

Brazilian Economic Outlook

IDB-KIPF Fiscal Sustainability Seminar

Gustavo Guimarães

Vice Minister of Planning and Budget

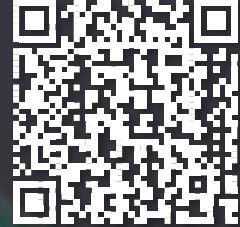
December 2024



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



External Outlook





WORLD ECONOMIC OUTLOOK OCTOBER 2024

GROWTH PROJECTIONS

(REAL GDP GROWTH, PERCENT CHANGE)

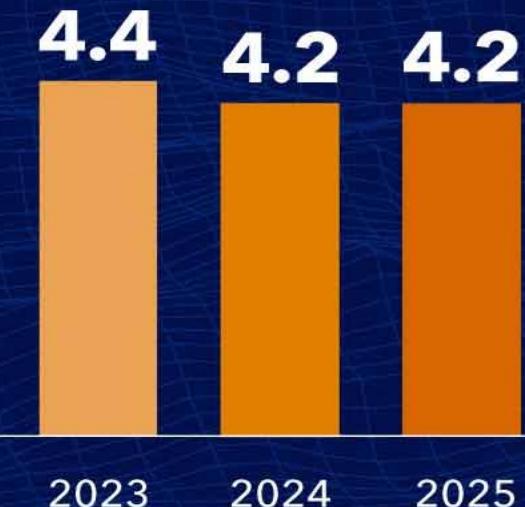
GLOBAL ECONOMY



ADVANCED ECONOMIES



EMERGING MARKET & DEVELOPING ECONOMIES

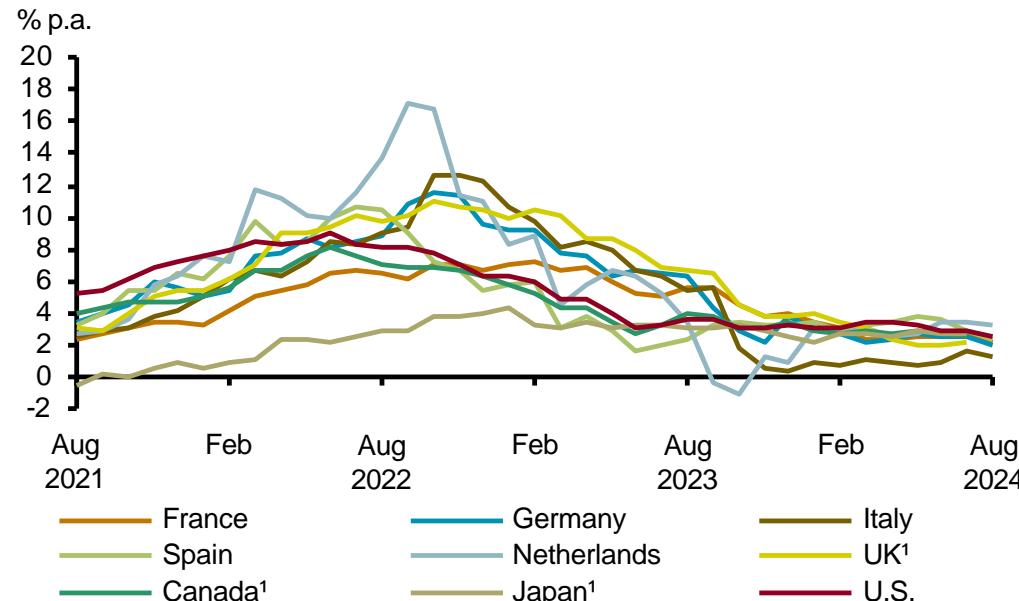


External Outlook



The external environment is still characterized by the resilience of economic activity and the gradual continuation of the disinflation process.

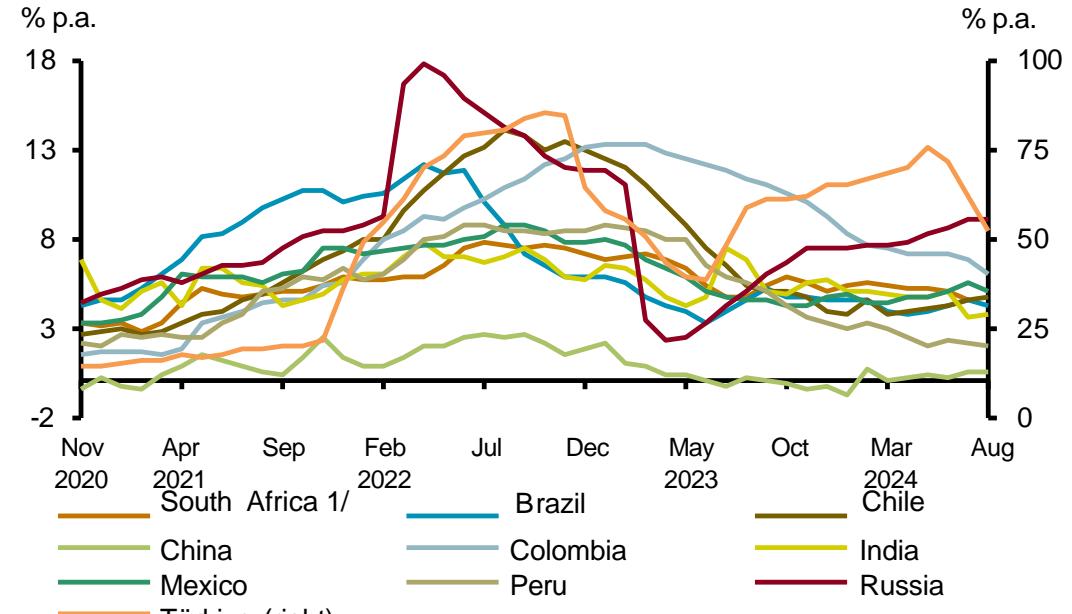
CPI – Advanced economies



Source: Bloomberg

1/ Until July 2024.

CPI – Emerging markets



Source: Bloomberg

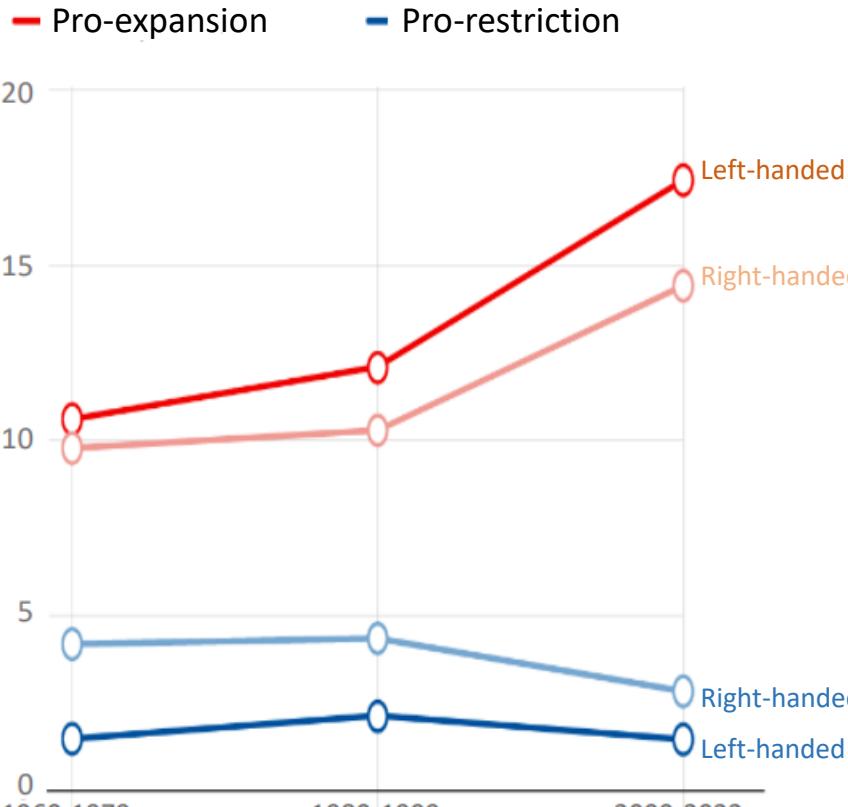
1/ Until July 2024.



Inflation - campaign proposals will have an inflationary effect

Fiscal Policy

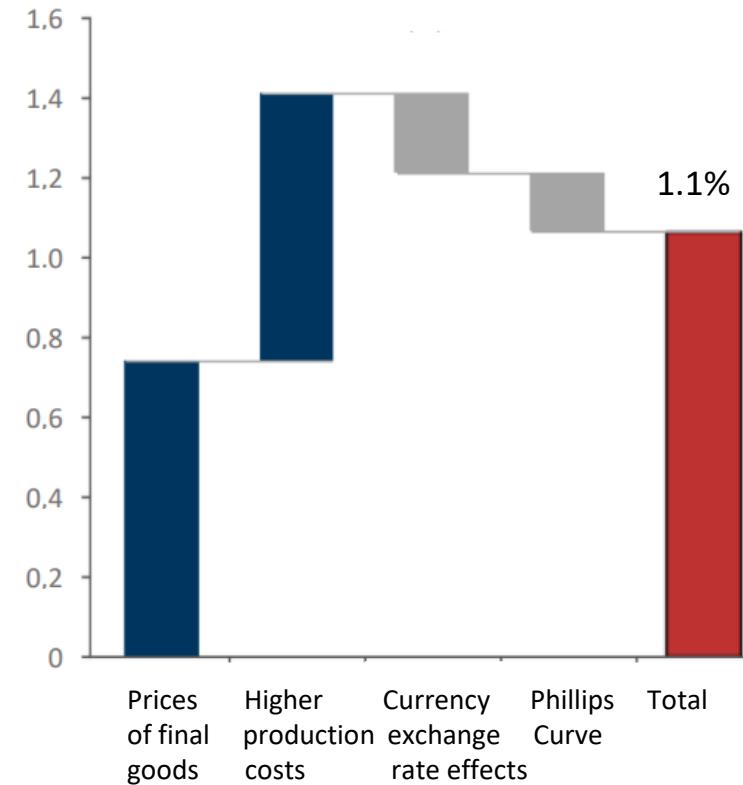
Evolution of discourse by party
(% of platform)



Source: BCB

Import Tax

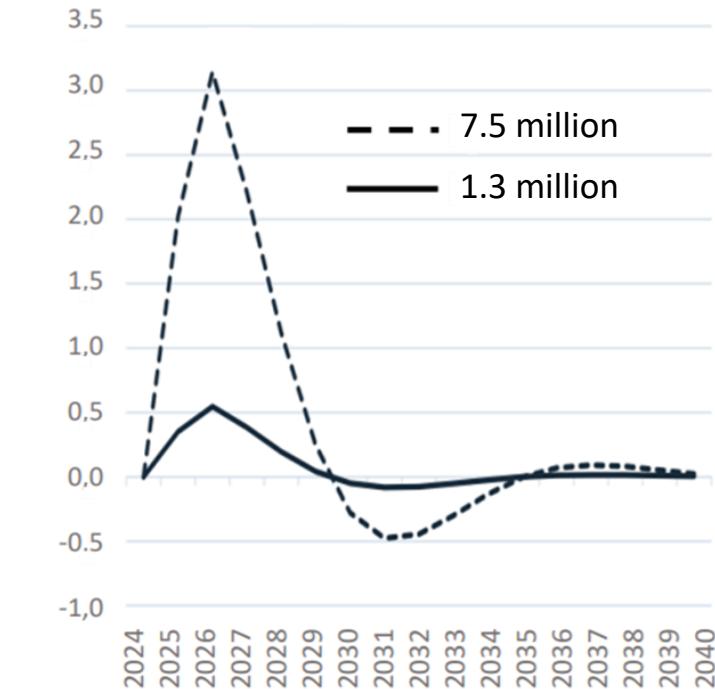
U.S. Inflation Effect of Tariff Increase* (%)



Immigration Policy

Effect on US inflation

Scenario 1: deportation of 1.3 million people from the US
Scenario 2: deportation of 7.5 million people from the US (Effect in p.p.)





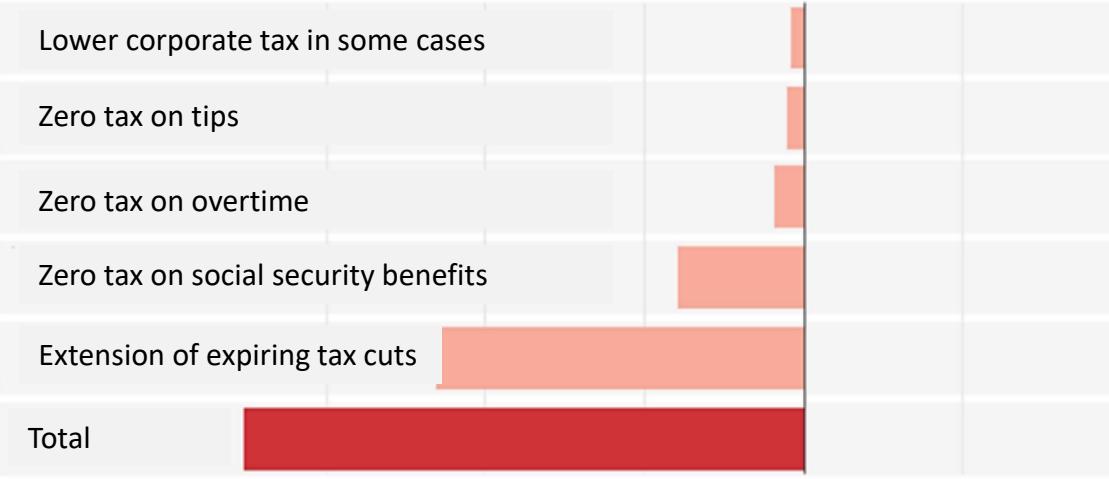
Fiscal - proposals discussed in the US election campaign involve fiscal expansion.

Fiscal outlook under Trump

(trillions of US\$)

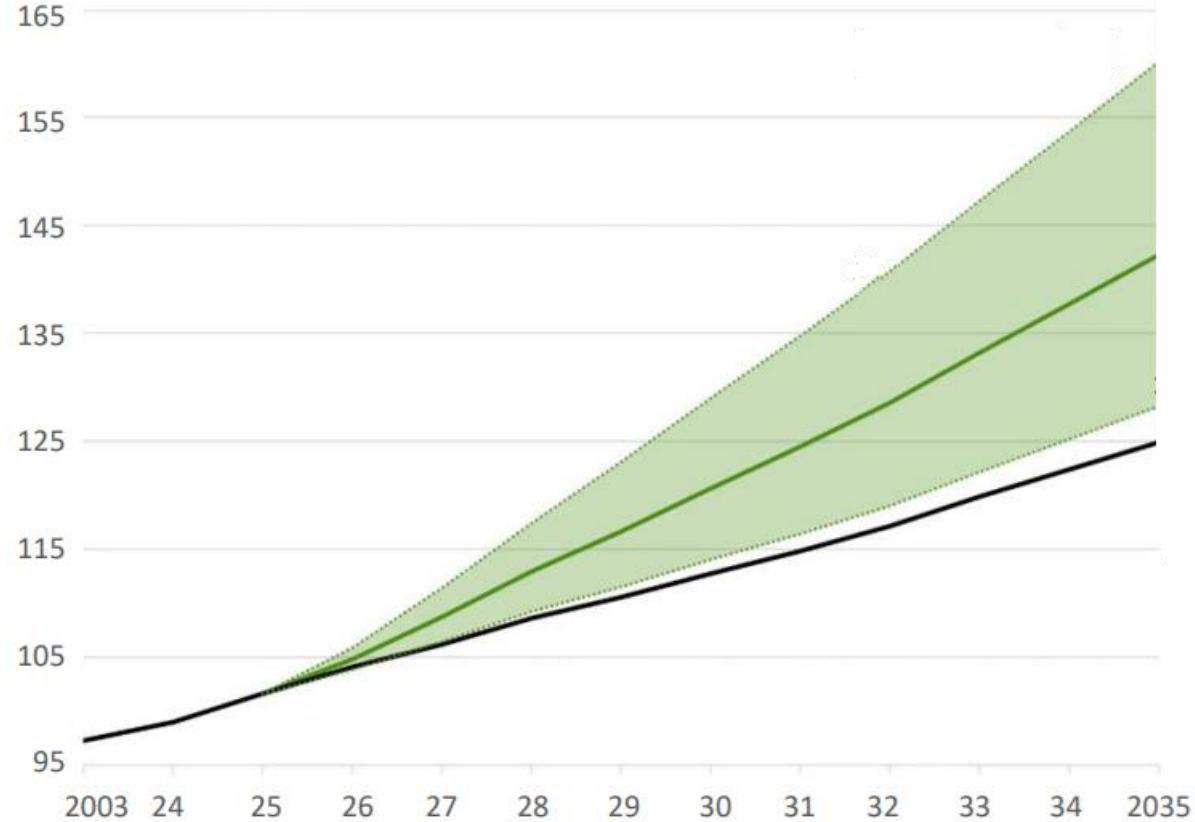
Deficit

◀ Increase Decrease ▶



Impact of public debt

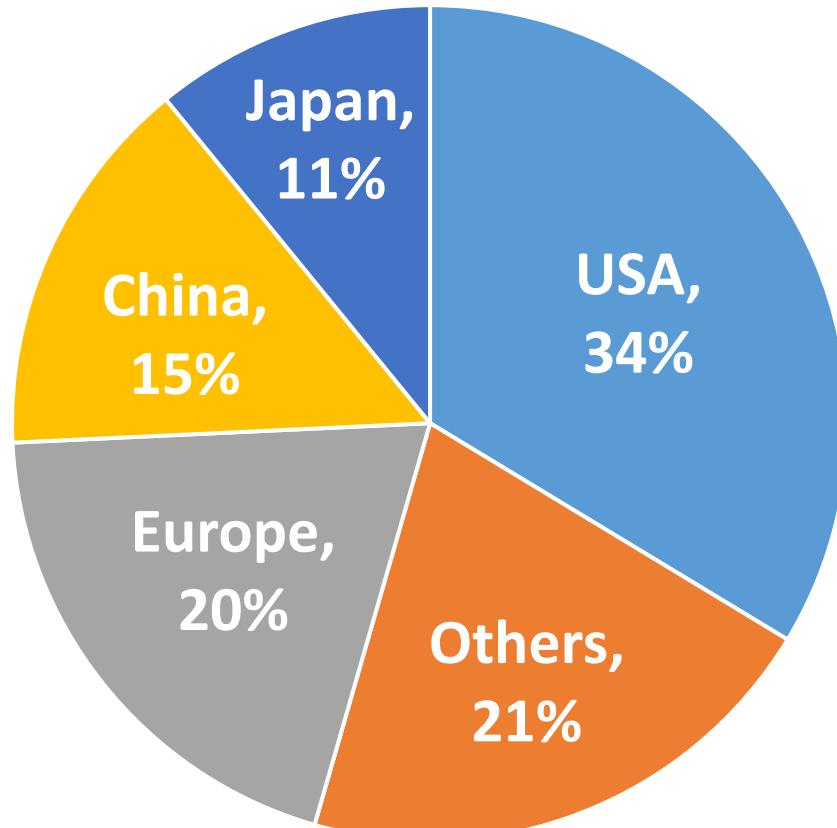
(Trump scenario, % of GDP)





Fiscal Policy - Rising debt and debt service in advanced economies (AEs) increasingly demand..

Global public debt
(Percentage of countries)



Source: BCB



RISKS AND UNCERTAINTIES:



**MARKET
VOLATILITY**



**TRADE
RESTRICTIONS**



**ESCALATING
CONFLICTS**



SOCIAL UNREST

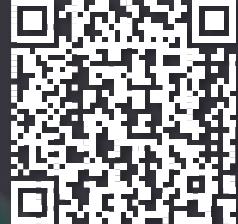


**GOVERNMENT
DEBT LEVELS**



**CHINA PROPERTY
SECTOR**





Domestic Outlook





One of the 10 largest economies in the world

2023			
	Countries	GDP (US\$ billion)	Real Growth (%)
1	USA	27,721	2.9
2	China	17,758	5.2
3	Germany	4,527	-0.3
4	Japan	4,220	1.7
5	India	3,568	8.2
6	United Kingdom	3,382	0.3
7	France	3,053	1.1
8	Italy	2,302	0.7
9	Brazil	2,174	2.9
10	Canada	2,142	1.2
11	Russia	2,010	3.6
WORLD		3.3	

9th Place

Forecast 2024			
	Countries	GDP (US\$ billion)	Real Growth (%)
1	USA	29,168	2.8
2	China	18,273	4.8
3	Germany	4,710	0.0
4	Japan	4,070	0.3
5	India	3,889	7.0
6	United Kingdom	3,588	1.1
7	France	3,174	1.1
8	Italy	2,377	0.7
9	Canada	2,215	1.3
10	Brazil	2,188	3.0
11	Russia	2,184	3.6
WORLD		3.2	

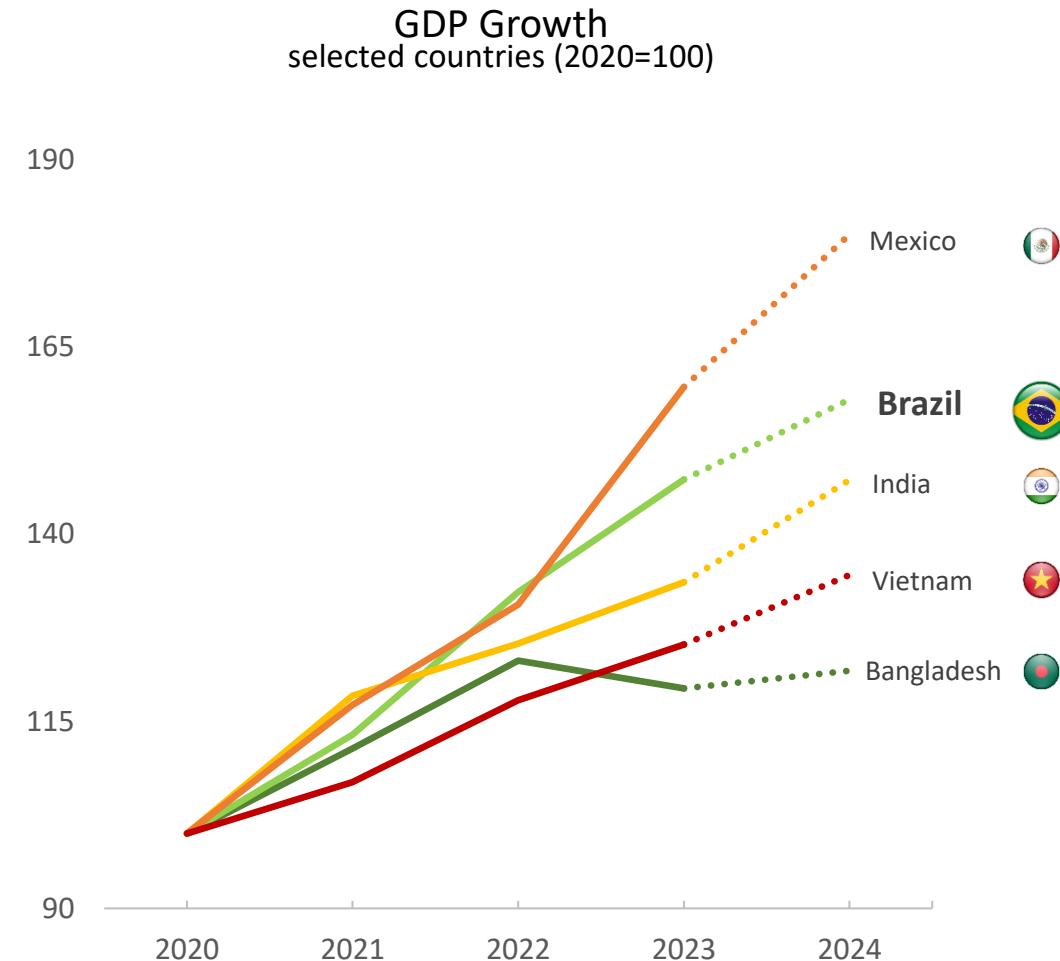
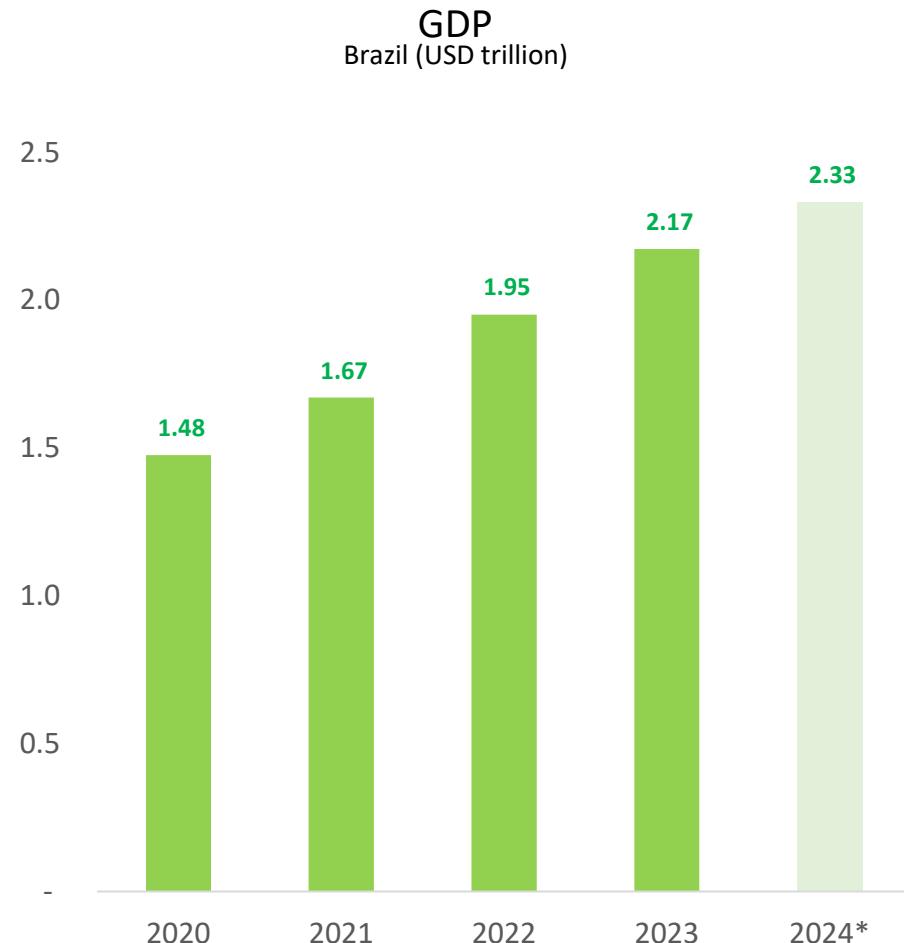
10th Place

Brazil's Robust Economic Growth



EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Sources:
IBGE & IMF (lhs), IMF (rhs)
* IMF forecasted growth:
2.2% (Apr 24)

Economic Activity

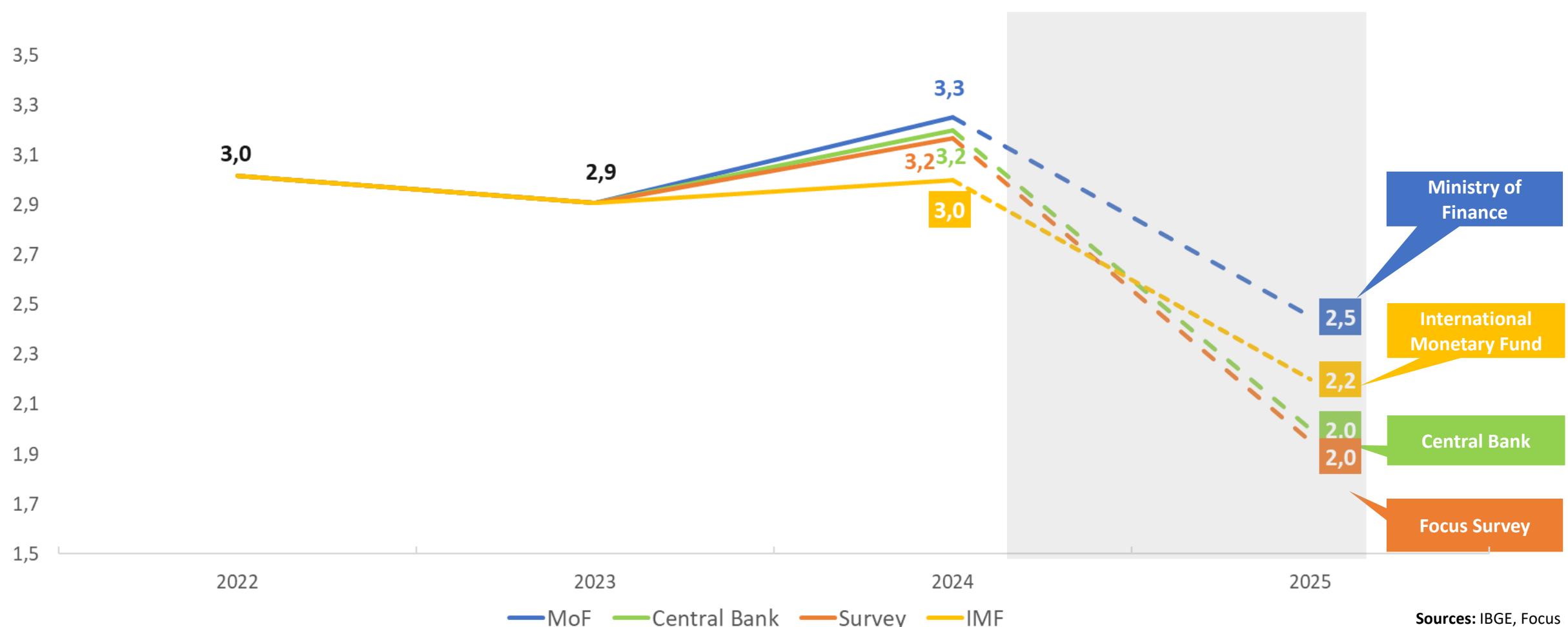
Real GDP annual growth (%)



EXECUTIVE
SECRETARIAT

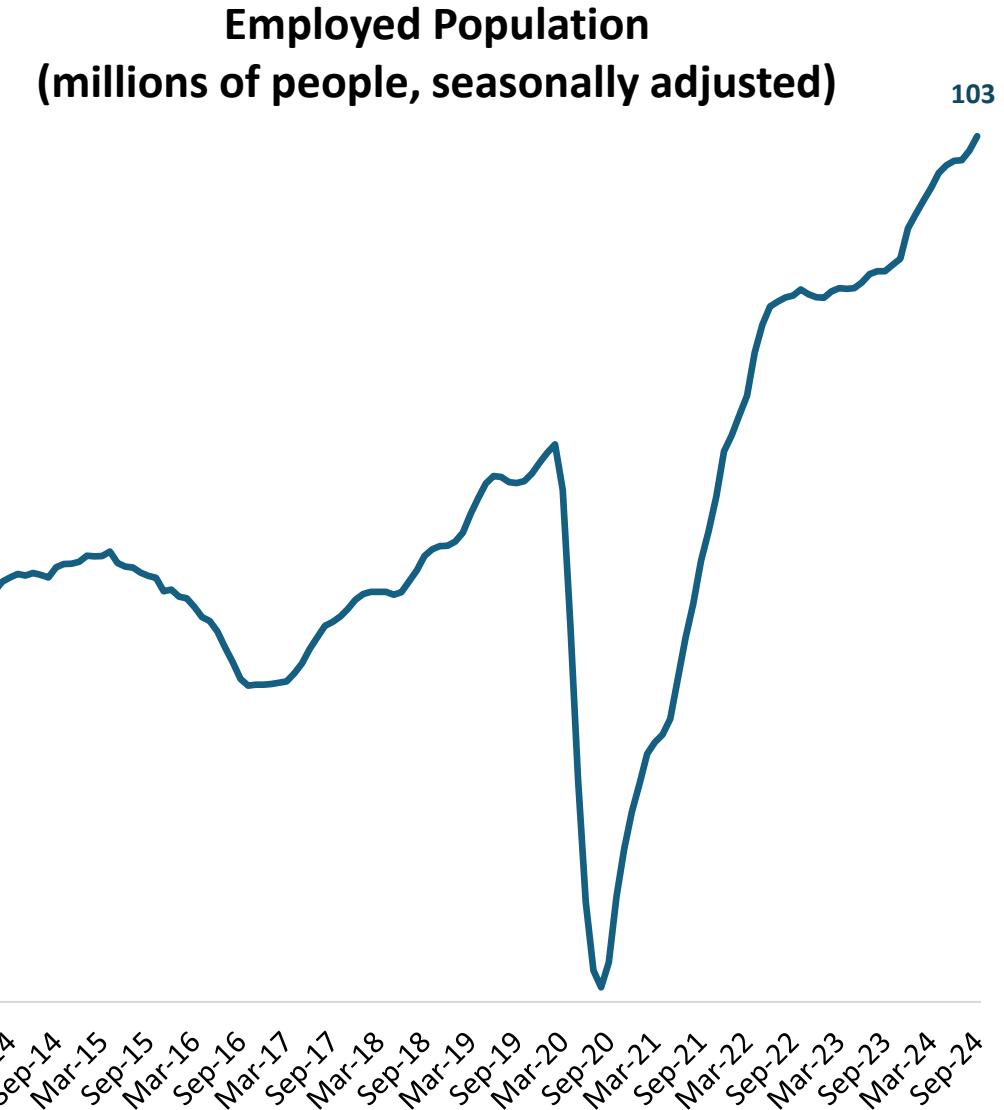
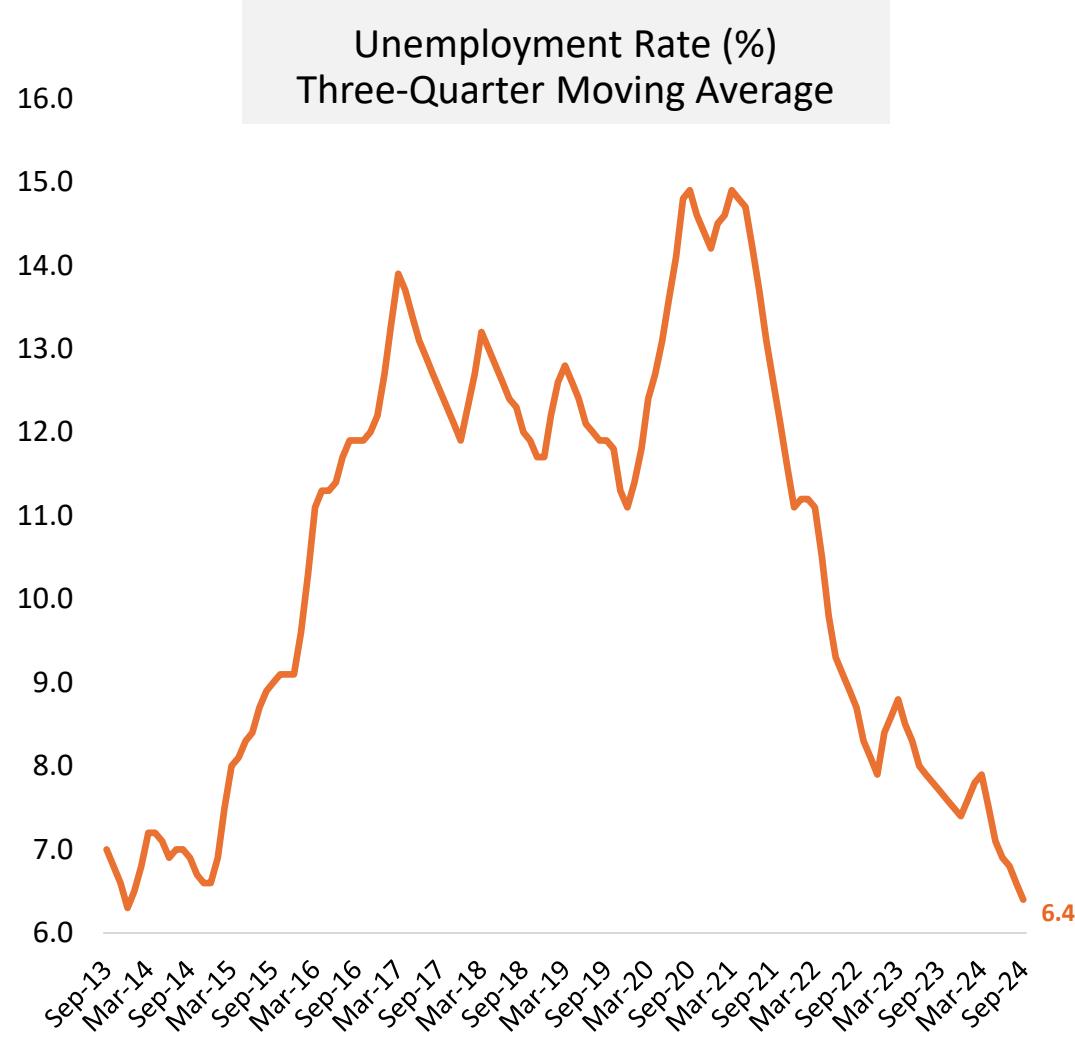
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



*Projections
(2024, 2025).

Labor Market



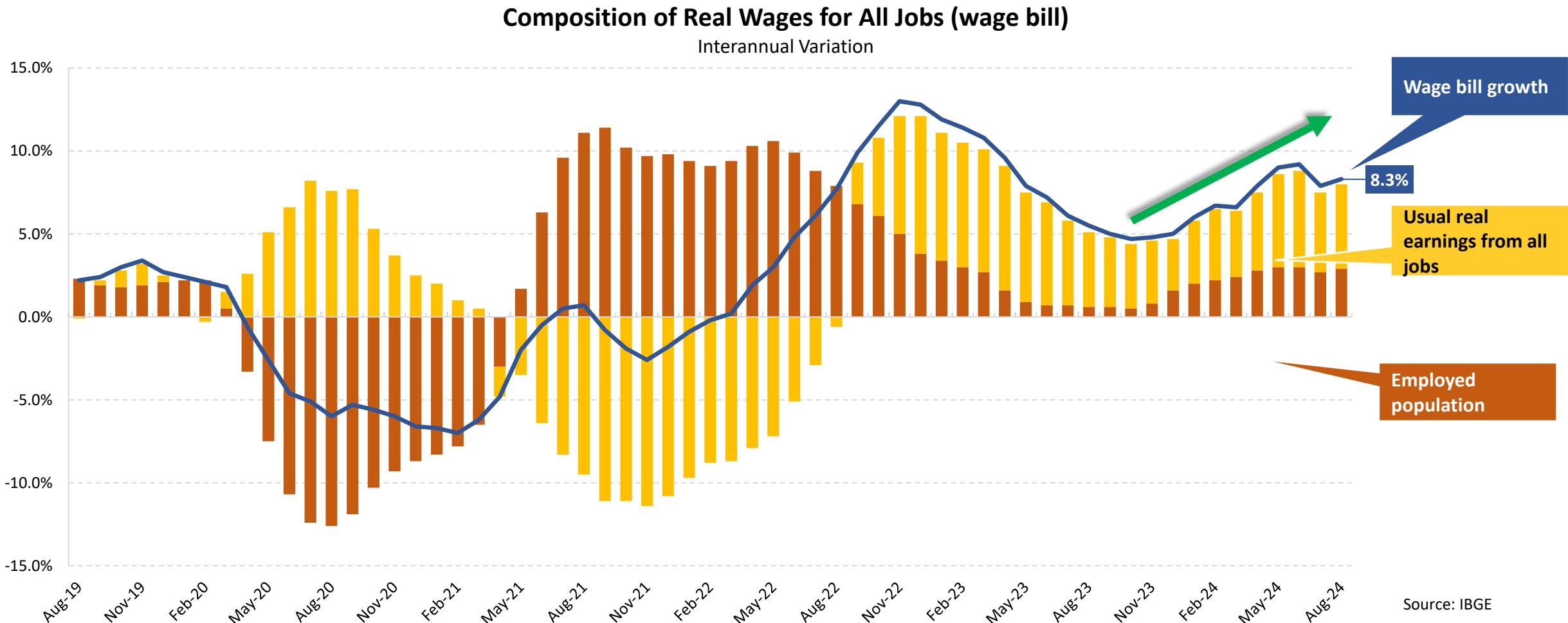
Brazil: Job Market Dynamism



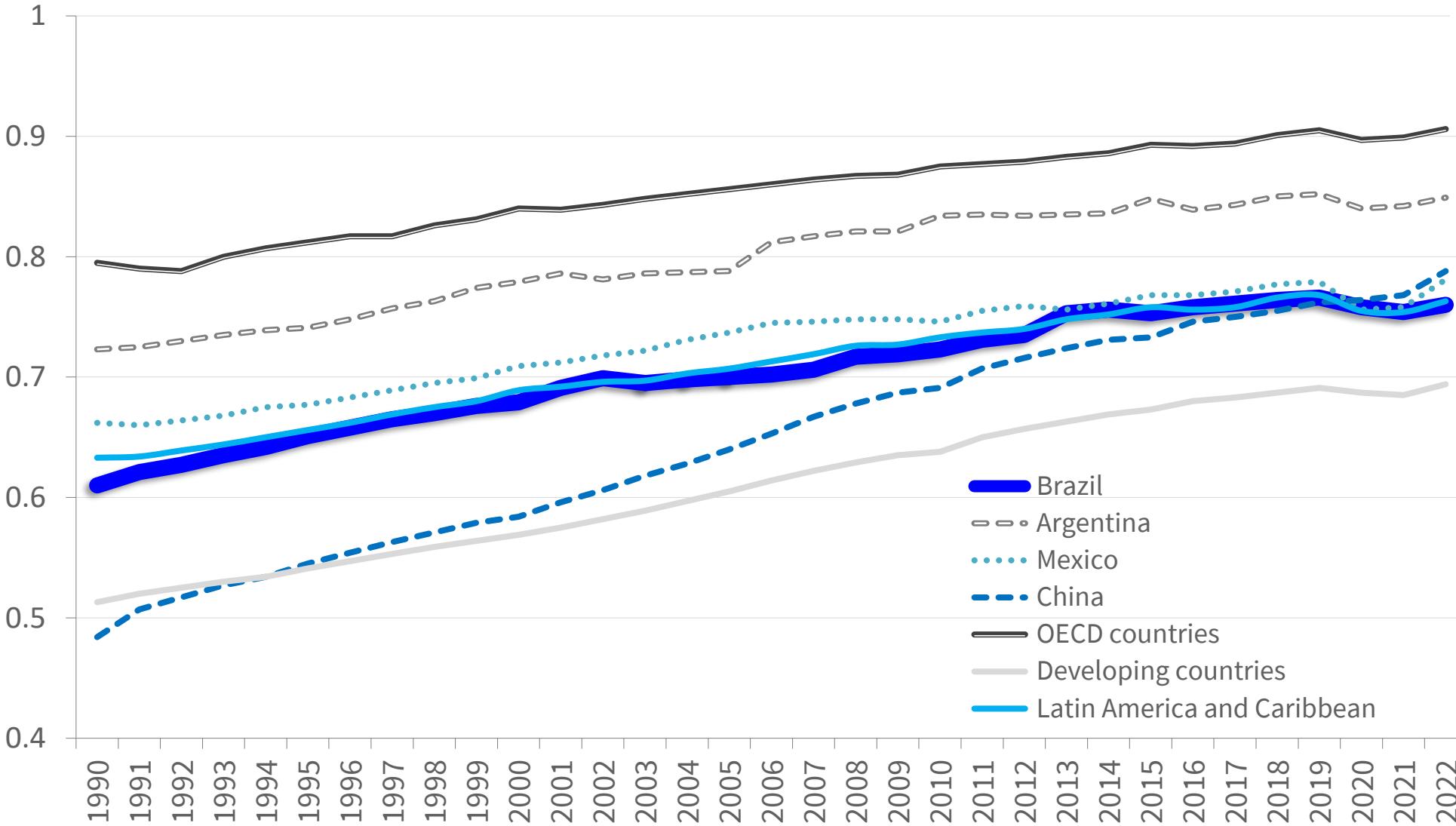
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

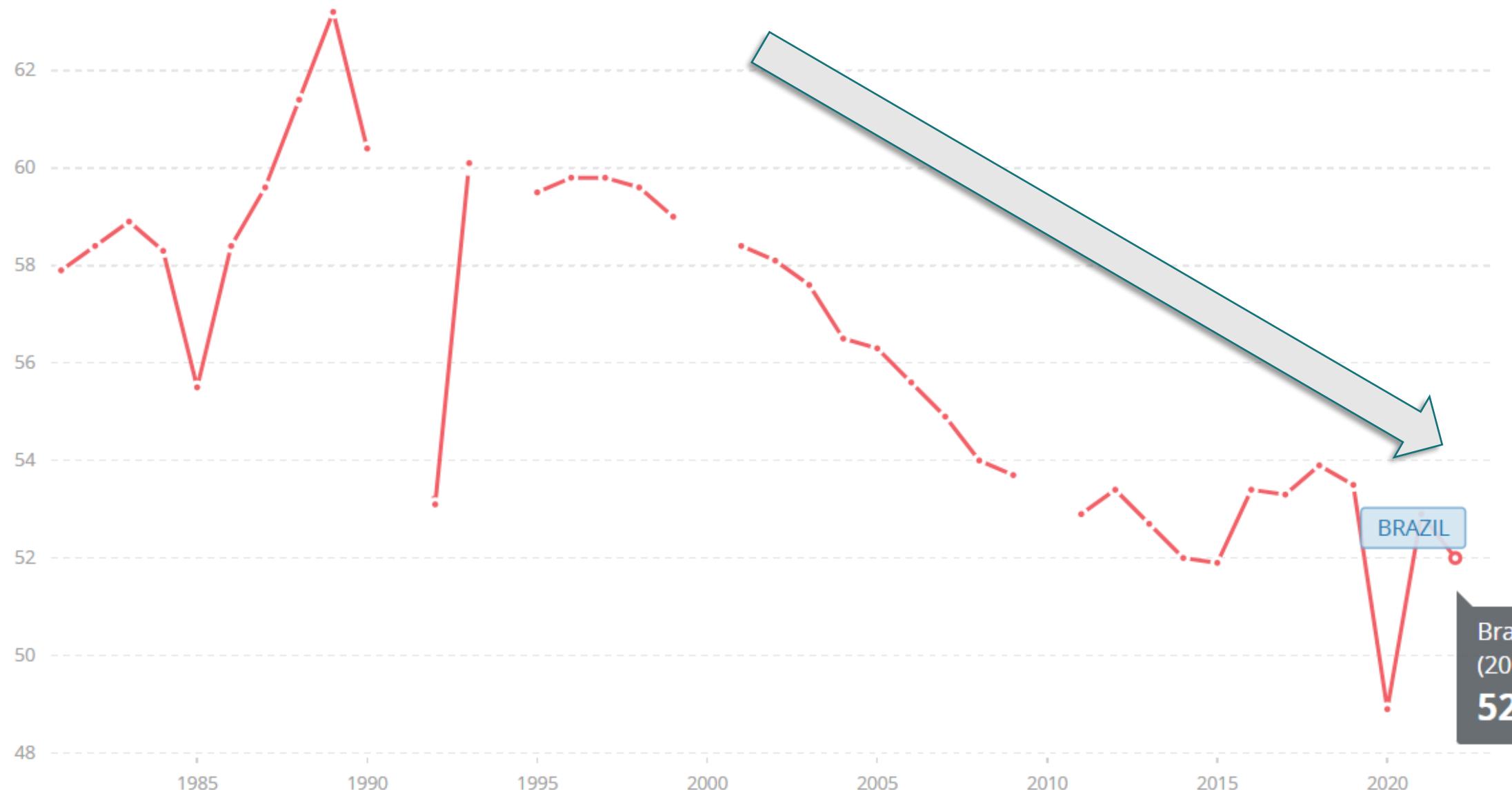
BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



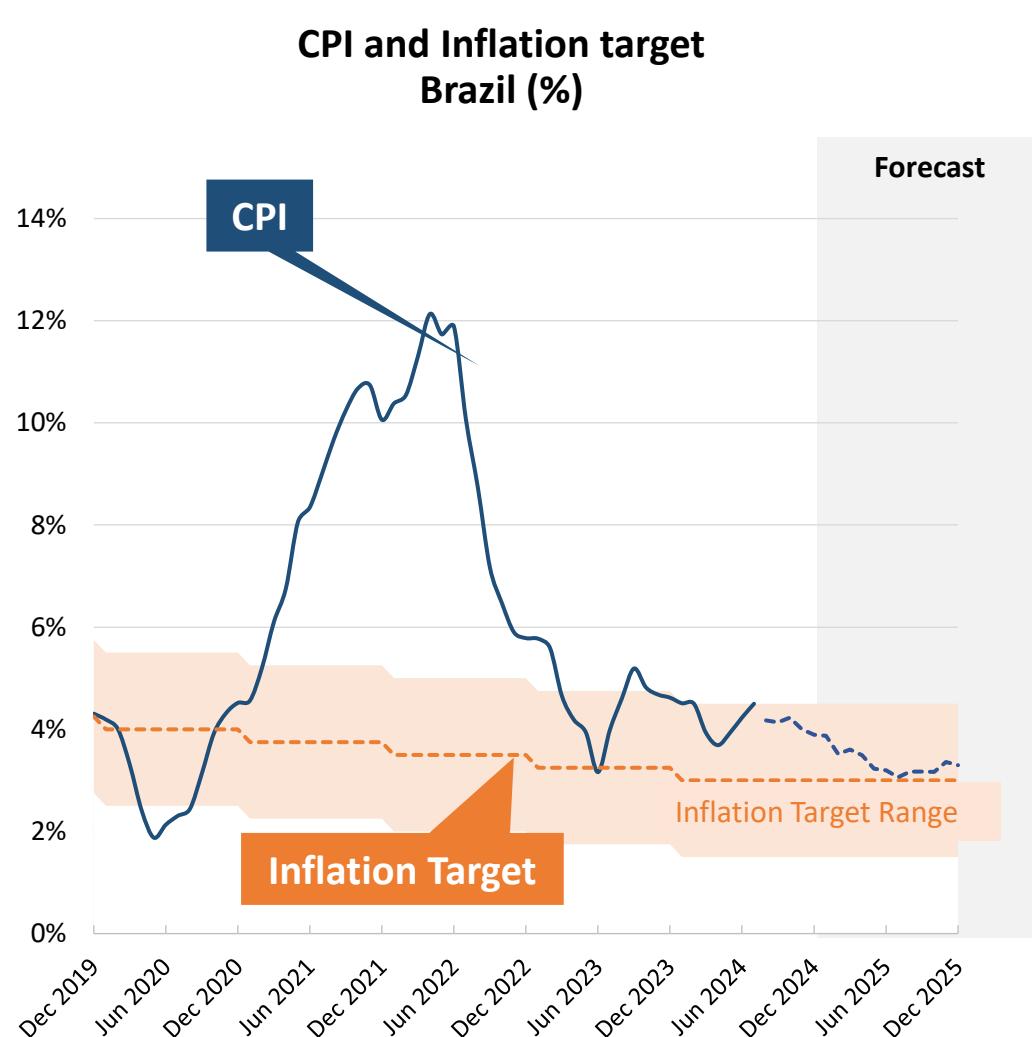
Human Development Index



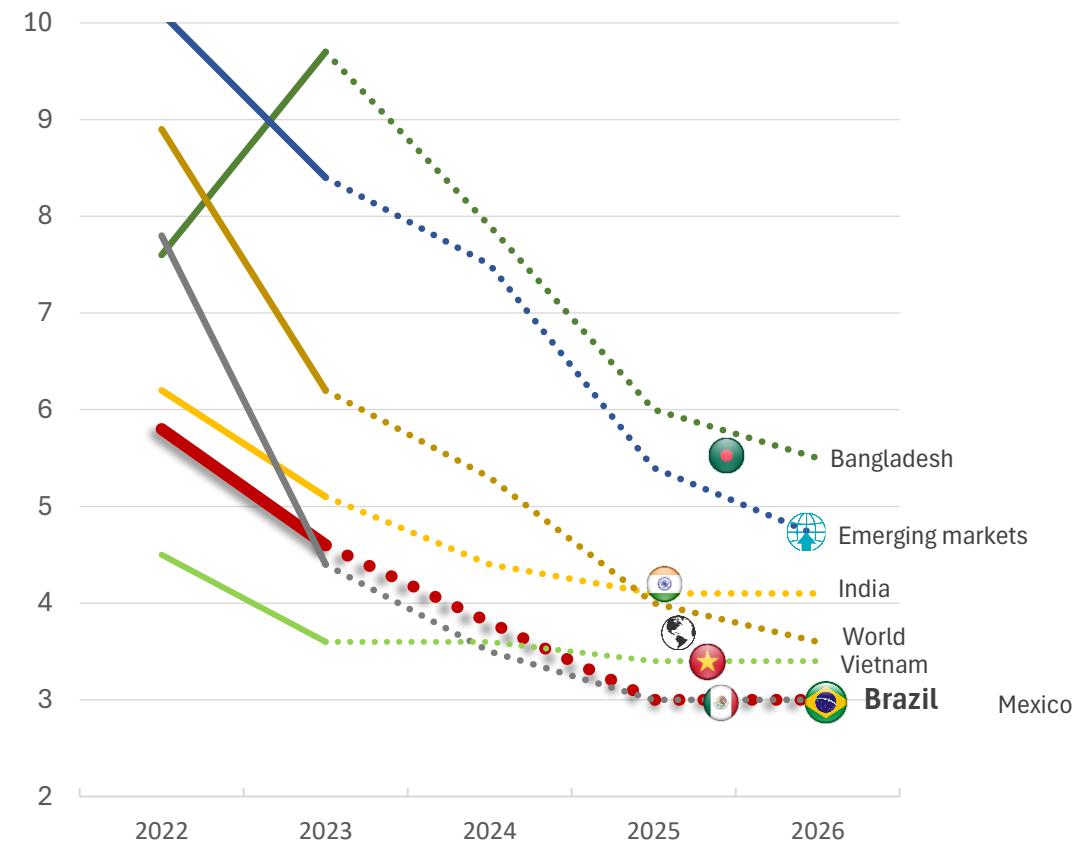
Income Inequality



Purchasing Power Stability



CPI selected countries and areas (%)



Okun's Misery Index



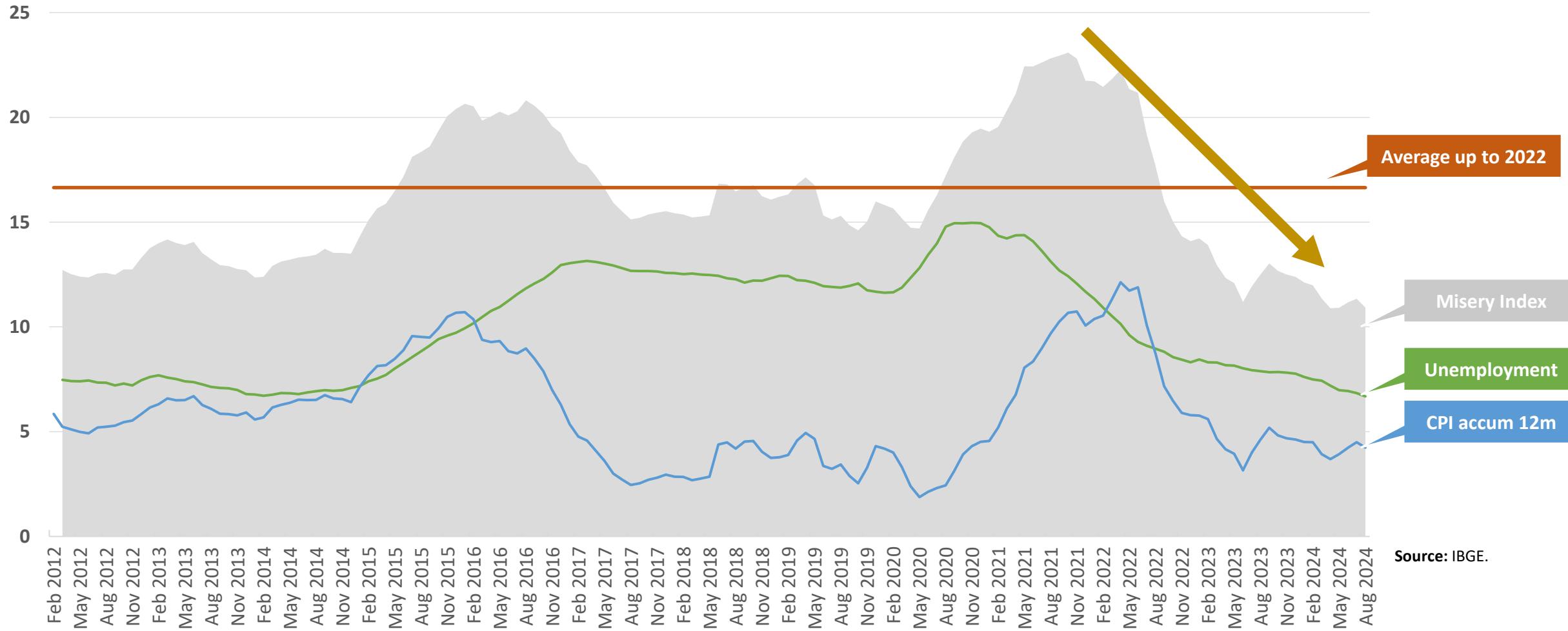
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



(Inflation + Unemployment)



Hanke's Misery Index



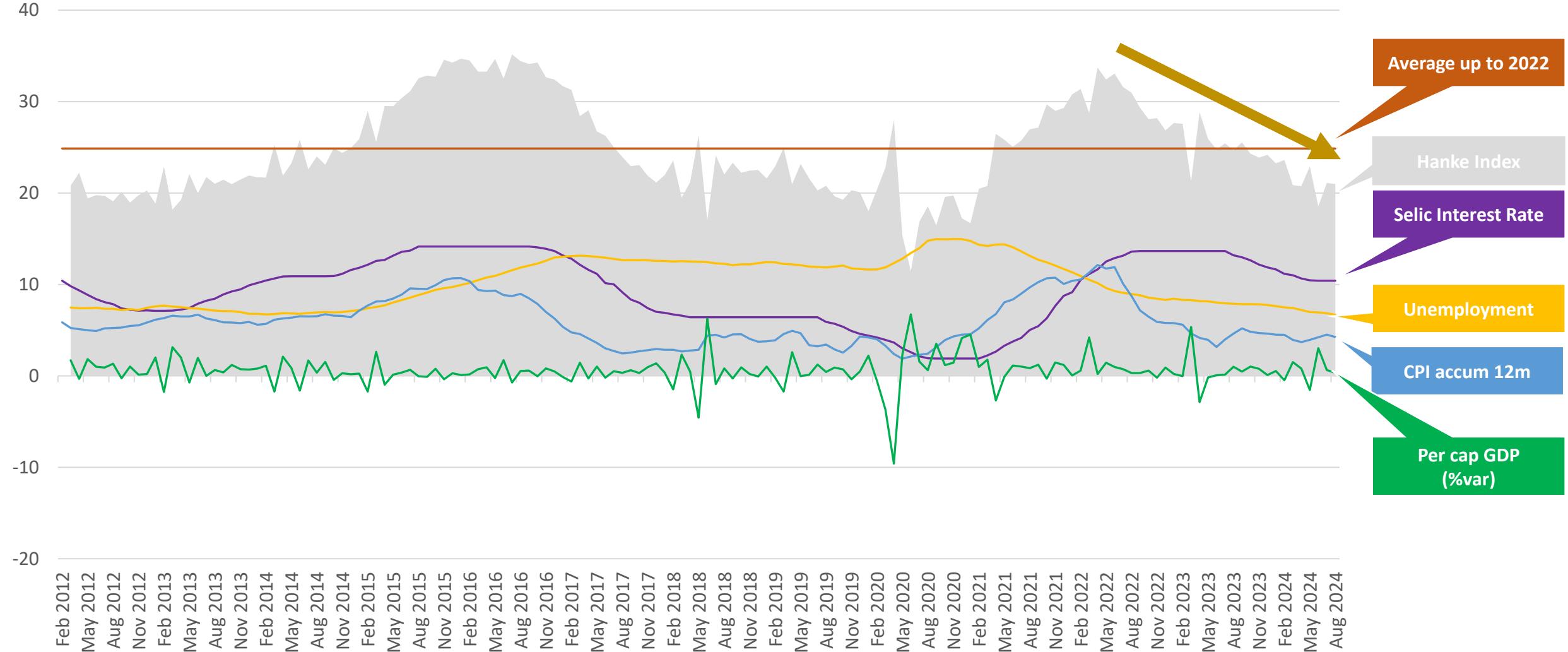
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



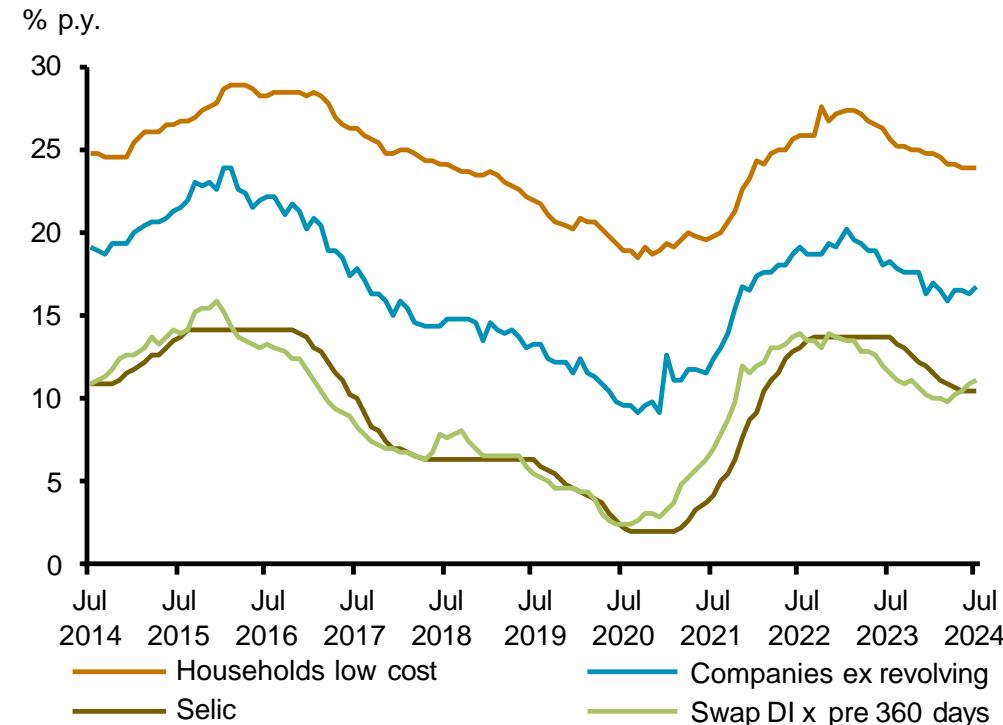
[Inflation + Unemployment + Interest Rate - GDP per capita]



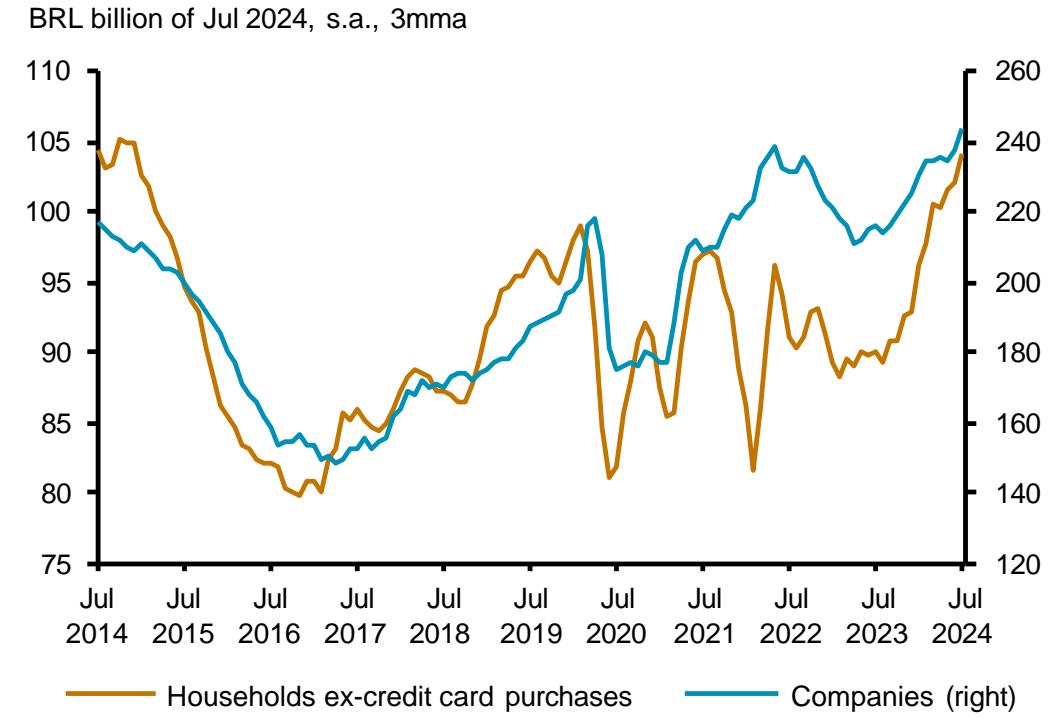


The credit market continued to show dynamism, with an expansion in non-earmarked credit granting and stable delinquency rates and improving supply and demand conditions.

Non-earmarked interest rates



Non-earmarked new credit operations



Credit Interest Rate and Spread



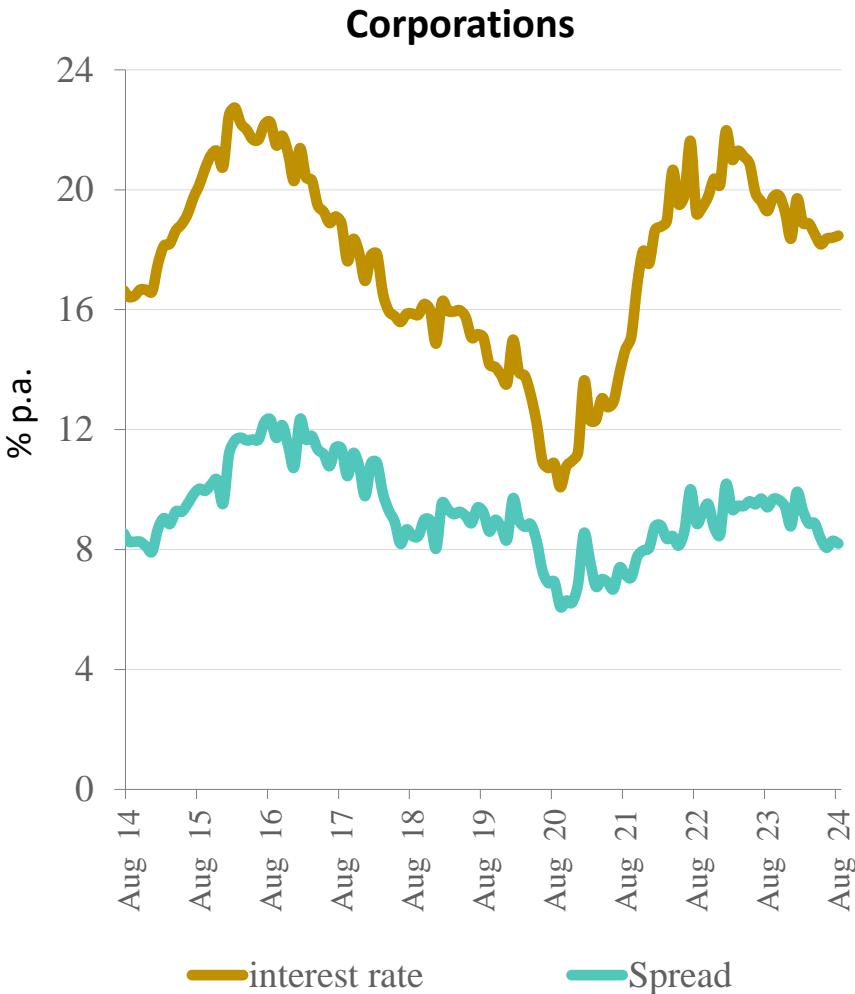
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



**BANCO CENTRAL
DO BRASIL**



Growing Financial Inclusion



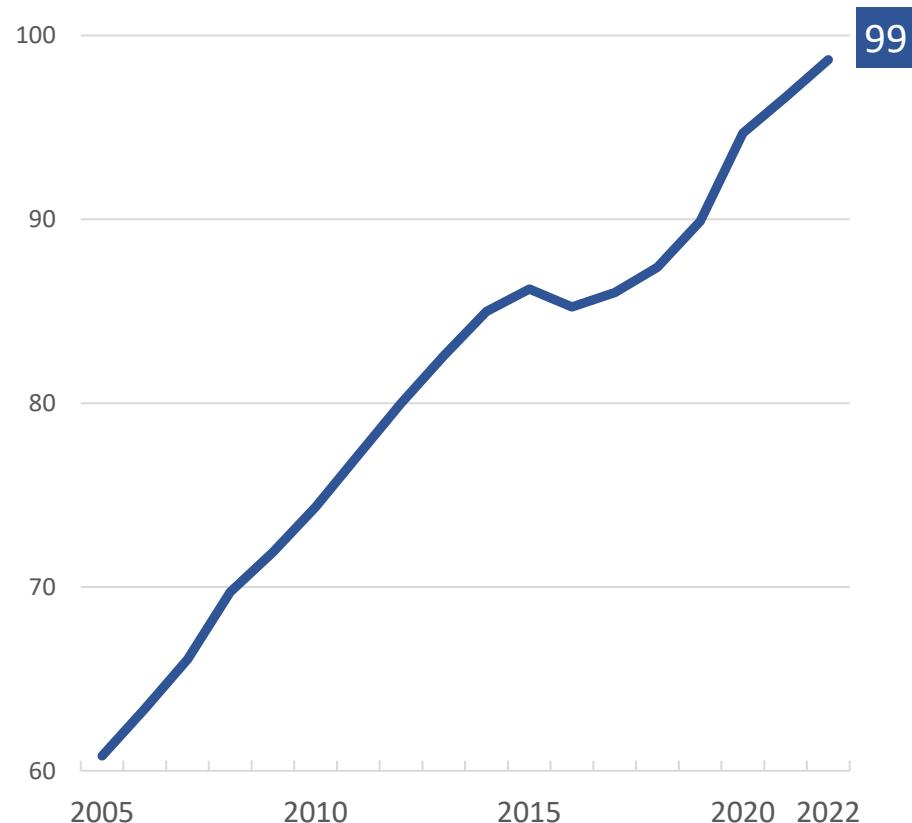
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

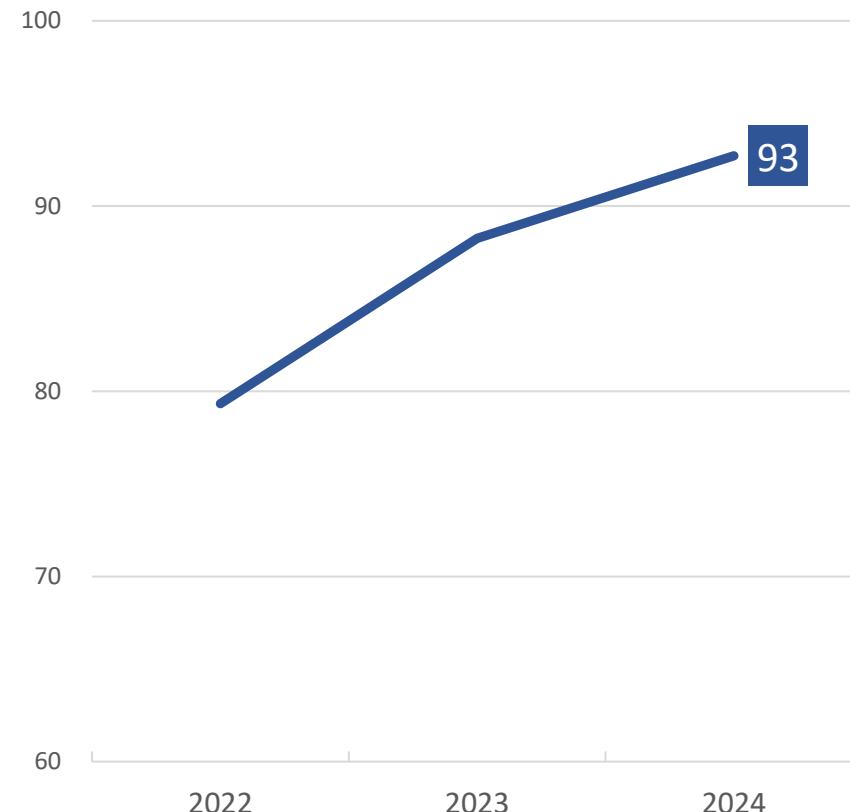
BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



Adults with a Banking Relationship, %



**Active Instant Payment Users
pop. 14+, %**

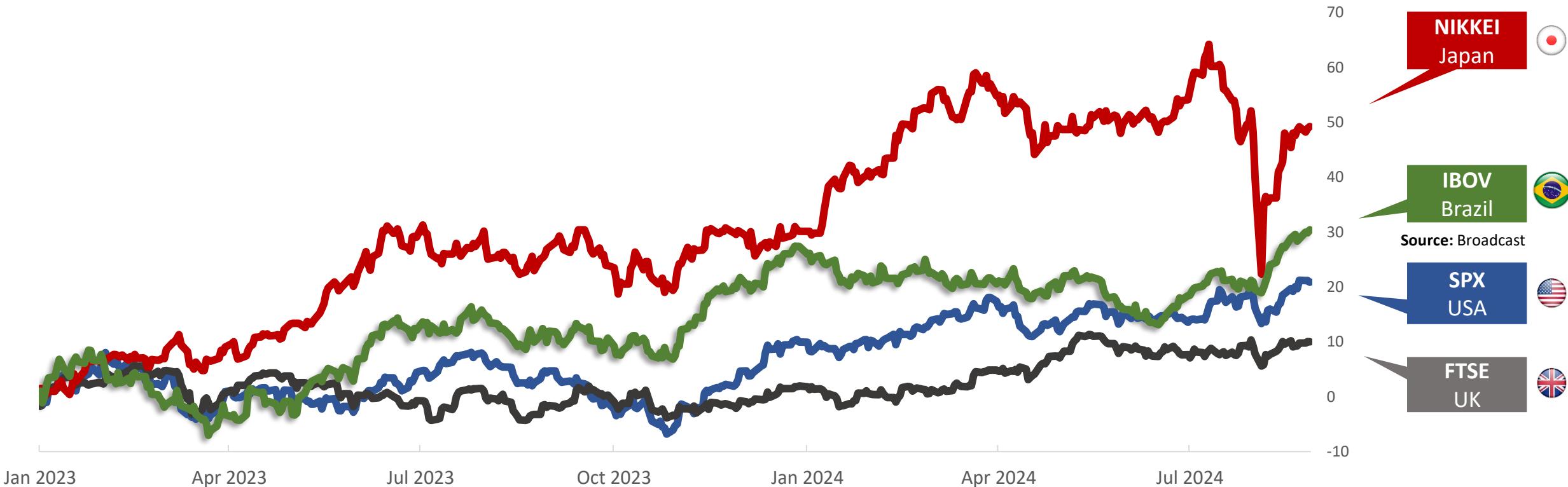


Sources: BCB (lhs),
BCB, IBGE (rhs)



Post-Pandemic Shifts in Equity Market Performance

Ibovespa, S&P 500, FTSE 100, Nikkei 225, 26 Aug 21 – 27 Aug 24 (%)



FGV Confidence Indices



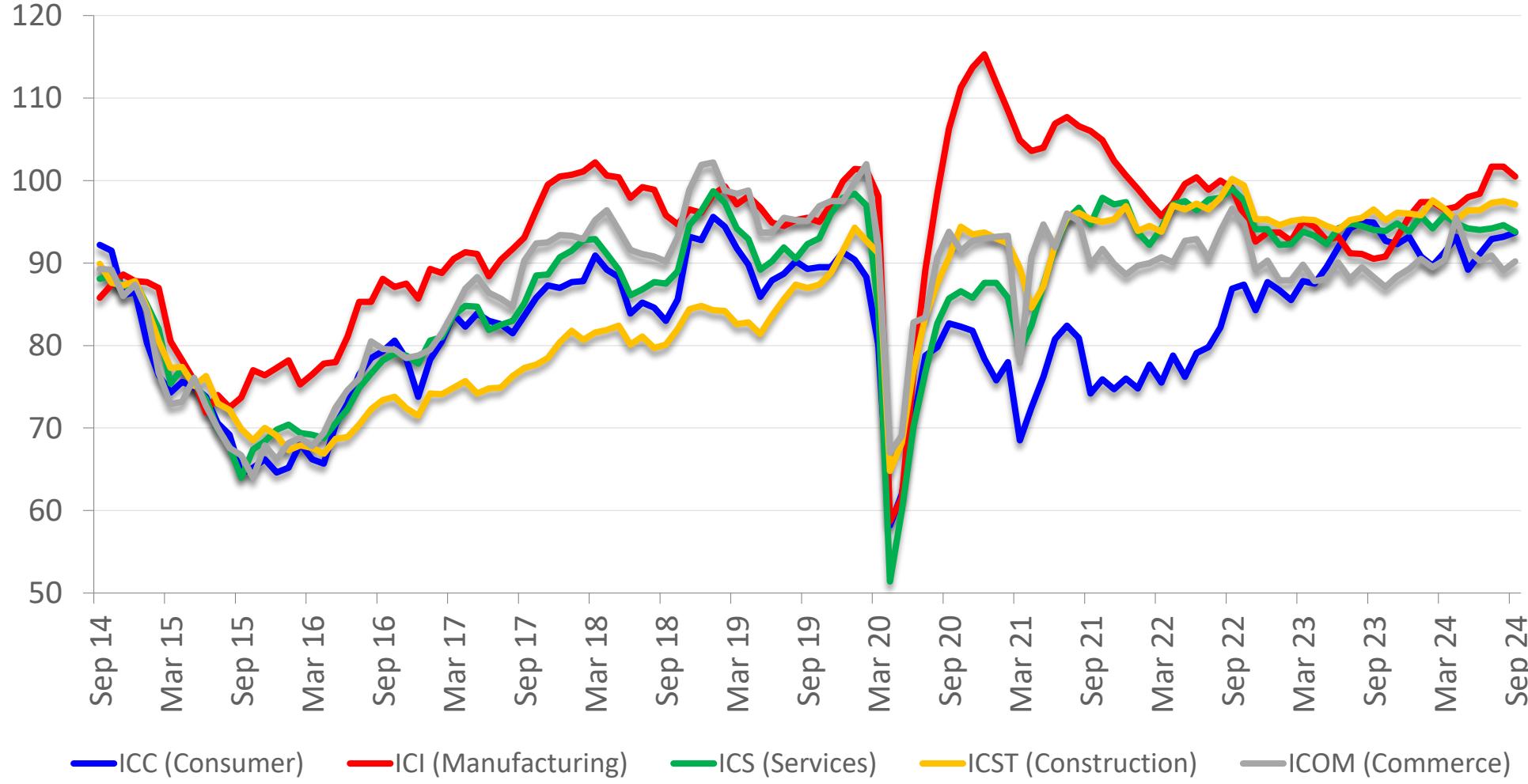
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



BANCO CENTRAL
DO BRASIL



Industrial Capacity Utilization



EXECUTIVE
SECRETARIAT

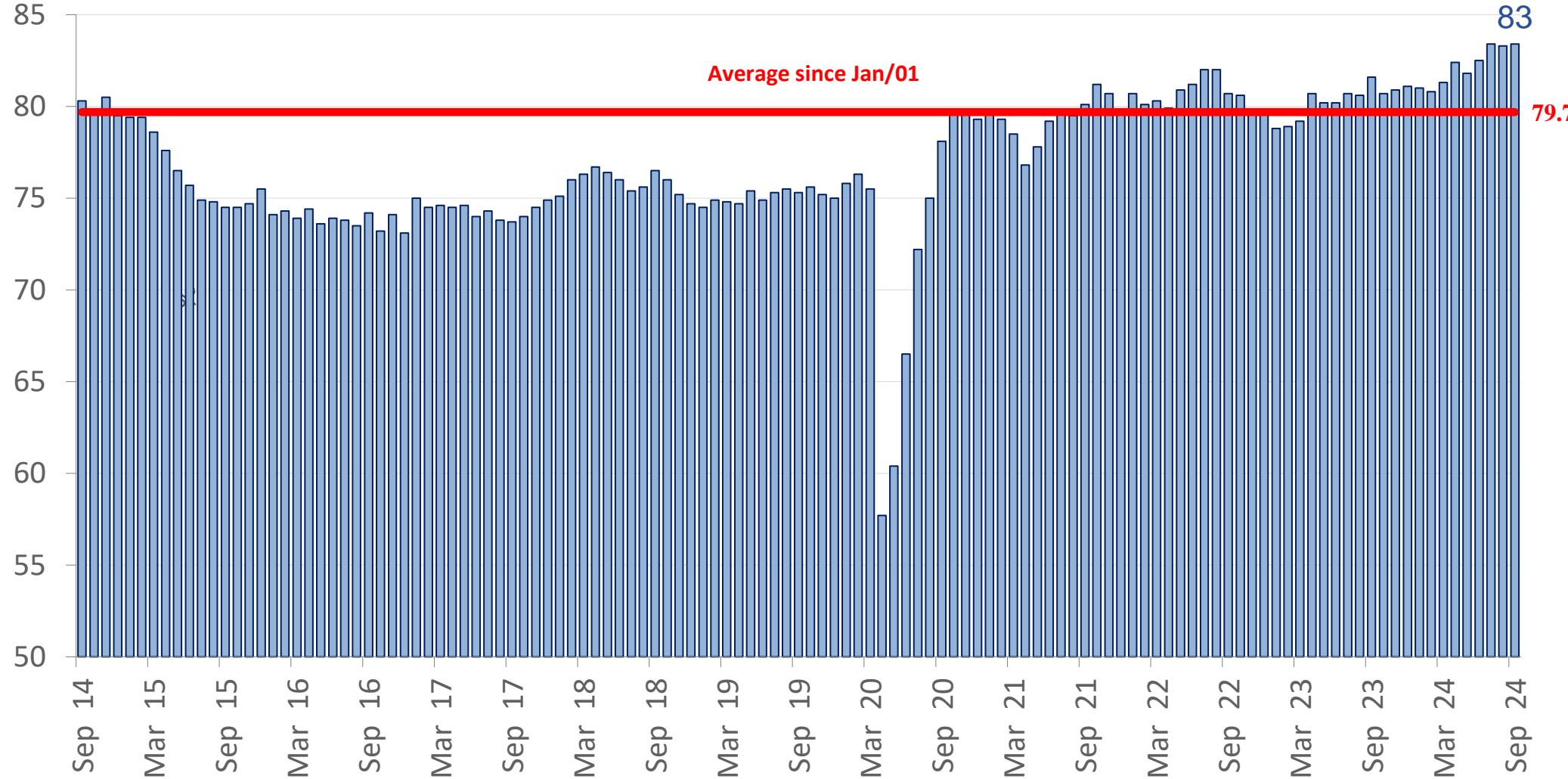
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



Seasonally adjusted

**BANCO CENTRAL
DO BRASIL**

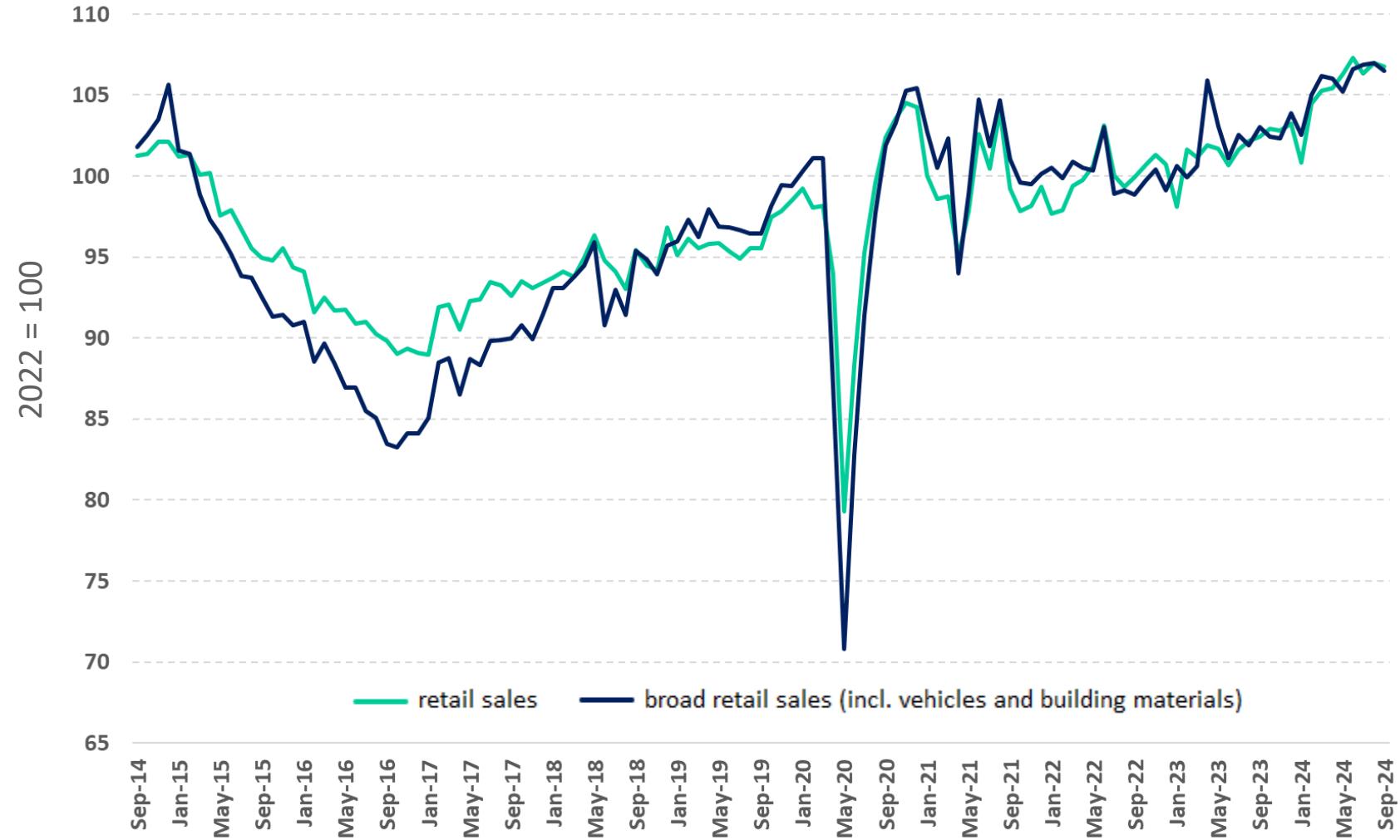


Source: FGV

Retail Sales



Seasonally adjusted



Source: IBGE

* incl. vehicles, materials, and wholesale of food, beverages and tobacco.

Terms of Trade - ToT



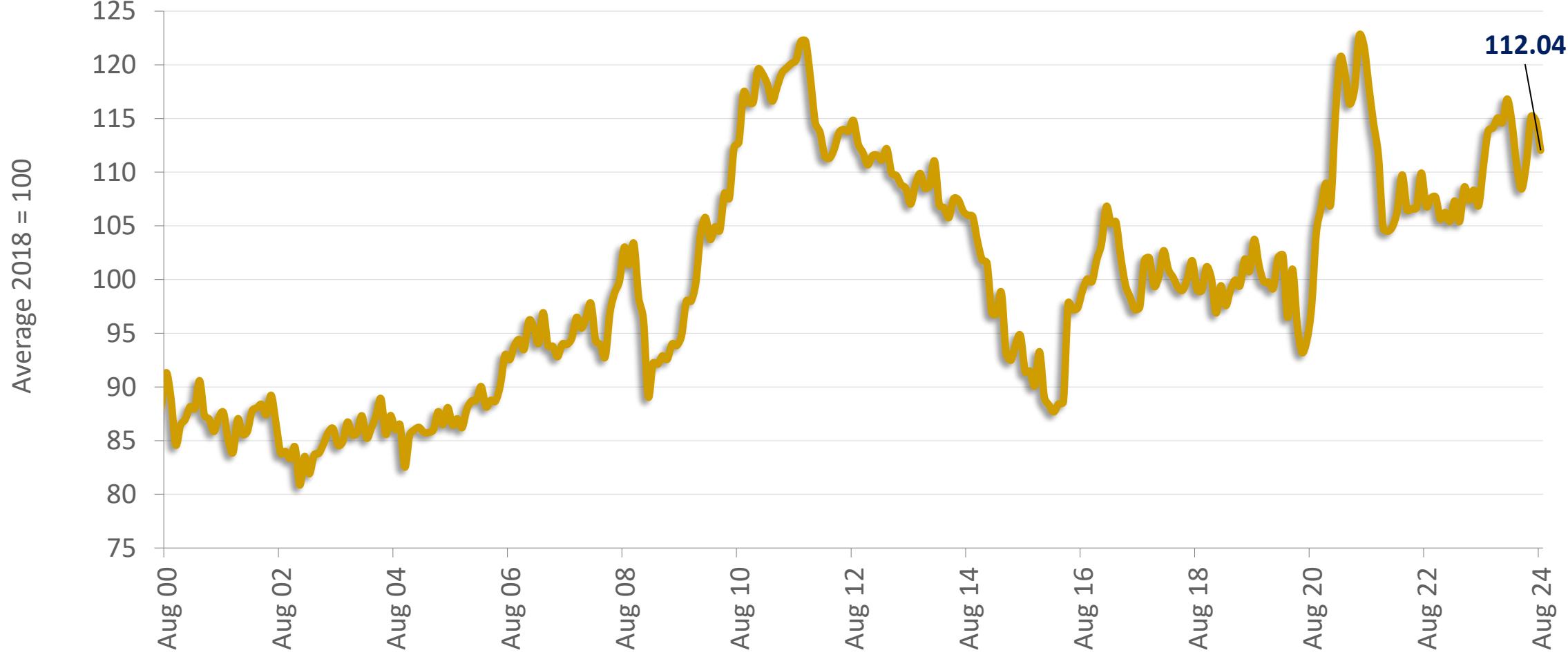
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



**BANCO CENTRAL
DO BRASIL**



Source: Funcex

Trade Balance – Exports and Imports



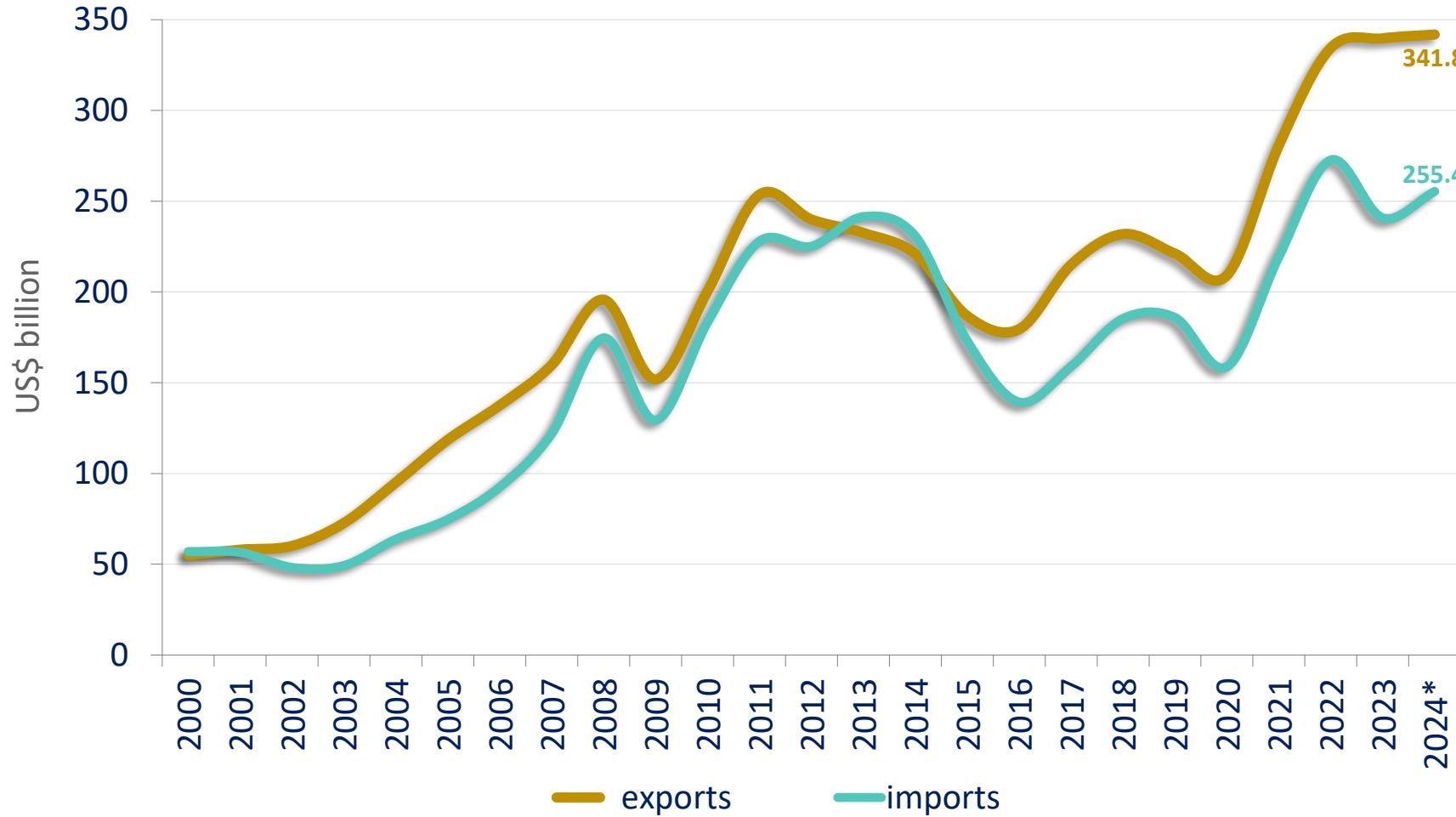
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



BANCO CENTRAL
DO BRASIL



* 12 months until Sep 24

International Reserves vs. Net External Debt



EXECUTIVE
SECRETARIAT

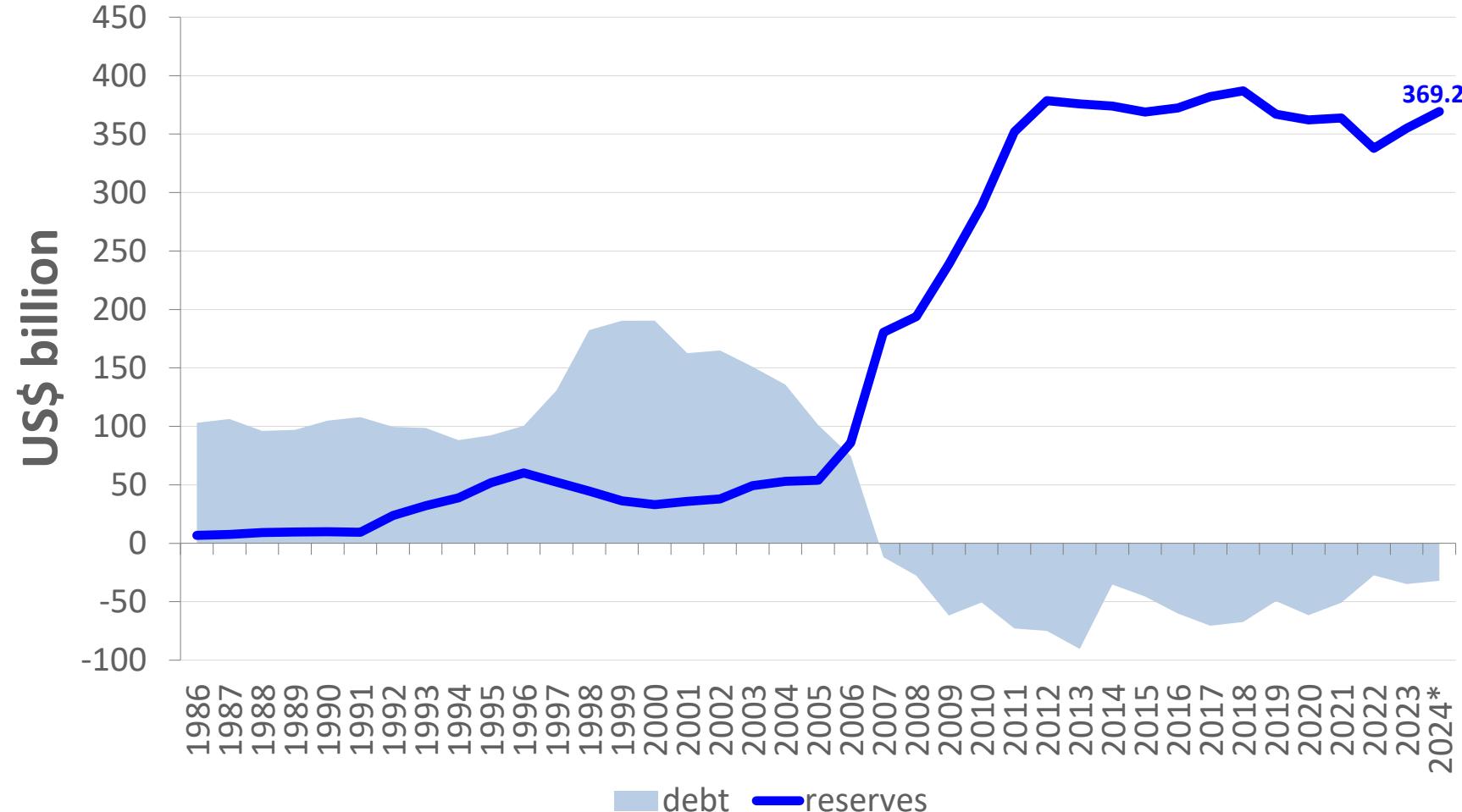
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



(Private and Public)

**BANCO CENTRAL
DO BRASIL**



*reserves on June 30th; debt in August 24 (estimated)

Obs: International reserves - Liquidity concept

External Accounts



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING

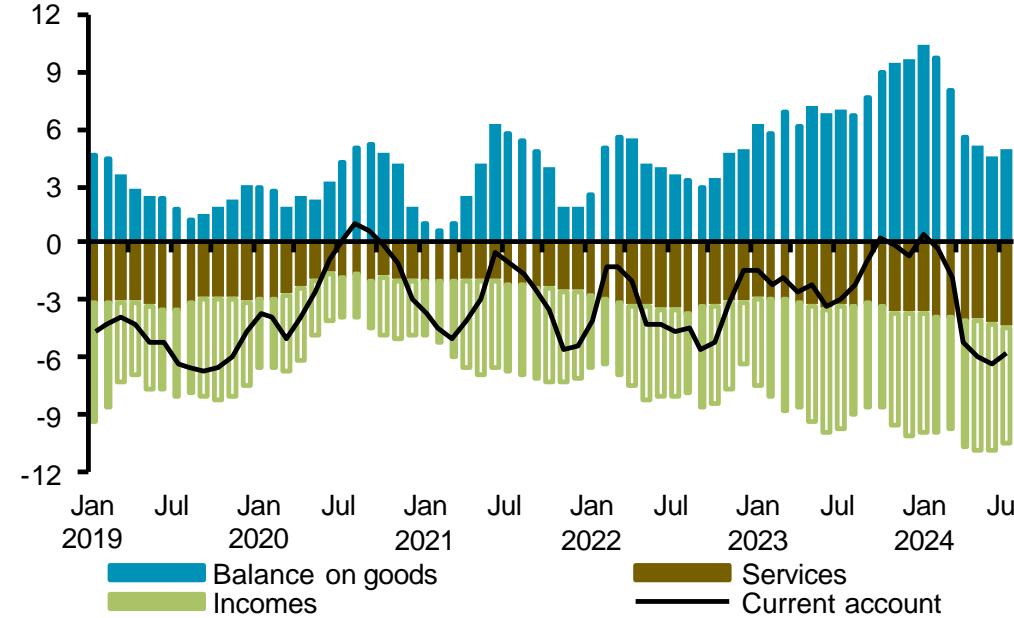


BANCO CENTRAL
DO BRASIL

A still **comfortable external accounts** situation – characterized in recent months by increased current account deficit and **stable net inflows of direct investment liabilities**.

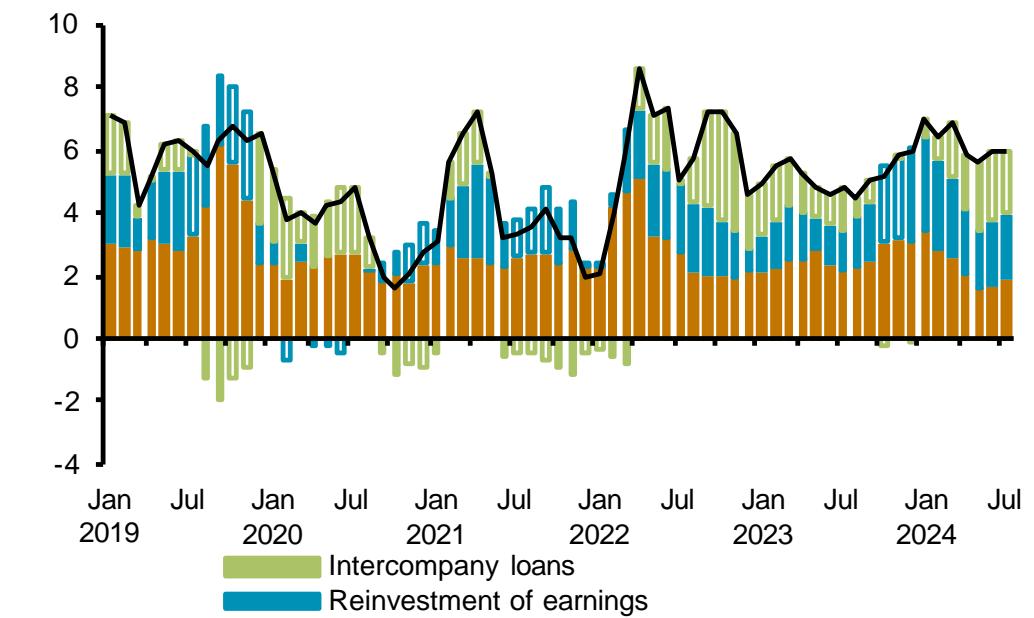
Current account

USD billion, 3mma s.a.



Direct investment liabilities

USD billion, 3mma s.a.



Credit Default Swap (5 Years)

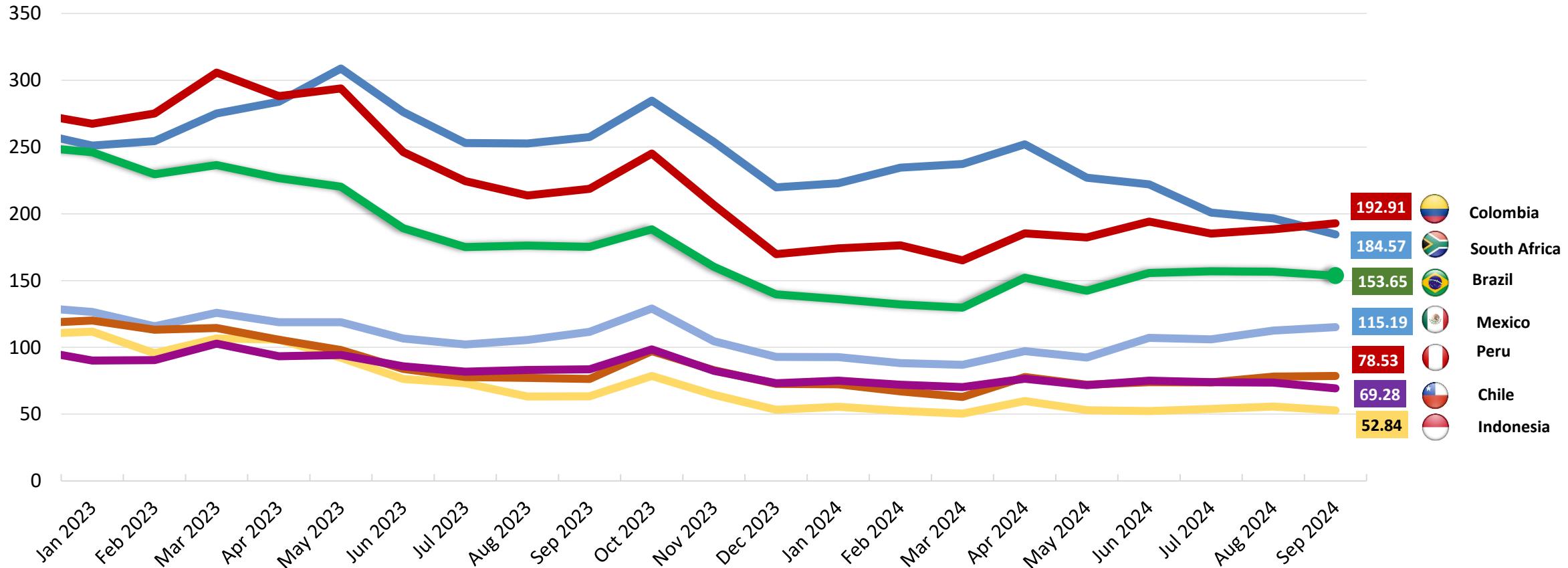


EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

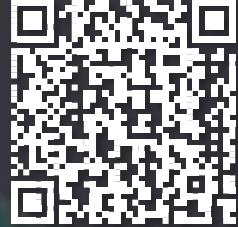
BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Monthly Moving Average



Source: Bloomberg



Potential GDP?



Recovery in economic activity



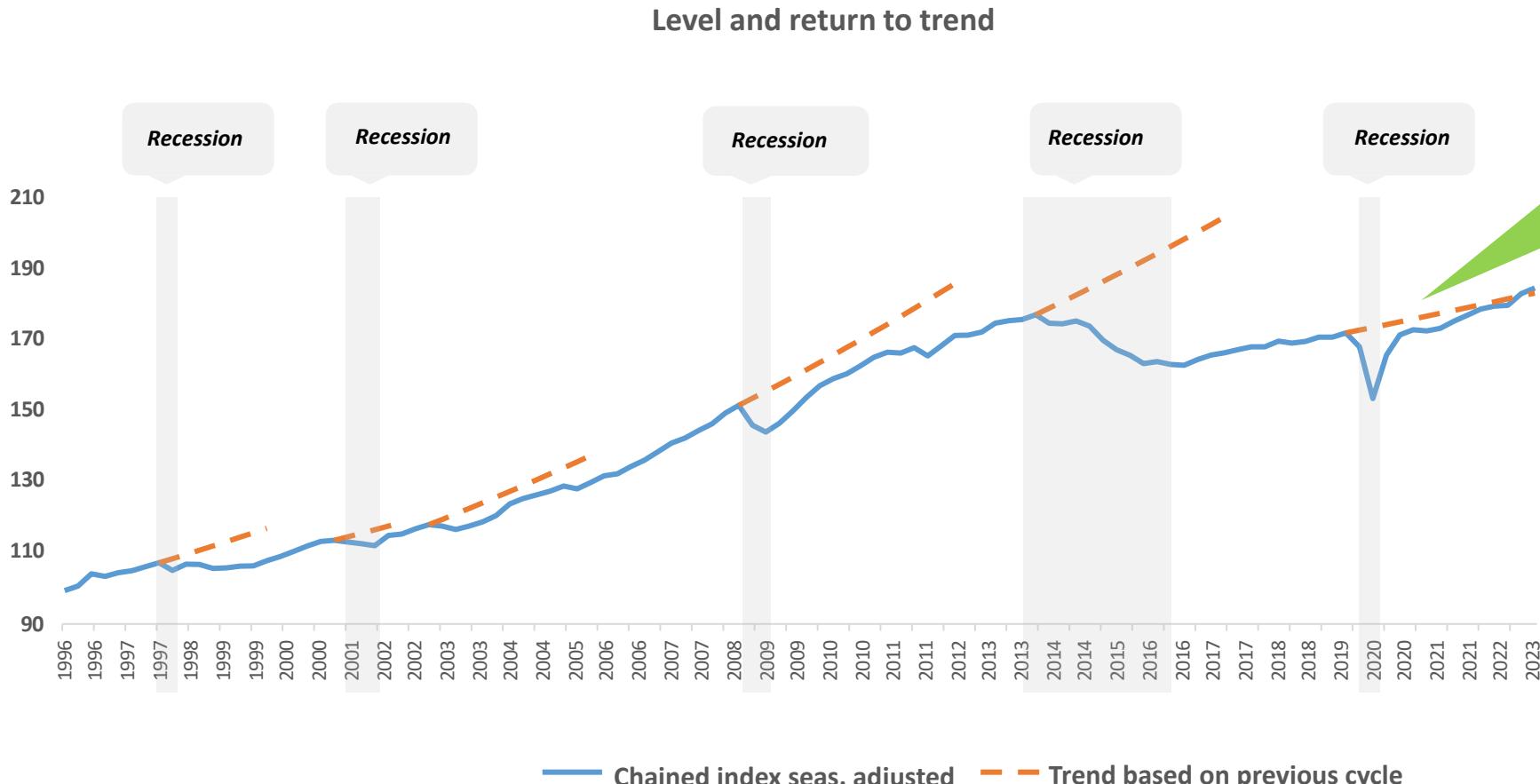
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Stronger than indicated by trend for the first time



For the first time Brazil returned to previous level, surpassing trend from previous cycle despite less inclined activity trajectory.

All types of recessions, on average, not just those associated with financial and political crises (as in Cerra and Saxena, AER 2008), lead to permanent output losses (Cerra and Saxena, 2017).

Source: IBGE and CODACE

Strong Activity Post Pandemic



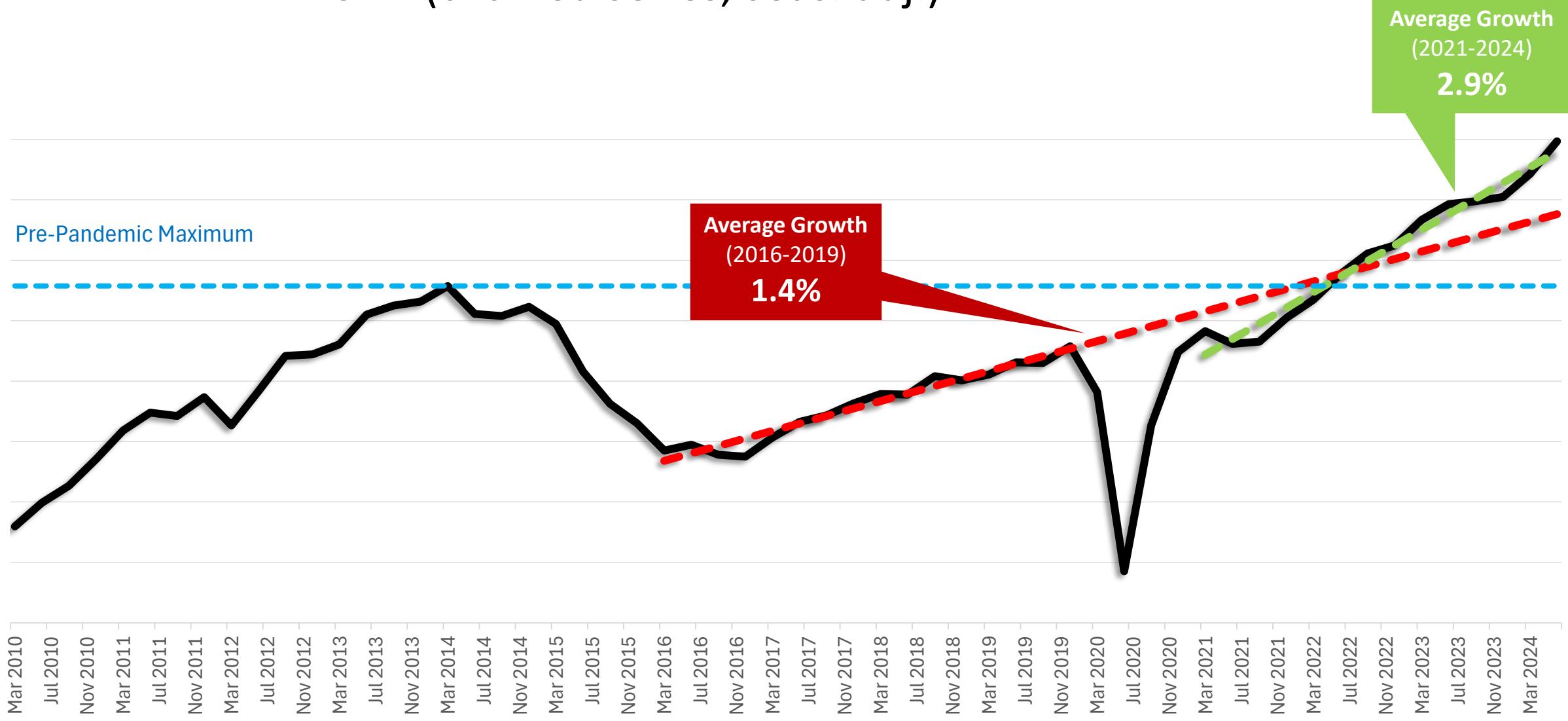
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



GDP (chained series, seas. adj.)



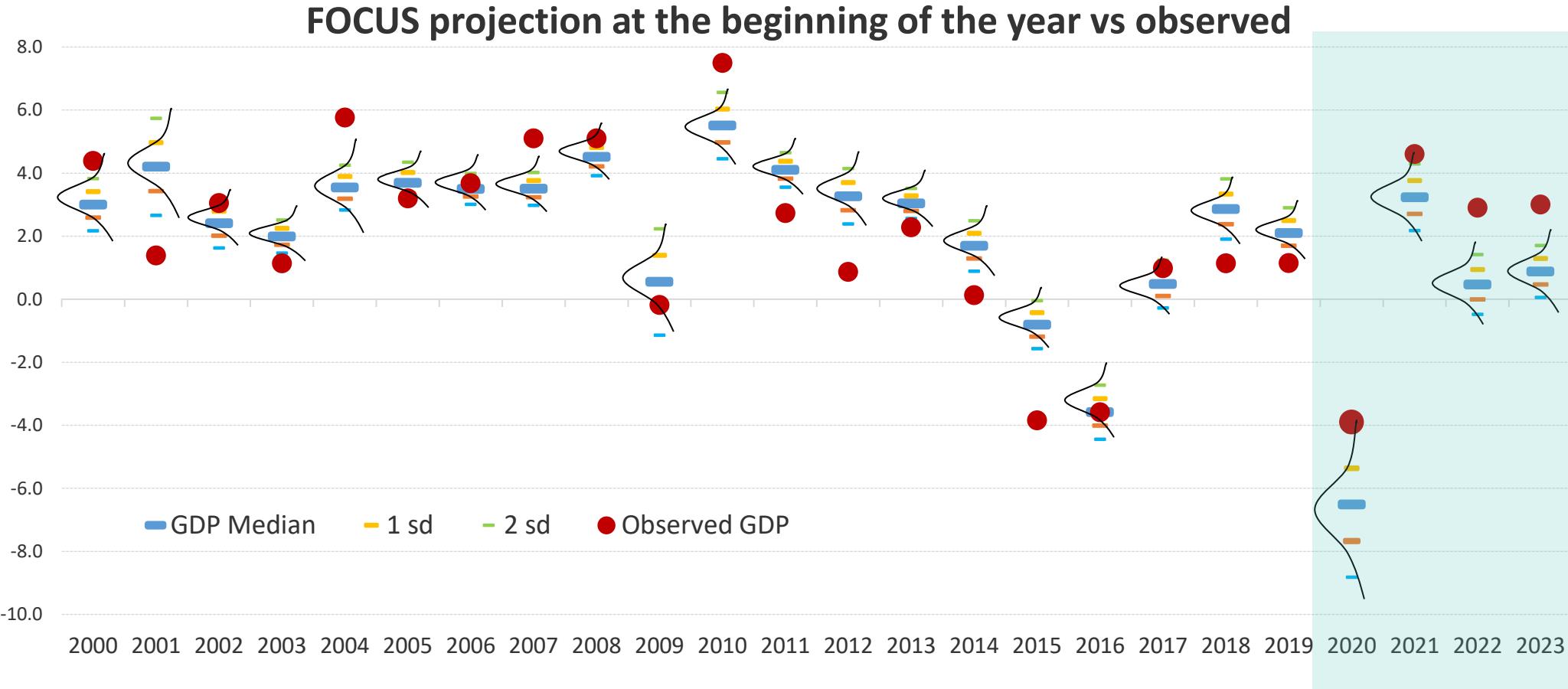
Systematic Errors in GDP Forecasting



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Source: BCB e IBGE. Preparation CIEF/UnB. The initial projection was considered to be that made by Focus in March of each year. For the year 2020, due to the outbreak of the pandemic, the June projection was used. For the year 2023, the statistical loading for the data carried out is considered. Farmer, Leland E. and Nakamura, Emi and Steinsson, Jón; Learning About the Long Run, *Journal of Political Economy*, Volume 132, Number 10, October 2024.

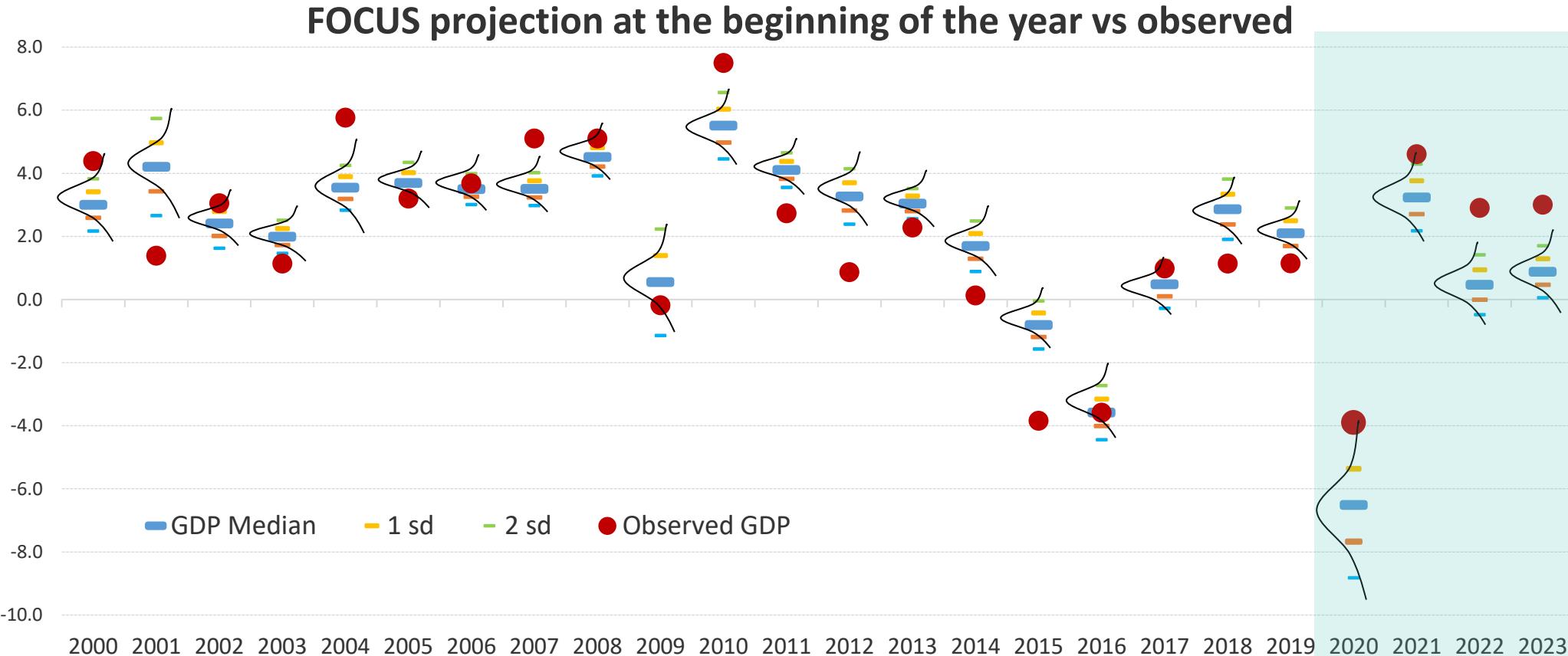
Systematic Errors in GDP Forecasting



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



2024
LOADING...

Source: BCB e IBGE. Preparation CIEF/UnB. The initial projection was considered to be that made by Focus in March of each year. For the year 2020, due to the outbreak of the pandemic, the June projection was used. For the year 2023, the statistical loading for the data carried out is considered.

Market Expectations



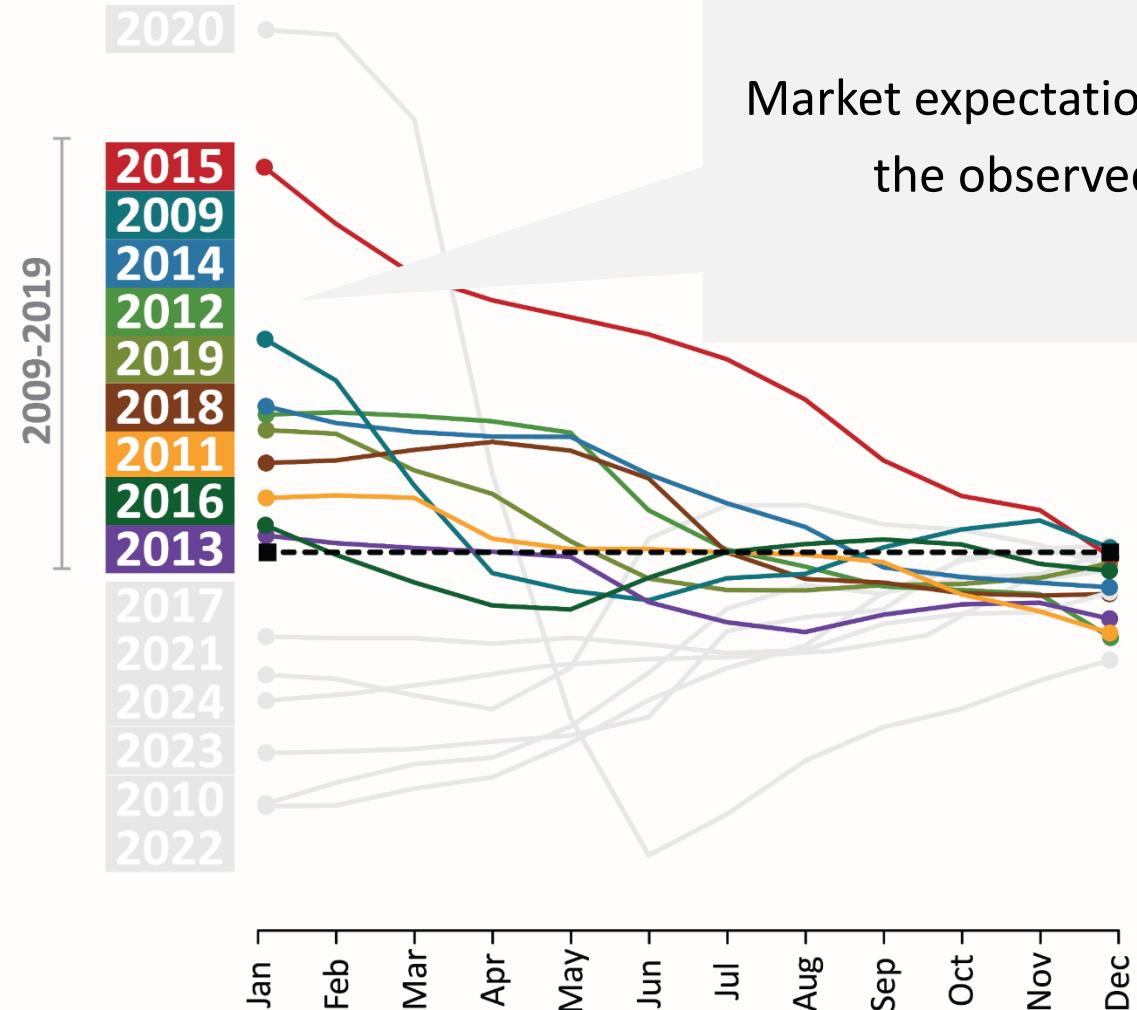
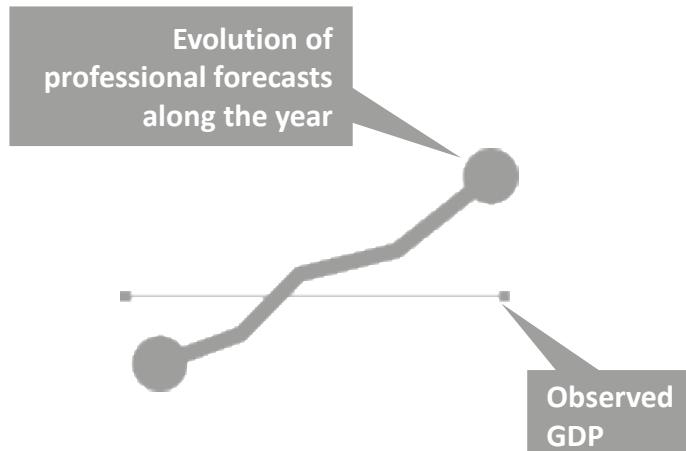
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



GDP growth Pre and Post Covid Patterns



Sources:
IBGE, BCB (lhs) IMF (rhs)

Market Expectations



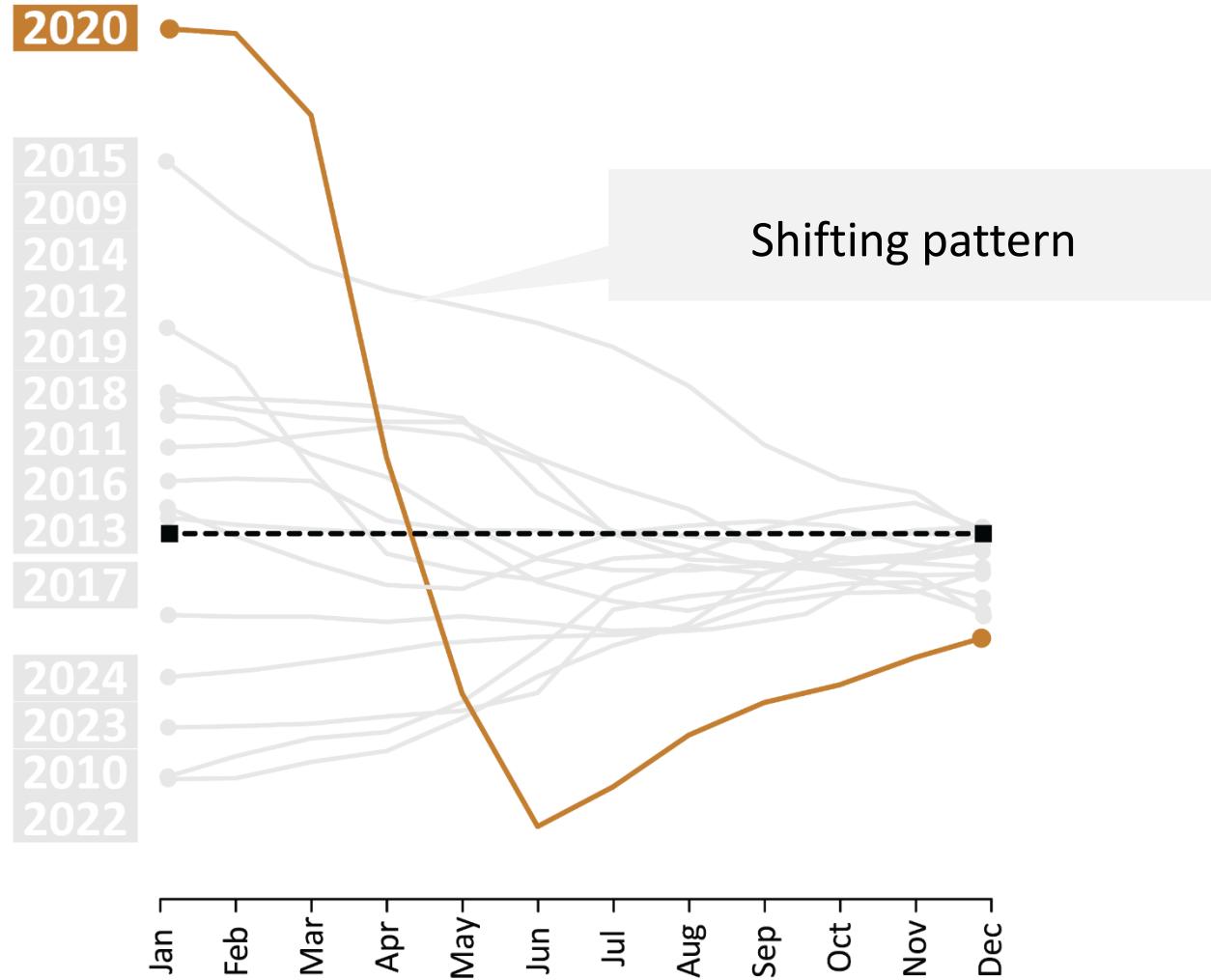
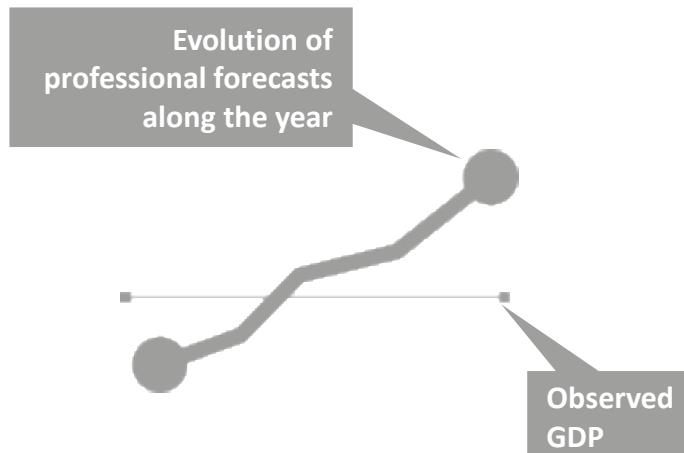
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



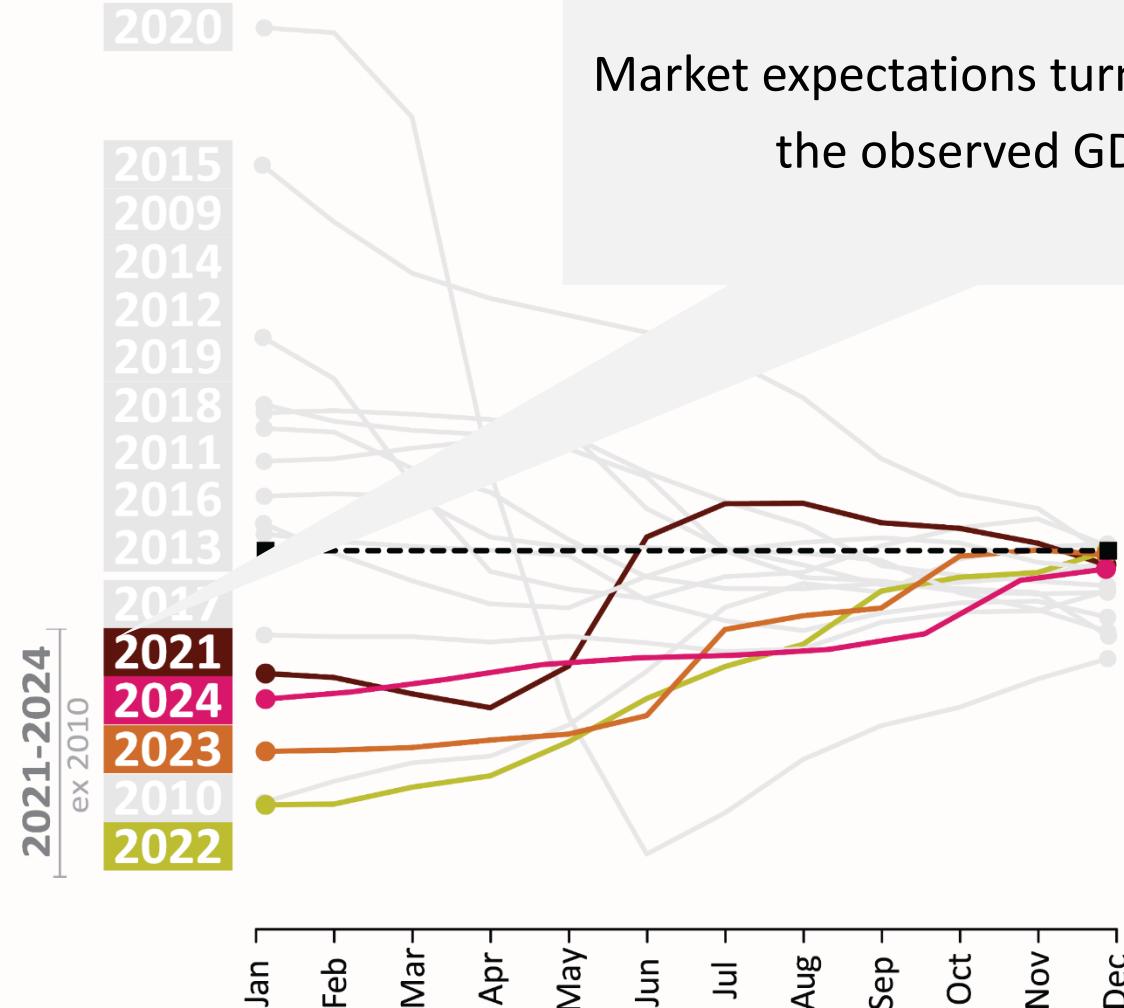
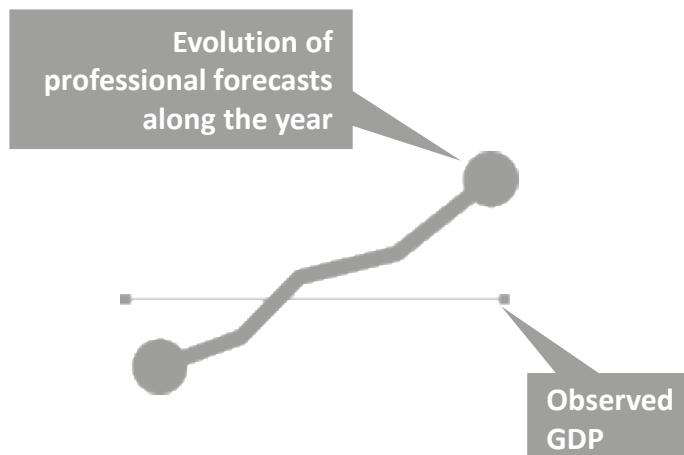
GDP growth Pre and Post Covid Patterns



Sources:
IBGE, BCB (lhs) IMF (rhs)



GDP growth Pre and Post Covid Patterns



Sources:
IBGE, BCB (lhs) IMF (rhs)



What's the secret? What we have done



The New Macroeconomic “Tripod”



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



The pillars are:

- I. Fiscal Responsibility:** Sustainable Fiscal Regime ([LC 200/2023](#)): a combination of a primary result target (Fiscal Responsibility Law – [LC 101/2000](#)) and a Spending Cap;
- II. Inflation Targeting:** the goal is to keep inflation within a predetermined range set by the National Monetary Council (CMN). The Central Bank of Brazil is responsible for setting the interest rate (Selic) to achieve this target. ([Decree no. 3088/1999](#)) and;
- III. Floating Exchange Rate Regime:** “dirty” floating, the value of the Brazilian real relative to other currencies is determined by market forces, without direct and continuous government intervention to fix or manipulate the exchange rate ([L 14,286/2021](#)).



In February **2021**, after **30 years of debate**, Complementary Law No 179 took effect.

It granted “technical and operational autonomy” to the Central Bank of Brazil (**de jure autonomy**).



New Inflation Targeting Regime



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Inflation-targeting regime

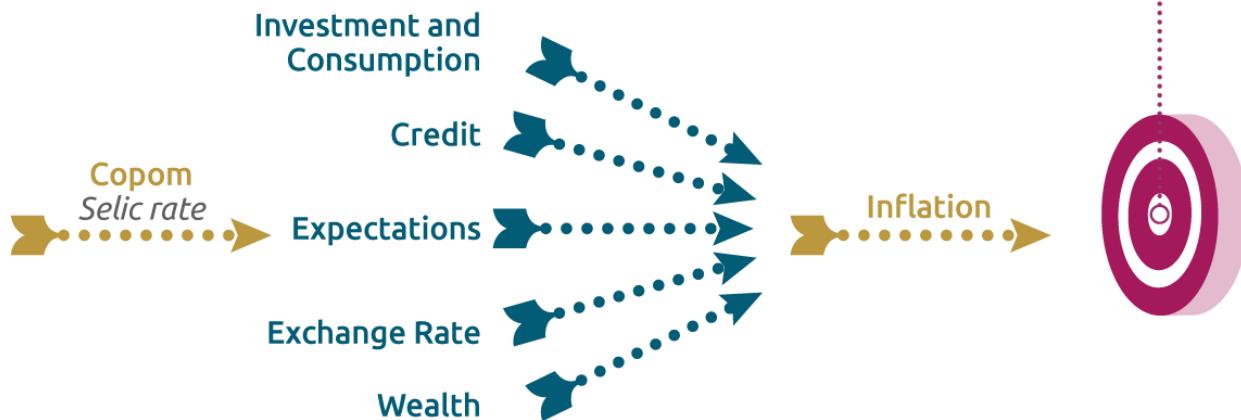
It is the policy framework in place in Brazil to guarantee price stability in the economy

- 1 The National Monetary Council (CMN) establishes the target for inflation
- 2 To keep the inflation under control, the Copom sets the target for the Selic rate
- 3 To keep the Selic rate close to the target, the BCB conducts open market operations (purchase and sale of public securities)
- 4 The Selic rate affects inflation through several channels

INFLATION TARGET

The target makes monetary policy more predictable and gives a clear message about BCB's commitment to price stability

Transmission channels of monetary policy:



"Brazil's recent decision to adopt a continuous (rather than calendar year) 3 percent inflation rate target from 2025 onward is a concrete example of an improvement in operational effectiveness and communications strategy, helping to reduce uncertainty and enhance monetary policy effectiveness."

(WEO, October 2023, page 60).

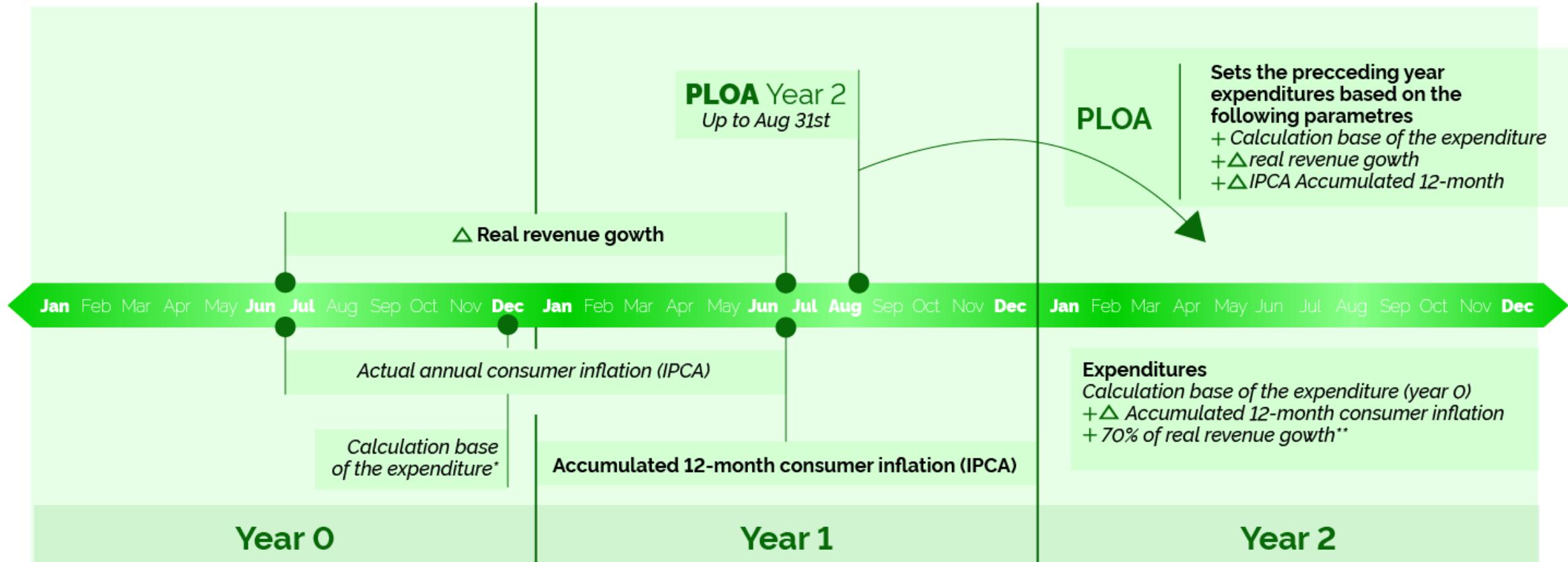
New Sustainable Fiscal Framework



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



*Consider the primary expenditures exclusions according to the law.

** The range of the expenditure real growth is between 0,6% to 2,5%. If the primary result target is not accomplished, the expenditure growth factor will be reduced to 50%

*** Real expenditure growth in the first year will be 2,5%

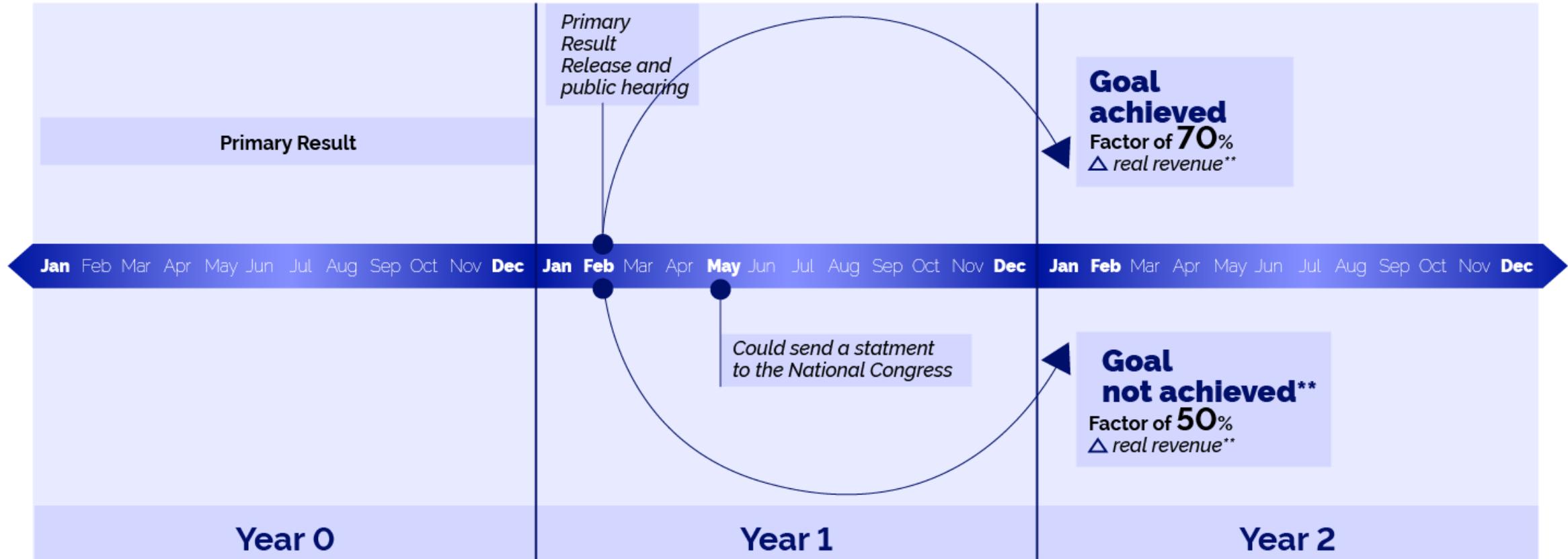
New Sustainable Fiscal Framework



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING

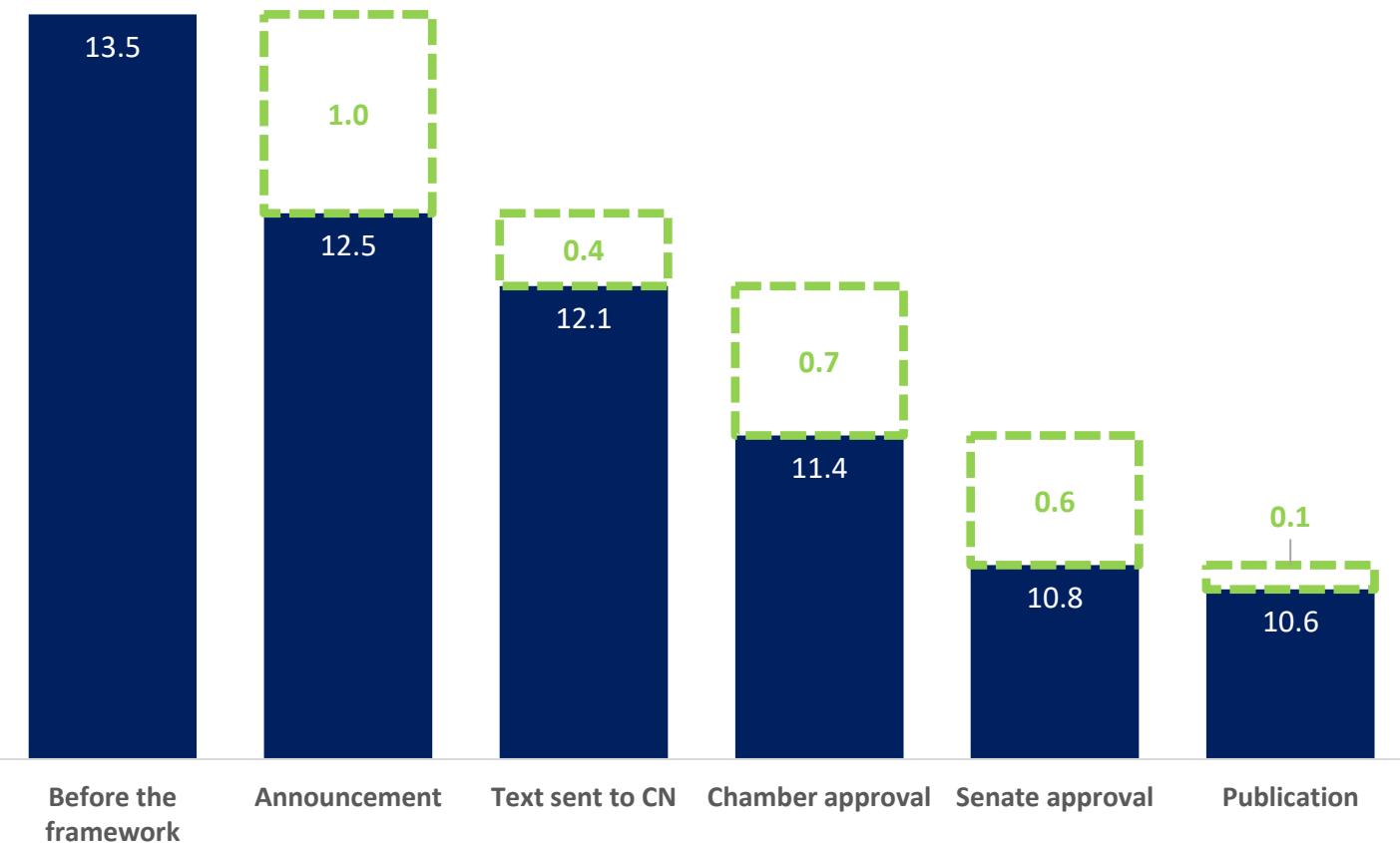


Sets goals for the coming year

** Maintaining the parameters limiting the real growth of accounts between 0.6% and 2.5%*



Interest rate - 5 years: effect of the framework (p.p.)*

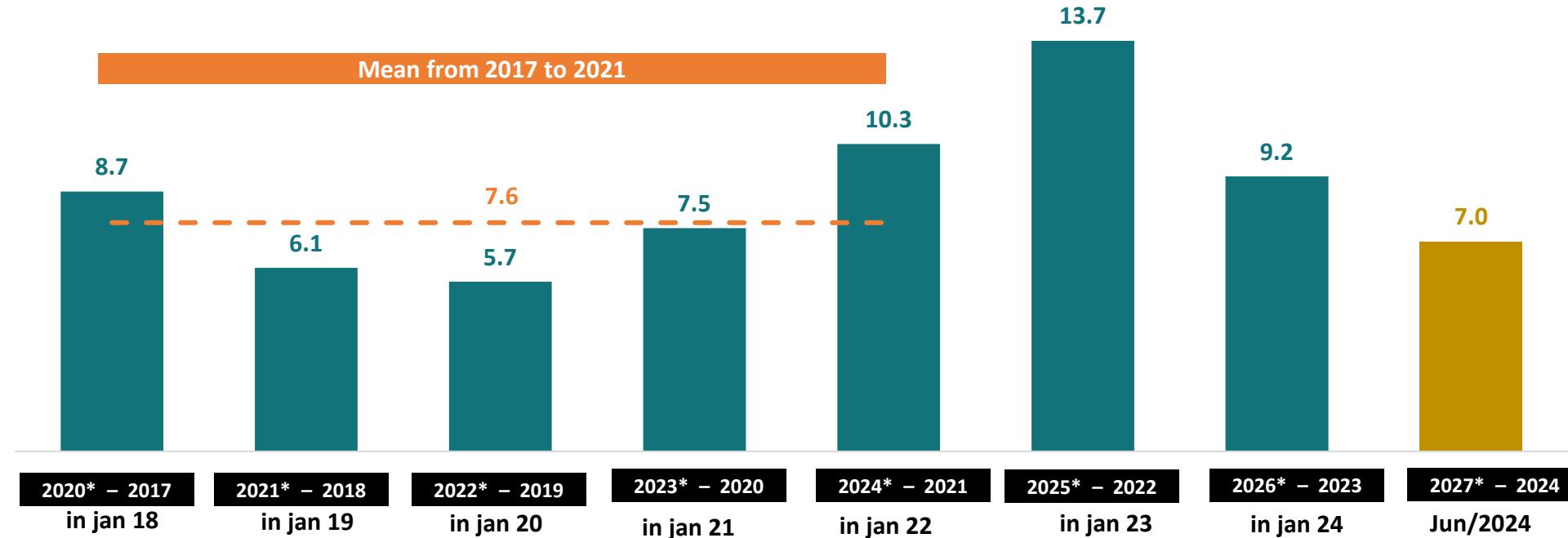


Source: Anbima.

*The interest rate dates refer to 02/Mar, 30/Mar, 18/Apr, 24/May, 21/Jun and 30/Aug, respectively.



Difference between 3-year forward projection and observed General Government Gross Debt (%GDP)



Source: Central Bank. Focus

* Projection from January of the current year for 3 years ahead minus debt published in December of the previous year.
For 2024, projection from August/24 for 3 years ahead less debt disclosed in June/24.

Hyper-Reformist State

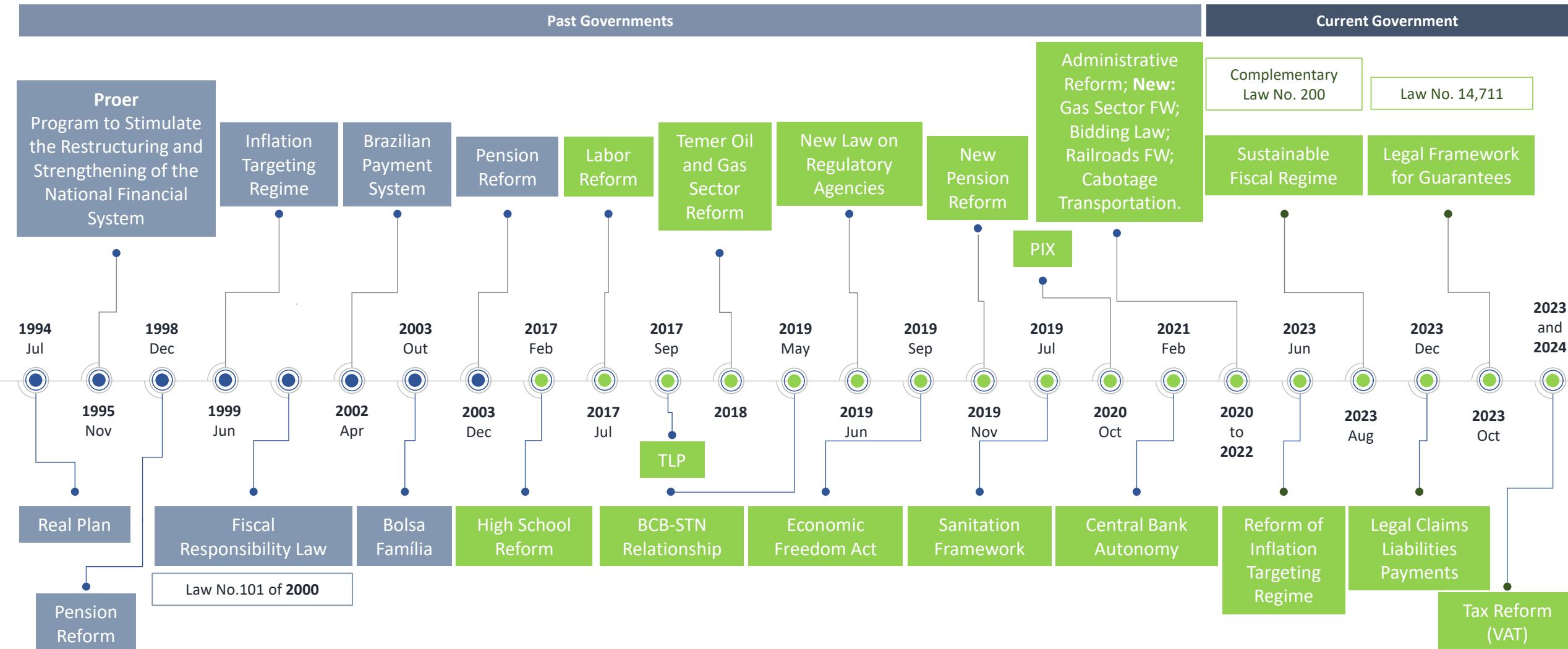


EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

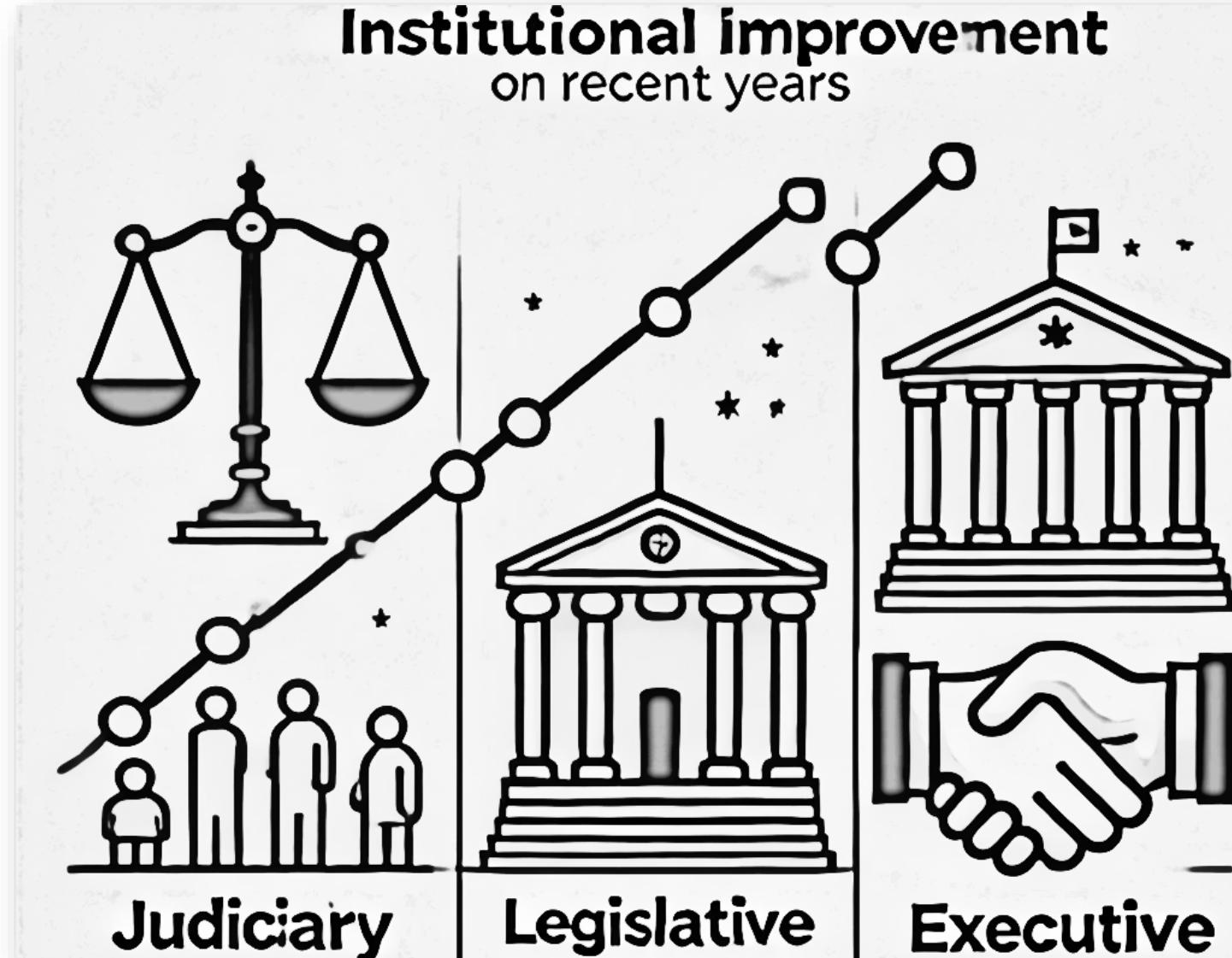
BRAZILIAN GOVERNMENT
UNITING AND REBUILDING



Evolution of Institutions and Economic Reforms



Evolution of Institutions



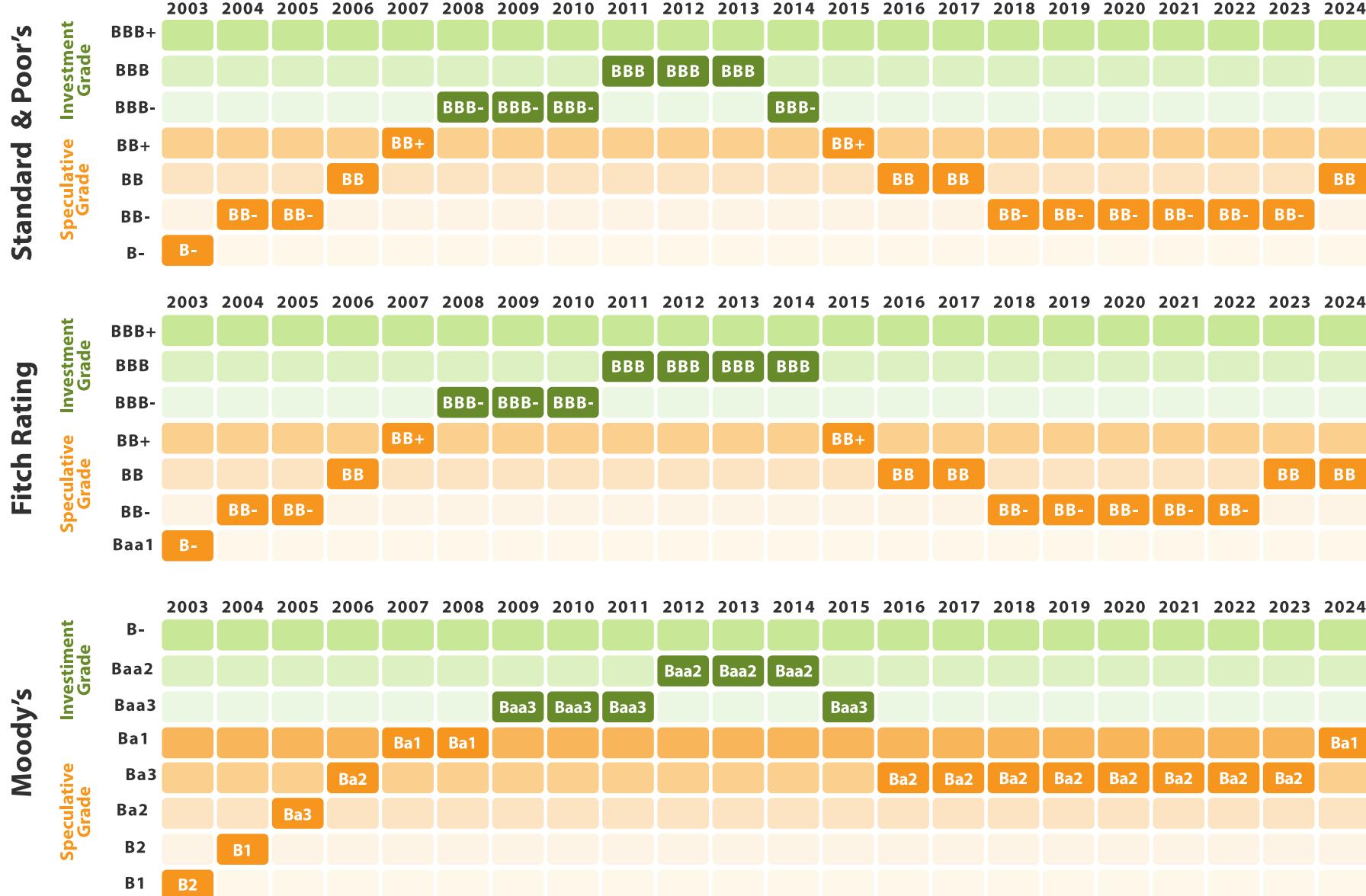
Credit Rating Agencies - CRAs



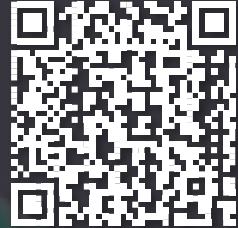
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



But...





Rethinking Fiscal Policy and Debt for a Post-Pandemic World

Nearly a century ago, Joseph Schumpeter wrote:

“The spirit of a people, its cultural level, its social structure... all this and more is written in its fiscal history... The public finances are one of the best starting points for an investigation of society”.



Fiscal



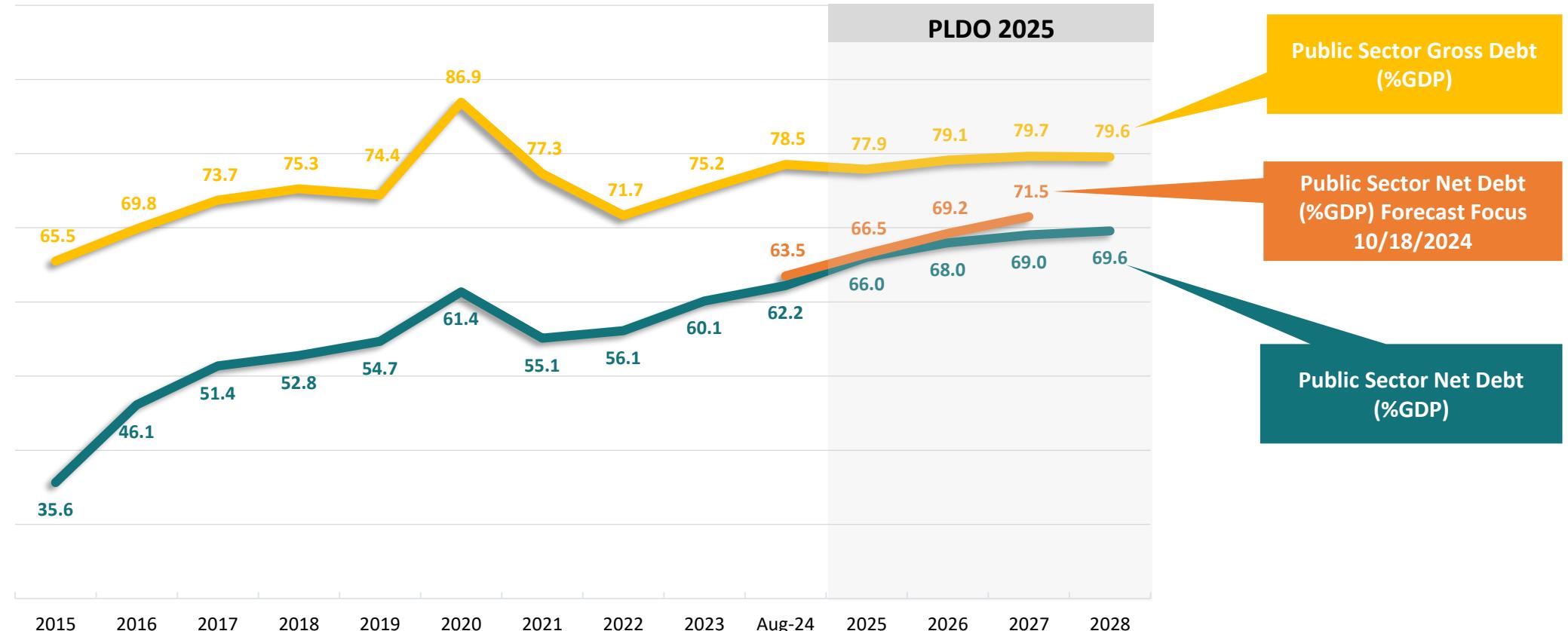
EXECUTIVE
SECRETARIAT



MINISTRY OF
PLANNING
AND BUDGET



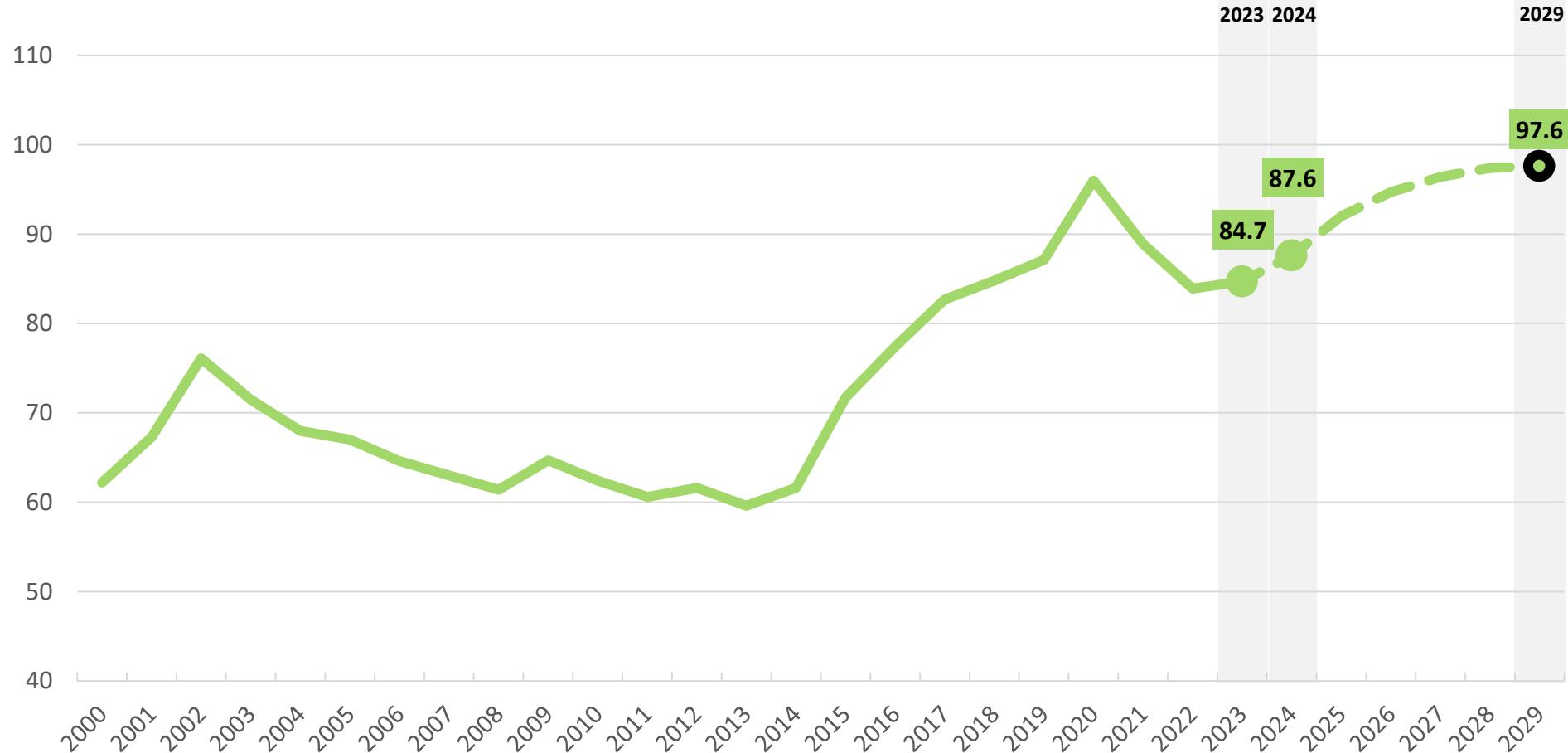
Public Sector Gross and Net Debt (% GDP)



Source: BCB, PLDO2025 and
Focus October 18th, 2024.



General Government Gross Debt - IMF* (% GDP)

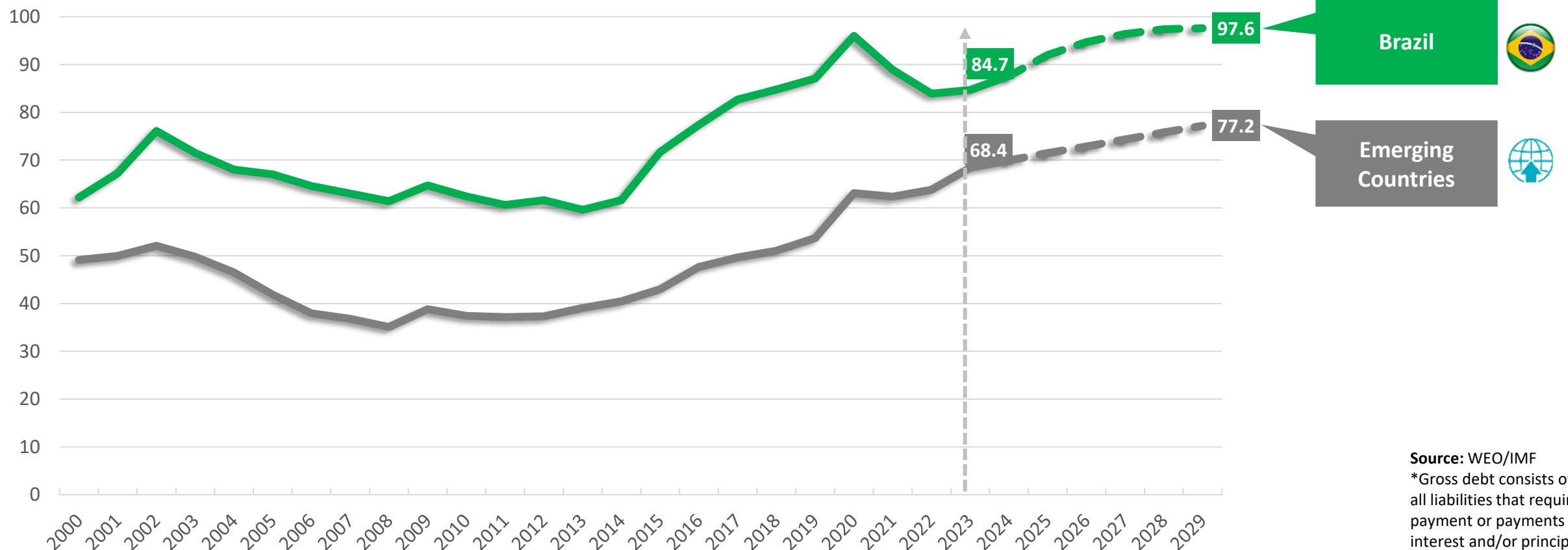


* IMF considers debt securities included in the Central Bank's portfolio as part of public debt net of repurchase agreement.

Source: WEO/IMF

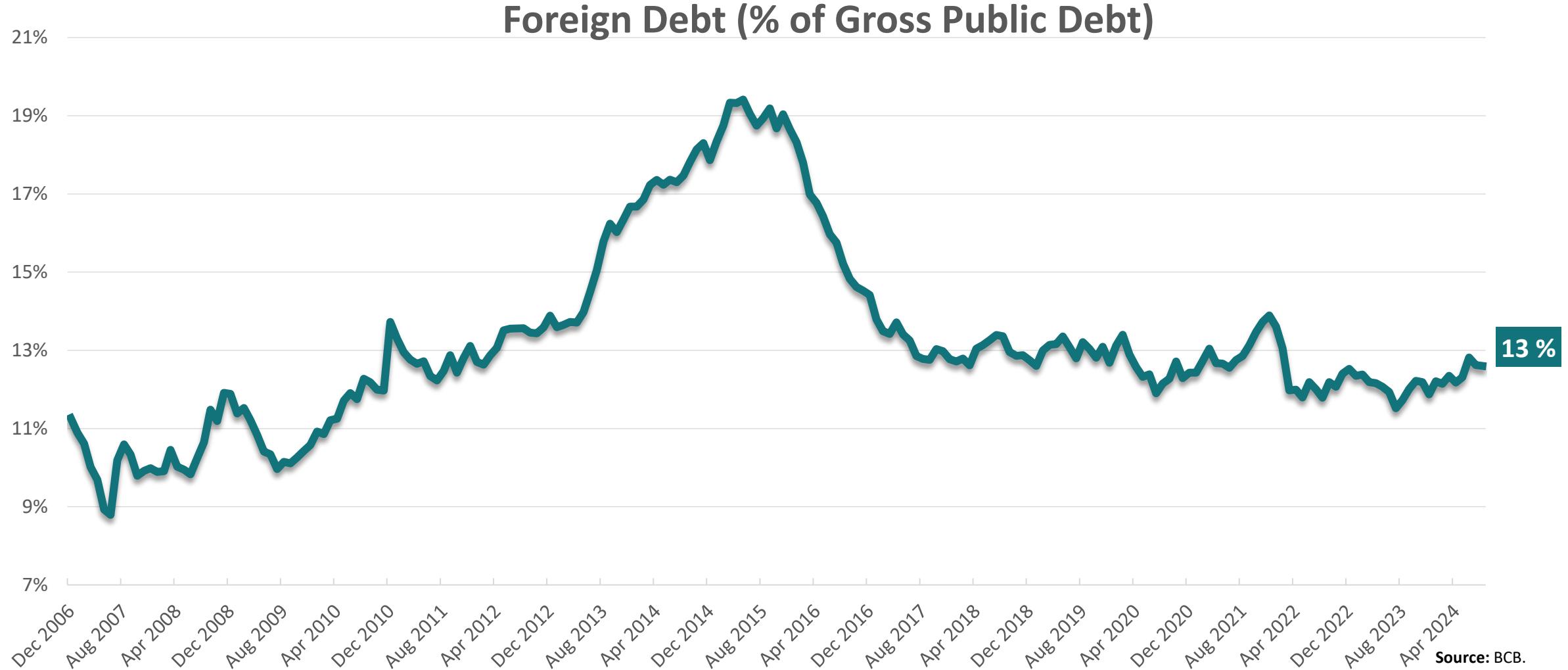


General Government Gross Debt – IMF (% GDP)



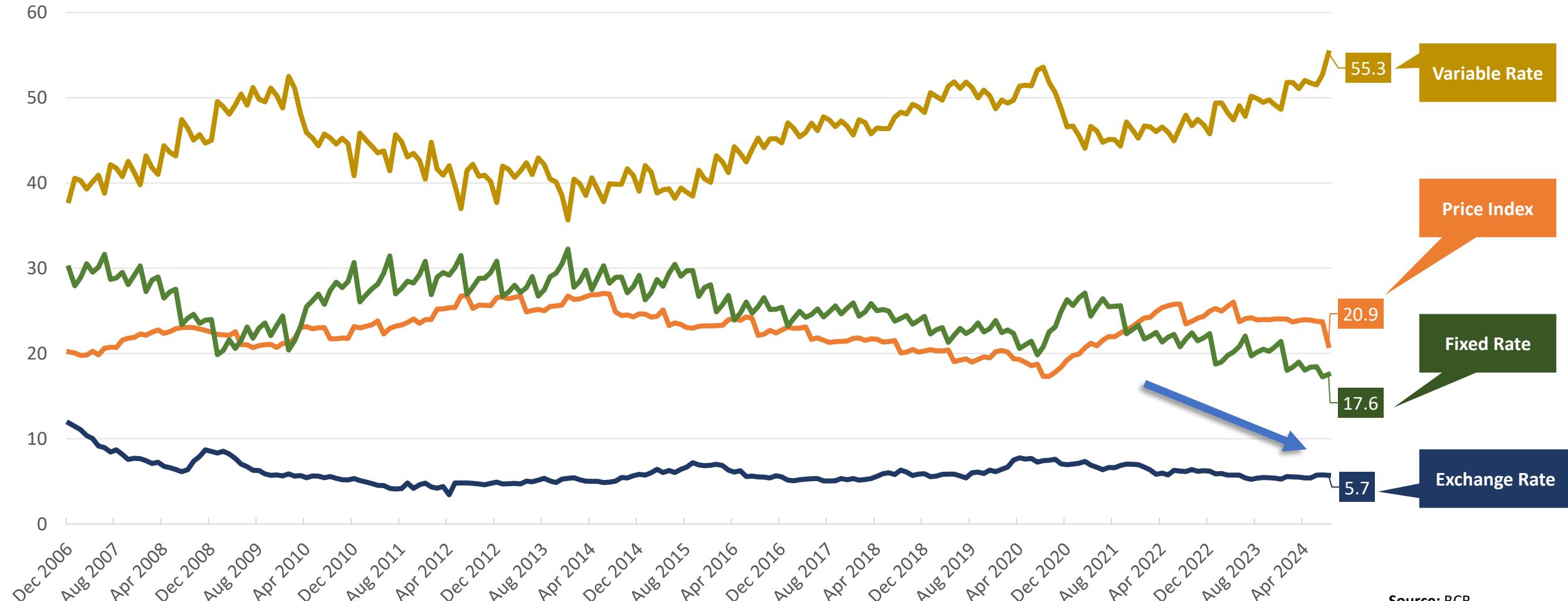
Source: WEO/IMF

*Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future.



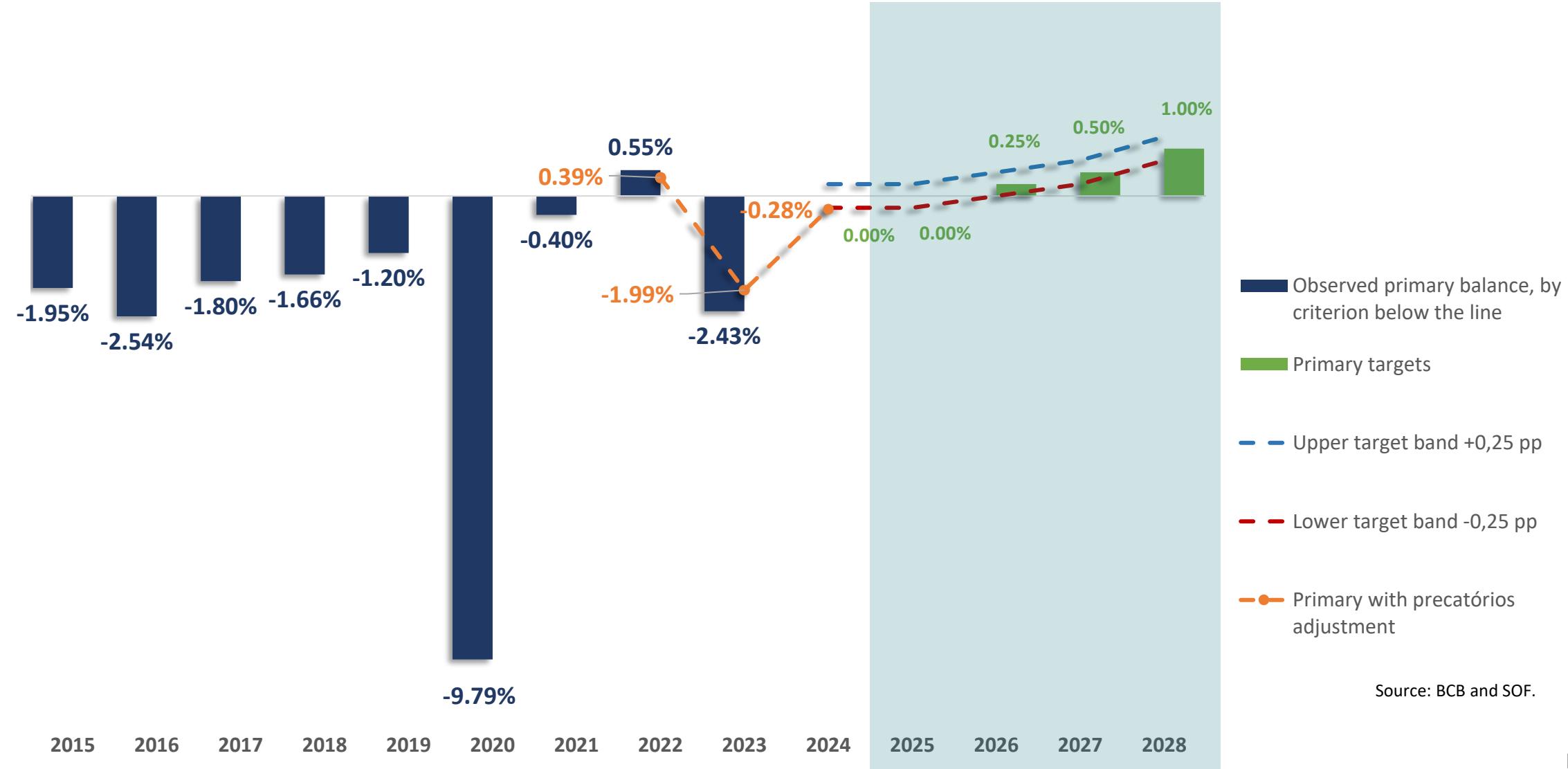


General Government Gross Debt Composition by return index (%)



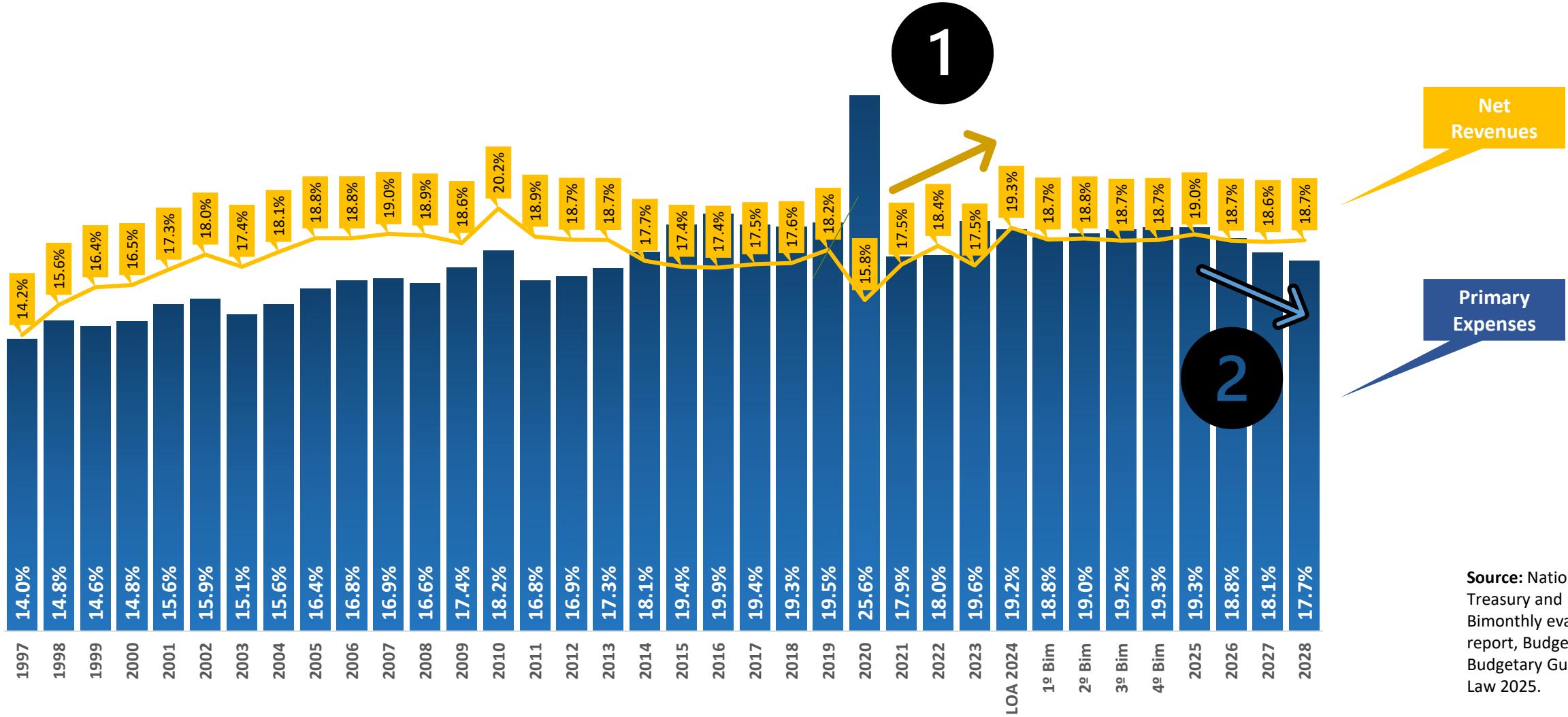


Observed Primary Balance and Targets – Central Government (% GDP)



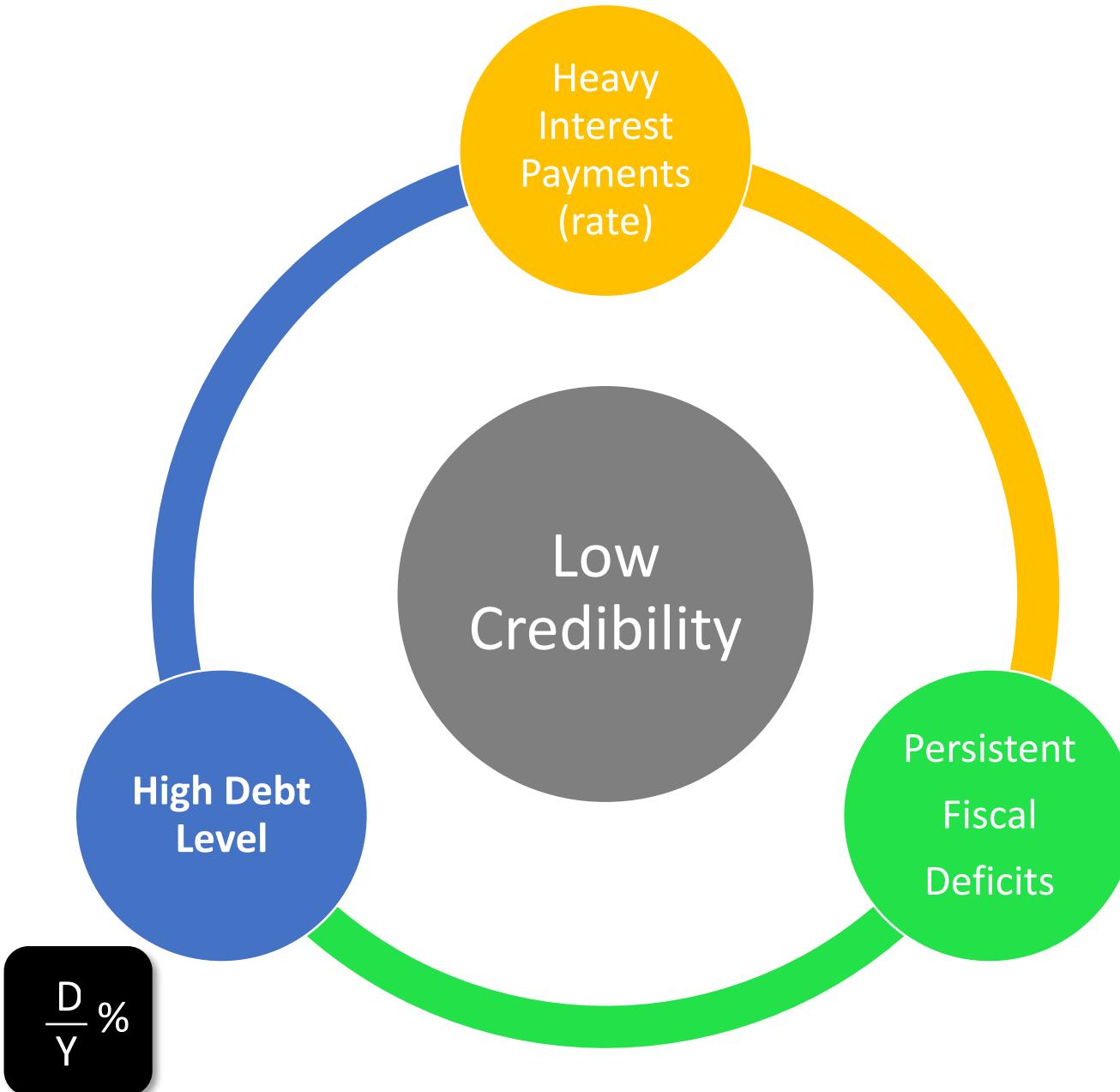


Primary Expenses and Revenues - Federal Budget (% GDP)



Source: National Treasury and 1st to 4st Bimonthly evaluation report, Budgetary and Budgetary Guidance Law 2025.

The Brazilian Fiscal Puzzle



$$d_t = \frac{(1+r_t)}{(1+g_t)} d_{t-1} - pb_t$$

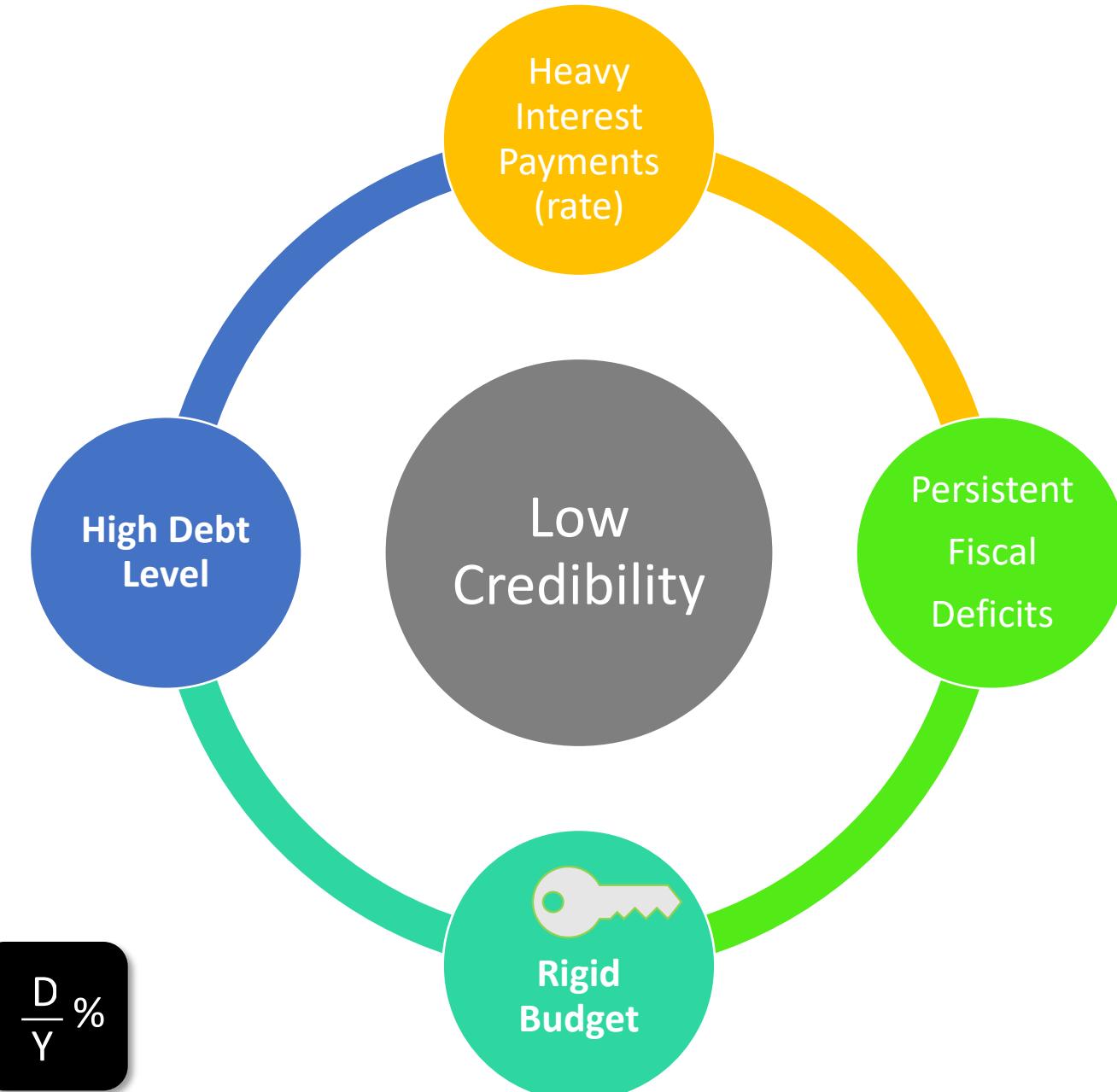
Subtracting d_{t-1} on both sides of equation:

$$\Delta d_t = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1} - pb_t$$

The surplus that would stabilize the debt ($\Delta=0$)

$$pb_t = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1}$$

The Brazilian Fiscal Puzzle



$$d_t = \frac{(1+r_t)}{(1+g_t)} d_{t-1} - pb_t$$

Subtracting d_{t-1} on both sides of equation:

$$\Delta d_t = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1} - pb_t$$

The surplus that would stabilize the debt ($\Delta=0$)

$$pb_t = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1}$$

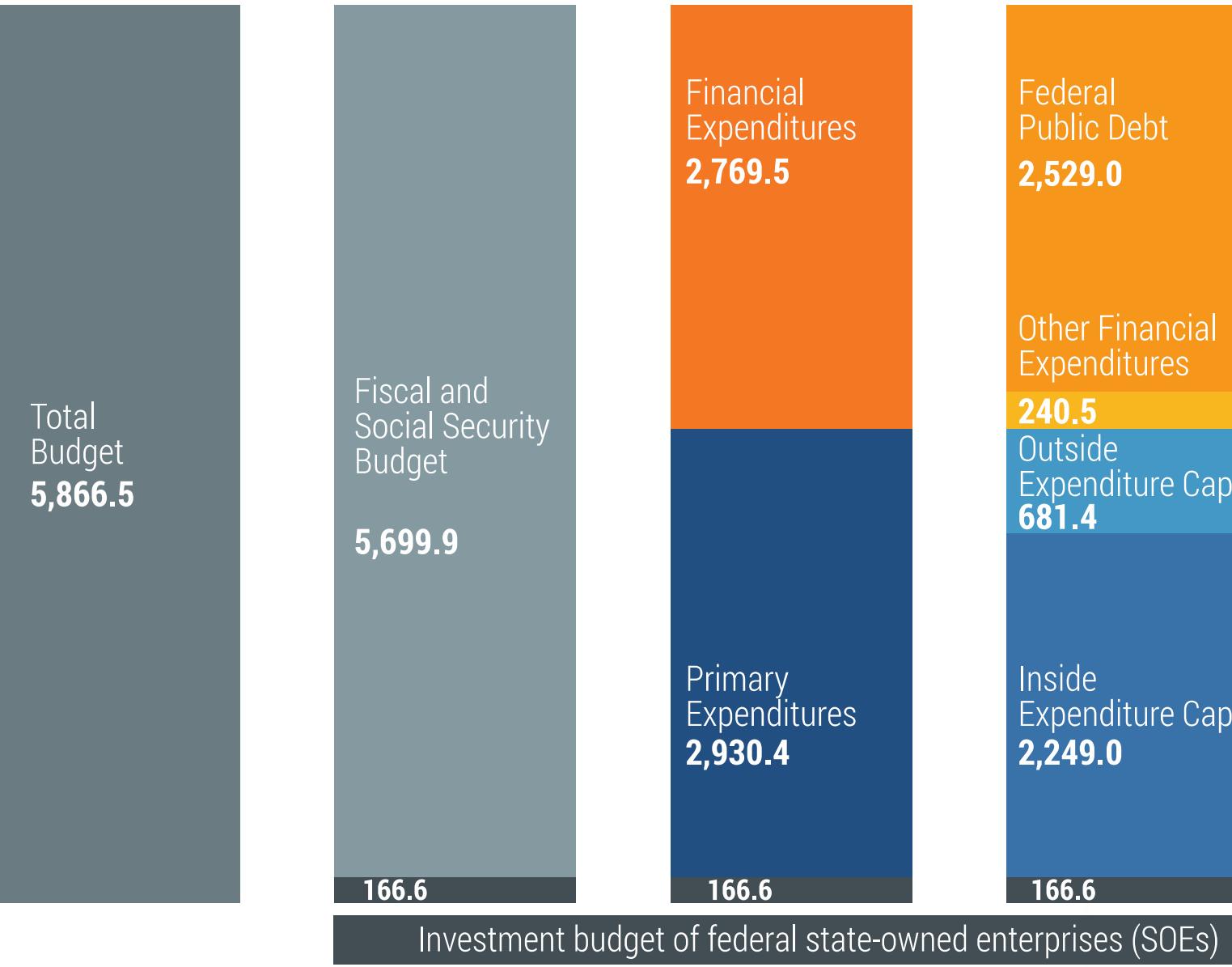
Budget General Overview – 2025F (BRL Billion)



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Amortization	2,048.9
ref. Refinancing	1,655.8
Interest and Charges	480.0

Mandatory Expenditures	679.1
Transfers by Revenue Sharing	544.8
FUNDEB Federal Complementation	56.6
Constitutional Fund for the Federal District (FCDF)	24.8
Legal Claims	52.7
Other Mandatory Expenditures	0.1
Discretionary Expenditures	2.4

Mandatory Expenditures	2.021,4
Social Security Benefits (RGPS)	998.1
Payroll	391.1
Bolsa Família	167.2
Reparations and Special Legislation Benefits (BPC)	118.1
Salary Allowance and Unemployment Benefits	87.6
Other Mandatory Expenditures	259.3
Other Discretionary	227.6
Executive Branch Expenditures	176.4
Legislative/Judiciary/Public Prosecutor/	
Public Defendant (Current and Capital)	12.3
Reserve for Parliamentary Amendments	39.0

Budget Highlights 2025F (R\$ billion)



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



Health Minimum			Investment Minimum			Mandatory x Discretionary		
214.2	227.8	+13.6	68.5	74.3	+5.8			
2024*	2025	+6,4%	2024	2025	+8,5%			
Education Minimum			PAC - New growth acceleration program, except amendments			92% Mandatory		
108.3	113.6	+5.2	50.4	60.9	+10.5			
2024*	2025	+4,8%	2024*	2025	+21%			
Mandatory Parliamentary Amendments			Minimum wage (R\$ 1)			8% Discretionary		
33.6	50,5	+16,9	1.412	1.509	+97			
2024**	2025	+50%	2024	2025	+6,9%			

*Bimonthly Fiscal Report for the 3rd quarter 2024;

**In 2024, R\$ 4 billion from the reserve for bench amendments was allocated by the National Congress in the Special Campaign Financing Fund

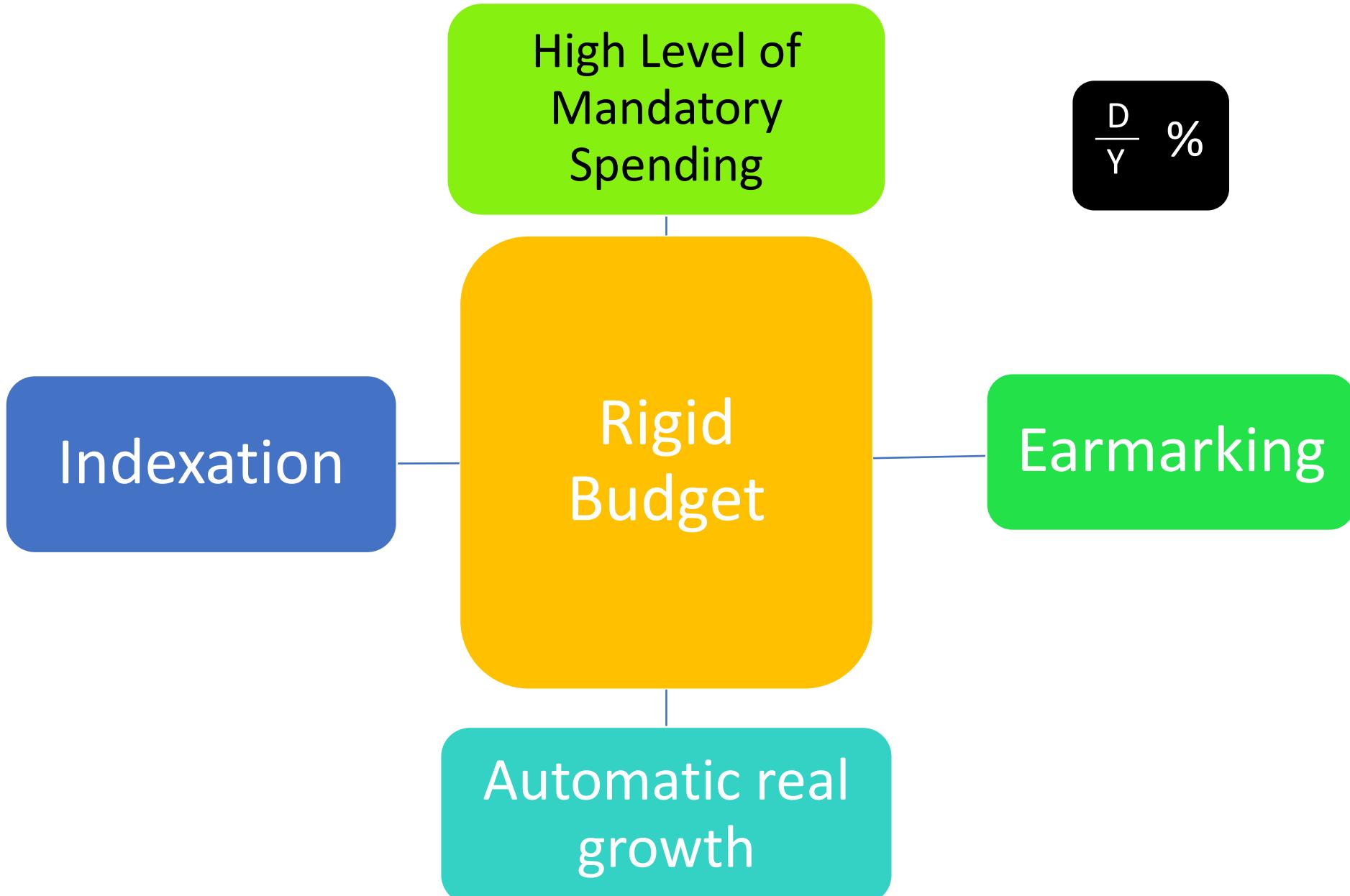
The Brazilian Fiscal Puzzle



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



The Virtuous Cycle



$$d_t = \frac{(1+r_t)}{(1+g_t)} d_{t-1} - pb_t$$

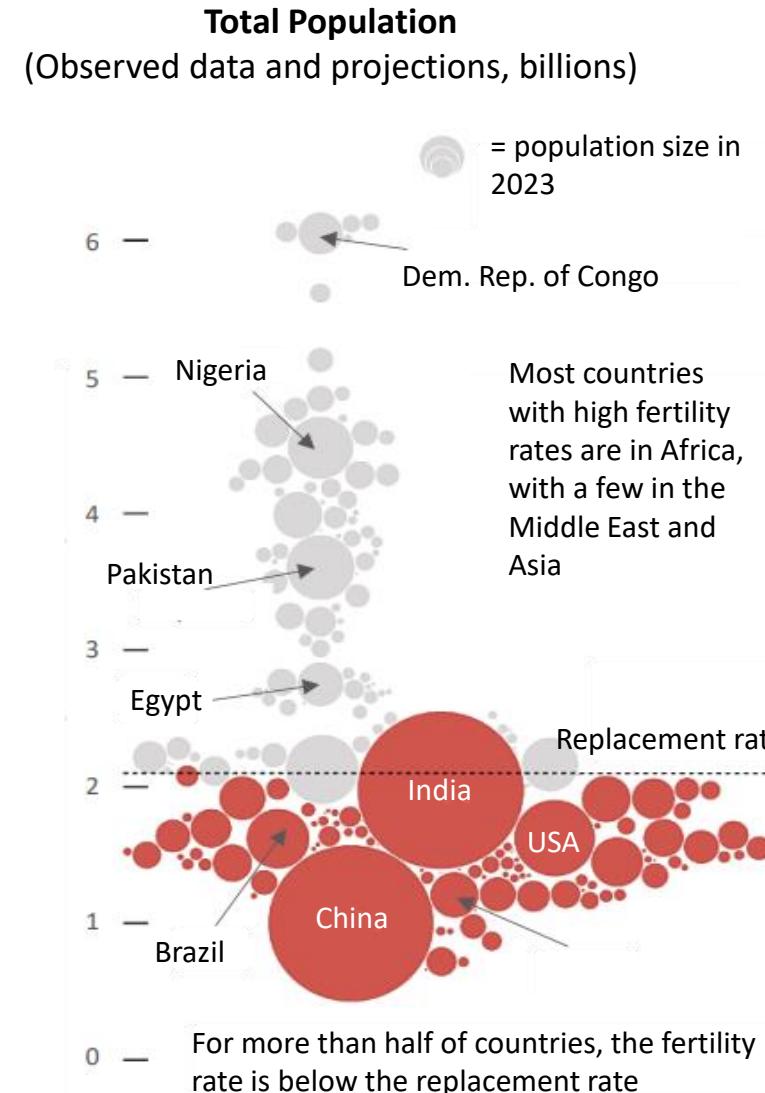
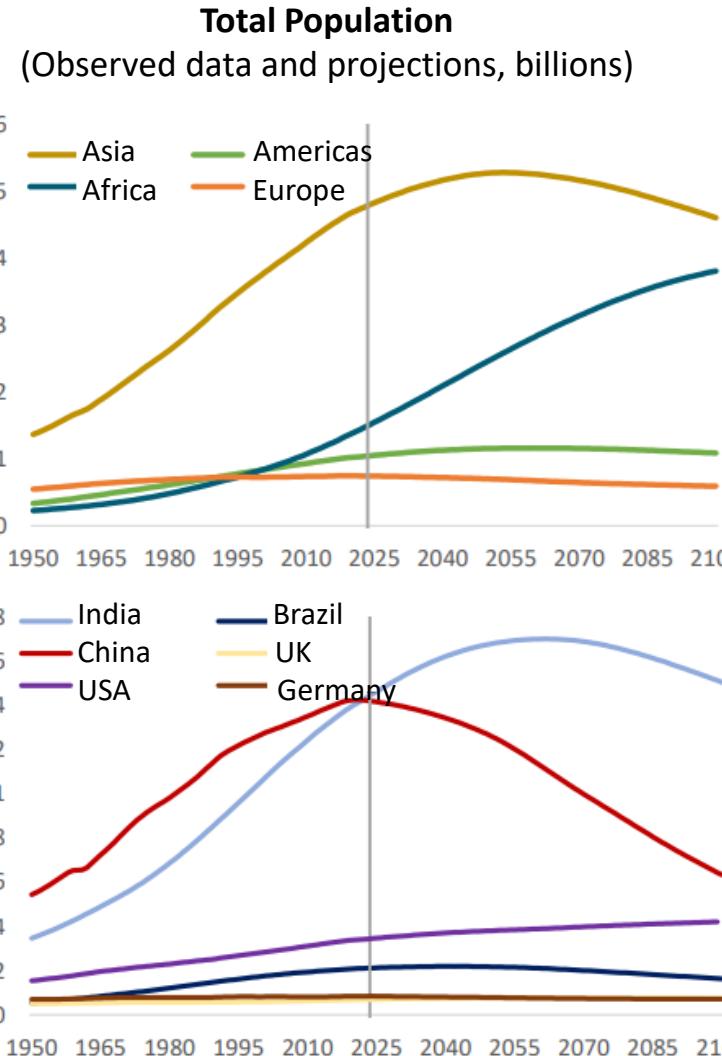
Subtracting d_{t-1} on both sides of equation:

$$\Delta d_t = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1} - pb_t$$

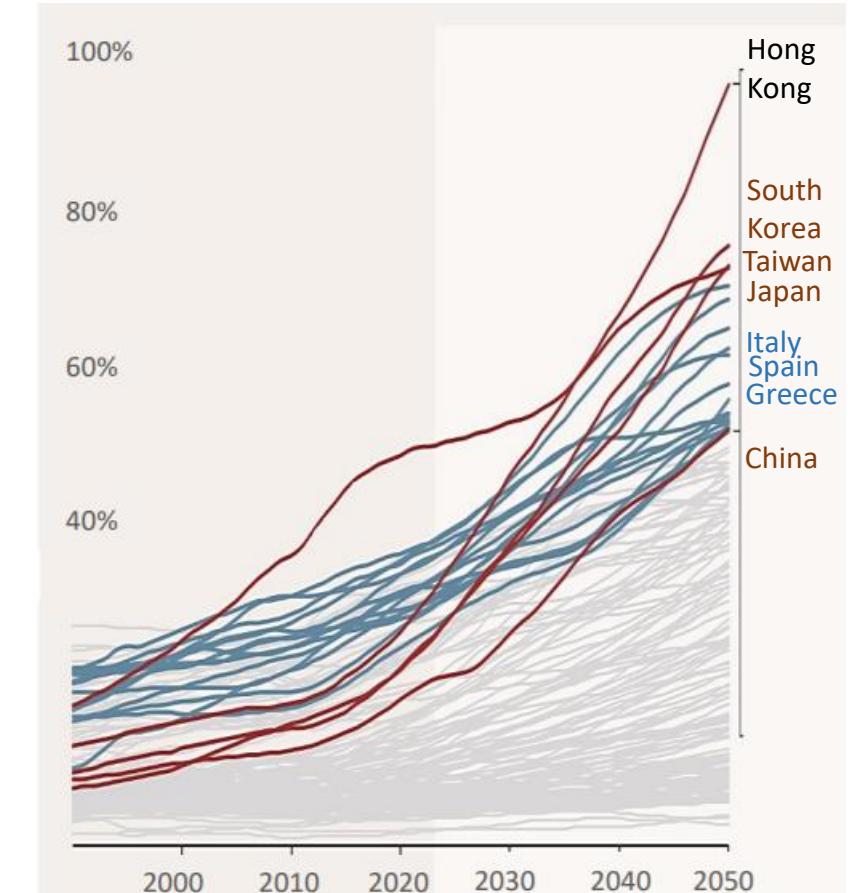
The surplus that would stabilize the debt ($\Delta=0$)

$$pb_t = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1}$$

Global demographics



Dependency ratio - elderly population



Source: BCB

Demographic Trends in Brazil

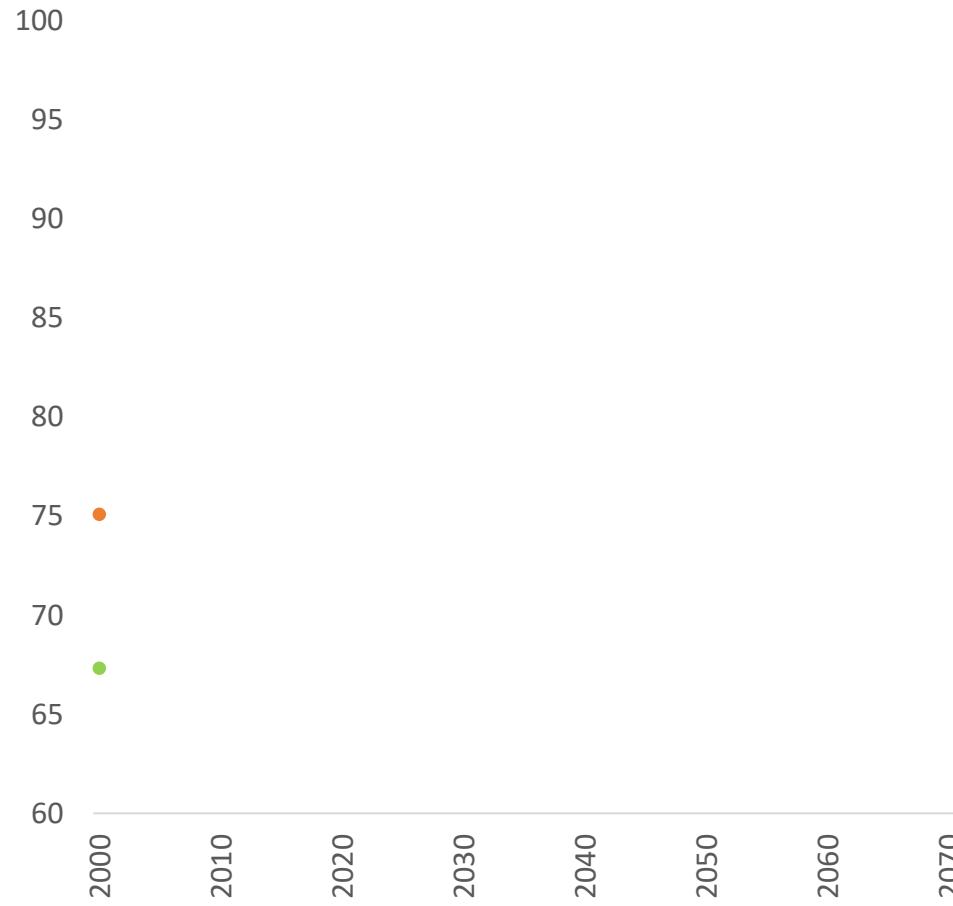


EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

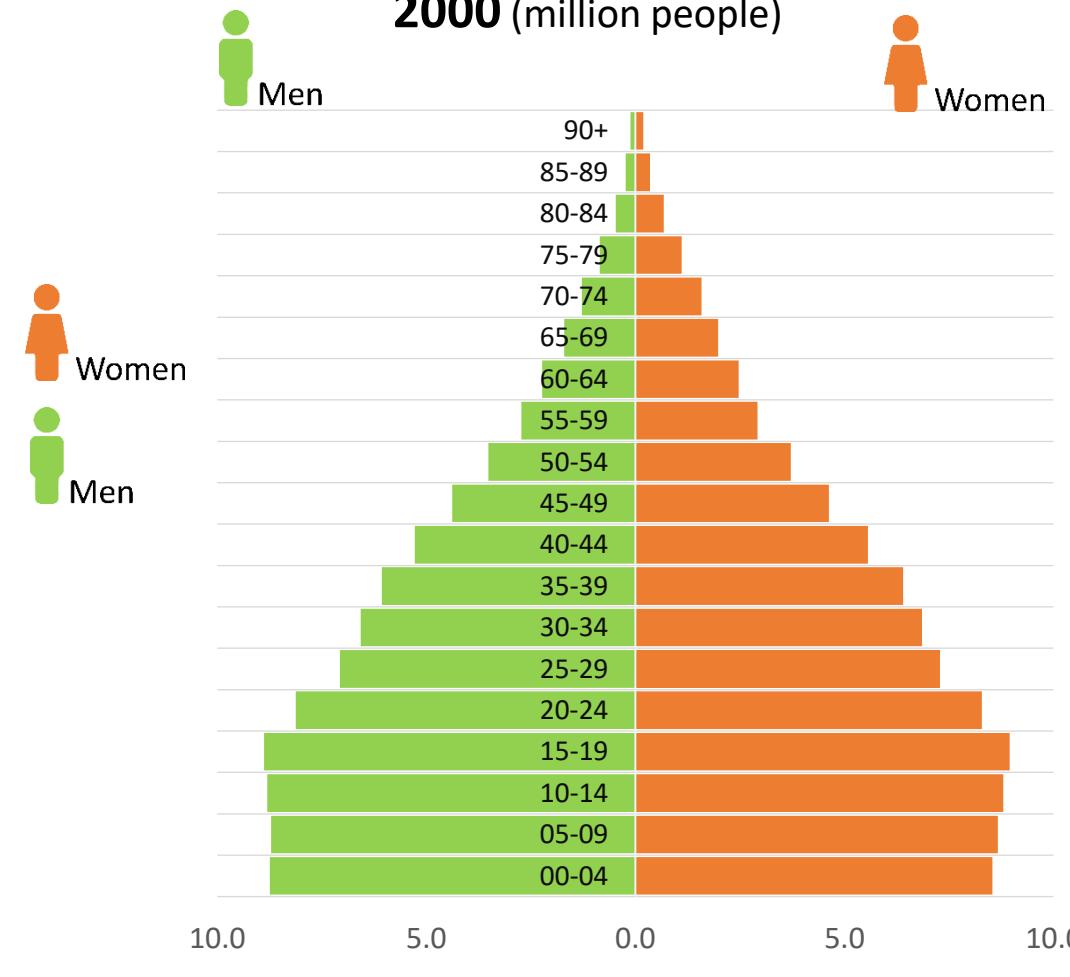
BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Life Expectancy at Birth
(years)



Population Pyramid
2000 (million people)



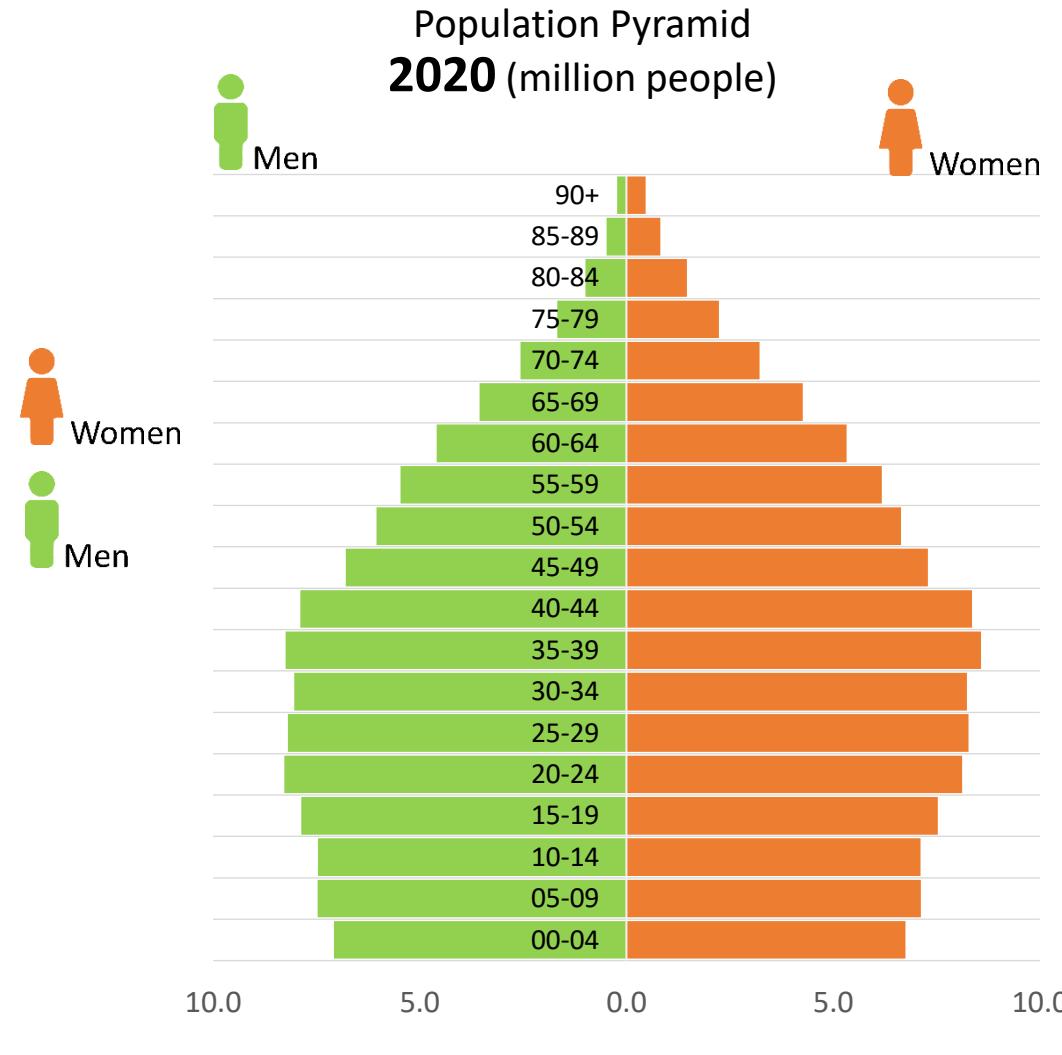
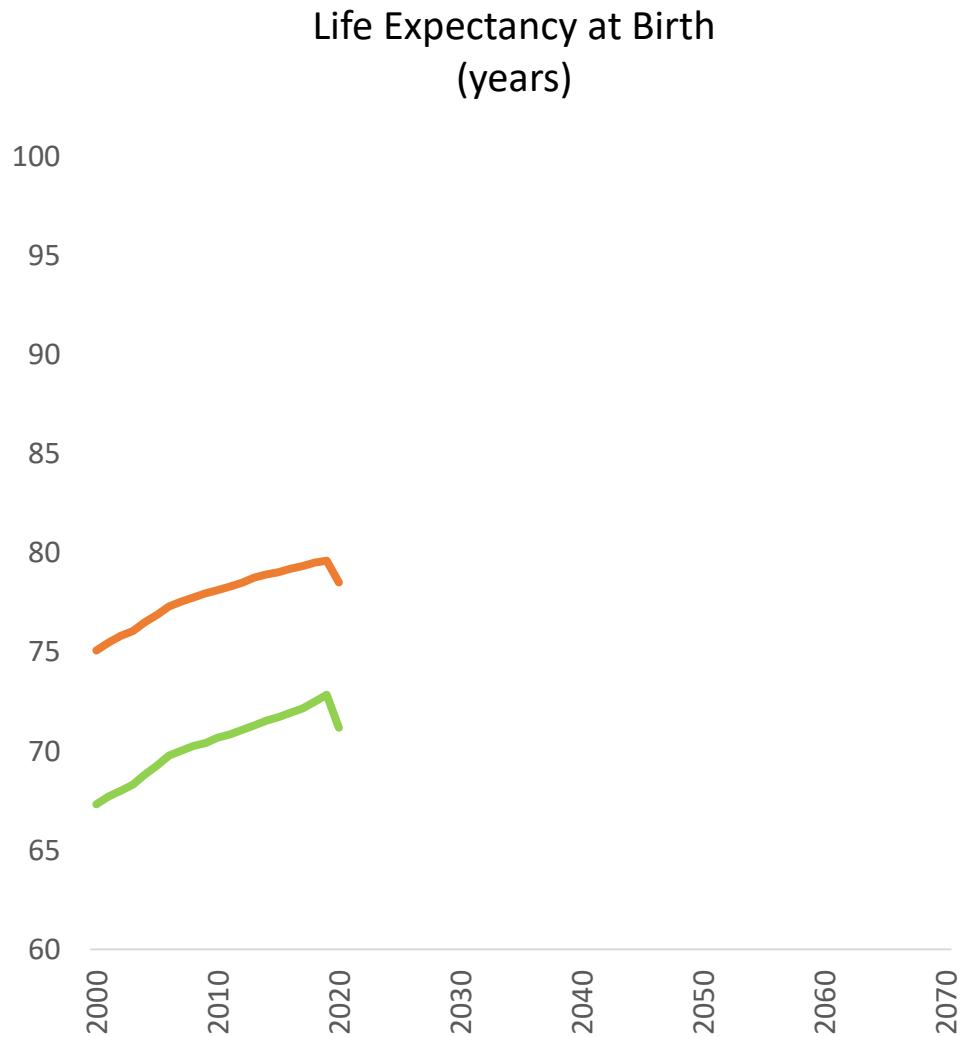
Sources: IBGE

Demographic Trends in Brazil



EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



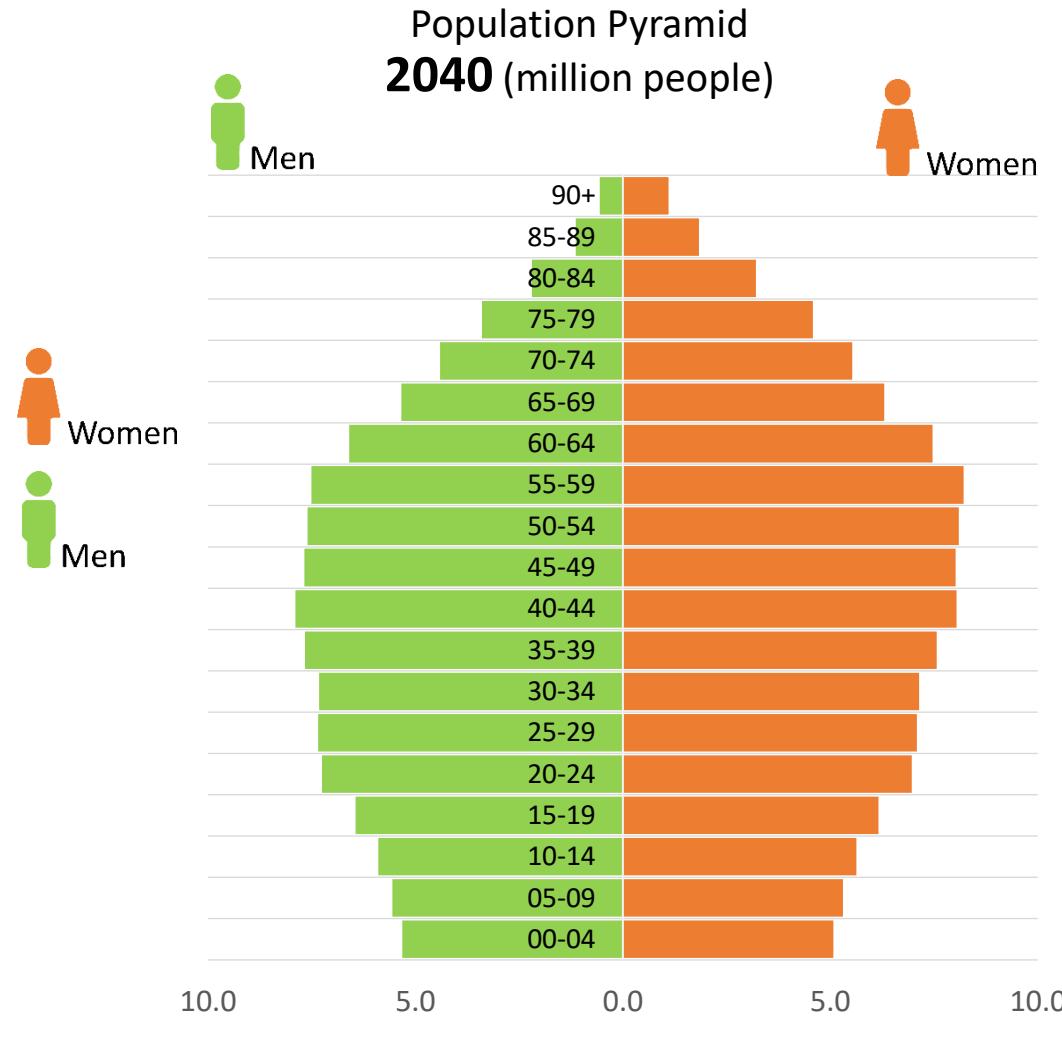
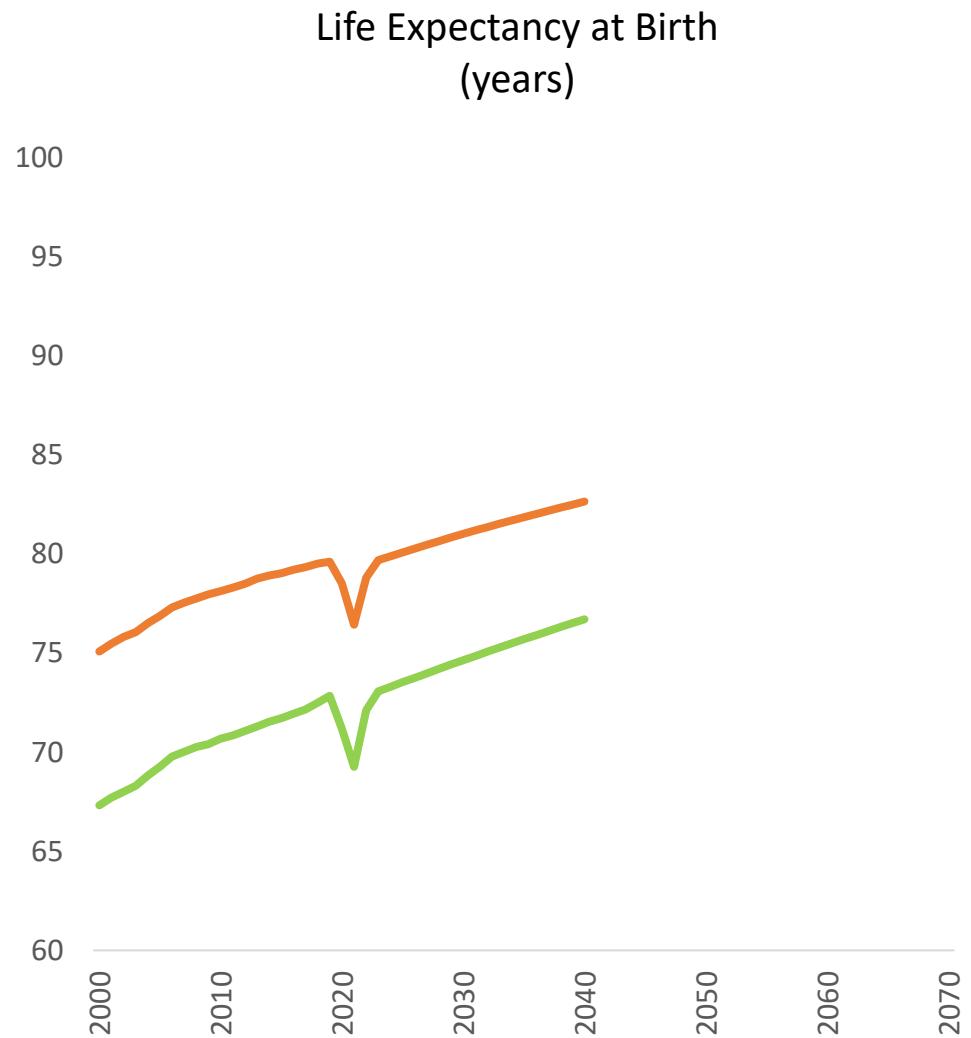
Sources: IBGE

Demographic Trends in Brazil



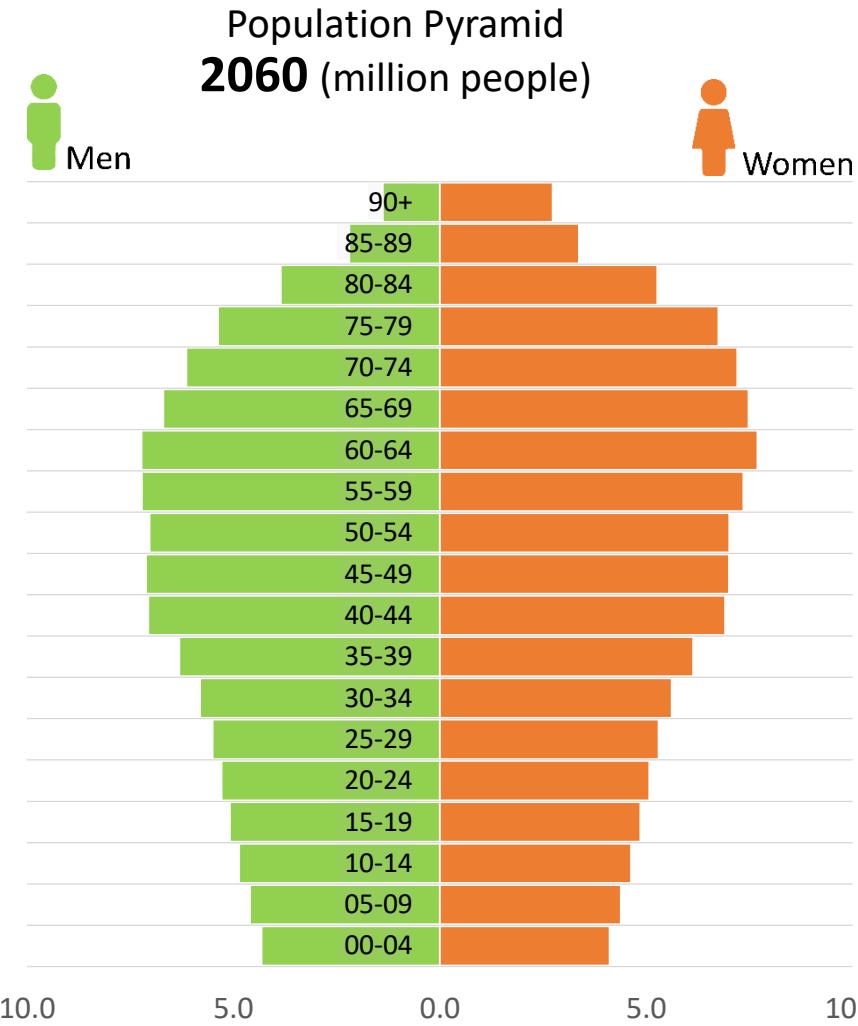
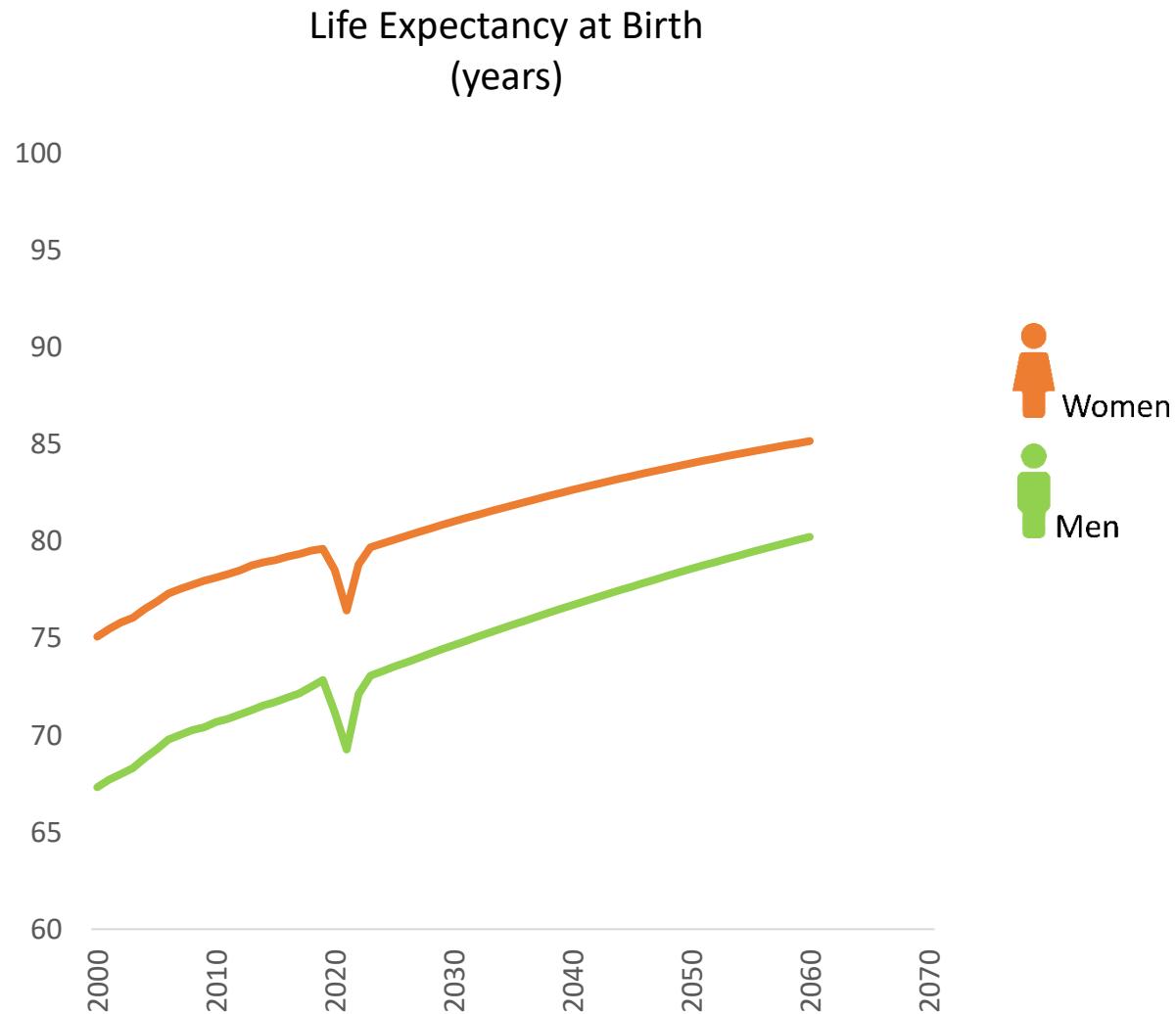
EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Sources: IBGE

Demographic Trends in Brazil

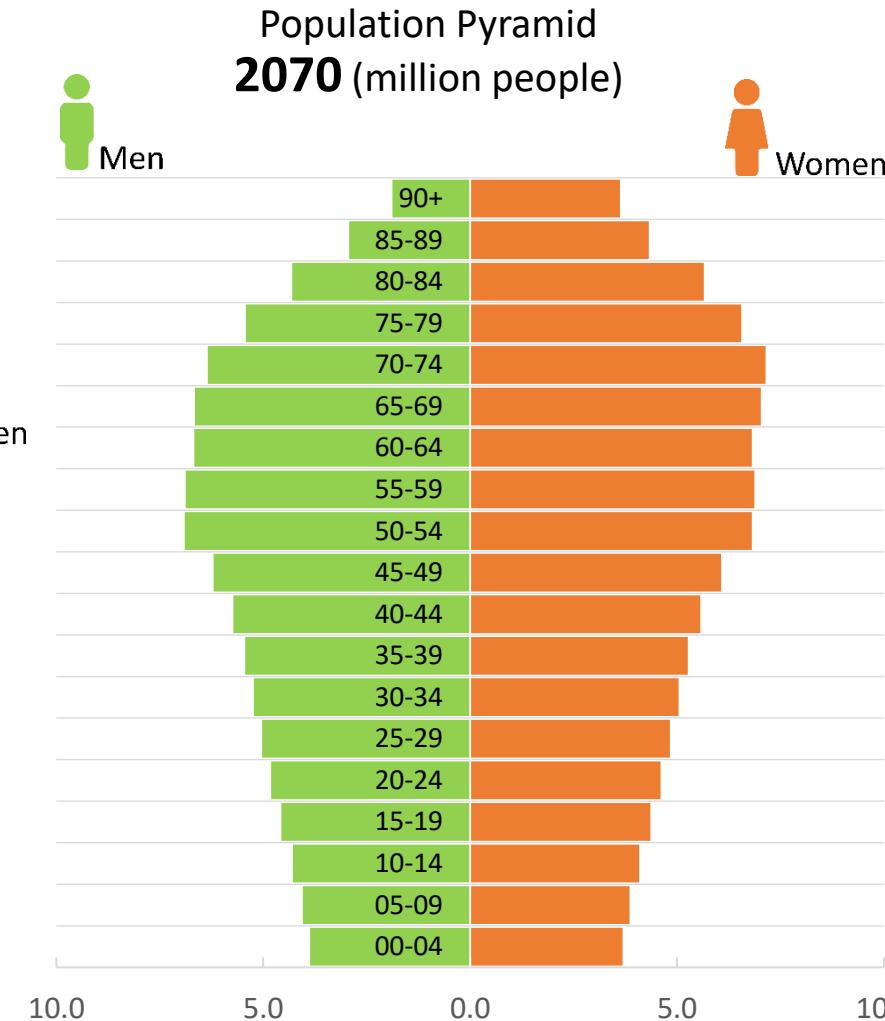
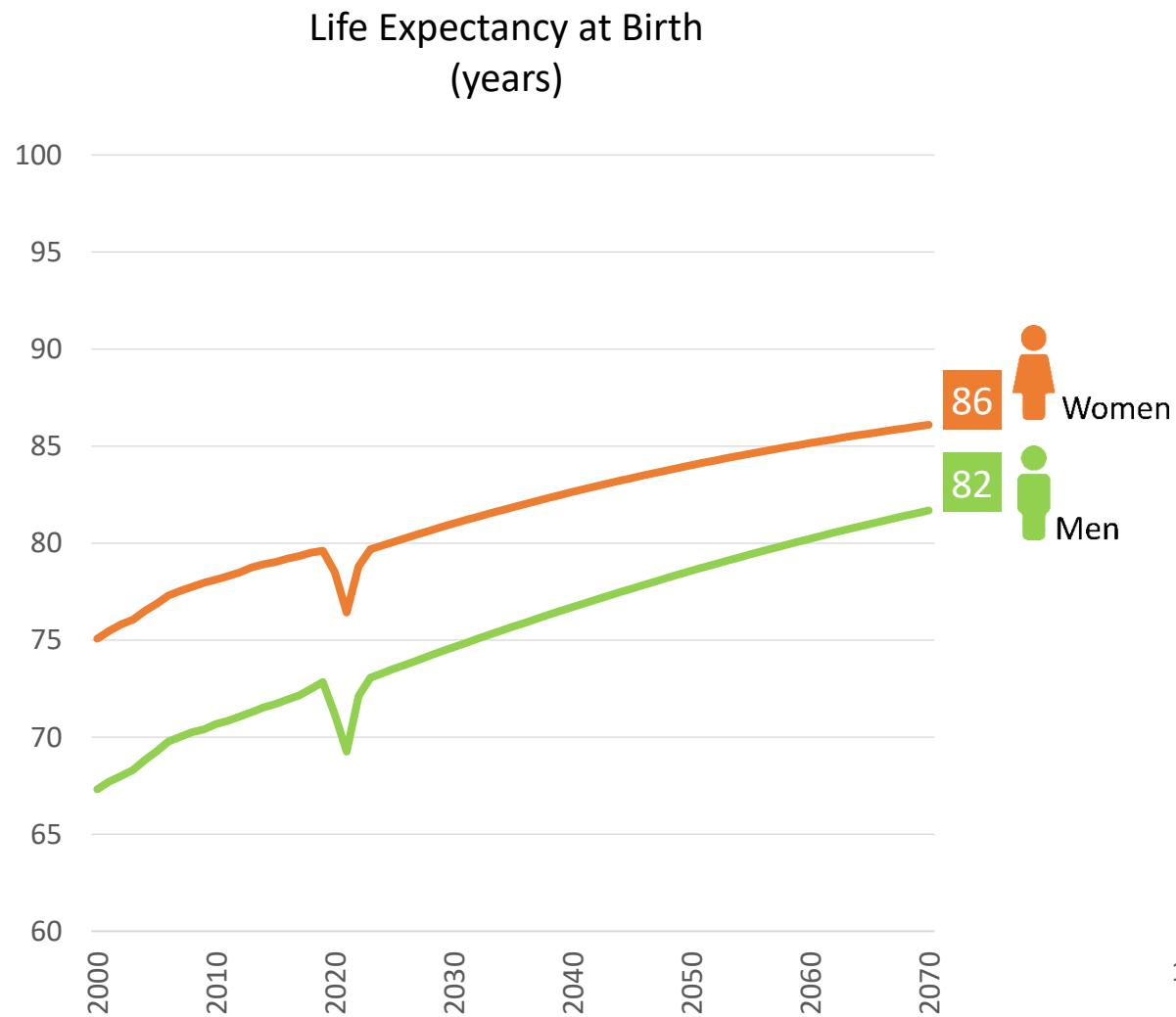


Demographic Trends in Brazil



EXECUTIVE
SECRETARIAT
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING

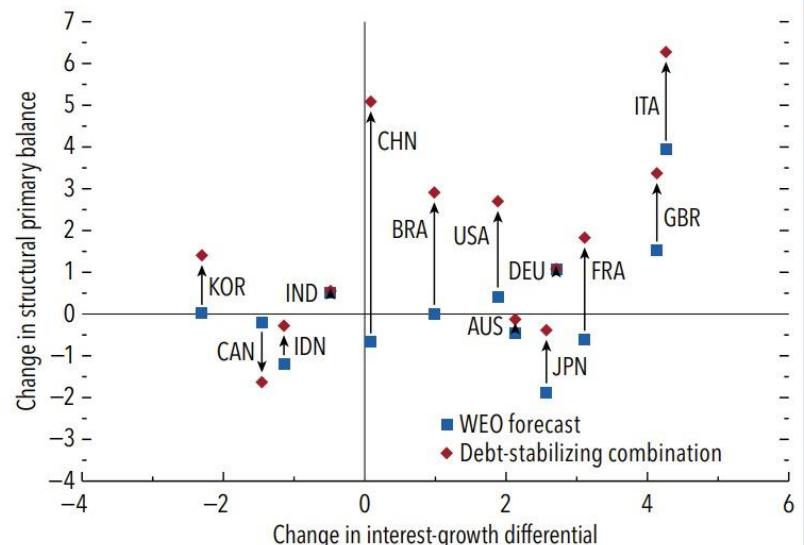


Sources: IBGE



World Economic Outlook, IMF – Oct/2024

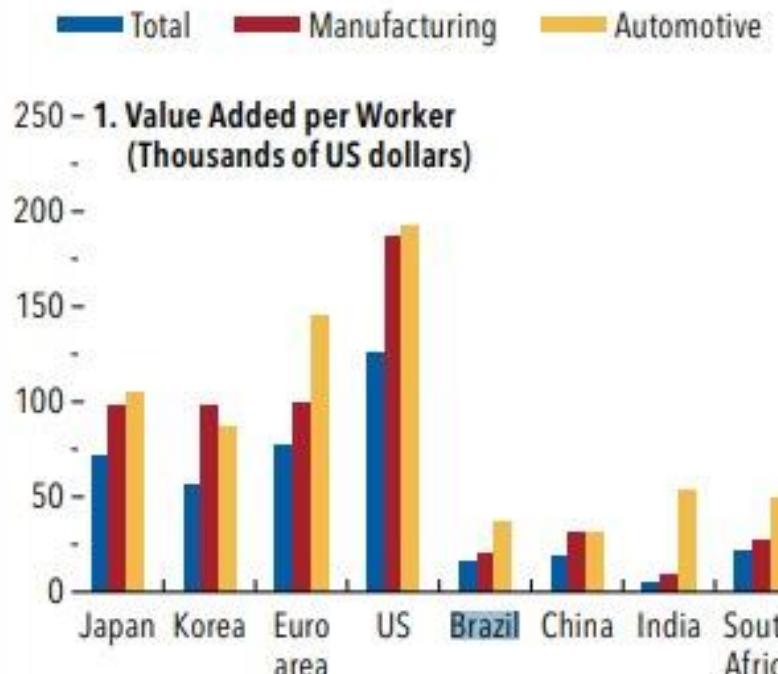
Figure 1.18. Required Fiscal Consolidation
(Percentage points)



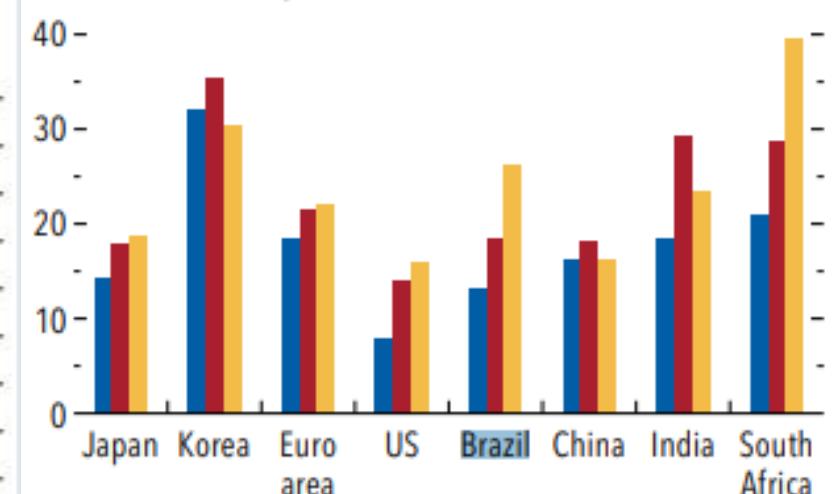
Source: IMF staff calculations.

Note: "Debt-stabilizing combination" refers to the change in structural primary balance needed to stabilize the debt-to-GDP ratio at its 2023 level, given the projected change in the interest-growth differential from 2023 to 2024. Data labels in the figure use International Organization for Standardization (ISO) country codes. WEO = World Economic Outlook

Figure 1.1.1. Productivity and Global Value Chains in the Automotive Sector



50 - 2. Foreign Value Added
(Percent of production)



Sources: Organisation for Economic Co-operation and Development, Trade in Employment database and Trade in Value-Added indicators; and IMF staff calculations.



Potential GDP: productivity and investment



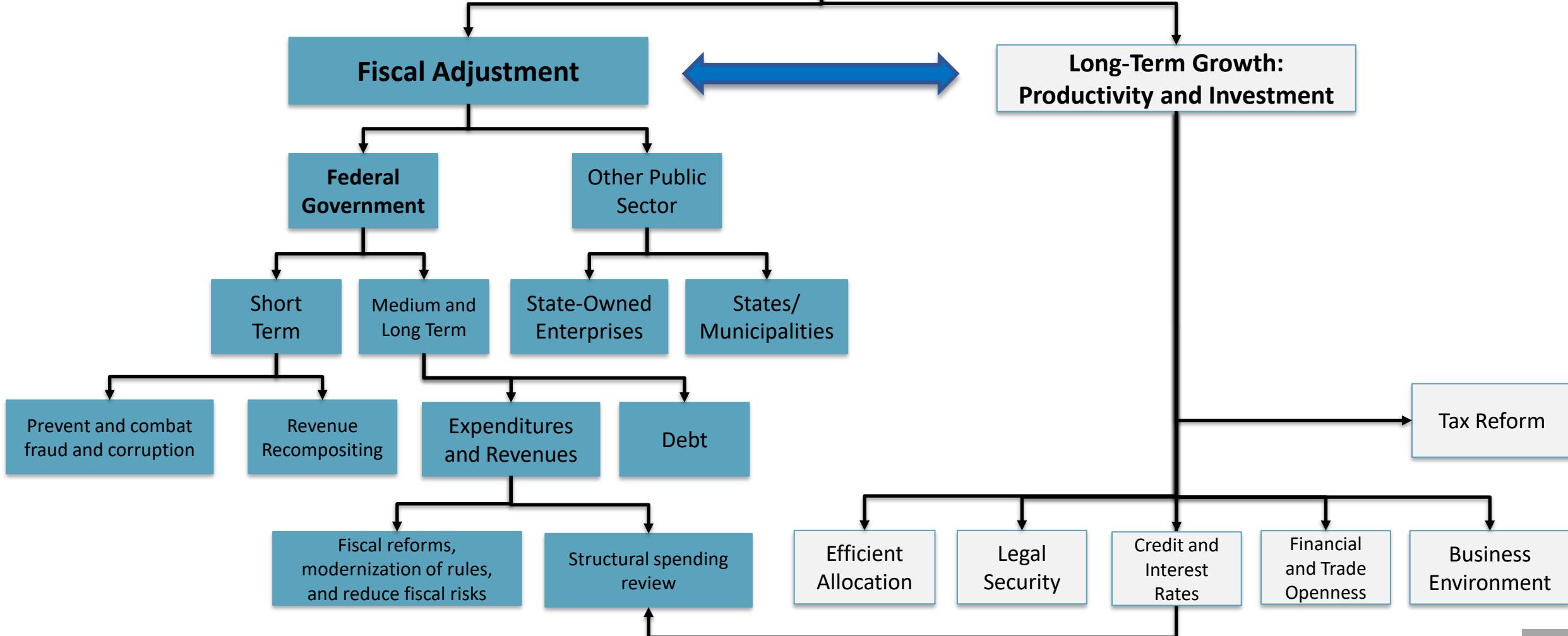
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING

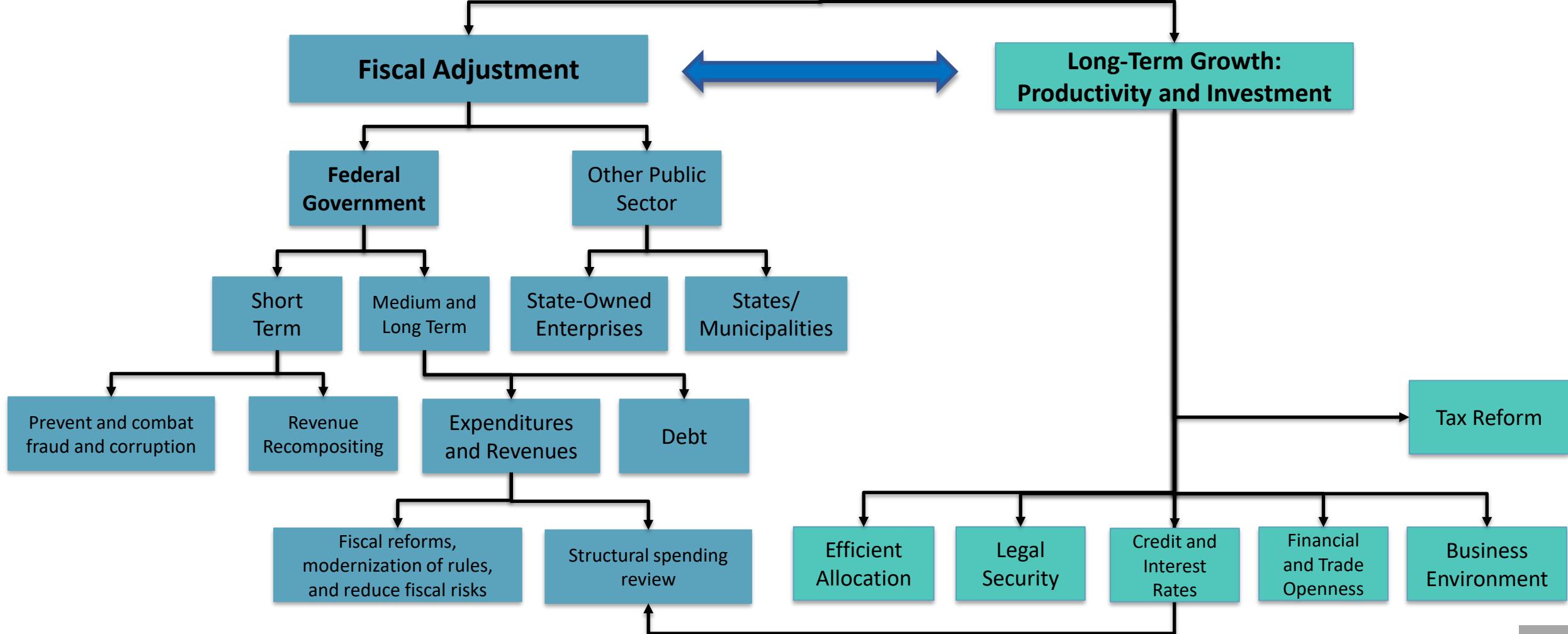


Economic Policy Strategy





Economic Policy Strategy



Expected Potential Growth (I Rates and TFP g)



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Baseline Scenario(*)

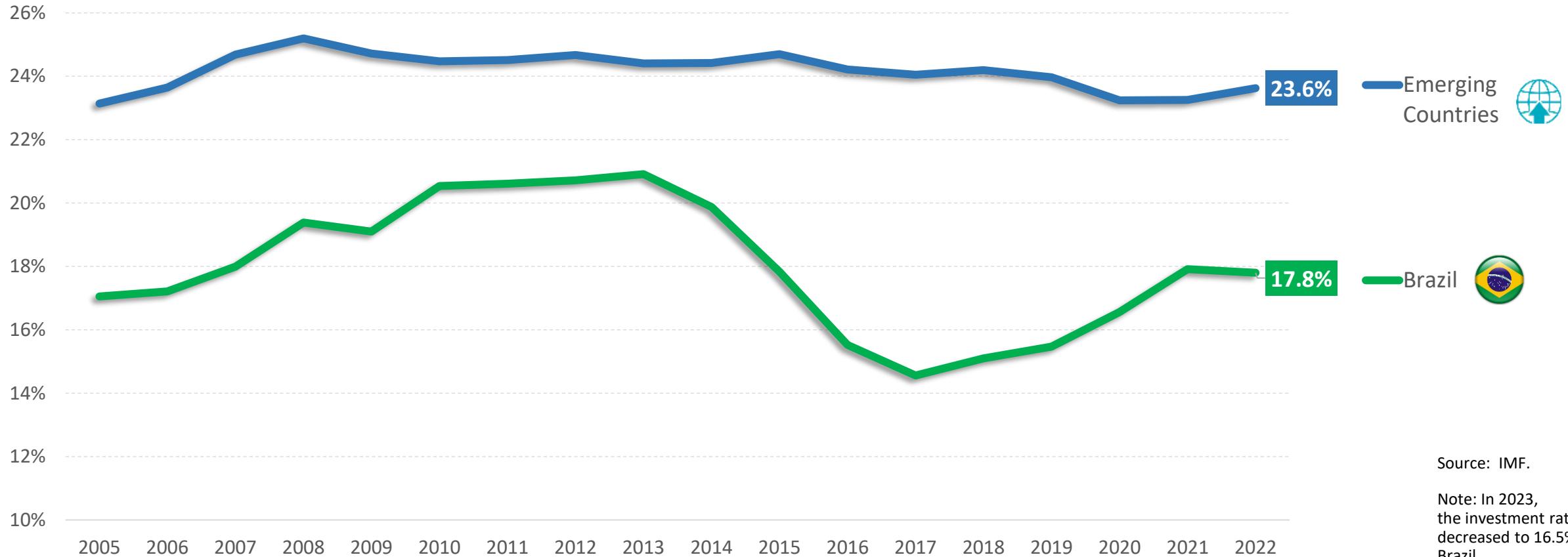
<i>Dynamic Duo for g</i>		Investment Rate				
		16%	18%	20%	22%	24%
Productivity Growth	0.0%	0.9%	1.3%	1.7%	2.0%	2.4%
	0.2%	1.1%	1.5%	1.9%	2.2%	2.6%
	0.4%	1.3%	1.7%	2.1%	2.4%	2.8%
	0.6%	1.5%	1.9%	2.3%	2.6%	3.0%
	0.8%	1.7%	2.1%	2.5%	2.8%	3.2%
	1.0%	1.9%	2.3%	2.7%	3.0%	3.4%

Source: IBGE, BCB and
estimates MPO

(*) Baseline Scenario = Historical means or econometric estimates used for main parameters of Cobb-Douglas production function, capital depreciation and work force dynamics.



Historical Low Investment Levels (% GDP)



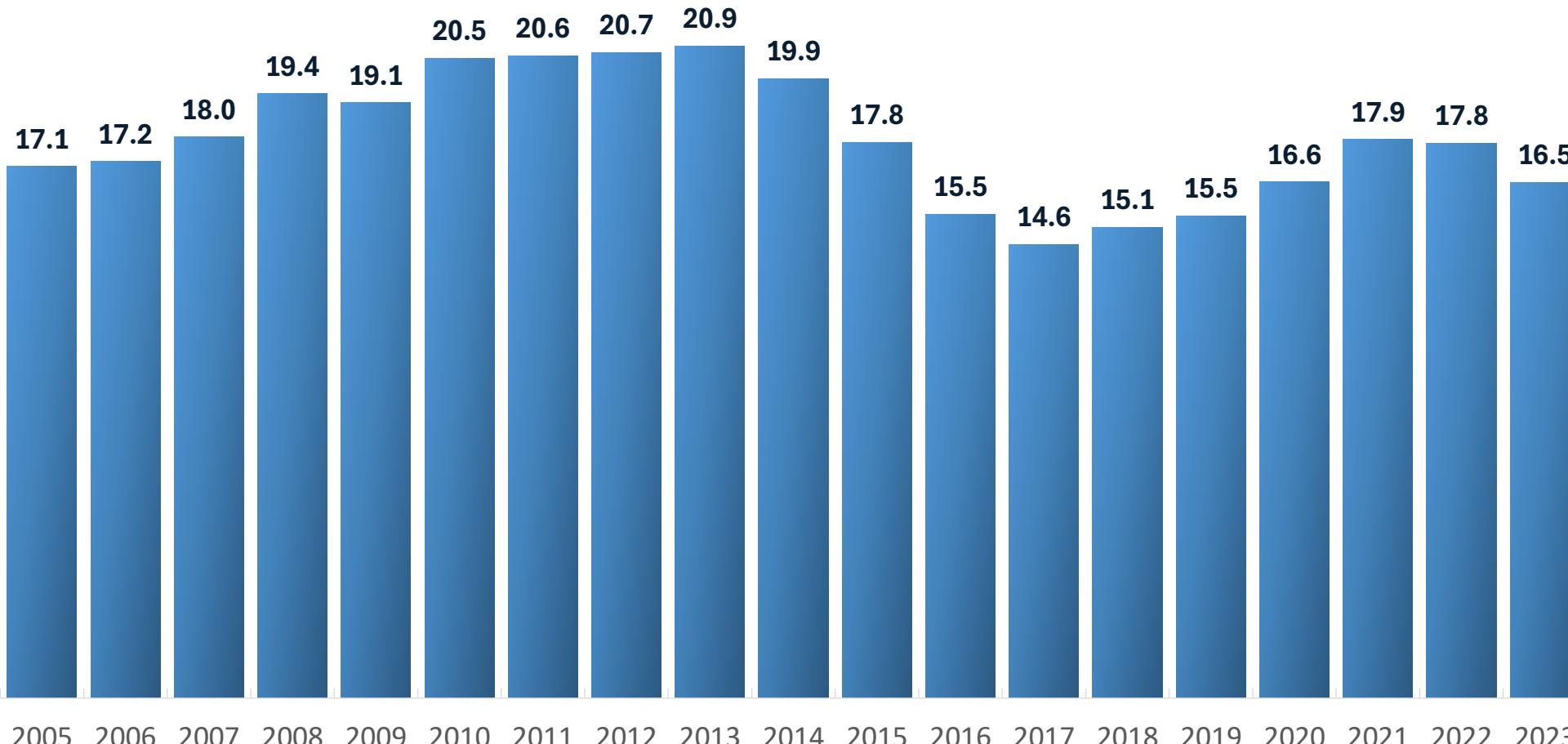
Source: IMF.

Note: In 2023,
the investment rate
decreased to 16.5% in
Brazil.



Investment Rate

% GDP



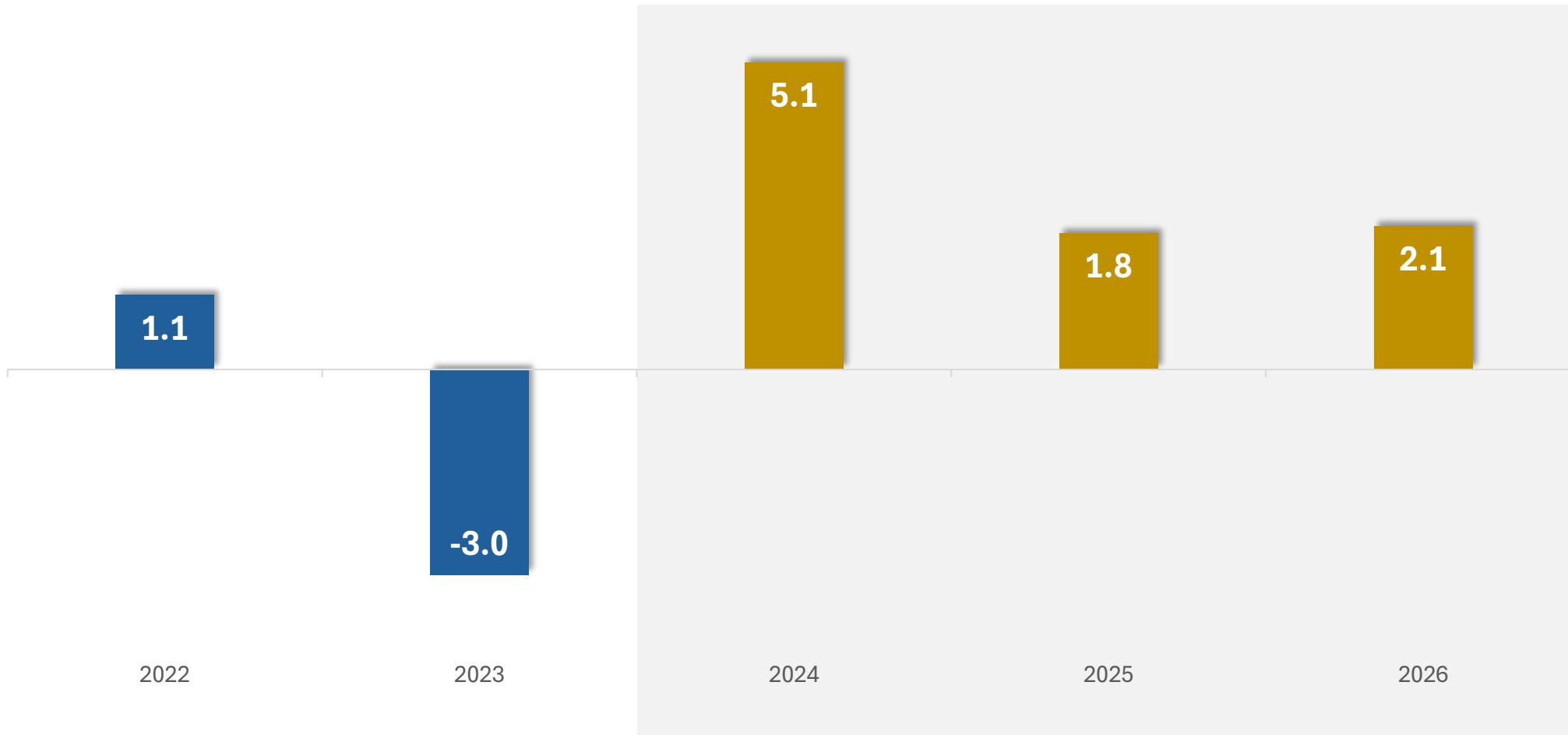
Source: IBGE.

* GFCF - Gross fixed capital formation (GFCF)



Economic Activity - Investment Recovery

Gross Fixed Capital Formation – annual growth



Source: IBGE.

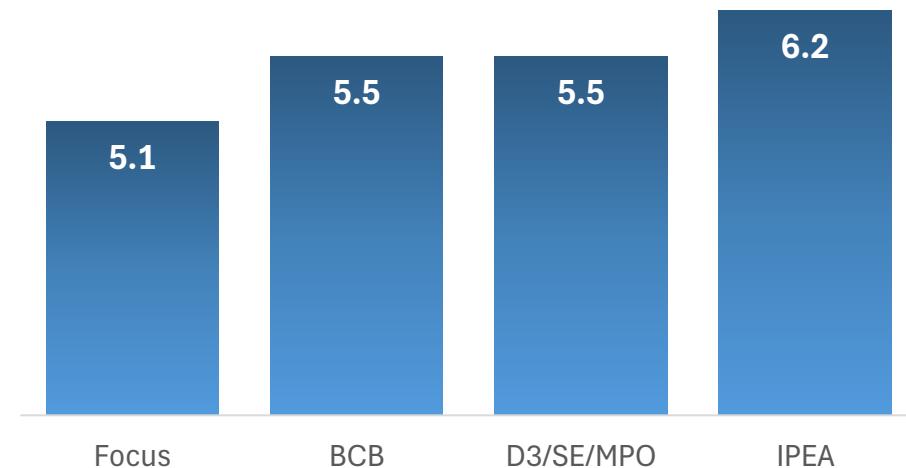
2024-2026: forecasts
(survey of market
analysts - focus).



Investment Recovery

- **Some institutions are forecasting stronger recovery for 2024**, after two years of negative perspectives.
- **Gross Fixed Capital Formation has achieved a positive growth of 2.1% (on the margin)**, the third in a row, after four consecutive falls.
- **In the first half of 2024, gross fixed capital formation reached a growth of 4.2%**, the best result since 2021.

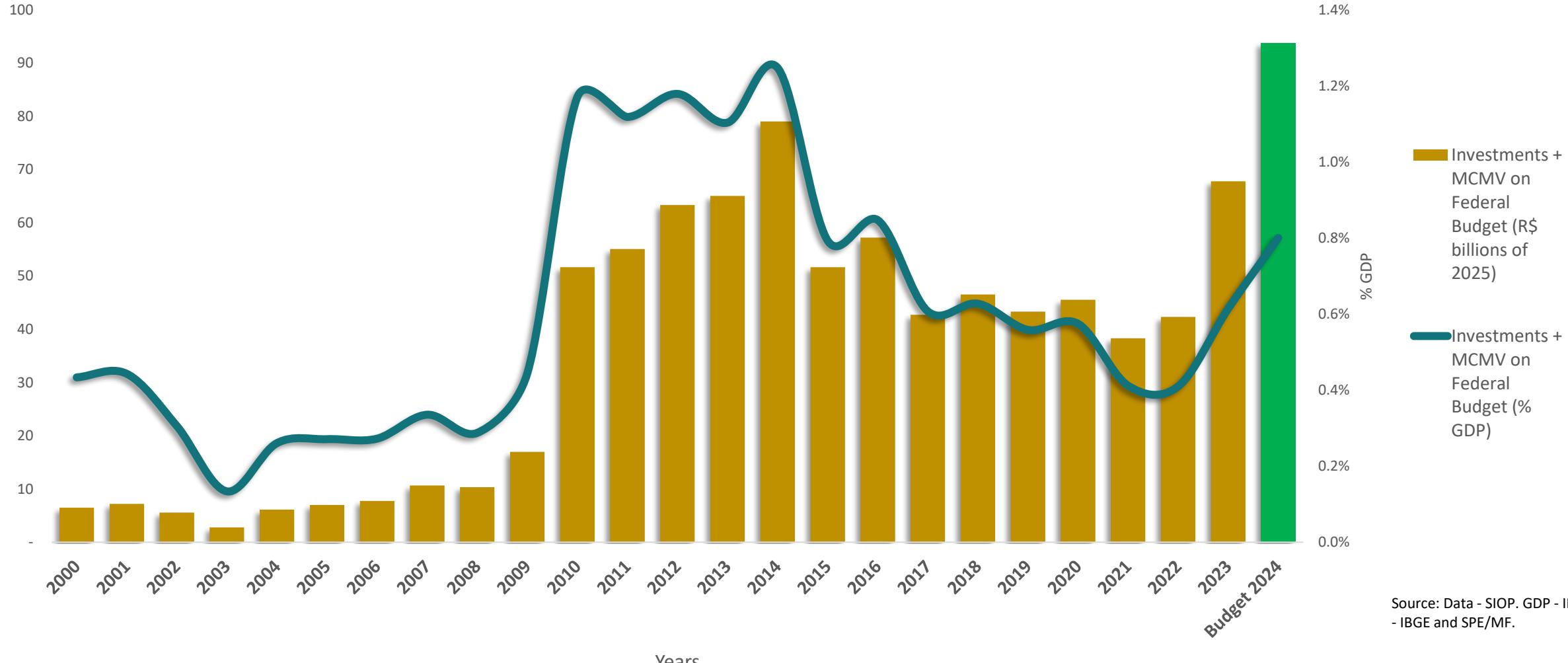
Gross Fixed Capital Formation
annual growth for 2024



Sources: Focus (survey of market analysts)
Central Bank (Inflation Report, set/24),
D3/SE/MPO forecast (econometric model),
Institute for Applied Economic Research (set/24),



Minimum of 0.60% of GDP in Investments on Federal Budget New Fiscal Framework



Source: Data - SIOP. GDP - IBGE. IPCA - IBGE and SPE/MF.

Growth Acceleration Program (PAC)



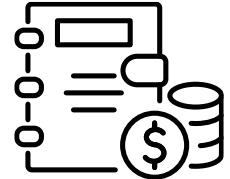
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



For 2025, the federal budget
includes **BRL 60.5 billion for PAC**



PAC will direct
BRL 1.7 trillion
(aprox. USD 311
billion*) in all states,
with 83% until 2026 and
the rest afterwards.

BRL 612 billion
(aprox. USD 111 billion)
are expected to come
from the private sector.



Efficient &
Sustainable
Transportation



Sustainable &
Resilient
Cities



Healthcare



Energy
Security &
Transition



Education,
Science &
Technology



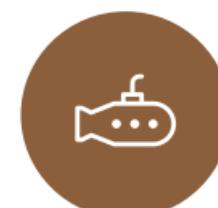
Água para
Todos



Digital
Inclusion &
Connectivity



Inclusive Social
Infrastructure



Innovation
for the Defense
Industry

Equilibrium real interest rate



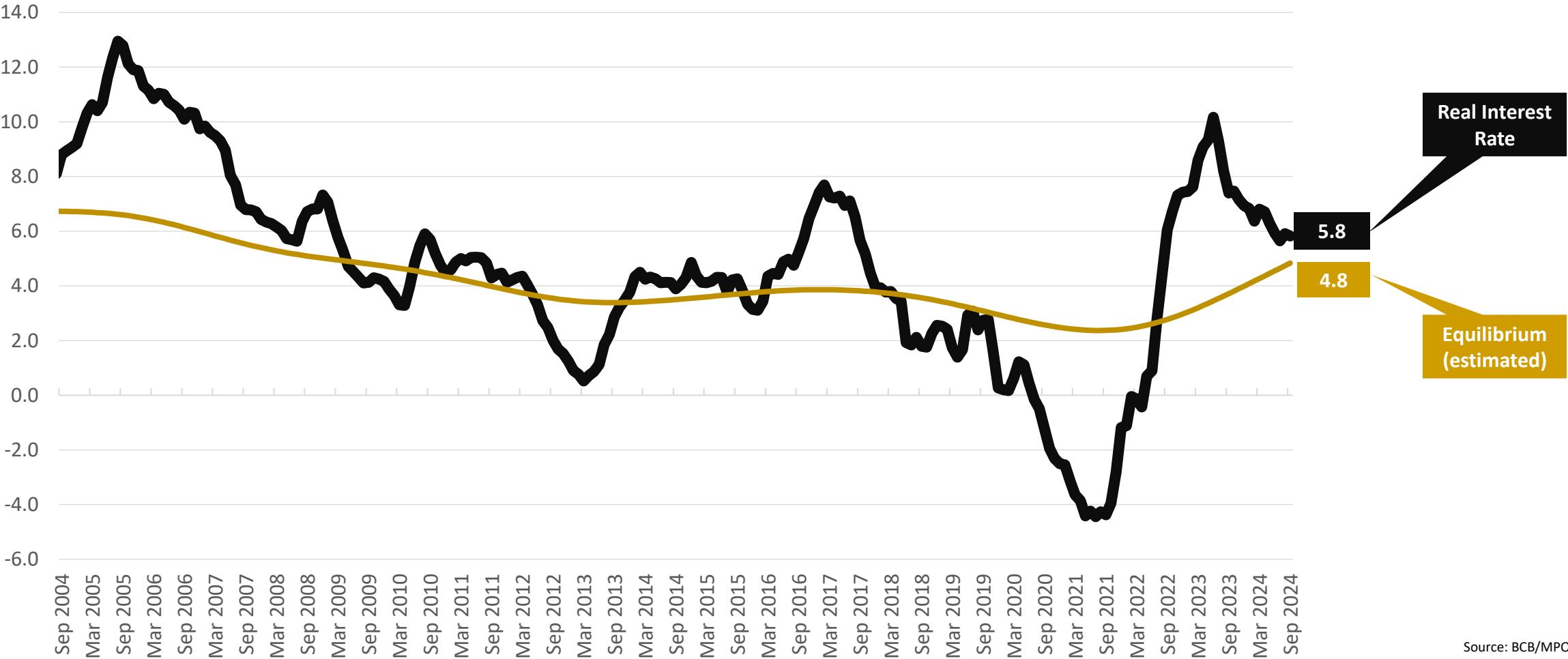
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



RIR and Equilibrium RIR



Source: BCB/MPO

Investment and Business Expectations



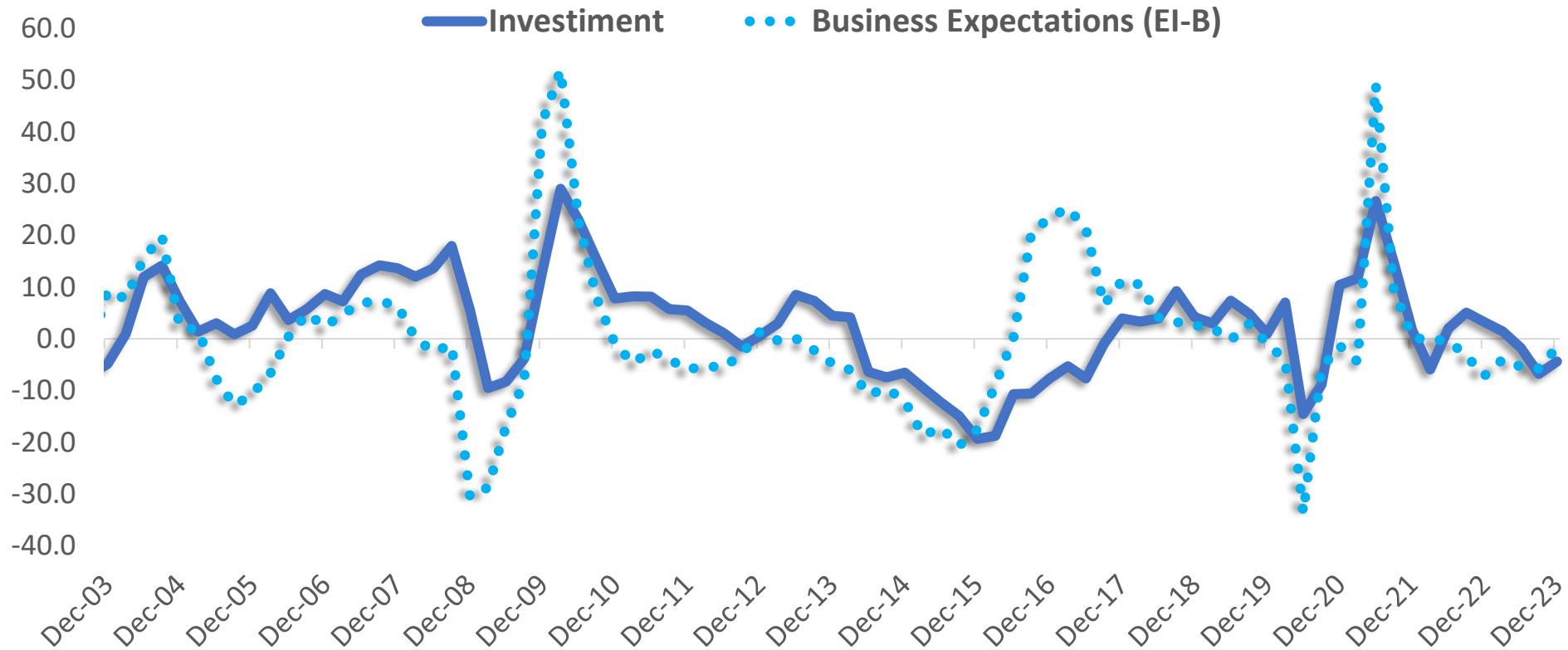
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



YoY (%)



Source: IBGE and FGV IBRE

Business Expectations (EI-B) - perceptions about the degree of optimism with the near future (three to six months)



What are we doing?



Secretaria
Nacional de Planejamento



união, desenvolvimento e sustentabilidade

Brazilian Strategy 2050
Union, Development and
Sustainability



Secretariat for
Assessment and Evaluation of
Public Policies and
Economic Affairs



CMAP
Conselho de
Monitoramento e
Avaliação de
Políticas Públicas

Spending Review

Projeto Romano
Romano Project



Federal
Budget Secretariat

Revisão do Gasto | ***Spending Review***
Orçam. de Médio Prazo | ***Medium Term Budget***
Metas Físicas | ***Physical Targets***
Agendas Transversais | ***Intersectoral Agendas***
Nova Lei de Finanças | ***New Public Finance Law***



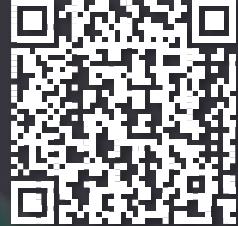
Institutional
Coordination Secretariat



Secretariat for
International Affairs
and Development



**South America
Integration Routes**



Spending Review





Spending Review Actions (Federal level) - PLDO 2025

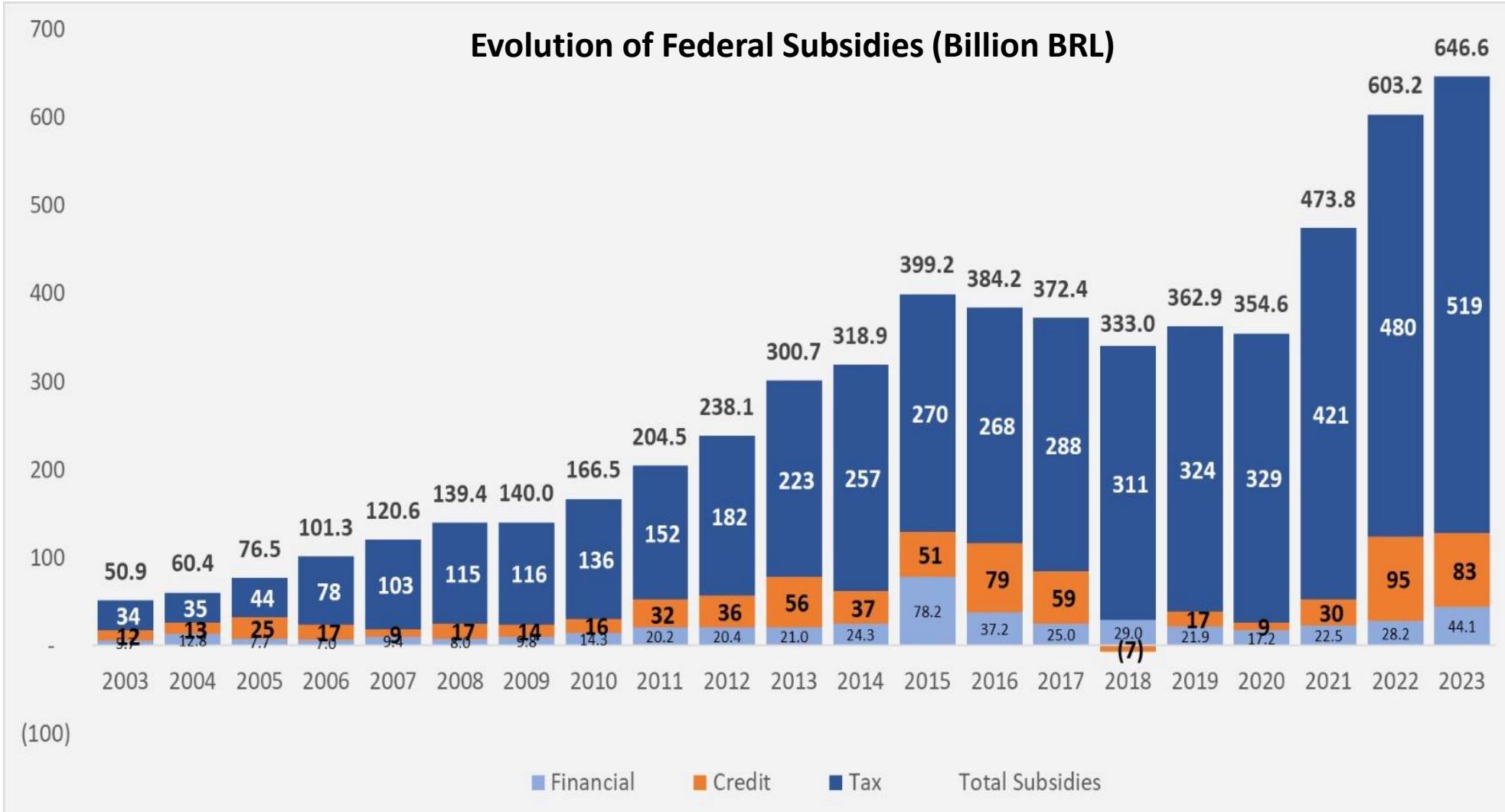


R\$ billions

Items	Measures	2025	2026	2027	2028	Total
Pensions	Simplification of processes for granting benefits and combating fraud.	7.2	7.2	7.1	7.0	28.6
Proagro (Public Rural Insurance)	Better targeting of policy objectives.	2.0	2.1	2.2	2.3	8.7
Total		9.2	9.3	9.4	9.4	37.3

Source: PLDO 2025.
Preparation: SE/MPO.

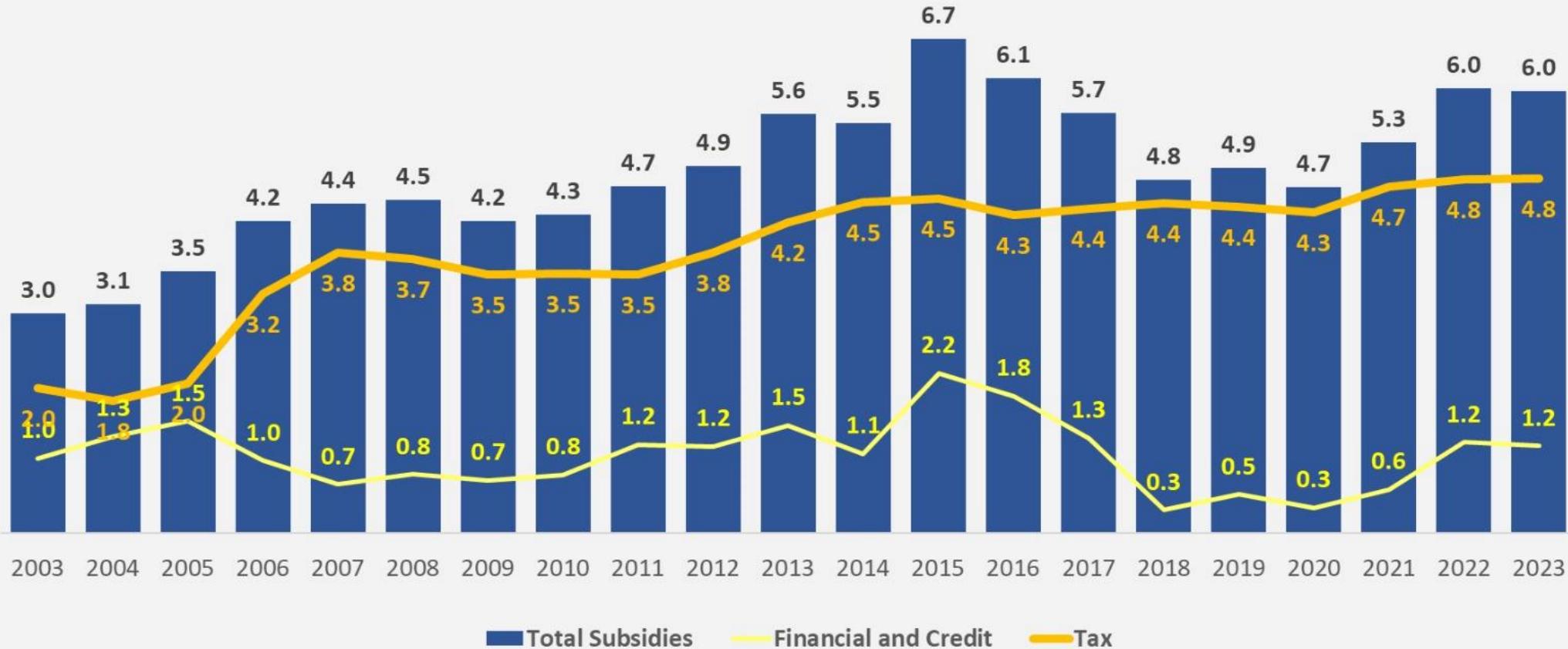
Evaluation and Monitoring



Evaluation and Monitoring



Evolution of Federal Subsidies (% GDP)



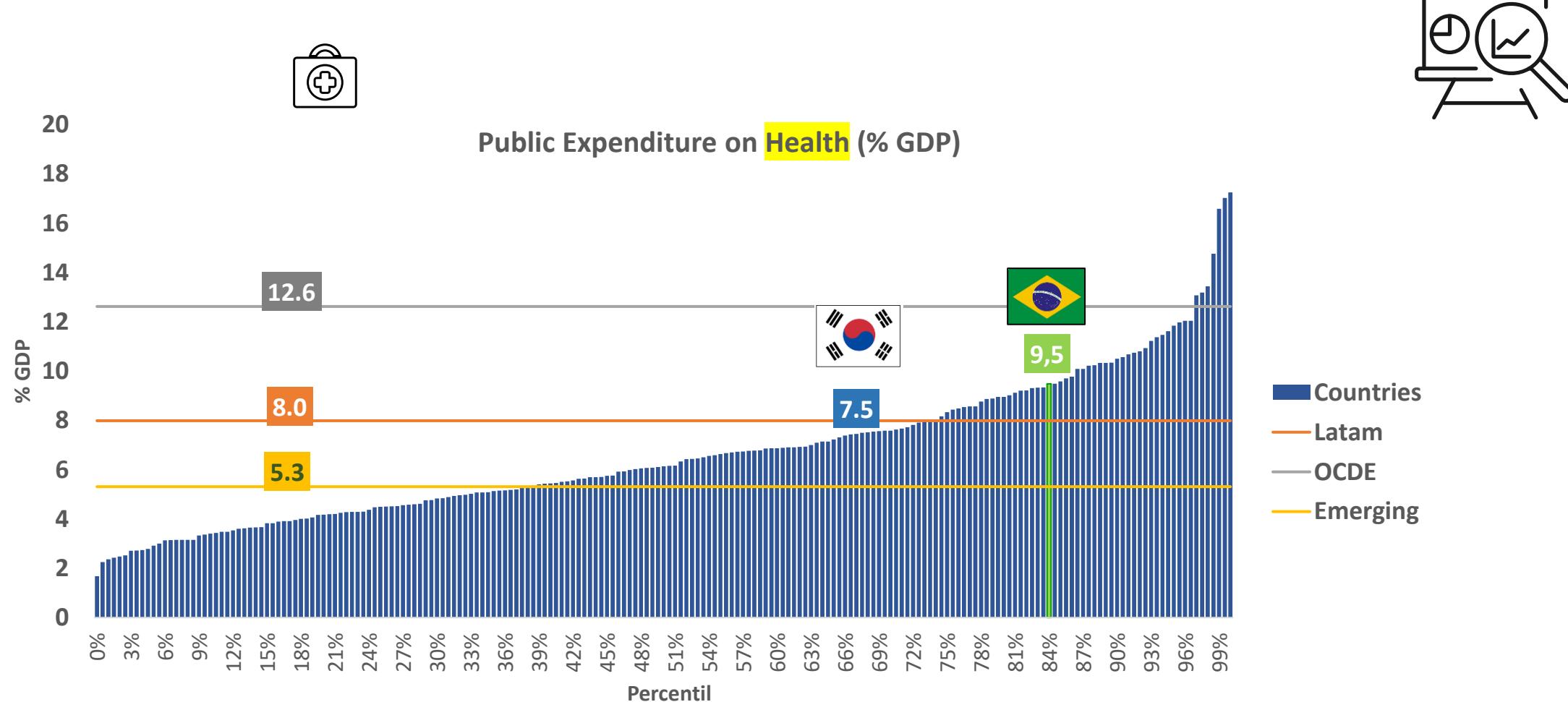
Source: SMA/MPO and RFB.

Prepared by:
SMA/MPO.

* On the occasion of the enactment of the 2022 Budget Guidelines Law (Law 14.194/2021). article 136. paragraph 2 was included. which exceptionally stopped considering Simples Nacional and Microempreendedor Individual (MEI) as tax waivers for that year. In order to visualize the historical series. the graph above takes into account the differentiated regimes referred to in item 'd' of section III of article 146 of the Federal Constitution.



Necessary reduction in spending growth



Source: World Bank

Prepared by: SE/MPO

*Average 2015-2021

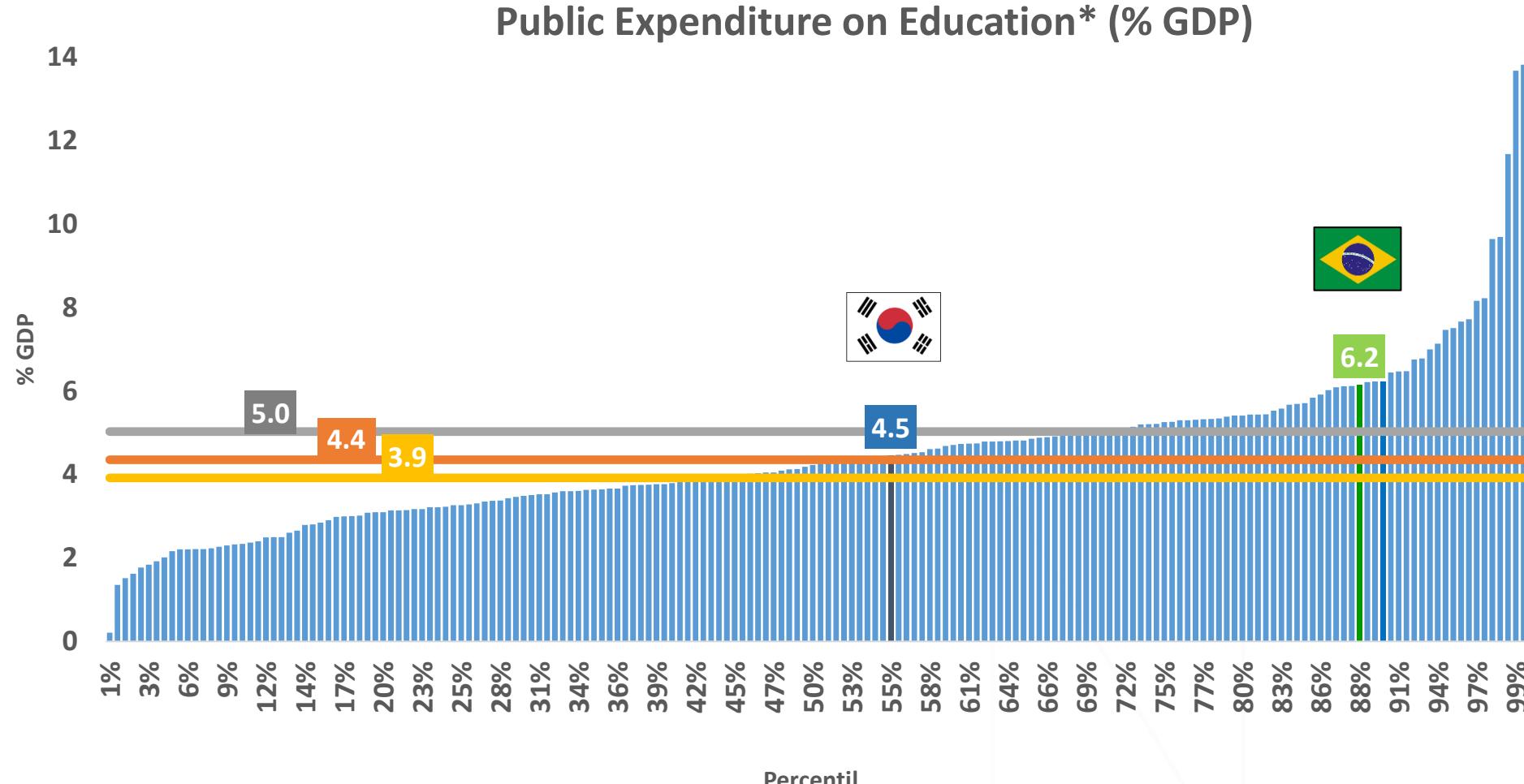
Necessary reduction in spending growth



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Source: World Bank
Prepared by: SE/MPO
*Average 2015-2021

Fiscal risks arising from legal claims



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

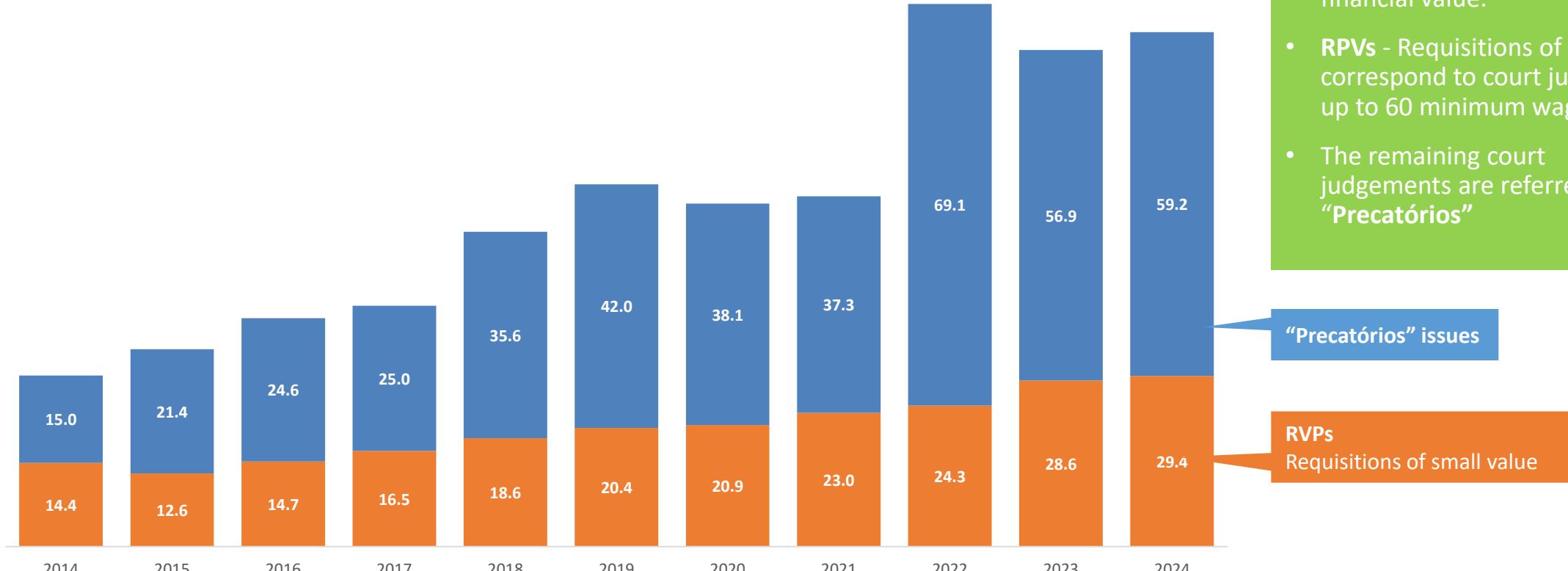
BRAZILIAN GOVERNMENT
UNITING AND REBUILDING



In the last decade. the issuing of court judgments against the state
has grown steadily and faster than inflation



Amounts issued for Precatórios and RPVs
(at constant prices of January 2024)



- Court judgments fall into two categories depending on their financial value.
- **RPVs** - Requisitions of small value: correspond to court judgments of up to 60 minimum wages.
- The remaining court judgements are referred to as **“Precatórios”**

Source: SOF.



Spending review

December 2024

Brazil's Fiscal Package Proposal



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING

Key Components of the Fiscal Package



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



Minimal Wage Adjustment Cap: Limiting real increases in the minimum wage to the same effective spending cap from the fiscal framework (0.6% - 2.5%).

Benefit Eligibility Tightening: Implementing stricter income criteria for the Benefício de Prestação Continuada (BPC).

Social Benefit Reforms: Introducing more stringent rules for granting social benefits.

Parliamentary Amendment Limitations: Restricting parliamentary amendments.

Military Pension Adjustments: Modifying military retirement provisions to contribute to fiscal consolidation.

Extension of Revenue Unlinking: Prolonging and improving the size of the “Desvinculação das Receitas da União” (DRU) to provide greater budgetary flexibility.

These proposals are being submitted to Congress through 3 legislative instruments, including bills and a proposed constitutional amendment.



- ✓ **Guidelines** = Ensure real gains in the minimum wage in a manner consistent with the federal budget.
- ✓ **Current rule**: inflation (t-1) plus the real growth of GDP (t-2);
- ✓ **Proposed rule**: real growth by GDP, but the real adjustment will be equal to Sustainable Fiscal Framework (SFF) limits (0.6% and 2.5%) – 2025 until 2030;

Source: Ministry of Finance.



- ✓ Desvinculação de Receitas da União (DRU) - **Unlinking of Federal Revenues** = extends the DRU until 2032 and increase its impact from BRL 10.6 Billion (2024) to 44.3 Billion (2025).

Source: Ministry of Finance.



- ✓ **Guideline:** adjustment of the beneficiaries of public policy due to the appreciation of the minimum wage and improvement in the labor market. Nowadays, over 60% of formal workers are eligible for the benefit.
- ✓ **Current rule:** Workers who earn up to 2 minimum wages.
- ✓ **Proposed rule:** Workers who earn BRL 2,640.00 but this value will be corrected by the Brazilian CPI (INPC) until reaches 1.5 minimum wages.

Source: Ministry of Finance.



- ✓ **Guideline:** Improve policy to low-income people with disabilities and elderly people in vulnerable situations (Benefício de Prestação Continuada - BPC).
- ✓ **Proposed rule:** Improve mechanisms to mitigate policy problems.
 - ✓ Focus on people who are unable to live independently and work.
 - ✓ Prohibition of income deductions not provided for by law.
 - ✓ Adjust the eligibility criteria to income of spouses and non-cohabiting partners and others (not just single people)
 - ✓ Update the records and becomes mandatory the International Classification of Diseases (ICD).
 - ✓ Biometrics will be mandatory for new benefits and record updates.

Source: Ministry of Finance.



- ✓ **Guideline:** Improve Bolsa Família, which represents a successful income transfer policy with an impact on poverty reduction and intergenerational effects on human capital, health and education.
- ✓ **Proposed rule:** Improve surveillance to ensure a more effective policy for people in need.
 - ✓ Mitigate the existence of single-person families above the regulatory limits.
 - ✓ Registration or updating becomes homemandatory.
 - ✓ Keeping records up to date becomes mandatory.
 - ✓ Mandatory biometrics for registration and updating.
 - ✓ Public services must provide information to enable monitoring through cross-referencing

Source: Ministry of Finance.



- ✓ **Guideline:** Correct distortions in benefits of public servants in relation to the rest of society.
- ✓ **Proposed rule:**
 - ✓ high salaries for civil servant = ensure that exceptions to the salary cap in the public sector must be the same for all branches of government and all subnational entities.
 - ✓ military servants = ends *ficta mors* an end to fictitious death, Sets military personnel's contribution to the Health Fund at 3.5% of their remuneration until January 2026, pension transfer was extinct, establishes minimum age for retirement benefits.

Source: Ministry of Finance.



- ✓ **Guideline:** ensure that all branches of government share the responsibility for strengthening fiscal balance.
- ✓ **Proposed rule:**
 - ✓ mandatory amendments are limited to the Sustainable Fiscal Framework.
 - ✓ Restricts amendments to discretionary expenditure by the Executive Branch.
 - ✓ non-mandatory amendments will always grow below the Sustainable Fiscal Framework.
 - ✓ 50% of the Committee's amendments will be for public health.
 - ✓ Legislative amendments are blocked in proportion to the Executive Branch, limited to 15% of the total (BRL 7.5 billion in 2025)

Source: Ministry of Finance.



✓ Proposed rule:

- ✓ **Fundeb** = Up to 20% of the Union's resources to Fundeb for full-time enrollment in public full-time education (Impact BRL 42.3 Billion).
- ✓ **Aldir Blanc Law** = transfer of up to R\$3 billion to subnational entities is subject to the execution of resources in the previous year (Impact BRL 7 Billion).
- ✓ **Public exams** = provisions and exams in 2025 (Impact BRL 6 Billion).
- ✓ **Subsidies and subventions** = authorization for budget adjustment of approximately \$18 billion in subsidies and grants (Impact BRL 12,8 Billion).
- ✓ **Fundo Constitutional do Distrito Federal (FCDF)** = Subjects variation of Fund resources to the IPCA (Impact BRL 16 Billion).

Source: Ministry of Finance.



- ✓ **Guideline:** to reinforce the Brazilian government's commitment to fiscal balance, triggers will be created based on the SFF in the event of a primary deficit or reduction in discretionary spending.
- ✓ **Proposed rule:**
 - ✓ Tax benefits: primary deficit from 2025 onwards, in the year following the determination of the deficit, the creation, increase or extension of tax benefits is prohibited.
 - ✓ Personnel Expenses: from 2027 onwards, a real increase above 0.6% will be prohibited if discretionary expenses are reduced from one year to the next.

Source: Ministry of Finance.



Strategy 2025





The Brazil Strategy 2050 aims to address the key challenges posed the country's future.



union, development and sustainability

Main Objectives Strategy 2025-2050



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



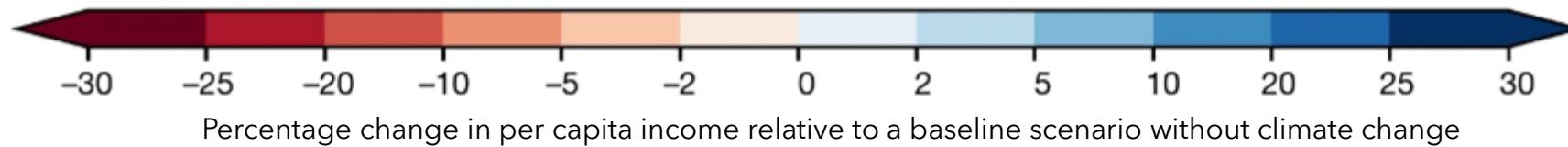
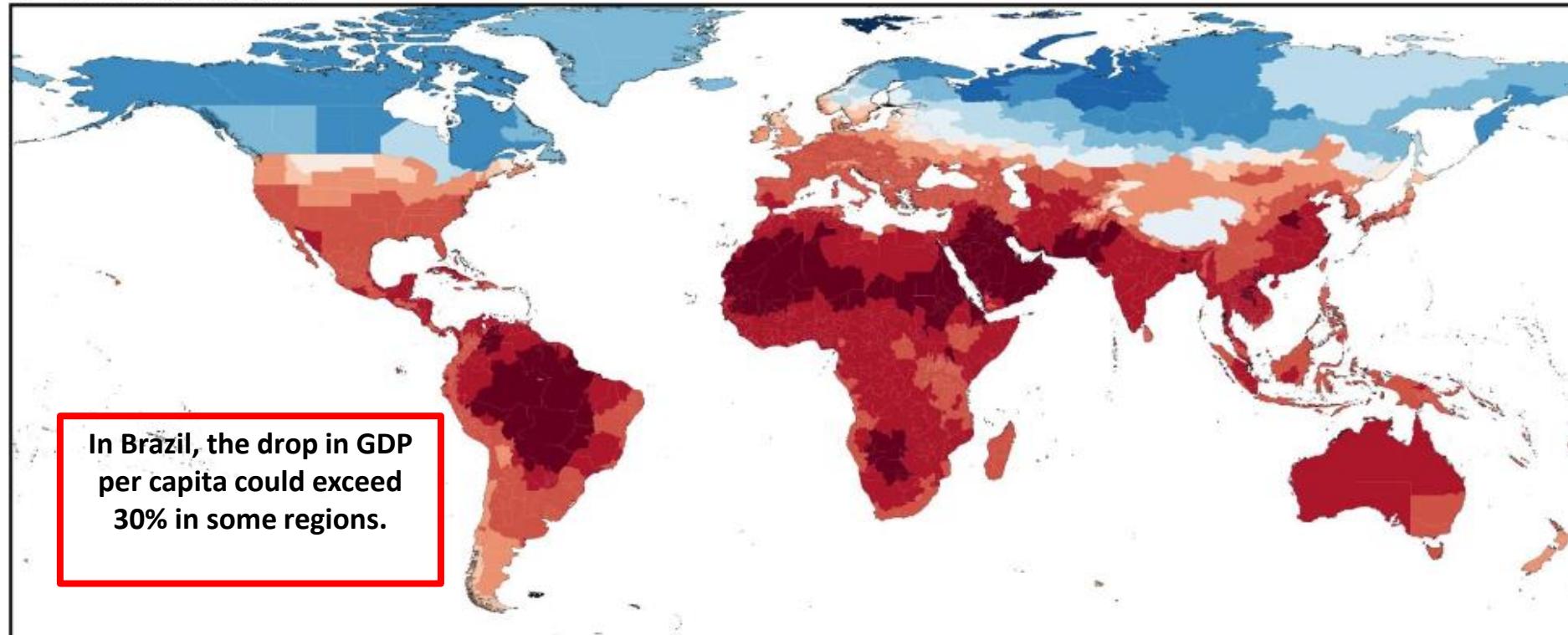
- 1 Reduce social and regional inequalities (combat hunger and poverty);
- 2 Address climate change;
- 3 Prepare the country for demographic transition;
- 4 Promote macroeconomic sustainability;
- 5 Foster a significant increase in investments (infrastructure, family agriculture, agribusiness, industry, commerce, and services) and ensure economic growth (inclusion, productivity, employment, and workforce training).



Challenges for Brazil in 2050

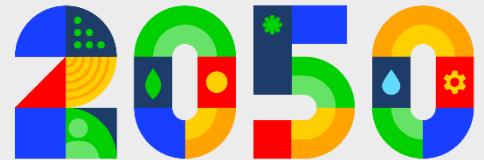
Economic impacts of climate change

a All climate variables

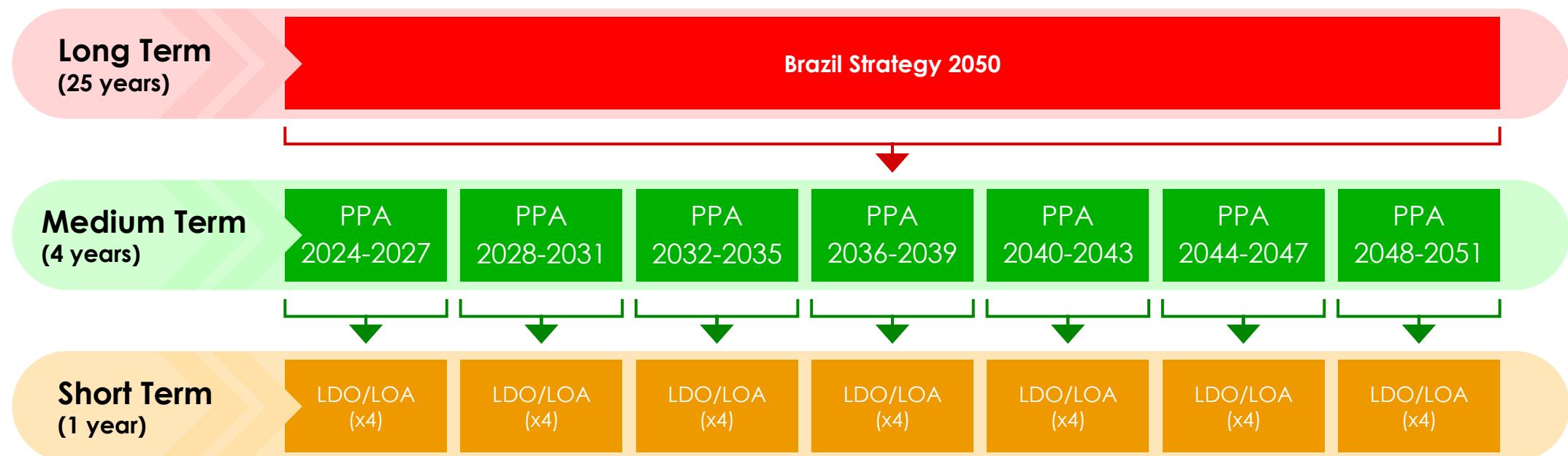




BRAZIL STRATEGY



union, development and sustainability

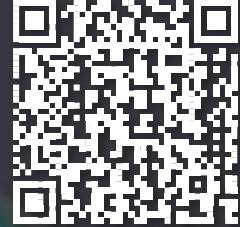


The Brazil Strategy
2050 will guide:

7 Multi-Year Plams (PPA)

26 Budget Guidelines Laws (LDO) and 26 Annual Budget Laws (LOA) *

*Considering the approval of the Strategy in 2025.



ROMAN Project





SOF – Set of Priority Projects

1

SPENDING REVIEW

Looking back:
expenditures reallocation

2

**MEDIUM TERM
BUDGET**

Looking foward:
Multi-year projections

3

PHYSICAL TARGETS

Delivery focused
(initiative byproducts)

4

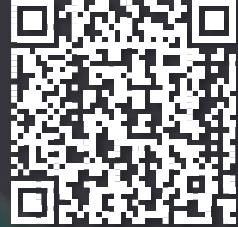
**INTERSECTORAL
AGENDA**

Indexing
(Managerial labelling)

5

**NEW PUBLIC
FINANCE LAW**

Superseding
Law 4,320, 1964



Integration Routes



EXECUTIVE
SECRETARIAT

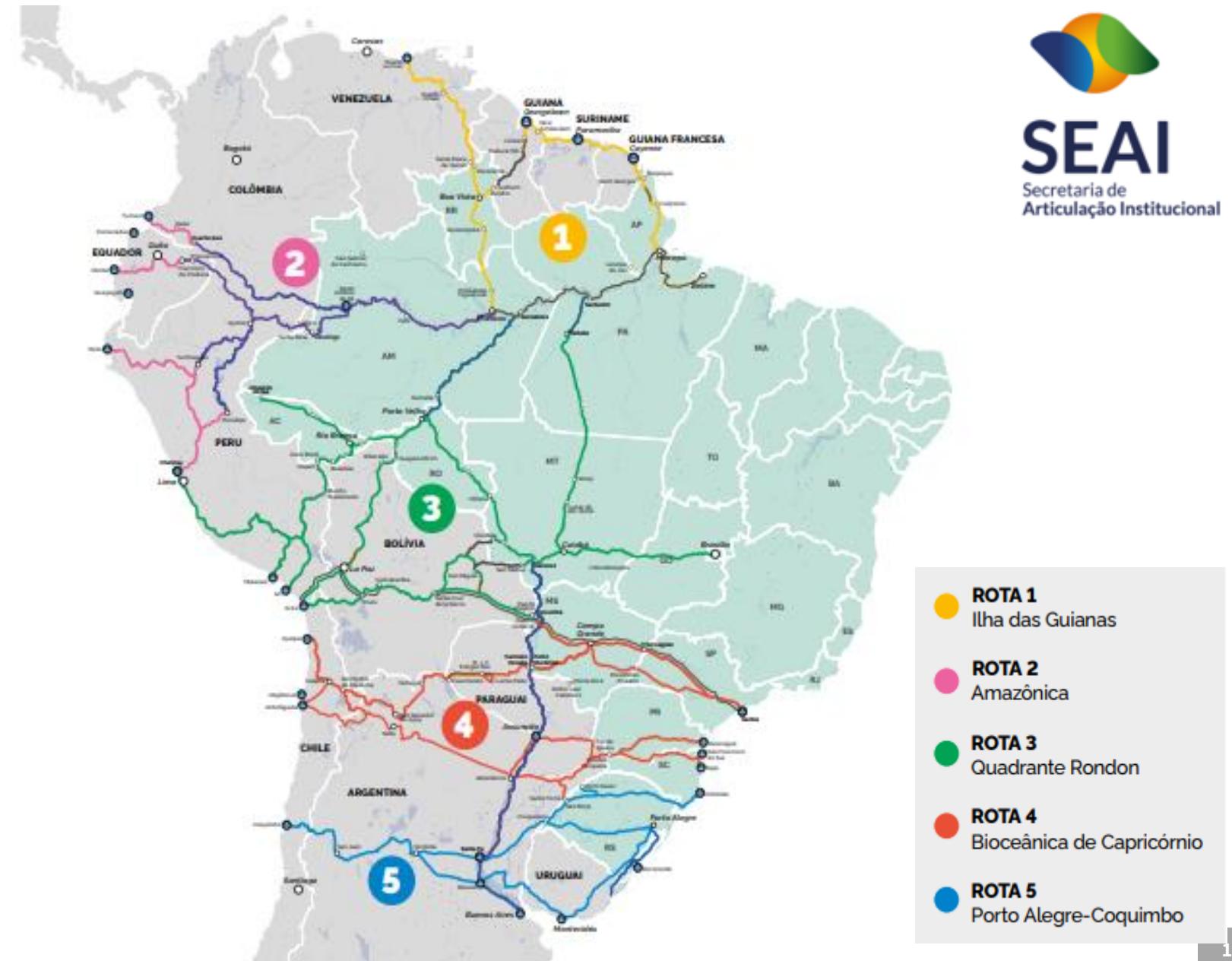
MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



South American Integration Routes

- Reduction of time and cost of transportation between Brazil and its neighbors, and Asia.
- USD 3 billion from BNDES, more USD 7 billion from regional development banks, besides budgetary resources.



Secretaria de
Articulação Institucional

Advantages of South American Integration Routes



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



1

Reducing distance and travel time to Asia

Bioceanic Route reduces the maritime distance to Shanghai, China, by up to **5,478 km (22.7%)** compared to the routes starting at the Port of Santos.

According to a study of the National Observatory of Transportation and Logistics of the Planning and Logistics Company

2

Increasing competitiveness of products and South American products

Brazil **exported almost USD 43 billion (12.6%)** to South American countries and **imported just over USD28 billion (11.7%)** of the country's total trade in the period.

The manufacturing industry **accounted for 78.7% of exports and 68.6% of imports**

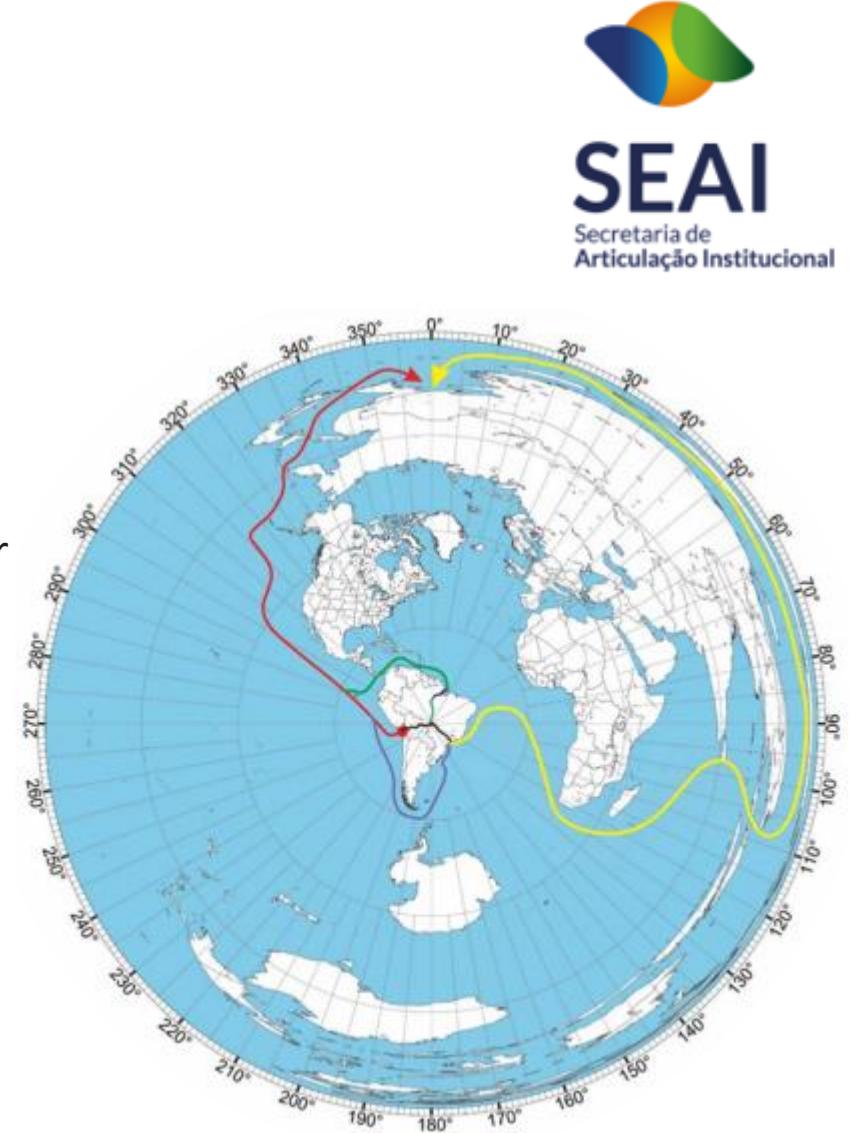
Brazil's regional trade with its neighbors is concentrated on higher value-added products.

3

Expanding exchanges and cultural ties with neighbors

In Porto Murtinho, for example, which is part of the Capricorn Bioceanic Route, the **volume of grain exports jumped from 0.2 million to over 1.6 million tons in the tons .**

An increase of almost 500% in one year.

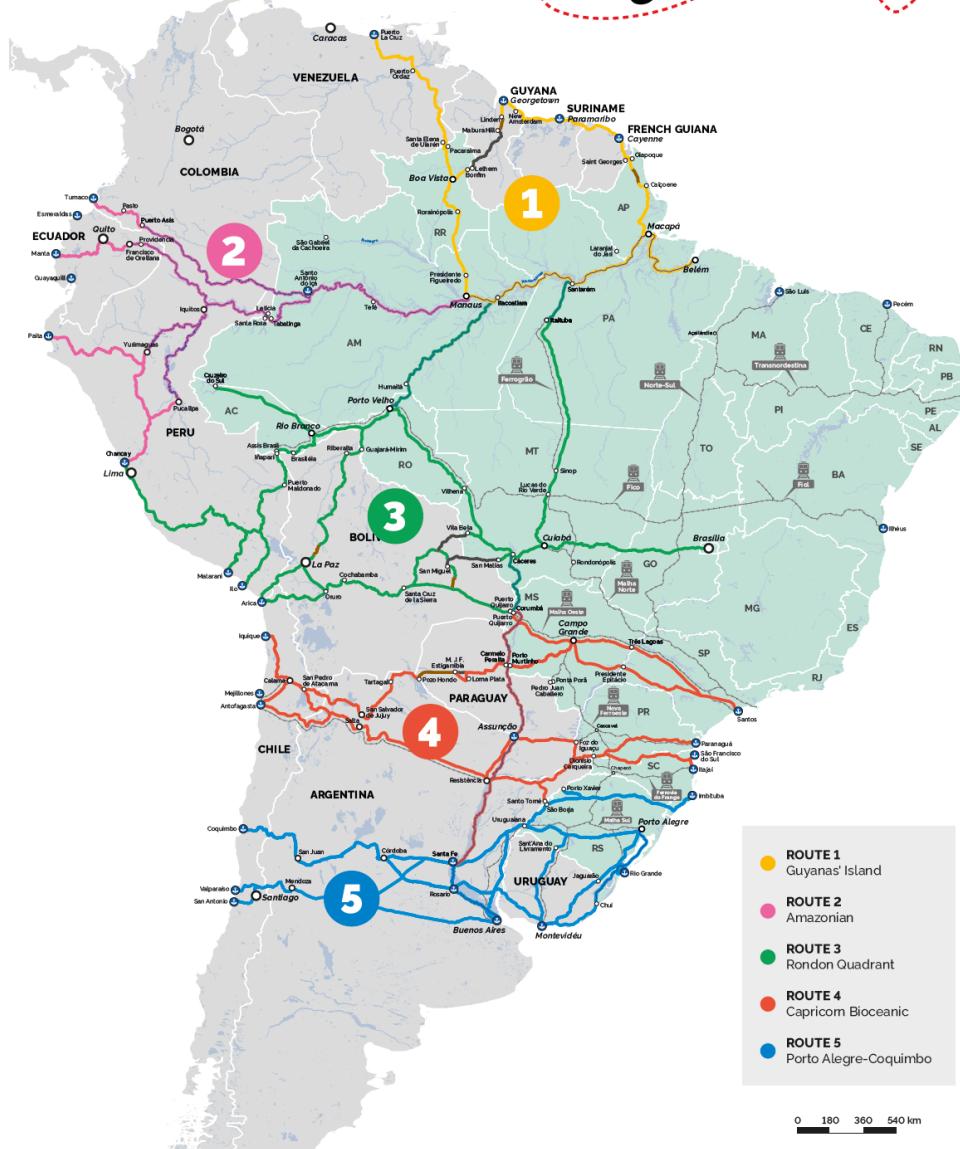


SEAI

Secretaria de
Articulação Institucional



South American Integration Routes



SOUTH AMERICA - ASIA

Currently there are different logistical alternatives:
Panama Canal,
Strait of Magellan
and Indian Ocean,
the most used.

THE BIOCEANIC ROUTES WILL:



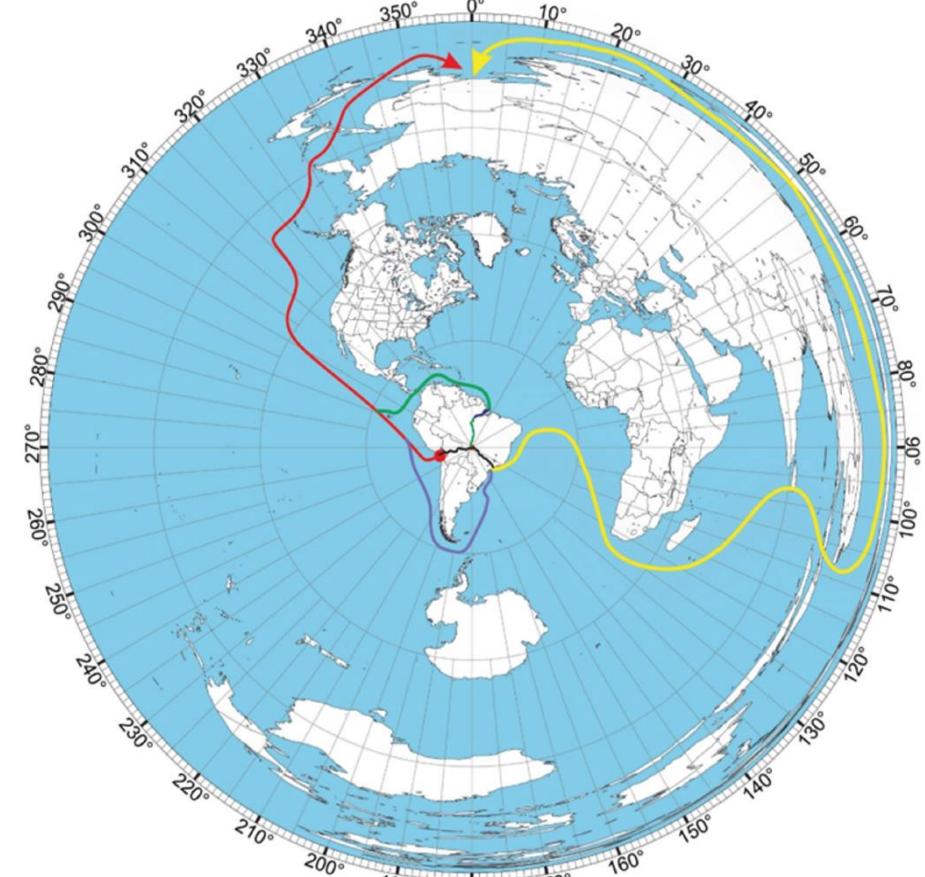
Reduce the distance
in shipping between
countries and
continents



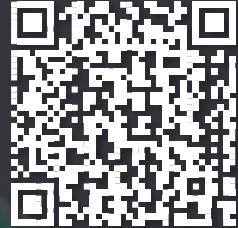
Increase the
competitiveness
of South American
products



Improve cultural
ties within the South
American countries



Source: IPEA | NS6.NET (2022); Projeção Azimutal.
Elaboration: RIBEIRO SILVA, C. H. et al., 2022



Tax Reform



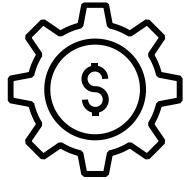
EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



Current BR Highly Complex System



High bureaucratic cost of paying taxes

Frequent judicial litigation regarding taxation

High compliance costs

Cumulative taxation impacting investments and exports

Missallocation (affecting factors of production) and **competitive distortions** (search for tax incentives overshadowing comparative advantages and before-tax profit maximization) with negative outcomes in the production organization

Lack of transparency

Tensions among subnational units

Proliferation of tax incentives. special regimes and effective rates

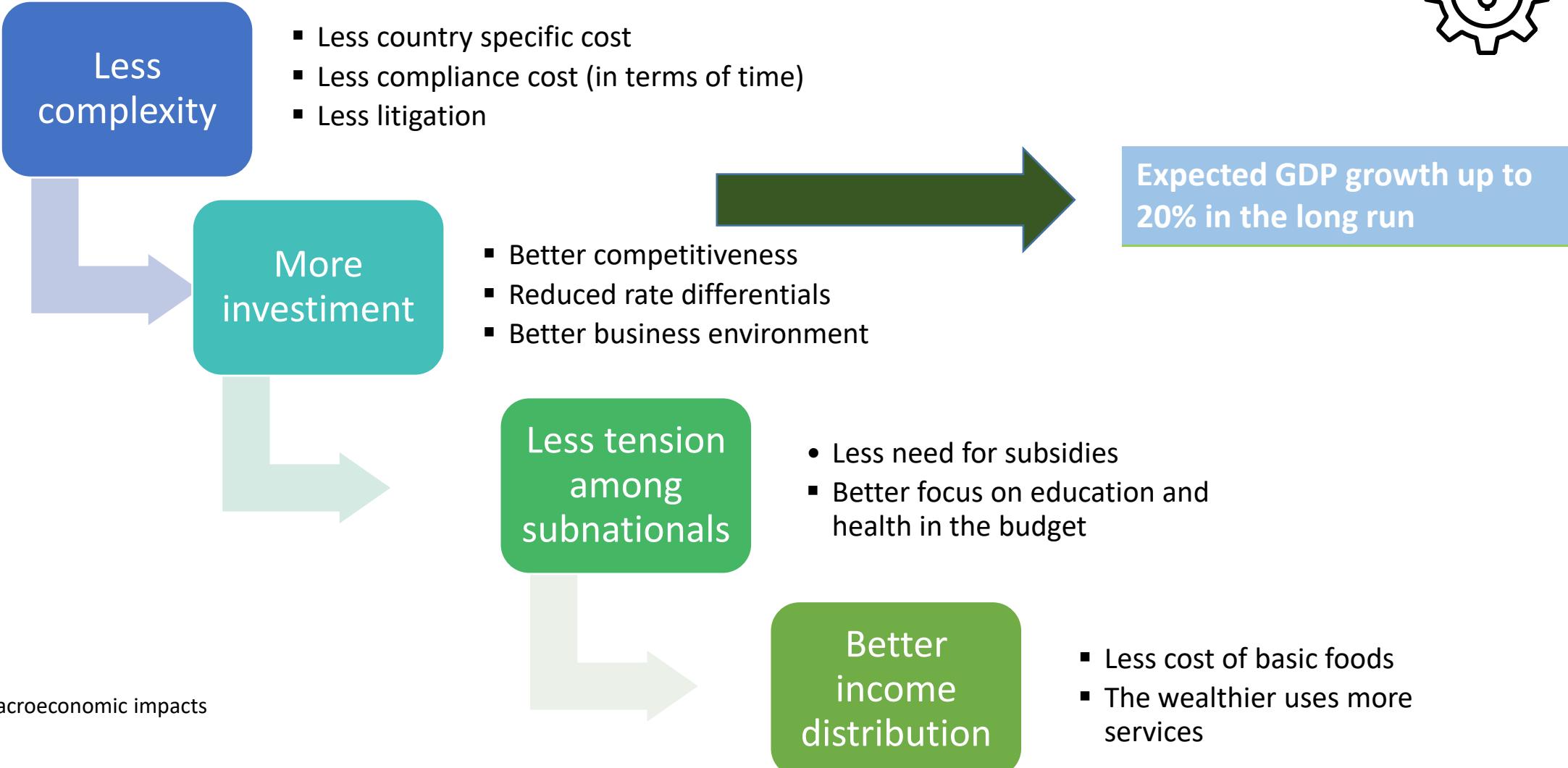
Tax reform: direct impacts on the economy



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING



Source:
Simulations of macroeconomic impacts
released by CCiF



A TRIPLE POLICY PIVOT IS NEEDED:

**FISCAL
POLICY**

**MONETARY
POLICY**

**GROWTH-FRIENDLY
REFORMS**



Future Vision



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



The Economist Cover



The Economist Nov 2009



The Economist Sep 2013

Now

Future Vision



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRAZIL
UNITING AND REBUILDING



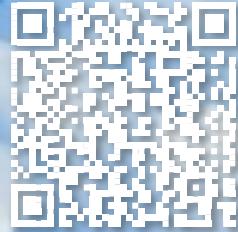
The Economist Cover



The Economist Nov 2009

The Economist Sep 2013

Now



Thank You
감사합니다
Gracias
Obrigado

Gustavo Guimarães
Vice Minister of Planning and Budget



EXECUTIVE
SECRETARIAT

MINISTRY OF
PLANNING
AND BUDGET

BRAZILIAN GOVERNMENT
BRASIL
UNITING AND REBUILDING