Santander

Brazil Macro | February 2021

FISCAL POLICY

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Brief Overview

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Summary

- Fiscal accounts on a tightrope with the possible reintroduction of the emergency aid. Opposite forces to find a balance to not affect the debt sustainability.

- We believe that income transfers will be temporarily resumed in 2021. We explore the possible scenarios of the Emergency Aid resumption and ‘waivers’ to fiscal rules and counterparty fiscal measures.

- We present our base fiscal Scenario. We still estimate a primary deficit close to 3% of GDP in 2021 and project gross debt stability for this year, owing to another anticipated return of Treasury funding by BNDES.

- Finally, we explore risks (especially related to debt management) that the Treasury will face during the next years. The debt is at a higher level and with a shorter maturity, and the Selic rate is set to be increased.

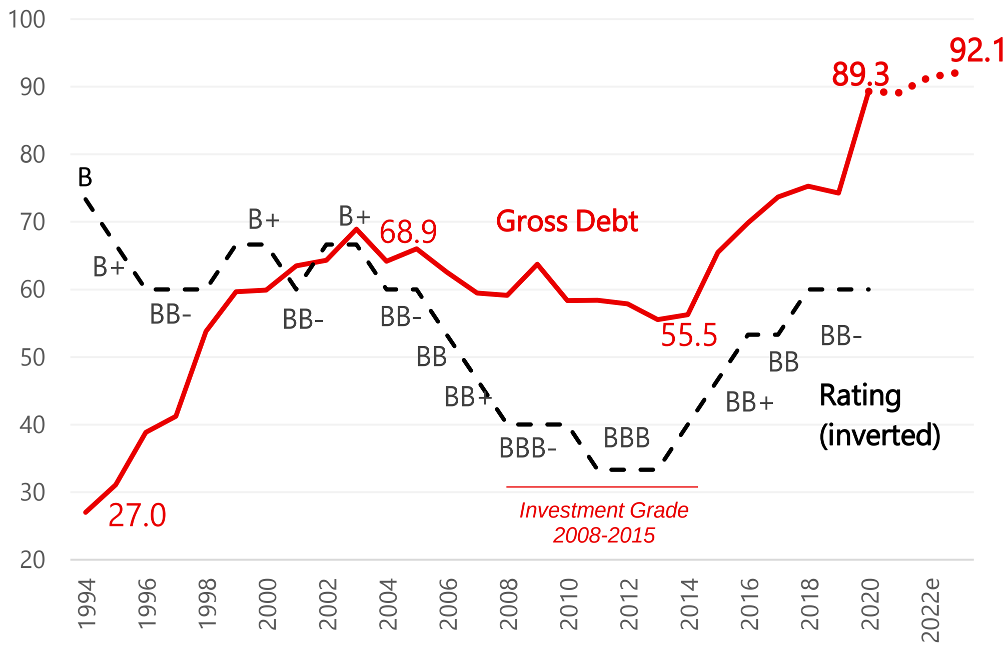
Fiscal accounts on a tightrope with the possible reintroduction of emergency aid

- An important debate will be the resumption of emergency aid, in our view. We expect that this reintroduction (due to the pandemic) will be at least partially balanced (not at the same time) by the approval of fiscal reforms – with possible headwinds in the political debate.

This year we believe Brazil will be walking a tightrope to avoid a further deterioration in the fiscal consolidation outlook. Although we expect headwinds in the fiscal debate, the most important aspect will be maintaining debt sustainability, which suffered a significant deterioration in 2020. Any change in this outlook could cause financial conditions to deteriorate, in our view.

We believe that income transfers will be temporarily resumed in 2021, conditional on the deterioration of the pandemic. We expect this to be done by extraordinary credit (not included in the spending cap). We project a total amount of BRL30 billion for four months (updated from BRL 25 billion), reaching ~30 million beneficiaries not included in *Bolsa Familia*. We believe this extension will have as a counterpart (not at the same time) the approval of fiscal trigger measures to offset the increase in expenses and avoid affecting the debt trajectory – simultaneously offsetting the temporary breach in the spending cap, with the possibility of complying with the rule by 2024. We believe the government will comply with the spending cap rule in 2021 (with severe discipline) and in 2022.

Gross Debt (% GDP) vs. S&P Rating



Sources: S&P, BCB, Santander.

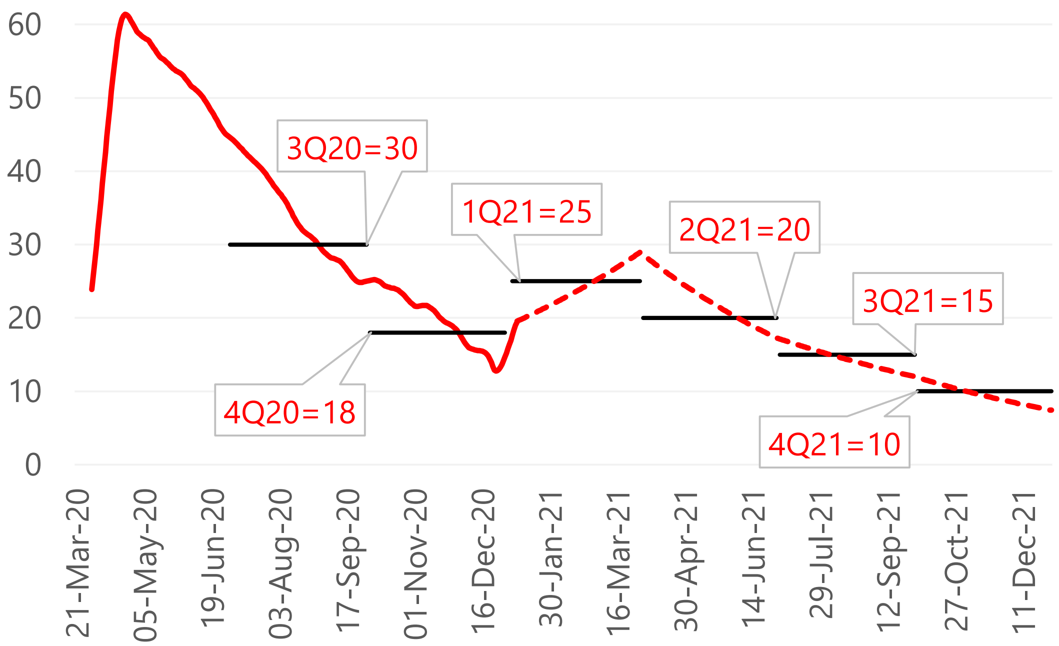
02

Fiscal on a tightrope & Political aspects

Fiscal Scenario – Conditioned in the pandemic

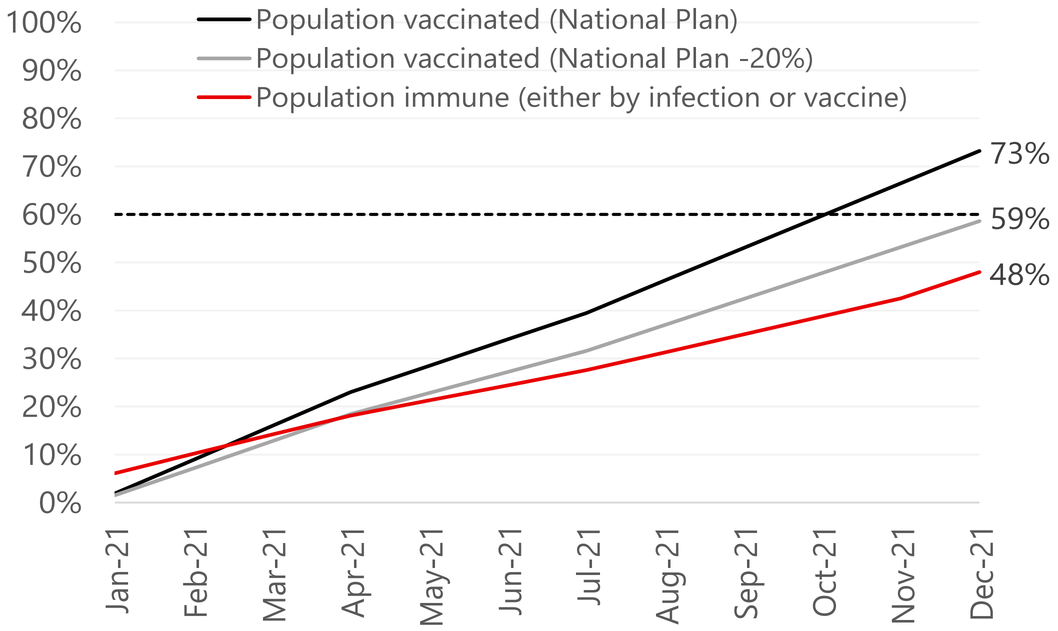
- Under our baseline scenario, the country would not achieve a 60% herd immunity threshold in 2021.
- From 2Q21 onward, as the massive vaccination campaign advances, we expect mobility to return to a pace of sequential increases.

Google Mobility (Jan/20=0) – 28dma



Sources: Google, Santander.

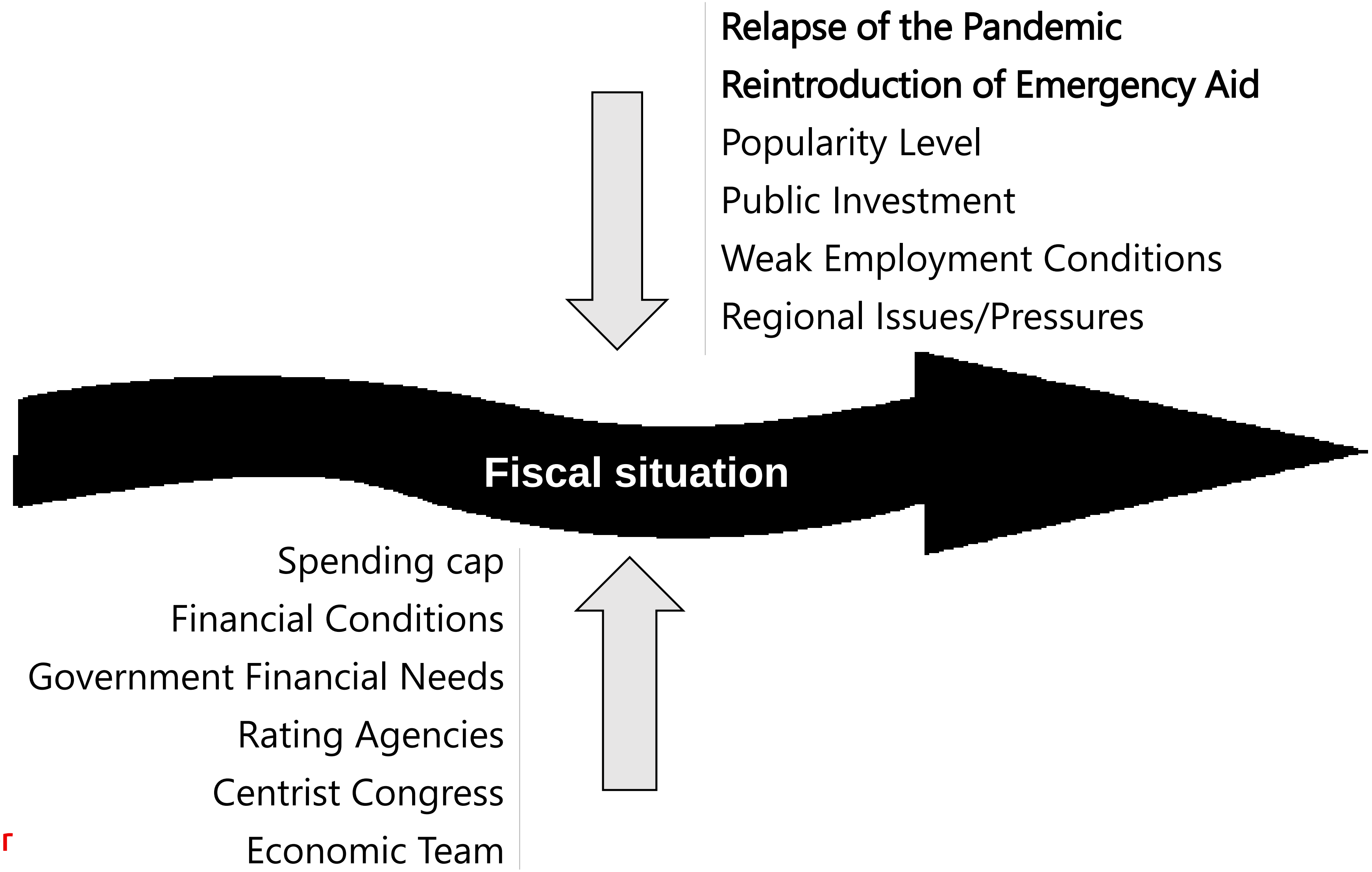
Brazil’s Vaccination Plan - 2021



Sources: Ministry of Health, Santander.

Fiscal on a tightrope – opposite forces to find a balance

- Measures to mitigate the pandemic effects without fiscal compensations will affect the market.



Relapse of the Pandemic

Reintroduction of Emergency Aid

Popularity Level

Public Investment

Weak Employment Conditions

Regional Issues/Pressures

Fiscal situation

Spending cap

Financial Conditions

Government Financial Needs

Rating Agencies

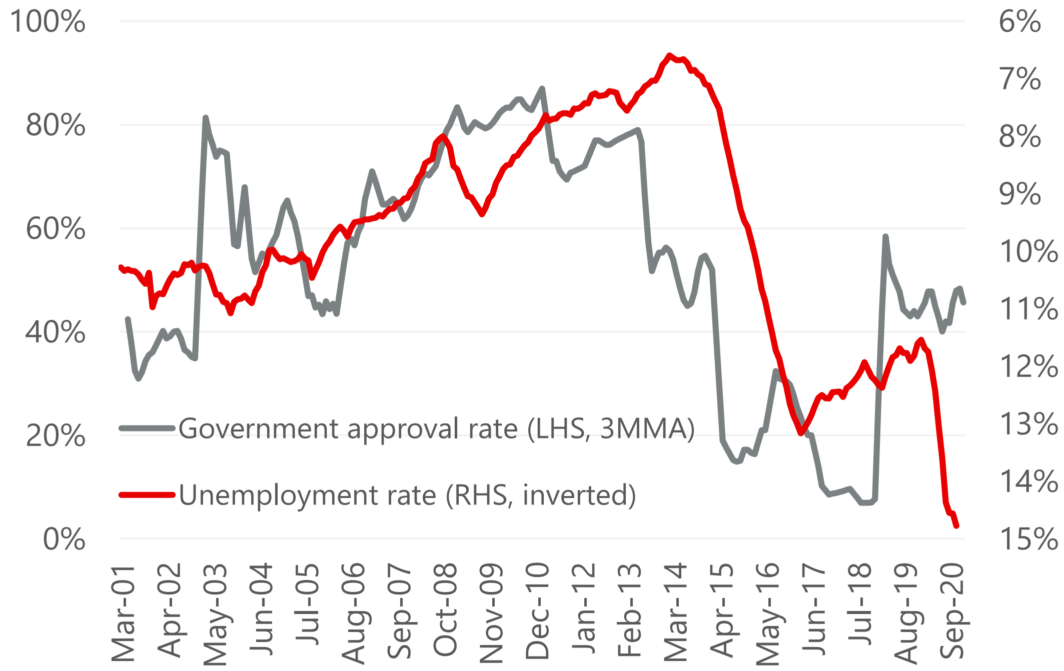
Centrist Congress

Economic Team

Fiscal on a tightrope – Popularity x Financial conditions

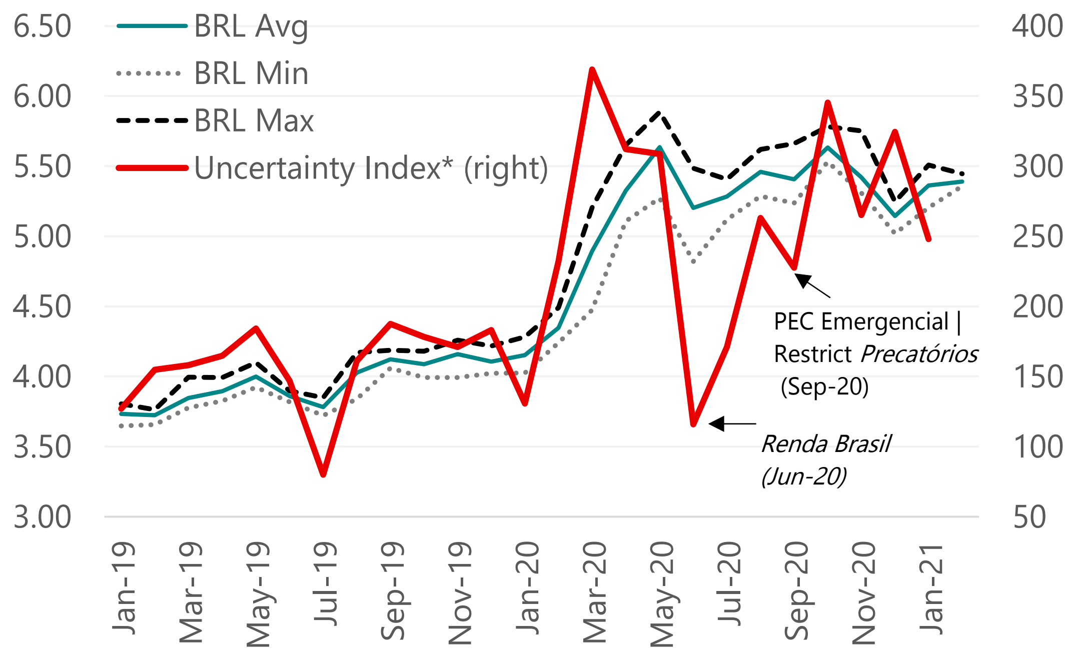
- The relationship between unemployment and the government's approval ratings should be carefully followed.
- On the other side, the market's reaction to fiscal measures without compensation is an opposite force

Unemployment rate and government popularity



Sources: IBGE, IBOPE, Poder360, CNT and Santander.

Market Conditions – The opposite force



Sources: Economic Policy Uncertainty, Bloomberg.

Jun-20: started the discussion of creating a new permanent welfare program *(Renda Brasil)*
Sep-20: Funding *Renda Brasil* by limiting payments on judicial debts *(Precatórios)*

* Economic Policy Uncertainty Index – following the methods in "Measuring Economic Policy Uncertainty" by Baker, Bloom and Davis. It uses newspaper text archives since 1991 to calculate an uncertainty index over the news. They multiplicatively rescale the resulting series to a mean of 100 from Jan-91 to Dec-11.

Fiscal Scenario – Resumption of Emergency Aid (extra-cap stipend)

- ○ We now see the resumption of the emergency aid, in much smaller size, and partially offset by the approval of fiscal reforms.
- ○ It will include 30 million beneficiaries from March to June, until the vaccination process advances in the risk groups.
- ○ It will depend on the Executive power to reintroduce the Aid, and should be compensated by the approval of reforms

Resumption of Emergency Aid

Expenses in BRL billion - One month

		Monthly Benefit (BRL)					
		150	200	250	300	400	500
Millions of People ***	60	9.0	12.0	15.0	18.0	24.0	30.0
	57	8.6	11.4	14.3	17.1*	22.8	28.5
	50	7.5	10.0	12.5	15.0	20.0	25.0
	45	6.8	9.0	11.3	13.5	18.0	22.5
	30	4.5	6.0**	7.5 Ŧ	9.0	12.0	15.0
	25	3.8	5.0	6.3	7.5	10.0	12.5

Sources: The National Treasury, Santander.

* Amount payed in Dec-20 to 56.8 mi people (the peak was 68.2 mi in Aug-20)

** Our February Scenario: ~25 BRL in 4 months. We see now at BRL30 billionŦ.

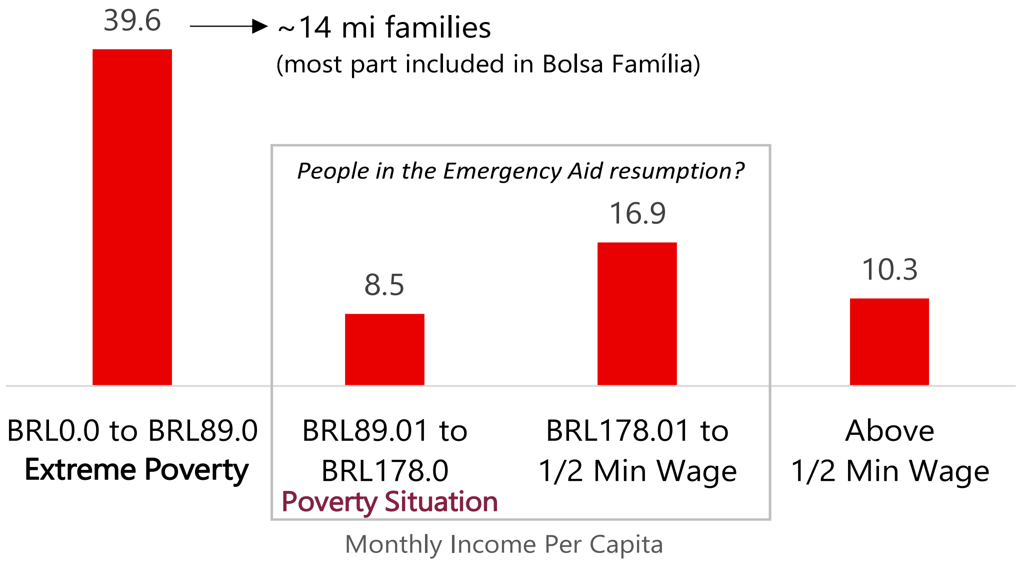
*** Does not include the Bolsa Familia beneficiaries.

Ŧ Recent proposals to increase the benefit amount per month.

Cadastro Único – Gov. Database

People Registered in *Cadastro Único* - Monthly Income Per Capita Intervals

As of December 2020



Sources: *Min da Cidadania*, Santander.

These intervals could be updated in 2021, last time was in 2018.

Extraordinary credit (not included in Spending cap) - modality intended to meet urgent and unpredictable expenses, such as in the event of war, internal commotion or public calamity. It is authorized and opened by provisional measure, and may be reopened in the following year, within the limits of its balance.

Background in the political aspect – the room for reforms approval (?)

- The parliament has elected government allies to new leadership positions, fostering market hope for progress in the reformist agenda.
- Return of major parliamentary committees to evaluate reforms.
- There is a risk of paralysis in the agenda composed by 35 priorities (one already approved – Central Bank Autonomy).

Emergency Aid resumption x Fiscal rules waiver

Golden Rule	States that borrowing cannot finance current expenditures. Already needs a parliament waiver since 2019.
LRF – Fiscal Responsibility Law	A 2000 law sets the framework and procedures for fiscal management and the budget process. Introduced the primary balance target. PEC or PLP can create a waiver to the law.
Spending Cap	In 2016, Congress approved a constitutional amendment imposing a cap on central government noninterest expenditures.

The government needs a waiver in the fiscal rules to reintroduce the Emergency Aid

Sources: Federal Gov., Santander.

Difficulty to find a consensus in the reform draft

PEC Emergencial
(Current draft – preliminary)

Can be divided in 2 PECs:

PEC Calamity ('clause')

PEC Fiscal (Triggers)

- Allows the Emergency Aid in 2021 ('waiver for fiscal rules') – without limit.
- Fiscal triggers when mandatory expenses/Total > 94% (~ in 2023)
- Subnational fiscal triggers (~ in 2023)
- 6 months to create a plan to reduce tax exemptions (needs more enforcement),
- A calamity 'clause' that could be used by congress, easing fiscal rules,
- Ends the floor for spending on education and health (BRL 120 billion)
- Revokes transfers from FAT to BNDES and "Lei Kandir" (transfers);
- Treasury Judicial claims borrowing lines for subnational entities.

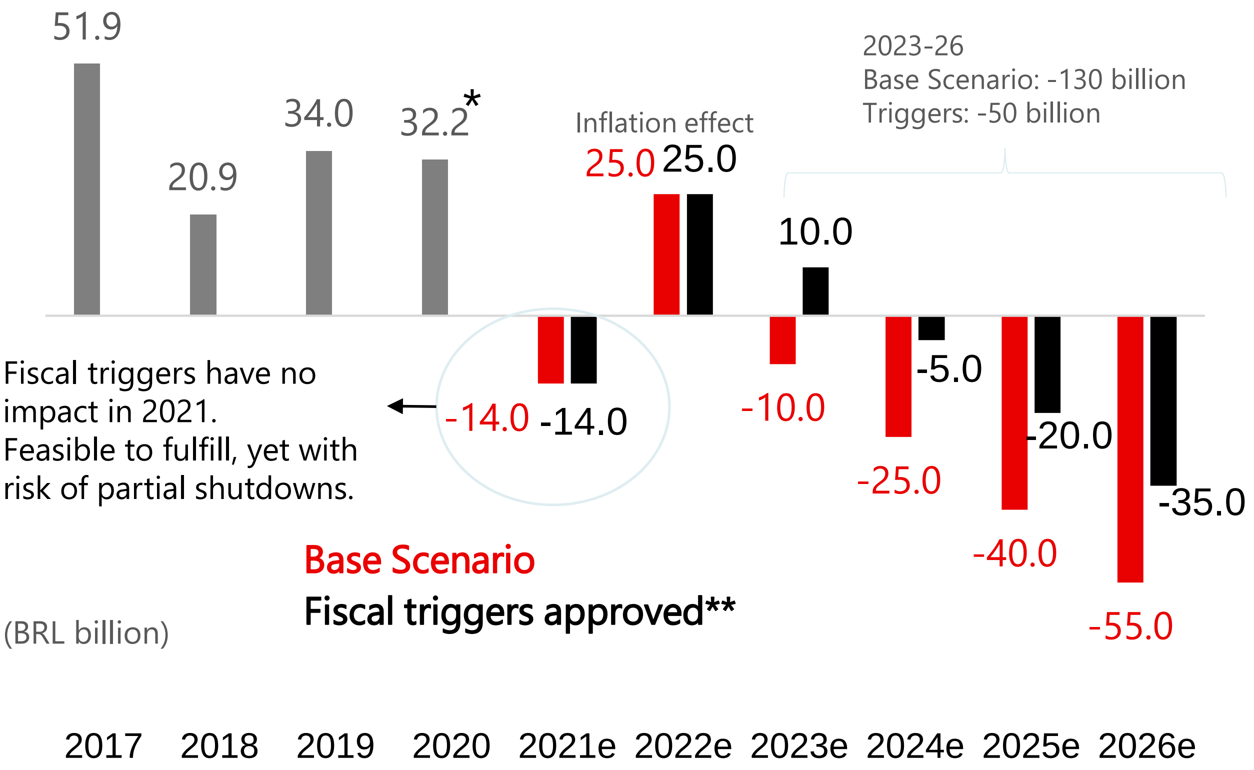
*PEC = Constitutional Amendment

Sources: National Treasury, IBGE, Santander.

Spending cap - fiscal triggers would allow to comply to the rule in 2023 and 2024

- We expect this extension to have as a counterpart (yet not at the same time) the approval of reforms creating fiscal triggers to offset the increase in expenses and avoid a negative impact on the debt trajectory. Likely to comply with the spending cap by 2024.

Surplus (+) or Insufficiency (-) to comply with the spending cap



Fiscal triggers have no impact in 2021. Feasible to fulfill, yet with risk of partial shutdowns.

Sources: National Treasury, IBGE, Santander.

Spending cap 2020 margin

It ended the year BRL6 bn better than our forecast

We did not add into 2021 numbers

Due to uncertainties regarding leftovers (*restos a pagar*) from the ordinary 2020 budget in a similar amount.

Inflation Mismatch in 2022

According to our inflation forecasts:
Spending cap 2022 margin will be readjusted by +7.0% (IPCA 12m Jun-21)

The 2022 benefits should increase 3.8% (INPC).

*Our estimative considering the part of *Bolsa Família* welfare program (BRL19 bn) was extra-cap (i.e. the beneficiaries received the Emergency Aid). The official number was BRL52.2 billion.

** The Mandatory Expenses/Total Expenses will be higher than 94% only in 2023 or 2024, according to our estimates. Triggers: (i) Real stability of the minimum wage; (ii) Nominal stability of the public servants' wages; (iii) Hiring freeze in federal public services; (iv) Ban on the creation of new mandatory expenditure.

Risk in the execution in the extraordinary budget spending

Usual Sequential Procedure

1. Provisional Measure Lasts for 120 days.	Create the resumption of the Emergency Aid, without funding source. Conditional on the steps to follow.
2. Law (PLN) To create the Extraordinary budget spending	The funding for the program, and not subject to the spending cap
3. 2021 Budget law	Pending since 2020. With conditioned expenses (Golden Rule).
4. Supplementary Credit Already necessary to comply to the Golden Rule (BRL 453 bn in 2021)	The government needs the approval of this measure to issue debt and be able to execute the expenses. The program will be included.
5. Compliance to the Fiscal Responsibility Law	The primary deficit target must be changed to include the aid's budget in the Budget Guidelines Law
6. Fiscal compensations Probably a new draft of *PEC emergencial*	At the same time of the previous items, the compensation measures must be evaluated. Needs 308 votes in the Lower House and 49 in the Senate.

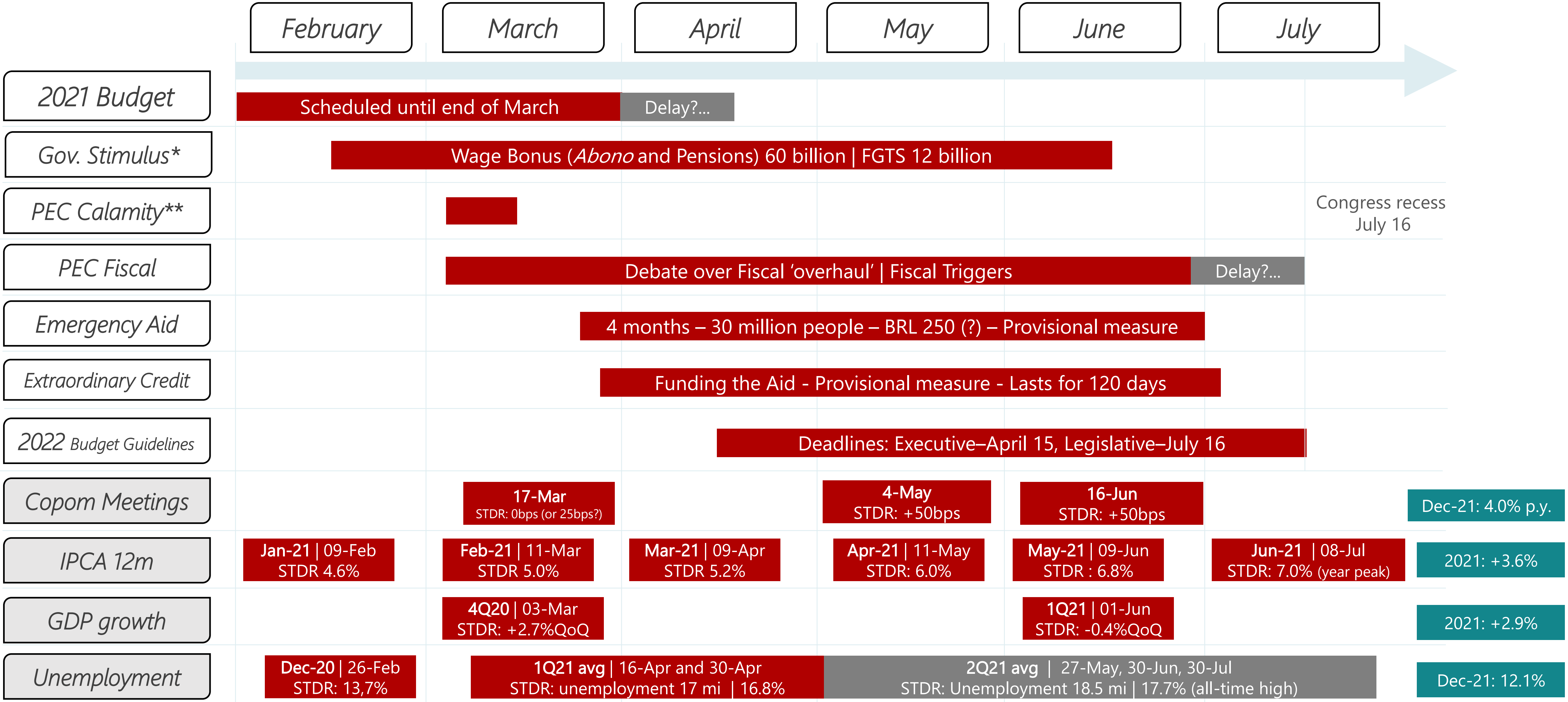
Alternative Sequential Procedure

1. PEC Calamity Starting with const. amendment	- Creates an exceptionality for the resumption of a calamity period – a clause easing fiscal rules (like a "button"). - A 'waiver' to reintroduce the Emergency Aid in 2021. (Does it limit the total amount and the period?)
2. PEC Fiscal Const. amendment	- Contain the fiscal triggers to curb mandatory spending. - Needs 308 votes in Lower House and 49 in Senate.
3. Provisional Measure Lasts for 120 days.	Creates the reintroduction of the Aid, without funding source. This probably will be voted and changed in Congress
4. Law (PLN) To create the Extraordinary budget spending	The funding for the program, and not limited by the spending cap rule (extra-cap)

The scenario pursue a significant operational risk—implying in risk of a more intense Fiscal stimulus. **Constitutional measures are not submitted to presidential vetoes.**

Source: Santander.

Expected Timeline in 2021



February | March | April | May | June | July

2021 Budget
Scheduled until end of March
Delay?...

*Gov. Stimulus**
Wage Bonus (*Abono* and Pensions) 60 billion | FGTS 12 billion

*PEC Calamity***

Congress recess
July 16

PEC Fiscal
Debate over Fiscal 'overhaul' | Fiscal Triggers
Delay?...

Emergency Aid
4 months – 30 million people – BRL 250 (?) – Provisional measure

Extraordinary Credit
Funding the Aid - Provisional measure - Lasts for 120 days

2022 Budget Guidelines
Deadlines: Executive–April 15, Legislative–July 16

Copom Meetings
17-Mar
STDR: 0bps (or 25bps?)
4-May
STDR: +50bps
16-Jun
STDR: +50bps
Dec-21: 4.0% p.y.

IPCA 12m
Jan-21 | 09-Feb
STDR 4.6%
Feb-21 | 11-Mar
STDR 5.0%
Mar-21 | 09-Apr
STDR 5.2%
Apr-21 | 11-May
STDR: 6.0%
May-21 | 09-Jun
STDR : 6.8%
Jun-21 | 08-Jul
STDR: 7.0% (year peak)
2021: +3.6%

GDP growth
4Q20 | 03-Mar
STDR: +2.7%QoQ
1Q21 | 01-Jun
STDR: -0.4%QoQ
2021: +2.9%

Unemployment
Dec-20 | 26-Feb
STDR: 13,7%
1Q21 avg | 16-Apr and 30-Apr
STDR: unemployment 17 mi | 16.8%
2Q21 avg | 27-May, 30-Jun, 30-Jul
STDR: Unemployment 18.5 mi | 17.7% (all-time high)
Dec-21: 12.1%

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* Government fiscal neutral measures in 2021 - FGTS withdraws and anticipation of wage bonus
** Constitutional Amendment (PEC) that eases fiscal rules ('Waiver')

STDR: Santander Forecast

Source: Santander.

The measures developments that would shape the outlook

- Beyond the question of vaccination, we believe certain measures and reforms are necessary to support the reduction of idiosyncratic risks. The fiscal agenda contains significant risks in its execution, in our view, so uncertainty will remain.

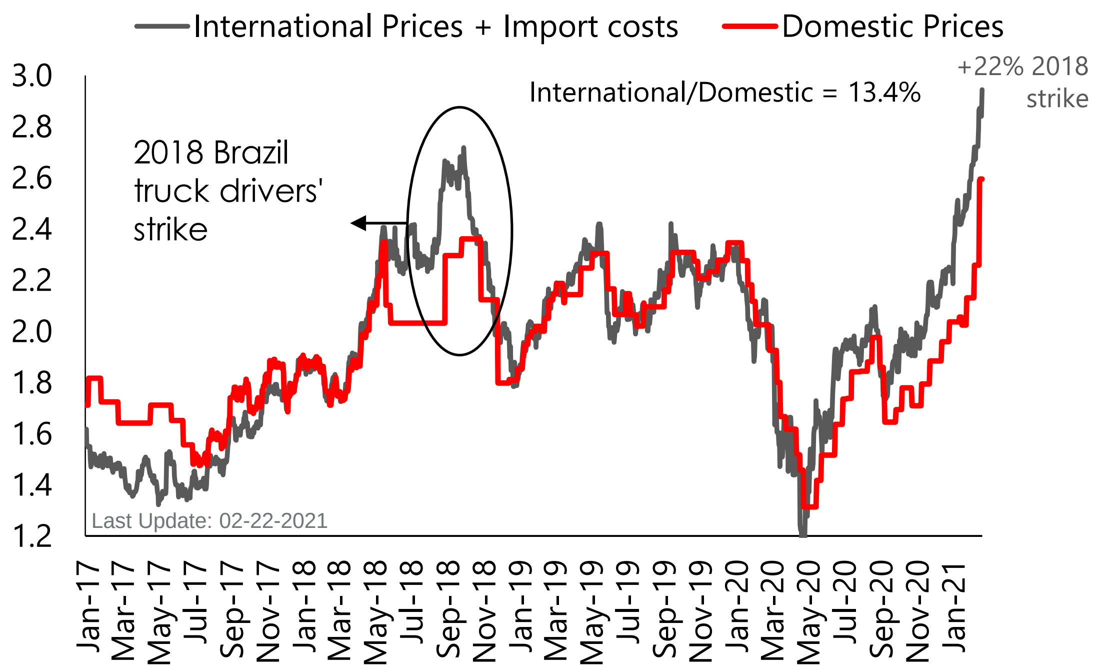
Positive Measures That Could Be Implemented	Potential Setbacks
Budget law for 2021 in compliance with the spending cap rule	Possible creation of new mandatory expenses
Fiscal adjustment measures ("PEC Emergencial or fiscal" e.g.)	Permanent increases in the tax burden
Advances in the relevant privatizations process	Approval of a new digital tax (CPMF)
The new tax reform project, or CBS Law (Contribution on Goods and Services)	Approval of federal measures that imply leniency or moral hazard with subnational fiscal adjustments
The autonomy of the Central Bank	Allocation of revenue not linked to public funds for other primary expenditures
The continuity of the modernization of regulatory frameworks for infrastructure	Paralysis of the reform agenda impacted by political disputes
A competitive auction for 5G for attracting investors	Salary increases for public servants
Administrative reform	Reduction in net revenue or greater transfers to states and municipalities

Source: Santander.

Government trade-offs: Pressure to reduce taxes on Fuels (with recent increase)

- The government is studying reducing the PIS/Cofins tax on diesel, in order to avoid a Nationwide trucker strike (similar to 2018).
- The executive said that they will not directly intervene in Petrobras' fuel pricing policy.
- There is a proposal to change the calculus of the ICMS (states tax) on fuels. Yet it faces strong resistance from state governors and has low probability of being approved.

Diesel Prices (BRL/Liter)



Sources: Bloomberg, Santander.

Challenges in reducing taxes

PIS/Cofins tax
on Diesel prices

Diesel: currently fixed at BRL0.352/Liter

Each -BRL0.01 reduces federal tax collection in BRL600 million/year; -BRL0.352/liter = -BRL21 billion/year

According to Art.14* of the Fiscal Responsibility Law the possible reduction must be followed by a compensation measure (lowering tax incentives, hiking or creating taxes).

If not, they must change the Fiscal Responsibility law or use a calamity period to ease the fiscal rules.

ICMS
(States taxes)

The Gov. proposed a complementary bill in congress to change the way the ICMS state tax is calculated on fuels.

The bill unifies throughout the country ICMS rates. On average in metropolitan regions, they are 14% for diesel and 29% for gasoline.

It will face strong resistance from state governors and has low probability of passing.

*Granting or expanding a tax incentive or benefit that results in a waiver of revenue must be accompanied by an estimate of the budgetary-financial impact in the year in which it is due to start.

Our Fiscal Scenario

03

Fiscal Accounts – Public Sector's Primary Result

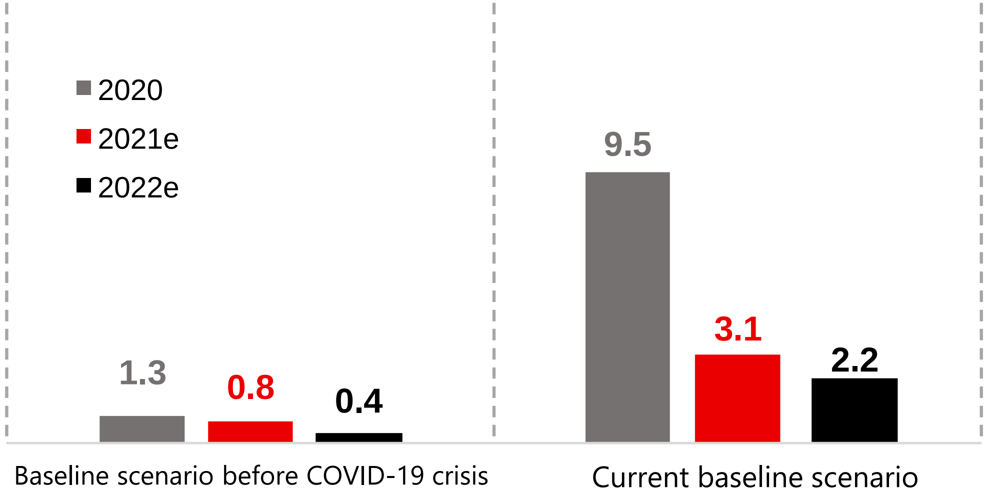
Public Sector's Primary Result in 2020, 2021 and 2022

Fiscal Scenarios	GDP Growth (%)			Losses of Primary Revenue (BRL bn)			Expansion in Primary Spending (BRL bn)			Central Government's Primary Result (BRL bn)			Public Sector's Primary Result (BRL bn)		
	2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e
Base Case Before the Pandemic	2.0	2.5	2.8	-	-	-	-	-	-	-105	-76	-45	-99	-68	-35
Current Base Case	-4.1	2.9	2.3	167	100	85	505	55	20	-745	-255	-190	**-703**	**-250**	**-185**

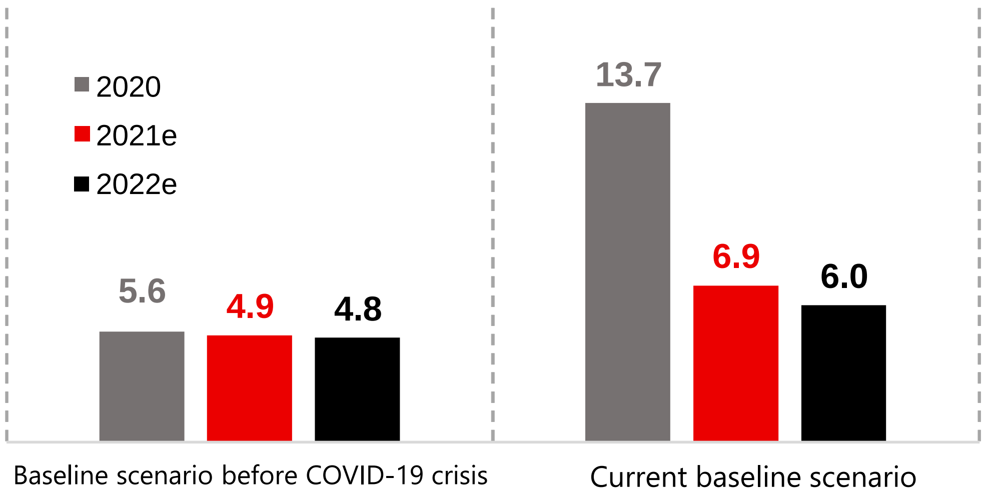
- Our baseline scenario considers the higher use of tax credit by private companies (ICMS exclusion of PIS/COFINS tax basis). In 2020, it totaled ~BRL170 bn, compared to BRL105 bn in 2019. We estimate this could reach ~BRL150 billion. A higher use of tax credit remains a risk to the revenue forecasts (beyond the pace of activity recovery). We estimate a real increase of 3.8% in tax collection, after a drop of 6.9% in 2020. On the expenses side, the main risk are the extra-cap expenditures. This scenario includes the new emergency aid of ~BRL30 billion.

Sources: National Treasury, BCB, Santander.

Public Sector's Primary Deficit (% GDP)



Public Sector's Nominal Deficit (% GDP)



Sources: National Treasury, BCB, IBGE, Santander.

Central Government – Revenues and Expenditures

Central Government's Primary Balance																
Fiscal Items (% of GDP)	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Total Revenue	20.8	21.0	21.0	21.2	22.1	19.8	19.9	20.0	20.5	20.8	21.2	21.4	21.7	22.0	22.3	22.8
Revenues Collected by the Federal Revenue Office	12.8	13.1	12.7	12.9	12.8	12.1	12.2	12.3	12.5	12.7	12.9	13.0	13.1	13.2	13.3	13.5
Net Social Security Revenues	5.8	5.7	5.7	5.6	5.6	5.5	5.3	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.0	6.1
Revenues Not Collected by the Federal Revenue Office	2.2	2.2	2.6	2.7	3.7	2.2	2.4	2.4	2.5	2.6	2.7	2.7	2.8	2.9	3.0	3.1
Transfers by Revenue Sharing	3.4	3.6	3.5	3.7	3.9	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.9	4.0	4.0	4.1
Net Revenue	17.4	17.4	17.5	17.5	18.2	16.2	16.3	16.4	16.8	17.1	17.4	17.6	17.8	18.1	18.3	18.6
Total Expenditure	19.4	19.9	19.4	19.3	19.5	26.3	19.4	18.7	18.4	18.1	17.9	17.7	17.5	17.4	17.2	17.1
Social Security Benefits	7.3	8.1	8.5	8.4	8.5	9.0	8.9	8.6	8.6	8.6	8.6	8.7	8.7	8.7	8.7	8.8
Payroll	4.0	4.1	4.3	4.3	4.2	4.3	4.1	4.0	3.9	3.8	3.7	3.6	3.5	3.4	3.3	3.2
Other Mandatory Expenses	4.1	3.4	3.0	2.9	2.6	9.7	2.8	2.7	2.7	2.6	2.5	2.5	2.4	2.4	2.3	2.3
Mandatory Expenses with Cash Control	4.0	4.3	3.7	3.8	4.1	3.3	3.6	3.3	3.2	3.1	3.1	3.0	3.0	3.0	2.9	2.9
Discretionary Expenses	2.1	2.3	1.8	1.8	2.2	1.5	1.4	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3
Central Government's Primary Balance	-2.0	-2.6	-1.9	-1.8	-1.3	-10.0	-3.1	-2.2	-1.5	-1.0	-0.5	-0.1	0.3	0.7	1.1	1.5
Nominal GDP (BRL billion)	5,996	6,269	6,585	7,004	7,407	7,410	7,938	8,441	8,838	9,267	9,717	10,189	10,684	11,202	11,746	12,216

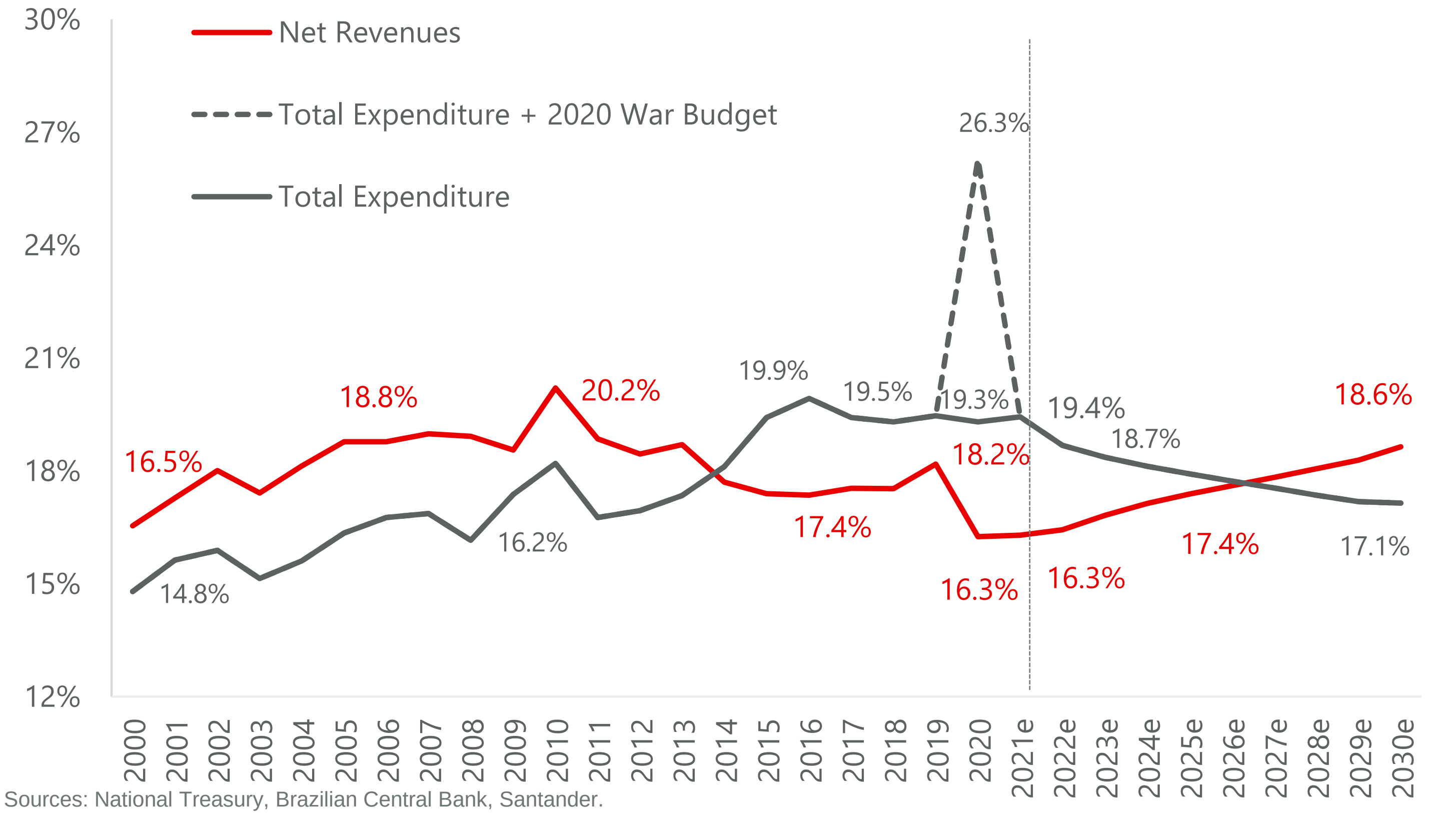
Sources: National Treasury, Brazilian Central Bank, Santander.

➔ **Main assumptions for the current baseline scenario:** our macro scenario for 2021 and 2022. **After 2023: (i)** Potential GDP growth = 1.8%; **(ii)** Neutral real interest rate = 3.0%; **(iii)** Long-term inflation = 3.0%; **(iv)** Compliance to the spending cap rule adjusted by inflation until 2030 **(v)** Structural reforms in 2023 to maintain the discretionary expenses close to 1.4% of GDP; **(vi)** Government will need to hire a lower number of public servants due to the digitalization of some public services**; (vii)** Pension reform will maintain the expenses almost stable in relation to GDP growth.

Central Government – Revenues and Expenditures

- According to the National Treasury the total COVID-19 expenses totaled BRL539.4 billion in 2020.
- Considering the ordinary budget the total expenditure last year was almost stable at 19.3% of GDP (*Bolsa Família* included).

Central Government's Accounts (% GDP)



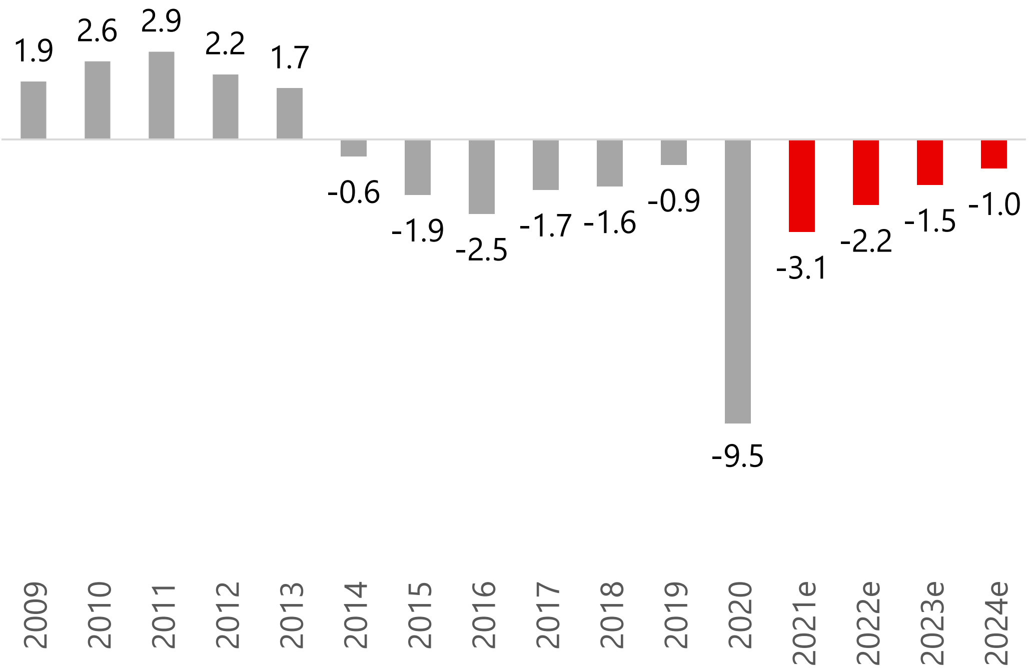
Sources: National Treasury, Brazilian Central Bank, Santander.

Fiscal Scenario – Base Scenario a tad worst

○ The year 2020 represented an unprecedented deterioration in government finances – six years of deficit in one.

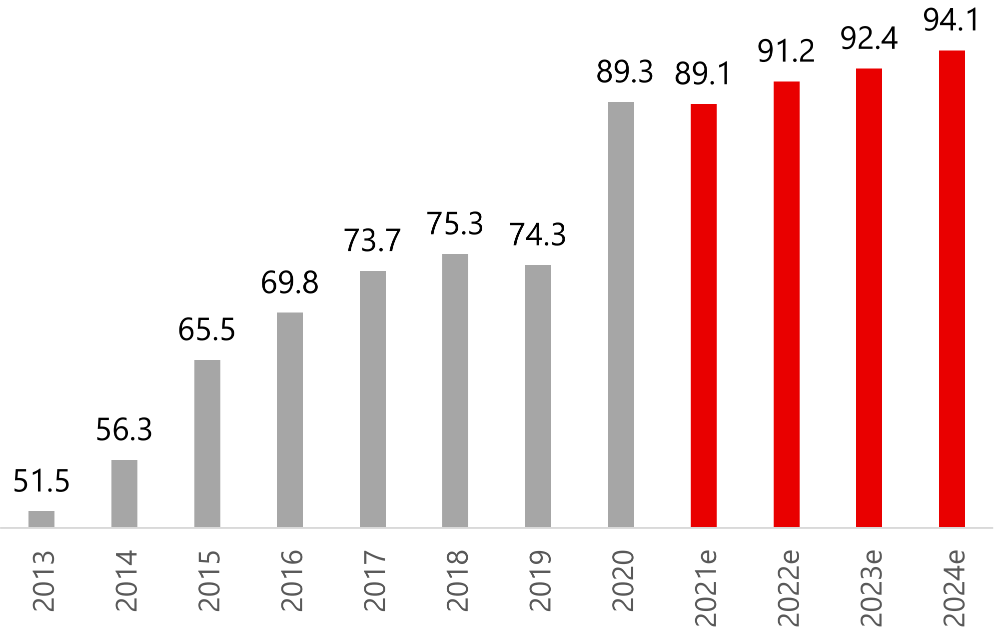
○ We expect gross debt to remain virtually stable, however, assuming that the BNDES will repay the Treasury BRL100 billion, and assuming compliance with the spending cap without creating permanent new expenses while failing to curb others.

Primary Balance - % GDP



Sources: BCB, Santander.

Gross Debt - % GDP

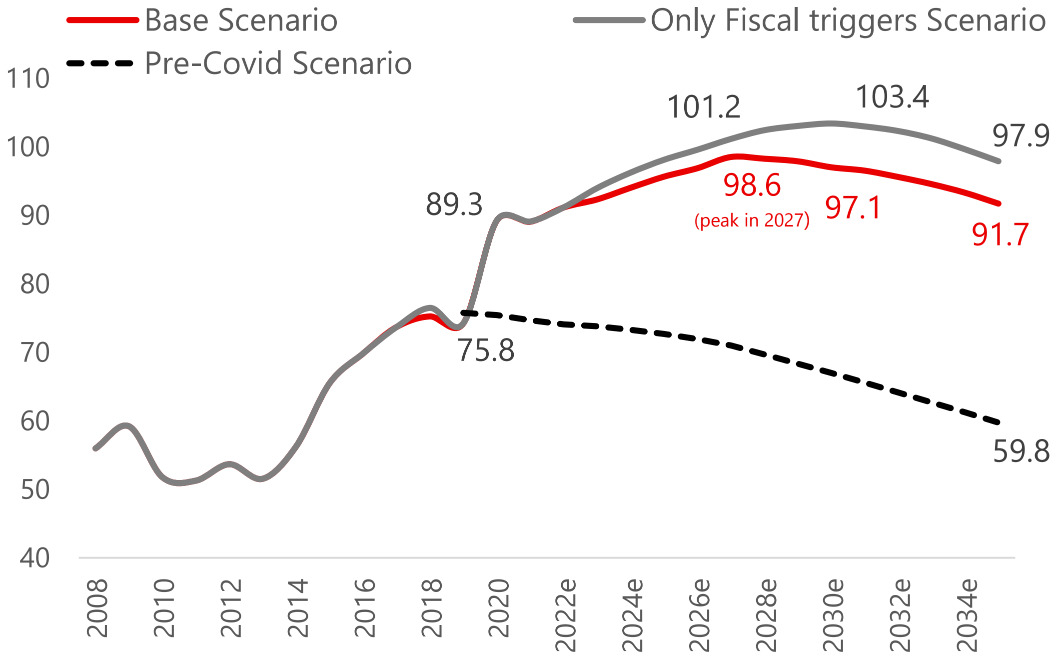


Sources: BCB, Santander

Fiscal Scenario - Brazil has the second largest Debt/GDP in EM countries

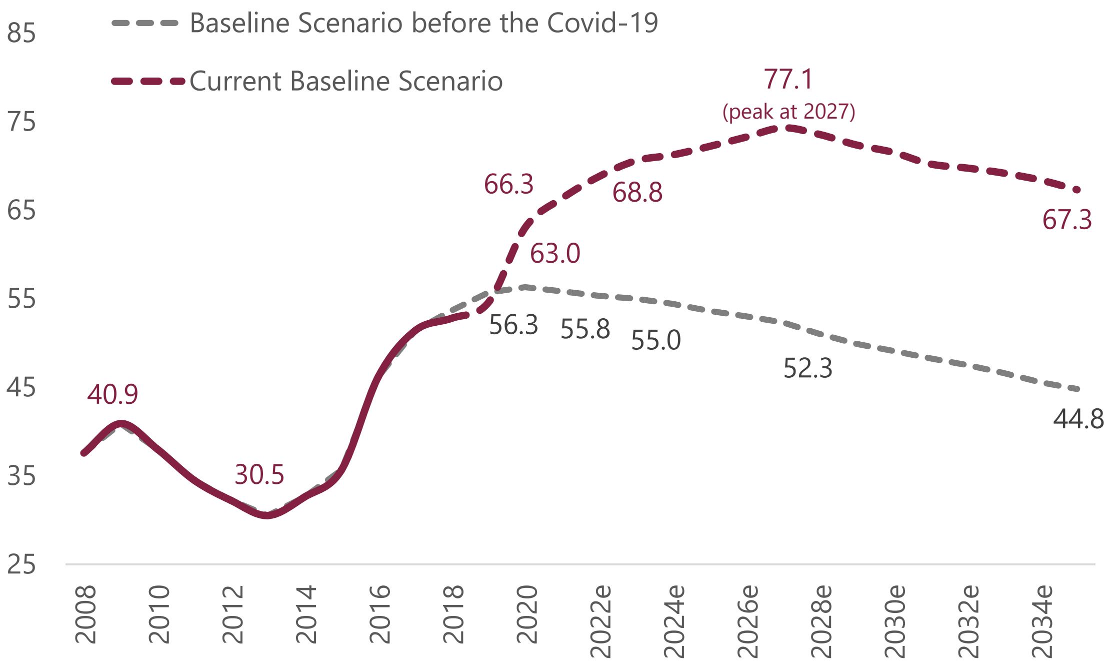
- Nominal GDP (denominator) accounts slightly shift down the debt numbers (-2p.p.)—yet they do not change the challenging outlook.
- The Gross Debt should reduce after 2027 due to a primary surplus, lower expenses (Pension reform effect and lower necessity to increase personal expenses), reduced debt cost in average, and the GDP growth.

Gross Debt (% GDP)



Sources: National Treasury, IBGE, Santander.

Net Debt - % GDP



Sources: National Treasury, IBGE, Santander.

Fiscal Accounts – Trajectories for the Brazilian Government Debt

- Public sector’s primary balance (% GDP) required for the stabilization of the gross public debt-to-GDP ratio at **90%**

- **Current cycle:**

. Real interest rate (ex-ante): -1.0%,
. GDP is expected to grow 2.9% in 2021.

. Expected primary deficit (-3.1% of GDP) + BNDES payback should maintain the Gross/Debt virtually stable.

- **Steady-state:**

According to our hypothesis:
. Real interest rate at +3.0%
. Potential GDP at +1.8%,

. The primary surplus must reach +0.9% of GDP to maintain the gross debt stable.

		Real Interest Rate							
		-1.0%	*0.0%*	*1.0%*	*2.0%*	*2.5%*	*3.0%*	*4.0%*	*5.0%*
GDP Growth	*1.0%*	-1.8	-0.9	0.0	0.9	1.3	1.8	2.7	3.6
	1.5%	-2.2	-1.3	-0.4	0.4	0.9	1.3	2.2	3.1
	2.0%	-2.6	-1.8	-0.9	0.0	0.4	0.9	1.8	2.6
	2.5%	-3.1	-2.2	-1.3	-0.4	0.0	0.4	1.3	2.2
	3.0%	-3.5	-2.6	-1.7	-0.9	-0.4	0.0	0.9	1.7

Sources: BCB, Santander.

Possible Fiscal Measures that could be implemented and its impacts

Rolling Impact of some fiscal measures (BRL billion)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues										
Limit on tax deductions (private health)	0	10.0	20.3	30.5	40.8	51.0	61.3	71.6	82.0	92.4
10% linear drop in tax exemptions / waivers	0	27.0	54.5	82.1	109.6	137.2	164.7	192.2	219.8	247.3
Changes in Personal Income Tax (Aliquot of 35% on earnings > BRL25k per month)	0	6.0	12.1	18.2	24.4	30.5	36.6	42.7	48.8	55.0
Profits & Dividends (Aliquot of 15%)	0	25.0	51.8	79.3	107.6	136.8	166.8	197.6	229.4	262.1
End of JCP payment deduction ("Interest on Equity Capital")	0	8.0	17.3	26.7	36.5	46.5	56.8	67.4	78.2	89.4
Exclusive Funds (one-off)	0	10	0	0	0	0	0	0	0	0
Inheritance/Donation Tax (Aliquot from 8% to 30%)	0	30.0	60.9	92.7	125.5	159.3	194.1	229.9	266.8	304.8
Expenditures										
Min. Wage De-indexation (social benefits)	0	23.0	46.7	71.1	96.2	122.1	148.8	176.2	204.5	233.7
Freezing of social security benefits (above 3 Min. Wag)	0	3.5	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
End of Wage Bonus 'Abono' (for formal workers)	0	17.0	34.5	52.5	71.1	90.3	110.0	130.3	151.2	172.7
End of Wage Bonus 'Abono' (above 1 Min. Wage)	0	8.0	16.2	24.7	33.5	42.5	51.7	61.3	71.1	81.3
Payroll tax exemption	6.4	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Public sector wage ceiling	0	3.2	6.5	9.9	13.4	17.0	20.7	24.5	28.5	32.5
Extending the grace period for the unemployment insurance benefit	0	12.0	24.4	37.1	50.2	63.7	77.6	91.9	106.7	121.9
Reduction of public servants' working hours and wages (up to 25%)	0	10.0	20.3	30.9	41.8	53.1	64.7	76.6	88.9	101.6

Source: Santander.

Fiscal Risks – size of the fiscal stimulus and leftovers

- The total size of the War budget totaled BRL524 billion.
- The leftover (not subjected to the spending cap rule) reached BRL37.9 billion

2020 War Budget Fiscal Measures (BRL billion)

Accumulated	Dec-20	Budget	Executed
Formal Employment program (MP 935)	33.5	51.5	65.0%
Bolsa Família expansion (MP 929)	0.37	0.37	100.0%
Emeregency Aid (MP 937)	**293.1**	322.0	**91.0%**
Transfers to regional governments (MP 939)	78.3	79.2	98.8%
Credit for payroll (MP 943)	6.8	6.8	100.0%
Energy Sector (MP 950)	0.9	0.9	100.0%
Ministry of Health and others	**44.9**	50.8	**82.4%**
Guarantees for credit measures (MP 977)	58.1	58.1	100.0%
Financing of Tourism Infrastructure (MP 963)	3.1	5.0	61.6%
Emergency Credit Program - "Maquininhas"	5.0	10.0	50.0%
Vaccine Acquisition	0.0	20.0	0.1%
Total	524.1	604.7	86.2%

Updated until 01/05/2021

Sources: National Treasury, Santander.

2021 Leftovers of War Budget (*Restos a pagar*)

BRL Billion - Accumulated	Jan-21	Feb-21	Budget	Executed
Bem - Employment Program (MP 935)	0.4	0.4	8.1	4.8%
Emergency Aid (MP 937)	**0.3**	**0.4**	**2.3**	**15.3%**
Ministry of Health and Others	**1.3**	**1.5**	**3.4**	**43.9%**
Financing of Turism Infraestructure (MP 963)	0.1	0.1	1.9	6.8%
Vaccine Acquisition	0.1	0.7	22.3	3.1%
Accumulated Total	2.2	3.0	37.9	8.0%

Updated until 02/22/2021

Sources: National Treasury, Santander

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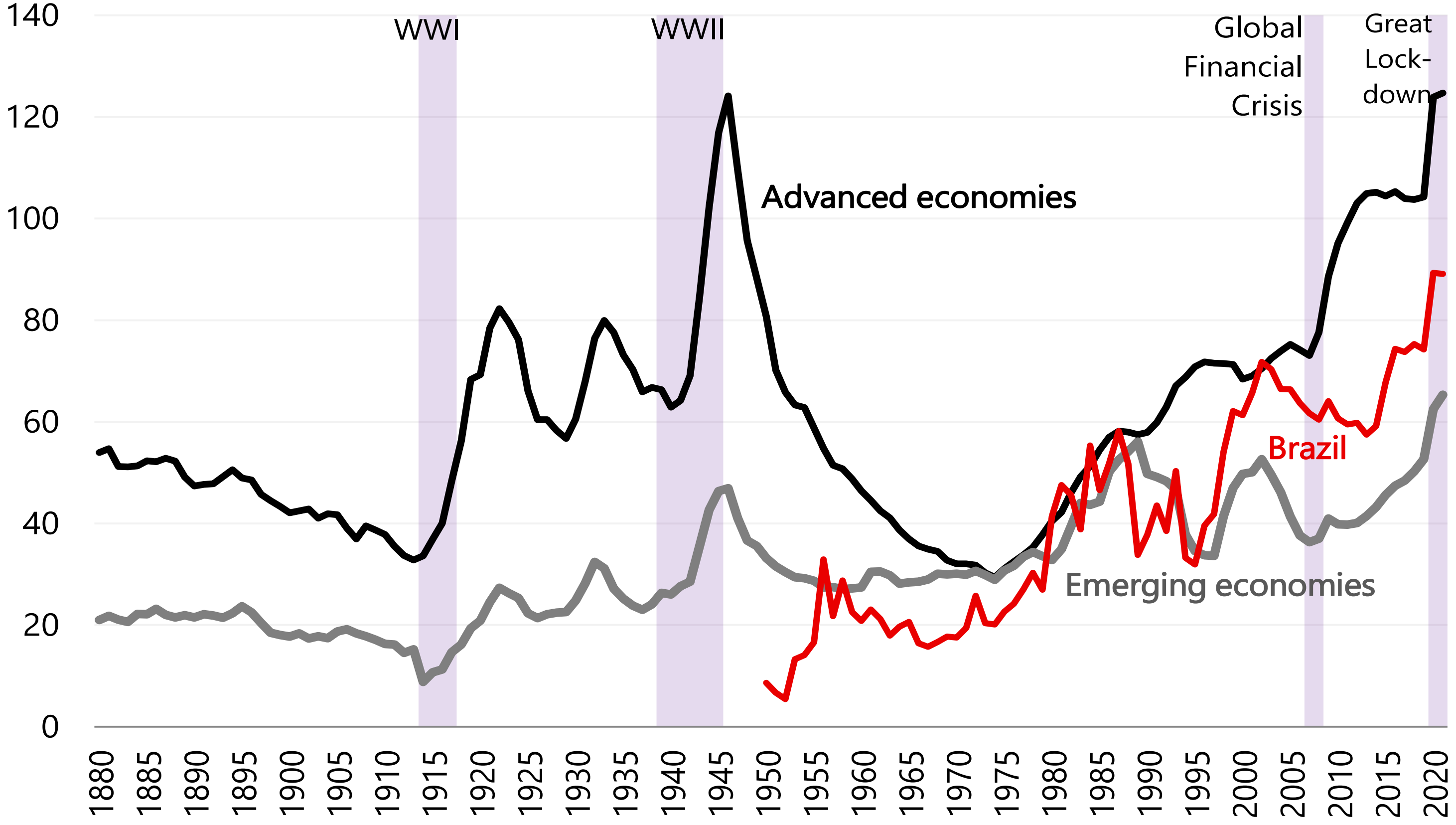
Fiscal background and risks

04

Brazilian debt approaches the level of advanced countries – International Comparison

- Brazilian government finances registered an unprecedented deterioration in 2020, affected by the government's measures to mitigate the economic and health effects of the pandemic.

Historical Patterns of General Government Debt (% GDP)



Source: IMF (Oct 2020), IBRE, Santander.

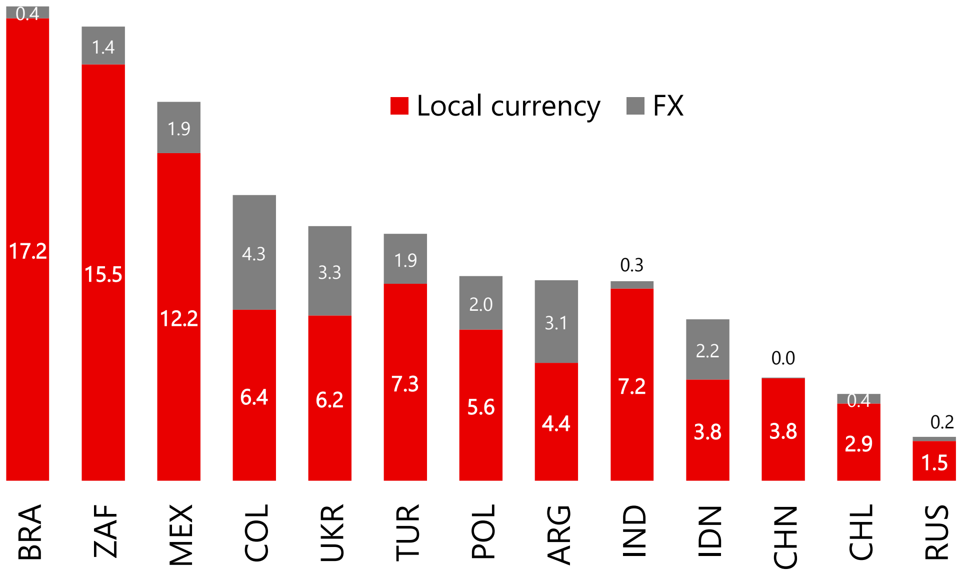
* Brazilian Gross Debt is considered the BCB methodology

Fiscal Risks – elevated financial needs

- Brazil has one of the largest gross debts among emerging countries and has significant financing needs.

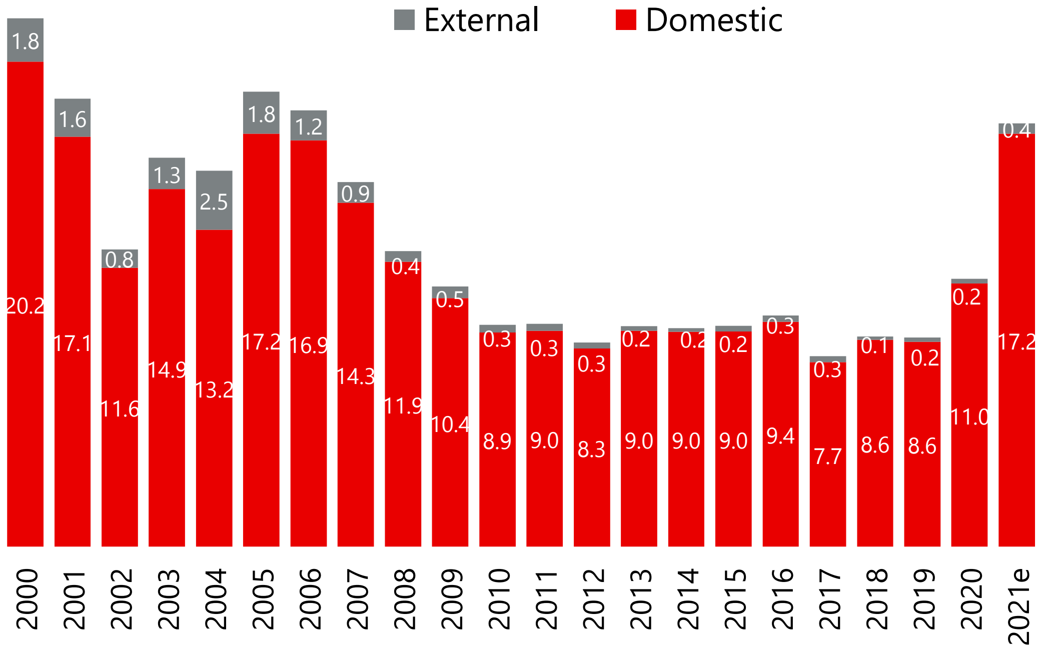
Financing needs in 2021 – (% GDP)

Central government debt service, 2021, in % GDP,
incl. SOEs for Indonesia, Mexico, and South Africa



Sources: IIF, Santander.

Brazil - Domestic debt issue, in % GDP

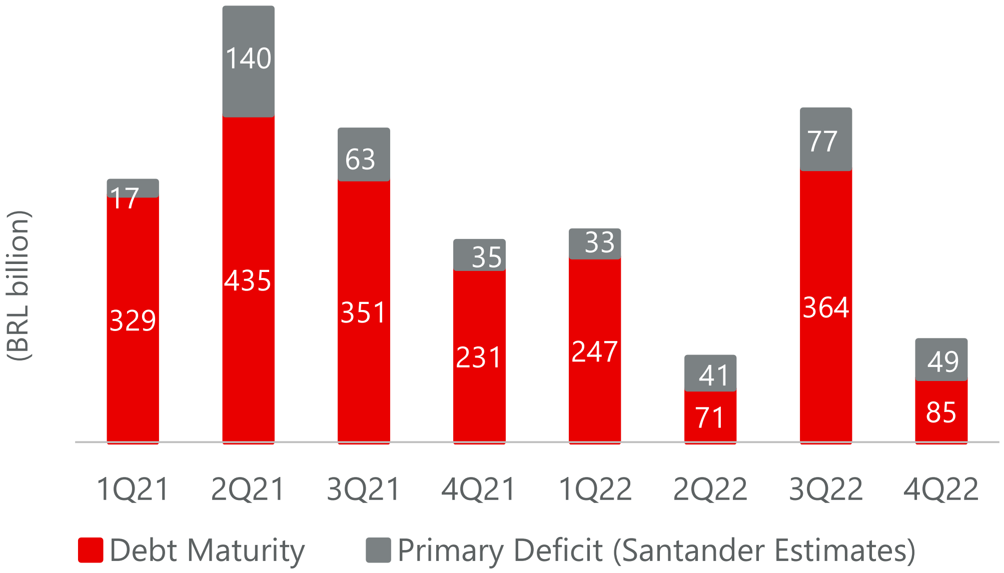


Sources: IIF, Santander

Fiscal Scenario – The debt is at a higher level and with a shorter maturity

- Although the liquidity cushion of the treasury is BRL870 billion (covering debt rollover up to 1H21), the amount of the year will exceed BRL1.34 trillion. An easy in the fiscal framework implies in a significant risk for the government debt management.

Debt maturity and Primary Deficit

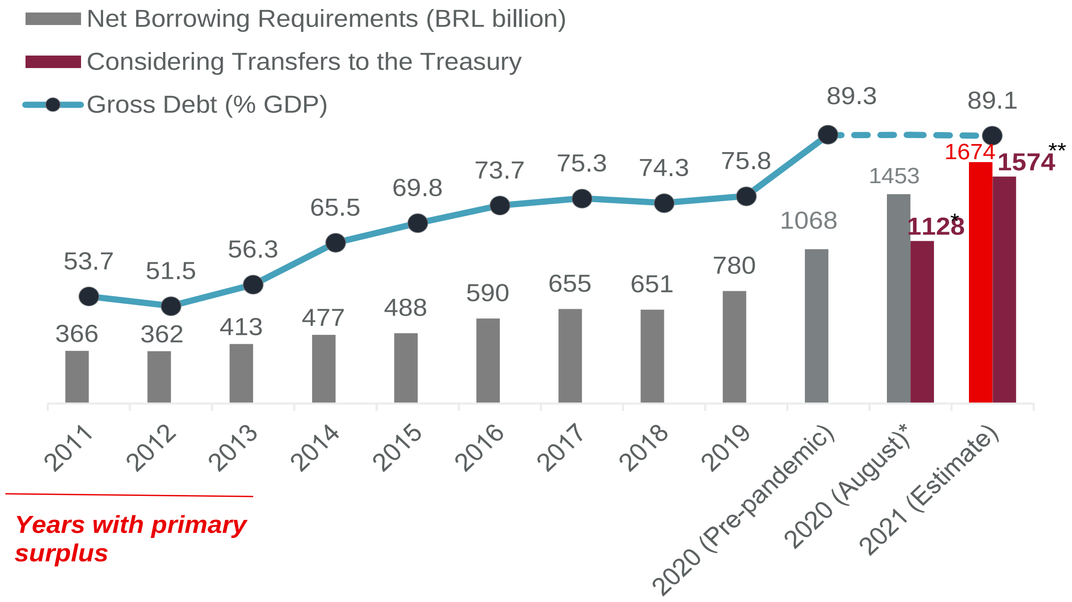


We anticipated the Wage and Pension bonus (BRL60 bn) to the 2Q21 –

Fiscal Stimulus without annual impact

Sources: National Treasury, Santander.

Net Borrowing Requirements and Gross Debt



* Transfer of Central Bank to the Treasury (BRL325 billion), allowed by law nº 13,820/2019

** BNDES transfer of BRL100 bn to the Treasury

Sources: National Treasury, Santander.

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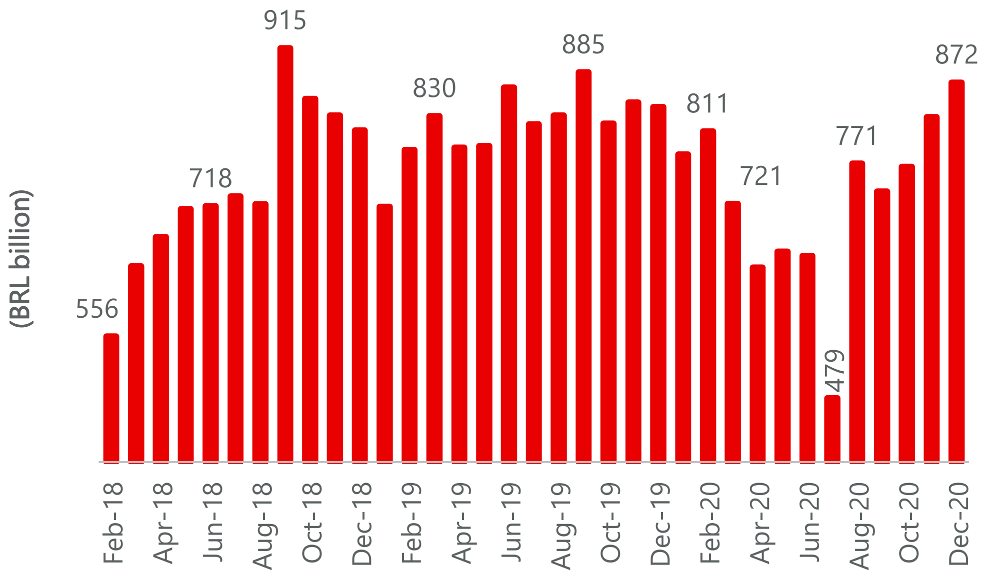
Treasury’s cash position improved in the last few months with larger auctions

- With debt shortening it is important to keep the level of the liquidity cushion at comfortable levels..

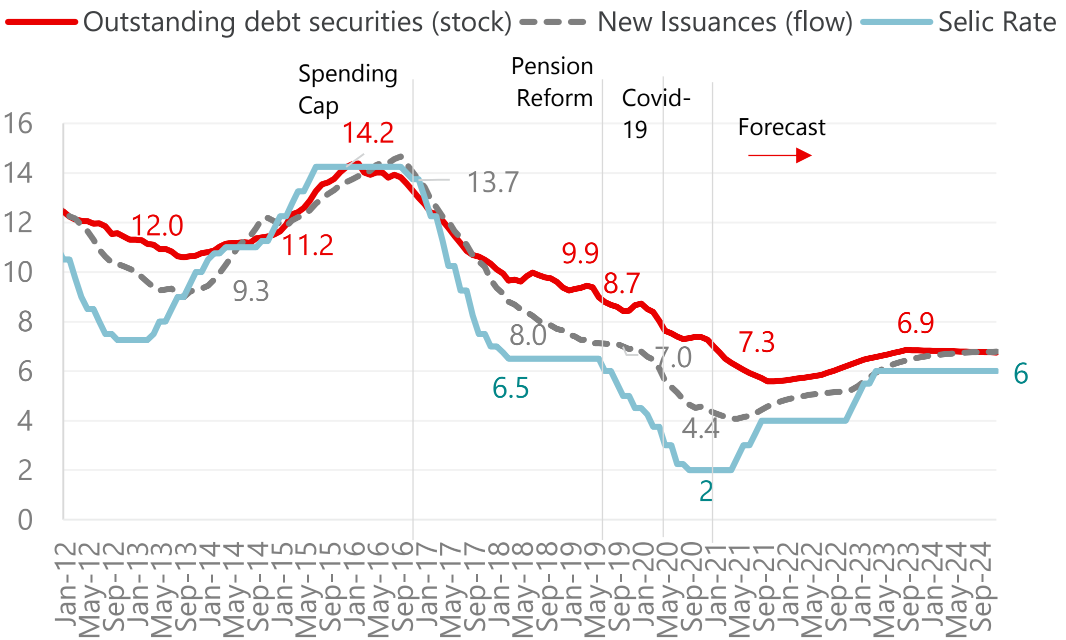
Cash “Liquidity Cushion”

Public Debt Resources + Unbound / Ordinary Resources



Sources: National Treasury, Santander.

Average cost of Federal Debt - 12 months – (%)



Sources: National Treasury, Santander.

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Our Base Scenario…

- For our latest Scenario Review 'The Persistence Of (Fiscal) Risks' (sent on February 11, 2021).
- Click on the link: http://bit.ly/Sant-ScenRev-fev21

Macroeconomic variables		Previous	Current
GDP (%)	2020E	-4.1	-4.1
	2021E	2.9	2.9
	2022E	2.5	2.3
IPCA (%)	2021E	3.0	3.6
	2022E	3.2	3.2
Selic Rate (% end of period)	2021E	2.50	4.00
	2022E	4.50	4.50
FX Rate - USDBRL (end of period)	2021E	4.60	5.20
	2022E	4.15	5.40
Current Account Balance (% of GDP)	2021E	-0.7	1.2
	2022E	-1.9	0.5
Primary Fiscal Balance (% of GDP)	2021E	-3.1	-3.1
	2022E	-2.3	-2.2
Gross Public Debt (% of GDP)	2021E	91.6	89.1
	2022E	93.6	91.2

Sources: IBGE, FGV, National Treasury, Brazilian Central Bank, Santander.

Thank you.

Our purpose is to help people and businesses prosper.

Our culture is based on believing that everything we do should be:

Simple Personal Fair

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