

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- The projection of GDP growth in the baseline scenario was revised from 2.8% to 3.0% in 2021.
- In the medium term, the average growth of the product is 2.3% and the real interest rate is 3.4% per year.
- A new projection includes BRL 1,333.3bn for the central government net revenue, in 2021, in the baseline scenario.
- As a proportion of GDP, revenues are expected to undergo gradual recovery in the coming years.
- In the baseline and optimistic scenarios, the IFI forecasts the payment, in 2021, of BRL 18.8bn of deferred taxes in 2020.
- The expenditure ceiling is expected to be met in 2021, with moderate risk of noncompliance.
- The baseline scenario includes spending on the emergency aid in the amount of BRL 34.2bn and not subject to the ceiling.
- Primary deficit target of BRL 247.1bn, in 2021, is also expected to be met.
- In the baseline scenario, gross debt is expected to reach 92.7% of GDP in 2021.
- The baseline scenario forecasts continuous growth of the debt/GDP ratio up to 103.4% in 2030.
- New GDP projections reduce the debt trajectories in the three scenarios, but the situation remains very adverse.



FEDERAL SENATE

President of Federal Senate

Senator Rodrigo Pacheco (DEM-MG)

INDEPENDENT FISCAL INSTITUTION

Executive Director

Felipe Scudeler Salto

Directors

Daniel Veloso Couri

Josué Alfredo Pellegrini

Analysts

Alessandro Ribeiro de Carvalho Casalecchi

Alexandre Augusto Seijas de Andrade

Luiza Muniz Navarro Mesquita

Pedro Henrique Oliveira de Souza

Rafael da Rocha Mendonça Bacciotti

Interns

Maria Vitória da Silva

Vinícius Quintanilha Nunes

TRANSLATION SERVICE - SETRIN/SGIDOC

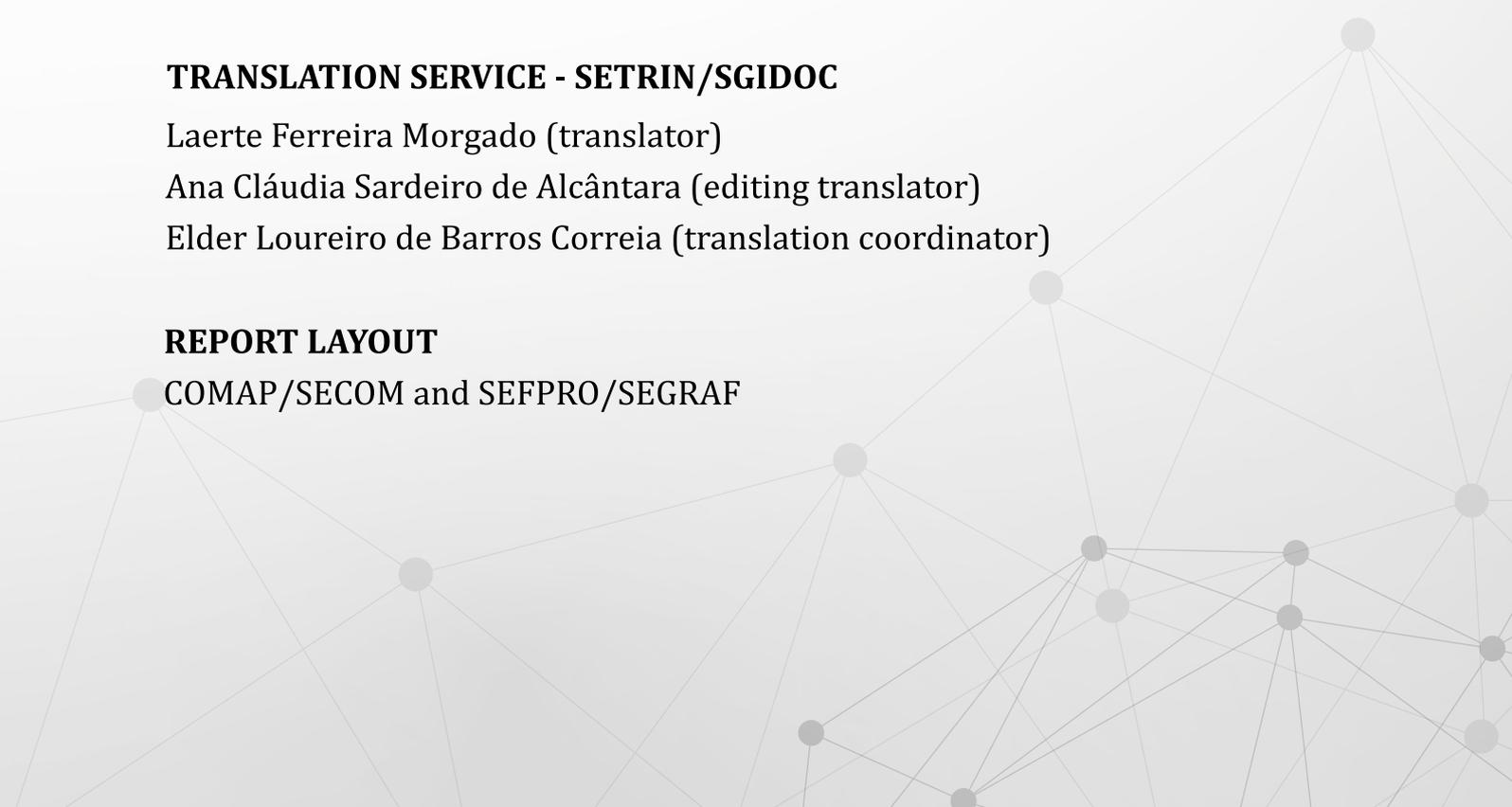
Laerte Ferreira Morgado (translator)

Ana Cláudia Sardeiro de Alcântara (editing translator)

Elder Loureiro de Barros Correia (translation coordinator)

REPORT LAYOUT

COMAP/SECOM and SEFPRO/SEGRAF



Covering Letter

IFI presents, on a semiannual basis, reviews of macro-fiscal scenarios. However, due to the pandemic crisis, the institution presented four reviews of scenarios in 2020. In this edition of the Fiscal Follow-up Report (RAF, in the original acronym), a new round of projections is presented.

The Macroeconomic Context section indicates that the 2021 GDP will grow 3%, from a 4.5% recession estimated for 2020. The evolution of covid-19 maintains high uncertainty about GDP scenarios. The speed in vaccinating the entire Brazilian population or a relevant percentage of it is the fundamental point to ensure that the recovery can, in fact, happen.

Regarding the spending ceiling, IFI expects it to be met in 2021, but with a moderate risk of noncompliance. Evidently, the uncertainty is still great, but less than in last November, when the last scenario review was made. Thus, the risk went from high to moderate. It is important to highlight that the eventual new emergency aid should cost BRL34.2bn and should not be included in the expenses subject to the ceiling, without which the constitutional rule would be breached.

The primary deficit projection for 2021 is to comply with the fiscal target of the Budget Guidelines Law (LDO, in the original acronym), of BRL247.1bn, highlighting the revision of the revenue projection, which should compensate part of the upward effects on the side of the expenses, including expenses with eventual new aid and the fight against covid-19, which are outside the ceiling but affect the primary deficit.

The baseline scenario is based on the maintenance, until 2026, of a policy of not granting salary adjustments, even due to inflation, and the granting of real readjustments to the minimum wage only after 2027. Depending on the decisions of the Executive Branch and the National Congress that affect these two issues, the primary deficit and the spending ceiling could be affected.

The gross debt of the general government, in turn, is expected to reach 92.7% of GDP in 2021, in the baseline scenario, increasing in relation to 2020, when there was an increase of 15 percentage points in relation to 2019. For the next decade, IFI forecasts a continuous upward trajectory.

In this context, discussions about the medium-term fiscal adjustment and the measures that will be approved to recover the primary surplus and, with it, the conditions for the sustainability of the public debt, become fundamental. The exception period marked by the pandemic crisis has increased public spending and will make it difficult to converge on this goal. The maintenance of fiscal responsibility and the commitment to control spending and/or increase in revenues would facilitate the rebalancing of public accounts.

Felipe Scudeler Salto
IFI Executive Director

Josué Alfredo Pellegrini
IFI Director

Daniel Veloso Couri
IFI Director

Summary

- After a contraction estimated at 4.5% in 2020, the Brazilian economy is expected to grow 3.0% in 2021 (0.2 percentage point above the estimate presented in the November report) and 2.6% in 2022. GDP is likely to decline in the first quarter of 2021 (preliminary projection of -0.2% compared to the previous quarter, in the seasonally adjusted series), impacted by the effects, on the consumption of goods and services, of the second wave of the pandemic and the end of the emergency aid granting period. **(Page 7)**
- From the moment the economy's idleness (measured by the output gap) is eliminated (which should occur at the end of 2024, in the baseline scenario), GDP growth follows potential growth (2.3%), and inflation is projected to stay within the target defined by the National Monetary Council (3.25%). We estimate that the interest rate in real terms will stabilize at around 3.5% per year (average from 2023 to 2030), with the nominal Selic rate rising to approximately 7.0%. **(Page 11)**
- A central hypothesis of IFI's fiscal scenarios has been changed in the current revision of the projections. Instead of the recovery of revenues, as a proportion of GDP, to take place immediately, starting in 2021, it was assumed that this movement will be carried out gradually, in view of the reduction of some tax bases of the economy, in 2020. Contribute to this perception (i) the fact that the resumption of economic activity is concentrated in some sectors, such as industry and retail trade, and (ii) the high uncertainties regarding the maintenance of this recovery this year. **(Page 12)**
- The revisions on the projections of fiscal revenues in the horizon from 2021 to 2030 occurred due to factors such as the revision of past GDP values, made by IBGE last December; the expectation of a smaller contraction of the economy in 2020; the acceleration of prices in the second half of 2020; and the reduction in the inflation target, by the National Monetary Council, starting in 2023. However, there were no changes in the country's potential GDP, which would have led to more profound changes in the trajectory of fiscal revenues. **(Page 12)**
- The spending ceiling is expected to be met in 2021, and the risk of noncompliance has gone from high to moderate. The uncertainty is still great, but less than in last November, when the last scenario review was made. Recent trend in spending on social security and personnel and

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Contacts: ifi@senado.leg.br | +55 (61) 3303-2875

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preliminary data on results in 2021 corroborate a more favorable scenario. Higher inflation in June 2021 contributes to meeting the ceiling in 2022 as well. **(Page 30)**

- The baseline scenario includes spending on emergency aid in the amount of BRL34.2bn. This amount is compatible with a monthly benefit of BRL250.00, granted for four months to 45 million people (including Bolsa Família beneficiaries). In alternative scenarios, with different hypotheses for the program, spending ranges from BRL24.2bn, in the optimistic, to BRL58.7bn, in the pessimistic. In the projections, spending on the emergency aid is not subject to the ceiling. **(Page 25)**
- In the baseline scenario, the projection of the primary deficit for 2021 is compatible with the fulfillment of the fiscal target set in the LDO, of BRL247.1bn. It is worth highlighting the revision of the revenue projection, which is expected to offset part of the upward effects on the expenditure side, including the expenditure with the eventual new aid and the fight against the covid-19 pandemic, which are outside the ceiling but affect the primary deficit. For the next few years, the deficit is expected to decrease, which, however, should remain at negative values at least until 2030. **(Page 34)**
- The growth of the gross debt/GDP ratio over the next ten years indicates that the fiscal challenge is complex and will require fiscal consolidation measures in the post-crisis. The effects of the covid-19 crisis on public accounts were significant and led to an increase in gross debt of around 15 percentage points (pp) of GDP between 2019 and 2020. Even though the observed level was better than expected last November, due to the higher nominal GDP, the trend continues to be for strong increase of the indicator in the baseline and pessimistic scenarios. In the optimistic scenario, it would already be possible to start the reduction of indebtedness in relation to GDP in 2022. **(Page 39)**

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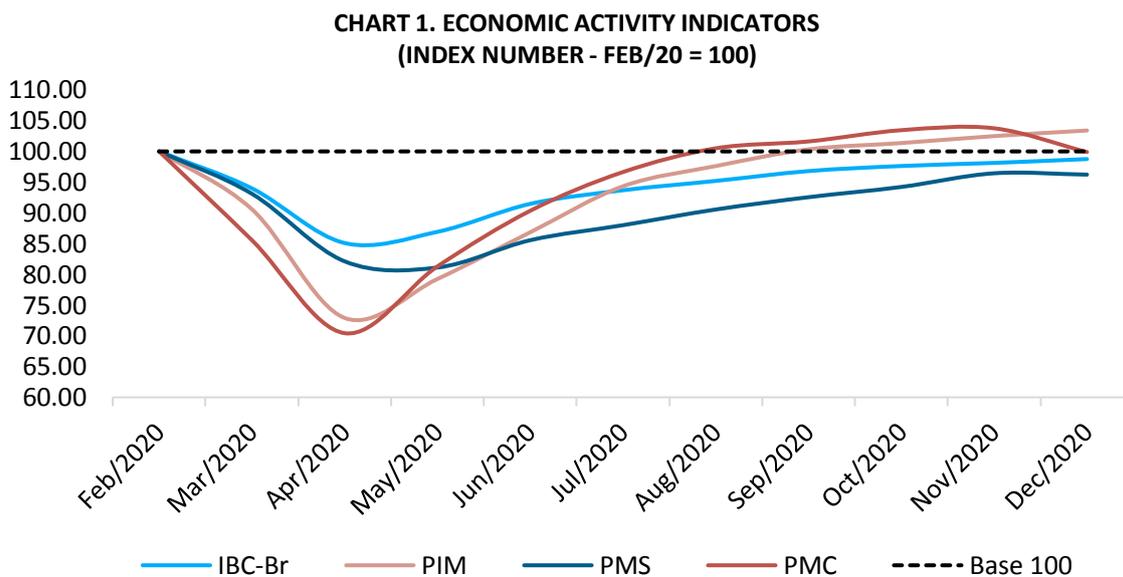
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1. MACROECONOMIC CONTEXT

The February Fiscal Follow-up Report (RAF) brings updated projections for macro-fiscal variables. It also incorporates new data and re-evaluates the presumptions behind each scenario (baseline, optimistic, and pessimistic scenarios) so as to ensure that the forecasts reflect the current state of the economy. An overview of how the projections of the macroeconomic variables (GDP, inflation rate, employment level, exchange rate, and interest rate) that support the fiscal scenarios are elaborated was presented in Special Study n^o 13.²

1.1 Economic activity indicators

Activity indicators showed a slowdown at the end of last year. The reduction in the emergency aid in the last three months of 2020, the acceleration of inflation (by decreasing the population's purchasing power) and the advance of the pandemic may have contributed to curb the momentum of consumption of goods and services in the period. The high-frequency data already released, with information on the state of the economy in January, indicate the possibility of contraction in economic activity in the beginning of 2021.



Source: Central Bank of Brazil and IBGE [Brazilian Institute of Geography and Statistics]. Prepared by: IFI - Brazilian Independent Fiscal Institution

Industrial production index dropped 4.5% in 2020. According to the Monthly Survey of Industry - Physical Production (PIM-PF, in the original acronym), released by the Brazilian Institute of Geography and Statistics (IBGE, in the original acronym), the production of the general industry grew 0.9% between November and December in the seasonally adjusted series, after having advanced 1.1% in the previous month. Compared to December 2019, industrial production recorded an 8.3% change, accumulating a 4.5% drop in twelve months.

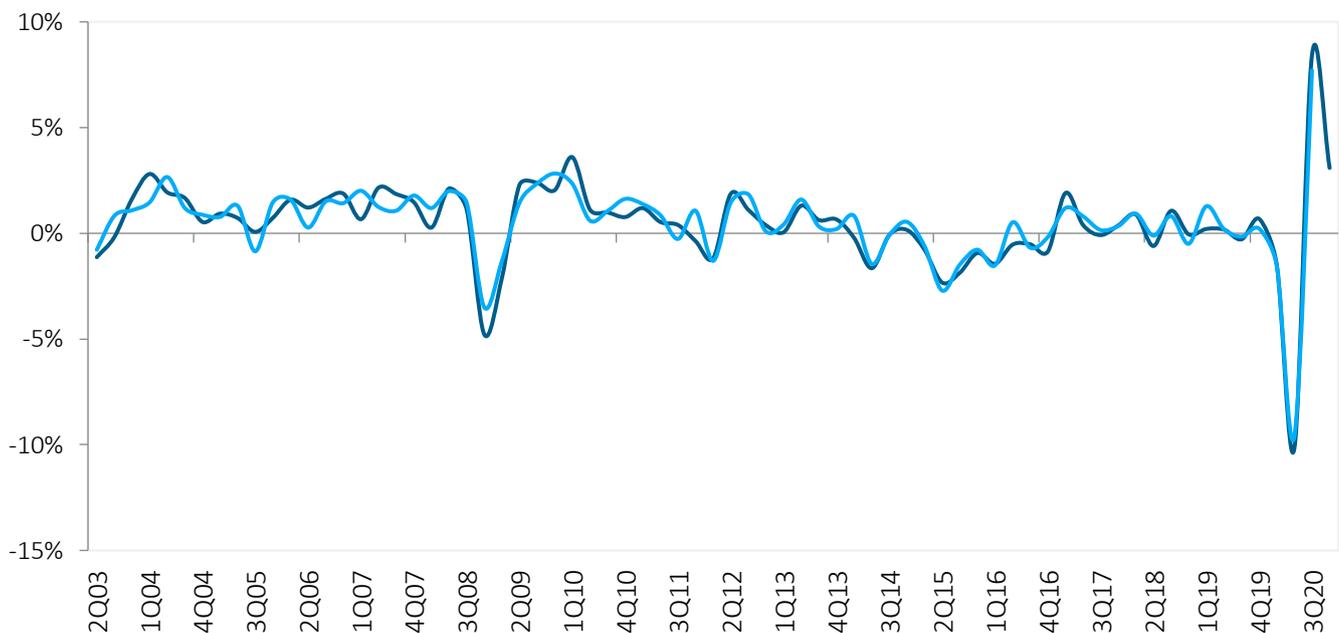
² Available at: <https://www2.senado.leg.br/bdsf/bitstream/handle/id/577405/EE13.pdf>

Service sector revenue fell 7.9% in 2020. The real revenue from the service sector, the sector with the segments most affected by social distance, showed a change of -0.3% between November and December (in the seasonally adjusted series), after six consecutive increases, according to data from the Monthly Survey of Services (PMS, in the original acronym) of the IBGE. Revenue decreased 3.3% in the annual comparison (Dec/2020 versus Dec/2019), accumulating a change of -7.9% in twelve months. When analyzing the change accumulated in 12 months, it is noteworthy that the segments of services provided to families (-35.6%) in particular, and professional, administrative, and complementary services (-11.4%), have much greater variations than that registered by the aggregate index.

Sales volume in retail trade contracted 1.5% in 2020. The volume of sales in retail trade (Monthly Survey of Trade - PMC) in the expanded concept, which includes vehicles and construction material, decreased 3.7% in December compared to November, considering the seasonally adjusted series. From November to December 2020, there was a contraction in the ten segments surveyed. In the annual comparison, the PMC sales index registered an increase of 2.5%, accumulating a change of -1.5% in the 12 months ended in December.

The IBC-Br decreased 4.1% in 2020. The Central Bank's Economic Activity Index (IBC-Br, in the original acronym), a variable that aggregates information from the sectors that make up the GDP on the supply side, rose 0.6% between November and December, in line with the better performance of the industry, which offset the negative influence of services and trade in particular. In the comparison with the third quarter of 2020, in the seasonally adjusted series, there was an expansion of 3.1%, suggesting a growth of the product in the period in a magnitude lower than that observed in the previous quarter (8.4% by IBC-Br and 7.7% by GDP). Chart 2 shows that the economic activity cooled down in the fourth quarter of 2020, after registering a strong increase in the previous quarter.

CHART 2. IBC-BR AND GDP (QUARTERLY CHANGES)

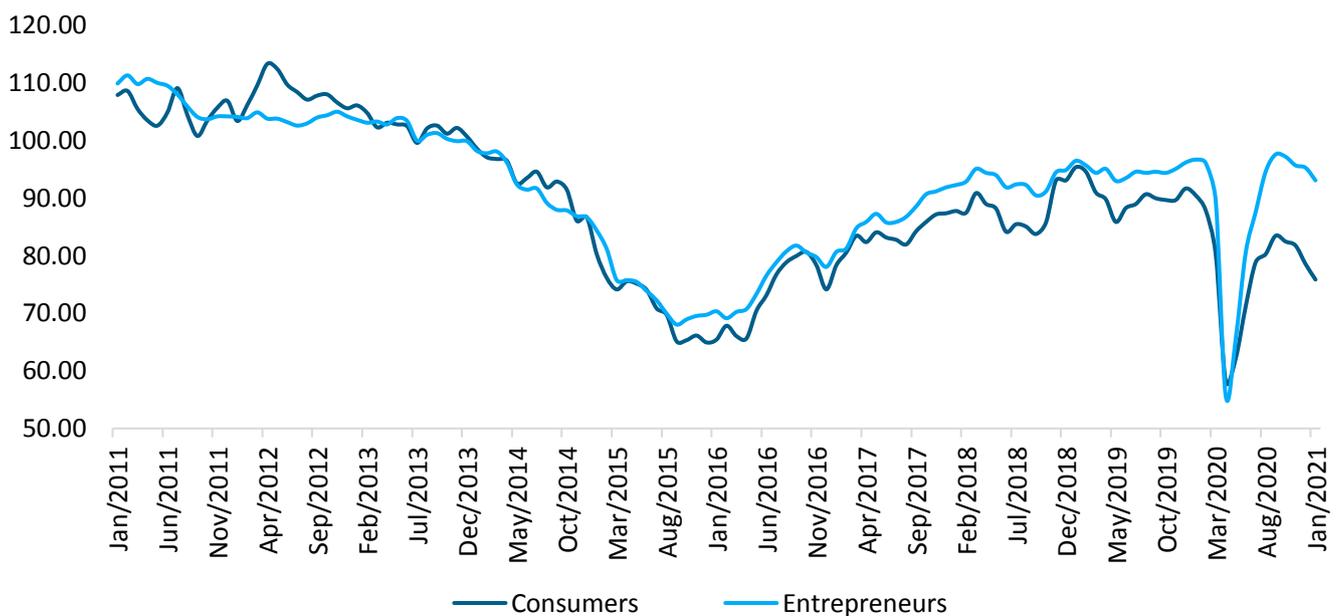


Source: Central Bank of Brazil and IBGE [Brazilian Institute of Geography and Statistics]. Prepared by: IFI - Brazilian Independent Fiscal Institution.

The December IBC-Br left a 0.6% carry-over for the first quarter of 2021. It is relevant to mention that the IBC-Br result for December 2020 left a 0.6% carry-over for the first quarter of 2021. That is, if the IBC-Br records zero change in January, February, and March 2021, in the series without seasonal effects, the economic activity, captured by the IBC-Br, will present a 0.6% growth in the first quarter in relation to the immediately preceding period.

Some available high-frequency indicators, however, point to the possibility of contraction in the economic activity in the beginning of 2021. The consumer and business confidence indexes published by FGV (Chart 3) decreased by 2.7 and 2.2 points, respectively, between December and January, reflecting, to a large extent, the end of the period for granting emergency benefits, the worsening of the pandemic, and the adverse effects on income and employment. Chart 3 shows that the two indicators display a downward trend since October 2020, after an expansion period between May and September 2020.

CHART 3. CONFIDENCE INDICES



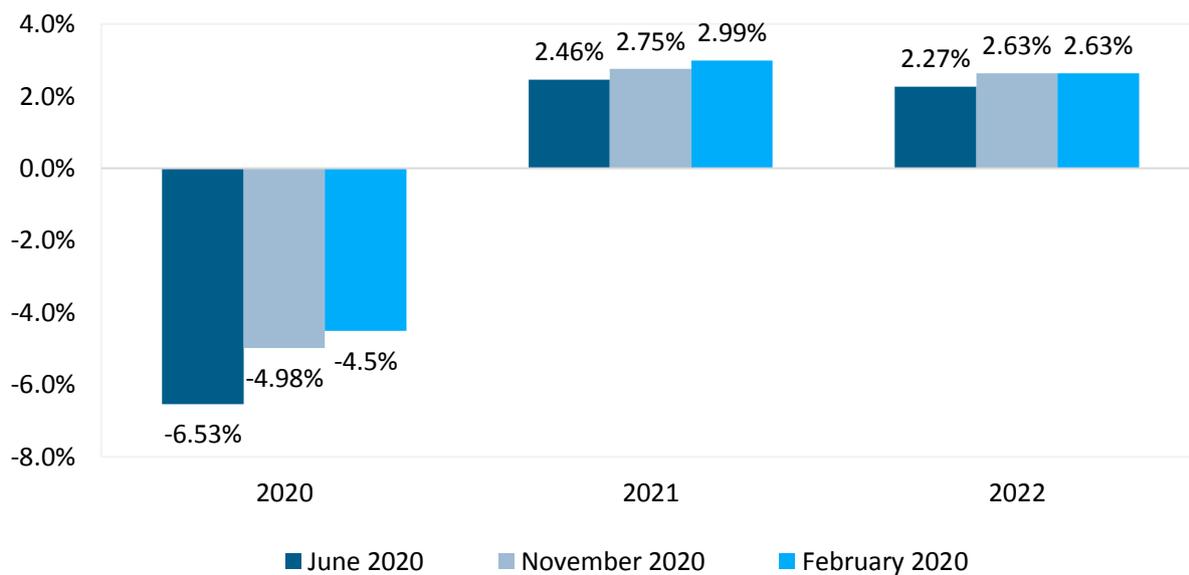
Source: FGV (Getúlio Vargas Foundation). Prepared by: IFI - Brazilian Independent Fiscal Institution.

1.2 Economic scenario update: 2020-2030

There is still a lot of uncertainty regarding the recovery of the economic activity. Since the November report, vaccines have been approved for use, and immunization programs have been launched in several countries—a major factor driving the economic recovery. In Brazil, there is a slow vaccination process underway, and the risks of availability of new doses and of the efficacy in relation to the new strains of the virus, which are more contagious—in an environment marked by the acceleration of the number of cases and deaths—may limit the prospect of an upturn in the economy in the quarters ahead.

The expectation for GDP growth in 2021 is 3.0%. After a contraction estimated at 4.5% in 2020, the Brazilian economy is expected to grow 3.0% in 2021 (0.2 percentage point above the estimate presented in the November report) and 2.6% in 2022 (Chart 4). The GDP is likely to decline in the first quarter (the preliminary projection is -0.2% in relation to the previous quarter, in the seasonally adjusted series), impacted by the effects of the second wave of the pandemic on the consumption of goods and services, and the end of the emergency aid granting period.

CHART 4. ANNUAL GDP CHANGE RATE BY VOLUME BY RAF PUBLISHING DATE

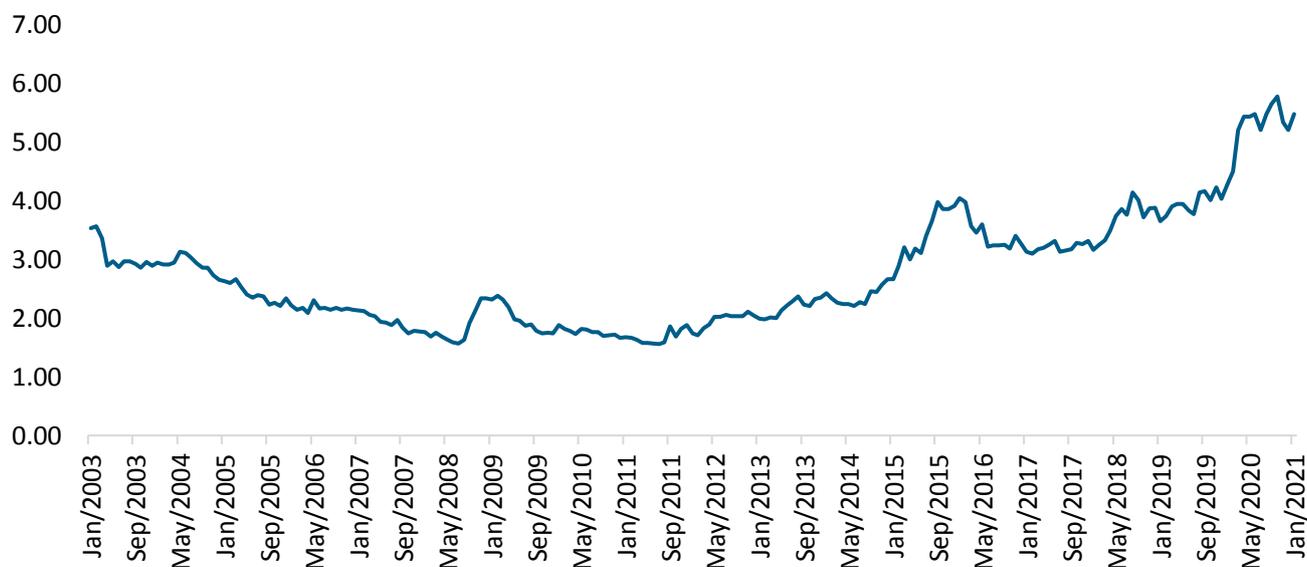


Source: IBGE and IFI. Prepared by: IFI - Brazilian Independent Fiscal Institution.

The effect on the 2021 GDP of putting the emergency aid in place again will be lower. The boost in economic activity derived from the re-creation of financial assistance to the vulnerable portion of the population (an estimated expense of BRL34.2bn, which will be paid in four monthly installments in the amount of BRL250.00—as will be seen in the section Scenarios for the Union expenditure), in the second and third quarters, in turn, will be much lower than it was last year (which was approximately 4% of GDP).

Expectations for the IPCA change in the baseline scenario were revised from 3.1% to 3.6% in 2021. The change in the projection for the inflation rate measured by the IPCA in 2021 is due to the persistence of a more pressured inflationary scenario in the short term, which has been caused, among other factors, by the transfer of the depreciation of the Real (BRL) to the prices of tradable goods and by the surge of international commodity prices. The exchange rate (Chart 5), which went from BRL4.03/USD in 2019 to BRL5.20/USD in 2020 (depreciation of almost 30%), reached the level of BRL5.48/USD in January 2021, reflecting, to a certain extent, the risk of worsening the fiscal trajectory.

CHART 5. EXCHANGE RATE (BRL/USD)



Source: Central Bank of Brazil. Prepared by: IFI - Brazilian Independent Fiscal Institution.

The basic interest rate is expected to reach 3.5% per year at the end of 2021. The deterioration of the inflation scenario should cause the monetary policy to reduce part of the stimulus provided in 2020, bringing the basic interest rate to 3.5% per annum (p.a.) at the end of the year. At its last meeting, Copom maintained the Selic rate at 2.0% p.a., but paved the way for a possible interest increase sometime in 2021 in order to ensure that the inflation target is met.

In the medium term, the average product growth is 2.3% and the real interest rate is 3.4% per year. From the moment the economy's idleness (measured by the output gap) is eliminated (which should occur at the end of 2024, in the baseline scenario), GDP growth follows potential growth (2.3%) and inflation is projected to stay within the target defined by the National Monetary Council (3.25%). We estimate that the interest rate in real terms will stabilize at around 3.5% per year (average from 2023 to 2030), with the nominal Selic rate rising to approximately 7.0%.

The forecast for the deflator is the rate of change of the IPCA plus 0.57 percentage points (pp) over the projections horizon. In the horizon of projections of the macro-fiscal scenario, the hypotheses are made that (i) the average difference between the change rates of the household consumption deflator and the IPCA, historically observed, will remain stable in the coming years; (ii) the government consumption deflator and the deflator of gross fixed capital formation (FBCF, in the original acronym) to grow in line with the IPCA; and (iii) the exports deflator to grow in line with the imports deflator (which implies a neutral scenario for the evolution of the terms of trade). Thus, the forecast for the deflator is the rate of change of the IPCA plus 0.57 percentage point.

The combination of volume and price effects on GDP is expected to result in a 7.3% change in nominal GDP in 2021 (from BRL7.387 to BRL7.926 trillion). Between 2023 and 2030, the pace of nominal GDP growth in the baseline scenario is expected to stabilize at around 6.0%.

Table 1 summarizes IFI's macroeconomic projections for the baseline and alternative scenarios. The objective of keeping three scenarios up-to-date is to highlight the degree of uncertainty of the projections, as well as their dependence on different configurations of the scenario.

TABLE 1. MACROECONOMIC PROJECTIONS (2020-2030): LATEST X PREVIOUS VERSION (RAF FEV/21 X RAF NOV/20)

	Baseline scenario				Optimistic scenario				Pessimistic scenario			
	2020	2021	2022	2023-2030	2020	2021	2022	2023-2030	2020	2021	2022	2023-2030
a. Current Version												
Nominal GDP (BRL billion)	7,387	7,926	8,458	11,166	7,387	7,972	8,535	11,789	7,387	7,904	8,366	11,042
GDP - Real rate of change (%)	-4.5	3.0	2.6	2.3	-4.5	4.0	3.2	3.5	-4.5	2.4	1.3	1.3
IPCA [Consumer Price Index] (%)	4.5	3.6	3.4	3.2	4.5	3.2	3.2	3.0	4.5	3.9	4.0	4.3
Unemployment Rate (%)	13.5	14.5	13.8	12.1	13.5	14.3	13.5	11.9	13.5	14.7	14.4	13.1
Employment – Real Growth	-7.8	2.0	1.7	0.9	-7.8	2.3	1.9	1.2	-7.8	1.8	1.4	0.8
Risk premium - Embi (end of period)	260	300	300	300	260	225	225	225	260	350	350	350
Exchange Rate BRL/USD (end of period)	5.20	5.27	5.21	5.13	5.20	4.80	4.79	4.80	5.20	5.47	5.62	6.27
Real Interest Rate (%)	-2.4	-0.1	1.1	3.4	-2.4	-0.4	1.0	2.8	-2.4	-0.2	1.2	5.0
Selic (%)	2.00	3.50	4.50	6.7	2.00	2.75	4.25	5.9	2.0	3.8	5.3	9.4
b. Previous Version												
Nominal GDP (BRL billion)	7,139	7,607	8,114	10,876	7,188	7,735	8,319	11,661	7,115	7,584	8,103	8,610
GDP - Real rate of change (%)	-5.0	2.8	2.6	2.3	-4.2	3.7	3.6	3.5	-5.5	1.8	1.9	1.3
IPCA [Consumer Price Index] (%)	3.0	3.1	3.4	3.5	2.9	3.2	3.3	3.2	3.1	4.2	4.2	4.5
Unemployment Rate (%)	13.5	16.1	15.2	13.0	13.3	15.3	14.0	12.7	13.9	16.9	16.0	13.3
Employment – Real Growth	-8.8	1.8	0.9	0.8	-8.5	2.4	1.2	1.0	-9.2	1.2	0.7	0.6
Risk premium - Embi (end of period)	320	300	300	300	300	275	225	225	343	375	350	350
Exchange Rate BRL/USD (end of period)	5.55	5.37	5.31	5.19	5.40	5.20	4.83	4.80	5.70	5.70	5.73	6.45
Real Interest Rate (%)	-0.9	-0.6	0.1	3.0	-0.9	-0.4	0.2	2.4	-1.1	0.8	2.6	5.1
Selic (%)	2.00	2.50	3.50	6.6	2.00	2.75	3.50	5.7	2.00	5.00	7.00	9.7

Source: IFI – Brazilian Independent Fiscal Institution.

Optimistic Scenario. In the optimistic scenario, the mitigation of uncertainties resulting from the pandemic crisis would alleviate the traumatic effects on the labor market, boosting the economy in 2021. Between 2023 and 2030, the average GDP growth rate is 3.5% and the real interest rate converges to a level of 2.8% per year.

Pessimistic Scenario. The intensification of the scenario of uncertainties generated by the pandemic and the consequent worsening of the fiscal situation could result in further deterioration in the prices of financial assets and inflation expectations, which would require a more significant adjustment in monetary policy. The pessimistic scenario, in this sense, is marked by a much slower recovery from the crisis. Between 2023 and 2030, the average GDP growth rate is 1.3% and the real interest rate converges to a higher level, around 5.0% per year.

2. FISCAL SCENARIOS

2.1 Scenarios for total revenue, transfers and net revenue

2.1.1 Initial considerations

Collection of taxes depends directly on the behavior of economic activity. There is a direct relationship between tax collection and the behavior of economic activity. The higher the GDP, the greater the tax collection tends to be. This response of tax revenues to the GDP boost, however, depends on the composition of the economic expansion due to the structure of the tax system.

Revenue responsiveness to GDP fluctuates around 1, but it can vary due to other factors. In general, the responsiveness of government revenues to GDP, or the revenue-GDP elasticity, is close to unity. However, the elasticity

value may vary depending on the revenue nature (if collected by the Federal Revenue Office, if it derives from social security, or if not collected by the Federal Revenue Office), the economic cycle, and the occurrence of extraordinary events.

IFI exercise suggests that there has been a change in the responsiveness of revenue to GDP in recent years. Technical Note 19³, published by IFI in August 2018, presented some exercises to estimate the revenue-GDP elasticity in Brazil, separating the short- and long-term horizons. In general, when taking into consideration the limitation of some methodologies used and the sensitivity of the results to the specification employed in the models, the estimates we found suggest that there has been a reduction in the long-term revenue-GDP elasticity in recent years, as well as the maintenance of the magnitude of the short-term response.

Continued growth in the economy tends to increase the response of revenue to GDP. The responsiveness of revenues in relation to GDP may increase in periods of continued economic growth, which would encourage an increase in the formalization of economy and, therefore, of tax base. In periods of low growth or GDP shrinkage, in turn, the tax base may decrease, affecting the elasticities of tax collection to movements of the economic activity. IFI scenarios consider unit value for the elasticity of revenue-GDP if the collection is responsive to economic activity, as is the case of revenues collected by the Federal Revenue Office and social security revenues (collections to the National Social Security Institute - INSS).

Revision in past values of GDP was one of the factors that motivated changes in the projection of revenues. The update of IFI fiscal revenue projections for the horizon from 2021 to 2030 takes into account some factors. The first was the upward revision, promoted by IBGE, last December, of the values of the series comprising the System of Quarterly National Accounts for 2018, 2019, and the first three quarters of 2020. This topic was discussed in the January edition of this Fiscal Follow-up Report (RAF)⁴.

As a comparison, the review promoted by IBGE should raise the nominal GDP of 2020 by about BRL200bn, according to IFI's calculations. In 2021, the difference between the projection presented in the November RAF and that of this report would be around BRL400bn.

The second factor influencing the revision in the revenue projection was inflation, since the projection of the implicit GDP deflator depends on the behavior of prices. The second factor was the increase in inflation in the second half of 2020, which caused an increase in inflationary expectations for 2021 and 2022. The revisions of the IPCA affect the projections of the implicit GDP deflator, which in turn alters the projections of nominal GDP. It is worth mentioning that, in the projection horizon presented in this review of scenarios (2021-2030), there was no change in the projection of the potential GDP of the Brazilian economy.

A smaller drop projected for real GDP in 2020 also led to a revision of the revenue projection. The third factor that motivated the revision (upward) of the revenue projections was the smaller drop that should be recorded in the 2020 GDP, which affects the projected values from 2021 onwards.

The last factor to influence the revision of revenue projections, from 2023 on, was the downward shift in the inflation target. Finally, the fourth factor to explain the change in fiscal revenue projections, starting in 2023, concerns

³ Link to access the document: https://www2.senado.leg.br/bdsf/bitstream/handle/id/545264/NT_Elasticidade.pdf.

⁴ https://www2.senado.leg.br/bdsf/bitstream/handle/id/583296/RAF48_IAN2021.pdf.

the definition, by the National Monetary Council (CMN), of the inflation target for that year, which was set at 3.25%. This target, lower than the one established for 2022 (3.5%), also affects the expectation for the implicit GDP deflator.

The combination of the aforementioned factors produced higher values in the projections of fiscal revenues for the period from 2021 to 2030.

Tax bases will undergo gradual recovery, starting in 2021, after the fall registered in 2020. Even though revenue growth follows the new path of nominal GDP, as a proportion of GDP, the increase in the current revision was smaller, compared to the revision of November 2020. This is because it was assumed, for the beginning of the projection period, that the recovery of the tax bases, after the reduction verified in 2020, would occur gradually, as the projected economic growth is consolidated. In the review published last November, it was assumed that, as early as 2021, the revenue/GDP ratio would return to the levels observed before the pandemic. It was a very strong hypothesis, and it has been revised now.

Uncertainties regarding the recovery of activity, in 2021, limit expectations for revenue performance. It was assumed that the recovery of tax bases will not be immediate, considering (i) the uncertainties present in the economic context, arising mainly from the slow advance of the immunization of the Brazilian population; and (ii) the possibility that an eventual third wave of contamination by the virus would cause the need for new measures of social isolation, which would have an impact on the economy.

In the past reviews of scenarios, a factor that helped explain this recovery of the tax bases was the hypothesis assumed in relation to the payment of deferred taxes in the second quarter of 2020, which would occur from 2021 on. According to information released by the Federal Revenue Office (RFB, in the original acronym), 75% of the taxes deferred due to the pandemic (PIS/PASEP, COFINS, and Employer's Contribution) were paid last year (BRL56.0bn of an amount of BRL74.8bn).

Of the deferred taxes in 2020, BRL18.8bn remain to be paid, an amount that must be paid this year, according to the baseline and optimistic scenarios. As will be explained later, of the BRL18.8bn of deferrals that remain to be paid, IFI forecasts, in the baseline and optimistic scenarios, the return of this amount in 2021. In the pessimistic scenario, this return would be made in two stages: half, in 2021, and the other half, in 2022.

Scenarios provide for the maintenance of the current tax structure, with no increase in burden in the coming years. A hypothesis underlying the scenarios for fiscal revenues is to maintain the tax burden at current levels, without profound changes in tax rates or bases. Naturally, it is an instrument that can be used by the government at some point to improve the trajectory of the primary balance more quickly. The inclusion of an eventual increase of the tax burden in the scenarios can be carried out in the future if the government desires.

Reduction of federal taxes on diesel fuel and cooking gas is expected to have an impact of around BRL4bn on revenue. Finally, it is worth noting that the recently announced reduction in federal taxes levied on diesel fuel, cooking gas, and biodiesel, for two months in principle, should generate an impact in the order of BRL3.5bn to BRL4.0bn on the public treasury. The Federal Revenue Office intends to compensate for this loss of revenue with other sources of revenue. In any case, IFI chose not to incorporate this measure in the current review of fiscal scenarios, which can be done in the next review, scheduled for May 2021.

2.1.2 Revenue projections for 2021

In the current revision of projections, the total primary revenue of the central government is expected to increase by BRL25.1bn, to BRL1,635.8 bn, in 2021. A comparison of the projections carried out by IFI for the 2021 central government revenue, in different reviews of scenarios, is shown in Table 2. The moments when the projections were updated were November 2019, November 2020, and February 2021. In the current review, in the baseline scenario, primary revenue would reach BRL1,635.8 bn in 2021, an amount of BRL25.1bn higher than projected last November. This increase would come from an improvement in projections of revenues collected by the Federal Revenue Office and net revenue collection for the RGPS, since the projection for revenues not collected by the Federal Revenue Office was kept unchanged.

Change in the projection stems from revisions to past GDP values, rising inflation, and the smallest real drop projected for GDP in 2020. The increase in the 2021 revenue projection (+ BRL25.1bn) was due to, as explained in the introductory part of this section, (i) the upward revision in the nominal GDP values of 2018, 2019, and the first three quarters 2020; (ii) the acceleration of consumer prices, which affect the projections of the implicit GDP deflator; and (iii) the smaller expected contraction of real GDP for 2020. In these conditions, the projection for nominal GDP growth in 2021 went from 6.6% in November to 7.3% in February 2021.

Projection for revenues not collected by the Federal Revenue Office was maintained, in nominal terms. IFI's projection for revenues not collected by the Federal Revenue Office in 2021 has not changed, in view of the absence of events that would justify any change. For example, despite the recent increase in the price of oil in the international market to over USD60 per barrel, the current average price assumption of USD 50 per barrel was maintained in 2021. This, combined with the expectation of an average exchange rate BRL/USD of 5.23, in the year, should generate around BRL55bn in revenues of royalties and participation of the central government. This revenue fits the heading "exploitation of natural resources" in the classification adopted by the National Treasury Secretariat.

Another factor that could motivate changes in the projection of revenues collected by the Federal Revenue Office would be the increase in the contribution of public employees, during the social welfare reform. However, in IFI's understanding, the projection of the item "social security of public employee" was already well prepared to consider this effect.

In the baseline scenario, IFI's projection is the central government's net revenue to be BRL1,333.3bn in 2021. IFI's new projection for the central government net revenue, in 2021, is BRL1,333.3bn, representing an increase of BRL22.1bn compared to the projection of November, when it was estimated an increase in nominal GDP of 6.6% in 2021. As mentioned above, IFI's new projection for nominal GDP growth in 2021 is up 7.3%.

The upward revision in the projection of net revenue, of 2021, was due to the increase in the projection of primary revenue, by BRL25bn. The increase in the projection of net revenue for 2021 stems from the upward revision in total primary revenue, by BRL25.1bn, as well as the change in the projection of transfers by revenue sharing, by BRL3.0bn, between the November review and that of this report. It is worth mentioning that the projection of government transfers is a function of the revenues collected by the Federal Revenue Office.

TABLE 2. COMPARISON OF IFI PROJECTIONS FOR THE COLLECTION OF THE CENTRAL GOVERNMENT IN 2021 IN THE SCENARIO REVIEWS OF NOVEMBER 2019, NOVEMBER 2020, AND FEBRUARY 2021

BASELINE SCENARIO: 2021 (BRL million)	Nov/19 Review	Nov/20 Review	Feb/21 Review	Dif. Feb/21- Nov/20
1. Total Primary Revenue	1,606,627.2	1,610,746.0	1,635,861.7	25,115.7
Revenue collected by RFB/ME, except RGPS and without fiscal benefits	995,947.9	992,691.7	1,007,006.1	14,314.4
Net Collection for the General Social Security System (RGPS, in the original acronym)	442,115.4	435,691.5	446,492.9	10,801.3
Revenues not collected by RFB/ME	168,564.0	182,362.7	182,362.7	0.0
2. Transfers by Revenue Sharing	271,530.9	299,547.5	302,570.5	3,023.0
3. Revenues Net of Transfers [(1)-(2)]	1,335,096.3	1,311,198.5	1,333,291.2	22,092.7
OPTIMISTIC SCENARIO: 2021 (BRL million)	Nov/19 Review	Nov/20 Review	Feb/21 Review	Dif. Feb/21- Nov/20
1. Total Primary Revenue	1,613,579.7	1,664,531.7	1,674,400.4	9,868.7
Revenue collected by RFB/ME, except RGPS and without fiscal benefits	995,940.9	1,015,917.5	1,022,432.2	6,514.7
Net Collection for the General Social Security System (RGPS, in the original acronym)	448,521.8	447,836.0	451,190.0	3,354.0
Revenues not collected by RFB/ME	169,116.9	200,778.2	200,778.2	0.0
2. Transfers by Revenue Sharing	272,706.7	306,555.9	307,205.5	649.6
3. Revenues Net of Transfers [(1)-(2)]	1,340,873.0	1,357,975.8	1,367,194.9	9,219.1
PESSIMISTIC SCENARIO: 2021 (BRL million)	Nov/19 Review	Nov/20 Review	Feb/21 Review	Dif. Feb/21- Nov/20
1. Total Primary Revenue	1,606,339.5	1,575,334.1	1,593,122.0	17,787.9
Revenue collected by RFB/ME, except RGPS and without fiscal benefits	995,161.6	986,506.5	994,855.7	8,349.2
Net Collection for the General Social Security System (RGPS, in the original acronym)	448,144.6	431,990.6	441,429.2	9,438.7
Revenues not collected by RFB/ME	163,033.3	156,837.0	156,837.0	0.0
2. Transfers by Revenue Sharing	271,530.9	297,681.1	298,919.7	1,238.7
3. Revenues Net of Transfers [(1)-(2)]	1,334,808.5	1,277,653.0	1,294,202.3	16,549.3

Source: National Treasury Secretariat Prepared by: IFI - Brazilian Independent Fiscal Institution.

2.1.3 Revenue projections for the period 2021-2030

Table 3 presents, in summary, a comparison between the projections of the total primary revenue and the net revenue of the central government, as proportions of GDP, as well as the real growth of the economy and nominal GDP, for the scenario reviews carried out in November 2019, November 2020, and February 2021, over a 10-year horizon.

As a proportion of GDP, IFI's projection for total primary revenue in 2021 is 20.6%. According to Table 3, in IFI's baseline scenario, updated in February 2021, total primary revenue would reach 20.6% of GDP this year, in comparison with 21.2% in the expectation of last November, and 21.1% in the expectation of November 2019. IFI's projection for real economic growth in 2021 has been marginally changed from 2.8%, in the last review, to 3.0% now.

TABLE 3. REVENUE (% OF GDP) AND GDP PROJECTIONS IN IFI BASELINE SCENARIO, AND COMPARISON BETWEEN THE REVIEWS CARRIED OUT IN NOVEMBER 2019, NOVEMBER 2020, AND FEBRUARY 2021

Total Revenue – % GDP	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
February/2021 Scenario	20.6	20.8	20.9	21.1	21.2	21.2	21.2	21.2	21.2	21.2
November/2020 Scenario	21.2	21.2	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
November/2019 Scenario	21.1	21.3	21.1	21.1	21.0	20.9	20.9	20.9	20.9	20.8
Net Revenue - % GDP	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
February/2021 Scenario	16.8	16.9	17.0	17.1	17.2	17.2	17.2	17.2	17.2	17.2
November/2020 Scenario	17.2	17.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
November/2019 Scenario	17.5	17.7	17.5	17.5	17.4	17.4	17.3	17.3	17.3	17.3
GDP - Real Growth (%)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
February/2021 Scenario	3.0	2.6	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
November/2020 Scenario	2.8	2.6	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
November/2019 Scenario	2.5	2.5	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.4
Nominal GDP - BRL bn	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
February/2021 Scenario	7,926	8,458	8,971	9,515	10,105	10,732	11,397	12,104	12,855	13,652
November/2020 Scenario	7,607	8,114	8,634	9,196	9,794	10,430	11,108	11,830	12,599	13,418
November/2019 Scenario	8,124	8,659	9,206	9,792	10,416	11,084	11,798	12,560	13,377	14,252

Source: IBGE, National Treasury Secretariat and Central Bank of Brazil. Prepared by: IFI - Brazilian Independent Fiscal Institution.

Hypothesis considered by IFI foresees a gradual recovery of revenues in the coming years, after the fall registered in some tax bases, in 2020. The change in the revenue trajectory (total and net) during the projection horizon (2021-2030) occurred, as explained in the initial considerations of this section, due to the hypothesis assumed in this scenario review, unlike the previous reviews, that the collection bases will be recovered gradually from 2021 on.

This hypothesis seems more plausible, considering the great idleness of production resources (capital and labor) that occurred in the pandemic, as well as the recovery of the economy in a concentrated manner in some sectors of activity, such as industry and retail.

Net revenue, in proportion to GDP, is expected to converge to 17.2% during the projection horizon between 2021 and 2030. In the case of the central government net revenue, the expectation is for a recovery, as a proportion of GDP, to the level of 17.2% by the middle of the present decade, the same level of 2019, in the lack of the BRL70bn collected in December that year, as extraordinary revenue with the revision of the onerous transfer contract between the Union and Petrobras. As an example, net revenue in 2019 was 18.2% of GDP.

Tables 4, 5, and 6 show the projections of total gross revenue and its components (revenue collected by the Federal Revenue Office, RGPS, and revenues not collected by the Federal Revenue Office), in addition to projections for transfers to subnational entities and for net revenue in the baseline, optimistic, and pessimistic scenarios, in the period from 2021 to 2030.

Continued growth of the economy creates conditions for the increase of tax bases. In relation to revenues collected by the Federal Revenue Office, the new baseline and optimistic scenarios foresee a gradual resumption of collection from 2021, as the economy's growth converges again to rates of around 2.3% (baseline scenario) and 3.5% (optimistic). The maintenance of continued real GDP growth will allow for a recovery of the tax bases of various taxes, which may eventually increase, for a certain time, the elasticities of government revenues.

In the pessimistic scenario, GDP is expected to grow at a rate of 1.3% per annum starting in 2022. The projections for the pessimistic scenario have also improved in the current review. If, before, there was an increase of 1.8% of the GDP in 2021, now, the projection foresees an increase of 2.4%. As of 2022, however, this rate would stabilize at 1.3% per annum. However, this improvement in projections for GDP in the pessimistic scenario influences the trajectory of the revenues collected by the Federal Revenue Office in this scenario, thus carrying implications for the trajectory of the primary balance, as we will examine in the following sections.

TABLE 4. IFI PROJECTIONS IN THE BASELINE SCENARIO - BRL BILLION

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	1,467.8	1,635.9	1,761.6	1,878.4	2,003.2	2,139.5	2,271.7	2,416.6	2,567.5	2,728.2	2,896.9
Revenues Collected by the Federal Revenue Office, except RGPS	899.5	1,007.0	1,094.8	1,172.8	1,256.3	1,347.6	1,432.6	1,527.5	1,625.5	1,729.8	1,838.9
Net Collection for the General Social Security System (RGPS, in the original acronym)	404.8	446.5	472.2	498.6	526.5	557.2	589.1	622.8	658.4	696.5	736.3
Revenues Not Collected by the Federal Revenue Office	163.6	182.4	194.5	207.0	220.4	234.8	250.0	266.3	283.6	302.0	321.6
Transfers by Revenue Sharing	263.8	302.6	329.0	352.4	377.5	404.9	430.4	459.0	488.4	519.7	552.5
Net Revenue	1,203.9	1,333.3	1,432.6	1,526.0	1,625.7	1,734.6	1,841.2	1,957.6	2,079.1	2,208.5	2,344.3

Source: National Treasury Secretariat Prepared by: IFI - Brazilian Independent Fiscal Institution.

TABLE 5. IFI PROJECTIONS IN THE OPTIMISTIC SCENARIO - BRL BILLION

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	1,467.8	1,674.4	1,814.9	1,966.7	2,130.2	2,314.2	2,506.6	2,705.1	2,915.8	3,143.0	3,385.9
Revenues Collected by the Federal Revenue Office, except RGPS	899.5	1,022.4	1,115.4	1,210.4	1,310.6	1,426.1	1,544.2	1,662.1	1,785.4	1,917.9	2,058.2
Net Collection for the General Social Security System (RGPS, in the original acronym)	404.8	451.2	483.6	524.4	570.3	620.2	674.5	733.5	797.6	867.4	943.3
Revenues Not Collected by the Federal Revenue Office	163.6	200.8	215.9	231.9	249.3	267.9	288.0	309.5	332.7	357.6	384.4
Transfers by Revenue Sharing	263.8	307.2	335.1	363.7	393.8	428.5	464.0	499.4	536.5	576.3	618.4
Net Revenue	1,203.9	1,367.2	1,479.8	1,603.1	1,736.4	1,885.8	2,042.7	2,205.7	2,379.3	2,566.7	2,767.5

Source: National Treasury Secretariat Prepared by: IFI - Brazilian Independent Fiscal Institution.

TABLE 6. IFI PROJECTIONS IN THE PESSIMISTIC SCENARIO - BRL BILLION

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	1,467.8	1,593.1	1,707.8	1,802.4	1,909.4	2,031.4	2,155.7	2,292.3	2,434.7	2,587.6	2,748.4
Revenues Collected by the Federal Revenue Office, except RGPS	899.5	994.9	1,075.7	1,138.1	1,207.1	1,288.2	1,368.7	1,458.9	1,552.0	1,652.7	1,758.1
Net Collection for the General Social Security System (RGPS, in the original acronym)	404.8	441.4	464.5	486.2	512.9	541.6	572.4	605.0	639.4	675.9	714.3
Revenues Not Collected by the Federal Revenue Office	163.6	156.8	167.6	178.0	189.4	201.6	214.6	228.5	243.3	259.1	276.0
Transfers by Revenue Sharing	263.8	298.9	323.2	342.0	362.7	387.1	411.3	438.4	466.3	496.6	528.2
Net Revenue	1,203.9	1,294.2	1,384.6	1,460.4	1,546.7	1,644.4	1,744.4	1,854.0	1,968.4	2,091.1	2,220.2

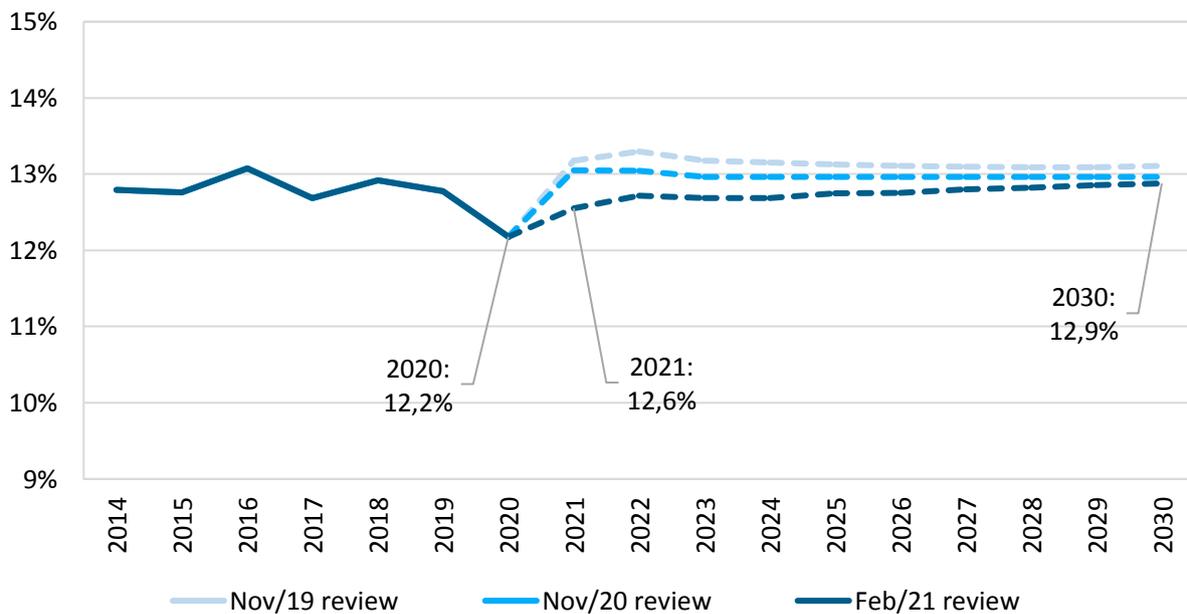
Source: National Treasury Secretariat Prepared by: IFI - Brazilian Independent Fiscal Institution.

In the baseline scenario, IFI’s projection foresees, for revenues collected by the Federal Revenue Office, an average level of 12.8% of GDP between 2021 and 2030. Chart 6 shows the trajectories foreseen by IFI for the revenues of the central government collected by the Federal Revenue Office in the baseline scenario, except for RGPS revenues, as a proportion of GDP, between 2021 and 2030. On average for the period, revenues collected by the Federal Revenue Office would correspond to 12.8% of GDP in the current revision of the projections.

In 2020, the most substantial reduction in revenues collected by the Federal Revenue Office, as a proportion of GDP, resulted from the weakening of economic activity, tax deferrals, and the occasional reduction in rates of some federal taxes, such as the IOF levied on credit operations.

The recovery of revenues collected by the Federal Revenue Office, starting in 2021, is expected to occur gradually due to the reasons already explained in this section. This recovery of revenues, as the expected growth for the economy is confirmed, should bring revenue to the levels observed in the years before the pandemic, between 12.8% and 13.0% of GDP. Higher levels could be achieved, for example, with an increase in potential GDP.

CHART 6. COMPARISON BETWEEN PROJECTIONS OF REVENUES COLLECTED BY THE FEDERAL REVENUE OFFICE/GDP - REVIEWS OF NOV/19, NOV/20, AND FEB/21, IN THE BASELINE SCENARIO

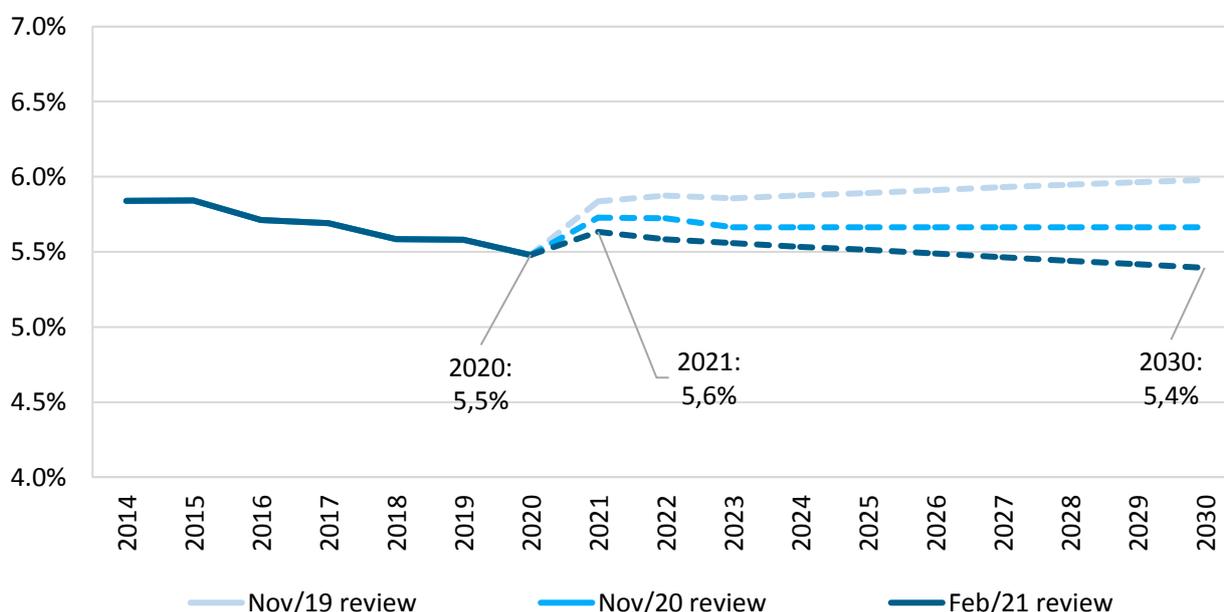


Source: National Treasury Secretariat and Central Bank. Prepared by: IFI - Brazilian Independent Fiscal Institution.

The baseline scenario does not include the recovery of RGPS revenues, as a proportion of GDP, in the coming years. Chart 7 contains the comparison between the projections for RGPS net revenues in the baseline scenario, carried out in the current reviews, from November 2019 and November 2020. As with revenues collected by the Federal Revenue Office, RGPS revenues declined in 2020, due to the drop in economic activity and the deferral of the collection of the

employer's contribution to Social Security. It is important to note that the reduction observed in recent years in this revenue, as a proportion of GDP, resulted from the reduction in the payroll of some sectors of economic activity.

CHART 7. COMPARISON BETWEEN RGPS/GDP REVENUE PROJECTIONS - REVIEWS OF NOV/19, NOV/20, AND FEB/21, IN THE BASELINE SCENARIO



Fonte: Secretaria do Tesouro Nacional e Banco Central. Source: National Treasury Secretariat and Central Bank. Prepared by: IFI - Brazilian Independent Fiscal Institution.

Uncertainties in relation to the materialization of some events suggest the maintenance of the collection for RGPS at levels close to the current ones. In the current review of scenarios, it was decided to consider that RGPS revenues will remain at levels between 5.4% and 5.6% of GDP, over the projection horizon, due to uncertainties regarding (i) the return of collections of employer's contributions on the payroll of sectors that are still exempted; and (ii) the possibility of a more comprehensive exemption being implemented.

Another important consideration to be made, which supports the hypothesis of non-recovery of RGPS revenues, as a proportion of GDP, between 2021 and 2030, concerns the possibility that the pandemic may have accelerated structural changes that had already been observed in labor relations. Such changes may have a permanent effect on social security revenues. Evidently, this type of hypothesis needs more in-depth studies, to be carried out in future moments, as more information becomes available.

Assumptions regarding the behavior of revenues not collected by the Federal Revenue Office were maintained. For the projection of revenues not collected by the Federal Revenue Office, the nominal values presented in the last scenario review, published in November 2020, were maintained. At that occasion, the premise that this collection will keep a relatively constant participation in GDP between 2021 and 2030 was considered. The participation degree varies according to the scenario. Despite the uncertainty regarding the collection of revenues not collected by the Federal

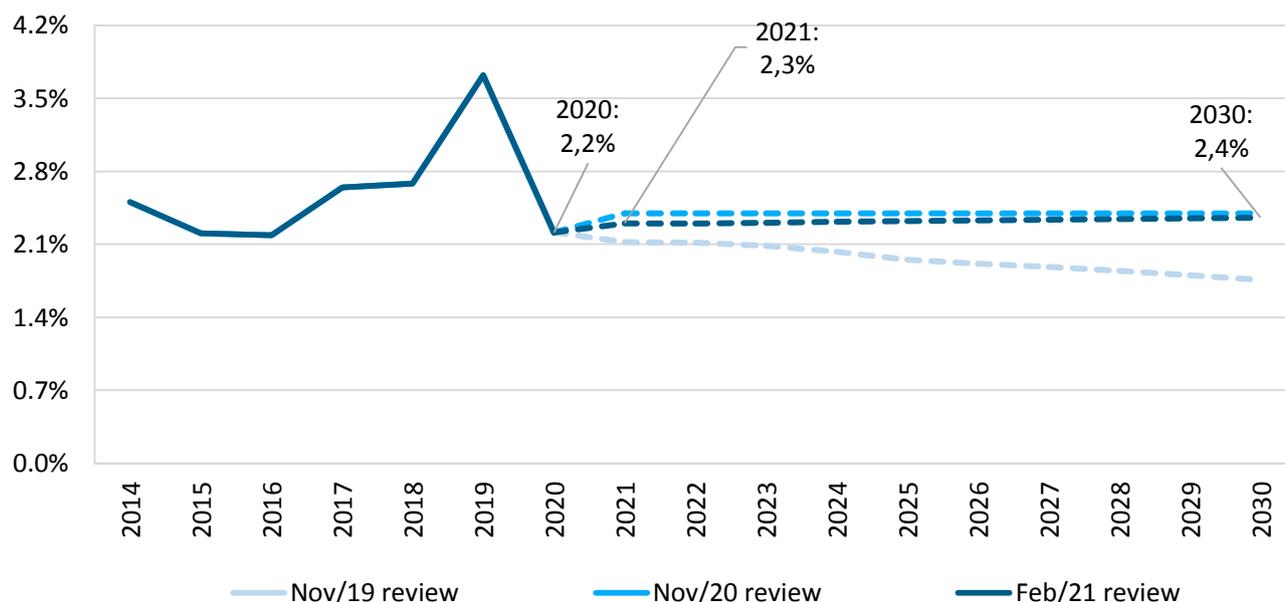
Revenue Office, IFI considered that the government will continue to make efforts to earn revenues from auctions and concessions of infrastructure assets, for example. In addition, the consolidation of a resumption of growth, albeit at a rate of less than 2.5% per year (2.3%, in IFI baseline scenario), should create a more favorable economic environment for increasing the collection of these revenues.

The assumptions for the scenarios of revenues not collected by the Federal Revenue Office are:

- baseline scenario: 90% of the average percentage of revenues not collected by the Federal Revenue Office collected between 2005 and 2018, which corresponded to 2.67% of GDP. Therefore, IFI has assumed that these revenues will correspond to 2.40% of GDP in the 2021-2030 horizon;
- optimistic scenario: 97% of the same percentage. Thus, it was considered that revenues not collected by the Federal Revenue Office will reach, between 2021 and 2030, 2.60% of GDP; and
- pessimistic scenario: revenues not collected by the Federal Revenue Office will represent 2.10% of the GDP, the equivalent of 79% of the 2.67% average recorded between 2005 and 2018.

Chart 8 compares the trajectories of the projections for revenues not collected by the Federal Revenue Office, as a proportion of GDP, referring to the current review and the ones of November 2019 and November 2020, all in the baseline scenario. As the nominal values of revenues not collected by the Federal Revenue Office were kept constant in the current review, in comparison with the review of last November, the values, as a proportion of GDP, were marginally different.

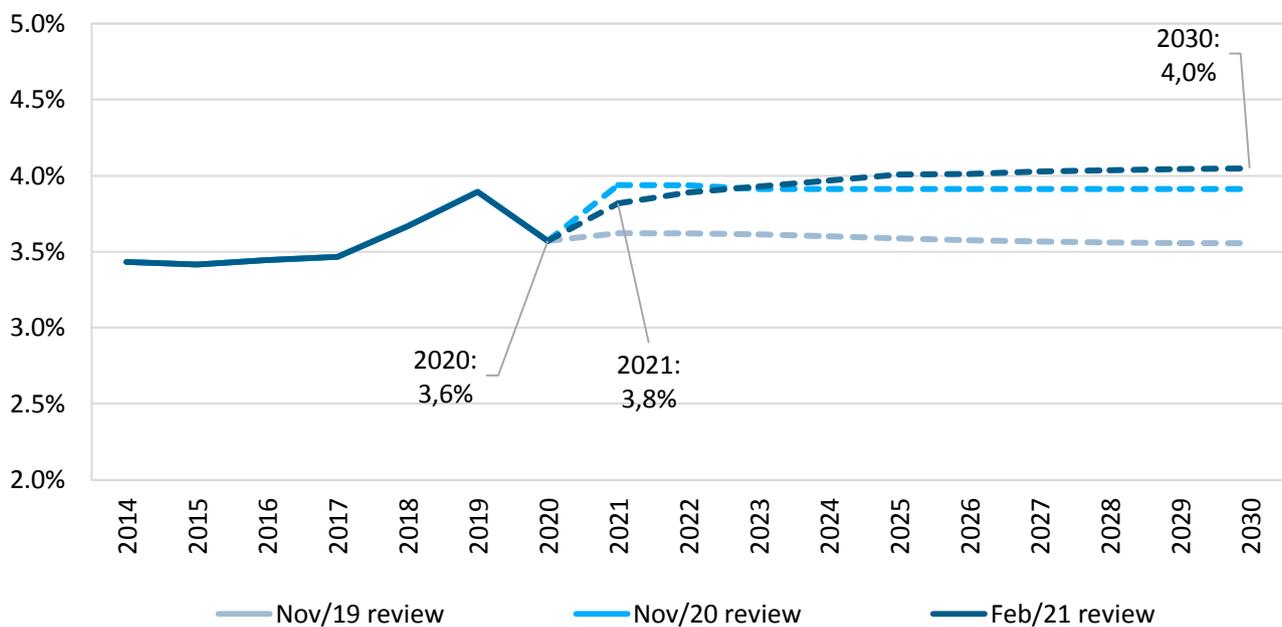
CHART 8. COMPARISON BETWEEN PROJECTIONS OF REVENUES NOT COLLECTED BY THE FEDERAL REVENUE OFFICE/GDP - REVIEWS OF NOV/19, NOV/20, AND FEB/21, IN THE BASELINE SCENARIO



Source: National Treasury Secretariat and Central Bank. Prepared by: IFI - Brazilian Independent Fiscal Institution.

Projection of Union transfers follows the trajectory of revenues collected by the Federal Revenue Office. The projections for transfers by revenue sharing are presented in Chart 9. In comparison to last November's review, it was assumed that transfers, after the decline observed in 2020 (as proportion of GDP), will recover in the coming years, in line with the projected scenario for revenues collected by the Federal Revenue Office. It was decided to link the projections of transfers from the Union to states and municipalities to the scenario of revenues collected by the Federal Revenue Office due to the lack of projections, for the time being, for the taxes on which the percentage of these transfers is levied.

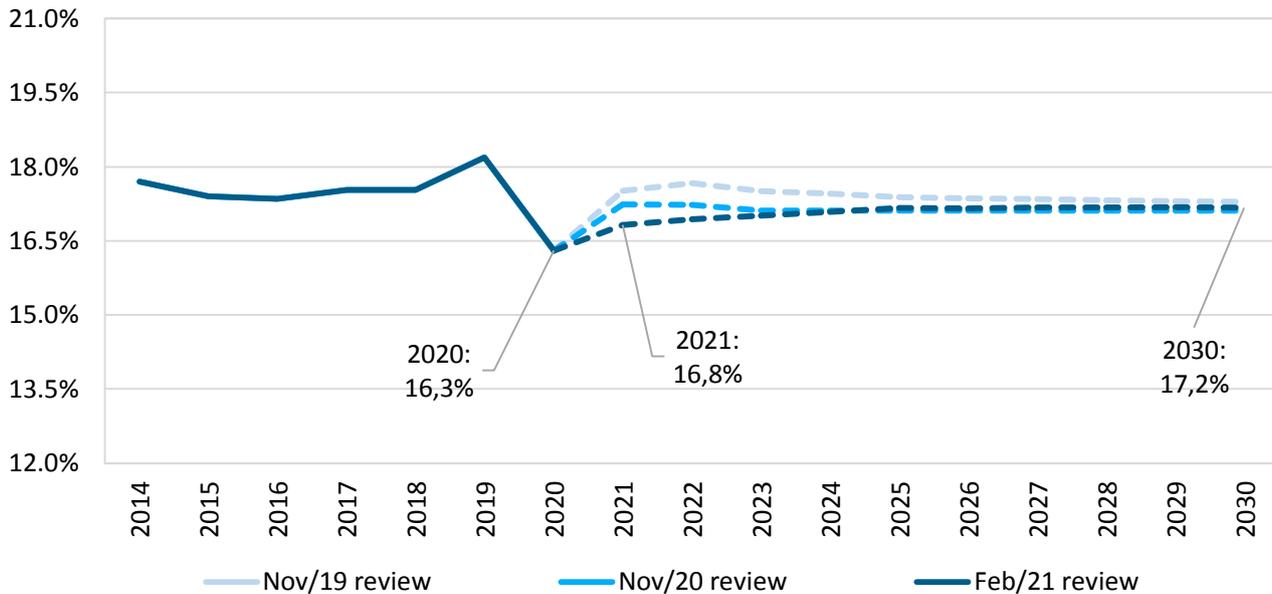
CHART 9. COMPARISON BETWEEN TRANSFERS/GDP PROJECTIONS - REVIEWS OF NOV/19, NOV/20, AND FEB/21 IN THE BASELINE SCENARIO



Source: National Treasury Secretariat and Central Bank. Prepared by: IFI - Brazilian Independent Fiscal Institution.

IFI's expectation is that net revenue, as a proportion of GDP, will return to the level of 17.2%, starting in 2025. Finally, Chart 10 shows the projection of net revenue for the period from 2021 to 2030. For the same reasons presented for the trajectories of revenues collected by the Federal Revenue Office and RGPS revenues, net revenue dropped to 16.3% of GDP in 2020. As of 2021, the recovery is expected to be gradual, in line with the expected movement for revenues collected by the Federal Revenue Office. This recovery of net revenue is expected to converge to the level of 17.2% of GDP, reached as of the middle of the present decade.

CHART 10. COMPARISON BETWEEN NET REVENUE/GDP PROJECTIONS - REVIEWS OF NOV/19, NOV/20, AND FEB/21 IN THE BASELINE SCENARIO



Source: National Treasury Secretariat and Central Bank. Prepared by: IFI - Brazilian Independent Fiscal Institution.

2.2 Scenarios for Union spending and the primary balance

2.2.1 Primary expenditure

In 2021, primary expenditure of the central government is expected to decline by BRL366.6bn, or 18.8% (Table 7). The contraction is due to spending on facing the pandemic. In 2020, it reached BRL520.9bn. For this year, IFI projects expenditures in the order of BRL64.2bn, already considering the probable extension of the emergency aid to vulnerable people. This prediction, however, retains a certain degree of uncertainty. In addition to the impossibility of specifying the extent of the pandemic and its effects on the economy, the format of the emergency aid remains uncertain. Later, we will detail the expenses with Covid-19 in IFI scenario. In proportion to GDP, the reduction of BRL366.6bn in total primary spending represents a decrease of 6.4 percentage points: from 26.4% in 2020 to 19.9% in 2021.

Disregarding the expenditure on Covid-19, primary expenditure keeps an upward trend. In the baseline scenario, primary expenditure is expected to grow 6.3% in 2021, reflecting the increase in the main items of mandatory spending, such as social security, personnel, and Continuous Cash Benefit Program (BPC, in the original acronym). Despite this, the pace of growth of these items has slowed over the past two years. As we will see later, this decrease in the pace of growth had a positive impact on the spending ceiling scenario. Discretionary spending, in turn, continues to decline. In 2020, it had reached its historical low as a percentage of GDP (1.5%). In 2021, our projection is BRL104.3bn or 1.3% of GDP.

TABLE 7. PRIMARY EXPENDITURE - BASELINE SCENARIO (BRL BILLION)

Breakdown	2020 Executed	2021 IFI's Forecast	Change	
			BRL bn	%
Primary Expenditure	1,947.0	1,580.4	-366.6	-18.8
Mandatory Spending	1,838.8	1,476.1	-362.7	-19.7
Social Security (RGPS)	663.9	704.5	40.6	6.1
Payroll	321.3	338.1	16.7	5.2
Salary Allowance and Unemployment Insurance	59.6	61.2	1.7	2.8
BPC [Continuous Cash Benefit Program]	62.7	66.9	4.3	6.8
<i>Bolsa Família</i> (Family Grant)	19.0	34.9	15.8	83.0
Other Mandatory Spending	712.3	270.5	-441.8	-62.0
Discretionary (Executive Branch)	108.2	104.3	-3.9	-3.6
<i>Note:</i>				
<i>Coping with Covid-19</i>	520.9	64.2	-456.7	-87.7
<i>Other</i>	1,426.1	1,516.2	90.1	6.3

Source: National Treasury (2020) and IFI (2021).

In comparison with the baseline scenario of November, the projection of primary expenses grew BRL51.0bn, or 3.3% (Table 8). The review mainly considers spending on Covid-19, which increased BRL54.2bn. In November, unlike the present review, IFI had chosen not to consider a possible extension of the emergency aid to vulnerable people in the projections. Also in the current set of projections, the estimates for social security and personnel have not been changed, since the executed, at the end of 2020 and beginning of 2021, indicates a performance very similar to that expected by IFI for this year. Discretionary spending, on the other hand, had to be revised downwards due to the need to meet the primary deficit target, which is BRL247.1bn.

The new scenario also incorporates BRL4.9bn as funds from the Federal Government to other subnational entities related to the Kandir Law (Supplementary Law No. 87/96). In December, Congress sanctioned Supplementary Law No. 176/2020, which provides for annual transfers of BRL4.0bn between 2020 and 2030. As the amount transferred in 2020 was BRL3.1bn, we chose to consider that the remaining amount, BRL900mi, would be paid together with the 2021 parcel, totaling BRL4.9bn.

TABLE 8. FEB/21 PROJECTIONS VERSUS NOV/20 PROJECTIONS FOR PRIMARY EXPENDITURE IN 2021 - BASELINE SCENARIO

Breakdown	Nov/20	Feb/21	Change	
			BRL bn	%
Primary Expenditure	1,529.4	1,580.4	51.0	3.3
Mandatory Spending	1,416.7	1,476.1	59.4	4.2
Social Security (RGPS)	704.5	704.5	0.0	0.0
Payroll	338.1	338.1	0.0	0.0
Salary Allowance and Unemployment Insurance	57.8	61.2	3.5	6.0
BPC [Continuous Cash Benefit Program]	66.9	66.9	0.0	0.0
<i>Bolsa Família</i> (Family Grant)	34.9	34.9	0.0	0.0
Other Mandatory Spending	214.6	270.5	55.9	26.1
Discretionary (Executive Branch)	112.7	104.3	-8.4	-7.4
<i>Note:</i>				
<i>Fight against Covid-19</i>	10.0	64.2	54.2	-87.7
<i>Other</i>	1,519.4	1,516.2	-3.2	-0.2

Source: IFI – Brazilian Independent Fiscal Institution.

Primary spending projected by IFI for 2021 is BRL31.0bn (or 2.0%) above that expected by the government (Table 9). With the delay in processing the PLOA, we chose to use, for comparison purposes, the projections contained in the Budget Guidelines Law (LDO, in the original acronym) sanctioned in December last year. LDO data have the advantage of being more recent, but they have the disadvantage of not being detailed. In any case, it is highly likely that the main difference between IFI's projections and those of the government, present in LDO, refers to the emergency aid to vulnerable people. While the government has not yet incorporated the benefit amount in its estimates, IFI started to consider in this review a total amount of BRL34.2bn in 2021 in the baseline scenario.

TABLE 9. IFI'S PROJECTION (BASELINE SCENARIO) X GOVERNMENT PROJECTION - BASELINE SCENARIO

Breakdown	Government (LDO/December)		IFI (February)		Difference	
	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP
Primary Expenditure	1,549.4	19.8	1,580.4	19.9	31.0	2.0
Social Security	710.4	9.1	704.5	8.9	-5.9	-0.8
Payroll	335.8	4.3	338.1	4.3	2.3	0.7
Other mandatory expenses*	248.1	3.2	281.3	3.5	33.2	13.4
Executive Branch expenses subject to financial programming	255.1	3.3	256.5	3.2	1.4	0.6
Mandatory with Flow Control	154.8	2.0	152.2	1.9	-2.6	-1.7
Discretionary*	100.3	1.3	104.3	1.3	4.0	4.0
<i>Nominal GDP</i>						
		7,811.4		7,926.21		

Source: LDO 2021 (Annex IV, Table 4) and IFI. * In the LDO Table, the primary contingency reserve that will be allocated, in the processing of PLOA, to be used for parliamentary amendments, in the amount of BRL16.3bn, is included in the line related to other mandatory expenses. As this amount will be mainly incorporated into the budget as discretionary expenses of the Executive Branch, in this table of the RAF it is included in the line related to the discretionary ones. In this way, the figure of LDO becomes comparable to that of IFI, given that in our scenarios what is projected are total discretionary expenses, including parliamentary amendments.

In the baseline scenario, spending on Covid-19 reaches BRL64.2bn in 2021 (Table 10). In the lack of detailed information about the measures that the government intends to adopt, we chose to consider only the expenses with the emergency aid to the vulnerable and vaccination, in addition to BRL10.0bn for other needs that should arise in the health sector. It is worth noting that the government already has authorized BRL37.6bn in outstanding liabilities or reopening of extraordinary credits from 2020. This does not mean, however, that this amount will be effectively paid in 2021, as any expenses will impact the achievement of the primary balance target and will compete with the other primary expenses, such as the emergency aid itself.

TABLE 10. COVID-19 EXPENSES - BASELINE SCENARIO (BRL BILLION)

Budget Item	2020 Executed	2021 IFI's Forecast	Change
Emergency Aid to Vulnerable People	293.1	34.2	- 259.0
Financial aid to subnational entities	78.2	-	- 78.2
Shares of operations and credit guarantee fund	58.1	-	- 58.1
Emergency Benefit for Employment and Income Maintenance	33.5	-	- 33.5
Vaccination	2.2	20.0	17.8
Other	55.8	10.0	- 45.8
Total	520.9	64.2	- 456.8

Source: National Treasury (2020) and IFI (2021).

Emergency aid to vulnerable people in 2021 could cost BRL34.2bn, less the amount of Bolsa Família (Family Grant—BF, in the original acronym). Table 11 estimates total expenditure on reestablishing the emergency aid payments to vulnerable people in 2021. In the baseline scenario, corresponding to an expense of BRL34.2bn, four monthly quotas would be paid in the amount of BRL 250.00, between March and June, for 45 million people. In the optimistic scenario, we reduced the number of individuals who would need the aid to 35 million, which would make the total expenditure of the program fall to BRL24.2bn. Finally, in the pessimistic scenario, we have increased the number of beneficiaries to 50 million, and we have extended the duration of payments to six months (therefore, from March to August). In this case, the total expenditure would be BRL58.7bn.

TABLE 11. ESTIMATED EXPENDITURE ON THE EMERGENCY AID TO VULNERABLES IN 2021

Assumptions	Scenario		
	Optimistic Scenario	Baseline Scenario	Pessimistic Scenario
Monthly quota value (BRL)	250	250	250
Number of monthly quotas	4	4	6
Number of beneficiaries (millions of people)	35	45	50
<i>Enrolled in Bolsa Família program</i>	19.2	19.2	19.2
<i>Not enrolled in Bolsa Família</i>	15.8	25.8	30.8
Monthly expenditure (BRL bn) [A]	8.8	11.3	12.5
Monthly amount that would be paid to <i>Bolsa Família</i> per month (BRL bn) [B]	2.7	2.7	2.7
Monthly expenditure, except for what would be paid to <i>Bolsa Família</i> (BRL bn) [C = A - B]	6.0	8.5	9.8
Total expenditure (BRL bn) [D]	35.0	45.0	75.0
Total amount that would be paid to <i>Bolsa Família</i> (BRL bn) [E]	10.8	10.8	16.3
Total expenditure, except for what would be paid to <i>Bolsa Família</i> (BRL bn) [F = D - E]	24.2	34.2	58.7

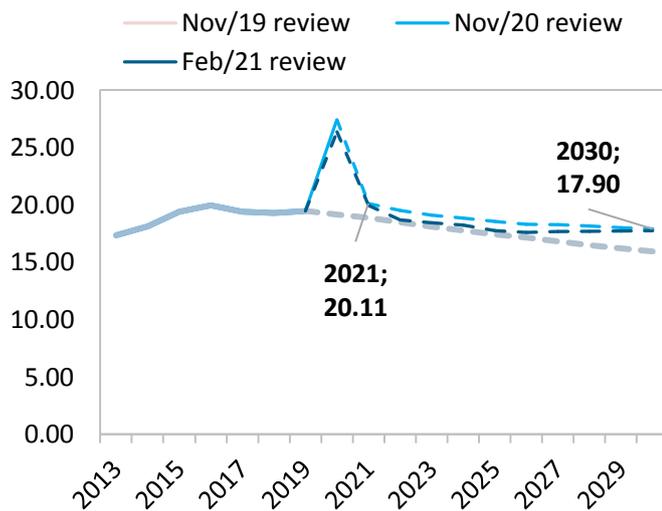
Source: IFI – Brazilian Independent Fiscal Institution. The information in line B was estimated based on data from the Secretariat for Evaluation and Management of Information (SAGI, in the original acronym), available at: <https://bit.ly/3dh4fv5>. See Note 2, below. Note 1: we do not consider double quota payments for women heads of single-parent households. As reported by the press, it is possible that in 2021 there will be no double quota, as there was in 2020. See, for example: <https://bit.ly/3arspKR>. Note 2: we consider that *Bolsa Família* beneficiaries who are eligible for the emergency aid will receive an add-on to the program, so that the final amount received by the beneficiary is BRL 250.00. Therefore, it will not be a question of replacing one benefit with another, a fact that makes a difference from the point of view of budget elaboration. In this sense, the total expenditure (line F) is net of the amount that would be paid under the *Bolsa Família* program. This amount was estimated at BRL2.7bn per month (line B), since: (i) this was the expense with the *Bolsa Família* program in January 2021, according to SAGI; and (ii) the SAGI historical series indicates that, between March and April 2020, when the aid was first implemented, the expenditure on *Bolsa Família* was cut almost entirely (from BRL2.5bn to BRL113mi), supporting the hypothesis that almost all beneficiaries will be eligible for the aforementioned add-on in 2021.

In the baseline scenario, primary spending will fall to 17.9% of GDP by 2030. In 2020, primary spending reached 26.4% of GDP, the highest value in the National Treasury's historical series. The percentage considers the 7.1% of GDP spent in fighting the pandemic. Subtracting the two main atypicalities in the period—Covid-19 expenses, in 2020, and payments of the onerous transfer to Petrobras, in 2019—primary expenditure would have increased slightly by 1.3%, from 19% to 19.3% of GDP. It is a growth at a slower pace than observed in recent years and which impacts the projections.

In the November 2020 scenario, primary spending started from 27.4% of GDP in 2020, fell to 20.1% of GDP in 2021, and converged to 17.9% of GDP by 2030. According to the new projections, expenditure starts from the 26.4% of GDP observed in 2020 and reaches 17.9% of GDP in 2030. This time, however, the decline in the first years is slightly higher

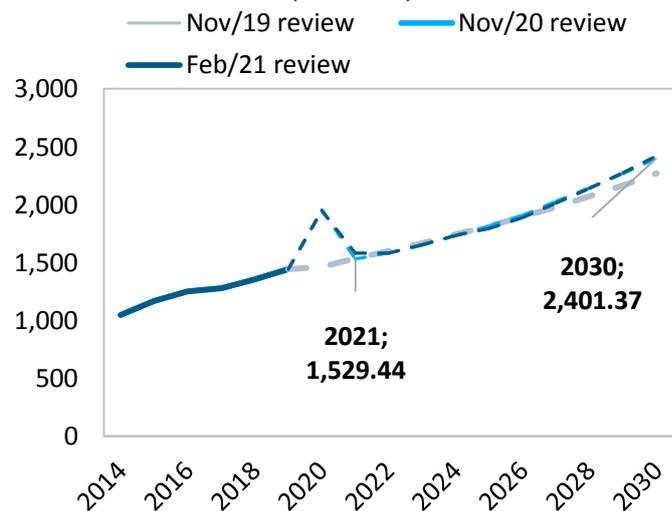
than what was seen in the previous scenario (Chart 11, for values in % of GDP, and Chart 12, for values in BRL bn). The trajectory of spending little changed between the two reviews and, therefore, the main factor behind the improvement in spending projections as a percentage of GDP was the increase in IFI projections for nominal GDP. The average annual nominal GDP projected, in November, for the period from 2021 to 2030, was BRL10.3 trillion. In the new curve, the average GDP increased to BRL10.6 trillion.

CHART 11. PRIMARY EXPENDITURE - BASELINE SCENARIO (% OF GDP)



Source: National Treasury (2014 a 2020) and IFI (following years).

CHART 12. PRIMARY EXPENDITURE - BASELINE SCENARIO (BRL BILLION)

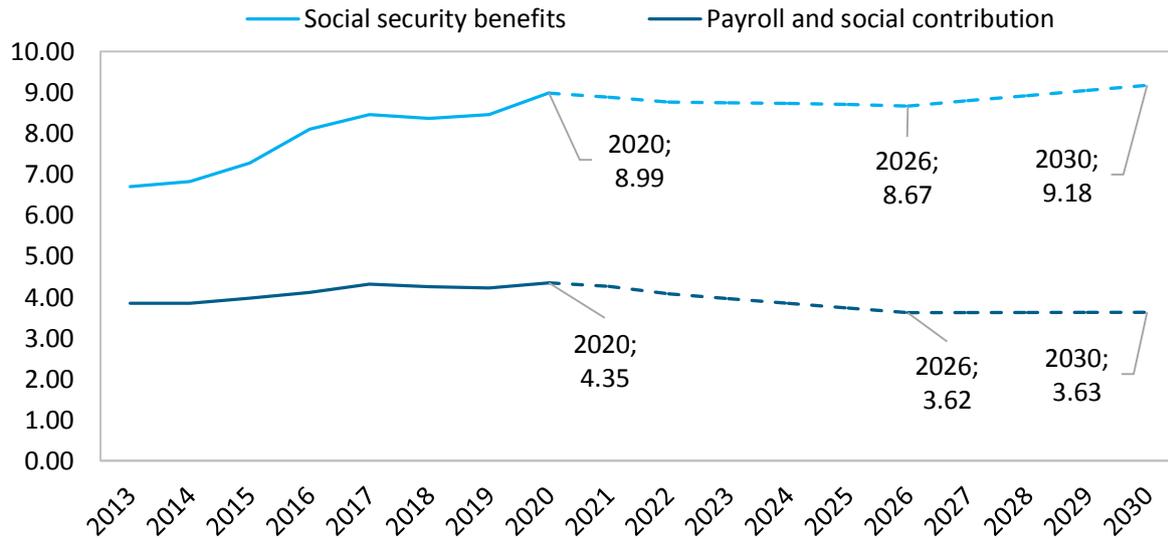


Source: National Treasury (2014 a 2020) and IFI (following years).

The trajectory of social security and personnel expenses remained practically unchanged in this review. IFI simulations for social security benefits use the RGPS fiscal projection methodology described in the PLDO, based on the reproduction by IFI of the public models made available by the government at the time of the social security reform debate. According to the baseline and pessimistic scenarios, the assumption is of real growth of the minimum wage by the GDP lagged in two years from 2027 and 2022, respectively. In the optimistic scenario, the premise is that the minimum wage will not growth in real terms over the entire time horizon, evolving only through the INPC.

In this review, RGPS spending starts at 9% of GDP in 2020, falls to 8.7% of GDP in 2026, due to the premise of freezing, in real terms, the minimum wage, until 2026, and the effects of social security reform, and returns to 9.2% of GDP in 2030 (Chart 13). The projection for personnel expenses considers a growth of 3% between 2022 and 2026, followed by a period in which the expenses are also readjusted by the inflation of the previous year. It is a restrictive scenario, especially if we consider that these expenses grew, on average, 7.1% between 2015 and 2019. On the other hand, in 2020, the pace slowed, and the increase was only 2.6% in relation to the previous year. In the baseline scenario, personnel expenses reached 3.6% of GDP in 2026 and stabilized for the rest of the period.

CHART 13. RGPS AND PERSONNEL - BASELINE SCENARIO (% OF GDP)



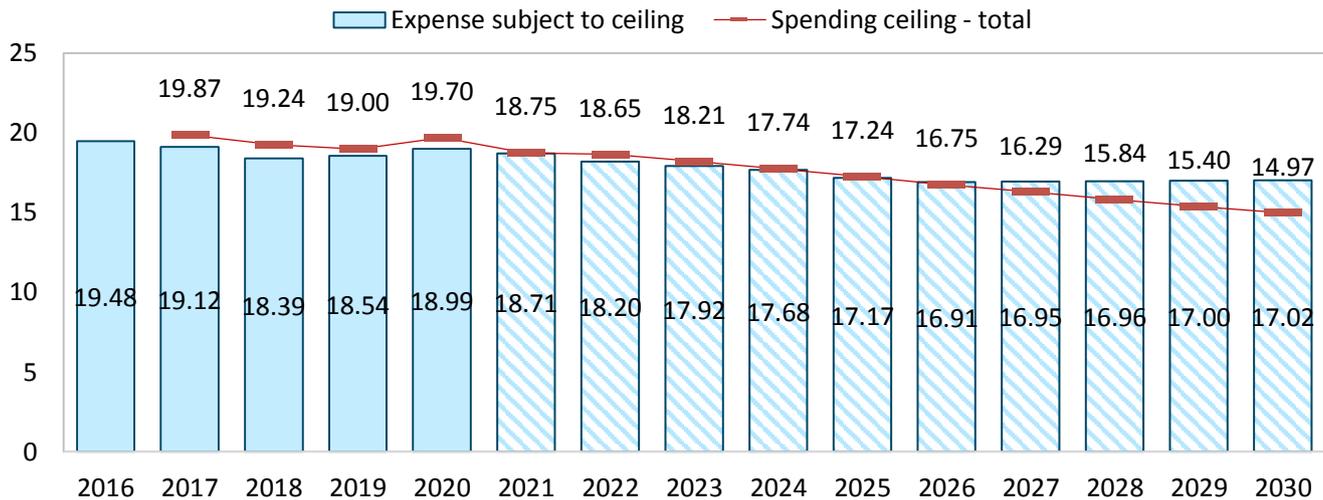
Source: National Treasury (2013 a 2020) and IFI (following years).

2.2.2 Spending ceiling

The new projections bring a more favorable scenario for meeting the spending ceiling. In 2021, primary expenses subject to the ceiling are expected to reach BRL1,483.0 bn, with a slack of BRL2.9bn⁵. Expenditure is expected to represent 18.7% of GDP at the end of 2021 (Chart 14). Respecting the constitutional rule, the primary expenses subject to the ceiling would fall to around 17% of GDP, in 2026, a year in which the way of correcting the limits could be revised. For the coming years, the prospects for compliance with the ceiling continue to indicate a very difficult scenario for compliance with the ceiling, but better than what IFI forecast in November, mainly due to the effects of inflation on the correction of the ceiling. The next paragraphs deal with the factors that support our assessment of the spending ceiling in this scenario review.

⁵ These figures refer to the three branches of government, the Public Prosecutor's Office, the Court of Accounts, and the Public Defender's Office summed.

CHART 14. SPENDING CEILING - BASELINE SCENARIO (% OF GDP)



Source: National Treasury (2016 a 2020) and IFI (following years).

The pace of personnel and social security expenditure growth has dropped over the past three years. Social security and personnel expenses, which together account for 70% of total expenses subject to the ceiling, have shown a growth trend below that previously expected by IFI. The performance of social security expenditures reflects, to some extent, the new rules instituted by the Social Security Reform (Constitutional Amendment No 103/2019). It is necessary to be aware, however, of other factors that may have influenced this recent movement, such as the possible retention of requests for granting benefits⁶. Personnel expenses, in turn, were impacted by the reduction in the number of hires in the federal public administration and by the end of the adjustments that had been granted between 2016 and 2019 for most careers in the Federal Administration.

The fiscal scenario for 2021 is less uncertain than in last November. In the baseline scenario, the ceiling is met even considering expenses over which there was some uncertainty throughout 2020, such as the allocation of BRL20.0bn for the purchase of vaccines through extraordinary credit, and the new compensation from the Federal Government to other subnational entities resulting from the Kandir Law (Supplementary Law No. 176/2020).

Preliminary performance data for January reinforces the most beneficial scenario for the ceiling in 2021. Personnel expenditures, excluding judgments and court-ordered debts, grew by 1.4% compared to January 2020, in nominal terms. As most of the salary adjustments are granted in January and the pace of hiring has reduced considerably in recent years, the performance at the beginning of the year becomes a good predictor for the increase in spending in the rest of the year. In our scenarios, we consider a nominal increase of 3%, due to the natural increase of payroll, plus the impact of new hires informed in Annex V of PLOA 2021, which is BRL2.4bn, in 2021, and BRL4.5bn next year. In total, personnel expenses would grow by 5.2% in nominal terms, a very conservative increase if we consider the performance of January.

⁶ In this regard, see for example: <https://glo.bo/3qGXPTd>.

RGPS expenditures, disregarding those related to judgments and court-ordered debts, grew 5.6% in January compared to the same month in 2020. As in the case of personnel expenses, if there are no significant changes in the rules, the performance in the first month would already be a good predictor for behavior in the year. Just by hypothesis, if the January growth were observed in the year, RGPS expenditure, after including judgments and court-ordered debts, would be BRL702.2bn, below the BRL710.4bn now projected by the government in LDO⁷. The percentage is close to IFI baseline scenario value, which is 5.9%.

In our scenarios, expenditures to cope with the pandemic, including eventual new emergency aid, are not subject to the spending ceiling. As seen, our baseline scenario includes BRL64.2bn for Covid-19 expenses. The hypothesis is that these expenses would be under outstanding liabilities and the reopening of extraordinary credits opened last year or new extraordinary credits, which are not subject to the ceiling. Any inclusion of the emergency aid would depend substantially on cutting other expenses. In the baseline scenario, the ceiling slack in 2021 is only BRL2.9bn and the discretionary spending, BRL104.3bn, therefore close to what IFI considers to be its minimum level. Thus, spending cuts should happen in mandatory spending. In this case, the difficulty would result from the resistance in promoting relevant adjustments in this portion of the expenditure. Payment of the benefit is probable, but there is, at least for now, no concrete proposal or indication of the offset sources.

The high IPCA, in June this year, will ease up compliance with the spending ceiling in 2022. In June 2020, the IPCA accrued in twelve months, an index that corrects the ceiling, was only 2.1%, leading to an adjustment of the ceiling of BRL31bn. The 2021 readjustment was the smallest since the institution of the spending ceiling in 2016, while inflation ended the year at a much higher level, after a period of acceleration. Thus, while the ceiling was adjusted by a lower percentage, expenses for 2021 will be influenced by inflation at the end of last year, 4.52%, as measured by IPCA. For 2022, the situation is reversed. IFI expects IPCA to reach 6.2% in the twelve-month period up to June. The ceiling growth for 2022 would therefore be BRL91.9bn, almost three times the growth of 2021. In our baseline scenario, the ceiling would be met in 2022 with a slack of BRL38.8bn at the end of the year, but the risks remain, as discussed below.

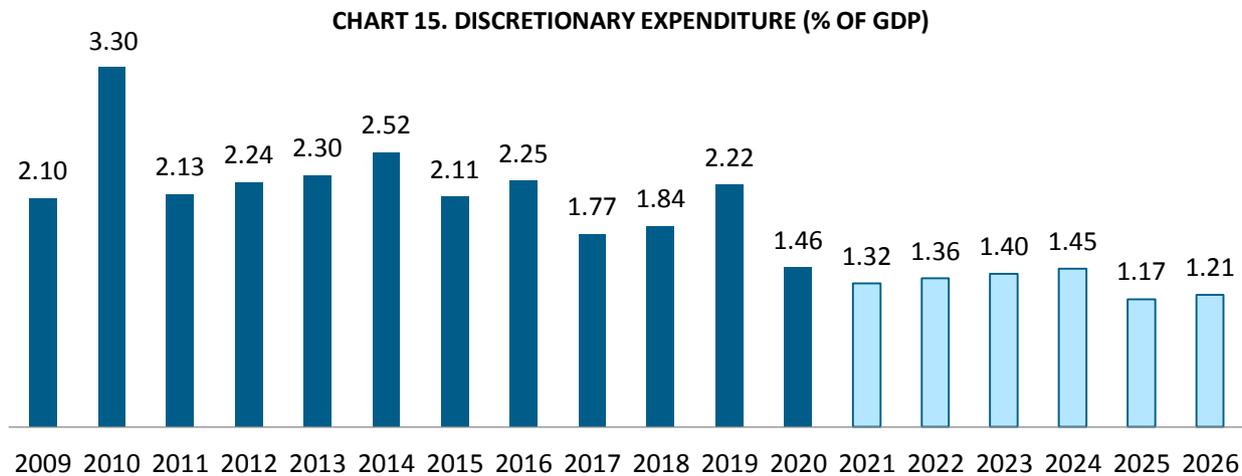
The assessment that the scenario for the spending ceiling has improved should be taken with a grain of salt. The compliance scenario assumes a strong adjustment in personnel, which should go from 4.4% of GDP in 2021 to 3.6% of GDP in 2026. At the same time that it brings relief to the prospect of meeting the spending ceiling, controlling personnel expenses should result in greater pressure for readjustments and selections for public office in the coming years. This observation is important when analyzing the outlook for the spending ceiling in IFI scenarios. As we stated earlier, the trajectory of personnel expenses presupposes a 3% growth between 2021 and 2026, as a natural growth of the payroll, and only after 2027 are readjustments also due to inflation. How far this lower growth (in comparison with the historical average) will be sustainable in IFI's predictive horizon is a point that will deserve attention in future reviews.

The scenario for the spending ceiling assumes that the level of discretionary spending will remain low at least until 2025. Even though mandatory expenses, influenced by social security and personnel, show a more favorable growth trend, the discretionary ones will continue to have to contribute to the adjustment required by the spending ceiling. On average, they would be 1.3% of GDP between 2021 and 2026 (Chart 15). In 2020, the group had already reached its historic low, 1.5% of GDP. From 2009 to 2019, the average was 2.3% of GDP.

It is important to be clear about what represents a very restrictive scenario for discretionary spending. Little room for investments in infrastructure, difficulty in meeting the constitutional floor in health, and the need to rationalize

⁷ Table 4 of Annex IV of LDO 2021.

administrative costs. Considering that the need to increase public investment is a recurring theme in the fiscal debate, the pressure for spending of this nature also helps to qualify the challenge for the scenario of meeting the spending ceiling in the coming years.

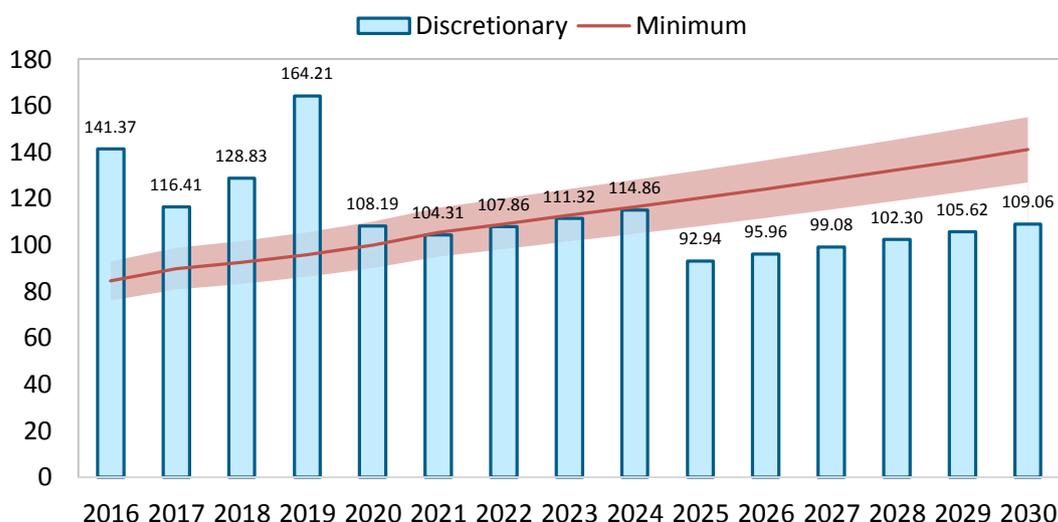


Source: National Treasury (2016 a 2020) and IFI (following years).

In this review, the risk of non-compliance with the ceiling in 2021 went from high to moderate. In summary, it is possible to observe a more favorable growth trend in personnel and social security expenses and the elimination of some uncertainties present in 2020. Preliminary execution data for January also points to a more controlled picture for social security and personnel expenses. These factors, combined, give us security so that the risk of non-compliance with the spending ceiling in 2021 is perceived as moderate and not higher, which still deserves attention. That is to say, the main new expense to be executed, the probable new emergency aid, if it were accounted for within the ceiling, would most likely lead to its noncompliance.

In the baseline scenario, the risk remains moderate until 2024. By the new projections, in the next three years, it would be possible to meet the ceiling, with a moderate risk of noncompliance (within the possibilities: low, moderate, and high), as long as discretionary spending remained close to its minimum. Objectively, in our scenarios, when the projected discretionary expenditure is between 90% and 110% of the minimum expenditure, the risk of noncompliance tends to be classified as moderate; below 90%, high; above 110%, low. This more objective parameter is usually complemented with other information that allows us to assess the general picture of the spending ceiling for a given year. In November, for example, projections indicated that the ceiling could be met in 2021 with discretionary expenses slightly above the minimum level. But the context in which the 2021 budget was being discussed was so permeated with pressures on primary spending that, in our assessment, it justified considering the risk of noncompliance with the ceiling as high. Chart 16 shows that, starting in 2025, discretionary spending should be below 90% of the minimum level and, with this, the risk of noncompliance with the ceiling is high. In Chart 16, the shaded red band represents the range of 90% to 110%.

CHART 16. DISCRETIONARY EXPENDITURES, MINIMUM LEVEL AND RANGE FROM 90% TO 110% - BASELINE SCENARIO (BRL BILLION)



Source: National Treasury (2016 a 2020) and IFI (following years).

2.2.3 Primary balance

In the baseline scenario, IFI projects a primary deficit of BRL247.1bn, or 3.1% of GDP, in 2021 (Table 12). As a result of the new estimates of income and expenses, the primary deficit of 2021 is expected to be BRL247.1bn, compared to BRL743.1bn in 2020. The deficit reduction is mainly due to the decrease of BRL362.7bn in mandatory expenditures, which, in turn, is related to the reduction of expenditures to fight the pandemic. But the smaller deficit is also explained by the recovery of primary revenue, which is expected to grow BRL129.4bn in the year, helping to offset new spending, including the eventual new emergency aid.

TABLE 12. CENTRAL GOVERNMENT PRIMARY BALANCE - BASELINE SCENARIO (BRL BILLION)

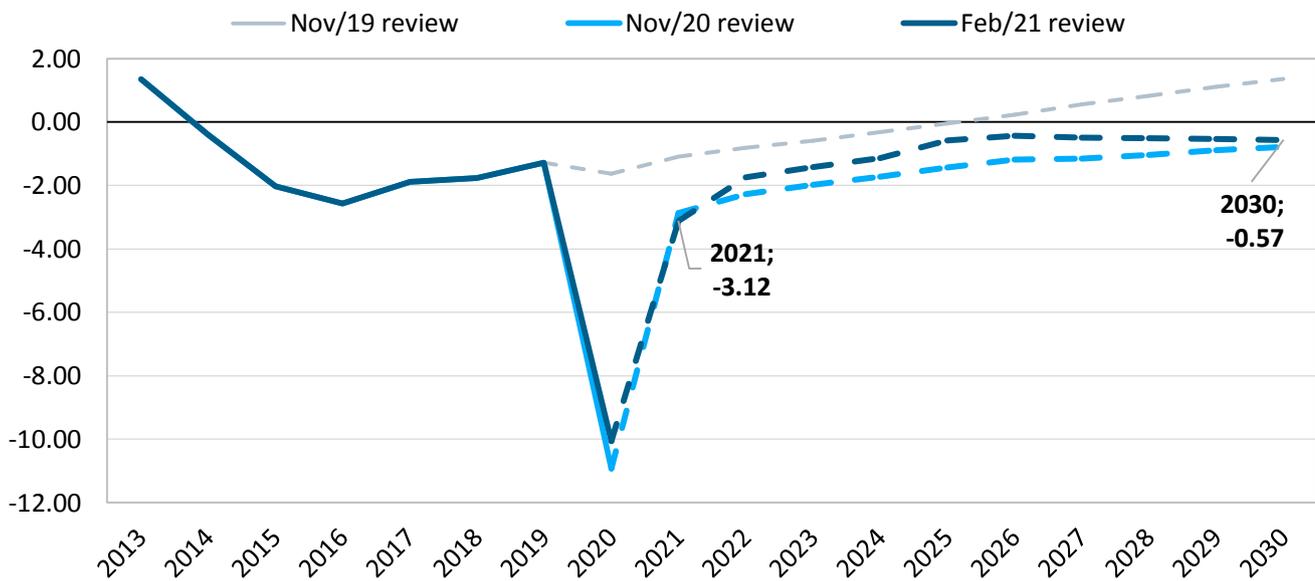
Breakdown	2020 Executed		2021 IFI's Forecast		Change	
	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP
Total Revenue	1,467.8	19.9	1,635.9	20.6	168.1	0.8
Transfers by Revenue Sharing to States and Municipalities	263.8	3.6	302.6	3.8	38.7	0.2
Net Revenue	1,203.9	16.3	1,333.3	16.8	129.4	0.5
Primary Expenditure	1,947.0	26.4	1,580.4	19.9	-366.6	-6.4
Mandatory Spending	1,838.8	24.9	1,476.1	18.6	-362.7	-6.3
Discretionary (Executive Branch)	108.2	1.5	104.3	1.3	-3.9	-0.1
Primary Balance	-743.1	-10.1	-247.1	-3.1	496.0	6.9

Source: National Treasury (2020) and IFI (2021).

In comparison with the baseline scenario of November, the projection for the primary deficit of 2021 increased BRL28.9bn, influenced by the improvement in the collection perspective and by the reduction of discretionary expenses, on the positive side, and by the incorporation of new primary expenditures in fighting the pandemic, on the negative side.

In the baseline scenario, there is no expectation of primary surplus until 2030. Despite the worsening of the primary deficit projection in 2021, due to the incorporation of new expenses with the pandemic, the trajectory of the primary balance for the period 2022 to 2030 has not changed significantly. Given that expenditure projections have been relatively stable, as a whole, the improvement in the primary deficit curve is basically due to the revision of revenues, which, in turn, is influenced by new projections for macroeconomic parameters. The scenario remains very negative, indicating that the primary balance will remain in deficit until 2030, as shown in Chart 17. It may be noted that there are risks concentrated in the personnel policy, as the premise assumed by IFI, already explained, may not be verified if the wage freeze in force until the end of 2021 is revised next year. In this context, proposals such as the Emergency PEC [Proposal of Constitutional Amendment] have been discussed to enable the activation of the so-called spending ceiling triggers.

CHART 17. PRIMARY BALANCE - BASELINE SCENARIO (% OF GDP)



Source: National Treasury (2013 a 2020) and IFI (following years).

Table 13 consolidates IFI's projections for the central government in the baseline scenario between 2021 and 2030. The most benign scenario does not consider salary readjustments or eventual hiring processes in addition to those provided for in Annex V of the 2021 PLOA, nor other expenses that are being debated, such as the possible creation of a new income transfer program or other measures with fiscal impact that are not guaranteed by regulations or at least public decision of the competent authorities.

TABLE 13. PRIMARY BALANCE OF THE CENTRAL GOVERNMENT - BASELINE SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	19.9	20.6	20.8	20.9	21.1	21.2	21.2	21.2	21.2	21.2	21.2
Transfers by Revenue Sharing to States and Municipalities	3.6	3.8	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Net Revenue	16.3	16.8	16.9	17.0	17.1	17.2	17.2	17.2	17.2	17.2	17.2
Primary Expenditure	26.4	19.9	18.7	18.4	18.2	17.7	17.6	17.7	17.7	17.7	17.7
Mandatory Spending	24.9	18.6	17.4	17.2	17.0	16.8	16.7	16.8	16.8	16.9	16.9
Social Security	9.0	8.9	8.8	8.8	8.7	8.7	8.7	8.8	8.9	9.1	9.2
Payroll	4.4	4.3	4.1	4.0	3.9	3.7	3.6	3.6	3.6	3.6	3.6
Salary allowance and Unemployment Insurance	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Bolsa Família (Family Grant)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Other Mandatory Spending	9.6	3.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.4
Discretionary (Executive Branch)	1.5	1.3	1.3	1.2	1.2	0.9	0.9	0.9	0.8	0.8	0.8
Primary Balance	-10.1	-3.1	-1.7	-1.4	-1.1	-0.6	-0.4	-0.5	-0.5	-0.5	-0.6
Nominal GDP (BRL billion)	7,387.1	7,926.2	8,458.2	8,971.2	9,514.7	10,104.9	10,731.6	11,397.2	12,104.1	12,854.8	13,652.1

Source: National Treasury (2020) and IFI (following years).

The pessimistic and optimistic scenarios include the negative and positive risks that could affect the trajectories predicted for the fiscal variables in the baseline scenario. In the context of a pandemic and economic crisis, the relative importance of the pessimistic scenario increases. In this scenario, it is predicted a recovery in the economy of just 2.4% in 2021 and 1.3% between 2022 and 2030. Tables 22, 23, and 24, at the end of the report, detail IFI's projections for the primary balance of the central government in the baseline scenario and the two alternative scenarios.

The primary deficit estimate, in the pessimistic scenario, is 4.0% of GDP in 2021. As for the period from 2021 to 2030, projected net revenues are expected to average 16.5% of GDP, below the 17.1% of GDP projected in the current baseline scenario for the same period. Simulated expenses have an average of 19.4% of GDP, above the average of the baseline scenario, 18.1% of GDP. Therefore, the estimated primary deficit, in the pessimistic scenario, varies from 4.0% of GDP in 2021, after the peak of 10.1% in 2020, to 3.1% of GDP in 2030.

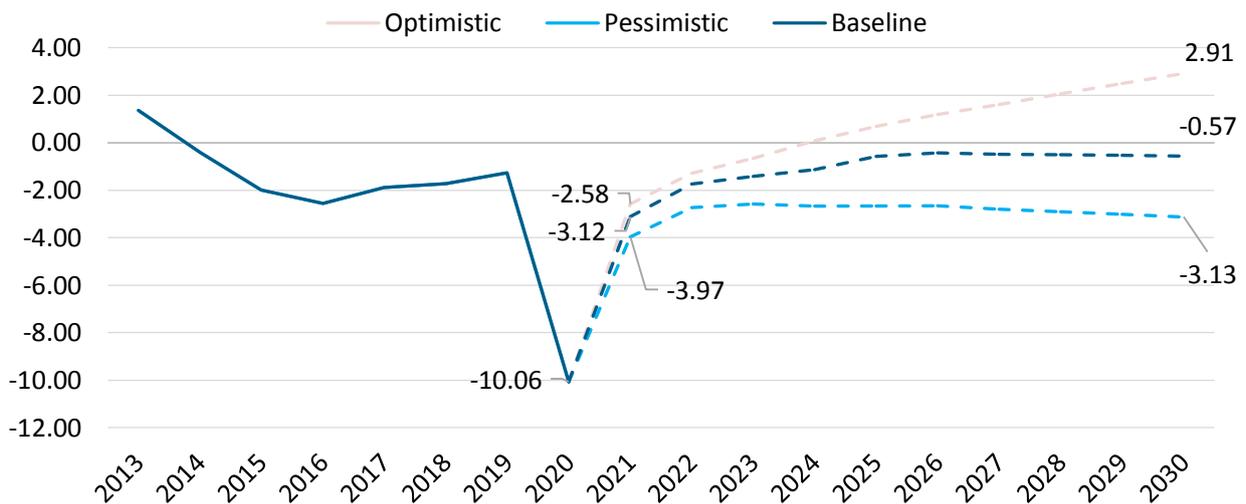
As a percentage of GDP, mandatory expenditures were at a higher level in the pessimistic scenario. Mandatory spending, after reaching a peak of 24.9% of GDP as a result of the measures to fight the pandemic, in 2020, stabilize at around 18% of GDP by 2025 to then return to growth and be at a level closer to 19% of GDP. In this scenario, unlike in the baseline and the optimistic scenarios, RGPS social security expenses would grow 1.6 pp of GDP, between 2021 and 2030. It is worth remembering that the hypotheses for the readjustment of the minimum wage carries a lot of weight in the projection of social security expenditures. While in the baseline scenario the premise is real growth of the minimum wage by the GDP lagged in two years from 2027 onwards, in the pessimistic scenario the real increase begins in 2022. Personnel expenses, in turn, would fall by around 0.5 pp of GDP over the period. In the baseline and optimistic scenarios, this decline is even greater, of 0.6 and 0.8 pp of GDP, respectively.

The primary deficit estimated in the optimistic scenario is BRL206.0bn or 2.6% of GDP in 2021. In the optimistic scenario, the primary surplus would return in 2024. For the period from 2021 to 2030, net revenues are estimated at 18.0% of GDP, by the annual average, about 0.9 pp higher than those estimated in the baseline scenario. On the expenditure side, the annual average projected for the period is 17.3% of GDP, lower than the average of the baseline scenario by 0.8 pp of GDP. The primary balance, in the optimistic scenario, is positive from 2024 onwards, unlike what

occurs in the current baseline and pessimistic scenarios, when there is no clear horizon for reaching the primary surplus. There was an improvement, between the optimistic scenarios of November and the current one, since, in that review, the surplus would be reached from 2027 onwards.

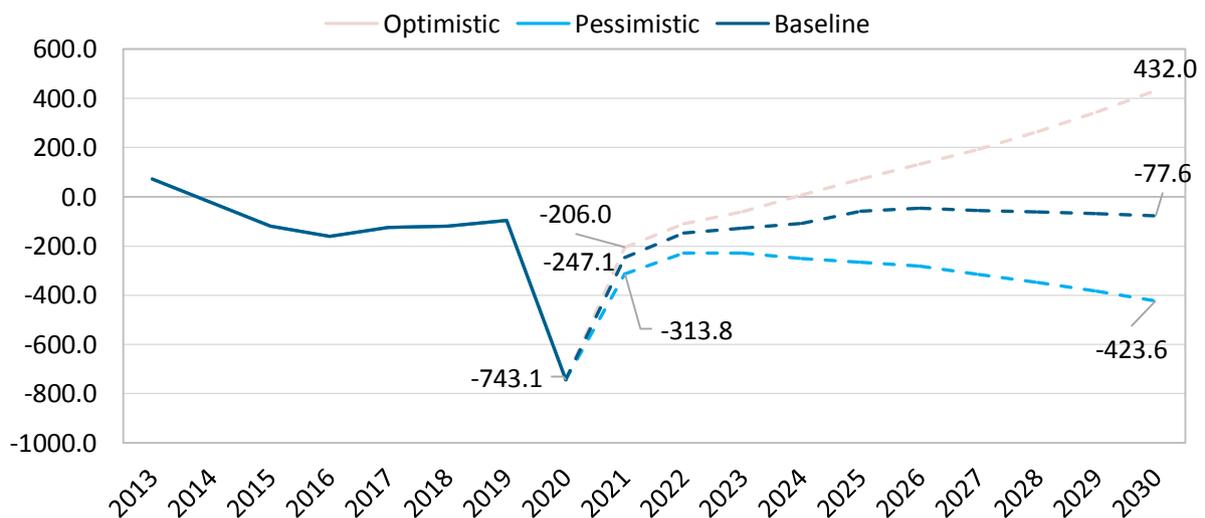
In Charts 18 and 19, the primary deficit curves of the central government are compared in the three current scenarios: baseline, optimistic, and pessimistic—in BRL and as a percentage of GDP. Table 23, at the end of this report, presents all numbers from 2021 to 2030 for the optimistic scenario.

CHART 18. PRIMARY BALANCE - IFI SCENARIOS (% OF GDP)



Source: National Treasury (2013 a 2020) and IFI (following years).

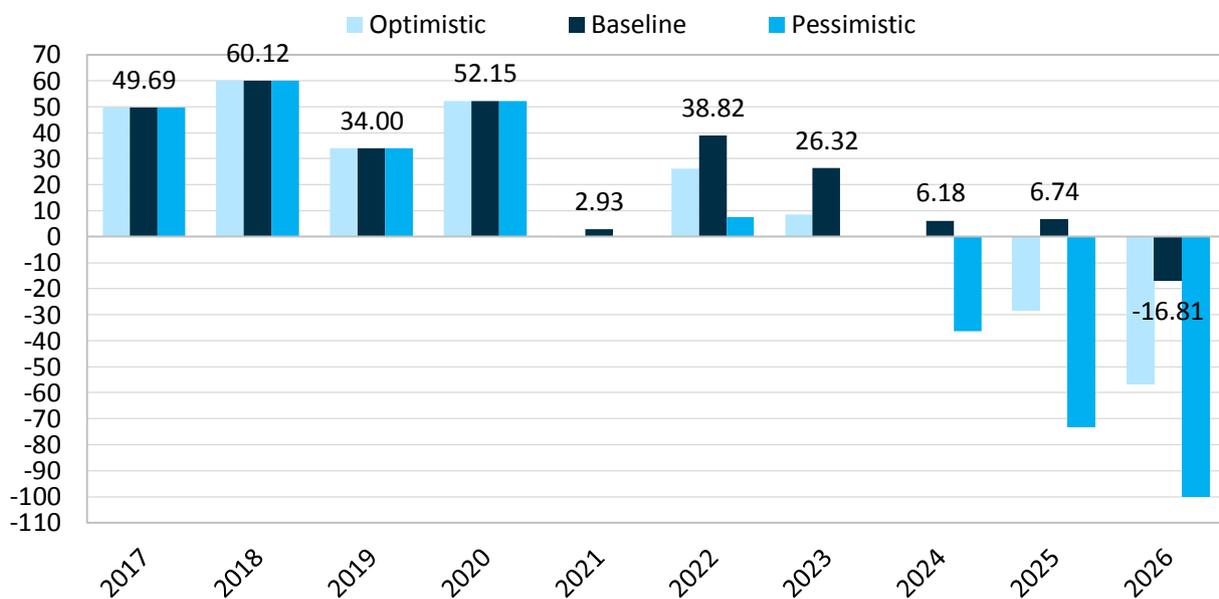
CHART 19. PRIMARY BALANCE - IFI SCENARIOS (BRL BILLION)



Source: National Treasury (2013 a 2020) and IFI (following years).

In alternative scenarios, the risk of noncompliance with the spending ceiling in 2021 is also moderate. The relevant differences occur from 2022 onwards. In the pessimist, the risk is already high in 2023; in the optimist, in 2024. The fact that the risk is greater in the optimistic scenario than in the baseline scenario seems counterintuitive, but it is due to the lower projection for inflation measured by the IPCA in the context of mandatory spending, still putting pressure on expenditure. It is worth noting that the scenario of compliance with the ceiling, although more favorable in this review compared to November, still occurs in the context of reduced discretionary spending and low growth in personnel expenses, which should keep the rule under pressure and may have a negative impact on the provision of public services. Chart 20 shows the slack or the excess of expenses in relation to the spending ceiling in the three IFI predictive scenarios.

CHART 20. SLACK (+) OR EXCESS EXPENSES (-) - SPENDING CEILING (BRL BILLION)



Source: National Treasury (2017 a 2020) and IFI (following years).

Finally, Table 14 presents a review of risks and the return of the primary balance to the surplus condition for the three IFI scenarios.

TABLE 14. REVIEW OF RISKS AND EVOLUTION OF THE PRIMARY SURPLUS

Risk of noncompliance with the spending ceiling*	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Optimistic scenario	Moderate	Moderate	Moderate	High	High	High	High	High	High	High
Baseline scenario	Moderate	Moderate	Moderate	Moderate	High	High	High	High	High	High
Pessimistic scenario	Moderate	Moderate	High	High	High	High				
Risk of noncompliance/revision of the primary balance target**	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Optimistic scenario	Moderate	-	-	-	-	-	-	-	-	-
Baseline scenario	Moderate	-	-	-	-	-	-	-	-	-
Pessimistic scenario	Moderate	-	-	-	-	-	-	-	-	-
Primary Balance	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Optimistic scenario	PD	PD	PD	PD	PS	PS	PS	PS	PS	PS
Baseline scenario	PD	PD	PD	PD	PD	PD	PD	PD	PD	PD
Pessimistic scenario	PD	PD	PD	PD	PD	PD	PD	PD	PD	PD

Source: IFI – Brazilian Independent Fiscal Institution.

*Article 108 of the Temporary Constitutional Provisions Act provides for the possibility of changing the method of adjustment of the limits from the tenth year of the spending ceiling (2026) onwards, which makes it difficult to assess the risk of noncompliance for 2027 onwards.

**In its scenarios, IFI only considers the existence of a primary balance target for the current year and, when the Budget Guidelines Bill is already being processed, for the following year. For the rest of the period, the targets are only indicative and therefore responsive to yet unknown fiscal balances.

3. PUBLIC DEBT SCENARIOS

Fiscal situation remains adverse, and debt keeps an upward trend. This section presents updated IFI calculations for the General Government Gross Debt (DBGG, in the original acronym), as released by the Central Bank. First of all, it is important to highlight that the perspectives for the evolution of the DBGG remain very negative and do not indicate stability in relation to the GDP in the baseline and pessimistic scenarios. In the optimistic scenario, a downward trend would begin in 2022. The fiscal challenge is increasingly concentrated in the medium term, that is, in the government's ability to announce measures that effectively allow the generation of primary surpluses to be recovered in a reasonable time.

Higher nominal GDP in 2020 produced a lower debt/GDP ratio than that expected last November by IFI. In 2020, the debt was at a lower level than expected by IFI, mainly due to the higher nominal GDP, as we will discuss below. The GDP data for 2020 is not yet known, but the incorporation, in IFI's estimates, of the higher inflation and the lower real fall rate raised the nominal GDP considered in the calculation of the DBGG/GDP ratio. In addition, data from previous years have been revised. In the same direction, as discussed in the Fiscal Follow-up Report (RAF) of January⁸, the Central Bank incorporated these factors in the public debt spreadsheets⁹.

⁸ Access the January 2021 RAF here – https://www2.senado.leg.br/bdsf/bitstream/handle/id/583296/RAF48_JAN2021.pdf

⁹ Access here the debt/GDP data published by the Central Bank – https://www.bcb.gov.br/content/estatisticas/Documents/Tabelas_especiais/Divggnp.xls

The Debt/GDP ratio was revised by the Central Bank due to changes in the IBGE series. Therefore, the DBGG represented 74.3% of GDP in 2019 (and not 75.8%, a figure disclosed by the Central Bank before the 2020 GDP review), and 89.3%, in 2020, according to official data from the Central Bank. In the case of IFI, with the nominal GDP projected at this time, the debt/GDP ratio of 2020 would have been 89.6% of the GDP. This discrepancy will be dissolved when IBGE releases, in March, the final 2020 data for the nominal GDP. The main fact is that the projections presented by IFI, in November 2020, indicated a higher level for 2020, mainly due to this effect of the nominal GDP, which ended up being adjusted upwards with the methodological change carried out by IBGE, the smaller real drop in GDP and a higher deflator (due to the higher pressure in the short term).

Projection for the debt, in nominal terms, was close to the realized data. In November 2020, we projected 93.1% of GDP for the DBGG. In January, incorporating the issue described above, the figure was revised to 90.1%, very close to the realized value already mentioned. For the coming years, this lower starting point is a central variable, as we will show. However, the upward trend remains, in the baseline and pessimistic scenarios, until 2030. It is worth noting that IFI's estimate for November was very close to the gross debt realized data, in nominal terms, with the GDP issue being the main factor explaining the differences between the projections and the realized data, as already mentioned. The DBGG, in 2020, totaled BRL6.62 trillion, while IFI's projection indicated BRL6.64 trillion.

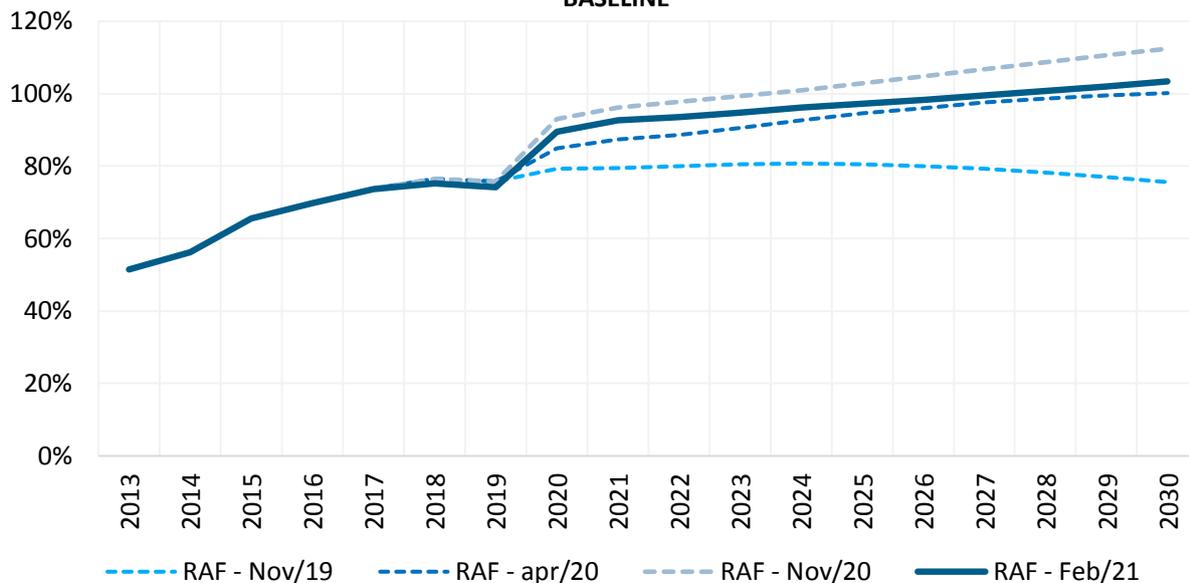
3.1 Baseline scenario

The gross debt is expected to end 2021 at 92.7% of GDP in the baseline scenario. In the November 2020 RAF, the gross debt would reach 96.2% of the GDP in 2021, after reaching 93.1% in 2020. In this review, from a level of 89.6% in 2020, the debt is expected to rise to 92.7% of GDP, a significant increase, of 3.1 pp of GDP. The higher nominal GDP, previously estimated at BRL7,606.7bn (RAF of November 2020), is now calculated by IFI at BRL7,926.2bn.

The nominal public sector deficit is expected to total BRL578bn in 2021. The consolidated public sector deficit also underwent an important revision, between the November and the current RAF, offsetting part of the downward effect produced by the higher nominal GDP in the debt/GDP ratio. Adding the central government balance (presented in the previous section) to the balances expected for regional governments and state-owned enterprises, the primary deficit of the consolidated public sector should close 2021 at BRL231.1bn (2.9% of GDP), below the BRL703bn (9.5% of GDP) of 2020, but still a very negative result. In November, we projected a primary deficit of BRL207.2bn for 2021. If the primary deficit is added to interest expense, which is estimated at BRL346.9bn (4.4% of GDP), we reach an amount projected of BRL578bn (7.3% of GDP) of nominal deficit for the consolidated public sector in 2021.

In the baseline scenario, the gross debt will reach 100% of GDP, between 2027 and 2028, and will not reach sustainability conditions until 2030. For the period from 2022 to 2030, gross debt will continue to grow in relation to the GDP, increasing from 93.5% in 2022 to 103.4% of GDP in 2030. The critical level of 100% would be reached between 2027 and 2028. It should be noted that, in relation to the scenario presented last November, the trajectory for the next decade has improved, but remains marked by continuous growth, with no horizon for restoring sustainability conditions. In other words, our scenario continues to point to indefinite growing debt (Chart 21).

CHART 21. EVOLUTION OF PROJECTIONS FOR THE DBGG FROM NOV/19 TO FEB/21 - BASELINE



Source: IFI.

Since April 2020, all projected curves do not include a horizon of stability for the debt/GDP ratio in the baseline scenario. As can be seen from Chart 21, since IFI revised its projections in April 2020, already under the effect of the covid-19 crisis, the projected debt curve in the baseline scenario has undergone a structural change. Basically, the permanent impacts caused by the year 2020 on the trajectory until 2030 are not neutralized and stability in relation to GDP is no longer achieved. For that, it would be necessary to adopt a set of measures that would allow to recover the primary surplus in a medium-term horizon. This would depend on actions on the expenditure and/or revenue side, which could, given the GDP projections, rebalance indebtedness in relation to GDP. For an overview of all the scenarios outlined by IFI since February 2017, see Tables 19, 20, and 21, at the end of this section.

Higher nominal GDP has shifted projections downwards, but with continued growth until 2030. In Table 15, it is possible to observe the conditioning factors of the debt/GDP projections, in the baseline scenario, for the average of 2020 to 2030, taking the averages of the indicators selected for this period (including the realized data for 2020). In relation to the baseline scenario presented last November, the average primary deficit projected for the period went from BRL197.5bn to BRL154.6bn per year. The nominal GDP, on the other hand, went from BRL9,988bn to BRL10,282bn. The average annual GDP growth fluctuated from 1.7% to 1.8%, with real interest rates rising from 2.0% to 2.3% per year, always on the annual average between 2020 and 2030. In other words, the increase in the nominal GDP expected for the period explains much of the downward shift in the gross debt/GDP projection curve between last November and the current scenario.

TABLE 15. RELEVANT ASSUMPTIONS FOR THE BASELINE SCENARIO OF THE DBGG/GDP RATIO- AVERAGES FROM 2020 TO 2030

	Baseline scenario					
	Nov/19	Apr/20	May/20*	Jun/20*	Nov/20	Feb/21
Primary Balance (BRL bn)	33.7	-188.1	-255.8	-287.2	-197.5	-154.6
Nominal GDP (BRL billion)	10,626	10,186	10,186	9,639	9,988	10,282
GDP Real Growth (%)	2.3%	1.9%	1.9%	1.5%	1.7%	1.8%
Real Interest Rate (%)	3.0%	2.8%	2.8%	2.5%	2.0%	2.3%

* To see debt projections in all scenarios, check Tables 19, 20, and 21.

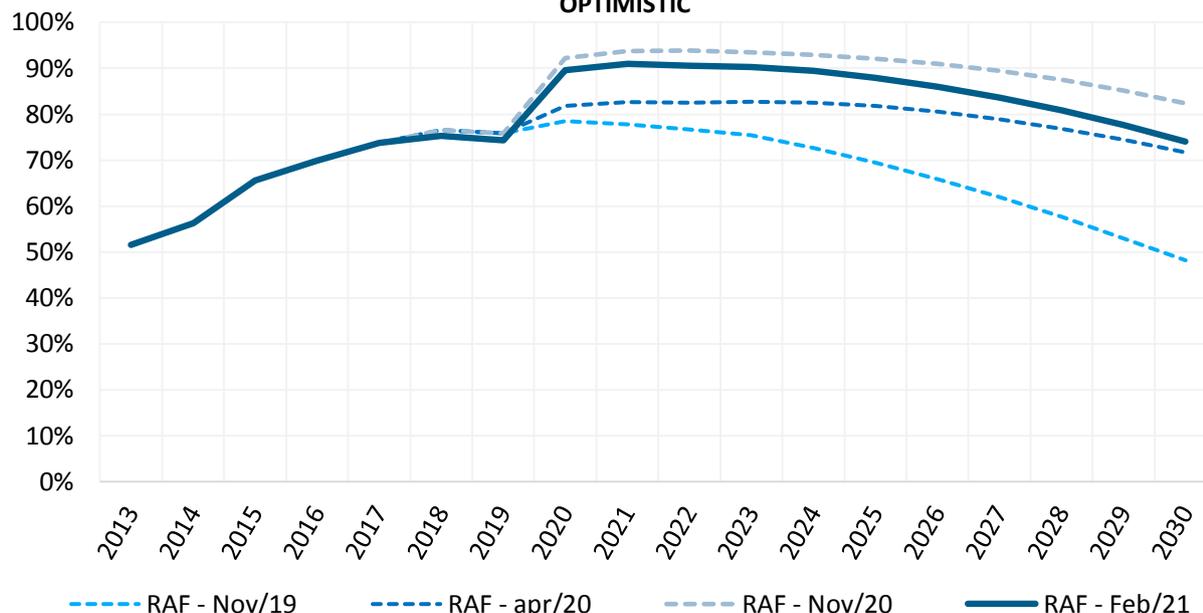
Source: IFI – Brazilian Independent Fiscal Institution.

The public sector's primary deficit will not be zeroed, at least until 2030, and the nominal deficit will remain under pressure. Particularly, regarding the primary balance of the consolidated public sector, segregated into primary deficit and interest payments, it is possible to analyze the prospective evolution in Table 18, at the end of this section. The primary deficit will rise from 2.9% of GDP in 2021 to 0.6% of GDP in 2030, without returning to positive values. The nominal deficit is expected to rise from 13.8% of GDP in 2020 to 7.3% in 2021, converging to 6.6% of GDP by 2030, after decreasing to 5.6% of GDP in 2022. Nominal deficit increases again under the influence of the increase in interest rates. Namely, Selic is expected to rise from 2% per annum, in 2020, to 7%, in 2025, remaining at this level until 2030. Interest expenses, in turn, would rise from 4.2% of the GDP in 2020 to 6% of GDP in 2030.

3.2 Optimistic scenario

In the optimistic scenario, the debt/GDP ratio would reach sustainability conditions between 2021 and 2022. IFI's optimistic scenario contemplates a better macroeconomic scenario than in the baseline scenario and this is the main factor that explains the trajectory for the debt/GDP ratio presented below. Regarding the simulations of the optimistic scenario of the November 2020 RAF, there was a downward shift, but the shape of the curve was kept. The projections of the current optimistic scenario indicate that the gross debt will grow to 91% of the GDP in 2021 and then start to fall slightly in 2022, indicating the achievement of sustainability conditions. By 2030, the DBGG would be reduced to 74% of GDP. Chart 22 shows the current trajectory compared to previous ones in IFI's optimistic scenario.

CHART 22. EVOLUTION OF PROJECTIONS FOR THE DBGG FROM NOV/19 TO FEB/21 - OPTIMISTIC



Source: IFI.

Forecast of primary surplus for the public sector improves projections of the optimistic scenario. Table 16, below, contains the annual averages, from 2020 to 2030, for the main conditioning factors of the different optimistic scenarios presented by IFI since November 2019 (pre-crisis of covid-19). Between November 2020 and now, the projection of the average primary deficit went from BRL42.5bn to a surplus of BRL42.2bn per year. The nominal GDP also went from BRL10,594bn to BRL10,746bn per year.

TABLE 16. ASSUMPTIONS RELEVANT TO THE OPTIMISTIC SCENARIO OF THE DBGG/GDP RATIO - AVERAGE FROM 2020 TO 2030

	Optimistic scenario				
	Nov/19	Apr/20	Jun/20 *	Nov/20	Feb/21
Primary Balance (BRL bn)	176.1	-29.7	-74.8	-42.5	42.2
Nominal GDP (BRL billion)	11,141	11,002	10,352	10,594	10,746
GDP Real Growth (%)	3.3%	3.2%	2.7%	2.8%	2.8%
Real Interest Rate (%)	2.2%	2.3%	2.1%	1.7%	1.9%

* To see debt projections in all scenarios, check Tables 19, 20, and 21. Source: IFI – Brazilian Independent Fiscal Institution.

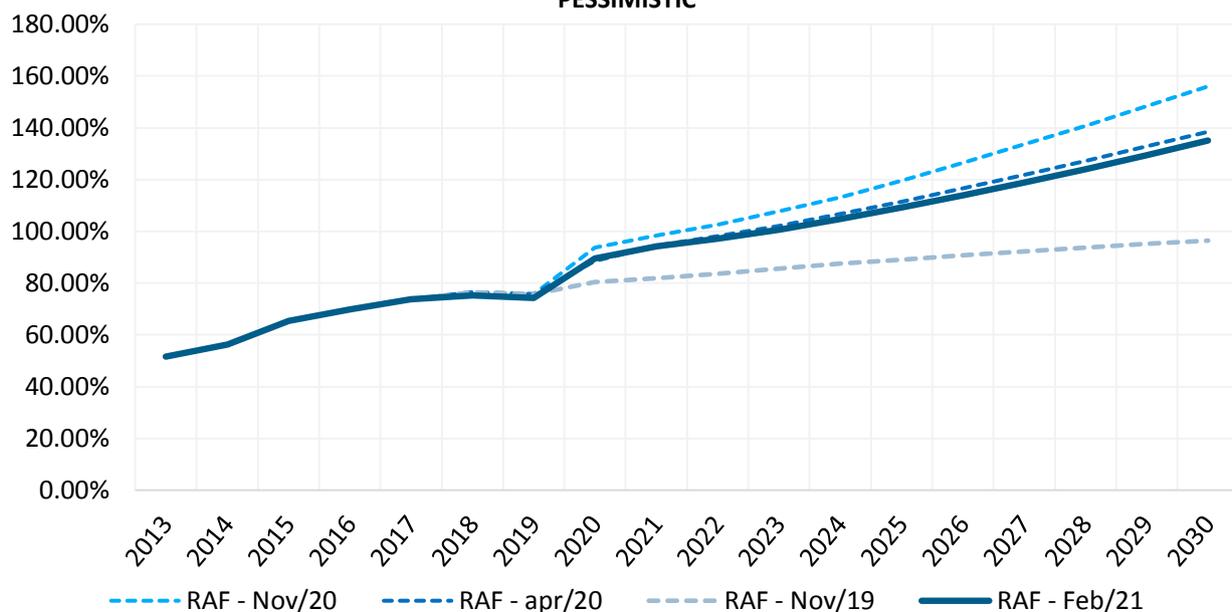
In the optimistic scenario, the public sector would return to a primary surplus in 2024. Table 18, at the end of this section, shows the projections of the primary and nominal balances of the public sector, year by year, for the three scenarios. In the optimistic scenario, the recovery of the primary surplus would happen more quickly, due to the increase in revenues and the correction of the spending ceiling due to lower inflation, allowing for greater fiscal effort in the short term, within the scope of the central government, in relation to the baseline and pessimistic scenarios. The public sector's primary deficit, in the optimistic scenario, would rise from 2.4% of GDP in 2021 to a surplus of 0.2% of GDP in 2024,

increasing to 3% of GDP by 2030. The nominal deficit would be lower in relation to the baseline, converging to levels below 1% of GDP by 2030, influenced by the trajectory of the primary and interest payments.

3.3 Pessimistic scenario

Gross debt will reach 100% of GDP between 2022 and 2023. IFI's pessimistic scenario contemplates, as discussed in the previous section, a more pressured trajectory for social security expenses, in addition to the less favorable macroeconomic parameters. Lower economic growth influences revenues and makes it difficult to reduce the primary deficit. In the current pessimistic scenario, in 2030, the debt/GDP ratio would reach 135.2% of the GDP. Before, in the version of the pessimistic scenario of last November, the debt would reach 156% of GDP in 2030. Also, between 2022 and 2023, the level of 100% of GDP would be reached, according to Chart 23. We will explain, below, the conditioning factors of the new trajectory.

CHART 23. EVOLUTION OF PROJECTIONS FOR THE DBGG FROM NOV/19 TO FEB/21 - PESSIMISTIC



Source: IFI.

Higher nominal GDP and lower interest rates explain an improvement in the trajectory of the pessimistic scenario, but still under an accelerated upward trend. Among the main conditioning factors of the projections for the debt, in the pessimistic scenario, the maintenance of a high average annual primary deficit stands out, between 2020 and 2030, with a small change in relation to what was expected last November, from BRL340.3bn to BRL337.2bn per year. On the other hand, the average annual nominal GDP went from BRL9,944bn to BRL10,181bn in the comparison between the November 2020 RAF and the current situation. Real interest rates were 0.4 pp lower, which, together with the higher nominal GDP, helps explain the improvement in the expected trajectory in the current pessimistic scenario compared to November. It is worth noting that the trend continues to be of significant growth, with no perspective for achieving sustainability conditions.

TABLE 17. RELEVANT ASSUMPTIONS FOR THE PESSIMISTIC SCENARIO OF THE DBGG/GDP RATIO - AVERAGES FROM 2020 TO 2030

	Pessimistic scenario				
	Nov/19	Apr/20	Jun/20 *	Nov/20	Feb/21
Primary Balance (BRL bn)	17	-314.4	-499.7	-340.3	-337.2
Nominal GDP (BRL billion)	10,861	9,253	8,755	9,944	10,181
GDP Real Growth (%)	1.3%	0.5%	0.2%	0.8%	0.9%
Real Interest Rate (%)	4.6%	3.7%	3.6%	3.9%	3.5%

* To see debt projections in all scenarios, check Tables 19, 20, and 21. Source: IFI – Brazilian Independent Fiscal Institution.

The primary deficit persists at high levels, in the pessimistic scenario, until 2030, and risks of new spending must be mapped. In Table 18, it is possible to see that the primary deficit of the consolidated public sector, in the pessimistic scenario, would remain high throughout the projection period. The deficit would rise from 3.8% of GDP in 2021 to 3.1% in 2030. Interest expenses are also higher than in the baseline and optimistic scenarios. On average from 2020 to 2030, the public sector's primary deficit would be 6.8% of the GDP. The risks of the pessimistic scenario are quite clear and should be monitored with caution—as in the case of personnel and social security expenses—although the weight of the macroeconomic scenario is high in explaining the evolution of fiscal variables, especially in a context of high budget rigidity, which makes the primary balance very susceptible to the evolution of revenues.

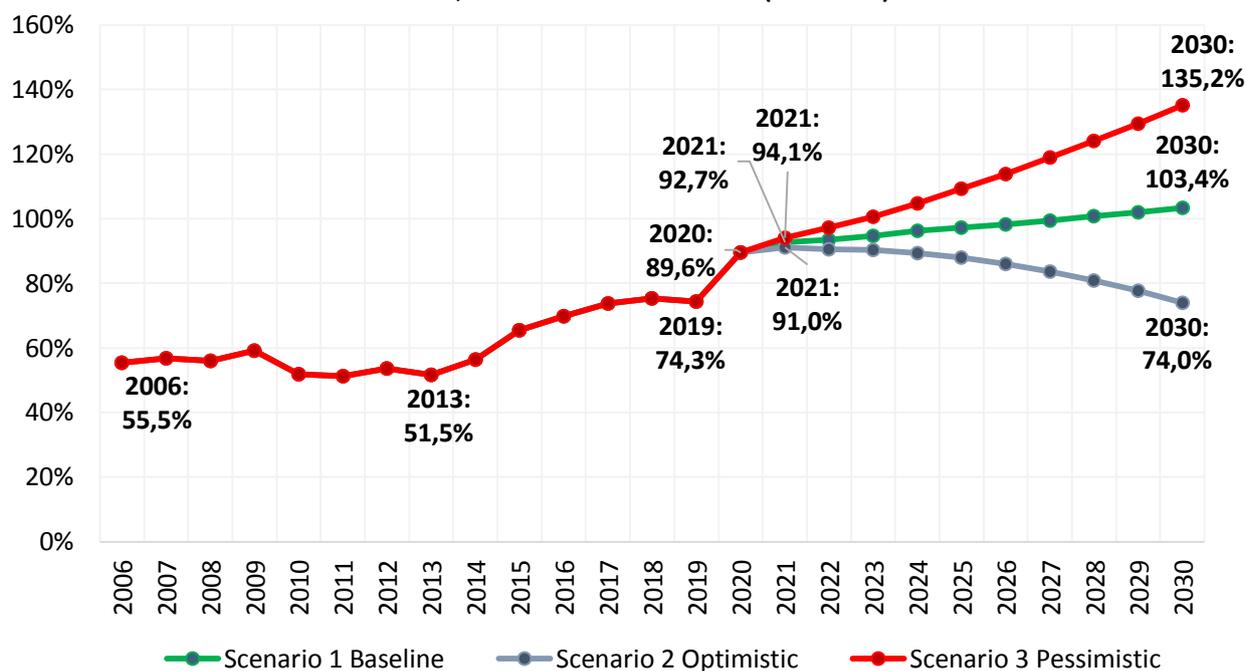
TABLE 18. CONSOLIDATED PUBLIC SECTOR NOMINAL DEFICIT AND INTEREST PAYMENT (% OF GDP)

	Baseline Scenario			Optimistic Scenario			Pessimistic Scenario		
	Nominal Balance	Primary Balance	Interest Rates	Nominal Balance	Primary Balance	Interest Rates	Nominal Balance	Primary Balance	Interest Rates
2018	-6.96%	-1.55%	5.41%	-6.96%	-1.55%	5.41%	-6.96%	-1.55%	5.41%
2019	-5.79%	-0.84%	4.96%	-5.79%	-0.84%	4.96%	-5.79%	-0.84%	4.96%
2020	-13.75%	-9.52%	4.23%	-13.75%	-9.52%	4.23%	-13.75%	-9.52%	4.23%
2021	-7.29%	-2.92%	4.38%	-6.10%	-2.35%	3.76%	-8.51%	-3.81%	4.70%
2022	-5.61%	-1.66%	3.95%	-4.50%	-1.15%	3.35%	-7.35%	-2.66%	4.69%
2023	-5.69%	-1.38%	4.31%	-4.65%	-0.55%	4.09%	-7.91%	-2.54%	5.37%
2024	-5.92%	-1.14%	4.78%	-4.21%	0.16%	4.37%	-8.91%	-2.65%	6.26%
2025	-5.77%	-0.60%	5.18%	-3.66%	0.76%	4.42%	-9.68%	-2.65%	7.03%
2026	-5.89%	-0.47%	5.42%	-3.10%	1.25%	4.36%	-10.24%	-2.64%	7.60%
2027	-6.11%	-0.53%	5.59%	-2.60%	1.67%	4.26%	-10.89%	-2.79%	8.11%
2028	-6.28%	-0.55%	5.73%	-2.02%	2.11%	4.14%	-11.44%	-2.89%	8.55%
2029	-6.44%	-0.58%	5.86%	-1.44%	2.54%	3.98%	-12.00%	-3.00%	9.00%
2030	-6.61%	-0.61%	6.00%	-0.83%	2.96%	3.79%	-12.58%	-3.12%	9.46%
Average - 2020-2030	-6.9%	-1.8%	5.0%	-4.3%	-0.2%	4.1%	-10.3%	-3.5%	6.8%

Source: IFI – Brazilian Independent Fiscal Institution.

Finally, in Chart 24, we present the three current scenarios—baseline, optimistic, and pessimistic. The upward trend in debt remains in the baseline scenario, as already discussed, although converging at lower levels than those projected in November 2020. In the pessimistic scenario, the more intense increase in the debt/GDP indicator reflects a more pressured picture of expenses and persistence of high primary deficits, the probability of which is seen by IFI as high, even though the baseline scenario is the most likely. The optimistic scenario remains the least likely but foresees the possibility of achieving sustainability conditions in a shorter period, mainly due to an eventual scenario of greater economic growth and control of public spending.

CHART 24. UPDATED PROJECTIONS FOR THE GENERAL GOVERNMENT GROSS DEBT - BASELINE, OPTIMIST AND PESSIMIST (% OF GDP)



Source: IFI.

TABLE 19. HISTORY OF PROJECTIONS FOR THE GENERAL GOVERNMENT GROSS DEBT - BASELINE (% OF GDP)

	RAF - Feb/17	RAF - Jun/17	RAF - Sep/17	RAF - Oct/17	RAF - Feb/18	RAF - Aug/18	RAF - Nov/18	RAF - Mar/19	RAF - Nov/19	RAF - Apr/20	RAF - May/20	RAF - Jun/20	RAF - Nov/20	RAF - Feb/21
2017	76.9%	76.2%	76.3%	76.2%	74.0%	74.0%	74.0%	74.1%	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%
2018	80.2%	80.7%	79.8%	79.3%	75.8%	76.34%	76.0%	77.2%	76.5%	76.5%	76.5%	76.5%	76.5%	75.3%
2019	82.4%	83.9%	83.0%	82.5%	78.7%	78.5%	77.8%	79.6%	75.8%	75.8%	75.8%	75.8%	75.8%	74.3%
2020	82.8%	87.1%	86.5%	86.0%	81.2%	80.5%	79.7%	81.0%	79.3%	84.9%	86.6%	96.1%	93.1%	89.6%
2021	84.3%	89.3%	89.1%	88.6%	83.5%	82.2%	81.0%	82.1%	79.5%	87.3%	90.2%	98.6%	96.2%	92.7%
2022		91.5%	91.7%	91.3%	85.3%	83.5%	82.1%	83.5%	80.0%	88.7%	92.1%	100.3%	97.7%	93.5%
2023		92.4%	92.9%	92.7%	86.6%	84.1%	82.7%	84.6%	80.6%	90.5%	94.8%	102.2%	99.4%	94.7%
2024		92.3%	93.3%	93.3%	86.5%	84.1%	82.7%	85.3%	80.7%	92.7%	97.6%	104.7%	100.9%	96.2%
2025		91.4%	93.3%	93.5%	85.8%	83.3%	82.0%	85.5%	80.5%	94.5%	99.9%	107.5%	102.8%	97.2%
2026		90.6%	92.5%	92.7%	84.5%	81.9%	80.7%	85.2%	80.0%	96.1%	101.9%	110.0%	104.8%	98.2%
2027		88.9%	91.2%	91.6%	82.9%	80.0%	78.9%	84.6%	79.3%	97.5%	103.7%	112.4%	106.8%	99.4%
2028		87.1%	90.0%	90.5%	81.3%	78.2%	77.3%	84.3%	78.3%	98.6%	105.2%	114.4%	108.8%	100.7%
2029		84.3%	87.7%	88.5%	78.9%	75.3%	74.7%	83.3%	77.0%	99.5%	106.6%	116.1%	110.6%	102.0%
2030		81.5%	85.5%	86.6%	76.7%	72.6%	72.2%	82.6%	75.5%	100.2%	107.7%	117.6%	112.4%	103.4%

Source: IFI – Brazilian Independent Fiscal Institution.

TABLE 20. HISTORY OF PROJECTIONS FOR THE GENERAL GOVERNMENT GROSS DEBT - OPTIMISTIC (% OF GDP)

	RAF - Feb/17	RAF - Jun/17	RAF - Sep/17	RAF - Oct/17	RAF - Feb/18	RAF - Aug/18	RAF - Nov/18	RAF - Mar/19	RAF - Nov/19	RAF - Apr/20	RAF - May/20	RAF - Jun/20	RAF - Nov/20	RAF - Feb/21
2017		75.7%		75.9%	74.0%	74.0%	74.0%	74.1%	73.7%	73.7%		73.7%	73.7%	73.7%
2018		79.2%		78.0%	75.0%	76.25%	75.8%	77.2%	76.5%	76.5%		76.5%	76.5%	75.3%
2019		81.5%		79.7%	76.6%	77.1%	76.2%	78.8%	75.8%	75.8%		75.8%	75.8%	74.3%
2020		83.4%		81.3%	77.1%	77.8%	76.4%	79.4%	78.5%	81.8%		92.2%	92.2%	89.6%
2021		83.9%		81.7%	76.8%	77.4%	76.0%	79.7%	77.7%	82.6%		92.4%	93.7%	91.0%
2022		84.6%		82.1%	75.7%	76.3%	74.8%	79.6%	76.7%	82.6%		92.0%	93.9%	90.5%
2023		83.3%		80.9%	73.9%	74.5%	72.9%	79.0%	75.4%	82.7%		92.1%	93.5%	90.3%
2024		81.0%		78.8%	70.7%	71.2%	69.6%	77.2%	72.7%	82.5%		92.0%	92.9%	89.4%
2025		77.6%		75.6%	66.8%	67.2%	65.7%	74.7%	69.5%	81.8%		91.3%	92.1%	88.0%
2026		74.2%		72.4%	62.1%	62.4%	61.0%	71.7%	65.8%	80.5%		90.1%	91.0%	86.0%
2027		69.7%		68.1%	57.0%	57.1%	55.9%	68.4%	61.9%	78.9%		88.6%	89.5%	83.7%
2028		65.1%		63.9%	52.0%	51.9%	50.9%	65.3%	57.6%	76.8%		86.4%	87.6%	80.9%
2029		59.4%		58.6%	46.0%	45.7%	45.1%	61.4%	53.0%	74.4%		83.8%	85.2%	77.7%
2030		53.6%		53.3%	40.1%	39.7%	39.4%	58.0%	48.2%	71.7%		80.8%	82.4%	74.0%

Source: IFI – Brazilian Independent Fiscal Institution.

TABLE 21. HISTORY OF PROJECTIONS FOR THE GENERAL GOVERNMENT GROSS DEBT - PESSIMIST (% OF GDP)

	RAF - Feb/17	RAF - Jun/17	RAF - Sep/17	RAF - Oct/17	RAF - Feb/18	RAF - Aug/18	RAF - Nov/18	RAF - Mar/19	RAF - Nov/19	RAF - Apr/20	RAF - May/20	RAF - Jun/20	RAF - Nov/20	RAF - Feb/21
2017		76.9%		76.8%	74.0%	74.0%	74.0%	74.1%	73.7%	73.7%		73.7%	73.7%	73.7%
2018		83.9%		82.3%	77.0%	76.75%	76.4%	77.2%	76.5%	76.5%		76.5%	76.5%	75.3%
2019		89.1%		88.3%	81.6%	80.2%	79.2%	80.2%	75.8%	75.8%		75.8%	75.8%	74.3%
2020		94.4%		94.8%	85.7%	83.8%	82.3%	82.6%	80.3%	88.5%		101.3%	93.6%	89.6%
2021		99.0%		100.6%	90.2%	87.2%	85.6%	86.1%	81.9%	94.4%		108.8%	98.4%	94.1%
2022		103.9%		106.9%	94.9%	90.8%	88.8%	89.7%	83.7%	98.1%		113.5%	102.5%	97.2%
2023		107.8%		112.1%	99.4%	94.0%	91.6%	92.9%	85.7%	102.1%		119.4%	107.7%	100.6%
2024		110.9%		116.6%	102.5%	96.5%	93.8%	95.6%	87.4%	106.7%		126.2%	113.3%	104.7%
2025		113.4%		120.5%	105.2%	98.5%	95.6%	98.1%	89.1%	111.5%		133.8%	119.7%	109.2%
2026		116.3%		124.8%	107.5%	99.9%	96.8%	100.0%	90.7%	116.6%		142.0%	126.5%	113.8%
2027		118.5%		128.4%	109.7%	101.0%	97.8%	102.0%	92.3%	121.9%		150.5%	133.6%	118.8%
2028		121.0%		132.5%	112.2%	102.2%	99.0%	104.2%	93.8%	127.3%		158.9%	140.9%	124.1%
2029		122.6%		135.9%	114.1%	102.5%	99.4%	106.0%	95.2%	132.8%		167.4%	148.3%	129.5%
2030		124.5%		139.7%	116.4%	102.9%	100.0%	108.1%	96.4%	138.5%		176.0%	156.0%	135.2%

Source: IFI – Brazilian Independent Fiscal Institution.

Fiscal tables

TABLE 22. IFI PROJECTIONS FOR THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT - BASELINE SCENARIO (% of GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	19.87	20.64	20.83	20.94	21.05	21.17	21.17	21.20	21.21	21.22	21.22
Transfers to States and Municipalities by Revenue Sharing	3.57	3.82	3.89	3.93	3.97	4.01	4.01	4.03	4.04	4.04	4.05
Net Revenue	16.30	16.82	16.94	17.01	17.09	17.17	17.16	17.18	17.18	17.18	17.17
Primary Expenditure	26.36	19.94	18.68	18.43	18.22	17.75	17.59	17.67	17.69	17.71	17.74
Mandatory Spending	24.89	18.62	17.41	17.19	17.02	16.83	16.70	16.80	16.84	16.89	16.94
Social security benefits	8.99	8.89	8.77	8.75	8.74	8.71	8.67	8.81	8.93	9.06	9.18
Payroll and Social Contribution	4.35	4.27	4.08	3.96	3.85	3.73	3.62	3.62	3.63	3.63	3.63
Allowance and Unemployment Benefit	0.81	0.77	0.75	0.73	0.71	0.69	0.67	0.65	0.63	0.61	0.59
Salary Allowance	0.27	0.24	0.24	0.23	0.22	0.22	0.21	0.20	0.20	0.19	0.19
Unemployment Benefit	0.54	0.53	0.51	0.50	0.48	0.47	0.46	0.44	0.43	0.42	0.40
BPC [Continuous Cash Benefit Program]	0.85	0.84	0.84	0.83	0.83	0.83	0.82	0.82	0.81	0.81	0.80
Compensation to the General Social Security System for Payroll Exemption	0.13	0.12	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Supplementation by the Federal Government to FUNDEB	0.20	0.25	0.31	0.35	0.39	0.43	0.54	0.59	0.59	0.59	0.59
Legislative, Judiciary, Prosecutor's Office, and Public Defender's Office	0.15	0.15	0.14	0.14	0.13	0.13	0.13	0.12	0.12	0.12	0.11
Judgments and Court-Ordered Payment of Government Debts (current and capital expenditure)	0.31	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Subsidies and Grants	0.28	0.18	0.17	0.17	0.16	0.16	0.15	0.15	0.15	0.14	0.14
Other Mandatory Spending	8.83	2.90	2.05	2.00	1.94	1.89	1.83	1.78	1.73	1.68	1.63
without Flow Control	7.02	0.98	0.15	0.15	0.14	0.14	0.13	0.13	0.12	0.12	0.11
with Flow Control	1.81	1.92	1.89	1.85	1.80	1.75	1.70	1.65	1.61	1.56	1.52
of which Bolsa Família [Family Grant Program]	0.26	0.44	0.43	0.42	0.41	0.39	0.38	0.37	0.36	0.35	0.34
Discretionary Spending of the Executive Branch	1.46	1.32	1.28	1.24	1.21	0.92	0.89	0.87	0.85	0.82	0.80
Primary Balance	-10.06	-3.12	-1.74	-1.42	-1.14	-0.58	-0.43	-0.49	-0.51	-0.53	-0.57
Note:											
Spending on Covid-19	7.05	0.81	-	-	-	-	-	-	-	-	-
Nominal GDP (BRL billion)	7387.05	7926.21	8458.21	8971.23	9514.75	10104.87	10731.60	11397.20	12104.08	12854.80	13652.08

TABLE 23. IFI PROJECTIONS FOR THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT - OPTIMISTIC SCENARIO (% of GDP)

Discriminação	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	19.87	21.00	21.27	21.55	21.78	22.07	22.30	22.44	22.57	22.69	22.80
Transfers to States and Municipalities by Revenue Sharing	3.57	3.85	3.93	3.99	4.03	4.09	4.13	4.14	4.15	4.16	4.16
Net Revenue	16.30	17.15	17.34	17.57	17.75	17.98	18.17	18.30	18.41	18.53	18.63
Primary Expenditure	26.36	19.73	18.63	18.23	17.68	17.30	16.99	16.70	16.36	16.04	15.73
Mandatory Spending	24.89	18.39	17.33	16.98	16.63	16.30	16.02	15.77	15.47	15.19	14.91
Social security benefits	8.99	8.84	8.76	8.65	8.53	8.40	8.27	8.11	7.96	7.81	7.67
Payroll and Social Contribution	4.35	4.24	4.07	3.94	3.81	3.68	3.56	3.52	3.49	3.46	3.43
Allowance and Unemployment Benefit	0.81	0.77	0.74	0.71	0.68	0.65	0.63	0.60	0.58	0.55	0.53
Salary Allowance	0.27	0.24	0.23	0.23	0.22	0.21	0.20	0.19	0.18	0.17	0.17
Unemployment Benefit	0.54	0.53	0.51	0.49	0.47	0.45	0.43	0.41	0.39	0.38	0.36
BPC [Continuous Cash Benefit Program]	0.85	0.84	0.83	0.82	0.81	0.80	0.78	0.77	0.76	0.75	0.74
Compensation to the General Social Security System for Payroll Exemption	0.13	0.12	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Supplementation by the Federal Government to FUNDEB	0.20	0.25	0.31	0.35	0.39	0.43	0.54	0.59	0.59	0.59	0.59
Legislative, Judiciary, Prosecutor's Office, and Public Defender's Office	0.15	0.14	0.14	0.13	0.13	0.12	0.12	0.11	0.11	0.11	0.10
Judgments and Court-Ordered Payment of Government Debts (current and capital expenditure)	0.31	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Subsidies and Grants	0.28	0.18	0.17	0.16	0.16	0.15	0.15	0.14	0.13	0.13	0.12
Other Mandatory Spending	8.83	2.76	2.03	1.95	1.88	1.80	1.73	1.66	1.60	1.53	1.47
without Flow Control	7.02	0.85	0.15	0.15	0.14	0.13	0.13	0.12	0.11	0.11	0.10
with Flow Control	1.81	1.91	1.87	1.81	1.74	1.67	1.60	1.54	1.48	1.42	1.37
of which Bolsa Família [Family Grant Program]	0.26	0.44	0.42	0.41	0.39	0.38	0.36	0.35	0.33	0.32	0.31
Discretionary Spending of the Executive Branch	1.46	1.34	1.30	1.25	1.04	1.00	0.96	0.93	0.89	0.85	0.82
Primary Balance	-10.06	-2.58	-1.29	-0.66	0.07	0.68	1.18	1.60	2.05	2.49	2.91
Note:											
Spending on Covid-19	7.05	0.68	-	-	-	-	-	-	-	-	-
Nominal GDP (BRL billion)	7387.05	7971.80	8534.54	9124.25	9781.82	10486.79	11242.56	12052.80	12921.43	13852.66	14851.01

TABLE 24. IFI PROJECTIONS FOR THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT - PESSIMISTIC SCENARIO (% OF GDP)

Discriminação	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	19.87	20.16	20.41	20.34	20.32	20.36	20.33	20.34	20.33	20.33	20.32
Transfers to States and Municipalities by Revenue Sharing	3.57	3.78	3.86	3.86	3.86	3.88	3.88	3.89	3.89	3.90	3.91
Net Revenue	16.30	16.37	16.55	16.48	16.46	16.48	16.45	16.45	16.44	16.43	16.42
Primary Expenditure	26.36	20.35	19.29	19.07	19.13	19.15	19.11	19.26	19.35	19.45	19.55
Mandatory Spending	24.89	18.99	17.95	18.01	18.10	18.15	18.25	18.41	18.52	18.63	18.75
Social security benefits	8.99	8.91	9.20	9.42	9.63	9.80	9.96	10.10	10.23	10.37	10.51
Payroll and Social Contribution	4.35	4.28	4.14	4.04	3.95	3.84	3.74	3.78	3.81	3.85	3.88
Allowance and Unemployment Benefit	0.81	0.77	0.76	0.74	0.73	0.71	0.70	0.69	0.67	0.66	0.65
Salary Allowance	0.27	0.25	0.24	0.24	0.23	0.23	0.22	0.22	0.21	0.21	0.21
Unemployment Benefit	0.54	0.53	0.52	0.51	0.50	0.49	0.48	0.47	0.46	0.45	0.44
BPC [Continuous Cash Benefit Program]	0.85	0.85	0.84	0.84	0.84	0.84	0.83	0.83	0.82	0.82	0.81
Compensation to the General Social Security System for Payroll Exemption	0.13	0.12	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Supplementation by the Federal Government to FUNDEB [Fund for Maintenance and Development of Basic Education and the Improvement of Education Professionals]	0.20	0.25	0.31	0.35	0.39	0.43	0.54	0.59	0.59	0.59	0.59
Legislative, Judiciary, Prosecutor's Office, and Public Defender's Office	0.15	0.15	0.14	0.14	0.14	0.14	0.13	0.13	0.13	0.13	0.12
Judgments and Court-Ordered Payment of Government Debts (current and capital expenditure)	0.31	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Subsidies and Grants	0.28	0.18	0.17	0.17	0.17	0.16	0.16	0.16	0.16	0.15	0.15
Other Mandatory Spending	8.83	3.22	2.08	2.04	2.00	1.95	1.92	1.88	1.84	1.81	1.77
without Flow Control	7.02	1.30	0.16	0.15	0.15	0.14	0.14	0.13	0.13	0.13	0.12
with Flow Control	1.81	1.93	1.92	1.88	1.85	1.81	1.78	1.74	1.71	1.68	1.65
of which Bolsa Família [Family Grant Program]	0.26	0.44	0.43	0.43	0.42	0.41	0.40	0.39	0.39	0.38	0.37
Discretionary Spending of the Executive Branch	1.46	1.36	1.33	1.06	1.04	1.00	0.86	0.85	0.83	0.82	0.80
Primary Balance	-10.06	-3.97	-2.74	-2.58	-2.67	-2.67	-2.66	-2.80	-2.91	-3.02	-3.13
Note:											
Spending on Covid-19	7.05	1.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nominal GDP (BRL billion)	7387.05	7903.68	8365.81	8860.54	9397.38	9979.14	10602.89	11267.70	11974.69	12725.98	13524.21

IFI Forecasts

	2014	2015	2016	2017	2018	2019	Forecasts				
							2020	2021	2022	2023	2024
GDP - real growth (% pa)	0.50	-3.55	-3.28	1.32	1.78	1.41	-4.50	2.99	2.63	2.20	2.23
Nominal - GDP (BRL billion)	5,779	5,996	6,269	6,585	7,004	7,407	7,387	7,926	8,458	8,971	9,515
IPCA - accum. (% in the year)	6.41	10.67	6.29	2.95	3.75	4.31	4.52	3.61	3.40	3.21	3.18
Exchange rate - end-of-period (BRL/USD)	2.66	3.90	3.26	3.31	3.87	4.03	5.20	5.27	5.21	5.16	5.10
Employment - growth (%)	1.48	0.05	-1.87	0.35	1.41	1.99	-7.79	2.00	1.65	1.45	1.32
Total wages - growth (%)	3.97	-1.12	-3.24	1.85	3.04	2.47	-4.50	2.99	2.63	2.20	2.23
Selic - end of period (% pa)	11.75	14.25	13.75	7.00	6.50	4.50	2.00	3.50	4.50	5.50	6.50
Ex-post real interest (% pa)	5.02	3.23	7.02	3.94	2.65	0.19	-2.41	-0.11	1.06	2.22	3.22
Consolidated Public Sector Primary Balance (% of GDP)	-0.56	-1.86	-2.48	-1.68	-1.55	-0.84	-9.52	-2.92	-1.66	-1.38	-1.14
of which Central Government	-0.41	-2.01	-2.57	-1.89	-1.72	-1.28	-10.06	-3.12	-1.76	-1.46	-1.19
Net Interest Payments (% of GDP)	5.39	8.37	6.49	6.09	5.41	4.96	4.23	4.38	3.95	4.31	4.78
Nominal Balance (% of GDP)	-5.95	-10.22	-8.98	-7.77	-6.96	-5.79	-13.75	-7.29	-5.61	-5.69	-5.92
General Government Gross Debt (% of GDP)	56.28	65.50	69.84	73.72	75.27	74.26	89.56	92.67	93.46	94.74	96.15

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