FOLLOW-UP ON THE FISCAL IMPACTS OF THE MEASURES TAKEN IN THE FIGHT AGAINST COVID-19

To fight economic and social effects of the COVID-19 pandemic, the federal government has established a series of measures throughout 2020. These measures are related to the establishment of new expenses (emergency aid, acquisition of respirators, etc.), concession of tax benefits (rate reductions and postponement of tax payments) and financial and credit benefits (loans at a lower interest rate).

It is crucial to understand the fiscal impact of such measures, especially regarding debt, in order to reduce risks related to the sustainability of Brazilian finances in the medium and long term.

Taking into consideration the expenses created, as well as the tax, financial, and credit benefits granted, the **measures to fight the pandemic, until July 30, 2020, had reached the amount of US$127 billion, of which US$96 billion were expenses and US$31 billion were tax benefits** granted to companies and individuals.

▪ WHAT HAS BEEN DONE

On this topic, TCU prepared four follow-up reports (three of which have already been considered by the Full Court), that aimed at interpreting and guiding managers on the changes regarding the current tax rules (which is the case for the proper use of regulations of the War Budget) and the fiscal risks of measures adopted to fight the pandemic, especially those related to public debt. In addition, the focus was also to bring transparency to expenses of the federal government during the pandemic. As a result, the Court issued recommendations and determinations to bodies under its jurisdiction, aiming at preserving the soundness of public finances, and submitted such information to the National Congress in order to provide subsidies to the direct representatives of society in the decision-making process. Reports are a useful tool for society as they provide transparency to public finances of the federal government.

▪ WHAT HAS BEEN FOUND

TCU identified 12 tax risks related to the following objects: War Budget, Spending Cap, public debt, financial aid to states and municipalities, fiscal sustainability of the country, and the so-called “golden rule”, which forbids the government to incur in debts in order to pay for current expenses. The following stand out:

- possible measures that might not align with the criteria established by the Spending Cap;
- irregular execution of expenses authorized on the grounds of the War Budget; and
- risk of increasing the state debt and deterioration of the public debt profile, which may impact on the country’s financing.

▪ WHAT HAS BEEN DECIDED

TCU recommended the federal Executive branch that:

- measures taken based on the War Budget rules should be followed by an explanation that they are related to the COVID-19 pandemic or its economic and social consequences. In addition, it recommended that the regular regime is not compatible with the urgency of such measure;
- the possible use of a portion on the Spending Cap, due to the cancellation of allocations or partial replacement of the Bolsa Família program by the emergency aid, should be directed only to expenses related to the pandemic and should have the same classification purpose of the allocation that was cancelled or replaced;
- expenses of the Bolsa Família program should not be covered with the use of extraordinary credits approved by Executive Order

929/2020, since the ordinary allocations available on this program are insufficient to cover the corresponding expenses estimated for the current fiscal year, except for the expenses that have been settled and those that have been settled and paid for until the day of this decision.

The Court also submitted the following information to the Joint Budget Committee (CMO):

- until July 30, 2020, the federal budget had allocated appropriations of US$96 billion for measures to fight the pandemic;

- the impact of tax measures on collection was projected at approximately US$31 billion. Financial and credit benefits reached US$230 million;

- the projection for the primary result is a deficit of more than US$131.88 billion, close to 10% of the gross domestic product (GDP). Historical data shows that this deficit rate is unprecedented. Up to this moment, the largest deficit for the Center of Government had occurred in 2016 – 2.5% of the GDP. The deficit increase affects the general government's level of gross debt, which is projected to reach a level above 90% of the GDP by the end of 2020.

- the effects of the pandemic on economic activity may impact medium-term fiscal sustainability, due to the long maintenance period of fiscal deficit results. Such scenario requires that all branches of government take measures to effectively control the increase of long-term mandatory spending and tax waivers. It also makes it evident the need to restore revenues, which may be done through different methods such as extraordinary revenues resulting from asset optimization, reversal of tax benefits or restoration of the tax base;

- there is a risk of compression of discretionary spending, considering the fast growth of mandatory expenses verified in recent years, which may hinder the functioning of the public administration;

- the impact of legislative changes and the effects of judicial decisions regarding state and municipal debt with the federal government, including the indirect effect of debts guaranteed by the federal government, are elements that prolong efforts to adjust taxes and contribute to increasing public debt.

Additional information:

Decisions: 1.557/2020, 2.026/2020 and 2.283/2020, all from TCU's Full Court

Rapporteur: Minister Bruno Dantas

Case: TC 016.873/2020-3

Technical Department in charge: Department of Government Macro Analysis (Semag)