Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- The perspectives of changes in the spending ceiling rule increase the probability of materialization of the pessimistic scenario.
- The central government recorded a recurrent primary surplus of R$ 24.0 billion in the 12 months ended in September.
- Subnational entities explained the primary surplus of the consolidated public sector in 2021.
- Issuance rates at DPMFi public auctions continued to rise in October.
- Public sector interest expenditures as a proportion of GDP rose for the third time in September compared to the previous month.
- The court-ordered debts PEC is expected to create space of R$ 93.0 billion in the spending ceiling for 2022.
- Margin for primary spending expansion, in addition to those already announced, should remain at R$ 24.5 billion.

Covering letter

The Fiscal Follow-Up Report (RAF) complies with Senate Resolution no. 42 of 2016. In this edition, we present our updated assessments of the macro-fiscal environment and calculate, in the Budget section, the fiscal space for 2022 derived from the eventual approval of the court-ordered debts constitutional amendment proposal (PEC). Fiscal risk has increased and, as a result, interest rates and the average cost of public debt. The pessimistic scenario the IFI formulated in October increased strength.

The economic outlook changed after the risk of altering the spending cap materialized in the latest version of the court-ordered debts PEC, already approved in two rounds by the House of Representatives. The retroactive change in correcting the spending ceiling (Amendment 95) would be, in practice, the end of the rule as conceived. In addition to the proposal, which is now in the Federal Senate, is the limitation on court-ordered debts (mandatory expenses) issuing.

The effects on the macroeconomic scenario are already visible. Instead of promoting a new revision of our macro-fiscal forecasts, we have opted for a qualitative analysis of the new risks only one month after elaborating the current base, optimistic and pessimistic scenarios.

Thus, in the Macroeconomic Context section, we highlight inflationary risk, the tendency for interest rates to rise more significantly, and the possibility of lower GDP growth in 2022. For now, the probability of the pessimistic scenario has increased.

In the Fiscal Scenario, it is clear that the upward movement of the average cost of the public debt, already identified previously by the IFI, persists. It reflects the increase in the Selic base interest rate by the Central Bank and the premium for the higher risk priced by the market in the yield curve for different maturities.

IFI has been alerting that the fiscal gains derived from high inflation and its effects on nominal GDP and the debt-to-GDP ratio would be temporary - before the presentation of the PEC itself. The reason is that we had foreseen the need, at some point, for more monetary contraction to cope with the resilience of inflation. This expectation was reinforced by the proposal, as mentioned earlier, and its approval by the Chamber of Deputies.

In the Budget section, we have shown that the fiscal space opened up by the court-ordered debts PEC, if approved by the Senate, would be R$ 93 billion. Besides the already announced allocations, especially the new social expenditure, under the IFI's base scenario, there would be an additional room of R$ 24.5 billion to increase primary expenditure, whether discretionary or mandatory.

The destination of the space opened by the PEC should materialize in the form of an amendment to the Annual Budget Bill (PLOA), also contemplating a possible revision of the macroeconomic parameters used by the government.

In short, the fiscal risk has increased, and the unfolding of this new framework on the economy could be severe. The IFI will continue to monitor the general picture and estimate the resulting fiscal effects.

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IFI Executive Director

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IFI Director

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IFI Director

Summary

- The perspectives of changes in the spending ceiling rule and the opening of space in the 2022 Budget led to a substantial increase in interest rates required in government bonds and a movement of revision of market agents' macroeconomic variables forecasts. This environment increases the probability of the projections presented in the pessimistic scenario outlined by the IFI in October. **(Page10)**
- Issuance rates in DPMFi public offerings continued to rise in October, according to a survey carried out by the IFI with auctions held by the National Treasury in the period. Information from the Monthly Debt Report (RMD) shows that these rates began to rise in June, alongside increases in country risk premiums. The increase in risk premiums reflects uncertainties regarding the inflationary scenario and the fiscal policy. (**Page 22**)
- Data from the Central Bank indicate that public sector interest expenses, measured as a proportion of GDP, rose for the third consecutive month in September, according to the movement observed in DPMFi issue rates. It appears there has been a reversal in the trajectory of interest expenses, which may require the government to make more significant efforts to generate primary surpluses to contain an eventual worsening in the trajectory of the nominal result. Furthermore, higher interest expenses will put pressure on indebtedness indicators and may affect the perception of the country's fiscal framework sustainability and the level of the Selic rate. (**Page 22**)
- The court-ordered debts PEC was approved in the Chamber of Deputies and is now under consideration in the Federal Senate. IFI estimates that the proposal should generate room of R$ 93.0 billion in the 2022 spending ceiling. From June to December, the change in the IPCA that corrects the ceiling accounts for R$ 47.6 billion of this total. The remaining R$ 45.4 billion derives from creating the spending limit for court ruling and court-ordered debts. (**Page 26**)
- A good part of the space generated by the approval of PEC no. 23 would already be fulfilled. Among several measures announced, the most relevant is the temporary benefit of R$ 400 per month under the Auxílio Brasil, with an estimated impact of R$ 46.9 billion. According to IFI's projections, the margin for primary expenditures expansion beyond those announced should be R$ 24.5 billion. In the calculation made based on the projections of PLOA 2022, there would be a need to adjust expenses indexed to the INPC, and the margin would fall to only R$ 1.8 billion. (**Page 26**)

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1. MACROECONOMIC CONTEXT

The perspectives of changes in the spending ceiling rule and the opening of space in the 2022 Budget with the approval in the second round in the Chamber of Deputies of PEC no. 23/2021 caused a substantial increase in the interest rates required in auctions of public bonds. Between September and October, the return on a one-year bond rose from 9.0% to 12.0% in nominal terms. Longer maturity rates also increased significantly, representing a tightening in financing conditions. The outlook of economic agents for the main macroeconomic variables, for this reason, is being revised.

The extreme volatility and uncertainty environment increases the probability of materialization, at least in the short term, of the pessimistic scenario outlined by the IFI in the October RAF[2]. This outlook, which incorporates a more expansionary fiscal policy and eventual changes in fiscal rules, is marked by more resilient inflation and a much slower reaction of output and the labor market.

1.1 Economic activity

The activity indicators presented a heterogeneous behavior among sectors in the third quarter. The industrial production index released by IBGE showed a variation of -0.4% between August and September in the seasonally adjusted series. The loss of dynamism of the manufacturing industries reflects, to a large extent, supply disruptions and the increase in costs. Between the second and third quarters, production shrank 1.7%, seasonally adjusted.

Services are the only vector of GDP growth. In the context of high inflation, the reduction in families' disposable income affects the dynamics of retail sales. According to the IBGE, in the Monthly Retail Trade Survey (PMC), the expanded retail sales volume index for August dropped 1.1% in comparison with September, seasonally adjusted. Between the second and third quarters, there was a drop of 1.7%. On the other hand, the services sector gains momentum with the advance of vaccination and the easing of mobility restrictions. In the Monthly Survey of Services (PMS-IBGE), the volume of services in September dropped 0.6% compared to August in the seasonally adjusted series but advanced 3.0% in the quarterly comparison.

The consolidated activity indicator suggests stability for the third-quarter GDP. The Central Bank's Economic Activity Index (IBC-Br), which aggregates information from the GDP sectors on the supply side, shrank 0.3% from August to September on a seasonally adjusted basis (Table 1). The index dropped 0.1% from the second to the third quarter, suggesting stability for the GDP results in the period.

[2] Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/593636/RAF57_OUT2021.pdf

TABLE 1. ECONOMIC ACTIVITY INDICATORS

Indicators	Month x previous month (seasonally adjusted)			Quarter x last quarter (seasonally adjusted)		
	Jul/21	Aug/21	Sep/21	Jul/21	Aug/21	Sep/21
Industrial production	-1.2%	-0.7%	-0.4%	-1.4%	-1.2%	-1.7%
Retail sales	1.4%	-3.0%	-1.1%	2.6%	0.6%	-1.7%
Volume of services	1.1%	0.4%	-0.6%	3.1%	4.3%	3.0%
Central Bank's Economic Activity Index (IBC-Br)	**0.1%**	**-0.3%**	**-0.3%**	**-0.5%**	**0.1%**	**-0.1%**

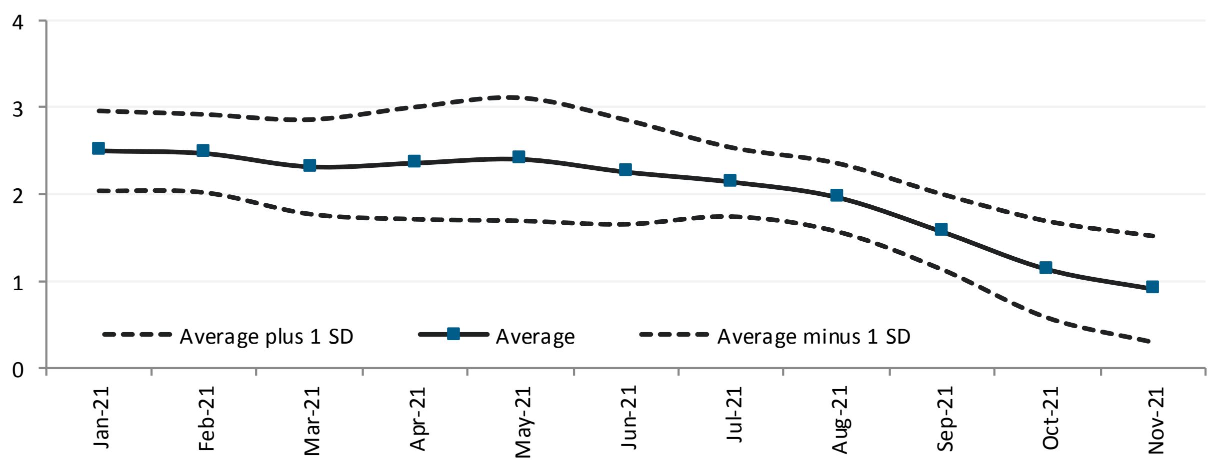
Source: IBGE and Central Bank. Prepared by: IFI.

October indicators carry mixed signals. The business and consumer confidence indexes produced by the Getulio Vargas Foundation (FGV) rose 0.4 and 1.0 percentage points (p.p.) between September and October. Given the presence of many risks surrounding the recovery of economic activity and job creation (high inflation, loss of credibility of fiscal policy, tightening of monetary policy, electoral uncertainty, energy crisis, and deceleration in the volume of world trade), the favorable variations in October will most likely not sustain in the following releases.

Concerning industrial indicators, the Level of Utilization of Installed Capacity (NUCI), also published by the FGV in the Industry Survey, rose from 80.2% in September to 81.3% in October (in seasonally adjusted terms). The production of vehicles reported by Anfavea (National Association of Automotive Vehicle Manufacturers), in turn, dropped 0.2% in the monthly comparison, intensifying the downward trend observed since the beginning of the year. Within the manufacturing industry, the automotive segment has significantly been affected by supply disruptions.

In the Focus Survey, GDP forecasts moved to 4.9% and 0.9% in 2021 and 2022. Among the agents that registered their projections in the Central Bank's Focus Survey, the outlook for the 2021 GDP reached 4.9% on November 12 (range of one standard deviation between 4.6% and 5.1%), after reaching 5.0% in September 4.9% in October. The market forecasts average for 2022 growth, meanwhile, stands at 0.9% (a standard deviation range between 0.3% and 1.5%), retreating in comparison to what was expected in September (1.6%) and October (1.1%).

FIGURE 1. MARKET FORECASTS - GDP (2022)



Source: Central Bank. Prepared by: IFI.

1.2 Labor market

The unemployment rate recorded a significant drop in comparison with the same period last year. According to statistics obtained in the Continuous National Household Sample Survey, the unemployment rate reached 13.2% of the labor force in the quarter ended in August, dropping 1.3 p.p. compared to the same period a year earlier (14.5%). The trend that appeared in the July data remained in the August release. The result reflected the significant advance in the working population (10.4%), more significant than the labor force (8.8%).

The dynamics of informal employment explain most of the expansion in the working population. The employed population in Brazil totaled 90.2 million people in the quarter ended in August, up 10.4% compared to the same period in 2020. Table 2 show that the occupation improvement followed the response in informal[3] employment (from 31 million in the quarter ended August 2020 to 37.1 million in the quarter ended August 2021, a variation of 19.5%), with highlight to the improvement in the number of people employed without a labor contract in the private sector (23.3%) and self-employed people (18.1%). Although to a lesser extent, the number of formalized workers increased from 50.6 million to 53.1 million (variation of 4.9%).

TABLE 2. WORKING POPULATION

Breakdown	Absolute values (thousand)			Variation compared to the same quarter of the previous year			% to the total working population		
	Aug/20	Jul/21	Aug/21	Aug/20	Jul/21	Aug/21	Aug/20	Jul/21	Aug/21
Working pop.	**81,666**	**89,042**	**90,188**	**-12.8%**	**8.6%**	**10.4%**	**100.0%**	**100.0%**	**100.0%**
Informal	31,043	36,295	37,099	-19.9%	18.2%	19.5%	38.0%	40.8%	41.1%
Formal	50,623	52,747	53,089	-7.7%	2.8%	4.9%	62.0%	59.2%	58.9%
Private sector	**37,822**	**40,970**	**41,830**	**-15.6%**	**7.6%**	**10.6%**	**46.3%**	**46.0%**	**46.4%**
Formal	29,067	30,631	31,039	-12.0%	4.2%	6.8%	35.6%	34.4%	34.4%
Informal	8,755	10,339	10,791	-25.8%	19.0%	23.3%	10.7%	11.6%	12.0%
Domestic worker	**4,559**	**5,332**	**5,524**	**-27.5%**	**16.1%**	**21.2%**	**5.6%**	**6.0%**	**6.1%**
Public sector	**11,912**	**11,790**	**11,589**	**2.1%**	**-2.7%**	**-2.7%**	**1.6%**	**1.5%**	**1.5%**
Employer	**3,905**	**3,746**	**3,788**	**-10.2%**	**-4.9%**	**-3.0%**	**3.9%**	**4.5%**	**4.6%**
Self-employed	**21,521**	**25,172**	**25,409**	**-11.4%**	**17.6%**	**18.1%**	**14.6%**	**13.2%**	**12.8%**
Auxiliary workers in the family business	**1,947**	**2,032**	**2,048**	**-11.2%**	**7.2%**	**5.2%**	**4.8%**	**4.2%**	**4.2%**

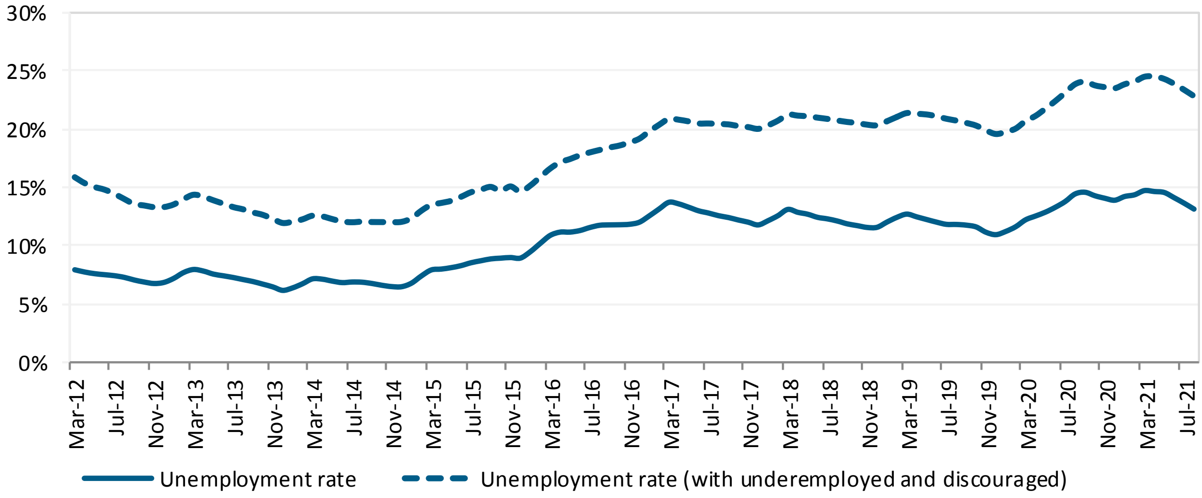
Source: IBGE. Prepared by: IFI.

Underutilization of the labor force is high. In the quarter ended in August, the number of people over 14 years old who were either unemployed (13.7 million) or underemployed due to insufficient hours worked (7.7 million) or discouraged[4] (5.3 million) totaled 26.7 million individuals, a rise of 4.3% in comparison with the same period a year earlier. If these individuals who stopped working were in the labor force, the unemployment rate would be 22.8%.

[3] 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.

[4] 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.

FIGURE 2. UNEMPLOYMENT RATE (% OF THE LABOR FORCE)



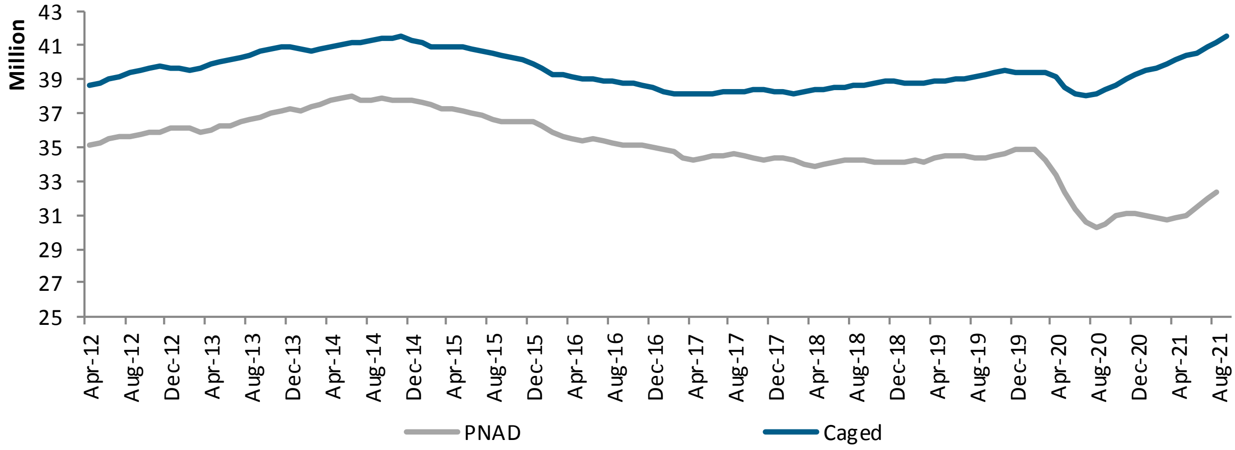
Source: IBGE and Central Bank. Prepared by: IFI.

Average real income fell 10.2% in comparison with the same period in 2020. High inflation and unemployment rate limit workers' power in negotiations for salary increases. Additionally, the more concentrated hiring boost in lower-paid activities also helps explain the drop in income. As a result, there was also a 0.7% drop in the payroll indicator (average income multiplied by the number of occupied people).

Caged shows a more favorable picture for formal employment than the one described by PNAD Continuous. Even with the downward update of the job creation balance in 2020 due to the incorporation of declarations of admissions and dismissals of employees sent by companies after the deadline, the General Register of Employed and Unemployed Workers (Caged) shows a more favorable picture for formal employment than that presented in the PNAD Continuous. Instead of the 142.7 thousand openings last year, the positive balance of the Caged was updated to 75.9 thousand, a number 46.82% lower than previously announced by the government. According to data from the Central Bank[5] calculated based on the Ministry of Economy, the stock of formal workers in the quarter ending in September 2021 reached 41.5 million people, representing a growth of 8.2% to the same period of the previous year (38.4 million).

[5] Series no. 28763 collected at SGS – Sistema Gerenciador de Séries Temporais (SGS).

FIGURE 3. FORMAL EMPLOYMENT

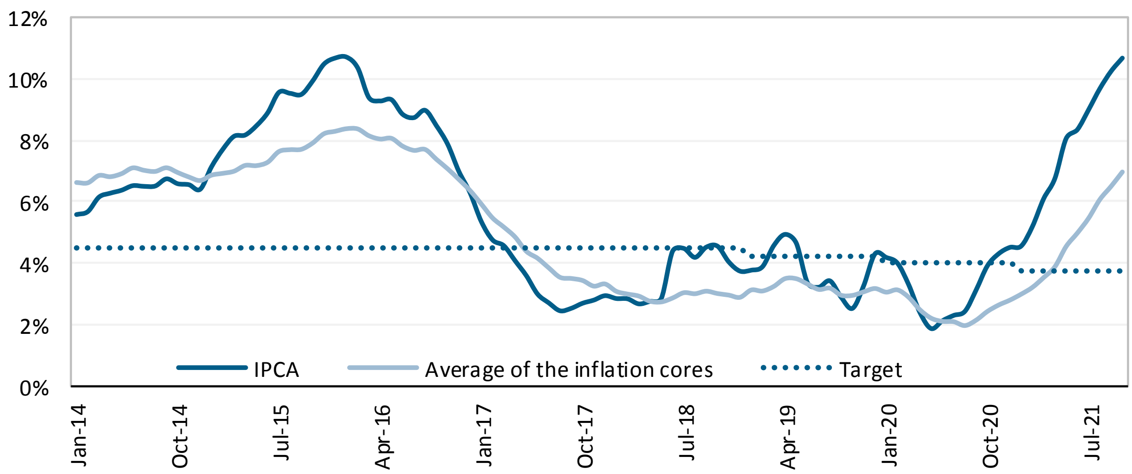


Source: IBGE and Central Bank. Prepared by: IFI.

1.3 Inflation and monetary policy

Since 2021, consumer inflation has risen in several countries, driven by increased demand as economies reopen, supply disruptions, and rising commodity prices on the international market. In Brazil, the water crisis impacts electricity costs and adds further pressure on consumer inflation. Additionally, the higher fiscal risk materialized in increasing the country risk premium, and exchange rate depreciation generates new uncertainties to the future inflation trajectory, making it difficult for the Central Bank to anchor expectations.

FIGURE 4. IPCA AND CORES (12-MONTH ACCUMULATED % CHANGE)



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

Consumer inflation in October reached 10.67% over twelve months. As measured by the Extended National Consumer Price Index (IPCA), consumer inflation advanced from 1.16% in September to 1.25% in October. Over 12 months, IPCA accelerated from 10.25% to 10.67%, above the inflation target (3.75% with an interval of 1.5 percentage points above and below). The average of the inflation cores[6] constructed by the Central Bank (several measures that exclude the influence of more volatile items from total inflation) rose from 6.5% to 7.0% over twelve months accumulated between September and October, also remaining above the ceiling of the inflation target.

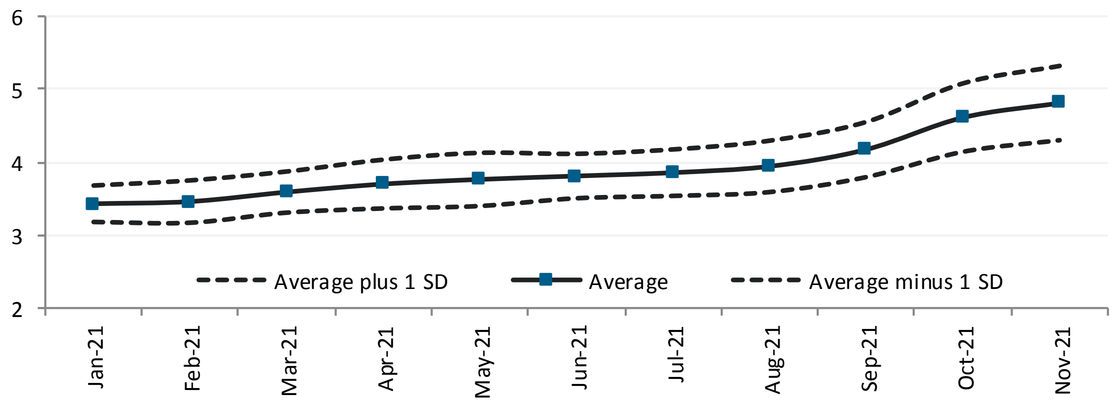
Gasoline had the most prominent individual impact on inflation in October. In October, all nine products and services groups rose, especially transportation (2.62%), boosted by fuels (3.21%). Gasoline, in particular, rose 3.10% and represented the most remarkable individual impact on the month's index (0.19 p.p.). It is worth mentioning that this item has accumulated a variation of 42.72% in the last 12 months, impacted by the dynamics of oil prices in the international market and the exchange rate.

Price hikes are disseminated among segments of the IPCA. In October, monitored prices, which account for approximately 25% of the total IPCA, advanced 1.4% (an accumulated variation of 17% over 12 months). Free prices, meanwhile, rose 1.2% (8.5% in the last 12 months). Among free prices (a group of items that are more sensitive to supply and demand conditions), the pressure came from services (1.0% and 4.9%), industrial goods (1.4% and 11.1%), and food (1.3% and 13.3%).

The IPCA's diffusion coefficient, which measures the percentage of items that registered a positive variation in the month, advanced from 65% in September to 66.8% in October, indicating a scenario of dissemination of price readjustments and shocks that have proved persistent.

Inflation expectations for 2021 and 2022 are unanchored. In the Central Bank's Focus Survey, the perspective for the IPCA reached 9.8% on November 12 (range of one standard deviation between 9.5% and 10.2%). The market forecasts average for the IPCA for 2022, in turn, reached 4.8% at the beginning of November (with a range of one standard deviation between 4.3% and 5.3%), distancing itself from the target of 3.5% set for next year. The current high and resilient inflation and the more significant pressure on the exchange rate contribute to worsening expectations.

FIGURE 5. MARKET FORECASTS - IPCA (2022)



Fonte: Banco Central. Elaboração: IFI.

The decline in domestic inflation next year depends, among other factors, on the slowdown of administered prices, mainly due to the end of the "water shortage" flag on the electricity bill as of May and the reestablishment of the global production input chains. However, uncertainties at the domestic level continue to add uncertainty to the speed at which this deceleration may occur.

[6] The set of inflation cores are: Ex-0, Ex-3, MS, DP, and P55, according to the Inflation Report - June 2020: https://www.bcb.gov.br/content/ri/relatorioinflacao/202006/ri202006b10p.pdf

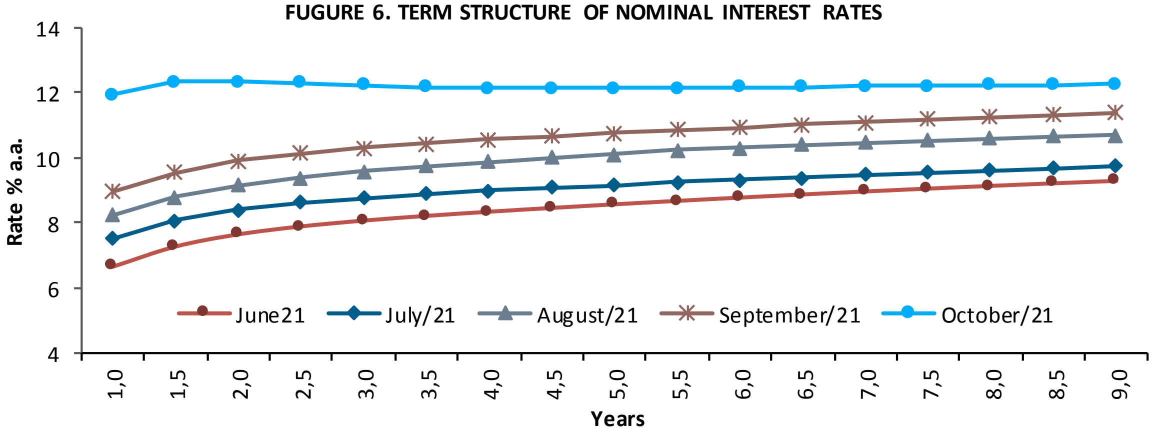
The deterioration of the fiscal scenario has significantly increased the interest rates demanded by the market in public bonds operations. The discussions surrounding PEC no. 23 proposed by the government have added uncertainty to the economic picture in recent months, with repercussions on financial conditions. Recently, the progress of the proposal, approved by the Chamber of Deputies, caused a substantial increase in the interest rates demanded in auctions of government bonds.

Figure 6 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, a one-year bond yield rose from 9.0% in September to 12.0% in October. Furthermore, the yield curve shifted upwards over the entire horizon. Between July and October, the rate on a nine-year bond jumped from 9.7% to 12.3%. The opening of the yield curve, a movement that represents a tightening in financing conditions, negatively impacts the outlook for inflation and economic growth.

Selic rate increases to contain the advance of inflation estimates. In its October meeting, the Monetary Policy Committee (Copom) announced a rise of 1.5 p.p. in the target for the Selic rate to halt the advance in inflation expectations. The monetary authority indicated it would be necessary to adjust the same magnitude if no significant changes are observed in the inflation and activity scenario. With the IPCA for October higher than expected (the median of the Focus Survey pointed to a variation of 1.0%), the base interest rate may rise even further. Between March and September, the Selic rate rose from 2.0% to 7.75%.

The monetary tightening has led the real interest rate to restrictive levels for economic activity. In real terms (ex-ante), the interest rate - obtained based on the rate of pre-DI swap operations[7] for one year (11.9%) discounted from the projected inflation rate[8] (5.12%) - went from 4.1% in September to 6.5% in October. The increase in interest rates to contractionary levels restricts the performance of aggregate demand.

FUGURE 6. TERM STRUCTURE OF NOMINAL INTEREST RATES



Source: Anbima. Prepared by: IFI

[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.

2. FISCAL SCENARIO

2.1 Balances of the Central Government and the Consolidated Public Sector

2.1.1 Central Government Primary Balance

Central government primary deficit reached R$ 82.5 billion (1.3% of GDP) in the year to September. According to information from the National Treasury Results Bulletin (RTN) of the National Treasury Secretariat (STN), the primary deficit of the central government was R$ 82.5 billion (1.3% of GDP) in the first nine months of 2021, against a deficit of R$ 677.4 billion (12.4% of GDP) recorded in the same period last year. This improvement occurred due to the increase in revenues and the reduction in primary federal expenses, especially those aimed at mitigating the economic and social effects of the pandemic.

In 12 months, Union's primary deficit was R$ 148.3 billion (1.6% of GDP). The IFI's projection is a deficit of R$ 158.3 billion (1.8% of GDP) in 2021. In the 12 months ending in September, the central government primary balance was negative by R$ 148.3 billion (1.6% of GDP), while in the same month of 2020, the deficit was R$ 700.0 billion (9.5% of GDP). The IFI's new projection for the Union's primary balance in 2021, released in October, is a deficit of R$ 158.3 billion (1.8% of GDP). For 2022, despite many uncertainties regarding expenses with Auxílio Brasil, a program that substitutes Bolsa Família, and expenses with court-ordered debts, the projection is for a primary deficit of R$ 83.7 billion.

By way of comparison, the median of the projections collected by the Monthly Report from Prisma Fiscal[9] of the Ministry of the Economy, updated until October, foresees a primary deficit of R$ 129.0 billion in 2021 and another of R$ 83.1 billion next year.

The Executive Branch, in turn, projects a negative primary result of R$ 139.4 billion for the central government in 2021, according to the Primary Revenues and Expenses Evaluation Report of the fourth bimester[10]. In the 2022 Federal Budget Bill (PLOA)[11], the Executive projects a primary deficit of R$ 49.6 billion next year. In the case of approval of PEC no. 23[12] of 2021, there will be additional fiscal space for new spending. A more detailed analysis will be presented in the budget section of this RAF.

The primary revenue of the central government has a real growth of 25.9% in the nine months accumulated in 2021. The growth in tax collection explains part of the improvement in the central government's primary balance, both in the year to September 2021 and in the 12-month comparison. Between January and September 2021, primary revenue totaled R$ 1,370.2 billion (21.5% of GDP), an increase of 25.9% in real terms over the amount calculated for the same period in 2020 (Table 3).

Revenues collected by the Federal Revenue Office (RFB) rose 28.6% in real terms from January to September. Of the total primary revenue amount (R$ 1,370.2 billion), R$ 865.1 billion (13.6% of GDP) were revenues collected by the RFB, except General Social Security System (RGPS), with an increase of 28.6% in real terms. RGPS revenues, at R$320.3 billion (5.0% of GDP) in the period, grew 11.8% on this basis of comparison. Finally, revenues not collected by the RFB totaled R$ 184.8 billion (2.9% of GDP), up 43.1% compared to the first nine months of 2020, in real terms.

[9] Link to the report: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2021/relatorio_mensal_outubro_2021.pdf/view.

[10] Link to the report: https://www.tesourotransparente.gov.br/publicacoes/relatorio-de-avaliacao-de-receitas-e-despesas-primarias-rardp/2021/16.

[11] Link to the report: https://www.gov.br/economia/pt-br/assuntos/planejamento-e-orcamento/orcamento/orcamentos-anuais/2022/ploa.

[12] Link to the proposal´s page: Portal da Câmara dos Deputados (camara.leg.br).

The performance of tax collection in 2021 reflects commodity prices and the behavior of nominal GDP. The performance of tax collections in the year to September was associated with the nominal GDP (influenced by inflation) and the higher prices of some agricultural, mineral, and energy commodities, such as soy, iron ore, and crude oil, representative items in the Brazilian trade agenda. 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. Special Study No. 16[13], published in November 2021, updates IFI's estimates for revenue elasticity to GDP. The results indicate that, in the short run, the sensitivity of tax collections to economic activity is above unit. In the long run, in turn, these elasticities were around 0.9.

The depressed comparison base of the second quarter of 2020 also influences the high rates of revenue increase in 2021, considering the postponement of the collection of some taxes (PIS/COFINS and employer's contribution to social security) and the reduction to zero of the IOF rates on credit operations by the government.

Isolating the non-recurrent effects of tax collection allows us to verify the influence of activity and nominal GDP on revenues. 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 this RAF. This series shows vigorous growth, reinforcing economic activity and nominal GDP on collections until the year's third quarter.

Revenue sensitivity to economic activity is above unity in the short term. As mentioned earlier, a result obtained by the IFI from estimating short-term revenue-GDP elasticities, presented in EE 16 from 2021. In the short run, the revenue-GDP elasticity, the sensitivity of tax collections to movements in economic activity, was above unity. In other words, for each 1% growth (contraction) in the GDP, total tax revenues tend to grow by more than 1%.

In the long run, results found by the IFI for the revenue-GDP elasticity suggest values close to unity. For the long term, according to the results obtained in the mentioned study, the elasticity of total revenue to the GDP is slightly lower than one, around 0.9, indicating a growth of primary revenue more in line with the dynamics of economic activity.

These results are essential due to the weakening observed in economic activity in the year's third quarter. The result of the quarterly national accounts for the third quarter of 2021, to be released by IBGE on December 2, should show a loss of momentum in the activity concerning the first two quarters of the year. On the other hand, tax collection maintained a robust performance, as attested by the information already made available by the RFB and the STN.

Without non-recurrent events, primary revenue would have grown 19.3% in the accumulated from January to September, in real terms. Returning to the figures presented in Table 3, the total primary revenue recalculated by the IFI would have registered an increase of 19.3%, in real terms, in the accumulated nine months in 2021 (against 25.9% of the total revenue realized). The net revenue, in turn, would have expanded 18.0% on this basis of comparison (compared to 26.0% of the net revenue observed).

[13] Available at: EE16.pdf (senado.leg.br).

Compared to 2019, total primary revenue recorded an increase of 8.7% between January and September, in real terms. 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 8.7% in the first nine months of 2021 against the same period in 2019, in real terms (R$ 1,370.2 billion over R$ 1,139.6 billion). As a proportion of GDP, primary revenue grew from 20.8% of GDP in 2019 to 21.5% of GDP in 2021. Net revenue, in turn, recorded a real increase of 8.0% between January and September 2021 compared to the same period in 2019 (17.6% of GDP in 2021, against 17.1% of GDP in 2019).

Transfers to subnational entities increased 25.4% above inflation in the nine-month cumulative period in 2021. The transfers to states and municipalities grew 25.4% in real terms between January and September 2021, reaching R$ 252.2 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 (IPI) and income tax (IR), as well as other revenues, such as the exploitation of natural resources (Table 3).

TABLE 3. CENTRAL GOVERNMENT'S REVENUES – 2019-2021 – JANUARY TO SEPTEMBER (R$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Sep/19			Jan-Sep/20			Jan-Sep/21		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total Revenue	**1,139.6**	**0.9%**	**20.8%**	**1,012.9**	**-13.7%**	**18.6%**	**1,370.2**	**25.9%**	**21.5%**
Revenues Collected by RFB, except RGPS	*705.3*	*0.7%*	*12.9%*	*626.5*	*-13.7%*	*11.5%*	*865.1*	*28.6%*	*13.6%*
Fiscal Incentives	*0.0*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*	*-0.1*	*-*	*0.0%*
RGPS Revenues	*292.4*	*2.9%*	*5.3%*	*266.5*	*-11.5%*	*4.9%*	*320.3*	*11.8%*	*5.0%*
Revenues not Collected by RFB	*141.9*	*-2.3%*	*2.6%*	*120.1*	*-17.7%*	*2.2%*	*184.8*	*43.1%*	*2.9%*
Transfers	**203.6**	**5.0%**	**3.7%**	**187.0**	**-10.7%**	**3.4%**	**252.2**	**25.4%**	**4.0%**
Net Revenue	**936.0**	**0.0%**	**17.1%**	**825.9**	**-14.3%**	**15.2%**	**1,118.0**	**26.0%**	**17.6%**
Total revenue without non-recurrent events*	**1,139.6**	**0.9%**	**20.8%**	**1,085.6**	**-7.4%**	**19.9%**	**1,392.2**	**19.3%**	**21.9%**
Net revenue without non-recurrent events*	**936.0**	**0.0%**	**17.1%**	**898.6**	**-6.7%**	**16.5%**	**1,140.0**	**18.0%**	**17.9%**
GDP (R$ billion current)			**5,484.0**			**5,444.4**			**6,362.0**

** 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.

New IFI projections for total and net primary revenues are R$ 1,823.6 billion and R$ 1,478.0 billion, in that order. In the 12 months to September 2021, the total primary revenue of the central government was R$ 1,825.0 billion (20.3% of GDP), 13.4% higher than in September 2020, in real terms. Net revenues, in turn, totaled R$ 1,496.0 billion (16.6% of GDP), a real increase of 13.4% compared to September last year. The IFI's projection for total and net primary revenues in 2021 was revised in October from R$ 1,806.6 billion to R$ 1,823.6 billion and from R$ 1,468.5 billion to R$ 1,478.0 billion, in that order, due to the revised projection for nominal GDP 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, in October indicated R$ 1,826.1 billion for federal revenues and R$ 1,508.2 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, contained in the Primary Revenues and Expenses Evaluation Report of the fourth bimester of 2021, are R$ 1,816.3 billion for total revenue and R$ 1,476.4 billion for net revenue.

Information gathered from the STN's Management Treasury indicates that the central government's primary revenue in October was R$ 174.7 billion, a real increase of 2.8% compared to October 2020. Based on information gathered by the IFI from the STN's Management Treasury, it is possible to verify that the strong growth in primary federal revenues in the year to September 2021 continued in October. According to the consolidated data, primary revenue would have been R$ 174.7 billion in October, a real increase of 2.8% to the same month in 2020. The net revenue, in turn, would have registered a rise of 0.6% on the same basis of comparison to R$148.3 billion. In October 2021, the increases would have been 22.9% for total revenue and 22.5% for net revenue.

The primary expenditure of the central government in the accumulated nine months of 2021 was R$ 302.9 billion less than in 2020. We now analyze the central government's primary spending, which totaled R$ 1,200.5 billion (18.9% of GDP) in the accumulated nine months of 2021, R$ 302.9 billion less than the expense in the same period of 2020, a 25.8% retraction in real terms. (Table 4).

Expenses with the payment of RGPS benefits remained relatively stable in the year to September. Between January and September, there was stability in the payment of RGPS social security benefits, which totaled R$545.6 billion in the period (+0.5%, in real terms). On the other hand, expenses with the Continuous Cash Benefit (BPC) grew by 0.8%.

The other expenses registered a drop, some more intensely, in the accumulated 2021 through September:

a) Personnel and social charges (R$ 241.2 billion and real reduction of 3.9%);
b) Salary allowance and unemployment insurance (R$ 37.2 billion), with a real reduction of 27.5% compared to 2020;
c) Extraordinary credits (except PAC), amounting to R$ 95.9 billion (compared to R$ 342.8 billion executed between January and September 2020);
d) Subsidies, grants, and Proagro (Agricultural Activity Guarantee Program) totaling R$ 5.1 billion (an actual drop of 83.4%);
e) Discretionary expenses registered an actual contraction of 8.0%, to R$ 71.4 billion, between January and September (Table 4).

The reduction in spending on fighting the pandemic and the absence of wage adjustment for civil servants contributed to keeping primary spending relatively under control. As highlighted in previous issues of this RAF, the reduction in total primary expenditure of the central government in 2021 has occurred for a few reasons. First of all, because of the decrease 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 expenditure was the absence of wage adjustment to the civil service 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 4).

The late approval of the 2021 budget influenced the execution of discretionary spending. Regarding discretionary spending, the 8.0% contraction in the accumulated nine months in 2021 is explained by the delay in approving the 2021 federal budget, which occurred only in April. The most significant reductions are concentrated in the transport (R$ 1.5 billion) and education (R$ 1.5 billion) functions.

Primary expenditure without non-recurrent events would have fallen by 3.2% in the accumulated from January to September, in real terms. Table 4 also presents information regarding total primary expenditures without the non-recurrent mentioned previously. In the accumulated nine months of 2021, this indicator fell by 3.2% in real terms (against 25.8% of the total primary expenditure observed).

TABLE 4. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – 2019-2021– JANUARY TO SEPTEMBER (R$ B CURRENT, REAL % CHANGE, AND % OF GDP)

	Jan-Sep/19			Jan-Sep/20			Jan-Sep/21		
	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP	R$ B current	Real % change	% GDP
Total Expenditure	**1,008.5**	**-1.1%**	**18.4%**	**1,503.3**	**45.0%**	**27.6%**	**1,200.5**	**-25.8%**	**18.9%**
Social Security Benefits (RGPS)	*457.7*	*2.8%*	*8.3%*	*509.2*	*8.3%*	*9.4%*	*545.6*	*-0.5%*	*8.6%*
Personnel expenses (working and retired employees)	*227.3*	*0.9%*	*4.1%*	*233.4*	*-0.2%*	*4.3%*	*241.2*	*-3.9%*	*3.8%*
Salary allowance and unemployment insurance	*41.8*	*-1.6%*	*0.8%*	*48.1*	*11.6%*	*0.9%*	*37.2*	*-27.5%*	*0.6%*
Continuous Cash Benefit (BPC)	*44.6*	*2.3%*	*0.8%*	*46.9*	*2.3%*	*0.9%*	*50.9*	*0.8%*	*0.8%*
Extraordinary Credits (except PAC)	*2.9*	*40.1%*	*0.1%*	*342.8*	*11,335.8%*	*6.3%*	*95.9*	*-74.2%*	*1.5%*
Compensation to RGPS for Exemption of Payroll Taxes	*8.2*	*-26.2%*	*0.1%*	*7.5*	*-11.2%*	*0.1%*	*5.8*	*-27.9%*	*0.1%*
Fundeb	*11.9*	*4.6%*	*0.2%*	*12.5*	*1.8%*	*0.2%*	*15.1*	*13.1%*	*0.2%*
Court Rulings and Court-Ordered Debts (current and capital expenditure)	*14.7*	*4.8%*	*0.3%*	*21.9*	*45.9%*	*0.4%*	*17.9*	*-24.5%*	*0.3%*
Subsidies, Grants, and Proagro	*10.0*	*-24.1%*	*0.2%*	*28.8*	*177.9%*	*0.5%*	*5.1*	*-83.4%*	*0.1%*
Mandatory Expenditure	**937.3**	**0.3%**	**17.1%**	**1,431.6**	**48.5%**	**26.3%**	**1,129.1**	**-26.7%**	**17.7%**
Mandatory Spending with Flow Control	***101.7***	***-2.1%***	***1.9%***	***92.6***	***-11.5%***	***1.7%***	***101.6***	***2.1%***	***1.6%***
Discretionary	**71.3**	**-17.3%**	**1.3%**	**71.7**	**-2.0%**	**1.3%**	**71.4**	**-8.0%**	**1.1%**
Total Expenditure without non-recurrent events	**1,008.5**	**-0.9%**	**18.4%**	**1,039.1**	**0.6%**	**19.1%**	**1,081.6**	**-3.2%**	**17.0%**
GDP (R$ billion current)		**5,484.0**			**5,444.4**				**6,362.0**

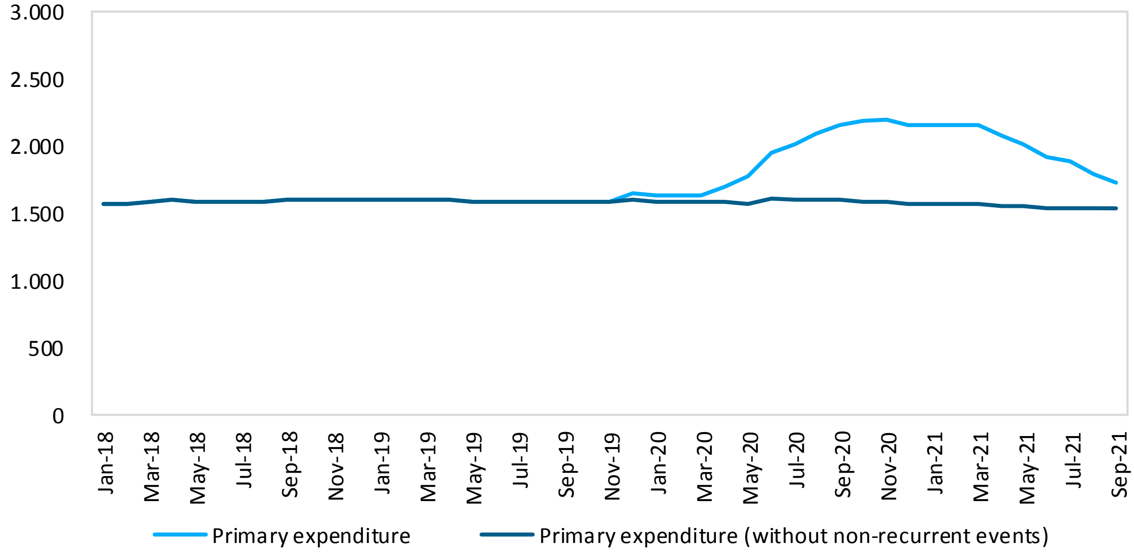
Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

Figure 7 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.

Without some atypical factors, the Union's primary expenditure would have been R$ 1,536 billion in the 12 months ending in September, at constant prices. At constant prices for September 2021, total primary expenditure reached R$ 1,720 billion in the 12-month accumulated until September, while excluding non-recurrent events totaled R$ 1,536 billion. The expenditure curve net of non-recurrent events shows that primary expenditure remains relatively under control. In the coming weeks, the IFI will publish a Special Study regarding the structural budget balance, which includes the recurrent primary result of the central government.

Primary expenditure continued to decelerate in September. The reduction to the same month in 2020 was 20.4%, in real terms. Total central government primary expenditure totaled R$ 1,644.3 billion (18.3% of GDP) in the 12 months ended in September, a 20.4% reduction in real terms from the immediately preceding 12 months. The trend is for primary spending to continue slowing until the end of the year.

FIGURE 7 - EVOLUTION IN 12 MONTHS OF TOTAL PRIMARY EXPENDITURES (WITH AND WITHOUT SELECTED NON-RECURRENT EVENTS) - R$ BILLION AT SEP/21 PRICES



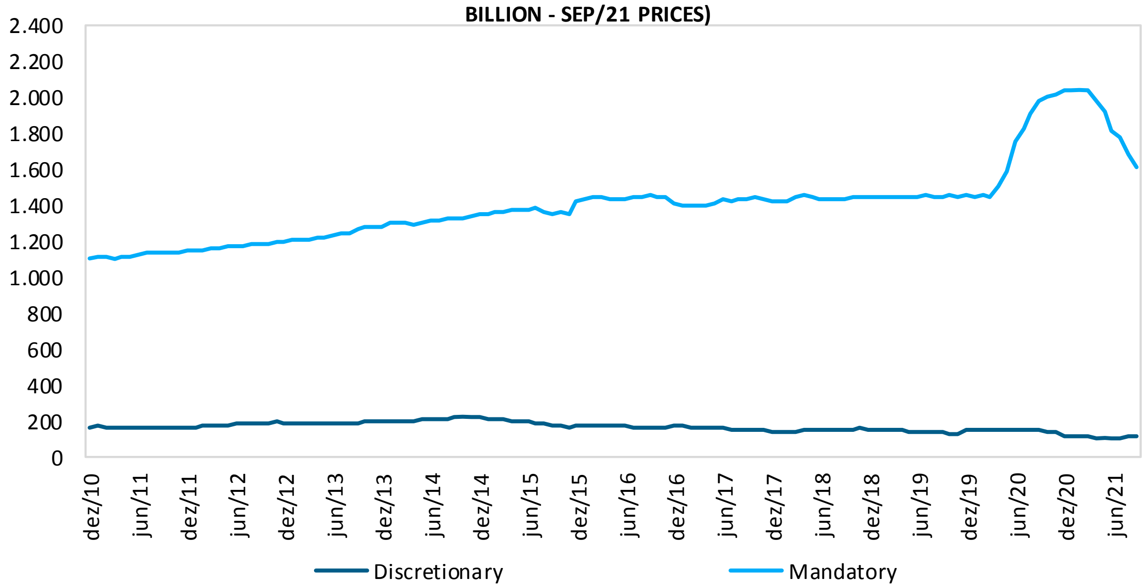
Source: National Treasury Secretariat. Prepared by: IFI.

Mandatory spending drove total primary spending up during the acute phase of the pandemic; the reduction in these expenditures decompressed total spending in 2021. Figure 8 illustrates the worsening in the trajectory of central government's spending, as of April 2020, considering the 12-month series of mandatory and discretionary spending indicators. In March of last year, at September 2021 prices, totaled R$ 1,444 billion, an amount that increased to R$ 2,041 billion in February 2021 and dropped to R$ 1,608 billion last September. This series includes expenses aimed at mitigating the effects of covid-19. 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 September, according to the STN, spending related to mitigating effects of the pandemic totaled R$440.0 billion. Between January and September 2021, these expenses totaled R$ 96.8 billion.

Discretionary spending is stabilized, in real terms, in 2021. Figure 8 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 September 2021 prices, the two sums correspond to R$ 81.6 billion and R$ 38.4 billion, respectively. In 2021, discretionary spending will be relatively stable and lower than in 2020 (Figure 8).

FIGURE 8. 12-MONTH ACCUMULATED DISCRETIONARY AND MANDATORY EXPENSES (R$ BILLION - SEP/21 PRICES)



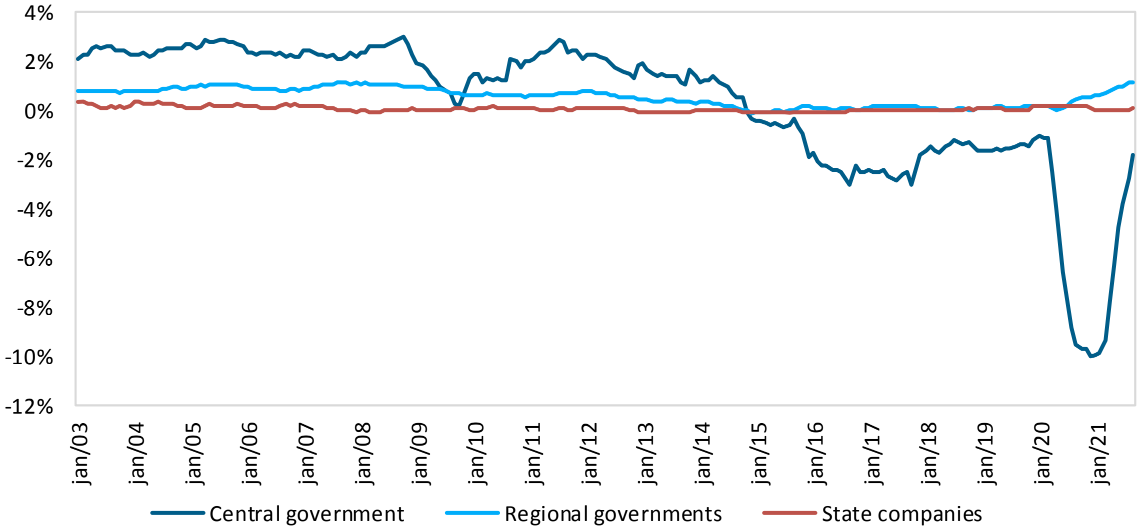
Source: National Treasury Secretariat. Prepared by: IFI

2.1.2 Balance of the Consolidated Public Sector

The primary surplus of the consolidated public sector in the first nine months of the year was influenced by the result of subnational entities. According to the fiscal statistics released by the Central Bank, obtained by the below-the-line transactions, the consolidated public sector recorded a primary surplus of R$ 14.2 billion (0.2% of GDP) in the accumulated nine months of 2021 until September. This result was influenced by the primary balance of subnational entities, which reported a R$ 92.1 billion surplus (1.4% of GDP) in the period. The central government had an R$ 82.4 billion deficit (1.3% of GDP), while state companies reported a positive primary balance of R$ 4.4 billion (0.07% of GDP).

In the 12 months ended in September, the consolidated public sector reported a primary deficit of R$ 52.8 billion (0.6% of GDP). As in the first nine months of the year, states and municipalities reported a primary surplus of R$ 93.8 billion (1.1% of GDP). State companies reported a R$ 4.0 billion surplus (0.05% of GDP), while the central government reported a R$ 150.6 billion primary deficit (1.8% of GDP) - Figure 9.

FIGURE 9. 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 deficit of the public sector reached 4.4% of GDP from January to September, or R$ 277.8 billion. The nominal deficit, which considers the primary deficit (net primary revenues minus primary expenditures) plus interest payments on public debt, totaled R$ 277.8 billion (4.4% of GDP). Interest payments accounted for 4.6% of GDP, or R$ 292.0 billion, while the primary balance was a positive R$ 14.2 billion (0.2% of GDP), as mentioned previously.

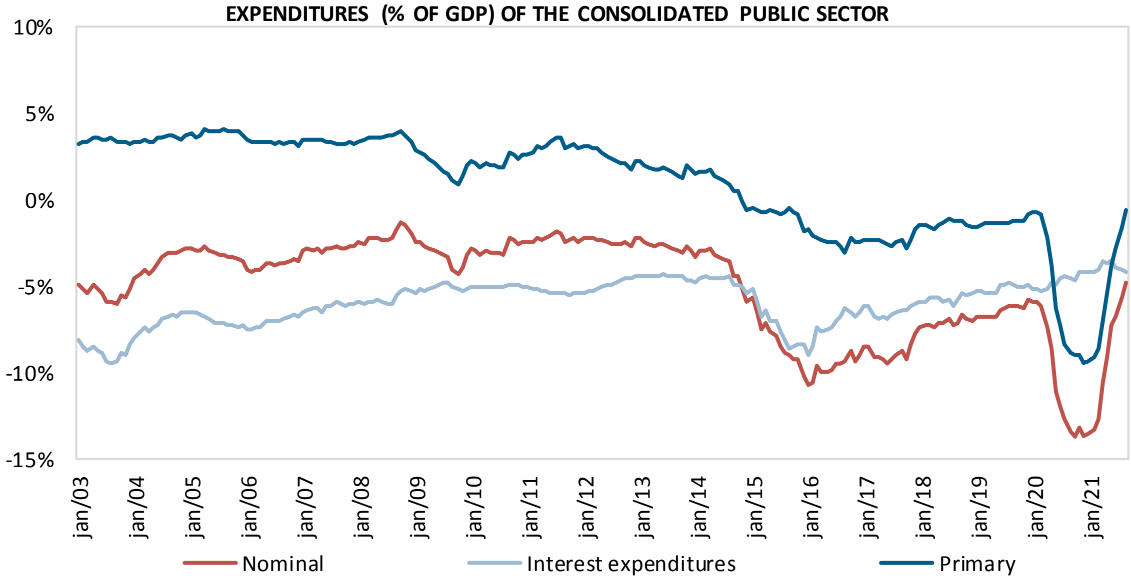
In the 12 months ended in September, the nominal deficit of the public sector was 4.8% of GDP. The 12-month trajectory of the consolidated public sector's nominal, primary, and interest payment results is shown in Figure 10. Through September, the nominal deficit stood at R$ 404.6 billion (4.8% of GDP). Interest payments totaled R$ 351.8 billion (4.2% of GDP), and the primary deficit was R$ 52.8 billion (0.6% of GDP).

In the last three months for which data is available, interest rate expenses registered an increase in GDP proportion. From July on, public sector interest expenses, as a proportion of GDP, began to increase. In June, the proportion was 3.5% of GDP, rising to 3.9% of GDP in July, 4.0% of GDP in August, and 4.2% of GDP in September, the last month with available information. This deterioration in the trajectory reflects changes in the domestic economic environment, in which uncertainties and country risk premiums increased. As of July, the average cost of the public debt, which will be better discussed later in this fiscal scenario, began to rise, reflecting higher interest rates at the public debt auctions held by the National Treasury.

Further hikes in the Selic rate indicate that interest expenses will continue to rise. Considering that the cycle of Selic increases is expected to continue until 2022, it is inevitable that the government's interest expenses will continue to rise, which might reverse the improvement observed in the nominal result.

The increase in interest expenses will influence the public sector's indebtedness trajectory. This movement, in turn, should put pressure on public sector indebtedness, requiring an effort by the government to achieve higher primary results over the coming months to offset the rise in interest expenses. The fiscal risk was exacerbated by the presentation of PEC no. 23, which might open space in the spending ceiling.

FIGURE 10. 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

Higher interest rate context increases challenges in public debt management. In recent months, the IFI has emphasized that the economic environment of relatively high inflation and rising interest rates may increase the challenges for the National Treasury in managing public debt. Brazil's risk premiums started to rise from June, from a level of 260 points to 370 points in early November, retreating to around 340 points by mid-November. The yield curve embeds expectations of double-digit interest rates in vertices longer than 126 days.

Local factors related to inflation and fiscal consolidation seem to weigh on the deterioration of agents' expectations. Among domestic factors, uncertainties seem to focus on inflationary dynamics and issues related to fiscal consolidation. Further increases in electricity tariffs, due to a worsening of the water shortage, and further increases in fuel and service prices, which have begun to rise more strongly as restrictions on the economy have eased with the advance of vaccination, could worsen inflationary dynamics.

With the possibility of an increase in primary expenditures, changing the spending ceiling rule increases uncertainty regarding the fiscal framework. The fiscal risk weighs heavily in this evaluation. The presentation of the court-ordered debts PEC, whose progress is being monitored by the IFI, the risk of significant increases in permanent expenses, and the change in the spending ceiling, as discussed in IFI's Comments (CI) no. 11 and 12[14], are factors to be closely monitored by the Institution.

Uncertainties regarding fiscal policy affect monetary policy conduction, with the prospect of higher interest rates than those projected at the beginning of the monetary tightening cycle. Factors related to fiscal policy conduct may also influence the behavior of risk premiums in recent weeks. The Central Bank increased the pace of Selic hikes in October, and there is the possibility of a further intensification of the pace in December. Every week, the Central Bank's Focus Survey captures increases in the median of market projections for the Selic in 2021 and 2022.

[14] Available at: CI11.pdf (senado.leg.br) and CI12.pdf (senado.leg.br).

The DPF stock dropped R$ 37.3 billion in September, compared to August, due to a large volume of maturities in the period. According to information published by the STN in the Monthly Debt Report, the Federal Public Debt (DPF) volume dropped from R$ 5,480.7 billion in August to R$ 5,443.4 billion in September, a reduction of R$ 37.3 billion. This reduction occurred mainly due to a large number of floating-rate bonds maturing in September, which lowered the volume of this group by R$ 130.8 billion in the period.

In September, redemptions of floating-rate securities were R$ 138.9 billion higher than issuances, which affected the net issuance of DPMFi securities. The total net issuance of DPF in September was negative R$ 90.3 billion, meaning that redemptions exceeded issuance in this amount. Practically all of the net issuance of DPF in the period was explained by the Federal Domestic Public Debt (DPMFi). Redemptions of floating-rate securities exceeded issuances by R$ 138.9 billion in September. On the other hand, there were net issuances of R$ 17.7 billion in fixed-rate securities and R$ 31.0 billion in inflation-linked securities.

The liquidity reserve of the public debt is at a relatively comfortable level to meet future commitments. Also, according to the Treasury, the liquidity reserve of the public debt was R$ 1,128 billion in September, lower than the R$ 1,227 billion recorded in August. Over the next 12 months, the DPMFi will mature at R$ 1,308 billion.

Interest rates on DPMFi bonds have been rising since June, indicating a greater aversion to risk on the part of agents. Average issue rates of DPMFi bonds were 9.72% per year in September for 24-month fixed-rate bonds and 10.37% per year for 48-month fixed-rate bonds. In August, the average trading rates were 9.04% per annum for 24-month bonds and 9.72% for 48-month bonds. In July, in turn, the rates for the same securities were 8.37% p.a. and 8.96% p.a., respectively. Therefore, these figures indicate that the average trading rates for DPMFi bonds are rising, reinforcing the uncertainties present in the scenario. The effects of this increased risk aversion on the IFI debt scenario will be significant.

Data regarding Treasury auctions show a continued increase in DPMFi bond issue rates in October. Information gathered by the IFI regarding the auctions held by the Treasury[15] indicates new increases in the rates of DPMFi auctions in October. For fixed-rate bonds maturing July 1, 2023, the average trading rates were 9.64% per year in October, against 9.43% per year in September. For bonds maturing on January 1, 2025, the average rates were 10.21% per year in October, against 10.02% per year in September.

Net public sector debt fell in September, both on a monthly and year-over-year basis. Turning to the Central Bank's analysis of fiscal statistics, the Net Public Sector Debt (DLSP) reached 58.5% of GDP in September, a reduction of 0.8 p.p. to the August figure and another 1.6 p.p. over the September level. Since June, the DLSP, as a proportion of the GDP, has registered a drop in the monthly comparison (Figure 11). According to the Central Bank, the drop in the DLSP in September, compared to August, was due to the 5.76% depreciation in the exchange rate (reduction of 0.9 p.p.), nominal GDP growth (a drop of 0.6 p.p.), the primary surplus (decrease of 0.2 p.p.), and the appropriate nominal interest (rise of 0.7 p.p.).

The DLSP reduction in the accumulated figure for 2021 until September is due mainly to nominal GDP growth. The drop of 4.2 p.p. of the GDP occurred due to the increase in nominal GDP (decrease of 6.9 p.p.), the accumulated depreciation of the exchange rate of 4.67% (reduction of 0.8 p.p.), the appropriate nominal interest (an increase of 3.5 p.p.) and currency basket variation that make up the net external debt (an increase of 0.3 p.p.).

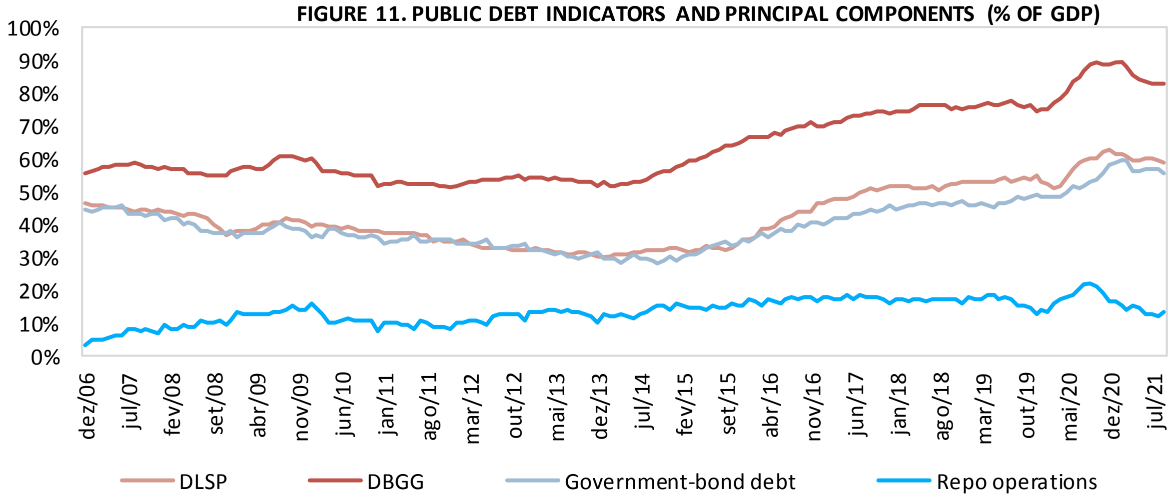
Government-bond debt fell from August to September but rose in comparison to September last year. The market's government-bond debt dropped 1.3 p.p. of GDP in September, reaching 55.7% of GDP or R$ 4,661.2 billion. This reduction in the government-bond debt reflects the maturities of securities linked to floating rates in September, as discussed earlier in this section. Concerning September 2020, the government-bond debt grew 3.0 p.p. (Figure 11).

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

Gross debt reached 83.0% of GDP in September, up 0.3 p.p. to the previous month. The General Government Gross Debt (DBGG) totaled R$ 6,939.7 billion in September, or 83.0% of GDP, an increase of 0.3 p.p. of GDP compared to August (Figure 11). In the July RAF covering letter, the IFI anticipated this increase in the debt-to-GDP ratio. Compared to September last year, the DBGG fell by 5.7 p.p. of GDP. The increase in the DBGG in September, in the monthly comparison, was due to the incorporation of nominal interest rates (up 0.5 p.p.), the depreciation of the exchange rate in the month (an increase of 0.3 p.p.), net debt issues (an increase of 0.2 p.p.), and nominal GDP growth (a drop of 0.8 p.p.).

The nominal GDP growth influenced the reduction in the DBGG as a proportion of GDP in 2021. In the year to September, the DBGG fell 5.9 p.p. of GDP, determined by the increase in nominal GDP (a drop of 9.7 p.p.), net debt redemptions (a decrease of 0.4 p.p.), the incorporation of nominal interest (an increase of 4.0 p.p.), and the depreciation of the exchange rate (an increase of 0.3 p.p.). The current IFI projection for the DBGG in 2021 is 83.3% of the GDP.

FIGURE 11. PUBLIC DEBT INDICATORS AND PRINCIPAL COMPONENTS (% OF GDP)

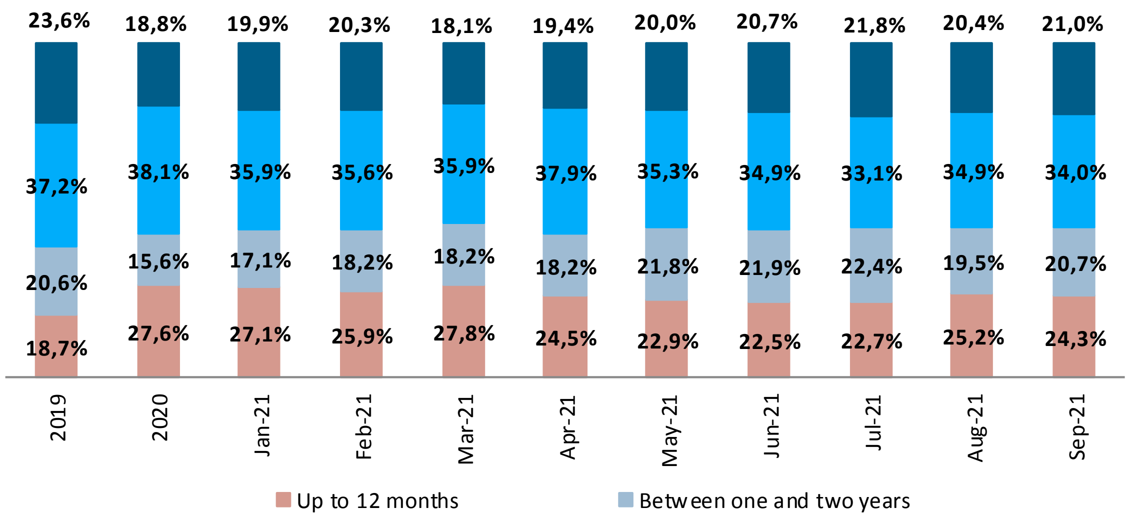


Source: Central Bank. Prepared by: IFI.

In September, repo operations registered an increase of 1.3 p.p. of GDP (from 12.2% to 13.5%). Finally, the Central Bank's repo operations rose from 12.2% of GDP in August, or R$ 1,013.7 billion, to 13.5% GDP in September. Compared to September of last year, repo operations fell 8.5 p.p. of GDP, while in the accumulated nine months of 2021, they fell 3.1 p.p. of GDP. Figure 11 illustrates that these operations began to fall more sharply in October 2020, when they reached 20.9% of GDP.

In September, the reduction in the share of securities with shorter maturities in the DPF stock continued. Analyzing the DPF maturity profile, in September, securities maturing in up to 12 months accounted for 24.3% of the DPF stock, a 0.9 p.p. reduction to August. Securities maturing in over five years, in turn, accounted for 21.0% of the DPF stock in September, a 0.6 p.p. increase compared to August. Treasury has reduced the share of shorter-term securities in the total DPF composition (from 27.6% in December 2020 to 24.3% in September). At the same time, the share of securities with maturities of over five years has increased (18.8% in December to 21.0% in September) - Figure 12.

FIGURE 12. DPF MATURITIES

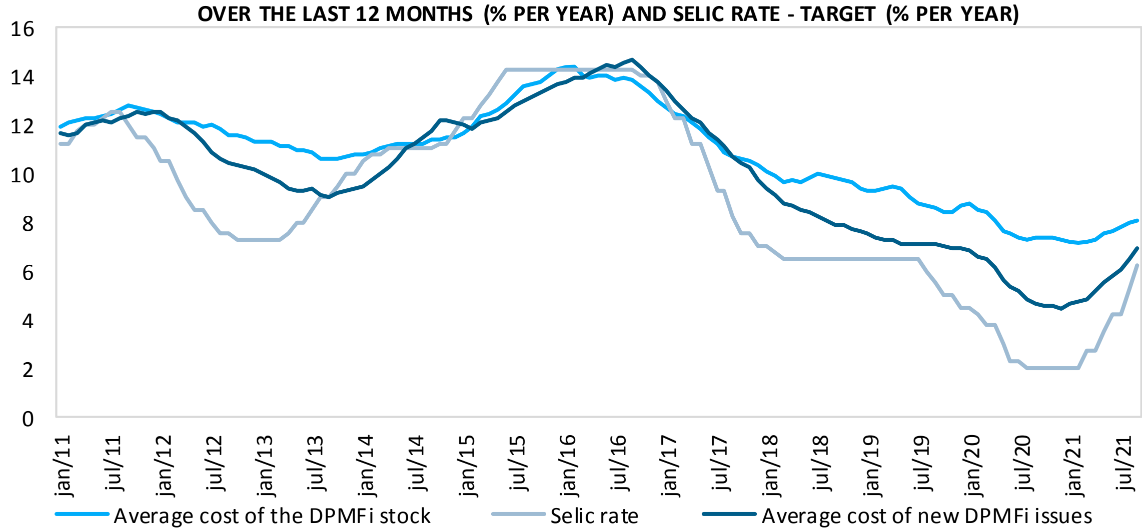


Source: National Treasury Secretariat. Prepared by: IFI

The average cost of the DPMFi stock rose for the seventh consecutive month in September. Concluding the analysis of debt indicators, the 12-month average cost of the DPMFi stock rose from 7.96% n August to 8.10% in September. Compared to September 2020, the average cost of the DPMFi stock rose 0.77 p.p. (Figure 13).

The average cost of issues at public offer also rose in September. The average cost of DPMFi issues at public offer also rose to 6.91% compared to 6.44% in August. Concerning September 2020, the average cost of DPMFi issues rose 2.27 p.p. (Figure 13).

FIGURE 13. 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 increase in the average cost of DPMFi is in line with the increase in the economy's base interest rates. As highlighted in previous issues of this RAF, the increase in the average cost of DPMFi stock and new issues since March has occurred in line with the start of the cycle of increases in base interest rates by the Central Bank in that month. In October, the Selic reached a level of 7.75%. The new hikes expected for the Selic in the coming months suggest that the average cost of debt will continue to rise. Besides, the risk calculated by economic agents in the yield curve will pressure the average cost of debt, worsening the future scenario, which recently benefited from the rise in nominal GDP under the influence of high inflation.

The IFI's current forecast for the Selic rate at the end of 2021 is 8.25%, with an upward bias. The market consensus, captured by the Central Bank's Focus Survey, foresees base interest rates at 9.25% at the end of 2021. For the end of 2022, the median expectations are for Selic at 11.00%. However, the worsening inflationary scenario and the government's actions in the fiscal area affect Selic's estimates in the months ahead, suggesting that this median may continue to rise in the coming weeks.

3. 2022 BUDGET AND COURT-ORDERED DEBTS PEC

The risks regarding the 2022 Budget and the spending ceiling have increased. The government is waiting to approve the court-ordered debts PEC (PEC No. 23/2021) to accommodate the demands for new spending, the largest of which is the Auxílio Brasil. The Chamber of Deputies approved the proposal, which is now under consideration in the Federal Senate. Even if passed, the space effectively opened by the PEC will still depend on inflation in 2021 and the revision of expenses foreseen in the Annual Budget Bill of 2022 (PLOA 2022). In the most recent IFI projection, there will be room for increased spending during execution, among them those derived from parliamentary amendments. In the following paragraphs, we analyze these and other issues involving the 2022 Budget.

The court-ordered debts PEC would generate a space of about R$ 93.0 billion in the spending ceiling of 2022. The opening of fiscal space results from two changes brought by the PEC. The first is the modification in the spending ceiling rule. Today, it is adjusted by the IPCA accumulated over twelve months until June of the previous year. Under the proposal, the limits would be adjusted by the accumulated IPCA until December of the previous year. The change would be retroactive to the 2018 fiscal year. The result would be a significantly higher limit than the current one. The exact difference depends on the December 2021 inflation; the IPCA registered a 10.7% increase in twelve months until October. In the scenario revision published by the IFI last month[16], our estimate for December's IPCA, in the base scenario, is 8.7%, which would produce a gap of R$ 47.6 billion in the spending ceiling.

Table 5 compares the two hypotheses for the ceiling in 2022 - the current rule and the court-ordered debts PEC. The total limit, currently set at R$1,610.0 billion, would be increased to R$1,657.6 billion. Of the R$ 47.6 billion released by the proposal, R$ 45.5 billion refer to the Executive Branch and R$ 2.1 billion to the other Branches. Among these, the Judiciary would take the largest share, R$ 1.4 billion. In contrast, the Legislative Branch, the Prosecutor's Office, and the Office of the Federal Public Defender would take, respectively, R$ 411.3 million, R$ 216.2 million, and R$ 17.9 million.

TABLE 5. SPENDING CEILING IN 2022: COURT-ORDERED DEBTS PEC X CURRENT RULE (R$ B)

Branches	Baseline scenario		
	PEC 23/2021	Current rule	Difference
Total	**1,657.6**	**1,610.0**	**47.6**
Executive Branch	**1,585.9**	**1,540.3**	**45.5**
Other Branches	**71.8**	**69.7**	**2.1**
Legislative	14.3	13.9	0.4
Judiciary	49.3	47.9	1.4
Public Defender's Office	0.6	0.6	0.0*
Prosecutor's Office	7.5	7.3	0.2

*Source: IFI. *R$ 17.9 million.*

[16] The October RAF edition is availabe for download at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/593636/RAF57_OUT2021.pdf.

The second relevant change in PEC no. 23/2021 is creating a spending limit for court rulings and court-ordered debts. The subceiling would be equivalent to the expenses paid in 2016 adjusted by the general rule of the spending ceiling. The verification would occur during the elaboration of the federal budget bill. In IFI's estimation, the measure can generate R$ 45.4 billion of space in the 2022 ceiling.

The creation of a subceiling for spending on court rulings may increase the Union's liabilities over time. For 2022, court-ordered debts were issued for R$ 89.1 billion. Of this total, R$ 43.7 billion will have to be paid. The possibility of the creditor receiving it in the next fiscal year with a discount of 40% is expected to increase this expense. Even so, a good part of the R$ 89.1 billion already issued will be postponed to the coming years. If this dynamic is maintained, the debt generated with court-ordered debts is more outstanding than the payment in the fiscal year, the liability will tend to grow considerably over time.

The leading destination of the R$ 93.0 billion released by the PEC is Auxílio Brasil (Table 6). The social program was created by Provisional Measure 1061/2021 and replaces Bolsa Família. It will be implemented on two fronts: one permanent, with an increase of about 17.8% in the value of the average benefit compared to its predecessor; and the other temporary, aiming to guarantee a minimum benefit of R$ 400 per month for 17 million families until the end of 2022. The 17.8% increase was guaranteed by Decree 10.851/2021 and referred to the adjustment of the value of the Bolsa Família benefits. According to the government, the values will be maintained in the new program, paid this month[17]. The average benefit of Auxílio Brasil will be R$217.2, and the current 14.6 million families will remain eligible. The annual expenditure will be around R$38.0 billion.

The temporary aid, in turn, would be a complementary value to guarantee a minimum value of R$ 400.00 per month for 17 million families. However, its viability depends on the opening of fiscal space by the court-ordered debts PEC. It would start in December, retroactive to November. In IFI's estimate, the annual expense would be around R$ 81.6 billion. As the PLOA 2022 currently foresees R$34.7 billion for the program, the fiscal impact next year would be R$46.9 billion.

Other expenses should fill another R$ 21.5 billion of the R$ 93.0 billion of open space in the ceiling:

a) Renewal of the payroll taxes exemptions: the measure, valid for another two years, was announced by the President of the Republic at the November 11 live[18] and, in IFI's estimation, should have an impact of R$ 6.0 billion in 2022 (in addition to the R$ 3.2 billion already foreseen in the PLOA);
b) Readjustment of the minimum constitutional allocation of health and education and expenditure on impositive amendments: these values are linked to the correction of the spending ceiling. If PEC 23/2021 succeeds, they would also be readjusted by the IPCA of December of the previous year, which would generate an impact of R$ 6.4 billion[19];
c) Auxílio diesel: paid to truck drivers to compensate for the increase in diesel prices. The benefit would be R$ 400.00 per month and would benefit 750 thousand professionals until the end of 2022, with an annual expenditure of approximately R$ 3.6 billion;
d) Increase in the Electoral Fund (Special Fund for Campaign Financing): Congress would increase the R$ 2.1 billion foreseen today in the PLOA 2022 to R$ 5.0 billion, an impact, therefore, of R$ 2.9 billion;

[17] https://www.gov.br/secretariageral/pt-br/noticias/2021/novembro/governo-federal-reajusta-as-faixas-de-extrema-pobreza-e-de-pobreza-e-aumenta-o-valor-dos-beneficios-assistenciais-pagos-a-essas-familias.

[18] https://agenciabrasil.ebc.com.br/politica/noticia/2021-11/presidente-diz-que-governo-vai-prorrogar-desoneracao-da-folha.

[19] It is worth mentioning that the verification of compliance with the minimum health and education allocation imposed by the Constitution and the expenses with impositive amendments does not occur at the moment of payment, as occurs with the spending ceiling. In other words, it is possible to meet the constitutional minimum with payment below this value. For the sake of prudence, we chose to consider that the readjustment of the minimum allocation derived from the change in the ceiling impacts the fiscal space for its total value.

e) Auxílio Gás Social: the benefit was approved by the Chamber and awaits presidential sanction. In the opinion of the Committee on Finances and Taxation (Chamber of Deputies), the estimated impact is R$ 0.6 billion in the first year of the program. The approved bill, however, allows the Executive to make the number of families benefited compatible with the existing budget endowments for the aid, which may reduce the expense incurred in the year; and

f) Expansion of the ceiling for the other branches: as seen, of the R$47.6 billion released by the recalculation of the ceiling, R$2.1 billion refer to the expansion of the limits of the Legislative, Judiciary, Public Defender's Office, and the Prosecutor's Office.

Table 6 summarizes the origin and destination of the space generated by the court-ordered debts PEC, according to our projections for 2022. Of the total of R$ 93.0 billion, there would still be R$ 24.5 billion left over, which could be used to increase other primary expenditures, such as wage adjustment for the Executive and rapporteur's amendments to the budget. We did not include the revision of INPC-indexed spending among the destinations for the R$ 93.0 billion - they already contemplate the 9.1% variation expected for the inflation index in 2021.

It is worth noting that the Supreme Federal Court (STF) has preliminarily suspended the execution of spending derived from the rapporteur's amendments to the 2021 budget[20]. Although not expressly forbidden, the decision may inhibit the use of this type of amendment in 2022.

TABLE 6. ORIGIN AND DESTINATION OF THE FISCAL SPACE OPENED BY THE COURT-ORDERED DEBTS PEC (R$ B)

Origin		Destination	
The spending ceiling recalculation	47.6	Auxílio Brasil	46.9
The spending limit for court rulings and court-ordered debts	45.4	Payroll taxes exemptions	6.0
		Health and education expenditure	5.7
		Auxílio diesel (truck drivers)	3.6
		Electoral Fund increase	2.9
		Increase of the ceiling for the other branches	2.1
		Impositive amendments	0.6
		Auxílio Gás Social (PL 1374/2021)	0.6
		Other primary expenditures increase	**24.5**
Total	93.0	Total	93.0

Source: IFI.

The calculation made from the PLOA 2022 values would lead to a different conclusion. If we adopt the PLOA projections, the fiscal space for increasing other primary expenses falls to only R$ 1.8 billion because the expenditures in the budget proposal were made based on the INPC of 6.3% for 2021. In the IFI's base scenario, published in October, the projections already incorporate the INPC of 9.1%. Suppose by hypothesis this percentage was adopted in the PLOA. In that case, the IFI estimates that the government's projections for INPC-indexed spending would increase by R$ 22.7 billion, virtually eliminating the space for including another primary spending in the bill. It is as if the government were, in August (the date the PLOA was sent to the National Congress), with an overestimated scenario, given its assumption of lower inflation.

The effect of the INPC on primary spending happens because spending on RGPS, BPC, and worker protection benefits (salary allowance and unemployment insurance) is linked, in the budget proposal, to the index calculated in December 2021.

[20] Available at: https://www.conjur.com.br/dl/adpf-orcamento-secreto.pdf.

In summary, when one starts from IFI's projections, the conclusion is that the PEC and the expenditures already announced can lead to a net effect of R$ 24.5 billion. On the other hand, the calculations made from the PLOA would lead to a margin of only R$ 1.8 billion. The most relevant thing, at this point, is to show how the two changes - PEC and inflation - land on the most likely numbers. On the one hand, higher inflation in December would increase the open space in the ceiling; on the other hand, it would require an increase in the forecast for primary expenditures, reducing the margin for the inclusion of new expenses in the budget. Due to all these factors of uncertainty, the IFI may, in due course, promote changes in its projections for mandatory expenditures and particularly those indexed to the INPC/IPCA.

Fiscal tables

TABLE 7. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – BASELINE SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	21.2	21.0	20.9	20.9	20.9	20.9	20.9	20.8	20.8	20.8
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	17.2	17.0	17.0	17.0	16.9	16.9	16.9	16.9	16.9	16.9
Primary Expenditure	26.1	19.0	17.9	17.8	17.5	17.0	16.7	16.7	16.8	16.8	16.8
Mandatory Expenditure	24.7	17.5	16.6	16.2	16.0	15.8	15.7	15.8	15.8	15.9	15.9
Social security benefits	8.9	8.2	8.2	8.0	7.9	7.9	7.8	7.9	8.0	8.1	8.2
Personnel expenses and social contribution	4.3	3.9	3.7	3.6	3.5	3.4	3.3	3.3	3.2	3.2	3.2
Salary allowance and unemployment insurance	0.8	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Salary Allowance	0.3	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Unemployment Insurance	0.5	0.4	0.5	0.4	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.3	0.4	0.4	0.5	0.6	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	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Subsidies and Grants	0.3	0.1	0.1	0.1	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	1.9	1.8	1.8	1.7	1.7	1.6
without Flow Control	7.0	1.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.6	1.9	1.8	1.8	1.7	1.7	1.7	1.6	1.6	1.5
Of which Bolsa Família [Family Grant]	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Discretionary of the Executive Branch	1.5	1.5	1.3	1.7	1.5	1.2	1.0	1.0	0.9	0.9	0.9
Primary Balance	-10.0	-1.8	-0.9	-0.9	-0.5	-0.1	0.2	0.2	0.1	0.1	0.0
Note:											
Spending on COVID-19	7.0	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (BRL billion)	7,447.9	8,600.1	9,299.8	9,921.7	10,542.7	11,189.2	11,868.2	12,589.7	13,355.6	14,170.4	15,038.3

TABLE 8. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – OPTIMISTIC SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	21.4	21.2	21.2	21.1	21.1	21.1	21.0	21.0	20.9	20.9
Transfers to States and Municipalities by Revenue Sharing	3.5	4.1	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	17.2	17.2	17.2	17.1	17.1	17.1	17.0	17.0
Primary Expenditure	26.1	19.1	17.8	17.6	17.0	16.4	15.9	15.7	15.6	15.4	15.3
Mandatory Expenditure	24.7	17.6	16.5	15.9	15.5	15.2	14.9	14.8	14.7	14.6	14.5
Social security benefits	8.9	8.3	8.1	7.9	7.7	7.6	7.4	7.4	7.4	7.4	7.4
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	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Salary Allowance	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.8
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.3	0.4	0.4	0.4	0.6	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	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Subsidies and Grants	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.8	3.3	2.2	1.9	1.9	1.8	1.8	1.7	1.6	1.5	1.5
without Flow Control	7.0	1.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.6	1.9	1.8	1.8	1.7	1.6	1.6	1.5	1.4	1.4
Of which Bolsa Família [Family Grant]	0.3	0.3	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Discretionary of the Executive Branch	1.5	1.5	1.3	1.7	1.5	1.2	0.9	0.9	0.9	0.8	0.8
Primary Balance	-10.0	-1.7	-0.5	-0.4	0.2	0.8	1.3	1.4	1.5	1.6	1.7
Note:											
Spending on COVID-19	7.0	1.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (BRL billion)	7,447.9	8,581.1	9,360.5	10,016.9	10,714.7	11,477.5	12,303.4	13,196.8	14,165.1	15,215.4	16,348.2

TABLE 9. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – PESSIMISTIC SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	20.7	20.4	20.4	20.3	20.3	20.2	20.2	20.1	20.1	20.1
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	16.7	16.5	16.5	16.4	16.4	16.3	16.3	16.2	16.2	16.2
Primary Expenditure	26.1	18.9	17.9	18.0	17.8	17.5	17.2	17.2	17.4	17.5	17.7
Mandatory Expenditure	24.7	17.4	16.7	16.3	16.2	16.0	16.0	16.2	16.4	16.5	16.7
Social security benefits	8.9	8.2	8.2	8.2	8.1	8.1	8.1	8.3	8.5	8.7	8.9
Personnel expenses and social contribution	4.3	3.8	3.7	3.6	3.5	3.4	3.3	3.3	3.3	3.3	3.3
Salary allowance and unemployment insurance	0.8	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Salary Allowance	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.5	0.4	0.5	0.4	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Subsidies and Grants	0.3	0.1	0.1	0.1	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	2.0	1.9	1.9	1.8	1.8	1.8	1.8
without Flow Control	7.0	1.6	0.3	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.6	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.7	1.6
Of which Bolsa Família [Family Grant]	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Discretionary of the Executive Branch	1.5	1.5	1.2	1.7	1.6	1.4	1.2	1.0	1.0	1.0	0.9
Primary Balance	-10.0	-2.2	-1.4	-1.5	-1.3	-1.1	-0.9	-0.9	-1.1	-1.3	-1.5
Note:											
Spending on COVID-19	7.0	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (BRL billion)	7,447.9	8,653.2	9,297.3	9,941.5	10,575.7	11,244.3	11,956.3	12,713.0	13,517.2	14,372.1	15,275.1

IFI Forecasts

	2014	2015	2016	2017	2018	2019	2020	Projections 2021	2022	2023	2024
GDP - real growth (% per year)	0.50	-3.55	-3.28	1.32	1.78	1.41	-4.06	4.91	1.72	2.15	2.18
Nominal GDP (BRL billion)	5,779	5,996	6,269	6,585	7,004	7,407	7,448	8,600	9,300	9,922	10,543
IPCA – accum. (% in the year)	6.41	10.67	6.29	2.95	3.75	4.31	4.52	8.74	4.02	3.26	3.17
Exchange rate - end-of-period (BRL/USD)	2.66	3.90	3.26	3.31	3.87	4.03	5.20	5.35	5.75	5.57	5.28
Employment - growth (%)	1.48	0.05	-1.87	0.35	1.41	1.99	-7.86	3.00	1.51	1.45	1.54
Payroll - growth (%)	3.98	-1.13	-3.24	1.87	3.04	2.47	-3.63	-2.72	1.72	2.15	2.18
Selic rate - end-of-period (% per year)	11.75	14.25	13.75	7.00	6.50	4.50	2.00	8.25	8.50	6.50	6.50
Real Interest *ex-ante* (% per year)	5.93	8.32	6.41	2.82	2.61	0.79	-0.70	4.79	3.66	3.54	3.31
Public Sector Consolidated Primary Balance (% of GDP)	-0.56	-1.86	-2.48	-1.68	-1.55	-0.84	-9.44	-0.88	-0.40	-0.54	-0.30
of which Central Government	-0.41	-2.01	-2.57	-1.89	-1.72	-1.28	-10.06	-1.84	-0.86	-0.87	-0.52
Net Nominal Interest (% of GDP)	5.39	8.37	6.49	6.09	5.41	4.96	4.19	5.39	6.33	5.02	4.06
Nominal Balance (% of GDP)	-5.95	-10.22	-8.98	-7.77	-6.96	-5.79	-13.63	-6.27	-6.73	-5.56	-4.37
General Government Gross Debt (% of GDP)	56.3	65.5	69.8	73.7	75.3	74.3	88.8	83.3	84.8	85.9	86.1

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