Instituição Fiscal Independente

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Highlights

- **Tax revenues recovery tends to be gradual.**
- **Spending cuts of R$ 42.1 billion (US$ 13.4 billion[2]) should ensure the fulfilment of 2017's fiscal target.**
- **IPRO: new IFI indicator evaluates budget prudence.**
- **The use of Central Bank results has relevant fiscal impact and calls for better regulation.**

Summary

- Despite the recent inflation and interest rates reduction make room for the return of economic growth, **the recovery should occur gradually**, especially due to: i) the need of reducing the leverage of companies and families; ii) the difficulty of the Government in promoting economic stimulus, in light of the fiscal consolidation process; iii) the permanence of high unemployment; and iv) the low utilization of installed capacity.

- Our studies indicate that **domestic absorption (consumption and investment) is the great engine of tax revenues**, more than real GDP. Thus, the composition of economic growth matters in the management of public accounts. Given the expected gradual recovery of labour market indicators, the resumption of tax revenues will also be extended.

- The spending cuts of R$ 42.1 billion (or US$ 13.4 billion) announced by the Federal Government is a positive step. **The sum came in line with the IFI estimates brought up in the Fiscal Follow-up Report (RAF) of February (R$ 38.9 billion, or US$ 12.4 billion)** and should ensure the fulfilment of 2017's fiscal target (R$ 139 billion, or US$ 44,3 billion). New official revenue estimates are much closer to IFI estimates, which is due to the significant GDP growth review contained in the Annual Budget Law (LOA).

- The IPRO – Budget Prudence Indicator proposed by IFI – points out that, from 2001 to 2010, there was **a conservative behavior during Budget preparation in 70% of cases**. From 2011 to 2016, the use of alternative instruments in the management of fiscal and budgetary policy set the IPRO in negative field. In 2017, the last spending cuts decree brought back the indicator to positive figures.

- The relationship between the National Treasury and the Central Bank takes place in various ways, with emphasis on the distribution of the result of the second to the first. In Brazil, this result has become quite unpredictable due to **exchange rate effects on the value in BRL of international reserves** deposited with the Central Bank. The use of these resources by the Treasury can have major effects on fiscal policy.

All reports are avaiable at https://www12.senado.leg.br/ifi/public.
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[2] At an exchange rate of R$ 3.14 per US$ 1.00.