Independent Fiscal Institution

Fiscal Follow-Up Report

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HIGHLIGHTS

- Worsening inflation expectations postpone the process of reducing the Selic rate.
- Projection for net primary revenue in 2023 was maintained at R$ 1,862.5 billion.
- Primary revenue recorded stability in the fourth quarter of 2022.
- Non-recurring factors in primary revenues totaled R$ 55.0 billion last year.
- Recurrent primary expenditure increased by 0.9 p.p. of GDP in 2022.
- IFI scenario for primary expenditure indicates a 0.7 p.p. of GDP increase in 2023 and stability in 2024.
- Gross debt is expected to reach 78.7% of GDP by the end of 2023.
- PAF 2023 foresees an increase in the participation of floating-rate securities in debt outstanding.
- Official December forecast for 2022 expenses is R$ 24.2 billion higher than the year's figure.
- Parliamentary amendments and vetoes to the LOA are the main discussions in the budget area.

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REPORT LAYOUT
COMAP/SECOM and SEFPRO/SEGRAF

Covering letter

Fiscal policy on hold

The Fiscal Follow-up Report (RAF) is the IFI's monthly conjuncture analysis and meets the purposes in art. 1 of Senate Resolution No. 42 of 2016. Through the RAF, we publish our projections for the Brazilian economy's main macroeconomic and fiscal variables.

After the first month of the year and with the Union's Budget finally sanctioned, the fiscal policy continues to be on hold. Although an adjustment plan already announced by the Ministry of Finance alleviates doubts about financing the spending expansion allowed by Constitutional Amendment 126 (formerly the Transition PEC), the future of the public accounts still needs to be defined.

After all, the current fiscal regime serves notice, and the next one will have to pave a credible path for the accounts. The signs at the moment are that sustainability will depend to a greater extent on the performance of tax collection, where the Treasury Ministry's plan is focused. But the current circumstances are not likely to favor it. The joint impulse of inflation, activity, and commodities on revenues, observed in 2021 and 2022, will not be repeated. In the section on the fiscal situation, we showed that the Union's primary revenue (as a percentage of GDP), after a period of growth, has already stabilized in the last months of last year. Besides this, the revenue potential of the measures announced by the government has yet to be discovered.

As we have often pointed out, the external scenario is one of lower growth in 2023, even in the face of the recent improvement in the IMF's forecasts for the global economy. Internally, the signs of deceleration in activity and the labor market are increasingly apparent. Under unfavorable financial conditions and the postponement of the Selic cuts cycle, the GDP forecast in 2023 remained at 0.9% but lowered from 1.6% to 1.4% in 2024.

The adverse scenario for activity and tax collection recommends investing in an agenda on the expenditure side. The measures foresee savings of R$ 25 billion through the revision of contracts and another R$ 25 billion through limiting the financial execution of the budget. The first measure, always desirable, is hindered by uncertainty about its effects. Remember that this type of saving generally focuses on discretionary spending, which totals only R$ 199 billion of the R$ 2.1 trillion forecast for 2023. The second measure still needs clarification, but the analysis of the last few years suggests that primary spending will probably be lower than forecast in the 2023 Budget. In the fiscal situation section, for example, we showed that the government's December projection for the year was R$ 24.2 billion, below the realized amount for the year.

The uncertainties in the fiscal area and the more challenging economic scenario negatively influence the dynamics of public debt. Despite the maintenance of the projections for economic growth, the expected increase in the primary deficit of the consolidated public sector in 2023 (1.3% of GDP) and the increase in the expectation of interest rates will harm the public debt dynamics for this year. We expect gross debt to rise from 73.5% of GDP in 2022 to 78.7% and 82.3% in 2023 and 2024, respectively.

The path traced for the debt shows the size of the fiscal policy challenge. The primary surplus required to keep debt stable at the 2022 level is 1.5% of GDP. We hope that future signals, particularly the definition of the new fiscal anchor, will contribute to improving the economic and fiscal scenario to promote sustainability for the public debt.

Daniel Veloso Couri
IFI Executive Director

Vilma da Conceição Pinto
IFI Director

Summary

- Despite the more apparent signs of a slowdown in activity and the labor market, and the relative improvement in the external scenario, the worsening of inflation expectations should postpone the interest rate decrease cycle. The tightening of financial conditions and the effect on aggregate demand worsens the outlook for the economy. The GDP forecasts for 2022 and 2023 remained at 3.0% and 0.9% but lowered from 1.6% to 1.4% for 2024. **(Page 6)**

- The non-recurring events on the Union's primary revenues totaled R$ 70.9 billion in 2022. Of this amount, R$ 42.0 billion influenced revenues not collected by the RFB (via concessions and participations), and R$ 27.1 billion affected revenues collected by the RFB, especially IRPJ/CSLL atypical collections. In 2021, the atypicality had been concentrated in revenues collected by the RFB (R$ 55.4 billion out of a total of R$ 74.5 billion of non-recurring events), also arising from IRPJ and CSLL. **(Page 12)**

- There are uncertainties in the future scenario for the Union's primary expenditures, especially regarding the new fiscal anchor. However, when considering the current fiscal rules and the recent changes in the structure of primary expenditures, the IFI scenarios indicate an expansion of 0.7 p.p. of GDP in 2023 (from 18.2% to 18.8% of GDP), followed by stability in 2024. **(Page 14)**

- The IFI projection for the General Government Gross Debt in 2023 has been revised from 77.8% to 78.7% of GDP. The change is due to the improvement in the projection of the implicit debt rate, which now considers monthly values. The expected debt/GDP ratio growth this year and next year, to 2022, is based on the primary deficits of the consolidated public sector projected by the IFI. The primary balance is expected to move from a surplus of 1.3% of GDP in 2022 to deficits of 1.3% and 1.1% in 2023 and 2024, respectively. **(Page 19)**

- At the end of the fiscal year 2022, it is possible to compare the official projections for primary federal expenses made by the Federal Executive Branch with the actual data. The comparison shows that already in December (through an extemporaneous evaluation), the expenditure forecast by the government for 2022 (R$ 1,826 billion) was still conservative, having been R$ 24.2 billion above the amount realized in the year (R$ 1,802 billion). **(Page 23)**

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1. MACROECONOMIC CONTEXT

1.1 Economic activity

External outlook. In the January World Economic Outlook (WEO), the International Monetary Fund (IMF) assessed that the economic perspective this year and next improved slightly since the last update in October 2022. The IMF estimates that global GDP growth will slow from 3.4% in 2022 to 2.9% in 2023, reflecting the impacts of the war in Ukraine and higher interest rates by central banks to fight inflation. In 2022 and 2023, the growth rates are 0.2 p.p. higher than previously forecast. For 2024, the projection is for an additional advance of 3.1% (-0.1 p.p.), with the gradual dissipation of the war effects and the deceleration of inflation. Table 1 shows IMF forecasts for GDP variation in volume for advanced and emerging economies and Brazil's main trading partners.

TABLE 1. REAL GDP (ANNUAL PERCENTAGE CHANGE)

	2021	2022			2023			2024		
		Oct	Jan		Oct	Jan		Oct	Jan	
World output	6.2	3.2	3.4	▲	2.7	2.9	▲	3.2	3.1	▼
Advanced Economies	5.4	2.4	2.7	▲	1.1	1.2	▲	1.6	1.4	▼
Emerging and Developing	6.7	3.7	3.9	▲	3.7	4	▲	4.3	4.2	▼
China	8.4	3.2	3	▼	4.4	5.2	▲	4.5	4.5	=
United States	5.9	1.6	2	▲	1	1.4	▲	1.2	1	▼
Euro Area	5.3	3.1	3.5	▲	0.5	0.7	▲	1.8	1.6	▼

Source: IMF (World Economic Outlook Database). Prepared by IFI.

The highlight is the revision of China's GDP growth in 2023. Chinese growth is expected to advance from 3.0% in 2022 to 5.2% in 2023 – an increase of 0.8 percentage points (p.p.) to the October projection due to the reopening and normalization of production activity effects, with the recent abandonment of the Covid-zero policy – migrating to 4.5% in 2024 (unchanged).

Meanwhile, growth in the United States is expected to decelerate from 2.0% in 2022 to 1.4% in 2023 and 1.0% in 2024. The outlook for 2023 is 0.4p.p. higher than the variation presented in October due to the resilience of domestic demand. The downward revision in growth for 2024 stems from the higher Fed Funds rate.

In the Euro Area, growth is expected to slow from 3.5% in 2022 to 0.7% in 2023, advancing to 1.6% in 2024. The growth forecast for 2023 was revised upwards by 0.2p.p. due to a higher carry-over from the previous year (resilience of consumption and investment at the end of last year) and lower energy prices, made possible by new sources of natural gas supply and less severe winter.

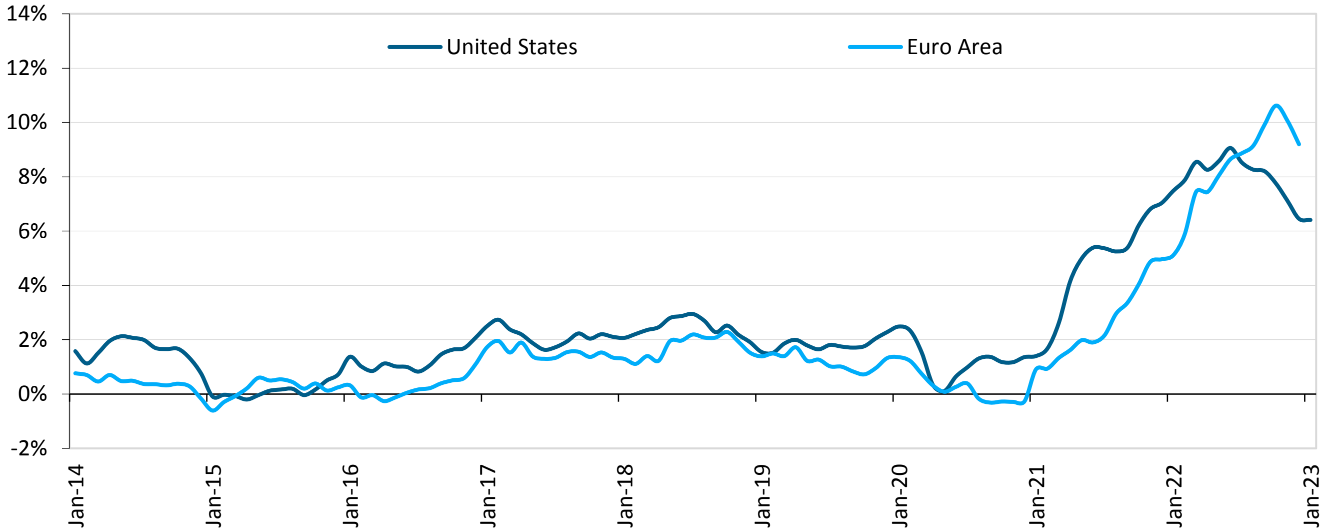
Interest rates continue to rise in the United States and Europe. In its last meeting, the Federal Reserve raised the base interest rate by 25 basis points (bps) to 4.75% p.a., reinforcing its commitment to the convergence of inflation to the 2.0% target. Despite the recent moderation in consumer inflation, interest rates will likely rise in the next two meetings (March and May) due to tight labor market conditions, marked by solid job creation, low unemployment, and wage pressure. In the accumulated twelve-month period, consumer inflation went from 9.1% in June (peak) to 6.4% in January, while core inflation[1] decreased from 5.9% to 5.5% in the same comparison.

The European Central Bank, in turn, raised the base interest rate by 50 bps to 2.5% p.a. and indicated the intention of another increase of the same magnitude at the next meeting (March), given the resilience of inflation, even with the relief

[1] Core inflation is a measure that seeks to remove the influence of more volatile items from total inflation, showing the price trend.

in energy prices. Consumer inflation went from 10.6% in October (peak) to 9.2% in December, while core inflation remains under pressure, rising from 5.0% to 5.2% in the same comparison.

FIGURE 1. CONSUMER PRICES



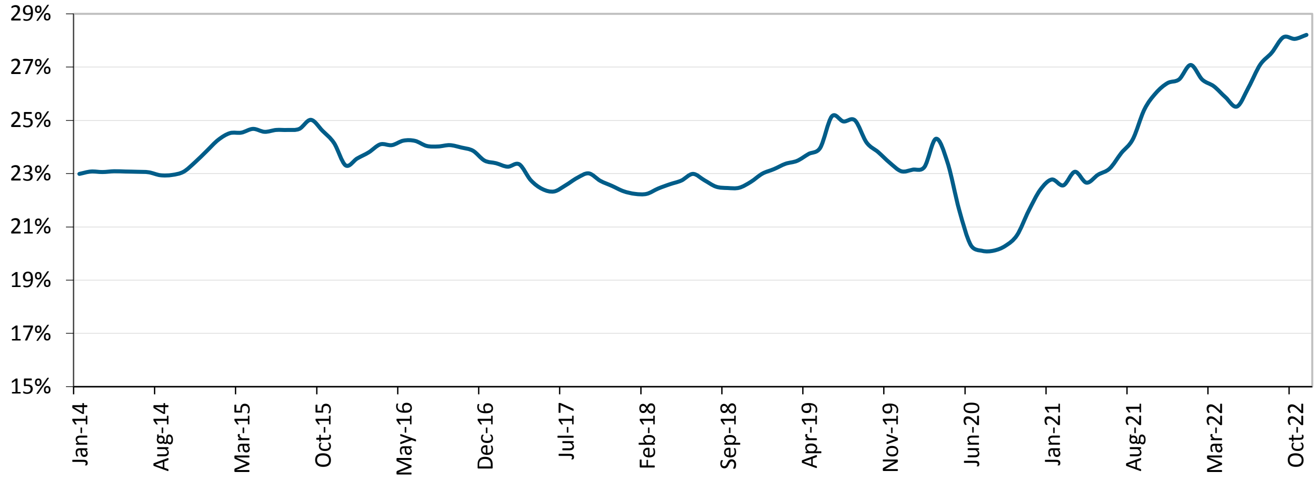
Source: Federal Reserve Economic Data. Prepared by:IFI.

Domestic scenario. The expectation for the domestic GDP in the fourth quarter (-0.4% compared to the immediate previous period, after seasonal adjustment) is compatible with the deceleration of the economic activity and labor market indicators available in November and December. Data for January presented a still negative picture, primarily the reduction in the industry installed capacity usage level, the confidence indicators (entrepreneurs and consumers), and the increase (for the fourth consecutive month) in the economic uncertainty index – all published by FGV.

The IFI's projection for the GDP is 0.9% in 2023 and 1.4% in 2024, decelerating to 2022 (3.0%). The slowdown in the pace of growth is explained, in large part, by the global economy moderation, the tightening of financial conditions, and the dissipation of the effects of the reopening of the economy and the rise in commodity prices and the terms of trade (vectors that helped boost economic activity last year). On the other hand, the expansion of overall earnings, sustained mainly by the increase in income transfers, should support household consumption. Despite the high uncertainty regarding growth in 2024, dependent on the direction of economic policy, we reduced the projection from 1.6% to 1.4% due to the adjustment promoted in the level of the Selic (reaching 13.00% p.a. and 10.00% p.a. at the end of 2023 and 2024).

The better external scenario's perception, in a context of more moderate inflation and reduced probability of recession in the American and European economies, favors, to some extent, the performance of exports of goods and services. However, tightening financial conditions restricts consumption in a scenario already marked by the high level of indebtedness and income commitment with interest payments (Figure 2).

FIGURE 2. INCOME COMMITMENT WITH INTEREST PAYMENTS



Source: Central Bank. Prepared by:IFI.

Table 2 below shows the projections for GDP and the components of aggregate demand.

TABLE 2. GDP VOLUME GROWTH FORECAST

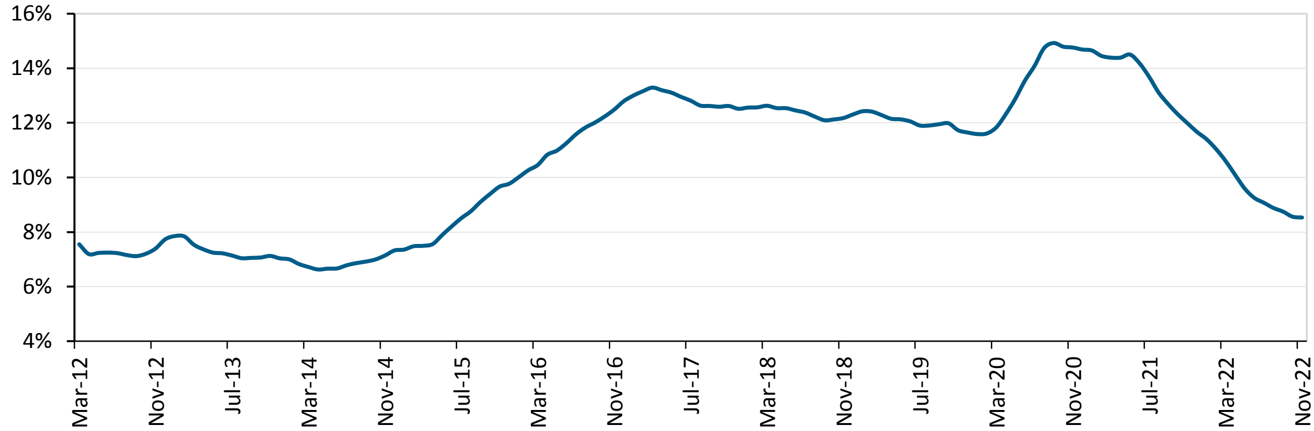
	2021	2022	2023	2024
Volume GDP and demand-side components	**5.0%**	**3.0%**	**0.9%**	**1.4%**
Household consumption	3.7%	3.9%	0.9%	1.5%
Government consumption	3.5%	1.4%	1.0%	0.8%
Gross fixed capital formation	16.5%	1.0%	1.5%	1.0%
Exports	5.9%	4.0%	2.1%	3.0%
Imports	12.0%	2.0%	3.0%	2.5%
Contributions to the GDP volume growth (pp)				
Domestic demand	**5.9**	**2.6**	**1.1**	**1.3**
Household consumption	2.4	2.5	0.7	1.0
Government consumption	0.7	0.3	0.2	0.2
Investment (GFCF and changes in inventories)	2.8	-0.2	0.3	0.2
Net exports	**-0.9**	**0.4**	**-0.2**	**0.1**

Source IBGE. Prepared by: IFI.

1.2 Labor market

The data from the Continuous National Household Sample Survey (PNAD Contínua – IBGE) for the quarter that ended in November showed signs of weakening in the labor market. Considering seasonally adjusted data, the unemployment rate was practically stable between October and November (around 8.5%), influenced by declines in the employed population (-0.2%) and in the labor force (-0.2%).

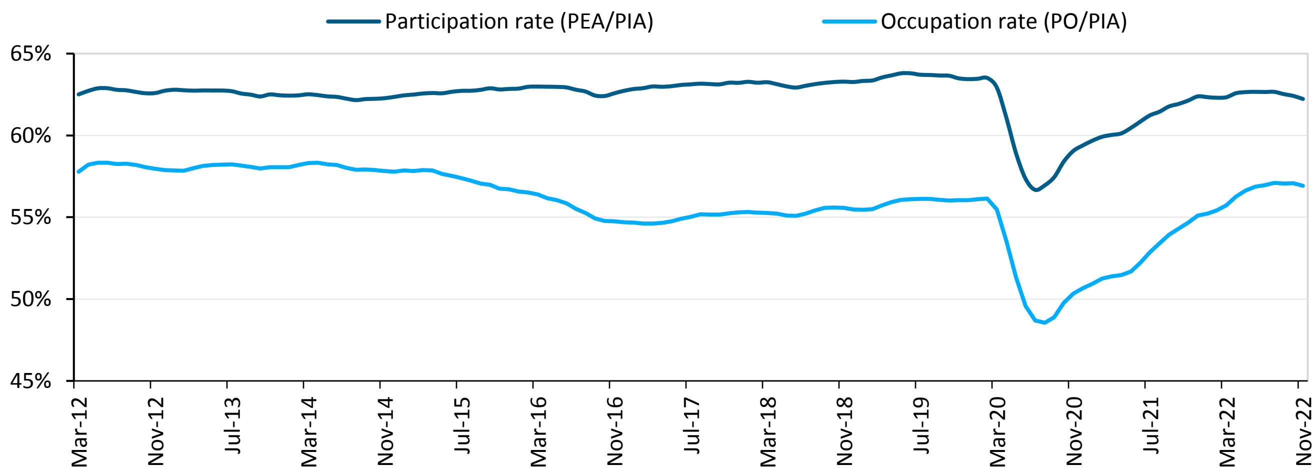
FIGURE 3. UNEMPLOYMENT RATE (% TOTAL LABOR FORCE)



Source: IBGE and IFI. Prepared by: IFI.

Accompanying the decline in the labor force, the participation rate (ratio between the number of people in the labor force and the working-age population), which had been hovering around 62.5% since the beginning of 2022 (Figure 4), dropped to 62.2% in November (seasonally adjusted). Even with the reopening after the pandemic and the recent expansion in labor income, the labor participation rate is still 1.3 p.p. below the February 2020 level. The reduction in the hiring pace negatively impacted the occupation level (ratio between the employed population and the working-age population), which decreased from 57.1% to 56.9% between October and November.

FIGURE 4. PARTICIPATION RATE AND OCCUPATION RATE



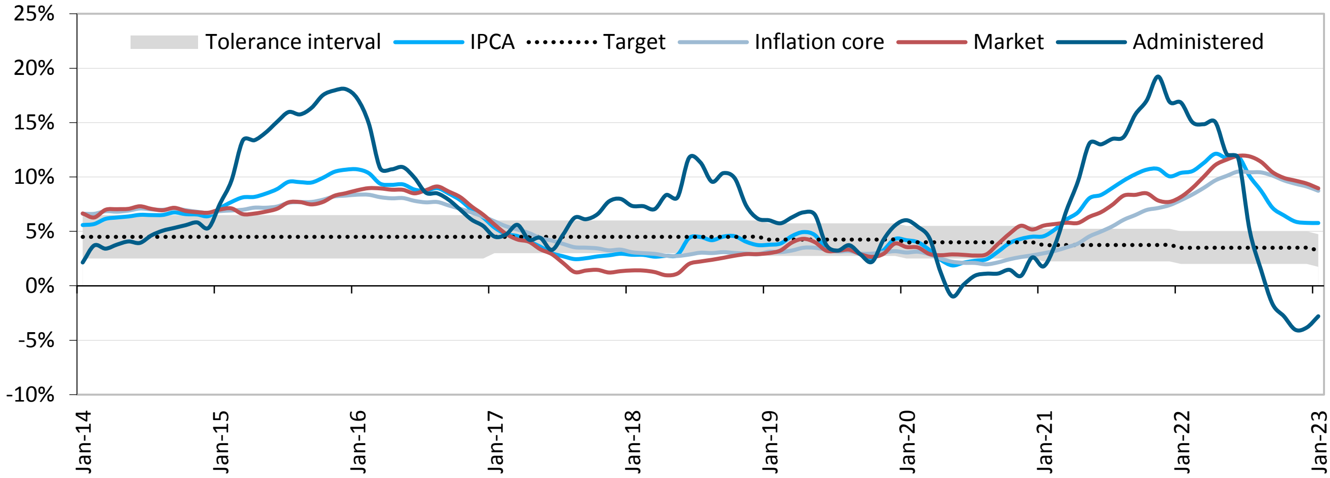
Source: IBGE. Prepared by: IFI.

The labor market should continue to slow down in the coming months, following the expected path of economic activity. The unemployment rate is expected to rise from 9.3% in 2022 to 9.5% and 9.6% in 2023 and 2024. The overall earnings (labor, social security, and social protection) are expected to rise by 2.4% in 2023 and 2.0% in 2024 (up from 5.5% in 2022).

1.3 Inflation and monetary policy

Consumer inflation in January, measured by the IPCA, was 0.53%, below the rate registered in the previous month (0.62%) and below the market consensus – Valor PRO (0.57%). The accumulated variation over 12 months was stable at 5.8%, remaining above the upper limit of the tolerance interval of 1.5 p.p. around the inflation target (3.5%) established by the National Monetary Council (CMN) for 2022. The average of the inflation cores monitored by the Central Bank decelerated from 9.4% in December to 9.0% in January (Figure 5), moving toward the target.

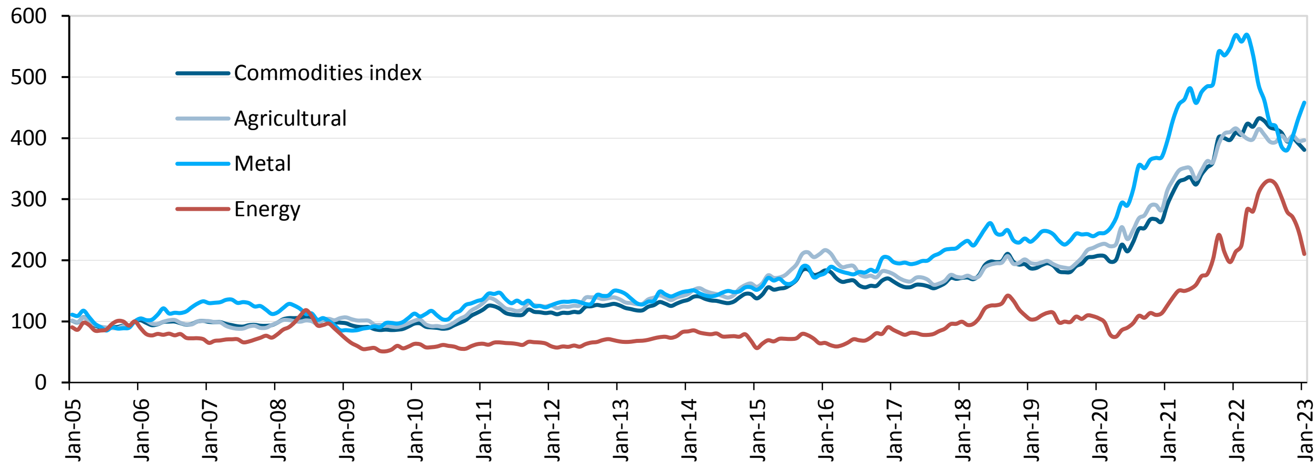
FIGURE 5. IPCA (% 12 MONTHS)



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

The projection for the IPCA in 2023 was raised from 5.3% to 5.6%. Despite the expectation of a slowdown in free prices, given the tendency for commodity prices to fall in real terms (Figure 6) and the opening of the output gap – returning to negative territory due to the more pressured real interest rate – administered prices will be impacted by the readjustment of prices promoted by Petrobras at the end of January. For 2024, the inflation projection rose marginally from 3.7% to 3.8%.

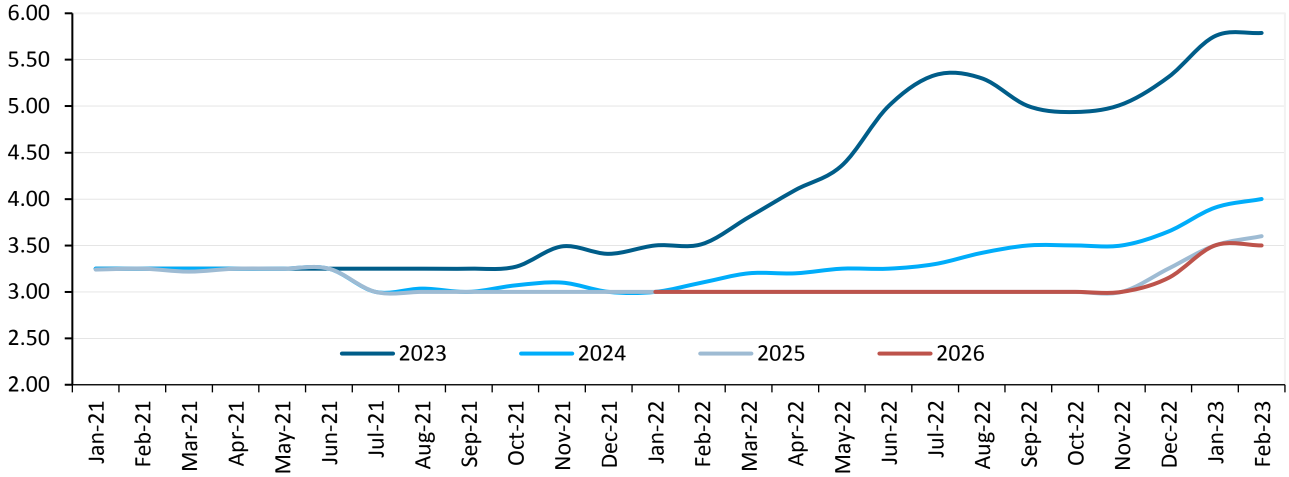
FIGURE 6. COMMODITIES INDEX (IN R$)



Source: Central Bank. Prepared by: IFI.

The Monetary Policy Committee (Copom) maintained the base interest rate at 13.75% p.a. in February. Concerned with the uncertainty of the fiscal situation and the increase in inflation expectations (Figure 7), Copom showed in the minutes of the February meeting that the introduction of a more prolonged monetary tightening compared to the reference scenario would make it possible for next year's inflation to converge to the 3.0% target.

FIGURE 7. FOCUS SURVEY- IPCA



Source: Central Bank: Prepared by: IFI.

Copom's inflation projections in the reference scenario (which include the interest rate trajectory extracted from the Focus survey and an exchange rate starting at R$/US$ 5.15) were adjusted to 5.6% in 2023 and 3.4% in 2024, above the assessment presented in December (5.0% and 3.0%), reflecting, mainly, the increase in inflation expectations from the Focus survey (used in the Central Bank's forecast models). In an alternative scenario, assuming stable interest rates at 13.75% p.a. throughout the relevant horizon, the inflation projections would move towards 5.5% in 2023 and 2.8% in 2024.

The increase in projections for the IPCA over the relevant horizon (which includes the years 2023 and 2024) limits the existing space for the reduction of interest rates made possible by the deceleration in the level of activity, labor market conditions, and underlying inflation. The inertial effect of inflation, uncertainties related to the sustainability of the public debt trajectory (in a scenario of fiscal stimulus and lack of definition regarding the design of the new fiscal framework), and the possibility of altering the inflation target already defined are elements that may be contributing to the distancing of expectations from the target over the longer terms. The target has gradually decreased to 3.25% in 2023 and 3.0% in 2024, after remaining at 4.5% between 2005 and 2018.

Given the signals issued by the Central Bank in the minutes, the IFI adjusted the Selic rate outlook in 2023 (from 12.00% p.a. to 13.00% p.a.) and 2024 (from 9.50% p.a. to 10.00% p.a.). Table 3 summarizes the projections for the main economic variables in 2022, 2023, and 2024.

TABLE 3. MACROECONOMIC FORECASTS

	2021	2022	2023	2024
Nominal GDP (R$ billion)	8,899	9,925	10,521	11,201
Nominal GDP (%)	16.9	11.5	6.0	6.5
GDP – real growth (%)	5.0	3.0	0.9	1.4
GDP PRICE DEFLATOR (%)	11.4	8.3	5.1	5.0
IPCA (%)	10.1	5.8	5.6	3.8
Unemployment rate (average)	13.2	9.3	9.5	9.6
Exchange rate (R$/US$ - end-of-period)	5.58	5.22	5.24	5.30
Selic (% - end-of-period)	9.25	13.75	13.00	10.00

Source: IBGE and Central Bank. Forecasts: IFI.

2. FISCAL SCENARIO

2.1 Primary revenues and transfers

Data collected for January influenced the revision in the projection for federal collection in 2023. The IFI's forecast for the central government's total primary revenue, which includes the National Treasury, the Central Bank, and the INSS, was updated to R$ 2,315.4 billion in 2023, from R$ 2,308.7 billion expected in January. For 2024, expectations for total collections rose from R$ 2,479.4 billion in January to R$ 2,484.6 billion in February. The new projections reflect the upward revisions in revenues collected by the RFB and the net social security revenues, based on data collected by the IFI in the Senate's Siga Brasil portal, updated to January 2023[2] (Table 4).

TABLE 4. CENTRAL GOVERNMENT'S PRIMARY REVENUE ESTIMATES – BASELINE 2023 AND 2024 (R$ BILLION)

Baseline	2023			2024		
	Jan/23 forecast	Feb/23 forecast	Δ	Jan/23 forecast	Feb/23 forecast	Δ
1. Total primary revenue	**2,308.7**	**2,315.4**	**6.6**	**2,479.4**	**2,484.6**	**5.3**
Revenues collected by the RFB	1,438.4	1,443.2	4.8	1,521.4	1,522.0	0.5
Net social security (RGPS	567.0	571.7	4.8	604.2	608.6	4.4
Revenues not collected by the RFB	303.3	300.4	-2.9	353.7	354.1	0.3
2. Transfers by revenue sharing	**446.2**	**452.9**	**6.6**	**466.3**	**471.1**	**4.8**
3. Net revenue [1-2]	**1,862.5**	**1,862.5**	**0.0**	**2,013.1**	**2,013.6**	**0.5**

Source: IFI.

By comparison, the median of the total revenues projections in the Fiscal Prism Report (February 2023)[3] is R$ 2,324.5 billion in 2023 and R$ 2,454.1 billion in 2024. The average of the podium (most accurate economists) is R$ 2,305.4 billion this year and R$ 2,463.0 billion next year.

[2] The IFI will no longer analyze the data collected based on anticipated central government revenues and expenditures in the Portal Siga Brasil, doing this analysis every month in the IFI's Commentary, to be published after the RAF.
[3] Available at: https://www.gov.br/fazenda/pt-br/centrais-de-conteudos/publicacoes/relatorios-do-prisma-fiscal/relatorio-mensal/2023.

January collection figures anticipated by the IFI came in higher than projected. According to the consultation made by IFI to Siga Brasil, in January, there was an upward deviation of R$ 4.2 billion in revenues collected by the RFB and another R$ 4.9 billion in RGPS net collection compared to previously projected figures. In revenues not managed by the RFB, the anticipation of the January collection showed an amount of R$ 3.2 billion lower than projected by the IFI last month.

The net revenues forecast for 2023 remains at R$ 1,862.5 billion. Even though the total primary revenue forecast in 2023 and 2024 increased, expectations for the central government's net revenue remained practically unchanged due to the upward shift in the projected values for transfers by revenue sharing (Table 4). The IFI forecasts net primary revenue of R$ 1,862.5 billion in 2023 and R$ 2,013.6 billion next year. The median of the February Fiscal Prism projections is R$ 1,905.6 billion in 2023 and R$ 2,034.3 billion in 2024.

At the end of January, the National Treasury Secretariat (STN) released the Central Government Primary Balance (RTN) with figures for December 2022. The central government's total revenue was R$ 2,313.3 billion last year, a real increase of 9.7% compared to 2021. Net revenue totaled R$ 1,856.1 billion (7.7% over 2021).

IRPJ, CSLL, RGPS, and some revenues not collected by the RFB sustained the collection in 2022. As discussed in the January edition of RAF, tax collection last year was driven by collections of Income Tax (IR), in particular Corporate Income Tax (IRPJ) and Withheld Income Tax (IRRF), Social Contribution on Net Corporate Profits (CSLL), net social security revenues, and some revenues not collected by the RFB, such as concessions and permissions, dividends, and exploitation of natural resources.

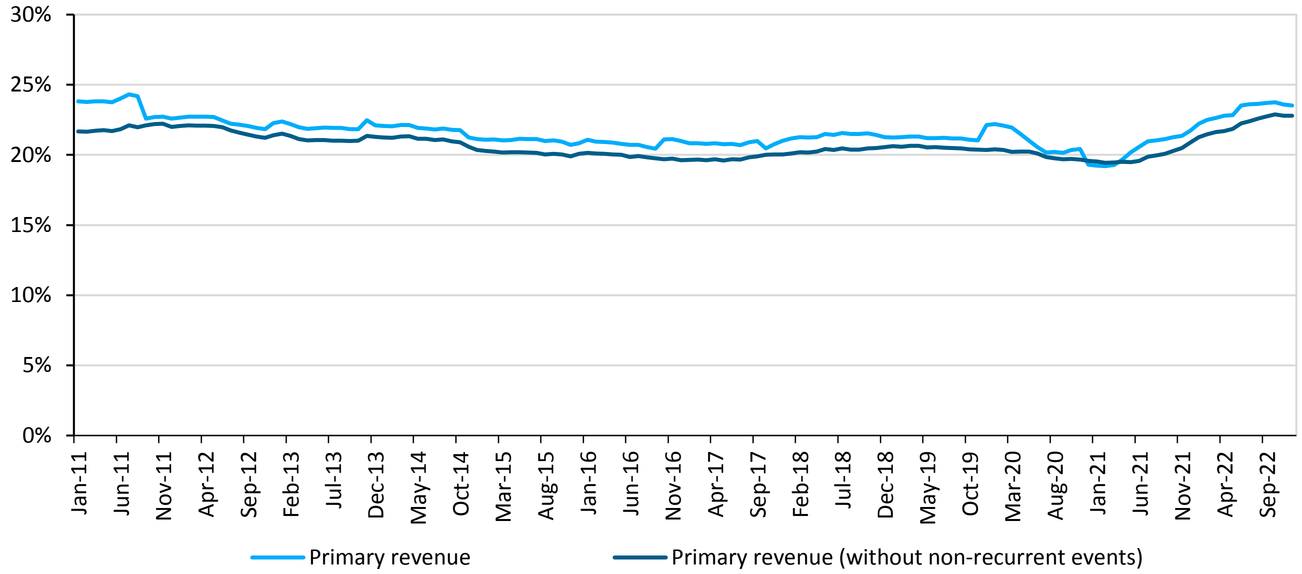
According to the RFB, IRPJ and CSLL will total R$ 480.1 billion in 2022, compared to R$ 373.2 billion collected the previous year. Of these amounts, R$ 42.0 billion of the collections were due to atypical factors (8.7% of the total IRPJ/CSLL) last year, compared to R$ 40.0 billion in 2021 (10.7% of the total).

Fuel, oil, and natural gas extraction sectors drove IRPJ/CSLL collections. Also, according to the RFB, the growth in the collection of IRPJ/CSLL was spread among the sectors of economic activity. However, the most significant increases were observed in fuels, oil and natural gas extraction, office services, administrative support and other services, and retail and wholesale trade[4]. There was an increase in all forms of profit calculation, especially in the collection of monthly estimates, a real increase of 16.9%, and in the adjustment statement (events that occurred in 2021), an increase of 82.1%.

Conventional and recurrent primary revenues registered a high level of accommodation in the fourth quarter of 2022. Despite the relatively high amount of atypical (or non-recurring) factors for the central government's primary revenue in the last two years, it is possible to notice an accommodation of the collection at a relatively high level in the previous quarter of 2022. Figure 8 shows the evolution, since 2011, of the conventional and recurrent primary revenues of the central government accumulated over 12 months as a proportion of GDP. For comparison purposes, the recurring primary revenue went from 19.5% of GDP in January 2021 to 22.8% in December 2022, an increase of 3.3 p.p. However, the indicator remained relatively stable between October (22.9% of GDP) and December, possibly related to the slowdown in domestic economic activity.

[4] This information is present in the December 2022 Federal Revenue Report. Available at: https://www.gov.br/receitafederal/pt-br/centrais-de-conteudo/publicacoes/relatorios/arrecadacao.

FIGURE 8. CONVENTIONAL AND RECURRENT PRIMARY REVENUE (12 MONTHS - % OF GDP)



Source: STN. Prepared by: IFI.

Non-recurring events were concentrated in revenues not collected by the RFB in 2022. Table 5 shows the values of conventional and non-recurring primary revenue in the last two years. Although the amounts of atypicality in revenues were equivalent, on the order of R$ 70 billion, the composition was different in the two years. Of the R$ 74.5 billion in non-recurring revenues calculated in 2021 by the IFI methodology, R$ 55.4 billion came from revenues collected by the RFB, of which R$ 40.0 billion came from atypical IRPJ and CSLL collections, and another R$ 9.4 billion from fiscal recovery programs (Refis). In 2022, of the R$ 70.9 billion in non-recurring revenues, R$ 27.1 billion were from atypicality raised in revenues collected by the RFB and R$ 42.0 billion from atypical events on revenues not managed by the RFB arising from concessions and grants from the Federal Government.

TABLE 5. NON-RECURRING AND CONVENTIONAL REVENUES IN 2021 AND 2022 (R$ BILLION)

	2021		2022	
	Non-recurring	Conventional	Non-recurring	Conventional
1. Total primary revenue	**74.5**	**1,932.6**	**70.9**	**2,313.3**
Revenues collected by the RFB	55.4	1,195.7	27.1	1,390.0
Net social security (RGPS	1.9	462.2	1.8	535.7
Revenues not collected by the RFB	17.2	274.9	42.0	387.7
2. Transfers by revenue sharing	**13.1**	**353.5**	**14.1**	**457.2**
3. Net revenue [1-2]	**61.4**	**1,579.1**	**56.8**	**1,856.1**

Source: STN and IFI.

2.2 Primary expenditure

IFI's projection for the Federal Government's primary expenditures in 2023 slightly decreases compared to the January scenario. The IFI revised downwards the forecasts for the Federal Government's primary expenses by only R$ 2.2 billion. This new scenario for 2023 is basically due to macroeconomic and primary revenue changes, which affect the expenditure projections. Also contributing to the revision was the difference in the validity of some government-sponsored expenses, such as the new minimum wage of R$ 1,320, which should come into effect only in May[5]. Table 6 compares the IFI scenario for 2023, corresponding to the RAF of January and this month (February).

TABLE 6. FEDERAL PRIMARY EXPENDITURE – IFI 2023 BASELINE (JAN X FEB) (R$ BILLION)

	IFI (Jan/23)		IFI (Feb/23)		Δ		
	R$ bi	% GDP	R$ bi	% GDP	R$ bi	%	% GDP
Primary expenditure	**1,983.0**	**18.7**	**1,980.8**	**18.8**	**-2.2**	**-0.1**	**0.1**
Mandatory	**1,815.3**	**17.1**	**1,814.5**	**17.2**	**-0.8**	**0.0**	**0.1**
Social Security	868.4	8.2	866.8	8.2	-1.6	-0.2	0.0
Payroll	354.0	3.3	356.4	3.4	2.4	0.7	0.1
Salary Allowance and Unemployment Benefit	68.1	0.6	67.8	0.6	-0.3	-0.5	0.0
BPC	87.0	0.8	86.6	0.8	-0.4	-0.5	0.0
Family Allowance / Brazil Aid	174.4	1.6	174.4	1.7	0.0	0.0	0.1
Court-ordered debt (current and capital)	24.7	0.2	23.6	0.2	-1.1	-4.6	0.0
Supplementation to FUNDEB	38.6	0.4	38.7	0.4	0.1	0.2	0.0
Subsidies and Grants	20.3	0.2	20.3	0.2	0.0	-0.1	0.0
Legislative, Judiciary, MPU and DPU	16.3	0.2	16.1	0.2	-0.2	-1.5	0.0
Payroll tax reduction	0.0	0.0	0.0	0.0	0.0	-	0.0
Extraordinary credits	5.0	0.0	5.0	0.0	0.0	0.0	0.0
Other Compulsory Expenses	158.7	1.5	158.9	1.5	0.2	0.1	0.0
Discretionary	**167.7**	**1.6**	**166.3**	**1.6**	**-1.4**	**-0.8**	**0.0**

Source: STN, Budget, and Financial Programming Decree and IFI. Prepared by: IFI.

For next year and as a proportion of the GDP, the Federal Government's primary expenditures should remain stable compared to 2023. Although there are uncertainties regarding the new fiscal rule and, consequently, the future dynamics of primary spending, it is possible to draw a scenario based on the current rules. Thus, when considering the existing spending cap rule, the new permanent expenses introduced by EC 126 (Transition EC), and the growth dynamics of other expenses, it is observed that the Union's primary expenditure should show a nominal growth of R$ 130.3 billion. However, when evaluated as a proportion of GDP, spending should remain stable. Table 7 below details the main expenditure items in the IFI scenarios for 2023 and 2024.

5 https://www1.folha.uol.com.br/mercado/2023/02/equipe-economica-admite-reajustar-salario-minimo-a-r-1320-e-ve-custo-de-ate-r-5-bi-diz-agencia.shtml.

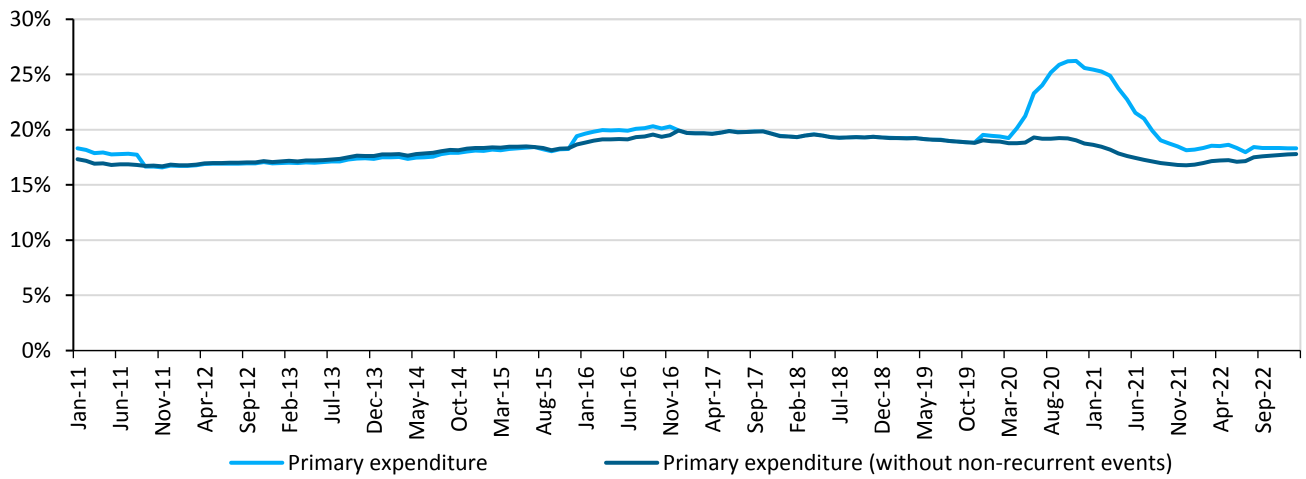
TABLE 7. FEDERAL PRIMARY EXPENDITURE – IFI 2023 AND 2024 BASELINE FORECAST (R$ BILLION AND % OF GDP)

Breakdown	2022)		IFI (2023 forecast)		IFI (2024 forecast)		Difference (p.p. of GDP)	
	R$ bi	% GDP	R$ bi	% GDP	R$ bi	% GDP	22 - 23	23 - 24
Primary Expenditure	**1,802.0**	**18.2**	**1,980.8**	**18.8**	**2,111.1**	**18.8**	**0.7**	**0.0**
Mandatory	**1,649.9**	**16.6**	**1,814.5**	**17.2**	**1,934.0**	**17.3**	**0.6**	**0.0**
Social Security	797.0	8.0	866.8	8.2	936.6	8.4	0.2	0.1
Payroll	337.9	3.4	356.4	3.4	381.4	3.4	0.0	0.0
Salary Allowance and Unemployment Benefit	64.3	0.6	67.8	0.6	72.7	0.6	0.0	0.0
BPC	78.8	0.8	86.6	0.8	93.9	0.8	0.0	0.0
Family Allowance / Brazil Aid	88.1	0.9	174.4	1.7	172.9	1.5	0.8	-0.1
Court-ordered debt (current and capital)	17.3	0.2	23.6	0.2	26.9	0.2	0.0	0.0
Supplementation to FUNDEB	32.9	0.3	38.7	0.4	45.6	0.4	0.0	0.0
Subsidies and Grants	15.3	0.2	20.3	0.2	21.1	0.2	0.0	0.0
Legislative, Judiciary, MPU and DPU	15.0	0.2	16.1	0.2	16.7	0.1	0.0	0.0
Payroll tax reduction	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary credits	47.0	0.5	5.0	0.0	0.0	0.0	-0.4	0.0
Other Compulsory Expenses	153.1	1.5	158.9	1.5	166.3	1.5	0.0	0.0
Discretionary	**152.1**	**1.5**	**166.3**	**1.6**	**177.1**	**1.6**	**0.0**	**0.0**

Source: STN and IFI. Prepared by: IFI.

The central government's recurrent primary expenditure, calculated by the IFI based on the methodology published in the EE no.17, December 2021, totaled R$ 1,747.0 billion in 2022, a real increase of 7.2% over 2021 when there was a 3.4% decrease to 2020. The calculation considers non-recurring expenses from Covid-19, the onerous assignment of pre-salt, the Brazil Sovereign Fund, the anticipations in the payment of the salary allowance and the RGPS Christmas bonus, and other expenses, such as the payment for the right to use Campo de Marte and the aids created with the Constitutional Amendment (EC) no. 123, of 2022, except for the additional R$ 200.00 paid to beneficiaries of the Brazil Aid.

FIGURE 9. CONVENTIONAL AND RECURRENT PRIMARY EXPENDITURE (12 MONTHS - % OF GDP)



Source: STN. Prepared by: IFI.

Recurrent expenditure grew 0.9 p.p. of GDP in 2022. Figure 9 shows the evolution in 12 months of the total primary and recurrent spending, measured as a proportion of GDP and calculated by the IFI according to the methodology presented in EE no.17, December 2021. Total primary expenditure reached 18.3% of GDP in December, stable for the fourth consecutive month. Expenditure excluding atypicality (or recurrent) rose 0.1 p.p. of GDP in December, reaching 17.8% of GDP. Between January and December, recurrent spending rose 0.9 p.p. of GDP.

Non-recurring factors in expenses totaled R$ 55.0 billion last year. In 2021, non-recurring events totaled R$ 120.8 billion (out of a total of R$ 1,614.2 billion, or 7.5%) and came from liability equalization and spending aimed at fighting the pandemic. In 2022, the non-recurring expense was R$ 55.0 billion (out of a total of R$ 1,802.0 billion, or 3.1%).

Table 8 shows the relation of non-recurrent events on the Union's primary expenditure last year. The most significant expense was the transfer of R$ 23.9 billion to the Municipality of São Paulo under the agreement for the right to use Campo de Marte Airport. The expenses to mitigate the pandemic's impacts totaled R$ 20.8 billion, while the aid (to taxi and truck drivers) and the financial support to states and the Federal District totaled R$ 10.3 billion.

TABLE 8. NON-RECURRENT EVENTS ON THE CENTRAL GOVERNMENT PRIMARY EXPENDITURE IN 2022 (R$ BILLION)

	2022
	Non-recurring expenditure
Equalization of Covid-19 liabilities and expenses	20.8
Campo de Marte	23.9
Financial aid to the States and Federal District	3.6
Aid to truck drivers	2.3
Aid to taxi drivers	1.9
Financial assistance from the Union to the states and Federal District	2.5
Total	**55.0**

Source: IFI.

2.3 The central government's primary balance

Based on the projections presented in the previous two subsections for the Union's net revenue and primary expenditure, Table 9 compares the values projected in January and February by the IFI for the central government's primary balance in 2023 and 2024.

The projection for the federal primary deficit in 2024 was revised to 0.9% of GDP. Between January and February, expectations for the primary deficit in 2023 were marginally revised upward from R$ 120.6 billion (1.1% of GDP) to R$ 118.3 billion (1.1% of GDP) due to a R$ 2.2 billion downward revision in expenditures. For 2024, the IFI's projection for the primary deficit rose from 0.7% to 0.9% of GDP, mainly influenced by spending.

TABLE 9. CENTRAL GOVERNMENT PRIMARY BALANCE AND BASELINE FORECASTS (R$ BILLION)

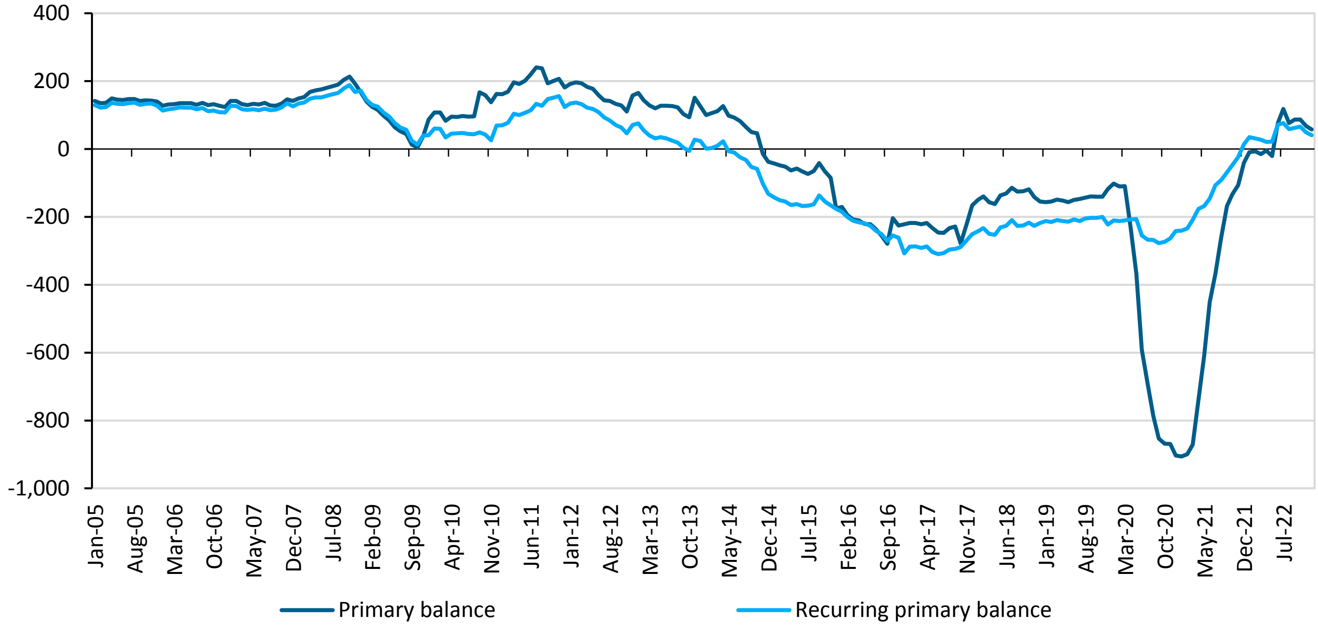
	2021		2022		2023*				2024*			
					Jan/23 forecast		Feb/23 forecast		Jan/23 forecast		Feb/23 forecast	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
Net revenue	1,579.1	17.7%	1,856.1	18.9%	1,862.5	17.6%	1,862.5	17.7%	2,013.1	17.8%	2,013.6	18.0%
Primary expenditure	1,614.2	18.1%	1,802.0	18.3%	1,983.1	18.7%	1,980.8	18.8%	2,096.7	18.5%	2,111.1	18.8%
Primary balance	**-35.1**	**-0.4%**	**54.1**	**0.5%**	**-120.6**	**-1.1%**	**-118.3**	**-1.1%**	**-83.7**	**-0.7%**	**-97.5**	**-0.9%**

**2023 and 2024: forecasts*
Sources: IFI.

Figure 10 shows the 12-month trajectory of the central government's conventional (observed) and recurrent primary results at January 2023 prices. While the conventional result was a surplus of R$ 57.4 billion in December, the recurring result was a positive R$ 40.8 billion. The two primary result curves show a reduction of the surplus during the second half of 2022 due to the growth of expenses compared to net revenues. Throughout 2023, these curves should once again register negative values.

The impact of the economic slowdown on tax collection is an essential risk to the primary surplus trajectory. As mentioned earlier, the expected slowdown in domestic and external economic activity in the coming months due to tighter monetary policy constitutes a risk for revenues from 2023. On the expenditure side, the creation of expenses with EC no. 126 also represents a risk, given the need for more clarity regarding the potential impact of the measures announced in January by the Ministry of Finance. The way these expenses will be accommodated may influence the credibility of the country's fiscal regime.

FIGURE 10. CENTRAL GOVERNMENT'S PRIMARY BALANCE (WITH AND WITHOUT NONRECURRING EVENTS) – R$ BILLION AT JAN 2023 PRICES)



Source: SIGA Brasil, STN and Tesouro Gerencial. Prepared by: IFI.

2.4 Public sector indebtedness indicators

Gross Debt is expected to rise from 73.5% of GDP in 2022 to 78.7% this year. According to the Central Bank, the General Government Gross Debt (DBGG) ended 2022 at 73.5% of GDP (or R$ 7,224.9 billion). In 2023, the IFI forecasts that the indicator will rise to 78.7% of GDP, increasing to 82.3% in 2024. The consolidated public sector primary balance supports the projection of an increase in gross debt (a surplus of 1.3% of the GDP in 2022 to a deficit of 1.3% this year and 1.1% in 2024 – Table 10).

TABLE 10. DBGG FORECASTS

	2022	2023		2024	
		Jan/23 forecast	Feb/23 forecast	Jan/23 forecast	Feb/23 forecast
Consolidated public sector primary balance	1.3%	-1.3%	-1.3%	-0.9%	-1.1%
Nominal GDP (R$ billion)	9,924.64	10,606.50	10,521.09	11,305.58	11,200.85
GDP - real growth	3.0%	0.9%	0.9%	1.6%	1.4%
GDP price deflator	8.3%	5.2%	5.1%	4.9%	5.0%
Implicit real rate	4.8%	4.3%	6.1%	4.2%	5.8%
DBGG (% of GDP)	**73.5%**	**77.8%**	**78.7%**	**79.8%**	**82.3%**

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

The IFI improved the gross debt implicit rate estimate, which is now monthly. The change raised the average values expected in 2023 and 2024. While in January, the implicit real rate for 2023 was 4.3% p.a., in February, the projection became 6.1% p.a., rising in 2024 from 4.2% p.a. to 5.8% p.a.

The higher values for the gross debt implicit rate align with the trajectory expected by the IFI for the beginning of the monetary loosening, which would start in November 2023. Besides this, they also consider the limits foreseen by the National Treasury for the Federal Public Debt (DPF) this year, which establish an increase in the relative share of floating-rate securities (Selic), with a concomitant reduction in the percentage of fixed-rate securities in the composition of the debt outstanding. Further details on the 2023 Annual Borrowing Plan (PAF 2023) will be provided later in this text.

Based on the new debt projections, the IFI updated the exercise to measure the primary public sector balance necessary to stabilize the debt-to-GDP at 73.5% (December 2022). Table 11 presents the values from different trajectories for the volume growth of the economy and the gross debt implied real interest rate.

TABLE 11. PRIMARY BALANCE REQUIRED TO STABILIZE THE DEBT-TO-GDP RATIO AT 73.5%

DBGG at		Real Implicit DBGG Interest rate							
73.5%		**0.5%**	**1.5%**	**3.0%**	**4.0%**	**4.5%**	**4.8%**	**5.8%**	**6.1%**
Real GDP growth (% p.a.)	**0.5%**	0.0%	0.7%	1.8%	2.6%	2.9%	3.1%	3.9%	4.1%
	0.9%	-0.3%	0.4%	1.5%	2.3%	2.6%	2.8%	3.6%	3.8%
	1.4%	-0.7%	0.1%	1.2%	1.9%	2.2%	2.5%	3.2%	3.4%
	2.0%	-1.1%	-0.4%	0.7%	1.4%	1.8%	2.0%	2.7%	3.0%
	2.5%	-1.4%	-0.7%	0.4%	1.1%	1.4%	1.6%	2.4%	2.6%
	3.0%	-1.8%	-1.1%	0.0%	0.7%	1.1%	1.3%	2.0%	2.2%
	3.5%	-2.1%	-1.4%	-0.4%	0.4%	0.7%	0.9%	1.6%	1.8%

Source: IFI.

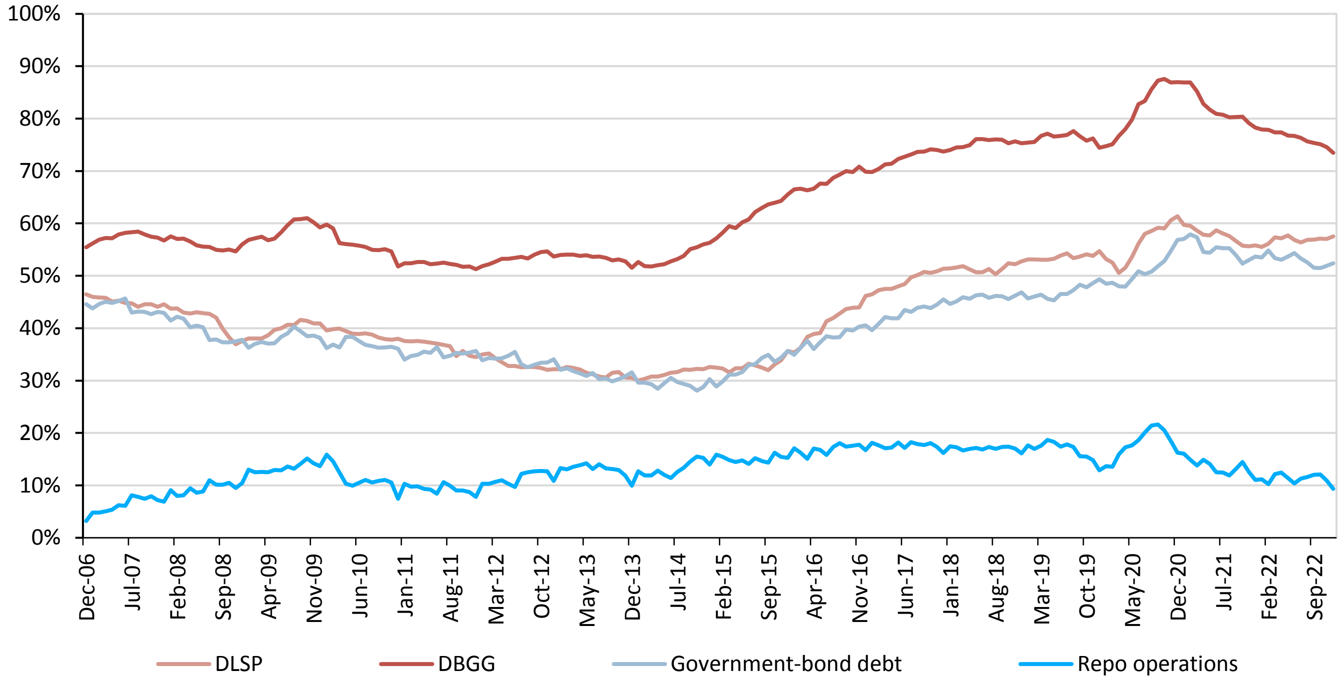
The primary surplus required to stabilize the debt-to-GDP at 73.5% is 3.8%. For the implicit real interest rate on gross debt at 6.1% and economic growth of 0.9%, IFI projections for 2023, the primary surplus required to stabilize the DBGG at 73.5% of GDP would be 3.8%. For the medium term (2023 to 2031)[6], IFI projections for 2023, the primary surplus required to stabilize the DBGG at 73.5% of GDP would be 3.8%. For the medium term (2023 to 2031), the IFI scenario forecasts average real economic growth of 1.9% and implicit interest on debt of 3.9% p.a., resulting in a primary surplus of 1.5% to stabilize the DBGG as a proportion of GDP.

[6] See RAF No. 70, November 2022. Available at: https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2022.

According to the Central Bank, the reduction of 4.8 p.p. of the GDP in the DBGG in 2022 occurred due to nominal GDP growth and net debt redemptions, which contributed to a drop of 12 p.p., partially offset by the accrued nominal interest growth, which had an upward contribution of 7.5 p.p. on the indicator (Figure 11).

In turn, the Net Public Sector Debt (DLSP) rose 1.7 p.p. of GDP in 2022, reaching 57.5%. This movement occurred due to the accrued nominal interest, the effect of the variation in the basket of currencies that make up the net external debt, and the 6.5% appreciation in the exchange rate, which contributed to the 8.4 p.p. of GDP increase in the DLSP. This effect was partially offset by the nominal GDP growth and the public sector primary surplus, which reduced the net debt by 6.6 p.p. of GDP in 2022 (Figure 11).

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



Source: Central Bank. Prepared by: IFI.

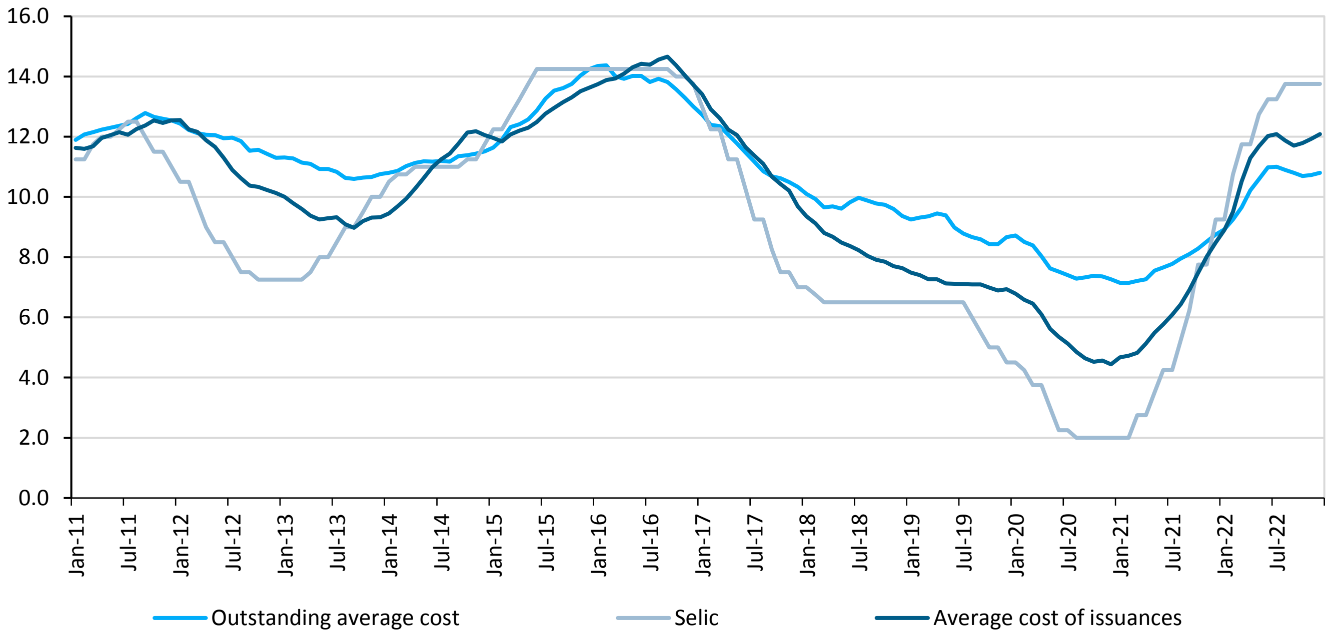
At the end of January, the National Treasury released the Monthly Debt Report (RMD), with information updated until December, as well as the Annual Debt Report (RAD) for 2022 and the PAF 2023. The first highlight of the RMD and RAD concerns the net debt redemptions of R$ 217.1 billion, made by the Treasury in 2022. This occurred because of the primary surplus accumulated in the year and the liquidity reserve management, which remained relatively comfortable due to the greater availability of exclusive sources (such as untied funds and revenues from dividends).

Besides this, the Treasury's borrowing requirement in 2022, at R$ 1,186.3 billion, was R$ 48.3 billion lower than the forecast for the year. Primary expenses covered with debt resources were R$ 112.0 billion lower than forecast with the reallocation of sources, which made it possible to pay expenses without the need to issue bonds.

After falling in the third quarter, the average cost of debt rose again in the fourth quarter. Another point to be highlighted regarding the December 2022 RMD and the 2022 DAR concerns the trajectory of the average cost of the public debt, which started to rise again at the margin in October. Figure 12 shows the evolution of the Selic rate and the Domestic Federal Public Securities Debt (DPMFi) outstanding and publicly offered issues average cost. In December, the average cost of DPMFi issuances rose 0.16 p.p. to 12.08% p.a. Between July and October 2022. This cost dropped from 12.09% p.a. to 11.71% due to deflation caused by fuel prices.

The IPCA and Selic are two indexers of the Federal Public Debt (DPF). The increase in the average cost of the debt results from the relatively high Selic rate and inflation, which, despite having cooled, continues above the target.

FIGURE 12. AVERAGE PUBLIC DEBT COST (OUTSTANDING AND ISSUANCES) AND TARGET SELIC RATE



Source: STN. Prepared by: IFI.

The share of floating-rate securities in DPF grew with the reduction in the relative share of fixed-rate securities. Last year, according to RAD 2022, the stock of floating-rate securities in DPF increased by 1.5 p.p., reaching 38.3%. Fixed-rate securities dropped 1.9 p.p. in the period, to 27.0% of the total. In turn, price-indexed securities rose from 29.3% of DPF in December 2021 to 30.3% in December 2022. This increase in the participation of floating-rate securities in the outstanding DPF reflects an environment of uncertainties that do not favor auctions of fixed-rate securities.

The Treasury expects further increases in the participation of floating-rate securities in outstanding DPF in 2023. These uncertainties will likely continue throughout 2023, when the STN expects the relative share of floating-rate securities increases in the DPF stock to continue. The PAF 2023, released with the RAD, foresees limits of R$ 6,400 billion (minimum) and R$ 6,800 billion (maximum) for DPF in 2023. For fixed-rate securities, the Treasury envisages a range of 23.0% (minimum) and 27.0% (maximum), leaving the percentage of 27.0% in December 2022. For price-indexed securities, the forecast ranges between 29.0% and 33.0%, starting from the level of 30.3% observed at the end of 2022. For floating rate securities, the estimates in the PAF are for a range of 38.0% to 42.0%, leaving 38.3% in 2022.

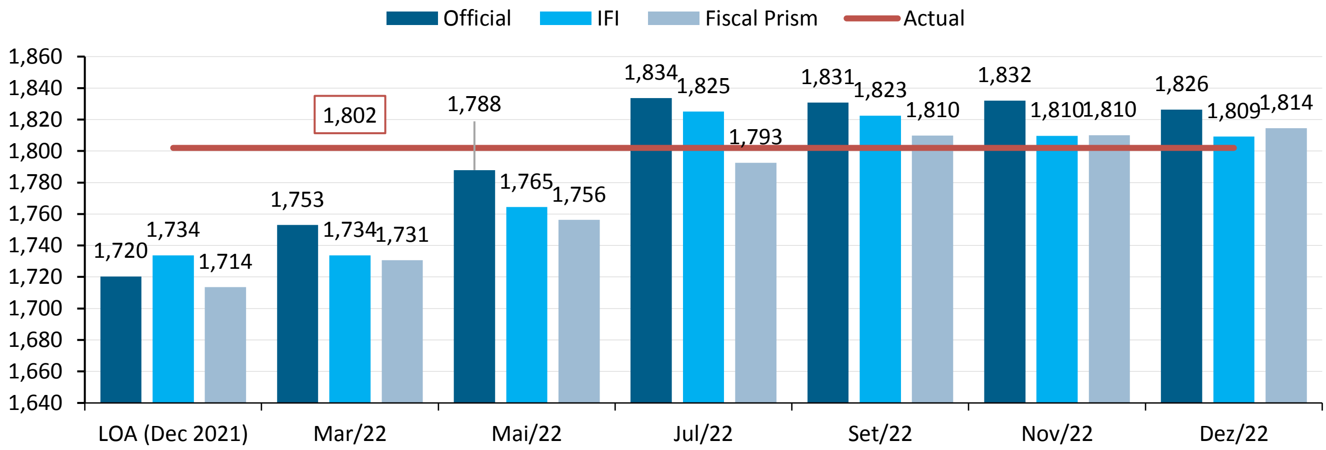
A final aspect concerning the 2023 PAF is the DPF maturity structure. The Treasury foresees a 19.0% to 23.0% limit for securities maturing in up to 12 months. In December 2022, this percentage was 22.1%. In general terms, the Treasury has managed to reduce the share of very short-term securities in the DPF outstanding, even though this is occurring with an increase in floating rate and an environment of relatively high-interest rates and rising debt cost. During the pandemic in 2020, there was an increase in the share of securities maturing in up to 12 months.

2.5 Budget

2.5.1 2022 Budget Execution

The data for primary expenditures in 2022 showed a divergence from the official projections released by the government throughout the year. With the publication of the official results for 2022, made by the National Treasury Secretariat (STN), it is possible to see that the official projections, produced every two months for 2022, especially after July, were relatively conservative in the sense of bringing expenditure scenarios above what was realized in the year. This distancing occurred in several mandatory expenses and expenses that, despite also being classified as mandatory, are subject to budgetary and financial programming. Thus, although the official projections for December indicated an expenditure of R$ 1,826.2 billion, the real figure was R$ 1,802 billion, i.e. R$ 24.2 billion more than was realized (Figure 13).

FIGURE 13. UNION EXPENDITURE PROJECTION: PRISM, IFI, AND THE GOVERNMENT (R$ BILLION)



Prisma Fiscal, Extemporaneous Revenue and Expenditure Assessment Report (December), IFI and STN.
Prepared by: IFI.

It should be noted that the monitoring of fiscal variables throughout the year is provided in the LRF (Article 9) and regulated in the Budget Guidelines Law (LDO). At the end of each bimester, this monitoring is essential to allow for course corrections whenever the behavior of primary revenues and mandatory expenditures deviate from the projected primary balance of the fiscal year's target. The bi-monthly reassessment is included in a report prepared by the Executive Branch, which must update the macroeconomic framework and justify any changes in revenues and expenses. Throughout the year, the new estimates must incorporate the most recent data on budget execution.

Part of the economic agents and the IFI also projected a level of expenditure above that observed. However, these projections were closer to the actual data. As an illustration, in December, the median expectation of the Fiscal Prism already showed a primary expense of R$ 1,814.0 billion, while the IFI's estimate pointed to an expense of R$ 1,809.0 billion (Figure 13).

The deviations between the official projection of expenditure and the actual data occurred disseminated among the primary expenses, with more significant variations in extraordinary credits and other mandatory spending (Table 12). One of the factors that can also explain these differences between projection and execution corresponds to the "hoarding" of resources. The "hoarding" corresponds to the difference between the authorized limit for payment of the agencies and the actual spending. The STN divulged, along with the 2022 result, that the volume was R$ 20.7 billion[7].

TABLE 12. UNION PRIMARY EXPENDITURES – OFFICIAL FORECAST AND ACTUAL (R$ MILLION AND %)

	Official forecast		Actual	Actual minus initial forecast		Actual minus final forecast	
	Initial (LOA)	Final (Dec)		R$ million	%	R$ million	%
Primary expenditure	**1,720.4**	**1,826.2**	**1,802.0**	**81.6**	**4.7**	**-24.2**	**-1.3**
Mandatory	**1,589.5**	**1,678.2**	**1,649.9**	**60.4**	**3.8**	**-28.4**	**-1.7**
Social Security	777.7	798.1	797.0	19.3	2.5	-1.1	-0.1
Payroll	336.1	339.4	337.9	1.8	0.5	-1.4	-0.4
Salary Allowance and Unemployment Benefit	65.8	66.2	64.3	-1.6	-2.4	-1.9	-2.9
BPC	76.2	79.8	78.8	2.7	3.5	-1.0	-1.2
Family Allowance / Brazil Aid	89.1	88.4	88.1	-0.9	-1.1	-0.3	-0.3
Court-ordered debt (current and capital)	27.0	18.0	17.3	-9.6	-35.7	-0.6	-3.4
Supplementation to FUNDEB	30.1	33.9	32.9	2.8	9.3	-1.0	-2.9
Subsidies and Grants	13.4	16.6	15.3	1.9	14.5	-1.3	-7.6
Legislative, Judiciary, MPU and DPU	18.0	16.9	15.0	-3.0	-16.6	-1.9	-11.3
Payroll tax reduction	3.2	3.1	3.1	-0.1	-3.0	0.0	0.0
Extraordinary credits	0.0	56.4	47.0	47.0	-	-9.4	-16.7
Other Compulsory Expenses	153.0	161.6	153.1	0.1	0.1	-8.5	-5.3
Discretionary	**130.9**	**148.0**	**152.1**	**21.3**	**16.2**	**4.2**	**2.8**

Source: Extemporaneous report of revenue and expenditure assessment and STN. Prepared by: IFI.

The execution of extraordinary credits was R$ 9.4 billion below the government's official projections. The extemporaneous report of the Union's revenue and expenditure assessment signaled expenses with extraordinary credit of R$ 56.4 billion, but the amount paid was R$ 47.0 billion. This difference, however, can be explained by the execution in an amount below that authorized for some benefits made possible by Constitutional Amendment No. 123 (known as the EC of Benefits) and some expenses related to the fight against Covid-19.

2.5.2 Vetoes of the 2023 PLOA and parliamentary amendments

Vetoes to the LOA and parliamentary amendments are the main discussions in the budget area. At the end of 2022 and a few days before the approval of the 2023 budget, the Federal Supreme Court (STF) ruled that the amendments of the general rapporteur (classified in the budget as RP9)[8] were unconstitutional. According to the Court's decision, this instrument should be limited to correcting errors and omissions while processing the annual budget bill.

According to the presidential message sent by the President of the Republic along with the Annual Budget Bill (PLOA), the amount set aside (in contingency reserve) for the amendments of the general rapporteur for 2023 was R$ 19.4 billion.

[7] Available at: https://sisweb.tesouro.gov.br/apex/f?p=2501:9::::9:P9_ID_PUBLICACAO_ANEXO:19090.
[8] The decision can be accessed at: https://portal.stf.jus.br/processos/downloadTexto.asp?id=5692639&ext=RTF.

In the Joint Technical Note 5/2022 of the Budget Consultants of the Chamber of Deputies and the Federal Senate[9], the details of this contingency reserve were disclosed, as shown in Table 13.

TABLE 13. COMPOSITION AND ALLOCATION OF THE GENERAL RAPPORTEUR'S AMENDMENTS FOR 2023 (R$ MILLION)

	PLOA 2023		Difference between Contingency Reserve and RP9	
	Contingency Reserve (Initial PLOA 2023)	General Report (RP9 - PLOA 2023)	R$ million	Var. %
Total reserve and allocation in RP9 in PLOA 2023	**19,396.6**	**19,396.6**	**0.0**	**0**
Ministry of Health	10,420.4	10,125.3	-295.1	-2.8
Ministry of Economy (budget for personnel adjustment)	3,500.0	-	-	-
Ministry of Regional Development	1,500.0	5,529.9	4029.9	268.7
Ministry of Citizenship	1,380.0	1,859.2	479.2	34.7
Ministry of Education	1,088.1	710.0	-378.1	-34.7
Ministry of Tourism	700.2	-	-	-
Ministry of Infrastructure	524.6	-	-	-
Ministry of Defense	-	324.7	-	-
Ministry of Communications	200.0	-	-	-
Ministry of Agriculture and Livestock	83.4	847.6	764.2	916.3

Source: CMO Technical Note no. 5, of 2022, opinion to PLOA 2023, no. 64, of 2022, and SIGA Brasil. Prepared by IFI.

During the budget's passage through Congress, the general rapporteur amended the amount earmarked for the RP9 in the Executive's proposal. The detailing by a body of the amendments of the general rapporteur for 2023 was made in CMO opinion no. 64[10].

With the STF's decision, the Autograph to the 2023 PLOA started considering the resources then destined to the general rapporteur's amendments in other primary result classification items. Thus, the change did not generate a reduction in the amount approved for expenses but impacted their classification.

The Transition EC increased the individual impositive amendments from 1.2% to 2.0% of the RCL. Another relevant change in parliamentary amendments corresponds to expanding individual impositive amendments. With the new wording of § 9º of art. 166 of the Constitution, given by the Amendment to the Constitution no. 126 (Transition EC), the limit of these amendments in the budget went from 1,2% of the net current revenue (RCL) projected for the year to 2,0% of the RCL realized in the year before the bill is sent. For 2023, therefore, the reference is no longer the projected RCL for the year and becomes the RCL of 2021. According to the text, half of the percentage must be destined for public health actions and services, as it was before.

Also, according to the Transition EC, 1.55% of the RCL should be destined to federal deputies, and the rest, i.e., 0.45% of the RCL, will be destined to senators. This additional rule corresponds to the inclusion of § 9º-A in art. 166. Table 14 details the changes in terms of distribution and amounts that occurred in individual amendments.

[9] See CMO Joint Technical Note No. 5 of 2022 (subsidies for the appreciation of the Budget Bill (PLOA) for 2023 - page 80): https://www.camara.leg.br/internet/comissao/index/mista/orca/orcamento/OR2023/notas_tecnicas/NTC-05.pdf
[10] See page 17 of the 2023 PLOA General Report: https://legis.senado.leg.br/sdleg-getter/documento?dm=9233001&ts=1675868887741&disposition=inline.

TABLE 14. INDIVIDUAL IMPOSITIVE AMENDMENTS – CHANGES REGARDING EC 126 (R$ BILLION AND %)

	Before EC 126	After EC 126	Difference
The basis for % application	RCL foreseen for 2023	2021 RCL	-
Value of the RCL (R$ billion)	1,150.96	1,062.52	-88.44
% to be applied	1.20%	2.00%	0,8p.p.
R$ billion to be applied	11.7	21.25	9.55
The amount destined to ASPS (% of total)	50%	50%	-
The amount destined to ASPS (R$ billion)	5.85	10.63	4.77
Destination for Members' Amendments	no defined rule	1.55%	-
Destination for Senators' Amendments	without a defined rule	0.45%	-

Source: EC 126 and PLOA 2023. Prepared by IFI.

Finally, it is worth commenting briefly on the partial vetoes presented to the LOA of 2023 (Law no. 14,535, of 2023).

Through Message no. 37 of January 17, 2023 (VET no. 5, of 2023),[11] the President of the Republic partially vetoed Bill (PLN) no. 32 of 2022 (PLOA 2023), approved by Congress on December 22, 2022. Thus, Law No. 14,535 of January 17, 2023 (LOA 2023)[12] was sanctioned with a partial veto to 38 provisions[13]. The Budget and Auditing Consulting Offices of the Federal Senate and the Chamber of Deputies jointly prepared a Technical Note (NT Joint No. 1, 2023)[14] to comment on and detail the vetoed provisions.

The vetoes to the PLOA express the President of the Republic's disagreement concerning the parliamentary amendments during the budget processing in Congress. A veto can occur when it is contrary to the public interest or unconstitutional. In this case, only the justification "contrary to the public interest" was presented for the vetoes.

The vetoes to the National Fund for Scientific and Technological Development (FNDCT) stand out in monetary terms. As highlighted in the NT Joint No. 1, 2023, and in the veto message, the budget programming of R$ 4.2 billion for the FNDCT was vetoed due to the need for adjustment to comply with art. 11, § 3º, II of Law 11,540, 2007. According to this provision, included by PM 1.136 of 2022, applying the resources tied to the fund must observe some percentages gradually increasing until reaching 100% of the foreseen revenue in 2027.

For 2023, this percentage would be 58%. The vetoed values correspond, however, to non-binding resources added during the budget processing due to the space opened by the Transition EC.

According to the NT Joint No. 1, 2023, the legislation seems ambiguous and can generate different interpretations about which value should be considered for calculating the proportions. "It is possible to interpret either that the above proportion should be calculated considering only the resources linked to the FNDCT (in which case the rule would be observed in the Autograph) or that the above proportion should consider the fund's total appropriations. It is inferred that the Executive Branch, when opposing the veto in question, concluded for the latter interpretation".

[11] Available at: http://www.planalto.gov.br/ccivil_03/_ato2023-2026/2023/Msg/Vep/VEP-0037-23.htm.
[12] Available at: http://www.planalto.gov.br/ccivil_03/_ato2023-2026/2023/Lei/L14535.htm.
[13] The processing and numbering of the vetoes can be followed here: https://www.congressonacional.leg.br/materias/vetos/-/veto/detalhe/15569.
[14] Available at: https://legis.senado.leg.br/sdleg-getter/documento?dm=9256649&ts=1675972097104&disposition=inline

IFI forecasts

SHORT TERM

IFI forecasts	2023			2024		
	January	February	Comparison	January	February	Comparison
GDP – real growth (% per year)	0.89	0.91	▲	1.58	1.44	▼
Nominal GDP (R$ billion)	10,606.50	10,521.09	▼	11,305.58	11,200.85	▼
IPCA – accum. (% in the year)	5.30	5.59	▲	3.73	3.80	▲
Exchange rate – end-of-period (R$/US$)	5.26	5.24	▼	5.34	5.30	▼
Employment – growth (%)	0.44	0.71	▲	0.79	0.79	=
Payroll – growth (%) (%)	0.89	0.89	=	1.58	1.58	=
Selic rate – end-of-period (% per year)	12.00	13.00	▲	9.50	10.00	▲
Real interest *ex-ante* (% per year)	6.52	6.09	▼	4.45	3.86	▼
Public Sector Consolidated Primary Balance (% of GDP)	-1.34	-1.32	▲	-0.94	-1.07	▼
of which Central Government	-1.14	-1.12	▲	-0.74	-0.87	▼
Net Nominal Interest (% of GDP)	6.23	6.63	▲	5.91	7.56	▲
Nominal Balance (% of GDP)	-7.56	-7.95	▼	-6.85	-8.63	▼
General Government Gross Debt (% of GDP)	77.79	78.74	▲	79.79	82.30	▲

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