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Fiscal Outlook Report

Executive Summary

Table 1 summarizes the main results of the fourth edition of the Fiscal Outlook Report regarding the medium-term projections for the Brazilian fiscal scenario. These projections cover a 10-year period and are based on the macroeconomic scenario prepared by the Secretariat of Economic Policy of the Ministry of Finance (SPE/MF), in January 2024, as well as the rules approved under the Sustainable Fiscal Regime (Complementary Law No. 200, of August 30, 2023 – LC No. 200/2023).

Table 1 – Summary of fiscal projections in the baseline scenario (% of GDP)
Source: Prepared by the authors

Item	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public Sector Primary Balance	-1.9	**-0.1**	**0.1**	**0.6**	**0.6**	**0.4**	**0.8**	**1.2**	**1.4**	**1.5**	**1.6**
Central government	-2.1	**0.0**	**0.2**	**0.7**	**0.7**	**0.4**	**0.9**	**1.2**	**1.5**	**1.6**	**1.7**
Net Revenue	17.5	18.9	19.2	19.7	19.2	18.7	18.6	18.7	18.7	18.7	18.7
Total Expenditure	19.6	18.9	19.0	19.0	18.5	18.2	17.8	17.4	17.3	17.2	17.1
Regional Governments	0.3	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Federal State Enterprises	-0.0	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Interest Payments	6.6	**6.7**	**6.1**	**5.6**	**5.6**	**5.4**	**5.2**	**5.1**	**5.0**	**4.9**	**4.8**
Public Sector Overall Balance	-8.9	**-6.9**	**-6.0**	**-5.0**	**-5.0**	**-5.0**	**-4.4**	**-3.9**	**-3.6**	**-3.4**	**-3.2**
General Government Net Debt	60.0	**63.4**	**64.5**	**65.1**	**65.3**	**65.8**	**65.7**	**65.2**	**64.4**	**63.7**	**62.7**
General Government Gross Debt	74.3	**77.3**	**78.0**	**78.1**	**78.1**	**78.1**	**77.6**	**76.6**	**75.5**	**74.2**	**72.6**

Note: The nominal deficit for 2023 exceeds the sum of the primary deficit and nominal interest due to the non-accounting of the R$ 26.0 billion inflow of unclaimed resources from the PIS/PASEP Fund, in accordance with the methodology of the fiscal statistics of the Central Bank of Brazil. This inflow was treated by below the line statistics as an equity adjustment.

The macroeconomic scenario underlying this report maintains an average real GDP growth (2024-2033) of 2.5% per year, with strong growth in the wage bill and a reduction in the Selic rate over the forecast horizon.

After reaching 17.5% of GDP in 2023, a recovery in net primary revenue is expected over the period, peaking at 19.7% of GDP in 2026 and stabilizing at 18.7% of GDP from 2030 onwards. This expected recovery for the 2024 to 2026 period assumes the effectiveness of the revenue measures contained in the 2024 Annual Budget Law (LOA 2024), which were published by the end of 2023. A relevant part of these measures is expected to have a lasting impact on tax collection, resulting in a structural increase in revenues over the horizon.

The report also estimates the additional collection efforts that may be necessary to achieve the primary balance targets. We take this as the reference scenario. In this scenario, from 2027 onwards, the debt remains at the same level as in 2026, from where it stabilizes and even reduces to 72.6% in the maximum simulated horizon, which is 2033, as described below.

Primary expenditure, based on the data from 2023, is projected to evolve according to the rules of RFS. That is, the real growth of the spending limit is equivalent to a proportion of the real growth of the Adjusted Net Revenue (RLA),[1] subject to the upper and lower growth limits of 2.5% and 0.6%, respectively. The projections of expenses not subject to the limit are added to this dynamic and, as a result, primary expenditure starts at 19.6% of GDP in 2023, influenced by the payment of the judicial remedies stock and decreases to 17.1% of GDP in 2033. The

[1] Primary revenue referred to in article 5 of LC No. 200/2023, calculated in accordance with MF Ordinance No. 1,165, of October 5, 2023.

reduction becomes more pronounced from 2027 onwards, when all expenses with judicial remedies are included in the spending limit.

Mandatory expenditures subject to the spending limit show an average real growth of 2.7% p.a. between 2024 and 2033, with emphasis on the increasing evolution of expenses with social security benefits of the General Social Security System (RGPS), the Assistance Benefits (LOAS/BPC), the judicial remedies (current and capital) and expenses associated with health and education minimums. As a reflection of this higher average growth relative to the upper limit allowed by the RFS, discretionary spending is reduced over the projection horizon. This evolution in the composition of expenditures reveals that the adoption of new public policies will depend on a review of expenditures that considers an assessment of priorities and the costs and benefits of existing policies.

Based on the measures to recompose the tax base, a favorable evolution of primary revenues is expected to eliminate the deficit in 2024, resulting in a slight surplus, as outlined in the LOA 2024. Faced with a total expenditure presenting a downward trend as a proportion of GDP, the projected Central Government primary balance will continue to grow until it reaches 1.7% of GDP in 2033. The Public Sector primary balance also tends to be favorable from 2024 onwards, reaching 1.6% of GDP in 2033.

As for the evolution of public debt, the reference scenario forecasts GGGD and GGND to reach 77.3% and 63.4% of GDP, respectively, by the end of 2024. The GGGD is on an upward trajectory to reach 78.1% of GDP between 2026 and 2028. In 2029, it begins a downward trajectory until the end of the projection horizon, when it closes at 72.6% of GDP. GGND, on the other hand, follows a similar trajectory, with growth until 2028, then starting a downward trajectory in the following years, and reaches 62.7% of GDP in 2033.

Due to the higher levels of nominal interest rates and primary deficit, the GGGD/GDP increased by 2.6 p.p. of GDP in 2023 compared to 2022. On the other hand, the evolution of GDP was the main factor that reduced the debt-to-GDP ratio in 2023. Compared to the report published in July of 2023, the GGGD scenario of this report shows higher values along the trajectory, due to a scenario with lower nominal GDP growth and a less favorable primary balance, especially in the first years of the projection.

Based on the reference scenario, the report presents analyses of the average Central Government primary balance required to stabilize the debt/GDP ratio at 2023 levels and the 2026 forecast. To stabilize GGGD/GDP at the 2023 level in 2024, the primary balance required would be 2.8% of GDP, while the average primary balance from 2024 to 2033 is 0.9% of GDP in the reference scenario. To stabilize debt at the 2026 level, a primary balance of 0.7% of GDP would be needed in 2027. As stated above, the reference scenario assumes that additional revenue measures will be taken to achieve the required primary balances established in the 2024 Budgetary Guidelines Law, which result in a constant GGGD from 2026 through 2027.

The report also presents alternative scenarios, incorporating different assumptions for the primary balance. In the baseline scenario, which includes only the current revenue legislation, the GGGD/GDP would grow for a longer period and reach 76.7% of GDP by 2033, against 72.6% of GDP in the reference scenario. In the Focus STN scenario, which uses the same fiscal assumptions as the reference scenario, but reestimates revenues, expenses and debt based on the macroeconomic parameters of the Focus Survey instead of the SPE scenario, the debt reaches, in 2033, 94.8% of GDP in the case of GGGD and 81.7% of GDP in the case of GGND. Gross debt is approximately 22.2 p.p. higher at the end of 10 years when compared to the reference scenario.

In addition, stochastic simulations are presented for GGGD and GGND, in the form of confidence intervals, in the face of correlated shocks in GDP and in the primary balance. This exercise shows how the dynamics of GDP and the primary balance generate uncertainties in the debt trajectory. Starting from a central scenario in which debt is still high, this analysis points to the importance of prudent fiscal management and the adoption of sound macroeconomic policies and measures to mitigate fiscal risks, including efforts to improve the fiscal balance, promote debt reduction, and ensure long-term financial stability.