Public expenditure for inclusion and growth

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Fiscal context and fiscal rules

- Until 2016 the main fiscal rule was the primary balance target
  - Excessive use of creative accounting and non-recurring revenue to meet the primary balance target.
  - Loss of credibility of the primary balance target.

- From 2014 to 2016 Brazil was in an economic recession.
- In response to the economic and fiscal crises, the spending cap and the IFI were created.
Fiscal accounts before the pandemic

- Primary deficit since 2014
  - Less dynamic primary revenues.
  - Primary expenses maintained a historic growth behavior.

**Central Government fiscal balance - % GDP (1997-2019)**

- Net revenue
- Total expenditure

12.0% 13.0% 14.0% 15.0% 16.0% 17.0% 18.0% 19.0% 20.0% 21.0%


New fiscal rule: Spending cap

Economic recession
The Covid-19 pandemic temporarily interrupted the slow process of recovery of the primary balance: from 2016 to 2019 the central government deficit went from -2.5% to -1.2% of GDP;

The Covid-19 needed a quick response, so fiscal rules were adapted through the so-called “war budget”.
The fiscal response in its various dimensions

“Pandemic prompts rise in poverty to levels unprecedented in recent decades and sharply affects inequality and employment.”
(ECLAC, 2020).

➤ Emergency Amendment (CA 109, of 2021): (...) suspends the conditionalities for carrying out the expenditures with the granting of additional emergency aid to face the social and economic consequences of the Covid-19 pandemic.

Interest rates have risen again and are already above the pre-pandemic level (2019).

The Minimum Wage influenced the reduction of social benefits.

Reduction in employee remuneration stems from salary freeze and suspension of civil service hiring exams.

Source: National Treasury. Prepared by IFI.
Cash transfers for people in vulnerable situations after 2020

- **The Family Allowance (Bolsa Família Program – BFP):**
  Served 22 million families with an average monthly benefit of BRL 214 per family.

- **The Emergency Aid (Auxílio emergencial):**
  Served 68.2 million people from April to August and 55.4 million people from September to December 2020 with an average benefit of BRL 530.1 per person.

- **The Brazil Aid (Auxílio Brasil):**
  Started serving 14.5 million families with an average monthly benefit of BRL 224.41 per family.
  Ended serving 21.9 million families with an average monthly benefit of BRL 606.91 per family.

- **The new BFP:**
  In April, served 21.2 million families with an average monthly benefit of BRL 670 per family.
  The expectation is that the average monthly benefit per family will reach BRL 703.

Source: National Treasury of Brazil and IFI.
Public investment is at its lowest level.

Source: Siga Brasil.
The second wave and old issues

Changes to the Budget by Function:

<table>
<thead>
<tr>
<th>Health</th>
<th>Education</th>
<th>Environment</th>
<th>Other Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019:</strong></td>
<td><strong>2019:</strong></td>
<td><strong>2019:</strong></td>
<td><strong>2019:</strong></td>
</tr>
<tr>
<td>1.7% of GDP</td>
<td>1.2% of GDP</td>
<td>0.1% of GDP</td>
<td>20.3% of GDP</td>
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<tr>
<td><strong>2022:</strong></td>
<td><strong>2022:</strong></td>
<td><strong>2022:</strong></td>
<td><strong>2022:</strong></td>
</tr>
<tr>
<td>1.5% of GDP</td>
<td>1.1% of GDP</td>
<td>0.03% of GDP</td>
<td>19.5% of GDP</td>
</tr>
<tr>
<td><strong>2023</strong>*:</td>
<td><strong>2023</strong>*:</td>
<td><strong>2023</strong>*:</td>
<td><strong>2023</strong>*:</td>
</tr>
<tr>
<td>1.6% of GDP</td>
<td>1.2% of GDP</td>
<td>0.1% of GDP</td>
<td>20.7% of GDP</td>
</tr>
</tbody>
</table>

Source: National Treasury. *LOA 2023
Spending cap changes (all measures)

CA 102/2019

Onerous assignment (BRL 46.1 billion outside the ceiling)

CA 109/2021

Mandatory spending sub-ceiling (triggering)

Changes way of adjusting limits (IPCA of December)

CA 113/2021

Spending limit on court other debt

CA 114/2021

CA 123/2022

Authorizes spending of up to BRL 41.2 billion above the ceiling

CA 126/2022

Extends the spending cap and extends extra cap spending to 2023. Establishes the creation of a new fiscal rule to come into effect as of its approval.
## 1ST EVALUATION REPORT OF PRIMARY REVENUES AND EXPENDITURES - % OF GDP

<table>
<thead>
<tr>
<th></th>
<th>LOA 2023</th>
<th>1st Evaluation</th>
<th>Difference p.p. of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Total primary revenue</strong></td>
<td>21.1%</td>
<td>22.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Revenues collected by the RFB</td>
<td>12.9%</td>
<td>13.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Net social security (RGPS)</td>
<td>5.6%</td>
<td>5.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Revenues not collected by the RFB</td>
<td>2.7%</td>
<td>2.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>2. Transfers by revenue sharing</strong></td>
<td>4.2%</td>
<td>4.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>3. Net revenue [1-2]</strong></td>
<td>16.9%</td>
<td>17.9%</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>4. Primary expenditure</strong></td>
<td>19.0%</td>
<td>18.9%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Mandatory</td>
<td>17.2%</td>
<td>17.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Discretionary</td>
<td>1.8%</td>
<td>1.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>5. Primary balance [3-4]</strong></td>
<td>-2.1%</td>
<td>-1.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>6. Primary balance target</strong></td>
<td>-0.6%</td>
<td>-0.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>7. Primary balance target compensation</strong></td>
<td>1.6%</td>
<td>1.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>8. Required adjustment (-) or excess (+) [5-6+7]</strong></td>
<td>0.1%</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Source: SOF/MPO. Prepared by IFI.
Article 6. The President of the Republic shall submit to the National Congress, by August 31, 2023, a bill aimed at establishing a sustainable fiscal regime to ensure the macroeconomic stability of the country and create adequate conditions for socioeconomic growth, including the rule established in item III of the main section of article 167 of the Federal Constitution.
New fiscal framework – Bill of Supplementary Law n° 93

**Primary targets**
- With tolerance interval
- Investment bonus if above the interval
- Penalty on expenditure if below the interval

**Limit for primary expenses**
- Real growth linked to real revenue growth
- Within a predefined range

**Floor for investments**
- Includes "Minha Casa Minha Vida" program
- Floor = Budget for 2023 + Inflation.
New fiscal framework – Complementary law proposal no. 93

Primary balance target

Not meeting the goal
- Expenditure limited to 50% of real revenue growth.
  - Real increase of primary expenditures within the revenue reduction rule equal to 0.6%
  - Upper and lower expenditure limits equal to 0.6%

Meeting the goal
- Expenditure limited to 70% of real revenue growth.
  - Real increase of primary expenditures within the revenue reduction rule set in the range between 0.6% and 2.5%
  - Expenditure ceiling is a result of a previous calculation

Primary balance targets above the upper bound limits
- Primary balance surplus can be allocated to public investments
  - Expenditure ceiling is set to vary by 2.5%, the upper limit of expenditure real growth

The rule is not simple.
Thank you

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