

EURORAI Seminar - "Audit of Public Debt"

Session 1 : Austerity public policies/debt restructuring and the role of public sector audit institutions



The performance of External Control in the renegotiation of public debt Minas Gerais State case - Brazil

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Warsaw ,May 2019



Brazil



Brazil

1.55 trillion €
6th largest GDP
(2018)

7.476 €
GDP per capita
(2016)



209 million people
5th largest population
(2019)

1€ = R\$4,38



Brazil

Vast natural resources

Large offshore oil fields

Diverse industrial base

Dynamic and sophisticated private sector

Well-structured public sector





Brazil

Good relations with all neighbors has increased its relation with all regions of the world

Vigorous democracy, with free multiparty elections and a stable political system





Brazil

Continental dimensions



LÍNGUA GALEGO PORTUGUESA

8,514,877 km²

5th largest area



Belo Horizonte (MG)

2,5 million
people

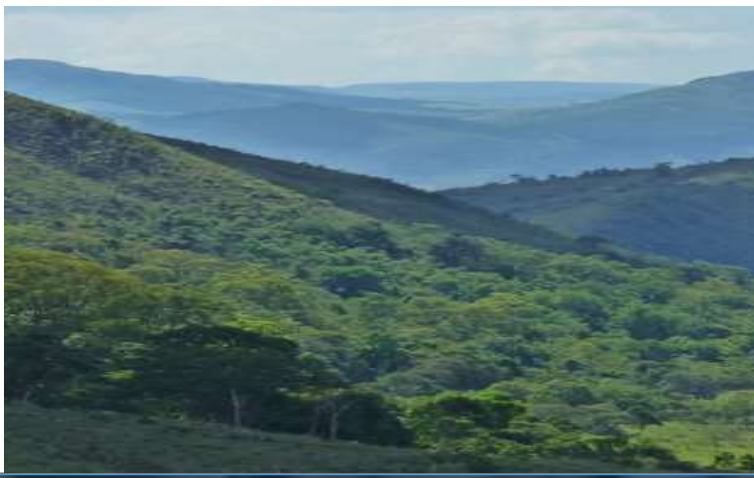
331,401 km²
Area

8.018 €
GDP per capita

LIBERTAS
QUAE SERA
TAMEN

Minas Gerais







Minas Gerais

853 cities

largest State of the Federation
in a number of municipalities

21 million people

2th more populous state of Brazil
(2019)



136 billion €

GDP(2018)

Agriculture	5,6%
Industry	28,8%
Service	65,55%

Located in
Southeast of Brazil



Minas Gerais



586.523 Km²



Alemanha – 357,3 mil km²
Holanda – 41,5 mil km²
Luxemburgo – 2,5 mil km²
Bélgica – 30,5 mil km²

431.825 km²

MINAS GERAIS COURT OF AUDITORS - TCEMG

ROLE

control public spending efficiently and effectively, aiming to improve public services for citizens.

AUDIT

853

municipalities

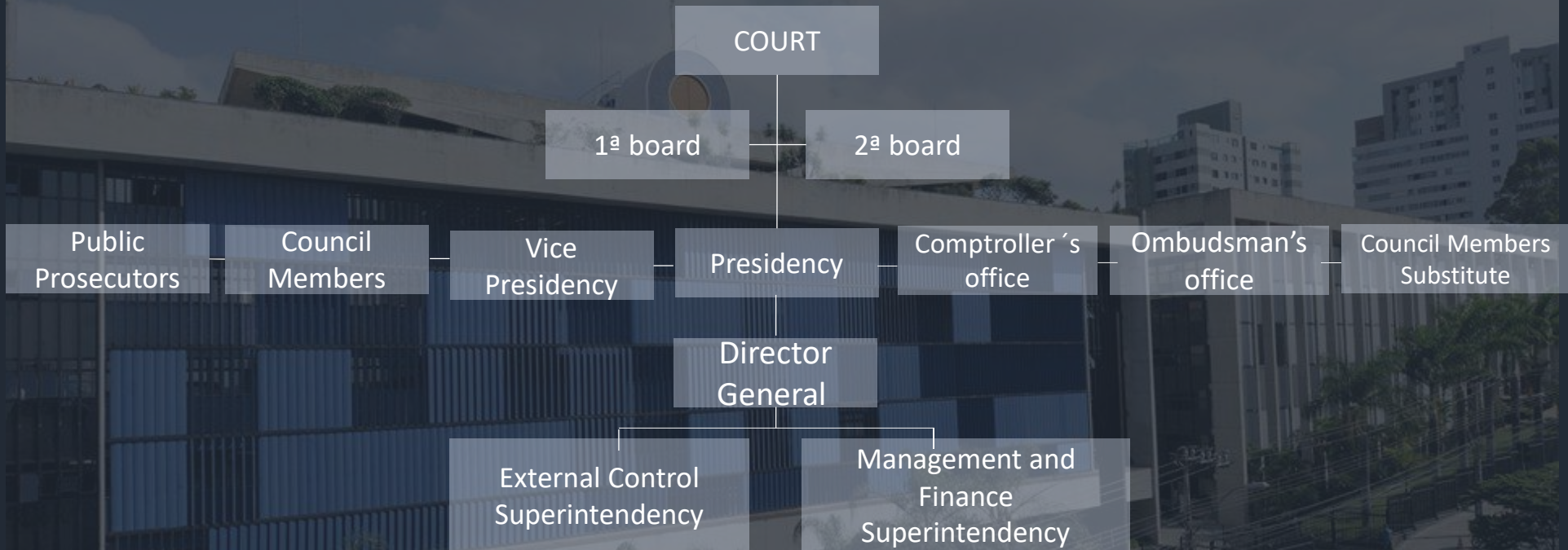
11.980

jurisdictional units

36 billion €

1 € = R\$4,38

MINAS GERAIS COURT OF AUDITORS - TCEMG



7
Council Members

1.699
Civil Servants
(2019)

32.513
Deliberate processes
(2018)

**The performance of External Control
in the renegotiation of public debt
- Minas Gerais State case -**



CONSTITUIÇÃO REPÚBLICA FEDERATIVA DO BRASIL

Brazil is a Federative Republic

Article 18. The political and administrative organization of the Federative Republic of Brazil comprises the Union, the states, the Federal District and the municipalities, all of them autonomous, as this Constitution provides.

Article 60. , paragraph 4º :
No proposal of amendment shall be considered which is aimed at abolishing

Debt background

PAST ORIGIN

- Law 4131, September 3 /1962
- Central Bank (BACEN) and Federal Senate resolutions
- ORTN's
- Federal Law n. 7976, December 27/1989

RECENT ORIGIN

- Federal Law n.8727, November 5 / 1993
- Vote n. 162/95 – National Monetary Council (CMN)
- Provisory Act 1560, February 14 /1997
- Law 9496, September 11 / 1997
- Provisory Act 1590, September 24 / 1997

State economic policy



determinant for the debt

Law 9.496/1997

Confession, promise of assumption, consolidation and refinancing of debt

Guarantees

- Reduction of the financial debt balance
 - Initial grant subsidies
 - Longer payment term
 - Reduction of financial charges

Counterpart

- Compliance with the payment of refinanced debt installments
- Establishment and compliance with the Restructuring and Fiscal Adjustment Programs

Signing of the Refinancing Agreement – feb.1998

Contract Conditions

- Indexer: General Price Index (IGP-DI)
- Interest : 6%, 7,5%, 9% per year.
(calculated on the existing debtor balance)
- Term: 30 years (until 2028)
(extendable for another 10 years)
- Monthly Expenditure Limit : 1/12 of 13% da Real Net Revenue (RLR)

Favorable conditions

- Minor charges
- Long time horizon of non-concern with its refinancing
- Limitation on 13% da Real Net Revenue (RLR)

IGP-DI – FAVORABLE INDICATOR

Evolution of total debt 1998 a 2010

Billions(R\$)

20,72€

billion

23,79€

billion

Growth

14,78%



Source: TCEMG 2010 - Technical Report of the Governor Accounts

Note: values at prices of Dec / 2017, adjusted by the IGP-DI. 1€ = 3,98 R\$ Dec/2017



General Price Index – IGP-DI

National Consumer Price Index – IPCA

IPCA	IGP-DI
<p>Brazilian Institute of Geography and Statistics - IBGE Public Institution / Series beginning : 1979</p>	<p>Getúlio Vargas Foundation - FGV Private Institution / Series beginning : 1947</p>
<p>Food and beverages, residence articles, communication, personal expenses, education, housing, health and personal care, transport and clothing. It divided into sub-items totaling 465 of them</p>	<p>Wholesale Price Index(IPA), Consumer Price Index (IPC) and National Index of Construction (INCC)</p>
<p>Families with incomes from 1 to 40 minimum wages, regardless of source, living in some urban areas of metropolitan areas</p>	<p>Retail Market , families receiving income from 1 to 33 minimum wages in the cities of São Paulo and Rio de Janeiro and construction sector(materials and workmanship)</p>
<p style="text-align: center;">Measures Inflation</p>	<p style="text-align: center;">Influenced by exchange variation</p>

General Price Index – IGP-DI

National Consumer Price Index – IPCA

Indexers

Accumulated values
1998-2010

IPCA

122,78%

IGP-DI

206,30%

Implicit Deflator GDP

176,66%

Source: Technical Report of the Governor's Accounts - TCEMG

Renegotiation of public debt

Minas Gerais Court of Auditors (TCEMG) performance

ACTIONS

2011

- Study of the topic in the Technical Report of the Governor's Accounts with the objective of evaluating the effective condition of the State to settle the debt with the Union within the established period.
- Proposition to change the indexer from IGP-DI to IPCA

2011-2012

- Search for partnerships

2012

- Forwarding the new proposal for the renegotiation of the States' debt to the National Congress

Governor's Accounts Report – 2010

Process : 84.1956

General Balance of the State

In charge: Conselheiro Sebastião Helvecio

Reviser: Conselheiro Wanderley Ávila

July 8 / 2011

“**IGP-DI**, debt index of the State with the Union, at the time of signing the contract, was more favorable than **IPCA**. However, over the years, turned out to be highly perverse to the Estate’s finances. It was found that, in the period 1998/2010, the total costs of this debt have been higher than the **IPCA**, adopted as a guide for monetary policy, and even at the **SELIC** rate, which remunerates the securities issued by the Federal Government. ”

Sebastião Helvecio TCEMG 2010

Governor's Accounts Report – 2010

Process : 84.1956

Nature: General Balance of the State

In charge: Conselheiro Sebastião Helvecio

Reviser: Conselheiro Wanderley Ávila

July 8 / 2011

“Based on a review of the matter, on the occasion of the defense presented, only the change from IGP-DI to IPCA could provide - with the same prevailing conditions observed between 1998-2010 - a reduction of approximately R\$ 42 billion (€ 9.600 billion) in the debt stock with the Federal Government, until the contract expiration date, in 2028, which would correspond to an approximate gain of 70%.”

Sebastião Helvecio TCEMG 2010

Governor's Accounts Report – 2010

Process : 84.1956

Nature: General Balance of the State

In charge: Conselheiro Sebastião Helvecio

Reviser: Conselheiro Wanderley Ávila

July 8 / 2011

“it is essential to contain the progress of this contractual debt in order to minimize the difficulties faced by the State in starting to settle the debt with the Union in 2029, which will no longer be limited to the 13% of the RLR ,which will be in force until 2028. This is the great question that both the study of the TCU and the STN sought to evidence, assuming that the original conditions of Law 9.496/97 and the contract signed by the State with the Union predominate. ”

Cons. Sebastião Helvecio TCEMG 2010

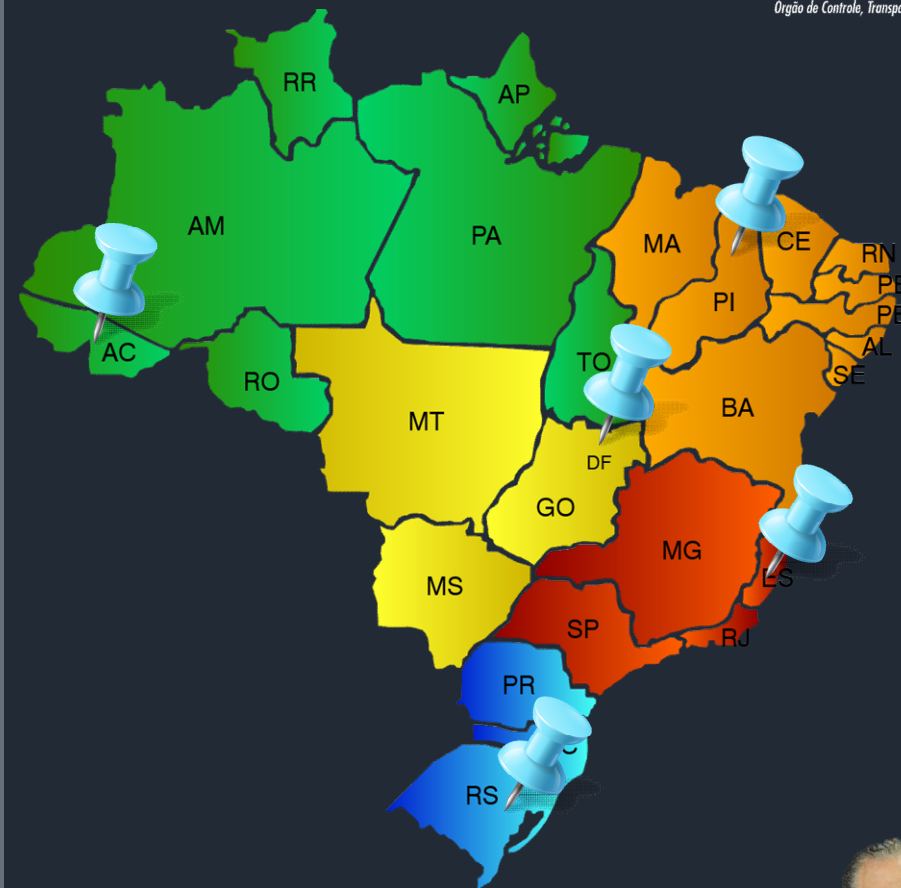


August 2011 to May 2012

Partnerships

July 5, 2012

Presentation to Federal Audit Court (TCU)
the proposal to enable the renegotiation
of the states and municipalities debt with
the Union
(UNALE/TCEMG)



Meeting to discuss debt solubility



Federal Court of Auditors (TCU)

July, 17 / 2012

Participants

National Union of State Legislators and Legislators (UNALE)

Minas Gerais Court of Auditors (TCEMG)

Federal Court of Auditors (TCU)

Renegotiation of public debt

Results

Change of the Contract Conditions

Edition of Complementary Laws : 148/14, 151/15, 156/16 e 159/17

1998

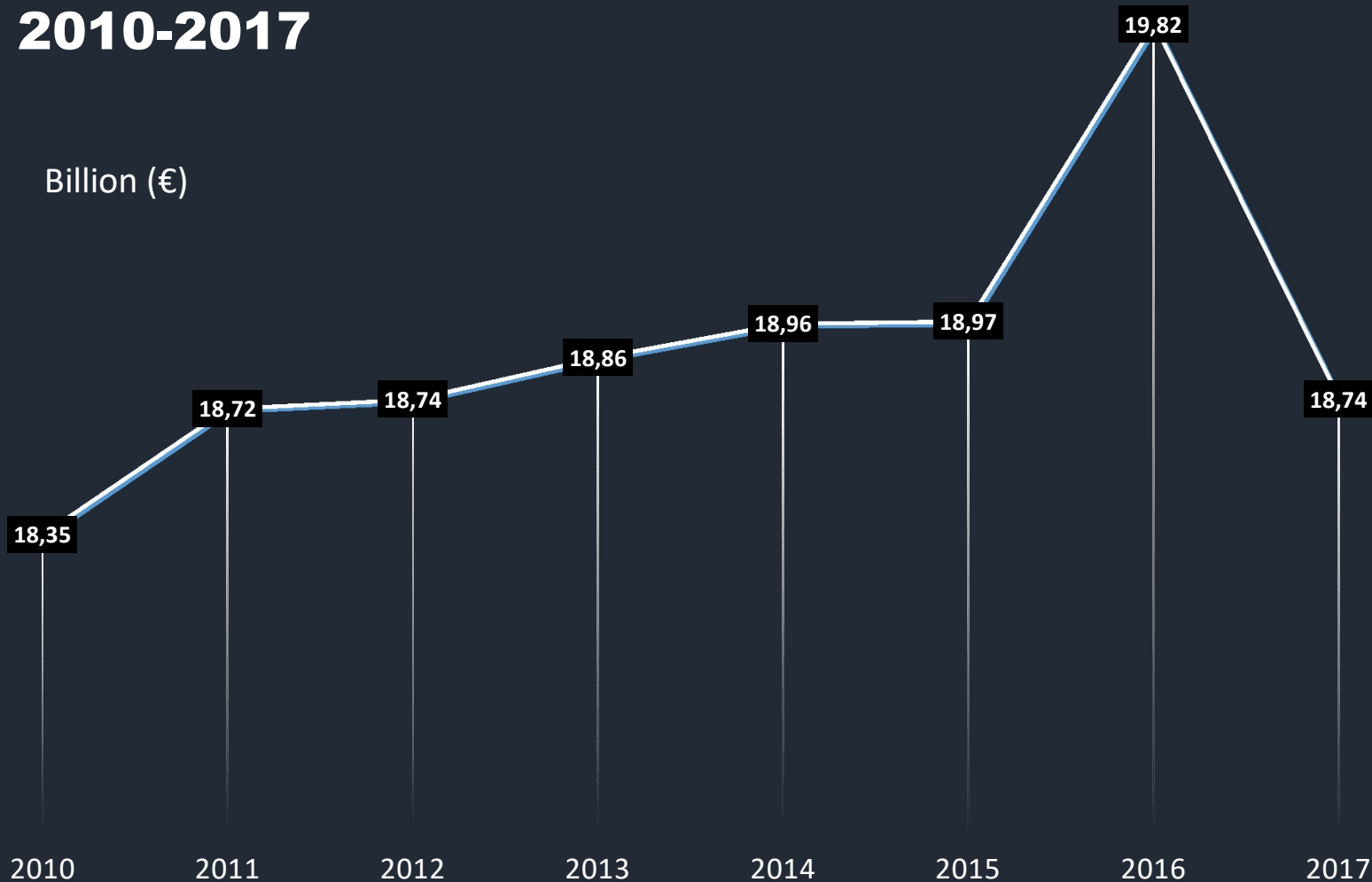
- Indexer : General Price Indexer: **IGP-DI**
- Interest 6 %; 7% ; 9,5% a.a.
 - calculated on the debit balance
- Term: 30 years (until 2028)
 - Extendable for another 10 years
- Monthly Expenditure Limit : 1/12 of 13% RLR (real net revenue)

2017

- Indexer: National Consumer Price Index IPCA
- Interest **4,0 % a.a.**
 - calculated on the debit balance
 - Limited to SELIC value
- Term : extended - 20 years (2048)
- End of the requirement about the real net revenue (RLR) limit
- Discounts on debit balances for 24 months

Evolution of Minas Gerais debt 2010-2017

Billion (€)



19,82 billion €

-5,46%

18,74 billion €

Source: TCEMG 2010 - Technical Report of the Governor Accounts

Note: values at prices of Dec / 2017, adjusted by the IGP-DI. 1€ = 3,98 R\$ Dec/2017

Consolidated Net Debt (DCL)/ Net Current Revenue (RCL)



Limit

BENEFITS WITH THE LOWEST COST OF DEBT

Annual average

**€ 455
million**

R\$ 1,995 billion

Total – until 2017

**€ 2,278
billion**

R\$ 9,979 billion

1 Euro = R\$ 4,38 (april.2019)

For a period of
5 years

291 million € /year



Therapeutic and prophylactic support

54 million € /year



School bus

40 million € /year



Epidemiological surveillance

69 million € /year



Food and nutrition in schools

Debt and Intergenerational Justice



“Majority, the policy decisions we make have effects on future generations. Is it be morally acceptable to pass to future generations nuclear waste, or a degraded environment, or a large public debt or an unsustainable pension system? It is necessary to examine with justice criteria the transfers made from generation to generation, inheritance and memory, but also the expectations and possibilities that we leave to future generations in terms of physical, environmental, human, technological and institutional capital.”

Axel Grosseries: *Penser la justice entre les générations*. Paris, Aubier, 2004.

Intergenerational Responsibility Principle



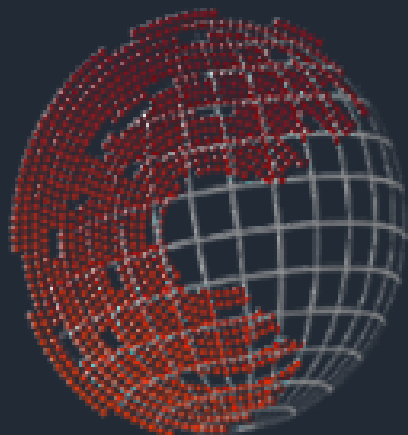
RESPONSIBLES

Each one of the present generation and those who will live the future generations, surpassing the individuality and based on the collective.



Instituto Rui Barbosa

Associação Civil de Estudos e
Pesquisas dos Tribunais de Contas
www.irbcontas.org.br



V CONGRESSO INTERNACIONAL DE CONTROLE E POLÍTICAS PÚBLICAS

November, 11 to 14 / 2019

Foz do Iguaçu – Paraná / Brazil

Thank you!

Be Happy!

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