Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- Worsening fiscal risk and intensifying political risk add uncertainty to the future path of GDP and inflation.
- GDP growth is expected to be close to 5.0% and inflation around 8.0% in 2021.
- GDP growth is expected to moderate to 1.7% and inflation to reach 4.0% by 2022.
- At constant prices, the recurrent primary balance would have been R$ 13.1 billion in the 12 months to July 2021, compared to R$ 328.8 billion in the observed series.
- Possible increase in interest expenses in the coming months will require a higher primary balance of the government.
- In August, interest rates of DPMFi bonds continued to rise.
- The average cost of debt remained high in July, in line with the monetary tightening cycle.
- Persistent inflation and growth in court-ordered debts challenge the 2022 spending ceiling.
- Budget Bill for 2022 was sent to Congress with no definition regarding court-ordered debts.
- Projections for personnel expenses and social security benefits reinforce the more moderate advance of recent years.

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Covering Letter

This edition of the Fiscal Follow-up Report (RAF in the original acronym) presents the analysis of the current conjuncture, and the reassessment of the risks pointed out in previous editions. For this reason, the preliminary revision of the base scenario projections for GDP, inflation, interest rate, primary balance, and spending ceiling. The main conclusions of the three sections of this report are analyzed below: Macroeconomic Context, Fiscal Scenarios, and Budget.

The revision of the macro-fiscal scenarios - baseline, optimistic and pessimistic - is carried out in May and November. However, the uncertainties associated with the pandemic crisis period have required several extraordinary revisions since March 2020. Such is the case with this version of the RAF. The release of the GDP (second quarter) and several risks have combined to add uncertainty to the economic outlook.

The Macroeconomic Context section highlights the worsening of growth conditions in the second half of 2021. Second-quarter GDP oscillated negatively (-0.1%) - a performance close to that expected by the IFI. Compared to the same quarter in 2020, there was a growth of 12.4% - an accumulated high of 6.4% in the first half. The statistical effect left for the final six months indicates that the economy could grow at 4.9%, even with a zero GDP variation in the two quarters. Our preliminary projection for the year is 4.9%, above the 4.2% estimated in the IFI's base scenario contained in the June RAF.

Last month, the institution had already warned about the upward bias in the projections, which should not be confused with the dynamics of deterioration in the conditions for economic growth indicated in this report and already mapped out in previous ones. The worsening stems from higher interest rates to contain high inflation (9.7%, according to the IPCA, in the 12-month accumulated until August), the growing fiscal risk, the water, and energy crisis, and the political-institutional risk. The risk premium has increased, the future yield curve has come under more pressure. Consequently, public debt practically came to a halt in July, suggesting an interruption in the downward trend over the coming months.

There are two vectors in the opposite direction in a broader macroeconomic environment. First, the positive performance of the GDP between January and June improved tax collection and the debt/GDP ratio. The rise of commodity prices, the devaluation of the real against the dollar, and inflation collaborated for this. Secondly, this background of high inflation and the risks already enumerated worsened the market's perspectives for the performance of the economic activity in the second half of the year. The probability of stagnation is high in this second half of the year. IFI maintained the 2021 GDP projection at 4.2%, with an upward bias since August. It has now raised it to 4.9% but in a context of an evident worsening of the future scenario. The revision would be more significant if it were not for the future full of risks. According to the preliminary revision of the Macroeconomic Context section, it is worth mentioning that the 2022 GDP should grow at just 1.7%. We will present a complete revision of the scenarios in October.

Given these considerations, the Fiscal Scenarios section could sound optimistic at first reading. However, it reveals the already contracted effects of the past activity performance and incorporates a statistically higher GDP than the IFI projected. This distinction is essential. On the one hand, the signs for the second half are negative. On the other, tax collection reflects the dynamics of GDP growth (revised to 4.9%).

Still, in the Fiscal Scenarios, the primary balance and public debt indicators are evaluated. The recurrent primary balance - without non-recurrent effects, such as expenses against Covid-19 and its consequences -

continues to improve. This movement reflects the growth in tax collection, no wage adjustment for public servants (except military), and the dynamics of social security expenses, slowed by the 2019 reform.

However, the gross public debt, which had been falling as a proportion of GDP since the beginning of the year, fell by only 0.1 p.p. of GDP between June and July, indicating that it will soon grow again. It should be clear: the IFI warned that the support of inflation on the debt/GDP ratio, through the denominator, would be temporary. The resistance of inflation to higher interest rates, explained by a context of growing risks, will lead to a more significant increase in the Selic rate, which could reach 8% by the end of 2021, compared to the 5.5% forecast in June by the IFI. The sensitivity of the debt dynamics to the interest rate is high. As demonstrated in the Fiscal Scenario section, the average cost of new Treasury issues increases every month, resulting in a higher average total cost.

This fiscal risk is not abstract. It derives from decisions and signals with potentially relevant budgetary impact. The Constitutional Amendment Bill (PEC in the original acronym) nº 23 of 2021, authored by the Ministry of Economy, proposes to parcel out expenses with court-ordered payments of government debt, which are mandatory. The reform of the Income Tax (Bill nº 2.337, of 2021) will generate relevant revenue losses as early as 2022. We analyzed the first theme in the Position Paper (CI in the original acronym) nº 11 and nº 12, and the second in the Technical Note (NT in the original acronym) nº 49, after the approval of the PL by the Chamber of Deputies.

Regarding court-ordered government debt payments, RAF's Budget section analyzes the effects of PEC nº 23 and two other alternatives under discussion. The installment plan, the removal of these expenses from the ceiling, or the setting of a payment cap are ways out that embed a significant change in the spending ceiling - Constitutional Amendment (EC in the original acronym) nº 95, of 2016. The fiscal space opened in the ceiling in 2022 could stay at R$ 39.2 billion in the case of PEC 23 and R$ 48.6 billion in the case of removing the ceiling or setting an annual limit. Either of these solutions, even if incorporated into the Constitution, would not cancel out the adverse effects on the expectations of economic agents and, consequently, on the exchange rate, inflation, and interest rates. This apprehension already appears in the interest rates priced today by the market for different terms, affecting the debt dynamics.

Also, in the Budget section, we compare the IFI's projections for 2022, modified on a preliminary stage, to the Annual Budget Bill (PLOA). According to the institution, it would be possible to comply with the spending ceiling next year, with discretionary spending of R$ 104 billion and complete court-ordered payments of government debt (R$ 89.1 billion). In addition, we estimate R$ 14 billion to expand Bolsa Família or its substitute, Auxílio Brasil (Provisional Measure nº 1061 of 2021). The IFI's classification is that the risk of breaking the fiscal rule is moderate but very close to being high since the IFI estimates the minimum level of discretionary spending to avoid a shutdown at R$ 103 billion.

In 2022, the initial clearance in the spending ceiling (with IPCA inflation at 8% and INPC at 8.3% in 2021) would be R$ 17.2 billion. The reduction in the projection of discretionary spending between the scenario presented in June and the current one and this gap should allow the full payment of the new level of court-ordered payments of government debt (R$ 89.1 billion). By hypothesis, if IPCA and INPC stay at 9% and 9.3%, respectively, in 2021, the gap of R$ 17.2 billion would fall to R$ 4.9 billion. In this case, Bolsa Família could only be increased by a little less than R$ 2 billion because the level of discretionary spending is already shallow and, in our view, there is little room in the IFI's projections for mandatory spending.

We mention the possibility of interpreting the Fundef court-ordered payments as expenditures not subject to the spending ceiling. This solution has also been discussed to the strong growth of these expenditures, as it does not represent a change in the game's rules. It interprets the exclusion of the Union's complementation to Fundeb (Fundef's successor) foreseen in the EC 95. In this case, there would be room to increase social spending: R$ 16.2 billion in 2022, ceteris paribus.

The economic picture is challenging. In particular, the fiscal risk materializes in the attempts to change the Constitution to increase budgetary space in an election year and in the advancement of the Income Tax reform, whose effect would be unfavorable to the public accounts. The contracting of permanent expenditures based on cyclical increases in revenue also justifies the apprehension. The public debt will probably return to an upward trajectory after the brief period under the influence of accelerating inflation and the nominal GDP. This debt exceeds the average for developing countries by about 30 percentage points of the GDP.

The probability of a deteriorated economic scenario in the second half of 2021 and the following year is significant. In summary, the balance of risks includes the deepening of the water and energy crisis, rising interest rates, the advancement of a reform agenda that worsens the tax system and blurs fiscal rules, and the general situation of the still severe pandemic. There is also the political-institutional risk, more challenging to price in predictive scenarios.

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Summary

- The low growth scenario contracted for the second semester and the more generalized inflationary pressure (which translates into greater inertia for next year) is promoting a new round of revisions in market expectations for the performance of GDP and the IPCA. The worsening of fiscal risk and the intensification of political risk associated with the stability of democratic institutions generate additional uncertainty to the future path of inflation and GDP. The IFI presents preliminary projections for these variables to incorporate the profound changes in the current environment. The complete revision of the macro-fiscal scenarios will take place in October. **(Page 8)**

- Calculations carried out by the IFI to isolate the effects of non-recurrent events on the primary revenue and expenditure series show that in the accumulated 12-month period until July 2021, the primary deficit of the central government would have been R$ 13.1 billion, at July prices, against R$ 328.8 billion in the observed series. This indicator has shown significant improvement throughout 2021 due to the growth in tax collection, which, in turn, is driven by improved economic activity in the first two quarters of the year. **(Page 17)**

- The average cost of public debt (stock and new issues) rose for the fifth consecutive month in July. This movement coincides with the beginning of the cycle of increases in the base interest rate by the Central Bank. The rise in the average cost of debt will put pressure on public sector interest expenses in the medium term, requiring the government to make more significant efforts to generate primary surpluses to guarantee control of the debt as a proportion of the GDP. **(Page 25)**

- The spending ceiling will be the primary fiscal constraint in 2022. Until the middle of this year, the outlook was favorable for compliance with the rule. Still, the resilience of inflation and the atypical growth in spending on court-ordered payments of government debt quickly reversed expectations. In this context, there are at least four proposals under discussion, and none of them promotes adequate savings to offset the impact of unexpected expenses. **(Page 30)**

- Primary expenditure projections reveal a more benign scenario for personnel expenditures and social security benefits. Together, they represent two-thirds of total expenses. Disregarding the portion derived from court-ordered payments of government debt, both should have a drop (in real terms) in 2021. In 2022, the social security system should show moderate growth, while personnel expenses should continue to decline. One should look at the performance of personnel expenditures with caution since it occurs in a context of few admissions and wage adjustments, which may prove to be unsustainable in the coming years. **(Page 39)**

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1. MACROECONOMIC CONTEXT

Low dynamism in economic activity and high and persistent inflation mark the economic scenario. This trend was enhanced with the release, by the Brazilian Institute of Geography and Statistics (IBGE in the original acronym), of the Gross Domestic Product (GDP) for the second quarter, the industrial production for July, and the Extended National Consumer Price Index (IPCA in the original acronym) for August.

The worsening of fiscal risk and the intensification of political risk associated with the stability of democratic institutions produce uncertainty in the future path of inflation, making the Central Bank's task more difficult. Additionally, the rise in commodity prices in reais, the impact of the water shortage on electricity bills, the bottlenecks in the supply chain on industrial goods prices, and the advance in services prices are some factors behind the dynamics of consumer prices in recent months. It is likely, in this sense, that the Central Bank's Monetary Policy Committee (Copom in the original acronym) will increase the intensity of Selic base interest rate hikes in an attempt to anchor expectations in a moment of fragility in the labor market and doubts regarding the evolution of the pandemic.

The low growth panorama expected in the second semester and the more generalized inflationary pressures (which translate into greater inertia for next year), reinforced by the readjustment in the value of the tariff flag, are generating a new round of revisions in market expectations for the performance of GDP and the IPCA in 2021 and 2022.

In this edition of the Fiscal Follow-Up Report (RAF, in the original acronym), a preview of these macroeconomic parameters, to be officially published in October in the macro-fiscal scenario update, is presented. In summary, the preliminary figures for 2021 and 2022 are as follows: Nominal GDP (14.7% and 7.8% compared to 12.6% and 7.0% in the scenario presented in June), volume GDP (4.9% and 1.7% compared to 4.2% and 2.3%) and IPCA (8.0% and 3.9% compared to 5.7% and 3.6%). It is worth mentioning that the institution will present a complete review of the scenarios in October.

1.1 Economic activity

GDP totaled R$ 2.143 trillion in the second quarter of 2021 in current values, up 25.4% compared to the same period in 2020. The release of the Quarterly National Accounts by IBGE showed that the GDP totaled R$ 2.143 trillion in current values (R$ 8.087 trillion accumulated in four quarters). Compared to the same period in 2020, the nominal GDP (monetary value of domestic production) rose by 25.4%, influenced both by the expansion in the price level seen in the GDP deflator (up 11.6%) and by the growth in real GDP (volume produced) of 12.4%. In the four quarters ended in June 2021, compared to the four preceding quarters, the 9.9% rise in nominal GDP reflected the variations of 8.0% in the GDP deflator and, to a lesser extent, of 1.8% in volume GDP. Table 1 summarizes the rates of change associated with nominal GDP, volume GDP, and the GDP deflator.

TABLE 1. NOMINAL GDP, GDP IN VOLUME, AND IMPLICIT GDP DEFLATOR

	Nominal GDP (changes)		GDP in volume (changes)		GDP Deflator (changes)	
	Quarterly	Accum. 12 months	Quarterly	Accum. 12 months	Quarterly	Accum. 12 months
2020.I	4.4%	5.6%	-0.3%	1.0%	4.7%	4.5%
2020.II	-6.8%	2.4%	-10.9%	-2.1%	4.5%	4.5%
2020.III	0.4%	0.8%	-3.9%	-3.4%	4.5%	4.4%
2020.IV	**4.2%**	**0.6%**	**-1.1%**	**-4.1%**	**5.4%**	**4.8%**
2021.I	11.1%	2.2%	1.0%	-3.8%	10.0%	6.2%
2021.II	25.4%	9.9%	12.4%	1.8%	11.6%	8.0%

Source: IBGE. Prepared by: IFI.

The difference between the GDP deflator and the IPCA reached 3.0 percentage points (p.p.) in the second quarter of 2021. The GDP deflator, obtained from the Quarterly National Accounts, is a broader measure of inflation than the IPCA. It reflects all domestically produced goods and services (not just a specific basket). Comparing the GDP deflator with the average deviation of the IPCA, the difference is more prominent (8.0% less 5.0% = 3.0 p.p.) than that observed, for example, between the deflator and the weighted average of the IPCA and the IGP-DI[2] (8.0% less 8.1% = -0.1 p.p.) in the second quarter of 2021, as can be seen in Table 2. The variation of the IGP-DI, more extensive than the IPCA and more sensitive to the behavior of the exchange rate and commodity prices, has been running above two digits since the last quarter of 2020. Monitoring these differences is relevant since the trajectory of fiscal indicators expressed to GDP is affected by the dynamics of the GDP deflator.

TABLE 2. PRICE INDEXES (AVERAGE CHANGES)

	GDP deflator	IPCA	IGP-DI	Weighted average IPCA and IGP-DI [3]
Average 1997 - 2019	**7.4%**	**6.2%**	**7.7%**	**6.4%**
2020.I	4.5%	3.7%	6.0%	4.0%
2020.II	4.5%	3.1%	5.9%	3.5%
2020.III	4.4%	3.0%	8.6%	3.8%
2020.IV	**4.8%**	**3.2%**	**13.0%**	**4.7%**
2021.I	6.2%	3.6%	18.6%	5.8%
2021.II	8.0%	5.0%	25.6%	8.1%

Source: IBGE. Prepared by: IFI.

Compared to the same period last year, GDP growth in volume reflected the reduced basis of comparison since the second quarter of 2020 represented the peak of restrictions during the pandemic. On the supply (or production) side, the 12.4% growth of GDP in volume in the first quarter of this year, when compared to the same period last year, was driven by the expansions observed in the industry (17.8%), in the services sector (10.8%), and in agriculture and livestock (1.3%), to a lesser extent (Table 3).

There was generalized growth among the demand (or expenditure) components, with a highlight, in terms of contribution, to the performance of household consumption (10.8%), gross fixed capital formation (32.9%), and government consumption (4.2%). In the external sector, exports of goods and services grew 14.1%, while the growth in imports of goods and services was 20.2%.

TABLE 3. GDP: SUPPLY AND DEMAND SIDES

	Variation against the same quarter of the previous year			Variation against the previous quarter (seasonally adjusted)			Variation against Q4/19 - pre-pandemic		
	dec/20	mar/21	jun/21	dec/20	mar/21	jun/21	dec/20	mar/21	jun/21
GDP	**-1.1%**	**1.0%**	**12.4%**	**3.1%**	**1.2%**	**-0.1%**	**-1.2%**	**-0.1%**	**-0.1%**
Supply side									
Agriculture and livestock	-0.4%	5.2%	1.3%	-2.0%	6.5%	-2.8%	-0.2%	6.3%	3.3%
Industry	1.2%	3.0%	17.8%	1.5%	0.7%	-0.2%	1.1%	1.9%	1.6%
Services	-2.2%	-0.8%	10.8%	2.8%	0.7%	0.7%	-2.3%	-1.6%	-0.9%
Demand side									
Household consumption	-3.0%	-1.7%	10.8%	3.0%	0.1%	0.0%	-3.1%	-3.0%	-3.0%
Government consumption	-4.1%	-4.9%	4.2%	0.9%	-0.8%	0.7%	-4.2%	-4.9%	-4.3%
GFCF	13.5%	17.0%	32.9%	18.3%	4.8%	-3.6%	13.7%	19.2%	14.9%
Exports	-4.3%	0.8%	14.1%	-0.3%	4.9%	9.4%	-3.9%	0.8%	10.2%
Imports	-3.1%	7.7%	20.2%	19.5%	10.0%	-0.6%	-3.0%	6.6%	6.0%

Source: IBGE. Prepared by: IFI.

Domestic absorption, which represents the sum of household consumption, government consumption, and investments, added 12.9 p.p. to the GDP variation in the second quarter. At the same time, net exports (exports minus

[2] The weighted average of the IPCA and IGP-DI is used by the Central Bank to inflate the volume index of the monthly GDP estimate, used to calculate the relationship between monthly economic aggregates (such as public debt) and GDP.
[3] The weights of the IPCA and IGP-DI were estimated by the IFI through a regression with annual frequency from the average variations of the implicit GDP deflator, the IPCA and the IGP-DI.

imports) negatively influenced, removing 0.5 p.p. of the GDP, because imports (20.2%) showed a more expressive variation than exports (14.1%) compared to the first quarter. Within domestic absorption, the highlight is household consumption (6.6 p.p.), which represented the primary source of GDP growth in the second quarter, after a sequence of five quarters of negative contributions. Table 4 shows the contributions of each component of aggregate demand for the interannual variation in GDP since the first quarter of 2020.

TABLE 4. CONTRIBUTIONS (IN P.P.) TO THE GDP GROWTH RATE COMPARED TO THE SAME QUARTER OF THE PREVIOUS YEAR

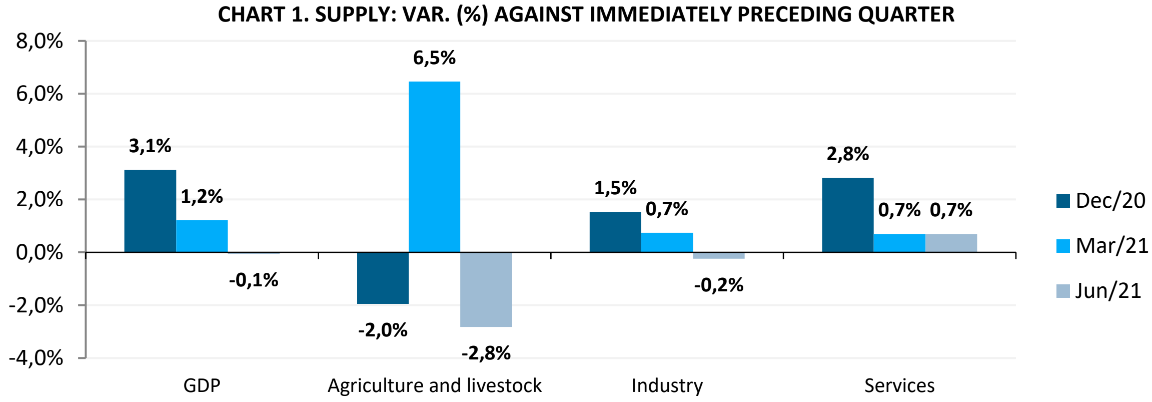
	mar/20	jun/20	sep/20	dec/20	mar/21	jun/21
GDP	**-0.3**	**-10.9**	**-3.9**	**-1.1**	**1.0**	**12.4**
Domestic absorption	**0.7**	**-13.0**	**-7.6**	**-1.0**	**2.0**	**12.9**
Household consumption	-0.5	-7.8	-3.8	-2.0	-1.1	6.6
Government consumption	-0.1	-1.7	-1.0	-0.9	-0.9	0.9
GFCF	0.9	-2.1	-1.3	2.0	2.7	5.0
Changes in inventories	0.5	-1.4	-1.5	-0.1	1.3	0.4
Net exports	**-1.0**	**2.1**	**3.7**	**-0.2**	**-1.1**	**-0.5**

Source: IBGE. Prepared by: IFI.

GDP drops 0.1% compared to the first quarter of 2021 in the seasonally adjusted series. Despite strong annual growth, GDP (in volume) fell 0.1% compared to the second quarter of 2021 with the immediately preceding period in the seasonally adjusted series, remaining at the level before the appearance of the new coronavirus (fourth quarter of 2019). Even with the progress in vaccination campaign, the second quarter result represented a significant slowdown in the momentum of economic activity, after having recorded growth of 1.2% in the first three months of the year.

The stability of the economy reflects distinct sector dynamics. On the supply side, the 0.7% advance in services GDP, in the aftermath of increased mobility after the second wave of Covid-19, was not enough to offset the losses registered by the agriculture and livestock sector (-2.8%) and by industry (-0.2%). The agricultural GDP absorbed the effects of unfavorable weather conditions (lack of rain and occurrence of frost in June) on some crops, while the destabilization in the supply of inputs and the increase in costs (devaluation of the currency, commodity prices, international freight and electricity prices) impacted the industrial GDP.

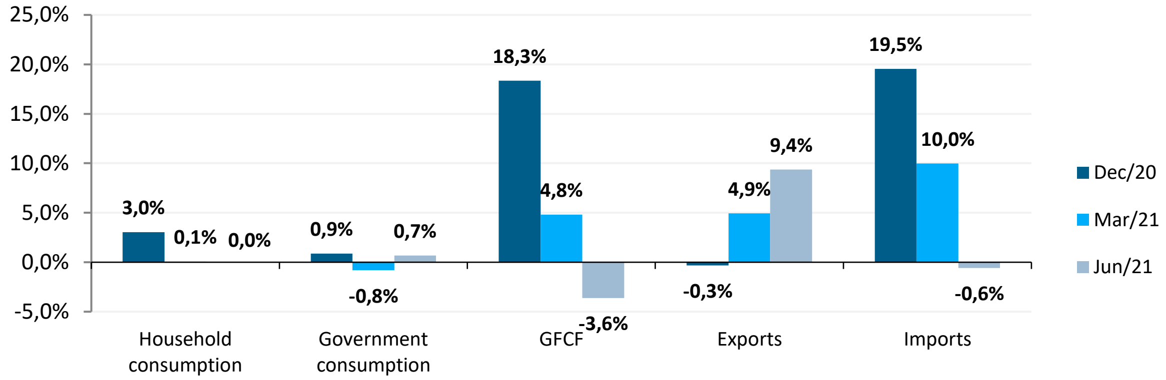
CHART 1. SUPPLY: VAR. (%) AGAINST IMMEDIATELY PRECEDING QUARTER



Source: IBGE. Prepared by: IFI.

On the expenditure side, the strong growth in exports reflected the robustness of the volume of world trade and commodity prices. The negative aspects were the stability in household consumption (even with the return of emergency aid payments, there was a predominant effect of high inflation on the real labor income) and the decline in the gross formation of fixed capital (-3.6%), affected by the decrease in imports of machinery and equipment[4].

CHART 2. DEMAND: VAR. (%) AGAINST IMMEDIATELY PRECEDING QUARTER



Source: IBGE. Prepared by: IFI.

The second quarter result left a statistical carry-over of 4.9% for 2021. In other words, if it remains stable in the following quarters of 2021, the GDP will end the year with a rise of 4.9%. Some indicators for the third quarter point to a continued loss of dynamism in economic activity, reinforcing a picture of difficulties for the resumption of economic growth over the second half of the year.

Data from the Industry Survey, published by the Getúlio Vargas Foundation (FGV in the original acronym) show that the confidence index (ICI) dropped 1.4 points between July and August after four months of consecutive highs, while the installed capacity level utilization dropped 0.4 p.p. (from 80.1% to 79.7%) from July to August. Additionally, the July industrial production disclosed by IBGE in the Monthly Industrial Survey (PIM in the original acronym) dropped 1.3% compared to June, intensifying the slump recorded in the previous month (-0.2%), discounting seasonal effects.

Recovery scenario undermined. The worsening water crisis, which may result in rationing in the coming months, and the doubts about the pandemic's evolution, since the coronavirus's delta variant is leading some countries to review their reopening strategies, influence the investment and consumption decisions of economic agents.

Fiscal and political-institutional risk put pressure on future interest rates. Additionally, the worsening fiscal risk and the intensification of political risk associated with the stability of democratic institutions increase the risk premium, producing additional uncertainty to the future path of inflation - making it difficult for the Central Bank to anchor expectations..

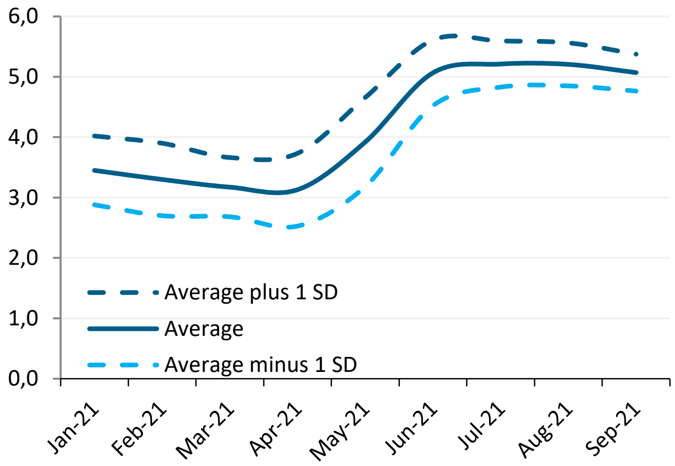
Downward revisions in the outlook for economic growth. With these uncertainties added to a domestic environment of persistently high prices and still very unfavorable conditions in the labor market, market projections for GDP in the short term and next year are moving downwards.

Among agents that registered projections in the Focus survey, the outlook for GDP growth rate was stable at 5.2% in June and July, slipping back to 5.1% on September 10th (a standard deviation range between 4.8% and 5.4%), having already been impacted to some extent by the GDP result and the industrial production results. In turn, average market

[4] Information that can be obtained in the Ipea FBCF Indicator, available at:
https://www.ipea.gov.br/cartadeconjuntura/index.php/2021/09/indicador-ipea-de-fbcf-junho-e-segundo-trimestre-de-2020-2/

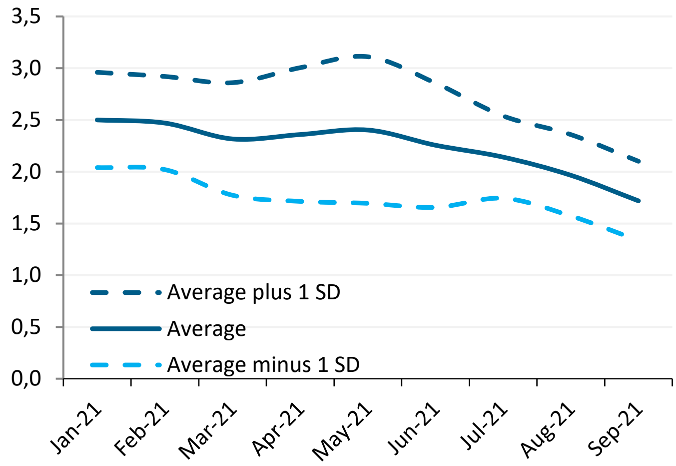
forecast for 2022 GDP went from 2.1% in July to 2.0% in August and 1.7% on September 10th (with a standard deviation range between 1.3% and 2.1%).

CHART 3. MARKET FORECASTS - GDP (2021)



Source: Central Bank. Prepared by: IFI.

CHART 4. MARKET FORECASTS - GDP (2022))



Source: Central Bank. Prepared by: IFI.

IFI presents a preliminary outlook for the GDP. The IFI's initial forecasts point to a GDP growth of around 4.9% in 2021, which indicates a practically stagnant economy in the second half of the year. The low carry-over left for 2022, on the other hand, puts a negative bias on next year's GDP projection, which should be around 1.7%. We will revise the current estimates for economic growth for 2021 (4.2%) and 2022 (2.3%) in the October edition of the RAF - the macro-fiscal scenario update. The objective of the preview presented is to include in the projections the profound changes in the macroeconomic conjuncture.

1.2 Labor market

The unemployment rate remains high in historical terms. The unemployment rate reached 14.1% of the labor force in the quarter ended in June, an increase of 0.8 p.p. compared to the rate verified in the same period last year (13.3%), according to statistics obtained in the Continuous National Household Sample Survey (PNAD Contínua), by IBGE. The indicator remains at a historically high level, with 14.4 million people out of work. The result reflected the increase in the labor force (6.3%) in a magnitude higher than that observed in the working population (5.3%) in the year-on-year comparison.

Increased labor force impacts the participation rate. The ratio between the number of people in the labor force and the number of people of working age (indicator known as the labor force participation rate) reached 58% in the quarter ended in June, advancing 2.7 p.p. compared to the level registered in the same period a year earlier. Despite the expansion in hiring, the return of part of individuals who migrated to inactivity, discouraged by the lack of opportunities in the pandemic, pressured the unemployment rate. Suppose the employment contractions do not advance significantly, sufficient to absorb the people returning to the labor force. In that case, the unemployment rate tends to remain at high levels in the coming months.

The working population totaled 87.8 million people in June, up 5.3% in comparison to June 2020. It is important to note that the substantial advance in the year-on-year comparison was primarily due to the weak comparison base when employment was already suffering the effects of the pandemic intensely..

The figures in Table 5 show that the occupation improvement occurred mainly due to the dynamics of informal employment[5] (from 30.8 million in the quarter ended June 2020 to 35.6 million in the quarter ended June 2021, a variation of 15.8%), with emphasis on the increase in the number of self-employed people. On the other hand, the number of formalized workers fell by 0.8% on this basis of comparison (from 52.6 million to 52.2 million), although by a smaller magnitude compared to the rate recorded in the previous quarter (-3.1%).

TABLE 5. WORKING POPULATION

	Absolute values (thousand people)			Variation compared to the same quarter of the previous year			Percentage to the total working population		
	jun/20	may/21	jun/21	jun/20	may/21	jun/21	jun/20	may/21	jun/21
Working population	**83,347**	**86,708**	**87,791**	**-10.7%**	**0.9%**	**5.3%**	**100%**	**100%**	**100%**
Informal	30,768	34,712	35,618	-20.0%	7.5%	15.8%	36.9%	40.0%	40.6%
Formal	52,579	51,996	52,173	-4.2%	-3.1%	-0.8%	63.1%	60.0%	59.4%
Private Sector	38,793	39,603	40,212	-13.2%	-1.8%	3.7%	46.5%	45.7%	45.8%
Domestic workers	4,714	5,027	5,108	-24.6%	-0.1%	8.4%	5.7%	5.8%	5.8%
Public sector	12,360	11,954	11,821	6.0%	-2.5%	-4.4%	14.8%	13.8%	13.5%
Employer	3,955	3,723	3,788	-9.5%	-7.7%	-4.2%	4.7%	4.3%	4.3%
Self-employed	21,664	24,373	24,839	-10.3%	8.7%	14.7%	26.0%	28.1%	28.3%
Auxiliary workers in Family business	1,861	2,028	2,023	-15.5%	7.9%	8.7%	2.2%	2.3%	2.3%

Source: IBGE. Prepared by: IFI.

Underutilization of the labor force shows the fragility of the labor market. In June, the number of people above 14 years of age who were either unemployed (14.4 million) or underemployed due to insufficient hours worked (7.5 million) or discouraged[6] (5.6 million) totaled 27.6 million individuals, an increase of 14.5% in comparison to the same period a year earlier. If these individuals who stopped working were in the labor force, the unemployment rate would be 23.9%, 1.5 percentage points higher than in the same period a year earlier (22.4%).

Average real income fell 6.6% compared to the same period in 2020, after a 3.2% reduction in the quarter ended in May. The worsening inflationary environment and the high unemployment rate limit workers' power in negotiations for salary increases. Additionally, the more concentrated increase in hiring in lower-paid activities also helps explain the drop in income. As a result, there was also a 1.7% drop in the payroll indicator (average income multiplied by the number of people employed).

1.3 Inflation and monetary policy

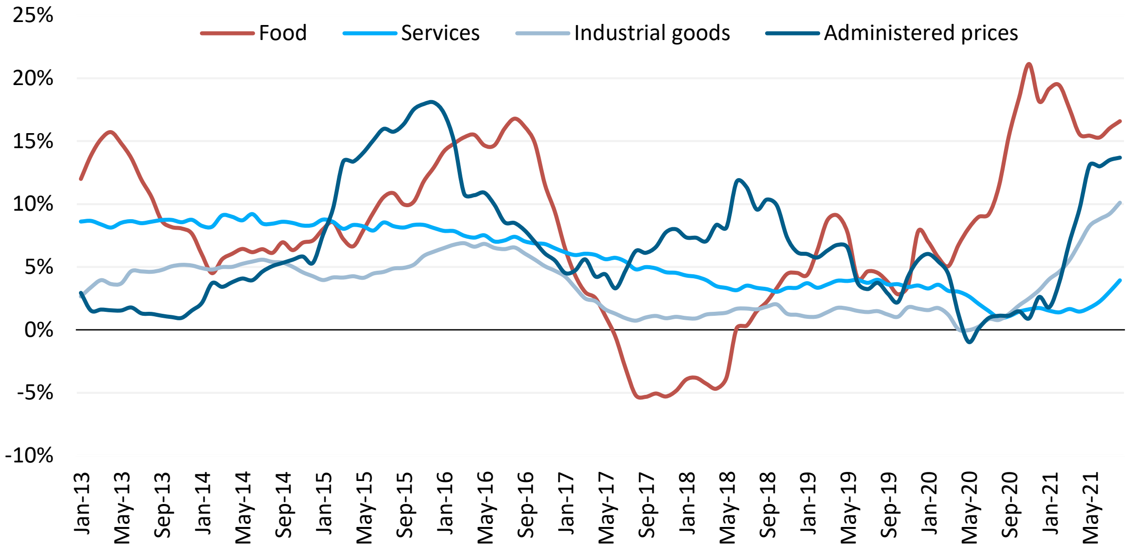
In August, the IPCA accumulated a 9.68% hike over 12 months. Consumer inflation measured by IPCA has slowed a bit, from 0.96% in July to 0.87% in August, still the highest variation for the month since 2000. The accumulated rate over 12 months continues to accelerate from 8.99% in July to 9.68% in August.

Service inflation reacts to the reopening of the economy and registers a 3.9% rise over 12 months. In August, administered prices, which account for around 25% of the total IPCA, advanced 0.95% (13.7% accumulated variation over 12 months). Market prices, meanwhile, rose 0.84% (8.3% in the last 12 months). Among free prices (a group of items that are more sensitive to supply and demand conditions), the pressures came mainly from food (1.6% and

[5] It includes the following positions: private sector and domestic workers without a signed contract, employer and self-employed without CNPJ, and auxiliary workers in a family business.
[6] Discouraged people are those who had not conducted an effective search but would like to have a job and were available for work in the reference week of the survey.

16.6%) and industrial goods (1.0% and 10.1%) and, to a lesser extent, service prices (0.4% and 3.9%) in the wake of the reopening of the economy (Chart 5). Initially affected by shocks in food, fuel, energy, and industrial prices, the inflationary process is more widespread.

CHART 5. IPCA BREAKDOWN (VAR. % ACCUMULATED IN 12 MONTHS)

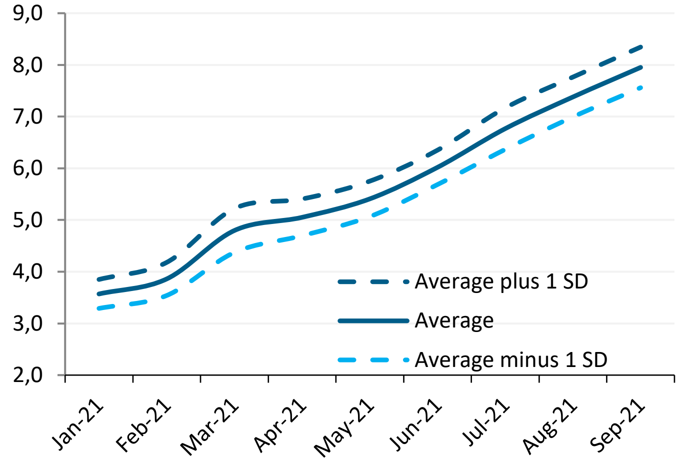


Source: Central Bank. Prepared by: IFI.

The behavior of the diffusion index and cores reinforces inflation persistence. The IPCA's diffusion index, a variable that indicates the share of IPCA sub-items with positive variations in the month, advanced from 63.7% in July to 71.9% in August, showing a scenario of broad dissemination of price readjustments. Similarly, the average of the inflation cores constructed by the Central Bank (several measures that seek to exclude the influence of more volatile items from total inflation) rose from 0.59% in July to 0.67% in August (from 5.5% to 6.1% in the 12 months ended in August).

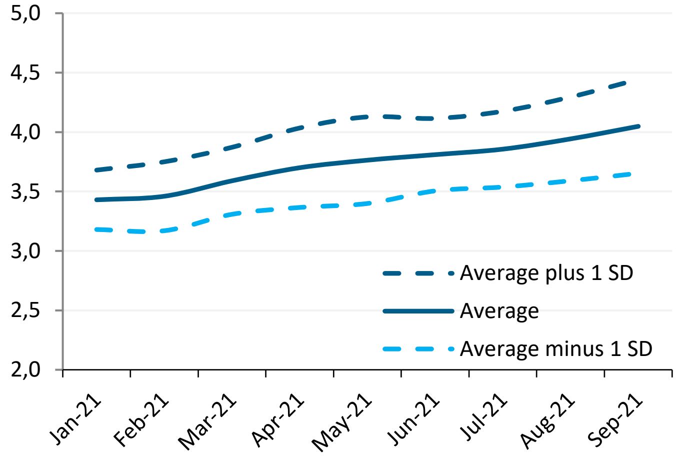
Persistent inflationary shocks have caused upward revisions in expectations for 2021 and 2022. Among agents that registered their projections in the Focus survey, the prospect for the IPCA reached 8.0% on September 10th (with a standard deviation interval between 7.6% and 8.3%), compared to 7.4% in August and 6.8% in July, taking into account the August IPCA well above the Focus forecast (0.96% x 0.67%). Average market forecasts for the IPCA for 2022 reached 4.0% at the beginning of September (with a standard deviation interval between 3.7% and 4.4%).

CHART 6. MARKET FORECASTS - IPCA (2021)



Source: Central Bank. Prepared by: IFI.

CHART 7. MARKET FORECASTS - IPCA (2022)



Source: Central Bank. Prepared by: IFI.

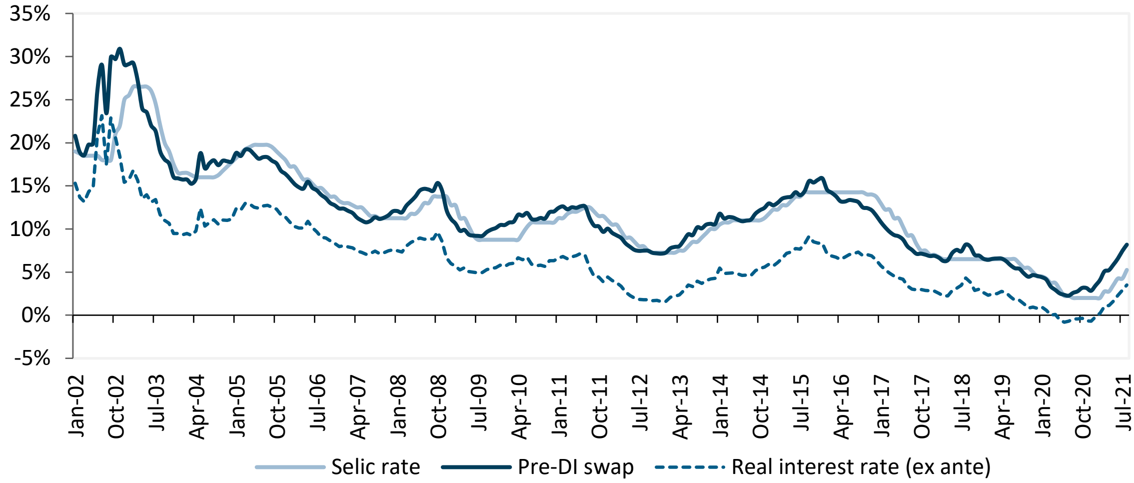
IFI's projections for the IPCA have an upward bias. The higher than expected August inflation suggests that the IPCA should stay at (or even above) the 8.0% level. The creation of the "water scarcity" flag, in effect since September to cover the cost of running thermal power stations and energy imports, which raises the extra charge levied on the electricity bill by 6.78%, reinforces this perception. The more generalized current inflationary pressure translates into greater inertia for inflation in 2022. Therefore, the current projection for IPCA next year (3.5%) should also be revised, in this case to a level closer to 4.0%.

In August, Copom announced a one p.p. increase in the Selic rate to 5.25% and indicated it would be necessary to make another adjustment of the same magnitude if there were no significant changes in inflation and activity. The August IPCA data, in addition to the uncertainties in the domestic scenario, increase the chances that Copom will accelerate the pace of interest rate hikes, speeding up the adjustment of the Selic rate.

Interest rates reached 3.5% in August (real terms). The real interest rate rose again after remaining in the negative territory between May 2020 and January 2021 (Chart 8). The real interest rate (in the ex-ante concept), obtained based on the rate of pre-DI swap[7] operations for a one-year term (8.5%) discounted from the projected inflation rate[8] or the same horizon (4.5%), reached the level of 3.5% in August. The monetary tightening process reduces the stimulus to the economy when the cyclical recovery of economic activity has not consolidated.

[7] Reference rate of the swap contracts between DI and pre-fixed of 360 days: end of the period, obtained in Ipeadata.
[8] Projection of the IPCA 12 months ahead (smoothed) obtained in the Focus survey.

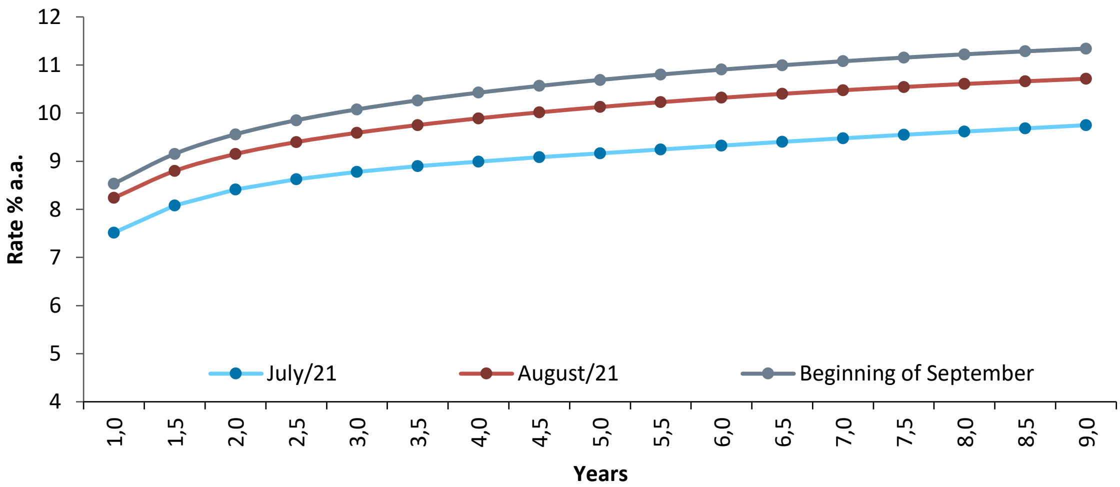
CHART 8. INTEREST RATES



Source: Anbima. Prepared by: IFI.

Chart 9 shows the term structure of interest rates - calculated by the Brazilian Financial and Capital Markets Association (Anbima), based on the secondary market in government bonds. In nominal terms, the yield on a one-year bond rose from 7.5% (July) to 8.2% (August) and 8.5% (September 8th). Between August and the beginning of September, the yield curve shifted upwards by about 0.3 p.p. (over a nine-year horizon, the rate rose from 10.7% to 11.3%). This movement represents a tightening in financing conditions, with probable adverse effects on economic activity and the dynamics of debt/GDP.

CHART 9. TERM STRUCTURE OF NOMINAL INTEREST RATES



Source: Anbima. Prepared by: IFI.

2. FISCAL SCENARIO

2.1 Balances of the Central Government and the Consolidated Public Sector

2.1.1 Central Government Primary Balance

The primary balance of the central government was R$ 73.4 billion in the first seven months of 2021. According to information from the National Treasury Report (RTN in the original acronym) of the National Treasury Secretariat (STN), the central government had a primary deficit of R$ 73.4 billion in the first seven months of 2021, compared to a deficit of R$ 505.2 billion in the same period of 2020. From May on, the central government started to register monthly primary deficits due to the progress in the budget execution. The late approval of the 2021 budget in April contributed to the positive primary results until that month.

In 12 months, the central government's primary deficit was R$ 311.5 billion (3.6% of GDP) in July. In the 12 months ended in July, the central government reported a primary deficit of R$ 311.5 billion (3.6% of GDP), R$ 253.6 billion less than in July a year earlier. As highlighted in previous issues, the primary deficit has decreased due to the strong growth in federal revenues and the reduction in spending to mitigate the effects of the pandemic.

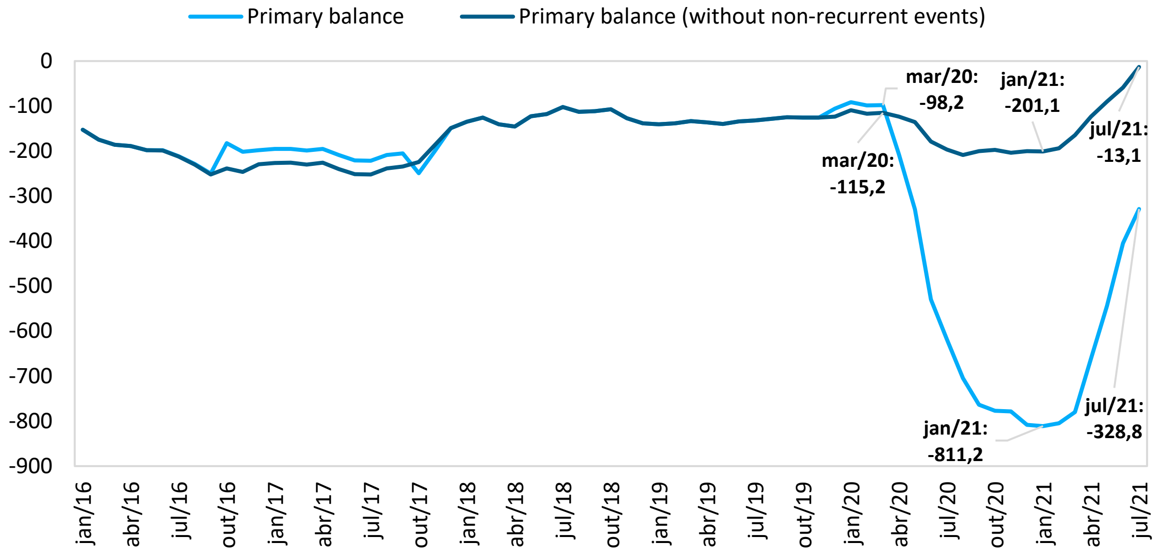
In this edition of the RAF, the IFI presents an update of the recurrent primary balance of the central government, constructed from the recalculated primary revenue and expenditure series, subtracting some non-recurrent events[9]. Chart 10 illustrates the 12-month evolution of the observed central government primary balance and the counterfactual series from 2016 – both expressed in July 2021 prices.

Excluding non-recurrent events, the central government's primary deficit would have been R$ 13.1 billion in the 12 months ending in July. The exercise shows that, in the 12 months to July 2021, the primary deficit of the central government would have been R$ 13.1 billion, at constant prices, in the absence of the non-recurrent events considered (Chart 10). Another important finding is that the recurrent deficit would be the lowest in the last five years, including the March 2020 result (deficit of R$ 128.0 billion), before the pandemic emerged.

Improvement in 2021 in the central government's primary balance recalculated by the IFI results from the increase in primary revenue. The series calculated by the IFI for the central government's primary result indicates a trajectory of a substantial reduction of the primary deficit in 2021. It results from the growth of revenues collected by the Federal Revenue Office (RFB), influenced by commodity prices and the relatively favorable international environment in recent months.

[9] We deducted the following events from revenues: tax deferrals and the reduction to zero of the IOF rates on credit operations in 2020 and 2021, the extraordinary collection from the revision of the pre-salt onerous transfer contract in December 2019 (of R$ 70 billion), the reduction of the PIS/COFINS rate on fuels in April and May 2021, as well as revenues from the repatriation of funds from overseas in 2016. The events excluded in expenses were those aimed at fighting the pandemic, as explained by the Treasury (tab 4.1 of the RTN spreadsheet), and the Union's expenses in December 2019 (R$ 34.4 billion for the payment to Petrobras on the occasion of the revision of the onerous transfer contract), and the capital increase of non-dependent state companies (R$ 7.4 billion). Amounts referring to the anticipation of annual bonus (Christmas Bonus) to retirees and pensioners (INSS) in 2020 and 2021 were also adjusted, which shifted the seasonality of the series. Finally, adjustments were made in transfers to states and municipalities, referring to the sharing of funds from repatriation (in 2016) and the revenue from reviewing the onerous transfer contract with Petrobras in December 2019.

CHART 10 - EVOLUTION IN 12 MONTHS OF CENTRAL GOVERNMENT´S PRIMARY BALANCE - OBSERVED AND RECALCULATED BY THE IFI (R$ BILLION AT JULY 2021 PRICES)



Source: National Treasury Secretariat. Prepared by: IFI.

The primary revenue of the central government increased 29.9% in the year to July 2021 (real terms). Between January and July 2021, the total primary revenue of the central government reached R$ 1,067.5 billion (22.1% of GDP), a 29.9% increase in real terms over the same period in 2020 (Table 6). Of this amount, R$ 677.7 billion (14.0% of GDP) were collected by RFB, except General Social Security System (RGPS) - an increase of 30.8% (real terms) over the first seven months of 2020. RGPS revenues, at R$ 242.9 billion (5.0% of GDP), grew 17.7% on this basis of comparison. On the other hand, revenues not collected by the RFB totaled R$ 147.0 billion (3.0% of GDP) in the accumulated seven months of the year, an increase of 51.2% compared to 2020, in real terms.

It is worth mentioning that the GDP series used in the present discussion is the monthly GDP series calculated and released by the Central Bank. It is a series estimated from the information of the IBGE's System of Quarterly National Accounts. Until July, the Central Bank released the monthly GDP series before the official GDP result for the second quarter. We have not yet updated the values of the monthly GDP series after the most recent national accounts release.

Until July, commodity prices and the depressed comparison basis of 2020 influenced tax collection performance. As highlighted in recent issues of this RAF, the excellent performance of tax collections in the year to July followed the current economic activity and higher prices of some agricultural and mineral commodities, such as soybeans and iron ore, representative items in the Brazilian export list. This movement influences the collection of IRPJ/CSLL, foreign trade taxes (due to the depreciation of the exchange rate and the dollar value of imports), and PIS-PASEP/COFINS, especially those levied on imports.

The depressed comparison basis of the second quarter of 2020 also influences the high rates of increase in revenues because of the postponement of the collection of some taxes (PIS/COFINS and employer's contribution to social security and the reduction to zero of IOF rates on credit operations by the government).

Without non-recurrent events, high growth rates tend to reflect a more heated economic activity behavior until the second quarter of the year. To isolate the effects of these non-recurrent events on revenues, the IFI has constructed and presented the recalculated total and net primary revenues in the last editions of this RAF. This series shows vigorous growth, which reinforces the effect of economic activity on tax collection until the second quarter of the year.

Excluding the effect of tax deferrals, the total primary revenue of the central government would have grown by 19.9% in the seven months of 2021. In the year to July 2021, the recalculated total revenue would have registered an increase of 19.9%, in real terms, compared to the same period last year (against 29.9% of the total revenue realized). The net revenue, in turn, would have had an expansion of 19.7% on this basis of comparison (compared to 32.2% of the net revenue observed). Table 6 presents this information.

Comparison of the tax collection results with those of 2019 reinforces the robustness of growth in 2021. Another way to see the recovery of primary revenues in 2021 is to compare the amounts with those realized in 2019. Total revenue, for example, grew 7.7% in the first seven months of 2021 against the same period in 2019, in real terms (R$ 1,067.5 billion over R$ 901.5 billion). As a proportion of GDP, primary revenue grew from 21.3% of GDP in 2019 to 22.1% of GDP in 2021. Net revenue, in turn, recorded an increase of 7.3% (real terms) between January and July 2021 compared to the same period in 2019 (18.0% of GDP in 2021, against 17.4% of GDP in 2019). Table 6 also shows this information.

An increase in shared taxes by the Union with subnational entities boosted transfers. The transfers to states and municipalities grew 20.7% in real terms between January and July 2021, reaching R$ 196.4 billion. This result derives from the strong growth in the collection of taxes shared by the Union with subnational entities, such as the tax on Industrialized Products Tax (IPI) and Income Tax (IR), as well as other revenues, such as the exploitation of natural resources (Table 6).

TABLE 6. CENTRAL GOVERNMENT'S REVENUES – 2019-2021 – JANUARY TO JULY (R$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Jul/19			Jan-Jul/20			Jan-Jul/21		
	R$ B current	Real % Change	% GDP	R$ B current	Real % Change	% GDP	R$ B current	Real % Change	% GDP
Total Revenue	**901.5**	**0.6%**	**21.3%**	**769.5**	**-17.1%**	**18.4%**	**1,067.5**	**29.9%**	**22.1%**
Revenues Collected by RFB, except RGPS	*564.3*	*0.3%*	*13.3%*	*485.7*	*-16.4%*	*11.6%*	*677.7*	*30.8%*	*14.0%*
Fiscal Incentives	*0.0*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*
RGPS Revenues	*226.9*	*2.7%*	*5.4%*	*193.2*	*-17.3%*	*4.6%*	*242.9*	*17.7%*	*5.0%*
Revenues not Collected by RFB	*110.5*	*-1.5%*	*2.6%*	*90.8*	*-20.0%*	*2.2%*	*147.0*	*51.2%*	*3.0%*
Transfers	**162.7**	**4.7%**	**3.8%**	**152.4**	**-9.0%**	**3.6%**	**196.4**	**20.7%**	**4.1%**
Net Revenue	**738.8**	**-0.2%**	**17.4%**	**617.2**	**-18.9%**	**14.8%**	**871.2**	**32.2%**	**18.0%**
Total revenue without non-recurrent events*	**901.5**	**0.6%**	**21.3%**	**850.8**	**-8.3%**	**20.3%**	**1,089.5**	**19.9%**	**22.5%**
Net revenue without non-recurrent events*	**738.8**	**-0.2%**	**17.4%**	**698.4**	**-8.1%**	**16.7%**	**893.2**	**19.7%**	**18.4%**
GDP (R$ billion current)	**4,239.9**			**4,182.4**			**4,841.2**		

** The non-recurrent events consist of R$70 billion received from the review of the pre-salt onerous transfer contract (December 2019), removed from the series, and the deferred and paid taxes, added and paid, respectively, in 2020 and 2021.*

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

IFI's projection for the central government's primary revenue in 2021 moved to R$ 1,806.6 billion on a preliminary basis. In the 12 months ending in July 2021, the total primary revenue of the central government was R$ 1,765.8 billion (20.2% of GDP), an amount 11.2% higher than in July 2020 in real terms. The net revenue, in turn, totaled R$ 1,458.0 billion (16.7% of GDP), an increase of 12.7% (real terms) compared to July last year. The IFI's projection for total and net primary revenues in 2021 was preliminarily revised from R$ 1,768.6 billion to R$ 1,806.6 billion and from R$ 1,435.7 billion to R$ 1,468.5 billion, in this order, due to the GDP projection presented in the Macroeconomic Context section.

With information updated through August, market consensus projects an amount of R$ 1,775.6 billion for primary federal revenue in 2021. By way of comparison, the median of the projections captured by the Monthly Report from Prisma Fiscal of the Ministry of the Economy indicated, in August[10], R$ 1,775.6 billion for federal revenues and R$ 1,466.8 billion for net revenues for the central government in 2021. In turn, the most recent projections of the Ministry of Economy for these variables in 2021[11], contained in the Primary Revenues and Expenses Evaluation Report of the 3rd bimester of 2021, are R$ 1,816.3 billion for total revenue and R$ 1,476.4 billion for net revenue.

Anticipation of the August result suggests an increase of 8.1% for net revenues (real terms). Based on information gathered by the IFI from the STN's Management Treasury, it is possible to verify that the strong growth in the Federal Government's primary revenues from July to August continued in August. According to the consolidated data, primary revenue would have been R$ 149.7 billion in August, an increase of 12.4% (real terms) compared to the same month in 2020. The net revenue, in turn, would have registered a rise of 8.1% on the same basis of comparison to R$ 121.1 billion. In the eight months of 2021, the increases would have been 27.5% in total revenue and 28.8% in net revenue.

The primary expenditure of the central government was R$ 944.6 billion between January and July 2021. We now analyze the central government's primary spending, which totaled R$ 944.6 billion (19.5% of GDP) in the accumulated seven months of 2021, R$ 177.8 billion below the expenditure in the same period of 2020, a retraction of 21.4% in real terms. (Table 7).

Expenses with the payment of RGPS benefits totaled R$437.5 billion in the year to July. Between January and July, there was stability in the number of social security benefits under the RGPS, which totaled R$437.5 billion in the period. On the other hand, there were increases in expenses with the Continuous Cash Benefit (BPC) and those related to the Fund for Maintenance and Development of Basic Education and Education Workforce Enhancement (Fundeb) from January to July 2021 (Table 7).

Most primary expenditures recorded contraction in the accumulated seven months of 2021. In most of the other essential expenses, there was a drop (real terms) compared to the first seven months of 2020: (i) personnel and social charges (R$ 190.7 billion and reduction of 3.3%); (ii) salary allowance and unemployment insurance (R$ 31.5 billion), a reduction of 24.1% compared to 2020; (iii) extraordinary credits (except PAC), amounting to R$ 68.0 billion (compared to R$ 228.9 billion executed between January and July 2020); (iv) subsidies, grants and Proagro (Agricultural Activity Guarantee Program), with an amount of R$ 5.1 billion (decline of 54.6%); and (v) discretionary, which diminished 18.8%, to R$ 48.8 billion in the period between January and July.

The 21.4% drop in primary spending between January and July occurred mainly due to reducing expenditures for fighting the pandemic. The 21.4% reduction, in real terms, of the total primary expense of the central government in the first seven months of the year occurred for a few reasons. First of all, because of the reduction in spending to mitigate the economic and social impacts of the pandemic, which affected expenses such as salary allowances and unemployment insurance, financial support to States and Municipalities, extraordinary credits and subsidies, grants, and Proagro. Also contributing to the relative control of primary expenditures were the absence of wage adjustment for

[10] Link for the report: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2021/relatorio_mensal_agosto_2021.pdf/view.

[11] Link to access the document: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2021/15?ano_selecionado=2021

civil servants and the reduction in the payment of court-ordered debts related to other current and capital expenditure (item "Court Rulings and Court-Ordered Debts " in Table 7).

In 2020 and 2021, there was a shift in the seasonality of benefits under the RGPS. In the case of social security benefits (RGPS), in 2020, the annual bonus (Christmas bonus) payment to retirees and pensioners was anticipated from the second semester to April, May, and June. In 2021, this anticipation occurred, but for June and July. In July, specifically, this expense grew 33.9%, in real terms, compared to the same month in 2020.

Approval of the 2021 budget only in April affected the execution of discretionary spending. Regarding discretionary spending, the late approval of the budget in April, which affected expenditures on the health and education functions in the first four months of the year, explained the 18.8% contraction in the accumulated seven months in 2021. As of May, the execution of these expenses normalized. For example, there was an increase in May, June, and July compared to the same month in 2020.

Primary expenditure without non-recurrent events would have fallen by 4.2%, in real terms, between January and July compared to 2020. Table 7 also presents information regarding total primary expenditure without non-recurrent events mentioned previously. In the accumulated seven months of 2021, this indicator has decreased by 4.2% in real terms (against 21.4% of the observed total primary expenditure).

TABLE 7. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – 2019-2021– JANUARY TO JULY (R$ B CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Jul/19			Jan-Jul/20			Jan-Jul/21		
	R$ B current	Real % Change	% GDP	R$ B current	Real % Change	% GDP	R$ B current	Real % Change	% GDP
Total Expenditure	**774.1**	**-0.9%**	**18.3%**	**1,122.4**	**41.0%**	**26.8%**	**944.6**	**-21.4%**	**19.5%**
Social Security Benefits (RGPS)	*338.0*	*2.1%*	*8.0%*	*408.5*	*17.5%*	*9.8%*	*437.5*	*0.0%*	*9.0%*
Personnel expenses (working and retired employees)	*179.9*	*1.2%*	*4.2%*	*184.4*	*-0.4%*	*4.4%*	*190.7*	*-3.3%*	*3.9%*
Salary allowance and unemployment insurance	*32.7*	*-1.1%*	*0.8%*	*39.1*	*15.8%*	*0.9%*	*31.5*	*-24.1%*	*0.7%*
Continuous Cash Benefit (BPC)	*34.6*	*2.0%*	*0.8%*	*36.6*	*2.8%*	*0.9%*	*39.5*	*0.9%*	*0.8%*
Extraordinary Credits (except PAC)	*2.7*	*1,195.3%*	*0.1%*	*228.9*	*8,001.8%*	*5.5%*	*68.0*	*-72.5%*	*1.4%*
Compensation to RGPS for Exemption of Payroll Taxes	*6.8*	*-25.4%*	*0.2%*	*6.1*	*-12.6%*	*0.1%*	*4.7*	*-27.8%*	*0.1%*
Fundeb	*9.8*	*5.2%*	*0.2%*	*10.2*	*0.7%*	*0.2%*	*11.4*	*5.0%*	*0.2%*
Court Rulings and Court-Ordered Debts (current and capital expenditure)	*14.4*	*4.9%*	*0.3%*	*21.5*	*46.3%*	*0.5%*	*17.5*	*-25.0%*	*0.4%*
Subsidies, Grants, and Proagro	*9.8*	*-20.6%*	*0.2%*	*10.5*	*4.3%*	*0.3%*	*5.1*	*-54.6%*	*0.1%*
Mandatory Expenditure	**719.5**	**0.7%**	**17.0%**	**1,066.5**	**44.1%**	**25.5%**	**895.8**	**-21.6%**	**18.5%**
Mandatory Spending with Flow Control	***77.6***	***-0.4%***	***1.8%***	***71.6***	***-10.3%***	***1.7%***	***79.4***	***3.8%***	***1.6%***
Discretionary	**54.5**	**-18.0%**	**1.3%**	**55.9**	**-0.2%**	**1.3%**	**48.8**	**-18.8%**	**1.0%**
Total Expenditure without non-recurrent events	**774.1**	**-0.9%**	**18.3%**	**801.0**	**0.6%**	**19.2%**	**820.2**	**-4.2%**	**16.9%**
GDP (R$ billion current)	**4,239.9**			**4,182.4**			**4,847.1**		

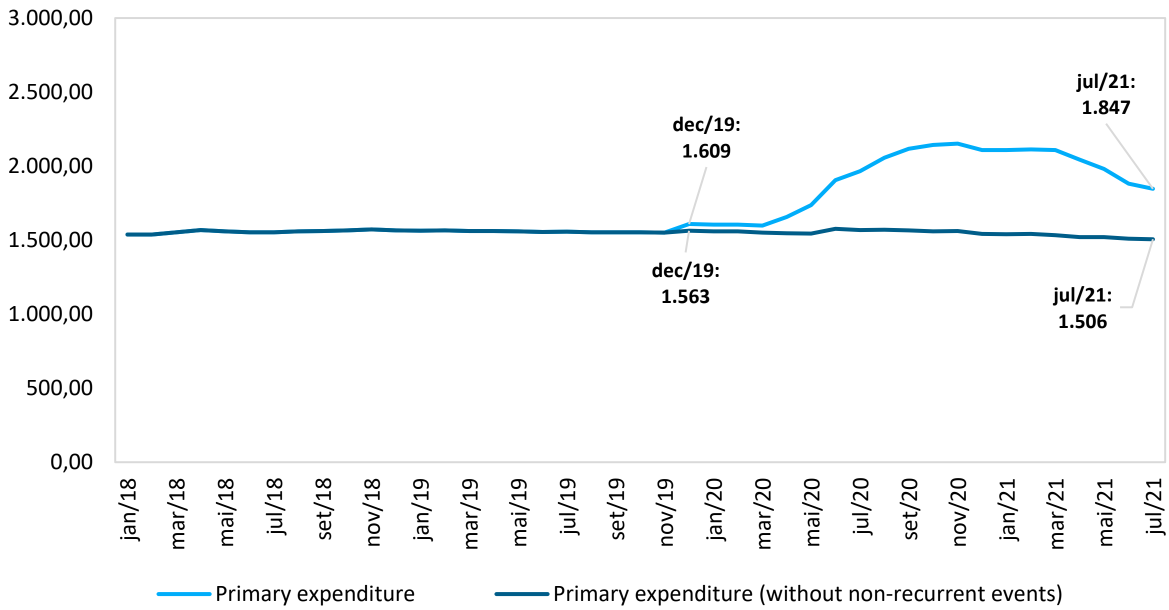
Source: National Treasury Secretariat and Central Bank. Prepared by: IFI - Brazilian Independent Fiscal Institution.

Chart 11 shows the 12-month evolution of total primary expenditure and the expenditure series recalculated by the IFI to isolate the effects of Covid-19, payments made to Petrobras on the occasion of the pre-salt onerous transfer contract, and the capitalization of non-dependent state-owned companies, also in December 2019. We also adjusted RGPS expenses related to the anticipation of the Christmas Bonus (2020) for May and June and the anticipation in June and July in 2021.

In the absence of atypical pandemic impacts, the central government's primary expenditure remained relatively under control in the 12 months ending July 2021. This series is identical to the one considered for calculating the primary result without non-recurrent events (presented in Chart 10). At constant July 2021 prices, total primary expenditure reached R$ 1,847 billion in the 12-month accumulated until July, while excluding non-recurrent events totaled R$ 1,506 billion. The expenditure curve net of non-recurrent events shows that primary expenditure remains relatively under control.

The trajectory of primary expenditure until the end of 2021 should be of decline. The total primary expense of the central government reached R$ 1,769.4 billion (20.3% of GDP) in the 12 months ended in July, a reduction of 6.0%, in real terms, compared to the immediately previous 12 months. The trend is for primary expenditure to continue to decelerate until the end of the year.

CHART 11 - EVOLUTION IN 12 MONTHS OF TOTAL PRIMARY EXPENDITURES (WITH AND WITHOUT SELECTED NON-RECURRENT EVENTS) - R$ BILLION AT JUL/21 PRICES



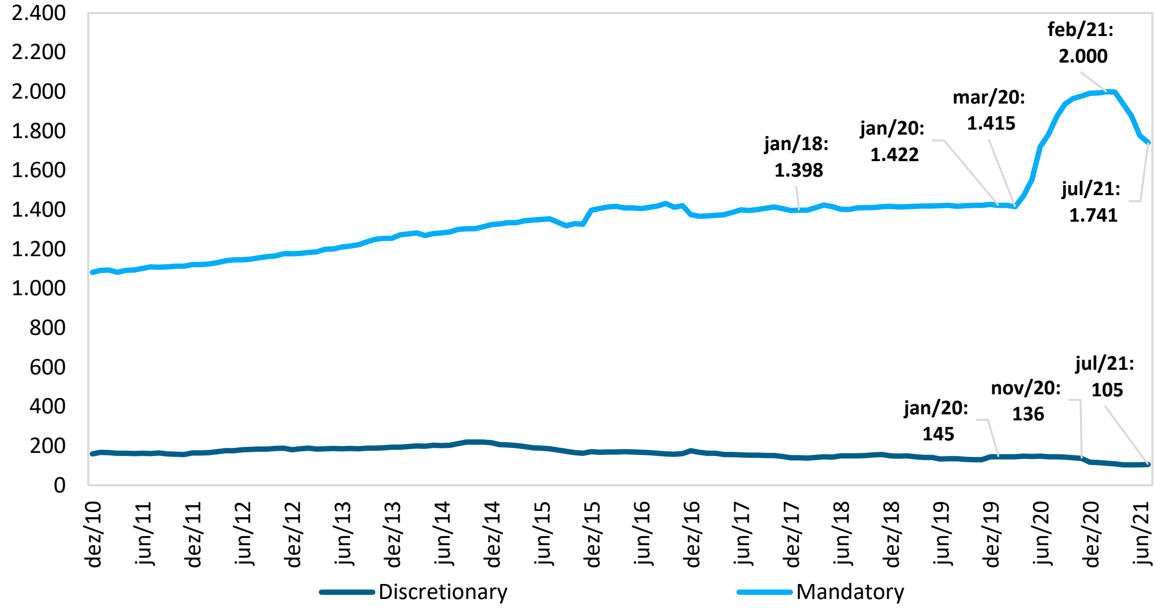
Source: National Treasury Secretariat. Prepared by: IFI.

The need to mitigate the effects of the pandemic caused the Union's primary expenditures to grow strongly throughout 2020; the indicator shows a decline in 2021. Graph 12 illustrates the worsening in the trajectory of central government's expenditures, as of April 2020, considering the 12-month series of mandatory and discretionary spending indicators. In March of last year, mandatory expenses, at July 2021 prices, totaled R$ 1,415 billion, an amount that increased to R$ 2,000 billion in February 2021 and retreated to R$ 1,741 billion last July. This series includes the expenses aimed at fighting the Covid-19 pandemic. The reduction seen from March 2021 onwards is related to the drop in spending on the pandemic.

Another way to check the deceleration in primary spending on the pandemic is to analyze the dynamic in the year to date. In 2020, in the accumulated until July, according to the STN, expenses related to mitigating effects of the pandemic totaled R$ 273.4 billion. Between January and July 2021, these expenses totaled R$ 68.3 billion.

Discretionary spending continued to fall in July in the accumulated in 12 months. Chart 12 shows discretionary spending without the effects of capitalization of Petrobras (R$ 42.9 billion), in September 2010, on the occasion of the signing of the onerous transfer contract, and the payment made to the company (R$ 34.4 billion) in December 2019, due to the revision of the agreement. At July 2021 prices, the two sums correspond to R$ 80.0 billion and R$ 37.7 billion, respectively. The trend in discretionary spending has been downward since the beginning of 2020 (Chart 12).

CHART 12. 12-MONTH ACCUMULATED DISCRETIONARY AND MANDATORY EXPENSES (R$ BILLION - JUL/21 PRICES)



Source: National Treasury Secretariat . Prepared by: IFI.

2.1.2 Balance of the Consolidated Public Sector

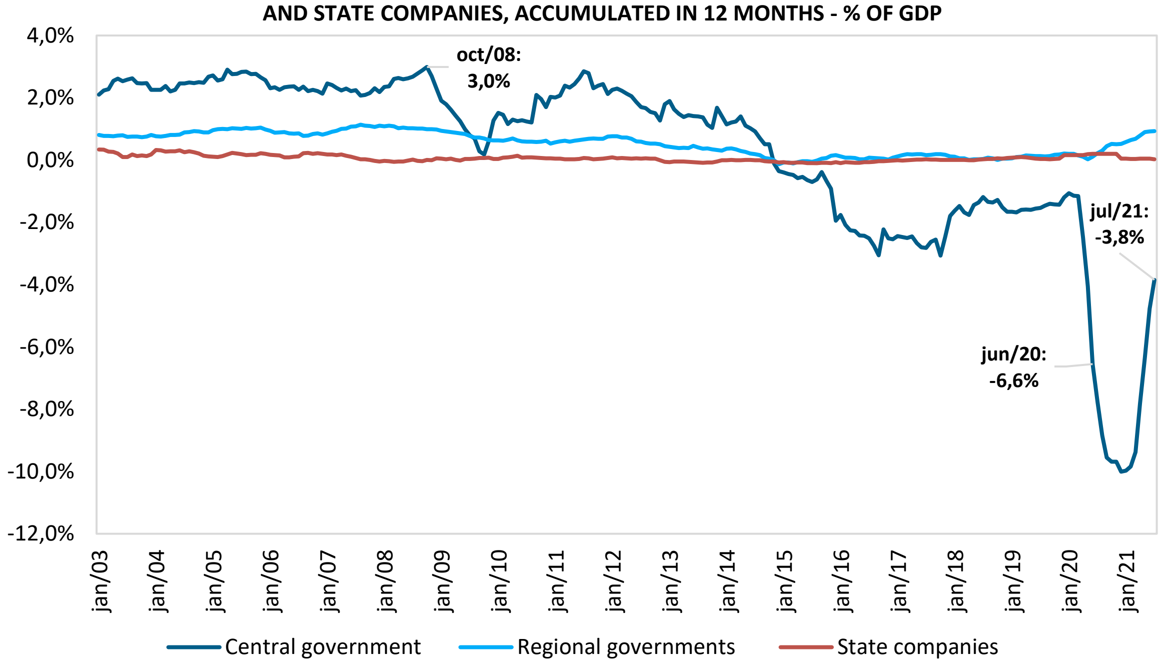
The primary deficit of the consolidated public sector was R$ 15.5 billion (0.3% of GDP) in the first seven months of the year. According to the fiscal statistics released by the Central Bank, obtained by the below-the-line transactions, the consolidated public sector recorded a primary deficit of R$ 10.3 billion (1.4% of GDP) in July. The central government was responsible for a negative primary balance of R$ 16.8 billion (2.3% of GDP) in the month, while the regional governments had a surplus of R$ 7.3 billion (1.0% of GDP). State companies had a primary deficit of R$ 786 million (0.1% of GDP). In the seven months ended in 2021, the consolidated public sector had a primary deficit of R$ 15.5 billion (0.3% of GDP).

In 12 months, the primary deficit of the consolidated public sector was R$ 234.7 billion (2.9% of GDP) in July. In the 12 months ended in July, the consolidated public sector's primary balance, calculated using the below-the-line transactions, was negative in R$ 234.7 billion (2.9% of GDP). The central government was responsible for a R$ 311.9 billion deficit in the period (3.8% of GDP). In contrast, the regional governments and state companies had surpluses of R$ 75 billion (0.9% of GDP) and R$ 2.2 billion (0.03% of GDP), respectively.

The central government's primary deficit was 3.8% of GDP in July. Graph 13 presents the 12-month trajectory of the central government's primary balance, regional governments, and state-owned companies. In July, the central government's primary deficit reached 3.8% of GDP.

Accelerating prices and uncertainties in the economic environment call for a new revision of macroeconomic and fiscal projections. The last edit of these projections, carried out in June, was motivated by the recent inflationary surprise, which influenced nominal GDP and the favorable dynamics for commodity prices, improving trade terms and boosting domestic economic activity. In October, there will be an update to the IFI's macroeconomic projections and fiscal variables. Since June, the inflationary scenario has worsened, and the economic environment's uncertainties will motivate an upward revision of the forecast for the IPCA in 2021 and the expectation for the Selic rate.

GRAPH 13. PRIMARY BALANCE OF THE CENTRAL GOVERNMENT, REGIONAL GOVERNMENTS, AND STATE COMPANIES, ACCUMULATED IN 12 MONTHS - % OF GDP



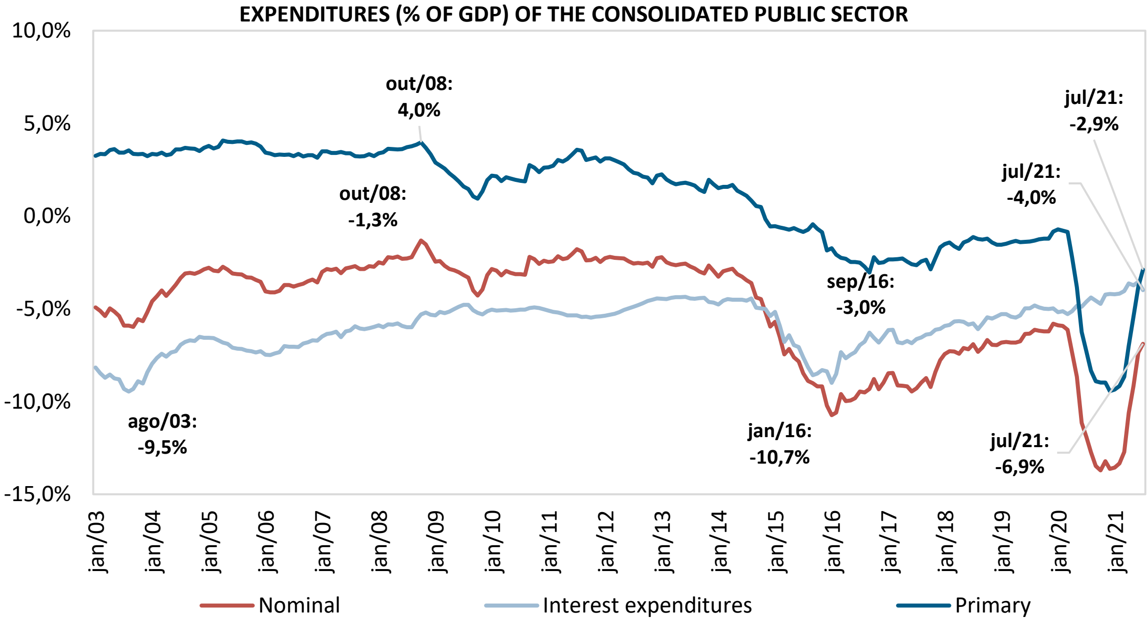
Source: National Treasury Secretariat . Prepared by: IFI.

The nominal balance of the consolidated public sector was a deficit of R$ 558.2 billion (6.9% of GDP) in the 12 months that ended in July. Graph 14 shows the 12-month trajectory of the consolidated public sector's primary and nominal balances and interest payments. The nominal deficit, which considers the primary deficit (net revenues minus primary expenditures) plus interest payments on public debt, totaled R$ 558.2 billion (6.9% of GDP) in the 12 months ended in July. Interest payments totaled R$ 323.5 billion (4.0% of GDP), while the primary deficit was R$ 234.7 billion (2.9% of GDP).

The cycle of Selic hikes, which began in March, will affect public sector interest expenses, worsening the trajectory of the nominal deficit. Since 2016, interest payments, as a proportion of GDP, have started a downward trend due to reducing the economy's basic interest rate. The gradual relief in interest expenses also led to an improvement in the trajectory of the nominal balance of the consolidated public sector. This downward movement in interest payments tends to be reversed over the coming months, considering that a new cycle of Selic hikes began last March. As will be discussed in the following subsection, the average cost of the public debt began to rise along with the Selic.

The increase in interest expenses will require the government to make more significant efforts to achieve primary surpluses to keep the nominal deficit in a relatively controlled trajectory. The possible reversal of the rotation of interest expenses to GDP due to the increase in the average cost of public debt will put pressure on the nominal result of the public sector and indebtedness. This movement would require an effort by the government to achieve higher primary balances in the coming months to offset the increase in interest expenses. The submission of the PEC Nº 23 of 2021, which proposes to parcel out expenses with court-ordered payments of government debt and open space in the spending ceiling, exacerbated the fiscal risk.

GRAPH 14. 12-MONTH ACCUMULATED PRIMARY AND NOMINAL BALANCES AND INTEREST EXPENDITURES (% OF GDP) OF THE CONSOLIDATED PUBLIC SECTOR



Source: Central Bank. Prepared by: IFI.

2.1.3 Evolution of Public Sector Indebtedness Indicators

Inflation and uncertainties in the economic environment may increase challenges in public debt management. In recent months, the IFI has emphasized that the economic climate of relatively high inflation and rising interest rates may increase the challenges for the National Treasury in managing the public debt. Brazil's risk premiums started to rise from mid-June and have stabilized at higher levels, probably indicating concerns about some domestic and external factors. In August, 10-year futures reached double-digit levels.

Inflationary dynamics worsened with the effects of the water crisis on electricity prices and pressure on fuel and food prices. Among domestic factors, uncertainties seem to be carried out by the inflationary dynamics and issues related to fiscal consolidation. Further increases in electricity prices, due to a worsening of the water shortage, and further increases in fuel and service prices, which have started to rise more strongly as restrictions on the functioning of sectors of the economy have eased with the advance of vaccination, could worsen inflationary dynamics. In addition, the drought may put further pressure on fresh food prices.

The possibility of changes in the spending ceiling rule to accommodate permanent expenses increases uncertainties concerning the fiscal framework. The fiscal risk weighs heavily in this assessment, expressed in the attempt to postpone court-ordered government debt, the risk of significant increases in permanent expenses, and the spending ceiling change.

The behavior of risk premiums has led to doubts regarding the economy's neutral interest rate. Factors related to fiscal policy conduct may also influence the behavior of risk premiums in recent weeks. The Central Bank has shown concern about the economy's neutral interest rate, i.e., the interest rates that would keep inflation within the target established by the National Monetary Council (CMN), with the economy operating at total capacity.

In July, the Federal Public Debt stock increased R$ 66.0 billion compared to the previous month. According to the Monthly Debt Report, released by STN, the Federal Public Debt (DPF) stock increased from R$ 5,329.9 billion in June to R$ 5,396.0 billion in July (an increase of R$ 66.0 billion). The improvement results from the net issues of securities in the month, particularly floating-rate and inflation-linked bonds, whose stocks rose R$ 55.0 billion and R$ 42.8 billion, respectively.

Net issuance of DPF totaled R$ 24.4 billion in July; the most significant net issuances occurred in floating-rate securities. In July, the total DPF net issuance was R$ 24.4 billion, of which R$ 16.1 billion came from the Federal Domestic Public Debt (DPMFi). In the period, the most significant net issuances were floating-rate securities (R$ 47.9 billion), followed by price-indexed securities (R$ 25.3 billion). In the period, there was a considerable amount of redemptions of fixed-rate securities (R$ 108.5 billion), which explains the negative net issuance (R$ 57.0 billion) of these papers in July.

The Treasury foresees maturities of R$ 1,210 billion in DPMFi securities over the next 12 months. Also, according to the Treasury, the liquidity reserve (cash cushion) available to pay the debt was R$ 1,160 billion in July, practically stable compared to the amount registered in June (R$ 1,167 billion). Over the next 12 months, the DPMFi will mature at R$ 1,210 billion.

Issue rates of DPMFi bonds continued to rise in July. In July, the average issue rates of DPMFi bonds were 8.37% per year for 24-month fixed-rate bonds and 8.96% per year for 48-month fixed-rate bonds. In June, the average trading rates were 7.25% per year for 24-month bonds and 8.14% per year for 48-month bonds. In May, in turn, the rates for the same securities were 6.91% per year and 7.97% per year, respectively. These figures indicate that the average trading rates for DPMFi bonds are rising, reinforcing the uncertainties present in the scenario. The effects on the IFI debt scenario will be significant.

Data collected by the IFI on auctions held by the Treasury in August show new increases in the rates of securities issued in the period. Information gathered by the IFI regarding the auctions held by the Treasury indicates further increases in the rates of DPMFi auctions in August. For example, in fixed-rate bonds maturing on July 1st, 2023, the average trading rates were 8.76% per year in August, against 7.92% per year in July. In bonds maturing on January 1st, 2025, the average rates were 9.36% per year in August, against 8.53% per year in July.

Net Public Sector Debt declined 0.5 p.p. of GDP in July, compared to June. According to the Central Bank's fiscal statistics, the Net Public Sector Debt (DLSP) reached 60.3% of GDP in July, a reduction of 0.5 p.p. compared to the stock recorded in June, and an increase of 1.6 p.p. over the July 2020 level. As a proportion of the GDP between February and May, the DLSP registered a contraction in the monthly comparison (Graph 15). According to the Central Bank, the drop in the indicator in July, compared to June, was the result of nominal GDP growth (a 0.7 p.p. decrease), the exchange rate depreciation of 2.4% (a 0.4 p.p. decrease), the appropriation of nominal interest rates (0.6 p.p. increase) and the primary deficit (0.1 p.p. increase).

In the accumulated figures from January to July, there was a reduction of 2.4 percentage points of GDP in the DLSP. The decrease of 2.4 p.p. of GDP in the DLSP in the accumulated seven months in 2021 occurred due to the rise in nominal GDP (down 5.1 p.p.), the appropriation of nominal interest (up 2.3 p.p.), the accumulated appreciation of the exchange rate of 1.4% (up 0.2 p.p.) and the primary deficit (up 0.2 p.p.).

Government-bond debt variation was negative by 0.2 p.p. of GDP between June and July. The market's government-bond debt dropped 0.2 p.p. of GDP between June and July, reaching 57.3% of GDP, equivalent to R$ 4,652.4 billion. This slight variation in the government-bond debt reflects the low amount of net issuance carried out by the Treasury in July, as discussed above. In comparison to July 2020, the securities debt grew 6.3 p.p. (Graph 15).

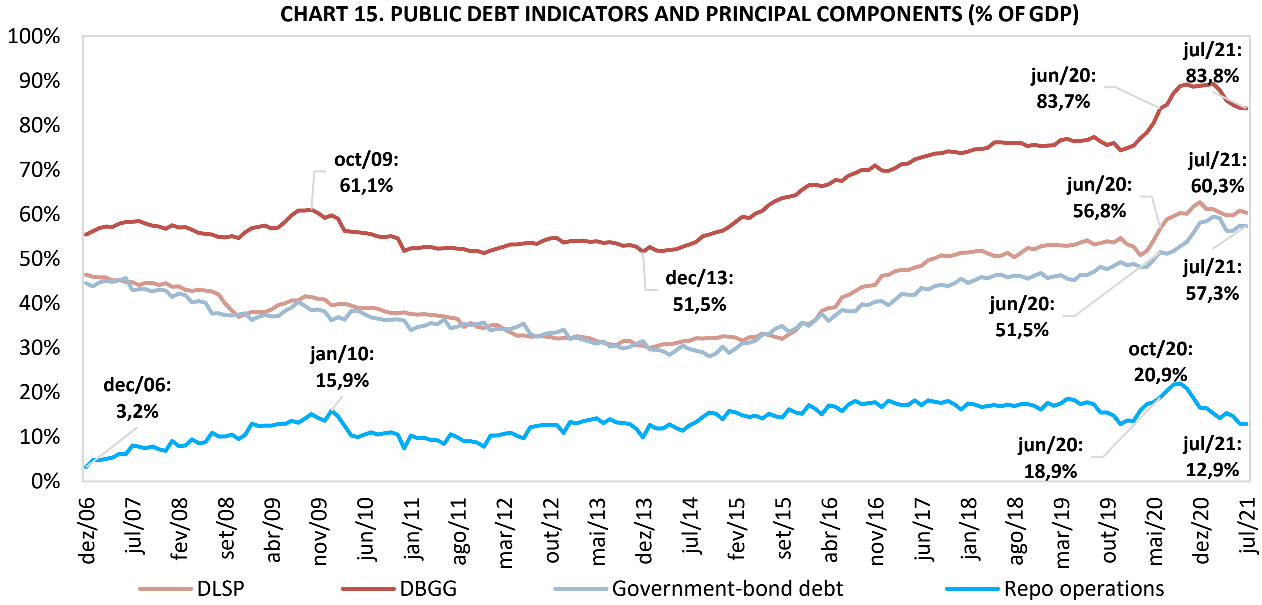
The General Government Gross Debt oscillated negatively by 0.1 p.p. of GDP in July, compared to June. The General Government Gross Debt (DBGG) of R$ 6,797.9 billion in July corresponded to 83.8% of GDP, a reduction of 0.1 p.p. of GDP compared to June (Graph 15). In comparison with July 2020, there was a drop of 0.6 p.p. in the indicator. This reduction in the DBGG in July, in the monthly comparison, was due to the growth in nominal GDP (a drop of 0.9 p.p.), net debt issues (an increase of 0.2 p.p.), and the incorporation of nominal interest (rise of 0.5 p.p.).

The slower pace of the decline in the DBGG/GDP already reflects the increase in interest rates and the high level of uncertainty. The milder drop in gross debt shows that the effect of higher interest rates already affects the dynamics of reduction observed since December of last year. As the IFI has warned, the gain in fiscal space promoted by the rise in inflation and the consequent effect on nominal GDP would not be permanent.

The increase of the interest rate in order to contain inflationary pressures and the increase of the risk premium embedded in the forward yield curve, as discussed in the Macroeconomic Context section, is already affecting the short-term path of the DBGG/GDP. In what follows, we show the evolution of the average cost of the government-bond debt and the new securities issued by the Treasury, reflecting the Selic and risk.

It is worth saying that in the accumulated 2021 until July, the DBGG fell 5.0 p.p. of GDP. This movement occurred due to the increase in nominal GDP (a drop of 7.3 p.p.), net debt redemptions (a decrease of 0.7 p.p.), the accumulated appreciation of the exchange rate (a reduction of 0.1 p.p.), and the incorporation of nominal interest (an increase of 3.0 p.p.).

CHART 15. PUBLIC DEBT INDICATORS AND PRINCIPAL COMPONENTS (% OF GDP)

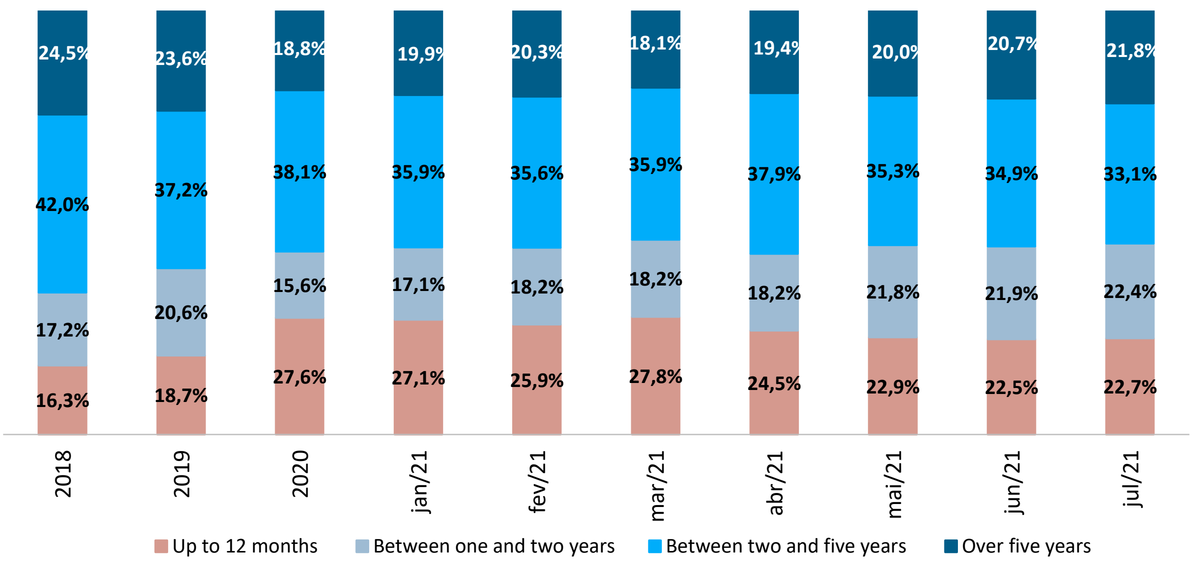


Source: Central Bank. Prepared by: IFI.

In July, the Central Bank's repo operations reduced 0.1 p.p. of GDP in the monthly comparison. Lastly, the Central Bank's repo operations dropped from 13.0% of GDP in June, or R$ 1,040.1 billion, to 12.9% of GDP in July. Compared to July last year, repo operations fell 7.5 p.p. of GDP, while for the accumulated seven months in 2021, they fell 3.7 p.p. of GDP. Graph 15 illustrates the trajectory.

In recent months, the Treasury has reduced the share of securities with shorter maturities in the DPF stock while increasing the percentage of securities with longer maturities. Analyzing the profile of DPF maturities in July, securities maturing in up to 12 months accounted for 22.7% of total DPF, while securities maturing in more than five years accounted for 21.8% of the stock. Treasury managed to reduce the share of shorter-term securities in DPF composition from 27.1% in January to 22.7% in July. The percentage of securities with maturities of over five years has increased (19.9% in January to 21.8% in July). Also, in July, the relative share of securities with a maturity between one and two years increased. In turn, the percentage of securities with a maturity between two and five years diminished (Graph 16).

GRAPH 16. DPF MATURITIES

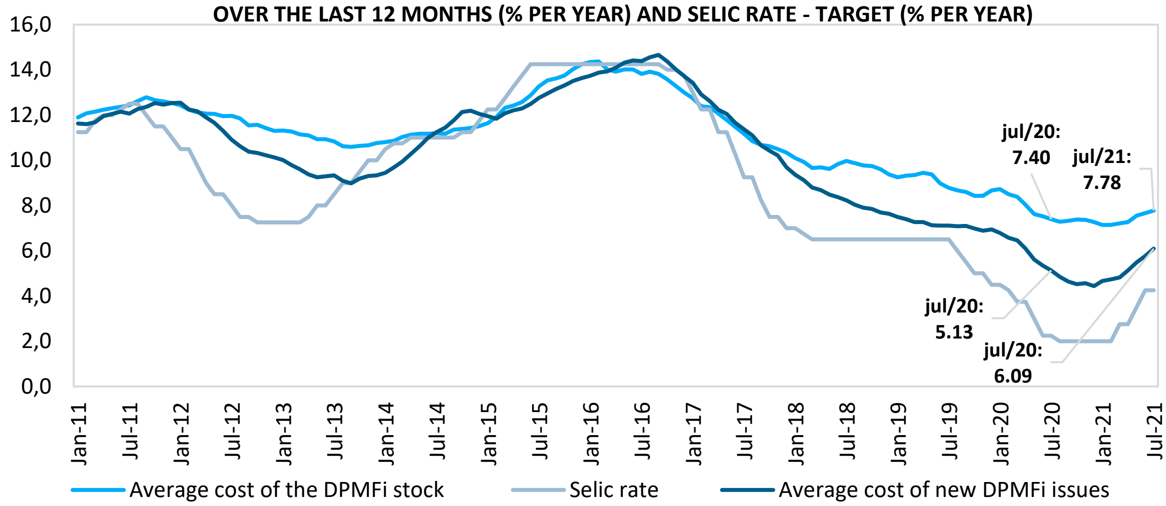


Source: National Treasury Secretariat . Prepared by: IFI.

In July, the average cost of the DPMFi stock rose for the fifth consecutive month, reaching 7.78% per year. Concluding the analysis of debt indicators, the 12-month average cost of the DPMFi stock rose from 7.66% per year in June to 7.78% per year in July. Compared to July 2020, the average cost of the DPMFi stock rose 0.38 p.p. (Graph 17).

The average cost of new DPMFi issues reached 6.09% per year in July, compared to 5.77% per year in June. The average cost of new DPMFi issues also rose in July to 6.09% per year, compared to 5.77% in June. Compared to July 2020, the average cost of DPMFi issues rose 0.96 p.p. (Graph 17).

GRAPH 17. THE AVERAGE COST OF PUBLIC DEBT (STOCK AND NEW ISSUES), ACCUMULATED OVER THE LAST 12 MONTHS (% PER YEAR) AND SELIC RATE - TARGET (% PER YEAR)



Source: National Treasury Secretariat . Prepared by: IFI.

The recent upward trend in the average cost of public debt has followed the cycle of Selic rate hikes. The increase in the average cost of the DPMFi stock and new issues, beginning in March, occurred in line with the monetary tightening initiated by the Central Bank in that month. Since then, the Selic rate has been raised three times, by 0.75 p.p. and another one p.p., and is currently at 5.25% per year. The new hikes expected for the Selic rate in the next meetings of the Central Bank's Monetary Policy Committee (Copom) suggest that the average cost of debt will continue to rise in the coming months. Besides this, the risk calculated by economic agents in the forward interest curve will pressure the average cost of the debt, worsening the future scenario, which recently benefited from the rise in the nominal GDP, under the influence of high inflation.

The IFI's preliminary projection for the Selic rate at the end of 2021 is 8.0% per year. The new projection will be part of the IFI's scenario review scheduled for October. The worsening inflationary scenario and the government's fiscal area actions have affected Selic's expectations in the months ahead.

3. Budget

3.1 PLOA 2022

At the end of August, the Executive Branch sent to Congress the Federal Budget Bill (PLOA in the original acronym) for 2022. The biggest challenge next year will be to comply with the spending ceiling. The atypical growth in expenses with judgments and court-ordered government debt and the resilience of inflation impact the perception of risk regarding compliance with the ceiling. The scenario for the rule, which seemed favorable until the middle of 2020, has changed. The project in Congress has yet to present solutions to the matter.

When looked at from the inside, PLOA 2022 brings relevant information. The official projections for spending on social security benefits (RGPS) and expenses with personnel reinforce the deceleration of recent years. Together, these two sets of expenses account for about two-thirds of the Union's primary expenses. The higher inflation in 2021, without correspondence in the readjustments granted in the benefits and salaries of public servants, should contribute to both expenses falling (in real terms) this year. For 2022, we expect a moderate growth for pension expenses, but in the case of personnel, the most likely scenario, if there are no wage adjustments, is a new fall compared to the previous year.

The following topics present some of the highlights of the Federal Budget Bill for 2022.

3.1.1 Spending ceiling

Complying with the spending ceiling will be the main challenge in 2022. Until the middle of this year, the expectation was that inflation, at that moment pressured by external and internal factors, would cool down in the second half of the year and end the year at a lower level, although above the goal set by Copom. In June, the IPCA measured over twelve months reached 8.35% and caused an increase of R$ 124.1 billion in the spending limit for 2022. December inflation exerts more influence on spending, and therefore, a lower level at the end of the year would provide relative comfort for compliance with the rule in 2022.

This scenario has changed. Inflation has shown to be more resilient - it should close the year close to the June level - and primary expenditures, particularly those derived from judgments and court-ordered debts, should grow more than previously expected. Added to this is the pressure from a new social program, substituting the current Bolsa Família.

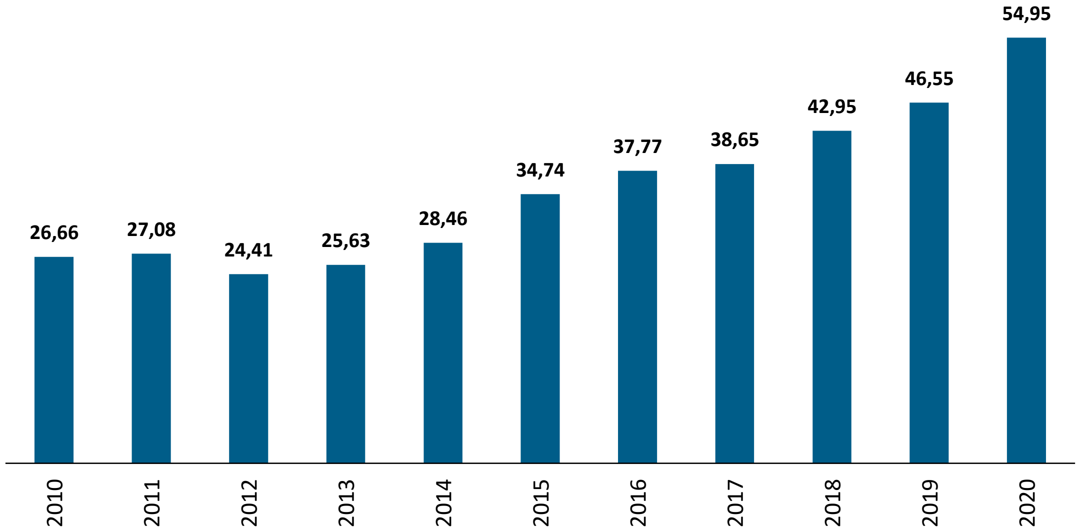
Meeting the spending cap in 2022 would still be possible, as we show in the preliminary fiscal scenario prepared for this edition of RAF. However, it would depend on a further retraction in discretionary spending, bringing it closer to the minimum level to avoid a shutdown. This portion of primary spending has become increasingly rigid, with the so-called impositive amendments (individual or state party), and pressured by the significant volume of resources directed to the rapporteur's modifications since 2020, worsening the problem.

3.1.1.1 Judgements and court-ordered payments of government debt

Expenses with judgments and court-ordered payments of government debt will reach R$ 89.1 billion in 2022. The issue of spending on the Federal Government's debts arising from lawsuits began to attract attention in July of this year when the Ministry of the Economy announced that these expenses would reach R$ 89.1 billion in 2022, a 61% increase over the forecast for 2021. IFI Position Paper nº 11 and nº 12 dealt specifically with this subject. The increase in expenses with judgments and court-ordered debts in 2022 is atypical, but this item had already been presenting a significant advance (Graph 18). Between 2010 and 2020, the growth was 106.1% in real terms.

The Fiscal Responsibility Law provides that the Budget Guidelines Law (LDO) contains the Fiscal Risk Annex, evaluating contingent liabilities and other factors that affect public accounts. The objective is to manage fiscal risks and mitigate uncertainty about the budgets for the coming years. The lawsuits to which the Federal Government is a party are typical examples of contingent liabilities to be monitored through the Fiscal Risks Annex of the LDO. The surprise concerning the R$ 89.1 billion foreseen for 2022 should give rise to an analysis of the adequacy of the monitoring done within the Executive Branch.

CHART 18. SPENDING ON JUDGMENTS AND COURT-ORDERED PAYMENTS OF GOVERNMENT DEBT (R$ BILLION, JUL/21 PRICES)



Source: National Treasury . Prepared by: IFI.

Concerning 2021, the most considerable growth occurs in "other" spending on judgments and court-ordered payments of government debt (Table 8). The fiscal statistics of the National Treasury divides the spending into judgments and court-ordered payments of government debt into four groups, according to the nature of the expense: a) social security benefits (RGPS); b) personnel and social charges; c) Continuous Cash Benefit (BPC); and d) judgments and court-ordered debts (current and capital), which aggregates the expenses not classified in the previous groups (in Table 8, we call it "others"). The most significant growth in 2022 will be observed in the fourth group and results mainly from the court-order debts related to the Union's complementation to Fundef in lawsuits filed by four states: Bahia, Pernambuco, Ceará, and Amazonas. The Union's debt with these states totals R$ 16.2 billion for the following year.

TABLE 8. SPENDING ON JUDGMENTS AND COURT-ORDERED PAYMENTS OF GOVERNMENT DEBT (R$ BILLION)

Item	2021 (Forecast*)	2022 (PLOA 2022)	Δ	Δ%
Social Security (RGPS)	22.1	29.8	7.7	34.8
Personnel	11.3	13.7	2.5	21.8
BPC	1.2	1.6	0.4	36.6
Others	20.9	43.9	23.0	109.8
Total	**55.5**	**89.1**	**33.6**	**60.5**

*Source: IFI and PLOA 2022. Prepared by: IFI. *IFI projection in September 2021.*

The growth of expenses with spending on judgments and court-ordered debts motivated the PEC nº23/2021. The proposal, authored by the Executive Branch, foresees the installment on the payment of court-order debts that exceed 2.6% of the current net revenue (RCL in the original acronym). The installments could be made through a fund (Fundo de Liquidação de Passivos da União) created by the PEC nº 23 and would not be subject to the spending ceiling. The rule of PEC nº 23 would be valid until 2029. The measure would help comply with the rule as of 2022, removing part of the primary expenditures from the scope of the spending ceiling but without any effective adjustment in public spending. According to data from PLOA 2022, 2.6% of the RCL of 2022 would correspond to R$ 27.6 billion. The foreseen expense with court-ordered debts is R$ 66.8 billion[12]. Therefore, R$ 39.2 billion would be parceled out and would no longer impact the spending ceiling next year.

There are still other proposals under discussion.

One of them advocates excluding spending on judgments and court-ordered debts from the spending ceiling. It would involve recalculating the ceiling from the beginning of the rule. The proposal has not yet been formalized but endorsed by Deputy Marcelo Ramos (PL-AM), first vice-president of the Chamber of Deputies. In 2016, spending on judgments and court-ordered debts was R$30.7 billion. Without these expenses, the rule would have applied the ceiling correction of R$ 1,190.4 billion instead of R$ 1,221.1 billion. Corrected year by year, by the Constitution[13], the 2022 ceiling would change from R$ 1,610 billion to R$ 1,569.5 billion, a reduction of R$ 40.5 billion concerning the current rule (Table 9). Spending would be decreased by R$ 89.1 billion (taken from the expenses subject to the ceiling), opening a fiscal space in the 2022 ceiling of R$ 48.6 billion (the difference between the reduction in spending and the reduction in the ceiling).

A third proposal involves limiting spending on judgments and court-ordered debts and postponing the excess until 2023. The maximum annual outlay would correspond to the 2016 expense with judgments and court-ordered debts, corrected in the manner of the spending ceiling. As in the complete exclusion of expenses from the ceiling (previous paragraph), space opened with the imposition of an expenditure limit would be R$ 48.6 billion (Table 9). The difference is that, in the case of the postponement, the surplus would be paid only in 2023.

Ultimately, one possibility is to interpret the court-ordered debts with the Union's complementation to Fundef[14] in light of art. 107 of ADCT. Fundef was in force from 1997 to 2006 and was replaced by Fundeb (Constitutional Amendment Nº 53/2006), focusing on primary education instead of only elementary education[15]. According to art. 107 of ADCT (specifically, § 6º, I), the Union's expenses with the complementation to Fundeb, constituted at the state level, are not subject to the spending ceiling.

Therefore, the discussion is to define if the court-ordered debts related to the Union's supplementation to the former Fundef should be reached by the rule or excluded like the supplementation to Fundeb. If this were the interpretation, there would be a reduction of R$ 16.2 billion in spending subject to the ceiling, which is the amount owed by the Union in the court-ordered debts enrolled in 2021 (Table 9).

TABLE 9. ALTERNATIVES FOR SPENDING ON JUDGMENTS AND COURT-ORDERED PAYMENTS OF GOVERNMENT DEBT IN 2022 (R$ BILLION)

Current legislation	2022
Spending ceiling	1,610.0
Expected spending on judgments and court-ordered debt (PLOA 2022)	89.1
Proposal 1: Parcel part of court-ordered debt and exclude them from the spending ceiling	
Expected Current Net Revenue (PLOA 2022)	1,062.6
2.6% of the RCL (A)	27.6
Expected spending on court-ordered debt * (PLOA 2022) (B)	66.8
Fiscal space open on the ceiling (installed amount) (B-A)	**39.2**
Proposal 2: Exclude judgments and court-ordered debt from the spending ceiling	
Spending Ceiling recalculated	1,569.5

[12]It is worth noting that the expenses derived from judgements are not necessarily court-ordered payments of government debt.

[13] 7.2%, in 2017, and accumulated IPCA in twelve months until June of the previous year, in the following years.

[14] Fund for the Maintenance and Development of Basic Education and Valorization of Teaching.
[15] Fundeb was recently remodeled by Constitutional Amendment Nº 108, of 2020.

Reduction in the Expenditure Ceiling (C)	40.5
Reduction in spending subject to the ceiling (D)	89.1
Fiscal space opened in the ceiling (D-C)	**48.6**
Proposal 3: Limit spending on judgments and court-ordered debt and postpone the excess to 2023	
Limit on spending on judgments and court-ordered debt (E)	40.5
Expected expenditure (F)	89.1
Fiscal space opened in the ceiling (amount deferred to 2023) (F-E)	**48.6**
Proposal 4: To consider Fundef's court-ordered debt as an exception to the spending ceiling	
Expected expenditure (G)	89.1
Expected expenditure, without Fundef's court-ordered debt (H)	72.9
Fiscal space opened in the ceiling (G-H)	**16.2**

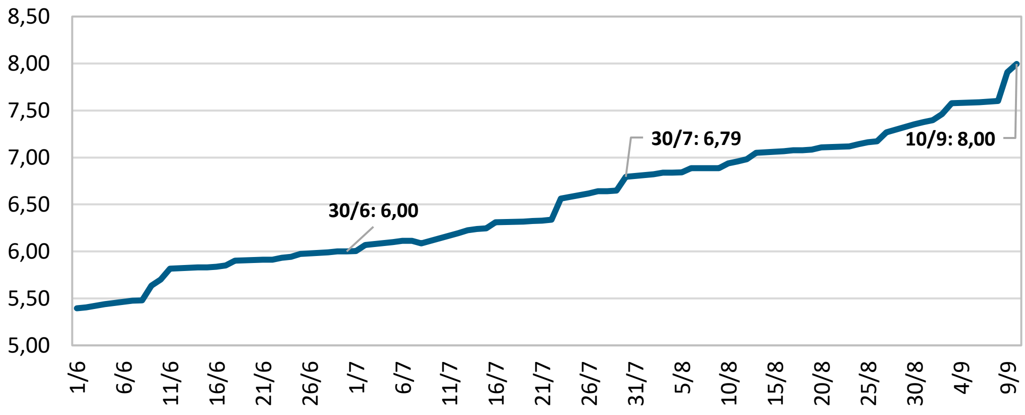
**Excludes Requisições de Pequeno Valor (RPVs) and other expenses derived from judgments.*
Source: National Treasury and PLOA 2022. Prepared by: IFI.

None of these solutions involves adequate savings of resources. In the proposals presented in Table 9, there is only a reduction in the weight of the judgments and court-ordered payments of government debt on the spending ceiling, leaving a space to be filled by other expenses (otherwise, there would be no point in discussing the matter). In the installment payments and the postponement to 2023, there would also be interest on the rescheduled debt. In the preliminary scenario presented by the IFI, whose details are at the end of this topic, we consider the judgments and court-ordered payments of government debt within the ceiling. The compensation would come mainly from the reduction in discretionary spending. The solution of interpreting the Fundef court-ordered debts as expenditures that are not subject to the spending ceiling, on the other hand, despite not representing any adjustment in expenses, would be within the current rules. It would not involve, to be clear, a change in the Constitution.

3.1.1.2 Inflation and fiscal space

The persistence of inflationary pressures also increases the risk to the 2022 spending ceiling. The non-recurrent increase in spending on judgments and court-ordered debts occurs in a context of high inflation. By mid-2021, the expectation was a deceleration in the price level, which had closed June with an 8.35% increase in twelve months. It would lead, all else equal, to growth in expenses lower than the growth of the constitutional limit. This scenario has changed (Chart 19). The expectation for accumulated inflation in the 12 months through December 2021 has increased, which reduces the space generated by the mismatch between the June and year-end indexes.

CHART 19. MARKET EXPECTATIONS FOR THE DECEMBER 2021 IPCA (%)



Source: Central Bank. Prepared by: IFI.

In IFI's accounts,

each additional percentage point of inflation corresponds to an increase of R$12.4 billion in primary spending subject to the spending ceiling (Table 10). This impact stems mainly from the INPC, which updates the Union's social security and welfare expenses. Each additional percentage point in the INPC generates an effect of R$8.1 billion in primary expenses.

TABLE 10. IMPACT OF ONE P.P. INCREASE IN INFLATION INDEXES ON PRIMARY EXPENDITURE (R$ MILLION)

Item	Participation in the expenditure Subject to the ceiling (%)	INPC	IPCA	Total
Social security benefits (RGPS)	47.3	6,843.2	-	6,843.2
BPC	4.5	706.7	-	706.7
Salary allowance and unemployment insurance	4.2	565.6	-	565.6
Other primary expenditures	44	-	4.248.9	4,248.9
Total	**100**	**8.115.5**	**4.248.9**	**12,364.4**

Source: IFI.

In the IFI's preliminary scenario for inflation presented in this edition of RAF, the space in the spending ceiling would be reduced to R$ 17.2 billion. In June - the most recent IFI scenario -, with projections referring to the base scenario for the IPCA and INPC for 2021 at 5.7% and 5.8%, respectively, the fiscal space calculated by the IFI was R$ 47.3 billion. It is worth remembering that this space did not consider the increase in expenses on judgments and court-ordered debts, nor the increase in expenses in the Bolsa Família Program (at the time Auxílio Brasil had not been launched). To prepare the fiscal scenarios, R$ 47.3 billion of space was allocated to the Bolsa Família (R$ 14.4 billion) and discretionary expenses (R$ 32.9 billion).

In the present scenario, the December IPCA and INPC would go to 8% and 8.3%, respectively, reducing the fiscal space in the spending ceiling from R$47.3 billion to R$17.2 billion.

Table 11 consolidates some scenarios for the IPCA and INPC, starting from the preliminary September scenario and adding 0.5 percentage points to each of the indices until they reach 9.5% and 9.8%, in that order. As the table shows, with inflation rates close to 9% in December, the fiscal space under the ceiling would be filled.

TABLE 11. FISCAL SPACE IN THE 2022 SPENDING CEILING UNDER DIFFERENT INFLATION SCENARIOS (R$ BILLION)

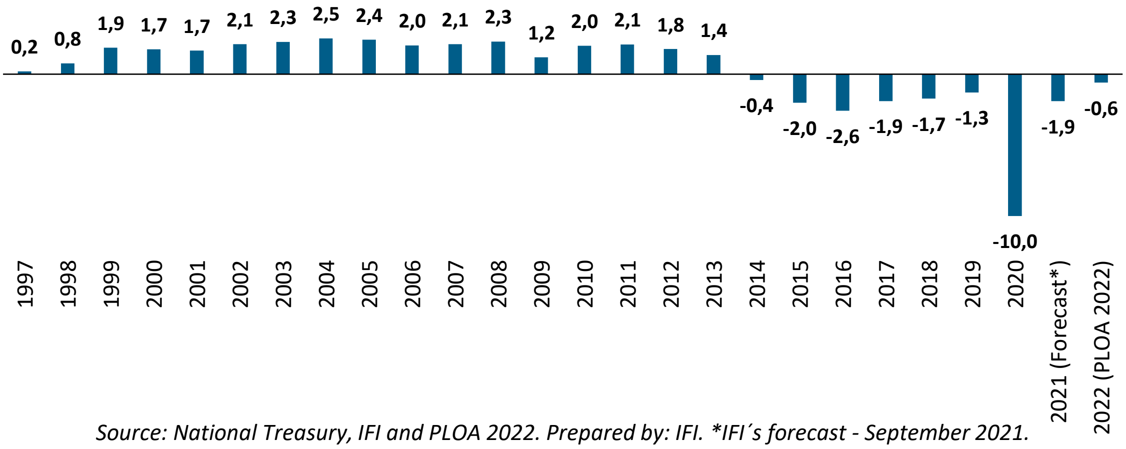
Fiscal space in the ceiling		IPCA			
		8.00	8.50	9.00	9.50
INPC	8.30	17.2	15.1	13.0	10.9
	8.80	13.2	11.1	8.9	6.8
	9.30	9.1	7.0	4.9	2.8
	9.80	5.1	2.9	0.8	- 1.3

Source: IFI.

3.1.2 Primary balance target

The primary balance target should not be a restriction in 2022. The target set in the LDO for the central government next year is a deficit of R$ 170.5 billion or 1.8% of the GDP projected by the government. The deficit projected in the PLOA 2022, in turn, is R$ 49.5 billion. The difference between the target and the projected result, R$ 120.9 billion, places the government in a very comfortable position to comply with the rule in 2022. The R$ 170.5 billion target was proposed in mid-April when Congress received the PLDO. Since then, the 2021 tax collection has strengthened and raised the base for next year. The main risks for 2022 would come from economic activity, which would negatively impact revenues, and the possible exclusion of judgments and court-ordered debts from the spending ceiling, with full payment still in 2022.

CHART 20. CENTRAL GOVERNMENT´S PRIMARY BALANCE (% OF GDP)



*Source: National Treasury, IFI and PLOA 2022. Prepared by: IFI. *IFI´s forecast - September 2021.*

3.1.3 Projection to 2022: IFI x PLOA 2022

The IFI projects a primary deficit of R$103.9 billion, or 1.1% of GDP, in 2022. The IFI's preliminary estimate for the central government's primary deficit for next year is higher than the government's. Primary revenues explain most of the difference. Already discounting the transfers by revenue sharing to the other entities, the PLOA's primary revenue is R$ 35.9 billion higher than the IFI's preliminary scenario. On the other hand, primary expenditures are responsible for another R$ 18.4 billion of the difference concerning our scenario.

Table 12 details the government's fiscal scenario in PLOA 2022, comparing it to the IFI's preliminary accounts for this RAF. The table outlines two different assumptions for spending on Auxílio Brasil, which will replace the current Bolsa Família. In the first (which we call table A), spending on the new program reaches R$48.7 billion, against R$34.7 billion in PLOA 2022. The difference starts from the premise that the Auxílio Brasil will increase spending, coming from both the adjustment of the average benefit and the increase in the number of families assisted. We assume that these two factors lead to an increase of R$14.0 billion, or 43%, in the expected expenditures with the program. In the second hypothesis (which we call in table B), the spending with Auxílio Brasil is the same as in the PLOA. Since, in both cases, the spending ceiling is respected, the reduction in discretionary spending by the Executive Branch would compensate for the increase in the expenditure foreseen with the new program. The last two columns of Table 12 compare the PLOA scenario with the IFI scenario in which there is an increase in spending with the creation of Auxílio Brasil.

TABLE 12. PRIMARY REVENUES AND EXPENSES OF THE CENTRAL GOVERNMENT IN 2022: IFI X GOVERNMENT (R$ BILLION)

Breakdown	IFI - Preliminary Sep/21 (A)		IFI - Preliminary Sep/21 (Without increase Auxílio BR) (B)		PLOA 2022 (C)		Difference - PLOA 2022 - IFI 2022 (C-A)	
	R$ billions	% GDP	R$ billions	% GDP	R$ billions	% GDP	R$ billions	% GDP (p.p.)
TOTAL REVENUE	1,922.1	20.9	1,922.1	20.9	1,958.8	20.8	36.7	0.0
TRANSFERS	361.1	3.9	361.1	3.9	361.8	3.9	0.7	-0.1
NET PRIMARY REVENUE	1,561.0	16.9	1,561.0	16.9	1,597.0	17.0	35.9	0.0
TOTAL EXPENDITURE	1,664.9	18.1	1,664.9	18.1	1,646.5	17.5	-18.4	-0.6
Social security benefits	761.6	8.3	761.6	8.3	765.6	8.1	4.0	-0.1
Personnel expenses and social contribution	346.7	3.8	346.7	3.8	342.8	3.6	-3.9	-0.1
BPC	72.5	0.8	72.5	0.8	73.5	0.8	1.0	0.0

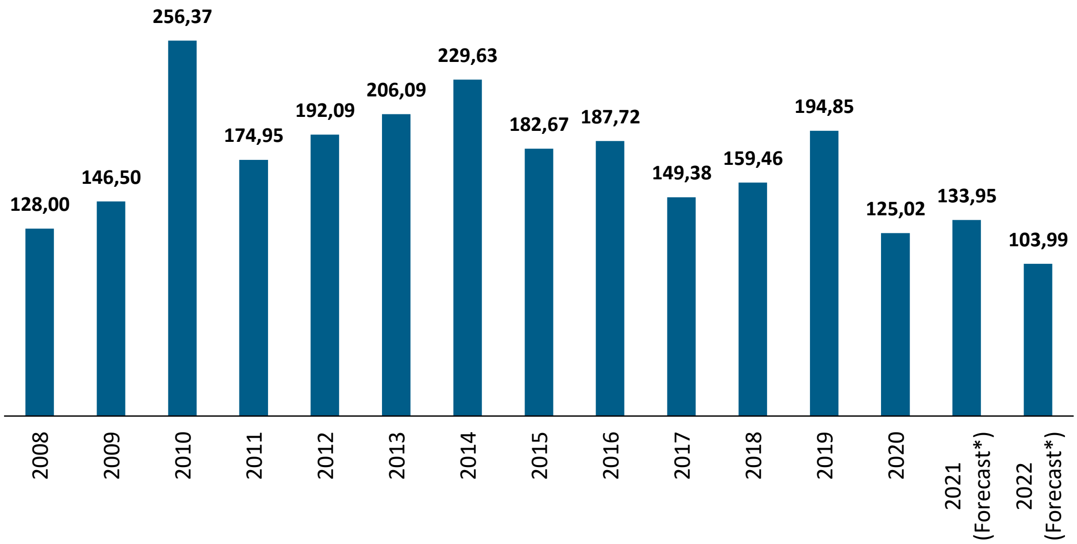
Salary allowance and unemployment insurance	68.7	0.7	68.7	0.7	63.5	0.7	-5.3	-0.1
Auxílio Brasil/Bolsa Família	48.7	0.5	34.7	0.4	34.7	0.4	-14.0	-0.2
Other Mandatory Spending	262.8	2.9	262.8	2.9	251.7	2.7	-11.1	-0.2
Discretionary	104.0	1.1	118.0	1.3	114.8	1.2	10.9	0.1
Impositive Amendments	16.2	0.2	16.2	0.2	16.2	0.2	0.0	0.0
Other Discretionary of the Executive Branch	87.8	1.0	101.8	1.1	98.6	1.0	10.9	0.1
PRIMARY BALANCE	-103.9	-1.1	-103.9	-1.1	-49.5	-0.5	54.3	0.6
Memo:								
Judgments and court-ordered debts	89.1	1.0	89.1	1.0	89.1	0.9	0.0	0.0
Social security benefits	29.8	0.3	29.8	0.3	29.8	0.3	0.0	0.0
Personnel and social expenses	13.7	0.1	13.7	0.1	13.7	0.1	0.0	0.0
BPC	1.6	0.0	1.6	0.0	1.6	0.0	0.0	0.0
Salary allowance and unemployment insurance	0.2	0.0	0.2	0.0	0.2	0.0	0.0	0.0
Others (Current e Capital)	43.7	0.5	43.7	0.5	43.7	0.5	0.0	0.0
Primary result target	-170.5	-1.9	-170.5	-1.9	-170.5	-1.8	0.0	0.0
Slack (+) / Excess (-)	66.6	0.7	66.6	0.7	120.9	1.3	54.3	0.6
Expenditure subject to the spending ceiling	1,610.0	17.5	1,610.0	17.5	1,610.0	17.1	0.0	-0.3
Spending ceiling	1,610.0	17.5	1,610.0	17.5	1,610.0	17.1	0.0	-0.3
Slack (+) / Excess (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Annual Budget Bill (PLOA) for 2022, Table 10-A; and IFI. Prepared by: IFI.

Comply with the spending ceiling without slack in both the IFI and the government's scenario (PLOA 2022). Therefore, spending not subject to the rule explains the R$ 18.4 billion difference in total primary expenditure. In particular, the difference is basically due to spending from extraordinary credits. In the IFI scenario, R$ 15.0 billion are foreseen as extraordinary credits since the perspective is that there will still be expenses linked to the pandemic in 2022. The PLOA scenario do not traditionally predict these expenses, incorporated into the official projections as credits are opened during the year.

In the IFI scenario, any increase in spending with Auxílio Brasil would bring discretionary spending to R$ 104.0 billion. This value would be the lowest in the Treasury's historical series, which began in 2008 (Graph 21), and is very close to what the IFI considers the minimum level for spending on public administration operations. Below R$ 103.0 billion, the risk of breaching the spending ceiling is classified as high. On the assumption that spending on Auxílio Brasil remains at R$ 34.7 billion, as currently foreseen in the 2022 PLOA, the Executive's discretionary spending could reach R$ 118.0 billion, a situation only slightly better than the previous one.

CHART 21. DISCRETIONARY SPENDING OF THE EXECUTIVE BRANCH (R$ BILLION, DEC/22 PRICES)



*Source: National Treasury and IFI. Prepared by: IFI. *IFI´s forecast - September 2021.*

As seen, in the June baseline scenario, without the increase in Bolsa Família and discretionary spending, we had a R$47.3 billion gap in the 2022 spending ceiling, with discretionary spending at R$133.4 billion, which seemed to be a comfortable situation for compliance with the rule. Since then, the scenario has changed significantly:

a) The increase in inflation projections for December 2021 reduced the slack in the spending ceiling to R$ 17.2 billion;

b) The Auxílio Brasil was announced and should lead to an increase in expenses that, just by hypothesis, we consider in our scenario to be R$ 14.0 billion;

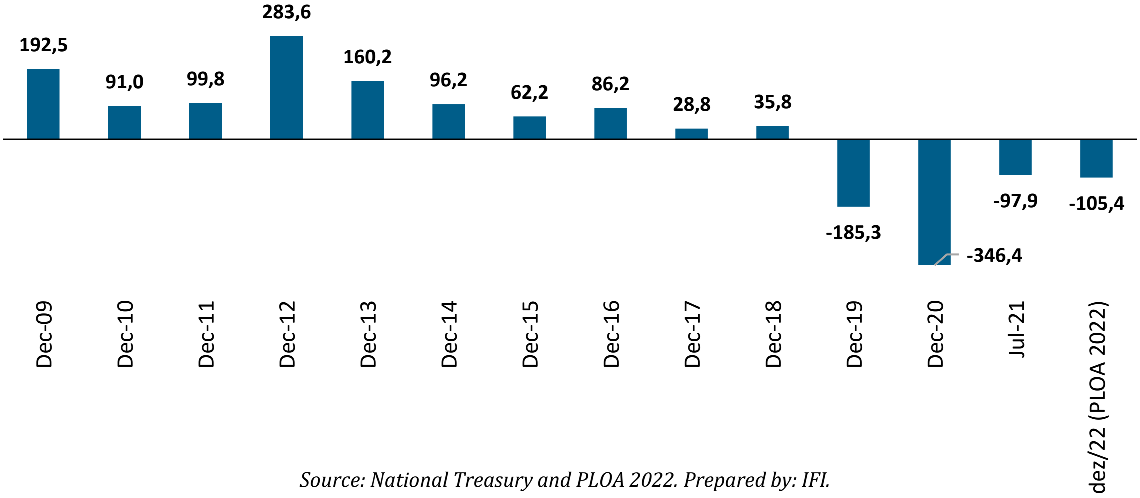
c) Expenditure forecasted with judgments and court-ordered debts has increased by R$ 33.6 billion

Adding to other minor variations between the June and September scenarios, these factors would lead to a need for a R$ 29.6 billion adjustment in expenses subject to the 2022 ceiling, which explains the R$ 104.0 billion of discretionary spending by the Executive Branch in the IFI scenario.

3.1.4 Golden rule

In 2022, revenues from credit operations will exceed capital expenditures for the fourth consecutive year. The golden rule is foreseen in item III of article 167 of the Constitution and prevents the realization of credit operations that exceed capital expenditures. In essence, the idea is to prevent the entity from going into debt to cover current expenses, such as wages and social security benefits. In July of this year, the insufficiency of resources to satisfy the rule, considering data accumulated over twelve months, was R$ 97.9 billion. In the 2022 PLOA, the projection is that credit operations will exceed capital expenditures by R$ 105.4 billion. If expectations for 2021 and 2022 are confirmed, it will be four consecutive years of negative results (Chart 22).

CHART 22. SUFFICIENCY TO THE GOLDEN RULE (R$ BILLION)



Source: National Treasury and PLOA 2022. Prepared by: IFI.

It is worth remembering that Congress can breach the golden rule with the authorization of an absolute majority. When the budget proposal is sent, part of the budget expenses (in the amount of the shortfall for compliance with the rule) is prevented from being made until authorization is obtained. The violation of the golden rule during the stages of budget preparation and processing has been disciplined annually in the budget guidelines laws.

In 2019, the first year of negative results, the government obtained congressional authorization for non-compliance with the golden rule. In 2020, the rule was suspended by Constitutional Amendment No. 106/2020, given the high demand for current spending on the pandemic, such as emergency aid for the vulnerable. At the end of the year, the insufficiency was R$ 346.4 billion, the highest in the historical series. In 2021, the rule is back in force, but Constitutional Amendment 109/2021 makes an exception for credit operations carried out to fund the Emergency Aid. Currently, PLN nº 9/2021 is in Congress, aiming to obtain Congressional authorization to disregard the rule and execute the portion of the Budget conditioned to the project's approval (as happened in 2019).

3.1.5 Social security benefits (RGPS)

In the 2022 PLOA, the projection of expenditures with the RGPS social security benefits is R$ 765.6 billion, or 8.1% of the GDP. After discounting the expenses derived from judgments and court-ordered debts, the projected expenditure drops to R$735.7 billion, or 7.8% of the GDP (Graphs 23 and 24). The PLOA data reinforces the deceleration in the growth of pension spending observed since 2018. The IFI's projection for RGPS expenditures in 2021 (at December 2022 prices to compare with the PLOA value) is R$ 733.0 billion. The value would represent a drop, in real terms, of 2% compared to 2020. If the most recent projections for 2021 and 2022 are confirmed, the average real growth in the period will be 1.8% per year, well below the average from 2010 to 2017, which was 5.4%.

CHART 23. EXPENDITURES WITH SOCIAL SECURITY BENEFITS, EXCEPT JUDGEMENTS AND COURT-ORDERED GOVERNMENT DEBT (R$ BILLION, DEC/22 PRICES)

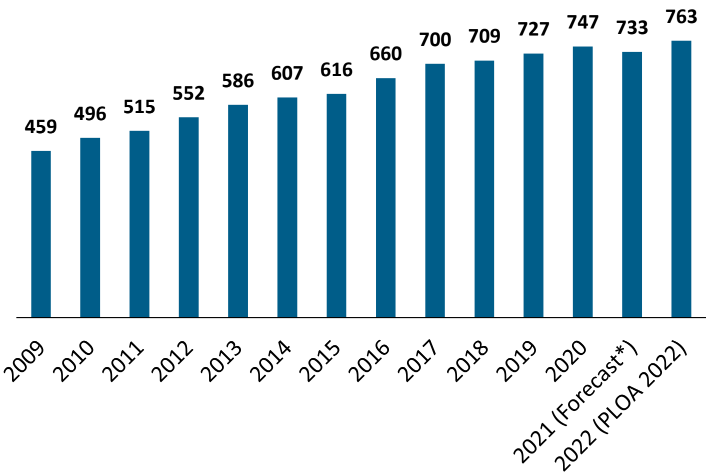
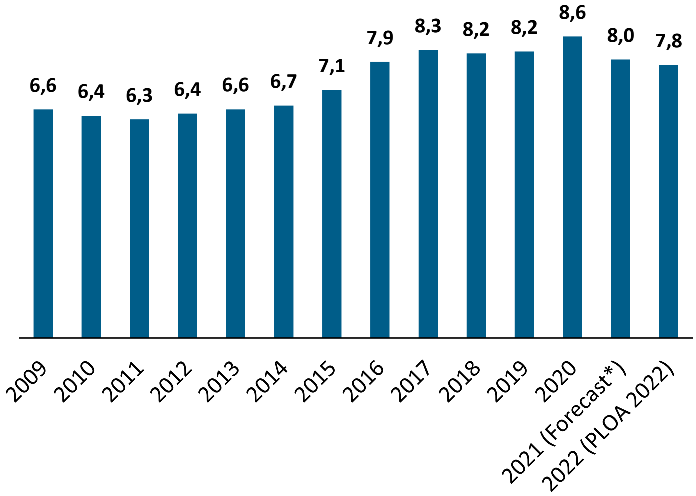
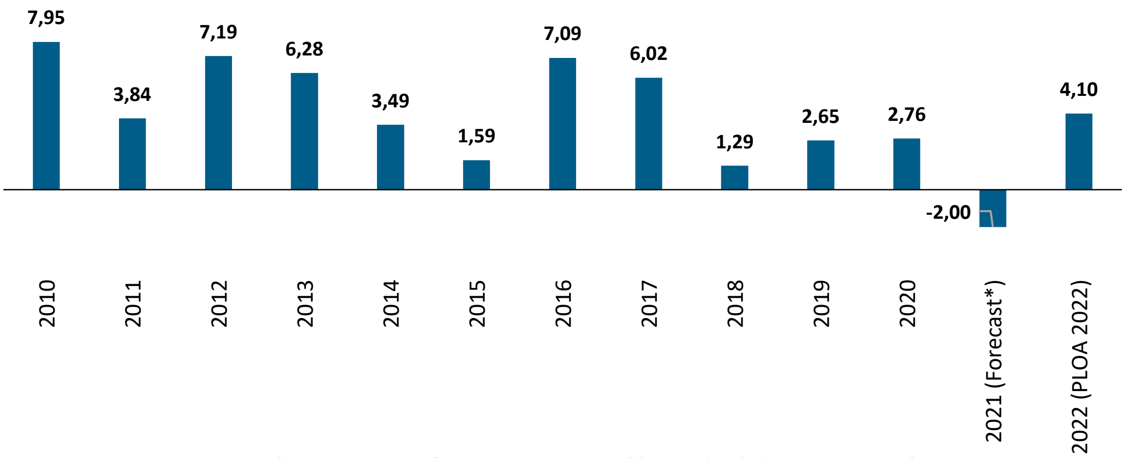


CHART 24 . EXPENDITURES WITH SOCIAL SECURITY BENEFITS, EXCEPT JUDGEMENTS AND COURT-ORDERED GOVERNMENT DEBT(% OF GDP))



*Source: National Treasury, IFI and PLOA 2022. Prepared by: IFI. *IFI´s forecast - September 2021.*

CHART 25. REAL ANNUAL GROWTH OF SOCIAL SECURITY BENEFITS, EXCEPT JUDGEMENTS AND COURT-ORDERED GOVERNMENT DEBT (%)



*Source: National Treasury, IFI and PLOA 2022. Prepared by: IFI. *IFI´s forecast - September 2021.*

3.1.6 Personnel

The projected expenditure with personnel and social security in the 2022 PLOA is R$ 342.8 billion, or 3.6% of GDP. Excluding the effect of judgments and court-ordered debts, the projection drops to R$329.1 billion, or 3.5% of GDP (Graphs 26 and 27). Unlike pension expenses, the growth of personnel expenses has been weakening for longer. Between 2007 and 2010, real growth had been 7% per year (Graph 28). Over the next eight years, from 2011 to 2018, the rate fell to 1.3% per year. In 2019 and 2020, the average real advance was only 0.5%. For 2021, the IFI projects a decline of 5.9% in real terms. If the projections for 2021 and 2022 are confirmed, personnel expenses will have an average decrease of 1.6% in the period.

CHART 26. PERSONNEL EXPENSES, EXCEPT JUDGEMENTS AND COURT-ORDERED GOVERNMENT DEBT (R$ BILLION, DEC/22 PRICES)

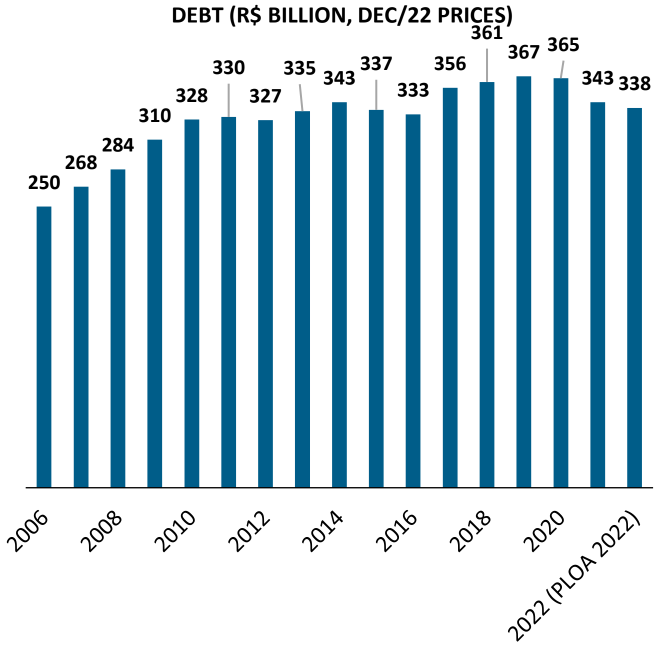
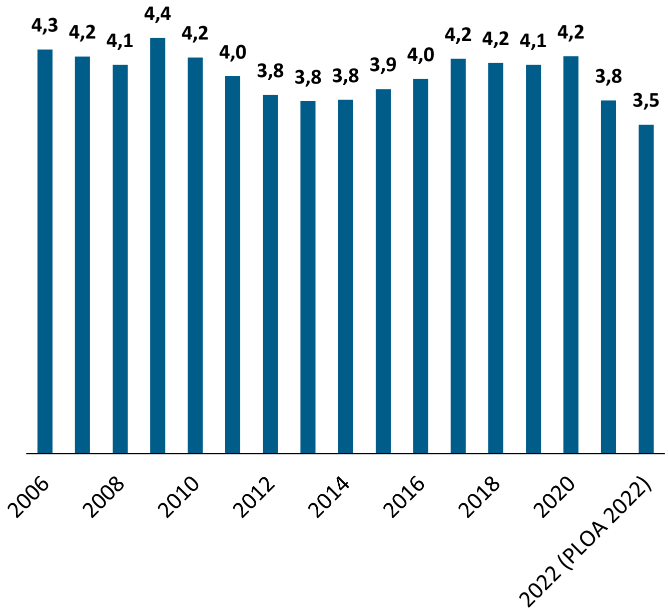
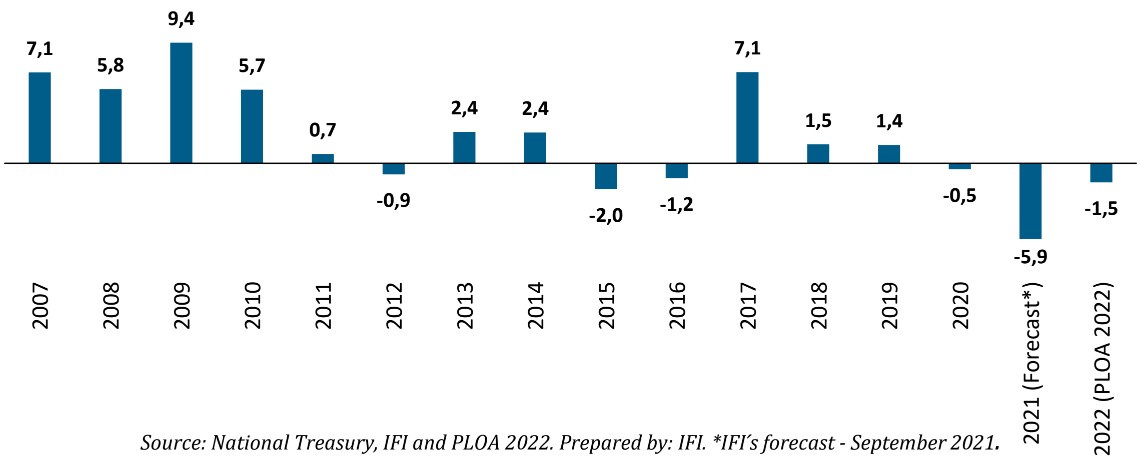


CHART 27. PERSONNEL EXPENSES, EXCEPT JUDGEMENTS AND COURT-ORDERED GOVERNMENT DEBT (% OF GDP)



*Source: National Treasury, IFI and PLOA A2022. Prepared by: IFI. *IFI´s forecast - September 2021.*

CHART 28. REAL ANNUAL GROWTH OF PERSONNEL EXPENSES EXCEPT JUDGEMENTS AND COURT-ORDERED GOVERNMENT DEBT (%)



*Source: National Treasury, IFI and PLOA 2022. Prepared by: IFI. *IFI´s forecast - September 2021.*

Fiscal tables

TABLE 13. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – BASELINE SCENARIO (% OF GDP)[16]

Discriminação	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.1	21.0	21.1
Transfers to States and Municipalities by Revenue Sharing	3.5	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Net Revenue	16.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
Primary Expenditure	26.1	19.5	18.5	17.9	17.5	17.0	16.7	16.3	16.3	16.2	16.3
Mandatory Expenditure	24.7	17.9	16.7	16.3	16.1	15.8	15.7	15.7	15.7	15.7	15.7
Social security benefits	8.9	8.4	8.3	8.3	8.2	8.2	8.1	8.2	8.2	8.3	8.4
Personnel expenses and social contribution	4.3	4.0	3.8	3.7	3.5	3.4	3.3	3.3	3.3	3.3	3.3
Salary allowance and unemployment insurance	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Salary Allowance	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Unemployment Insurance	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.0	-	-	-	-	-	-	-	-
Supplementation by the Federal Government to Fundeb	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies and Grants	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.8	3.3	2.3	2.1	2.0	1.9	1.9	1.8	1.8	1.7	1.7
without Flow Control	7.0	1.5	0.4	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.7	2.0	1.9	1.8	1.8	1.7	1.7	1.6	1.6	1.6
Of which Bolsa Família [Family Grant]	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Discretionary of the Executive Branch	1.5	1.5	1.9	1.6	1.4	1.2	1.0	0.6	0.6	0.5	0.5
Primary Balance	-10.0	-2.3	-1.4	-0.8	-0.4	0.1	0.5	0.9	0.9	0.9	0.9
Note:											
Spending on COVID-19	7.0	1.4	0.2	-	-	-	-	-	-	-	-
Nominal GDP (BRL billion)	7,447.9	8,385.7	8,976.7	9,549.1	10,154.4	10,791.2	11,466.0	12,183.0	12,944.8	13,754.2	14,614.3

[16] IFI will revise the baseline tables in October, and preliminary figures for 2022 are in the Budget section of this report.

TABLE 14. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – OPTIMISTIC SCENARIO (% OF GDP)[17]

Discriminação	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	21.4	21.3	21.2	21.2	21.3	21.2	21.2	21.2	21.1	21.1
Transfers to States and Municipalities by Revenue Sharing	3.5	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Net Revenue	16.2	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.2	17.2	17.2
Primary Expenditure	26.1	19.2	18.2	17.4	16.8	16.2	15.6	15.4	15.2	14.9	14.7
Mandatory Expenditure	24.7	17.7	16.4	15.9	15.5	15.1	14.8	14.6	14.4	14.1	14.0
Social security benefits	8.9	8.3	8.2	8.1	8.0	7.8	7.6	7.6	7.5	7.4	7.3
Personnel expenses and social contribution	4.3	3.9	3.7	3.6	3.4	3.3	3.2	3.1	3.1	3.1	3.0
Salary allowance and unemployment insurance	0.8	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Salary Allowance	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unemployment Insurance	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.0	-	-	-	-	-	-	-	-
Supplementation by the Federal Government to Fundeb	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies and Grants	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.8	3.2	2.2	2.0	1.9	1.8	1.7	1.7	1.6	1.5	1.5
without Flow Control	7.0	1.5	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.7	1.9	1.8	1.7	1.7	1.6	1.5	1.5	1.4	1.4
Of which Bolsa Família [Family Grant]	0.3	0.3	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Discretionary of the Executive Branch	1.5	1.5	1.8	1.6	1.3	1.1	0.9	0.8	0.8	0.8	0.7
Primary Balance	-10.0	-1.9	-0.8	-0.1	0.5	1.1	1.6	1.8	2.0	2.3	2.5
Note:											
Spending on COVID-19	7.0	1.4	0.2	-	-	-	-	-	-	-	-
Nominal GDP (BRL billion)	7,447.9	8,468.3	9,123.2	9,794.8	10,521.5	11,289.9	12,114.4	12,999.2	13,948.6	14,967.3	16,060.4

[17] IFI will revise the baseline tables in October, and preliminary figures for 2022 are in the Budget section of this report.

TABLE 15. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – PESSIMISTIC SCENARIO (% OF GDP)[18]

Discriminação	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	20.7	20.6	20.6	20.5	20.5	20.5	20.4	20.4	20.4	20.4
Transfers to States and Municipalities by Revenue Sharing	3.5	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Net Revenue	16.2	16.7	16.7	16.7	16.6	16.6	16.6	16.5	16.5	16.5	16.4
Primary Expenditure	26.1	20.1	18.6	18.0	17.6	17.1	17.0	17.0	17.0	17.0	17.1
Mandatory Expenditure	24.7	18.6	16.9	16.5	16.4	16.2	16.2	16.2	16.3	16.3	16.3
Social security benefits	8.9	8.5	8.4	8.4	8.4	8.4	8.4	8.5	8.6	8.6	8.7
Personnel expenses and social contribution	4.3	4.0	3.8	3.7	3.6	3.5	3.4	3.4	3.4	3.4	3.5
Salary allowance and unemployment insurance	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Salary Allowance	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unemployment Insurance	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.0	-	-	-	-	-	-	-	-
Supplementation by the Federal Government to Fundeb	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.6	0.6
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies and Grants	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.8	3.7	2.4	2.1	2.1	2.0	2.0	1.9	1.9	1.8	1.8
without Flow Control	7.0	2.0	0.4	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.2
with Flow Control	1.8	1.7	2.0	2.0	1.9	1.9	1.8	1.8	1.7	1.7	1.6
Of which Bolsa Família [Family Grant]	0.3	0.3	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Discretionary of the Executive Branch	1.5	1.5	1.7	1.5	1.2	0.8	0.8	0.8	0.8	0.8	0.8
Primary Balance	-10.0	-3.4	-1.9	-1.3	-0.9	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6
Note:											
Spending on COVID-19	7.0	1.8	0.2	-	-	-	-	-	-	-	-
Nominal GDP (BRL billion)	7,447.9	8,286.6	8,899.2	9,468.9	10,066.2	10,707.8	11,392.2	12,123.7	12,905.9	13,741.3	14,632.5

[18] IFI will revise the baseline tables in October, and preliminary figures for 2022 are in the Budget section of this report.

IFI Forecasts

								Forecasts			
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GDP - real growth (% per year)	0.50	-3.55	-3.28	1.32	1.78	1.41	-4.06	4.94	1.67	2.28	2.33
Nominal GDP (BRL billion)	5,779	5,996	6,269	6,585	7,004	7,407	7,448	8,546	9,210	9,549	10,154
IPCA – acumm. (% in the year)	6.41	10.67	6.29	2.95	3.75	4.31	4.52	8.00	3.90	3.21	3.24
Exchange rate - end-of-period (BRL/USD)	2.66	3.90	3.26	3.31	3.87	4.03	5.20	5.27	5.26	5.26	5.25
Employment - growth (%)	1.48	0.05	-1.87	0.35	1.41	1.99	-7.86	2.10	1.36	1.55	1.59
Payroll - growth (%)	3.98	-1.12	-3.24	1.86	3.04	2.46	-3.63	4.21	2.00	2.28	2.33
Selic rate - end-of-period (% per year)	11.75	14.25	13.75	7.00	6.50	4.50	2.00	8.00	8.00	5.50	6.00
Real Interest *ex-post* (% per year)	5.02	3.23	7.02	3.94	2.65	0.19	-2.41	0.00	3.95	2.22	2.67
Public Sector Consolidated Primary Balance (% of GDP)	-0.56	-1.86	-2.48	-1.68	-1.55	-0.84	-9.44	-2.16	-1.31	-0.76	-0.33
of which Central Government	-0.41	-2.01	-2.57	-1.89	-1.72	-1.28	-10.06	-2.35	-1.41	-0.83	-0.38
Net Nominal Interest (% of GDP)	5.39	8.37	6.49	6.09	5.41	4.96	4.19	4.73	4.08	4.10	4.27
Nominal Balance (% of GDP)	-5.95	-10.22	-8.98	-7.77	-6.96	-5.79	-13.63	-6.89	-5.39	-4.86	-4.60
General Government Gross Debt (% of GDP)	56.3	65.5	69.8	73.7	75.3	74.3	88.8	85.6	86.0	86.7	87.0

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