

**MINISTRY OF PLANNING, BUDGET AND ADMINISTRATION.
FISCAL RESPONSIBILITY LAW.**

Primer on the Fiscal Responsibility Law.

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Introduction.

The fiscal imbalance, or expenses systematically higher than the revenues, has been prevailing in the Brazilian public administration lately. The economy is adversely affected by the consequences thereof, the impacts of which, in some cases, last for more than one generation. The uncontrolled inflation until Real became effective, the considerably high interest rates, the significant public indebtedness, and the high tax burden, when compared to those of our neighbors, are some of said consequences.

This reality led the public finances to such a limiting situation that meeting the basic needs of the people such as health, education, housing, sanitation,

etc, became a difficult task, adversely affecting the poorer classes of the society, which suffer the consequences of the lack of governmental investments in those areas.

In this scenario, the Fiscal Responsibility Law (“LRF”) represents an instrument to help the officials with the management of the public resources, according to a set of clear and accurate rules applied to all of the public resource administrators and in all spheres of the government, concerning the administration of the public revenue and expenses, the indebtedness, and the administration of the common wealth.

Additionally, the Law consolidates the transparency of the administration as a social control mechanism, through the publication of reports and statements of the budgetary execution, explaining to the taxpayer how the resources s/he makes available for the officials are used.

Among the set of rules and principles set forth in the Fiscal Responsibility Law, some of them must be emphasized:-

- **personnel expenses limits:** the law provides limits for this kind of expense in relation to the current net revenue for the three Branches and for each governmental level (Federal, State, Federal District, and Municipalities);-
- **public debt limits:** they will be determined by the Federal Senate upon a proposal from the President;-
- **definition of annual fiscal goals:** for the three following fiscal years;-
- **compensation mechanisms for permanent expenses:** the official may not create a continuing expense (for more than two years) without indicating a source of revenue or reducing another expense; and-
- **mechanism to control the public finances in election years:** the Law prohibits credit operations from being contracted through advance of approved budgeted funds (“ARO”) in the last year of term of office, and also does not allow increase of personnel expenses during the 180 days prior to the end of the office.

The compliance with these new rules will allow a permanent tax adjustment in Brazil, once the fiscal discipline introduced by the Law will enable an improvement in the financial condition of the Federal Governmental entities. This will increase the availability of resources for investments in social and economic development programs.

The planning process.

The Budget Directive Law – “LDO”.

The Budget Directive Law is annually prepared, and stipulates the general rules for the preparation of the Budget of the next year. The Attachment of Fiscal Goals is included in said Law, and, among other issues, it must contain:-

- a) the annual goals, in current and constant values, related to revenues, expenses, nominal¹ and primary² results, and public debt amount, for the fiscal year they refer to and for the two subsequent years, which, in practice, are triennial goals;-
- b) the evaluation of the achievement of the goals of the previous year;-
- c) the evolution of the net equity, the origin, and the application of privatization resources, if any; and-
- d) estimation and compensation of the fiscal waiver and the margin of expansion of the mandatory continuing expenses.

The Annual Budget Law.

The bill of the Annual Budget Law (“LOA”) for the Federal Government, States, Federal District, and Municipalities will be prepared by observing the guidelines and priorities set forth in the Budget Directive Law as well as the parameters and limits stipulated in the Fiscal Responsibility Law (“LRF”).

The Annual Budget Law will contain attached thereto, the statement confirming the compatibility of the budget with the objectives and goals defined in the Attachment of Fiscal Goals of the Budget Directive Law.

The Annual Budget Law must contain the contingency reserve, defined as percentage of the current net revenue (“RCL”)³, necessary to cover expenses not provided for in the Law, such as public calamity.

The purpose of the Fiscal Responsibility Law is to strengthen the budgetary process as a planning tool, avoiding undesirable imbalances. Additionally,

the Law intends to be an instrument of representation of the officials' commitment to the society.

The revenues and the fiscal waiver.

The Federal Government, the States, the Federal District, and the Municipalities are responsible for implementing, stipulating, and effectively collecting all of the levies under their constitutional competence. It means that each sphere of the government will have to properly explore its tax basis and, consequently, be able to estimate its revenue. This facilitates the compliance with the fiscal goals and the allocation of revenues to different expenses.

The waiver of revenue – that is, the relief, redemption, estimated credit, the exemption on a non-general basis, the change of the tax rate or the modification of the calculation basis, the impact of which is the public revenue reduction – must be accompanied by an estimation of the budgetary-financial impact on the fiscal year in which it shall become effective and on the two subsequent fiscal years.

Besides, in order to be in accordance with the Fiscal Responsibility Law, each official will have to demonstrate that the waiver of revenue was considered in the Annual Budgetary Law and that it will not affect the goals set forth in the Budget Directive Law.

Alternatively, the official must demonstrate that the waiver of revenue will be compensated by revenue increment resulting from elevation of rates, extension of the calculation basis, creation or increase in levy or contribution. In this case, the action that implies waiver will only become effective when the compensation by the revenue increase is certain.

The Budget Directive Law and the Annual Budget Law must contain a statement of the estimation and of the measures adopted to compensate the waiver of revenue.

The expenses and the compensation mechanisms.

In addition to the expenses provided for in law, there are some that the officials may incur due to the creation, expansion, or improvement of the governmental action. However, according to the Fiscal Responsibility Law, they must be accompanied by an estimation of the budgetary-financial impact

for 3 years, and by a statement confirming their compatibility with the Fiscal Responsibility Law and their observance of the Annual Budget Law.

If the official wishes to create a mandatory continuing expense (arising from a law or administrative rule that stipulates the legal obligation of execution for more than two years), this expense must be compensated by revenue permanent increments or permanent reduction of other expenses. Besides, it is worth mentioning that this compensation mechanism does not include the debt service and the review of the public employees' compensation, aiming at the real value of the salaries.

The Annual Budget Law must contain the statement of the measures adopted to compensate the mandatory continuing expense. This compensation mechanism has effect on the generation of new expenses with the Social Security, except in the cases of growth due to the increase in the number of beneficiaries and for the maintenance of the benefit real value.

Thus, the officials may not make decisions that by increasing the expense or reducing the revenue adversely affect the public finances in the future.

Personnel expenses.

Basic Definitions.

“Total Personnel Expense” is the sum of the expenses incurred by the federal governmental entities with active and inactive workers and pensioners, related to elective offices, commissions, functions, or civil and military jobs, as well as job of members of the Branches, with any type of compensation, such as: salaries, fixed and variable benefits, subsidies, retirement benefits, reforms and pensions, including allowances, bonus, overtime, and personal benefits of any kind, as well as social contributions and contributions collected by the entity to the social security agencies.

The values of independent contractor agreements that refer to the replacement of public workers and employees will be computed as “Other Personnel Expenses”.

The determination of the total personnel expense will be obtained by adding the expense incurred in the current month plus the expenses of the immediately previous eleven months, adopting the accrual basis.

Personnel Expenses Limits.

Federal Government.

In the federal sphere, the maximum limits to be spent with personnel (50% of the Current Net Revenue) are distributed as follows:-

- 2.5% to the Legislative Branch, including the Audit Court-
- 6% to the Judiciary Branch-
- 0.6% to the Federal Public Prosecution-
- 3% to bear expenses of the Federal District and ex-territories-
- 37.9% to the Executive Branch.

States.

In the state sphere, the maximum limits to be spent with personnel (60% of the Current Net Revenue) will be:-

- 3% to the Legislative Branch, including the Audit Court-
- 6% to the Judiciary Branch-
- 2% to the Public Prosecution-
- 49% to the Executive Branch.

Municipalities.

In the municipal sphere, the maximum limits to be spent with personnel (60% of the Current Net Revenue) will be:-

- 6% to the Legislative Branch, including the Audit Court, if any-
- 54% to the Executive Branch.

Deviation Corrective Mechanisms.

If the total personnel expense exceeds ninety-five percent (95%) of the limit, the Branch or body responsible for the excess is prohibited from performing the following:-

- granting benefit, increase, adjustment, or correction of compensation for any purpose;-
- creating office, job, or function;-
- changing career structure, implying expense increase;-
- providing public offices, admission, or hiring personnel for any purpose, except for the replacement due to retirement or death of the workers of the educational, health, and security areas;-
- overtime, except in the situations set forth in the Budget Directive Law.

Additionally:-

- once the maximum limit is surpassed in the four-month period, the excess has to be eliminated in 2 four-month periods (at least 1/3 in the first four months);-
- there is a temporary rule that will allow the agency or Branch exceeding the limit, as of the effectiveness of the Fiscal Responsibility Law, to eliminate the excess in the 2 subsequent fiscal years, at least 50% in the first year;-
- should the total personnel expense be lower than the limits established in the Law, this expense may be added of up to ten percent in relation to the expense verified in the immediately prior fiscal year, until the end of the third fiscal year, after the effectiveness of the Fiscal Responsibility Law, observing the limits for the corresponding administrative sphere and for the respective branches. Anyway, the possible salary increases, bonus, or career restructuring will be subject to the enactment of a specific law; and-
- the amount of the financial resources to be delivered to the bodies of the Legislative and Judiciary Branches and of the Public Prosecution, in order to cover the personnel expenses, will be the result of the application of the limits and rules set forth in the Fiscal Responsibility Law.

No act that results in increase in personnel expenses, in the Legislative and Executive Branches, may be issued during the 180 days prior to the end of the legislative term or term of office of the Executive Branch leaders.

In the event of negative economic growth or growth lower than 1% in the last four quarters, or in the event of public calamity, state of siege or defense, the counting of the terms to fit in the personnel limits is suspended.

The public debt.

The Fiscal Responsibility Law defines concepts and rules to be observed by all Federal Governmental entities as to public debt, security debt⁴, credit operations, and guarantees.

The limits to the debt amount (inventory) will be established based on the consolidated debt⁵ of the Federal Government, States, Federal District, and

Municipalities, which includes the debt of the direct administration, autarchies, foundations, and dependent state companies – always in relation to the Current Net Revenue (“RCL”).

Within ninety days after the publication of the Fiscal Responsibility Law, the President will submit to the Federal Senate a proposal with the global limits of the consolidated debt amount of the Federal Government, States, and Municipalities. Additionally, he will submit to the National Congress a bill defining the limits of the federal security debt amount, accompanied by the statement confirming its observance of the limits established for the Federal consolidated debt.

The proposals will contain:-

- a demonstration that the limits and conditions are consistent with the rules set forth in the Fiscal Responsibility Law and with the fiscal policy objectives;-
- estimations of the impact caused by the application of the limits to each of the three spheres of the government;-
- reasons for a possible proposal of limits differentiated according to the sphere of the government; and-
- methodology used in the determination of primary and nominal results.

The debt limits will be determined in percentage of the Current Net Revenue (“RCL”) for each governmental sphere and equally applied to every Federal Governmental entity that are part of its calculation, establishing maximum limits for each one.

The determination of the consolidated debt amount will be made at the end of every four months.

Whenever the grounds of the limit proposals are changed by virtue of economic instability or modifications in the monetary or exchange policy, the President may forward a request to the Senate or to the National Congress asking the review of the limits.

Attention!

When the Fiscal Responsibility Law becomes effective, the “precatórios judiciais”⁶ not paid during the execution of the budget in which they have

been included are part of the consolidated debt, for the purposes of limit application.

Once the maximum limit is exceeded at the end of a four-month period, the excess must be eliminated within three subsequent four-month periods. The excess must be reduced in at least twenty-five percent (25%) in the first four months.

While the excess remains, the Federal Government, States, Federal District, and Municipalities will be:-

- prohibited from performing new internal or external credit operations, including through advance of approved budgeted funds;-
- bound to obtain the primary result required to conduct the debt to the limit again.

Once the term to return the debt amount to the limit has elapsed, receiving voluntary transfers is prohibited as well.

Credit Operations⁷.

The Ministry of Finance will check the compliance with the limits and conditions of the execution of credit operations of the Federal Government, States, Federal District, and Municipalities, including those of the companies directly or indirectly controlled by them. The execution of credit operations is subject to the observance of the Annual Budget Law, additional credits or specific law, as well as to the compliance with the limits and conditions set forth by the Federal Senate.

According to the Fiscal Responsibility Law, the “Golden Rule” must always be observed. Said Rule stipulates the following: contracting of credit operations in each fiscal year is limited to the amount of the capital expense. In practice, it means that the loans will only be destined to expenses related to investments.

Prohibitions:-

- financial funding through advance of tax or contribution funds, whose taxable event has not occurred yet;-

- advance receipt of amounts from companies in which the Public Power directly or indirectly holds the majority of the voting capital stock, except profits and dividends;-
- the direct assumption of obligation, acknowledgment of indebtedness, or related operation with supplier of goods, merchandise, or services, upon the issuance, acceptance, or guarantee of securities or credit. This prohibition does not apply to dependent state companies;-
- the assumption of obligation, without budgetary authorization, with suppliers for subsequent payment of goods and services;-
- any type of granting of new credit or financing from the Federal Government, States, Federal District, and Municipalities among themselves, even if for refinancing or debt extension, except credit operations with state financial institution, not destined to finance the current expenses or refinance debts not contracted with the institution that granted the credit.

The effects of irregular credit operations will become void upon the operation cancellation, by the return of the principal without interests or price-level restatement or constitution of reserve in the Annual Budget Law of the following fiscal year.

While the voidance is not promoted, the debt arising from irregular credit operation will be considered overdue and unpaid, preventing the entity from receiving voluntary transfers, obtaining guarantees, and contracting new credit operations (except for debt refinancing and reduction of personnel expenses).

The irregular credit operation impedes the acquisition of guarantees, the receipt of voluntary transfers, and the contracting of new credit operations.

Credit Operations through Advance of Approved Budgeted Funds.

The credit operations through Advance of Approved Budgeted Funds (“ARO”) will be exclusively intended to compensate the funds deficiency during the fiscal year, and will have to fulfill the requirements of contracting of credit operations as well as the following requirements:-

- they may be carried out only from the tenth day of the beginning of the fiscal year (January 10th);-
- they must be paid, with interests and other incurring charges, up to December 10th of each year;-
- they will not be authorized if other charges other than the operation interest rate, which must be prefixed or indexed to the financial basic rate or to a rate that may substitute it, are charged;-
- the credit operations through advance of approved budgeted funds are prohibited while the previous operation of the same nature has not been fully redeemed or in the last years of the President, Governor, or Mayor's term of office.

Granting of Guarantees⁸.

The Federal Government, States, Federal District and Municipalities may grant guarantees in internal or external credit operations, since they observe the rules related to the contracting of credit operations. Regarding the Federal Government, the limits will be established by the Senate. Additionally, the following requirements must be observed:-

- the guarantee is subject to a counter-guarantee offer, in an amount equal or higher than the value of the guarantee to be granted. Besides, the entity requesting said guarantee must be in compliance with its obligations with the guarantor and with its controlled entities;-
- in the event of external credit operation or transfer of foreign resources by a federal credit institution, the requirements to receive voluntary transfers may also be fulfilled; and-
- the Central Bank is prohibited from granting guarantees to the Federal Government, States, Federal District, and Municipalities.

The Federal governmental entity whose debt has been borne by the Federal Government or by the State will have its access to new credits or financing suspended until the debt is paid.

Registration in leftovers payable.

In the last two four-month period of the last year of term of office, the official may not contract an expense obligation which cannot be paid in the same

fiscal year. If that happens, the official must assure availability of funds for the next fiscal year.

The transparency and the social control.

The search for transparency in the fiscal administration is one of the fundamental elements to maintain the balance of public accounts, since:-

- it indicates if the limits, conditions, objectives and goals were fulfilled or achieved;-
- it establishes responsibilities;-
- it justifies deviations and indicates corrective measures;-
- it determines the term estimated for correction;-
- it provides public access to concise and substantial data of public accounts.

The transparency in the fiscal administration is the main instrument for the social control.

In the preparation, approval, and implementation of the Budget Directive Law (“LDO”) and of the Annual Budget Law (“LOA”), as well as in the annual rendering of accounts, transparent procedures will be used, that is: publication and full disclosure of proposal summaries, laws, and rendering of accounts, including through electronic means, indicating the objectives, goals, expected and verified results.

Scope and bookkeeping.

- Applicable to all federal, state, and municipal public administration, in addition to autarchies, foundations, and state companies dependent on resources from Federal, State, Federal District, and Municipal Treasuries;-
- all expenses will be registered on an accrual basis;-
- the Social Security revenues and expenses will be registered in accounts separated from the others; and-
- the general rules for consolidation of public accounts will be defined by a Fiscal Administration Council, or, while it is not constituted, by the Federal central accounting agency.

It is important to emphasize that the disclosure of the accounts does not depend on a prior authorization or subsequent rendering of accounts to the

Federal Executive, which will be responsible only for consolidating and disclosing national accounts.

The course and the term to render accounts.

The Municipalities consolidate their accounts and submit them to the State and to the Federal Government until April 30th => the States consolidate their accounts and submit them to the Federal Government until May 31st => the Federal Government consolidates its accounts and the accounts of all Federal governmental entities, disclosing them until June 30th.

Budgetary Execution Summarized Report.

The Fiscal Responsibility Law provides that the Budgetary Execution Summarized Report must be published by all Branches and by the Public Prosecution up to thirty days after the end of each two months. It must contain:-

1. Budgetary balance, which shall specify per economic category:-
 - a) revenues, per source, informing the revenues earned and those to be earned, as well as an updated estimation; and-
 - b) expenses, per group of type of expense, discriminating the endowment for the fiscal year, the expense already paid, and the balance.
2. The statements confirming the execution of:-
 - a) revenues, per economic category and source, specifying the initial estimation, the updated estimation for the fiscal year, the revenue earned in the two-month period, the revenue earned in the fiscal year, and the estimation of that to be earned;-
 - b) expense, per economic category and group of type of expense, discriminating the initial endowment, the endowment for the fiscal year, the expenses incurred and paid in the two-month period and in the fiscal year; and-
 - c) expenses, per function and sub-function.
3. The determination of the current net revenue ("RCL"), its evolution, as well as the estimation of its performance until the end of the fiscal year.
4. The social security revenues and expenses.
5. The nominal and primary results.
6. The expenses resulting from interests.

7. The leftovers payable, detailing, per Branch and body, the registered amounts, the payments made, and the amount payable.

The report related to the last two months of the fiscal year must also contain information on the compliance with the “Golden Rule” and on the equity variance evidencing the disposal of assets and the application of resources arising therefrom.

As the case may be, justifications shall be submitted in case of lien limitation and non-accomplishment of revenues, specifying the measures to fight tax evasion which were adopted and to be adopted in the future, as well as the inspection and collection actions.

Fiscal Administration Report.

At the end of each four months, the Fiscal Administration Report will be issued and signed by all leaders of the Branches and bodies of federal entities. The report must contain:-

1. The comparison between the limits of the Fiscal Responsibility Law and the following amounts:-

- a) total personnel expense, emphasizing the expense with inactive workers and pensioners;-
- b) consolidated and security debts;-
- c) granting of guarantees; and-
- d) credit operations, including through advance of funds.

2. The indication of corrective measures adopted or to be adopted, if exceeded any of the limits.

3. The statements, in the last four months of the fiscal year:-

- a) of the amount of available funds on December 31st; and-
- b) of the registration of the expenses under leftovers payable: settled, subject to lien and not settled, resulting from administrative contracts or agreements in course; subject to lien and not settled, registered until the limit of the balance of the available funds; and expenses not registered due to lack of available funds and whose liens were cancelled.

The report will be published up to thirty days after the end of the period it refers to, with full public access, including through electronic means.

The noncompliance with the stipulated terms will prevent, until the situation is regularized, the Federal Government, States, Federal District, and Municipalities from contracting credit operations, except those related to refinancing of the adjusted principal of the respective security debt.

Inspection.

Checking the observance of the rules and limits of the Fiscal Responsibility Law is the responsibility of the Legislative Branch (directly or in collaboration with Audit Courts) and of the Internal Control System of each Branch and Public Prosecution.

The Audit Courts will inform the Branches, Federal governmental entities or bodies, when they verify that the expense level is close to the limits established by the Fiscal Responsibility Law.

The Audit Courts are also responsible for checking the calculations of the limits of the total personnel expense of each Federal governmental entity Branch.

Institutional and Personal Sanctions.

In the event of noncompliance with its rules, the Fiscal Responsibility Law establishes several institutional and personal sanctions.

Examples of institutional sanctions:-

- suspension of voluntary transfers for the government that does not implement, stipulate, and collect the taxes under its competence;-
- regarding personnel expense limits, if the rules of the Fiscal Responsibility Law are not observed, and while the adjustment is not accepted, or should there be excess in the first four months of the last year of term of office, the following will be suspended:-

- voluntary transfers;-

- obtaining guarantees;-

- contracting of new credit operations, except for debt refinancing and reduction of personnel expenses.

Also regarding personnel expense limits, it is legally void the act that:-

- does not fulfill the compensation mechanism (permanent revenue increment or permanent expense reduction);-

- does not comply with the legal limit of commitment applied to expenses with inactive workers; and-
- increases the personnel expense 180 days prior to the end of the term of office.
- in relation to debt inventory limits, once the term to return to the maximum limit has expired and while the excess remain, voluntary transfers from the Federal Government or from the State may not be received;-
- for irregular credit operations, while the deviation corrective mechanisms (operation cancellation and reserve constitution) are not executed, receiving voluntary transfers, obtaining guarantees, and contracting new credit operations is prohibited, except for debt refinancing and reduction of personnel expenses;-
- in the granting of guarantees, should the correction mechanisms and their terms not be observed, the entity whose debt has been borne by the Federal Government or by the State will have its access to new credits or financing suspended until the debt is paid.

In addition to the institutional sanctions, we also have **personal sanctions**, set forth in a statutory law bill called Fiscal Responsibility Law Crimes, which determines that the officials may be personally held responsible and punished for their acts, by being removed from their offices, prevented from occupying public offices, going to prison, and paying fines.

The penalties may be applied to all of the responsible persons of the three Branches of the Federal Government, States, and Municipalities, and every citizen is a legitimate party to denounce.

Society's contribution to the success of the Fiscal Responsibility Law.

The Fiscal Responsibility Law defines how the public accounts will be consolidated and disclosed to the population. It creates the Fiscal Administration Report, which shall submit, in a simple and objective language, the accounts of the Federal Government, Federal District, and each State and Municipality. People will have full access, including through electronic means. From that time on, the society will be responsible for

demanding the necessary actions from the officials and judging whether they are proceeding responsibly with the fiscal administration.

The purpose is to improve the transparency in the administration of the public expense, allowing the market mechanisms and the political process to work as an instrument of control and punishment of fiscally irresponsible officials. At the same time, we expect that the good administrators receive the recognition from the people and from the market, including more access to credit.

It is worth mentioning that this search for a greater transparency was initiated in the preparation of the bill itself, which has involved a public opinion survey that was also carried out via Internet, where over 5,000 accesses were recorded. The public opinion survey consolidated the importance and the need to change the tax system, which was verified in many demonstrations of support and in suggestions, greater part of which was incorporated to the final text of the law.

It is worth mentioning the determination demonstrated by the National Congress, which analyzed and discussed it for almost one year, quite a short time for such a complex and relevant issue, finally approving the final text of the Fiscal Responsibility Law.

That determination, demonstrated not only by the Congress, but also by the Executive Branch, confirms the commitment of the Country to the consolidation of the economic stability and the construction of a safe way for the economic and social development.

Summary tables.

For the States:-

<i>LAW ITEMS</i>	<i>WHAT TO DO</i>	<i>WHEN TO DO</i>
Personnel debt limits. Rule.	--	--
--	60% of the current net revenue:-	Global limit already in force by Law Camata II.
--	• 49% to the Executive.	Limits per Branch, from the publication of the Fiscal Responsibility Law.
--	• 3% to the Legislative.	
--	• 6% to the Judiciary.	
--	• 2% to the Public Prosecution.	

Transition term.	--	2 years, with reduction of at least 50% of the excess in the first year.
--	--	
--	--	
Debt limits.	To be established by the Federal Senate, according to a proposal from the President, 90 days after the publication of the Fiscal Responsibility Law.	After the limits are established, the States will have to fit within one year.
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For the Municipalities:-

<i>LAW ITEMS</i>	<i>WHAT TO DO</i>	<i>WHEN TO DO</i>
Personnel debt limits.	--	--
Rule.	60% of the current net revenue:-	Global limit already in force by Law Camata II.
--	• 54% to the Executive.	Limits per Branch, from the publication of the Fiscal Responsibility Law.
--	• 6% to the Legislative.	
--	--	
--	--	
Transition term.	--	2 years, with reduction of at least 50% of the excess in the first year.
--	--	
--	--	
Debt limits.	To be established by the Federal Senate, according to a proposal from the President, 90 days after the publication of the Fiscal Responsibility Law.	After the limits are established, the Municipalities will have to fit within one year.
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For small Municipalities:-

(less than 50 thousand inhabitants, approximately 90% of the municipalities of the Country).

<i>LAW ITEMS</i>	<i>GENERAL RULE</i>	<i>SMALL MUNICIPALITIES</i>
Fiscal objectives and goals:-	--	--
• Budget Directive Law (“LDO”).	--	--
	--	--

Attachment of Fiscal Goals for the triennial period.	In the first LDO from the publication of the Fiscal Responsibility Law.	From 2005. -- --
Reports.	--	--
• Limit calculation.	Each 4 months (from the publication of the Fiscal Responsibility Law).	Each 6 months (from the publication of the Fiscal Responsibility Law).
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• Evaluation of fiscal goals.	Each 4 months (from the fiscal years subsequent to that of the first LDO approved from the publication of the Fiscal Responsibility Law).	Each 4 months.
--	--	--
--	Already in force, each 2 months (new format from the publication of the Fiscal Responsibility Law).	--
• Summarized Report of Budgetary Execution.	Already in force, each 2 months.	Already in force, each 2 months.
--	--	--
• Summarized Report Statements.	Each 4 months (from the publication of the Fiscal Responsibility Law).	Each 2 months.
• Fiscal administration Report.	Each 4 months (from the publication of the Fiscal Responsibility Law).	Each 4 months.
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Glossary.

1-Nominal Result: the difference between the revenues and the public expenses, including revenues and financial expenses, the effects of inflation (price-level restatement) and of exchange variance. It corresponds to the increase of the net public debt in a determined period.

2-Primary Result: the difference between the revenues and the non-financial public expenses.

3-Current Net Revenue (“RCL”): sum of the tax revenues, contribution on equity, on industrial and agriculture activities, services, current transfers, and other current revenues, being deducted:-

a) in the Federal Government, the values transferred to the States and Municipalities, by legal or constitutional determination, and the contributions from employers and employees and other insureds of the Social Security to the Social Security General System, as well as the Employees' Profit Participation Program ("PIS")/Public Service Employee Savings Program ("PASEP") contributions.:-

b) in the States, the amounts delivered to the Municipalities by constitutional determination.:-

c) in the Federal Government, States, and Municipalities, the contributions to public workers for the costing of their social security and social assistance system, and the revenues from the financial compensation among the various social security systems for reciprocal count of the time of contribution, for retirement purposes. The values received by reason of Kandir Law (Complementary Law no. 87/96) and "FUNDEF" will be computed in the calculation of the Current Net Revenue. Regarding the Federal District and the States of Amapá and Roraima, the resources received from the Federal Government to pay the expenses of personnel related to the security, health and educational areas, as well as the members of the dismissed personnel of the federal administration in that States, will not be considered in the current net revenue of said District and States. The Current Net Revenue will be determined by adding the revenues collected in the current month and in the eleven previous months, excluding duplicities.

4-Security public debt: public debt represented by bonds issued by the Federal Government (including those of the Central Bank), States, and Municipalities.

5-Consolidated or funded public debt: total amount, determined without duplicity, of the financial obligations of the Federal governmental entity, undertaken by virtue of laws, contracts, agreements, or treaties, and by virtue of the credit operations execution, for amortization in a term of more than twelve months.

6-"Precatórios Judiciais": debts resulting from final judgment, due by a Public Entity (Federal Government, States, Federal District, Municipalities, autarchies, and foundations).

7-Credit Operations: financial commitment undertaken by reason of loans, credit facility, issuance and acceptance of securities, financed acquisition of assets, advance receipt of amounts from installment selling of goods and services, commercial leasing and other related operations, including with the use of derivative instruments.

8-Granting of Guarantee: commitment to comply with a financial or contractual obligation undertaken by the Federal governmental entity or related entity.

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MINISTRY OF PLANNING, MINISTRY OF DEVELOPMENT, BNDES,
AVANÇA BRASIL [Advance Brazil], FEDERAL GOVERNMENT,
working throughout the country.