

# FFR

## Fiscal Follow-Up Report

JUN 28, 2024 • N° 89

### HIGHLIGHTS

- The projections for GDP growth in volume are 2.0% for 2024 and 1.9% for 2025.
- Medium-term GDP growth projection raised from 2.0% to 2.2%.
- The improved outlook takes into account the effects of the tax reform implementation.
- Collection measures have had an effect on primary revenue.
- The primary balance targets will not be met in the short term, even with spending cuts in accordance with current fiscal rules.
- There are still uncertainties about the minimum amount of discretionary spending that should be cut, due to multiple legislations on the subject.
- There was a general worsening of expenditure and primary balance projections due to changes in macroeconomic variables and in the pace of revenue growth.
- The rate of growth of mandatory expenditure makes the fiscal regime unsustainable in the medium term.
- Gross debt assumes an increasing trajectory in the projection horizon, in the baseline scenario.



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## Scenario review suggests risk of fiscal strangulation\*

The Independent Fiscal Institution (IFI), a body linked to the Federal Senate, publishes here Fiscal Follow-up Report (RAF, in the original acronym) No. 89, for June 2024, which presents the revision of the medium-term scenarios (2026 to 2034).

The outlook for average annual growth in Gross Domestic Product (GDP) has been adjusted from 2.0% to 2.2% per year, mainly due to productivity gains resulting from the effects of the Tax Reform.

In the medium term, the Independent Fiscal Institution (IFI) believes that inflation will converge to levels very close to the current inflation target, averaging 3.1% per year. However, the short-term projection for 2024 has been revised upward to 4.0%, due to the international scenario, exchange rate behavior, and the impacts of the socio-environmental tragedy that occurred in Rio Grande do Sul.

Over the next decade, the labor market is expected to remain around the current unemployment levels (7.8%), which is considered low by Brazilian standards. The effects of the labor and tax reforms are expected to lead to greater formalization of employment relationships, even considering the new configuration of the workplace in the 21st century.

The projection for the base interest rate (SELIC) was also revised to 10.5% p.a. at the end of 2024 and 9.5% p.a. in 2025, which the IFI previously estimated at 9.5% p.a. and 8.5% p.a., respectively. From 2026 to 2034, the IFI estimates an average nominal rate of 7.36% p.a. and real base interest rates of around 4% p.a. at all times. This change in scenario was due to (i) the change in stance of the Monetary Policy Committee (COPOM), which interrupted the downward movement of the Selic rate; (ii) the continued rigidity of American monetary policy; and (iii) uncertainties regarding the evolution of the Brazilian fiscal framework.

Considering these macroeconomic parameters, the IFI revised its projections for fiscal variables.

On the revenue side, the measures sent by the Federal Government and approved by the National Congress in 2023 had an effect on the 2024 collection (taxation of closed funds, offshores, economic grants, among others). However, many of the results are not permanent. In addition, although the revenues registered a real growth compared to 2023, they remain below the levels projected in the 2024 Federal Budget (OGU, kept here in its original acronym, as well as all acronyms of Brazilian taxes, programs, reports, institutions, etc.). Therefore, the risk associated with meeting the fiscal target of a zero primary deficit this year, as set out in the new fiscal framework and the Budget Guidelines Law (LDO), remains.

As for expenditure, the IFI identifies an underestimation in social security spending of up to BRL 30 billion and in the Continuous Cash Benefit (BPC) of around BRL 3 billion.

Analyzing the dynamics of revenues and expenses over the twelve months leading up to May 2024, and in proportion to GDP, it is observed, by conventional criteria (which includes non-recurring events), a net primary revenue of 18.1% of GDP, expenses of 20.4% of GDP, and therefore, a primary deficit of 2.3% of GDP. Considering only recurring expenses and revenues, a net primary revenue of 17.6% of GDP and expenditures of 19.2% of GDP were observed, resulting in a recurring primary deficit of 1.6% of GDP, a result far from the goal of balancing public accounts.

Considering the projection for 2024, the IFI estimates a primary deficit of BRL 75 billion (0.7% of GDP). Excluding expenses related to the calamity situation in Rio Grande do Sul from the target calculation, there still remains an estimated deficit of 0.5% of GDP, outside the tolerance range of the fiscal target (deficit of 0.25% of GDP) and far from what the Independent Fiscal Institution (IFI) projects as the necessary annual fiscal balance to stabilize the debt/GDP ratio (1.4% of GDP). Projections for the coming years predict continued primary deficits and, as a consequence, a significant increase in the debt/GDP ratio.

The IFI indicates the need for spending cuts amounting to BRL 37 billion, if the parameters of the LDO are considered, and BRL 55 billion if the conflicting criteria of the Fiscal Responsibility Law (LRF) prevail. The Federal Accounting Court should soon settle the question of which rule will prevail. In order to reach the fiscal target set out in the new framework and determined by the LDO (a lower deficit limit of 0.25% of GDP), it would be necessary to

make additional spending cuts of BRL 30 billion, in addition to the BRL 37 billion already mentioned.

Finally, the Independent Fiscal Institution (IFI) warns that if current conditions in the fiscal scenario are maintained, by 2027 there would be a budgetary strangulation with mandatory expenses, compressing the margin of non-rigid discretionary expenditures to a level of 0.25% of GDP. The Independent Fiscal Institution (IFI) projects that the minimum level of execution of non-rigid discretionary expenditures needed to keep the government machinery operational is 0.7% of GDP (0.4% for operational costs combined with 0.3% for minimum maintenance investments).

As can be seen, the fiscal outlook projected by the Independent Fiscal Institution (IFI) has unsustainable implications and highlights the urgent need for fiscal reform.

Happy reading!

**Marcus Pestana**

*IFI Executive Director*

**Alexandre Andrade**

*IFI Director*

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\* Director Vilma Pinto did not participate in the preparation of this Fiscal Follow-up Report.

## Summary

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- The June RAF updated the short- and medium-term projections for macroeconomic variables. Compared to the scenario for 2024 and 2025 presented in May, there are notable revisions in inflation and the Selic rate, reflecting a context of resilience in economic activity and the labor market, but also challenges in fiscal policy management and tighter global financial conditions. Regarding the medium-term scenario of November 2023, there was a positive revision in the GDP growth projection, from 2.0% to 2.2%, attributed to the positive impact of the tax reform on productivity. ([Page 6](#))
- The collection measures sought by the Executive have had an effect on primary revenues. For this reason, the IFI has updated the estimates for some of these revenue sources for 2024 and the coming years. Thus, the projection for the central government's net primary revenue in 2024 rose from 18.0% of GDP to 18.5% of GDP. For 2025, the estimate for the variable was changed from 18.1% of GDP to 18.7% of GDP. ([Page 11](#))
- The new short-term projections indicate that the primary balance targets will not be met, even with the cuts in primary expenditure carried out in accordance with current fiscal rules. Nonetheless, there are uncertainties about the minimum amount of discretionary expenses that must be cut, due to conflicts between the legislations on the topic. In the medium term, there was a worsening in all the expenditure and primary balance projection scenarios due to changes in macroeconomic variables and the pace of revenue growth. The pace of growth in mandatory and rigid discretionary expenditures is making the fiscal regime unsustainable in the medium term. ([Page 16](#))
- Based on the new projections for the primary balance of the central government and the consolidated public sector, the trajectory expected by the IFI for the gross debt in the medium term is upwards throughout the projection horizon (2024 to 2034), in the baseline scenario. This performance in indebtedness, in comparison with the IFI's last scenario revision, occurs mainly due to a worsening in the trajectory of the primary balances expected for the consolidated public sector. ([Page 23](#))

## 1. MACROECONOMIC CONTEXT

### 1.1 Introduction

The June Fiscal Follow-up Report (RAF) updates the short-term (2024-2025) and medium-term (2026- 2034) projections for macro-fiscal variables, incorporating new data and reassessing assumptions to ensure consistency with the current state of the economy. The report presents three scenarios (baseline, optimistic and pessimistic) to highlight the uncertainty of the projections and their dependence on different configurations of the economic situation. The detailed methodology for preparing the projections is described in Special Study No. 13<sup>1</sup>.

Table 1 summarizes the IFI's macroeconomic projections for the baseline and alternative scenarios.

**TABLE 1. PROJECTIONS IN THE BASELINE, OPTIMISTIC AND PESSIMISTIC SCENARIOS**

Version: June 2024									
Variable	Baseline			Optimistic			Pessimistic		
	2024	2025	2026-2034	2024	2025	2026-2034	2024	2025	2026-2034
Nominal GDP (BRL billion)	11,552	12,266	16,727	10,856	11,567	17,590	10,856	11,533	16,691
GDP - Real rate of change (%)	2.0	1.9	2.2	2.6	2.7	3.3	1.5	1.0	1.1
Implicit GDP deflator (%)	4.3	4.2	3.8	3.9	3.7	3.7	4.7	5.1	4.9
IPCA (% change year on year in December)	4.0	3.5	3.1	3.6	3.0	3.0	4.4	4.4	4.3
Unemployment rate (% of workforce)	7.8	7.8	7.8	7.3	7.3	7.3	8.2	8.5	9.2
Selic (% p.a.)	10.50	9.50	7.36	9.00	7.50	6.50	11.00	11.00	11.00
Real interest (% p.a.)	5.3	4.8	4.0	3.9	3.3	3.4	6.9	6.4	6.3

Source: IFI.

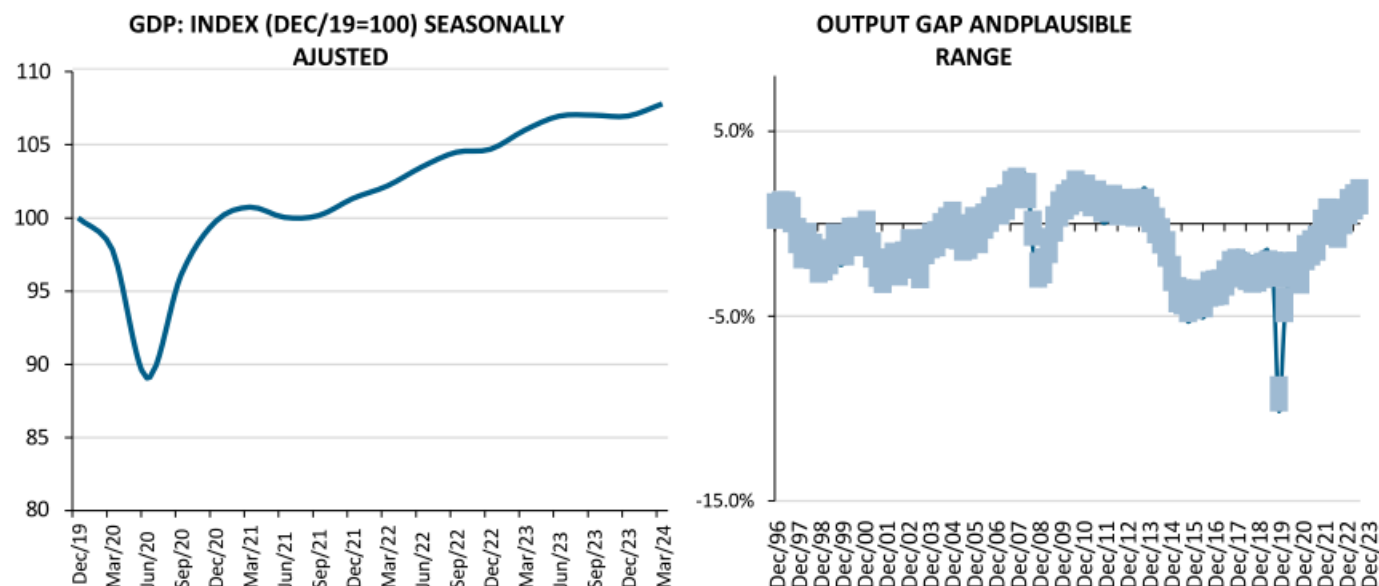
### 1.2 Short-term projections

Compared to the short-term scenario presented in May<sup>2</sup>, we have maintained the projections for GDP growth at 2.0% for 2024 and 1.9% for 2025. First quarter GDP slightly exceeded expectations, accelerating after two periods of stability. This performance was primarily driven by the growth in household consumption, due to the strength of the labor market (with hiring and wage increases), the expansion of social benefits, and the significant amount of court-ordered debt payments made between the end of last year and the beginning of this year. The resilience of economic activity is also evidenced by the evolution of the output gap, estimated at 0.7% in the first quarter, with an implicit variation in potential output of 1.7%.

<sup>1</sup> Available at: <https://tinyurl.com/2saxcrkw>

<sup>2</sup> Available at: <https://tinyurl.com/y2vd96mx>

**GRAPH 1. GDP AND OUTPUT GAP**



Source: IBGE and IFI.

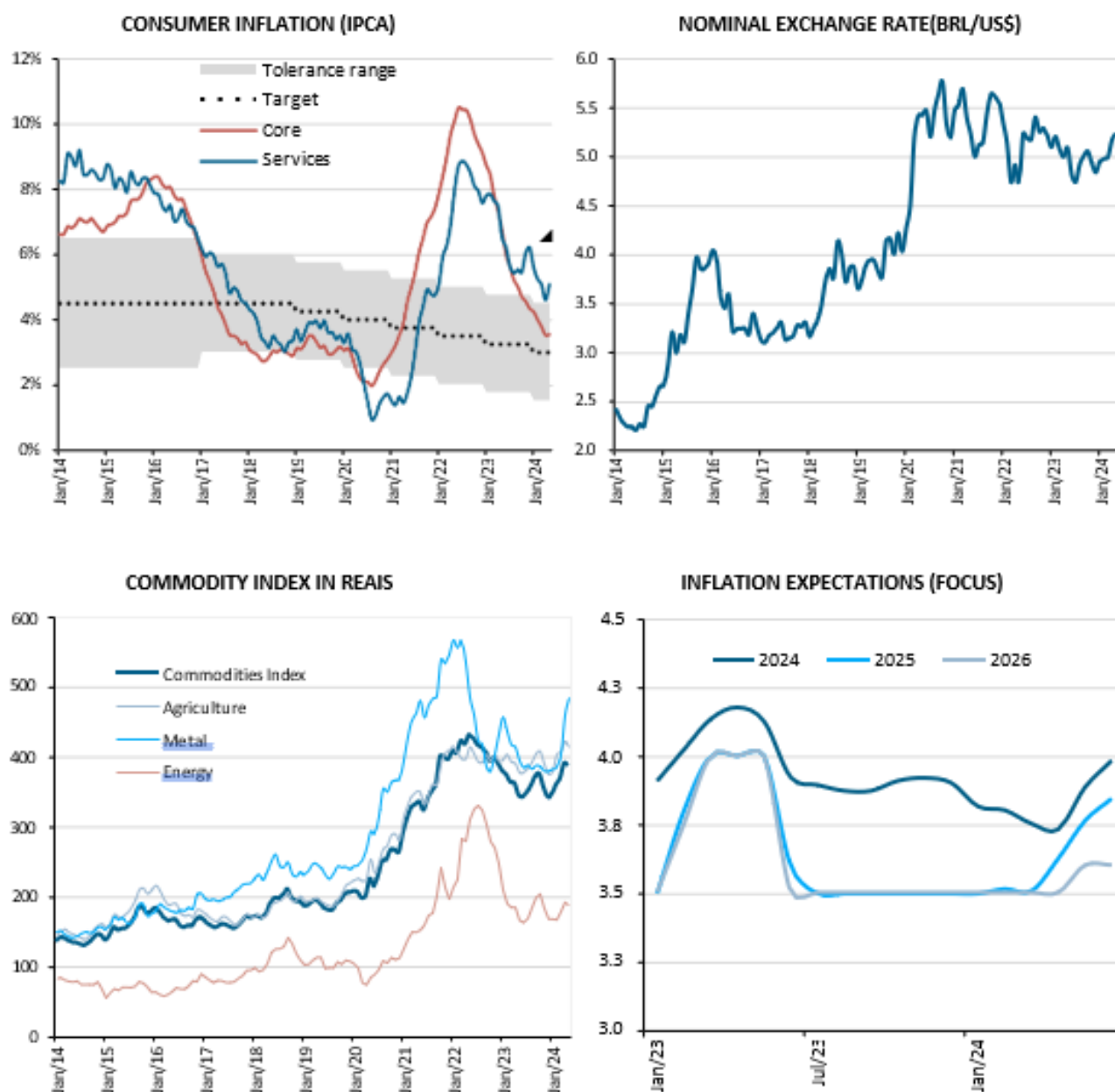
April's aggregate indicators point to a slowdown in economic activity in the second quarter. According to the Central Bank's Economic Activity Index (IBC-Br), the economy was stable in April compared to March, resulting in a statistical carryover of -0.1% for the second quarter. The GDP Monitor published by the FGV also registered a 0.1% drop in the same comparison, which implies a negative statistical carryover of -0.5%.

The economic impacts of the floods in several municipalities in Rio Grande do Sul have begun to be reflected in the economic data. Truck traffic on toll roads, according to the ABCR Index, and motor vehicle production, published by Anfavea, showed significant falls between April and May, with variations of -5.0% and -32.4%, respectively, considering the seasonally adjusted series. There is still considerable uncertainty in the short-term scenario regarding the extent of the decline in activity in the second quarter and the pace of subsequent recovery. For now, we estimate that the GDP will remain essentially stable in the second quarter with a forecast of average growth of 0.6% in the second half of the year.

Projections for the IPCA in 2024 and 2025 were revised upwards to 4.0% and 3.5%, respectively. This revision reflects the context of the depreciation of the exchange rate, the maintenance of high commodity prices and an increase in the inflation expectations by economic agents in the Focus Bulletin (Graph 2). At the same time, we have also raised our outlook for the Selic rate, which should stand at 10.50% p.a. and 9.50% p.a. in 2024 and 2025, following the interruption of the reduction cycle by the Central Bank.

The change of course by the Monetary Policy Committee - Copom, after a sequence of six reductions in the base interest rate, comes in a more challenging environment for inflation to return to the target. This is due to the resilience of economic activity and the labor market, challenges in conducting fiscal policy and tighter global financial conditions, influenced by the ongoing strength of the US economy and the upward revision in expectations regarding the path of Fed Funds rates. Looking ahead, as the IPCA slows down, further cuts in the Selic rate are expected.

GRAPH 2. EXCHANGE RATE, INFLATION EXPECTATIONS, COMMODITIES AND CONSUMER INFLATION



Source: Central Bank, IBGE and IFI.

### 1.3 Medium-term projections

Compared to the scenario presented in November last year <sup>3</sup>, we have raised the projections for GDP growth in the medium term from 2.0% to 2.2%, considering some impact of the tax reform on productivity. In November, this effect was only considered in the optimistic scenario.

<sup>3</sup> Available at: <https://tinyurl.com/bddzhy98>.

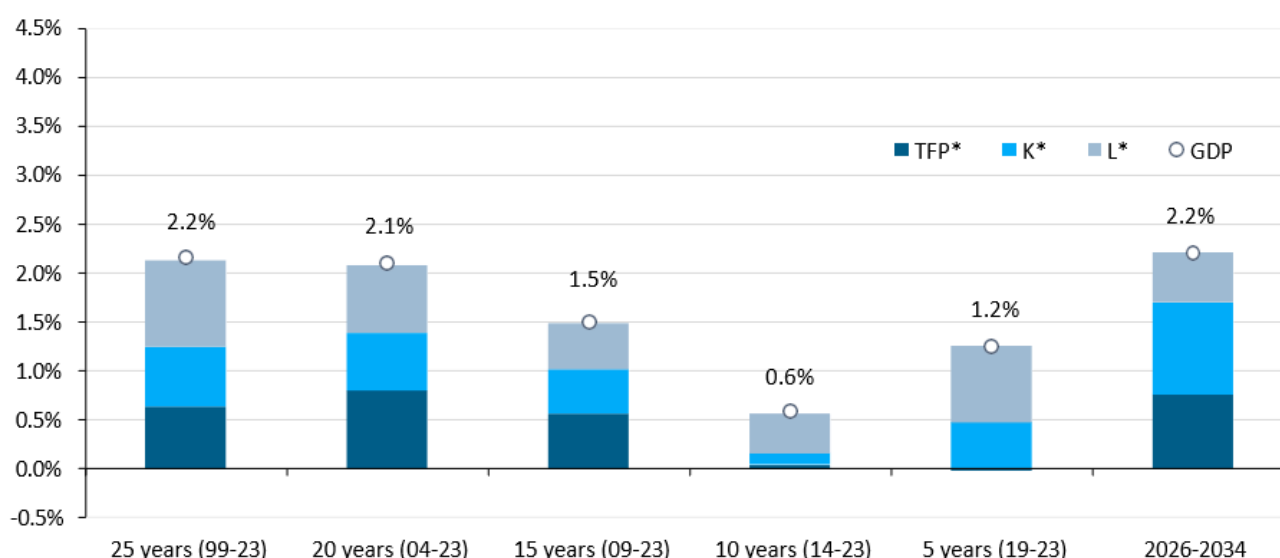


The Organization for Economic Cooperation and Development (OECD)<sup>4</sup> points out that tax reform would bring Brazil closer to the best international practices, reducing the distortions associated with the complexity of the current system. This change is seen as potentially beneficial for productivity and economic growth. However, the expansion of exceptions and the introduction of reduced rates could limit the gains expected from the reform. Some studies<sup>5</sup> on the macroeconomic impacts of the reform on potential GDP indicate a certain consensus regarding the positive effect on growth, although there is controversy as to its magnitude. Estimates for the long-term increase in the level of GDP range from 2.5% to 20%, which would be equivalent to an increase in annual growth of 0.2 p.p. to 1.2 p.p.

Recently, both the OECD<sup>6</sup> and the International Monetary Fund (IMF)<sup>7</sup> have started to consider the effect of the reform in their scenarios. The OECD adjusted the projection of Brazil's potential GDP from 1.5% to 2.0% (+0.5 p.p. due to the adoption of the new fiscal framework and the tax reform) while the IMF raised it from 2.0% to 2.5% (+0.5 p.p. due to the implementation of the reform and the increase in hydrocarbon production).

In the IFI's baseline scenario, average output growth moves in line with the historical average of the last 25 years (Graph 3). The estimate of potential GDP, based on a production function, is made up of the following contributions: (i) +0.8 percentage points (p.p.) from total factor productivity (TFP), slightly above the historical average of 0.6 p.p.; (ii) +0.9 p.p. from the capital stock (K), above the historical average of 0.6 p.p.; and (iii) +0.5 p.p. from the labor stock (L), below the historical average of 0.9 p.p., due to the expectation of slower growth in the workforce as a result of the ageing of the population.

**GRAPH 3. BREAKDOWN OF POTENTIAL GDP GROWTH RATE (P.P.)**



Source: IFI.

The average unemployment rate from 2026 to 2034 is estimated at 7.8% of the labor force, assuming that the employed population grows at the same rate as the labor force, approximately 1.0% per year. In the November update, the unemployment rate was converging towards a higher level (8.5%). This change stems mainly from the downward revision of the projections for the years 2024 and 2025, due to the relatively tight conditions in the labor market.

<sup>4</sup> "Redesigning Brazil's consumption taxes to strengthen growth and equity", available at: <https://tinyurl.com/2j9e5v9w>

<sup>5</sup> See the bibliographic review in the report *Resultados do Grupo de Trabalho sobre a Reforma Tributária* [Results of the Working Group on Tax Reform], by the Federal Accounting Court (TCU), available at: <https://tinyurl.com/jercevbs>

<sup>6</sup> For more information, visit: <https://tinyurl.com/vybuhr82>

<sup>7</sup> For more information, visit: <https://tinyurl.com/839ju9ft>

In the medium term, inflation is assumed to stabilize close to the target of 3.0%<sup>8</sup>, while the Selic rate (7.0%) reflects the value of the natural nominal interest rate, made up of the real interest rate plus the inflation target. Throughout the projection horizon, the real interest rate (4.0%) is obtained by assuming that the domestic interest rate is equal to the international interest rate increased by the country risk premium and the expected depreciation of the exchange rate.

The trajectory of country risk<sup>9</sup> is defined based on the assessment and judgment of assumptions about the domestic and international environments. In the baseline scenario, the risk premium is set at 250 points, just above the current level, and the average exchange rate forecast between 2026 and 2034 is R\$/US\$ 5.39, with an average depreciation of 0.9%. It is assumed that the change in the exchange rate in the medium term is given by the difference between domestic and foreign inflation.

As a measure of the international interest rate, the effective interest rate set by the Federal Reserve Bank (Fed) is considered, adjusted for U.S. inflation, according to the most recent scenario presented by the Congressional Budget Office (CBO)<sup>10</sup>. In the baseline scenario, US inflation is assumed to hover around the target of 2.0% and the nominal interest rate in the US is expected to approach 3.0%.

1.4 Alternative scenarios

Deviations from the central projection result from changes based on assumptions and judgments in the trajectory of exogenous variables, such as global growth and interest rates, commodity prices, country risk and productivity. These changes, shown in Table 2, can result in more or less favorable scenarios compared to the baseline scenario.

TABLE 2. ASSUMPTIONS EXOGENOUS VARIABLES

Scenarios	Baseline	Optimistic	Pessimistic
Domestic scenario			
Total factor productivity (TFP)	0.8%	1.5%	0.0%
Country risk (Embi-Br)	250 points	200 points	330 points
International scenario			
Global growth	IMF/WEO baseline scenario (3.2%)	Convergence to historical average (3.9%)	2.5%
Commodity prices	Gradual return to historical average	Gradual return to historical average	Maintenance of the current level
Fed Fuds interest rate (medium term)	3.0%	3.0%	4.0%

Source: IFI, CBO, IMF.

In the pessimistic scenario, more unfavorable conditions in the international environment and in the domestic fiscal scenario could deteriorate confidence, financial asset prices and inflation expectations. With persistently high inflation projections, increases in the nominal interest rate are expected. This scenario takes into account internal challenges in implementing structural reforms, which ends up reflecting in the low performance of productivity. Between 2026 and 2034, the average GDP growth rate would be 1.1%, while the real interest rate would converge to a higher level, around 6.3%. In the international context, we believe that the *Fed Funds* rate could reach 4.0%, in line with the current outlook of some US Central Bank authorities<sup>11</sup>.

In the optimistic scenario, a more favorable environment for economic growth is foreseen. The difference of 1.0 p.p. in average GDP growth between 2026 and 2034, compared to the baseline scenario, is explained by the more expressive growth in productivity and the capital stock. The average GDP growth projection for this period is 3.3%, and the real interest rate would converge to about 3.5%, in a scenario of controlled inflation.

<sup>8</sup> Assuming the continuity of the inflation targets set by the National Monetary Council (CMN).

<sup>9</sup> Represented by the variable Embi-Br.

<sup>10</sup> Available at: <https://tinyurl.com/3t6nxtvc>.

<sup>11</sup> See, for example, <https://tinyurl.com/yvvk92zx>

## 2 FISCAL SCENARIOS

### 2.1 Scenarios for total revenue, transfers and net revenue

Based on the macroeconomic projections presented in the previous section, the central government's primary revenue projections were updated for the period from 2024 to 2034. This introductory section will discuss elements inherent to the current fiscal policy context and the assumptions used for revenue projections.

The first point to mention concerns the income-GDP elasticities considered. The central government's primary revenue projections are based on the results presented by the IFI in Special Study (EE) No. 16<sup>12</sup> of November 2021. Generally speaking, in the short term, revenue-GDP elasticities can fluctuate around 1; in the long term, however, elasticities tend to revert to 1, so that revenue collection aligns with economic growth.

The second point to highlight is the regulation of the consumption tax reform currently underway in Congress. This reform has the potential to influence the domestic macroeconomic environment, the potential growth of the economy and affect revenue-GDP elasticities over time. The effects, however, are difficult to measure at the moment, as they would require the reform to be implemented and a sample with information to update these parameters.

The third point to be explained in relation to the Federal Government's primary revenue projections concerns the payroll exemption for 17 sectors of the economy and for municipalities with up to 156,000 inhabitants. The devolution of Provisional Measure (MP) No. 1,227, of 2024, has generated uncertainty as to whether sources of compensation will be obtained for the BRL 26.3 billion revenue waiver, according to an estimate by the Brazilian Federal Revenue Office (RFB). For the purposes of revenue projections, the IFI considered the waiver of BRL 26.3 billion in 2024 and the gradual re-taxation of the payroll until 2027, with a decrease in this amount of around 25% per year. By 2028, all sectors and municipalities would be paying the 20% social security contribution rate on the payroll.

The fourth and final point related to the central government's primary revenue projections for 2024 to 2034 concerns the measures to increase tax collection contained in the 2024 Annual Budget Law (LOA 2024) and in Law No. 14,873 of May 29, 2024, which came about as a result of Provisional Measure No. 1,202 of 2023. It presents an update of the values considered by the IFI for the purpose of materializing the measures<sup>13</sup> in tax collection.

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<sup>12</sup> Page to access the document: <https://tinyurl.com/26uzeuw8>.

<sup>13</sup> For further explanations, see RAF No. 82 of November 2023, available at: <https://tinyurl.com/bddy5w24>.

TABLE 3. MEASURES APROVED OR PENDING IN CONGRESS WITH AN IMPACT ON CENTRAL GOVERNMENT REVENUE IN 2024

Budget impact in 2024						
Measure	Tax	Legal standard	Impact considered by the Executive Branch (BRL billion)		Impact considered by the IFI - baseline scenario (BRL billion)	
			2024	May-Dec 2024	2024	May-Dec 2024
<b>Revenue collected by the RFB and revenue from social security contributions</b>			<b>168.3</b>	<b>119.4</b>	<b>142.7</b>	<b>96.3</b>
Investment grants	IRPJ, CSLL, PIS/Cofins	Law no. 14,789, of December 29, 2023	25.9	18.1	21.2	14.1
Fixed-odds betting	Income tax, other revenues collected by RFB	Law no. 14,790, of December 29, 2023	0.7	0.5	0.7	0.4
New simplified taxation system (RTS)	Import tax	RFB Normative Instruction 29 No. 2.146, of June 2023	-	-	-	-
Closed-end funds - stock and flow	IR [Income Tax]	Law no. 14,754, of December 12, 2023	13.3	-	13.3	1.6
Taxation of financial assets held abroad by individuals (offshores)	IR [Income Tax]	Law no. 14,754, of December 12, 2023	5.6	5.4	7.3	7.3
Changes in the calculation of interest on equity	IRPJ [Corporate Income Tax], CSLL	Law no. 14,789, of December 29, 2023	-	-	-	-
Carf - casting vote	IR, CSLL, PIS/Cofins, IPI, social sec.contributions others	Law no. 14,689, of September 20, 2023	55.6	49.6	36.3	30.3
Law no. 14,789 art. 13 (Transaction)	IR, CSLL, PIS/Cofins	Law no. 14,789, of December 29, 2023	31.0	20.7	31.0	20.7
Law no. 14,789 art. 14 (Transaction)	IR, CSLL, PIS/Cofins	Law no. 14,789, of December 29, 2023	12.2	9.2	9.0	6.0
Limitation on the compensation of credits resulting from court decisions	PIS/Cofins	Law no. 14,873, of May 29, 2024	24.0	16.0	24.0	16.0

Source: LOA 2024 and Primary Revenue and Expenditure Assessment Report for the 2nd Bimonthly Period of 2024. Prepared by: IFI.

According to the Primary Revenue and Expenditure Assessment Report (RARDP)<sup>14</sup> for the 2nd Bimonthly Period of 2024 (pg. 47), the collection measures intended by the Executive for this year, and the coming years, have had an effect on the central government's primary revenues. Some of these measures, however, have a transitory nature on revenue, such as the taxation of the stock of exclusive funds and offshores, the transactions provided for in Law No. 14,789, and the limitation on tax compensation for credits arising from court decisions (Law No. 14,873).

It is worth noting, however, the uncertainty surrounding the materialization of some of these measures, as mentioned by the IFI in previous editions of this report. This is because the laws governing some of the measures have been the subject of legal disputes between taxpayers and the federal government, which could last for several years. As a result, the IFI believes it is necessary to take a conservative stance in relation to the materialization of some of the revenue measures presented in Table 3.

### 2.1.1 SHORT-TERM PROJECTIONS 2024–2025

Table 4 shows the IFI's new projections for the central government's primary revenue in 2024 and 2025, comparing them to the projections made in February 2024, the last month in which the estimates were updated, even though the last revision of the scenarios took place in November 2023.

**TABLE 4. IFI BASELINE SCENARIO FOR CENTRAL GOVERNMENT PRIMARY REVENUE IN 2024 AND 2025 (BRL BILLION AND % OF GDP)**

	Projections in Feb/24				Projections in Jun/24				Diff. Jun/24-Feb/24			
	2024	% of GDP	2025	% of GDP	2024	% of GDP	2025	% of GDP	2024	p.p. of GDP	2025	p.p. of GDP
<b>1. Total primary revenue</b>	<b>2,582.5</b>	<b>22.4%</b>	<b>2,757.1</b>	<b>22.5%</b>	<b>2,652.8</b>	<b>23.0%</b>	<b>2,846.4</b>	<b>23.2%</b>	<b>70.3</b>	<b>0.6</b>	<b>89.4</b>	<b>0.7</b>
Revenue collected by the RFB/MF, except RGPS and without tax incentives	1,673.9	14.5%	1,787.5	14.6%	1,715.5	14.9%	1,848.6	15.1%	41.6	0.3	61.2	0.5
Net collection for the RGPS	610.5	5.3%	646.5	5.3%	620.4	5.4%	663.3	5.4%	10.0	0.1	16.8	0.1
Revenues not collected by the RFB/MF	298.1	2.6%	323.1	2.6%	316.9	2.7%	334.5	2.7%	18.8	0.2	11.4	0.1
Tax incentives	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0	0.0	0.0
<b>2. Revenue-sharing transfers</b>	<b>508.2</b>	<b>4.4%</b>	<b>539.9</b>	<b>4.4%</b>	<b>514.2</b>	<b>4.5%</b>	<b>556.5</b>	<b>4.5%</b>	<b>6.1</b>	<b>0.0</b>	<b>16.6</b>	<b>0.1</b>
<b>3. Net transfer revenues ((1)-(2))</b>	<b>2,074.3</b>	<b>18.0%</b>	<b>2,217.2</b>	<b>18.1%</b>	<b>2,138.6</b>	<b>18.5%</b>	<b>2,290.0</b>	<b>18.7%</b>	<b>64.2</b>	<b>0.5</b>	<b>72.8</b>	<b>0.6</b>

Source: National Treasury Secretariat. Prepared by: IFI.

Generally speaking, there has been an improvement in the primary revenue projections between the last update of the estimates and now. In terms of revenues collected by the RFB, this upward revision in the projections was due to the greater amounts of revenue expected from the measures announced in the LOA 2024<sup>15</sup> and in Provisional Measure No. 1,202 of 2023, which was partially converted into Law No. 14,873.

The estimate for net revenue for the General Social Security Policy (RGPS) has risen due to the higher amounts realized. Formal employment and income in the labor market have seen significant year-on-year increases, which has boosted the wage bill and the social security contributions levied on payroll.

For non-administered revenues [those not collected by the RFB], the IFI projection for 2024 and 2025 has risen due to higher realized values in recent months in some groups of these revenues, such as the exploitation of natural resources and dividends.

<sup>14</sup> Page to access the document: <https://tinyurl.com/5ye938pw>.

<sup>15</sup> Table 4 can be compared to Table 4 of RAF No. 85, of February 2024, and Table 5 of RAF No. 82, of November 2023, already referenced in this text.

<sup>85</sup> Page to access the RAF No. 85: <https://tinyurl.com/5n8vxw7t>.

As a proportion of GDP, the estimates for transfers have not changed significantly. Thus, as shown in Table 4, the projections for the central government's net revenue<sup>16</sup> have been revised to BRL 2,138.6 billion (18.5% of GDP) in 2024, and BRL 2,290.0 billion (18.7% of GDP) next year.

### 2.1.2 Medium-term projections: 2026–2034

Table 5 shows the projections for total gross revenue and its components (revenue administered by the Federal Revenue Office, RGPS and non-administered revenue), as well as projections for transfers to sub-national entities and for net revenue in the baseline, optimistic and pessimistic scenarios, for the period from 2024 to 2034.

On the administered revenues side, the scenarios consider a continuous increase in revenues from 2024 onwards, with economic growth converging to rates of around 2.2% (baseline scenario), 3.3% (optimistic) and 1.1% (pessimistic). Economic activity also influences net revenue collection for the RGPS and some subgroups of non-administered revenues, such as dividends, exploitation of natural resources, and *Salário-Educação* [social contribution for public basic education], etc.

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<sup>16</sup>The Federal Government's net revenue corresponds to total revenue minus revenue-sharing transfers to sub-national entities. An example of this deduction is the Participation Funds of States and Municipalities (FPE and FPM), which consists of the apportionment of the collection of Income Tax and Tax on Industrialized Products (IR and IPI).

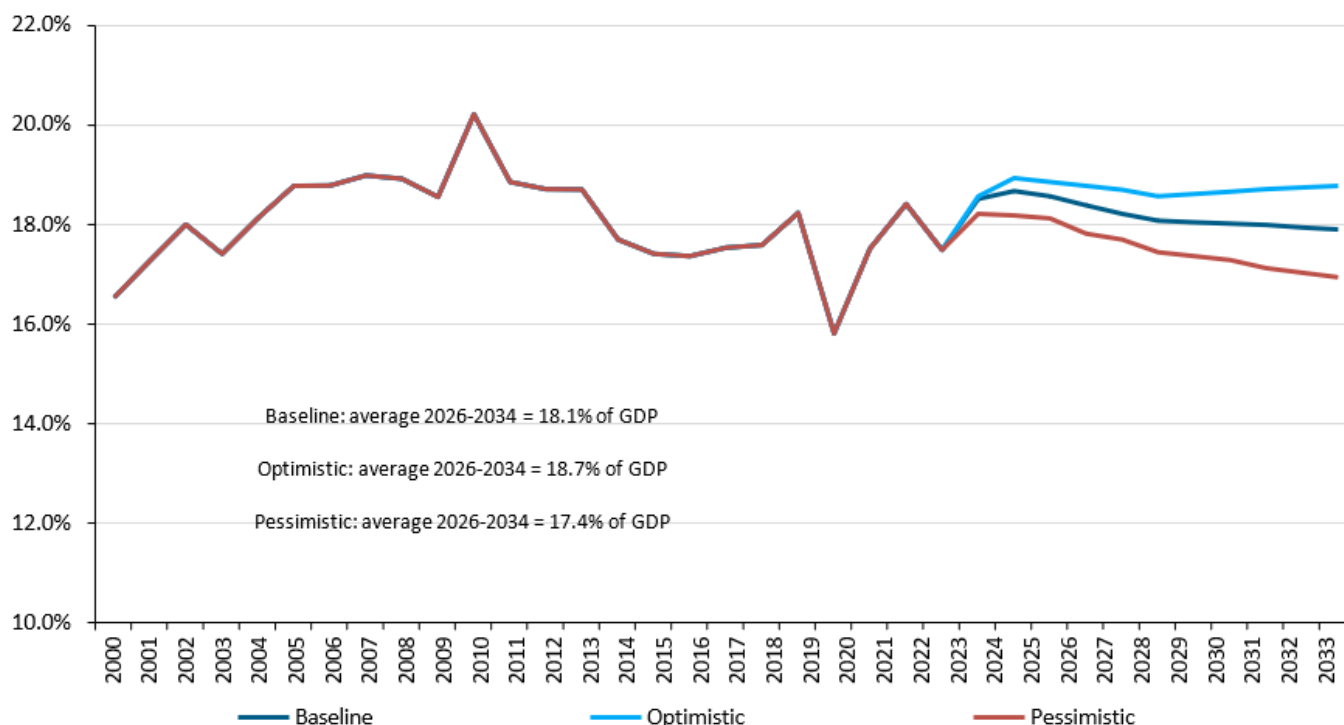
**TABLE 5. IFI PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY REVENUES - % OF GDP**

Baseline scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Total revenue</b>	<b>23.0%</b>	<b>23.2%</b>	<b>23.0%</b>	<b>22.9%</b>	<b>22.7%</b>	<b>22.6%</b>	<b>22.5%</b>	<b>22.5%</b>	<b>22.5%</b>	<b>22.4%</b>	<b>22.4%</b>
Revenue collected by the RFB, except RGPS	14.9%	15.1%	14.8%	14.7%	14.5%	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%
Net collection for the RGPS	5.4%	5.4%	5.5%	5.5%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Revenues not collected by RFB	2.7%	2.7%	2.8%	2.7%	2.6%	2.6%	2.6%	2.5%	2.5%	2.5%	2.4%
<b>Revenue-sharing transfers</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>
<b>Net revenue</b>	<b>18.5%</b>	<b>18.7%</b>	<b>18.6%</b>	<b>18.4%</b>	<b>18.2%</b>	<b>18.1%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>17.9%</b>	<b>17.9%</b>
OPTIMISTIC SCENARIO	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Total revenue</b>	<b>23.1%</b>	<b>23.5%</b>	<b>23.4%</b>	<b>23.2%</b>	<b>23.2%</b>	<b>23.1%</b>	<b>23.1%</b>	<b>23.2%</b>	<b>23.2%</b>	<b>23.2%</b>	<b>23.3%</b>
Revenue collected by the RFB, except RGPS	14.9%	15.2%	15.0%	14.9%	14.8%	14.8%	14.8%	14.9%	15.0%	15.0%	15.1%
Net collection for the RGPS	5.4%	5.4%	5.5%	5.6%	5.6%	5.6%	5.7%	5.7%	5.7%	5.7%	5.7%
Revenues not collected by RFB	2.8%	2.8%	2.9%	2.8%	2.7%	2.7%	2.6%	2.6%	2.6%	2.5%	2.5%
<b>Revenue-sharing transfers</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>
<b>Net revenue</b>	<b>18.6%</b>	<b>18.9%</b>	<b>18.9%</b>	<b>18.8%</b>	<b>18.7%</b>	<b>18.6%</b>	<b>18.6%</b>	<b>18.7%</b>	<b>18.7%</b>	<b>18.7%</b>	<b>18.8%</b>
PESSIMISTIC SCENARIO	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Total revenue</b>	<b>22.7%</b>	<b>22.7%</b>	<b>22.6%</b>	<b>22.3%</b>	<b>22.2%</b>	<b>22.0%</b>	<b>21.9%</b>	<b>21.8%</b>	<b>21.7%</b>	<b>21.6%</b>	<b>21.4%</b>
Revenue collected by the RFB, except RGPS	14.7%	14.8%	14.6%	14.4%	14.2%	14.0%	14.0%	13.9%	13.9%	13.8%	13.8%
Net collection for the RGPS	5.4%	5.4%	5.4%	5.4%	5.5%	5.4%	5.4%	5.4%	5.4%	5.4%	5.3%
Revenues not collected by RFB	2.6%	2.5%	2.6%	2.5%	2.5%	2.5%	2.4%	2.4%	2.4%	2.4%	2.3%
<b>Revenue-sharing transfers</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>
<b>Net revenue</b>	<b>18.2%</b>	<b>18.2%</b>	<b>18.1%</b>	<b>17.8%</b>	<b>17.7%</b>	<b>17.4%</b>	<b>17.4%</b>	<b>17.3%</b>	<b>17.1%</b>	<b>17.0%</b>	<b>16.9%</b>

Source: National Treasury Secretariat. Prepared by: IFI.

Graph 4 shows the net revenue projection for the period from 2024 to 2034, in the three reference scenarios. In the medium term (2026-2034), the IFI forecasts that net revenue will reach an average of 18.1% of GDP in the baseline scenario. In the optimistic scenario, this percentage would be 18.7% of GDP, while in the pessimistic scenario, the estimate for average net revenue in the medium term is 17.4% of GDP.

**GRAPH 4. COMPARISON BETWEEN NET REVENUE/GDP PROJECTIONS - BASELINE, OPTIMISTIC AND PESSIMISTIC SCENARIOS**



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

## 2.2 New projections for primary expenditure

This section presents the Central Government's primary expenditure and primary balance projections, based on a modeling exercise of these fiscal variables and on the macroeconomic and primary revenue scenarios presented earlier in this RAF.

For the fiscal scenario, the projections take into account the rules of the Sustainable Fiscal Regime (RFS), based both on primary balance targets, established in the Budget Guidelines Law (LDO), and on primary expenditure growth limits, linked to the variation in Adjusted Net Revenue (RLA).

If necessary, government spending cuts or budget freezes are also planned, resulting in reductions in the limits on commitments and financial movements, which in turn impact on the realization of primary expenses subject to financial programming, in accordance with the provisions of the Fiscal Responsibility Law (LRF) and the LDO.

The fiscal targets were set using the parameters set out in the Budgetary Guidelines Bill (PLDO) for 2025, which establishes a primary balance target of BRL 0.00 (zero reais) for the Fiscal and Social Security Budgets (OFSS), and provides for a tolerance interval equivalent to 0.25% of the estimated Gross Domestic Product (GDP) for 2025, which corresponds to BRL 30.9 billion.



For the following years, the PLDO 2025 forecasts primary surplus targets of 0.25%, 0.50% and 1% of GDP, respectively, for the years 2026 to 2028. For the rest of the projection period, i.e. from 2029 to 2034, the target of 1.5% of GDP was used, in order to produce a primary balance sufficient to stabilize the ratio of Gross General Government Debt (DBGG) to GDP, as established by the RFS.

All three scenarios were projected based on the same premises mentioned above, differing only in the grid of macroeconomic parameters and primary revenue that shape the underlying assumptions, which in turn determine the trajectory of primary expenditure evolution. The only unilateral change in the scenarios was the incorporation, only when building the optimistic scenario, of the spending reduction measures provided for in the PLDO 2025.

In this context, the expected results of the spending review conducted within the scope of the Federal Executive Branch in relation to social security benefits and the Agricultural Activity Guarantee Program (Proagro) were incorporated, which could provide estimated savings of BRL 37.3 billion in the period from 2025 to 2028.

### 2.2.1 Revision of short-term expenditure projections

The new short-term projections incorporate the effects of the growth in revenue on spending linked to revenue, especially on health, education and parliamentary amendments, which have once again been indexed to revenue after the repeal of the expenditure ceiling, as well as spending on the Federal District Constitutional Fund (FCDF), which has remained indexed to revenue. In addition, the policy of increasing the minimum wage and the growth in the number of beneficiaries continues to put pressure on social security and welfare spending, squeezing the margin available for discretionary expenditure.

The scenario also included BRL 17.9 billion in expenses with the opening of extraordinary credits to deal with the socio-environmental tragedy in Rio Grande do Sul (RS), of which BRL 6.6 billion had been spent by May. The National Treasury Report<sup>17</sup> for May also presented other mandatory expenses in the amount of BRL 2.8 billion, making a total of BRL 20.7 billion for expenses related to the calamity response up to this point.

Thus, the projections for total primary expenditure in the current scenario show a level of BRL 5 billion, higher than that presented by the Executive Branch in the Primary Revenue and Expenditure Assessment Report<sup>18</sup> (RARDP) for the 2nd Bimonthly Period.

Among the main groups of expenditure, in addition to the extraordinary credits already mentioned, we highlight social security benefits and Continuous Cash Benefits, with BRL 30 billion and BRL 3 billion, respectively, above the projection presented by the RARDP, as can be seen in Table 6 below.

<sup>17</sup> Available at: <https://tinyurl.com/44rdbv2y>.

<sup>18</sup> Available at: <https://tinyurl.com/4jwfcpez>.

TABLE 6. EVOLUTION OF THE ESTIMATES FOR THE MAIN PRIMARY EXPENDITURE AGGREGATES

Item	Spent in 2023			LOA 2024		RARDP 1ST Bim.		RARDP 2ND Bim.		IFI (Jun-24)			Diff. RARDP 2nd Bim. - IFI (Jun./24)	
	BRL Bi.	GDP %	%Share	BRL Bi.	GDP %	BRL Bi.	GDP %	BRL Bi.	GDP %	BRL Bi.	GDP %	%Share	BRL Bi.	GDP %
<b>Net Revenue</b>	1,899	17.5	80.9	2,192	19.0	2,175	18.8	2,182	18.9	2,139	18.5	80.9	43	0.4
<b>Total primary expenditure</b>	2,130	19.6	100.0	2,183	18.9	2,185	18.9	2,209	19.1	2,214	19.2	100.0	-5	0.0
Social security benefits	899	8.3	41.8	909	7.9	914	7.9	918	7.9	948	8.2	41.8	-30	-0.3
Payroll and social charges	364	3.4	16.7	379	3.3	375	3.2	373	3.2	374	3.2	16.7	-1	0.0
Other mandatory expenditure	364	3.4	18.3	327	2.8	332	2.9	350	3.0	363	3.1	18.3	-13	-0.1
Salary allowance and unemployment benefit	73	0.7	3.3	78	0.7	80	0.7	81	0.7	80	0.7	3.3	1	0.0
Financial support for states and municipalities	27	0.2	1.2	12	0.1	4	0.0	4	0.0	4	0.0	1.2	0	0.0
BPC (LOAS/RMV)	93	0.9	4.4	103	0.9	103	0.9	105	0.9	108	0.9	4.4	-3	0.0
Extraordinary Credit (except PAC)	3	0.0	0.1	0	0.0	4	0.0	14	0.1	21	0.2	0.1	-7	-0.1
FUNDEB (federal government complementation)	37	0.3	1.8	47	0.4	46	0.4	47	0.4	48	0.4	1.8	-1	0.0
DF Constitutional Fund (Cost and Capital)	4	0.0	0.2	4	0.0	4	0.0	4	0.0	5	0.0	0.2	-1	0.0
<b>Other branches (cost and capital)</b>	17	0.2	0.8	21	0.2	21	0.2	21	0.2	19	0.2	0.8	2	0.0
Kandir Law	4	0.0	0.2	4	0.0	4	0.0	4	0.0	4	0.0	0.2	0	0.0
Court judgments and court-ordered debt payments (cost and capital)	71	0.7	4.5	27	0.2	35	0.3	35	0.3	36	0.3	4.5	-1	0.0
Subsidies, grants and Proagro	22	0.2	1.0	22	0.2	20	0.2	24	0.2	24	0.2	1.0	0	0.0
Other mandatory expenditure	13	0.1	0.6	9	0.1	11	0.1	11	0.1	15	0.1	0.6	-3	0.0
<b>Expenditure Subject to Financial Programming</b>	503	4.6	23.3	568	4.9	564	4.9	568	4.9	530	4.6	23.3	38	0.3
Mandatory expenditure with flow control	319	2.9	14.7	359	3.1	359	3.1	360	3.1	356	3.1	14.7	4	0.0
Discretionary	183	1.7	8.6	209	1.8	204	1.8	209	1.8	174	1.5	8.6	35	0.3
<b>Primary balance</b>	-231	-2.1		9	0.1	-9	-0.1	-27	-0.2	-75	-0.7		48	0.4

Source: National Treasury Secretariat. Prepared by: IFI.

Regarding social security spending, it should also be noted that the aforementioned projection does not take into account possible savings of BRL 9 billion, related to productivity measures and the review of benefits for 2024, as reported by the Executive Branch in the preparatory documents<sup>19</sup> for the elaboration of the RARDP for the 2nd bimonthly period. Another source of uncertainty relates to the natural growth of benefits, as administrative data<sup>20</sup>, only available until February, do not show a significant reduction in the pace of granting.

The financial data updated up to the month of May show that the social security expenses paid are R\$8 billion higher than forecast in the RARDP for the 2nd bimonthly period, also not reflecting a slowdown, although it is still possible to achieve, at least partially, some savings with the savings measures announced up to the end of the year.

Another highlight of the table above is the need to reduce discretionary expenditure by BRL 35 billion, also due to the frustration of net collection amounting BRL 43 billion.

All these effects reinforce the warning presented by the IFI in RAF No. 82<sup>21</sup> about the need to reduce primary expenditure in the first year of the new framework, to be discussed in more depth below.

<sup>19</sup> For more information, see: <https://tinyurl.com/4kkxwt3x>.

<sup>20</sup> Available at: <https://tinyurl.com/khchypv2>.

<sup>21</sup> Available at: <https://tinyurl.com/4spbt7t5>.

### 2.2.1.1 Need for government spending cuts

After incorporating the effects of the National Congress' rejection of the presidential veto on parliamentary amendments<sup>22</sup>, in the amount of BRL 4.2 billion, and the change in the fiscal framework<sup>23</sup> to bring forward the permission to open supplementary credit in the event of a rise in revenue, in the amount of BRL 15.7 billion, the updated amount of discretionary expenditure in the 2024 LOA is BRL 243.1 billion (2.1% of GDP).

According to paragraph 2 of article 7 of Complementary Law (LC) No. 200 of 2023, the minimum level of discretionary expense necessary for the regular functioning of the public administration is 75% of the amount authorized in the respective LOA. However, this percentage must be applied to the calculation base that deducts, from the authorized amount, the primary expenses excepted in the LDO<sup>24</sup> and those necessary for the activities of the Legislative and Judicial Branches, the Federal Public Prosecutor's Office (MPU) and the Federal Public Defender's Office (DPU)<sup>25</sup>, which currently amount to BRL 20.4 billion.

Thus, the calculation base for applying the limit set forth in the RFS is BRL 222.8 billion, resulting in a need for budget cuts of at least BRL 55.7 billion, in order to avoid a breach of the Fiscal Responsibility Law (LRF). However, the Executive Branch questioned<sup>26</sup> the Federal Accounting Court (TCU) about the possibility of using the provisions of item 2 of paragraph 18 of article 71 of the 2024 LDO<sup>27</sup>, which deals with a reserved amount, without specifying budget allocations, which could limit spending cuts to BRL 25.9 billion.

It should be noted that this figure was calculated on the basis of 2023 expenses, BRL 788 million lower than the correct one, as warned in the RARDP for the first two months<sup>28</sup>. Additionally, the budgetary changes discussed above should be incorporated, resulting in a budget cut limit of BRL 37.5 billion, if the understanding outlined in the Annual Budget Guidelines Law (LDO) prevails.

Given that the TCU has not yet ruled on the matter and that the 2025 PLDO contains the same questioned provision, this time repeated in item II of § 17 of art. 68, the lowest possible amount was adopted, i.e. BRL 37.5 billion as the minimum amount to be frozen for the fiscal year.

### 2.2.1.2 Achievement of the primary balance target in the short term

After factoring in the spending cut measures into the projection, a primary deficit of BRL 75 billion is expected for the fiscal year 2024, before the deductions provided in the fiscal rules, which is equivalent to 0.7% of GDP.

After applying the expected deductions, namely the 0.25% of GDP margin and the exclusion of the extraordinary credits for the public disaster in Rio Grande do Sul, it is not possible to achieve the target for the fiscal year.

With the planned deductions, primary expenditure should exceed the target by BRL 25 billion (0.2% of GDP). Thus, even if spending cuts are implemented at the highest amount of BRL 55.7 billion, an additional effort of BRL 6.8 billion would still be required to meet the target floor.

If the expected savings from social security expenses, estimated at BRL 9 billion, were incorporated into the scenario, it would be feasible to achieve the primary target for 2024 with the adoption of the greater spending cut provided for in the fiscal framework.

<sup>22</sup> Available at: <https://tinyurl.com/czmwzyyk>.

<sup>23</sup> Available at: <https://tinyurl.com/yc2efs95>.

<sup>24</sup> This amount is equivalent to the sum of the expenses marked with RPs 2, 6, 7 and 8 in the LOA, according to the concepts contained in paragraph 4, art. 7 of the LDO-2024.

<sup>25</sup> This amount is equivalent to the sum of the expenses classified as primary discretionary expenses that are concomitantly exempt from the limitation of budget commitments and financial movements, as provided for in § 2 of art. 9 of the LRF, including the expenses provided for in items 1 and 3 of paragraph 18 of art. 71.

<sup>26</sup> Available at: <https://tinyurl.com/wmxc5xw8>.

<sup>27</sup> Available at: <https://tinyurl.com/4vnum4c7>.

<sup>28</sup> Available at: <https://tinyurl.com/3hp5mmm6>.

For 2025, the scenario of achieving the target is even more challenging, given that projections point to a deficit of BRL 88 billion and the target set in the PLDO 2025 is a surplus of 0.25% of GDP. So, even with expenditure restraints, estimated at BRL 42 billion, and the discount for the extraordinary payment of court-ordered debt for 2025, estimated at BRL 39.9 billion, it would not be possible to reach the target set for the year.

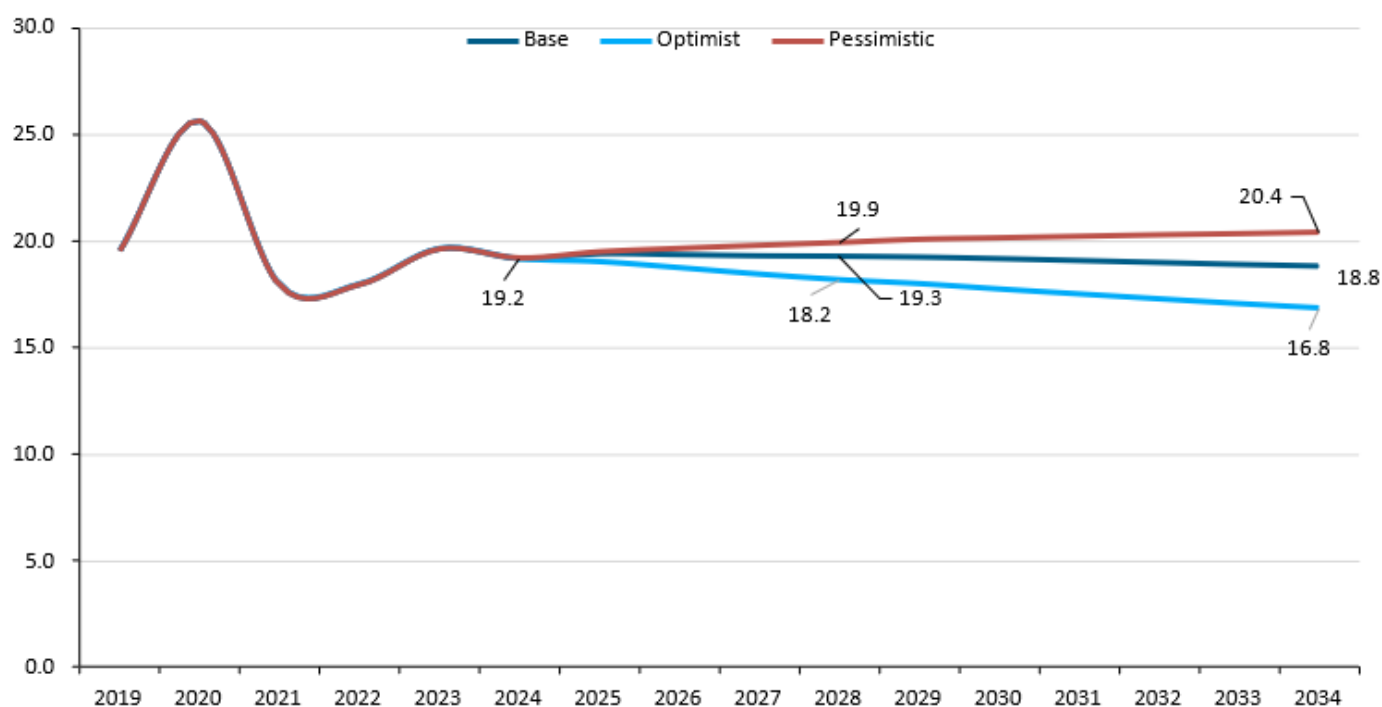
### 2.2.2 Revision of medium-term expenditure projections

Compared to the aforementioned RAF No. 82, which presented the latest medium-term forecasts, the current report shows a general worsening in all scenarios, largely due to the dynamics of revenue growth and the macroeconomic parameters already mentioned in the short-term review.

The marginal increase in GDP growth and inflation, and the real growth in revenue, are moving in the direction of increasing the growth rate of both minimum wage and revenue-related spending. In the baseline scenario, primary expenditure as a proportion of GDP peaks in 2025, consuming the equivalent of 19.4% of GDP, and slowly falls until it reaches 18.8% of GDP at the end of the projection horizon.

In the optimistic scenario, the peak is reached in 2024, with 19.1% of GDP, followed by a more vigorous reduction, reaching 16.8% of GDP in 2034. In the pessimistic scenario, on the other hand, primary expenditure continues to grow steadily, from 19.2% in 2024 to 20.4% in 2034, as can be seen in Graph 5 below:

**GRAPH 5. IFI SCENARIOS FOR THE FEDERAL GOVERNMENT'S PRIMARY EXPENDITURE (% GDP)**



Source: STN and IFI. Prepared by: IFI

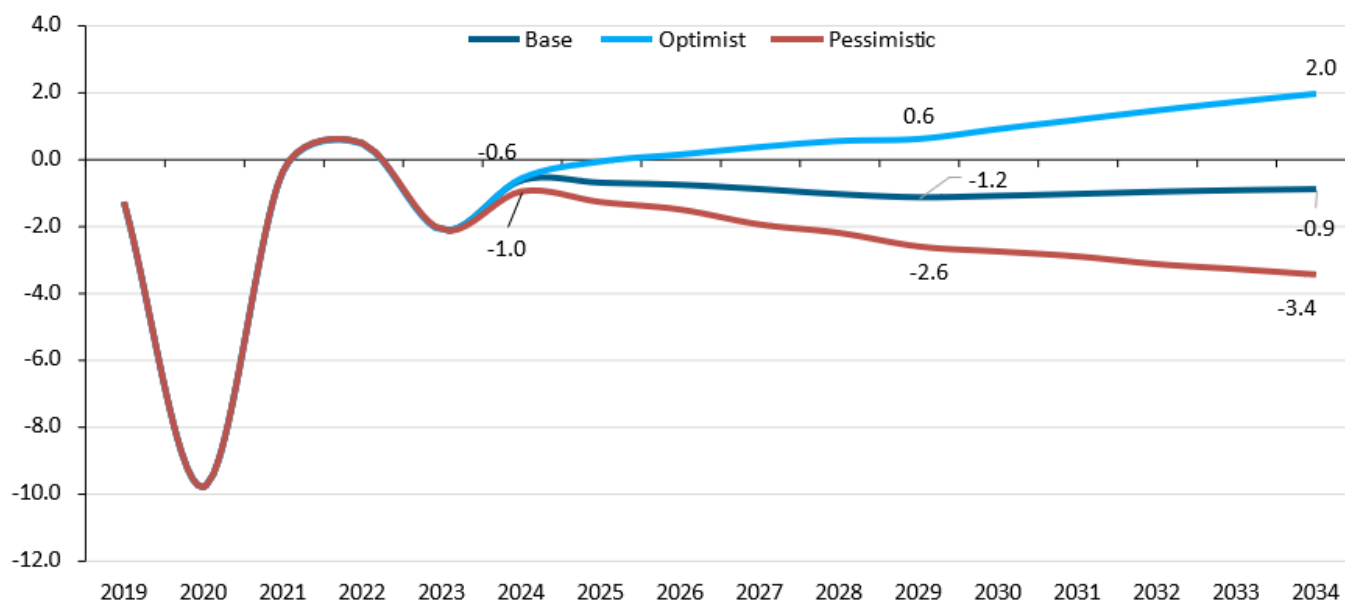
#### 2.2.2.1 Medium-term primary balance projections

For the same reasons explained earlier, the primary balances worsened in the three projected scenarios. There was also an increase in uncertainty over the projections, due to the greater variability introduced into the parameters as a result of the change in the rules for binding expenditure.

In this way, the projection shows greater variance, spreading out more across possible states over time. In the baseline scenario, the primary deficit grows from 0.7% of GDP in 2024 to 1.2% of GDP in 2029, then begins to decrease until it reaches 0.9% of GDP in 2034. Thus, the baseline scenario shows primary deficits throughout the whole projection horizon.

In the optimistic scenario, the deficit rapidly reduces from 0.6% of GDP in 2024 to 0.1% of GDP in 2025. From 2026 onwards, the primary balance turns positive, growing to 2% of GDP by 2034. In the pessimistic scenario, the deficit goes from 1% of GDP in 2024 to 3.4% of GDP in 2034, remaining in deficit throughout the entire projection horizon, as can be seen in Graph 6.

**GRAPH 6. IFI SCENARIOS FOR THE FEDERAL GOVERNMENT'S PRIMARY BALANCE (GDP %)**



Source: STN and IFI. Prepared by: IFI

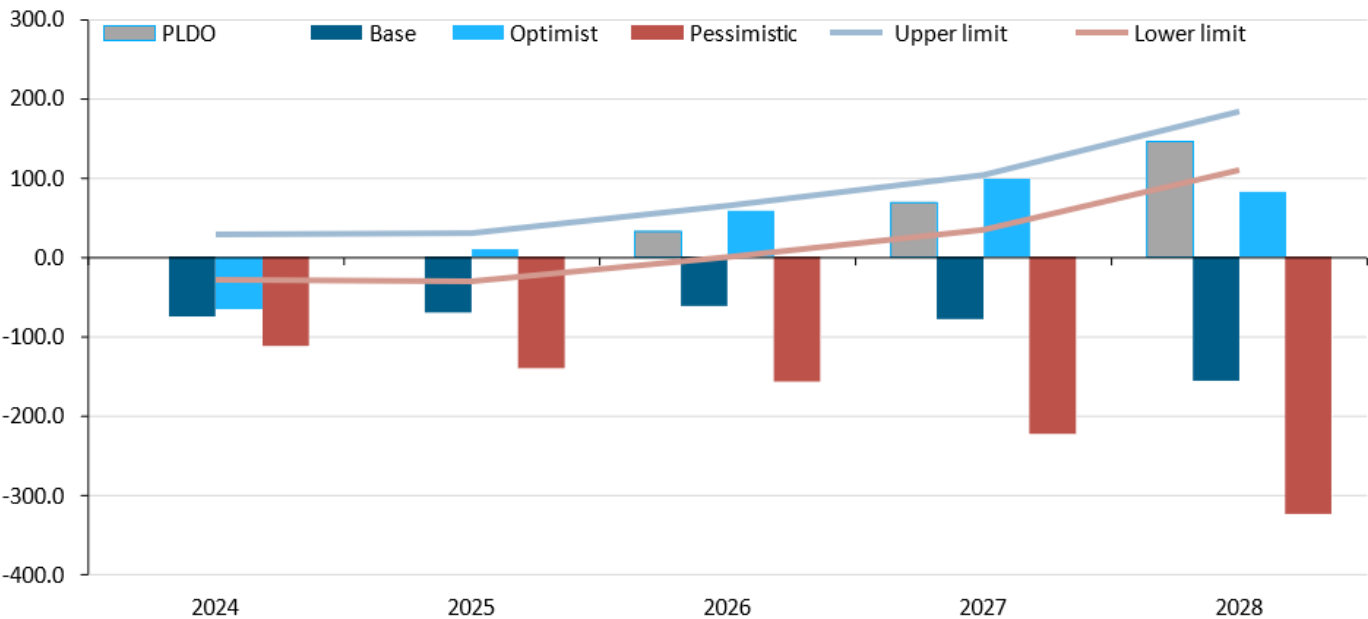
#### 2.2.2.2 Achievement of the primary balance target in the medium term

It is interesting to note<sup>29</sup> that the PLDO 2025 was the first to be drafted in accordance with Paragraph 5 of Article 4 of the LRF, with the changes made by the RFS. Thus, in addition to the presentation of annual targets for the year to which it refers and for the following 3 (three) years instead of 2 (two) years, Annex IV of the bill includes the medium-term fiscal framework with projections for the main fiscal aggregates that make up the reference scenarios, distinguishing primary expenditure from financial expenditure, mandatory expenditure from discretionary expenditure, and the expected impact and compatibility, over a period of 10 (ten) years, of meeting the primary balance targets on the public debt convergence trajectory.

The monitoring of the primary targets has therefore been expanded in this report to reflect the changes brought about by the new sustainable fiscal framework. The evolution of the scenarios, with their respective tolerance bands, can be seen in Graph 7.

<sup>29</sup> According to the Explanatory Memorandum of the PLDO 2025. Available at: <https://tinyurl.com/3tzenpps>.

GRAPH 7. IFI SCENARIOS FOR PRIMARY TARGET (BRL BILLION)



Source: IFI and PLDO 2025. Prepared by: IFI.

As seen above, the primary balance targets are only achieved in the optimistic scenario and in the period from 2025 to 2029. It is also important to note that the scenarios presented already consider the effects of the reductions in the primary balance targets provided for in the legislation.

2.2.2.3 Sufficiency of the Sustainable Fiscal Regime spending limits

As a general rule, discretionary expenses are projected as the residual amount between the primary expenditure limit, established in the fiscal framework, and the mandatory expenses subject to the limit. Thus, discretionary expenses not subject to the limit, as exempted under Article 3, Paragraph 2 of the RFS, do not impact the establishment of discretionary expenses, only the fiscal targets, unless they are also exempted for that purpose.

The projections also consider the "rigid discretionary expenses"<sup>30</sup>, which correspond to the minimum portion of discretionary expenditures that must be made in health and education, as well as individual and collective amendments that are mandatory to execute, and which further compress the non-rigid discretionary expenses, i.e. those that can be freely projected.

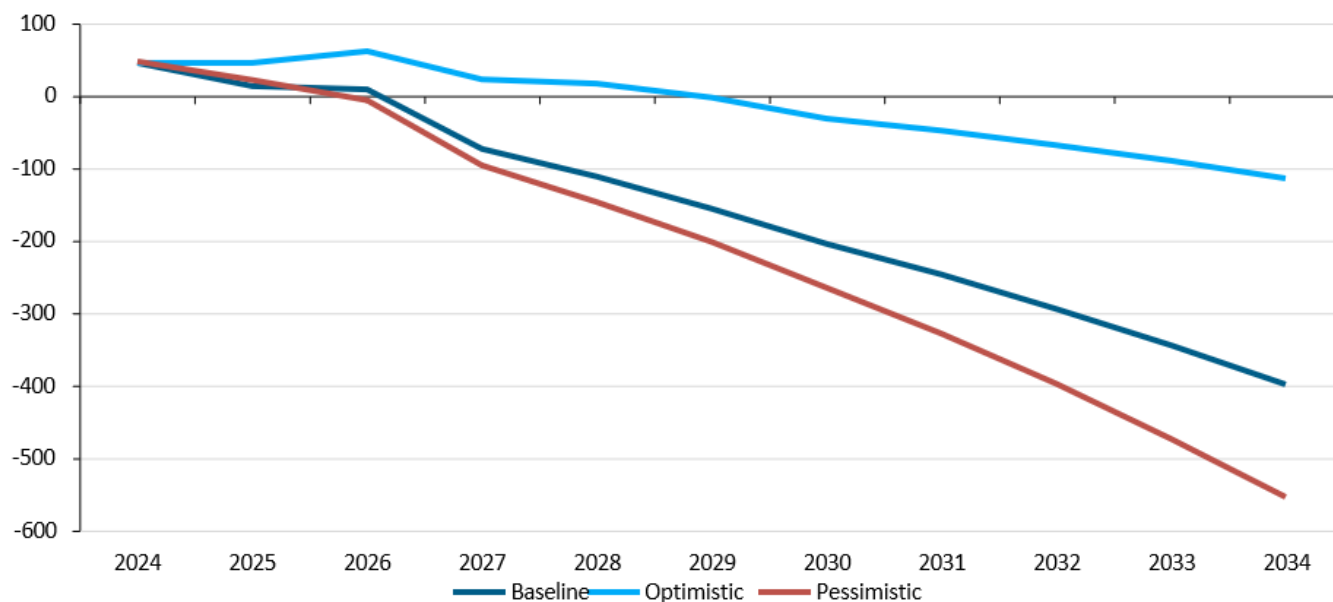
Besides, as seen previously, there are exemptions in the legislation regarding the application of spending cuts to these expenses, which makes the projection relatively more subject to uncertainties. Finally, it was noted that the rate of growth of mandatory expenditure accelerated, producing a sharp reduction in the space available for the projection of discretionary expenditure.

Occasionally, given the projection dynamics, non-rigid discretionary expenses ended up falling below a minimum value necessary to sustain government action, generating negative space in a given period, i.e. the mandatory expenditures and the projected rigid discretionary expenses would be higher than the expenditure limit provided for in the fiscal regime.

<sup>30</sup> The Fiscal Projections Report presents a discussion on the subject. Available at: <https://tinyurl.com/bdz6zs2y>. Given the importance of the issue, the IFI will soon be carrying out a more detailed study on the evolution of discretionary expenditure.

Thus, a minimum limit of non-rigid discretionary expenses was assumed in the projection, set at 0.7% of GDP, and an indicator of the sufficiency of the expenditure limit was calculated separately. So, when the value becomes negative, it indicates that the tax system has become unsustainable. The result for the fiscal year can be seen in Graph 8.

**GRAPH 8. (IN)SUFFICIENCY OF THE RFS EXPENDITURE LIMIT (BRL BILLION)**



Source: IFI.

As can be seen, in the three projected scenarios, the rate of growth of mandatory expenditure and rigid discretionary expenses ends up consuming all the fiscal space available. In the baseline scenario, the insufficiency occurs in 2027, in the optimistic scenario in 2029 and in the pessimistic scenario in 2026.

According to the forecast, the full inclusion of court-order debt payments within the expenditure limit ends up speeding up the reaching of the critical point for discretionary expenses. As a mere exercise, the full payment of court-ordered debts was entirely excluded from the expenditure limit to assess the impact of the measure, resulting in the postponement of a year in the insufficiency of the limit across all scenarios.

The exercise indicates that this is a structural issue for the Sustainable Fiscal Regime, which is unable to sustain the growth of rigid compulsory or discretionary expenses, beyond the limit of real growth of the limit itself, which ranges from 0.6% to 2.5% per year.

### 3. PUBLIC DEBT SCENARIOS

According to the Central Bank, the Gross General Government Debt (DBGG, in the original acronym) reached 76.3% of GDP in April 2024, an increase of 1.9 p.p. compared to December 2023. The increase in the indicator this year is mainly due to the lower influence of GDP growth on debt. According to the conditioning factors of gross debt, released by the Central Bank, over 12 months, the contribution of GDP to the debt/GDP ratio was a reduction of 4.0 p.p. in April, compared to 5.1 p.p. in December 2023. At the same time, interest expenditure remained at almost the same level (+7.4 p.p. in April, compared to +7.5 p.p. of GDP in December 2023).

These lower contributions of nominal GDP to the fall, or even stability, of the debt/GDP ratio should continue in the coming months due to the expectation of lower economic growth in 2024 compared to 2023. The prospect of primary deficits in the public sector over the next few years will increase gross indebtedness.



The scenarios outlined by the IFI for the evolution of the gross debt over the next few years take into account the New Fiscal Framework (NAF). The simulations carried out indicate that, even with the new fiscal rule in force, which will limit the growth of primary expenditure by the central government to percentages of the variation in net revenue, the stabilization of public debt would only be achieved with a continued increase in revenue.

The growth of several mandatory primary expenditures with the limitations of containment measures will make it more challenging for the central government to meet its primary balance targets. The projections calculated by the IFI for gross debt, given the macroeconomic and fiscal scenarios discussed above, indicate an increase in the indicator throughout the projection horizon (2024-2034) in the baseline scenario.

Of course, this debt trajectory could change if the government manages to raise the recurring revenue considered when calculating the primary expenditure limits. The scenarios indicate that possible revenue frustrations will not only make it difficult to meet fiscal targets but will also jeopardize the credibility of fiscal policy.

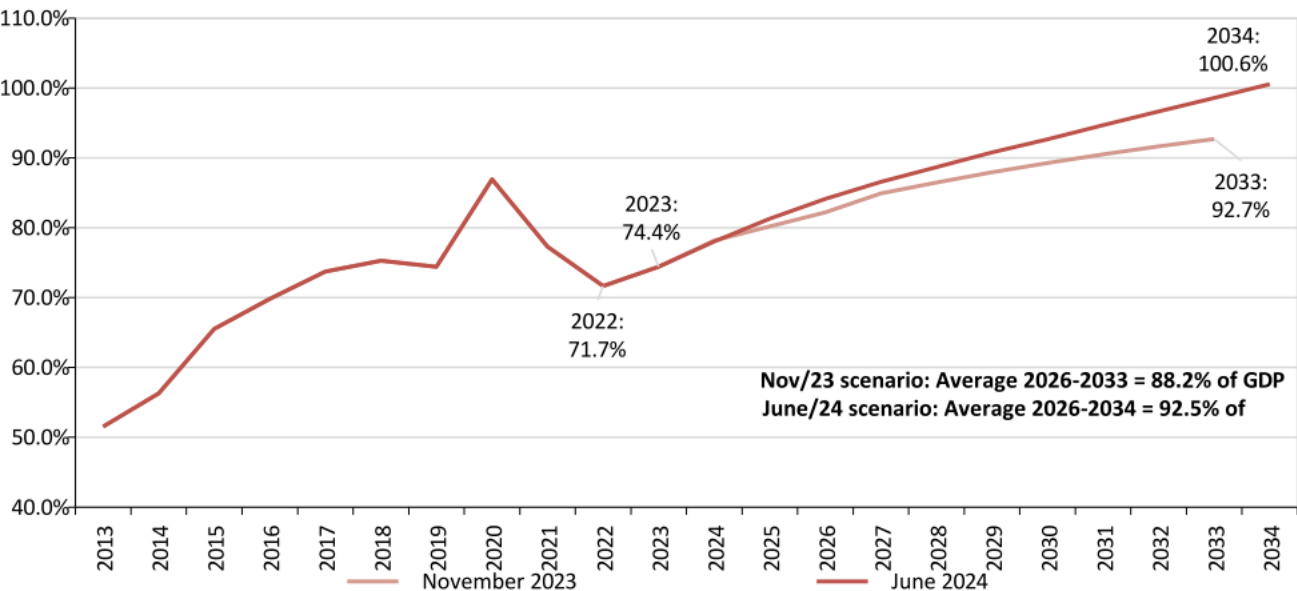
3.1 Projections

In the revised scenarios presented in November 2023, the IFI projected gross debt at 78.2% of GDP in 2024. Now, the projection for the indicator is 78.0% of GDP at the end of the year (Graph 9). Contributing to this revision was the higher growth expected for nominal GDP this year (6.4% in June, compared to 6.1% in November 2023), as well as an expectation of a lower primary deficit of the consolidated public sector for 2024, now at 0.7% of GDP, compared to a deficit of 1.2% of GDP expected in November.

Although the projection for the public sector's primary deficit has been lowered for 2024, in the medium term, the IFI estimates an increase in this deficit due to the worsening trajectory of the central government's primary balance. In the baseline scenario, at no point in the projection horizon will the primary balance of the consolidated public sector be positive, which contributes to worsening the trajectory of gross indebtedness.

In November 2023, the IFI estimated that the DBGG would reach 92.7% of GDP in 2033. DBGG is now expected to reach 98.6% of GDP in 2033 and 100.6% of GDP in 2034 (Graph 9).

GRAPH 9. IFI PROJECTIONS FOR DBGG AT SELECTED TIMES (2023-2034) - % OF GDP

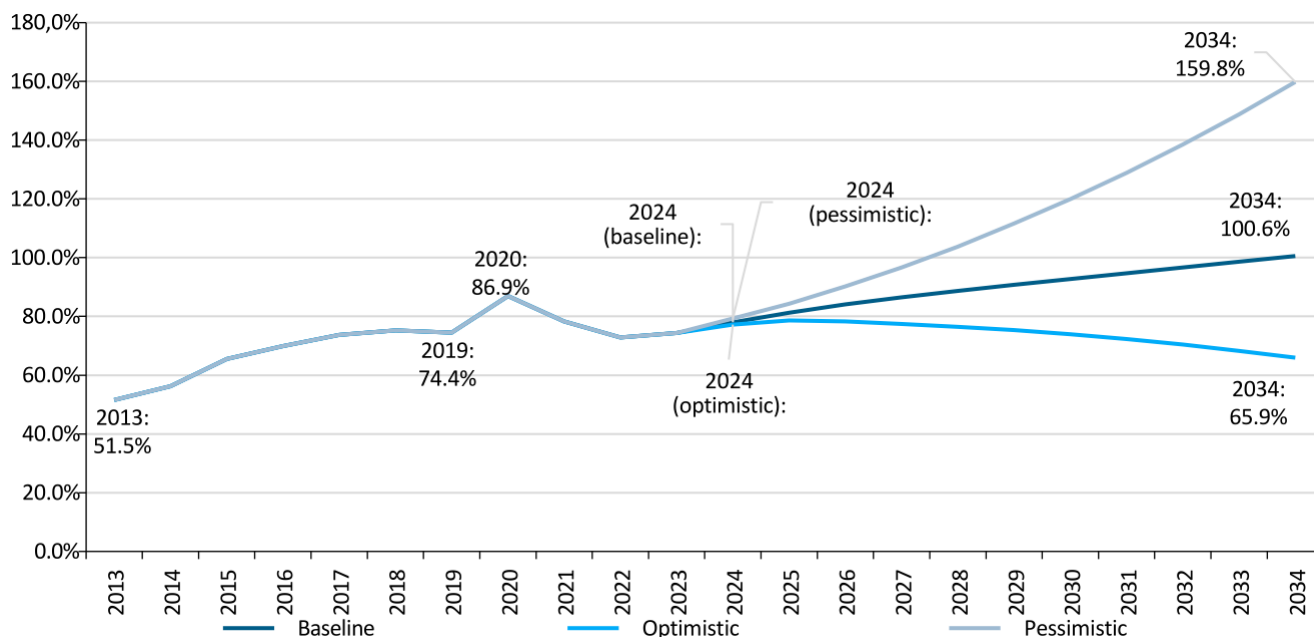


Source: Central Bank. Prepared by: IFI.



Considering the macroeconomic parameters presented in the first section and given the trajectory of the expected primary balances of the public sector, there will be an increase in the DBGG as a proportion of GDP in the coming years. Such an increase in debt exposes the challenges of meeting the central government's primary balance targets, which fundamentally depend on an increase in recurring primary revenues, in addition to the limitations of controlling primary expenditure. It is important to highlight risks that could jeopardize the projected growth of the economy and any frustrations of the measures intended by the Executive to increase revenue in the coming years. Such events can affect confidence in the sustainability of public accounts in the medium and long term.

**GRAPH 10. IFI PROJECTIONS FOR DBGG IN THE DIFFERENT SCENARIOS - % OF GDP**



Source: Central Bank. Prepared by: IFI.

Graph 10 consolidates the expected trajectories in the three IFI scenarios.

Table 7 shows the average values of the main debt assumptions from 2024 to 2034. Table 8, in turn, shows the projections for the DBGG as a percentage of GDP in the IFI's three medium-term scenarios.

**TABLE 7. MAIN MACROECONOMIC AND FISCAL ASSUMPTIONS FOR THE DEBT SCENARIOS - AVERAGES FROM 2025 TO 2033 (NOV/23) AND 2026 TO 2034 (JUN/24) IN THE BASELINE SCENARIO**

Baseline scenario		
	Nov/23	Jun/24
Primary balance (BRL billion)	-73.7	-165.8
Primary balance (% of GDP)	-0.6%	-1.0%
Nominal GDP (BRL billion)	15,233	16,727
Real GDP growth (%)	2.0%	2.2%
Implicit real debt rate (% p.a.)	3.9%	4.2%
<b>Gross debt (% of GDP)</b>	<b>87.3%</b>	<b>92.5%</b>

\*\* The Nov/23 revision considered the period from 2025 to 2033 as medium-term. In this Jun/24 review, the period considered is from 2026 to 2034.  
Source: IFI.

TABLE 8. DBGG PROJECTIONS AS % OF GDP UNTIL 2034 - RAF NOV/23 AND CURRENT

Year	Baseline		Optimistic		Pessimistic	
	Nov/23	Jun/24	May/23	Jun/24	May/23	Jun/24
2017	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%
2018	75.3%	75.3%	75.3%	75.3%	75.3%	75.3%
2019	74.4%	74.4%	74.4%	74.4%	74.4%	74.4%
2020	86.9%	86.9%	86.9%	86.9%	86.9%	86.9%
2021	78.3%	77.3%	78.3%	77.3%	78.3%	77.3%
2022	72.9%	71.7%	72.9%	71.7%	72.9%	71.7%
2023	75.2%	74.4%	76.0%	74.4%	75.5%	74.4%
2024	78.2%	78.0%	78.1%	77.2%	80.4%	79.3%
2025	80.2%	81.3%	78.8%	78.6%	85.0%	84.3%
2026	82.2%	84.1%	79.2%	78.3%	91.6%	90.2%
2027	84.9%	86.5%	78.5%	77.4%	99.4%	96.7%
2028	86.5%	88.7%	77.6%	76.4%	106.1%	103.7%
2029	87.9%	90.8%	76.5%	75.4%	113.3%	111.6%
2030	89.3%	92.7%	75.3%	73.9%	120.9%	119.9%
2031	90.5%	94.7%	73.8%	72.3%	129.0%	128.9%
2032	91.7%	96.6%	72.3%	70.4%	137.6%	138.5%
2033	92.7%	98.6%	70.6%	68.3%	146.5%	148.8%
2034		100.6%		65.9%		159.8%

Source: IFI.

Table 9 updates the exercise usually presented by the IFI to illustrate the primary balance required to stabilize the DBGG as a proportion of GDP. Here, the exercise aims to stabilize the debt at 74.4% of GDP, the level of the indicator at the end of 2023.

TABLE 9. PRIMARY BALANCE REQUIRED TO STABILIZE GROSS DEBT AT 74.4% OF GDP ( 2023 LEVEL )

DBGG in t		Implicit Real Interest from DBGG							
74.4%		0.5%	1.0%	2.0%	3.5%	4.2%	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%	2.4%	2.6%	2.9%	3.3%
	1.5%	-0.7%	-0.4%	0.4%	1.5%	2.0%	2.2%	2.6%	2.9%
	2.2%	-1.3%	-0.9%	-0.2%	0.9%	1.4%	1.7%	2.0%	2.4%
	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%	0.9%	1.1%	1.4%	1.8%
	3.5%	-2.2%	-1.8%	-1.1%	0.0%	0.5%	0.7%	1.1%	1.4%

Source: Prepared by: IFI

For example, with an implicit gross debt interest rate of 4.2% p.a. and GDP growth of 2.2% (average projections for the medium term in the baseline scenario), the primary surplus required to stabilize the DBGG at 74.4% of GDP is 1.4% of GDP. 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 amount of primary balance required for this. Assuming real interest rates of 2.0% p.a. and GDP growth of 3.5%, even a primary deficit of 1.1% of GDP would stabilize the gross debt at the December 2023 level (74.4% of GDP).

Finally, Table 10 shows the projections for the primary and nominal balances, as well as interest expenditure in the three reference scenarios. The projections indicate the persistence of significant nominal deficits due to relatively high interest expenditure. Only in the optimistic scenario, in which the public sector achieves primary surpluses from 2028 onwards, does the nominal balance assume a downward trend, although it remains in deficit.

**TABLE 10. CONSOLIDATED PUBLIC SECTOR NOMINAL BALANCE (% OF GDP)**

Year	Baseline			Optimistic			Pessimistic		
	Nominal balance	Primary balance	Interest	Nominal balance	Primary balance	Interest	Nominal balance	Primary balance	Interest
2018	-7.0%	-1.5%	5.4%	-7.0%	-1.5%	5.4%	-7.0%	-1.5%	5.4%
2019	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%
2020	-13.3%	-9.2%	4.1%	-13.3%	-9.2%	4.1%	-13.3%	-9.2%	4.1%
2021	-4.3%	0.7%	5.0%	-4.3%	0.7%	5.0%	-4.3%	0.7%	5.0%
2022	-4.6%	1.2%	5.8%	-4.6%	1.2%	5.8%	-4.6%	1.2%	5.8%
2023	-8.9%	-2.3%	6.6%	-8.9%	-2.3%	6.6%	-8.9%	-2.3%	6.6%
2024	-7.9%	-0.7%	7.2%	-7.5%	-0.4%	7.1%	-9.5%	-1.3%	8.2%
2025	-7.6%	-0.7%	6.9%	-6.6%	0.1%	6.7%	-10.2%	-1.6%	8.6%
2026	-7.5%	-0.9%	6.6%	-4.9%	0.2%	5.1%	-10.5%	-1.9%	8.5%
2027	-7.3%	-0.9%	6.4%	-4.2%	0.5%	4.7%	-11.4%	-2.2%	9.1%
2028	-7.1%	-1.1%	6.0%	-4.1%	0.6%	4.7%	-12.2%	-2.4%	9.7%
2029	-7.1%	-1.2%	5.9%	-3.8%	0.7%	4.5%	-13.4%	-2.8%	10.5%
2030	-6.9%	-1.1%	5.7%	-3.3%	1.0%	4.3%	-14.4%	-3.0%	11.4%
2031	-6.6%	-1.1%	5.5%	-2.9%	1.2%	4.1%	-15.5%	-3.1%	12.3%
2032	-6.4%	-1.0%	5.4%	-2.6%	1.5%	4.1%	-16.7%	-3.4%	13.3%
2033	-6.4%	-1.0%	5.4%	-2.3%	1.8%	4.1%	-17.9%	-3.5%	14.4%
2034	-6.4%	-0.9%	5.4%	-2.1%	2.0%	4.1%	-19.2%	-3.7%	15.5%

Source: IFI.

### 3.1.1 Stochastic debt scenarios

The scenario review also involved updating the General Government Gross Debt (DBGG) fan chart, which complements the deterministic<sup>31</sup> baseline scenario. Thus, given the assumptions contained in this baseline scenario, it is estimated that the probability of DBGG crossing the threshold of 90% of GDP in some year between 2024 and 2028 is 49.6% (Graph 11).

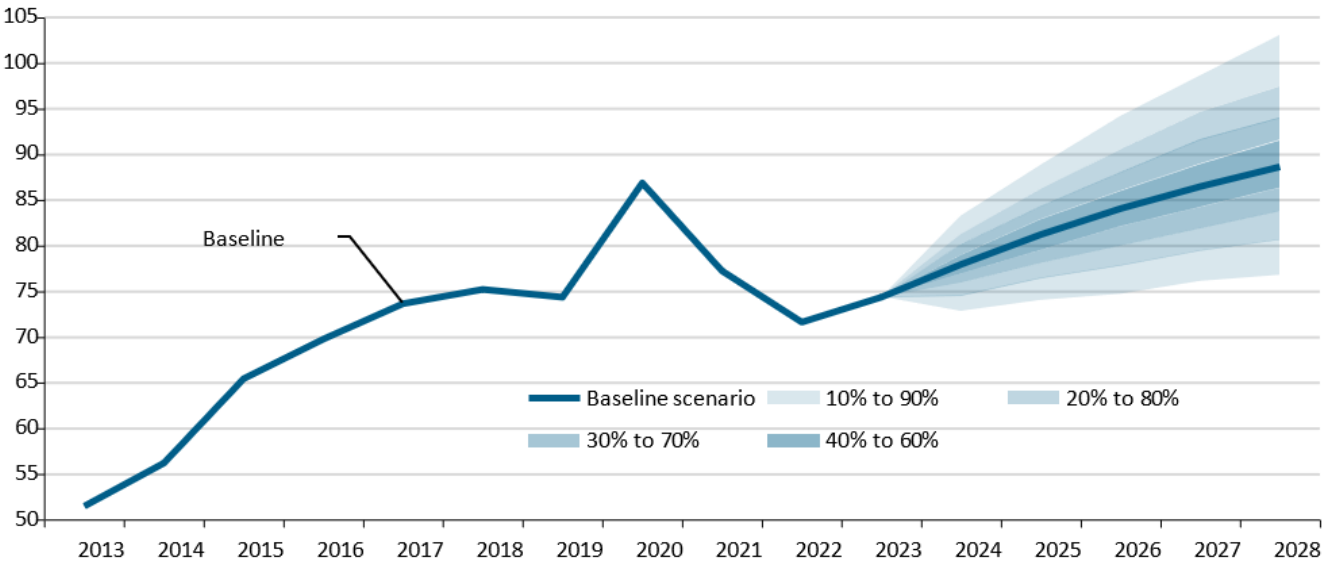
The probability reported above is significantly higher than that indicated in the last RAF that reviewed scenarios (November 2023, when the figure was 38.7%). There are two explanations for this rise. Firstly, there was an increase in the DBGG projected in the baseline scenario<sup>32</sup>. In the years 2026 to 2028, for example, the DBGG is higher, on average, by 1.9 p.p. when compared to the projections in the RAF of November 2023. Secondly, there was an increase in uncertainty around the baseline scenario, as a result of incorporating the years 2022 and 2023 into the sample from which the shocks are drawn, during the generation of the 1,500 stochastic scenarios. In fact, the width of the fan chart - the difference between the 90% and 10% percentiles in 2028 - went from 22.2 p.p. (Nov/23) to 26.3 p.p. (this RAF).

As additional information, Graph 11 indicates that there is little chance of the DBGG returning to the December 2023 level (74.4% of GDP) in the next five years. In other words, the probability of the DBGG in 2028 being higher than in December 2023 is 93.9%.

<sup>31</sup> For an explanation of the methodology, see Special Study No. 18, published by the IFI in December 2023: <https://tinyurl.com/2vk3dtuu>. In addition, check out Technical Note 54, of a methodological nature, which carries out sensitivity tests on stochastic scenarios: <https://tinyurl.com/435wpmnh>.

<sup>32</sup> It's worth noting that the fan chart takes the baseline scenario as given and is constructed symmetrically around that scenario.

GRAPH 11. BASELINE SCENARIO AND STOCHASTIC SCENARIOS (FAN CHART) FOR DBGG (% GDP)



Source: IFI. Explanatory note: the values on the left axis indicate the percentage that DBGG represents of GDP. 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%" (because  $60 - 40 = 20$ ). In other words, 80% of the values are in the range labeled "10% to 90%" (because  $90 - 10 = 80$ ).

**TABLE 11. IFI PROJECTIONS FOR THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - BASELINE SCENARIO (% OF GDP)**

Breakdown	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Gross Revenue</b>	<b>21.7</b>	<b>23.0</b>	<b>23.2</b>	<b>23.0</b>	<b>22.9</b>	<b>22.7</b>	<b>22.6</b>	<b>22.5</b>	<b>22.5</b>	<b>22.5</b>	<b>22.4</b>	<b>22.4</b>
<b>Revenue sharing transfers to E&amp;M</b>	<b>4.2</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>
<b>Net Revenue</b>	<b>17.5</b>	<b>18.5</b>	<b>18.7</b>	<b>18.6</b>	<b>18.4</b>	<b>18.2</b>	<b>18.1</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>	<b>17.9</b>	<b>17.9</b>
<b>Primary expenditure</b>	<b>19.6</b>	<b>19.2</b>	<b>19.4</b>	<b>19.3</b>	<b>19.3</b>	<b>19.3</b>	<b>19.2</b>	<b>19.2</b>	<b>19.1</b>	<b>19.0</b>	<b>18.9</b>	<b>18.8</b>
<b>Mandatory</b>	<b>17.9</b>	<b>17.6</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.7</b>	<b>17.7</b>	<b>17.6</b>	<b>17.5</b>	<b>17.5</b>
Social security benefits	8.3	8.2	8.4	8.4	8.5	8.5	8.6	8.6	8.7	8.7	8.7	8.7
Payroll and social charges	3.4	3.2	3.3	3.2	3.1	3.1	3.0	2.9	2.9	2.8	2.8	2.7
Continuous cash benefits	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Salary allowance and unemployment benefit	0.7	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Federal Government supplementation to Fundeb	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Federal District Constitutional Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kandir Law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial support for sub-national entities	0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies, grants and Proagro	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court judgments and court-ordered debt payments (cost and capital)	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Public Employee's benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health (mandatory)	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Education (mandatory)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Other branches (cost and capital)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Extraordinary credit	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Bolsa Família Program</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>
Other mandatory expenditure	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Discretionary expenditure</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>
<b>Primary balance</b>	<b>-2.1</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.0</b>	<b>-0.9</b>	<b>-0.9</b>
Memo:												
<b>GDP - nominal (BRL billion)</b>	<b>10,856.1</b>	<b>11,551.6</b>	<b>12,265.8</b>	<b>13,045.6</b>	<b>13,860.4</b>	<b>14,715.1</b>	<b>15,620.7</b>	<b>16,568.6</b>	<b>17,555.3</b>	<b>18,601.5</b>	<b>19,705.8</b>	<b>20,871.4</b>

TABLE 12. IFI PROJECTIONS FOR THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - OPTIMISTIC SCENARIO (% OF GDP)

Breakdown	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Gross Revenue</b>	<b>21.7</b>	<b>23.1</b>	<b>23.5</b>	<b>23.4</b>	<b>23.2</b>	<b>23.2</b>	<b>23.1</b>	<b>23.1</b>	<b>23.2</b>	<b>23.2</b>	<b>23.2</b>	<b>23.3</b>
<b>Revenue sharing transfers to E&amp;M</b>	<b>4.2</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>
<b>Net Revenue</b>	<b>17.5</b>	<b>18.6</b>	<b>18.9</b>	<b>18.9</b>	<b>18.8</b>	<b>18.7</b>	<b>18.6</b>	<b>18.6</b>	<b>18.7</b>	<b>18.7</b>	<b>18.7</b>	<b>18.8</b>
<b>Primary expenditure</b>	<b>19.6</b>	<b>19.1</b>	<b>19.0</b>	<b>18.7</b>	<b>18.4</b>	<b>18.2</b>	<b>18.0</b>	<b>17.7</b>	<b>17.5</b>	<b>17.3</b>	<b>17.0</b>	<b>16.8</b>
<b>Mandatory</b>	<b>17.9</b>	<b>17.6</b>	<b>17.4</b>	<b>17.2</b>	<b>16.9</b>	<b>16.7</b>	<b>16.5</b>	<b>16.3</b>	<b>16.1</b>	<b>15.9</b>	<b>15.7</b>	<b>15.5</b>
Social security benefits	8.3	8.2	8.2	8.1	8.0	7.9	7.8	7.8	7.7	7.7	7.6	7.5
Payroll and social charges	3.4	3.2	3.1	3.0	2.9	2.8	2.7	2.6	2.5	2.4	2.4	2.3
Continuous cash benefits	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Salary allowance and unemployment benefit	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Federal Government supplementation to Fundeb	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Federal District Constitutional Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kandir Law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial support for sub-national entities	0.2	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.3
Subsidies, grants and Proagro	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Court judgments and court-ordered debt payments (cost and capital)	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Public Employee's benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health (mandatory)	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Education (mandatory)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other branches (cost and capital)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Extraordinary credit	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Bolsa Família Program	1.5	1.5	1.4	1.4	1.3	1.2	1.2	1.1	1.1	1.0	1.0	1.0
Other mandatory expenditure	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Discretionary expenditure</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>
<b>Primary balance</b>	<b>-2.1</b>	<b>-0.6</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>1.2</b>	<b>1.5</b>	<b>1.7</b>	<b>2.0</b>
Memo:												
<b>Nominal GDP (BRL billion)</b>	<b>10,856.1</b>	<b>11,567.4</b>	<b>12,321.5</b>	<b>13,194.3</b>	<b>14,117.1</b>	<b>15,110.9</b>	<b>16,168.0</b>	<b>17,324.6</b>	<b>18,545.2</b>	<b>19,853.7</b>	<b>21,251.2</b>	<b>22,742.5</b>

TABLE 13. IFI PROJECTIONS FOR THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - PESSIMISTIC SCENARIO (% OF GDP)

Discriminação	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Gross Revenue	21,7	22,7	22,7	22,6	22,3	22,2	22,0	21,9	21,8	21,7	21,6	21,4
Revenue sharing transfers to E&M	4,2	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5
Net Revenue	17,5	18,2	18,2	18,1	17,8	17,7	17,4	17,4	17,3	17,1	17,0	16,9
Primary expenditure	19,6	19,2	19,5	19,6	19,8	19,9	20,1	20,1	20,2	20,3	20,3	20,4
Mandatory	17,9	17,6	17,9	18,1	18,3	18,4	18,6	18,7	18,8	18,8	18,9	19,0
Social security benefits	8,3	8,2	8,5	8,6	8,7	8,9	9,0	9,1	9,2	9,4	9,5	9,5
Payroll and social charges	3,4	3,2	3,2	3,2	3,2	3,2	3,2	3,1	3,1	3,1	3,1	3,1
Continuous cash benefits	0,9	0,9	1,0	1,0	1,0	1,1	1,1	1,1	1,2	1,2	1,2	1,2
Salary allowance and unemployment benefit	0,7	0,7	0,7	0,7	0,7	0,7	0,7	0,8	0,8	0,8	0,8	0,8
Federal Government supplementation to Fundeb	0,3	0,4	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
Federal District Constitutional Fund	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Kandir Law	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial support for sub-national entities	0,2	0,0	0,1	0,1	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Subsidies, grants and Proagro	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Court judgments and court-ordered debt payments (cost and capital)	0,7	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Public Employee's benefits	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Health (mandatory)	1,2	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,2	1,2	1,2	1,2
Education (mandatory)	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Other branches (cost and capital)	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Extraordinary credit	0,0	0,2	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Bolsa Família Program	1,5	1,5	1,5	1,4	1,4	1,4	1,4	1,3	1,3	1,3	1,3	1,3
Other mandatory expenditure	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Discretionary expenditure	1,7	1,6	1,6	1,5	1,5	1,5	1,5	1,5	1,4	1,4	1,4	1,4
Primary balance	-2,1	-1,0	-1,3	-1,5	-2,0	-2,2	-2,6	-2,8	-2,9	-3,1	-3,3	-3,4
Memo:												
Nominal GDP (BRL billion)	10.856,1	11.533,4	12.247,6	13.022,8	13.823,4	14.669,7	15.554,7	16.511,0	17.508,3	18.567,5	19.687,4	20.870,4

## IFI projections

### SHORT TERM

IFI projections	2024			2025		
	May/24	Jun/24	Comparison	May/24	Jun/24	Comparison
GDP - real growth (% p.a.)	1.98	2.02	▲	1.93	1.90	▼
GDP - nominal (BRL billion)	11,546.26	11,551.56	▲	12,251.15	12,265.82	▲
IPCA - accumulated (% in the year)	3.83	4.04	▲	3.43	3.48	▲
Exchange rate - end of period (BRL/US\$)	4.91	5.10	▲	4.96	5.15	▲
Employment - growth (%)	1.70	1.75	▲	0.92	0.99	▲
Payroll - growth (%)	4.75	4.90	▲	1.93	1.90	▼
Selic - end of period (% p.a.)	10.00	10.50	▲	9.00	9.50	▲
Ex-ante real interest rate (% p.a.)	5.23	5.33	▲	5.05	4.75	▼
Consolidated Public Sector Primary Balance (% of GDP)	-0.62	-0.65	▼	-0.44	-0.72	▼
of which Central Government	-0.82	-0.65	▲	-0.44	-0.72	▼
Net Nominal Interest (% of GDP)	6.97	7.20	▲	6.49	6.86	▲
Nominal Balance (% of GDP)	-7.59	-7.85	▼	-6.93	-7.58	▼
General Government Gross Debt (% of GDP)	77.60	78.02	▲	80.10	81.28	▲

### MEDIUM TERM

	Projections											
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
GDP - real growth (% p.a.)	<b>2.91</b>	2.02	1.90	2.26	2.24	2.22	2.23	2.24	2.23	2.23	2.21	2.19
GDP - nominal (BRL billion)	<b>10,856</b>	11,552	12,266	13,046	13,860	14,715	15,621	16,569	17,555	18,601	19,706	20,871
IPCA - accumulated (% in the year)	<b>4.62</b>	4.04	3.48	3.27	3.27	3.17	3.22	3.00	3.00	3.00	3.00	3.00
Exchange rate - end of period (BRL/US\$)	<b>4.84</b>	5.10	5.15	5.20	5.26	5.31	5.36	5.40	5.44	5.48	5.52	5.56
Employment - growth (%)	<b>1.37</b>	1.75	0.99	1.17	1.16	1.15	1.16	1.17	1.16	1.16	1.15	1.14
Payroll - growth (%)	<b>6.91</b>	4.90	1.90	2.26	2.24	2.22	2.23	2.24	2.23	2.23	2.21	2.19
Selic - end of period (% p.a.)	<b>11.75</b>	10.50	9.50	8.50	8.00	7.50	7.25	7.00	7.00	7.00	7.00	7.00
Ex-ante real interest rate (% p.a.)	<b>5.94</b>	5.33	4.75	4.38	3.89	4.14	3.89	3.89	3.89	3.88	3.88	3.88
Consolidated Public Sector Primary Balance (% of GDP)	<b>-2.29</b>	-0.65	-0.72	-0.88	-0.87	-1.08	-1.18	-1.14	-1.09	-1.03	-0.98	-0.95
of which Central Government	<b>-2.44</b>	-0.65	-0.72	-0.78	-0.91	-1.06	-1.15	-1.11	-1.05	-0.99	-0.94	-0.91
Net Nominal Interest (% of GDP)	<b>6.62</b>	7.20	6.86	6.62	6.42	6.05	5.91	5.73	5.48	5.38	5.40	5.45
Nominal Balance (% of GDP)	<b>-8.91</b>	-7.85	-7.58	-7.50	-7.29	-7.13	-7.09	-6.87	-6.57	-6.40	-6.38	-6.39
General Government Gross Debt (% of GDP)	<b>74.4</b>	78.0	81.3	84.1	86.5	88.7	90.8	92.7	94.7	96.6	98.6	100.6





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