

# Public expenditure for inclusion and growth

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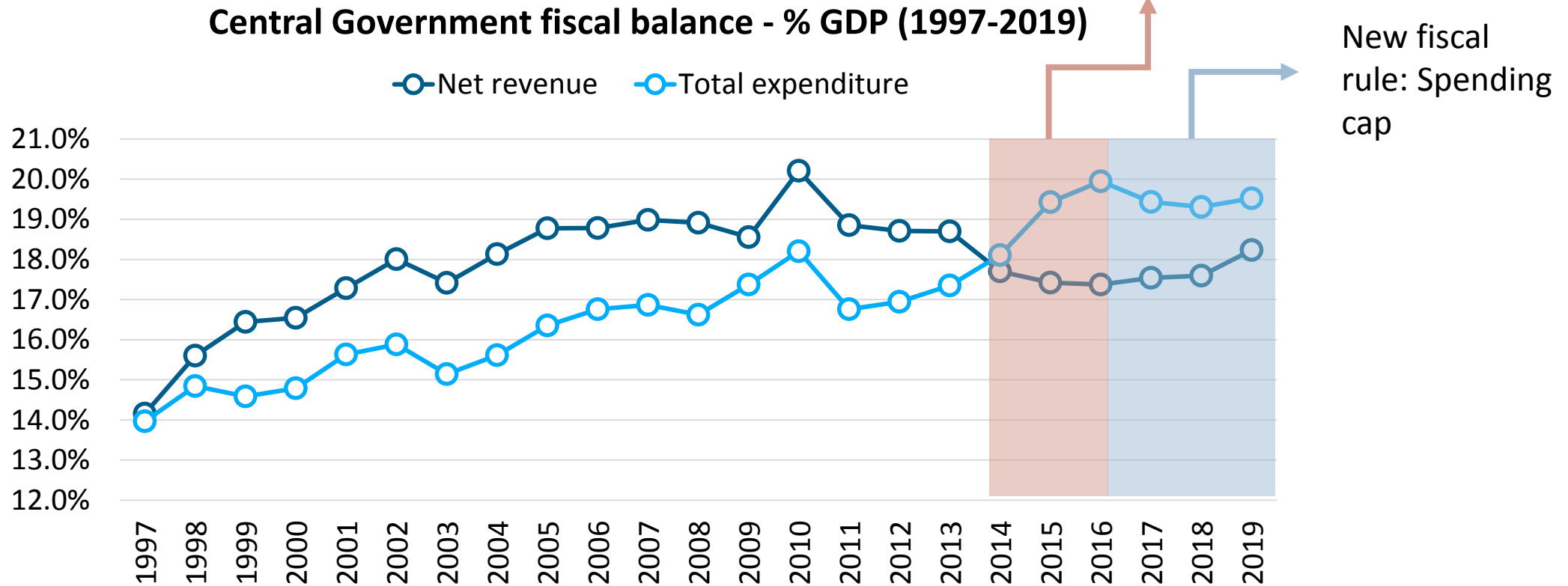
Brazilian Independent Fiscal Institution at the Federal Senate (IFI)

Brasília, May 17th, 2023



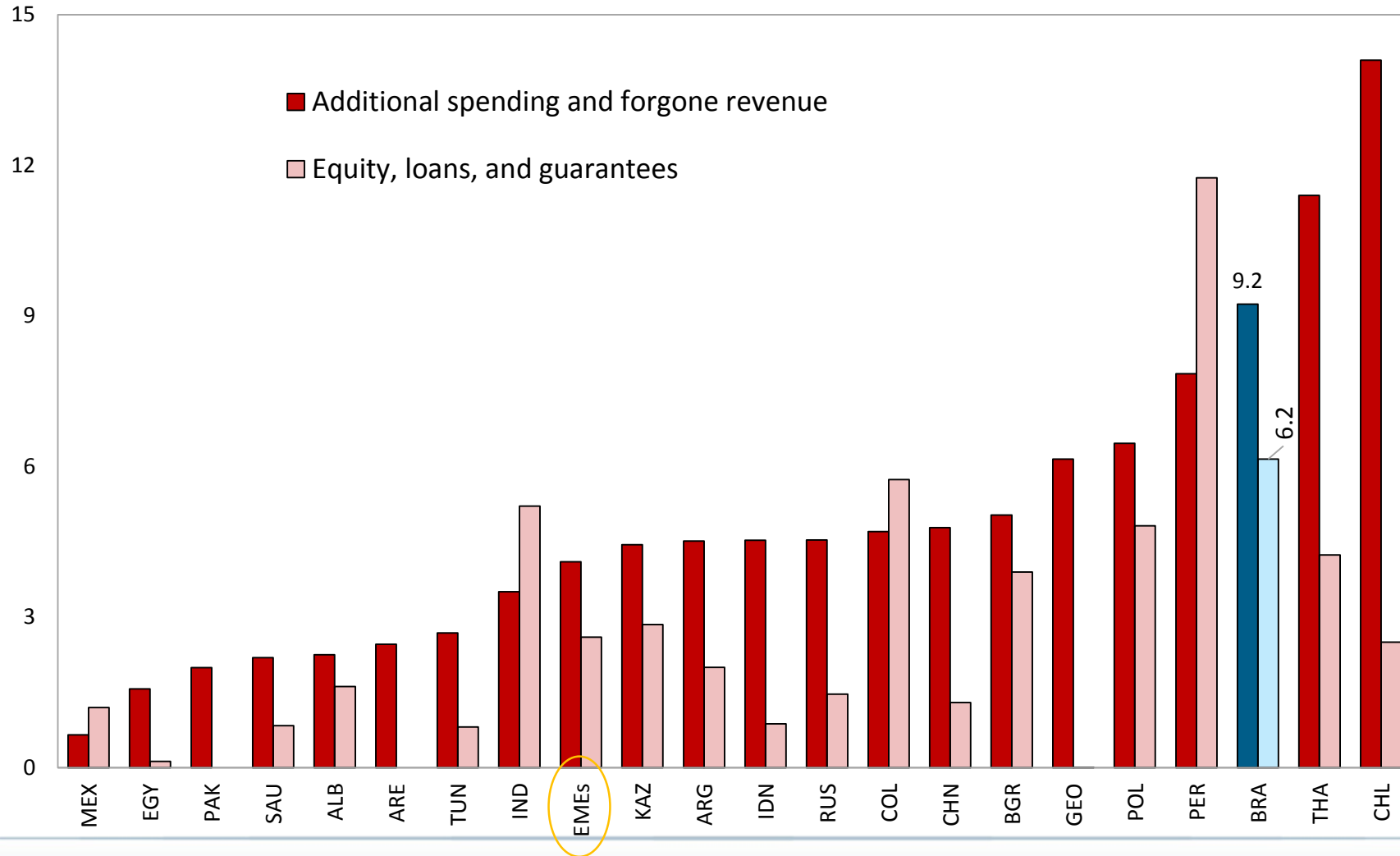
- Until 2016 the main fiscal rule was the primary balance target
  - Excessive use of creative accounting and non-recurring revenue to meet the primary balance target.
  - Loss of credibility of the primary balance target.
- From 2014 to 2016 Brazil was in an economic recession.
- In response to the economic and fiscal crises, the spending cap and the IFI were created.

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



- 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”.

## DISCRETIONARY FISCAL RESPONSE TO THE COVID-19 CRISIS IN SELECTED ECONOMIES (% OF GDP)

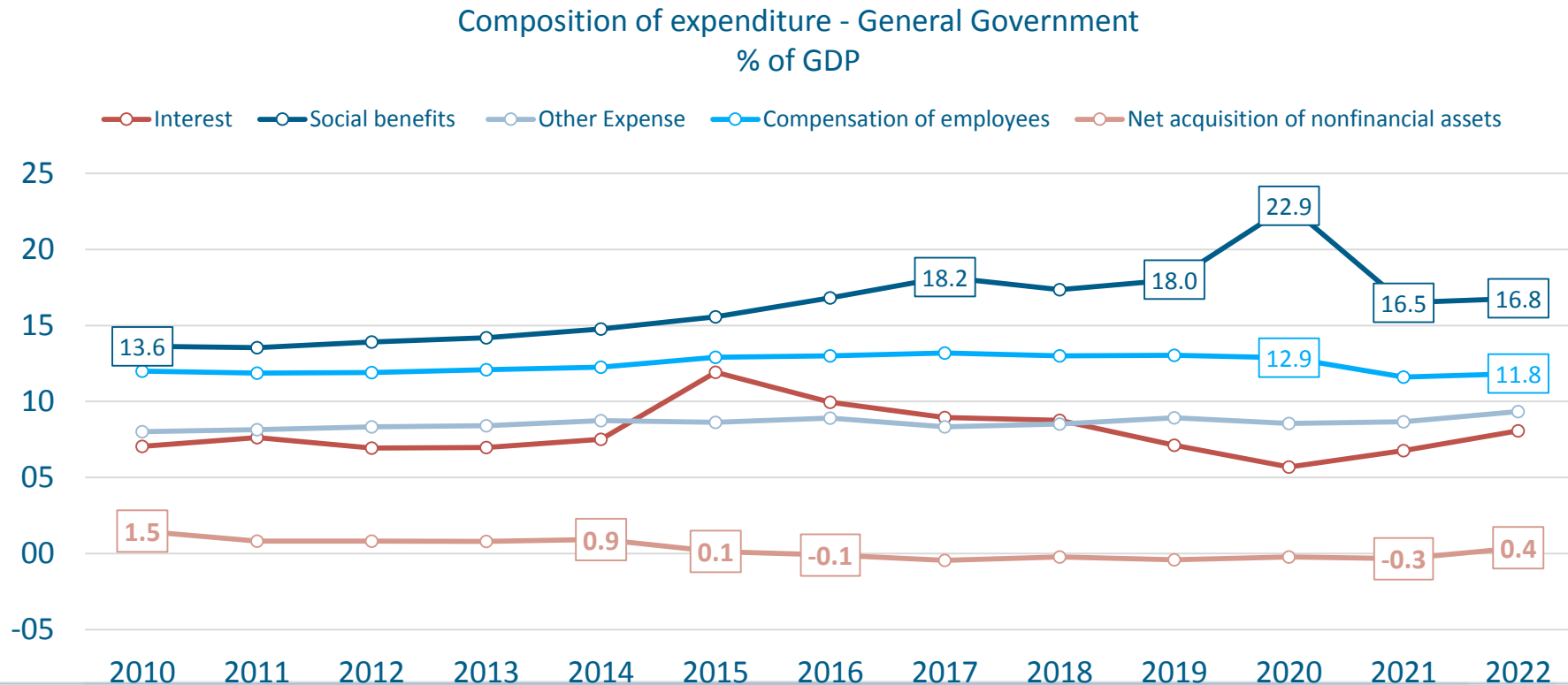


*“Pandemic prompts rise in poverty to levels unprecedented in recent decades and sharply affects inequality and employment.”*  
(ECLAC, 2020).

- **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.

# Composition of the general government public expenditure

- 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.



# 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.

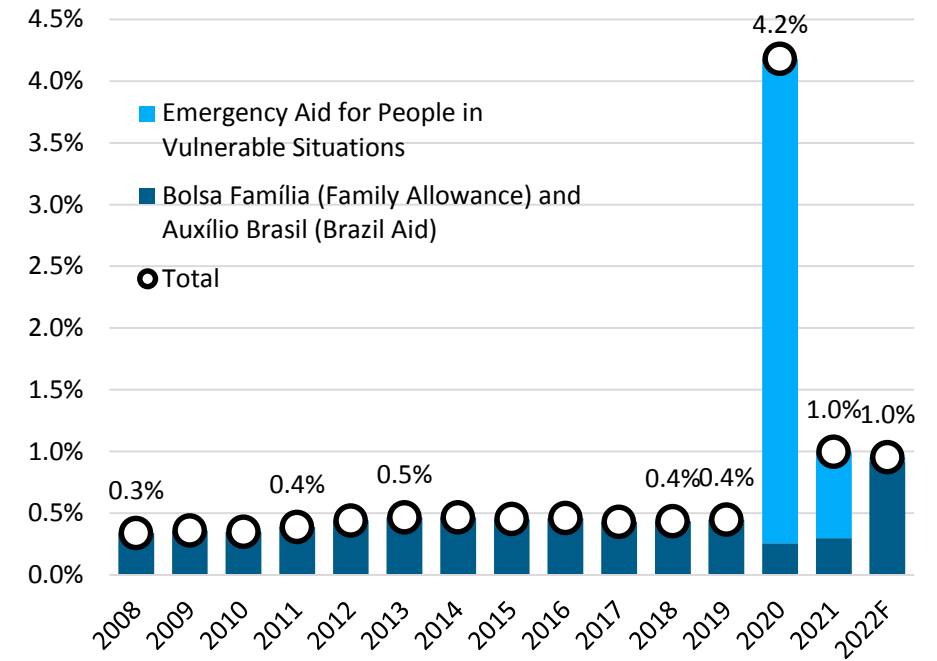
Ended serving 21.9 million families with an average monthly benefit of BRL 606.91 per family.

## ➤ The new BFP:

In April, served 21.2 million families with an average monthly benefit of BRL 670 per family.

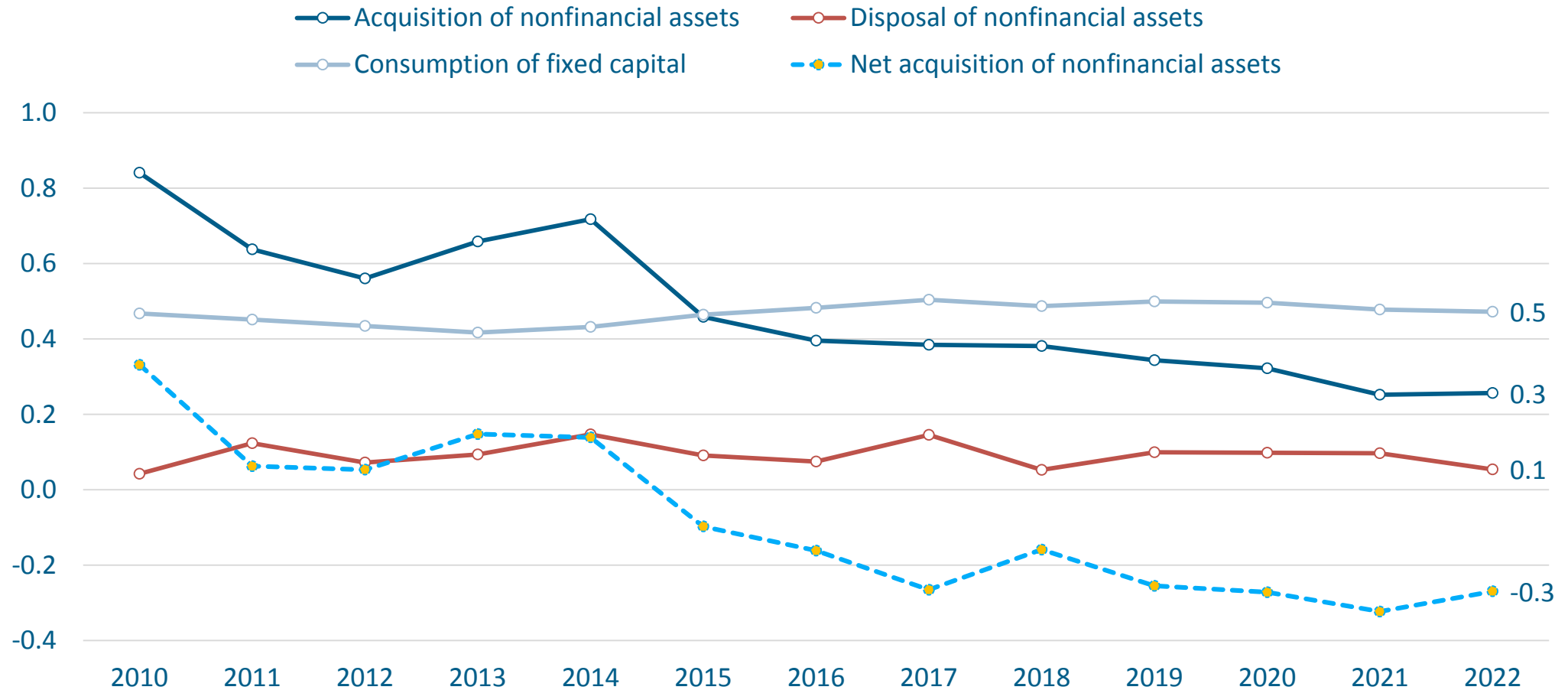
The expectation is that the average monthly benefit per family will reach BRL 703.

## Direct cash transfers for people - % GDP

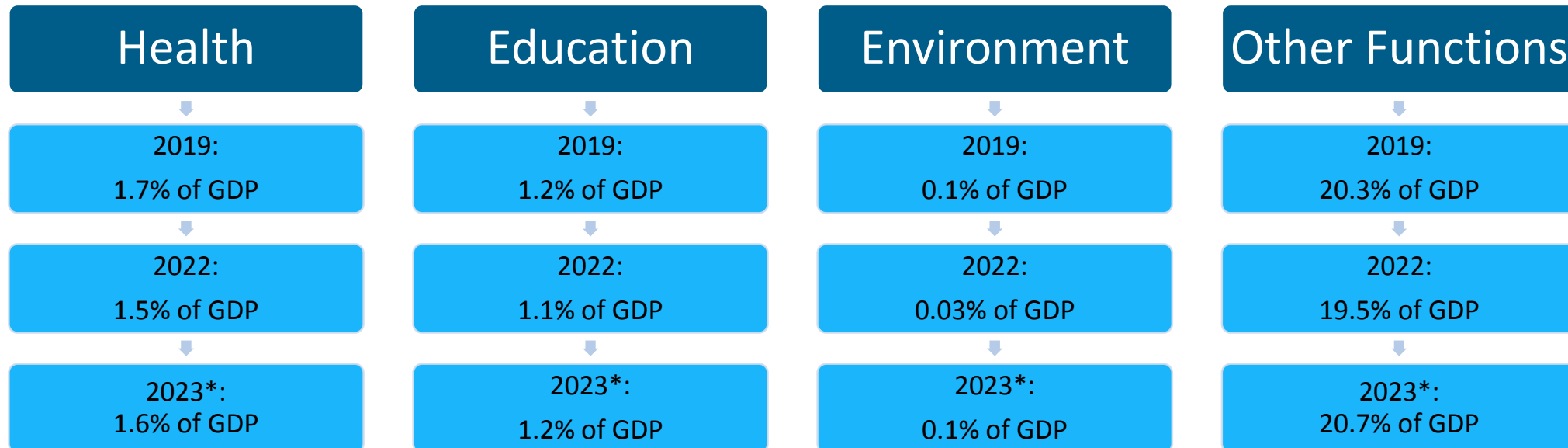




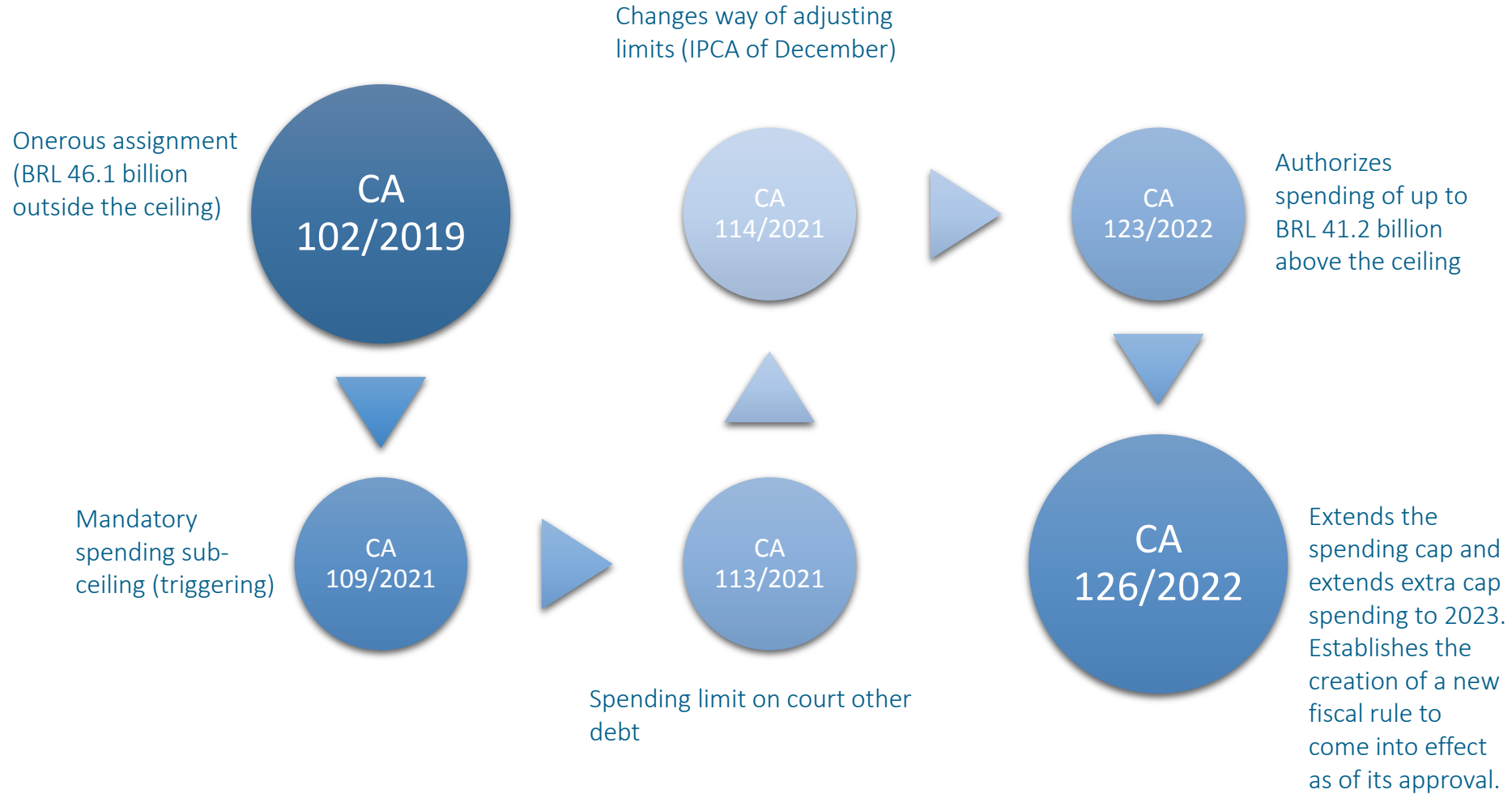
## COMPOSITION OF NET ACQUISITION OF NONFINANCIAL ASSETS CENTRAL GOVERNMENT - % OF GDP



## Changes to the Budget by Function:



# Spending cap changes (all measures)



## 1ST EVALUATION REPORT OF PRIMARY REVENUES AND EXPENDITURES - % OF GDP

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

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.

## Primary targets

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



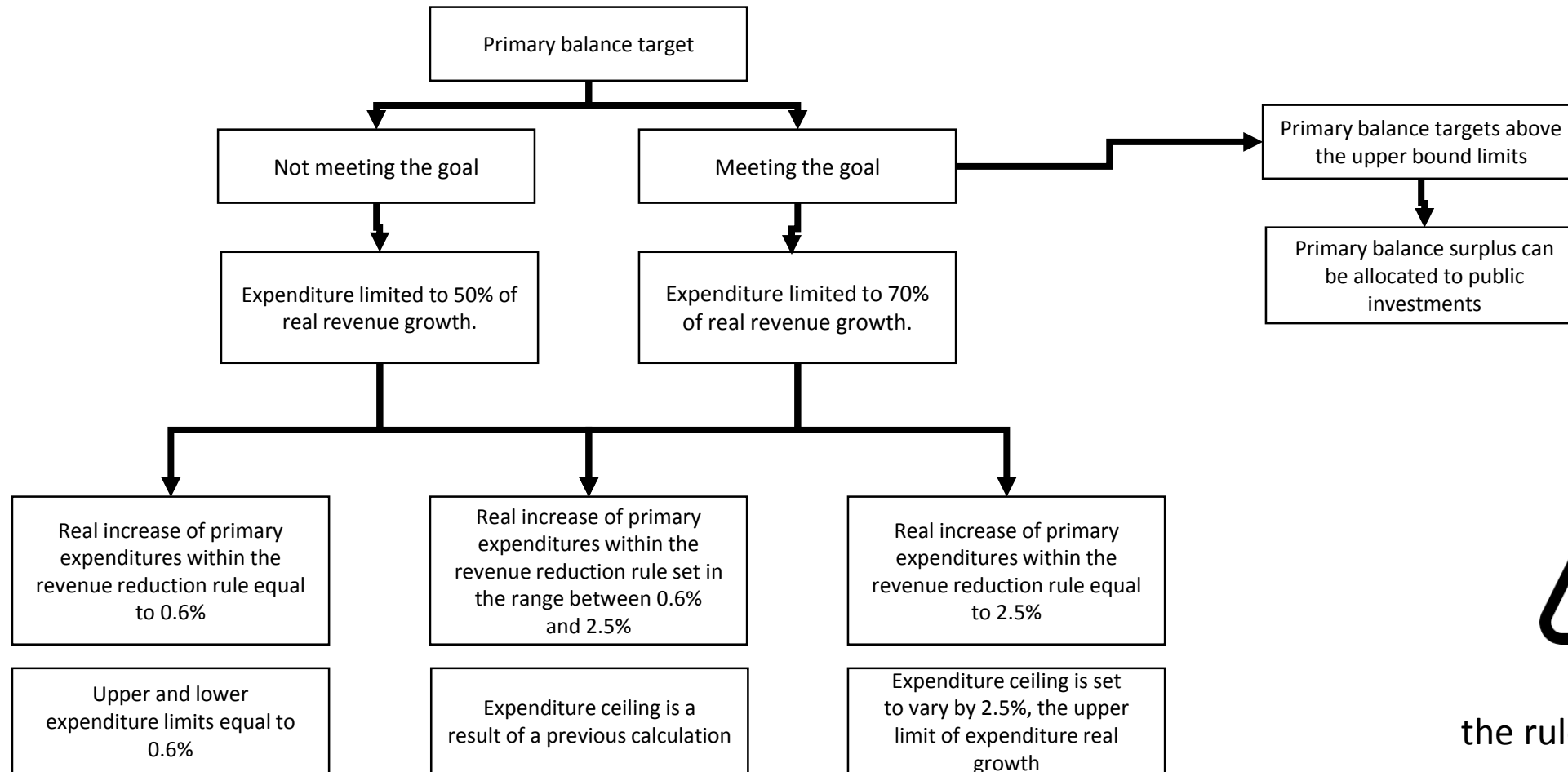
## Limit for primary expenses

- 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.



the rule is not simple.

Thank you

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<https://linktr.ee/ifibrasil>