

### Highlights

- **With spending cuts of R\$ 38.9 billion, fiscal policy would be contractionary in 2017**
- **Minimum retirement age of 65 would reduce social security spending in 1.4% of GDP by 2041**
- **Proposed Complementary Law no. 343/2017 contributes for federative rebalancing**
- **Even with alternative accounting, social security deficit is high and increasing**

### Summary

- The denominated **structural primary result** allows for better calculation of fiscal impulse because it takes into account the effects of the economic cycle. IFI figures for fiscal impulse show an important effect of the new fiscal policy on 2017 results, as long as relevant spending cuts are set in motion.
- The **social security reform** (Constitutional Amendment Proposal no. 287) will produce important fiscal effects in the short, medium and long term. Expenditure will grow less, providing more room for continued social security financing and other public policies. The essential rule to be preserved, even if Parliament modifies certain points of the proposed reform, is the fixation of a minimum retirement age of 65.
- Until 2060, the **portion of the elderly in the working population will be multiplied by 3.8**, increasing pressures on social security financing. Under current rules, as early as 2030 public budget would have to allocate 70% of resources just to social security. Sustainability will only be guaranteed with major changes in the rules for granting benefits.
- **Federative fiscal crisis** needs deep examination. The origin of state government's indebtedness problem lies in the mismatches between revenues and expenses, especially the strong growth of personnel expenses, partially hidden due to accounting problems.
- The proposed renegotiation via **proposed Complementary Law no. 343/2017** will provide important relief for the states, but it is essential that the counterparts are observed, especially the control of current expenditure growth by the inflation rule (Constitutional Amendment no. 95/2016). Our simulations point out that the application of this rule will help to improve primary balances in a relevant and gradual way.