Independent Fiscal Institution

Fiscal Follow-Up Report

DECEMBER 16, 2021 • Nº 59

HIGHLIGHTS

- After contracting by 3.9% in 2020, GDP is expected to grow by 4.6% in 2021 and 0.5% in 2022.
- New revisions in the nominal GDP estimates influenced the federal tax collection forecasts.
- The net revenues forecast is R$1,557.8 billion in 2021 and R$1,634.2 billion in 2022.
- Constitutional Amendment no. 112 of 2021 will increase by 1% the sharing of IPI and IR with municipalities starting in 2022.
- Personnel expenditure is now assumed to increase in real terms in the baseline scenario.
- With the new rule, the ceiling is still at risk of being breached between 2026 and 2027.
- Fiscal space in 2022 will be R$ 35.5 billion, in addition to the Auxílio Brasil and other expenses already planned.
- Union´s primary deficit should end the year at R$ 83.6 billion (-1.0% of GDP).
- The implicit interest rate of DBGG reached 7% and continues to rise consistently.
- The Debt-to-GDP ratio will end in 2021 at 82.1% (baseline scenario), with a strong influence from regional governments.
- Rising interest rates reinforce the gross public debt increase scenario as of 2022.

FEDERAL SENATE
President of the Federal Senate
Senator Rodrigo Pacheco (PSD-MG)

INDEPENDENT FISCAL INSTITUTION
Executive Director
Felipe Scudeler Salto

Directors
Daniel Veloso Couri
Vilma da Conceição Pinto

Analysts
Alessandro Ribeiro de Carvalho Casalecchi
Alexandre Augusto Seijas de Andrade
Pedro Henrique Oliveira de Souza
Rafael da Rocha Mendonça Bacciotti

Public Relations Executive
Carla Cristina Osorio Caldas

REPORT LAYOUT
COMAP/SECOM and SEFPRO/SEGRAF

Covering letter

The Fiscal Follow-Up Report (RAF) has been published monthly by the IFI since February 2017. It meets a good part of the objectives set for the institution in Senate Resolution No. 42 of 2016. In this issue, we present a broad review of the macro-fiscal scenarios from 2021 to 2030 and discuss the fiscal effects of the court-ordered debts PEC.

In the initial section, we highlight the revision of the 2021 GDP in the baseline scenario: from 4.9% (October RAF) to 4.6%. The new forecast incorporates the economic activity results from the third quarter. For 2022, the previous perspective was 1.7%, now reduced to 0.5%.

The current monetary policy analysis - more contractionary, with the Selic base interest rate increases - indicates that the credit cost will rise. Therefore, demand will tend towards a worse dynamic than projected two months ago. The new Auxílio Brasil impact, with a higher average benefit and a more extensive public, may offset part of this effect - an exercise that the IFI plans to elaborate on for the subsequent editions of the RAF.

In the wake of higher inflation, federal tax collection forecasts for 2021 have improved. Thus, the central government's primary balance should end the year at R$ 83.6 billion in the baseline scenario, below what IFI had expected last October. The consolidated public sector will have a surplus of R$ 12.4 billion, influenced by the strong results of the states and municipalities. The gross debt, in turn, will end 2021 at 82.1% of GDP, compared to the October projection of 83.3%, a revision explained by the improvement in the primary balance.

According to our baseline scenario, the debt will once again enter an upward trajectory for the next few years, starting in 2022, when it ends the year at 84.8% of GDP. Higher real interest rates explained - in part - by the deterioration in market expectations regarding fiscal responsibility influences debt dynamics.

The spending ceiling calculated for 2022 should rise from R$ 1,610 billion (the rule before the court-ordered debts PEC) to R$ 1,683.2 billion, considering the IPCA projection of 10.4% for 2021. The so-called "synchronization" (changing the indexation of the ceiling) produces the R$ 73.2 billion effect, which will be added to the space opened by the limitation of court rulings and court-ordered debts (R$ 44.7 billion), totaling R$ 117.9 billion in additional fiscal space for next year.

Considering the destinations already announced or underway, as is the case of the Auxílio Brasil, our calculations indicate that there will be R$ 35.5 billion left over for new primary spending next year. The simulation already contemplates the effects of higher inflation in 2021 on the indexed mandatory expenditures of 2022.

The medium-term fiscal challenge remains, but now in the presence of a fiscal framework permeated by profound changes in the spending ceiling. Higher interest rates and debt dynamics reflect fiscal policy credibility loss associated with the so-called court-ordered debts PEC. In addition, it produces fewer opportunities for economic growth for 2022.

Felipe Scudeler Salto
IFI Executive Director

Daniel Veloso Couri
IFI Director

Vilma da Conceição Pinto
IFI Director

Summary

- The revision of the economic growth forecast for 2021 (from 4.9% to 4.6% in the baseline scenario) is compatible with incorporating the third quarter GDP result and the signals sent by high-frequency sectorial indicators. The downward revision in the growth rate for 2022 (from 1.7% to 0.5%) stems from the intensified interest rate hikes needed to contain the advance of inflation and the lower statistical carry-over left for 2022. In the medium term, real GDP growth matches the IFI's estimate of potential GDP (2.1%). **(Page 6)**
- Due to worsening inflationary dynamics, the revision in the nominal GDP forecast led to an increase in primary central government revenues estimates in the 2021-2030 period. Although the most significant changes occurred in 2021 and 2022, the figures for subsequent years were revised upward. Besides, incorporating some parameters of elasticities of tax collection to GDP, published initially in Special Study no.16, of November 2021, changed the dynamics of some revenues in the projection horizon. Finally, the enactment of Constitutional Amendment no. 112 of 2021 increases the income tax percentage and the IPI shared with the municipalities, which will affect transfers to sub-national entities and, consequently, the net revenue of the central government. (**Page 21**)
- The central government's primary balance baseline scenario indicates a milder deficit in 2021 of R$ 83.6 billion to the last revision (October RAF). Therefore, the contribution of tax collection and inflation is dominant for this performance. On the expenditure side, for 2022, the spending ceiling change and the court-ordered debts limitation will open up R$ 117.9 billion of fiscal space. Counting the increases in inflation-indexed expenses, the new expenditure with the Auxílio Brasil, and other costs already underway, there would still be R$ 35.5 billion left over for an increase in primary spending. The spending ceiling runs the risk of being breached between 2026 and 2027, even in the new design approved by Congress. (**Page 36**)
- The General Government Gross Debt (DBGG) is expected to end 2021 at 82.1% of GDP, below the IFI's projection in October's Fiscal Follow-Up Report (RAF). However, the indicator's growth trend is clear, starting next year, after a period in which inflation collaborated to improve the nominal GDP and, therefore, to control the debt-to-GDP ratio in the short term. The advance of the change in the spending ceiling and the limitation on court-ordered debt spending amplifies the fiscal challenge. In the pessimistic scenario, the debt could exceed 133% of the GDP in 2030. (**Page 39**)

Contact: ifi@senado.leg.br | (61) 3303-2875
Social Media: /INSTITUICAOFISCALINDEPENDENTE @IFIBrasil @ifibrasil /instituiçãofiscalindependente
/company/instituição-fiscal-independente

Table of contents

1. MACROECONOMIC CONTEXT

The November Fiscal Follow-Up Report (RAF in the original acronym) presents the macro-fiscal variables updates. Incorporation of new data and the reassessment of the assumptions behind each of the scenarios (baseline, optimistic, and pessimistic) allow the forecasts to reflect the current state of the economy. Special Study no. 13[2] described the methodology of the macroeconomic parameters projections that underpin the IFI's fiscal scenarios.

After contracting by 3.9% in 2020, volume GDP is expected to grow by 4.6% in 2021 and 0.5% in 2022. This year and next year's outlook for economic growth is lower than the scenario published in October 2021 (4.9% and 1.7%). In the short term, the sectorial indicators contraction in October and the generalized drop in confidence indexes in November sustain the perspective of a weak GDP in the last period of the year, after the contractions of -0.4% and -0.1% registered in the second and third quarters. Additionally, the worsening dynamics expected for economic activity throughout 2022 reflect the increase in interest rates to contractionary levels, given the Central Bank's objective of containing the advance of inflation and anchoring expectations to the target. In the medium term, the pace of economic activity will move towards values around the growth of potential output (2.1%).

The present update also anticipates a higher increase in inflation, measured by the Extended National Consumer Price Index (IPCA), to 10.4% in 2021 and 5.3% in 2022. The index should stabilize within the National Monetary Council (CMN) 's target of 3.0% in the following years.

1.1 Economic scenario update: 2021-2030

1.1.1 Economic activity

Series revision provoked changes in the 2019 and 2020 growth rates. As usually occurs in third-quarter releases, the Brazilian Institute of Geography and Statistics (IBGE) revised the historical series of GDP by incorporating the final result of the 2019 National Accounts and updating the primary data series. In practical terms, the nominal GDP growth rate in 2019 moved from 5.8% to 5.5%, while 2020 moved from 0.6% to 1.1% (Table 1). In current values, the 2019 GDP reached R$7.389 trillion (R$7.407 in the previous series), and the 2020 GDP reached R$7.468 trillion (R$7.448 in the last series).

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

TABLE 1. NOMINAL GDP (R$ TRILLION AND QUARTER ACCUMULATED CHANGES)

	Nominal GDP (R$ trillion)		Nominal GDP (changes)		GDP Deflator (changes)		GDP in volume (changes)	
	Current	Previous	Current	Previous	Current	Previous	Current	Previous
2018.IV	**7.004**	**7.004**	**6.4%**	**6.4%**	**4.5%**	**4.5%**	**1.8%**	**1.8%**
2019.I	7.082	7.089	6.0%	6.1%	4.3%	4.4%	1.6%	1.6%
2019.II	7.177	7.190	5.8%	6.0%	4.2%	4.3%	1.5%	1.6%
2019.III	7.290	7.305	5.6%	5.8%	4.3%	4.4%	1.3%	1.4%
2019.IV	**7.389**	**7.407**	**5.5%**	**5.8%**	**4.2%**	**4.3%**	**1.2%**	**1.4%**
2020.I	7.475	7.485	5.6%	5.6%	4.6%	4.5%	0.9%	1.0%
2020.II	7.369	7.360	2.7%	2.4%	4.9%	4.5%	-2.1%	-2.1%
2020.III	7.377	7.367	1.2%	0.8%	4.6%	4.4%	-3.3%	-3.4%
2020.IV	**7.468**	**7.448**	**1.1%**	**0.6%**	**5.1%**	**4.8%**	**-3.9%**	**-4.1%**
2021.I	7.688	7.652	2.8%	2.2%	6.6%	6.2%	-3.5%	-3.8%
2021.II	8.106	8.087	10.0%	9.9%	7.9%	8.0%	1.9%	1.8%
2021.III	8.433	-	14.3%	-	10.0%	-	3.9%	-

Source: IBGE. Prepared by: IFI.

The rise in the price level explained nominal GDP growth in the third quarter. In the third quarter, GDP totaled R$ 2.215 trillion in current values (R$ 8.433 trillion accumulated in four quarters). Compared to the same period in 2020, the nominal GDP (monetary value of domestic production) rose 17.3%, influenced, above all, by the expansion in the price level, according to the GDP price deflator (which registered an increase of 12.8%). The real GDP variation (volume produced) rose 4.0%. Table 2 summarizes nominal GDP in current values and the quarterly variation rates (associated with nominal GDP, real GDP, and the GDP price deflator).

TABLE 2. PIB NOMINAL, PIB EM VOLUME E DEFLATOR IMPLÍCITO

	Nominal GDP (R$ trillion)	Nominal GDP	GDP price deflator	GDP in volume (changes)
	Current values	Changes over the same period last year		
2020.I	1.846	4.9%	5.0%	-0.1%
2020.II	1.722	-5.8%	5.5%	-10.7%
2020.III	1.888	0.4%	4.3%	-3.7%
2020.IV	2.011	4.7%	5.7%	-0.9%
2021.I	2.066	11.9%	10.5%	1.3%
2021.II	2.141	24.3%	10.7%	12.3%
2021.III	2.215	17.3%	12.8%	4.0%

Source: IBGE. Prepared by: IFI.

GDP deflator variation was more significant than the IPCA. The implicit price deflator, obtained in the National Accounts, is a broader measure of inflation than the IPCA because its variation reflects the prices of all goods and services produced domestically. Table 3 displays that the difference between the GDP price deflator and the IPCA reached 3.3 percentage points (p.p.), 10% less 6.7%, higher than the difference between the GDP price deflator and the weighted average of the IPCA and the IGP-DI[3] (10.0% less 10.1% = -0.1 p.p.) in the third quarter of 2021. The IGP-DI variation, more wide-ranging 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 implicit deflator dynamic affects the fiscal indicators expressed to nominal GDP.

[3]The Central Bank uses the weighted average of the IPCA and IGP-DI to inflate the volume index of the monthly GDP estimate, used to calculate the relationship between monthly economic aggregates (such as public debt, current account balance, and credit balance) and GDP.

TABLE 3. PRICE INDEXES (AVERAGE CHANGES)

	GDP deflator	IPCA	IGP-DI	Weighted average IPCA and IGP-DI [4]
Average 1997 - 2019	**7.4%**	**6.2%**	**7.7%**	**6.4%**
2020.I	4.6%	3.7%	6.0%	4.0%
2020.II	4.9%	3.1%	5.9%	3.5%
2020.III	4.6%	3.0%	8.6%	3.8%
2020.IV	**5.1%**	**3.2%**	**13.0%**	**4.7%**
2021.I	6.6%	3.6%	18.6%	5.8%
2021.II	7.9%	5.0%	25.6%	8.1%
2021.III	10.0%	6.7%	28.9%	10.1%

Source: IBGE. Prepared by: IFI.

GDP grows 4.0% in the third quarter of 2020. On the supply side (or production), the 4.0% growth in GDP volume in the third quarter of this year, when compared to the same period last year, was driven by the expansions in services (5.8%) and industry (1.3%). In comparison, agriculture and livestock decreased 9.0% (Table 4). On the demand side (or expenditure), there was generalized growth among the components, with a highlight to the performance of the gross formation of fixed capital (18.8%), household consumption (4.2%), and government consumption (3.5%). In the external sector, exports of goods and services grew 4.0%, while the growth in imports of goods and services was 20.6%.

TABLE 4. GDP: SUPPLY AND DEMAND SIDES

	Variation over the same quarter of the previous year			Variation over the previous quarter (seasonally adjusted)		
	1T21	2T21	3T21	1T21	2T21	3T21
GDP	**1.3%**	**12.3%**	**4.0%**	**1.3%**	**-0.4%**	**-0.1%**
Supply-side						
Agriculture and livestock	6.5%	0.1%	-9.0%	3.8%	-2.9%	-8.0%
Industry	3.3%	16.6%	1.3%	0.9%	-0.5%	0.0%
Services	-0.7%	11.0%	5.8%	0.9%	0.6%	1.1%
Demand-side						
Household consumption	-1.7%	10.5%	4.2%	0.5%	-0.2%	0.9%
Government consumption	-3.9%	5.8%	3.5%	-0.5%	0.9%	0.8%
GFCF	17.8%	33.1%	18.8%	7.9%	-3.0%	-0.1%
Exports	1.0%	14.2%	4.0%	3.2%	13.7%	-9.8%
Imports	7.5%	20.3%	20.6%	11.3%	-1.3%	-8.3%

Source: IBGE. Prepared by: IFI.

GDP splits into two parts on the demand side: domestic absorption and net exports (exports minus imports). The domestic absorption, which represents the sum of household consumption, government consumption, and investment, contributed 6.4 p.p. to the variation of the GDP in the third quarter. At the same time, net exports exerted a negative influence, removing 2.4 p.p. (Table 5) from the GDP's interannual result because imports showed a more expressive variation than exports compared to the third quarter of 2020. Within domestic absorption, gross fixed capital formation (3.1 p.p.) represented the primary source of GDP growth in the period, followed by household consumption (2.6 p.p.) and government consumption (0.7 p.p.). Table 5 displays the contributions of each component of aggregate demand to the interannual variation in GDP since the first quarter of 2020.

[4] 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.

TABLE 5. CONTRIBUTIONS (IN P.P.) TO THE GDP GROWTH RATE COMPARED TO THE SAME QUARTER OF THE PREVIOUS YEAR

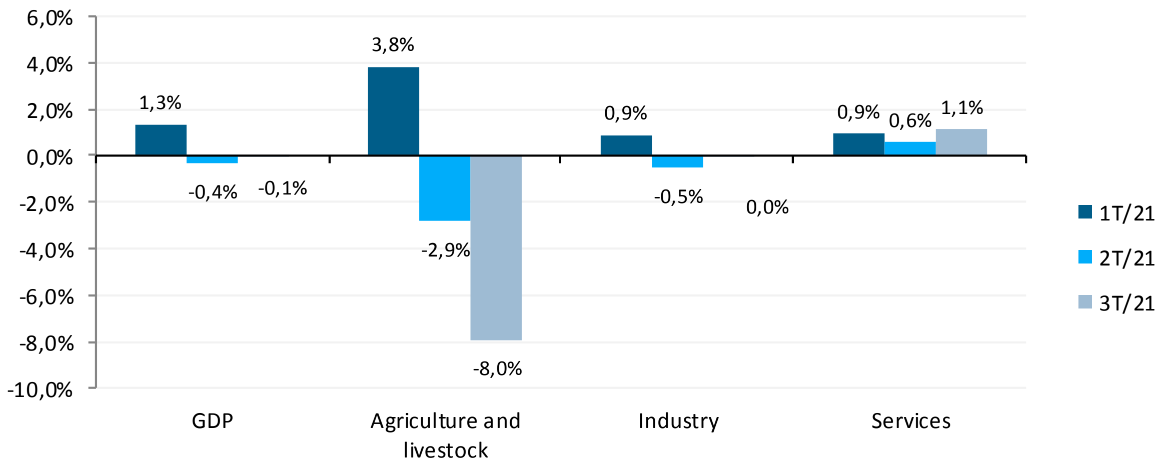
	1T20	2T20	3T20	4T20	1T21	2T21	3T21
GDP	**-0.1**	**-10.7**	**-3.7**	**-0.9**	**1.3**	**12.3**	**4.0**
Domestic absorption	**1.0**	**-12.9**	**-7.6**	**-0.8**	**2.3**	**12.8**	**6.4**
Household consumption	-0.3	-7.8	-4.0	-2.1	-1.1	6.4	2.6
Government consumption	-0.1	-1.7	-1.0	-0.7	-0.7	1.3	0.7
GFCF	1.1	-2.2	-1.2	2.0	2.9	5.0	3.1
Changes in inventories	0.4	-1.2	-1.3	0.0	1.3	0.2	0.0
Net exports	**-1.2**	**2.1**	**3.8**	**-0.1**	**-1.1**	**-0.5**	**-2.4**

Source: IBGE. Prepared by IFI.

Despite the sequence of two negative results ("technical recession"), the third-quarter GDP data show an economy with distinct sector dynamics. GDP (in volume) showed a drop of 0.1% compared to the second quarter of 2021 with the immediately previous period in the seasonally adjusted series, after decreasing 0.4% in the previous three months. On the supply side, the 1.1% advance in the services GDP, benefited by the vaccination effects and the easing of mobility restrictions, was not enough to offset the stability of industry (0.0%) and the substantial loss recorded by agriculture and livestock (-8.0%).

According to the IBGE, the unfavorable result of agribusiness can be attributed, to some extent, to a high comparison base since it was the activity that grew the most during the pandemic period and to the occurrence of adverse weather factors during the planting season. Civil construction was the only segment to register expansion (3.9%) in the industrial sector. After a significant growth throughout the first half, the extractive industries showed accommodation (-0.4%), driven by increases in commodity prices. On the other hand, the transformation industry registered a drop of 1.0%, still impacted by the destabilization in the supply of inputs and increased costs.

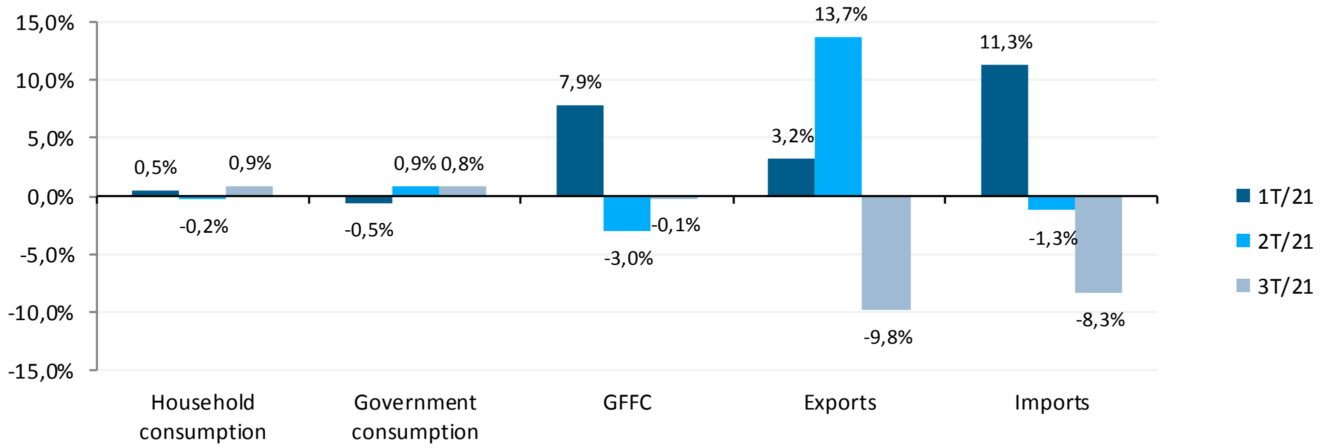
FIGURE 1. SUPPLY: VAR. (%) AGAINST IMMEDIATELY PRECEDING QUARTER



Source: IBGE. Prepared by: IFI.

On the expenditure side, the highlights were the advances in household consumption (0.9%) and government consumption (0.8%), while gross fixed capital formation was virtually stable (-0.1%). The expansion in consumption reflects the recovery in employment and the effects generated by income transfer programs, although the advance in inflation limits growth. In the external sector, exports of goods and services fell by 9.8%, while imports of goods and services dropped 8.3% in the third quarter of 2021 compared to the second quarter.

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



Source: IBGE. Prepared by: IFI

Economic activity remains weak in the fourth quarter. The industrial production index released by IBGE decreased 0.6% between September and October, discounting seasonal effects (fifth consecutive negative result). Still, on the industrial side, the Industry Installed Capacity Usage Level (NUCI) dropped 0.6 p.p. (from 81.3% to 80.7%) from October to November.

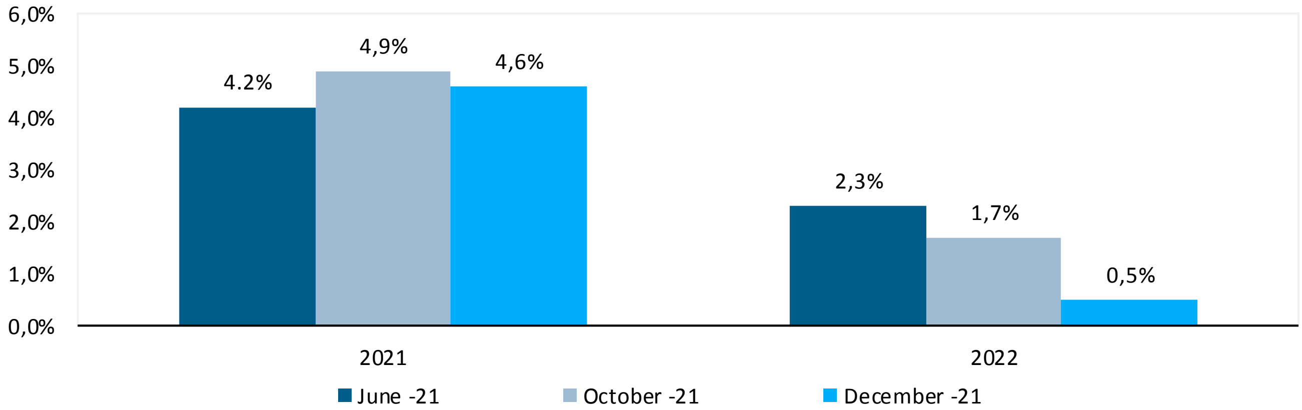
In the Monthly Retail Trade Survey (PMC), October's expanded retail sales volume index dropped 0.9% compared to September on a seasonally adjusted basis (third consecutive negative result), reflecting the worsening disposable income due to high inflation. Additionally, the business and consumer confidence indexes produced by the Getulio Vargas Foundation (FGV) dropped, in that order, 3.3 and 1.4 p.p. between October and November, indicating a general worsening of the economic scenario prospects given the monetary tightening cycle intensification.

The GDP will grow 4.6% in the base scenario in 2021 and 0.5% in 2022, after contracting by 3.9% in 2020. Based on the available activity data for October and November, the IFI's projection for the GDP in the fourth quarter is stable compared to the previous quarter (0.1%) and up 1.4% compared to the same period last year. Thus, the projection for growth in 2021 changed from 4.9% to 4.6%. The leading indicators contraction in October and the generalized drop in confidence indexes in November sustain the weaker GDP prospect in the last period of the year.

For 2022, the most significant revision (from 1.7% to 0.5%) is due to worsening financial conditions (risk premium, exchange rate, and interest rates) and the lesser carry-over influence. Unlike in 2021, the carry-over should not positively affect next year's GDP, facilitating a more expressive rate. The carry-over from 2020 to 2021 was 3.7%, while the carry-over from 2021 to 2022 is estimated at -0.2%.

Compared to the projections presented in the October report, the growth outlook is weaker this year and the year after (Figure 3). The worsening outlook for 2021 is consistent with incorporating the third quarter GDP result and the signals sent out by the high-frequency sector indicators. The downward revision in the growth rate for 2022, in turn, stems mainly from the increase in interest rates to contractionary levels, given the Central Bank's objective to contain the advance of inflation and anchor expectations to the target.

FIGURE 3. GROWTH OUTLOOK BY RAF EDITION



Source: IFI.

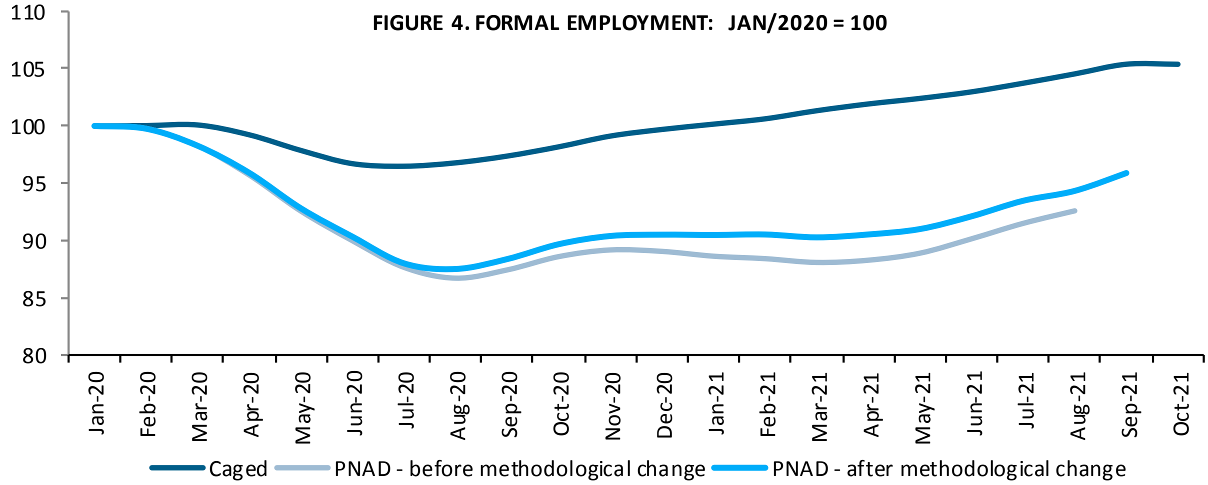
In the medium term, real GDP growth is estimated at 2.1%. The estimated potential GDP growth is slightly lower than the historical average of recent years (around 2.5 percent) because the labor force is expected to advance more slowly than in the past due to population aging. The potential growth estimates (the maximum production growth that the economy can achieve without generating inflationary pressures) derives from the production function approach, taking into account a hypothesis for the evolution of the total factor productivity and the stock of capital and labor force growth perspectives.

1.1.2 Labor market

PNAD Continuous has undergone methodological changes. The Continuous National Household Sample Survey (PNAD Contínua) series incorporated methodological adjustments in the third-quarter release. In line with international practices, the revision[5] sought to refine the quality of the statistics after a phase of data collection by telephone at the beginning of the pandemic that reduced the number of interviews, caused changes in the sample composition, and possibly generated bias in the estimation of indicators.

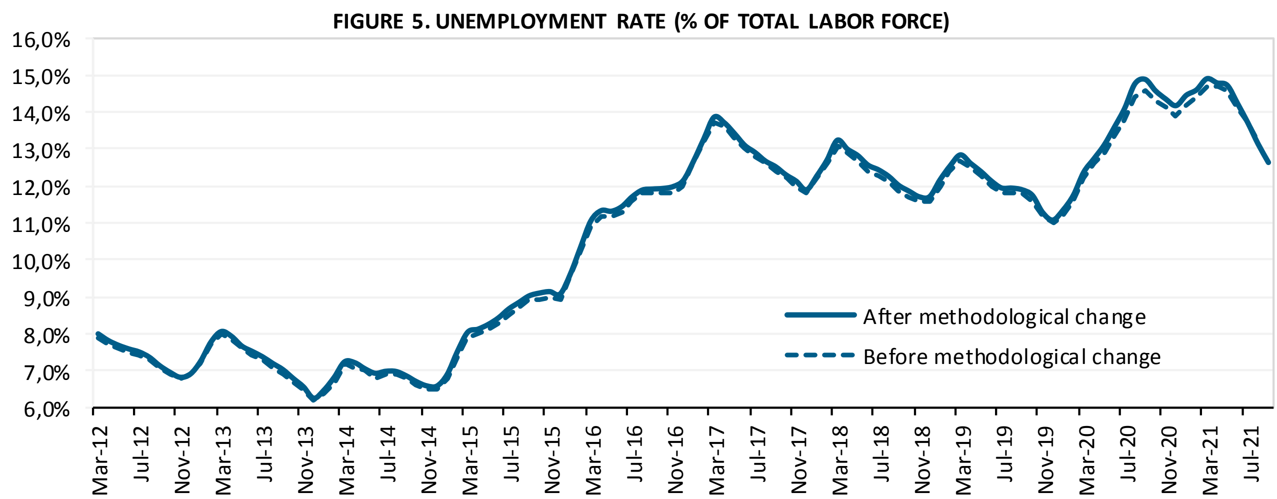
The adjustments did not alter the dynamics and the interpretation of the pandemic´s impact on employment and the participation rate. Formal employment data were adjusted upward, but not enough to reverse the existing divergence from the Caged data (Figure 4). According to PNAD, the employed population with a formal labor contract (private and public sector) shows an upward trend since the third quarter of 2020, but still insufficient to bring the employment to the level observed before the pandemic.

[5] For more information, acess "Sobre a divulgação da Reponderação da PNAD Contínua em 2021", available at: https://biblioteca.ibge.gov.br/visualizacao/livros/liv101866.pdf



Source: IBGE and Central Bank. Prepared by: IFI

The unemployment rate dropped in comparison with the same period last year. The unemployment rate reached 12.6% of the labor force in the quarter ended in September, down 2.2 p.p. compared to the same period a year earlier (14.9%). The decrease reflected the significant advance in the working population (11.4%), to a greater extent than the labor force (8.6%). The occupation improvement continues to be driven by the dynamics of informal employment, mainly the increase in the number of people employed without a labor contract in the private sector (23.1%), domestic workers without a labor contract (28.1%), and self-employed people (18.4%) - positions that are growing well above total employment.



Source: IBGE. Prepared by: IFI

On the other hand, average real income fell 11.1% compared to the same period in 2020. The worsening inflationary environment limits workers' power in negotiations for salary increases. Additionally, the more concentrated increase in hiring in lower-paid activities (the composition effect) also puts downward pressure on income trajectory. As a result, there was a 0.7% drop in the payroll indicator (average income multiplied by the number of people employed).

The unemployment rate is estimated at 13.2% in 2021 and 12.8% in 2022. The slowdown in economic activity in 2022 should translate into a slower pace of employment expansion (from 4.6% in 2021 to 2.0% in 2022). The unemployment rate should decrease from 13.2% in 2021 to 12.8% in 2022. In the following years, the pace of employment growth should decelerate gradually (0.9% on average between 2023 and 2030), with the unemployment rate stabilizing at around 12.7%.

1.1.3 Inflation and monetary policy

Consumer inflation in November reached 10.74% over twelve months. Consumer inflation as measured by the IPCA stood at 0.95%, below the 1.25% rate in October. However, over the last 12 months, the accumulated rate continued on the upswing (from 10.67% to 10.74%), well above the upper limit of the inflation target (3.75% with a 1.5 percentage point increase or decrease). The accumulated variation over 12 months, the highest since November 2003 (11.02%), has been climbing uninterruptedly since June 2020 (2.1%).

Monitored prices, which account for around 25% of the total IPCA, advanced from 1.4% to 2.3% (an accumulated variation of 19.2% in 12 months). The most significant positive influence came from the price of gasoline (accumulated variation over the last 12 months of 50.78%).

Free prices, meanwhile, showed an increase of 0.5%, lower than that observed in October (1.2%). In the last 12 months, the variation in these prices went from 8.5% to 7.8%. The pressures came from industrial prices (1.0% in the month and 4.9% in 12 months), services (0.3% and 4.8%), and food (0% and 9.7%). It is worth mentioning that the deceleration in free prices may already reflect the effects of the monetary contraction carried out by the Central Bank with the increase in the Selic base interest rate since March 2021.

In November, there was some relief in inflation cores. The average of the various measures[6] that seek to exclude the influence of more volatile items from total inflation moved from 0.95% in October to 0.61% in December (from 7.0% to 7.2% accumulated over 12 months). The IPCA's diffusion index, a variable that indicates the share of IPCA sub-items with positive variation in the month, moved from 66.8% in October to 63.1% in November.

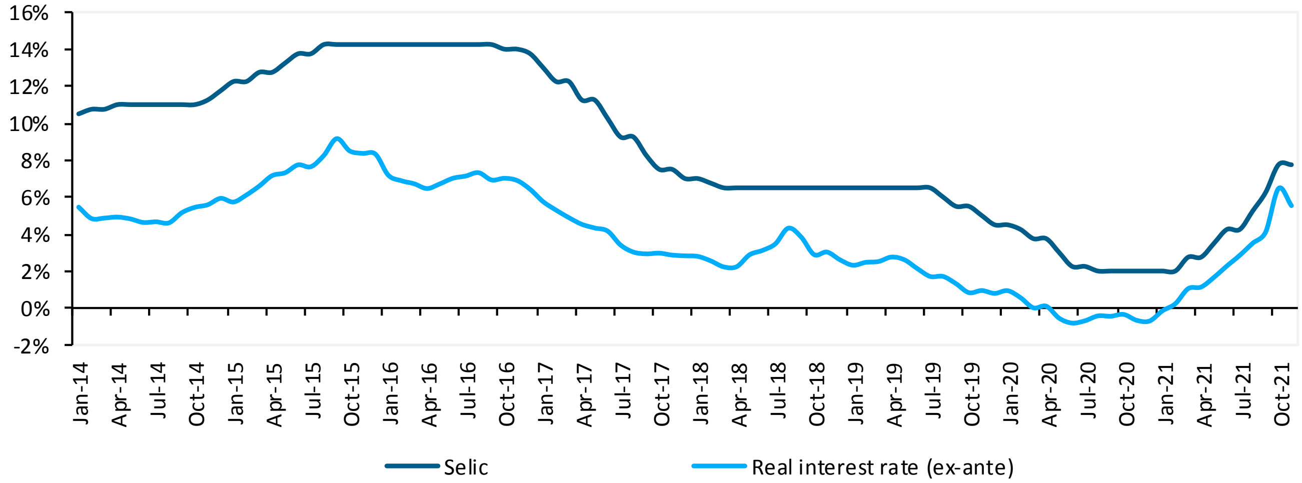
The IPCA should end 2021 with a 10.4% increase in the base scenario. The projection for 2022 was adjusted to 5.3%. The IPCA should end the year at 10.4%, higher than the previous projection (8.7%). Current inflation at a higher level translates into greater inertia for inflation in 2022 - the current forecast for the IPCA next year was adjusted from 4.0% to 5.3%. The increase in the real interest rate (which reduces demand), the decrease in energy prices, and the partial reversal of commodity prices help disinflation. However, it is still expected that the IPCA will be above the target ceiling in 2022.

In December, in the year's last meeting, the Monetary Policy Committee (Copom) decided to raise the Selic rate by 1.5 percentage points to 9.25%. In the current tightening cycle, the Selic rate has increased 725 points to contain the advance of current inflation and expectations. Copom considers it appropriate for the cycle of Selic to advance in "significantly" contractionary territory and foresees another adjustment of the same magnitude in the next meeting. In

[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

real terms (ex-ante), the interest rate - obtained based on the rate of pre-DI swap operations[7] for one year (11.75%) discounted from the projected inflation rate (5.9%) - reached 5.5% in November (Figure 6).

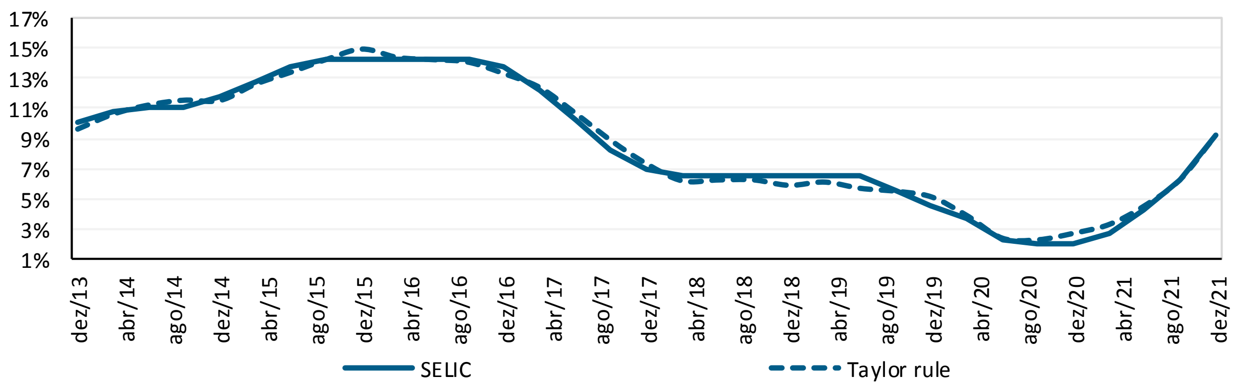
FIGURE 6. SELIC AND REAL INTEREST RATE (EX-ANTE)



Source: IBGE and Central Bank. Prepared by: IFI

In the IFI scenario, the monetary policy decision follows a Taylor rule. The equation relates the Selic rate (i_t) – the nominal interest rate that is the Central Bank's monetary policy instrument - with its autoregressive or persistence component ($\rho\, r_{t-1}$), the natural nominal interest rate ($r^n + \Pi_t^*$), the deviation of inflation from the target ($\Pi_t - \Pi_t^*$) and the output gap ($output\_gap_t$)[8]. Figure 7 illustrates the Selic prescribed by the Taylor rule considering a specification that assigns equivalent weight to the deviation of expected inflation from target and the output gap.

FIGURE 7. SELIC AND TAYLOR RULE



Source: IBGE and Central Bank. Prepared by: IFI

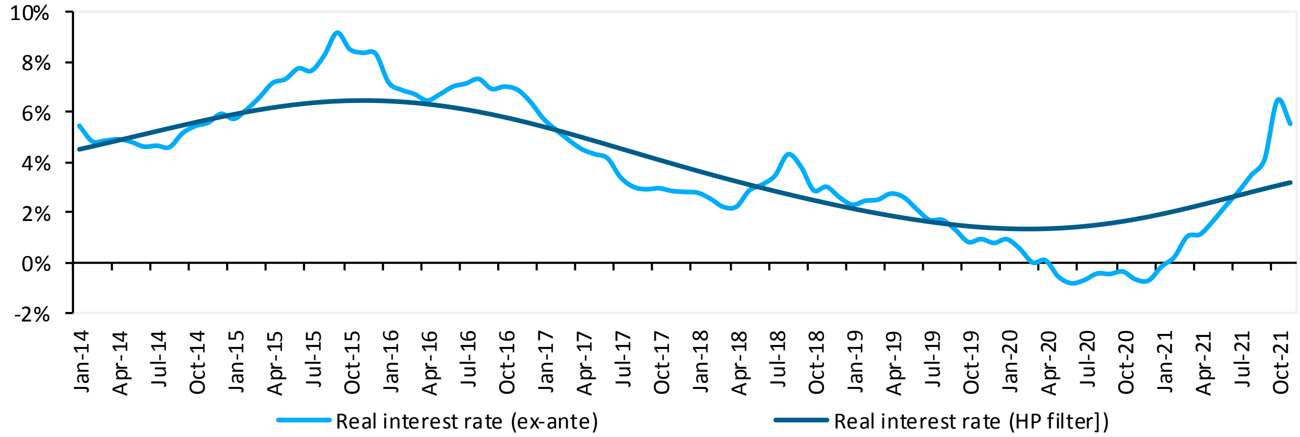
[7] Reference rate of the swap contracts between DI and pre-fixed of 360 days: end of the period, obtained in Ipeadata.

[8] $i_t = \rho r_{t-1} + (1-\rho)[(r^n + \Pi_t^*) + \phi_\Pi(\Pi_t - \Pi_t^*) + \phi_h\, output\_gap_t]$: ρ represents the coefficient associated with the autoregressive term, ϕ_Π the coefficient associated with the sensitivity of the monetary authority to the inflation gap and ϕ_h the coefficient related to the sensitivity to the output gap.

From the analysis, there would be room to raise the Selic rate to the current levels, given the distance of current inflation from the target and the probable increase in the neutral interest rate, which may be influenced by the intensified fiscal risk reflected in the country risk premiums.

As the output gap, the neutral real interest rate is an unobserved variable with great uncertainty associated with its estimation. However, the variable is a reference point in the monetary policy under the inflation targeting regime. It represents the interest rate consistent with GDP growth equal to potential growth and the target inflation rate. A simplified way to estimate the neutral interest rate is to extract the ex-ante real interest rate trend using the HP filter, extending the time series to deal with end-of-sample problems (Figure 8).

FIGURE 8. REAL INTEREST RATE AND NEUTRAL REAL INTEREST RATE



Source: IBGE and Central Bank. Prepared by: IFI

The inflation rate is expected to move towards the target (3.0%) in the medium term, while the Selic rate converges to 7.0%. In the medium term, when actual GDP is equal to potential GDP (output gap = 0), and the inflation rate is anchored to the target, the estimated value for the Selic rate moves towards the value of the neutral nominal interest rate. Over the projection horizon, the real interest rate follows a parity relationship. The domestic interest rate equals the international interest rate plus the country's risk premium and expected exchange rate depreciation. Between 2023 and 2030, the outlook for the Selic rate is consistent with the neutral real interest rate (heading towards 4.0%: average around 3.7% in the period) plus the inflation target (3.0%).

1.1.4 The GDP price deflator and nominal GDP

GDP price deflator. In 2021 and 2022, GDP price deflator forecasts (11.1% and 8.2%) are obtained through a weighted average between IPCA and IGP-DI. Between 2023 and 2030, the deflator forecast (4.0%) derives from the following hypotheses: (i) the average difference between the rates of change in the household consumption deflator and the IPCA, observed historically, will remain in the coming years, (ii) the government consumption deflator and the gross fixed capital formation (GFCF) deflator will grow in line with the IPCA, and (iii) the export deflator will grow in line with the import deflator (implying a neutral scenario for the evolution of the terms of trade).

Nominal GDP. The real growth of 4.6% and the GDP price deflator of 11.1% produce nominal GDP growth of 16.3% between 2020 and 2021. This variation would lead the nominal GDP to R$ 8.7 trillion in 2021, higher than the projection of R$ 8.6 trillion presented in the October 2021 RAF. The nominal GDP change in 2022 is estimated at 8.8% (to R$ 9.4 trillion), slowing down to 6.2% on average between 2023 and 2030.

1.2 Alternative scenarios

The alternative scenarios - optimistic and pessimistic - consider the balance of risks, which is particularly important in a context of high uncertainty. The alternative scenarios triggers are associated with country risk, which can affect, above all, inflation and the exchange rate and bring more or less benign frames to the base scenario.

Deviations from the central projection result from changes - based on assumptions and judgments - in the exogenous variables paths (determined outside the model), such as risk premium and total factor productivity. In the international economy context (world economic growth, the Fed Funds rate, and the CPI inflation), the assumptions come from the International Monetary Fund (IMF) and the Congressional Budget Office (CBO) most recent publications.

Table 6 summarizes the baseline and alternative scenarios macroeconomic forecasts. The reason to keep the three scenarios updated is to highlight the degree of uncertainty within the projections and their dependence on different economic configurations.

TABLE 6. IFI'S BASELINE, OPTIMISTIC AND PESSIMISTIC SCENARIOS - CURRENT AND PAST RELEASE (RAF OF OCTOBER/2021)[9]

a. Dec/21	2021	2022	2023-2030	2021	2022	2023-2030	2021	2022	2023-2030
GDP at current prices (R$ bi)	8,684	9,448	12,544	8,703	9,504	13,102	8,678	9,418	12,515
GDP at current prices (%)	16.3	8.8	6.2	16.5	9.2	7.2	16.2	8.5	6.2
GDP at constant prices (%)	4.6	0.5	2.1	4.9	1.6	3.2	4.5	-0.5	1.2
GDP price deflator (%)	11.1	8.2	4.0	11.1	7.5	3.8	11.2	9.1	4.9
IPCA (%)	10.4	5.3	3.0	10.3	4.1	3.0	10.7	6.1	4.2
Unemployment rate (%)	13.2	12.8	12.7	13.2	11.9	11.5	13.5	13.9	14.5
Working pop. (%)	4.6	2.0	0.9	4.7	3.0	1.4	4.3	1.0	0.5
Embi (end)	375	400	306	350	350	256	400	450	356
Exchange rate R$/US$ (end)	5.60	5.71	5.42	5.45	5.50	4.89	5.80	5.99	6.47
Real interest rate (%)	4.7	2.9	3.7	3.0	2.2	2.7	5.1	4.2	5.1
Selic (%)	9.25	11.25	7.06	9.00	10.00	6.06	9.25	12.25	9.50
b. Oct/21	**2021**	**2022**	**2023-2030**	**2021**	**2022**	**2023-2030**	**2021**	**2022**	**2023-2030**
GDP at current prices (R$ bi)	8,600	9,300	12,334	8,581	9,360	12,930	8,653	9,297	12,449
GDP at current prices (%)	15.5	8.1	6.2	15.2	9.1	7.2	16.2	7.4	6.4
GDP at constant prices (%)	4.9	1.7	2.2	5.2	3.2	3.3	4.7	0.1	1.3
GDP price deflator (%)	10.1	6.3	3.9	9.6	5.7	3.8	10.9	7.3	5.0
IPCA (%)	8.7	4.0	3.1	8.5	3.3	3.0	9.1	5.3	4.2
Unemployment rate (%)	13.9	13.4	12.4	13.5	12.4	11.3	13.9	14.6	14.4
Working pop. (%)	3.0	1.5	1.1	3.5	2.1	1.6	2.5	0.1	0.7
Embi (end)	330	400	306	300	350	256	350	450	356
Exchange rate R$/US$ (end)	5.35	5.75	5.40	5.25	5.55	5.00	5.45	5.92	6.41
Real interest rate (%)	4.8	3.7	3.4	3.0	2.5	2.7	5.0	5.0	5.2
Selic (%)	8.25	8.50	6.50	8.00	7.00	5.75	8.50	10.50	9.50

Source: IFI.

Base. The widespread and persistent increase in the price level and the rise in risk premiums motivated, to some extent, by the fiscal framework credibility loss make the domestic environment very challenging. The interest rate rises more than expected to contain the advance of inflation in a context of economic activity slowdown and a gradual recovery of the labor market. Additionally, doubts about the pandemic evolution with the appearance of the Omicron variant and the heightened political tension with the proximity of the presidential election add new uncertainties about

[9] Spreadsheet available at: https://www12.senado.leg.br/ifi/dados/arquivos/projecoes-ifi/view

GDP performance throughout 2022. In the base scenario, the risk premium would advance to 400 points by the end of 2022, and the exchange rate would reach R$/ US$ 5.71.

Pessimistic. The intensified uncertainties in the baseline scenario could further deteriorate financial asset prices and inflation expectations, requiring an even more intense monetary policy adjustment. In this environment, the risk premium increase to 450 points by the end of 2022, when the exchange rate could reach R$/ US$ 5.99.

We have removed the effect of drought-induced rationing of energy on the GDP trajectory in the pessimistic scenario, assuming that the volume of rainfall and the adoption of measures to contain energy consumption would help recover the water reservoirs. The pessimistic scenario contemplates slower output and labor market reaction.

As inflation expectations position above the inflation target over the projection horizon, the nominal interest rate is high (12.25% in 2022 and 9.5% on average between 2023 and 2030). Between 2023 and 2030, the average GDP growth rate is 1.2%, and the real interest rate converges to a higher level, around 5.0% per year.

Optimistic. In the optimistic scenario, the softening of the risks mapped out above, in addition to a peaceful passage through the electoral process, would open space for higher economic growth and a faster reduction in the unemployment rate, in addition to reducing inflationary pressures derived from domestic factors. In the optimistic scenario, the risk premium is stable at 350 points at the end of 2022, and the exchange rate would reach R$/ US$ 5.45. Between 2023 and 2030, the average GDP growth rate is 3.2%, and the real interest rate moves towards a level of 2.7% per year.

2. TOTAL REVENUE, TRANSFERS, AND NET REVENUES SCENARIO

2.1 Introduction

An upward shift in the nominal GDP figures prompted a revision in the revenue scenario. The revision in the IFI's macroeconomic scenario projections led to a change in the tax collection expected values over the projection horizon (2021-2030). In particular, the higher nominal GDP has produced higher estimates for revenues, especially revenues collected by the Federal Revenue Office (RFB) and the General Social Security System (RGPS) revenues.

The IFI expects nominal GDP to increase 16.3% and 8.8% in 2021 and 2022, in that order. As an illustration, in October, the expectation was for a 15.5% increase in the nominal GDP in 2021 and 8.1% in 2022. The IFI now predicts 16.3% this year and 8.8% next year. It is worth saying that the revisions in revenue projections were not motivated by an expectation of higher real economic growth in the coming years.

New tax collection elasticities to the GDP estimates influenced the revenue projections. A second important consideration concerns the elasticity of tax revenues to GDP. Some elasticity parameters were updated from the previous revision (October 2021) to the current one, following the results presented in the Special Study (EE) no. 16, of November 2021, which updated estimates that had been initially published in Technical Note (NT) no. 19, of August 2018.

For example, Study no. 16 suggests a higher elasticity of administered revenues to GDP in the short term (1.02) than the long term (between 0.90 and 0.98, depending on whether the GDP gap is positive or negative). In turn, the estimated elasticity of RGPS revenues was less than unity in the short term and equal to 1.06 in the long term.

Constitutional Amendment no. 112, of 2021, increased municipalities' IPI and IR sharing collections. The third consideration concerns the enactment of Constitutional Amendment (EC) no. 112, on October 27, 2021, demanded the Union projection transfers be adjusted. This EC changed art. 159 of the Federal Constitution, which disciplines the distribution of resources by the Union to states and municipalities, to include the amount of 1% from the Tax on Industrialized Products (IPI) and Income Tax (IR) collections to the Municipal Participation Fund (FPM). This additional amount will be paid in the first ten days of September and will be incorporated into the FPM in stages: 0.25% in 2022, 0.5% in 2023, and 1% from 2024 onwards.

The scenarios assume no reforms that increase the tax burden. Finally, an underlying assumption within the fiscal revenues scenarios is that the tax burden remains at current levels without profound changes in tax rates or bases. However, the government can use this instrument to improve the primary balance.

2.2 Revenue forecasts: 2021 - 2022

New scenarios consider the information available through October 2021. Table 7 presents the IFI's projections for central government revenues in 2021 and 2022, comparing the estimates from the October scenario review with the current ones. In October, information was available up to August, while in the current revision, in December, the data are updated by the National Treasury Secretariat (STN) up to October 2021.

TABLE 7. CENTRAL GOVERNMENT´S REVENUE IN 2021 AND 2022: OCTOBER AND DECEMBER UPDATES

Baseline (R$ million)	Oct/21		Dec/21		Dif. Dec/21-Oct/21	
	2021	2022	2021	2022	2021	2022
1. Total Revenue	**1,823,609.2**	**1,951,400.6**	**1,905,945.1**	**2,019,233.1**	**82,335.8**	**67,832.4**
Revenues Collected by RFB, except RGPS and fiscal incentives	1,138,723.4	1,225,172.2	1,182,279.8	1,293,178.4	43,556.4	68,006.2
RGPS Revenues	452,545.3	489,843.5	456,600.7	486,821.6	4,055.5	-3,021.9
Revenues not Collected by RFB	232,426.4	236,385.0	267,150.4	239,233.1	34,724.0	2,848.1
Fiscal Incentives	-85.9	0.0	-85.9	0.0	0.0	0.0
2. Transfers by revenue sharing	**345,407.2**	**366,445.1**	**348,148.8**	**385,038.9**	**2,741.6**	**18,593.8**
3. Net revenue [(1)-(2)]	**1,478,202.1**	**1,584,955.5**	**1,557,796.3**	**1,634,194.1**	**79,594.2**	**49,238.6**

Source: National Treasury Secretariat. Prepared by: IFI.

The IFI's projections for the federal government's primary revenue are R$ 1,905.9 billion in 2021 and R$ 2,019.2 billion in 2022. The IFI forecasts R$ 1,905.9 billion for the central government's total primary revenue in 2021, R$ 82.3 billion higher than the October projection. For 2022, primary revenue is estimated at R$ 2,019.2 billion, against R$ 1,951.4 billion projected last October.

Revenues collected by RFB in 2021 are estimated at R$ 1,182.3 billion. Of the R$ 82.3 billion increase in total revenues in 2021, R$ 43.6 billion derives from revenues collected by the RFB, rising from R$ 1,138.7 billion in October to R$ 1,182.3 billion (Table 7). The revenues collected by the RFB nominal increase over 12 months moved from 29.0% in August to 31.0% in October. On the same basis of comparison, the nominal GDP went from 12.7% in August to 14.6% in October.

As presented in the Macroeconomic Context section, the IFI started to forecast higher nominal GDP values this year and throughout the projection horizon (2021-2030). The expected variation rate for the indicator in 2021 went from 15.5% in October to 16.3% now. In 2022, the IFI expects an 8.8% increase in the indicator (against a projected increase of 8.1% in the last scenario revision).

Projected amounts for RGPS collection are R$456.6 billion in 2021 and R$486.8 billion in 2022. For the net collection of the RGPS, the IFI projects R$ 456.6 billion in collections in 2021, R$ 4.0 billion more than expected in October. By 2022, this collection is expected to reach R$486.8 billion, even with Congress's extension of the payroll tax exemption until 2023 (Table 7). The forecast revision for 2021 was motivated not only by the higher nominal GDP but also by the improved occupation conditions in the labor market. Even though unemployment remains relatively high and income contracts due to inflation, occupation, including formal employment, has improved. For 2022, the projection was revised downwards by R$ 3.0 billion due to the expectation of lower economic growth next year (1.7% in the October review and 0.5% now). The base interest rate (Selic) raising cycle will weaken domestic economic activity.

Revenues not collected by the RFB should reach R$ 267.2 billion in 2021. The IFI's projection for the revenues not collected by the RFB in 2021 was raised from R$ 232.4 billion to R$ 267.2 billion (an increase of R$ 34.7 billion) due to higher expectations for collections from the exploration of natural resources (oil) and dividends, mainly (Table 7). In October, oil royalties and participation collection exceeded the IFI's previous projection by R$14.6 billion. The oil prices assumption over the projection horizon, however, remained unchanged. For 2021, the IFI's projection is for a collection of R$ 93.2 billion from the exploration of natural resources.

Concerning dividends, the October projection (R$23.9 billion in 2021) was raised to R$41.8 billion due to the expectation of additional payments and interest on equity by BNDES and Petrobras in November and December, according to the companies´ press releases. Between January and October, the central government's revenue from dividends was R$21.8 billion, indicating the magnitude of the expected collections in the last two months.

For 2022, the projection for the revenues not collected by the RFB is R$ 239.2 billion. For 2022, the IFI's projection is for an inflow of R$239.2 billion in revenues not collected by the RFB, against R$236.4 billion expected in the scenario revision published in October (Table 7). Of this amount, R$ 90.9 billion would correspond to revenue from exploiting natural resources (mainly oil royalties and participation).

Transfers to subnational entities should reach R$ 348.1 billion in 2021 and R$ 385.0 billion next year. The IFI's new projection for transfers from the central government in 2021 is R$ 348.1 billion, against R$ 345.4 billion previously forecast. For 2022, the expectation is for transfers of R$ 385.0 billion, R$ 18.6 billion more than projected in October (Table 7). The upward revision in the 2021 projection occurred due to shared taxes with subnational entities (IPI and IR).

The behavior of revenues collected by the RFB and Constitutional Amendment no.112 of 2021 influenced transfers forecasts. The transfers forecasts for 2022 increased due to the higher expectation regarding the collection of revenues collected by the RFB (a R$ 68.0 billion increase between the October and current reviews). As explained in previous versions of this report, the IFI projects the dynamics of the transfer based on percentages of revenues collected by the RFB. On this occasion, in particular, it was necessary to consider the enactment of EC no. 112, which increased by another 1p.p. the sharing of IPI and IR collections with the FPM, to be implemented gradually between 2022 and 2024. Thus, it was necessary to adjust the projections of transfers from 2022 to the end of the projection horizon (2030).

The net revenue of the Union should total R$ 1,557.8 billion in 2021 and R$ 1,634.2 billion in 2022. Based on the new projections for total primary revenue and transfers, the net revenue of the central government[10] in 2021 is expected to be R$ 1,557.8 billion, an increase of R$ 79.6 billion to the October projection. In 2022, the IFI expects net revenue of R$ 1,634.2 billion against R$ 1,585.0 billion forecasted in October (Table 7).

2.3 Revenue forecasts: 2021 - 2030

Tables 8, 9, and 10 present the projections for total gross revenues and their components (revenues collected by the RFB, RGPS, and revenues not collected by the RFB), as well as projections for transfers to subnational entities and net revenues in the baseline, optimistic and pessimistic scenarios, in the period from 2021 to 2030.

[10]The Union´s net revenue corresponds to total revenues less the revenue-sharing transfer to subnational entities. An example of this deduction are the Fundos de Participação dos Estados e dos Municípios (FPE and FPM), which consist of the Income Tax and the Tax on Industrialized Products (IR and IPI) shares.

TABLE 8. BASELINE SCENARIO - R$ BILLION

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total revenue	**1,467.8**	**1,905.9**	**2,019.2**	**2,171.9**	**2,286.7**	**2,409.2**	**2,535.8**	**2,670.1**	**2,812.2**	**2,962.6**	**3,121.6**
Revenues Collected by RFB, except RGPS	899.5	1,182.3	1,293.2	1,398.9	1,468.6	1,542.2	1,618.9	1,699.7	1,784.6	1,874.1	1,968.6
RGPS Revenues	404.8	456.6	486.8	521.4	552.9	586.5	621.9	659.5	699.5	741.9	787.2
Revenues not Collected by RFB	163.6	267.2	239.2	251.6	265.3	280.5	295.0	310.9	328.1	346.5	365.9
Transfers by revenue sharing	**263.8**	**348.1**	**385.0**	**418.6**	**443.8**	**466.0**	**489.2**	**513.7**	**539.3**	**566.4**	**594.9**
Net revenue	**1,204.0**	**1,557.8**	**1,634.2**	**1,753.3**	**1,842.9**	**1,943.1**	**2,046.6**	**2,156.4**	**2,272.9**	**2,396.2**	**2,526.7**

Source: National Treasury Secretariat. Prepared by: IFI.

TABLE 9 OPTIMISTIC SCENARIO - R$ BILLION

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total revenue	**1,467.8**	**1,917.1**	**2,041.7**	**2,196.9**	**2,328.0**	**2,472.2**	**2,625.4**	**2,790.5**	**2,968.6**	**3,160.6**	**3,365.9**
Revenues Collected by RFB, except RGPS	899.5	1,192.4	1,300.8	1,408.0	1,488.9	1,577.7	1,673.0	1,775.3	1,885.3	2,003.6	2,130.0
RGPS Revenues	404.8	457.6	489.7	524.8	560.6	600.0	642.7	688.8	738.9	793.2	851.8
Revenues not Collected by RFB	163.6	267.2	251.2	264.1	278.5	294.5	309.8	326.4	344.5	363.9	384.2
Transfers by revenue sharing	**263.8**	**351.6**	**387.3**	**421.3**	**449.9**	**476.8**	**505.6**	**536.5**	**569.7**	**605.5**	**643.7**
Net revenue	**1,204.0**	**1,565.5**	**1,654.4**	**1,775.6**	**1,878.0**	**1,995.4**	**2,119.9**	**2,254.0**	**2,398.9**	**2,555.1**	**2,722.2**

Source: National Treasury Secretariat. Prepared by: IFI.

TABLE 10. PESSIMISTIC SCENARIO - R$ BILLION

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total revenue	**1,467.8**	**1,896.1**	**1,947.5**	**2,066.2**	**2,152.7**	**2,259.4**	**2,371.3**	**2,490.0**	**2,615.2**	**2,747.1**	**2,884.7**
Revenues Collected by RFB, except RGPS	899.5	1,172.7	1,263.8	1,353.4	1,413.9	1,476.7	1,543.2	1,613.0	1,686.1	1,762.5	1,841.6
RGPS Revenues	404.8	456.3	480.3	498.9	513.3	544.3	577.4	612.7	650.3	690.1	732.1
Revenues not Collected by RFB	163.6	267.2	203.3	213.8	225.5	238.4	250.8	264.2	278.9	294.5	311.0
Transfers by revenue sharing	**263.8**	**344.9**	**376.3**	**405.0**	**427.3**	**446.3**	**466.3**	**487.4**	**509.5**	**532.6**	**556.5**
Net revenue	**1,204.0**	**1,551.2**	**1,571.2**	**1,661.2**	**1,725.4**	**1,813.1**	**1,905.0**	**2,002.5**	**2,105.7**	**2,214.5**	**2,328.2**

Source: National Treasury Secretariat. Prepared by: IFI.

In the coming years, continued real economic growth prospects favor increasing tax collection. Regarding the revenues collected by the RFB, the baseline and optimistic scenarios consider a continued increase in collections from 2022, with economic growth converging to rates around 2.2% (baseline scenario) and 3.5% (optimistic). Other components of primary revenues (RGPS and revenues not collected by the RFB) are also expected to increase due to the projected GDP growth. The collection of some subgroups of revenues not collected by the RFB is related to economic activity, such as dividends and exploration of natural resources.

GDP growth should also favor the collection of revenues not collected by the RFB. The maintenance of continued real growth of the GDP may also favor collecting taxes such as concessions and permissions by attracting the interest of foreign capital for infrastructure assets in Brazil. The economic growth also permits a recomposition of the tax bases, which may eventually increase the elasticities of revenues for some time. The IFI's EE no. 16, mentioned above, estimated elasticities of tax collection to GDP considering short and long-term horizons, as well as situations in which the output gap is positive or negative.

In the pessimistic scenario, tax collection is also expected to grow over the projection horizon despite the worsening path for the GDP. The volume GDP growth projections in the pessimistic scenario also worsened for 2021 and 2022, as did a marginal reduction in the expected GDP increase from 2023 onwards. In October, the IFI expected real growth to converge to 1.3% per year by 2030. Now, this projection is 1.2%. In any case, the increase in the nominal GDP values in the pessimistic scenario on the projection horizon influences the trajectory of revenues collected by the RFB in this scenario, making the nominal values higher in the years ahead.

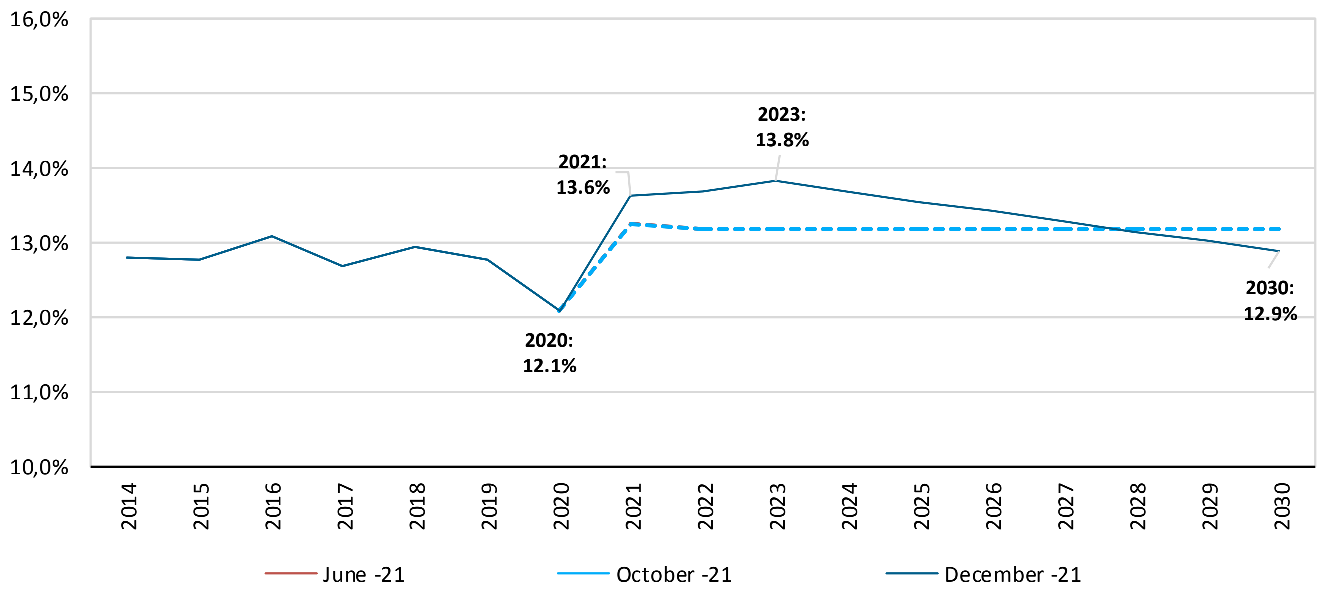
The average share of revenues collected by the RFB in GDP is 13.4% from 2021 to 2030. Figure 9 shows the trajectories forecast by the IFI regarding the central government's revenues collected by the RFB in the baseline scenario, excluding the RGPS revenues from 2021 to 2030. On average, the revenues collected by the RFB would correspond to 13.4% of GDP.

It is expected that the revenues collected by the RFB will reach 13.8% of GDP in 2023 and then gradually decline to 13.2% until 2030. After the drop in 2020, reflecting the effects of the pandemic on economic activity, the revenues collected by the RFB recorded a strong recovery in 2021 (13.2% of GDP). The percentage should rise to 13.8% of GDP by 2023, when it would start to return to the level of 13.2% of GDP by 2030, reflecting the incorporation of the revenue-GDP elasticities presented in the EE no.16. Additionally, the short term refers to the 2022-2023 biennium, while the long term corresponds to 2024 to 2030. The explanation holds for other primary revenue sub-groups forecasts, presented below.

The IFI's Study identified higher values regarding revenues collected by the RFB elasticities to GDP in the short run compared to the long run. According to the study results, the elasticity was 1.02 in the short run (both for the positive output gap and the negative output gap). For the long run, the estimated elasticities were 0.98 in the case of a positive output gap and 0.90 in a negative output gap. Revenues collected by the RFB forecasts consider an elasticity to GDP of 1.02 in 2022, 1.01 in 2023, and 0.99 from 2024 onward.

The adoption of elasticity of revenues collected by the RFB to GDP more significant than 1 in the short term and lower than 1 in the long term produced the shape of the curve to GDP (Figure 9).

FIGURE 9. REVENUES COLLECTED BY THE RFB (% OF GDP): JUN/21, OCT/21 AND DEC/21 UPDATES (BASELINE)



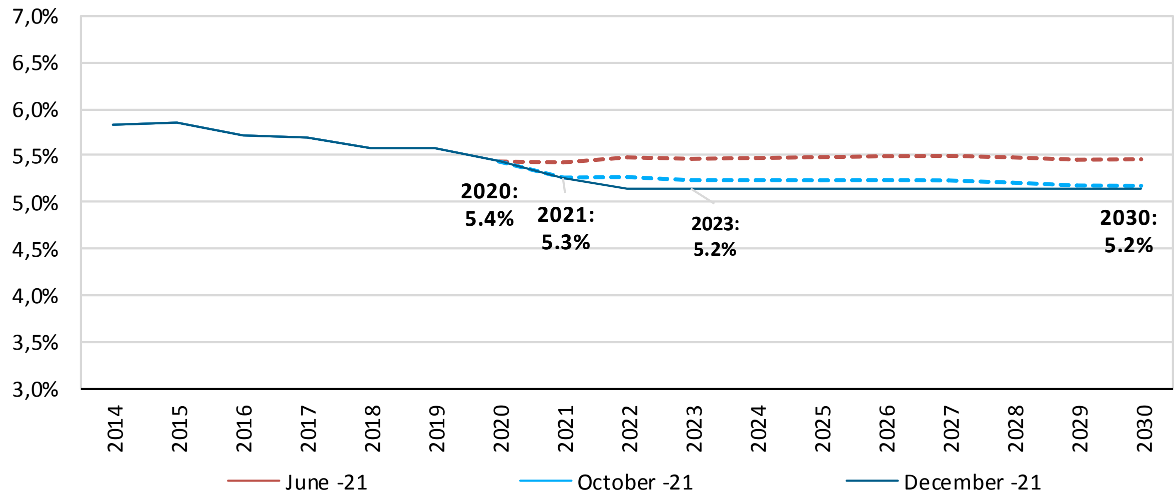
Source: National Treasury and Central Bank. Prepared by: IFI

Net revenue of the RGPS drops in 2020 due to pandemic effects on economic activity. Figure 10 displays the comparison between the RGPS net revenues projections in the baseline scenario, presented in the current, June, and October reviews. The RGPS revenues reduced in 2020 due to the drop in economic activity and the deferral of employers' share of Social Security.

RGPS collection elasticities to GDP estimates are below unity in the short term and greater than 1 in the long term. The RGPS net revenue elasticities to GDP found in EE no.16 were: 0.90 (positive gap) and 0.60 (negative gap) in the short run, and 1.06 (positive /negative gap) in the long run. The projections presented in this report contemplate the following values for the elasticity: 0.98 in 2022 and 1 from 2023 onward. Adaptation saw as necessary because of the unintuitive parameters presented in EE no.16.

The relative share of net RGPS revenue to GDP has been falling in recent years. In the long run, an elasticity of 1.06 would configure a situation in which RGPS revenues would gradually increase their share of GDP. In recent years, however, this proportion has decreased. As an illustration, in 2014, the net collection for the RGPS accounted for 5.8% of GDP. In 2019, before the pandemic, this share had fallen to 5.6% of GDP. In 2021, the IFI projected that this proportion would be 5.3%. As of 2022, we maintained the RGPS collection participation at 5.2% of GDP.

FIGURE 10. RGPS REVENUES (% OF GDP): JUN/21, OCT/21 AND DEC/21 UPDATES (BASELINE)



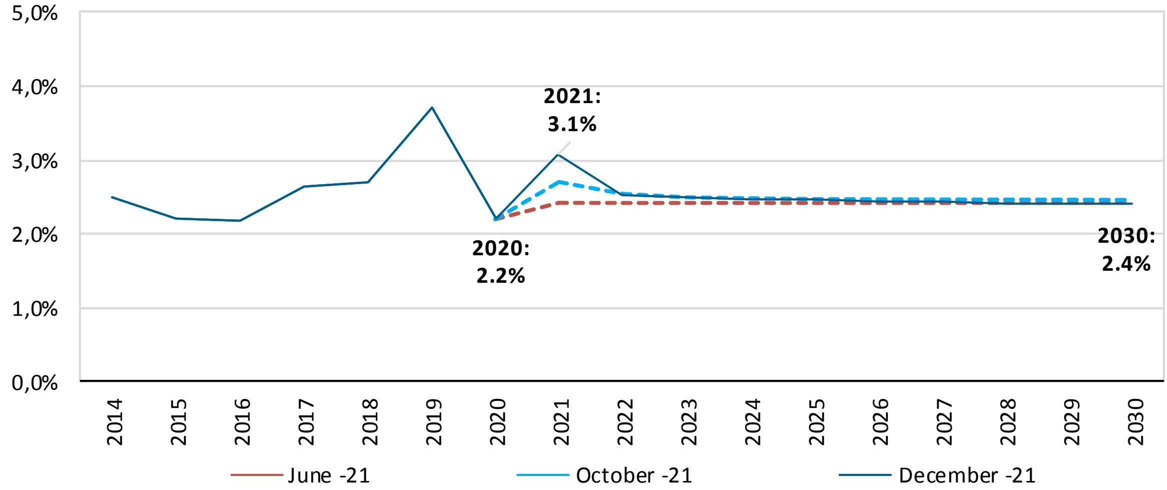
Source: National Treasury and Central Bank. Prepared by: IFI

The possible impact of the pandemic on the labor market explains stable social security collection to GDP projections in the years ahead. An important consideration to be made that supports the hypothesis of no recovery in RGPS revenues, as a proportion of GDP, between 2021 and 2030, concerns the possibility that the pandemic has accelerated structural changes in labor relations, with more acute effects on less qualified workers. This point has already been discussed in the October 2021 RAF.

The higher collections from dividends and exploitation of natural resources motivated a revision in revenues not collected by the RFB projection in 2021. For the revenue not collected by the RFB scenario, the most crucial change occurred, as mentioned earlier, in the expectation of dividend collections and natural resource exploration in 2021. In general, the IFI assumes that revenues not collected by the RFB should remain relatively constant to GDP in the coming years, considering that the government will continue to strive to collect revenues from, for example, auctions and infrastructure assets concessions, even though there is a limit to this. In addition, the growth resumption consolidation, even if at a rate of 2.2%, in the IFI's base scenario, favors the collections of some revenues not collected by the RFB subgroups related to economic activity.

Revenue not collected by the RFB is expected to reach 3.1% of GDP in 2021 and decline to 2.5% in the following years. Figure 11 compares the expected trajectories for revenues not collected by the RFB as a proportion of GDP, referring to the current, June, and October 2021 revisions, all in the baseline scenario. The growth from 2.2% in 2020 to 3.1% in 2021 is due to the revisions mentioned for particular groups (oil and dividends). The maintenance at 2.5% of GDP after 2022, in turn, reflects dynamics of royalties and oil shares and subgroups affected by the behavior of the economic activity.

FIGURE 11. REVENUES NOT COLLECTED BY THE RFB (% OF GDP): JUN/21, OCT/21 AND DEC/21 UPDATES (BASELINE)



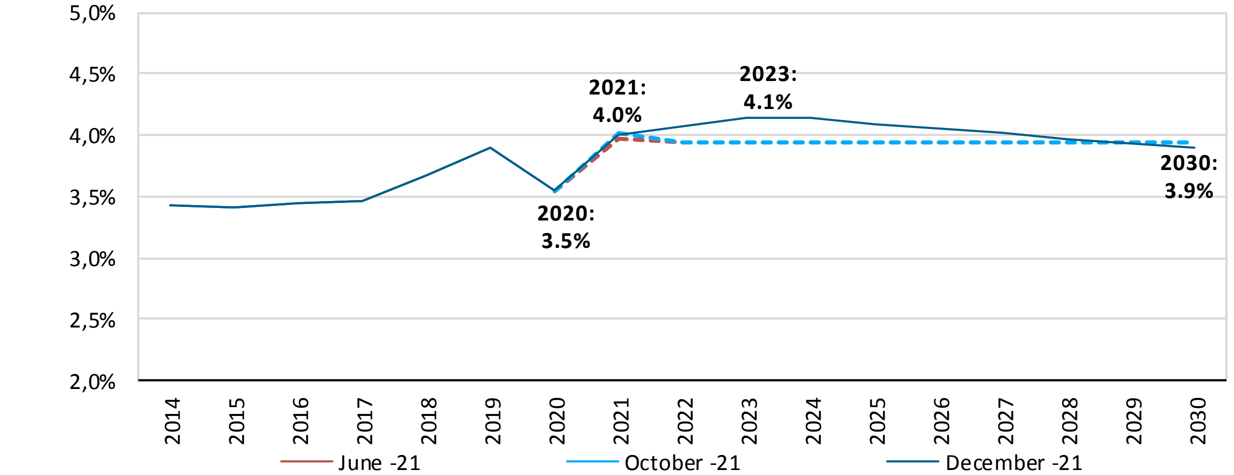
Source: National Treasury and Central Bank. Prepared by: IFI

The projected growth of revenues collected by the RFB and Constitutional Amendment no. 112 affected transfers to the subnational entities. Figure 12 presents the central government transfers forecasts. After the retraction in 2020, transfers will grow in the coming years due to the expected increase in revenues collected by the RFB and the change introduced in the distribution of the IPI and IR by Constitutional Amendment no. 112.

In line with the trajectory of the revenues collected by the RFB, transfers will grow in the short term and then fall back to the level of 3.9% of GDP by 2030. Given the absence of IPI and IR forecasts, for the moment, the transfers forecasts relate to the administered revenues dynamics. In the short term (2022 and 2023), the transfers gain a share in GDP, while in the long term, this percentage gradually drops back to the level of 3.9% of GDP.

The full impact of the EC no. 112 should be around R$ 15 billion on the FPM. The sharing increase of IPI and IR collections in EC no. 112 (0.25% in 2022, 0.5% in 2023, and 1.0% from 2024 onwards) will produce an impact of about R$ 15 billion on the FPM from 2024 on. The share of transfers in revenues collected by the RFB is currently about 29.7%. This percentage would rise to 29.8% in 2022, 29.9% in 2023, and 30.2% in 2024.

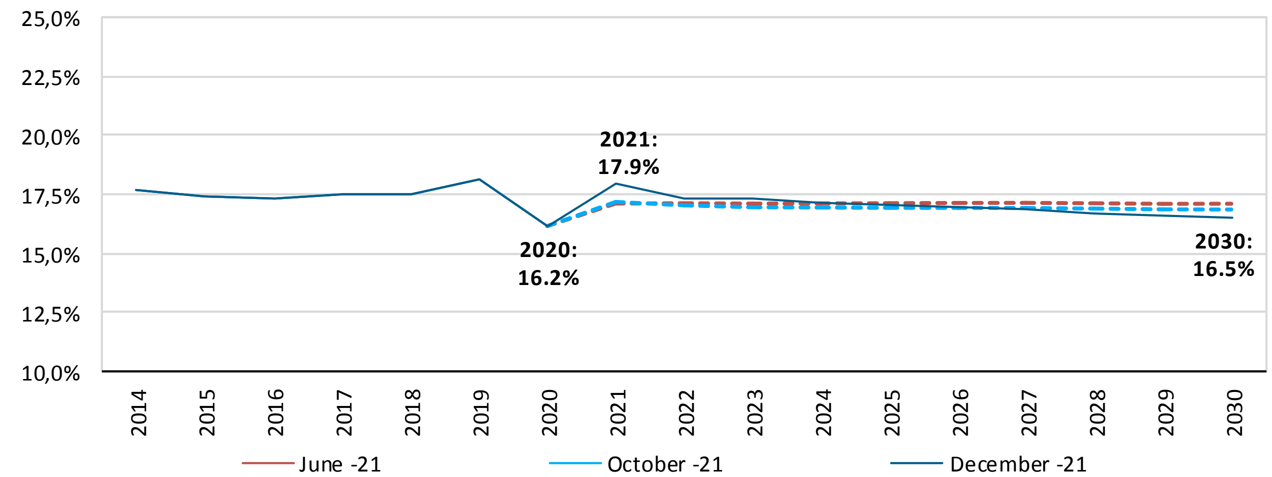
FIGURE 12. TRANSFERS(% OF GDP): JUN/21, OCT/21 AND DEC/21 UPDATES (BASELINE)



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

Net revenue will reach 17.9% of GDP in 2021 and then converge to 16.5% throughout this decade. Finally, Figure 13 presents the net revenue forecast for 2021 to 2030. In 2021, the IFI projected that the variable would reach 17.9% of GDP. In the following years, this share should drop, mainly due to the expected trajectories for revenues collected by the RFB, which will lose share in GDP, and transfers to sub-national entities. It is expected that net revenues will reach 16.5% of GDP in 2030.

FIGURE 13. NET REVENUE (% OF GDP): JUN/21, OCT/21 AND DEC/21 UPDATES (BASELINE)

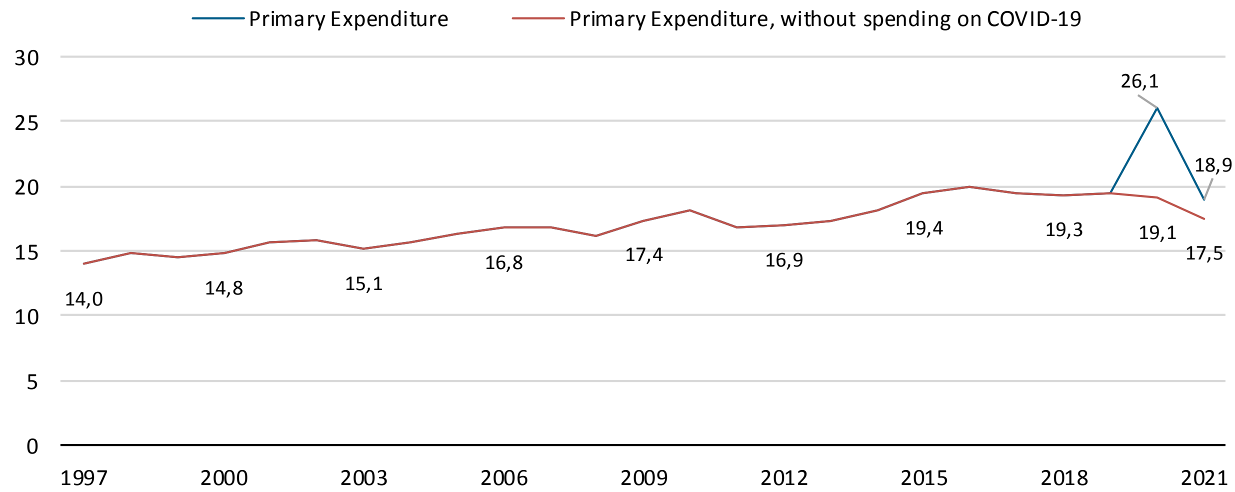


Source: National Treasury and Central Bank. Prepared by: IFI

2.4 Primary expenditure and the spending ceiling in 2021

In 2021, the Union's primary expenditures should decrease by 15.7%, in nominal terms, to 2020. This performance only occurs due to the partial removal of spending on the fight against Covid-19. Without considering the expenditures against the pandemic, the result would be an increase of 6.7% in the period. As the IPCA and INPC, in the IFI's base scenario, should close the year at 10.4% and 10.7%, respectively, the primary spending, excluding Covid-19 expenses, will present a real fall in 2021 because of inflation from the previous year, which indexes, for example, social security and welfare spending, impacts the primary spending dynamics. On the expenditure side, the acceleration in prices this year will be felt, especially in 2022. Spending should go from 26.1% to 18.9% of GDP, considering Covid-19 expenditures, or from 19.1% to 17.5% of GDP, without these expenses (Figure 14).

FIGURE 14. PRIMARY EXPENDITURE - IFI SCENARIOS (% OF PIB)



Source: Treasury and IFI (2021). Prepared by: IFI.

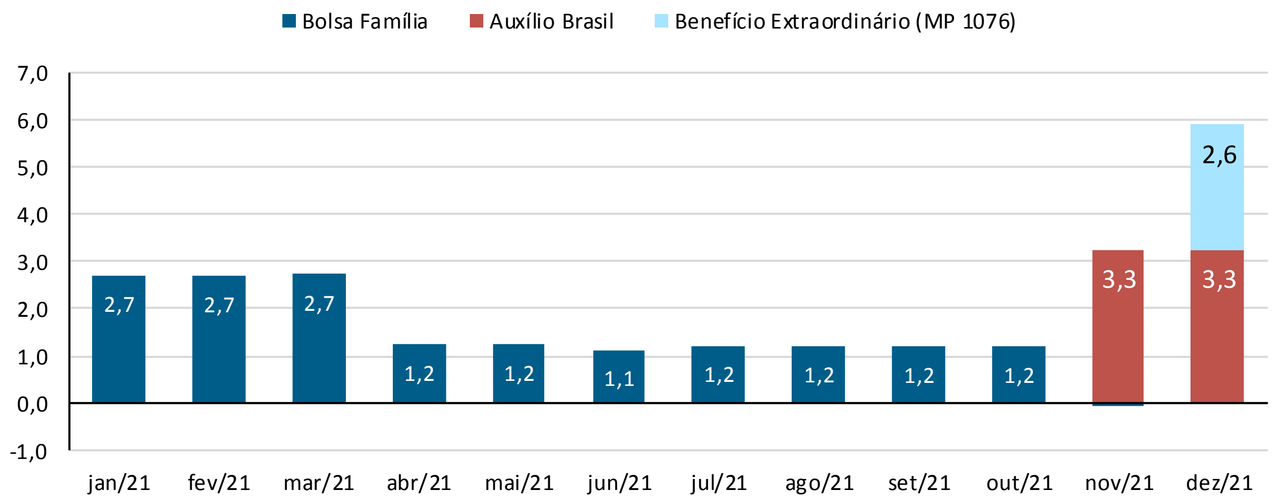
Social security and discretionary spending should drive the advance of primary spending in 2021. In our baseline scenario, RGPS expenses will reach R$ 708.3 billion, an increase of R$ 44.4 billion, or 6.7%, to 2020. Without considering the expenses with court rulings and court-ordered debts, the increase would be 6.5%. As explained in the previous paragraph, the pension expenses for 2021 are influenced by the INPC of 2020 (5.4%). The higher INPC impact in 2021 (the IFI projects 10.7%) will only appear in 2022. The weaker than expected advance of mandatory spending subject to the ceiling should guarantee discretionary spending growth. The new projections should reach R$ 140.1 billion this year against R$ 108.2 billion in 2020.

In the baseline scenario, Bolsa Família, Auxílio Brasil and Benefício Extraordinário[11] will cost, together, R$ 25.7 billion in 2021. The first benefit was paid from January to October; the second started in November; and the third, which will transfer R$415.00 reais, on average, to the beneficiary families of the Auxílio Brasil, started in December of this year and will last until the end of 2022. It is worth remembering that, from April to October, the Auxílio Emergencial was in operation, which substantially reduced the expenses in the Bolsa Família allocation. The emergency program cost R$59.7 billion between April and October of this year.

[11] Established by Provisional Measure 1.076/2021.

Figure 15 shows how the spending of these programs behaved throughout 2021, except the Auxílio Emergencial. The data for November for Auxílio Brasil were obtained from Siga Brasil. In its first month, the program cost R$3.3 billion, 21% more than the Bolsa Família average expenditure between January and March.

FIGURE 15. BOLSA FAMÍLIA, AUXÍLIO BRASIL AND BENEFÍCIO EXTRAORDINÁRIO (R$ BILLION)



Source: Siga Brasil (until nov/21) and IFI (dec/21). Prepared by: IFI.

The main change compared to the October baseline is increased discretionary spending. In October, discretionary spending was projected at R$ 129.6 billion. The downward revision of part of the mandatory expenses, when incorporating data realized until November, and the spending ceiling expansion to 2021, with the court-ordered debts PEC approval, brought the discretionary spending projection to R$ 140.1 billion in the current baseline scenario.

Primary spending new projections are close to those of the government. At the end of November, the Executive Branch published the evaluation report on primary revenues and expenses for the fifth bimester of 2021. The report updated the government's macro-fiscal projections for the year with data realized until October. Decree no. 10,874, of November 30, changes the Executive's budget and financial programming based on the new estimates. Concerning the IFI's baseline scenario, the main difference is the expenses derived from extraordinary credits, which contemplate the fight against Covid-19 (R$ 134.0 billion, against R$ 123.6 billion in the IFI). In total, the IFI's projections are R$ 16.0 billion, or just 1%, below the government's. Table 11 compares the baseline scenario to the IFI's.

Table 11 compares the IFI's primary expenditure baseline scenario in 2021 with a) the realized 2020 data; b) the Executive's most recent projections; and c) the IFI's projections in the October scenario.

TABLE 11. FORECASTS FOR PRIMARY EXPENDITURE (DEC/21) - BASELINE

Breakdown	2020	2021 Forecasts			Comparative					
		Executive	IFI		IFI (Dec) *vs.* 2020		IFI (Dec) *vs.* Executive (Nov)		IFI (Dec) *vs.* IFI (Oct)	
		Nov/21	Oct/21	Dec/21	var.	var. %	var.	var. %	var.	var. %
Primary Expenditure	1,947.0	1,657.4	1,636.5	1,641.4	-305.7	-15.7	-16.0	-1.0	8.7	0.5
Mandatory	1,838.8	1,521.4	1,506.9	1,501.3	-337.6	-18.4	-20.2	-1.3	-2.4	-0.2
Social Security (RGPS)	663.9	709.9	708.8	708.3	44.4	6.7	-1.7	-0.2	3.7	0.5
Personnel	321.3	330.6	331.8	331.0	9.7	3.0	0.4	0.1	-1.7	-0.5
Allowance and insurance	59.6	47.4	46.1	45.3	-14.3	-24.0	-2.1	-4.4	-8.0	-15.0
BPC	62.7	68.4	67.8	67.3	4.6	7.3	-1.2	-1.7	0.3	0.5
Bolsa Família	19.0	25.4	23.8	25.7	6.7	35.0	0.3	1.3	-0.8	-3.1
Other mandatory	712.3	339.8	328.6	323.8	-388.5	-54.5	-16.0	-4.7	4.0	1.2
Discretionary (Executive)	108.2	136.0	129.6	140.1	31.9	29.5	4.1	3.0	11.1	8.6
Memo:										
Spending on Covid-19	*520.9*	*134.0*	*124.5*	*120.0*	*-400.9*	*-77.0*	*-14.0*	*-10.4*	*5.2*	*4.5*
Others	*1,426.1*	*1,523.4*	*1,512.0*	*1,521.4*	*95.3*	*6.7*	*-2.0*	*-0.1*	*3.5*	*0.2*

Source: National Treasury, Primary Revenue and Expenditure Evaluation Reports and IFI. Prepared by: IFI.

The spending ceiling for 2021 should be met with a recovery in discretionary spending. With the data until November, this year's spending ceiling scenario is increasingly comfortable. With the approval of the court-ordered debts PEC (PEC no. 23/2021), the limit can still be increased by R$15.0 billion, as long as it is destined to expenses with vaccination against the Covid-19 or to emergency and quick actions of a socioeconomic nature. This broad list can range from actions and services in the health area to social protection programs, such as the recently created Benefício Extraordinário (MP no. 1.076/2021). Our projections indicate that the ceiling would be met even without the additional space created by the PEC. As previously stated, the more favorable performance of the most relevant mandatory expenses, such as social security and personnel, allow compliance with the ceiling combined with some progress in discretionary spending. In the new scenarios, it may reach R$140.1 billion, or 1.6% of GDP, a relevant recovery from the R$108.2 billion, or 1.4% of GDP, of 2020. Given the late approval of the court-ordered debts PEC, there would be little time to use the additional space entirely, and, therefore, we believe that the ceiling should be met with a gap of about R$ 15.0 billion.

2.4.1 Primary expenditure and the spending ceiling in 2022

The approval of the court-ordered PEC opens space of R$ 117.9 billion in the spending ceiling of 2022. On the one hand, the space derives from the limit expansion and the reduction of expenses subject to this limit. According to the IFI's new projections, the expansion of the ceiling will yield R$ 73.2 billion in fiscal space. At the same time, the reduction of expenses results from imposing a ceiling for expenses with court rulings and court-ordered debts another R$ 44.7 billion.

The expectation now falls on the 2022 Budget itself. In particular, it is essential to know how the space opened by the constitutional change will be filled by Congress. The uncertainties refer to the considered inflation rate and possible new expenses not included in the Federal Budget Bill sent in August, such as salary and the Fundo Especial de Financiamento de Campanha (FEFC) increases.

In the most recent projections of the Executive, the open space will be R$ 106.1 billion, compatible with the IPCA of 9.7% for 2021. The official letter SEI no. 554/2021/ME, signed by the Minister of Economy, is the one that presents the government's new projections, displayed in Table 12 below. The numbers from the official letter are compared with the IFI's new macro-fiscal parameters.

TABLE 12. FORECASTS FOR PRIMARY EXPENDITURE (DEC/21) – BASELINE

Origin	Letter ME	IFI	Destination	Letter	IFI
Spending ceiling recalculation	62.2	73.2	Auxílio Brasil	54.6	50.0
The spending limit for court rulings and court-ordered debts	43.8	44.7	Social Security	29.2	17.5
			BPC	4.6	1.2
			Salary allowance and unemployment insurance	2.3	1.0
			Health and education expenditure	7.5	6.1
			Increase of the ceiling for the other branches	2.7	1.6
			Subsídios	2.0	2.0
			Auxílio Gás Social	1.9	1.9
			Personnel expenses	0.9	0.9
			Auxílio inclusão	0.2	0.2
			Ceiling gap	**0.0**	**35.5**
Total	106.1	117.9	Total	106.1	117.9
IPCA – 2021 (%)	*9.7*	*10.4*			
INPC – 2021 (%)	*10.0*	*10.7*			

Source: Ministry of Economy and IFI. Prepared by: IFI.

The space calculated by the IFI, of R$ 117.9 billion, would be destined to the Auxílio Brasil (R$ 50 billion), to the correction of the Social Security (R$ 17.5 billion), of the BPC (R$ 1.2 billion), of the salary allowance and unemployment insurance (R$ 1 billion), of the minimum constitutional allocation – health and education (R$ 6.1 billion), the increase of the ceiling for the other branches (R$ 1.6 billion), subsidies (R$ 2 billion), Auxílio Gás Social (R$ 1.9 billion), personnel expenses (R$ 0.9 billion) and the Auxílio Inclusão (R$ 0.2 billion). There would still be about R$36 billion left over to increase primary expenditures.

The allocation will depend on how the budget piece will be modified. The letter sent by the ME to the CMO indicates that the government could overestimate the inflation effects on mandatory spending when comparing its estimates to IFI's. If Congress decides to revise the projections based on technical evaluations and own projections, there would be room for increased expenses, most likely via rapporteur's amendments to the budget.

Otherwise, there could be discretionary spending cuts, or even increased spending, through additional credits during the execution. In any case, we highlight a very significant room for increasing expenses beyond the already committed or announced allocations when taken as a reference to the IFI's base scenario - and, therefore, it is not about realized data.

Table 13 presents the comparisons of the IFI scenarios for October and December and the Adjusted PLOA column (which incorporates the increases brought by the Official Letter from ME).

TABLE 13. FORECASTS FOR PRIMARY EXPENDITURE (DEC/21) - BASELINE

Breakdown	IFI Oct/21 (A)	IFI Dec/21 (B)	PLOA “Adjusted” (C)	PLOA vs. IFI (C-B)	IFI Dec/21 vs. Oct/21 (B-A)
TOTAL EXPENDITURE	1,664.7	1,740.4	1,752.6	12.1	75.7
Social security benefits	761.6	785.7	794.8	9.1	24.1
Personnel expenses and social contribution	345.8	335.4	343.7	8.3	-10.4
BPC	74.0	74.4	78.1	3.7	0.5
Salary allowance and unemployment insurance	61.4	61.4	65.7	4.3	0
Auxílio Brasil/Bolsa Família	34.7	84.7	89.3	4.6	50
Other Mandatory Spending	259.3	247.2	266.1	18.8	-12.1
Discretionary	127.9	151.6	114.8	-36.7	23.7
Memo:				0	0
Court rulings and court-ordered debts	89.1	44.4	43.8	-0.6	-44.7
Expenditure subject to the spending ceiling	1,610.0	1,683.2	1,672.3	62.2	73.2
Spending ceiling	1,610.0	1,683.2	1,672.3	-10.9	73.2
Slack (+) / Excess (-)	0.0	0.0	-73.2	-73.2	0

Source: Ministry of Economy and IFI. Prepared by: IFI.

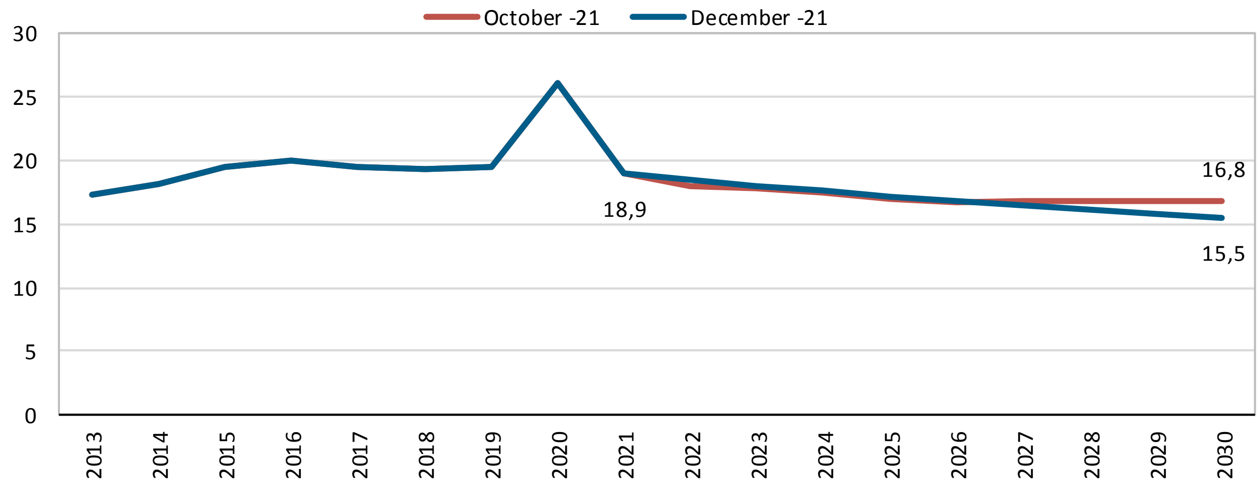
One can observe the clear difference between the IFI and the government's expenditure projections, concentrated in mandatory spending. For example, considering the current IFI figure of R$785.7 billion and the adjusted PLOA figure of R$794.8 billion, social security would be overestimated by R$9.1 billion. We are dealing with a comparison between two predictive scenarios, not projections with actual data. In this sense, the word "overestimated" should be read with caution.

From the point of view of the IFI, we believe it is fundamental to indicate that, in the present, considering the projections for macroeconomic parameters and the expenditure projections made by the institution, there would probably be a relevant fiscal space for the expansion of expenditures beyond those listed in Table 13.

2.4.2 Primary Expenditure until 2030

The expenditure projections for the coming years, until 2030, indicate a gradual downward trend in the baseline scenario. In the October projections, the central government's primary expenses were heading toward 16.8% of GDP in 2030, down from 18.9% of GDP in 2021. Now, the trajectory remains similar but converging to 15.5% of GDP. Figure 16 outlines the trajectories.

FIGURE 16. PRIMARY EXPENDITURE - BASELINE (% OF GDP)



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

In the baseline scenario, we highlight the evolution of welfare expenses, whose issuing new benefits dynamics reflect the welfare reform. These quantities of new pensions and benefits are evolving at a rate of 0.9% when we take the month's variation against the same month of the previous year and calculate the moving average in twelve months of this series - a rate equivalent to about one-third of what it was three years ago.

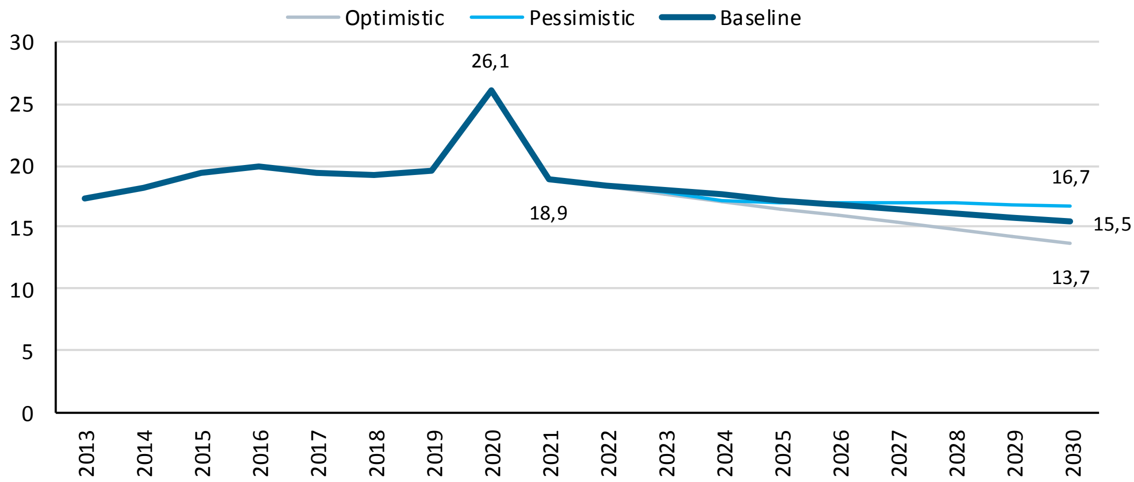
Then, we have changed the assumption underlying the evolution of this expense, which now grows based on inflation plus 0.9% as a real rate, according to the explanation in the previous paragraph. On the other hand, personnel expenses will contemplate a real readjustment of 1% starting in 2023. As the pressure for salary readjustments will be significant, we have adopted this premise besides the correction for inflation.

In the projection of the Continuous Cash Benefit (BPC), it is worth saying that we started to adopt the results of the model proposed in NT no. 50, published by the IFI, to deal with the subject. The tendencies and projection methodologies have not changed except for alterations and adjustments in the other items.

In the alternative scenarios - pessimistic and optimistic (see Figure 17), the expenses could reach 16.7% of GDP in 2030 or 13.7% of GDP in the optimistic one. The differences lie in the macroeconomic assumptions, mainly the evolution of the GDP and inflation, the latter deserving particular attention since it affects the indexed mandatory expenditures.

It is not a picture of a lack of fiscal control, as the dynamics of the pessimistic scenario. However, the drop as a percentage of GDP will possibly be smaller than the one advocated by the original spending ceiling, provided for in Constitutional Amendment no. 95 of 2016. Through the so-called court-ordered debts PEC, the change promoted now may alter the ceiling and expenses dynamics perspective.

FIGURE 17. PRIMARY EXPENDITURE - BASELINE (% OF GDP)



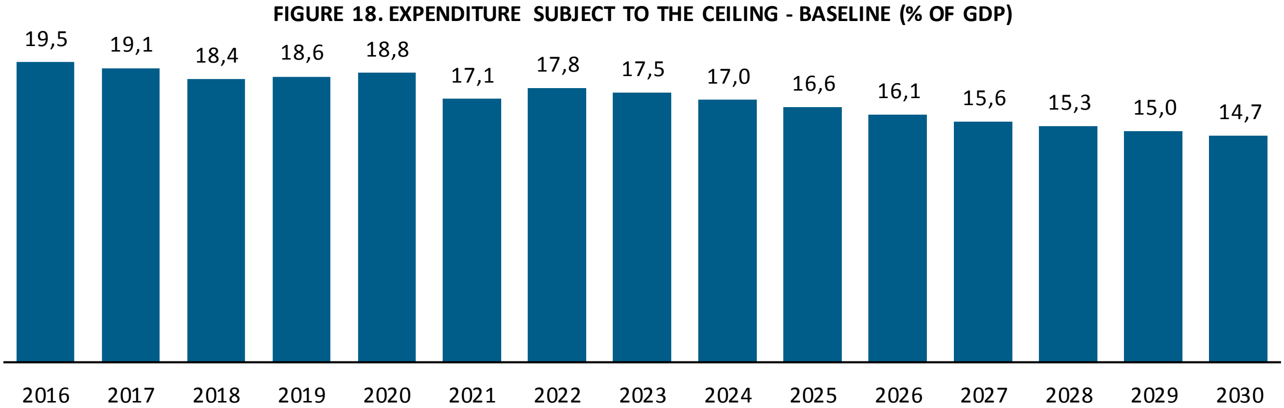
Source: Treasury (2014 to 2020) and IFI (following years).

2.4.2.1 Spending ceiling until 2030

In a previous subsection, we have already analyzed the spending ceiling dynamics in 2022, when there will be a significant gap, according to our projections, even after considering the effects of higher inflation, the cost of new social transfers, and other aid planned or announced by the government. We now analyze the spending ceiling prospective evolution based on comparing the expenses subject to the ceiling and the limit itself.

In Figure 18, expenditure subject to the ceiling should increase from 17.1% in 2021 to 14.7% in 2030, in the baseline scenario. The evolution is directly related to the explanations already mentioned in the previous subsection for pension and personnel expenses.

FIGURE 18. EXPENDITURE SUBJECT TO THE CEILING - BASELINE (% OF GDP)



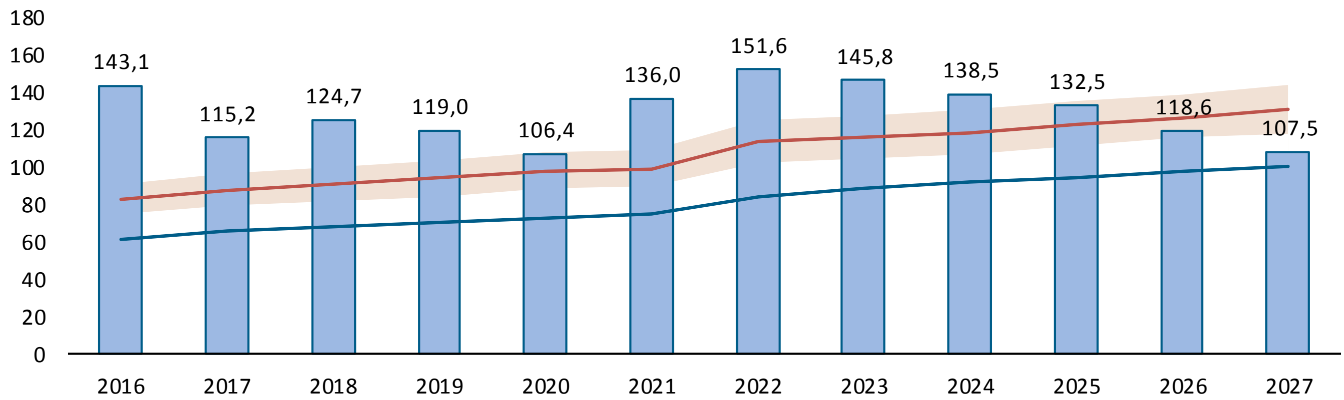
Source: IFI.

Figure 19, on the other hand, allows us to compare discretionary spending subject to the ceiling to the minimum limit (red line) of spending required to avoid a shutdown, according to IFI estimates. Whenever discretionary spending falls below the red line and, more clearly, below its lower limit (red shaded area), the risk of breaching the ceiling is considered higher.

In practice, Figure 19 shows that the IFI scenario projections for mandatory spending would lead to a situation where discretionary spending would have to be so low that essential services would be paralyzed.

The figure indicates that the risk of breaching the ceiling - between moderate and high - would be between 2026 and 2027. Here, it is worth saying the evolution of the ceiling already takes into account the new rule derived from the court-ordered debts PEC. A higher ceiling in 2022 and a correction rule based on accumulated inflation over 12 months until December and no longer until June.

FIGURE 19. DISCRETIONARY SPENDING, MINIMUM LEVEL AND RANGE 90%-110% - BASELINE (R$ BILLION)



Source: IFI.

2.4.2.2 Primary balance

In the baseline scenario, the IFI projects that the central government's primary deficit will be R$83.6 billion, or 1.0% of GDP, in 2021 (Table 14). The deficit is much smaller than the R$ 743.1 billion of 2020. The reduction is due to the decrease of R$337.6 billion in mandatory expenditures, related to the reduction of expenditures with Covid-19 and the recovery in tax collection, as we commented in the previous section. The government's current projection for the primary deficit is slightly worse, at R$95.8 billion.

TABLE 14. CENTRAL GOVERNMENT´S PRIMARY BALANCE - BASELINE SCENARIO (R$ BILLION)

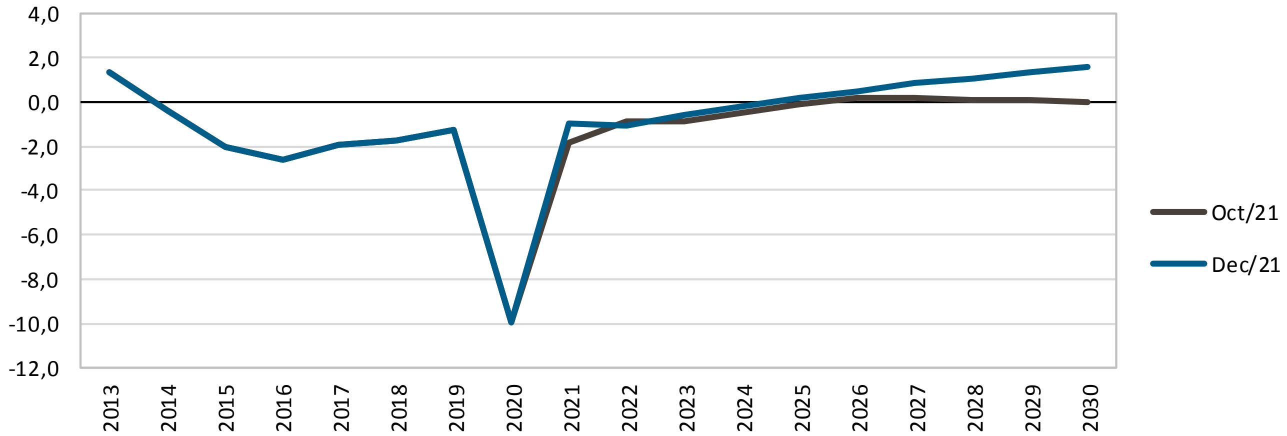
Breakdown	2020		2021 (IFI forecast)		Difference	
	R$ bi	% PIB	R$ bi	% PIB	R$ bi	% PIB
Total revenue	1,467.8	19.7	1,905.9	21.9	438.2	2.3
Transfers	263.8	3.5	348.1	4	84.3	0.5
Net revenue	**1,203.9**	**16.1**	**1,557.8**	**17.9**	**353.9**	**1.8**
Primary expenditure	**1,947.0**	**26.1**	**1,641.4**	**18.9**	**-305.7**	**-7.2**
Mandatory	1,838.8	24.6	1,501.3	17.3	-337.6	-7.3
Discretionary (Executive)	108.2	1.4	140.1	1.6	31.9	0.2
Primary balance	**-743.1**	**-10**	**-83.6**	**-1**	**659.5**	**9.0**
Expenses not included in the target	0	0	104.4	1.2	104.4	1.2
Primary balance to meet the target	-743.1	-10	20.8	0.2	763.9	10.2

Source: IFI and STN.

The primary balance to meet the target should show a surplus of R$ 20.8 billion (Table 14). Law 14,143, published in April of this year, amended the LDO 2021 to exclude from the primary result target extraordinary credits for actions and public health services to confront the pandemic, Pronampe and the Programa Emergencial de Manutenção do Emprego e da Renda. Previously, EC 109 had already excluded the expenses related to the new Auxílio Emergencial for the vulnerable, up to the limit of R$ 44.0 billion. Expenses not included in the 2021 target should total R$ 104.4 billion. The R$ 20.8 billion surpluses are very far from the deficit target for this year, R$ 247.1 billion. It is interesting to note that the government's situation to meet this year's target would be comfortable even without the exceptions in the legislation.

In the base scenario, the primary result would present a surplus in 2025 (Figure 20). The current projections up to 2030 trace a similar trajectory to that of October. Some distinctions, however, are relevant. In the October scenario, the evolution of the primary balance was gradual and reached positive territory only in 2026. The new scenario is better for 2021 and slightly worse for 2022. In the following years, from 2023 to 2026, the December scenario is relatively better than the one projected by the IFI in October but with similar trajectories. 2027 to 2030, the most recent scenario shows a continuous improvement of the primary balance, while in the scenario outlined in October, the result was relatively stable. For 2022, the estimated deterioration is due to a worse macroeconomic scenario than the one foreseen in October, negatively impacting the fiscal scenario for the following year. In the new scenario, the primary result would become positive again in 2025.

FIGURE 20. PRIMARY BALANCE- BASELINE (% OF PIB)



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

The optimistic and pessimistic scenarios consider the downside and upside risks affecting the projected trajectory of the main macroeconomic parameters. At the end of the report, tables 19, 20, and 21 detail the IFI's central government's primary balance projections in the baseline scenario and the two alternative scenarios.

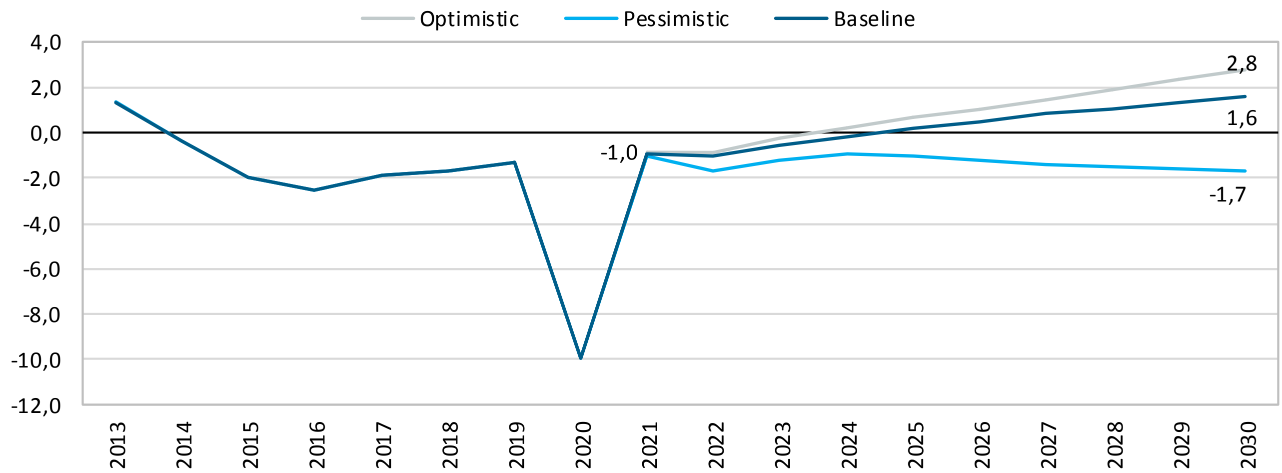
In the optimistic scenario, the primary deficit projection reaches 0.9% of the GDP in 2021, against 1.0% in the base scenario (Figure 21). Considering the result that has already occurred from January to October of this year, the projection in the base, optimistic and pessimistic scenarios alter little for 2021. For 2022, however, the optimistic scenario foresees a deficit of R$ 83.5 billion (-1.1% of GDP) against R$ 99.6 billion in the baseline scenario. The average primary result from 2022 to 2030 for the optimistic, base, and pessimistic scenarios are, respectively, 1.0%, 0.4%, and -1.4% of the GDP.

From 2022 to 2030, the projected net revenues should average 17% of GDP, both in the optimistic and pessimistic scenarios. On the other hand, expenditures present an average of 16.0% of GDP, below the baseline scenario (16.6% of GDP). Thus, in the optimistic scenario, the primary deficit varies from 0.9% of GDP in 2021, after peaking at 10.0% in 2020 to 2.8% in 2030.

The estimated primary deficit in the pessimistic scenario goes to R$ 164.5 billion or 1.7% of GDP in 2022. In 2021, the IFI's pessimistic scenario was a deficit of R$ 90.5 billion (-1.0% of GDP). From 2022 to 2030, the net revenues are estimated at 15.3% of GDP, on average, about 1.7 p.p., below the baseline scenario. On the expenditure side, the annual average projected for the period is 16.7% of GDP, higher than the average of the baseline scenario by 0.1 p.p. of GDP. Unlike the other two scenarios, in the pessimistic one, the primary result does not become positive, and the deficit grows again at the end of the forecasting period.

Figure 21 compares the central government primary result curves in the three current scenarios: baseline, optimistic and pessimistic, as a percentage of the GDP.

FIGURE 21. PRIMARY BALANCE - IFI SCENARIOS (% OF GDP)



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

3. GROSS DEBT SCENARIO

We present the revised scenarios for the General Government Gross Debt (DBGG in the original acronym) to GDP (Debt-to-GDP ratio), considering the macro-fiscal projections described in the previous sections. As we have been warning for several months, the fiscal risks and the rise in interest rates, directly associated phenomena, have affected the average cost of the public debt and increased the probability of an increase in indebtedness in the coming months.

The most recent data show that the Debt-to-GDP ratio, influenced by high inflation - via an increase in the denominator - has fallen for several months in a row throughout 2021. However, the indicator has remained stable in the last two monthly results released by the Central Bank. In 2022, the debt will start to grow again. Although far from a path of insolvency, the movement is worrying.

For example, exponential growth is projected in the pessimistic scenario, with higher interest rates and primary deficit. The so-called court-ordered debts PEC undermines the prospects regarding the credibility of the spending ceiling, which had been working as a kind of anchor for market expectations. Under a higher risk premium, the interest rates demanded by the market on government bonds have been steadily increasing.

A scenario of normality, starting in 2022, could guarantee, at least, the baseline scenario trajectory. By 2023, the fiscal challenge will be to resume a credible fiscal framework that will facilitate the task of stabilizing the Debt-to-GD ratio. In the following subsections, we discuss the interest rates and debt current evolution and then the DGBB new figures underlying the base, optimistic and pessimistic scenarios.

3.1 The recent evolution of interest and debt

The Debt-to-GDP ratio has benefited from the unexpected and persistent rise in inflation. The second and fourth columns in Table 15 display the differences between January and October's debt and GDP figures. Between January and October 2020, the DBGG increased by R$1,024.2 billion, while the GDP decreased by R$56.6 billion. In 2021, between the same months, the DBGG increased by R$338.9 billion, and the GDP rose by R$966.6 billion.

TABLE 15. DBGG AND GDP EVOLUTION IN NOMINAL TERMS (R$ BI)

	DBGG	Difference (Jan-Oct)	PIB*	Difference (Jan- Oct)
Jan/16	3,992.8	337.7	6,003	202.5
Oct/16	4,330.5		6,206	
Jan/17	4,399.0	438.2	6,301	226.3
Oct/17	4,837.2		6,527	
Jan/18	4,904.3	327.1	6,624	322.5
Oct/18	5,231.4		6,946	
Jan/19	5,302.7	246.7	7,033	311.1
Oct/19	5,549.4		7,344	
Jan/20	5,550.5	1,024.2	7,434	-56.6
Oct/20	6,574.7		7,377	
Jan/21	6,670.3	338.9	7,488	966.6
Oct/21	7,009.1		8,454	

*Source: Central Bank. Prepared by: IFI. / * Central Bank´s monthly GDP series accumulated over 12 months (may contain divergences from other GDP data used in this report since the BC has not yet updated the 2019 and 2020 data after the revision by IBGE).*

This difference is fundamental to understanding the fall in Debt-to-GDP ratio over 2021, as discussed in the October RAF. It is not an improvement in the fiscal picture, at least not in the magnitude suggested by the analysis of the evolution of debt/GDP at first glance.

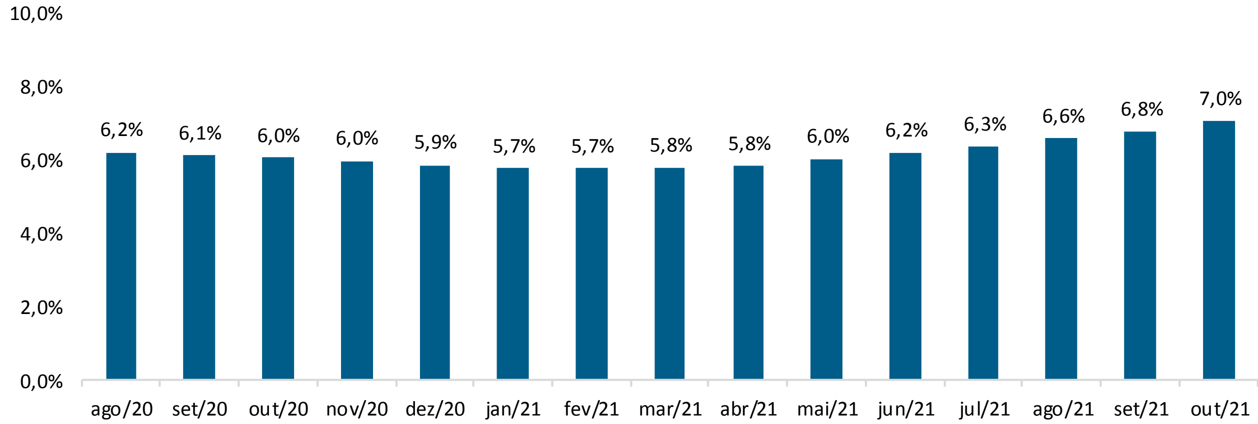
The Debt-to-GDP ratio stopped falling between September and October. Figure 22 presents the Debt-to-GDP ratio evolution since February 2020. There was a reduction path throughout 2021, starting in March - still without adjusting the new GDP series in 2019 and 2020 released by the IBGE. However, starting in September, the debt stabilized at 82.9% of the GDP. As discussed below, the gross debt should close at 82.1% of GDP in the base scenario by December but should increase starting in early 2022.

FIGURE 22. DEBT-TO-GDP RATIO

Source: Central Bank. Prepared by: IFI.

The debt adjustment based on inflation is temporary and accompanied by a rise in interest rates. The result arising from the decrease in the Debt-to-GDP ratio due to high inflation effects on nominal GDP is temporary. In a second moment, the increase in interest rates by the Central Bank, to contain the rise in prices, affects the average debt cost and makes the issue of new bonds more expensive (Figure 23).

FIGURE 23. DBGG IMPLICITE INTEREST RATE ACCUMULATED OVER 12 MONTHS



Source: Central Bank. Prepared by: IFI.

The implicit rate of the DBGG increased from 5.7% in February to 7% in October 2021. The increase in the implicit rate from 5.7% (February) to 7% (October) already affects the public sector interest account and debt dynamics. In the October RAF, we pointed out that the implicit rate trend was upwards, not only because of the increase in the Selic target by the Central Bank (to 9.25% a year, since the last Copom meeting) but also because of the higher premium demanded by the market, due to the higher fiscal risk. The movement is materializing, and the implicit rate could end in 2021 at around 7.5% per year.

The DBGG implicit rate rise corresponds to a higher interest expense. The public sector's net interest payment rose from R$39.7 billion per month on average in the first quarter of 2021 to R$60.4 billion in October. The total net interest owed already reaches R$ 352.4 billion in the year-to-date. In the same period in 2020, the total net interest owed had reached R$ 286.5 billion.

This movement has canceled out part of the gains observed in the public sector primary balance, partly explained by the movement of revenues - influenced by inflation, commodities, and the exchange rate - and partly by the solid states and municipalities surplus.

The consolidated public sector primary surplus contributes to the DBGG in 2021, but it is temporary. The dynamics of states and municipalities also reflect the rise in tax collection, driven by inflation. Another important factor, albeit atypical, was privatization revenues of around R$ 15 billion. Thus, the states and municipalities' primary balance (R$ 98.7 billion accumulated between January and October 2021) will lead to a consolidated public sector surplus of R$ 12.4 billion in 2021.

This amount represents the sum of the central government projection (R$ 83.6 billion deficit) and the calculation considered for the subnational and state governments, jointly (R$ 96 billion). However, the tax collection slow-down trajectory, starting in 2022, and the probable increase in expenditures, both at the federal and local levels, should increase the deficit as early as next year.

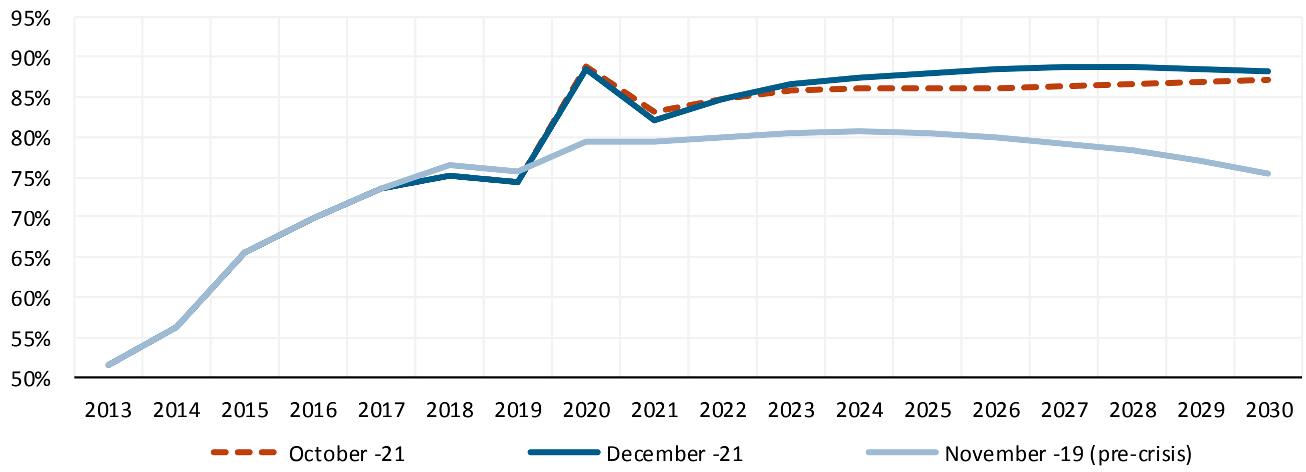
Table 18, at the end of the section, shows the consolidated public sector result projections, which consider, besides the central government primary balance, already discussed in the previous section, the states, municipalities, and state-owned companies' trajectories and interest payments.

3.2 Forecasts

Gross debt is expected to stand at 82.1% of GDP in the baseline scenario in 2021. We projected gross debt at 83.3% of GDP in the October scenario revision. Despite the Selic rate revision, as discussed in this report´s initial section, the consolidated public sector primary balance improvement will contribute to a lower level by December. However, the trajectory still leans upward, a little worse than October's.

Figure 24 compares the previous and current baseline scenario projections. It also presents the estimated curve in November 2019, pre-crisis, to highlight there is probably a permanent worsening in the projections, even after the most critical period of the Covid-19 fight. The higher interest rates forecasts also influence the coming years' current trajectory.

FIGURE 24. DBGG FORECASTS (% OF GDP) - PREVIOUS AND CURRENT PROJECTIONS (BASELINE)



Source: IFI.

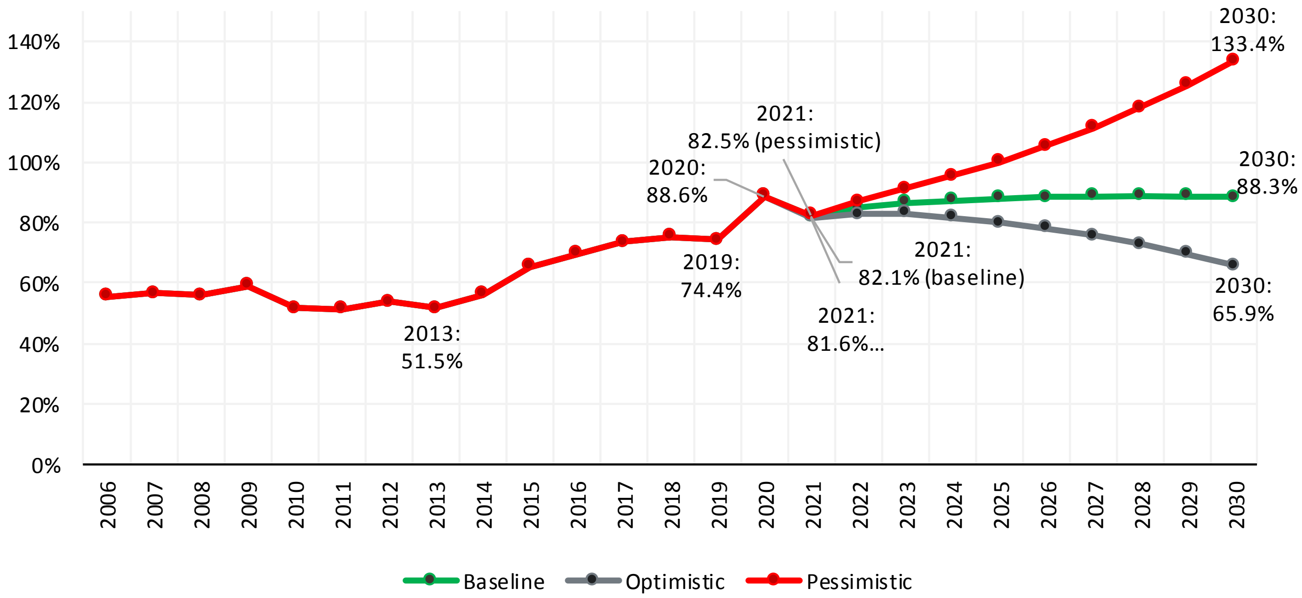
***Note:** The curve "November 2019" presents different data for 2018 because the Central Bank had a subsequent revision due to the GDP.*

In the pessimistic scenario, the DBGG could reach 133.4% of GDP in 2030. For 2021, in the optimistic and pessimistic scenarios, respectively, we estimate the Debt-to-GDP ratio at 81.6% and 82.5%. The baseline scenario contemplates the growth of the DBGG to the level of 88.3% in 2030. In the pessimistic scenario, the debt would reach 133.4%, and in the optimistic one, 65.2% by 2030.

The fiscal risk already appears in the baseline scenario, in which the debt reaches 88.8% of the GDP in 2028. Between 2029 and 2030 (Figure 24), the debt oscillates around this level, but the trend suggests the beginning of a slight downward trajectory. The continuous debt growth is a source of risk and will require the generation of consistent primary surpluses to guarantee stability and, in a second moment, reduction.

Figure 25 consolidates the expected trajectories in the three IFI scenarios.

FIGURE 25. DBGG FORECASTS (% OF GDP)



Source: IFI.

Tables 16 and 17 below show the main assumptions underlying the debt trajectories and the complete forecasts (baseline, optimistic and pessimistic scenarios).

TABLE 16. MAIN MACRO-FISCAL ASSUMPTIONS FOR THE DEBT SCENARIOS - AVERAGE 2020 TO 2030

	Baseline						
Scenario review edition	**Nov/19**	**Nov/20**	**Feb/21**	**May/21**	**Jun/21**	**Oct/21**	**Dec/21**
Primary balance (R$ billion)	33.7	-197.5	-154.6	-129.0	-49.8	-70.4	-34.8
GDP at current prices (R$ billion)	10,626	9,988	10,282	10,533	10,933	11,275	11,450
GDP at constant prices (%)	2.3%	1.7%	1.8%	1.8%	1.9%	1.8%	1.7%
Real interest rate (%)	3.0%	2.0%	2.3%	2.4%	2.4%	2.6%	3.3%

	Optimistic						
Scenario review edition	**Nov/19**	**Nov/20**	**Feb/21**	**May/21**	**Jun/21**	**Oct/21**	**Dec/21**
Primary balance (R$ billion)	176.1	-42.5	42.2	17.8	71.5	45.5	76.3
GDP at current prices (R$ billion)	11,141	10,594	10,746	11,030	11,521	11,712	11,863
GDP at constant prices (%)	3.3%	2.8%	2.8%	2.8%	3.0%	2.8%	2.6%
Real interest rate (%)	2.2%	1.7%	1.9%	1.9%	1.9%	2.0%	2.4%

	Pessimistic						
Scenario review edition	**Nov/19**	**Nov/20**	**Feb/21**	**May/21**	**Jun/21**	**Oct/21**	**Dec/21**
Primary balance (R$ billion)	17	-340.3	-337.2	-299.0	-156.7	-184.5	-261.6
GDP at current prices (R$ billion)	10,861	9,944	10,181	10,550	10,879	11,363	11,426
GDP at constant prices (%)	1.3%	0.8%	0.9%	0.9%	1.0%	1.0%	0.9%
Real interest rate (%)	4.6%	3.9%	3.5%	3.6%	3.6%	3.9%	4.5%

Source: IFI.

TABLE 17. PROJECTIONS FOR DEBT-TO-GDP RATIO UNTIL 2030

	Baseline		Optimistic		Pessimistic	
	Oct/21	Dec/21	Oct/21	Dec/21	Oct/21	Dec/21
2017	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%
2018	75.3%	75.3%	75.3%	75.3%	75.3%	75.3%
2019	74.3%	74.4%	74.3%	74.4%	74.3%	74.4%
2020	88.8%	88.6%	88.8%	88.6%	88.8%	88.6%
2021	83.3%	82.1%	83.1%	81.6%	83.4%	82.5%
2022	84.8%	84.8%	82.7%	82.9%	87.2%	87.1%
2023	85.9%	86.6%	82.0%	83.0%	91.1%	91.3%
2024	86.1%	87.4%	80.2%	81.6%	94.8%	95.3%
2025	86.2%	87.9%	78.1%	79.9%	98.7%	100.0%
2026	86.2%	88.5%	75.7%	78.1%	102.5%	105.4%
2027	86.3%	88.7%	73.2%	75.8%	106.7%	111.4%
2028	86.5%	88.8%	70.5%	73.0%	111.4%	118.1%
2029	86.9%	88.6%	67.7%	69.6%	116.5%	125.4%
2030	87.3%	88.3%	64.9%	65.9%	122.2%	133.4%

Source: IFI. In the column Dec/21, the data already contemplate the change of GDP presented by IBGE when the quarterly accounts were released.

Monetary policy dynamics and nominal GDP have affected the debt forecast for 2021. Selic rate and GDP affected the current Debt-to-GDP ratio projection for 2021 in the baseline scenario. The Selic rate was projected at 8.25% per year in the October RAF and has risen to 9.25%. The estimated nominal GDP rose from R$ 8,600 billion to R$ 8,684.3 this year.

However, the primary balance was the main vector behind the projection improvement in the baseline scenario, from 83.3% to 82.1%. The primary balance of the consolidated public sector (central government, regional governments, and state-owned companies) was estimated at -R$ 75.3 billion for 2021. Nevertheless, the regional government's surplus and the federal tax collection dynamics led to a change in the projected surplus of R$ 12.4 billion for the current year.

Improvement in 2021 hides a structural fiscal problem. The Debt-to-GDP ratio will end in 2021 at 82.1%, well above the 74.4% of GDP observed at the end of 2019. Even though the most pessimistic projections have not been confirmed, the factor behind this better performance is high inflation. The consequence of this scenario is the rise in interest rates and, consequently, in the average cost of debt. That is why the DBGG trajectory is one of growth, both in the baseline and pessimistic scenarios. In the second case, it is even more significant.

The average real interest rate from 2020 to 2030 will be 3.3% per year in the baseline scenario. In the pessimistic scenario, 4.5%. In 2022, particularly, the period for which the IFI projects an increase in debt to 84.8% of GDP, real interest rates will be around 3% in the base scenario, while the pessimistic scenario contemplates 4.2%, always from the so-called ex-ante real interest point of view. High real interest rates make the task of stabilizing the Debt-to-GDP ratio difficult, requiring a greater degree of primary effort.

The public accounts structural challenge continues to guarantee a less uncertain trajectory for the public debt. The recent changes in the spending ceiling, embodied in the so-called court-ordered debts PEC, have worsened expectations and explain, to a certain extent, the medium-term market interest rates deterioration, especially for 2022. Next year, the lower economic growth will affect the tax collection dynamics and, therefore, the primary balance.

The primary surplus required to stabilize the debt in the medium term could reach 2.6% of GDP. Considering real interest rates around 3% per year and average real economic growth around 2% per year, a debt stabilization of around 85% of GDP would require a consolidated public sector primary surplus of 0.9% of GDP. Considered less benign parameters, with interest rates at 4.0% and real economic growth at 1%, the primary effort required would be 2.6% of GDP. Given the market projections, most of which are below 1% for 2022, the difficulty in recovering growth indicates that the Debt-to-GDP ratio has a slight chance of remaining stable or decreasing next year. The challenge is to restructure the public accounts with a medium-term horizon.

In 2022, the IFI projects a primary deficit of 0.6% of GDP after the temporary surplus already explained for 2021. The tendency is that regional governments will use part of the positive balances accumulated in 2021 to increase spending next year. In the central government, on the other hand, tax collection - according to Special Study no. 16, published by the IFI (already referenced in the Fiscal Scenarios section) - should not grow above GDP. The medium-term revenue-GDP elasticity is around unity. Also, central government spending will be pressured by the change in the ceiling and the court-ordered debts regime, even though extraordinary expenditures in 2021 tend to be strongly reduced with the control of the pandemic crisis.

Pessimistic scenario likelihood increases in the context of fiscal uncertainty. The pessimistic scenario exacerbates the set of downside risks, as seen in Figure 25. Recent decisions in the field of fiscal policy - limit to court-ordered debts payment and the spending ceiling rule change - reinforce its probability. For now, we understand that the way out of the crisis will combine low growth, high-interest rates, and still persistent inflation. In this sense (without the inflation contribution), the rebalancing of public accounts will be on the national agenda during the election year.

The nominal result of the consolidated public sector will worsen in 2022. Table 18 indicates the persistence of significant nominal deficits after the improvement in 2021. The interest account, which stood at 4.2% of GDP in 2020, is expected to close 2021 at 5.7% of GDP. For 2022, the Selic and the implicit rate increase could lead to an interest of 7.4% of GDP, with a nominal deficit of 8.1% of GDP in the consolidated public sector. Table 17 displays the optimistic and pessimistic scenario forecasts.

TABLE 18. NOMINAL RESULT OF THE CONSOLIDATED PUBLIC SECTOR (% OF GDP)

	Baseline			Optimistic			Pessimistic		
	Nominal result	Primary balance	Interest	Nominal result	Primary balance	Interest	Nominal result	Primary balance	Interest
2018	-6.96%	-1.55%	5.41%	-6.96%	-1.55%	5.41%	-6.96%	-1.55%	5.41%
2019	-5.81%	-0.84%	4.97%	-5.81%	-0.84%	4.97%	-5.81%	-0.84%	4.97%
2020	-13.60%	-9.41%	4.18%	-13.60%	-9.41%	4.18%	-13.60%	-9.41%	4.18%
2021	-5.56%	0.14%	5.71%	-5.19%	0.27%	5.46%	-5.92%	0.03%	5.95%
2022	-8.07%	-0.64%	7.43%	-6.91%	-0.36%	6.55%	-9.78%	-1.40%	8.39%
2023	-6.29%	-0.45%	5.83%	-4.49%	0.04%	4.53%	-8.86%	-1.24%	7.62%
2024	-4.68%	-0.29%	4.39%	-2.85%	0.37%	3.23%	-8.19%	-1.19%	7.00%
2025	-4.53%	-0.05%	4.48%	-2.64%	0.74%	3.38%	-9.07%	-1.48%	7.59%
2026	-4.60%	0.14%	4.74%	-2.48%	1.04%	3.53%	-10.18%	-1.87%	8.31%
2027	-4.38%	0.45%	4.83%	-1.98%	1.46%	3.44%	-11.18%	-2.12%	9.06%
2028	-4.27%	0.64%	4.91%	-1.41%	1.91%	3.32%	-12.21%	-2.37%	9.84%
2029	-4.09%	0.88%	4.97%	-0.80%	2.36%	3.16%	-13.25%	-2.59%	10.67%
2030	-3.95%	1.06%	5.02%	-0.19%	2.78%	2.98%	-14.44%	-2.87%	11.57%
Average – 2020-2030	**-5.82%**	**-0.68%**	**5.14%**	**-3.87%**	**0.11%**	**3.98%**	**-10.61%**	**-2.41%**	**8.20%**

Source: IFI.

Fiscal tables

TABLE 19. 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	21.9	21.4	21.5	21.3	21.2	21	20.9	20.7	20.6	20.4
Transfers to States and Municipalities by Revenue Sharing	3.5	4	4.1	4.1	4.1	4.1	4.1	4	4	3.9	3.9
Net Revenue	16.1	17.9	17.3	17.3	17.2	17.1	17	16.8	16.7	16.6	16.5
Primary Expenditure	26.1	18.9	18.4	17.9	17.4	16.9	16.5	16	15.7	15.3	15
Mandatory Expenditure	24.6	17.3	16.7	16.4	16.1	15.7	15.5	15.1	14.8	14.5	14.1
Social security benefits	8.9	8.2	8.2	8.1	7.9	7.7	7.5	7.2	7	6.8	6.6
Personnel expenses and social contribution	4.3	3.8	3.6	3.5	3.5	3.4	3.3	3.3	3.2	3.1	3.1
Salary allowance and unemployment insurance	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	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	0.4	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	0.9
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.1	0	0	0	0	0	0	0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.2	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	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
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	8.7	3.2	2.6	2.4	2.3	2.2	2.2	2.1	2.1	2	1.9
without Flow Control	6.9	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	1.6	2.3	2.2	2.2	2.1	2	2	1.9	1.9	1.8
Of which Bolsa Família [Family Grant]	0.3	0.3	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Discretionary of the Executive Branch	1.4	1.6	1.6	1.5	1.3	1.2	1	0.9	0.9	0.8	0.8
Primary Balance	-10	-1	-1.1	-0.6	-0.2	0.2	0.5	0.8	1.1	1.4	1.6
Note:											
Spending on Covid-19	7	1.4	0.2	0	0	0	0	0	0	0	0
Nominal GDP (R$ billion)	**7,467.60**	**8,684.30**	**9,448.10**	**10,119.50**	**10,730.40**	**11,382.30**	**12,069.40**	**12,799.70**	**13,574.80**	**14,399.50**	**15,278.00**

TABLE 20. 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	22	21.5	21.6	21.4	21.2	21	20.9	20.7	20.5	20.4
Transfers to States and Municipalities by Revenue Sharing	3.5	4	4.1	4.1	4.1	4.1	4.1	4	4	3.9	3.9
Net Revenue	16.1	18	17.4	17.4	17.3	17.1	17	16.9	16.7	16.6	16.5
Primary Expenditure	26.1	18.9	18.3	17.7	17.1	16.5	16	15.4	14.8	14.3	13.7
Mandatory Expenditure	24.6	17.3	16.7	16.1	15.6	15.1	14.8	14.3	13.9	13.4	13
Social security benefits	8.9	8.1	8.2	8	7.8	7.5	7.2	7	6.7	6.5	6.3
Personnel expenses and social contribution	4.3	3.8	3.5	3.4	3.3	3.2	3	2.9	2.8	2.7	2.6
Salary allowance and unemployment insurance	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.5	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	0.1
Unemployment Insurance	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
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	0.1	0.1	0	0	0	0	0	0	0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.2	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	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
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	8.7	3.2	2.6	2.3	2.3	2.2	2.1	2	1.9	1.8	1.8
without Flow Control	6.9	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	1.6	2.3	2.2	2.1	2	2	1.9	1.8	1.7	1.7
Of which Bolsa Família [Family Grant]	0.3	0.3	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Discretionary of the Executive Branch	1.4	1.6	1.6	1.5	1.4	1.3	1.2	1.1	1	0.9	0.7
Primary Balance	-10	-0.9	-0.9	-0.2	0.2	0.7	1	1.4	1.9	2.3	2.8
Note:											
Spending on Covid-19	7	1.4	0.2	0	0	0	0	0	0	0	0
Nominal GDP (R$ billion)	**7,467.60**	**8,702.90**	**9,503.60**	**10,185.10**	**10,879.20**	**11,644.20**	**12,472.70**	**13,368.80**	**14,340.20**	**15,394.00**	**16,530.70**

TABLE 21. 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	21.8	20.7	20.5	20.1	19.9	19.7	19.5	19.3	19.1	18.9
Transfers to States and Municipalities by Revenue Sharing	3.5	4	4	4	4	3.9	3.9	3.8	3.8	3.7	3.6
Net Revenue	16.1	17.9	16.7	16.5	16.1	16	15.8	15.7	15.5	15.4	15.3
Primary Expenditure	26.1	18.9	18.4	17.7	17.1	17	17.1	17.1	17.1	17	17.1
Mandatory Expenditure	24.6	17.3	16.8	16.5	16.4	16.4	16.4	16.5	16.5	16.4	16.5
Social security benefits	8.9	8.2	8.3	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Personnel expenses and social contribution	4.3	3.8	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.8	3.8
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	0.4	0.3
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	0.9
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.1	0	0	0	0	0	0	0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.2	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	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
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	8.7	3.2	2.6	2.4	2.3	2.2	2.2	2.1	2.1	2	1.9
without Flow Control	6.9	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	1.6	2.3	2.2	2.1	2.1	2	2	1.9	1.9	1.8
Of which Bolsa Família [Family Grant]	0.3	0.3	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Discretionary of the Executive Branch	1.4	1.6	1.6	1.2	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Primary Balance	-10	-1	-1.7	-1.3	-1	-1.1	-1.3	-1.4	-1.6	-1.6	-1.8
Note:											
Spending on Covid-19	7	1.4	0.2	0	0	0	0	0	0	0	0
Nominal GDP (R$ billion)	**7,467.60**	**8,678.20**	**9,418.40**	**10,085.80**	**10,697.40**	**11,342.20**	**12,033.30**	**12,769.30**	**13,551.20**	**14,381.20**	**15,255.90**

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	1.22	-3.88	4.63	0.51	2.02	2.02
Nominal GDP (BRL billion)	5,779	5,996	6,269	6,585	7,004	7,389	7,468	8,684	9,448	10,119	10,730
IPCA – accum. (% in the year)	6.41	10.67	6.29	2.95	3.75	4.31	4.52	10.42	5.32	3.20	3.12
Exchange rate - end-of-period (BRL/USD)	2.66	3.90	3.26	3.31	3.87	4.03	5.20	5.60	5.71	5.57	5.30
Employment - growth (%)	1.32	-0.04	-2.01	0.32	1.73	2.23	-7.75	4.60	2.00	0.91	0.91
Payroll - growth (%)	3.69	-1.21	-3.37	1.99	3.29	2.73	-3.69	-1.95	0.51	2.02	2.02
Selic rate - end-of-period (% per year)	11.75	14.25	13.75	7.00	6.50	4.50	2.00	9.25	11.25	7.50	7.00
Real Interest *ex-ante* (% per year)	5.93	8.32	6.41	2.82	2.61	0.79	-0.70	4.72	2.89	3.40	3.46
Public Sector Consolidated Primary Balance (% of GDP)	-0.56	-1.86	-2.48	-1.68	-1.55	-0.84	-9.41	0.14	-0.64	-0.45	-0.29
of which Central Government	-0.41	-2.01	-2.57	-1.89	-1.72	-1.28	-10.06	-0.96	-1.12	-0.70	-0.44
Net Nominal Interest (% of GDP)	5.39	8.37	6.49	6.09	5.41	4.97	4.18	5.71	7.43	5.83	4.39
Nominal Balance (% of GDP)	-5.95	-10.22	-8.98	-7.77	-6.96	-5.81	-13.60	-5.56	-8.07	-6.29	-4.68
General Government Gross Debt (% of GDP)	56.3	65.5	69.8	73.7	75.3	74.4	88.6	82.1	84.8	86.6	87.4

ifi

Independent Fiscal Institution

/INSTITUICAOFISCALINDEPENDENTE
@IFIBrasil
@ifibrasil
/company/instituição-fiscal-independente
/instituiçãofiscalindependente
github.com/ifibrasil

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