Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- GDP growth projection for 2022 is adjusted from 2.6% to 3.0%, decelerating to 0.9% in 2023.
- Recurring primary revenue rose 1.5 p.p. of GDP between January and November.
- The central government's primary surplus accumulated between January and November was R$ 50.8 billion.
- In 12 months, public sector interest expenses retreated to 5.9% of GDP in October.
- DPMFi public offering rates have risen in the last two months.
- The DPMFi outstanding average cost fell for the third consecutive month in October.
- Gross debt retreated to 75.0% of GDP i October.
- New budget blockages jeopardize execution for the rest of the year.
- Proposals to change the framework of fiscal rules converge on several points, some covered by the Transition PEC.

FEDERAL SENATE
President of the Federal Senate
Senator Rodrigo Pacheco (PSD-MG)

INDEPENDENT FISCAL INSTITUTION
Executive Director
Daniel Veloso Couri

Director
Vilma da Conceição Pinto

Analysts
Alessandro Ribeiro de Carvalho Casalecchi
Alexandre Augusto Seijas de Andrade
Pedro Henrique Oliveira de Souza
Rafael da Rocha Mendonça Bacciotti

Public Relations Executive
Carla Cristina Osorio Caldas

Interns
Allanda Martins Dias
Pedro Ribeiro de Santana Gonzaga

REPORT LAYOUT
COMAP/SECOM and SEFPRO/SEGRAF

Covering letter

The Transition PEC approved by the Senate does not improve the medium term

The Fiscal Follow-up Report (RAF) is the IFI's monthly economic analysis. It serves the purposes in art. 1 of Senate Resolution No. 42 of 2016. In the RAF, the IFI publishes its projections for the Brazilian economy's main macroeconomic and fiscal variables.

In the last edition of the RAF, in November, the IFI outlined medium-term fiscal scenarios based on the draft of the Transition PEC that the elected government had presented. That version proposed to remove Brazil Aid and investment spending (up to a specific limit) and other minor items from the spending ceiling.

The fiscal impact of the Transition PEC draft could reach R$ 173.1 billion in 2023 alone. However, our base scenario was more benevolent: it assumed the increase in Brazil Aid and a rule for adjusting the minimum wage in real terms. However, it is considered a gradual and limited increase in discretionary spending. Even so, the result would be persistent primary deficits and gross debt of 95.3% of GDP in 2031.

The Transition PEC approved by the Senate is better than the previous one because it keeps most primary expenditures under the ceiling. However, it does little to change the IFI's fiscal scenario because: (i) the room for spending increases remains high, R$ 169.1 billion; (ii) most of it should be destined to expenses that will not be limited to 2023, such as the increase in the Brazil Aid and the recomposition of budget programs; and (iii) the measure makes it possible to implement campaign commitments, but does not show how this relates to the medium-term sustainability of accounts.

The situation should impose caution. The restrictive effects of the monetary policy and the global economy's moderate growth continue to indicate a deceleration of the domestic economy in 2023 (projection maintained at 0.9%). The central government – which should end 2022 with a primary surplus of 0.7% of the GDP (R$ 68.6 billion) – will once again register a deficit next year of the order of 0.8% of the GDP (R$ 88.6 billion).

The general government's gross debt should reach 74.5% of GDP, accumulating a drop of 3.8 p.p. of GDP in 2022. For the debt-to-GDP ratio to stabilize at its current level, the consolidated public sector should register a primary surplus of 2.4% of GDP in 2023, far from the current deficit projection of 0.8%. In our scenario, the gross debt at the end of 2023 should reach 77.2% of GDP, remaining high compared to other emerging economies.

The need for a new fiscal framework remains. The PEC approved in the Senate provides that the President of the Republic must send, until August 31, 2023, a bill to institute a "sustainable fiscal regime – proposal that will possibly divide the attention of Congress with tax reform. These measures could improve the public accounts outlook for the coming years, a task that the Transition Pact has yet to accomplish.

Daniel Veloso Couri
IFI Executive director

Vilma da Conceição Pinto
IFI Director

Summary

- The growth projection for the 2022 GDP was adjusted from 2.6% to 3.0% with the revision of the National Accounts historical series. Despite not altering the dynamics of economic activity, the changes promoted by IBGE raised the starting point. The outlook for the fourth quarter (-0.3% on the margin) is reinforced by the fall in confidence indicators in November. The restrictive effects of monetary policy on domestic demand and the moderation of global growth contribute to the expected slowdown of the domestic economy in 2023 (projection maintained at 0.9%). **(Page 6)**

- The central government recorded a primary surplus of R$ 50.8 billion in the year to November 2022, according to data from the National Treasury and Siga Brasil, driven by tax collection and relative control of primary expenditure. The IFI revised the projection of the primary surplus in 2022 from R$ 74.1 billion in November to R$ 68.6 billion. The reduction in the forecast was motivated by an adjustment in revenues not collected by the RFB. **(Page 22)**

- In October, the average cost of the DPMFi outstanding fell for the third consecutive month. Even though the declines were marginal, they represent an accommodation of the cost at relatively high levels following the interruption of the monetary tightening cycle and the cooling of inflation. Public securities with remuneration linked to price indexes have contributed to reducing the average cost of debt, considering that the issue rates of these bonds have fallen in the recent period. **(Page 26)**

- Version 2.0 of the Transition PEC is better than before but changes little in the short-term scenario. The text approved in the Federal Senate keeps the conditional cash transfer program within the spending ceiling, exempts others, imposes a deadline for the Executive to present a new fiscal regime, and conditions the extinction of the current spending ceiling to the approval of this new fiscal rule framework. Although the text brings better elements from the point of view of fiscal risk, in the short term, there is little change in the IFI's scenario for primary expenditure with the new version of the PEC. **(Page 31)**

Table of contents

1. MACROECONOMIC CONTEXT

1.1 Short-term forecasts

1.1.1 Economic activity

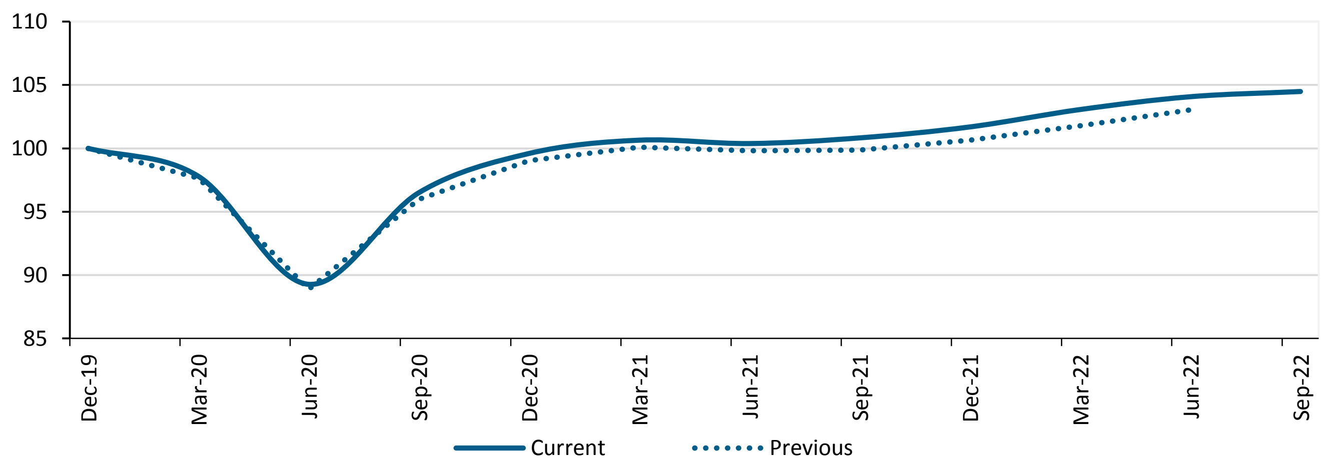
Historical series revision raised the GDP for 2020, 2021, and 2022. In mid-November, the IBGE published National Accounts with the definitive results for the 2020 GDP. The GDP in current values was revised from R$ 7.468 trillion to R$ 7.610 trillion, reflecting the less damaging performance of the volume GDP (from -3.9% to -3.3%) and the GDP deflator rise (from 5.1% to 6.5%).

As a result of the revision of the Annual Accounts and the updating of primary sectorial data, 2021 and 2022 figures also changed in the release of the Quarterly National Accounts for the third quarter[1], published in early December. The 2021 nominal GDP went from R$ 8.679 trillion to R$ 8.899 trillion, with changes in volume growth (4.6% to 5.0%) and the deflator (1.1% to 11.4%).

Besides the less negative volume variation in 2020 and the more significant expansion in 2021, the dynamics of the activity throughout 2022 proved to be greater than initially presented by IBGE. The first and second quarters' changes (compared with the same period of the previous year) went from 1.7% and 3.2% to 2.4% and 3.7%. The accumulated GDP growth volume in the year's first half went from 2.5% (in the previous series) to 3.1%.

Figure 1, which compares the seasonally adjusted GDP series (full line) with the previous one (dotted line), displays no change in the economic activity dynamics, which is in a recovery cycle after the crisis caused by the Covid-19 pandemic. What has occurred, however, is an upward shift in the level between 2020 and 2022.

FIGURE 1. GDP: CURRENT AND PREVIOUS HISTORICAL SERIES (DEC/19 = 100) - SEASONALLY ADJUSTED



Source: IBGE: Prepared by: IFI.

GDP slows in Q3 2022. In the third quarter, the GDP advanced by 3.6% compared with the same period a year earlier and 0.4% in the previous quarter in the seasonally-effect-free series. The result, in line with expectations, confirms the slowdown in the pace of growth of economic activity, even though services and industry (on the supply or production side), household consumption, and gross fixed capital formation have grown on the margin (Table 1).

[1] For more details, see: https://biblioteca.ibge.gov.br/visualizacao/periodicos/2121/cnt_2022_3tri.pdf

TABLE 1. GDP GROWTH RATE

	The growth rate over the same quarter of the previous year			The growth rate over the last quarter (seasonally adjusted)		
	1Q-22	2Q-22	3Q-22	1Q-22	2Q-22	3Q-22
GDP	**2.4%**	**3.7%**	**3.6%**	**1.3%**	**1.0%**	**0.4%**
Supply						
Agriculture and livestock	-5.2%	-0.9%	3.2%	0.2%	0.1%	-0.9%
Industry	-1.2%	2.1%	2.8%	0.8%	1.7%	0.8%
Services	4.1%	4.7%	4.5%	1.0%	1.3%	1.1%
Demand						
Household consumption	2.5%	5.7%	4.6%	0.9%	2.1%	1.0%
Government consumption	3.9%	0.9%	1.0%	-0.3%	-0.9%	1.3%
GFCF	-6.4%	1.5%	5.0%	-2.4%	3.8%	2.8%
Exports	8.7%	-4.6%	8.1%	7.5%	-2.8%	3.6%
Imports	-10.6%	-1.0%	10.6%	-3.7%	8.7%	5.8%

Source: IBGE. Prepared by: IFI.

As can be seen in Table 2, domestic absorption, which represents the sum of household consumption, government consumption, and investment, contributed 3.9 p.p. to the GDP's interannual variation in the third quarter (against 4.5 p.p. in the previous quarter), offsetting the negative influence of net exports (exports minus imports), which removed 0.3 p.p. from the GDP's interannual result. Within domestic absorption, the impact of household consumption lost strength. Still, it represented the main contribution to the GDP's interannual rate in the period (2.8 p.p.), followed by gross fixed capital formation (1.0 p.p.) and government consumption expenditure (0.2 p.p.).

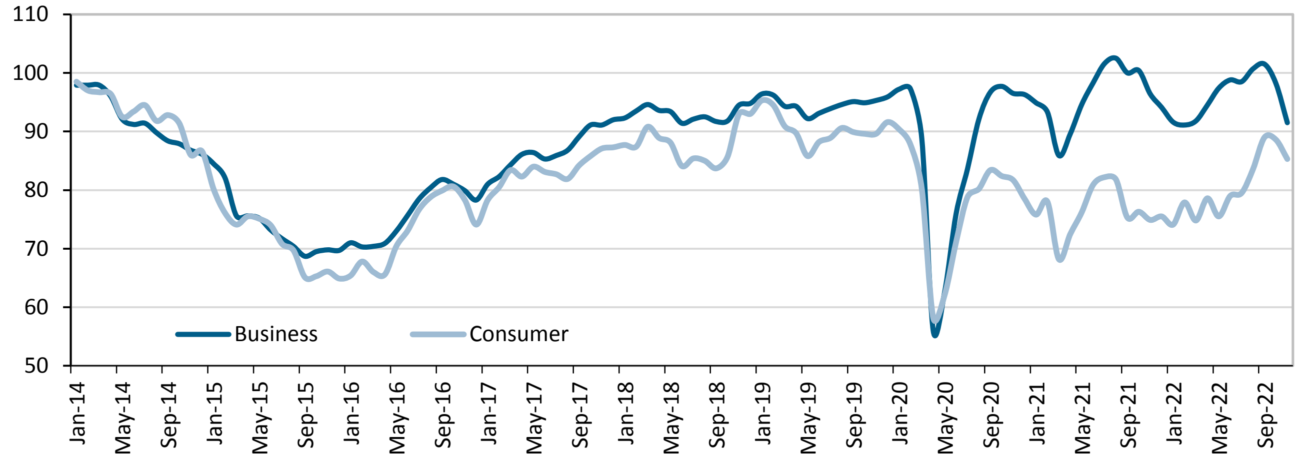
TABLE 2. CONTRIBUTIONS (P.P.) TO THE GDP ANNUAL GROWTH RATE

	2Q-21	3Q-21	4Q-21	1Q-22	2Q-22	3Q-22
GDP	**1.7**	**4.4**	**2.1**	**2.4**	**3.7**	**3.6**
Domestic absorption	**2.7**	**6.8**	**2.1**	**-1.0**	**4.5**	**3.9**
Household consumption	-0.8	2.9	1.3	1.5	3.3	2.8
Government consumption	-0.5	1.0	0.9	0.6	0.2	0.2
GFCF	2.5	3.1	0.6	-1.2	0.3	1.0
Changes in inventories	1.5	-0.2	-0.7	-1.9	0.7	-0.1
Net exports	**-1.0**	**-2.4**	**0.0**	**3.4**	**-0.8**	**-0.3**

Source: IBGE. Prepared by: IFI.

The growth outlook for 2022 is adjusted from 2.6% to 3.0%. The growth projection for the 2022 GDP was revised upwards from 2.6% to 3.0% due to the positive effect of the National Accounts revision, especially in the first semester. Despite not having shown a change in the dynamics of the activity, the changes promoted by IBGE raised the starting point. The third quarter's result generated a statistical carryover to 2022 of 3.1%. Thus, if it remains stagnant in the fourth quarter, the GDP will increase by 3.1%. The outlook for the fourth quarter result, in any case, remains at -0.3% (2.4% in the year-on-year comparison), reinforced by the generalized drop in confidence indicators (business and consumer confidence) in November (Figure 2).

FIGURE 2. CONFIDENCE INDEXES (SEASONALLY ADJUSTED)



Source: FGV: Prepared by: IFI.

For 2023, the projection for GDP volume growth remained at 0.9%. The restrictive effects of the domestic monetary policy on domestic demand and the moderate growth of the global economy contributed to the expected deceleration of the domestic economy in 2023 (projection unchanged at 0.9%). The contribution of domestic demand to economic growth this year and next is estimated at 2.7 p.p. and 1.1 p.p., respectively. The perspective of deceleration in household consumption explains the lower contribution of domestic demand from 2022 to 2023. In turn, net exports (external demand) should present contributions of 0.4 p.p. and -0.3 p.p., reflecting the expectation of a slowdown in exports of goods and services due to the lower demand for imports from trading partners.

TABLE 3. PROJECTIONS FOR GDP VOLUME GROWTH

	2021	2022	2023
Volume GDP and demand-side components (% growth)	**5.0%**	**3.0%**	**0.9%**
Household consumption	3.7%	4.0%	1.0%
Government consumption	3.5%	1.4%	1.0%
Gross fixed capital formation	16.5%	1.0%	1.5%
Exports	5.9%	4.0%	1.8%
Imports	12.0%	2.0%	3.0%
Contributions to the GDP volume growth (p.p.)			
Domestic demand	**5.9**	**2.7**	**1.1**
Household consumption	2.4	2.6	0.7
Government consumption	0.7	0.3	0.2
Investment (GFCF and changes in inventories)	2.8	-0.1	0.3
Net exports	**-0.9**	**0.4**	**-0.3**

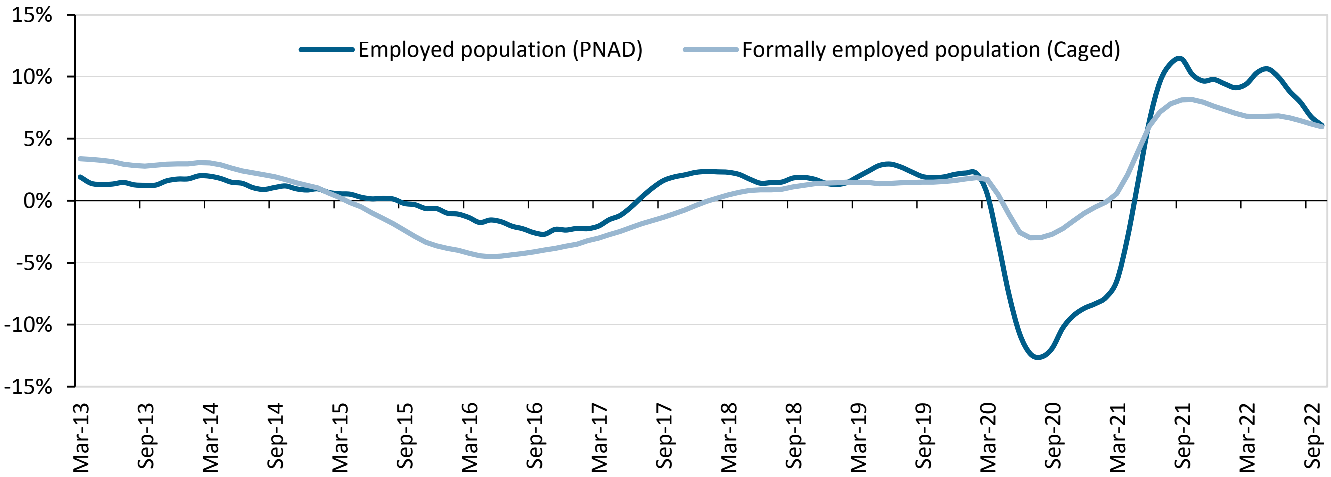
Source: IBGE. Prepared by: IFI.

1.1.2 Labor market

Employment continues to slow down. October labor market data released by the IBGE's Continuous National Household Sample Survey (PNAD Continuous) maintain a positive dynamic. However, the rise in the employed population and the drop in the unemployment rate evolved at a slower pace compared to previous quarters. The unemployment rate reached 8.3% of the total labor force in the quarter that ended in October, 3.8 p.p. below the same period a year earlier (12.1%). The employed population (99.7 million people) grew 6.1% in the quarter that ended in October, compared to the same period a year earlier – a less accentuated advance than in the previous quarter (6.8%).

Formal job openings have also been decelerating in the same comparison (Figure 3). According to the General Registry of Employed and Unemployed Persons (Caged), the stock of formal workers rose 5.8% (compared with 6.0% in the quarter that ended in September) compared to the same period in 2021, reflecting the more robust performance of the civil construction sector (10.6% compared with 10.8%) and services (7.1% compared with 7.4%), compared with agriculture and livestock (4.0% in October and September) and the manufacturing industry (3.9% compared with 4.1%).

FIGURE 3. OCCUPIED POPULATION (COMPARED WITH THE SAME PERIOD OF THE PREVIOUS YEAR)



Source: IBGE: Prepared by: IFI.

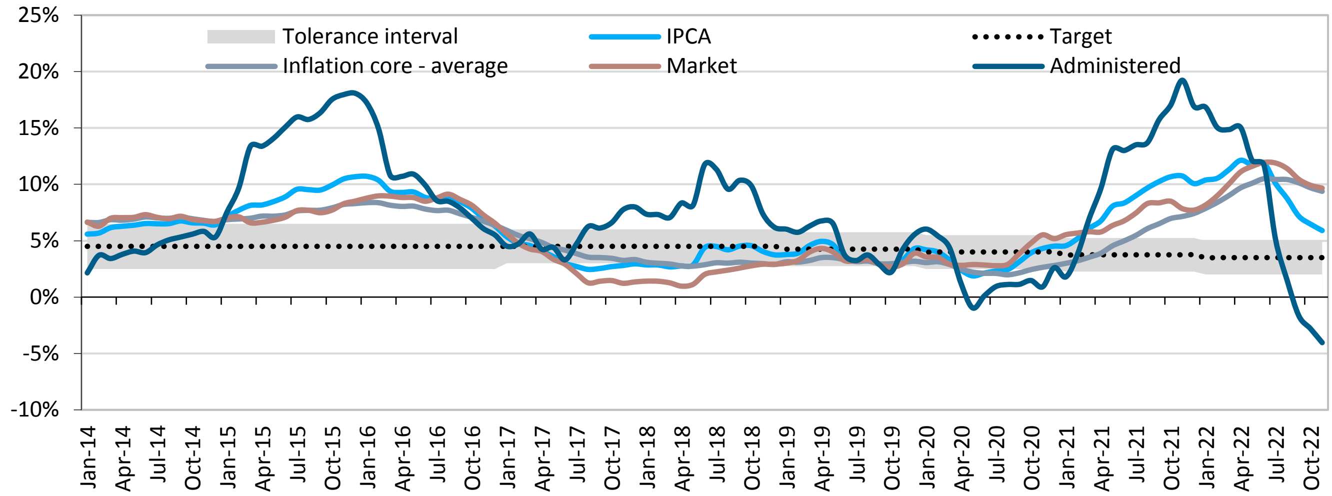
The projection for the average unemployment rate in 2022 and 2023 remains at 9.4% and 9.8%. Also, according to the Continuous PNAD, the real average labor income, on the other hand, advanced 4.8% compared to the same period a year earlier, reflecting the readjustments above inflation. Influenced positively by the recent dynamics of real income and the increase in the employed population, the overall real labor income advanced 11.5% in real terms in the same comparison. However, the pace of job creation should continue to slow over the coming months in line with the prospect of cooling economic activity. It is estimated that the average unemployment rate will reach 9.4% in 2022, rising to 9.8% in 2023 – unchanged from the scenario presented in November.

1.1.3 Inflation and monetary policy

Consumer inflation reached 5.90% in the last twelve months ended in November. The November IPCA registered a 0.41% change (compared to 0.59% in October), bringing the accumulated figure for the last 12 months to 5.90% (compared to 6.47% in October). The change in administered prices, which account for around 25% of the total IPCA, stood at 1.00% (-4.04% in 12 months), partly reflecting the 2.99% hike in gasoline prices (-25.51% in 12 months). Market prices rose 0.22% (9.66% in 12 months – below the September peak of 10.44%), with lower pressure from services (0.13% in the month and 7.95% in 12 months), food-at-home (0.58% and 13.30%), and industrial goods (0.11% and 9.83%).

The average of the inflation cores monitored by the Central Bank – measures that seek to remove the influence of more volatile items from total inflation – rose from 0.55% in September to 0.32% in October. The 12-month average slowed from 9.69% to 9.38% but is still above the interval compatible with meeting the 2022 inflation target.

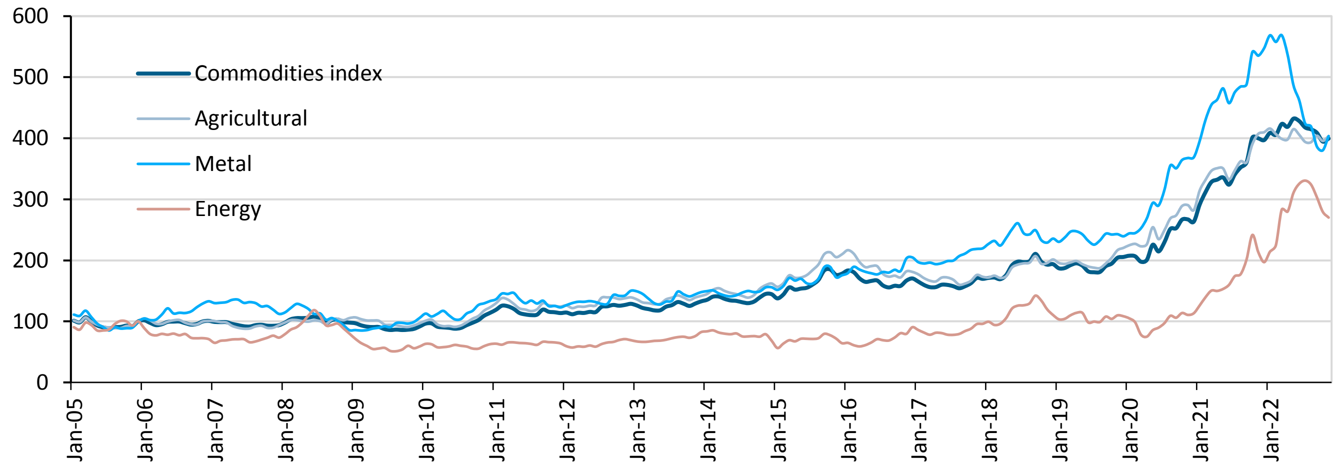
FIGURE 4. IPCA, INFLATION TARGET, AND TOLERANCE INTERVAL (% 12 MONTHS)



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

Commodity prices in Brazilian reais rose again in November. The Commodities Index - Brazil (IC-Br) calculated by the Central Bank advanced 1.3% between October and November after five consecutive drops. The recent modest rise reflects, to some extent, the prospects of reopening the Chinese economy (resulting from changes in the zero-tolerance strategy for Covid-19) on economic growth. The opening of the index shows that the advance in the month reflected the performance of agricultural commodities (2.0%) and metal commodities (6.1%). In comparison, energy commodities continued to fall (-3.4%) following oil prices. While supply constraints linked to the war in Ukraine support commodity prices, the prevailing scenario of slowing global growth is a restraining factor by reducing demand for raw materials.

FIGURE 5. COMMODITIES INDEX (IN R$)

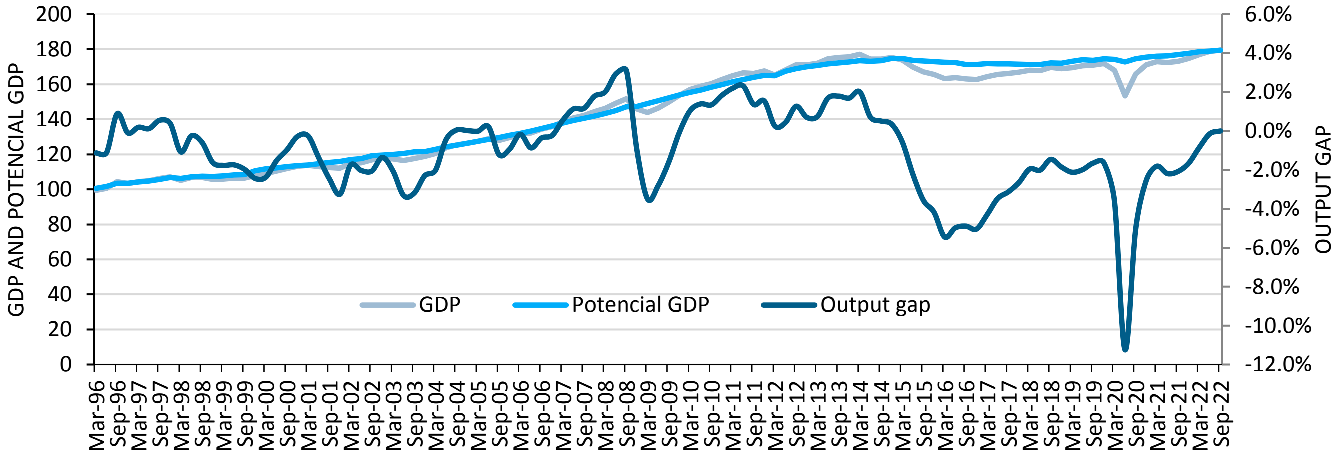


Source: Central Bank: Prepared by: IFI.

IPCA is expected to end 2022 at 5.8%, slowing to 4.7% in 2023. Recent data support the perspective for the IPCA in 2022 at 5.8%, slightly higher than the projection presented in November (5.6%). For 2023, projected inflation would slow down to 4.7% (still above the 3.25% target) under the assumptions of maintenance of federal tax cuts (PIS/Cofins and Cide) on fuels, the relative stability of the nominal exchange rate (R$/US$ 5.15 in 2022 and R$/US$ 5.23 in 2023), the gradual return of commodity prices to historical averages, and the weakening of domestic economic activity (with the output gap returning to the negative range).

The output gap closed in the third quarter of 2022. Considering the Quarterly National Accounts update, the output gap was estimated[2] to be zero in the third quarter of 2022. After the substantial widening in the 2020 recession caused by the pandemic, the output gap gradually narrowed in the recent period. Figure 6 shows the evolution of the output gap, calculated as the (percentage) difference between actual and potential output (medium or long-term trend). Throughout 2023, it is expected that the indicator will return to the negative range, reflecting, in large part, the contractionary stance of monetary policy and the prospect of a global economic slowdown.

FIGURE 6. GDP AND OUTPUT GAP (% POTENTIAL GDP)



Source: IBGE and IFI: Prepared by: IFI.

Copom maintains the Selic rate at 13.75% per year, emphasizing increased fiscal risk. In December, the Monetary Policy Committee (Copom) decided to hold the base interest rate at 13.75% p.a. without indicating changes in the monetary policy conduction. In the communication released after the meeting, the committee stated that it will evaluate if the strategy of maintaining the base interest rate at the current level for an extended period will be sufficient to bring inflation to the target over the relevant horizon (which includes the years 2023 and 2024), being vigilant to the development of the fiscal environment and, in particular, its effects on asset prices and inflation expectations.

Copom expects inflation to converge to the target in 2024. Copom's inflation projections in the reference scenario, in which the interest rate trajectory extracted from the Focus Survey is used, are 6.0% for 2022, 5.0% for 2023, and 3.0% for 2024, above the assessment presented in October: 5.8%, 4.8%, and 2.8%, respectively. Copom, in any case, maintained the balance of risks for future inflation, listing the same factors present in previous announcements. Among the upside factors, it highlighted the more remarkable persistence of global inflationary pressures, the high uncertainty regarding the future of the country's fiscal framework, and additional fiscal stimuli that imply sustaining aggregate demand, in addition to the narrowing of the output gap due to the resilient level of activity in the short term. Among the

[2] We evaluate the economy's cyclical position (the size of the output gap) using several approaches due to the high uncertainty in extracting the potential output. In practical terms, as every method has advantages and limitations, the output gap central estimate comes from comparing and evaluating a set of methodologies: Hodrick-Prescott (HP) filter; multivariate HP filter, following Areosa (2008); Hamilton filter, following Quast and Wolters (2019), and production functions that make use of the HP filter/multivariate HP filter/Hamilton filter and state space format models, following Orair and Bacciotti (2018), to extract the unemployment rate, NUCI, and total factor productivity trends. Trend estimates were obtained from extended historical series to minimize end-of-sample bias.

downside risks, he continued to highlight the decline in commodity prices in local currency, a sharper-than-projected slowdown in economic activity, and the maintenance of tax cuts projected to be reversed in 2023.

The outlook for the Selic rate remains at 11.50% p.a. at the end of 2023. The IFI's scenario contemplates that the Selic rate will remain at 13.75% p.a. until mid-2023, dropping back to 11.50% p.a. by the end of next year. The maintenance of expectations for the IPCA for 2024 above the target – reflecting the continuing uncertainties regarding fiscal policy sustainability – limits the interest rate reduction over the next year. However, changes in Copom's balance of risks – to be monitored in the coming releases – could provoke future adjustments in the interest rate scenario. Given the ongoing disinflation, we maintain our cuts projection in the year's second half.

2. FISCAL SCENARIO

2.1 Primary revenues and transfers

Revenues not collected by the RFB fell in November. According to information gathered by the IFI in the portal Siga Brasil of the Federal Senate, the central government's total primary revenue, which includes the federal government, the Central Bank, and the INSS, totaled R$ 169.4 billion in November, a reduction of 4.7% to the same month in 2021 (above inflation). Noteworthy is the 39.6% decline in revenues not collected by the Federal Revenue Office (RFB). Revenues collected by the RFB and the RGPS net collection rose 2.3% and 0.8%, respectively, in this comparison.

In November, as in previous months, the growth in managed revenues was sustained by income tax (I.R.) and social contribution on net profit (CSLL). The other taxes that make up the revenues collected by the RFB fell in November in real terms.

Dividends and the exploitation of natural resources explain the slowdown in revenues not collected by the RFB in November. Dividend collections fell 88.3% in November, in real terms, compared to the same month in 2021. That month, there was a payment of R$ 8.6 billion by BNDES with no counterpart in November this year. Meanwhile, revenue from natural resource exploration rose 1.0% in November, while the expansion rates seen in September and October were 31.5% and 14.3%, respectively.

In the year to November, primary revenue reached R$ 2,096.7 billion, an increase of 11.2% compared to 2021 (Table 4). In the first eleven months of the year, the collection continued to reflect the dynamics of the main factors: economic activity, inflation, and commodity prices. However, the last two factors are already showing signs of cooling.

In the year, managed revenues grew 7.4% above inflation compared to 2021, RGPS net collection rose 6.8%, and non-managed revenues jumped 35.4%. The revenues not collected by the RFB growth resulted from dividends (R$ 80.3 billion), concessions and permissions (R$ 43.1 billion), and revenues from natural resource exploration (R$ 126.0 billion).

TABLE 4. CENTRAL GOVERNMENT REVENUES – 2020 TO 2022 – JAN. TO NOV. (CURRENT R$ BILLION, REAL % CHANGE AND % OF GDP)

	Jan-Nov/20			Jan-Nov/21			Jan-Nov/22		
	R$ B Current	Real % change	% GDP	R$ B Current	Real % change	% GDP	R$ B Current	Real % change	% GDP
Total revenue	**1,306.6**	**-9.7%**	**18.9%**	**1,721.1**	**21.9%**	**21.2%**	**2,096.7**	**11.2%**	**23.1%**
Revenues Collected by RFB, except RGPS	*809.7*	*-9.3%*	*11.7%*	*1,080.8*	*23.6%*	*13.3%*	*1,271.8*	*7.4%*	*14.0%*
Fiscal incentives	*-0.1*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*
RGPS	*347.7*	*-6.2%*	*5.0%*	*398.7*	*6.1%*	*4.9%*	*466.4*	*6.8%*	*5.1%*
Revenues not Collected by RFB	*149.2*	*-19.0%*	*2.2%*	*241.7*	*49.5%*	*3.0%*	*358.6*	*35.4%*	*4.0%*
Transfers	**234.0**	**-8.2%**	**3.4%**	**315.3**	**24.7%**	**3.9%**	**411.1**	**19.0%**	**4.5%**
Net revenue	**1,072.6**	**-10.0%**	**15.5%**	**1,405.8**	**21.3%**	**17.3%**	**1,685.6**	**9.5%**	**18.6%**
Total revenue without non-recurrent event*	**1,336.7**	**8.8%**	**19.3%**	**1,654.6**	**14.5%**	**20.4%**	**2,024.7**	**11.7%**	**22.3%**
Net revenue without non-recurrent event *	**1,102.7**	**9.7%**	**16.0%**	**1,339.3**	**12.4%**	**16.5%**	**1,613.6**	**9.9%**	**17.8%**
GDP (R$ billion)			**6,910.8**			**8,114.7**			**9,077.2**

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

The transfers by revenue sharing totaled R$ 411.1 billion through November, an actual increase of 19.0% over 2021 (Table 4). This increase results from the Income Tax collection and the oil and natural gas production (Law 9,478 of 1997), as well as Law 14,337 of May 11, 2022, which provides for an additional transfer to the subnational entities regarding the pre-salt auctions in the amount of R$ 7.7 billion through a special credit, opened with funds from the excess of revenue from concessions and permissions.

Considering primary revenue of R$ 2,096.7 billion between January and November and transfers by revenue sharing of R$ 411.1 billion, the central government's net primary revenue[3] totaled R$ 1,685.6 billion in the period, an increase of 9.5% compared to 2021 (Table 4).

Table 4 also presents total and net recurring revenues (free from the influence of atypical factors), which grew 11.7% and 9.9% (in real terms), in that order, in the year to November. The non-recurring events considered are described in the Special Study (E.E.) of IFI no. 17[4], December 2021, and include collections from fiscal recovery programs (Refis), anticipated dividends, operations with assets, and other atypical collections reported by the RFB.

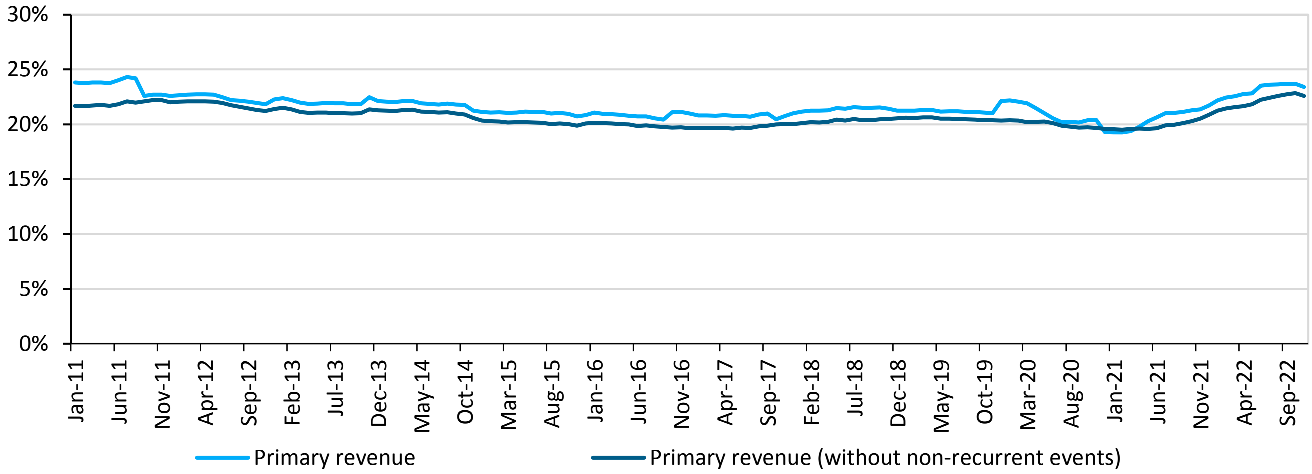
Recurring primary revenue growth was 1.5 percentage points of GDP between January and November. In a 12-month comparison, central government primary revenue totaled R$ 2,308.3 billion (23.4% of GDP[5]) through November, while recurring primary revenue reached R$ 2,228.3 billion (22.6% of GDP). Figure 7 shows the evolution, since 2011, of these two series as a proportion of GDP. By comparison, recurrent primary revenue went from 21.2% of GDP in January 2022 to 22.6% in November.

[33] The net revenue corresponds to the volume of resources available to the Union after sharing revenues with states and municipalities, that is, total revenues minus transfers.

[4] Link to the document: https://www2.senado.leg.br/bdsf/bitstream/handle/id/594656/EE17_Resultado_Estrutural.pdf.

[5] In this edition of the RAF, the IFI has recalculated the Central Bank's monthly GDP series from the revision made by IBGE in the historical series of the quarterly national accounts.

FIGURE 7. CONVENTIONAL AND RECURRENT PRIMARY REVENUE (12 MONTHS - % OF GDP)



Source: STN. Prepared by: IFI

As mentioned in the previous section, inflation and commodity prices began to decline in July, which has already affected the trajectory of tax collection. This movement should continue in the coming months. It is worth mentioning that the increase in primary revenue as of the last quarter of 2020, as illustrated in Figure 7, occurred in line with the growth in commodity prices and inflation.

Every month, the IFI updated the projections for central government primary revenues in 2022 and 2023 under the baseline scenario. Table 5 presents the predictions made in November and updated now for total primary revenue, transfers by revenue sharing, and net primary revenue. The baseline scenario incorporates the permanent tax exemption of 35% for IPI and the maintenance of the tax exemption for federal taxes (PIS/Cofins and Cide) levied on fuels, as foreseen in PLOA 2023.

TABLE 5. CENTRAL GOVERNMENT'S PRIMARY REVENUE ESTIMATES - BASELINE 2022 AND 2023

Baseline	2022		2023	
	Nov/22	Dec/22	Nov/22	Dec/22
1. Total primary revenue	**2,337.9**	**2,332.6**	**2,318.6**	**2,318.9**
Revenues collected by the RFB	1,410.8	1,411.5	1,442.4	1,443.1
Net social security (RGPS)	536.6	536.9	568.6	568.7
Revenues not collected by the RFB	390.5	384.2	307.6	307.0
2. Transfers by revenue sharing	**454.0**	**454.7**	**433.7**	**433.8**
3. Net revenue [1-2]	**1,883.9**	**1,877.9**	**1,884.8**	**1,885.0**

Source: IFI.

The IFI's projection for total primary revenue in 2022 was revised from R$ 2,337.9 billion in November to R$ 2,332.6 billion. The revision in the GDP series explains the upward shift in the projections for administered and RGPS revenues in 2022 and 2023 relative to those presented in RAF No. 70, November 2022. In contrast, unmanaged revenue data until November brought down the estimate in 2022.

For 2023, the IFI's forecast for total primary revenue rose from R$ 2,318.6 billion to R$ 2,318.9 billion. In any case, the lower values projected for non-managed revenues in 2023 (to 2022) make the total primary revenue of 2023 lower than that of 2022. The IFI projects that collections from dividends and participations will fall from R$ 85.6 billion in

2022 to R$ 38.0 billion in 2023. The decrease is explained mainly by the expected reduction in oil prices in the international market and the consequent effect on profits and the distribution of dividends by Petrobras.

By comparison, in December, the median forecast of the economists participating in the Monthly Report from Prisma[6] of the Ministry of Economy was a federal collection of R$ 2,241.0 billion in 2022 and R$ 2,310.0 billion in 2023. In the same report, the average of the projections of the podium (most accurate economists) is R$ 2,310.7 billion in 2022 and R$ 2,328.7 billion in 2023.

On the other hand, the most recent projection of the Executive Branch for 2022, contained in the Primary Revenue and Expenditure Evaluation Report of the 5th Bimester of 2022[7], of November, is of total primary revenue of R$ 2,319.2 billion. For 2023, the PLOA 2023 foresees a primary revenue of R$ 2,257.4 billion.

2.2 Primary expenditure

According to Siga Brasil, primary central government spending totaled R$ 140.5 billion in November, up 4.5% in real terms over the same month in 2021. Below are some comments regarding selected items of expenditure.

- **Social security benefits:** payment of R$ 61.7 billion, representing a real increase of 8.0% over November 2021;
- **Payroll:** expenses of R$ 29.4 billion in November represented a real reduction of 4.2% to the same month last year and reflected the absence of adjustments in civil service wages; and
- **Mandatory expenditure with flow control:** R$ 18.3 billion (an increase of 31.2%) influenced by the payment of the Brazil Aid in R$ 7.0 billion. Disregarding the Brazil Aid, which began to be paid in November 2021, the mandatory expenses with flow control would have registered a real fall of 19.2% in November compared to the same month in 2021.

Primary federal expenses rose 2.5% in real terms from January to November. The central government's total primary expense reached R$ 1,634.8 billion in the eleven months of 2022, a real increase of 2.5% to 2021 (Table 6). The highlights for this result are the expenses with salary allowance and unemployment benefit (which accumulate a high of 30.3%, mainly due to the change in the payment schedule of the salary allowance), the Union's supplement to the Fundeb, which is in a transition period, (an increase of 41.3%), the mandatory expenses with flow control, influenced by the expenses with Family Allowance and Brazil Aid programs (42.5%), and the discretionary expenses, which grew due to the atypical expense of R$ 23.9 billion related to the dispute over Campo de Marte.

[6] Link to the report: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2022.

[7] Link to the document: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2022/17.

TABLE 6. CENTRAL GOVERNMENT PRIMARY EXPENDITURE – 2020 TO 2022 – JAN. TO NOV. (CURRENT R$ BILLION, REAL % CHANGE AND % OF GDP)

Breakdown	Jan-Nov/20			Jan-Nov/21			Jan-Nov/22		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total expenditure	**1,771.7**	**39.3%**	**25.6%**	**1,454.7**	**-24.1%**	**17.9%**	**1,634.8**	**2.5%**	**18.0%**
Social Security Benefits (RGPS)	*611.5*	*6.0%*	*8.8%*	*654.0*	*-1.1%*	*8.1%*	*734.1*	*2.2%*	*8.1%*
Payroll (working and retired employees)	*286.6*	*-0.2%*	*4.1%*	*294.1*	*-5.1%*	*3.6%*	*301.3*	*-6.6%*	*3.3%*
Salary allowance and unemployment insurance	*55.1*	*5.2%*	*0.8%*	*42.7*	*-27.8%*	*0.5%*	*61.2*	*30.3%*	*0.7%*
Continuous Cash Benefit (BPC)	*57.4*	*1.5%*	*0.8%*	*62.0*	*0.0%*	*0.8%*	*72.1*	*6.0%*	*0.8%*
Extraordinary Credits (except PAC)	*396.3*	-	*5.7%*	*112.2*	*-74.0%*	*1.4%*	*41.3*	*-66.3%*	*0.5%*
Compensation to RGPS for Exemption of Payroll Taxes	*8.8*	*-10.7%*	*0.1%*	*6.8*	*-28.1%*	*0.1%*	*3.1*	*-58.2%*	*0.0%*
Fundeb	*14.3*	*-0.4%*	*0.2%*	*19.5*	*25.7%*	*0.2%*	*30.1*	*41.3%*	*0.3%*
Court Rulings and Court-Ordered Debts (current and capital expenditure)	*22.5*	*45.0%*	*0.3%*	*18.5*	*-24.1%*	*0.2%*	*17.0*	*-17.4%*	*0.2%*
Subsidies, Grants, and Proagro	*19.4*	*82.2%*	*0.3%*	*6.3*	*-70.0%*	*0.1%*	*14.6*	*109.2%*	*0.2%*
Mandatory expenditure	**1,683.1**	**43.1%**	**24.4%**	**1,358.6**	**-25.4%**	**16.7%**	**1,503.8**	**0.9%**	**16.6%**
Mandatory spending with flow control	***117.0***	***-9.3%***	***1.7%***	***126.0***	***-0.3%***	***1.6%***	***196.9***	***42.5%***	***2.2%***
Discretionary	**88.6**	**-7.6%**	**1.3%**	**96.0**	**-0.6%**	**1.2%**	**131.0**	**24.9%**	**1.4%**
Total expenditure without non-recurrent events*	**1,264.8**	**-0.6%**	**18.3%**	**1,321.0**	**-3.4%**	**16.3%**	**1,569.0**	**8.3%**	**17.3%**
GDP (R$ billion)			**6,910.8**			**8,114.7**			**9,077.2**

** The non-recurrent events are presented and described in the IFI's E.E. no. 17, 2021.*
Source: SIGA Brasil, STN, and Central Bank. Prepared by: IFI.

Central government recurrent primary expenditures, calculated by the IFI based on the methodology published in the E.E. no. 17, December 2021, totaled R$ 1,569.0 billion in the accumulated total for 2022 through November, a real increase of 8.3% over 2021 (Table 6). The calculation considers as non-recurring expenses from Covid-19, the onerous assignment of the pre-salt, the Brazilian Sovereign Fund, the anticipations in the payment of the salary allowance and the RGPS Christmas bonus, and other expenses, such as the payment for the right to use Campo de Marte.

In the eleven months of 2022, the non-recurring events in expenses totaled R$ 65.8 billion, of which R$ 19.9 billion were spent on fighting the pandemic, R$ 22.0 billion on the salary allowance anticipation (13th salary) to the INSS retirees and pensioners, and R$ 23.9 billion referring to Campo de Marte.

The payment of social security benefits started to register higher growth rates from August onwards. In the year to November, this expense rose 2.2% in real terms. Information gathered in the Social Security Statistical Bulletin (BEPS) indicates an increase both in the benefits issued and the average value in the year to October (Table 7).

TABLE 7. BENEFITS AND AVERAGE VALUE (RGPS) – 2020 TO 2022 – ACCUMULATED FROM JANUARY TO OCTOBER (CURRENT R$ BILLION AND VARIATION RATE)

	Jan-Oct/2020		Jan-Oct/2021		Jan-Oct/2022	
	Value	Var.%	Value	Var.%	Value	Var.%
Number of social security benefits RGPS (thousands) – Average	**35,755.7**	**1.6%**	**36,038.1**	**0.8%**	**36,819.7**	**2.2%**
Urban	*26,142.0*	*2.0%*	*26,399.7*	*1.0%*	*27,067.6*	*2.5%*
Rural	*9,613.8*	*0.5%*	*9,638.3*	*0.3%*	*9,752.0*	*1.2%*
The average value of the RGPS benefit (R$)	**1,480.8**	**10.1%**	**1,552.8**	**4.9%**	**1,683.7**	**8.4%**
Urban	*1,640.8*	*9.9%*	*1,720.5*	*4.9%*	*1,860.2*	*8.1%*
Rural	*1,045.7*	*10.5%*	*1,093.4*	*4.6%*	*1,194.1*	*9.2%*

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

The IFI's scenario for primary expenditure reflects the Transition PEC and the short-term restrictions on expenses subject to the ceiling. The IFI now foresees a central government primary expenditure of R$ 1,809.6 billion in 2022. This scenario is compatible with the one presented in the November RAF. As a percentage of GDP, primary spending is expected to reach 18.1% of GDP in 2022. For 2023, primary expenditure is likely to increase due to the Transition PEC, which will be detailed below.

As a comparison, the median forecast of the economists participating in the Monthly Report from Prisma is for a central government primary expense of R$ 1,814.5 billion in 2022 and R$ 1,988.1 billion next year. The average of the Podium forecasts is an expenditure of R$ 1,808.2 billion this year and R$ 1,994.5 billion in 2023.

IFI revises projection for social security benefits. The IFI estimates that the expenses with social security benefits, including judgments and court-ordered debts, will end 2022 at R$ 796.6 billion (against R$ 792.2 billion previously projected). This figure incorporates data from January to November and the IFI's projection for December. The revision in the forecast was motivated by the growth in the benefits issue.

Table 8 compares the most recent IFI scenario for primary expenditures with the scenario presented in the Federal Government's latest decree of budgetary and financial programming for 2022 and the result realized in 2021.

TABLE 8. FEDERAL PRIMARY EXPENDITURE - IFI BASELINE SCENARIO AND GOVERNMENT PROGRAMMING (R$ BILLION)

Breakdown	2021 (Actua)	Government (Nov/22)	IFI (Dec/22)	Difference (IFI - Gov.)		Difference (IFI - 2021)	
	R$ bi	R$ bi	R$ bi	R$ bi	%	R$ bi	%
Mandatory	**1,614.2**	**1,816.7**	**1,809.6**	-7.1	-0.4	195.5	12.1
Social Security	1,490.3	1,679.4	1,660.6	**-18.8**	**-1.1**	**170.4**	**11.4**
Payroll	709.6	797.6	796.9	**-0.7**	**-0.1**	**87.3**	**12.3**
Salary Allowance and Unemployment Benefit	329.3	339.4	336.9	**-2.5**	**-0.7**	**7.6**	**2.3**
BPC	45.9	66.5	64.5	**-2.0**	**-3.0**	**18.6**	**40.6**
Family Allowance / Brazil Aid	67.7	80.1	78.6	**-1.5**	**-1.9**	**11.0**	**16.2**
Court-ordered debt (current and capital)	25.8	89.8	87.8	**-1.9**	**-2.1**	**62.1**	**241.1**
Supplementation to FUNDEB	18.8	17.9	17.4	**-0.5**	**-3.1**	**-1.4**	**-7.4**
Subsidies and Grants	22.0	33.7	33.7	**0.0**	**0.0**	**11.7**	**53.1**
Legislative, Judiciary, MPU and DPU	7.5	18.0	16.2	**-1.8**	**-9.9**	**8.8**	**117.3**
Payroll tax reduction	11.0	16.9	15.2	**-1.7**	**-10.1**	**4.2**	**38.1**
Extraordinary credits	7.3	3.1	3.1	**0.0**	**0.0**	**-4.2**	**-57.4**
Other Compulsory Expenses	117.2	56.4	49.6	**-6.8**	**-12.0**	**-67.5**	**-57.6**
Discretionary	128.3	159.9	160.6	**0.6**	**0.4**	**32.3**	**25.2**
Mandatory	123.9	137.8	149.0	**11.2**	**8.1**	**25.1**	**20.2**

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

After the evaluation of the fifth bimester, the projection of the Executive Branch for the central government's primary surplus remained at R$ 23.4 billion, above the target for the year. The official estimate released at the end of November deviates from the target of a R$ 170.5 billion fiscal deficit foreseen in this year's Budget Guidelines Law (LDO 2022)[8]. The surplus, however, does not relieve the budget execution due to the budgetary adjustment required to comply with the spending ceiling. The primary expenditures projected in the central government's revenue and expenditure assessment report for the fifth bimester was R$ 1,832.1 billion. However, the budgetary and financial

[8] Available at: https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2021/lei/L14194.htm.

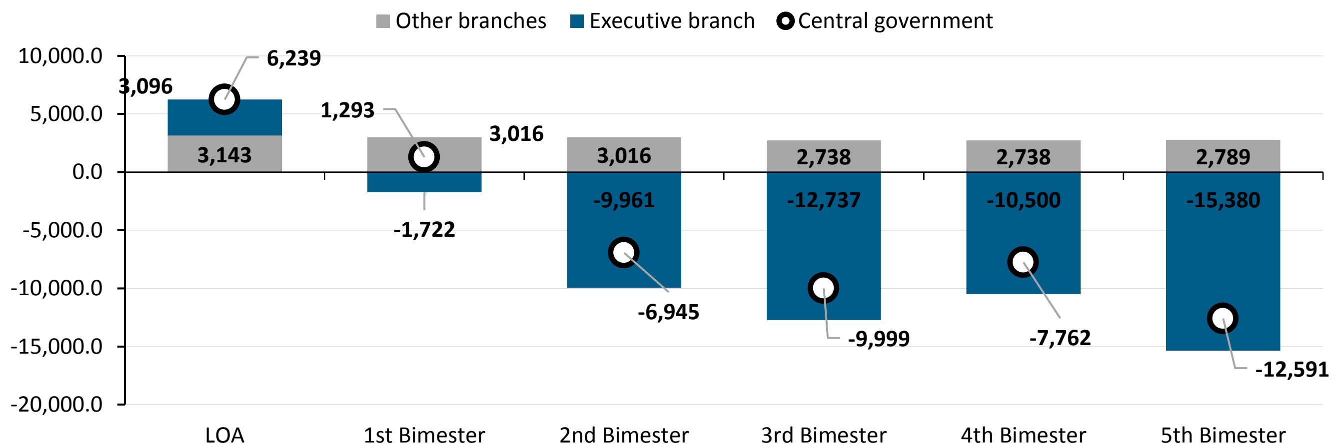
programming decree, published after the bimonthly examination, authorized primary spending of R$ 1,816.7 billion, R$ 15.4 billion less than that shown in the bimonthly report.

Below, we detail the main points of this latest Federal Government's revenues and expenses evaluation.

First, it is worth remembering that the monitoring of fiscal variables throughout the year is provided for in the LRF (Article 9) and regulated in the 2022 LDO. At the end of each two months, this monitoring is essential to allow corrections whenever the behavior of primary revenues and mandatory expenses deviate from the year's primary balance target. In the case of the spending ceiling, when expenses subject to the rule exceed the maximum limit per branch/power.

As already highlighted in previous editions of this RAF, the spending ceiling has been restrictive, despite recent changes that have expanded the fiscal space to accommodate new expenses. The central government's revenue and expenditure evaluation report showed that expenses must be higher than the Executive Branch's spending ceiling. Decree 11,269 of budget and financial programming of November 30, 2022, authorized expenditures to contemplate the adjustment pointed out in the bimonthly report. Figure 8 shows the history of adjustment needs and the identification of excesses in the spending ceiling observed in the bimonthly reports.

FIGURE 8. ANNUAL ESTIMATED EXCESS (+) / NEED FOR ADJUSTMENT (-) - SPENDING CEILING (R$ BILLION)



Source: Bimonthly Reports of Assessment of Central Government Revenue and Expenditures. Prepared by IFI.

The need for adjustments in primary federal expenses increased by R$ 4.9 billion between the 4th and the 5th bimonthly evaluation. Among the factors influencing the revision of the primary expenditures projections are the dynamics of the social security benefits and the expenditures with culture incentive laws.

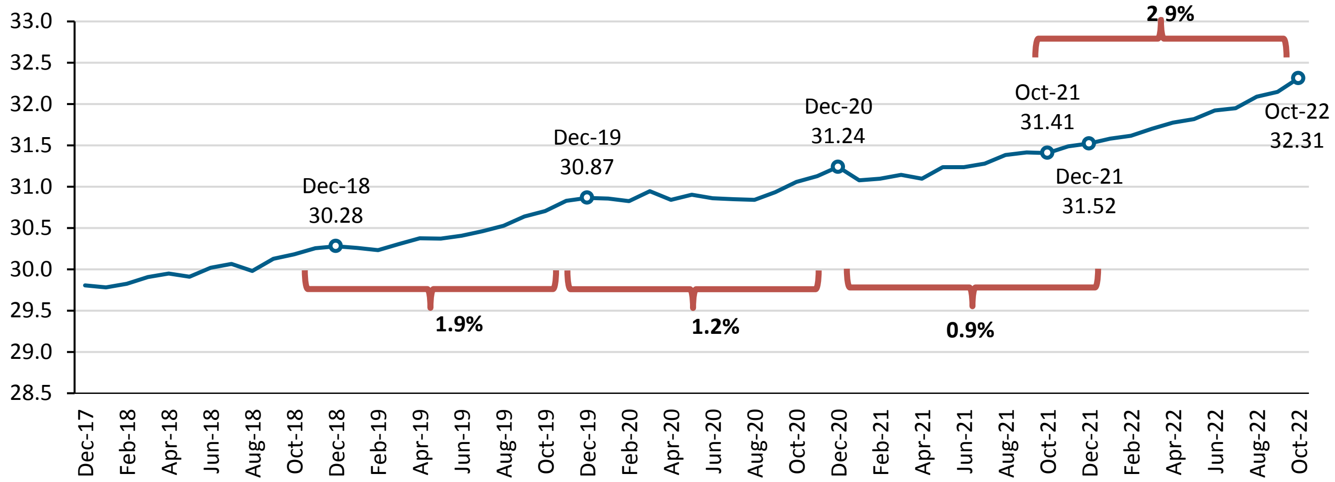
The number of social security benefits issued is growing at rates higher than those registered before the reform. In the July edition of this RAF, the IFI highlighted the recent increase in benefits in recent months[9]. In the last bi-monthly evaluation report, the government justified the upward revision of R$ 2,348.7 million in the projections for expenses with social security benefits due to (i) a drop in cessations due to death, (ii) normalization of the existing backlog, (iii) an increase in applications, and (iv) other factors.

Figure 9 reproduces the evolution of benefits issued from December 2017 to October 2022 (the latest information available). After the reduction in the benefits growth rate during the pandemic, soon after the pension reform, the

[9] The July issue of RAF is available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/598923/RAF66_JUL2022.pdf.

issuance again expressed higher percentages of increase than in the pre-reform period. Currently, the growth rate of benefits issued is 2.9%. This diagnosis influenced the review of the appropriations for these expenses in the 2023 federal budget.

FIGURE 9. BENEFITS ISSUED BY THE RGPS (AMOUNT IN MILLIONS)



Source: Social Security Statistical Bulletin (BEPS). Prepared by: IFI.

As far as the laws to encourage culture are concerned, with the approval of laws 14,399, of 2022; 14,148 of 2021, and Supplementary Law no. 195, of 2022, the Union was obliged to enable financial support to the States, Federal District, and Municipalities. The Provisional Presidential Decree no. 1,135 of 2022 was edited to postpone the transfers to the next financial year. However, a decision by the Federal Supreme Court (STF) endorsed the decision that granted the measure to suspend the effects of PM 1,135, 2022. Thus, the transfers should still be made in 2022. For this reason, the estimate regarding subnational entities supports increased by R$ 3.9 billion to the fourth bimester evaluation.

Five evaluations of primary revenues and expenses were published in 2022. The first, in March, and four others relative to the following two-month periods[10], gave rise to Decrees 11,019, 11,086, 11,154, 11,216, and 11,269 of 2022, respectively[11]. In all evaluations, the projections of revenues and expenses maintained the primary balance with relative clearance to the target for the year. However, as of the fourth bimester's evaluation, the projected result went from deficit to surplus. When the government presents the target and the respective projection, it is possible to infer, every two months, the distance between the target and the government's expectation for the fiscal result. It is also possible to evaluate the compatibility with the spending ceiling.

Execution of spending via EC 123 (PEC of fiscal emergency) should remain below the maximum allowed. The Constitutional Amendment (E.C.) 123 of 2022 authorized expenditures of up to R$ 41.25 billion until the end of this year. There was, however, low execution in some of the programs reached by the measure. Table 9 shows the maximum amount authorized by EC 123 of 2022, the amount allowed via provisional decree, the amount executed so far, and the

[10] Evaluation reports are available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2022/13.

[11] Decrees are available at: https://www.tesourotransparente.gov.br/publicacoes/decreto-de-programacao-orcamentaria-e-financeira-dpof/2022/185.

percentage of budget execution per type of benefit. The IFI has revised downward the forecasts for extraordinary credits due to the low budget execution observed in some expenditure items.

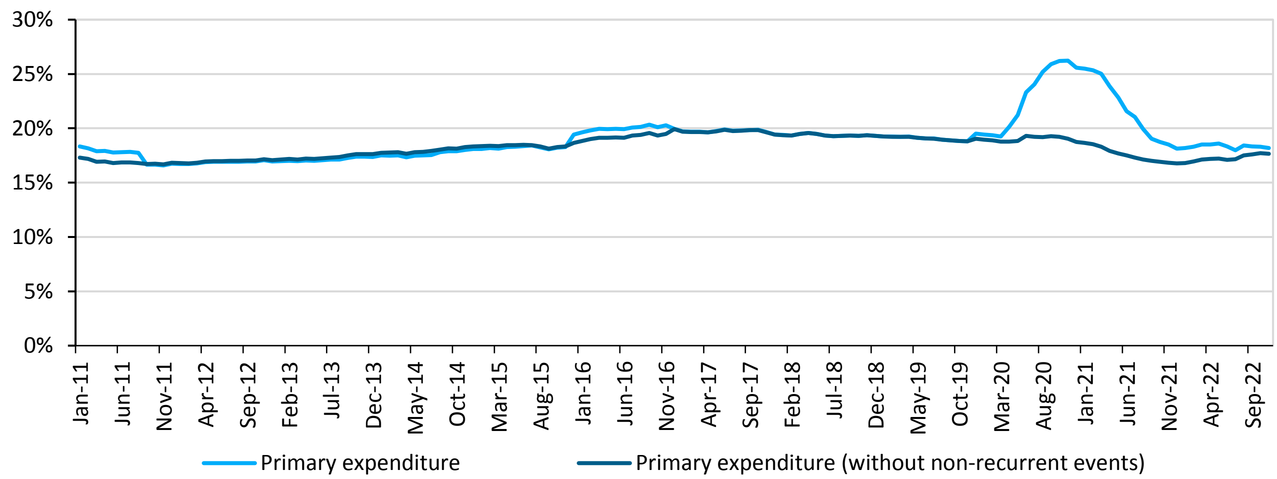
TABLE 9. EC 123 EXECUTION. (R$ MILLION)

Expenditure	Maximum EC 123	Authorized 2022	Committed until 12/09	Total paid until 12/09	% of Execution (Total Paid / Authorized))
Brazil Aid	26,000	25,458	24,929	24,929	97.9%
Truck drivers aid	5,400	5,101	5,101	2,329	45.7%
Gas aid	1,050	1,050	1,050	990	94.3%
Taxi drivers aid	2,000	2,000	1,985	1,877	93.9%
"Alimenta Brasil" Program	500	500	216	11	2.2%
Compensation to states (fuel)	3,800	3,800	3,800	2,832	74.5%
Public transportation – senior citizens	2,500	2,500	2,500	2,484	99.4%
Total	**41,250**	**40,409**	**39,582**	**35,453**	**87.7%**

Source: Siga Brasil. Prepared by: IFI.

To conclude this subsection, we present the 12-month trajectory of the conventional and recurrent primary expenditure calculated by the IFI according to the methodology presented in E.E. no.17, December 2021. Figure 10 contains these two series measured as a proportion of GDP. Total primary expenditure reached 18.2% of GDP in November, down from 18.3% in September and October. Recurring spending rose from 17.2% of GDP in July to 17.7% in November.

FIGURE 10. TOTAL PRIMARY EXPENDITURE (WITH AND WITHOUT NON-RECURRING EVENTS) - % OF GDP



Source: STN. Prepared by: IFI.

2.3 The central government and the consolidated public sector balance

The central government's primary surplus from January to November was R$ 50.8 billion. The data collected by the IFI in the Siga Brasil portal indicate that the central government had a primary deficit of R$ 13.7 billion in November, compared to a surplus of R$ 4.2 billion in the same month of 2021. In the year to November, the central government accumulated a primary surplus of R$ 50.8 billion, lower than the R$ 64.4 billion surplus accumulated through October. Given the spending ceiling, the accumulated primary surplus in 2022 continued to reflect the increase in revenues and the relative control of primary spending.

The IFI's projection for the central government's primary surplus in 2022 retreated slightly from 0.8% of GDP to 0.7% of GDP. In the 12 months to November, the central government had a primary surplus of R$ 64.6 billion (0.7% of GDP). For this year, the IFI now projects a surplus of R$ 68.6 billion (0.7% of GDP) in the baseline scenario, compared to R$ 74.1 billion (0.8% of GDP) estimated in November. For 2023, however, the projection is for an R$ 88.6 billion deficit (0.8% of GDP), lower than the R$ 96.6 billion (0.9% of GDP) projected in the November RAF. Table 10 displays these figures and the projections made in November for comparison purposes.

TABLE 10. CENTRAL GOVERNMENT PRIMARY BALANCE FORECASTS (2022 AND 2023) UNDER THE BASELINE SCENARIO (R$ BILLION)

	2022				2023			
	Nov/22		Dec/22		Nov/22		Dec/22	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
Net revenue	1,883.8	19.3	1,877.9	18.8	1,884.8	18.3	1,885.0	17.8
Primary expenditure	1,809.7	18.6	1,809.3	18.1	1,981.4	19.2	1,973.7	18.6
Primary balance	74.1	0.8	68.6	0.7	-96.6	-0.9	-88.6	-0.8

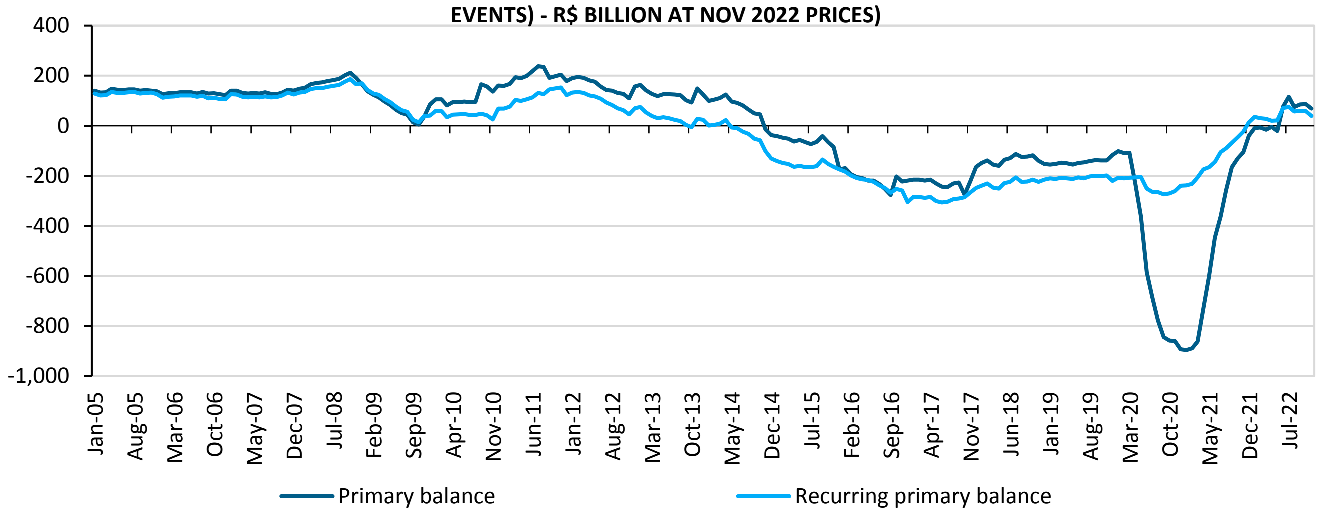
Source: IFI.

The decline in the revenue projection reduced expectations regarding the primary surplus in 2022. Table 10 allows for the following observations: (i) in 2022, the net revenue projection downward revision (between November and December) reduced the IFI's expectation for the central government primary surplus from R$ 74.1 billion (0.8% of GDP) to R$ 68.6 billion (0.7% of GDP); and (ii) for 2023, in the baseline scenario, the IFI's projection for the federal government primary deficit was reduced from R$ 96.6 billion (0.9% of GDP) to R$ 88.6 billion (0.8% of GDP) due to the change in the primary expenditure projection.

Figure 11 shows the 12-month path of the central government's conventional (observed) and recurrent primary balances at November 2022 prices. While the conventional balance was a R$ 68.0 billion surplus in November, the recurring balance was R$ 39.2 billion positive. The recurring balance confirmed an improvement in the Union's primary surplus trajectory in the last quarter of 2020, when tax collection began to grow more robustly.

The slowdown in economic activity and expenditure pressures are the main risks for the primary balance in 2023. As mentioned earlier, the expected slowdown in domestic and external economic activity in the coming months due to tighter monetary policy is a risk to the trajectory of revenues, especially from 2023. On the expenditure side, the Brazil Aid extension (R$ 600) and other expenses intended with the fiscal space to be opened with the Transition PEC, analyzed below, also represent a risk because of the lack of space in the federal spending ceiling. The way these expenses will be accommodated may influence the credibility of the country's fiscal regime.

FIGURE 11. CENTRAL GOVERNMENT'S PRIMARY BALANCE (WITH AND WITHOUT NON-RECURRING EVENTS) - R$ BILLION AT NOV 2022 PRICES)



Source: SIGA Brasil, STN and Tesouro Gerencial. Prepared by: IFI

The public sector recorded a primary surplus of R$ 157.9 billion in 2022 through October. We will now analyze the data made available by the Central Bank, updated to October 2022, regarding the primary and nominal balances of the consolidated public sector based on the below-the-line methodology[12]. In the year to October 2022, the public sector - including the central government, regional governments, and state-owned companies - had a primary surplus of R$ 157.9 billion, against a surplus of R$ 49.6 billion in the first ten months of 2021. The central government recorded a surplus of R$ 65.3 billion. At the same time, the states and municipalities accumulated a positive balance of R$ 87.2 billion, and state companies R$ 5.3 billion.

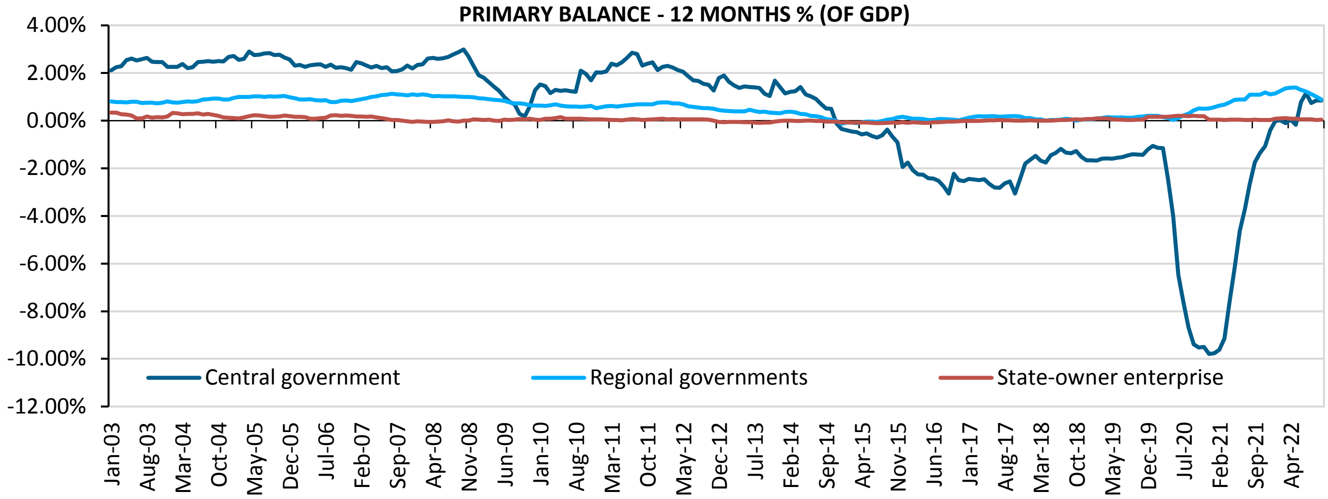
The performance of tax collection supports the primary surplus of the subnational entities. The growth in tax collection explains the primary balance of the subnational entities for the same reasons that sustain the dynamics of the Union's primary revenues. However, ICMS collections have slowed down in recent months due to the innovations brought in by Supplementary Laws No. 192 and No. 194. LC 194 classified the telecommunications, electricity, fuel, and public transport sectors as essential goods and services. It fixed the maximum ICMS rates at 17%-18%.

ICMS collections began to slow down in July. According to data from Confaz, the accumulated ICMS collections from January to October in the 27 states of the federation fell 1.5%, in real terms, compared to the same period in 2021. By comparison, in the accumulated 2022 through June, there was an increase of 4.5%, while in the year to August, the growth had been reduced to 1.6%. In other words, the collection, which used to be high, started having reductions when compared to 2021.

Until October, the central government and subnational entities recorded a primary surplus of 0.9% of GDP. In the 12 months that ended in October, the central government (federal government, Central Bank, and INSS) accounted for a primary surplus of R$ 82.8 billion (0.9% of GDP), while the regional governments (states and municipalities) and state companies reported surpluses of R$ 86.2 billion (0.9% of GDP) and R$ 4.1 billion (0.04% of GDP), respectively. This information is available in Figure 12.

[12] For a more detailed explanation, access: https://bit.ly/3pjxgEv.

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



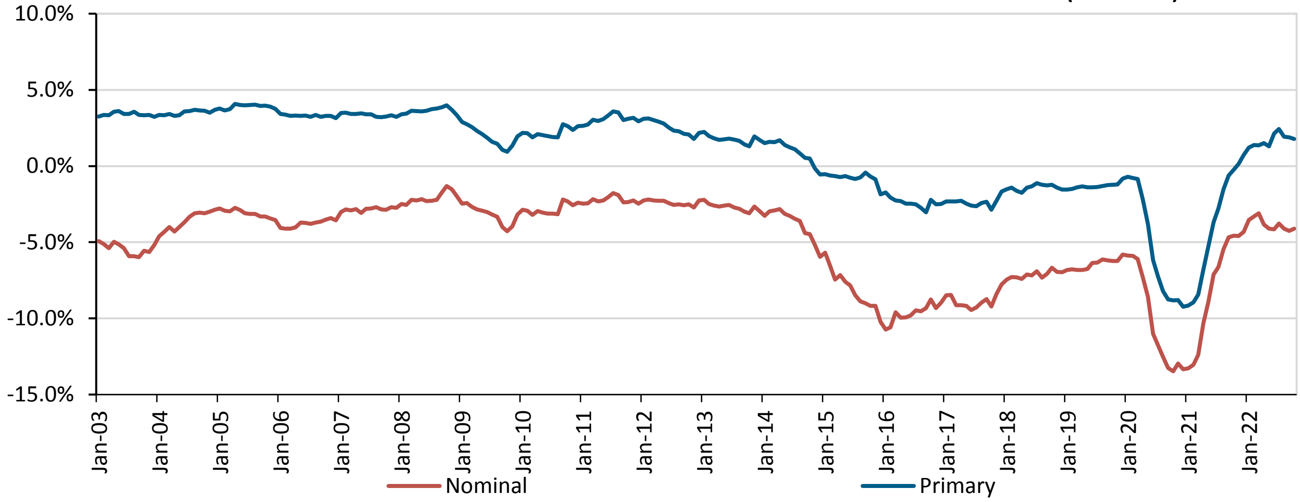
Source: Central Bank. Prepared by IFI.

States and municipalities' primary balance began to decline in May. Also, concerning Figure 12, the primary surplus of the regional governments reached 1.4% of GDP in May. Then it began to drop, reaching 0.9% of GDP in October in a 12-month comparison. This trend is related to reducing the ICMS tax rates levied on telecommunications, fuel, and electricity.

Figure 13 shows the 12-month evolution of the primary and nominal balances of the consolidated public sector. In October, the public sector had a primary surplus of R$ 173.1 billion (1.8% of GDP), against R$ 181.4 billion (1.9% of GDP) in September and R$ 183.5 billion (2.0% of GDP) in August. In October, a deficit of 0.2% of GDP was equivalent to R$ 20.4 billion. This reduction in the public sector's primary surplus in the last few months results from decreased subnational entities' balances.

The nominal public sector balance – the sum of the primary balance and interest expenses – was negative R$ 400.1 billion (4.1% of GDP) in the 12 months ended in October, a 0.1 percentage point decline to September and a 0.5 percentage point drop against the same month in 2021. Figure 13 indicates relative stability in the nominal public sector balance between August and October. This occurred due to marginal reductions in interest expenses as a proportion of GDP.

FIGURE 13. CONSOLIDATED PUBLIC SECTOR PRIMARY AND NOMINAL - 12 MONTHS (% OF GDP)



Source: Central Bank. Prepared by: IFI.

Public sector interest expense retreated to 5.9% of GDP in the 12 months through October. Public sector interest expenditures reached 5.9% of GDP (or R$ 573.2 billion) in the 12 months through October, against 6.1% of GDP (R$ 592.0 billion) in September and 4.3% of GDP (R$ 378.3 billion) in October 2021 (Figure 14). Interest expenditures as a proportion of the GDP rose from July 2021 to last June due to increases in the Selic rate and inflation, two indexers of public securities. As of July 2022, interest expenses began to register reductions in the margin due to the cooling of inflation. It is worth mentioning that in Figure 14, interest expenses appear with the inverted sign.

FIGURE 14. INTEREST EXPENDITURES - 12 MONTHS (% OF GDP)

Source: Central Bank. Prepared by: IFI.

2.4 Public sector indebtedness indicators

In October and November, the risk perception regarding emerging markets retreated due to more favorable inflation data in the United States, which may cause the Federal Reserve (Fed) to reduce the pace of monetary tightening, as well as the perspective of recovery of China's economy in the short term. It is essential to point out that in November, the perception of risk concerning the Brazilian economy fell less than that seen in other emerging economies. This fact, combined with the yield curve rise in November, indicates uncertainties regarding the fiscal policy conduction in the coming months and years.

In this subsection, we first analyze the information contained in the Monthly Debt Report (RMD) of the National Treasury Secretariat, with data updated up to October.

In October, fixed-rate securities redemptions made net redemptions of debt totaled R$ 9.1 billion. Redemptions of Federal Public Debt (DPF) securities in the primary market exceeded issuances by R$ 9.1 billion in October. These redemptions were determined by fixed-rate Domestic Federal Public Debt (DPMFi), which had net redemptions of R$ 70.8 billion in the month. On the other hand, there were net issuances of R$ 34.4 billion in floating-rate securities and R$ 28.6 billion in price-indexed securities. In the year to October, the DPF had net redemptions of R$ 284.6 billion.

The liquidity reserve was relatively stable in October. The public debt liquidity reserve totaled R$ 1,028.9 billion in October, compared to R$ 1,031.4 billion in September and R$ 1,010.9 billion in October 2021. The liquidity reserve (also called debt cushion) is part of the Treasury's cash on hand deposited in the Single Account at the Central Bank.

The liquidity reserve is a good indicator of the sufficiency of cash to cover maturities (principal and interest) of securities held by the public and those issued to the Central Bank. When measured in months, this indicator shows how long it can pay the maturing debts with the existing reserve. The Treasury considers a prudential limit a liquidity reserve capable of honoring three months of debt maturities. Thus, the liquidity index reached 8.97 months in October, compared to 9.55 months in September and 10.10 months in October 2021. In the absence of new issuances in October, the Treasury would be able to pay 8.97 months of DPMFi bond maturities. The prudential value, which corresponds to the payment of three months of DPMFi bonds maturities, totaled R$ 329.7 billion in October, compared to R$ 138.5 billion in September.

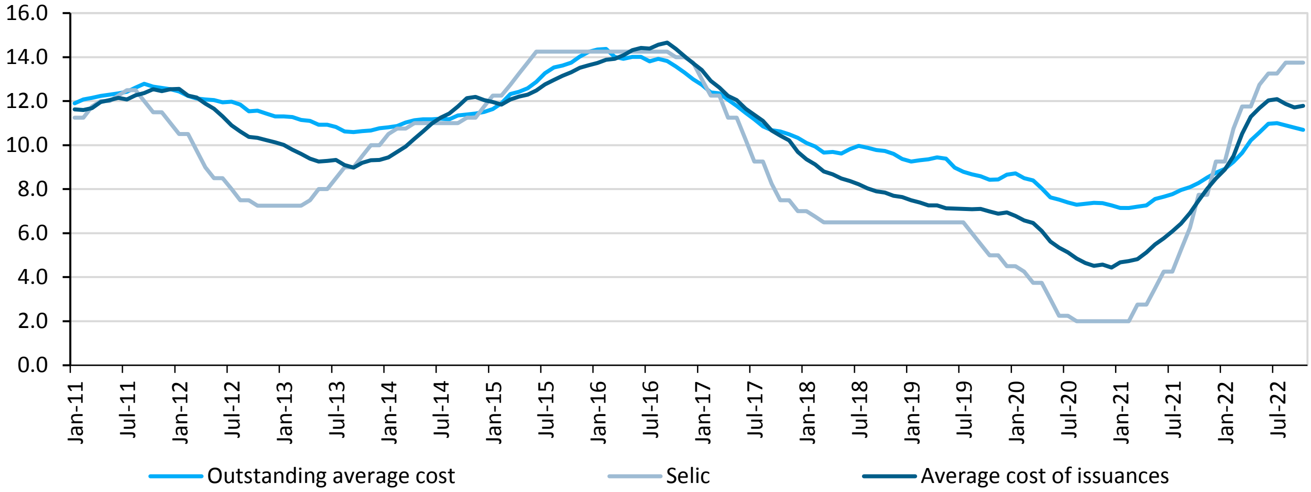
Rates on fixed-income security issuances rose in October. According to the STN, the average issue rates of the DPMFi increased marginally in October for fixed-rate securities. In 24-month fixed-rate securities (LTN), the average issue rate was 11.97% p.a. in October, against 11.87% p.a. in September. In 48-month fixed-rate bonds, the rate rose from 11.66% p.a. in September to 11.72% p.a. in October. In price-indexed securities, the rates fell in short-term maturities (from 5.79% p.a. in September to 5.54% p.a. in October for five-year NTN-Bs). They remained relatively stable in longer maturities (5.76% p.a. in September and 5.78% p.a. in October for 40-year NTN-Bs).

There was a new increase in bond issue rates in November. Information gathered by IFI on auctions held by the Treasury[13] indicates increases in the rates of DPMFi bonds in November. Fixed-rate bonds maturing on October 1, 2024, averaged 12.48% per year in November against 11.98% per year in October. For the fixed-rate security maturing on January 1, 2026, the average issue rate rose from 11.69% p.a. in October to 11.86% p.a. in November. Price-indexed securities also registered an increase in issue rates in the period. The securities (and their respective maturities) are announced quarterly by the Treasury and may change over time.

The average cost of the DPMFi outstanding fell for the third consecutive month in October. The outstanding DPMFi average cost dropped for the third month in October, reaching 10.69% p.a. Concerning October 2021, the outstanding DPMFi average cost registered an increase of 2.4 p.p. The average cost of publicly offered issues, which dropped between July and September, rose slightly in October, from 11.71% p.a. in September to 11.79% p.a. in October (Figure 15). The reduction in the average cost of DPMFi issuances between July and September resulted from deflation in those months, bringing down the average issuance rate of price-indexed securities. In October, the IPCA registered an increase of 0.59%.

[13] Link to the spreadsheet: https://www12.senado.leg.br/ifi/dados/dados.

FIGURE 15. AVERAGE PUBLIC DEBT COST (OUTSTANDING AND ISSUANCES) AND TARGET SELIC RATE



Source: STN. Prepared by: IFI.

The decompression in prices and the end of monetary tightening should promote some accommodation in the average cost of debt. In the coming months, the trend is an accommodation of the average cost of the DPMFi outstanding and issues under public offering due to the interruption of the monetary tightening cycle and the expected cooling of inflation. In any case, this accommodation would occur at a relatively high level, which keeps public sector interest expenditures rising.

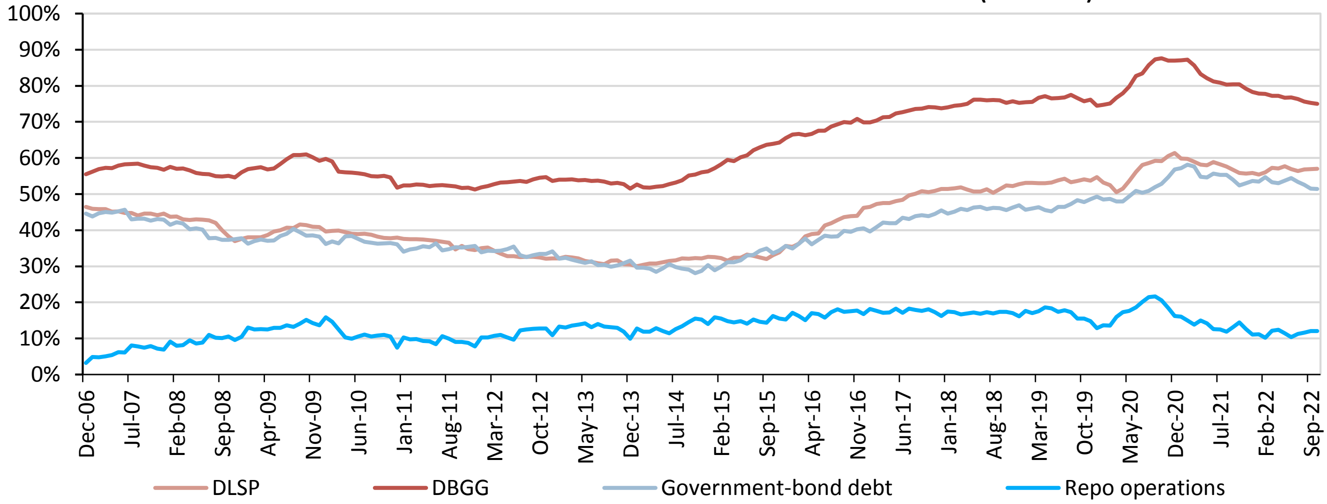
Gross debt as a proportion of GDP continues to drop and reached 75.0% in October. We now analyze the indebtedness indicators released by the Central Bank (methodology below the line), with information updated through October. The General Government Gross Debt (DBGG) retreated from 75.3% of GDP (R$ 7,262.4 billion) in September to 75.0% (R$ 7,297.9 billion) in October, considering the Central Bank's monthly GDP series recalculated by the IFI, which considered the Quarterly National Accounts revision (Figure 16). Based on the evolution of debt conditions, according to the Central Bank, the drop in the DBGG in October was influenced by the increase in nominal GDP and net debt redemptions, partially offset by accrued nominal interest. This pattern has been maintained throughout 2022.

In 2022, DBGG retreated by 3.3 p.p. of GDP. DBGG fell 3.3 p.p. of GDP from January to October due to the same factors mentioned above. Net redemptions of debt do not necessarily indicate difficulties for the Treasury issuing securities to roll over the public debt. The liquidity reserve has allowed the Treasury to maintain the original financing plan in 2022 without making significant issues in an environment of uncertainty and greater volatility.

Net debt was stable at the margin and increased from a year ago in October. The Public Sector Net Debt (DLSP), which consolidates the public sector's liabilities discounting the credits, such as international reserves, the Treasury's credits with BNDES, among others, was practically stable between September (56.9% of GDP, or R$ 5,487.5 billion) and October (57.0% or R$ 542.5 billion). Compared to the same month in 2021, the DLSP grew 1.2 p.p. of GDP in October (Figure 16). According to the Central Bank, pressure on the DLSP in October was exerted by accrued nominal interest and the accumulated exchange rate appreciation, partially offset by the increase in nominal GDP and the accumulated primary surplus.

From January to October, the net debt rose 1.2 p.p. of GDP due to accrued nominal interest, the effect of the variation in the basket of currencies that make up the net external debt, and the accumulated 5.8% exchange rate appreciation. The increase in nominal GDP and the accumulated primary surplus partially offset these movements.

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



Source: Central Bank. Prepared by: IFI.

The updated IFI projection considers that gross debt should end in 2022 at 74.5% of GDP. Before concluding the section, the IFI presents the updated projections for the DBGG in the baseline scenario. Table 11 shows the predictions of indicators that influence the debt and DBGG forecasts in 2022 and 2023. In the baseline scenario, the DBGG will end 2022 at 74.5% of GDP, increasing to 77.2% next year. In November, the IFI expected that the DBGG would reach 76.6% of GDP in 2022 and rise to 79.5% in 2023.

Revision in national accounts information brought down gross debt measured as a proportion of GDP. The modification in the DBGG projections for 2022 and 2023 was determined mainly by IBGE's change in the Quarterly National Accounts figures in the third quarter of 2022. As mentioned earlier, there was a substantial upward revision in the GDP values for 2020 and 2021, which changed the level of the nominal GDP and, consequently, the values of the fiscal variables measured as a proportion of GDP.

TABLE 11. GENERAL GOVERNMENT GROSS DEBT FORECASTS (2022 AND 2023)

	2022	2023
Consolidated public sector primary balance	1.4%	-0.8%
Nominal GDP (R$ billion)	9,993.5	10,590.1
GDP - real growth	3.0%	0.9%
Implicit GDP deflator	9.0%	5.0%
Implicit real rate	4.5%	4.1%
DBGG (% of GDP)	**74.5%**	**77.2%**

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

Based on the new debt projections, the IFI updated the exercise to measure the primary public sector result needed to stabilize the debt-to-GDP ratio at 74.5%, the forecast for the indicator at the end of 2022. Table 12 presents the values for the primary balance required from different trajectories for the volume growth of the economy and the implicit real interest rate on gross debt.

TABELA 12. PRIMARY BALANCE REQUIRED TO STABILIZE THE DEBT-TO-GDP RATIO AT 74.4%

DBGG at 74.4%		Real Implicit DBGG Interest rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.9%	4.1%
Real GDP growth (% p.a.)	0.5%	0.0%	0.4%	0.7%	1.1%	1.5%	1.9%	2.5%	2.7%
	0.9%	-0.3%	0.1%	0.4%	0.8%	1.2%	1.5%	2.2%	2.4%
	1.5%	-0.7%	-0.4%	0.0%	0.4%	0.7%	1.1%	1.8%	1.9%
	1.9%	-1.0%	-0.7%	-0.3%	0.1%	0.4%	0.8%	1.5%	1.6%
	2.5%	-1.5%	-1.1%	-0.7%	-0.4%	0.0%	0.4%	1.0%	1.2%
	3.0%	-1.8%	-1.4%	-1.1%	-0.7%	-0.4%	0.0%	0.7%	0.8%
	3.5%	-2.2%	-1.8%	-1.4%	-1.1%	-0.7%	-0.4%	0.3%	0.4%

Source: IFI.

The primary balance to stabilize the gross debt at 74.5% of GDP is 2.4%, considering projections for interest and GDP for 2023. For the implicit real interest rate on gross debt at 4.1% and GDP volume growth of 0.9%, IFI projections for 2023, the primary surplus required to stabilize the DBGG at 74.5% of GDP would be 2.4% of GDP. For the coming years (from 2023 to 2031)[14], the IFI scenario forecasts GDP volume growth of 1.9% and implicit interest of 3.9% p.a., which would result in a required primary surplus of 1.5% to stabilize the debt-to-GDP ratio.

To conclude this section, it is essential to mention the uncertainties regarding the Brazilian fiscal framework starting next year. The context is one of many pressures for increased spending. At the same time, tax collection tends to fall next year due to the cooling of economic activity and the prospect of maintaining the tax exemption on fuel. Thus, how the government will address the sustainability of the country's public accounts in the short term will represent an essential element in dissipating uncertainty and regaining fiscal policy credibility.

Despite the drop in gross debt as a proportion of GDP over 2022, the projected worsening of the public sector primary balance in 2023 will cause the debt to rise by almost three p.p. of GDP. In the absence of a rule that limits the spending evolution, the prospect is of primary deficits over the entire projection horizon, leading the DBGG to rise continuously.

2.5 Transition PEC and PLOA 2023

Transition PEC opens room for up to R$ 170 billion in the spending ceiling for 2023. The PEC No. 32 of 2022, approved by the Federal Senate on December 7, allows the expansion of the spending ceiling by R$ 145 billion for two years (2023 and 2024), besides authorizing the implementation of investment spending (whose source of funds is the surplus of the previous year's collection), spending of Federal Education Institutions, Institutes of Technology, Social and Environmental Projects and engineering works, funded, for example, with own resources, donations, agreements, outside the tax rule. Thus, the impact of the Transition PEC on the spending ceiling should be R$ 169.1 billion by 2023. Table 1 details the fiscal impact of the Transition PEC on the federal budget for 2023.

[14] See RAF No. 70, November 2022. Link to access the document: https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2022.

CHART 1. DETAILING THE ITEMS THAT DETERMINE THE OPEN SPACE IN THE 2023 SPENDING CEILING IN LIGHT OF THE TRANSITION PEC

Spending ceiling recalculation

- Initial Ceiling: R$ 1,800.3 billion
- Increase of the ceiling via PEC 32 of 2022: R$ 145 billion
- Final Ceiling: R$1,945.3 billion

Exclusions from the spending ceiling

- Federal Educational Institutions (own revenue, donations, and agreements): R$1.1 billion
- Scientific, Technological, and Innovation Institutions (own revenue, donations, and agreements): R$88.8 million
- Socio-environmental projects (donations) R$ 12.5 million
- Engineering works (agreements) R$ 5.3 million
- Investments (surplus of previous year's revenues): R$ 23.0 billion R$ 23.0 billion

- Total exclusions: R$ 24.1 billion

Source: CMO Final Report. Prepared by: IFI.

The text approved in the Federal Senate also proposes a change in the incidence of ITCMD, a state tax. The Tax on Transmission of Causas Mortis and Donations (ITCMD) falls under the jurisdiction of the states and the Federal District, as provided in Article 155 of the Federal Constitution. PEC No. 32 of 2022 proposes the non-levy of this tax for donations related to socio-environmental projects or those aimed at mitigating the effects of climate change and to federal educational institutions.

The Federal Constitution attributes the competence to establish maximum tax rates to the Federal Senate. Currently, this rate is 8%[15]. In 2021, ITCMD tax collection was R$ 13.7 billion. In the 12 months accumulated up to October 2022, the tax revenue was R$ 12.8 billion[16]. It is worth pointing out that the approved PEC exempts only donations to federal educational institutions, not including state ones.

The extension of the DRU is another innovation brought by the Transition PEC approved in the Federal Senate. According to the Constitution (art. 76 of ADCT), are unbound from a body, fund, or expenditure, until December 31, 2023, 30% of the Union's collection relating to social contributions, intervention in the economic domain contributions, and taxes already created or to be made by that date. This constitutional mandate is conventionally called DRU (an instrument that removes obligations from the budget). What art. 2 of the PEC No. 32 of 2022 does is extend the validity period until December 31, 2024.

The final report of Bill No. 32 of 2022, C.N. (PLOA 2023), includes the effects of the Transition PEC. The definitive information submitted to the PLOA of 2023 on December 12 already considers the impact of PEC No. 32, 2022, the

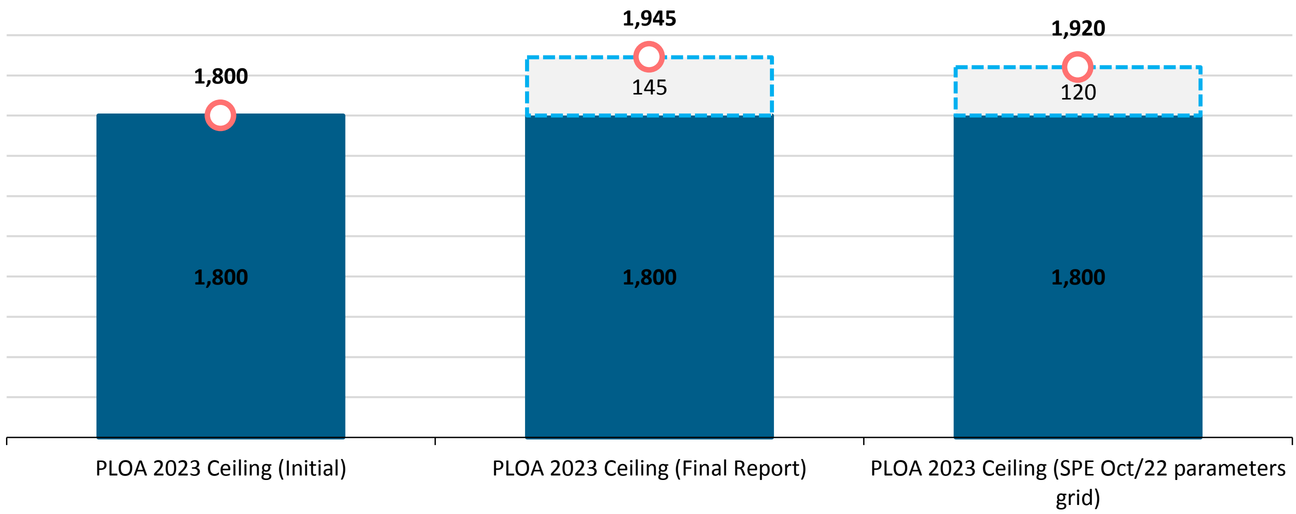
[15] See Resolution No. 9, from 1992. Available at: https://legis.senado.leg.br/norma/590017/publicacao/15785996.

[16] Data from the Budget Execution Summary Report for the 6th bimester of 2021 and 5th bimester of 2022. Annex 03 - Statement of Net Current Revenue. Available at: https://siconfi.tesouro.gov.br/siconfi/pages/public/declaracao/declaracao_list.jsf.

Transition PEC. According to the report, PEC No. 32 removes from the spending ceiling the amount of R$ 24.1 billion for 2023, besides increasing the spending limit by R$ 145 billion.

Although the Economic Policy Secretariat (SPE) monthly updates the macroeconomic parameters grid[17], the PLOA final report did not incorporate it to calculate the spending ceiling, having only made changes related to PEC No. 32. Figure 17 shows the value of the spending ceiling initially foreseen in the PLOA, the value recalculated in the final report presented by the Joint Committee on Planning, Public Budgets and Oversight (CMO), and the alternative value if the calculation had taken into account the most updated SPE estimate in the 2023 PLOA instead of incorporating this adjustment in the following year's exercise.

FIGURE 17. SPENDING CEILING UNDER DIFFERENT SCENARIOS (R$ BILLION)



Source: CMO Final Report and SPE Parameters Grid. Prepared by IFI.

Still, the EC 113 (court-ordered debt E.C.), when changing the system for calculating the spending ceiling, established that the Executive Branch should prepare the PLOA based on the inflation (IPCA) realized from January to June and the forecast from July to December. During the PLOA processing, the estimates should be updated and sent to Congress monthly to compensate for the difference between projected and actual inflation in the following year. Thus, about R$ 25 billion should be adjusted in the ceiling for 2024.

Below are some excerpts from EC 113 that deal with this subject:

> "Art. 107. For each fiscal year, individualized limits are established for primary expenses:
>
> (...)
>
> II - for subsequent fiscal years, the value of the limit for the immediately preceding fiscal year, corrected by the variation of the Broad National Consumer Price Index (IPCA), published by the Brazilian Institute of Geography and Statistics, or another index that replaces it, **calculated in the preceding fiscal year to which the budget law refers.**
>
> (...)
>
> § 12. **To draft the annual budget bill**, the Executive Branch shall consider the realized value up to June of the index provided for in subparagraph II of paragraph 1 of this article relative to the year the bill is submitted and the estimated value up to December of the same year.

[17] The parameter grid is available at: https://legis.senado.leg.br/sdleg-getter/documento?dm=9205781&ts=1670937883919&disposition=inline.

§ 13. **The index estimate** referred to in § 12 of this article, and the other macroeconomic parameters **shall be prepared monthly by the Executive Branch and sent to the joint committee** referred to in § 1 of art. 166 of the Federal Constitution.

§ 14. **The result of the difference measured between the projections** referred to in §§ 12 and 13 of this article and the effective calculation of the index provided for in subparagraph II of § 1 of this article **shall be calculated** by the Executive Branch **for purposes of defining the calculation basis of the respective limits of the following fiscal year**, which shall be communicated to the other Powers at the time of preparation of the budget bill. " (EC 95, de 2016 e EC 113, de 2021)

Space opened in the spending ceiling with the Transition PEC is entirely consumed during the budget process. Table 13 details the origin and destination of the space opened by the Transition PEC in the 2023 PLOA. Article 5 of the proposal establishes that the space opened in the spending ceiling may be used to meet the requests of the transition team. In the final report of the 2023 PLOA, from the R$ 169.1 billion budget appropriations increase that occurred due to the Transition PEC, R$ 162.0 billion (95.8%) were allocated to meet the transition team's requests, R$ 7.0 billion were distributed in collective amendments by the general rapporteur. A residue of only R$ 83.5 million did not receive a budget allocation. It can be considered the existing space in the spending ceiling for the 2023 budget execution.

TABLE 13. ORIGIN AND DESTINATION OF FISCAL SPACE OPENED DURING THE BUDGET PROCESS (R$ BILLION)

Origin	Value	Destination	Value
PEC da Transição	**169.1**	**Transition team demands**	**162.0**
Transition PEC	**145.0**	**Citizenship**	**76.1**
Spending ceiling recalculation	**24.1**	Brazil Aid	70.0
Expenses excluded from the spending ceiling	23.0	Gas Aid	1.5
which Investments (excess revenue)	1.1	Other	4.6
		Education	**10.9**
		School Nutrition in Basic Education (PNAE)	1.5
		Higher Education Scholarships	2.5
		Basic Education Development	2.5
		Other	4.4
		Health	**22.7**
		Regional Development	**14.3**
		Infrastructure	**12.1**
		Other bodies	**25.8**
		Collective amendments by the Rapporteur General	**7.0**
		Which Regional Development	4.7
		Unused space	**0.1**
Total	**169.1**		**169.1**
IPCA 2022 estimated initial P.L. (%)	*7.20%*	*Estimated IPCA 2022 - SPE grid Oct/22 (%)*	*5.70%*

Source: CMO Final Report. Prepared by: IFI.

PEC No. 32 proposes the repeal of the spending ceiling conditioned to adopting a new sustainable fiscal regime. Inspired in the PEC No. 34, of 2022, of Senator Leila Barros (PDT/DF)[18], the Transition PEC foresees, in article 6, that the President of the Republic must send, by August 31, 2023, a supplementary law project that institutes a sustainable fiscal regime. The sole paragraph of the article foresees that, after the sanction of the L.C., the current spending ceiling will be automatically revoked. Thus, besides having the provision for replacing the fiscal rule, it would be outside the

[18] Available at: https://www25.senado.leg.br/web/atividade/materias/-/materia/155276.

constitutional text. The Federal Senate budget consulting (Conorf) compared these two PECs (32 and 34) and two others similar in objectives. However, they differ in some points in the form.[19]

[19] The comparative table of PECs 31, 32, 33, and 34, prepared by CONORF, can be found at: https://www12.senado.leg.br/orcamento/documentos/estudos/tipos-de-estudos/notas-tecnicas-e-informativos/quadro-comparativo-entre-as-pecs-31-32-33-e-34-de-2022/view.

IFI forecasts

SHORT TERM

IFI forecasts	2022			2023		
	November	December	Comparison	November	December	Comparison
GDP – real growth (% per year)	2.60	3.05	▲	0.89	0.88	▼
Nominal GDP (R$ billion)	9,741.05	9,993.51	▲	10,323.26	10,590.05	▲
IPCA – accum. (% in the year)	5.58	5.85	▲	4.56	4.69	▲
Exchange rate – end-of-period (R$/US$)	5.10	5.15	▲	5.17	5.23	▲
Employment – growth (%)	7.60	7.60	=	0.44	0.44	▼
Payroll – growth (%) (%)	5.45	5.88	▲	0.89	0.88	▼
Selic rate – end-of-period (% per year)	13.75	13.75	=	11.50	11.50	=
Real Interest *ex-ante* (% per year)	7.03	6.93	▼	5.50	5.50	▲
Public Sector Consolidated Primary Balance (% of GDP)	1.46	1.39	▼	-0.94	-0.84	▲
of which Central Government	0.76	0.69	▼	-0.94	-0.84	▲
Net Nominal Interest (% of GDP)	6.07	6.04	▼	5.85	5.68	▼
Nominal Balance (% of GDP)	-4.61	-4.66	▼	-6.79	-6.52	▲
General Government Gross Debt (% of GDP)	76.60	74.49	▼	79.49	77.23	▼

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ifi@senado.leg.br / +55 (61) 3303-2875