



SENADO
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The creation and operation of the Independent Fiscal Institution of the Brazilian Federal Senate

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1. The IFI and the OECD Parameters
2. The creation and operation of the IFI
3. The work of the IFI

The Brazilian Federal Senate IFI and the OECD Parameters

IFI functions according to OECD		
	Yes	No
Normative analysis		X
Forecast preparation	X	
Forecast assessment	X	
Long-term sustainability	X	
Optimality (the assessment of government budgetary and fiscal performance in relation to fiscal objectives and	X	
Costing measures	X	
Monitoring of fiscal rules	X	
Ex-post assessment	X	
Mandate beyond fiscal policy	X	

Principles for IFIs according to OECD		
	Yes	No
Local ownership		X
Independence and non-partisanship	X	
Mandate	X	
Resources	X	
Relationship with legislature	X	
Access to information	X	
Transparency	X	
Communication	X	
External evaluation		X

The creation and operation of the Brazilian Federal Senate IFI

1. **Brazilian fiscal and economic crisis** stimulated institutional responses by the Congress and the Government
2. The IFI was created in 2016 to **monitor the fiscal policy** and generate economic analysis
3. The new institution was founded in November, 2016, when I became the first Executive-Director
4. The IFI model is based on the Office for Budget Responsibility (OBR, UK)

- Our **4 objectives** determined by the Resolution 42/2016 are:
 1. **Estimate parameters**, such as GDP, inflation and other relevant variables to constructing fiscal and budgetary scenarios;
 1. Analyze the performance of fiscal and budgetary indicators **in relation to the targets** defined in government legislation, i.e. the Constitution, Fiscal Responsibility Law etc.
 2. **Measure the impact of relevant fiscal events**, especially those resulting from decisions of the Legislative, Executive and Judiciary Branches, including the costs of monetary policy, credit policy and exchange rate policy
 3. Forecast the **evolution of fiscal variables** that determine the long term economic health of the public sector, such as public debt

- **Leadership**
- The board is **composed of 3 members** (OBR model, United Kingdom) appointed by Federal Senate:
 - An Executive-Director appointed by the President of the Federal Senate
 - A Director appointed by the Economic Affairs Committee of the Federal Senate
 - A Director appointed by the Transparency Committee of the Federal Senate
- **The Directors must be chosen and approved by the Federal Senate after a mandatory Senate hearing**
- **How to guarantee an independent and non-partisan mandate?**

- **Technical Advisory Council (CBO model, United States)** – *not installed yet*
 - The law provides that the Independent Fiscal Institution will have a Technical Advisory Council, which will meet regularly
 - The Technical Advisory Council will be composed of **five Brazilians of excellent reputation and outstanding knowledge** in the subjects of competence of the Institution
 - The counselors will be appointed by the Chair of the Board of Directors (the Executive Director) for an undefined period

- Brazilian IFI has a **fixed budget for hiring technicians**, economists and other professionals necessary for the operation of the institution. This budget is sufficient to hire 3 to 7 analysts
- This is guaranteed by an **Act of the Board of the Federal Senate (Act 10/2016)**
- **Besides that, the IFI can request up to 3 Senate civil servants to work at the Institution**
- Currently, our team is composed of **2 economists from the Senate and another 2 from the private sector. Also, a secretary for administrative purposes**

The work of the IFI



Publications and website

All publications can be accessed in our website - <https://www12.senado.leg.br/ifi>

The screenshot shows the homepage of the IFI website. At the top, there is a dark blue header with the text "SENADO FEDERAL" and a small icon of a building. To the right of this header, it says "Fale com o Senado" and "Portais" with a menu icon. Below the header, the IFI logo and the text "Instituição Fiscal Independente" are displayed. A navigation menu includes "About", "Publications", "Data", "Media", "Schedule", and "Contacts". There are also flags for the United Kingdom and Brazil. The main content area features a large banner with a blue and white geometric background. The banner text reads: "Click here to read the Fiscal Follow-up Report". Below the banner, there are four columns of text, each with a heading and a description:

- Agenda**: See the publications schedule of the Fiscal Monitoring Report (RAF) for 2018.
- Press**: See the reports, articles and interviews published in the press about the IFI.
- Publications**: Read the latest issue of the Fiscal Monitoring Report here.
- Register here**: Sign up to receive the reports, studies and notes released by IFI.

Source: Independent Fiscal Institution of Brazilian Federal Senate (IFI). Publications – <https://www12.senado.leg.br/ifi>

- So far, we have developed 4 main products/reports:
 - 1. Monthly Fiscal Follow-up Report** (the main report, that contains fiscal and economic scenarios and with a large group of indicators, with 40 pages on average)
 - 2. Summary of Monthly Fiscal Follow-up Report** (in Portuguese and in English)
 - 3. Special Studies on specific themes** (Golden Rule, International Reserves, Regional Public Finance, etc)
 - 4. Technical Notes** (Conjunctural studies)
- IFI also provides **an archive of data** for public consultation on our website

Events and meetings

- **March 2017, Federal Senate** – Presentation of fiscal scenarios to specialists in the economic community, market and government in Brazil.



- June 2017, Federal Senate – Press conference to explain the Fiscal Follow-up Report to journalists



Events and meetings

- **November 2017, Federal Senate** – We organized discussions with the Senators to gather suggestions of studies and to explain our figures and scenarios. The Vice-President of Federal Senate, in this picture, was discussing with the Directors of IFI our last Monthly Report



Events and meetings

- May 2018, Federal Senate – We received the “Article IV” IMF Mission



Events and meetings

- **May 2018, Washington, DC** – We were invited to present and discuss Brazilian fiscal scenarios at an event at the Wilson Center, in Washington, DC.



Events and meetings

- **June 2018, FGV and World Bank (Rio de Janeiro)** – We discussed IFI scenarios and fiscal adjustment, with participation of academics and specialists from FGV and the World Bank



- **June 2018, Federal Senate** – We organized a seminar to discuss fiscal scenarios and budgetary priorities at the Senate with the participation of the Minister of Planning, the Secretary of National Treasury and the Secretary of Public Budget.



Events and meetings

- **2017/2018, Federal Senate** – We received visits from OECD missions, and held meetings with: World Bank, Cepal – United Nations, Agents and specialists of the market, Ministry of Finance, Ministry of Planning, National Court of Accounts, former Ministers and Secretaries of Finance of States, Professors of Sao Paulo University and Getulio Vargas Foundation (FGV), Industry Association of Rio de Janeiro and Santa Catarina, Commercial Association of Sao Paulo, Wilson Center, and other institutions and organizations.



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ANO 98 ★ TERÇA-FEIRA, 3 DE ABRIL DE 2018 ★ Nº 32.507

EDIÇÃO SP/DF ★ CONCLUÍDA À 0H01 ★ R\$ 4,00

União garante dívida de R\$ 83 bi de estados em crise

Segundo estudo, governo federal pode tomar calotes de Rio, Minas, Santa Catarina, Rio Grande do Sul e Goiás

Diante da deterioração fiscal de estados e municípios, a União teve de honrar compromissos financeiros desses entes nos últimos dois anos e, com a piora do quadro, pode tomar novos calotes.

O caso do Rio é emblemático, mas outros estados em situação frágil, como Minas Gerais, Santa Catarina, Rio Grande do Sul e Goiás, têm sido monitorados de perto.

De acordo com relatório da IFI (Instituição Fiscal Independente), do Senado, cinco estados que possuem notas de crédito baixas desde 2014 (C ou D (caso do Rio)) — detêm 47% do total das garantias oferecidas pela União, somando R\$ 82,7 bilhões.

Em 2017, o governo federal teve de honrar perto de R\$ 4 bilhões em empréstimos tomados e não pagos pelo Rio.

Nos créditos obtidos por estados e municípios para investimentos, por exemplo, é comum a União atuar como uma espécie de fiador.

O Rio diz que o plano de recuperação prevê retomar o pagamento da dívida em 2021. RS, SC e GO afirmam que as dívidas têm sido quitadas, e MG, que a União não teve que executar garantias dadas em 2018. Mercado A12

- The Press has used our analysis
- Here, our study on fiscal crisis in the States was the Headline of Folha de S. Paulo, the largest circulation Brazilian newspaper
- Since we started in December 2016, we have had **546 citations in the press**



- The press has used our analysis
- In this example, I was interviewed by GloboNews, the main news channel in Brazil

November 2016 until May 2018:

- **17 Fiscal Follow-up Reports**
 - **17 Technical Notes**
 - **5 Special Studies**
 - **546 citations in the press (TV, newspapers, radio)**
 - **Senators have used our analyses in their pronouncements**
 - **We were asked to calculate the impact of the recent truck drivers crisis by the President of the Senate**
-
- **Recent report (February 2018) of OECD on Brazil said:**

*“Brazil has made substantial progress on its fiscal framework, including the new expenditure rule and **the recently established fiscal council (IFI), which has been publishing high-quality monthly reports, including fiscal projections and scenarios.** Its establishment has been a recommendation in previous OECD Economic Surveys or Brazil” (Page 33).*

- Set forth IFI **rules of procedure** and **code of ethics** (in progress)
- **Strengthen relationship** with our **peers**, other government bodies, academy and think tanks
- Develop mechanisms for **policy evaluation**
- Enhance **communication** with our stakeholders (Senate, National Congress, Federal Court of Accounts, society, press etc.)



Thank you!

IFI@senado.leg.br

Economic and fiscal scenario

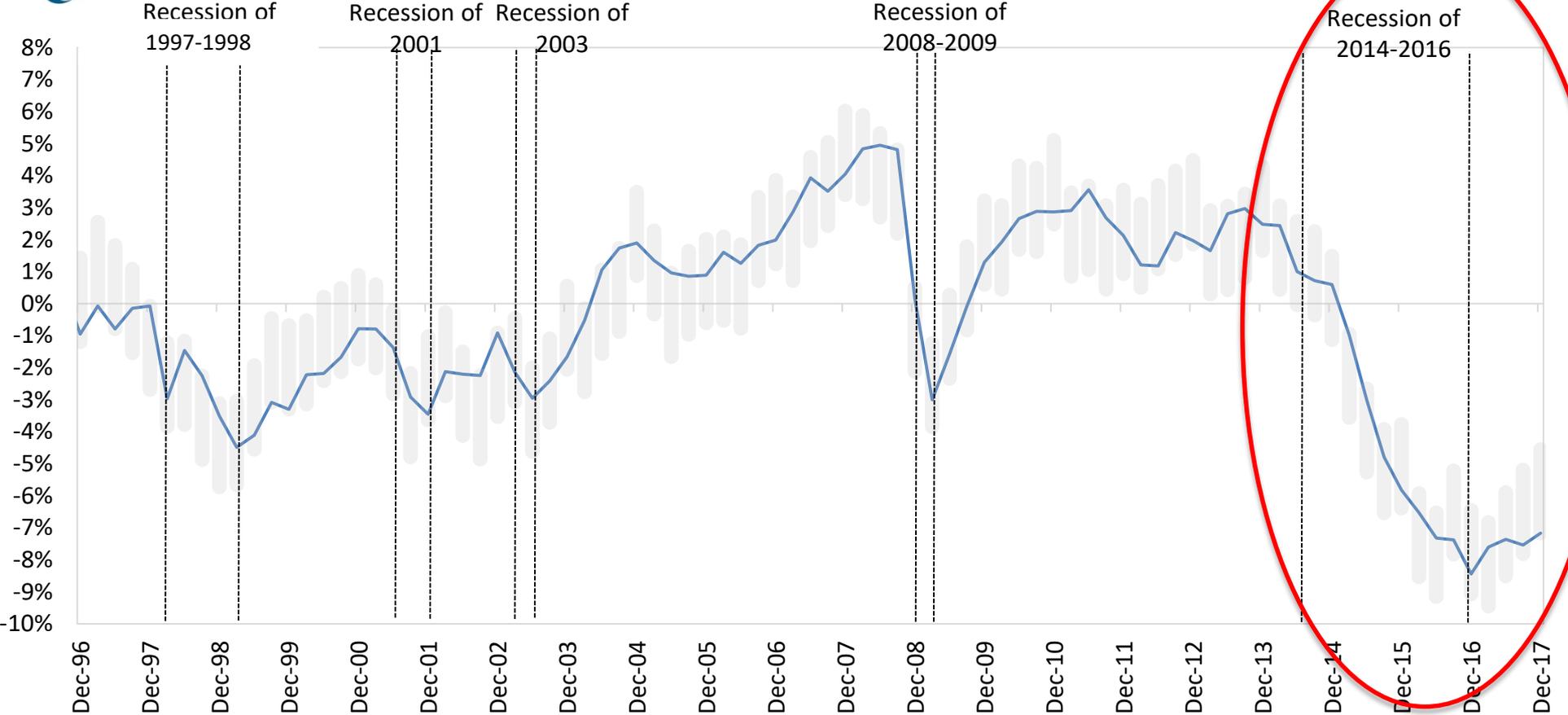


Summary of Brazilian Fiscal Imbalance

1. Brazil needs something close to 4 percentage points of GDP in order to control his debt: improve the primary result from -2% of GDP (starting point) to +2% of GDP (stabilize gross debt), which means, at present value, at R\$ 250/300 billions;
2. In almost 20 years, expenditures grew (in average) close to 6% in real terms, the double of the real GDP growth (~3% from 1998 to 2014);
3. The amount of subsidies reached 5,4% of GDP or R\$ 354,7 billions (from 3% of GDP in 2003) of which 4,1% of GDP or R\$ 270 billions are related to tax expenditures;
4. Estimating revenue elasticity became more difficult and instable after the amount and frequency of non recurring revenues, besides the huge increase in tax exemptions, like special programs to refinance tax debts (also called as “Refis”);
5. Shy advance on structural reforms on mandatory expenditures, like social security reforms and public servants salaries, makes difficult to meet the spending cap;

Macroeconomic context

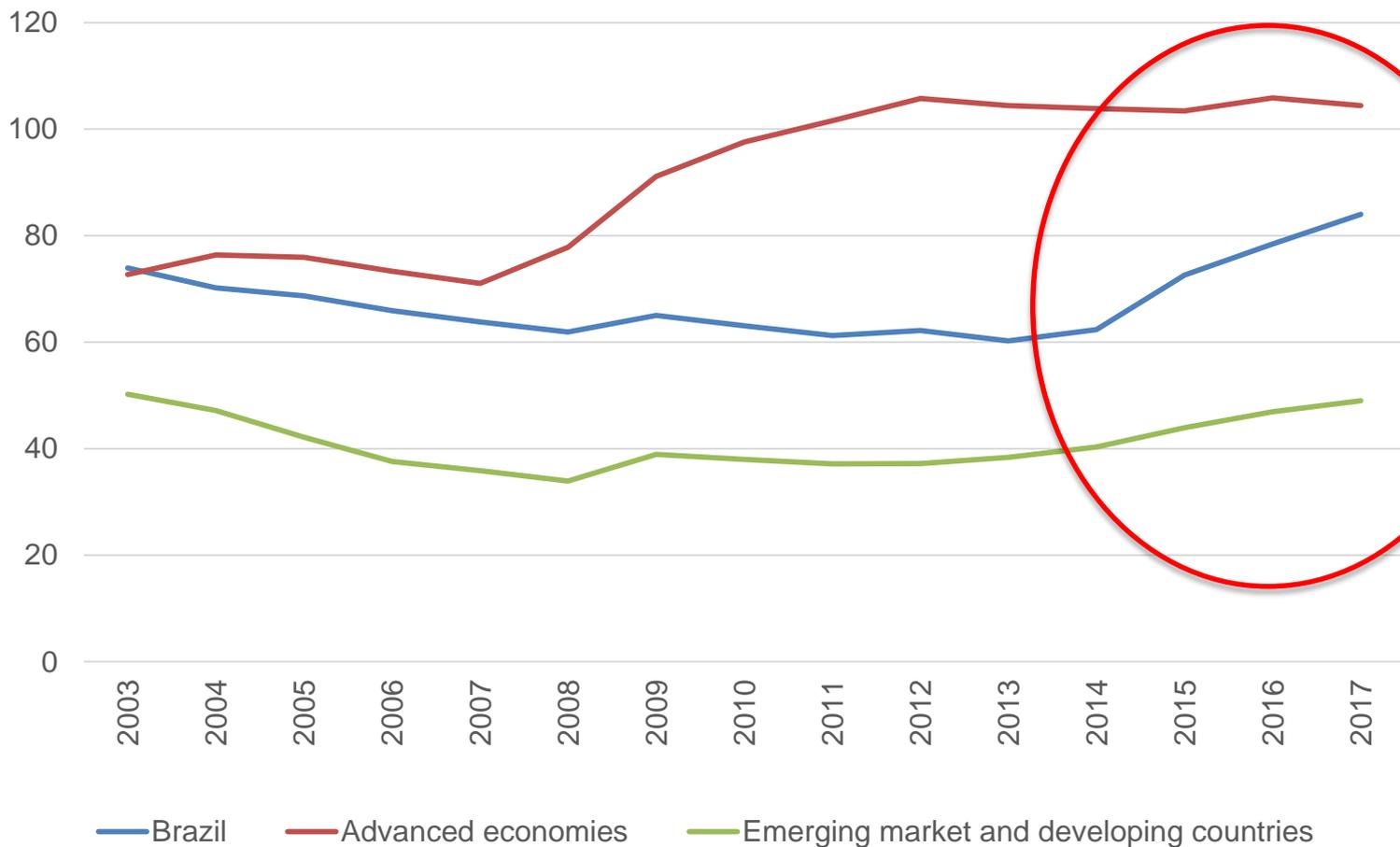
Output gap (and confidence interval)



GDP (per capita) - PPP (2011 dollar)	1980	2017
Brazil	11,146	14,212
Advanced economies	23,665	44,905

Brazil x Emerging and development countries

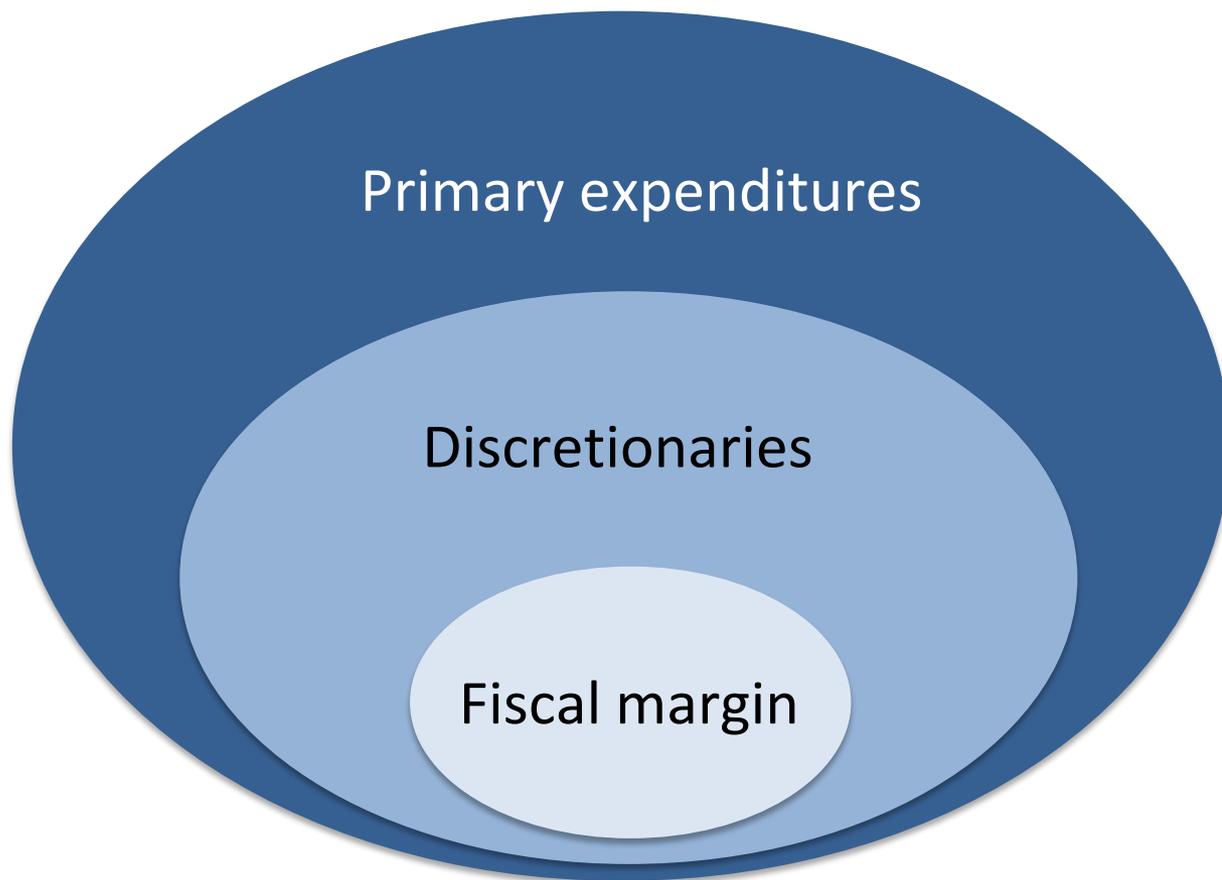
Gross debt - % of GDP



IFI scenarios

Basic scenario (1)	2015	2016	2017	2018	2019	Average 2020-2030
Real GDP growth - %	-3.5%	-3.5%	1.0%	2.7%	2.5%	2.3%
Real interest rate - %	3.2%	7.0%	3.9%	2.7%	3.5%	4.3%
Optimistic scenario (2)	2015	2016	2017	2018	2019	Average 2020-2030
Real GDP growth - %	-3.5%	-3.5%	1.0%	3.2%	3.5%	3.5%
Real interest rate - %	3.2%	7.0%	3.9%	2.8%	2.5%	3.1%
Pessimistic scenario (3)	2015	2016	2017	2018	2019	Average 2020-2030
Real GDP growth - %	-3.5%	-3.5%	1.0%	1.9%	1.5%	1.3%
Real interest rate - %	3.2%	7.0%	3.9%	3.8%	4.3%	5.7%

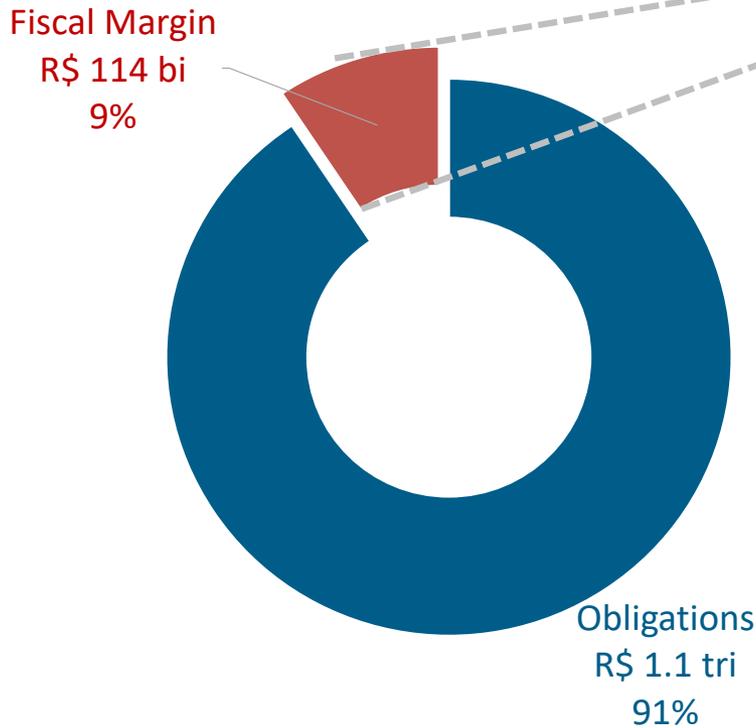
Fiscal Margin



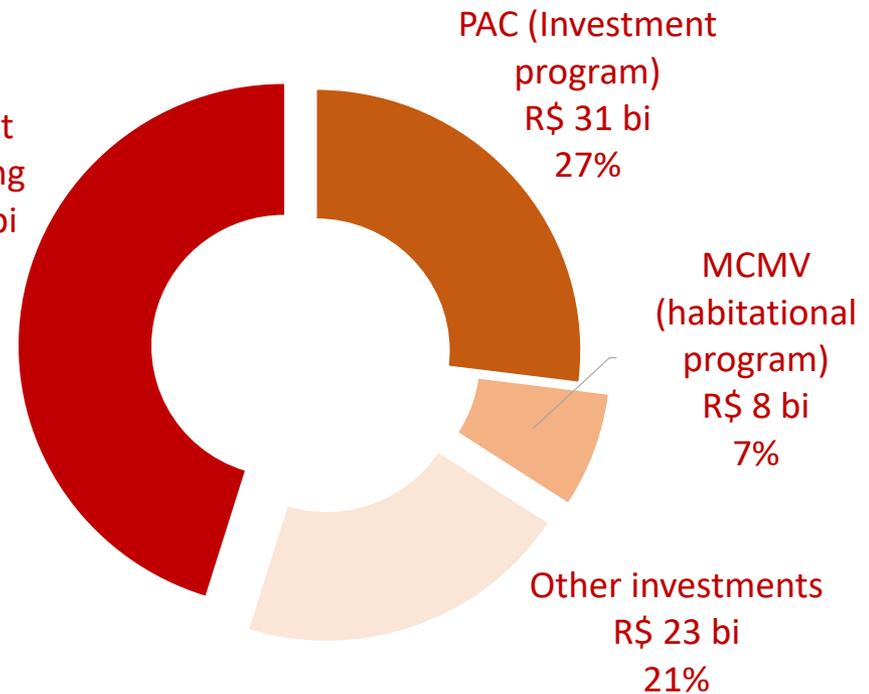
Fiscal Margin

Expenditures under the ceiling

Fiscal margin



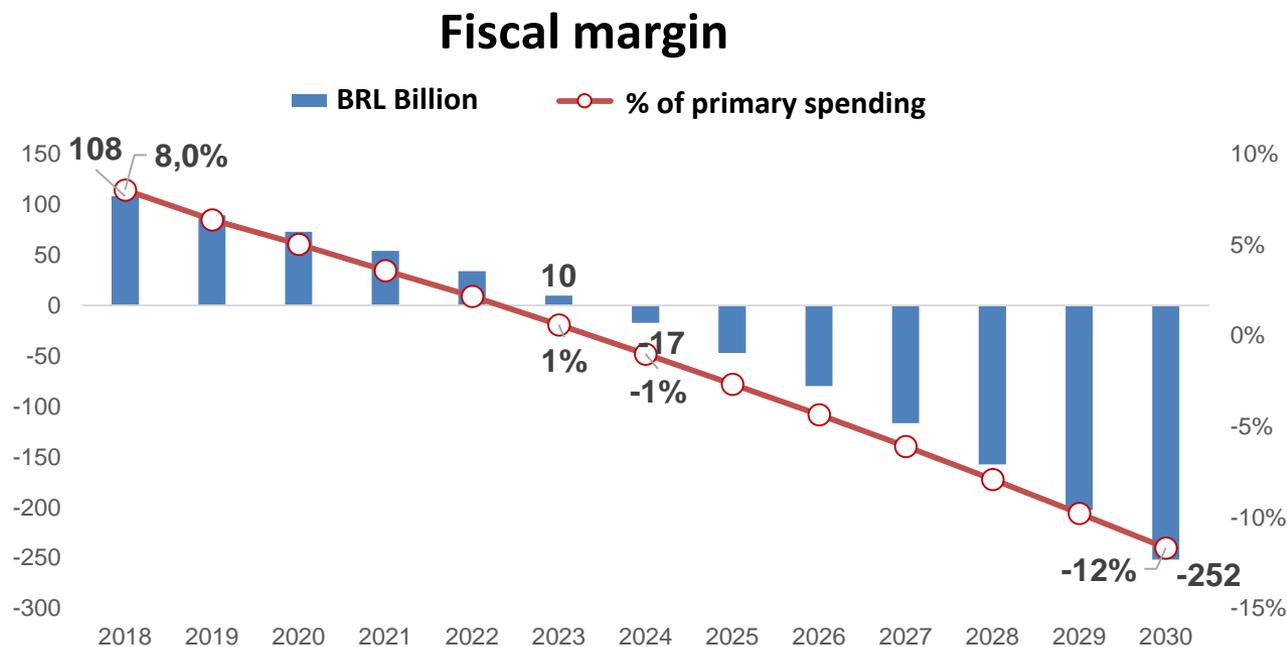
Current spending
R\$ 51 bi
45%



2016

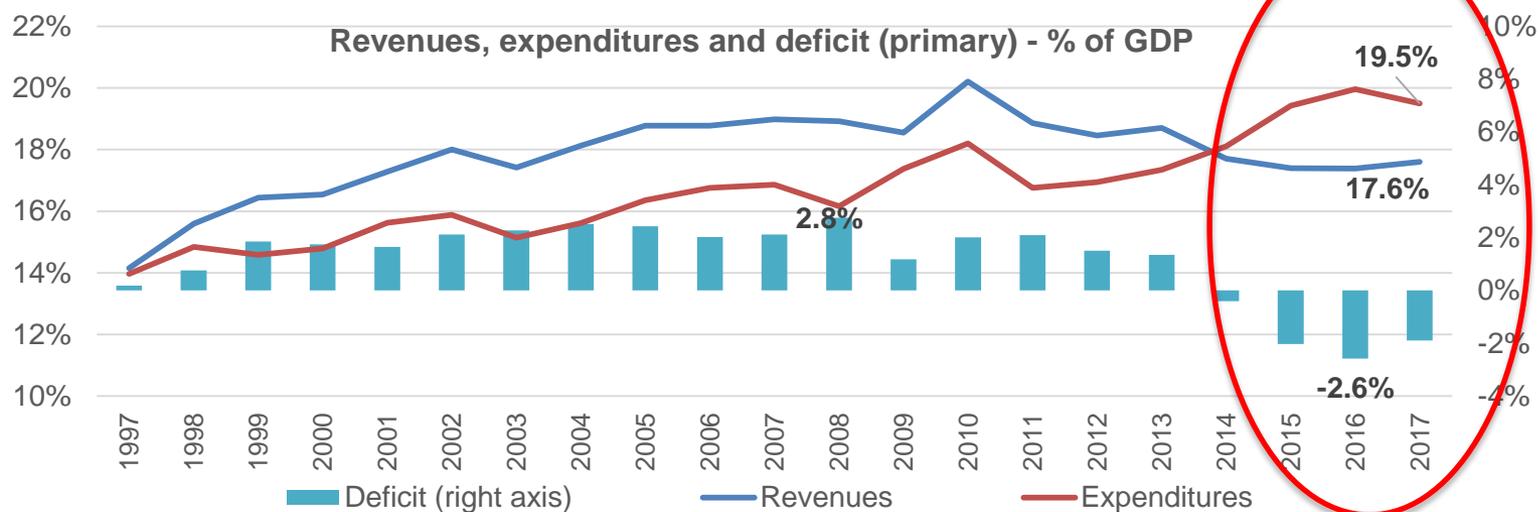
Forecasts – Fiscal Margin

1. Public budget in Brazil is very rigid. The expenditure ceiling (created by the Constitutional Amendment number 95/2016) determines that total primary spending does not grow above inflation
2. On a budget of R\$ 1.4 trillion (or USD 400 billion), less than 10% is manageable without changes in ordinary legislation or even the Constitution
3. We created a concept to demonstrate this high degree of rigidity in Brazil: “fiscal margin”



Revenues and Expenditures

1. In the last 20 years, public expenditure was very close to revenues (fiscal policy is procyclical)
2. Fiscal adjustment in Brazil has been made by increases in tax burden
3. Recent reduction in revenues coupled with an increase in expenditures, generating fast growing deficits



Growth of revenues and expenditures (primary) as % of GDP

	1997 to 2002	2002 to 2007	2007 to 2012	2012 to 2016
Revenues	3,85	0,98	-0,53	-1,05
Expenditures	1,92	0,98	0,08	3,05

Forecasts – Revenues and Expenditures

1. Room for fiscal adjustment is decreasing sharply
2. Stabilizing the gross public debt-to-GDP ratio requires a drop in federal spending of 4.4% of GDP until 2030

Forecasts to revenues, expenditures and balance (deficit or surplus) - % of GDP

% of GDP	2017	2024	2030	Difference between 2030 and 2017
Revenues	17.65	17.73	17.75	0.10
Expenditures	19.45	17.23	15.03	-4.42
Balance	-1.81	0.51	2.71	4.52

Tax Expenditures

- A combination of lack of evaluation of costs and benefits, new tax exemptions in a countercyclical fiscal policy approach, inertia and political difficulties to review and reduce tax expenditures, are the major reasons behind these billionaire loss;

	Tax Expenditures						
	2011	2012	2013	2014	2015	2016*	2017*
BRL Billion	152.4	181.7	223.3	256.2	270.1	263.7	270.4
% of GDP	3.5	3.8	4.2	4.4	4.5	4.2	4.1

*Forecasts of Secretariat of the Federal Revenue of Brazil.

http://www2.senado.leg.br/bdsf/bitstream/handle/id/542784/NT17_2018.pdf



Institutional improvements in the last 30 years

1. Separation of “Banco do Brasil” (the main public bank of Brazil) and Central Bank
2. Creation of the National Treasury Secretary to manage the public debt
3. Creation of a Financial System (SIAFI) to register each public expenditure
4. Fiscal Responsibility Law (LRF)
5. Negotiation between federal government and subnational governments to equilibrate the debt of municipalities and states
6. Closing of states’ public banks
7. Targets to the primary balance
8. Expenditure ceiling

Fiscal Rules

1. 11 fiscal rules...

- Golden Rule (Constitution)
- Expenditures ceiling (Constitution)
- Target to primary balance (Fiscal Responsibility Law)
- Exemptions (Constitution)
- Threshold to civil servants payroll expenditures (Constitution)
- Threshold to gross debt (Constitution)
- Others...

In 2019, two important rules are about to be breached

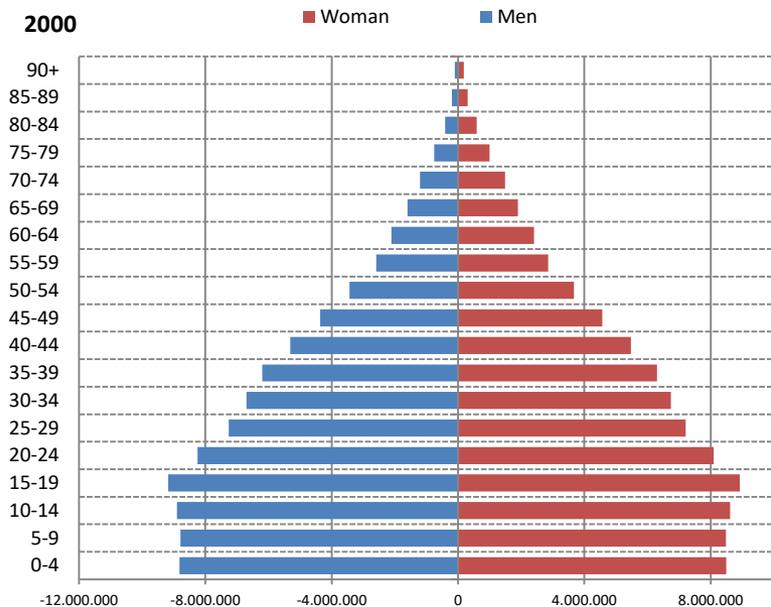
Quality of Public Spending

Central Government public budget – % of GDP

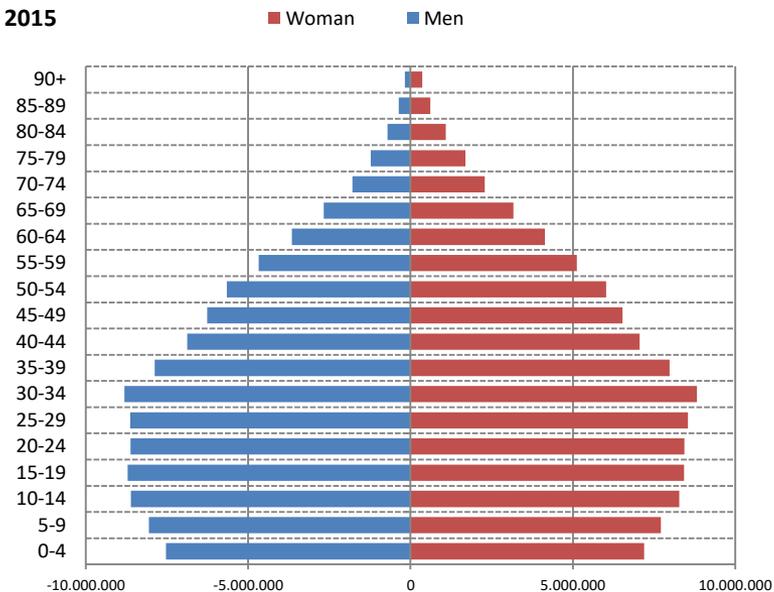
Functions	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Growth - 2008 to 2017 (in percentual points of GDP)
Pensions/Social security	7.8%	8.7%	8.4%	8.2%	8.3%	8.3%	8.4%	9.0%	9.7%	9.9%	2.2
Health	0.9%	1.0%	1.2%	1.2%	1.4%	1.4%	1.6%	1.6%	1.7%	1.7%	0.8
Education	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.7%	1.7%	1.7%	0.1
Social assistance	0.9%	1.0%	1.0%	1.0%	1.1%	1.2%	1.2%	1.2%	1.3%	1.3%	0.4
unemployment benefits	0.7%	0.9%	0.8%	0.8%	0.9%	1.2%	1.2%	1.1%	1.1%	1.1%	0.4
National defense	0.7%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	1.0%	1.0%	0.4
Justice	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	-0.1
Administration	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.0
Agriculture	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.2%	0.5%	0.4%	0.3%	0.0
Transportation	0.3%	0.4%	0.5%	0.4%	0.4%	0.3%	0.4%	0.3%	0.3%	0.2%	-0.1
Public security policies	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.0
Others	1.2%	1.1%	1.1%	0.9%	0.9%	0.9%	0.9%	0.8%	0.9%	0.8%	-0.4
Total	15.5%	17.2%	16.9%	16.4%	16.6%	17.0%	17.4%	17.9%	19.3%	19.1%	3.6

Demographic Pressure

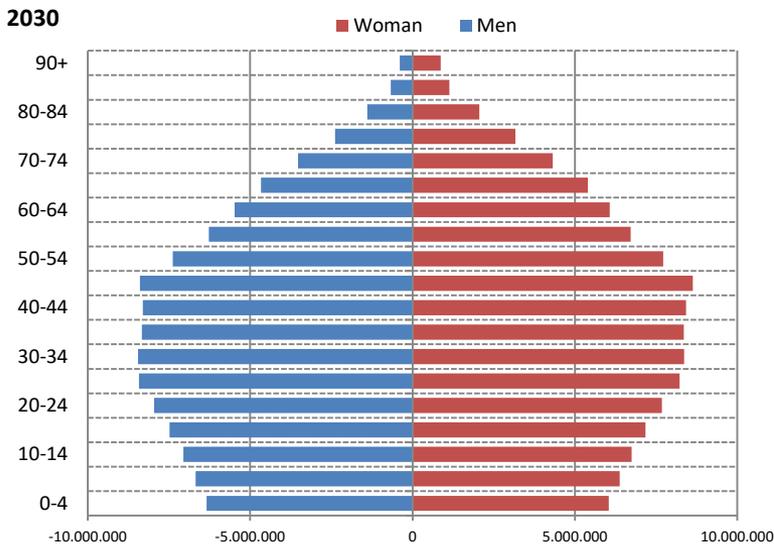
2000



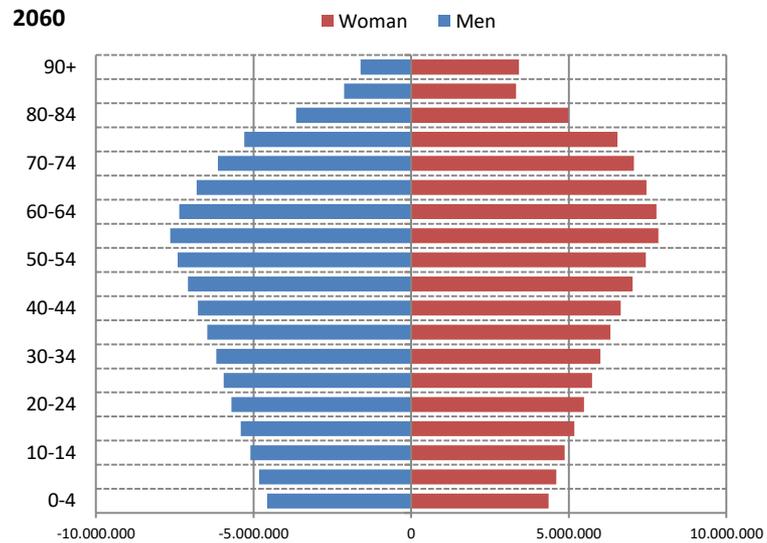
2015



2030

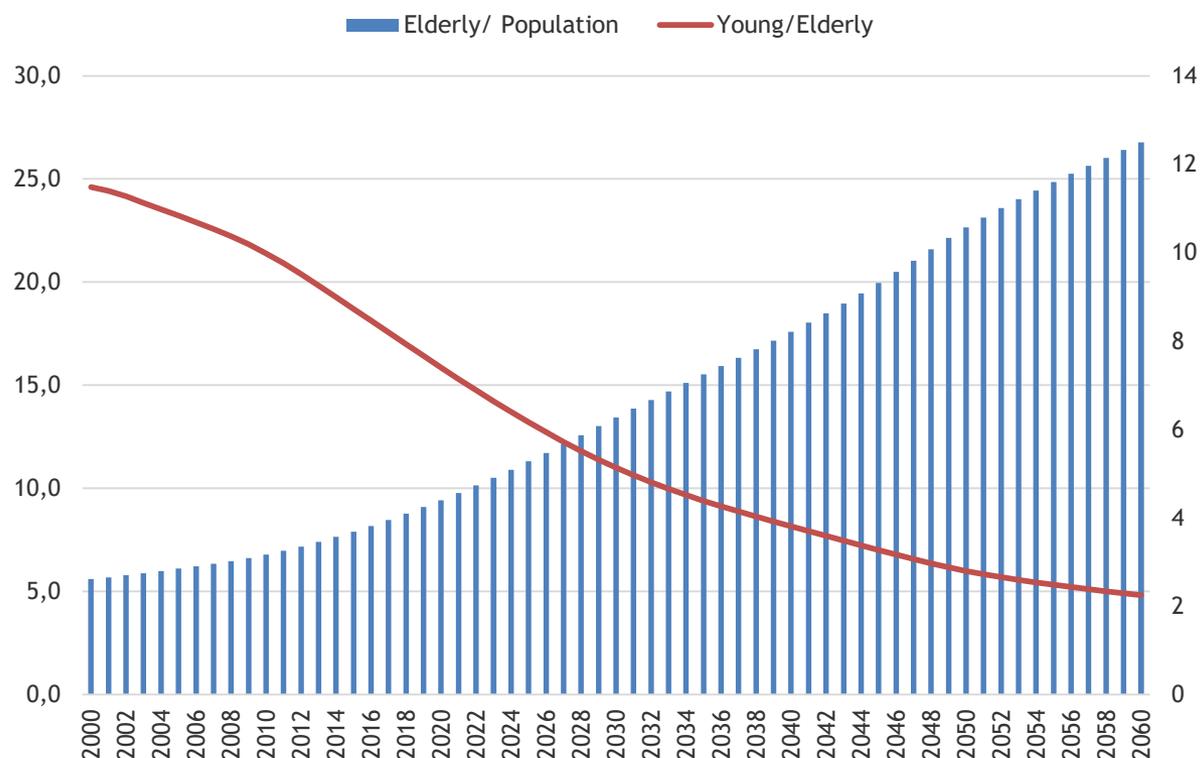


2060



Demographic Pressure

1. Brazil will face a high rate of aging, with elderly people representing 27% of population in 2060, much higher than 9% expected for 2018;
2. Proportion of young (15 < age < 65) regarding to elderly people (age > 65), should be reduced from 10 in 2010 to just a 2 in 2060;



Quality of Public Spending

Revenues and expenditures of Central Government – % GDP – 2017

I. Revenues	17.6%
II. Expenditures	19.5%
II.1 Pensions/Social security (just private retirees – “INSS”)	8.5%
II.2 Civil servants payroll	4.3%
II.3 Other	2.8%
II.3.1 Unemployment insurance	0.8%
II.3.2 Social transfers (BPC)	0.8%
II.3.3 Other	1.2%
II.4 Discretionary spending	3.8%
II.4.1 PAC (investment program)	0.5%
II. Other	3.3%

14.4% of GDP or more than 73% of the total spending!

Investment corresponds to just 0.5% of GDP

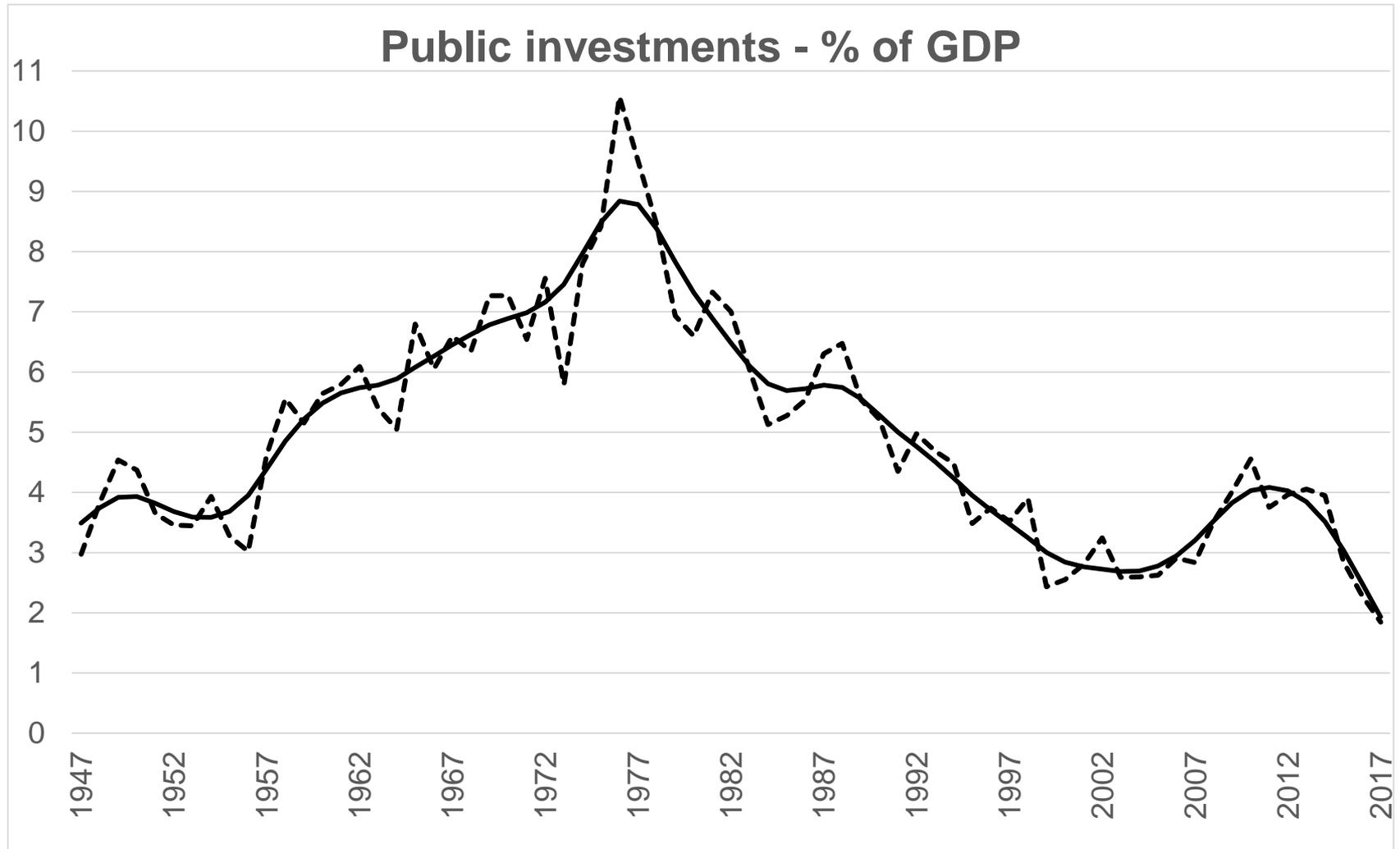
Quality of Public Spending

Social security and salaries – General Government – selected countries – % GDP – 2016

	Social security benefits expense (% of GDP)
Sweden	14.1
Turkey	9.9
Colombia	9.5
Brazil	9.1
Switzerland	9.0
Australia	8.1
United Kingdom	7.7
Korea, Republic of	6.6
Chile	3.3
Paraguay	3.3
Peru	1.1

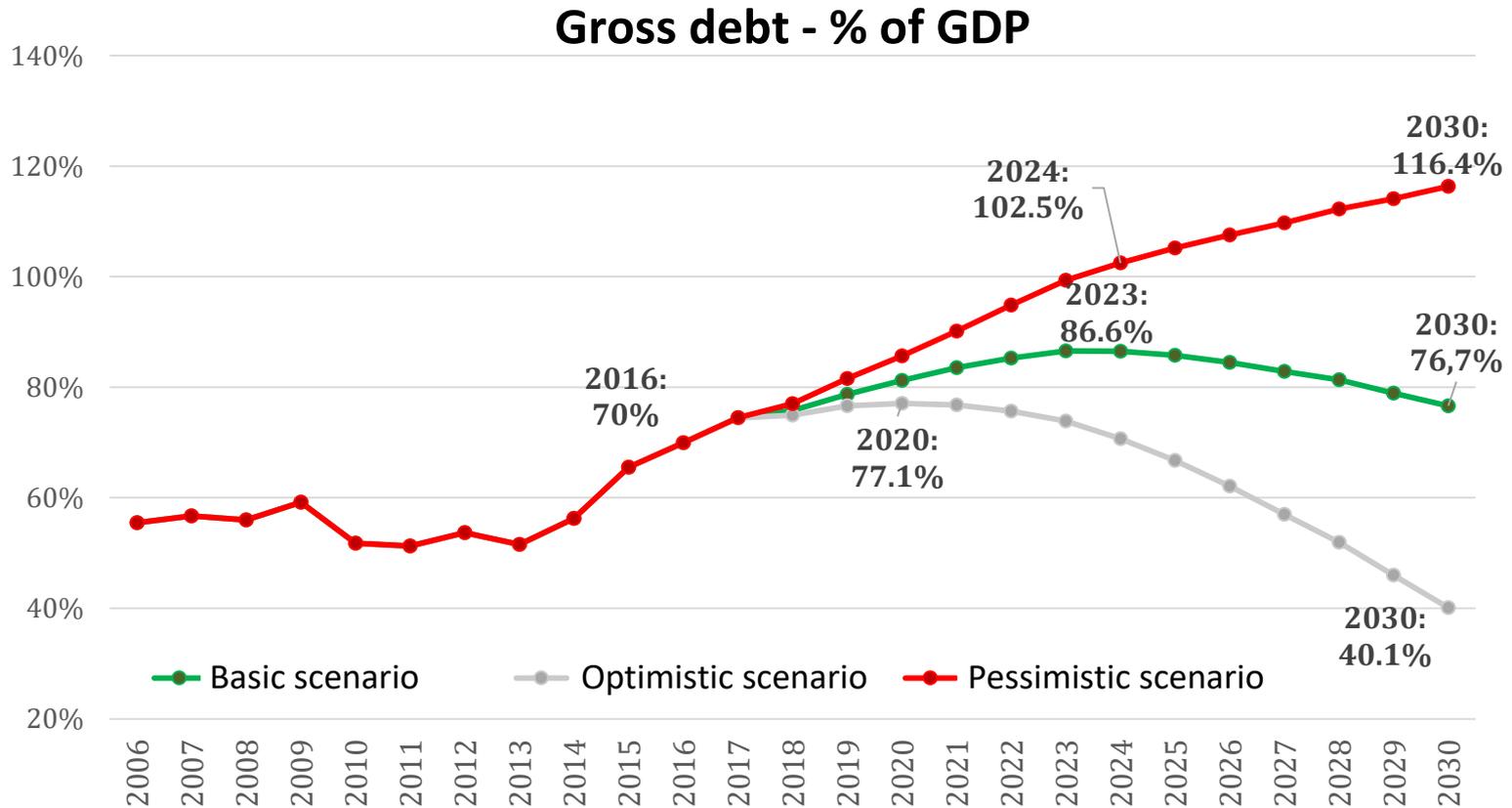
	Wages and salaries (% of GDP)
Paraguay	11.2
Sweden	10.6
Brazil	9.9
Australia	8.5
United Kingdom	7.1
Turkey	7.0
Chile	6.7
Switzerland	6.3
Peru	5.9
Korea, Republic of	5.5
Colombia	4.2

Investments



Debt sustainability

1. In IFI's basic scenario, the gross debt will increase until 2023 and just if authorities maintain the compromise with fiscal adjustment
2. In IFI basic scenario, we consider an average economic growth of 2,2% (2020-2030) and an interest rate above 4%
3. The risk is to migrate toward the pessimistic scenario, where gross debt increases to 100% of GDP between 2023 and 2024



Source: Independent Fiscal Institution of Brazilian Federal Senate (IFI). Forecasts: IFI.

Spirit of fiscal responsibility

1. Brazil will face a complex and congested agenda in the next government;
2. In spite of the existence of many fiscal rules, Brazil has not yet an effective commitment to fiscal responsibility...
3. The expenditure ceiling and Golden Rule are about to be breached in 2019 and constitutional triggers will have to be pulled
4. To recover the debt sustainability, Brazil should make deep changes in revenues and/or spending
5. Economic growth is essential in this process
6. Finally, the electoral process, this year, is an opportunity to discuss with society these problems and show the real situation of public accounts and economy, indicating the necessity of rescuing the “spirit of fiscal responsibility”