



# Macroeconomic and fiscal scenarios

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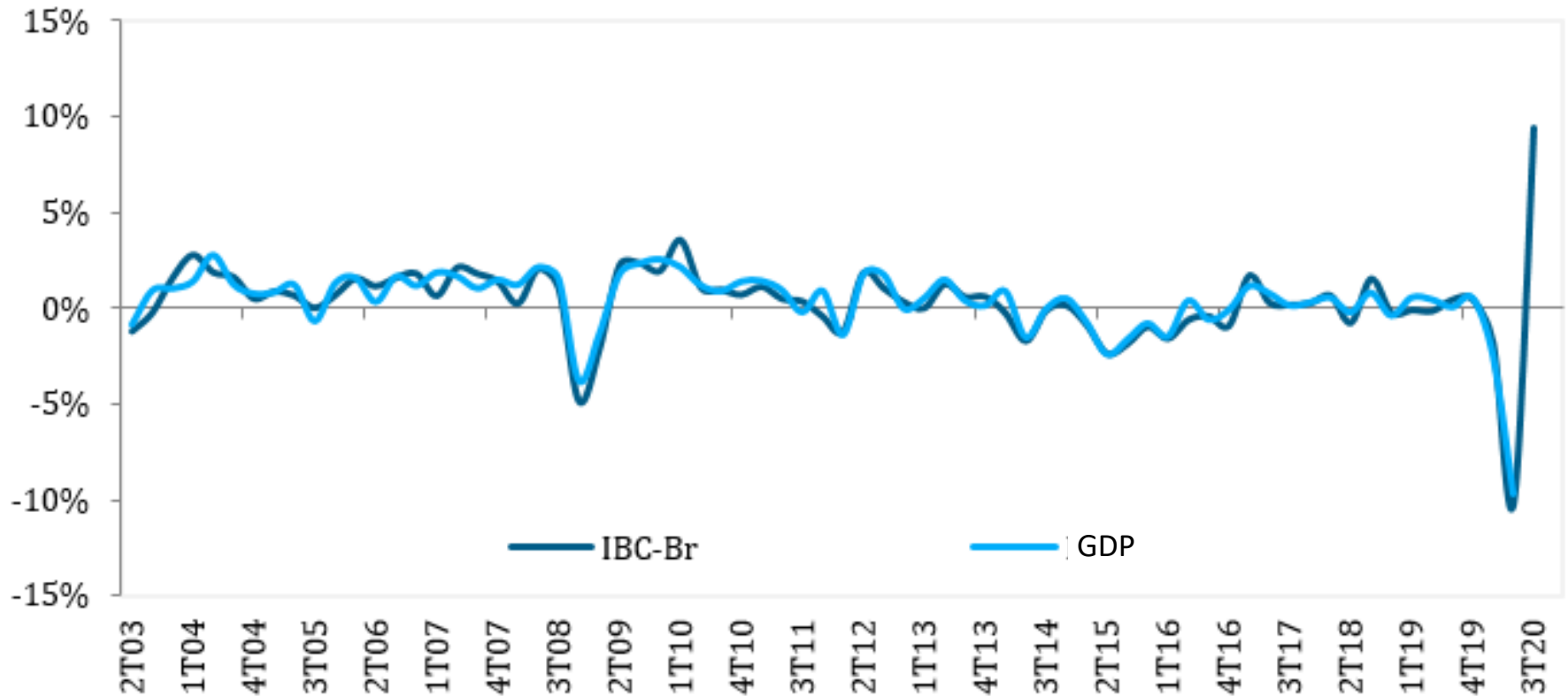
January 25, 2021

- ❖ **Diagnosis of the economic situation**
- ❖ **Scenarios**
- ❖ **Reforms and fiscal rules**

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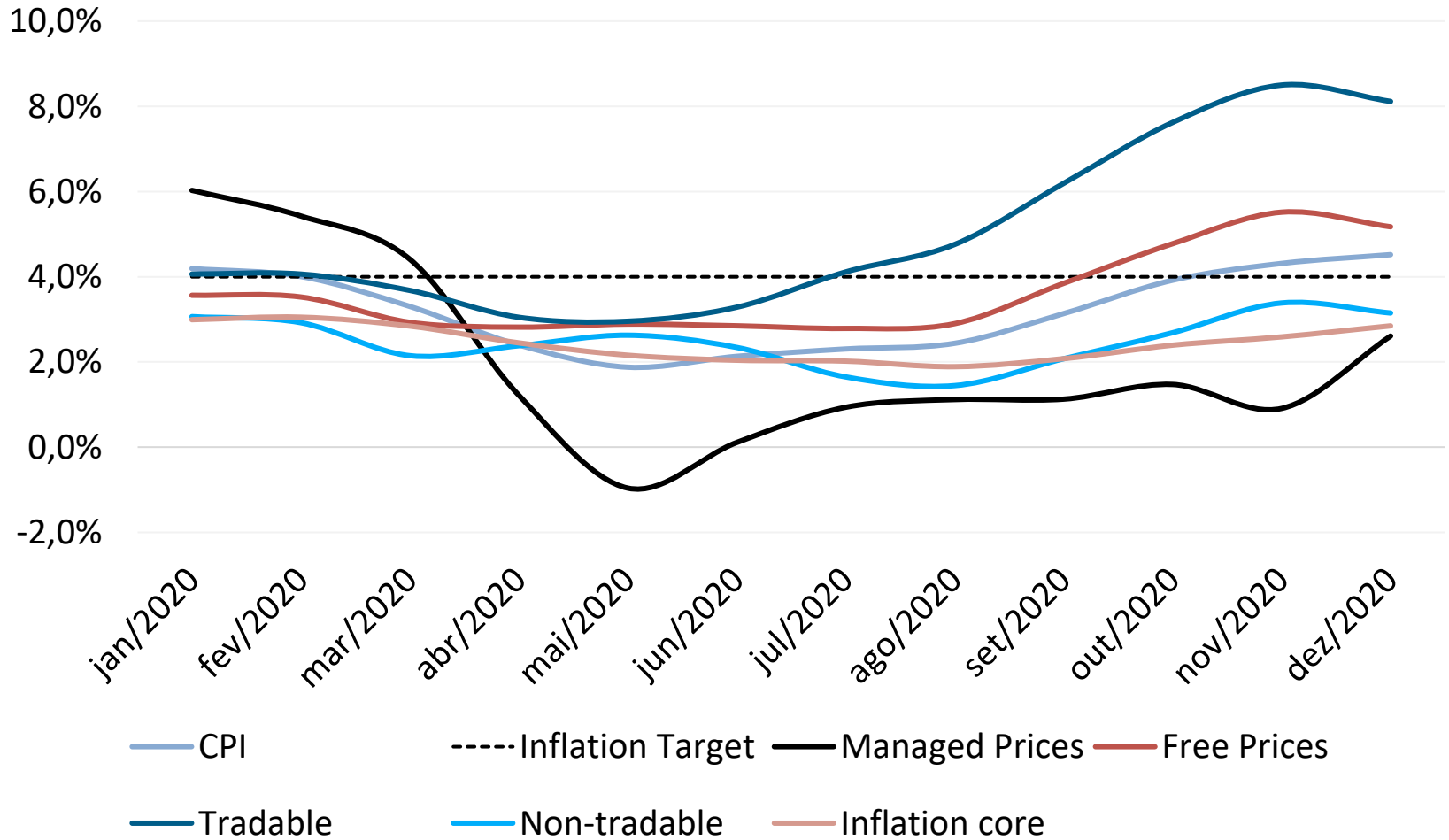
- **Fiscal stance is the most challenging the country has ever faced**
- **GDP will fall around 4.5% to 5.0% in 2020, and rise just 2.8% in 2021**
- **Primary deficit may reach BRL 779.8 billion in 2020, including the cost of measures to combat the crisis**
- **Public debt will rise by 15 to 16 points of GDP in 2020, and may grow even more in the next years**
- **Debt financing risk is under control, but it exists and has increased**
- **Discussion about the future of fiscal rules in force (mainly the spending ceiling) and the weight of mandatory spending are the two most relevant issues in the fiscal agenda**

## IBC-BR – quarterly variations



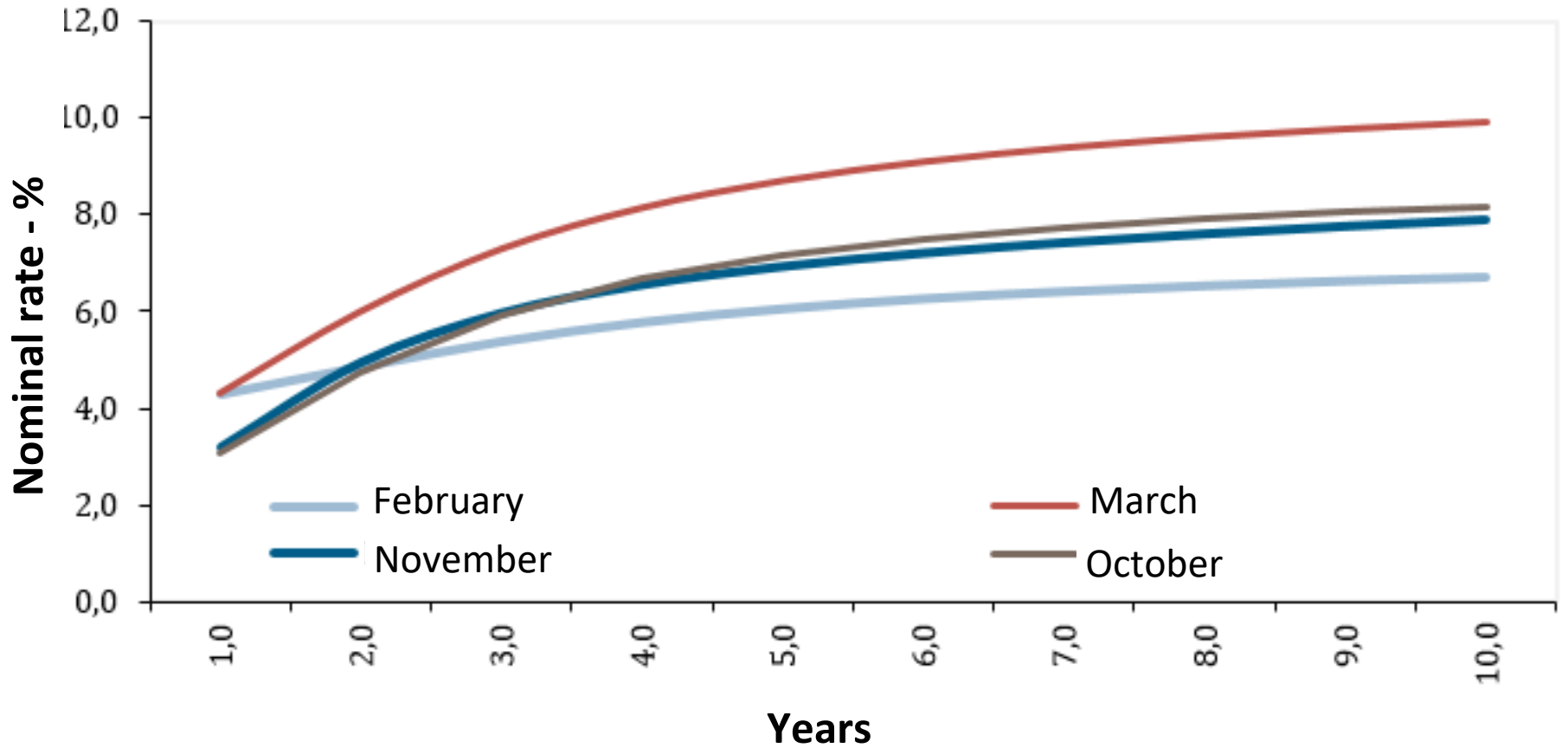
	Valores absolutos (mil pessoas)			Variação em relação ao mesmo trimestre do ano anterior			Percentual em relação ao total de ocupados		
	ago/19	jul/20	ago/20	ago/19	jul/20	ago/20	ago/19	jul/20	ago/20
<b>População ocupada</b>	93,631	82,027	81,666	2,0%	-12,3%	-12,8%	100%	100%	100%
<b>Setor privado</b>	44,838	38,076	37,822	1,8%	-15,0%	-15,6%	47,9%	46,4%	46,3%
Com carteira assinada	33,042	29,385	29,067	0,4%	-11,3%	-12,0%	35,3%	35,8%	35,6%
Sem carteira assinada	11,795	8,691	8,755	5,9%	-25,5%	-25,8%	12,6%	10,6%	10,7%
<b>Trabalhador doméstico</b>	6,287	4,593	4,559	0,0%	-26,9%	-27,5%	6,7%	5,6%	5,6%
Com carteira assinada	1,772	1,372	1,334	-4,1%	-21,8%	-24,7%	1,9%	1,7%	1,6%
Sem carteira assinada	4,515	3,222	3,225	1,8%	-28,8%	-28,6%	4,8%	3,9%	3,9%
<b>Setor público</b>	11,671	12,119	11,912	0,0%	3,5%	2,1%	12,5%	14,8%	14,6%
<b>Empregador</b>	4,348	3,938	3,905	-1,6%	-9,1%	-10,2%	4,6%	4,8%	4,8%
Com CNPJ	3,518	3,266	3,225	0,0%	-6,2%	-8,3%	3,8%	4,0%	3,9%
Sem CNPJ	830	672	679	-7,8%	-20,9%	-18,2%	0,9%	0,8%	0,8%
<b>Conta própria</b>	24,293	21,406	21,521	4,7%	-11,6%	-11,4%	25,9%	26,1%	26,4%
Com CNPJ	4,864	5,192	5,084	0,0%	-6,2%	-8,3%	5,2%	6,3%	6,2%
Sem CNPJ	19,429	16,214	16,437	-7,8%	-20,9%	-18,2%	20,8%	19,8%	20,1%
<b>Trabalhador familiar auxiliar</b>	2,193	1,895	1,947	1,1%	-15,0%	-11,2%	2,3%	2,3%	2,4%
<b>População ocupada no mercado informal</b>	38,762	30,694	31,043	3,9%	-20,7%	-19,9%	41,4%	37,4%	38,0%

# Inflation – Consumer Price Index – 12 months



Source: IFI.

# Interest rate curve





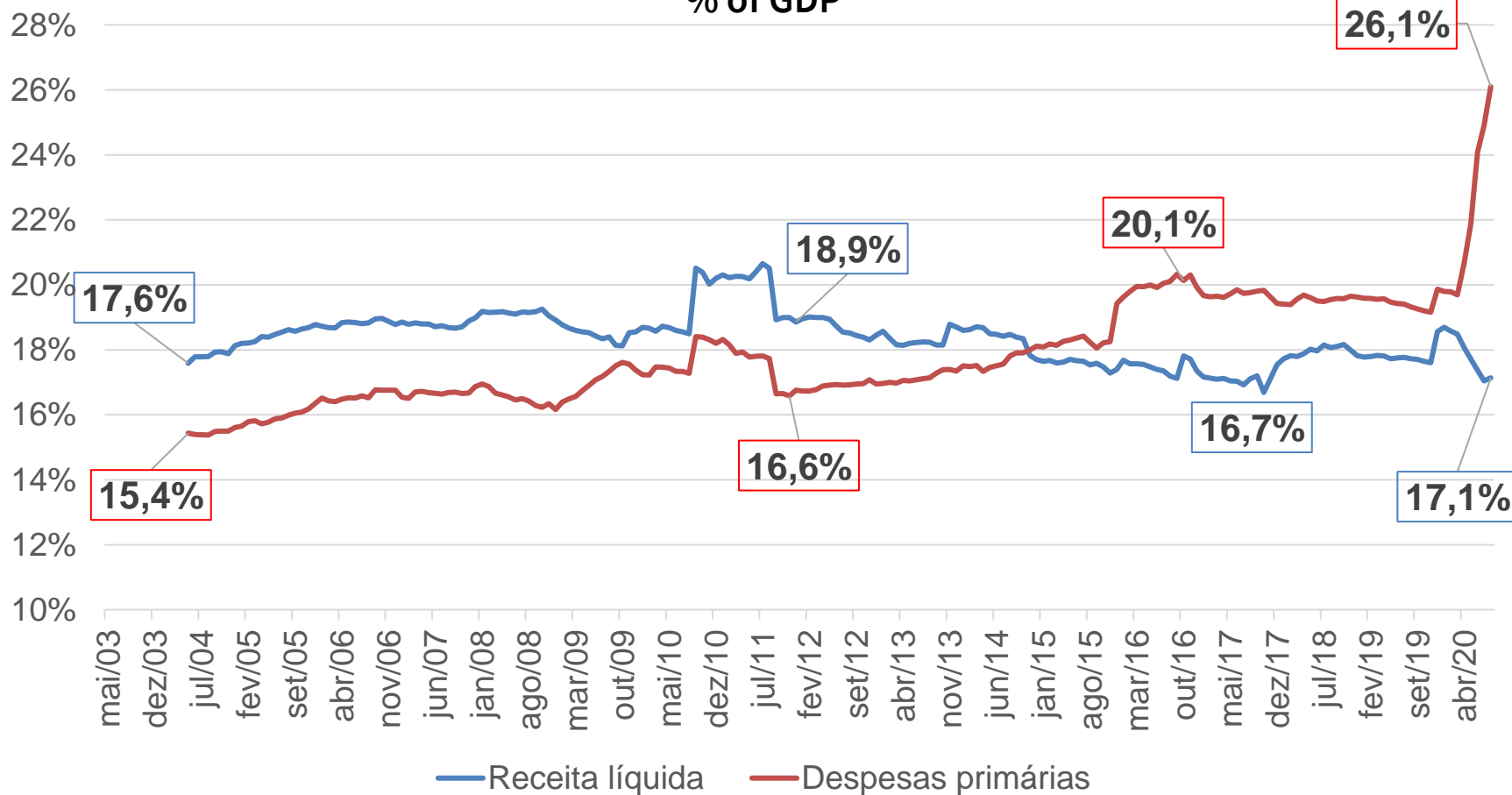
# Government actions against Covid-19 (billion reais)

Budgetary action	Budgeted	Executed
Emergency aid for vulnerable people	322,0	293,1
Transfers to states and municipalities	79,2	78,3
Guarantees in credit operations	58,1	58,1
Aid to maintain employment	51,5	33,5
Health expenditures	50,9	44,9
Transfers do credit operations	10,0	5,0
Payroll financing	6,8	6,8
Turistic infrastructure financing	5,0	3,1
Financing for the tourism sector	0,9	0,9
"Bolsa Família" (readjustment of this social transfer)	0,4	0,4
Budgetary credits to purchase of vaccines	20,0	0,0
<b>Total</b>	<b>604,8</b>	<b>524,1</b>

Source: IFI.

Central Government – primary revenues (blue line) and expenditures (red line) –

% of GDP



Central Government – primary revenues and expenditures – in BRL of August, 2020 (% change)

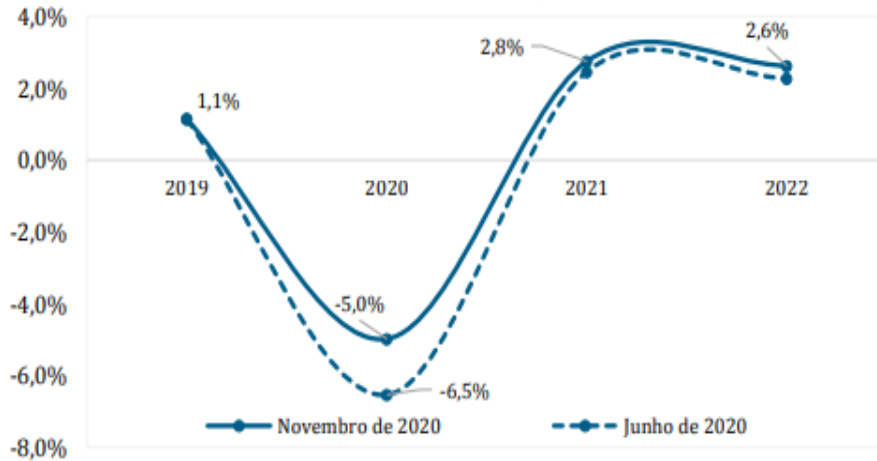
Period	Revenues	Primary Spending
2004 a 2011	7,9%	8,1%
2012 a 2015	-0,5%	5,1%
2016 a 2019	1,7%	0,6%
ago/20 x ago/19	-4,9%	32,7%

# Selected primary expenditures - % of GDP

	Pensions	Public Payroll	“Abono salarial” and unemployment insurance	“BPC” Social benefit	Discretionary spending	Subsidies (tax exemptions not included)
2004	6,4%	4,3%	0,5%	0,4%	0,0%	0,2%
2005	6,7%	4,3%	0,5%	0,4%	0,0%	0,4%
2006	6,9%	4,4%	0,6%	0,5%	0,0%	0,3%
2007	6,8%	4,3%	0,7%	0,5%	0,0%	0,3%
2008	6,4%	4,3%	0,7%	0,5%	1,9%	0,1%
2009	6,7%	4,6%	0,8%	0,6%	2,1%	0,1%
2010	6,6%	4,3%	0,8%	0,6%	3,3%	0,1%
2011	6,4%	4,1%	0,8%	0,6%	2,1%	0,2%
2012	6,6%	3,9%	0,8%	0,6%	2,2%	0,2%
2013	6,7%	3,8%	0,8%	0,6%	2,3%	0,1%
2014	6,8%	3,8%	0,9%	0,7%	2,5%	0,1%
2015	7,3%	4,0%	0,8%	0,7%	2,1%	0,9%
2016	8,1%	4,1%	0,9%	0,8%	2,3%	0,4%
2017	8,5%	4,3%	0,8%	0,8%	1,8%	0,3%
2018	8,5%	4,3%	0,8%	0,8%	1,9%	0,2%
2019	8,6%	4,3%	0,8%	0,8%	1,7%	0,2%

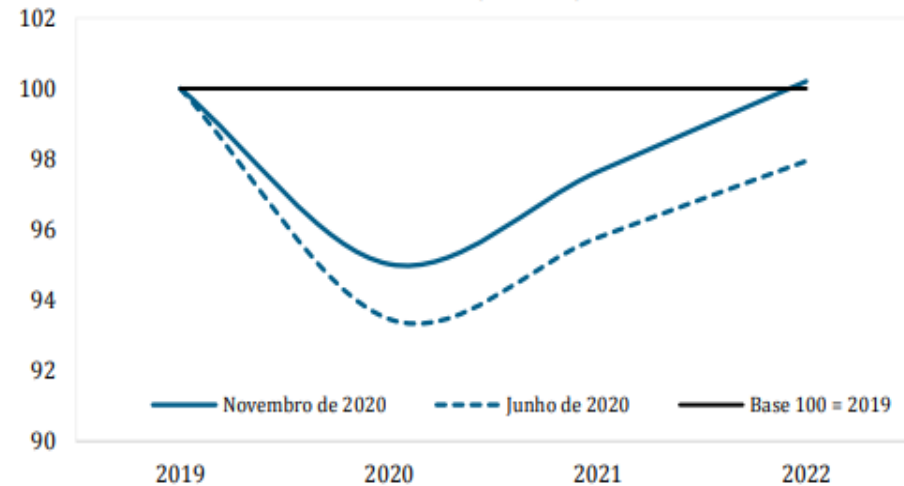
- ❖ Diagnosis of the economic situation
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GRÁFICO 3. TAXA DE VARIAÇÃO ANUAL



Fonte: IBGE e IFI. Elaboração: IFI.

GRÁFICO 4. PIB EM NÍVEL (2019=100)



Fonte: IBGE e IFI. Elaboração: IFI.

TABELA 1. COMPARAÇÃO COM A ESTIMATIVA DE OUTRAS INSTITUIÇÕES (PIB)

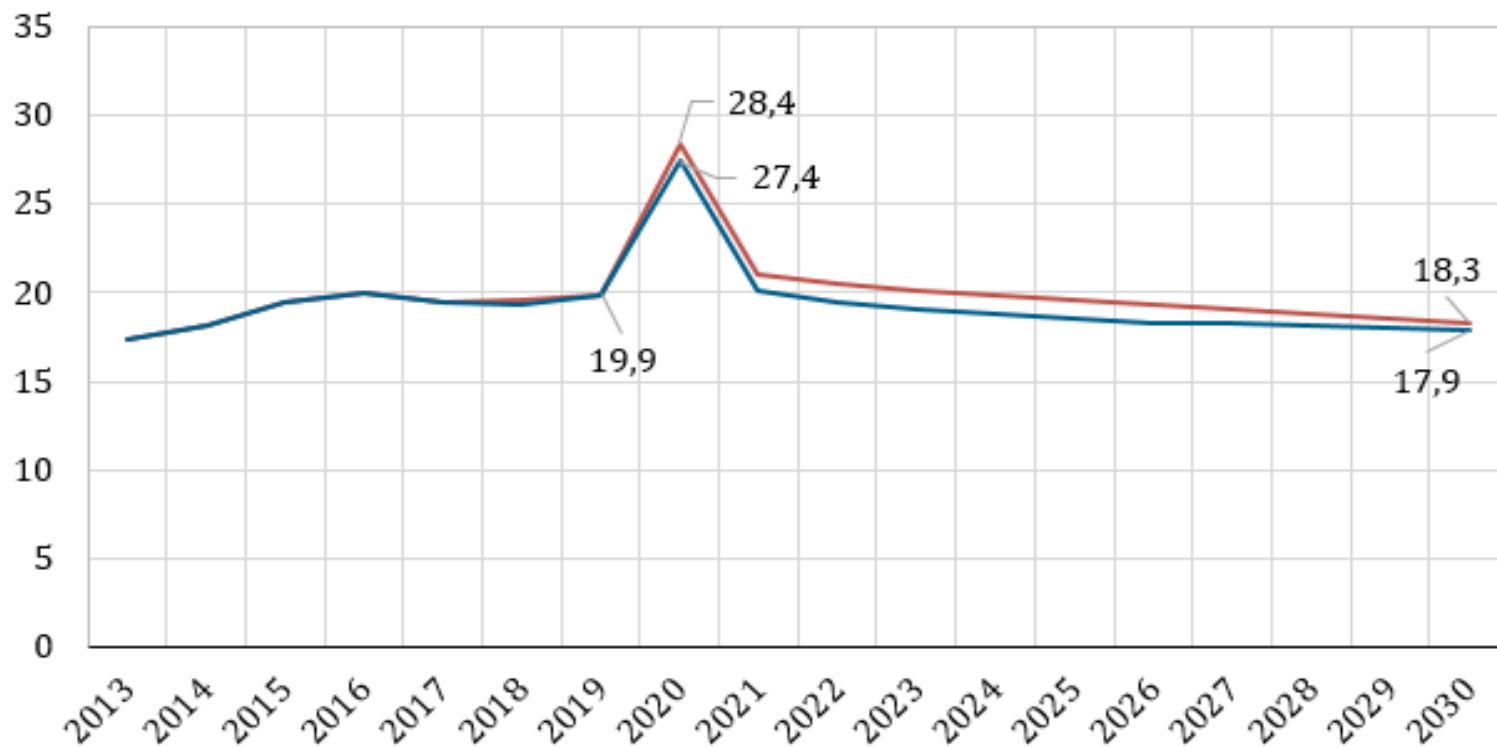
	IFI	SPE <sup>2</sup>	FGV/ IBRE <sup>3</sup>	Ipea <sup>4</sup>	Banco Central <sup>5</sup>	Banco Mundial <sup>6</sup>	FMI <sup>7</sup>
<b>2020</b>	<b>-5,0%</b>	-4,7%	-5,1%	-5,0%	-5,0%	-5,4%	-5,8%
<b>2021</b>	<b>2,8%</b>	3,2%	3,5%	3,6%	3,9%	3,0%	2,8%

Elaboração: IFI.

# ifi Primary spending – Baseline scenario (% of GDP)

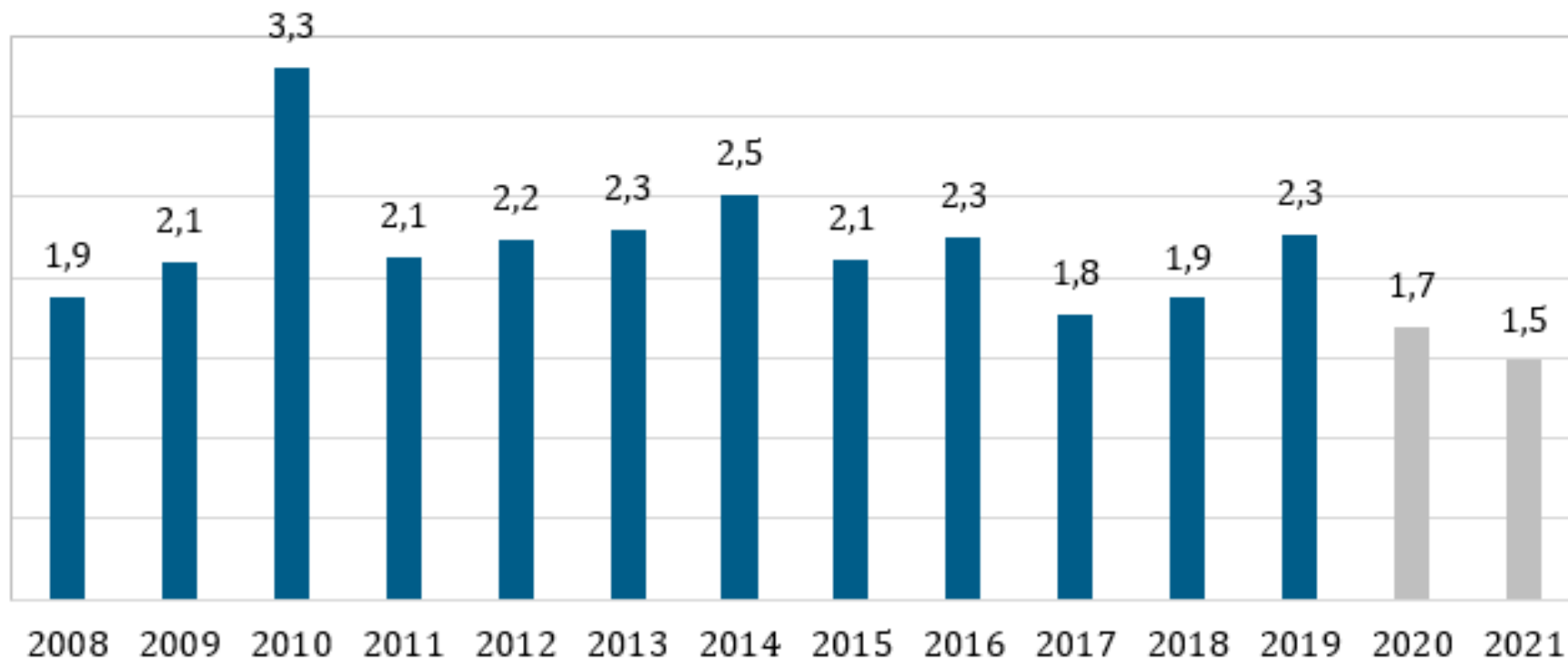
## DESPESAS PRIMÁRIAS - CENÁRIO BASE (% PIB)

— Junho/20 — Novembro/20



Fonte: Tesouro (2013 a 2019) e IFI (anos seguintes).

## GASTO DISCRICIONÁRIO (% DO PIB)

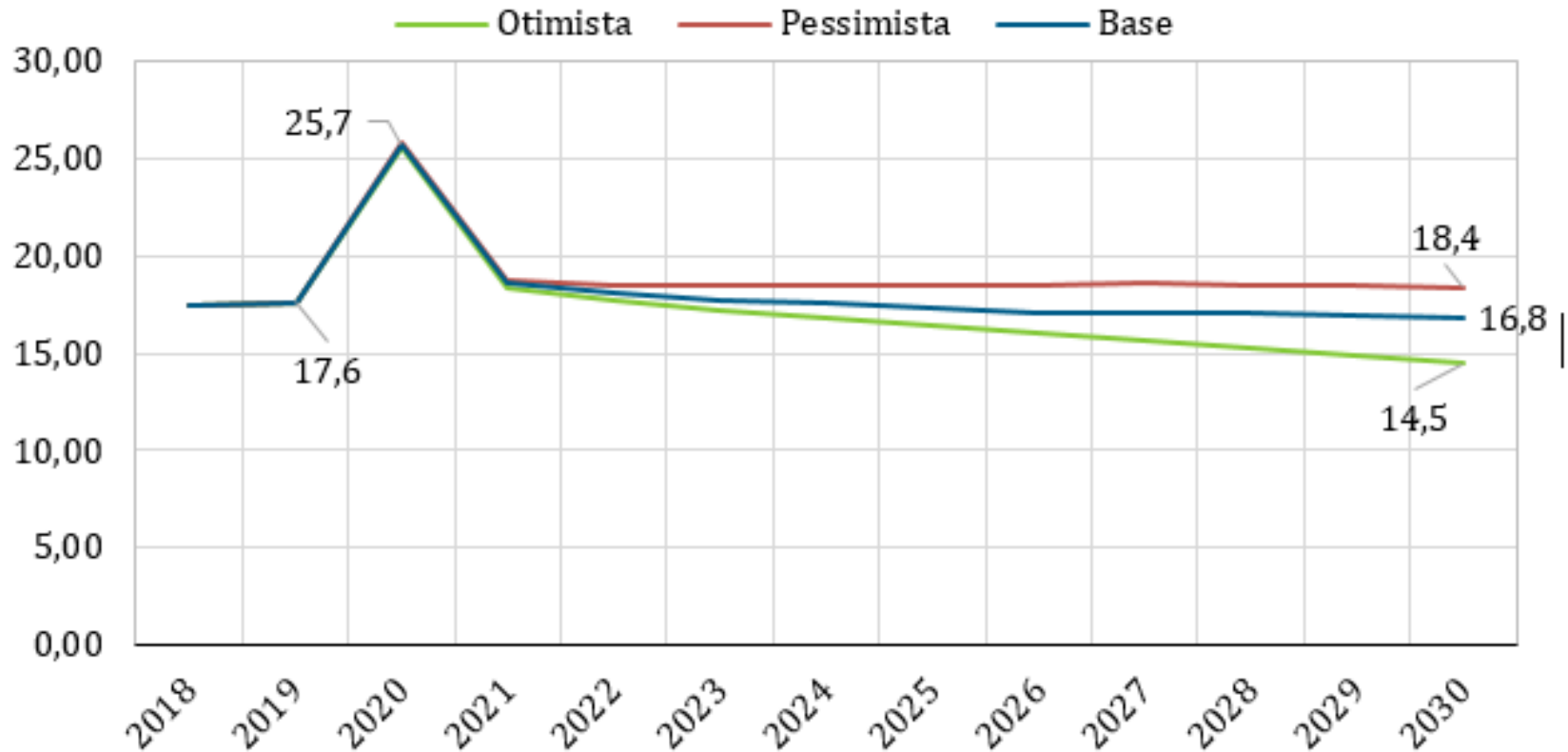


Fonte: Tesouro (2008 a 2019) e IFI



# ifi Mandatory spending – Baseline (% of GDP)

## DESPESAS OBRIGATÓRIAS - CENÁRIOS (% DO PIB)

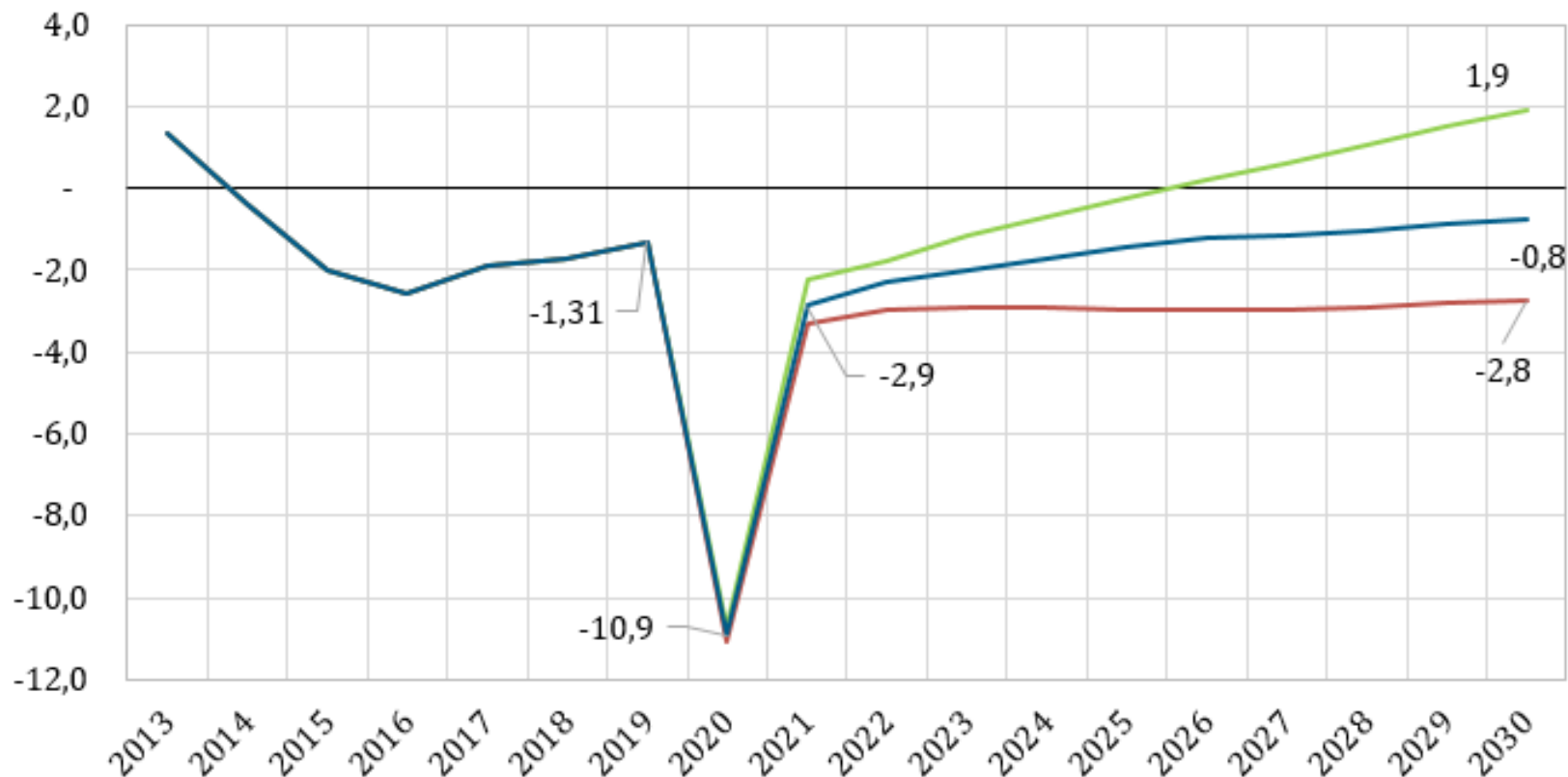


Fonte: IFI.

# Primary deficit – Baseline (% of GDP)

RESULTADO PRIMÁRIO - CENÁRIOS (% DO PIB)

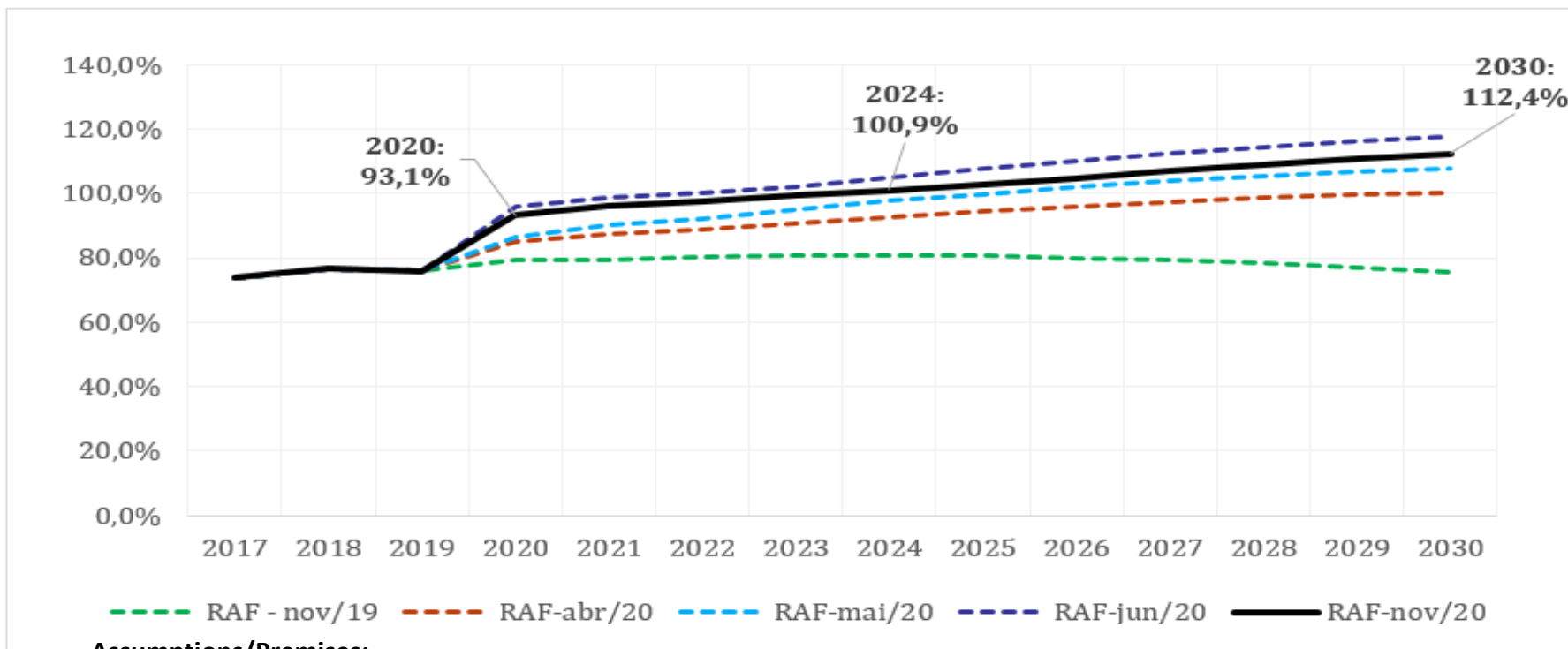
Otimista Pessimista Base



Fonte: IFI.

# Gross debt (Central Bank concept) – Baseline (% of GDP)

Gross debt – baseline scenario

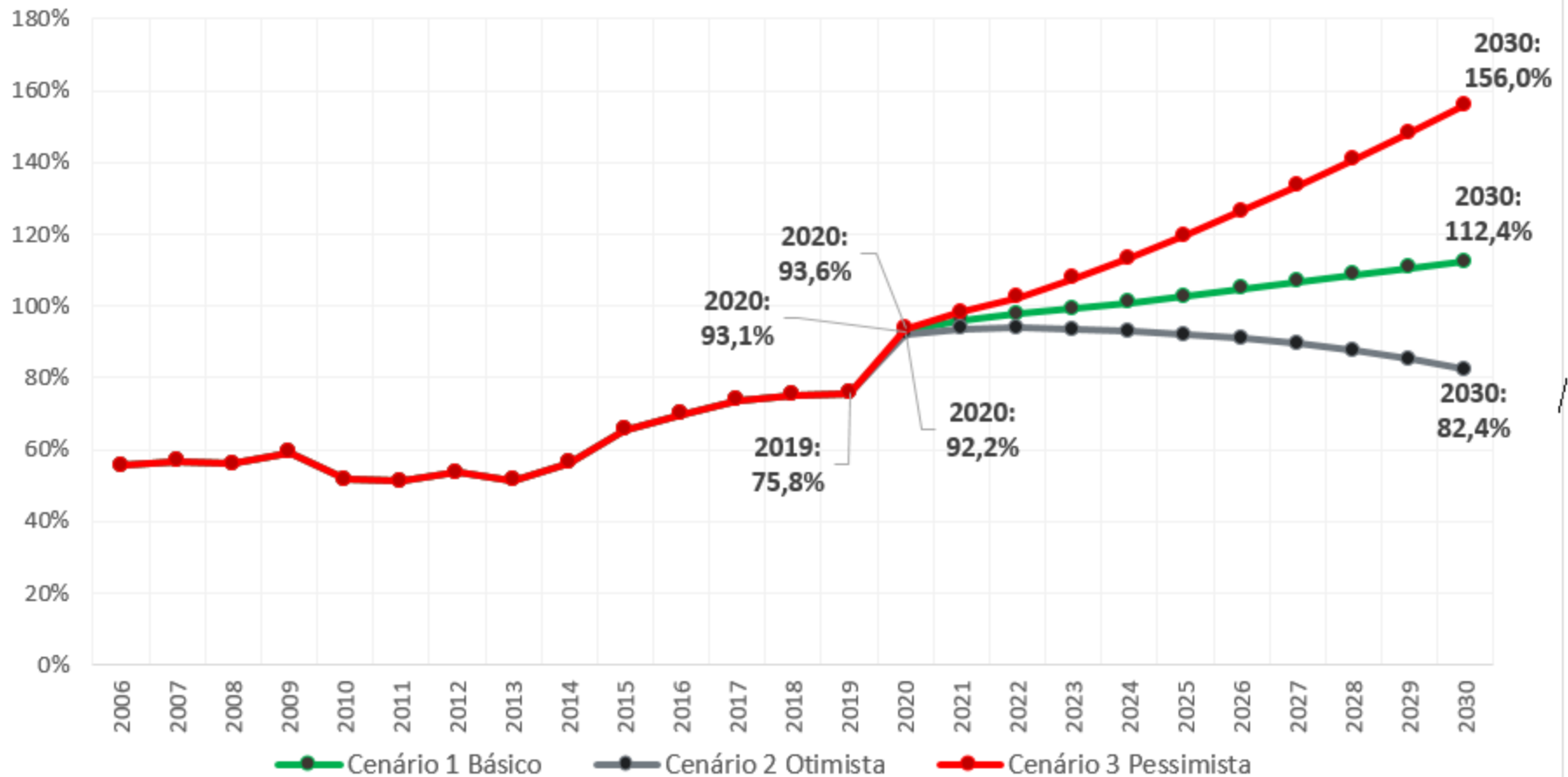


Assumptions/Premises:

	Cenário base				
	nov/19	abr/20	mai/20	jun/20	nov/20
Primary deficit (BRL billion)	33,7	-188,1	-255,8	-287,2	-197,5
Nominal GDP (BRL billion )	10.626	10.186	10.186	9.639	9.988
Real GDP - % change	2,3%	1,9%	1,9%	1,5%	1,7%
Real interest rate (%)	3,0%	2,8%	2,8%	2,5%	2,0%

Fonte: IFI.

PROJEÇÕES ATUALIZADAS PARA A DÍVIDA BRUTA DO GOVERNO GERAL – BASE, OTIMISTA E PESSIMISTA (% DO PIB)



Fonte: IFI.

# Public deficit (including interest payments) - % of GDP

## DÉFICIT NOMINAL DO SETOR PÚBLICO CONSOLIDADO E PAGAMENTO DE JUROS (% DO PIB)

	Base			Otimista			Pessimista		
	Resultado nominal	Resultado primário	Juros	Resultado nominal	Resultado primário	Juros	Resultado nominal	Resultado primário	Juros
2018	-7,0%	-1,5%	5,4%	-7,0%	-1,5%	5,4%	-7,0%	-1,5%	5,4%
2019	-5,9%	-0,9%	5,1%	-5,9%	-0,9%	5,1%	-5,9%	-0,9%	5,1%
2020	-15,2%	-10,5%	4,8%	-14,8%	-10,2%	4,6%	-15,6%	-10,6%	4,9%
2021	-7,1%	-2,7%	4,3%	-6,2%	-2,0%	4,2%	-8,8%	-3,2%	5,6%
2022	-6,1%	-2,2%	3,9%	-5,2%	-1,7%	3,5%	-9,0%	-2,9%	6,0%
2023	-6,5%	-1,9%	4,6%	-5,0%	-1,1%	4,0%	-10,2%	-2,9%	7,3%
2024	-7,0%	-1,7%	5,3%	-5,3%	-0,6%	4,6%	-11,5%	-2,9%	8,5%
2025	-7,5%	-1,4%	6,1%	-5,1%	-0,2%	4,9%	-12,7%	-3,0%	9,8%
2026	-7,7%	-1,2%	6,5%	-4,7%	0,2%	4,9%	-13,5%	-3,0%	10,6%
2027	-7,9%	-1,1%	6,8%	-4,3%	0,6%	4,9%	-14,3%	-3,0%	11,3%
2028	-8,0%	-1,0%	6,9%	-3,7%	1,1%	4,8%	-14,9%	-2,9%	12,0%
2029	-8,0%	-0,9%	7,1%	-3,1%	1,5%	4,7%	-15,5%	-2,8%	12,7%
2030	-8,0%	-0,8%	7,3%	-2,6%	2,0%	4,5%	-16,2%	-2,8%	13,5%
<b>Média - 2020 a 2030</b>	<b>-8,1%</b>	<b>-2,3%</b>	<b>5,8%</b>	<b>-5,5%</b>	<b>-0,9%</b>	<b>4,5%</b>	<b>-12,9%</b>	<b>-3,6%</b>	<b>9,3%</b>

Fonte: IFI.

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# Spending ceiling (Constitutional Amendment number 95)

- The spending ceiling is expected to be reached in 2021, according to latest IFI forecasts
- The level of discretionary spending is about 1.3% of GDP, the lowest in many years
- Reforms could affect the trajectory of the mandatory spending, which represents about 95% of total spending
- But in the short run, it is very difficult to implement changes on the spending side

# The spending ceiling deadlock

- Constitutional Amendment 95 provides that, in the event of a breach of the ceiling, automatic adjustment measures would be triggered.
- **However, the wording of the Constitutional Amendment prohibits the implementation of these measures in the preparation of the budget (budgetary law – “PLOA”).**
- The government has proposed a new Constitutional Amendment to correct the problem, but the text is not ideal and brings new questions, such as the creation of new rules for the control of mandatory spending
- The pandemic scenario imposed additional restrictions on fiscal adjustment. The deficit will remain high in 2021 and the budget for the year has not yet been approved.
- There is uncertainty about the new social aid.



- In 2019, Brazil passed the social security reform, which should ensure that social security expenditures lie between 9% and 9.5% of GDP by 2030
- **Tax reform is underway in the National Congress, in the form of several different projects, such as Constitutional Amendment Proposals number 45 and number 110**
- The main objective is to create a national VAT (a Value Added Tax), aggregating five taxes (ICMS, IPI, ISS, PIS e COFINS), simplifying the tax system
- This is an old agenda, which has not advance because of federative and sectorial issues
- The pandemic scenario has underscored additional issues already existent in this debate, such as the regressivity of the tax system

- Differently from the social security reform of 2019, the civil service reform will be implemented in steps (many blocks of legal modifications to be submitted by the government to the parliament)
- So far, the first step has been taken: the Proposal of Constitutional Amendment N° 32, submitted on September 3, 2020. It is focused on the employment link between the government and the civil servant (e.g. tenure required for job stability), not wages
- At the federal level, civil service wages amounted to BRL 124 billion in 2019 (8% of total primary expenditure)
- The government has firmly indicated that all modifications will affect only future public servants. This means that the savings caused by the reform will accrue gradually over the years, as retirees are replaced with new civil servants.
- Legal controversies may delay the reform and, even if it passes, such controversies may delay the practical implementation of the new rules. Example: coexistence of servants in the same occupation, but under different wage schedules, benefits and requirements for job stability