

METHODOLOGIES FOR THE EVALUATION OF THE PAYMENT CAPACITY OF THE STATES ¹

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SUMMARY

This study addresses the issue of the payment capacity of the states. In the first part, a diagnosis of the fiscal framework of the states is presented, along with the evolution of the leading indicators available. After presenting an overview of the methodology used by the National Treasury Secretariat (STN) to assess the payment capacity of the states, the second part details the two stages that states must go through in order to obtain the guarantee of the Federal Government in external and internal credit transactions. The third part consists of the assessments that the states received in recent years based on the application of the methodology of the National Treasury Secretariat (STN.) It turns out that half of the states did not accomplish the minimum rating required to obtain the guarantee. Considering the seriousness of these states fiscal framework in 2016, it is possible that the size of this group of states will increase, if there is a new round of assessments using the same methodology. The fourth part analyses the methodology of the National Treasury Secretariat (STN). This methodology is essentially quantitative and retrospective, taking into account the constraints of National Treasury Secretariat (STN) and its relations with the states. The fifth part describes and analyses the proposal of a new methodology for the National Treasury Secretariat (STN), which is currently open to public consultation. The proposal is much simpler, with three indicators and only one stage. Thus, correlations and redundancies were eliminated. According to the new proposal, a secondary role is assigned to the indebtedness indicator, what is not adequate when assessing payment capacity. The absence of a gradual variation of ratings and fiscal situations can also be observed, what leads to a swift change from a situation considered good to a bad one and vice versa, as well as to a sudden loss or grant of authorization to receive a guarantee from the Federal Government. Lastly, the sixth part deals with the methodology of the credit risk rating agencies, in particular Moody's and S&P. Without the restrictions of TNC, the methodology of the agencies is predominantly qualitative, which allows us to cover a much wider range of factors.

¹ This Special Study responds to the request made by Senator Tasso Jereissati, in the capacity of President of the Committee on Economic Affairs (CAE) of the Federal Senate, by means of the official letter No. 16/2017/CAE/SF of April 4, 2017.

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