Part II
Chapter 4

The Federal Public Debt budget

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1 Introduction

The public budget is a tool that reflects the government's expenditure allocation strategy, as well as its expectations about revenues, which allow it to meet its commitments. Both must be consistent with the planning for each fiscal year. A modern budget system must meet three basic requirements. It should:

- Control the management of public resources, transparently;
- Maintain economic stability by means of fiscal adjustments;
- Ensure the quality of public spending associated with government priorities and short and medium-term planning.

With regard to the Federal Public Debt (FPD), besides submitting the annual budget to Congress at the beginning of the second quarter of the previous year (which must be approved by December), the Federal government also produces an Annual Borrowing Plan (ABP) in January. The ABP publicizes the goals, guidelines, strategies and targets for FPD management in a structured and public manner, increasing the transparency of debt management.

Hence, the budget's execution is followed closely during the fiscal year to ensure it is consistent with the FPD strategic plan. This analysis allows the government to review the revenue generated from bond issues, taking into account strategic variables, such as total FPD expenditures for each month and the share of fiscal revenues earmarked for paying the debt. Further, the analysis of the net borrowing requirements based on a review of expenditures and revenues, and the short and medium-term public debt strategy, as presented in the ABP, helps determine the amount of bonds to be issued each month.

Thus, the overall framework includes the budget-making process, the institutions that comprise the system, and the rules that guide the budget and financial execution.

This chapter will help readers better understand the Brazilian budget as an essential tool for the financial management of public resources and, more specifically, the FPD. Besides this introduction, there are three sections. Section 2 introduces the main concepts associated with the public budget, as well as the processes and entities involved in producing it. Section 3 presents the institutional structure of Brazilian financial and budgetary administration. Section 4 reviews the budget from the FPD perspective and describes the ways it is affected by the legal controls over public indebtedness and transparency. Also, it describes the flexibility required to efficiently manage such debt and minimize budgetary risks. Section 5 provides a few closing remarks.

2 Budget

Public budgeting is an ongoing, dynamic planning process used by the Federal government to demonstrate its work plans and programs for a certain period. Hence, the budget "expresses, in both financial and technical terms, the political decisions involved in the allocation of public resources, establishing the actions and priority programs for meeting society's demands, in addition to allowing for the control of public finances, thus avoiding that unforeseen expenditures be incurred."

The expression of a public entity's budget (whether Federal, state or municipal), is a law issued by the Executive branch, valid for one year, which estimates the revenues and establishes the expenditures of the public administration. The budget proposal is drafted during a fiscal year and executed in the next, after being approved by the Legislature. The following principles govern its contents:

- *Unity*: The set of expenditures and revenues must be presented in a single document. Each level of government (Federal, state and municipal) must have only one budget, based on a single budgetary policy and structured in a uniform manner.
- *Universality*: This is the principle according to which the budget law must adhere, with respect to the values for all revenues and expenditures.
- *Balance*: Estimated revenues for a fiscal year must equal expenditures.
- *Specification*: Every allotment must have a destination and be associated with a particular action.

The government estimates budget revenues for the following fiscal year using forecasts for overall economic indicators, such as the Gross National Product (GNP) and inflation, taxes and contributions. Expenditures of the executive, legislative and judicial branches are based on expected revenues.

Table 1. Revenues and expenditures of the fiscal and social security budgets, by economic category, for the 2009 budget: principle of balance (R$ million)

Revenues		Expenditures	
Specification	**Amount**	**Specification**	**Amount**
Current revenues	**839,902**	**Current expenditures**	**834,264**
Tax revenues	289,839	Personnel & social security	168,798
Revenues from contributions	431,990	Interests and debt charges	124,711
Equity revenues	51,636	Other current expenditures	540,756
Agricultural revenues	23		
Industrial revenues	654		
Service revenues	33,661		
Current transfers	305		
Other current revenues	31,794		
Intra-budgetary revenues	**12,349**		
Revenues from dues / intra-budgetary	12,167		
Equity revenues / intra-budgetary	2		
Industrial revenues / intra-budgetary	135		
Service revenues / intra-budgetary	43		
Other revenues – intra-budgetary operations	3	**Current budget surplus**	17,988
Total	**852,252**	**Total**	**852,252**
Current budget surplus	**17,988**		

Revenues		Expenditures	
Capital revenues	**729,195**	**Capital expenditures**	**721,254**
Credit operations	644,611	Investments	47,617
Alienation of assets	5,070	Financial inversions	41,960
Amortization and loans	22,262	Debt amortization	631,678
Capital transfers	150		
Other capital revenues	57,102		
		Reserves	**25,929**
		Contingency	8,423
		Others	17,506
Total	**747,183**	**Total**	**747,183**
Current revenues	839,902	Current expenditures	834,264
Capital revenues	729,195	Capital expenditures	721,254
Intra-budgetary revenues	12,349	Reserves	25,929
Total	1,581,447	**Total**	**1,581,447**

Source: *Annual Budgetary Law 2009*, v. I, Quadro 1C [1]

The Federal Constitution requires that budgets and their corresponding laws be elaborated by the Executive branch and submitted to the Legislative branch for approval. Once in the National Congress, the Joint[2] Budget and Plans Commission studies the proposed budget and amends the expenditures, investments and priorities. Congress must approve the budget by the end of the legislative year; once this is accomplished, it is approved by the President and becomes law. If, during the course of the next fiscal year, expenditures are greater than expressed in the budget, the Executive sends the Congress a bill for additional credit.[3]

The 1988 Federal Constitution established a budget model and created instruments to coordinate overall budget planning. It includes three sequential inter-related laws on the budget process: the Multi-Year Plan (PPA), the Budgetary Guidelines Law (LDO) and the Annual Budgetary Law (LOA).

The PPA sets government priorities for a four-year period and must contain "the guidelines, goals and targets of Federal Public Administration for capital expenditures[4] and other expenditures deriving thereof and for those related to ongoing programs." The Plan, which links long-term priorities to the LOA, is initiated by the Executive branch and coordinated by the Secretariat for Strategic Planning and Investments (SPI) of the Ministry of Planning, Budget and Management (MPOG). Approved during the first year of a presidential term, the PPA is activated in the second year and closes in the first year of the next presidential term.

The LDO sets priorities for PPA targets and drafts the guidelines for the Federal government budget which becomes effective the next year. LDO budget guidelines are drafted by the Executive branch and must be forwarded to the Congress no later than eight and a half months before the end of the fiscal year. The law must be approved by the Congress and subsequently, by the President, before the end of the first legislative period, in July.

[1] Law nº 11,897, of 30 December 2008.

[2] It includes members of both the House of Representatives and Federal Senate.

[3] Additional credit: This is a budgetary adjustment tool used to correct distortions, by authorizing expenditures that were not foreseen while the LOA was prepared. Increases may also be needed if the original amount allotted was insufficient. Additional credits are classified as supplementary, special and extraordinary, each having a financial cap and time frame, procedural rules and different approval processes.

[4] Capital expenditures: These are used to procure machinery and equipment, execute works, acquire corporate equity shares and real estate, and grant loans for investment. A capital expenditure usually contributes to creating a capital good, as well as to expanding a public entity's activities.

Once Congress approves the LDO, the Secretariat of the Federal Budget (SOF) of the Ministry of Planning, Budget and Management (MPOG) drafts the budget proposal for the following year, considering, among other inputs, the expenditure proposals sent by all the ministries and budget units of the legislative and judicial branches. Sectoral bodies[5] (such as the Ministries of Education, Health and Agriculture) identify their funding needs for each of their agencies or offices (managing units[6]), according to LDO guidelines and submit their proposals to the SOF, which must balance government expenditures with expected revenues.

After the SOF consolidates the budget proposal, the MPOG submits it to the President for approval; it is accompanied by an Exposition of Reasons, which diagnoses the country's economic conditions/perspectives. According to the Constitution, the Federal government must forward the proposed budget to the Congress no later than four months before the end of the fiscal year.

At the Congress, representatives and senators discuss the proposed budget at the Joint Commission for Budgets and Plans,[7] amend what they think is necessary and vote on the bill. It should be noted that the Federal Constitution establishes several rules for submitting parliamentary amendments. These include the following:

- Amendments may not increase the budget's overall expenditures, unless omissions or mistakes in revenues were identified and proved;
- Increases in budget allotments will only be allowed if amendments indicate which allotments will be cancelled, so that resources are re-allocated, rather than raised;
- Expenditures for certain items, such as personnel, social security charges, interest, constitutional transfers and public debt amortizations, may not be cancelled;
- Amendments submitted must be compatible with both the PPA and LDO.

The Constitution states that the budget must be submitted for a vote and approved no later than the end of each legislative year, i.e., in December. Once passed, it is approved by the President and becomes law. It should be noted that, after the President's approval, the executive branch - by means of a presidential decree - has to establish within 30 days a financial program and monthly disbursement schedule for each body, complying with fiscal targets created under the Budgetary Guidelines Law (LDO).

The budget model was amended in 2000, with Congressional approval of the Fiscal Responsibility Law (LRF), a complementary law[8] that is a landmark in Brazilian public finance: It established an institutional commitment to best practices in fiscal management as well as the equilibrium of public accounts.

The Law's main goal was to provide rules for accountability with respect to fiscal management, based on the principles of planning and transparency. As a result, public expenditures are viewed with a new perspective that involves both the analysis of financial and budgetary aspects, and a demonstration that expenditures

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[5] Sectoral body: Any agency responsible for coordinating activities between the central body and the executing bodies of a system, in its sphere of action.

[6] Managing unit: Budgetary or administrative units that manage budgetary and financial resources, either their own or those that were decentralized.

[7] The PPA, LDO and LOA bills are submitted jointly to the two Congressional bodies (the Senate and House of Representatives), and it is the responsibility of the Mixed Commission for Plans, Public Budgets and Inspection (CMO) to examine and issue an opinion about the bills, which must then be presented at a joint session of both houses.

[8] Complementary law is a law for regulating a constitutional precept, which is not self-applicable.

will benefit society. One of its main features is that any change in the budget will require a much more rigid process than previously.[9] The law applies to all national and sub-national entities.

The LRF added two annexes to the LDO, which guide both government and society on the conduct of fiscal policy. The first is the Fiscal Targets Annex, which establishes, among other aspects, the primary surplus expected for each of the next three fiscal years. The second is the Fiscal Risks Annex, which lists the so-called contingent liabilities, i.e., debts that are not yet accounted for but which, due to a legal or judicial decision, may create future fiscal risks.

3 Institutional framework

Brazil's financial and budgetary administration is decentralized into four major systems. These are supported by legal instruments that establish a transparent and organized budgetary and financial process that links planning and budgeting through the management of public resources. The four include the following:

The *Federal Planning and Budgeting System*, managed by the Ministry of Planning, Budget and Management (MPOG), supervises the preparation of the Budgetary Guidelines Law and of the Federal Government Budgetary Draft Law (which include the Social Security Fiscal Budget). The central body is the Secretariat of the Federal Budget (SOF).

The *Federal System of Financial Administration*, managed by the National Treasury Secretariat (STN), ensures that the Federal government balances its public revenues and expenditures. It is responsible for (a) programming all financial activities, (b) managing the National Treasury's assets, guarantees and obligations and (c) providing technical-normative guidance on budget/financial issues.

The *Federal Accounting System*, administered by the STN, records the government's budgetary, financial and net wealth status. Also, it drafts guidelines that include norms and procedures which ensure that information produced by the management units is standardized.

The *Federal System of Internal Control*, administered by the Federal government's Office of the Comptroller General (CGU), (a) evaluates compliance with the Multi-Year Plan (PPA) goals, (b) executes government programs and budgets, and (c) monitors Federal public managers. Also, it controls the government's credit operations, guarantees, rights and assets. In addition to CGU (the internal audit office that reports directly to the President) the government is audited by an external office, the Federal Court of Audit (TCU) which reports to the Congress.

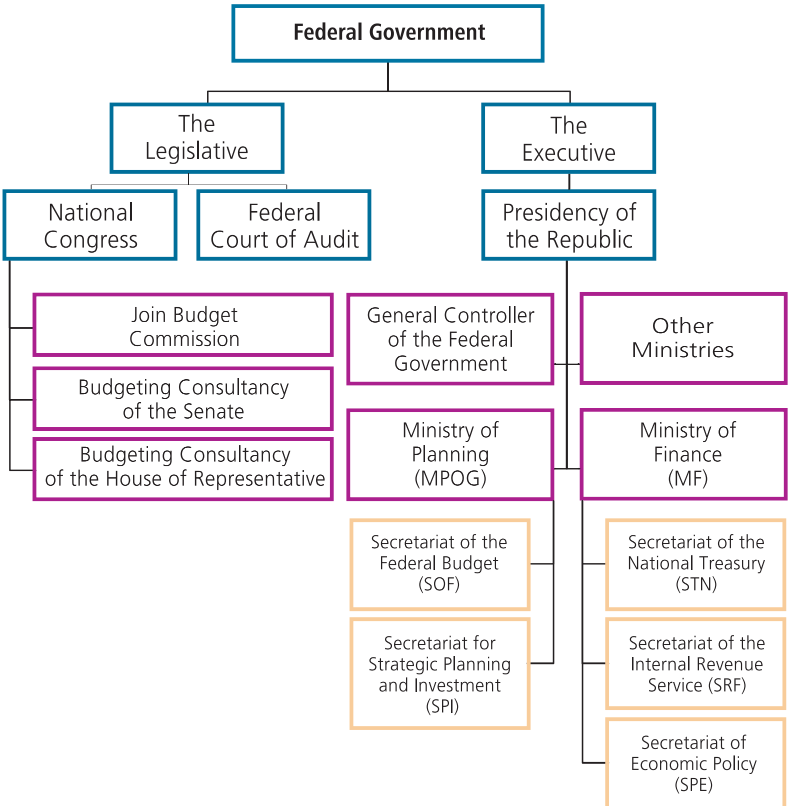
The financial and budget administration model is complex, characterized by decentralized management of public resources. It includes several units, coordinated by sectoral bodies and the central financial and budget programming entities. The Secretariat of Federal Budgeting (of the Ministry of Planning), is the main budget entity, responsible for the Integrated System of Budget Data (SIDOR). The Secretary of the National Treasury (of the Ministry of Finance) is the main entity for financial programming, managing the government's Unified Account and the Integrated System of Financial and Budgetary Administration (SIAFI).

In order that budget and financial activities and the registration of assets be integrated, and meet the objectives of control, transparency and accountability, a common budget classification was defined for

[9] To be approved or altered, a complementary law must be passed by an absolute majority of the House (50% plus one of all parliamentarians) in each legislative branch, in a two-phased vote. An ordinary law only requires a simple majority (50% plus one of the parliamentarians attending the session).

both systems (SIDOR and SIAFI). The budget and financial execution is centralized at SIAFI, the main tool for recording, following-up and controlling the Federal budget, financial and equity activities. SIAFI is also used by the Executive branch to apply internal controls and provide information to all levels of the administration. It is an online system that can be accessed throughout the country and used by all administrative bodies of the three branches of government.

Figure 1. Organization of entities involved in the federal budget process



It is the National Treasury's responsibility to set guidelines for drafting monthly and annual financial programs, and adopting procedures to execute them. In turn, sectoral bodies consolidate the financial programs proposed by their affiliated units and decentralize financial resources received from the central body. Management units are responsible for public expenditures in all three stages:[10] These are known as pledges, settlements and payments.

Budget and financial activities occur simultaneously, as they are directly linked: If there are budgets but no financial resources, there can be no expenditures. Similarly, if there are financial resources, but no budgets, then resources cannot be allocated.

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[10] Expenditure stages include the following:
Pledges are administrative actions that create obligations for the government, whose task is to reserve part of the current fiscal year budget to cover specific expenditures and not commit amounts greater than the annual allotment.
Settlements acknowledge the government's obligations to creditors, based on documents that provide evidence for the credit, and arrange for the delivery of the goods/services, according to contract specifications.
Payments are acts through which authorities approve, by means of documents submitted to the accounting department, the expenditures.

The Federal government has a single unified account at the Central Bank to manage all entries and disbursements from its cash flow. Each disbursement is registered, as well as its destination and the name of the public servant that processed it. The account is a powerful tool for executing, following-up and controlling government resources.

4 The public debt budget

The current budget structure is flexible; it does not impose obstacles or risks for managing the public debt, while establishing rules and limits for indebtedness. The tools described earlier will now be addressed from the perspective of FPD management.

4.1 The Fiscal Responsibility Law

The Fiscal Responsibility Law (LRF) established several rules that affect PDM at all levels of government. It created basic concepts, limits for indebtedness and credit operations, rules for returning the debt to its limits and criteria for credit operations, including those performed by the Central Bank.

The LRF defines various concepts related to debt. They include:

a) *Consolidated or funded public debt*, which refers to the total financial obligations assumed by national or sub-national entities by means of laws, contracts, agreements or treaties and through credit operations to be paid in a term longer than 12 months. It also includes credit operations for terms under 12 months, when the corresponding revenues have been listed in the budget.

b) *Bonded public debt*, which represents bonds issued by the Federal government (including those issued to the Central Bank), states and municipalities.

c) *Credit operations*, which refer to financial commitments assumed through an opening of credit, issuance and acceptance of bonds, financed acquisition of goods, anticipated funds from the sale of goods/services, mercantile leases and similar operations, including financial derivatives.

d) *Granting of guarantees*, which is a commitment to pay a financial or contract obligation assumed by a government entity or affiliate.

e) *Bonded public debt refinancing*, which (as stated in the LRF) means that all expenditures and revenues associated with public debt must be included in the Annual Budgetary Law.[11]

Prior to the Law, the budget did not distinguish between bond issuances that increased the FPD stock (such as those to pay interest or finance other expenditures) and those used exclusively to refinance the principal of maturing debts (which do not alter the nominal FPD stock). As a result, the amount in the budget earmarked for debt repayment was often misinterpreted, particularly due to the high amounts involved, compared to other budget expenditures.

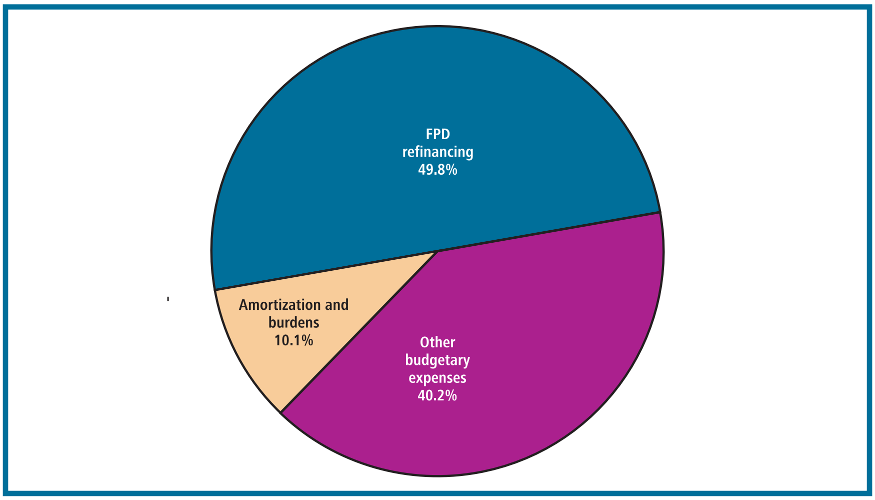
The LRF was innovative as it required the budget to separate the amount of the FPD principal to be refinanced from other expenditures covered through bond issuances. Such measures made public accounts more transparent and improved the quality of the debate over the true weight of the debt with regard to the fiscal

[11] As noted in Article nº 5, § 1 of the LRF: "All expenditures associated with public debt, regarding either bonds or contracts, and the revenues to pay them, will be stated in the Annual Budgetary Act."

budget. Since the Law was passed, consolidated LOA charts have separated all FPD expenditures, listing them under "debt amortization," which indicates the authorized amount of expenditures for the FPD principal.

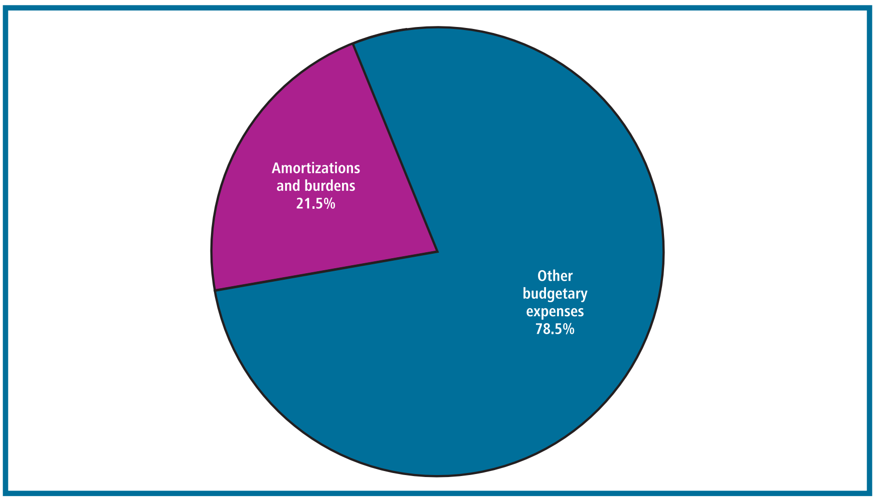
As can be seen in the graphs below, prior to the LRF, there were huge distortions in the budget numbers, creating misunderstandings among analysts and Congressional representatives. When refinancing expenditures were not separated from those related to interest and other expenses, almost 60% of total budget expenditures were used to repay the FPD (Graph 1). Currently, the amount of refinancing is separated, which eliminates the errors related to the effects of bonds issued to roll over the debt principal, thereby lowering the total earmarked for debt payments to about 22% (Graph 2).

Graph 1. Percentage of expenses in the overall budget of the federal government accounting for the refinancing of Federal Public Debt



Source: Brazilian National Treasury

Graph 2. Percentage of expenses in the overall budget of the federal government, excluding the refinancing of Federal Public Debt



Source: Brazilian National Treasury

4.1.1 Limits of indebtedness

The limits of indebtedness were established by the Federal Constitution and the Fiscal Responsibility Law. They include the following:

a) *Golden rule*. In Article 167, the Constitution prohibits credit operations greater than the amount of capital expenditures, thus safeguarding the debt authorized through supplementary or special credits with a specific purpose and approved by the Legislature by an absolute majority. The aim of the golden rule is to avoid paying current expenditures[12] with resources acquired from issuing or contracting new debt.

b) *Public debt and credit operation caps*. In Article 52, the Constitution states that the Senate must define the limits of indebtedness and conditions for credit operations. Further, the LRF states that proposed global limits for consolidated debt (for all three levels of government) should be submitted by the President to the Senate. The overall limit established for the consolidated net debt[13] (DCL) is a percentage of net annual current revenues (RCL). Calculation of the DCL/RCL ratio is checked on a quarterly basis and presented in the Fiscal Management Report. If an entity exceeds its limit at the end of a quarter, it must return to it by the end of the three next quarters, reducing the excess by at least 25% in the first quarter. The upper limits of the DCL/RCL ratio (proposed by the Executive to the Senate, through draft resolutions), were 3.5 times for the Federal government, 2.0 times for the states and 1.2 times for municipalities.[14] Although the limit for the Federal government seems to be high when compared to the others, it incorporates the Treasury bonds held by the Central Bank for executing monetary policy, which corresponds roughly to 1.0 times the Federal government annual RCL. Also, over the past decade, the Federal government has assumed debt from the states and municipalities that exceed its own annual RCL.

In December 2007, the Senate[15] established an overall limit of 60% of RCL for the Federal government's external and domestic annual credit operations. To avoid refinancing risks that could be created by the new rule and acknowledging indebtedness limits, the Senate added the principle that bonds issued to refinance the debt principal would not be included in the overall limit for credit operations.

The LRF also created several norms with respect to the Central Bank. For example, its expenditures for personnel and social security contributions, administrative costs and investments would be integrated with the LOA. Further, the Central Bank's positive balances would be considered Treasury revenue used exclusively to pay FPD; the negative balances would represent a Treasury obligation and would be applied under a specific budget allotment[16] for future payments through bonds issued to the Central Bank. The LRF also prohibited the

[12] Current expenditures are the costs related to public sector entities and activities, such as for personnel, debt interest, procurement of raw materials and consumer goods, as well as third-party services.

[13] Consolidated net debt refers to securities and contracted public debt, after available cash, financial applications and other assets are deducted. So as not to impose obstacles for executing foreign exchange or monetary policy, the net consolidated debt concept with respect to the Federal government includes the Treasury securities' debt held by the Central Bank, which may buy and sell such bonds in the market, without restrictions.

[14] Senate Resolution nº 40 established limits for states and municipalities and was approved in December 2001. It maintains the text proposed by the Executive and gives each state or municipality 15 years to adjust to the limits. A resolution establishing limits for the Federal government, although submitted to all commissions of the Federal Senate, had not been approved by the plenary as of October 2009.

[15] Senate Resolution nº 48, of December 2007.

[16] Budget allotment is a detailed record of an expenditure included in the public budget, linked to a work program in a budgetary unit, and earmarked to fulfill a certain purpose.

Central Bank from issuing public bonds beginning in May 2002,[17] or to exchange, even temporarily (through a financial institution or other entity) any debt bond issued by a state or municipality for FPD bonds

4.2 The Budgetary Guidelines Law

As with the LRF, the Budgetary Guidelines Law (LDO) includes a separate chapter on FPD. It defines the expenditures covered by revenues from public bonds which include those attached to refinancing the principal, interest, and other domestic and foreign debt burdens under the Treasury's direct or indirect responsibility, or that may become the responsibility of the Federal government. They also include expenditures related to capital increases of companies in which the Federal government directly or indirectly holds the majority of voting rights and that have not been included in the privatization program.[18] Further, the LDO allows expenditures to expand, if they are expressly defined in the law. Bonds may not be issued without having clearly specified objectives.

4.3 The Annual Budgetary Law

The FPD budget assumes a special place in the Annual Budget Law, particularly the amount earmarked for refinancing. As noted earlier, the Fiscal Responsibility Law (LRF) separated the refinancing of the FPD, assigning it to a specific budgetary unit. To do so, a "budget source"[19] was established that was linked to an equally specific principal expenditure: Thus, Source 143 was created to record the resources derived from bonds issued to pay the FPD principal, regardless of whether they are associated with securities or contractual debt. Source 144 records all resources from bonds that are issued for other purposes.

When consolidating the budget, the Secretariat of the Federal Budget releases revenues from specific "sources" to pay the FPD service. While some of the sources are stated in laws that determine their exclusive use, others depend on the amounts allocated. Traditionally, revenues available to cover public debt service are from taxes and dividends paid to the Government by its state-owned-companies, from the remuneration of the National Treasury single account at the Central Bank, from the refinancing of states' and municipalities' debt, and from the Central Bank balance sheet surpluses.[20]

If the budget allotment (to repay the debt) must be raised, the LOA authorizes the Executive branch to do this through additional credits[21] from allotments that have not been used, as well as financial[22] and tax surpluses,[23] among others. Such changes are compatible with the primary surplus goal established in the Fiscal Targets Annex of the Budgetary Guidelines Law.

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[17] This occurred two years after the LRF was approved, in May 2000.

[18] See the 2008 LDO (Law nº 11.514, of 13 August 2007, Chapter IV – Provisions Related to the Federal Public Debt).

[19] Federal government revenues are deposited in a single account at the Central Bank. However, to better manage the origins and destinations of distinct budget revenues, the government organized them by "source," assigning each a specific number. Taxes and contributions and traditional current revenues, for example, are registered in "Source 100" and the single account remuneration, a capital revenue, in "Source 188."

[20] For details about traditional revenues used for debt service, see section 4.6.2 of this chapter.

[21] These are adjustment tools to correct distortions during the budget execution (for expenditure authorizations not registered or those insufficiently funded in the Budget Act). They are classified as complementary, special or extraordinary:

• Complementary credits provide new funds to increase a budget allotment. These must be authorized by law and initiated by a decree from the Executive branch. Such authorizations may be stated in the Annual Budget Act.

• Special credits provide new funds for expenditures for which there was no specific budget allotment; they must also be authorized by law and initiated by a decree from the Executive branch.

To increase the flexibility of budget resources, Provisionary Measure nº 450 was approved in 2008 which allows the National Treasury to use those derived from excess revenues (e.g. taxes collected and financial surpluses saved in each fiscal year) for FPD payments. Thus, the Treasury is allowed to use them to pay the debt as long as no legal provision exists that ties the surpluses or excess taxes to other expenditures.

Complementary credits of up to 20% of the amount needed to refinance the FDP are already authorized in the Budgetary Law; only special cases must be resubmitted to the National Congress for approval. Such flexibility allows for more budget transparency and control without creating restrictions that would prevent the public debt from being efficiently managed.

4.4 Drafting the public debt budget proposal

The proposal for the FPD is drafted in two phases. The first is in April and May, and the second in August, when the budget bill must be submitted to the National Congress.

The first phase involves domestic and foreign debt already contracted. The Federal Budget Secretariat (SOF) consolidates the Federal government's total expenditures to comply with the principle of balance (estimated revenues equal defined expenditures). Next, it calculates the value of the revenues available to pay the FPD, including revenues that are, by law, set aside for this purpose as well as resources from other sources.

As the debt service is greater than the revenues earmarked for paying it, the Treasury moves to a second phase, in which, for the next budget year, it raises revenues by issuing bonds in the financial market (from Sources 143 and 144) to cover the difference between the debt service and previously stipulated budget resources - and thus balance the budget: This involves drafting the budget proposal for the Domestic Federal Public Debt (DFPD).

The following data are used to calculate the FPD service and determine the maturity dates[24] for the following fiscal year. These include:

- The 2010 outstanding debt forecast for December 31 of the current year;
- Estimated issuance, based on specific operations, established by law;
- New debt service for the next fiscal year covered through new Federal public bonds;
- The list of National Treasury bonds scheduled to be auctioned each month, including their terms and amounts; the bonds issued for the Central Bank's portfolio are separated from those earmarked for public auction.

4.5 Budget classification of expenditures

The budget classification of expenditures provides transparency by presenting expenditures from different perspectives and defining (a) which entity is responsible for the programming (classification by

• Extraordinary credits are new funds authorized to meet urgent, unforeseen expenditures, such as war, domestic unrest or disasters, and approved through provisionary measures. They may also be tapped in the next fiscal year, depending on the balance remaining in the budget and if they were authorized in the last four months of that fiscal year.

[22] Financial surplus is a fund drawn from revenues not used during the fiscal year in which they were collected. The resources, applied in the next fiscal year, would not be related to the original objectives authorized by the budget law.

[23] Tax collection surplus refers to a positive balance that represents the difference between current taxes collected and the amounts anticipated.

[24] Maturity dates are classified into principal, interest and other obligations, based on the indexes and profitability of each of the categories that make up the DFPD.

institution); (b) to which category resources are allocated (classification by program), (c) in which government area expenditures will be made (classification by function); and (d) what will be obtained and its economic effect (economic classification).

4.5.1 Institutional classification

Institutional classification identifies the administrative units responsible for executing budget allotments authorized by the Legislative branch under the Annual Budgetary Law. The Brazilian budget is unusual in this respect, since it sometimes lists groups of expenditures or burdens that are not related to specific administrative units; this is true for "Official Credit Operations," "Transfers to States, the Federal District and Municipalities" and "Contingency Reserves." Because large amounts of resources are allocated to these groups, they are presented individually and identified under institutional classifications, to increase transparency.

With regard to the FPD, debt service expenditures due to loan and financing operations that support sectored programs are allotted under the budgets of each of the ministries involved. All other expenditures related to the FPD are included under the groups known as "Refinancing the Domestic Federal Public Debt," which covers outstanding FPD, and "Federal Government Financial Burdens (EFU)," which covers interest and other debt expenses. Both are supervised by the Ministry of Finance, with the National Treasury executing the expenditures.

Table 2. Expenditures of the fiscal and social security budgets, per budget body (R$ million)

Budget bodies	Total
House of Representatives	3,532.8
Federal Senate	2,743.0
Federal Court of Audit	1,283.4
Supreme Court of Brazil	576.7
Federal Court of Appeals	869.4
Federal Courts	11,373.5
Federal Military Courts	314.3
Electoral Courts	4,171.3
Labor Courts	12,012.6
Courts of the Federal District and Territories	1,395.4
Presidency of the Republic	6,738.0
Ministry of Agriculture, Livestock and Supply	7,639.0
Ministry of Science and Technology	5,978.7
Ministry of Finance	19,359.2
Ministry of Education	40,524.6
Ministry of Development, Industry and Foreign Trade	1,595.8
Ministry of Justice	9,237.0
Ministry of Mines and Energy	7,107.2
Ministry of Social Security	239,909.1
Federal Attorney Office (*Ministério Público da União*)	3,341.3
Ministry of Foreign Affairs	1,892.0
Ministry of Health	59,519.5
Ministry of Labor and Employment	31,214.6
Ministry of Transportation	12,787.8
Ministry of Communication	6,266.1
Ministry of Culture	1,361.0
Ministry of Environment	3,532.6
Ministry of Planning, Budget and Management	11,461.5
Ministry of Agrarian Development	4,691.8

Budget bodies	Total
Ministry of Sports	1,400.5
Ministry of Defense	51,381.9
Ministry of National Integration	5,533.7
Ministry of Tourism	3,028.2
Ministry of Social Development and Fight Against Hunger	32,698.9
Ministry of Cities	10,151.4
Financial burdens of the federal government	233,352.4
Transfers to states, the Federal District and municipalities	37,648.3
Contingency reserve	8,423.1
Subtotal	**896,047.5**
Transfers to states, Federal District and municipalities	117,605.0
Subtotal	**1,013,652.6**
Ministry of National Integration	7,427.9
Ministry of Labor and Employment	10,817.7
Ministry of Transportation	185.6
Official credit operations	26,768.3
Subtotal	**1,058,852.2**
Refinancing of the Federal Public Debt	**522,595.5**
Total	**1,581,447.7**

Source: *Annual Budgetary Law 2009*, vol. I, Annex II[25]

4.5.2 Functional classification

Functional classification identifies the sectors in which expenditures are made (e.g. education, health, transportation, etc.). Composed of a set of pre-established functions and sub-functions, this classification is applied to aggregate public costs according to the area of governmental action and clarifies national goals. The budget is innovative in this respect, as it creates a function entitled "Special Charges", which combines expenditures not directly associated with goods or services obtained, such as, for example, debts and reimbursements.

Table 3. Revenues and expenditures of the fiscal and social security budgets, by function (R$ million)

Function	Fiscal	Social Security	Total
01 Legislative	5,581.6	131.0	5,712.6
02 Judicial	20,422.3	311.5	20,733.8
03 Essential to the Courts	4,959.4	27.4	4,986.8
04 Administration	21,508.1	139.5	21,647.6
05 National Defense	24,722.7	1,189.7	25,912.4
06 Public Safety	6,561.3	26.1	6,587.4
07 Foreign Affairs	1,627.0	49.1	1,676.0
08 Social Assistance	0.0	32,683.7	32,683.7
09 Social Security	0.0	293,030.0	293,030.0
10 Health	0.0	54,739.9	54,739.9
11 Labor	1,345.8	25,307.5	26,653.3
12 Education	32,261.1	4,222.2	36,483.3
13 Culture	1,262.5	7.3	1,269.8
14 Citizenship Rights	1,457.1	144.2	1,601.3
15 Urbanism	8,098.8	10.0	8,108.8

[25] Law no 11,897, of December 2008.

Function	Fiscal	Social security	Total
16 Housing	1,433.7	0.0	1,433.7
17 Sanitation	0.0	2,204.2	2,204.2
18 Environmental Manag't	4,043.8	100.9	4,144.7
19 Science & Technology	5,509.5	23.6	5,533.1
20 Agriculture	17,615.7	76.5	17,692.2
21 Agrarian Organization	5,629.9	19.0	5,648.9
22 Industry	3,139.3	11.0	3,150.3
23 Commerce and Services	5,430.5	0.3	5,430.8
24 Communication	606.2	34.2	640.4
25 Energy	828.7	3.2	831.9
26 Transportation	14,940.9	32.4	14,973.3
27 Sports and Leisure	1,397.4	0.3	1,397.7
28 Special Burdens	943,608.1	8,296.8	951,904.9
99 Contingency Reserve	23,107.4	1,527.7	24,635.1
Total	**1,157,098.6**	**424,349.2**	**1,581,447.7**

Source: *Annual Budgetary Law 2009*, vol. I, Chart 8A[26]

Table 4. Revenues and expenditures of the fiscal and social security budgets, by sub-function (R$ million)

Function/sub-function	Fiscal	Social security	Total
28 Special Charges	**943,608**	**8,297**	**951,905**
212 International Cooperation	171		171
334 Promotion of Labor	10,818		10,818
601 Promotion of Vegetal Production	311		311
607 Irrigation	3		3
694 Financial Services	46		46
841 Refinancing of Domestic Debt	511,274		511,274
842 Refinancing of External Debt	11,321		11,321
843 Domestic Debt Service	191,672	1	191,673
844 External Debt Service	17,738	81	17,820
845 Transfers	122,929	1,144	124,072
846 Other Special Burdens	47,295	7,071	54,366
847 Transfers for Basic Education	30,029	1	30,029

Source: *Annual Budgetary Law 2009*, vol. I, Chart 8A[27]

4.5.3 Program classification

This classification describes government actions and demonstrates their social achievements (the products), integrating the budget and planning, as represented by the Multi-Year Plan. The four areas are as follows:

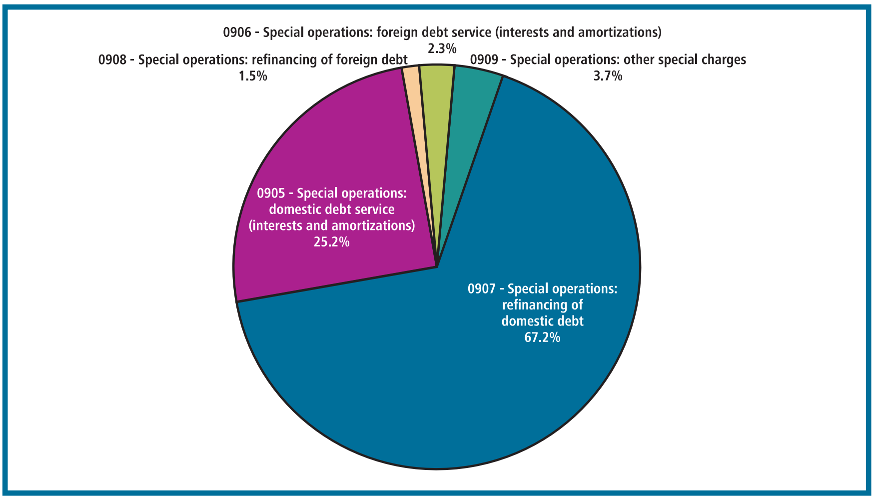
- The *program* is the tool adopted to achieve the medium and long-term goals, measured by indicators established in the Multi-Year Plan.
- The *project* is the tool used to achieve a program's objective; it involves a set of time-bound operations that generate a product that helps to expand or improve a government action.
- The *activity* is also devised to achieve a program's objective; it involves a set of operations performed on an ongoing basis to generate a product that is essential to maintain the government's daily functions.

[26] Law nº 11,451, of February 2007.
[27] Law nº 11,451, of February 2007.

- *Special operations* reflect expenditures that do not maintain the government's daily functions, generating neither products nor goods/services.

FPD programs are classified as special operations, sub-divided into actions: A four-digit code identifies where the budget resources will be applied, clarifying the amount earmarked to pay, for example, the FPD or Proes,[28] offering transparency about resource allocations.

Graph 3. Percentage distribution of the expenditures of the budget per program, as used in the administration of the Federal Public Debt



Source: *Annual Budgetary Law 2009*.[29]

4.5.4 Classification by nature

The classification according to the nature of expenditures (the economic classification) includes the (a) economic category, (b) type of expenditure group, (c) application modality and (d) item of expenditure. The economic category defines whether it is a capital or current account expense: If the former, it states whether it involves amortization, refinancing, financial inversion or investment; if the latter, it states whether it refers to payment of interest or personnel. The application modality indicates if the resources are used by entities from the same branch of government; if used by a different branch, the information eliminates duplicate accounting of transferred or decentralized resources. Finally, the expenditure item identifies its immediate object, detailed in the account plan.

The payment of interest and other FPD charges is classified as a Current Expenditure; the payment of the principal (debt amortization) is listed under Capital Expenditures.

[28] Proes is a support program to (a) handle the states' fiscal adjustments and (b) reduce the presence of the state-level public sector in financial banking activities.
[29] Law nº 11,451, of February 2007.

Table 5. Summary of expenditures of the fiscal and social security budget, by economic category and nature of expenditure group (resources from all sources , R$ million)

Economic category	Group of expenditure	Total
Current expenditures		**834,265**
	Personnel and social security contributions	168,798
	Interests and debt charges	124,711
	Other current expenditures	540,756
Capital expenditures		**721,254**
	Investments	47,617
	Financial inversions	41,960
	Debt amortization	631,678
Reserves		**25,929**
	Contingency	8,423
	Others	17,506
Total		**1,581,448**

Source: *Annual Budgetary Law 2009*, vol. I, Chart 6[30]

4.6 Budgetary classification of revenues

4.6.1 Classification by nature

A classification according to the nature of the revenue is useful as it identifies the origin of resources. With the FPD, revenues from credit operations (bond issues or loan and financing contracts) are classified as capital revenues and, as with expenditures, are described in detail.

Table 6. Summary of all revenues of the fiscal and social security budget, by economic category (resources from all sources , R$ million)

Code	Economic category	Total
1.0.0.0.00.00	**Current Revenues**	**839,902**
1.1.0.0.00.00	Tax revenues	289,839
1.2.0.0.00.00	Revenues from contributions	431,990
1.3.0.0.00.00	Equity revenues	51,636
1.4.0.0.00.00	Agriculture revenues	23
1.5.0.0.00.00	Industrial revenues	654
1.6.0.0.00.00	Service revenues	33,661
1.7.0.0.00.00	Current transfers	305
1.9.0.0.00.00	Other current revenues	31,794
2.0.0.0.00.00	**Capital revenues**	**729,195**
2.1.0.0.00.00	Credit operations	644,612
2.2.0.0.00.00	Disposal of assets	5,070
2.3.0.0.00.00	Loan amortization	22,262
2.4.0.0.00.00	Capital transfers	150
2.5.0.0.00.00	Other capital revenues	57,102
7.0.0.0.00.00	**Intra-budgetary revenues**	**12,350**
7.2.0.0.00.00	Revenues from intra-budgetary contributions	12,167
7.3.0.0.00.00	Intra-budgetary equity revenues	2
7.5.0.0.00.00	Intra-budgetary industrial revenues	135
7.6.0.0.00.00	Intra-budgetary service revenues	43
7.9.0.0.00.00	Other revenues – intra-budgetary operations	3
Total		**1,581,448**

Source: *Annual Budgetary Law 2009*, vol. I, Chart 3[31]

4.6.2 Classification by revenue source

This classification indicates the way budget expenditures are funded, based on a law that specifies their destination. Revenue source is a key category since it tracks expenditures earmarked for certain purposes, as well as those allocated for new budget proposals.

Revenues are also classified as primary (P), when their value is included in determining the Primary Surplus, in the so called above-the-line concept, and Non-Primary or Financial (F) when not included in this calculation. Primary revenues are derived from taxes, contributions, assets, agriculture, industry and services. Financial revenues are derived from credit operations, financial applications and interest, as per the IMF 1986 *Manual on Government Finance Statistics*.

Table 7. Sources of funds traditionally set aside for payment of the Federal Public Debt[32]

Sources of funds set aside for payment of the Federal Public Debt
100 – Ordinary resources *
129 – Resources from concessions *
152 – Positive balance of the Central Bank **
159 – Return of refinancing of middle and long term debt ***
162 – Public assets reform – alienation of assets ****
173 – Return on the refinancing of debt of states and municipalities *****
188 – Remuneration of the single account
197 – Dividends of state-owned Companies * and resources from the debt amortization fund ******

* Resources that integrate the calculation of the Federal government's primary surplus.

** Determined every quarter by means of an asset balance, and transferred once approved by the National Monetary Fund.

*** Payment from states, municipalities and companies or former state-owned companies to the Federal government, due to their debt assumed by Federal government within the scope of renegotiation of foreign public debt.

**** Resources from the sale of shares or quotas of public companies, when privatized (transferred shareholders control).

***** Payment by the states and municipalities to the Federal government, resulting from debt incurred through the renegotiation of their domestic debt in 1997.

****** Resources from the sale of shares or quotas of public companies, without transfer of shareholder control.

5 Conclusion

This chapter described Brazil's budget structure, including all aspects associated with the management of the FPD. Information about the debt-related budget has improved in recent years and has thus provided society with a better understanding of the ways in which public funds are managed. The following list of recent changes is not complete, since the process is ongoing:

a) Actions were consolidated according to their purpose. This identifies the amounts attached to debt securitization, sovereign bond issuances, loans and financing, among others;

b) Detaching (in the budget) the resources earmarked for refinancing the FPD;

c) Distinguishing (in the DFPD budget) bonds issued to refinance public debt in the market from those in the Central Bank portfolio, thus enhancing the transparency of public accounts and improving consistency with the Annual Borrowing Plan.[33]

[30] Law nº 11,897, of December 2008.

[31] Law nº 11,897, of December 2008.

[32] The list does not include those from Source 143 (resources generated by issuing bonds to pay the FPD principal) and Source 144 (those generated by issuing bonds to pay FPD interests and charges).

Such improvements are partly due to the dynamic process within public administration, which adopts new laws or changes existing ones. If such changes affect the management of public resources and, particularly the FPD, either by generating new information or devising new concepts, the process associated with the budget structure must also be improved to be accountable and make debt management more transparent.

6 Budgetary legislation

1988 Federal Constitution, Section II, Budgets, articles 165-169
(http://www.planalto.gov.br/ccivil_03/Constituicao/Constituiçao.htm).

6.1 Complementary laws

a) Complementary Law nº. 101, May 4, 2000
(http://www.planalto.gov.br/ccivil_03/Leis/LCP/Lcp101.htm)

b) Fiscal Responsibility Law, which establishes rules for public finances, to promote responsibility for fiscal management

c) Law nº 4,320, March 17, 1964
(http://www.planalto.gov.br/ccivil_03/Leis/L4320.htm).
It creates general financial rules for drafting and controlling budgets and balances of the Federal government, states, municipalities and the Federal District.

6.2 Ordinary laws

a) Law nº 11,768, August 14, 2008 (2009 LDO)
(https://www.portalsof.planejamento.gov.br/sof/2009/ldo2009/Lei_11768_1_de_140808.pdf).
It establishes guidelines for preparing the 2009 Budgetary Law and sets forth other provisions.

b) LOA – Law no11,897, December 30, 2008 (2009 LOA).
It estimates the revenues and establishes the expenditures of the Federal government for fiscal 2009.

c) PPA – Law nº 11,653, April 7, 2008 (2008-2011 Multi-Annual Plan)
(http://www.planejamento.gov.br/secretarias/upload/Arquivos/spi/plano_plurianual/PPA/081015_PPA_2008_leiTxt.pdf).
It established guidelines for the 2008-2011 Multi-Annual Plan

[33] The ABP presents the objectives, guidelines, strategies and targets for managing the FPD, considering only the debt held by the public (excluding the public debt bonds held by the Central Bank), since this debt is the one that must be considered for monitoring the fiscal policy costs and risks.

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