Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- The GDP growth projection for 2023 remains unchanged at 3.0% and 1.2%, respectively.
- The output gap is estimated at 0.8% in the third quarter.
- GDP collection measures account for deviations between IFI and Executive projections.
- Economic activity slowdown in 2024 poses additional challenges for revenue collection.
- Revenue expansion and Transition PEC ensure compliance with the primary balance target.
- Updating GDP values has shifted the debt curves, as a proportion of GDP, downwards.
- With new information incorporated, DBGG is expected to end 2023 at 75.0% of GDP in the baseline scenario.

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2023: year of transition in fiscal policy

The Independent Fiscal Institution (IFI), fulfilling its institutional mission of permanently analyzing the evolution of the fiscal scenario and its compatibility with the legal and constitutional frameworks, is publishing its last report for the year 2023: edition no. 83 of the Fiscal Follow-up Report (RAF, kept here in its original acronym, as will all the acronyms of Brazilian institutions, taxes and programs), regarding the month of December.

The year 2023 was characterized by the transition of governments, changes in the direction of economic policy and a change in the legal framework for the country's tax system, now regulated by the provisions of Complementary Law (LC) No. 200/2023.

The performance of the Brazilian economy was characterized by a fall in inflation towards the upper limit of the inflation target, economic growth higher than previous projections by experts and the market, with an expected increase in GDP of around 3%, a fall in the basic interest rate determined by the monetary authority, but still at a restrictive level, and a heated labor market, despite the fact that millions of Brazilians, particularly young people, are on the margins of it.

RAF No. 83 updates the output gap, based on the data published on the economy's performance in the 3rd quarter and the revision of the historical series by the Brazilian Institute of Geography and Statistics (IBGE). The IFI estimates that the output gap indicates that the economy is operating 0.8% above its potential GDP, although there was a slight slowdown in the third quarter of the year. However, this does not affect the IFI's projections of Brazilian GDP growth of 3.0% in 2023 and 1.2% in 2024. (**Page 4**)

The RAF for December 2023 contrasts the differences in the IFI's projections and estimates in relation to the data released by the Executive Branch, primarily from the different perspectives on the expected behavior of revenue, with the IFI taking a more cautious stance, given the uncertainties present in the economic and fiscal scenarios. The federal government's efforts to pass a series of measures in Congress aimed at increasing revenue may yet have a positive outcome in the coming days. However, the negotiations that have taken place imply a natural reduction in the potential for tax collection. There are still doubts about the degree to which some of these measures will be challenged in the courts. The scenario is also less optimistic thanks to the slowdown in the economy and the absence of positive external shocks, as in other recent years. (**Page 8**)

RAF No. 83 analyzes the performance of expenditure based on the 5th Bimonthly Report published by the Executive Branch, which pointed to the need for a budget blockade of around BRL 5 billion. Expenditure in the period exceeded the BRL 39 billion forecast in the Annual Budget Law (LOA), pressured by additional social security spending, aid to states and municipalities, Continuous Cash Benefit, Salary Allowance, Unemployment Insurance and other compulsory spending. Primary expenditure is expected to be BRL 61.4 billion higher than forecast in the LOA for the sixth bimester. However, there is no risk of non-compliance with the fiscal target for 2023, since the primary deficit is expected to end the year at BRL 203 billion and, although the forecast in the LDO/2023 is BRL 65.9 billion, the so-called Constitutional Amendment of the Transition introduced a series of deductions and exceptions, which guarantee a gap in relation to the target of around BRL 15 billion. (**Page 11**)

With regard to the public debt, based on the revision of the Quarterly National Accounts, the payment of an accumulated balance of BRL 97 billion in court-ordered debts in 2023, following a decision by the Supreme Court, and the acceptance by the Federal Accounting Court (TCU) of the installment payment of BRL 22.6 billion by the BNDES, the IFI projects that the DBGG will reach 75.0% of GDP in 2023, rise to 78.0% of GDP in 2024 and maintain an average of around 86.4% between 2025 and 2033. According to the IFI, the annual primary surplus needed to stabilize the debt remains at 1.4% of GDP. (**Page 18**)

All that is left to do is wait for the outcome of the National Congress' decisions on measures to increase revenue until the end-of-year recess and the consolidation of the figures actually realized in 2023.

Enjoy your reading!

Marcus Pestana
IFI Executive Director

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Economic activity in the third quarter: GDP analysis and output gap update

Rafael Bacciotti

The release of GDP numbers for the third quarter and the revisions to the historical series made by the IBGE did not alter the outlook for GDP growth in volume for the years 2023 (3.0%) and 2024 (1.2%). The positive performance of effective output, driven by the resilience of services, household consumption and net exports, analyzed together with indicators such as the unemployment rate and the level of capacity utilization in industry, strengthens the view of greater use of production factors. The output gap, updated by the IFI, indicates an economy operating 0.8% above potential in the third quarter.

Analysis of GDP performance in the third quarter

In the third quarter, the Gross Domestic Product (GDP) advanced by 0.1% compared to the previous quarter, considering the series free of seasonal effects, according to data from the Brazilian Institute of Geography and Statistics (IBGE). This rate indicates a slowdown compared to the previous quarter, when GDP grew by 1.0%. Sector-wise, services (0.6%) and industry (0.6%) stood out positively, contrasting with the drop in agricultural production (-3.3%), after the significant increase in the first half of the year driven by the record grain harvest. In terms of demand, household consumption (1.1%) and exports (3.0%) stood out positively, while gross fixed capital formation (-2.5%) and imports (-2.1%) fell (Table 1).

TABLE 1. GDP RATES OF CHANGE IN VOLUME

	% change against previous quarter (seasonally adjusted)			% change against the same quarter of the previous year		
	Mar/23	Jun/23	Sep/23	Mar/23	Jun/23	Sep/23
GDP	**1.4**	**1.0**	**0.1**	**4.2**	**3.5**	**2.0**
Supply side						
Agriculture	12.5	0.5	-3.3	22.9	20.9	8.8
Industry	-0.2	0.9	0.6	1.5	1.0	1.0
Services	0.5	1.0	0.6	3.3	2.7	1.8
Demand side						
Household consumption	1.0	0.9	1.1	3.9	3.1	3.3
Government consumption	0.3	1.0	0.5	0.6	2.3	0.8
Gross fixed capital formation	-2.9	-0.3	-2.5	1.4	-1.8	-6.8
Exports	0.2	3.5	3.0	7.1	11.9	10.0
Imports	-3.4	4.1	-2.1	1.8	1.2	-6.1

Source: IBGE. Prepared by: IFI.

Compared to the same period in 2022, GDP rose by 2.0%, and slowed down compared to the 3.5% growth seen in the second quarter of this year. Domestic absorption, which includes spending on consumption and investment, fell in the transition from the second to the third quarter, removing 1.4 percentage points (p.p.) from the year-on-year variation in GDP. Net exports, in turn, generated a positive impact of 3.3 p.p. on the GDP result, reflecting the superior performance of exports, especially commodities, in relation to imports in the year-on-year comparison.

The reversal in domestic absorption, which had added 1.3 p.p. to the interannual variation in GDP in the second quarter, was influenced by the negative performance of gross fixed capital formation (-1.2 p.p.) and the stock variation (-2.3 p.p.), while household consumption (+2.0 p.p.) and government consumption (+0.1 p.p.) exerted positive pressures. The restrictive monetary policy has mainly impacted investment, while household consumption remains resilient, sustained by positive labor market conditions, income transfers and the slowdown in inflation.

TABLE 2. CONTRIBUTIONS (IN P.P.) FOR THE INTERANNUAL GDP RATE (P.P.)

	Mar/22	Jun/22	Sep/22	Dec/22	Mar/23	Jun/23	Sep/23
GDP	**1.5**	**3.5**	**4.3**	**2.7**	**4.2**	**3.5**	**2.0**
Internal absorption	**-1.9**	**4.4**	**4.7**	**1.2**	**3.2**	**1.3**	**-1.4**
Household consumption	1.0	3.2	2.9	3.0	2.5	1.9	2.0
Government consumption	0.7	0.3	0.5	0.1	0.1	0.4	0.1
Gross fixed capital formation	-1.1	0.3	0.9	0.6	0.3	-0.3	-1.2
Stock change	-2.5	0.5	0.4	-2.4	0.4	-0.7	-2.3
Net exports	**3.3**	**-0.9**	**-0.4**	**1.5**	**1.0**	**2.2**	**3.3**

Source: IBGE and IFI. Prepared by: IFI.

The result for the third quarter was slightly above expectations, which were -0.2% on the margin. The IFI's projections for GDP growth in volume were maintained at 3.0% and 1.2%, in line with the market consensus. In the Central Bank's Focus Bulletin, the current projection for 2023 GDP is 2.9%, with a standard deviation range from 2.8% to 3.1%. For 2024, the market projection is 1.5%, with a standard deviation range of 1.1% to 1.9%.

Based on the third quarter's performance, the estimated carry over for 2023 and 2024 is 3.0% and 0.3% respectively. Table 3 provides growth estimates for GDP in 2024, considering different scenarios for quarterly dynamics. If we assume that economic activity remains stable in the fourth quarter of 2023 - the current projection based on the leading indicators already available - as well as in the quarterly average of 2024, GDP growth in 2024 would be 0.3%, coinciding with the value of the statistical carryover. The IFI's projection of 1.2% for next year's GDP growth implies an average variation of 0.4% per quarter.

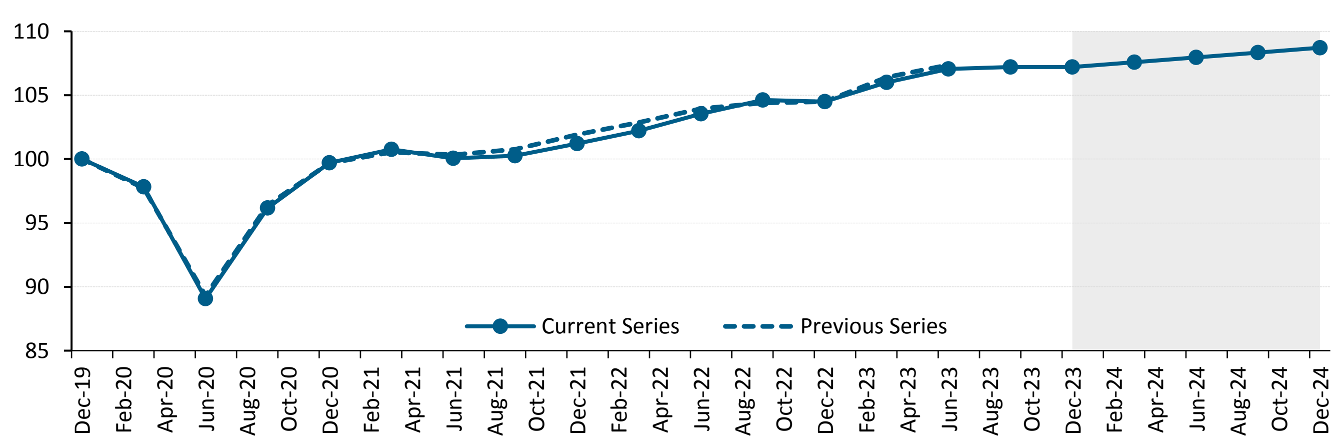
TABLE 3. GDP GROWTH IN 2024 FOR DIFFERENT QUARTERLY CHANGE ASSUMPTIONS

Assumptions for the quarterly average change (2024)		Assumptions for the 4Q change (2023)			
		-0.25%	0.00%	0.25%	0.50%
	-0.25%	-0.5%	-0.4%	-0.2%	0.0%
	0,00%	0.1%	0.3%	0.5%	0.6%
	0.25%	0.7%	0.9%	1.1%	1.3%
	0.50%	1.3%	1.5%	1.7%	1.9%
	0.75%	2.0%	2.2%	2.4%	2.6%
	1.00%	2.6%	2.8%	3.0%	3.2%

Source: IFI.

As a recurring practice in third quarter releases, the IBGE revised the historical GDP series by incorporating the definitive results of the 2021 National Accounts and updating the primary data series used. Graph 1 shows the current seasonally adjusted GDP series (solid line) compared to the previous version (dotted line). There has been no significant change in the dynamics of economic activity; what has been observed is a slight shift in the level of aggregate production since the beginning of 2021.

GRAPH 1. GDP IN VOLUME: CURRENT AND REVISED SERIES (INDEX DEC/19=100, SEASONALLY ADJUSTED)



Source: IBGE and IFI. Prepared by: IFI.

The GDP growth rate in volume for 2021 was definitively changed by IBGE from 5.0% to 4.8%, while the rate for 2022 was adjusted from 2.9% to 3.0%. As for the nominal growth rate in 2021 and 2022, it was raised from 16.9% to 18.4% and from 11.4% to 14.8% respectively, reflecting adjustments to the implicit deflator. In terms of current values, the 2020 GDP reached BRL 9.012 trillion (BRL 8.899 in the previous series), while the 2022 GDP reached BRL 10.080 trillion (BRL 9.915 in the previous series). As will be discussed later in the topic on public indebtedness, the revision of GDP figures shifted downwards the curves for Gross General Government Debt (DBGG, in the original acronym) and Net Consolidated Public Sector Debt (DLSP, in the original acronym).

Estimated output gap until the third quarter of 2023

The output gap is an indicator that measures cyclical fluctuations in the economy. In methodological terms, the process initially involves decomposing GDP into two components: i) the medium- or long-term trend, often known as potential output, representing the level that would be reached by fully utilizing all factors of production, such as labor and capital; and ii) the short-term cycle. Subsequently, the output gap is calculated as the percentage difference between observed output and trend (or potential) output.

The relevance of the output gap can be seen in several dimensions. Firstly, it acts as an indicator of the state of economic cycles. A positive gap suggests that the economy is operating above its trend, indicating overheating and a propensity for inflationary pressures. On the other hand, a negative gap indicates an economy operating with underutilization of its productive resources. Central banks often incorporate this indicator into their interest rate setting strategies.

Furthermore, the output gap plays an important role in assessing and monitoring fiscal policy. More specifically, it is a key variable for calculating the structural fiscal result[1], which provides a view of the state of public finances, after adjusting the temporary effects of economic cycles and non-recurring measures.

Due to the uncertainty involved in determining potential output, since it is an unobserved variable, the IFI estimates the output gap by analyzing various methodologies used in the literature, including univariate statistical filters[2], multivariate filters[3] and the production function approach[4]. This procedure is similar to the one adopted by the *Office for Budget Responsibility* (OBR)[5].

Graph 2 shows the trajectory of the output gap estimated by the IFI from the fourth quarter of 2003 to the third quarter of 2023. It can be seen that actual GDP remained consistently below potential GDP for an extended period, from the first quarter of 2015 to the second quarter of 2022. The 2020 recession, triggered by the coronavirus pandemic, resulted in a record widening of the output gap, followed by a gradual reduction in the idleness of the economy.

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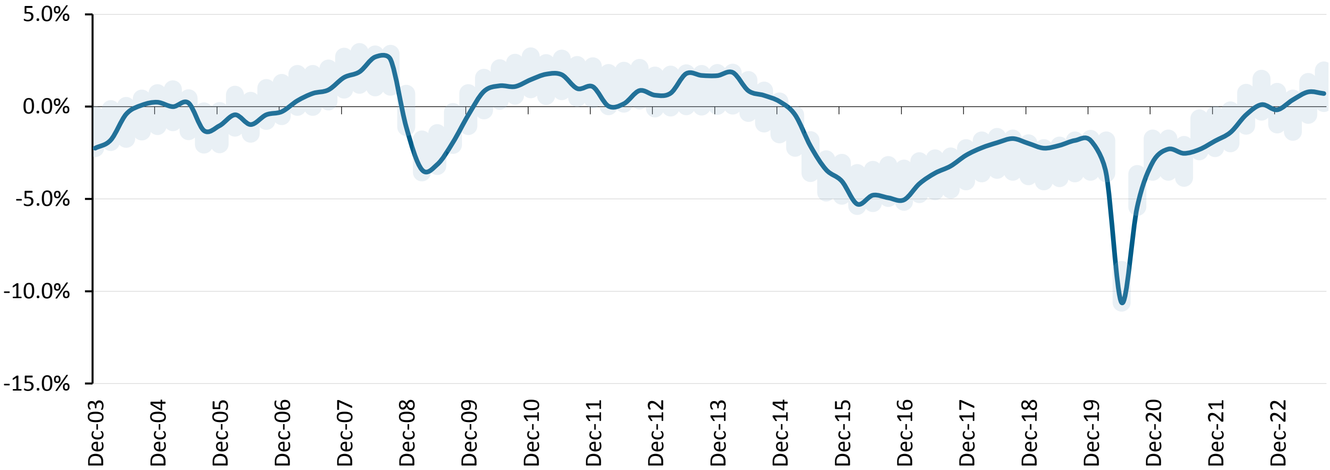
[1] The calculation of the structural fiscal result is updated quarterly on the IFI's data page. Available at: https://bit.ly/3ujOCqG.
[2] Hodrick-Prescott (HP) filter, Hamilton filter, as in Quast and Wolters (2019), and Band Pass filter, as in Baxter and King (1999).
[3] According to Areosa (2008).
[4] Specifications that use univariate filters and state-space models, according to Orair and Bacciotti (2018), to extract the trend levels of capital and labor stocks and of total factor productivity. The trend estimates are obtained from extended historical series to minimize the end-of-sample bias.
[5] "*Forecasting the economy*", OBR Briefing Paper N° 3. Available at: https://bit.ly/3REEOkl

GRAPH 2. OUTPUT GAP: CENTRAL ESTIMATE AND CONFIDENCE INTERVAL

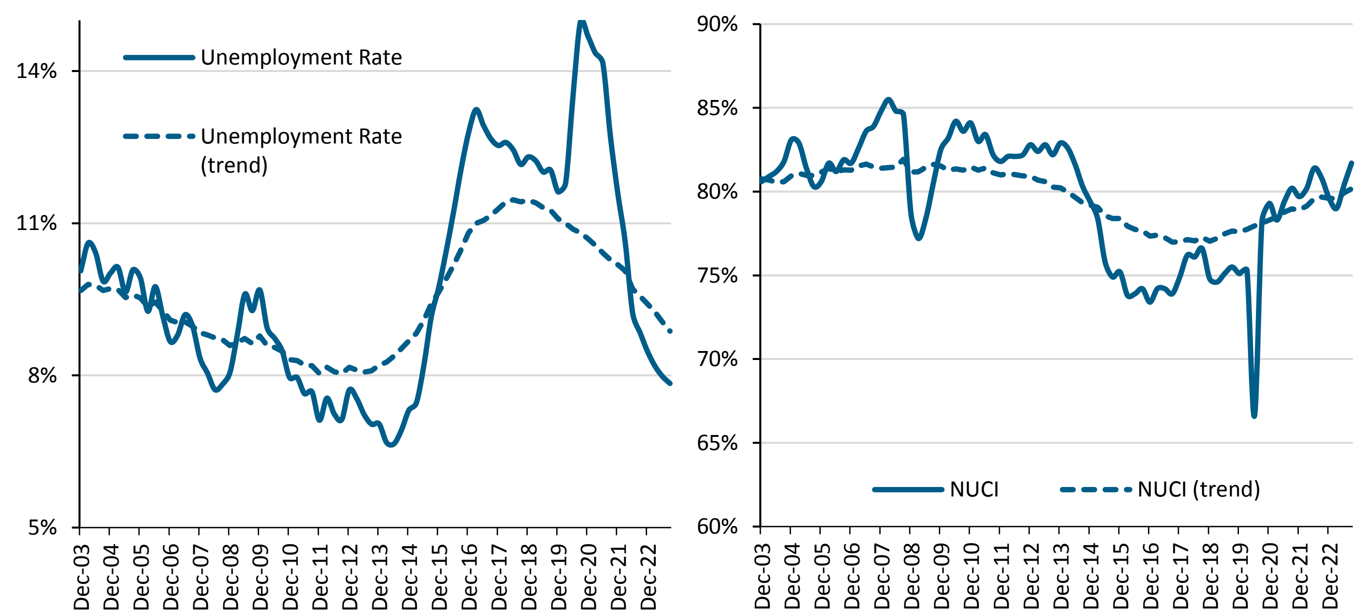


Source: IFI.

In the third quarter of 2023, the economy is estimated to have operated 0.8% above its potential, showing a slight slowdown compared to the previous quarter. The confidence interval, based on the plausibility tool[6] proposed by the European Commission, is between 0.2% and 2.0%. The underlying potential growth rate stands at 1.8%, considering the accumulated variation over four quarters.

In addition to the still positive performance of actual output, other indicators reinforce the picture of greater use of production factors, especially in the labor market. The unemployment rate currently stands at around 8% of the workforce, below the historical average (9.8% over the last 25 years) and the trend level of around 9.0% (Graph 3). The Installed Capacity Utilization Level in industry (NUCI), on the other hand, is around 81%, slightly above the historical average and its trend level (both close to 80%).

GRAPH 3. UNEMPLOYMENT RATE AND INSTALLED CAPACITY UTILIZATION LEVEL



Source: IBGE, FGV and IFI. Prepared by: IFI.

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[6] For more information, see: "Hiato do produto na economia brasileira: estimativas da IFI pela metodologia de função de produção" [Output gap in the Brazilian economy: IFI estimates using the production function methodology], Special Study No. 4. Available at: https://bit.ly/3FZo2pl

A comparison between the government's and the IFI's fiscal projections

Alexandre Andrade

A comparison between the Executive's and the IFI's fiscal projections shows that most of the deviation observed in the estimates for the central government's primary result is explained by the expected behavior of tax collection. Meeting the zero deficit target in 2024 is possible if the government manages to collect the BRL 276.4 billion forecast in the PLOA. Uncertainties associated with the materialization of a significant volume of the intended revenues, however, impose caution on the estimates to be considered. The prospect of a slowdown in economic activity next year would add additional difficulties to this scenario.

Based on the Independent Fiscal Institution's (IFI) update of the macroeconomic and fiscal scenario, published in the Fiscal Follow-Up Report (RAF) No. 82[7], of November 2023, this article seeks to evaluate the revenue projections presented in that report in the context of the primary result targets for the central government defined by the Executive in the 2024 Budget Guidelines Bill[8] (PLDO 2024). According to the IFI's baseline scenario, the Central Government would only reach zero primary deficit in 2032.

The difficulty in reversing the primary deficits stems fundamentally from the risks associated with the materialization of the revenues intended by the Executive and explained in the 2024 Budget Bill (PLOA 2024). In Table 5 (pg. 14) of RAF No. 82, the IFI presented a list of measures that have been approved or are in the process of being approved by Congress and have the potential to impact on the Central Government's revenue next year.

As explained in RAF No. 82, some measures with a significant impact on revenues have a high risk of not materializing due to uncertainties, such as those associated with the resolution of legal issues between taxpayers and the tax authorities. Because of these uncertainties, the IFI has adopted a conservative stance with regard to the amounts of revenue considered in the three reference scenarios.

In RAF No. 82, of November 2023, the IFI's projections showed that, in the baseline and optimistic scenarios, there is a gradual improvement in the Central Government's primary results over time, albeit at a slower pace than necessary to meet the fiscal targets set for 2024, 2025 and 2026. In the baseline scenario, the primary deficit would only be zeroed in 2032, while in the optimistic scenario, it would occur between 2027 and 2028. The assumptions considered in the reference scenarios were discussed in the aforementioned RAF No. 82.

Table 4 contains the revenue and expenditure projections by the IFI and by the executive branch for the central government for the period 2023 to 2026. The IFI's estimates were presented in RAF No. 82, while the Executive's estimates were taken from a number of sources, namely: (i) Primary Revenue and Expenditure Assessment Report for the 5th Bimester of 2023[9], (ii) PLDO 2024[10], (iii) PLOA 2024[11] and (iv) macroeconomic parameters from PLOA 2024[12]. For comparison purposes, the updated figures until November 2023 were considered.

[7] Link to the document: https://tinyurl.com/bddy5w24.
[8] Legislative Proposal Processing Page https://tinyurl.com/5eu3336s.
[9] Link to the report: https://tinyurl.com/2cjujdac.
[10] Page to access information: https://tinyurl.com/5eu3336s.
[11] For information on the PLOA 2024, see: https://tinyurl.com/5yxx76j2.
[12] Link to information (updated monthly): https://tinyurl.com/32buum4j.

Two main factors explain the difference between the IFI's and the Executive's revenue projections. The first one refers to the measures outlined in the 2024 Budget Bill for increasing revenue from the next year onward. The list of the government's intended actions and the values considered in the estimates is presented in Table 5 of RAF no. 82 (pg. 14). Considering the measures approved and those currently under consideration in the Legislative Branch, the potential amounts estimated by the Executive are in the order of BRL 276.4 billion to increase revenues in 2024. In the baseline scenario, the IFI considers an impact of BRL 105.3 billion from these actions, a difference of BRL 171.2 billion. This amount corresponds to 76.6% of the BRL 223.4 billion difference in total primary revenue between the IFI's estimates and those of the Executive for 2024, as presented in Table 4.

The second factor explaining the discrepancy between the IFI's and the Executive's estimates for primary revenue over the next three years is the difference in projections for nominal Gross Domestic Product (GDP). As can be seen in Table 4, the Executive's projections for this variable are more optimistic than those of the IFI's baseline scenario. For 2024, although the government's and the IFI's estimates for nominal GDP growth are the same, at 6.1%, the Executive's projection is higher due to the different levels for nominal GDP considered in 2023. For 2025, the IFI projects a 6.4% expansion in the indicator, while the Executive estimates an increase of 6.9%, which implies a deviation of BRL 90.1 billion between the projections. In 2026, the IFI's estimate is for a 5.9% rise in nominal GDP, while the government's expectation is for a 6.5% rise in the index, resulting in a discrepancy of BRL 164.3 billion between the estimates.

TABLE 4. UPDATED FISCAL PROJECTIONS AS OF NOVEMBER 2023 (2023 TO 2026) - IFI AND EXECUTIVE (BRL BILLION)

Year	Total primary revenue			Net revenue			Primary expenditure			Primary balance			Nominal GDP		
	IFI [1]	Executive [2]	Diff. (1-2)	IFI [1]	Executive [2]	Diff. (1-2)	IFI [1]	Executive [2]	Diff. (1-2)	IFI [1]	Executive [2]	Diff. (1-2)	IFI [1]	Executive [2]	Diff. (1-2)
2022	2,313.3	2,313.3		1,856.1	1,856.1		1,802.0	1,802.0		54.1	54.1		9,915.3	9,915.3	
2023*	2,346.8	2,359.9	-13.1	1,874.3	1,900.5	-26.2	1,982.2	2,077.9	-95.7	-107.9	-177.4	69.5	10,687.6	10,711.5	-23.9
2024**	2,486.1	2,709.5	-223.4	1,987.5	2,191.2	-203.7	2,108.8	2,188.4	-79.5	-121.3	2.8	-124.2	11,337.5	11,368.0	-30.5
2025***	2,642.4	2,880.1	-237.7	2,099.7	2,294.1	-194.4	2,234.4	2,232.5	1.9	-134.6	61.6	-196.3	12,065.8	12,156.0	-90.1
2026***	2,800.9	3,069.6	-268.7	2,234.1	2,442.8	-208.7	2,342.7	2,312.0	30.7	-108.6	130.8	-239.5	12,777.9	12,942.3	-164.3

**2023: Executive revenue and expenditure projections taken from the Primary Revenue and Expenditure Assessment Report for the 5th Bimester of 2023; GDP projection taken from the update of the macroeconomic parameters of the LOA 2024.*
***2024: Executive revenue and expenditure projections obtained from the PLOA 2024; GDP projection extracted from the update of the macroeconomic parameters of the LOA 2024.*
****2025 and 2026: Executive revenue and expenditure projections obtained from the PLDO 2024 (Table 4 in Annex IV); GDP projection extracted from the update of the macroeconomic parameters of the LOA 2024.*
Source: Executive Branch and IFI. Prepared by: IFI.

Table 5 shows the same information as Table 4, except for nominal GDP, with the variables measured as a proportion of GDP. The deviations between the IFI's and the Executive's projections occur in both revenue and expenditure[13], and are more pronounced in revenue. For example, in 2024, the difference between the government's estimate and that of the IFI for the central government's total primary revenue is 1.9 p.p. of GDP. For the primary result, on the other hand, the deviation reaches 1.1 p.p. of GDP.

[13] It is important to mention a conceptual difference in expenses. The Bimonthly Evaluation Report measures spending needs, including authorized amounts, withholdings, and spending cuts, while the IFI projects the expenditure actually incurred. Differences can occur due to underspending, withholdings, outstanding liabilities, etc.

TABLE 5. UPDATED FISCAL PROJECTIONS AS OF NOVEMBER 2023 (2023 TO 2026) - IFI AND EXECUTIVE (% OF GDP)

Year	Total primary revenue			Net revenue			Primary expenditure			Primary balance		
	IFI	Executive	Diff. (IFI - Executive) - p.p.	IFI	Executive	Diff. (IFI - Executive) - p.p.	IFI	Executive	Diff. (IFI - Executive) - p.p.	IFI	Executive	Diff. (IFI - Executive) - p.p.
2022	23.3%	23.3%		18.7%	18.7%		18.2%	18.2%		0.5%	0.5%	
2023	22.0%	22.0%	-0.1	17.5%	17.7%	-0.2	18.5%	19.4%	-0.9	-1.0%	-1.7%	0.6
2024	21.9%	23.8%	-1.9	17.5%	19.3%	-1.7	18.6%	19.3%	-0.6	-1.1%	0.0%	-1.1
2025	21.9%	23.7%	-1.8	17.4%	18.9%	-1.5	18.5%	18.4%	0.2	-1.1%	0.5%	-1.6
2026	21.9%	23.7%	-1.8	17.5%	18.9%	-1.4	18.3%	17.9%	0.5	-0.9%	1.0%	-1.9

Source: Executive Branch and IFI. Prepared by: IFI.

Based on the IFI's projection for the central government's primary deficit in 2024, which is 1.1% of GDP, it would take BRL 121.3 billion to achieve the zero primary result target set by the Executive in the PLDO 2024. Considering the figures shown in Table 4, one of the possibilities for meeting the fiscal target next year would be to increase tax collection, as has been signaled by the Ministry of Finance for some months now. It is worth mentioning that, according to the New Fiscal Framework, defined in Complementary Law (LC) No. 200 of 2023, the fiscal target defined in the budget guidelines has a tolerance range of -0.25 p.p. of GDP to +0.25 p.p. of GDP around the center of the target.

According to the information in Table 4, the difference between the IFI's and the Executive's estimates for primary revenue in 2024 is BRL 223.4 billion. Considering that the measures intended by the government (a total of BRL 276.4 billion, according to the PLOA 2024) mainly involve income tax (IR), Social Contribution on Net Profits (CSLL), Social Integration Program (PIS), Public Service Assets Formation Program (PASEP) and Contribution to Social Security Financing (COFINS), and since social contributions are not shared by the Federal Government with the states and municipalities, even if part of the amount collected were shared with the other federal entities, it would be possible for the Federal Government to meet the zero primary deficit target in 2024.

When considering the fiscal targets set in the PLDO for 2025 and 2026, the amounts of revenue needed to meet the targets in subsequent years would be even greater. In 2025, the difference of 1.6 p.p. between the IFI's and the Executive's primary result estimates (Table 5) would correspond to a collection of BRL 196.3 billion, while in 2026, it would be necessary to collect BRL 239.5 billion more than currently projected by the IFI in order to meet the surplus target of 1.0% of GDP.

Given the prospect of changes to the legislative proposals listed in Table 5 of RAF No. 82, which are still pending parliamentary approval, the figures in the tables above show how difficult it is for this scenario to materialize. As mentioned in recent editions of this report, the high possibility of legal disputes over some of the measures (for example, the recovery of credits within the scope of the Administrative Council of Tax Appeals (Carf) and the exclusion of the Tax on the Circulation of Goods and Services (ICMS) from the calculation basis of PIS/Cofins credits) creates a scenario of uncertainty as to whether a large amount of revenue will be raised in the short term. This is because such disputes can take years before they are settled.

In addition to these elements, the prospect of a slowdown in economic activity in 2024 must also be taken into account. The IFI projects real economic growth of 1.2% next year. The effects of a still restrictive monetary policy and the absence of favorable external shocks underpin this scenario. A slower economic growth poses an additional challenge for the government regarding tax collections, which can therefore also affect compliance with fiscal targets in subsequent years.

The Federal Government's primary expenditure: an analysis of the Executive Branch's latest bimonthly assessment report[14]

Eduardo Nogueira

The monitoring of the budget and financial execution of the Executive Branch shows that the government's efforts to increase revenue have had an effect, given that the government expects to end the year with a revenue of BRL 101 billion (4.5%) higher than estimated in the LOA. On the other hand, expenses rose by BRL 39 billion (1.9%) above what was initially set in the LOA. The so-called Transition EC [Constitutional Amendment No. 126 of 2022] guaranteed enough space to accommodate the deficit for the year, so there is no risk of non-compliance with the fiscal target for 2023.

In the budget execution stage, the executive branch reassesses the budget every two months in order to bring it into line with fiscal rules. In the Fiscal Follow-up Report (RAF), the Independent Fiscal Institution (IFI) seeks to analyze the adherence to fiscal rules of the performance of fiscal and budgetary indicators produced by the government with the aim of increasing transparency in public accounts. With the release of the report for the 5th bimester[15], the federal executive branch identified the need to block BRL 5 billion from the budget to comply with the expenditure ceiling (Constitutional Amendment - EC 95 of 2016) and did so through Decree 11.811/2023[16]. With the end of the year approaching, the aim of this section is to assess the adherence of this reassessment of the Executive Branch's primary revenues and expenditures to the results already recorded and those yet to be recorded.

At the end of November, the Executive Branch published the primary revenue and expenditure assessment report for the fifth bimester of 2023[17]. The report updated the government's macro-fiscal projections for the year with data up to October. Decree No. 11,811, of November 30, amends the Executive's budget and financial programming based on the new estimates.

The government plans to end the year with revenues that are BRL 101 billion higher than initially forecast in the Annual Budget Law[18] (LOA). Both revenues collected by the Brazilian Federal Revenue Service (RFB) and those not collected by the RFB made a positive contribution, with BRL 69 billion and BRL 36.6 billion, respectively. On the other hand, net revenues for the General Social Security System (RGPS) are expected to be BRL 4.4 billion lower than expected. Table 6 details the evolution of the official primary revenue projections throughout 2023 and shows the variations, in absolute and relative values, between the initial estimate - made by Decree 11.415/2023, which corresponds to the values established in the LOA - and the current projection.

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[14] In compliance with paragraphs 11 and 12 of Art. 1 of Resolution no. 42/2016 of the Federal Senate, the dissenting vote of director Vilma Pinto is recorded regarding the analysis and tables in this section "Primary Expenditures of the Federal Government: an analysis of the latest bimonthly assessment report of the Executive Branch".
[15] Available at: http://bit.ly/3RdP8ya.
[16] Available at: https://bit.ly/3uNYV6s.
[17] The Primary Revenue and Expenditure Assessment Report, known as the bimonthly report, and the decree on budgetary and financial programming and monthly disbursement execution schedule of the Federal Executive Branch, known as the Decree on Budgetary and Financial Programming, provide information on the revision of revenue and expenditure projections and the increase or decrease in space for discretionary expenses, with a view to meeting the primary result target.
[18] Available at: https://legis.senado.leg.br/norma/36776408.

TABLE 6. CHANGES IN PRIMARY REVENUE PROJECTIONS (BRL BILLION. ABSOLUTE AND RELATIVE VARIATION)

Breakdown	DEC 11,415 (February)	DEC 11,457 (March)	DEC 11,538 (May)	DEC 11,621 (July)	DEC 11,723 (September)	DEC 11,811 (November)	Difference Nov - Feb	Difference % Nov / Feb
Total Primary Revenue	**2,258.6**	**2,375.6**	**2,367.2**	**2,366.3**	**2,372.9**	**2,359.9**	**101.3**	**4.5%**
Revenue Collected by the RFB	**1,378.4**	**1,474.3**	**1,465.0**	**1,474.4**	**1,469.7**	**1,447.5**	**69.1**	**5.0%**
Net Collection for the RGPS	**595.1**	**597.5**	**593.4**	**584.1**	**589.5**	**590.7**	**-4.4**	**-0.7%**
Revenue Not Collected by the RFB	**285.1**	**303.9**	**308.8**	**307.8**	**313.8**	**321.7**	**36.6**	**12.8%**
Concessions and Permits	5.7	6.5	7.6	9.2	9.1	9.1	3.4	59.9%
FGTS supplementation (LC 110/01)	0.1	0.0	0.1	0.1	0.1	0.1	0.0	-14.7%
Contribution to the Public Servant Social Security Plan	17.9	16.2	16.5	16.9	17.2	17.3	-0.6	-3.4%
"*Salário Educação*" Contribution [a social contribution intended to finance programs, projects and actions aimed at public basic education]	31.0	30.4	30.4	30.1	30.4	30.4	-0.5	-1.8%
Exploitation of Natural Resources	125.3	109.0	103.4	102.2	107.4	113.3	-12.0	-9.6%
Dividends and Shares	41.4	47.6	52.6	49.5	49.9	49.8	8.5	20.5%
Own sources	16.5	19.1	19.6	20.0	19.0	19.3	2.7	16.6%
Other income	47.2	75.2	78.7	79.8	80.8	82.4	35.1	74.4%

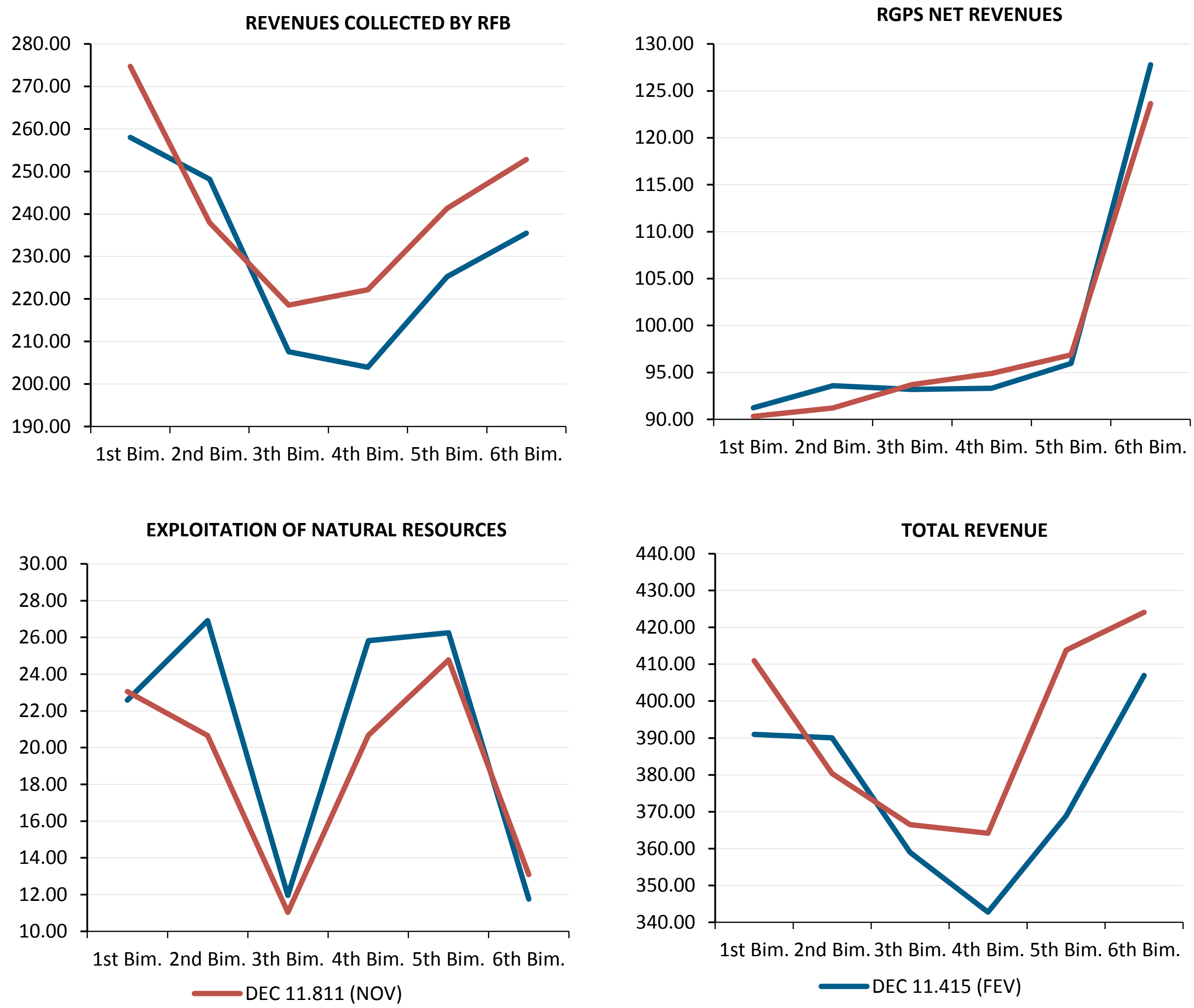
Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

The positive result with non-administered revenues [not collected by RFB] is mainly due to the incorporation of non-recurring revenues. The National Treasury Secretariat incorporated, as primary revenue, the unclaimed balances for a period of more than 20 years in PIS-PASEP accounts, as provided for in article 121 of the Act of Temporary Constitutional Provisions (ADCT), included by EC 126/2022, totaling BRL 26 billion.

Discounting these non-recurring revenues, the collection should be BRL 75 billion higher than estimated in the LOA. This figure corresponds to a positive variation of 3.32% in relation to what the government initially projected. When including the non-recurring revenue, the forecast revenue should be 4.48% higher than estimated in the LOA.

With the exception of the second bimester, all the other reports showed better results in terms of revenue collected than initially projected in the LOA. The bimonthly breakdown of the projections shows that, in fact, the government has made an effort to meet its projections and even increase revenue over the course of the year. The only negative result came in the second bimester, with revenues BRL 9.7 billion lower than forecast. The positive highlight was the fifth bimester, with BRL 44.9 billion higher than forecast in the LOA, of which BRL 26 billion was due to the incorporation of non-recurring revenues detailed above. Graph 4 shows the breakdown of collection over each two-month period.

GRAPH 4. BIMONTHLY PRIMARY REVENUE PROJECTIONS (BRL BILLION)



Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

Primary expenditure should end the year BRL 39 billion higher than forecast in the LOA. Other mandatory expenditure and social security benefits put pressure on total expenditure by BRL 42.6 billion and BRL 7.1 billion, respectively. On the other hand, expenses with payroll and social charges, as well as expenses related to cash flow management, are expected to record savings of BRL 9.1 billion and BRL 1.6 billion, respectively. Table 7 details the evolution of the official primary expenditure projections throughout 2023 and shows the variations, in absolute and relative values, between the initial estimate and the current projection.

TABLE 7. CHANGE IN PRIMARY EXPENDITURE PROJECTIONS (BRL BILLION, ABSOLUTE AND RELATIVE VARIATION)

Breakdown	DEC 11,415 (February)	DEC 11,457 (March)	DEC 11,538 (May)	DEC 11,621 (July)	DEC 11,723 (September)	DEC 11,811 (November)	Difference Nov - Feb	Difference % Nov / Feb
Total Primary Expenditure	**2,033.8**	**2,036.8**	**2,045.8**	**2,051.4**	**2,052.2**	**2,072.9**	**39.1**	**1.9%**
Social Security Benefits	**864.6**	**858.8**	**864.8**	**867.2**	**869.7**	**871.8**	**7.1**	**0.8%**
Payroll and Social Charges	**367.8**	**365.0**	**364.0**	**362.1**	**358.8**	**358.7**	**-9.1**	**-2.5%**
Other Mandatory Expenses	**277.6**	**282.7**	**294.4**	**301.0**	**303.7**	**320.2**	**42.6**	**15.4%**
Salary Allowance and Unemployment Insurance	70.3	68.0	71.9	72.0	72.9	72.8	2.5	3.6%
Granted amnesty	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0%
Financial Aid to States/Municipalities	0.0	3.0	6.9	11.4	11.6	27.9	27.9	-
Special Legislation Benefits	0.8	0.8	0.8	0.8	0.8	0.8	0.0	-0.4%
Continuous Cash Benefits	87.8	88.5	90.6	91.4	93.8	93.7	5.9	6.7%
FGTS supplementation (LC 110/01)	0.1	0.0	0.1	0.1	0.1	0.1	0.0	-14.7%
Extraordinary Credits	0.0	4.1	4.8	5.3	5.4	5.2	5.2	-
Manufacture of banknotes and coins	1.2	1.2	1.2	1.2	1.2	1.2	0.0	0.0%
Fundef / Fundeb - Federal government supplementation	40.0	38.3	37.8	38.4	38.4	38.9	-1.0	-2.5%
DF Constitutional Fund (Cost and Capital)	3.7	3.7	3.8	3.8	4.7	4.7	1.0	26.4%
ADO no. 25 (from 2020 onwards)	4.0	4.0	4.0	4.0	4.0	4.0	0.0	-
Legislative/Judiciary/MPU/DPU (Cost and Capital)	20.7	20.7	20.7	20.4	20.4	19.9	-0.8	-3.9%
Court judgments and court-ordered debt payments	24.7	26.2	26.2	25.6	24.9	24.7	0.0	-0.1%
Subsidies. Grants and Proagro	21.1	21.1	22.5	23.7	22.3	22.3	1.2	5.7%
National Water Agency Transfers - Revenues from Use of Water Resources	0.1	0.1	0.2	0.2	0.2	0.2	0.0	9.8%
Transfers from ANEEL Fines	1.7	1.8	2.0	2.1	2.1	2.1	0.4	22.5%
Primary Impact of FIES	1.1	0.9	0.9	0.6	0.7	1.6	0.4	38.8%
Executive Branch Cash Flow Management Expenses	**523.8**	**530.4**	**522.6**	**521.1**	**519.9**	**522.2**	**-1.6**	**-0.3%**
Mandatory Amendments	28.9	28.9	28.9	28.9	28.9	28.9	0.0	0.0%
Other amendments	7.6	7.6	6.8	6.6	5.5	4.8	-2.8	-37.0%
Mandatory with Cash Flow Management	329.0	322.9	330.5	330.5	329.2	330.4	1.3	0.4%
Discretionary Total	158.3	171.0	156.4	155.0	156.3	158.1	-0.2	-0.1%

Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

The Financial Aid to States and Municipalities, which is expected to cost BRL 27.9 billion for the Federal Government, is the biggest factor in the expansion of spending, beyond what was initially set in the LOA. The amounts and form of the transfers were defined by the following regulations: Law 14.399/2022[19], also known as Aldir Blanc Law 2 (BRL 3 billion); Complementary Law (LC) 195/2022[20] also known as Paulo Gustavo Law (BRL 3.86 billion); LC 192/2022 and 194/2022[21] - loss of ICMS revenue (BRL 14.7 billion); and LC 201/2023[22] - loss of revenue from the Participation Funds for States and the Federal District (FPE) and for Municipalities (FPM) (BRL 6.3 billion).

The granting of Continuous Cash Benefits, at BRL 5.9 billion higher than forecast in the LOA, also put pressure on primary expenditure. According to the government, the 2023 LOA underestimated active benefits by at least 160,000, as a result of atypical movements of an increase in concessions and a decrease in cessations in 2022. The program to deal with the social security waiting list (PEFPS)[23] was also pointed out by the government as a cause for the expansion in spending.

Expenditure on salary allowance and unemployment insurance is expected to exceed the LOA forecast by BRL 2.5 billion. According to the government, it was necessary to readjust the amounts for the months of May to December as a result of the increase in the minimum wage not foreseen in the LOA.

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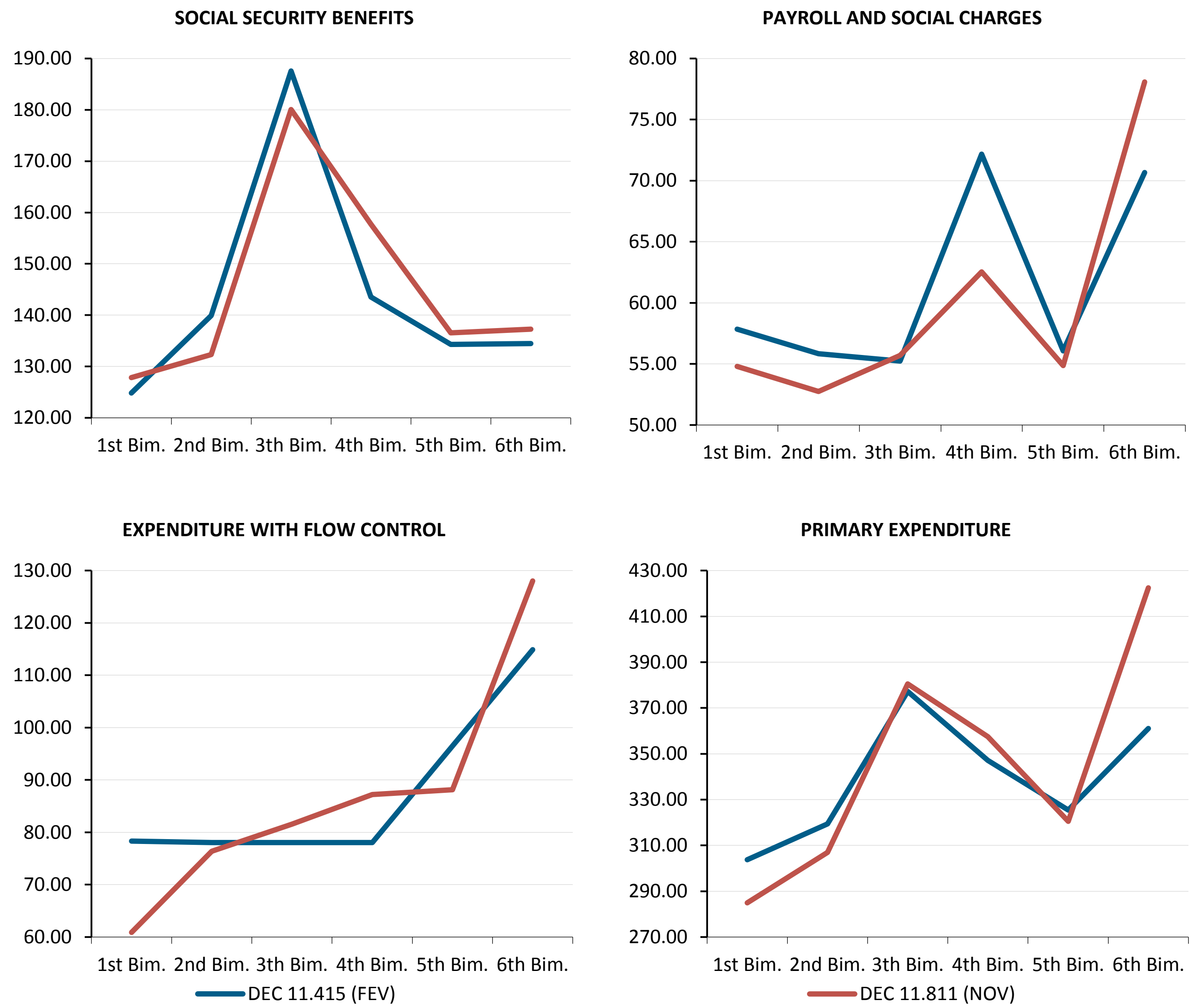
[19] Available at: https://bit.ly/3REhVgK.
[20] Available at: https://bit.ly/3RBHizR.
[21] Available at: https://bit.ly/46U7Z7o.
[22] Available at: https://bit.ly/3RHLqOY.
[23] Available at: https://bit.ly/48aJe7S.

Primary expenditure forecast for the 6th bimester should be BRL 61.4 billion (17%) higher than projected in the LOA for the period. All expenditure components - social security benefits (BRL 2.7 billion), payroll expenses and social charges (BRL 7.4 billion), other mandatory expenses (BRL 38.1 billion), and expenses on cash flow management by the Executive Branch (BRL 13.1 billion) showed an expansion in relation to what was set in the LOA. Graph 5 shows the breakdown of collection over each two-month period.

GRAPH 5. BIMONTHLY PRIMARY EXPENDITURE PROJECTIONS (BRL BILLION)



Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

The primary deficit (without deductions) should end the year at BRL 203 billion, with a margin of BRL 15 billion in compliance sufficiency. The primary result target set out in the Budget Guidelines Law[24] (LDO) for 2023 is a primary deficit of BRL 65.9 billion for the Fiscal and Social Security Budgets (OFSS) and BRL 3 billion for the budget of federal state-owned companies. However, the legislation in force[25] provides for BRL149.2 billion in deductions from the primary result target. In practice, the target for 2023 is a deficit of up to BRL 218 billion. Table 8 details the variation in the official

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[24] Available at: [https://www2.camara.leg.br/orcamento-da-uniao/leis-orcamentarias/ldo.](https://www2.camara.leg.br/orcamento-da-uniao/leis-orcamentarias/ldo)

[25] Art. 100, CF/88, § 11: BRL 308.7 million; Art. 100, CF/88, § 21: BRL 10.0 million; LC no. 195/2023: BRL 3,862.0 million; and EC No. 126/2022 (Art. 107, point I of the head of the ADCT): BRL 145,000.0 million.

primary result projections throughout 2023 and shows the variations, in absolute and relative values, between the initial estimate and the current projection.

TABLE 8. CHANGE IN PRIMARY BALANCE PROJECTIONS (BRL BILLION, ABSOLUTE AND RELATIVE VARIATION)

Breakdown	DEC 11,415 (February)	DEC 11,457 (March)	DEC 11,538 (May)	DEC 11,621 (July)	DEC 11,723 (September)	DEC 11,811 (November)	Difference Nov - Feb	Difference % Nov / Feb
1. Revenues	**2,258.6**	**2,375.6**	**2,367.2**	**2,366.3**	**2,372.9**	**2,359.9**	**101.3**	**4.5%**
1.1 Revenue Collected by the RFB (Except RGPS)	1,378.5	1,474.3	1,465.0	1,474.5	1,469.7	1,447.5	69.0	5.0%
1.2 Tax incentives	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.1	-53.9%
1.3 Net Revenue for the RGPS	595.1	597.5	593.4	584.1	589.5	590.7	-4.4	-0.7%
1.4 Other income	285.1	303.9	308.8	307.8	313.8	321.7	36.6	12.8%
2. Transfers to Subnational Entities	**452.9**	**460.0**	**455.9**	**457.1**	**458.4**	**459.4**	**6.5**	**1.4%**
2.1 FPM/FPE/IPI-EE	345.3	358.2	358.6	361.2	359.1	358.0	12.7	3.7%
2.2 Other	107.6	101.7	97.3	95.9	99.3	101.4	-6.2	-5.8%
3. Net Revenue (1) - (2)	**1,805.7**	**1,915.7**	**1,911.3**	**1,909.3**	**1,914.5**	**1,900.5**	**94.8**	**5.3%**
4. Expenses	**2,033.8**	**2,036.8**	**2,045.8**	**2,051.4**	**2,052.2**	**2,072.9**	**39.1**	**1.9%**
4.1 Social Security Benefits	864.6	858.8	864.8	867.2	869.7	871.8	7.1	0.8%
4.2 Payroll expenses and Social Charges	367.8	365.0	364.0	362.1	358.8	358.7	-9.1	-2.5%
4.3 Other Mandatory Expenses	277.6	282.7	294.4	301.0	303.7	320.2	42.6	15.4%
4.4 Expenses on Cash Flow Management by the Executive Branch	523.8	530.4	522.6	521.1	519.9	522.2	-1.6	-0.3%
5. Central Government Primary	**-228.1**	**-121.2**	**-134.5**	**-142.1**	**-137.6**	**-172.4**	**55.7**	**-24.4%**
5.1 National Treasury Primary Balance	41.4	140.2	136.9	141.0	142.6	108.7	67.2	162.2%
5.2 Primary Balance of Social Security	-269.6	-261.4	-271.4	-283.1	-280.3	-281.1	-11.5	4.3%
6. Statistical discrepancy	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-26.0**	**-26.0**	**-**
7. Below-the-Line Primary	**-228.1**	**-121.2**	**-134.5**	**-142.1**	**-137.6**	**-198.4**	**29.7**	**-13.0%**
8. Primary Balance of State-owned Federal Companies	**-2.8**	**-2.4**	**-2.8**	**-6.6**	**-5.6**	**-4.5**	**-1.7**	**59.7%**
9. Federal Government Primary Balance (7+8)	**-230.9**	**-123.6**	**-137.2**	**-148.7**	**-143.2**	**-202.9**	**28.0**	**-12.1%**
10. LDO Fiscal Target - Federal Government	**-65.9**	**-65.9**	**-65.9**	**-65.9**	**-68.9**	**-68.9**	**-3.0**	**4.6%**
11. Deductions from the LDO Target	**168.2**	**168.2**	**172.1**	**172.3**	**153.1**	**149.2**	**-19.1**	**-11.3%**
12. Adjusted Target Federal Government (10-11)	**-234.1**	**-234.1**	**-238.0**	**-238.2**	**-222.0**	**-218.1**	**16.0**	**-6.9%**
13. Target Sufficiency Federal Government (9-12)	**3.2**	**110.6**	**100.8**	**89.4**	**78.8**	**15.2**	**12.0**	**375.2%**

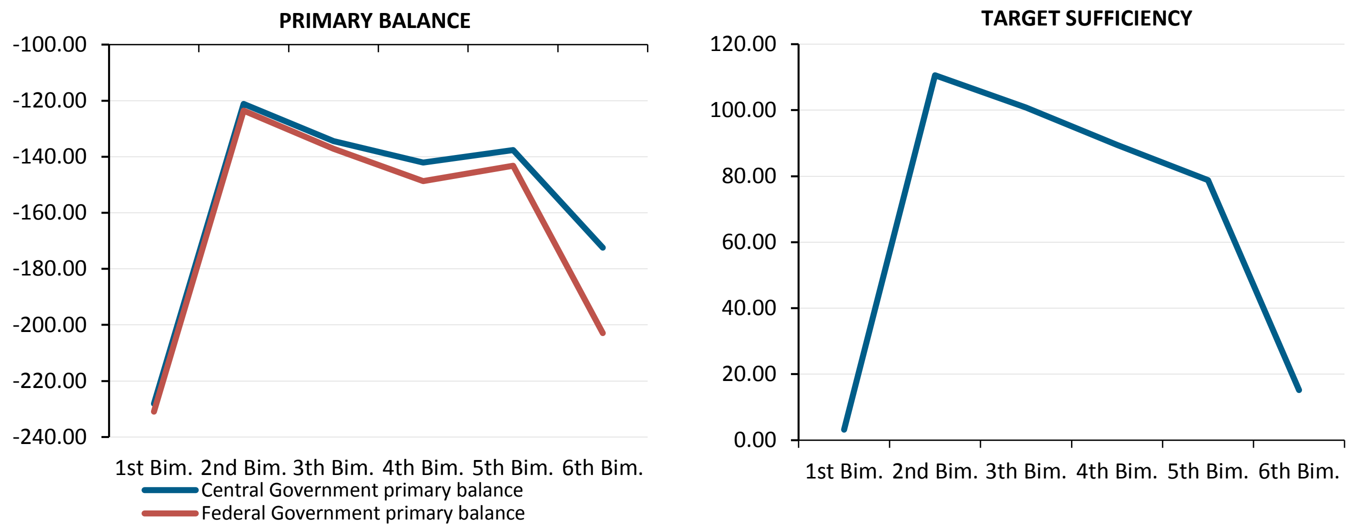
Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

In the 5th bimester report, the government revealed a statistical discrepancy of BRL 26 billion in non-recurring PIS-PASEP revenues, identified after the release of the Primary Balance by the Central Bank of Brazil (BCB) in November 2023[26]. Increased revenues and expenditure restraint over the course of the year indicated the possibility of a better result in the previous bimesters (BRL 123.5 billion to BRL 143.2 billion deficit between the 1st and 4th bimonthly reports).

Increased transfers to sub-national entities and the deficit of state-owned companies put even more pressure on the primary balance. Transfers to states and municipalities and the deficit of state-owned companies should end the year at BRL 6.5 billion and BRL 1.7 billion higher than forecast in the LOA, respectively. Graph 6 shows the breakdown of the primary deficit and the sufficiency of the target over the different bimesters.

[26] Available at: https://www.bcb.gov.br/content/estatisticas/hist_estatisticasfiscais/202310_Texto_de_estatisticas_fiscais.pdf.

GRAPH 6. EVOLUTION OF PRIMARY DEFICIT AND TARGET SUFFICIENCY (BRL BILLION)



Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

Adjustments that will be made to the 2023 fiscal targets and statistical discrepancies will be the biggest in the last decade. In fact, the deductions from the target for 2023 will be more than double the target set in the LDO. Although they are relatively common to the process of making the results presented by different methodologies compatible, the figures for 2023 are high[27].

In compliance with the LDO, the Presidential Message forwarding the LOA presents the Methodology for Calculating the Primary and Nominal Balances in the Fiscal and Social Security Budgets and the parameters used. Traditionally, at the end of the year, the BCB is responsible for calculating the primary and nominal balances in order to verify compliance with the fiscal target set for the year.

The disaggregated items of revenue and expenditure presented in the bi-monthly report are those disclosed by the STN under the 'above-the-line' method. The difference between the two results can be partially explained by the methodologies used by the STN and the BCB to calculate some expenses, known as the "Methodological Adjustment". In addition to the methodological adjustments, there is still the so-called "statistical discrepancy", an adjustment line to make compatible the primary balances calculated both above and below the line.

The Assessment Report on Compliance with Fiscal Targets[28], known as the four-monthly report, is prepared by the STN and SOF and presents the results of compliance with fiscal targets, in fulfillment of the provisions of Paragraph 4 of Art. 9 of Complementary Law 101/2000, known as Fiscal Responsibility Law (LRF). Table 9 shows a history of target deductions[29] and the methodological adjustments presented in the four-monthly reports at the end of previous years and an estimate for 2023.

TABLE 9. DEDUCTIONS AND DISCREPANCES (BRL BILLION - CURRENT VALUES)

Breakdown	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Estimated Deductions from the LDO Target in the last DPOF	106.0	68.1	-	-	-	-	-	79.4	40.5	149.2
Statistical discrepancy and methodological adjustments	-3.2	-5.6	-8.9	1.4	-2.6	-0.6	-4.0	-0.8	0.8	26.0

Source: National Treasury Secretariat and Federal Budget Secretariat. Prepared by: IFI.

[27] The IFI pointed out the impacts of the so-called Transition Amendment on the 2023 PLOA in RAF 71 of December 2022. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/603416/RAF71_DEZ2022.pdf.

[28] Available at: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-do-cumprimento-das-metas-fiscais/2023/28?ano_selecionado=2023.

[29] The IFI has published Technical Note 52 - "*Novo arcabouço fiscal: Análise do texto substitutivo ao PLP 93, de 2023*" [New tax framework: Analysis of the substitute text to PLP 93 of 2023]. Table 1 of the aforementioned note presents the value of the deductions from the primary balance targets actually achieved in the year. On the other hand, the series shown in Table 9 of this RAF records the amounts forecast in the last DPOF of each fiscal year, which explains the difference in the amounts of deductions from the LDO targets in the two series.

With court-ordered debt payments and a revision of GDP, DBGG should reach 75.0% of GDP in 2023

Alexandre Andrade

Based on the revision of the quarterly national accounts for 2021 and 2022 and the payment of the stock of court-ordered debts (precatórios) of around BRL 97.0 billion still in 2023, the gross debt of the public sector is expected to reach 75.0% of GDP in the IFI's baseline scenario. On the one hand, the revision of the GDP figures produced a downward shift in the debt curves (as a proportion of GDP). On the other hand, the payment of court-ordered debts increases the level of the indicator in 2023. In any case, the projections indicate an increase in the general government's indebtedness over the next few years, given that the primary balance and the other macroeconomic assumptions and projections remain unchanged.

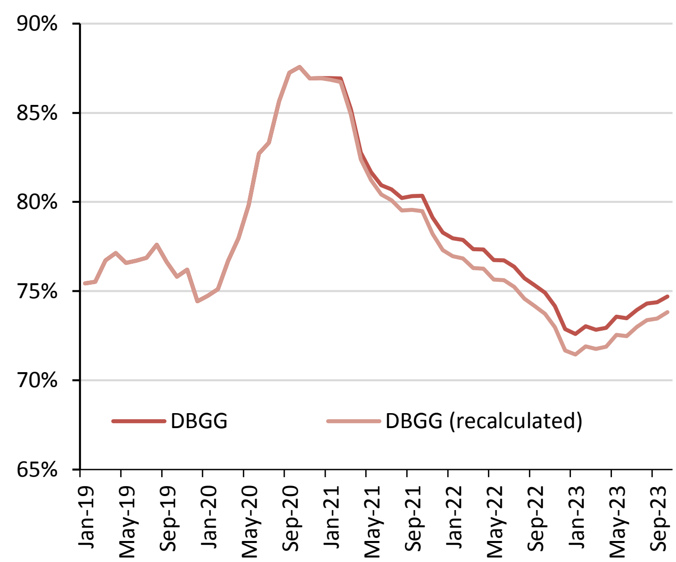
The aim of this article is to present an estimate made by the IFI for the Gross General Government Debt (DBGG) and Net Public Sector Debt (DLSP) curves, as a proportion of Gross Domestic Product (GDP) and updated up to October 2023, based on the release of the IBGE's Quarterly National Accounts, with information updated up to the third quarter. In that report, the IBGE revised the GDP figures for 2021 and 2022, which affected the level of the debt curves measured as a proportion of GDP. An update is also presented for the DBGG projections published in the Fiscal Follow-up Report (RAF no. 82) of November 2023.

When the fiscal statistics were released on December 6, the Central Bank had not yet incorporated the information from the national accounts for the third quarter of the year[30]. Using IBGE data, the IFI simulated the monthly GDP series published by the monetary authority in order to recalculate the indebtedness indicators as a proportion of GDP[31].

Graph 7 shows the DBGG trajectory, as a proportion of GDP, from January 2019 to October 2023. The revision of the GDP series by the IBGE should have generated a reduction of 1 percentage point (p.p.) in gross indebtedness in 2021, from 78.3% to 77.3% of GDP. In 2022, the indicator should be 71.7% of GDP, compared to 72.9% of GDP in the most recent series by the Central Bank of Brazil (BCB). In October 2023, according to the series recalculated by the IFI, the DBGG should have reached 73.8% of GDP, compared to 74.7% of GDP measured by the BCB.

Graph 8 shows the same exercise carried out by the IFI using DLSP information. The behavior of the curves is similar to that of the DBGG. The DLSP would have ended 2021 at 55.1% of GDP, 0.7 p.p. below the figure initially published by the Central Bank, and reached 59.3% of GDP in October 2023 (compared to 60.0% of GDP in the Central Bank's most recent series).

GRAPH 7. GENERAL GOVERNMENT GROSS DEBT (% OF GDP) - INCORPORATION OF THE GDP REVISION FOR THE THIRD QUARTER OF 2023



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

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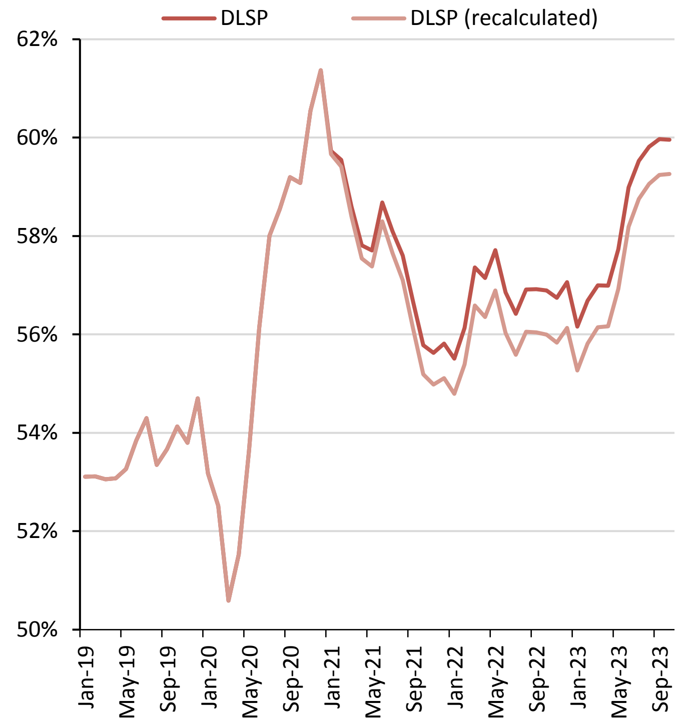
[30] The Central Bank of Brazil estimates a series of GDPs on a monthly basis, based on information from the IBGE's national accounts. The series is published and used to calculate some indicators by the Central Bank, such as the debt as a proportion of GDP. The latest update of the monthly GDP series made available by the BCB has not yet incorporated the release of the quarterly national accounts by the IBGE. The monthly GDP figures have therefore been recalculated by the IFI.

[31] The exercise consisted of using monthly GDP information from the Central Bank of Brazil and the IBGE's quarterly national accounts to obtain an updated monthly GDP series until October 2023. This series was then used to divide the debt values to simulate the new DBGG and DLSP curves as a proportion of GDP.

The change in the level of the gross debt series led to a change in the indicator's estimates over the period from 2023 to 2033. In addition, there were two changes to the assumptions made in the scenario review published in RAF No. 82. The first concerns the payment by the National Bank for Economic and Social Development (BNDES) of the balance of BRL 22.6 billion to the Treasury, which should have been made by 2023, which was supposed to be made by 2023 but had the Ministry of Finance's request for installment accepted by the Federal Accounting Court (TCU). This amount will be repaid in installments between 2023 and 2030. In the last RAF, the installment payment of BRL 22.6 billion was considered in the optimistic scenario, while the baseline and pessimistic scenarios considered the repayment of this entire amount in 2023.

The second altered premise concerns the payment of court-order debt securities by the Federal Government to the holders of these obligations. Constitutional Amendments (ECs) No. 113 and No. 114 stipulated a limit for the payment of this expense by the Federal Government until the end of 2026. For the purposes of expenditure and debt, the IFI considered in November that the accumulated stock would be paid off in full by 2027 in the baseline and pessimistic scenarios.

GRAPH 8. NET PUBLIC SECTOR DEBT (% OF GDP) - INCORPORATION OF THE REVISION OF GDP FOR THE THIRD QUARTER OF 2023



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

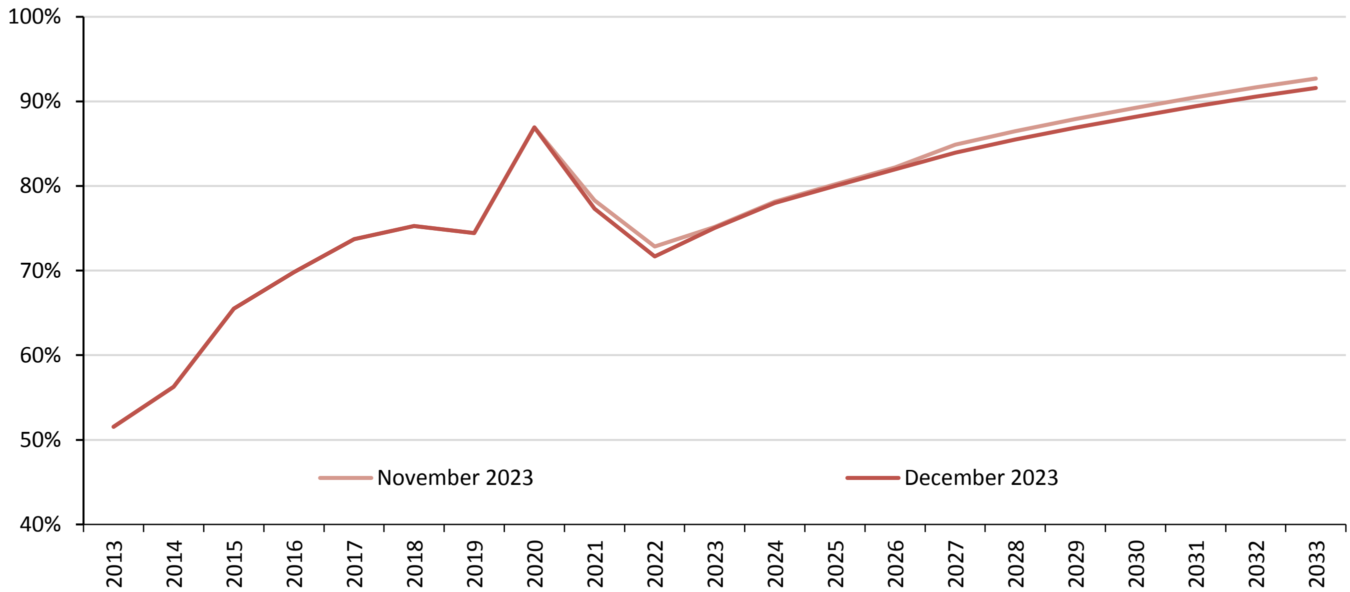
In the optimistic scenario, we considered the possibility of paying off the stock accumulated up to 2023 still during the current year. However, this situation would occur only if the Supreme Court approved this payment by means of an extraordinary credit in 2023. The STF decision, favorable to the Federal Government, considered the limit set in the aforementioned constitutional amendments to be unconstitutional[32].

Thus, in the three reference scenarios, we considered the installment payment of BRL 22.6 billion owed by the BNDES to the Treasury and the payment, over eight years, via extraordinary credit, of BRL 97.0 billion of the court-order debt stock arising from the rules set out in Constitutions 113 and 114. It is worth mentioning that the exact amount of the extraordinary credit, to be opened by means of a provisional measure, has not yet been defined. The most recent information, from the National Council of Justice, considers BRL 97 billion.[33].

Graph 9 shows the new DBGG curve as a proportion of GDP and compares it with the projection published in RAF No. 82 of November 2023. Maintaining the other assumptions and variables of the IFI's medium-term scenario, the IFI's new projection for the DBGG, measured as a proportion of GDP, is 75.0% of GDP in 2023 (compared to 75.2% in November) in the baseline scenario. In 2024, the indicator would rise to 78.0% of GDP, compared to 78.2% of GDP projected last month. On average from 2025 to 2033 - the period considered medium-term - the DBGG would be 86.4% of GDP (compared to 87.3% of GDP in the November revision).

[32] https://tinyurl.com/3e72bvwe.
[33] See, for example, https://tinyurl.com/5849mcb7.

GRAPH 9. IFI PROJECTIONS FOR DBGG AT SELECTED POINTS IN TIME (2023-2033) - % OF GDP

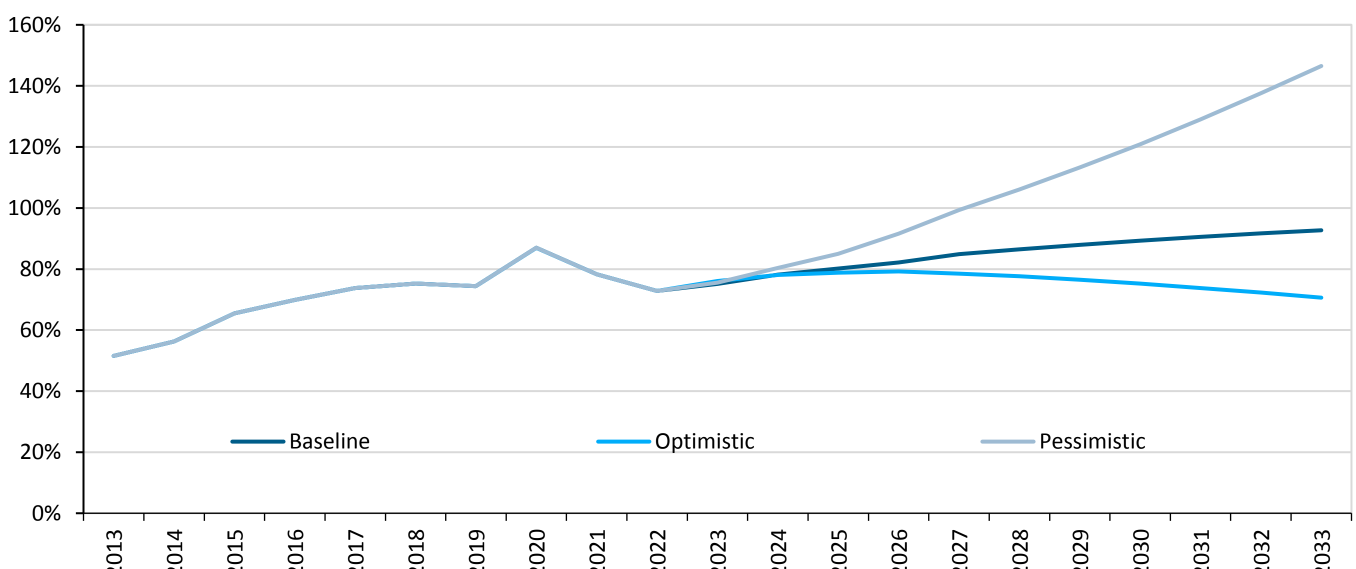


Source: Central Bank. Prepared by: IFI.

Graph 10 consolidates the IFI's new projections for the DBGG, as a proportion of GDP, in the three reference scenarios.

Maintaining the projections of the macroeconomic scenario and primary results of the consolidated public sector as presented in RAF No. 82, the Gross General Government Debt (DBGG), as a proportion of GDP, is expected to grow in the coming years in both the baseline and pessimistic scenarios. In the optimistic scenario, the indicator would fall as from 2027.

GRAPH 10. IFI PROJECTIONS FOR THE DBGG IN THE DIFFERENT SCENARIOS - % OF GDP



Source: Central Bank. Prepared by: IFI.

Finally, Table 10 updates the IFI calculations for the primary balance required to stabilize the DBGG at 75.0% of GDP, which is the projection for the indicator, in the baseline scenario, at the end of 2023. The outcome is unchanged from that published in November, i.e. to stabilize the DBGG at the level projected for 2023 with implicit real interest on the debt at 3.9% p.a. and real economic growth of 2.0% on average from 2025 to 2033, the primary balance required would be 1.4% of GDP.

TABLE 10. PRIMARY BALANCE REQUIRED TO STABILIZE GROSS DEBT AT 75.0% OF GDP

DBGG in t		Implicit real interest from DBGG							
75.0%		0.5%	1.0%	2.0%	3.5%	3.9%	4.5%	5.0%	5.5%
Real GDP (% p.a.)	0.5%	0.0%	0.4%	1.1%	2.2%	2.5%	3.0%	3.4%	3.7%
	1.0%	-0.4%	0.0%	0.7%	1.9%	2.2%	2.6%	3.0%	3.3%
	1.5%	-0.7%	-0.4%	0.4%	1.5%	1.8%	2.2%	2.6%	3.0%
	2.0%	-1.1%	-0.7%	0.0%	1.1%	1.4%	1.8%	2.2%	2.6%
	2.5%	-1.5%	-1.1%	-0.4%	0.7%	1.0%	1.5%	1.8%	2.2%
	3.0%	-1.8%	-1.5%	-0.7%	0.4%	0.7%	1.1%	1.5%	1.8%
	3.5%	-2.2%	-1.8%	-1.1%	0.0%	0.3%	0.7%	1.1%	1.5%

Source: Prepared by: IFI.

IFI projections

SHORT TERM

IFI projections	2023			2024		
	November	December	Comparison	November	December	Comparison
GDP - real growth (% p.a.)	2.97	2.97	=	1.19	1.19	=
GDP - nominal (BRL billion)	10,687.57	10,864.73	▲	11,337.51	11,525.44	▲
IPCA - accumulated (% in the year)	4.64	4.64	=	4.02	4.02	=
Exchange rate - end of period (BRL/US$)	5.00	5.00	=	5.08	5.08	=
Employment - growth (%)	1.10	1.10	=	0.90	0.90	=
Payroll - growth (%)	5.55	5.55	=	1.40	1.40	=
Selic - end of period (% p.a.)	11.75	11.75	=	9.50	9.50	=
Real interest rates ex-ante (% p.a.)	6.22	6.22	=	5.33	5.33	=
Consolidated Public Sector Primary Balance (% of GDP)	-1.20	-1.20	=	-1.17	-1.17	=
of which Central Government	-1.25	-1.25	=	-1.07	-1.07	=
Net Nominal Interest (% of GDP)	6.90	6.83	▼	6.23	6.22	▼
Nominal Balance (% of GDP)	-8.10	-8.03	▲	-7.40	-7.39	▲
General Government Gross Debt (% of GDP)	75.16	75.03	▼	78.16	78.00	▼

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