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Fiscal Outlook Report

Executive Summary

Table 1 summarizes the main results of the fifth 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 Economic Policy Secretariat of the Ministry of Finance (SPE/MF) in September 2024, as well as the rules of the Sustainable Fiscal Regime (Complementary Law No. 200, of August 30, 2023 – LC No. 200, of 2023).

Table 1 – Summary of fiscal forecasts in the reference scenario (% of GDP)

Source: Prepared by the authors

Discrimination	2023*	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public Sector Primary Balance	-2.0	**-0.6**	**-0.4**	**-0.2**	**0.6**	**1.0**	**1.2**	**1.4**	**1.6**	**1.8**	**2.0**	**2.2**
Central Government	-2.1	**-0.6**	**-0.4**	**-0.1**	**0.6**	**1.0**	**1.2**	**1.4**	**1.6**	**1.8**	**2.0**	**2.2**
Net Revenue	17.5	18.7	18.8	18.9	19.0	19.1	19.1	19.1	19.1	19.1	19.1	19.1
Total Expenditure	19.6	19.3	19.1	19.1	18.4	18.1	17.9	17.7	17.5	17.3	17.1	16.9
Regional Governments	0.1	**0.1**	**0.0**	**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**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**
Interest Payments	6.6	**7.4**	**7.4**	**6.7**	**6.1**	**6.0**	**5.8**	**5.7**	**5.6**	**5.5**	**5.4**	**5.3**
Public Sector Overall Balance	-8.9	**-7.9**	**-7.8**	**-6.9**	**-5.5**	**-5.0**	**-4.6**	**-4.3**	**-4.0**	**-3.8**	**-3.5**	**-3.1**
General Government Net Debt	60.1	**64.6**	**66.9**	**68.8**	**69.0**	**68.9**	**68.5**	**68.0**	**67.2**	**66.3**	**65.1**	**63.6**
General Government Gross Debt	74.4	**77.7**	**79.7**	**81.7**	**81.8**	**81.6**	**81.1**	**80.5**	**79.7**	**78.6**	**77.3**	**75.6**

*These statistics do not reflect IBGE's December 2024 revision of the 2023 GDP.

Note: The primary balance is presented following the "above the line" concept, which is more relevant for the discussion of its components and the fiscal events dealt with in this report, while the overall balance is presented by the "below the line" concept, as it is the most appropriate to compare with the fiscal statistics relating to the public debt. Thus, the nominal deficit in 2023 exceeds the sum of the primary deficit and nominal interests due to the non-accounting of the R$26.0 billion inflow of unclaimed funds from the PIS/PASEP Fund and the offsets for ICMS losses under Complementary Law No. 194/2022, in accordance with the methodology of the fiscal statistics of the Central Bank of Brazil. These events were treated by below de line statistics as an equity adjustment.

The macroeconomic scenario underlying this report maintains an average real GDP growth (2024-2034) of 2.7% per year, an average nominal growth of the wage bill of 7.9% per year and a reduction in the Selic rate until 2030 and subsequent stabilization at 6.4% per year.

In this report's reference scenario, the forecast for net primary revenue is based on the estimates of the Primary Revenue and Expenditure Assessment Report (RARDP) for the 4th bimester, reaching 18.7% of GDP in 2024, followed by growth over the years, registering a peak of 19.1% of GDP in 2028. This expected recovery by 2028 presupposes the implementation of revenue measures included in the 2025 Budget Proposal (PLOA 2025). Similarly to the measures to recompose revenues included in the 2024 Budget, a relevant portion of the PLOA 2025 is expected to have a lasting impact, structurally increasing revenues throughout the forecast period. Also, in this scenario, additional collection measures are incorporated, which ensure the achievement of the fiscal targets. The exercise thus allows us to estimate the additional collection effort that may be necessary to achieve the primary balance targets defined in the Budgetary Directives Bill - PLDO 2025, which are: 0.0% of GDP in 2025, 0.25% of GDP in 2026, 0.5% of GDP in 2027 and 1.0% of GDP in 2028.

Regarding primary expenditure, the projection uses the estimates from the 4th RARDP for 2024 with its evolution projected according to the rules of the RFS. This means the real growth of the spending limit is equivalent to a proportion of the real growth of Adjusted Net Revenue (RLA),[1] capped between 2.5% and 0.6%. Additionally, projections include expenses not subject to the limit. Primary expenditure starts at 19.3% of GDP in 2024 and is reduced until it reaches 16.9% of GDP in 2034. This decline is more pronounced from 2027, when all expenses with judicial claims are included in the expenditure limit.

Mandatory expenditures subject to the expenditure ceiling show an average real growth of 3.0% p.a. between 2024 and 2034, notably in social security benefits of the General Social Security Regime (RGPS), Continuous Cash Benefit (BPC), judicial claims and expenses related to health and education minimum thresholds. Because this average growth exceeds the RFS's upper limit of 2.5%, discretionary expenditures are reduced over the projection horizon. This reduction in fiscal space for discretionary spending suggests that adopting new public policies will need a reevaluation of existing expenditures considering priorities and the cost-benefit analysis of current policies., as the package of measures proposed by the Federal Government in November 2024, which effects were not considered in the projections of this report.

Based on the measures to recompose the tax base and the falling evolution of expenditures in relation to GDP, following the fiscal framework, the reference scenario presents a primary balance of the Central Government sufficient to meet the fiscal targets of the PLDO 2025, reaching an effective deficit of 0.4% of GDP in 2025 and 0.1% of GDP in 2026, which lie below the aforementioned nominal targets due to some deductible expenses regarding judicial claims. From 2027 onwards, the Central Government's primary surpluses are expected to follow an upward trajectory, from 0.6% of GDP to 2.2% of GDP at the end of the horizon (2034), with a similar evolution for the primary balance of the Public Sector.

Regarding the evolution of public debt, the reference scenario forecasts indicate that the General Government Gross Debt (GGGD) and the General Government Net Debt (GGND) reach, at the end of 2024, 77.7% and 64.6% of GDP, respectively. The GGGD has an upward trajectory until it reaches 81.8% of GDP in 2027. In 2028, it begins a downward trajectory until the end of the forecast horizon, in 2034, when it closes at 75.6% of GDP. GGND, on the other hand, follows a similar trajectory, with growth also until 2027, then starting a downward trajectory in the following years, and reaches 63.6% of GDP in 2034.

Due to the higher level of nominal interest rates and the primary deficit, the GGGD/GDP ratio is expected to increase by 3.3 p.p. of GDP in 2024 compared to 2023, despite the contribution of GDP slowing down this increase. Compared to the report published in March, the scenario for the GGGD in this report shows higher values along the path, mainly due to a higher interest rate in the first three years of the projection path.

The report analyzes the primary balance needed by the Central Government to stabilize the GGGD/GDP ratio in 2028, assuming the maintenance of the reference scenario until 2027. A primary result equivalent to approximately 0.7% of GDP in 2028 would be necessary to stabilize the debt at 81.8% of GDP in 2028 (the same level as in 2027, the highest point of the trajectory estimated in the reference scenario), that is, below the target stipulated in the PLDO 2025, of 1% of GDP, incorporated in the reference scenario. However, to reduce the GGGD/GDP to 74.4% by the end of 10 years (the same level as in Dec/2023), an

[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.

average primary balance of 1.3% of GDP would be needed between 2025 and 2034, requiring a greater fiscal effort than that considered in the reference scenario.

The report also brings the baseline scenario, in which revenue forecasts incorporate only current legislation. Comparing the baseline and reference scenarios allows us to quantify the additional fiscal effort required to meet the primary balance targets defined in the PLDO 2025, including all repercussions on expenditures. With more conservative assumptions, as it does not incorporate measures still pending legislative approval, the baseline scenario generates primary balances lower than those observed in the reference scenario, causing the GGGD/GDP ratio to grow for a longer time and end 2034 at 80.8% of GDP against 75.6% of GDP in the reference scenario (difference of 5.2 p.p. of GDP).

Another alternative scenario explored in this report presents the evolution of the GGGD using the median forecasts contained in the Central Bank's Focus survey for macroeconomic variables and the primary balance of the Public Sector.

Shocks to economic variables can significantly change the future trajectory of debt. In this sense, the report presents comparative static exercises to illustrate how public debt projections change when key variables such as real GDP growth, primary balance and interest rates deviate from the reference scenario over the entire horizon.

Finally, the report brings stochastic simulations for GGGD and GGND, using confidence intervals that consider shocks to GDP and the primary balance. This analysis highlights the uncertainty in the debt trajectory, especially in above-average scenarios, which expose debt/GDP to risks from variables that deviate from its reference scenario, making the situation more challenging. Thus, the need for prudent fiscal management and sound macroeconomic policies to mitigate fiscal risks and ensure long-term financial stability is emphasized.