Brazil Macro | June 2023

FISCAL POLICY

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Brief Overview

Evenly Balanced Risks for the Short term

1

Fiscal Consolidation: Evenly Balanced Risks for the Short term

- We have only marginally changed our fiscal forecasts in this "Scenario Review". On revenue, we see risks in both directions (and have kept our estimate). On the upside, we incorporated more tax collection from the measures adopted by the government and higher tax collection based on wages. On the downside, we lowered our oil price estimate, meaning a sharper reduction in oil proceeds.
- Regarding the new fiscal framework, we believe it will be approved in the Senate in nearly the same form as it came from the House, meaning no significant change to our scenario. We continue to see challenges for its full implementation. Moreover, we still project a deterioration in the nominal budget results, given an increasingly heavy debt burden (due to high interest rates). As for the debt trajectory, we continue to see rising government debt for the medium term, which illustrates the risky path that we see for long-term stabilization.
- In our new forecasts, we raised the primary surplus of subnational entities to BRL15 billion, or 0.2% of GDP (previously: BRL10 billion), but we continue to project a substantial drop in the results, as the estimated performance is far from the peak registered in May 2022 (1.4% of GDP).
- We project a 2023 public sector primary deficit of BRL105 billion, or -1.0% of GDP. For 2024, we expect a consolidated deficit of BRL110 billion (-1.0% of GDP). We estimate a gross debt to GDP ratio of 77.3% in 2023, and we continue to highlight the slower growth in the GDP deflator (following commodity prices' tumble), as we now estimate 3.0% for 2023.

FISCAL POLICY – Short-term: Evenly Balanced Risks

Short Term: Changes on Both Directions

2023 Primary Balance: Fine Tuning
-BRL105 bn (-1.0% GDP) | May (e): -BRL110 bn (-1.1% of GDP)
Central Gov.: -BRL120 bn (-1.1% GDP) | **No change from May**
Regional Gov.: +BRL15 bn (0.2% GDP) | **+BRL5 bn**

Revenues: Oil Prices (⇩), Activity (⇧)
Greater uncertainty after positive results in 2021-22.
Some softening in growth is expected (cyclical reduction)

Gov. Measures could help revenue result
The administration is advancing in altering tax incentives/breaks.
We estimate a total of BRL50 bn in the short-term

New Fiscal Framework - no impact to our scenario
It will be approved. We see challenges to its full implementation. Could maintain outlays at ~19% of GDP.

Gross Debt/GDP: 77.3% in **23** (-0.5p.p.)
Higher GDP number (1.9%), no change in dynamics and risks

Medium Term: Risks Remain High

Risks: Additional Fiscal + Quasi-Fiscal Stimulus
In a scenario with a positive output gap.
We expect a gradual and limited quasi-stimulus.

Unpaid Debt – Judicial Claims
We see BRL60 bn unpaid by 2023 (not in Fiscal statistics)

Higher Nominal Deficit (Selic)
Nominal Deficit : above 8.0% of GDP ahead
Interest payments is pressuring at the margin.

Fiscal adjustment: above 2.0% of GDP
In a context of elevated pressure for social spending and natural difficulties to raise taxes

Debt-path: on the edge for convergence
~93% of GDP in 2040. Sensitivity with macro structural variables (such as Potential GDP, Neutral Rates, Deflator)

Risks for debt convergence
Long-term: Neutral interest rate above 5.0%, Potential GDP below 1.5%. Total Expenditures above 19% of GDP.

FISCAL POLICY: Gov. Measures + Activity vs. Cyclical Downturn + Drop in Oil Prices

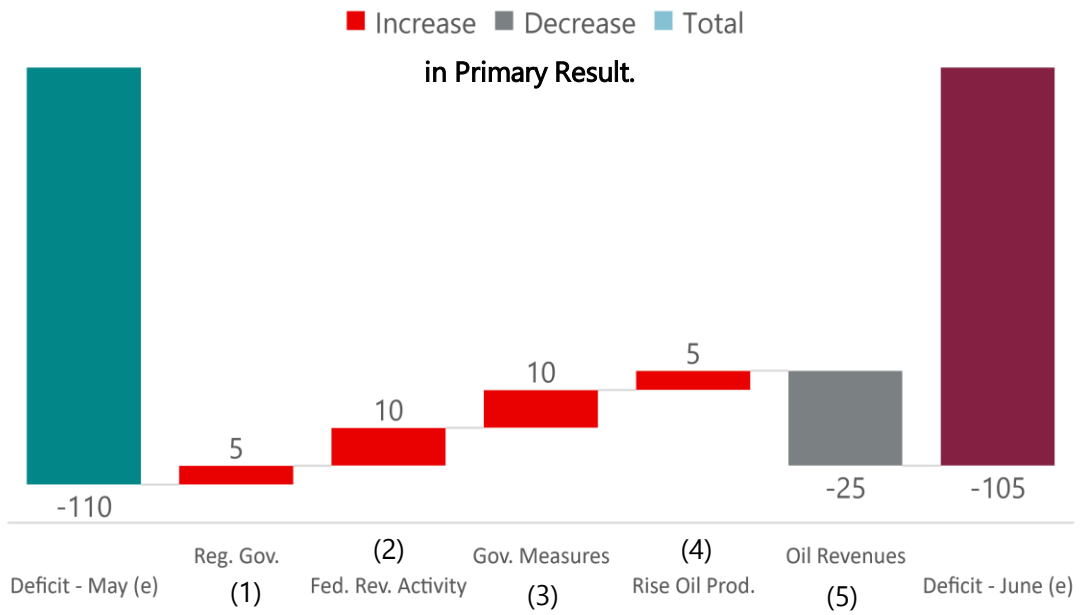
- In the short-term we see evenly balanced risks for the primary result. We see positive and negative aspects affecting the revenues.
- Positive Effect: Gov. Measures + Activity Resilience in 1Q23 + Rise in Oil production. Negative: Commodity prices + Cyclical effect

Central Gov. Primary Result

2023 - BRL billion	2nd Budget Review (a)	% GDP	Santander (b)	% GDP	Δ (b) - (a)
Total Revenue	**2,367**	22.0%	**2,369**	22.7%	1.5
Collected by the Brazilian IRS	1,465	13.6%	1,456	14.0%	-9.4
Net Social Security Revenues	593	5.5%	597	5.7%	4.3
Not Collected by the IRS	308	2.9%	316	3.0%	7.6
Transfers by Revenue Sharing	456	4.2%	471	4.5%	15.0
Net Revenue	**1,911**	17.8%	**1,898**	18.2%	-13.7
Total Expenditure	**2,048**	19.1%	**2,017**	19.4%	-30.2
Social Security Benefits	865	8.0%	868	8.3%	3.1
Payroll - Public Servants	364	3.4%	365	3.5%	1.0
Other Mandatory Expenses	294	2.7%	285	2.7%	-9.1
Mandatory with Cash Control	330	3.1%	324	3.1%	-6.3
Discretionary Expenses	194	1.8%	175	1.7%	-18.9
Central Gov. Budget Gap	-136	-1.3%	-120	-1.1%	16.5
Nominal GDP	10,747		10,417		

Sources: Ministry of Economy, Santander.

Public Sector – Primary Deficit Estimate



Estimates for 2023	Mar-23	May-23	Santander
GDP Growth (%)	1.6	1.9	1.9
Implicit GDP Deflator (%)	6.3	6.3	3.0
IPCA (%)	5.3	5.6	5.2
Oil Price Avg (Brent USD)	83	77.6	85

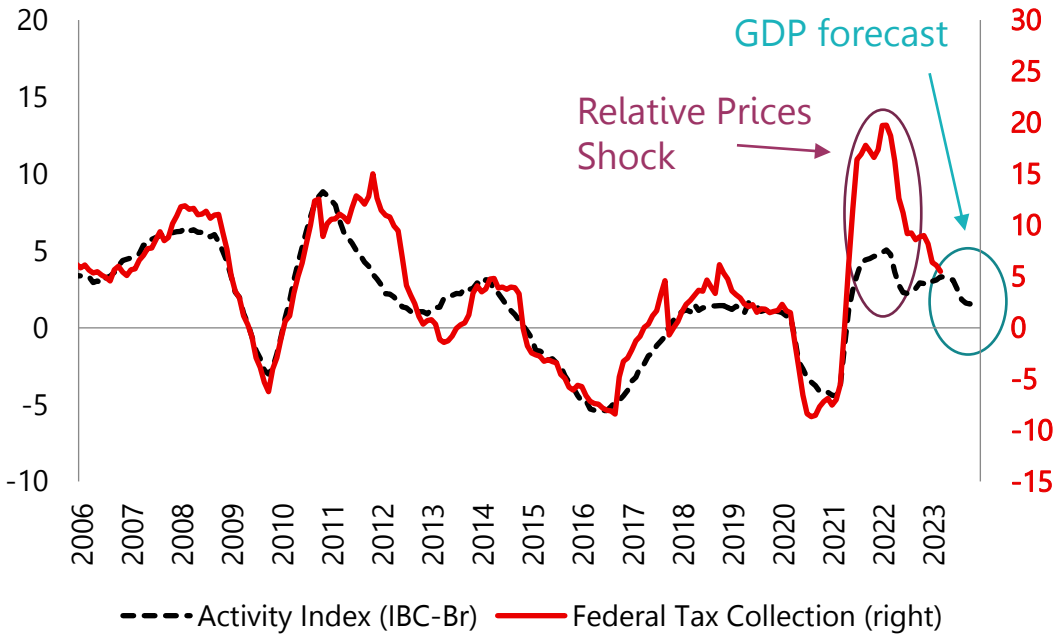
(1) Calendar effect with salary readjustment of civil servants at the end of 2Q23
(2) Activity Resilience = Real Wage Bill rise + A tad more of GDP consumption
(3) We rose our estimate of Gov. Measures to BRL50 billion ahead
(4) Increase in Oil Production – 7.1% YoY YTD (we considered 6%)
(5) Lowered Oil brent prices estimate from USD95/brl to USD85/brl

Santander

FISCAL POLICY: Cyclical Slowdown in Revenues vs. Gov. Measures, Activity Resilience

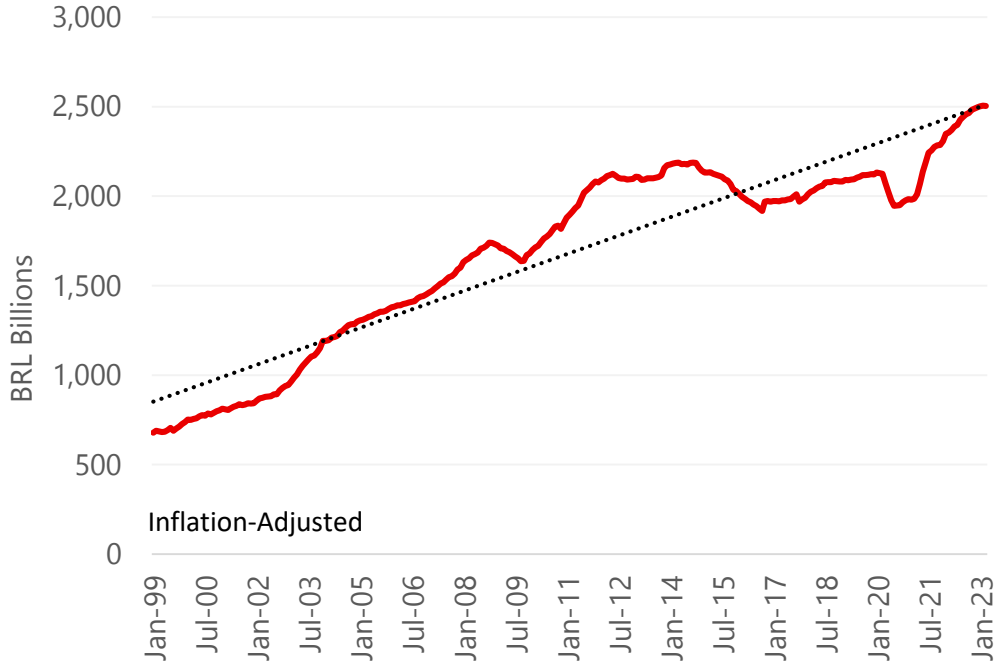
- We expect some softening in the federal tax collection growth ahead with the reduction in domestic activity and lower wholesale prices, the revenue result will be a key-element to the fiscal consolidation ahead, in context of expanding the outlays.
- For the coming months, we keep expecting a slowdown in the monthly growth (reducing the positive lagged effects), in a context of lower activity performance and commodities prices losing steam compared to 2022.

Activity and Tax Collection (12m - % YoY)



Sources: Brazilian IRS, BCB, Santander.

Federal Tax Collection – Recently Flat

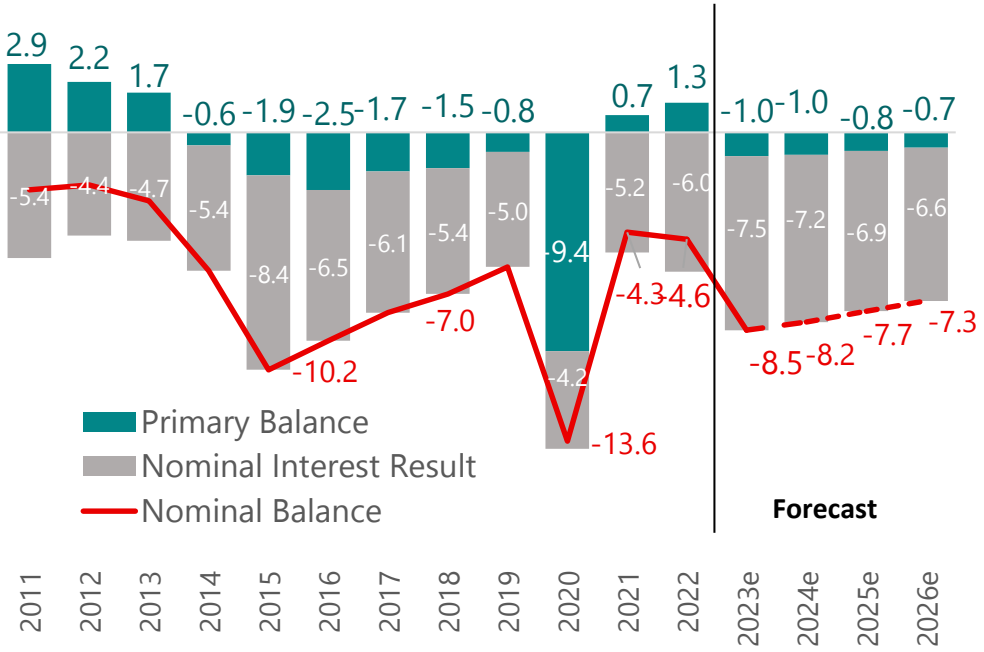


Sources: Brazilian IRS, Santander

FISCAL POLICY: A higher interest burden to weigh on the debt dynamics

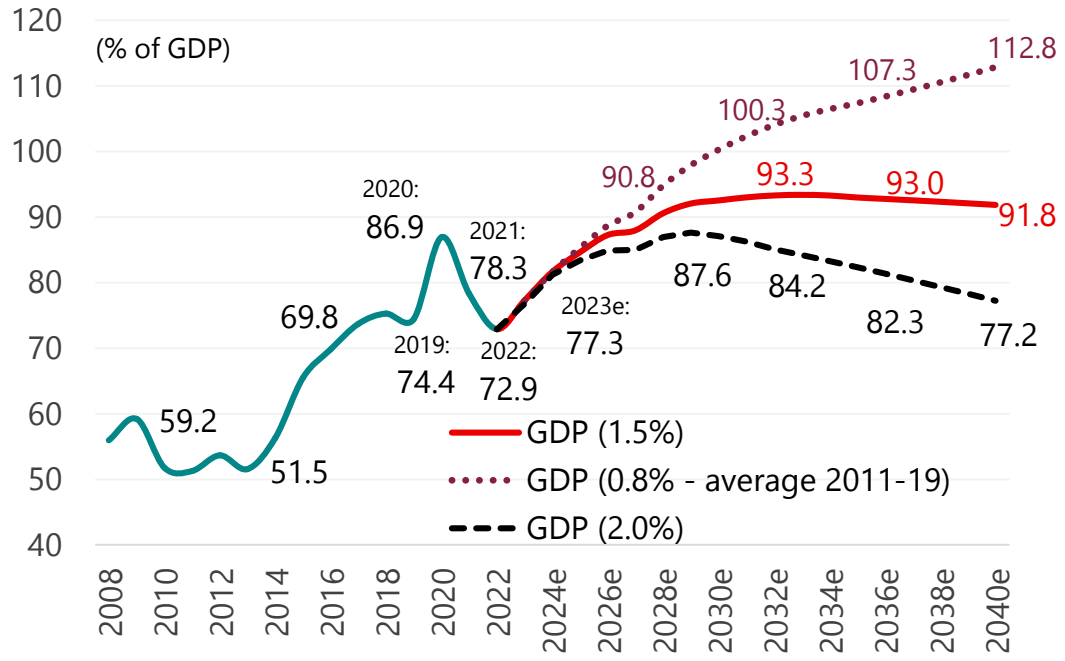
- Interest payments should continue to rise (Selic increase) with the nominal result showing strong deterioration, remaining close to 8.0% of GDP in the coming years. We reduced a tad the interest payment due to the lower issuance of National Treasury, using part of the liquidity reserves.
- We simulated scenarios for the debt trajectory: the main debate will be on the structural macroeconomic variables (GDP, Neutral Interest Rate and GDP Deflator).

Public Sector's Financing Needs (% GDP)



Sources: BCB, Santander.

Scenarios - Gross Debt Scenario (% GDP)

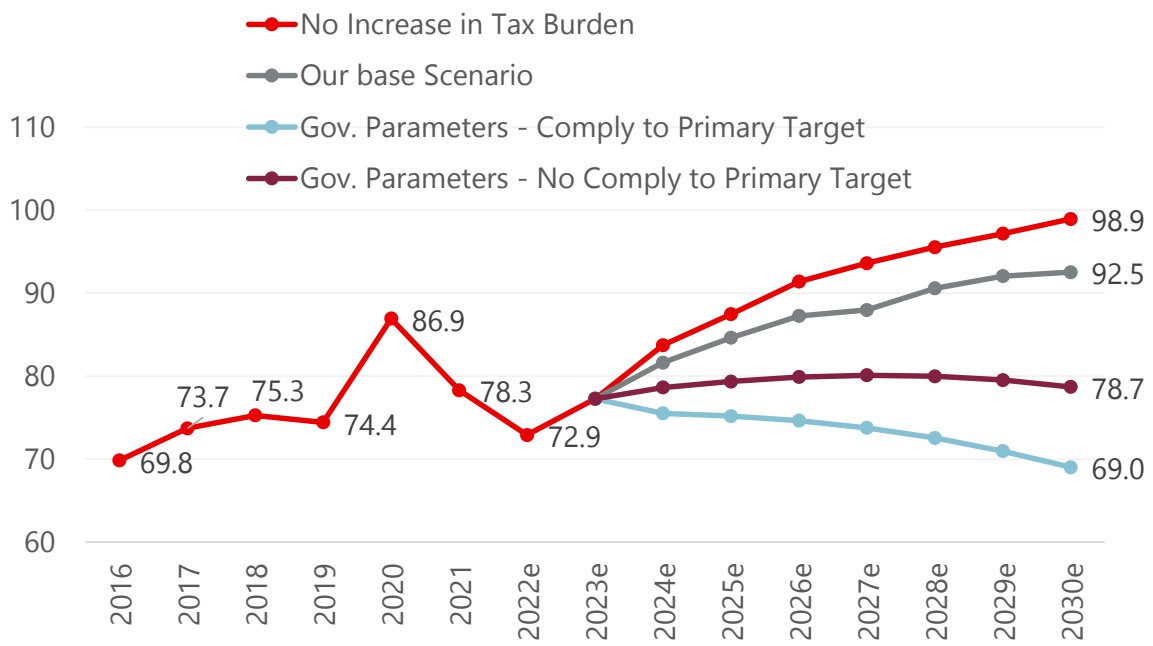


Sources: BCB, Santander

FISCAL POLICY: new framework will depend on revenues and short-term results

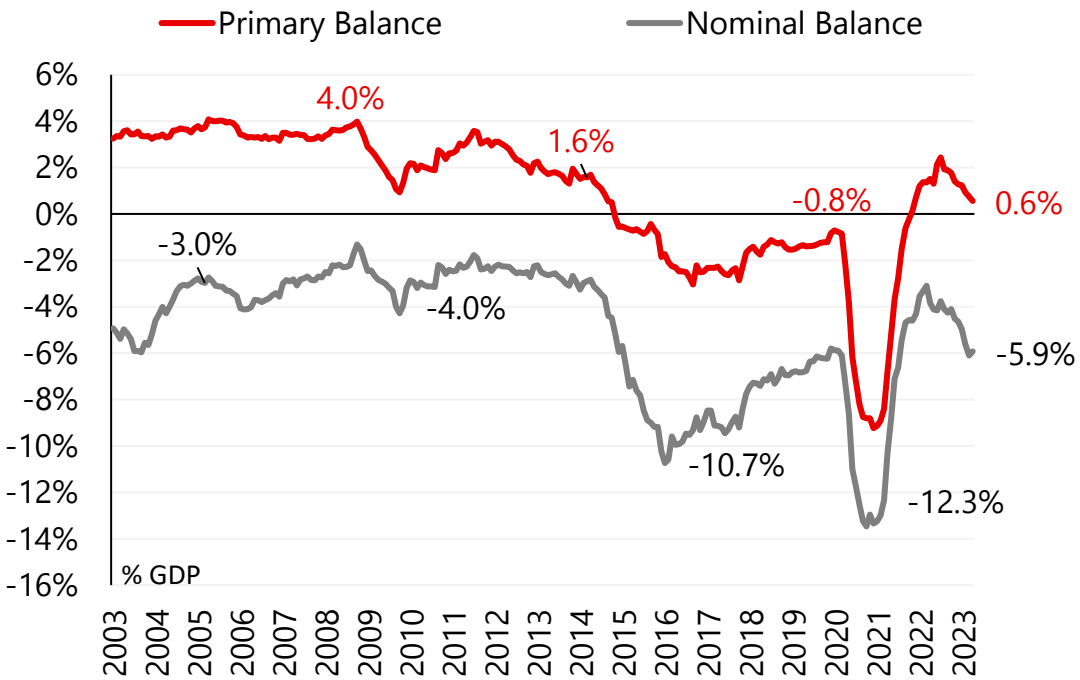
- The gross debt trajectory depends on the parameters and increase in revenues.
- In the short-term, the effect of positive results is losing steam.

Government Debt Simulation – The new framework will not guarantee the debt stabilization



Sources: BCB, Santander.

Public Sector – Primary Result



Sources: BCB, National Treasury, Santander.

Notes: Debt issuances: we added a spread of +1.0 pp in addition to the Selic rate in the models.
2023 GDP Deflator: 3.0% | GDP: 1.9% | Selic Rate (avg): 13.5% | BNDES zero | Voluntary Deposits 1.0% of GDP
2023-40: GDP deflator: 5.0% | Potential GDP: 1.5% | Neutral Selic Rate: 5.0%

Macro Background

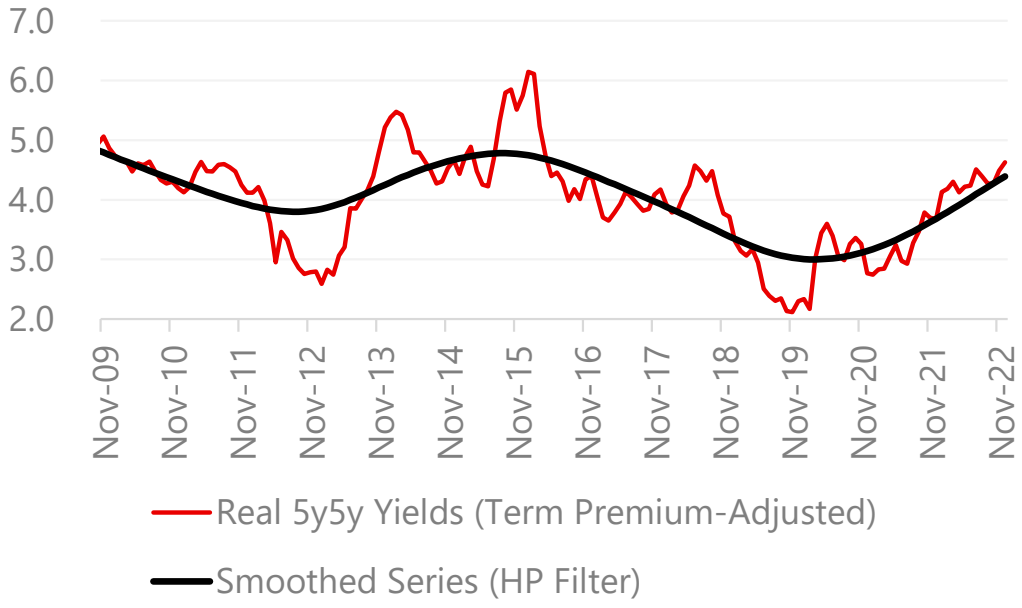
Data and Events

2

Macro Background – Higher Interest Rate and Activity Moderating

- From a cyclical point of view, we see the sad policy still at restrictive levels and activity is currently slowing down.
- We have incorporated the 1Q23 positive surprise and increased our GDP forecast for 2023, as we maintained the number for 2024.

Neutral Rates Could Be Rising Further



Sources: Brazilian Central Bank, Anbima, Santander.

GDP Baseline Scenario

	YoY	QoQ	Full Year
4Q21	2.1%	1.0%	5.0%
1Q22	2.4%	1.0%	
2Q22	3.7%	1.1%	
3Q22	3.6%	0.5%	
4Q22	1.9%	-0.1%	2.9%
1Q23	4.0%	1.9%	
2Q23	2.2%	0.0%	
3Q23	0.8%	-0.1%	
4Q23	0.7%	-0.3%	1.9%
1Q24	-0.5%	-0.1%	
2Q24	0.3%	0.4%	
3Q24	0.6%	0.1%	
4Q24	1.5%	0.5%	0.5%

Sources: IBGE, Santander. Santander estimates for 2Q23 onwards

Materials: Idiosyncratic factors playing out in cooling commodity prices

- Markets have priced in a slowdown in global economic growth and, consequently, a worse demand for raw materials, in a backdrop of rising global interest rates.
- We slightly downgraded our 2023e forecast, driven by a downward revision in Brent oil prices (owing to increased Russian oil exports to Asia). We still expect **a slow downward path** for the headline CRB Index and its key components, **suggesting an extended commodity cycle**.

Our Forecasts for CRB Index – End of Period

YE	2021	2022	2023e	2024e	2025e
CRB Food	483	539	431 ➡	395 ➡	371 ➡
CRB Energy	1521	2078	1677 ⬇	1724 ➡	1619 ➡
CRB Metal	1259	1010	1060 ➡	977 ➡	918 ➡
CRB	571	558	498 ⬇	474 ➡	445 ➡

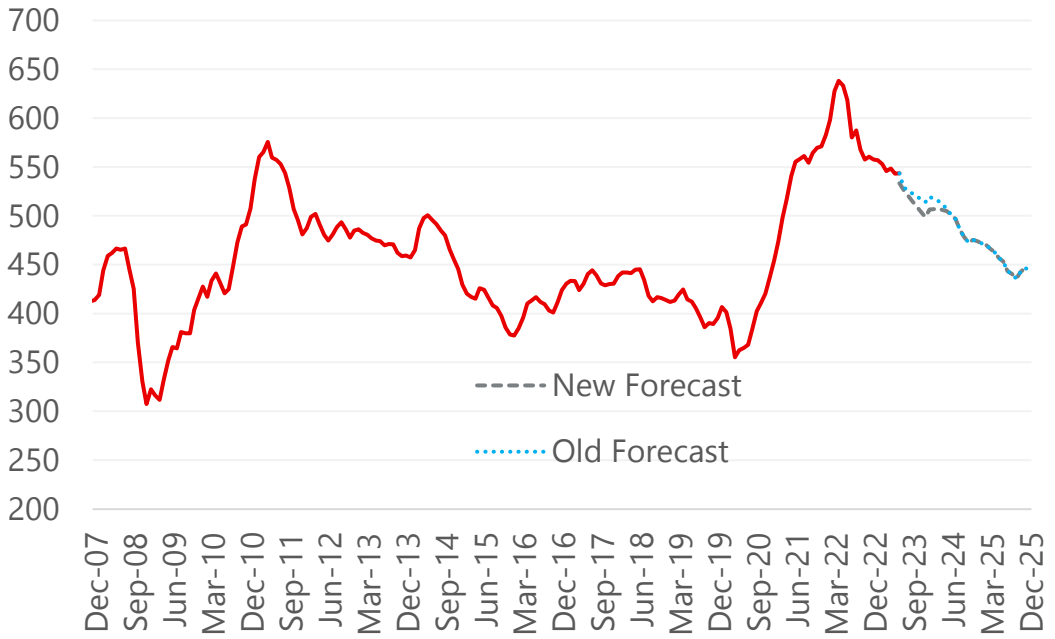
YE YoY	2021	2022	2023e	2024e	2025e
CRB Food	36%	12%	-20%	-8%	-6%
CRB Energy	31%	37%	-19%	3%	-6%
CRB Metal	42%	-20%	5%	-8%	-6%
CRB	29%	-2%	-11%	-5%	-6%

	Iron Ore	Soybean	Corn	Brent
2023 change*	-9%	-17%	-22%	-8%

* June 5, 2023.

Sources: Santander.

Our Forecasts for CRB Index – Monthly Averages

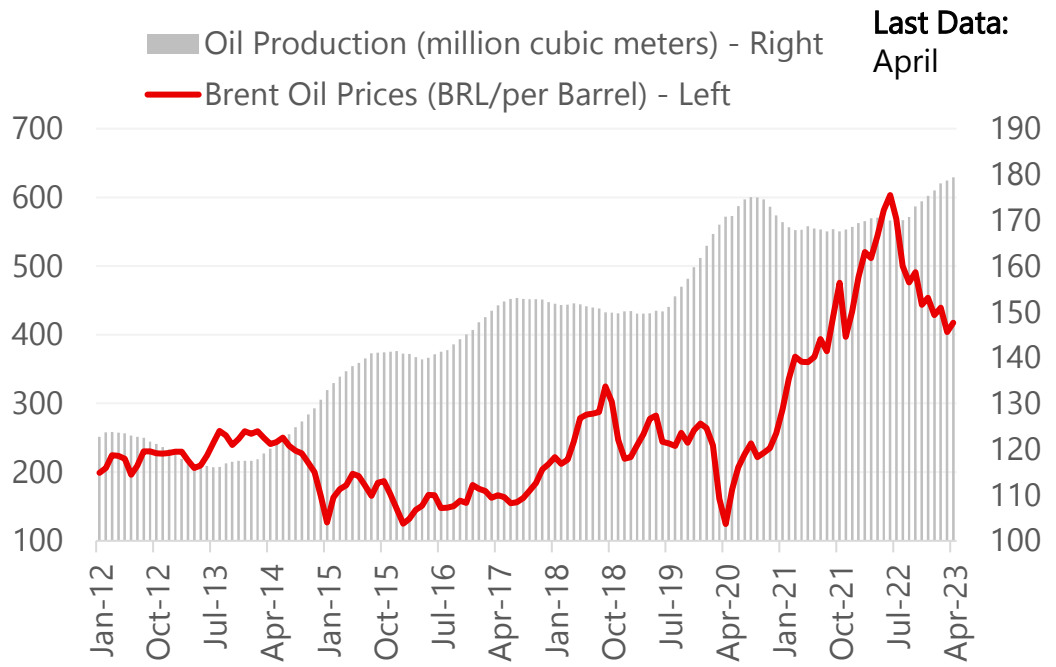


Sources: Bloomberg, Santander.

Oil Revenues – still helping the public sector revenues

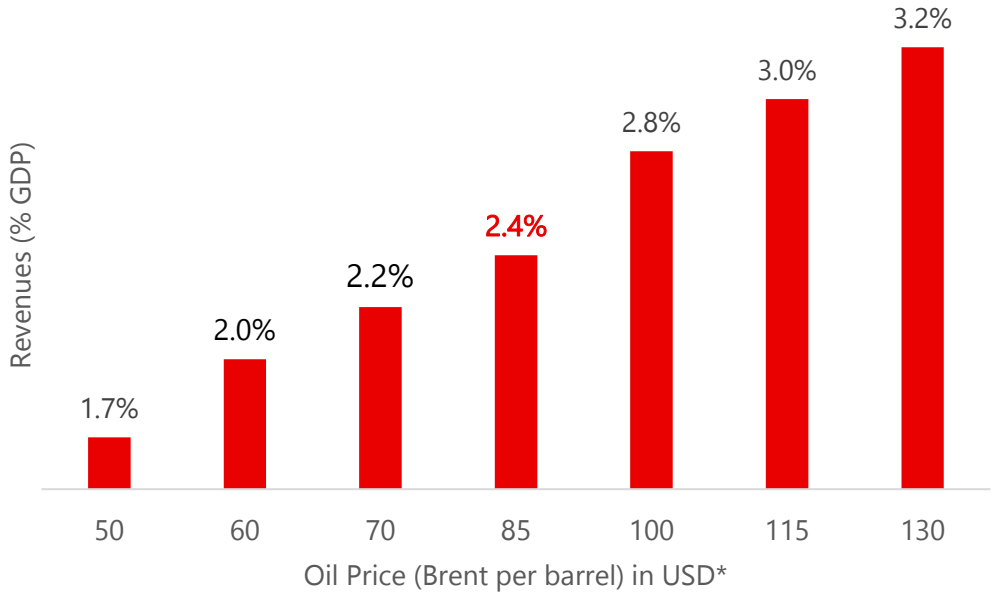
- In energy, oil prices tumbled on fears about contagion from crises involving some international banks triggered a broad risk-off sentiment in the market. With lower 2Q23 and 3Q23 prices, we now see our Brent forecast (year-average) at USD90/bbl for 2023 (from USD95/bbl previously), yet we lowered our forecast to USD85/bbl for 2023 (from USD90/bbl).
- The positive oil-shock to public sector Revenues should reduce from ~3% of GDP in 2022 to 2.4% of GDP in 2023.

Oil production and Prices



Sources: Bloomberg, ANP, Santander

Public Sector – Oil Revenues



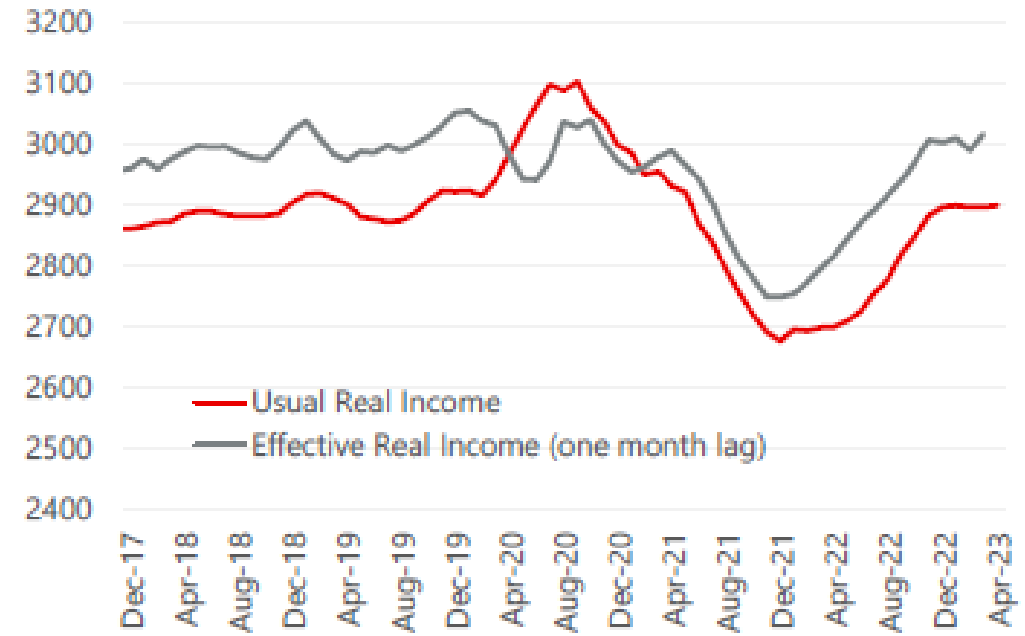
FX rate maintained at BRL5.40

Sources: National Treasury, Santander

Labor Market: Still resilient and tax revenues presenting a good performance

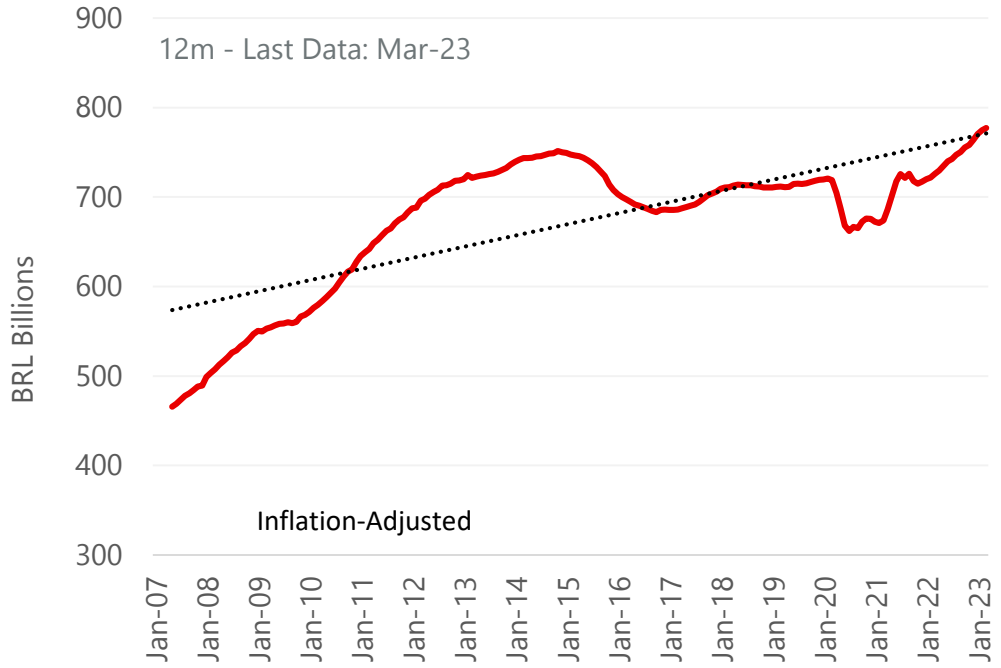
- In the breakdown, the we observed a rise of 6.0% YoY in the Social Security Contribution in March, due to the increase in the real wage bill (part of this due to lower inflation figures). The tax collection on workers' earnings dropped 0.6% YoY, after months showing a recovery. We expect positive numbers related to labor market ahead, yet for the year we continue to forecast a slowdown in domestic demand and in cyclical components,

Real Wage Bill (BRL, sa)



Sources: IBGE, Ministry of Economy, Santander.

Tax Collection linked to Labor Market



Sources: National Treasury, IBGE, Ministry of Economy, Santander.

National Congress – Current New Legislation in Debate

Proposal	Summary	Status
Fiscal anchor (spending cap replacement)	The administration must approved a proposal to replace the constitutional spending cap for 2024	To be voted in Senate
VAT reform (PEC 45/2019, PEC 110/2019)	Unifies federal, state, and city taxes, changing collection from production to consumption. The reform will likely feature an extended transition period (of about six years) and temporarily compensate subnational governments for revenue losses to give companies, states, and cities time to adapt to the new model.	PEC 45 - awaits a floor vote in the lower house
Income tax reform	Expected to be proposed by the Lula administration in the second half of 2023, it updates income tax brackets, reducing taxation on low-income individuals . It will also modify corporate taxes, imposing dividends taxes while lowering corporate profits tariffs.	Awaits submission to congress
Changes to the SOE law (PL 2896/2022)	The proposal reduces the quarantine imposed on directors of political parties to become SOE directors from three years to 30 days. The bill was quickly approved in the lower house at the end of 2022, with the support of Speaker Arthur Lira, but faces opposition from the government, which fears being pressured to give up more positions in state-owned companies.	Approved in the lower house; awaits a senate floor vote
Changes to tax appeals court - Carf (MP 1060)	The proposal changes the Administrative Council of Tax Appeals (CARF), an administrative division of the Ministry of Finance that imposes fines on tax evaders, to restore the federal government's right to have a tie-breaking vote during trials. The economic team expects to collect 35 billion reais in revenue in 2023 with the measure, in addition to increasing future collection in tax conflicts. The proposal faces strong resistance from the private sector and centrist lawmakers, who are negotiating changes to the draft.	Awaits deliberation by the lower house
Concessions and public-private partnership bill (PL 7063/2017)	Overhauls and consolidates legislation on concessions and public-private partnerships (PPPs). The Bolsonaro administration blocked the debate, but it can be picked up with a more restricted scope to update PPP legislation.	Awaits the creation of a lower house special committee
Transfer pricing (MP 1152/2022)	Adapts Brazil's legislation to the OECD's transfer pricing guidelines. Issued as a provisional measure by former president Jair Bolsonaro in the last days of his term, it will be optional for 2023 and mandatory for 2024. The measure could increase tax collection.	Approved by congress; awaits to be signed into law
Social media regulation (PL 2630/2020)	Updates social media regulations to curb the propagation of fake news and hate speech on digital platforms and imposes payment for journalistic content disseminated on social media. The administration and both congressional speakers back the proposal. However, the bill still faces strong pushback from the opposition and social media companies.	Awaits vote at the lower house floor

2023 Macro Events

June

21
Copom Meeting
(e) 13.75%

20-29
Senate – New fiscal Framework vote

20-29
Lower House – First draft of Broad Tax Reform

22-29
TSE Judgment – Bolsonaro can lose political rights ?

27
Senate – BCB Directors Analysis
Gabriel Galípolo for BCB Mon Pol. Director

29
CMN – Setting 2026 Inflation Target
We expect no changes

July

2-7
New Public Investment Program (like former PAC)

3-18
Broad Tax Reform (VAT)
Lower House-Floor vote?

5-6
OPEC Meeting

12
WASDE Report – commodities

18-20
Parliamentary Mid-year Recess

22
3rd 2023 Budget Review

?
Desenrola-Household indebtness program)

August

1
End of Parliamentary Mid-year Recess

2
Copom Meeting
(e) 13.75%

11
WASDE Report – commodities

30
Treasury – Central Gov. Result – July
12-months reading should have a sharp drop

31
2024 Budget Proposal
Deadline to send to Congress – Probably with more limited outlays

September

01
2Q23 GDP release
0% QoQ | +2.2% YoY

20
Copom Meeting
(e) 13.50% | -25bps

22
4th 2023 Budget Review

?
STF – Weber`s Retirement Lula will indicate a new name to the Court

October

17-19
IMF – World Economic Outlook

11
IPCA September
Return of YoY >5%

November

1
Copom Meeting
(e) 13.25% | -25bps

9
IBGE 2024 Harvest Estimate

22
5th 2023 Budget Review

December

5
3Q23 GDP release
-0.1% QoQ | +0.8% YoY
Expected series revision

22
Treasury Report – Debt Forecasts

20-
Year-end Recess Congress and Judiciary

31
End of two BCB directors' mandates
Mauricio Moura
Fernanda Guardado

June-July
2022 Census Data

July or December
Lula's Hip replacement surgery

2H23
2024 Budget Guidelines Proposal vote

Sources: BCB, STF, National Treasury, BCB, Santander

Primary Target - Historical Series of Compliance to the Primary Target

Year	Primary Target		Changed Target		Final Result		Deduction Made by Gov.	Observations
	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP	R$	
2001	32.3	2.6%	28.1	2.3%	22.0	1.7%	0.0	The target was met with compensation with the excess primary of federal state companies.
2002	26.4	2.0%	29.2	2.3%	31.9	2.1%	0.0	The primary target was accomplished.
2003	32.0	2.3%	39.1	2.4%	38.7	2.3%	0.0	The primary target was accomplished.
2004	43.3	2.5%	43.3	2.5%	52.4	2.7%	0.0	The primary target was accomplished.
2005	44.5	2.4%	44.5	2.4%	55.7	2.6%	0.0	The primary target was accomplished.
2006	53.0	2.5%	53.0	2.5%	51.4	2.1%	2.8	The target was met with deductions.
2007	56.2	2.4%	53.0	2.1%	59.4	2.2%	5.1	The target was met with deductions.
2008	60.8	2.2%	60.8	2.2%	71.3	2.3%	7.8	The primary target was accomplished.
2009	68.5	2.2%	43.3	1.4%	42.4	1.3%	17.9	The target was met due to the economic crisis of 2008-09. Complied with the deduction.
2010	72.6	2.1%	76.3	2.1%	78.7	2.0%	22.1	The primary target was accomplished.
2011	81.8	2.1%	81.8	2.1%	93.0	2.1%	28.0	The primary target was accomplished.
2012	97.0	2.1%	91.0	2.1%	86.1	1.8%	39.3	The target was met with deductions.
2013	108.1	2.2%	108.1	2.2%	75.3	1.4%	35.1	The target was met with deductions.
2014	116.1	2.1%	116.1	2.1%	-20.5	-0.4%	161.7	The target was met with deductions.
2015	55.3	1.0%	-51.8	-0.9%	-116.7	-1.9%	66.9	The goal was met with compensation from federal state-owned companies and deduction.
2016	24.0	0.4%	-170.5	-2.8%	-159.5	-2.5%	0.0	The primary target was accomplished.
2017	-139.0	-2.0%	-159.0	-2.4%	-118.4	-1.8%	0.0	The primary target was accomplished.
2018	-129.0	-1.8%	-159.0	-2.2%	-116.2	-1.7%	0.0	The primary target was accomplished.
2019	-139.0	-1.8%	-139.0	-1.8%	-88.9	-1.2%	0.0	The primary target was accomplished.
2020	-124.1	-1.6%	-124.1	-1.6%	-745.3	-9.8%	0.0	The target was suspended due to the pandemic.
2021	-247.1	-3.2%	-247.1	-3.2%	-35.9	-0.4%	79.4	The primary target was accomplished.
2022	-170.5	-1.9%	-170.5	-1.9%	54.9	0.6%	40.5	The primary target was accomplished.

Sources: IFI, Santander.

New Fiscal Framework

We see challenges to its full implementation

3

Fiscal Policy: New Fiscal Framework Government Proposal Proposal

New Fiscal Framework Guidelines

1. Primary Balance Target - % GPD (bands of +/- 0.25pp)
2023: -0.5% | 2024: 0% | 2025: +0.5% | 2026: 1.0%

2. Commitment to the target bands up to 2026. Target will be set each year in the Budget Guidelines (LDO). That will be tested next year.

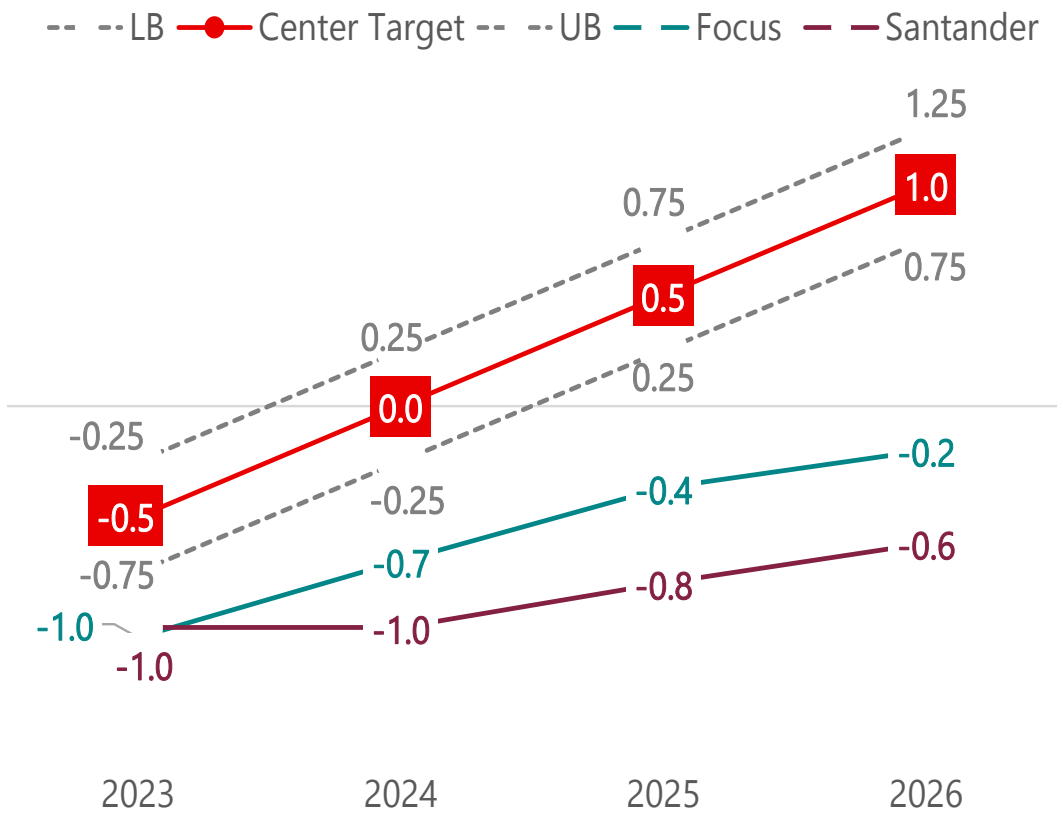
3. Outlays in the Spending Ceiling Real Limit between:
Update: IPCA + real update of [0.6%-2.5%]
Fundeb, FCDF not included into the outlays limit (Senate version)

4. Annual growth within the **expenditure growth range limited to 70% of the adjusted primary revenue** (without SOE Dividends, Concessions and Natural Resources) change in the last 12-months

5. Not compliance to the target: a drop in expenditure growth to 50% of revenue growth (t+2)

6. Investment outlays lower bound – 0.6% of GDP. Extra-bonus (limited to 0.25% of GDP) of the value above the ceiling of the primary target band

Primary Result - Target and Scenarios % GDP



Sources: Finance Ministry, Santander

Fiscal Policy: Lower House Rapporteur Changes

Rapporteur Changes - Draft

1. The draft was **stricter** than the original version,
2. We see **higher enforcement** (instruments for adjustments – triggers and use of budget freezes) in the text. At the same time, we see **loopholes** in the text to not contain the rise in total expenditures.
3. The rapporteur included more outlays inside the spending limit, such as Fundeb, nursing floor.
4. The rapporteur did **not impose any restrictions on minimum wage increases** above inflation. He also did not add provisions on criminal liability for government officials
5. If it the new rule is fully executed (highly depend on revenues increase) it would add a positive bias to our forecasts. The rule still needs permanent revenues above 1.5% of GDP.
6. Yet, we continued to see risks to its full implementation. We maintained our forecasts.

Triggers - Non-compliance with the Primary Target

Failure to meet fiscal goal	Triggers
1st year - not meeting the goal	• The creation of new public jobs that entail expenditure growth, • The restructuring of public careers that entail expenditure growth, • The creation of new assistance programs, • The creation of new mandatory expenditures, • The readjustment of current mandatory expenditures, • The increase of tax benefits.
Two consecutive years	• Government can't increase salaries nor hire new public workers, in addition to previous penalties

Sources: Finance Ministry, Santander

New Fiscal Framework - Efficacy Will Depend Largely on Revenue Performance

Main Aspects of the New Framework

Federal tax collection will be a key factor

- Dependency of Macro Parameters
- Cyclical Payback (?) and Commodities Prices

Necessity of increase in Net Revenues

In total revenue this amount could double if we observe a rise in taxes of which part is shared by subnational entities

Dependency of Macro Parameters:

Gov. Parameters: (permanent) increase in federal net revenue of 1.2% of GDP in 2024

Our scenario: it would be necessary for net revenue to increase by 2.3% of GDP in 2024

No increase: deficits of

-1.2% in 2023, -1.8% of GDP in 2024, -1.6% in 2025, -1.3% in 2026

Details and Global Overview

We do not expect major changes until the final approval, and the new fiscal rule should be approved in July

Uncertainty about the details:

- The level of expenditures limit increase in 2024
- Unlimited outlays maintained similar to the spending cap?
- Transition – new lower bound Education and Health
- The primary target will be set only in LDO (biding for 1 year)?

Some important aspects:

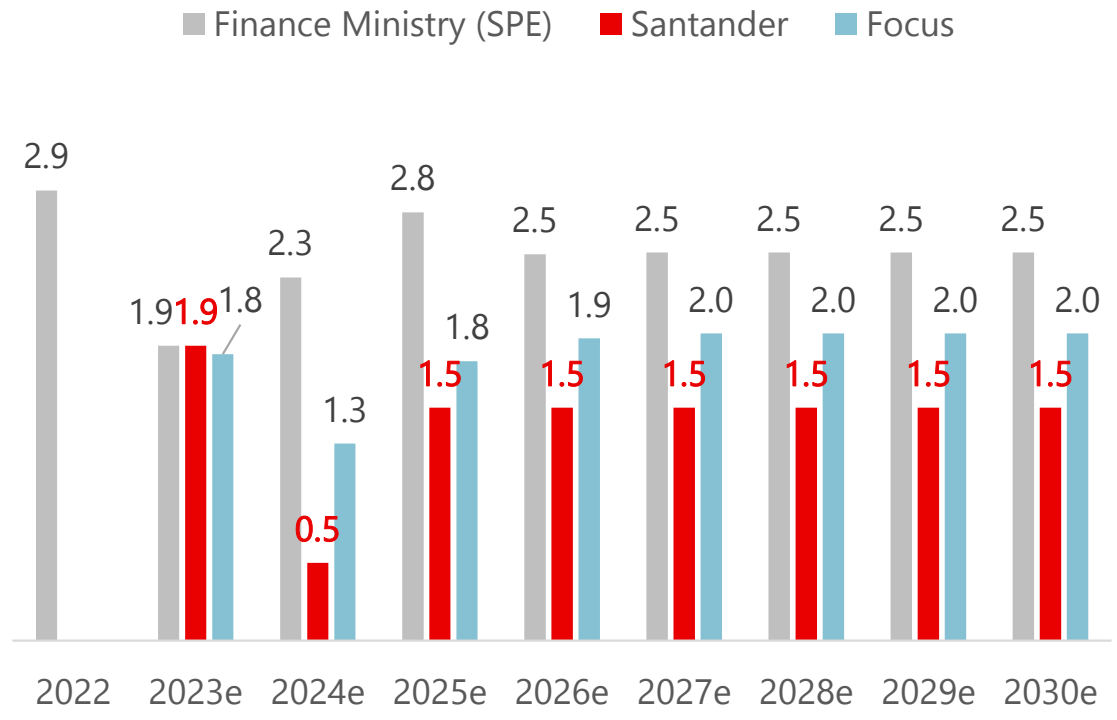
- Pursuit of reaching a primary surplus (Very Important)
- No new exceptions to the spending limit
- Use of past revenues (not using estimates)
- Reducing the size of outlays with a drop in revenues

Challenges:

- Diminish the adjustment by tax increase (outlays are linked)
- Floor for investments (corrected by inflation)
- Gradual drop in expenditures, with necessity to cut discretionary
- Congressional approval of tax burden adjustments
- Less enforcement for the approval of reforms
- Debt Convergency – depending on parameters

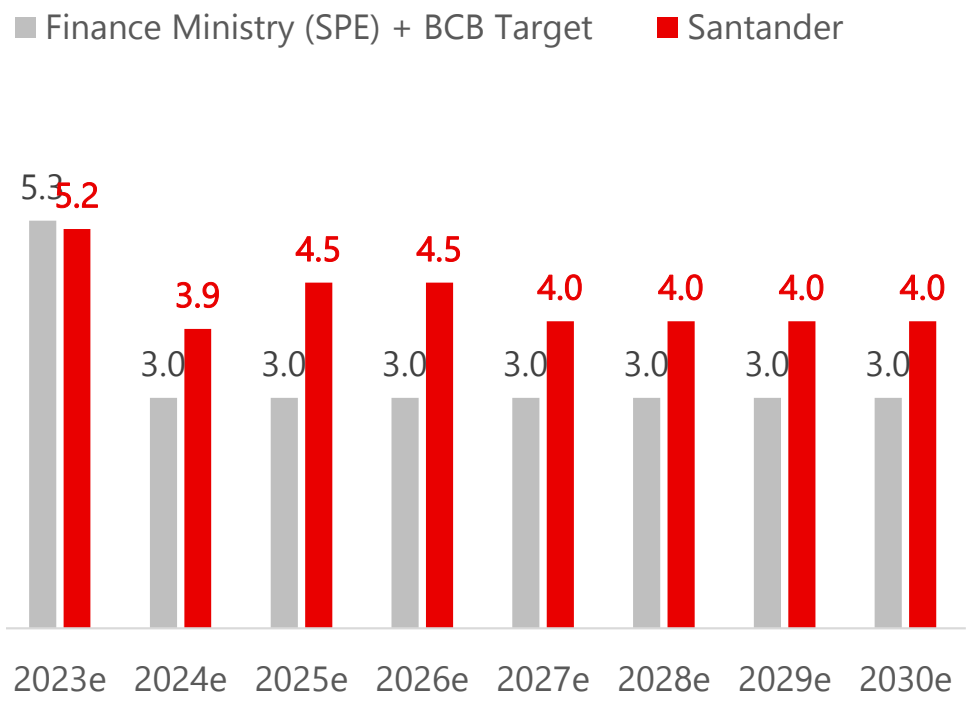
Fiscal Policy: Highly Dependency of the Macro Parameters

GDP Forecast



Sources: Finance Ministry, Santander

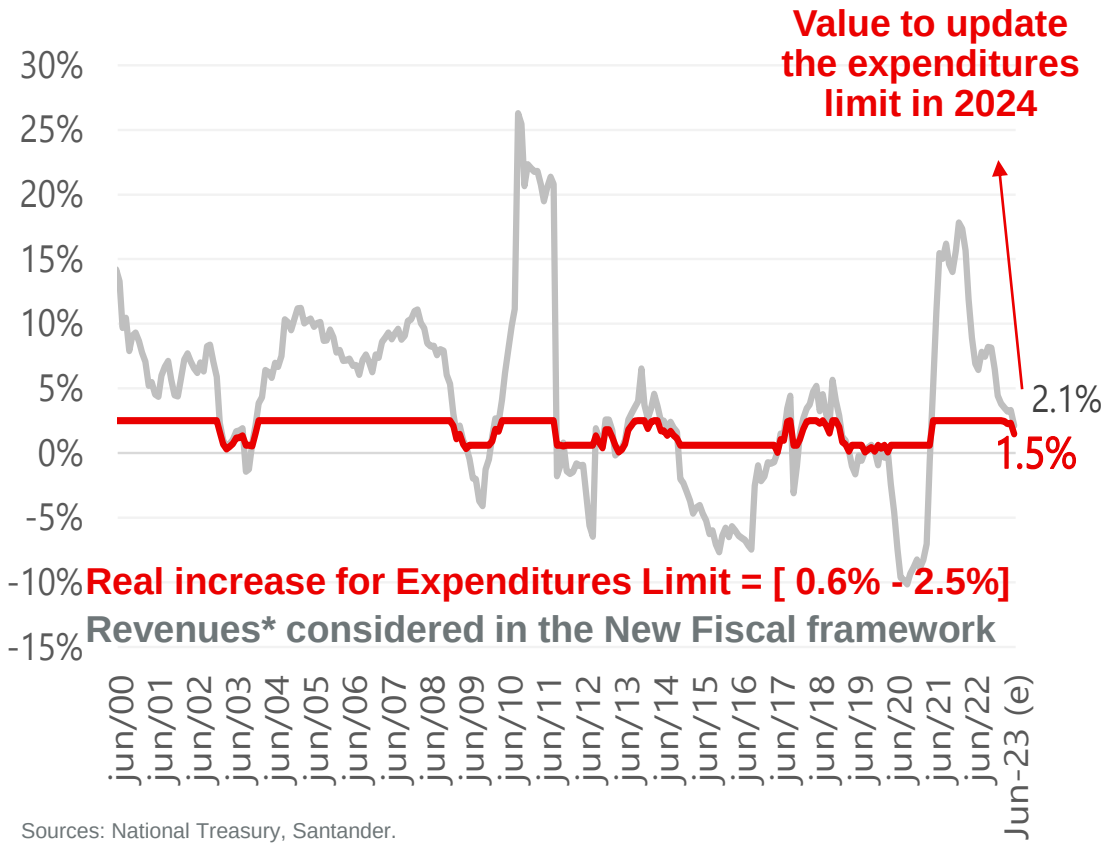
Inflation Estimates



Sources: Finance Ministry, Santander

Fiscal Policy: New Fiscal Framework Proposal

Revenue - % YoY real values



Sources: National Treasury, Santander.

* Total Revenues (excluding: SOE Dividends, Concessions and Revenues from Natural Resources)

Expenditures – Gradual Decline

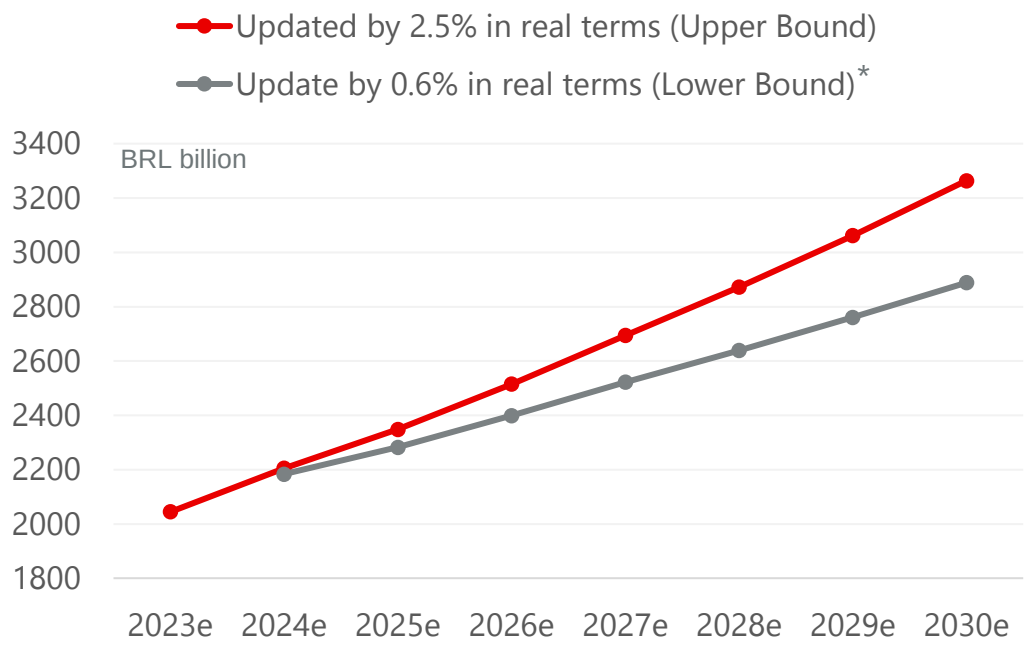
GDP	Net Revenue	Total Expenditure % YoY		Expenditures (% GDP) - 2023:18.9%	
		50%	70%	50%	70%
0.0%	0.0%	0.6%	0.6%	-0.1%	-0.1%
1.0%	1.0%	0.6%	0.7%	-0.3%	-0.2%
2.0%	2.0%	1.0%	1.4%	-0.4%	-0.3%
2.5%	2.5%	1.3%	1.8%	-0.4%	-0.3%
3.0%	3.0%	1.5%	2.1%	-0.5%	-0.4%
4.0%	4.0%	2.0%	2.5%	-0.6%	-0.5%

Nominal GDP = f(REAL GDP, IPCA + 1.0%)

Sources: Finance Ministry, Santander

Fiscal Policy: Expenditure Limit Simulation

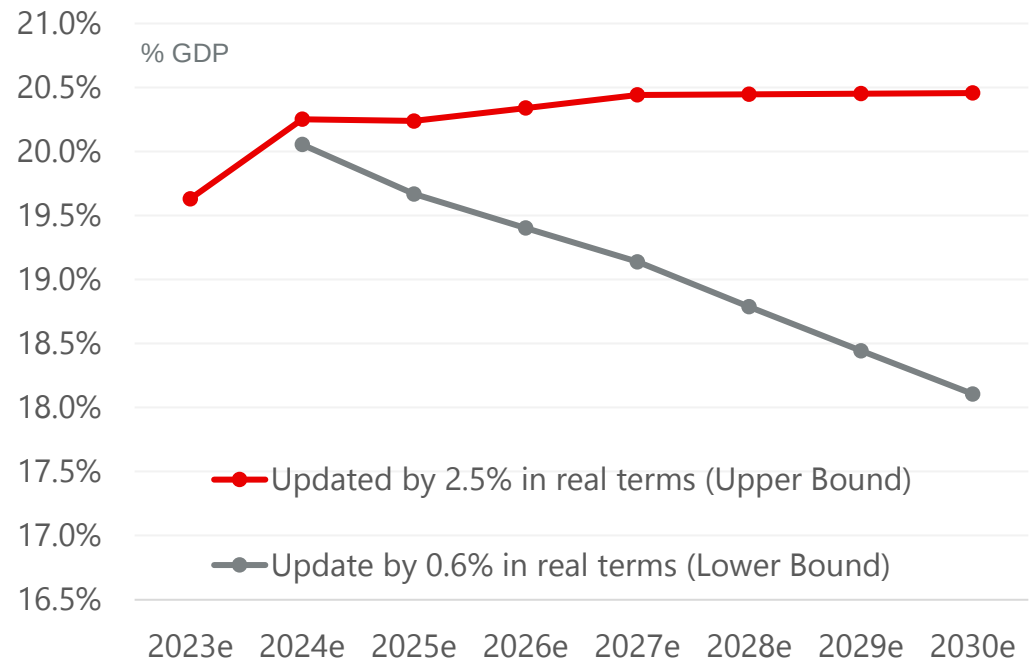
Simulation - Expenditure Limit



Sources: Finance Ministry, Santander

* For 2024 we only consider the increase of 1.5% without using the mechanism that could allow the expenditure limit to rise 2.5% in real terms.

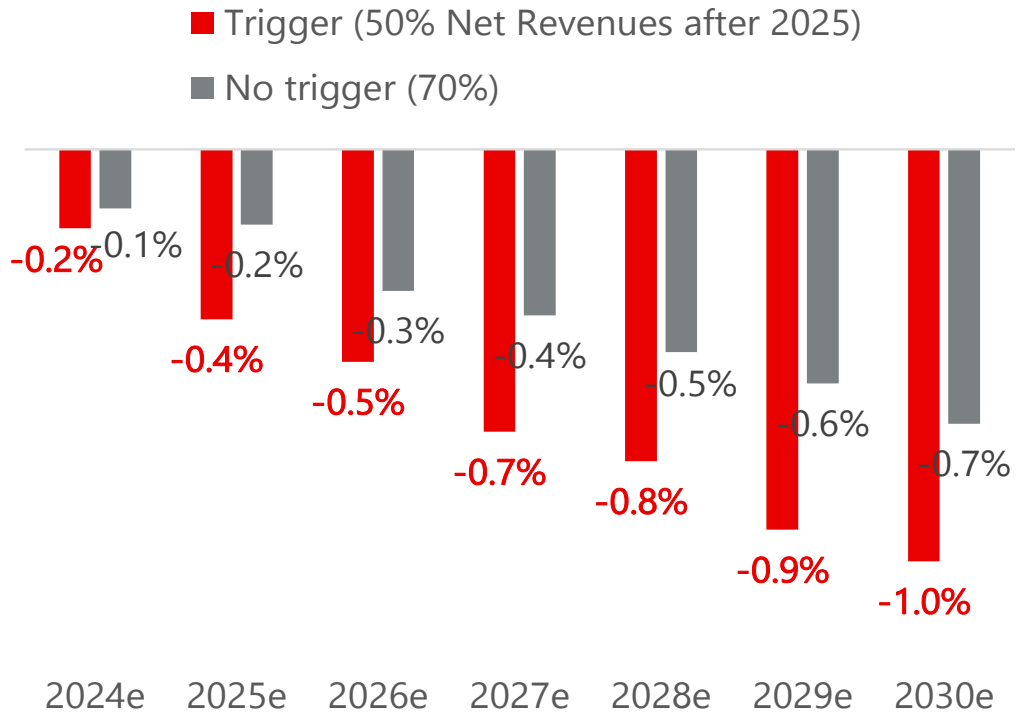
Simulation - Expenditure Limit



Sources: Finance Ministry, Santander

Fiscal Policy: Some challenges for 2024, yet 2025 will be more restrictive

Simulation - Expected cut in discretionary outlays



Some outlays will increase faster than the new limit

Sources: National Treasury, Santander.

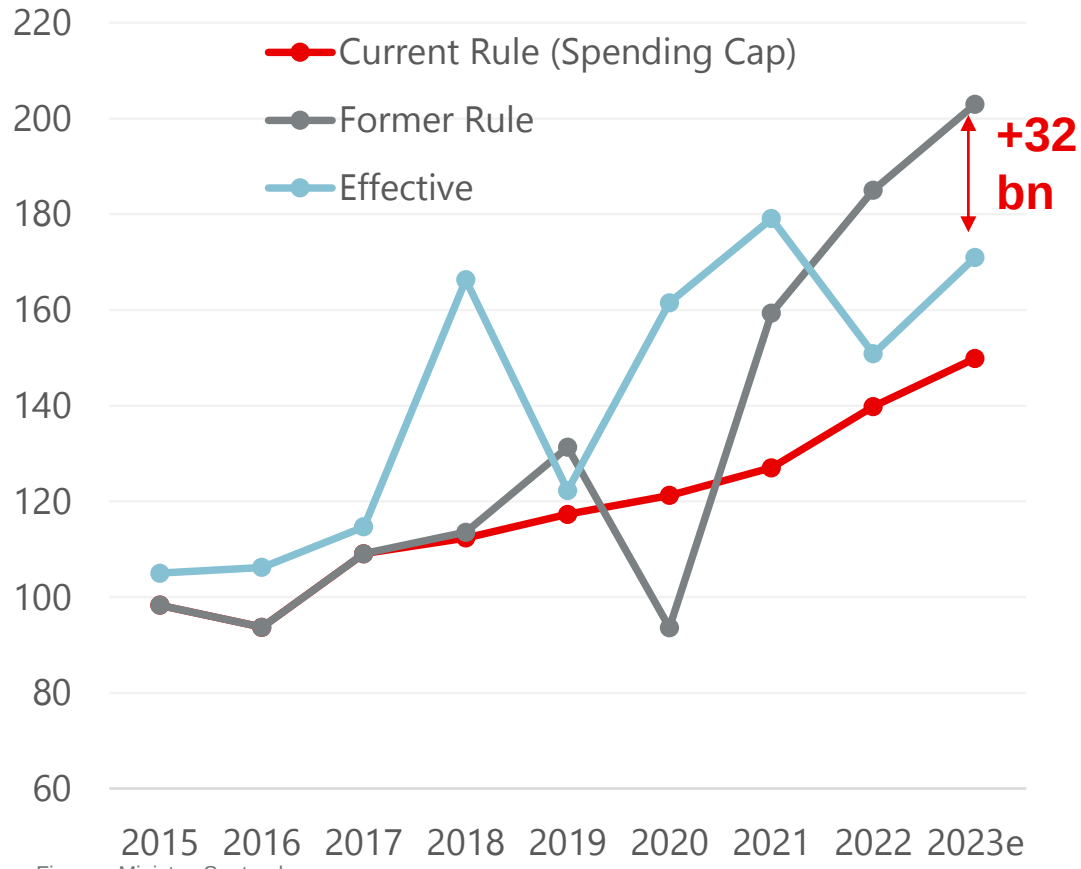
Education: 18% RLI | Health 15% RCL | Minimum Wage = IPCA + 2y GDP average

Public Servants wage = 8% | Welfare Program (Bolsa Família) = IPCA/2

Supposing no changes in the primary targets and the full-effect of the fiscal rule

Pension increase (vegetative): +2.5%

Health Outlays – Lower Bound – BRL bn



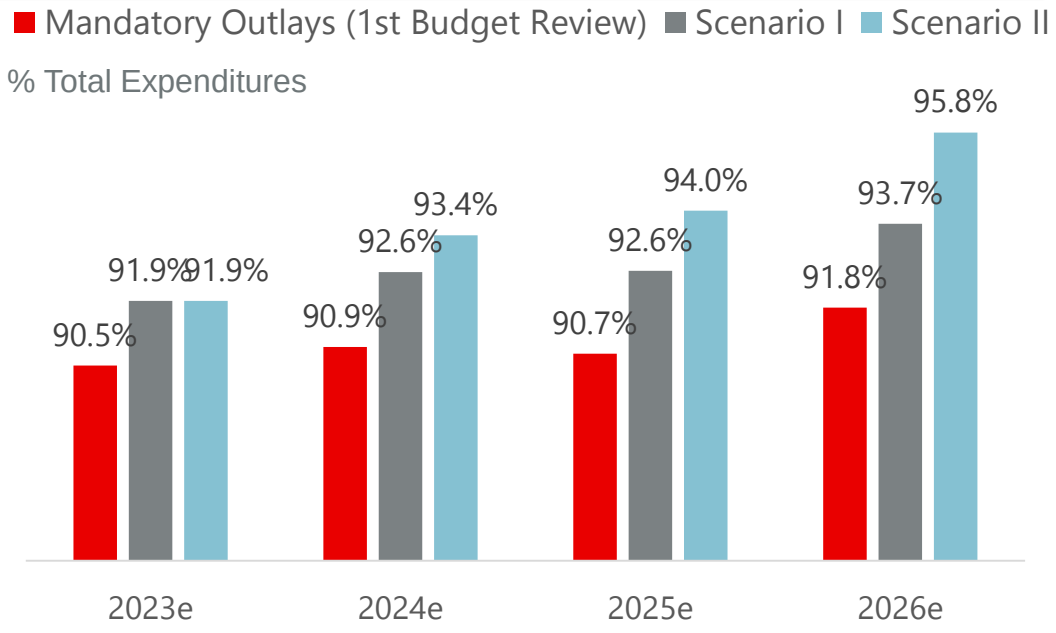
Sources: Finance Ministry, Santander

Santander

Fiscal Policy: A simulation of spending scenario

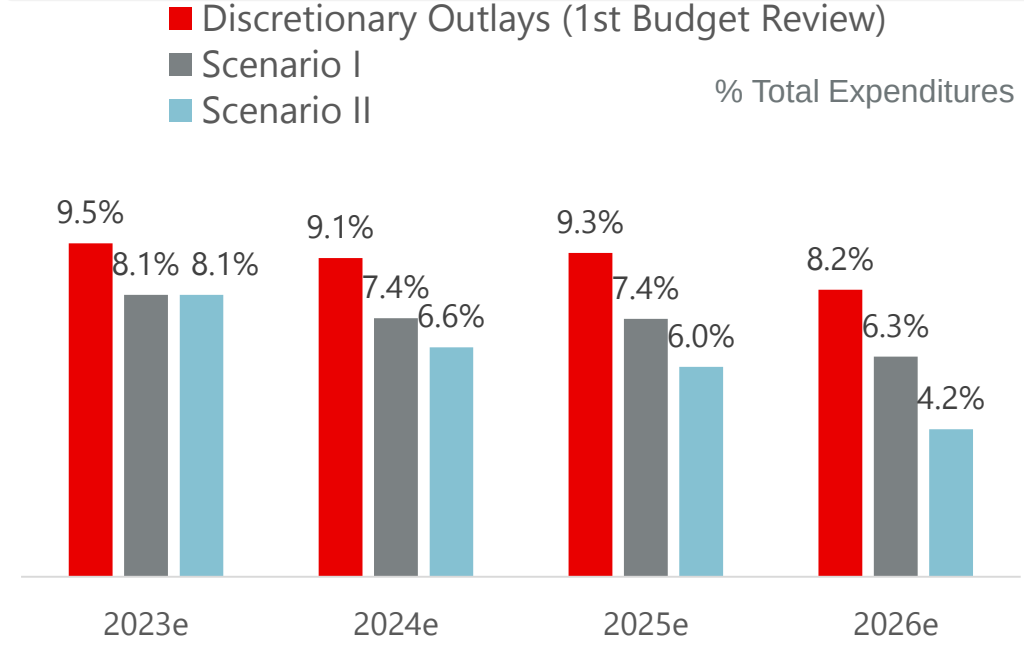
- We compared two scenarios comparing to the Budget Guidelines (PLDO) proposal for 2024 (sent to Congress on April 15)
- We used the PLDO numbers by changing the minimum floor for education and health and the minimum wage rule for adjustments 2024 onwards. We see a pressure in discretionary outlays (remembering that now there is an investment floor of ~BRL72 billion)
- The total increase in outlays from 2023 (Budget Review) and PLDO is 5.8% nominal, probably higher than the one foreseen in the new fiscal framework proposal

Simulation - Expected cut in discretionary outlays



Sources: National Treasury, National Congress, Santander.

Discretionary Outlays - Simulation



Sources: National Treasury, National Congress, Santander.

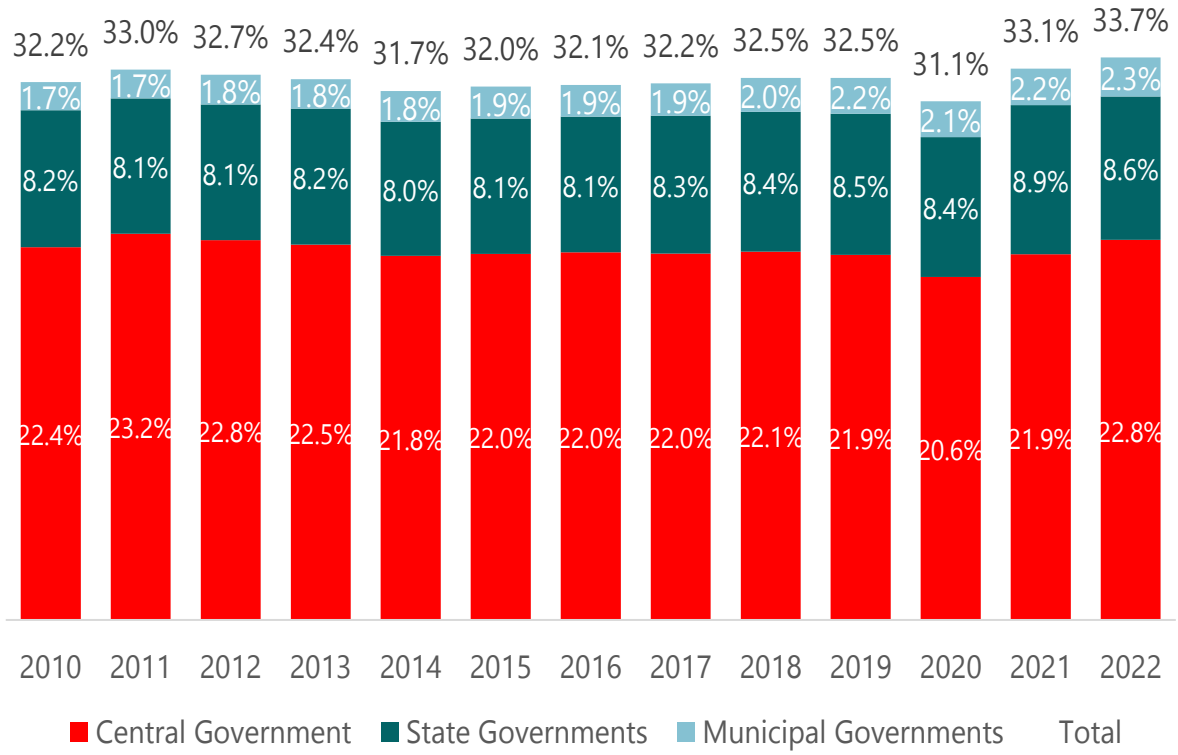
- Scenario I: Increasing the outlays by changing the minimum floor for education and health (BRL30 bn for 2023)
- Scenario II: Scenario I + New minimum wage rule (INPC + two last year GDP)

Fiscal Policy: Is it possible to raise revenues?

Considering OECD data, Brazil's tax revenue was 31.6% of GDP in 2020, the 4th highest among emerging economies.

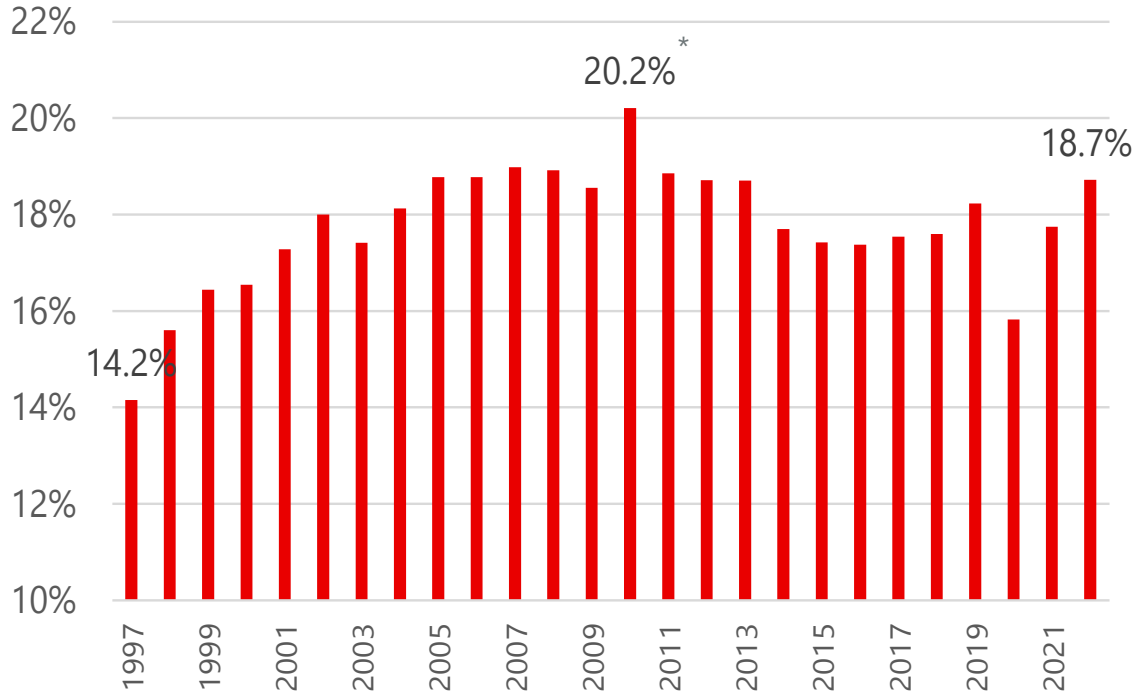
From 1990 to 2020: Brazil's tax revenue rose 3.9 pp, compared to LatAm (4.2 pp) and OCDE countries (2.7 pp).

Brazilian Tax Burden - % GDP



Sources: National Treasury, Santander.

Historical Net Revenues - % GDP



Sources: Finance Ministry, Santander

* 1.9% of GDP in extraordinary revenues

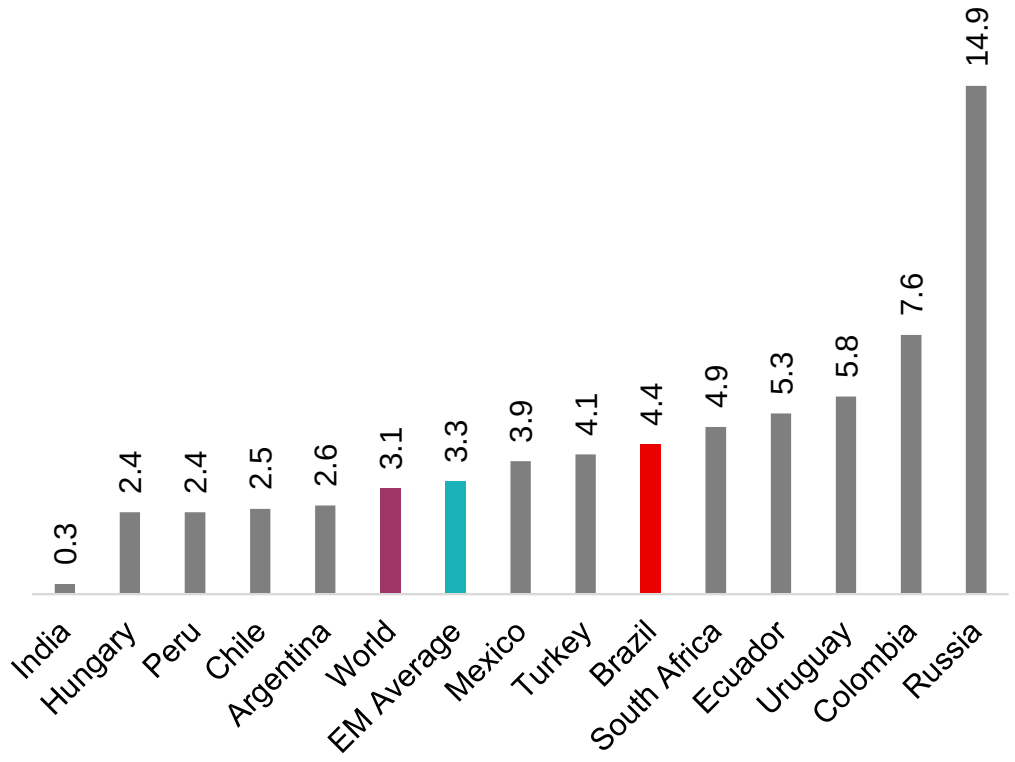
Brazil: Tax Relief Is 1.3 pp of GDP Higher Than Global Average

Fiscal Incentives expected for 2023 - % GDP

2023 Tax Incentives	BRL Billion	%	% of GDP
Simples Nacional	89	19.5%	0.9%
IRPF - Exempt Deductions and Earning	75	16.5%	0.7%
Zona Franca Manaus (Trade Zone)	55	12.1%	0.5%
Agriculture	52	11.4%	0.5%
Non-profit Org.	35	7.7%	0.3%
Savings and Credit Bonds - LCA, LCI, etc	19	4.2%	0.2%
Medicines and Medical Equip.	18	4.0%	0.2%
Employee Benefits	16	3.5%	0.2%
Regional Development	15	3.3%	0.1%
Automotive Sector	10	2.2%	0.1%
Payroll Tax Exemption	9	2.0%	0.1%
IT sector	8.6	1.9%	0.1%
Scientific Research and Tech.	7	1.5%	0.1%
Aircraft and Ships	5	1.1%	0.0%
Individual Enterpreneur (MEI)	5	1.1%	0.0%
ProUni	3	0.7%	0.0%
Others	34	7.5%	0.3%
Total	**456**	**100.0%**	**4.4%**

Sources: National Treasury, Santander.

2020's Tax Relief by Country - % GDP

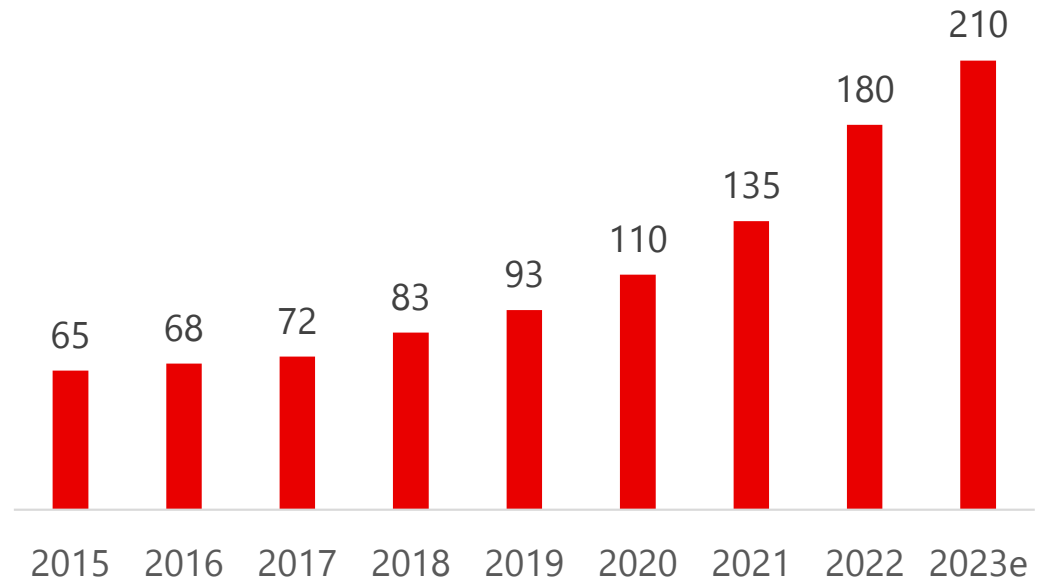


Sources: OECD, Santander

The measures to increase revenues are on Tax Breaks and Tax Basis Incentives

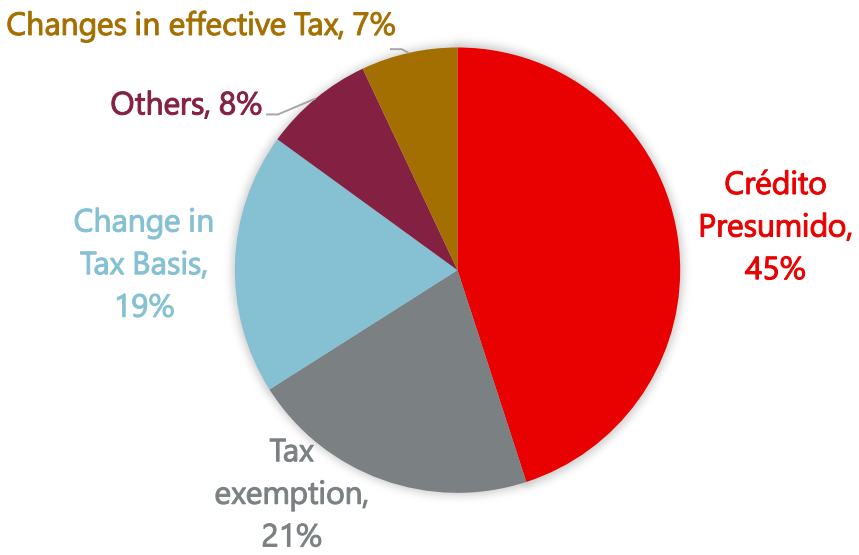
- A main proposal could be the use ICMS credit could only be deducted from the IRPJ and CSLL calculation base if it was earmarked for investments (tax benefits that require a contribution from the taxpayer, such as job creation or factory construction). According to Ministry of Finance projections, the measure might generate between R$85 billion and R$90 billion. Yet, recall that almost half of the revenues on IRPJ is transferred to states and municipalities, reducing its impact. According to our calculations, depending on the parameters (such as the effective rate and % of the funding subsidy) and removing the subnational transfers, **the total potential is reduced to an interval between BRL30-40 billion in a year.** Recently, the Supreme Court (STF) revoked the suspension of the ruling in favor of the federal government related to the use of VAT (ICMS) credits to reduce the corporate income tax basis (preserving "credito presumido"). We believe that potential increase in federal revenues could reach close to BRL20 billion annually. Among sectors, retailers would be more affected, but some may be able to mitigate the impact if they pass through this possible increase in the tax rate to consumers through higher prices.

Total ICMS (VAT) states tax breaks – BRL billion



Sources: National Treasury FEBRAFITE, Santander.

ICMS Tax Break Profile - 2021



Sources: National Treasury, Santander

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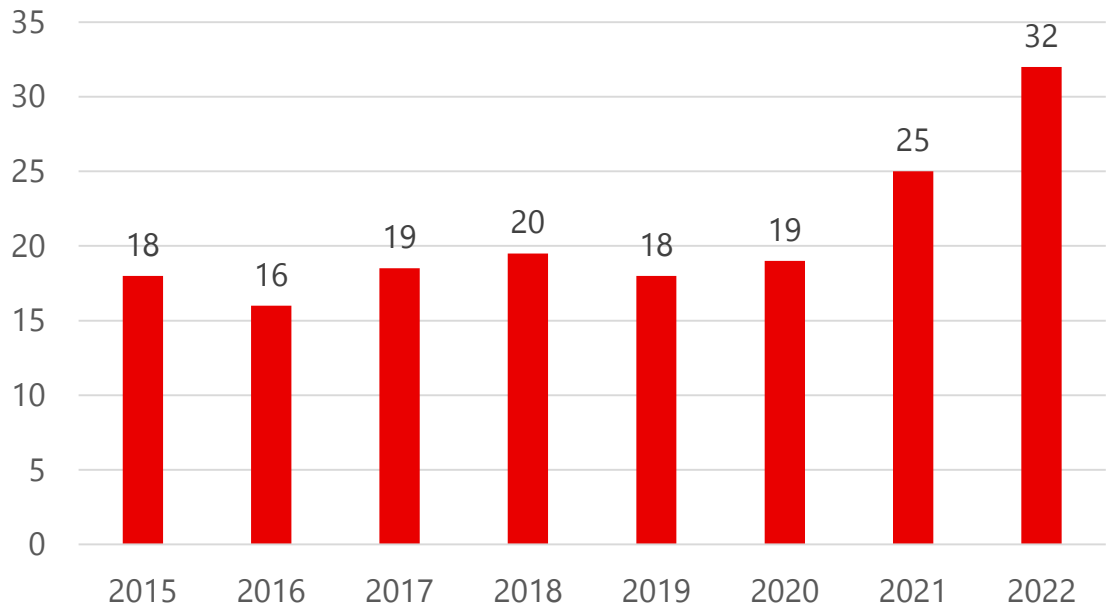
Exports to Tax Havens



Sources: SECEX, Santander.

Transfer Price Taxation - BRL billion

	Transfer Price (intercompany)	Discount 10%	Discount 20%	Discount 30%
Public Sector (IRPJ+CSLL)	34%	5.9	11.9	17.8
	30%	5.2	10.5	15.7
	25%	4.4	8.7	13.1
Fed. Gov (IRPJ+CSLL)	34%	2.9	5.6	8.4
	30%	2.5	4.9	7.4
	25%	2.1	4.1	6.2

Sources: BCB,S, Santander

The measures to increase revenues are on Tax Breaks and Tax Basis Incentives

- We believe that the government will achieve BRL30-40 billion with the current measures, mostly impacting the 2024 result
- We see part of this compensating the cyclical reduction the central gov. net revenues, so we expect new measures to be announced ahead

Measures mentioned in the Newsflow

Measures - BRL bn	Gov. Estimate	Our Estimate for Fed. Gov.*	Likely?
Original Plan			
Sports betting winnings - taxable income	12-15	5**	Yes
Tranfer Price - (Exports to tax havens)	20-30	10	Approved
Tax of imported goods purchased by individuals online	7-8	6	Yes, yet could face popular pressure
Restricting corporates' to deduct ICMS tax benefits in income taxes	85-90	20	We still see it being negociated
Big Techs (offshore matrix)	2	2	Yes
Others			
Lottery "Raspadinha"	3	3	Yes, could be not go the Fed. Gov.
Legalization of gambling ("Jogos de Azar")	-	30-40	Approved in Lower House
End of JCP*	-	8	Only in General Income Tax Reform
Tax on Dividends (15%)***	-	25-30	

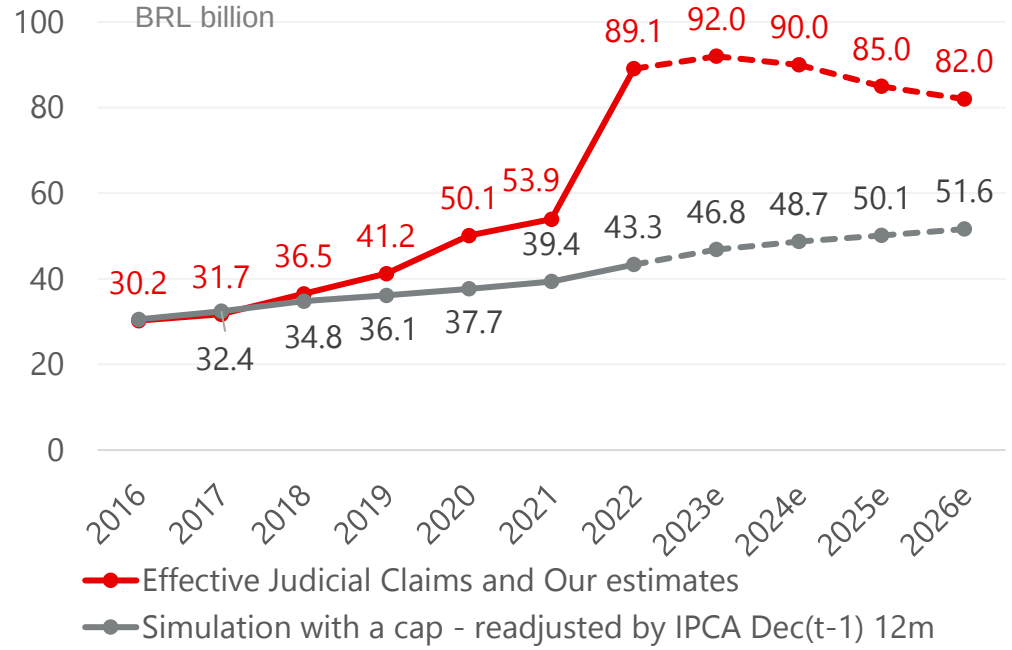
* Most part of the measures are related to income taxes - that is half shared with subnational entities
** Including the one-off in the first year of BRL3bn
*** Probably will be a compensation on the reduction in corporate income tax (34%)

Sources: Finance Ministry, Broadcast, Santander.

The judicial claims remains limited and accumulating a non-paid debt (not in the statistics)

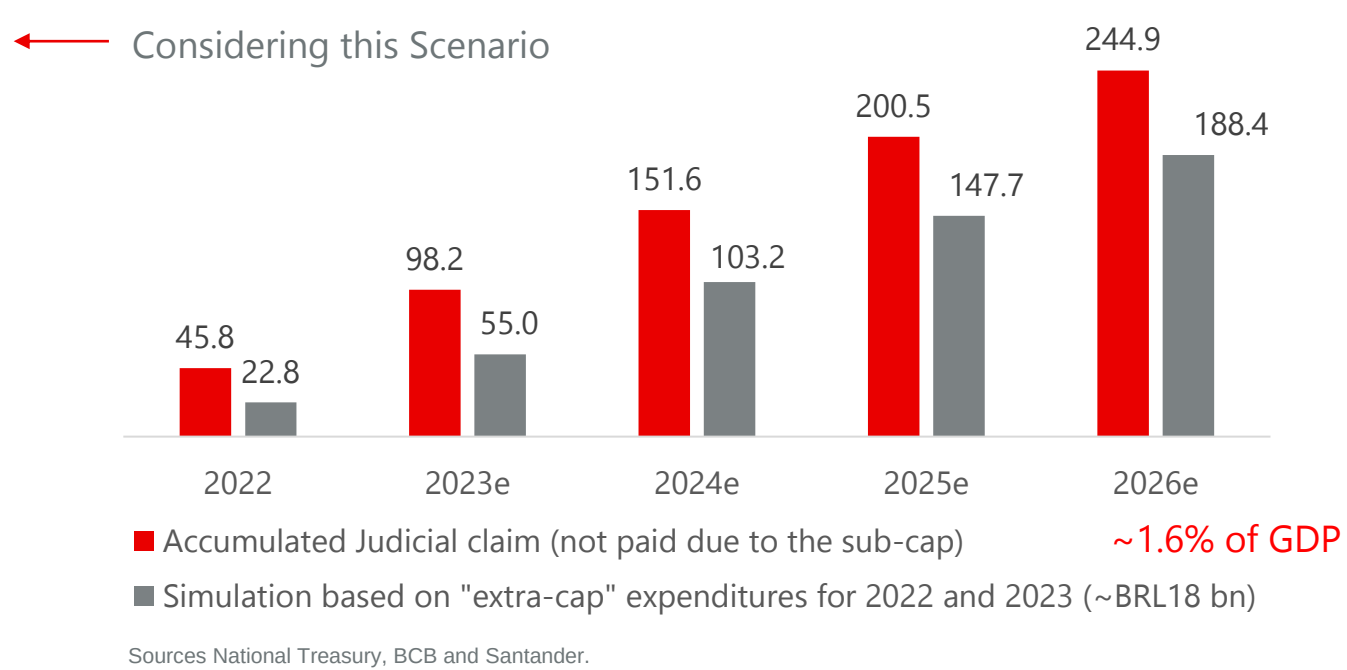
- In order to reduce the judicial claims payments, the government proposed to create a ceiling for these liabilities and postponing the remaining for the next few years (or paying outside the spending cap limit).
- Creating a cap since 2016 would reduce the judicial claim payments in 2022 to close to BRL43 billion, from the BRL89.1 billion official number. We believe that ~BRL55 billion will be accumulated for being paid in the future. If not paid the court-ordered debt could reach a total of 1.6% of GDP in 2026

Simulation - A limit for Judicial Claims payments



Sources: National Treasury, BCB and Santander.

Simulation with a cap – Accumulated judicial claims



Sources National Treasury, BCB and Santander.

Primary Result and Debt

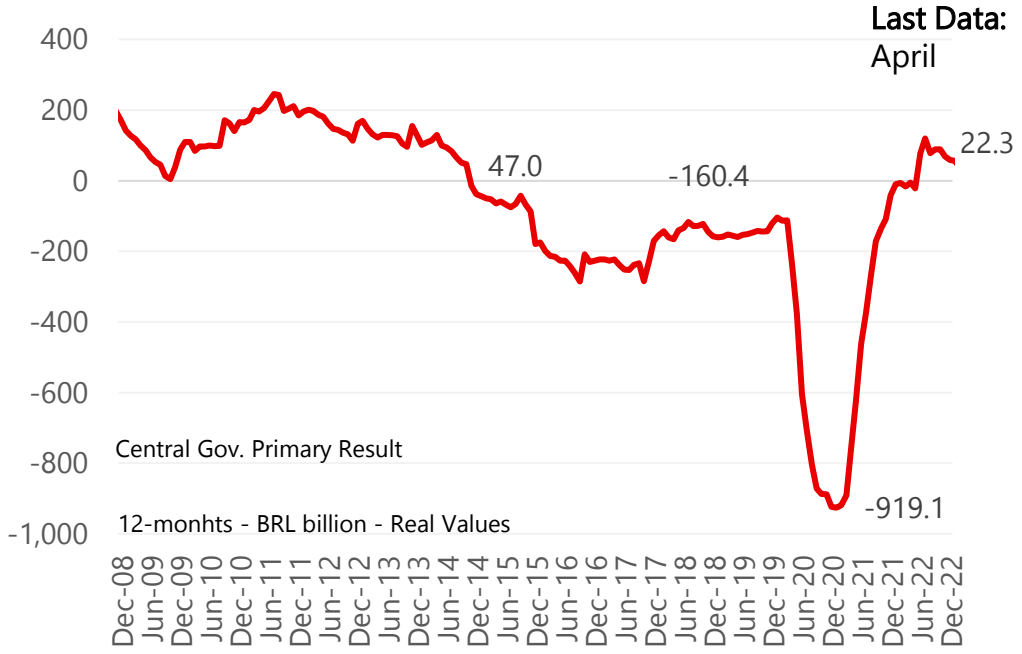
Returning to a Primary Deficit

4

Central Gov: Gradual Return to Primary Deficit

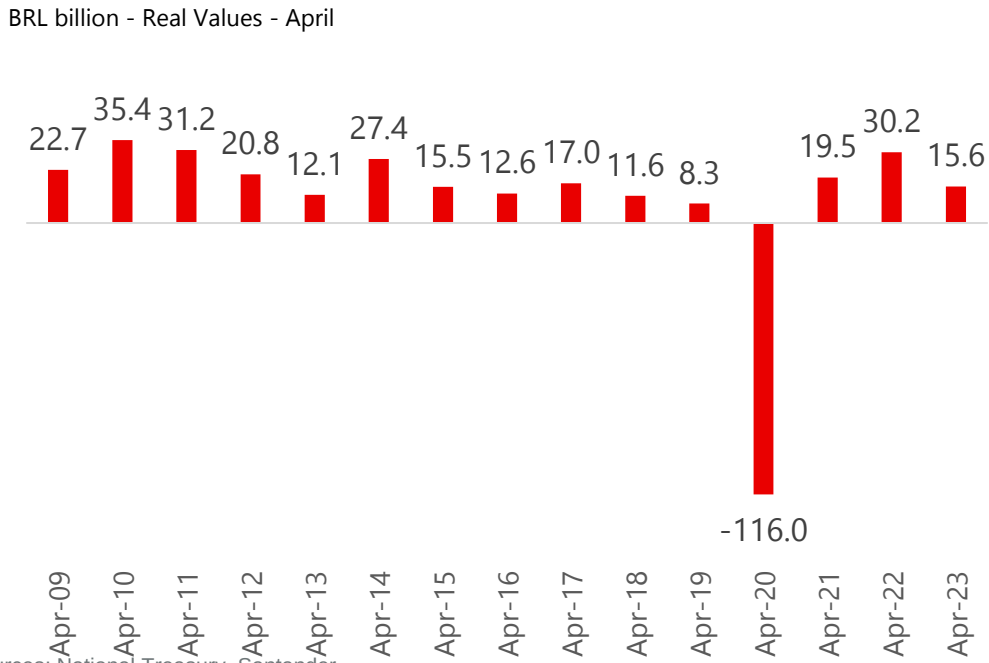
- In 12-month reading, the Central Gov. registered a primary surplus of BRL22.3 bn (0.2% of GDP), from BRL56.4 bn (0.5% of GDP) in January. For 2023, our forecast for the Central Gov. Result is a deficit of BRL120 bn (-1.1% of GDP). The primary balance in 12-months reading should present a sharper drop only after June, when Eletrobras concession and Petrobras and BNDES dividends from June/22 will no longer be included,

Central Gov. Primary Balance – 12m % GDP



Sources: National Treasury, Santander.

Central Gov. March Result – BRL bn

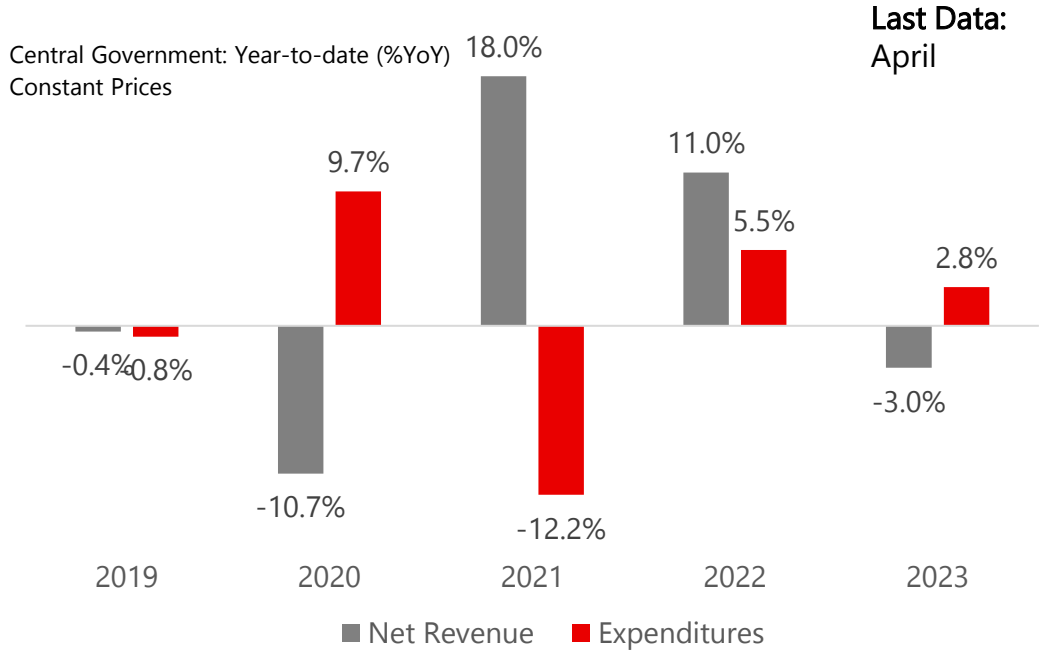


Sources: National Treasury, Santander.

Central Gov: Gradual Return to Primary Deficit

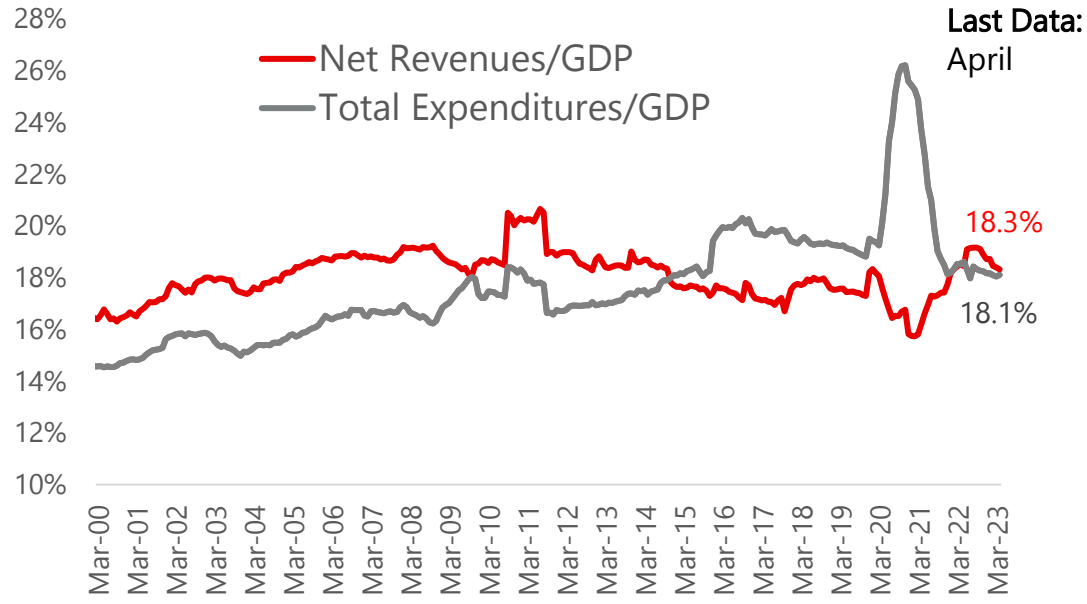
- We continue to believe that the monthly result will lose steam ahead with the increase in expenses (already in the pipeline) and with a more modest increase in revenues (some measures starting to being more effective). We believe that the tax collection performance will be a key thermometer for the fiscal result this year, and it is highly correlated to the commodities prices

Central Gov. Primary Balance –



Sources: National Treasury, Santander

Revenue and Expenditures (%GDP)

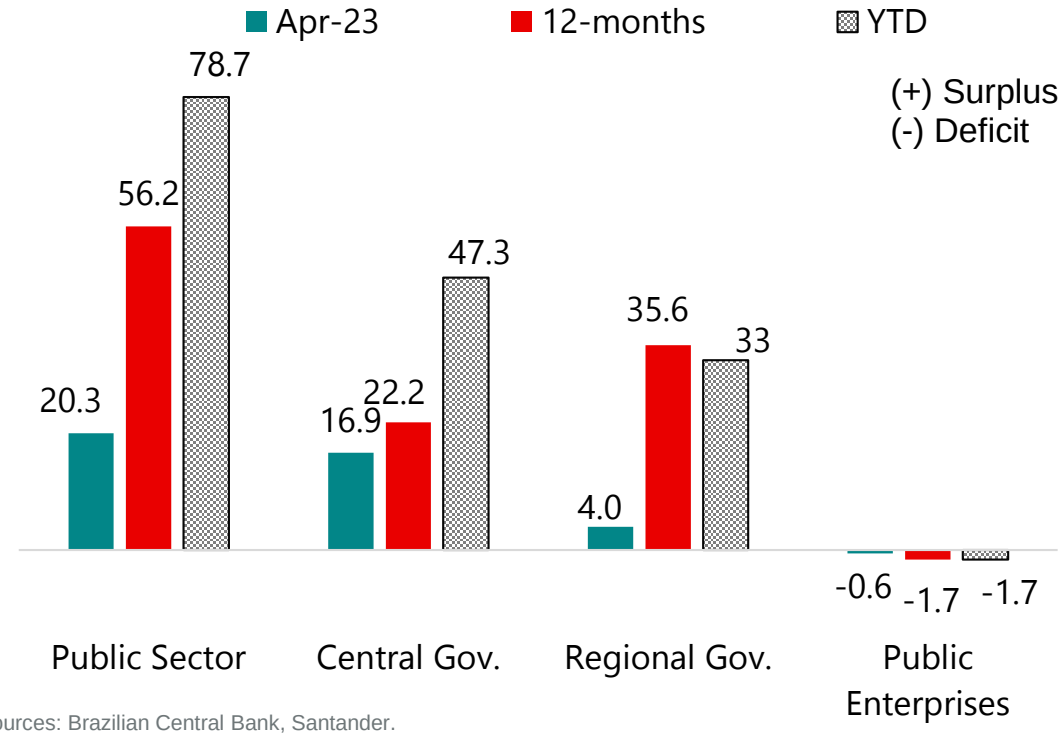


Sources: National Treasury, Santander

Public Sector Primary Result slowing down gradually

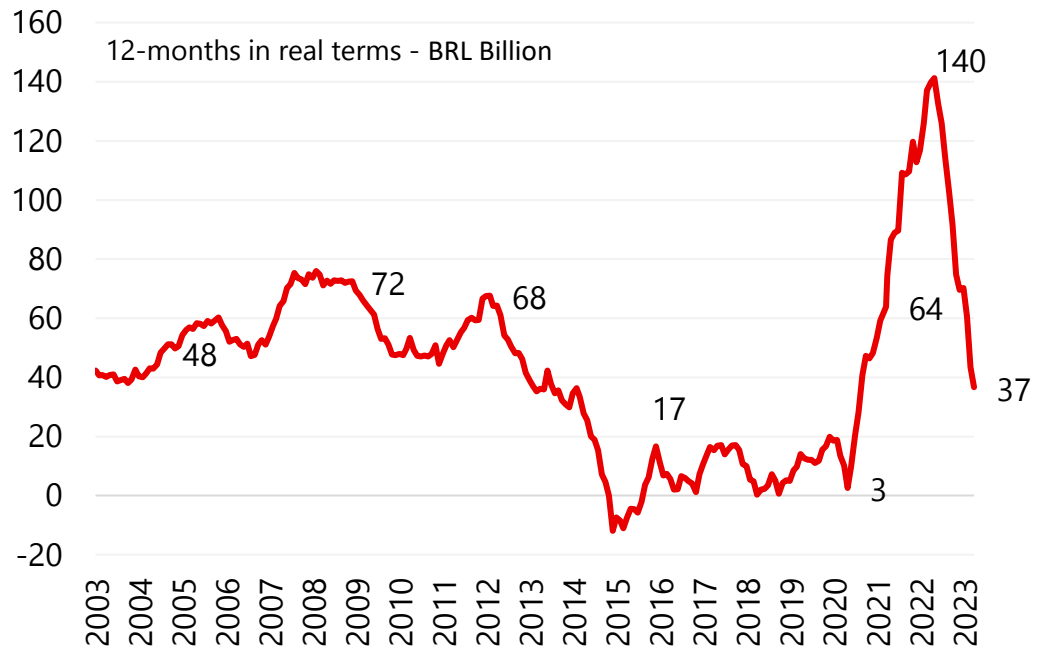
- In the 12-month reading, the public sector's primary surplus reached BRL56 billion (0.6% of GDP), after peaking at 2.4% in July 2022. Regional governments reached a surplus of BRL36 billion (0.4% of GDP) — the peak was registered in May 2022 (BRL128.7 billion, or 1.4% of GDP). Despite the solid recent performance, we believe that fiscal expansion already in the pipeline (totaling ~2.0 p.p. of GDP), in the context of a softening in commodity prices and in real activity, will likely prompt a return to a primary deficit in 2023 (1.1% of GDP). The result will be closely related to commodities price performance, in our view. The implementation of government measures to increase revenue could help achieve compliance with the new fiscal framework proposal.

Public Sector – Primary Result – BRL bn



Sources: Brazilian Central Bank, Santander.

Regional Gov. – Primary Result

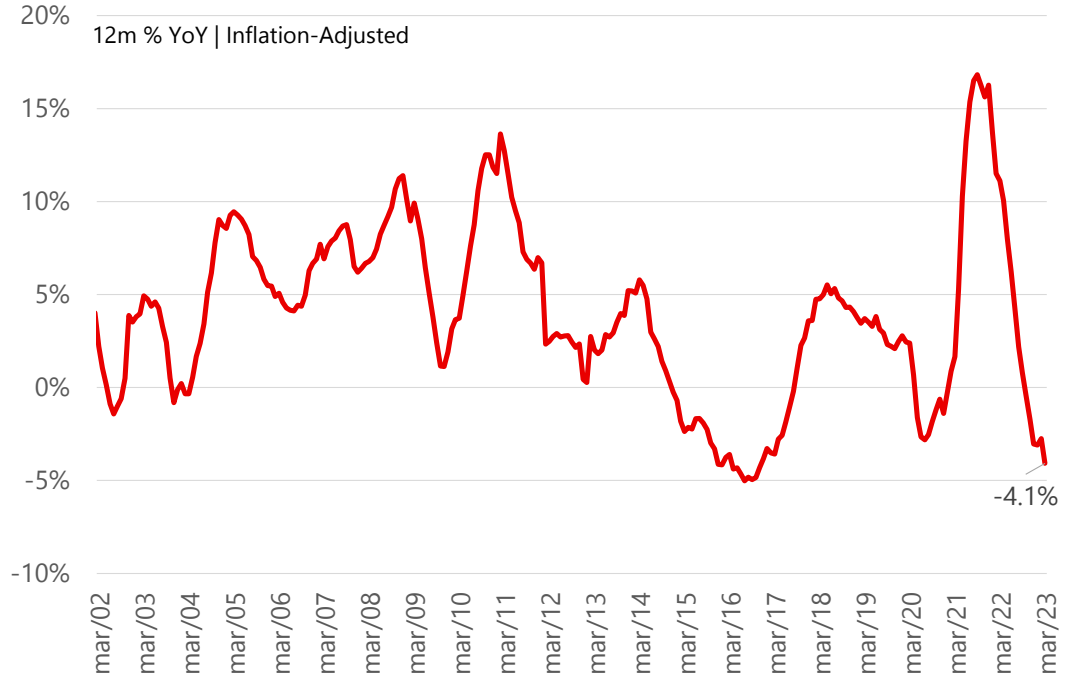


Sources: Brazilian Central Bank, Santander.

Fiscal Policy - Regional Government

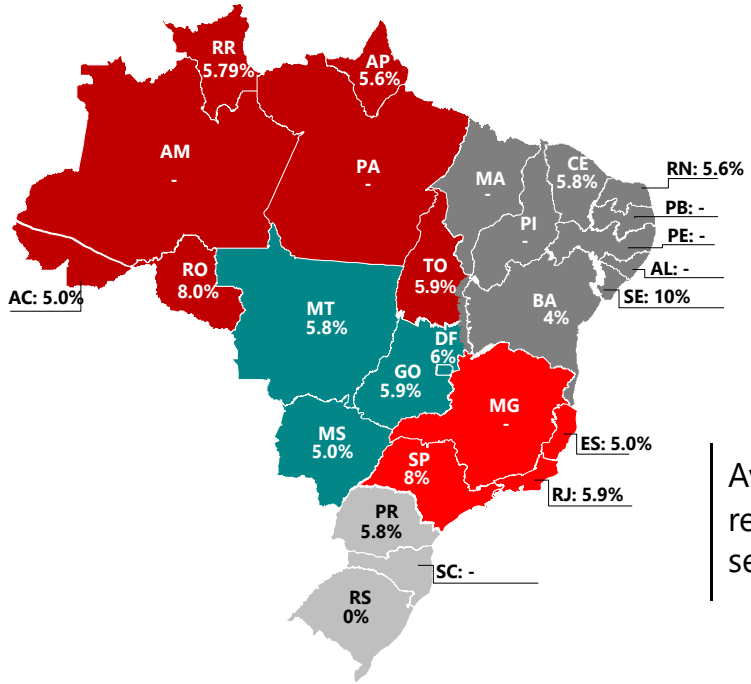
- The revenues of regional governments is reducing at the margin, we are seeing a drop of -4.1% YoY in real terms.
- We are observing the public servants' wages readjustment ~6% in the states, after increasing 11% in 2022. We also see pressure of the teacher's wage floor that was increased by 15% in the begging of the year.

Regional Gov. Revenues



Sources: Brazilian Central Bank, Santander.

Regional Gov. – Increases in Wages



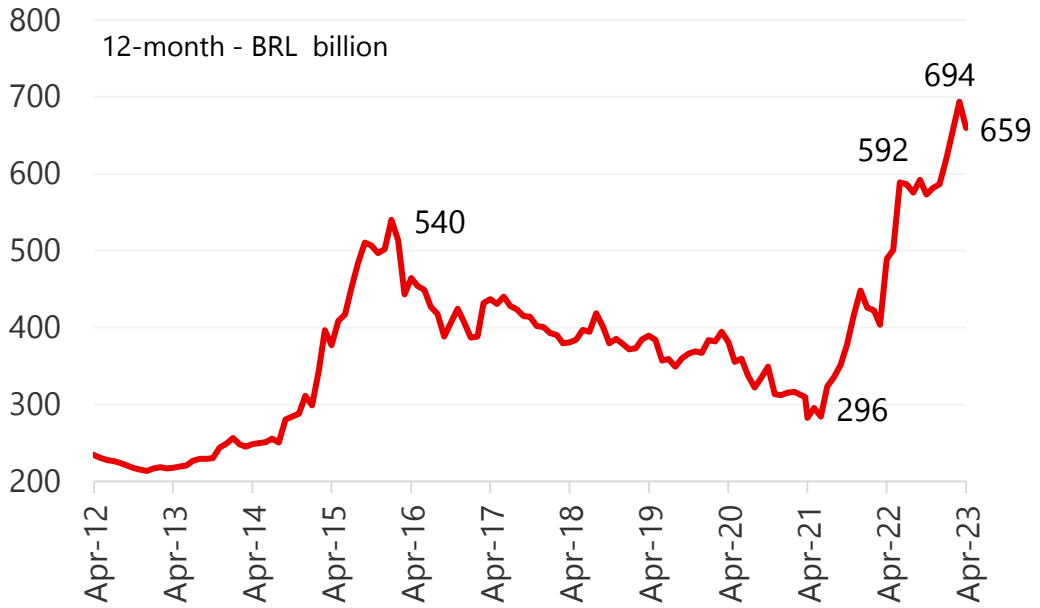
Average of **6%** of salary readjustments of public servants' wages

Sources: States, Santander.

Increase in Interest Payments should pressure the debt ahead

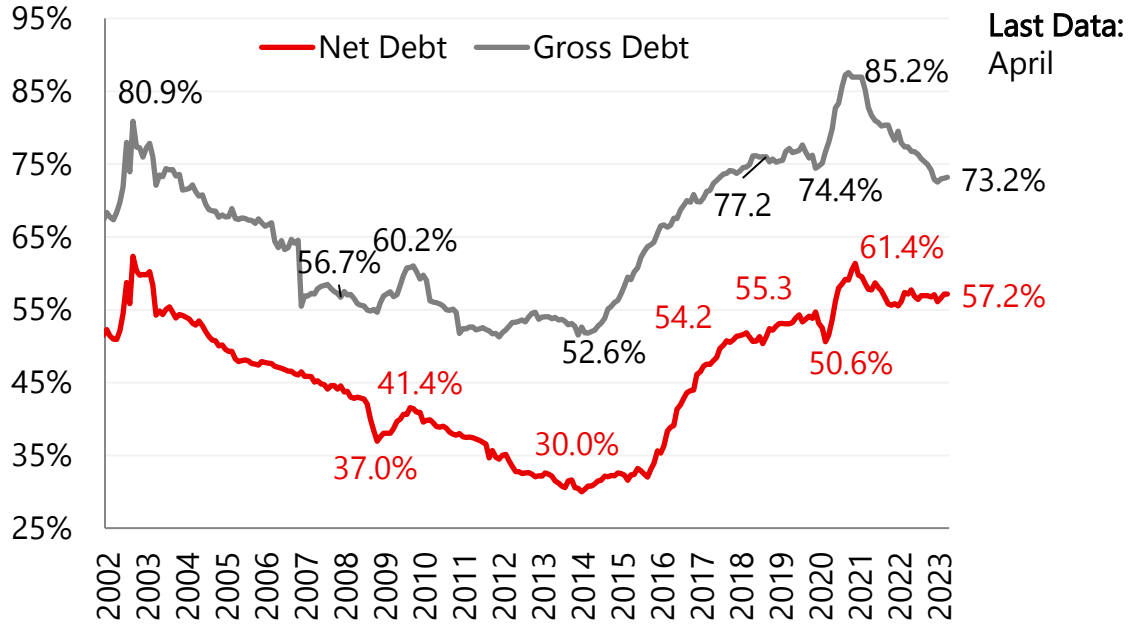
- Interest payments totaled BRL45 billion in April, compared to BRL80 billion in April 2022. FX swap operations contributed to this result (profits of BRL14.2 billion in April, compared to a loss of BRL15.4 billion in March). In the 12-month reading, the nominal deficit totaled BRL603 billion (5.9% of GDP), compared to BRL460 billion (4.6% of GDP) in December 2022.
- In April, debt remained at similar levels compared to March. Gross debt reached 73.2% of GDP (+0.1 pp in the month), reflecting interest accrual (+0.6 pp), offset by an increase in nominal GDP (-0.4 pp).

Nominal Interest Result – BRL billion



Sources: Brazilian Central Bank, Santander.

Public Sector Debt (12m % GDP)



Sources: Brazilian Central Bank, Santander.

FISCAL POLICY: Mitigating the deficit in the short-term, challenges ahead

Central Gov. Primary Balance																
Fiscal Items (% of GDP)	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	Δ 26-17	Δ 30-17
Total Revenue	21.0	21.3	22.1	19.3	21.7	23.3	22.7	22.8	22.9	23.1	23.4	23.3	23.3	23.2	2.1	2.2
Revenues Collected by the IRS (1)	12.7	12.9	12.8	11.8	13.4	14.0	13.9	13.8	13.7	13.6	13.7	13.6	13.5	13.5	0.9	0.8
Net Social Security Revenues (2)	5.7	5.6	5.6	5.3	5.2	5.4	5.7	5.8	5.8	5.9	5.9	5.9	5.8	5.8	0.2	0.1
Revenues Not Collected by the IRS (3)	2.7	2.8	3.7	2.2	3.1	3.9	3.1	3.3	3.4	3.6	3.8	3.8	3.9	3.9	1.0	1.3
Transfers by Revenue Sharing	3.5	3.7	3.9	3.5	4.0	4.6	4.5	4.5	4.3	4.2	4.1	4.1	4.0	3.9	0.8	0.5
Net Revenue	17.5	17.6	18.2	15.8	17.7	18.7	18.2	18.4	18.6	18.9	19.2	19.3	19.3	19.3	1.3	1.8
Total Expenditure	19.4	19.3	19.5	25.6	18.1	18.2	19.4	19.4	19.4	19.5	19.2	18.9	18.6	18.3	0.1	-1.1
Social Security Benefits (4)	8.5	8.4	8.5	8.7	8.0	8.0	8.3	8.5	8.5	8.5	8.5	8.4	8.4	8.3	0.1	-0.1
Payroll (5)	4.3	4.3	4.2	4.2	3.7	3.4	3.5	3.6	3.7	3.8	3.8	3.8	3.7	3.6	-0.5	-0.7
Other Mandatory Expenses (6)	3.0	2.9	2.6	9.5	3.4	3.0	2.7	2.7	2.7	2.6	2.5	2.4	2.4	2.3	-0.4	-0.7
Expenses with Cash Control (7)	1.9	2.0	1.9	1.8	1.6	2.2	3.1	2.9	2.9	2.8	2.8	2.7	2.6	2.5	0.9	0.6
Discretionary Expenses (8)	1.8	1.8	2.2	1.4	1.4	1.5	1.7	1.6	1.6	1.8	1.7	1.7	1.7	1.6	0.0	-0.2
Central Gov. Primary Balance	-1.9	-1.7	-1.3	-9.8	-0.4	0.5	-1.1	-1.0	-0.8	-0.7	0.1	0.3	0.7	1.0	1.2	2.9
Public Sector Primary Balance	-1.7	-1.5	-0.8	-9.4	0.7	1.3	-1.0	-1.0	-0.8	-0.6	0.1	0.3	0.7	1.0	1.0	2.7
Nominal GDP (BRL billion)	6,585	7,004	7,389	7,610	8,899	9,915	10,417	10,888	11,604	12,367	13,180	14,046	14,970	15,954	5,781	9,369

Notes and Hypothesis

(1) Elasticity: Revenues-GDP 2021: 1.7 | 2022: 1.3 | 2023:0.91 | Long-term: 1.03. We see a slowdown in extraordinary revenues from 2023 onwards. Potential GDP: 1.5%. Inflation: 4.0%, GDP deflator 5.0%. (2) Recovery in the formal labor market and earnings (better short-term numbers), expected some softening ahead. (3) Oil revenues will increase with greater federal share in pre-salt, the reduction in prices in medium-term will be compensated with more production. 4) A permanent fiscal waiver of BRL170 billion in 2023 onwards. We assume a fiscal rule that incorporates the waiver for 2023 as a permanent shift in the constitutional spending cap, which remains indexed to IPCA inflation up to 2026 (before the new fiscal anchor proposal). Expenditures limited to ~19% of GDP (close to the level before enactment of the spending cap law). Real minimum wage increase (IPCA + average of last 5 years of GDP growth). The government will mitigate the impact of real gains in minimum wage by a tighter rule for the welfare program. Pension Reform approved in 2019 will stabilize the expenditures as % of GDP in the long-term (even with the rapid aging of the population). In the short-run we eliminate the queue (repressed by the pandemic). (5) Gradual increase in admissions (faster than the previous scenario, 70% instead of 55%) to the federal workforce ("normalization"). In the short-term (2024-25) decomposition of 80%, We included the 9% increase in 2023 and 2024, after that is decreasing gradually to 4% in Medium-term. Long-term: digitalization effects contain the increase. (6) Includes: higher payments in Court-ordered debt budget (sub-cap) – better management with a reduction in long-term, rise in federal contribution to Fundeb (Educational Fund), BPC (pension benefit). Court-ordered debts to accumulate to 1.6% of GDP by 2026, with the government negotiating future payments. (7) The main change was the increase in the welfare program (*Auxílio Brasil*). 2022 budget: BRL90 billion (from BRL35 bn of the former Bolsa Família). For 2023 onwards a more efficient and focalized welfare program with a total of BRL165 bn (gradual reduction in outlays after 2024). (8) Discretionary Expenses maintained at ~1.5% - a level that we consider enough to avoid a partial shutdown of public services, with and increase in investment with the reforms. (9) Not consider an increase in Tax exemption from 2023 onwards.

Public Debt and Simulations

A risky path toward debt stabilization

5

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 **80%**
- We see the neutral interest rate hypothesis at 5.0%, this implies a larger primary surplus needed to stabilize the debt.
- Not considering the effects of the cyclical recovery, the long-term outlook will require a remaining 3.0p.p. of GDP primary fiscal adjustment, just to stabilize the ratio debt-to-GDP around the level of ~80% of GDP (in cyclical estimate). In the structural estimate, the adjustment is closer to 2.3pp.

- **Current situation:**

. Real interest rate (ex-ante) 1-year: 7.3%,
. GDP: 1.9% in 2023 and 0.5% in 2024

Liquidity reserves close to 9 months of debt maturities

Increase in debt cost (Selic + IPCA)

- **Steady-state:**

According to our hypothesis:
. Real interest rate at +5.0%
. Potential GDP at +1.5%,

. The primary surplus must reach >2% of GDP to maintain the gross debt stable.

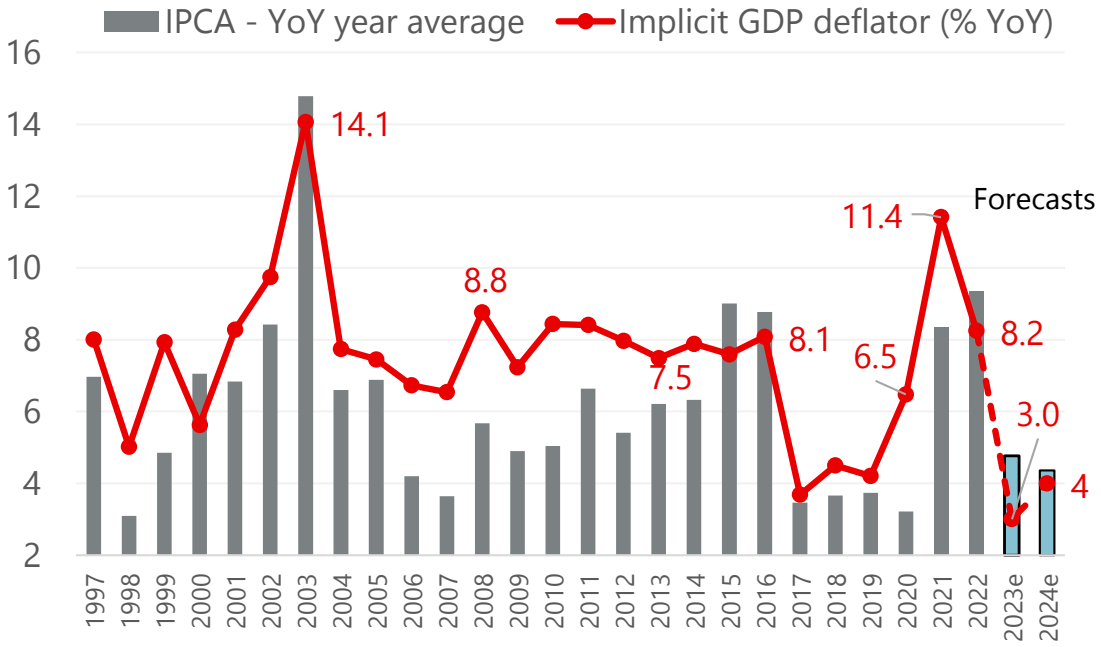
		Real Interest Rate						
		1.0%	*2.0%*	*3.0%*	*4.0%*	*5.0%*	*6.0%*	*7.0%*
GDP Growth	*0.0%*	0.8	1.6	2.4	3.2	4.0	4.8	5.6
	1.0%	0.0	0.8	1.6	2.4	3.2	4.0	4.8
	1.5%	-0.4	0.4	1.2	2.0	2.8	3.5	4.3
	1.8%	-0.6	0.2	0.9	1.7	2.5	3.3	4.1
	2.0%	-0.8	0.0	0.8	1.6	2.4	3.1	3.9
	2.5%	-1.2	-0.4	0.4	1.2	2.0	2.7	3.5

Sources: BCB, Santander.

GDP Deflator Impact – Opposite effect in 2023 on lower IGP-M

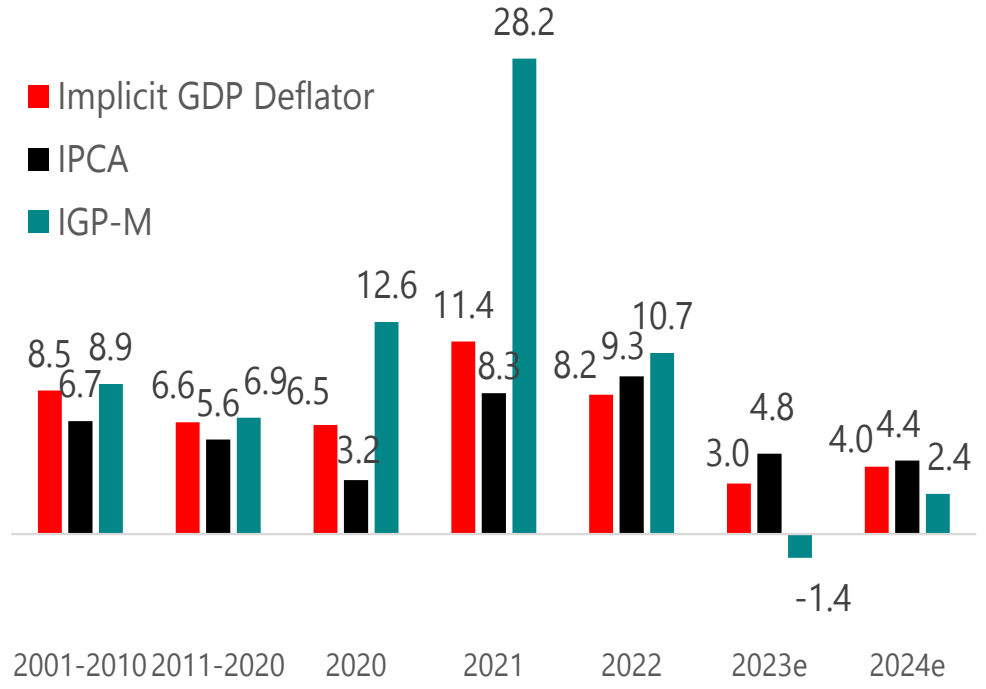
- After helping the increase in Nominal GDP, we estimate that the GDP Deflator will be lower than the IPCA numbers.
- We reduced the GDP Deflator estimate from 3.9% to 3.5%, considering lower IGP-M YoY average (-1.4%, from -0.3% last month).

IPCA and GDP Deflator



Sources: IBGE, Santander.

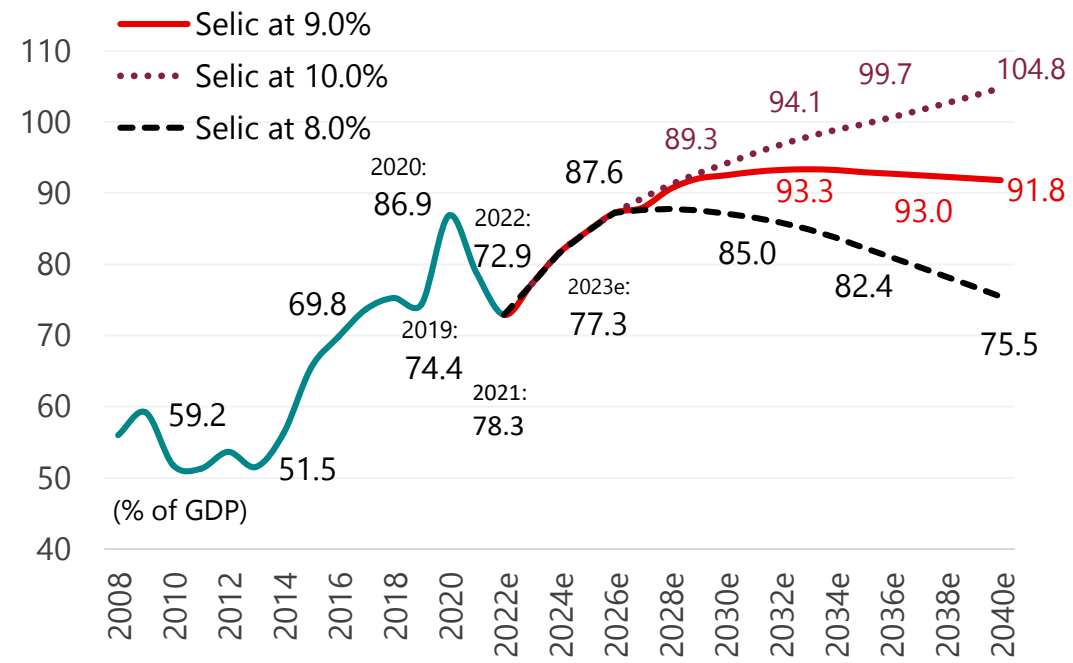
IPCA, IGP-DI and GDP Deflator



Sources: IBGE, FGV, Santander.

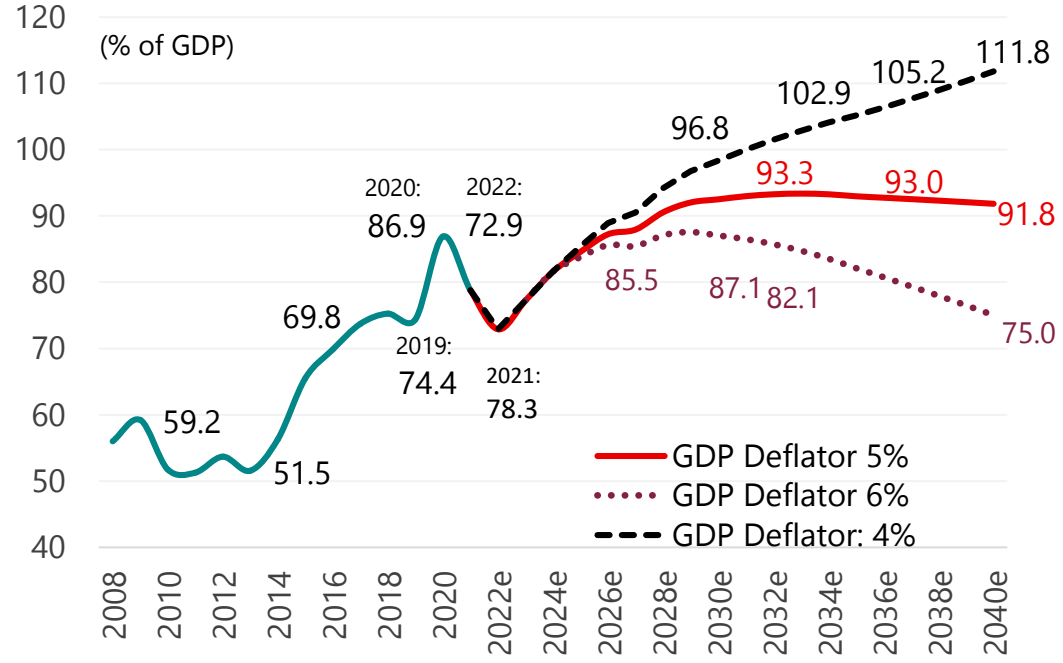
Debt Scenarios: Sensitivity to Changes in the Long Run Macro-outlook

Government Debt – Simulations for Selic Rate Hypotheses



Sources: BCB, Santander

Government Debt– Simulating for GDP Deflator Hypotheses



Sources: BCB, Santander.

Notes: Debt issuances: we added a spread of + 1.0 pp in addition to the Selic rate in the models.

2023 GDP Deflator: 3.0% | GDP: 1.9% | Selic Rate (avg): 13.5% | BNDES zero | Voluntary Deposits 1.0% of GDP

2023-40: GDP deflator: 5.0% | Potential GDP: 1.5% | Neutral Selic Rate: 5.0%

Debt Management

Increase in debt issuance, liquidity reserves to navigate uncertainties

6

Annual Borrowing Plan 2023

- National Treasury published its monthly debt report for April. Debt issuance remained high in the month, totaling BRL127 billion, compared to BRL169 billion in March. These values are higher than the average of BRL73 billion observed in first two months of the year. the weekly bond issuances reached BRL26 billion up to April, rising from BRL24 billion up to March and BRL19 billion up to February. For 2023, we estimate that ~BRL24 billion needs to issued per week in order to keep liquidity reserves stable until year-end.
- For the medium term, the outlook for debt management remains challenging, considering the higher level of domestic debt in the context of an increase in the cost of debt and uncertainty about the fiscal consolidation ahead.

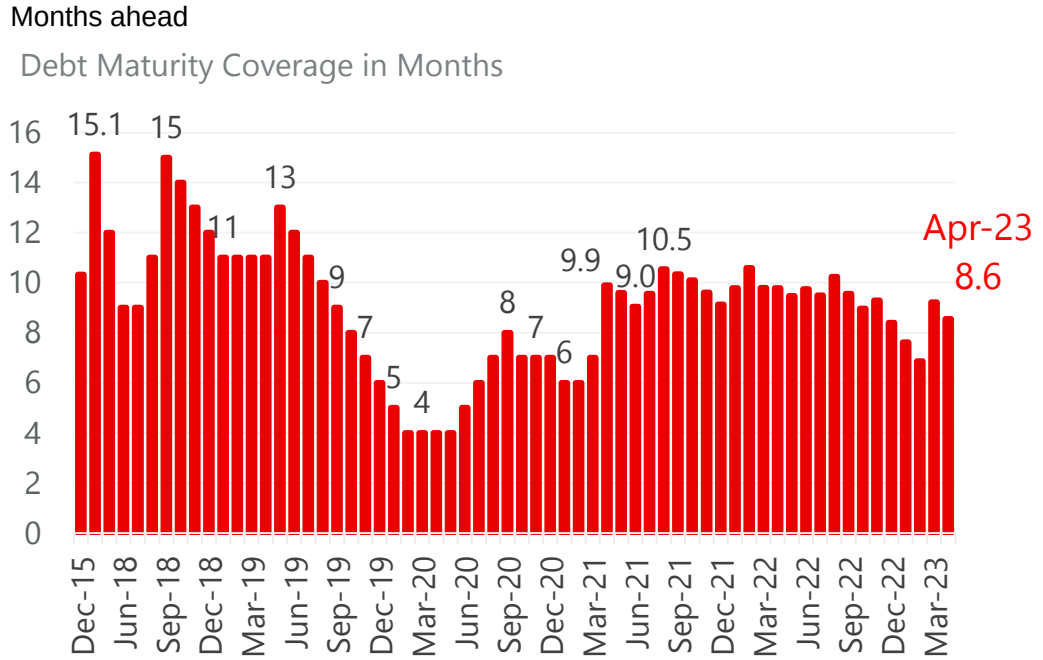
Annual Borrowing Plan (PAF 2023)									
	2020	2021	2022	Mar-23	Apr-23	PAF 2023 range		PAF 2022 range	
Outstanding volume (BRL billion)						Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,951	5,892	6,032	6,400	6,800	6000	6400
Composition (%)									
Fixed-rate	34.8	28.9	27.0	24.7	24.8	23	27	24	28
Inflation-linked	25.3	29.3	30.3	32.0	32.1	29	33	27	31
Floating-rate	34.8	36.8	38.3	39.1	38.8	38	42	38	42
FX	5.1	5.0	4.4	4.2	4.2	3	7	3	7
Maturity Structure									
% maturing in 12 months	27.6	21	22.1	22.1	22.9	19	23	19	23
Average maturity (years)	3.6	3.8	3.0	4.0	4.0	3.8	4.2	3.8	4.2

Sources: National Treasury; Santander

Treasury's Cash Position at comfortable level to navigate the uncertainties

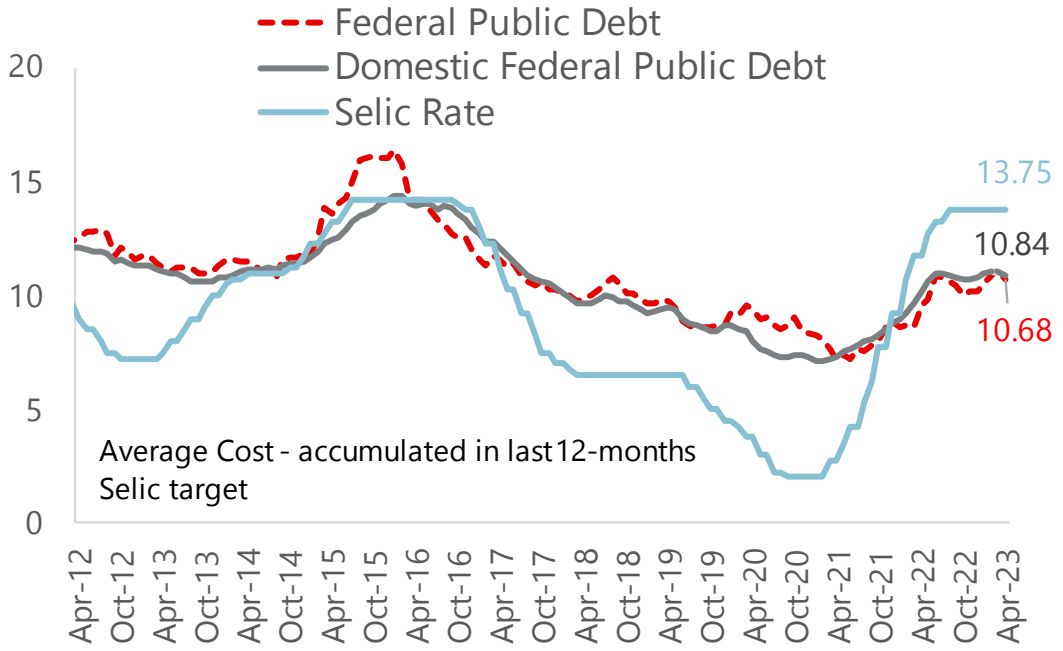
- Considering the net issuance result, public debt liquidity reserves went up 8.2% MoM in nominal terms (+BRL80 billion from March), reaching BRL1,053 billion. This level of liquidity reserves covers close to 9.6 months of debt maturities (from 8.4 in December).
- The average cost of the outstanding debt accumulated in 12 months dropped to 10.7% (-0.4 pp), helped by the external issuance and the reduction in inflation numbers.

Liquidity cushion coverage of domestic debt



Sources: National Treasury, Santander.

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

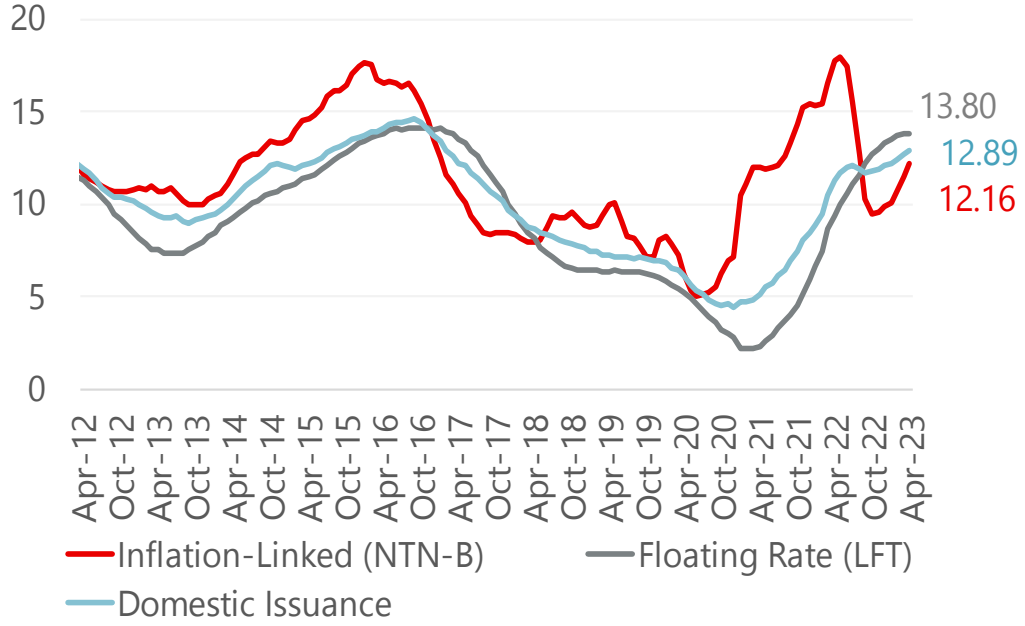


Sources: National Treasury, Santander.

At the margin there is an increase in debt cost related to Selic

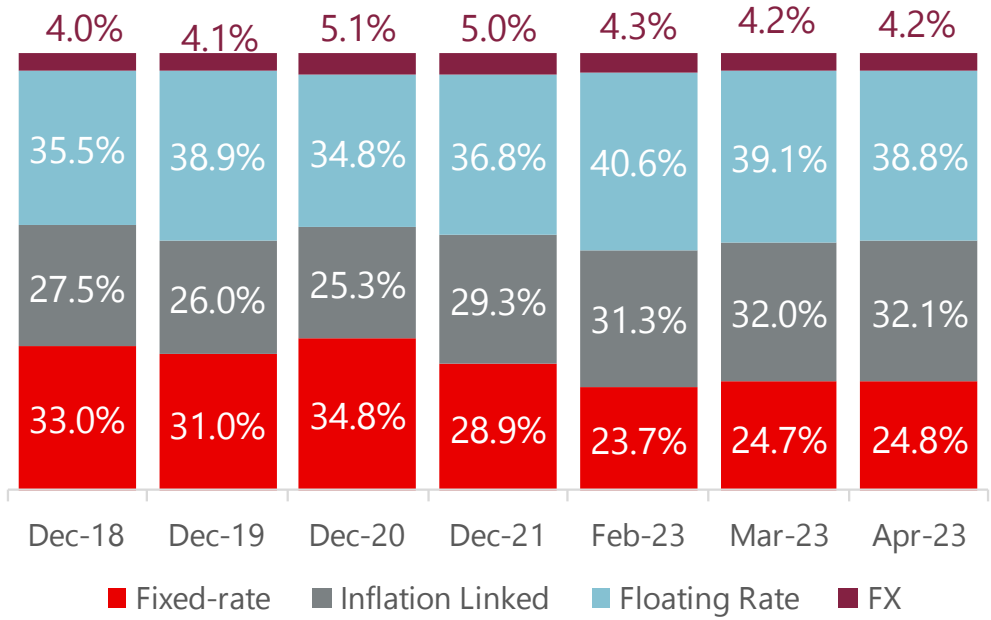
- The cost of new domestic issuances rose slightly to 12.9% p.a. in April vs. 12.7% p.a. in February. The debt cost of LFT bonds accumulated in the last 12 months was maintained close to 12.5%, and the current level of Selic rate (13.75%) could create additional pressure on debt costs in the coming months, in our view.

Average Debt Cost in the last 12 M (Accum.)



Sources: National Treasury, Santander.

Debt Profile - %

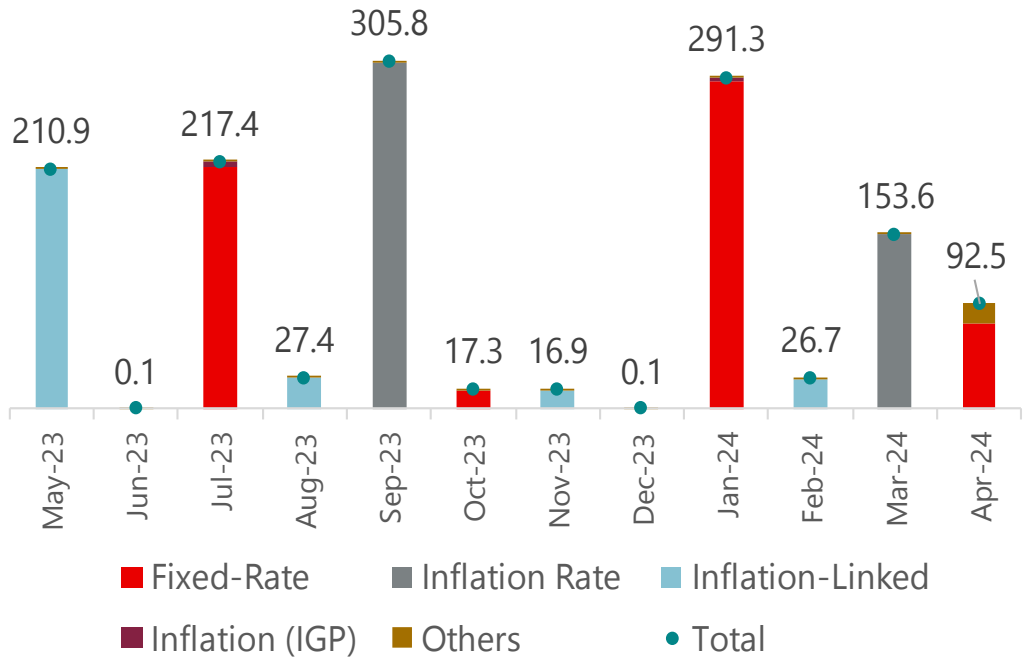


Sources: National Treasury, Santander.

Fiscal – The debt is at a higher level

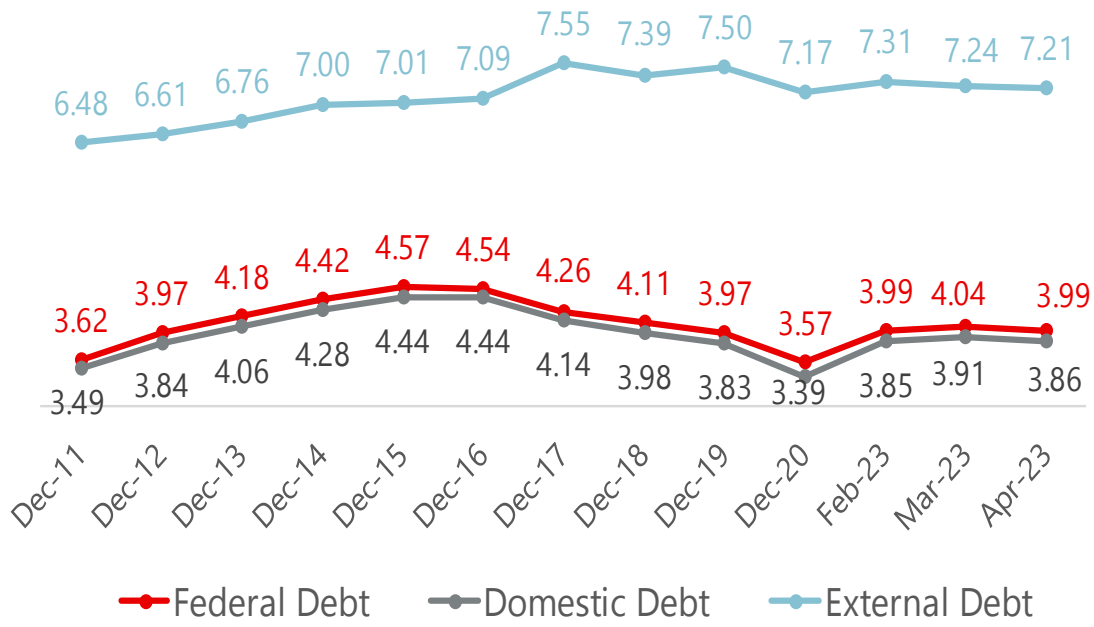
- Despite the increase in liquidity reserves the debt maturity level is still challenging. Structural reforms will help to increase debt maturity and reach a sustainable primary surplus.

Debt maturity - (BRL billion)



Sources: National Treasury, Santander

Average Maturity (years)

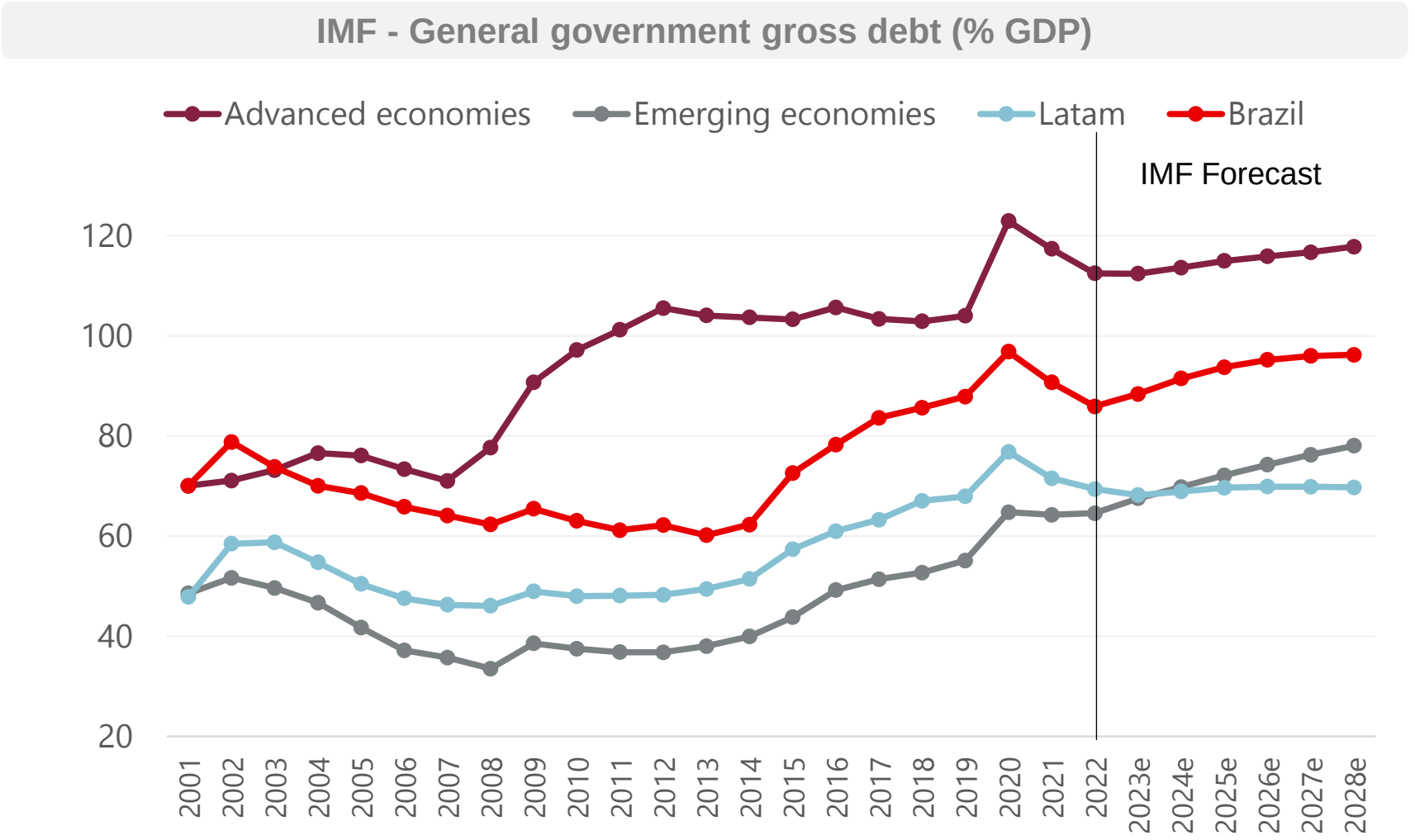


Sources: National Treasury, Santander.

International Comparison

7

International Comparison – IMF Gross Debt Forecast

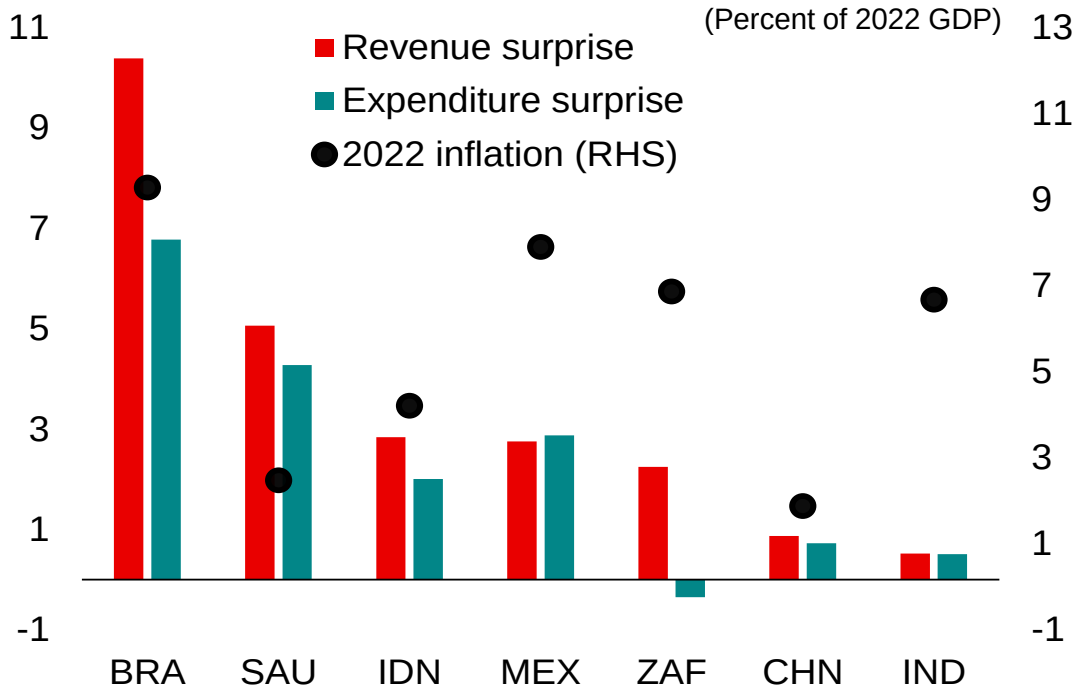


Sources: IMF, Santander.

IMF – Fiscal Monitor selected charts

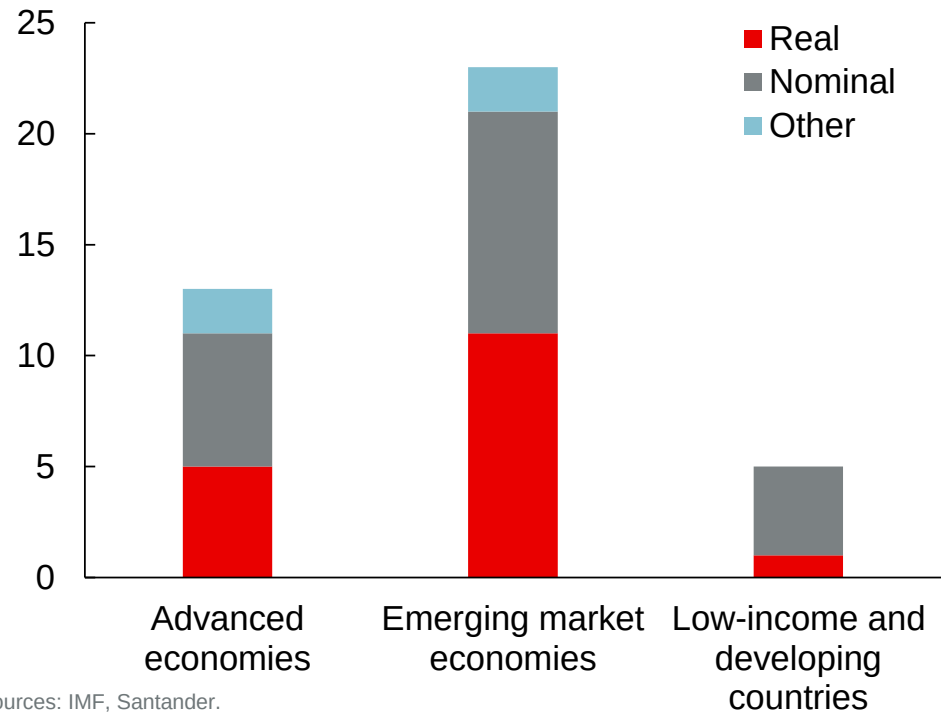
- IMF: “In 2022, most governments enjoyed positive revenue surprises, stemming in part from tax buoyancy related to inflation surprises. On average, these revenue surprises amounted to 3.1 percent of GDP in advanced economies and 2.5 percent in emerging market economies. Commodity exporters (for example, Australia, Brazil, Saudi Arabia)”
- Ceilings on real spending growth are relatively more frequent in emerging market economies than in other groups of economies

What Share of Revenue Surprises Was Saved?



Sources: IMF, Santander.

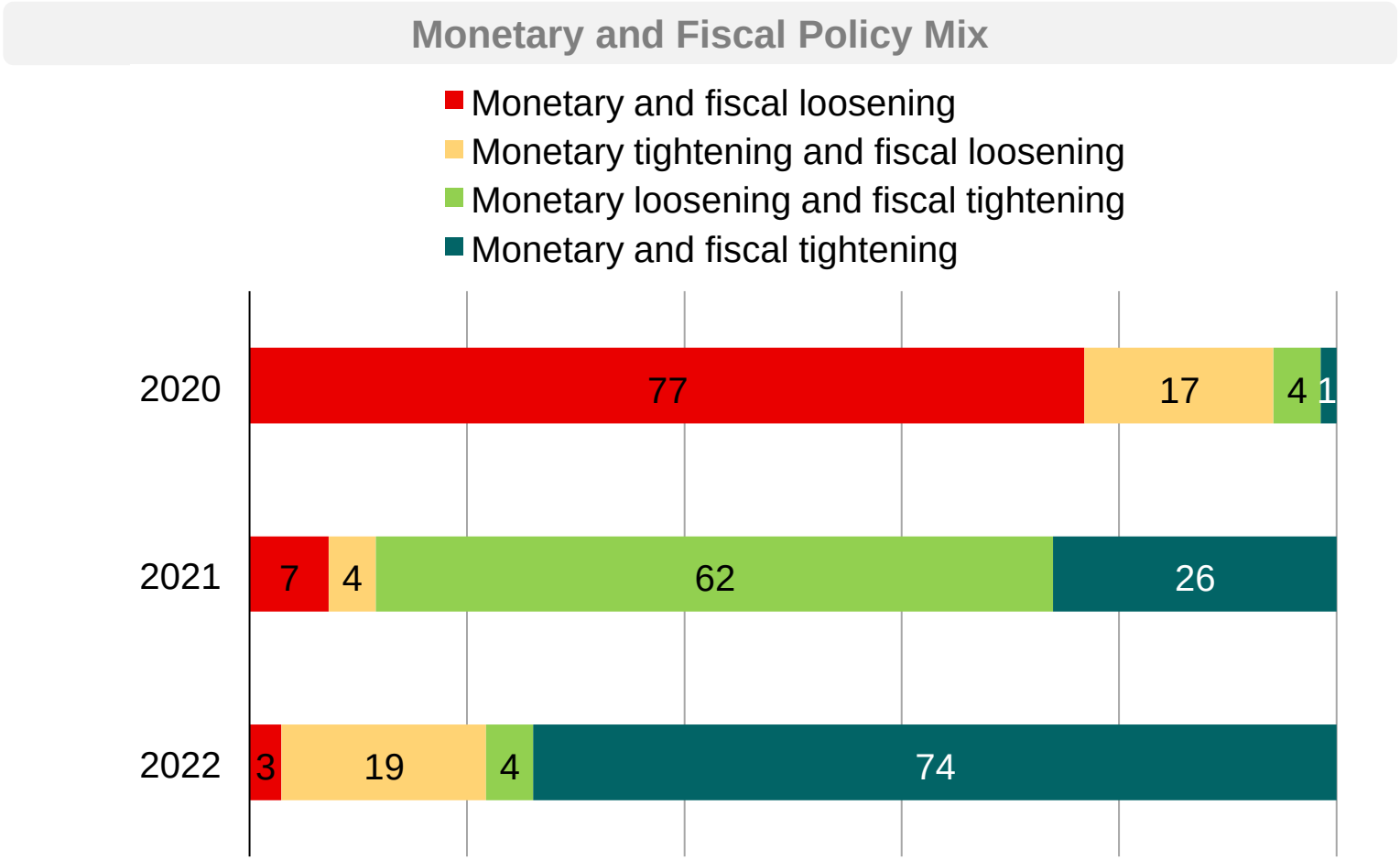
Countries with National Expenditure Rules



Sources: IMF, Santander.

IMF – Fiscal Monitor selected charts

- IMF: “Nearly three-quarters of economies tightened both fiscal and monetary policy in 2022, up from a quarter in 2021”

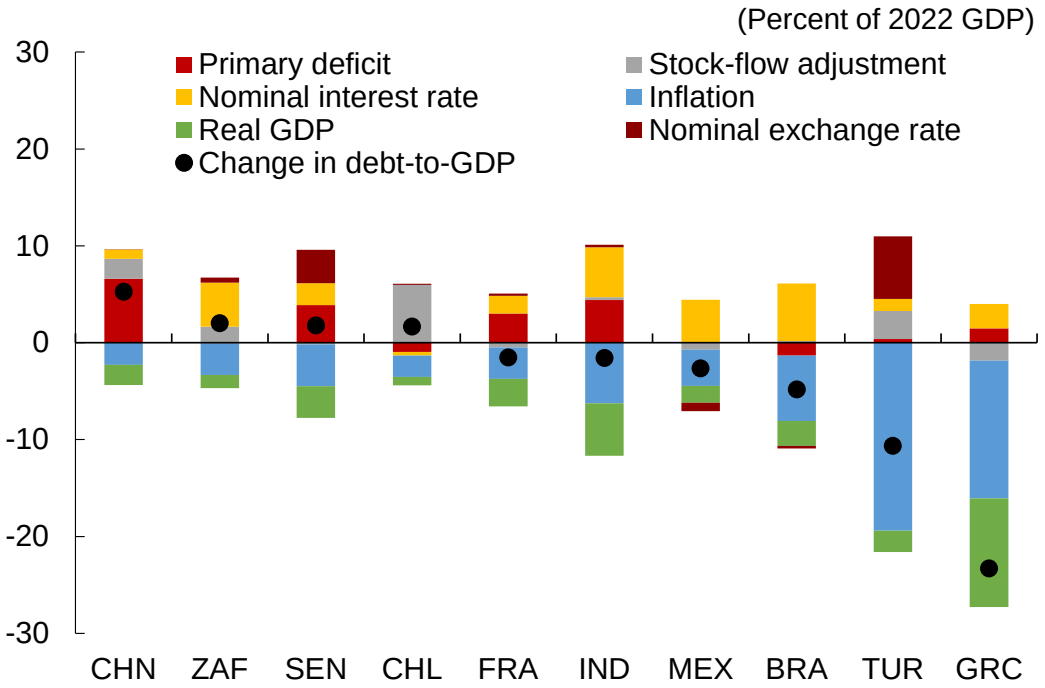


Sourc

IMF – Fiscal Monitor selected charts

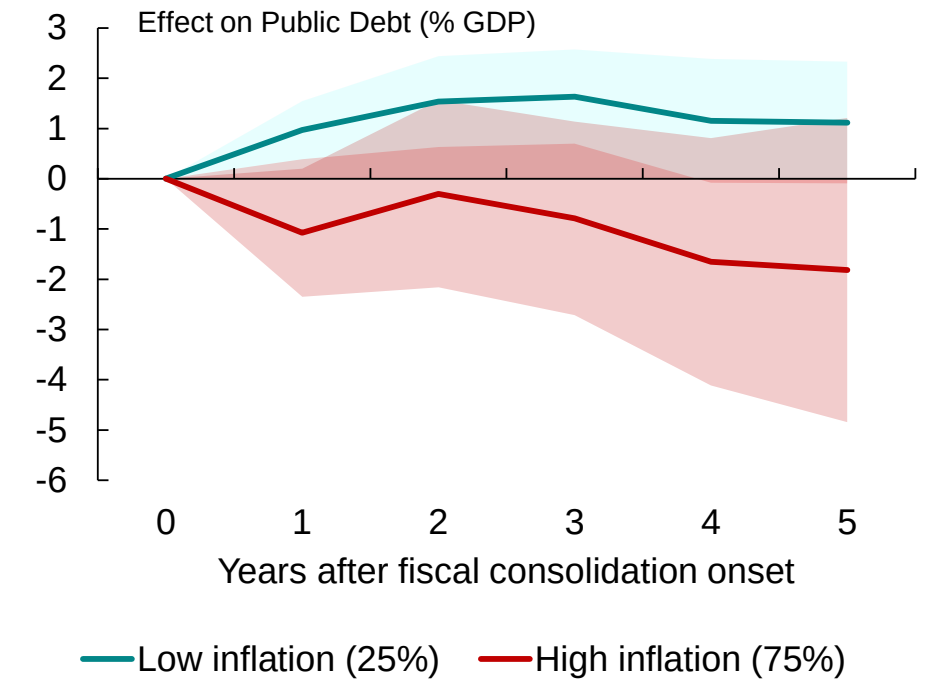
- The effect of current monetary tightening on fiscal accounts

Drivers of Annual Change in General Government Debt, 2022



Sources: IMF, Santander.

Effects of Fiscal Consolidation: High Inflation versus Low Inflation

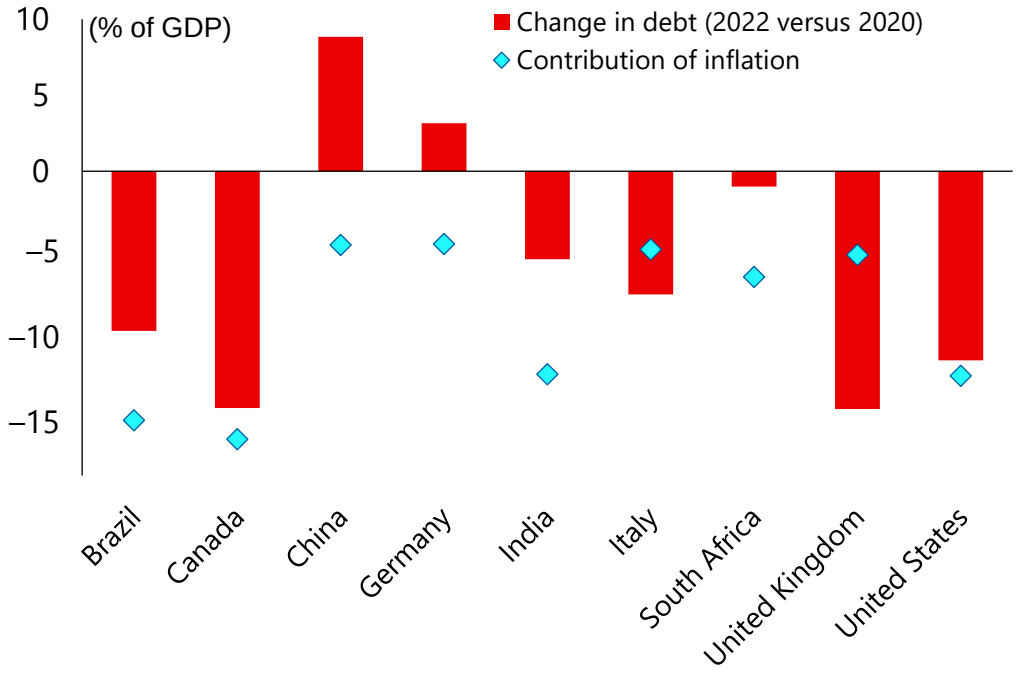


Sources: IMF, Santander.

International Comparison – Inflation impact on Fiscal

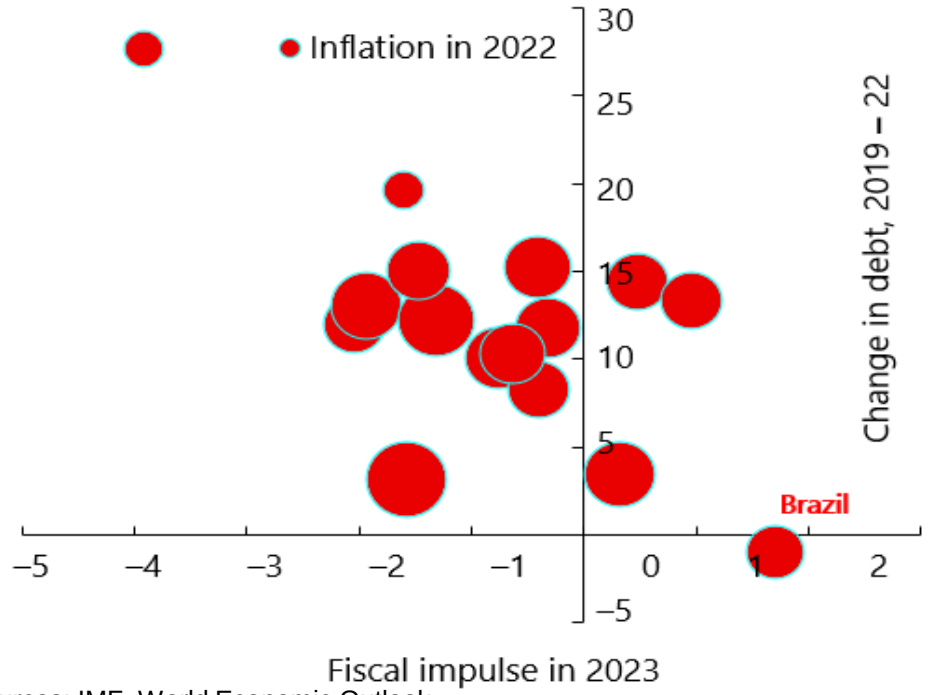
- Inflation had an effect on fiscal accounts.

Effect of Inflation Shock on the Debt Ratio



Sources: IMF, Santander.

Fiscal Impulse, Inflation, and Debt for G20 Countries



Sources: IMF, World Economic Outlook.
Note: Includes Spain; excludes Argentina, Russia, Saudi Arabia, and Tűrkiye. Fiscal impulse is measured by the change in the cyclically-adjusted primary balance. The size of the bubble reflects the inflation rate.

Tables – Forecasts

SCENARIO REVIEW - Favorable Supply Shock Improves Policy Trade-off

8

MACRO SCENARIO: Forecasts

Macroeconomic Variables		Previous		Current
GDP (%)	2023E	1.0	↑	1.9
	2024E	0.5	→	0.5
	2025E	1.5	→	1.5
IPCA (%)	2023E	6.0	↓	5.2
	2024E	3.9	→	3.9
	2025E	4.5	→	4.5
Selic Rate (% end of period)	2023E	13.00	↓	12.50
	2024E	11.00	→	11.00
	2025E	8.00	→	8.00
FX Rate - USDBRL (end of period)	2023E	5.40	→	5.40
	2024E	5.50	→	5.50
	2025E	5.55	→	5.55
Current Account Balance (% of GDP)	2023E	-3.1	↑	-2.6
	2024E	-3.4	↑	-2.9
	2025E	-3.1	↑	-2.8
Primary Fiscal Balance (% of GDP)	2023E	-1.1	↑	-1.0
	2024E	-1.1	↑	-1.0
	2025E	-0.9	↑	-0.8
Gross Public Debt (% of GDP)	2023E	77.8	↓	77.3
	2024E	81.9	↓	81.6
	2025E	85.0	↓	84.6

Sources: Santander | Note: Our previous forecasts date from May 05, 2023 (Scenario Update: "Fine Tuning This Year's GDP Estimate").

The forecasts refers to our latest Scenario Review

"Favorable Supply Shock Improves Policy Trade-off"
(sent on June 16, 2023)

For the full report click on the link:

https://bit.ly/Std-scenreview-jun23

MACRO SCENARIO: Santander Brazil's Global Macro Assumptions – Summary

Global Macro Scenario	2018	2019	2020	2021	2022	2023E	2024E	2025E
Global GDP (%)	3.5	2.8	-3.5	5.9	3.4	2.4 →	2.2 ↓	2.8 ↑
China GDP (%)	6.7	6.0	2.3	8.1	3.0	5.8 ↓	5.1 ↓	5.0 →
US GDP (%)	3.0	2.2	-3.5	5.7	2.1	1.0 ↑	0.1 ↓	1.8 ↑
US Inflation (Core PCE, %)	2.1	1.6	1.5	4.9	5.0	3.7 →	2.5 →	2.0 →
US Interest Rate (FFR, %)	2.50	1.75	0.25	0.25	4.50	5.25 →	3.75 →	2.50 →
US Interest Rate (UST10y, %)	2.7	1.9	0.8	1.8	3.9	3.6 ↓	3.2 →	3.0 →
Dollar Index - DXY	96	96	90	96	104	102 →	100 →	100 →
Commodity Prices - CRB	409	401	444	571	558	498 ↓	474 →	445 →

*Core PCE is referred to the y/y variation for Q4.

Source: Santander

The forecasts refers to our latest Scenario Review

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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

Santander

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