



# Macroeconomic and fiscal scenarios

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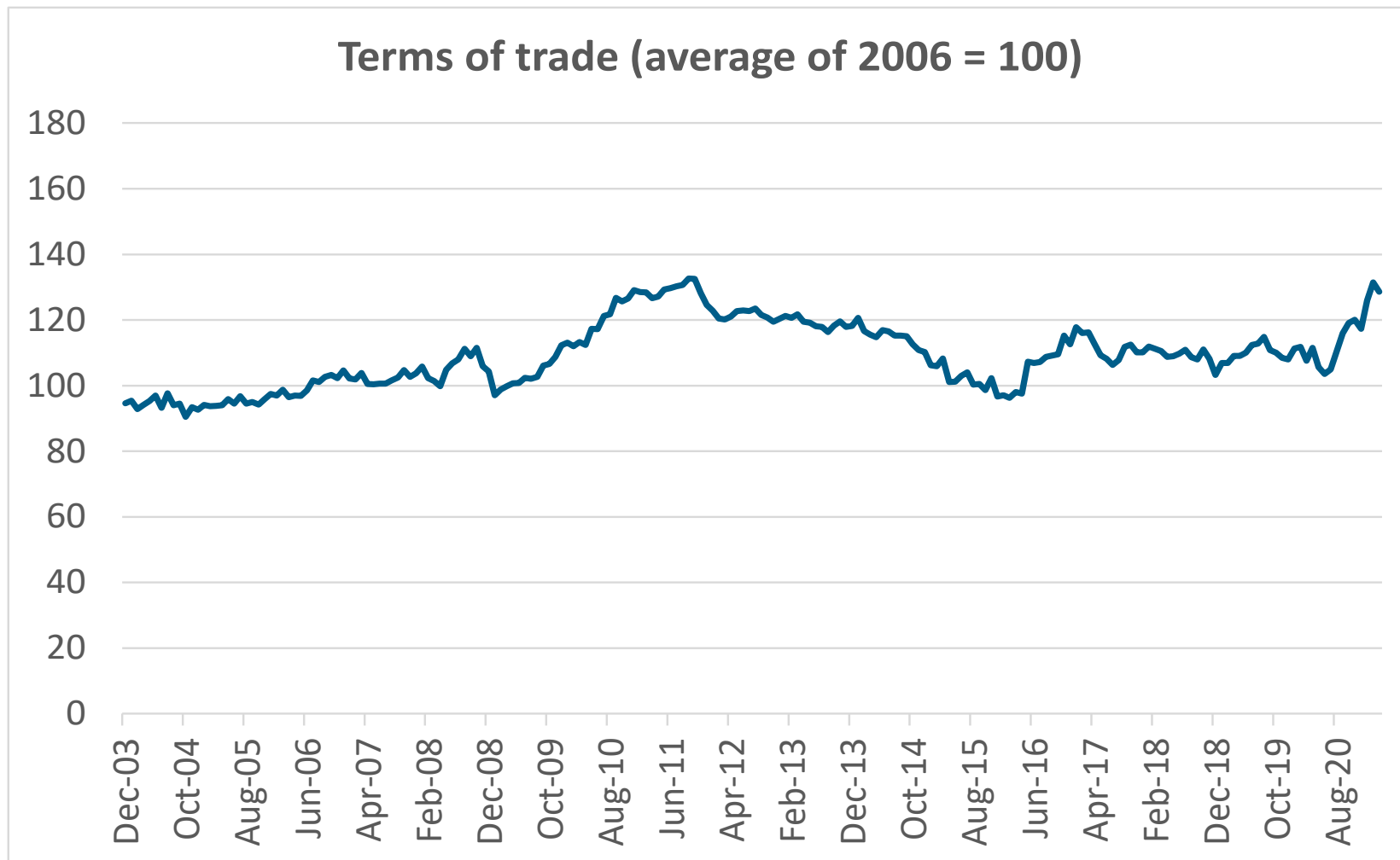
Executive-Director

June 24, 2021

- **High inflation** leads an improvement in the fiscal variables, particularly the revenues and the gross debt
- In the short term, the **sharp increase of the commodity prices** has led an intense rise of the terms of trade, reinforcing the GDP growth
- Economic growth will be **4.2% (baseline scenario)** in 2021, but the **potential GDP remains around 2.3%**, according to our projections based on a production function methodology
- These changes, in the short term, generate a **positive assessment** by the financial market economists
- **Nevertheless, Brazil will have a challenging task to face in order to reach the debt sustainability conditions in the medium-term**
- *Risks: lack of energy supply between August and November, fiscal policy (salary readjustment and other expenditures), slowness of immunization etc*

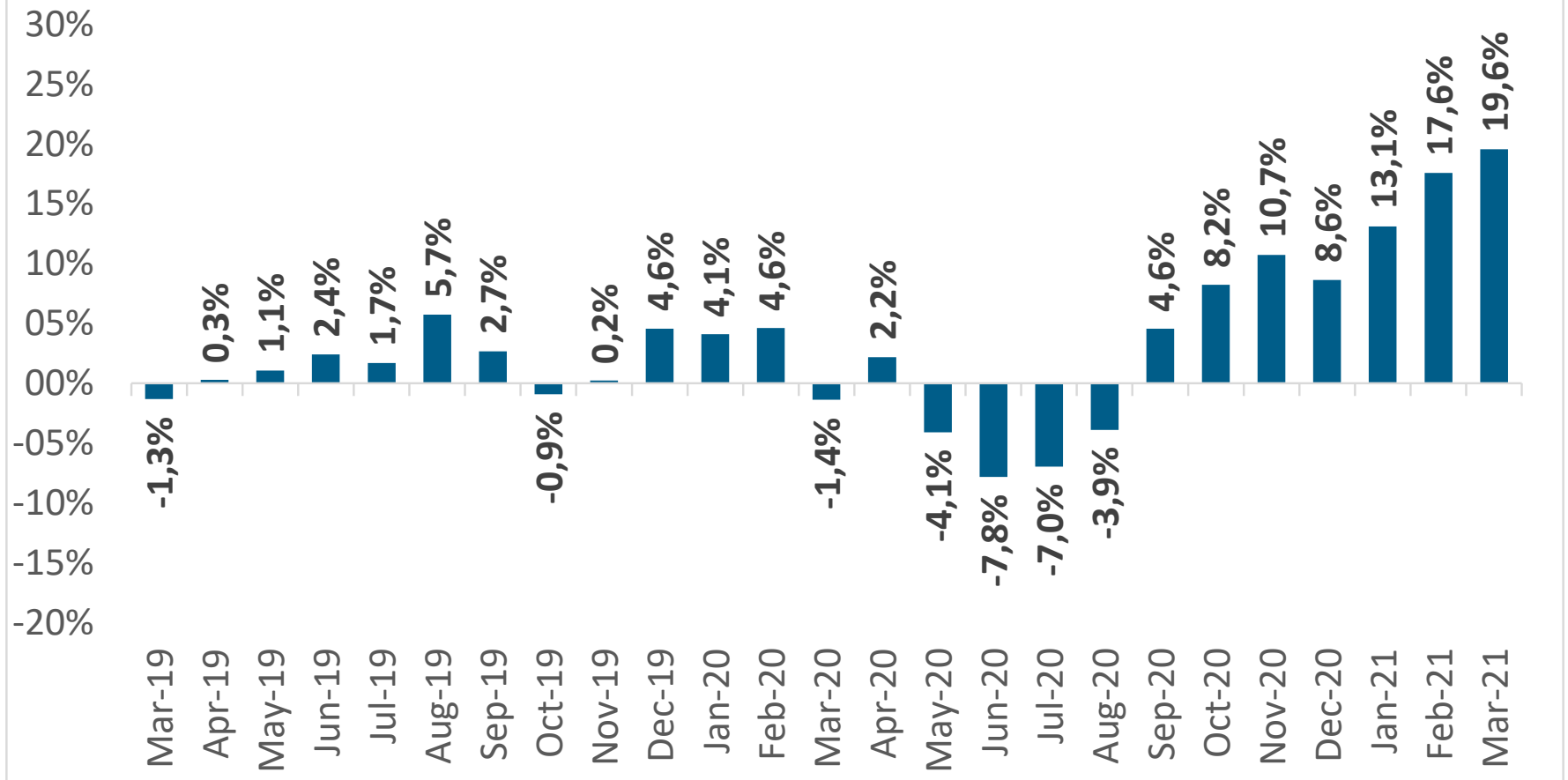
a. Current version (June)	Baseline					Optimistic					Pessimistic				
	2021	2022	2023	2024	2023-30	2021	2022	2023	2024	2023-30	2021	2022	2023	2024	2023-30
Nominal GDP (R\$ billion)	8,386	8,977	9,549	10,154	11,932	8,468	9,123	9,795	10,521	12,712	8,287	8,899	9,469	10,066	11,880
GDP - nominal growth (%)	12.6	7	6.4	6.3	6.3	13.7	7.7	7.4	7.4	7.3	11.3	7.4	6.4	6.3	6.4
GDP – real growth (%)	4.2	2.3	2.3	2.3	2.3	5.4	3.3	3.3	3.5	3.5	2.8	1.8	1.3	1.2	1.3
GDP deflator (%)	8	4.6	4	3.9	3.9	7.9	4.3	3.9	3.7	3.7	8.3	5.5	5	5	5.1
Consumer Price Index - IPCA (%)	5.7	3.6	3.2	3.2	3.2	5.5	3.2	3.3	3	3	6.5	4.4	4.3	4.3	4.4
Unemployment rate (%)	14.2	13.9	13.3	12.6	12.7	13.5	12.5	11.3	11.3	11.3	14.7	14.6	14.6	14.6	14.6
Occupation (labor market) - real growth (%)	2.1	1.4	1.5	1.6	1.2	3.5	2	2.3	1.5	1.6	1.5	1	0.9	0.8	0.7
Risk premium – Embi (end of period)	300	300	300	300	300	225	225	225	225	225	350	350	350	350	350
Exchange rate BRL/USD (end of period)	5.27	5.26	5.26	5.25	5.26	4.85	4.83	4.83	4.83	4.83	5.47	5.69	5.83	5.98	6.35
Real interest rate (%)	-0.2	1.8	2.2	2.7	3.3	-0.4	1.8	1.7	2.4	2.7	-0.5	2.5	3.8	4.5	5
Selic rate (%)	5.5	5.5	5.5	6	6.7	5	5	5	5.5	5.8	6	7	8.25	9	9.6
b. Previous version (May)	2021	2022	2023	2024	2023-30	2021	2022	2023	2024	2023-30	2021	2022	2023	2024	2023-30
Nominal GDP (R\$ billion)	8,106	8,657	9,192	9,768	11,456	8,161	8,748	9,373	10,051	12,122	8,080	8,619	9,166	9,751	11,488
GDP - nominal growth (%)	8.8	6.8	6.2	6.3	6.2	9.6	7.2	7.1	7.2	7.2	8.5	6.7	6.4	6.4	6.4
GDP – real growth (%)	3	2.6	2.3	2.3	2.3	4	3.2	3.2	3.5	3.5	2.1	1.6	1.3	1.4	1.3
GDP deflator (%)	5.7	4.1	3.8	3.9	3.8	5.3	3.8	3.8	3.6	3.6	6.3	5	4.9	5	5
Consumer Price Index - IPCA (%)	5.1	3.5	3.3	3.3	3.3	4.8	3.3	3.3	3	3	5.7	4.4	4.4	4.4	4.4
Unemployment rate (%)	14.5	13.8	13.2	12.6	12.7	13.5	12.4	11.2	11.2	11.2	14.9	14.8	14.7	14.7	14.6
Occupation (labor market) - real growth (%)	1.8	1.8	1.5	1.6	1.2	3	2.2	2.2	1.5	1.6	1.3	1.1	0.9	0.9	0.7
Risk premium – Embi (end of period)	300	300	300	300	300	225	225	225	225	225	350	350	350	350	350
Exchange rate BRL/USD (end of period)	5.33	5.32	5.32	5.31	5.33	4.96	4.94	4.94	4.94	4.94	5.57	5.78	5.93	6.08	6.46
Real interest rate (%)	0.4	1.9	2.2	2.6	3.3	0.2	1.7	1.7	2.4	2.7	0.3	2.5	3.7	4.4	5
Selic rate (%)	5.5	5.5	5.5	6	6.7	5	5	5	5.5	5.8	6	7	8.25	9	9.6

# Terms of trade (1)



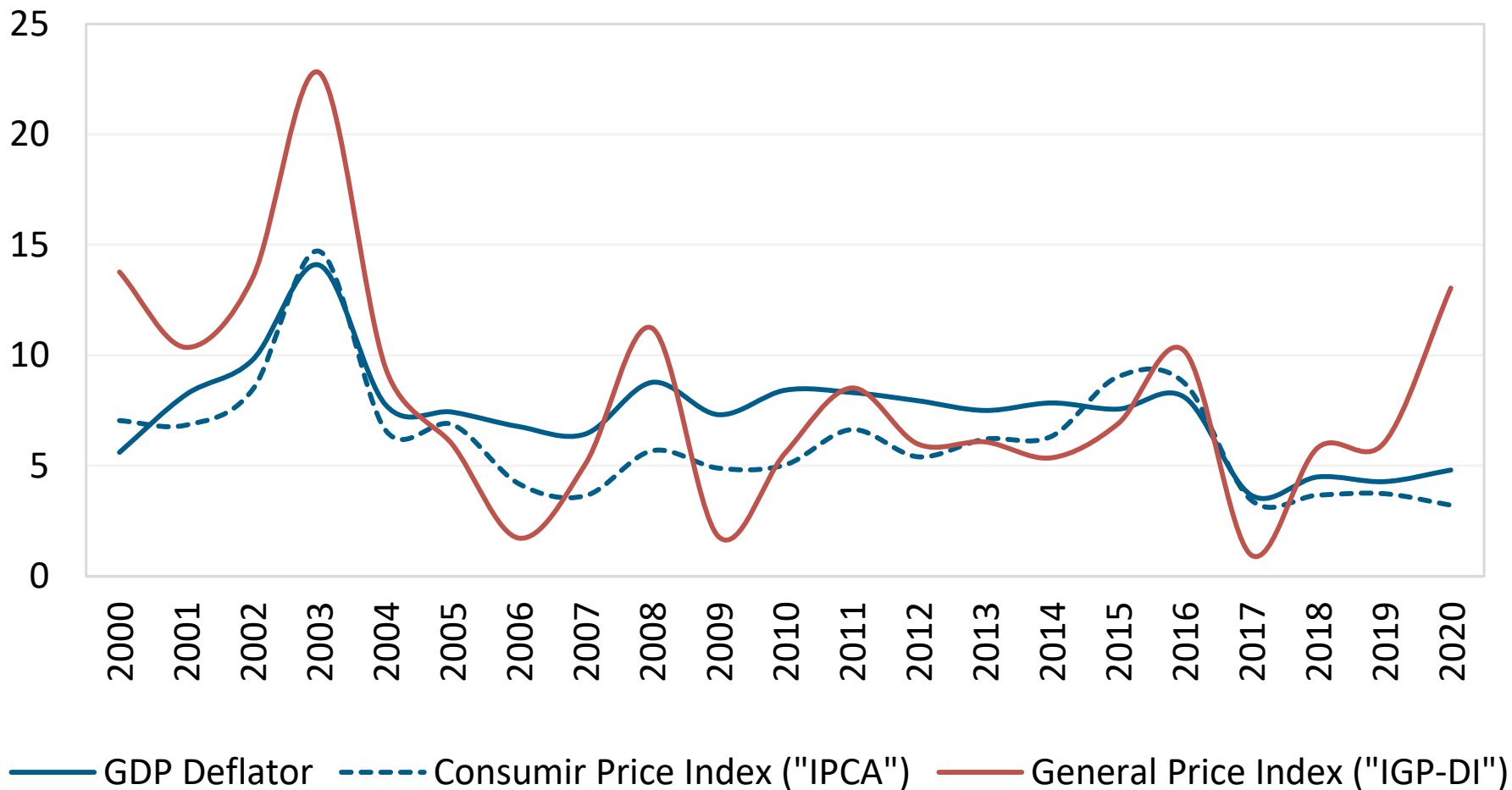
# Terms of trade (2)

Terms of trade (% change - YoY)

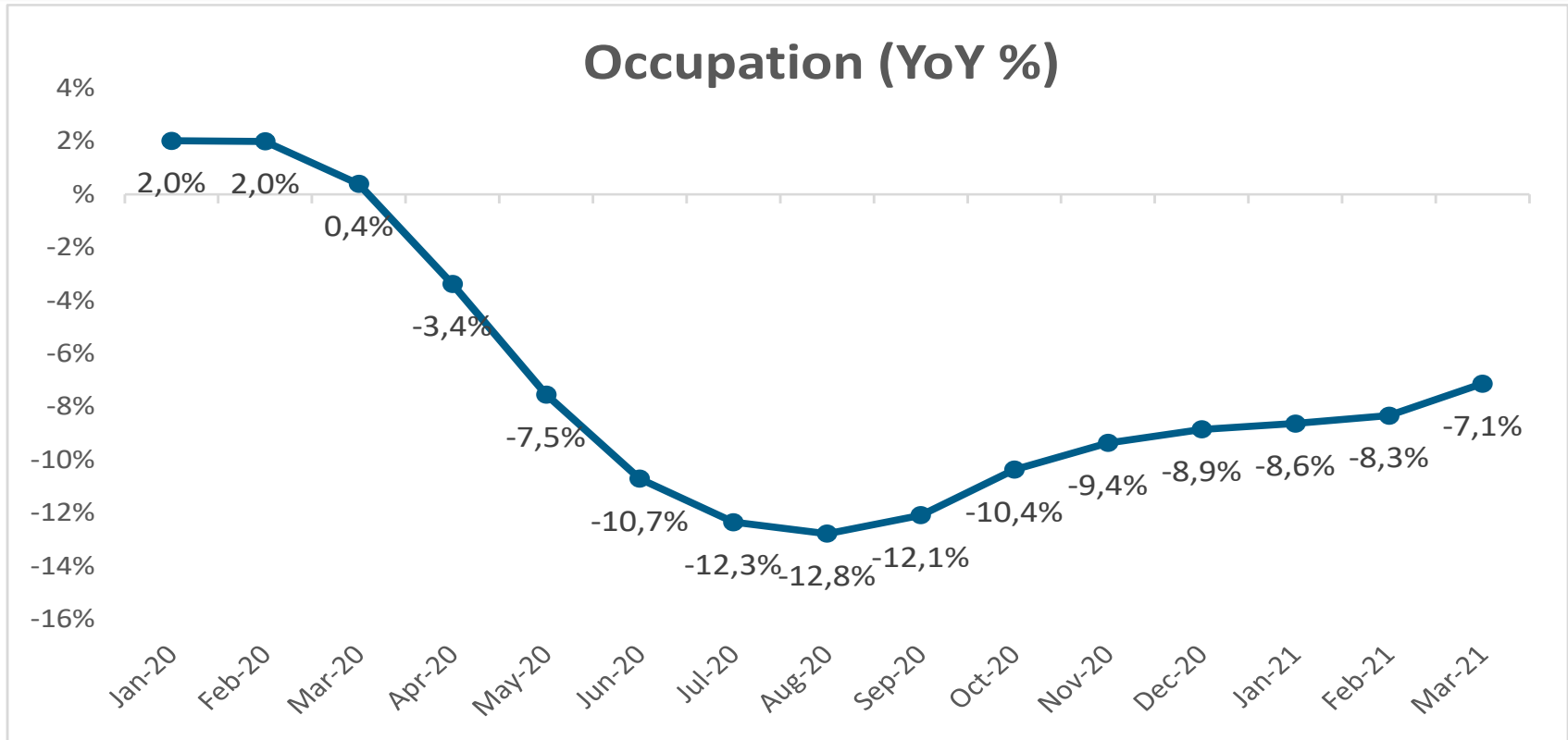


# GDP deflator and Selected Price Indexes

## Inflation rate - GDP deflator, IPCA and IGP-DI



# Occupation (Labor Market)



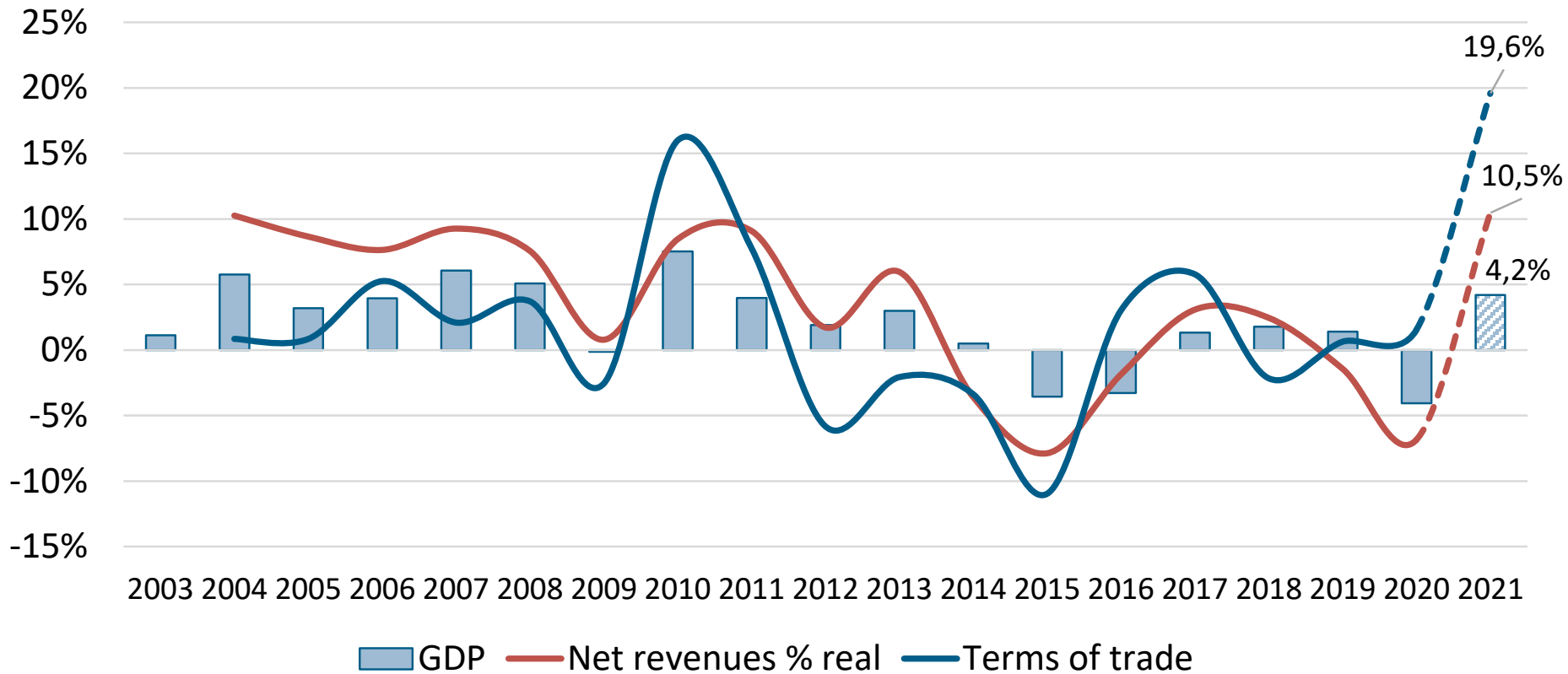
- The unemployment rate remains around 14.7% (March). With seasonal adjustment, 14.2%.

# Revenue dynamics until april

	Jan-Apr/19			Jan-Apr/20			Jan-Apr/21		
	Billion Reals	% real rate	% GDP	Billion Reals	% real rate	% GDP	Billion Reals	% real rate	% GDP
<b>Total Primary Revenues</b>	<b>534.2</b>	<b>0.70%</b>	<b>22.50%</b>	<b>501.7</b>	<b>-9.20%</b>	<b>21.00%</b>	<b>617.6</b>	<b>16.60%</b>	<b>23.50%</b>
<i>Taxes and contributions, except INSS</i>	340.7	-1.00%	14.40%	324	-8.10%	13.60%	402.5	17.70%	15.30%
<i>Fiscal incentives</i>	0	-	0.00%	0	-	0.00%	0	-	0.00%
<i>INSS Revenues</i>	129.2	2.50%	5.40%	120.1	-10.20%	5.00%	137.4	8.30%	5.20%
<i>Other revenues beyond taxes</i>	64.2	6.60%	2.70%	57.6	-13.20%	2.40%	77.7	27.50%	3.00%
<b>Tranfers to states and municipalities</b>	<b>92.9</b>	<b>6.10%</b>	<b>3.90%</b>	<b>93.8</b>	<b>-2.50%</b>	<b>3.90%</b>	<b>109.3</b>	<b>10.40%</b>	<b>4.20%</b>
<b>Net Revenue</b>	<b>441.3</b>	<b>-0.40%</b>	<b>18.60%</b>	<b>407.9</b>	<b>-10.70%</b>	<b>17.10%</b>	<b>508.3</b>	<b>18.00%</b>	<b>19.30%</b>
<b>Total Revenue without one-off events*</b>	<b>534.2</b>	<b>0.70%</b>	<b>22.50%</b>	<b>532.6</b>	<b>-3.60%</b>	<b>22.30%</b>	<b>626.3</b>	<b>11.30%</b>	<b>23.80%</b>
<b>Net Revenue without one-off events*</b>	<b>441.3</b>	<b>-0.40%</b>	<b>18.60%</b>	<b>438.9</b>	<b>-3.90%</b>	<b>18.40%</b>	<b>516.9</b>	<b>11.50%</b>	<b>19.60%</b>



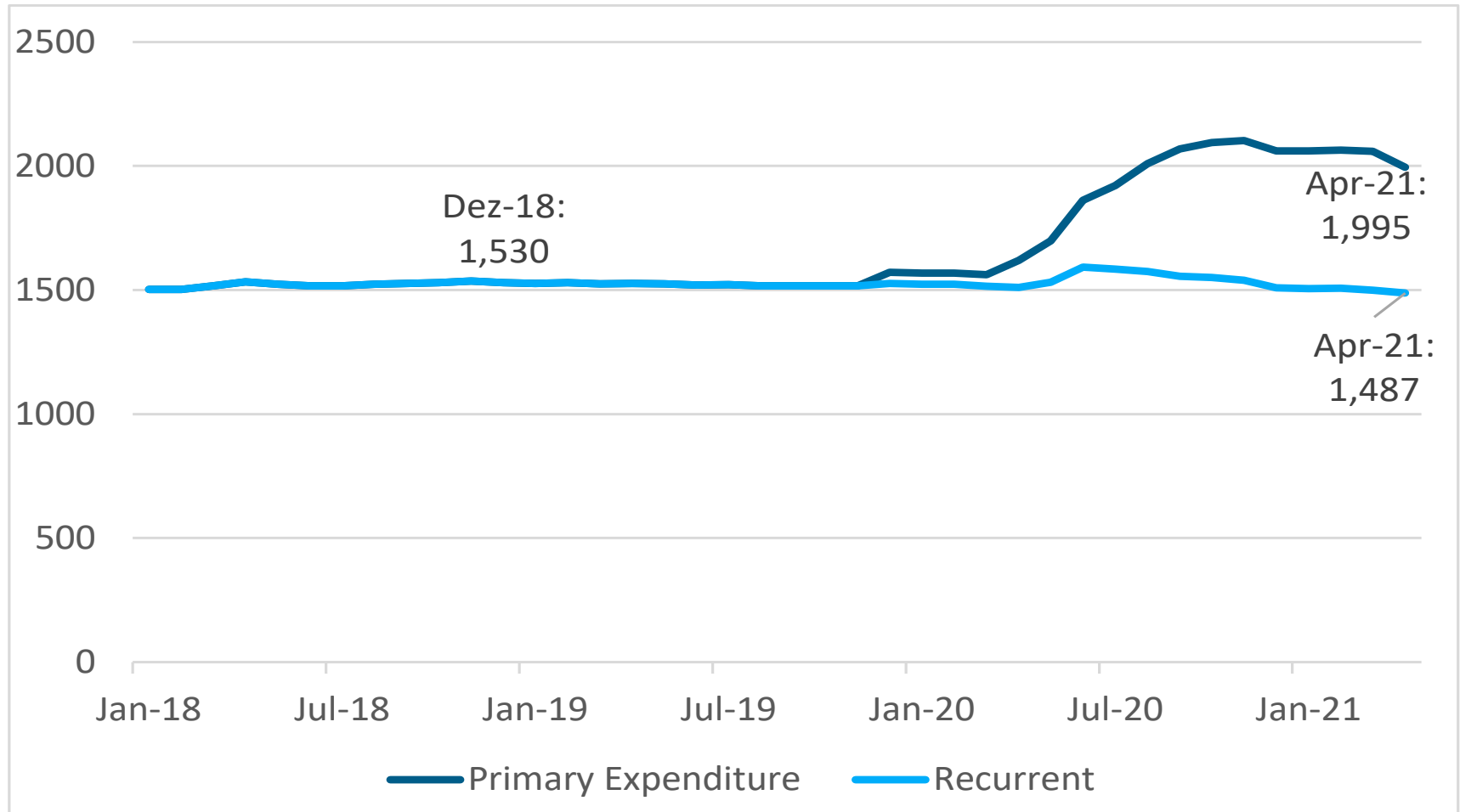
## GDP, Net Federal Revenues and Terms of Trade



\* Net Federal Revenues, in this specific simulation, discounts selected one-off events

# Recurrent Primary Expenditure

Primary Expenditure (total and recurrent) – accumulated in 12 months (Billion Reals)



# Primary Revenues and Expenditures - 2021

Description	Government May-21	IFI Jun-21	Difference	
			Billion Reals	%
<b>I. Total Primary Revenues</b>	<b>1752.1</b>	<b>1768.6</b>	<b>16.5</b>	<b>0.9</b>
Taxes and contributions, except INSS	1110.8	1110.8	0.0	0.0
Fiscal incentives	-0.1	0.0	0.1	-60.9
INSS Revenues	441.2	454.9	13.7	3.1
Other revenues beyond taxes	200.1	202.9	2.8	1.4
<b>II. Transfers to states and municipalities</b>	<b>318.8</b>	<b>332.9</b>	<b>14.1</b>	<b>4.4</b>
<b>III. Net Revenues</b>	<b>1433.3</b>	<b>1435.7</b>	<b>2.4</b>	<b>0.2</b>
<b>IV. Total Primary Expenditure</b>	<b>1611.7</b>	<b>1632.7</b>	<b>21.0</b>	<b>1.3</b>
INSS (Social Security and Pensions - private sector)	706.8	704.5	-2.3	-0.3
Payroll Expenditure	335.4	332.7	-2.7	-0.8
Social benefits ("Abono Salarial" and "Seguro Desemprego")	50.2	53.3	3.1	6.1
Other social benefit ("BPC")	67.7	66.9	-0.7	-1.1
Extraordinary Spending (including covid-19 expenses)	99.5	118.4	18.9	19.0
Tax exemptions (payroll contribution)	7.6	8.5	0.9	12.3
"Fundeb" (Education)	20.4	19.2	-1.2	-5.9
Other Branches (current and other expenditures)	13.9	10.0	-3.9	-27.8
Expenditure arising from court decisions	20.8	21.3	0.5	2.2
Subsidies	12.8	13.6	0.8	6.2
Other mandatory expenditures	11.5	11.3	-0.3	-2.5
Executive Branch spending subject to financial programming	264.9	272.9	7.9	3.0
Mandatory spending with control of flow	154.1	143.9	-10.3	-6.7
Discretionary spending	110.8	129.0	18.2	16.4
<b>V. Primary Balance</b>	<b>-178.4</b>	<b>-197.0</b>	<b>-18.6</b>	<b>10.4</b>

Source: IFI. Fiscal Follow-Up Report:

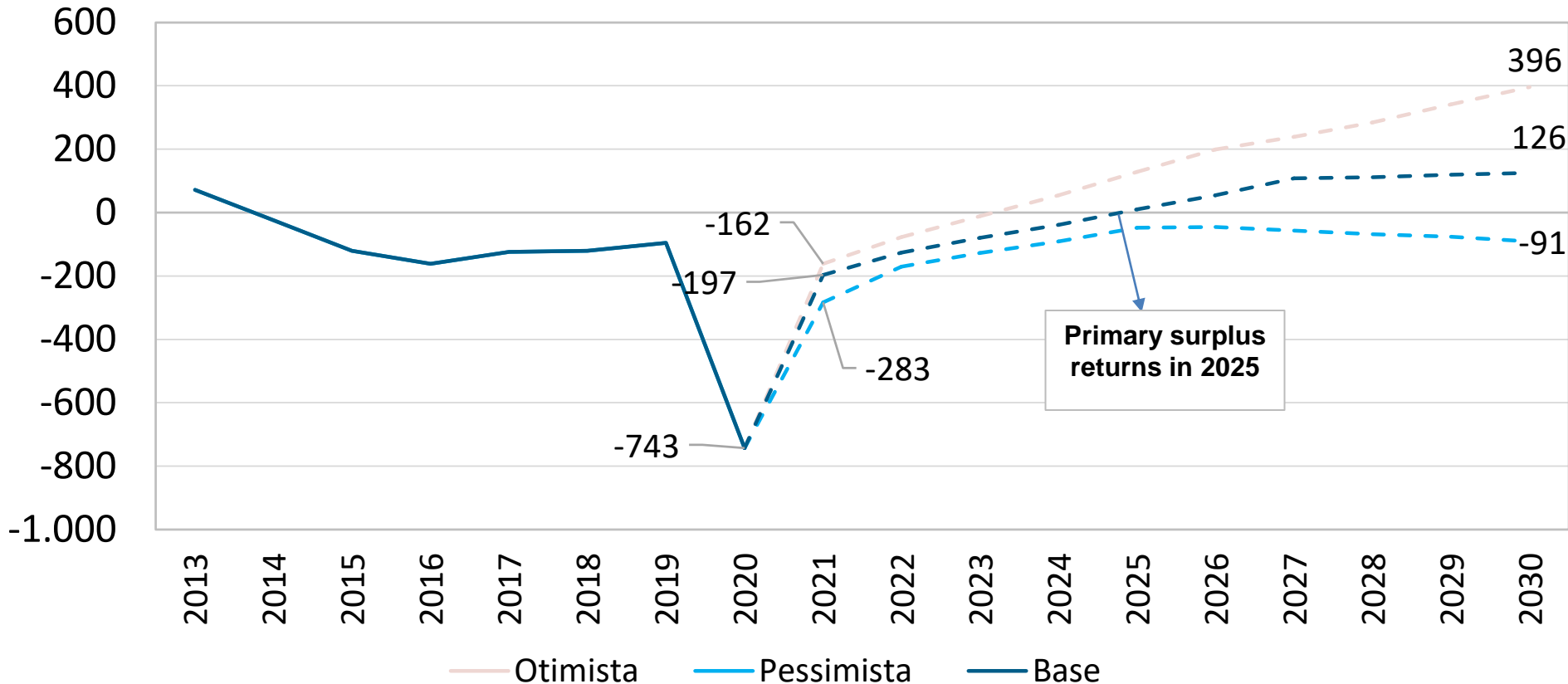
[https://www2.senado.leg.br/bdsf/bitstream/handle/id/590036/RAF53\\_JUN2021.pdf](https://www2.senado.leg.br/bdsf/bitstream/handle/id/590036/RAF53_JUN2021.pdf).

# Primary Revenues and Expenditures (% of GDP)

Description	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Net Revenues</b>	16.2	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
<b>Total Primary Expenditure</b>	26.1	19.5	18.5	17.9	17.5	17.0	16.7	16.3	16.3	16.2	16.3
INSS (Social Security and Pensions - private sector)	8.9	8.4	8.3	8.3	8.2	8.2	8.1	8.2	8.2	8.3	8.4
Payroll Expenditure	4.3	4.0	3.8	3.7	3.5	3.4	3.3	3.3	3.3	3.3	3.3
Covid-19 Expenditure	7.0	1.4	0.2	-	-	-	-	-	-	-	-
<b>Discretionary Spending</b>	1.5	1.5	1.9	1.6	1.4	1.2	1.0	0.6	0.6	0.5	0.5
<b>Primary Balance</b>	(10.0)	(2.3)	(1.4)	(0.8)	(0.4)	0.1	0.5	0.9	0.9	0.9	0.9

- The federal revenues will increase with an elasticity between 1.5 and 2.5 in 2021, reflecting the crisis (recession in 2020 and recovery in 2021)
- In the next decade, we expect that the revenues grow with elasticity in relation to GDP equal to one
- Assumptions: a) payroll expenditure is projected just with the vegetative or automatic rate (without salary readjustment and without inflation) and b) until 2026, the estimated minimum wage is not readjusted in real terms (just by CPI, “INPC”)

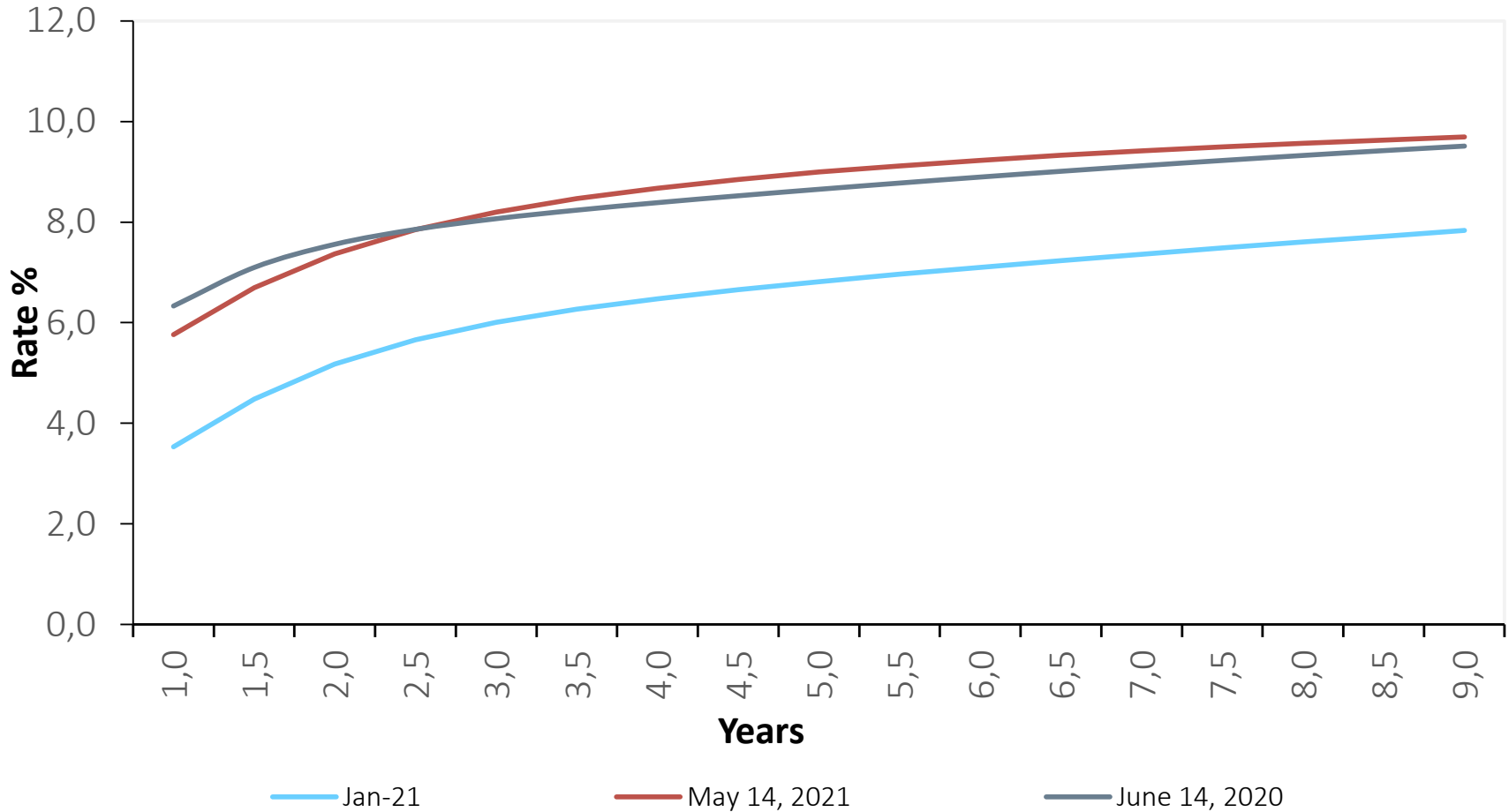
## Central Government Primary Balance (Billion Reals)



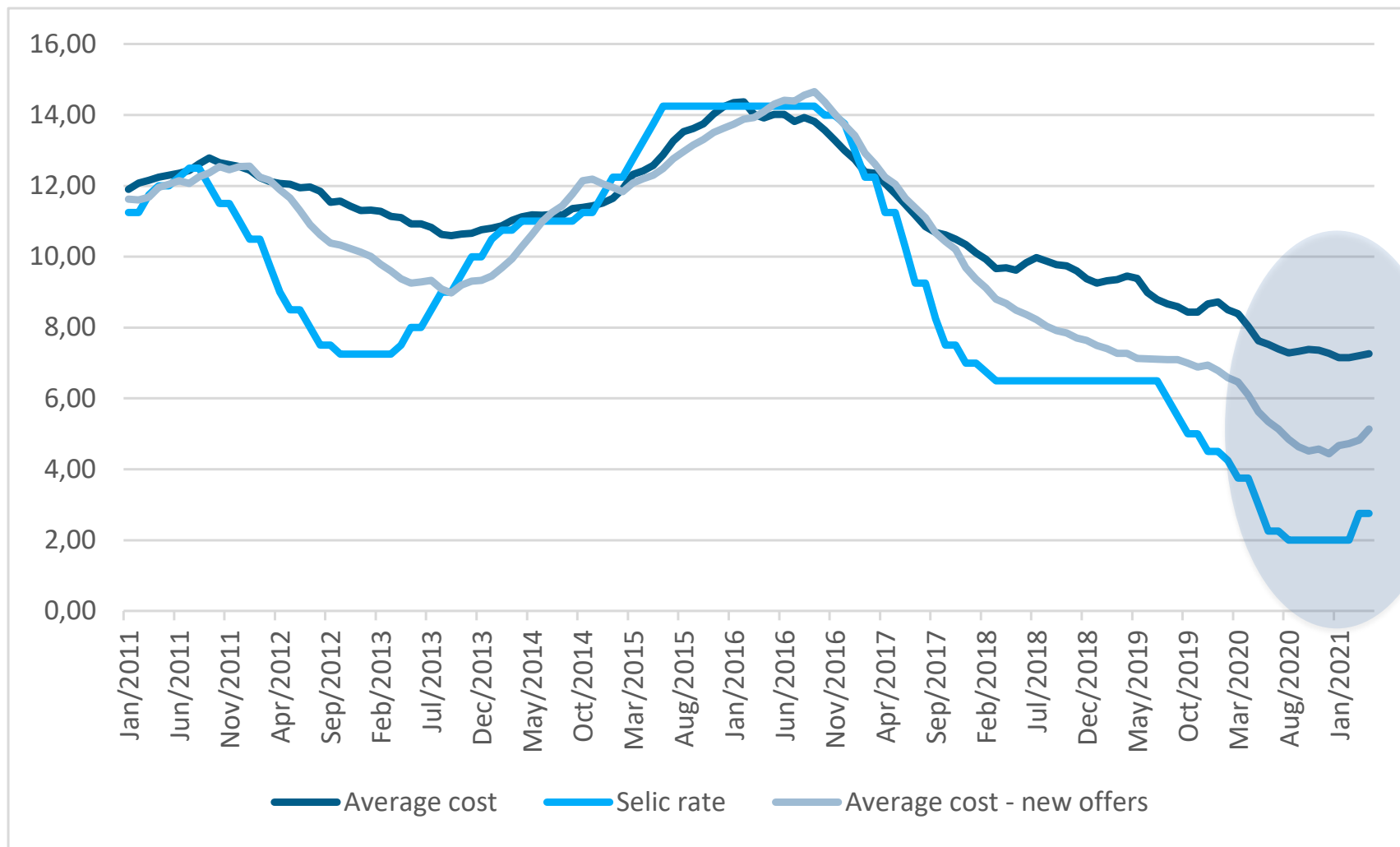
# Overall Balance of public sector (% of GDP)

	Baseline			Optimistic			Pessimistic		
	Total balance	Primary balance	Interest payments	Total balance	Primary balance	Interest payments	Total balance	Primary balance	Interest payments
2018	-7.0%	-1.6%	5.4%	-7.0%	-1.6%	5.4%	-7.0%	-1.6%	5.4%
2019	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%
2020	-13.6%	-9.4%	4.2%	-13.6%	-9.4%	4.2%	-13.6%	-9.4%	4.2%
2021	-6.9%	-2.2%	4.7%	-5.9%	-1.7%	4.2%	-8.5%	-3.3%	5.2%
2022	-5.4%	-1.3%	4.1%	-4.1%	-0.7%	3.4%	-6.8%	-1.9%	5.0%
2023	-4.9%	-0.8%	4.1%	-3.7%	0.0%	3.7%	-6.7%	-1.3%	5.4%
2024	-4.6%	-0.3%	4.3%	-3.2%	0.6%	3.7%	-6.7%	-0.9%	5.8%
2025	-4.4%	0.1%	4.5%	-2.6%	1.2%	3.8%	-6.7%	-0.4%	6.3%
2026	-4.2%	0.5%	4.8%	-2.1%	1.7%	3.8%	-7.0%	-0.4%	6.6%
2027	-3.9%	0.9%	4.8%	-1.8%	1.9%	3.7%	-7.4%	-0.5%	6.9%
2028	-3.9%	0.9%	4.8%	-1.5%	2.1%	3.6%	-7.7%	-0.5%	7.2%
2029	-4.0%	0.9%	4.9%	-1.1%	2.3%	3.4%	-8.0%	-0.5%	7.4%
2030	-4.0%	0.9%	4.9%	-0.7%	2.5%	3.3%	-8.3%	-0.6%	7.7%
2020-2030 (average)	-5.4%	-0.9%	4.6%	-3.7%	0.1%	3.7%	-7.9%	-1.8%	6.2%

## TERM STRUCTURE OF INTEREST RATES



# ifi Average cost of public debt (% accumulated in 12 months)



Source: IFI. Fiscal Follow-Up Report:

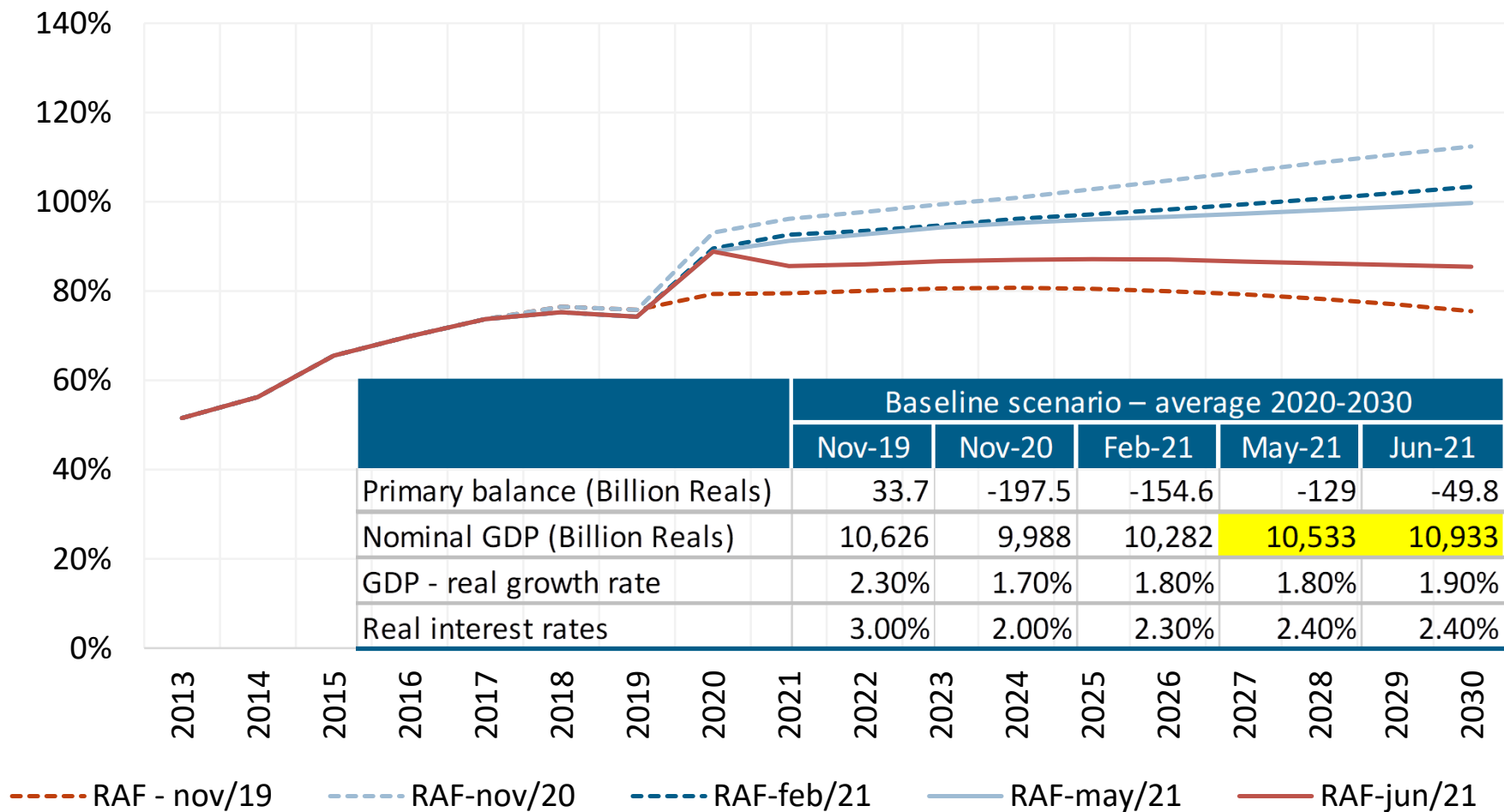
[https://www2.senado.leg.br/bdsf/bitstream/handle/id/590036/RAF53\\_JUN2021.pdf](https://www2.senado.leg.br/bdsf/bitstream/handle/id/590036/RAF53_JUN2021.pdf).



Description	% of GDP
Projection in May 2021 (A)	<b>91.30%</b>
Better primary, including GDP effects (B)	-0.90%
Devolution from BNDES to National Treasury (62 billion Reals) (C)	-0.80%
Other factors (D)*	-1.00%
Sales of international reserves (E)	-0.50%
Reduction of the interest payments predicted (F)	-0.20%
New exchange rate projection (G)	0.60%
Total (H = sum of B to G)	-2.70%
New Gross Debt projection (% of the previous nominal GDP projected) (I = A - H)	88.60%
<b>New Gross Debt projection (% of current nominal GDP projected) (J)</b>	<b>85.60%</b>
<i>Single effect of the higher denominator (nominal GDP) (K = J - I)</i>	<i>-3.00%</i>
<i>Simulation to Gross Debt if the nominal GDP grew to 15%</i>	<i>83.10%</i>



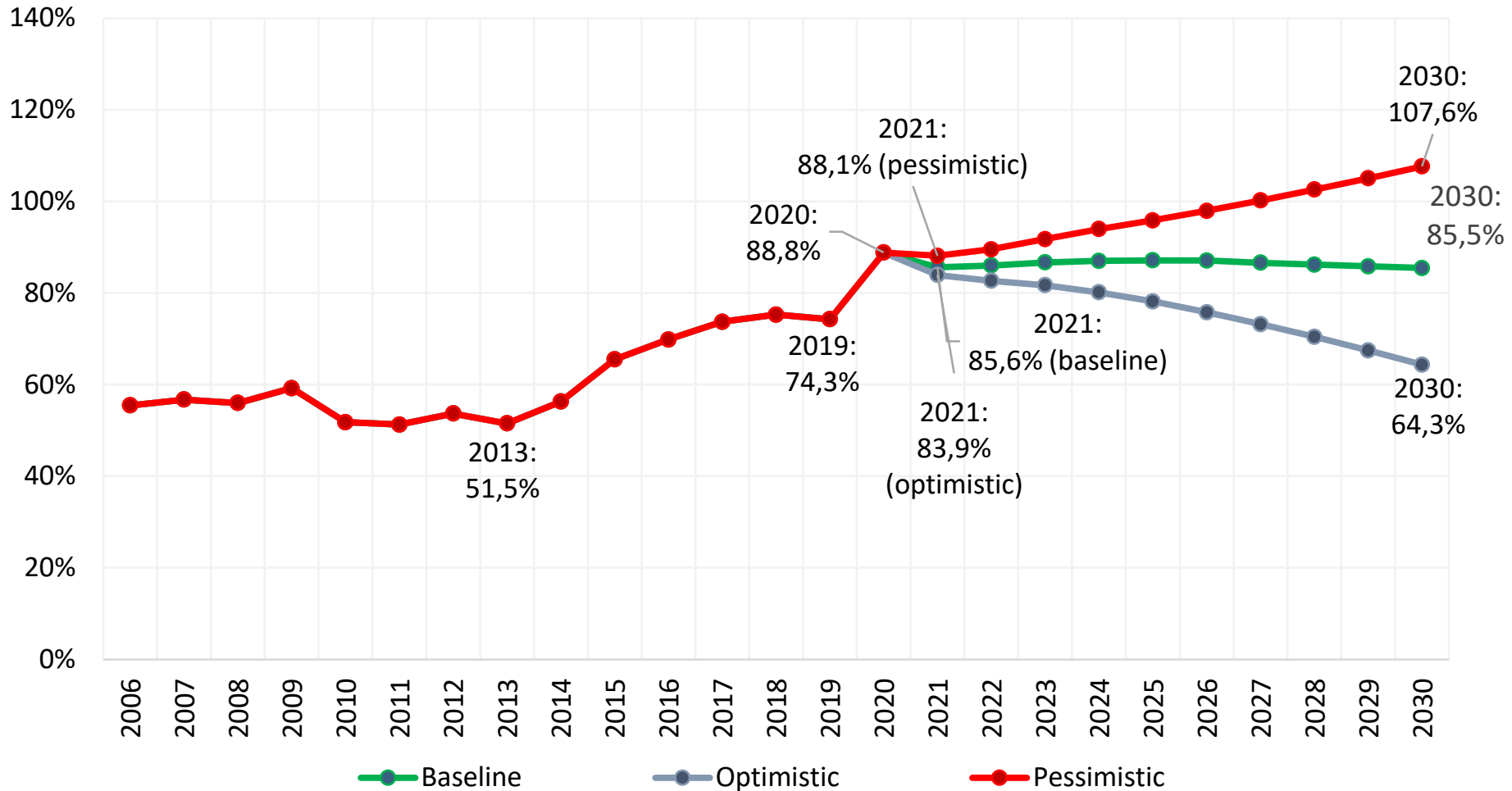
# Public Debt – 2021 to 2030 (baseline, several moments - % of GDP)



Source: IFI. Fiscal Follow-Up Report:

[https://www2.senado.leg.br/bdsf/bitstream/handle/id/590036/RAF53\\_JUN2021.pdf](https://www2.senado.leg.br/bdsf/bitstream/handle/id/590036/RAF53_JUN2021.pdf)

# Public Debt – 2021 to 2030



# What is the necessary primary surplus to stabilize debt/GDP?

Gross debt (% of GDP)

Real interest rate and real growth	Gross debt (% of GDP)					
	60	70	80	90	100	110
3.3% and 2.3%	0.6	0.7	0.8	0.9	1.0	1.1
5.0% and 1.3%	2.2	2.6	3.0	3.3	3.7	4.1

- A simple implementation of the sustainability equation “ $D_{t-(t-1)} = \text{deficit} + (r - g) \times D_t$ ” shows that Brazilian case is not directly comparable with the advanced economies ones
- Our natural interest rate is probably above of the average observed in the advanced economies, because of the low level of aggregate savings



# Spending ceiling will be breached only in 2027 (baseline scenario)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Risk of breach the spending ceiling</b>										
Optimistic scenario	low	low	low	low	moderate	high	high	high	high	high
Baseline scenario	low	low	low	low	moderate	moderate	high	high	high	high
Pessimistic scenario	low	low	low	moderate	high	high	high	high	high	high

Source: IFI. Fiscal Follow-Up Report:

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Thank you!

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