Fiscal Policy

November 2020

Macroeconomic Research

Santander

Executive Summary

Government measures to mitigate the effects of the pandemic continue to prompt a deterioration in the fiscal accounts in Brazil. The primary deficit and debt continue to increase. **We believe that the massive fiscal stimulus will be temporary, but the risk of creating new mandatory spending has increased significantly**, which could undermine the fiscal consolidation framework. **Thus, we have a binary scenario: with or without complying to the spending cap rule**.

In general, our scenario has no major changes from the September report. **We foresee the 2020 public sector primary deficit close to BRL880 billion (12.4% of GDP). For 2021 and 2022, we forecast deficits of BRL250 billion (3.3% of GDP) and BRL195 billion (2.4% of GDP), respectively.** Concerning the nominal fiscal deficit (which includes nominal interest payments), our projections are 16.2% of GDP in 2020 and 7.1% of GDP in 2021 and 6.3% in 2022.

On the **revenue** side, in the last few months, the federal tax collection performance has been improving with the gradual recovery in domestic activity, but is partially offset by the major use of tax credits. Thus, we continue to estimate primary revenue losses of BRL210 billion in 2020, compared to the pre-pandemic scenario. On the **expenditure** side, the total related to the Pandemic adds up to BRL469 billion by October, and is **expected to reach around BRL590 billion by the end of the year.**

In turn, **gross debt** is expected to reach 94.8% of GDP in 2020, an increase of 19pp compared to 2019. For 2021, we consider the possibility of BNDES to repay up to BRL100 billion in loans owed to the federal government, which would maintain the debt virtually stable at 95.2% of GDP. More importantly, we expect the indicator to peak only in 2027 at ~106%, ~30 p.p. higher compared to the pre-pandemic estimate. Subsequently, our scenario estimates convergence towards ~93% of GDP by 2035.

These forecasts also assume that the country will continue to pursue the Brazilian fiscal consolidation in the long-term. Owing to the very challenging starting point for this, **we calculate the need for a total fiscal adjustment of at least 5 p.p. of GDP (BRL350 billion) in the coming years.**

The first (and most important) step in order to ensure fiscal solvency would be to support the constitutional spending cap framework. On this matter, we reiterate our view that compliance with this fiscal rule, until 2022, would be facilitated by taking four measures: (i) real stability of the minimum wage; (ii) nominal stability of public servants' wages; (iii) a hiring freeze in federal public services; and (iv) a ban on the creation of new mandatory expenditures. **For 2023 onwards, nevertheless, we highlight that compliance with the spending-cap rule will be feasible only if the government is able to approve further measures to reduce mandatory outlays.**

Finally, we added updated charts from our recent reports that explore additional risks from a fiscal perspective. The first is related to the government's financial need - *Borrowing requirements and debt management: the importance of the fiscal adjustment* (published on October 1, 2020 2020 - link: http://bit.ly/Santander_Fiscal_2). The second is the relationship between the spending cap and the mismatch of inflation rates - *Spending Cap Rule: Narrowing the Margin for 2021* (published on October 8, 2020 - link: http://bit.ly/BR_Santander).

Ítalo Franca

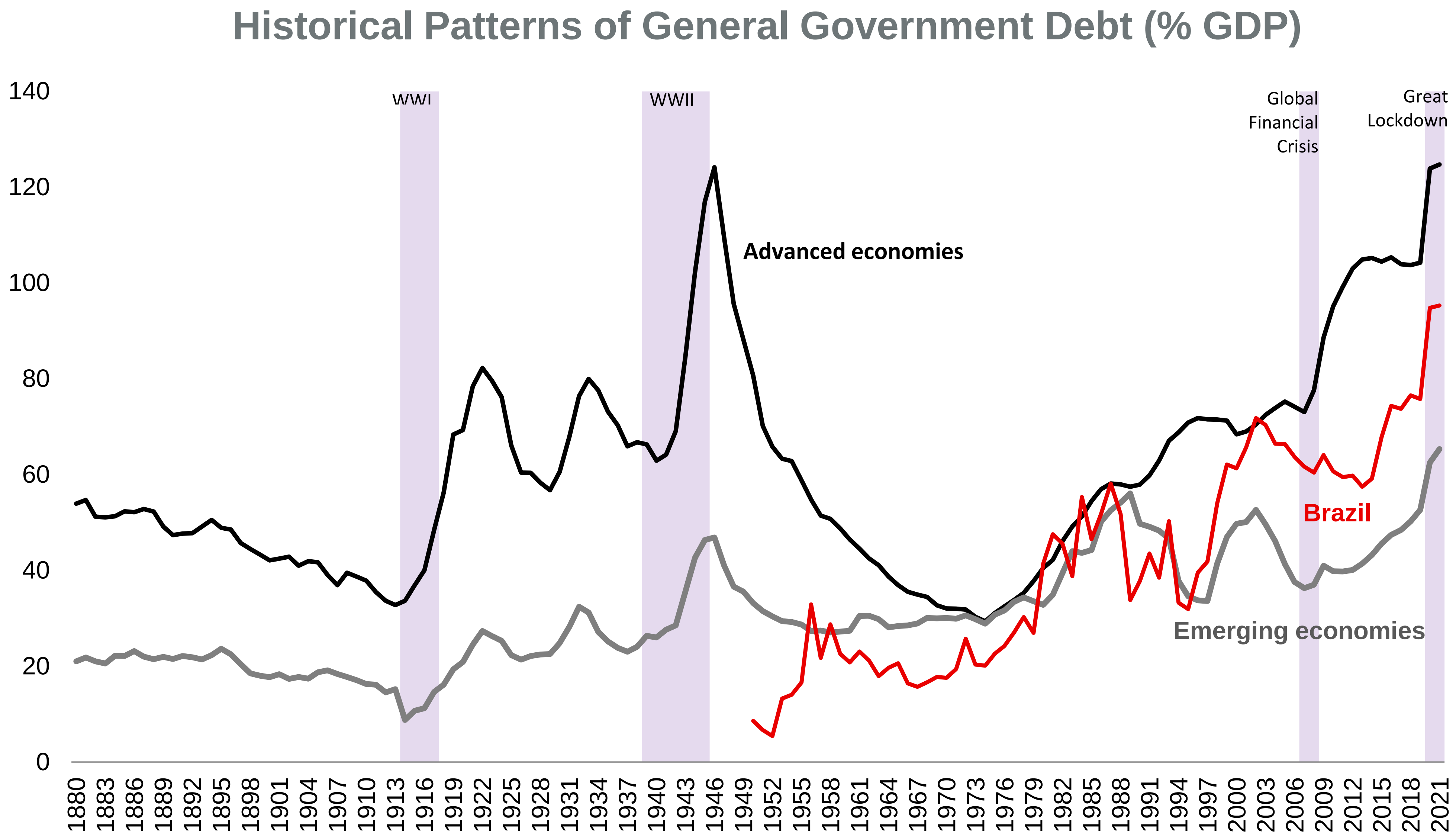
Santander Macro Research Team

Sections - FISCAL

FISCAL - BRAZIL IN A GLOBAL PERSPECTIVE

01

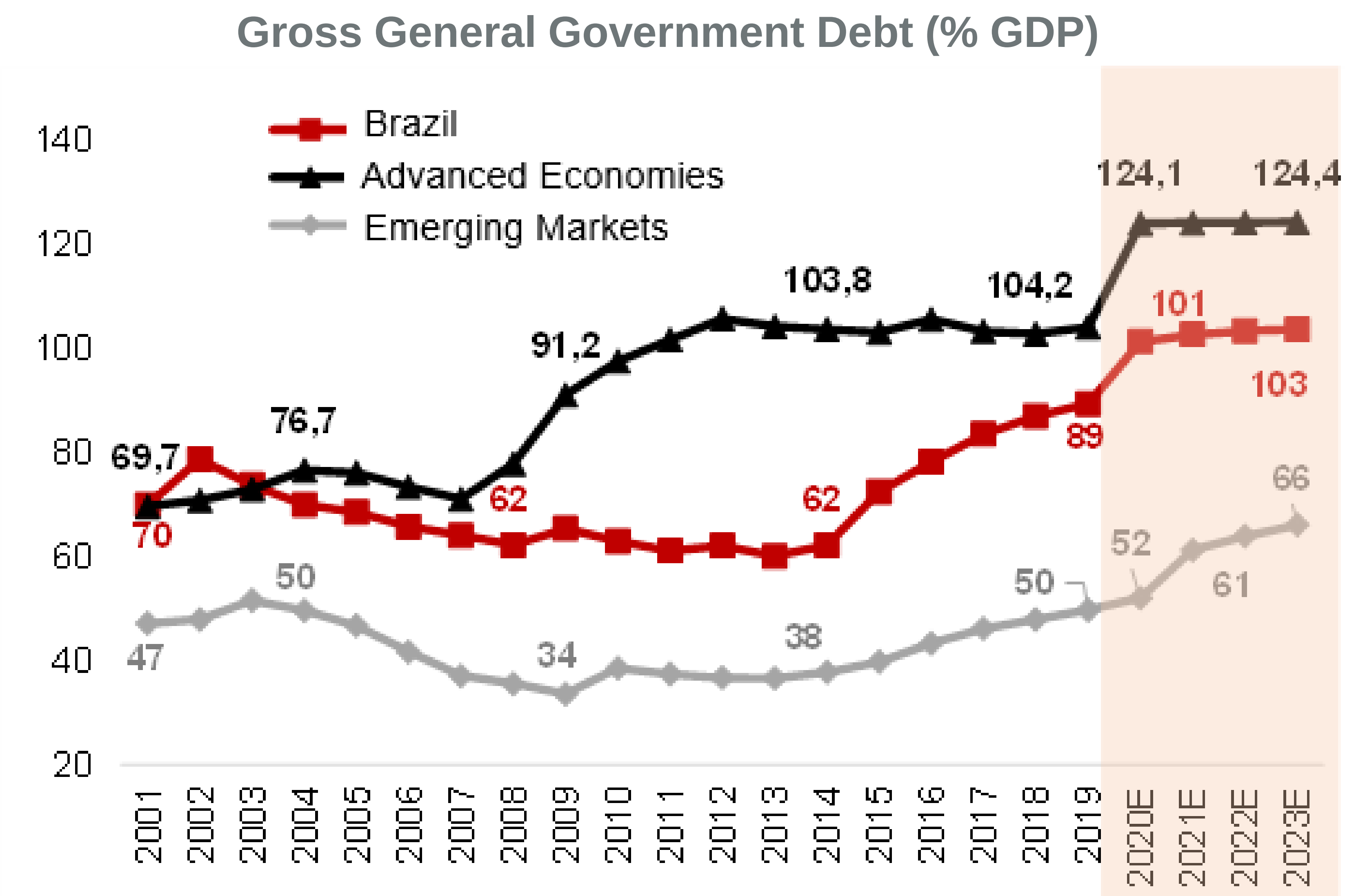
Brazilian debt approaches the level of advanced countries – International Comparison



Santander Source: IMF (Oct 2020), IBRE and Santander Brasil estimates.

* Brazilian Gross Debt is considered the BCB methodology

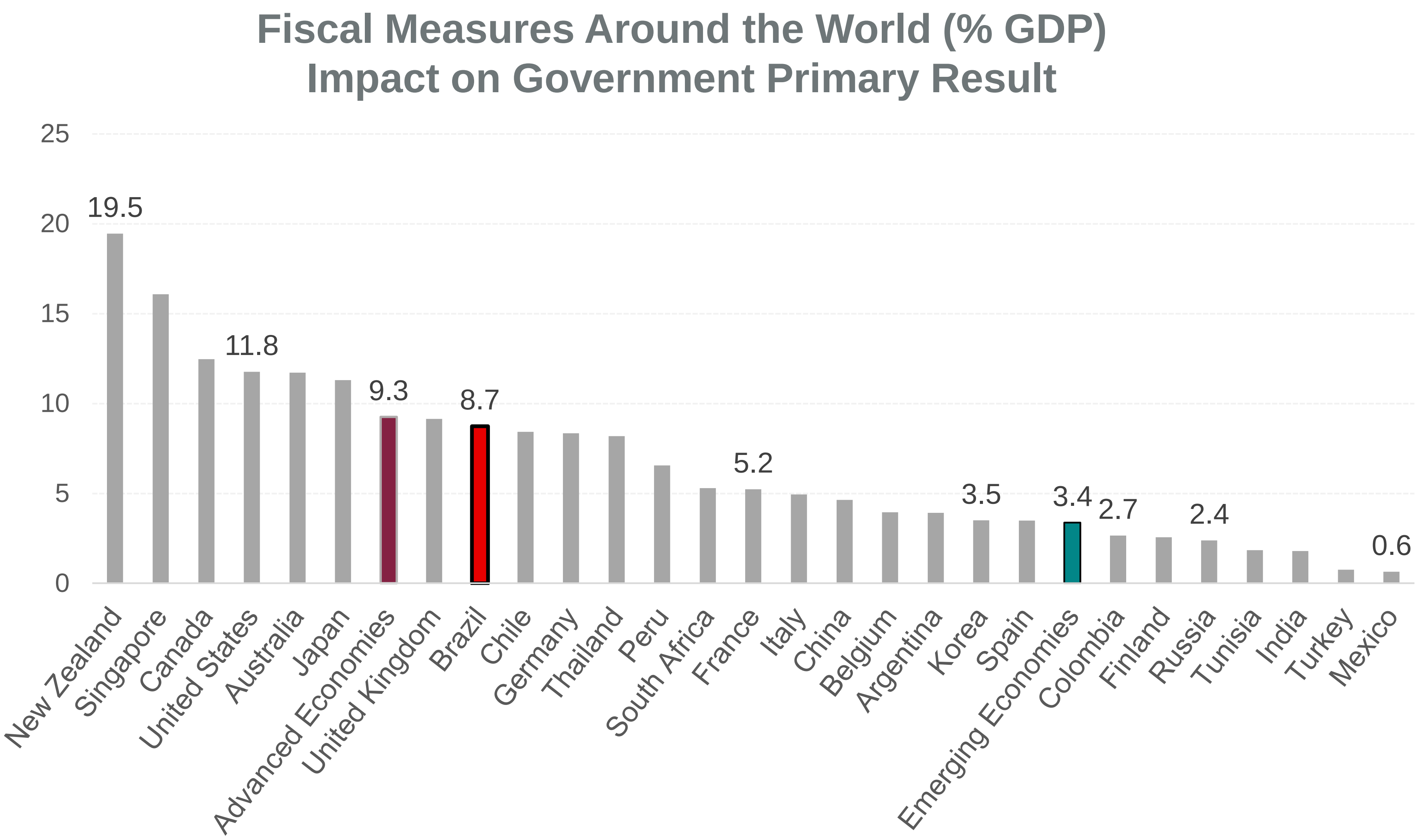
Brazilian debt approaches the level of advanced countries – International Comparison



 Source: IMF (Oct 2020), IBRE and Santander Brasil estimates.

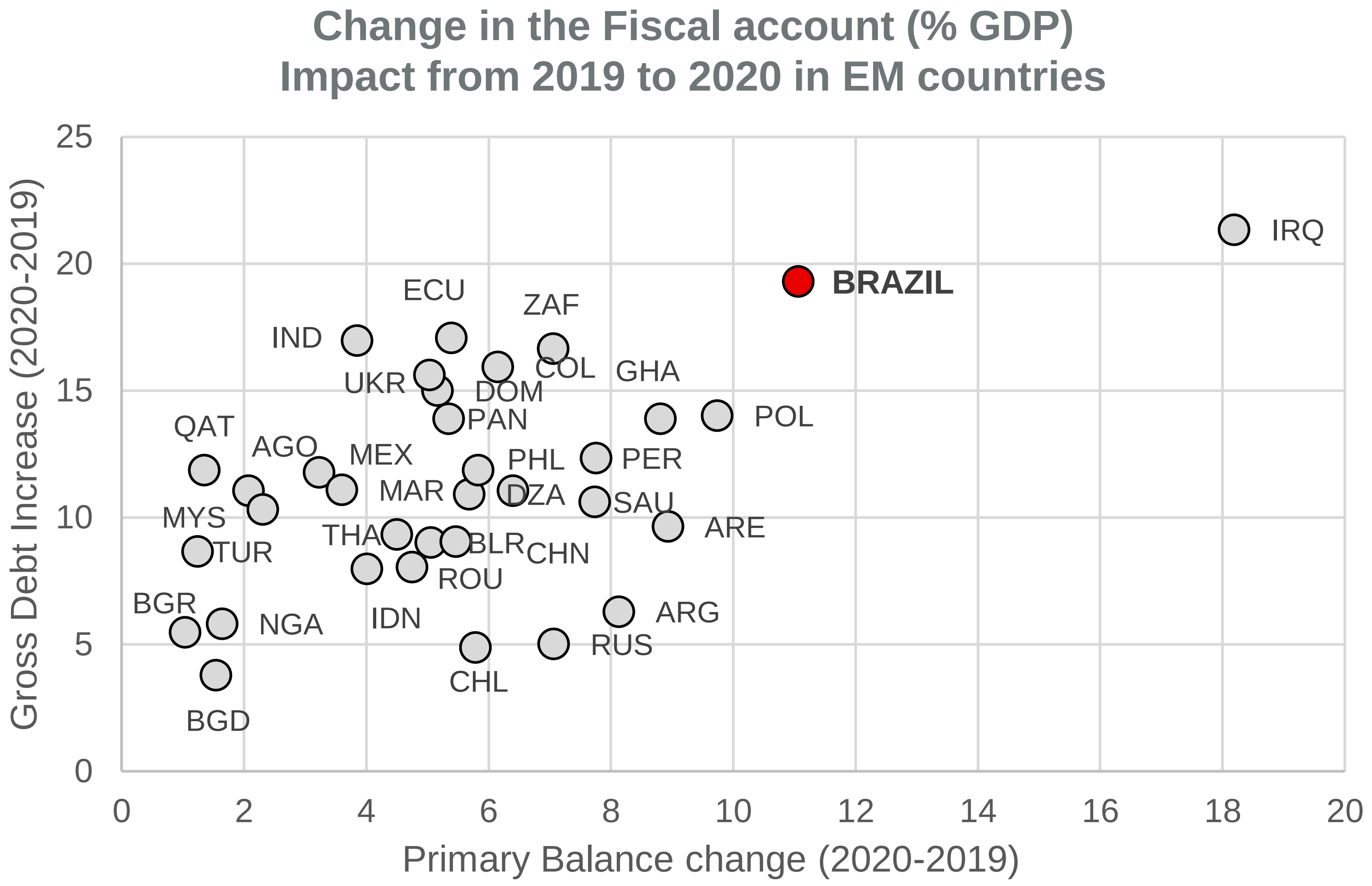
* Brazilian Gross Debt is considered the IMF methodology

Fiscal measures related to Covid-19 crisis – International Comparison

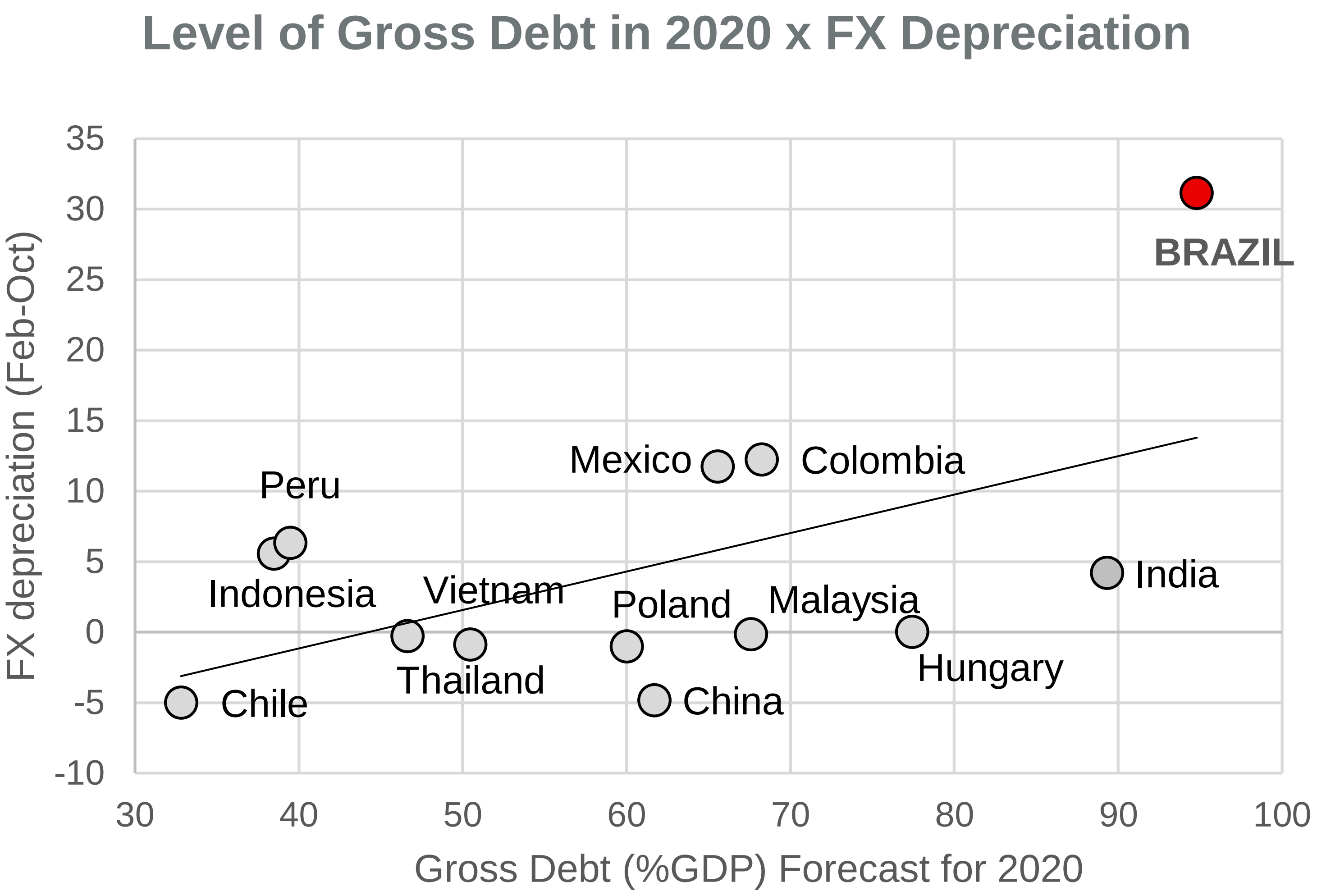


Santander Source: IMF (Oct 2020), Ministry of Economy and Santander Brasil estimates.

The impact on fiscal accounts in 2020 – International Comparison



Fiscal measures related to Covid-19 crisis – International Comparison



Source: IMF (Oct 2020), Ministry of Economy and Santander Brasil estimates.

* Brazilian Gross Debt is considered the BCB methodology

FISCAL –
OUR BASE SCENARIO

02

Fiscal stimulus to mitigate the effects of Covid-19

Fiscal Measures with impact on central government's primary result	BRL billion	% GDP
Emergency aid for informal and intermittent workers, self-employed, microenterpreneurs and low-income workers	330.0	4.65
Resource transfers to offset losses from tax collection and to streghten public health systems in states and municipalities	60.2	0.85
Compensation payments for workers with suspended or reduced empolyment contracts (reduction in worload and wages)	51.6	0.73
National support program for small companies and microbusinesses (PRONAMPE, in Portuguese)	27.9	0.48
Resources for Credit Guarantee Funds (FGI - BNDES)	20.0	0.28
Resource transfers to the program of support to employments (PESE)	17.0	0.27
Securing level of transfers through state and municipal participation funds (FPM and FPE)	16.0	0.23
Additional transfers to finance health measures - regional gov.	10.0	0.22
Credit Program using credit card terminal (PEAC)	10.0	0.20
Extraordinary funds for the Ministry of Health	9.0	0.16
Extraordinary funds for the Ministries of Defense, Citizenship, Foreign Affairs and Science & Technology	5.8	0.08
Supplementary resource transfers to the National Health Fund	5.1	0.06
Zero import tariffs for medical, hospital and healthcare products	4.5	0.06
Ministry of Health credit to expand acquisition of Covid-19 tests	3.6	0.04
Addition of 1.2 million households to the *Bolsa Família* entitlement program	3.0	0.04
Other Measures	16.3	0.15
TOTAL	**590.0**	**8.5**

Sources: Ministry of Economy, BNDES and Santander estimates.

✓ **We believe that the actual disbursement of some emergency lifelines will be below the authorized financial limit (~BRL55 billion).**

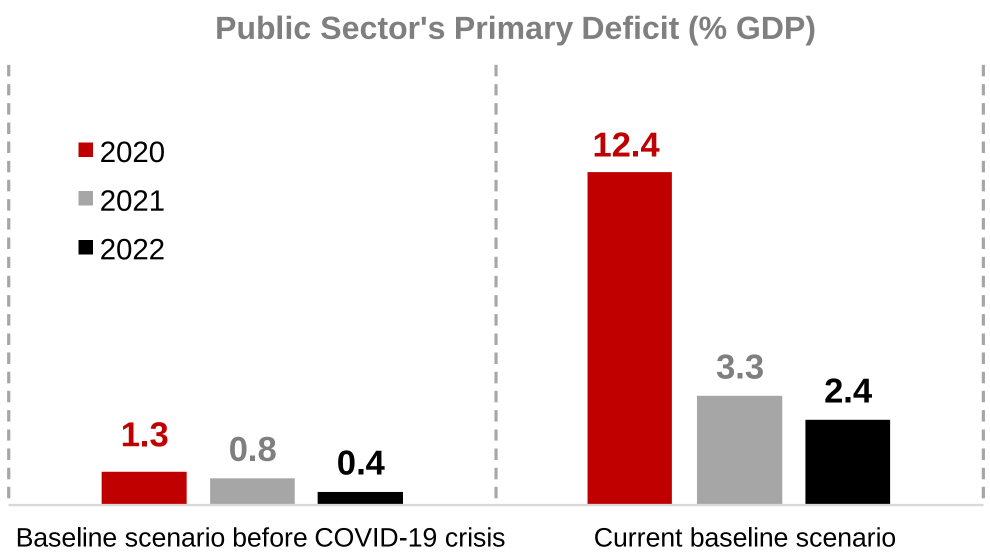
✓ **Therefore, we forecast that the wide set of emergency primary fiscal measures will total nearly BRL 615 bn (8.7% of GDP) in 2020.**
➔ **BRL590 billion from the *expenditure* side and BRL25 billion from the *revenue* side (only measures of tax exemption).**

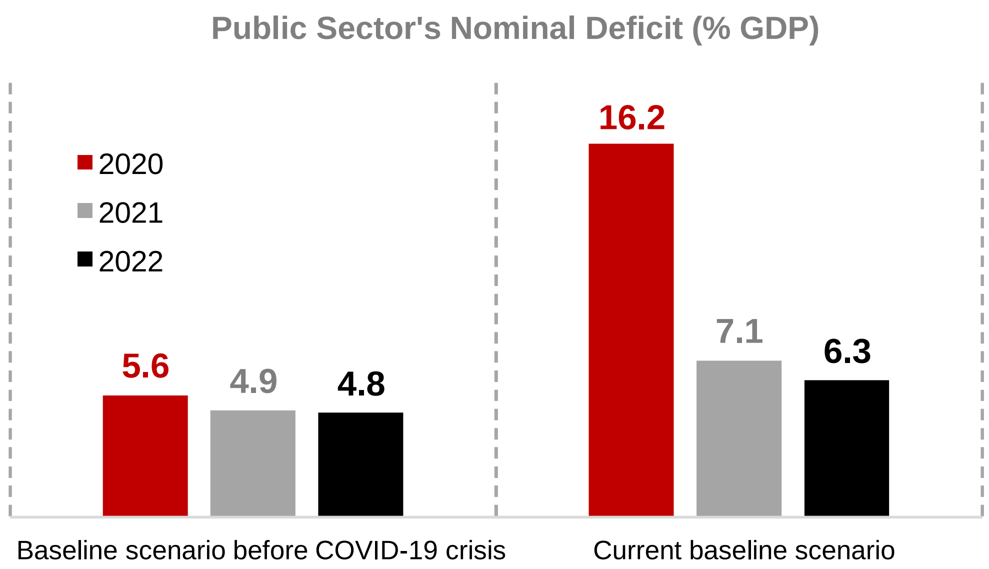
Fiscal Accounts – Public Sector's Primary Result

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	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Base Case Before the Pandemic	2.0	2.5	2.8	-	-	-	-	-	-	-105	-76	-45	-99	-68	-35
Current Base Case	-4.8	3.4	2.6	210*	150	135	590	10	10	-880	-237	-190	**-879**	**-250**	**-195**

- Our baseline scenario considers the extension of measures that allow for the deferral of tax payments (Brazilian government should allow tax debts to be paid in installments over the next few years). We estimate this measure could expand the 2020 public sector primary deficit by about BRL85 billion, with a payback likely for subsequent years. The higher use of tax credit, which is increasing, remains a risk to the revenue forecasts.

Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

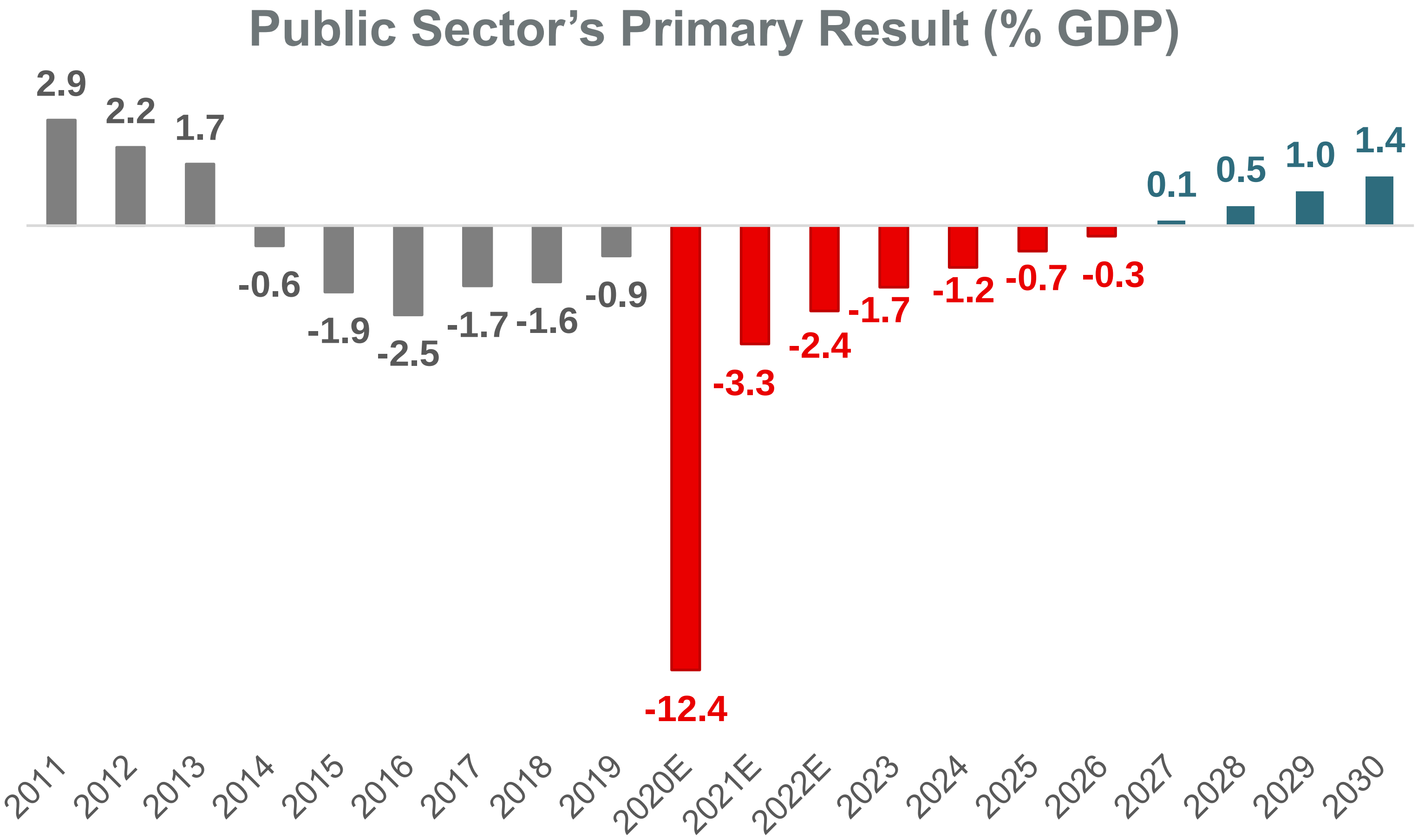




Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Fiscal Accounts – Public Sector's Primary Result in coming years

We foresee the 2020 public sector primary deficit close to BRL880 billion (12.4% of GDP). For 2021 and 2022, we forecast deficits of BRL250 billion (3.3% of GDP) and BRL195 billion (2.4% of GDP), respectively. We believe that the massive fiscal stimulus will be temporary, but the risk of creating new mandatory spending has increased significantly, which could undermine the fiscal consolidation framework.



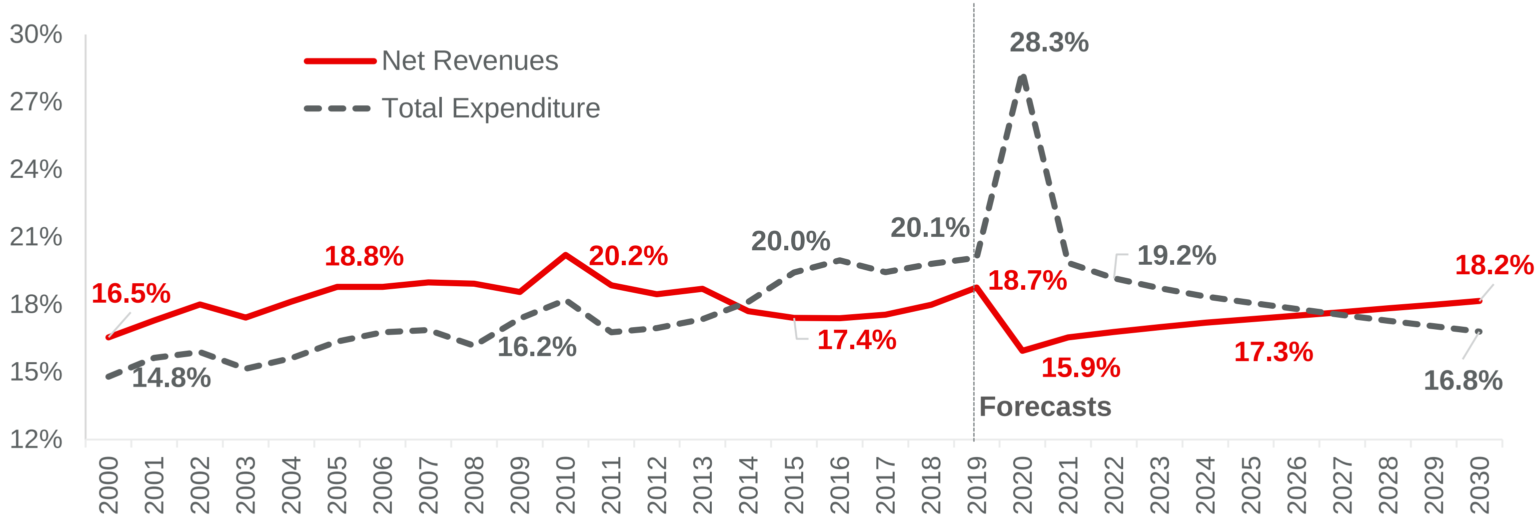
 Sources: Brazilian Central Bank and Santander forecasts.

Fiscal Accounts – Revenues and Expenditures

Central Government's Primary Balance													
Fiscal Items (% of GDP)	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total Revenue	**21.7**	**22.8**	**19.6**	**20.2**	**20.5**	**20.7**	**20.9**	**21.1**	**21.3**	**21.5**	**21.8**	**22.0**	**22.2**
Revenues Collected by the Federal Revenue Office	13.3	13.2	11.9	12.2	12.4	12.5	12.6	12.7	12.7	12.8	12.8	12.9	13.0
Net Social Security Revenues	13.3	13.2	11.9	12.2	12.4	12.5	12.6	12.7	12.7	12.8	12.8	12.9	13.0
Revenues Not Collected by the Federal Revenue Office	5.7	5.8	5.5	5.5	5.5	5.6	5.6	5.7	5.8	5.8	5.9	6.0	6.1
Transfers by Revenue Sharing	2.8	3.8	2.2	2.5	2.6	2.6	2.7	2.8	2.8	2.9	3.0	3.1	3.2
Net Revenue	**18.0**	**18.7**	**15.9**	**16.5**	**16.8**	**17.0**	**17.2**	**17.3**	**17.5**	**17.7**	**17.8**	**18.0**	**18.2**
Total Expenditure	**19.8**	**20.1**	**28.3**	**19.8**	**19.2**	**18.7**	**18.4**	**18.1**	**17.8**	**17.5**	**17.3**	**17.0**	**16.8**
Social Security Benefits	8.6	8.7	9.5	9.4	9.2	9.1	9.0	9.0	9.0	9.0	8.9	8.9	8.9
Payroll	4.4	4.4	4.5	4.3	4.1	3.9	3.8	3.7	3.5	3.4	3.3	3.2	3.1
Other Mandatory Expenses	2.9	2.7	11.4	2.8	2.7	2.6	2.5	2.5	2.4	2.3	2.3	2.2	2.2
Mandatory Expenses with Cash Control	3.9	4.3	2.9	3.4	3.2	3.1	3.0	2.9	2.8	2.8	2.7	2.7	2.6
Discretionary Expenses	2.0	2.0	1.4	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.6	1.6
Central Government's Primary Balance	**-1.8**	**-1.3**	**-12.4**	**-3.3**	**-2.4**	**-1.7**	**-1.2**	**-0.7**	**-0.3**	**0.1**	**0.5**	**1.0**	**1.4**
Nominal GDP (BRL billion)	**6,828**	**7,183**	**7,101**	**7,569**	**8,002**	**8,467**	**8,943**	**9,425**	**9,922**	**10,444**	**10,994**	**11,573**	**12,183**

Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Central Government's Accounts (% GDP)



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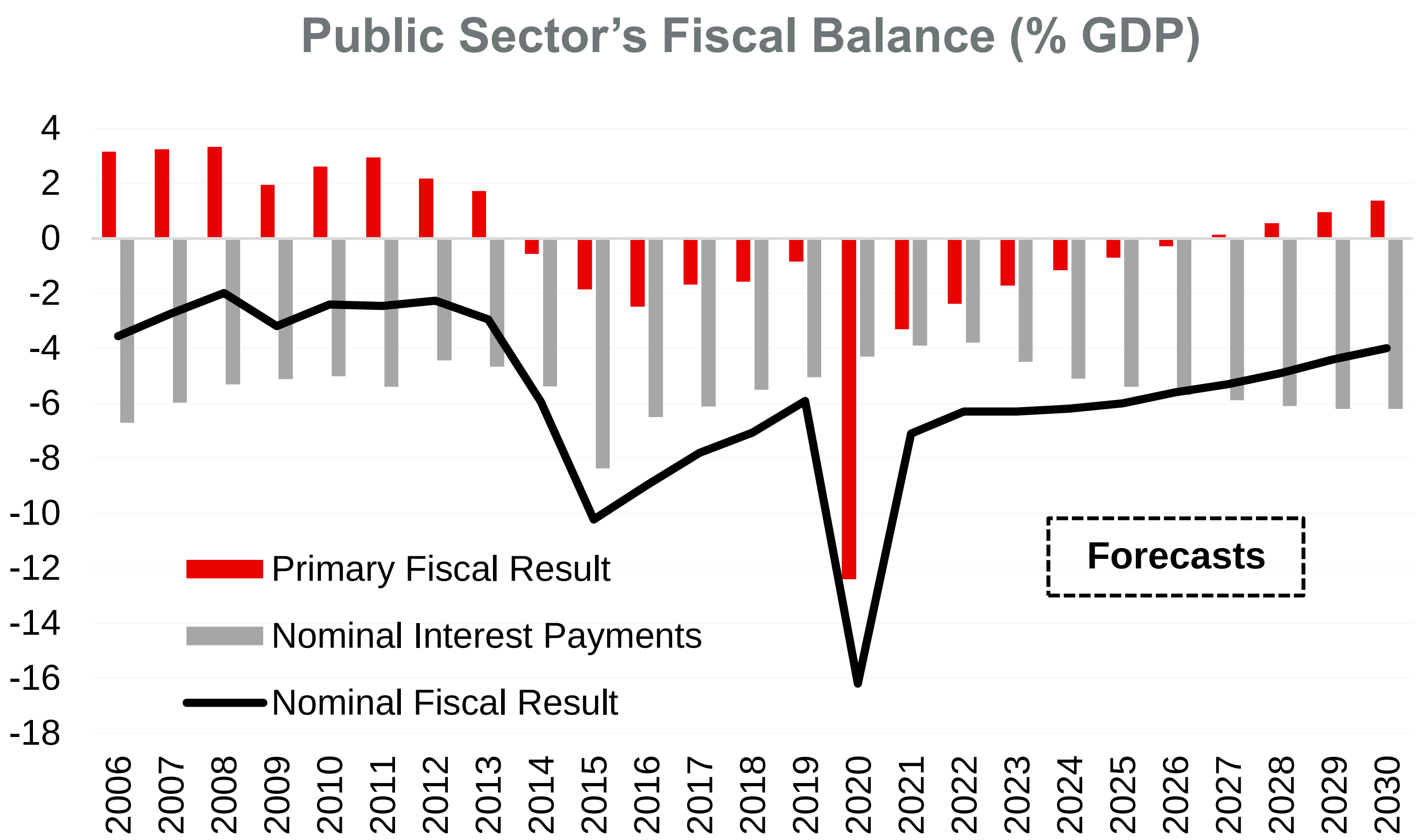
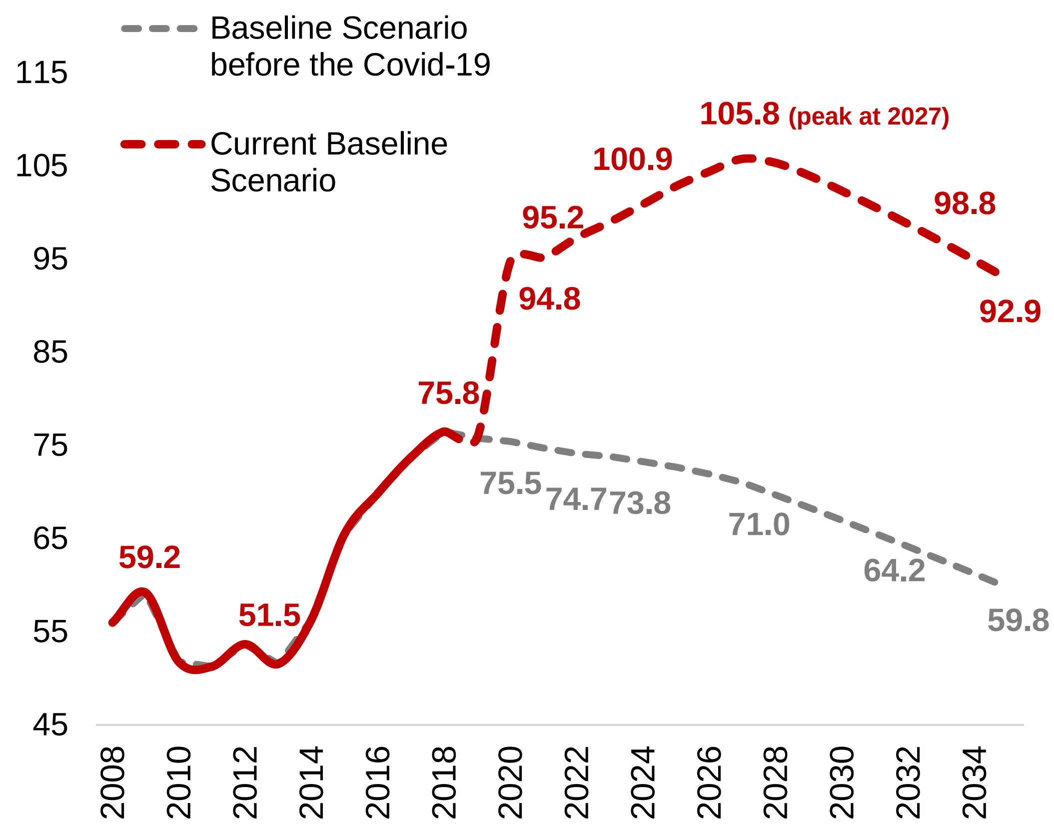
Fiscal Accounts – Public Sector's Financing Needs

The approval of Fiscal Reforms is crucial to achieve a primary surplus in 2027. Highlight for Administrative reform on the expenditure side and Tax reform on the revenue side (increase in potential GDP).

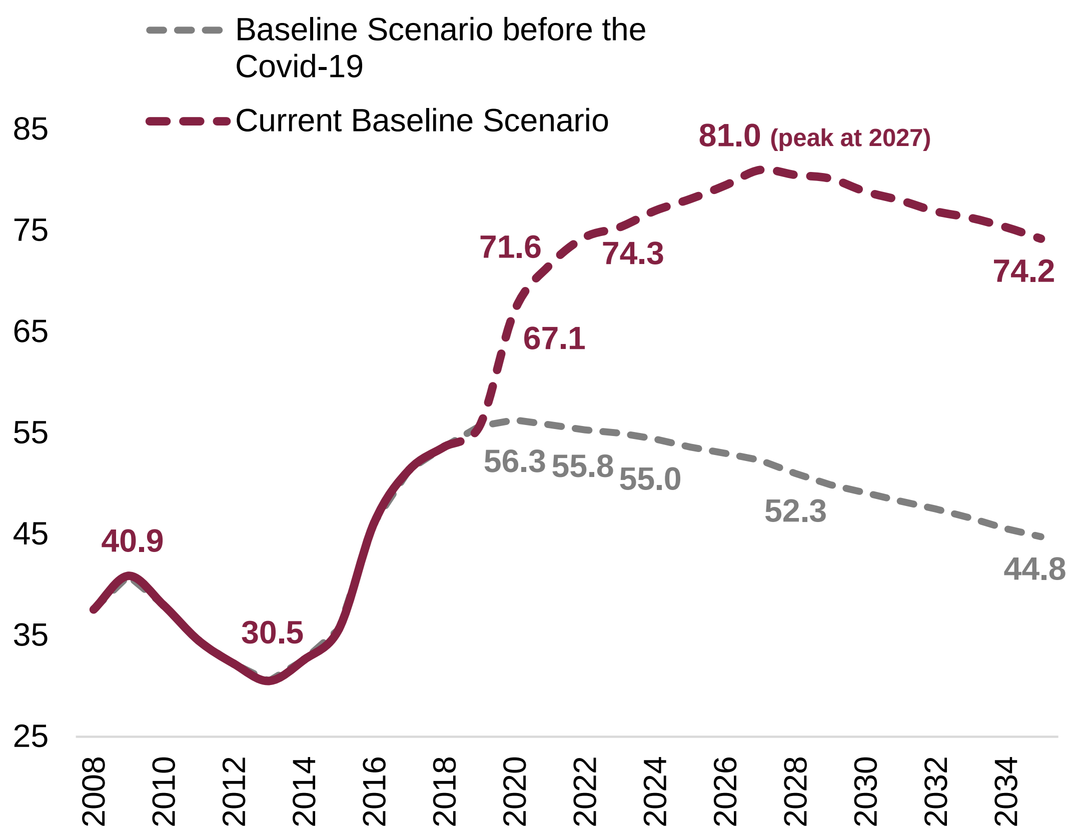


Fiscal Accounts – Trajectories for the Brazilian Government Debt

General Government Gross Debt (% GDP)



Public Sector Net Debt (% GDP)



Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Hypotheses: Our Base Scenario for 2020-2023

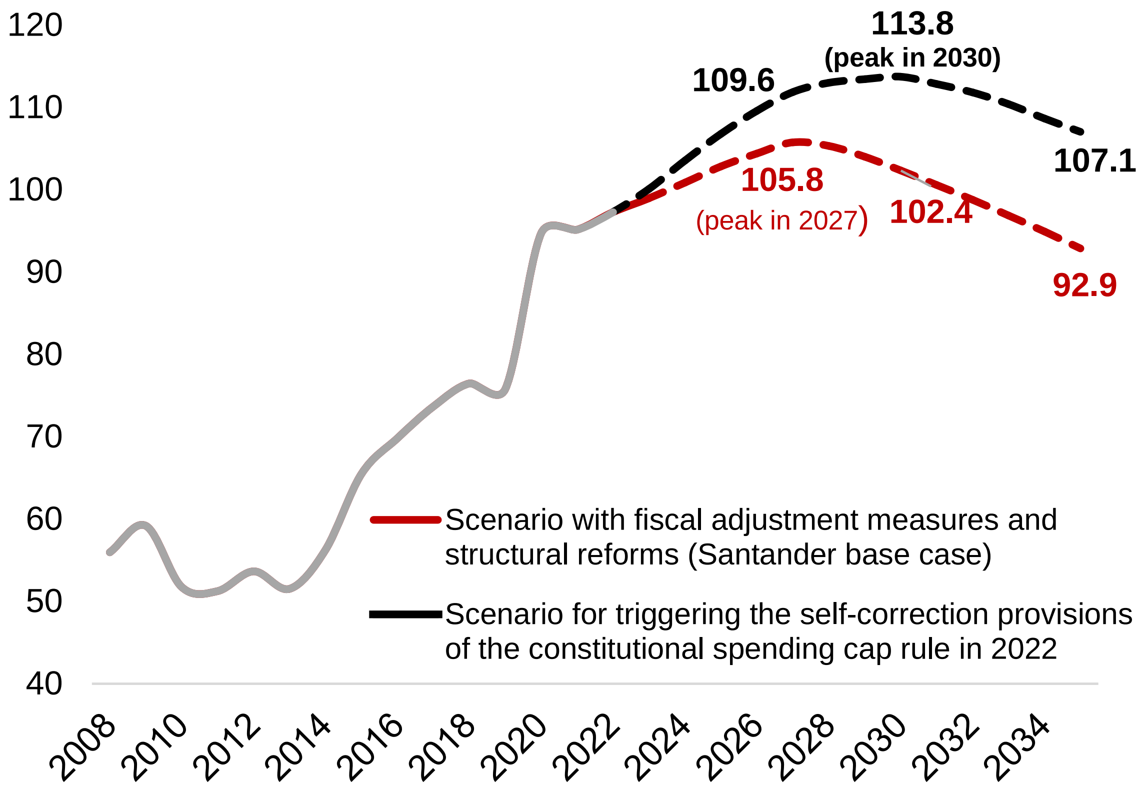
Potential GDP: 1.8% | Inflation: 3.0% | Real Interest Rate: 3.0%

* For 2021 we consider 100 bn repayment to the Treasury from BNDES

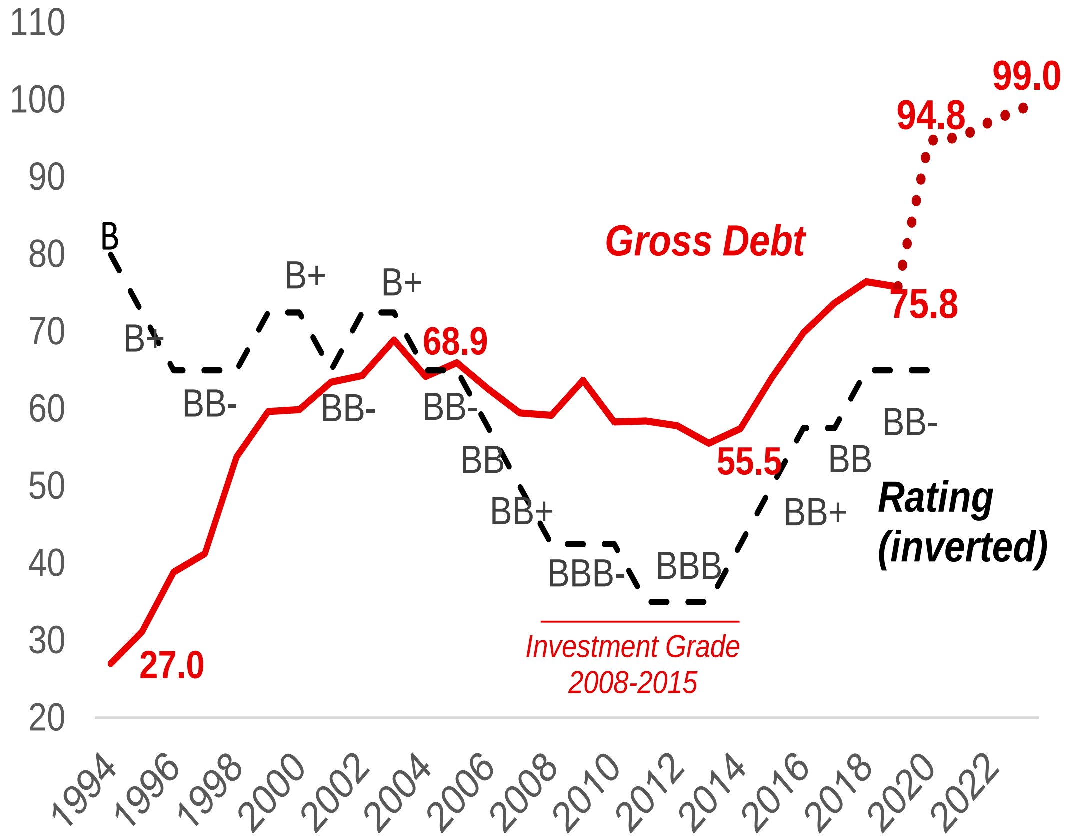
Fiscal Accounts – Simulations for Alternative Scenarios

The use of Fiscal Triggers to curb mandatory expenses is necessary, yet not sufficient to reduce the debt in a more sustainable path. The approval of Fiscal Reforms is crucial to the debt convergence. Highlight for Administrative reform on the expenditure side and Tax reform on the revenue side (increase in potential GDP). If the fiscal framework changes, it could affect the country's rating.

General Government Gross Debt (% GDP)



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



Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Fiscal Accounts – Trajectories for the Brazilian Government Debt

Public sector's primary result required for the stabilization of the gross public debt-to-GDP ratio at **90%**, **100%** and **115%**

Potential GDP Growth / Real Interest Rate	1.0%	1.5%	2.0%	2.5%	3.0%
2.5%	1.3% 1.4% 1.6%	0.8% 0.9% 1.1%	0.4% 0.4% 0.5%	-0.1% -0.1% -0.1%	-0.5% -0.6% -0.6%
3.0%	1.7% 1.9% 2.2%	1.3% 1.4% 1.6%	0.8% 0.9% 1.0%	0.4% 0.4% 0.5%	-0.1% -0.1% -0.1%
3.5%	2.1% 2.4% 2.7%	1.7% 1.9% 2.2%	1.2% 1.4% 1.6%	0.8% 0.9% 1.0%	0.3% 0.4% 0.4%
4.0%	2.6% 2.9% 3.3%	2.1% 2.3% 2.7%	1.7% 1.8% 2.1%	1.2% 1.3% 1.6%	0.8% 0.9% 1.0%
4.5%	3.0% 3.3% 3.8%	2.5% 2.8% 3.3%	2.1% 2.3% 2.7%	1.6% 1.8% 2.1%	1.2% 1.3% 1.5%

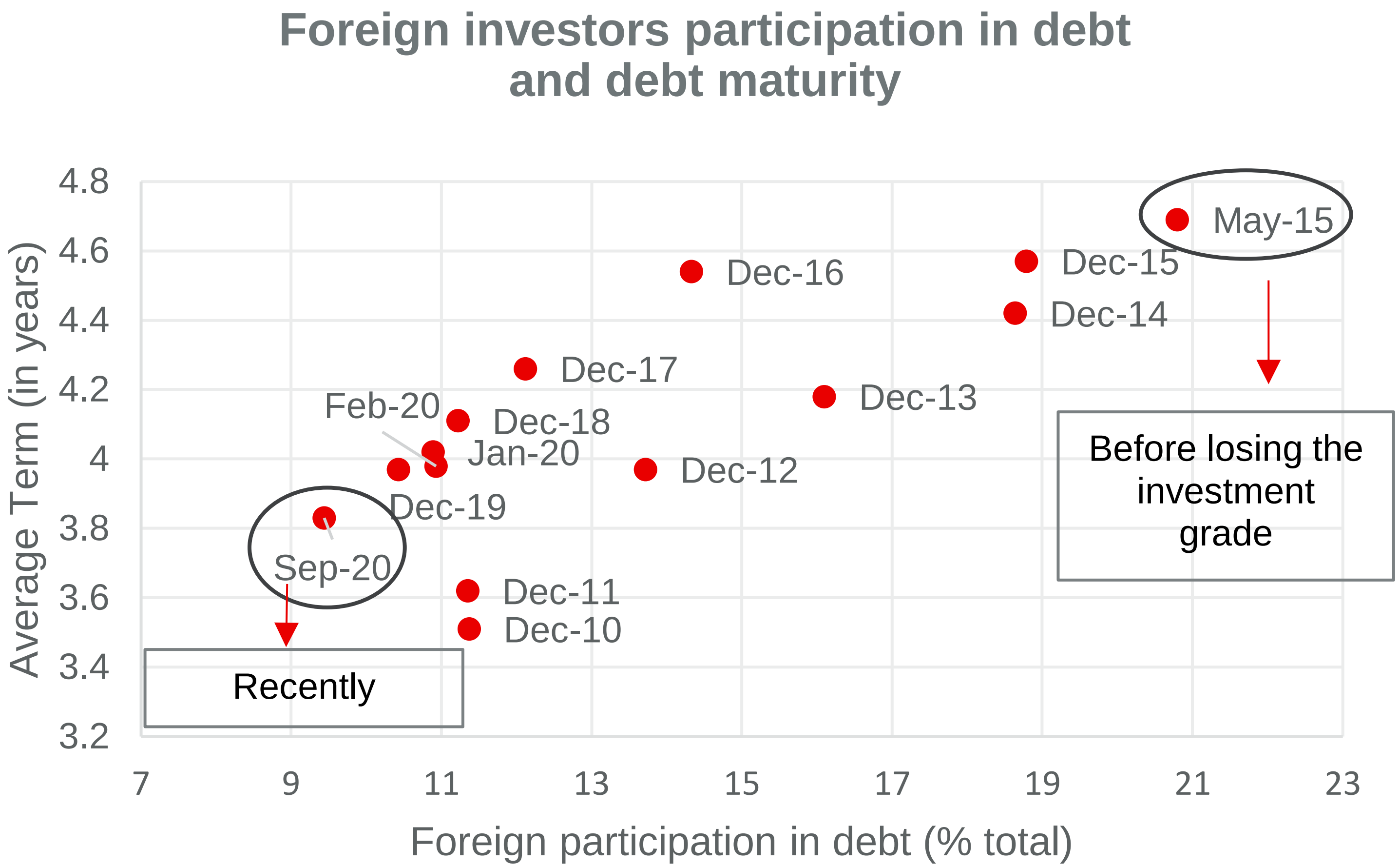
Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

FISCAL –
DEBT MANAGEMENT

03

Government Debt Management

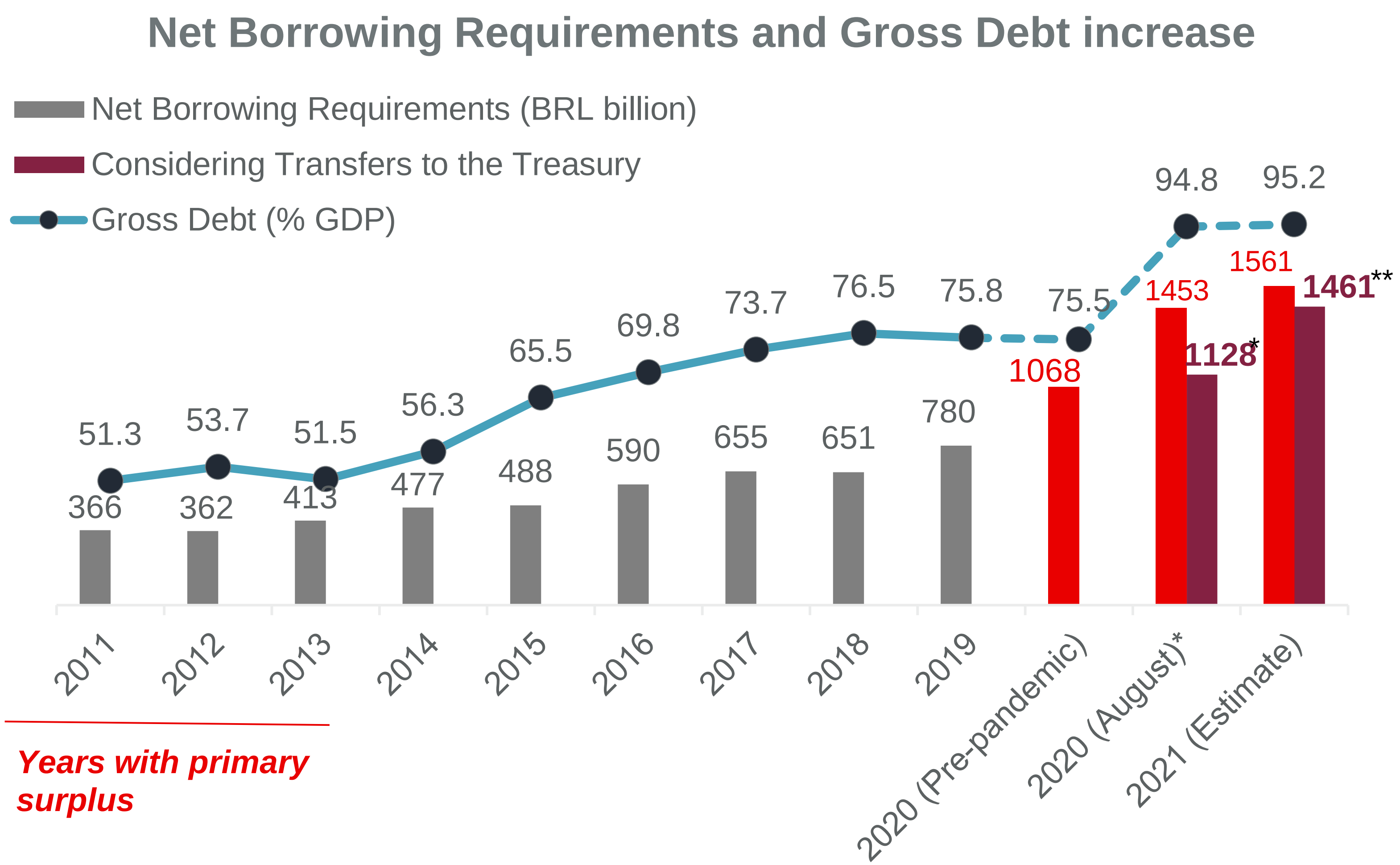
We reinforce the importance of complying with the spending cap rule and advancing in the fiscal reforms, in order to reduce the structural risk, maintaining the neutral interest rate at low levels, and also attracting non-residents to invest in Brazil with a perspective of long-term debt solvency.



Sources: The National Treasury Secretariat, and Santander

Government Debt Management

There is a increase in the Net Borrowing Requirements. For 2021, we consider that BNDES will repay the Treasury BRL100 bn.



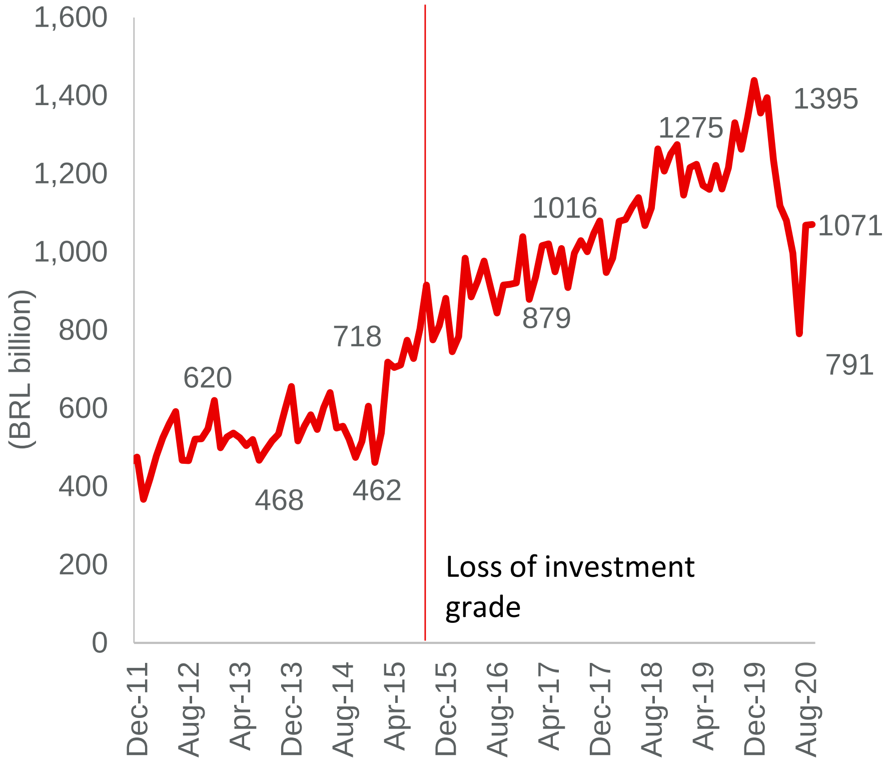
* Transfer of Central Bank to the Treasury (BRL325 billion), allowed by law nº 13,820/2019
** BNDES transfer of BRL100 bn to the Treasury

Sources: The National Treasury Secretariat, and Santander

Government Debt Management

With debt shortening it is important to keep the level of the liquidity cushion at comfortable levels. Another aspect to consider is that just over 60% of this treasury cash account is exclusively linked to debt management, that is, the so-called "liquidity cushion" of the treasury is closer to BRL737 billion

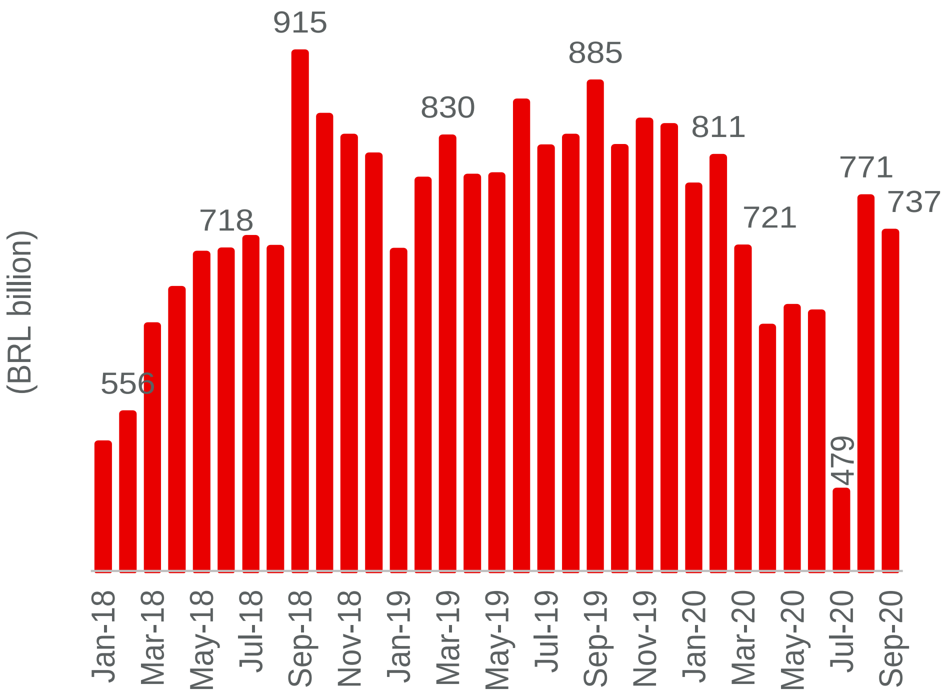
Treasury's cash position - (BRL billion)



Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Cash "Liquidity Cushion" - (BRL billion)

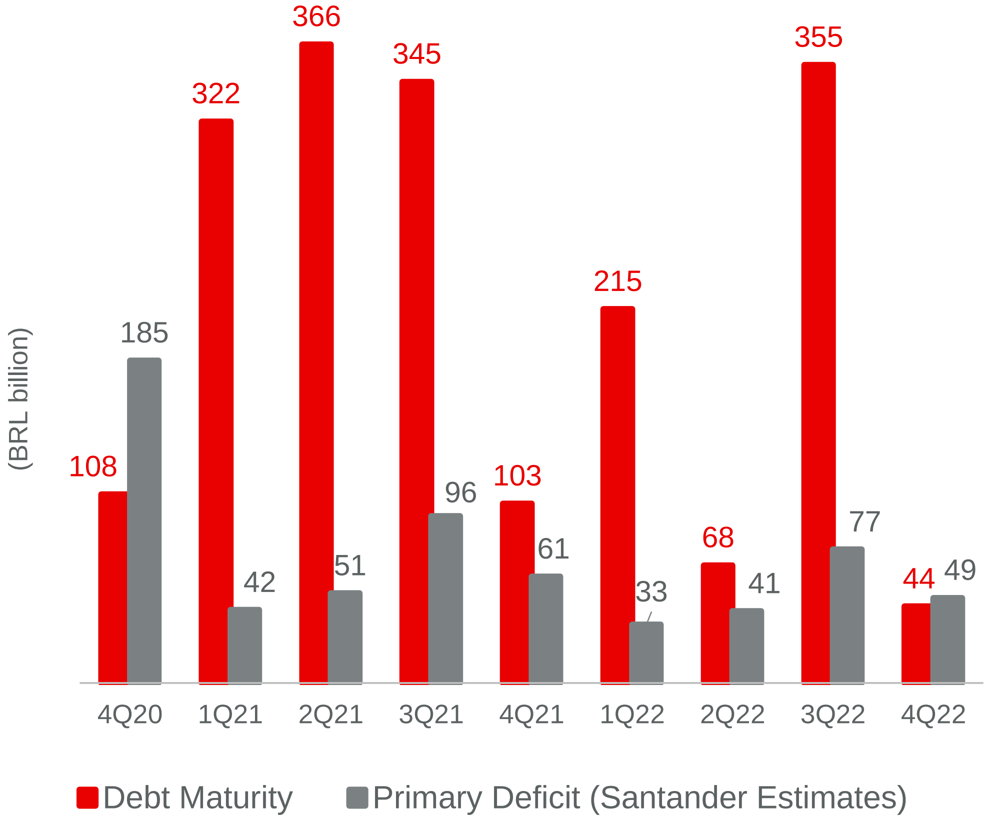
Public Debt Resources + Unbound / Ordinary Resources



Government Debt Management

The majority of debt maturities are concentrated in the first half, totaling BRL688 billion.

Debt maturity - (BRL billion)



Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

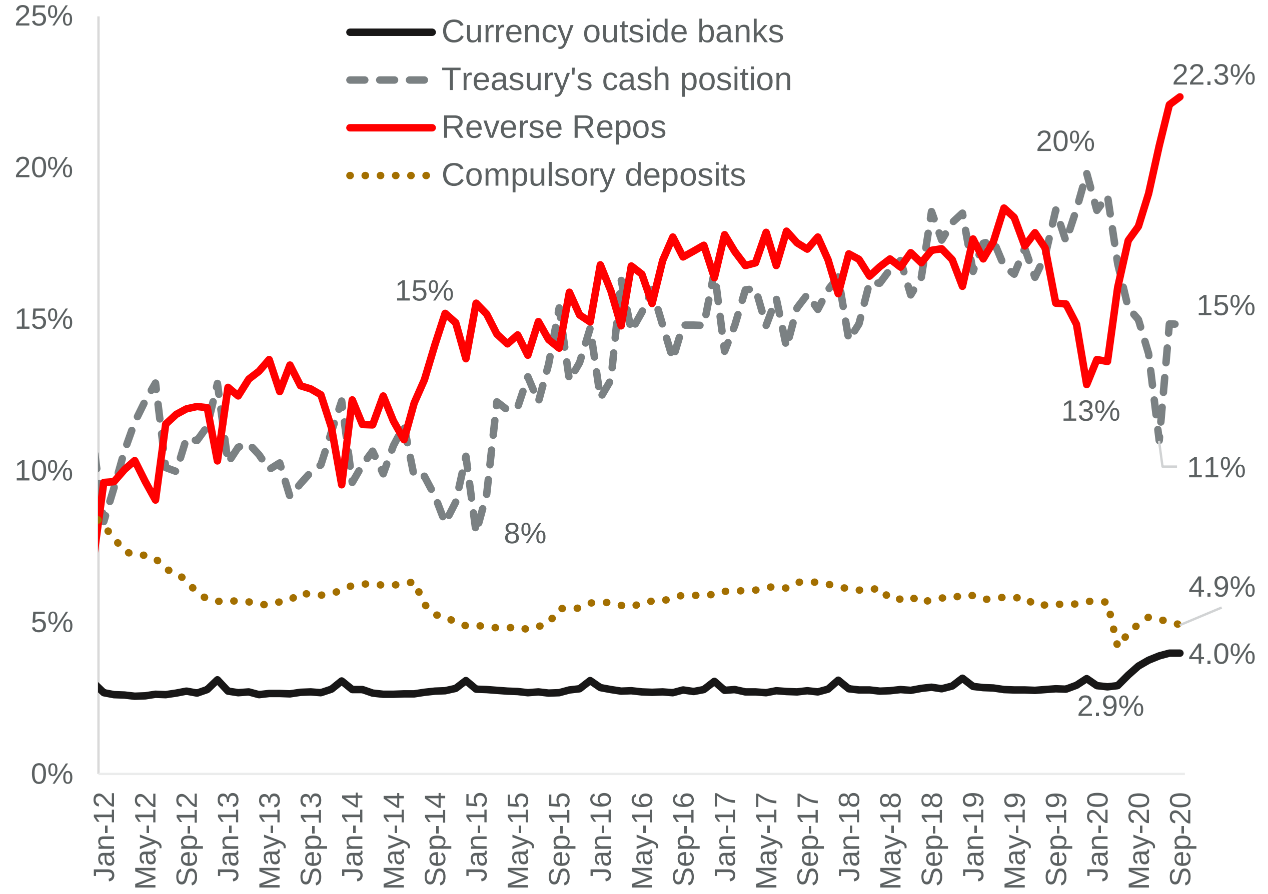
Profile by categories - (BRL billion)

Quarter	Fixed Rate	Floating Rate (selic)	Inflation-Linked	FX-Exchange	Other	Total
4Q20	92.1	-	12.2	1.2	2.8	**108.3**
1Q21	119.3	183.6	15.4	3.0	0.9	**322.2**
2Q21	243.7	-	82.8	38.6	1.4	**366.5**
3Q21	97.9	228.2	15.0	2.8	1.0	**345.0**
4Q21	91.5	-	9.5	-	2.0	**102.9**
1Q22	88.9	107.3	14.6	2.7	0.9	**214.5**
2Q22	57.2	-	9.3	-	1.1	**67.5**
3Q22	78.6	129.3	143.3	2.6	0.8	**354.6**
4Q22	32.7	-	9.0	-	2.2	**43.9**

Government Debt Management

Another consequence of the monetary and fiscal stimulus measures, related to the pandemic, was the need for greater reverse repos operations by the Central Bank, to withdraw excess liquidity in the market. These operations jumped BRL494 bn in the year and reached BRL1.6 tn or 22% of GDP in Sep, compared to the average of 14.1% of GDP from 2011 to 2019, and 16.7% of GDP last year.

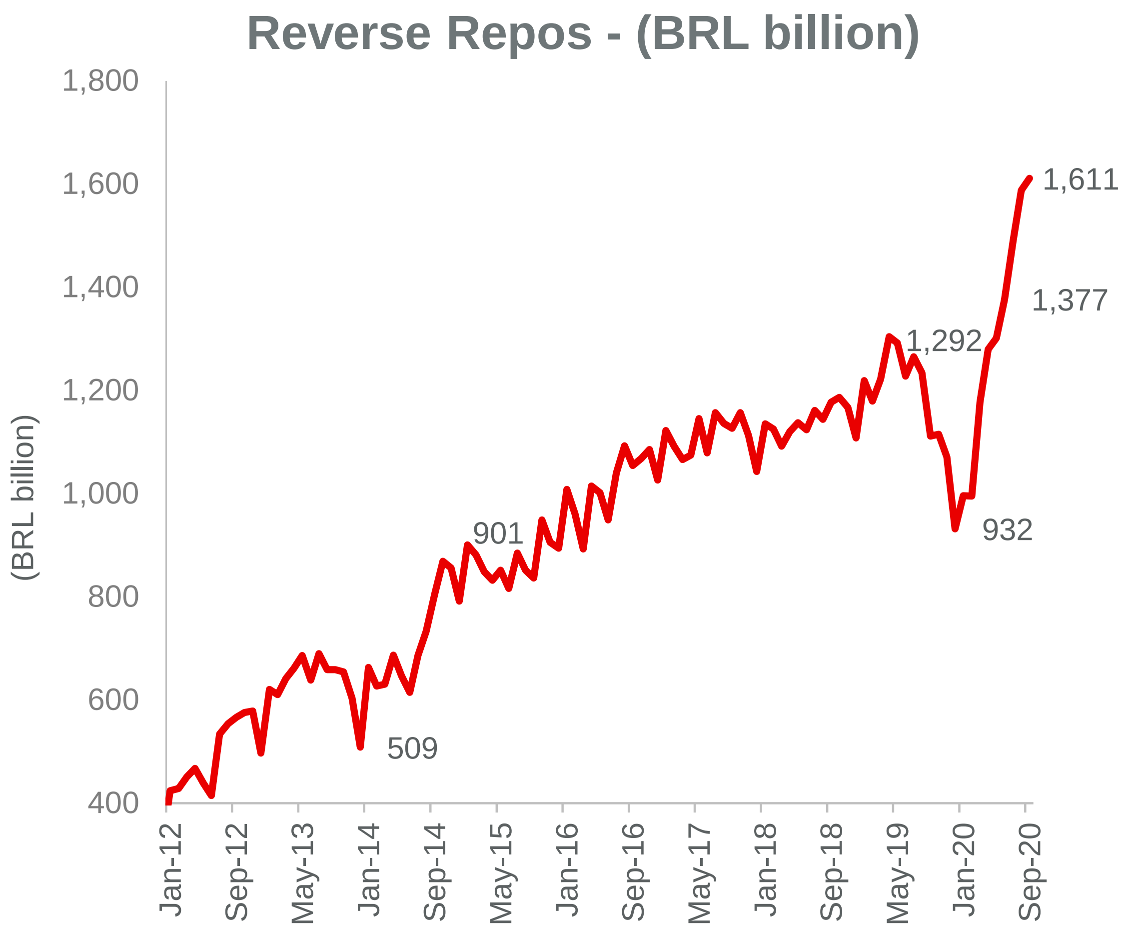
Demand for liquidity - sub items of Central Bank Liabilities - (% GDP)

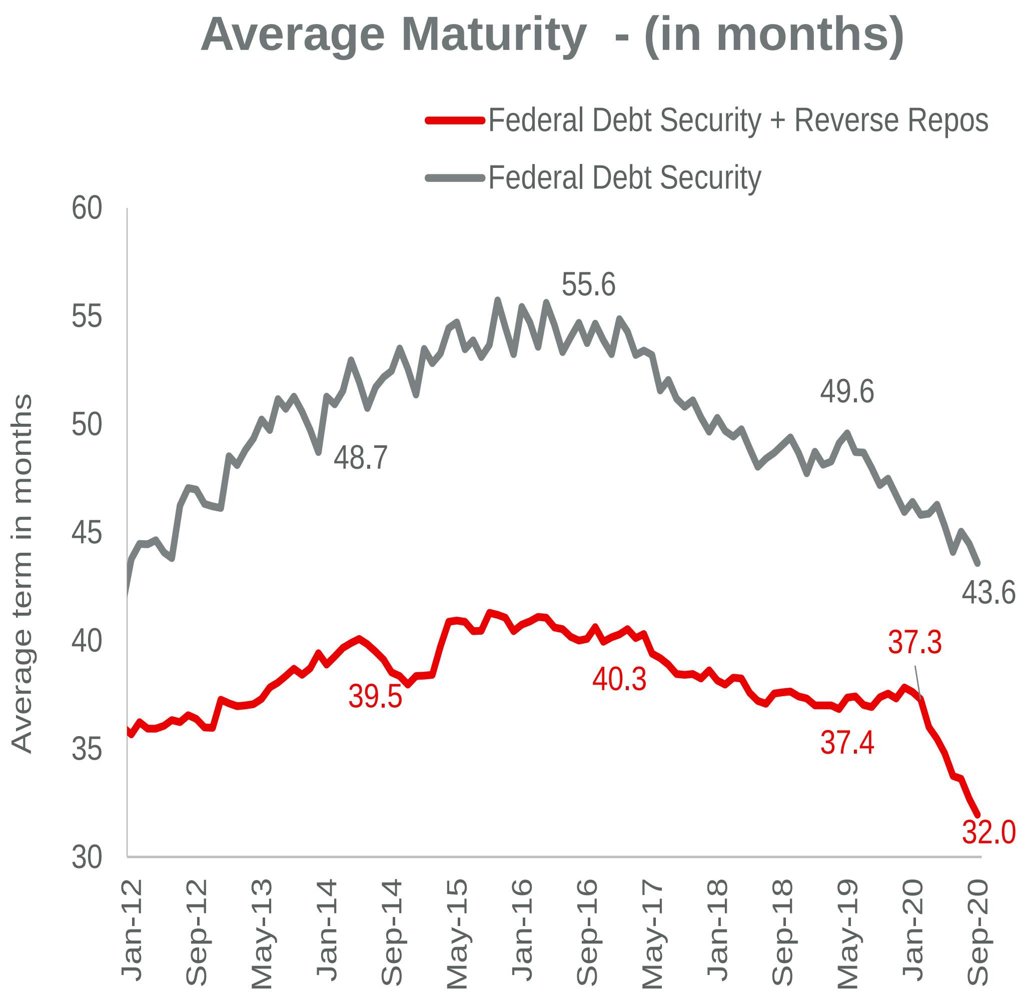


Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Government Debt Management

The fall in the average maturity of debt securities should continue, as the Treasury continues to issue shorter bonds, even more with higher borrowing requirements, as we showed earlier. Currently, adding up reverse repos and public debt, it represents 42.1% of total gross debt or the equivalent of 38.1% of GDP with maturities up to 2021.

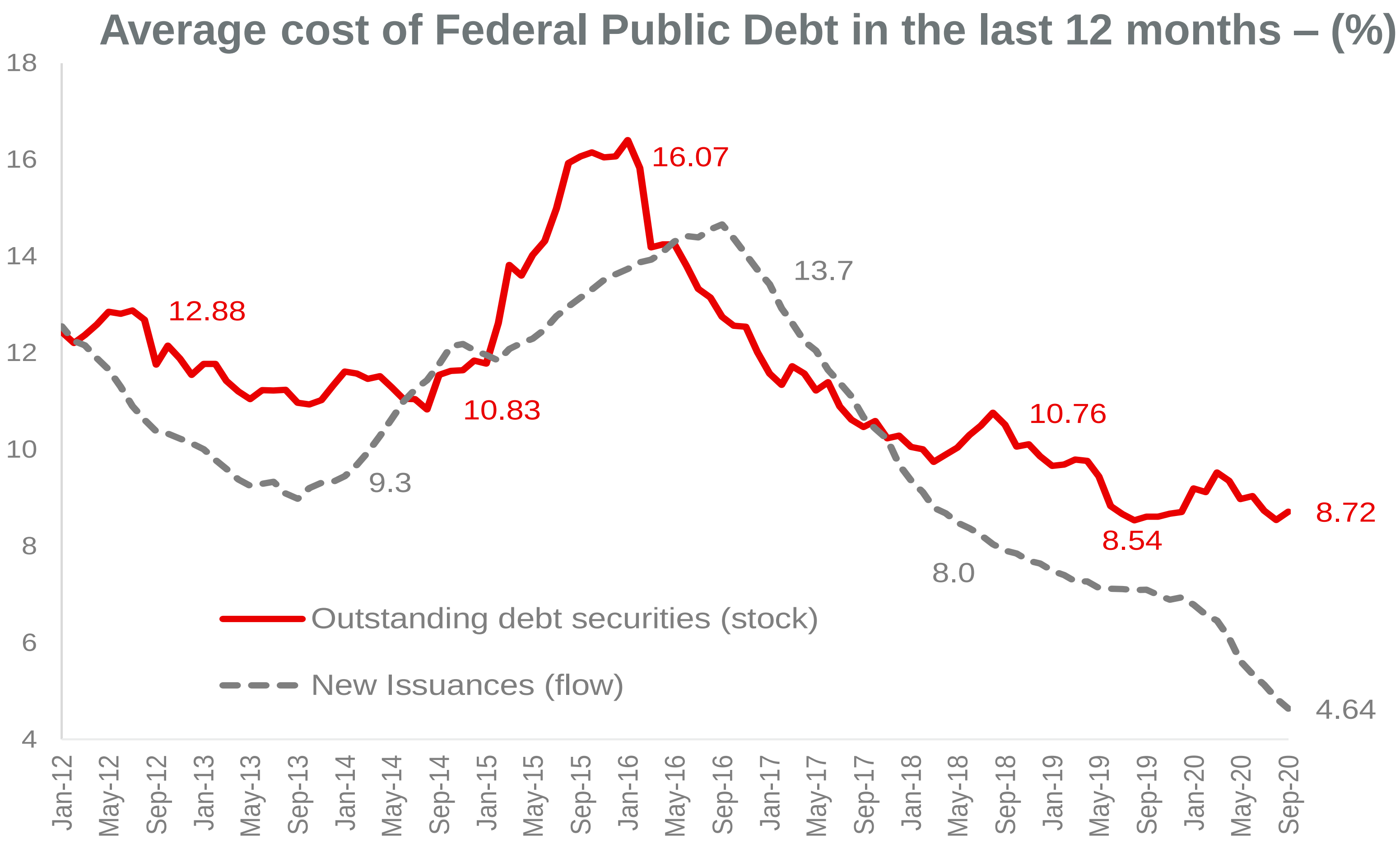




Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Government Debt Management

Although the market has been demanding higher premiums due to fiscal uncertainty, the rate is still relatively low as seen in graph below, which ensures that positive are maintained within the spectrum of deteriorations in the fiscal framework.



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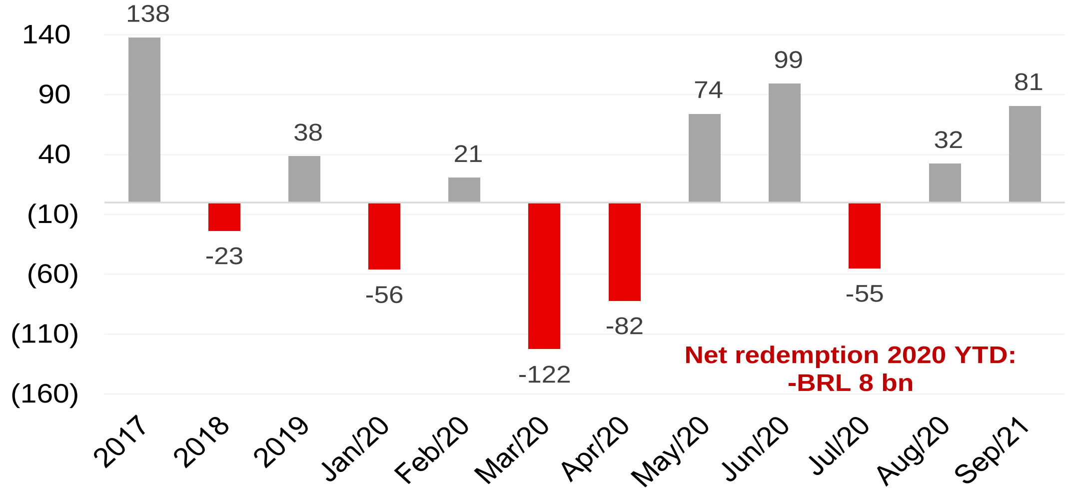
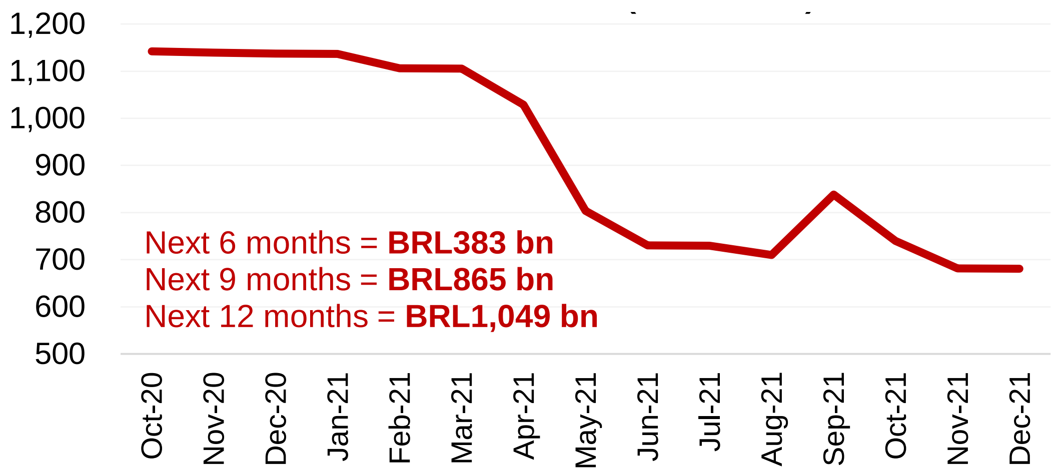
Sources: The National Treasury Secretariat, Brazilian Central Bank and Santander forecasts.

Government Debt Management

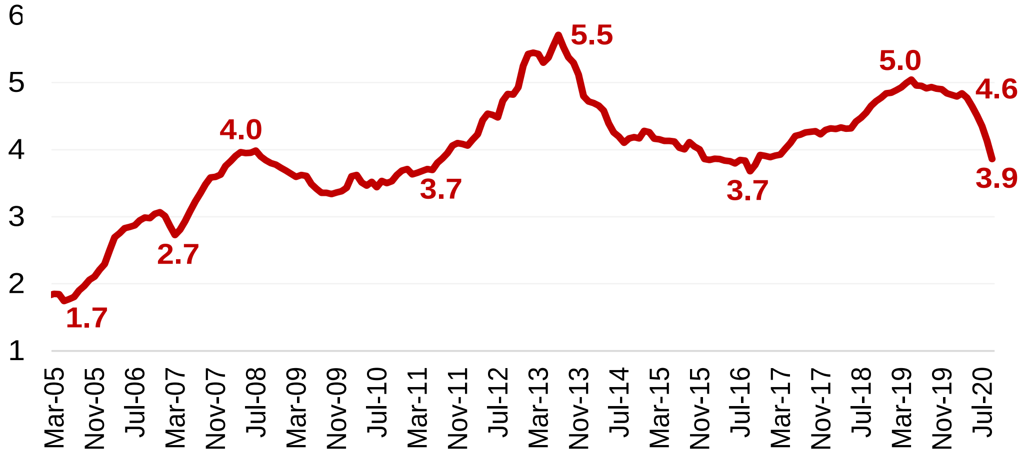
Net Redemptions of Public Debt Securities (BRL billion)



Federal Public Debt Maturities in the next 12 months (BRL billion)



Average Term of Federal Public Debt Issuances (in years) - 12-month rolling average



- The data **show that public securities issuances have been gradually increasing**, which is important for keeping the National Treasury's "liquidity cushion" at comfortable levels. We calculate this reserve (a management tool that serves to mitigate the rollover risk in stress scenarios) **is currently above BRL600 billion (8.6% of GDP), an amount enough to pay off federal debt maturities in the first four-month of 2021.**

- The Treasury used part of the Central Bank's FX results in 1H20 (mostly due to a higher value of foreign exchange reserves in BRL) to strengthen the "liquidity cushion". **The total amount transferred from the Central Bank to the National Treasury was BRL325 billion (4.7% of GDP). For next year, we consider the repay of BRL100 bn from BNDES, which will help the debt management.**

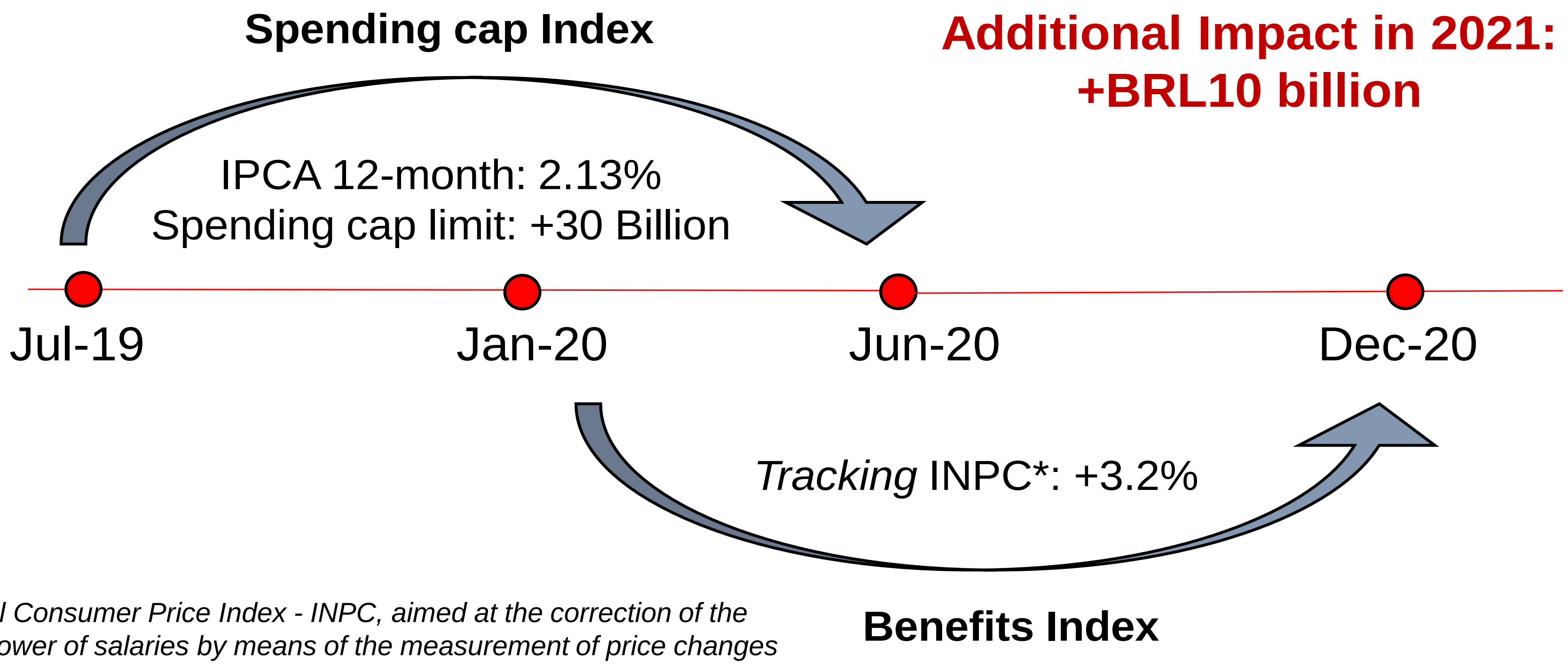
Sources: The National Treasury Secretariat, and Santander

FISCAL –
SPENDING CAP RULE

04

Spending Cap Rule: Narrowing the Margin for 2021 - Mismatch between inflation indexes

Beyond the possibility of creating a new welfare program, the mismatch between the inflation index that is used to readjust the spending cap limit and the index used to adjust budget benefits should generate pressure to comply with the spending cap in 2021, in our view.



**The National Consumer Price Index - INPC, aimed at the correction of the purchasing power of salaries by means of the measurement of price changes in the basket of the lowest-income salaried population*

Sources: The National Treasury Secretariat, Ministry of Economy and Santander estimates.

Compliance with the Constitutional Spending Cap Rule

The compliance to the spending cap remains feasible, in our view. However, it could lead to a decline in discretionary expenses, and with a possibility to occur a partial shutdown of some public services.

The compliance with the expenditure ceiling rule, until 2022, would be guaranteed by taking four measures:

(i) Real stability of the minimum wage;

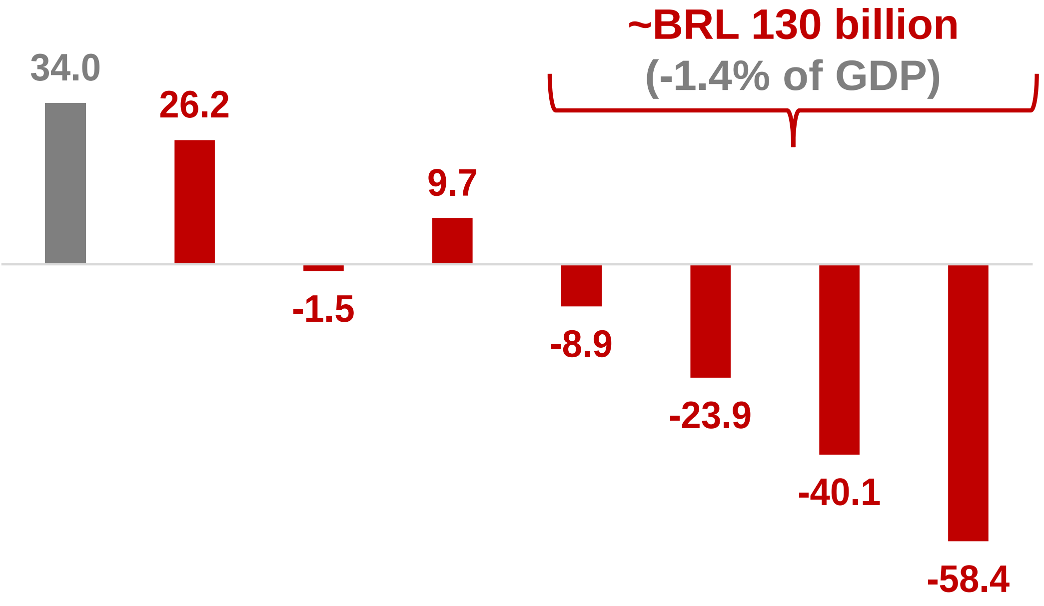
(ii) Nominal stability of the public servants' wages;

(iii) Hiring freeze in federal public services;

(iv) Ban on the creation of new mandatory expenditure.

For 2023 onwards, nevertheless, we draw attention that the compliance with the spending ceiling rule will be feasible only if government is able to approve further measures to reduce mandatory outlays.

Surplus (+) or Insufficiency (-) to comply with the constitutional spending cap rule (BRL billion)



Minimum Value – Discretionary Expenses (BRL bn)	(88.2)	(91.8)	(93.4)	(96.0)	(98.9)	(101.8)	(104.9)	(108.0)
	2019	2020E	2021E*	2022E	2023E	2024E	2025E	2026E

* Without the extension of payroll tax breaks into 2021 (6.5 bn)

Sources: The National Treasury Secretariat, Ministry of Economy and Santander estimates.

Binary Scenario based on the Spending cap rule

We believe that the massive fiscal stimulus will be temporary. Yet, due to the positive effect of fiscal stimulus on the activity perspective, it is possible that emerge pressures for the extension or at least an increase in **the welfare transfer programs**. Accommodating it within the limit of the spending cap rule or creating a breach will be crucial for the macro scenario. **Thus, we have a binary scenario.**

1. Base Scenario

Comply with the

Spending cap

Δ expenses = 0

- Stabilize public debt over time
- More positive financial conditions
- Lower: interest rates, inflation, FX rate

2. Alternative Scenario

A Breach in the

Spending cap

Δ expenses = +BRL70 billion

- Public debt dynamics deteriorate
- Loose financial conditions
- Higher: interest rates, inflation, FX rate

New welfare program

- Reallocation of current benefits
  BRL158 billion
- De-index social benefits from inflation
  BRL22 billion
- Maintaining the current programs

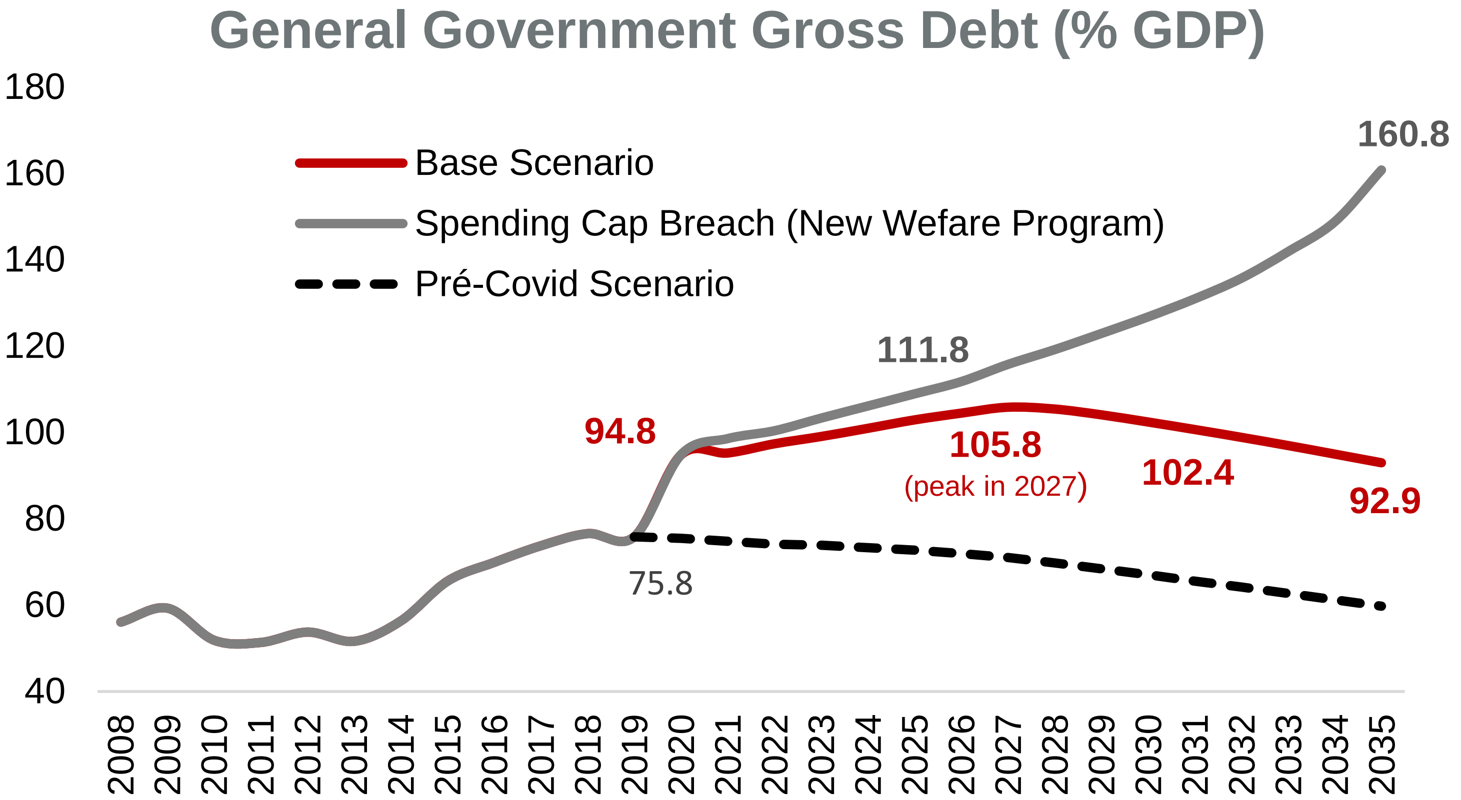
Simulation Hypothesis:

BRL70 billion breach in the spending cap

Partially financed by

Tax increase (BRL 30 billion)

Debt dynamics - the evolution in both scenarios



➔ **Main assumptions for the current baseline scenario: (i)** Potential GDP growth = 1.8%; **(ii)** Neutral real interest rate = 3.0%; **(iii)** Long-term inflation = 3.0%; **(iv)** Net sales of foreign exchange reserves = USD25 bln in 2020; **(v)** Advanced payments from BNDES to the Treasury = no payment in 2020, BRL100 bln in 2021, BRL25 bln in 2022, and BRL20 bln in 2023.

➔ **Main assumptions for the Spending cap breach scenario: macroeconomic variables deteriorate exponentially over time**

(i) Potential GDP growth = 1.0%; **(ii)** Neutral real interest rate avg = 6.0%; **(iii)** Long-term inflation avg = 11%; **(iv)** Net sales of foreign exchange reserves = USD20 billion in 2020; **(v)** Advanced payments from BNDES to the Treasury = no payment in 2020, BRL100 billion in 2021, BRL20 billion in 2022, and BRL20 billion in 2023.

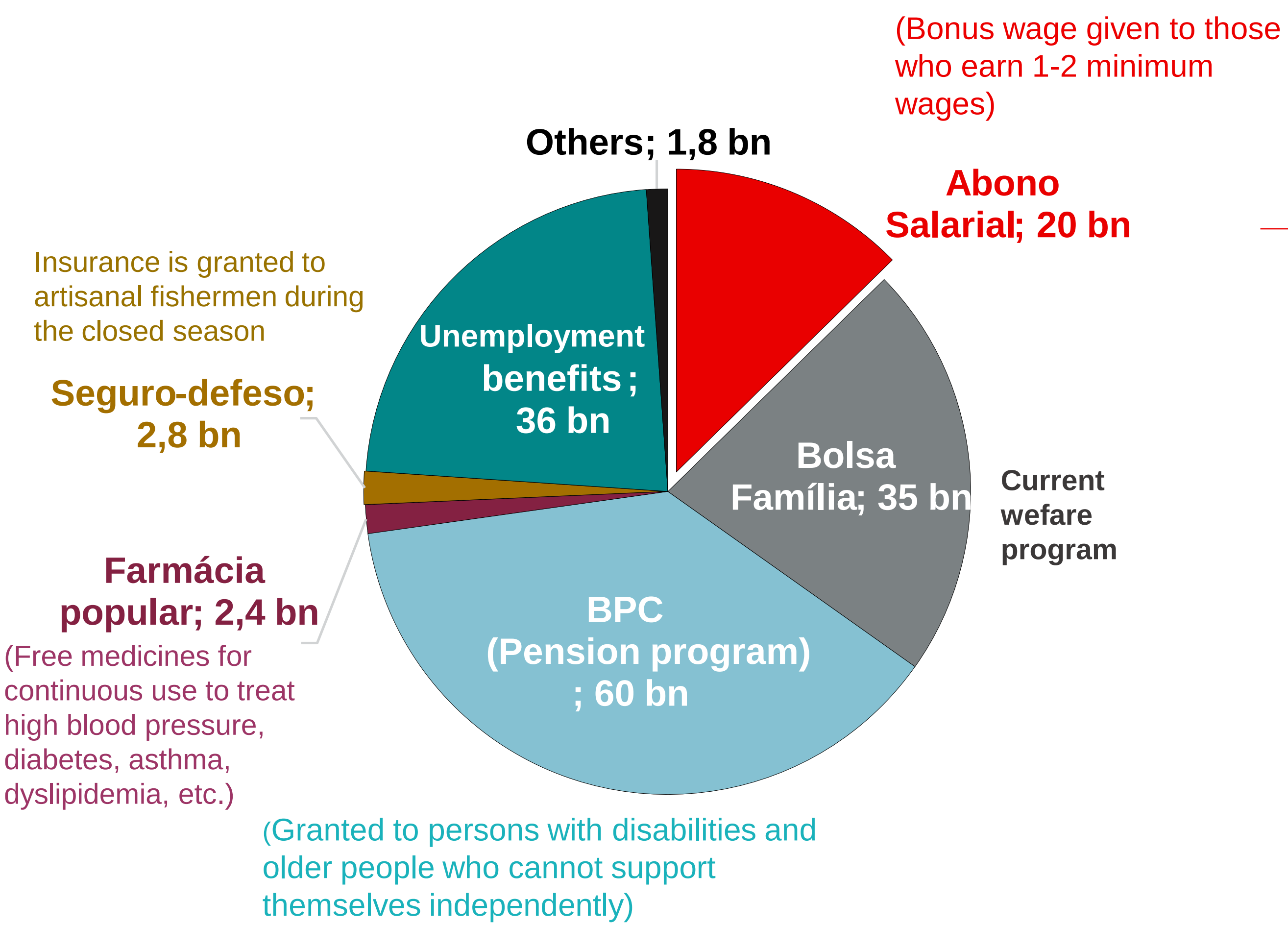
Sources: The National Treasury Secretariat, Ministry of Economy and Santander estimates.

FISCAL – NEW WELFARE PROGRAM

05

The creation of new welfare program

These are the main benefits that can be restructured to increase the new social program. Most need Congressional approval to be changed.



Total : 158 billion

Total value of all social benefits that could be used to create a new program.

Total budget required to finance the new social program
- per year (BRL bn)

Benefit per month (BRL)	Number of beneficiaries (million) 15	30	45	60
50	9	18	27	36
100	18	36	54	72
200	36	72	108	144
300	54	108	162	216
400	72	144	216	288
500	90	180	270	360
600	108	216	324	432

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Sources: The National Treasury Secretariat, Ministry of Economy and Santander estimates.

List of Social benefit programs in Brazil that could finance the new program

Social benefits panel				
Benefits	**Average Monthly Value (BRL)**	**Beneficiaries (millions)**	**Total Cost (BRLbillion)**	**Eligibility**
Bolsa Família*	189	14.2	34.9	Extremely poor monthly income of up to BRL89.00 per person. Poor families w ith monthly income betw een R $ 89.01 and R $ 178.00 per person - as long as they have pregnant w omen and children or adolescents betw een 0 and 17 years old.
BPC (Pension)	1,037	4.8	59.7	Elderly person, 65+ years old, and the disabled person, of any age, with long-term impairments
Salário Família	49	5.7	3.3	Benefit paid to a worker who has a gross monthly income equal to or less than R $ 1,425.6 and children under 14 years old or disabled
Seguro-Defeso	300	0.8	2.8	Benefit paid during periods when fishing is prohibited
Abono Salarial	66	23.2	18.3	Benefit ensures the value of an annual minimum wage to Brazilian workers who receive an average of up to two minimum wages
Seguro Desemprego	405	7.3	35.5	Having been dismissed without just cause; Having no personal income; Be unemployed when applying for the benefit;
Salário Maternidade	598	0.1	0.7	Women who need to leave work because of the birth of a child, adoption or even in cases of abortion.
Auxílio Reclusão	1,498	0.0	0.6	Social security benefit paid to dependents of the worker who committed a crime
Farmácia Popular	11.4	17.6	2.4	Free medication for the treatment of hypertension (high blood pressure), diabetes and asthma.
Total	**178.8**	**73.7**	**158.2**	**-**

* Bolsa família are millions of families

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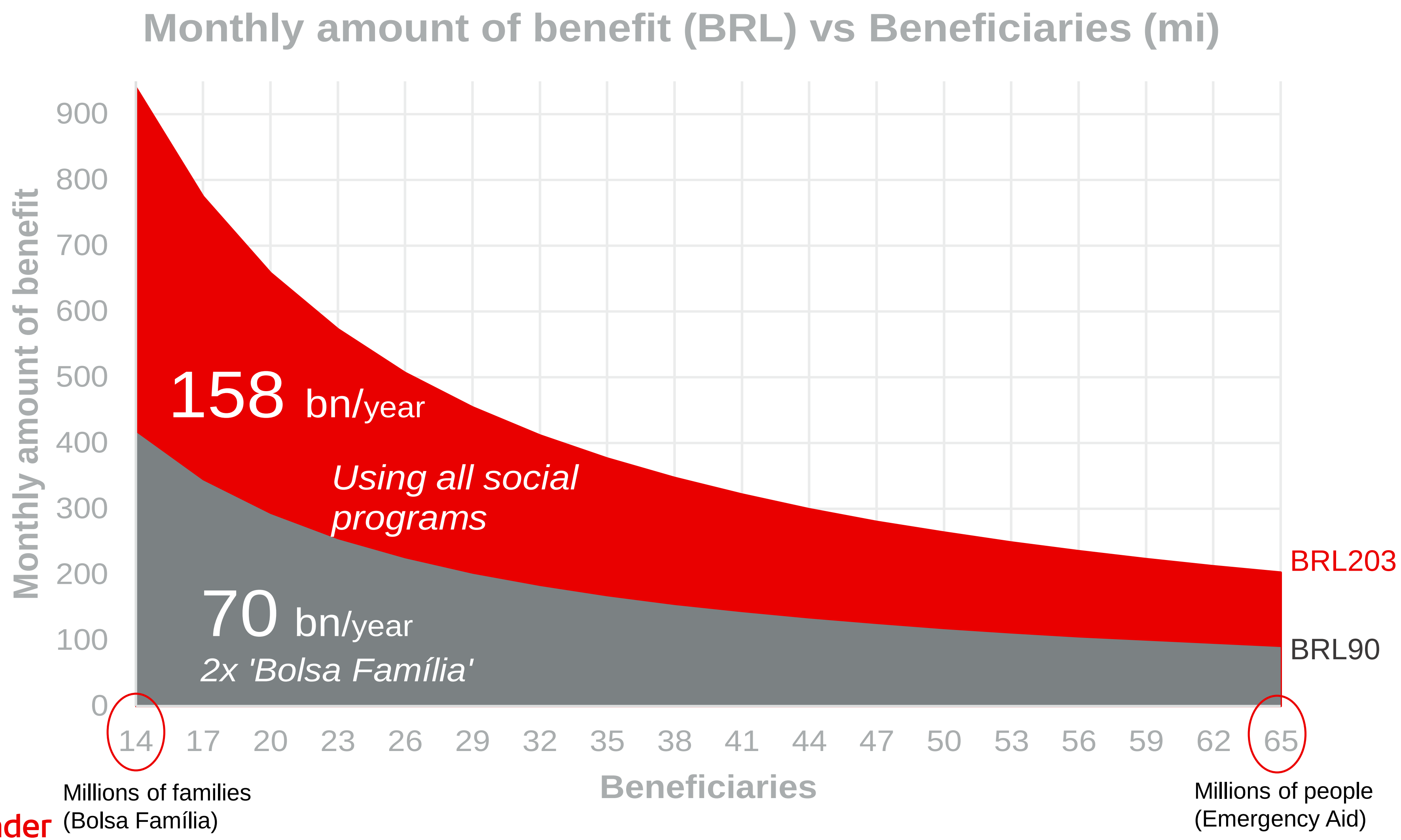
Sources: The National Treasury Secretariat, Ministry of Economy and Santander estimates.

Brazil Income - Trade-off between value and beneficiaries

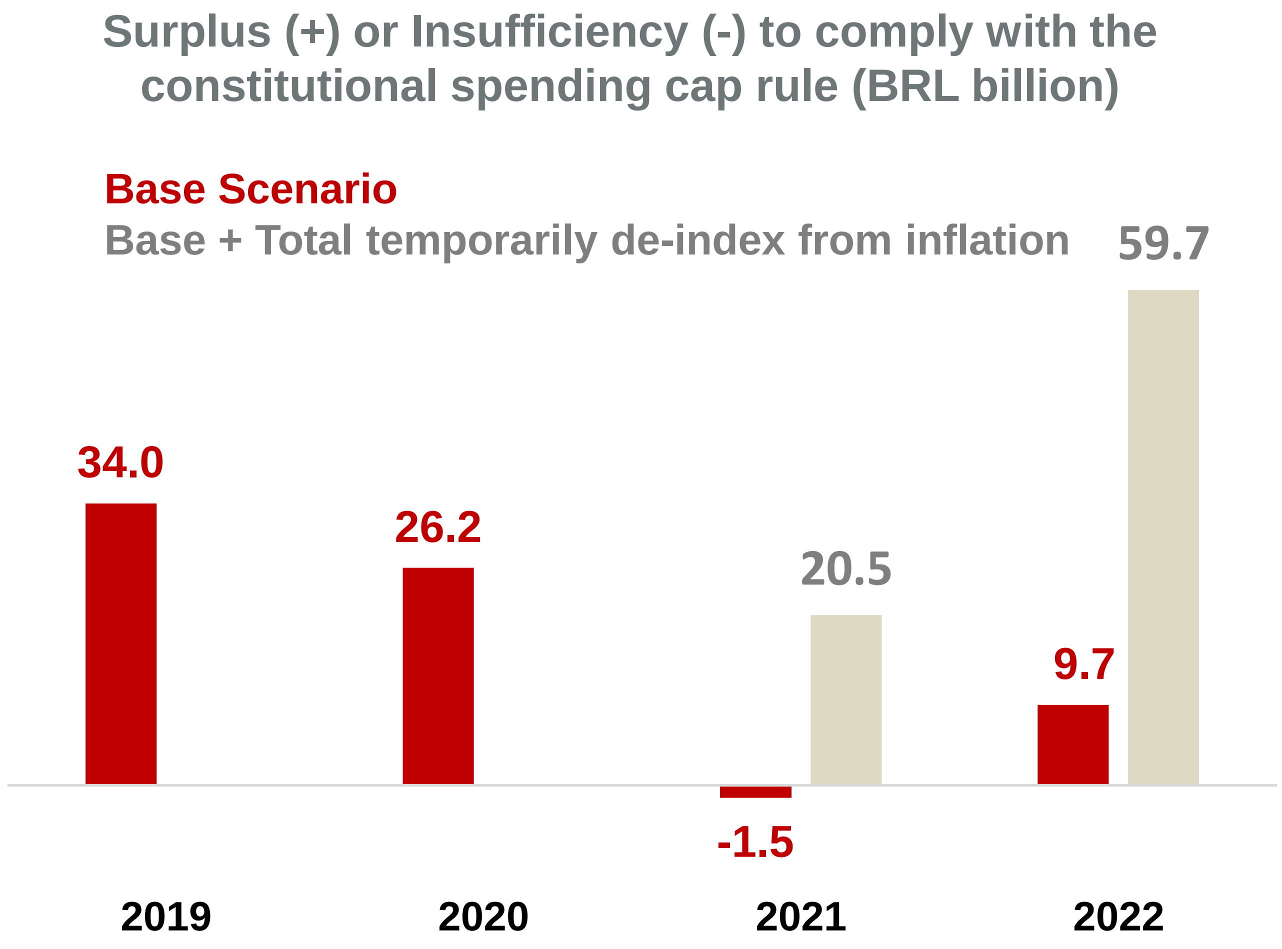
If the new program is created, there will be a clear trade-off between the amount of the benefit and the number of beneficiaries. Currently Bolsa Família is received by 14 million families, while emergency aid exceeds 65 million beneficiaries



Sources: The National Treasury Secretariat, Ministry of Economy and Santander estimates.

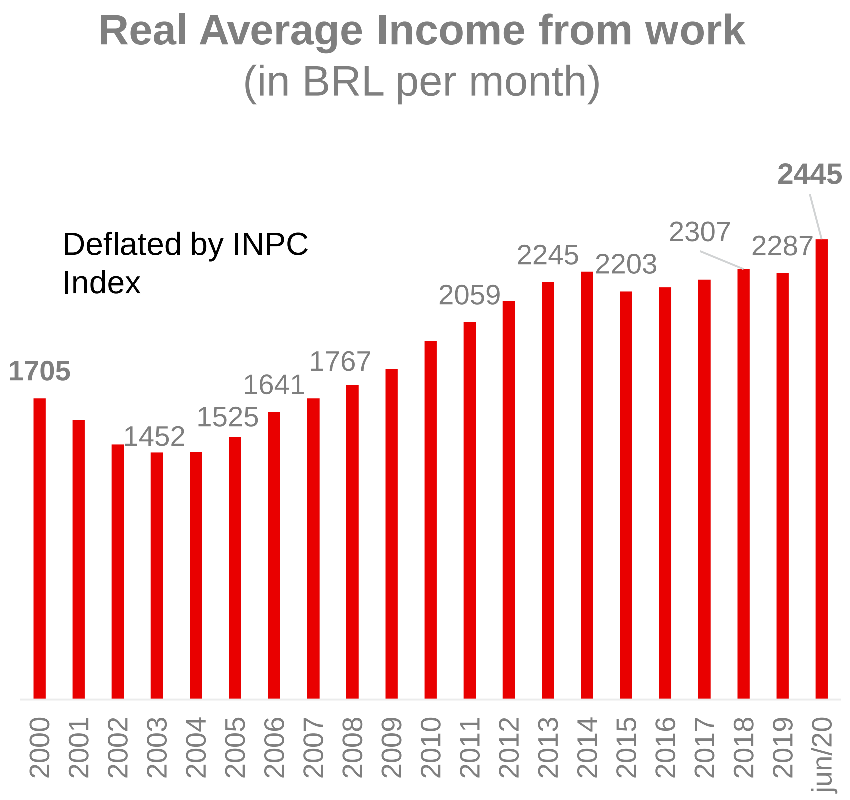
Spending cap - Current space and de-index benefits from minimum wage

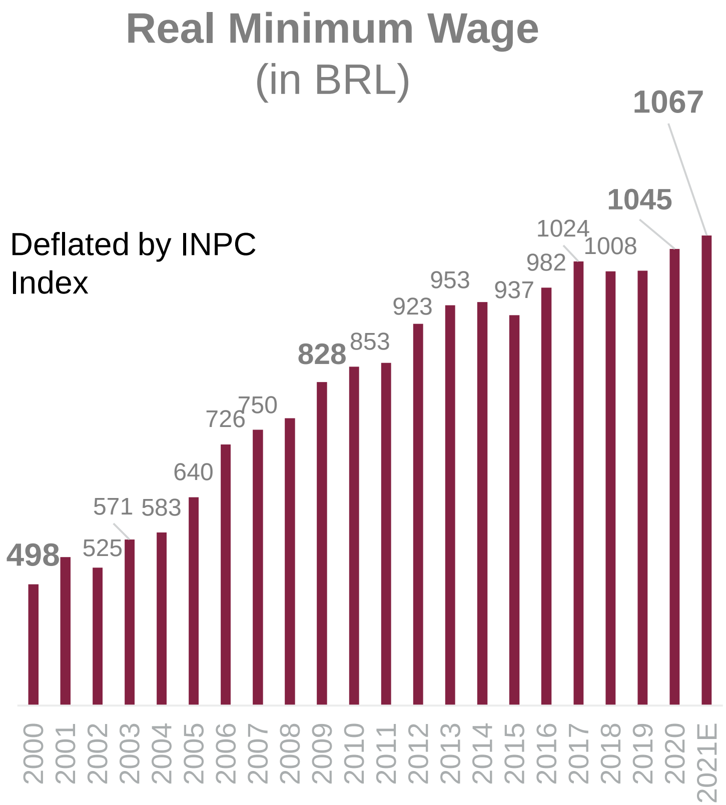
One possibility to finance the new program is to approve a constitutional amendment that de-index readjustments from inflation of the social benefits



Evolution of real minimum wage and average real income from work

One possibility to finance the new program is to approve a constitutional amendment that de-index readjustments from inflation of the social benefits





Growth (%)	1995-2020	2000-2020	2005-2020	2010-2020	2015-2020
Real Minimum Wage	138%	110%	63%	23%	12%
Average Work Income	-	44%	60%	24%	11%

Sources: IBGE and BCB

(Possible) Fiscal Adjustment Measures in the Post-Crisis Environment: Just a few examples and preliminary estimates...

Revenues (Annual Impact ~BRL89 bn / 1.2% of GDP)	**Expenditures** (Annual Impact ~BRL86 bn / 1.2% of GDP)
Inheritance and Donation Tax Raising the aliquot from 8% to 30%: BRL30 – BRL 35 bn	**End of Wage Bonus (granted for formal workers)** Impact of BRL16 bn
Limit on tax deductions (private health) BRL5 bn – 15 bn	**Extending the grace period for the unemployment insurance benefit** Impact of BRL12 bn
Exclusive Funds (One-off) Impact of BRL10 bn	**10% linear drop in tax exemptions / waivers** Impact of BRL27 bn
Changes in Personal Income Tax Aliquot of 35% on earnings > BRL25k per month: BRL6 bn	**Reduction of public servants' working hours and wages (up to 25%)** Impact of BRL9 bn
Profits & Dividends Aliquot of 15%: BRL25 bn	**Total deindexation of the minimum wage in social benefits - or zero nominal adjustment** Impact of BRL22 bn
End of JCP ("Interest on Equity Capital") **payment deduction** Impact of BRL8 bn	**Freezing of social security benefits above 3 minimum wages** Impact of BRL3.5 bn

Our Base Scenario...

	2015	2016	2017	2018	2019	SANTANDER FORECASTS 2020	2021	2022
GDP (%)								
GDP Growth	-3.5	-3.3	1.3	1.3	1.1	-4.8	3.4	2.6
Inflation (%)								
IPCA-IBGE	10.7	6.3	2.9	3.7	4.31	3.3	2.9	3.2
IGP-M	10.5	7.2	-0.5	7.5	7.30	21.9	4.0	4.0
FX Rate								
BRL/USD - end of period	3.90	3.26	3.31	3.87	4.03	5.30	4.60	4.15
BRL/USD - average	3.34	3.48	3.19	3.66	3.95	5.21	4.86	4.33
Interest Rates (%)								
SELIC - end of period	14.25	13.75	7.00	6.50	4.50	2.00	2.00	4.00
Labor Market								
Unemployment rate (average)	8.5	11.5	12.8	12.3	11.90	13.4	16.1	15.3
Balance of Payments								
Exports (USD bi)	191.0	185.2	217.7	239.3	225.4	210.6	248.4	263.4
Imports (USD bi)	171.5	137.6	150.7	181.2	177.3	150.4	176.6	202.0
Trade Balance (USD bi)	19.5	47.6	67.0	58.0	48.0	60.1	71.8	61.4
Current Account (USD bi)	-54.5	-24.2	-15.0	-41.5	-50.9	-2.5	-3.5	-29.6
Current Account (% of GDP)	-3.0	-1.3	-0.7	-2.2	-2.8	-0.2	-0.2	-1.6
Fiscal Accounts								
Primary Balance (% of GDP)	-1.9	-2.5	-1.7	-1.6	-0.9	-12.4	-3.3	-2.4
Net Public Sector Debt (% GDP)	35.6	46.1	51.4	53.6	55.7	67.1	71.6	74.3
Gross Public Sector Debt (% GDP)	65.5	69.8	73.7	76.5	75.8	94.9	95.2	97.4

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

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For our lastest Scenario Review sent on October 28 (Waiting for the Fiscal Decisions) click on the link: http://bit.ly/Santander_SR_Oct20

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