



Public finance in Brazil:

How things stand and perspectives for 2023

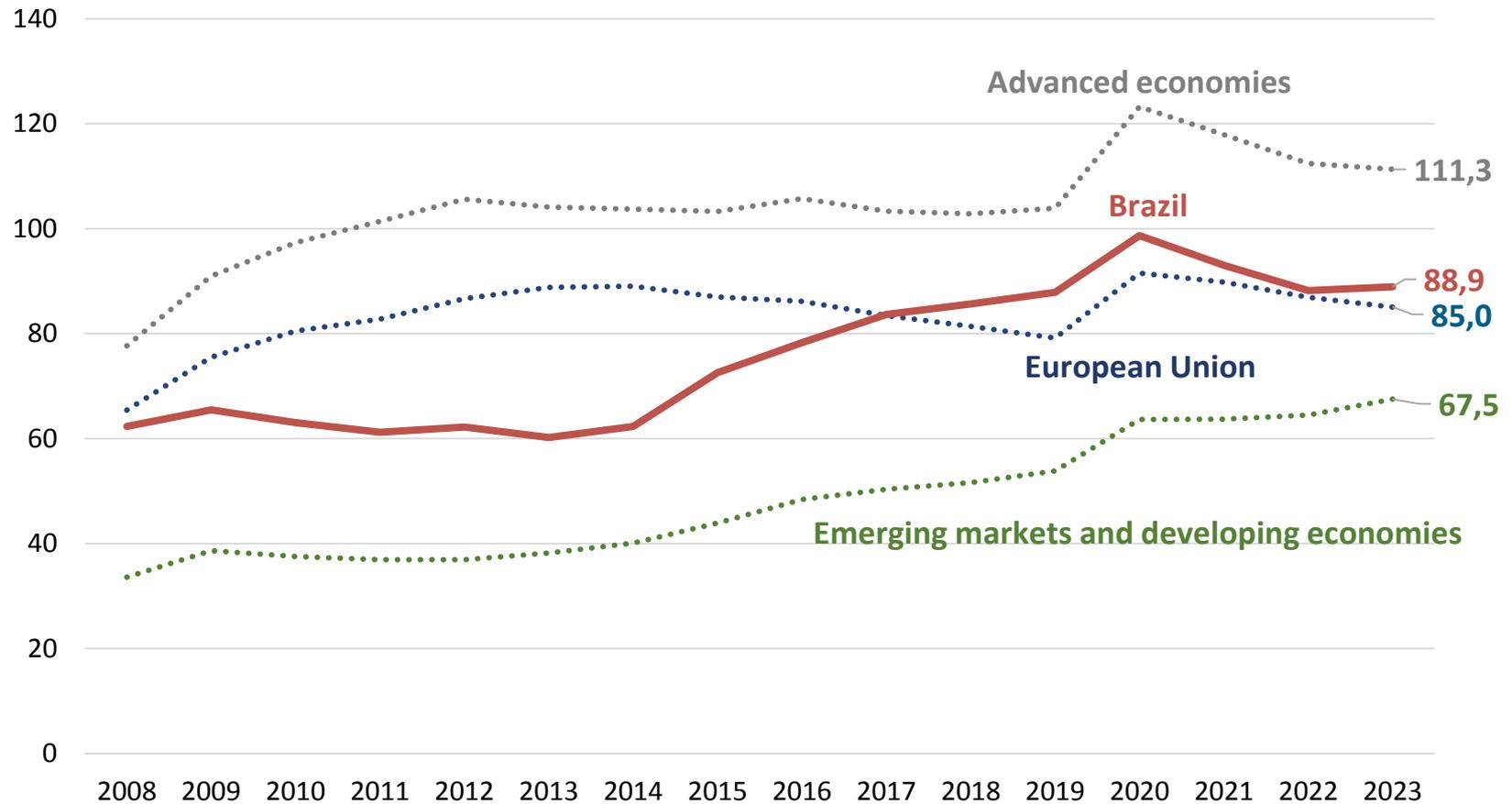
Daniel Couri | Independent Fiscal Institution of the Brazilian Federal Senate

Presentation for the German Embassy in Brasília

Brasília, November 9, 2022

Debt in the aftermath of the pandemic

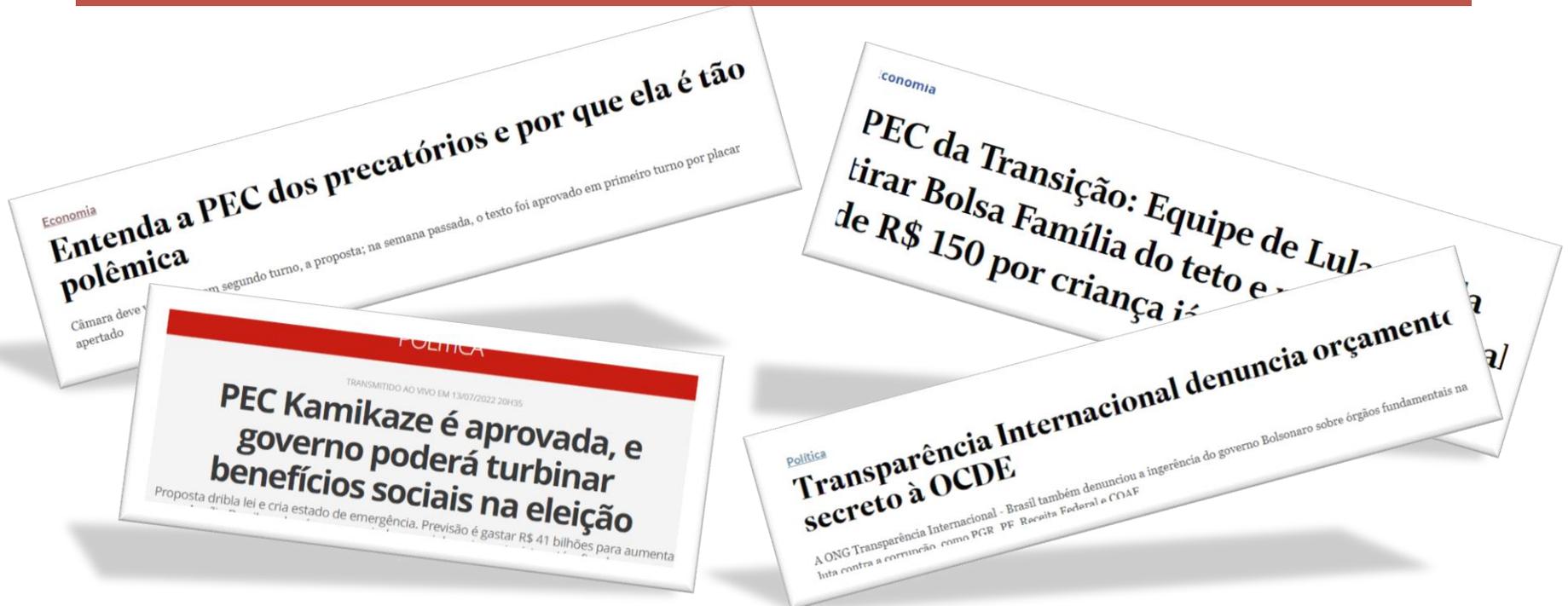
General Government Gross Debt (% of GDP)



Fonte: World Economic Outlook, IMF, October 2022. Elaborated by the author.

But how did we end up here?

The purpose of today's presentation is to discuss Brazil's public finances in the complex scenario of 2022, with a retrospective look, but also trying to project what comes next



1. Public accounts in the post pandemic

2. What is going on in 2022

3. Challenges for the future

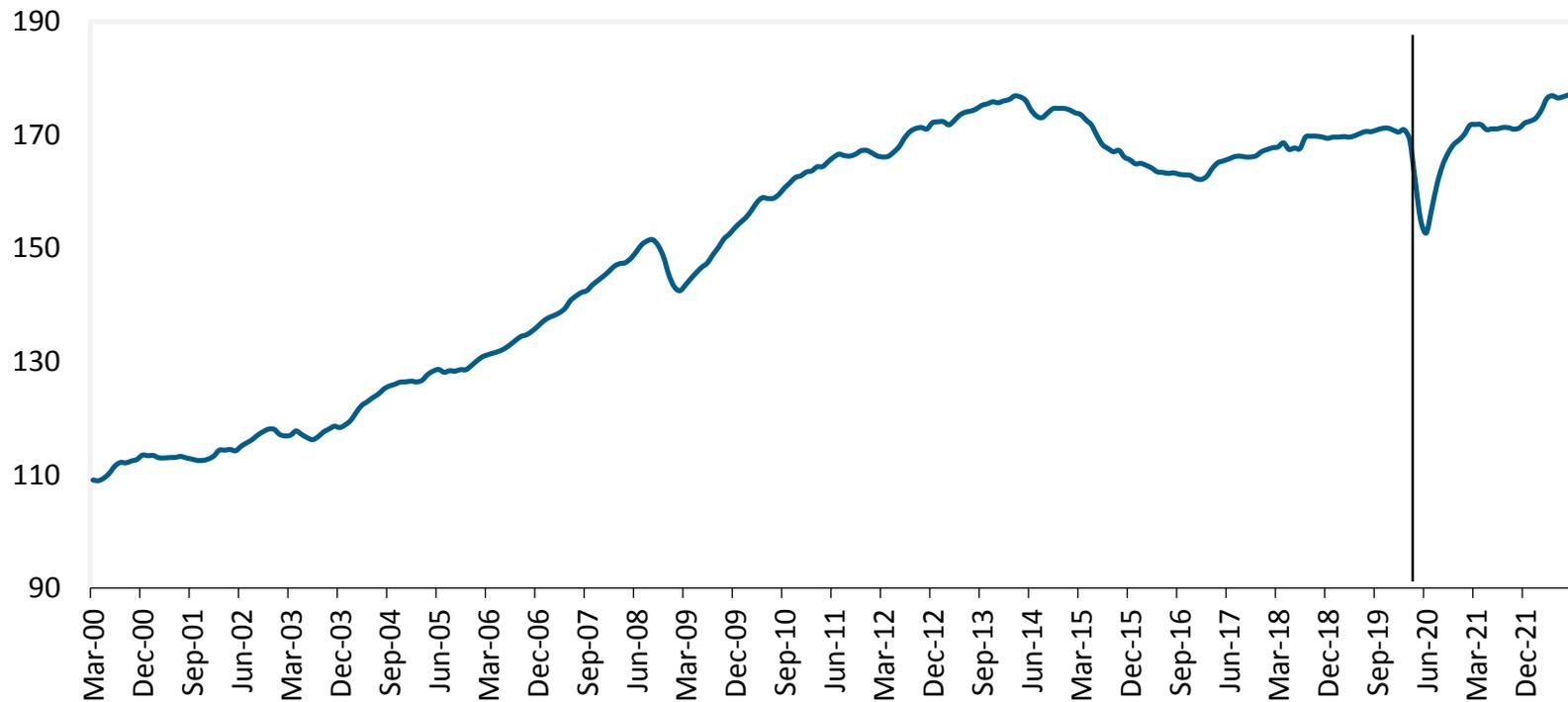
1. Public accounts in the “post” pandemic: good photos to show

2. What is going on in 2022

3. Challenges for the future

Starting with some macro data...

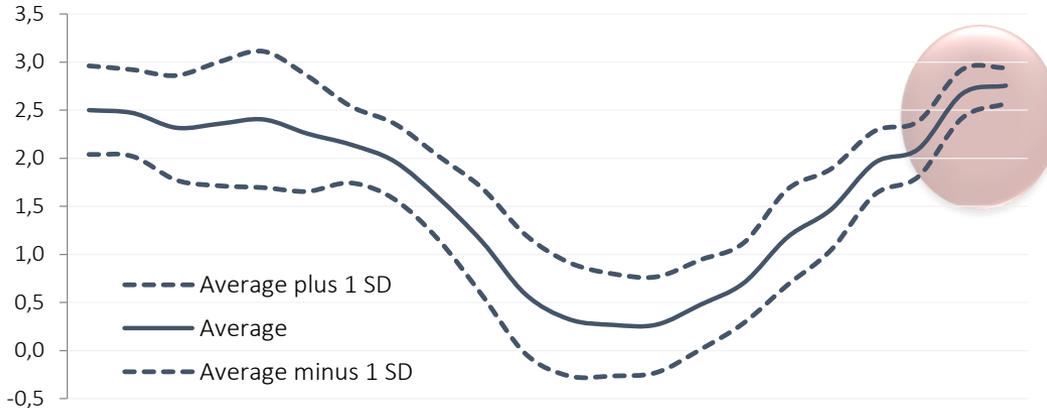
GDP MONITOR
SEASONALLY ADJUSTED VOLUME INDEX - QUARTERLY MOVING AVERAGE



Source: FGV. Prepared by: IFI.

Starting with some macro data...

Market expectations for GDP

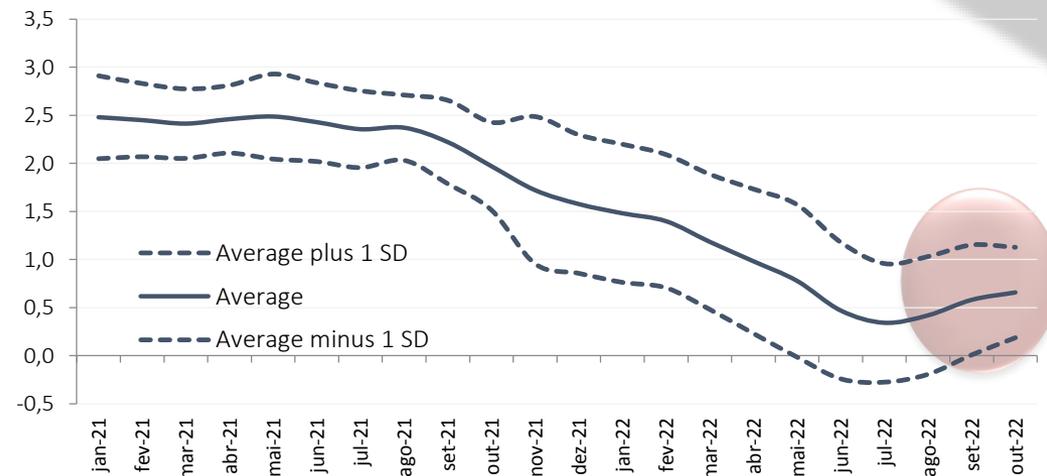


2022

Resilient activity and stimulus measures on disposable income for consumption

2023

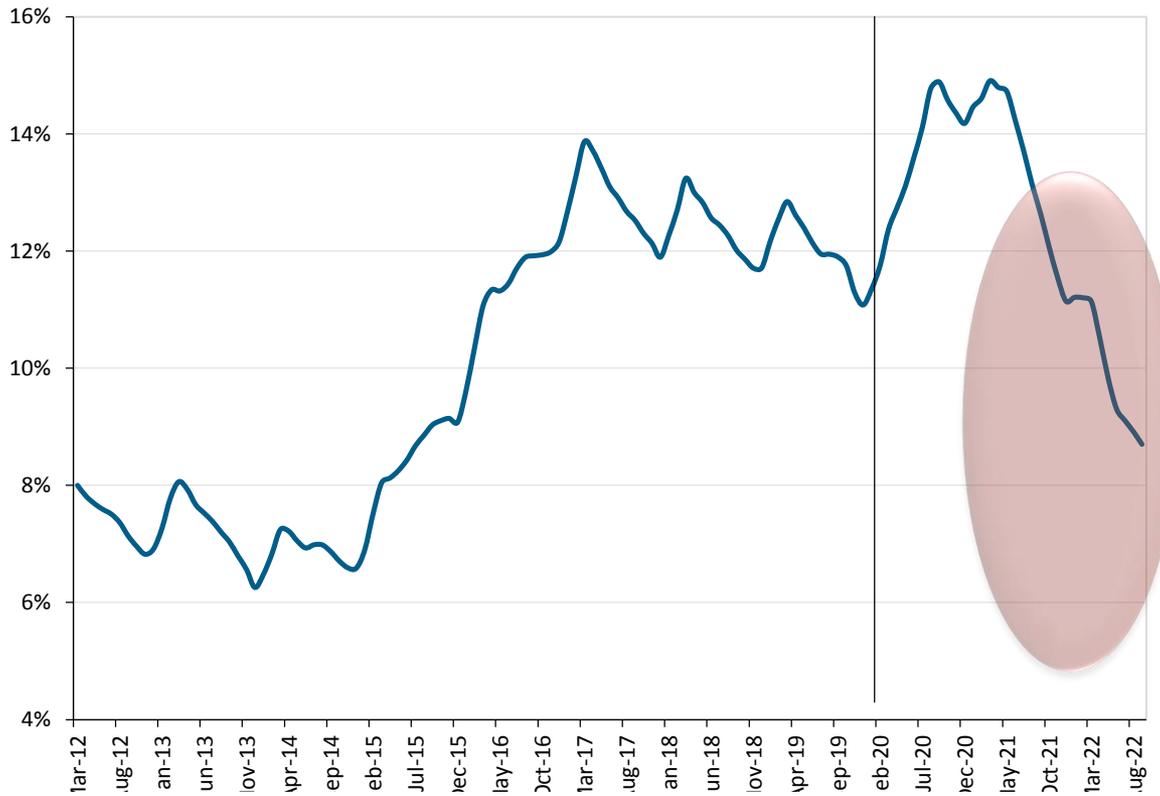
Impact of monetary tightening on aggregate demand and the prospect of a slowdown in world growth.



Source: Central Bank. Prepared by: IFI.

Starting with some macro data...

UNEMPLOYMENT RATE (% OF WORKFORCE)



Source: IBGE. Prepared by: IFI.

Recovery in the labor market:

Unemployment rate : 8.7% in September

Formal: +8.8%

Informal: +3.8%

(July – Sept/22 x July – Sept/21)

Unemployment rate =
pop. unemployed / workforce

Starting with some macro data...

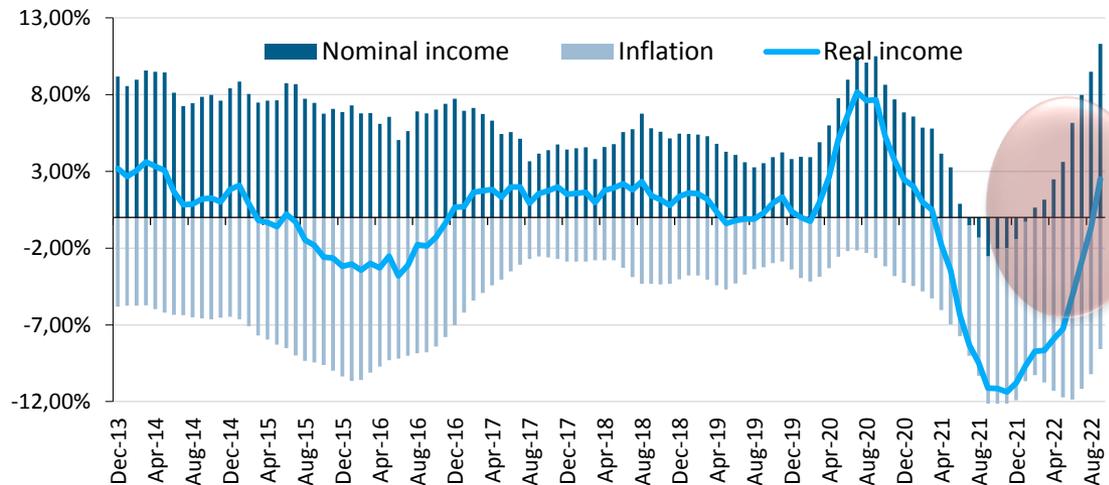
OVERALL LABOR EARNINGS (R\$ BI JUL-SEP 2022)



Expansion of employment and recent improvement in wages explain overall labor earnings dynamics.
 Earnings: + 2.7%; employment: +6.8%
 Overall labor earnings: +9.9%

Source: IBGE. Prepared by: IFI.

LABOR INCOME DECOMPOSITION - ANNUAL GROWTH RATE

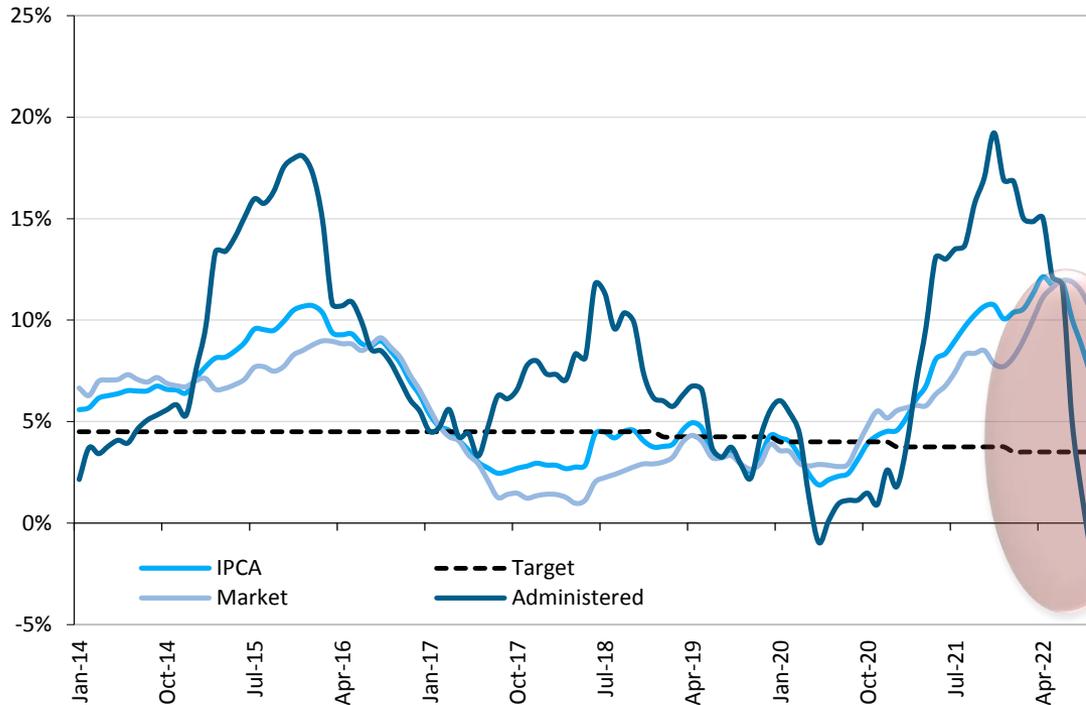


Overall labor earnings = earnings x employed population

Source: IBGE. Prepared by: IFI

Starting with some macro data...

IPCA, TARGET, MARKET, AND ADMINISTERED PRICES (% 12 MONTHS)



Source: IBGE and Central Bank. Prepared by:IFI

Inflation begins to subside with exemptions:
 -0.29% in September
 +7.17% in 12 months

But free prices already show signs of slowing down

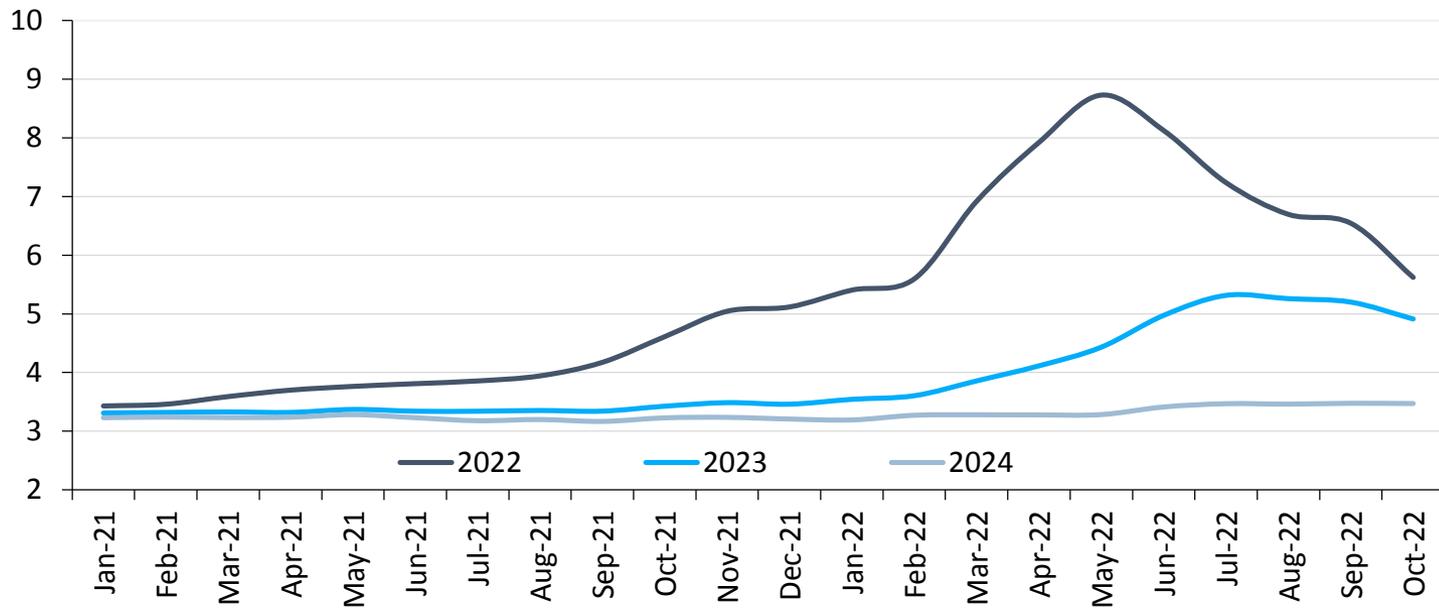
What are the **administered prices**?
 Gas, residential electricity, health plans, water and sewage taxes, public transportation, diesel, pharmaceuticals, among others.

Starting with some macro data...

Inflation expectations subside but still remains above the target in 2022 and 2023.

Projection of 5.6 % for 2022 and 4.9% for 2023, stabilizing close to 3.5% in 2024.

FOCUS SURVEY - IPCA (2022, 2023 AND, 2024)



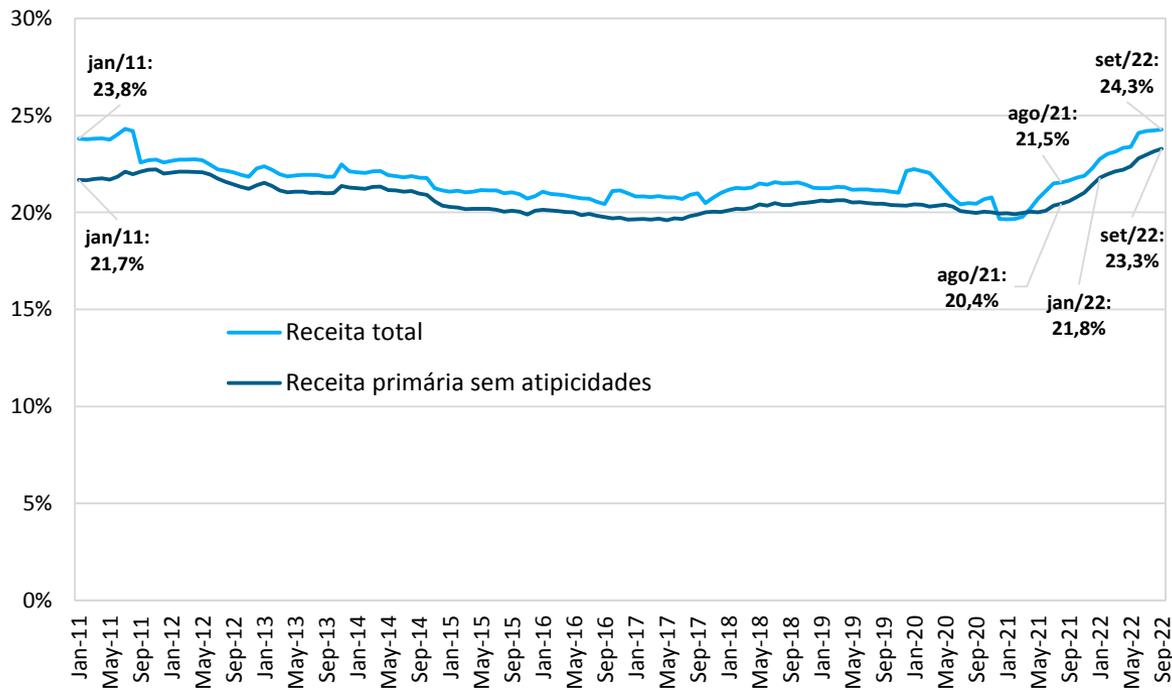
Source: Central Bank. Prepared by: IFI.

How has the macro context affected public accounts?

What is the performance of federal revenue?

- Strong growth since the beginning of 2021.
- Decline in inflation and commodity prices should curb revenue growth in the coming months.

CENTRAL GOVERNMENT PRIMARY REVENUE (% GDP)

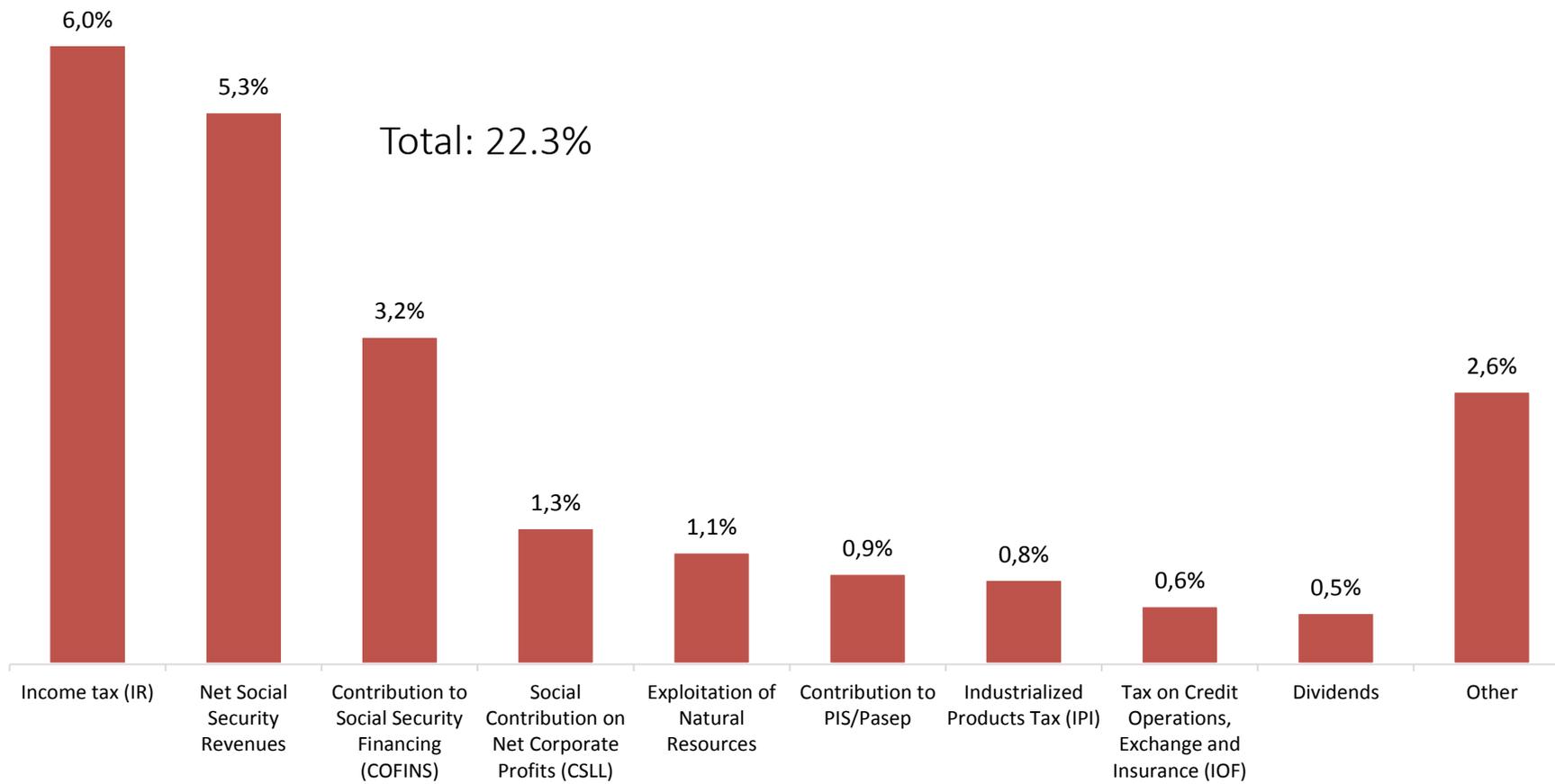


Source: SIGA Brasil and Secretaria do Tesouro Nacional. Elaborated by the IFI.

what are **non-recurring income**?
 These are extraordinary collection (one-offs) that do not structurally affect revenue. Ex: privatizations, deferrals, temporary tax exemptions, etc.

What are the main primary revenues of the central government?

Central government primary revenues in 2021 (% of GDP)

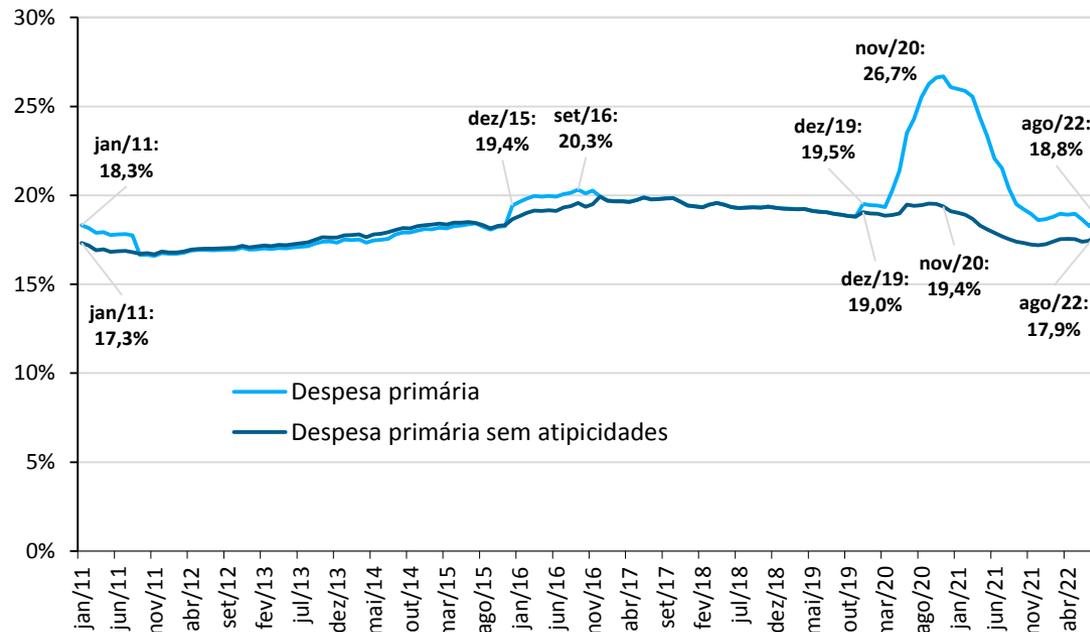


Source: Tesouro Nacional. Prepared by the author.

What is the performance of federal spending?

Primary expenditure as a proportion of GDP at a level below the beginning of the government

**CENTRAL GOVERNMENT PRIMARY SPENDING
LAST 12 MONTHS (% GDP)**

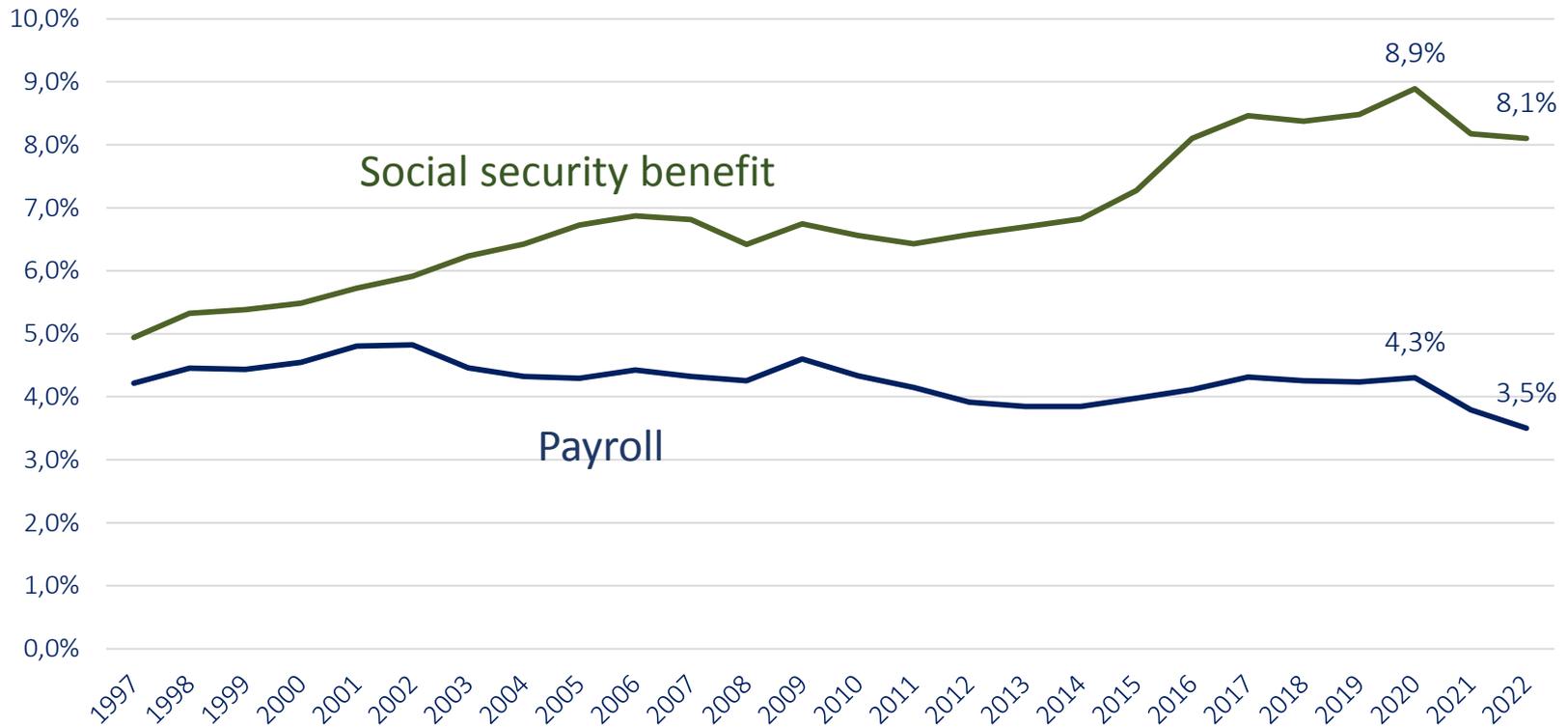


what are **non-recurring expenses**?
These are extraordinary expenses (one-offs) that do not structurally affect expenditure. Ex: spending on covid-19.

Source: SIGA Brasil and Secretaria do Tesouro Nacional. Prepared by the IFI.

Federal spending highlights

Central government primary expenditures: payroll and social security benefit (% GDP)

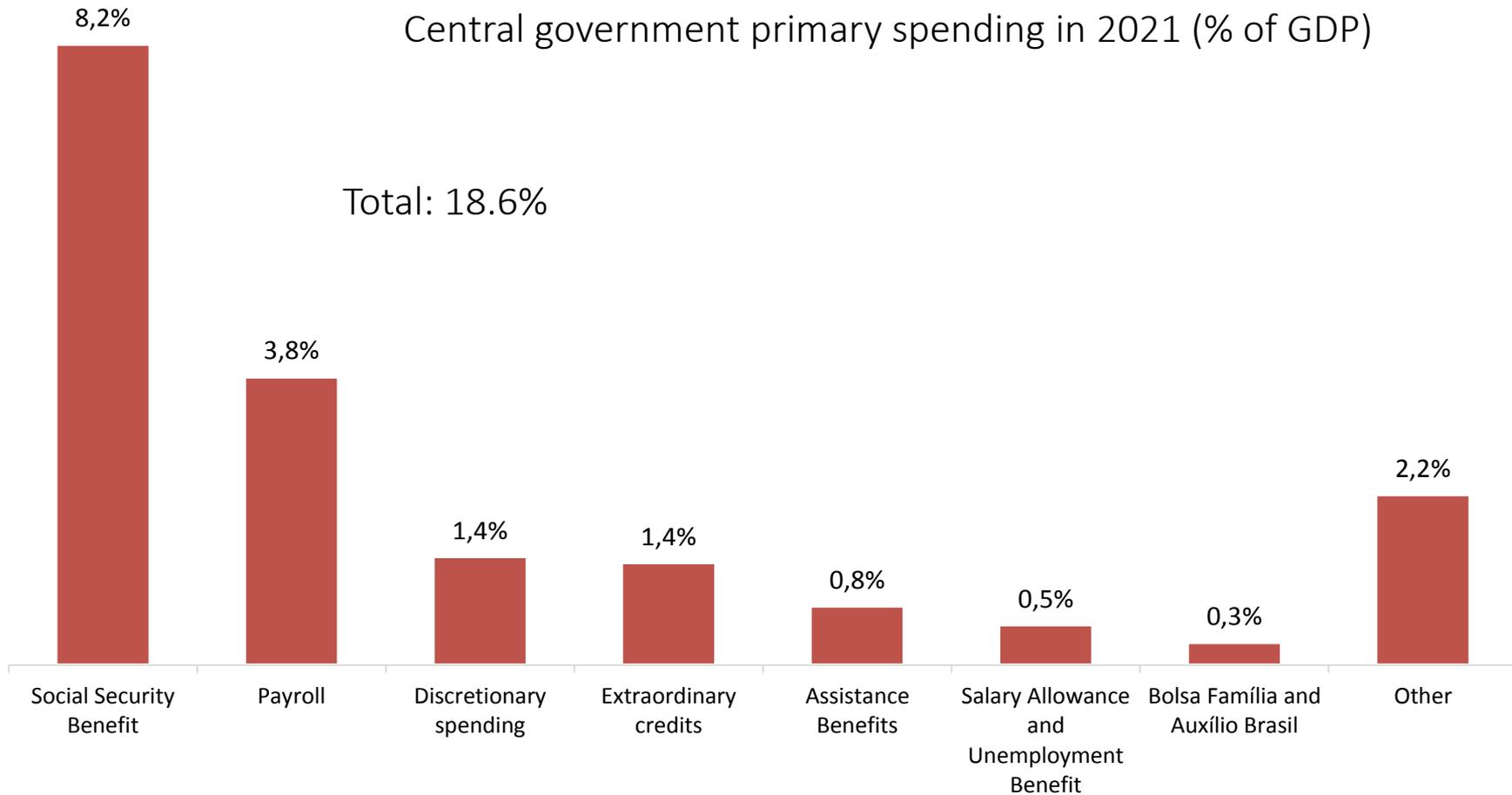


Source: National Treasury Secretariat and IFI (2022 data). Prepared by the author.

What are the main primary expenditures of the federal government?

Central government primary spending in 2021 (% of GDP)

Total: 18.6%



Source: Tesouro Nacional. Prepared by the author.

What are the main primary expenditures of the federal government?

Primary federal spending by function in 2022

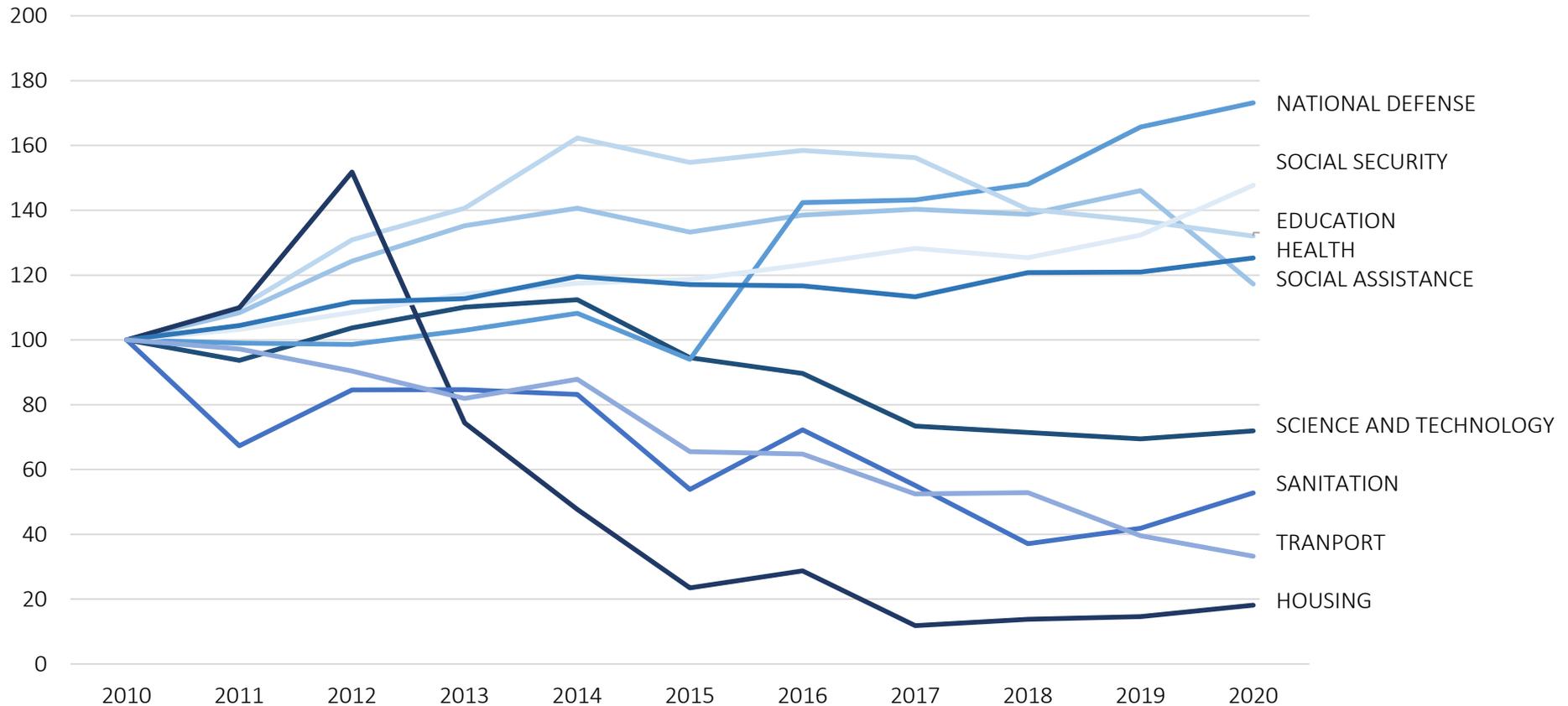
Spending area	BRL bn	% Total	% Total Accum.
SOCIAL SECURITY	802,9	49,7	49,7
HEALTH	173,1	10,7	60,4
SOCIAL ASSISTANCE	163,5	10,1	70,6
SPECIAL CHARGES	114,3	7,1	77,6
EDUCATION	97,0	6,0	83,6
NATIONAL DEFENSE	83,3	5,2	88,8
LABOR	46,4	2,9	91,7
JUDICIAL	32,1	2,0	93,7
MANAGEMENT	24,0	1,5	95,2
AGRICULTURE	15,6	1,0	96,1
PUBLIC ORDER AND SAFETY	11,5	0,7	96,8
TRANSPORT	9,8	0,6	97,4
LEGISLATIVE	6,9	0,4	97,9
ESSENTIAL TO JUSTICE	6,9	0,4	98,3
URBANISM	5,3	0,3	98,6
SCIENCE AND TECHNOLOGY	4,6	0,3	98,9
FOREIGN RELATIONS	3,7	0,2	99,1
ENVIRONMENT PROTECTION	3,2	0,2	99,3
COMMUNICATION	1,9	0,1	99,5
ENERGY	1,8	0,1	99,6
INDUSTRY	1,6	0,1	99,7
TRADE AND SERVICES	1,3	0,1	99,7
CITIZENSHIP RIGHTS	1,1	0,1	99,8
LAND ORGANIZATION	1,0	0,1	99,9
CULTURE	0,8	0,0	99,9
SANITATION	0,7	0,0	100,0
SPORTS AND RECREATION	0,6	0,0	100,0
HOUSING	0,0	0,0	100,0
TOTAL	1.614,7	100,0-	

6 areas account for almost 90% of the total.

Composition partly reflects the constitutional distribution of competencies. But it is still worth reflecting: does a budget like this adequately represent the demands of society?

12 smaller areas represent less than 1% of the total

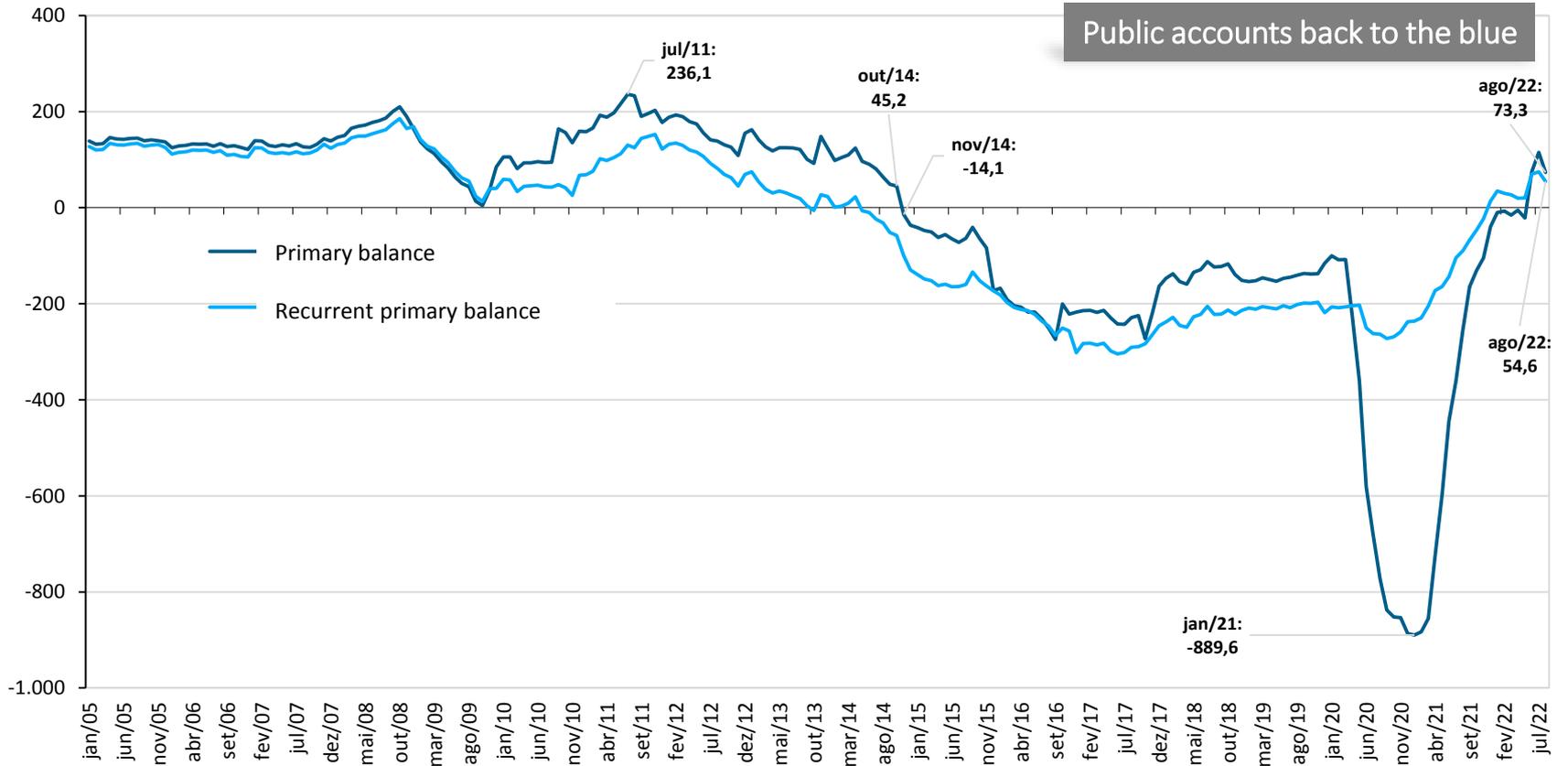
How has federal spending evolved in recent years?



Source: Siga Brasil (Senate)

Revenue - Expenditure = Primary balance

CENTRAL GOVERNMENT PRIMARY BALANCE (LAST 12 MONTHS, BRL BN, CONSTANT PRICES, AUG/22)

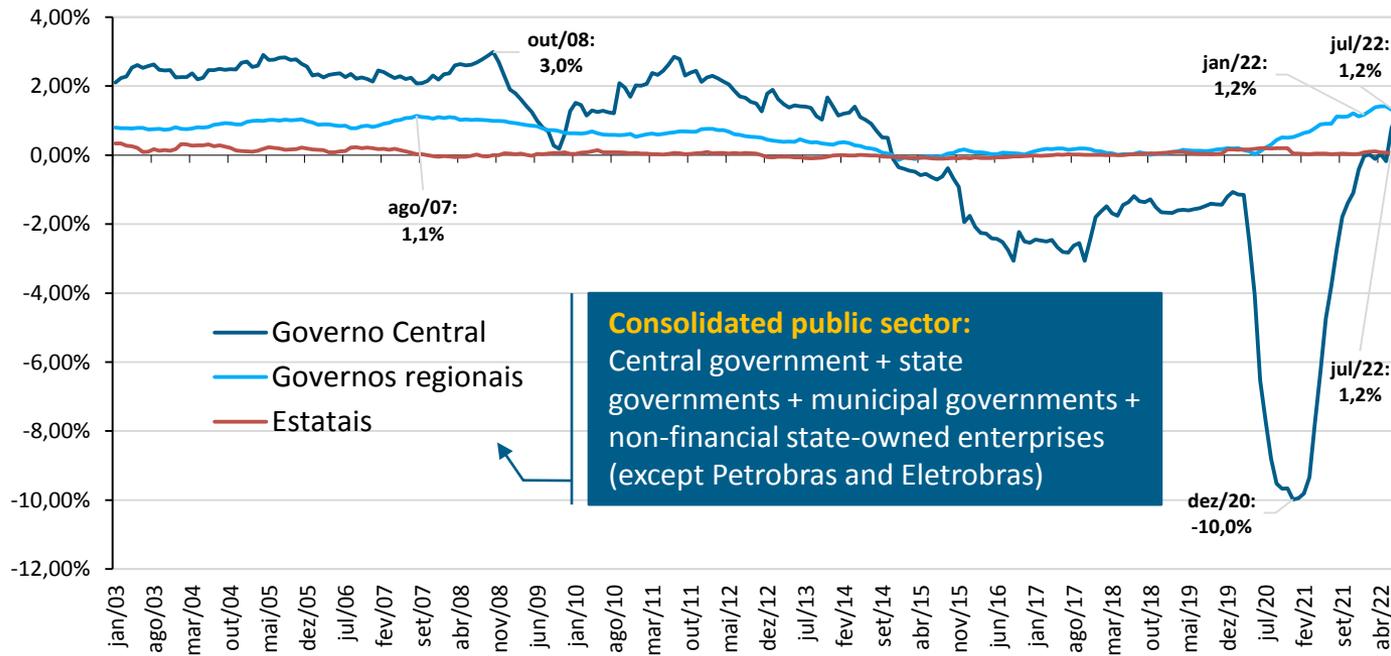


Fonte: Secretaria do Tesouro Nacional, Siga Brasil e Tesouro Gerencial. Elaboração: IFI.

In addition to the central government...

Primary surplus of states and municipalities has contributed to the general government balance, but changes brought by LC 194 seem to already affect their tax collection

CONSOLIDATED PUBLIC SECTOR PRIMARY BALANCE (LAST 12 MONTHS, % GDP)

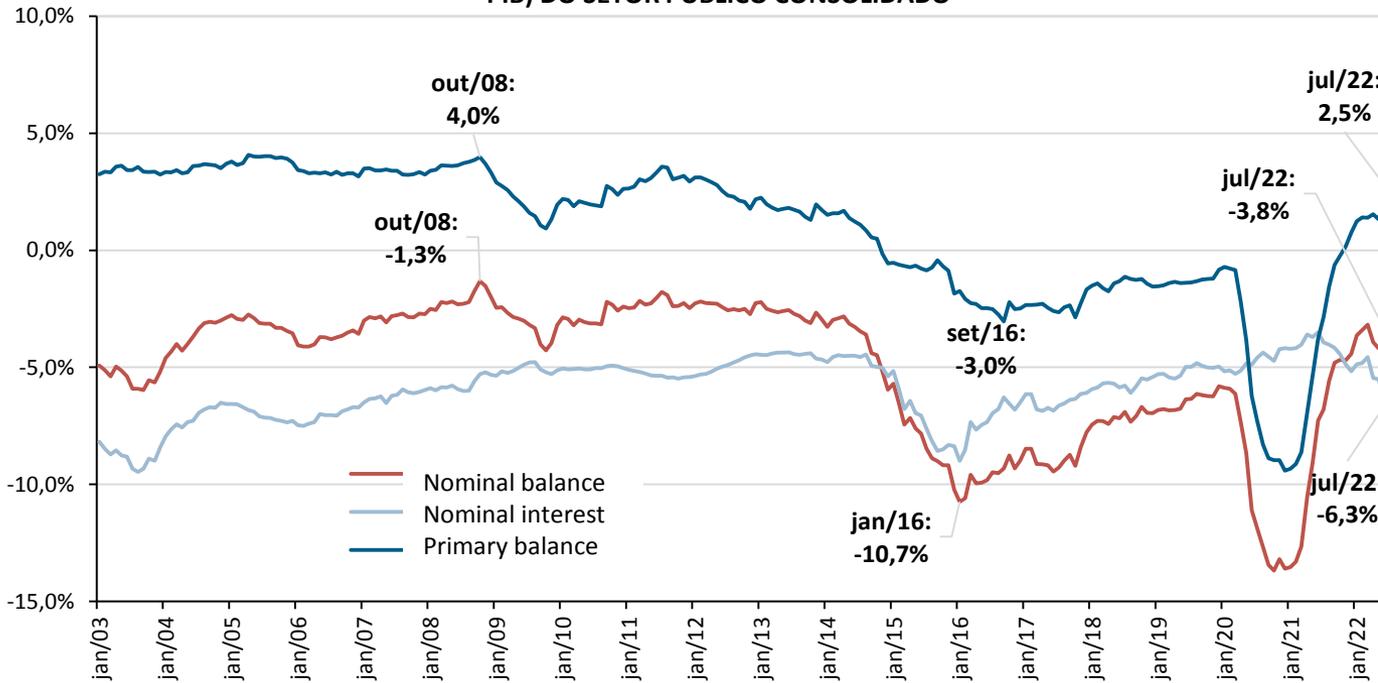


Fonte: Banco Central. Elaboração: IFI.

In addition to the primary balances...

Public sector nominal balance reached BRL 355.9 bn (3.8% of GDP) in the 12 months ended in July
 Nominal interest balance reached 6.3% of GDP in July
 Average cost of debt is at 11% pa.

RESULTADO PRIMÁRIO, NOMINAL E GASTOS COM JUROS ACUMULADOS EM 12 MESES (% DO PIB) DO SETOR PÚBLICO CONSOLIDADO



Nominal balance =
 Primary balance +
 Nominal interest

Source: Banco Central. Prepared by the IFI.

1. Public accounts in the post pandemic

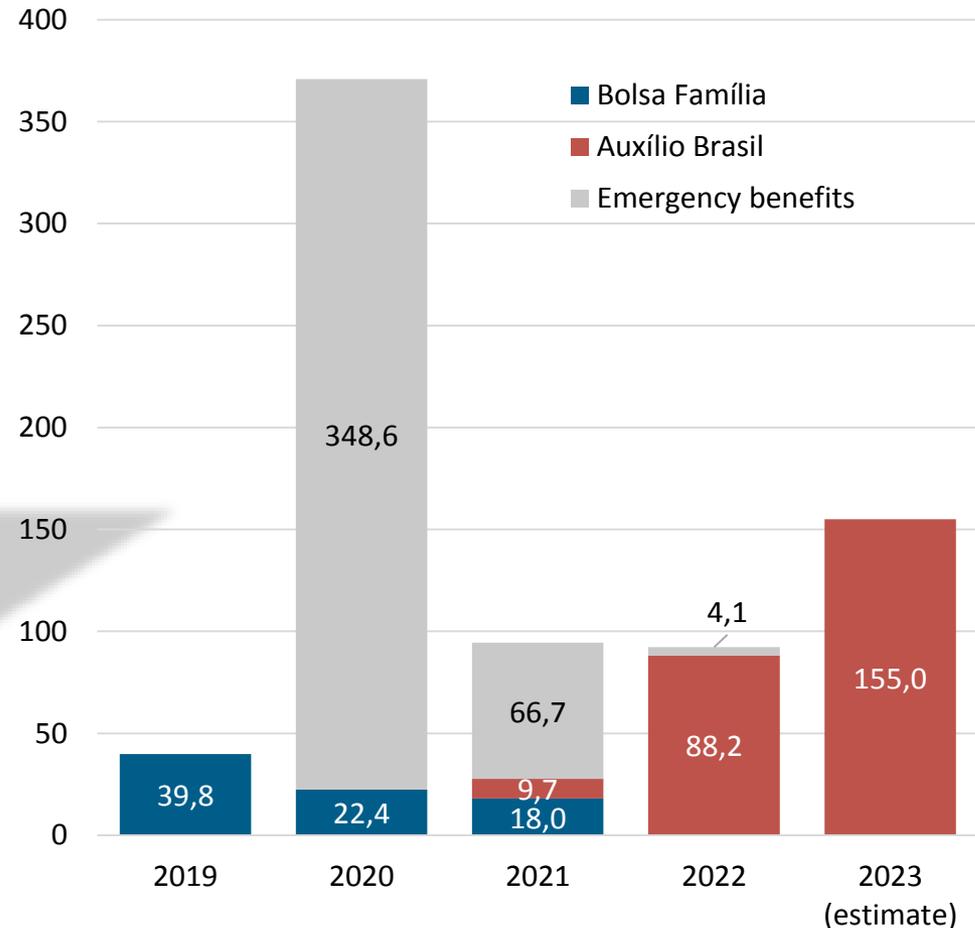
2. What is going on in 2022: the federal budget on the block

3. Challenges for the future

Auxílio Brasil (Brazil Aid)

- Created at the end of 2021 to replace Bolsa Família
- Until the end of 2022: complementary benefit to guarantee a minimum of BRL400 per family
- EC 123: BRL200 extra benefit in the last five months of 2022 (minimum benefit reaches BRL600)
- From 2023 onwards: extraordinary spending likely to be maintained
- If that happens, the program should cost around R\$ 150 billion a year, almost 4 times the cost of the old Bolsa Família

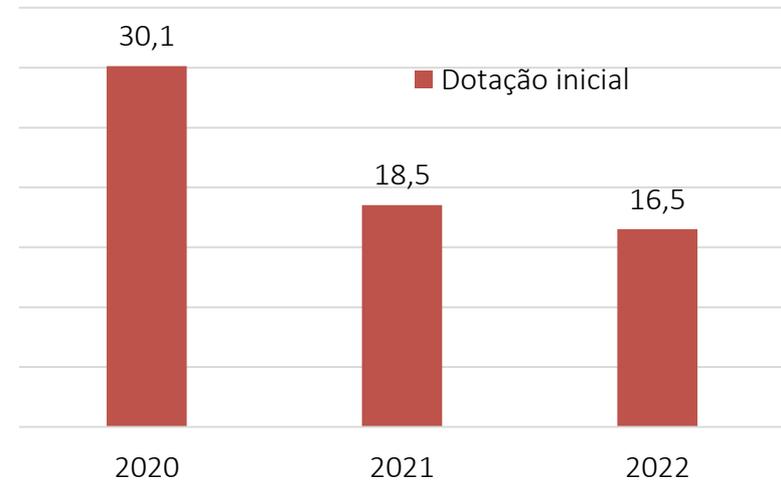
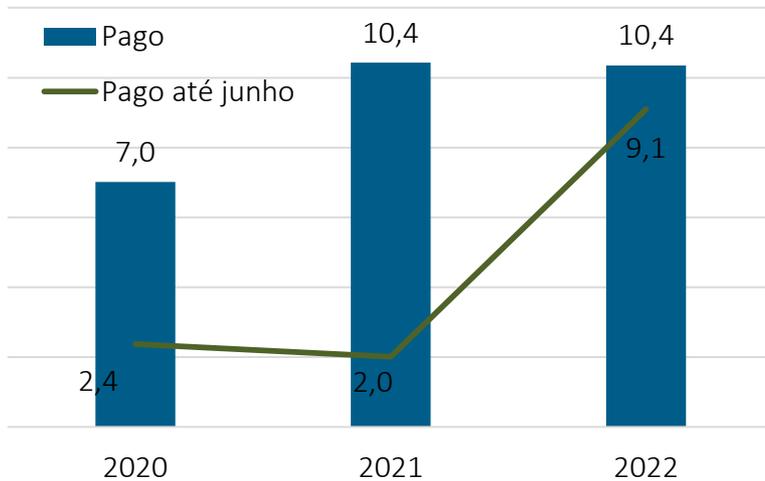
Bolsa Família, Auxílio Brasil and Emergency benefits
(BRL BN, constant prices sep/22)



Source: Follow Brazil (7/11/2022). Prepared by the author.

Budget amendment: the case of the budget rapporteur earmarks

- The so-called secret budget
- Rapporteur earmarks are not new, but they have gained relevance in recent years
- From 2020: rapporteur as a leading actor in the budget execution
- Lack of transparency: who does the earmark belong to and what is its Destination?
- Incentive to cronyism: distribution is not equitable
- In 2022, payments until June grew by more than 350% compared to 2021
- Today they add up to almost half of the total expenditure arising from earmarks



Constitutional amendment n. 123: the PEC Kamikaze

- Objective: mitigate the impact of inflation on the income of the most vulnerable people
- Expanded existing spending and created new ones within the federal government
- BRL 41.2 billion authorized for 2022 without having to comply with fiscal rules

Measures	Maximum spending	% of total
BRL200 extra benefit in the last five months of 2022	26,0	63,0
Truck drivers grant	5,4	13,1
Taxi drivers grant	3,8	9,2
Ethanol subsidies	2,5	6,1
Financial aid to subnational governments for the cost of public transport	2,0	4,8
Expansion of the cooking gas grant program	1,1	2,5
Budget increment for the Alimenta Brasil program	0,5	1,2
Total	41,2	100,0

1. Public accounts in the post pandemic

2. What is going on in 2022

3. Challenges for the future: in the search for a new fiscal framework

1. Public accounts in the “post” pandemic: photography is not bad

2. The main discussions in 2022

3. Challenges for the future

Inflation of constitutional rules

When the Constitution was promulgated,
there were **67 rules** in the chapter
dedicated to public finances

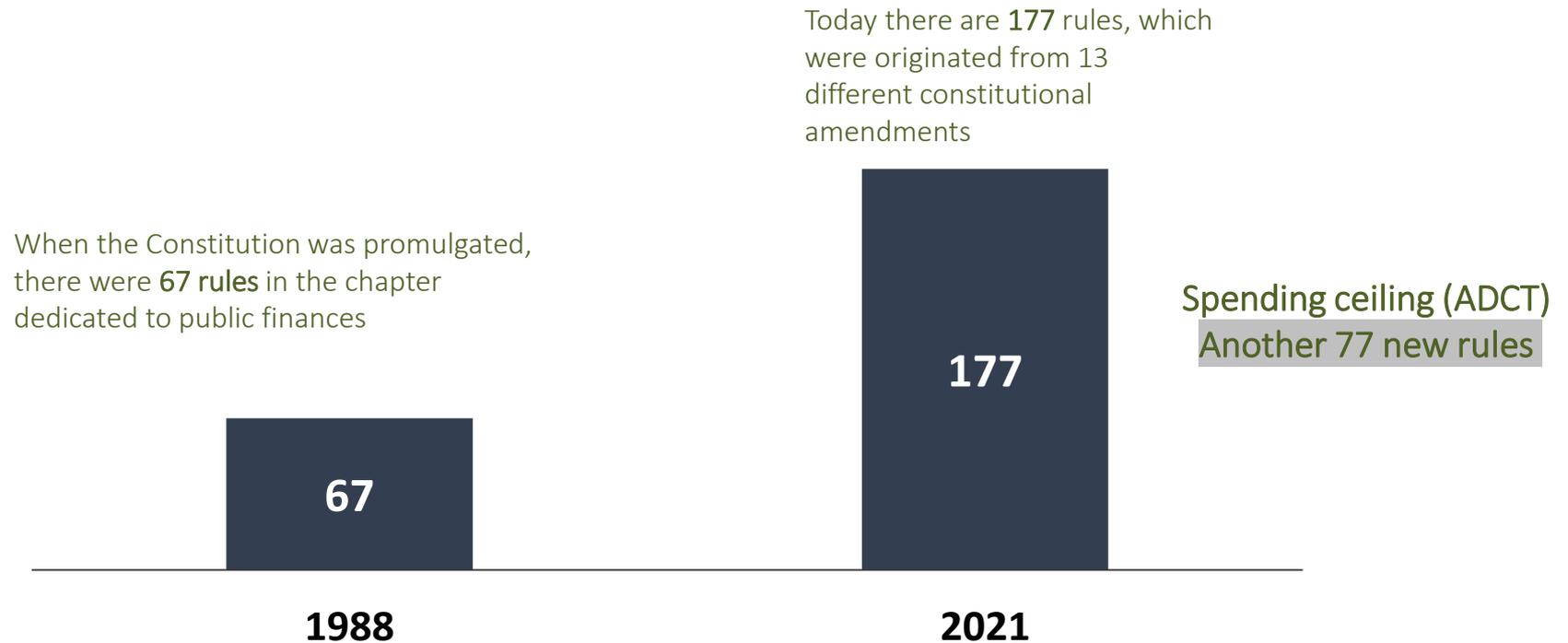


A bar chart with a single dark blue bar. The bar is positioned above a horizontal line. The number '67' is written in white inside the bar. Below the horizontal line, the year '1988' is written in bold black text.

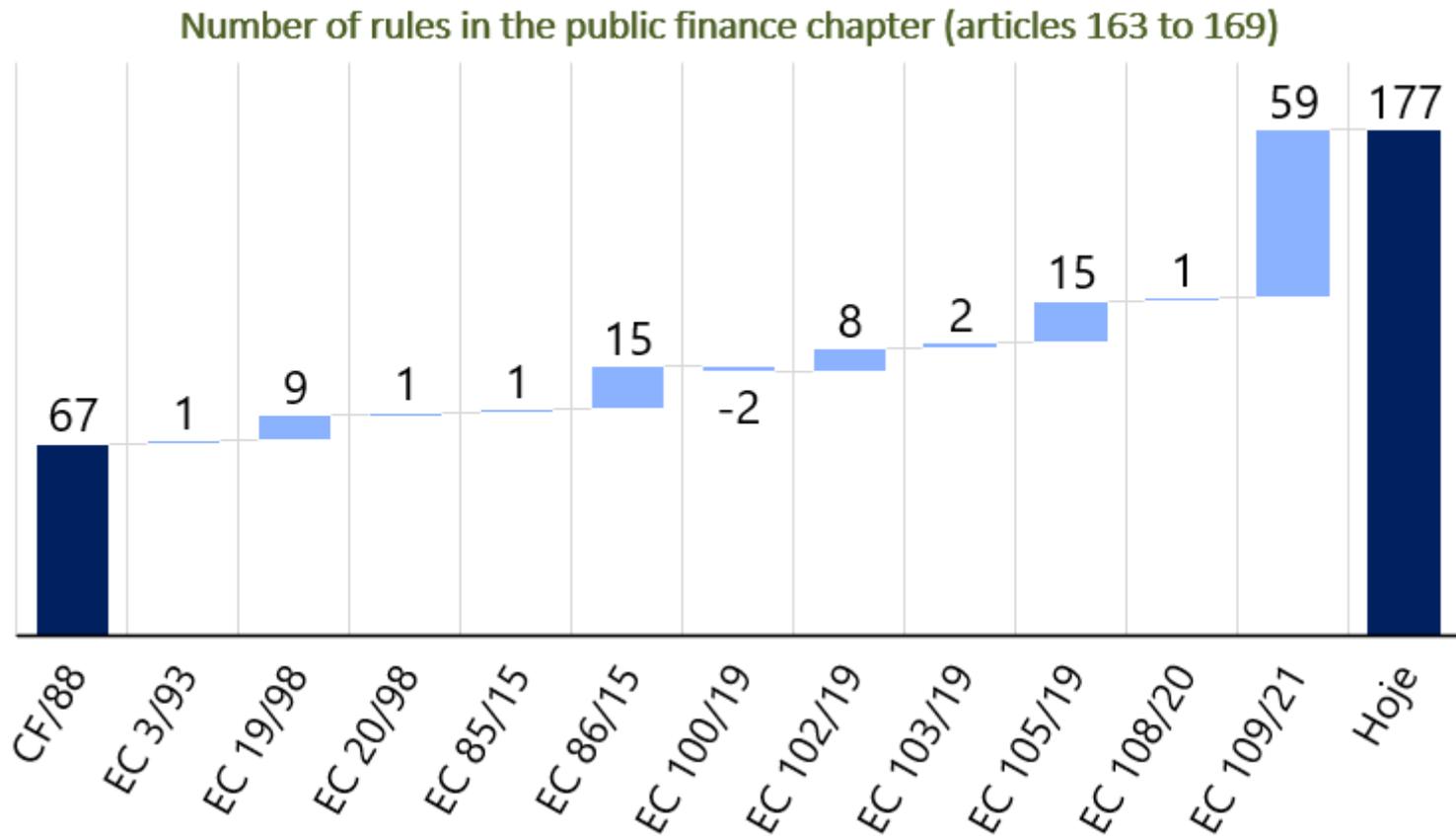
Year	Number of Rules
1988	67

1988

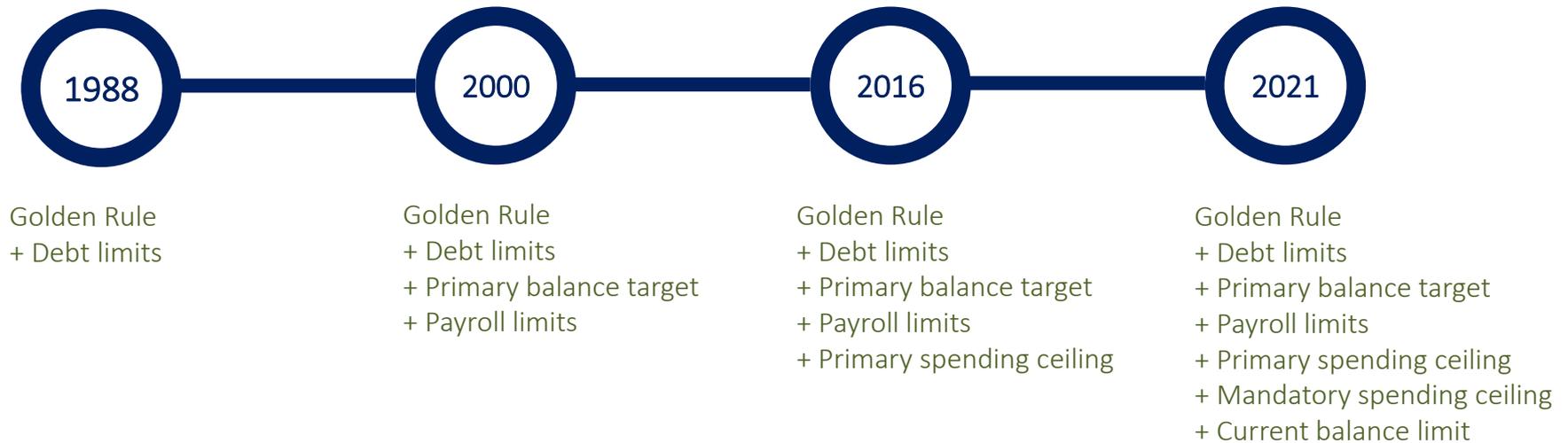
Inflation of constitutional rules



Inflation of constitutional rules

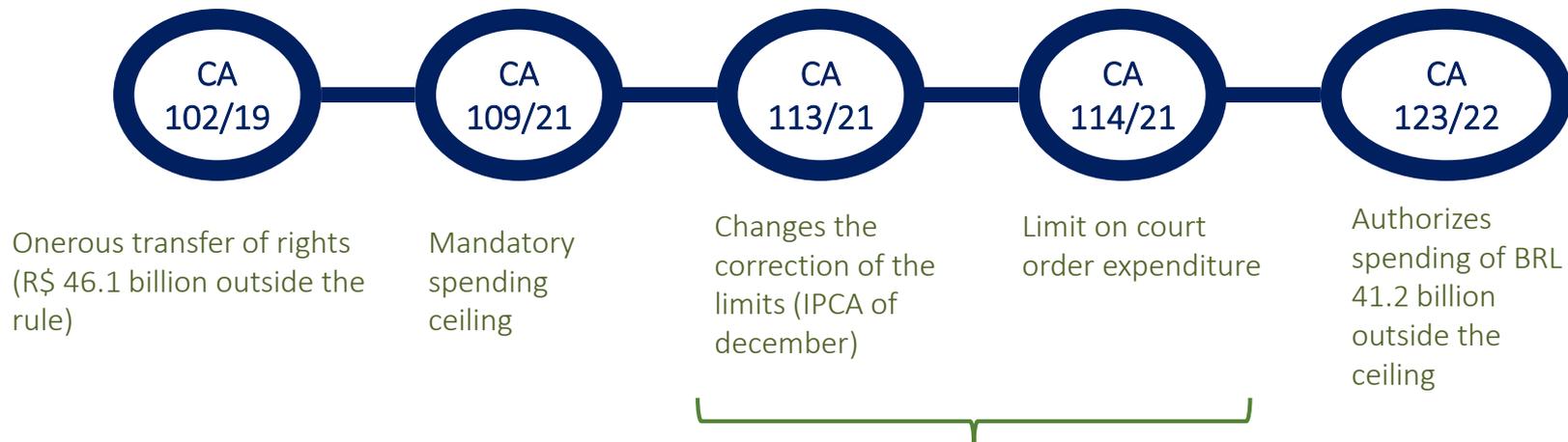


Inflation of FISCAL rules



Spending ceiling: how to undermine the credibility of a tax rule

Changes made to the spending ceiling

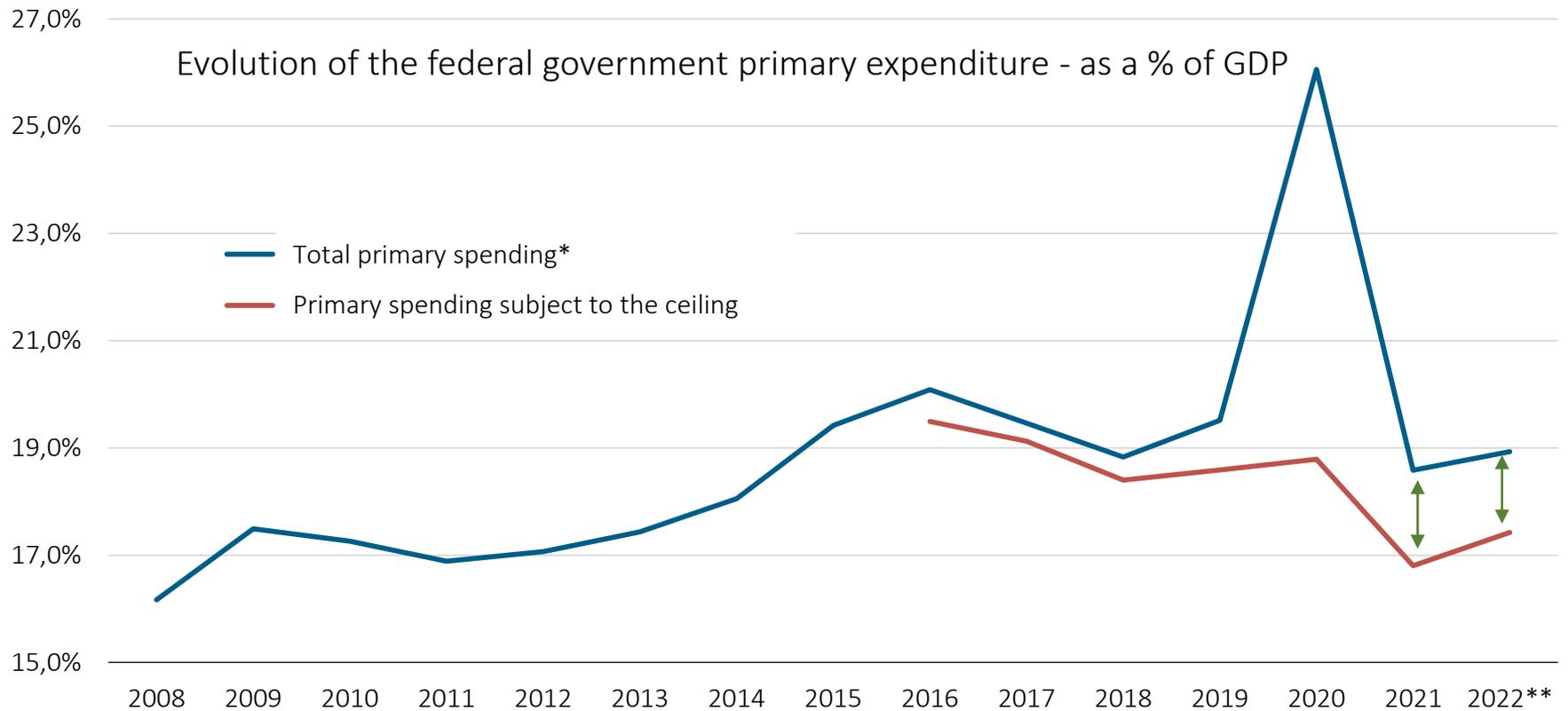


Together, they opened up a BRL 113.1 billion fiscal room under the ceiling:

- ceiling recalculation: BRL 69.6 billion
- court order limit: BRL 43.5 billion

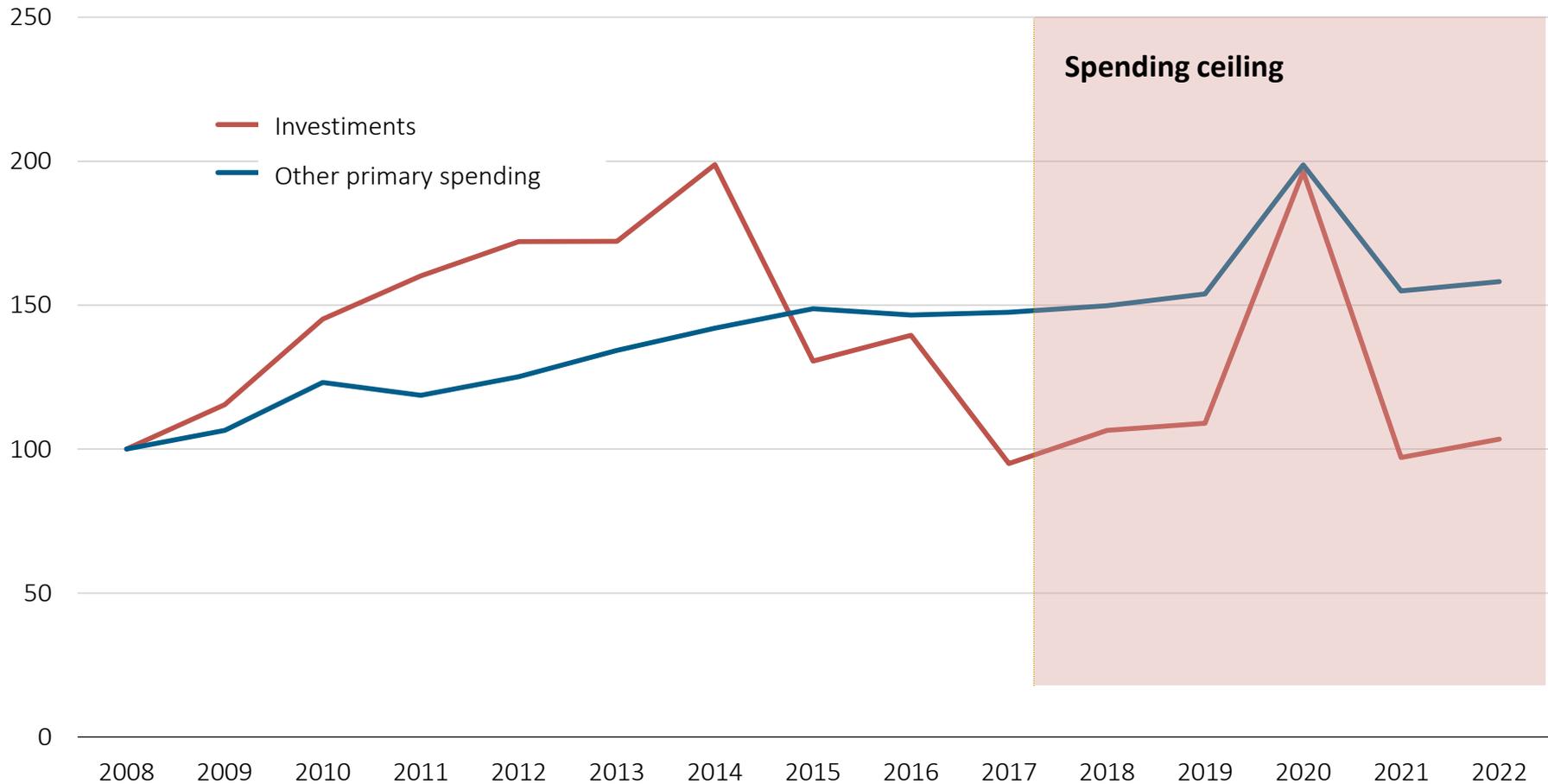
(Source: IFI.)

Spending ceiling: how to undermine the credibility of a tax rule



Source: IFI. *Except transfers by revenue sharing. **Accumulated over 12 months until May/2022.

Spending ceiling: how to undermine the credibility of a tax rule



Source: National Treasury. Prepared by the IFI.

Spending ceiling: how to undermine the credibility of a tax rule

Fiscal stimulus with no impact on the central government primary balance*

Legal standard	Date	Summary	Impact on the 2022 primary balance (BRL billion)
EC 113 and 114/2021	December 8 and December 16, 2021	Open space on the roof due to change in the index plus precatory expenses paid out of the roof (Fundef and agreements)	-81.70
LC 192	March 11, 2022	Reduces PIS/COFINS rates on gas, diesel and biodiesel to zero until 12/31/2022	-17.60
LC 193	March 17, 2022	Simples Nacional refills	-1.20
MP 1,115	April 28, 2022	Increase in the CSLL of banks until 12/31/2022	0.40
Decree 11,055	April 28, 2022	Reduction of IPI rates by 35% on a permanent basis	-8.50
Import Tax Reduction	May 11, 2022	Reduction of Import Tax on some items	-0.70
LC 194	June 23, 2022	Reduces CIDE and PIS/COFINS rates on gasoline and ethanol to zero	-15.43
PEC 1/2022	Approved on 6/30/22 by the Senate and submitted for analysis by the House	State of Emergency PEC. Creates some aids and expands others until 12/31/2022	-41.25
Total			-165.98

** The BRL 23.9 billion spent on the agreement between the Federal Government and the Municipality of São Paulo on the ownership and domain of Campo de Marte Airport (PLN No. following a court decision.

Source: Federal Revenue of Brazil and IFI.

2023: the federal budget on the block

The dual challenge of the transition team

Enable an increase in the primary deficit (BRL 200

Hold public accounts sustainable

What has been called a waiver is actually a permanent change in the fiscal

Main proposals

Increase Bolsa Família

Raise civil servants salaries

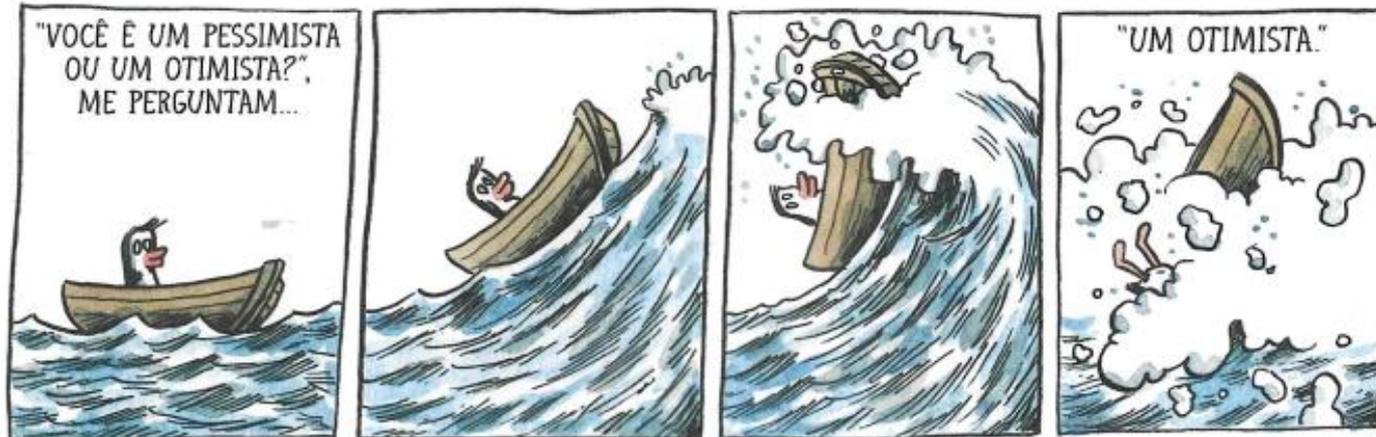
Raise personal income tax exemption threshold

Real growth for the minimum wage

Real growth for the minimum wage

(Are you a pessimist or an
optimist? People ask me...)

(An optimist.)



By Liniers

Thanks!

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