Brazil Macro | September 2021

FISCAL POLICY

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Summary - Inflation Effects - Two Sides of the Same Coin

- We continue to upgrade our estimates for the primary balance (owing to higher revenues) and debt to GDP ratio (owing to a higher deflator), mirroring the increase in our inflation forecasts. However, we see the inflation-effect reducing the efficacy of the constitutional spending cap and raising the cost of government debt. We continue to forecast an upward debt trajectory for the medium term, with the path to a long-term stabilization looking increasingly riskier. Additionally, the fiscal risks have surfaced with the early discussion on the 2022 budget proposal.

- In our view, if the price shock continues to surprise on the upside, the better the primary result will be, with a possibility of reaching a primary surplus even before our current scenario (2024-25). Yet, we believe that this effect could be short-lived, due to the fact that the disinflation process (currently at 9.5% in 12-months) and the convergence to center target tends to slow down revenue growth.

- However, the rise in inflation also has its negative outcomes and the possibility of seesawing public accounts. Another key aspect of the inflationary shock in 2H21 is the compression on constitutional spending cap margin for 2022. We estimate that with court orders at BRL89 billion, the spending cap margin for 2022 is currently negative at about BRL20 billion.

- In addition, for the medium term, our calculations show that the constitutional spending cap has lost its capacity to add to the fiscal consolidation process, as compliance with the fiscal rule up to 2026 is now easier than before the recent price shock.

Brief Overview

01

Fiscal - Inflation Effects - Two Sides of the Same Coin

Improved Fiscal Indicators

- **Higher Revenues in 2021** (+BRL35 bn)
  (Royalties, Price Shock, IPO & M&A)
- **Subnational Entities – Short-run**
  (Surplus in 2021 of BRL40 billion – more BRL 5bn)
- **Better Revenues – Medium-term**
  (Terms of trade: impact of +0.3pp of GDP)
- **First Year of Primary Surplus**
  (2024-25 – improved in one year)
- **Gross Debt Peak in 2028** (92% of GDP)
  (Inflation impact: ¾ of the improvement)
- **Rise in Debt Liquidity Reserves**
  (Reaching more than BRL1 trillion, covers close to 11 months of debt maturities)

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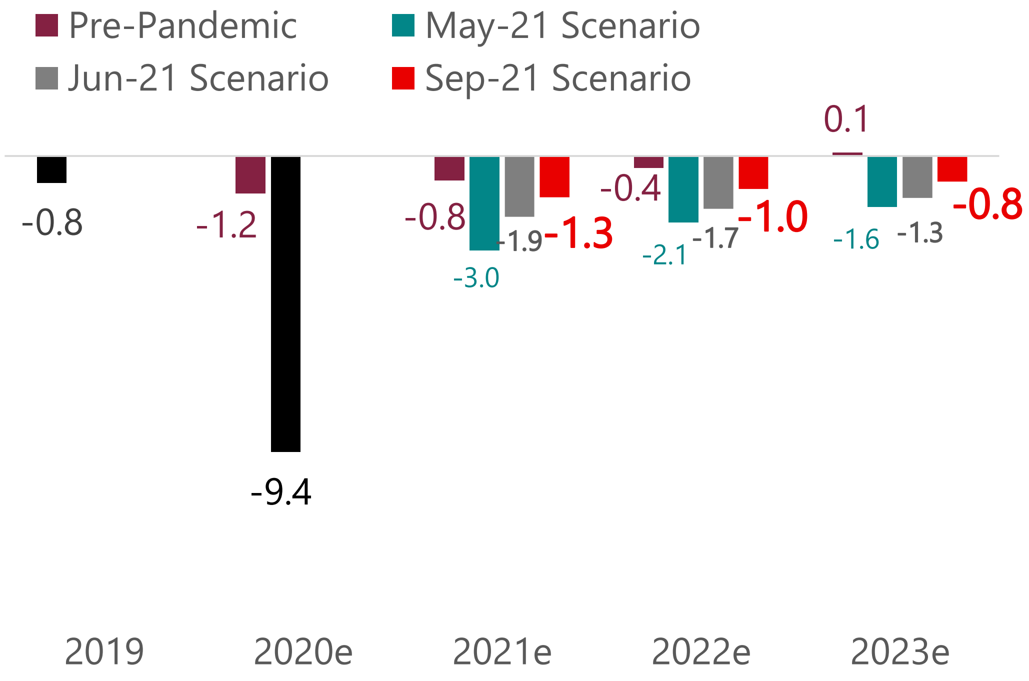
Fiscal Risks in the Spotlight

- **Court-ordered debts Soared**
  (BRL90 bn – not feasible under the spending cap)
- **2022 Spending Cap Margin drop**
  (Higher inflation in 2H21: -BRL20 bn of margin)
- **"*Auxílio Brasil*" New Welfare Program**
  (Pressure to increase the program: >BRL300/mo)
- **Payback of Expenditures post-Covid**
  (Subnational and Federal: repressed demand and inflation increase pressuring mandatory outlays)
- **Congressional Debate - Reforms**
  (Risks of fiscal slippage and "creative" measures)
- **Debt: more financial pressure**
  (Selic Rate hike and financial conditions outlook)

Fiscal – Inflation effect – Two sides of the same coin

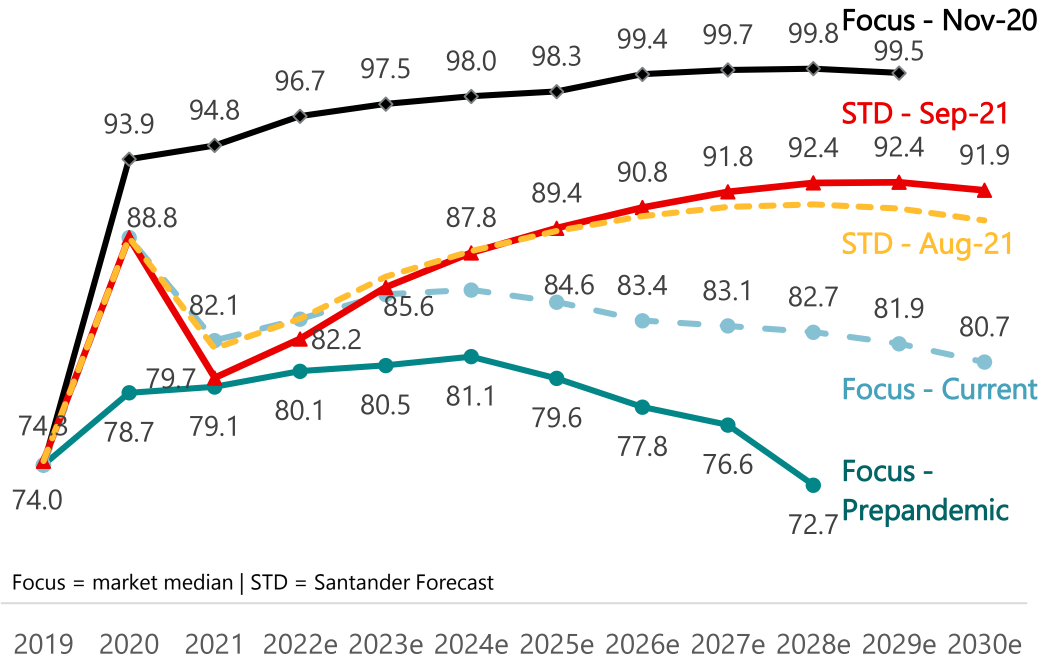
- Considering the terms-of-trade and inflation impact on the revenues we improved our forecasts for the primary result. Yet, a more persistent improvement will depend on the commodity boom.
- We estimate that federal net revenue will rise by 0.3 pp of GDP per year, due to the positive shock related to terms of trade, depending on the impact and duration of the commodity boom.
- **The inflation shock directly accounts for ~3/4 of the improvement in the debt-to-GDP ratio (mainly via GDP deflator).**

Primary Result (% GDP)



Sources: BCB, Santander.

Debt Scenario - % GDP

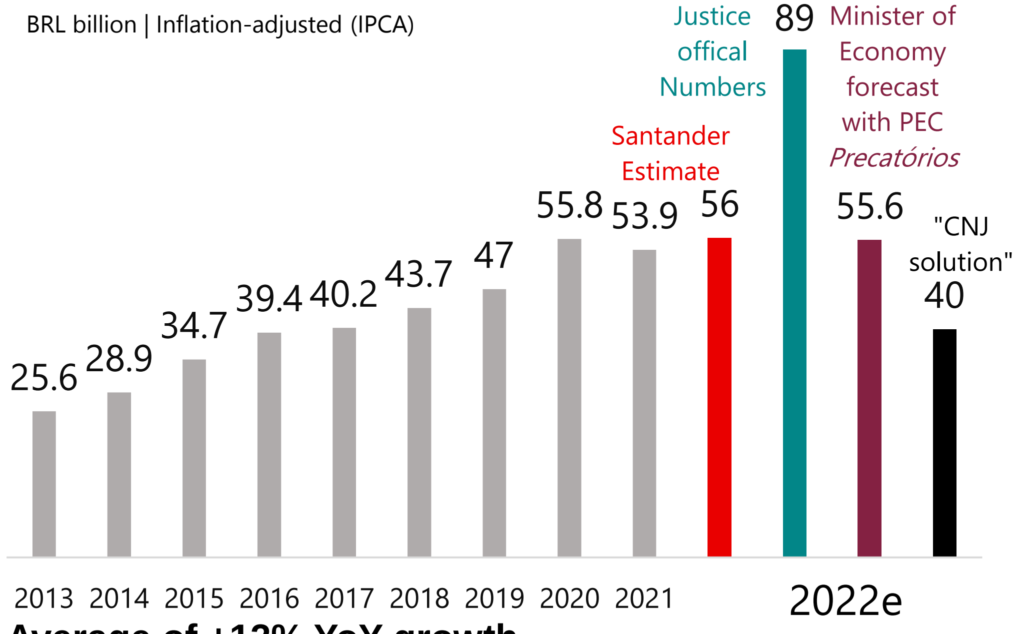


Sources: BCB, Santander

Fiscal – Inflation effect – Two sides of the same coin

- Our INPC forecast rose to 9.0%, from 7.8% in our last scenario. This reduced the spending cap margin to -BRL20 billion, considering the full payment of judicial claims (*Precatórios*). Our new tracking points to a INPC in 9.5%.
- In our scenario we consider the *Precatórios* between BRL55-40 billion, opening a margin for BRL15-30 billion for the *Auxílio Brasil* (new welfare program to ~17mi families with a average benefit of BRL270-300 stipend for month).
- The National Congress is currently debating the Justice Council Solution (CNJ Solution) to create a cap for judicial claims.
- We marked down our projection for discretionary outlays in BRL5 billion, since our last scenario revision in August.

Judicial Claims Increase – BRL billion



Average of +12% YoY growth

Sources: Ministry of Economy, Santander

For the official Gov Presentation (in Portuguese) access at: https://bit.ly/Gov-PEC-Precatorios

2022 Spending Cap Margin - Simulation

2022 Budget: Spending Cap Margin - BRL bn

Year-end Inflation (INPC | Dec-21)	Court-ordered debts Budget (*"Precatórios"*) — BRL bn	40	55	60	75	89
	6.5%	54	39	34	19	5
	7.0%	49	34	29	14	0
	7.5%	44	29	24	9	-5
	8.0%	40	25	20	5	-9
	9.0%	30	15	10	-6	-20
	10.0%	22	6	1	-14	-28

Additional Budget for Auxílio Brasil- BRL bn

Families (millions)	Monthly Average Benefit (BRL/month)	250	270	300	350	400
	17	16	20	26	36	47
	16	13	17	23	32	42

Bolsa Família's current budget (2021): BRL35 billion/year | Total: 14.6 million families

Sources: Santander

Santander

Fundef (Education fund transfers) recalculation generated an increase of BRL15.6 billion for 2022. Brazilian States: Bahia: BRL8.8 bn | Amazonas: BRL0.2 bn | Ceará: BRL2.7 bn | Pernambuco: BRL4 bn

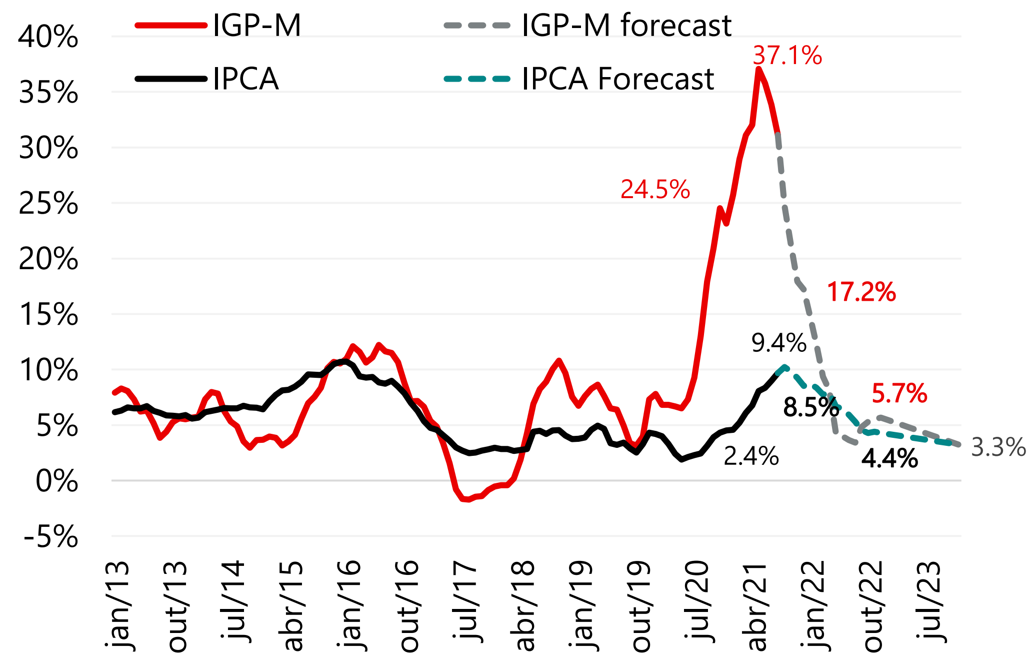
Fiscal background – Price shock impact

02

Background – Inflation Shock and Activity Recovery in 2021

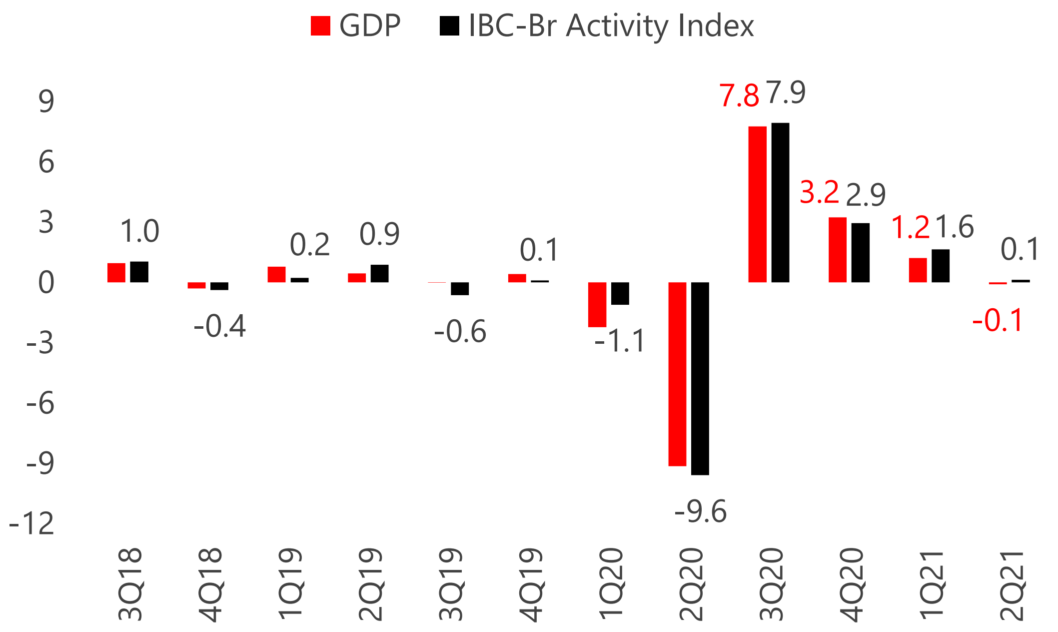
- Once again, we are raising our inflation forecasts. For 2021, we now project IPCA at 8.5% (previously 7.3%); for 2022, we now look for a 4.4% rise (previously 4.1%). The level and composition of inflation look increasingly unfavorable for 2022, and we project convergence to the mid-target only in 2023 (at 3.25%).
- We keep our 2021 GDP estimate at 5.1% in light of the recent negative market surprises from broad activity indexes that were in line with our scenario of a modest GDP figure in 2Q21. The outlook for 2H21 remains positive, in our view, due to a probably faster (and safer) economic reopening and the support from higher commodity prices.

Inflation – IGP and IPCA



Sources: FGV, IBGE, Santander.

GDP vs IBC-Br (sa, % QoQ)

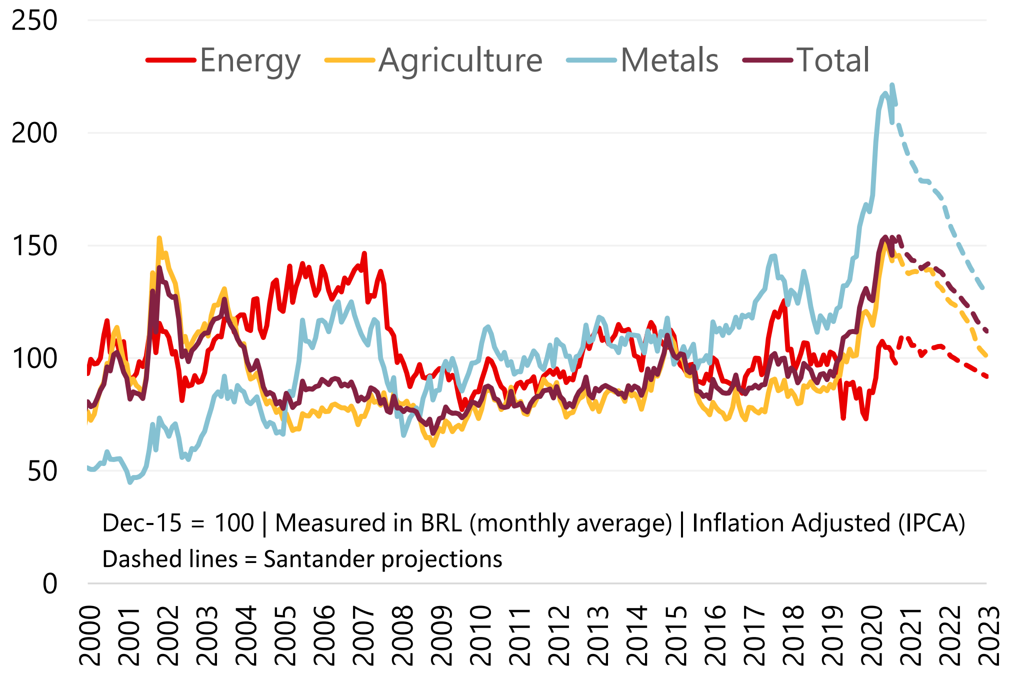


Sources: BCB, IBGE, Santander.

Background – Commodity Boom

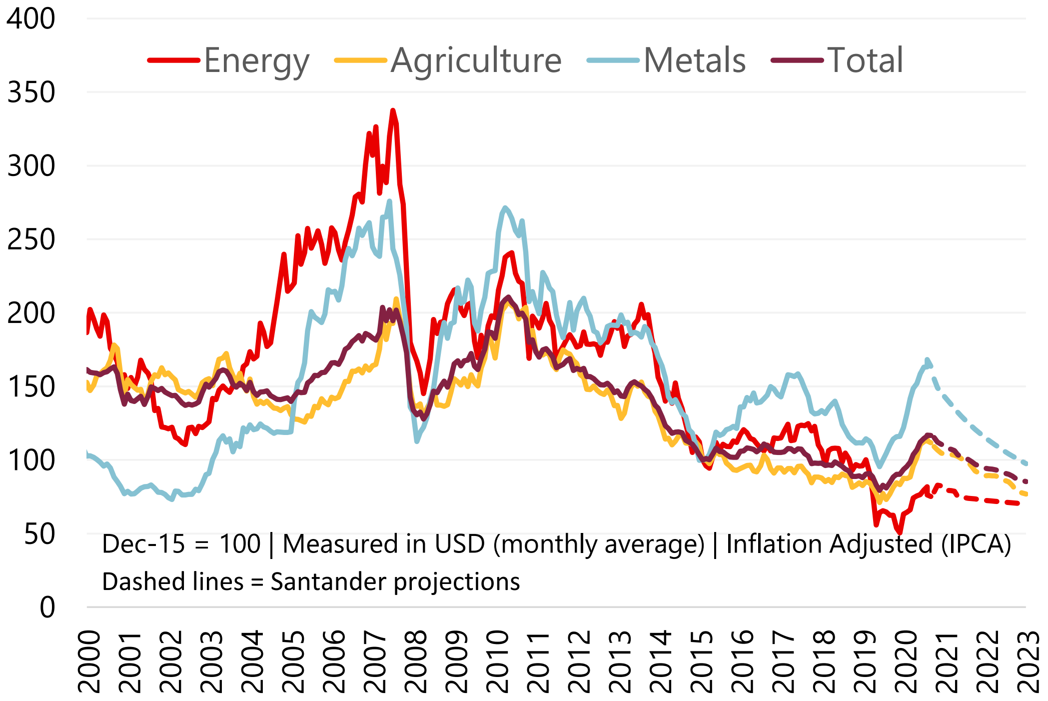
- The fact that the greater gain in terms of trade accompanies higher commodity prices (added to a counter-intuitive depreciated BRL) helps to increase revenue for the largest companies related to the sector. It is important to emphasize that Brazilian GDP has a strong positive correlation with the commodity cycle, so the cycle's duration will be a key factor to observe. In our view, it will tend to cool down until 2023, which gives the government time to promote structural changes on the fiscal front.

CRB Commodity Index - BRL



Sources: Bloomberg, Santander.

CRB Commodity Index - USD

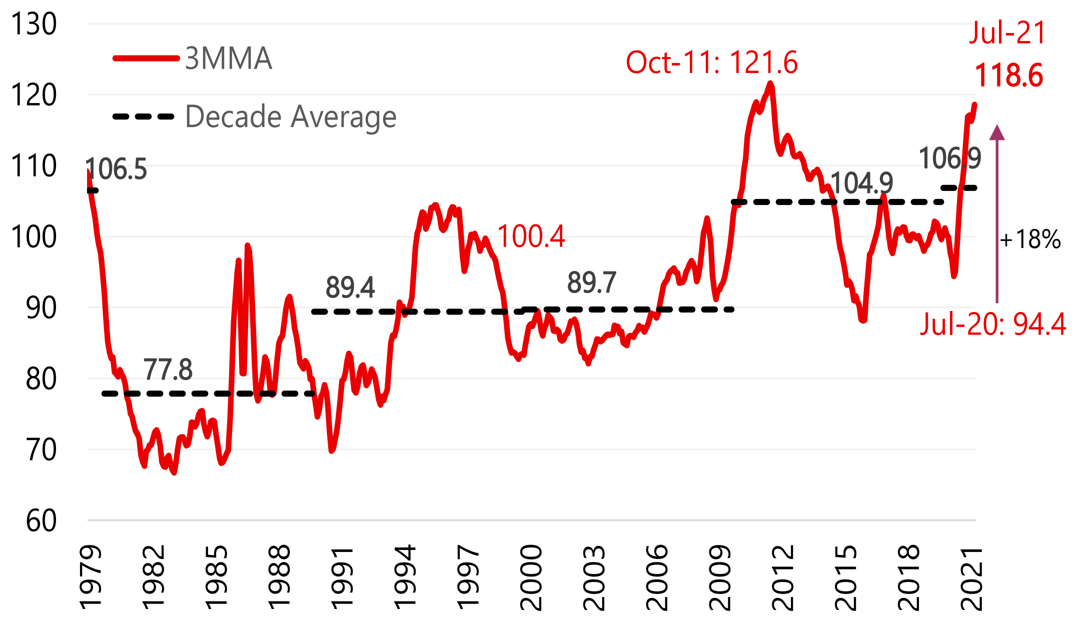


Sources: Bloomberg, Santander.

Background – Rise in Terms-of-Trade

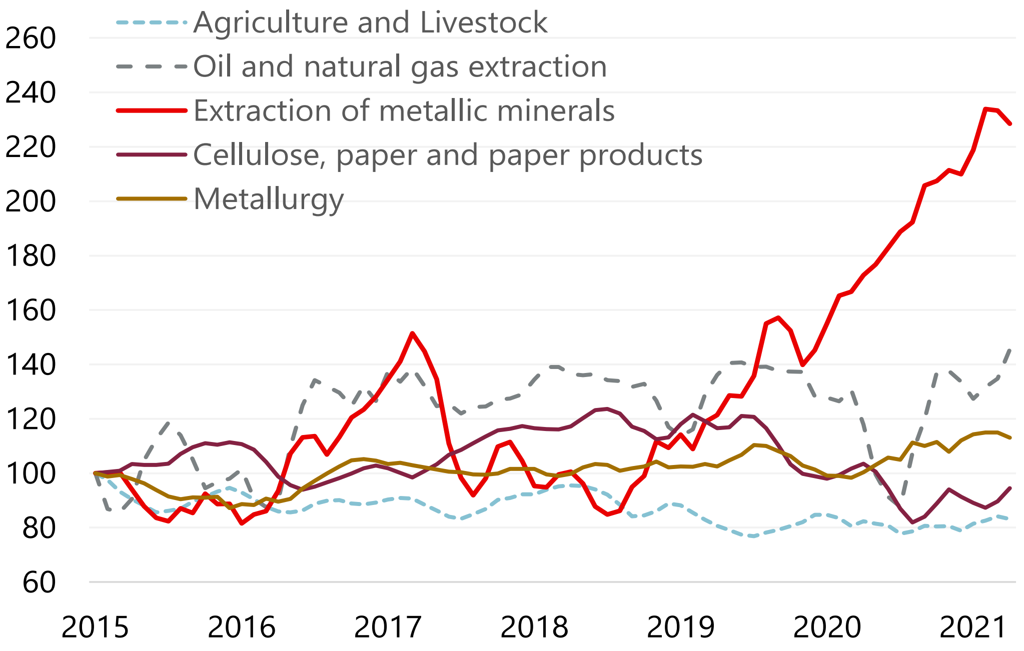
- In recent months, we have seen an improvement in terms of trade indicators, favoring exports and also increasing federal tax collection. We see that this increase occurred significantly in the metallic mineral extraction sector, which international prices are already falling at the margin (-40% YoY).

Terms-of-Trade Index



Sources: FUNCEX, Santander.

Sectors Breakdown: Terms-of-Trade Index

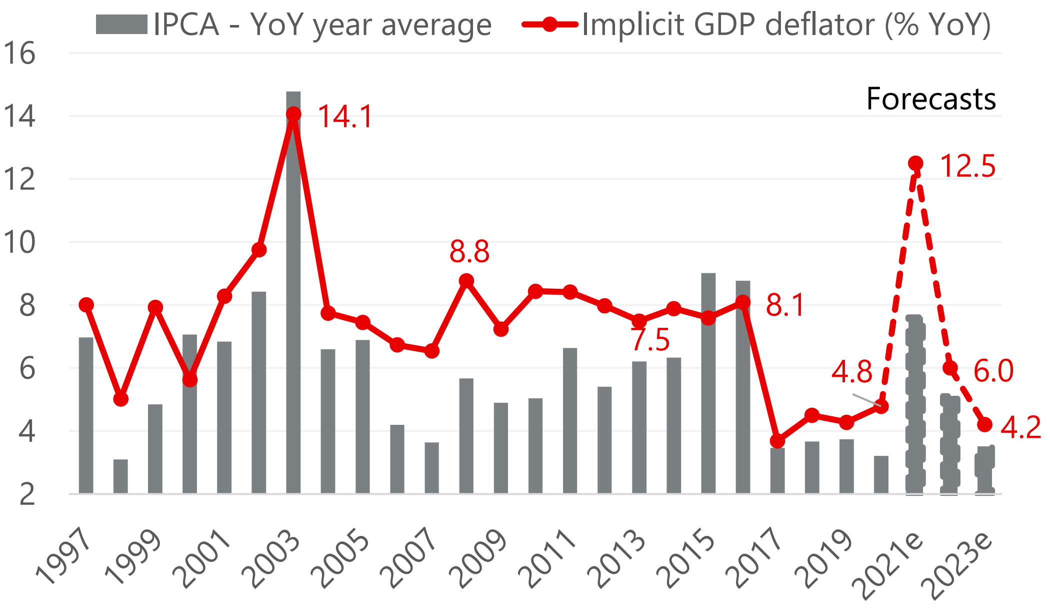


Sources: FUNCEX, Santander.

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

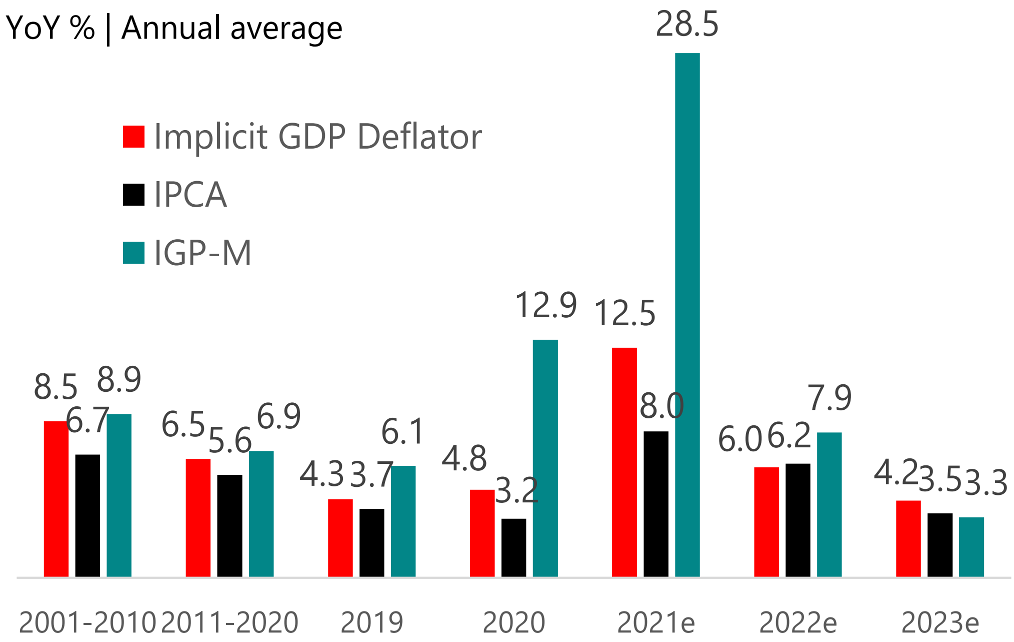
- One of the main effects of both higher inflation and activity recovery is higher nominal GDP, which consequently affects the debt-to-GDP ratio. At the beginning of the year, we estimated that nominal GDP would increase by 7% in 2021; our latest tracking points to a ~18% increase. The main effect was on the GDP deflator, which went from 4.0% to 12.5%, closely related to the commodity shock and an increase in the IPCA forecast from 3.6% (February) to 8.5% (September).

IPCA and GDP Deflator



Sources: IBGE, Santander.

IPCA, IGP-DI and GDP Deflator

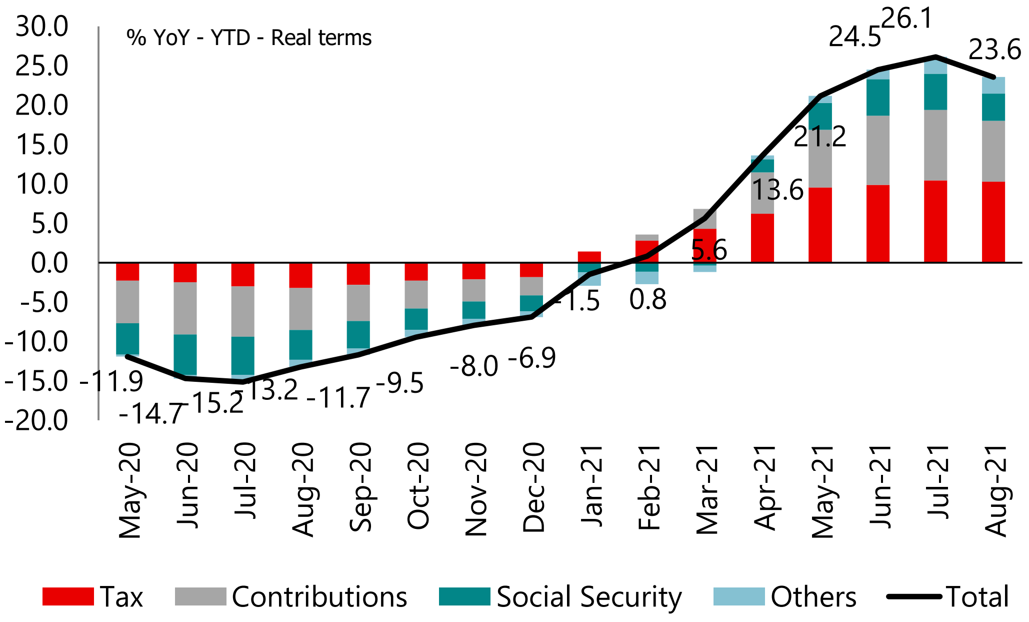


Sources: IBGE, FGV, Santander.

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

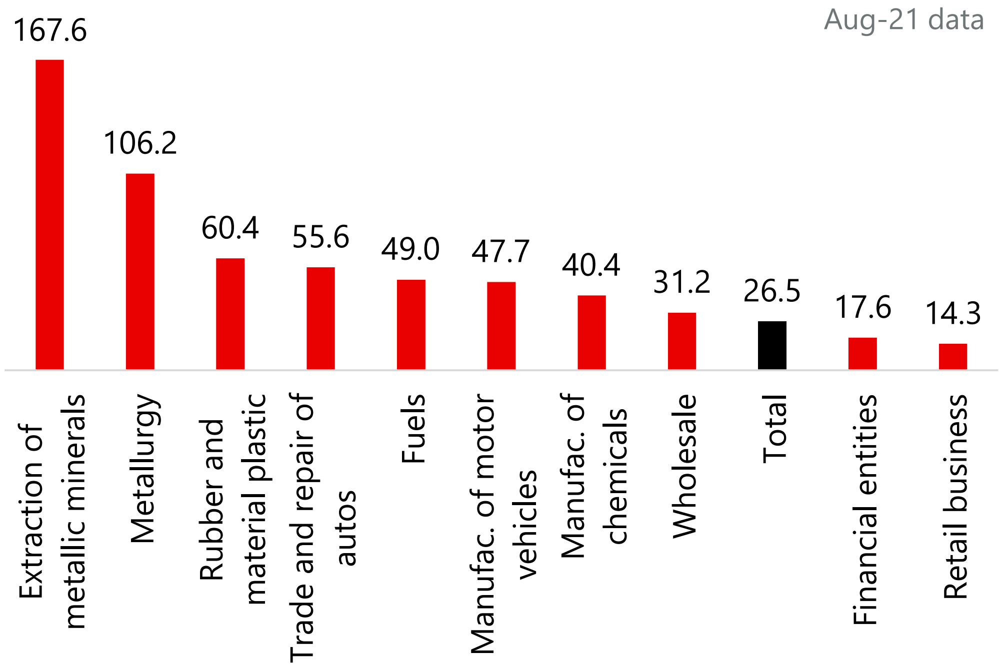
- We see a strong recovery in federal tax collection in recent months, mainly direct taxes linked to the business sector, which have posted good results recently. We can also observe that the increase in tax collection is highly correlated with sectors linked to the commodity boom, especially those related to metals.
- In our view, we expect revenue growth to slow down (still positive), for the following reasons: i) Greater basis for comparison compared to 2020 - with payment of deferrals in 2H20; 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 YTD (%YoY)

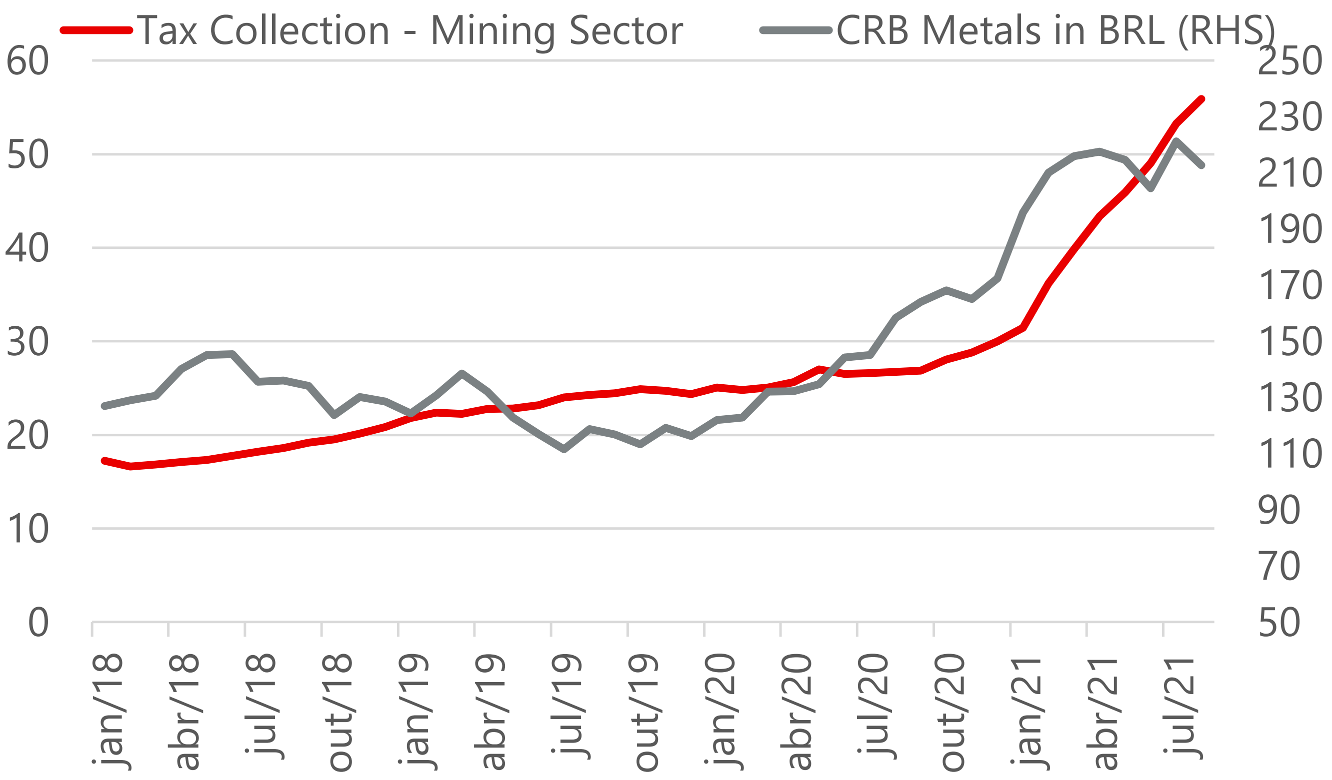


Sources: Brazilian IRS, Santander.

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

- We see a strong recovery in federal tax collection in recent months, closely related to the commodity boom, inflation and activity recovery

Federal Tax Revenue and Commodities

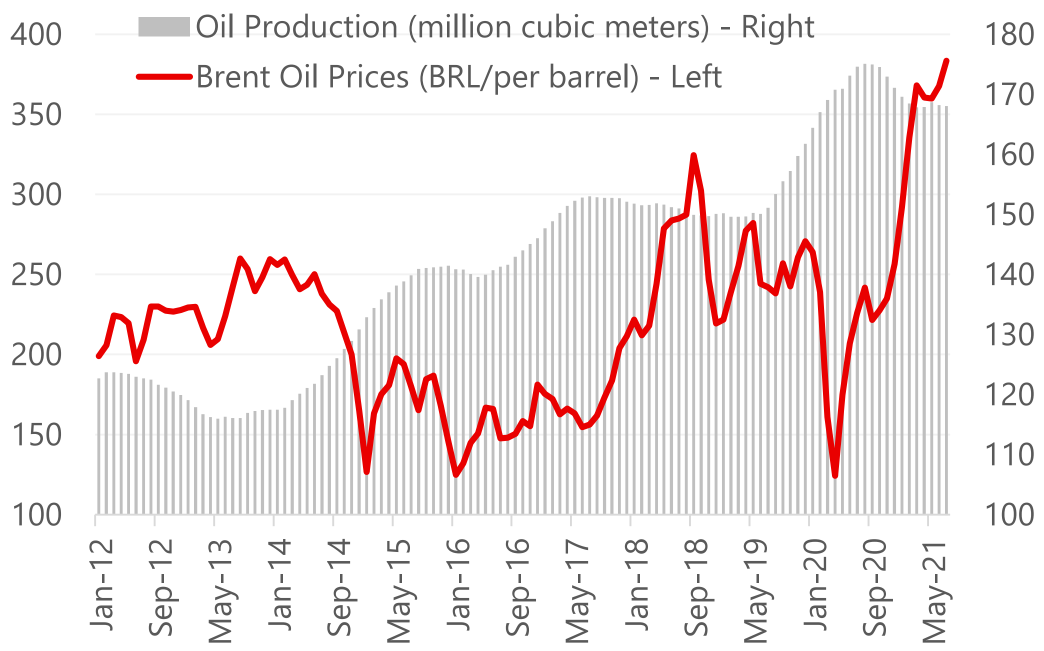


Sources: Brazilian IRS, Santander.

Revenues Impact – We also recently reviewed the royalties revenues

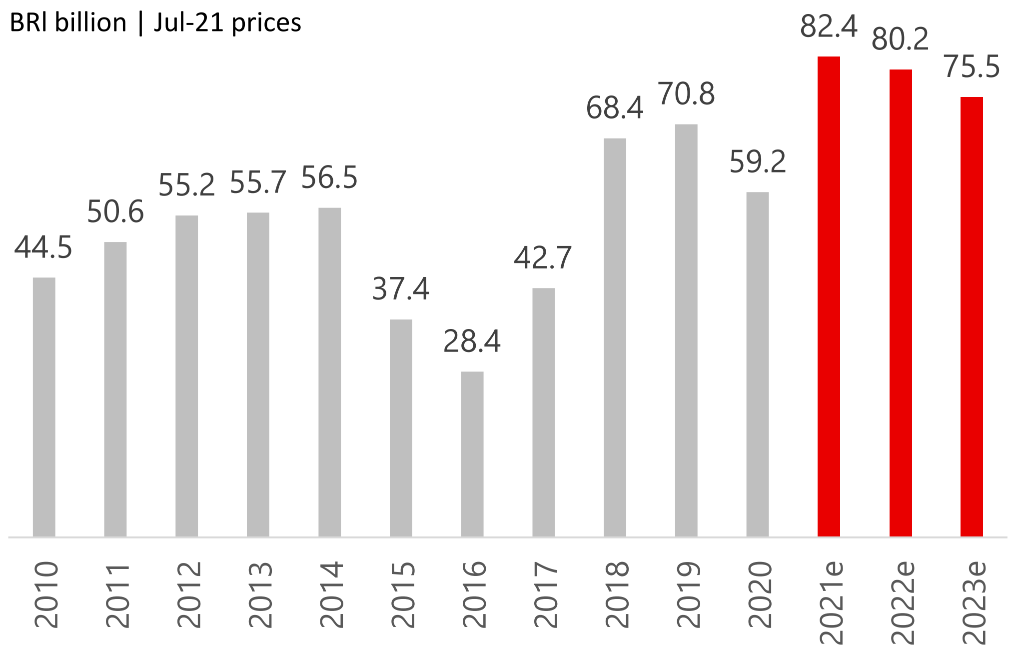
- In this scenario revision, a key factor was the new royalty revenue estimates, owing to the recent price surge, mainly from oil and iron ore production. We forecast this revenue at BRL82 billion, from BRL69 billion in July, which represents an increase of 46.9% compared to 2020 and 25.8% compared to 2019.

Oil Prices and Production



Sources: Bloomberg, ANP, Santander.

Revenues from Exploitation of Natural Resources

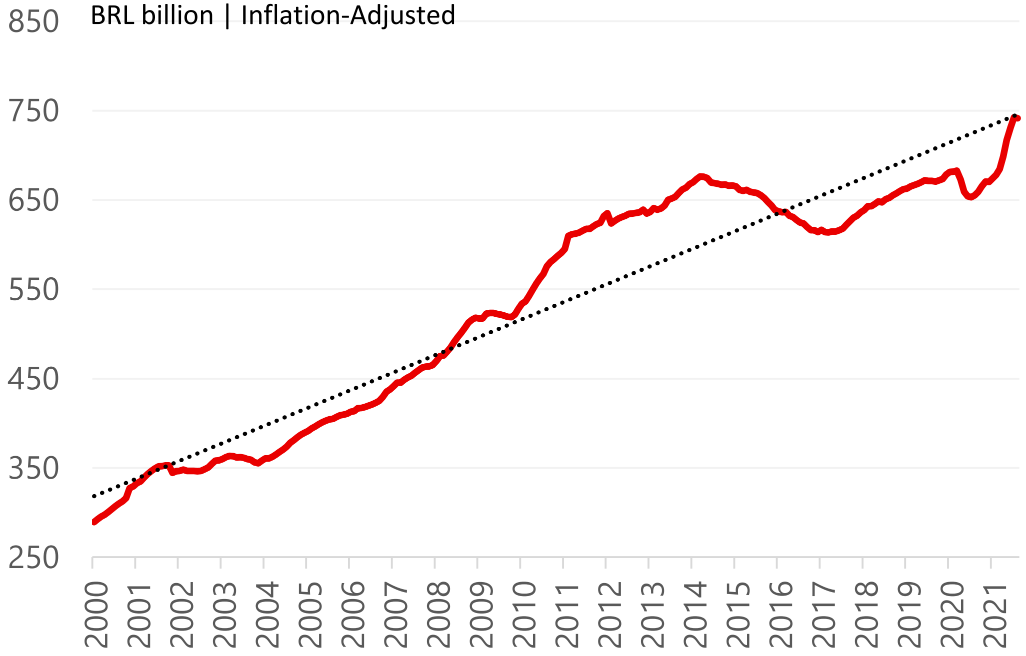


Sources: Bloomberg, Santander.

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

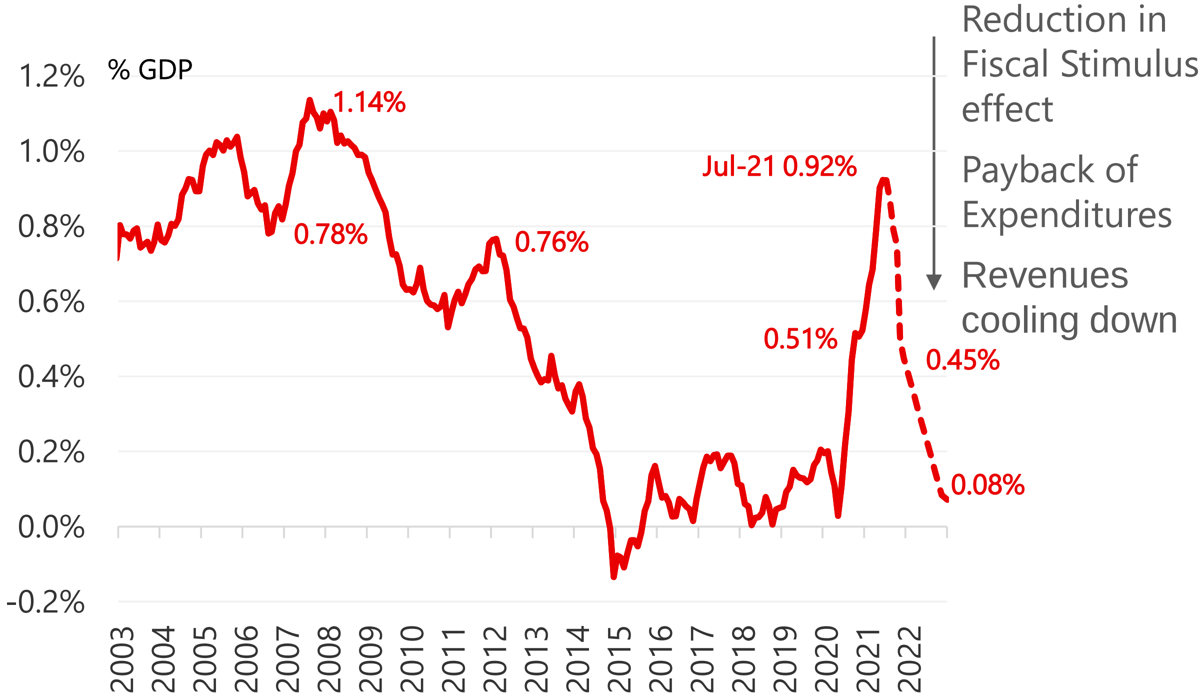
- In July, the regional governments' primary result continued to post positive numbers. The recent results were probably affected by the lagged effects of the 2020-21 fiscal stimulus on local economies, added to the effect of the price shock (terms-of-trade and inflation) on tax collection—and the activity recovery (formal sector) in the last few months.
- We believe that regional governments will face the challenge of reestablishing fiscal balance in the medium term after the end of fiscal and monetary stimuli, mainly, in our view, because of pressure to increase mandatory expenditures in the next year (for example, pressure to increase public servants' wages, after a period without a nominal increase).

Total Revenues 12m – Brazilian States



Sources: Confaz, Santander.

Regional Governments – Primary Result

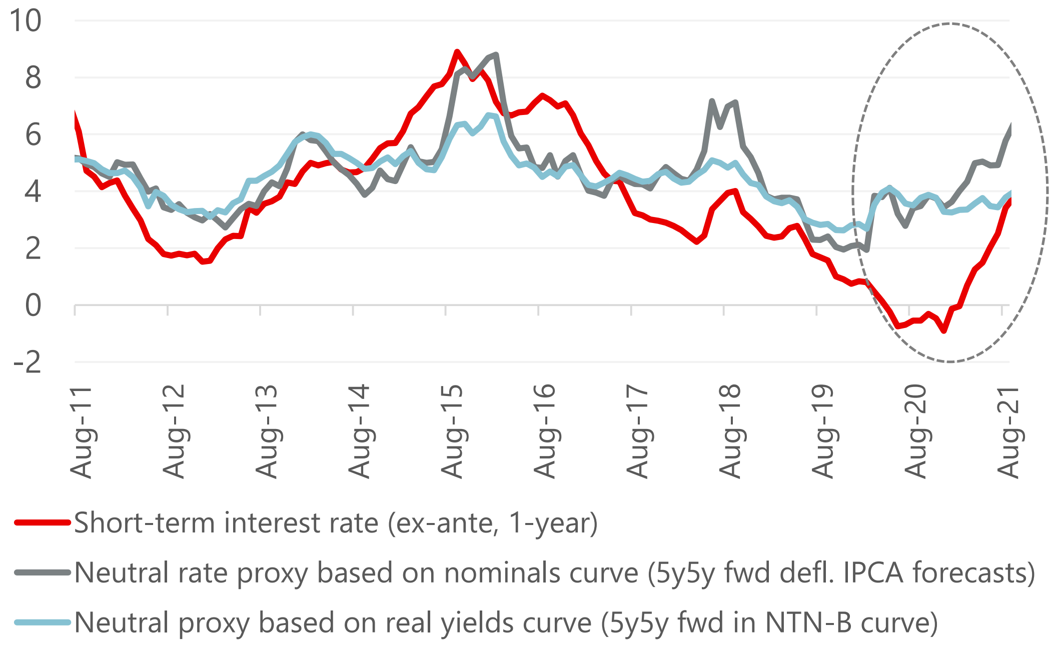


Sources: BCB, Santander.

On the other side, we see an increase in interest rates

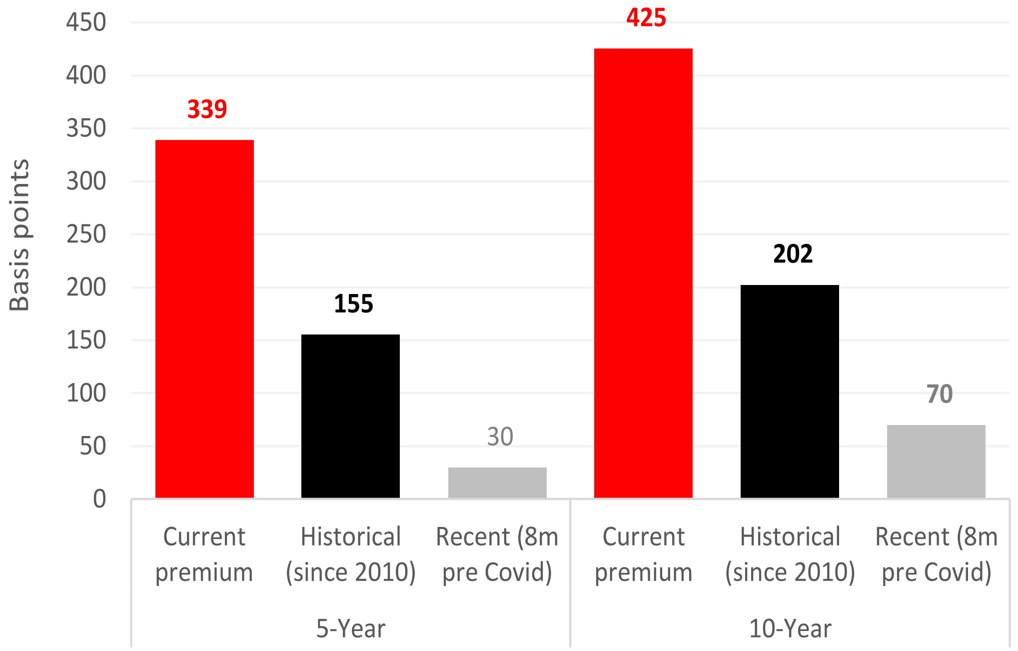
- As the BCB faces worsening inflation conditions and seek to curb expectations for the relevant policy horizons, we look for a faster and larger interest-rate adjustment in this cycle. We revised our Selic rate forecast for the end of 2021 to 8.25% (previously 7.50%) and continue to expect it to be on-hold in 2022. A possible decline to the neutral level (which we assume at 7.00%) is to take place only in 2023.
- Despite the improvement in the fiscal numbers, the risk related to the fiscal consolidation remains elevated, in our view.

Proxies for Short- and Long-Term Interest Rate



Sources: Bloomberg, Anbima, Santander.

Current rise in risk premium

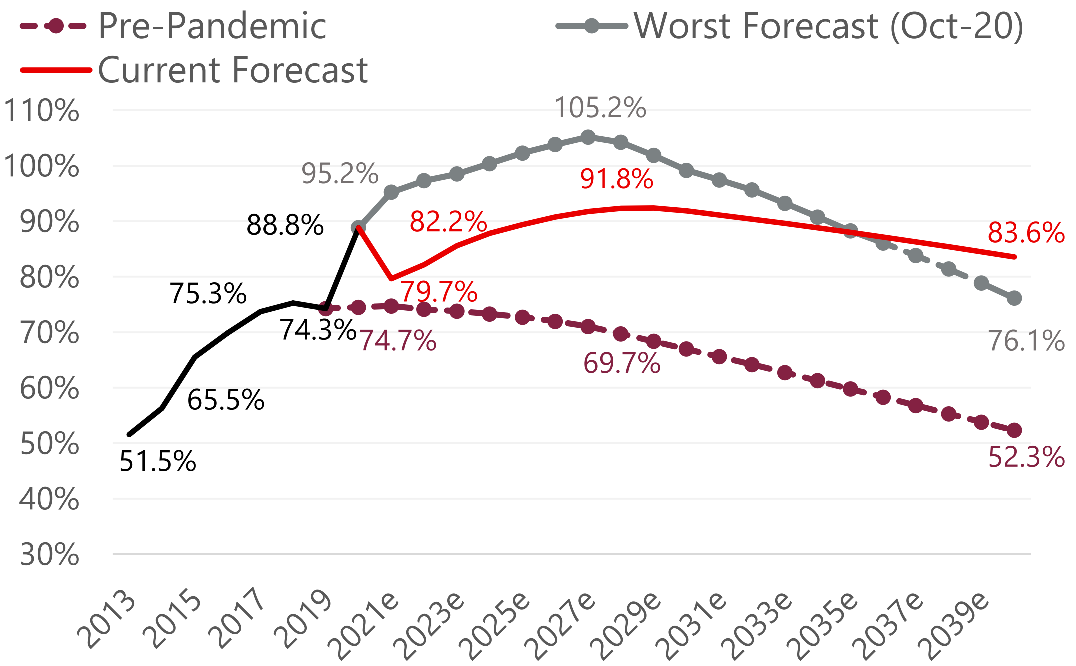


Sources: Blooomberg, Santander.

Fiscal Scenario – Debt Forecasts Dropped Due to Effect of Inflation and Terms-Of-Trade

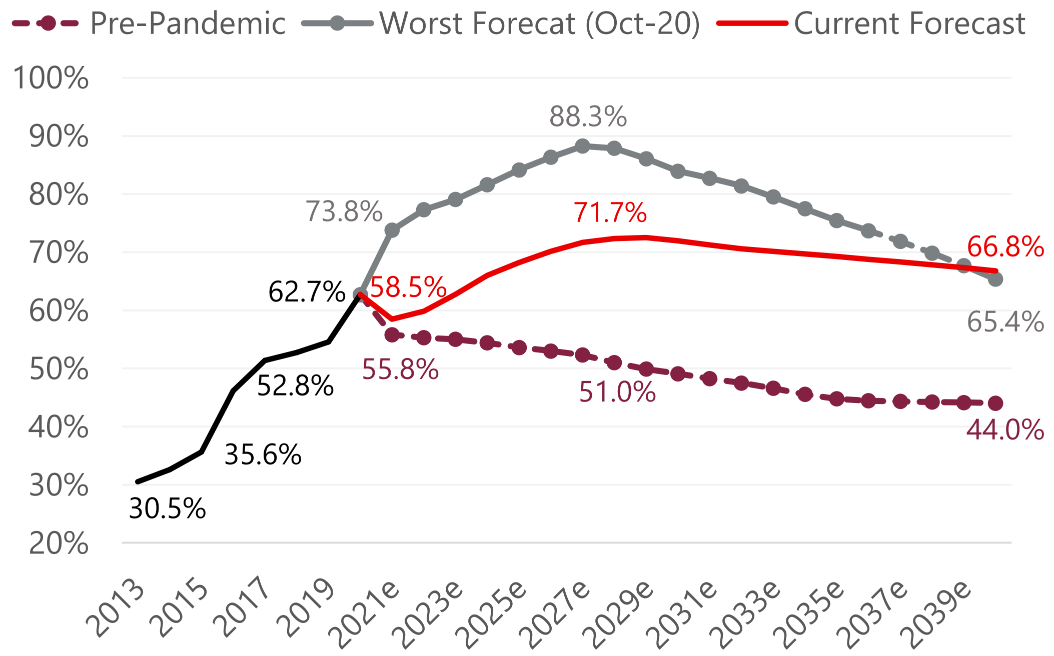
- In our most recent scenario, the impact of the inflationary shock is assumed to be more persistent and lasting than we initially expected. With that, tax collection grew and, especially, the projection of the GDP deflator rose significantly. The scenario became more positive, but there was still no structural change that would justify a reversal in the expectation of a deteriorating trend, unless the positive terms-of-trade shock is more lasting than we expect.

Gross Debt (% GDP)



Sources: BCB, Santander.

Net Debt: Gross Debt – FX Reserves (% GDP)



Sources: BCB, Santander.

Fiscal Scenario – Debt Forecasts Dropped Due to Effect of Inflation and Terms-Of-Trade

- We also believe that 3/4 of gross debt estimate reduction, going from the 90% of GDP level to below 80% mark, was due to this inflation-effect.
- We estimate a permanent impact of terms-of-trade in revenues of 0.3pp of GDP

2021 Gross Debt (% GDP) Scenario			
Feb-21 Macro Hypotheses			
GDP: +2.9% | IPCA: 3.6% | Selic: 4.0% | Primary Deficit: -3.1% of GDP | GDP deflator: 4.1%			
Current Macro Hypotheses (tracking)			
GDP: +5.1% | IPCA: 8.5% | Selic: 8.25% | Primary Deficit: -1.3% of GDP | GDP deflator: 12.5%			
The effect on the forecast of changing the parameters			
Feb-21 Gross Debt Forecast		89.1	
	New Value	Impact	% Total
+ Current GDP tracking: 5.1%	87.1	-2	21%
+ GDP Deflator: 12.5%	81	-6.1	65%
+ Primary Deficit: -1.3% of GDP	79.7	-1.3	14%
+ Selic rate 8.25% year end	80.5	0.8	-9%
+ Others	79.7	-0.8	9%
Current tracking for 2021 gross debt: 79.7% of GDP			

Sources: BCB, Santander.

Fiscal Outlook and Risks for 2022 onwards

Social Demand to expand the permanent fiscal transfers

Replace the *Bolsa Família* program

Subjected to the Spending cap Limit

Compliance to Fiscal Responsibility Law:
The government wants to use the Dividends taxation as the permanent source to finance the new welfare program.

Spending cap
The margin for 2022 is under pressure of the inflationary shock in 2H21 and the increase in *Precatórios*. Meaning a limitation to the program's budget

An income tax overhaul has been a government plan since the last presidential run.

Official estimates pointing to a jump in this spending line to ~BRL 90 billion for 2022, beating by and large the government's initial expectation (~BRL 56 billion).

Pressure to the spending cap limit

New Welfare Program – named as *Auxílio Brasil*

03

New welfare program – *Auxílio Brasil*

- Spending cap margin for 2022 is shrinking due to inflation and repressed pension benefits queue. The yearly increase of BRL35 billion in the judicial claims (reaching BRL89 billion) reduced the fiscal margin under the spending cap limits.

Santander Forecast - Expected Use of Spending Cap Margin in 2022 – Delta from 2021

Use of BRL124 billion in 2022	BRL bn	%
Mandatory Outlays and Others		
Social Security Benefits (Pensions and BPC)	70	56.4%
Pension Benefits Queue	4	3.2%
Payroll - Public Servants (Career progression + Military: BRL6 bn)	9	7.3%
2021 Wage Bonus payment (Abono)	9	7.3%
Electoral Fund (totaling BRL4 bn)	2	1.6%
Payback of Discricionary expeditures	7	5.6%
Increase in Judicial Claims from 2021 (BRL54 bn)	35	28.2%
Others	8.1	6.5%
Subtotal	144.1	81.4%
Margin of Budget Allocation	-20	-16.1%
TOTAL	**124.1**	**100.0%**

Sources: National Treasury, Santander

Considers the rapporteur's amendments (RP9) maintained at BRL18 bn.

Maintaining the judicial claims budget in BRL56 bn the margin would be ~BRL15 billion

Simulation: New welfare program – BRL billion

Expenses in BRL billion - Yearly Budget

Millions of Families	Monthly Benefit (BRL) 190	250	270	300	350	400
23	52.4	69.0	74.5	82.8	96.6	110.4
21	47.9	63.0	68.0	75.6	88.2	100.8
19	43.3	57.0	61.6	68.4	79.8	91.2
17	38.8	51.0	55.1	61.2	71.4	81.6
15	34.2	45.0	48.6	54.0	63.0	72.0
13	29.6	39.0	42.1	46.8	54.6	62.4
11	25.1	33.0	35.6	39.6	46.2	52.8

Sources: Santander.

In Green: Current Budget

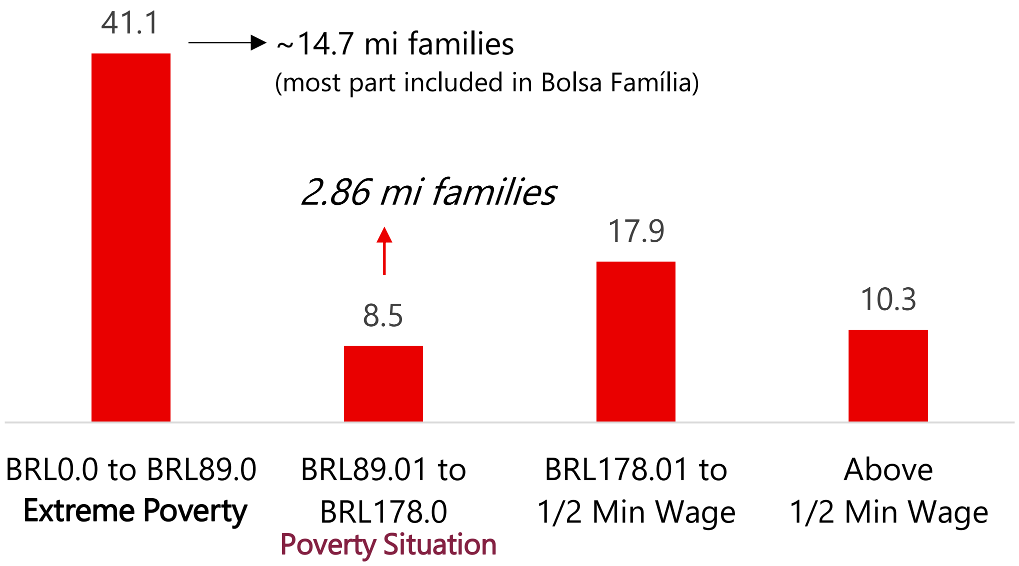
In Red: current values in public debate

New welfare program – *Auxílio Brasil*

- On Monday (August 9), the government submitted to congress a provisional measure to create a new welfare program named as *Auxílio Brasil*, in replacement of the Bolsa Família program. The proposed text does not establish the value of the new benefit and, according to the government, the total budget and parameters will be decided by early 4Q21.

Cadastro Único – Gov. Database

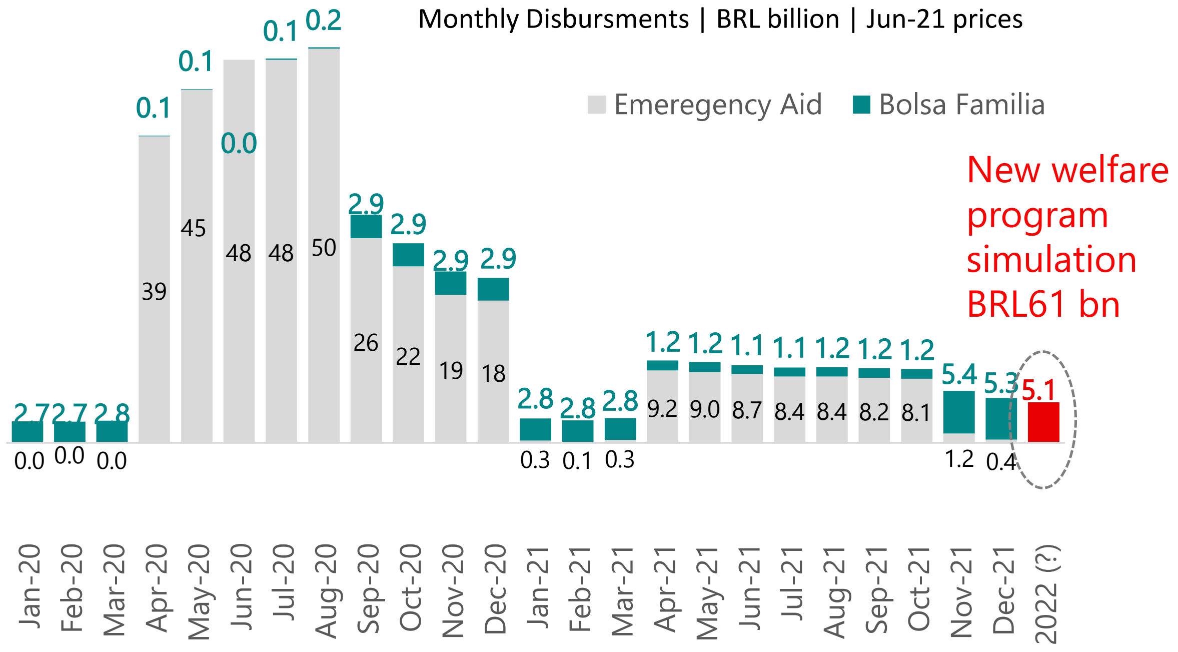
People Registered in *Cadastro Único* - Monthly Income Per Capita Intervals



These intervals could be updated in 2022, last time was in 2018.

Sources: Ministerio da Cidadania, Santander

Simulation: New welfare program – BRL billion

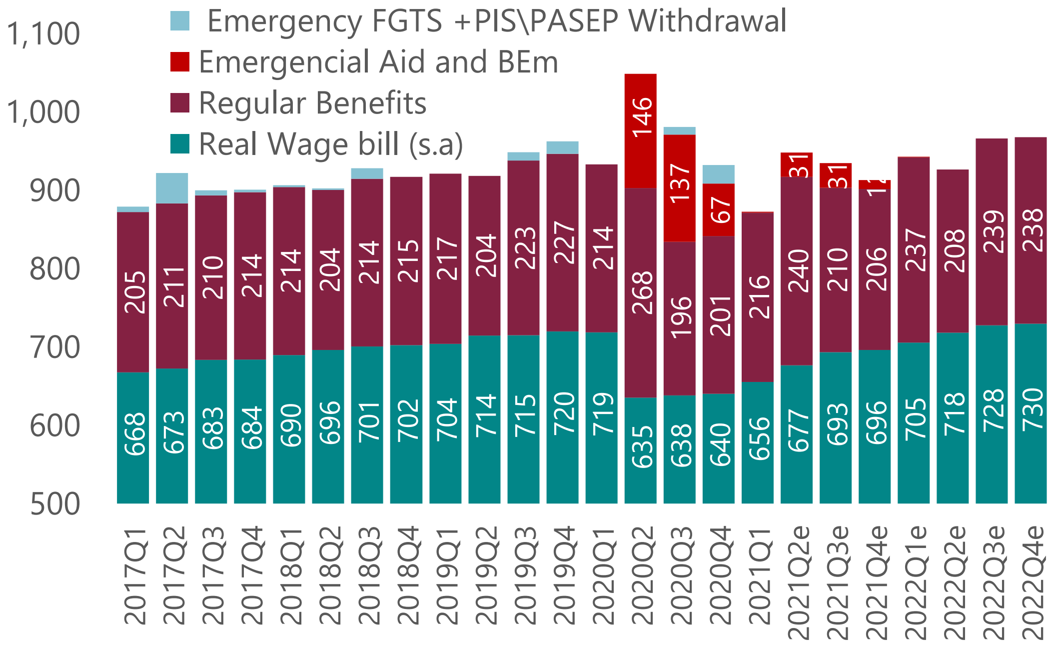


Sources: National Treasury, Santander.

“Expanded” real wage bill will drop in 2021, with partial recovery in 2022

- We expect the “Expanded” Real Wage Bill to have a 5.7% drop in 2021, driven mainly by the lower disbursements in the Emergency Aid program. In 2022, inflation should play an important part in the Real Wage Bill growth. We expect a BRL 55-61bn social program for 2022, which should also help to increase the Real Wage Bill growth.

“Expanded” Real Wage Bill (BRL billion)



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

	2020	2021(E)	2022(E) - IPCA Simulation 3.00%	4.30%	5.00%
Real Wage Bill (No Fiscal Stimulus)	-7.9%	+3.5%	+6.7%	+5.8%	+5.4%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL35bn)	+3.7%	-5.7%	+3.5%	+2.7%	+2.3%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL62bn)			+4.1%	+3.3%	+2.9%

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

Court-ordered Debt - *Precatórios*

04

National Treasury report - The provisions of court-debt orders liabilities

- In a report published on 10/06/2021, it included the provisions for judicial and administrative losses reported by the Attorney General of Brazil, totaling BRL277 billion. These are the official provisions published in the Treasury's "General Budget Report".

Provisions	BRL billion	%
Fundef – ACP	90	32.5
Possessory Action	50	18.1
Indemnity related to readjustment, damages and loss of profits	32.6	11.8
Fundef	30.0	10.8
Fundef actions filed directly by federal entities	17.6	6.4
Prescription of Reimbursement to the Treasury – TCU	7.3	2.6
Fiscal Auditors – 28.9% readjustment	7.1	2.6
Indemnity for material damage	6.4	2.3
Wage Differences	5.3	1.9
Performance Bonus – RAV	4.3	1.5
Others	26.7	9.6
Total	277.0	100

Sources: National Treasury, Ministry of Economy, Santander

Fundef: is the discussion about lower transfers on the Fund for the Preservation, Development and Valorization of Primary Education in the States (Fundef), a skeleton belonging to the government of Fernando Henrique Cardoso. Expenses related to this liability increased by R$16 billion to a total court-ordered account in 2022

Outlook – Judicial Claims official estimate soared, the risks remains high

- The administration unveiled a constitutional amendment (PEC23/2021) proposal to stagger court-mandated debts (so-called "*Precatórios*"), after the official estimate soared to BRL90 billion.

PEC Precatórios - Government Proposal
1. **"Superprecatórios":** classified as precatórios above BRL66 mi: PEC seeks to receive 15% down payment; remainder will be divided into 9 installments;
2. **Court orders between BRL66k and BRL66m:** transitory rule until 2029. Payment limited to 2.6% of the Net Current Revenue. What exceeds this percentage will have an installment rule applied to "superprecatórios" - 15% down payment and 9 installments;
3. **Federal Fund:** fund exempt from the spending cap, for debt relief and judicial claims installments payment. The funding would be originated by privatization receipts, anticipated oil revenues, sales of government real estate and SOE dividends.
4. PEC proposed the so-called **"meeting of accounts"**: if the creditor of the precatório has any debt with the Federal Government, the value of the sentence will be deposited in the judges of the collection action.
5. If the **litigant** is state and municipality, the amount will be deducted by the Union, with automatic compensation;
6. **Indexer:** SELIC rate. Today, depending on the nature of the precatório, the SELIC or the IPCA + 6% applies.
7. **Golden Rule:** The PEC allows the gov. to break the rule without needing a 2nd endorsement from the Congress in addition to the budget piece.

National Justice Council (CNJ) solution
1. **Judicial Claims cap:** readjust the total paid in 2016 readjusting by inflation. This mean a total of BRL40 billion (out of BRL89 billion in the budget)
2. **The remaining BRL50 billion of 2022:** can be written off from past debt, offsets, negotiations, and the rest will be paid in 2023
For 2023 onwards will be necessary more details during the Congressional Debate (which will be done with the changes in the government's proposal)

Legislative process – Constitutional Amendment

Lower House Legal Committee → Special Committee 10-40 sessions → Lower House Floor 1st round 308 votes → Lower House Floor 2nd round 308 votes → Senate Legal Committee → Senate Floor -1st round 49 votes → Senate Floor -2st round 49 votes

Currently here

Changes in the Senate returns to the Lower House review

Outlook – Judicial Claims official estimate soared, the risks remains high

- The administration unveiled a constitutional amendment proposal to stagger court-mandated debts (so-called “*Precatórios*”), after the official estimate soared to BRL90 billion.

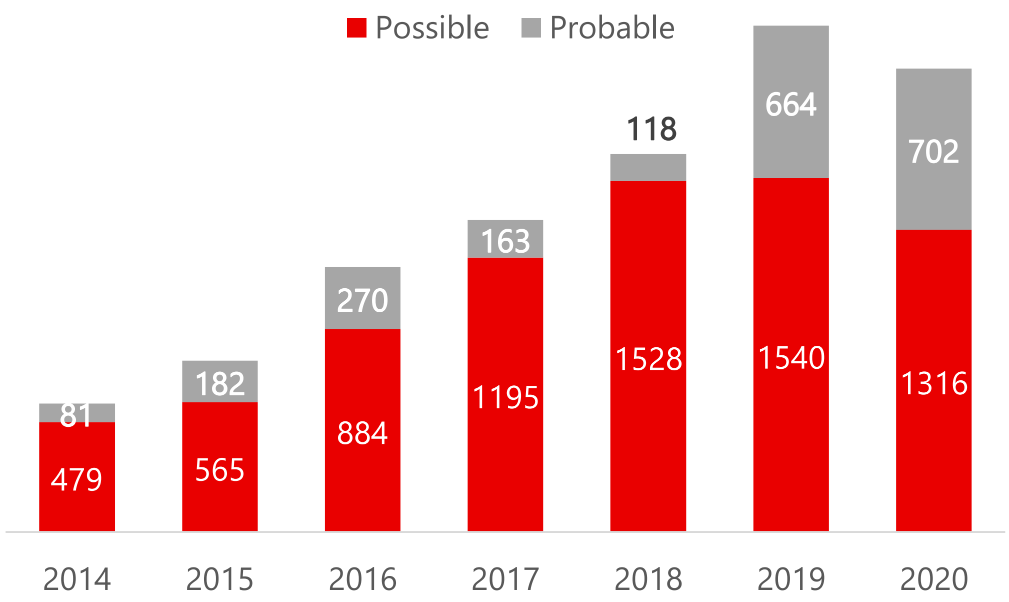
Judicial Claims Increase – BRL billion

BRL Billions	2021	2022
Personnel	**10.5**	**13.7**
Judicial Claims	7.3	10.5
RPVs (small value requisitions	2.1	1.9
Others	1.1	1.3
Pension Benefits	**22.6**	**30**
Judicial Claims	10.5	15.7
RPVs (small value requisitions	12.1	14.3
Continuing Benefits	**1.4**	**1.6**
Judicial Claims	0.2	0.3
RPVs (small value requisitions	1.2	1.4
Other cost capital expenses	**20.8**	**43.7**
Judicial Claims	17.7	40.3
RPVs (small value requisitions	1.9	2.3
Others	1.3	1.1
Total	**55.4**	**89.1**

Sources: National Treasury, MCM, Santander

LDO Judicial Claims: Probable and Possible Risk

BRL Billion | Nominal values



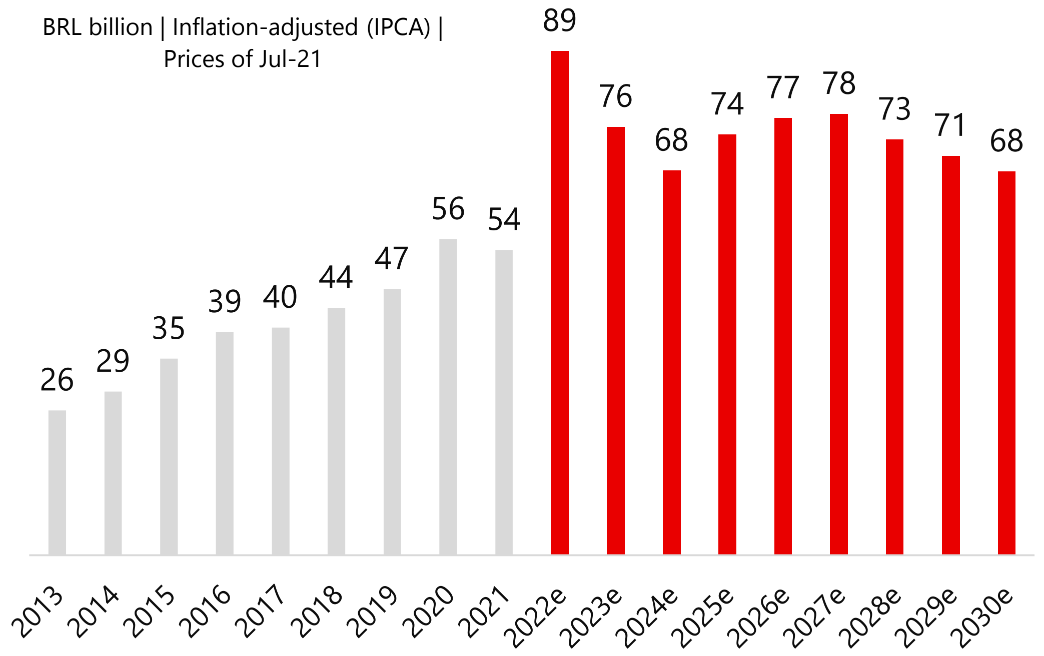
Sources: AGU, LDO 2020, Santander.

This judicial claims are included in the Budget Guidelines (LDO) as a potential and probable fiscal risks. Differently from the previous table from the “General Budget Report”, this numbers are the potential of liabilities in the Supreme Court judgments.

We estimate an increase in judicial claims over the next years

- We constructed a forecast based on the LDO probable judicial claim for next the years. In the short-run we see more pressure from the Fundef (BRL90 billion) 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.

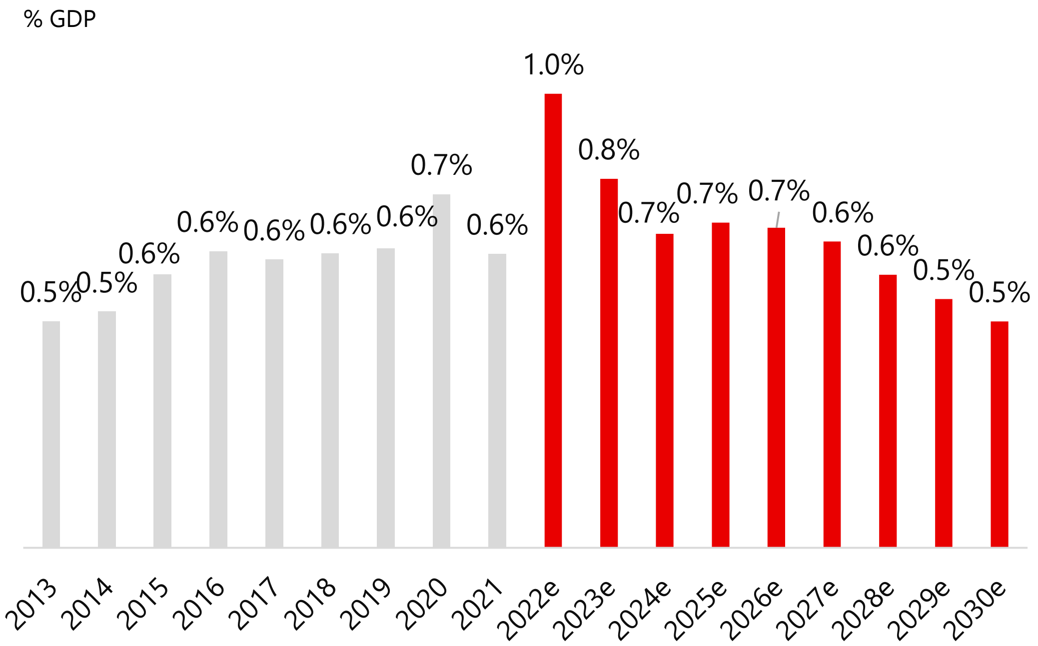
Our Preliminary Estimates for judicial claims budget



Sources: LDO 2022, Santander

Preliminary Estimates

Judicial claims estimates



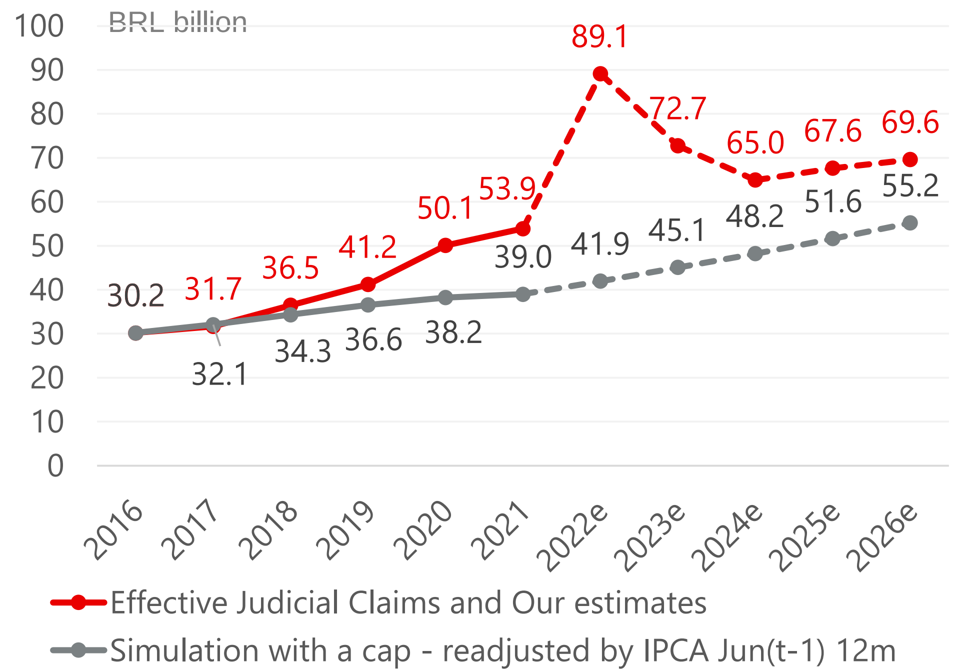
Sources: LDO 2022, Santander

Based on the LDO 2022 Tables 14 to 20

Simulation – possible proposal of creating a cap for the payment

- One of the possibilities discussed to reduce the judicial claims payments would be to create a ceiling for these liabilities and postponing the remaining for the next few years.
- Creating a cap since 2016 would reduce the judicial claim payments in 2022 to close to BRL40 billion, from the BRL89.1 billion official number. We readjusted the judicial claims since 2016 by the Selic rate, yet changing to inflation the results are similar.

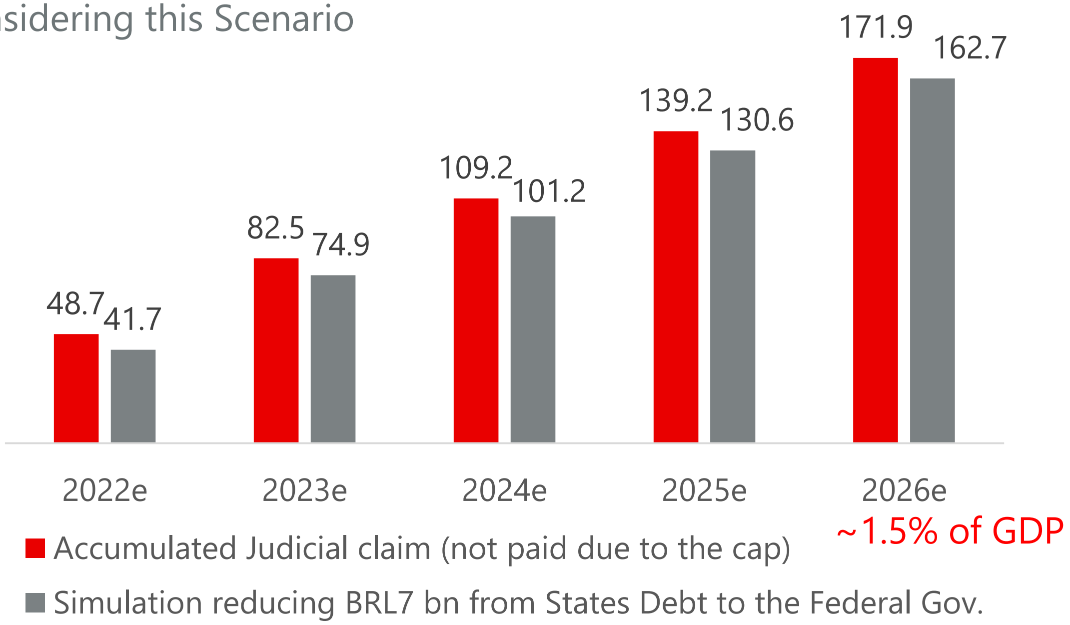
Simulation - A limit for Judicial Claims payments



Sources: National Treasury, BCB and Santander.

Simulation with a cap – Accumulated judicial claims

Considering this Scenario



Sources National Treasury, BCB and Santander.

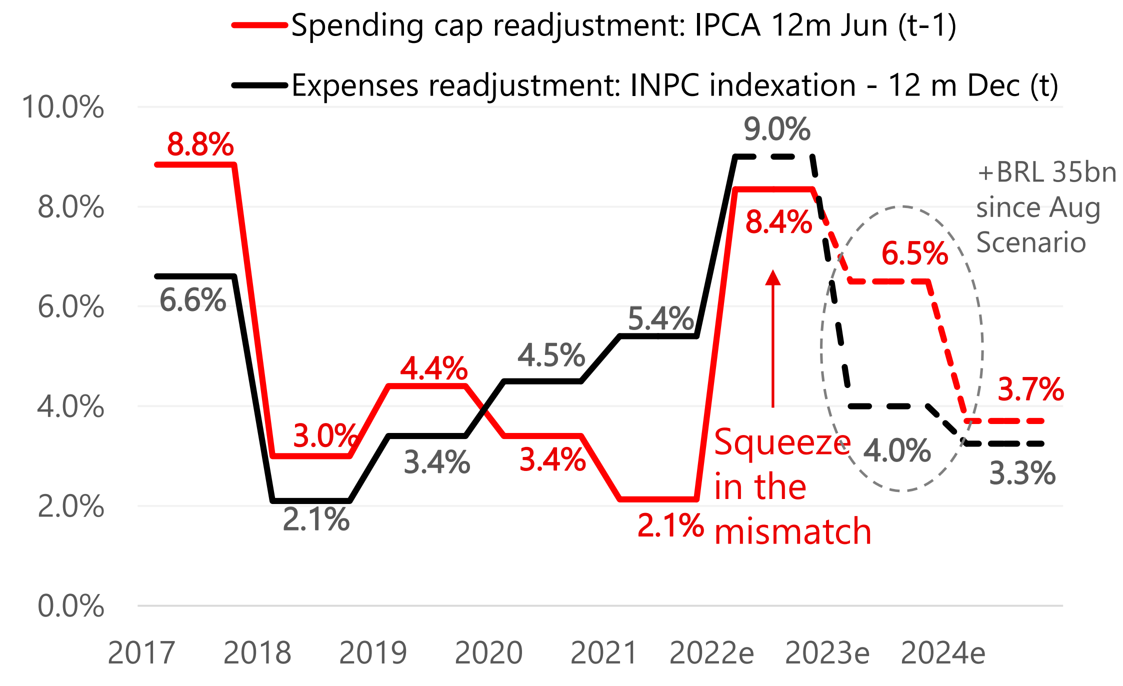
Spending Cap – Constitutional Fiscal Rule

05

Inflation mismatch is narrowing the limit for 2022 and opening for 2023

- Inflationary pressure is tightening the margin for budget allocation for 2022. Part of this higher inflation will push the gap to 2023 (considering the inflation convergence to the center target), with an additional BRL35 billion compared to our August scenario.

Spending Cap Margin - Inflation Mismatch



Sources: IBGE, FGV, Santander

2022 Spending Cap Margin - Simulation

2022 Budget: Spending Cap Margin - BRL bn

Year-end Inflation (INPC | Dec-21)	Court-ordered debts Budget (*"Precatórios"*) BRL bn	40	55	60	75	89
	6.5%	54	39	34	19	5
	7.0%	49	34	29	14	0
	7.5%	44	29	24	9	-5
	8.0%	40	25	20	5	-9
	9.0%	30	15	10	-6	-20
	10.0%	22	6	1	-14	-28

Additional Budget for Auxílio Brasil- BRL bn

Families (millions)	Monthly Average Benefit (BRL/month)	250	270	300	350	400
	17	16	20	26	36	47
	16	13	17	23	32	42

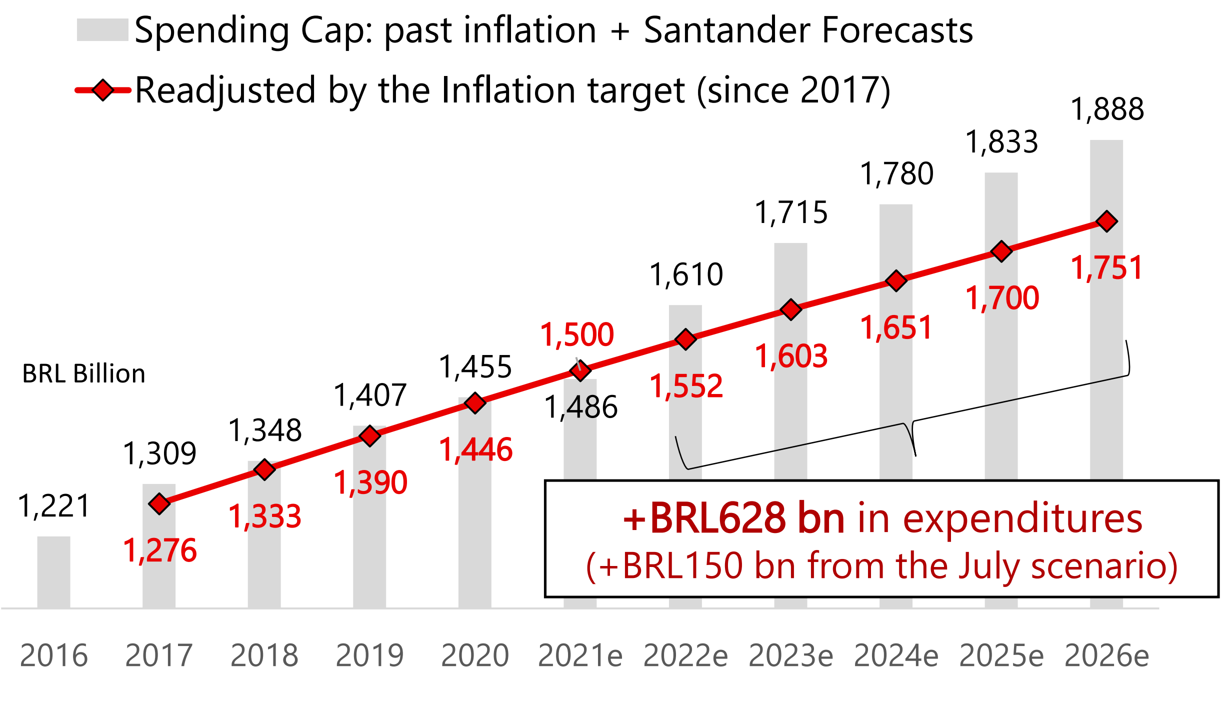
Bolsa Família's current budget (2021): BRL35 billion/year | Total: 14.6 million families

Sources: Santander

Inflation Side effects – Spending cap has lost some of its anchoring power

- At the beginning of the year, we estimated that nominal GDP would increase by 7% in 2021; our latest tracking points to a ~18% increase. The main effect was on the GDP deflator, which went from 4.0% to 12.5%, closely related to the commodity shock and an increase in IPCA forecast to 8.5% (September) from 3.6% (February). For 2022, the deflator went up +2pp on higher average inflation.
- Spending cap lost part of its anchoring power, it is possible to increase BRL628 billion during 2022-26 (+BRL150 bn since July estimate).

Spending Cap Max. Total Limit

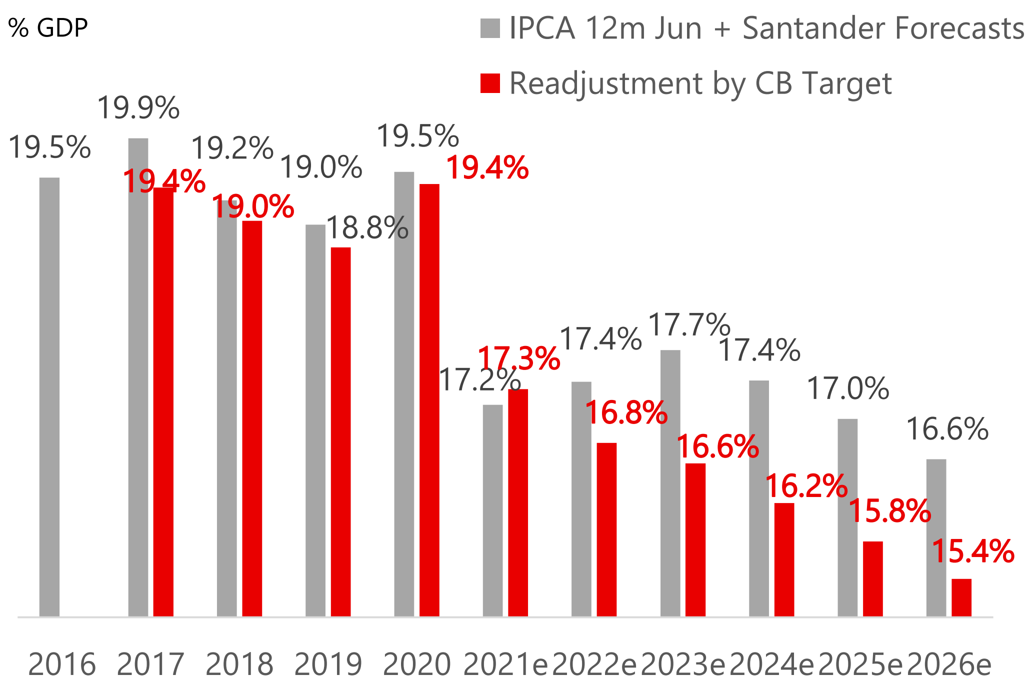


Sources: BCB, Santander.

Considers the current Fiscal framework

July's IPCA forecasts: 2021: 6.7%, 2022: 4.0%
September's IPCA forecasts: 2021: 8.5%, 2023: 4.3%

Spending Cap Max. Total Limit



Sources: BCB, Santander

2022 – Spending Cap Details – Our forecasts

Spending cap Margin - Our scenario and Hyphotesis - BRL bn	
Max. Limit for 2022	1610
Expenditures	
Social Security Benefits	765
BPC/LOAS Pension Benefit	75
Payroll	345
Wage Bonus and Unemployment Benefit	62
2021 Wage Bonus payment	9
Subsidies	15
Individual and States Ammendments	18
Rapporteur's amendments (RP9)	18
Discricionary expeditures (no Parlamentary Ammedments)	90
Kandir Law (ADO 25)	4
Welfare Program (Bolsa Família/Auxilio Brasil)	35
Mandatory Expeditures (with flow control) - Welfare Program	105
Legislative/Judiciary/MPU/DPU (Custeio e Capital)	15
Other Expeditures	30
Other Judicial Claims (not Pension and Payroll related)	9
Increase in the Judicial Claims official estimate (to BRL89 bn)	35
Total Expeditures subjected to the spending cap	**1629.5**
Final Margin (considering the 2022 Budget proposal)	-20

Sources: Minister of Economy, Santander

Possible Additional Expenditures (Risks)

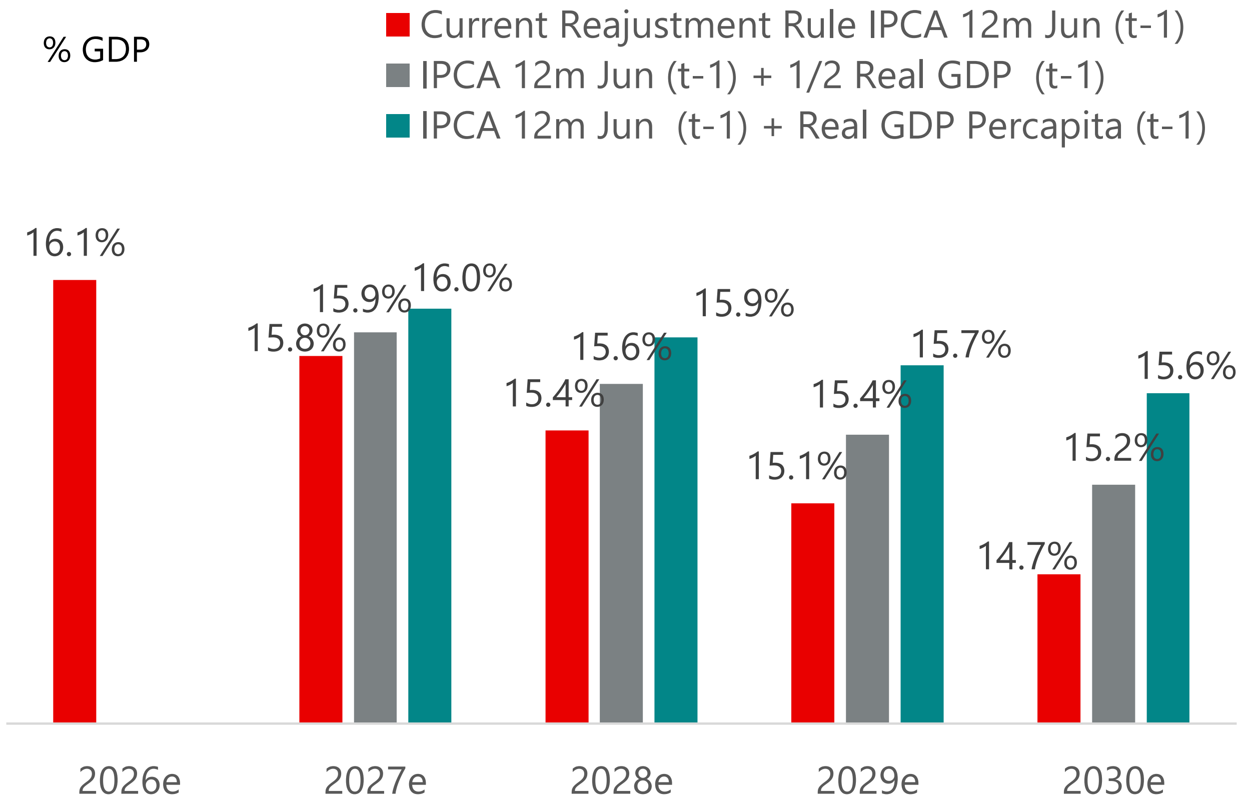
Measure	BRL billion
Auxílio Brasil (addition to Bolsa Família budget BRL35 bn)	25 or more
Budget Rapporteur Amendments	Values above 18
Keeping the payroll tax exemption for 2022 (PL 2541/2021) 17 sectors, 6 million Jobs	8.4
Cultural Sector Aid – “Paulo Gustavo Law” (PL 73/2021)	3.9
Benefits for Agricultural Families (PL 823/21) – Overturn the Presidential veto	10.0
“Vale-Gas” (benefit to buy cooking gas)	Between 3 to 8

Sources: Santander

Inflation Side effects – The readjustment Index Could change after 2026

- It is foreseen in the constitutional amendment (EC95) that the indicator that readjusts the ceiling can be changed. We did some simulations below with some possible indicators.

Total Expenditures subjected to spending cap (% GDP)



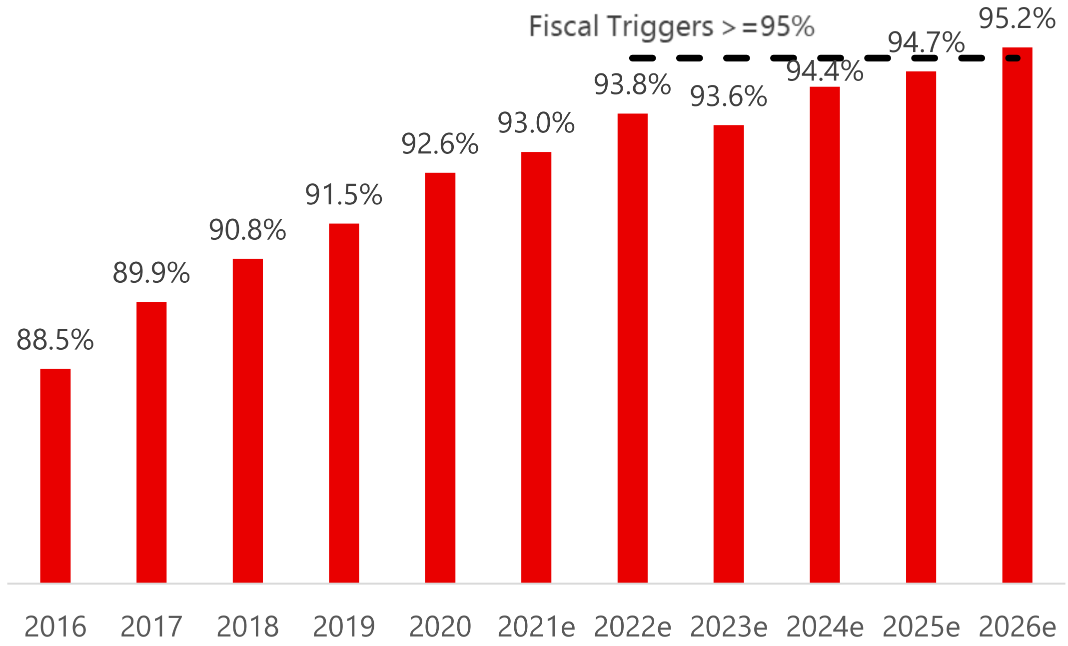
Sources: National Treasury, BCB and Santander.

Despite the fact that inflation "helped" to comply to the fiscal rule, there are risks...

- PEC Emergencial helps enacting the Fiscal triggers, yet the discretionary levels will be in a "shutdown" level
- The spending cap lost part of its anchoring power and Brazil still an elevated level of Financial Needs. And lost its capacity to induce structural expenses reforms.

Federal Gov. - Mandatory Expenses/Total Expenses

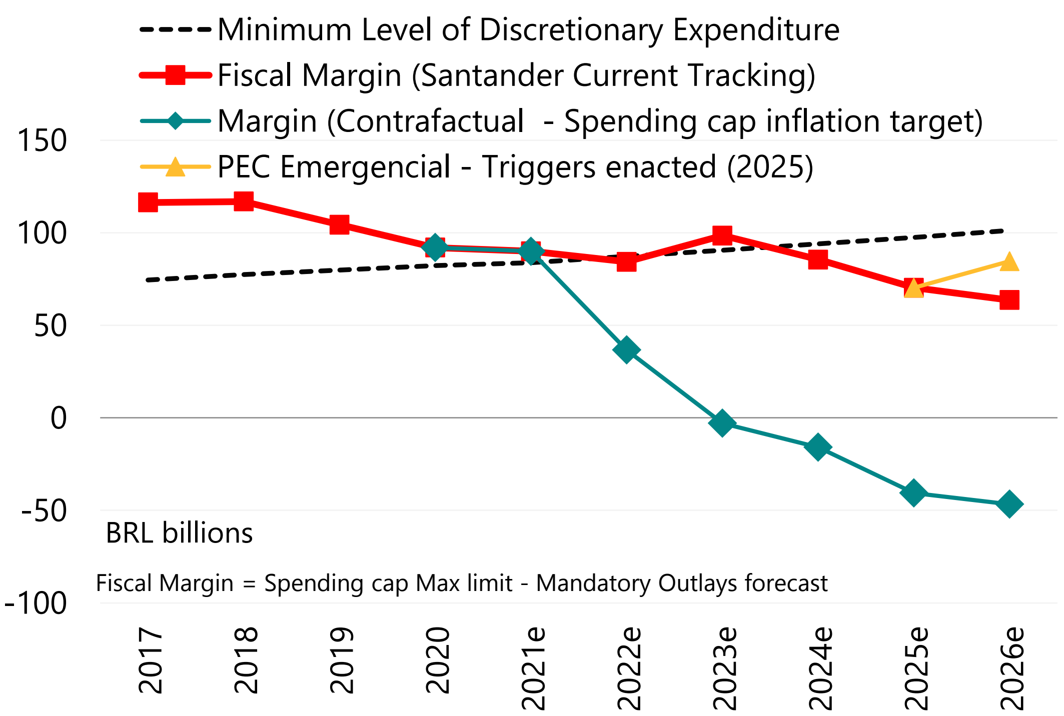
Simulation: to enact the triggers in 2021, will be necessary to reduce the discretionary expenses in BRL20 billion, which is already close to a minimum value to a proper function of public services)



Sources: National Treasury, IBGE, Santander.

Discretionary expenses: BRL75 bn (0.7% of GDP)

Simulation Discretionary Outlays



Sources: BCB, Santander

Santander

The fiscal triggers could enacted in 2025-26 in our scenario In our view, containment in mandatory spending must be done before reaching the level of discretionary spending to enact the fiscal triggers

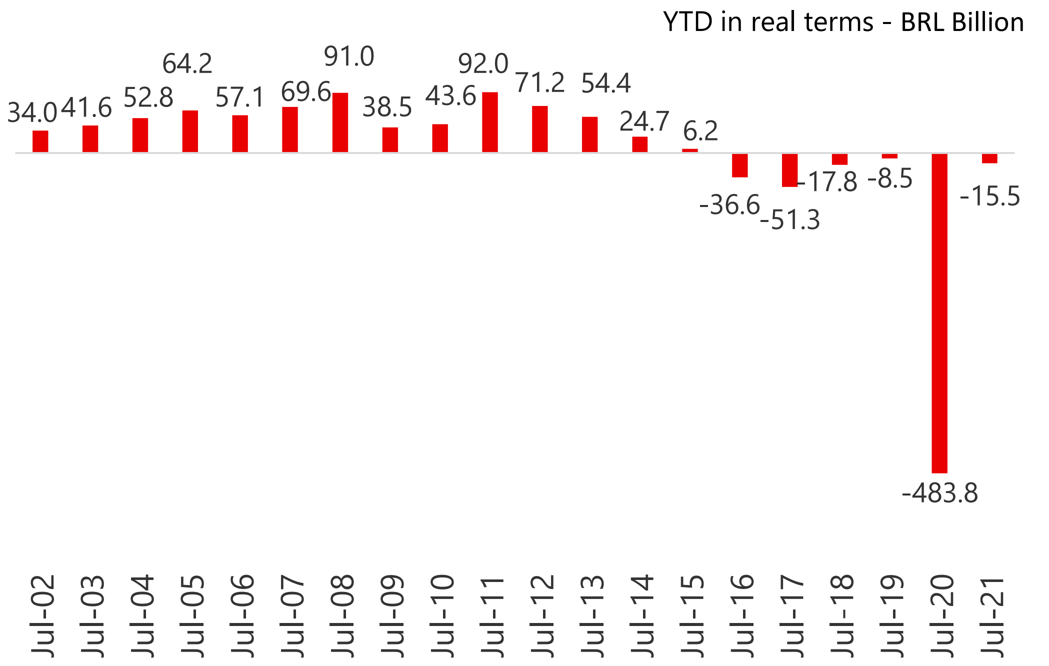
Fiscal Baseline Scenario – Primary Result and Simulations

06

Fiscal – 1H21 deficit similar to 2019 level, the 12-month Reading is Fading

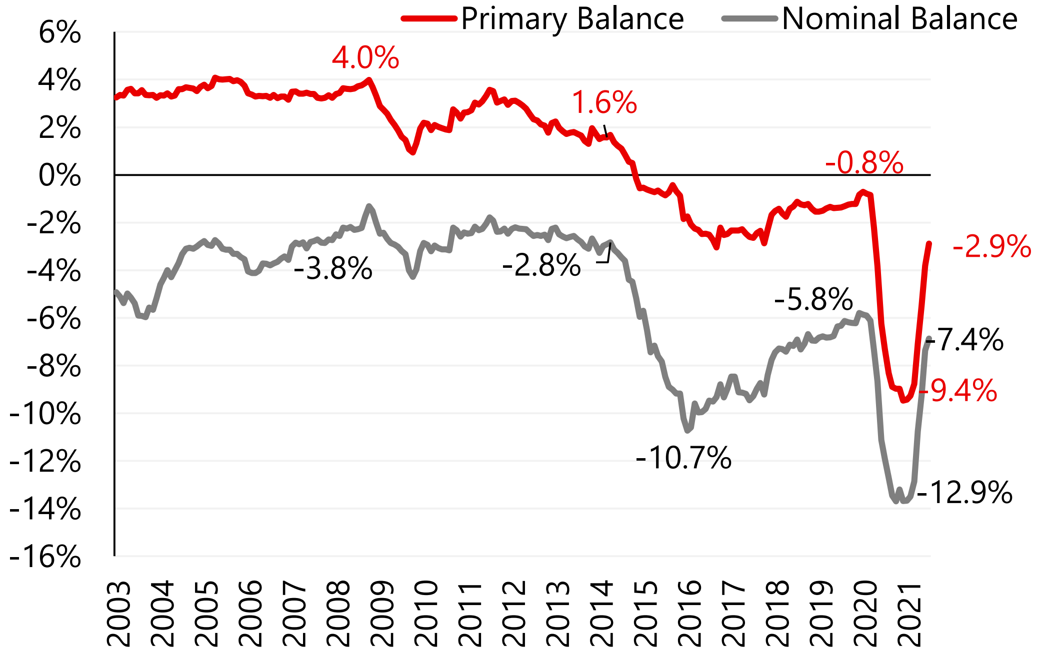
- In year-to-date terms, the deficit reached BRL15.5 billion (0.3% of GDP) in July, compared to BRL483 billion (11.6% of GDP) in 2020—affected by a massive fiscal stimulus—and BRL8.5 billion (0.2% of GDP) in 2019.
- In the 12-month reading, the primary deficit reached BRL234.7 billion (2.9% of GDP) in July, compared to BRL305.5 billion (3.8% of GDP) in June, maintaining the downward trajectory after a sharp reduction in the fiscal stimulus

Public Sector – Primary Result



Sources: BCB, Santander.

Public Sector – 12m % GDP

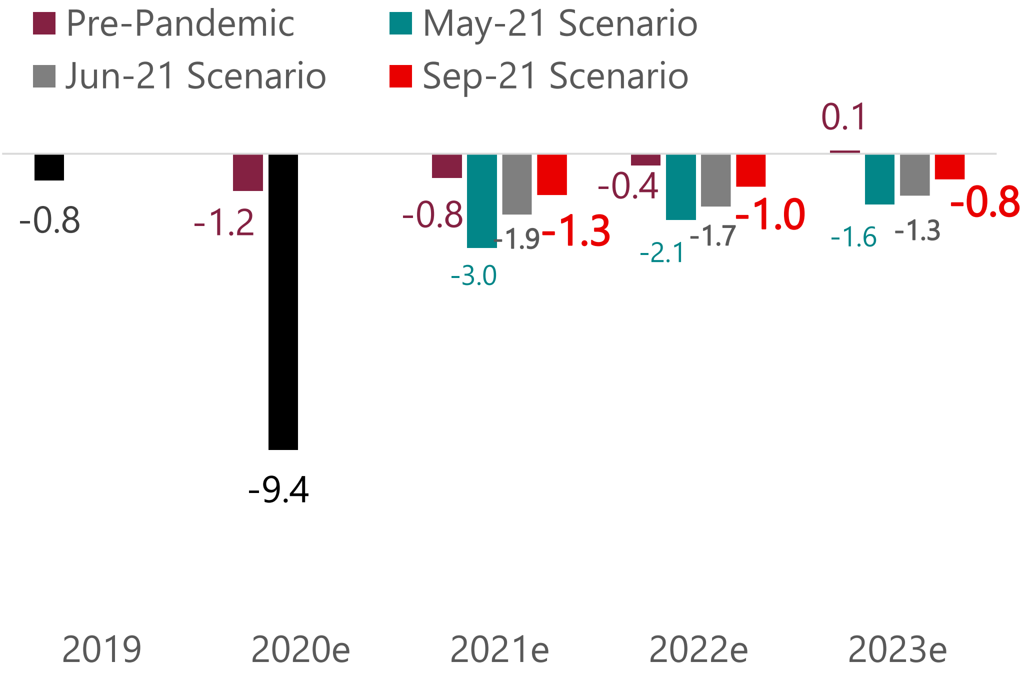


Sources: BCB, Santander.

Fiscal – Prices Shock Improved The Primary Result

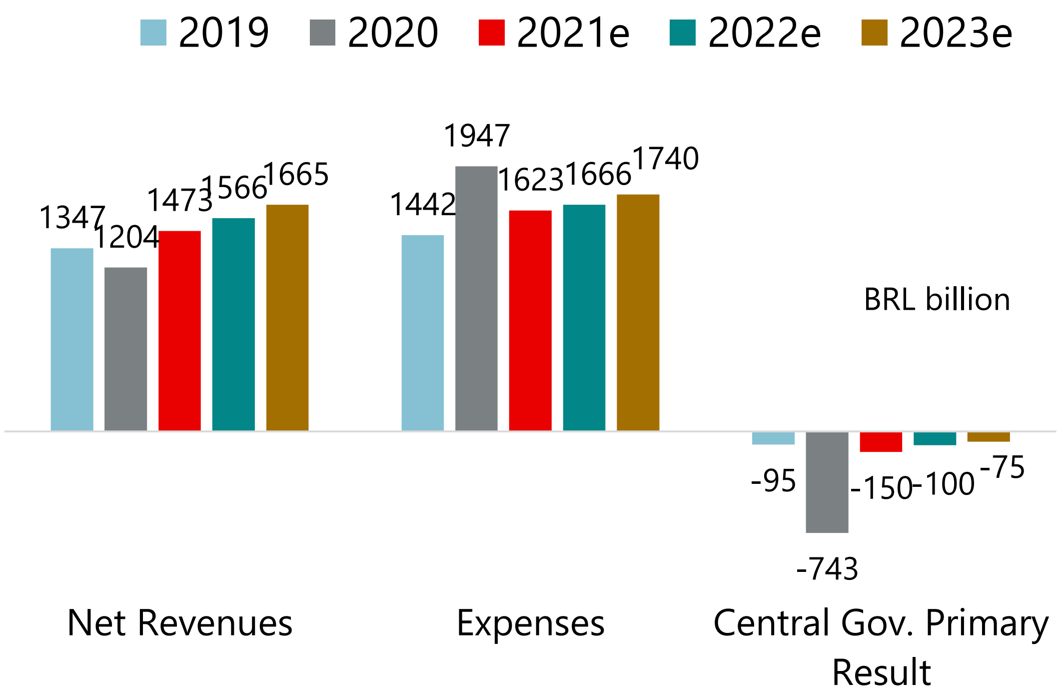
- Considering the terms-of-trade and inflation impact on the revenues we improved our forecasts for the primary result. Yet, a more persistent improvement will depend on the commodity boom.

Primary Result (% GDP)



Sources: BCB, Santander.

Primary Result (BRL billion)



Sources: BCB, National Treasury Santander.

Fiscal - Better Short-Term Figures and Higher Medium-Term Risks

Central Government's Primary Balance													
Fiscal Items (% of GDP)	2018	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Total Revenue	21.2	22.1	19.7	20.7	20.3	20.5	20.7	20.9	21.1	21.3	21.5	21.7	22.0
Revenues Collected by the Federal Revenue Office	12.9	12.8	12.1	13.2	12.9	13.0	13.1	13.2	13.3	13.4	13.5	13.6	13.8
Net Social Security Revenues	5.6	5.6	5.4	5.0	4.8	4.8	4.9	5.0	5.0	5.1	5.1	5.2	5.2
Revenues Not Collected by the Federal Revenue Office	2.7	3.7	2.2	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.9	2.9	3.0
Transfers by Revenue Sharing	3.7	3.9	3.5	4.0	3.9	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8
Net Revenue	17.5	18.2	16.2	16.7	16.4	16.6	16.8	17.1	17.3	17.5	17.7	17.9	18.2
Total Expenditure	19.3	19.5	26.1	18.4	17.5	17.4	17.3	17.1	16.9	16.7	16.5	16.3	16.1
Social Security Benefits	8.4	8.5	8.9	8.0	8.0	8.1	8.1	8.1	8.1	8.0	8.0	8.0	7.9
Payroll	4.3	4.2	4.3	3.8	3.6	3.6	3.5	3.5	3.4	3.4	3.3	3.2	3.1
Other Mandatory Expenses	2.9	2.6	9.7	3.6	3.2	3.1	3.1	3.0	2.9	2.8	2.7	2.7	2.6
Mandatory Expenses with Cash Control	3.8	4.1	3.2	3.0	2.7	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.4
Discretionary Expenses	1.8	2.2	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Central Government's Primary Balance	-1.8	-1.3	-10.0	-1.7	-1.1	-0.8	-0.4	0.0	0.4	0.7	1.2	1.6	2.1
Public Sector Primary Balance	-1.5	-0.8	-9.4	-1.3	-1.0	-0.8	-0.4	0.0	0.4	0.7	1.2	1.7	2.1
Nominal GDP (BRL billion)	7,004	7,407	7,448	8,808	9,495	9,993	10,533	11,103	11,703	12,336	13,003	13,706	14,448

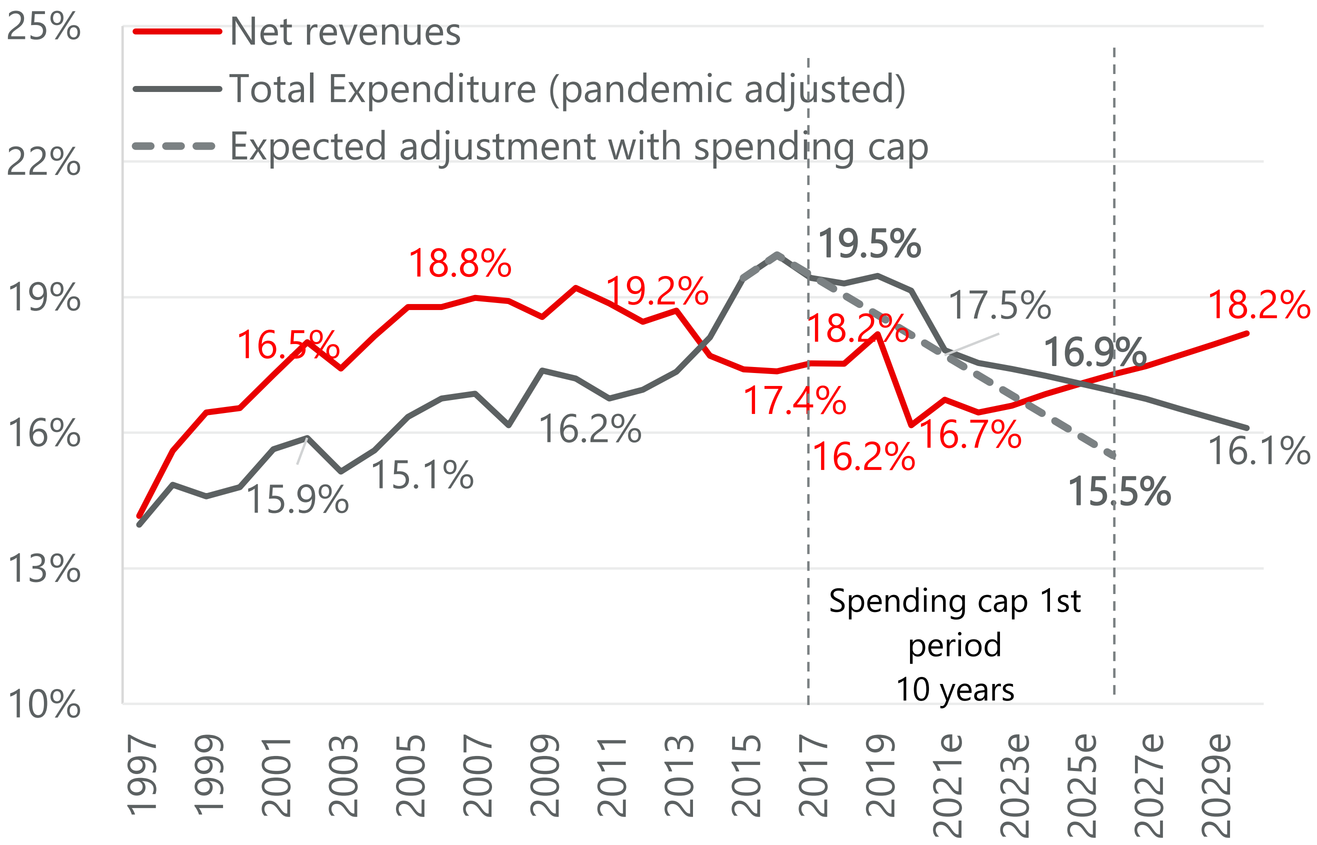
Sources: National Treasury, Brazilian Central Bank, Santander.

➔ **Main assumptions for the current baseline scenario:** our baseline macro scenario for 2021, 2022 and 2023. **After 2024: (i)** Potential GDP growth = ~1.5%; **(ii)** Neutral real interest rate = 4.0%; **(iii)** Long-term inflation = 3.0%, GDP deflator = 3.9%; **(iv)** Structural reforms in 2023 reducing mandatory expenses to maintain the discretionary expenses close to 1.2% of GDP; **(v)** Government will need to hire a lower number of public servants due to the digitalization of some public services; **(vi)** Pension reform will maintain the expenses almost stable in relation to GDP growth. We consider our new forecasts for judicial claims, the final estimate will depend on the decisions for the 2022 Budget onwards current decisions and legislation.

Fiscal Balance – Revenues and Expeditures

- We improved our estimate of the structural long-term revenue gain based on favorable terms of trade, with a once-and-for-all increase of 0.3 pp of GDP per year (compared to 0.1 pp of GDP in July).
- As a result, we see the first year of primary surplus around 2025-26, one year earlier than in the previous scenario.
- Despite this improvement in the short-term figures, we believe the fiscal risks have increased since July.

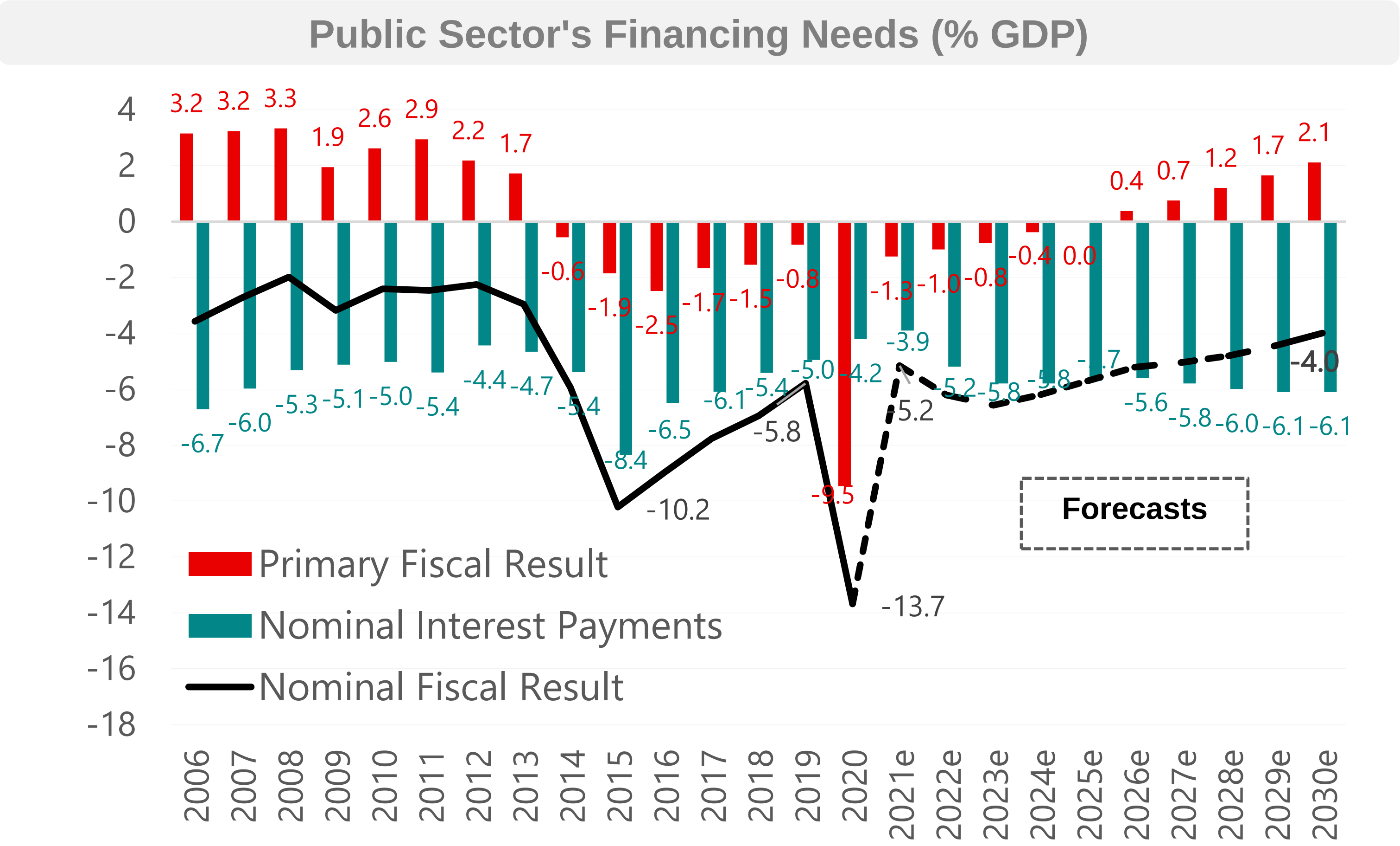
Central Gov. Balance (% GDP)



Sources: National Treasury, BCB and Santander.

Fiscal Balance – An Increase In Interest Payments After 2022

- We revised our nominal Selic rate to 8.25% in 2021 and 8.5% in 2022, returning to 7% afterwards.
- The higher debt levels and neutral interest rate will contribute to increase the nominal deficit, specially after 2023.
- In the short-run we see a lower nominal deficit due to larger issuances of NTN-B (inflation-linked bonds), in a context of "normalization" of the Selic rate. Yet, for 2022 onwards we see a higher financial pressure (with higher nominal payments)



Sources: National Treasury, BCB and Santander.

Fiscal Risks – Size Of The Fiscal Stimulus And Leftovers

- The total size of the War budget (2020) expenses totaled BRL524 billion. This year could reach ~BRL115 bn because extra-cap expenses in 2021.
- We anticipate that the government will maintain the expenditure in Vaccine Acquisition (as a 2021 Leftover – not considered in the spending cap) of BRL10 billion for 2022.

Expected 2021 – Extra-cap expenditure

Santander - Expected execution of Covid related expenditures - 2021	BRL billion
Emeregency Aid (*PEC Emergencial*)	35.0
Emergency Aid extension (Aug-Oct)	25.0
Vaccine Acquisition (2020 Leftovers)	19.0
Health Expenditures	20.0
Pronampe 2021 (credit support for SMEs)	5.0
BEm 2021 (formal job suport program)	11.0
TOTAL	115.0
Total (% of GDP)	1.3%

% of total forecated by the Goverment (BRL137bn)	83.9%

Sources: National Treasury, Santander.

Tracking 2021 – Extra-cap fiscal expenditures

BRL Billion - Accumulated	Jun-21	Jul-21	Aug-21	Total Budgeted	Executed
Emergency Aid (MP 1.037 and 1.056/2021)	27.4	35.8	44.3	64.9	**55.2%**
Health expenditures	9.7	11.4	14.2	25.9	**44.1%**
BEm - Employment Program (MP 935/220 and MP 1.044/2021)	4.0	6.4	7.6	11.7	**54.6%**
Turism Infraestructure (MP 963/2020)	0.4	0.4	0.5	1.9	22.9%
Vaccine Acquisition (MP 994, 1,004 and 1,015/2020)	8.0	9.6	11.7	27.8	34.7%
Pronampe (credit support for SMEs)	0.0	5.0	5.0	5.0	100.0%
Accumulated Total	49.4	68.7	83.2	137.2	50.1%

Updated in 09/03/2021

Sources: National Treasury, Santander

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

Possible Fiscal Measures that Could be Implemented and its Impacts

Rolling Impact of some fiscal measures (% GDP)	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues									
Tax Reform (PEC 45) - Preliminary	**0.3**	**0.5**	**1.1**	**1.5**	**2.5**	**3.8**	**5.1**	**6.5**	**8.1**
Limit on tax deductions (private health)	0.1	0.2	0.3	0.4	0.5	0.6	0.6	0.7	0.7
10% linear drop in tax exemptions / waivers	0.3	0.6	0.9	1.1	1.3	1.5	1.7	1.8	2.0
Changes in Personal Income Tax (Aliquot of 35% on earnings > BRL25k per month)	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Profits & Dividends (Aliquot of 15%)	0.4	0.7	1.0	1.3	1.6	1.9	2.1	2.3	2.5
End of JCP payment deduction ("Interest on Equity Capital")	0.1	0.2	0.4	0.5	0.6	0.7	0.7	0.8	0.9
Eletrobras Capitalization (one-off)	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exclusive Funds (one-off)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personal income tax exemption (BRL1,903 to BRL 2,500 per month)	-0.2	-0.5	-0.7	-1.0	-1.3	-1.5	-1.8	-2.1	-2.4
Expenditures									
Administrative Reform (without automatic career progression)	**0.0**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.8**
Min. Wage De-indexation (social benefits)	0.3	0.5	0.8	1.0	1.2	1.4	1.6	1.7	1.9
Freezing of social security benefits (above 3 Min. Wag)	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
End of Wage Bonus 'Abono' (for formal workers)	0.2	0.4	0.6	0.7	0.9	1.0	1.2	1.3	1.4
End of Wage Bonus 'Abono' (above 1 Min. Wage)	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6	0.7
Payroll tax exemption	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Public sector wage ceiling	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Extending grace period: unemployment insurance benefit	0.1	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
Reduction of public servants' working hours (up to 25%)	0.1	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0

Source: IBRE, Santander.

Tax reform estimate considers Borges (2020) impact on Potential GDP

Another possibility is the sale of public companies dependent on the National Treasury, which could generate extra BRL10 billion (one-off) in revenues, in addition to reducing expenses to maintain them.

Outlook - The Quest for the Primary Surplus and Expenditures Demand

- We note that if there is greater elasticity of revenue to GDP and higher growth, the primary surplus can be reached sooner than we currently expect. We maintain GDP growth close to 1.5% after 2023, a GDP deflator of 4.0%, and elasticity close to 1.1.

Simulation - Primary Surplus Simulation: When?

Elasticity: GDP-Revenues	GDP Growth: 1.0%	1.5%	2.5%	3.0%
0.9	2036	2030	2027	2025
1	2029	2026	2025	2024
1.1	2026	**2025**	2025	2023
1.2	2025	2024	2024	2022
1.3	2024	2023	2022	2022

Assumptions: GDP deflator: 3.9% after 2023; Net revenue from the 4nd bimonthly budget review; Santander expenses scenario. Mantaining the current fiscal framework and spending cap readjusted by inflation.

Sources: National Treasury, Santander

Simulation - Primary Surplus Simulations

Scenario	Primary Surplus	Primary to stabilize the debt
Baseline	2024/25	2028/29
Commodities Scenario Bull (fading only in 2025)	2022/23	2026/27
Change in Spending Cap index in 2023 (IPCA + ½ GDP)	2025/26	2029/30
End of tax exemptions (1.5% of GDP)	2022/23	2025/26

The Measures Developments That Would Shape The Outlook

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

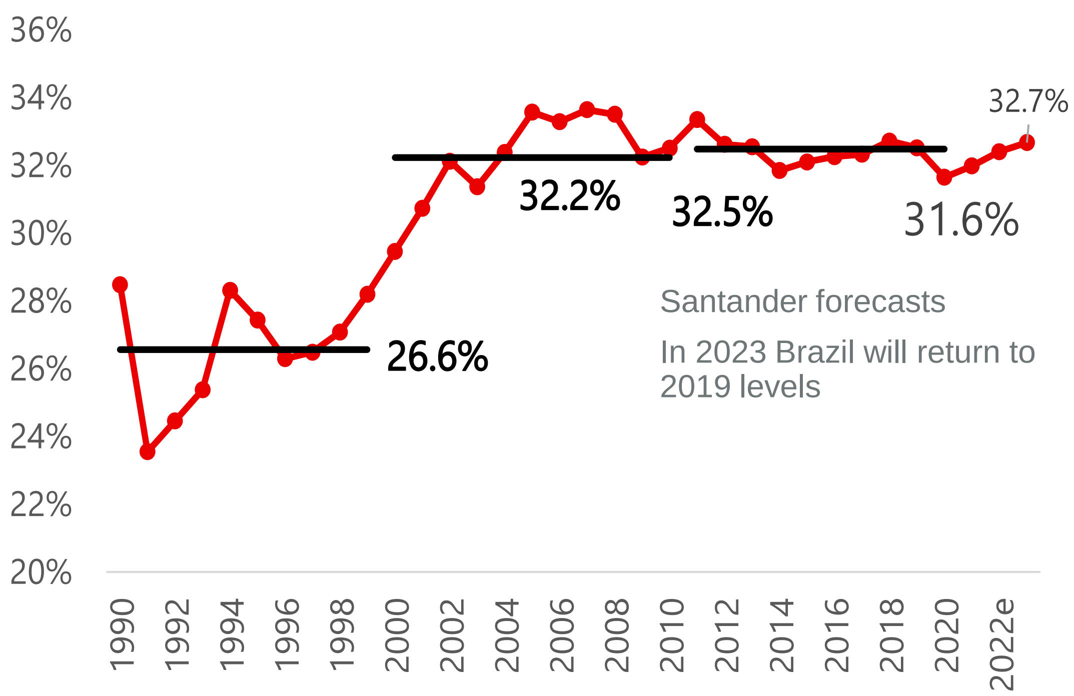
Positive Measures That Could Be Implemented	Potential Setbacks
2022 debate maintaining the current fiscal framework (spending cap), without new exceptions	Possible creation of new mandatory expenses or removing expenditures from the spending cap limit
Broad Tax reform, or CBS Law (Contribution on Goods and Services) with a single tax (original law sent by the government)	Permanent increases in the tax burden or increasing personal income tax exemption without compensation. approval of a new digital tax (CPMF)
Administrative reform (approving the career and salary regulations)	Approval of federal measures that imply leniency or moral hazard with subnational fiscal adjustments
Advances in the relevant privatizations and closing and selling Treasury dependent companies	Allocation of revenue not linked to public funds for other primary expenditures
The continuity of the modernization of regulatory frameworks for infrastructure	Paralysis of the reform agenda impacted by political disputes
A competitive auction for 5G for attracting investors	Salary increases for public servants
Reduction on Tax exemptions (4% of GDP)	Reduction in net revenue or greater transfers to states and municipalities
Agreements with the Justice and creditors to reduce the total amount of court debt orders ("*Precatórios*")	Not managing the rise in debt court orders payments ("Precatórios") leaving the debt to grow exponentially

Source: Santander.

Difficulty in the Fiscal Adjustment - Expenses or Revenues?

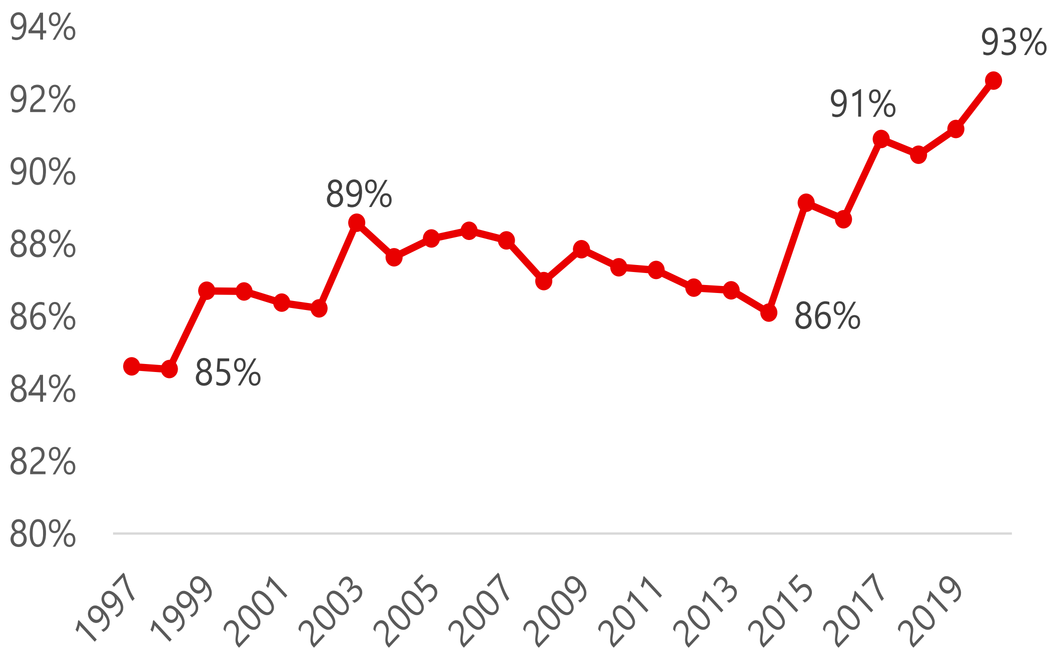
- There is a limit to increase taxes and to reduce the discretionary expenses.

Tax Burden (% GDP) – Is it possible to raise taxes?



Sources: IBRE, National Treasury, BCB and Santander.

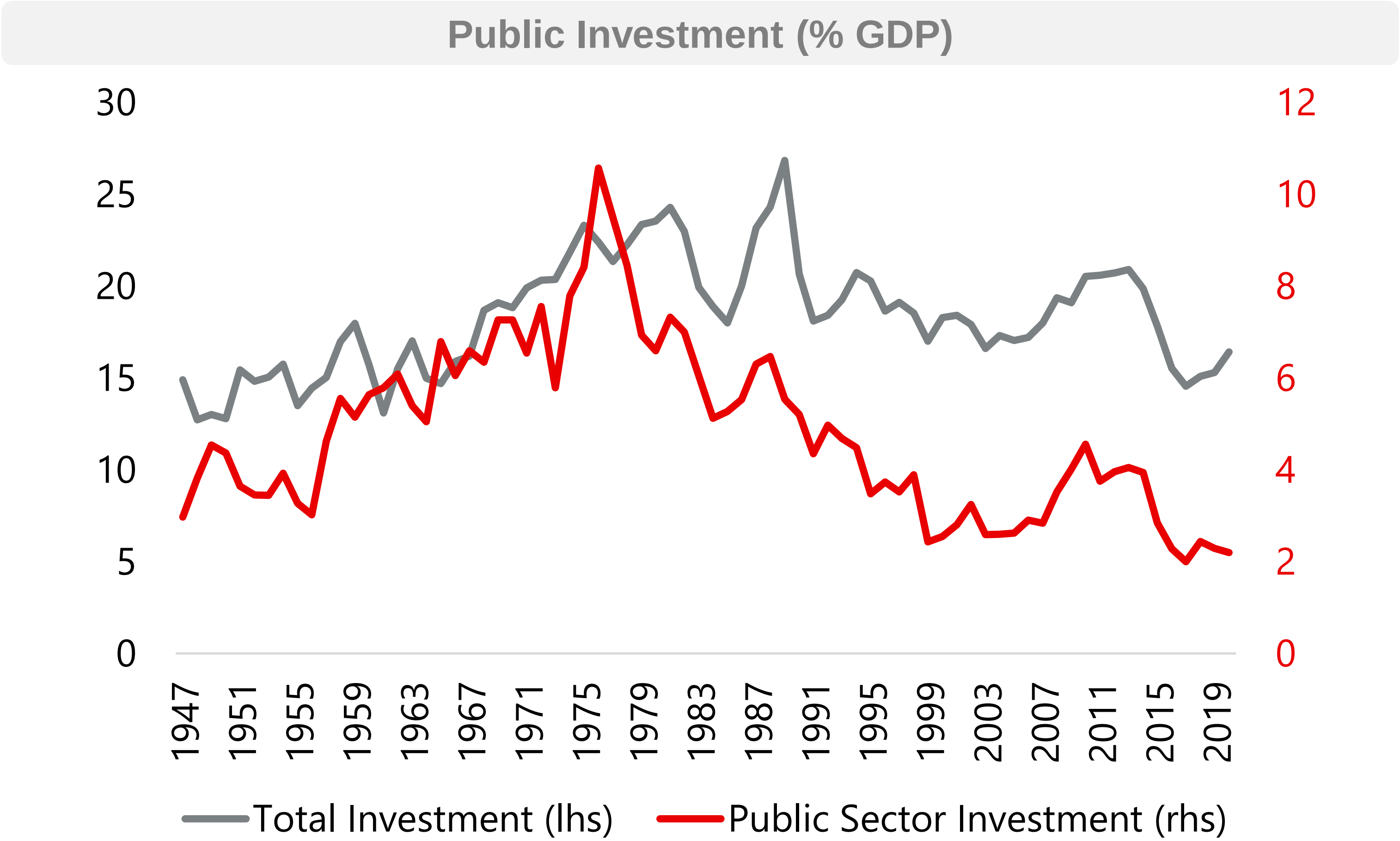
Mandatory Outlays / Total Expenses



Before 2008 there is no classification of discretionary expenses, we maintained the historical pattern among the expenses with flow control

Public Investment at low levels

- Part of the recent fiscal adjustment was made by a reduction on discretionary expenditures, mainly public investments.



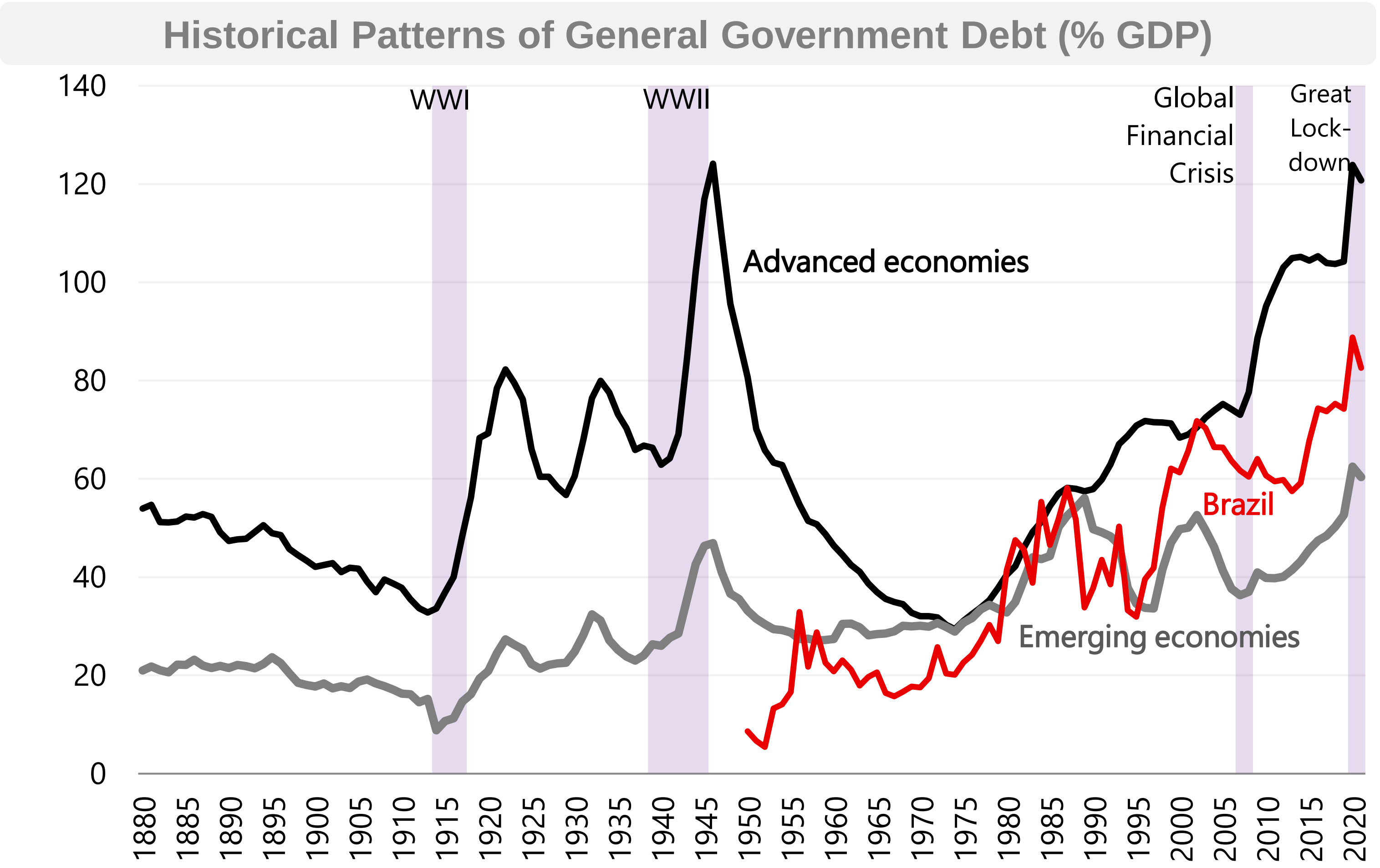
Sources: IBRE, National Treasury, BCB and Santander.

07

Public Debt Scenario and Simulations

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.

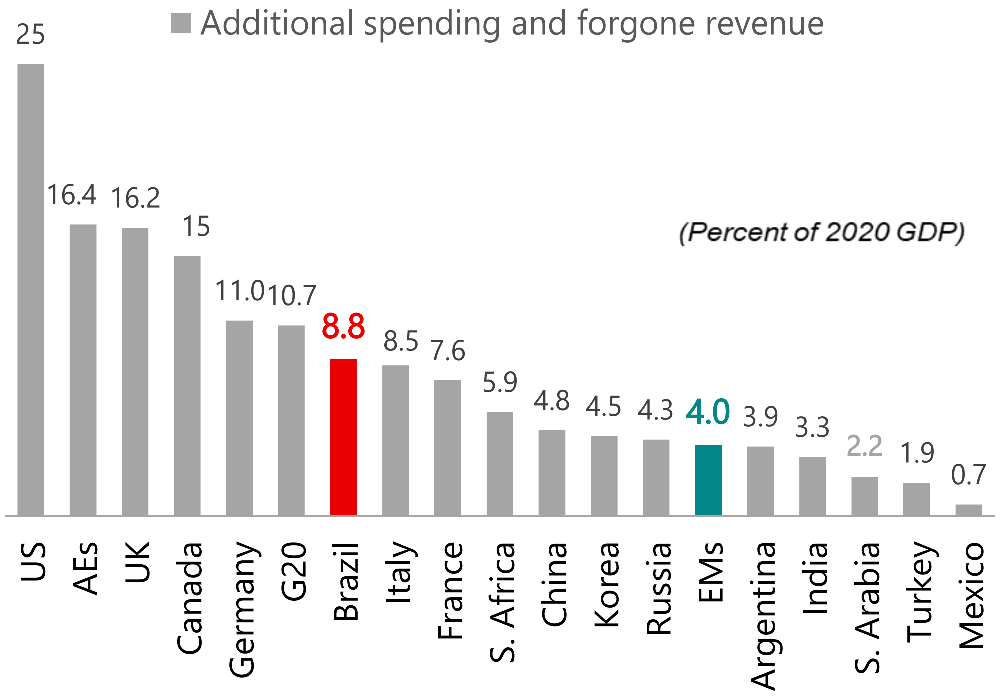


Sources: IMF, Santander.

Fiscal Monitor – IMF Scenario

- According to data from both 2020 and 2021, Brazil's fiscal stimulus reached 8.8% of GDP, higher than the 4.0% of GDP for the average of emerging economies (EM).
- 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 **85%**
- 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 2.5-3.0% of GDP primary fiscal adjustment, just to stabilize the ratio debt-to-GDP around the higher post-pandemic level of ~90% of GDP.

Current situation:

. Real interest rate (ex-ante) 1-year: ~3.7%,
. GDP is expected to grow 5.1% in 2021.

. Expected primary deficit (-1.3% of GDP) + BNDES payback should maintain the Gross/Debt reduced due to price shock.

Steady-state:

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

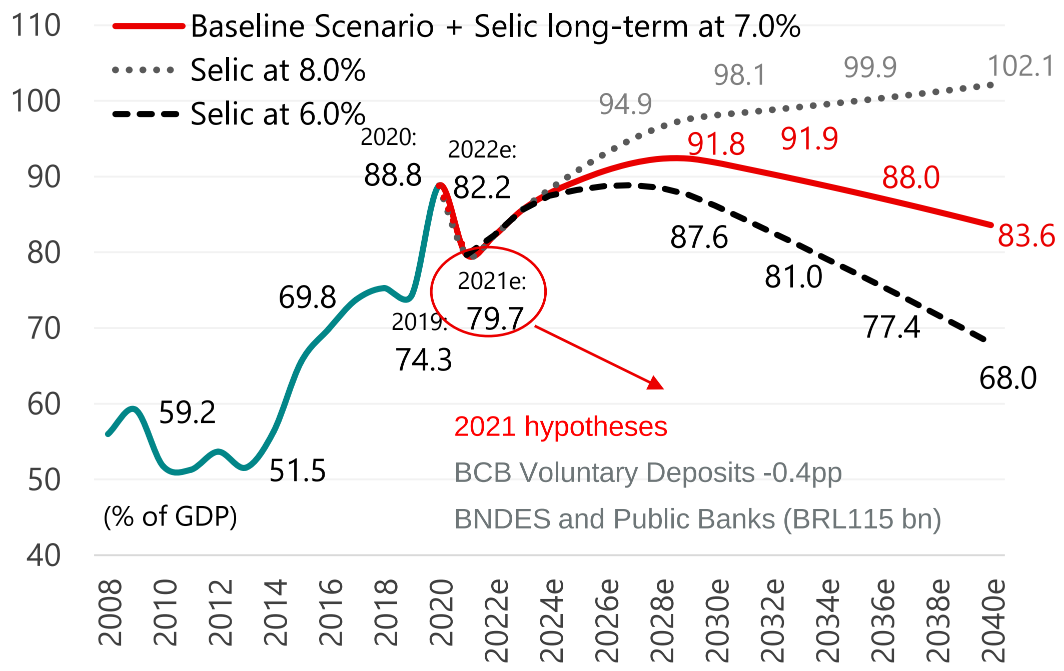
. The primary surplus must reach 1.7-2.1% of GDP to maintain the gross debt stable.

		Real Interest Rate							
		-1.0%	0.0%	1.0%	2.0%	2.5%	3.0%	4.0%	5.0%
GDP Growth	1.0%	-1.7	-0.8	0.0	0.8	1.3	1.7	2.5	3.4
	1.5%	-2.1	-1.3	-0.4	0.4	0.8	1.3	2.1	2.9
	2.0%	-2.5	-1.7	-0.8	0.0	0.4	0.8	1.7	2.5
	2.5%	-2.9	-2.1	-1.2	-0.4	0.0	0.4	1.2	2.1
	3.0%	-3.3	-2.5	-1.7	-0.8	-0.4	0.0	0.8	1.7
	3.5%	-3.7	-2.9	-2.1	-1.2	-0.8	-0.4	0.4	1.2

Sources: BCB, Santander.

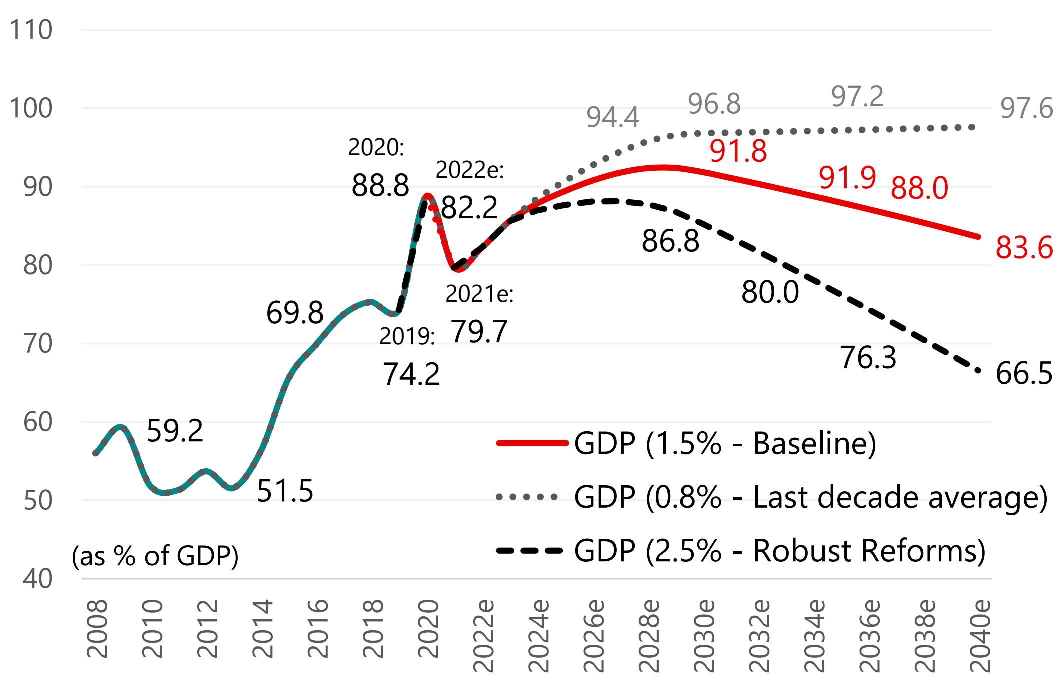
Debt Scenarios: Sensitivity to Small Changes in the Long Run Macro-outlook

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 (+BRL140 billion for liquidity cushion in 2021)

2021 GDP Deflator: 12.5% | GDP: 5.1% | Selic Rate: 8.25%

2022 hypotheses: BCB Voluntary Deposit 0.5 pp + BNDES and Public Banks (BRL70 bn)

2023-40: we changed the average GDP deflator: 3.9%, which is Inflation target + 1.0% (close to the average difference of the last decade between IPCA and GDP deflator)

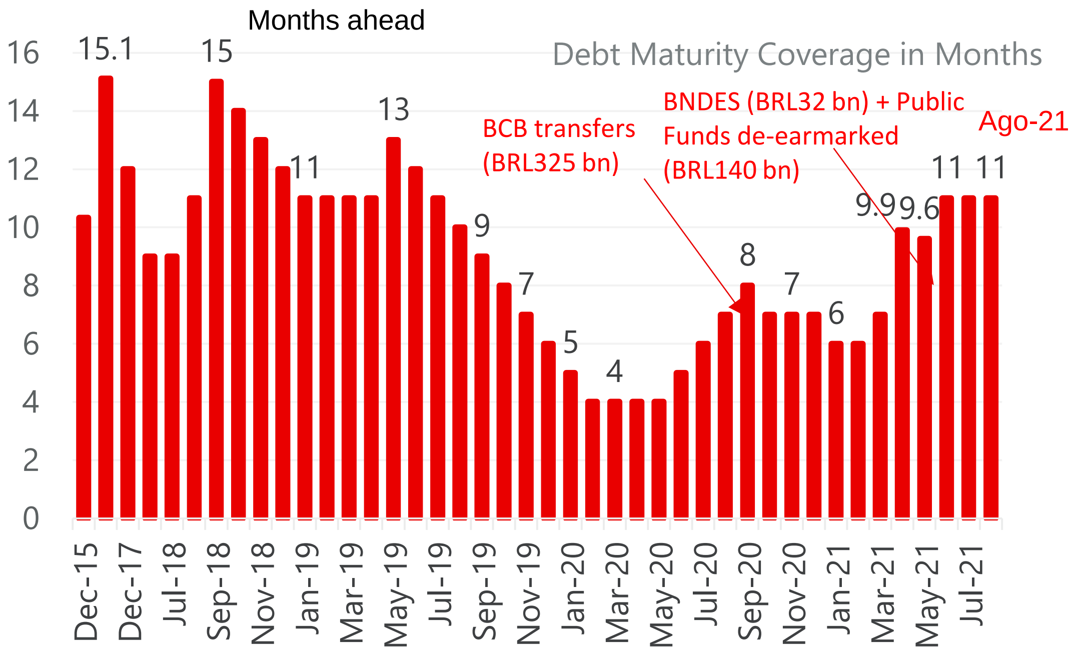
Debt Management

08

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

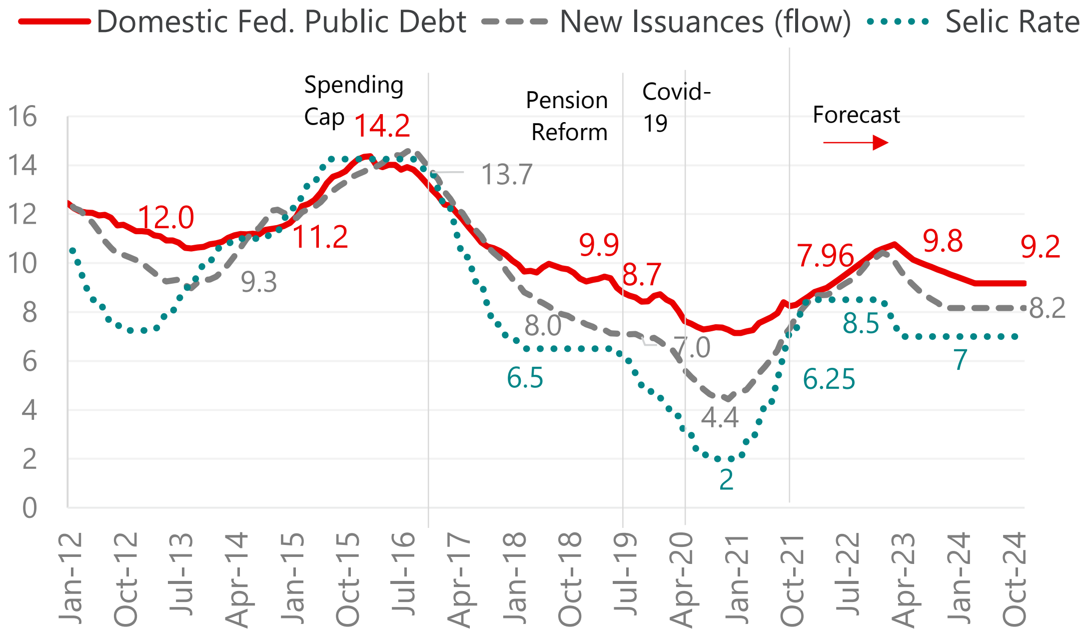
- With debt shortening it is important to keep the level of the liquidity cushion at comfortable levels.
- We observe an increase in the cost of debt issuance (part due to Selic rate and part long maturity issuances – especially with inflation-linked bonds). In the short-run the cost level of new issuances is still below the outstanding debt average cost, yet this should reverse ahead.

Liquidity cushion coverage of domestic debt



Sources: National Treasury, Santander.

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

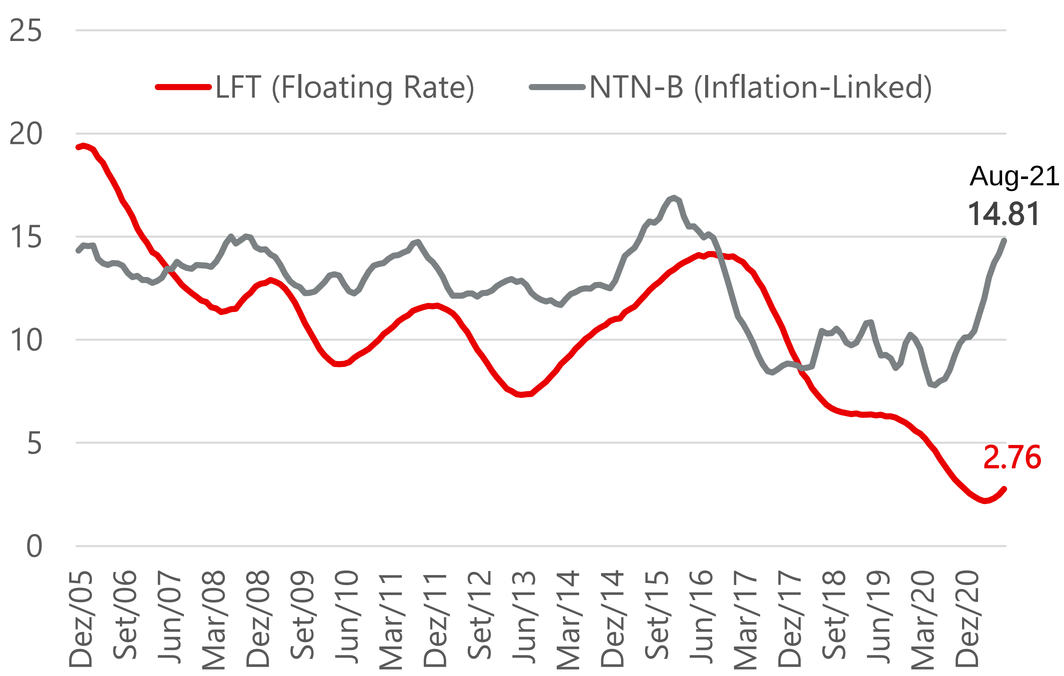


Sources: National Treasury, Santander.

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

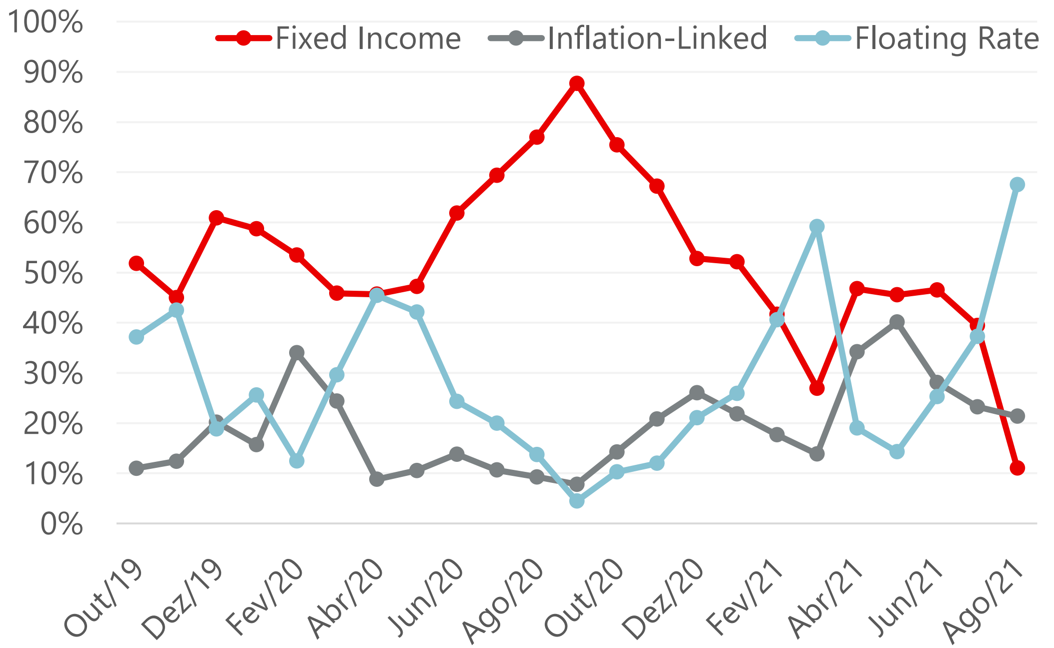
- The average debt cost stock accumulated in 12m rose to 7.64% (from 7.18% in Jun-21). The NTN-B (inflation-linked bonds) cost in last 12m rose to 14.16% p.y. (+4.0pp since Jan-21).

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



Sources: National Treasury, Santander.

Participation in total issuances (%)

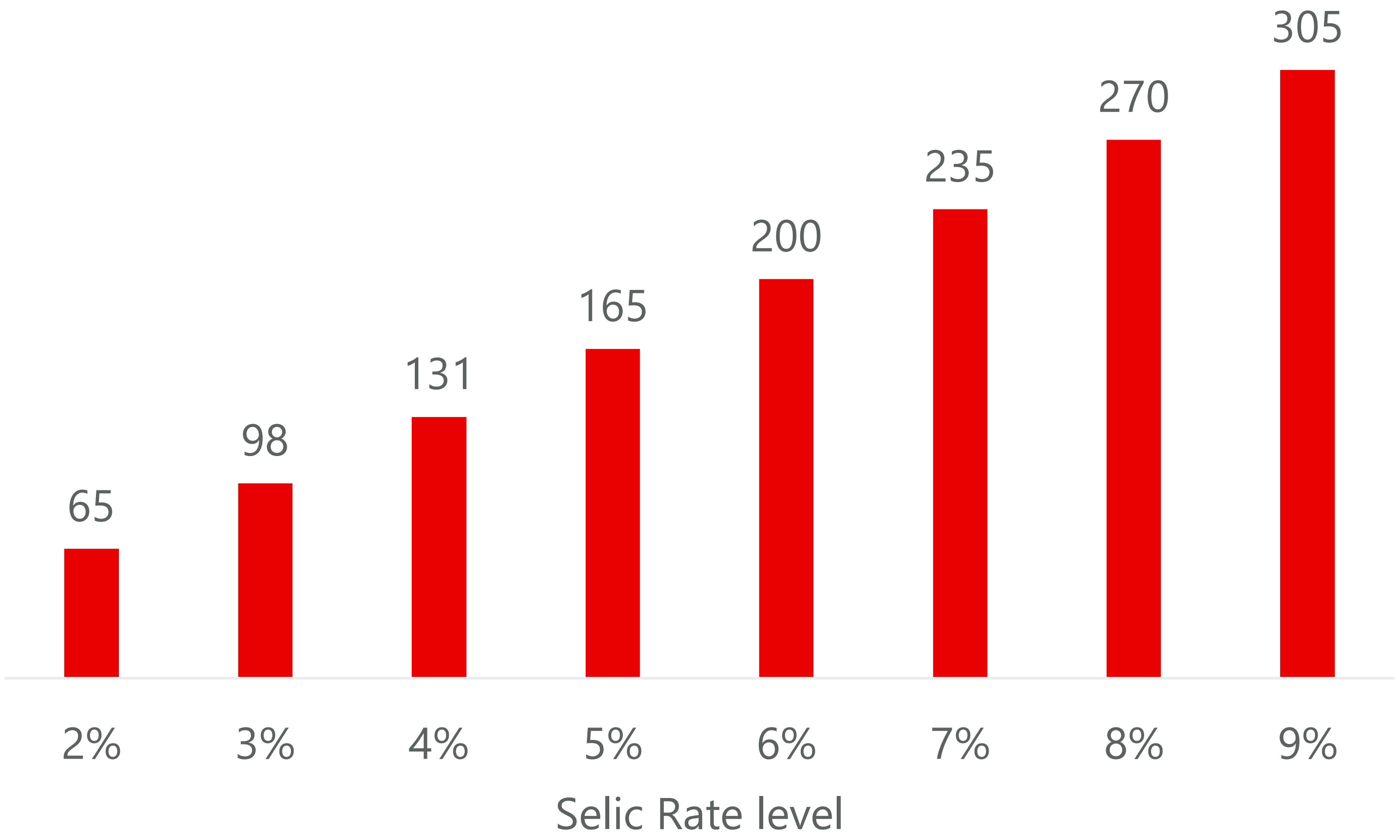


Sources: National Treasury, Santander.

The interest appropriations rise based on the Selic Hiking cycle

- The increase in the Selic rate is increasing the Debt during a year, with higher interest appropriations.

Interest appropriations considering the Selic rate level – BRL billion

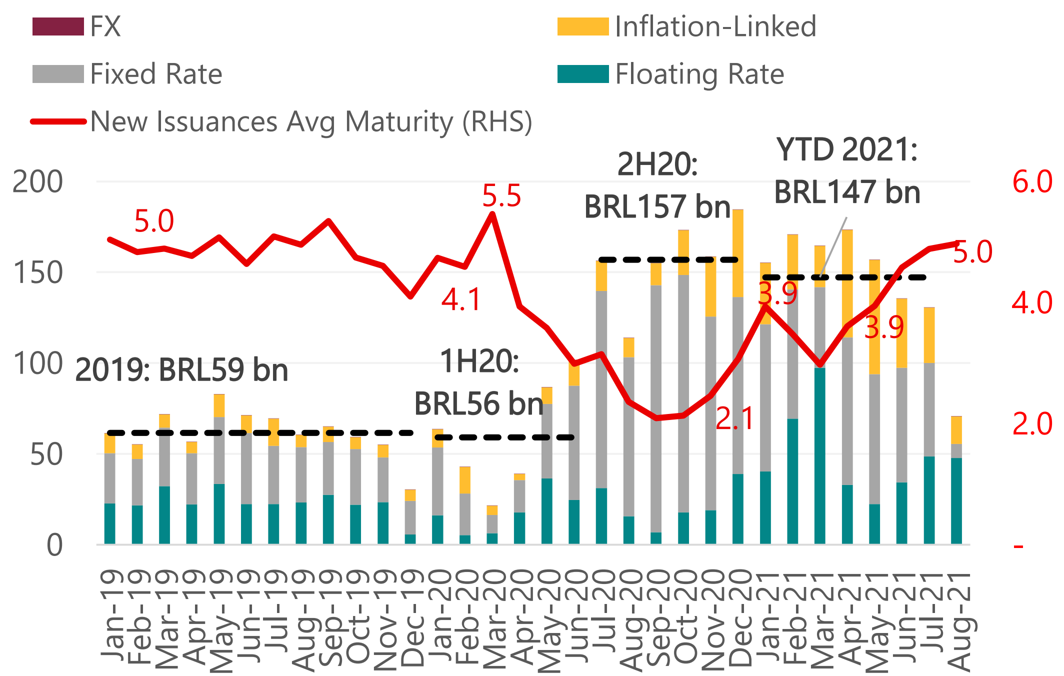


Sources: BCB, National Treasury, Santander.

Fiscal – The Increase in Selic Rate Will Pressure the Debt Issuances

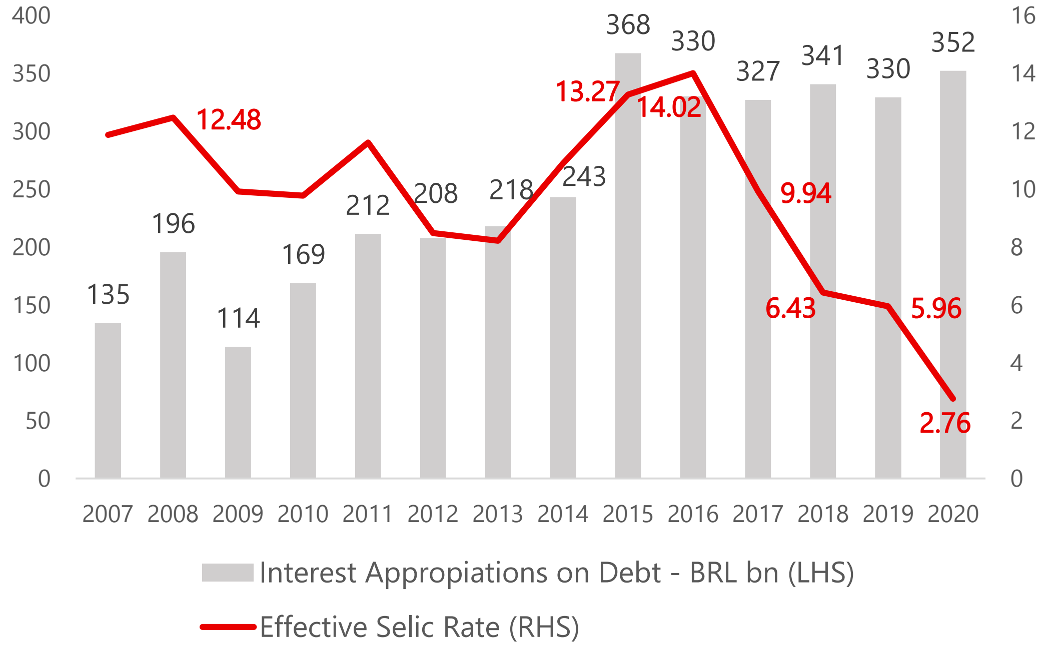
- Market conditions will be important for new debt issuances. The National Treasury is currently issuing more debt (~BRL35 billion per week) than the necessity of issuances per week (~BRL28 billion) in 2021.

Treasury Issuances



Sources: National Treasury, Santander

Selic Rate and Debt

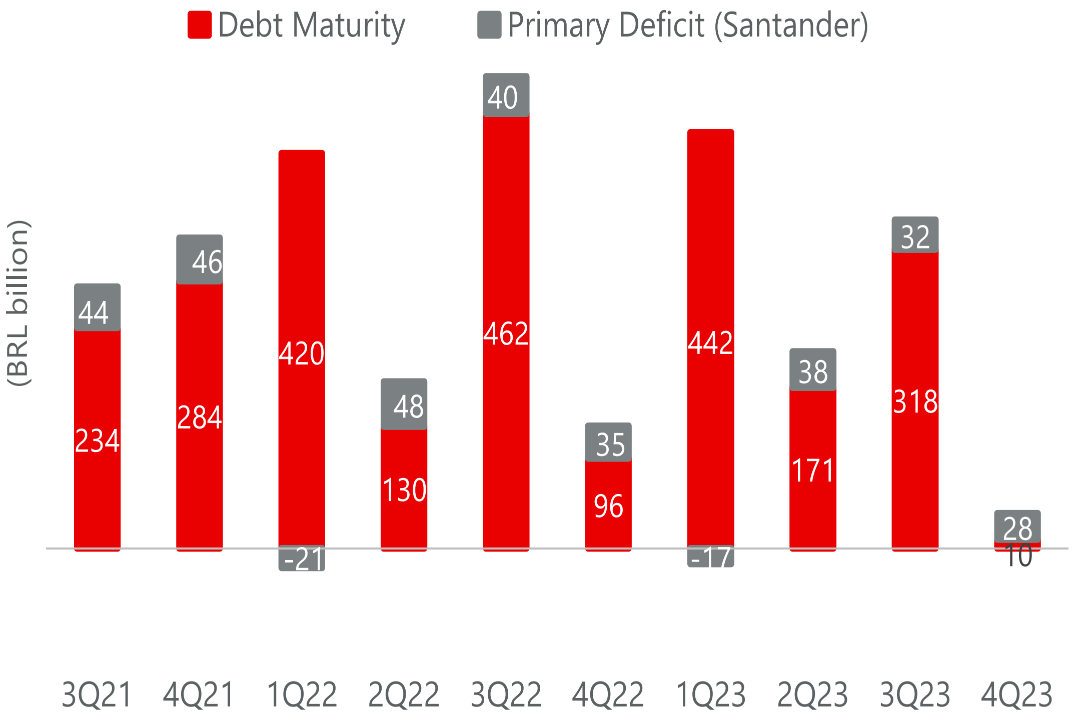


Sources: BCB, National Treasury, Santander.

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
3Q21	0.0	234.0	0.0	0.0	0.3	**234.3**
4Q21	266.9	-	14.7	-	2.4	**284.0**
1Q22	133.0	258.8	23.0	3.7	1.2	**419.7**
2Q22	114.1	-	14.3	-	1.2	**129.6**
3Q22	123.3	164.9	169.1	3.5	1.1	**461.8**
4Q22	78.8	-	14.0	-	2.7	**95.5**
1Q23	261.4	159.1	17.8	3.4	0.6	**442.2**
2Q23	0.0	0.0	169.7	0.0	1.3	**171.0**
3Q23	150.9	144.9	17.4	3.2	1.2	**317.5**
4Q23	0.0	0.0	8.9	0.0	0.8	**9.7**

Sources: National Treasury, Santander.

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MACRO SCENARIO: Forecasts

Macroeconomic variables		Previous		Current
GDP (%)	2021E	5.1	⇨	5.1
	2022E	2.0	⇩	1.7
	2023E	1.5	⇩	1.0
IPCA (%)	2021E	7.3	⇧	8.5
	2022E	4.1	⇧	4.3
	2023E	3.3	⇨	3.3
Selic Rate (% end of period)	2021E	7.50	⇧	8.25
	2022E	7.50	⇧	8.50
	2023E	7.00	⇨	7.00
FX Rate - USDBRL (end of period)	2021E	5.05	⇧	5.25
	2022E	5.55	⇨	5.55
	2023E	5.20	⇨	5.20
Current Account Balance (% of GDP)	2021E	0.0	⇧	0.1
	2022E	-0.5	⇩	-0.6
	2023E	-1.7	⇨	-1.7
Primary Fiscal Balance (% of GDP)	2021E	-1.6	⇧	-1.3
	2022E	-1.2	⇧	-1.0
	2023E	-0.9	⇧	-0.8
Gross Public Debt (% of GDP)	2021E	81.6	⇩	79.7
	2022E	83.5	⇩	82.2
	2023E	86.2	⇩	85.6

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

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

"THE INFLATION FACTOR...AGAIN'

(sent on September 16, 2021)

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

https://bit.ly/Std-scenreview-set21

Thank you.

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