

# FFR

## Fiscal Follow-Up Report

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### HIGHLIGHTS

- Projection for GDP growth in 2021 in the baseline scenario was kept at 3.0%.
- The vaccination rate (first and second doses) is at 665,000 a day.
- Net revenue of the central government was revised to BRL1,357.8bn (16.7% of GDP) in 2021.
- Revision of the nominal GDP figures produced a BRL9.8bn increase in the primary revenue for the year.
- In 2021, another BRL16.9bn of increase in primary revenue will come from emergency aid refunds.
- Falling projections for Bolsa Família [TN: Family Grant] and Salary Allowance allow growth in discretionary spending in 2021.
- The risk of non-compliance with the spending ceiling in 2021 has gone from moderate to low.
- Rise in the IPCA improves the perspective for the ceiling in the coming years as well.
- Simulations for gross debt sustainability indicate a required effort of 1.5 to 2 p.p. of GDP in three to five years.
- Projection for gross debt is revised from 92.7% to 91.3% of GDP in 2021.
- Debt growth trend persists in the baseline and pessimistic scenarios.



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## **REPORT LAYOUT**



COMAP/SECOM and SEFPRO/SEGRAF

## Summary

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- Uncertainties regarding the evolution of the pandemic and the pace of vaccination required to immunize the population against COVID-19, and the wide and safe reopening of the economy still add many doubts to the prospective behavior of the economic activity. An eventual positive surprise in the GDP result for the first quarter and the confirmation of a better performance of the activity indicators throughout the second quarter, in a context of recovery of the world economy and rise in commodity prices, are factors that could promote an upward adjustment in the 2021 GDP projection.
- IFI's projection for the central government's primary revenue in 2021 was revised to BRL1,662.6bn, an increase of BRL26.7bn in relation to the result forecast last February. The update was motivated by the change in the nominal GDP figures for 2021, which would bring a gain of BRL9.8bn to the revenue, as well as the incorporation of BRL16.9bn that would sum to income tax as refunds of amounts unduly paid under the emergency aid in 2020.
- IFI projections show a worsening of the primary deficit in 2021 compared to the previous scenario, and reflect, to a large extent, updated spending on the fight against the pandemic. Despite this, there was a reduction in the estimate of expenses for salary allowance and Bolsa Família [TN: Family Grant]. In both cases, there is no effective fiscal effort, but a slack in the spending ceiling is generated, which explains the rise in IFI's projection for discretionary spending in 2021.
- With the opening of fiscal accounting space by means of salary allowance and Bolsa Família, the risk of non-compliance with the ceiling in 2021 has gone from moderate to low. Surge of IPCA contributes to the prospect of compliance in the coming years as well. In the baseline scenario, the risk of disruption becomes moderate in 2024 and 2025, and high in 2026. Next year, however, the need to meet the primary balance target should limit the use of any slack in the spending ceiling.
- The conditions for gross public debt sustainability can be achieved, in the baseline scenario, if there is an additional primary fiscal effort of 1.5 to 2 percentage points of GDP over a period of three to five years. It is not an insurmountable task, provided there is adequate and timely planning. In the baseline scenario, debt will reach 91.3% of GDP in 2021 and rise to 99.7% of

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GDP by 2030. Estimates have improved compared to February, mainly due to higher nominal GDP.

- The pessimistic scenario of projections highlights the risk of economic and fiscal deterioration. Low growth, higher interest rates, and a persistent primary deficit would imply a significant increase in debt, which could reach 128.4% of GDP by 2030. Measures that combine revenue recovery and a greater expenditure control would help prevent this scenario from materializing. The new tax rules of Constitutional Amendment 109 do not serve the purpose.



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