Brazil Macro | March 2022

FISCAL POLICY

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Summary – Commodities Still Help, Yet the Uncertainties Remain

- After seven years with the primary budget surplus in red ink, the public sector result reached a primary surplus of BRL64.7 billion (0.75% of GDP) in 2021, compared to a BRL703 billion (9.4% of GDP) deficit in 2020. Last year's result was boosted by the price shock effect (inflation and terms of trade) and activity recovery. The highlight was regional governments, with a primary surplus of BRL97 billion (1.1% of GDP), an all-time high. Despite this good result, we believe that part of the favorable aspects of the result could be short-lived.

- For 2022, we improved our primary balance estimate on the heels of higher commodities prices, especially oil and iron ore. There is a positive bias to the fiscal result with the recent jump in commodity prices due to Russia x Ukraine war. Yet we observe a higher probability of fiscal stimulus via tax breaks, affecting federal revenue estimates. In addition, we see risks of higher fiscal stimulus via tax breaks, with a possibility of BRL50 billion in exemptions that could eventually be approved in Congress. The list includes: i) lower federal taxes (PIS/Cofins) on diesel (BRL17 billion); ii) 25% linear reduction in IPI taxes on manufactures – already in force (BRL10 billion loss for federal government and a BRL10 billion loss for regional governments); iii) Inflation correction of income tax brackets (BRL23 billion).

- We continue to envision a deterioration in the nominal balance following a higher Selic rate. As an upshot, for the gross debt, we continue to see an upward trajectory for the medium term, with a risky path to long-term stabilization, in a context of lower efficacy of fiscal rules, especially after the recent changes in the fiscal framework.

- For the medium term, our forecasts indicate that the constitutional spending cap has lost its capacity to add to the fiscal consolidation process. We believe the decision to raise spending and change the fiscal framework implies an even riskier path to long-term debt stabilization. This leads to the necessity for further structural reforms and a more trustworthy fiscal anchor.

Fiscal – Commodities Still Help, Yet the Uncertainties Remain

Short term: better revenues

2021: Primary surplus back after 8 years
Regional governments: +BRL98 billion (1.1% of GDP).

2022: Primary Balance: -BRL75 bn (-0.8% GDP)

1. Central Government: -BRL100 bn (-1.0% GDP)
(from BRL115 bn in Jan: Dividends and Commodities)

2. Regional Gov.: +BRL25 bn (+0.2% GDP)
(from BRL20 billion in Jan | + Commodity revenues)

Gross Debt: 84.8% of GDP in 2022
from 80.3% of GDP in 2021 ("helped" by 16.2% increase in Nominal GDP).

Debt Liquidity Reserves Level
Good level (~11 months) to deal with the uncertainties.

Medium term: challenging outlook

Risks: Fiscal stimulus via tax breaks
Possibility of BRL50 billion in tax breaks: Diesel (-BRL20 bn), Income tax (-BRL20 bn), IPI on Manufactures (-BRL10bn)*

Less efficacy of fiscal rules
Inflation-effect: +1.0pp of GDP by 2026. IPCA below 5.0% YE2022 could lead to budget (cap) frictions in 2023.

Primary surplus outlook for 2026-27
Commodity-led revenues vs. inflation-led spending

Higher nominal deficit 2022
8.0% of GDP, with interest rate bill topping BRL625 bn

Estimated peak for the gross debt
97% of GDP in 2029 (-1.0 pp from January)

Long term forecast close to the edge
88% of GDP in 2040

* Included in our Scenario

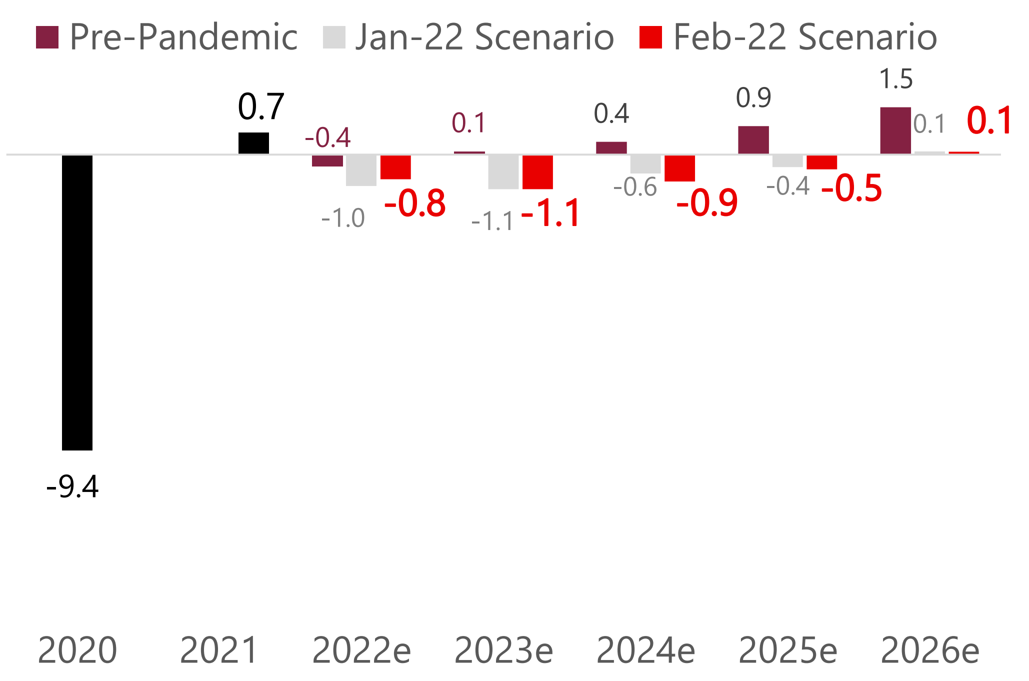
Fiscal Scenario

02

Fiscal – Better for the short term, more risks for the medium/long run

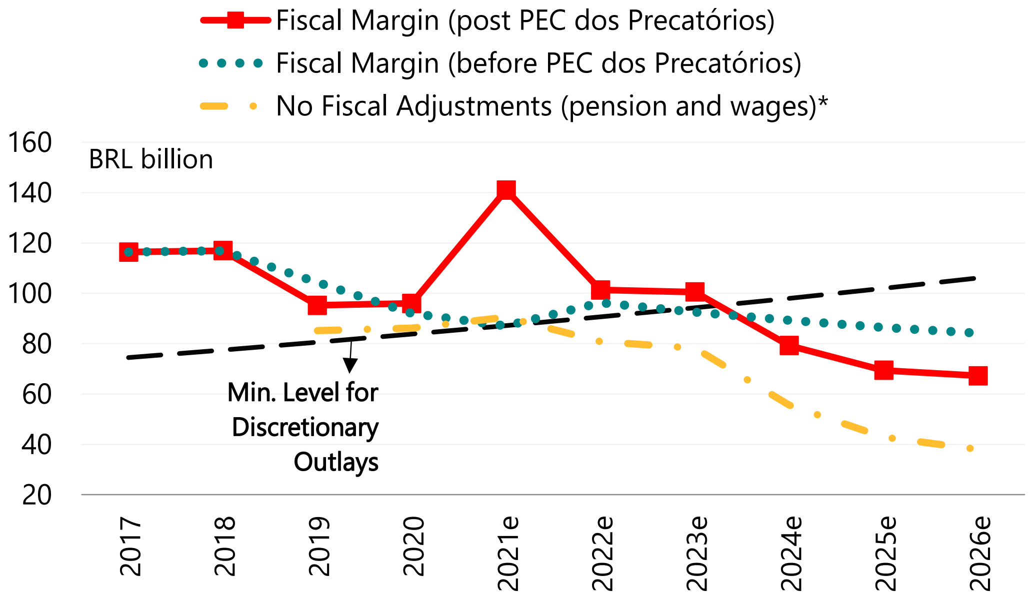
- *PEC dos Precatórios* affected our primary balance estimates with higher expenditures ahead,
- The final primary balance results will depend on the revenues result, we believe that part of the extraordinary revenues that "helped" in 2021 (corporate restructuring) will be lower 2022 onwards. On the other hand, oil-revenues should increase with pre-salt and oil prices.
- After seven years with the primary budget surplus in red ink, the public sector result reached a primary surplus of BRL64.7 billion (0.75% of GDP) in 2021.

Public Sector Primary Result (% GDP)



Sources: BCB, Santander.

Fiscal Margin – BRL billion



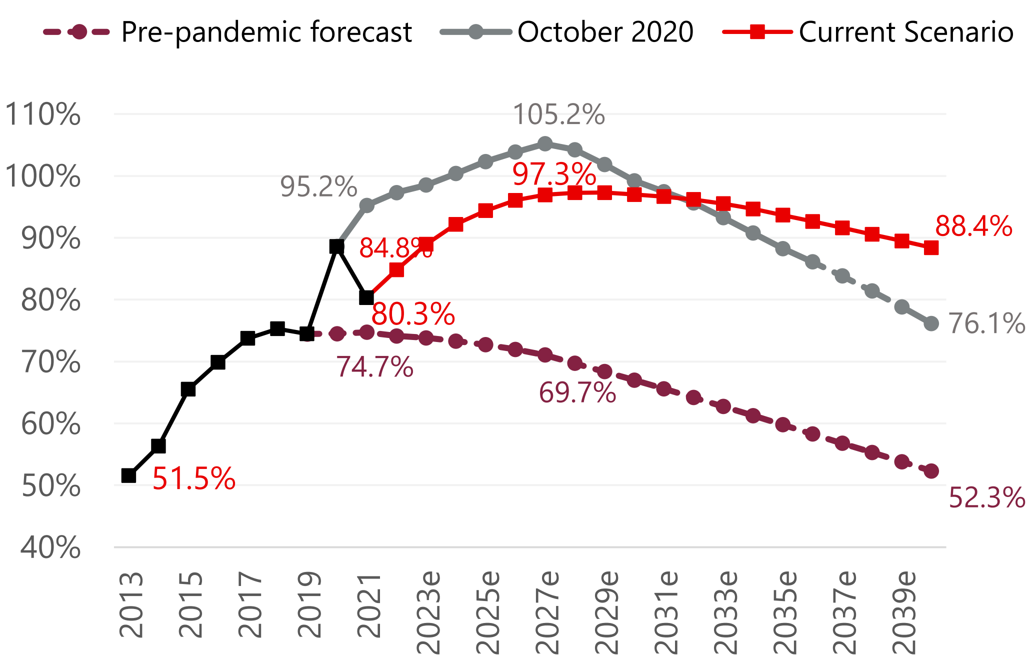
Fiscal Margin = Spending cap Max limit - Mandatory Outlays
* Simulation **WITHOUT** the approval of the PENSION REFORM and WITH PUBLIC SERVANTS WAGES readjusted by inflation

Sources: National Treasury, Santander.

Fiscal – A higher interest burden ahead, deteriorating the debt dynamics

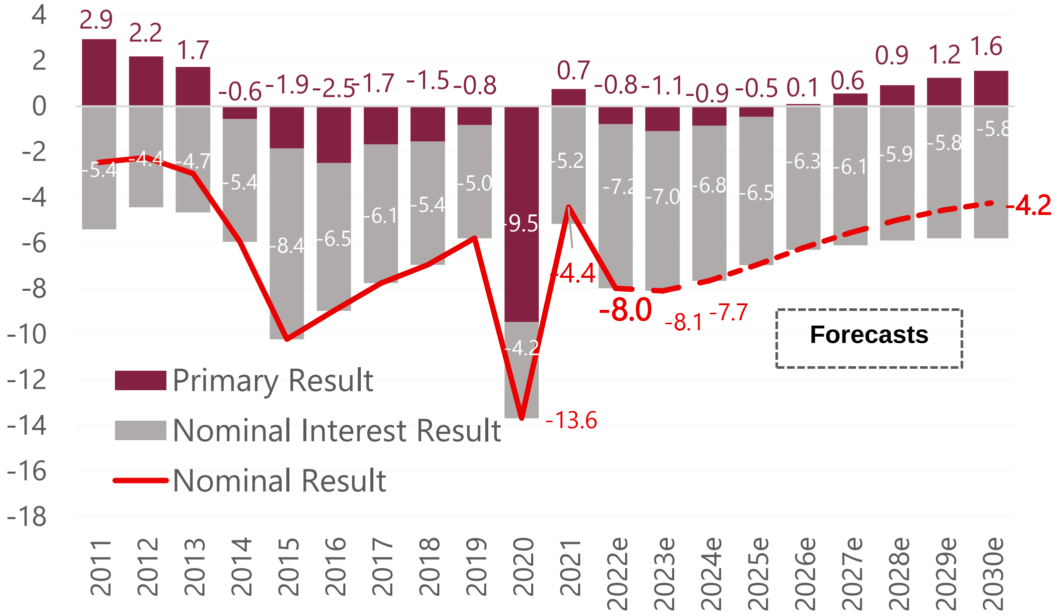
- We forecast the Selic rate at 12.50% in YE2022. Our real interest rate estimate is at 4.0% per year in the long run (7.0% nominal).
- This will contribute to increase the nominal deficit, specially after 2022.
- The rise in the Selic rate is increasing the debt cost, with higher interest accrual. The interest payments will increase to more than BRL625 billion in 2022, from BRL431 billion in 2020 and BRL312 billion in 2019.

Scenarios - Gross Debt Scenario (% GDP)



Sources: BCB, Santander

Public Sector's Financing Needs (% GDP)

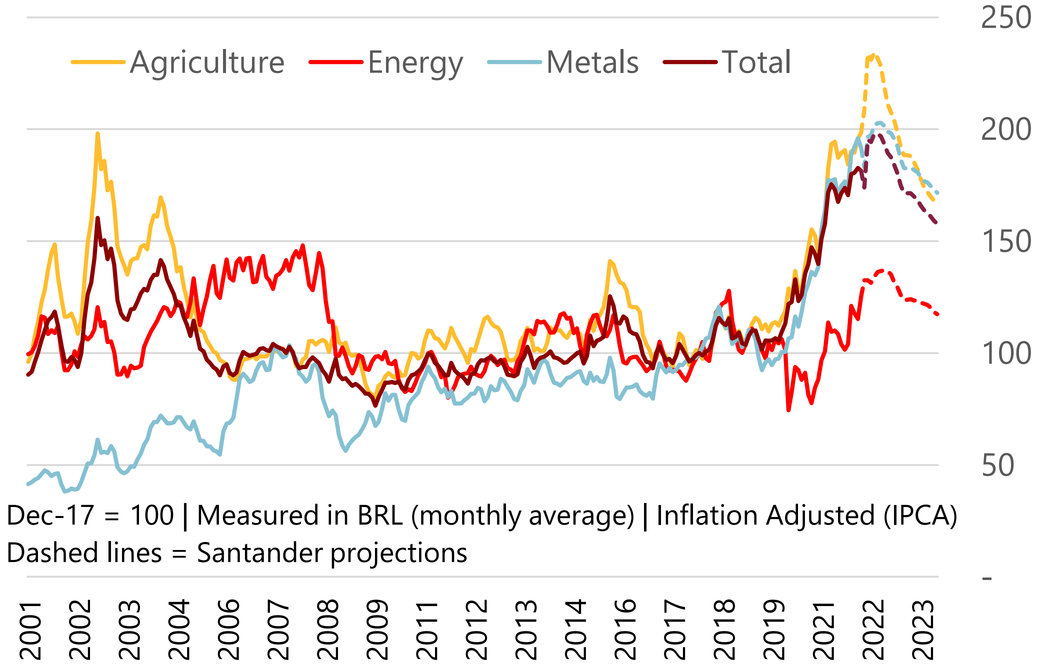


Sources: BCB, Santander.

Background – Rise in Terms-of-Trade and Commodity Prices

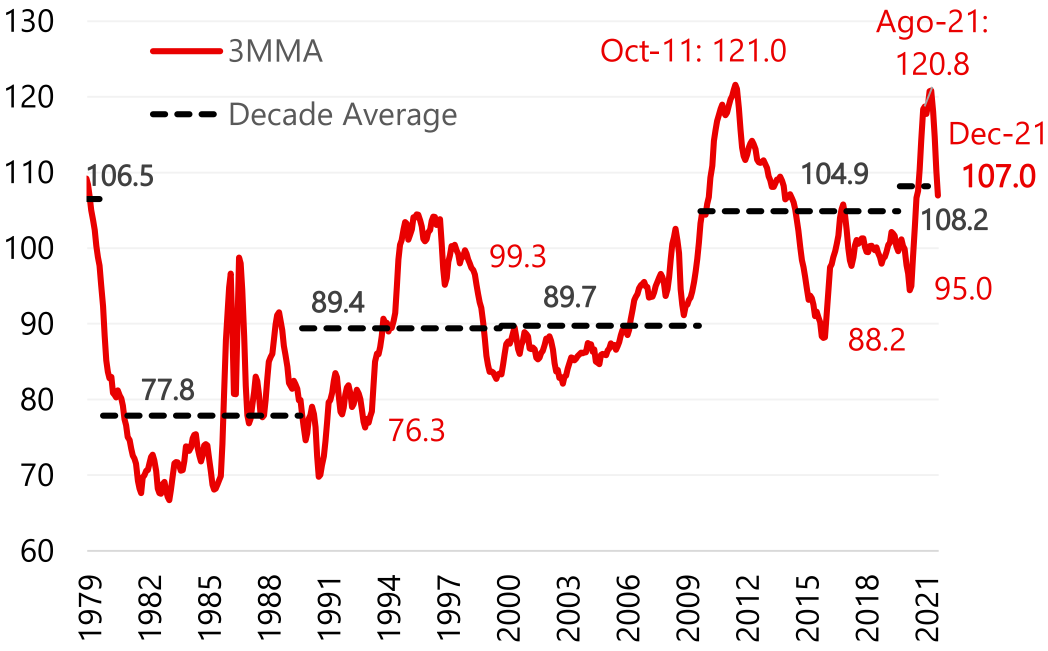
- Low inventories for most raw materials, coupled with idiosyncratic factors (adverse weather, underinvestment, and high cost of production) have been feeding the commodity rally early in 2022. On average our forecasts have been revised upward for all indexes (2022E and 2023E): CRB +9%; Food +14%; Energy +10%; Metal +7%. We still see a downward trajectory for most commodity prices, but the reversal from the pandemic-led spike in 2021 may take longer to occur. Our scenario considers that the downward trajectory will begin from 2Q22 onward.

CBR Commodity Prices



Sources: BBG, Santander.

Terms-of-Trade Index

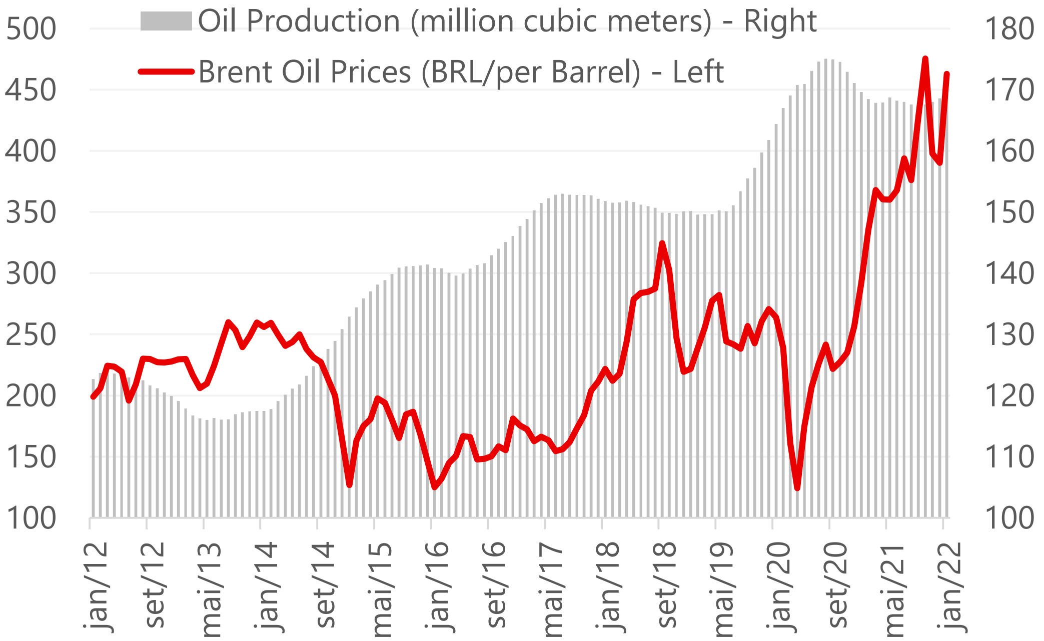


Sources: FUNCEX, Santander.

Revenues Impact – We also recently reviewed the royalties revenues

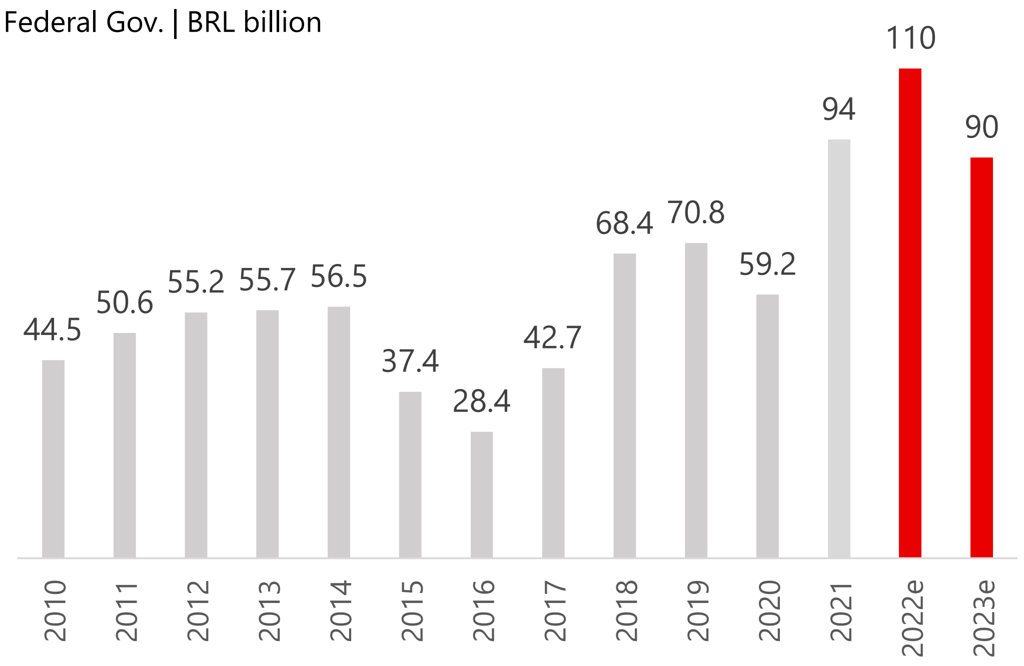
- In this scenario revision, a key factor was the new royalty revenue estimates, owing to the recent price surge, mainly from oil and iron ore production. The recent conflict between Russia and Ukraine could add more pressure in commodity prices. In light of this, the revenues could be even higher, improving the public accounts in the short term.

Oil Prices and Production



Sources: Bloomberg, ANP, Santander.

Revenues from Exploitation of Natural Resources

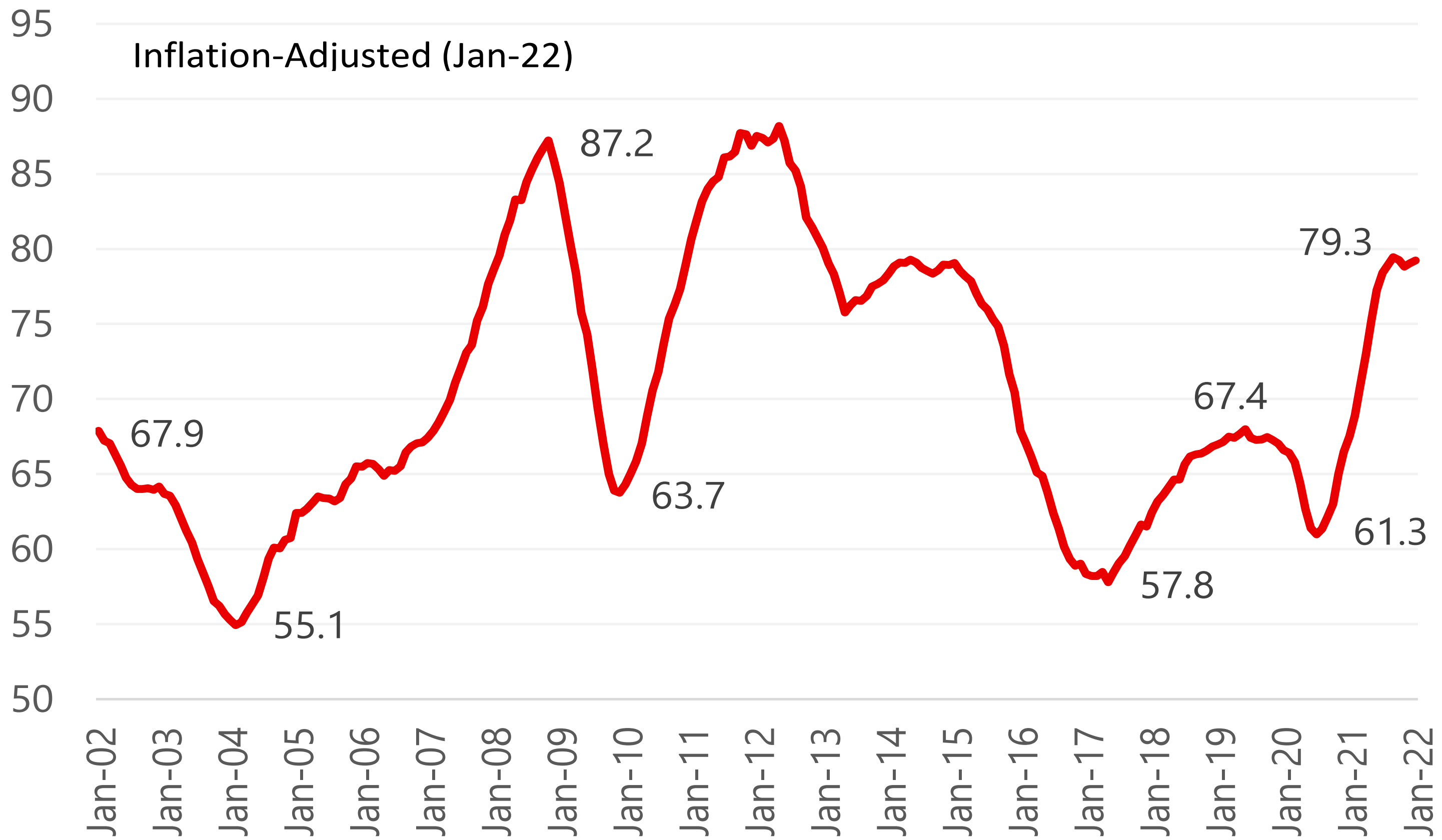


Sources: Bloomberg, Santander.

The government reduced the IPI taxes by 25%

- Brazil's government cut the industrial tax (IPI) by 25%. It will affect all industrialized products, with the exception of tobacco items. We already included this measure in our Fiscal and Inflation scenario. For inflation, the IPI reduction offset the short-term upward bias to increase IPCA estimate. For fiscal, a 25% linear reduction in IPI taxes on manufacturers would represent a revenue drop of BRL10 billion for the federal government and a BRL10 billion loss for regional governments

IPI taxes - Tax Collection – BRL billion

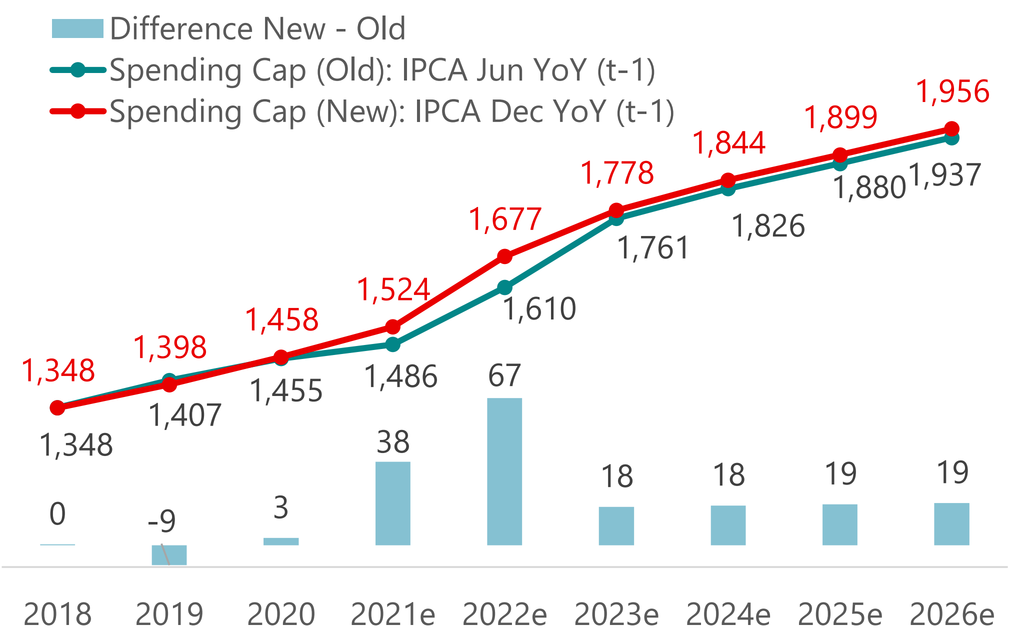


Sources: Federal Revenue Service, Santander.

Fiscal – *PEC dos Precatórios* was the legal vehicle for the new welfare program

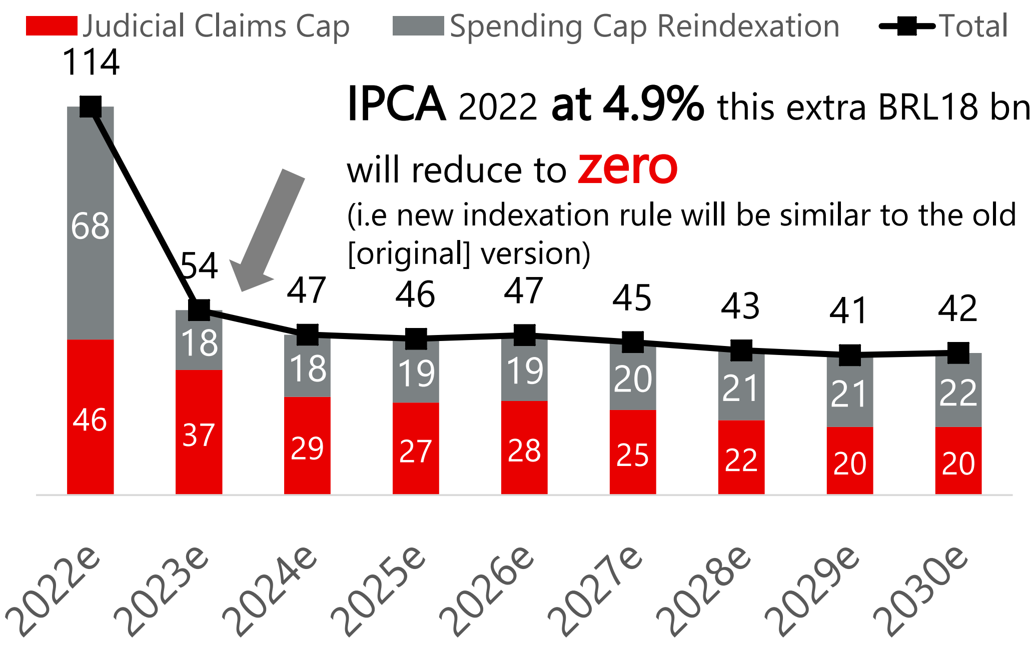
- PEC *dos Precatórios* created a margin of BRL113 bn in the spending cap rule (BRL46 bn through court-ordered debt cap + BRL67 bn by changing the spending cap indexation rule)

Change in the index of Spending Cap Rule



Sources: Ministry of Economy, IBGE, Santander

Change in the index of Spending Cap Rule



Sources: Ministry of Economy, IBGE, Santander

This space of Judicial claims is calculated comparing to our estimates (see Slide 13). There is an uncertainty in future values of this expense.

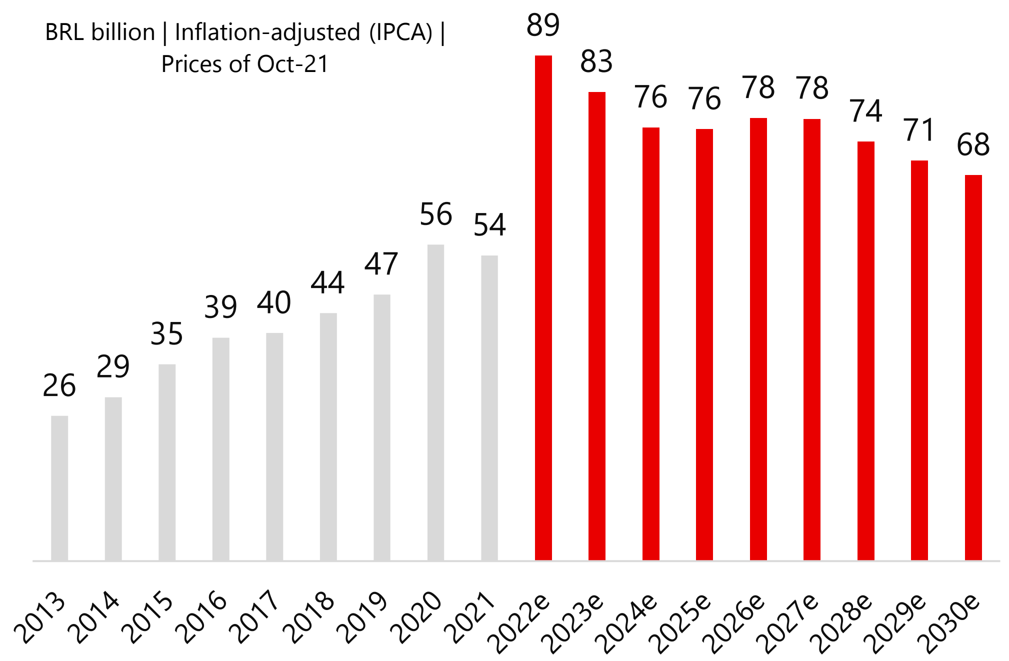
Court-ordered Debt - *Precatórios*

03

We estimate an increase in judicial claims over the next years

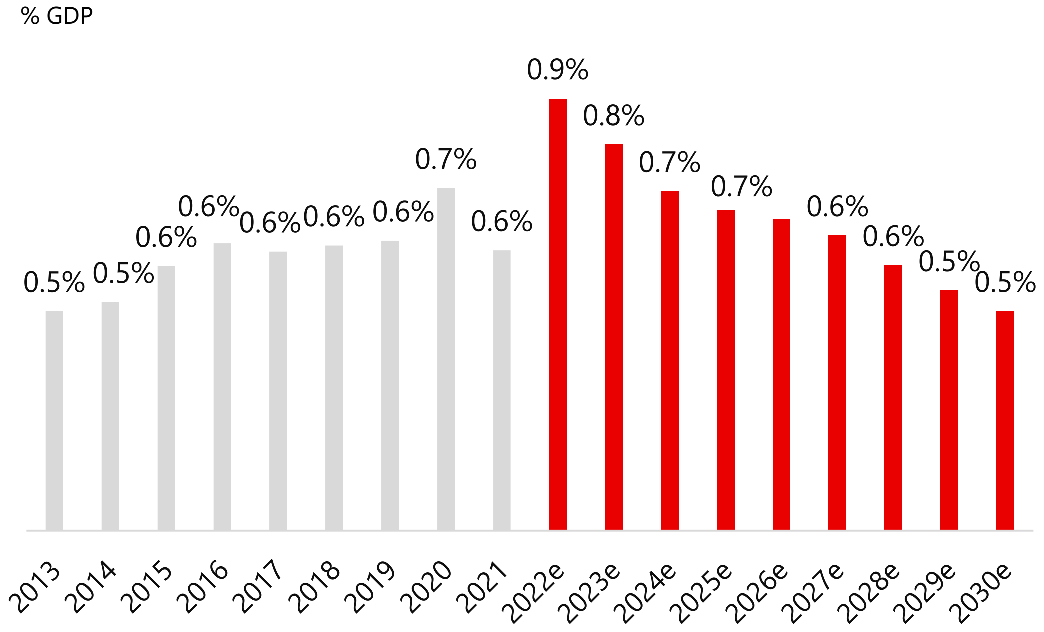
- We constructed a forecast based on the Budget Guidelines (LDO) probable judicial claim for next the years. In the short-run we see more pressure from the Fundef (educational fund) and those related to pension payments.
- Our preliminary estimate is only a preliminary "educated-guess" in view of the difficulty in estimating and the uncertainties related to the legal process. Either way, it has a relevant fiscal risk and requires a fiscal discipline in management to this increase.

Our Preliminary Estimates for judicial claims budget



Sources: LDO 2022, Santander

Judicial claims estimates



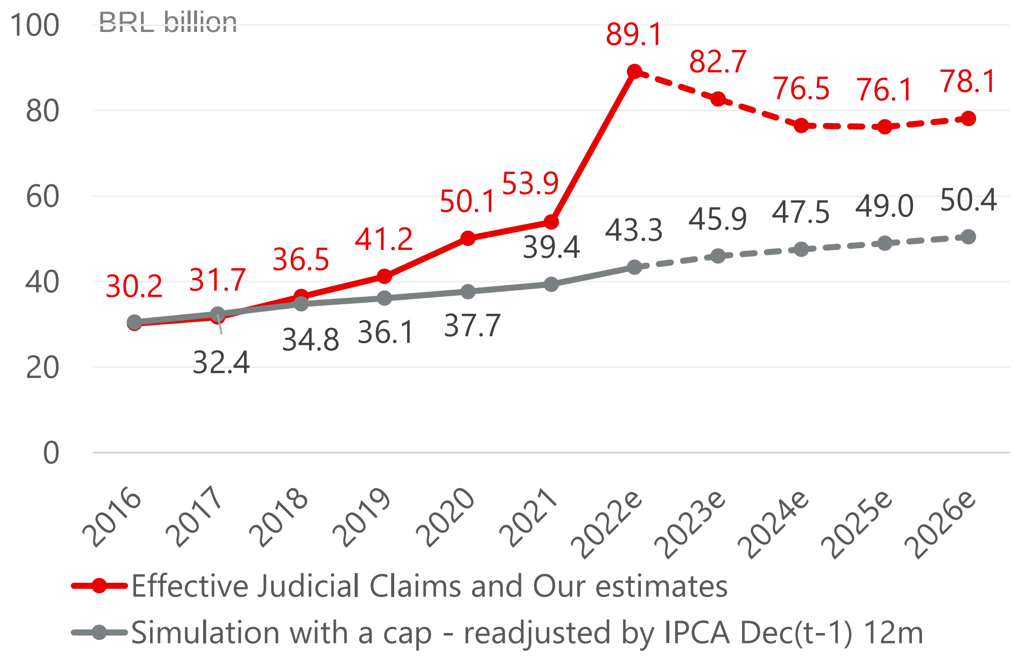
Sources: LDO 2022, Santander

Based on the LDO 2022 Tables 14 to 20

Simulation – effects of creating a cap for the payment

- 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.

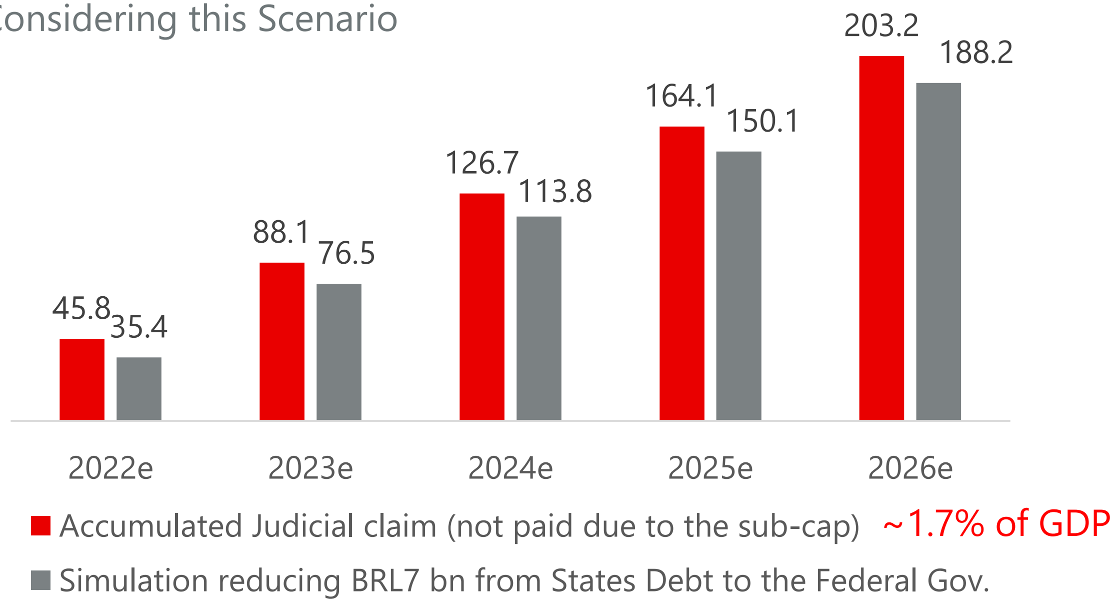
Simulation - A limit for Judicial Claims payments



Sources: National Treasury, BCB and Santander.

Simulation with a cap – Accumulated judicial claims

Considering this Scenario



Sources National Treasury, BCB and Santander.

New Welfare Program – named as *Auxílio Brasil*

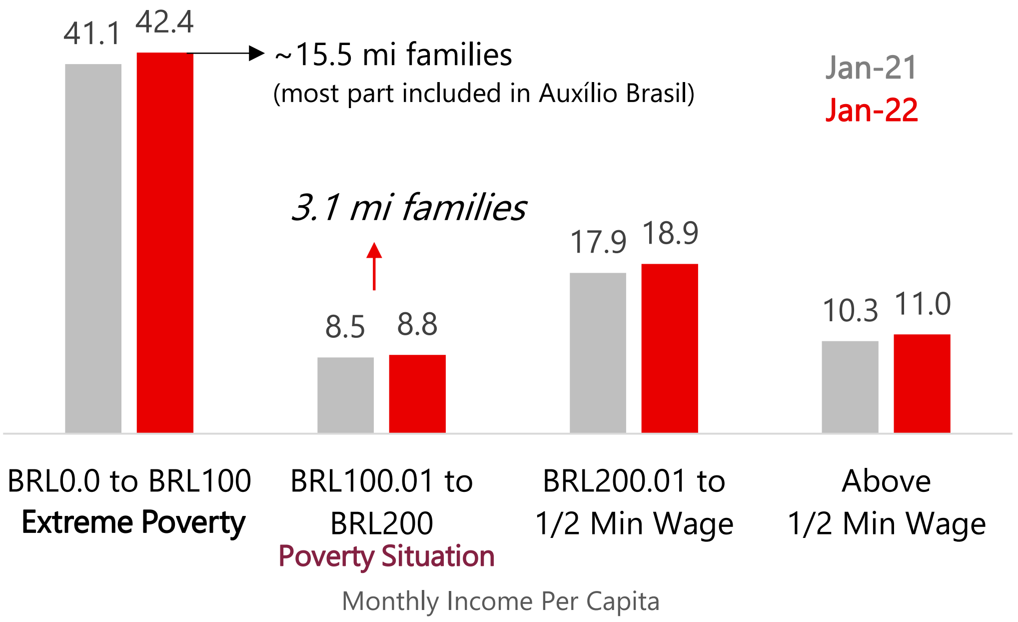
04

New welfare program – *Auxílio Brasil*

- Regarding the fiscal transfers, the emergency aid program ended in October. The new welfare program *Auxílio Brasil* started in November, with the BRL400 benefit payments starting in December (post *PEC dos Precatórios*). The government stated that in 2022 Budget there will be ~BRL90 billion for the program.
- The current monthly average benefit of the welfare program is BRL 408, reaching 18 million families.

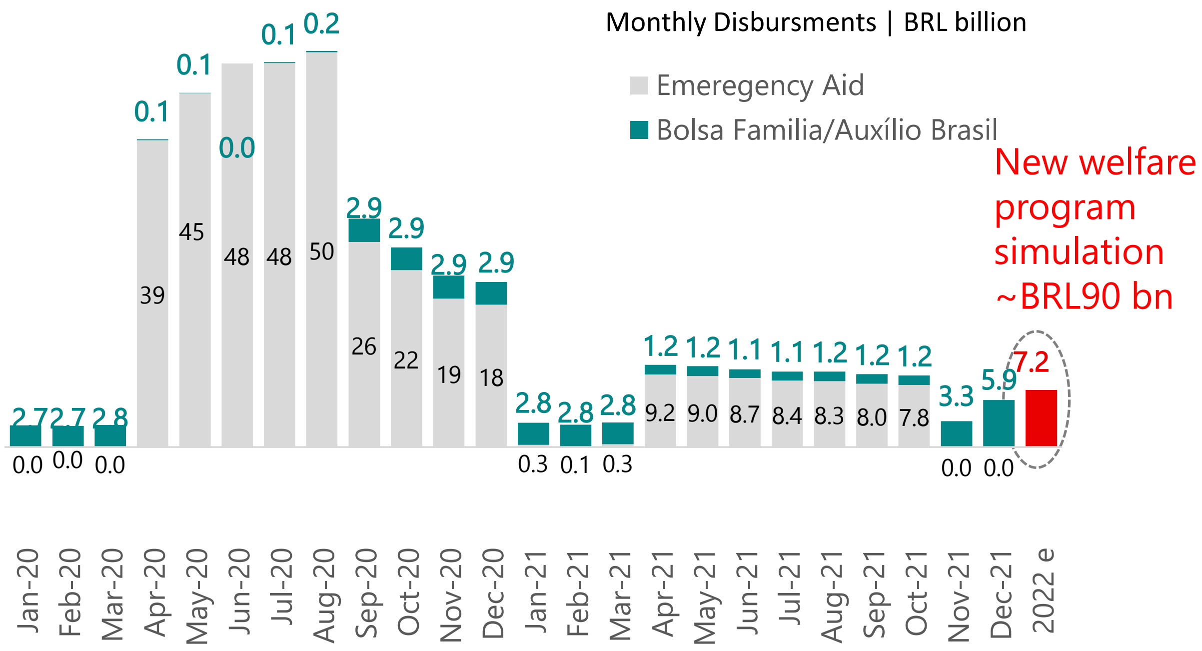
Cadastro Único – Gov. Database

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



Sources: Ministerio da Cidadania, Santander

Simulation: New welfare program – BRL billion



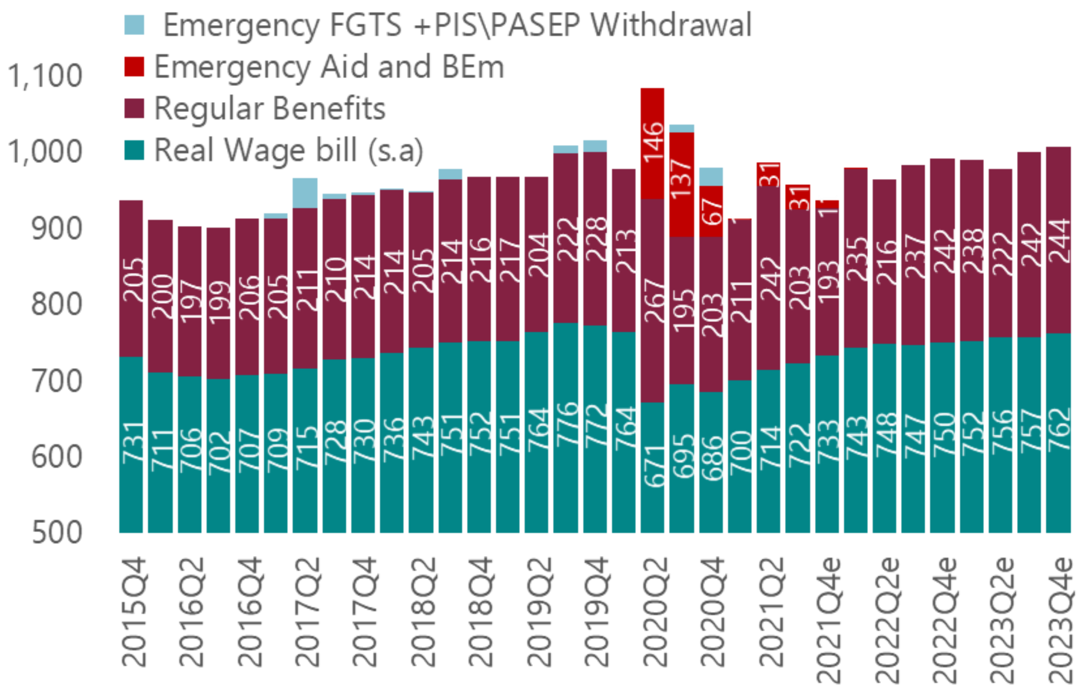
Sources: National Treasury, Santander.

Santander

Expanded Real Wage Bill To Gradually Recover Until 2024, Helped By Disinflation

- Despite the slower employment growth, average real wages should benefit from the disinflation process. Therefore, we expect the expanded real wage bill to gradually recover until 2024, after the sharp tumble observed in 2021.

"Expanded" Real Wage Bill (BRL billion)



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

	2021(E)	2022(E)	2023(E)	2024(E)
Real Wage Bill (No Fiscal Stimulus)	2.0%	4.1%	1.4%	2.5%
Real Wage Bill (With Fiscal Stimulus)	-6.8%	3.3%	1.5%	2.1%

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

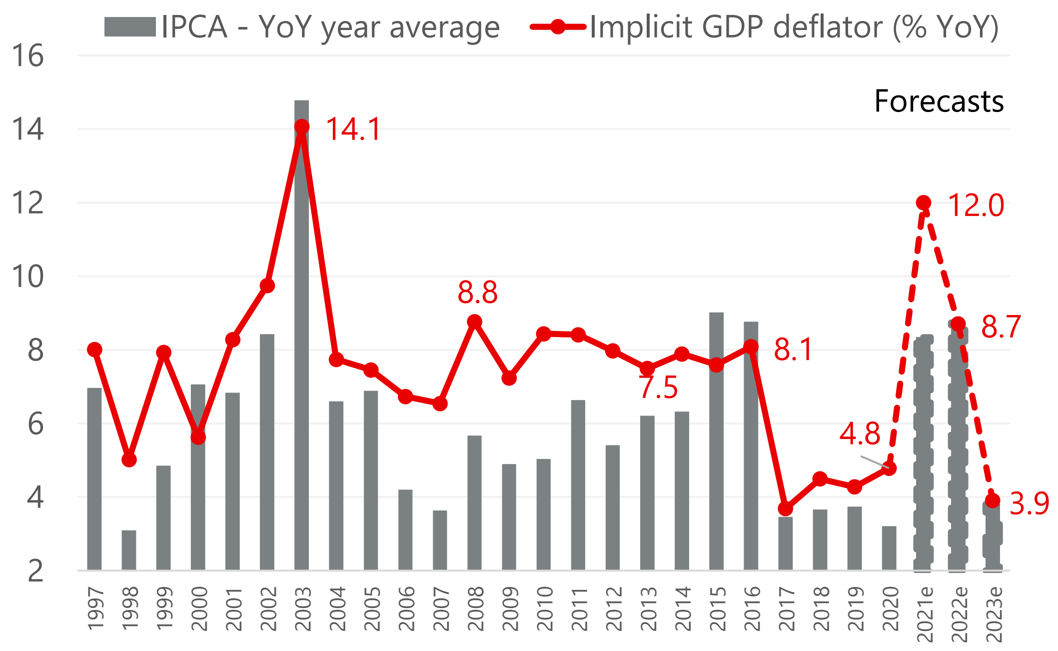
Fiscal Baseline Scenario – Primary Result and Simulations

05

GDP Deflator Impact – Terms-of-Trade and Inflation Shock Effect

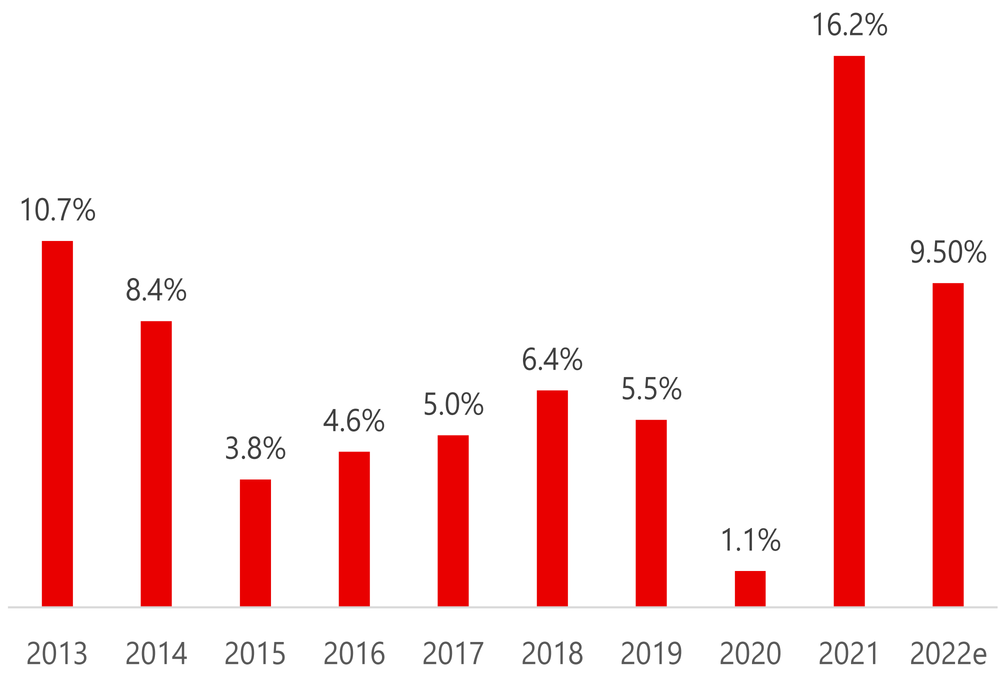
- Inflation played a significant role in improving public accounts in the short run. In March 2021 we estimated nominal GDP at 7%, but it ended the year with a 16.2% increase, according to the BCB number. It is this number that we believe will be even higher when the official 2021 GDP data is unveiled by IBGE in March. In this report we also highlight the effect of the massive increase in the GDP deflator in the fiscal-statistics-to-GDP ratio.

IPCA and GDP Deflator



Sources: IBGE, Santander.

Nominal GDP Increase YoY

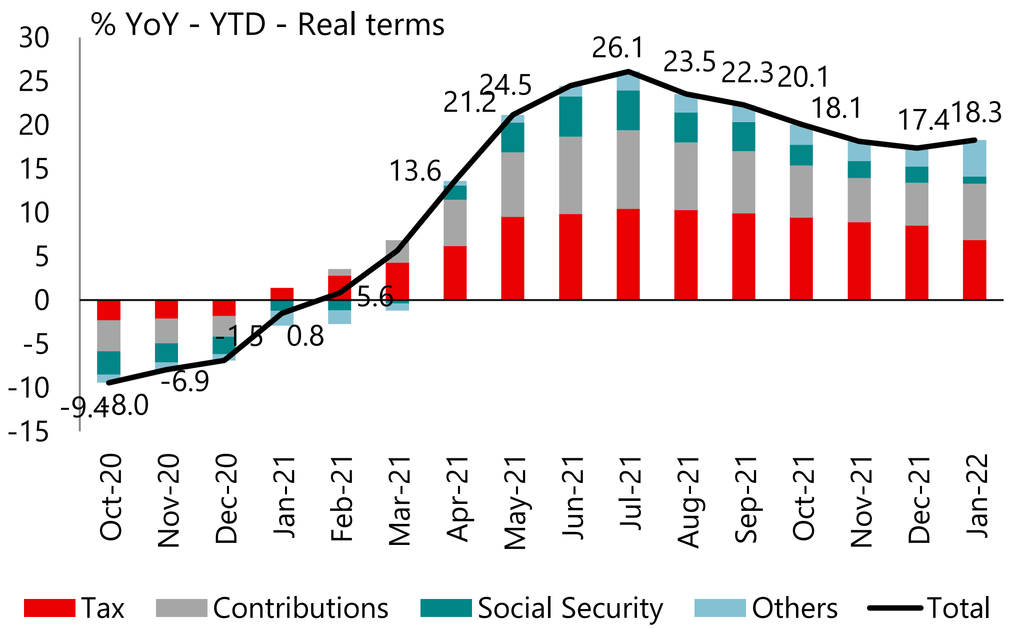


Sources: IBGE, FGV, Santander.

Revenues Impact – Inflation is Boosting Tax Collection in Federal and Regional Terms

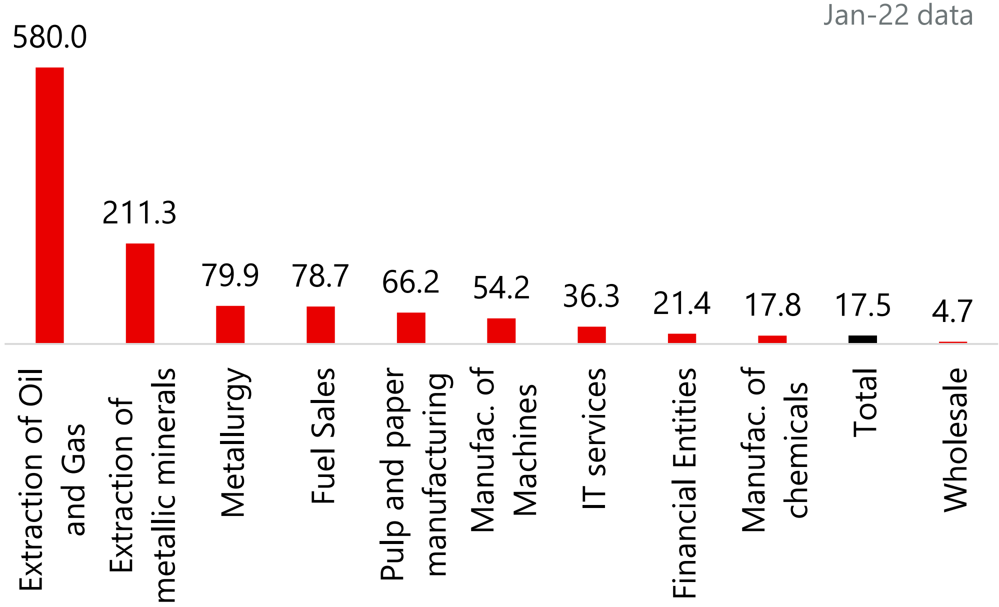
- We see a strong recovery in federal tax collection in recent months, mainly direct taxes linked to the corporate sector, which have posted good results. We can also observe that the increase in tax collection is highly correlated with sectors linked to the commodity boom, especially those related to metals.
- In our view, we expect revenue growth to slow down in 2H22 (still very positive), for the following reasons: i) Greater basis for comparison; ii) commodity prices losing steam; iii) normalization of the consumption basket - with more services (lower tax collection); iv) activity at a slower pace of growth after the crisis recovery.

Federal Tax Revenue: Year-to-date (%YoY)



Sources: Brazilian IRS, Santander.

Federal Tax Revenue by sectors (%YoY)

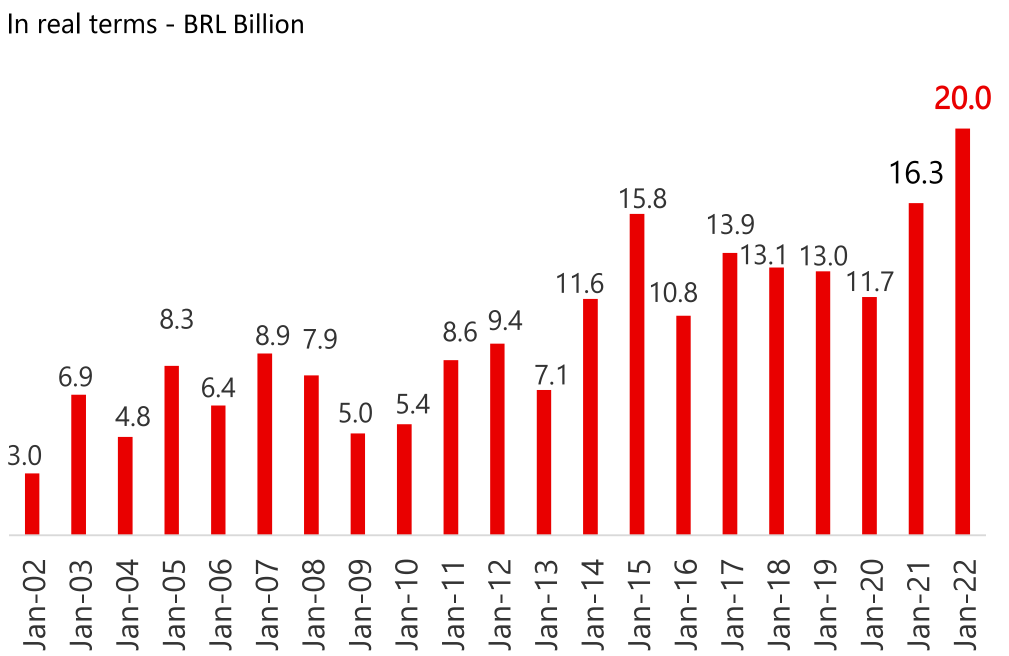


Sources: Brazilian IRS, Santander.

Revenues Impact – Inflation is Boosting Tax Collection in Federal and Regional Terms

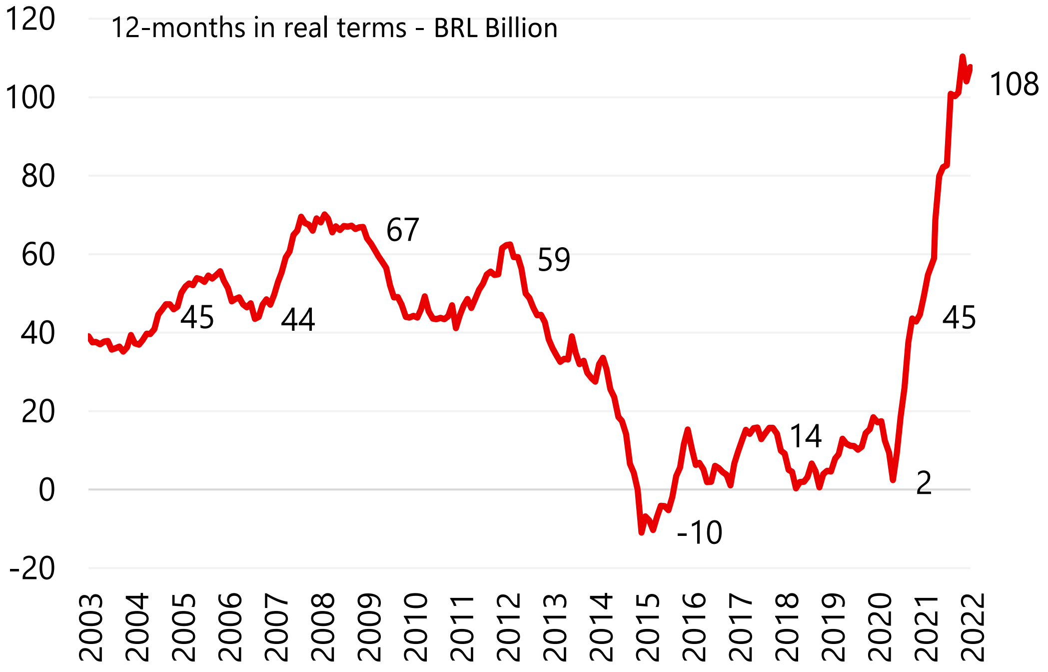
- In the 12-month reading, regional governments' surplus reached BRL102.9 billion (1.2% of GDP) in January 2022. In 2021, the subnational entities' primary fiscal surplus was BRL97.7 billion (1.1% of GDP), the all-time high as a percentage of GDP and in terms of real values in the full year result. In 2020, there was a surplus of BRL38.7 billion (0.5% of GDP), considering the fiscal stimulus (BRL78.2 billion in direct federal transfers to mitigate the pandemic's effects) and activity recovery. In 2019, there was a surplus of BRL15.2 billion (0.2% of GDP).

Regional Governments – Primary Result



Sources: BCB, Santander.

Regional Governments – Primary Result



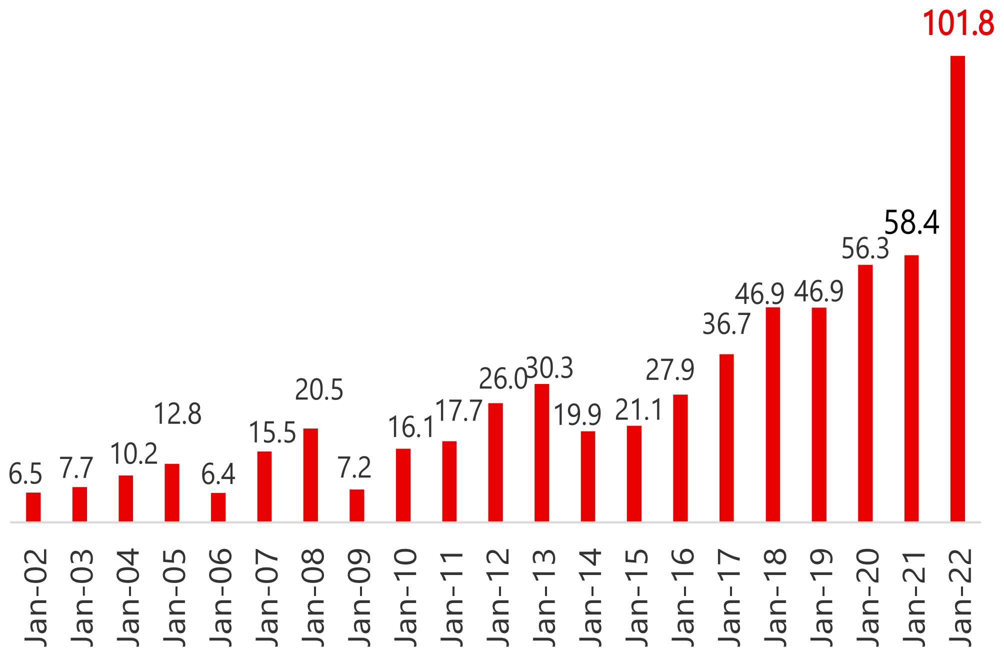
Sources: BCB, Santander.

Public Sector Primary Result Improving with the Price-effect

- The consolidated public sector posted a primary surplus of BRL101.8 billion in January, better than our forecast (BRL92.5 billion) and the market's median estimate (BRL81 billion). This was the best monthly result in the historical series (in part reflecting the favorable seasonality for the budget performance in the first month of each year). In 12 months, the public sector reached a primary surplus of BRL108 billion (1.2% of GDP), compared to BRL64.7 billion (0.75% of GDP) in December 2021. The fiscal result is maintaining a downward trajectory after a sharp reduction in fiscal stimulus in 2021and 2020 (close to 9.4% of GDP including both years).

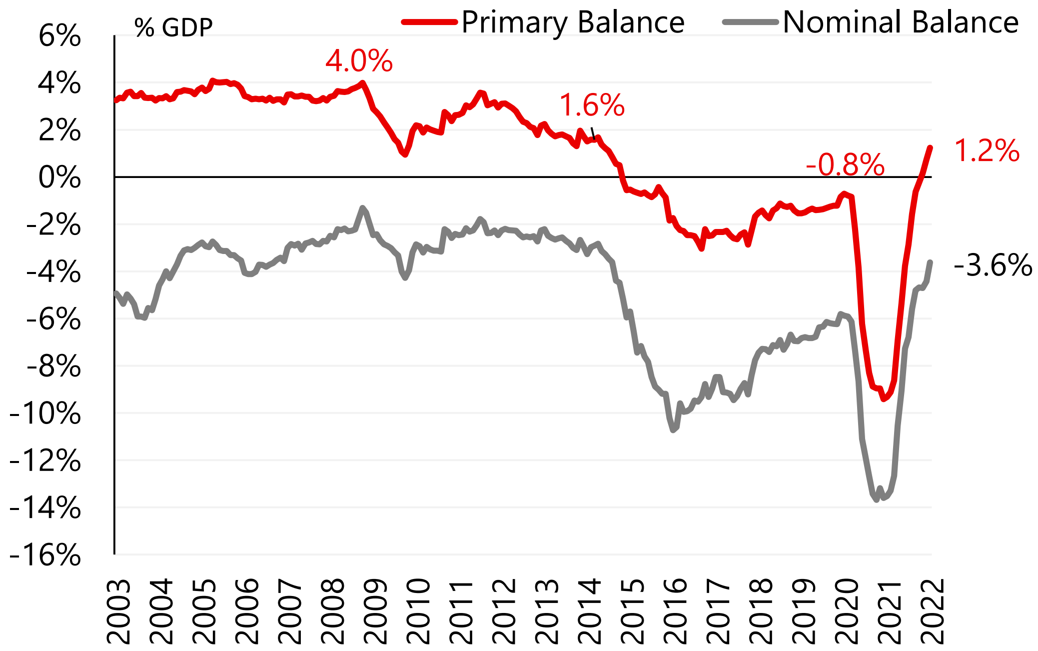
Public Sector – Primary Result

In real terms - BRL Billion



Sources: BCB, Santander.

Public Sector – 12m % GDP



Sources: BCB, Santander.

Fiscal – Unanchored with a riskier path to a long-term debt stabilization

Central Government's Primary Balance

Fiscal Items (% of GDP)	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	Δ 26-17	Δ 30-17
Total Revenue	21.0	21.2	22.1	19.7	22.1	21.5	21.5	21.9	22.2	22.5	22.7	22.9	22.9	22.9	1.5	1.9
Revenues Collected by the IRS (1)	12.7	12.9	12.8	12.0	13.7	13.2	12.9	13.1	13.2	13.4	13.5	13.6	13.6	13.7	0.7	1.0
Net Social Security Revenues (2)	5.7	5.6	5.6	5.4	5.3	5.2	5.2	5.3	5.4	5.5	5.6	5.6	5.6	5.6	-0.2	-0.1
Revenues Not Collected by the IRS (3)	2.6	2.7	3.7	2.2	3.1	3.2	3.4	3.5	3.6	3.6	3.6	3.7	3.7	3.7	1.0	1.0
Transfers by Revenue Sharing	3.5	3.7	3.9	3.5	4.0	4.2	4.1	4.1	4.1	4.0	4.0	3.9	3.9	3.8	0.6	0.3
Net Revenue	17.5	17.6	18.2	16.1	18.0	17.4	17.4	17.8	18.1	18.5	18.8	19.0	19.0	19.1	0.9	1.6
Total Expenditure	19.4	19.3	19.5	26.1	18.4	18.4	18.5	18.7	18.6	18.4	18.3	18.1	17.8	17.6	-1.0	-1.9
Social Security Benefits (4)	8.5	8.4	8.5	8.9	8.1	8.2	8.3	8.6	8.7	8.7	8.6	8.5	8.4	8.4	0.2	-0.1
Payroll (5)	4.3	4.3	4.2	4.3	3.8	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.6	3.5	-0.6	-0.8
Other Mandatory Expenses (6)	3.0	2.9	2.6	9.6	3.5	2.9	2.9	3.0	3.0	2.9	2.9	2.8	2.8	2.7	-0.1	-0.3
Expenses with Cash Control (7)	1.9	2.0	1.9	1.8	1.7	2.5	2.5	2.3	2.1	2.1	2.0	2.0	1.9	1.9	0.2	0.0
Discretionary Expenses (8)	1.8	1.8	2.2	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	-0.6	-0.6
Central Gov. Primary Balance	-1.9	-1.7	-1.3	-10.0	-0.4	-1.0	-1.1	-0.9	-0.5	0.0	0.5	0.9	1.2	1.5	1.9	3.4
Public Sector Primary Balance	-1.7	-1.5	-0.8	-9.4	0.7	-0.8	-1.1	-0.9	-0.5	0.1	0.6	0.9	1.2	1.6	1.8	3.2
Nominal GDP (BRL billion)	6,585	7,004	7,389	7,468	8,748	9,576	9,979	10,483	11,056	11,659	12,332	13,069	13,850	14,678	5,074	8,093

Notes and Hypothesis

(1) Elasticity: Revenues-GDP 2021: 1.7 | 2022: 1.1 | Long-term: 1.08. We see a slowdown in extraordinary revenues from 2021 to 2022. Approval of CBS (VAT) tax reform, modest increase of efficiency (0.2% of GDP). Potential GDP: 1.5% (until 2026), 2.0% (after 2026). Inflation: Center target (3.0%), GDP deflator (4.9%).

(2) Gradual recovery in the formal labor market and earnings. In 2022, we anticipate a more intense increase in informal jobs (post-pandemic).

(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. We see more revenues from Concessions

(4) 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%, with wage increase of 3.0%. Nominal wage increase: 2.0% in the long-term. Long-term: digitalization effects contain the increase.

(6) Includes: higher payments in Court-ordered debt budget (including in the fiscal rule) – better management with a reduction in long-term, rise in federal contribution to Fundeb (Educational Fund), BPC (pension benefit). End of Wage Bonus “Abono” (after 2023).

(7) The main change was the increase in the new welfare program (*Auxílio Brasil*). 2022 budget: BRL90 billion (from BRL35 bn of the former Bolsa Família program). For 2023 onwards a more efficient and focalized welfare program (gradual reduction in outlays).

(8) Discretionary Expenses maintained close to 1.2% - 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 (currently in Debate) from 2022 onwards.

Fiscal Risks – Size Of The Fiscal Stimulus And Leftovers

- The larger part of the worsening of the recent fiscal result was the massive stimulus ("extra-cap" spending) related to Covid-19, which totaled 7.0% of GDP in 2020 and 1.4% in 2021. The trend is for the stimulus to decrease as the effects of the pandemic fade, yet Brazil has changed the fiscal framework to open up more space for spending.

Fiscal Stimulus Measures (BRL billion)

	2020			2021			2022		
In BRL billion - Accumulated	Dec-20	Total Budget	Executed	Dec-21	Total Budget	Executed	Feb-22	Total Budget	Executed
Bem - Employment program (MP 935)	33.5	51.5	65.0%	7.7	10.7	71.5%	0.0	0.2	0.0%
Expansion of Bolsa Família (MP 929)	0.4	0.4	100.0%	-	-	-	-	-	-
Emergency Aid (MP 937)	293.1	322.0	91.0%	60.7	63.9	94.9%	2.8	5.7	50.1%
Transfers to regional governments (MP 939)	78.3	79.2	98.8%	-	-	-	-	-	-
Credit for payroll (MP 943)	6.8	6.8	100.0%	-	-	-	-	-	-
Energy Sector (MP 950)	0.9	0.9	100.0%	-	-	-	-	-	-
Ministry of Health and others	42.7	50.8	84.0%	25.8	43.2	59.7%	1.8	10.5	17.0%
Guarantees for credit measures for SME (MP 977)	58.1	58.1	100.0%	5.0	5.0	100.0%	-	-	-
Financing of Tourism Infrastructure (MP 963)	3.1	5.0	61.6%	0.6	1.3	42.3%	-	0.7	-
Emergency Credit Program - "Maquininhas"	5.0	10.0	50.0%	-	-	-	-	-	-
Vaccine Acquisition	2.2	20.0	11.1%	21.8	26.2	83.4%	2.4	10	23.6%
Accumulated Total	**524.0**	**604.7**	**86.7%**	**121.4**	**150.2**	**80.8%**	**7.0**	**27.1**	**25.8%**

Updated until 2/25/2022

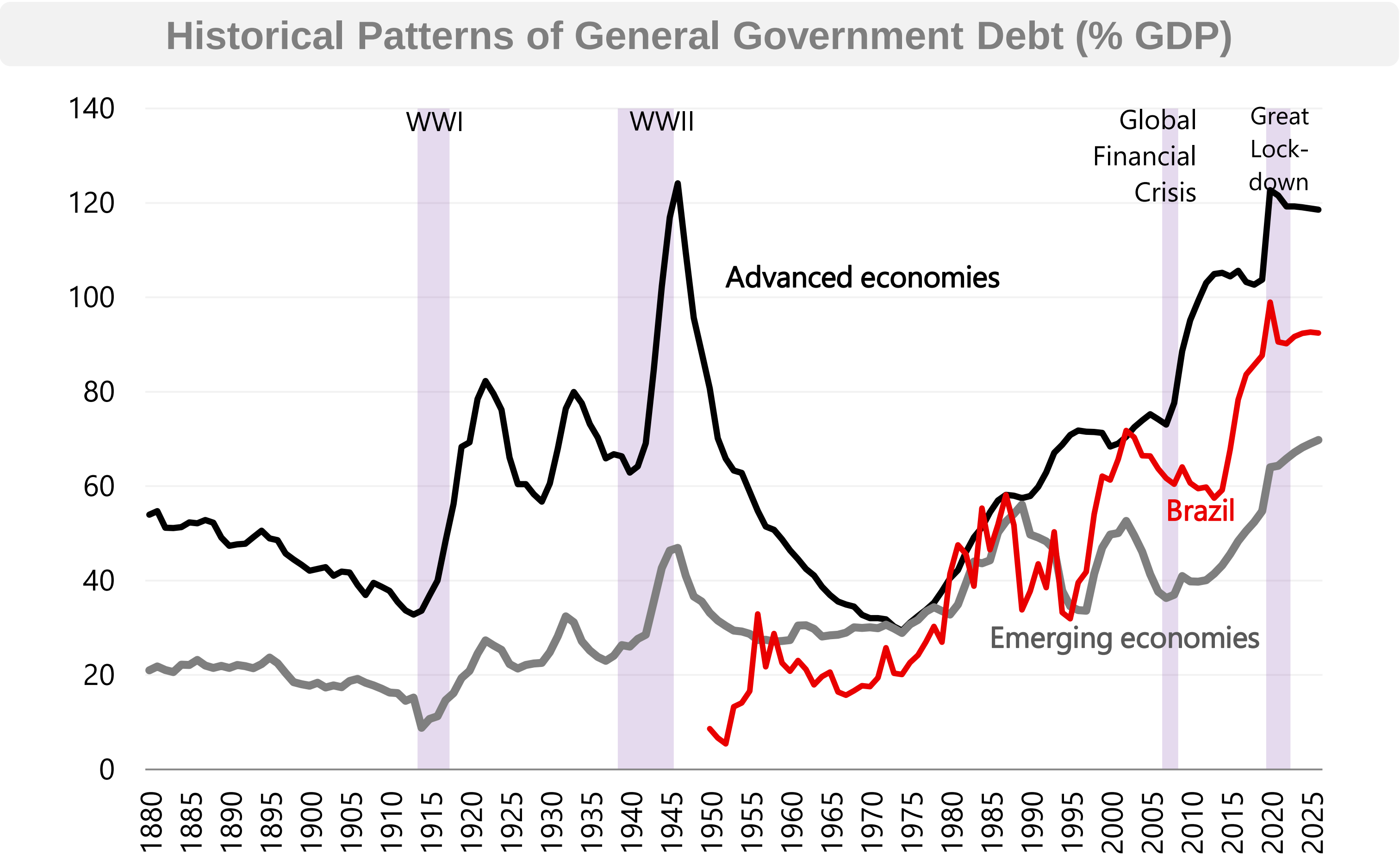
Sources: National Treasury, Santander.

Public Debt Scenario and Simulations

06

Brazilian gross debt approaches the level of advanced countries – International Comparison

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

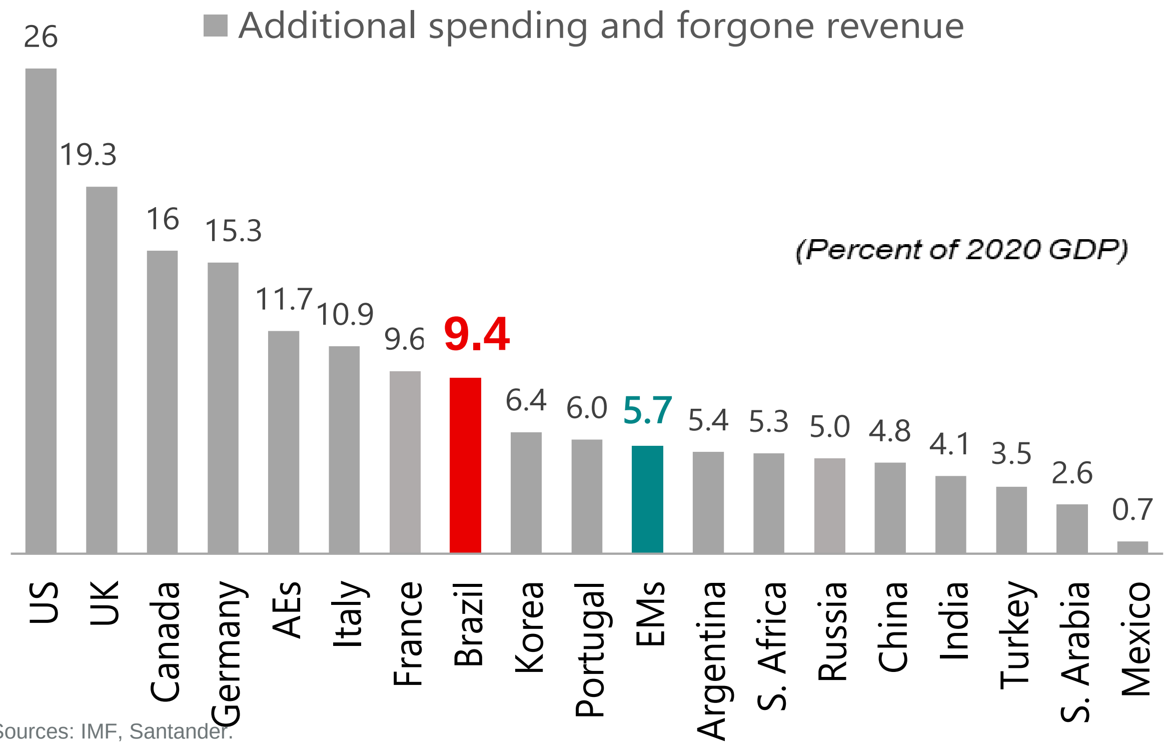


Sources: IMF, Santander.

Fiscal Monitor – IMF Scenario

- According to data from both 2020 and 2021, Brazil's fiscal stimulus reached 9.4% of GDP, higher than the 5.7% of GDP for the average of emerging economies (EM). This measure also considers foregone revenues.
- In short, the fiscal outlook presented by the IMF is close to our fiscal scenario and reinforces the importance of both measures and reforms to guarantee the credibility of the fiscal consolidation.

Fiscal Stimulus in 2020-21



Sources: IMF, Santander.

Fiscal Accounts: Trajectories for the Brazilian Government Debt

- Public sector's primary balance (% GDP) required for the stabilization of the gross public debt-to-GDP ratio at **90%**
- We see the neutral interest rate hypothesis at 4.0%, 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 ~2.5% of GDP primary fiscal adjustment, just to stabilize the ratio debt-to-GDP around the level of ~90% of GDP.

Current situation:

. Real interest rate (ex-ante) 1-year: ~6.4%,
. GDP: +4.6% in 2021 and 0.7% in 2021

Liquidity reserves up to 11 months of debt maturities

Increase in debt cost (Selic + IPCA)

Steady-state:

According to our hypothesis:
. Real interest rate at +4.0%
. Potential GDP at +1.5%,

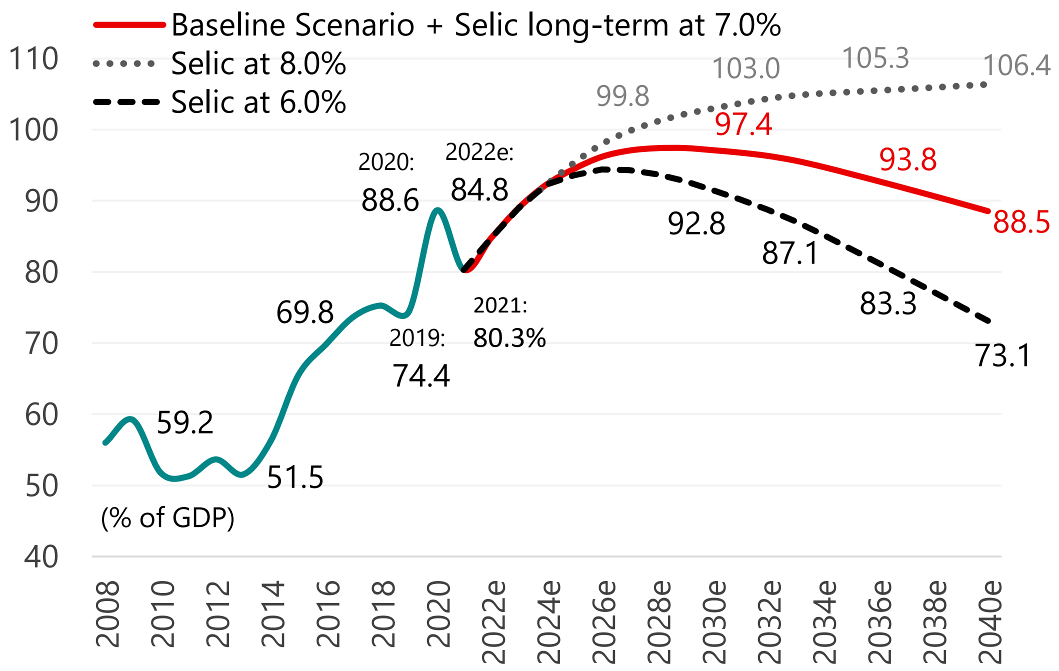
. The primary surplus must reach 1.8-2.2% of GDP to maintain the gross debt stable.

	Real Interest Rate							
GDP Growth	-1.0%	0.0%	1.0%	2.0%	2.5%	3.0%	4.0%	5.0%
1.0%	-1.8	-0.9	0.0	0.9	1.3	1.8	2.7	3.6
1.5%	-2.2	-1.3	-0.4	0.4	0.9	1.3	2.2	3.1
2.0%	-2.6	-1.8	-0.9	0.0	0.4	0.9	1.8	2.6
2.5%	-3.1	-2.2	-1.3	-0.4	0.0	0.4	1.3	2.2
3.0%	-3.5	-2.6	-1.7	-0.9	-0.4	0.0	0.9	1.7
3.5%	-3.9	-3.0	-2.2	-1.3	-0.9	-0.4	0.4	1.3

Sources: BCB, Santander.

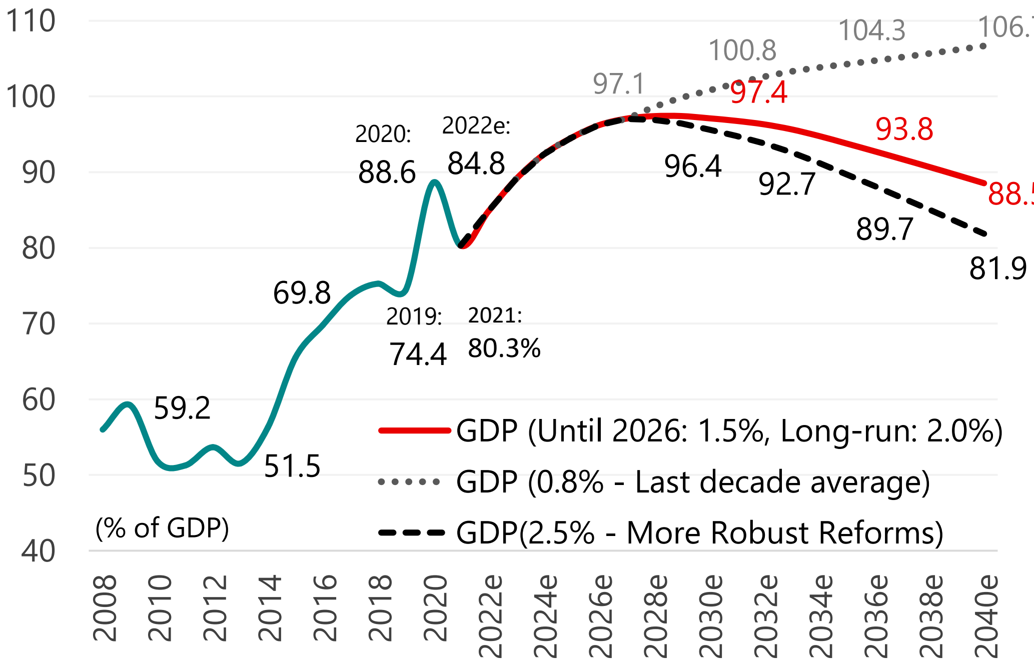
Debt Scenarios: Sensitivity to Changes in the Long Run Macro-outlook

Government Debt – Simulations for Selic Rate Hypotheses



Sources: BCB, Santander

Government Debt– Simulating for Trend GDP Hypotheses



Sources: BCB, Santander.

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

PEC Emergencial: Funds (+BRL150 billion for liquidity cushion in 2021 + BRL30 billion in 2022)

2022 GDP Deflator: 8.7% | GDP: 0.7% | Selic Rate: 12.50%

2022 hypotheses: BNDES and Public Banks (BRL60 bn)

2023-40: GDP deflator: 3.9%, which is Inflation target + 0.9%
(close to the average difference of the last decade between IPCA and GDP deflator)

Debt Management

07

Annual Borrowing Plan 2022

- The National Treasury released (on January 26) the Annual Borrowing Plan (Portuguese acronym: PAF) for 2022. The total outstanding debt reached ~BRL5.6 trillion in December 2021 and could reach BRL6 trillion this year, according to the fiscal authority's plan. The average maturity is expected to remain close to ~4.0 years, according to the PAF. In the debt profile, the National Treasury stated that it intends to increase the floating-rate total relative to fixed-rate bonds.

Annual Borrowing Plan (PAF 2022)

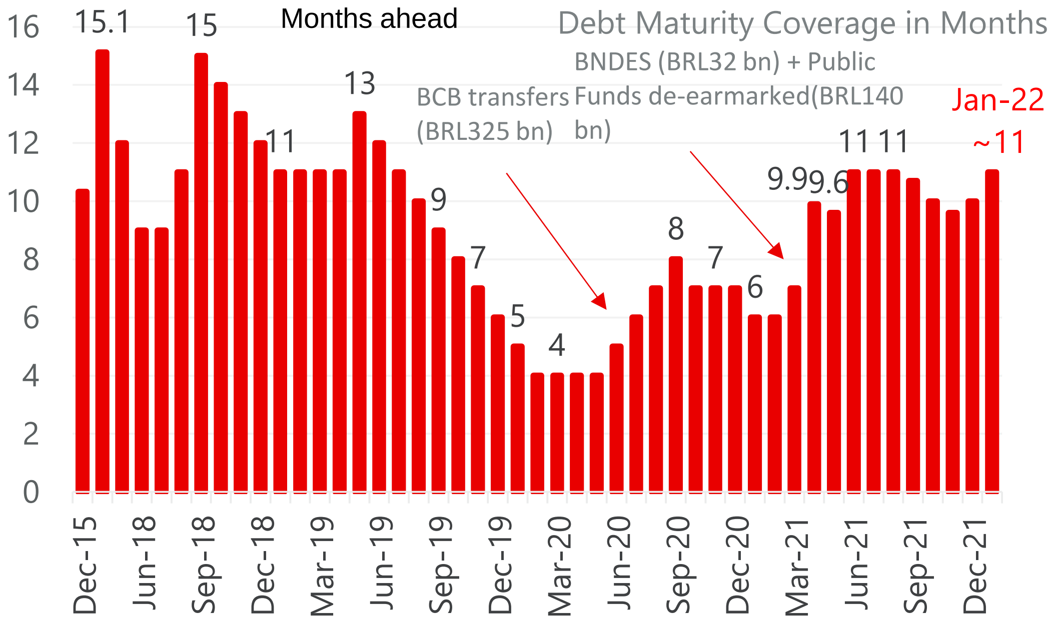
	2020	2021	PAF 2022 range		PAF 2021 Revised (May21)		PAF 2021 (Jan-21)	
Outstanding volume (BRL billion)			Min	Max	Min	Max	Min	Max
Federal Public Debt	5,010	5,614	6,000	6,400	5,500	5,800	5,600	5,900
Composition (%)								
Fixed-rate	34.8	28.9	24	28	31	35	38	42
Inflation-linked	25.3	29.3	27	31	26	30	24	28
Floating-rate	34.8	36.8	38	42	33	37	28	32
FX	5.1	5	3	7	3	7	3	7
Maturity Structure								
% maturing in 12 months	27.6	21	19	23	22	27	24	29
Average maturity (years)	3.6	3.8	3.8	4.2	3.4	3.8	3.2	3.6

Sources: National Treasury; Santander

Treasury's Cash Position Improved in the Last Few Months with Larger Auctions

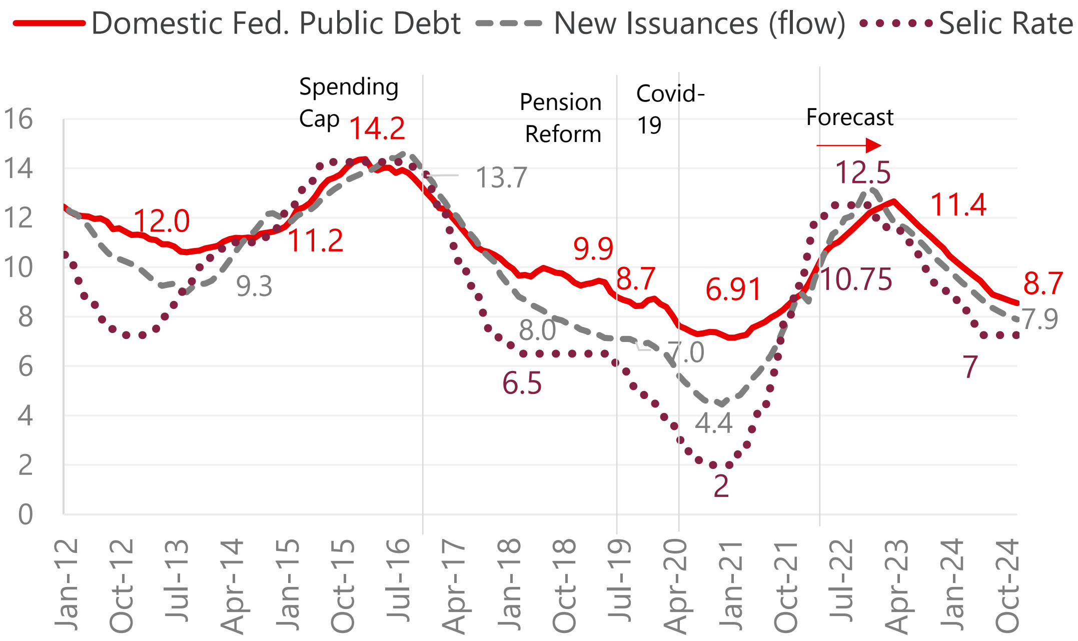
- With debt shortening it is important to keep the level of the liquidity cushion at comfortable levels.
- The domestic debt cost continued to rise, due to both inflation and Selic increase (8.9% in the last 12m, +0.5%pp). The average cost of the outstanding debt accumulated in 12m fell to 8.6% (from 8.9% in December, with a reduction in external debt cost).
- Debt liquidity cushion reduced in January (-BRL53 bn | Totaling BRL1,132 bn), equivalent of ~11 months of debt maturities. In addition, is expected the transfer of BCB results of BRL71 billion until March, increasing the debt cushion.

Liquidity cushion coverage of domestic debt



Sources: National Treasury, Santander.

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

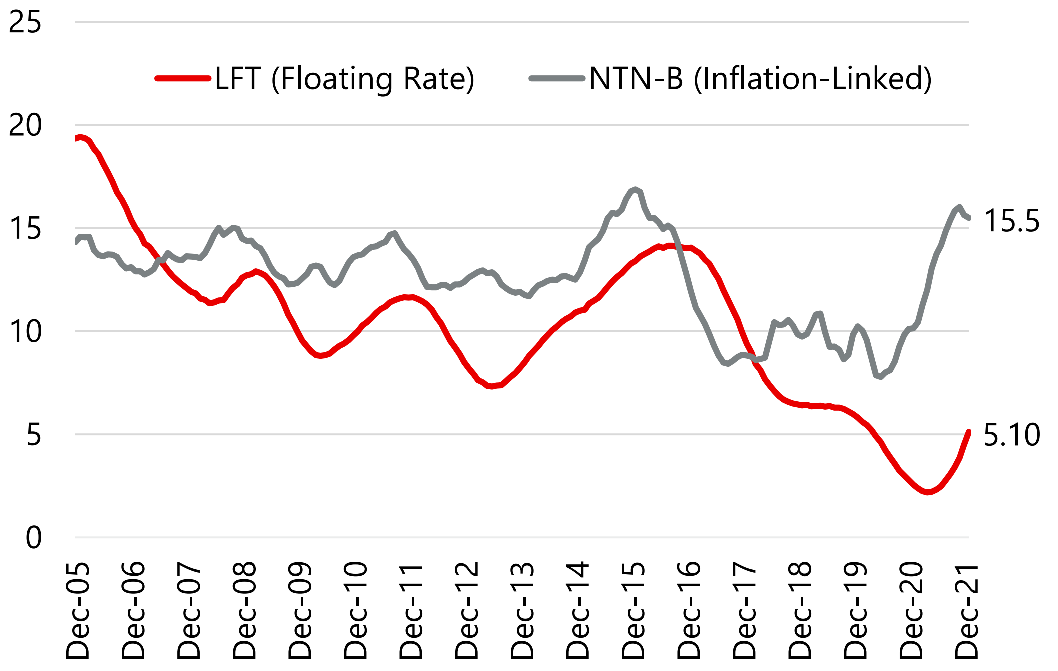


Sources: National Treasury, Santander.

At the margin there is a increase in debt cost related to Selic and Inflation

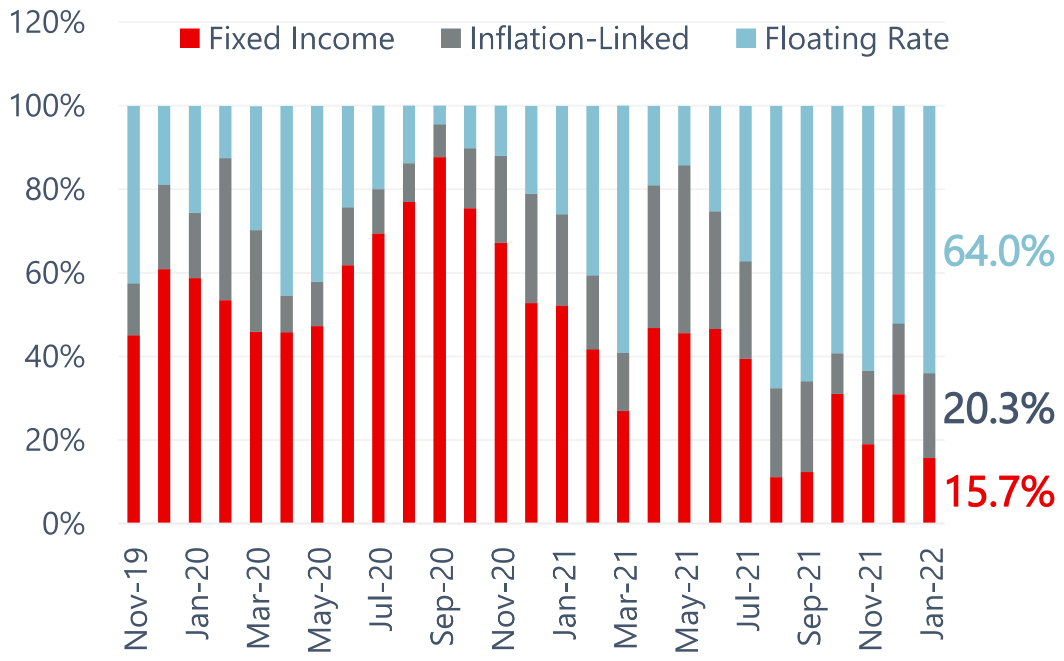
- The debt cost continued to rise, due to both inflation and Selic increase. In January 2022, the NTN-B (inflation-linked bonds) cost in the last 12m reached 15.5% p.y. The cost of LFT (floating rate) in 12m increased to 5.1% (from 4.49% in Dec-21), the Selic increase (currently at 10.75%) could add an additional pressure in debt costs in coming months.

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



Sources: National Treasury, Santander.

Participation in total issuances (%)

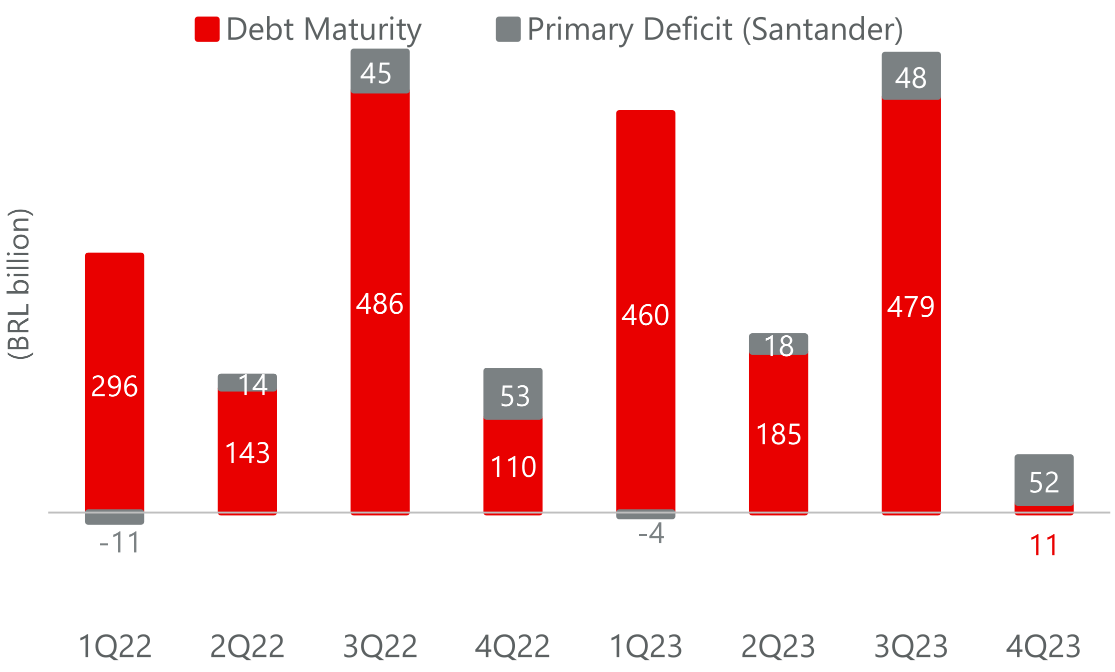


Sources: National Treasury, Santander.

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

- Despite the increase in liquidity reserves the debt maturity level is still challenging. Structural reforms will help to increase debt maturity and reduce the primary deficit.

Debt maturity - (BRL billion)



Sources: National Treasury, Santander

Profile by categories - (BRL billion)

Quarter	Fixed Rate	Floating Rate (selic)	Inflation-Linked	FX-Exchange	Other	Total
1Q22	0.0	266.8	26.6	0.0	2.4	**295.7**
2Q22	125.2	-	16.1	-	1.3	**142.6**
3Q22	128.4	169.9	182.8	3.8	1.2	**486.0**
4Q22	91.7	-	15.7	-	3.0	**110.3**
1Q23	271.1	163.5	20.8	3.6	0.7	**459.8**
2Q23	2.4	0.0	181.4	0.0	1.4	**185.3**
3Q23	192.1	261.6	20.4	3.4	1.3	**478.8**
4Q23	0.0	0.0	10.2	0.0	0.9	**11.0**

Sources: National Treasury, Santander.

MACRO SCENARIO: Forecasts

Macroeconomic variables		Previous		Current
GDP (%)	2022E	0.7	→	0.7
	2023E	-0.2	→	-0.2
	2024E	1.5	→	1.5
IPCA (%)	2022E	6.0	→	6.0
	2023E	3.5	↑	3.7
	2024E	3.0	→	3.0
Selic Rate (% end of period)	2022E	12.25	↑	12.50
	2023E	9.00	→	9.00
	2024E	7.00	→	7.00
FX Rate - USDBRL (end of period)	2022E	5.70	↓	5.40
	2023E	5.20	↑	5.25
	2024E	5.00	↓	4.90
Current Account Balance (% of GDP)	2022E	-1.2	↓	-1.4
	2023E	-2.0	↑	-1.8
	2024E	-1.6	↓	-3.2
Primary Fiscal Balance (% of GDP)	2022E	-1.0	↑	-0.8
	2023E	-1.1	↓	-1.1
	2024E	-0.6	↓	-0.9
Gross Public Debt (% of GDP)	2022E	85.1	↓	84.8
	2023E	88.9	↑	89.0
	2024E	91.6	↑	92.2

Sources: IBGE, The National Treasury, BCB and Santander.

- **The forecasts refers to our latest Scenario Review**

'HIGHER INFLATION AND SELIC FORECASTS, DESPITE THE STRONGER BRL" (sent on February 24, 2022)

- **For the full report click on the link:**

https://bit.ly/Std-scenreview-feb22

Thank you.

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

Simple Personal Fair

Santander

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