Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- IFI revises the 2024 GDP projection from 1.2% to 1.6%.
- The GDP revision reflects the potential positive impact of court-ordered debts payments and a more favorable outlook for the global economy.
- IFI's projection for the central government's primary balance in 2024 is a deficit of 0.9% of GDP.
- Limiting tax compensations could increase revenue by up to 1.1 percentage points of GDP in the short term.
- An exercise indicates that the maximum budget cut in 2024 could be between R$ 25.9 billion and R$ 52.2 billion.

- The necessary budget cut, based on the frustration of conditional revenues calculated by the IFI, would be around R$ 49.7 billion.
- IFI's scenario indicates that gross debt will reach 77.7% of GDP by the end of 2024.
- GDP deceleration and primary deficits make debt stabilization difficult in the short term.
- The probability of debt exceeding 90% of GDP between 2024 and 2028 has decreased from 38.7% to 29.1%.

The results of 2023, the new year, and the challenges of fiscal policy

This is the 85th Fiscal Follow-up Report (RAF, kept here in its original acronym, as will all the acronyms of Brazilian institutions, taxes and programs), for February 2024, released by the Independent Fiscal Institution (IFI).

In 2023, the new fiscal framework was put in place (Complementary Law - LC No. 200, of 2023), shifting the focus of the federal government's budget adjustment in 2024 from expenditure control, the axis of the old framework known as the expenditure ceiling (Constitutional Amendment - EC No. 95, of 2016), to the expansion of public revenues. Consistent with the new logic, various legal initiatives have been proposed and approved by the National Congress. The fiscal balance strategy is now guided by a primary balance target to be set by the Budget Guidelines Law (LDO). For 2024, the goal is to eliminate the primary deficit, starting from a negative result in 2023 equivalent to BRL 230.5 billion or 2.12% of Gross Domestic Product (GDP).

RAF No. 85, in line with the projections made by the main analysts, institutions and market players, adjusts the IFI's projection for economic growth in 2024 from 1.2% to 1.6%. It took into account the positive effect on consumption caused by the injection of income introduced by the court-order debt payments in December 2023 and the improvement in the external scenario. Even so, the IFI's estimate is slightly lower than the ones from the International Monetary Fund (IMF) - 1.7%, the Organization for Economic Cooperation and Development (OECD) -1.8% - and the Central Bank of Brazil (1.7%). (**Page 5**)

The RAF also identifies uncertainties relating to fiscal weaknesses, excessive household debt, the US elections, and ongoing-armed conflicts. On the other hand, it points to the possibility of increased investment because of the fall in the basic interest rate, increased confidence in the results of economic policy and the expansion of credit via the National Bank for Economic and Social Development (BNDES). As for inflation, the projection for 2024 has been adjusted to 3.9%, within the margin of tolerance of the inflation target set by the National Monetary Council, mainly due to the fall in the price of commodities in BRL.

Secondly, the February RAF delves into the revision of revenue projections based on the legal changes introduced in 2023 and their interfaces with the fiscal target and the spending cuts necessary to achieve it. The IFI's initial projection is for a primary deficit of 0.9% of GDP, thus failing to meet the target set by the LDO 2024 of a zero deficit, even with the margin of tolerance allowed of a deficit of 28.8 billion or 0.25% of GDP.

The IFI projects BRL 130.4 billion in revenue from the new sources provided for in approved laws and Provisional Measures, far below the BRL 274.7 billion expected by the Federal Government. Although revenue from the taxation of exclusive investment funds surprised positively in December 2023 and January 2024, the IFI is more conservative in its estimate of revenue from the taxation of grants and the results of actions within the scope of the Administrative Council for Tax Appeals (Carf). In addition, regarding the payroll tax relief for 17 labor-intensive sectors, the IFI has maintained its projections of the tax waiver approved by the National Congress, awaiting the ongoing negotiations on the subject.

With regard to expenditure, there are differences between the IFI's figures and those of the government concerning social security expenditure, discretionary expenses and small differences in relation to payroll and mandatory expenditure.

However, the federal government has an important tool to increase revenues and mitigate the effects of one of the components among tax waivers, which is contained in Provisional Measure No. 1,202 of 2023, namely the limitation of tax compensations arising from judicial decisions, which in the period from 2005 to 2018 were around 1.1% of GDP, having doubled to 2.2% of GDP, mainly due to the decision of the Federal Supreme Court (STF) in relation to the so-called "Thesis of the Century" in March 2017. The net result of the measure will depend on the final content of its conversion into law and the regulation of its implementation by the Ministry of Finance, establishing the strategy and pace of change management. At this point, the IFI provisionally arbitrated assumptions for a gradual reduction of these tax compensations.

A brief history of the spending cuts policy since 2010 is also included to feed the discussion on budget management alternatives throughout the year. (**Page 9**)

Finally, because of the revision made to the macroeconomic and fiscal parameters, with emphasis on the occurrence of primary deficits in the coming years, a more modest GDP growth rate and still high real interest rates, the IFI estimates that the General Government's Gross Debt will reach 77.7% of GDP at the end of the current financial year, and 80.2% of GDP in 2025. (**Page 18**)

2023 was the year to sow the seeds of the new fiscal regime. 2024 is the first year to reap the rewards. The expected results, however, are still shrouded in uncertainties and variables to be defined.

Enjoy your reading!

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Update on the short-term macroeconomic scenario

Rafael Bacciotti

The economic activity indicators for December 2023 point to relative stability in GDP in the fourth quarter and an average annual expansion of around 3.0%. The projection for 2024 was revised in this report, from 1.2% to 1.6%, considering the positive impact of court-order debt payments on private consumption and an improved outlook for the global economy. Uncertainty persists and there is potential for progress in investment, although geopolitical and climate risks are present. In addition to GDP, the short-term outlook for other macroeconomic variables has been adjusted, essentially reflecting the dynamics of the data collected.

The Central Bank's Economic Activity Index (IBC-Br), which consolidates information on the components of the GDP (Gross Domestic Product) from the supply side, registered an increase of 0.8% from November to December 2023 in the seasonally adjusted series. In the quarter ending in December, the IBC-Br rose by 0.2 percent compared to the previous quarter ending in September, indicating a variation close to stability for GDP in this period. There was a different pattern among the sectors, with expansion in the industry and retail trade, but a decline in the revenue of the service sector. The December result left a favorable statistical carryover to the first quarter of 2024 (0.6%), indicating a possible acceleration in GDP at the beginning of the year, if current conditions are maintained.

TABLE 1. ECONOMIC ACTIVITY INDICATORS

Indicators	Variation compared to the previous month (seasonally adjusted)			Variation compared to the previous quarter (seasonally adjusted)		Statistical Carryover for Q1/24
	Out-23	**Nov-23**	**Dec-23**	**Sep-23**	**Dec-23**	
Industrial production	0.2%	0.7%	1.1%	0.2%	1.2%	1.0%
Expanded retail sales	-0.2%	0.7%	-1.1%	0.4%	0.4%	-0.5%
Volume of services	-0.5%	0.9%	0.3%	0.3%	-0.4%	0.5%
IBC-Br	0.1%	0.1%	0.8%	-0.5%	0.2%	0.6%

Source: Brazilian Institute of Geography and Statistics (IBGE).

In recent months, industrial production has shown a remarkable performance, as indicated by the IBGE's Monthly Industrial Survey (PIM). From November to December, general industry production rose by 1.1%, seasonally adjusted, marking the fifth consecutive positive result. Extractive activity stands out, reflecting an upward trend in oil and iron ore production. In the manufacturing industry, there is a divergence between the trajectories of capital goods (falling) and intermediate goods (rising), with a certain stabilization in the production of consumer goods.


GRAPH 1. MONTHLY SURVEY OF INDUSTRY - PHYSICAL PRODUCTION - SEASONALLY-ADJUSTED QUARTERLY MOVING AVERAGE
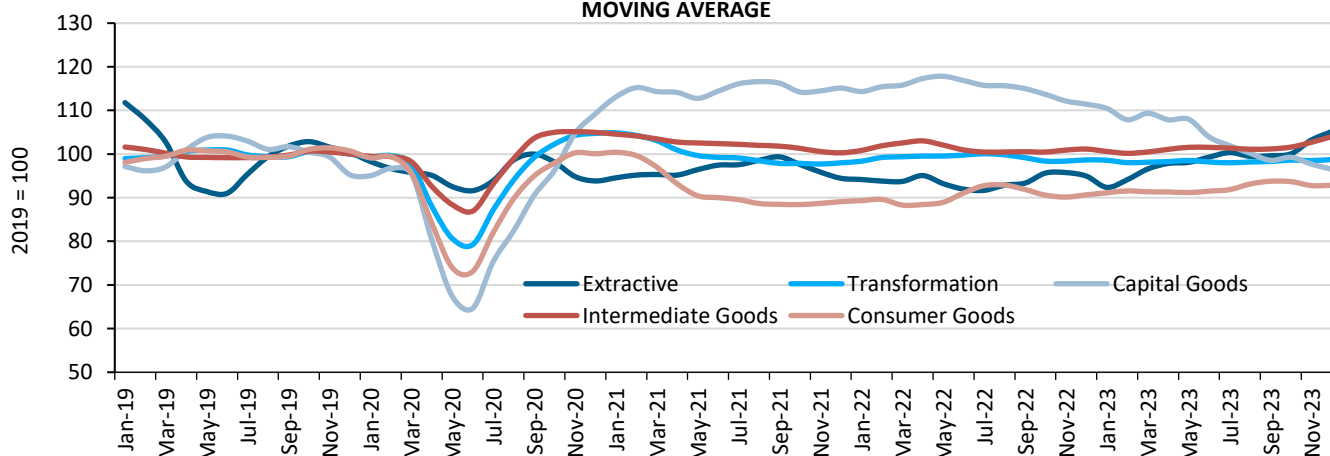
Source: IBGE.

The retail trade registered a 1.1% drop in sales volume between November and December, according to the Monthly Trade Survey, considering the expanded concept, which includes vehicles and construction materials. Looking at the breakdown of the survey, the negative performance of the restricted index (-1.3%) stands out, with six[1] of the eight components falling, as well as the vehicles segment (-4.5%). In the previous month, the extended index had remained practically stable, with an increase of just 0.1%.

GRAPH 2. RETAIL TRADE AND EXTENDED RETAIL TRADE - SEASONALLY-ADJUSTED QUARTERLY MOVING AVERAGE
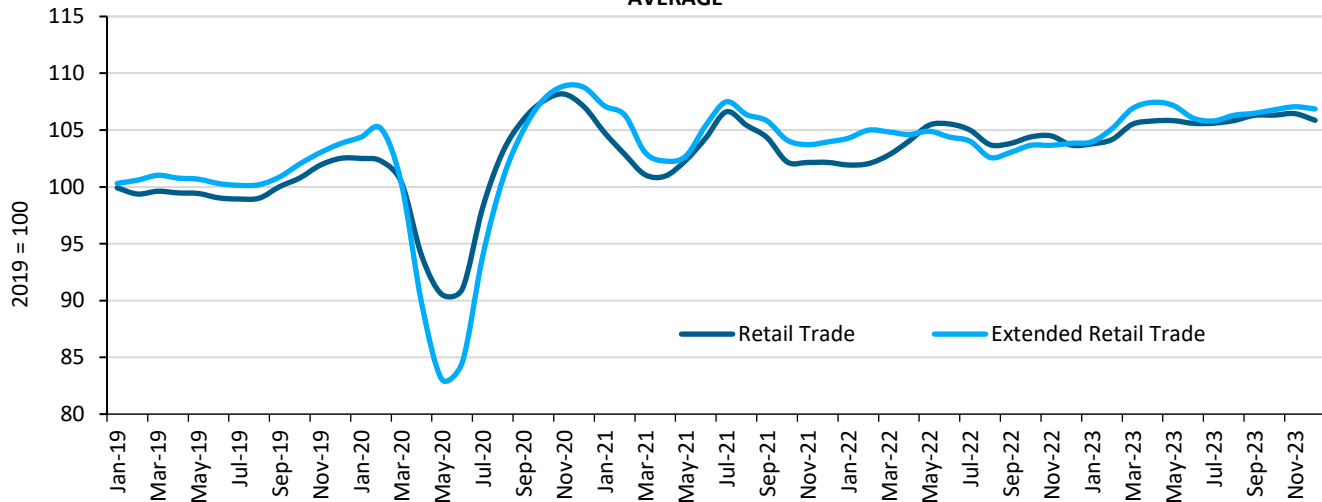
Source: IBGE.

On the other hand, the volume of services registered a positive variation of 0.3% between November and December, according to data from the IBGE's Monthly Services Survey (PMS), in the seasonally adjusted series. In the previous month, the index had grown by 0.9%. The advance in the volume of services in December was boosted in three of the five activities investigated, with the most notable gain coming from services provided to families (3.5%).

GRAPH 3. VOLUME OF SERVICES - SEASONALLY-ADJUSTED QUARTERLY MOVING AVERAGE
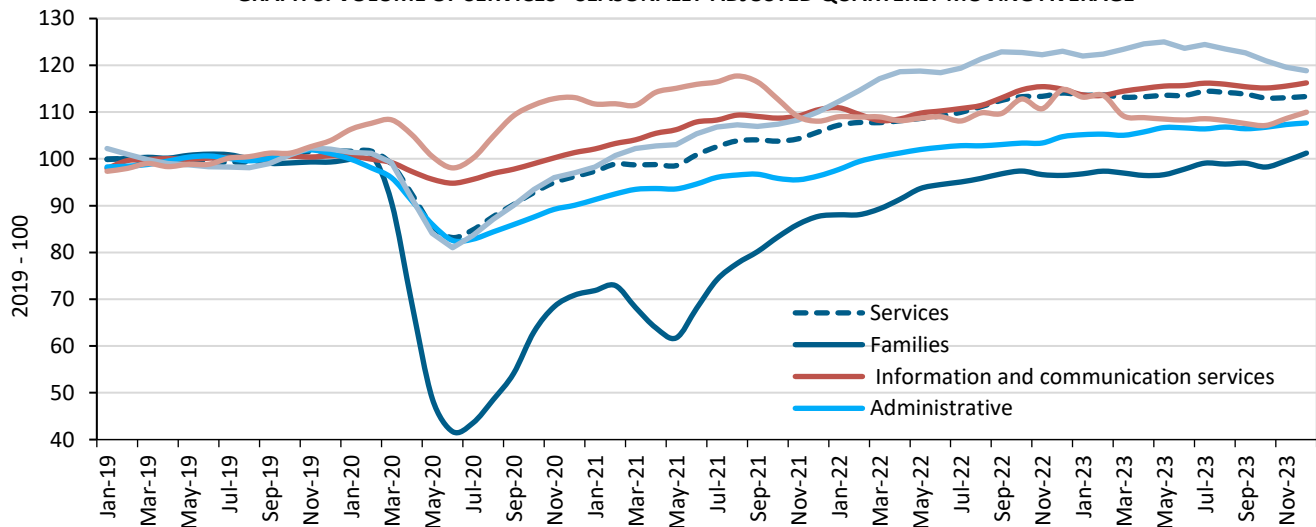
Source: IBGE. Prepared by: IFI.

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[1] Office equipment and materials, IT and communication (-13.1%), furniture and household appliances (-7.0%), other personal and household items (-3.8%), textiles, apparel and footwear (-3.5%), books, newspapers, magazines, and stationery (-2.3%), and pharmaceuticals, medical, orthopedic, and perfumery items (-0.5%). Only two surveyed groups did not register a negative rate: fuels and lubricants (1.5%) and hypermarkets, supermarkets, food products, beverages, and tobacco (0.8%).

The data already available for January reveal mixed signals regarding the performance of economic activity in the first quarter. On one hand, there is an advancement of business confidence, driven by the industry, commerce, and services sectors, with emphasis on the improvement of expectations regarding demand in the coming months. On the other hand, there is a further deterioration in the consumer confidence index, reflecting both an unfavorable view of the current situation and pessimistic expectations for the near future. This situation can be attributed, in part, to the persistence of high interest rates and indebtedness, which continue to put pressure on families' financial situation.

GRAPH 4. CONFIDENCE INDEXES - SEASONALLY ADJUSTED
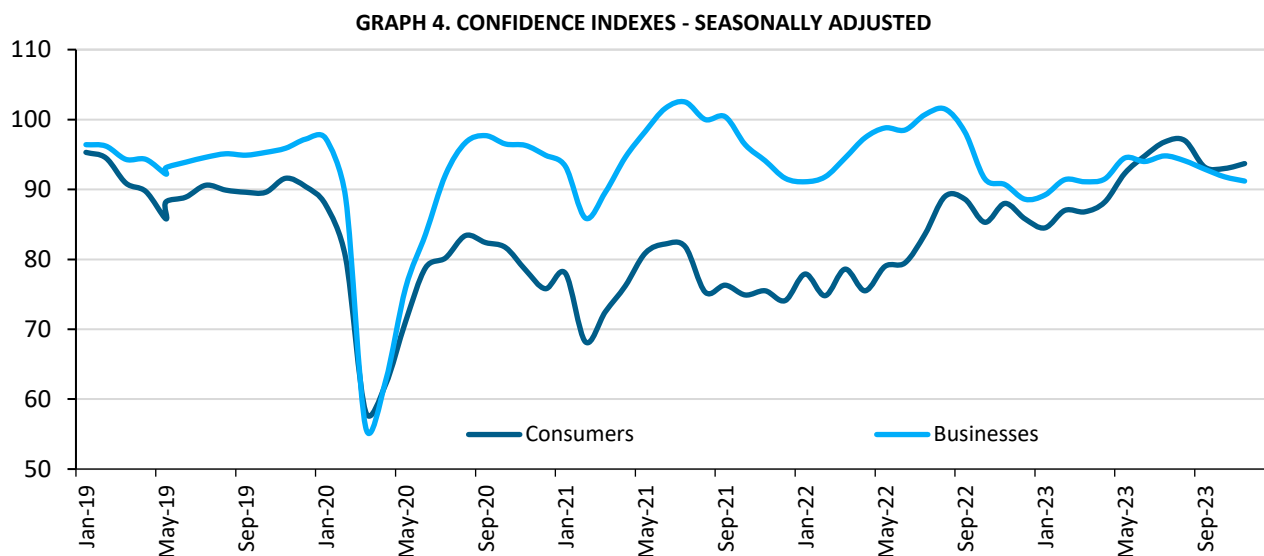
Source: FGV. Prepared by: IFI.

The dynamics of the realized sectoral data are in line with the IFI's projection for the GDP growth in 2023, estimated at 3.0%. However, the projection for 2024 was revised from 1.2% to 1.6%. Our analysis now considers that part of the BRL 95 billion released at the end of 2023 for court-order debt payments will be directed to private consumption, which will have a positive impact on GDP in the first quarter. We assumed that about half of the amount released would affect the expanded wage bill in 2024 by 1 percentage point and GDP by approximately 0.3 percentage points.

In addition, there has been a slight improvement in the growth outlook for the global economy, according to the International Monetary Fund's (IMF) updated *World Economic Outlook (WEO)[2]*, resulting in a moderate increase in the projection for exports of goods and services. Compared to the forecast in the October 2023 report, the IMF's projection for global GDP in 2024 is around 0.2 percentage points higher, mainly due to upward revisions in the outlook for China and the United States.

Economic activity is expected to advance this year, mainly due to less restrictive financial conditions, reflecting the easing of monetary policy. However, this expansion is likely to be limited by the lower contribution of net exports, resulting from the slowdown in the growth of trading partners and comparatively lower agricultural production compared to 2023. According to the IBGE's Systematic Survey of Agricultural Production[3], the January 2024 estimate for the national harvest of cereals, legumes and oilseeds is 3.8% lower than that obtained in 2023.

The forecast for real GDP growth in the short term is obtained by analyzing the components from an expenditure perspective, as detailed in Table 2. The contributions of domestic and external demand to GDP growth in 2024 are estimated at 1.5 p.p. and 0.1 p.p., respectively.

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[2] Available at: https://bit.ly/3SF2dBi.
[3] Available at: https://bit.ly/42EQmYB.

TABLE 2. PROJECTION FOR GDP AND COMPONENTS (%)

	2022	2023	2024
GDP and components (real variation)	**3.0**	**3.0**	**1.6**
Household consumption	4.1	3.3	2.2
Government consumption	2.1	1.4	1.1
Gross Fixed Capital Formation	1.1	-3.5	0.5
Exports	5.7	8.4	2.9
Imports	1.0	-1.4	2.5
Contributions to the real GDP Growth (p.p.)			
Internal demand	2.1	1.1	1.5
Household Consumption	2.5	2.1	1.4
Government consumption	0.4	0.3	0.2
Investment (GFCF and change in inventories)	-0.8	-1.2	-0.1
Net exports	0.9	1.8	0.1

Source: IBGE and IFI. Prepared by: IFI.

Regarding the risks, there are positive outlooks that investments may advance beyond expectations, driven by the reduction of the Selic rate and the decrease in macroeconomic uncertainties, in addition to capturing some positive effect from the increase in financing by the National Bank for Economic and Social Development (BNDES). On the other hand, on the downside, concerns include negative supply shocks stemming from the expansion of armed conflicts, as well as the risks associated with the outcome of the presidential election in the United States.

In addition to the projections for GDP growth, small adjustments were made to the outlook for the other macroeconomic variables analyzed. These changes mainly reflect the improved dynamics of the data observed, with an emphasis on the resilience of the labor market. The Continuous National Household Sample Survey (PNAD Contínua) for December 2023 showed the unemployment rate at historically low levels, with an expansion in hiring and a recovery in the labor force.

The improvement in the economic growth projection implies a narrower output gap, which is an upward vector for consumer inflation. However, the projection for the IPCA in 2024 was adjusted marginally downwards, from 4.0% to 3.9%, partly due to the expected moderation in the trajectory of commodity prices in BRL. Table 3 shows the short-term projections for the period 2023 to 2025.

TABLE 3. SHORT-TERM PROJECTIONS

Variable	2022	2023	2024	2025
Nominal GDP (BRL billion)	10,080	10,869	11,538	12,256
Nominal GDP (% average annual change)	11.8	7.8	6.2	6.2
Real GDP (% average annual change)	3.0	3.0	1.6	2.0
GDP deflator (% average annual change)	8.6	4.7	4.4	4.2
IPCA (% change year on year in December)	5.8	4.6	3.9	3.5
Unemployment rate (% of workforce)	9.3	8.0	8.4	8.4
Payroll (% average annual change)	6.9	6.9	2.5	2.0
Exchange rate (BRL/US$ end of period)	5.22	4.84	4.89	4.95
Selic (% end of period)	13.75	11.75	9.50	8.50

Prepared by: IFI

Considerations on the primary balance projection and the possible need for spending cuts – Updated version on 02/27/2024

Alexandre Andrade, Pedro Henrique Souza and Vilma Pinto

After a review by the IFI of primary revenue estimates for this year and next, the projection for the central government's primary balance is a deficit of 0.9% of GDP in 2024. This figure takes into account the uncertainties related to the economic and fiscal scenario and contrasts with the fiscal targets set for 2024. If the bimonthly review incorporates any of these uncertainty factors, spending cuts may be necessary.

New projections for central government primary revenues

Based on the IFI's updated estimates for the central government's public accounts in 2024, the purpose of this text is to present new estimates for primary revenue and expenditure, as well as to discuss the possible need for and potential size of spending cuts in light of the Sustainable Fiscal Regime (RFS) provided for in Complementary Law No. 200 of 2023. A historical overview of spending cuts between 2010 and 2023 is also presented.

Table 4 updates Table 5 (p.14) of RAF No. 82[4], of November 2023, with new fiscal projections for the central government that incorporate the effects of Provisional Measure (PM) No. 1,202[5], of December 29, 2023, PM No. 1,206[6], of February 6, 2024, and LOA 2024[7]. In the scenario review presented in November 2023, the estimates took into account the information contained in the 2024 Annual Budget Bill (PLOA 2024).

The IFI now expects BRL 130.4 billion to be collected as a result of the legal rules approved last year and the two aforementioned provisional measures, compared to BRL 274.7 billion forecast by the Executive (figures updated by the IFI taking into account Provisional Measure No. 1,202 and Provisional Measure No. 1,206). In February, the IFI increased its estimates of revenue from the taxation of exclusive investment funds due to the inflows recorded from this source in December 2023 (BRL 3.9 billion) and January 2024 (BRL 4.0 billion), according to information from the Federal Revenue Service and the Tesouro Gerencial portal.

The main discrepancy in relation to the Executive's projections continues to exist, as explained in previous editions of the RAF, in the revenues to be obtained from the collection of federal taxes in operations involving incentives and/or tax benefits within the scope of the ICMS (BRL 35.3 billion in the Executive's estimate against BRL 7.6 billion in the IFI's estimate) and in the expected recovery of credits within the scope of Carf (BRL 97.9 billion against BRL 32.3 billion). There is also a BRL 14.4 billion difference between the Executive's and the IFI's estimates regarding payroll tax relief. For the time being, the IFI has maintained the revenue waiver under Law No. 14784 of December 27, 2023, which extended the exemption for 17 sectors of economic activity and extended it for certain municipalities until December 31, 2027.

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[4] The document can be viewed at the following address: http://tinyurl.com/bddy5w24.

[5] Provisional Measure No. 1,202 of 2023 addresses three matters: (i) it revokes the tax benefits of Perse (Emergency Program for the Recovery of the Events Sector); (ii) it revokes the tax benefits of the Social Security Contribution on Gross Revenue (companies from 17 economic sectors plus certain municipalities), and partially exempts the same contribution levied on the payroll; and (iii) it limits the compensation of tax credits resulting from judicial decisions. Page to access the document: http://tinyurl.com/yuab5ecp.

[6] Provisional Measure No. 1,206 of 2024 amends the values of the monthly progressive table of the Individual Income Tax (IRPF), exempting from tax payment individuals earning up to two minimum wages. Information page on the processing of the matter: http://tinyurl.com/nhfrv4rz.

[7] Law No. 14,822, of January 22, 2024. Page to access it: http://tinyurl.com/yz83x37z.

TABLE 4. MEASURES CONVERTED INTO LAW OR BEING PROCESSED IN CONGRESS WITH AN IMPACT ON CENTRAL GOVERNMENT REVENUE IN 2024 (BRL BILLION)

Budget impact in 2024				
Measure	Tax	Legislative proposal	Impact estimated by the Executive Branc (BRL billions)	Impact estimated by the IFI - baseline scenario (BRL billion)
Total [1+2+3]			**274.7**	**130.4**
Legislative measures set out in the PLOA 2024 and converted into law [1+2]			**168.5**	**81.0**
Revenue collected by the RFB [1]			**167.6**	**80.1**
Investment grants	IRPJ, CSLL, PIS/Cofins	Law No. 14,789, of December 29, 2008 2023	35.3	7.6
Fixed-odds betting	IR, other revenues collected by the RFB	Law No. 14,790, of December 29, 2007 2023	0.7	0.7
New simplified tax regime (RTS)	Import tax	RFB Normative Instruction No. 2,146, of June 29, 2023	2.9	2.9
Closed-end funds - stock and flow	Income Tax	Law No. 14,754, of December 12, 2008 2023	13.3	24.6
Taxation of financial assets abroad by individuals (offshores)	Income Tax	Law No. 14,754, of December 12, 2008 2023	7.0	7.0
Change in the calculation of interest on equity	IRPJ, CSLL	Law No. 14,789, of December 29, 2008 2023	10.4	5.0
Credit recovery at Carf	R, CSLL, PIS/Cofins, IPI, social security contribution others	Law No. 14,689, of September 20, 2008 2023	97.9	32.3
Revenue not collected by RFB [2]			**0.9**	**0.9**
Fixed odds lottery fees	Control and inspection fees	Law No. 14,790, of December 29, 2007 2023	0.9	0.9
Other income [3]			**105.3**	**48.5**
End of fuel tax exemption	PIS/Cofins	Provisional Measures No. 1,175 and No. 1,178, of 2023	30.0	30.0
Exclusion of ICMS from the calculation basis of PIS/Cofins credits	PIS/Cofins	Law no. 14,592, of May 30, 2023	57.9	5.8
Transfer prices	IR, CSLL	Law no. 14,596, of June 14, 2023	20.0	20.0
Cancellation of the Perse´s tax benefits	PIS/Cofins in 2024; PIS/Cofins, IRPJ and CSLL in 2025	Provisional Measure No. 1,202, of December 2023	6.0	-
Partial exemption of the Social Security Contribution on Gross Revenue	Social security contribution	Provisional Measure No. 1,202, of December 2023	-5.6	-20.0
Limitation on the compensation of credits resulting from court decisions	PIS/Cofins	Provisional Measure No. 1,202, of December 2023	-	15.7
IRPF exemption for those earning up to 2 minimum wages per month	IRPF	Provisional Measure No. 1,206, of June 6, 2007 February 2024	-3.0	-3.0

Source: LOA 2024 and current legislation. Source: IFI.

Among the measures proposed by the Executive to increase revenue in 2024, as outlined in MP No. 1,202, the one with the greatest potential impact is that which limits the monthly amounts eligible for compensation of tax credits resulting from judicial decisions. Normative Ordinance MF No. 14[8], dated January 5, 2024, regulates the use of these tax credits by taxpayers according to the amounts involved.

Graph 5 provides an overview of the values involved in tax compensations. Although there are compensation credits from sources other than judicial ones, the Ministry of Finance argues that the increase in tax compensations since 2019 resulted from the so-called "Thesis of the Century." In March 2017, the Supreme Federal Court (STF) ruled on Extraordinary Appeal No. 574.706/PR[9], which excluded ICMS from the calculation base of two federal taxes, PIS and Cofins. This legal debate became known as the "Thesis of the Century" due to the significant impact of the amounts involved on company finances and federal tax revenues.

The IFI does not yet have the values related to tax compensations originating from judicial decisions, nor a breakdown of the amounts involved. Nonetheless, as shown in Graph 5, prepared according to information from the Federal Revenue Office, obtained by IFI via the Access to Information Act[10](LAI), tax compensations reached BRL 242.1 billion (2.2% of GDP) in the 12 months ending December 2023. Between 2005 and 2018, these compensations accounted for an average of 1.1% of GDP. From 2019 onwards, the amounts gradually rose to the level of 2.2% of GDP reached in 2021 (Graph 5).

GRAPH 5. UNION TAX COMPENSATIONS - 12-MONTH ACCUMULATED (% OF GDP)
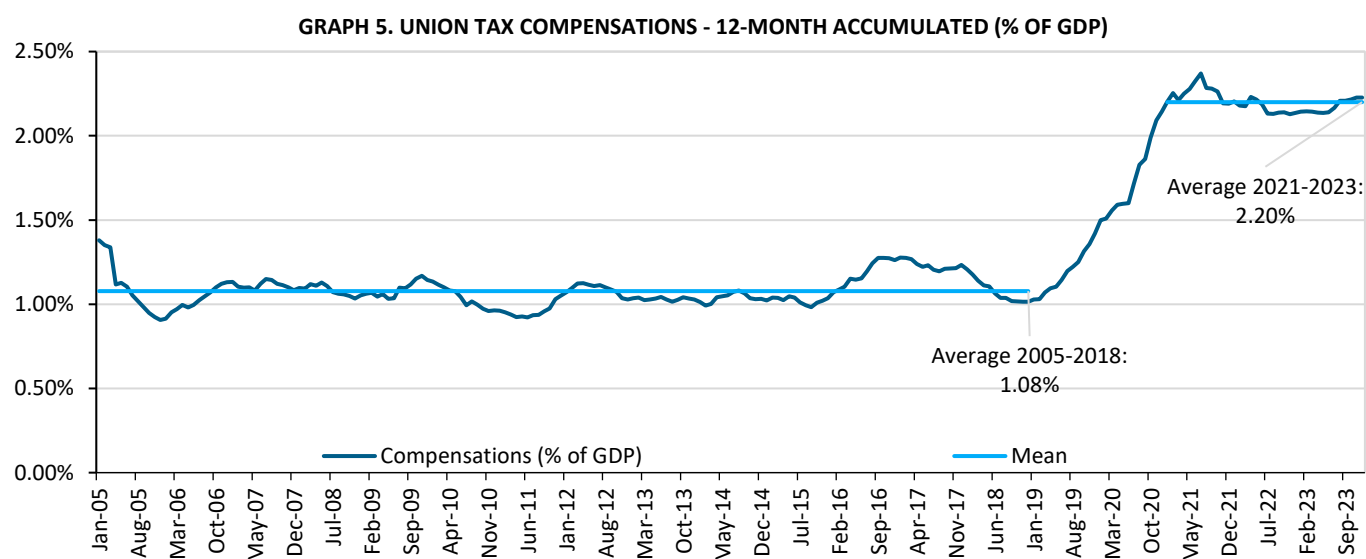
Source: Brazilian Federal Revenue Office. Prepared by: IFI.

By way of illustration, if tax compensations in the 12 months ending in December 2023 had been 1.1% of GDP, instead of 2.2% of GDP, the amounts involved would have been BRL 117.1 billion, a difference of BRL 124.9 billion compared to what the Brazilian Federal Revenue Office reported (BRL 242.1 billion). This BRL124.9 billion would correspond to an average monthly volume of BRL 10.4 billion.

For estimation purposes, the IFI assumed that the Executive would reduce these compensations to 2.0% of GDP at the end of 2024, then to 1.9% of GDP in 2025, 1.8% of GDP in 2026 and 1.7% of GDP from 2027 onwards. These percentages represent mere assumptions and may be changed as new information emerges regarding the regulations to be issued by the Ministry of Finance. Based on these assumptions and the IFI's macroeconomic projections, the revenue gain for the central government could be BRL 26.2 billion in 2024, BRL 40.1 billion in 2025, BRL 55.6 billion in 2026 and BRL 72.6 billion in 2027, in nominal values.

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[8] Page to access the regulation: http://tinyurl.com/d7p579yz.
[9] For more information, see: http://tinyurl.com/y6ur6ztp.
[10] Law No. 12,527, of November 18, 2011. Link to access it: http://tinyurl.com/mrxwzd2d.

Table 5 contains the IFI's updated estimates for the central government's revenues, expenditure and primary balance in 2024, 2025 and 2026. This year, the primary deficit would be 0.9% of GDP, falling to 0.8% of GDP in 2025 and to 0.4% of GDP in 2026. This would mean non-compliance with the primary balance targets set in the 2024 LDO.

TABLE 5. IFI ESTIMATES FOR CENTRAL GOVERNMENT REVENUE, EXPENDITURE AND PRIMARY BALANCE - BRL BILLION AND % OF GDP (2024-2026)

Baseline scenario	2024		2025		2026	
	BRL billion	% of GDP	BRL billion	% of GDP	BRL billion	% of GDP
1. Total primary revenue	2,582.5	22.4%	2,757.1	22.5%	2,942.1	22.6%
Revenue collected by the Federal Revenue Office	1,673.9	14.5%	1,787.5	14.6%	1,910.2	14.7%
Net collection for the RGPS	610.5	5.3%	646.5	5.3%	686.0	5.3%
Revenue not collected by the Federal Revenue Office	298.1	2.6%	323.1	2.6%	345.9	2.7%
2. Revenue-sharing transfers	508.2	4.4%	539.9	4.4%	577.0	4.4%
3. Net primary revenue [1-2]	2,074.3	18.0%	2,217.2	18.1%	2,365.2	18.2%
4. Total primary expenditure	2,183.5	18.9%	2,310.5	18.9%	2,415.8	18.6%
5. Primary balance [3-4]	**-109.2**	**-0.9%**	**-93.3**	**-0.8%**	**-50.7**	**-0.4%**

Source: National Treasury Secretariat and Siga Brasil. Prepared by: IFI.

Primary balance target and limits for spending cuts

The LDO 2024 sets a zero primary balance target for the current financial year. Based on the rules of the Sustainable Fiscal Regime, established by Complementary Law (LC) No. 200 of August 30, 2023[11], the LDO sets a tolerance interval of BRL 28.8 billion around the center of the target. Thus, the 2024 primary balance target will be considered met if the primary balance is greater than or equal to the lower limit, i.e. a deficit less than or equal to BRL 28.8 billion (corresponding to 0.25% of GDP).

Table 6 compares the IFI projections for this year with those contained in the 2024 Annual Budget Law (LOA 2024). There is a BRL 137.4 billion difference between the estimated values for primary revenue in the LOA and the IFI projection, explained mainly by the measures contained in Table 4. The BRL 5.0 billion difference between the estimates for primary expenditure is explained mainly by two factors: (i) an extra BRL 24.1 billion projected by the IFI in expenditure on social security benefits; and (ii) an extra BRL 23.4 billion projected by the IFI in discretionary expenses. There are also differences of BRL 2.4 billion and BRL 3.3 billion in the estimates for payroll and other mandatory expenditure, respectively. Although not shown in Table 6, the Executive vetoed BRL 5.6 billion in committee amendments, pending consideration by the Legislative Branch[12].

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[11] Available at: http://tinyurl.com/mta95pxd.

[12] Legislative matter available at: http://tinyurl.com/2ku2pwwf.

TABLE 6. REVENUES AND EXPENSES IN LOA 2024 AND IN THE IFI BASELINE SCENARIO (BRL BILLION AND % OF GDP)

Heading	LOA 2024 (without vetoes)		IFI Baseline Scenario		Difference between LOA 2024 and IFI Scenario	
	BRL billion	% GDP	BRL billion	% GDP	Δ BRL billion	p.p. GDP
1. Primary revenue	**2,719.9**	**24.0%**	**2,582.5**	**22.4%**	**137.4**	**1.60**
2. Revenue-sharing transfers	**527.9**	**4.7%**	**508.2**	**4.4%**	**19.7**	**0.25**
3. Net primary revenue [1-2]	**2,192.0**	**19.3%**	**2,074.3**	**18.0%**	**117.7**	**1.35**
4. Total primary expenditure	**2,188.5**	**19.3%**	**2,183.5**	**18.9%**	**5.0**	**0.38**
Social security benefits	908.7	8.0%	932.8	8.1%	-24.1	-0.07
Payroll and social charges	379.2	3.3%	376.8	3.3%	2.4	0.08
Other mandatory expenditure	686.2	6.1%	682.9	5.9%	3.3	0.13
Discretionary expenditure	214.4	1.9%	191.0	1.7%	23.4	0.24
5. Primary balance [3-4]	**3.5**	**0.0%**	**-109.2**	**-0.9%**	**112.7**	**0.98**

Source: LOA 2024 and IFI. Prepared by: IFI.

For the projections of expenditure on the payment of social security benefits under the RGPS, the main differences between the figures in the LOA and the IFI baseline scenario are associated with vegetative growth parameters (quantum effect) and the consideration of administrative measures aimed at generating savings of BRL 12.5 billion in these expenses[13].

The vegetative growth considered by the Executive was 1.03%, however, an analysis of the most recent figures for social security benefits issued shows an acceleration from 32.8 million benefits issued in September 2023 to 33.3 million in November 2023 (an increase of 1.6%). Compared to November 2022, the variation was 2.8% (Graph 6). In addition, the IFI figures do not take into account BRL 12.5 billion relating to administrative measures, so any effects of these measures could result in changes to the baseline scenario.

GRAPH 6. RGPS BENEFITS ISSUED (MILLIONS)
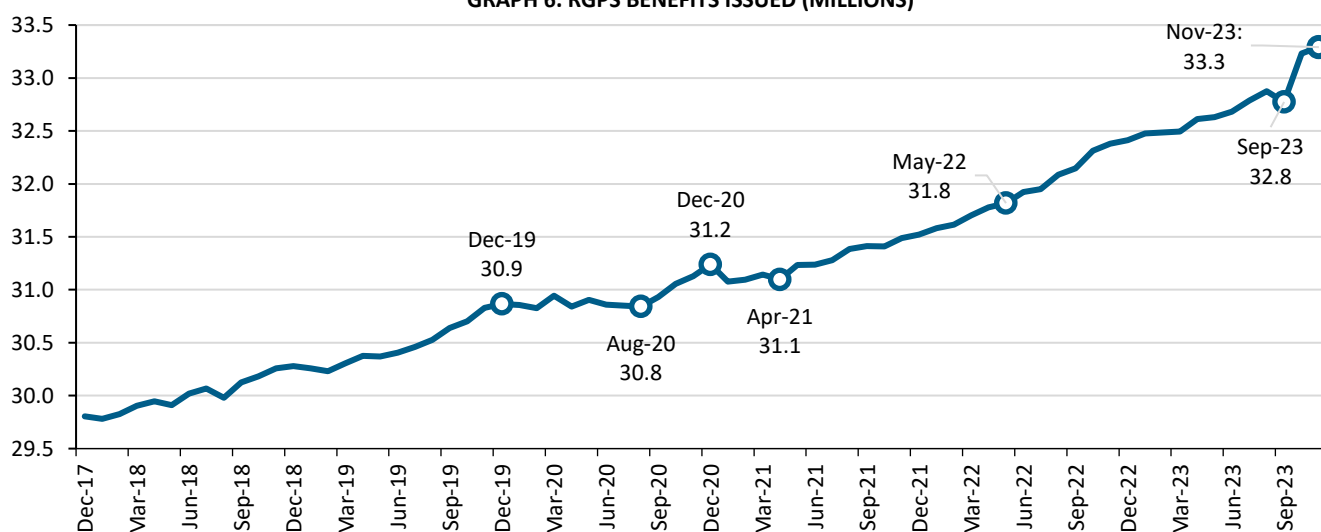
Source: SRGPS. Prepared by: IFI.

The IFI's baseline scenario highlights the risks surrounding compliance with the central government's primary balance target in 2024. In this context, it is necessary to evaluate the possible consequences of the materialization or not of these risks associated with the scenario.

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[13] See TCU Ruling No. 47 of 2024. Available at: http://tinyurl.com/y4exjcy9.

The Sustainable Fiscal Regime establishes the following mechanisms to be observed in cases of risk and non-compliance with the primary balance target: (i) spending cuts for discretionary expenses when it becomes clear, during budget execution in the current year (t), that the primary target may not be achieved; (ii) triggers when the primary achieved in the previous year (t-1) falls below the lower limit of the target; and (iii) expenditure growth limited to 50% (and not 70%) of revenues when the primary achieved in the year prior to budget preparation (t-2) is not met.

Thus, if the government fails to meet the primary balance target in 2024, the effects of this failure will have repercussions not only in 2024, but also in 2025 and 2026. Each of these mechanisms is discussed below.

(i) Spending cuts: According to art. 9 of the LRF, when the government finds, at the end of a two-month period, that the revenue achieved may not be sufficient to meet the primary or nominal balance targets, it will be necessary to limit commitments and financial movements, also known as budgetary contingency measures or spending cuts.

Item I of art. 7 of the RFS, on the other hand, states that measures to limit commitments and payments must preserve the minimum level of discretionary expenses necessary for the regular functioning of the public administration. The same art. 7 sets, in its second paragraph, the percentage of 75% of the amount authorized in the respective annual budget law (LOA) as the minimum limit for discretionary expenses, i.e. those that cannot be subject to budgetary contingency measures.

The amount authorized in LOA 2024 for discretionary expenses was BRL 214.4 billion, however, there was a presidential veto for BRL 5.6 billion of that amount, which brings the figure to BRL 208.9 billion. Thus, strictly following what is stated in the RFS, the maximum amount to be cut in 2024 would be BRL 52.2 billion. However, art. 9 of the LRF also details guidelines to be observed in the LDO regarding spending cuts.

Paragraph 18 of art. 71 of Law 14.791 (LDO 2024) restricts even further how much can be cut from expenditure in the 2024 financial year. According to these guidelines, the resources from sources linked to the National Fund for Scientific and Technological Development (FNDCT), expenses not subject to the RFS, and the expenses necessary for the preservation of the minimum threshold of 0.6% for the real growth of expenses subject to the RFS will not be subject to limitation of commitment and financial movement.

Thus, if the provisions of the budget guidelines for the 2024 budget are observed, the maximum limit to spending cuts would be BRL 25.9 billion Uncertainty persists regarding the application of this guideline, since LC 200 (RFS) does not explicitly deal with budget guidelines in the same way as the LRF, which specifies (in relation to financial movement and commitment limits): "Art. 9 (...), according to the criteria established by the budget guidelines law".

Doubts about the interpretation of the provisions of the LRF, the LDO 2024 and LC No. 200 prompted a consultation with the Federal Accounting Court (TCU) - on the application of the provisions contained in these last two legal instruments[14].

Thus, to assess whether the maximum amount to be cut is sufficient to achieve the central government's primary balance targets, the IFI carried out an exercise to compare the frustration of additional revenues projected by the institution (BRL 81 billion compared to BRL 168.5 billion forecast in the LOA) with the budget figures. This difference is then set against the lower limit of the primary target and defined as "need for spending cuts"[15]. With this, it is possible to compare the maximum amount that could be cut (BRL 52.2 or BRL 25.9 billion) with this need for budgetary contingency measures and check whether the maximum amount would be sufficient to achieve the primary target.

According to this exercise, and assuming that the government does not change the macroeconomic assumptions contained in the LOA, the amount of spending cuts needed to meet the lower limit of the primary target would be BRL 49.7 billion. This amount would be slightly below the 25% of discretionary spending authorized in the LOA (BRL 52.2 billion), but also below the maximum amount of spending cuts, if the provisions of the LDO 2024 apply (BRL 25.9 billion).

Table 7 shows the calculation of the necessary spending cuts. It is worth mentioning that a certain subjectivity persists in this scenario. Firstly, because it assumes that the government will not *a priori* change its macroeconomic assumptions

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[14] The file can be found at: http://tinyurl.com/452eumbk.
[15] Adjustments were made in relation to budget vetoes and also to the BRL 3.5 billion surplus forecast in the budget before the veto.

or its mandatory expenditure scenario; secondly, because the government's scenario for conditional revenues may also differ from the scenario estimated by the IFI this year.

TABLE 7. PRIMARY BALANCE POSSIBLE WITH THE POSSIBILITIES OF SPENDING CUTS IN 2024 (BRL BILLION AND % OF GDP).

	BRL billion	% of GDP
Primary balance - Budget Law (A)	3.5	0.0%
Conditional revenues - Budget Law (B)	168.5	1.5%
Conditional revenues - IFI (C)	81.0	0.7%
Expected shortfall D = (B - C)	87.5	0.8%
Primary balance with shortfall E = (A - D)	-84.0	-0.7%
Budget vetos (F)	5.6	0.0%
Primary fiscal target (G)	0.0	0.0%
Lower bound of the target (0.25% of GDP) - (H) = (G - 0.25% x GDP)	-28.8	-0.3%
Spending cut requirement (I) = (H - F - E)	49.7	0.4%

Source: LOA 2024 and IFI. Prepared by: IFI.

(ii) Trigger activation: The RFS provides for several triggers in the event of non-compliance with the primary target. According to art. 6 of the RFS, if it is the first year of non-compliance with the primary target, the triggers corresponding to items II, III and VI to X of Table 1 will be activated immediately. If there is persistent non-compliance with the primary target, the triggers are extended to the other items set out in Art. 167-A of the Federal Constitution and also detailed in Chart 1.

CHART 1. TRIGGERS PROVIDED FOR IN ART. 167-A OF THE FEDERAL CONSTITUTION

Item of Art. 167-A of the Federal Constitution	Description (prohibitions)
I	Granting, under any title, of benefits, increases, readjustments or changes to the remuneration of members of a power or body
II	Creation of positions, jobs or functions involving an increase in expenditure
III	Change in career structures involving an increase in expenditure
IV	Hiring or contracting staff in any capacity, with the exception of replacements
V	Conducting public sector hiring exams
VI	Creation or increase of allowances, advantages, bonuses, representation funds or benefits of any kind, including those of an indemnity nature
VII	Creation of mandatory expenditure
VIII	Adoption of measures that imply an increase in mandatory expenditure above the inflation rate
IX	Creation or expansion of subsidies and grants
X	Granting or extending tax incentives or benefits

Source: Federal Constitution. Prepared by: IFI.

(iii) Lower spending limit: This is the third consequence of not complying with the primary target. Art. 5 of Complementary Law No. 200 provides that the "real variation of the primary expenditure limits (...) will be cumulative and will be limited, in relation to the real variation of the primary revenue (...) to the following proportions: (...)" 70% (...), if the primary balance target calculated in the year prior to the preparation of the LOA has been met; and **50%** (...), if the primary balance target calculated in the year prior to the preparation of the LOA **has not been met**".

History of the Executive Branch's spending cuts from 2010 to 2023

To conclude this text, we briefly discuss the history of spending cuts made by the Executive between 2010 and 2023. To do so, we updated an exercise carried out by the IFI and initially presented in RAF No. 4[16], of May 2017, which shows the difference between the LOA's initial allocation and its initial and final limits.

As explained in the previous section, Art. 9 of Complementary Law No. 101 determines that spending cuts must be made if it is predicted that revenues will be insufficient to meet the fiscal targets set for the financial year. Published bimonthly, the Primary Revenue and Expenditure Assessment Report (RARDP) is the instrument used to determine whether or not discretionary expenses need to be reduced.

Graph 7 shows the history of discretionary expenses and the respective limits established in the decrees of the first assessment and in the closing ordinances of the previous year. The initial appropriation information corresponds to the amount of discretionary expenses subject to cuts by the Executive Branch. The initial limit is the amount allowed for commitment during the year, given by the difference between the initial appropriation and the spending cuts. The final limit, in turn, is the amount that was allowed for commitment throughout the fiscal year, taking into account the updated appropriation (initial appropriation plus additional credits), adjusted for any implemented and/or reversed spending cuts during the year. From 2010 to 2016, there was a relatively high amount of spending cuts in the first assessment of revenues and expenses for the year, with reductions of between 0.4 p.p. and 1.2 p.p. of GDP. From 2017 onwards, with the exception of 2019, the volume of spending cuts in the first evaluation after the publication of the LOA was relatively low, even though the volume of discretionary expenses also decreased over time.

GRAPH 7. DISCRETIONARY PRIMARY EXPENDITURES (% OF GDP) - 2010 TO 2023
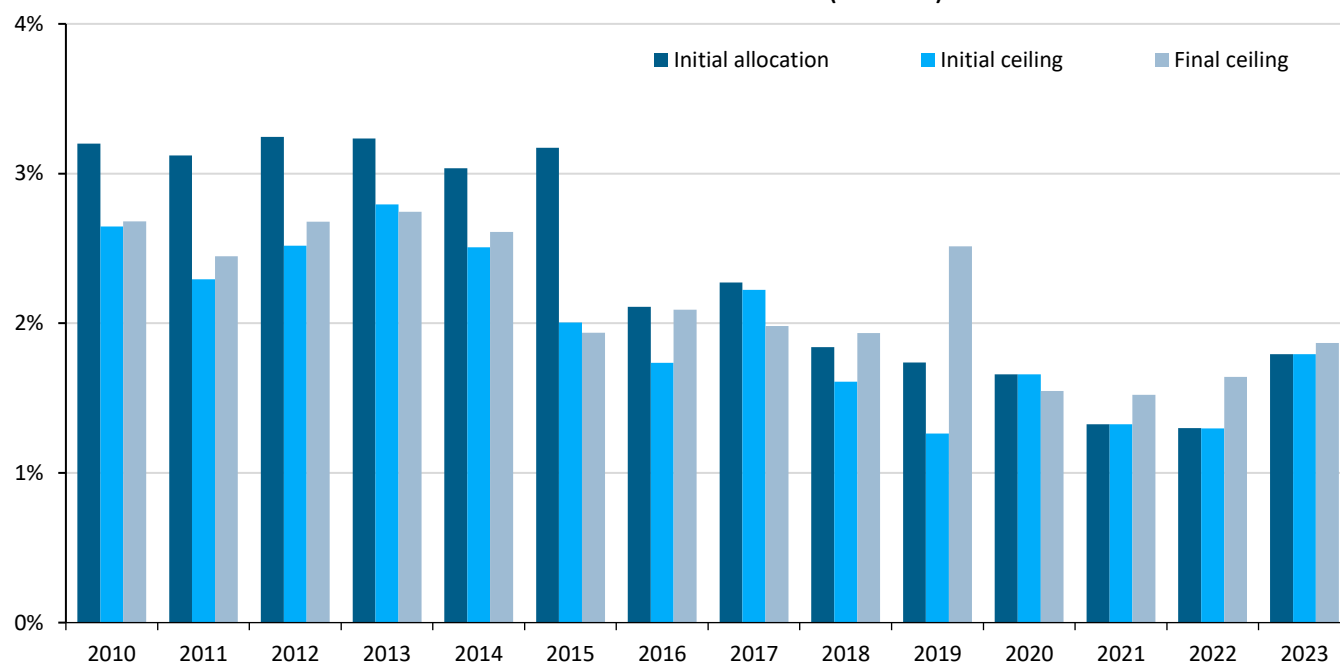
Source: Budgetary and Financial Programming Decrees, Ordinances referring to the end of the previous year, IBGE and the President's Accounts. Prepared by: IFI.

From the information on the final limits, it can be seen that, until 2017, even though the cuts in discretionary expenses had been partially reversed, the targets remained lower than the amounts approved in the respective budget laws for the years. From 2018 onwards, except for 2020, the final limits have been higher than the allocations provided for in the budget laws due to the lifting of spending cuts and the opening of additional credits for the execution of expenses.

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[16] Available at: http://tinyurl.com/5ycetcsm.

The reasons for these events vary. One explanation lies in the reversal of the trajectory of primary revenues, as seen in the RARDPs. Another explanation lies in the changes made to the fiscal rules, with the possibility of reducing the fiscal target for the year or even changing the target itself[17]. From 2017 onwards, in addition to the primary balance target rule, the fiscal rule of the expenditure ceiling came into force, which also guided spending blocks in the event that primary expenditure grew above the limits set by the ceiling.

Complementary Law No. 200 changed spending cuts by limiting the use of this instrument, which may imply greater challenges in meeting fiscal targets from the 2024 financial year onwards, in the event of the need for an adjustment on the expenditure side.

To conclude, considering all that has been analyzed in the three subsections of this article, uncertainties persist in relation to the materialization of some revenues intended by the Executive in 2024. In any case, some revenues have been higher than expected, such as those from the taxation of exclusive funds. The deviation in the revenue estimates of the Executive and the IFI explains the difference in the projections for the 2024 primary balance. The Executive's target is a primary deficit of zero, while the IFI projects a deficit of 0.9% of GDP.

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[17]For further explanations, see IFI Technical Note No. 52, of June 2023, available at: http://tinyurl.com/ifi-brasil-nt-52.

Estimate for gross debt in 2024 reduced from 78.8% to 77.7%

Alexandre Andrade and Alessandro Casalecchi

With the new fiscal projections, the IFI has updated the baseline scenario for the general government's gross debt in the short and medium term. The new estimates indicate a slightly more favorable picture, although the outlook is for the indicator to rise in the short term, mainly due to the slower rate of expansion of nominal GDP and the primary deficits expected for the central government. As for 2025, the debt projection has been reduced from 81.5% to 80.2% of GDP.

New projections for General Government Gross Debt (GBGD)

Based on the revision of macroeconomic and fiscal parameters, the IFI expects the General Government Gross Debt (DBGG), an indicator calculated by the Central Bank, to reach 77.7% of GDP in 2024 and 80.2% of GDP next year. The estimates are slightly better than those presented in the last scenario review in November 2023 (Table 8).

TABLE 8. PROJECTIONS FOR GENERAL GOVERNMENT GROSS DEBT IN 2024 AND 2025, UNDER THE IFI BASELINE SCENARIO

Discriminação	2023*	2024		2025	
		Parameters of Nov/23	Parameters of Feb/24	Parameters of Nov/23	Parameters of Feb/24
Primary balance of the consolidated public sector	-2.30%	-1.20%	-0.80%	-1.20%	-0.80%
Nominal GDP (R$ billion)	10,869	11,338	11,538	12,066	12,256
GDP - real growth	3.00%	1.20%	1.60%	2.10%	2.00%
GDP implicit deflator	4.70%	4.80%	4.40%	4.30%	4.20%
Selic rate (% p.a.) - end of period	11.75%	9.25%	9.25%	8.25%	8.50%
Implicit nominal rate (% p.a.) - end of period	11.30%	9.50%	9.70%	8.40%	8.70%
Implicit real rate (% p.a.) - end of period	6.40%	5.30%	5.60%	4.90%	5.00%
GGGD (% of GDP)	74.30%	78.80%	77.70%	81.50%	80.20%

* Nominal GDP data, real GDP growth and the implicit GDP deflator for 2023 are IFI projections.
Source: IBGE, Banco Central. Prepared by: IFI.

The increase in indebtedness this year and next should be due to: (i) the primary deficits expected for the consolidated public sector, for which the IFI estimate is 0.8% of GDP in both years; (ii) the lower contribution of real GDP growth to the trajectory of the DBGG/GDP ratio; and (iii) the still relatively high implicit real DBGG rate.

For 2024 and 2025, the IFI estimates that the consolidated public sector will have primary deficits of 0.8% of GDP, results that would be mainly influenced by central government deficits (0.9% of GDP in 2024 and 0.8% of GDP in 2025). As discussed in the previous sections of this RAF, the biggest deviation between the IFI's and the Executive's projections is in the revenue estimates, which explains the discrepancy between the projections for the central government's primary balance.

Another factor to mention regarding the DBGG projection is the behavior of nominal GDP. As discussed in previous editions of this RAF, the significant increase in nominal GDP over the last three years (18.4% in 2021, 11.8% in 2022 and 7.8% in 2023) has contributed to reducing, in the case of 2021 and 2022, or limiting, in the case of 2023, the increase in the DBGG as a proportion of GDP. The Central Bank's data on the factors conditioning gross debt confirms this.

By way of illustration, in 2021, the effect of GDP growth on debt was negative by 13.5 p.p. of GDP. In 2022, this effect was negative by 8.2 p.p. of GDP. Last year, the GDP contribution was negative by 5.3 p.p. of GDP. At the same time, the conditioning factors, mainly interest payments, contributed to increases of 3.9 p.p. of GDP in 2021, 2.6 p.p. of GDP in 2022, and 7.9 p.p. of GDP last year (Graph 8).

Graph 8 shows these trajectories. We can see the smaller contribution of GDP growth to the debt, which should be maintained this year and next, when nominal GDP increases of 6.1% (2024) and 6.4% (2025) are expected.

At the same time as the effect of GDP on debt growth began to diminish, the other conditioning factors began to make a greater contribution to the DBGG's performance, mainly due to the latest cycle of increases in the economy's basic interest rates (which began in 2021), which affected the implicit interest rate on the gross debt.

GRAPH 8. SUM OF CONDITIONING FACTORS, EFFECT OF GDP AND CHANGE OVER 12 MONTHS IN DBGG (% OF GDP) - ACCUMULATED OVER 12 MONTHS - P.P. OF GDP

Conditioning factors - total | Effect of GDP growth on debt | DBGG - 12-month change
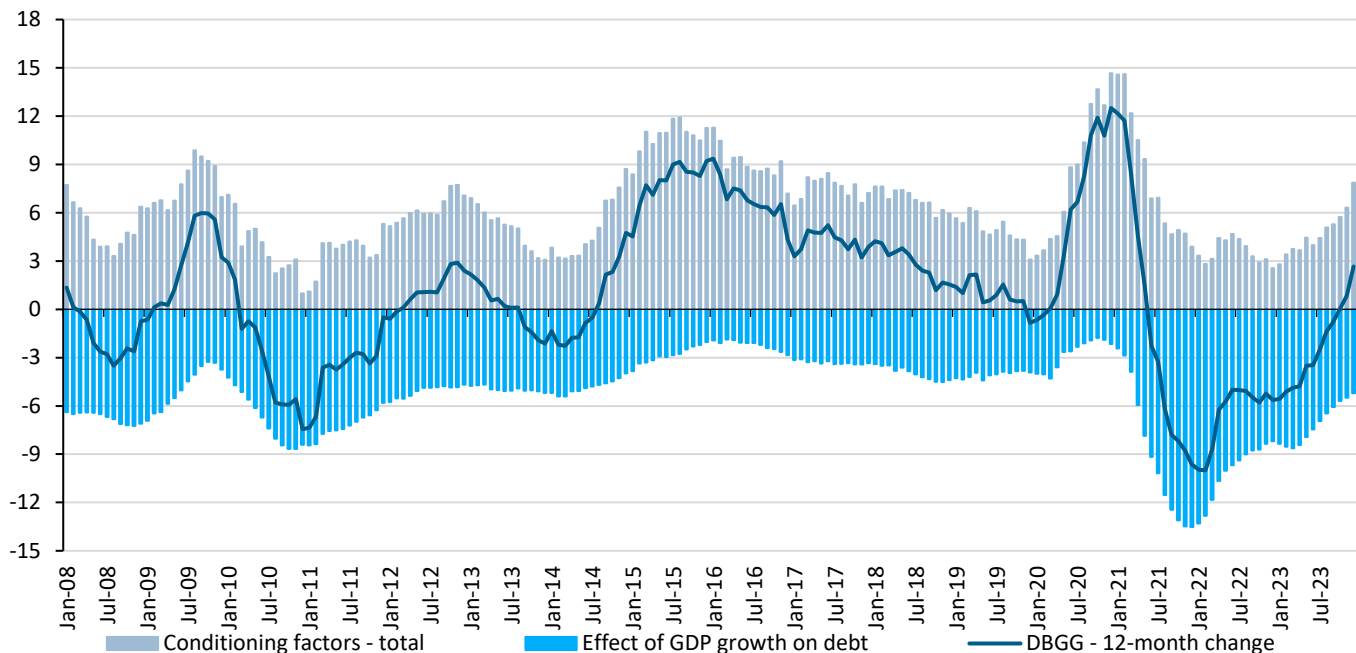
Source: Central Bank. Prepared by: IFI

The IFI also updated the debt *fan chart* published in the aforementioned RAF no. 82 of November 2023. The *fan chart* complements the deterministic baseline scenario and is generated from 1,500 stochastic scenarios[18] for debt. Given the assumptions contained in the baseline scenario, the probability of the DBGG crossing the 90% of GDP threshold in some year between 2024 and 2028 was estimated at 29.1% (Graph 9).

GRAPH 9. BASELINE SCENARIO AND STOCHASTIC SCENARIOS (FAN CHART) FOR DBGG (% GDP)

Baseline scenario | 10% to 90% | 20% to 80% | 30% to 70% | 40% to 60%

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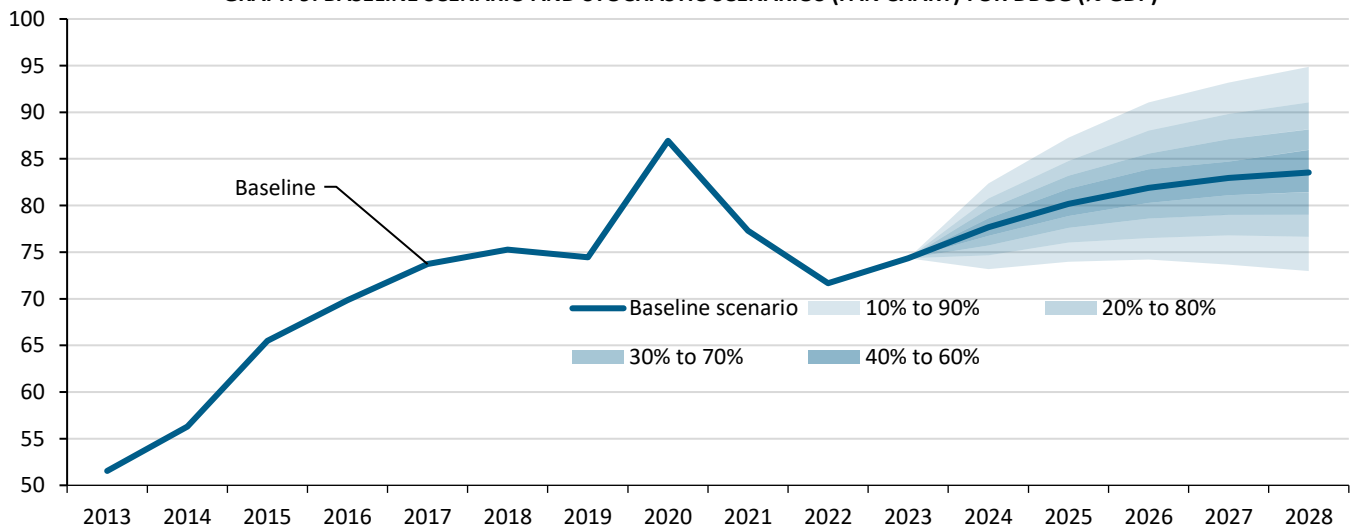
[18] For an explanation of the methodology, see Special Study No. 18, published by the IFI in December 2023: http://tinyurl.com/a7s43hdt.

Source: IFI. Explanatory note: the values on the left axis indicate the percentage of GDP that the DBGG represents. The percentages in the legend at the bottom of the graph indicate probability ranges. For example, 20% of the simulated values are in the range labeled "40% to 60%". Or 80% of the values are in the range labeled "10% to 90".

The probability reported above is lower than that of RAF No. 82, at 38.7%. The main explanation for the drop is the reduction in the DBGG projected in the baseline scenario[19]. In fact, in the November 2023 report, the baseline scenario even crossed 85% of GDP, whereas this time, that threshold is not reached. This explanation is corroborated by the fact that the width of the fan chart - the difference between the 90% and 10% percentiles in 2028 - remained practically the same in both reports: it went from 22.2 p.p. (Nov/23) to 21.9 p.p. (now).

Graph 9 indicates, as has been commented on in previous editions of the RAF, that the chance of DBGG returning to the 2023 level (74.3% of GDP) in the next five years is remote. In other words, the probability that the DBGG in 2028 will be lower than in December 2023 is 13.4%. Nevertheless, the probability is higher than the 8.9% estimated in RAF 82.

Table 9 updates the exercise to calculate the primary balance required to stabilize the public debt as a proportion of GDP at 74.3% in December 2023. According to the new parameters, the primary required to stabilize the debt in the medium term is 1.5% of GDP.

TABLE 9. PRIMARY BALLANCE REQUIRED TO STABILIZE GROSS DEBT AT 74.3% OF GDP

DBGG in t		Implicit real interest from DBGG							
74.3%		**0.5%**	**1.0%**	**2.0%**	**3.5%**	**4.1%**	**4.5%**	**5.0%**	**5.5%**
Real GDP (% p.a.)	**0.5%**	0.0%	0.4%	1.1%	2.2%	2.7%	3.0%	3.3%	3.7%
	1.0%	-0.4%	0.0%	0.7%	1.8%	2.3%	2.6%	2.9%	3.3%
	1.5%	-0.7%	-0.4%	0.4%	1.5%	1.9%	2.2%	2.6%	2.9%
	2.0%	-1.1%	-0.7%	0.0%	1.1%	1.5%	1.8%	2.2%	2.6%
	2.5%	-1.5%	-1.1%	-0.4%	0.7%	1.2%	1.5%	1.8%	2.2%
	3.0%	-1.8%	-1.4%	-0.7%	0.4%	0.8%	1.1%	1.4%	1.8%
	3.5%	-2.2%	-1.8%	-1.1%	0.0%	0.4%	0.7%	1.1%	1.4%

Source: IFI. Prepared by: IFI.

The results of the exercise vary according to the real interest rates and the real growth of the economy. For example, with an implicit gross debt interest rate of 4.1% p.a. and GDP growth of 2.0% (average projections for the medium term - 2025 to 2033 - in the baseline scenario), the primary surplus required to stabilize the DBGG at 74.3% of GDP is 1.5%. Table 9 shows that the higher the interest rate, the greater the primary required to stabilize the debt. On the other hand, higher economic growth reduces the primary balance required for this. Under the scenario of real interest rates of 2.0% p.a. and real GDP growth of 3.5%, even a primary deficit of 1.1% of GDP would stabilize the gross debt at the level recorded in December 2023 (74.3% of GDP).

Considerations on the Monthly Debt Report (RMD) and the 2024 Annual Financing Plan (PAF 2024)

In January, the National Treasury Secretariat (STN) released the Monthly Debt Report (RMD) for December, the Annual Debt Report for 2023 (RAD 2023) and the PAF 2024. According to the RMD, the net issuance of Federal Domestic Public Debt (DPMFi) bonds by the Treasury was negative by BRL 2.7 billion, meaning redemptions exceeded issuances by this amount. Issuances totaled BRL 14.2 billion, while redemptions totaled BRL 16.9 billion.

Graph 10 shows the 12-month accumulated evolution of issues, redemptions, and net issues of Treasury securities, according to information from the RMD. Although there were net redemptions of securities last year, it is possible to see that a greater volume of issues occurred in the second and fourth quarters of the year, when the conditions for placing securities were more favorable (relatively lower risk aversion and relatively lower average cost of debt). Historically, between 2008 and 2023, the average annual volume of securities issued by the Treasury was BRL 9.4 billion.

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[19] It's worth remembering that the fan chart takes the baseline scenario as a reference and is built symmetrically around it.

**GRAPH 10. ISSUANCE, REDEMPTIONS AND NET ISSUANCE OF DPMFI (R$ BILLION) ACCUMULATED OVER 12 MONTHS**
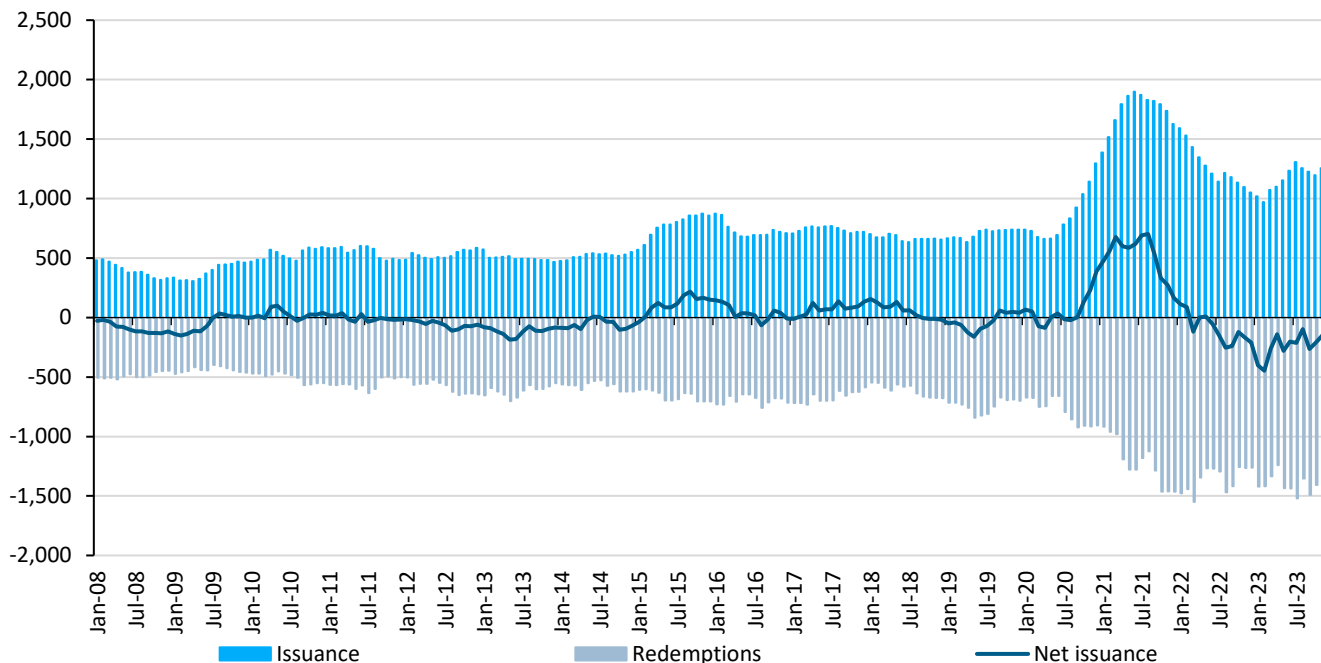
Source: National Treasury Secretariat. Prepared by: IFI

Graph 10 shows that the Treasury has reduced the volume of issues from 2022 onwards. As explained in previous editions of the RAF[20], this was mainly due to the reduction in spending on combating the pandemic, as well as the use of other instruments for managing the public debt, such as the liquidity reserve, due to the increase, as of 2021, of two of the main indexes for public bonds, namely inflation and the Selic rate. The increase in the value of the indexes worsens the conditions for issuing public bonds.

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[20] See, for example, RAF No. 78 of July 2023, available at: http://tinyurl.com/y7yfk76z.

GRAPH 11. AVERAGE COST OF DEBT (STOCK AND PUBLIC OFFERINGS), ACCUMULATED OVER T MONTHS (% PER YEAR) AND SELIC RATE - TARGET (% PER YEAR)
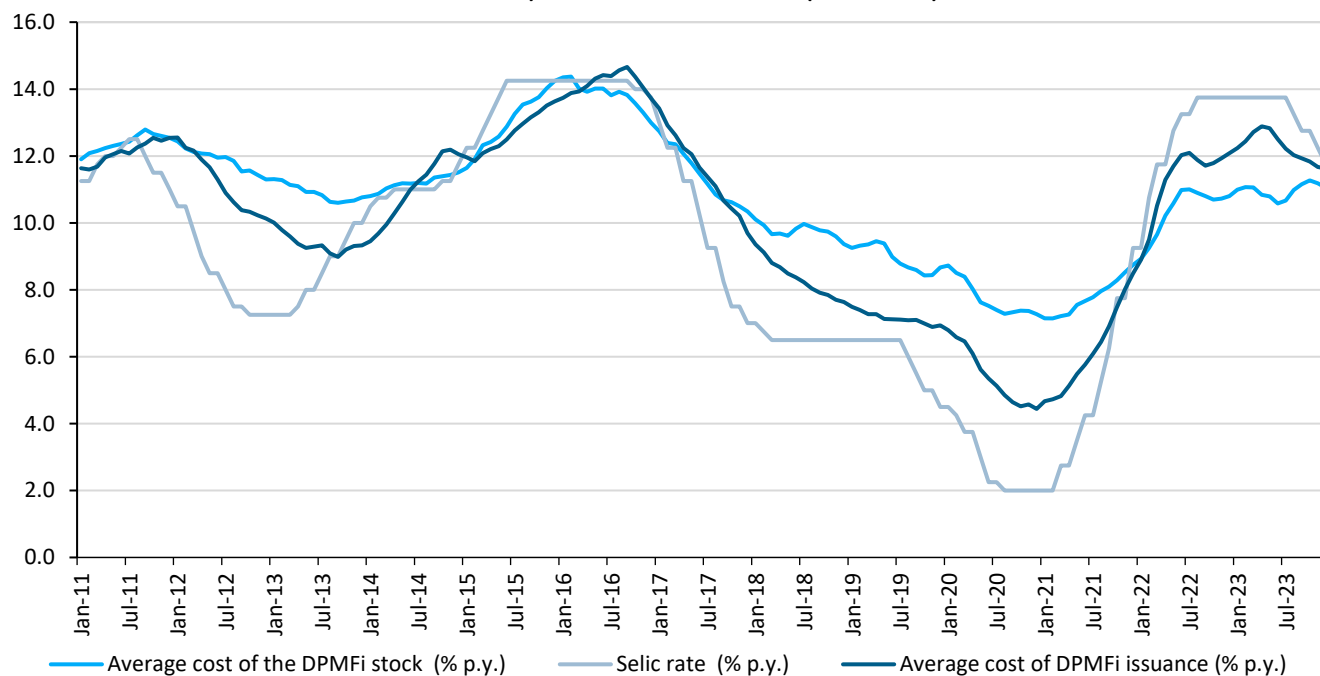
Source: National Treasury Secretariat. Prepared by: IFI.

In 2023, the average cost of DPMFi public offerings began to decline in the second half of the year. In May, this cost was 12.8% p.a., falling to 12.5% p.a. in June and reaching 11.6% p.a. in December. This downward movement accompanied, to some extent, the start of the downward cycle of the Selic rate in August (Graph 11).

Finally, with regard to the PAF 2024, it should be noted that, despite the Treasury's intention to lengthen debt maturities and improve the composition of the stock, reducing the relative share of floating-rate securities and increasing the share of fixed-rate securities and those linked to price indices, the Treasury is considering the possibility of increasing the share of floating-rate securities in the public debt stock in the short term.

This is because the Treasury has signaled its intention, at first, to continue gradually lengthening the maturity of securities, after the sharp reduction that occurred during the acute phase of the pandemic, in order to achieve the medium-term goal of increasing the share of fixed-rate securities in the public debt stock.

IFI projections

SHORT TERM

IFI projections	2024			2025		
	Jan/24	Feb/24	Comparison	Jan/24	Feb/24	Comparison
GDP - real growth (% p.a.)	1.19	1.65	▲	-	1.96	-
GDP - nominal (BRL billion)	11,525.44	11,537.88	▲	-	12,256.27	-
IPCA - accumulated (% in the year)	4.02	3.88	▼	-	3.49	-
Exchange rate - end of period (R$/US$)	5.08	4.89	▼	-	4.95	-
Employment - growth (%)	0.9	1	▲	-	1.02	-
Payroll - growth (%)	1.4	2.52	▲	-	1.96	-
Selic - end of period (% p.a.)	9.5	9.5	=	-	8.5	-
Real interest ex-ante (% p.a.)	5.33	5.35	▲	-	4.22	-
Consolidated Public Sector Primary Balance (% of GDP)	-1.27	-0.85	▲	-	-0.76	-
of which Central Government	-1.07	-0.95	▲	-	-0.76	-
Net Nominal Interest (% of GDP)	6.28	5.99	▼	-	5.56	-
Nominal Balance (% of GDP)	-7.55	-6.83	▲	-	-6.32	-
General Government Gross Debt (% of GDP)	78.69	77.66	▼	-	80.19	-

* **0.00**: *realized values.*

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