

FFR

Fiscal Follow-Up Report

MARCH 16, 2022 • Nº 62

HIGHLIGHTS

- Worsening geopolitical tensions are expected to raise inflation and reduce global economic growth.
- GDP advanced 0.5% in the fourth quarter of 2021; carry-over to 2022 is 0.3%.
- Market expectations for 2022 IPCA rose substantially after the fuel prices readjustment.
- The central government's primary deficit should have been R\$ 2.6 billion in the 12-month accumulated until February.
- Revenue collection was determinant for the central government's R\$ 76.5 billion primary surplus in January.
- Recurring primary revenue calculated by the IFI grew 12.9% in real terms in January compared to January 2021.
- Primary expenditure rose 2.2% in real terms in January 2022 compared to January 2021.
- Increased nominal GDP and primary surplus contributed to gross debt reduction in January.
- Even with the recent changes, the spending ceiling has proven restrictive to new spending in the short term.
- The reduction to zero of the PIS/COFINS tax rates on fuels is expected to be R\$ 17.6 billion for the Union.



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Covering letter

The Fiscal Follow-up Report (RAF) complies with Senate Resolution No. 42 of 2016. It contains assessments of the economic and fiscal environment and presents the IFI's macro-fiscal scenarios every six months.

The Macroeconomic Context section assesses the results of the 2021 Gross Domestic Product (GDP). The economy grew by 4.6%, confirming the December RAF base scenario estimate. Investment (Gross Fixed Capital Formation - GFCF) increased from 16.6% to 19.2% of GDP between 2020 and 2021. However, the price evolution of this component of GDP, vis-à-vis the average evolution of the GDP deflator, weighed heavily. The lower unemployment rate, in turn, hides a substantial increase in informality - jobs without a signed contract. In other words, the pre-crisis trajectory has not been restored.

From a perspective point of view, the primary vector is the war between Russia and Ukraine. Brazil is affected by: rising commodity prices (negative supply shock), inflation, and interest rates. As is well known, interest rates rise in response to inflationary pressures, harming the economy's performance. Besides, public debt becomes more expensive, as we pointed out in the Fiscal Scenario section.

The Fiscal Scenario also analyzes the significant performance of public revenues in the first two months of the year, which should not be extrapolated for the remainder of the year. On the expenditure side, the fiscal space in the spending ceiling (R\$ 113.1 billion) adds to a set of measures guided by the effects of the international situation on oil prices and, consequently, on fuel prices.

The Budget section presents IFI's estimates for the main measures, such as reducing the PIS, Pasep, and Cofins taxes on fuels. The creation of the Conta de Estabilização de Preços de Petróleo (CEP) is evaluated in light of the restrictions of the spending ceiling. The ceiling margin of R\$ 6.3 billion should be absorbed. The data derives from the Annual Budget Law (LOA), including the new social spending (Auxílio Brasil), the amendments of the general rapporteur, and other actions. The space in the primary balance target (revenue minus expenses, excluding public debt interest) is significant (R\$ 94.3 billion) and would not represent an obstacle to eventual expansionist measures.

In other words, the ceiling continues to limit spending, even after the 2021 easing. However, the expansion was, in fact, already stated in the LOA, reformulated by a letter from the Ministry of Economy to the Congress's Joint Committee on Planning, Public Budgets, and Oversight (CMO), already based on profound changes in the ceiling rule.

In summary, the fragility of the fiscal and economic picture worsens in an adverse international context. The most significant risks are concentrated on inflation and, consequently, on interest rates. From the fiscal point of view, the result will be an increase in the debt-to-GDP ratio.

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Summary

- The worsening of geopolitical tensions in Eastern Europe has consequences for the economic scene. The most immediate consequence is the increase in the prices of international commodities, especially energy and food. The acceleration of the inflationary process will impact the disposable income of families and the environment permeated by uncertainties, and greater aversion to risk will reduce investments. The perspective for global growth in 2022, therefore, should be affected. **(Page 7)**
- The positive result of the Brazilian GDP in the fourth quarter of 2021, in turn, led to a slight increase in market expectations for economic growth, according to the Central Bank's Focus Survey, to 0.4%. The IFI, for now, maintains the projection at 0.5% for real GDP growth in 2022, although the drastic change in the global scenario leads to the need to reassess the current set of assumptions and projections. In the field of inflation and monetary policy, the market perspectives contained in the same survey deteriorated after Petrobras announced readjustments in fuel prices. In 2022, inflation is expected to be above that currently projected by the IFI in the baseline scenario, but revisions will be presented in due course. **(Page 7)**
- The tax collection by the Federal Government registered a substantial increase in January compared to the same month in 2021. The growth was 17.8% in real terms. This performance continues to be driven by higher inflation and commodity prices at relatively higher levels. There was also robust performance in revenues not collected by the RFB, which grew favored by collections from royalties and oil participations. In the coming months, however, revenue expansion is expected to cool off due to lower expected GDP growth in 2022 compared to 2021 and lower inflation this year, and revenue waivers adopted by the government to ease fuel taxes. **(Page 18)**
- The Gross General Government Debt (DBGG) reached 79.6% of GDP in January, lower than in December and January 2021, reflecting, according to the Central Bank, the nominal GDP increase and net redemptions of net redemptions bonds in the first month of 2022. Furthermore, according to the National Treasury, the government has been relatively successful in lengthening the maturity terms of debt bonds, even if this is occurring in an environment of an increase in the average cost of the stock and new issues of the Federal Domestic Public Debt securities. **(Page 27)**
- The government has published a decree reducing the IPI tax and more recently approved the exemption of the PIS/COFINS tax rates on fuel until December. However, to a greater or lesser

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extent, all these measures affect the primary balance and reduce the existing fiscal margin. We estimate the fiscal impact for the Federal Government to be R\$ 6.6 billion for the IPI and R\$ 17.6 billion for the PIS/COFINS. **(Page 31)**

- In light of the LOA and fiscal rules, the budget section sought to show how events with a relevant fiscal effect, whether revenue reduction or expenditure increase, interact with the fiscal margins. The primary deficit foreseen in the LOA is R\$ 76.2 billion but should reach R\$ 108.1 billion when considering the analyzed fiscal measures. **(Page 37)**

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1. MACROECONOMIC CONTEXT

1.1 Economic activity

GDP in current values totaled R\$8.679 trillion in 2021, registering a nominal increase of 16.2% compared to the previous year. The release of the Quarterly National Accounts by the IBGE showed that the GDP in 2021 totaled R\$ 8.679 trillion for the accumulated four quarters in 2021. Last year, the nominal GDP (monetary value of domestic production) grew 16.2%, influenced by the expansion of the price level seen in the GDP price deflator (up 11.4%) and, to a lesser extent, by the growth of the real GDP (volume produced), of 4.6%. Table 1 summarizes the variation rates associated with nominal GDP, volume GDP, and the GDP price deflator.

TABLE 1. NOMINAL GDP, GDP IN VOLUME, AND GDP PRICE DEFLATOR (QUARTER ACCUMULATED GROWTH RATE)

	Nominal GDP	Nominal GDP	GDP in volume	GDP price deflator
	(R\$ trillion)		Quarter accumulated growth rate	
2019.I	7.082	6.0%	1.6%	4.3%
2019.II	7.177	5.8%	1.5%	4.2%
2019.III	7.290	5.6%	1.3%	4.3%
2019.IV	7.389	5.5%	1.2%	4.2%
2020.I	7.475	5.6%	0.9%	4.6%
2020.II	7.369	2.7%	-2.1%	4.9%
2020.III	7.377	1.2%	-3.3%	4.6%
2020.IV	7.468	1.1%	-3.9%	5.1%
2021.I	7.688	2.8%	-3.5%	6.6%
2021.II	8.106	10.0%	1.9%	7.9%
2021.III	8.433	14.3%	3.9%	10.0%
2021.IV	8.679	16.2%	4.6%	11.1%

Source: IBGE. Prepared by: IFI.

GDP price deflator exceeded the IPCA by 2.8 percentage points. The GDP price deflator is a broader measure of inflation than the Extended National Consumer Price Index (IPCA) because its variation reflects the prices of all goods and services produced domestically (not only of a specific basket, as in the case of price indexes). The difference between the average variations² of the GDP deflator and the IPCA reached 2.8 percentage points (p.p.), 11.1% minus 8.3%, higher than the difference between the GDP deflator and the weighted average of the IPCA and the IGP-DI³ (11.1% minus 11.2% = -0.1 p.p.) in the fourth quarter of 2021 (Table 2). The variation of the IGP-DI, more wide-ranging than the IPCA and more sensitive to the behavior of the exchange rate and international commodity prices, has been running above two digits since the last quarter of 2020. Monitoring these differences is relevant since the implicit deflator dynamic affects the fiscal indicators expressed to nominal GDP.

² The growth rate selected to compare price indexes between one year and another is equal to the percentage change between the average index number in year t and the average index number in year t-1.

³ The Central Bank uses the weighted average of the IPCA and IGP-DI to inflate the volume index of the monthly GDP estimate, used to calculate the relationship between monthly economic aggregates (such as public debt, current account balance, and credit balance) and GDP. The IPCA and IGP-DI weights were estimated by the IFI through regression with annual frequency from the average variations of the implicit GDP deflator, the IPCA, and the IGP-DI.

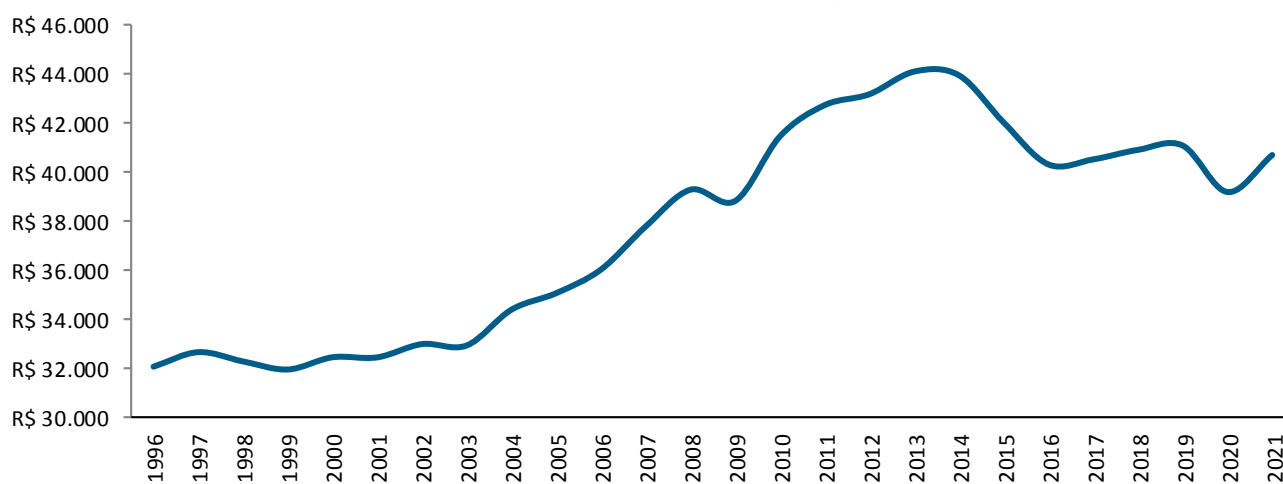
TABLE 2. PRICE INDEXES (AVERAGE GROWTH RATE)

	GDP deflator	IPCA	IGP-DI	Weighted average IPCA and IGP-DI
Average 1997 - 2018	7.6%	6.3%	7.8%	6.5%
2019.I	4.3%	4.0%	7.7%	4.5%
2019.II	4.2%	4.2%	8.1%	4.8%
2019.III	4.3%	3.9%	6.8%	4.4%
2019.IV	4.2%	3.7%	6.0%	4.1%
2020.I	4.6%	3.7%	6.0%	4.0%
2020.II	4.9%	3.1%	5.9%	3.5%
2020.III	4.6%	3.0%	8.6%	3.8%
2020.IV	5.1%	3.2%	13.0%	4.7%
2021.I	6.6%	3.6%	18.6%	5.8%
2021.II	7.9%	5.0%	25.6%	8.1%
2021.III	10.0%	6.7%	28.9%	10.1%
2021.IV	11.1%	8.3%	27.3%	11.2%

Source: IBGE. Prepared by: IFI.

GDP grew 4.6% in 2021; GDP per capita increased 3.9%. In line with the estimate presented by the IFI scenario revision carried out in December 2021, the Brazilian economy grew 4.6% last year, recovering from the 3.9% loss in 2020 caused by the pandemic's initial strong impact. The GDP per capita, an indicator of average wealth, defined as the ratio between the GDP value and the resident population, reached R\$ 40,688 and grew 3.9% (real growth rate). Figure 1 plots the evolution of the GDP per capita since 1996. Despite the high in 2021, the indicator is still below 2019 (pre-pandemic) and 2013 (the highest value in the time series).

FIGURE 1. GDP PER CAPITA (2021 PRICES)

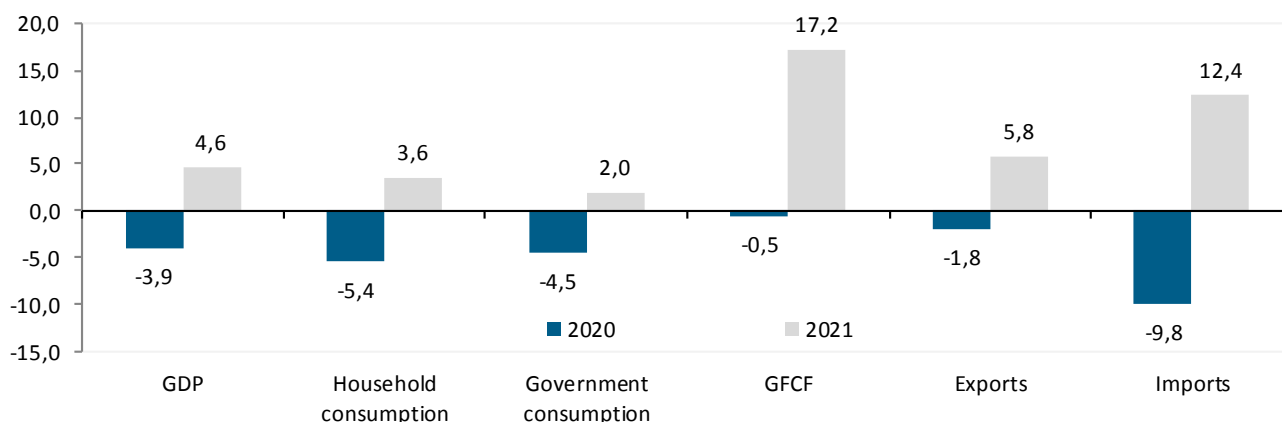


Source: IBGE. Prepared by: IFI.

Supply and demand. On the supply (or production) side, GDP growth was driven by the services (4.7%) - reflecting the reopening of the economy and the increase in mobility - and the industry (4.5%) expansion. In comparison, agriculture and livestock decreased 0.2%. On the demand (or expenditure) side, there was generalized growth among the components, with a highlight to the performance of the gross fixed capital formation (17.2%), household consumption

(3.6%), and government consumption (2.0%). The excellent performance of the gross fixed capital formation (GFCF) last year reflected, to a large extent, the growth of the machinery and equipment component (23.6% variation in 2021), followed by civil construction (12.8%) and other fixed assets (11.2%). In the external sector, exports of goods and services grew 5.8%, while the growth in imports of goods and services was 12.4% (Figure 2).

FIGURE 2. GDP GROWTH (ANNUAL %)



Source: IBGE. Prepared by: IFI.

The investment was the primary source of growth for GDP in 2021. From the demand standpoint, the internal absorption, representing the sum of household consumption, government consumption, and investment, contributed 5.6 p.p. to the GDP variation in 2021. At the same time, net exports negatively influenced, removing a 1.0 p.p. from the year's result because imports showed a more expressive variation than exports. Within the internal absorption, the GFCF (2.9 p.p.) represented the primary source of GDP growth in the period, followed by household consumption (2.3 p.p.) and government consumption (0.5 p.p.). Table 3 shows the contributions of each component of aggregate demand to the variation in GDP since 2016.

TABLE 3. CONTRIBUTIONS (IN P.P.) TO THE GDP ANNUAL GROWTH RATE

	2016	2017	2018	2019	2020	2021
Domestic absorption	-4.7	1.5	2.2	1.8	-5.1	5.6
Household consumption	-2.5	1.3	1.5	1.7	-3.5	2.3
Government consumption	0.0	-0.1	0.2	-0.1	-0.9	0.5
GFCF	-2.2	-0.4	0.8	0.6	-0.1	2.9
Changes in inventories	-0.2	0.8	-0.3	-0.4	-0.5	0.0
Net exports	1.5	-0.2	-0.4	-0.6	1.2	-1.0

Source: IBGE. Prepared by: IFI.

The investment rate reached 19.2% of GDP, influenced by the advance of the GFCF in real terms, to a greater extent, but also by the relative price increase. As shown in Table 4, the investment rate at current prices (ratio between the value of investments and the value of the GDP) reached 19.2% in the fourth quarter of 2021 (considering the accumulated variation in four quarters), advancing 2.6 p.p. to the same period of the previous year (16.6%) and 1.0 p.p. to the average of the 1997-2018 period (18.1%). The change in the investment rate between 2020 and 2021 reflected the solid nominal increase in GFCF (34.2%), which outpaced GDP growth (16.2%). Last year, the nominal

GFCF performance reflected the growth in real terms (17.2%) and the 11.1% increase in prices measured by the GFCF deflator.

TABLE 4. REAL GDP GROWTH RATE

	Investment rate	Nominal GFCF	Real GFCF	GFCF deflator	GDP deflator
	GFCF/GDP		Quarter accumulated growth rate		
Average 1997 - 2018	18.1%	9.3%	2.0%	7.3%	7.6%
2019.I	15.2%	10.7%	5.1%	5.3%	4.3%
2019.II	15.4%	11.5%	5.9%	5.3%	4.2%
2019.III	15.5%	9.5%	4.8%	4.4%	4.3%
2019.IV	15.5%	8.1%	4.0%	3.9%	4.2%
2020.I	15.8%	9.3%	5.1%	4.0%	4.6%
2020.II	15.7%	4.4%	-0.3%	4.7%	4.9%
2020.III	15.7%	2.4%	-3.5%	6.1%	4.6%
2020.IV	16.6%	8.5%	-0.5%	9.1%	5.1%
2021.I	17.5%	14.5%	2.2%	12.0%	6.6%
2021.II	18.3%	28.5%	13.0%	13.7%	7.9%
2021.III	19.0%	38.8%	20.2%	15.4%	10.0%
2021.IV	19.2%	34.2%	17.2%	14.4%	11.1%

Source: IBGE. Prepared by: IFI.

As analyzed by Borça Jr. (2022)⁴, in addition to the contribution of GFCF volume growth, affected, to some extent, by the cycle of high commodity prices and by the accounting internalization of oil and gas platforms⁵, another relevant part of the increase in the GFCF/GDP ratio to 2020 comes from the relative price of investment (ratio between the GFCF and the GDP deflator). In the author's accounts, a little more than 25% of the investment rate increase between 2020 and 2021 occurred due to specific factors other than the real GFCF growth. In other words, the substantial increase in the investment rate does not represent an expansion of the same magnitude of the productive capacity.

The GFCF deflator expanded 14.4% in 2021, above the variation in prices of the economy as a whole, measured by the implicit GDP deflator (11.1%). According to Bacha and Bonelli (2013)⁶, the GFCF relative price behavior can be explained, in part, by the participation of the imported machine in the total of machines and equipment (revealing the cost of import substitution of capital goods) and the real exchange rate (given the importance of the imported components). Therefore, the jump in the relative price of investment from mid-2020 onwards may reflect the rising prices of imported products, driven by restrictions in global supply chains and the devaluation of the exchange rate in the period.

GDP advances 0.5% in Q4 2021. The GDP (in volume) grew 0.5% compared to the fourth quarter of 2021 against the year's third quarter, considering the seasonally adjusted series, after a drop of 0.1% in the previous three months. On the supply side, agriculture and services showed a positive variation of 5.8% and 0.5%, respectively, while industry shrank at 1.2%. On the expenditure side, there was growth in household consumption expenditure (0.7%), government consumption expenditure (0.8%), and gross fixed capital formation (0.4%). Regarding the external sector, exports of goods and services fell 2.4%, while imports advanced 0.5% concerning the third quarter of 2021.

⁴ In an analysis published in the IBRE Blog, available at: <https://blogdoibre.fgv.br/posts/investimento-em-alta-no-brasil-mas-nem-tudo-que-reluz-e-ouro>

⁵ Under the Special Customs Regime for Goods Destined to the Research and Mining Activities of Oil and Natural Gas (Repetro) program.

⁶ Bacha, E. and Bonelli, R. "Crescimento Brasileiro Revisitado" in *Desenvolvimento Econômico: Uma Perspectiva Brasileira*, edited by Veloso, F., Ferreira, P.C., Giambiagi, F. and Pessoa, S. Elsevier, 2013

TABLE 5. GDP GROWTH RATE

	The growth rate over the same quarter of the previous year			The growth rate over the previous quarter (seasonally adjusted)		
	2Q-21	3Q -21	4Q -21	2Q-21	3Q -21	4Q -21
GDP	12.3%	4.0%	1.6%	-0.3%	-0.1%	0.5%
Supply						
Agriculture and livestock	0.1%	-9.0%	-0.8%	-2.8%	-7.4%	5.8%
Industry	16.6%	1.3%	-1.3%	-0.8%	-0.1%	-1.2%
Services	11.0%	5.8%	3.3%	0.6%	1.2%	0.5%
Demand						
Household consumption	10.5%	4.2%	2.1%	-0.2%	1.0%	0.7%
Government consumption	5.8%	3.5%	2.8%	1.1%	1.1%	0.8%
GFCF	33.1%	18.8%	3.4%	-3.8%	-0.6%	0.4%
Exports	14.2%	4.0%	3.3%	13.7%	-9.8%	-2.4%
Imports	20.3%	20.6%	3.7%	-0.9%	-5.1%	0.5%

Source: IBGE. Prepared by: IFI.

The fourth-quarter result left a carry-over⁷ of 0.3% for 2022. The statistical carry-over left for 2022 indicates that, should it remain stagnant throughout 2022, the GDP would close the year with an increase of 0.3%. Some already known indicators for the first quarter reinforce the picture of difficulties for the resumption of economic growth. Industrial production and expanded retail sales, for instance, retreated in the first month of 2022, while the consumer and business confidence indexes presented distinct dynamics in February.

Industrial production shrinks 2.4% between December and January. According to the IBGE's Monthly Industrial Survey (PIM), overall industrial production shrank 2.4% from December to January (seasonally adjusted series). The month's result was impacted by the worst performance of the mining industry (-5.2%), reflecting, to some extent, the temporary suspension of iron ore production in Minas Gerais due to heavy rains that hit the state. The manufacturing industry (-2.2%) shrank, especially the automotive sector (-17.4%).

The contraction in industrial activity followed all four major economic categories dynamics: capital goods (-5.6%), intermediate goods (-1.9%), durable consumer goods (-11.5%), and semi- and non-durable consumer goods (-0.5%). It is worth mentioning that the negative result in February left a carry-over of -0.6% for industrial activity in the first quarter of 2022.

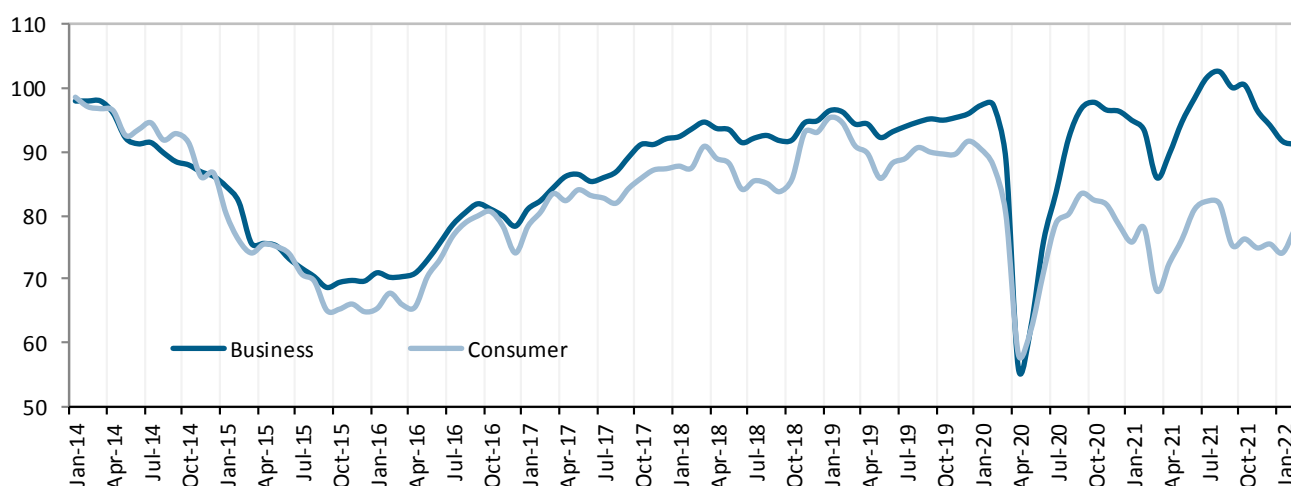
Expanded retail retreats by 0.3% in January. The volume of sales in retail trade (Monthly Trade Survey) grew 0.3% between December and January in the expanded concept, which includes vehicles and construction materials. The survey's opening shows that seven out of ten retail activities shrank in January, especially the sales performance of "vehicles, motorcycles, parts and pieces" (-1.9%). The negative result of the PMC in February left a carry-over of 0.1% for expanded retail sales in the first quarter of 2022.

Confidence indexes show mixed signals in February. According to the Getulio Vargas Foundation (FGV), the Consumer Confidence Index (ICC) rose 3.8 points. The performance reflected the improvement in the evaluations of the current situation and expectations for the coming months, probably influenced by the payments of the Auxílio Brasil and the better labor market perspectives as the wave of Covid-19 caused by the Omicron variant weakened.

⁷ Carry-over represents the annual growth rate of the indicator, assuming that its level is identical to the last quarter of the previous year. It represents the growth rate in the year that begins in a scenario with no negative or positive surprises.

On the other hand, the Business Confidence Index (ICE), which consolidates the indexes from the industry, services, commerce, and construction sectors, dropped 0.5 points in the same comparison (already down for the fifth consecutive month) with worsening perceptions about the current situation. Data collection took place before the war unleashed by Russia's invasion of Ukraine; the subsequent releases should bring negatives for the confidence indexes, impacting the outlook for consumption and private investments.

FIGURE 3. CONFIDENCE INDEXES (SEASONALLY ADJUSTED SERIES)



Source: FGV. Prepared by: IFI.

War impact is expected to increase inflation and reduce the prospect of economic growth in global terms. The worsening geopolitical tensions produced by Russia's invasion of Ukraine bring consequences to the economic scene. The most immediate effect is increased international commodity prices, especially for energy and food. The conflict and the sanctions imposed on Russia bring volatility to the price scenario due to the possibility of a reduction in the global supply of raw materials - such as oil, natural gas, grains, metals used in industry, and inputs for the production of fertilizers - provided by Eastern Europe.

The acceleration of the inflationary process, until then impacted partly by the shock caused by the pandemic, should intensify the reduction of the purchasing power of wages and, therefore, of the income available for consumption by families. The environment permeated by uncertainties generates risk aversion in the financial markets, directing capital flows to lower risk assets and reducing corporate investments.

The effect on world GDP is expected to be negative, although the magnitude of the impacts will depend on the extent of the military conflict, which began on February 24. The lack of progress in diplomatic negotiations to end the conflict amplifies the present uncertainties. In the January update of the World Economic Outlook⁸, the International Monetary Fund (IMF) expected world growth to slow from 5.9% in 2021 to 4.4% in 2022 but stressed the existence of a downward bias caused by the worsening geopolitical tensions in Eastern Europe. The war and sanctions are likely to cause the IMF to revise its forecast for global growth when it releases its following outlook report in April⁹.

⁸ Available at: <https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

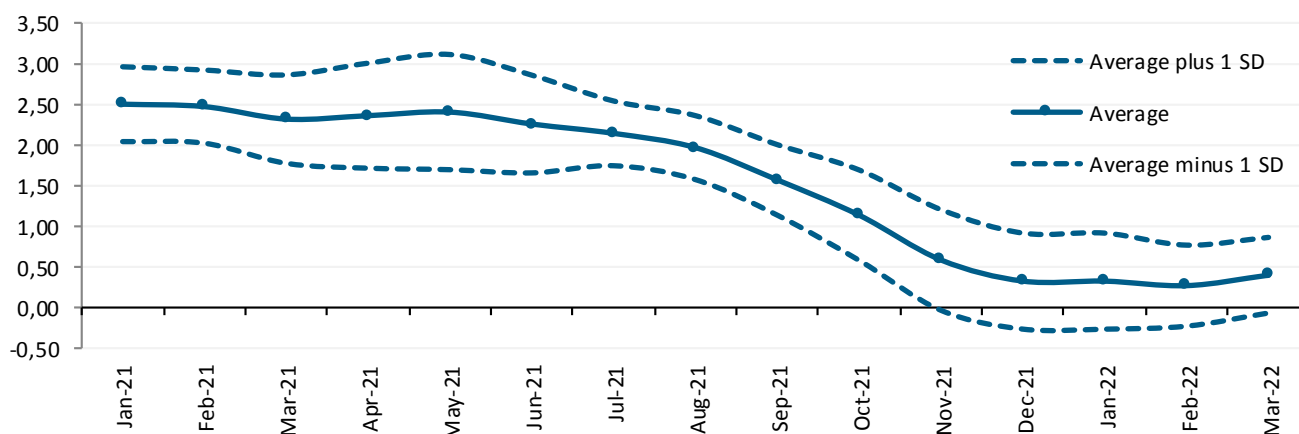
⁹ The media roundtable on the war in Ukraine and the IMF's response is available at: https://www.imf.org/en/Videos/view?utm_medium=email&utm_source=govdelivery&vid=6300260897001

The prospect of lower economic growth in trade partners, the effect of the substantial acceleration in the price level on disposable income, the possible extension of the monetary tightening cycle conducted by the Central Bank to contain the deterioration in inflation expectations and the intensification of problems in global production chains represent negative vectors for domestic activity. The market perspectives included in the Focus Survey, for example, already incorporate the effect of the readjustment of fuel prices on consumer inflation and a higher level of the Selic rate at the end of the year.

On the other hand, the adverse effects on the GDP could be partly mitigated by the increase in terms of trade provided by the new scenario for commodity prices. When commodity prices increase, Brazil gains a comparative advantage, reflected in the so-called terms of trade, defined as the ratio between the country's prices of products exported and imported. All or more constant, an improvement in terms of trade raises real income. This movement in terms of trade favors income growth due to the high participation of primary products in the national export mix and the multiplier effect on other production chains.

The market forecast for the 2022 GDP is sustained at around 0.4%. Among the agents that registered their projections in the Central Bank's Focus Survey, the most recent perspective for the 2022 GDP stands at 0.4% (with a standard deviation interval between -0.1% and 0.9%). The slight advance between February and the beginning of March stems mainly from the positive GDP result in the fourth quarter of 2021. The IFI maintains the current growth projection for the Brazilian economy in 2022 (a 0.5% increase compared to 2021). However, the drastic change in the global scenario will cause a reassessment of the current set of assumptions (relative to the international and domestic economy).

FIGURE 4. MARKET FORECASTS - GDP (2022)

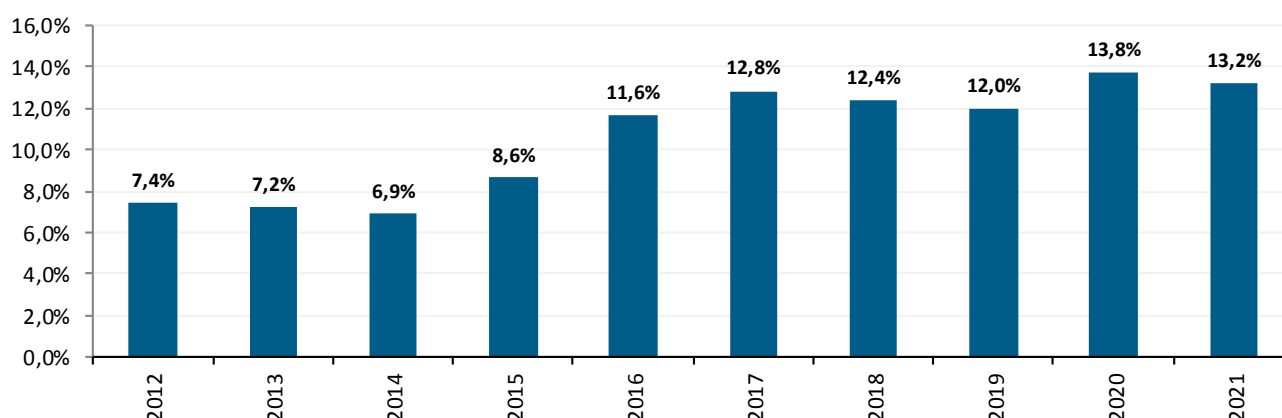


Source: Central Bank. Prepared by: IFI.

1.2 Labor market

The unemployment rate decreased to 13.2% of the labor force in 2021. According to the Continuous National Household Sample Survey (PNAD Cont  ua), the unemployment rate reached 11.1% of the labor force in the quarter ended in December, dropping 3.0 p.p. compared to the same period a year earlier (14.2%). With the December result, the average unemployment rate in 2021 reached 13.2%, slightly below 2020 (13.8%), as shown in Figure 5. The result was in line with the estimate presented in the December 2021 RAF.

FIGURE 5. UNEMPLOYMENT RATE (ANNUAL AVERAGE)



Source: IBGE. Prepared by: IFI.

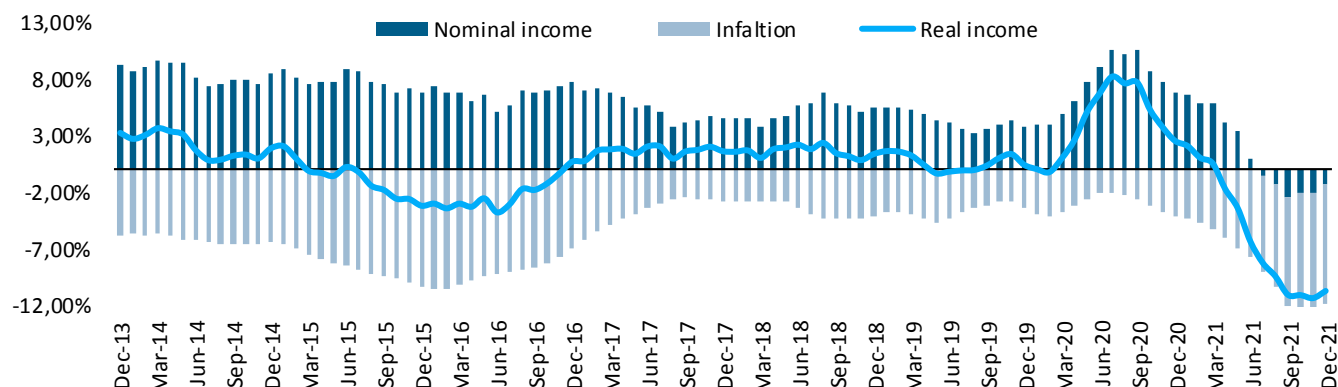
In 2021, informal employment increased by 10%, while formal employment increased by 1.9%. In 2021, the working population advanced 5.0%, while the labor force grew 4.3%. The increase in occupations followed the informal insertions¹⁰ (a 9.9% variation in 2021) and, to a lesser extent, the performance of formal employment (1.9%). The working population reached 91.297 million (considering the average value for 2021), an increase of 4.340 million compared to last year's same period (86.958). Of this total, it is worth noting that 3.311 million jobs came from the informal market (or 76% of the total). With the progress of vaccination and the relaxation of restrictive measures, sectors characterized by high informality (such as commerce and services) are hiring again. On the other hand, formal employment was less impacted by the pandemic.

Inflation reduces labor income. Also, according to data from the PNAD Contínua, the average real income in the quarter ended in December fell by 10.8% compared to the same period last year. The variation in labor income, in real terms, persists in the adverse terrain due to inflation¹¹ and the weakening of the nominal adjustments, as illustrated in Figure 6. Besides the worsening of purchasing power due to high and persistent inflation, the more concentrated increase in hiring in lower-paid activities (the composition effect) also negatively affects the trajectory of average income.

¹⁰ It includes the following positions: private sector and domestic workers without a signed contract, employer and self-employed without CNPJ, and auxiliary workers in a family business.

¹¹ IBGE uses the IPCA to deflate nominal incomes. The deflator is the average of the last quarter of the survey.

FIGURE 6. INCOME OF THE EMPLOYED POPULATION (NOMINAL AND INFLATION)
ANNUAL GROWTH RATE



The payroll, an indicator that combines the evolution of income with the working population, fell 1.8% in the quarter ending in December 2021 and 2.4% in the year to date (in real terms), reinforcing the restrictive scenario for consumption.

1.3 Inflation and monetary policy

Consumer inflation remains pressured and widespread. In February, measured by the IPCA, consumer inflation was 1.01%, above the rate recorded in January (0.54%) - the highest rate for February since 2015 (1.22%). The survey's opening shows that all the nine groups of products and services rose in February, with the most significant impact on the index in the month (0.31 p.p.) coming from the education group (variation of 5.61%) by incorporating the adjustments usually made at the beginning of the school term. Subsequently, the food and beverages group (1.28%) followed the foodstuff for home consumption hike (1.65%).

IPCA over twelve months accelerated in February. The accumulated IPCA rate over 12 months accelerated from 10.4% in January to 10.5% in February. Inflation remains above the upper limit of the inflation target (3.5% with an interval of 1.5 p.p. above and below).

Between January and February, the administered prices, which account for approximately 25% of the total IPCA, went from -0.4% to 0.1% (accumulated variation of 15.0% in twelve months). Free prices, meanwhile, rose 1.3%, above the 0.9% observed in January. In 12 months, the variation in these prices rose from 8.2% to 9.0%. The pressure came from industrial prices (up 1.1% in the month and 13.0% in 12 months), services (1.4% and 5.9%), and food-at-home (1.7% and 10.1%).

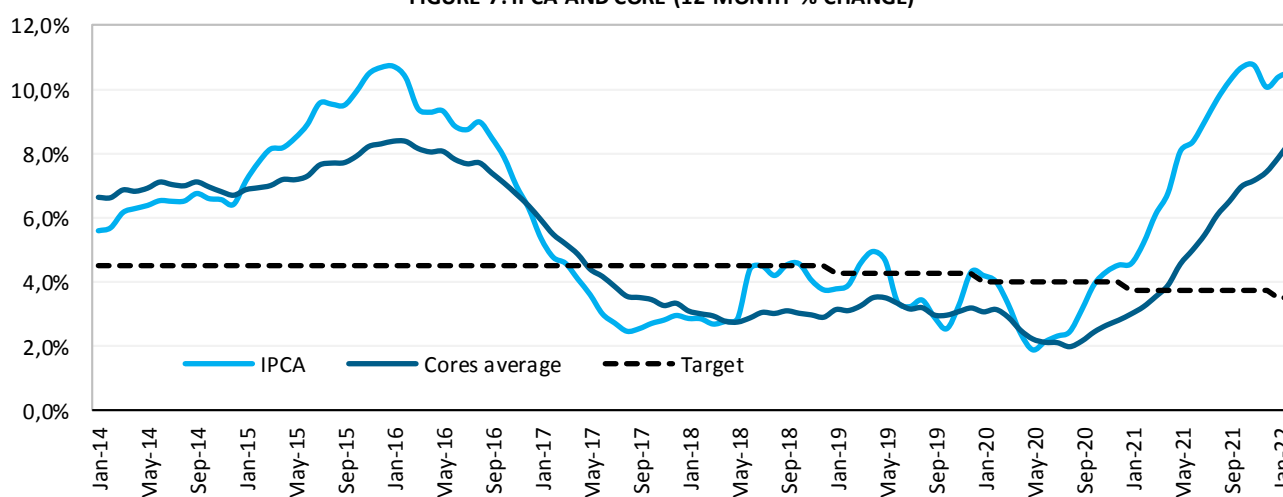
TABLE 6. IPCA: MONTH % CHANGE AND 12-MONTH

Consumer inflation	Month % change			12-month		
	Dec/21	Jan/22	Feb/22	Dec/21	Jan/22	Feb/22
IPCA	0.7%	0.5%	1.0%	10.1%	10.4%	10.5%
Administered prices	0.1%	-0.4%	0.1%	16.9%	16.8%	15.0%
Free prices	1.0%	0.9%	1.3%	7.7%	8.2%	9.0%
Food	0.8%	1.4%	1.7%	8.2%	8.6%	10.1%
Services	0.8%	0.4%	1.4%	4.8%	5.1%	5.9%
Industrial	1.4%	1.2%	1.1%	12.0%	12.7%	13.0%
Cores average	0.9%	0.9%	1.0%	7.4%	7.9%	8.4%

Source: Central Bank. Prepared by: IFI.

A higher diffusion index and acceleration of the average of the cores also reveal widespread pressure among the components. The IPCA's diffusion index, a variable that indicates the share of IPCA sub-items with positive variation in the month, rose from 73.2% in January to 74.8% in February. The pressured and persistent inflation picture also appears in the behavior of the cores, measures constructed by the Central Bank to exclude the influence of more volatile items from total inflation. The average of the five cores monitored by the Central Bank (EX-0, EX-3, MS, DP, and P55) registered a monthly variation of 1.0% and advanced from 7.9% in January to 8.4% in February on a 12-month accumulated basis.

FIGURE 7. IPCA AND CORE (12-MONTH % CHANGE)

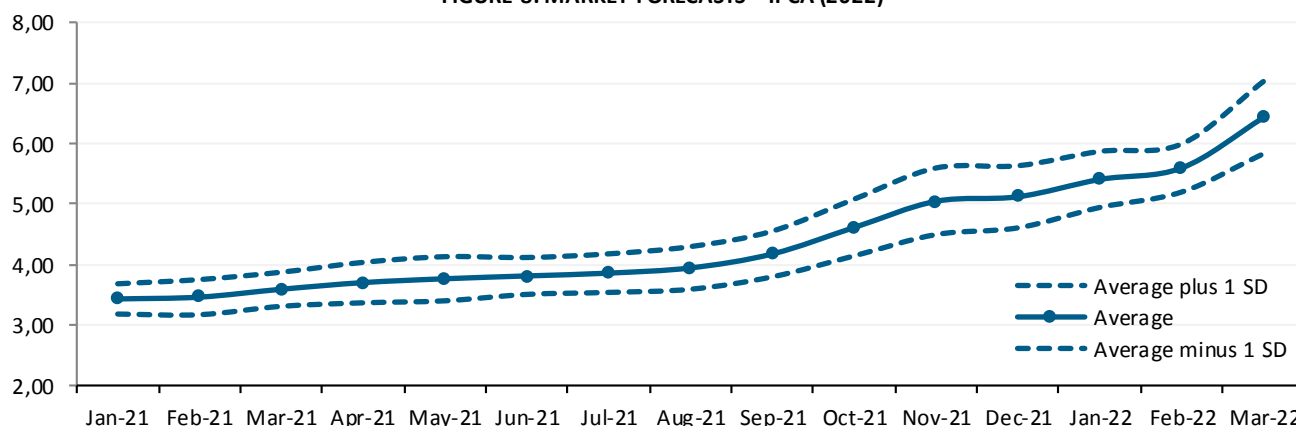


Source: IBGE and Central Bank. Prepared by: IFI.

The conflict in Eastern Europe has already started to impact domestic prices. Over the next few months, inflation should continue to be pressured by the readjustment in fuel prices (18.7% for gasoline and 24.9% for diesel), recently announced by Petrobras as a reaction to the rising international oil prices. The current path of appreciation of the Brazilian Real, in turn, is not being enough to reverse the substantial increase in commodity prices measured in local currency. In addition to the widespread pressures, the Petrobras decision prompted a new round of revisions to the IPCA estimates. The perception about the future scenario for interest rates, in this context, has also deteriorated.

Inflation expectations for 2022 and 2023 remain above the target. Among the agents that registered their projections in the Focus Survey, the average outlook for the 2022 IPCA reached 6.4% (range of one standard deviation between 5.8% and 7.0%), well above the 3.5% target established by the CMN. The IFI's estimate of 5.3% has an upward bias. For 2023, the market estimate rose to 3.7% (from 3.6% in February), distancing itself from the reference center (3.25%).

FIGURE 8. MARKET FORECASTS - IPCA (2022)

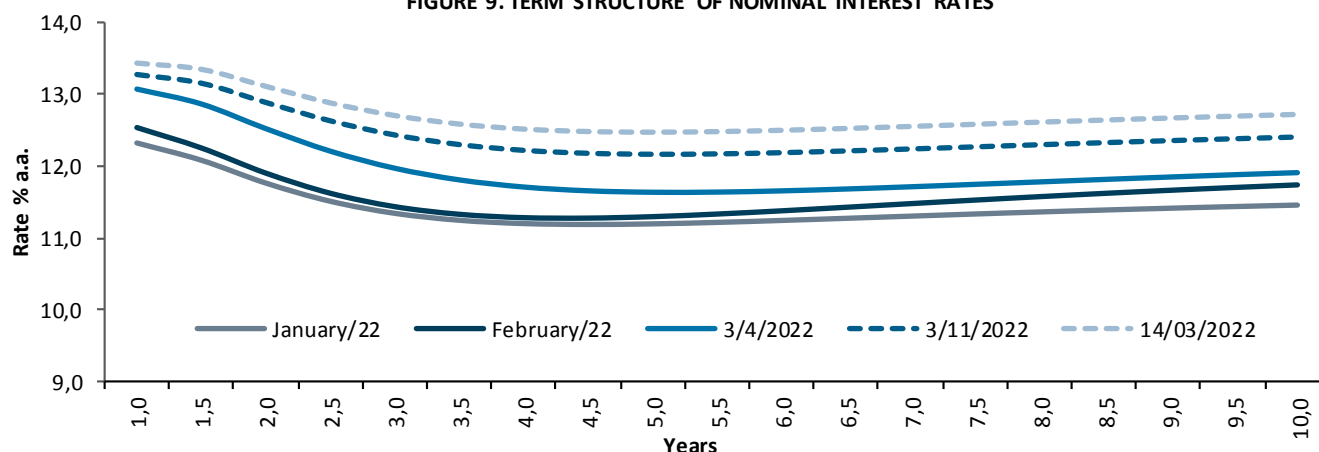


Source: Central Bank. Prepared by: IFI.

As a result of the price shock caused by the war, the market expects the Central Bank to continue raising the Selic rate to anchor inflation to the target. In the current tightening cycle, the Central Bank raised the Selic rate from 2.0% in March 2020 to 10.75% in February 2021. In the Focus Survey, the estimates for the interest rate at the end of 2022 changed to 12.75% p.a. (from 12.25% a month ago), with hikes expected in the next three Monetary Policy Committee (Copom) meetings: March (1.0 p.p.), May (0.75 p.p.) and June (0.25 p.p.).

An environment of huge uncertainties affects the risk premiums in the yield curve. Figure 9 shows the forward interest structure - calculated by the Brazilian Association of Financial and Capital Market Entities (Anbima), based on secondary public bond negotiations. The remuneration of a one-year bond rose from 12.3% in January to 13.4% in mid-March, in nominal terms, in line with the uncertainty over inflation given the scenario of commodities prices. At the same time, the longest part of the curve shifted upwards by about one p.p.

FIGURE 9. TERM STRUCTURE OF NOMINAL INTEREST RATES



Source: Anbima. Prepared by: IFI.

2. FISCAL SCENARIO

2.1 Central Government Primary Balance

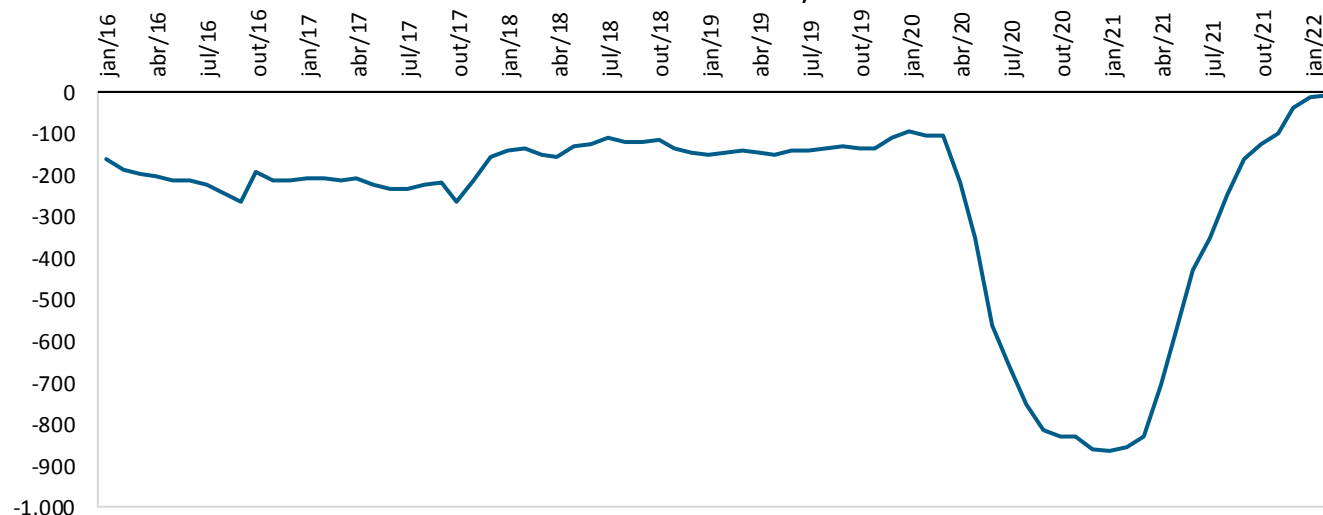
The central government's primary deficit should have been R\$ 2.6 billion in the 12 months ended in February.

According to the Siga Brasil of the Federal Senate, compiled with data released by the National Treasury Secretariat (STN), the central government's primary deficit should have been R\$ 2.6 billion in the 12 months ending in February 2022¹², in nominal values. This result is lower than the R\$ 2.7 billion deficit recorded in January. At February 2022 prices, the Union's primary deficit would have been R\$ 8.1 billion in the 12 months ended in February (Figure 10).

In the accumulated two-month period ended in 2022, the primary surplus would have been R\$ 55.2 billion. In February, according to the information obtained in Siga Brasil, the central government's primary result would have had a R\$ 21.3 billion deficit. Thus, in the accumulated two months of 2022, the Union's primary surplus would have been R\$ 55.2 billion. The reversal of the January surplus deserves attention, and, as warned by the IFI when it was released, the data would not represent a pattern for the rest of the year.

¹² The STN will release the official data on March 30, 2022.

FIGURE 10. EVOLUTION IN 12 MONTHS OF CENTRAL GOVERNMENT'S PRIMARY BALANCE (R\$ BILLION AT FEBRUARY 2022 PRICES)



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

The central government's primary deficit should increase in 2022 due to a slowdown in revenues and pressure on spending. The IFI forecasts a worsening of the federal government's primary balance in 2022 compared to 2021 (a deficit of R\$ 35.1 billion) due to lower revenue growth and higher expenses. For tax collection, another substantial increase is not expected, in real terms, as the one observed in 2021. The economy's growth will slow down from 4.6% in 2021 to 0.5% in 2022, inflation will be lower this year, and the exchange rate should not depreciate further.

The reduction in the IPI tax rates is expected to generate revenue losses of R\$ 16.2 billion between March and December 2022. In addition, some changes in legal frameworks edited by the Executive Branch and others recently approved in Congress will generate revenue reductions for the Federal Government and subnational entities this year. Decree 10,979¹³, of February 25, 2022, established the reduction of the IPI rates linearly over the industry sectors. The IFI presented calculations regarding the budgetary impact of this measure in its Technical Note (NT) No. 51¹⁴ of March 2022. In annualized terms, the effects of this IPI reduction could reach R\$ 19.1 billion. Considering the period from March to December 2022, the impact on tax collection would be R\$ 16.2 billion - a critical revenue waiver by the Federal Government, impacting the sharing of this revenue with subnational entities.

Supplementary Law (LC) No. 192, of March 11, 2022, will generate a PIS/COFINS revenue loss for the Federal Government in 2022. Supplementary Law (LC) no. 192, of March 11, 2022, originated from the Bill of Supplementary Law (PLP) No. 11 of 2020, changes the ICMS incidence rule on fuels and resets to zero the PIS/PASEP and COFINS rates on diesel oil, liquefied petroleum gas (LPG), liquefied gas derived from natural gas (GLGN), and aviation kerosene (QAV) until December 31, 2022. This reduction in the PIS/COFINS rates on the mentioned products will reduce federal tax collection this year. Regarding this law and Bill of Law (PL) No. 1.472 of 2021, to be commented on subsequent, the Budget section will present preliminary calculations of the fiscal effects.

¹³ Available at: <https://www.in.gov.br/en/web/dou/-/decreto-n-10.979-de-25-de-fevereiro-de-2022-383062604>.

¹⁴ Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/596233/NT51_IPI.pdf.

Besides this, the government has signaled its intention to zero the PIS/COFINS rates on gasoline. In due time, the IFI will release estimates of the budgetary impact of the LC No. 192 of 2022, which will also produce revenue losses for the Union and the States.

Constitutional Amendments No. 113 and 114 of 2021 opened a space of R\$ 113.1 billion in the Union's spending ceiling in 2022. The primary expenditures dynamics are the second factor that justifies a worsening in the central government's primary deficit from 2021 to 2022. The Constitutional Amendments (EC) No. 113 and 114 of 2021 promoted changes in the spending ceiling rule and limited the annual expense of the Federal Government with the payment of the court-ordered debts. As mentioned in past editions of this RAF, the space opened in the spending ceiling with these two legal rules was R\$ 113.1 billion.

Besides these constitutional amendments, the Senate plenary approved, on March 10, the Bill of Law (PL) No. 1,472 of 2021, submitted to the Chamber of Deputies, which establishes rules for the stabilization of fuel prices, which will be limited to a variation band, as well as a federal account to fund this mechanism. The project also establishes an aid of up to R\$ 300.00 for low-income autonomous drivers under the Auxílio Brasil Program. According to PL 1,472, the limit amount will be R\$ 3 billion during the program's life.

PL No. 1.472, of 2021, will impact the Federal Government's revenues and expenses. The PL No. 1.472, of 2021, will cause loss of revenue for the Federal Government by allocating dividends paid by Petrobras to the Federal Government, royalties, and signature bonuses collected in auctions held by the National Agency of Petroleum, Natural Gas and Biofuels (ANP) to the stabilization fund for fuel prices. In addition, it will generate an increase in expenses with the payment of aid to drivers, even though it will be limited to R\$ 3 billion. More details are available in the Budget section.

In January, tax collection performance was determinant for the central government's R\$ 76.5 billion primary surpluses. As previously reported, the central government's primary balance for January was positive at R\$ 76.5 billion (10.3% of GDP) in the first month of 2022, R\$ 33 billion higher than in January 2021. The substantial increase in primary revenue in the period was decisive to this result, considering that primary expenditure remained relatively under control due to the reduction in spending caused by the withdrawal of measures to mitigate the effects of the pandemic.

Total primary revenue grew 17.8% in real terms in January compared to the same month in 2021. Table 7 presents information regarding the Union's primary revenue in the last three years for January. The total revenue of R\$ 236.3 billion (31.8% of GDP) in January 2022 represented an increase of 17.8% in real terms over the same month of 2021 when there was relative stability (a reduction of 0.1% in real terms) in comparison with January 2020. As will be explored below, part of the robustness of the January primary revenue performance was due to some non-recurrent events.

The increase in revenues collected by the RFB was 16.9% above inflation in January compared to the previous year. According to Table 7, revenues collected by the RFB grew 16.9% in January, discounting the effects of inflation, reaching R\$ 167 billion. On this basis of comparison, the net collection for the RGPS rose 10.1% to R\$ 39.7 billion, while revenues not collected by the RFB rose 36.2% to R\$ 29.6 billion.

Oil exploration activity boosted the Union's revenues not collected by the RFB in January. The performance of revenues not collected by the RFB in January reflected the 'exploration of natural resources' item. The amount of R\$ 18.2 billion (not shown in Table 7) was 81.9% higher in real terms than the result in January 2021 (R\$ 9.0 billion). The

main reason for this performance was the increase in the international price of oil, which exceeded US\$ 90 in January 2022.

Transfers to subnational entities increased 15.1% (real terms) in January, compared to the same month in 2021. Transfers by revenue sharing to states and municipalities totaled R\$ 33.2 billion in January, a 15.1% increase over the same month last year.

In real terms, net revenues increased 18.2% in January compared to last year's same month. The central government's net revenue (discounting transfers from the total primary revenue) was R\$ 203.1 billion in January, an 18.2% increase, in real terms, over January 2021.

Table 7 also presents information regarding total and net primary revenues free of the effects of atypical or non-recurring factors that could distort these variables' evaluation - Special Study (EE) no. 17, 2021¹⁵ displays the methodology to obtaining these series.

TABLE 7. CENTRAL GOVERNMENT'S REVENUES— 2020-2022 –JANUARY (R\$ BILLION CURRENT, REAL % CHANGE, AND % OF GDP)

	January/2020			January/2021			January/2022		
	R\$ B current	Real % change	% GDP	R\$ B current	Real % change	% GDP	R\$ B current	Real % change	% GDP
Total revenue	174.0	3.9%	28.6%	181.8	-0.1%	27.8%	236.3	17.8%	31.8%
Revenues Collected by RFB, except RGPS	121.4	6.7%	20.0%	129.4	2.0%	19.8%	167.0	16.9%	22.5%
Fiscal incentives	0.0	-	0.0%	0.0	-	0.0%	0.0	-	0.0%
RGPS	33.0	-1.9%	5.4%	32.7	-5.4%	5.0%	39.7	10.1%	5.3%
Revenues not Collected by RFB	19.6	-2.4%	3.2%	19.7	-3.7%	3.0%	29.6	36.2%	4.0%
Transfers	22.3	-10.7%	3.7%	26.2	12.3%	4.0%	33.2	15.1%	4.5%
Net revenue	151.7	6.4%	25.0%	155.6	-1.9%	23.8%	203.1	18.2%	27.4%
Total revenue without non-recurrent event*	170.0	2.4%	28.0%	179.3	0.9%	27.4%	223.5	12.9%	30.1%
Net revenue without non-recurrent event *	147.8	4.7%	24.3%	153.2	-0.8%	23.4%	190.2	12.5%	25.6%
GDP (R\$ billion)			607.5			654.4			742.1

* The non-recurrent events are presented and described in the IFI's EE no. 17, 2021.

Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

Total revenue would have grown less when discounting non-recurring effects: 12.9% in real terms in January.

Without the non-recurring effects, the total primary revenue of R\$ 223.5 billion in January 2022 was 12.9% higher (in real terms) than the revenue in January of last year (R\$ 179.3 billion), which, in turn, grew 0.9% compared to 2020 (R\$ 170.0 billion). On this basis of comparison, the net revenue of R\$ 190.2 billion was up 12.5%, in real terms, over 2021 (R\$ 153.2 billion), when it fell 0.8% compared to 2020 (R\$ 147.8 billion). In other words, the isolation of the non-recurrent events allows us to conclude that the result of the January collection remains robust.

As an illustration, the collection of R\$ 12 billion in IRPJ and CSLL was due to changes in equity holdings, according to the Federal Revenue Service.

¹⁵ Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/594656/EE17_Resultado_Estrutural.pdf.

As discussed in previous issues of this RAF, economic activity, higher inflation, the depreciation of the exchange rate, the improvement in terms of trade ratio, and the rise in oil prices have positively influenced revenues in recent months. The new international context is an unforeseen vector that will mainly impose the need to rediscuss the current IFI scenarios for the short term.

War in Europe may affect the dynamics of macroeconomic and fiscal variables in Brazil. The advent of war in Europe has brought uncertainties to the international environment in recent weeks. These uncertainties generate risk aversion and price volatility in several commodities markets in the economy. Commodity prices (mineral, metallic, and agricultural) are rising sharply and could worsen inflationary conditions in countries' economies, including Brazil. The IFI will continue to monitor the unfolding of events and the impacts on the trajectories of macroeconomic and fiscal variables in Brazil.

In the 12 months to January, the central government's primary revenue rose 23.8%. Primary revenue totaled R\$ 1,986.9 billion (22.7% of GDP) through January 2022, a 23.8% increase in real terms over the result obtained in the same month 2021 (R\$ 1,475.6 billion or 19.6% of GDP). On this basis of comparison, revenues collected by the RFB grew 24.9% in real terms, while the net collection for the RGPS grew 6.7%, and revenues not collected by the RFB grew 59.4%. The IFI's current projection (referring to the December 2021 scenario revision) for the central government's total and net primary revenues is R\$ 2,019.2 billion (21.4% of GDP) and R\$ 1,634.2 billion (17.3% of GDP), in that order.

By way of comparison, the median projection for federal revenue collection in 2022, contained in the February edition of the Monthly Report from Prisma Fiscal, is R\$ 2,003.8 billion, while the market consensus for net revenue forecasts an amount of R\$ 1,653.8 billion this year.

The central government's primary expenditure grew 2.2% in real terms in January compared to the same month in 2021. We now turn to the analysis of central government primary expenditures, which totaled R\$ 126.6 billion in January 2022, R\$ 14.4 billion above the same month a year earlier, a 2.2% increase in real terms (Table 8).

The expenditure of some representative groups dropped in January compared to the same month in 2021. Also according to Table 8, total expenditure fell in some representative groups in January 2022 when compared with the same month in 2021: (i) pension benefits (-1.3%); (ii) personnel (-6.9%); (iii) salary allowance and unemployment insurance (-26.9%); and (iv) discretionary (-14.4%). On the other hand, there were increases in extraordinary credits, except PAC (+59.1%), Fundeb (+36.9%), subsidies, grants, and Proagro (+29.4%) and in mandatory expenses with flow control (+53.9%).

As explored in the February 2022 issue of this RAF, the drops, in real terms, in expenses with the payment of social security benefits occur because of the reduction in the average value of benefits and the slower growth in the number of benefits issued. In personnel expenses, on the other hand, the absence of readjustments in civil service salaries has allowed the government to reduce this expense compared to the previous year.

Outstanding liabilities execution for pandemic mitigation actions boosted the expenditure of extraordinary credits in January. Regarding the expenses that grew in the comparison between January 2022 and January 2021, the outstanding liabilities execution associated with Covid-19 mitigation measures implemented last year influenced the extraordinary credits (except PAC).

An increase in the supplementation by the Federal Government to Fundeb explained the performance in January. Fundeb expenses went from R\$ 3.3 billion in January 2021 to R\$ 4.9 billion in January this year due to

Constitutional Amendment No. 108 of 2020, which increased the Union's supplementation from 12% to 15% from 2021 to 2022.

TABLE 8. SELECTED CENTRAL GOVERNMENT'S EXPENDITURES – 2020 A 2022 – JAN. (R\$ B CURRENT, REAL % CHANGE, AND % OF GDP)

	January/2020			January/2021			January/2022		
	R\$ B current	Real % change	% GDP	R\$ B current	Real % change	% GDP	R\$ B current	Real % change	% GDP
Total expenditure	107.6	-3.3%	17.7%	112.1	-0.3%	17.1%	126.6	2.2%	17.1%
<i>Social Security Benefits (RGPS)</i>	48.4	0.8%	8.0%	51.1	1.0%	7.8%	55.7	-1.3%	7.5%
<i>Personnel (working and retired employees)</i>	26.8	-1.5%	4.4%	27.0	-3.6%	4.1%	27.8	-6.9%	3.7%
<i>Salary allowance and unemployment insurance</i>	5.8	-5.0%	1.0%	5.6	-7.8%	0.9%	4.5	-26.9%	0.6%
<i>Continuous Cash Benefit (BPC)</i>	5.0	0.6%	0.8%	5.4	2.6%	0.8%	5.9	-0.8%	0.8%
<i>Extraordinary Credits (except PAC)</i>	0.1	-92.9%	0.0%	2.0	2574.7%	0.3%	3.4	59.1%	0.5%
<i>Compensation to RGPS for Exemption of Payroll Taxes</i>	0.6	-40.5%	0.1%	0.4	-32.1%	0.1%	0.5	-3.5%	0.1%
<i>Fundeb</i>	3.4	3.6%	0.6%	3.3	-7.8%	0.5%	4.9	36.9%	0.7%
<i>Court Rulings and Court-Ordered Debts (current and capital expenditure)</i>	0.2	28.8%	0.0%	0.2	37.3%	0.0%	0.2	-30.0%	0.0%
<i>Subsidies, Grants, and Proagro</i>	2.9	-40.3%	0.5%	2.1	-31.8%	0.3%	3.0	29.4%	0.4%
Mandatory expenditure	102.5	-4.1%	16.9%	108.8	1.5%	16.6%	123.4	2.8%	16.6%
Mandatory spending with flow control	8.3	-8.5%	1.4%	9.4	8.1%	1.4%	16.0	53.9%	2.2%
Discretionary	5.1	16.1%	0.8%	3.4	-36.8%	0.5%	3.2	-14.4%	0.4%
Total expenditure without non-recurrent events	107.6	-3.3%	17.7%	110.1	-2.1%	16.8%	122.6	0.9%	16.5%
GDP (R\$ billion)			607.5			654.4			742.1

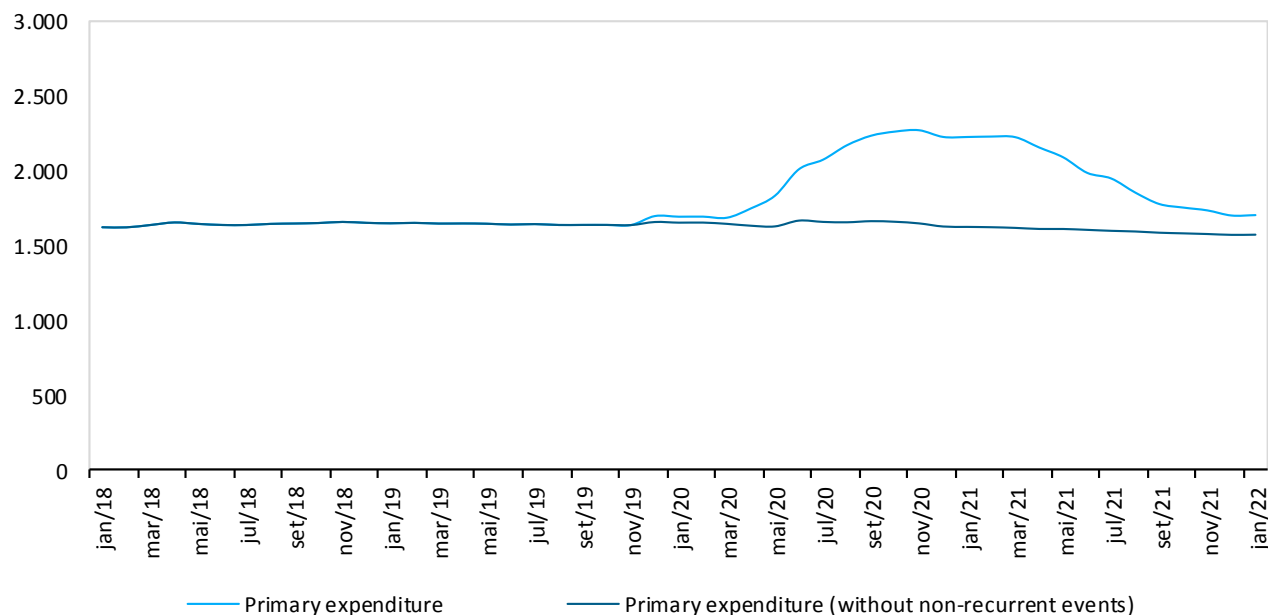
Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

The increase in mandatory expenses with flow control in January occurred due to the creation of the Auxílio Brasil Program. The increase of 53.9%, in real terms, in mandatory expenses with flow control in January 2022, in comparison with the same month in 2021, occurred because of the execution of R\$ 7.2 billion in the Auxílio Brasil Program this year, against R\$ 2.7 billion executed in the Bolsa Família Program in 2021.

Total primary expenditures would have grown 0.9% in real terms in January over the same month of 2021 when discounted non-recurrent events. As the last observation concerning Table 8, we highlight the behavior of total primary expenditure discounting non-recurrent factors. In January, the primary expenditure recalculated by the IFI totaled R\$ 122.6 billion, an increase of 0.9%, in real terms, relative to January 2021 (R\$ 110.1 billion).

Primary spending remained relatively under control in the 12 months ending in January 2022, isolating the non-recurrent factors on expenses. To conclude this subsection, Figure 11 presents the evolution of total realized primary expenditures over the 12 months and the expenditure series recalculated by the IFI to isolate the effects of the non-recurrent factors mentioned above and discussed in the EE no. 17, 2021. At constant January 2022 prices, total primary expenditure reached R\$ 1,706 billion in January, while expenditure without the non-recurrent events totaled R\$ 1,575 billion. The expenditure curve discounted for non-recurrent events shows that primary expenditure has remained constant for several months.

FIGURE 11. EVOLUTION IN 12 MONTHS OF TOTAL PRIMARY EXPENDITURES (WITH AND WITHOUT SELECTED NON-RECURRENT EVENTS) - R\$ BILLION AT JAN/22 PRICES



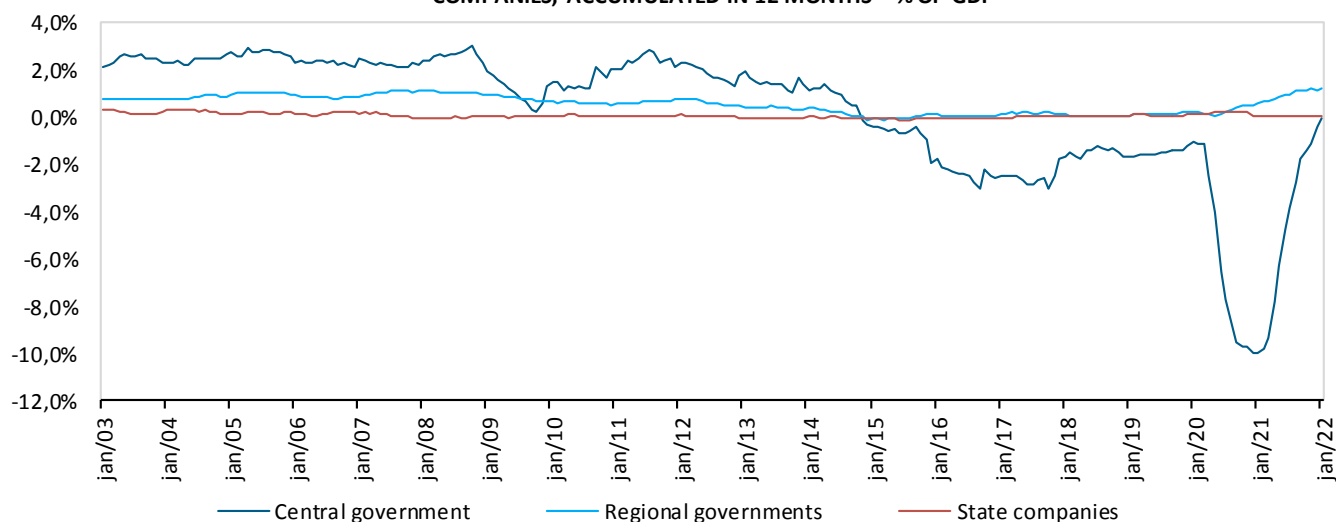
Source: National Treasury Secretariat. Prepared by: IFI.

2.2 Balance of the Consolidated Public Sector

In January, the public sector registered a primary surplus of 13.7% of GDP, equivalent to R\$ 101.8 billion. According to information released by the Central Bank on the Public Sector Borrowing Needs, the consolidated public sector reported a primary surplus of R\$ 101.8 billion (13.7% of GDP) in January, against a primary deficit of R\$ 51.8 billion (7.6% of GDP) registered in the same month a year earlier. The central government was responsible for a surplus of 10.4% of GDP (or R\$ 77.4 billion). In comparison, the regional governments had a positive result of 2.7% of GDP (R\$ 20 billion) and state companies another 0.6% of GDP (R\$ 4.4 billion).

In the 12 months through January, the public sector's primary balance was positive at R\$ 108.2 billion, or 1.23% of GDP. In the 12 months ended in January, the consolidated public sector reported a primary surplus of 1.23% of GDP (R\$ 108.2 billion). The main contribution to this result came from states and municipalities, which reported a positive result of 1.17% of GDP (R\$ 102.9 billion). State companies reported a primary surplus of 0.08% of GDP (R\$ 6.9 billion) in the 12 months ended in January, while the central government reported a primary deficit of 0.02% of GDP (R\$ 1.6 billion) in the period (Figure 12).

FIGURE 12. PRIMARY BALANCE OF THE CENTRAL GOVERNMENT, REGIONAL GOVERNMENTS, AND STATE COMPANIES, ACCUMULATED IN 12 MONTHS - % OF GDP



Source: Central Bank. Prepared by: IFI.

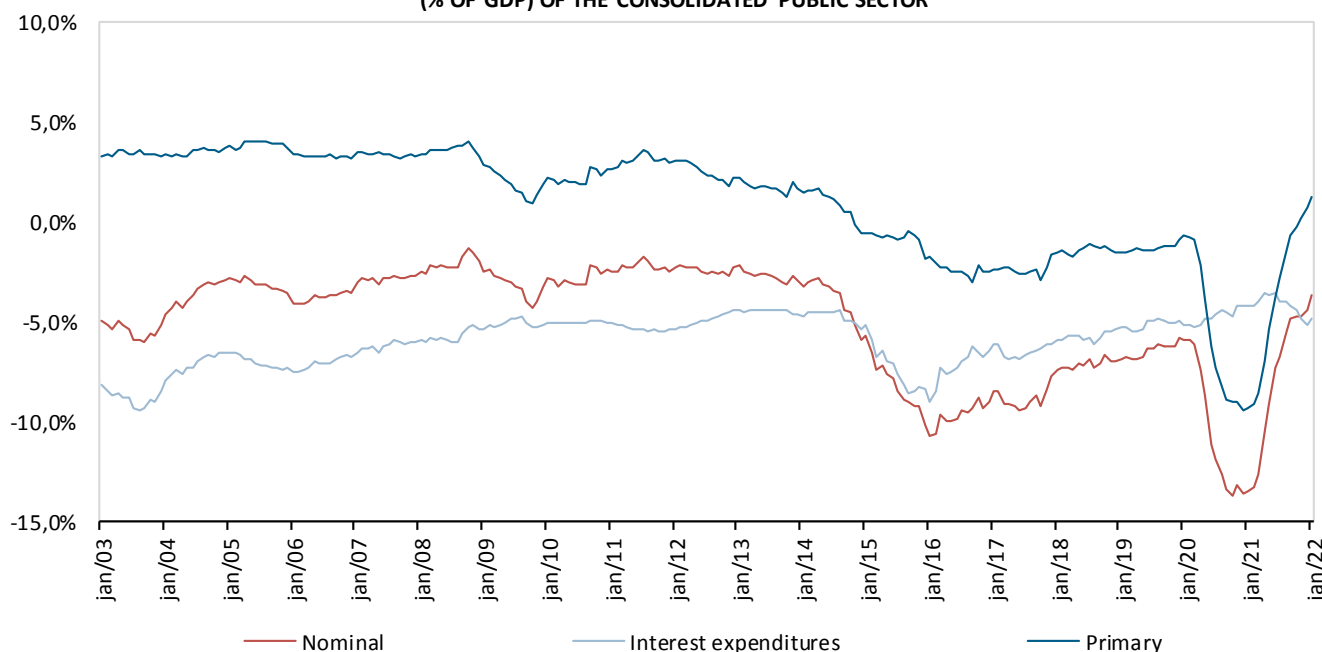
As highlighted in previous issues of this RAF, the positive state primary balance in 2021 could reflect: (i) the strong growth in collections, especially ICMS; (ii) the increase in transfers from the Union; (iii) higher ICMS collections on fuels and oil shares; and (iv) the relative control of expenses due to the public servants' salary restraint. There were also non-recurrent collections in some states, such as the CEDAE concession in Rio de Janeiro.

In January, the nominal public sector balance was positive at R\$ 84.0 billion (11.3% of GDP). Turning to the nominal public sector balance, which includes primary balance and interest payments on public debt, there was an R\$ 84.0 billion surplus in January. The central government had a positive balance of R\$ 68.7 billion, while the regional governments and state companies reported a surplus of R\$ 15.1 billion and R\$ 4.1 billion, respectively.

In the 12 months ending in January 2022, the consolidated public sector registered a nominal deficit of 3.6% of the GDP, or R\$ 317.5 billion. In the 12 months ended in January, the public sector reported a nominal deficit of R\$ 317.5 billion (3.6% of GDP). The central government's R\$ 375.1 billion nominal deficit (4.3% of GDP) contributed to this result. In that order, regional governments and state companies reported surpluses of R\$ 63.7 billion (0.7% of GDP) and R\$ 1.9 billion (0.02% of GDP).

In the 12-month comparison through January, the improvement witnessed in the nominal public sector balance occurred due to the trajectory of the primary balance. Figure 13 shows the 12-month trajectory of the nominal and primary balances and the public sector's interest expenses as a proportion of GDP. Between January 2021 and the same month in 2022, the 9.1 p.p. of GDP improvement in the nominal public sector balance occurred due to the 10.6 p.p. of GDP increase in the primary balance. Interest expenditure as a proportion of GDP rose from 4.2% in January 2021 to 4.9% in January 2022, up 0.7 p.p. of GDP (Figure 13).

**FIGURE 13. 12-MONTH ACCUMULATED PRIMARY AND NOMINAL BALANCES AND INTEREST EXPENDITURES
(% OF GDP) OF THE CONSOLIDATED PUBLIC SECTOR**



Source: Central Bank. Prepared by: IFI.

The increased interest expenses of the public sector occur due to the growth in the average cost of the public debt. It is essential to analyze the recent evolution of public sector interest expenses because there was a reversal in the trajectory of the series as a proportion of GDP in July 2021. The trend is for an increase in the coming months, which will affect the nominal result. In the 12-month comparison, interest expenditure stood at 3.5% of GDP in June 2021, having risen to 3.9% of GDP in July and gradually climbed to 5.2% of GDP in December. Despite the reduction to 4.9% of GDP in January 2022, the tendency is for this indicator to rise, given the monetary tightening underway and the increase in the average cost of public debt, which will be better explored later in this text.

The deterioration in the risk perception also contributes to pressure on interest rates. Another factor pressuring public sector interest spending is the worsening risk perception on the part of the agents financing the federal public debt. Everything indicates that this greater aversion to risk is related to the loss of credibility and the uncertainties concerning the fiscal policy conduction. Depending on public sector interest expenses dynamics, the government will need to increase its efforts to generate primary surpluses to compensate for this movement.

In addition to ECs no. 113 and 114 of 2021, which allowed the payment in installments of court-ordered debts and opened space in the spending ceiling, the legislative proposals approved to relieve the tax levied on fuel may further increase the Federal Government's primary expenses and cause revenue waivers. The Budget section presents some estimates of the budgetary impact of the fuel tax relief measures.

2.3 Evolution of Public Sector Indebtedness Indicators

Inflation and high-interest rates increase public debt management challenges for the Treasury. In recent months, the IFI has emphasized that the economic environment of relatively high inflation and rising interest rates may increase the challenges for the National Treasury in managing public debt. Brazil's risk premiums started to rise from June 2021, from 260 points to 370 points in November, having retreated to around 330 points from the end of December and remaining more or less at this level until January 2022. The futures yield curve embodies expectations of double-digit interest rates in all vertices over 21 days, as seen in the Macroeconomic Context section of this report.

Uncertainties and rising risk premiums contribute to potential debt management challenges. Uncertainties regarding inflation dynamics and the Federal Government's fiscal consolidation will continue to be present throughout 2022, which may bring volatility to asset prices and risk premiums, increasing the challenges for public debt management. The risk associated with eventual increases in primary expenditures or fiscal waivers of a permanent or transitory nature will continue to be monitored by the IFI.

DPMFi stock grew R\$ 17.8 billion in January, compared to the same month in 2021. According to information published by the STN in the Monthly Debt Report (RMD), the Federal Domestic Public Debt (DPMFi) rose from R\$ 5,348.9 billion in December 2021 to R\$ 5,366.8 billion in January 2022, up to R\$ 17.8 billion. There was a reduction of R\$ 112.1 billion in the fixed-rate securities, offset by R\$ 90.8 billion in floating-rate securities and R\$ 37.3 billion in price-indexed securities.

DPMFi redemptions were higher than issuances by R\$ 24.3 billion in January 2022. The total net issuance (issues minus redemptions) of DPMFi in January was negative R\$ 24.3 billion, meaning that redemptions exceeded issuance in this amount. There was a net redemption of R\$ 118.7 billion in fixed-rate securities due to the maturity of a National Treasury Bill (LTN) of R\$ 115.7 billion. On the other hand, there were net issuances of R\$ 75.2 billion floating-rate securities and R\$ 19.2 billion of inflation-indexed securities.

Treasury's liquidity reserve dropped in January compared to December 2021. Also, according to the Treasury, the public debt liquidity reserve was R\$ 1,132.5 billion in January, a reduction of 4.5% in nominal terms compared to December (R\$ 1,185.9 billion). The liquidity reserve integrates the Treasury's cash available deposited in the Single Account at the Central Bank. Over the next 12 months, DPMFi will mature at R\$ 1,309.7 billion. In other words, the current liquidity reserve is insufficient to pay the Treasury's short-term commitments.

Issuance rates of fixed-rate securities rose in January compared to December. The average issue rates of the DPMFi rose in January, according to information presented by the STN in the RMD. The average issue rate for 24-month fixed-rate securities (LTN) was 11.73% p.a. in January, compared to 11.59% p.a. in December. In 48-month fixed-rate bonds, the rate was 11.31% p.a. in January, compared to 10.73% p.a. in December. In the 10-year fixed-rate bond, with semi-annual interest payments, the average issue rate rose from 10.83% p.y. in December to 11.43% p.y. in January 2022.

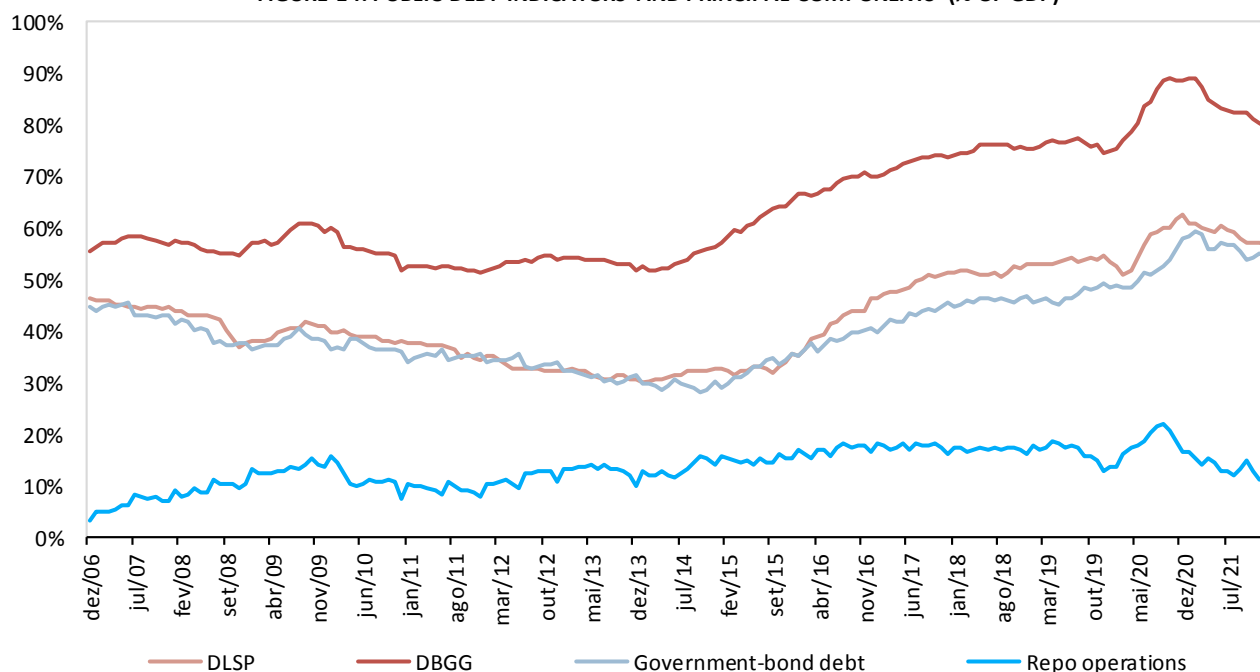
The IFI's survey of Treasury auctions shows that issuance rates continued to rise in February. Information gathered by the IFI regarding auctions held by the Treasury¹⁶ indicates new increases in the rates of the DPMFi auctions in February. For example, fixed-rate security maturing on April 1, 2023, had an average issue rate of 12.35% p.a. in February. In January, the average rate for this security was 12.02% p.a. The average issue rate for the fixed-rate

¹⁶ Link to spreadsheet: <https://www12.senado.leg.br/ifi/dados/dados>.

security maturing on July 1, 2025, went from 11.24% p.a. to 11.40% p.a. between January and February. The securities (and their respective maturities) are announced quarterly by the Treasury and may change over time.

Primary surplus and nominal GDP increase caused the Public Sector Net Debt to drop in January. The Central Bank's fiscal statistics analysis shows that the Public Sector Net Debt (DLSP) dropped 0.6 p.p. of GDP between December and January, reaching 56.6%. Compared to January 2021, there was a reduction of 4.3 p.p. of GDP in the indicator (Figure 14). This decline was mainly due to the effects of the primary surplus (-1.2 p.p.), the nominal GDP growth (-0.6 p.p.), the 4.0% accumulated exchange appreciation (+0.7 p.p.), the exchange rate variation in the basket of currencies that make up the net external debt (+0.3 p.p.), and the accrued nominal interest (+0.2 p.p.).

FIGURE 14. PUBLIC DEBT INDICATORS AND PRINCIPAL COMPONENTS (% OF GDP)



Source: Central Bank. Prepared by: IFI.

In January, government-bond debt dropped (-0.4 p.p. of GDP compared to December). The market's government-bond debt declined 0.4 p.p. of GDP in January, compared to December and 3.7 p.p. of GDP against the same month in 2021, to 54.6% of GDP or R\$ 4,784.5 billion (Figure 14). In nominal terms, there was a slight increase of R\$ 9.8 billion between December and January, in line with information on the debt stock released by the Treasury.

Nominal GDP growth and net debt redemptions made the most significant contributions to the drop in gross debt in January. The Gross General Government Debt reached R\$ 6,973.2 billion in January, the equivalent of 79.6% of GDP, representing a reduction of 0.7 p.p. of GDP compared to December and 9.2 to January 2021 (Figure 14). The reduction in the DBGG - which comprises the federal government, INSS, and state and municipal governments - as a proportion of GDP in January compared to December reflected the nominal GDP growth (-0.8 p.p.), net redemptions of debt (-0.4 p.p.), the exchange rate appreciation (-0.2 p.p.), and nominal accrued interest (+ 0.6 p.p.).

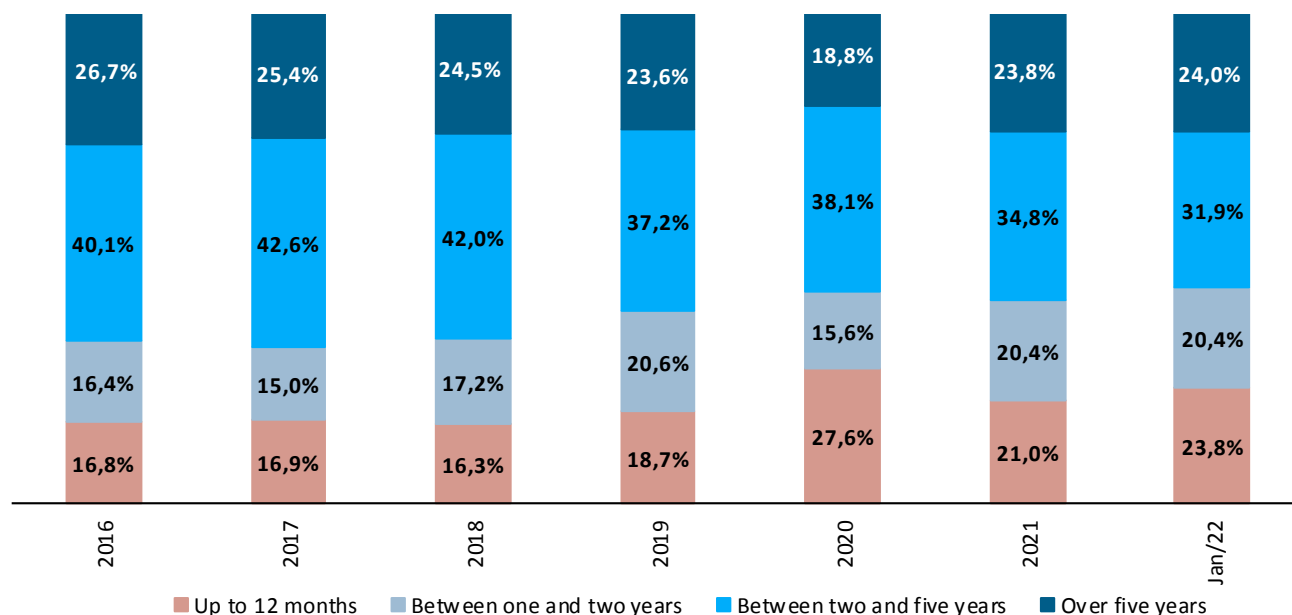
There was relative stability in the volume of repo operations as a proportion of GDP in January compared to December. Finally, the Central Bank's repo operations were practically stable in January (11.4% of GDP), compared to December (11.3% of GDP). The most robust reduction between November and December, from 12.9% of GDP to 11.3% of GDP, is related to the Central Bank's sale of R\$ 35 billion in international reserves in December. The sale of reserves increases the relative quantity of dollars to the quantity of Brazilian Reals, which requires an adjustment in repo operations, in this case, of a drop, to guarantee the system's liquidity (Figure 14).

Figure 15 contains information on the Federal Public Debt (DPF) maturities profile in the Monthly Debt Report. In January, securities maturing in up to 12 months accounted for 23.8% of the DPF stock, 2.8 p.p. above that registered in December. Compared to January 2021, there was a 3.3 p.p. drop in this stock. The increase in the percentage of debt maturing in the next 12 months in January compared to December was due to the outflow of securities maturing in January 2022 and the entry of the bonds that will expire in January 2023. In the 2022 Annual Borrowing Plan (PAF), the range defined for the DPF stock maturing in 12 months goes from 19% (minimum) to 23% (maximum).

Over five years, the proportion of securities maturing reached 24.0% of the DPF stock in January. Securities maturing in over five years reached 24.0% of the DPF stock in January 2022, up 0.2 p.p. to December and 4.0 p.p. compared to January 2021. This is the highest value since August 2019 and reflects the lower issuance of short-term debt. At the same time, the Treasury has managed to increase the volume of debt with maturities longer than five years, especially floating-rate and inflation-linked bonds.

The maturity profile lengthening of public securities represents a positive sign in the Treasury's debt management. After the shortening observed in the federal debt profile in 2020 (an increase in the relative share of securities with shorter maturities and a reduction in those with longer maturities), the Treasury has lengthened the maturity profile. It represents a positive factor in debt management, even though it is not a structural movement, especially since an increase in the average cost accompanies it.

FIGURE 15. DPF MATURITIES



Source: National Treasury Secretariat. Prepared by: IFI

The average cost of the 12-month accumulated DPMFi stock reached 8.92% p.a. in January. To conclude the analysis of debt indicators, the 12-month average cost of the DPMFi rose 0.17 p.p. in January, compared to December, to 8.92% p.a., the eleventh consecutive increase in the monthly comparison. Compared to January 2021, the average cost of the DPMFi stock rose by 1.78 p.p. (Figure 16).

The average cost of DPMFi issues rose from 8.49% p.a. in December to 8.90% p.a. in January. The average cost of DPMFi public issues also rose to 8.90% p.a. in January, compared to 8.49% p.a. in December. Compared to January 2021, the average cost of DPMFi issues rose to 4.23 p.p. (Figure 16). It is worth noting that, on this basis of comparison, the average cost of issues is increasing at an accelerated pace.

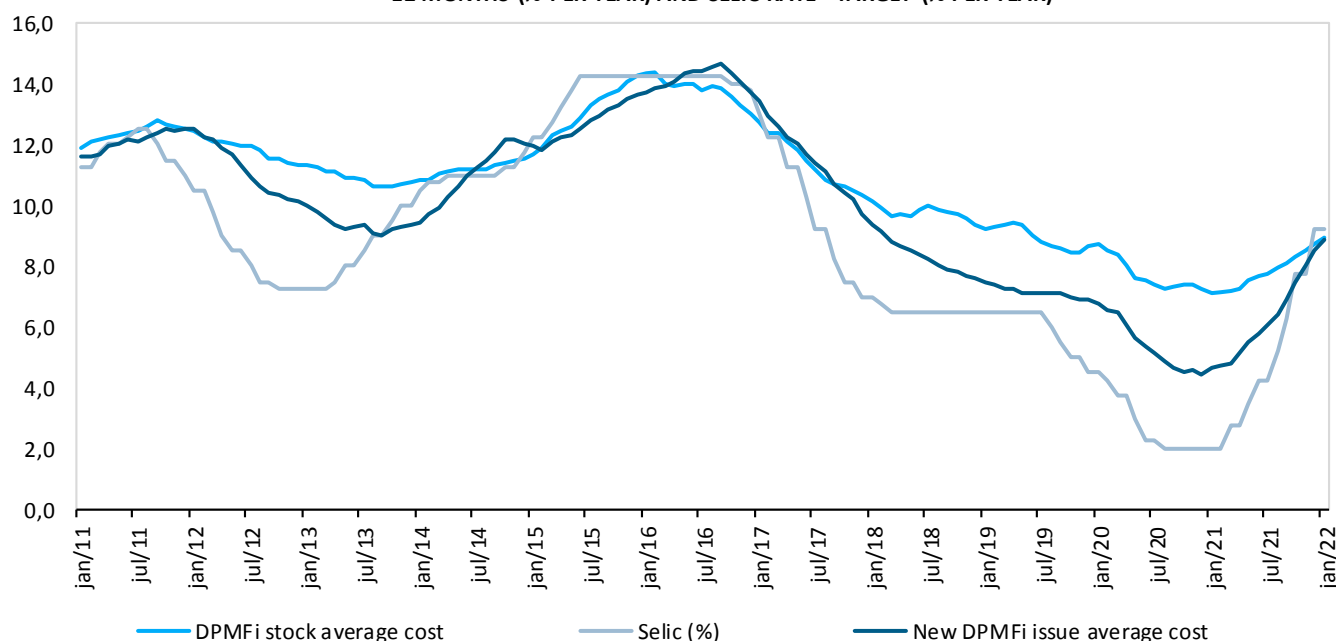
The average cost of DPMFi stock and issues rose with the increase in the economy's base interest rates. The increase in the average cost of the DPMFi stock and new issues, starting in March, is in line with the cycle of increases in the Selic rate by the Central Bank. As of the close of this RAF, the Selic is at 10.75% p.a., but the market consensus forecasts a new one p.p. increase in the rate at the Monetary Policy Committee (Copom) meeting on March 15 and 16.

Expectations of further hikes in the Selic suggest that the average cost of public debt will also continue to grow. Additional hikes expected for the Selic in the coming months suggest that the average cost of debt will continue to rise. Besides this, the risk calculated by economic agents in the forward yield curve will pressure the average cost of debt, worsening the future scenario, which recently benefited from the rise in nominal GDP under high inflation.

The IFI's projection (contained in the December 2021 revision of scenarios) for the Selic at the end of 2022 is 11.25% p.a. The market consensus, captured by the Focus Survey, foresees base interest rates at 12.75% p.a. at the end of 2022, according to information updated on March 11. High inflation and the government's actions in the fiscal area have

affected the outlook for the Selic in the months ahead, suggesting that this median may continue to rise in the coming weeks.

FIGURE 16. THE AVERAGE COST OF PUBLIC DEBT (STOCK AND NEW ISSUES), ACCUMULATED OVER THE LAST 12 MONTHS (% PER YEAR) AND SELIC RATE - TARGET (% PER YEAR)



Source: National Treasury Secretariat. Prepared by: IFI.

3. BUDGET

On March 10, the National Congress examined two Bills of Law substitute texts to address the issue of fuels, in a context of high oil prices and significant pass-throughs in final products, with an effect on domestic inflation, namely:

- Bill of Law (PL) No. 1,472, of April 2021,¹⁷ which provides for fuel price guidelines, creates the Conta de Estabilização de Preços de Combustíveis (CEP-Combustíveis), provides for the Brazilians' gas aid in 2022; and institutes the emergency aid aimed at mitigating the extraordinary impacts on the final consumer prices of gasoline; and
- Bill of Supplementary Law (PLP) No. 11, of February 19, 2020,¹⁸ defines the fuels on which ICMS will be levied only once and temporarily reduces to zero the PIS and COFINS rates on some items.

The PLP 1,472 was approved in the Senate and sent to the Chamber of Deputies. The PLP No. 11, on the other hand, was approved in both houses on the same day and was sanctioned and converted into Supplementary Law No. 192 of March 11, 2022, as already mentioned in the Fiscal Scenario section. The two proposals' primary objective is to minimize the economic impact on the Brazilian economy resulting from the increase in the international price of oil.

¹⁷ Available at: https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra?codteor=2147037

¹⁸ Available at: https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra?codteor=2147030

In addition to these two Bills of Law, on February 25, the government had published Decree 10,979, reducing the IPI¹⁹ tax rate linearly, and issued three provisional measures opening extraordinary credits.

As all these projects tend to impact the Federal Budget for this year, it is necessary to know the existing fiscal space in 2022 to assess the feasibility of the measures under the fiscal prism and the current rules, including the spending ceiling. Thus, the objective of this section is to explore the 2022 Budget figures in light of the fiscal rules and the measures to reduce revenues or increase expenses that will create eventual difficulties in complying with these rules, mainly the primary result target and the spending cap. In addition to analyzing the effects within the federal government, we also present the fiscal impacts, when relevant, at the subnational level.

3.1 Primary balance target and the spending ceiling

The primary balance target is a R\$ 170.5 billion deficit for 2022. The Annual Budget Law (LOA) foresees a deficit of R\$ 76.2 billion for 2022.²⁰ This amount is R\$ 94.3 billion, better than the primary balance target for the central government set in an Annex to the Budget Guidelines Law (LDO) for 2022. Even if the government adopts measures that worsen the 2022 primary balance, it will still be possible to meet the fiscal target, as long as this worsening does not exceed R\$ 94.3 billion. However, as will be detailed, the possibility or margin of additional fiscal expansion derived from the primary balance target presents some limitations in terms of composition.

Even with the recent changes, the ceiling has been restrictive to new expenses in the short term. Although the deviation from the primary balance target to the 2022 LOA reveals a fiscal margin of R\$ 94.3 billion, the fiscal space for increased spending is limited due to the spending ceiling rule. This establishes that primary expenditures cannot exceed a specific limit. Until last year (2021), this limit corresponded to the previous year's level, corrected by inflation measured by the IPCA accumulated over 12 months until June. Amendments to the Constitution No. 113 and 114 of 2021 changed the system of correcting the spending ceiling retroactively so that the inflation rate used would be that of December and no longer that of June. In addition, they limited the payment of court-ordered debts, opening a R\$ 113.1 billion gap in the spending ceiling for 2022. However, as shown in the January 2022 issue of the RAF (No. 60),²¹ all the open spaces had a specific budget allocation, leaving little room to increase spending.

Space in the spending ceiling is R\$ 6.3 billion in the 2022 Budget. The LOA was sanctioned with partial vetoes aiming at the recomposition of personnel expenses. The primary expenditures set in the autograph, subject to the spending ceiling, were R\$ 1,676.4 billion and, in the LOA (initial appropriations based on the Budgetary and Financial Programming Decree No. 10,961, 2022) were R\$ 1,673.2 billion, i.e., a reduction of R\$ 3.2 billion, referring to the presidential vetoes. As the ceiling is set at R\$ 1,679.6 billion for 2022, the fiscal space is equivalent to the difference between the maximum spending limit given by the ceiling and the expenses fixed in the 2022 LOA, that is, R\$ 6.3 billion (maximum limit of R\$ 1,679.6 billion minus expenses fixed in the LOA after the vetoes, amounting to R\$ 1,673.2 billion).

If the space in the ceiling is fully used up, the gap in the primary balance target will be R\$ 88 billion. Suppose the government increases the primary expenditures subject to the ceiling by up to R\$ 6.3 billion. The fiscal space (the

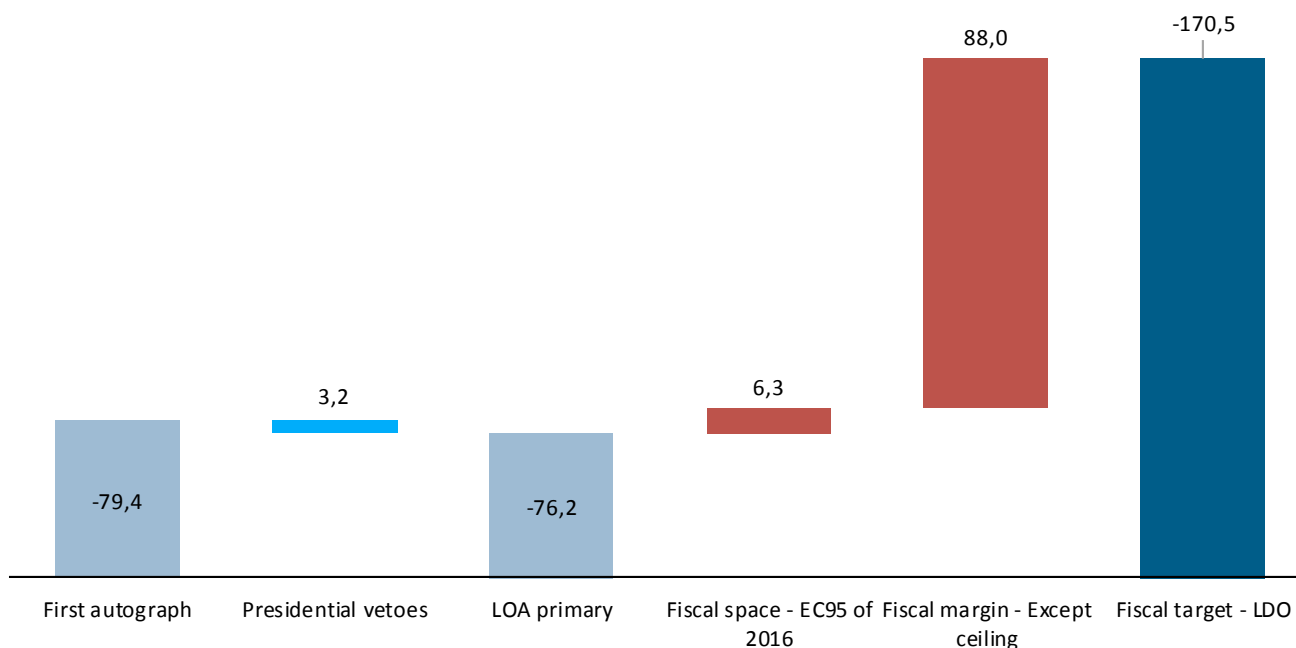
¹⁹ The IFI published a technical note to simulate the measure's fiscal impacts. Available at: https://www2.senado.leg.br/bdsf/bitstream/handle/id/596233/NT51_IPI.pdf

²⁰ Budgetary and Financial Programming Decree (DPOF) n° 10.961, 2022. Available at: https://sisweb.tesouro.gov.br/apex/f?p=2501:9:::9:P9_ID_PUBLICACAO:42756.

²¹ Ver em: <https://www12.senado.leg.br/ifi/publicacoes-1/relatorio/2022/janeiro/raf-relatorio-de-acompanhamento-fiscal-jan-2022>

difference between the primary result forecast in the LOA and the target set in the LDO) will reduce to R\$ 88 billion (R\$ 94.3 minus R\$ 6.3). This margin may be consumed through reduced revenues or increased expenditures not subject to the spending ceiling, as will be shown in the following subsections, the only two expansion paths, since, under the ceiling, the limit is R\$ 6.3 billion, as already elucidated. Figure 17 summarizes the fiscal expansion margin under the current fiscal rules for the Central Government.

FIGURE 17. CENTRAL GOVERNMENT FISCAL EXPANSION MARGIN



Source: National Congress. Prepared by: IFI.

3.2 PLN 01 of 2022: supplementary credit to recompose personnel expenses

If PLN No. 1, 2022, is approved, the fiscal space in the spending ceiling will reduce from R\$ 6.3 billion to R\$ 4.6 billion. The Presidency of the Republic forwarded the Bill of the National Congress (PLN) no. 1, of February 17, 2022, proposing the opening of an additional R\$ 1.7 billion credit to pay the expenses with the payroll already contracted for active servants, military, and former territories. It is about allocating resources not allocated to any expenditure after the presidential veto to the LOA. Thus, if the PLN is approved, the fiscal space in the spending ceiling would move from R\$ 6.3 billion to R\$ 4.6 billion.

The PLN also authorizes the opening of additional credits that involve the detailed programming by the Agency/Ministry in Table 9. It is possible to observe that the Ministries of Defense and Education benefited most from the extra credits.

TABLE 9. SUPPLEMENTATION AND ORIGIN OF RESOURCES BY AGENCY/MINISTRY (R\$ MILLION)

Breakdown	Supplementation	Origin
Presidency of Brazil	R\$ 4.90	
Ministry of Agriculture, Livestock, and Supply	R\$ 54.40	
Ministry of Science, Technology, and Innovation	R\$ 9.77	
Ministry of the Economy	R\$ 96.46	
Ministry of Education	R\$ 348.69	
Ministry of Justice and Public Security	R\$ 59.10	
Ministry of Mines and Energy	R\$ 11.46	
Ministry of Foreign Affairs	R\$ 12.01	
Comptroller General of the Union	R\$ 6.56	
Ministry of Infrastructure	R\$ 11.36	
Ministry of Labor and Social Security	R\$ 19.78	
Ministry of Communications	R\$ 5.92	
Ministry of the Environment	R\$ 6.42	
Ministry of Defense	R\$ 986.28	
Ministry of Regional Development	R\$ 10.17	
Ministry of Citizenship	R\$ 1.26	
Attorney General Office	R\$ 22.79	
Central Bank of Brazil	R\$ 12.48	
Transfers to States, Federal District, and Municipalities	R\$ 23.83	
Resources incorporation from vetoes opposed to Law No. 14.303, of January 21, 2022		R\$ 1,703.66
Total	R\$ 1,703.66	R\$ 1,703.66

Source: Message 58 of 2022. PLN 01 of 2022. Prepared by: IFI.

3.3 Extraordinary credit

Provisional Presidential Decree (MP) opens extraordinary credits of R\$ 1.4 billion to mitigate the effects of the heavy rains. On January 20, the central government published two MPs to open extraordinary credit in favor of the Regional Development and Infrastructure ministries to mitigate the effects of the heavy rains in January. Thus, MP No. 1,096 of 2022 opened an extraordinary credit of R\$ 550 million for the Ministry of Regional Development. MP No. 1,097 of 2022 opened an extraordinary credit of R\$ 418 million for the Ministry of Infrastructure.²²

On February 25, 2022, MP 1,102 was published, opening an extraordinary credit of R\$ 479.87 million in favor of the Ministry of Regional Development. The MP 1,102 of 2022 was to "meet Civil Defense actions related to the reconstruction of infrastructure destroyed or damaged by disasters that generated the federal recognition of emergency or state of public calamity."²³

²² MP 1.096/22 can be accessed at: <https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/151481>. MP 1097/22 is available at: <https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/151480>.

²³ Technical Note, MPV 1.102, of 2022. Available at: <https://legis.senado.leg.br/sdleg-getter/documento?dm=9077192&disposition=inline>

The three MPs add up to R\$1.4 billion. Although they do not affect the spending ceiling, they will reduce the fiscal margin in the primary result target, from R\$88 billion to R\$86.6 billion.

3.4 PIS / COFINS exemption on fuels and linear reduction of IPI rates

The impact of the IPI reduction should be R\$ 6.6 billion for the Union. The IFI released Technical Note No. 51, already referenced in the Fiscal Scenario section, with estimates of the impact resulting from the reduction in the IPI tax rate. Decree No. 10,979, 2022, reduced the Industrialized Product Tax (IPI) rates on automobiles by 18.5% and the IPI rates on other products, except tobacco products, by 25%. For 2022, the aggregate fiscal impact should be R\$16.6 billion; the Union's loss is R\$6.6 billion.

Besides the IPI reduction, there was the approval of the Bill of Supplementary Law No. 11 of 2020, which, among other measures, reduced the rates of PIS/PASEP and COFINS on some fuels to zero. The objective stated in the proposal is to minimize the economic impact resulting from the increase in the international price of oil.

The impact of the PIS/COFINS exemption for fuels should be R\$ 17.6 billion for the Federal Government. The LC 192 of 2022²⁴ keeps the PIS/PASEP and COFINS rates at zero until December 2022 for diesel oil; liquefied petroleum gas - GLP derived from petroleum and natural gas; aviation kerosene, and biodiesel. This rate reduction is valid for both production and imports. The fiscal impact results from the multiplication of the rates by the quantities consumed, considering the period from March to December. Table 10 summarizes the federal tax rates of the taxes covered by the measure and the average quantities consumed. The expected fiscal impact corresponds to the product of the rates in effect in March 2022²⁵ by the quantities consumed from March to December, using the average of the last three years. Thus, the estimated fiscal impact for the Federal Government is R\$ 17.6 billion.

TABLE 10. FISCAL IMPACT OF THE PIS AND COFINS REDUCTION ON FUELS (DIESEL, BIODIESEL, GLP, AND QAV)

	PIS/COFINS (R\$/l or %)	Average quantity 2019-21 (Million m ³)	Quantity - 10 months (million m ³)	Impact - 10 months (R\$ million)
Diesel	R\$ 0.33	59.0	49.1	16,271
Biodiesel	R\$ 0.15	6.4	5.3	784
Aviation kerosene (QAV)(*)	R\$ 0.01	5.9	4.9	62
Liquefied petroleum gas (GLP) (**)	R\$ 0.16	3.7	3.1	495
Total				17,613

Source: EPE, ANP and Fecombustíveis. Prepared by: IFI.

* Average quantity: 2018-2020.

** It does not consider GLP 13Kg because it already has a zero tax rate.

We now move on to the analysis of the additional fiscal effects that will burden state accounts. Monitoring this dimension of the measure in question is essential since the public sector's primary balance and the public debt

²⁴ It is important to note that PLP 11/2020 also changes the entire system of ICMS taxation on fuels.

²⁵ Available at: https://www.epe.gov.br/sites-pt/publicacoes-dados-abertos/publicacoes/PublicacoesArquivos/publicacao-413/topico-594/Entendendo%20a%20Forma%C3%A7%C3%A3o%20de%20Pre%C3%A7os%20de%20Combust%C3%ADveis_2021.07.02.pdf and https://www.galaxcms.com.br/imgs_redactor/3188/files/Carga%20tributaria%20estadual%20-%20MARO%202022.pdf.

indicators may be affected. In this sense, LC No. 192 of 2022 also provides for changes in the system of ICMS taxation on fuels and must be analyzed. In summary, the changes promoted by LC 192 concerning ICMS include the following fuels: gasoline, ethanol, diesel, biodiesel, and LPG, including natural gas-derived products.

The LC 192 provides that the ICMS on fuels will have uniform rates throughout the national territory and may only differentiate by product. The rates must be ad rem; that is, they must take on a fixed monetary value and not a percentage, as it is currently. In addition, the law establishes that, when defining the rates, the estimates of fuel price evolution must be observed so that there is no increase in the proportional tax weight in the final price formation.

However, LC 192 does not define the value of the ad rem rates practiced; they will be defined later. In the specific case of diesel, the LC establishes that, until the ICMS tax is regulated by LC 192, the tax calculation base for tax substitution purposes will be, until December 31, 2022, the moving average of the average prices charged to the end consumer in the 60 months before its determination.

The fiscal impact of a R\$ 0.27/liter reduction in diesel price is expected to be R\$ 13.3 billion for states and municipalities. For simulation purposes, should the states adopt an ad rem rate that reduces by R\$ 0.27/liter²⁶ the tax burden on diesel, the aggregate fiscal impact would be R\$ 13.3 billion, in terms of ICMS on diesel. Of this amount, R\$ 10 billion correspond to the fiscal impact of the states and R\$ 3.3 billion to the municipalities.²⁷

The attached chart simulates the deviation to the national average, by state and fuel, of the proportional weight of the tax on the average consumer price to obtain a sensitivity of the effects of the proposal at the state level.

3.5 PL 1,472 of 2021

The PL No. 1,472, of 2021, proposes the creation of the Conta de Estabilização de Preços de Combustíveis (CEP-Fuels) intending to reduce the impact of fuel price volatility for the final consumer. This account would be individualized by fuel, and the transfer of values between products would be forbidden.

To reduce the volatility of fuel prices, PL 1,472 proposes mobile price bands, with readjustments from time to time, a compensation mechanism, and a design to be created in a later regulation. Even before the regulation, the PL guarantees the observation of fiscal and budgetary rules (the constitutional ones, such as the ceiling, would already be assured, it is worth saying).

The CEP-Fuels would work like this: there would be a reference price (P_r) for each fuel. This reference price would be compared with the upper (B_{sup}) and lower (B_{inf}) limits of moving price bands for the respective fuels, generating the following responses:

- (i) Difference between the reference price and the upper limit ($P_r - B_{sup} > 0$). Answer: compensation by the CEP in favor of producers and importers.
- (ii) Difference between the lower bound and the reference price ($B_{inf} - P_r > 0$). Answer: compensation by producers and importers in favor of CEP.

²⁶ LC 192 of 2022 does not specify how much the ICMS tax reduction will be, so it is necessary to assume a hypothesis for the simulation. The R\$ 0.27/liter reduction hypothesis in the value of diesel was based on the information available at: <https://www12.senado.leg.br/noticias/materias/2022/03/10/para-frear-alta-de-combustiveis-senado-aprova-mudanca-no-icms>.

²⁷ It corresponds to the ICMS share foreseen in art. 158, IV, of the Federal Constitution.

If the balance is depleted - since the type of fuel defines the bands - the Federal Government may contribute to CEP, respecting budgetary and financial availability and fiscal rules. The sources of resources that may be contributed to CEP are:

- Royalties and special participations of the Union, subject to linkages.
- Difference between the budget law estimate and what is carried out regarding the dividends paid by Petrobras to the Union.
- Non-recurring revenues from the oil sector, due to the international price quotations of crude oil, also observed as a limit the amount that exceeds the forecast in the annual budget law.
- Financial surplus from sources of free application available in the balance sheet of the Union, on an extraordinary basis.

As the text conditions the transfers to the budgetary and financial availability and the fiscal rules, in theory, the amount that could be transferred to CEP would be only R\$ 4.6 billion, which corresponds to the fiscal space existing in the ceiling with the hypothesis of approval of the PLN no. 1, of 2022, as previously elucidated.

Besides CEP, PLN no. 1,472 proposes the creation of an emergency aid aimed at mitigating the extraordinary impacts on final prices for gasoline consumers. This emergency aid would have a maximum limit of R\$ 3 billion and must also respect budgetary availability and fiscal rules.

Thus, considering that the emergency aid is granted within the established limit, the existing fiscal space for CEP is reduced from R\$ 4.6 billion to R\$ 1.6 billion. The account leads one to believe that the possibility of financing eventual CEP expenditures by extraordinary credit to circumvent the restriction mentioned above given by the ceiling may be considered. The IFI will follow this issue closely.

3.6 Total fiscal space

With the measures analyzed in this section, the federal budget should include R\$ 108.1 billion of primary deficit in 2022, from the initial figure of R\$ 76.2 billion. Considering the measures already in effect and those in progress but approved in at least one house of Congress, the primary deficit foreseen in the LOA should go from a deficit of R\$ 76.2 billion to R\$ 108.1 billion (Table 11).

It is worth saying that this is not the IFI's projection but the government's new figure, as it were, emulated from the accounts estimated by the IFI in this report. The IFI's baseline scenario (presented in the December 2021 RAF) is R\$ 106.2 billion, but it was projected before all these new conditioning factors. The IFI will revise the predictive scenarios timely, considering upward and downward factors on the primary deficit and public debt.

In light of the LOA and fiscal rules, the exercise sought to show how events with a relevant fiscal effect, whether revenue reductions or expenditure increases, interact with the existing fiscal margins for this year. However, it should be noted that the uncertainties present in the macroeconomic framework add risk to the fiscal scenario outlined in the LOA and also by the IFI itself.

TABLE 11. SUMMARY OF MEASURES (R\$ MILLION)

Primary target (A)	-170.5
LOA 2022 (B)	-76.2
Fiscal margin (C) = A - B	-94.3
Fiscal margin allocation	
Total (D)	31.9
Spending ceiling	6.3
Supplementary credit (personnel expenses)	1.7
Auxílio Emergencial	3.0
CEP Fuels	1.6
Extraordinary credit	1.4
Revenues	24.2
IPI	6.6
PIS/COFINS Fuels	17.6
New fiscal margin (E) = C+D	-62.4
Primary balance (LOA) after measures (F) = A-E	-108.1

Source: IFI.

4. ANNEX

**TABLE 12. DEVIATION FROM THE NATIONAL AVERAGE OF THE PROPORTIONAL TAX WEIGHT ON THE AVERAGE CONSUMER PRICE
- GASOLINE**

Gasoline	Weighted average price (A)	ICMS ad valorem % (B)	(A) equivalent in R\$ / liter	(A) deviation from the mean
AC	R\$ 6.796	25%	R\$ 1.713	R\$ 0.035
AL	R\$ 6.015	29%	R\$ 1.760	-R\$ 0.012
AM	R\$ 6.335	25%	R\$ 1.601	R\$ 0.147
AP	R\$ 5.514	25%	R\$ 1.393	R\$ 0.355
BA	R\$ 6.044	28%	R\$ 1.707	R\$ 0.042
CE	R\$ 6.150	29%	R\$ 1.801	-R\$ 0.053
DF	R\$ 6.682	27%	R\$ 1.812	-R\$ 0.064
ES	R\$ 6.064	27%	R\$ 1.650	R\$ 0.098
GO	R\$ 6.555	30%	R\$ 1.981	-R\$ 0.233
MA	R\$ 5.920	31%	R\$ 1.826	-R\$ 0.077
MG	R\$ 6.684	31%	R\$ 2.081	-R\$ 0.333
MS	R\$ 5.643	30%	R\$ 1.707	R\$ 0.041
MT	R\$ 6.224	23%	R\$ 1.445	R\$ 0.303
PA	R\$ 6.290	28%	R\$ 1.779	-R\$ 0.030
PB	R\$ 6.106	29%	R\$ 1.786	-R\$ 0.038
PE	R\$ 6.186	29%	R\$ 1.810	-R\$ 0.062
PI	R\$ 6.490	31%	R\$ 2.034	-R\$ 0.286
PR	R\$ 5.620	29%	R\$ 1.634	R\$ 0.114
RJ	R\$ 6.785	34%	R\$ 2.322	-R\$ 0.574
RN	R\$ 6.627	29%	R\$ 1.942	-R\$ 0.194
RO	R\$ 6.371	26%	R\$ 1.674	R\$ 0.074
RR	R\$ 5.961	25%	R\$ 1.508	R\$ 0.241
RS	R\$ 6.180	25%	R\$ 1.547	R\$ 0.202
SC	R\$ 5.770	25%	R\$ 1.448	R\$ 0.300
SE	R\$ 6.380	29%	R\$ 1.868	-R\$ 0.119
SP	R\$ 5.990	25%	R\$ 1.503	R\$ 0.246
TO	R\$ 6.400	29%	R\$ 1.875	-R\$ 0.126
Average	R\$ 6.214	28%	R\$ 1.748	R\$ 0.000

Source: Fecombustíveis and IFI. Prepared by: IFI.

TABLE 13. DEVIATION TO THE NATIONAL AVERAGE OF THE PROPORTIONAL TAX WEIGHT ON THE AVERAGE CONSUMER PRICE - ETHANOL

Ethanol	Weighted average price (A)	ICMS ad valorem % (B)	(A) equivalent in R\$ / liter	(A) deviation from the mean
AC	R\$ 5.767	25%	R\$ 1.442	-R\$ 0.194
AL	R\$ 5.249	25%	R\$ 1.312	-R\$ 0.065
AM	R\$ 4.824	25%	R\$ 1.206	R\$ 0.041
AP	R\$ 5.850	25%	R\$ 1.463	-R\$ 0.215
BA	R\$ 4.990	20%	R\$ 0.998	R\$ 0.249
CE	R\$ 5.424	25%	R\$ 1.356	-R\$ 0.109
DF	R\$ 5.619	27%	R\$ 1.517	-R\$ 0.270
ES	R\$ 5.148	27%	R\$ 1.390	-R\$ 0.143
GO	R\$ 4.772	25%	R\$ 1.193	R\$ 0.054
MA	R\$ 5.189	26%	R\$ 1.349	-R\$ 0.102
MG	R\$ 4.968	16%	R\$ 0.795	R\$ 0.453
MS	R\$ 4.201	20%	R\$ 0.840	R\$ 0.407
MT*	R\$ 4.650	25%	R\$ 0.581	R\$ 0.666
PA	R\$ 5.686	25%	R\$ 1.422	-R\$ 0.174
PB	R\$ 5.131	23%	R\$ 1.180	R\$ 0.067
PE	R\$ 5.169	25%	R\$ 1.292	-R\$ 0.045
PI	R\$ 5.430	22%	R\$ 1.195	R\$ 0.053
PR	R\$ 4.680	18%	R\$ 0.842	R\$ 0.405
RJ	R\$ 5.628	32%	R\$ 1.801	-R\$ 0.554
RN	R\$ 5.736	23%	R\$ 1.319	-R\$ 0.072
RO	R\$ 5.614	26%	R\$ 1.460	-R\$ 0.212
RR	R\$ 5.513	25%	R\$ 1.378	-R\$ 0.131
RS	R\$ 5.862	25%	R\$ 1.466	-R\$ 0.218
SC	R\$ 5.010	25%	R\$ 1.253	-R\$ 0.005
SE	R\$ 5.580	27%	R\$ 1.507	-R\$ 0.259
SP	R\$ 4.627	13%	R\$ 0.615	R\$ 0.632
TO	R\$ 5.200	29%	R\$ 1.508	-R\$ 0.261
Average	R\$ 5.241	24%	R\$ 1.247	R\$ 0.000

Source: Fecombustíveis and IFI. Prepared by: IFI.

* Ethanol in the State of Mato Grosso - ICMS calculation basis corresponding to 50% (fifty percent) of the Average Weighted Price for the Final Consumer - PMPF, valid for the product on the operation date per article 35 of Annex V of the RICMS/MT.

TABLE 14. DEVIATION TO THE NATIONAL AVERAGE OF THE PROPORTIONAL TAX WEIGHT ON THE AVERAGE CONSUMER PRICE – DIESEL S500

Diesel S500	Weighted average price (A)	ICMS ad valorem % (B)	(A) equivalent in R\$ / liter	(A) deviation from the mean
AC	R\$ 5.874	17%	R\$ 1.005	-R\$ 0.221
AL	R\$ 4.823	18%	R\$ 0.874	-R\$ 0.090
AM	R\$ 4.988	18%	R\$ 0.905	-R\$ 0.121
AP	R\$ 4.996	25%	R\$ 1.259	-R\$ 0.475
BA	R\$ 4.633	18%	R\$ 0.839	-R\$ 0.055
CE	R\$ 4.568	18%	R\$ 0.828	-R\$ 0.044
DF	R\$ 5.112	14%	R\$ 0.718	R\$ 0.066
ES	R\$ 4.506	12%	R\$ 0.544	R\$ 0.240
GO	R\$ 4.988	16%	R\$ 0.802	-R\$ 0.018
MA	R\$ 4.583	19%	R\$ 0.855	-R\$ 0.071
MG	R\$ 5.060	14%	R\$ 0.711	R\$ 0.073
MS	R\$ 4.168	12%	R\$ 0.503	R\$ 0.281
MT	R\$ 5.288	16%	R\$ 0.852	-R\$ 0.068
PA	R\$ 5.090	17%	R\$ 0.872	-R\$ 0.088
PB	R\$ 4.933	18%	R\$ 0.894	-R\$ 0.110
PE	R\$ 4.373	16%	R\$ 0.704	R\$ 0.080
PI	R\$ 4.830	18%	R\$ 0.877	-R\$ 0.093
PR	R\$ 4.390	12%	R\$ 0.528	R\$ 0.256
RJ	R\$ 4.881	12%	R\$ 0.589	R\$ 0.195
RN	R\$ 4.978	18%	R\$ 0.903	-R\$ 0.119
RO	R\$ 5.215	17%	R\$ 0.893	-R\$ 0.109
RR	R\$ 5.096	17%	R\$ 0.874	-R\$ 0.090
RS	R\$ 4.811	12%	R\$ 0.578	R\$ 0.206
SC	R\$ 4.550	12%	R\$ 0.548	R\$ 0.236
SE	R\$ 5.037	18%	R\$ 0.913	-R\$ 0.129
SP	R\$ 4.904	13%	R\$ 0.654	R\$ 0.130
TO	R\$ 4.760	14%	R\$ 0.647	R\$ 0.137
Average	R\$ 4.868	16%	R\$ 0.784	R\$ 0.000

Source: Fecombustíveis and IFI. Prepared by: IFI.

TABLE 15. DEVIATION TO THE NATIONAL AVERAGE OF THE PROPORTIONAL TAX WEIGHT ON THE AVERAGE CONSUMER PRICE – DIESEL S-10

Diesel S-10	Weighted average price (A)	ICMS ad valorem % (B)	(A) equivalent in R\$ / liter	(A) deviation from the mean
AC	R\$ 5.917	17%	R\$ 1.012	-R\$ 0.212
AL	R\$ 4.926	18%	R\$ 0.893	-R\$ 0.092
AM	R\$ 5.087	18%	R\$ 0.923	-R\$ 0.123
AP	R\$ 5.105	25%	R\$ 1.286	-R\$ 0.486
BA	R\$ 4.731	18%	R\$ 0.857	-R\$ 0.056
CE	R\$ 5.148	18%	R\$ 0.934	-R\$ 0.133
DF	R\$ 5.212	14%	R\$ 0.732	R\$ 0.068
ES	R\$ 4.636	12%	R\$ 0.560	R\$ 0.241
GO	R\$ 5.053	16%	R\$ 0.813	-R\$ 0.012
MA	R\$ 4.638	19%	R\$ 0.865	-R\$ 0.065
MG	R\$ 5.113	14%	R\$ 0.718	R\$ 0.082
MS	R\$ 4.242	12%	R\$ 0.512	R\$ 0.288
MT	R\$ 5.390	16%	R\$ 0.868	-R\$ 0.068
PA	R\$ 5.060	17%	R\$ 0.867	-R\$ 0.066
PB	R\$ 5.019	18%	R\$ 0.909	-R\$ 0.109
PE	R\$ 4.706	16%	R\$ 0.758	R\$ 0.043
PI	R\$ 4.880	18%	R\$ 0.886	-R\$ 0.085
PR	R\$ 4.420	12%	R\$ 0.532	R\$ 0.269
RJ	R\$ 4.959	12%	R\$ 0.598	R\$ 0.202
RN	R\$ 5.132	18%	R\$ 0.931	-R\$ 0.130
RO	R\$ 5.214	17%	R\$ 0.893	-R\$ 0.093
RR	R\$ 5.214	17%	R\$ 0.894	-R\$ 0.094
RS	R\$ 4.845	12%	R\$ 0.582	R\$ 0.219
SC	R\$ 4.620	12%	R\$ 0.556	R\$ 0.244
SE	R\$ 5.060	18%	R\$ 0.917	-R\$ 0.117
SP	R\$ 4.976	13%	R\$ 0.663	R\$ 0.137
TO	R\$ 4.800	14%	R\$ 0.653	R\$ 0.148
Average	R\$ 4.967	16%	R\$ 0.800	R\$ 0.000

Source: Fecombustíveis and IFI. Prepared by: IFI.

TABLE 16. DEVIATION TO THE NATIONAL AVERAGE OF THE PROPORTIONAL TAX WEIGHT ON THE AVERAGE CONSUMER PRICE – BULK GLP

Bulk GLP	Weighted average price (A)	ICMS ad valorem % (B)	(A) equivalent in R\$ / liter	(A) deviation from the mean
AC	R\$ 9.000	17%	R\$ 1.530	-R\$ 0.403
AL	R\$ 6.619	18%	R\$ 1.192	-R\$ 0.065
AM	R\$ 8.055	18%	R\$ 1.450	-R\$ 0.323
AP	R\$ 8.632	12%	R\$ 1.036	R\$ 0.091
BA	R\$ 5.700	12%	R\$ 0.684	R\$ 0.443
CE	R\$ 5.850	18%	R\$ 1.053	R\$ 0.074
DF	R\$ 8.015	12%	R\$ 0.962	R\$ 0.165
ES	R\$ 5.515	17%	R\$ 0.938	R\$ 0.189
GO	R\$ 8.040	12%	R\$ 0.965	R\$ 0.162
MA	R\$ 7.279	14%	R\$ 1.019	R\$ 0.108
MG	R\$ 8.688	18%	R\$ 1.564	-R\$ 0.437
MS	R\$ 5.677	12%	R\$ 0.681	R\$ 0.445
MT	R\$ 8.802	12%	R\$ 1.056	R\$ 0.070
PA	R\$ 7.695	17%	R\$ 1.308	-R\$ 0.182
PB	R\$ 7.855	18%	R\$ 1.414	-R\$ 0.287
PE	R\$ 6.149	18%	R\$ 1.107	R\$ 0.020
PI	R\$ 6.620	18%	R\$ 1.192	-R\$ 0.065
PR	R\$ 5.600	18%	R\$ 1.008	R\$ 0.119
RJ	R\$ 7.032	12%	R\$ 0.844	R\$ 0.283
RN	R\$ 8.081	18%	R\$ 1.455	-R\$ 0.328
RO	R\$ 9.012	12%	R\$ 1.081	R\$ 0.045
RR	R\$ 8.644	17%	R\$ 1.470	-R\$ 0.343
RS	R\$ 7.667	12%	R\$ 0.920	R\$ 0.207
SC	R\$ 7.400	17%	R\$ 1.258	-R\$ 0.131
SE	R\$ 7.174	12%	R\$ 0.861	R\$ 0.266
SP	R\$ 7.694	13%	R\$ 1.023	R\$ 0.103
TO	R\$ 7.500	18%	R\$ 1.350	-R\$ 0.223
Average	R\$ 7.407	15%	R\$ 1.127	R\$ 0.000

Source: Fecombustíveis and IFI. Prepared by: IFI.

TABLE 17. DEVIATION TO THE NATIONAL AVERAGE OF THE PROPORTIONAL TAX WEIGHT ON THE AVERAGE CONSUMER PRICE – GLP P13KG

GLP / P13	ICMS ad valorem	Equivalent in R\$ / liter	Deviation from the mean
AC	17%	R\$ 1.530	-R\$ 0.425
AL	18%	R\$ 1.192	-R\$ 0.086
AM	18%	R\$ 1.450	-R\$ 0.345
AP	12%	R\$ 1.036	R\$ 0.069
BA	12%	R\$ 0.684	R\$ 0.421
CE	18%	R\$ 1.053	R\$ 0.052
DF	12%	R\$ 0.962	R\$ 0.143
ES	17%	R\$ 0.938	R\$ 0.168
GO	12%	R\$ 0.965	R\$ 0.140
MA	14%	R\$ 1.019	R\$ 0.086
MG	18%	R\$ 1.435	-R\$ 0.330
MS	12%	R\$ 0.681	R\$ 0.424
MT	12%	R\$ 1.056	R\$ 0.049
PA	17%	R\$ 1.308	-R\$ 0.203
PB	18%	R\$ 1.414	-R\$ 0.309
PE	18%	R\$ 1.107	-R\$ 0.002
PI	18%	R\$ 1.192	-R\$ 0.086
PR	18%	R\$ 1.008	R\$ 0.097
RJ	12%	R\$ 0.844	R\$ 0.261
RN	18%	R\$ 1.455	-R\$ 0.349
RO	12%	R\$ 1.081	R\$ 0.024
RR	17%	R\$ 1.470	-R\$ 0.364
RS	12%	R\$ 0.920	R\$ 0.185
SC	17%	R\$ 1.258	-R\$ 0.153
SE	12%	R\$ 0.861	R\$ 0.244
SP	13%	R\$ 1.023	R\$ 0.082
TO	12%	R\$ 0.900	R\$ 0.205
Average	15%	R\$ 1.105	R\$ 0.000

Source: Fecombustíveis and IFI. Prepared by: IFI.

Fiscal tables

TABLE 18. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – BASELINE SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	21.9	21.4	21.5	21.3	21.2	21.0	20.9	20.7	20.6	20.4
Transfers to States and Municipalities by Revenue Sharing	3.5	4.0	4.1	4.1	4.1	4.1	4.1	4.0	4.0	3.9	3.9
Net Revenue	16.1	17.9	17.3	17.3	17.2	17.1	17.0	16.8	16.7	16.6	16.5
Primary Expenditure	26.1	18.9	18.4	17.9	17.4	16.9	16.5	16.0	15.7	15.3	15.0
Mandatory Expenditure	24.6	17.3	16.7	16.4	16.1	15.7	15.5	15.1	14.8	14.5	14.1
Social security benefits	8.9	8.2	8.2	8.1	7.9	7.7	7.5	7.2	7.0	6.8	6.6
Personnel expenses and social contribution	4.3	3.8	3.6	3.5	3.5	3.4	3.3	3.3	3.2	3.1	3.1
Salary allowance and unemployment insurance	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Salary Allowance	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Subsidies and Grants	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.7	3.2	2.6	2.4	2.3	2.2	2.2	2.1	2.1	2.0	1.9
without Flow Control	6.9	1.5	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.6	2.3	2.2	2.2	2.1	2.0	2.0	1.9	1.9	1.8
Of which Bolsa Família [Family Grant]	0.3	0.3	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Discretionary of the Executive Branch	1.4	1.6	1.6	1.5	1.3	1.2	1.0	0.9	0.9	0.8	0.8
Primary Balance	-10.0	-1.0	-1.1	-0.6	-0.2	0.2	0.5	0.8	1.1	1.4	1.6
Note:											
Spending on Covid-19	7.0	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (R\$ billion)	7,467.6	8,684.3	9,448.1	10,119.5	10,730.4	11,382.3	12,069.4	12,799.7	13,574.8	14,399.5	15,278.0

TABLE 19. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – OPTIMISTIC SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	22.0	21.5	21.6	21.4	21.2	21.0	20.9	20.7	20.5	20.4
Transfers to States and Municipalities by Revenue Sharing	3.5	4.0	4.1	4.1	4.1	4.1	4.1	4.0	4.0	3.9	3.9
Net Revenue	16.1	18.0	17.4	17.4	17.3	17.1	17.0	16.9	16.7	16.6	16.5
Primary Expenditure	26.1	18.9	18.3	17.7	17.1	16.5	16.0	15.4	14.8	14.3	13.7
Mandatory Expenditure	24.6	17.3	16.7	16.1	15.6	15.1	14.8	14.3	13.9	13.4	13.0
Social security benefits	8.9	8.1	8.2	8.0	7.8	7.5	7.2	7.0	6.7	6.5	6.3
Personnel expenses and social contribution	4.3	3.8	3.5	3.4	3.3	3.2	3.0	2.9	2.8	2.7	2.6
Salary allowance and unemployment insurance	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Salary Allowance	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Unemployment Insurance	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Subsidies and Grants	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.7	3.2	2.6	2.3	2.3	2.2	2.1	2.0	1.9	1.8	1.8
without Flow Control	6.9	1.5	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.6	2.3	2.2	2.1	2.0	2.0	1.9	1.8	1.7	1.7
Of which Bolsa Família [Family Grant]	0.3	0.3	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Discretionary of the Executive Branch	1.4	1.6	1.6	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.7
Primary Balance	-10.0	-0.9	-0.9	-0.2	0.2	0.7	1.0	1.4	1.9	2.3	2.8
Note:											
Spending on Covid-19	7.0	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (R\$ billion)	7,467.6	8,702.9	9,503.6	10,185.1	10,879.2	11,644.2	12,472.7	13,368.8	14,340.2	15,394.0	16,530.7

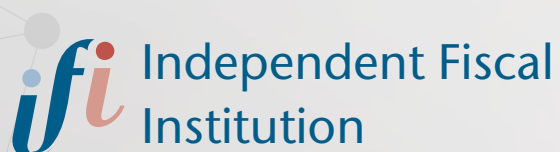
TABLE 20. IFI FORECASTS FOR THE CENTRAL GOVERNMENT PRIMARY BALANCE – PESSIMISTIC SCENARIO (% OF GDP)

Breakdown	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Revenue	19.7	21.8	20.7	20.5	20.1	19.9	19.7	19.5	19.3	19.1	18.9
Transfers to States and Municipalities by Revenue Sharing	3.5	4.0	4.0	4.0	4.0	3.9	3.9	3.8	3.8	3.7	3.6
Net Revenue	16.1	17.9	16.7	16.5	16.1	16.0	15.8	15.7	15.5	15.4	15.3
Primary Expenditure	26.1	18.9	18.4	17.7	17.1	17.0	17.1	17.1	17.1	17.0	17.1
Mandatory Expenditure	24.6	17.3	16.8	16.5	16.4	16.4	16.4	16.5	16.5	16.4	16.5
Social security benefits	8.9	8.2	8.3	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Personnel expenses and social contribution	4.3	3.8	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.8	3.8
Salary allowance and unemployment insurance	0.8	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Salary Allowance	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment Insurance	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
BPC [Continuous Cash Benefit Program]	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9
Compensation to RGPS for Exemption of Payroll Taxes	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplementation by the Federal Government to Fundeb	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7	0.7
Legislative, Judiciary, Prosecutor's Office and Public Defender's Office	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court Rulings and Court-Ordered Debts (current and capital expenditure)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Subsidies and Grants	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Mandatory Spending	8.7	3.2	2.6	2.4	2.3	2.2	2.2	2.1	2.1	2.0	1.9
without Flow Control	6.9	1.5	0.3	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
with Flow Control	1.8	1.6	2.3	2.2	2.1	2.1	2.0	2.0	1.9	1.9	1.8
Of which Bolsa Família [Family Grant]	0.3	0.3	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Discretionary of the Executive Branch	1.4	1.6	1.6	1.2	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Primary Balance	-10.0	-1.0	-1.7	-1.3	-1.0	-1.1	-1.3	-1.4	-1.6	-1.6	-1.8
Note:											
Spending on Covid-19	7.0	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

IFI forecasts

	2014	2015	2016	2017	2018	2019	2020	2021	Forecasts		
									2022	2023	2024
GDP - real growth (% per year)	0.50	-3.55	-3.28	1.32	1.78	1.22	-3.88	4.62	0.51	2.02	2.02
Nominal GDP (R\$ billion)	5,779	5,996	6,269	6,585	7,004	7,389	7,468	8,679	9,448	10,119	10,730
IPCA – accum. (% in the year)	6.41	10.67	6.29	2.95	3.75	4.31	4.52	10.06	5.32	3.20	3.12
Exchange rate - end-of-period (BRL/USD)	2.66	3.90	3.26	3.31	3.87	4.03	5.20	5.58	5.71	5.57	5.30
Employment - growth (%)	1.32	-0.04	-2.01	0.32	1.73	2.23	-7.75	4.99	2.00	0.91	0.91
Payroll - growth (%)	3.69	-1.21	-3.37	1.99	3.29	2.73	-3.69	-2.36	0.51	2.02	2.02
Selic rate - end-of-period (% per year)	11.75	14.25	13.75	7.00	6.50	4.50	2.00	9.25	11.25	7.50	7.00
Real interest <i>ex-ante</i> (% per year)	5.93	8.32	6.41	2.82	2.61	0.79	-0.70	6.39	2.89	3.40	3.46
Public Sector Consolidated Primary Balance (% of GDP)	-0.56	-1.86	-2.48	-1.68	-1.55	-0.84	-9.41	-0.75	-0.64	-0.45	-0.29
of which Central Government	-0.41	-2.01	-2.57	-1.89	-1.72	-1.28	-10.06	0.41	-1.12	-0.70	-0.44
Net Nominal Interest (% of GDP)	5.39	8.37	6.49	6.09	5.41	4.97	4.18	5.17	7.43	5.83	4.39
Nominal balance (% of GDP)	-5.95	-10.22	-8.98	-7.77	-6.96	-5.81	-13.60	4.42	-8.07	-6.29	-4.68
General Government Gross Debt (% of GDP)	56.3	65.5	69.8	73.7	75.3	74.4	88.6	80.3	84.8	86.6	87.4





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