



## The 2003 Budgetary and Financial Programming

On February 7, 2003, the Brazilian government announced a primary surplus target for the consolidated non-financial public sector in 2003 of 4.25% of GDP, assuring the basis for sustained economic growth for the next years and the decline in inflation rate. The target for the Central Government rose from 2.25 percent of GDP to 2.45 percent of GDP – an increase of R\$3.2 billion. In addition, revised Gross Domestic Product (GDP) estimates translated into a R\$2.0 billion increase to that target. Thus, the primary surplus for the central government budget was raised by R\$ 5,2 billion vis-à-vis the nominal value established in the Annual Budgetary Law (LOA). Mandatory expenditures – particularly transfers, such as retirement outlays of the pension system for private sector workers (RGPS), benefits under the Social Assistance Law (LOAS), and unemployment benefits – are expected to be R\$9.3 billion higher than projected in the LOA. In order to make these commitments consistent with the Central Government's primary surplus target, it was thus necessary to make adjustments to the budget execution schedule. For this purpose, the federal government issued a Decree to reconcile the new revenue forecasts and expenditure execution, reducing by R\$14.1 billion the budgetary authorizations established in the 2003 LOA and setting new financial and budgetary caps for discretionary expenditure by individual Ministries. Notwithstanding the fiscal effort required, the Government social areas were safeguarded. The "Fome Zero" (Zero Hunger) Program activities were given special attention, and all the resources needed for its effective integration and full operation were guaranteed.

### 1. Macroeconomic parameters

The variables used as parameters for budget projections underwent significant changes in recent months. They were affected by the worsening of the external environment, which reflected on domestic inflation and exchange rates. This development becomes clear when one compares the successive medians of market expectations published by the Central Bank in the last few months (Table I). The parameters used in the budget were adjusted accordingly (Table II).

**Table I – Market Readout – Median of Expectations (Focus – Central Bank)**

	GDP (% per year)		IGP-DI (%)		IPCA (% médio)		Exchange Rate (R\$/US\$ Dec)	
	2002	2003	2002	2003	2002	2003	2002	2003
Apr/26/02	2.40	3.50	5.62	4.80	5.46	4.00	2.50	2.60
Aug/23/02	1.50	3.00	9.78	5.25	6.43	4.80	2.80	2.90
Dec/31/02	1.45	1.94	27.40	14.55	12.56	11.00	3.50	3.70
Jan/31/03	1.50	2.00	-	14.36	-	11.44	-	3.61

**Table II - Parameters of the 2003 Budget Bill (PLOA), of the 2003 Budget Guidelines Law (LDO) and of the Budgetary and Financial Programming Decree(BFP)**

Period	IGP-DI	IPCA	Exchange Rate	GDP	
	Average Change	Average Change	R\$/US\$	R\$ million	Real Growth
2003 - LDO	5.17%	6.84%	2.4234	1.422.099.40	4.00%
2003 - PLOA	7.39%	5.24%	2.9000	1.413.909.90	3.00%
BFP	24.82%	13.22%	3.2389	1.596.826.10	2.80%

The rise in inflation, and particularly that of the General Price Index (IGP), is commonly associated to an increase in tax revenue collection. However, revenue increases do not occur in a linear ratio (1:1), that is, particularly when the inflation rises very quickly, revenues do not grow at the same pace. In fact, several taxes (CSLL, CPMF, PIS, COFINS, some taxes on individual income and corporate – i.e., installment receipts from adjustment tax returns – as well as tax withheld at source (IRRF) on capital income, ITR, and IOF) have traditionally been estimated based on the General Price Index for Domestic Availability (IGP-DI) of the Getúlio Vargas Foundation. Recent studies, have, however, shown that if the IGP-DI tends to increase in periods of high exchange rate volatility, as occurred in the end of 2002, revenues do not always follow its changes. Based on these studies, a price index composed of the IGP-DI and the Broad Consumer Price Index (IPCA) of the Brazilian Institute of Geography and Statistics – IBGE (at the 45/55 rate) was adopted for the purpose of estimating tax revenue in 2003. The composite index was selected in order to reflect, among other things, the fact that the revenue from many taxes has a greater link to the final and actual price of goods and services than to their list prices at the wholesale market.

## 2. Revenues

Tax revenue in 2002 was very favorably influenced by extraordinary receipts due mainly to legal measures adopted with the aim of collecting overdue taxes.

**Table III – Extraordinary revenue**

UNIT: R\$ MILLIONS			
ITEM	2002 [A]	2001 [B]	[A] – [B]
INSTITUTION OF CIDE-FUELS (Law 10.336/01)	7,241	-	7,241
Provisional Measure (PM) -38/02 (Art. 11)	2,233	-	2,233
PM-66/02	3,547	-	3,547
- Art. 20 (Debts not linked to judicial cases)	1,453	-	1,453
- Art. 21 (Desistance from judicial actions)	239	-	239
- Art. 24 (Pension funds – deadline extension)	1,833	-	1,833
- Art. 32 (Wholesale electricity market)	22	-	22
PM-75/02 (Art. 14)	1,295	-	1,295
PENSION FUNDS (Except Art. 24, PM-66/02)	7,773	-	7,773
REDEMPTION FINANCIAL INVESTMENT. FOREIGN RESIDENT.	511	60	511
STATE SECTOR (Profits from exchange rate variation)	550	-	550
JUDICIAL/ADMINISTRATIVE DEPOSITS	4,049	3,206	844
STATE-OWNED ENTERPRISE (Profit from sale of public securities)	1,549	-	1,549
TOTAL	28,749	3,266	25,483

In 2003, these one off revenues are not expected to reach volumes anywhere close to those reached in 2002. The decline in extraordinary revenues combined with the use of new parameter estimates to determine the amount of ordinary revenues, point to a significant reduction in actual tax collection in 2003. In other words, the tax burden in the first year of the new government is estimated to drop by more than 2 percentage points of GDP. Notice that this, inter alia, means that the government is *not* counting on a “favorable tide” from inflation.

**Table IV – Total Revenue of the Central Government and Social Security**

Item	Actuals/02		2003 Budget Bill		2003 Budget Law		2003 Revised	
	R\$ billion	% GDP	R\$ billion	% GDP	R\$ billion	% GDP	R\$ billion	% GDP
I. TOTAL REVENUE	324.9	24.30	327.9	23.19	352.7	23.52	357.6	22.39
	2002 GDP estimate	R\$ 1,313,779	GDP estimate (Bill)	R\$ 1,413,910	GDP estimate (Law)	R\$ 1,499,897	GDP revised budget	R\$ 1,596,826

The effect of the new estimation is well illustrated in the case of INSS (National Social Security Institute). Its revenue grows, in nominal terms, to R\$ 81,6 billion, from R\$ 71.6 billion in the LOA. However, in percent of GDP, a drop in collection of about 0.30 percentage point is projected, which can be explained by an increase in the wage bill that is lower than that of nominal GDP.

On balance, the following adjustments were made in the revenue projections presented in the Budget Law:

#### Increases

- Income Tax: R\$ 6.9 billion, due to changes in parameters of the current fiscal year, as well as the extension of the 27,5% progressive rate on the upper income scale of the individual income tax and the income tax withheld at source on labor wages;
- Federal share in Financial Compensations (royalties from oil, etc.): R\$ 1.5 billion, particularly due to the exchange rate devaluation;
- Contribution to the Financing of the Social Security – COFINS: R\$ 0,8 billion, as a result of application of parameters.

#### Reductions

- Tax on Industrial Products – IPI: R\$ 3.3 billion (the IPI is an excise tax in many cases, and hence not affected by inflation; in the LOA it was adjusted by the IGP);
- Contribution for Intervention in Economic Domain – CIDE on fuel products: R\$ 2.4 billion, as the hypothesis of raising the contribution rates used in the LOA was not held in establishing the budgetary and financial programming;



- c) Receipts from Concessions: R\$ 0.8 billion, due to frustrated revenues being collected through auctions, such as those of “D” and “E” bands of the cellular telephony system and that for exploitation of oil prospection areas.

Still regarding the fiscal revenue (including INSS) estimated for 2003, it is noteworthy that only 17.3% are not earmarked to any agency, program or activity, and therefore can be allocated discretionarily.

### 3. Mandatory Expenditures

A central point in assessing expenditures is that approximately 80% of the total expenditures are mandatory. These include: constitutional transfers and mandatory outlays regulated by specific laws, such as the minimum amount to be allocated to Health; subsidy and subvention payments; floor values for low-salary complement, unemployment benefits, and Social Assistance Organic Law (LOAS) benefits, as well as the execution of Judicial Decisions informed by the Powers, and transfers to States by force of Complementary Law 87 and those that followed, i.e., the compensation for the exemption of the ICMS on exports of some products). They also include indemnities of the Proagro, personnel expenditure, in addition to social security benefits.

The current projection includes an expansion of these mandatory expenses, particularly for social benefits. The effect of such factors is that, for instance, the result of the pension system for private sector workers (RGPS) deteriorates by R\$ 6.8 billion, as compared to 2002, and by a little over R\$ 5.2 billion as compared the LOA.

**Table V – Social Security Deficit**

(R\$ billion current)

	2001 Actuals	2002 Actuals	2003 LOA	2003 Programming
Social Security Balance	-12.8	-17.0	-18.6	-23.8
INSS Revenues	62.5	71.0	79.3	81.6
Social Security Benefits	75.3	88.0	97.9	105.4

Overall, the main changes in expenses are as follows:

- RGPS benefits: the revised figure is R\$ 7.5 billion higher than the one established in the LOA, as inflation is higher-than-projected and the Constitution requires all benefits to be adjusted accordingly;
- Salary complement payments, Unemployment Benefits, and LOAS benefits combined increased by R\$ 1.8 billion also due to higher inflation;
- Appropriation of expenditure reflecting the fiscal cost of rescheduling debt in the amount of R\$ 3 billion related to the securitization of rural debt pending from the early 1990s;



- d) The revised personnel expenditure estimate is R\$ 1,9 billion higher than the corresponding amount included in the Budget bill sent to Congress, mostly due to pay rises agreed to in 2002.

#### 4. The Programmed Primary Balance

The primary surplus equivalent to 2,45% of the GDP is estimated at R\$ 39.1 billion, corresponding to an increase of R\$ 5.2 billion as compared to the previous nominal target. This amount may be decomposed into R\$ 2.0 billion, due to the increase in the estimated nominal GDP, and R\$ 3.2 billion, due to the increase in the percentage target itself (Table VI).

Table VI

#### Primary Balance of the Central Government

ITEM	EXECUTED/02		LAW/ 2003		REVISED 2003	
	R\$ billion	% GDP	R\$ billion	% GDP	R\$ billion	% GDP
1. TOTAL REVENUE	324.9	24.29	353.7	23.58	357.7	22.40
2. TRANSFERS TO STATES AND MUNICIPALITIES	52.3	3.91	5.42	3.62	56.1	3.51
3. NET REVENUE (1-2)	272.7	20.38	299.5	19.97	301.6	18.89
4. EXPENDITURE	240.7	18.00	265.7	17.71	262.4	16.43
4.1 Mandatory	183.6	13.73	203.6	13.57	214.5	13.43
Personnel and Social Expenses	73.9	5.52	76.6	5.11	78.5	4.91
Social Security Benefits	88,0	6.58	97.2	6.48	105.4	6.60
Others	21,7	1.62	29.8	1.99	30.6	1.92
4.2 Discretionary - Executive Power	57.1	4.27	62.1	4.14	48.0	3.0
Health, Education and other Social Areas Preserved	32.1	2.40	37.3	2.49	35.0	2.19
Others	25.0	1.87	24.7	1.65	12.9	0.81
5. FISCAL PRIMARY BALANCE AND SOC. SEC. (3-4)	31.9	2.39	33.8	2.25	39.1	2.45
6. STATE-OWNED ENTERPRISES PRIMARY BALANCE	6.3	0.47	8.3	0.55	11.2	0.70
7. UNION PRIMARY BALANCE	38.2	2.86	42.1	2.81	50.3	2.15

Cash Basis; (+) Surplus; (-) Deficit  
Expenses: Cash Basis

#### 5. Adjustment in Discretionary Expenditures

The new revenue estimates combined with the increase in mandatory expenditures and a more ambitious fiscal target imply a fiscal effort of R\$ 14.1 billion.

The effort is translated into a contingency adjustment corresponding to 5.4% of total budget expenditures and of 22.7% of discretionary expenditures. The adjustment spread across Ministries, respected individual needs and the government's priorities. In particular, the new social programs were preserved, such as "Fome Zero" (Zero Hunger), without displacing existing programs such as the "Bolsa-Renda" (Income Scholarship), "Bolsa-



Escola” (School Scholarship), “Saúde da Família” (Family Health), among others. The Government thus restates its commitment to fiscal and social responsibility.

The new limits for relocation and commitment of discretionary expenditures are as follows (Table VII).

**Table VII - New Budgetary Limits**

ANNEX I + II + III		
LIMITS FOR RELOCATING AND COMMITTING EXPENDITURES		R\$ thousand
AGENCIES AND/OR BUDGETARY UNITS	TOTAL	
	LAW	AUTHORIZED LIMIT
20101 OFFICE OF THE PRESIDENCY OF THE REPUBLIC	471,223	284,774
20102 OFFICE OF THE VICE-PRESIDENCY OF THE REPUBLIC	2,18	1,853
20114 GENERAL ATTORNEY'S OFFICE	57,427	46,396
20118 BRAZILIAN INTELLIGENCE AGENCY	34,493	29,908
20121 SPECIAL SECRETARIAT OF HUMAN RIGHTS	119,598	23,600
20122 SPECIAL SECRETARIAT OF POLICIES FOR WOMEN	24,135	4,100
20123 OFFICE OF THE EXTRAORDINARY MINISTER OF FOOD SECURITY AND FIGHT AGAINST HUNGER	1,756,800	1,722,300
20124 SPECIAL SECRETARIAT OF AQUICULTURE AND FISHING	9,442	6,200
22000 MINISTRY OF AGRICULTURE, CATTLE RAISING AND SUPPLY	740,246	429,573
24000 MINISTRY OF SCIENCE AND TECHNOLOGY	1,928,649	1,885,100
25000 MINISTRY OF FINANCE	1,549,648	1,322,905
26000 MINISTRY OF EDUCATION	7,268,558	6,927,550
28000 MINISTRY OF INDUSTRIAL DEVELOPMENT AND FOREIGN TRADE	417,448	289,302
30000 MINISTRY OF JUSTICE	1,287,828	1,018,280
32000 MINISTRY OF MINES AND ENERGY	864,821	433,796
33000 MINISTRY OF SOCIAL SECURITY	1,476,924	1,229,194
35000 MINISTRY OF FOREIGN RELATIONS	566,105	506,381
36000 MINISTRY OF HEALTH	24,642,806	23,023,802
38000 MINISTRY OF LABOR AND EMPLOYMENT	784,544	522,829
39000 MINISTRY OF TRANSPORTATION	3,939,253	1,399,205
41000 MINISTRY OF COMMUNICATIONS	643,624	446,924
42000 MINISTRY OF CULTURE	264,811	129,467
44000 MINISTRY OF ENVIRONMENT	785,982	340,278
47000 MINISTRY OF PLANNING, BUDGET, AND MANAGEMENT	331,246	264,080
49000 MINISTRY OF AGRARIAN DEVELOPMENT	1,116,437	709,300
51000 MINISTRY OF SPORTS	369,611	43,132
52000 MINISTRY OF DEFENSE	4,623,956	3,160,655
53000 MINISTRY OF NATIONAL INTEGRATION	2,046,355	188,631
54000 MINISTRY OF TOURISM	345,850	121,916
55000 MINISTRY OF SOCIAL ASSISTANCE AND PROMOTION	1,234,882	984,120
56000 MINISTRY OF CITIES	2,200,888	326,025
73101 FUNDS UNDER THE SUPERVISION OF THE MINISTRY OF FINANCE	131,482	131,482
73105 FEDERAL DISTRICT GOVT. – FUNDS UNDER SUPERVISION OF THE M. OF FINANCE	35,000	
<b>TOTAL</b>	<b>62,073,261</b>	<b>47,953,058</b>

SOURCES: 100, 111, 112, 113, 118, 127, 129, 130, 131, 132, 133, 134, 135, 139, 140, 141, 142, 146, 147, 148, 149, 150, 151, 153, 155, 157, 158, 162, 164, 172, 174, 175, 176, 179, 180, 181, 185, 186, 246, 247, 249, 250, 281, 280, 293, 900, 951, 985

The financial schedule, i.e., the chronogram for actually releasing payments, (Table VIII) follows the budgetary programming structure, adjusted for cash basis and processed commitments inherited from 2002. In this respect, the 2003-LDO introduced some novelties, in particular the requirement of presenting a schedule for the payments of those commitments (Table IX).

**Table VIII**

<b>LIMITS ON PAYMENTS FOR COMMITMENTS IN THE 2003 BUDGETARY LAW AND IN THE 2002 PAYMENT ARREARS</b>	
	<b>Limit on Payment</b>
	<b>Total</b>
OFFICE OF THE PRESIDENCY OF THE REPUBLIC	379,222
OFFICE OF THE VICE-PRESIDENCY OF THE REPUBLIC	1,502
GENERAL ATTORNEY'S OFFICE	38,989
BRAZILIAN INTELLIGENCE AGENCY	-
SPECIAL SECRETARIAT OF HUMAN RIGHTS	-
SPECIAL SECRETARIAT OF POLICIES FOR WOMEN	-
OFFICE OF THE EXTRAORD. MINISTER OF FOOD SECURITY AND FIGHT AGAINST HUNGER	1,714,520
SPECIAL SECRETARIAT OF AQUICULTURE AND FISHING	-
MINISTRY OF AGRICULTURE, CATTLE RAISING AND SUPPLY	415,886
MINISTRY OF SCIENCE AND TECHNOLOGY	1,574,672
MINISTRY OF FINANCE	1,181,597
MINISTRY OF EDUCATION	6,427,245
MINISTRY OF INDUSTRIAL DEVELOPMENT AND FOREIGN TRADE	297,110
MINISTRY OF JUSTICE	953,952
MINISTRY OF MINES AND ENERGY	347,820
MINISTRY OF SOCIAL SECURITY	1,100,657
MINISTRY OF FOREIGN RELATIONS	417,190
MINISTRY OF HEALTH	23,155,168
MINISTRY OF LABOR AND EMPLOYMENT	437,783
MINISTRY OF TRANSPORTATION	674,823
MINISTRY OF COMMUNICATIONS	400,966
MINISTRY OF CULTURE	99,767
MINISTRY OF ENVIRONMENT	252,571
MINISTRY OF PLANNING, BUDGET, AND MANAGEMENT	264,802
MINISTRY OF AGRARIAN DEVELOPMENT	647,607
MINISTRY OF SPORTS	105,461
MINISTRY OF DEFENSE	3,464,102
MINISTRY OF NATIONAL INTEGRATION	390,575
MINISTRY OF TOURISM	96,828
MINISTRY OF SOCIAL ASSISTANCE AND PROMOTION	958,154
MINISTRY OF CITIES	297,644
TRANSFERS UNDER SUPERVISION OF THE MINISTRY OF FINANCE	103,835
<b>SUBTOTAL</b>	<b>46,200,448</b>
<b>PROGRAMS AND ACTIVITIES UNDER INTENSIVE MANAGEMENT</b>	<b>1,052,610</b>
<b>TOTAL</b>	<b>47,253,058</b>
<b>RESERVE</b>	<b>700,000</b>
<b>GENERAL TOTAL</b>	<b>47,953,058</b>



**Table IX**

<b>LIMITS ON PAYMENTS OF PROCESSED PAYMENT ARREARS, REGISTERED BY 12.31.2002</b>				R\$ thousand
AGENCIES AND/OR BUDGETARY UNITS	UNTIL FEB	UNTIL MARCH	UNTIL APRIL	UNTIL MAY
20101 OFFICE OF THE PRESIDENCY OF THE REPUBLIC	1,221	1831	2,442	3,052
20102 OFFICE OF THE VICE-PRESIDENCY OF THE REPUBLIC	17	25	34	42
20114 GENERAL ATTORNEY'S OFFICE	548	822	1,096	1,370
22000 MINISTRY OF AGRICULTURE, CATTLE RAISING AND SUPPLY	8,413	12,620	12,826	21,033
24000 MINISTRY OF SCIENCE AND TECHNOLOGY	33,282	49,922	66,563	83,204
25000 MINISTRY OF FINANCE	20,779	31,169	41,558	51,948
26000 MINISTRY OF EDUCATION	63,742	95,613	127,484	159,355
28000 MINISTRY OF INDUSTRIAL DEVELOPMENT AND FOREIGN TRADE	10,932	16,397	21,863	27,329
30000 MINISTRY OF JUSTICE	7,444	11,166	14,888	18,610
32000 MINISTRY OF MINES AND ENERGY	4,312	6,468	8,624	10,780
33000 MINISTRY OF SOCIAL SECURITY	35,882	53,823	71,764	89,705
36000 MINISTRY OF HEALTH	193,056	289,585	386,113	482,641
38000 MINISTRY OF LABOR AND EMPLOYMENT	2,807	4211	5,614	7,018
39000 MINISTRY OF TRANSPORTATION	66,273	99,410	132,546	165,683
41000 MINISTRY OF COMMUNICATIONS	234	351	468	585
42000 MINISTRY OF CULTURE	573	860	1,146	1,433
44000 MINISTRY OF ENVIRONMENT	207	319	414	517
47000 MINISTRY OF PLANNING, BUDGET, AND MANAGEMENT	16,832	25,249	33,665	42,081
49000 MINISTRY OF AGRARIAN DEVELOPMENT	4,064	6,096	8,128	10,160
51000 MINISTRY OF SPORTS	245	368	490	613
52000 MINISTRY OF DEFENSE	36,209	543,314	724,418	905,523
53000 MINISTRY OF NATIONAL INTEGRATION	51,277	76,916	102,554	128,193
54000 MINISTRY OF TOURISM	242	362	483	604
55000 MINISTRY OF SOCIAL ASSISTANCE AND PROMOTION	20,928	31,391	41,885	52,319
56000 MINISTRY OF CITIES	14,949	22,423	29,898	37,372
<b>SUBTOTAL</b>	<b>920,468</b>	<b>1,380,702</b>	<b>1,840,936</b>	<b>2,301,170</b>
<b>PROGRAMS AND ACTIVITIES UNDER INTENSIVE MANAGEMENT</b>	<b>70,964</b>	<b>106,446</b>	<b>141,928</b>	<b>177,410</b>
<b>POVERTY FIGHTING AND ERADICATION FUND</b>	<b>200,884</b>	<b>301,325</b>	<b>401,767</b>	<b>502,209</b>
<b>TOTAL</b>	<b>1,192,316</b>	<b>1,788,473</b>	<b>2,384,631</b>	<b>2,980,789</b>

It is also worthy noting that specific rules have been adopted for some key programs and activities, in order to assure they receive a more intensive administration and regular resource flows. Thus, key services and projects being carried out under these particular circumstances will be executed without disruption and with savings in costs. This rule encourages better activity management, as it conditions resource transfers to the evidence of actual physical execution.

## 6. Conclusion

Within the commitment of ensuring the conditions for economic growth and improved social welfare, the new Government has established a budgetary and financial program for the first year of its administration, taking into account the country's fiscal reality, while protecting the social programs and focusing on a better operation of the administrative structure.