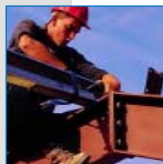


# Technical Note

Nº 149

April 2009

## 2008 FEDERAL GOVERNMENT BUDGET EXECUTION



# 2008 FEDERAL GOVERNMENT <sup>1</sup> BUDGET EXECUTION

This technical note analyzes the 2008 Budgetary Law. It discusses the federal government undue inclusion of expenditures not actually disbursed in the final value of the budgetary execution. It also demonstrates how the government executes two budgets simultaneously: the current year budget and the previous years' undisbursed commitments.

## Fiscal Results and Public Debt

Federal government economic policy establishes strict fiscal targets. The objective is to repay the public debt to the detriment of social policies. The Central Bank sets the interest rate, one of the highest in the world, increasing the public debt and the cost of its refinancing.

Chart 1 shows the fiscal results of the Consolidated Public Sector. If debt interests and charges are included in the calculations, the accumulated deficit by December is 1.53% of the GDP.

If debt interests and charges are not taken into account, the country has a fiscal surplus of 4.06% of the GDP or R\$ 118 billion (US\$ 53.6 billion). This is the well-known primary surplus allocated to repay the public debt, instead of financing social policies and infrastructure investments.

Chart 1

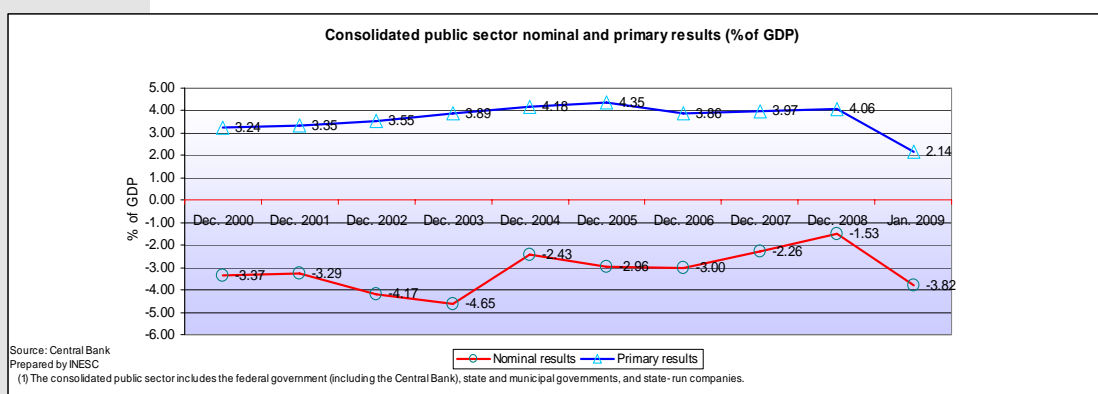
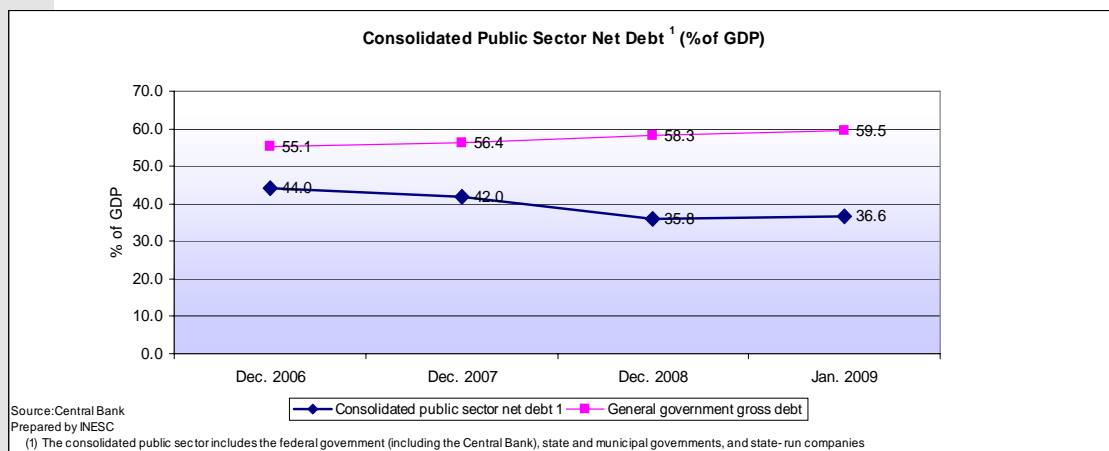


Chart 2 shows that the Net Public Debt decreased to 35.82% of the GDP in 2008 (it was 42.03% of the GDP in 2007). Public indebtedness remains high mainly because the basic interest rate (Selic) never dropped to civilized levels: it was 11.25% in January and 13.75% at year-end.

<sup>1</sup> This text summarizes INESC Technical Note n. 149, published in April 2009.

**Chart 2**


## Executing two budgets

Expenditure executed according to the Annual Budgetary Law (LOA) is the amount actually “liquidated”<sup>2</sup>.

In addition, INESC analyzes the off-budget execution, i.e., previous year’s undisbursed commitments, which fall into two categories:

- “*Processed undisbursed commitments*” – liquidated expenditure<sup>3</sup> (goods or services delivered and concluded) in the planned fiscal year, whose payment was left for the next fiscal year.<sup>4</sup>
- “*Non-processed undisbursed commitments*” – services or goods not delivered, not concluded, and not paid for in the planned year. They are expenditures deferred to the next year that may never occur.

## Federal Executive Fund Availability

In table 1, the methodology of “Federal Executive Fund Availability”<sup>5</sup> shows expenditures which are the sole responsibility of the Federal Executive.

When expenditures which are the responsibility of other government levels, public debt refinancing, and transfers to states and municipalities are subtracted, table 1 demonstrates that the Federal Executive executed 82.7% of the liquidated total.

<sup>2</sup> - The term “liquidated” is found in Law n. 4320/64, art. 83.

<sup>3</sup> - See Decree N. 93 872/86, art. 36, which defines liquidation, according to Law n. 4320/64, art. 83.

<sup>4</sup> - See Decree N. 93 872/86, art. 67, which defines previous years’ undisbursed commitments, according to Law n. 4320/64, art. 36

<sup>5</sup> - A detailed explanation of this methodology can be found in Budget Bulletin (*Boletim Orçamentário*) n. 1, year I, available at [www.inesc.org.br](http://www.inesc.org.br)

**Table 1 – Federal Executive Fund Availability in the 2008 federal budget execution**

	Authorized	Liquidated by federal government	Included non-processed undisbursed commitments	Actually liquidated	% Federal government execution	% Actual execution
A – Total Budget	1,551,947,166,472	1,258,841,227,913	52,173,421,485	1,206,667,806,427	81.1%	77.8%
B – Domestic and external public debt refinancing (Source 143 and 343)	464,543,839,170	277,761,477,991	0	277,761,477,991	59.8%	59.8%
C – Total budget excluding debt refinancing = A-B	1,087,403,327,302	981,079,749,922	52,173,421,485	928,906,328,437	90.2%	85.4%
D – Expenditures the federal government is not responsible for = E+F+G+H	170,921,107,965	170,068,127,501	9,163,396,589	160,904,730,912	99.5%	94.1%
E - Legislative	5,816,570,432	5,306,731,597	484,408,471	4,822,323,126	91.2%	82.9%
F - Judiciary	19,008,581,611	18,794,941,102	962,795,781	17,832,145,321	98.9%	93.8%
G – Federal Public Prosecutor's Office	3,172,461,906	3,102,054,582	212,252,654	2,889,801,928	97.8%	91.1%
H – Transfers to states, Federal District, and municipalities = Organ 73000	142,923,494,016	142,864,400,221	7,503,939,684	135,360,460,537	100.0%	94.7%
I – Federal Executive fund availability = C-D	916,482,219,337	811,011,622,421	43,010,024,896	768,001,597,525	88.5%	83.8%
J – Domestic debt service (program 905 subtracting sources 143 and 343)	248,472,020,001	202,730,642,382	249,570,484	202,481,071,898	81.6%	81.5%
L – External debt service (program 906 subtracting sources 143 and 343)	16,353,573,988	12,846,448,235	1,862,123	12,844,586,112	78.6%	78.5%
M – Federal Executive Fund availability after paying debt services = I-(J+L)	651,656,625,348	595,434,531,804	42,758,592,289	552,675,939,515	91.4%	84.8%

Source: *Siga Brasil*/ Federal Senate  
Prepared by INESC

## Groups by Nature of Expenditure

Table 2 shows the execution according to Groups by Nature of Expenditure (GND). It clearly demonstrates the difference between the liquidated amount inflated by the government and the amount actually liquidated.

In 2008, R\$ 52.1 billion (US\$ 23.6 billion) were mistakenly included in the liquidated amount. When “non-processed undisbursed commitments” are subtracted, the actually liquidated amount drops from 90% to 85,4%.

This difference is shocking in the case of investments: when non-processed undisbursed commitments are subtracted, investments fall from 75.7% to 20.5%.

**Table 2 - Federal Government budget execution (2008 LOA) - GND**

GND	Authorized (A)	Liquidated by federal government (B)	Included non- processed undisbursed commitments (C)	Actually liquidated (D)	% Federal government execution (E = B/A)	% Actual execution (F=D/A)
Personnel and payroll charges	146,246,667,369	144,483,674,480	1,092,467,294	143,391,207,185	98.8%	98.0%
Debt interests and charges	152,215,372,738	110,193,488,727	25,212,978	110,168,275,750	72.4%	72.4%
Other current expenditures	489,457,280,251	477,814,122,597	20,963,452,738	456,850,669,859	97.6%	93.3%
Investments	47,864,246,998	36,210,545,446	26,404,008,830	9,806,536,616	75.7%	20.5%
Financial investments	50,775,180,315	41,169,646,722	3,418,287,155	37,751,359,567	81.1%	74.4%
Domestic and external public debt amortization	179,186,471,440	171,208,271,949	226,219,629	170,982,052,320	95.5%	95.4%
Contingency reserve	21,658,108,191	-	-	0	0.0%	0.0%
<b>TOTAL</b>	<b>1,087,403,327,302</b>	<b>981,079,749,922</b>	<b>52,129,648,624</b>	<b>928,950,101,298</b>	<b>90.2%</b>	<b>85.4%</b>

Source: *Siga Brasil*/ Federal Senate  
Prepared by INESC

Notes:

(1) Excluding federal public debt refinancing.

This is truly cosmetic accounting because not all non-processed undisbursed commitments will be executed. For example, table 3 shows R\$ 48.6 billion of “included non-processed undisbursed commitments” from 2007 to be executed in 2008, but only 64% of this amount (R\$ 31.6 billion) were actually liquidated.

**Table 3 - 2008 Federal Government off-budget execution – Paid non-processed undisbursed commitments – GND**

GND	Included non-processed undisbursed commitments (A)	Paid non-processed undisbursed commitments (B)	Variation (C=A-B)	% Execution “Paid non-processed undisbursed commitments” (C=B/A)
Personnel and payroll charges	1,308,526,433	689,032,177	619,494,256	52.7%
Debt interests and charges	232,914,168	-	232,914,168	0.0%
Other current expenditures	19,068,018,195	12,301,786,761	6,766,231,434	64.5%
Investments	24,204,673,501	15,579,384,225	8,625,289,276	64.4%
Financial investments	3,558,597,529	2,742,158,524	816,439,005	77.1%
Domestic and external public debt amortization	235,321,618	-	235,321,618	0.0%
Contingency reserve	-	-	-	-
<b>TOTAL</b>	<b>48,608,051,444</b>	<b>31,312,361,687</b>	<b>15,391,520,710</b>	<b>64.4%</b>

Source: *Siga Brasil*/ Federal Senate

Prepared by: INESC

### Expenditures by function

The classification by function<sup>6</sup> also shows the large gap between inflated execution and the actual liquidated amount. For the transportation function (table 4), the government reports 80% execution, but the actual liquidated percentage was 29.9%. For the housing function, the government reports 82% liquidation, while the actual figure is 12%.

## Final remarks

Law n. 4320/64, which regulates public budget elaboration and execution, and the 2008 Budgetary Guidelines Law (LDO) require separation between liquidated amounts and non-processed undischarged commitments. The LDO actually prohibits this combination.<sup>7</sup> Thus, deferring expenditures to subsequent years without any assurance that they will be executed is a blatant violation of legal principles.

**Table 4 – Federal Government Budget Execution (2008 LOA) – Function**

Function	Authorized (A)	Liquidated by federal government (B)	Included non-processed undischarged commitments (C)	Actually liquidated (D)	% Federal government execution (E = B/A)	% Actual execution (F=D/A)
Legislative	5,816,570,432	5,306,731,597	484,408,471	4,822,323,126	91.2%	82.9%
Judiciary	19,008,581,611	18,794,941,102	962,795,781	17,832,145,321	98.9%	93.8%
Essential to justice	4,690,679,475	4,572,120,419	295,028,213	4,277,092,207	97.5%	91.2%
Administration	16,427,794,020	14,773,254,280	1,543,822,400	13,229,431,881	89.9%	80.5%
National defense	24,016,082,887	22,471,338,018	2,259,978,767	20,211,359,251	93.6%	84.2%
Public security	7,730,222,319	6,581,395,231	1,058,243,465	5,523,151,766	85.1%	71.4%
Foreign relations	1,715,036,364	1,921,977,913	17,040,148	1,904,937,765	112.1%	111.1%
Social assistance	29,116,229,114	28,845,211,362	184,462,401	28,660,748,961	99.1%	98.4%
Social security	259,650,764,383	258,586,392,156	1,042,663,594	257,543,728,562	99.6%	99.2%
Health	52,738,361,425	50,138,481,515	5,585,927,551	44,552,553,964	95.1%	84.5%
Labor	23,800,825,725	22,694,747,167	711,985,938	21,982,761,229	95.4%	92.4%
Education	29,963,335,502	28,250,710,777	3,642,040,512	24,608,670,265	94.3%	82.1%
Culture	1,239,724,612	897,903,541	350,095,797	547,807,744	72.4%	44.2%
Citizens' rights	2,081,937,754	1,510,291,161	534,196,624	976,094,537	72.5%	46.9%
Urbanism	6,057,335,368	4,341,390,893	3,221,065,602	1,120,325,291	71.7%	18.5%
Housing	1,269,455,989	1,044,746,401	891,944,377	152,802,023	82.3%	12.0%
Sanitation	1,988,370,570	1,781,597,820	1,303,438,205	478,159,615	89.6%	24.0%
Environmental management	4,448,877,740	3,754,308,230	2,267,249,918	1,487,058,312	84.4%	33.4%
Science and technology	5,514,205,996	5,224,752,826	1,119,791,079	4,104,961,747	94.8%	74.4%
Agriculture	15,383,145,685	9,773,220,076	1,821,603,957	7,951,616,119	63.5%	51.7%
Agrarian organization	5,984,462,175	4,521,971,263	2,007,518,159	2,514,453,104	75.6%	42.0%
Industry	2,558,022,713	2,279,123,188	154,332,098	2,124,791,090	89.1%	83.1%
Trade and services	5,380,120,640	3,375,364,986	2,034,777,739	1,340,587,247	62.7%	24.9%
Communications	660,139,063	531,330,507	124,593,410	406,737,098	80.5%	61.6%
Energy	798,671,041	534,020,738	71,848,627	462,172,110	66.9%	57.9%
Transportation	16,232,826,207	13,114,222,591	8,253,409,555	4,860,813,037	80.8%	29.9%
Sports and leisure	1,392,795,119	963,810,870	759,804,233	204,006,637	69.2%	14.6%
Special charges (excluding public debt refinancing)	520,080,645,182	464,494,393,293	9,425,582,003	455,068,811,290	89.3%	87.5%
Contingency reserve	21,658,108,191	0	0	0	0.0%	0.0%
<b>TOTAL</b>	<b>1,087,403,327,302</b>	<b>981,079,749,922</b>	<b>52,129,648,624</b>	<b>928,950,101,298</b>	<b>90.2%</b>	<b>85.4%</b>

Source: *Siga Brasil* Federal Senate

Prepared by: INESC

Notes:

(1) Excluding federal public debt refinancing.

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