



Fiscal Follow-up Report

June 2019

Full report [here](#)

Felipe Salto

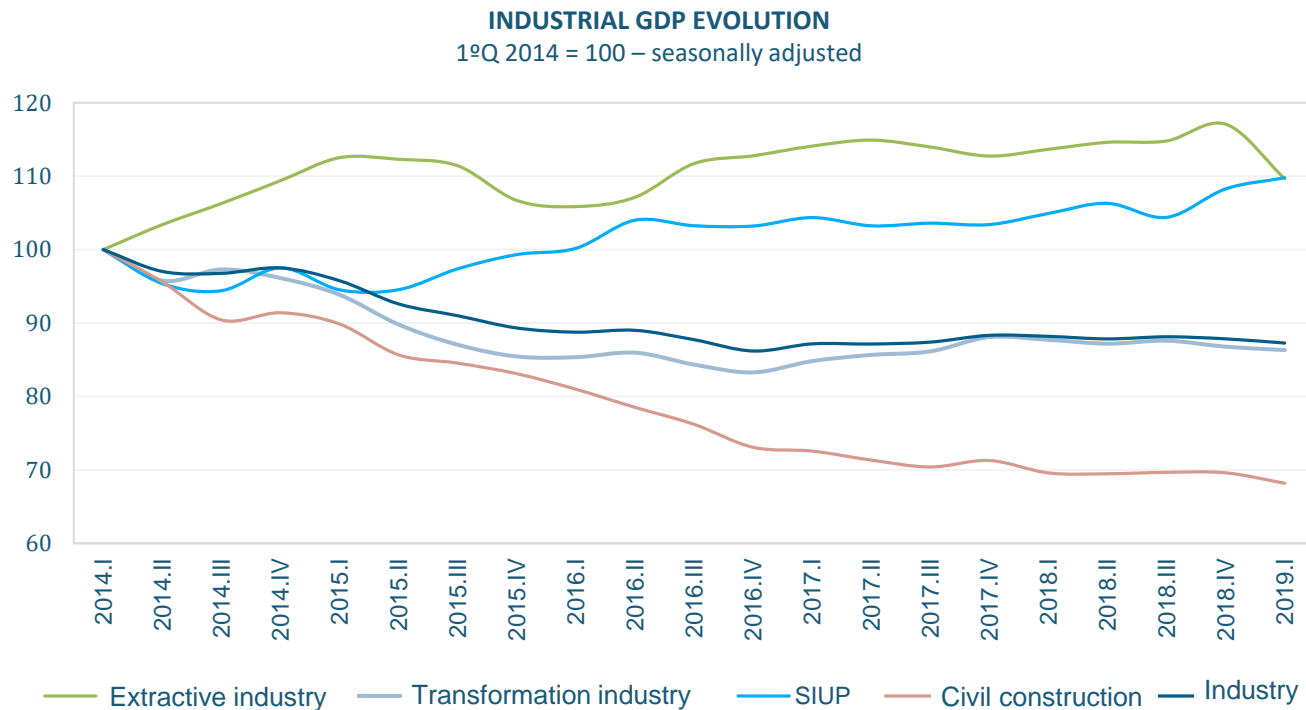
Executive Director

June 10th, 2019

- Investment rate retreated to 15.5%, a level lower than the historical average registered between 1997 and 2013 (18.6%), influenced by the existence of high idle capacity in the industrial and the uncertainty about the prospects of recovery the fiscal balance.
- Lower contribution from domestic demand in GDP growth is compatible with the persistence of high unemployment.
- The Brazilian economy is below the your potential, with plausibility between 6.0% and 3.6% negatives. In the absence of fiscal space to reactivate the aggregate demand, the debate on the possibility of the Central Bank reduce interest intensifies.
- The Central Government revenues grew slightly, in real terms, thanks to social security of RGPS and not administered revenue. Administered and net revenues suffered a reduction in first four months of the year.
- Total expenditure of Central Government suffered reduction, revealing strong contraction in discretionary spending, especially investments. Some compulsory expenditure are slowing as a result of the efforts promoted by the Executive branch.
- The trajectory of the primary and nominal result of consolidated public sector remains very negative, reflecting the difficulties of the Executive branch of Union to cut compulsory expenditure and the fact that the deceleration of the economic activity harming the generation of revenue administered, essential to improve the fiscal framework in the short term.
- The Complementary Law Project 149/2019 aims to give transparency, coordination and accountability in the management of public accounts by subnational entities.
- The contingency reaches 23% of discretionary spending and it reaches all ministries.

Macroeconomic Context

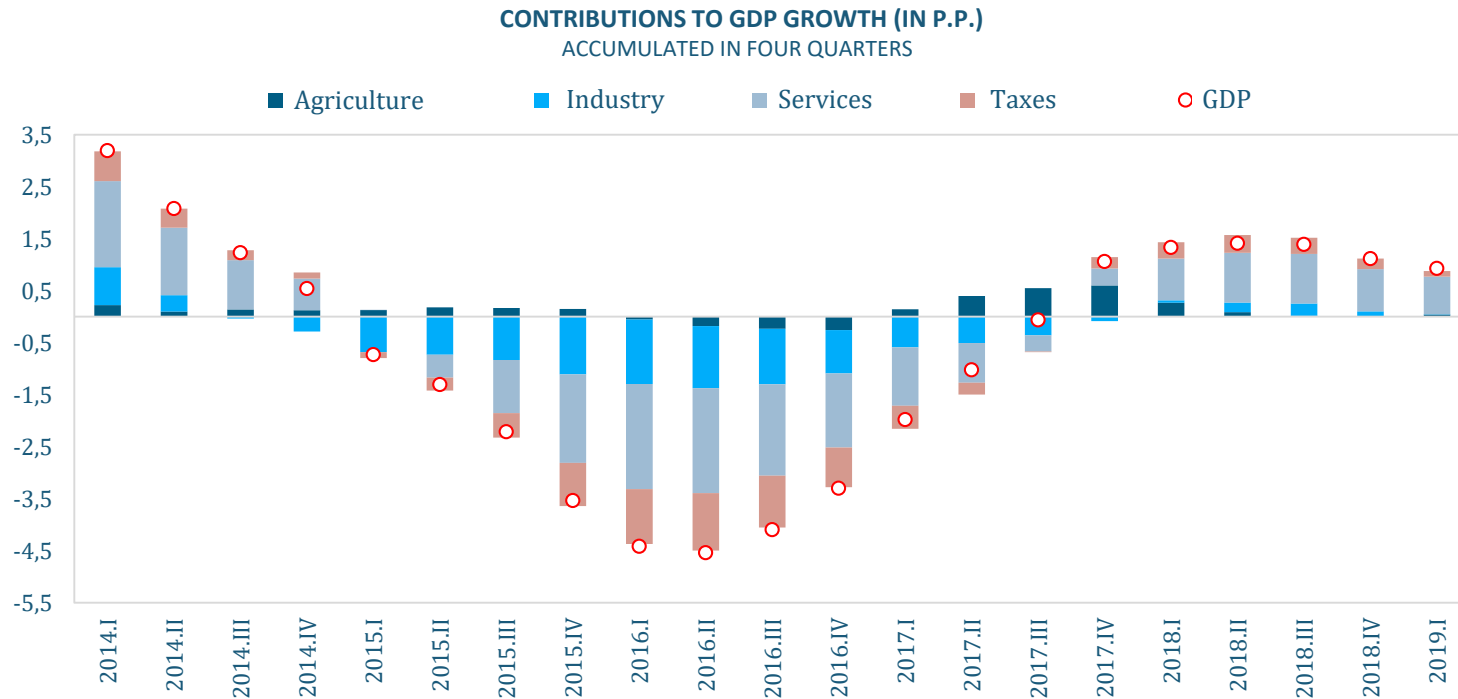
- GDP presented result of -0.2%, due to fall of the product of industry (-0.7%) and Agriculture (-0.5%).
- In the industry, the negative influences in the first quarter left the sub-sectors of the extractive industry (-6.3%), manufacturing (-0.5%) and construction (-2.0%).



Source: IBGE. Elaboration: IFI.

Macroeconomic Context

- GDP expanded 0.9% in the first period of 2019 reflecting the contribution of the service sector performance (0.7 p.p.), while agriculture and industry have contributed relatively little.
- Manufacturing industry (0.0 p.p.) and quarrying (+0.1 p.p.), public utility industrial services (+0.5 p.p.) and construction (-0.4 p.p.) hold the industrial GDP recovery.



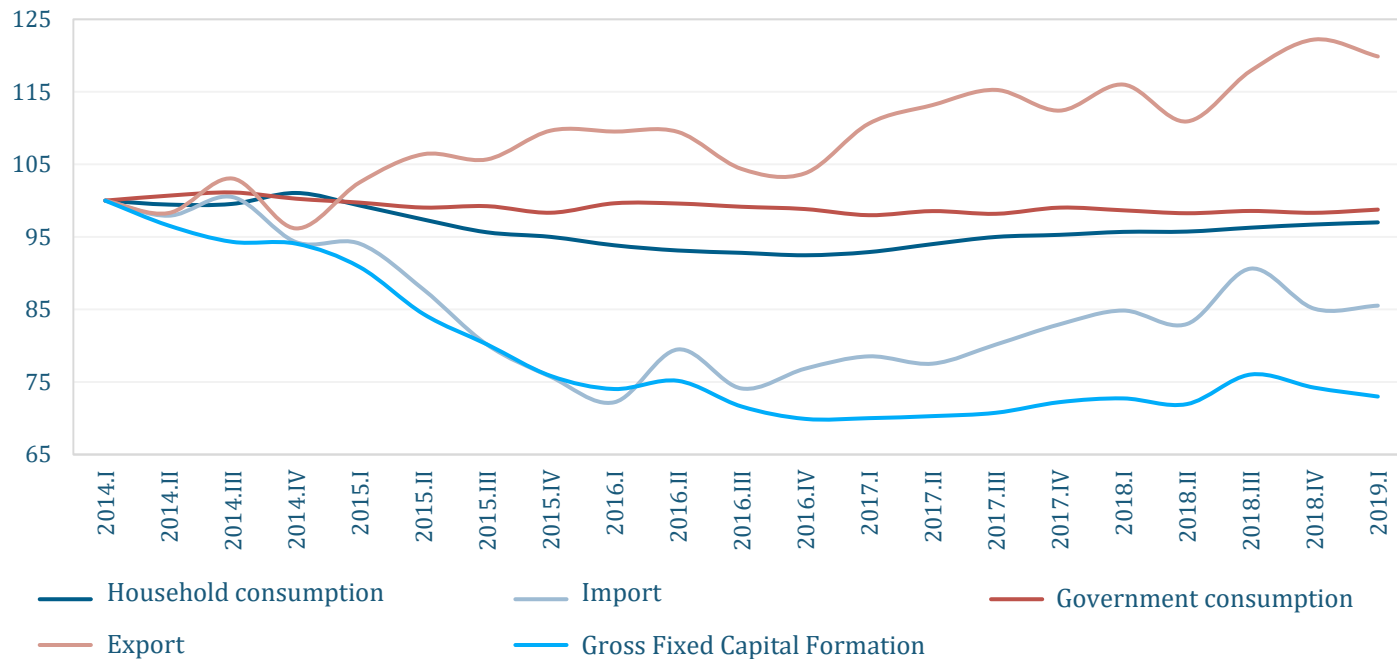
Source: IBGE. Elaboration: IFI.

Macroeconomic Context

- From the perspective of expenditure, household consumption (0.3%) and Government (0.4%) grew little, while exports (-1.9%) and gross fixed capital formation (-1.7%) record substantial losses.

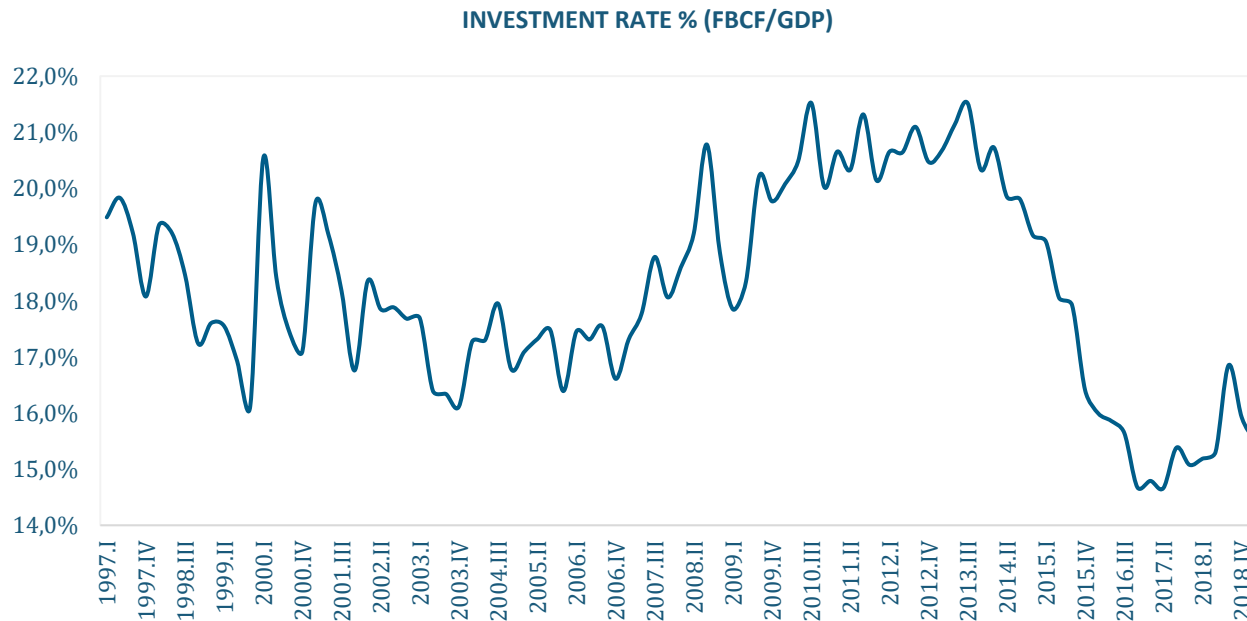
COMPONENTS OF GDP BY EXPENDITURE OPTICS

1^oQ 2014 = 100 - seasonally adjusted



Source: IBGE. Elaboration: IFI.

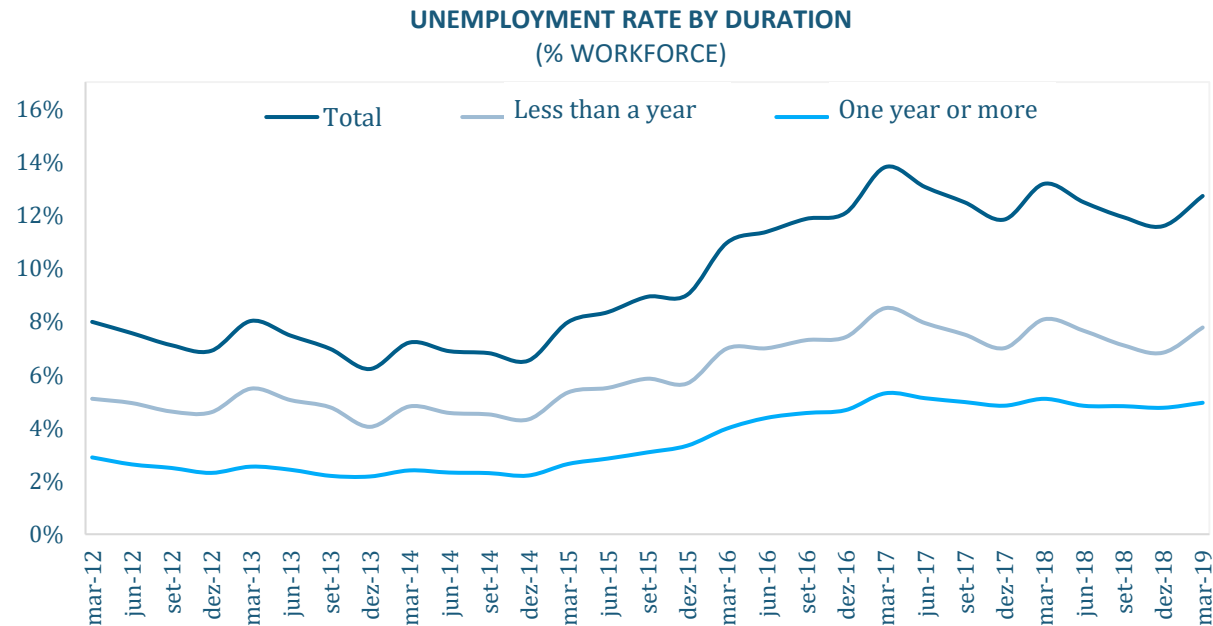
- Investment rate retreated to 15.5%, a level lower than the historical average registered between 1997 and 2013 (18.6%), influenced by the existence of high idle capacity in the industrial and the uncertainty about the prospects of recovery the fiscal balance.
- For the economy to sustain growth of GDP of 3% per annum over time is necessary for the investment level walk to 21% of GDP.



Source: IBGE. Elaboration: IFI.

Macroeconomic Context

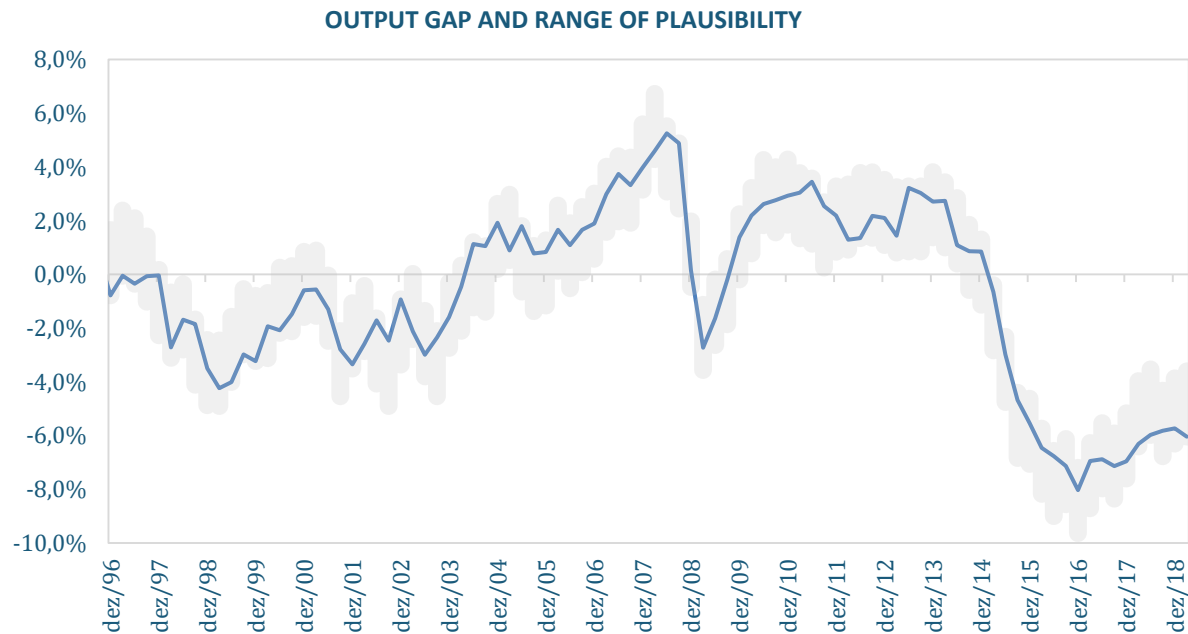
- Unemployment rate was estimated at 12.7% of the workforce, retreating in pace quite moderate, in comparison with the first quarter of the last year, since the end of 2017.
- The slow recovery of economic growth and hiring in the formal market maintains high the time spent in unemployment (over a year).



Source: Microdata of PNADC - IBGE. Elaboration: IFI.

Macroeconomic Context

- The economy operates with a high degree of idleness of the factors of production. The industry operated with 75.3% of your capacity in may, which is lower than the historical average of the last 15 years (80.1%).
- The output gap is probably set between -6.0 p.p. and -3.6 p.p. in the first quarter, below your potential – but it suggests a good scope for growth in the coming years from the use of the existing idle of the factors.



Source: IFI.

- Total revenue grows by 0.7% in the first quarter of 2019, adding BRL 534.2 billion. Revenues collected by the Federal Revenue Office had contraction of 1.0% in real terms, while revenues not collected by the Federal Revenue Office grew 6.6%.
- Disaggregated analysis of revenue reveals the influence of economic activity on the federal collection, as well as the effects of non-recurring events and extraordinary revenues.

CENTRAL GOVERNMENT REVENUE – 2016 TO 2019 – ACCUMULATED FROM JANUARY TO APRIL (BRL BILLION CURRENT, VAR. % REAL AND % OF GDP)

	Jan-Apr/2016			Jan-Apr/2017			Jan-Apr/2018			Jan-Apr/2019		
	BRL bi	Var.% real	% GDP	BRL bi	Var.% real	% GDP	BRL bi	Var.% real	% GDP	BRL bi	Var.% real	% GDP
Total revenue	448.4	-5.5%	22.3%	460.2	-2.0%	21.8%	508.8	7.6%	23.1%	534.2	0.7%	22.8%
<i>Revenues Collected by the Federal Revenue Office</i>	281.9	-7.4%	14.0%	293.6	-0.5%	13.9%	330.2	9.4%	15.0%	340.7	-1.0%	14.5%
<i>Fiscal incentives</i>	0.0	-	0.0%	0.0	-	0.0%	0.0	-	0.0%	0.0	-	0.0%
<i>Social security revenues</i>	114.1	-6.0%	5.7%	115.4	-3.3%	5.5%	120.8	1.8%	5.5%	129.2	2.5%	5.5%
<i>Revenues Not Collected by the Federal Revenue Office</i>	52.5	7.9%	2.6%	51.2	-7.0%	2.4%	57.7	9.7%	2.6%	64.2	6.6%	2.7%
Transfers	68.4	-13.1%	3.4%	76.9	7.3%	3.6%	84.0	6.3%	3.8%	92.9	6.1%	4.0%
Net revenue	380.0	-4.0%	18.9%	383.3	-3.7%	18.2%	424.8	7.8%	19.3%	441.3	-0.4%	18.8%
GDP (BRL bi current)	2,009.0			2,106.9			2,204.0			2,344.4		

Source: National Treasury e Central Bank of Brazil. Elaboration IFI.

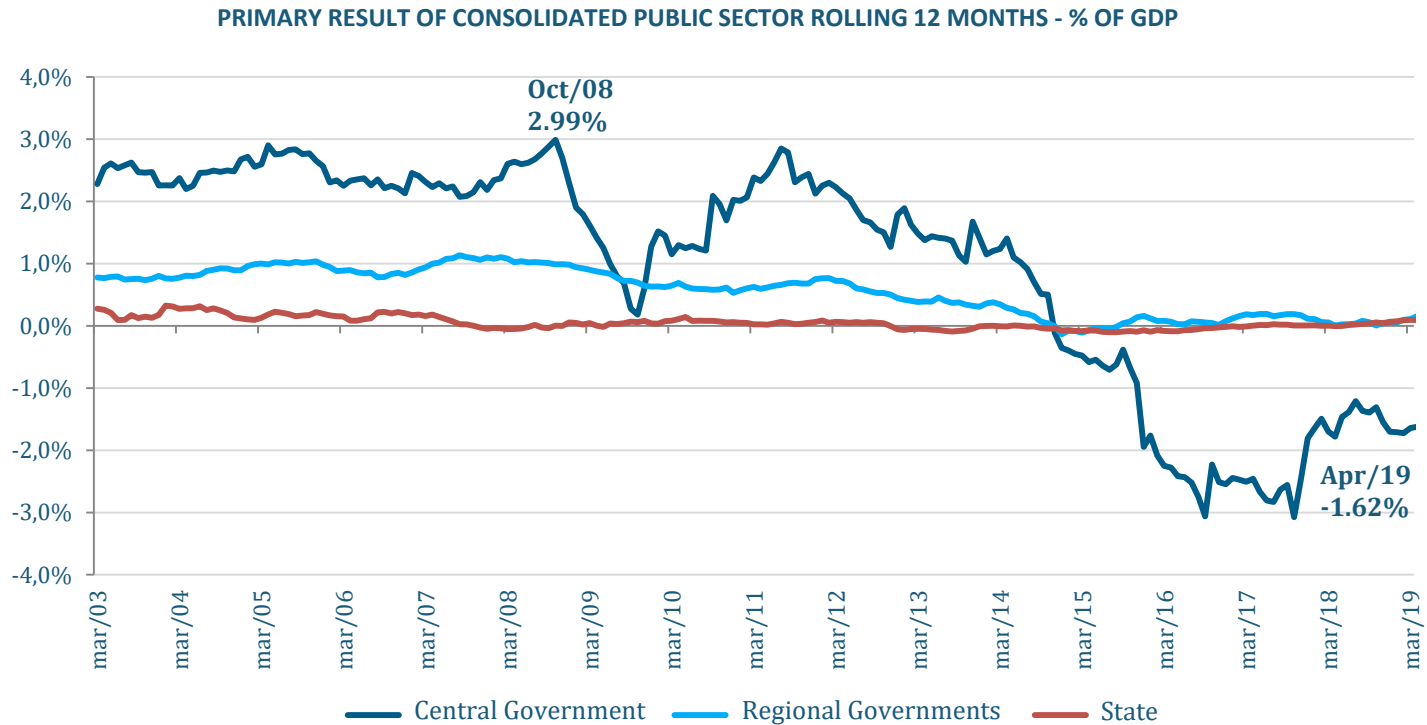
- Total expenditure of Central Government totaled BRL 444.1 billion, a retraction of 0.8% in real terms. While compulsory expenditure grew by 0.6% and discretionary fell 18.7%, the low quality of adjustment promoted about spent, especially since sanctions public investment.
- Payroll grow less in 2019 and tends not to present high growth, which produces important effects on the dynamics of the primary result.
- The rigidity of the expense is relative. Even the mandatory spending can be contained with the adoption of certain practices, such as interrupting readjustments and hiring in the civil functionalism.

CENTRAL GOVERNMENT EXPENDITURE – 2016 TO 2019 – ACCUMULATED FROM JANUARY TO APRIL (BRL BILLION CURRENT, VAR. % REAL AND % OF GDP)

	Jan-Apr/2016			Jan-Apr/2017			Jan-Apr/2018			Jan-Apr/2019		
	BRL bi	Var.% real	% GDP	BRL bi	Var.% real	% GDP	BRL bi	Var.% real	% GDP	BRL bi	Var.% real	% GDP
TOTAL EXPENDITURE	389.7	2.3%	19.4%	390.6	-4.3%	18.5%	429.0	6.9%	19.5%	444.1	-0.8%	18.9%
<i>Social security benefit</i>	151.6	4.8%	7.5%	167.4	5.5%	7.9%	182.3	5.9%	8.3%	194.3	2.2%	8.3%
<i>Payroll (active and inactive)</i>	79.1	-2.4%	3.9%	88.9	7.3%	4.2%	96.6	5.7%	4.4%	101.2	0.5%	4.3%
<i>Salary Allowance and Unemployment Benefit</i>	22.3	38.8%	1.1%	21.3	-9.0%	1.0%	20.1	-8.1%	0.9%	21.1	0.9%	0.9%
<i>The Benefit of Continuing Provision</i>	16.0	3.8%	0.8%	17.6	4.8%	0.8%	18.6	2.8%	0.8%	19.8	2.2%	0.8%
Compulsory	348.6	2.5%	17.4%	364.3	-0.2%	17.3%	398.1	6.3%	18.1%	417.9	0.6%	17.8%
Discretionary	41.1	0.6%	2.0%	26.3	-39.0%	1.2%	30.9	14.3%	1.4%	26.2	-18.7%	1.1%
GDP (BRL bi current)	2,009.0			2,106.9			2,204.0			2,344.4		

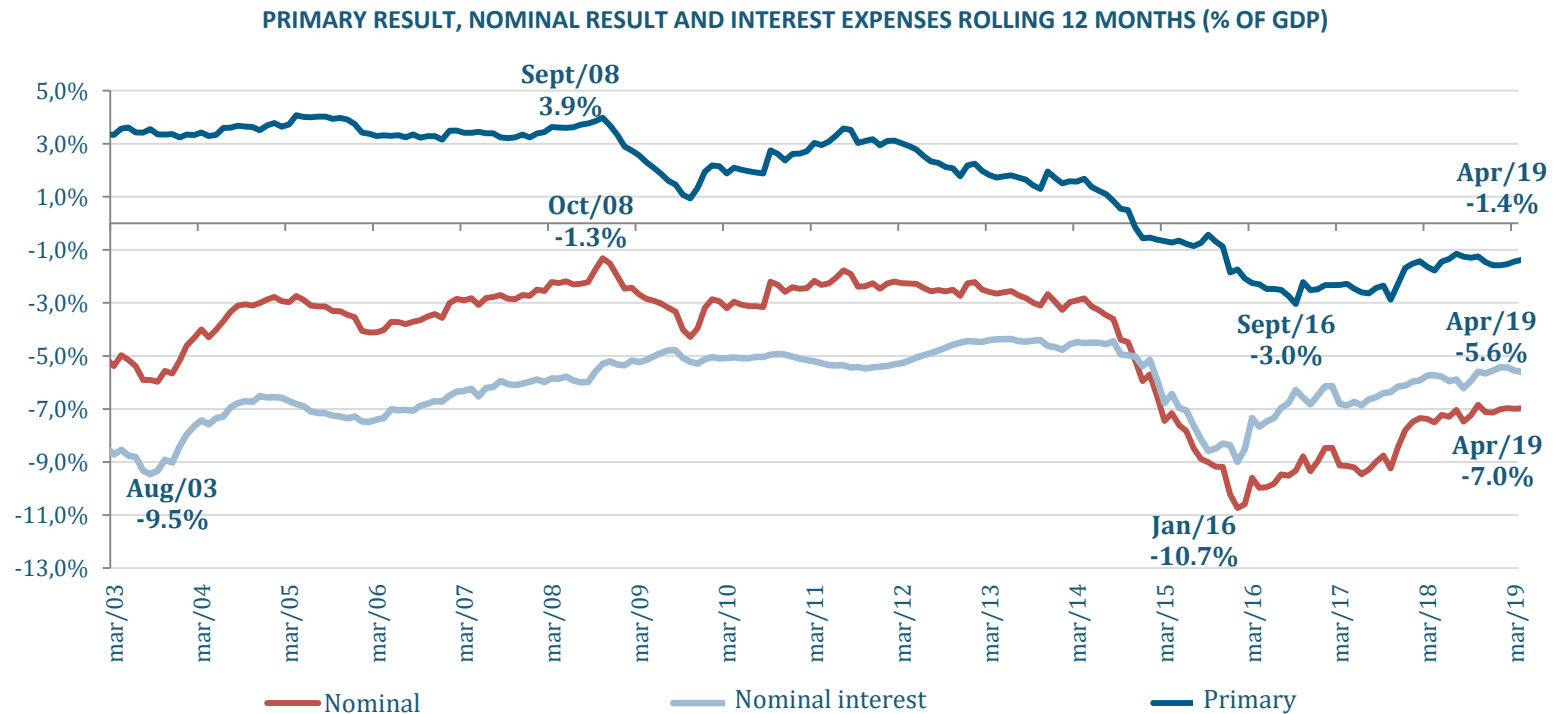
Source: National Treasury e Central Bank of Brazil. Elaboration IFI.

- The primary result of the consolidated public sector recorded a surplus of BRL 6.63 billion (1.1% of GDP) in April. However in the rolling 12-month, there is a high primary deficit and difficult to eliminate.
- Reversal of the deficits would be achieved with measures that correct the dynamics of spending, the upturn of the economy and, consequently, the recovery of the Executive Branch's capacity to generate revenues.



Source: Central Bank of Brazil. Elaboration: IFI.

- In April, the nominal deficit amounted BRL 485.1 billion (-6.98% of GDP), considering the interest payment corresponding to BRL 389.49 billion (-5.6% of GDP).
- The improvement in the nominal public sector result (of almost 4 p.p.) from 2016 occurred according to the cycle of monetary easing by the Central Bank.



Source: Central Bank of Brazil. Elaboration: IFI.

- The Complementary Law Project n ° 149, of 2019 was forwarded to the National Congress, establishes the Fiscal Equilibrium Promotion Plan (PEF in Portuguese), with the objective of promoting the fiscal equilibrium and the improvement of the respective payment capacities of state and municipal entities.
- The Complementary Law Project establishes that the receipt of resources by subnational entities within the PEF will require adherence to the Fiscal Monitoring and Transparency Program of Monitoring and Fiscal Transparency, which has the purpose of strengthening fiscal transparency and coordinating fiscal policies.
- The law of Fiscal responsibility (LRF in portuguese) is changed by § 3 of art. 10 of the PLP, including the need for verification of payroll in your entirety, that is, including the payment to inactive servers and pensioners, and considering the gross salaries of the servers.
- In addition, is the seal to the holder of the relevant Branch or agency contracting expenditure that cannot be fully accomplished enter the respective financial year, or which have installments to be paid in subsequent years without the resource provision sufficient in cash on the date of the each financial year.

- The contingency of expenses in 2019 is in BRL 32.0 billion, or 23% of discretionary spending
- The Executive responds by 99.3% of the contingency base (BRL 31.7 billion).

CONTINGENCY DISTRIBUTION BY BRANCH OR AGENCY (BRL BILLION)

Branch / Agency	Contingency base	Participation (%)	Contingency
Executive	128,342	99.3	31,749
Legislative, Judiciary, MPU and DPU	866	0.7	214
Total	129,209	100.0	31,964

Source: Ministry of Economic (Evaluation reports of primary revenue and expenditure).

- The contingency of the Executive didn't uniformly reach all the agency.
- The Ministry of Mines and Energy the limitation comes to 81.4% of total discretionary spending in 2019.
- The Ministries of Defense and Tourism also had significant contingencies of 44.1% and 42.9%, respectively, of their total discretionary spending.
- Health, in relative terms, was the area least affected by the contingency – BRL 600 million, equivalent to 3% of your discretionary spending. However, half of the individual amendments and much of the bench amendments are intended to health. Considering that the limitation of commitment mandatory parliamentary amendments was about BRL 3.0 billion, something close to 50% of this value should reach health. However, the contingency percentage would remain low in comparison with other ministries (around 7%).
- In Education, contingency reaches about a quarter of the discretionary expenses (BRL 6.9 billion). Taking into account resources from own resources, covenants or donations of federal institutions of education, limitation of MEC's commitment falls to BRL 5.8 billion, or 23.7% of your discretionary spending.

CONTINGENCY DISTRIBUTION OF EXECUTIVE FOR AGENCY (BRL MILLION)

Agency	LOA	Limites de empenho		Contingency	
		Decree 9.741	Decree 9.809	Total	%
Ministry of Mines and Energy	4,737	969	882	-3,855	-81,4
Ministry of Defense	13,227	8,119	7,394	-5,833	-44.1
Ministry of Tourism	598	375	342	-256	-42.9
Ministry of Education	24,670	17,794	17,794	-6,877	-27.9
Ministry of Health	20,047	19,447	19,447	-600	-3.0
Subtotal 1	63,279	46,704	45,859	-17,421	-27.5
Reserve for tax amendments	13,724	10,768	10,768	-2,956	-21.5
Individual	9,144	7,179	7,179	-1,965	-21.5
Bench	4,580	3,589	3,589	-991	-21.6
Subtotal 2	77,003	57,472	56,627	-20,377	-26.5
Authorization to expand the limits	0	5,373	1,560	1,560	0.0
Own resources, covenants or donations of federal institutions of education-MEC	0	1,037	1,037	1,037	0.0
Total	77,003	63,882	59,224	-17,780	-23.1

Source: Decree nº 9.711/2019 and subsequent amendments.

- The first contingency of the year, in March, reduced the forecast of discretionary spending and, therefore, generated almost all of the clearance of BRL 31.5 billion in relation to the ceiling.

TETO DE GASTOS PRIMÁRIOS EM 2019 (R\$ BILHÕES)

Discrimination	LOA	Reavaliações do Governo		IFI
		March	May*	May
Primary expenditures total	1,713.9	1,684.1	1,684.6	1,675.1
Expenditure not subject to ceiling	306.9	308.5	313.1	304.9
Expenditure subject to ceiling	1,407.0	1,375.6	1,371.6	1,370.2
Expenditure ceiling	1,407.1	1,407.1	1,407.1	1,407.1
Clearance (+) / Excess (-)	0.1	31.5	35.5	36.9

Source: Evaluation reports of primary revenue and expenditure (Ministry of Economic), Decree nº 9.809/2019 and IFI (RAF, May 2019).

* The estimate for the spending ceiling in the bimonthly report of May indicate clearance of BRL 33.3 billions, because doesn't cover the contingency effected subsequently by Decree nº 9,809/2019. To be the most likely, we assumed that the contingency of BRL 2.2 billion in expenditure under the ceiling.

- In the base scenario, the projection of the IFI for the primary deficit of Central Government in 2019 is BRL 139.0 billion (or 1.9% of GDP).
- Our projection as to discretionary Executive Branch is higher than the official figure of R \$ 6.6 billion (or 6.8%), which is basically due to the differences in other projections for compulsory expenses and revenues - which are historically low level. Eventual revenue from the onerous assignment may give some asset to these expenses in 2018, but will have no effect on the following years.

CENTRAL GOVERNMENT PRIMARY RESULT IN 2019 – OFFICIAL PROJECTIONS AND IFI (BRL BILLION AND % GDP)

Discriminação	LOA		Decree 9.741 (March)		Decree 9.809 (May)		IFI (May)		IFI less Decree 9.809	
	Value	% GDP	Value	% GDP	Value	% GDP	Value	% GDP	Value	Difference %
Gross revenue	1,574.9	21.2	1,545.1	21.1	1,545.8	21.3	1,526.7	21.0	-19.2	-1.2
Collected by the Federal Revenue Office	961.8	12.9	950.6	13.0	945.2	13.0	947.1	13.0	1.9	0.2
Fiscal incentives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0
Social security (RGPS)	419.8	5.6	413.1	5.7	413.5	5.7	418.7	5.8	5.2	1.3
Not collected by the Federal Revenue Office	193.2	2.6	181.4	2.5	187.1	2.6	160.8	2.2	-26.3	-14.1
Transfers by revenue sharing	275.2	3.7	271.6	3.7	275.5	3.8	264.3	3.6	-11.2	-4.1
Net revenue	1,299.7	17.5	1,273.5	17.4	1,270.3	17.5	1,262.4	17.3	-7.9	-0.6
Primary expenditure	1,438.7	19.3	1,412.5	19.3	1,409.1	19.4	1,401.4	19.2	-7.7	-0.5
Compulsory	1,169.8	15.7	1,170.0	16.0	1,168.2	16.1	1,155.3	15.9	-13.0	-1.1
Social security benefit	637.9	8.6	631.2	8.6	630.2	8.7	626.1	8.6	-4.1	-0.6
Payroll	324.9	4.4	326.2	4.5	325.0	4.5	318.6	4.4	-6.4	-2.0
Salary Allowance and Unemployment Benefit	59.8	0.8	56.7	0.8	56.8	0.8	56.0	0.8	-0.9	-1.5
BPC	60.2	0.8	59.7	0.8	59.7	0.8	59.9	0.8	0.2	0.3
Others	87.0	1.2	96.4	1.3	96.6	1.3	94.7	1.3	-1.8	-1.9
Executive expenditure subject to the financial programming	268.9	3.6	242.5	3.3	240.9	3.3	246.1	3.4	5.2	2.2
Compulsory with flow control	139.5	1.9	143.1	2.0	143.7	2.0	142.3	2.0	-1.3	-0.9
Discretionary	129.4	1.7	99.4	1.4	97.2	1.3	103.8	1.4	6.6	6.8
Primary result	-139.0	-1.9	-139.0	-1.9	-138.8	-1.9	-139.0	-1.9	-0.2	0.2

Fonte: Decree nº 9.711/2019 (and subsequent amendments) and IFI (RAF, May 2019).