

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- Projection for GDP growth in the baseline scenario is revised from 3% to 4.2% in 2021.
- The gross public debt is expected to fall from 88.8% (2020) to 85.6% of the GDP (2021), with a nominal GDP increase of 12.6%.
- The Debt/GDP ratio should stabilize at 87.1% between 2025 and 2026 in the baseline scenario.
- The fiscal challenge has not been overcome and the debt remains at 30.5 p.p. of the GDP higher than the average for emerging countries.
- The nominal GDP growth in the first quarter is mainly explained by the rise in the deflator.
- High rates of revenue expansion in the year reflect 2020's depressed base of comparison.
- Without non-recurrent events, primary revenue recalculated by IFI would have grown by 11.3% in the year to April 2021.
- Fall in pandemic spending has decompressed the central government expenditures in the first four months of 2021.
- Nominal GDP growth and net debt redemptions contributed to the reduction of gross debt until April 2021.
- Government projection for 2021 primary deficit improves under influence of revenue performance.
- The government's estimate is a deficit of BRL178.4bn, BRL18.6bn less than projected by IFI (BRL197bn).



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REPORT LAYOUT

COMAP/SECOM and SEFPRO/SEGRAF



Summary

- The macroeconomic and fiscal context has improved. IFI's projections indicate higher economic growth in 2021, even though potential GDP has not changed. In addition, the deflator, pressured by exchange rate and commodity price developments, will produce a higher nominal GDP in 2021. The high starting point affects the entire projection curve, influencing the generation of central government's primary balances, whose projections became positive after 2025. Public debt, in this scenario, will decrease from 88.8% to 85.6% of GDP between 2020 and 2021. In the optimistic scenario, it could be 83.9%. The fiscal challenge, however, has not been overcome.
- Despite the still worrisome COVID-19 developments, the economy's growth in the first quarter came in above expectations. The opening of the GDP showed that external economic conditions (world growth and rising commodity prices) are favoring recovery. Activity continued to expand in May, also reflecting the easing of mobility restrictions. The risk associated with the evolution of the pandemic and the pace of immunization required for a safe opening still represents the main source of uncertainty about the prospective behavior of GDP in 2021.
- In the first months of the year, there was strong growth in the central government's primary revenue. These expansion rates, although influenced by the warmer economic activity, reflect the depressed comparison base of 2020, when not only did activity drop sharply, but also the government implemented actions to mitigate the effects of the pandemic on the economy, such as the deferment of some federal taxes. For this reason, IFI has recalculated the central government's primary and net revenue series. By way of illustration, adjusted primary revenue would have grown 11.3%, in real terms, accrued in the year 2021 to April (versus 16.6% calculated in the original data).
- In late May, the National Treasury released a revised Plano Anual de Financiamento de 2021 [TN: Annual Borrowing Plan for 2021], taking advantage of a more favorable moment of decompression in risk premiums to adjust some parameters regarding the stock, composition and maturity structure of the Federal Public Debt. The main action relates to the intention to lengthen the average debt maturity terms, even though the composition may worsen in the short term, given the increased demand from investors for floating rate bonds. There has also been an increase in demand for price-indexed securities.
- At the end of May, the Executive Branch updated the macrofiscal projections for 2021 in the so-called bimonthly report. The estimate for the central government's primary deficit went from BRL233.6bn in August 2020 to BRL178.4bn in the latest assessment. After discounting the expenses excepted from the rule, the primary deficit reaches BRL118.8bn, far away from the

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target for the fiscal year (deficit of BRL247.1bn). The improvement stems from the performance of revenues. The three main groups have better projections than the initial ones: collected by the RFB (+14%), not collected by the RFB (+19.4%), and net collection for the RGPS (+5.7%).

- In the baseline scenario, IFI's projection for the primary deficit is BRL197.0bn, BRL18.6bn higher than projected by the Executive Branch. The difference is explained by expenditure, in particular extraordinary credits (+BRL18.9bn) and discretionary expenditures (+BRL18.2bn). In the first case, IFI considers the extension of the Emergency Aid for two months. In the second, the main factors are differences in projections for mandatory expenditures, which expand the room for discretionary growth, assuming still that all the slack in the spending ceiling would be used.



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