

Strategies for Growth: The Changing Role of the State



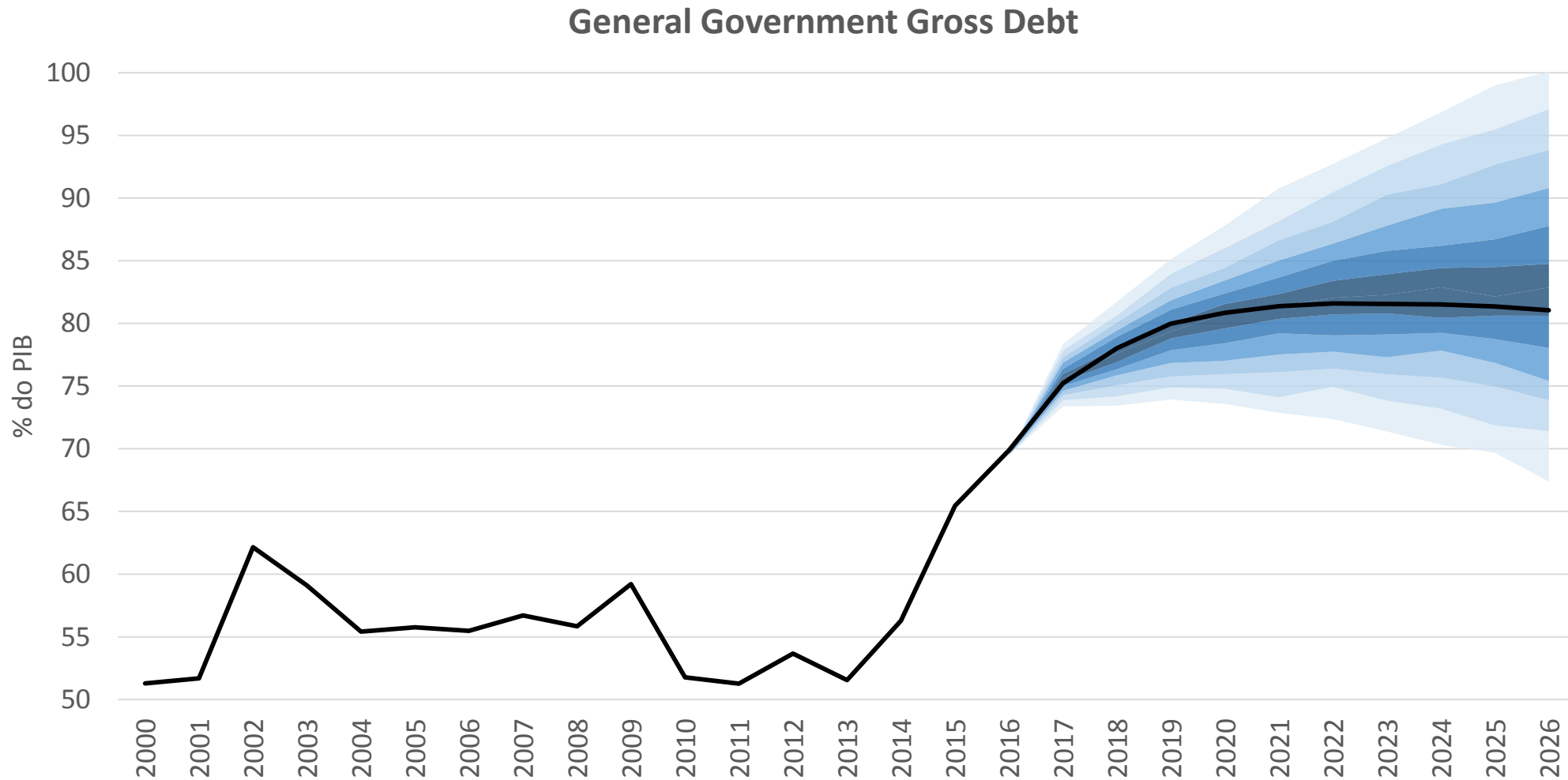
Fiscal and Monetary Challenges in Brazil

08 de dezembro de 2017

Summary

- 1 Debt Sustainability in the Long Run**
- 2 Improvements in Fiscal Institutions in Brazil**
- 3 Fiscal Transparency Evaluation**
- 4 Improvements in State-owned Enterprise's Governance**
- 5 TLP – Long-Term Rate**
- 6 Relationship between the Treasury and Central Bank**

1 Debt Sustainability in the Long Run



Source: National Treasury Secretary

Treasury's Report about public debt sustainability in the long run:

<http://www.tesouro.fazenda.gov.br/-/tesouro-publica-analise-sobre-solvencia-e-sustentabilidade-da-divida-publica>

2 Improvements in Fiscal Institutions in Brazil

Improving Fiscal Responsibility Law

Introduction of Matrix of Accounting Balances:

- Instrument for standardization of the subnational governments' fiscal statistics.

New governance on the Federal Government Guarantee's systematics.

New governance for subnational government's indebtedness.

Spending Cap

Limits the growth of public spending to inflation for, at least, the next 20 years.

Creates stable and predictable rule for federal expenditure.

Forces prioritization of public policies.

Brings importance for the Social Security reform and spending review.

Incentives public policies evaluation and spending review.

Golden Rule

Limits the federal indebtedness: Credit Operation revenues can't exceed Capital Expenditure.

Intergenerational alingment of the indebedtedness process.

Improvement needed.

Economic Policy Secretariat and National Treasury's Tutorial for calculating of the "Golden Rule" : http://www.spe.fazenda.gov.br/prisma-fiscal/arquivos/tutorial-regra-de-ouro-despesas-de-capital-e-operacoes-de-credito_final.pdf

Bulletin on Finances of Subnational Governments: <http://www.tesouro.fazenda.gov.br/-/tesouro-nacional-lanca-boletim-de-financas-publicas-de-estados-e-municipios>

For an explanation of "Golden Rule", see box in August's Result of National Treasury, on: <http://www.tesouro.fazenda.gov.br/web/stn/-/historico-resultado-do-tesouro-nacional>

3 Fiscal Transparency Evaluation

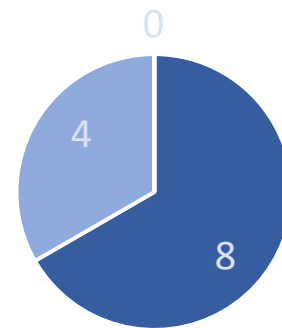
In January 2017, the Fiscal Transparency Evaluation report on Brazil was released by the International Monetary Fund.

Even though Brazil's practices meet many of the principles of the Fiscal Transparency Code at **good or advanced levels**, it has been appointed weaknesses in fiscal transparency that are being addressed:

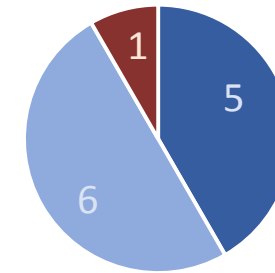
- Expand the institutional coverage of fiscal reports, incorporating Petrobras and Eletrobras into the data on non-financial public enterprises;
- Improve transparency on transactions between BCB and the Treasury
- Create a fully functioning independent fiscal council and initiate a full review of the existing public finance legal framework;
- Improve the disclosure of fiscal risks in the budgetary guidelines law as well as release the government view on long-term sustainability of public finances.

Summary Assessment Against the Fiscal Transparency Code

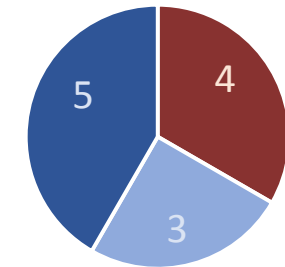
Fiscal Reporting



Fiscal Forecasting and Budgeting



Fiscal Risk Analysis and Management



■ Good and Advanced ■ Basic ■ Not Met

Practices with high level of importance

Fiscal Reporting	Fiscal Forecasting and Budgeting	Fiscal Risk Analysis and Management
Coverage of Institutions	Macroeconomic Forecast	Macroeconomic Risks
Coverage of stocks	MT Budget Framework	Long-Term Fiscal Sustainability
Coverage of Flows	Investment Projects	Asset and Liability Management
	Independent Evaluation	Financial Sector

4 Improvements in State-owned Enterprise's Governance

New law on State-owned Enterprise's (SOE) Governance (*Law #13.303 of June 30th, 2016*)

Changes in the Enterprises' structure:

- Compulsory creation of Compliance, Intern Auditing, and Audit and Eligibility committees.
- 25% of Independent members on Board of Directors.
- Transparency requirements: Disclosure of public policies pursued, dividend payout policies, and related party's transactions policies.

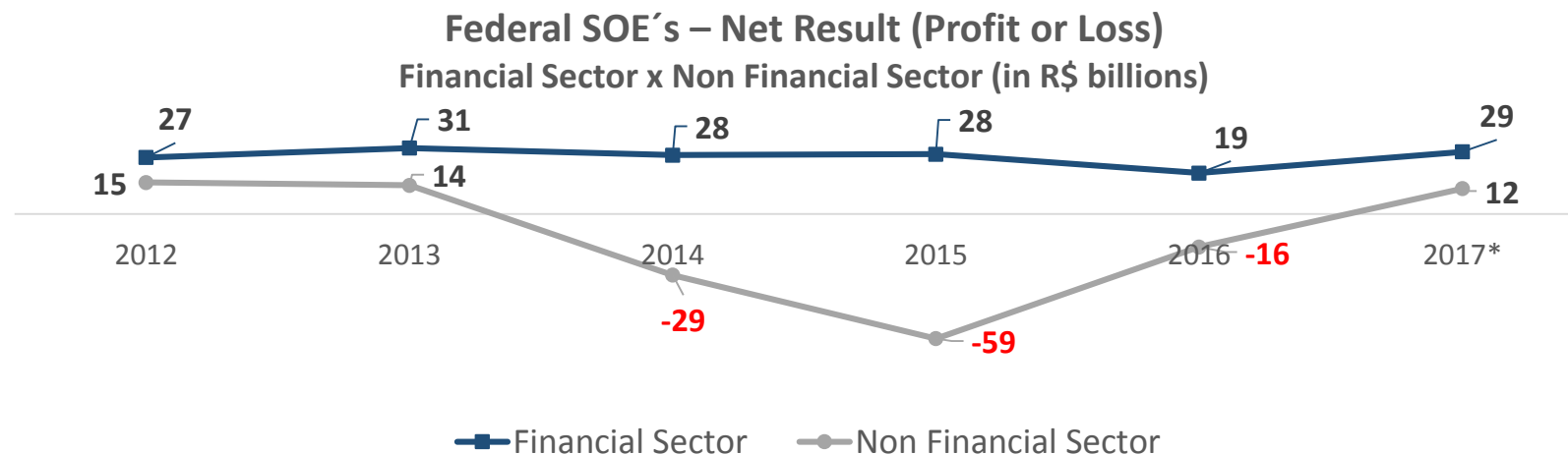
New requirements to occupy seat in the Fiscal Board and Board of Directors:

- Compatible formal education
- Previous experience
- Debarment of congressmen or cabinet members
- Debarment of members of party's decision structures or unions

Recent approved dividend policies establishes a dividend payout of at least 25% for BB, Caixa and BNDES.

New SOE's By-Laws, in accordance to the new law:

- Deadline: 31/06/2018
- 25 approved statutes
- 21 statutes in process of approval



5 TLP

The TJLP represents high fiscal costs to the Federal Government, through indirect subsidies. Considering only the contracts with BNDES, these costs summoned up to R\$ 160 billions between 2008 and 2016.

Its substitute, the TLP, was established by a law passed this year, implying:

- **Reduction in the implicit subsidies**, as it will be leveled to the public debt's cost of opportunity
- Enhancement of the **monetary policy's power**
- **Convergence in 5 years**, assuring the maintenance of established contracts current conditions
- **Better risk management** for Federal Financial Institutions assets
- Development of **capital market**
- More **public expenditure's transparency**: all subsidies discussed during the budgetary process, disputing equally fiscal resources

Related measures:

- **FIES** (student loans): new program design, ensuring **sustainable bases** to it and limiting its formerly exploding costs.
- **Constitutional Funds and Plano Safra** loans (in discussion): **alignment of its interest rate** to market rates
- **Instrument qualifying as Common Equity Tier I Capital** (in discussion): improvements to **limit the subsidies** associated to it.

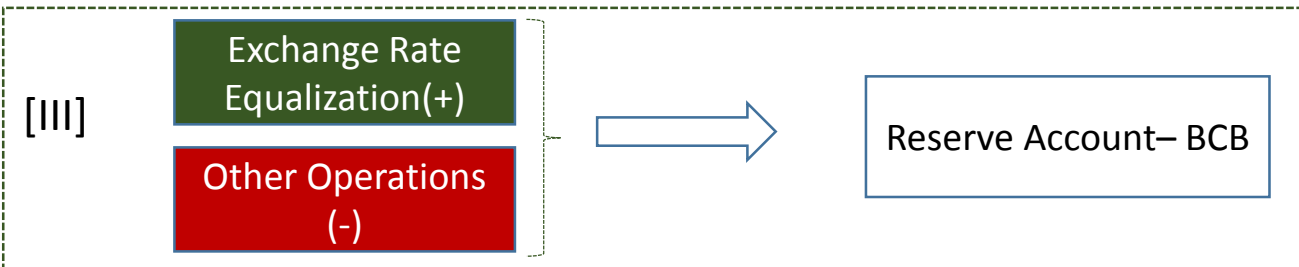
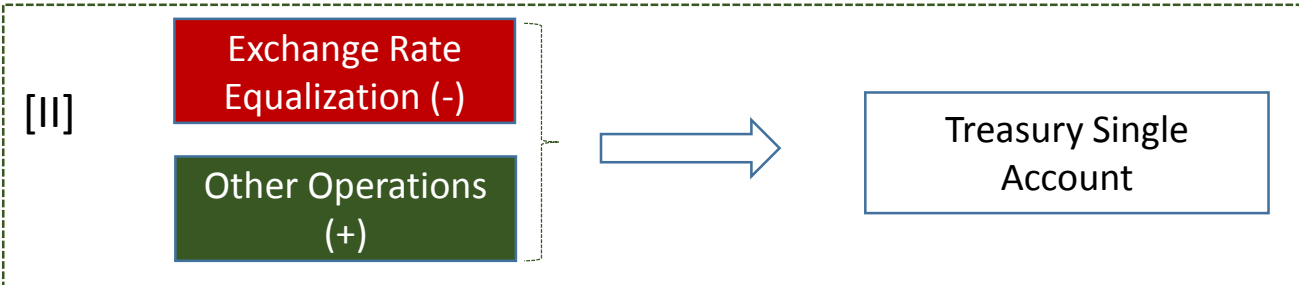
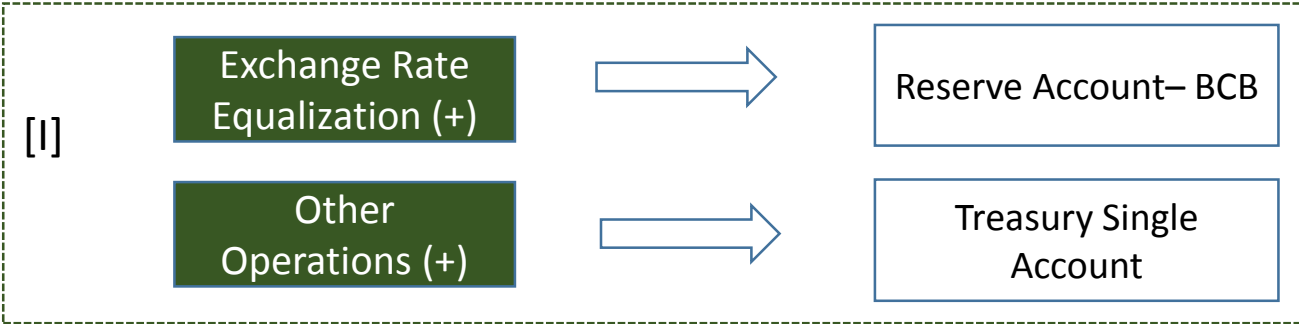
6 Relationship between the Treasury and Central Bank: main improvements

Reduce volatility of transfers between Treasury and Central Bank (CB):

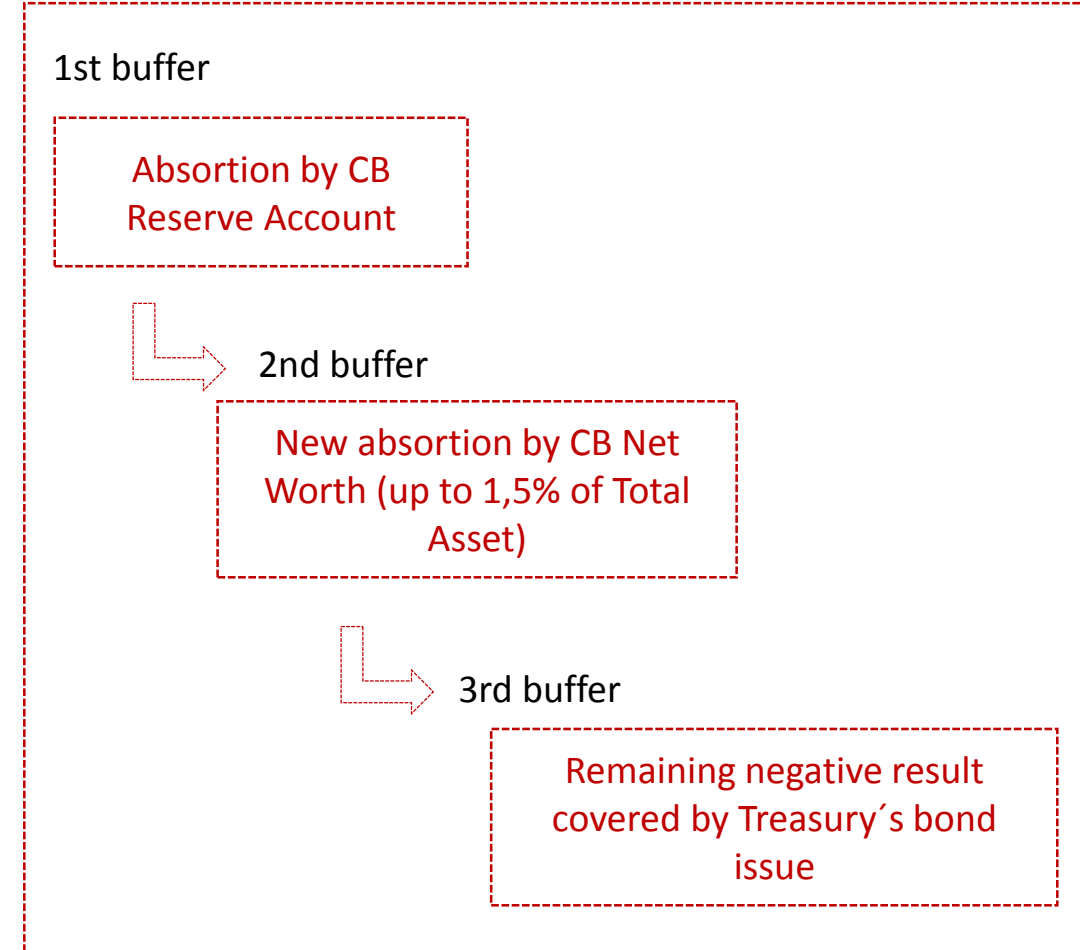


In case of net global surplus

Destination



In case of net global deficit: buffer system



6 Relationship between the Treasury and Central Bank: main improvements

Improvements in the liquidity management:

- Treasury allowed to issue or redeem public bonds, as to maintain a minimum level of public bonds above the amount used as collateral in repo operations, to guarantee the efficiency of monetary policy operations.
- Introduction of voluntary deposits as a complementary instrument to manage liquidity

Expected Result:

- Soften growth of public debt held by BCB → reduction of fiscal costs

Periodic report:

- Information on destination of current BCB financial result, evolution of BCB's portfolio on Treasury bonds and Treasury Single Account under BCB custody.