Independent Fiscal Institution

FFR

Fiscal Follow-Up Report

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HIGHLIGHTS

- The output gap is estimated at 0.5% in the fourth quarter of 2023.
- Fiscal stimulus between 2022 and 2023 was estimated at 1.8 percentage points of GDP.
- Legal thesis discussions and political negotiations pose risks to revenue in 2024.
- Risks and values of revenue measures justify conservatism in estimates.
- The volume of outstanding liabilities recorded in the fiscal year, in real terms, has been above R$ 200 billion for over 15 years and is approaching, once again, R$ 300 billion.
- Given current legislation and analysis of conditioning factors, it is likely that the volume of outstanding liabilities will increase again in the coming years.
- Guarantees granted by the Union to states and municipalities increased by 271.2% in 2023.
- The majority of creditors in internal credit operations guaranteed by the Union are federal public banks.

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Initial results under the new tax regime

The Independent Fiscal Institution (IFI) presents to the National Congress and the Brazilian society its 86th Fiscal Follow-up Report (RAF, [kept here in its original acronym, as well as all the acronyms of Brazilian institutions, taxes, programs, etc.]), which analyzes the economic and fiscal scenario at the beginning of 2024, the first year of effectiveness of the new fiscal regime embodied in the Complementary Law No. 200 of 2023.

Initially, the RAF dives into updating the Output Gap and the structural primary balance. Although Gross Domestic Product growth in 2023 was well above the initial projections of the major analysts and economic institutions, reaching 2.9%, driven by consumption and foreign trade, the IFI detects a significant slowdown to 1.6% in 2024. It also highlights the behavior of an important variable for analyzing medium and long-term growth dynamics: the fall in the investment rate, with Gross Fixed Capital Formation (GFCF) falling to 16.5% of GDP.

The Output Gap remains positive, indicating that the economy is operating above its potential, opening the possibility of inflationary pressures, an important variable for the Central Bank's monetary policy definitions. As for the structural fiscal balance, which neutralizes the impacts of the effects of the economic cycle and non-recurring events, the RAF indicates a structural primary deficit of 1.6% in 2023, a symptom of a pro-cyclical expansionary fiscal policy. (**Page 4**)

The RAF also analyzes the evolution of outstanding liabilities (RAP) and their conditioning factors. It points to an oscillating behavior between 2001 and 2004, consistent growth between 2005 and 2014, a downward movement from 2015 to 2017, stability in 2018 and growth in the period from 2019 to 2024, reaching a level of BRL 284.8 billion. Among the conditioning factors for the fluctuations in the levels of outstanding liabilities, the RAF highlights the lack of rules for canceling expenses committed up to June 2018; changes in the accounting of cross-year payments at the end of each year; the behavior of extraordinary expenses, such as spending on combating the Covid-19 pandemic, which impacted the RAP for three years; the mismatch between movement and commitment authorizations and the payment limit in the budget and financial programming decrees; the need to achieve primary balances compatible with fiscal targets, given the cash regime with the impact in the year of payment and not the year of entry; the way the budget is drawn up with overestimated revenues and expansion of expenditure; and cultural factors that lead ministries and agencies to commit the total amounts of contracts, covenants and agreements and not the portions actually executed in multi-year execution projects. The RAF expresses concern over the rise in RAP following the reestablishment of budgetary ties to health revenues, mandatory parliamentary amendments, and the execution rules of the Growth Acceleration Program (PAC). (**Page 13**)

The RAF is also dedicated to analyzing the risk of non-implementation of measures approved to increase revenues in order to meet the fiscal target, listing the frustration of the expected level of economic growth present in the Federal Government Budget/2024 (OGU), possible changes by the National Congress reducing the revenue impact of proposals still in the legislative process; and the potential litigation by taxpayers against the legal theses on which the approved laws were based, particularly federal taxation on economic subsidies for investments granted by the states; the decisions of the Administrative Council for Tax Appeals (CARF); and the limitation on tax compensation. However, alongside the risks identified, the RAF notes performance above budget expectations in the collection of taxes on exclusive funds, and the beginning of the entry into the National Treasury, starting in March, of resources from the taxation of overseas investments. (**Page 9**)

Finally, the RAF analyzes the increase in authorizations by the Federal Government to regional and local government entities to contract loans with guarantees provided by the Federal Government, as another point of risk for the fiscal situation, in the event that the Federal Government must honor payments from defaulting states and municipalities. (**Page 20**)

The main thrust of RAF 86, in the face of a structural primary deficit, is to point out the risks that threaten the fiscal balance in relation to the increase in RAP, the potential frustration of budgeted revenues and the possible default of regional and local entities in the face of the growth in credit operations with Federal Government guarantees.

Enjoy your reading!

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Output gap and structural fiscal balance

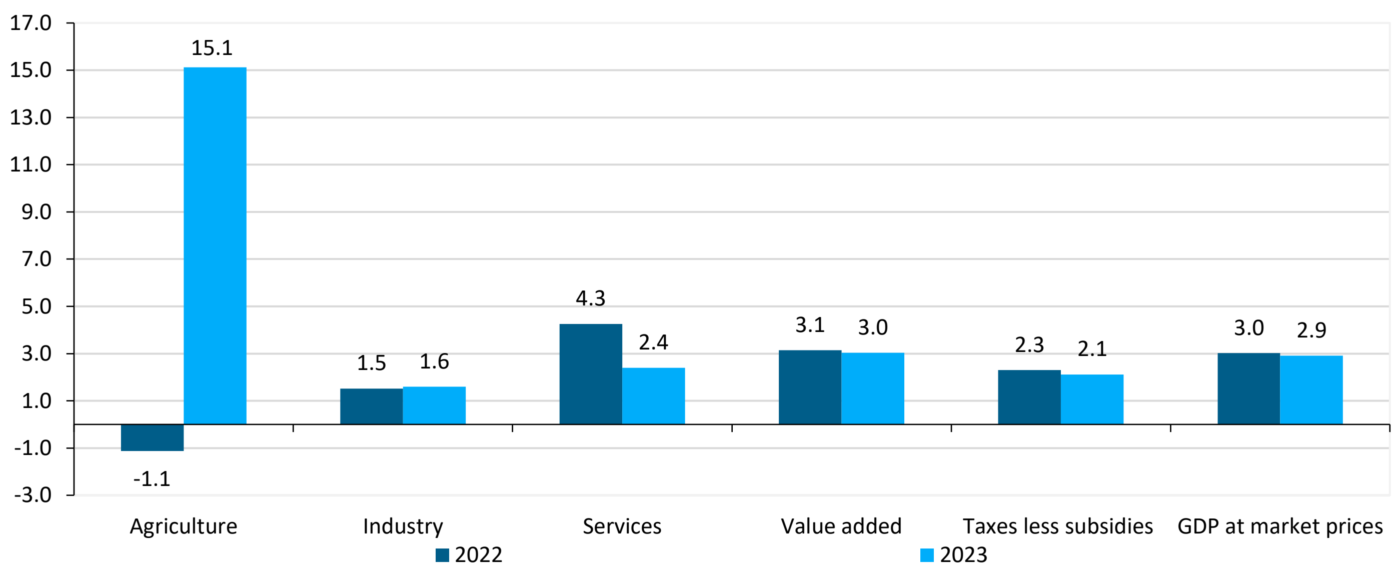
Vilma Pinto and Rafael Bacciotti

This text presents the IFI's estimates for the output gap and the structural primary balance of the Central Government, based on the GDP data for 2023. Despite the slowdown in economic activity during the second half of last year, output grew above its trend or potential level, which boosted revenue. Excluding the effects of the economic cycle and non-recurring events, the structural primary balance showed a deficit of 1.6% of GDP. The change in the structural primary balance between 2022 and 2023, known as the fiscal impulse, was expansionary, reaching 1.8 percentage points of GDP.

Analysis of GDP performance and outlook

In 2023, the Gross Domestic Product (GDP) growth rate was 2.9%, practically the same as in 2022. The expansion of economic activity last year was driven by agricultural activities, which grew by 15.1%, industry, with an increase of 1.6%, and services, with growth of 2.4%. Although there was a notable rise in agricultural production, it was the services sector that contributed most to annual GDP growth, with increases spread across various segments. In industry, there was a heterogeneous performance, with the extractive sector standing out, which grew by 8.7%, while the manufacturing (-1.3%) and construction (-0.5%) industries, which are more sensitive to the economic cycle, recorded falls. The contributions of agriculture, industry, services, and taxes on products net of subsidies to the annual variation of the GDP at market prices in 2023 were 0.9, 0.4, 1.4, and 0.3 percentage points (p.p.), respectively.

GRAPH 1. GDP GROWTH RATE FROM THE PRODUCTION PERSPECTIVE (ACCUMULATED % CHANGE OVER 4 QUARTERS)

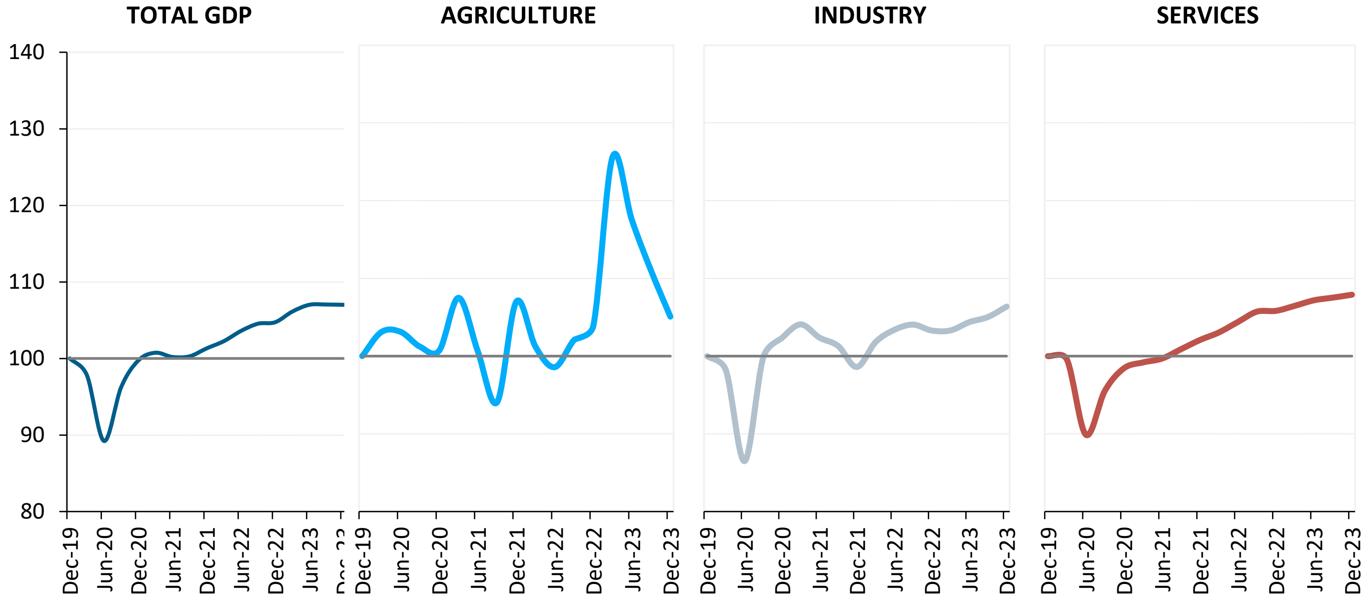


Source: IFI.

In the context of demand, the highlights were the increase in household consumption, up 3.1%, driven by the reduction in inflation and the expansion of the expanded income, which includes income from work and income transfers, and the good performance of exports of goods and services (9.1%). However, gross fixed capital formation (GFCF) fell by 3.0%, resulting in a decrease in the investment rate from 17.8% in 2022 to 16.5% in 2023. Domestic absorption, which includes total consumption (households and government) and investments (GFCF and inventory change), added 0.9 p.p. to GDP growth, while net exports (trade balance) contributed another 2.0 percentage points.

Despite the economic growth recorded in 2023, there was a downward trend throughout the year (Graph 2). In the fourth quarter of 2023, GDP remained stable in relation to the previous quarter, after seasonal adjustments, after variations of 1.3%, 0.8% and 0.0% in the first, second and third quarters of the year, respectively. This dynamic resulted in an accumulated growth rate of 2.2% in the first half and 0.0% in the second half of the year. From the production perspective, there was a reversal in the accumulated rate of expansion of agricultural production, which went from 13.1% in the first half of the year to -10.6% in the second. In addition, services showed a slight slowdown, falling from a growth rate of 1.3% to 0.7%. On the other hand, industry saw its rate of expansion increase from 1.0% to 1.9%, still driven by oil, gas, and iron ore extraction.

GRAPH 2. TOTAL AND SECTORAL GDP (SEASONALLY ADJUSTED INDEX, DEC/19 = 100)



Source: IFI.

As for the outlook for 2024, if we assume that economic activity remains stable throughout the year, GDP growth would be 0.2%, equivalent to the value of the statistical load from 2023 to 2024. The IFI's projection, maintained at 1.6%, envisages a rise of 0.6% in the first quarter and 0.5% in the average of subsequent quarters, a pace close to that seen in 2023 (0.54%). According to the Central Bank's Focus Bulletin, the average forecast for GDP in 2024 is 1.8%, with a range of one standard deviation between 1.5% and 2.1%. Table 1 provides growth estimates for GDP in 2024, considering different scenarios for quarterly dynamics.

TABLE 1. GDP GROWTH IN 2024 FOR DIFFERENT QUARTERLY CHANGES

		First quarter				
		-1.0%	**-0.5%**	**0.0%**	**0.5%**	**1.0%**
Average change 2Q, 3Q and 4Q	**-1.0%**	-2.3%	-1.5%	-0.8%	-0.1%	0.7%
	-0.5%	-1.8%	-1.0%	-0.3%	0.4%	1.2%
	0.0%	-1.3%	-0.6%	0.2%	1.0%	1.7%
	0.5%	-0.8%	-0.1%	0.7%	1.5%	2.2%
	1.0%	-0.3%	0.4%	1.2%	2.0%	2.7%

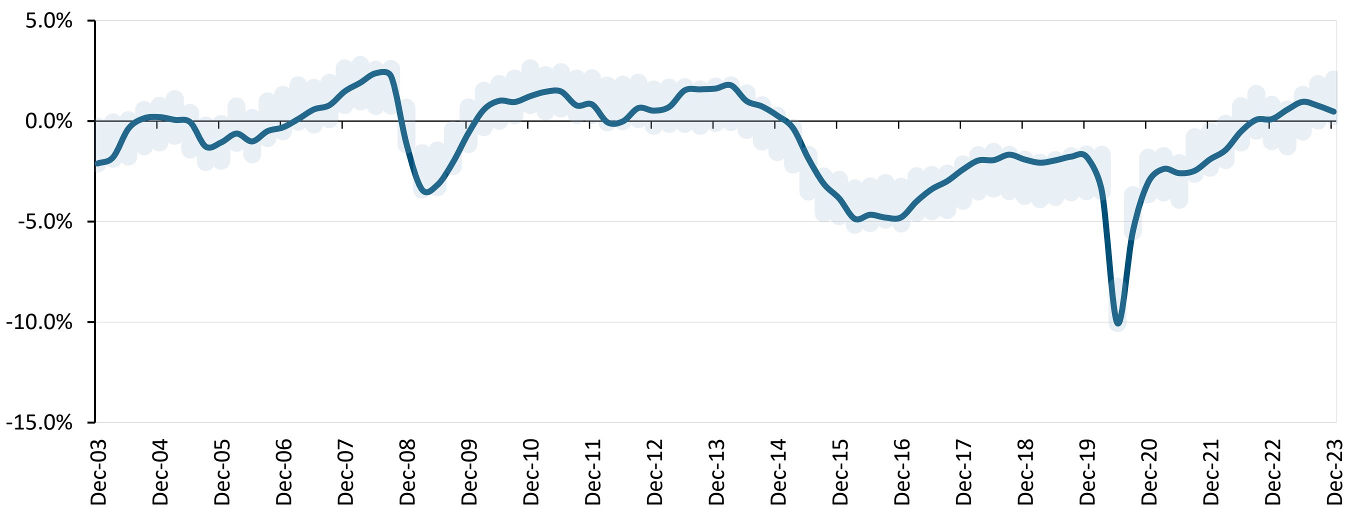
Source: IFI.

Estimate of the Output Gap

Despite the stability of economic activity throughout the second half of the year, the output gap remained positive for the fourth consecutive quarter. Graph 3 illustrates the trajectory of the indicator estimated by the IFI[1]. In the fourth quarter of 2023, the economy is estimated to have operated 0.5% above its trend, showing a slight slowdown compared to the previous quarter. The confidence interval, constructed using the plausibility tool[2] proposed by the European.

Commission, was between 0.3% and 2.1%. In 2023, while actual output grew by 2.9%, potential output rose by 2.0%, considering the accumulated variation over four quarters.

CHART 3. OUTPUT GAP: CENTRAL ESTIMATE AND CONFIDENCE INTERVAL



Source: IFI.

The relevance of the output gap can be observed in several dimensions. Firstly, it acts as an indicator of the state of economic cycles. A positive gap suggests that the economy is operating above its trend, indicating a propensity for inflationary pressures. On the other hand, a negative gap means that the economy is operating with underutilization of its productive resources. Central Banks often incorporate this indicator into their interest rate setting strategies. In addition, the output gap plays an important role in assessing fiscal policy. More specifically, it is a variable for calculating the structural fiscal balance, which provides a more comprehensive view of the state of public finances.

Structural fiscal balance

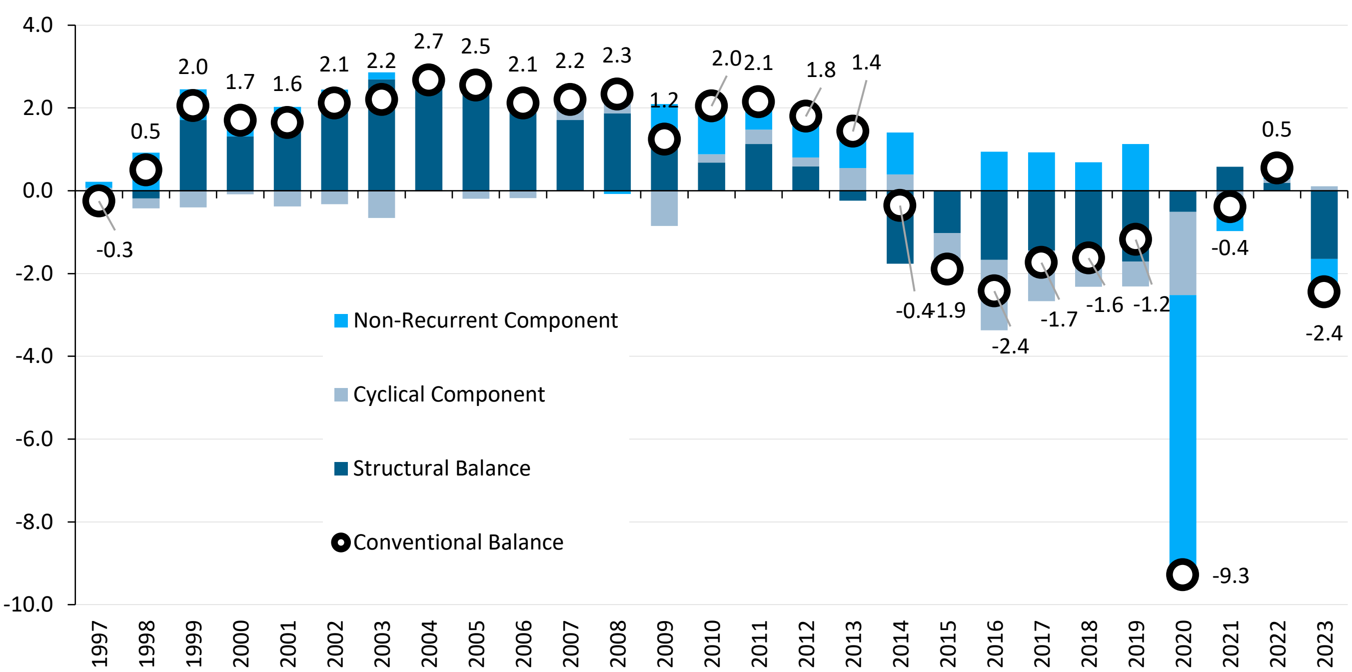
The Central Government's fiscal performance can be assessed using two main indicators: the conventional result and the structural result[3]. The conventional result is the balance of public accounts without extra adjustments, while the structural result excludes effects of the economic cycle and non-recurring events.

The Central Government's primary balance ended 2023 with a deficit of 2.4% of GDP. This figure, however, was influenced by atypical factors and by the economic cycle. Atypical factors made a negative contribution to the fiscal deficit in 2023, i.e. without the existence of these factors, the primary balance would have been better than the one observed. In turn, the effect of the economic cycle was slightly positive for the central government's primary deficit.

[1] Data and methodological description available at: https://tinyurl.com/y6cd8h36.
[2] For more information, see: "Hiato do produto na economia brasileira: estimativas da IFI pela metodologia de função de produção" [Output gap in the Brazilian economy: IFI estimates using the production function methodology], Special Study No. 4. Available at: https://tinyurl.com/ycxkbhbv.
[3] The updated data can be found on the IFI website at: https://tinyurl.com/y6cd8h36. For methodological details, see: Special Study No. 17 and IFI Comments No. 20.

However, a portion of the primary balance is explained neither by non-recurring events nor by the effect of the economic cycle. We refer to this outcome as the structural fiscal balance. The structural fiscal balance is important because it allows us to understand the direction in which fiscal policy is being pursued. It can be more contractionary, more neutral or more expansionary. According to the IFI's estimate, the structural fiscal balance for 2023 was a deficit of 1.6% of GDP. Compared to the result observed in 2022, it can be said that fiscal policy was expansionary by around 1.8 p.p. of GDP - Graph 4.

GRAPH 4. COMPOSITION OF THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - IN GDP%



Source: IFI.

It is worth mentioning that in 2022, the Central Government presented a surplus of 0.5% of GDP in the conventional balance but recorded a smaller surplus of 0.2% of GDP in the structural result. In 2023, on the other hand, there was a deficit of 2.4% of GDP in the conventional result and a deficit of 1.6% of GDP in the structural result.

These differences between the conventional and structural results are explained by specific events. At the end of 2022, Constitutional Amendment 126[4] was approved, making it possible to expand the expenditure ceiling and exclude certain expenses from this calculation. These changes to the Expenditure Ceiling rule contributed to an increase in mandatory spending and, consequently, had a negative impact on the structural fiscal balance for 2023. At the end of 2023, the Supreme Federal Court's decision[5] to allow the payment of court-order debt payments through extraordinary credits significantly influenced the conventional result, but did not affect the structural result for 2023, since these payments were classified as a non-recurring event.

In addition, the cyclical component, related to economic fluctuations, had a positive impact on conventional results in both years.

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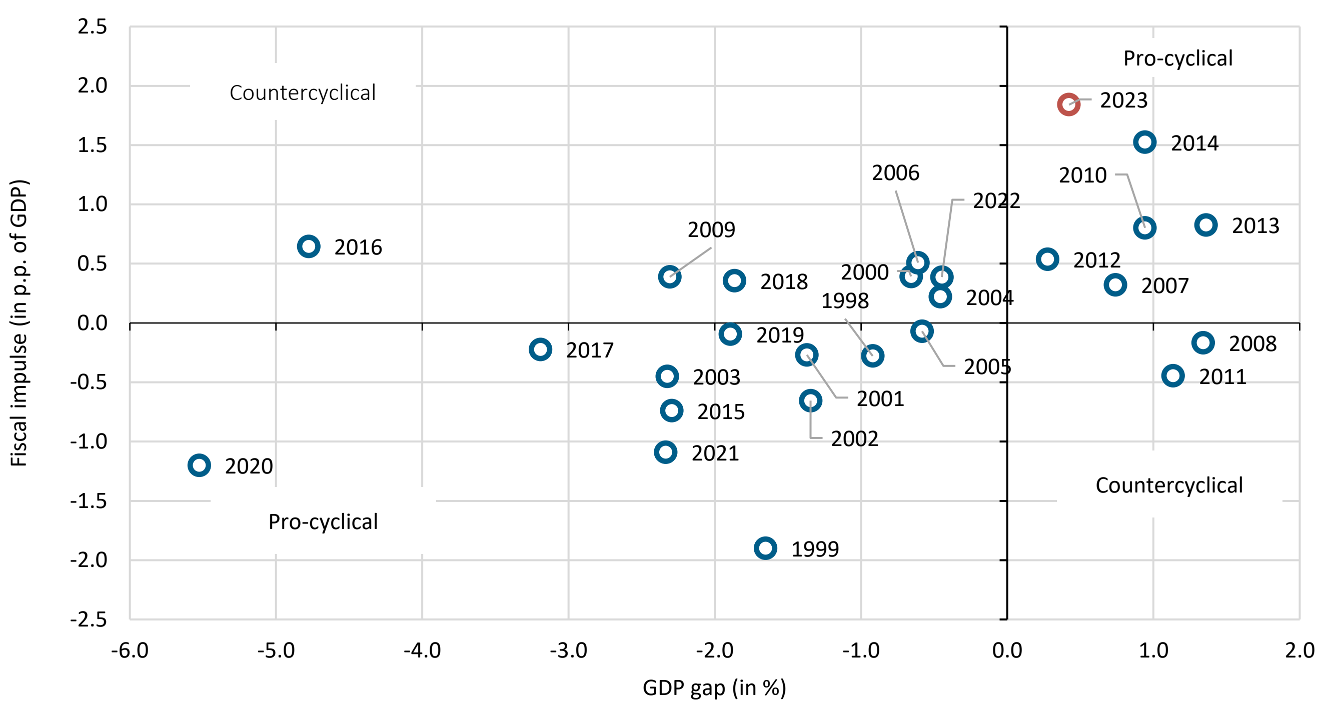
[4] Available at: https://tinyurl.com/y97dvfst.

[5] For more details, see the full text of the judgment in Direct Action for the Declaration of Unconstitutionality (ADI) No. 7064 of the Supreme Court, available at: https://tinyurl.com/5eu78xtw. We highlight: "In effect, the conclusion is that there is room in the 2023 budget targets to pay the liabilities generated in 2022 and up to April 2023, which, according to estimates, is around BRL 95 billion, without compromising the structure of the Public Administration. " (Page 99, ADI-STF 7064, full text of the judgment).

Still in relation to 2023, it is important to note that the fiscal impulse (change in the structural fiscal balance compared to 2022) had an expansionary impact, making a positive contribution to the economy. Without taking atypical events into account, this contribution was 1.8 percentage points of GDP. If these events are considered, it was 3.0 percentage points. This impulse suggests a fiscal policy that has positioned itself in a pro-cyclical direction - Graph 5 - in other words, acting to reinforce trends that already exist in the economy. This move, while it may have provided temporary stimulus to economic activity, also raises questions about long-term fiscal sustainability and the need to assess possible impacts on macroeconomic stability.

GRAPH 5. FISCAL POLICY STANCE (CENTRAL GOVERNMENT) - IN P.P. OF GDP



Source: IFI.

Identification and assessment of the risks associated with the 2024 collection measures

Alexandre Andrade

The identification and assessment of the risks associated with the collection measures listed in the 2024 Annual Budget Law (LOA) indicates that political factors and discussions of legal theses in the Judiciary are the main risks to the materialization of the revenues considered for meeting the primary balance target this year.

The aim of this article is to discuss the risks of materializing the measures intended by the Executive to increase central government revenue this year. The analysis will include the identification and assessment of risks. We will not update the revenue estimates here with the measures presented in Table 4 of RAF No. 85[6] of February 2024, which remain the same for the time being.

Identifying risks

The main risks identified by the IFI for the materialization of the tax collection measures contained in the LOA 2024 and Provisional Measure (MP) No. 1.202 are: (i) frustration in the growth of the economy; (ii) political negotiations unfavorable to the Executive during the processing of legislative proposals, such as Provisional Measure (MP) No. 1,202[7], of December 29, 2023, and the bills aimed at revoking the tax benefit of the Emergency Program for the Resumption of the Events Sector (Perse) and changing the payroll tax exemption; and (iii) legal disputes involving some of the measures to increase revenue.

The risk of frustrated economic growth is easy to understand. Since tax collection is directly related to the economy's Gross Domestic Product (GDP), if the economy grows less than expected, government revenues will tend to be lower. The opposite is true in situations where GDP performs more favorably than economic agents and the government predicted.

The second identified risk, associated with the political negotiations involving Provisional Measure No. 1,202 and the bills that the government intends to send to Congress for the repeal or limitation of some tax benefits and incentives, could represent a significant revenue disappointment for the Executive, considering the existing resistance to the repeal (or limitation) of the current benefits and incentives for the event sector and the 17 economic sectors that have replaced the collection of social security contributions on payroll with a percentage of revenue.

The third important risk identified by the IFI for the materialization of the revenue intended by the Executive this year involves the possibility of legal disputes over some of the measures. The IFI believes that this risk is associated with three measures listed in Table 4 of the aforementioned RAF No. 85: (i) the collection of IRPJ, CSLL and PIS/Cofins [Contribution to Social Security Financing] on investment subsidy operations within the scope of the states (Law No. 14.789, December 29, 2023); and (ii) the recovery of credits at the Administrative Council for Tax Appeals - Carf (Law No. 14.689, of September 20, 2023); and (iii) the limitation on the offsetting of tax credits arising from court decisions (MP No. 1.202, of December 29, 2023).

Risk assessment

The IFI considers that the possibility of frustrated growth in the economy and, consequently, in the central government's primary revenues in 2024 is relatively low, given the behavior of economic activity in recent months. The GDP result for the fourth quarter of 2023 was in line with IFI expectations and this year's growth forecast was revised from 1.2% to 1.6%, as discussed in RAF No. 85. By way of comparison, the Central Bank's Focus Bulletin has shown, in recent weeks, an upward revision in the expectation of GDP growth in 2024 from 1.6% a month ago to 1.8% in the week ending March 15,2024.

[6] Page to access the document: https://tinyurl.com/5n8vxw7t.

[7] Provisional Measure No. 1,208, of February 27, 2024, revoked provisions of Provisional Measure No. 1,202 to partially revoke the payroll tax exemption. To access the matter's progress page, see: https://tinyurl.com/342w9aba.

For the purposes of the impact of GDP on revenue collected by RFB [Federal Revenue Office] and on net collection for the central government's General Social Security Policy (RGPS), the IFI considers a revenue-GDP elasticity equal to 1, i.e. an increase (decrease) of 1% in nominal GDP would generate an increase (decrease) in collection of 1%.

With regard to the risk associated with the political negotiations for the approval of Provisional Measure No. 1,202 and the bills (yet to be sent to Congress) that will alter Perse's tax benefits and the payroll exemption of 17 sectors of the economy and municipalities[8], the IFI considers the possibility of frustration of the revenue sought by the Executive to be relatively high, due to the resistance shown by parliamentarians and the companies receiving these benefits.

The parameters used by IFI for this risk assessment are those presented in the Explanatory Memorandum (EM) No. 00175/2023 MF, which accompanied Provisional Measure (MP) No. 1,202, in which the Ministry of Finance estimated an impact of BRL 6.0 billion on 2024 revenues with the increase in PIS and COFINS. In 2025, there would be an increase in revenues not only from PIS and COFINS, but also from Corporate Income Tax (IRPJ) and Social Contribution on Net Profits (CSLL) (with no estimate of the amount by the Executive). As shown in Table 4 of RAF No. 85, the IFI maintained its estimate of zero inflows from this source of revenue in 2024.

With the modification of the payroll tax exemption mechanism, EM No. 00175, which accompanied Provisional Measure No. 1,202, foresees a revenue loss of BRL 5.6 billion by 2024. Given the resistance shown by congressmen to changing the payroll tax exemption[9], as well as the context of municipal elections this year, the IFI has maintained an equally conservative stance on this issue, with an estimate of BRL 20.0 billion in revenue foregone from the exemption, including the exemption for the 17 sectors of economic activity and municipalities with up to 142,600 inhabitants[10].

For the third risk identified in the previous section, as explained in previous editions of the RAF, the IFI adopts a conservative position in relation to the materialization of collection measures that involve the possibility of legal arguments between taxpayers and the government in court. These disputes tend to be relatively lengthy, and the jurisprudence established may not align with the theses defended by the government, which imposes caution on any estimates that may be made.

Considering Table 4 of RAF No. 85, the collection of federal taxes on investment subsidies obtained by companies under the ICMS[11], the recovery of credits at Carf and the limitation of tax compensations resulting from court decisions are measures that require caution in collection estimates. In fact, taxpayers are already going to court to challenge provisions of the new legislation approved[12].

In the case of Carf, Law No. 14,689 of September 20, 2023, which reintroduced the Treasury's casting vote, provides incentives for taxpayers not to appeal to the courts in the event of unfavorable decisions at the administrative level (Carf). These incentives consist of a discount on fines and interest on debts if the taxpayer expresses an intention to pay the tax debt within 90 days. Even though the incentive may result in taxpayers making this choice, there is still the possibility of legal arguments in the courts, which reinforces the need for caution when constructing revenue estimates associated with this source of revenue provided for in the 2024 LOA.

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[8] There was an agreement between the Legislative and Executive branches to remove the provisions dealing with Perse and payroll tax relief from Provisional Measure No. 1,202, leaving only the provisions limiting tax compensation arising from final court decisions. In return, the Executive will send two bills to Congress for analysis: one to change the tax benefits under Perse and the other to modify the payroll tax relief instrument, which has been extended and is governed by Law No. 14,784 of December 27, 2023. For more information, see, for example: https://tinyurl.com/3hpx567k.

[9] To contextualize the difficulty of reaching a consensus on the matter, see: https://tinyurl.com/22pev7f9.

[10] The impact of revenue forgone due to payroll tax relief for companies and municipalities is uncertain. The most recent information from the Executive Branch indicates that BRL 16.0 billion will be forgone through this instrument. See: https://tinyurl.com/zakz4nbu.

[11] For a better understanding of the subject, see: https://tinyurl.com/mr2pnf29 and https://tinyurl.com/2kbdw4m7.

[12] See, for example: https://tinyurl.com/yeyv2ju7.

The same reasoning applies to the limitation on tax compensation contained in Provisional Measure 1,202. This modification in legislation has elicited reactions from taxpayers, as evidenced by documents prepared by the Brazilian Association of Publicly Traded Companies (Abrasca)[13]. Positions such as Abrasca's indicate that taxpayers will be able to react to the provisions of Provisional Measure No. 1,202 on two fronts, namely by approaching parliamentarians to modify the legislative proposal or by taking legal action to challenge the constitutionality of the new legal rule[14]. For this reason, the IFI presented, in the aforementioned RAF No. 85, a preliminary estimate of an impact of BRL 15.7 billion on the Federal Government's coffers with the measure that limits tax compensations made monthly by taxpayers. More detailed accounts of the impact of compensation will be presented in due course.

Table 2 derives from Table 4 presented in RAF No. 85 and lists the measures intended by the Executive to increase revenue in 2024. The most up-to-date estimates of the Executive contained in LOA 2024 and EM 00175/2023 (MP 1,202) are presented, as well as the estimates considered by the IFI and the respective biases associated with these projections, in light of what has been discussed above.

In general terms, the IFI considers that the current bias of the estimates is neutral for tax collection in 2024. While some sources are expected to perform above expectations, such as income tax on exclusive funds and offshore entities, other sources have a downward bias, such as the measure that limits the compensation of tax credits resulting from court decisions.

TABLE 2. MEASURES ANNOUNCED BY THE EXECUTIVE BRANCH WITH AN IMPACT ON CENTRAL GOVERNMENT REVENUE IN 2024

Budget impact in 2024			
Measure	Impact considered by the Executive Branch (BRL billion)	Impact considered by IFI - baseline scenario (BRL billion)	Bias in the IFI projection
Total [1+2+3]	**274.7**	**130.4**	**Neutral**
Legislative measures set out in the PLOA 2024 and converted into law [1+2]	**168.5**	**81.0**	**Up**
Revenue collected by the RFB [1]	**167.6**	**80.1**	**Up**
Investment grants	35.3	7.6	Neutral
Fixed-odds betting	0.7	0.7	Up
New simplified tax regime (RTS)	2.9	2.9	Neutral
Closed-end funds - stock and flow	13.3	24.6	Neutral
Taxation of financial assets held abroad by individuals (*offshores*)	7.0	7.0	Up
Change in the calculation of interest on equity	10.4	5.0	Down
Credit recovery at Carf	97.9	32.3	Down
Revenue not collected by RFB [2]	**0.9**	**0.9**	**Up**
Fixed odds lottery fees	0.9	0.9	Up
Other income [3]	**105.3**	**48.5**	**Down**
Reimpositions offuel tax	30.0	30.0	Neutral
Exclusion of ICMS from the calculation basis of PIS/Cofins credits	57.9	5.8	Neutral
Transfer prices	20.0	20.0	Neutral
Revocation of the Perse tax benefit	6.0	0.0	Down
Partial exemption of the Social Security Contribution on Gross Revenue	-5.6	-20.0	Neutral
Limitation on the compensation of credits resulting from court decisions	-	15.7	Down
IRPF exemption for those earning up to 2 minimum wages per month	-3.0	-3.0	Neutral

Source: LOA 2024, current legislation and IFI. Prepared by: IFI.

Final considerations

To conclude this assessment of the risks associated with the Executive's intended measures to increase central government revenue this year and meet the zero primary balance target set in the 2024 Budget Guidelines Law (LDO), some additional considerations are worth mentioning.

[13] See, for example, the following document on the association's position on the content of Provisional Measure 1,202: https://tinyurl.com/bdd9mws4.
[14] See, for example: https://tinyurl.com/539empmf.

As explained in RAF no. 85, the income tax levied on exclusive funds (art. 28 of Law No. 14,754 of December 12, 2023) is generating more revenue than that forecast by the Executive in the 2024 Annual Budget Law (LOA 2024). By way of illustration, according to information from the Federal Revenue Office and the Siga Brasil Portal, these collections amounted to BRL 3.9 billion in December 2023, BRL 4.1 billion in January 2024 and BRL 3.8 billion in February, totaling BRL 11.8 billion to date.

The Executive's estimate (LOA 2024) is to raise BRL 13.3 billion from taxing the stock and flow of these funds in 2024 (see the aforementioned Table 4 of RAF No. 85). In March, there will be a new inflow referring to the fourth installment of income calculated up to November 30, 2023, and in May there will be an inflow of income calculated between December 1, 2023, and December 31, 2023.

Starting in March, the collection figures should also include the amounts related to the taxation of income from abroad for individuals residing in Brazil, as also addressed in Law No. 14,754. Federal Revenue Office Normative Instruction No. 2,180[15], of March 11, 2024, regulated the collection of income tax (IR) in these situations. Taxpayers who choose to update the value of assets and rights held abroad to market value on December 31, 2023, will have to pay income tax on the difference between the acquisition cost of the assets and the updated market value at a rate of 8% between March and May 2024, which is an advantage over paying at a rate of 15%, as described in art. 27 of Law 14,754.

Everything indicates, therefore, that in March, April and May the central government's tax collection figures will include income tax levied on exclusive funds held in Brazil and assets held by individuals abroad. Revenues from the income tax levied on updating the values of exclusive fund quotas helped the performance of revenues collected by the RFB in the first two months of the year.

According to the figures compiled by the IFI on Siga Brasil, the central government's total primary revenue amounted to BRL 467.6 billion in the first two months of 2024, compared to BRL 479.8 billion forecast in Decree No. 11.927[16], of February 22, 2024, which defined the federal government's budget and financial programming for 2024, a difference of BRL 12.2 billion. The revenues collected by the RFB, in turn, amounted to BRL 319.3 billion in the first two months of 2024, compared to BRL 324.5 billion forecast in the Decree, a difference of less than BRL 5.1 billion.

[15] Link to access the normative instruction: https://tinyurl.com/2nhhcb7y.
[16] Page to access the decree: https://tinyurl.com/5cmnwe2d.

Evolution of the outstanding liabilities stock and analysis of conditioning factors

Eduardo Nogueira

The volume of outstanding liabilities recorded for the year, in real terms, has been above BRL 200 billion for more than 15 years, and is once again approaching BRL 300 billion. The programs adopted to reduce stockpiles have had practically no effect. Given the legislation in force and the analysis of the conditioning factors, it is likely that the volume of outstanding liabilities will grow again in the coming years, putting pressure on budget execution.

Introduction

In this section, the IFI analyzes the stock and dynamics of the evolution of outstanding liabilities (RAP) over the last few years, investigating the causes that lead to the perpetuation of RAP.

It is important to note that the concept of outstanding liabilities encompasses those expenses that have been committed but not actually paid or canceled by the end of the fiscal year. In Brazil, this milestone corresponds to the civil calendar, on December 31st. This accounting phenomenon is intrinsically linked to the constitutive stages of public expenditure, which are delineated through commitment, settlement, and payment, as determined by Chapter III of Title VI of Law No. 4,320/1964[17].

The commitment marks the initial stage of budgetary allocation, earmarking financial resources for the future acquisition of goods or the carrying out of works and services. This is followed by liquidation, the stage at which the actual provision of the service or delivery of the goods is verified, substantiating the creditor's acquired right to payment, based on the relevant supporting documentation, under the terms of Art. 63 of Law No. 4,320 of 1964. Payment, ultimately, completes the process, extinguishing the financial obligation of the debtor through the actual transfer of funds.

Failure to make the payment within the fiscal year in which the commitment was made results in the expense being registered as outstanding liabilities. At this point, outstanding liabilities are classified into two categories: processed and unprocessed. Processed outstanding liabilities (RPP) refer to expenses that, having already been committed and settled, remain pending payment. On the other hand, unprocessed outstanding liabilities (RPNP) refer to those expenses that have been committed, but have not completed the settlement stage, and, consequently, have not been paid by the end of the fiscal year.

It should be noted that outstanding liabilities, as outlined in art. 36 of Law No. 4,320, represent an essential legal tool for reconciling the principle of annual budgeting, which confines spending authorizations to the current fiscal year, with expenses that, for various reasons, were unable to complete all stages of execution within the designated budgetary period.

Thus, outstanding liabilities essentially symbolize the pending financial obligations of the public entity at the end of the fiscal year, acting as true accounts payable of the public sector. Although they refer to expenditure obligations originating in past years, RAPs are not to be confused with the institute of prior year expenses (DEA), provided for in art. 37 of Law No. 4,320.

Finally, it should be noted that the IFI has already produced an assessment regarding the execution of outstanding liabilities in RAF No. 14[18], of March 2018, covering the period between 2001 and 2018. This previous report also explains the differences between RAP and DEA in more detail. This new study complements, updates and extends the previous analysis for the period between 2010 and 2023.

[17] Available at: https://tinyurl.com/l4320-1964.
[18] Available at: https://tinyurl.com/ifi-raf14.

General regulations

Outstanding liabilities were regulated in Section VIII of Decree No. 93,872, from 1986[19], articles 67 to 70. Although it contains only four articles, this section has undergone significant modifications over time, having been amended at least nine times[20] since the initial wording, with six amendments made after 2018.

Initially, it is important to highlight that the registration of outstanding liabilities must consider the financial availabilities and conditions of the relevant legislation, in order to prevent risks and correct deviations capable of affecting the balance of public accounts, as established in Complementary Law (LC) No. 101[21] of 2000, known as the Fiscal Responsibility Law (LRF). The limits on the commitments to be entered and re-entered in accounts payable each financial year may be set by the Ministry of Finance[22].

In general (art. 68, § 2), Decree No. 93.872, of 1986, establishes that outstanding liabilities registered as unprocessed and not settled will be blocked by the National Treasury Secretariat (STN) on June 30 of the second year following that in which they were registered, and the balances will be kept in a specific account in the Federal Government's Integrated Financial Administration System (Siafi). The same decree determines that all outstanding liability balances that remain blocked in Siafi until the end of the financial year will be canceled by the STN (art. 68, § 6º).

However, unprocessed outstanding liabilities will not be blocked when related to expenses: (i)of the Ministry of Health; (ii) arising from individual parliamentary amendments[23], whose commitments have been issued from the 2016 financial year onwards; and (iii) arising from parliamentary amendments on the initiative of State or Federal District parliamentary groups[24], whose commitments have been issued from the 2020 financial year onwards (article 68, § 3º).

The balances of the blocked outstanding liabilities may be unblocked until December 31 of the year in which the block occurred, provided that their execution was initiated[25] by June 30 of the second year following their registration, in the case of expenses executed directly by the bodies and entities of the Federal Government; or that their instruments are valid and meet the requirements for their effectiveness[26], in the case of transfers of resources from the Union to the States, the Federal District, the Municipalities, the public consortia, the autonomous social services, and the private non-profit entities (Art. 68, § 4º).

Unprocessed outstanding liabilities unblocked under these terms, and which are not settled, will be canceled on December 31 of the year following that in which they were blocked (Art. 68, § 7º). Once the expense has been written off as an outstanding liability, any payment that may be required can be made from an appropriation set aside for expenses from previous years (Art. 69).

It's important to highlight that, since 2023[27], the unprocessed outstanding liabilities related to the expenses of the Growth Acceleration Program[28] (New PAC) will not be subject to blocking or cancellation due to lapse of time (Art. 69-A).

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[19] Available at: https://tinyurl.com/decreto93872.
[20] The changes were made by the following Decrees: 6,708/2008; 7,468/2011; 7,654/2011; 9,428/2018; 9,528/2018; 10,315/2020; 10,535/2020; 11,813/2023 e 11,855/2023. All the decrees mentioned can be accessed via the link available in Decree 93.872/1986.
[21] Available at: https://tinyurl.com/cda5bw34.
[22] The financial limits are established in the Budgetary and Financial Programming Decrees (DPOF) and the operational procedures are detailed in the Siafi Manual, in the Macro functions (020317 - outstanding liabilities and 020318 - year-end closing).
[23] Categorized with primary balance identifier 6
[24] Categorized with primary balance identifier 7.
[25] For the purposes of these provisions, the execution of expenditure is considered to have begun when, in the case of the acquisition of goods, it is verified by the partial quantity delivered, certified and verified; or when, in the case of services and works, it is verified by its partial execution, with the corresponding measurement certified and verified (Art. 68, § 5).
[26] Defined by the rules that deal with the transfer of Federal Government funds through agreements, transfer contracts, collaboration agreements, fostering terms or similar instruments
[27] A similar rule, both for PAC expenses and for those of the Ministry of Education financed with funds from the Maintenance and Development of Education, lasted from 2011 to 2018
[28] Categorized with primary balance identifier 3.

Specific regulations

In addition to decrees that directly change the general rule, other provisions in decrees or sparse laws can also make changes to the system for registering, re-registering, blocking and canceling RAP, but they usually do so in order to postpone the cancellation of outstanding liabilities.

An example of this are the exceptions created to meet Covid-19[29] expenses, applied indirectly, through transfers to states, the Federal District, municipalities, private non-profit institutions, or individual parliamentary amendments (committed before 2016)[30], the Ministry of Health and the PAC[31], as well as various exceptional extensions[32] for no specific reason. As a result, many of the exceptions that were initially one-off were repeated and then incorporated into the general rule.

In the opposite direction, Decree No. 11.380 of 2023 sought to assess the need to maintain unprocessed outstanding liabilities of more than BRL 1 million. According to the decree, the STN should, within five days, block the Federal Executive Branch's RPNPs, registered until December 31, 2022, and it would be up to the units responsible for executing these expenses to unblock them or cancel them if maintaining the balances proved inadequate.

It is worth mentioning that this decree was part of the set of fiscal adjustment measures announced by the Executive Branch[33] on January 12, 2023. However, according to information provided by the STN[34], only BRL 679 million of the BRL 33.6 billion blocked for subsequent analysis by the portfolios responsible for the expenditure was canceled, equivalent to 2% of the amount blocked by the decree and 0.2% of the stock of outstanding liabilities in 2023.

In addition to the constant changes through decrees, there have also been changes in the rules for canceling outstanding liabilities made directly in the Budget Guidelines Laws (LDO) in recent years. An example of this is §7 of Art. 83 of Law No. 14,194, of 2021[35] (LDO 2022), which introduced a new exception to the general rule for canceling outstanding liabilities established in Decree No. 93.872, of 1986, i.e., it established that outstanding liabilities related to contracts, covenants, agreements or adjustments with a multi-year term, registered in 2019 and 2020 could only have their unsettled balances canceled after December 31, 2023.

Furthermore, art. 172 of Law No. 14.791, of 2023[36] (LDO 2024) The law determined that the unprocessed outstanding liabilities registered from the fiscal year of 2019, valid in November 2023, and referring to transfers made by the bodies and entities of the federal public administration to the States, Federal District, and Municipalities or to credit decentralizations carried out between bodies and entities that are part of the Fiscal Budget and the Social Security Budget of the Federal Government may be settled until December 31, 2024.

Thus, decrees with specific regulations and budget guideline laws from previous years continue to have an effect on subsequent years and tend to keep the stock of outstanding liabilities at higher levels than would be the case if only the general rule were followed.

Evolution of the RAP stock and analysis of conditioning factors

The aforementioned RAF No. 14, of 2018, showed that the stock of outstanding liabilities fluctuated between 2001 and 2004, with consistent growth between 2005 and 2014 and a reduction between 2015 and 2017, remaining practically stable in 2018.

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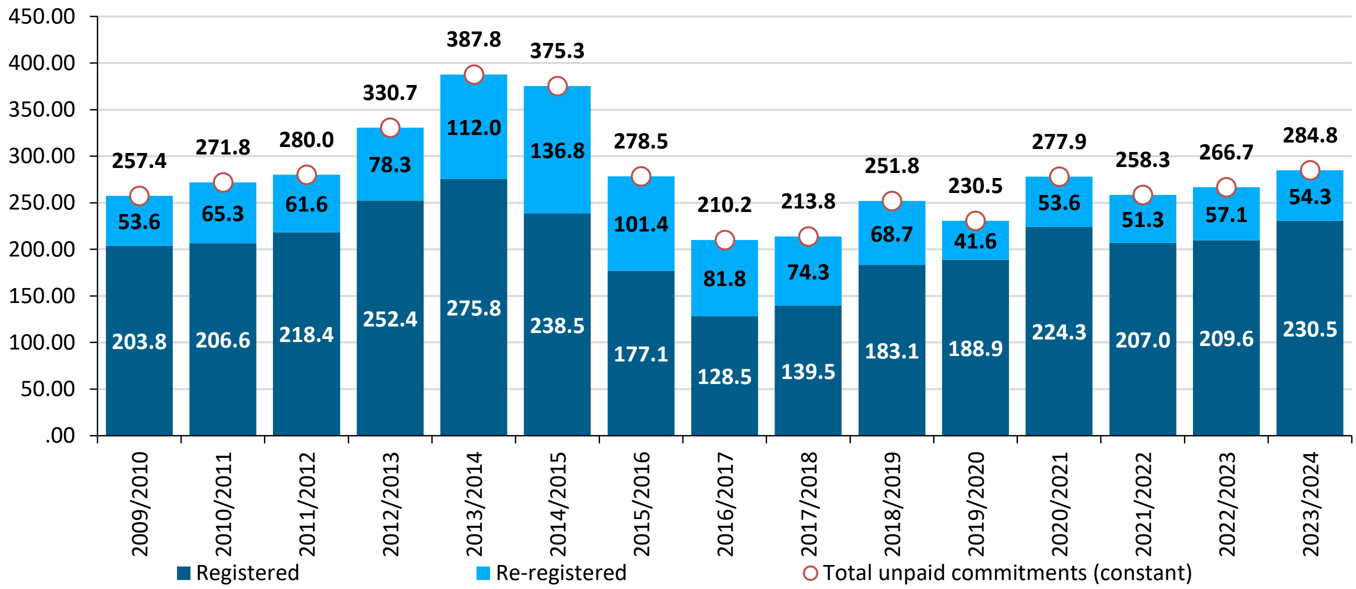
[29] Decrees 10,579/2020(https://tinyurl.com/d10579-2020) and 10,614/2021 (https://tinyurl.com/d10614-2021).
[30] Decrees 10,579/2020(https://tinyurl.com/d10579-2020) and 10,614/2021 (https://tinyurl.com/d10614-2021).
[31] See Decree 7,418/2010 (https://tinyurl.com/D7418-2010).
[32] See Decrees 7,057/2009 (https://tinyurl.com/D7057-2009); 8.407/2015(https://tinyurl.com/D8407-2015); 8,466/2015(https://tinyurl.com/D8466-2015); 8,507/2015 (https://tinyurl.com/D8507-2015); 8,551/2015 (https://tinyurl.com/D8551-2015); and 9,896/2019 (https://tinyurl.com/D9896-2019).
[33] See https://tinyurl.com/vxav3hu4.
[34] Available at: https://tinyurl.com/47pd78v4.
[35] Available at: https://tinyurl.com/L14194-2021.
[36] Available at: https://tinyurl.com/L14191-2021.

Based on the new data shown in Graph 6, it can be seen that the registration of outstanding liabilities grew between 2019 and 2024, from BRL 251.8 billion to BRL 284.8 billion (in January 2024 terms, adjusted for the IPCA), representing real growth of 13.1% over the period. Considering only the current growth cycle of the last three years, the real annual growth rate was 10.3% in the period, rising from BRL 258.3 billion in 2022 to BRL 284.8 billion in 2024.

GRAPH 6. OUTSTANDING LIABILITIES REGISTERED AND REREGISTERED BY FISCAL YEAR (BRL BILLION IN JANUARY 2024 TERMS)



Source: Siga Brasil Portal. Prepared by: IFI.

Graph 6 shows a significant volume of expenditure that has been included in outstanding liabilities for more than one financial year, representing, in real terms, at least BRL 41.6 billion in recent periods, which highlights possible problems in the financial execution of this expenditure. For 2024, BRL 54.3 billion, 19.1% of the total RAP, has been registered.

In order to correctly analyze the graph above, it is important to highlight the conditioning factors for the evolution of the stock of outstanding liabilities. As highlighted above, the constant changes in legislation regulating outstanding liabilities have a substantial impact. Among the various changes, we highlight the one promoted by the aforementioned Decree No. 9,428 of 2018, which created the system for canceling unprocessed outstanding liabilities.

According to the STN[37], until early June 2018, there was no rule for canceling unblocked RAP that could remain unprocessed for years. It was therefore very difficult to control the growth in the balance of unprocessed RAP.

Thus, for instance, various investment projects, which had not even started their execution, continued to compete for financial resources and hinder the programming of bodies years after their approval in the budget.

The problem with this balance of unprocessed RAP is that, in addition to the fact that some of these committed expenses compete with the year's budget, there is also the aggravating factor that these expenses are often not settled and there was no established criterion for canceling them.

Furthermore, it's important to highlight the impact of operational changes on budgetary and financial procedures, such as the change in the system for handling expenses associated with the issuance of a government bank payment order (OB).

As pointed out by the National Treasury Secretariat (STN) in the 2019 Outstanding Liabilities Assessment Report[38], until 2017, the settlement and payment of expenses took place on the last day of the year, with withdrawals from the National Treasury's single account on the following day.

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[37] Available at: https://tinyurl.com/bdfb89v4.
[38] Available at: https://tinyurl.com/STN-RAP-2019.

From 2018 onwards, expenses were settled on the last day of the year, but the OB was only issued and paid in 2019. As a result, it was necessary to enter some expenses that had not previously been entered in processed outstanding liabilities. This change in the bank payment order system structurally resulted in an increase in processed outstanding liabilities and a rise in paid outstanding liabilities on the order of BRL 34 billion, which led to a change in the level of stocks between the two periods, influencing the comparison between the period from 2010 to 2018 and the period from 2019 to 2024.

It is worth noting that certain constitutional transfers relating to the collection of the last ten-day period of the month[39], transfers relating to financial compensation for the exploitation of natural resources[40] (CFEM) and the payment of social security benefits[41] , for example, were already associated with the system of "cross-year payments"[42], i.e. expenses whose execution system involves commitment at the end of the year and payment at the beginning of the following year.

Similarly to what happens with the increase in budget execution of expenses facing blocking and/or cancellation restrictions (related to health, mandatory amendments, and PAC), the growth in the execution of expenses associated with cross-year payments will naturally cause an increase in the registration of RAP due to structural factors inherent in the budgetary and financial dynamics.

Extraordinary expenses also have an impact on the dynamics of outstanding liabilities, sometimes for several years. The STN pointed out[43], for example, that the registration of RAP for extraordinary expenses related to actions to combat the economic and social effects of the Covid-19 pandemic was BRL 16.1 billion in 2021. In addition to this amount, an extraordinary credit of BRL 21.6 billion was reopened for the purchase of vaccines. Thus, the RAP entries for expenses to deal with Covid-19 totaled BRL 37.7 billion in 2021.

For 2022, the STN pointed out[44] that BRL 15.7 billion had been registered in RAP as a result of dealing with Covid-19, in addition to the registration of other extraordinary expenses, such as Emergency Aid for people in vulnerable situations (BRL 5.6 billion) and resources for vaccine purchases (BRL 4.4 billion). In 2023[45], these figures were BRL 6.4 billion, BRL 1.6 billion and BRL 2.6 billion respectively. As you can see, these extraordinary expenses related to the Covid-19 pandemic have impacted financial management for three financial years.

Another source of pressure for the growth of outstanding liabilities is the establishment, in the Budgetary and Financial Programming Decrees (DPOF), of payment limits that are much lower than the movement and commitment limits, in order to restrict the payment of outstanding liabilities settled during the year.

Considering that not all executed expenses[46] pass through payment over the fiscal year, it is possible that the payment limit may be slightly lower than the movement and commitment limit, without generating significant pressure on the registration of expenses as outstanding liabilities. This allows for the payment of expenses committed in the current fiscal year and those registered as outstanding liabilities. However, the problem tends to grow as the need to achieve a primary balance in order to meet fiscal targets increases.

This is because, in the "above the line" methodology used to calculate the primary balance by the Executive Branch, the cash basis accounting is used and, therefore, the payment of primary expenses registered in the RAP will reduce the primary balance of the year in which the expenditure occurs, and not of the year of registration, which, on the contrary, is positively affected.

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[39] Like the Municipal Participation Fund (FPM), the State Participation Fund (FPE) and the Tax on Manufactured Products Proportional to Exports (IPI-Export). More information is available at: https://tinyurl.com/3yk38d3p.

[40] The payment of the CFEM is made monthly, by the last working day of the second month following the generating event, duly adjusted. Available at: https://tinyurl.com/2hdmvftx.

[41] The payment of social security benefits was established by Law 11,665/2008. Available at: https://tinyurl.com/L11665-2008.

[42] For more information, see the Outstanding Liabilities Assessment Report for 2021, prepared by the STN and available at: https://tinyurl.com/STN-RAP-2021.

[43] In the aforementioned Outstanding Liabilities Assessment Report for 2021

[44] According to the Outstanding Liabilities Assessment Report for 2022. Available at: https://tinyurl.com/STN-RAP-2022.

[45] According to the Outstanding Liabilities Assessment Report for 2023. Available at: https://tinyurl.com/STN-RAP-2023.

[46] Expenditure committed during the financial year, taking into account those settled and those entered in unprocessed outstanding liabilities.

Thus, given the limitation of cash availability, RAP payments compete with the payments of expenses set in the budget for the year, which, if committed and not paid, will form a new amount to be registered as RAP, finally adding to the accumulated amount registered in previous years, feeding the cycle again. Therefore, the greater the need to achieve a primary balance, the tighter the payment limit tends to be, making it difficult to carry out the financial execution of the year itself and outstanding liabilities from previous years.

Another possibility for limiting payments occurs in order to prevent budget execution with sources of funds that do not have sufficient financial availability at the end of the financial year, a phenomenon known as "source inversion"[47], or due to the risk of non-compliance with art. 42 of the LRF, which establishes that the RAP balance at the end of a term must be compatible with the cash the government has left to pay it.

Table 3 below illustrates the comparison between the movement and commitment limits and payment limits[48], demonstrating the percentage relationship between them, according to the respective DPOF[49].

TABLE 3. MOVEMENT AND COMMITMENT LIMITS AND PAYMENT LIMITS (BRL BILLION)

	2011 Decree 7,622	2012 Decree 7,680	2013 Decree 7,995	2014 Decree 8,197	2015 Decree 8,456	2016 Decree 8,670	2017 Decree 8,961	2018 Decree 9,276	2019 Decree 9,711	2020 Decree 10,249	2021 Decree 10,699	2022 Decree 10,961	2023 Decree 11,415
Limits of Movement and Commitment (A)	187.7	211.1	249.8	262.6	233.9	250.2	257.4	274.4	331.6	252.1	272.5	376.1	524.8
Limits of Payment (B)	183.8	205.2	234.8	244.7	229.1	252.4	257.1	266.9	322.2	263.0	282.5	360.7	522.2
% (B) / (A)	97.9%	97.2%	94.0%	93.2%	97.9%	100.9%	99.9%	97.3%	97.2%	104.3%	103.7%	95.9%	99.5%

Source: DPOF with updates up to the last two months of each year. Prepared by: IFI.

The years 2013 and 2014 showed the lowest percentages, which helps to explain the growth in outstanding liabilities observed in 2014 and 2015, when they reached the highest values in the historical series (even before the level increase that occurred in 2019).

Another determining factor for the evolution of outstanding liabilities is the way the budget document preparation process is conducted, mainly through the use of credible macroeconomic parameters that lead to accurate revenue estimates and appropriate expense setting.

As noted[50] by the Federal Accounting Court (TCU), despite the STN's attempts to reduce the amount of RPNP, it must be made clear that the growth in the amount of expenses recorded in RPNP in recent years (notably in the period from 2013 to 2015) was the result of a budget process with problems in preparation, in which there was an overestimation of revenues and an exponential increase in expenses.

Furthermore, according to the TCU, in a budget constraint environment, the registration of expenses as unprocessed outstanding liabilities appeared as a way to ensure budget authorization for incurring expenses in other fiscal years. However, this practice goes against the regulations addressing the issue, as well as violates the principles of annual budgeting and budgetary balance, since it results in expenses to be paid during the year that were not approved in the budget for that fiscal year.

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[47] According to the sole paragraph of art. 8 of the LRF, funds legally earmarked for a specific purpose shall be used exclusively to fulfill the purpose for which they were earmarked, even if they are used in a different fiscal year from the one in which they were received. When expenditure exceeds the amount available in the source of funds, a "source inversion" occurs. For more information on the use of funding sources, see: https://tinyurl.com/229fh6tr.

[48] Until 2016, the movement and commitment limits along with the payment limits were recorded in specific annexes in the DPOF, Annexes I and II respectively. Between 2017 and 2019, the amounts were spread out in various annexes, according to budgetary sources, and segregated into specific items such as the PAC, mandatory parliamentary amendments, and mandatory expenditure. From 2020 onwards, these figures were also recorded in specific annexes at the end of the decree, but the numbering changes for each period. The figures shown in the table represent the values at the end of the year, after various changes over the years.

[49] Available at: https://tinyurl.com/STN-DPOF. Consolidated Legislation available on the Federal Legislation Portal:https://tinyurl.com/Planalto-decrees.

[50] Decision of the Appellate Court No. 130/2021 TCU-Plenary. Available at: https://tinyurl.com/ty3d2hrv.

Finally, it is also possible to highlight cultural factors, as outlined in the Joint Action Plan[51] developed by the STN and the Federal Budget Secretariat (SOF) in 2018 to control the growth of the RAP stock, by determination[52] of the TCU.

The diagnosis presented was related to the practice of committing the total value of contracts instead of committing the portion of the schedule foreseen for the current fiscal year, in the case of expenses related to multi-year contracts, covenants and agreements or adjustments. Therefore, in view of the uncertainty of resources to honor future commitments, the choice has been made to commit the total value of contracts at the moment of their signing.

However, according to the TCU, this practice should be avoided[53]. So, the SOF and the STN recommended that the budgetary units commit expenses related to contracts, agreements, accords, or multi-year validity adjustments in each fiscal year for the part to be executed in it.

Conclusion

The volume of outstanding liabilities registered in the fiscal year, in real terms, has been above BRL 200 billion for more than 15 years and is approaching BRL 300 billion again. Since 2005, only during a short two-year window (between 2016 and 2017), consistent downward trend was observed. Programs adopted to reduce the stock, such as the 2018 Action Plan and Decree 11,380 of 2023, have had practically no effect, given the structural characteristics of the outstanding liabilities.

Factors such as frequent changes in legislation in order to avoid the cancellation of registered RAP, changes in budgetary procedures for cross-year payments, the execution of extraordinary expenses, payment limitations, fiscal rules on source inversions, end-of-term restrictions and balance targets, projections of revenues and expenses that have not materialized and even cultural factors in the execution of multi-year expenses help to explain the resilience of the problem.

Given that health expenses and mandatory amendments have increased in value and have once again become tied to revenue growth; that expenses for education and social security also tend to show an increasing trend over time[54]; that PAC expenses have once again become exempt from the blocking and cancellation process due to lapse of time[55], and that an increase in primary balances is expected for the upcoming fiscal years[56], it is likely that the volume of outstanding liabilities will start to grow again, putting pressure back on financial execution for the following years.

[51] This action plan included the collection of data on the registration of RAP by each Ministry and the preparation of a questionnaire to be answered by the managers responsible for committing the expenditure, with the aim of identifying the main causes of the commitment and subsequent non-payment of the expenditure in the same financial year. Available at: https://tinyurl.com/6pvffbm5.

[52] Decision of the Appellate Court No. 2823/2015 TCU-Plenary. Available at: https://tinyurl.com/y4d32baw.

[53] Article 27 of Decree 93,872/1986 states: "expenditure relating to contracts, agreements or adjustments with a multi-year term shall be committed in each financial year for the part executed therein". Corroborating this decree, the Siafi Manual establishes: "the registration of amounts as outstanding liabilities will be carried out for the values forecasted in the respective contracts, considering the schedule of the execution of the contracted work or service".

[54] According to the aforementioned Outstanding Liabilities Report for 2024, compared to execution in 2023, only 4 budget functions accounted for 71.8% of RAP payments in the year: Social Security, Special Charges, Health, and Education. Thus, increases in these expenses tend to increase the amount of outstanding liabilities

[55] Also according to the 2024 RAP Report, investments accounted for only 16.6% of RAP entries, but as a result of the very dynamics of the execution of these expenses, which include multi-year works and services with a long maturity period, investments account for 66.7% of expenses re-registered as RAP. Thus, increases in these expenses tend to increase the amount of outstanding liabilities

[56] The 2024 Budget Guidelines Law foresees a zero result in 2024, a surplus in public accounts of 0.5% of GDP in 2025 and 1% in 2026. Available at: https://tinyurl.com/n9wnzyv6

The increase in Federal Government guarantees in regional and local governments' domestic credit operations

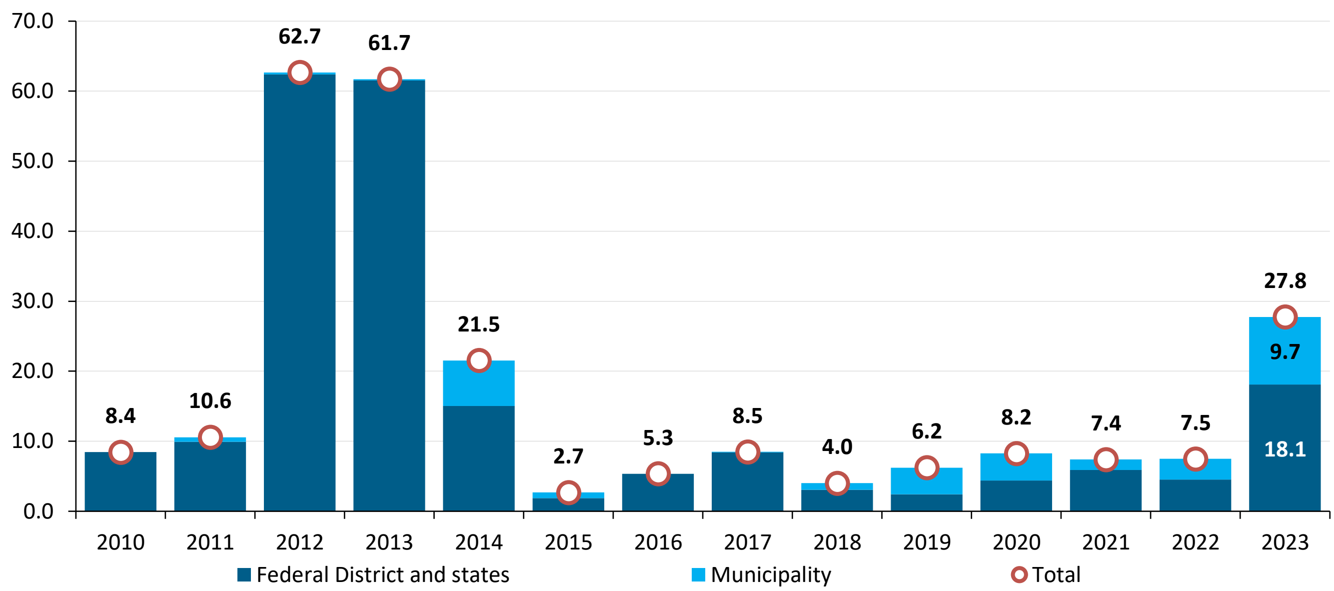
Pedro Souza

The guarantees granted by the Federal Government to regional and local governments in 2023 grew by 271.2% in real terms compared to the previous year. Changes made to the annual global credit granting limits, carried out within the scope of the National Monetary Council, as well as exceptions to these limits, explain the increases during the year and can lead to larger increases in the coming years. Following the trend of previous years, most of the creditors are federal financial institutions. Sadipem data indicates a potential for new concessions in 2024 of BRL 26.8 billion to date.

Situation in 2023

The amount of guarantees granted by the Federal Government to the domestic credit operations of states, the Federal District (DF) and municipalities in 2023 showed a real increase of 271.2% compared to 2022, totaling BRL 27.8 billion, of which BRL 17.9 billion for states and DF (real increase of 298.4%) and BRL 9.6 billion for municipalities (real increase of 229.2%), in February 2024 values. Graph 7 shows the historical series[57] of the amounts contracted per borrower for the period from 2010 to 2023.

GRAPH 7. AMOUNTS CONTRACTED IN DOMESTIC CREDIT OPERATIONS WITH FEDERAL GOVERNMENT GUARANTEE - REGIONAL GOVERNMENTS (BRL BILLION FEB/24)



Source: Guarantees Granted in Domestic Credit Operations of the National Treasury Secretariat. Prepared by: IFI.

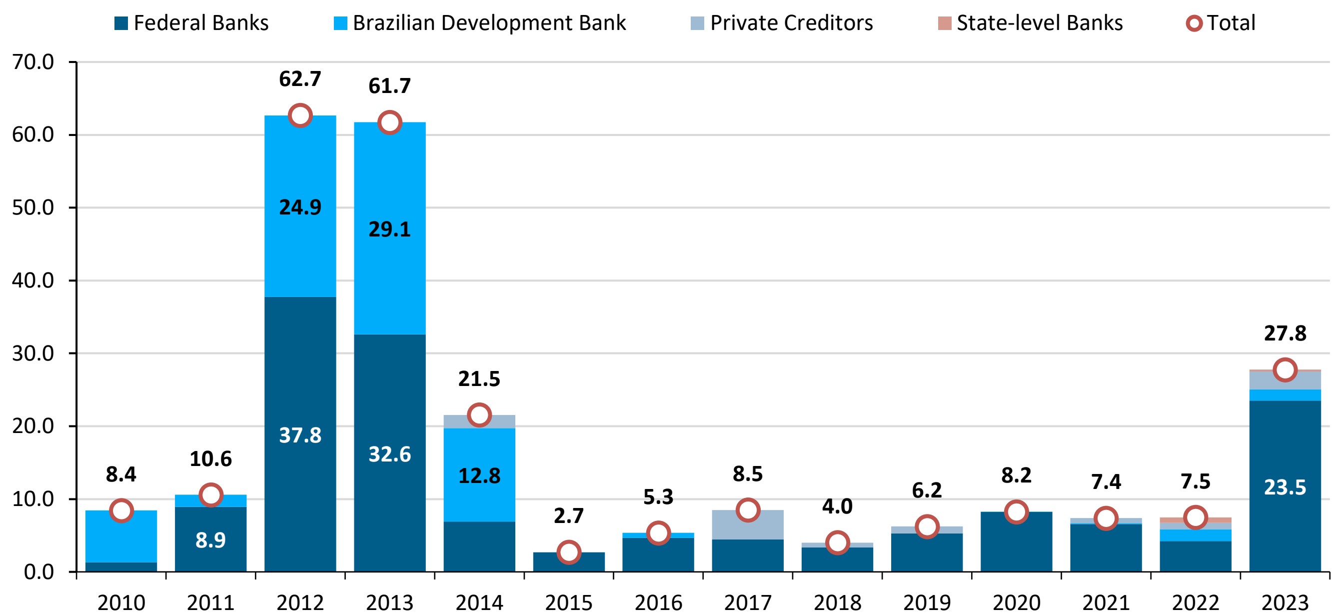
The granting of guarantees was greater for the states and the Federal District, which carried out the majority of domestic credit operations with guarantees in all the years in the series. When considering the creditors of these credit operations, it is observed that they are largely carried out by federal financial institutions, such as the National Bank for Economic and Social Development (BNDES), Banco do Brasil [Bank of Brazil] (BB), and Caixa Econômica Federal (CEF).

[57] Series "Guarantees Granted in Domestic Credit Operations", position as at 31/12/2023. Available at: https://tinyurl.com/s94f42jz.

The federal banks, a group which in this study includes Banco do Brasil and Caixa Econômica Federal, offered most of the credit in guaranteed contracts, with the exception of 2010. Until 2014, the BNDES had a significant share in total credit operations guaranteed by the Federal Government, offering BRL 29.1 billion to regional governments in 2013 (47.2% of the year's operations). Private creditors have a smaller, but still significant, offering in the overall credit provided, reaching up to R$ 4.0 billion in 2017 (47.1% of the operations for the year).

In 2023, most of the credit in the domestic credit operations of regional governments was offered by federal banks, which totaled BRL 23.5 billion, 84.7% of the total offer made in the year for this modality and an increase of 455.3% over the previous year. Private creditors offered BRL 2.5 billion (an increase of 188%), while the BNDES and state banks (in this case, only the Regional Bank of Brasilia) totaled BRL 1.8 billion. Graph 8 shows the historical series[58] of contracted amounts per creditor for the period 2010 to 2023.

GRAPH 8. AMOUNTS CONTRACTED IN DOMESTIC CREDIT OPERATIONS WITH FEDERAL GOVERNMENT GUARANTEE - REGIONAL GOVERNMENTS BY CREDITOR (BRL BILLION FEB/24)



Source: Guarantees Granted in Domestic Credit Operations of the National Treasury Secretariat. Prepared by: IFI.

The indebtedness of regional governments is one of the most important issues in the finances of the federal entities. The Fiscal Responsibility Law (LRF) - Complementary Law 101 of 2000[59] - features an entire chapter dedicated to the theme of public entities' indebtedness, setting limits for indebtedness, the granting of guarantees, and requirements for carrying out these operations, as well as sanctions in case of non-compliance.

Art. 29 of LRF defines the granting of a guarantee as a "*commitment to fulfill a financial or contractual obligation assumed by a federative entity or an entity linked to it*". In order for the Federal Government to grant guarantees, the indebtedness limits of states, the Federal District, municipalities, and their respective state-owned companies, defined in a resolution of the Federal Senate, must be observed.

This topic was regulated by Federal Senate Resolution (RSF) No. 40 of 2001[60], which stipulates that the net consolidated debt of states and the Federal District may not exceed 200% of their respective net current revenue (RCL). For municipalities, the limit is 120% of their respective RCL. This limit was never regulated for the Federal Government, which remains without a limit on net consolidated debt.

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[58] Series "Guarantees Granted in Domestic Credit Operations", position as at 31/12/2023. Available at: https://tinyurl.com/s94f42jz.
[59] Available at: https://tinyurl.com/cda5bw34.
[60] Available at: https://tinyurl.com/2278r7k5.

Art. 31 of the LRF, in turn, establishes that if the limit is exceeded, the entities must make adjustments and are prohibited from carrying out credit operations, except for the payment of government-bond debt. In addition, they must also achieve primary balances compatible with bringing the debt back within the limit, using, among other measures, spending cuts. If the entity fails to return to the limits within three fiscal quarters, it is also prevented from receiving voluntary transfers from the Federal Government or the State.

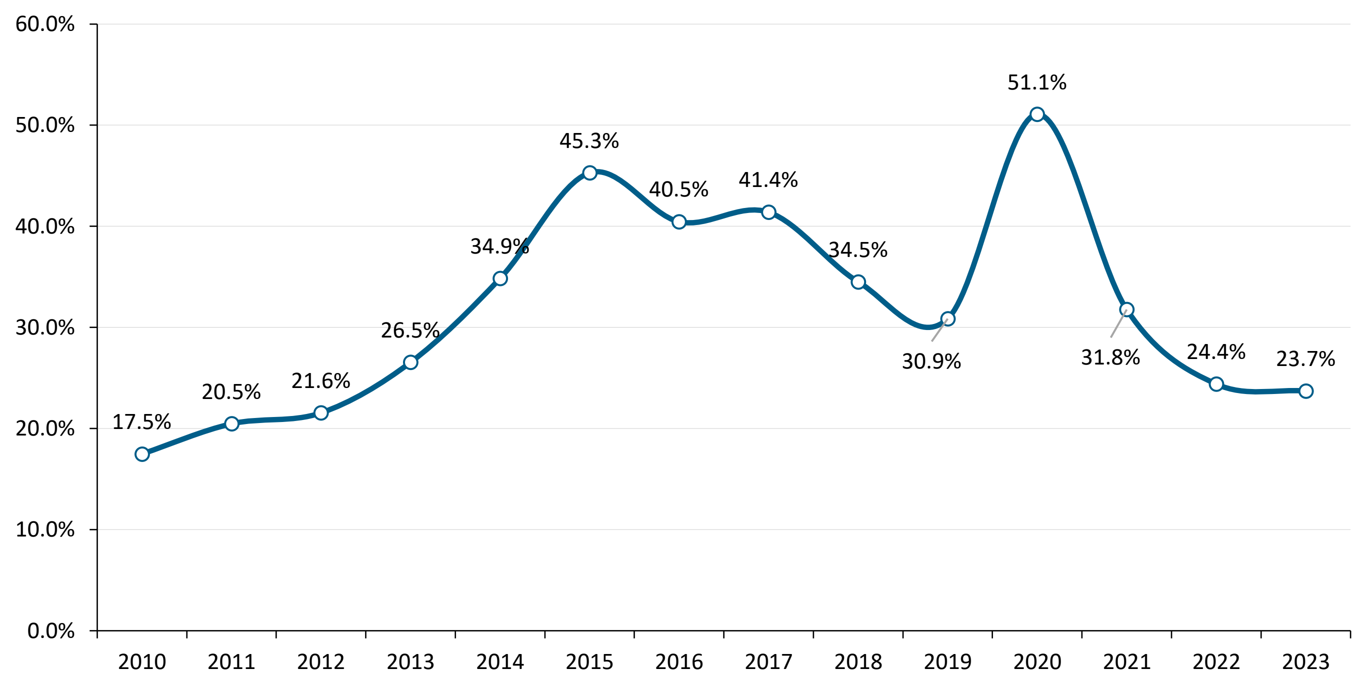
The so-called "Golden Rule", defined in the Federal Constitution, prohibits states, the Federal District and municipalities from carrying out credit operations above the limits of their capital expenditure. Art. 40 of the LRF also establishes that there must be limits on the contracting of credit operations and the granting of guarantees to entities.

RSF No. 43 of 2001[61] also prohibits domestic and external credit operations from exceeding 16% of the RCL. Moreover, the annual commitment to amortizations, interest, and charges on the consolidated debt, including those from credit operations already contracted and to be contracted, cannot exceed 11.5% of the Net Current Revenue.

RSF No. 48 of 2007[62], in turn, establishes the limits for contracting credit operations and granting guarantees to the Federal Government. For credit operations, the overall amount is limited to 60% of net current revenue. For the granting of guarantees, the total amount of guarantees granted may not exceed 60% of the RCL. If this limit is exceeded, the Federal Government is prevented from granting new guarantees until the excess is eliminated.

Graph 9 shows compliance with this limit from 2010 to 2023, based on the Fiscal Management Reports (RGF)[63]. The highest value in the series occurs in 2020, due to the Covid-19 pandemic, which led to a drop in net current revenue. Also in this case, the guarantees granted amounted to 51.1% of the RCL. In 2023, the report shows that guarantees granted by the Federal Government totaled 23.7%, a value that encompasses not only states and municipalities but also controlled entities and guarantees granted through funds and programs, demonstrating compliance with the limit. The RGF assessment considers the outstanding balance of guarantees granted, not only new guarantees, but also those previously granted and disbursed. As the debt is paid off, the outstanding balance decreases. The amounts contracted do not impact the outstanding balance immediately, only when the contracted amount or part of it is disbursed, so the expansion that took place in 2023 does not immediately impact the 2023 indicator.

GRAPH 9. GUARANTEES GRANTED BY THE FEDERAL GOVERNMENT AS A % OF THE NET CURRENT REVENUE (RCL)



Source: Federal Fiscal Management Report. Prepared by: IFI.

[61] Available at: https://tinyurl.com/3ebvhdh7.
[62] Available at: https://tinyurl.com/3j7kz6uu.
[63] See Annex III of the RGF. Figures for the 3rd four-month period of each financial year. Available at: https://tinyurl.com/526z5zw5.

The limits established for credit operations help to maintain a higher quality in the guarantees granted, preventing entities that already have a high level of indebtedness from worsening their situation, reducing the risk of the guarantor having to honor the guarantees granted.

Data from the System for the Analysis of Public Debt, Credit Operations and Guarantees of the Federal Government, States and Municipalities (Sadipem) shows that, in 2024, BRL 23.1 billion in domestic operations with a Federal Government guarantee are already in some form of analysis. Around BRL 0.1 billion in PVLs are listed as archived. Finally, BRL 3.7 billion is included in the opinion sent to the National Treasury Attorney General's Office (PGFN)[64].

TABLE 4. PROCESSES OF DOMESTIC CREDIT OPERATIONS WITH FEDERAL GOVERNMENT GUARANTEE IN SADIPEM BY STATUS (CURRENT BRL BILLION)

Status of Request for Verification of Limits and Conditions (PVLs)	2023	2024
Archived or not completed	**3.95**	**0.13**
Archived on request	3.92	0.13
Archived by STN	0.03	0.00
Under analysis	**1.15**	**23.05**
Signed by the interested party (rectification)	0.00	0.16
Under analysis	0.00	11.29
Under legal consultation	0.21	0.00
Under rectification by the creditor	0.55	4.89
In rectification by the interested party	0.39	6.71
Completed	**27.02**	**3.73**
Forwarded to PGFN (court decision)	6.89	0.00
Forwarded to PGFN with favorable technical opinion	20.12	3.73
PVL canceled	**0.03**	**0.00**
Total	**32.14**	**26.91**

Source: Sadipem, National Treasury Secretariat. Prepared by: IFI.

Thus, there is a potential of at least BRL 26.8 billion (considering unfiled cases) in credit operations guaranteed by the Federal Government by March 19, 2024, most of which will come from development banks[65] (BRL 14.3 billion), followed by federal banks (BRL 12.4 billion).

Assessment of Payment Capacity

There are a number of requirements for granting guarantees in domestic credit operations. For internal credit operations, the National Treasury Secretariat's (STN) Manual for Application Instructions (MIP)[66] defines that the federative entity must contact a financial institution, development agency or other credit institutions to negotiate the conditions of the operation, observing the limits and conditions in the legislation in force[67].

The STN, in compliance with the requirement of item I of Art. 23 of RSF No. 43, of 2001[68], conducts the assessment of the payment capacity for credit operations of States, the Federal District, and Municipalities that involve endorsement or guarantee of the Federal Government, one of the necessary elements for the granting of a guarantee.

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[64] According to the Manual for Application Instructions (MIP), the current status flow for evaluating the Request for Verification of Limits and Conditions (PVL) considers the processes forwarded to the PGFN to be concluded.
[65] It considers the BNDES and the Special Industrial Financing Agency, Finame.
[66] MIP referring to February 9, 2024. Available at: https://tinyurl.com/2y352zwt.
[67] Page 145 of the MIP.
[68] Art. 23. Requests for authorization to carry out domestic or foreign credit operations on behalf of states, the Federal District and municipalities, which involve a Federal Government guarantee, must contain:
I - Explanatory Memorandum by the Minister of Finance, which includes the classification of the financial situation of the applicant, in accordance with the Ministry of Finance's regulation regarding the payment capacity of the States, the Federal District, and the Municipalities. (emphasis added).

With regard to the rule on the ability to pay (CAPAG) of States, the Federal District and Municipalities, the IFI has two analyses of previous versions of the methodology. The first, in Special Study No. 2 of May 2017[69] analyzes Ministry of Finance Ordinance No. 306, from 2012[70], which was in effect until 2017. This study evaluated CAPAG's methodology and the requirements for carrying out credit operations with a Federal Government guarantee, as well as its indicators. The second analysis was made in Technical Note No. 13, of December 2017, analyzing MF Ordinance No. 501, of 2017[71], which revoked CAPAG's old methodology and defined a new one.

In summary, CAPAG assesses a number of indicators and assigns a partial grade to each of them. Since 2018, the indicators of Indebtedness (Gross Consolidated Debt in relation to Net Current Revenue), Current Savings (Current Expense in relation to Adjusted Current Revenue), and Liquidity (Financial Obligations in relation to Gross Cash Availability) have been present[72]. The value of each of these indicators generates a partial classification, which can be A, B and C, from best to worst. The combination of the partial ratings of the three indicators generates a final grade, which is the CAPAG, classified from A to D. The granting of a guarantee depends on the entity having a CAPAG rating of A or B[73].

In the case of states and the Federal District, which have the highest volume of guarantees received among regional entities, the data shows that after 2020 there was an improvement in payment capacity. In 2020, the year of the pandemic, STN data showed CAPAG A or B in 10 of the 27 states. In 2021, this number doubled.

TABLE 5. PAYMENT CAPACITY CLASSIFICATION OF STATES AND DF FROM 2018 TO 2023

Classification	2018	2019	2020	2021	2022	2023
Able to obtain guarantees	12	11	10	20	21	19
A	1	1	2	5	7	5
B	11	10	8	15	14	14
Not able to obtain guarantees	14	16	16	7	6	8
C	12	12	13	4	4	5
D	2	3	3	3	2	3
n.d	1					
Suspended		1	1			
Total	**27**	**27**	**27**	**27**	**27**	**27**

Source: National Treasury Secretariat. Prepared by: IFI.

In 2020, Complementary Law No. 173[74] was approved, which established the Federative Program to Combat Coronavirus, containing measures such as the suspension of payments on debts contracted between the Federal Government and regional governments in 2020; the restructuring of domestic and foreign credit operations with the financial system and multilateral credit institutions; and the delivery of BRL 60 billion by the Federal Government in the form of financial aid.

In return, the states were prohibited from granting salary increases to their employees, as well as hiring or admitting personnel and incurring mandatory continuous expenses, except as necessary for combating the pandemic or through prior compensation. The measure was in force until December 31, 2021.

[69] Available at: https://tinyurl.com/mw8bnjk2.
[70] Available at: https://tinyurl.com/2k3p344h.
[71] Available at: https://tinyurl.com/mstnc49t.
[72] MF Normative Ordinance No. 1,583/2023 introduced a new liquidity indicator called Relative Liquidity to replace the previous liquidity indicator, but it only came into effect on January 1, 2024 and is not included in Tables 5 and 6.
[73] This is not the only criterion for obtaining a Federal Government guarantee, and there may be cases in which the entity receives a guarantee even with a CAPAG lower than B, under specific conditions laid down in the regulations. Both Ministry of Finance Ordinance No. 501/2017, Ministry of Economy Ordinance No. 5,623/2022, and Normative Ministry of Finance Ordinance No. 1,583/2023, allow for credit operations without the requirement of a CAPAG rating for credit operations aimed at financing investment projects to improve revenue administration and fiscal, financial, and asset management, or that are intended for the restructuring and recomposition of debt principal or to support privatization processes, provided that these resources from privatization are linked to the payment of pre-existing debts.
[74] Available at: https://tinyurl.com/yr36ycrb.

Another element was the compensation for the variation in the State (FPE) and Municipal (FPM) Participation Funds in 2020, arising from Provisional Measure 938 of 2020[75], which provided for compensation due to the negative variation in the funds during the pandemic. With this instrument, an additional BRL 16 billion was passed on to regional entities, which contributed to the fiscal situation in 2020 not having deteriorated in the states and municipalities.

The CAPAG rating for the year reflects the situation of the previous fiscal years, so the situation observed in 2021 reflects the indicators seen from 2018 to 2020 (in the case of the Current Savings indicator) and 2020 (for the indebtedness and liquidity indicators), which were used as the basis for calculation[76].

In this way, there was greater control of expenses and revenue gains in the period, which allowed for the accumulation of cash and a relative improvement in the indicators. In 2022, the total number of states able to obtain a guarantee from the Federal Government totaled 21, and in 2023, the number fell to 19, a result that derives from the indicators observed in 2022, when there was a worsening due to the resumption of debt service payments by the states and the restrictions that prevented an increase in spending.

In the case of municipalities, Table 6 shows that there was a sharp increase in the total number of municipalities able to obtain federal guarantees for credit operations. In 2020, municipalities with CAPAG A or B represented around 28% of all municipalities. In 2021, this percentage rose to 45.5%, an increase of 17.5 p.p. in a single year. The total number of entities with CAPAG C and D, on the other hand, fell from 43.3% in 2020 to 34.2% in 2021.

TABLE 6. PAYMENT CAPACITY RATING OF MUNICIPALITIES FROM 2018 TO 2023 (% OF TOTAL)

Classification	2018	2019	2020	2021	2022	2023
Able to obtain guarantees	21.9%	29.5%	28.0%	45.5%	44.6%	48.5%
A	11.2%	15.6%	12.9%	26.0%	17.8%	15.6%
B	10.7%	13.9%	15.2%	19.5%	26.7%	32.8%
Unable/uninformed	78.1%	70.5%	72.0%	54.5%	55.4%	51.5%
C	31.6%	43.1%	43.1%	38.3%	33.9%	21.6%
D	0.1%	0.0%	0.2%	0.1%	0.3%	0.2%
n.d.	46.4%	27.4%	28.6%	16.1%	21.3%	29.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury Secretariat. Prepared by: IFI.

Thus, the CAPAG data alone does not show a reason for the increase in credit operations in 2023, which can be explained by other factors.

For the year 2024, MF Normative Ordinance No. 1583[77] of 2023 introduced two changes to the guarantees granted for the year. The first pertains to the replacement of the liquidity indicator with the relative liquidity indicator, which changes the criterion to the ratio between gross cash availability (after deducting financial obligations) divided by net current revenue. Another change concerns the creation of the new Capag A+ and B+ classifications, which are based on the quality of the tax information[78]. The ordinance also reduced the minimum volume of operations from BRL 30 million to BRL 20 million, allowing operations with a minimum value of BRL 10 million linked to Public-Private Partnerships (PPPs), which could lead to more operations in smaller amounts.

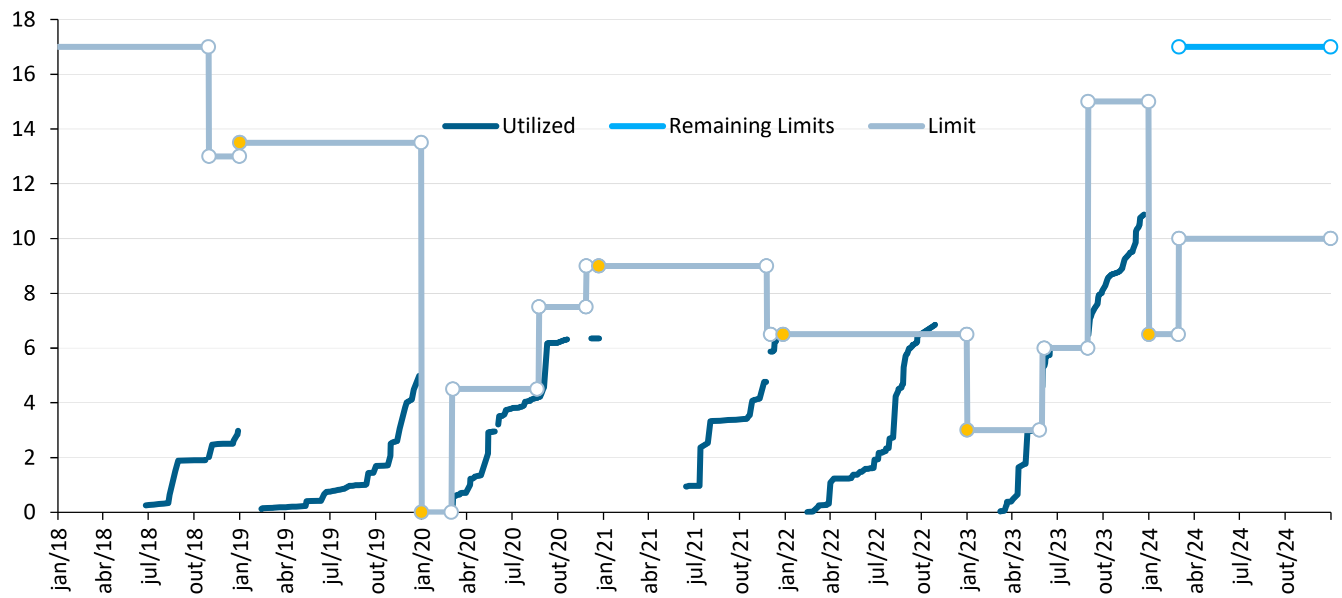
[75] Available at: https://tinyurl.com/5f2yvc62.
[76] An analysis of the effects of Complementary Law No. 173 of 2020 can be seen in the Subnational Entities Finance Bulletin 2021, available at: https://tinyurl.com/2u2jy57y.
[77] Available at: https://tinyurl.com/bdzjvskv.
[78] According to the STN, it is hoped to reduce the time it takes to analyze Capag by encouraging these classifications. Available at: https://tinyurl.com/2p8nmpjn.

Credit limit for granting guarantees

The National Monetary Council, through CMN Resolution No. 4,995[79] of 2022, and its amendments, establishes the credit limits that financial institutions authorized by the Central Bank must observe in domestic credit operations granted to regional entities.

In the case of operations with guarantees from the Federal Government, the resolution stipulates that financial institutions must observe the limits set for the fiscal year. Using data from the Registration System for Credit Operations with the Public Sector (Cadip)[80], Graph 10 illustrates the limit available per year and the domestic credit operations with a Federal Government guarantee registered. registered. In 2018, despite the CMN having reduced the credit limit for the year, around BRL 2.8 billion of the limit was used for credit operations. In 2019, of the BRL 13.5 billion available, just over BRL 4.9 billion was used. In 2020, whose credit limit was increased from BRL 4.5 billion at the beginning of the year to BRL 9.0 billion due to the pandemic, around BRL 6.3 billion was actually used.

GRAPH 10. CREDIT LIMITS FOR OPERATIONS GUARANTEED BY THE FEDERAL GOVERNMENT AND LIMIT USED (BRL MILLION)



Source: Credit limits for the public sector and CMN Resolutions. Central Bank. Prepared by: IFI.

In 2021 and 2022, the limit of BRL 6.5 billion for guarantees was maintained, with the available limit being fully utilized in each year during the fiscal period. In 2022, the limit was fully used in November.

CMN Resolution 5,054[81] of 2022 introduced a series of exceptions to the annual limit on domestic credit operations, including: credit operations under the Fiscal Recovery Regime (RRF), the Fiscal Stability Promotion Plan (PEF), the Fiscal Restructuring and Adjustment Program (PAF) and the Fiscal Monitoring and Transparency Program. Along with this change, there was a reduction in the 2023 limit to BRL 3 billion for operations guaranteed by the Federal Government. The previous rules removed from the overall limit only credit operations carried out by a development agency or development bank (BNDES).

In May 2023, the CMN once again changed the credit limits for operations guaranteed by the Federal Government, raising the limits to BRL 6 billion. The change was due to an increase in the regional governments' primary balance projection for the next three years, according to the Explanatory Memorandum that accompanied the change[82].

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[79] Available at: https://tinyurl.com/2vy6t28z.
[80] Cadip is a system made available by the Central Bank of Brazil for financial institutions to register credit operations with public sector bodies and entities. Available at: https://tinyurl.com/y3m5ha4e.
[81] See Explanatory Memorandum at: https://tinyurl.com/yhwu5b6b.
[82] Amendment made by CMN Resolution no. 5,073/2023. Explanatory memorandum available at: https://tinyurl.com/3asvkdnj.

The last change took place in September 2023, with CMN Resolution No. 5,096[83], which raised the limit for credit operations guaranteed by the Federal Government to BRL 15 billion. As shown in Graph 10, the previous limit was exhausted by June.

In a new assessment, according to the explanatory memorandum attached to the Resolution, the STN verified, based on data from the state, municipal and district governments available up to May 2023, that fiscal performance would allow a further increase in credit limits without jeopardizing the targets stipulated in the Budget Guidelines Law (LDO). This latest change led to an increase of BRL 9 billion in the limits already authorized.

Thus, when looking at the 2023 data, it can be seen that of the BRL 15 billion contracted for state and municipal governments during the year, BRL 10.9 billion was used.

In 2024, on the other hand, CMN Resolution No. 5,115[84], of January 25, 2024, established a credit limit guaranteed by the Federal Government of BRL 17 billion for 2024, valid as of March 1, divided into three categories: BRL 10.0 billion in free operations; BRL 5.0 billion in operations contemplated under the New PAC; and BRL 2.0 billion for contracts under Public Private Partnerships (PPPs)[85].

Finally, considering the Cadip data, Table 7 shows the amount of domestic credit operations by modality[86]. There is a BRL 16.5 billion volume of operations carried out under the RRF, PEF and the Fiscal Monitoring and Transparency Program, which are not subject to the overall BRL 15.0 billion limit set for the 2023 financial year. Thus, even considering the increase in the overall limits for credit operations with a Federal Government guarantee compared to previous years, the biggest increase was related to exceptions to the limits.

TABLE 7. REGISTRY OF DOMESTIC CREDIT OPERATIONS WITH FEDERAL GOVERNMENT GUARANTEE BY MODALITY, FEDERAL ENTITY AND CREDITORS (BRL BILLIONS)

Borrower and creditor	AT - Subject to overall limit	RF - RRF/PAF/PEF	Total
STATE	**3.00**	**13.99**	**16.99**
Federal Banks	3.00	11.38	14.38
BNDES	0.00	1.50	1.50
Private creditors	0.00	1.10	1.10
MUNICIPALITY	**7.88**	**2.55**	**10.43**
Federal Banks	7.24	1.85	9.08
BNDES	0.00	0.70	0.70
Private creditors	0.40	0.00	0.40
Regional Banks	0.24	0.00	0.24
Total	**10.88**	**16.53**	**27.41**

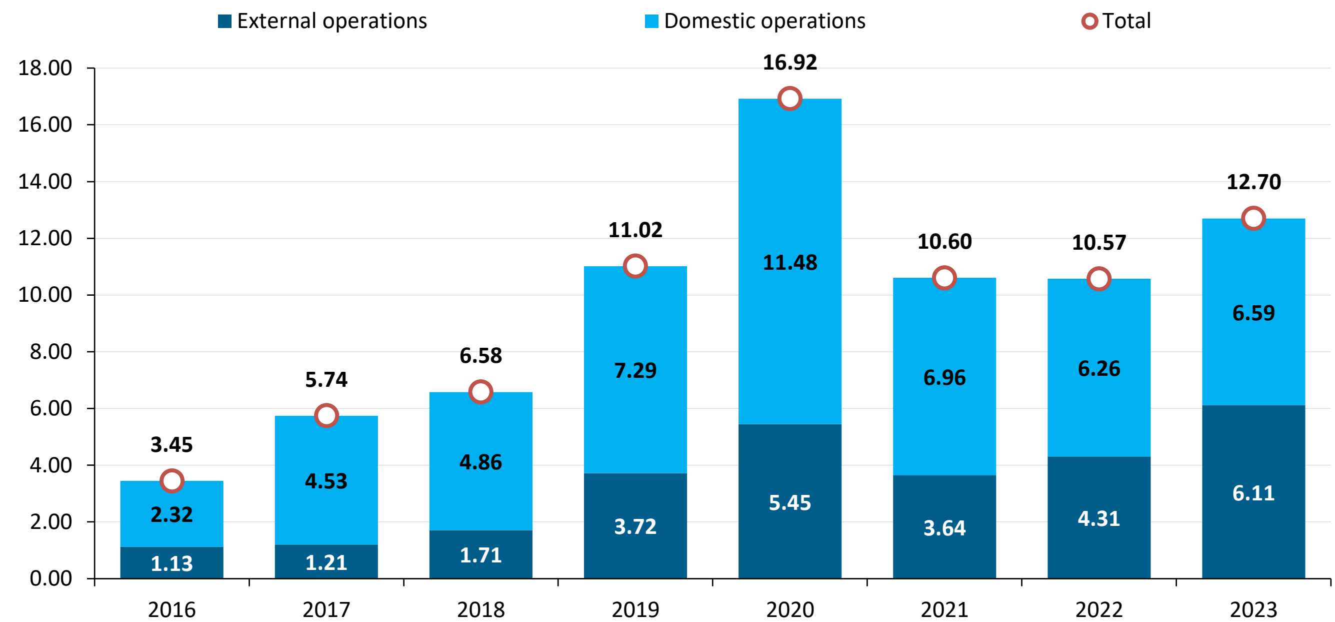
Source: Registration of credit operations by public entities in CADIP/BCB. Central Bank. Prepared by: IFI.

[83] See Explanatory Memorandum at: https://tinyurl.com/3xv97hp8.
[84] Available at: https://tinyurl.com/mvyhb4b6.
[85] This last item is part of the federal government's incentive measures for PPPs. Read more at: https://tinyurl.com/3v472phc.
[86] Although the data on guarantees granted by the Treasury are related to the data from Cadip for most operations, it should be noted that the sums of the data do not match. The Treasury's metadata informs us that the source of the information is "the list of domestic contracts with Federal Government Guarantee, informed by PGFN/CAF" (available at: https://tinyurl.com/mrmesmyd).
The Cadip data, in turn, is provided by the financial institutions when registering the credit operation, and they must provide the number of the STN Official Letter authorizing the operation or, alternatively, the number of the Request for Verification of Limits (PVL), from the System for the Analysis of Public Debt, Credit Operations and Guarantees of the Federal Government, States and Municipalities (SADIPEM). Due to limitations in the Cadip system to properly record information and the lack of details on the origin of processes or documents in the Treasury database, we adopted an estimate for the total value of domestic credit operations aimed at states, the Federal District, and municipalities with Federal Government guarantees, identifying them by the entry "NATIONAL TREASURY GUARANTEE" in any field. In Table 7, "AT" refers to contracts with a federal guarantee subject to the annual credit limit. The "RF" modality refers to "operations under the Fiscal Recovery Regime, the Fiscal Stability Promotion Plan, the Fiscal Restructuring and Adjustment Program and the Fiscal Monitoring and Transparency Program", as illustrated in the Cadip manual: https://tinyurl.com/m7e9vhy9.

Considering the modality subject to the global limit, most of the operations involved municipalities, which had BRL 7.9 billion guaranteed, most of which was guaranteed by federal banks. In the off-limits modality, the largest proportion was related to the states, which registered BRL 14.0 billion coming largely from federal banks (Caixa and BB).

The risk associated with the increase in the volume of guarantees granted is the potential need to honor the commitments undertaken due to default. Graph 11 shows that the total volume of guarantees honored by the Federal Government has remained above BRL 10 billion per year since 2019, most of which refers to domestic credit operations. In 2023, the Federal Government honored BRL 12.7 billion in guarantees granted, of which BRL 6.6 billion came from domestic operations.

GRAPH 11. GUARANTEES HONORED BY FEDERAL GOVERNMENT (BRL BILLION FEB/24)



Source: Siga Brasil Portal. Prepared by: IFI.

After honoring the guarantee granted, the Federal Government seeks to recover the guarantees. As a general rule, this is done by executing the borrowers' counter-guarantees. In exceptional cases, such as states in the RRF, the amount of the debt is refinanced in up to 360 months[87].

[87] The STN publishes the Monthly Report on Guarantees Honored, available at: https://tinyurl.com/mv8wctbs.

IFI projections

SHORT TERM

IFI projections	2024			2025		
	Feb/24	Mar/24	Comparison	Feb/24	Mar/24	Comparison
GDP - real growth (% p.a.)	1.65	1.65	=	1.96	1.96	=
GDP - nominal (BRL billion)	11,537.88	11,537.88	=	12,256.27	12,256.27	=
IPCA - accumulated (% for the year)	3.88	3.88	=	3.49	3.49	=
Exchange rate - end of period (BRL/US$)	4.89	4.89	=	4.95	4.95	=
Employment - growth (%)	1.00	1.00	=	1.02	1.02	=
Payroll - growth (%)	2.52	2.52	=	1.96	1.96	=
Selic - end of period (% p.a.)	9.50	9.50	=	8.50	8.50	=
Ex-ante real interest rate (% p.a.)	5.35	5.35	=	4.22	4.22	=
Consolidated Public Sector Primary Balance (% of GDP)	-0.85	-0.85	=	-0.76	-0.76	=
of which Central Government	-0.95	-0.95	=	-0.76	-0.76	=
Net Nominal Interest (% of GDP)	5.99	5.99	=	5.56	5.56	=
Nominal Balance (% of GDP)	-6.83	-6.83	=	-6.32	-6.32	=
General Government Gross Debt (% of GDP)	77.66	77.66	=	80.19	80.19	=

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