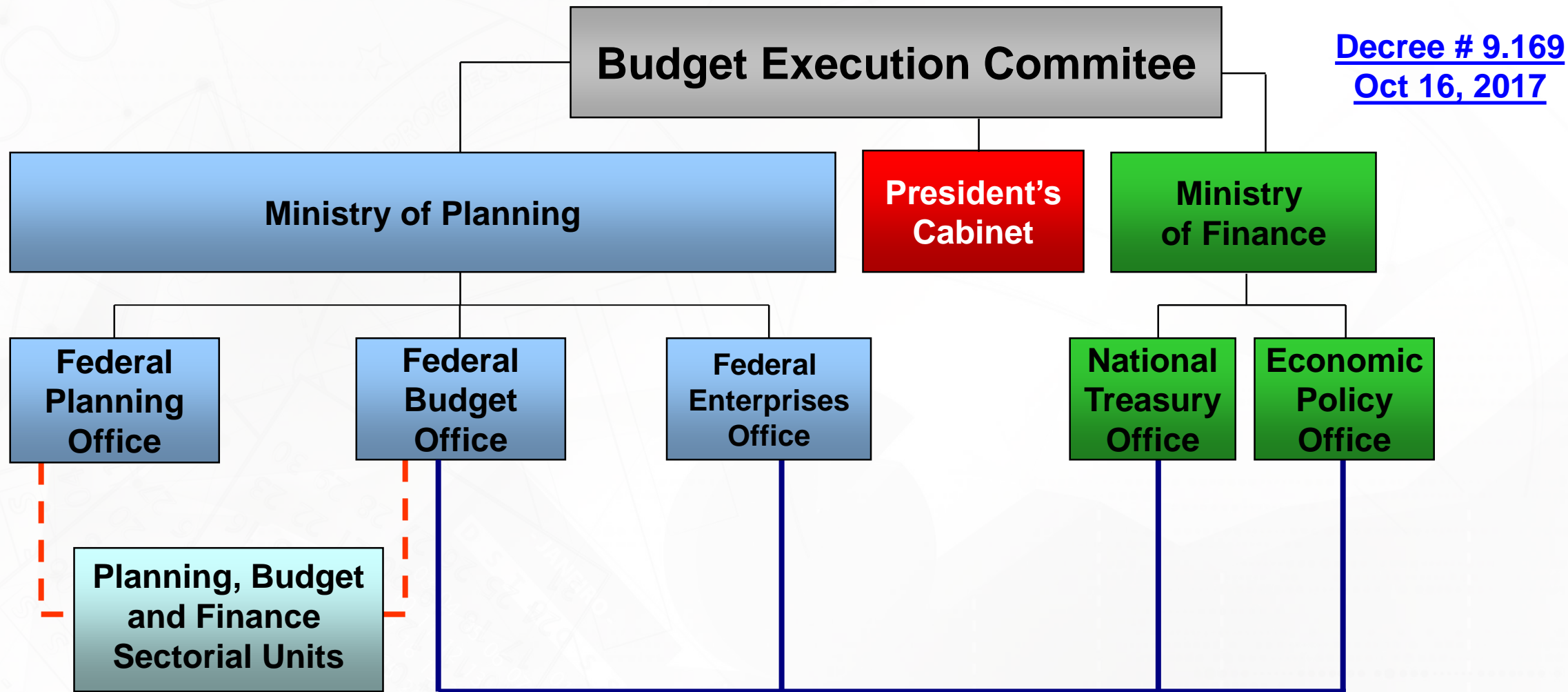


# BUDGETARY PROCESS AND THE NEW FISCAL RULE (CA # 95/2016)

## The Challenges of the Administrative State: Brazil and the United States in Comparative Perspective May 23, 2018

**GEORGE SOARES**  
Secretary of Federal Budget  
Ministry of Planning, Development and Management

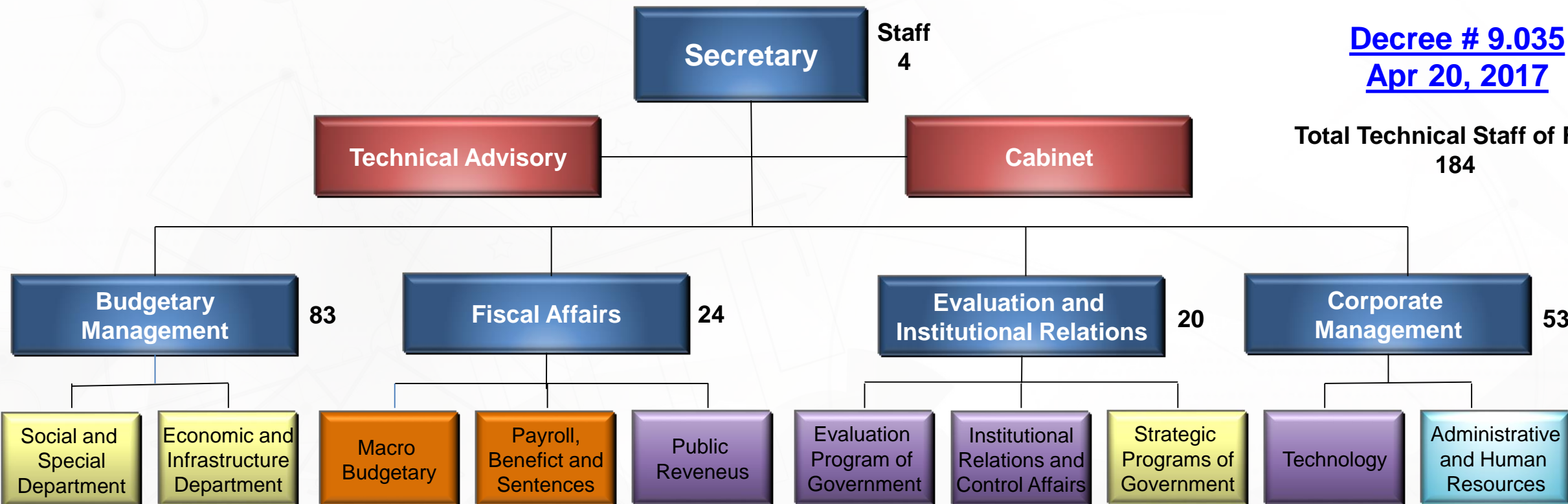
# INSTITUTIONAL ASPECTS: PLANNING AND BUDGET SYSTEM



# INSTITUTIONAL ASPECTS: FEDERAL BUDGET OFFICE (FBO)

Decree # 9.035  
Apr 20, 2017

Total Technical Staff of FBO  
184



■ Micro Analisis (non mandatory expenditures)

■ Cross-Section (procedure for all)

■ High Staff

■ Macro Analisis (mandatory expenditures)

■ Management Staff and Administrative

■ Advisory of Secretary

# LEGAL FRAMEWORK



## Permanent Rules

(\*) until 2036 with review in 2026



## Transitional Rules

### NFR New Fiscal Rule\* (CA # 95/2016)

- (1) Lists the government macro challenges, identifying the strategic view that will be pursued in the period of 4 years. It brings Programmatic elements.
- (2) Annual budget drafting and execution guidelines, PPA Goals and Priorities for the following year
- (3) Estimates revenue, establishes spending, authorizes additional credits, details organizations budgeting programming. Thematic Programmes, Management and Special Operations; Budget Actions

## FRL – Fiscal Responsibility Law

Multi-year (4) investment framework - PPA<sup>1</sup>



3-year macro framework & fiscal targets - LDO<sup>2</sup>



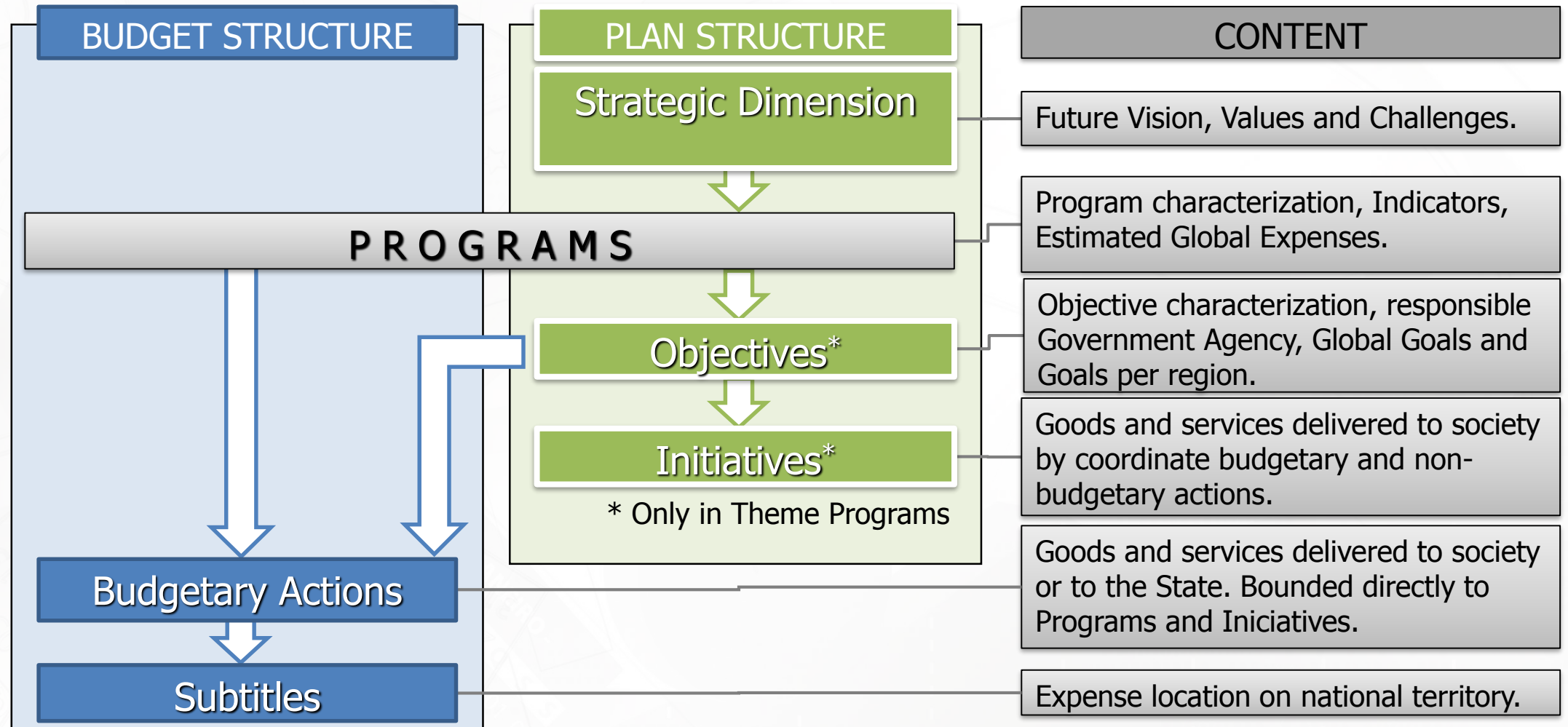
Annual Budget Law - LOA<sup>3</sup>



Expenditure Limits & Programing Decree  
(art 8-9 FRL)



# COMPATIBILITY INSTRUMENTS: PLAN (PPA) X BUDGET (LOA)



# LDO: MEDIUM TERM FISCAL FRAMEWORK (MTFF)

Parameters	2018 Evaluation 1 <sup>st</sup> Bim	2019 FBO	2020 FBO	2021 FBO
GDP real (%)	3,0	3,0	2,4	2,3
GDP Nominal (US\$ billions)	2.102,4	2.264,2	2.425,2	2.597,1
Inflation acum (%)	3,6	4,2	4,0	4,0
Rate Over - SELIC Avarege (%)	6,5	7,7	8,0	8,0
Average Exchange Rate (R\$ / US\$)	3,3	3,3	3,4	3,5
Average Oil Price (US\$/barril)	65,0	60,5	58,0	56,6
Minimum Wage Value (US\$ 1,00)	286,1	300,5	322,7	345,8

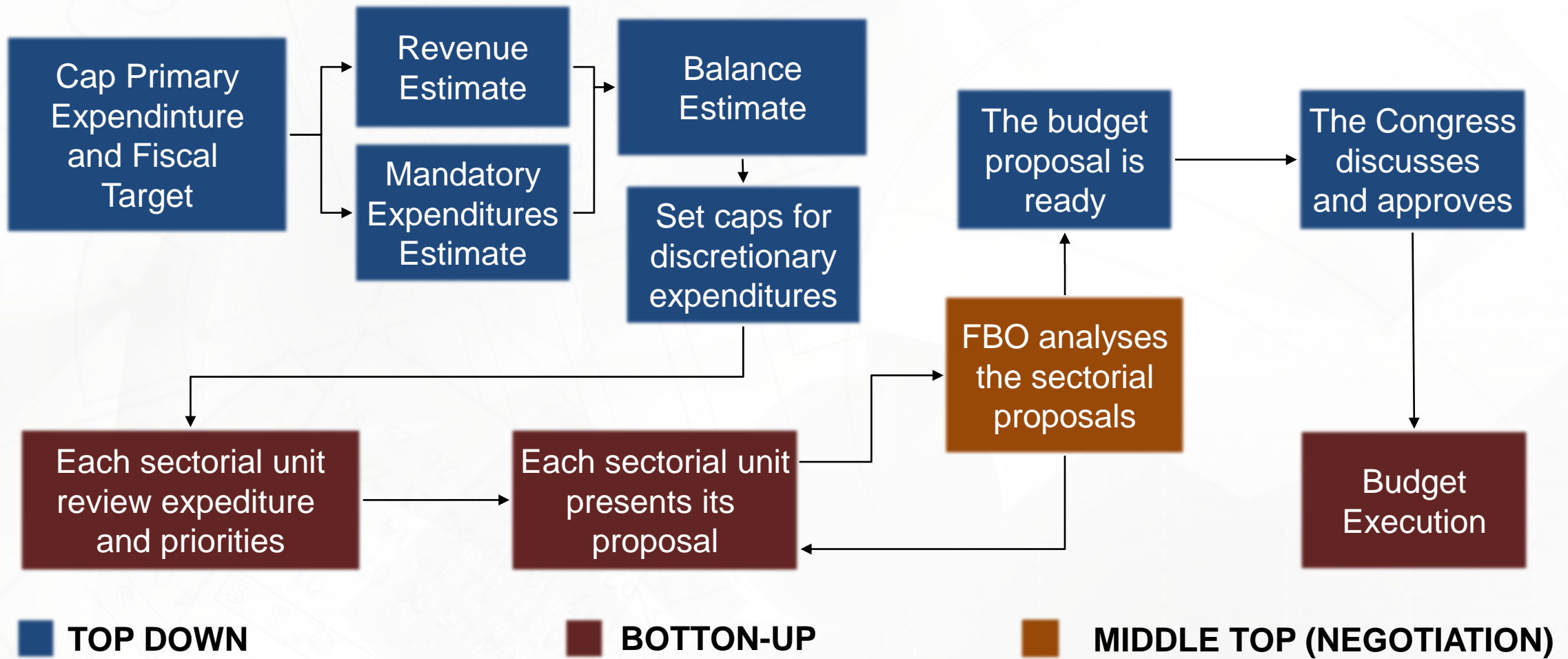
Source: SPE/MF

Elaboration: FBO/MP

# LDO: MEDIUM TERM FISCAL FRAMEWORK (MTFF)

Description	2017		Evaluation 1 <sup>st</sup> Bim-2018		2019 FBO		2020 FBO		2021 FBO	
	US\$ million	% GDP	US\$ million	% GDP	US\$ million	% GDP	US\$ million	% GDP	US\$ million	% GDP
<b>I. TOTAL FISCAL REVENUES</b>	<b>414.820,8</b>	<b>21,08</b>	<b>438.769,7</b>	<b>20,87</b>	<b>462.852,9</b>	<b>20,44</b>	<b>496.639,6</b>	<b>20,48</b>	<b>531.218,8</b>	<b>20,45</b>
I.1. Revenues Collected by SRF, except RGPS	250.606,4	12,74	268.144,2	12,75	286.002,6	12,63	308.828,3	12,73	332.711,0	12,81
I.2. Fiscal Incentives (tax benefits)	-413,6	-0,02	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
I.3. Revenues for the Social Security Fund	112.407,3	5,71	118.691,1	5,65	128.023,6	5,65	137.775,1	5,68	147.535,7	5,68
I.4. Other revenues collected by SRF	52.220,6	2,65	51.934,5	2,47	48.826,7	2,16	50.036,1	2,06	50.972,0	1,96
<b>II. TRANSFERS to States and Municipalities</b>	<b>68.525,3</b>	<b>3,48</b>	<b>73.805,2</b>	<b>3,51</b>	<b>79.871,3</b>	<b>3,53</b>	<b>85.237,8</b>	<b>3,51</b>	<b>91.121,7</b>	<b>3,51</b>
<b>III. NET REVENUE (I - II)</b>	<b>346.295,5</b>	<b>17,60</b>	<b>364.964,5</b>	<b>17,36</b>	<b>382.981,5</b>	<b>16,91</b>	<b>411.401,8</b>	<b>16,96</b>	<b>440.097,1</b>	<b>16,95</b>
<b>IV. EXPENDITURES</b>	<b>383.606,4</b>	<b>19,50</b>	<b>412.185,7</b>	<b>19,61</b>	<b>424.671,1</b>	<b>18,76</b>	<b>444.393,6</b>	<b>18,32</b>	<b>461.091,8</b>	<b>17,75</b>
IV.1. Expenditure on Social Security	167.128,7	8,49	177.667,3	8,45	190.582,0	8,42	208.485,1	8,60	227.503,3	8,76
IV.2. Personnel Expenditures	85.191,0	4,33	90.743,4	4,32	96.570,8	4,27	98.664,3	4,07	100.576,3	3,87
IV.3. Outras Desp. Obrigatórias	59.160,5	3,01	63.905,4	3,04	67.514,7	2,98	72.165,7	2,98	76.794,6	2,96
IV.4. Other Mandatory Expenditures	37.925,3	1,93	41.204,8	1,96	40.495,1	1,79	40.640,5	1,68	40.495,1	1,56
IV.5. Non-Mandatory (Discretionary) Expenditures	34.201,0	1,74	38.664,7	1,84	29.508,6	1,30	24.437,9	1,01	15.722,6	0,61
<b>V. PRIMARY RESULT (III - IV)</b>	<b>-124.400,9</b>	<b>-1,90</b>	<b>-47.221,2</b>	<b>-2,25</b>	<b>-41.689,6</b>	<b>-1,84</b>	<b>-32.991,8</b>	<b>-1,36</b>	<b>-20.994,8</b>	<b>-0,81</b>
VI.1. Result of Treasury	17.410,4	0,88	11.755,0	0,56	20.868,7	0,92	37.718,2	1,56	58.972,8	2,27
VI.2. Result of Social Security	-54.721,3	-2,78	-58.976,3	-2,81	-62.558,3	-2,76	-70.709,9	-2,92	-79.967,6	-3,08
<b>VI. STATISTICAL ADJUSTMENT</b>	<b>1.787,2</b>	<b>0,09</b>	<b>0,0</b>	<b>0,00</b>	<b>0,0</b>	<b>0,00</b>	<b>0,0</b>	<b>0,00</b>	<b>0,0</b>	<b>0,00</b>
<b>VII. FEDERAL PRIMARY RESULT (V+VI)</b>	<b>-35.523,8</b>	<b>-1,81</b>	<b>-47.221,2</b>	<b>-2,25</b>	<b>-41.689,6</b>	<b>-1,84</b>	<b>-32.991,8</b>	<b>-1,36</b>	<b>-20.994,8</b>	<b>-0,81</b>
<b>IX. PRIMARY SURPLUS TARGET</b>	<b>-47.688,1</b>	<b>-2,42</b>	<b>-47.688,1</b>	<b>-2,27</b>	<b>-41.689,6</b>	<b>-1,84</b>	<b>-32.991,8</b>	<b>-1,36</b>	<b>-20.994,8</b>	<b>-0,81</b>

# PLOA → LOA: BUDGET PROCESS





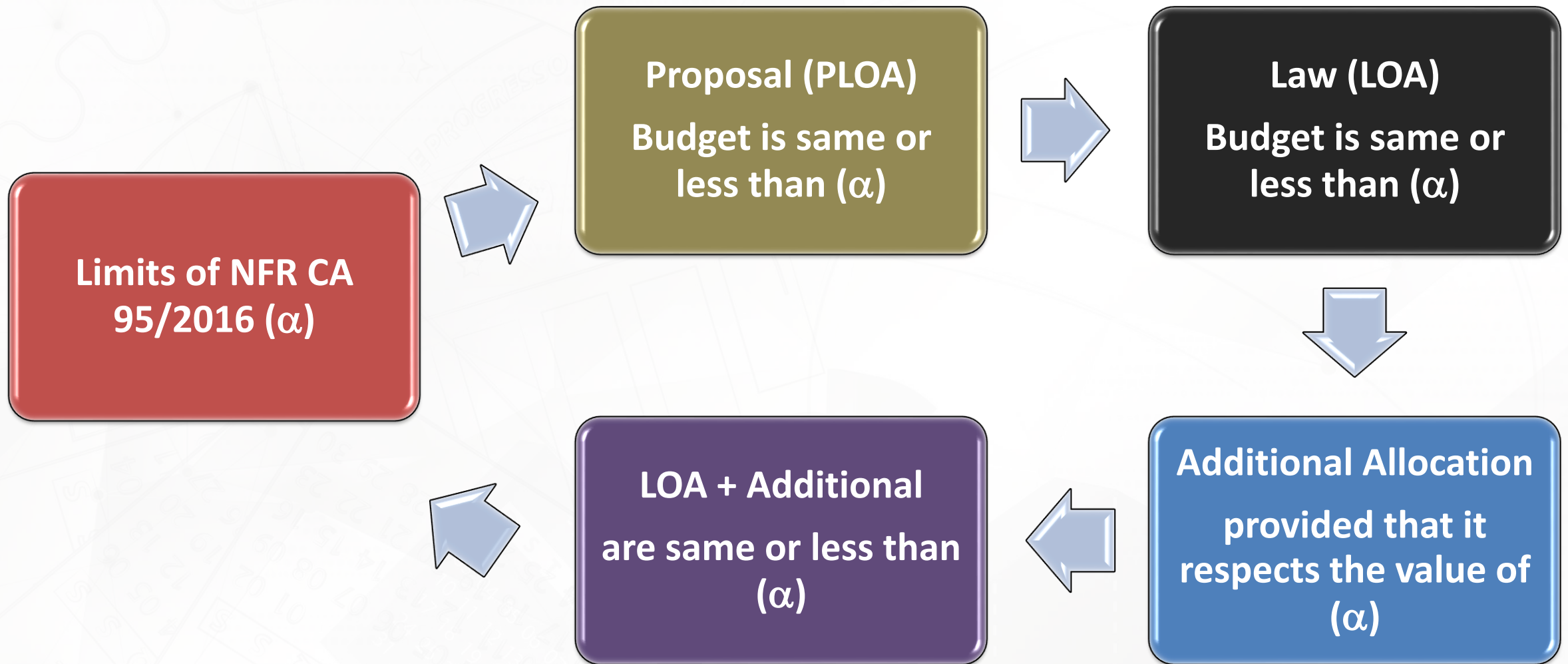
# THE NEW FISCAL RULE (CA # 95/2016)

- Expansion of primary spending over the **next 10 years can't be higher than inflation for all Branches**
- In the tenth year the President can propose to Congress a change in the rate of correction on the limit, **to be valid for another 10 years, being renegotiated once time** every each presidential term
- The minimum health and education threshold is now being corrected for inflation (protection of these sectors)
- **Budget Realism:** budget law spending can't exceed the spending limit
- **There isn't punishment or paralysis of the programs:** noncompliance triggers automatic measures of expenditure control in the following year
- **There is a exemption for:** intergovernmental transfers, education support for state and municipalities (Fundeb), electoral process and unexpected or contingent expenses.

# THE NEW FISCAL RULE (CA # 95/2016)

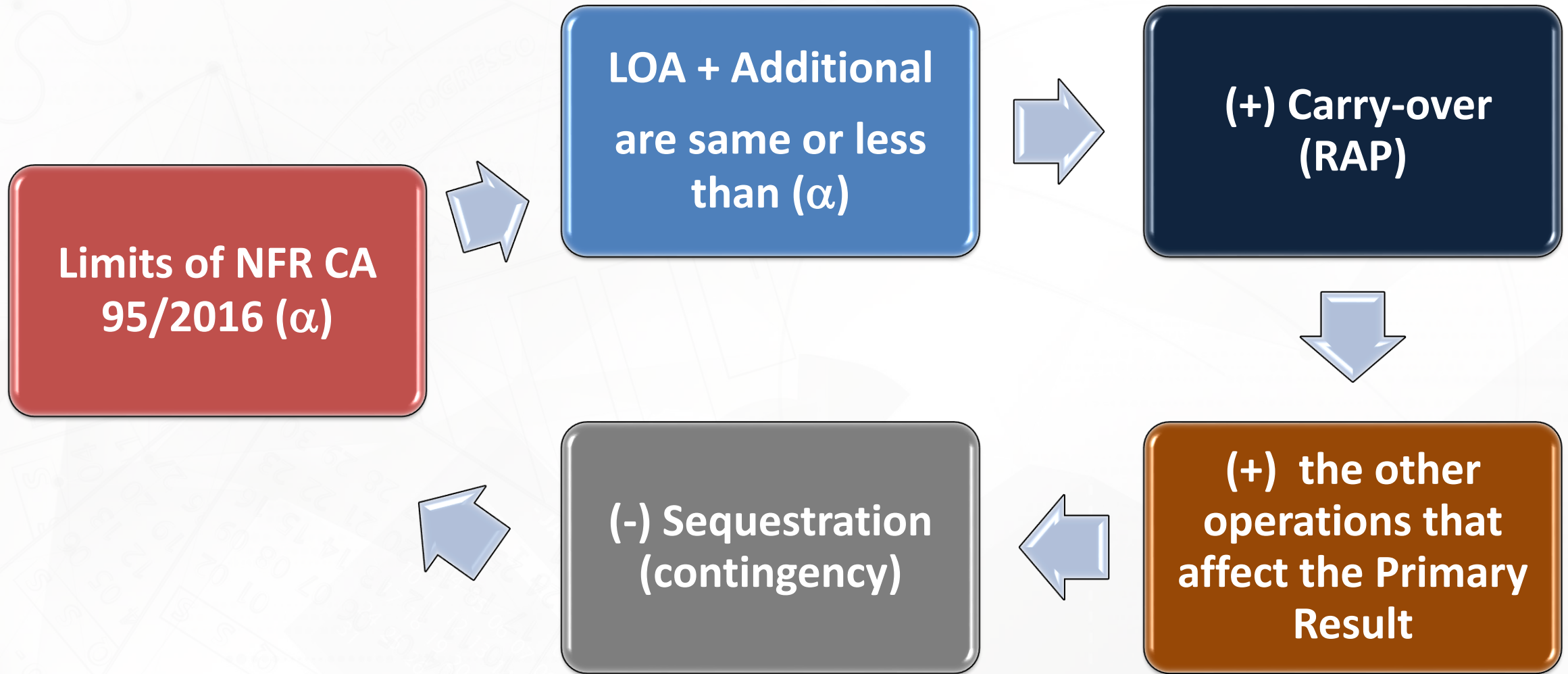
- Compatibility of the **main limits of constitutional expenses** with the rule growth of expenses:
  - **Education:** minimum limit threshold as of 2018 → the established in 2017, by the rule of art. 212 of Constitution (18% of Taxes), corrected the variation by inflation from July<sub>t-1</sub> to June<sub>t-0</sub>
  - **Health:** minimum limit in 2017 will be 15% of the RCL, and from 2018, the minimum value of 2017 will be adjusted by inflation from July<sub>t-1</sub> to June<sub>t-0</sub>
- **Mandatory Amendments:** minimum threshold established in 2017, that was 1.2% of the RCL of 2016, corrected by the variation inflation from July<sub>t-1</sub> to June<sub>t-0</sub>
- As of PLOA 2019, all constitutional **limits will already be known in advance** when the PLOA was drafted in August 2018
- Non-compliance, verified at execution, **doesn't affect the state action in progress, but triggers automatic fences from the following year**, until the return to the rule.

# BUDGET LIMITS OF CA # 95/2016



Obs: The other operations that affect the Primary Result, impact on the definition of PLOA / LOA / Additional Credits

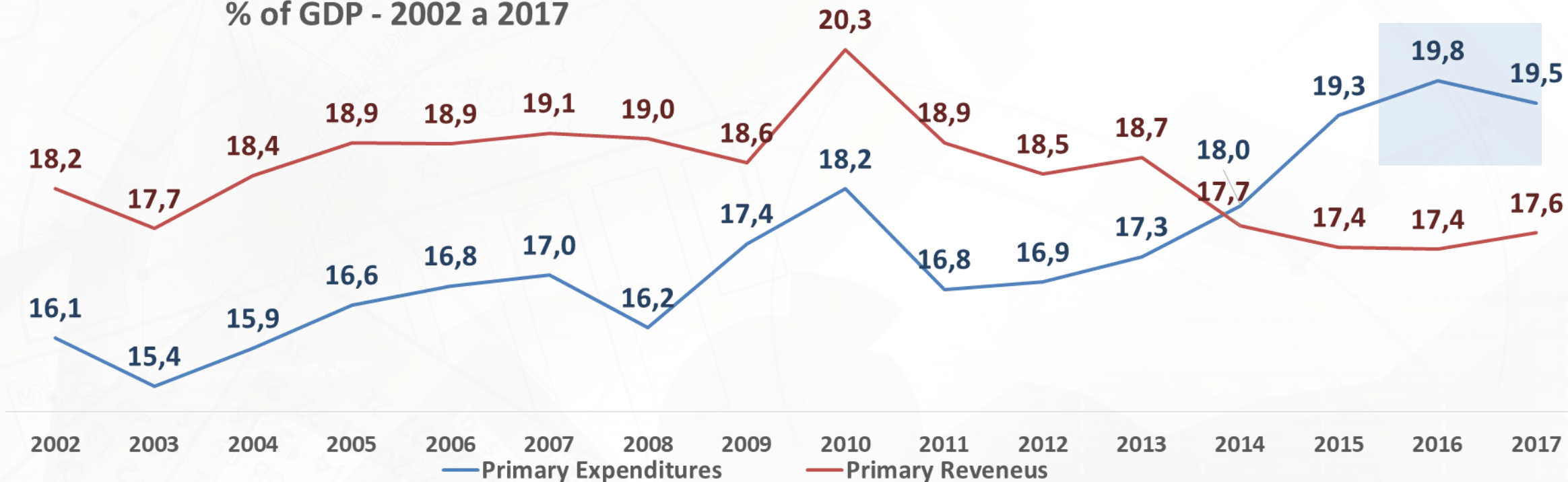
# CASH LIMITS OF NFR CA # 95/2016





# THE FIRST RESULT: NEW FISCAL RULE IN PRIMARY RESULT (CA # 95/2016)

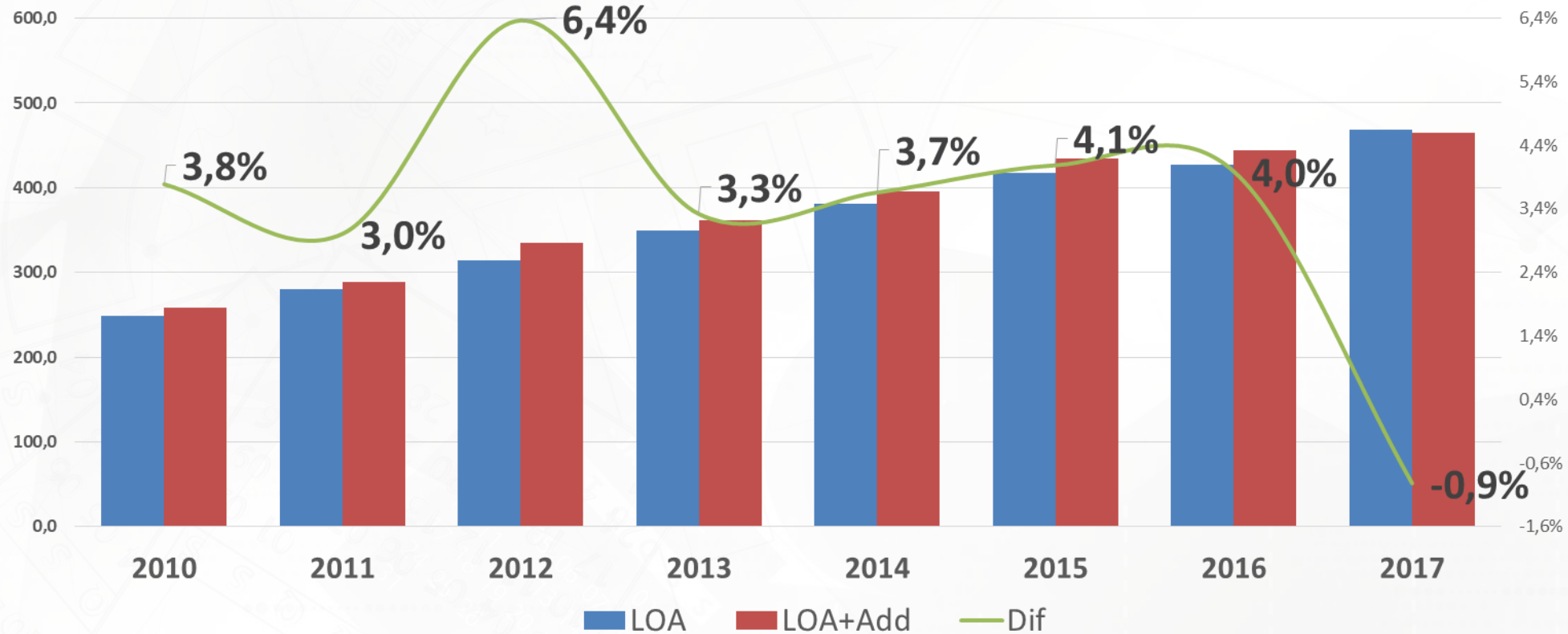
Evolution of Primary Revenues and Expenditures  
(except transfers)  
% of GDP - 2002 a 2017



Obs: The NFR #95/2016 didn't exclude compliance with the fiscal targets established in LDO, they are complementary instruments.

# THE FIRST RESULT: NEW FISCAL RULE IN FEDERAL BUDGET (CA # 95/2016)

Primary Expenditure  
(US\$ billion current)



# THE FIRST RESULT: NEW FISCAL RULE IN EVIDENCE (CA # 95/2016)

- Evidences of cultural change in dealing with federal budget expenditures:
  - ✓ Allocation of high-level priorities, in particular the recognition that staff costs also impact the cost of the agency, it is a primary expenditure. Ex. Judicial Branch
  - ✓ Forecasts with more accuracy in mandatory expenditures, because the problems to making adjustments during budget execution will be greater. Ex. FAT x FGE
  - ✓ Resources for new things to investments arising from mandatory amendments are being revalued by agencies, and putting technical impediment, given that some impact on increasing the costs of funding for then in the future
  - ✓ However, for Congress, the reality of the NFR has not been imposed yet, once benefits continue to be extended without considering the trade-off effect in other policies in progress. Ex. FunRural



# Thank you!

**GEORGE SOARES**

Secretary of Federal Budget

Ministry of Planning, Development and Management