

The future of sustainability and fiscal rules in the post-pandemic period

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NAÇÕES UNIDAS

CEPAL

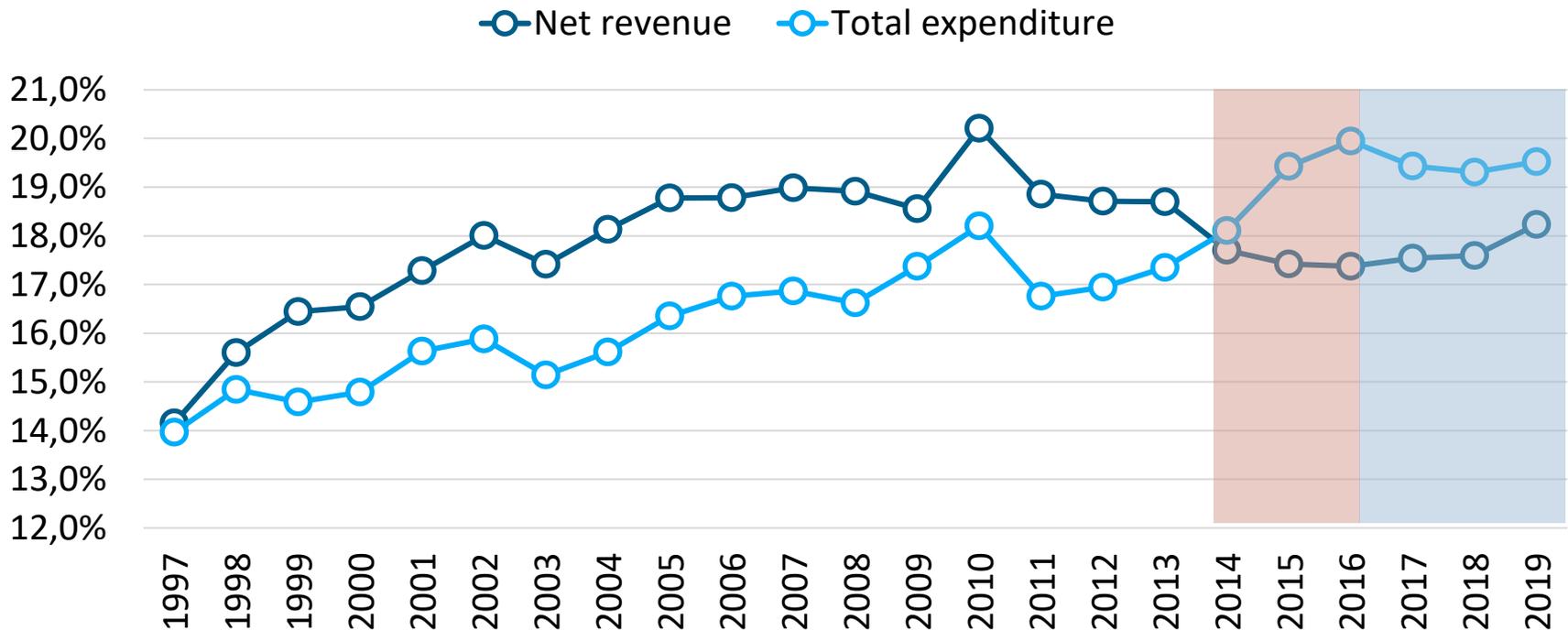
- Fiscal policy in Brazil before the pandemic
 - Overview of fiscal accounts before the pandemic
 - Fiscal Rules

 - Covid pandemic spending and the War Budget

 - Fiscal accounts in Brazil after the war budget
 - Public accounts in 2021 and 2022
 - Recent changes in fiscal rules
 - Future of fiscal rules
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- Primary deficit since 2014
 - Less dynamic primary revenues.
 - Primary expenses maintained a historic growth behavior.

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



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

 - From 2014 to 2016 Brazil was in an economic recession.

 - In response to the economic and fiscal crisis, the spending cap and the IFI were created.
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- 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 visited through the so-called “war budget”.
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- Due to the pandemic, the government declared a public calamity. For these cases there are some exceptions to comply with fiscal rules:
 - Exemption from meeting primary targets and effort limitation
 - Suspending the return to the limit of personnel expenses
 - A return to the consolidated debt limit is suspended

 - Regarding the spending ceiling, the exception is when extraordinary credits are excluded from the rule.
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➤ Budget approval process

March 18th, 2020

- Presidential message on the state of calamity, based on art. 65 of the LRF

May 7th, 2020

- Constitutional Amendment No. 106/20 - War Budget

March 20th, 2020

- Legislative Decree recognizing the public calamity. Effective until December 31st.

Constitutional amendment No 106, May 7th of 2020 (War Budget)



Presidência da República
Casa Civil
Subchefia para Assuntos Jurídicos

EMENDA CONSTITUCIONAL Nº 106, DE 7 DE MAIO DE 2020

Vigência e encerramento de vigência

Institui regime extraordinário fiscal, financeiro e de contratações para enfrentamento de calamidade pública nacional decorrente de pandemia.

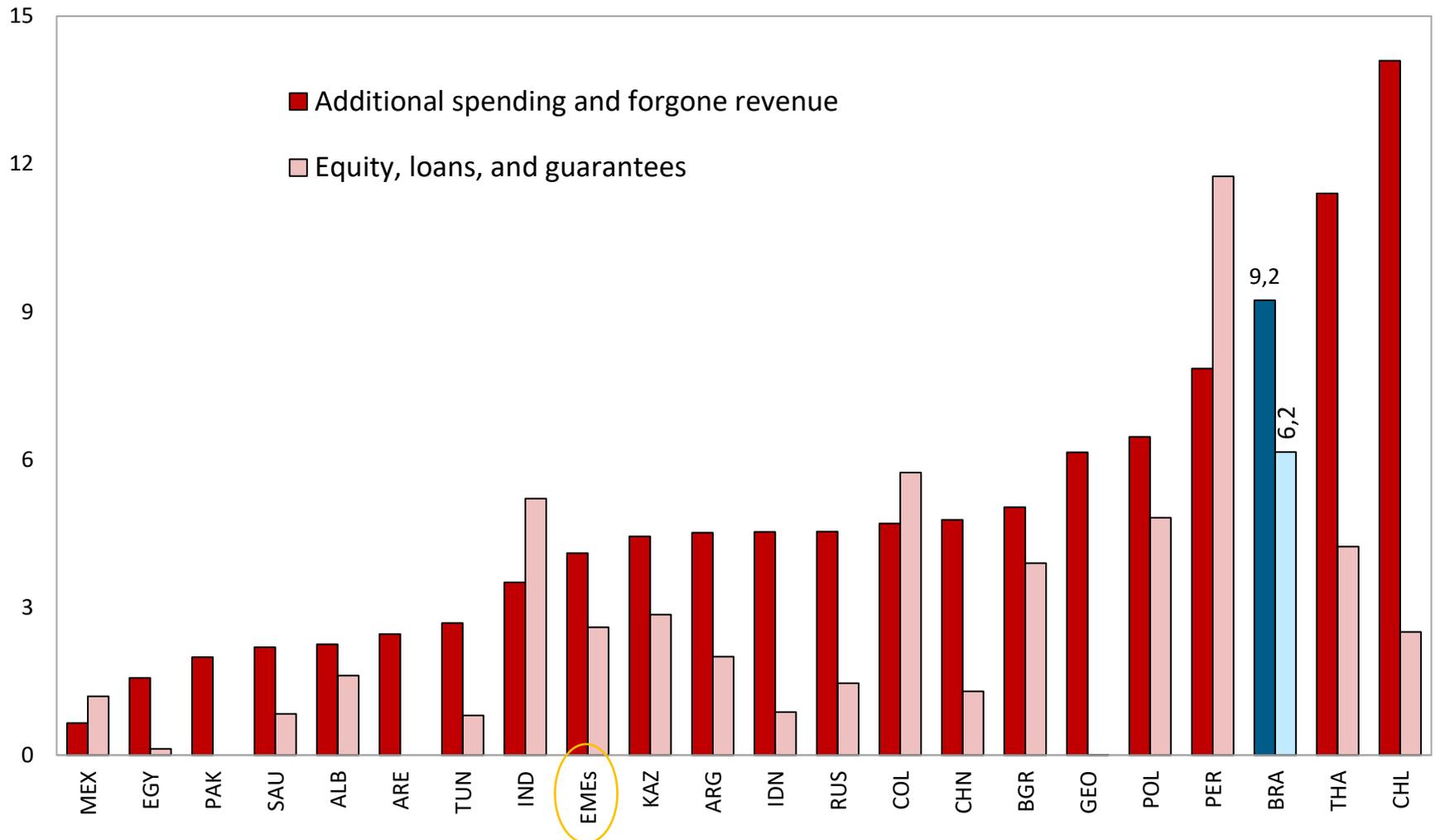
As Mesas da Câmara dos Deputados e do Senado Federal, nos termos do [§ 3º do art. 60 da Constituição Federal](#), promulgam a seguinte Emenda ao texto constitucional:

Art. 1º Durante a vigência de estado de calamidade pública nacional reconhecido pelo Congresso Nacional em razão de emergência de saúde pública de importância internacional decorrente de pandemia, a União adotará regime extraordinário fiscal, financeiro e de contratações para atender às necessidades dele decorrentes, somente naquilo em que a urgência for incompatível com o regime regular, nos termos definidos nesta Emenda Constitucional.

War budget: Extraordinary fiscal, financial, and hiring guidance to face the national public calamity resulting from the pandemic.

- It's about:
 - A great **transparency** in the budget execution of the extraordinary guidance : (art. 4º e 5º)
 - More **flexibility and agility** for the government to do contracts, works, services, and purchases. (art. 2º)
 - **To dismiss** the observance of **legal limits for the expenditure increases and tax expenditures. (art. 3º)**
 - And others

Figure 1. Discretionary Fiscal Response to the COVID-19 Crisis in Selected Economies
(Percent of GDP)



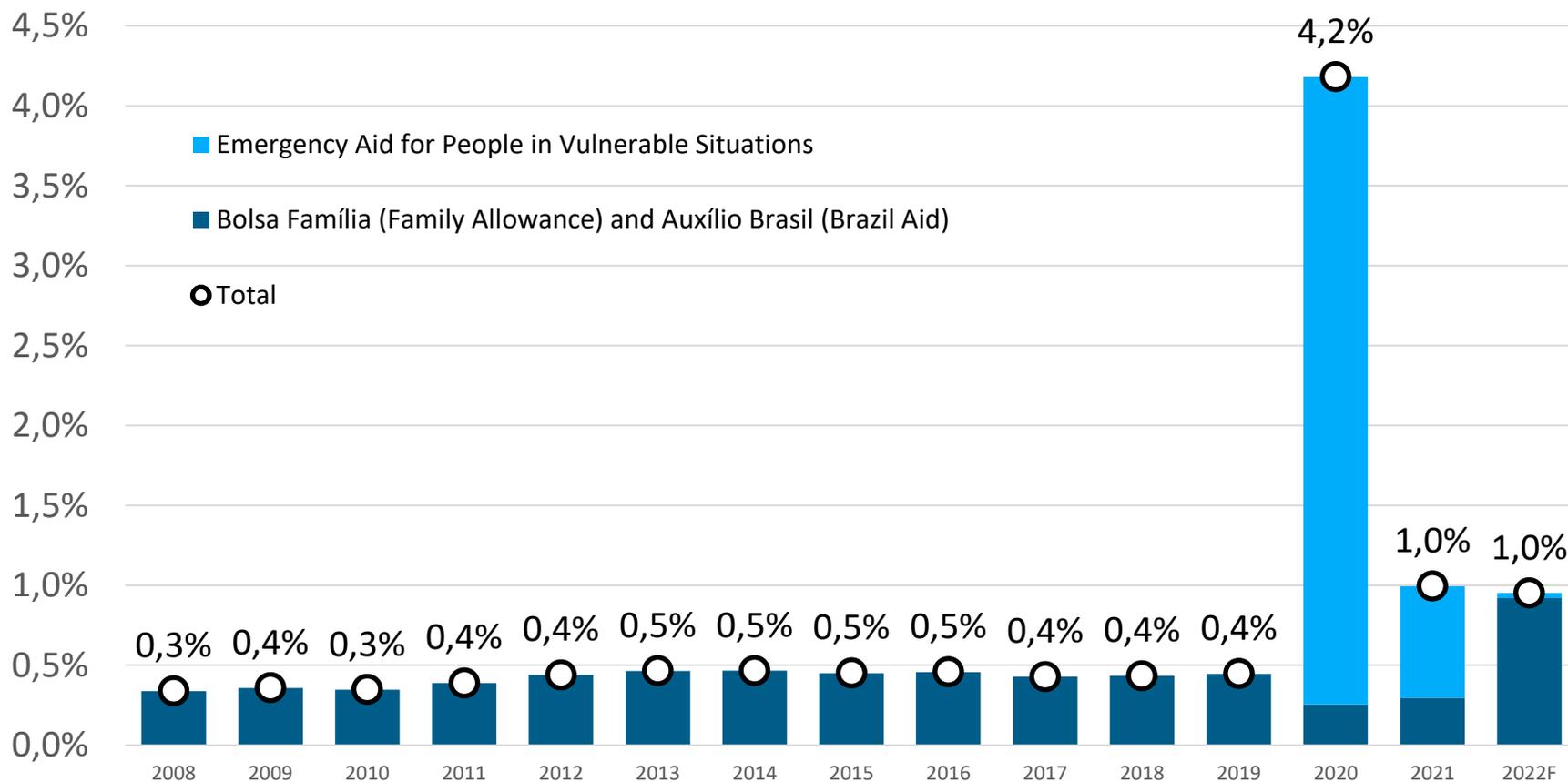
*The decree of calamity and the war
budget expired before the end of the
pandemic.*

“Pandemic prompts rise in poverty to levels unprecedented in recent decades and sharply affects inequality and employment.”

(CEPAL, 2020).

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

Direct cash transfers for people - % GDP



but the constitutional amendment No 109 also changed the spending cap rule.

- Triggers in case of non-compliance with the ceiling:
 - Prohibition of nominal salary and hiring readjustments;
 - Prohibition of increase in expenses above inflation;
 - Prohibition of increase and creation of fiscal benefits.
 - etc.

Before:

- In the case of non-compliance with the individual limit, the following prohibitions apply until the end of the year in which the expenses return to the respective limits:



After:

(New fiscal rule)

- If it is verified, upon approval of the budget law, that, within the scope of expenses subject to the spending cap, the proportion of mandatory primary expenses in relation to total primary expenses was higher than 95% (ninety-five percent), the following prohibitions will apply until the end of the fiscal year to which the budget law refers, without prejudice to other measures:

Before:

- It corresponds to the previous year's limit, corrected by inflation over the 12 months ending in June of the year prior to the year to which the budget law refers.
- There is the possibility of changing the correction method as of the tenth year of the spending cap.



After:

- It corresponds to the previous year's limit, corrected by the estimated inflation for the 12 months ending in December of the year prior to that of the budget law.
- The Budget is prepared based on realized inflation from January to June and estimated inflation from July to December.
- The difference between the inflation considered in the Budget and the realized inflation will be compensated in the following year's spending cap.
- There is no possibility of changing the correction method as of the tenth year of the spending cap.

The fiscal rules have lost credibility.

There is a need for revision and harmonization of fiscal rules.

To regain credibility you have to watch:

Designer

Enforcement

Be well-balanced



Thank you!

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<https://linktr.ee/ifibrasil>
