Instituição Fiscal Independente

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Destaques

- **Latest data show income recovery, but employment is still expected to fall in 2017.**
- **Spending cuts announced for 2017 are feasible.**
- **Social security reform is a necessary condition for the survival of primary expenditure ceiling.**
- **Our calculation of the expenditure reduction margin suggests a long way to fiscal adjustment.**

Sumário

- Real income indicators point to some improvement **guided by the fall in inflation**. This is, despite the nominal income of workers is not in a clear recovery path, the persistent fall of inflation produces a real income gain. The dynamics of the job market is still bad, and it is expected some **1% drop in employment level** by 2017.

- Recently, federal government announced spending cuts of around R$ 42 billion (US$ 13.5 billion[1]). Past experience shows that **this level of restraint is feasible**, although it should jeopardize investment and social spending, given the budget rigidity imposed by mandatory spending.

- The approval of the **social security reform (PEC No. 287/2016) became the central element of fiscal adjustment** in the medium and long term. Without modifications that significantly shift primary spending trajectory, the fulfillment of constitutional amendment 95 (expenditure ceiling) would be compromised.

- **The approval of main points of social security reform would help the fulfillment of the expenditure ceiling in 80% of the first ten years of the rule**. However, these results rely on the degree of modification in relation to the original proposal submitted to Congress.

- The fiscal margin – expenditure reduction space – is around R$ 114 billion (US$ 36.7 billion) in 2017. Of these, federal government intends to cut R$ 42.1 billion (US$ 13.5 billion). Fiscal margin includes public investments, social spending, among other current expenses. We show that an alternative scenario "without social security reform" **would prevent federal government from fulfilling the expenditure ceiling**, even using all the fiscal margin.

[1] At an exchange rate of R$ 3.11 per US$ 1.00.

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