the government's assessment regarding the primary revenues and expenses for 2022, we will move on to an analysis of the result with its effective adjustment, that is, an analysis of Decree no. 11,086, of May 30, 2022,[14] which changes the February programming decree based on the second bimester report.

After the revenue and expenditure assessment report, the government estimates a primary deficit of R$ 55.5 billion. According to the decree of budgetary and financial programming of the second bimester (Decree no. 11,086), the Union's primary deficit should be R$ 55.5 billion compared to R$ 65.2 billion stated in the second bimester evaluation report. This Figure reflects the cut of R$ 1.7 billion held in the first bimester and R$ 8.2 billion held in the second bimester, i.e., under Decree no. 11,086.

The IFI analyzed and released the itemization per agency of the spending cuts from the decree of the second bimester.[15] The main conclusion is that the most affected agencies were the Ministry of Education, with a block of R$ 2.0 billion, followed by the Ministry of Science, Technology, and Innovation, with R$ 1.8 billion, the Ministry of Health, with R$ 1.6 billion, and the Ministry of Defense, with a block of R$ 1.0 billion. Together, these four ministries account for 77.1% of the total spending cut in the second two months.

The other branches' current and capital expenses are below the projected by the government. The appropriations related to the current and capital expenditure of the Legislative and Judiciary Branches, the Public Prosecutor, and the Public Defendant have been systematically higher than the actual expenditure. We understand that the line's actual result should be lower than shown in the revenues and expenses evaluation reports and the budgetary and financial programming decrees.

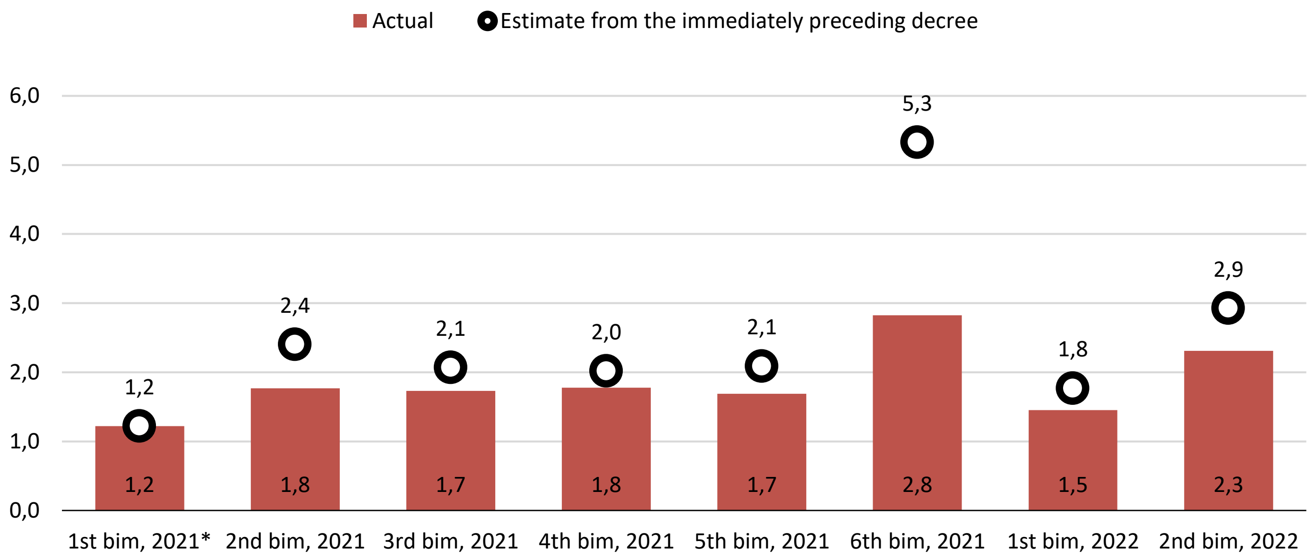
In the first bimester, expenditures under this heading were R$ 313 million below the estimated in the programming decree of February. Meanwhile, the second bimester expenses were R$ 613 million below the estimated in the first two-month decree. The first four months' performance was below planned, but the forecast for the year has not changed.

The difference between what was performed and predicted data was included in the following bimesters' projection. Systematically doing this increases errors, especially in the last two months. Figure 10 illustrates the bimonthly difference between what was realized and estimated from the immediately preceding decree for each bimester since 2021 in the other branches' current and capital expenses. The recurring deviation explains why the IFI scenario considers these expenditures significantly below the government forecast.

[14] Available at: https://bit.ly/3xoG2F1.

[15] IFI Commentary no. 15. Programação orçamentária no Decreto nº 11.086, de 30 de maio de 2022. Available: https://bit.ly/3OeiwRV.

FIGURE 10. COMPARISON BETWEEN ACTUAL EXPENDITURE AND BIMONTHLY FORECAST CURRENT AND CAPITAL - OTHER BRANCHES (R$ BILLION, CURRENT)



Source: STN and Decrees nº 10.699, of 2021 and nº 10.961, of 2022. Prepared by: IFI.
***The budgetary and financial programming decree (2021) was only made in May with information for the first two months.*

Table 10 shows the main differences between the IFI scenario and the second bimester's budgetary and financial programming decree. Although the IFI scenario reveals higher expenses than the government's, these are mainly for expenditures not subject to the spending ceiling. For example, there is a difference of R$ 8.5 billion in extraordinary credits between the scenarios. The lower difference in mandatory expenses subject to the ceiling may reflect less pressure on discretionary spending. This is the central assumption behind the IFI and government scenarios for discretionary spending. It is worth noting that in both scenes, the amount of R$ 23.9 billion was included regarding the dispute between the Union and the municipality of São Paulo over the Campo de Marte Airport. This amount, however, is not subject to the spending ceiling.

TABLE 10. IFI x GOVERNMENT FORECASTS – BASELINE

	Govern. (May/22)	IFI (Jun/22)	Dif. (IFI - Gov.)	
	R$ bi	R$ bi	R$ bi	%
Primary expenditure	**1.777,9**	**1.793,2**	**15,2**	**0,9**
Mandatory	1.632,7	1.633,0	**0,3**	**0,0**
Social security	788,7	789,5	**0,8**	**0,1**
Payroll	341,3	340,8	**-0,5**	**-0,2**
Salary allowance and unemployment benefit	65,4	62,1	**-3,3**	**-5,0**
BPC	77,0	74,4	**-2,5**	**-3,3**
Bolsa Família (Family Allowance) / Brazil Aid	89,1	88,4	**-0,7**	**-0,8**
Court-ordered debt (current and capital)	19,5	19,5	**0,0**	**0,1**
FUNDEB complementation	33,7	32,6	**-1,1**	**-3,4**
Subsidies and Grants	23,0	23,4	**0,4**	**1,7**
Legislative/Judiciary/MPU/DPU	18,2	16,3	**-1,9**	**-10,6**
Payroll tax reduction	3,1	7,6	**4,5**	**146,5**
Extraordinary credits	23,8	32,3	**8,5**	**35,6**
Others	149,9	146,1	**-3,8**	**-2,5**
Discretionary	145,3	160,2	**14,9**	**10,3**

Source: Decree 11,086, 2022 and IFI.

2.5 Public sector indebtedness indicators[16]

High inflation and rising interest rates increase the challenge in public debt management. In recent months, the IFI has emphasized that the economic environment of relatively high inflation and rising interest rates may increase the challenges for the National Treasury in managing the public debt. In July 2021, Brazil's risk premiums rose above 300 points and oscillated around this value. Since May, the risk premiums (Embi+) have risen again and reached 338 points on June 13. The futures yield curve embodies expectations of interest rates above 13.5% in the 252-day vertex and implicit inflation of almost 7% in 12 months.

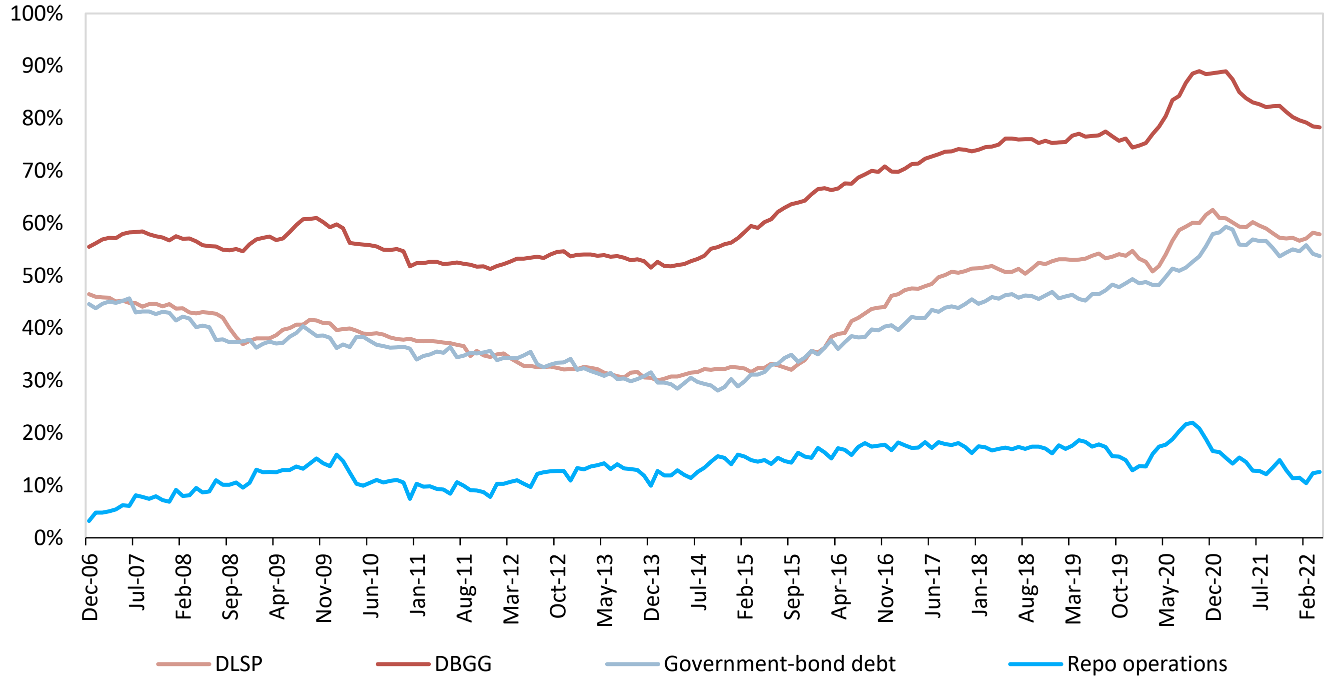
Higher risk premiums reflect uncertainties regarding inflation and the fiscal policy stance. The perception is that uncertainties regarding the dynamics of inflation and the fiscal consolidation of the Federal Government continue to be present throughout 2022, mainly due to decrees and legislative proposals that lower tax rates with the potential to reduce tax collection for a more extended period than that foreseen in the rules. In an environment of volatility in asset prices and risk premiums, the challenges for public debt management intensify. The IFI will continue to monitor the risk associated with eventual increases in primary expenditures or fiscal waivers, whether of a permanent or transitory nature.

Public Sector Net Debt rose 0.6 p.p. of GDP in the accumulated 2022 until April. Figure 11 shows the evolution of the leading public debt components. The Public Sector Net Debt (DLSP) dropped 0.3 p.p. of GDP between March and April (to 57.9%). Compared to April 2021, the indicator reduced by 1.5 p.p. of GDP. In the year to April, the DLSP

[16] Due to the strike by the Central Bank of Brazil's servers, responsible for calculating the statistics for the consolidated public sector balance by the below-the-line concept and gross and net debt, the February data have not yet been released. For this reason, this topic does not contain evaluations regarding these indicators, as traditionally occurs in the RAF. It is worth saying that this situation is worrying because it makes it difficult to monitor the overall public accounts condition.

increased by 0.6 p.p, reflecting, according to the Central Bank, the 11.9% accumulated exchange rate appreciation (+1.9 p.p.), the accrued nominal interest (+1.7 p.p.), the exchange rate variation in the basket of currencies that make up the net external debt (+1.0 p.p.), the nominal GDP growth (-2.3 p.p.), and the accumulated primary surplus (-1.6 p.p.).

FIGURE 11. PUBLIC DEBT INDICATORS AND PRINCIPAL COMPONENTS (% OF GDP)



Source: Central Bank. Prepared by: IFI.

The government-bond debt decreases by 1.3 p.p. of GDP until April 2022. The government-bond debt dropped by 0.4 p.p. of GDP in April compared to March and 2.3 p.p. compared to the same month in 2021, to 53.7% of GDP or R$ 4,852.3 billion (Figure 11). In the accumulated 2022 up to April, the government-bond debt fell 1.3 p.p. of GDP.

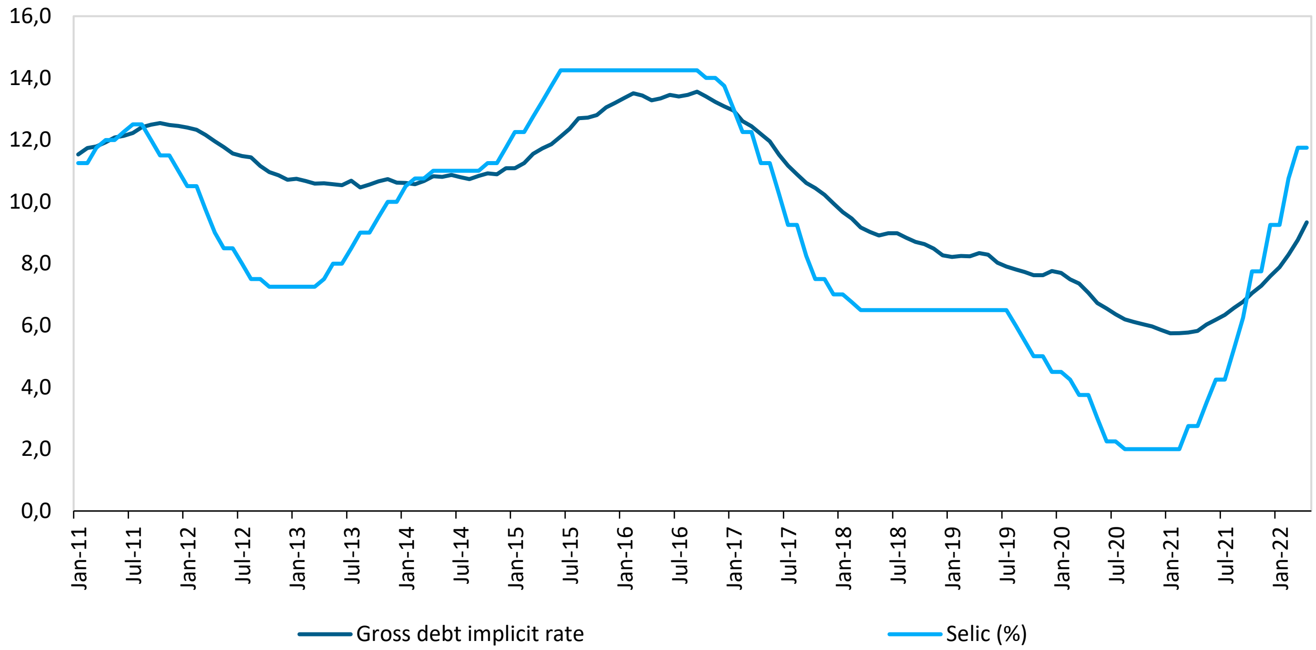
Redemptions and the increase in the nominal GDP determined a drop of 2.0 p.p. of GDP in the General Government Gross Debt in 2022 until April. The General Government's Gross Debt (DBGG) reached R$ 7,075.1 billion in April (78.3% of GDP), dropping 0.2 p.p. of GDP in comparison to March and 6.7 p.p. relative to April 2021 (Figure 11). In the year, the 2.0 p.p. reduction in the DBGG, which comprises the federal government, INSS, and state and municipal governments, was due to the nominal GDP growth (-3.2 p.p.), net redemptions of debt (-1.0 p.p.), the accumulated exchange rate appreciation (-0.6 p.p.), and the accrued nominal interest (+2.8 p.p.). The IFI's DBGG estimate at the end of 2022 moved from 78.9% of GDP in May to 78.7%.

Repo operations grew 1.3 p.p. of GDP in 2022 until April. Finally, the Central Bank's repo operations rose 0.3 p.p. of GDP in April, compared to March, to 12.6% of GDP. The indicator reduced 2.7 p.p. of GDP compared to April last year and increased 1.3 p.p. in the accumulated until April 2022 (Figure 11).

The DBGG's implicit rate rose 0.6 p.p. in April compared to March. The implicit interest rate of the general government gross debt accumulated in 12 months, which corresponds to the average nominal interest rate levied on the DBGG, rose from 8.76% in March to 9.34% in April, a 0.6 p.p. increase. Figure 12 illustrates the implicit and the Selic rate paths.

Data collected[17] by the IFI on public offerings show that the rates on debt issuances continued to rise in May. For example, the average issuance rate of a fixed-rate bond maturing on April 1, 2023, went from 13.00% in April to 13.44% in May. For the fixed-rate bond with a maturity date of July 1, 2025, the average issuance rate went from 11.79% in April to 12.33% in May. The Treasury reports the securities (and their respective maturities) quarterly and may change over time.

FIGURE 12. GROSS DEBT IMPLICIT RATE ACCUMULATED IN 12 MONTHS (%) AND SELIC RATE - TARGET (%)



Source: National Treasury Secretariat. Prepared by: IFI.

The implicit rate of debt is expected to rise further in the coming months. The increase in the implicit rate (or the debt average cost) is in line with the monetary tightening cycle promoted by the Central Bank since March 2021. Currently, the Selic is at 12.75%, and a new increase is expected in June at the Monetary Policy Committee (Copom) meeting. The Selic is above the implicit rate, suggesting that it will continue to rise in the coming months. Additionally, the risk assessed by economic agents in the forward yield curve will pressure it further, worsening the future scenario, which recently benefited from the rise in nominal GDP due to high inflation.

The IFI's projection for the Selic at the end of 2022 is 13.25%. High inflation, government initiatives in the fiscal area, and the possibility of an intensification in the pace of monetary tightening by the Federal Reserve (Fed) have affected the expectation for the Selic in the months ahead. Although the Focus survey is not published, economists predict that the Central Bank will raise the Selic to 15% in the current cycle.

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

Fiscal tables

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Revenue	22.3	22.4	22.2	22	22	21.8	21.6	21.5	21.1	20.8	20.5
Transfers to States and Municipalities by Revenue Sharing	4.1	4.6	4.4	4.3	4.3	4.2	4.2	4.1	4.1	4	3.9
Net Revenue	18.2	17.9	17.8	17.7	17.7	17.6	17.4	17.3	17.1	16.9	16.6
Primary Expenditure	18.6	18.4	18.1	17.9	17.5	17.2	18.5	16.8	16.4	16.1	15.8
Mandatory Expenditure	17.2	16.7	16.7	16.5	16.1	15.9	17.2	15.6	15.2	15	14.6
Social security benefits	8.2	8.1	8.3	8.2	8.1	8	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	3
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
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 Debts (current and capital expenditure)	0.2	0.2	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	0.2
Other Mandatory Spending	3.1	2.7	2.4	2.3	2.2	2.2	2.1	2.1	2	2	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	2.2	2.2	2.2	2.1	2.1	2	2	1.9	1.8	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	1.6	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.1
Primary Balance	-0.4	-0.5	-0.3	-0.2	0.2	0.4	-1	0.5	0.6	0.7	0.8
Note:											
Spending on Covid-19	1.4	0.3	0	0	0	0	0	0	0	0	0
Nominal GDP (R$ billion)	8,679.5	9,763.4	10,464.9	11,140.0	11,797.7	12,489.6	13,227.1	14,012.2	14,849.9	15,744.6	16,687.5

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Revenue	22.3	22.5	22.5	22.6	22.5	22.3	22.1	21.9	21.6	21.4	21.2
Transfers to States and Municipalities by Revenue Sharing	4.1	4.6	4.4	4.4	4.4	4.4	4.3	4.3	4.2	4.2	4.1
Net Revenue	18.2	17.9	18.1	18.1	18.1	17.9	17.8	17.6	17.4	17.3	17.1
Primary Expenditure	18.6	18.1	17.9	17.5	16.9	16.4	16.7	15.5	15	14.5	14
Mandatory Expenditure	17.2	16.5	16.3	15.9	15.4	15	15.3	14.1	13.6	13.2	12.8
Social security benefits	8.2	8	8.2	8	7.8	7.6	7.8	7.3	7.1	6.8	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	0.7	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
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 Debts (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	2.2	2.1	2	1.9	1.8	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	1.9	1.8	1.7	1.6	1.5	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	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.2
Primary Balance	-0.4	-0.2	0.1	0.6	1.2	1.5	1.1	2.1	2.5	2.8	3.1
Note:											
Spending on Covid-19	1.4	0.3	0	0	0	0	0	0	0	0	0
Nominal GDP (R$ billion)	8,679.5	9,786.1	10,521.2	11,283.6	12,060.1	12,898.1	13,806.2	14,791.9	15,859.8	17,010.0	18,214.6

TABLE 13. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – PESSIMISTIC SCENARIO (% OF GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Revenue	22.3	21.8	21.1	20.8	20.6	20.4	20.1	19.8	19.6	19.4	19.1
Transfers to States and Municipalities by Revenue Sharing	4.1	4.4	4.2	4.1	4	4	3.9	3.9	3.8	3.7	3.7
Net Revenue	18.2	17.4	17	16.7	16.6	16.4	16.1	16	15.8	15.6	15.4
Primary Expenditure	18.6	18.2	18.6	18.7	18.7	18.8	20.8	19.2	19.1	19.2	19.1
Mandatory Expenditure	17.2	16.6	16.9	17.1	17	17.2	19.3	17.6	17.6	17.7	17.7
Social security benefits	8.2	8.1	8.4	8.5	8.6	8.6	9.6	8.9	8.9	9	9
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
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 Debts (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	2.7	2.4	2.4	2.3	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	2.2	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	1.6	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.4
Primary Balance	-0.4	-0.9	-1.6	-2	-2.1	-2.4	-4.7	-3.2	-3.4	-3.6	-3.7
Note:											
Spending on Covid-19	1.4	0.3	0	0	0	0	0	0	0	0	0
Nominal GDP (R$ billion)	8,679.5	9,749.9	10,484.2	11,213.5	11,924.7	12,674.7	13,473.1	14,324.8	15,233.7	16,196.3	17,233.3

IFI forecasts

SHORT- TERM

	2022			2023		
	May	June	Comparison	May	June	Comparison
GDP – real growth (% per year)	1.02	1.43	▲	1.02	0.82	▼
Nominal GDP (R$ billion)	9,697	9,763	▲	10,369	10,465	▲
IPCA (% in the year)	7.85	8.56	▲	4.04	4.24	▲
Exchange rate – end-of-period (R$/US$)	5.10	5.10	=	5.15	5.16	▲
Employment – growth (%)	5.00	5.60	▲	0.49	0.39	▼
Payroll – growth (%)	0.28	0.85	▲	1.02	0.82	▼
Selic rate – end-of-period (% per year)	13.25	13.25	=	9.50	9.50	=
Real Interest *ex-ante* (% per year)	5.68	5.68	=	4.49	4.49	=
Public Sector Consolidated Primary Balance (% of GDP)	0.74	0.49	▼	0.23	0.23	▼
of which Central Government	-0.20	-0.51	▼	-0.25	-0.27	▼
Net Nominal Interest (% of GDP)	6.68	6.68	=	5.98	5.98	=
Nominal Balance (% of GDP)	-5.94	-5.94	=	-5.75	-5.75	=
General Government Gross Debt (% of GDP)	78.88	78.69	▼	80.56	79.34	▼

MEDIUM-TERM

		Forecasts									
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
GDP – real growth (% per year)	**4.62**	1.43	0.82	2.00	2.03	2.07	2.11	2.14	2.18	2.22	2.19
Nominal GDP (R$ billion)	**8,679**	9,763	10,465	11,140	11,798	12,490	13,227	14,012	14,850	15,745	16,688
IPCA – accum. (% in the year)	**10.06**	8.56	4.24	3.18	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Exchange rate – end-of-period (R$/US$)	**5.58**	5.10	5.16	5.20	5.23	5.26	5.28	5.32	5.35	5.38	5.42
Employment – growth (%)	**4.99**	5.60	0.39	0.96	0.97	0.99	1.01	1.03	1.05	1.07	1.05
Payroll – growth (%)	**-2.36**	0.85	0.82	2.00	2.03	2.07	2.11	2.14	2.18	2.22	2.19
Selic rate – end-of-period (% per year)	**9.25**	13.25	9.50	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Real Interest *ex-ante* (% per year)	**6.39**	5.68	4.49	3.95	3.92	3.90	3.89	3.89	3.89	3.89	3.88
Public Sector Consolidated Primary Balance (% of GDP)	**0.75**	0.49	0.23	0.06	0.32	0.35	-0.97	0.45	0.61	0.69	0.81
of which Central Government	**-0.39**	-0.51	-0.27	-0.16	0.23	0.37	-1.00	0.47	0.64	0.72	0.85
Net Nominal Interest (% of GDP)	**5.17**	6.68	5.98	4.60	3.98	3.88	4.02	4.06	4.07	4.04	4.04
Nominal Balance (% of GDP)	**-4.42**	-5.94	-5.75	-4.54	-3.66	-3.52	-4.99	-3.61	-3.46	-3.35	-3.22
General Government Gross Debt (% of GDP)	**80.27**	78.69	79.34	79.63	80.09	80.55	82.31	82.66	82.81	82.85	82.81

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