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2019

Federal Government Financial Statements

Consolidated Financial Statements of the Brazilian Government

SECRETARIA DO TESOURO NACIONAL
SECRETARIA ESPECIAL DE FAZENDA
MINISTÉRIO DA ECONOMIA
PÁTRIA AMADA BRASIL GOVERNO FEDERAL

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MINISTÉRIO DA
ECONOMIA

PÁTRIA AMADA
BRASIL
GOVERNO FEDERAL

Ministry of Economy

Minister of Economy
Paulo Roberto Nunes Guedes

Executive Secretary
Marcelo Pacheco dos Guaranys

Special Secretary of Finance
Waldery Rodrigues Júnior

Secretary of the National Treasury
Bruno Funchal

Deputy Secretary of the National Treasury
Otavio Ladeira de Medeiros

Undersecretary of the National Treasury
Gildenora Batista Dantas Milhomem

Director General of Federal Government Accounting
Heriberto Henrique Vilela do Nascimento

Director of Federal Government Accounting Support
Luciano Moura Castro do Nascimento

Staff
Marilu Cardoso da Silva (Manager)
Luís Fernando Quevedo da Silva (Deputy Manager)
Antônio Luiz Almeida
Diego Rodrigues Boente
Eveilton Souza de Oliveira
Gabriela Gonçalves Batista Stábile
Henrique Guilherme do Amaral Santos
Luís Fernando Quevedo da Silva
Rafael da Silva Assunção
Renato da Costa Usier
Rinaldo José Mendes Meneguim
Rubem Mateus de Arruda Ziegler
Sandro Alex Bezerra Vieira

Art
Viviane Gomes de Barros Nóbrega
Office of Public Affairs

Information
Phone: (61) 3412-1843
Email: ascom@tesouro.gov.br
Available at: www.tesourotransparente.gov.br

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Glossary of Acronyms

ABDI	Brazilian Agency for Industrial Development
ABGF	Agência Brasileira Gestora de Fundos Garantidores e Garantias S/A
AFCI	Advance for Future Capital Increase
AGO	Annual General Meeting
AGU	Office of the Attorney General
AMAZUL	Amazônia Azul Tecnologias de Defesa S/A
ANATEL	Brazilian Telecommunications Agency
ANEEL	National Agency for Electricity
ANM	Brazilian Mining Agency
ANP	Brazilian Petroleum Agency
ANS	National Private Health Insurance Agency
ANTT	National Land Transportation Agency
APEX	Brazilian Trade and Investment Promotion Agency
ASPS	Public Health Activities and Services
ATS	Length of Service Bonus
BANERJ	Banco do Estado do Rio de Janeiro S/A
BASA	Banco da Amazônia S/A
BB	Banco do Brasil S/A
BCB	Central Bank of Brazil
BGU	Federal Government Financial Statements
BID	Inter-American Development Bank
BIEG	Strategic and Managerial Database
BLV	Bare Land Value
BNB	Banco do Nordeste
BNDES	Brazilian Development Bank
BNH	Banco Nacional da Habitação
BPC	Continuous Cash Benefit
BRICS	Brazil, Russia, India, China and South Africa
CA	Politically Appointed Advisory Position
CADE	Antitrust Agency
CAF	Corporação Andina de Fomento
CARF	Administrative Council for Tax Appeals
CBTU	Companhia Brasileira de Trens Urbanos
CCD	Politically Appointed Management Position
CCT	Politically Appointed Technical Position
CD	Management Position - CD - IFES
CDRJ	Companhia Docas do Rio de Janeiro
CEBAS	Social Assistance Charity Certificate
CEF	Caixa Econômica Federal
CEITEC	Centro Nacional de Tecnologia Eletrônica Avançada S/A
CF/1988	Federal Constitution of 1988
CFC	Federal Accounting Board
CGE	Politically Appointed Executive Management Position

CGU	Office of the Controller General of the Federal Government
CIDE	Contribution for Intervention in the Economic Domain
CJF	Federal Judiciary Board
CMB	Brazilian Mint
CMG	Average Cost of Ownership
CMN	Brazilian Monetary Council
CNAE	National Classification of Economic Activities
COAFI	Department of Finance Receivables
CODAC	Collections Department
CODEFAT	Board of Directors of the Workers' Assistance Fund
CODERN	Companhia Docas do Rio Grande do Norte
CODESP	Companhia Docas do Estado de São Paulo
CODEVASF	Companhia de Desenvolvimento dos Vales do São Francisco e do Parnaíba
CODIV	Public Debt Management Department
COFIN	Financial Planning Department
COFINS	Social Security Funding Contribution
COGEF	Department for Management and Execution of Fiscal Transactions
Comprev	Pension System Offsets
CONAB	Companhia Nacional de Abastecimento
COPAR	Equity Holdings Department
CPP	Canadian Pension Plan
CPRM	Companhia de Pesquisa de Recursos Minerais
CS	Social Contribution
CSLL	Social Contribution on Net Income
CVM	Brazilian Securities Commission
DARF	Federal Tax Payment Form
DAS	Senior Management and Advisory
DATAPREV	Empresa de Processamento de Dados da Previdência Social
DAU	Tax Receivables under Judicial Collection
DF	Federal District
DGE	Department of Strategic Management
DLOG	Department of Healthcare Logistics
DMLP	Long-Term Securities Debt
DNER	National Highways Department
DNIT	National Department of Transportation Infrastructure
DPF	Federal Public Debt
DPFe	External Federal Public Debt
DPMFi	Domestic Federal Public Securities Debt
DPU	Central Government Public Defense Service
DRF	Federal Revenue Department Office
DW	Data Warehouse
EBC	Empresa Brasileira de Comunicação
EBSERH	Empresa Brasileira de Serviços Hospitalares
Eletrobras	Centrais Elétricas Brasileiras S/A
EMBRAPA	Empresa Brasileira de Pesquisa Agropecuária

EMGEA	Empresa Gestora de Ativos
EMGEPRON	Empresa Gerencial de Projetos Navais
EPE	Empresa de Pesquisa Energética
EPL	Empresa de Planejamento e Logística
EVTEA	Technical, Economic and Environmental Feasibility Assessment
FAR	Residential Lease Fund
FAT	Workers’ Assistance Fund
FCDF	Federal District Constitutional Fund
FCO	Midwest Constitutional Fund
FCT	Politically Appointed Technical Position
FCVS	Wage Variance Offsetting Fund
FG	Bonus-Based Position - IFES
FGE	Export Guarantee Fund
FGEDUC	Student Loan Guarantee Fund
FG-FIES	Student Financing Guarantee Fund (FG-FIES)
FGHAB	Social Housing Guarantee Fund
FGR	Bonus-Based Position – Act 8216/91
FGTS	Government Severance Indemnity Fund
FGV	Fundação Getúlio Vargas
FIES	Student Loan Fund
FINEP	Financiadora de Estudos e Projetos
FINSOCIAL	Social Investment Fund
FND	National Development Fund
FND	National Privatization Fund
FNDE	National Education Development Fund
FNE	Northeast Constitutional Fund
FNO	North Constitutional Fund
FOCEM	MERCOSUR Structural Convergence Fund
FPE	Politically Appointed Executive Position
FRGPS	General Pension System Fund
FSA	Audiovisual Fund
FUC	Politically Appointed Course Coordinator Position
FUNAI	National Foundation for Indigenous Peoples
Funcafé	Coffee Industry Defense Fund
FUNDEB	Fund for the Development and Maintenance of Basic Education and Recognition of the Teaching Profession
FUNDEF	Fund for the Development and Maintenance of Elementary Education and Recognition of the Teaching Profession
FUNTTEL	Fund for the Development of Telecommunications Technology
GDAT	Bonus for Tax Activities
GKM	Generalized Kontsevich Model
GNE	Bonus for Special-Purpose Positions
GPS	Social Security Contribution Payment Form
GRU	Federal Government Collection Form
GSE	Bonus for Special Services/Census
GT-AGU	Temporary Bonus

GTS	Temporary Bonus - SIPAM
HA	Horizontal Analysis
HCPA	Hospital de Clínicas de Porto Alegre
HNSC	Hospital Nossa Senhora Conceição
IBAMA	Brazilian Institute for the Environment and Renewable Natural Resources
IBGE	Brazilian Institute for Geography and Statistics
IBRD	International Bank for Reconstruction and Development
ICMBio	Chico Mendes Institute for Conservation of Biodiversity
ICMS	Value Added Tax on Sales and Services
IDA	International Development Association
IFRS	International Financial Reporting Standards
IGP-DI	General Price Index – Domestic
IGP-M	General Market Prices Index
IMBEL	Indústria de Material Bélico do Brasil
INB	Indústrias Nucleares do Brasil S/A
INCRA	National Institute for Colonization and Agrarian Reform
INEP	Anísio Teixeira Institute for Educational Studies and Research
INFRAERO	Empresa Brasileira de Infraestrutura Aeroportuária
INMETRO	National Institute of Metrology, Quality and Technology
INPC	Domestic Consumer Price Index
INSS	National Institute of Social Security
IOF	Tax on Lending, Foreign Exchange and Insurance Contracts
IPCA	Broad Consumer Price Index
IPI	Excise Tax
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IR	Income Tax
IRPF	Individual Income Tax
IRPJ	Corporate Income Tax
IRR	Internal Rate of Return
IRRF	Withholding Income Tax
ISCED	International Standard Classification of Education
ISS	Services Tax
ITG	Interpretation of Brazilian Accounting Standards
ITR	Rural Property Tax
JWG	Joint Working Group
LDO	Budgetary Guidelines
LOA	Annual Budget Law (LOA)
LOAS	Organic Law on Social Welfare
LRF	Fiscal Responsibility Act
LTDA	Limited
MAPA	Ministry of Agriculture and Food Supply
MCASP	Public-Sector Accounting Handbook
MCTI	Ministry of Science, Technology & Communications
MD	Ministry of Defense

MDE	Education Maintenance and Development
MDIC	Ministry of Industry, Foreign Trade and Services
MDR	Ministry of Regional Development
ME	Ministry of Economy
MEC	Ministry of Education
MF	Ministry of Finance
MME	Ministry of Mining and Energy
MP	Executive Order
MP	Ministry of Planning, Development and Management
MPU	Central Government Prosecution Service
MS	Ministry of Health
MU	Management Unit
NBC TSP	Brazilian Public-Sector Accounting Standard
NCR	Net Current Revenue
NDB	New Development Bank
NE	Note
NES	Special-Purpose Position
NTN	National Treasury Note
NUCLEP	Nuclebrás Equipamentos Pesados S/A
OB	Bank Order
OECD	Organization for Economic Cooperation and Development
OFSS	Fiscal and Social Security Budgets
OGU	General Federal Budget
PAC	Growth Acceleration Program
PAE	Salary Parity Bonus
PAES	Special Installment Payment Program
PAF	Annual Financing Plan
PASEP	Public Servants' Savings Program
PBF	Bolsa Família Program
PCASP	Public-Sector Chart of Accounts
PCP	Asset Accounting Procedures
PCPR	President's Report
PESA	Special Asset Restructuring Program
Petrobras	Petróleo Brasileiro S/A
PGBC	Office of the Attorney General of the Central Bank
PGF	Office of the Federal Attorney General
PGFN	Office of the Attorney General of the Treasury
PGU	Office of the Attorney General of the Central Government
PIPCP	Asset Accounting Procedures Implementation Plan
PIS	Social Integration Program
PMCMV	*Minha Casa, Minha Vida*
PNAA	National Food Access Program
PNE	Person with Special Needs
PNLD	National Textbook and Teaching Materials Program
pp	Percentage Point

PPE	Specific Public Policies
PPR	Reference Price List
PRODUBAN	Banco do Estado de Alagoas S/A
PROES	Program to Encourage Reduced State Government Participation in Banking Activities
PROEX	Export Finance Program
PRONAF	National Program to Strengthen Family Farming
PROTECH	Program to Disseminate Low-Cost Housing Technology
PSI	Investment Support Program
RAD	Annual Debt Report
RAV	Variable Additional Compensation
REFER	Fundação Rede Ferroviária de Seguridade Social
RFB	Federal Revenue Service
RFFSA	Rede Ferroviária Federal S/A
RGA	Bonus for Cabinet Representation-Support (PR/VPR)
RGF	Fiscal Management Reports
RGM	Bonus for Cabinet Representation (Min)
RGPS	General Pension System
RMA	Bonus for Cabinet Representation-Support (PR/VPR)
RMD	Monthly Debt Report
RMV	Lifelong Monthly Income
RP	Accrued Liabilities
RPNP	Unprocessed Accrued Liabilities
RPP	Processed Accrued Liabilities
RPPS	Civil Servants' Pension System
RPV	Minor Award
RREO	Summary Budget Execution Report
RRF	Fiscal Recovery Framework
RTN	Central Government Primary Balance
S/A	Corporation
SEAD	Special Office for Family Farming and Agrarian Development
SEAF	Special Office for Land Affairs
SEGEP	Office for Public Management
SELIC	Special System for Settlement and Custody
SERFAL	Special Sub-office for Land Titling in the Brazilian Amazon
SERPRO	Federal Data Processing Service
SEST	Office for Management and Governance of Government-Owned Companies
SFH	National Housing System
SIAFI	Federal Integrated Financial Management System
SIAPA	Integrated Asset Management System
SIAPE	Integrated Human Resources Management System
SID	Integrated Debt System
SIDA	Integrated Delinquent Tax Debt System
SIEF	Economic and Fiscal Information System
SIGEPE	People Management System

SISBACEN	Central Bank Information System
SPB	Brazilian Payments System
SPE	Office for Economic Policy
SPIUnet	Federal Special-Purpose Property Management System
SPO	Office for Planning, Budgeting and Finances
SPREV	Office of the Secretary for Pensions
SPU	Office for Government Assets
SPUnet	Integrated Federal Public Property Management System
SR	Regional Governance Office
STF	Superior Federal Court
STJ	High Court of Justice
STN	Office of the Secretary of the National Treasury
SUFRAMA	Manaus Free Trade Zone Administration
SUSEP	Private Insurance Regulator
TCE	Special Audit
TCU	Federal Audit Court
TDA	Agricultural Debt Security
TED	Decentralized Execution Agreement
TERRACAP	Companhia Imobiliária de Brasília
TN	National Treasury
TR	Reference Rate
TRENSURB	Empresa de Trens Urbanos de Porto Alegre S/A
TSA	National Treasury Single Account
TST	Higher Labor Court
VA	Vertical Analysis
VALEC	VALEC Engenharia, Construções e Ferrovias S/A
VMC	Monetary and Exchange Variance
VPNI	Nominally Identified Pecuniary Advantage
WG	Working Group

Foreword

With the Brazilian Government's convergence with international financial reporting standards — in support of inward investment and inflows of foreign capital — translation of the Federal Government financial statements into a strong foreign currency is needed to inform investors' evaluation of current or future investments. This also enhances Government transparency at an international level and ensures Federal Government financial statements are comparable with those of other countries.

This report is based on the Federal Government financial statements for the fiscal year ended December 31, 2019 and has been prepared for the purpose of reporting to international stakeholders on the financial position and results of operations of the Federal Government. This report comprises the Statement of Financial Position, Statement of Financial Performance and Statement of Cash Flows for the fiscal year. These financial statements are accompanied by explanatory notes.

The following key improvements were made to the Federal Government financial statements in 2019:

- Claims against the Federal Government previously classified as possible losses are now classified as probable losses in accordance with AGU Directive 40/2015 as amended by AGU Directive 514/2019;
- Actuarial obligations relating to members of the Federal District Civil Police, Military Police and Fire Department in the Federal District are now recognized given that under article 21(XIV) of the Federal Constitution of 1988, responsibility for the organization and maintenance of these organizations pertains to the Federal Government;
- Federal railroads are now recognized as infrastructure assets of the Federal Government; and
- Writs of payment and minor awards issued by state courts against the General Pension System Fund (FRGPS) are now recognized.

These improvements are in addition to previous improvements in recent years in accounting for Federal Government assets and liabilities, especially tax receivables in administrative and judicial collection, finance receivables from financial institutions and subnational entities, real property assets, equity holdings, provisions and contingent liabilities, pension liabilities and infrastructure assets. This information, taken as whole, indicates a negative net assets/equity position (the amount by which assets exceed liabilities) of US$ 739.8 billion.

Consolidated Financial Statements

Statement of Financial Position

US$ million

ASSETS	Note	2019	2018
Current Assets		**426,894**	**405,298**
Cash and Cash Equivalents	4	381,225	353,321
Short-Term Receivables	5	26,579	31,457
Other Short-Term Receivables	6	13,104	14,175
Short-Term Investments		103	237
Inventories		5,818	6,047
Non-financial Assets Held for Sale		44	51
Prepaid Expenses		20	11
Non-current Assets		**961,794**	**954,292**
Long-Term Assets		512,231	533,900
Long-Term Receivables	5	492,201	521,433
Other Long-Term Receivables	6	13,823	9,843
Long-Term Investments		6,206	2,623
Prepaid Expenses		0	0
Investments	7	98,076	92,129
Property, Plant and Equipment	8	349,473	326,893
Intangible Assets		2,014	1,370
Deferred Assets		0	1
TOTAL ASSETS		**1,388,688**	**1,359,591**

LIABILITIES AND NET ASSETS/EQUITY			
Current Liabilities		**335,718**	**291,697**
Short-Term Labor, Pension and Welfare Obligations		18,462	17,659
Short-Term Loans and Financing	9	272,533	208,655
Short-Term Trade and Other Payables		709	791
Short-Term Tax Obligations		4	10
Obligations from Federal Transfers to State and Local Governments		300	394
Short-Term Provisions	10	17,165	14,729
Other Short-Term Liabilities	11	26,545	49,459
Non-current Liabilities		**1,792,804**	**1,691,359**
Long-Term Labor, Pension and Welfare Obligations		689	1,121
Long-Term Loans and Financing	9	1,257,377	1,263,238
Long-Term Trade and Other Payables		86	90
Long-Term Tax Obligations		21	21
Long-Term Provisions	10	507,257	420,617
Other Long-Term Liabilities	11	27,375	6,272
Deferred Revenue		0	1
Total Liabilities		**2,128,522**	**1,983,056**
Net Assets/Equity		**(739,834)**	**(623,466)**
Equity and Capital of Indirect Government Entities		1,251	4,376
Advances for Future Capital Increase (AFCI)		74	368
Capital Reserves		5	51
Equity Revaluation Adjustments		0	56
Profit Reserves		-	58
Other Reserves		44	63
Accumulated Surpluses/(Deficits)		(738,711)	(626,454)
(-) Treasury Shares		(346)	(376)
Cumulative Translation Adjustments		(2,151)	(1,608)
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**1,388,688**	**1,359,591**

Financial and Permanent Assets and Liabilities (Act 4320/1964)

US$ million

	Note	2019	2018
Assets (I)		**1,509,423**	**1,469,781**
Financial Assets		405,914	390,112
Permanent Assets		1,103,508	1,079,669
Liabilities (II)		**2,270,573**	**2,120,554**
Financial Liabilities		70,020	85,267
Permanent Liabilities		2,200,554	2,035,287
Net Assets (III = I - II)		**(761,151)**	**(650,773)**

Statement of Financial Performance

US$ million

	Note	2019	2018
REVENUE (I)		**793,241**	**830,913**
Taxes, Duties and Improvement Contributions		**130,179**	**140,810**
Taxes		127,998	138,165
Duties		2,181	2,645
Contributions		**203,153**	**232,913**
Social Contributions		199,285	228,074
Contribution for Intervention in the Economic Domain		3,869	4,839
Monetization and Sale of Property, Goods, Services and Rights		**42,881**	**25,892**
Sale of Goods		64	87
Sale of Products		415	564
Monetization of Property, Assets and Rights and Provision of Services		42,403	25,240
Finance Revenue		**145,389**	**219,595**
Interest and Charges on Loans and Financing Provided		20,559	25,724
Late Payment Interest and Fines		559	3,280
Monetary and Exchange Variance		85,255	107,217
Interest on Short-Term Investments		28,125	29,383
Transfers from the Brazilian Central Bank		10,763	52,777
Other Finance Revenue		129	1,213
Transfers Received		**1,452**	**1,213**
Intragovernmental Transfers		8	11
Intergovernmental Transfers		281	298
Transfers from Private Institutions		64	94
Transfers from Foreign Jurisdictions		1	6
Transfers from Individuals		1	0
Other Transfers Received		1,098	804
Appreciation and Gains on Assets and Disincorporation of Liabilities		**37,508**	**91,640**
Asset Revaluation		6,785	13,814
Gains on Disposal		832	215
Gains on Incorporation of Assets		25,998	69,475
Gains on Disincorporation of Liabilities		3,893	8,136
Other Revenue		**232,677**	**118,850**
Revenue to be Classified		(908)	(675)
Equity Income in Investments		15,453	16,318
Reversal of Provisions and Adjustments for Impairment		157,083	63,823
Miscellaneous Revenue		61,049	39,383
EXPENSE (II)		**896,701**	**857,046**
Payroll and Related Charges		**46,556**	**48,485**
Staff Compensation		41,534	43,200
Employer Charges		1,349	1,365
Employee Benefits		3,225	3,458
Other Expenses - Payroll and Related Charges		448	462
Pension and Welfare Benefits		**217,682**	**223,930**
Retirement Benefits		134,180	134,413

	Note	2019	2018
Pension Benefits		48,985	50,239
Continuous Cash Benefit		14,868	15,196
Other Benefits		3	0
Other Pension and Welfare Benefits		19,646	24,082
Use of Assets and Services and Consumption of Fixed Capital		**37,822**	**36,900**
Use of Consumables		5,825	3,534
Services		29,849	30,510
Depreciation, Amortization and Depletion		2,148	2,855
Finance Expense		**210,118**	**244,556**
Interest and Charges on Loans and Financing Obtained		83,496	92,086
Late Payment Interest and Fines		223	21
Monetary and Exchange Variance		120,876	142,164
Financial Discounts Awarded		97	92
Transfers to the Brazilian Central Bank		2,769	5,885
Other Finance Expense		2,657	4,307
Transfers Made		**106,786**	**106,327**
Intergovernmental Transfers		105,452	103,377
Transfers to Private Institutions		649	1,138
Transfers to Foreign Jurisdictions		210	468
Other Transfers Made		475	1,344
Depreciation and Losses on Assets and Incorporation of Liabilities		**98,418**	**126,525**
Revaluation, Impairment and Adjustment for Impairment		70,314	72,731
Losses on Disposal		45	145
Involuntary Losses		3,351	470
Incorporation of Liabilities		1,901	2,577
Disincorporation of Assets		22,807	50,602
Tax		**273**	**260**
Taxes, Duties and Improvement Contributions		50	63
Contributions		223	197
Costs of Goods and Prod. Sold and Serv. Rendered		**564**	**634**
Cost of Goods Sold		120	273
Costs of Products Sold		443	361
Cost of Services Rendered		1	0
Other Expense		**178,482**	**69,429**
Rewards		2	7
Equity Loss on Investments		2,378	4,321
Incentives		2,738	2,618
Economic Subsidies		5,652	4,219
Provisions Recognized		110,571	29,127
Other Expenses		57,140	29,137
SURPLUS/DEFICIT FOR THE PERIOD (III = I - II)	14	**(103,460)**	**(26,133)**

Statement of Cash Flows

US$ million

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**(44,811)**	**(50,370)**
Receipts		**480,357**	**470,438**
Tax and Non-tax Revenue		458,306	456,009
Current Transfers Received		321	345
Other Cash Receipts from Operations		21,730	14,084
Payments		**(525,168)**	**(520,807)**
Personnel and Other Expenses		(317,664)	(311,460)
Interest and Debt Service Costs		(74,092)	(78,212)
Transfers Made		(111,443)	(113,909)
Other Cash Payments Generated from Operations		(21,969)	(17,227)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**16,420**	**21,067**
Receipts		**39,926**	**46,028**
Disposal of Assets		1,043	1,552
Amortization of Loans and Financing Provided		38,883	44,476
Payments		**(23,506)**	**(24,961)**
Acquisition of Non-current Assets		(7,176)	(6,424)
Provision of Loans and Financing		(12,312)	(15,055)
Other Investment Payments		(4,019)	(3,482)
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**66,906**	**85,639**
Receipts		**260,114**	**305,538**
Borrowings		248,159	259,846
Capital Transfers Received		6	7
Other Financing Receipts		11,950	45,684
Payments		**(193,209)**	**(219,899)**
Debt Repayment / Refinancing		(193,209)	(219,889)
Other Financing Payments		-	(11)
CUMULATIVE TRANSLATION ADJUSTMENTS		(10,610)	(47,677)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (IV = I + II + III)	15	**27,905**	**8,659**
Cash and Cash Equivalents at Start of Period		**353,321**	**344,662**
Cash and Cash Equivalents at End of Period		**381,225**	**353,321**

Notes to the Financial Statements

1 - Basis of Preparation of the Financial Statements

The **Federal Government Financial Statements (DCON)** are prepared in accordance with the financial reporting requirements established in Act 4320/1964, Decree-Act 200/67, Decree 93872/1986, Act 10180/2001 and Supplementary Act 101/2000. They are additionally based on the Public-Sector Accounting Handbook (MCASP) published by the Office of the Secretary of the National Treasury (STN), and on Brazilian and international public sector accounting standards published respectively by the Brazilian Federal Accounting Board and the International Federation of Accountants (IFAC).

With information compiled from the Federal Integrated Financial Management System (SIAFI), the financial statements consolidate the accounts of the direct and indirect government bodies and entities of all branches of government (Executive, Legislative and Judiciary), the Central Government Prosecution Service (MPU), and the Central Government Public Defense Service (DPU), all of which are subject to the Fiscal and Social Security Budgets (OFSS).

The primary purpose of the financial statements is to provide users with information about the management of Federal Government assets, and to report on economic and financial management practices during the relevant reporting period. In the financial statements, users will find information about the Federal Government's net position and changes in net position, financial performance, budget execution, cash flows, and other information supporting an assessment of the Federal Government's economic and financial management practices.

In regard to consolidation, attention is drawn to the definition in Brazil of dependent government-owned entities. Under Brazilian law, a government-owned entity is deemed dependent if it receives "[...] from its controlling entity the funds required to pay personnel expenses, overhead expenses or capital expenditure other than expenditure arising from a capital increase" (Supplementary Act 101/2000, art. 2(III)). The eighteen dependent government-owned entities consolidated and included in the financial statements are listed in the table below:

Table 1 – Relationship with and Federal Government Interest in Dependent Government-Owned Entities Consolidated in the Financial Statements

Direct Interests	Interest (%)	
	12/31/2019	12/31/2018
Amazônia Azul Tecnologias de Defesa S/A (AMAZUL)	100.00	100.00
Centro Nacional de Tecnologia Eletrônica Avançada S/A (CEITEC)	100.00	100.00
Companhia Brasileira de Trens Urbanos (CBTU)	100.00	99.99
Companhia de Desenvolvimento dos Vales do São Francisco e do Parnaíba (CODEVASF)	100.00	100.00
Companhia de Pesquisa de Recursos Minerais (CPRM)	97.33	97.33
Companhia Nacional de Abastecimento (CONAB)	100.00	100.00
Empresa Brasil de Comunicação (EBC)	100.00	100.00
Empresa Brasileira de Pesquisa Agropecuária (EMBRAPA)	100.00	100.00
Empresa Brasileira de Serviços Hospitalares (EBSERH)	100.00	100.00
Empresa de Pesquisa Energética (EPE)	100.00	100.00
Empresa de Planejamento e Logística (EPL)	100.00	100.00
Empresa de Trens Urbanos de Porto Alegre S/A (TRENSURB)	99.88	99.88
Hospital de Clínicas de Porto Alegre (HCPA)	100.00	100.00
Hospital Nossa Senhora Conceição (HNSC)	100.00	99.99
Indústria de Material Bélico do Brasil (IMBEL)	100.00	100.00
Indústrias Nucleares do Brasil S/A (INB)	99.99	99.99
Nuclebrás Equipamentos Pesados S/A (NUCLEP)	99.99	99.99
VALEC Engenharia Construções e Ferrovias S/A (VALEC)	100.00	100.00

Source: STN/ME

2 - Convergence with the IPSAS

The Federal Government is currently in the process of adopting the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

As a general rule, adoption of international standards occurs through the convergence of the Brazilian accountancy regulator—the Federal Accounting Board (CFC).

However, international standards with which the Board has not yet undertaken convergence have nevertheless been implemented by the Federal Government in preparing consolidated financial statements to ensure they are compliant with internationally accepted accounting principles.

The international standards which the Federal Government has adopted in preparing its financial statements, the implications of adoption, and the standards which have not yet been adopted, are described below.

In relation to the "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities", the Federal Government's adoption of the framework has helped to provide more accurate information on the realization of assets and liabilities.

As an example of the implications from adopting this standard, the Federal Government now derecognizes tax receivables which have become impaired as a result of the insolvency of the relevant debtors.

With the adoption of IPSAS 1 – *Presentation of Financial Statements*, the Federal Government annually issues the complete set of financial statements required by this standard, including a statement of financial position, a statement of financial performance, a statement of cash flows, and an additional financial statement providing a comparison of the approved budget with actual amounts (called the “budget balance”) and notes to the financial statements, describing the accounting policies adopted and providing other explanatory information.

However, information comparing the reporting period to the previous period is only provided in the statement of financial position, statement of financial performance, statement of cash flows and statement of changes in net position.

In addition, the Federal Government has adopted the criteria in IPSAS 1 on the timing of rights and obligations and the consequent classification of assets and liabilities as current and non-current.

In relation to IPSAS 2 – *Cash Flow Statements*, the Government has adopted the direct method of reporting cash flows, with information on revenue and expenditure extracted from a supplementary statement (budget balance) comparing the approved budget to actual amounts.

Regarding IPSAS 3 – *Accounting Policies, Changes in Accounting Estimates and Errors*, the Federal Government presents the required information through notes to the financial statements.

With its adoption of IPSAS 4 – *The Effects of Changes in Foreign Exchange Rates*, the Federal Government has translated and presented its financial statements in foreign currency since 2018, whereas it had not done so nor provided information on foreign operations prior to that date.

In relation to IPSAS 6 – *Consolidated and Separate Financial Statements*, the Federal Government has not yet implemented the guidelines prescribed in the standard, and the balances of its primary investments in controlled entities (Petrobras, BNDES, BB and Caixa) have not yet been consolidated in the financial statements.

IPSAS 7 – *Investments in Associates* has been adopted by the Federal Government in recognizing investments in associates, including its investments in Petrobras, BNDES, BB and Caixa, using the equity method of accounting.

With regard to IPSAS 9 – *Revenue from Exchange Transactions*, the Federal Government has applied the guidelines in the standard for some time, with its financial statements accordingly disclosing revenue arising from the provision of services, the sale of goods, interest, royalties and dividends.

With respect to IPSAS 12 – *Inventories*, the Government has adopted the guidelines and applies them in recognizing and measuring inventories of materials or supplies consumed in the production of other goods and services, as well as materials or supplies to be distributed in the ordinary course of operations or intended for sale.

The Government also applies the guidelines prescribed by IPSAS 17 – *Property, Plant and Equipment*, the primary implication from which has been the recognition of infrastructure assets, and specifically federal highways, since fiscal year 2012.

The guidelines in IPSAS 20 – *Related Party Disclosures* have been adopted in reporting on relationships with entities in which the Federal Government has a significant investment, including transfers of funds to financial institutions responsible for the implementation of government programs, such as BNDES, BB and Caixa.

The Federal Government has also adopted the guidelines outlined in IPSAS 21 – *Impairment of Non-Cash Generating Assets* and IPSAS 26 – *Impairment of Cash-Generating Assets,* which has primarily resulted in the recognition of impairment of assets classified as Property, Plant and Equipment, tax receivables, receivables from student loans, and receivables arising from the sale of goods and services by Government-owned entities.

In relation to IPSAS 23 – *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the Government has adopted the guidelines in the standard in respect of the recognition, measurement and reporting of taxation revenue. However, in relation to transfers, the

Government has not recognized in its financial statements revenues and potential assets arising from services in-kind.

Turning to IPSAS 24 – *Presentation of Budget Information in Financial Statements*, the Federal Government has implemented the guidelines in the standard through a financial statement called a “budget balance” as a requirement under Act 4320/1964.

In relation to IPSAS 25 – *Employee Benefits* and IPSAS 39 – *Employee Benefits*, the Government has also applied the guidelines in the standards by reporting expenses on salaries, paid leave granted to employees and liabilities related to benefits that will vest after public servants end their service with the Government, such as retirement and pension benefits.

The Government has also adopted IPSAS 31 – *Intangible Assets*. Intangible assets recognized at the current reporting date are mostly related to software, but also include trademarks, intellectual property rights, patents and property usage rights.

The Government has not yet adopted the guidelines contained in IPSAS 5 – *Borrowing Costs*, IPSAS 8 – *Interests in Joint Ventures*, IPSAS 10 – *Financial Reporting in Hyperinflationary Economies*, IPSAS 11 – *Construction Contracts*, IPSAS 13 – *Leases*, IPSAS 14 – *Events after the Reporting Date*, IPSAS 15 – *Financial Instruments: Disclosure and Presentation,* IPSAS 16 – *Investment Property*, IPSAS 18 – *Segment Reporting*, IPSAS 22 – *Disclosure of Financial Information about the General Government Sector,* IPSAS 27 – *Agriculture*, IPSAS 28 – *Financial Instruments: Presentation*, IPSAS 29 – *Financial Instruments: Recognition and Measurement*, IPSAS 30 – *Financial Instruments: Disclosures*, IPSAS 32 – *Service Concession Arrangements: Grantor,* IPSAS 33 – *First-time Adoption of Accrual Basis IPSASs*, IPSAS 34 – *Separate Financial Statements*, IPSAS 35 – *Consolidated Financial Statements*, IPSAS 36 – *Investments in Associates and Joint Ventures*, IPSAS 37 - *Joint* Arrangements, IPSAS 38 – *Disclosure of Interests in Other Entities* – and IPSAS 40 – *Public Sector Benefits*.

3 - Summary of Significant Accounting Policies

The principal accounting policies and criteria adopted by the Federal Government are described below with reference to the principles prescribed by the public sector accounting framework.

(a) Functional Currency and Reporting Currency

The Federal Government’s functional currency is the Brazilian Real. Balances in foreign currency are translated to the functional currency at the exchange rates in force at the reporting date.

The reporting currency in this report is the United States Dollar. Based on IPSAS 4, in translating the financial statements from the functional currency to the reporting currency, the following procedures are used:

- Assets and liabilities for each statement of financial position presented (i.e., including comparatives) are translated at the closing rate at the date of that statement of financial position;
- Revenue and expenses for each statement of financial performance (i.e., including comparatives) are translated at exchange rates at the dates of the transactions;
- Cash flows (including comparatives) are converted at the average exchange rates for the month in which they occurred; and
- All resulting cumulative translations adjustments are recognized separately in each financial statement, with the exception of the Statement of Financial Performance, as the surplus/deficit for the fiscal year is already included in the Statement of Financial Position.

Foreign-exchange differences in balances in foreign currency are adjusted on a daily basis and automatically in line items defined by the Central Accounting Organization to ensure that consistent information is available for consultation at any given time.

(b) Cash and Cash Equivalents

Cash and cash equivalents include the amounts in the Single Treasury Account as well as cash in banks and short-term financial investments. Cash and cash equivalents balances are measured at cost and, where applicable, are increased by any interest up to the reporting date.

(c) Refundable Deposits

The Government is required by Decree 93872 (December 23, 1986) to adopt the principle of the unity of treasury. Under the above Decree, “the Federal Government’s revenue and expense is realized exclusively via bank accounts in strict observance of the principle of unity of cash.” (art. 1).

The Decree defines revenue as “[...] any and all receipts, including tax and non-tax, ordinary or extraordinary, budgetary or extra-budgetary, general or dedicated revenues [...].” By extension, the above definition can also be applied in characterizing expense.

Thus, refundable deposits, which are extra-budgetary financial assets representing transitory receipts, are recorded under “Cash and Cash Equivalents”.

(d) Short-Term Receivables

Short-term receivables consist primarily of: (i) tax receivables; (ii) non-tax receivables; (iii) tax receivables under judicial collection; (iv) transfers made; (v) loans and financing provided; (vi) advances; and (vi) amounts offsettable. These amounts are measured at their original value plus adjustments for inflation and interest, where applicable.

Adjustments for impairment are also recognized based on an assessment of impairment risk.

(e) Short-Term Investments

Short-term investments are investments in securities not held for trading and which are not part of the Government’s operating activities. Short-term investments are recognized and measured at cost and, where applicable, are increased by interest up to the reporting date. Adjustments for impairment are recognized when measurable.

(f) Inventories

Inventories include goods held for resale (including the Federal Government’s regulating inventories), finished products, work in process, materials and warehoused inventory. Upon receipt, these goods are measured at acquisition or production/construction cost.

The weighted average cost method is used in measuring and recognizing outgoing inventory, as established in article 106(III) of Act 4320/1964. Any impairment of inventories is recognized through accounts for adjustments for impairment or reductions in market value, where inventories are recognized at more than their market value.

(g) Prepaid Expenses

Prepaid expenses are expenses for which the underlying benefits or services will be provided to the entity in the near future. The measurement basis is historical cost.

(h) Non-financial Assets Held for Sale

Non-financial assets held for sale are non-financial assets whose carrying amount is expected to be recovered through a sale transaction rather than through continuous use, within a period not exceeding 12 months.

(i) Long-Term Assets

Long-term assets are rights receivable in the long term, and consist primarily of: (i) tax receivables; (ii) non-tax receivables; (iii) tax receivables under judicial collection; (iv) loans and financing provided; (v) temporary investments; and (vi) inventories. Long-term assets are measured at their original value plus, where applicable, adjustments for inflation at rates specified for the relevant transactions.

Inventories are recognized and measured as follows: (i) for incoming inventories, at acquisition or production cost and, (ii) for outgoing inventories, at weighted average cost, as established in article 106 (III) of Act 4320/1964.

For assets within this sub-group, adjustments for impairment are recognized when measurable.

(j) Adjustment for Impairment of Tax Receivables under Administrative Collection

The Federal Revenue Service (RFB/ME) uses the following classification for tax receivables under its supervision: (i) owed; (ii) collectability suspended (administrative proceedings); (iii) collectability suspended (judicial proceedings); and (iv) paid in installments. Tax receivables classified in categories ‘i’ and ‘iv’ are recognized in assets, while those classified in the remaining categories are recognized in control accounts.

In summary, the following criteria are used in recognizing adjustments for impairment of tax receivables administered by RFB in the financial statements:

- The criteria used to measure tax receivables under judicial collection are also used for tax receivables classified as “owed” if exceeding R$ 1,000 (US$ 248.09 on December 31, 2019);
- Unsuccessful collection rates are used to calculate adjustments for impairment of receivables classified in the “owed” category where not exceeding R$ 1,000 (US$ 248.09 on December 31, 2019).
- An adjustment rate is used to calculate the adjustment for impairment of receivables classified as “paid in installments” based on their collection history, as reported by the Collections Department (CODAC/RFB/ME).

(k) Adjustment for Impairment of Tax Receivables under Judicial Collection

PGFN calculates adjustments for impairment based on receivables ratings as established in Ministry of Finance Directive 293/2017. This directive stipulates an impairment rate of 30% and 50% for receivables with a rating of respectively “A” and “B”. Receivables rated “C” and “D” are recognized as contingent assets.

(l) Investment

Investment includes: (i) permanent holdings; (ii) investment properties; and (iii) other investment.

Permanent holdings are Government investments in companies, public consortia and funds. Where the Government has influence over these entities, the relevant holdings are measured and recognized using the equity method. Where the Government’s influence over these entities is not significant, the relevant holdings are measured using the cost method and impairment is periodically measured and recognized.

Investment properties include properties held for rental income and/or capital gain which are not used in operations and which are not sold in the short term. Entities within the Government have used two criteria to measure and recognize these assets: (i) fair value; and (ii) depreciated cost.

When measurable, impairment is recognized as determined through periodic testing.

(m) Property, Plant and Equipment

Property, plant and equipment (PP&E) consists of movable assets and real property assets. PP&E is initially recognized at acquisition, construction or production cost. Following initial recognition, items of PP&E are subject to depreciation, amortization or depletion (when they have a definite useful life), as well as impairment and revaluation.

Expenditures subsequent to acquisition, construction or production are incorporated into the value of PP&E provided that the expenditure increases the useful life of the asset and can generate future economic benefits. Where the expenditure does not generate such benefits, then the assets are recognized directly as expenses for the period.

(n) Infrastructure Assets

Federal highways were the first infrastructure assets recognized in the financial statements. The National Department of Transportation Infrastructure (DNIT) is responsible for measuring and recognizing these assets under the oversight of STN/ME.

The adoption of the public sector accounting framework introduced changes in the method of appropriating expenditure on federal highways. Initially, expenditures on federal highway maintenance, repairs and construction during the fiscal year are recognized as an asset under Works in Progress.

In the annual revaluation of federal highways, DNIT identifies the portion that contributes to an increase in the value of the relevant infrastructure asset and transfers that portion from “Works in Progress” to the “Highways” line item in the last quarter of the fiscal year. The remaining portion is recognized in surplus or deficit for the fiscal year as, according to the revaluation results, it has not added value to the relevant asset.

For expenditure on Works in Progress that has not added value to federal highways, in addition to transferring the relevant balance as described above, an asset depreciation expense is recognized, where applicable.

The depreciated replacement cost approach is used for railroads due to their specific nature. A railroad’s book value is estimated using the Average Cost of Ownership table for rail works prepared by DNIT. An annual depreciation rate of 2.85% was used, corresponding to a useful life of 35 years, in accordance with Resolution 4540 (December 19, 2014) of the National Land Transportation Agency (ANTT).

(o) Intangible Assets

Rights in intangible assets that are used in or exercised for the purpose of maintaining Government operations are measured or recognized at acquisition or production cost less the balance of the accumulated amortization account (where those assets have a definite useful life) and the accumulated amount of any impairment incurred over the useful life of those assets.

(p) Deferred Assets

This balance consists of the deferred assets of government-owned entities relating to pre-operational expenditure which could not be allocated under assets at the time Act 6404/1976 was amended.

Under article 299-A of the above Act, as amended by article 38 of Act 11941/2009, the balances of this type of asset existing at December 31, 2008 may be maintained until fully amortized.

However, those balances must be tested for impairment and for any adjustments required to be made to the assumptions used in determining their useful life, and consequently to the criteria used for amortization.

(q) Revaluation, Impairment, Depreciation, Amortization and Depletion

The legal basis for recognizing revaluations, impairment, depreciation, amortization and depletion within direct as well as independent Federal Government entities and foundations is derived from Act 4320/1964, Supplementary Act 101/2000, Public Sector Accounting Standards (NBC TSPs), the Brazilian Public-Sector Accounting Handbook (MCASP), Act 10180/2001 and Decree 6976/2009. Accounting procedures are described in greater detail in the SIAFIWeb Manual under High-Level Function 020330, available on the STN/ME website, and in Joint STN/SPU Directive 3/2014, which was initially published as Joint STN/SPU Directive 703 of December 10, 2014. Government-owned entities and mixed-ownership entities, which are required to observe Act 6404/1976, base their procedures on the specific legal frameworks to which they are subject, with this often resulting in discrepancies.

(q.1) Revaluation

Under Joint STN/SPU Directive 3/2014, special-purpose assets owned by the Federal Government, independent agencies and Government foundations are required to be revaluated where: a percentage equal to or greater than that stipulated by the Office for Government Assets (SPU) is applied to improvements; any changes in built-up area are made, regardless of the amount invested; or any damage has occurred, such as fire, landslides, structural collapse, etc. Asset value is updated systematically each year at December 31, regardless of the classification of the asset, based on the specific characteristics of the property and regional unit market value, which is periodically updated.

(q.2) Impairment

The Government assesses whether there is evidence of impairment of an asset that is unlikely to be reversed in the near future. If any evidence of impairment exists, the Government estimates the amount of the impairment through impairment tests. The method of testing for and determining the amount of impairment is outlined in MCASP (Part II – Asset Accounting Procedures) and is described in greater detail in the Federal Integrated Financial Management System (SIAFI) Manual, High-Level Function 020335 – Revaluation and Impairment, available on the STN/ME website (www.conteudo.tesouro.gov.br).

At initial adoption of the new accounting criteria, impairment was recognized as a prior year adjustment through entries charged directly to net assets/equity. Following initial adoption, an impairment loss is recognized in surplus or deficit either directly or through an allowance account. Following recognition of an impairment loss, depreciation, amortization or depletion expense is adjusted to allocate the asset’s revised carrying amount, less its residual value.

(q.3) Depreciation, Amortization and Depletion

The calculation base for depreciation, amortization and depletion is the cost of the relevant item of property, plant and equipment or intangible assets, including both direct and indirect costs. The straight-line depreciation method is used for all direct and independent Government entities and foundations except real property assets subject to Joint STN/SPU Directive 3/2014, which are recorded in the SPIUnet system and are subject to specific criteria described in the following section.

As a general rule, depreciation begins on the first day of the month subsequent to the placement of the asset into service. However, when the value of the asset and the amount of depreciation in the first month are significant, then depreciation can be exceptionally computed for a fraction of less than a full month.

(q.4) Depreciation of Real Property Assets Registered in the SPIUnet System

The depreciated value of real property assets owned by the Federal Government and Federal independent agencies and foundations is determined on a monthly and automatic basis via the SPIUnet system based on the depreciable value of the asset, using the Kuentzle method, with depreciation beginning from the day the asset is put into service.

Useful life is determined based on an appraisal report or, in the absence of an appraisal report, using parameters predefined by the Office for Government Assets (SPU) according to the nature and characteristics of the properties. Where properties are reevaluated for any reason, cumulative depreciation is zeroed and reinitiated from the newly determined value.

(r) Current and Non-Current Liabilities

Government liabilities are stated at known or estimated amounts plus any exchange rate and/or monetary adjustments incurred up to the reporting date, where applicable.

Current and non-current liabilities comprise: (i) labor, pension and welfare obligations; (ii) loans and financing; (iii) trade and other accounts payable; (iv) tax obligations; (v) obligations from Federal transfers to state and local governments; (vi) provisions; and (vii) other liabilities. In addition, deferred revenue is specifically included in non-current liabilities.

(s) Loans and Financing

Loans and financing comprise domestic and foreign financial obligations under loan contracts as well as procurement financed directly by suppliers. Loans are classified as either securities debt (public debt securities) or contractual debt (loan contracts).

Loans are recognized using the following criteria:

I. Domestic Federal Public Securities Debt (DPMFi): at the amount payable at the end of the fiscal year, including negative goodwill, interest and charges on an accrual basis up to period-end;
II. External Federal Public Debt (DPFe): at the amount of the outstanding balance (principal plus interest appropriated on an accrual basis for each obligation). Amounts in foreign currency are translated into Brazilian currency at the exchange rate at the reporting date.

(t) Provisions

Provisions are segregated into six categories: (i) labor risks; (ii) fiscal risks; (iii) civil risks; (iv) tax sharing; (v) mathematical provisions for pensions; (vi) provisions arising from government activities; and (vii) other.

Provisions are recognized when an outflow of resources in the future is probable and the amount can be estimated with sufficient reliability. Provisions are updated up to the reporting date by the probable amount of loss according to their nature and on the basis of technical reports issued by the relevant departments.

Provisions for judicial proceedings in which the Federal Government is a defendant are recognized in accordance with AGU Directive 40/2015 as amended by AGU Directives 318/2018 and 514/2019.

(u) Employee Benefits

Employee benefits (this term is used for conformity to accounting standards, but refers primarily to public servants and employees of dependent government-owned companies), consisting of short-term benefits for current employees, are recognized as expenses on an accrual basis as services are rendered. Post-employment retirement and pension benefits payable by the Federal Government are also recognized on an accrual basis.

The Federal Government has recognized provisions related to the RPPS for Government civil servants, which is a defined benefit plan. Under this plan, actuarial and investment risks are partly or fully born by the Federal Government. Accounting for these costs requires that the relevant actuarial liabilities be measured, and can result in the recognition of either a liability, when the amount of actuarial liabilities exceeds the amount of plan assets, or otherwise an asset.

Provisions for post-employment benefits cover civil servants and pensions for military servicemen in the Armed Forces other than inactive military servicemen.

(v) Contingent Assets and Liabilities

Contingent assets and liabilities are not recognized in the financial statements, in accordance with sections 35 and 39 of NBC TSP 03 – Provisions, Contingent Liabilities and Contingent Assets. Where relevant, they are recorded in control accounts and described in notes to the financial statements.

(w) Determination of Surpluses/Deficits

In the public-sector accounting framework, the following surpluses/deficits are reported:

I. Net Operating Surplus/Deficit;
II. Budgetary Surplus/Deficit; and
III. Financial Surplus/Deficit.

(w.1) Net Operating Surplus/Deficit

Net operating surplus or deficit is the difference between revenue and expense in the period.

Revenue is recognized when it is probable that future economic benefits or service potential will flow to the Government and these benefits can be measured reliably.

Expense is recognized when it is probable that a decrease in the flow of economic benefits or service potential to the Government will occur, resulting in an outflow of resources or a reduction of assets or assumption of liabilities.

Net operating surplus/deficit is determined by closing out the revenue and expense accounts into a period-end closing account. The result is then transferred to the Surplus/Deficit account for the fiscal year. A detailed account of revenue and expense is given in the Statement of Financial Performance.

(x) Advance for Future Capital Increase

An advance for future capital increase (AFCI) represents funds delivered by owners to increase the share capital of a company but which have not yet been paid in.

IPSAS 28 (*Financial Instruments: Presentation*) establishes that an AFCI is only recognized as an equity instrument if:

I. The instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer;
II. The instrument will or may be settled in the issuer's own equity instruments and is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

If an AFCI fails to meet the conditions above, it is recognized as a financial instrument (liability).

Decree 2673/1998 establishes that AFCIs conducted by government-owned companies or mixed-ownership companies or their subsidiaries are subject to monetary restatement at the SELIC rate from the day of the transfer to capitalization. Based on these provisions, in administrative case no. RJ 2011/7085, the Brazilian Securities Commission ruled that the AFCI carried out by the controlling entity (the Federal Government) should be treated as a financial instrument rather than an equity instrument, on the basis that monetary restatement at the SELIC rate converted the AFCI, for all practical purposes, into a debt instrument.

Accordingly, the AFCI has been recognized by the relevant companies as a non-current liability and by the Federal Government as a non-current asset under “Other Long-Term Receivables”.

In the case of fully publicly traded companies which receive funds from the controlling entity for a future capital increase, but those funds are not subject to monetary restatement, the amount involved is recognized by the relevant companies as a current liability and by the controlling entity as a current asset, with the company being required, however, to pay in the capital up to the Annual General Meeting (AGM) in the following fiscal year.

(y) General Guidelines on Dividend Payouts by Federal Government-Owned Companies

These rules and guidelines apply to the payment of dividends and interest on equity to the shareholders of government-owned companies, mixed-ownership companies and other entities controlled by the Federal Government.

Under article 202 of Act 6404/1976, shareholders are entitled to receive as dividends either half of the company’s net income for each fiscal year or such other portion as is established in the company’s bylaws.

Pursuant to Decree 2673/1998, entities controlled by the Federal Government prescribe in their bylaws a minimum dividend of 25% of adjusted net income.

Under article 204 of Act 6404/1976, Governance bodies may, if so permitted in the relevant companies’ bylaws, declare interim dividends based on six-monthly or quarterly reported net income, or dividends out of profit reserves reported in the previous annual or six-monthly statement of financial position.

In addition, the bylaws of some government-owned companies permit advances on dividends to be paid, typically on a six-monthly basis, provided such advances are ratified in a general meeting to decide on the distribution of net income for that financial year.

Act 9249/1995 provides the option, as an alternative to dividends, for companies to pay interest on their equity and deduct it from their tax base.

The Federal Government is permitted, at the discretion of the Ministry of Economy, to receive dividends and interest on equity in the form of securities from government-owned companies, mixed-ownership companies and other entities in which the National Treasury has an interest. In the case of Federal Government-owned companies, federal public securities can be accepted at their face value, provided their economic value is not less than the minimum mandatory dividend in conformity to Executive Order 2167-53/2001 and MF Directive 101/2001.

Payments of dividends and interest on equity to the Office of the Secretary of the National Treasury (STN/ME) are made into the Single Treasury Account within the following time frames:

I. For joint-stock companies, within sixty days of the date on which the dividends are declared, unless otherwise decided in a general meeting, and in all cases within the fiscal year, pursuant to article 205(3) of Act 6404/1976. And within 10 days of the commencement of payments to other shareholders (Decree 2673/1998);
II. For government-owned companies not organized as corporations, within thirty days of publication of the proposed allocation of net income by the Ministry of Economy, pursuant to Decree 2673/1998.

Under Decree 2673/1998, amounts payable to the National Treasury and other shareholders in dividends and interest on equity carry interest at the SELIC rate from the end of the fiscal year to the day those amounts are paid, as well as arrears interest where payment is not made on the date fixed by law, in a general meeting or by resolution of the Board of Directors.

Dividend and interest-on-equity revenue received by the National Treasury from indirect Federal Government entities, including payouts from retained earnings from prior years, is used towards the repayment and reduction of federal public debt as required by Act 9530/1997.

Under article 202 of Act 6404/1976, mandatory dividends can be left unpaid in fiscal years in which governance bodies inform the annual general meeting that payment of dividends would be incompatible with the financial position of the company. These dividends are placed in a special reserve which, if not used towards offsetting subsequent losses, is required to be paid as soon as permitted by the company's financial position.

In addition, a profit reserve can be established for use where the mandatory dividend exceeds the realized portion of net income in a given fiscal year, as permitted by article 197 of Act 6404/1976.

The amount of dividends and interest on equity to be paid by government-owned companies depends on a number of factors, including: investment plans, cash flows, statutory and regulatory limits and obligations, the economic environment and other factors deemed relevant by the company. The National Treasury dividend projections also take into account the industry in which the company operates and its level of dependence on the Federal Government.

Any differences between the sum of individual payments and the relevant totals shown in the tables and figures in the Notes to the financial statements are due to the figures being rounded off.

4 - Cash and Cash Equivalents

The subgroup "Cash and Cash Equivalents" consists of amounts held in cash and banks over which there are no restrictions on immediate use. This subgroup is segmented into "Domestic Currency" and "Foreign Currency".

At 12/31/2019 the most highly weighted item in this subgroup was "Cash and Cash Equivalents in Domestic Currency", representing 98.88% of the total, as shown in the table below.

Table 2 – Cash and Cash Equivalents

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Local Currency	376,972	350,858	7.44	98.88
Foreign Currency	4,253	2,463	72.72	1.12
Total	**381,225**	**353,321**	**7.90**	**100.00**

Source: SIAFI

(a) Cash and Cash Equivalents in Domestic Currency

The table below provides a breakdown of "Cash and Cash Equivalents in Domestic Currency", with the balance of US$ 364.9 billion under "Banks" at 12/31/2019 accounting for 96.81% of this item.

Table 3 – Cash and Cash Equivalents in Domestic Currency

US$ thousands

	12/31/2019	12/31/2018	HA (%)	VA (%)
Cash	64	35	83.08	0.00
Banks	364,938,264	337,924,424	7.99	96.81
Short-Term Investments	12,033,681	12,933,554	(6.96)	3.19
Total	**376,972,009**	**350,858,013**	**7.44**	**100.00**

Source: SIAFI

(a.1) Banks in Domestic Currency

The Treasury Single Account (TSA), of which the Central Bank of Brazil (BCB) is custodian, held 93.46% of the "Cash and Cash Equivalents" balance at 12/31/2019. Pursuant to Executive Order 2179-36/2001, the TSA earns interest at a rate equivalent to the average yields on Federal Government bonds in the BCB portfolio.

The TSA is an important instrument of public finance, helping to streamline management of funds and transfer, financial decentralization, and payment processes.

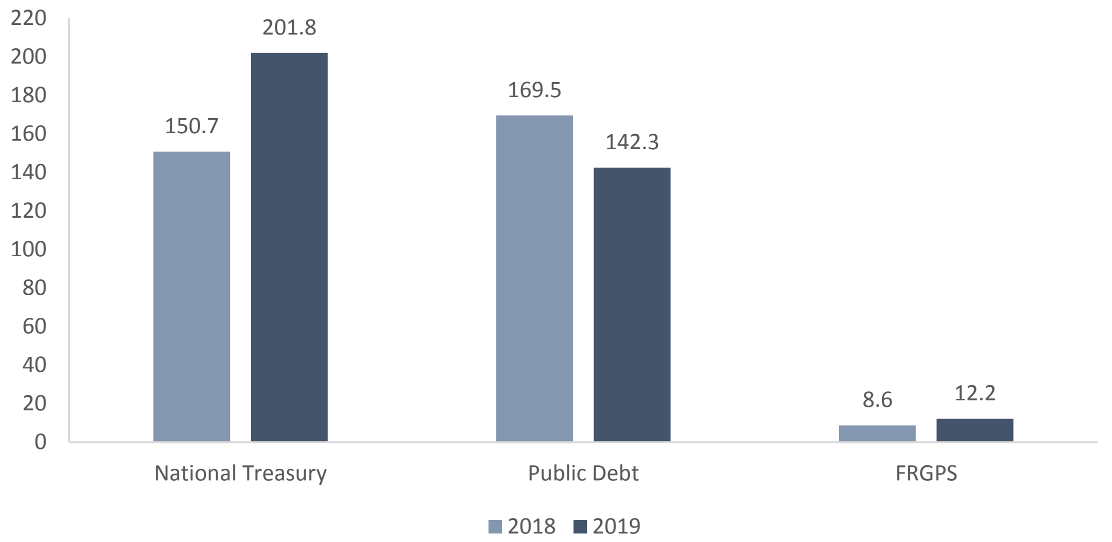
For control purposes, the TSA is divided into three sub-accounts:

I. **National Treasury:** used for Federal Government receipts and payments in general;
II. **Public Debt:** used for payments of Federal Public Debt (DPF) and proceeds from auctions of public securities; and
III. **FRGPS:** used to process General Pension System Fund (FRGPS) transactions and as a source of funding for General Pension System (RGPS) benefit payments, which are managed by the Brazilian Social Security Institute (INSS).

The figure below shows the balance of each TSA sub-account at 12/31/2019 and 12/31/2018.

Figure 1 – National Treasury Single Account – By Sub-account

US$ billion



*NB: *In this figure, items 1.1.1.1.1.04.02 (Amounts Transferable to the TSA) and 1.1.1.1.1.04.03 (Interest on Cash from Public Debt), which are both components of the Public Debt sub-account, are presented as components of the National Treasury sub-account as the amounts held in those accounts are transitory and are ultimately transferred to this sub-account.*
Source: SIAFI

"Banks" accounted for 97.63% of TSA at 12/31/2019. The remaining balance (US$ 8.634 billion) is largely held in an account used to record transactions of constitutional funds (US$ 7.5 billion).

(a.1.1) "National Treasury" Sub-account

The "National Treasury" sub-account centralizes revenues for use by Federal Government agencies and entities, not including processes related to federal public debt and the General Pension System (RGPS). This sub-account had a balance of US$ 201.8 billion at 12/31/2019.

This balance largely consists of revenues held by government agencies and funds which by law are dedicated to specific purposes and are not available for other uses (dedicated or "earmarked" funds), as shown in the table below.

Table 4 – “National Treasury” Sub-account – By Dedicated Purpose

US$ million

	12/31/2019	12/31/2018	HA (%)
Ordinary Funds	**38,054**	**29,133**	**30.62**
Dedicated Funds	**163,062**	**121,201**	**34.54**
Education	4,296	4,112	4.47
Social Security (Except Pensions)	9,925	5,431	82.75
Pension Benefits (RPPS)	472	343	37.61
Pension Benefits (RGPS)	345	1,062	(67.48)
Finance Revenue	69,005	40,513	70.33
Borrowings	(48)	93	(151.78)
Disposal of Assets and Rights	1,065	259	310.45
Constitutional and Statutory Transfers (Including Funds)	3,891	3,888	0.07
Other Cash Earmarked for Funds, Agencies and Programs	70,869	63,007	12.48
Other Earmarked Cash	3,624	2,749	31.81
Cash Pending Classification	(380)	(257)	47.77
Public-Debt Funds in Transit Pending Classification (*)	**654**	**343**	**90.53**
Total	**201,771**	**150,676**	**33.91**

*NB: *The balances shown reflect a change of methodology with respect to accounts 1.1.1.1.1.04.02 (“Amounts Transferable to TSA”) and 1.1.1.1.1.04.03 (“Interest on Cash from Public Debt”), as previously described.*

Source: SIAFI

A number of changes were made to this table during the course of the fiscal year, including a reorganization of source groups for consistency with the Fiscal Management Report (RGF) and Summary Budget Execution Reports (RREO). For example, the “Other Cash Earmarked for Funds" group was merged with “Other Cash Earmarked for Agencies and Programs”, creating a new group designated as “Other Cash Earmarked for Funds, Agencies and Programs”. Similarly, “Cash Pending Classification”, which up to 2018 was included under “Ordinary Cash”, is now stated as a specific line item of “Earmarked Cash”.

“Cash Pending Classification” is cash that has flown into the TSA via Federal Tax Payment Forms (DARFs) or Federal Government Collection Forms (GRUs) but is pending budgetary classification of revenue by source. DARF and GRU inflows are classified on a ten-daily and daily basis, respectively.

These cash inflows into the TSA are temporarily classified as source 177 (pending classification) and subsequently classified into specific sources.

However, the month-end classification of incoming revenues may occur before the relevant cash is received, resulting in a negative balance under cash source 177 (a higher balance under this classification than the financial balance).

(a.1.2) “Public Debt” Sub-account

The “Public Debt” sub-account provides a liquidity reserve for public debt management under a strategy established by “Annual Borrowing Plans”, published at http://www.tesouro.fazenda.gov.br/plano-anual-de-financiamento.

The decrease of US$ 20.6 billion in the year-end closing balance from 12/31/2019 to 12/31/2018 is explained primarily by the negative difference between receipts from issued public securities and payments out of public-debt funds.

(a.1.3) "FRGPS" Sub-account

The "FRGPS" sub-account was created as a requirement under article 167(XI) of the Federal Constitution of 1988 (CF/1988), which forbids the use of funds from social contributions towards expenditure other than payments of General Pension System (RGPS) benefits. This sub-account is used to receive transfers of funds from the INSS deriving from collections through Federal Tax Payment Forms (DARFs) and Social Security Contribution Payment Forms (GPSs). The balance at 12/31/2019 was US$ 12.2 billion.

Reconciliation of the Single Treasury Account (SISBACEN x SIAFI)

The table below shows the TSA balance recorded in the Central Bank Information System (SISBACEN) and in the Federal Integrated Financial Management System (SIAFI) at 12/31/2019. Given that the SIAFI system has yet to be adjusted to the new methodology, the actual amounts recorded in the relevant sub-accounts are reconciled below.

Table 5 – Single Treasury Account – By System

US$

			12/31/2019
	CTU – SISBACEN (I)	**CTU – SIAFI (II)**	**Difference (I-II)**
"National Treasury" Sub-account	201,761,864,398.99	201,116,789,614.09	645,074,784.90
"Public Debt" Sub-account	142,993,016,607.01	142,993,016,607.01	0
"FRGPS" Sub-account	12,194,801,556.47	12,194,801,556.47	0
Total	**356,949,682,562.46**	**356,304,607,777.56**	**645,074,784.90**

*NB: *SISBACEN: includes entities not pertaining to the Fiscal and Social Security Budgets (OFSS). SIAFI: excludes entities not pertaining to the Fiscal and Social Security Budgets (OFSS).*

Source: SIAFI and SISBACEN

The table above shows a difference between the systems in the "National Treasury" sub-account, which is primarily explained by the cash and cash equivalents of entities not pertaining to the OFSS. The Consolidated Financial Statements of the Federal Government (derived from SIAFI records) exclude non-OFSS entities, which creates a positive difference in the "National Treasury" sub-account in the SISBACEN system.

The following table reconciles the "National Treasury" sub-account between the SISBACEN and SIAFI systems.

Table 6 – "National Treasury" Sub-account – Reconciliation of SISBACEN x SIAFI

US$

	12/31/2019
"National Treasury" Sub-account – SISBACEN (I)	201,761,864,398.99
Reconciliation in the Brazilian Payments System (SPB)* (II)	(855.11)
Balance not pertaining to the OFSS (III)	(645,073,929.79)
"National Treasury" Sub-account – SIAFI (IV = I + II + III)	**201,116,789,614.09**

*NB: *Discrepancy reconciled. This refers to document 2020NL000034 of UG 170500, recorded on January 2, 2020 but affecting financial figures in 2019.*

Source: SIAFI and SISBACEN

The item "Non-OFSS balance" above relates to entities not pertaining to the Fiscal and Social Security Budgets (OFSS) but authorized to use the TSA.

The following table shows these entities and their TSA balances, with Financiadora de Estudos e Projetos (FINEP) accounting for 98.49% of the total balance at 12/31/2019.

Table 7 – Single Treasury Account – By Non-OFSS Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Financiadora de Estudos e Projetos (FINEP)	635	198	220.98	98.49
National Foundation for Indigenous Peoples (FUNAI)	9	9	4.37	1.46
Social Development Fund (FAS)	0	0	(3.87)	0.06
Total	**645**	**207**	**211.26**	**100.00**

Source: SIAFI

(a.2) Short-Term Investments in Domestic Currency

Short-term investments in domestic currency were primarily represented by investments in the Extramarket Investment Fund, which had a balance of US$ 7.9 billion at 12/31/2019.

Table 8 – Short-Term Investments in Domestic Currency

US$ thousands

	12/31/2019	12/31/2018	HA (%)	VA (%)
Extramarket Investment Fund	7,919,264	9,131,512	(13.28)	65.81
Bank Deposit Certificate (CDB)	1,936,517	1,567,433	23.55	16.09
Financial Treasury Bill (LFT)	1,367,977	1,459,978	(6.30)	11.37
Immediate Liquidity – TSA Funds	471,782	488,023	(3.33)	3.92
Investment Fund	122,294	120,902	1.15	1.02
Immediate Liquidity – Other	116,036	76,920	50.85	0.96
Savings	99,809	88,783	12.42	0.83
Financial Treasury Certificate (CFT)	2	3	(3.87)	0.00
Total	**12,033,681**	**12,933,553**	**(6.96)**	**100.00**

Source: SIAFI

The largest investment in the Extramarket Investment Fund is from the Workers' Assistance Fund (FAT), at US$ 6.9 billion on 12/31/2019.

Table 9 – Extramarket Investment Fund – By source

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Workers' Assistance Fund (FAT)	6,943	8,229	(15.63)	87.67
National Education Development Fund (FNDE)	550	497	10.50	6.94
Army Fund	296	297	(0.36)	3.74
Other	131	108	20.91	1.65
Total	**7,919**	**9,132**	**(13.27)**	**100.00**

Source: SIAFI

Workers' Assistance Fund (FAT)

According to article 10 of Act 7998/1990, the FAT is an accounting fund of a financial nature, linked to the Ministry of Employment, which is used towards the costs of the Unemployment Insurance Program, payments of Workers' Bonus benefits, and professional and technological education and economic development programs.

The primary sources of FAT funding are contributions to the Social Integration Program (PIS) created by Supplementary Act 7/1970, and contributions to the Public Servants' Savings Program (PASEP), created by Supplementary Act 8/1970.

Under article 9 of Act 8019/1990, FAT assets can be invested in National Treasury securities and in special short-term investments at official Federal financial institutions bearing interest at prevailing market rates. FAT assets are measured at fair value, which in this case is market value (marked-to market-position).

To ensure that Unemployment Insurance Program and Workers' Bonus expenses are timely paid, the FAT maintains a portion of its assets in an Extramarket Investment Fund providing the minimum liquidity reserve required under article 9(1) of Act 8019/1990.

At 12/31/2019, the minimum mandatory FAT liquidity reserve was US$ 3.5 billion, according to the General Funding Department of the Workers' Assistance Fund (FAT). On that date, the FAT liquidity reserve balance was approximately US$ 6.9 billion, or US$ 3.4 billion above the mandatory minimum.

The decrease of US$ 1.3 billion in extramarket short-term financial investments in 2019 reflects investments, redemptions and interest earned in the period, as shown in the table below.

Table 10 – Changes in Extramarket Short-Term Financial Investments in 2019 – FAT

US$ thousands

Balance as of December 31, 2018	**8.228.907**
(+) Investments	7.637.441
(-) Redemptions	(9.474.875)
(+) Interest	869.716
(-) Other	(318.324)
Balance as of December 31, 2019	**6.942.864**

Source: FAT/ME

(b) Cash and Cash Equivalents in Foreign Currency

Within "Cash and Cash Equivalents in Foreign Currency", the largest balance is under "Short-Term Financial Investments", at a total of US$ 3.7 billion (87.71% of this item), as shown in the table below.

Table 11 – Cash and Cash Equivalents in Foreign Currency

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Cash	1	2	(19.89)	0.03
Banks	521	615	(15.24)	12.26
Short-Term Investments	3,731	1,846	102.10	87.71
Total	**4,253**	**2,463**	**72.72**	**100.00**

Source: SIAFI

Foreign-exchange transactions, under the supervision of the Public Debt Management Department (CODIV/STN/ME), represent 98.37% of total short-term financial investments in foreign currency, as shown in the table below. This balance consists of foreign exchange contracts for future settlement which the National Treasury obtains from a financial agent authorized to operate in the foreign exchange market, specifically Banco do Brasil (BB). The purpose of these contracts is to purchase foreign currency for the future repayment of debt denominated in foreign currency.

Table 12 – Short-Term Investments in Foreign Currency

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Foreign Exchange	3,670	1,814	102.32	98.37
Immediate Liquidity	61	32	91.48	1.63
Total	**3,731**	**1,846**	**102.13**	**100.00**

Source: SIAFI

5 - Receivables

Receivables are divided into the following two groups: (i) short-term; and (ii) long-term. The following table shows a breakdown of receivables at 12/31/2019 and 12/31/2018.

Table 13 – Receivables

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Short-Term Receivables	26,579	31,457	(15.51)	5.12
Long-Term Receivables	492,201	521,433	(5.61)	94.88
Total	**518,780**	**552,890**	**(6.17)**	**100.00**

Source: SIAFI

Short- and Long-Term Receivables break down as shown in the tables below.

Table 14 – Short- and Long-Term Receivables – Breakdown

US$ million

	12/31/2019	12/31/2018	HA (%)
Loans and Financing Provided	369,579	402,313	(8.14)
Tax Receivables under Judicial Collection	192,208	176,765	8.74
Tax Receivables	83,222	120,889	(31.16)
Non-Tax Receivables under Judicial Collection	17,425	26,984	(35.43)
Trade Receivables	236	246	(3.77)
Gross Total (I)	**662,672**	**727,198**	**(8.87)**
Adjustment for Impairment (II)	(143,891)	(174,308)	17.45
Net Total (III = I + II)	**518,780**	**552,890**	**(6.17)**

Source: SIAFI

Table 15 – Short-Term Receivables

US$ million

	12/31/2019	12/31/2018	HA (%)
Tax Receivables	19,799	27,554	(28.14)
Loans and Financing Receivable	14,317	17,976	(20.35)
Trade Receivables	184	187	(1.61)
Non-Tax Receivables under Judicial Collection	168	8	2,069.38
Tax Receivables under Judicial Collection	22	2	969.47
Gross Total (I)	**34,490**	**45,727**	**(24.57)**
Adjustment for Impairment (II)	(7,911)	(14,270)	44.56
Net Total (III = I + II)	**26,579**	**31,457**	**(15.51)**

Source: SIAFI

Table 16 – Long-Term Receivables

US$ million

	12/31/2019	12/31/2018	HA (%)
Loans and Financing Provided	355,262	384,337	(7.57)
Tax Receivables under Judicial Collection	192,186	176,763	8.73
Tax Receivables	63,424	93,335	(32.05)
Non-Tax Receivables under Judicial Collection	17,257	26,977	(36.03)
Trade Receivables	52	59	(10.64)
Gross Total (I)	**628,181**	**681,471**	**(7.82)**
Adjustments for Impairment (II)	(135,980)	(160,038)	15.03
Net Total (III = I -+ II)	**492,201**	**521,433**	**(5.61)**

Source: SIAFI

The sections below provide details on those items with the most significant balances.

(a) Loans and Financing Receivable

The table below shows the principal balances of short-and long-term loans and financing provided by the Federal Government, which are further detailed below.

Table 17 – Short- and Long-Term Loans and Financing

US$ million

	12/31/2019	12/31/2018	HA (%)
Finance Receivables from States and Municipalities	154,911	158,216	(2.09)
Fiscal Transactions	66,098	102,153	(35.29)
FAT	70,095	67,689	3.55
FIES	26,813	25,029	7.13
FNE	16,641	14,957	11.26
Other	35,021	34,268	2.20
Gross Total	**369,579**	**402,313**	**(8.14)**

Source: SIAFI

These items are detailed in the following sub-sections.

(a.1) Federal Government Finance Receivables from States and Municipalities

Federal Government finance receivables from states and municipalities, which are controlled and managed by the Ministry of Economy, arise from debt financing and refinancing programs implemented under specific legislation, and formalized under contracts between the parties, as well as guarantees honored by the Federal Government.

A description of the nature of these finance receivables is provided in the following sub-sections.

(a.1.1) Receivables from Debt Financing and Refinancing Transactions

Act 8727/1993. Refinancing by the Federal Government of domestic contractual debt owed by state and municipal, direct and indirect government entities.

Act 9496/1997. Consolidation, assumption and refinancing by the Federal Government of public securities debt and debt arising from borrowings, both domestic and foreign, owed by states and the Federal District.

New provisions under Supplementary Act 148/2014 applied to refinancing under Act 9496/1997. These new provisions authorized the Federal Government to reprocess the refinanced debt of states and municipalities at the SELIC rate from January 2013, and to change the index from IGP-DI + interest of 6% (or 7.5%) p.a. to IPCA + interest of 4% p.a.

New provisions under Supplementary Act 156/2016 applied to refinancing under Act 9496/1997. These new provisions authorized the Federal Government to lengthen original maturities by more than 240 months and grant temporary suspensions on repayments, which were then resumed on an incremental schedule up to June 2018.

New provisions under Supplementary Act 159/2017 applied to refinancing under Act 9496/1997. Supplementary Act 159/2017 introduced a Fiscal Recovery Framework (RRF) for states and the Federal District. A state opting in to the Framework is recognized as being financially troubled and a recovery plan is devised. The Federal Government offers a proposal granting an extraordinary reduction of the state’s monthly installments over a period of up to 36 months.

Executive Order 2185/2001. Consolidation, assumption and refinancing by the Federal Government of public securities debt and debt arising from borrowings from financial institutions, both domestic and foreign, owed by municipalities.

New provisions under Supplementary Act 148/2014 applied to refinancing under Executive Order 2185/2001. These new provisions authorized the Federal Government to reprocess the refinanced debt of states and municipalities at the SELIC rate from January 2013, and to change the index from IGP-DI + interest of 9% p.a. to IPCA + interest of 4% p.a.

Executive Order 2,179/2001. Central Bank loan receivables acquired by the Federal Government on 7/29/2002, originating from a loan granted by the Central Bank to Banco do Estado do Rio de Janeiro S.A. (BANERJ), the outstanding balance of which had been assumed by the State of Rio de Janeiro on 7/16/1998. As with the program instituted by Act 9496/1997, an extraordinary reduction of monthly installments was granted for a period of up to 36 months pursuant to Supplementary Act 159/2017.

(a.1.2) Renegotiation of Foreign Public Debt

Medium and Long-Term Debt (MLTD). An agreement that restructured the medium and long-term debt—outstanding and overdue installments of principal and interest owed and not paid in the period from 1/1/1991 to 4/15/1994—of the Brazilian public sector to private foreign creditors.

(a.1.3) Receivables from Onlent Foreign Loans

Brazil-France Agreement. Financing for imported equipment and services provided to multiple Brazilian government entities out of foreign funds either raised or secured by the Federal Government from or to the Republic of France under financial protocols.

(a.1.4) Financial Restructuring of Federal Banks

Financial Restructuring Portfolio. Receivables acquired by the Federal Government within the Federal Bank Restructuring Program under Executive Order 2196/2001, originating from loan contracts between Caixa Econômica Federal and states and municipalities, and state and municipal sanitation companies.

(a.1.5) Acquisition of Receivables Related to Royalties

Royalties. Receivables arising from royalties payable to the State of Rio de Janeiro on oil and gas production, and to the states of Paraná and Mato Grosso do Sul on hydropower generation operations.

The changes in these balances are shown by program in the table below.

Table 18 – Federal Government Receivables from States and Municipalities – By Program

US$ million

	12/31/2019	12/31/2018	HA (%)
Act 9496/1997	138,387	141,200	(1.99)
Executive Order 2185/2001	7,488	8,101	(7.57)
BCB-BANERJ	5,334	4,908	8.68
Act 8727/1993	2,005	2,061	(2.70)
LTSD	1,511	1,518	(0.49)
Financial Restructuring Portfolio	97	113	(14.01)
Royalties	88	313	(72.00)
Brazil-France Agreement	1	3	(51.93)
Gross Total (I)	**154,911**	**158,216**	**(2.09)**
Adjustment for Impairment (II)	(9,719)	(6,191)	(56.99)
Gross Total (III = I + II)	**145,192**	**152,026**	**(4.50)**

Source: SIAFI

The consolidated balances of refinancing programs are subject to indexation to program-specific indexes, regular amortization payments, early repayments and any amendments to the contract terms and conditions as should be negotiated between borrowers and the Federal Government, as is the case with the application of Supplementary Act 148/2014 to contracts under Act 9496/1997 (states) and Executive Order 2185/2001 (municipalities).

The tables below show the short- and long-term balances for each program.

Table 19 – Federal Government Receivables from States and Municipalities – Short Term

US$ million

	12/31/2019	12/31/2018	HA (%)
Act 9496/1997	1,934	3,291	(41.23)
Executive Order 2185/2001	562	557	0.90
Royalties	86	265	(67.61)
Act 8727/1993	62	464	(86.59)
Financial Restructuring Portfolio	11	13	(18.66)
Brazil-France Agreement	1	1	(3.87)
LTSD	0	4	(100.00)
Gross Total (I)	**2,656**	**4,597**	**(42.21)**
Adjustment for Impairment (II)	(3)	(12)	**73.96**
Net Total (III = I + II)	**2,653**	**4,584**	**(42.12)**

Source: SIAFI

Table 20 – Federal Government Receivables from States and Municipalities – Long Term

US$ million

	12/31/2019	12/31/2018	HA (%)
Act 9496/1997	136,453	137,909	(1.06)
Executive Order 2185/2001	6,926	7,544	(8.19)
BCB-BANERJ	5,334	4,908	8.68
Act 8727/1993	1,943	1,597	21.69
DMLP	1,511	1,514	(0.20)
Financial Restructuring Portfolio	86	99	(13.38)
Royalties	2	48	(96.36)
Brazil-France Agreement	0	1	(80.77)
Gross Total (I)	**152,255**	**153,619**	**(0.89)**
Adjustment for Impairment (II)	(9,716)	(6,178)	(57.26)
Gross Total (III = I + II)	**142,539**	**147,441**	**(3.32)**

Source: SIAFI

The increase in some of these receivables in fiscal year 2019 primarily reflects the recognition of monetary restatement on these amounts, and is offset by decreases related to reclassifications between current and non-current assets.

Adjustments for Impairment

Adjustments for impairment of receivables from states and municipalities break down as follows:

a. *Adjustments under Supplementary Act 148/14:*

Adjustments for impairment of receivables under Supplementary Act 148/14 correspond to the full adjustments for the balances of states and municipalities that have not yet opted in for the special terms and conditions provided under the above Supplementary Act. Supplementary Act 148/2014 established the possibility of retroactively changing the indexes adopted for state and municipal debt to the Federal Government under Act 9496/97 and Executive Order 2185/01, with the result that a portion of the assets managed by the Receivables Department (COAFI/STN) would be reduced as states signed the relevant amendments after satisfying all conditions and procedures stipulated in Decree 8616/2015, which regulates the above Act. The adjustment amounts for states and municipalities which have not yet opted in are reported monthly by the financial agent, Banco do Brasil.

b. *Adjustment for losses on doubtful accounts for contractual debts originally managed by COAFI/STN:*

For debts arising largely from refinancing agreements concluded in the period 1993-2000, one of two rules apply:

i) For receivables more than 180 overdue, the adjustment for impairment is the full amount of the overdue receivables;

ii) For overdue receivables the recovery of which is prevented by judicial proceedings brought by subnational entities against the Federal Government, the adjustment for impairment is the full amount of unpaid receivables, and is recorded immediately when default occurs, i.e. without waiting for the 180-day period to elapse before recording the adjustment.

Historically, all receivables originally managed by COAFI/STN that are more than 180 days overdue are related to judicial proceedings brought against the Federal Government.

In both cases, the balances are reported monthly by financial agents to COAFI/STN and, after verifying the relevant amounts, this department then updates the SIAFI system accordingly.

The judicial proceedings above have largely been brought to challenge either the amounts owed by subnational entities or their payment terms.

c. *Adjustment for impairment of doubtful accounts in connection with guarantees honored by the Federal Government that are barred by injunctions from being recovered:*

This item differs from item “b” in that injunctions have been secured by the relevant subnational entities in different courts, including the Federal Supreme Court. Specifically in relation to honored guarantees, subnational entities may bring proceedings to prevent the National Treasury from enforcing counter-guarantees they have provided to recover the guarantees it has honored.

Given that these judicial proceedings are different in nature from the guarantees honored, COAFI/STN has also applied to this specific case the policy of including guarantees honored in the adjustment accounts after more than 180 days have elapsed since they were recorded in the State and Municipal Receivables Management System (SAHEM) (at which time the relevant assets are placed under the management of COAFI/STN). In summary, honored guarantees are entered in the SAHEM system on the day that CODIV/STN notifies COAFI/STN that they have been honored, and are included in adjustment accounts 180 days thereafter. In other words, for these cases the relevant amounts are not immediately and fully recorded in adjustment accounts.

Using this approach, the first guarantee to be honored and not recovered due to judicial proceedings in the current fiscal year was recorded by COAFI/STN in January 2019, and therefore the relevant honored guarantee amounts were included in adjustment accounts beginning in July 2019, monetarily restated at the rate stipulated in the relevant counter-guarantee contracts (SELIC).

It is important to note that, specifically in relation to honored guarantees, there is no financial agent involved in managing the amounts recoverable and COAFI/STN itself is responsible for managing these transactions. However, the financial agent—in this case Banco do Brasil—is a party to the counter-guarantee contract and when needed is called upon to recover guarantee amounts honored by the Federal Government.

d. *Adjustment for impairment of doubtful accounts related to guarantees honored within the Fiscal Recovery Framework (RRF) Under Supplementary Act 159/17:*

Guarantees honored within the RRF have not been included in the adjustment accounts as under article 9(5)(II) of Supplementary Act 159/2017 receivables from the state of Rio de Janeiro (the only state to have opted in to the framework at this time), which have been included in an escrow account, are not to be deemed delinquent as the Federal Government has an expectation that they will be recovered in the future.

The table below summarizes the adjustments for impairment, with the "LC 148/14" heading including "a. "Adjustments under Supplementary Act 148/14" and with the "Doubtful Accounts" heading including "b. Adjustment for impairment of doubtful accounts for contractual debts originally managed by COAFI/STN " and "c. Adjustment for impairment of doubtful accounts in connection with guarantees honored by the Federal Government that are prevented by injunctions from being recovered":

Table 21 – Adjustments for Impairment – State and Municipal Receivables

US$ million

	2019			2018			
	ST	LT	Total	ST	LT	Total	HA (%)
Supplementary Act 148/14 ("a")	**3**	**102**	**105**	**12**	**234**	**246**	**(57.32)**
States	0	5	6	7	98	105	(94.57)
Municipalities	3	97	99	5	136	141	(29.66)
Doubtful Accounts ("b" and "c")	**-**	**9,614**	**9,614**	**-**	**5,945**	**5,945**	**61.73**
Consolidated	-	507	507	-	395	395	28.20
States	-	8,547	8,547	-	5,055	5,055	69.08
Municipalities	-	560	560	-	494	494	13.36
Total	**3**	**9,716**	**9,719**	**12**	**6,178**	**6,191**	**56.99**

Source: COAFI/STN

Adjustments for impairment of doubtful accounts are recorded in noncurrent assets only, while adjustments for impairment of receivables under Supplementary Act 148/14 are distributed across current and non-current assets.

The substantial decrease (57.32%) in adjustments for impairment of short and long-term receivables under Supplementary Act 148/14 reflects adjustments for the different states that previously opted in to the terms and conditions under the above Supplementary Act.

The "Consolidated" item under "Doubtful Accounts", relating to indirect, state and municipal government entities, rose by 28.20%, while the adjustment for impairment relating to states increased by 69.08% reflecting the restatement of provisions for borrowers under Act 8727/93 (indirect government entities) and Act 9496/97 (States)—which brought proceedings against the Federal Government—and guarantees honored by the Federal Government that are barred from being recovered due to injunctions.

(a.2) Federal Government Finance Receivables Relating to Fiscal Transactions

Federal Government finance receivables related to fiscal transactions, which are controlled and managed by the National Treasury, derive from different origins and regulatory frameworks, but are largely contractual in origin. A brief description of the different origins is provided below:

Receivables Arising from Loans to Financial Institutions. This group consists of receivables arising from loans provided to financial institutions. The loan amounts under the contracts included in this item correspond to approximately 81% of Federal Government receivables under the management of COGEF/STN, with BNDES as the principal counterparty. The remaining contracts are distributed among Banco do Brasil, CAIXA, BNB and BASA.

Receivables Arising from Rural Finance. This group consists of receivables arising from rural finance programs, including the following: Securitization, Special Asset Restructuring Program (PESA), PRONAF, agricultural product inventories managed by PRONAF (Farm Produce Price Floor Program – PGPM), the Bahia Cocoa Crop Rehabilitation Program (PRLCB), the Agricultural Cooperative Revitalization Program (RECOOP), and other programs.

Receivables Arising from Loan Transactions. These receivables arise from transactions between the Federal Government and government entities, largely involving the acquisition of receivables through issuances of Federal Public Debt Securities. This group includes receivables arising from structured transactions such as the Program for Restructuring and Strengthening the National Financial System (PROER), the winding up of RFFSA, and other transactions.

Receivables Arising from Export Finance. This group comprises receivables arising from export finance, primarily the PROEX program.

Receivables Arising from Loans to Non-Financial Institutions. This group of receivables includes all loans not falling under any of the previous categories. It currently consists of transactions in which the counterparties are the Paraguayan Electricity Administration (ANDE) and Instituto Nacional do Seguro Social (INSS).

The table below shows short- and long-term loan receivables by primary program or type of receivable.

Table 22 – Finance Receivables by Program or Type – Short Term

US$ million

	12/31/2019	12/31/2018	HA (%)
Loans to Financial Institutions	1,925	3,249	(40.76)
Factoring Transactions	732	1,311	(44.18)
PROEX – Financing	638	180	253.72
Securitization	287	264	8.64
PRONAF	109	30	264.64
Lengthening of Rural Loans (PESA)	54	262	(79.49)
Other	9	6	52.94
Total	**3,753**	**5,302**	**(29.22)**

Source: COGEF/STN/ME

Table 23 – Finance Receivables by Program or Type – Long Term

US$ million

	12/31/2019	12/31/2018	HA (%)
Loans to Financial Institutions	57,912	90,093	(35.72)
Factoring Transactions	2,137	2,655	(19.49)
Lengthening of Rural Loans (PESA)	1,251	2,425	(48.39)
PROEX – Financing	362	775	(53.31)
Securitization	435	504	(13.57)
PRONAF	212	327	(35.25)
Other	35	71	(50.37)
Gross Total (I)	**62,345**	**96,850**	**(35.63)**
Adjustment for Impairment (II)	(909)	(2,085)	56.40
Net Total (III = I - II)	**61,435**	**94,765**	**(35.17)**

Source: COGEF/STN/ME

The reduction of US$ 33.5 billion in short- and long-term loans to financial institutions largely relates to repayments of approximately US$ 24.8 billion under BNDES contracts. The decrease also reflects amounts returned by CEF and BNB, of respectively US$ 2.8 billion and US$ 62 million.

Adjustments for Impairment

For PROEX, PRONAF, CACAU, RECOOP, Securitization and PESA transactions, information on adjustments for impairment is compiled from those financial institutions that have a balance in the loan transaction portfolio. In 2019 these records began to be made on a quarterly basis. The initial recognition of, and subsequent adjustments (increases or decreases) to, the adjustment for impairment of receivables are made after financial institutions are circularized and provide information on the amounts of, and the methods used to recognize, impairment.

Banco do Brasil rates credit risk for transactions based on the number of days they are delinquent, in accordance with CMN Resolution 2682/99, which sets out rules on risk rating and recognition of adjustments for impairment.

The adjustment for impairment for CDRJ and RFFSA is made using a methodology based on: prior history of default; whether any receivables are pending collection in court; and delinquency projections for the balance of non-delinquent finance receivables where there is a history of default. This adjustment is made on an annual basis at the end of the fiscal year, but the possibility of updating balances on a quarterly basis is being considered.

The adjustment for impairment is recognized only for lending transactions where the risk is borne by the Federal Government, i.e. in those cases where the Federal Government will incur losses if borrowers fail to repay their debt. For transactions in which credit risk is borne by the relevant bank, no adjustment for impairment has been made as the bank is responsible for repaying the Federal Government, whether or not the debt is repaid by the borrower.

The table below provides details on these adjustments by type of receivable.

Table 24 – Adjustments for Impairment – Non-State or Municipal Receivables

US$ million

	12/31/2019	12/31/2018	HA (%)
Export Finance Transactions			
PROEX	557	577	(3.48)
Rural Finance Transactions			
PRONAF	209	219	(4.77)
Securitization – BB	55	72	(24.47)
CACAU	13	17	(23.96)
RECOOP	0	3	(100.00)
Lengthening of Rural Loans (PESA)	9	1,110	(99.22)
Factoring (structured transactions)			
CDRJ	36	45	(20.35)
RFFSA	31	41	(24.42)
Total	**909**	**2,085**	**(56.40)**

Source: COGEF/STN

(a.3) Loans and Financing Granted by the FAT

Receivables related to the Workers' Assistance Fund (FAT) are another significant item. Under article 239(1) of the Federal Constitution, as amended by article 1 of Constitutional Amendment 103 (November 12, 2019), at least 28% of Social Integration Program (PIS) and Public Servants' Savings Program (PASEP) contributions are required to be used toward funding economic development programs through BNDES.

These contributions are transferred every ten days to BNDES. The risk in the relevant financial transactions is borne entirely by BNDES pursuant to article 2(4) of Act 8019/1990 and therefore no adjustment is made for impairment.

At 12/31/2019 these receivables amounted to US$ 70.1 billion, and were entirely classified as noncurrent. Prior to the issuance of Executive Order 889 (July 24, 2019), which was subsequently converted into law under Act 13932 (December 11, 2019), these loans had an indefinite maturity, as the FAT was entitled under the previous wording of article 7 of Act 8019/1990 to have BNDES return the funds only as and when necessary.

But the current wording of article 7 of Act 8019/1990, as amended by article 3 of Act 13932/2019, requires CODEFAT to establish rules and criteria for returning these funds to the FAT, meaning that in the future it is likely that there will be sufficient clarity around when these funds will be received by the National Treasury to segregate the balances in the Statement of Financial Position between current and noncurrent. However, at the time of preparing these financial statements for fiscal year 2019, the above regulations had not yet been implemented.

The increase of approximately US$ 5.0 billion from 2018 to 2019 was due to the recognition of new assets in relation to onlending by BNDES (US$ 4.5 billion) and net positive foreign exchange variance (US$ 545 million).

(a.4) Loans and Financing Granted by the FIES

These loans are used to fund undergraduate education grants for students enrolled at private universities under Act 10260/2001, within the Ministry of Education's FIES program.

From 2010 to the first half of 2015, these loans carried interest at a rate of 3.4% p.a., provided a grace period of 18 months and a period for repayment equivalent to thrice the normal duration of the relevant graduate program plus twelve months, with students eligible to finance up to 100% of their tuition fees.

From the second half of 2015 to 2017, the interest rate was 6.5% p.a., the repayment period was three times the normal duration of the program, and students were required to provide a percentage of match funding depending on their family income. These loan contracts are secured either by guarantees or by the Student Loan Guarantee Fund (FGEDUC) instituted by Act 12087/2009.

In 2018, a new FIES program was launched with changes introduced by Act 13530/2017 for increased sustainability, accountability and governance. Among the changes introduced, the interest rate for the program became indexed to the IPCA, installment amounts became proportional to students' income, and a FIES Guarantee Fund was created with funding from the Federal Government and funding entities.

In 2018, the amount of FIES assets, i.e. the outstanding balance under student loans, was adjusted to better reflect changes in loan balances at financial institutions as a result of disbursements made by the Fund toward education grants, repayments by students, and interest and other contractual charges imposed under the relevant contracts.

Following these adjustments, since 2018 student loan receivables have been segregated by nature (principal, interest and contractual charges) and timing (current and non-current).

The balance of FIES student loans was US$ 26.8 billion in 2019, broken down as shown in the table below.

Table 25 – FIES Student Loan Receivables

US$ million

	12/31/2019	12/31/2018	HA (%)
Loan Receivables – ST	819	732	11.89
Loan Receivables (Principal) – LT	24,595	23,242	5.82
Interest and Charges – LT	1,399	1,056	32.48
Gross Total (I)	**26,813**	**25,030**	**7.12**
Adjustment for Impairment (II)	(4,313)	(2,025)	(112.93)
Net Total (III = I + II)	**22,500**	**23,004**	**(2.19)**

Source: SIAFI

Since inception, the Student Loan Fund has provided student loans to more than 3.3 million students, of whom 2.9 million currently have active contracts, or contracts with an outstanding balance owing to the Fund's financial agents. Of these, approximately 673,000 students were pursuing university degrees in December 2019.

Geographic distribution

At year-end, the geographic distribution of active contracts compared to the previous fiscal year showed a reduction of 0.2, 0.6 and 0.2 pp in respectively the South, Southeast and Midwest, and growth of respectively 0.2 and 0.7 pp in the North and Northeast, as shown in the table below:

Table 26 – FIES Geographic Distribution

Geographic Concentration	12/31/2019	12/31/2018
Midwest	11.70%	11.90%
Northeast	26.30%	25.60%
North	7.10%	6.90%
Southeast	42.80%	43.40%
South	12.00%	12.20%

Source: FNDE/MEC

Guarantee types

Of the total number of contracts formalized up to the second half of 2017, those secured by the Student Loan Guarantee Fund (FGEDUC) represented 72.4% of total loans, with 1.97 million students benefiting from this type of guarantee, covering 90% of the loan balance. The remaining 739,600 students' loans are secured by conventional bank guarantees or joint guarantees, with 191,800 of these contracts having been issued prior to 2010. Another 166,100 loan contracts underwritten from the first half of 2018 are secured by the FIES Guarantee Fund (FG-Fies).

Table 27 – Types of Guarantees – FIES

US$ million

Guarantee Type	Quantity	12/31/2019
Contracts secured by the FGEDUC	1,966,546	19,811
Contracts not secured by the FGEDUC	547,828	6,255
Contracts secured by the FG-FIES	166,156	328
Contracts concluded prior to 2010	191,867	747
Totals	**2,872,397**	**27,141**

Source: FNDE/MEC

Fields of training

The distribution of funded programs by field of training in the International Standard Classification of Education (ISCED), as adapted and published by the Anísio Teixeira Institute for Educational Studies and Research (INEP) in October 2017, was as follows at year-end 2019:

Table 28 – FIES – Distribution of funded programs by field of training

General Fields	12/31/2019	12/31/2018	HA (%)
Social Sciences, Business and Law	736,289	719,740	2.30
Health and Welfare	705,320	671,569	5.03
Engineering, Manufacturing and Construction	502,001	494,580	1.50
Education (Licentiate and Pedagogy Programs)	191,944	191,387	0.29
Technology Programs	172,255	170,595	0.97
Natural Sciences, Mathematics and Computing	103,283	100,086	3.19
Agriculture and Veterinary	67,631	63,880	5.87
Medicine (Health)	53,752	51,599	4.17
Arts and Humanities	10,847	10,514	3.17
Services	6,003	5,910	1.57
Other	323,072	341,229	(5.32)
Total	**2,872,397**	**2,821,089**	**1.82**

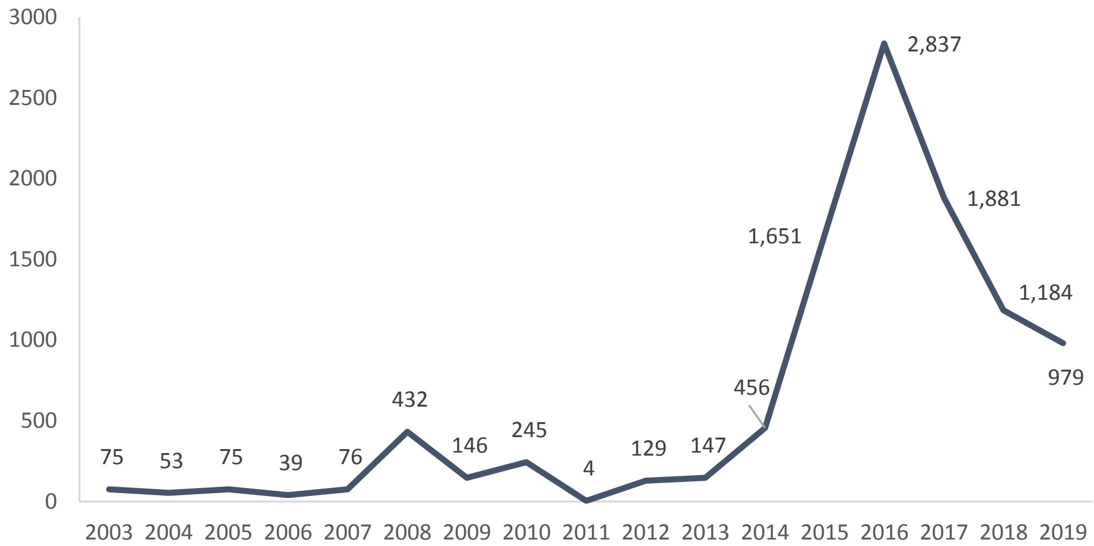
Source: FNDE/MEC

Implicit subsidy

The impact on the government's accounts from the difference between the interest rates on National Treasury bonds (opportunity cost) and on student loans ("implicit subsidy"), based on estimates made by the Ministry of Economy, was as follows in the period 2003-2019:

Figure 2 – FIES Implicit Subsidies

US$ million



Source: FNDE/MEC

FIES Revenue

FIES revenues were US$ 851 million in 2019, up 8.81% from 2018, with 79.83% deriving from repayment of principal and interest on student loans, as shown in the table below.

Table 29 – FIES Revenue

US$ million

Nature of Revenue	12/31/2019	12/31/2018	HA (%)	VA (%)
Amortization of financing	402	350	15.07	47.25
Returns on transactions, interest and financial charges	277	199	39.40	32.58
Unclaimed lottery winnings	95	92	3.71	11.16
Interest on bank deposits	76	41	85.05	8.97
Interest on securities	0	0	(3.87)	0.04
Federal Lottery tax	0	101	(100.00)	-
Interest on securities–fines and interest	0	0	(100.00)	-
Total	**851**	**782**	**8.81**	**100.00**

Source: FNDE/MEC

"Taxes on Federal Lottery Earnings" are no longer included in FIES revenue as under Act 13756/2018 these taxes are now earmarked for the National Public Security Fund (FNSP).

In addition, revenues from "Interest on securities" and "Interest on securities—fines and interest" have been merged, which explains the absence of these revenues in 2019.

Sources of funding

Specific allocations are made in the Annual Budget Law (LOA) for expenses on concluding and renewing contracts with, and paying management fees to, financial agents and for replenishing guarantee fund accounts. In summary, the sources of funding for paying these expenses were as follows:

Table 30 – Sources of FIES Funding

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Ordinary Funds	2,805	4,274	(34.36)	82.96
Own Funds	476	354	34.63	14.09
Funds Earmarked for Specific Public Policies	100	60	66.57	2.95
Taxes on Lotteries	0	115	(100.00)	-
Own Funds (other fiscal years)	0	115	(100.00)	-
Total	**3,381**	**4,917**	**(31.23)**	**100.00**

Source: FNDE/MEC

The budget allocation in 2019 was 31.23% less than in fiscal year 2018, as established in the LOA for 2019.

The decrease reflects the smaller number of contracts in the disbursement phase, when students are attending university and FIES disbursements are needed to pay funded tuition fees.

Adjustment for impairment

Adjustments for impairment are calculated for loan installments not paid when due, regardless of the type of guarantee securing the loan, based on the rules established by the FIES Management Committee (CG-FIES) under Resolution 27 (September 10, 2018). In addition, standardized guidelines issued by BCB were used for loans from financial institutions (Resolution 2682/1999),

Student loans are classified in increasing order of risk (A to H). The resulting impairment adjustment was US$ 4.3 billion at 12/31/2019, as detailed in the table below.

Table 31 – Adjustment for Impairment Calculation – FIES

US$ million

Classification	Number of Contracts	Balance Outstanding (US$)	Adjustment Amount (US$)
A (less than 14 days overdue)	708,139	5,700	29
B (15-30 days overdue)	49,310	287	3
C (31-60 days overdue)	66,785	611	18
D (61-90 days overdue)	28,607	247	25
E (91-120 days overdue)	29,725	239	72
F (121-150 days overdue)	23,673	193	96
G (151-180 days overdue)	21,106	171	120
H (more than 180 days overdue)	660,552	3,952	3,951
Total	**1,587,897**	**11,400**	**4,313**

Source: FNDE/MEC

The adjustment for impairment was affected by the higher number of contracts transitioning from the grace period to the repayment period in the financial year.

At year-end 2019, 1.59 million contracts were in the repayment phase, with a total balance outstanding of US$ 11.4 billion, an increase of respectively 44.3% and 70.8% compared to the number of contracts and outstanding balance at year-end 2018.

Adjustments for short-term losses are now segregated from the adjustment for long-term losses, in conformity to Panel Decision 1.331/2019-TCU-Plenário, and amounted to approximately US$ 40 million at year-end.

Approximately 50.5% of FIES loans in the repayment phase, involving approximately 800,000 borrowers, were delinquent at year end. The cummulative balance of installments at least one day overdue under contracts in the repayment phase was US$ 868 million at year-end 2019.

Under article 3(VI) of Act 10260/2001, funding entities bear a share of the risk inherent to the loans as joint debtors, equivalent to 15 to 30% of the balance outstanding not secured by the guarantee fund.

Renegotiation of overdue debt

To encourage borrowers to resolve their delinquent debts, CG-FIES issued Resolution 28/2018 establishing rules and operational and financial procedures for refinancing outstanding FIES loan installments over a term of at least 48 months.

Students were given the opportunity to renegotiate their debts directly with FIES's financial agents from April 29 to October 10, 2019. Around 500,000 students, with a total outstanding balance of approximately US$ 2.8 billion, met the criteria for renegotiating their student loans.

At the end of the above period, 11,500 students had renegotiated their contracts, covering an outstanding balance of approximately US$ 88 million, generating revenues of approximately US$ 3 million for FIES from the first installment payments.

Recovery rate

The rate of recovery of receivables under contracts classified as delinquent (installments more than ninety days overdue, in accordance with Resolution 27/2018) was 7.7%, the same rate as at the end of the third quarter of 2019 and higher than the rate of 7.5% at year-end 2018.

FGEDUC as surety

Pursuant to article 21 of its Bylaws, FGEDUC acts as a surety with respect to the balance of loans in the repayment phase that are more than 360 calendar days overdue, subject to normal loan rates and up to the maximum percentage of the loan which FGEDUC is required to secure.

As prescribed by Panel Decision 1.331/2019-TCU-Plenário, FIES recognizes its surety rights as an asset of the Fund.

Accordingly, at year-end 2019 approximately US$ 1.6 billion in surety rights were recognized, corresponding to the percentage of the outstanding loan balance which meets the threshold requiring the FGEDUC manager to honor its surety duty.

The outstanding balance of loans secured by FGEDUC was US$ 19.8 billion, or approximately 74.1% of the total FIES portfolio, not including the New FIES program.

Three-Year Plan

Introduced by decree on September 19, 2017, three-year plans are a key tool for improving FIES planning and governance, ensuring consistent and sustained program growth, and setting strategies for achieving public policy goals and managing fiscal, budgetary and financial impacts, in accordance with Panel Decision 3.001/2016-TCU-Plenário.

Under the Plan, CG-FIES sets the number of planned student loans for the following three years in such a way as to minimize volatility in loan offerings from one year to the next, improving predictability for both the Federal Government and for student-loan stakeholders, including students, education institutions and financial agents.

The three-year plan for 2019-2021 was approved by CG-FIES Resolution 32 (November 14, 2018) and the three-year plan for 2020-2022 was approved by CG-FIES Resolution 37 (December 18, 2019).

(a.5) Loans and Financing Granted by the FNE

The Northeast Constitutional Fund (FNE) is a fund introduced by Act 7827/1989 to manage income tax (IR) and excise tax (IPI) revenues, which are apportioned as stipulated in article 159(I)(c) of the Federal Constitution of 1988. According to article 16 of the above Act, the purpose of the fund is to finance industry in the Northeast of Brazil, via BNB.

The following table provides a breakdown of loans and financing provided by the Fund.

Table 32 – Loans and Financing Underwritten by the FNE

US$ million

	12/31/2019	12/31/2018	HA (%)
Long-Term Loans Underwritten	12,820	11,063	15.88
Short-Term Loans Underwritten	3,141	3,238	(3.00)
Other	680	656	3.62
Total	**16,641**	**14,957**	**11.26**

Source: SIAFI

FNE loans and financing are shown to have increased by 11.26%, or approximately US$ 1.7 billion, from 2018 to 2019. The increase is primarily in amounts to be repaid over the long term.

The table below shows changes from 2018 to 2019:

Table 33 – Long-Term Loans Underwritten

US$ million

	12/31/2019	12/31/2018	HA (%)
Financing for Infrastructure and Development	3,474	2,014	72.53
Financing for Industry, Trade and Services	4,871	4,717	3.26
Rural Finance	4,284	4,140	3.49
Other	192	194	(1.05)
Total	**12,820**	**11,063**	**15.88**

Source: SIAFI

Around US$ 1.4 billion of the increase relates to loans for infrastructure and development, as well as the appropriation of charges on previously underwritten loans.

Another US$ 154 million consists of loans for industry, trade and services, as well as the appropriation of charges on previously underwritten contracts.

The increase also reflects growth in rural loans underwritten in the Northeast, as well as the appropriation of agreed charges on previously underwritten contracts, which accounted for an increase of approximately US$ 298 million.

(b) Tax Receivables under Judicial Collection

Tax receivables under judicial collection (*Dívida Ativa*) are tax liabilities due and owing which have become legally delinquent and which are not eligible to cancellation or suspension of collectability.

Article 39 of Act 4320/1964 defines *dívida ativa* as amounts owed to the tax authorities arising from legal tax obligations and the relevant charges and fines.

The table below provides a breakdown of short-term receivables under judicial collection.

Table 34 – Short-Term Receivables under Judicial Collection

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Non-Tax Receivables under Judicial Collection	168	8	2,069.38	88.42
Tax Receivables under Judicial Collection	22	2	969.47	11.58
Total	**190**	**10**	**1,835.29**	**100.00**

Source: SIAFI

The increase of 2,069%, or US$ 160 million, in short-term non-tax receivables under judicial collection is primarily explained by the recognition by INMETRO of US$ 158 million in non-tax receivables under judicial collection.

The growth of 969%, or approximately US$ 20 million, in tax receivables under judicial collection relates to the recognition by INMETRO in tax receivables under judicial collection.

A breakdown of long-term receivables under judicial collection is provided in the following table.

Table 35 – Long-Term Receivables under Judicial Collection

US$ million

	12/31/2019	12/31/2018	HA (%)
Tax Receivables under Judicial Collection	192,186	176,763	8.73
Non-Tax Receivables under Judicial Collection	17,257	26,977	(36.03)
Gross Total (I)	**209,443**	**203,740**	**2.80**
Adjustment for Impairment (II)	(94,379)	(95,838)	1.52
Net Total (III = I + II)	**115,065**	**107,902**	**6.64**

Source: SIAFI

The Ministry of Economy accounts for 99.95% of total tax receivables under judicial collection. These tax receivables are managed by the Office of the Attorney General of the Treasury (PGFN) using the Integrated Delinquent Tax Debt System (SIDA). Movements in the SIDA are recorded monthly in the SIAFI system by processing DAU (Federal Delinquent Tax Debt) files.

Although managed by PGFN, parts of these receivables are payable to the FAT and the FRGPS, as detailed in subsection “e” below.

The balance of long-term tax receivables under judicial collection increased by approximately 8.73% (US$ 15.4 billion) from 2018 to 2019. Around 99.99% of the increase relates to transactions processed by PGFN, the government entity responsible for confirming that tax receivables are due and owing and recording them as delinquent tax debt in accordance with article 12(I) of Supplementary Act 73/1993.

Further information about the PGFN’s management of these receivables is provided in the following subsections.

(b.1) Tax Receivables under Judicial Collection – PGFN

Ministry of Finance Directive 293/2017 established a new rating methodology for tax receivables under judicial collection administered by PGFN.

In this methodology, receivables are classified into four rating categories depending on the likelihood of recovery:

- "A": receivables with a high likelihood of recovery;
- "B": receivables with a medium likelihood of recovery;
- "C": receivables with a low likelihood of recovery;
- "D": impaired receivables.

Under the Directive, receivables rated "A" and "B" are recognized as assets, and receivables rated "C" and "D" are recorded as contingent assets in control accounts until they are either derecognized or reclassified.

The following table shows tax receivables under judicial collection administered by PGFN (rated "A" and "B").

Table 36 – Long-Term Receivables under Judicial Collection – PGFN

US$ million

	12/31/2019	12/31/2018	HA (%)
Non-Social Security Tax Receivables under Judicial Collection	144,894	131,604	10.10
Social Security Tax Receivables under Judicial Collection	47,028	44,886	4.77
Non-Tax Receivables under Judicial Collection	3,718	7,386	(49.66)
Gross Total (I)	**195,640**	**183,876**	**6.40**
Adjustment for Impairment (II)	(86,109)	(81,260)	(5.97)
Net Total (III = I + II)	**109,532**	**102,616**	**6.74**

Source: SIAFI

The following table provides a breakdown of tax receivables by rating.

Table 37 – Tax Receivables by Rating

US$ million

Type of Receivable	*Rating*	12/31/2019	12/31/2018	HA (%)
Non-Social Security Tax Receivables	A	46,937	40,670	15.41
	B	97,957	90,934	7.724
	C	54,728	78,997	(30.72)
	D	240,905	189,723	26.98
Subtotal		**440,527**	**400,323**	**10.04**
Social Security Tax Receivables	A	10,589	9,770	8.388
	B	36,439	35,117	3.764
	C	25,799	40,929	(36.97)
	D	61,837	40,955	50.99
Subtotal		**134,664**	**126,770**	**6.227**
Non-Tax Receivables	A	1,031	2,951	(65.05)
	B	2,687	4,435	(39.41)
	C	2,227	5,869	(62.06)
	D	17,713	22,540	(21.42)
Subtotal		**23,658**	**35,796**	**(33.91)**
Total		**598,849**	**562,889**	**6.388**

Source: SIAFI

The total balance at year-end 2018 across all ratings (A, B, C and D) was US$ 562.9 billion. A summary of movements in 2019, which increased the balance to US$ 598.8 billion, is provided below.

Table 38 – Movements in Tax Receivables under Judicial Collection – PGFN

US$ million

Balance at December 31, 2018	**562.889**
(+) Principal and Interest Placed under Judicial Collection	44.070
(+) Monetary Restatement	32.501
(-) Amortization (Receipt of Principal, Fines, and Interest)	(2.141)
(-) Exclusions (Cancellations and Annulments)	(20.575)
(+) Other Entries	(17.895)
Balance at December 31, 2019	**598.849**

Source: SIAFI

Adjustment for Impairment – PGFN

Under Ministry of Finance Directive 293/2017, the adjustment for impairment of receivables recognized in assets is based on the likelihood of recovery of receivables rated "A" and "B" within a period of ten years.

Based on historical delinquency by rating over the previous ten years, the likelihood of recovery of receivables rated "A" and "B" within the following 10 (ten) years is as follows:

Table 39 – Breakdown of Tax Receivables by Current and Non-current

Rating	% Recoverable	% Adjustment for Impairment
A	70%	30%
B	50%	50%

Source: PGFN/ME

(b.2) Long-Term Non-Tax Receivables under Judicial Collection

The following table provides a breakdown of long-term non-tax receivables under judicial collection by entity.

Table 40 – Gross Long-Term Non-Tax Receivables under Judicial Collection – By Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
BCB	4,402	10,728	(58.96)	25.51
Ministry of Economy	3,718	7,386	(49.66)	21.55
IBAMA	3,041	2,760	10.17	17.62
FRGPS	1,574	1,551	1.52	9.12
ANS	927	896	3.47	5.37
CVM	707	716	(1.30)	4.10
ANATEL	633	659	(3.87)	3.67
CADE	541	599	(9.71)	3.13
ANP	463	474	(2.30)	2.68
SUSEP	391	400	(2.25)	2.26
ANTT	327	248	31.98	1.90
FNDE	246	256	(3.87)	1.42
Other	287	305	(5.98)	1.66
Total	**17,257**	**26,977**	**(36.03)**	**100.00**

Source: SIAFI

The Central Bank of Brazil (BCB), the Ministry of Economy and IBAMA collectively account for approximately 65% of the stock of gross non-tax receivables under judicial collection. After accounting for the adjustment for impairment, however, non-tax receivables under judicial collection are primarily concentrated in IBAMA, the Ministry of Economy, the National Telecommunications Agency (ANATEL) and the Brazilian Antitrust Authority (CADE), with these four entities accounting for 83% of the total, as shown in the table below.

Table 41 – Long-Term Non-Tax Receivables under Judicial Collection, Net of Adjustment for Impairment – By Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
IBAMA	3,041	2,653	14.61	40.28
Ministry of Economy	2,065	4,117	(49.84)	27.36
ANATEL	633	633	-	8.39
CADE	541	576	(6.07)	7.17
ANP	463	455	1.63	6.13
ANTT	311	226	37.28	4.12
Other	494	488	1.42	6.55
Total	**7,549**	**9,149**	**(17.49)**	**100.00**

Source: SIAFI

Although BCB accounts for 25.51% of non-tax receivables under judicial collection, it has recognized an adjustment for impairment of the same amount, so that the net amount of receivables is nil.

Non-tax receivables under judicial collection held by the Ministry of Economy are managed by the PGFN and their maturities, ratings and adjustments for impairment have been detailed in subsection "b.1" above.

(c) Tax Receivables

As shown in the following tables, the most significant balances of short- and long-term tax receivables are Social Security Contributions to the RGPS, Corporate Income Tax and Social Security Funding Contributions (COFINS).

Table 42 – Tax Receivables – Short-Term

US$ million

	12/31/2019	12/31/2018	HA (%)
Social Security Contributions – RGPS	8,757	10,205	(14.19)
Corporate Income Tax	2,769	4,835	(42.72)
Social Security Funding Contributions (COFINS)	2,666	4,552	(41.45)
Social Contribution on Net Income (CSLL)	1,289	2,361	(45.38)
Individual Income Tax	1,040	1,255	(17.10)
PIS/PASEP Contributions	1,010	1,479	(31.68)
Excise Tax (IPI)	668	1,069	(37.46)
Withholding Income Tax	560	829	(32.47)
Other	1,039	970	7.16
Gross Total (I)	**19,799**	**27,554**	**(28.14)**
Adjustment for Impairment	(7,428)	(14,012)	46.99
Net Total (III = I + II)	**12,371**	**13,541**	**(8.64)**

Source: SIAFI

Table 43 – Tax Receivables – Long-Term

US$ million

	12/31/2019	12/31/2018	HA (%)
Social Security Contributions – RGPS	27,476	31,794	(13.58)
Corporate Income Tax	9,526	17,822	(46.55)
Social Security Funding Contributions (COFINS)	8,881	16,338	(45.64)
Social Contribution on Net Income (CSLL)	4,391	8,549	(48.64)
Individual Income Tax	3,641	4,652	(21.73)
PIS/PASEP Contributions	3,331	5,149	(35.30)
Withholding Income Tax	1,918	3,148	(39.08)
Excise Tax (IPI)	2,350	3,896	(39.68)
Other	1,910	1,989	(3.98)
Gross Total (I)	**63,424**	**93,335**	**(32.05)**
Adjustment for Impairment (II)	(26,122)	(53,639)	51.30
Net Total (III = I + II)	**37,302**	**39,697**	**(6.03)**

Source: SIAFI

In fiscal year 2019 the gross balance of short-term tax receivables decreased by 28.14%, or by approximately US$ 7.8 billion, compared to fiscal year 2018.

Receivables managed by RFB decreased by approximately US$ 6.7 billion, with the decrease offset by increases in other entities such as INMETRO, which recognized receivables of approximately US$ 50 million related to inspection and surveillance fees.

The decrease in receivables managed by RFB reflects the updated book balance of short-term tax receivables, based on the balances contained in RFB-managed corporate systems.

These receivables are managed using stock information provided by these systems, and a determination cannot be made, based on accounting controls, of the reasons for these adjustments (i.e. whether these receivables have been paid by the relevant taxpayers, offset, assigned, barred by the statute of limitations, converted from currency into securities, or canceled under administrative or judicial decisions pursuant to article 156 of Act 5172/1966 (National Tax Code).

Long-term tax receivables decreased by approximately US$ 29.9 billion from 2018 to 2019. Approximately 99% of the reduction, or US$ 26.2 billion, was also due to adjustments made by RFB.

(c.1) Tax Receivables – RFB/ME

The Brazilian Federal Revenue Service (RFB) generates monthly reports from its collection control systems, including the Economic and Fiscal Information System (SIEF), *Grande Porte Serpro* and *Grande Porte Dataprev,* either through managerial queries or by using the DW (*Devedores* and *Informar*) system.

In these reports, tax receivables are aggregated into four status categories:

I. Owed: tax receivables that are payable and subject to amicable collection and special administrative collection. If these receivables are not paid, they are escalated to the Office of the Attorney General of the Treasury for judicial collection, in accordance with article 12(I) of Supplementary Act 73/1993;

II. Collectability suspended by administrative proceedings: tax receivables for which collectability has been suspended at the administrative level. This occurs primarily during administrative proceedings at Federal Internal Revenue Adjudication Departments (DRF) or the Administrative Council for Tax Appeals (CARF) and during official reviews of tax liabilities. Collectability is also suspended during the period allowed for notice, payment, contestation, claims of non-conformity and appeals;

III. Collectability suspended by judicial proceedings: this status category includes tax receivables whose amount and collectability are under litigation; and

IV. Paid in installments: the outstanding balances of all (ordinary and special) installment programs.

Although managed by RFB, parts of these receivables are payable to the FAT and the FRGPS, as detailed in subsection "e" below.

To provide a more accurate picture of the liquidity of its assets, RFB/ME assesses the convertibility and collectability of tax receivables in the "owed" and "installment" categories and determines the annual percent composition of short and long-term receivables (current and non-current assets).

The following table provides a percentage breakdown into short and long-term receivables.

Table 44 – Breakdown of Tax Receivables by Current and Non-current

Type of Receivable	Current Assets (%)	Non-current Assets (%)
Owed	20.00	80.00
Paid in installments	25.36	74.64

Source: SIAFI

Tax Receivables with Suspended Collectability

Receivables for which collectability has been suspended as a result of either administrative or judicial proceedings (in accordance with article 151(III to V) of Act 5172/1966 (National Tax Code)) fail to meet the criteria for recognition as assets as there are no guarantees that the economic benefits will flow to the Government.

Accordingly, the updated amounts of these receivables are recorded in control accounts, the balances of which are shown in the following table.

Table 45 – Types of Tax Receivables with Suspended Collectability

US$ million

	12/31/2019	12/31/2018	HA (%)
Contributions	177,768	172,355	3.14
Taxes	175,287	170,558	2.77
Fines and Penalties	20,576	17,824	15.43
Total	**373,631**	**360,738**	**3.57**

Source: SIAFI

Adjustment for Impairment

According to information provided by RFB, the adjustment for impairment was calculated using a rate of 24.39% for receivables classified as "paid in installments" and 67.39% for receivables "not paid in installments", based on prior collection history. These rates are based on the likelihood of unsuccessful collection according to the taxpayer's credit rating for receivables "outstanding".

Table 46 – Details on the Calculation of Adjustment for Impairment of Tax Receivables under Administrative Collection

US$ million

	Stock	Rate	Amount of Adjustment
Short Term	**19,296**		**7,385**
Non-Social Security – Not Paid in Installments	4,627	67.39%	3,118
Non-Social Security – Paid in Installments	5,822	24.39%	1,420
Social Security – Not Paid in Installments	1,602	67.39%	1,079
Social Security – Paid in Installments	7,245	24.39%	1,767
Long Term	**63,374**		**26,170**
Non-Social Security – Not Paid in Installments	18,508	67.39%	12,472
Non-Social Security – Paid in Installments	17,136	24.39%	4,179
Social Security – Not Paid in Installments	6,407	67.39%	4,318
Social Security – Paid in Installments	21,324	24.39%	5,201
Total Adjustment for Impairment			**33,555**

Source: SIAFI and RFB/ME

(e) Tax Receivables under Administrative and Judicial Collection Payable to the FAT and FRGPS

Of the total balance of tax receivables under administrative and judicial collection, a portion is receivable by, and is transferred to, the FRGPS and the FAT on successful collection, in accordance with article 2(1) of Act 11457/2007 and article 11(I) of Act 7998/1990.

Receivables payable to the FRGPS consist of social security contributions paid by companies for their employees, by individuals on housekeepers' wages, and by independent workers on their own earnings, as prescribed in article 195(I)(a) and (II) of the Federal Constitution of 1988 and article 11(sole paragraph)("a" to "c") of Act 8212/1991.

These receivables are required to be used exclusively toward the payment of RGPS benefits, including retirement pensions, sickness allowance, accident allowance, death benefits and incarceration allowance, as stipulated in article 2(1) of Act 11457/2007 and article 18 of Act 8213/1991, and may be used toward no other expenses as required in article 167(XI) of the Federal Constitution of 1988.

Receivables payable to the FAT are Social Integration Program (PIS) and Public Servants' Savings Program (PASEP) contributions, pursuant to article 11 of Act 7998/1990, which are required to be used toward Unemployment Insurance Program expenditures, workers' bonus payments and trade and technological education and economic development programs, in accordance with article 10 of the above Act as amended by article 14 of Act 12513/2011.

In fiscal year 2019, US$ 26.5 billion out of total tax receivables under administrative collection and US$ 30.0 billion of tax receivables under judicial collection pertained to these funds. These receivables are detailed in the table below.

Table 47 – Receivables Pertaining to the FRGPS and FAT

US$ million

	12/31/2019
Tax Receivables Administered by RFB and Payable to Other Entities	**26,547**
FRGPS	23,991
FAT	2,556
Tax Receivables under Judicial Collection Administered by PGFN and Payable to Other Entities	**30,040**
FRGPS	25,632
FAT	4,408
Total	**56,587**

Source: SIAFI

6 - Other Receivables

The tables below provide a breakdown of “Other Receivables” by short and long term and by composition.

Table 48 – Other Receivables

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Other Short-Term Receivables	13,104	14,175	(7.56)	48.66
Other Long-Term Receivables	13,823	9,843	40.43	51.34
Total	**26,928**	**24,019**	**12.11**	**100.00**

Source: SIAFI

Table 49 – Other Short- and Long-Term Receivables – Composition

US$ million

	12/31/2019	12/31/2018	HA (%)
Equity in BCB Surplus	5,450	6,596	(17.37)
Subrogated Receivables – States	4,394	2,160	103.44
Advances Made	4,173	5,069	(17.68)
Refundable Deposits and Restricted Cash	3,229	4,179	(22.72)
Receivables – Fines and Penalties	2,543	2,912	(12.68)
Receivables Due To Irregularities	2,079	1,586	31.08
Receivables – Land Titling	1,942	2,020	(3.87)
Guarantees Receivable	1,617	0	-
Receivables from Financial Institutions	894	0	-
Accrual Accounted Yields on Short-Term Investments	645	132	387.03
Receivables from Guarantee Claims	641	351	82.64
Insurance Premiums Receivable – FGE	381	421	(9.64)
Other	1,585	1,748	(9.36)
Gross Total (I)	**29,573**	**27,176**	**8.82**
Adjustment for Impairment (II)	(2,645)	(3,157)	16.21
Net Total (III = I + II)	**26,928**	**24,019**	**12.11**

Source: SIAFI

(a) Equity in BCB Surplus

Up to the first half of 2019, any surplus reported by BCB, including surplus from operations and gains on foreign-exchange reserve transactions, constituted an obligation of BCB to the Federal Government and was required to be paid no later than the tenth business day subsequent to Brazilian Monetary Council (CMN) approval of the statement of financial position.

Following the enactment of Act 13820 (May 3, 2019), the BCB's gains on foreign-exchange reserve and foreign exchange derivatives transactions in the domestic market, as reported in its six-monthly statement of financial position, and limited to the full amount of surplus reported, is now allocated to a profit reserve.

The balance of approximately US$ 5.5 billion refers to the surplus reported in the 2nd half of fiscal year 2019. For further information on this matter, see the Note on "Equity in Surplus or Deficit of the Brazilian Central Bank".

(b) Subrogated Receivables – States

In 2019, the "Subrogated Receivables – States" balance was US$ 4.4 billion, an increase of US$ 2.3 billion compared to the previous fiscal year.

The increase is partly explained by the enactment of Supplementary Act 159/2017, which implemented a Fiscal Recovery Framework (RRF) for states and the Federal District. Under the new framework, states opting in are entitled to a repayment grace period of 36 months, renewable for an equal period, for debt obligations assumed by the Federal Government as guarantor under contracts included in the opt-in proposal.

Of the total increase, US$ 1.1 billion relates to the recognition of receivables arising from obligations of the state of Rio de Janeiro to which the Federal Government has been subrogated under the above Supplementary Act.

(c) Advances Made

The "Advances Made" item had a balance of US$ 4.2 billion in 2019. Its most significant component was Advances for Future Capital Increase (AFCI) in companies recognized by COPAR/STN/ME, which had a balance at year-end 2019 of US$ 2.9 billion excluding restatement required under article 2 of Decree 2673/1998.

The reduction of US$ 896 million in "Advances Made" in 2018 was primarily due to the derecognition of US$ 769 billion in constitutional and statutory distributions to states and municipalities by the FNDE in fiscal year 2015, which did not constitute assets as defined by NBC TSP standards. This entry was charged to Prior Year Adjustments and distributions are currently classified as expense for the fiscal year.

(d) Refundable Deposits and Restricted Cash

The reduction of approximately 23% (US$ 950 million) in "Refundable Deposits and Restricted Cash" largely reflects redemptions of US$ 917 billion of special deposits managed by FAT, net of interest on those deposits. These special deposits are funds provided to official financial institutions, such as Banco do Brasil, Banco do Nordeste (BNB), the Brazilian Development Bank (BNDES) and Banco da Amazônia (BASA), for use in programs designed to generate job and income opportunities through the provision of loans to individuals and companies.

(e) Receivables – Fines and Penalties

Receivables arising from fines and penalties for statutory and contractual violations were a total of US$ 369 billion in 2019, down 12.68% from the previous fiscal year.

These receivables are essentially concentrated in the Federal Government's law enforcement agencies, as shown in the table below.

Table 50 – Receivables Arising from Fines and Penalties – By Management Unit

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
RFB	1,770	2,304	(23.17)	69.60
CADE	465	459	1.38	18.28
INMETRO	116	0	-	4.57
ICMBio	95	54	77.01	3.74
Other	97	96	1.04	3.81
Total	**2,543**	**2,912**	**(12.68)**	**100.00**

Source: SIAFI

(f) Receivable Due to Irregularities

Receivables due to irregularities may arise from:

I. **Administrative proceedings:** arising at the administrative level where the receivables are less than R$ 100,000 (US$ 24,809 on December 31, 2019), the threshold above which a Special Audit (TCE) by the Federal Audit Court (TCU) is required pursuant to article 6(I) of TCU Normative Directive 71 (November 28, 2012);

II. **Special Audit (TCE):** arising where receivables are equal to or greater than R$ 100,000 (US$ 24,809 on December 31, 2019), with the receivables being recognized as assets only after a final decision is issued by the TCU;

III. **Judicial proceedings:** arising at the judicial level.

Receivables due to irregularities were a total of US$ 493 million at 12/31/2019, an increase of 31.08% over fiscal year 2018, as shown in the table below.

Table 51 – Receivables Due to Irregularities

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Arising from Special Audits (TCE)	1,228	783	56.87	59.08
Arising from Administrative Proceedings	849	802	5.94	40.86
Arising from Judicial Proceedings	1	1	(3.87)	0.06
Total	**2,079**	**1,586**	**31.08**	**100.00**

Source: SIAFI

Receivables due to irregularities arising in special audits (TCE) were the most significant at approximately US$ 1.2 billion. The primary causes giving rise to these special audits were failure to timely provide, or irregularities in, supporting documentation for expenses or for transfers, with these causes generating a total of US$ 1.1 billion in receivables.

(g) Receivables – Land Titling

At fiscal year-end 2019, receivables from land titling were a total of US$ 1.9 billion and were recorded with respect to land titling within the Institute of Colonization and Agrarian Reform (INCRA), including expropriated land and land located in the Brazilian Amazon.

These receivables derive from the Federal Government's authority to expropriate unproductive rural land for social and agrarian reform purposes, providing prior compensation to former landowners in the form of agrarian debt securities, pursuant to article 184 of the Federal Constitution of 1988.

These properties are then distributed to agrarian reform beneficiaries, who receive title or usage rights to those properties that are nontransferable for a period of ten years, in accordance with article 189 of the Federal Constitution of 1988. Title to land may be awarded free of charge or for consideration; in the latter case, the amounts receivable from these beneficiaries are recognized in accordance with article 24(ii)(b) and articles 34 and 39 of Decree 9311/2018.

(h) Guarantees Receivable

The "Guarantees Receivable" item amounted to US$ 1.6 billion at 12/31/2019, relating to delinquent FIES student loan contracts secured by the Student Loan Guarantee Fund (FGEDUC).

These amounts essentially refer to contracts with an outstanding balance more than 360 calendar days overdue during the repayment phase in 2019.

The FGEDUC was instituted by article 7(III) of Act 12087/2009, under which the Federal Government is authorized to hold interests in funds created for the purpose of securing student loans within official programs or institutions, subject to the bylaws of the relevant funds.

(i) Receivables – Financial Institutions

"Receivables from Financial Institutions" amounted to US$ 894 billion in fiscal year 2019, consisting of amounts receivable by the Wage Variance Offsetting Fund (FCVS).

(j) Accrual Accounted Yields on Short-Term Investments

"Accrual Accounted Yields on Short-Term Investments" increased by approximately 387% from US$ 132 million in 2018 to US$ 645 million in 2019.

The increase primarily reflects the recognition of US$ 545 million in assets receivable from the Brazilian Central Bank (BCB) relative to yields over the last 10 days of 2019 on the Federal Government's cash deposits with BCB, pursuant to article 164(3) of the Federal Constitution of 1988, with article 1 of Executive Order 2179-36/2001 establishing that these deposits should carry interest equivalent to the weighted average intrinsic yields on DPMFi securities.

(k) Receivables from Guarantee Claims

"Receivables from Guarantee Claims" recorded an increase of 82.64% primarily due to the recognition of guarantee claims against the Export Guarantee Fund (FGE), which amounted to US$ 381 million.

This amount, however, is offset by decreases arising from negative foreign-exchange variance of approximately US$ 56 million recorded for the Fund.

7 - Investment

Federal Government investments are grouped into three major categories totaling US$ 98.1 billion at 12/31/2019, as shown in the table below.

Table 52 – Investment

US$ million

	12/31/2019	12/31/2018	HA (%)
Permanent Holdings	97,725	91,762	6.50
Investment Property	350	366	(4.41)
Other Permanent Investments	0	1	(3.87)
Total	**98,076**	**92,129**	**6.46**

Source: SIAFI

(a) Permanent Holdings

Permanent holdings are investments in companies not subject to the Fiscal and Social Security Budgets (OFSS), public consortia and funds. The method of measurement of permanent holdings depends on the Federal Government's influence in the management of the relevant entity.

If the Federal Government's influence is significant, investments are measured by the equity method, i.e. the investment is initially measured at cost and the carrying amount is increased or reduced in surplus or deficit as the equity of the investee increases or decreases.

Conversely, where the Government's influence over these entities is not significant, the relevant interests are measured at acquisition cost (Cost Method), and impairment is periodically measured and recognized.

The table below provides a breakdown of Federal Government investments in "Permanent Holdings" by method of measurement.

Table 53 – Permanent Holdings

US$ million

	12/31/2019	12/31/2018	HA (%)
Equity Holdings	**79,653**	**78,434**	**1.55**
Equity Holdings – Equity Method	79,260	77,943	1.69
Equity Holdings – Cost Method	393	491	(19.98)
Fund Holdings	**11,192**	**9,303**	**20.30**
Fund Holdings – Equity Method	11,190	9,295	20.38
Fund Holdings – Cost Method	2	8	(74.36)
Interests in International Organizations	**4,304**	**3,051**	**41.08**
Advance for Future Capital Increase (AFCI)	**2,543**	**939**	**170.70**
Interests in Public Consortia	**33**	**34**	**(3.87)**
Total	**97,725**	**91,762**	**6.50**

Source: SIAFI

The balance of Advances for Future Capital Increase (AFCI) at 12/31/2019 was US$ 2.5 billion, a year-on-year increase of 170.70% primarily driven by a capital contribution of US$ 1.8 billion to Empresa Gerencial de Projetos Navais (EMGEPRON).

(a.1) Holdings Measured by the Equity Method

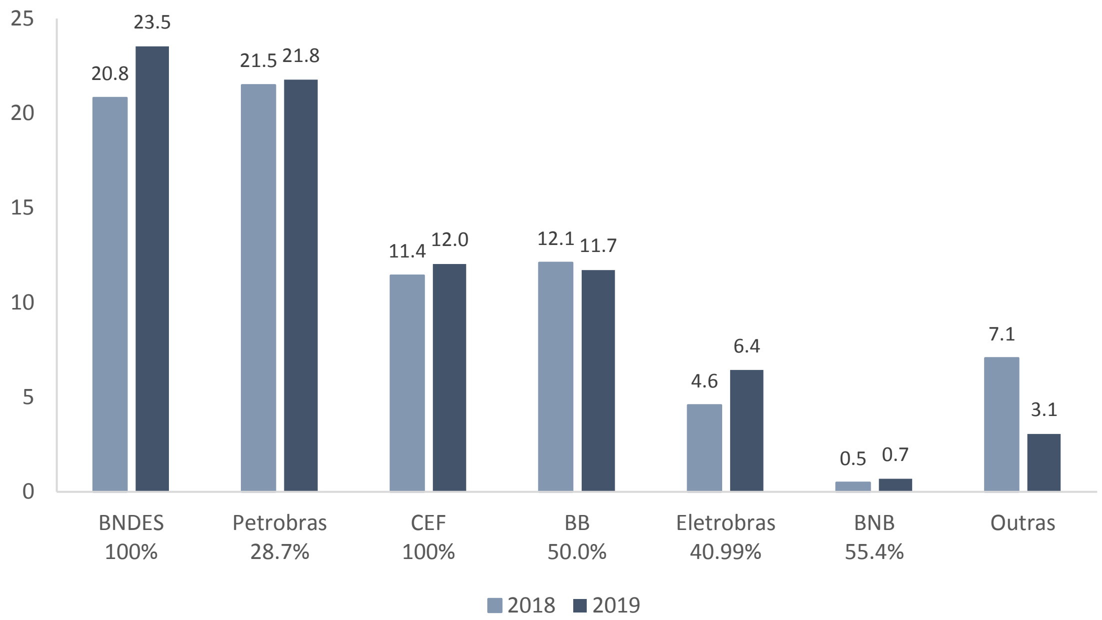
Equity income/loss is measured twice during the fiscal year: in April, based on investees' financial statements for the previous fiscal year; and in December, based on the financial statements at September of the current fiscal year.

Because investees' financial statements are published and approved subsequent to the end of the financial year in the Federal Integrated Financial Management System (SIAFI), equity income/loss cannot be fully recognized by the controlling entity (STN/ME) until the financial reporting date. Holdings measured by the equity method at 12/31/2019 are therefore largely based on the financial statements of investees at 9/30/2019.

The Federal Government's primary holdings in equity-accounted investees are shown in the following figure.

Figure 3 – Permanent Equity Holdings (Equity Accounted) – By Entity

US$ billion



NB: The percentages indicated on the horizontal axis represent the Federal Government's percent interest in the relevant companies.
Source: COPAR/STN/ME and SIAFI

The following table presents the Federal Government's holdings in equity accounted funds.

Table 54 – Fund Holdings – Equity Method

US$ million

	12/31/2019	12/31/2018	HA (%)
Residential Lease Fund (FAR)	7,714	7,430	3.82
Student Loan Guarantee Fund (FGEDUC)	1,428	876	62.98
Audiovisual Fund (FSA)	831	736	12.99
Social Housing Guarantee Fund	285	91	212.91
Other	932	163	472.22
Gross Total	**11,190**	**9,295**	**20.38**

Source: SIAFI

Fund holdings were recognized based on the position at 9/30/2019, with the Residential Lease Fund (FAR) reaching a balance of US$ 7.7 billion.

Residential Lease Fund

The Residential Lease Fund (FAR) was introduced under Act 10188/2011, which created a Residential Lease Program (PAR) and introduced a residential lease-option framework. To support the operation of the PAR program, Caixa Econômica Federal (CEF) was authorized to create the FAR as a private fund intended exclusively to segregate, asset- and accounting-wise, the Program's finance and real estate receivables.

The PAR was created to provide housing under lease-option agreements to low-income communities in major cities and metropolitan areas, and in other municipalities with an urban population exceeding 100,000 people. To support implementation of the PAR, the FAR was created with repayable funding from the Government Severance Indemnity Fund (FGTS) and nonrepayable funding from the FAS, FINSOCIAL, FDS and PROTECH funds.

Following the creation of the Minha Casa, Minha Vida (PMCMV) program in 2009 under Executive Order 459, which was subsequently converted into law by Act 11977/2009, no further loans were underwritten for projects linked to the PAR. Within PMCMV, the benefit begins when the relevant housing unit is mortgaged and installment payments begin.

Housing development projects within the PMCMV are approved by the Program manager – the Ministry of Regional Development (MDR).

The workflow from project selection to construction is as follows:

I. A real estate development company submits to a financial institution a proposal for a new development;
II. The financial institution receives the proposal and checks that it meets Program goals and guidelines;
III. The Fund's operational manager receives the proposal and checks that it meets applicable prerequisites;
IV. If prerequisites are met, the manager submits the project proposal to the MDR for selection;
V. The MRD receives the proposals and the Program funding limit, and then selects and announces the successful project proposals, which progress to construction without any further approval required from the FAR operator.

The PAR and PMCMV programs involve maintenance expenses which can be divided as:

I. Mandatory expenses, such as fees for financial agents executing the PAR/PMCMV programs, FAR operator fees, and FGTS loan repayments;
II. Overhead expenses: security, gated community fees, judicial costs, PMCMV.

Since article 2(II) of Act 11977/2009 was amended by Act 12693/2012, the Federal Government has funded the FAR by paying in units (capital increases), i.e. the Federal Government and the FAR are now in an investor-investee relationship. Previously, Federal Government funding for the PMCMV was contributed into the FAR in the form of government grants.

Currently, funding provided through the paying in of units is recognized in the Statement of Financial Position as a permanent investment and classified as equity-accounted funds. The Federal Government is the sole unit holder in the FAR. It is also important to note that the FAR is not included in the Fiscal and Social Security Budgets (OFSS).

The increase of 8.0% in 2019 is due to new contributions made and losses recognized by the equity accounting method (see the Note on "Related Parties").

Based on the FAR actuarial report issued December 31, 2018, the Fund has a future funding requirement of US$ 1.5 billion (15-year projection) for its current project pipeline. The actuarial appraisal consisted of measuring future revenue and future expense at present value based on different assumptions and criteria. Calculated cash flows account for the actuarial risks to which the Fund is exposed, as well as the credit risk of participants paying installments to the FAR.

In projecting the future cash flows of the FAR, only inflows in the form of own revenues—i.e. payment of principal and interest by FAR borrowers—were taken into account. Expense projections include construction expense, FGTS loans, financial agent fees, property maintenance expenses, administrative expenses and losses in judicial proceedings.

Portfolio project disbursements are disbursements that the Fund is required to make to the real estate development companies executing portfolio projects. These disbursements follow a schedule established in the contract between the FAR and real estate developers, and are contingent on the developer's project schedule performance and tax compliance.

The future funding requirement of US$ 1.5 billion means that the FAR is dependent on future Federal Government contributions via the paying in of Fund units. This makes cash flow monitoring important in mitigating liquidity risks in the long term.

(a.2) Holdings Measured at Cost

Federal Government holdings measured at cost are presented in the following table.

Table 55 – Holdings – Cost Method

US$ million

	12/31/2019	12/31/2018	HA (%)
Interests in International Organizations	4,304	3,051	41.08
Equity Holdings	399	492	(18.86)
Fund Holdings	2	8	(74.36)
Total	**4,705**	**3,550**	**32.53**

Source: SIAFI

The Federal Government's interests in international organizations are detailed in the following table.

Table 56 – Permanent Interests in International Organizations

US$ million

	12/31/2019	12/31/2018	HA (%)
New Development Bank (NDB)	2,251	937	140.28
International Development Association (IDA)	481	501	(3.87)
Inter-American Development Bank (IDB)	352	366	(3.87)
Corporação Andina de Fomento (CAF)	313	326	(3.87)
Other	907	921	(1.58)
Total	**4,304**	**3,051**	**41.08**

Source: SIAFI

New Development Bank (NDB) accounts for 52.3% of the total of US$ 4.3 billion in Federal Government interests in international organizations. The increase of US$ 1.3 billion (140.28%) in fiscal year 2019 over the previous year is primarily due to amounts recorded in December in conformity to Panel Decision 1.331/2019-TCU-Plenário, under which the paid-in capital in these entities which has not yet been delivered is required to be recognized as a liability of the Federal Government concurrently with the recognition of the relevant interest.

Throughout fiscal year 2019, an assessment was made of all subscription instruments or commitments made to international organizations to determine whether they had the nature of a liability, in order to measure and recognize them accordingly as liabilities. For example, liabilities of US$ 1.0 billion needed to be recognized for payments soon to fall due in respect of Brazil's interest in NBD, which also affected the equity accounts.

(b) Investment Property

Investment properties include properties held for rental income and/or capital gain which are not used in operations and which are not sold in the short term. The General Pension System Fund (FRGPS) accounts for 99.87% of investment property (US$ 347 million).

8 - Property, Plant and Equipment

The Federal Government's property, plant and equipment is segregated into two groups: (i) movable assets; and (ii) real property assets. A breakdown of PP&E is provided in the table below.

Table 57 – Property, Plant and Equipment

US$ million

	12/31/2019	12/31/2018	HA (%)
Movable Assets (VI = I - II - III)	**25,469**	**25,998**	**(2.04)**
Gross Carrying Amount (I)	31,335	31,287	0.15
Cumulative Depreciation/Amortization/Depletion (II)	5,807	5,223	11.17
Impairment (III)	59	65	(8.85)
Real Property Assets (VII = IV - V - VI)	**324,004**	**300,894**	**7.68**
Gross Carrying Amount (IV)	326,504	302,543	7.92
Cumulative Depreciation/Amortization/Depletion (V)	2,200	1,649	33.45
Impairment (VI)	299	0	-
Net Total (VIII = VI + VII)	**349,473**	**326,893**	**6.91**

Source: SIAFI

(a) Movable Assets

The net carrying value of movable assets at 12/31/2019 was US$ 25.5 billion, as detailed in the table below.

Table 58 – Movable Assets

US$ million

	12/31/2019	12/31/2018	HA (%)
Movable Assets in Progress	8,836	9,167	(3.60)
Vehicles	6,221	7,081	(12.14)
Machinery, Apparatus, Equipment and Tools	5,905	5,865	0.68
Information Technology Assets	3,605	3,547	1.66
Furniture and Fixtures	1,969	1,963	0.28
Movable Assets in Stock	2,009	1,233	62.86
Cultural, Educational and Communications Materials	765	733	4.36
Weapons	337	339	(0.65)
Other	1,688	1,359	24.20
Gross Total (I)	**31,335**	**31,287**	**0.15**
Cumulative Depreciation/Amortization/Depletion (II)	5,807	5,223	11.17
Impairment (III)	59	65	(8.85)
Net Total (IV = I - II - III)	**25,469**	**25,998**	**(2.04)**

Source: SIAFI

Movable assets in progress represent approximately 28% of the gross carrying value of the Federal Government's movable assets. These accounts include all expenditure on materials, direct and indirect labor and other expenditure incurred in the production or acquisition of assets that have not yet been placed into service. Of the total of US$ 8.8 billion in movable assets in progress, US$ 8.5 billion (96.11%) pertains to the Ministry of Defense. These assets primarily relate to Navy Command programs to purchase machinery and motors for ships and submarines within its Nuclear Submarine Program.

The Ministry of Defense also accounts for the bulk of "Vehicles" (US$ 4.6 billion or 73.89% of the total of US$ 6.2 billion), "Machinery, Apparatus, Equipment and Tools" (US$ 2.0 billion or 34.50% of the total of US$ 5.9 billion) and "Movable Assets in Stock" (US$ 1.9 billion or 94.40% of the total of US$ 2.0 billion).

The 69.38% increase in “Movable Assets in Stock” over the previous fiscal year was primarily due to the reclassification of US$ 769 million in vehicles (aircraft) to “Movable Assets under Repair”, which partly explains the 12.14% decrease in “Vehicles” shown in the table above.

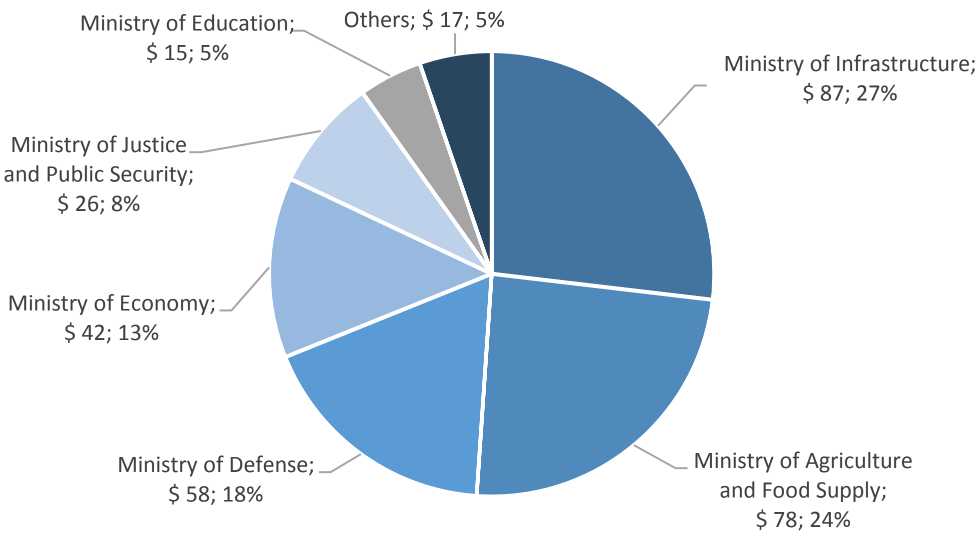
Information technology assets are largely concentrated in the Ministry of Education (US$ 968 million or 26.96% of the total of US$ 3.6 billion), as well as furniture and fixtures (US$ 719 million or 37.09% of the total of US$ 2.0 billion).

(b) Real Property Assets

The net carrying value of real property assets at 12/31/2019 was US$ 324 billion, with 90% of this amount concentrated in the following ministries as shown in the figure below: Ministry of Infrastructure; Ministry of Agriculture and Food Supply; Ministry of Defense; Ministry of Economy; and Ministry of Justice and Public Security.

Figure 4 – Real Property Assets – By High-Level Entity

US$ billion



Source: SIAFI

A breakdown of these real property assets is given in the following table.

Table 59 – Real Property Assets

US$ million

	12/31/2019	12/31/2018	HA (%)
Special-Purpose Assets	173,600	170,848	1.61
Common-Use Assets	81,846	56,531	44.78
Discretionary Property	53,513	57,488	(6.91)
Real Property Assets in Progress	12,696	13,687	(7.24)
Concession Assets	2,924	0	-
Facilities	1,192	3,015	(60.47)
Other	732	973	(24.73)
Gross Total (I)	**326,504**	**302,543**	**7.92**
Cumulative Depreciation/Amortization (II)	2,200	1,649	33.45
Impairment (III)	299	0	-
Net Total (IV = I - II - III)	**324,004**	**300,894**	**7.68**

Source: SIAFI

The balance of US$ 299 million under “Impairment” at 12/31/2019 was fully recognized by Companhia Brasileira de Trens Urbanos (CBTU), a company linked to the Ministry of Regional Development. CBTU decreased the “Real Property Assets in Progress” under its management by 83.52% due to the impairment of projects in the states of Rio de Janeiro and São Paulo.

(b.1) Special-Purpose Assets

Special-purpose assets represent approximately 53.17% of the gross carrying value of real property assets. A breakdown of special-purpose assets is provided in the following table.

Table 60 – Special-Purpose Assets

US$ million

	12/31/2019	12/31/2018	HA (%)
Farms, Parks and Reserves	62,196	60,224	3.27
Plots and Tracts of Land	33,893	39,459	(14.10)
Military Facilities	29,829	28,247	5.60
Properties for Educational Use	9,774	9,511	2.77
Buildings	7,438	7,084	4.99
Compounds, Factories and Plants	8,806	6,411	37.34
Airports, Stations and Aerodromes	6,182	5,489	12.62
Residential and Commercial Properties	5,731	5,644	1.55
Other	9,752	8,779	11.08
Gross Total (I)	**173,600**	**170,848**	**1.61**
Cumulative Depreciation/Amortization (II)	1,519	1,003	51.50
Net Total (III = I - II)	**172,081**	**169,845**	**1.32**

Source: SIAFI

The most significant item is “Farms, Parks and Reserves”, with a balance of US$ 62.2 billion. The Ministry of Justice and Public Security holds the largest share (US$ 25.0 billion) of these properties, which nearly entirely consist of land managed by the National Foundation for Indigenous Peoples (FUNAI).

The second largest balance under “Farms, Parks and Reserves” pertains to the Ministry of Agriculture and Food Supply— US$ 22.8 billion—primarily as a result of the migration of the

National Institute for Colonization and Agrarian Reform (INCRA) from the Presidential Cabinet to this Ministry. The farms, parks and reserves managed by INCRA are, more specifically, discretionary properties for agrarian reform and are misclassified as special-purpose assets. The same applies to INCRA's share of "lots and tracts of land" (US$ 17.0 billion). The reason is that the Federal Special-Purpose Property Management System (SPIUnet) is required to be used by INCRA for managing real property assets, pursuant to Joint STN/SPU Directive 3/2014. SPIUnet handles asset management and accounting records in the SIAFI system, but only manages accounts related to special-purpose real property assets.

The second most significant item in the table above is "Plots and Tracts of Land", with a balance of US$ 33.9 billion, of which US$ 17.0 billion belongs to INCRA. Of the remaining balance, US$ 8.1 billion pertains to the Ministry of Economy (which absorbed the former Ministry of Planning, Development and Management, including the Office for Government Assets (SPU)) and US$ 6.5 billion pertains to the Ministry of Defense.

The decrease of 14.10% in lots and tracts of land was primarily due to reclassifications in the Ministry of Defense, which also contributed to the increase of 9.85% in "Military Facilities" and 42.87% in "Compounds, Factories and Plants".

Although the net change was negative, it is important to note that US$ 1.0 billion was recorded for INCRA relative to certified land that was not included with the discretionary property bulk-recorded in 2017. In other words, this land had been recorded neither in the SPIUnet system nor in the SIAFI system.

Following analysis and reviews, 155 tracts of land were recorded, amounting to a total of US$ 1.0 billion which, due to being recorded in the SPIUnet system, were entered directly in the special-use real property assets accounts.

The table below provides a breakdown by regional office, giving a notion of the geographic distribution of recorded properties.

Table 61 – Tracts of Land Recorded in the SPIUnet System in 2019

SR Name	Records	US$
SR 01 – Pará	9	38,909,180.24
SR 09 – Paraná	3	5,526,095.11
SR 12 – Maranhão	19	141,828,473.73
SR 13 – Mato Grosso	90	598,963,000.50
SR 14 – Acre	11	5,498,628.68
SR 15 – Amazonas	6	19,851,496.92
SR 16 – Mato Grosso do Sul	3	6,183,241.64
SR 17 – Rondônia	7	98,291,516.24
SR 21 – Amapá	1	3,631,696.91
SR 26 – Tocantins	5	123,819,967.23
SR 30 – Santarém	1	597,687.93
Total	**155**	**1,043,100,985.13**

Source: INCRA/MAPA

(b.2) Common-Use Assets

Common-use assets consist primarily of roads and railroads recorded by the National Department of Transportation Infrastructure (DNIT). This item increased by US$ 25.3 billion compared to the previous fiscal year, as shown in the table below.

Table 62 – Common-Use Assets

US$ million

	12/31/2019	12/31/2018	HA (%)
Highways and Roads	69,828	56,530	23.52
Railroads	12,018	1	1,552,178.26
Power Transmission Substations	0	0	(3.87)
Total	**81,846**	**56,531**	**44.78**

Source: SIAFI

“Federal highways” refer to paved rural roads, while “roads" mean unpaved rural roads, as defined in Appendix I to the Brazilian Highway Code (Act 9503/1997). Road infrastructure assets comprise the entire federal road network, including all government-managed highways and roads and toll roads, which are regulated by Act 8987/1995 and Act 9277/1996.

The balance of “Highways and Roads” increased by US$ 23.3 billion in 2019, primarily as a result of the DNIT:

I. revising the adjustment index for roadworks, which added US$ 3.8 billion to the balance (see the Note on “Prior Year Adjustments”);
II. including direct costs in the carrying value of federal roads (including the costs of road construction projects, technical, economic and environmental feasibility assessments (EVTEA), environmental impact assessments, environmental offsets and project oversight in Average Cost of Ownership (CMG)) pursuant to Panel Decision 1331/2019-TCU-Plenário, which increased the balance by US$ 7.8 billion.

It is DNIT policy to recognize the cost of building a new road, and then take account of the conditions of certain road sections during the reporting year which required additional expenditure to bring them into optimal operating condition. This is referred to as the Average Cost of Ownership (ACO) method.

For unpaved roads, the cost of road maintenance work, such as earthworks, is used.

In 2019, the rail infrastructure of the now-defunct Rede Ferroviária Federal S/A (RFFSA), valued at US$ 12.0 billion, was incorporated. The depreciated replacement cost approach is used for railroads due to their specific nature. A railroad’s book value is estimated using the Average Cost of Ownership table for rail works prepared by DNIT. An annual depreciation rate of 2.85% was used, corresponding to a useful life of 35 years, in accordance with Resolution 4,540 (December 19, 2014) of the National Land Transportation Agency (ANTT). Given that these assets are more than 35 years old, the amount recorded was equal to the residual value of 20%. The incorporated infrastructure assets were charged to prior year adjustments under Net Assets/Equity (see “Prior Year Adjustments”).

(b.3) Discretionary Property

The Federal Government’s stock of discretionary property is highly significant, consisting primarily of tracts of land, as shown in the table below.

Table 63 – Discretionary Property

US$ million

	12/31/2019	12/31/2018	HA (%)
Tracts of land	35,025	36,434	(3.87)
Discretionary Assets Registered in the SIAPA System	16,549	17,814	(7.10)
Property for Agrarian Reform	1,910	3,210	(40.50)
Other	30	30	(0.52)
Total	**53,513**	**57,488**	**(6.91)**

Source: SIAFI

(b.3.1) Tracts of Land

In this report, the term "tract of land" refers to rural or urban land which has not been parceled out or subdivided.

Up to fiscal year 2018, this land was managed by the Special Office for Land Affairs (SEAF) of the Ministry of Agriculture and Food Supply. With the passage of Act 13844/2019, amending article 33 of Act 11952/2009, these duties were transferred to INCRA, which is now responsible for the allocation and titling of public federal land in the Brazilian Amazon that is not otherwise allocated, i.e. land that is not designated as indigenous reserves, public forests, protected areas, land owned by the Brazilian Navy or other land reserved for military purposes.

The recognition of and accounting for tracts of land comprises three steps:

I. Bulk cataloging;
II. Detailed accounting; and
III. Recognition of titles according to the reference tract of land.

In the bulk cataloging step, in 2017, the now-defunct SERFAL/SEAD conducted an inventory of public federal land eligible for immediate recognition as Federal Government assets. The value of each tract of land was derived from INCRA's Reference Price List and is the product of the average Bare Land Value (aBLV) multiplied by the number of hectares of federal public land not allocated in the Brazilian Amazon, in each municipality.

In 2019, now under the management of INCRA, these tracts of land were assessed for subsequent cataloging in the SPIUnet system. This assessment involved estimation of the area of each certified tract of land, by municipality, calculation of Bare Land Value (BLV), reconciliation to check whether any tracts of land have been previously allocated for any use, and checks for redundant records.

Because this land has already been cataloged in the SIAFI system, although overall land value is only an estimate and the land is pending registration in the SPIUnet system, priority was given to cataloging and recording land that was not included in the bulk cataloging exercise in 2017, i.e. land that has been recorded neither in the SPIUnet system nor in the SIAFI system, as mentioned in section "b1" of this Note, on special-use real property assets

(b.3.2) Property for Agrarian Reform

Properties for agrarian reform registered at INCRA are generally managed via SPIUnet, a system for managing the Federal Government's special-purpose assets. INCRA is required to use the SPIUnet system under Joint STN/SPU Directive 3/2014. However, property for agrarian reform that has not yet been recorded in the SPIUnet system is classified as discretionary property, representing amounts pending processing.

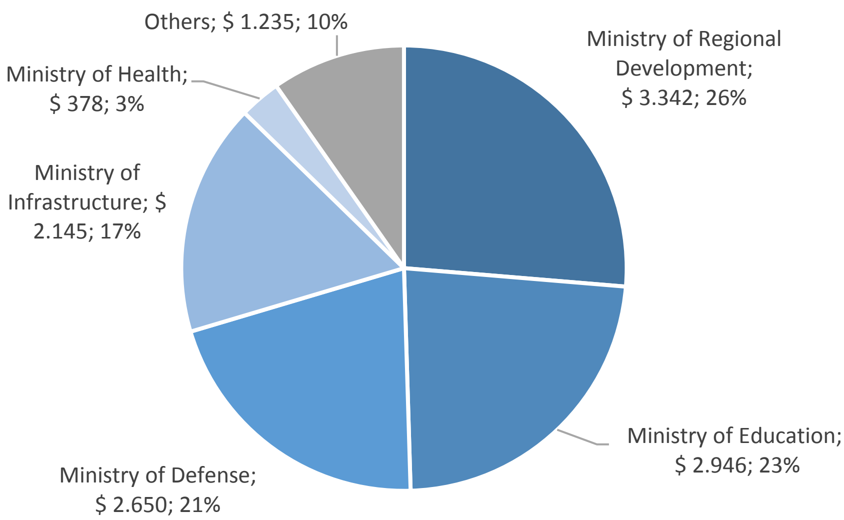
In 2018 INCRA recorded approximately US$ 27.8 billion in property not yet recorded in the SPIUnet system, in a dedicated account for unrecorded real property assets for agrarian reform. Throughout 2018 and 2019, these properties were gradually recorded in the SPIUnet system for compliance with Joint STN/SPU Directive 3/2014. At 12/31/2019 INCRA had a residual balance of US$ 1.9 billion in unrecorded properties for agrarian reform (6.77% of total properties for agrarian reform as of May 2018).

(b.4) Real Property Assets in Progress

Real property assets in progress (US$ 12.7 billion) consist of real property assets which have not yet been completed, such as works in progress (US$ 11.8 billion) and studies and engineering (US$ 744 million), among other items. Most of these properties are held by the Ministry of Regional Development, the Ministry of Education, the Ministry of Defense, the Ministry of Infrastructure and the Ministry of Health, as shown in the figure below.

Figure 5 – Real Property Assets in Progress – By High-Level Entity

US$ million



Source: SIAFI

(b.5) Concession Assets

In 2019, US$ 2.9 billion was recorded as “Concession Assets” referring to VALEC Engenharia, Construções e Ferrovias S/A. This is a sub-concession of Ferrovia Norte-Sul (North-South Railway) primarily consisting of the following sections: Ouro Verde/GO to Estrela D’Oeste/SP (US$ 1.1 billion); Açailândia/MA to Palmas/TO (US$ 645 million); and Porto Nacional/TO to Anápolis/GO (US$ 1.1 billion).

Most concession assets are derived from “Facilities” (US$ 1.8 billion), with this primarily explaining the reduction of 59% in this item at 12/31/2019.

Cumulative Depreciation, Amortization and Depletion

As the central body in the Federal Accounting System, the STN/ME has developed two procedures with the aim of ensuring that Federal Government assets are reported in a way that reflects their position as accurately as possible, namely:

- High-level function 02.03.30: on recognizing depreciation, amortization and depletion;
- High-level function 02.03.35: on recognition of revaluations and impairment.

A calendar has been established for the phased adoption of the procedure on depreciation, amortization and depletion depending on the nature of the assets. Adoption has progressed as controls for the relevant assets have been refined and depending on the availability of human resources at each agency.

In relation to real property assets, the method used in calculating depreciation via the SPIUnet system is the Kuentzle Method, as described in the Note “Summary of Significant Accounting Policies”, under “Depreciation of Real Property Assets Registered in the SPIUnet System”.

It is important to note, however, that depreciation is not automatically recognized for government-owned entities or mixed-ownership entities, which are subject to the framework established in Act 6404/1976 and other applicable laws and regulations.

Attention is again drawn to a new system being developed at SPU/ME for use in managing real property assets under its oversight. The current system, SPIUnet, has no modules providing historical information on:

I. Depreciation;
II. Amortization;
III. Revaluation; and
IV. Impairment.

The SPIUnet system uses a stock-based logic, which can result in accounting differences, especially in relation to depreciation, as any changes in the parameters using the calculation result in new measurement values according to the methodology being used.

9 - Loans and Financing

Federal Government loans and financing expanded by US$ 58.0 billion in 2019 compared with 2018, an increase of 3.94%.

In terms of debt maturities at 12/31/2019, 82.19% of loans and financing were long term, compared to 85.82% in 2018, as shown in the table below.

Table 64 – Short- and Long-Term Loans and Financing

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Short-Term Loans and Financing	272,533	208,655	30.61	17.81
Long-Term Loans and Financing	1,257,377	1,263,238	(0.46)	82.19
Total	**1,529,909**	**1,471,893**	**3.94**	**100.00**

Source: SIAFI

The Federal Government's loans and financing virtually entirely (99.99%) consist of Federal Public Debt[1] (DPF).

Federal public debt is classified on the basis of two criteria:

a) In terms of the instruments used in raising funds, either:
   - Securities debt (where funds are raised by issuing public securities); or
   - Contractual debt (where funds are raised through loan contracts).
b) In terms of currency, either:
   - Domestic debt (when transactions are made in Brazilian currency (the Brazilian Real)); or
   - Foreign debt (where transactions are denominated in foreign currency).

At 12/31/2019, Domestic Federal Public Securities Debt (DPMFi) was 97.27% of total Federal Government loans and financing, with External Federal Public Debt (DPFe) representing 2.72%, as shown in the table below.

[1] Federal Public Debt (DPF) is the sum of Domestic Federal Public Securities Debt (DPMFi) and External Federal Public Debt (DPFe), with the latter further subdivided into securities and contractual debt.

Table 65 – Short- and Long-Term Loans and Financing – Breakdown

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Federal Public Securities Debt – DPMFi (I)	**1,488,077**	**1,432,891**	**3.85**	**97.27**
Publicly held	1,016,491	966,576	5.16	66.44
In BCB portfolio	471,586	466,315	1.13	30.82
External Federal Public Debt – DPFe (II)	**41,669**	**38,462**	**8.34**	**2.72**
In securities	37,483	34,656	8.16	2.45
In contracts	4,186	3,806	9.99	0.27
Federal Public Debt – DPF (III = I + II)	**1,529,746**	**1,471,353**	**3.97**	**99.99**
Domestic loans/financing – In contracts	**164**	**540**	**(69.65)**	**0.01**
Total	**1,529,909**	**1,471,893**	**3.94**	**100.00**

Source: SIAFI

The following tables provide details on Federal Government loans and financing broken down by short and long term.

Table 66 – Short-Term Loans and Financing – Breakdown

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Federal Public Securities Debt – DPMFi (I)	**271,087**	**206,645**	**31.19**	**99.47**
Publicly held	179,235	145,707	23.01	65.77
In BCB portfolio	91,852	60,938	50.73	33.70
External Federal Public Debt – DPFe (II)	**1,414**	**2,007**	**(29.55)**	**0.52**
In securities	887	1,456	(39.08)	0.33
In contracts	527	551	(4.41)	0.19
Federal Public Debt – DPF (III = I + II)	**272,501**	**208,652**	**30.60**	**99.99**
Domestic loans/financing – In contracts	**32**	**3**	**925.41**	**0.01**
Total	**272,533**	**208,655**	**30.61**	**100.00**

Source: SIAFI

Table 67 – Long-Term Loans and Financing – Breakdown

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Federal Public Securities Debt – DPMFi (I)	**1,216,990**	**1,226,246**	**(0.75)**	**96.79**
Publicly held	837,256	820,869	2.00	66.59
In BCB portfolio	379,734	405,377	(6.33)	30.20
External Federal Public Debt – DPFe (II)	**40,255**	**36,455**	**10.42**	**3.20**
In securities	36,596	33,200	10.23	2.91
In contracts	3,659	3,255	12.43	0.29
Federal Public Debt – DPF (III = I + II)	**1,257,245**	**1,262,701**	**(0.43)**	**99.99**
Domestic loans/financing – In contracts	**132**	**537**	**(75.39)**	**0.01**
Total	**1,257,377**	**1,263,238**	**(0.46)**	**100.00**

Source: SIAFI

(a) Federal Securities Debt

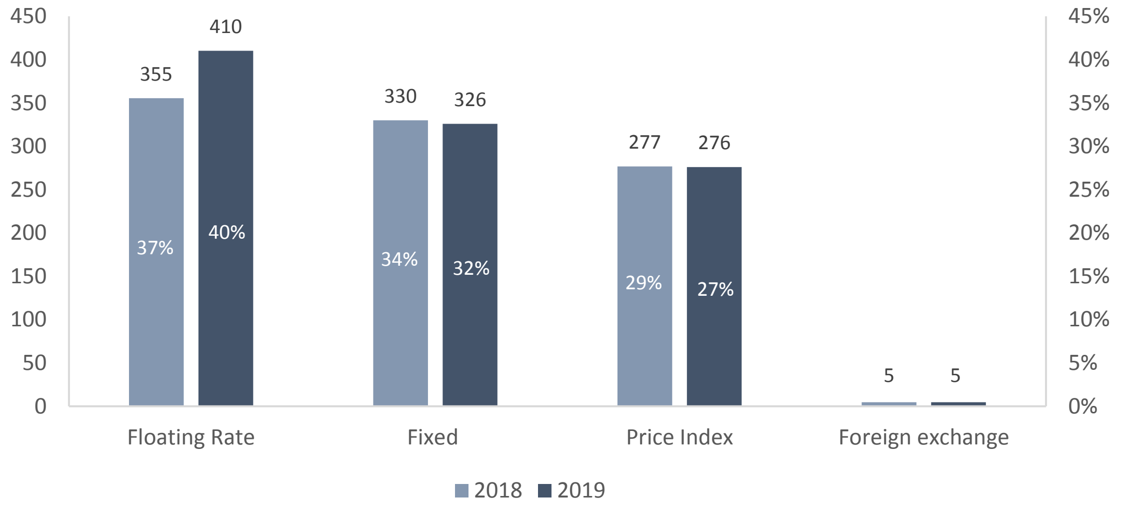
Federal government securities are fixed-rate financial instruments issued by the Federal Government to raise funding from the public primarily for the purpose of financing its public debt. Securities in the BCB portfolio are held for the purpose of conducting monetary policy.

The stock of Federal Securities Debt—the sum of Domestic Securities Debt (short and long term) and Foreign Securities Debt (short and long term)—was US$ 1.526 trillion at 12/31/2019, representing 99.72% of total Federal Government loans and financing. Federal Securities Debt increased nominally by 8.14% from US$ 1.411 trillion in the previous fiscal year.

The following figure provides a breakdown of publicly held Domestic Federal Public Securities Debt by rate or index[2].

Figure 6 – Short- and Long-Term Publicly Held Domestic Federal Public Securities Debt – By Rate or Index

US$ billion



Source: SIAFI

The following tables provide a breakdown of publicly held domestic (segregated into short and long term) and foreign securities debt, by rate or index.

[2] In the figure the balances of US$ 53 million and US$ 205 million in inter-budgetary transactions at respectively 12/31/2018 and 12/31/2019 were not offset. These securities are largely related to the FIES/FNDE program.

Table 68 – Short-Term Publicly Held Domestic Federal Public Securities Debt – By Rate or Index

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Fixed	**114,178**	**100,725**	**13.36**	**63.70**
Floating Rate	**43,026**	**17,322**	**148.38**	**24.01**
SELIC	42,841	17,097	150.57	23.90
Reference Rate (TR)	184	225	(18.29)	0.10
Price Index	**21,577**	**27,110**	**(20.41)**	**12.04**
IPCA	19,171	24,524	(21.83)	10.70
IGP-M	2,227	2,398	(7.12)	1.24
IGP-DI	179	189	(5.31)	0.10
Foreign exchange	**455**	**548**	**(17.08)**	**0.25**
US dollar	455	548	(17.08)	0.25
Total	**179,235**	**145,707**	**23.01**	**100.00**

Source: SIAFI

Table 69 – Long-Term Publicly Held Domestic Federal Public Securities Debt – By Rate or Index

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Fixed	**211,575**	**229,171**	**(7.68)**	**25.26**
Floating Rate	**367,270**	**338,019**	**8.65**	**43.86**
SELIC	366,242	336,571	8.82	43.73
Reference Rate (TR)	1,028	1,448	(29.02)	0.12
Price Index	**254,521**	**249,606**	**1.97**	**30.39**
IPCA	231,405	226,017	2.38	27.63
IGP-M	22,989	23,455	(1.99)	2.75
IGP-DI	127	134	(5.35)	0.02
Foreign exchange	**4,094**	**4,128**	**(0.83)**	**0.49**
US dollar	4,094	4,128	(0.83)	0.49
Total w/o Consolidation (I)	**837,460**	**820,924**	**2.01**	**100.00**
Offset Balance of Intra-Budgetary Transactions (II)	205	55	270.60	
Total w/ Consolidation (III = I - II)	**837,256**	**820,869**	**2.00**	

Source: SIAFI

Table 70 – Short- and Long-Term External Federal Public Securities Debt – By Rate or Index

US$ thousands

	12/31/2019	12/31/2018	HA (%)	VA (%)
US dollar	33,697,325	30,742,118	9.61	89.90
Real	2,637,138	2,743,242	(3.87)	7.04
Euro	1,148,192	1,170,324	(1.89)	3.06
Other	0	118	(100.00)	-
Total	**37,482,655**	**34,655,803**	**8.16**	**100.00**

Source: SIAFI

(b) Difference between DPF balances using the appropriation and internal rate of return methods of accounting

An Integrated Debt System (SID) is used for managerial control of Federal Public Debt (DPF). Among other functions, this system is used to generate stock figures to be recorded in the SIAFI system.

The stock of DPF shown in the financial statements is calculated using the appropriation method of accounting. In this method, balances of collected (or simply recognized) amounts are stated with appropriated interest and negative goodwill recorded in the SIAFI system.

The stock of DPF shown in the Central Government Primary Balance (RTN), Monthly Debt Reports (RMD), the Annual Debt Report (RAD) and the Annual Borrowing Plan (PAF) is determined using the average internal rate of return for the relevant issuances as a discount rate in determining the present value of the relevant securities (the stock by the IRR method). This method, which meets the needs of economic agents, is also used for calculating the debt disclosures contained in those reports. Both methodologies converge and yield identical amounts on payment/maturity of the securities.

STN Directive 214 (March 12, 2018) introduced a “Stock of Federal Public Debt” Working Group for, among other purposes, analyzing DPF stock information to harmonize and standardize the methodologies in place, taking account of budgetary, financial, asset-related, legal, fiscal and operational impacts. In December 2018 the WG prepared a report in which, following analysis, the option was made to use the IRR method only in accounting for the stock of Federal Public Debt.

The table below shows the stocks of DPF with each method, and the difference between them.

Table 71 – DPF Stock Accounting Differences

US$ million

	Stock by Appropriation (I)	Stock by IRR (II)	Difference (I-II)
Domestic Federal Public Securities Debt – DPMFi (I)	**1,488,281**	**1,481,611**	**6,670**
Publicly held	1,016,696	1,013,032	3,664
In BCB portfolio	471,586	468,579	3,007
External Federal Public Debt – DPFe (II)	**41,669**	**41,105**	**564**
In securities	37,483	37,306	176
In contracts	4,186	3,798	388
DPF w/o consolidation (III = I + II)*	**1,529,950**	**1,522,716**	**7,234**

*NB: *In this table comparisons are made of totals; for this reason, the effects of the consolidation of inter-budgetary account balances are not included.*

Source: SIAFI and CODIV/STN/ME

To address these differences, the SID system is currently being adjusted primarily for the purpose of implementing IRR as the common method for calculating DPF, including in the SIAFI system.

For further information on DPF issuances, redemptions, stocks, maturity profiles and average cost, for both the domestic and external publicly held debt of the National Treasury, see the Monthly Debt Report (RMD) athttp://www.tesouro.fazenda.gov.br/relatorio-mensal-da-divida.

10 - Provisions

Provisions are segregated into two groups: (i) short-term; and (ii) long-term. The following table shows a breakdown of provisions at 12/31/2019 and 12/31/2018.

Table 72 – Provisions

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Short-Term Provisions	17,165	14,729	16.54	3.27
Long-Term Provisions	507,257	420,617	20.60	96.73
Total	**524,423**	**435,347**	**20.46**	**100.00**

Source: SIAFI

The following tables provide a breakdown of short and long-term provisions.

Table 73 – Short- and Long-Term Provisions

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Mathematical Provisions for Federal Government Pensions	281,828	315,015	(10.54)	53.74
Judicial and Administrative Losses	169,011	43,842	285.50	32.23
Vested Military Pensions	34,713	32,436	7.02	6.62
Arising from Government Activities	21,918	25,909	(15.40)	4.18
Tax Sharing	6,056	5,673	6.75	1.15
Minor Award (RPV)	4,409	3,337	32.13	0.84
Wage Variance Offsetting Fund	2,348	6,543	(64.11)	0.46
FUNDEB and PNLD	1,520	0	-	0.29
Other	2,618	2,592	1.03	0.50
Total	**524,423**	**435,347**	**20.46**	**100.00**

Source: SIAFI

Table 74 – Short-Term Provisions

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Arising from Government Activities	8,598	8,895	(3.35)	50.09
Minor Award (RPV)	4,409	3,337	32.13	25.69
FUNDEB and PNLD	1,520	0	-	8.86
Tax Sharing	1,422	1,333	6.66	8.28
Other	1,217	1,164	4.51	7.09
Total	**17,165**	**14,729**	**16.54**	**100.00**

Source: SIAFI

Table 75 – Long-Term Provisions

US$

	12/31/2019	12/31/2018	HA (%)	VA (%)
Mathematical Provisions for Federal Government Pensions	281,828	315,015	(10.54)	55.56
Judicial and Administrative Losses	169,011	43,842	285.50	33.32
Vested Military Pensions	34,713	32,436	7.02	6.84
Arising from Government Activities	13,321	17,014	(21.71)	2.63
Tax Sharing	4,634	4,340	6.79	0.91
Wage Variance Offsetting Fund	2,348	6,543	(64.11)	0.46
Other	1,401	1,427	(1.80)	0.28
Total	**507,257**	**420,617**	**20.60**	**100.00**

Source: SIAFI

(a) Mathematical Provisions for Pensions

Mathematical provisions for pensions are the sum of RPPS provisions for vested and unvested benefits, corresponding to each plan's net benefit obligations, projected over a horizon of 150 years. These are segregated into two groups as shown in the table below: (i) RPPS – Civil Servants; and (ii) RPPS – Federal District Constitutional Fund (FCDF).

Table 76 – Mathematical Provisions for Pensions

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
RPPS – Civil Servants	263,886	315,015	(16.23)	93.63
RPPS – FCDF	17,943	0	-	6.37
Total	**281,828**	**315,015**	**(10.54)**	**100.00**

Source: SIAFI

These provisions are fully accounted for as long term. Total "Mathematical Provisions for Pensions" in fiscal year 2019 decreased by US$ 33.2 billion (10.54%) compared with the previous fiscal year.

(a.1) Mathematical Provisions for Federal Government Pensions – RPPS – Civil Servants

The following table presents mathematical provisions for the RPPS for Government civil servants.

Table 77 – Mathematical Provisions for Federal Government Pensions – RPPS – Civil Servants

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Vested Retirement, Pension and Other Benefits	**174,194**	**169,597**	**2.71**	**66.01**
Vested RPPS Retirement, Pension and Other Benefits	188,841	179,765	5.05	71.56
(-) RPPS Plan Contributions from Inactive Public Servants	(11,814)	(8,068)	(46.43)	(4.48)
(-) RPPS Plan Contributions from Pensioners	(2,834)	(2,100)	(34.91)	(1.07)
Unvested Retirement, Pension and Other Benefits	**89,692**	**145,419**	**(38.32)**	**33.99**
Unvested RPPS Retirement, Pension and Other Benefits	178,551	216,692	(17.60)	67.66
(-) Employer RPPS Plan Contributions	(51,683)	(40,777)	(26.75)	(19.59)
(-) RPPS Plan Contributions from Active Public Servants	(25,841)	(20,388)	(26.75)	(9.79)
(-) Contributions from Inactive Public Servants and Pensioners to Unvested RPPS Plan Benefits	(11,335)	(10,108)	(12.14)	(4.30)
Total	**263,886**	**315,015**	**(16.23)**	**100.00**

Source: SIAFI

The amounts recorded were informed by an actuarial assessment of the Federal Government Civil Servants' Pension System (RPPS) prepared by the Office of the Secretary for Pensions of the Ministry of Economy (SPREV/ME) on December 27, 2019. The focus date of the assessment was set at December 31, 2019.

The actuarial calculation was based on the following biometric, financial and economic assumptions, pursuant to Ministry of Finance Directive 464/2018, and was designed to reflect the characteristics of RPPS insureds and their dependents in order to ensure future plan obligations are accurately estimated:

I. Survival of able and disabled individuals:
   a) For active public servants, the life tables for Federal Government public servants, by gender and professional skill level, were used;
   b) For retirees, the life tables for Federal Government public servants, by gender, and assuming trade-level skills, were used; and
   c) For pensioners, the extrapolated General IBGE Life Table (2018), by gender, was used.

II. Disability: Álvaro Vindas, as a disablement rate threshold, by age of the insured;

III. Salary growth: 1% per year, over the period of contribution from the date of the assessment to the likely retirement date for able-bodied persons, calculated by applying an exponential function;

IV. Real benefit growth: not used;

V. Future inflation rate: not used in calculating present actuarial values and therefore in preparing the actuarial balance sheet as one of the assumptions of the actuarial assessment is that all financial variables will be influenced by inflation within the same dimension and period;

VI. Public servant replacement: the public servant replacement assumption was not used, i.e. retired or deceased public servants were not assumed to be replaced by other public servants, as per article 24(3) of Ministry of Finance Directive 464/2018;

VII. Contribution rates:
   a) Insureds: progressive rates were used for active public servants, retirees and pensioners in accordance with Constitutional Amendment 103/2019;
   b) Sponsor (Federal Government): the contribution rate is double the contribution of an active public servant, in accordance with Act 10887/2004.

VIII. Standard family: the surviving family of active and retired public servants was assumed to be a spouse of the same age as the deceased public servant, except that 76.5% of the relevant pension benefit obligation was assumed to account for the effect on actuarial projections of those public servants who have no dependents when they become deceased or who have only temporary dependents;

IX. Age on entering the job market:
   a) Where the length of RGPS contributions is calculated for public servants entering the job market prior to the age of 18, the length of contributions prior to joining the Federal Government RPPS was assumed to be from the age of 25 to the public servant's exercise date;
   b) Where the length of RGPS contributions is measured for public servants entering the job market between 18 and 25 years of age, the length of contributions prior to joining the Federal Government RPPS was assumed to be the above;
   c) Where the length of RGPS contributions is recorded for public servants entering the job market above the age of 25, the length of contributions prior to joining the Federal Government RPPS was assumed to be from the age of 25 to the public servant's exercise date.

X. Financial offsets between pension systems: the impact from financial offsets under Act 9796/1999 was not factored in the assessment;

XI. Public servant turnover rate: not factored;

XII. Interest rate: an annual interest rate of 5.86% was used for discounting benefit payments and contributions in accordance with article 27(IV) of Ministry of Finance Directive 464/2018.

The information in the public servant database as of August 2019 was used, except that the information as of December 2019 was used for the actuarial assessment for this fiscal year.

In relation to the rules on eligibility to retirement benefits (retirement age, length of contribution and compulsory), the retirement date was calculated by selecting the closest date based on applicable constitutional rules. For public servants subject to transition rules under Constitutional Amendments 20/98, 41/2003, 47/2005 and 103/2019, an estimate was made of the waiting time needed to reach the most advantageous retirement rule.

A waiting time of seven years for currently expired risks was assumed, with public servants receiving bonuses for continued services from the time they satisfy the most favorable eligibility rule, in order to better distribute the flow of expired risks, taking account of the large number of public servants who receive bonuses for continued services. In relation to the behavior of future public servants subject to transition rules, the assumption was made that they will await satisfaction of the most favorable retirement rule, regardless of waiting time.

For all public servants entering after the creation of supplementary closed pension schemes within the Federal Government, the amount of the future benefit was limited to the RGPS ceiling.

This actuarial assessment did not include the effects of the special benefits of public servants opting in to the supplementary pension framework, as these benefits were deemed not to have the nature of pensions.

In the actuarial assessment, the aggregate funding method was used within a self-funded model to calculate prospective mathematical provisions from the present value of future benefits and contributions.

Average estimated contributions were used in assessing the future vested benefits of public servants not entitled to full pensions.

The biometric, financial and economic assumptions used in the actuarial assessment of the Federal Government RPPS are compliant with the guidelines set out in the Final Report of the Working Group (WG) created under Joint MF/MP Directive 1 (April 13, 2017) to evaluate and refine the methods of financial and actuarial reporting for the Federal Government Civil Servants' Pension System (RPPS).

(a.2) Mathematical Provisions for Federal Government Pensions – FCDF

Provisions for the Federal District Constitutional Fund (FCDF) were estimated in accordance with Panel Decision 2938/2018-TCU-Plenário, which requires that actuarial liabilities with respect to members of the Civil Police, Military Police and Fire Department in the Federal District be measured and recognized in accordance with article 40 of the Federal Constitution of 1988 and included in the fiscal targets appendix of the Budgetary Guidelines (LDO) in accordance with article 4(2)(IV) of the Fiscal Responsibility Act.

The following table presents mathematical provisions for the RPPS for public servants within the FCDF.

Table 78 – Mathematical Provisions for Federal Government Pensions – FCDF

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Vested Retirement, Pension and Other Benefits	**4,368**	**4,452**	**(1.89)**	**24.34**
Vested Retirement, Pension and Other Benefits	4,845	4,720	2.66	27.00
(-) Plan Contributions from Inactive Public Servants	(309)	(239)	(29.28)	(1.72)
(-) Plan Contributions from Pensioners	(168)	(29)	(487.19)	(0.94)
Unvested Retirement, Pension and Other Benefits	**13,575**	**14,838**	**(8.51)**	**75.66**
Unvested Retirement, Pension and Other Benefits	15,619	16,682	(6.38)	87.05
(-) Plan Contributions from Entities	(346)	(323)	(7.12)	(1.93)
(-) Plan Contributions from Active Public Servants	(611)	(459)	(33.19)	(3.40)
(-) Plan Contributions from Inactive Public Servants and Pensioners	(1,087)	(1,063)	(2.29)	(6.06)
Total	**17,943**	**19,290**	**(6.98)**	**100.00**

Source: SIAFI and SPREV/ME

Figures denoting the relative position at 12/31/2018 are prepared by the Office of the Secretary for Pensions of the Ministry of Economy (SPREV/ME) and have not been recorded in the SIAFI system. The table shows both closing positions for the sake of comparability between fiscal years.

The amounts presented are supported by an actuarial assessment prepared by SPREV/ME on January 23, 2020. The focus date of the assessment was set at December 31, 2019.

The actuarial calculation was based on the following biometric, financial and economic assumptions, pursuant to Ministry of Finance Directive 464/2018, and was designed to reflect the characteristics of RPPS insureds and their dependents in order to ensure future plan obligations are accurately estimated:

I. Survival of able and disabled individuals:
   a) For active public servants, the life tables for Federal Government public servants, by gender and professional skill level, were used;

b) For retirees, the life tables for Federal Government public servants, by gender, and assuming trade-level skills, were used; and
c) For pensioners, the extrapolated General IBGE Life Table (2018), by gender, was used.

II. Disability: Álvaro Vindas, as a disablement rate threshold, by age of the insured;
III. Salary growth: 1% per year, over the period of contribution from the date of the assessment to the likely retirement date for able-bodied persons, calculated by applying an exponential function;
IV. Real benefit growth: the assumption of real benefit growth was not used. However, when members of the military police and fire department in the Federal District are transferred to the reserve or to retirement, they are promoted to the next higher grade (article 50 of Act 7289/1984 and article 99 of Act 7479/1986). Accordingly, their remuneration immediately prior to transfer to the reserve/retirement was assumed to increase by 14.76%. With the exception of death benefits for active servicemen, all benefits were calculated with the increase above;
V. Future inflation rate: not used in calculating present actuarial values and therefore in preparing the actuarial balance sheet as one of the assumptions of the actuarial assessment is that all financial variables will be influenced by inflation within the same dimension and period;
VI. Public servant replacement: the public servant replacement assumption was not used, i.e. retired or deceased public servants were not assumed to be replaced by other public servants, as per article 24(3) of Ministry of Finance Directive 464/2018;
VII. Contribution rates:
a) Insureds: progressive rates were used for active public servants, retirees and pensioners in the civil police in accordance with Constitutional Amendment 103/2019. For active public servants, retirees and pensioners in the Federal District military police and fire department, the rates set out in Act 13954/2019 were used;
b) Sponsor (Federal Government): the contribution rate is double the contribution of an active public servant, in accordance with Act 10887/2004.

VIII. Standard family: the surviving family of active and retired public servants was assumed to be a spouse of the same age as the deceased public servant, except that 76.5% of the relevant pension benefit obligation was assumed to account for the effect on actuarial projections of those public servants who have no dependents when they become deceased or who have only temporary dependents;
IX. Age on entering the job market:
a) Where the length of RGPS contributions is calculated for public servants entering the job market prior to the age of 18, the length of contributions prior to joining the Federal Government RPPS was assumed to be from the age of 25 to the public servant's exercise date;
b) Where the length of RGPS contributions is measured for public servants entering the job market between 18 and 25 years of age, the length of contributions prior to joining the Federal Government RPPS was assumed to be the above;
c) Where the length of RGPS contributions is recorded for public servants entering the job market above the age of 25, the length of contributions prior to joining the Federal Government RPPS was assumed to be from the age of 25 to the public servant's exercise date.

X. Financial offsets between pension systems: the impact from financial offsets under Act 9796/1999 was not factored in the assessment;
XI. Public servant turnover rate: not factored;
XII. Interest rate: an annual interest rate of 5.86% was used for discounting benefit payments and contributions in accordance with article 27(IV) of Ministry of Finance Directive 464/2018.

The information in the public servant database as of September 2019 was used, except that the information as of December 2019 was used for the actuarial assessment for this fiscal year.

In relation to the rules on eligibility to retirement benefits (retirement age, length of contribution and compulsory) for members of the civil police, the retirement date was calculated by selecting the closest date based on applicable constitutional rules. For public servants subject to transition rules under Constitutional Amendments 20/98, 41/2003, 47/2005 and 103/2019, an estimate was made of the waiting time needed to reach the most advantageous retirement rule.

In relation to the rules on eligibility to retirement benefits (retirement age, length of contribution and compulsory) for members of the Federal District military police and fire department, the likely retirement date was calculated by selecting the closest date based on applicable constitutional rules. For public servants subject to transition rules under Act 13954 (December 16, 2019), an estimate was made of the waiting time needed to reach the most advantageous retirement rule.

In the actuarial assessment, the aggregate funding method was used within a self-funded model to calculate prospective mathematical provisions from the present value of future benefits and contributions.

The mathematical provisions for public servants within the FCDF did not include Federal District prison officers, who will be gradually converted into and integrated with the penal police, as prescribed by article 4 of Constitutional Amendment 104/2019.

(b) Provisions for Judicial and Administrative Losses

Most provisions for judicial and administrative losses are recorded for the Ministry of Economy and the AGU, as shown in the table below.

Table 79 – Provisions for Judicial and Administrative Losses – By Entity

US$ million

	12/31/2019	1/1/2019*	12/31/2018	HA** (%)	VA (%)
Ministry of Economy	101,640	20,691	16,262	391.22	60.14
Office of the Attorney General (AGU)	66,076	21,748	21,748	203.83	39.10
Ministry of Science, Tech. & Comm. (MCTI)	1,031	1,072	1,072	(3.87)	0.61
Ministry of Infrastructure	248	258	258	(3.87)	0.15
Military Justice System	16	72	72	(77.68)	0.01
High Court of Justice (STJ)	0	0	0	-	-
Ministry of Planning, Develop. and Management	0	0	3,637	-	-
Ministry of Ind., Foreign Trade and Serv. (MDIC)	0	0	792	-	-
Total	**169,011**	**43,842**	**43,842**	**285.50**	**100.00**

*NB: *The opening balances for 2019 differ from those for 2018 due to the restructuring of government agencies and ministries.*

***Horizontal Analysis calculated for opening balances (1/1/2019).*

Source: SIAFI

Within the Ministry of Economy, in accordance with AGU Directive 40/2015, as amended by AGU Directives 318/2018 and 514/2019, and accounting standards applicable to provisions and contingent liabilities, PGFN periodically compiles information on the current value of judicial proceedings defended by PGFN which are rated as possible or probable losses. These proceedings are included in the Fiscal Risk Appendix in accordance with article 4(3) of Supplementary Act 101/2000 (LRF), and in the Federal Government financial statements.

In summary, the process begins with a request from the PGFN—which is responsible for rating tax risks—for an estimate of the fiscal effects of certain appeals pending before higher courts. The RFB Center for Studies receives the request and estimates the fiscal effects of different subject matters and appeals, as well as providing a brief description of the subject matter of the dispute. The RFB's estimate is based on the number of taxpayers sharing the same legal position, using aggregate information. These amounts therefore represent a hypothetical scenario applied to the entire contingent of taxpayers who would fall within that scenario and benefit from any decision unfavorable to the Federal Government, regardless of whether they have brought proceedings.

The case value of legal proceedings rated as probable losses at 12/31/2019 was US$ 101.6 billion. The remaining provisions of the Ministry of Economy primarily relate to the Wage Variance Offsetting Fund (FCVS) and the National Development Fund (FND), which up to 2018 was linked to the Ministry of Planning, Development and Management, as shown in the table below.

Table 80 – Provisions for Judicial and Administrative Losses – Ministry of Economy

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
PGFN	93,587	13,460	595.30	92.08
FCVS	4,041	2,637	53.22	3.98
FND*	3,496	0	-	3.44
SUFRAMA*	349	0	-	0.34
Public Debt	167	165	1.10	0.16
Total	**101,640**	**16,262**	**525.00**	**100.00**

*NB: * In 2018 FND was linked to the Ministry of Planning, Development and Management and SUFRAMA was linked to the Ministry of Industry, Foreign Trade and Services.*

Source: SIAFI

The classification under AGU Directive 318/2018 represented a significant change from the previous classification under AGU Directive 40/2015, with a majority of risks previously classified as probable being reclassified as possible. The change in the risk classification criteria under the new Directive has resulted in the derecognition of provisions previously recognized in accordance with NBC TSP 03.

Technical Pronouncement 12/2019/DGE/AGU, based on AGU Directive 514/2019, introduced updates to and new estimates for the value of legal proceedings. Some cases involving significant amounts were reclassified from possible to probablelosses, substantially increasing the provision amounts. For further details, see the Note on “Potential Liabilities and Contingent Liabilities”.

Judicial proceedings defended by PGFN in which the likelihood of loss is rated as probable are detailed by case in the following table.

Table 81 – Provisions for Judicial and Administrative Losses – PGFN

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
PIS and COFINS taxes. Calculation Base, inclusion of ICMS	61,032	0	-	65.21
Tax immunity of revenue from foreign exchange variance on exports	13,149	0	-	14.05
IPI Credit Premium	7,356	7,333	0.31	7.86
Recognition of IPI credits for materials purchased in the Manaus Free Trade Zone	3,704	0	-	3.96
Public-servant social security contribution on one-third vacation pay, overtime and permanent bonuses	1,786	1,626	9.87	1.91
Indexation of the statements of financial position of financial institutions under extrajudicial liquidation in debits	1,579	1,642	(3.87)	1.69
Social Security Contributions for Labor Cooperatives	1,489	1,342	10.92	1.59
Settlement of ICMS in PIS and COFINS tax base	939	0	-	1.00
Eletrobrás Compulsory Loan	885	563	57.30	0.95
Other	1,670	955	74.88	1.78
Total	**93,587**	**13,460**	**595.30**	**100.00**

Source: PGFN/ME

The case titled “PIS and COFINS taxes. Calculation Base, inclusion of ICMS” involves a dispute over whether ICMS tax is to be included in the PIS and COFINS tax base (compound taxation). The full court of the Superior Federal Court (STF) issued a precedent-setting decision unfavorable to the Federal Government, but a motion for clarification has been filed by the PGFN seeking to modulate the effects of the decision, which is pending adjudication. This case was reclassified from a possible to a probable loss on 12/31/2019, with a case value estimated to be US$ 61.0 billion on that date based on changes introduced by AGU Directive 514/2019.

The case titled “tax immunity of revenue from foreign exchange variance on exports” involves a dispute over whether revenue from exchange variance gains on exports enjoys the PIS and COFINS tax immunity extended to export revenue. At 12/31/2019 this case was classified as a probable loss, with an estimated case value of US$ 13.1 billion.

The amount of US$ 66.1 billion recognized in respect of the AGU relates to judicial proceedings in which the likelihood of defeat has been rated as probable in accordance with Technical Pronouncement 12/2019/DGE/AGU, AGU Directive 40/2015 as amended, the Fiscal Responsibility Act (LRF) and accounting standards on provisions and contingent liabilities. Judicial proceedings defended by AGU in which the likelihood of loss is rated as probable are detailed by case in the following table.

Table 82 – Provisions for Judicial and Administrative Losses – AGU

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Kandir Act – ICMS Tax Relief – Compensation of States by the Federal Government	22,329	0	-	33.79
Social Assistance Charity Certification (CEBAS)	18,855	0	-	28.54
Fund for the Development and Maintenance of Elementary Education and Recognition of the Teaching Profession (FUNDEF)	8,404	1,516	454.29	12.72
Compensation for adjustments, losses, damages and lost profits	8,076	0	-	12.22
Tax Auditors. Adjustment of 28.86% to Variable Additional Compensation (RAV)	1,749	1,819	(3.87)	2.65
Salary differences arising from the reincorporation of public servants from the former Federal Territory of Rondônia	1,304	1,357	(3.96)	1.97
Bonus for Performance and Taxation Activity (GDAT) granted to pension tax auditors	1,059	1,100	(3.80)	1.60
Pension parity between retirees and pensioners of the defunct DNER and those of DNIT	845	879	(3.87)	1.28
Tax matters	0	10,668	(100.00)	-
Other	3,455	4,407	(21.60)	5.23
Total	**66,076**	**21,748**	**203.83**	**100.00**

Source: AGU

In the case titled “Kandir Act, ICMS Tax Relief, Compensation of States by the Federal Government”, the complaints were accepted and the case is pending reconciliation proceedings after the period allowed for amending legislation elapsed. The estimated case impact at 12/31/2019 was US$ 22.3 billion according to a reconciliation proposal presented by the state of Minas Gerais. The estimate does not include previous losses, but only estimated future losses of US$ 4.5 billion per annum over the next five years.

The case titled “Social Assistance Charity Certification (CEBAS)” involves a dispute on the tax treatment of social assistance charities. The STF ruled that the requirements for tax immunity must be established in a supplementary act, rendering invalid the rules set out in Decree 752/1993 and Decree 2536/1998. The case is currently pending before the STF. At 12/31/2019 this case was classified as a probable loss, with an estimated impact of US$ 18.9 billion.

The case titled “Fund for the Development and Maintenance of Elementary Education and Recognition of the Teaching Profession (FUNDEF)” involves a petition that the Federal Government provide supplementary funding so states are able to achieve the minimum national average funding per student. The case is currently pending before the STF and in federal courts, with an estimated impact of US$ 8.4 billion at 12/31/2019. At 12/31/2018 this case was also classified as a probable loss, with an estimated case value of US$ 1.5 billion.

The case titled “compensation for adjustments, losses, damages and lost profits” was brought by Construtora Industrial Brasileira S.A. against the now-defunct National Highways Department (DNER) seeking compensation for damages sustained as a result of the DNER’s breach of a roadworks contract for sections of the BR-29 Highway. The case is pending before the TRF–2nd Region, with an estimated impact of US$ 8.1 billion at 12/31/2019.

(c) Provisions for Vested Military Pensions

At 12/31/2019 the Ministry of Defense had a balance of US$ 34.7 billion in vested military pensions.

The biometric, financial and economic assumptions, and the method of calculating the provision amount, conform to the requirements established in Joint Technical Pronouncement 001/2017/SG/MD (November 16, 2017) of the Ministry of Defense.

The assumptions and calculation method are as follows:

I. Benefit policy: establishes the source of contributions, pensionable earnings depending on position/rank, the method of funding benefits and the funding model, in accordance with articles 1, 3 and 32 of Act 3765/1960;
II. In terms of economic factors, the following assumptions were used:
   a) A discount rate equivalent to the interest rate on NTN-B Principal 2035 National Treasury notes as published on the STN/MF website on December 31 of the reporting year; and
   b) A time horizon of sixteen years, corresponding to the average duration of benefits for the relevant closed group (vested pensions) based on data contained in the Strategic and Managerial Database (BIEG).
III. Inflation was not taken into account, as neither the contributions nor the benefits are indexed for inflation. It is important to note that this index has no effect on the amount recognized in the financial statements, as inflation is not factored in the discount rate applied in calculating net present value in actuarial projections;
IV. In relation to biometric assumptions, the following were used:
   a) The mortality table used for servicemen in the Armed Forces, GKM-70, smoothed by 61%; and
   b) Family composition, based on duly registered family members and dependents.
V. Military pensions are funded out of an annual budget, with revenues for a given period used entirely towards paying the benefits for that period. With no funds set aside for benefits, this practice can be considered similar to a pay-as-you-go funding model;
VI. Pursuant to section 60 of Panel Decision 1.295/2017-TCU-Plenário, there is no requirement for financial and actuarial balance in expenditure on inactive military servicemen and pensioners;
VII. The calculation of military pensions V_t for a period *t* is therefore the difference between the amounts of benefits B_t and contributions P_t , as expressed by the formula: $V_t = B_t - P_t$;
VIII. For each period *t*, the difference between benefits and contributions was discounted to present value: $VP = V_t/(1+i)^t$, where VP is present value, V_t is the amount of the reserve for period *t*, *i* is the discount rate and *t* is the period discounted to present value.

In 2019 Bill of Law 1645 was passed through Congress and subsequently converted into Act 13954 (December 16, 2019), restructuring the careers of military servicemen in the Armed Forces and consequently affecting their remuneration. However, the changes introduced by this Act were not included in the calculation of military pensions. The calculation also excluded the effects of financial offsets between the contribution proceeds for military servicemen and the contribution proceeds within the RGPS or RPPS, pursuant to article 201(9)(A) of the Federal Constitution (as amended by Constitutional Amendment 103/2019).

(d) Provisions Arising from Government Activities

A breakdown of short- and long-term provisions arising from government activities is provided in the following table.

Table 83 – Short- and Long-Term Provisions Arising from Government Activities

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Non-financial Institutions (I)	**12,100**	**12,413**	**(2.52)**	**55.21**
Workers' Assistance Fund (FAT)	10,102	10,405	(2.91)	46.09
Assumption of Extinguished Obligations	1,973	1,982	(0.48)	9.00
Other	25	25	(1.91)	0.11
Financial Institutions (II)	**9,818**	**13,496**	**(27.25)**	**44.79**
Economic Subsidies	5,733	7,146	(19.78)	26.16
Assumption of Guarantees Given	4,085	6,349	(35.66)	18.64
Total (III = I + II)	**21,918**	**25,909**	**(15.40)**	**100.00**

Source: SIAFI

The following tables provide details on these provisions, broken down by short and long-term.

Table 84 – Short-Term Provisions Arising from Government Activities

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Non-financial Institutions (I)	**4,908**	**5,033**	**(2.50)**	**57.08**
Workers' Assistance Fund (FAT)	4,907	5,033	(2.49)	57.08
Assumption of Extinguished Obligations	0	0	92.26	0.00
Financial Institutions (II)	**3,690**	**3,862**	**(4.46)**	**42.92**
Economic Subsidies	1,803	2,753	(34.50)	20.97
Assumption of Guarantees Given	1,887	1,109	70.08	21.94
Total (III = I + II)	**8,598**	**8,895**	**(3.35)**	**100.00**

Source: SIAFI

Table 85 – Long-Term Provisions Arising from Government Activities

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Non-financial Institutions (I)	**7,192**	**7,380**	**(2.54)**	**53.99**
Workers' Assistance Fund (FAT)	5,195	5,373	(3.31)	39.00
Assumption of Extinguished Obligations	1,972	1,982	(0.49)	14.81
Other	25	25	(1.91)	0.19
Financial Institutions (II)	**6,128**	**9,634**	**(36.39)**	**46.01**
Economic Subsidies	3,930	4,394	(10.55)	29.50
Assumption of Guarantees Given	2,198	5,241	(58.05)	16.50
Total (III = I + II)	**13,321**	**17,014**	**(21.71)**	**100.00**

Source: SIAFI

Out of total provisions arising from government activities, the most significant is the FAT provision for workers' bonus (US$ 10.2 billion). Of total FAT provisions, US$ 4.9 billion is for workers' bonus payable in 2020, and US$ 5.2 billion is for workers' bonus payable from 2021. The amount recognized under provisions increased by 0.99% from year-end 2018 to year-end 2019, as seen in the table below.

Table 86 – Provisions for Short- and Long-Term Provisions for Workers' Bonus

US$ million

	12/31/2019	12/31/2018	HA (%)
Short-Term Provisions – Workers' Bonus (PIS/PASEP)	**4,907**	**5,033**	**(2.49)**
2017 Bonus – to be paid in 2019	0	2,535	(100.00)
2018 Bonus – to be paid in 2020	2,454	2,498	(1.79)
2019 Bonus – to be paid in 2020	2,454	0	-
Long-Term Provisions – Workers' Bonus (PIS/PASEP)	**5,195**	**5,373**	**(3.31)**
2018 Bonus – to be paid in 2020	0	2,706	(100.00)
2019 Bonus – to be paid in 2021	2,598	2,667	(2.60)
2020 Bonus – to be paid in 2021	2,598	0	-
Total	**10,102**	**10,405**	**(2.91)**

Source: SIAFI

Other significant provisions include provisions recognized for payment of economic subsidies to financial institutions (US$ 5.7 billion). Information on provision amounts is provided by financial institutions as an estimate of the present value of the amounts payable by borrowers through the end of the contracts. The following table shows the principal institutions involved.

Table 87 – Provisions for Economic Subsidies

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
BB	3,374	2,675	26.14	58.86
BNDES	2,037	3,830	(46.82)	35.53
Other	322	642	(49.81)	5.62
Total	**5,733**	**7,146**	**(19.78)**	**100.00**

Source: SIAFI

Provisions for the assumption of guarantees relate to guarantees provided by the Federal Government to the State of Rio de Janeiro within the Fiscal Recovery Framework (RRF) approved by Supplementary Act 159/2017. In 2019 this item decreased by US$ 2.2 billion (35.66%) across short and long term, primarily reflecting payments made by the Federal Government within the RRF.

(e) Tax Sharing Provisions

These provisions represent liabilities that are uncertain in amount and timing related to tax and non-tax receivables recognized when assessed by the collecting agent to be subsequently apportioned among states or government entities.

Because the obligation to transfer these amounts is incurred only when shared taxes are ultimately collected, the relevant provision is calculated only for the amount of the receivables expected to be received, deducting impairment.

After calculating the adjustment for impairment and the amount of shared tax receivables expected to be received, the tax sharing percentages established by law are applied to calculate the provision.

Provisions for tax sharing with states and municipalities collectively account for 96.79% of the total in 2019, as shown in the table below.

Table 88 – Tax Sharing Provisions – Short and Long Term

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Municipalities	3,199	2,900	10.33	52.82
States	2,663	2,606	2.19	43.97
S System	194	167	15.98	3.21
Total	**6,056**	**5,673**	**6.75**	**100.00**

Source: SIAFI

The following tables provide details on these provisions, broken down by short and long term.

Table 89 – Tax Sharing Provisions – Short Term

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Municipalities	743	678	9.52	52.24
States	626	612	2.21	44.01
S System	53	43	24.51	3.75
Total	**1,422**	**1,333**	**6.66**	**100.00**

Source: SIAFI

Table 90 – Tax Sharing Provisions – Long Term

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Municipalities	2,456	2,221	10.57	53.00
States	2,037	1,994	2.17	43.96
S System	141	125	12.82	3.04
Total	**4,634**	**4,340**	**6.79**	**100.00**

Source: SIAFI

(f) Provision for Minor Awards (RPV)

Provision for Minor Awards (RPV) is a provision for awards of less than sixty minimum wages in federal courts. The provision amount corresponds to payment estimates in the Annual Budget Law (LOA) for the following fiscal year.

Most of the provisions for RPV relate to the Ministry of Economy (89.45%), as shown in the table below.

Table 91 – Provision for RPV – By High-Level Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Ministry of Economy	3,944	912	332.28	89.45
Ministry of Citizenry	344	2,268	(84.84)	7.80
Other	121	156	(22.43)	2.75
Total	**4,409**	**3,337**	**32.13**	**100.00**

Source: SIAFI

Of the US$ 3.9 billion for the Ministry of Economy, approximately US$ 2.8 billion (72.50%) was recognized by the FRGPS. Minor awards arising from proceedings brought against the FRGPS in federal courts are paid directly by Federal Regional Courts (TRFs) and awards in proceedings brought before state courts are paid by the FRGPS.

In accordance with recommendations made in Panel Decision 1.338/2014-TCU-Plenário, the amount recognized was the result of a joint effort with the judiciary branch to measure and recognize provisions and contingent liabilities relating to Writs of Payment and Minor Awards paid in cases brought before state courts.

(g) Wage Variance Offsetting Fund

Provisions in connection with the Wage Variance Offsetting Fund (FCVS) relate to housing contracts concluded but still undergoing review by financial agents or CAIXA, the Fund manager, and active contracts whose term has not yet expired. These are segregated into two groups of contracts: those with expired risks and those with unexpired risks.

The following table shows a breakdown of receivables at 12/31/2019 and 12/31/2018.

Table 92 – Provision for FCVS

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Expired Risks	1,574	5,021	(68.65)	67.02
Unexpired Risks	775	1,522	(49.12)	32.98
Total	**2,348**	**6,543**	**(64.11)**	**100.00**

Source: SIAFI

Provisions for contracts with expired risks, which account for 67.02% of the total, include provision amounts calculated through actuarial valuations to cover contracts that: have expired; have been repaid in advance; have been transferred with discounts, generating liability for the fund; have not yet been approved; or have been approved but remain in the possession of financial agents. At 12/31/2019 these contracts amounted to US$ 1.5 billion, a decrease of 68.65% from year-end 2018.

Provisions for contracts with unexpired risks are calculated through actuarial valuations for the residual outstanding balances of home mortgage contracts that have not yet terminated, i.e. for contracts that are active or are being amortized by borrowers within the National Housing Finance System (SFH). At 12/31/2019 these contracts amounted to US$ 787 billion, a decrease of 49.12% from year-end 2018.

(h) Provisions for FUNDEB and PNLD

Education Salary contribution is a social contribution for funding basic public education programs, projects and initiatives, pursuant to article 212(5) of the Federal Constitution of 1988.

The shares of Education Salary contributions payable to states, the Federal District and municipalities are transferred automatically—without the need for any agreement or other instrument—to a dedicated bank account at Banco do Brasil held by the relevant state or municipality.

Approximately US$ 1.5 billion in shares of Education Salary contribution payable to states and municipalities was recorded in 2019, including: (i) the 13th installment of and adjustment to the supplementary funding provided by the Federal Government to FUNDEB/2019, amounting to US$ 1.2 billion; and (ii) provision for the National Textbook and Teaching Materials Program (PNLD/2020), totaling US$ 322 billion.

11 - Other Liabilities

This sub-group comprises obligations to third parties not included in specific sub-groups.

At 12/31/2019 the Federal Government had a balance of US$ 53.9 billion under “Other Liabilities”, of which US$ 26.5 billion or 49.23% represented short-term liabilities and US$ 27.4 billion, or 50.77%, represented long-term liabilities.

“Other Liabilities” decreased by 3.25% in 2019 compared to 2018, remaining roughly level with the previous fiscal year, although short-term liabilities decreased by 46.33% while long-term liabilities increased by 336.49%, as shown in the following table.

Table 93 – Other Liabilities

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Other Short-Term Liabilities	26,545	49,459	(46.33)	49.23
Other Long-Term Liabilities	27,375	6,272	336.49	50.77
Total	**53,920**	**55,731**	**(3.25)**	**100.00**

Source: SIAFI

The table below provides a breakdown of “Other Liabilities”.

Table 94 – Other Liabilities – Short and Long Term

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Residual Balances under Settled Contracts – FCVS	24,127	23,663	1.96	44.75
Third-Party Writs of Payment	8,415	8,597	(2.12)	15.61
Cost of Foreign Exchange Transactions and Reserves	7,114	13,612	(47.74)	13.19
Payables under Cooperation (*Convênio*) and Similar Agreements	3,352	1,249	168.47	6.22
Installment Payments and Unified Payments to Be Classified	2,085	1,975	5.54	3.87
Liabilities Related to International Organizations	1,424	0	-	2.64
Equity Losses in Companies with Negative Equity	1,020	865	17.93	1.89
Withholdings – Loans and Financing	849	779	9.10	1.58
Deposits from Entities	811	963	(15.80)	1.50
Loans and Financing	547	190	188.40	1.01
Other	4,177	3,838	8.83	7.75
Total	**53,920**	**55,731**	**(3.25)**	**100.00**

Source: SIAFI

(a) Residual Balances under Settled Contracts – FCVS

“Residual Balances under Settled Contracts – FCVS”, with a balance of US$ 24.1 billion, are liabilities related to residual balances under mortgage agreements recognized by the FCVS. The purpose of this fund is to ensure the National Housing Finance System (SFH) insurance scheme is financially sound and to pay the financial agents within the system any residual balances under mortgage agreements with end-borrowers within the SFH, pursuant to article 2(I and II) of Decree-Act 2406/1988. Of the total balance, US$ 2.9 billion consists of contracts in the process of novation and is expected to be realized in fiscal year 2020.

(b) Third-Party Writs of Payment

As shown in the table above, 15.61% of “Other Long- and Short-Term Liabilities”, or approximately US$ 8.4 billion, relates to liabilities arising from judicial decisions unfavorable to federal entities, giving rise to writs of payment pursuant to article 100 of the Federal Constitution of 1988. These liabilities decreased by approximately 2.12% from fiscal year 2018.

(c) Cost of Foreign Exchange Transactions and Reserves

These liabilities, which in fiscal year 2019 amounted to US$ 7.1 billion, consist of obligations to BCB arising from losses on foreign exchange reserve transactions recognized in its financial statements, largely occurring in the second half of 2018 (US$ 4.7 billion) and the first half of 2019 (US$ 2.4 billion). For further information on this matter, see the Note on “Equity in Surplus or Deficit of the Brazilian Central Bank”.

(d) Payables under Cooperation (*Convênio*) and Similar Arrangements

The line item “Payables under Cooperation (Convênio) and Similar Arrangements” relates to obligations arising from voluntary decentralization of government funds to public or private, not-for-profit entities for the pursuit of shared goals through cooperation arrangements. “Payables under Cooperation (Convênio) and Similar Arrangements” amounted to US$ 3.4 billion at year-end 2019, an increase of 168.47% over 2018 primarily driven by the appropriation of transfer commitments within programs run by the Ministry of Regional Development.

(e) Unified Installment Payment Programs and Payments to Be Classified

Another line item under the heading “Other Short-Term Liabilities” relates to receipts from unified installment payment programs requiring budgetary and accounting classification, which do not necessarily constitute an obligation of the Federal Government to third parties in the narrow sense of the word. These revenues amounted to US$ 2.1 billion, approximately 3.87% of the balance of the relevant heading.

In relation to these revenues, for every unified installment payment program in place, such as the REFIS program introduced by Act 9964/2000, all taxes and social and economic contributions collected by the Federal Government are unified under a dedicated revenue code for that installment payment program. Because revenues are unified, the relevant agencies must perform the necessary tax classifications. As revenues are classified for budgetary and accounting purposes, the relevant amounts are reclassified to specific sources of funding earmarked by law for specific government activities and programs.

(f) Liabilities Related to International Organizations

This item refers to obligations linked to the paying in of capital in international organizations, which in the current year had a balance of US$ 1.0 billion, primarily reflecting the recognition of outstanding obligations to the NBD. Another US$ 0.4 billion refers to the recognition of obligations relating to unpaid commitments (contributions) undertaken to different international organizations within fiscal year 2019 and in prior years.

(g) Equity Losses in Companies with Negative Equity

Another significant obligation under “Other Long-Term Liabilities” derives from equity losses in companies with negative equity, which at 12/31/2019 amounted to US$ 977 million. A breakdown of these obligations is provided in the table below.

Table 95 – Equity Losses in Companies with Negative Equity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA(%)
Companhia Docas do Rio de Janeiro (CDRJ)	275	255	7.92	28.15
Companhia Brasileira de Trens Urbanos (CBTU)	246	235	4.69	25.16
Hospital Nossa Senhora da Conceição (HNSC)	145	196	(25.94)	14.83
Companhia Docas do Rio Grande do Norte (CODERN)	94	98	(3.87)	9.62
Empresa Brasileira de Serviços Hospitalares (EBSERH)	88	69	26.51	8.98
Empresa Brasileira de Infraestrutura Aeroportuária (Infraero)	43	0	-	4.41
Other	86	12	596.96	8.84
Total	**977**	**865**	**12.97**	**100.00**

Source: SIAFI

These obligations are recognized when losses on equity-accounted investments occur, based on the assumption that investors may be required to cover for negative equity reported by investees.

According to information obtained from the SIAFI system, around 28% of this item, or approximately US$ 275 million, relates to obligations arising from negative equity reported by CDRJ in its financial statements, including US$ 148 million recognized up to fiscal year 2017; US$ 97 million recognized in fiscal year 2018; and US$ 30 million recognized in fiscal year 2019, reflecting losses reported in the company's financial statements.

Also included in these obligations are obligations arising from the updating of equity interests. At year-end 2018 these obligations amounted to approximately US$ 246 million in respect of losses reported by CBTU. In fiscal year 2019 these obligations increased further by approximately US$ 20 million in respect of the results of operations reported in the company's financial statements at 12/31/2018. This company has been included in the National Privatization Program pursuant to Decree 9999/2019. Accordingly, the Federal Government's interest in CBTU has been transferred to the National Privatization Fund (FND). However, the balance relating to this interest remains recognized under Equity Losses in Companies with Negative Equity as the balance of interests transferred to the FND is included in the Fund's long-term assets.

These liabilities also include significant obligations arising from losses of approximately US$ 145 million reported in the financial statements of HNSC in 2018. It is important to note, however, that in fiscal year 2017 these obligations amounted to US$ 744 million then decreased by approximately 75% from 2017 to 2018, primarily reflecting positive net income of approximately US$ 571 million reported in the financial statements for the 1st and 3rd quarters of 2018. This trend toward reversal of the loss continued into fiscal year 2019, with obligations of approximately US$ 145 million at fiscal year-end.

Other significant liabilities recognized in respect of losses on equity-accounted investments include US$ 94 million and US$ 88 million recognized for respectively CODERN and EBSERH, amounting to a total of US$ 182 million or approximately 19% of the total liability. It is important to note that the most recent financial information for CODERN is for the third quarter of 2017, as the company's General Meeting rejected its accounts for fiscal years 2017 and 2018.

12 - Potential Assets

Potential assets primarily consist of the following items: (a) Guarantees and Counter-Guarantees Received; (b) Contractual Rights Enforceable; and (c) Rights Receivable under Cooperation Agreements and Other Similar Arrangements.

(a) Guarantees and Counter-Guarantees Received

Enforceable guarantees and counter-guarantees received account for the most significant portion (87.39%) of potential assets are detailed below.

Table 96 – Enforceable Guarantees and Counter-Guarantees Received

US$ million

	12/31/2019	12/31/2019	HA (%)	VA (%)
Domestic Guarantees Received	13,915	15,423	(9.78)	17.71
Domestic Counter-Guarantees Received	25,337	26,380	(3.95)	32.25
Sub-total – Domestic	**39,251**	**41,803**	**(6.10)**	**49.97**
Foreign Guarantees Received	6,223	5,398	15.28	7.92
Foreign Counter-Guarantees Received	33,083	33,058	0.08	42.11
Sub-total – Foreign	**39,306**	**38,456**	**2.21**	**50.03**
Funds and Programs	**0**	**0**	**(3.87)**	**0.00**
Total	**78,557**	**80,259**	**(2.12)**	**100.00**

Source: SIAFI

With changes in certain agencies factored in, between fiscal year 2018 and 2019 the balance of enforceable guarantees and counter-guarantees received decreased by 2.12%, or US$ 1.7 billion.

Enforceable guarantees and counter-guarantees received are detailed below by entity responsible for the relevant controls.

Table 97 – Enforceable Guarantees and Counter-Guarantees Received – By Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Guarantees Received	**13,915**	**15,423**	**(9.78)**	**17.71**
DNIT	5,397	5,395	0.04	6.87
ANEEL	2,050	2,131	(3.81)	2.61
Ministry of Economy	1,402	1,328	5.59	1.78
Navy Command	1,051	2,015	(47.84)	1.34
ANTT	967	507	90.80	1.23
Ministry of Health	549	491	11.68	0.70
ANAC	547	530	3.21	0.70
Federal Judiciary	321	208	54.03	0.41
ANATEL	251	1,416	(82.28)	0.32
Other	1,382	1,403	(1.50)	1.76
Domestic Counter-Guarantees Received	**25,337**	**26,380**	**(3.95)**	**32.25**
Ministry of Economy	25,337	26,380	(3.95)	32.25
Foreign Guarantees Received	**6,223**	**5,398**	**15.28**	**7.92**
Navy Command	3,986	4,153	(4.02)	5.07
Air Force Command	2,199	1,209	81.90	2.80
Other	38	36	5.68	0.05
Foreign Counter-Guarantees Received	**33,083**	**33,058**	**0.08**	**42.11**
Ministry of Economy	33,083	33,058	0.08	42.11
Funds and Programs	**0**	**0**	**(3.87)**	**0.00**
Competitiveness Guarantee Fund	0	0	(3.87)	0.00
Total	**78,557**	**80,259**	**(2.12)**	**100.00**

Source: SIAFI

Counter-guarantees received by the Ministry of Economy were a total of US$ 58.4 billion in 2019, an decrease of 3.87% over the previous fiscal year. These are counter-guarantees received from states, municipalities and government-controlled entities in exchange for the Federal Government securing the borrowings of those entities from domestic financial institutions and multilateral organizations such as the IDB and IBRD.

Table 98 – Enforceable Counter Guarantees Received – Ministry of Economy

US$ million

	12/31/2019	12/12/2018	HA (%)	VA (%)
States	**49,734**	**50,889**	**(2.27)**	**85.13**
In Brazil	22,553	23,417	(3.69)	38.61
In Foreign Jurisdictions	27,181	27,472	(1.06)	46.53
Municipalities	**4,827**	**4,320**	**11.73**	**8.26**
In Brazil	1,201	955	25.72	2.06
In Foreign Jurisdictions	3,626	3,365	7.77	6.21
Government-owned Entities	**3,858**	**4,228**	**(8.75)**	**6.60**
In Brazil	1,583	2,007	(21.16)	2.71
In Foreign Jurisdictions	2,276	2,221	2.48	3.90
Sub-total – Domestic	**25,337**	**26,380**	**(3.95)**	**43.37**
Sub-total – Foreign	**33,083**	**33,058**	**0.08**	**56.63**
Total	**58,419**	**59,437**	**(1.71)**	**100**

Source: SIAFI

The provision of guarantees by the Federal Government in borrowing transactions entered into by states, municipalities and the Federal District, and their controlled entities, is conditional on these entities providing counter-guarantees as required by article 40(1) of the Fiscal Responsibility Act and article 10(III) of Federal Senate Resolution 48/2007.

(b) Contractual Rights Enforceable

Contractual rights enforceable relate to contracts entered into by the Government as contractor for the supply of goods and services to third parties. A breakdown of Contractual Rights Enforceable is provided below:

Table 99 – Contractual Rights Enforceable

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Contracts for External Obligations	6,368	7,037	(9.51)	92.10
Service Contracts	425	427	(0.56)	6.14
Contracts for the Supply of Goods	67	84	(19.54)	0.98
Cooperation Agreements with Financial Institutions	23	94	(75.44)	0.33
Lease Contracts	13	9	48.57	0.18
Other	18	41	(55.86)	0.26
Total	**6,914**	**7,691**	**(10.11)**	**100.00**

Source: SIAFI

The total balance of contractual rights at 12/31/2018 was US$ 171 million more than the balance shown in the table above, due to changes to the rules on preparing the financial statements in fiscal year 2019. The total balance at 12/31/2019 includes this adjustment and has no differences.

The Federal Government's principal contractual rights are under contracts for external obligations (92.10%). These are potential receivables arising from debt enforcement and external loans. The amounts under these contracts are detailed below by entity responsible for the relevant controls.

Table 100 – Contracts for External Obligations – By High-Level Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Air Force Command	3,290	3,851	(14.56)	51.67
Navy Command	2,471	2,607	(5.20)	38.81
Ministry of Economy	535	504	6.07	8.40
Other	72	75	(4.86)	1.12
Total	**6,368**	**7,037**	**(9.51)**	**100.00**

Source: SIAFI

(c) Rights Receivable under Cooperation Agreements and Other Similar Arrangements

Rights receivable under cooperation agreements and other similar arrangements increased by 3.03% from fiscal year 2018 to 2019, as shown in the table below.

Table 101 – Rights Receivable under Cooperation Agreements and Other Similar Arrangements

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Receivables under Cooperation (*Convênio*) and Similar Agreements	230	245	(5.99)	5.21
Receivables under Decentralized Execution Agreements	4,193	4,048	3.58	94.79
Total	**4,423**	**4,293**	**3.03**	**100.00**

Source: SIAFI

The increase is primarily due to the conclusion of decentralized execution agreements between entities subject to the Fiscal and Social Security Budgets for the purpose of executing activities on behalf of the decentralizing budget unit.

An especially significant contribution to this increase came from the conclusion of decentralized execution agreements (TEDs) with management units linked to the Ministry of Regional Development and the Ministry of Economy. Including changes in other arrangements, these TEDs represented potential receivables of approximately US$ 273 million and US$ 191 million, respectively.

13 - Potential Liabilities and Contingent Liabilities

(a) Potential Liabilities

Potential liabilities primarily consist of the following items: “Guarantees and Counter-Guarantees Given” and “Contractual Obligations”.

(a.1) Guarantees and Counter-Guarantees Given

Guarantees and counter-guarantees given include all endorsements, guarantees and mortgages given in Brazil and in other jurisdictions, as well as consular fees and other guarantees and counter-guarantees. A breakdown of Guarantees and Counter-Guarantees Given is provided below:

Table 102 – Enforceable Guarantees and Counter-Guarantees Given

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Guarantees Given	39,028	43,209	(9.68)	51.77
Domestic Counter-Guarantees Given	0	1	(3.87)	0.00
Sub-total – Domestic	**39,029**	**43,209**	**(9.67)**	**51.77**
Foreign Guarantees Given	36,360	36,547	(0.51)	48.23
Sub-total – Foreign	**36,360**	**36,547**	**(0.51)**	**48.23**
Total	**75,389**	**79,756**	**(5.48)**	**100.00**

Source: SIAFI

Guarantees and counter-guarantees given are detailed below by entity responsible for the relevant controls:

Table 103 – Enforceable Guarantees and Counter-Guarantees Given – By Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Guarantees Given	**39,028**	**43,209**	**(9.68)**	**51.77**
Ministry of Economy	32,984	35,170	(6.22)	43.75
Export Guarantee Fund	6,044	8,039	(24.81)	8.02
Competitiveness Guarantee Fund	0	0	(3.87)	0.00
Domestic Counter-Guarantees Given	**0**	**1**	**(3.87)**	**0.00**
Military Justice System	0	0	(3.87)	0.00
Army Command	0	0	(3.87)	0.00
Other	0	0	-	0.00
Foreign Guarantees Given	**36,360**	**36,547**	**(0.51)**	**48.23**
Ministry of Economy	36,360	36,547	(0.51)	48.23
Total	**75,389**	**79,756**	**(5.48)**	**100.00**

Source: SIAFI

Guarantees and counter-guarantees given are detailed below by beneficiary.

Table 104 – Enforceable Guarantees and Counter-Guarantees Given – By Beneficiary

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Domestic Guarantees Given	**39,028**	**43,209**	**(9.68)**	**51.77**
States	22,553	23,417	(3.69)	29.92
Export Guarantee Fund	6,044	8,039	(24.81)	8.02
Federal Government-Owned Companies	3,356	4,844	(30.70)	4.45
Municipalities	1,201	955	25.72	1.59
Funds and Programs	5,874	5,900	(0.45)	7.79
Other	0	54	(99.54)	0.00
Domestic Counter-Guarantees Given	**0**	**1**	**(3.87)**	**0.00**
Other	0	1	(3.87)	0.00
Foreign Guarantees Given	**36,360**	**36,547**	**(0.51)**	**48.23**
States	27,181	27,472	(1.06)	36.05
Federal Government-Owned Companies	3,640	3,877	(6.11)	4.83
Municipalities	3,626	3,365	7.77	4.81
Government-owned Entities	1,913	1,833	4.39	2.54
Total	**75,389**	**79,756**	**(5.48)**	**100.00**

Source: SIAFI

(a.2) Contractual Obligations

Contractual obligations relate to contracts entered into by the Government as contracting party to obtain goods and services from third parties. A breakdown is provided below:

Table 105 – Contractual obligations

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Service Contracts	30,182	30,973	(2.55)	53.83
Contracts for the Supply of Goods	24,029	24,935	(3.63)	42.86
Lease Contracts	896	955	(6.20)	1.60
Loans and Financing Contracts	668	267	149.70	1.19
Insurance Contracts	228	218	4.79	0.41
Transfer Agreements – International Organizations	45	61	(26.37)	0.08
Management Contracts	19	21	(10.90)	0.03
Total	**56,066**	**57,430**	**(2.37)**	**100.00**

Source: SIAFI

The Federal Government's principal contractual obligations are under service contracts and contracts for the supply of goods. The obligations under these contracts are detailed below by agency responsible for contract management.

Table 106 – Service Contracts and Contracts for the Supply of Goods – By Entity

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Service Contracts	**30,182**	**30,973**	**(2.55)**	**53.83**
National Department of Transportation Infrastructure	10,156	9,842	3.19	18.11
Navy Command	3,176	3,451	(7.97)	5.66
Air Force Command	2,615	2,868	(8.82)	4.66
Ministry of Economy	1,072	448	139.36	1.91
VALEC Engenharia, Construções, Ferrovias S/A	925	987	(6.26)	1.65
Other	12,238	13,377	(8.51)	21.83
Contracts for the Supply of Goods	**24,029**	**24,935**	**(3.63)**	**42.86**
Ministry of Health	9,733	10,249	(5.04)	17.36
Air Force Command	8,148	8,267	(1.43)	14.53
Navy Command	2,516	2,600	(3.21)	4.49
Army Command	1,638	1,837	(10.86)	2.92
National Education Development Fund	795	630	26.04	1.42
Other	1,200	1,352	(11.25)	2.14
Other Contracts	**1,856**	**1,522**	**21.88**	**3.31**
Total	**56,066**	**57,430**	**(2.37)**	**100.00**

Source: SIAFI

(b) Contingent Liabilities

Contingent liabilities are possible obligations arising from past events, which have not yet been recognized, whose existence will be confirmed by one or more future events. Contingent liabilities also include present obligations if it is not probable that an outflow of resources will be required or a sufficiently reliable estimate of the amount of the obligation cannot be made. When an outflow of resources becomes probable, a contingent liability is converted into a provision, which is recognized in the Statement of Financial Position.

The risks arising from contingent liabilities can be classified by the nature of the factors from which they originate, and by the agencies responsible for managing those liabilities. The table below describes the Federal Government's primary contingent liabilities.

Table 107 – Contingent Liabilities

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Judicial Claims – PGFN	324,647	387,360	(16.19)	83.68
Judicial Claims – PGU	54,446	860	6,229.70	14.03
Canceled Writs of Payment and Minor Awards (Act 13463/2017)	3,071	3,142	(2.23)	0.79
Judicial Claims – PGBC	1,469	10,588	(86.13)	0.38
Fiscal Risks under STN Management	1,297	1,310	(1.01)	0.33
Judicial Claims – PGF	1,243	1,293	(3.87)	0.32
Judicial Claims – Dependent Government-Owned Entities	502	608	(17.50)	0.13
Other	1,288	3,755	(65.69)	0.33
Total	**387,964**	**408,915**	**(5.12)**	**100.00**

Source: Federal Justice System, SIAFI and Act 13898/2019

The Office of the Attorney General (AGU) legally represents the Federal Government, its entities and foundations; enforces delinquent Federal tax debt; and provides legal advice to the Executive Branch (article 131 of the Federal Constitution of 1988). The offices under the AGU have the following duties:

- The Office of the Prosecutor General (PGU) represents the Federal Government at all levels of the Judiciary other than the Superior Federal Court (STF) (article 9 of Supplementary Act 73/1993);
- The Office of the Attorney General of the Treasury (PGFN) is responsible for verifying that delinquent Federal tax debt is certain and owing, placing Federal debt for amicable or judicial collection, and legally representing the Federal Government in tax proceedings (article 12 of Supplementary Act 73/1993);
- The Federal Attorney General (PGF) represents Federal Government agencies and foundations, other than the Brazilian Central Bank (BCB), in the Judiciary (article 10 of Act 10480/2002); and
- The Office of the Attorney General of the Central Bank (PGBC) represents the Brazilian Central Bank (BCB) in and out of court (article 4 of Act 9650/1998).

(b.1) Judicial Claims – PGFN

Pursuant to AGU Directive 40/2015, as amended by AGU Directives 318/2018 and 514/2019, and accounting standards applicable to provisions and contingent liabilities, PGFN periodically compiles information on the current value of judicial proceedings defended by PGFN which are rated as possible or probable losses. These proceedings are included in the Fiscal Risk Appendix in accordance with article 4(3) of Supplementary Act 101/2000 (LRF), and in the Federal Government financial statements.

The new classification under AGU Directive 318/2018 represented a significant change from the previous classification under AGU Directive 40/2015, with a majority of risks previously classified as probable being reclassified as possible. The change in the risk classification criteria under the new Directive has resulted in the derecognition of provisions previously recognized in accordance with NBC TSP 03.

Technical Pronouncement 12/2019/DGE/AGU introduced updates to and new estimates for the value of legal proceedings. Some cases involving significant amounts were reclassified from possible to probable losses, substantially increasing the provision amounts. For further details, see the Note on “Provisions”.

The following table details the judicial proceedings defended by PGFN in which the likelihood of loss is rated as possible:

Table 108 – Judicial Proceedings Rated as Possible Losses under the Management of PGFN

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
Recognition of credits for materials in the PIS and COFINS tax base	117,275	81,553	43.80	36.12
PIS and COFINS. Non-cumulative basis. Service providers	69,938	74,068	(5.58)	21.54
PIS and CONFINS for financial institutions	26,100	24,388	7.02	8.04
IPI on re-sales of imported products	13,968	17,704	(21.10)	4.30
Tax immunity of social assistance charities	13,720	19,640	(30.14)	4.23
Customs value and inclusion of the costs of unloading goods in Brazil	12,206	5,471	123.10	3.76
PIS/COFINS Rate increase by decree	10,296	8,465	21.63	3.17
PIS and COFINS. Tax base, inclusion of ISS	8,013	8,439	(5.04)	2.47
Contributions to SEBRAE, APEX, ABDI and INCRA	7,897	8,135	(2.92)	2.43
CSSL and IRPJ on the gains of closed private pension entities	7,492	7,020	6.73	2.31
Social Contribution under Supplementary Act 110/2001	6,282	0	-	1.94
PIS, COFINS and CSLL on cooperative undertakings	2,052	31,382	(93.46)	0.63
PIS and COFINS. Tax base, inclusion of ICMS	0	59,100	(100.00)	-
Recognition of IPI credits for materials purchased in the Manaus Free Trade Zone	0	12,826	(100.00)	-
Other	29,408	29,169	0.82	9.06
Total	**324,647**	**387,360**	**(16.19)**	**100.00**

Source: PGFN/ME

The case titled "Inclusion of inputs in the PIS and COFINS tax base" involves a dispute over the concept of inputs for the purpose of offsetting credits against PIS and COFINS taxes in the non-cumulative system. At 12/31/2019 the estimated impact increased by 43.80% compared to year-end 2018, to US$ 117.3 billion.

The case titled "PIS and COFINS, noncumulative system, service providers" involves a dispute over the constitutionality of Executive Orders 66/2002 and 135/2003, which introduced a noncumulative system for PIS and COFINS taxes and consequently increased the rate at which credits can be offset in determining the net tax amount payable. The proceedings have been adjudicated with a decision partly favorable to the Federal Government. At 12/31/2019 the estimated impact decreased by 3.58% compared to year-end 2018, to US$ 69.9 billion.

The cases titled "PIS and COFINS taxes. Calculation Base, inclusion of ICMS" and "Recognition of IPI credits for materials purchased in the Manaus Free Trade Zone" were reclassified as probable losses for the purpose of recognizing provisions, amounting to US$ 59.1 billion and US$ 12.8 billion, respectively. For further details, see the Note on "Provisions".

The case titled "PIS/COFINS and CSLL on cooperative undertakings," the balance of which was reduced by 93.46% from 2018 to US$ 2.1 billion at 12/31/2019, involves a dispute over whether PIS, COFINs and CSLL are payable on the cooperative undertakings of cooperative companies. In 2019, case value was determined based on the actual collected amounts of these taxes for years 2014 to 2018 for companies designated as "Cooperatives" in the National Classification of Economic Activities (CNAE). Within this classification, companies were deemed to be "Financial cooperatives" if classified under CNAE divisions 64, 65 and 66 (financial services industry). The amounts involved were indexed to 2019 by the SELIC rate.

(b.2) Judicial Claims – PGU

The fiscal risks involved in legal proceedings to which the Federal Government is party have been measured in accordance with the requirements set out in AGU Directive 40/2015 as amended by the Fiscal Responsibility Act. Potential risks are presented in the table below.

Table 109 – Contingent Liabilities

US$ million

	12/31/2019
Sugar and ethanol industry – Civil liability of the State	26,546
Inflation indexation and arrears interest under Act 9494/1997	10,127
Food allowance parity for public servants	6,475
FCVS – mortgage insurance within the SFH	6,128
Other	5,170
Total	**54,446**

Source: AGU

The case titled "Sugar and ethanol industry – Civil liability of the State" involves a dispute over the Federal Government's strict liability for damages caused to the sugar and ethanol industry by its fixing of prices on products at less than their cost as estimated by Fundação Getúlio Vargas (FGV). The case is pending before the STF and STJ, with an estimated impact of US$ 26.5 billion at 12/31/2019.

The case titled "Inflation indexation and arrears interest under Act 9494/1997" relates to inflation indexation and arrears interest on judicial awards against the Federal Government based on article 1(F) of Act 9494/1997. A general precedent was recognized in the STF. A motion for clarification seeking to modulate the effects of the decision has been filed and is being adjudicated. The estimated impact at 12/31/2019 was US$ 10.1 billion.

(b.3) Canceled Writs of Payment and Minor Awards (Act 13463/2017)

Act 13463/2017 allows federal writs of payment and minor awards (RPV) to be canceled if they are not claimed by creditors and have been held in deposit for more than two years at an official financial institution. These funds are transferred to the Single Treasury Account. The above Act also establishes that canceled writs of payment and minor awards may be subsequently reinstated, in the amounts transferred to the Single Account, and re-deposited at the request of the creditor.

A claim for reinstatement results in the issuance of a new writ of payment, but the chronological order of the previous requisition and the relevant yield throughout the period are maintained. A claim for reinstatement follows the same process as a regular writ of payment, requiring a new letter of requisition to the court for a new writ of payment or award. For writs of payment, this requisition must be listed no later than July 1 each year to be included in the budget for payment the following year.

Since the entry into force of Act 13463/2017, US$ 3.6 billion in writs of payment and minor awards were canceled up to 12/31/2019, of which US$ 422 million were subsequently reinstated and paid. The table below shows changes in canceled writs of payment and minor awards and payments following reinstatement under judicial orders.

Table 110 – Canceled Writs of Payment and Minor Awards (Act 13463/2017)

US$ million

		Writs of Payment	RPV	Total
	Opening Balance	**-**	**-**	**-**
2017	(+) Canceled	2,683	611	3,294
	(-) Reinstated/paid	-	-	-
	(-) Reinstated by court order	-	-	-
	Balance as of 12/31/2017	**2,683**	**611**	**3,294**
2018	(+) Canceled	356	78	433
	(-) Reinstated/paid	-	(24)	(24)
	(-) Reinstated by court order	(79)	-	(79)
	(-) Cumulative Translation Adjustments	(392)	(89)	(482)
	Balance as of 12/31/2018	**2,567**	**575**	**3,142**
2019	(+) Canceled	390	72	462
	(-) Reinstated/paid	(354)	(48)	(402)
	(-) Reinstated by court order	(9)	-	(9)
	(-) Cumulative Translation Adjustments	(100)	(22)	(122)
	Balance as of 12/31/2019	**2,494**	**577**	**3,071**

Source: Federal Justice System and SIAFI

(b.4) Judicial Claims – PGBC

Based on Appendix V – *Fiscal Risks* of the Budgetary Guidelines (LDO 2020 – Act 13898/2019), the Office of the Attorney General of the Central Bank (PGBC) compiles an inventory of judicial proceedings with details on case value, the stage of the proceedings and the risk of loss. The risk of loss is determined based on the decisions issued in the case, applicable case law and precedents for similar cases.

Only proceedings in which the risk of loss is deemed to be less than probable and greater than remote have been classified as contingent liabilities. These proceedings amount to approximately US$ 1.5 billion. It is important to note that PGBC does not assess its risks based on AGU Directive 40/2015.

(b.5) Fiscal Risks under the Management of STN

These are contingent liabilities of the Federal Government toward Caixa Econômica Federal (CEF) which are pending full recognition to proceed with the administrative settlement process. Processing these claims has involved an effort of STN, PGFN and CGU to ratify the amounts being claimed.

CEF is claiming, based on internal reviews, the amounts shown in the following table:

Table 111 – Fiscal Risks under the Management of STN

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
BNH Bonus	1,111	1,123	(0.99)	85.70
CMN Resolution 1621995	163	165	(1.01)	12.59
PRODUBAN	22	22	(1.66)	1.71
Total	**1,297**	**1,310**	**(1.01)**	**100.00**

Source: COGEF/STN/ME

Details on each claim are provided below:

I. BNH Bonus: Decree-Act 2164/1984 instituted a financial incentive (bonus) for lenders within the National Housing Finance System (SFH), to be granted by Banco Nacional da Habitação (BNH). The General Federal Budget (OGU) for the period 1985-1994 was required to earmark Cr$ 200 billion for expenses in connection with the incentive, but this requirement was only partly met. Decree-Act 2291/1986, under which BNH became defunct, made CEF the Bank's successor to its rights and obligations;

II. CMN Resolution 1621995: State Restructuring and Fiscal Adjustment Support Program. Resolution 162/1995 of the Brazilian Monetary Council (CMN) authorized CEF to refinance state debts to achieve sustainable budgetary health. Executive Order 2192-70/2001 (PROES) authorized the Federal Government to assume CEF's losses in implementing the above Resolution (the difference between interest rates on the loans and on the funding for those loans);

III. PRODUBAN: Executive Order 2192-70/2001 authorized federal financial institutions to assume the liabilities of state financial institutions to the public, and to compensate for the difference between the amount received in the transaction and the amount paid to BCB. The Federal Government as guarantor undertook to pay the difference between the amounts paid by CEF to BCB and the amounts received by CEF from Banco do Estado de Alagoas S/A (PRODUBAN).

According to COGEF/STN/ME, any differences in the balance of obligations as stated in CEF's statement of financial position and the balance stated in these financial statements (at 12/31/2019) derive from, among other factors, the monetary restatement methodology.

(b.6) Judicial Claims – PGF

Based on Appendix V – *Fiscal Risks* of the Budgetary Guidelines (LDO 2020), the Office of the Federal Attorney General (PGF) has assessed the fiscal risks from contingent liabilities using the criteria outlined in AGU Directive 40/2015 as amended. According to PGF, the financial impact of these proceedings is an estimate and reflects the expected economic effects from any unfavorable decisions, either creating new expenses or reducing revenues. Unless otherwise specified, the estimated costs include not only initial expenses on late payments, but also the future impact on the government's finances. These impacts can therefore be spread out over time, and will not necessarily materialize in one fiscal year.

The judicial proceedings to which PGF is party and which are rated as possible losses primarily relate to the extension of the 25% bonus on pension benefits for major impairment (under article 45 of Act 8213/1991) to all types of retirement pensions. The dispute relates to whether the 25% bonus on benefits should be granted to all pensioners requiring permanent assistance from caregivers, regardless of the type of retirement pension. The estimated impact at 12/31/2019 was US$ 868 million.

Other judicial proceedings to which PGF is party involve compensation of US$ 372 million payable by INCRA to landowners for the expropriation of their properties for agrarian reform.

(b.7) Judicial Claims – Dependent Government-Owned Entities

Based on information from Appendix V – *Fiscal Risks* of the Budgetary Guidelines (LDO 2020), the Office for Management and Governance of Government-Owned Companies (SEST/ME) has compiled information from government-owned companies on legal proceedings in which the risk of loss has been rated as possible and which are therefore classified as contingent liabilities. Based on this information, contingent liabilities were a total of US$ 496 million. The contingent liabilities of government-owned companies included in the General Federal Budget (OGU) consist of labor, tax, pension and civil claims.

Based on information from LDO 2020, labor claims amounted to a total US$ 209 million in 2019. These proceedings largely involve claims for salary adjustments for inflation or for losses arising from the indexes used under different economic plans, such as the 28.8% adjustment for the Bresser Plan and the 3.17% adjustment for the Real Plan. This group also includes other labor claims, such as claims involving overtime pay, breaches of collective bargaining agreements, payment of day rates, night-shift bonus, health and safety hazard bonus and the incorporation of other bonuses.

Civil proceedings involve claims under civil (as opposed to criminal) law involving family, inheritance, obligational or property disputes. Proceedings involving Federal Government-owned companies may entail a variety of subject matters, including: compensation for property damages, injuries and expropriations; the rights of claimants to participate in option contracts and electronic auctions; collection proceedings; protested invoices; suspension of administrative acts; and suspension of fines. Civil proceedings involving Federal Government-owned companies amounted to US$ 273 billion.

14 - Net Operating Surplus/Deficit

Net operating surplus or deficit is the difference between revenue and expense in the period.

Revenue is recognized on an accrual basis when it is probable that future economic benefits or service potential will flow to the Government and these benefits can be measured reliably.

Expense is recognized on an accrual basis when it is probable that a decrease in the flow of economic benefits or service potential to the Government will occur, resulting in an outflow of resources or a reduction of assets or assumption of liabilities.

The surplus or deficit for fiscal year 2019 was a deficit of US$ 103.5 billion as shown in the table below.

Table 112 – Revenue X Expense

US$ million

	12/31/2019	12/31/2018	HA (%)
Revenue (I)	793,241	830,913	(4.53)
Expense (II)	896,701	857,046	4.63
Surplus/Deficit for the Period (III = I - II)	**(103,460)**	**(26,133)**	**(295.89)**

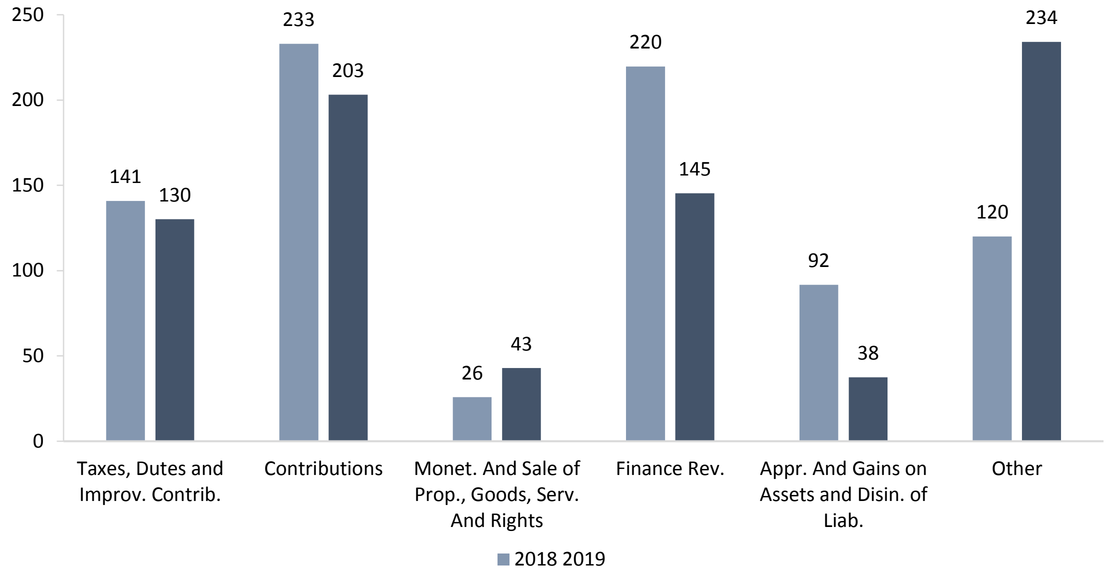
Source: SIAFI

As seen in the table above, the deficit for the period rose by approximately 295.89%, or US$ 77.3 billion in monetary terms, compared with the previous fiscal year.

The following figures show the changes in revenue and expense in previous years.

Figure 7 – Revenue

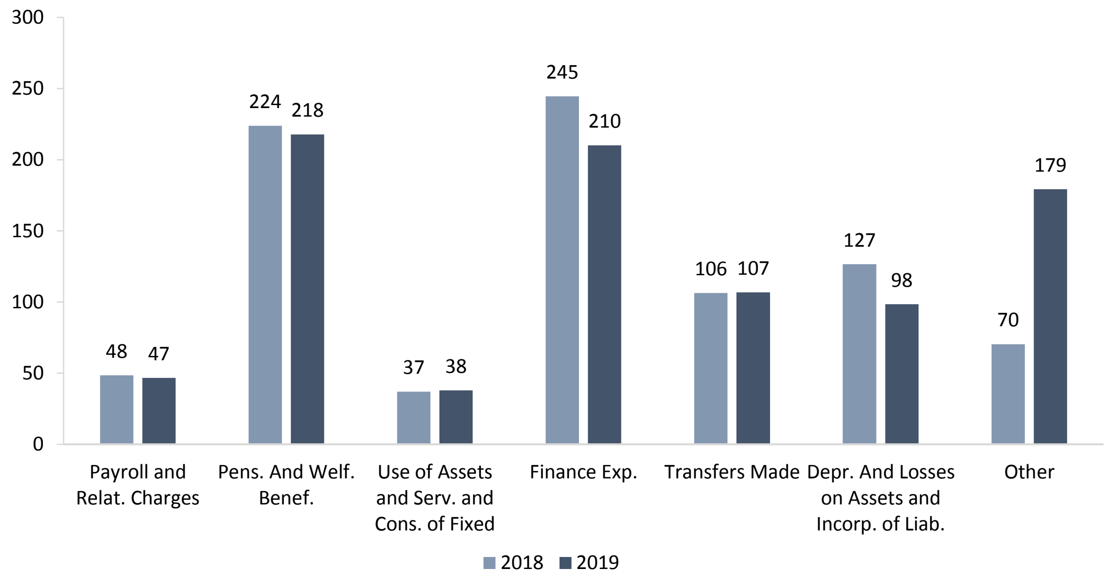
US$ billion



Source: SIAFI

Figure 8 – Expense

US$ billion



Source: SIAFI

(a) Other Revenue

The increase of US$ 114 billion (111.32%) in “Other Revenue” was primarily due to a reversal of US$ 55.0 billion in provisions for RPPS actuarial liabilities in 2019 and the reversal of US$ 76.1 billion in adjustments for impairment losses on receivables administered by the RFB.

(b) Other Expense

The increase of US$ 109 billion (175.42%) in “Other Expense” largely reflects long-term provisions recognized for legal proceedings rated as probable losses by the AGU (US$ 55.5 billion) and PGFN (US$ 23.8 billion) in 2019.

(c) Financial Performance

The following table compares the Federal Government's financial performance in fiscal year 2019 with the previous fiscal year.

Table 113 – Statement of Financial Performance

US$ million

	12/31/2019	12/31/2018	HA (%)
Finance Revenue (I)	**145,389**	**219,595**	**(33.79)**
Interest and Charges on Loans and Financing Provided	20,559	25,724	(20.08)
Late Payment Interest and Fines	559	3,280	(82.95)
Monetary and Exchange Variance	85,255	107,217	(20.48)
Interest on Short-Term Investments	28,125	29,383	(4.28)
Transfers from the Central Bank	10,763	52,777	(79.61)
Other Finance Revenue	129	1,213	(89.39)
Finance Expense (II)	**210,118**	**244,556**	**(14.08)**
Interest and Charges on Loans and Financing Obtained	83,496	92,086	(9.33)
Late Payment Interest and Fines	223	21	979.99
Monetary and Exchange Variance	120,876	142,164	(14.97)
Financial Discounts Awarded	97	92	5.20
Transfers to the Central Bank	2,769	5,885	(52.96)
Other Finance Expense	2,657	4,307	(38.31)
Financial Surplus/Deficit (III = I - II)	**(64,728)**	**(24,961)**	**(159.32)**

Source: SIAFI

The higher deficit largely due to a decrease in net positive transfers from the Central Bank of Brazil (BCB), from US$ 47.2 billion in 2018 to U$$ 8.0 billion in 2019.

Revenue or expense from "Interest and Charges on Loans and Financing" provided and obtained was a net expense of US$ 62.9 billion in 2019, primarily reflecting interest paid on securities debt.

Revenue or expense from "Monetary and Foreign-Exchange Variance" was an expense of US$ 35.6 billion, compared to an expense of approximately US$ 34.9 billion in fiscal year 2018.

(d) Non-Finance Revenue/Expense

The table below shows the Statement of Financial Performance results excluding the effects from finance revenue and expense.

Table 114 – Statement of Financial Performance excluding Finance Revenue/Expense

US$ million

	12/31/2019	12/31/2018	HA (%)
Revenue (I)	**647,851**	**611,318**	**5.98**
Taxes, Duties and Improvement Contributions	130,179	140,810	(7.55)
Contributions	203,153	232,913	(12.78)
Monetization and Sale of Property, Goods, Services and Rights	42,881	25,892	65.62
Transfers Received	1,452	1,213	19.69
Appreciation and Gains on Assets and Disincorporation of Liabilities	37,508	91,640	(59.07)
Other Revenue	232,677	118,850	95.77
Expense (II)	**686,583**	**612,490**	**12.10**
Payroll and Related Charges	46,556	48,485	(3.98)
Pension and Welfare Benefits	217,682	223,930	(2.79)
Use of Assets and Services and Consumption of Fixed Capital	37,822	36,900	2.50
Transfers Made	106,786	106,327	0.43
Depreciation and Losses on Assets and Incorporation of Liabilities	98,418	126,525	(22.21)
Other Expense	179,320	70,323	154.99
Non-financial Surplus/Deficit (III = I - II)	**(38,732)**	**(1,172)**	**(3,204.49)**

Source: SIAFI

Excluding finance revenue and expense, the surplus/deficit in fiscal year 2019 was a deficit of US$ 38.7 billion compared with a deficit of US$ 1.2 billion in 2018.

The non-financial surplus/deficit therefore declined by US$ 37.5 billion (3,04.49%) year on year in fiscal 2019.

15 - Net Increase/Decrease in Cash and Cash Equivalents

Due to the Federal Government's adoption of the principle of the unity of treasury, "Net Increase/Decrease in Cash and Cash Equivalents" is equivalent to "Financial Surplus/Deficit". The financial surplus/deficit in fiscal year 2019 was a surplus of US$ 38.5 billion, decreasing by 31.63% from a surplus of US$ 56.3 billion in fiscal year 2018, as shown in the table below.

Table 115 – Net Increase/Decrease in Cash and Cash Equivalents – Formation

US$ million

	12/31/2019	12/31/2018	HA (%)
Operational Activities	(44,811)	(50,370)	11.04
Investing Activities	16,420	21,067	(22.06)
Financing Activities	66,906	85,639	(21.87)
Total	**38,514**	**56,336**	**(31.63)**

Source: SIAFI

(a) Operating Activities

With respect to cash flows from operating activities, the deficit fell by 11.04% in 2019 compared with the previous fiscal year, to a total deficit of US$ 44.8 billion.

Table 116 – Cash Flows from Operating Activities

US$ million

	12/31/2019	12/31/2018	HA (%)
Receipts (I)	**480,357**	**470,438**	**2.11**
Tax and Non-tax Revenue	458,306	456,009	0.50
Current Transfers Received	321	345	(6.98)
Other Cash Receipts from Operations	21,730	14,084	54.29
Payments (II)	**525,168**	**520,807**	**0.84**
Personnel and Other Expenses	317,664	311,460	1.99
Interest and Debt Service Costs	74,092	78,212	(5.27)
Transfers Made	111,443	113,909	(2.16)
Other Cash Payments Generated from Operations	21,969	17,227	27.53
Total (III = I - II)	**(44,811)**	**(50,370)**	**11.04**

Source: SIAFI

The expenditures contributing most to the deficit were personnel and other expenses of US$ 317.7 billion. This category includes pension expenditure, which accounted for expenses of US$ 183.2 billion, an increase of 1.05% from the previous fiscal year, as detailed in the following table.

Table 117 – Pension Expenditure

US$ million

	12/31/2019	12/31/2018	HA (%)	VA (%)
RGPS Retirement Benefits – Urban	84,734	82,082	3.23	46.26
RGPS Pension Benefits – Urban	28,409	28,417	(0.03)	15.51
RGPS Retirement Benefits – Rural	23,417	23,606	(0.80)	12.78
RPPS Retirement, Reservist and Military Retirement Benefits	15,997	15,101	5.93	8.73
RPPS and Military Pensions	11,550	11,192	3.20	6.31
Other RGPS Benefits – Urban	7,969	9,045	(11.90)	4.35
RGPS Pensions – Rural	7,738	8,011	(3.41)	4.22
Other	3,345	3,798	(11.91)	1.83
Total	**183,161**	**181,253**	**1.05**	**100.00**

Source: SIAFI

(b) Investing Activities

In relation to cash flows from "investing activities", the deficit/surplus in fiscal year 2019 was a surplus of US$ 16.4 billion, compared with a surplus of US$ 21.1 billion in the previous fiscal year. The surplus reflects proceeds received from the repayment of loans and financing provided, especially accelerated repayments of US$ 24.8 billion from BNDES and approximately US$ 2.8 billion from CEF.

Table 118 – Amortization of Loans and Financing Provided

US$ million

	12/31/2019	12/31/2018	HA (%)
Contractual Loans	34,623	39,763	(12.93)
Loans – States and Municipalities	2,218	2,432	(8.79)
Financing	1,301	1,260	3.31
Financing – FIES	410	371	10.67
Loans – Official Loans Program	325	439	(25.95)
Enforcement of Guarantees – Loans	4	208	(98.02)
Loans – Refinancing of Medium and Long-Term Debt	1	5	(76.86)
Total	**38,883**	**44,476**	**(12.58)**

Source: SIAFI

(c) Financing Activities

In relation to cash flows from "financing activities", the deficit/surplus in fiscal year 2019 was a surplus of US$ 66.9 billion, a decrease of US$ 18.7 billion from the surplus in fiscal year 2018.

The reduced surplus largely reflects decreased equity surplus from BCB, which fell from US$ 45.7 billion in 2018 to US$ 11.8 billion in 2019 (see the Note on "Equity in Surplus or Deficit of the Brazilian Central Bank").

Receipts from "borrowings" were a total of US$ 248.2 billion in 2019, decreasing by US$ 11.7 billion compared with the previous fiscal year, as shown in the table below.

Table 119 – Receipts from Borrowings

US$ million

	12/31/2019	12/31/2018	HA (%)
National Treasury Bonds – Domestic Market	242,923	256,873	(5.43)
National Treasury Bonds – Foreign Market	4,607	1,541	198.91
Contractual Borrowings – Foreign Market	0	757	(100.00)
Other Borrowings – Domestic Market	630	675	(6.76)
Total	**248,159**	**259,846**	**(4.50)**

Source: SIAFI

Cash payments were US$ 193.2 billion in fiscal year 2019 and US$ 219.9 billion in fiscal year 2018, with the most significant item being "refinancing of securities debt", as detailed below.

Table 120 – Debt Repayment and Refinancing

US$ million

	12/31/2019	12/31/2018	HA (%)
Refinancing – Securities Debt	120,910	125,958	(4.01)
Amortization – Securities Debt	61,957	69,778	(11.21)
Equity in Deficit in BCB	8,200	22,247	(63.14)
Refinancing – Contractual Debt	2,057	1,755	17.25
Amortization – Contractual Debt	84	151	(44.37)
Total	**193,209**	**219,889**	**(12.13)**

Source: SIAFI

16 - Prior Year Adjustments

"Prior Year Adjustments" are a component of the line item "Accumulated Surpluses/(Deficits)" in the Statement of Financial Position, which also includes "Surplus/Deficit for the Fiscal Year" and "Surplus or Deficit for Previous Years". These accounts are used to record the effects from changes in accounting practices or restatements to prior years not attributable to subsequent events.

At 12/31/2019, "Prior Year Adjustments" had a negative balance of US$ 35.3 billion. The following table provides a breakdown of this balance by entity, highlighting the most significant balances (exceeding R$ 1 billion or US$ 248 million on December 31, 2019).

Table 121 – Prior Year Adjustments – By High-Level Entity

US$ million

	12/31/2019
Ministry of Economy	(62,828)
Ministry of Infrastructure	15,698
Office of the Attorney General	10,302
Ministry of Health	585
Ministry of Agriculture and Food Supply	490
Other	364
Total	**(35,388)**

Source: SIAFI

(c) Ministry of Economy

Of the total of US$ 62.8 billion reported for the Ministry of Economy, US$ 56.8 billion relates to the recognition by PGFN of provisions for judicial losses classified in accordance with AGU Directive 40/2015, and monetarily restated in accordance with Technical Pronouncement 12/2019/DGE/AGU.

In 2019, actuarial liabilities of US$ 17.9 billion were also recognized for the Federal District Constitutional Fund (FCDF). These items are detailed further in the Note on “Provisions”.

(b) Ministry of Infrastructure

Out of the amount stated for the Ministry of Infrastructure, US$ 12.0 billion relates to the incorporation of federal railroads into the real property assets of the National Department of Transportation Infrastructure (DNIT). A railroad’s book value is estimated using the Average Cost of Ownership table for rail works prepared by DNIT, equivalent to these assets’ residual book value of 20%. For further information, see the Note on “Property, Plant and Equipment”.

(c) Office of the Attorney General

The US$ 10.3 billion stated for the Office of the Attorney General was recorded under “Prior Year Adjustments” due to a revaluation of “Provisions for Judicial and Administrative Losses” classified as long term, relating to judicial proceedings rated as probable losses.

17 - Related Parties

As of fiscal year-end 2019 there were no specific financial reporting standards on related parties. IPSAS 20 – *Related Party Disclosures* has therefore been used as a basis for developing a standard on disclosing transactions between the Federal Government and related parties. And while NBC TSP 22, approved on November 21, 2019, has converged Brazil’s public sector accounting standards with IPSAS 20, it will become effective only from January 1, 2021.

According to the above standard, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Currently the option has been made to report only on the Federal Government’s direct interests. In sections “b” and “c” of this Note, on respectively revenues received and payments made, information is provided only on the following entities:

I. Brazilian Development Bank (BNDES);
II. Petróleo Brasileiro S/A (Petrobras);
III. Caixa Econômica Federal (CEF);
IV. Banco do Brasil S/A – BB;
V. Residential Lease Fund (FAR);
VI. Centrais Elétricas Brasileiras S/A (Eletrobras);
VII. Empresa Gerencial de Projetos Navais (EMGEPRON)
VIII. Student Loan Guarantee Fund (FGEDUC);

IX. Banco do Nordeste do Brasil S/A (BNB);
X. Financiadora de Estudos e Projetos (FINEP);
XI. Companhia Imobiliária de Brasília (TERRACAP);
XII. Federal Data Processing Service (SERPO)
XIII. Social Housing Guarantee Fund (FGHab);
XIV. Student Loan Guarantee Fund (FG-FIES);
XV. Companhia Docas do Estado de São Paulo (CODESP); and
XVI. Banco da Amazônia S/A.

These entities were selected for the reason that: (i) the Federal Government exercises significant influence over them; (ii) they have not been consolidated in the financial statements in accordance with Brazilian accounting standards; and (iii) they account for 98.52% of the permanent equity holdings directly controlled by the Federal Government, as shown in the table in section "a" of this Note.

(a) Investments

The following table shows changes in Federal Government investments in related parties in fiscal year 2019.

Table 122 – Related Parties – Changes in Investments – 2019

US$ million

	Opening Balance at 12/31/2018	Equity Income	Equity Losses	Dividends and Interest on Equity	Other	Closing Balance at 12/31/2019
BNDES	19,998	5,887	-	2,348	-	23,537
Petrobras	20,657	2,099	(658)	325	-	21,773
CEF	10,991	2,616	(383)	1,181	-	12,043
BB	11,627	1,109	-	850	(165)	11,722
FAR	7,142	-	(279)	-	851	7,714
Eletrobras	4,404	2,140	-	121	10	6,433
EMGEPRON	802	29	-	3	1,774	2,602
FGEDUC	842	586	-	-	-	1,428
BNB	465	228	-	43	49	699
FINEP	520	73	-	11	-	583
TERRACAP	314	133	(32)	-	-	415
SERPRO	216	139	-	13	-	342
FGHAB	88	-	-	-	197	285
FG-FIES	127	28	-	-	124	279
CODESP	360	24	(125)	-	-	260
BASA	240	24	-	5	-	258
Other	4,868	297	(445)	91	(3,268)	1,362
Total	**83,660**	**15,413**	**(1,922)**	**4,991**	**(428)**	**91,733**

Source: SIAFI

Dividends and interest on equity payable by BB, BNDES and CEF to the Federal Government, as presented in the table above, carry interest at the SELIC rate from the end of the fiscal year to the day those amounts are paid, as prescribed by article 1(4) of Decree 2673/1998. It is important to note that part of the US$ 63 million paid by Banco do Brasil was for the fourth quarter of 2019, while the Federal Government's most recent equity position in the Bank was based on the statement of financial position for 9/30/2019. Given that the appropriation of dividends and interest on equity reduces the investment account balance, a positive adjustment was made to the Federal Government's interest in Banco do Brasil to prevent it from being understated.

The changes in Federal Government investments in related parties show an increase of US$ 8.1 billion in the total balance from 12/31/2018 to 12/31/2019, with US$ 15.4 billion in equity income, US$ 1.9 billion in equity losses, US$ 5.0 billion in dividends and interest on equity, and US$ 428 million in other movements.

The most significant reductions were in EMGEA (US$ 2.6 billion), Agência Brasileira Gestora de Fundos Garantidores e Garantias S/A (US$ 670 million) and in the Brazilian Mint (Casa da Moeda do Brasil) (US$ 496 million), reflecting equity interests transferred to the National Privatization Fund (FND) pursuant to Decree 10008/2019, Decree 10007/2019 and Decree 10054/2019, respectively, which explain the reduction of the balance under "Other".

The most significant increases were in BNDES (US$ 3.5 billion), Eletrobras (US$ 2.0 billion) and EMGEPRON (US$ 1.8 billion), with the latter increase primarily reflecting an Advance for Future Capital Increase (AFCI) supporting the execution of projects for the Brazilian Navy.

For further information, see the Notes "Investments", "Equity Income in Investments", "Equity Loss on Investments".

(b) Receipts

In fiscal year 2019, US$ 65.2 billion in revenue was received in related-party receipts. These receipts primarily relate to loan repayments, accounting for 49.22% (US$ 32.1 billion) of the total, as shown in the table below.

Table 123 – Related Parties – Receipts

US$ million

	12/31/2019	VA (%)
Loan Repayments	32,080	49.22
Natural Resource Exploitation	9,709	14.90
Borrowings – Domestic Market	7,860	12.06
Borrowings – Foreign Market	4,607	7.07
Securities	4,369	6.70
Financial Services and Activities	4,116	6.32
Other	2,432	3.73
Total	**65,173**	**100.00**

Source: SIAFI

The related-party revenues under "repayment of loans and financing provided to third parties" relate to transactions with related parties acting as the Federal Government's intermediaries. A case in point is the BNDES, which made repayments of US$ 27.1 billion to the Federal Government, the equivalent of 84.59% of revenue from loan amortization, as detailed in the following table.

Table 124 – Related Parties – Loan Repayments

US$ million

	12/31/2019	VA (%)
BNDES	27,137	84.59
CEF	3,289	10.25
BB	1,447	4.51
BNB	124	0.39
FINEP	67	0.21
BASA	16	0.05
Total	**32,080**	**100.00**

Source: SIAFI

In terms of revenues from natural resource exploitation, Petrobras accounted for virtually all revenues transferred to the Federal Government, at US$ 9.9 billion. These revenues derived from production-sharing agreements for pre-salt oilfields.

Borrowings in domestic and foreign markets were a total of US$ 12.3 billion, with CEF accounting for US$ 7.7 billion in borrowing transactions in the domestic market and with BB accounting for US$ 4.6 billion in borrowings in the foreign market.

The following table provides a breakdown of these receipts.

Table 125 – Related Parties – Securities

US$ million

	12/31/2019	VA (%)
BNDES	2,445	55.97
BB	936	21.42
CEF	475	10.88
Petrobras	330	7.55
Other	183	4.18
Total	**4,369**	**100.00**

Source: SIAFI

BNDES accounted for 55.97% (US$ 2.4 billion) of total receipts from securities. Of this amount, US$ 0.8 million was in interest on equity, and US$ 1.6 billion was in dividends.

The securities receipts from BB, CEF and Petrobras largely consist of interest on equity of respectively US$ 936 million, US$ 475 million and US$ 330 million.

In relation to receipts from financial services and activities, the table below provides a breakdown by paying entity.

Table 126 – Financial Services and Activities

US$ million

	12/31/2019	VA (%)
BNDES	3,447	83.75
CEF	425	10.33
BB	115	2.80
FINEP	65	1.57
BNB	49	1.20
BASA	15	0.35
Total	**4,116**	**100.00**

Source: SIAFI

As shown, 83.75% (US$ 3.4 billion) of receipts from financial services and activities were collected from BNDES. Of this amount, the most significant components were interest and financial charges on BNDES lending transactions with Federal Government funding.

(c) Payments Made

In fiscal year 2019, payments of US$ 103.8 billion were made involving related parties. In many of these transactions, the related parties acted as financial intermediaries, initially receiving funds from the Federal Government and subsequently transferring those funds to the end-beneficiary. A breakdown of these payments is provided in the table below.

Table 127 – Related parties – Payments Made

US$ million

	12/31/2019	VA(%)
Contributions to States and Municipalities	20,693	19.94
Unemployment Insurance and Workers' Bonus	14,158	13.64
Indemnities and Refunds	11,812	11.38
Fixed Compensation and Benefits–Public Servants	11,007	10.61
RGPS Retirement Benefits	7,673	7.40
Provision of Loans and Financing	7,435	7.17
RPPS Retirement, Reservist and Military Retirement Benefits	6,566	6.33
Revenue Distribution	3,151	3.04
Economic Subsidies	3,178	3.06
Other	18,088	17.43
Total	**103,761**	**100.00**

Source:SIAFI

The most significant payments relate to contributions made to states and municipalities, which are current or capital transfers made by the Federal Government to state and local governments. In these types of payments, related parties act as financial intermediaries on behalf of the Federal Government, channeling funds to other federation entities. In relation to contributions, the entire amount was transacted by BB.

Employment insurance and workers' bonus are social benefits paid to workers under specific legislation. For example, articles 9(A), 10 and 15 of Act 7998/1990 establish that workers' bonus and unemployment insurance payments are to be made out of the FAT fund via financial institutions, in accordance with rules issued by SPREV/ME. In fiscal year 2019, these payments were made via CEF (96.65%) and BB (3,35%).

The balance of indemnities and refunds was especially significant in the year compared to the previous fiscal year. The primary creditor was Petrobras, which accounted for 75.18% of the total of US$ 11.9 billion.

Transfers for payment of compensation and fixed benefit payments to public servants and Government employees amounted to US$ 10.7 billion, with BB accounting for 81.52%.

A breakdown of loans and financing payments is provided below.

Table 128 – Related Parties – Provision of Loans and Financing

US$ million

	12/31/2019	VA (%)
BNDES	5,061	68.07
BB	1,068	14.36
BASA	690	9.28
FINEP	380	5.12
FGEDUC	109	1.47
CEF	71	0.96
FIES	56	0.75
Total	**7,435**	**100.00**

Source: SIAFI

In payments related to the provision of loans and financing, related parties largely acted as financial intermediaries rather than direct beneficiaries of these payments, with the exception of funds. A significant portion of payments was intermediated by BNDES, accounting for 68.07% (US$ 5.1 billion) of funds provided.

In relation to RPPS retirement, reservist and military retirement benefits, the primary related party engaged in the processing of payments was BB at 81.19% (US$ 5.2 billion).

The portion of payments related to RGPS benefits, amounting to US$ 7.5 billion, was also intermediated by BB.

In terms of distributions of Federal Government revenues in 2019, the most significant transfers were to municipalities in the state of São Paulo, which accounted for approximately US$ 546 million (32.40%) of total municipal transfers, and US$ 496 million to the state of São Paulo, accounting for 36.88% of total state transfers.

The most significant expenditures under “Economic Subsidies” were within the following programs: Farmácia Popular, Capital Goods Sourcing and Production Program (BENSC), Minha Casa, Minha Vida (PMCMV), National Program to Strengthen Family Farming, and Rural Agribusiness Investment Program.

(d) Compensation of Key Management Personnel

IPSAS 20 requires that in addition to related party transactions, entities provide information on key management personnel and especially the compensation structure.

In the case of the Federal Government, providing information in significant detail would be prohibitively complex. There is no unified system providing such information, as each branch of government is independent in its management of personnel. According to the SIAFI system, personnel expenses are broken down as follows.

Table 129 – Percent Share in Personnel Expenses – By Branch of Government

	12/31/2019	12/31/2018
Executive	80.35	80.81
Judiciary	13.05	12.93
Legislative	3.73	3.88
Central Government Prosecution Service	2.86	2.38
Total	**100.00**	**100.00**

Source: Adapted from SEGEP/ME (SIAPE)

In the Case of the Executive Branch, management of personnel is conducted via the Federal Government People Management System (SIGEPE). The system is supervised by the Office for Public Management (SEGEP), a division of the Special Office for Planning, Development and Management of the Ministry of Economy.

Information about Federal Government expenditure on personnel, a breakdown of personnel expenses by organization and entity, the number of public servants, the distribution of public servants by compensation range, and other organizational information is available on the “Personnel Statistics Dashboard” (*Painel Estatístico de Pessoal*) page at http://painel.pep.planejamento.gov.br.

A Federal Government website called the Transparency Portal (*Portal da Transparência*) (www.transparencia.gov.br) also provides information on personnel, including compensation paid by individual position in the Federal Executive Branch, among other data.

The following table provides a breakdown of job classifications, functions and bonuses at December 2019, with a total of 87,550 positions, 11.82% fewer than the 99,285 positions in 2018.

Table 130 – Number of Persons in Positions of Trust and Bonus-Based Positions in the Federal Executive Branch

Titles and Positions	12/31/2019	VA (%)
FG (Bonus-Based Position - IFES)	20,172	23.04
FGR (Bonus-Based Position – Act 8216/1991)	12,698	14.50
FPE (Politically Appointed Executive Position)	11,588	13.24
FUC (Politically Appointed Course Coord. Position)	11,018	12.58
DAS (Senior Management and Advisory)	10,506	12.00
CD (Management Position – IFES)	8,408	9.60
FCT (Politically Appointed Technical Position)	4,491	5.13
CCT (Politically Appointed Technician Position)	2,426	2.77
GSE-IBGE (Bonus for Special Services/Census)	1,137	1.30
RMA-PR (Bonus for Cabinet Representation-Support (PR/VPR))	944	1.08
RGA-PR (Bonus for Cabinet Representation-Support (PR/VPR))	714	0.82
CGE (Politically Appointed Executive Management Position)	617	0.70
GT-AGU (Temporary Bonus)	546	0.62
RMA-EMFA (Bonus for Cabinet Representation-Support (PR/VPR))	447	0.51
RMP-EMFA (Bonus for Military Cabinet Representation/EMFA)	332	0.38
GNE-EX-TER/A (Bonus for Special-Purpose Positions)	242	0.28
CA (Politically Appointed Advisory Position)	182	0.21
GR (Representation Bonus)	182	0.21
RMP-PR (Bonus for Military Cabinet Representation)	167	0.19
CAS (Politically Appointed Advisory Position)	128	0.15
RGA-ABIN (Bonus for Cabinet Representation-Support (PR/VPR))	123	0.14
GTS (Temporary Bonus – SIPAM)	85	0.10
RGA-MDH (Bonus for Cabinet Representation-Support (PR/VPR))	69	0.08
NES (Special-Purpose Position)	63	0.07
RGA-MTFCGU (Bonus for Cabinet Representation-Support (PR/VPR))	56	0.06
RGA-AGU (Bonus for Cabinet Representation-Support (PR/VPR))	52	0.06
CCD (Politically Appointed Management Position)	46	0.05
RMA-VPR (Bonus for Cabinet Representation-Support (PR/VPR))	34	0.04
GNE-EX-TER/R (Bonus for Special-Purpose Positions)	25	0.03
NE-001 (Special-Purpose Positions)	23	0.03
RGA-VPR (Bonus for Cabinet Representation-Support (PR/VPR))	12	0.01
RMP-VPR (Bonus for Military Cabinet Representation (PR/VPR))	11	0.01
RGM (Bonus for Cabinet Representation (Min))	5	0.01
FT (Technical Position – FT/APO)	1	0.00
Total	**87,550**	**100.00**

Source: Adapted from SEGEP/ME (SIAPE)

Of the job classifications, positions and bonuses listed above, the DAS group of positions is especially relevant in that it most closely approximates the concept of key management personnel under IPSAS 20.

Under the above standard, key management personnel are all directors or members of the governing body of the entity and other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity.

The composition of DAS group positions is shown in the following table.

Table 131 – DAS Group Positions — By Level

	12/31/2019	12/31/2018	HA (%)
DAS-1	2,151	2,573	(16.40)
DAS-2	2,304	2,761	(16.55)
DAS-3	2,412	2,458	(1.87)
DAS-4	2,332	2,486	(6.19)
DAS-5	1,066	1,082	(1.48)
DAS-6	241	206	16.99
Total	**10,506**	**11,566**	(9.16)

Source: Adapted from SEGEP/ME (SIAPE)

In fiscal year 2019, the number of persons in DAS-6 group positions increased by 16.99%. The following tables show the unit compensation paid for DAS group positions from January 2019, as well as the number of personnel in this group by age bracket, education level and gender.

Table 132 – DAS Headcount — By Unit Compensation

	Headcount 2018	Compensation* (US$)
DAS-1	2,412	670.22
DAS-2	2,332	853.64
DAS-3	2,304	1,410.56
DAS-4	2,151	2,573.57
DAS-5	1,066	3,379.91
DAS-6	241	4,203.96
Total	**10,506**	

*NB: *Since January 1, 2018 compensation has been subject to the provisions of Act 13328/2016 and Act 11526/2007. Pursuant to article 2 of Act 11526/2007, public servants, military servicemen or persons in permanent employment in any of the branches of central, state, municipal or Federal District governments, in those positions listed in article 1 of the Act, may elect to receive one of the types of compensation specified below:*
I - compensation for politically appointed positions, plus annual bonuses;
II - the difference between the compensation for politically appointed positions and the compensation for public servants or for the relevant position or rank, or for permanent employment; or
III - the compensation for public servants, for the relevant position or rank, or for permanent employment, plus a percentage of sixty percent of the compensation payable for the relevant politically appointed position.
Source: Adapted from SEGEP/ME (SIAPE)

Table 133 – DAS Headcount — By Age Bracket

Level	Age Group					
	Up to 30	31-40	41-50	51-60	Over 60	
DAS-1	258	610	550	441	292	2,151
DAS-2	244	725	600	490	245	2,304
DAS-3	195	834	685	495	203	2,412
DAS-4	106	713	743	532	238	2,332
DAS-5	15	273	392	270	116	1,066
DAS-6	1	46	87	63	44	241
Total	**819**	**3,201**	**3,057**	**2,291**	**1,138**	**10,506**

Source: Adapted from SEGEP/ME (SIAPE)

Table 134 – DAS Headcount — By Education Level

	DAS-1	DAS-2	DAS-3	DAS-4	DAS-5	DAS-6
Primary Education Dropout	17	17	3	6	2	-
Primary Education	17	54	42	108	65	17
Secondary Education	54	17	12	5	3	-
Higher Education	10	4	1	-	-	-
Graduate Education	740	553	336	171	42	8
Specialization	1,251	1,526	1,845	1,831	875	195
Master's	27	46	51	38	8	-
PhD	35	87	122	173	71	21
Total	**2,151**	**2,304**	**2,412**	**2,332**	**1,066**	**241**

Source: Adapted from SEGEP/ME (SIAPE)

Table 135 – DAS Headcount — By Gender

	Male	Female	Male (%)	Female (%)	Total
DAS-1	1,200	951	55.79	44.21	2,151
DAS-2	1,188	1,116	51.56	48.44	2,304
DAS-3	1,252	1,160	51.91	48.09	2,412
DAS-4	1,409	923	60.42	39.58	2,332
DAS-5	791	275	74.2	25.8	1,066
DAS-6	192	49	79.67	20.33	241
Total	**6,032**	**4,474**	**57.41**	**42.59**	**10,506**

Source: Adapted from SEGEP/ME (SIAPE)

18 - Changes in Dividends and Interest on Equity

In compliance with Panel Decision 1.338/2014-TCU-Plenário, the table below shows changes in dividends and interest on equity paid by the Government-owned entities with the highest share of dividend receipts from 2015 to 2019 (on a cash basis).

Table 136 – Dividends/Interest on Equity Received – By Year

US$ million

	2015	2016	2017	2018	2019
BNDES	1,273	67	1,031	387	2,366
CEF	870	226	22	724	1,183
Banco do Brasil	768	407	415	569	920
Petrobras	0	0	0	193	326
BNB	64	11	30	20	44
Other	109	158	168	88	341
Total	**3,084**	**869**	**1,667**	**1,981**	**5,180**

Source: STN/ME (Central Government Primary Balance)

In 2019, National Treasury collections of dividends/interest on equity exceeded US$ 5.2 billion, an improvement of 172% on the previous fiscal year. Especially significant payouts were made by BNDES, Banco do Brasil CEF, Petrobras and BNB, accounting for 93.41% of total collections.

BNDES paid the largest share of dividends/interest on equity to the Federal Government at US$ 2.4 billion for fiscal year 2018, with US$ 844 million paid in the form of interest on equity. Of the total, US$ 2.0 billion refers to advances of dividends and interest on equity.

CEF paid the Federal Government US$ 1.2 billion, including US$ 422 billion in interest on equity and US$ 749 million in advances on dividends and interest on equity.

Banco do Brasil paid the Federal Government interest on equity of US$ 920 million, including an advance of US$ 707 million in interest on equity for fiscal year 2018. Banco do Brasil has paid dividends/interest on equity to shareholders on a quarterly basis, in accordance with its bylaws.

The following table summarizes the advances on dividends and interest on equity paid in 2018 and 2019:

Table 137 – Advances on Dividends/Interest on Equity

US$ million

	2019	2018
BNDES	1,953	-
CEF	749	-
Banco do Brasil	707	477
Petrobras	278	193
Other	96	37
Total	**3,782**	**707**

Source: STN/ME

It is important to note that dividends/interest on equity received in a given year (cash basis) cannot be directly compared with the net income for that fiscal year (accrual basis) as the amounts paid in a given fiscal year are typically for net income declared in the previous fiscal year, often with monetary restatement. In addition, the amounts received may include amounts related to net income for previous fiscal years held in profit reserves.

The table below shows ratio of dividends/interest on equity on a cash basis to total revenue, at current amounts, during the period 2015- 2019.

Table 138 – Dividends/Interest on Equity Received – Cash Basis x Accrual Basis

US$ thousands

Year	Dividend Revenue – Cash Basis (A)	Total Receipts (B)	Ratio (%)
2019	5,347	418,744	1.28
2018	2,355	455,413	0.52
2017	1,668	418,102	0.40
2016	732	339,360	0.22
2015	2,988	309,571	0.97

Source: STN/ME (Central Government Primary Balance)

19 - General Pension System

Under article 1 of Act 8213/1991, “the purpose of the pension system, which is funded by contributions, is to provide beneficiaries with the means for their sustenance in the event of their disablement or involuntary unemployment, upon reaching the age of retirement or completing the required length of service, for the defraying of family expenses or upon the imprisonment or death of persons on whom they depend economically.”

The General Pension System (RGPS)—with the exception of involuntary unemployment and retirement by length of contribution for individual taxpayers, and optional retirement pursuant to article 21(2) of Act 8212/1991, as amended by Act 12470/2011—provides coverage for all the situations described above.

There are no specific standards on the accounting treatment used in recognizing balance-sheet items related to the RGPS. The IPSAS framework also provides no specific guidance on the treatment of RGPS benefits. IPSAS 39 – *Employee Benefits* contains guidelines on the treatment to be used for the benefits granted to the employees of a given government organization (public servants).

In the case of the RGPS, only a small portion of beneficiaries have an employment relationship with the Federal Government. Most RGPS beneficiaries are in the private sector. Only civil servants not covered by Federal Government, state, Federal District or municipal civil servants’ pension systems can be RGPS beneficiaries.

Because no applicable standards exist in the Brazilian accounting framework and IPSAS and IFRS standards cannot be applied, as RGPS beneficiaries are largely not Government employees, an assessment was made of international experience in reporting on pension benefits.

The countries used for reference were the United States and Canada, which are among the world's largest economies, are members of the Organization for Economic Cooperation and Development (OECD), and have similar pension systems.

Based on the financial statements of the US government for fiscal year 2014, Social Security benefits—which, except for some particularities, can be considered equivalent to RGPS benefits—are accounted for using the modified cash model.

In the US model, the present value of future revenue and expense is estimated over a period of 75 years. In the modified cash model, a projection of expenses affecting Social Security is made as a type of actuarial mathematical provision (actuarial liability). US Accounting Standards require separate financial statements to be prepared for Social Security.

The option of the US Government not to present this information in the consolidated financial statements of the Federal Government is primarily due to the use of different accounting methods—the accrual method for the consolidated financial statements and the modified cash method for the separate financial statements for Social Security.

The financial statements for fiscal year 2014 published by the Canadian government use a similar logic to that used by the US, but a different explanation. The Canadian Pension Plan (CPP) is also, with the exception of certain particularities, similar to the RGPS. The CPP is not consolidated in the financial statements of, as it is not controlled by, the Canadian government.

However, the CPP does issue financial statements containing information on actuarial liabilities. The Statement of Financial Position presents assets and liabilities related to respectively the collection of contributions and actuarial liabilities.

The discussion of international experience above indicates that actuarial liabilities are reported for pension systems similar to the RGPS. However, this information is not consolidated in the financial statements of the relevant governments. The best approach to recognizing these liabilities for the RGPS is currently the subject of discussion within the Federal Government.

In the current fiscal year, in the context described above, the option was made not to consolidate actuarial liabilities related to the RGPS in the Federal Government financial statements as further progress is required in this matter in order to refine the accounting framework in Brazil. However, the table below provides an actuarial projection of RGPS results over a horizon of forty years.

Table 139 – Actuarial Projection for the General Pension System

US$ million

Year	Pension funding				Pension expense	
	Amount (A)	% of GDP	Amount (B)	% of GDP	Amount (A-B)	% of GDP
2021	115,232	5.62%	177,577	8.66%	62,345	3.04%
2022	123,644	5.64%	188,415	8.60%	64,772	2.96%
2023	133,323	5.70%	199,378	8.52%	66,055	2.82%
2024	143,666	5.77%	212,145	8.51%	68,479	2.75%
2025	153,001	5.77%	225,916	8.52%	72,915	2.75%
2026	162,794	5.77%	241,152	8.55%	78,358	2.78%
2027	173,315	5.78%	257,550	8.58%	84,235	2.81%
2028	184,397	5.78%	275,531	8.64%	91,134	2.86%
2029	196,294	5.80%	294,983	8.71%	98,689	2.92%
2030	208,813	5.81%	316,295	8.81%	107,482	2.99%
2031	222,305	5.84%	339,092	8.90%	116,787	3.07%
2032	236,439	5.86%	363,682	9.01%	127,244	3.15%
2033	251,562	5.89%	389,876	9.13%	138,314	3.24%
2034	267,390	5.92%	418,150	9.25%	150,760	3.34%
2035	284,258	5.95%	447,731	9.37%	163,473	3.42%
2036	301,225	5.97%	479,321	9.49%	178,096	3.53%
2037	318,969	5.98%	514,308	9.65%	195,339	3.66%
2038	337,403	6.00%	552,239	9.82%	214,836	3.82%
2039	356,609	6.01%	592,718	10.00%	236,109	3.98%
2040	376,461	6.03%	635,895	10.18%	259,435	4.15%
2041	397,062	6.04%	682,084	10.37%	285,021	4.33%
2042	418,299	6.04%	731,119	10.56%	312,820	4.52%
2043	440,328	6.05%	783,534	10.76%	343,206	4.71%
2044	462,896	6.05%	839,422	10.97%	376,526	4.92%
2045	486,261	6.05%	899,181	11.19%	412,919	5.14%
2046	510,372	6.05%	962,355	11.40%	451,984	5.36%
2047	535,347	6.04%	1,027,940	11.61%	492,593	5.56%
2048	561,141	6.04%	1,095,906	11.79%	534,766	5.76%
2049	592,097	6.08%	1,166,138	11.97%	574,041	5.89%
2050	620,311	6.07%	1,238,497	12.13%	618,185	6.05%
2051	649,583	6.07%	1,312,942	12.27%	663,359	6.20%
2052	680,148	6.07%	1,396,945	12.46%	716,797	6.39%
2053	711,922	6.06%	1,484,495	12.65%	772,573	6.58%
2054	745,122	6.06%	1,575,531	12.82%	830,408	6.76%
2055	779,659	6.06%	1,670,294	12.99%	890,635	6.93%
2056	815,629	6.06%	1,768,885	13.15%	953,256	7.09%
2057	852,970	6.06%	1,871,515	13.30%	1,018,544	7.24%
2058	891,792	6.06%	1,978,146	13.44%	1,086,354	7.38%
2059	932,072	6.06%	2,089,189	13.58%	1,157,117	7.52%
2060	973,912	6.06%	2,205,033	13.71%	1,231,121	7.65%

NB: Prepared from data contained in the SPE/ME Parameters Table at 1/10/2020 (GDP growth rate and inflation rate (cumulative INPC).
Source: SPREV/ME

The table below shows the assumptions used in preparing the Actuarial Projection for the General Pension System.

Table 140 – Assumptions in the Actuarial Projection for the RGPS

Fiscal Year	Payroll (%)	Payroll of occupied persons (%)	Rate of natural increase (%)	Annual inflation rate (INPC) (%)	Real change in GDP (%)	Increase in minimum wage (%)	Increase in other benefits (%)
2021	6.44%	6.50%	1.81%	3.75%	2.50%	3.73%	3.73%
2022	6.81%	6.45%	2.39%	3.75%	2.50%	3.75%	3.75%
2023	6.55%	6.59%	2.11%	3.75%	2.50%	3.75%	3.75%
2024	6.60%	6.52%	2.55%	3.75%	2.67%	6.34%	3.75%
2025	6.59%	6.47%	2.63%	3.75%	2.60%	6.34%	3.75%
2026	6.48%	6.40%	2.88%	3.75%	2.55%	6.52%	3.75%
2027	6.55%	6.33%	2.93%	3.75%	2.48%	6.45%	3.75%
2028	6.47%	6.25%	3.10%	3.75%	2.41%	6.40%	3.75%
2029	6.53%	6.18%	3.18%	3.75%	2.34%	6.33%	3.75%
2030	6.45%	6.10%	3.34%	3.75%	2.27%	6.25%	3.75%
2031	6.54%	6.03%	3.32%	3.75%	2.20%	6.18%	3.75%
2032	6.43%	5.96%	3.37%	3.75%	2.13%	6.10%	3.75%
2033	6.47%	5.88%	3.32%	3.75%	2.05%	6.03%	3.75%
2034	6.36%	5.80%	3.37%	3.75%	1.98%	5.96%	3.75%
2035	6.37%	5.73%	3.20%	3.75%	1.91%	5.88%	3.75%
2036	6.02%	5.65%	3.18%	3.75%	1.83%	5.80%	3.75%
2037	5.94%	5.57%	3.41%	3.75%	1.76%	5.73%	3.75%
2038	5.83%	5.50%	3.49%	3.75%	1.69%	5.65%	3.75%
2039	5.74%	5.43%	3.44%	3.75%	1.62%	5.57%	3.75%
2040	5.61%	5.36%	3.40%	3.75%	1.55%	5.50%	3.75%
2041	5.51%	5.29%	3.38%	3.75%	1.48%	5.43%	3.75%
2042	5.38%	5.23%	3.31%	3.75%	1.43%	5.36%	3.75%
2043	5.30%	5.17%	3.29%	3.75%	1.37%	5.29%	3.75%
2044	5.15%	5.11%	3.25%	3.75%	1.31%	5.23%	3.75%
2045	5.07%	5.05%	3.24%	3.75%	1.26%	5.17%	3.75%
2046	4.98%	5.00%	3.15%	3.75%	1.21%	5.11%	3.75%
2047	4.92%	4.95%	2.95%	3.75%	1.15%	5.05%	3.75%
2048	4.84%	4.90%	2.75%	3.75%	1.11%	5.00%	3.75%
2049	5.55%	4.86%	2.56%	3.75%	1.07%	4.95%	3.75%
2050	4.78%	4.82%	2.36%	3.75%	1.04%	4.90%	3.75%
2051	4.74%	4.79%	2.18%	3.75%	1.00%	4.86%	3.75%
2052	4.72%	4.74%	2.55%	3.75%	0.96%	4.82%	3.75%
2053	4.69%	4.71%	2.42%	3.75%	0.93%	4.79%	3.75%
2054	4.68%	4.68%	2.29%	3.75%	0.90%	4.75%	3.75%
2055	4.65%	4.65%	2.18%	3.75%	0.87%	4.72%	3.75%
2056	4.63%	4.62%	2.07%	3.75%	0.84%	4.68%	3.75%
2057	4.59%	4.60%	1.98%	3.75%	0.82%	4.65%	3.75%
2058	4.57%	4.58%	1.87%	3.75%	0.80%	4.62%	3.75%
2059	4.53%	4.55%	1.79%	3.75%	0.77%	4.60%	3.75%
2060	4.50%	4.52%	1.73%	3.75%	0.75%	4.58%	3.75%

NB: Prepared from data contained in the SPE/MF Parameters Table at 1/10/2020 (GDP growth rate and inflation rate (cumulative INPC).

Source: SPREV/ME

As shown above, pension revenues are insufficient to cover pension expenses, and the same conditions as existing in fiscal year 2019 will be maintained into the future, generating pension deficits over the next 40 years. The following table shows the parameters used in the projection.

Table 141 – Parameters Used in Pension Surplus/(Deficit) Projections

Variables	2020	2021	2022	2023
GDP – Nominal Change (%)	6.99%	6.77%	6.83%	6.74%
GDP – Deflator (%)	4.48%	4.17%	4.22%	4.14%
GDP – Real Change (%)	1.62%	2.50%	2.50%	2.50%
GDP – Amount (R$ billion)	7,743.32	8,267.87	8,832.19	9,427.79
Payroll Growth (%)	7.34%	6.50%	6.45%	6.59%
Rate of Natural Increase (%)	3.00%	1.81%	2.39%	2.11%
Increase in Minimum Wage (%)	4.71%	3.68%	3.75%	3.75%
Increase in Other Benefits (%)	4.48%	3.73%	3.75%	3.75%
Minimum Wage (R$)	1,045.00	1,083.50	1,124.13	1,166.29
New Ceiling (R$)	6,101.05	6,328.62	6,565.94	6,812.17
Ceiling (number of minimum wages)	5.8	5.8	5.8	5.8
Recovery of Receivables (R$ million)	14,114.42	15,080.17	16,168.51	17,327.99
Writs of Payment and Minor Awards (R$ million)	20,282.27	20,592.27	20,592.27	20,592.27
National Treasury Transfers to Offset Payroll Tax Relief (R$ million)	10,269.03	3,427.92	0	0
INPC (%)	3.73%	3.75%	3.75%	3.75%

NB: Projection date: January 28, 2020; SPE/ME parameters table: year 2020, November 9, 2018; years 2021 to 2023, October 31, 2019.

Source: SPREV/ME

The following tables provide a comparison of collections into the General Pension System Fund (FRGPS) and Pension Benefits in 2018 and 2019.

Table 142 – FRGPS Collections x Pension Benefits

US$ million

	12/31/2019	12/31/2018	HA (%)
1. Gross Collections	**109,227**	**110,800**	**(1.42)**
1.1. Collections	43,268	76,264	(43.27)
1.1.1. Bank Collections	41,579	73,827	(43.68)
1.1.2. GPS Intra-SIAFI Collections	1,689	2,437	(30.70)
1.2. Collections / Comprev / Decree 6900/2009	7	0	-
1.3. Collections / Act 11941/2009	124	287	(56.82)
1.4. Collections / FIES	0	0	-
1.5. Collections / Simples Nacional / PAES	10,932	10,971	(0.36)
1.6. Collections / REFIS	33	33	1.43
1.7. Collections / DARF – Other	49,281	15,965	208.67
1.8. Collections / DARF – Services – Act 12546/2011	1,497	1,616	(7.32)
1.9. Collections / DARF – INDUSTRY – Act 12546/2011	1,018	1,896	(46.33)
1.10. Collections / Offsets – Act 12546/2011	2,529	3,493	(27.59)
1.11. Judicial Deposits	538	275	95.51
1.11.1. Judicial Deposits – Receipts	802	521	53.91
1.11.2. Judicial Deposits – Payments	(264)	(246)	(7.33)
2. Net Collections	**102,546**	**100,955**	**1.58**
2.1. Gross Collections	109,227	110,800	(1.42)
2.2. (-) Refunds	201	0	-
2.3. (-) Contribution Refunds	24	31	(25.14)
2.3.1. FRGPS	0	0	-
2.3.2. RFB	24	31	(25.14)
2.4. (-) Collections of Other Entities	6,458	9,813	(34.20)
2.4.1. Transfers from Other Entities	6,377	9,609	(33.63)
2.4.2. Management Fees for Other Entities	81	204	(60.55)
3. Total Benefits	**155,434**	**151,331**	**2.71**
3.1. (-) Benefits Returned	(878)	(869)	(0.96)
3.1.1. Urban	(770)	(775)	0.67
3.1.2. Rural	(108)	(94)	(14.31)
3.2. Pension Benefits	156,312	152,200	2.70
3.2.1. Benefits – FRGPS	150,950	147,544	2.31
3.2.1.1. Urban	119,522	116,348	2.73
3.2.1.2. Rural	31,427	31,196	0.74
3.2.2. Judicial Awards – FRGPS / TRF	4,166	3,587	16.15
3.2.3. Judicial Awards – FRGPS / TJ	363	315	15.20
3.2.4. Comprev – FRGPS	834	755	10.47
4. Primary Surplus/Deficit*	**(52,889)**	**(50,376)**	**(4.99)**

*NB: *"Primary Surplus" is "Net Collections" less "Total Benefits".*

Source: SPREV/ME

Table 143 – FRGPS Collections x Pension Benefits – By Category

US$ million

	12/31/2019	12/31/2018	HA (%)
1. Net Collections	**102,546**	**100,955**	**1.58**
1.1. Urban Collections	100,462	98,395	2.10
1.2. Rural Collections	2,077	2,560	(18.87)
1.3. Comprev Collections	7	0	-
2. Pension Benefits	**155,434**	**151,331**	**2.71**
2.1. Benefits – FRGPS	150,072	146,675	2.32
2.1.1. Urban	118,753	115,573	2.75
2.1.2. Rural	31,320	31,101	0.70
2.2. Judicial Awards – FRGPS / TRF	4,166	3,587	16.15
2.2.1. Urban	3,293	2,825	16.58
2.2.2. Rural	873	762	14.55
2.3. Judicial Awards – FRGPS / TJ	363	315	15.20
2.3.1. Urban	286	247	15.92
2.3.2. Rural	76	68	12.58
2.4. Comprev – FRGPS	834	755	10.47
3. Primary Surplus/Deficit	**(52,889)**	**(50,376)**	**(4.99)**
3.1. Urban	(21,870)	(20,250)	(8.00)
3.2. Rural	(30,192)	(29,372)	(2.79)
3.3. Comprev	(826)	(755)	(9.51)

Source: SPREV/ME

20 - Expenses on Inactive Military Servicemen

Under article 50 (II and III) of Act 6880/1980 (the "Statute of the Military"), military servicemen in the Armed Forces become entitled to benefits when they are transferred to inactive duty. The Federal Government will therefore incur expenses over the years in paying those benefits.

On March 1, 2017 a Joint Working Group (JWG) of the Office of the Chief of Staff of the Presidency, the Ministry of Finance, the Ministry of Planning, Development and Management, the Ministry of Defense and the Navy, Army and Air Force Commands was created under Joint Directive 55/2017.

The JWG was created to conduct a joint study to assess best practices in reporting, recognizing and measuring liabilities related to military pensions and report on future expenses on inactive military servicemen, in accordance with the recommendations outlined in Panel Decision 2.523/2016-TCU-Plenário.

An understanding was reached by the JWG that, while the PIPCP is a "pension system for military servicemen", it should not be treated as a "pension system" but as an obligation with the nature of a liability to be recognized, measured and reported in accordance with applicable accounting standards.

Based on the preliminary findings of the JWG, the Ministry of Defense and its administrative subdivisions have recognized liabilities relating to military pensions, as described in the Note "Provisions", and have provided information on expenses on inactive military servicemen in notes to the financial statements.

The method adopted by the JWG and described in the financial statements for fiscal year 2017 was assessed by the Audit Court in 2018. In Panel Decision 1.322/2018-TCU-Plenário, the Audit Court recommended that a study be conducted to refine the methodology specifically in relation to the projection horizon for expenses on inactive military servicemen and monetary restatement of amounts over the period.

In 2018 the relevant adjustments were made to the methodology. The projection horizon for expenses on inactive military servicemen of the Armed Forces was changed to 27 years, which is the mean length of inactive duty, i.e. the duration of benefit payments. The mean length of inactive duty, of 27 years, is the difference between the mean age at death among military servicemen and the mean age at entrance into inactive duty.

Another adjustment to the methodology was the incorporation of a rate for adjusting the amounts in the projection over the period concerned, called a 'remuneration projection rate', based on the inflation target set by the Central Bank for the current year, multiplied by a wage replacement rate. The wage replacement rate, in turn, is determined based on a historical series of percent wage increases granted over and above inflation for the period. As calculated by the Ministry of Defense, remuneration adjustments amounted to 94.24% of the IPCA (wage replacement rate – 0.9424) over the previous nine years, from 2010 to 2019. This index is calculated using the methodology applied in actuarial assessments for military pensions, data from INPC/IBGE, and the percent increases awarded to military servicemen in the Armed Forces in 2018 and 2019 under Act 11784/2008.

In 2019 Bill of Law 1645 was passed through Congress and subsequently converted into Act 13954 (December 16, 2019), restructuring the careers of military servicemen in the Armed Forces and consequently affecting their remuneration, although the impacts from the new law are not reflected in this projection.

Based on the wage replacement rate (0.9424) and inflation target information, an adjustment rate (remuneration projection rate) is set for each year in the projection period. Beginning in the fourth year, the inflation target rate for the third year is repeated. With the projection made on an annual basis, all rates are also adjusted at the same frequency to reflect current economic and financial variables, making the methodology more transparent, objective and consistent.

The baseline for the 2020 projection is the amount committed in 2019 in Action 214H – inactive military servicemen, adjusted by the Remuneration Replacement Rate (Inflation Target x Wage Replacement Rate), as shown in the table below.

Table 144 – Projection of Expenses on Inactive Military Servicemen

US$ million

Fiscal Year Financial	Baseline	Remuneration Projection Rate (Inflation Target x Wage Replacement Rate)	Projection
2020	6,417*	3.77%	6,658
2021	6,658	3.53%	6,893
2022	6,893	3.30%	7,121
2023	7,121	3.30%	7,356
2024	7,356	3.30%	7,599
2025	7,599	3.30%	7,849
2026	7,849	3.30%	8,108
2027	8,108	3.30%	8,376
2028	8,376	3.30%	8,652
2029	8,652	3.30%	8,938
2030	8,938	3.30%	9,233
2031	9,233	3.30%	9,538
2032	9,538	3.30%	9,852
2033	9,852	3.30%	10,177
2034	10,177	3.30%	10,513
2035	10,513	3.30%	10,860
2036	10,860	3.30%	11,219
2037	11,219	3.30%	11,589
2038	11,589	3.30%	11,971
2039	11,971	3.30%	12,366
2040	12,366	3.30%	12,774
2041	12,774	3.30%	13,196
2042	13,196	3.30%	13,631
2043	13,631	3.30%	14,081
2044	14,081	3.30%	14,546
2045	14,546	3.30%	15,026
2046	15,026	3.30%	15,522

*NB: *Total amount committed in 2019.*

Source: Ministry of Defense and SIAFI

21 - Equity in Surplus or Deficit of the Brazilian Central Bank

The National Monetary Council (CMN), an organization within the National Financial System, was created under article 2 of Act 4595/1964 for the primary purpose of formulating monetary, foreign-exchange and credit policies in support of economic and social progress in Brazil.

Under article 1(II) of Act 4595/1964, the Central Bank of Brazil (BCB), also an organization within the National Financial System, is responsible for implementing the direction outlined by the CMN as stipulated in Article 9 of the Act.

The Federal Government is required to provide the BCB with the instruments needed to implement policy guidance issued by the CMN, including a portfolio of public debt securities of a sufficient size for the conduct of monetary policy. The Federal Government has accordingly authorized the issuance of public debt securities by the National Treasury pursuant to article 1(IX) of Act 10179/2001 as amended by article 2 of Act 11803/2008.

Another way in which monetary policy is implemented is through efforts by the BCB to ensure i) the efficient operation of the foreign-exchange market, ii) relatively stable foreign exchange rates, and iii) a healthy balance of payments, including by purchasing and selling foreign currency as provided by article 11(III) of Act 4595/1964 as amended by article 4 of Decree-Act 581/1969.

In reporting on the results of these transactions, the BCB prepares six-monthly financial statements for the period from January 1 to June 30 and from July 1 to December 31, as required in article 3 of Executive Order 2179-36/2001.

Under the rules in force up to the first half of 2019, any surplus reported in these financial statements constitutes an obligation of the BCB to the Federal Government that must be paid no later than the tenth business day subsequent to approval of the financial statements by the CMN, as stipulated in article 2(I) of Executive Order 2179-36/2001 and article 6(I) of Act 11803/2008.

Any net loss reported in these financial statements constitutes an obligation of the Federal Government to the BCB that must be paid no later than the tenth business day of the fiscal year subsequent to approval of the financial statements by the CMN, as established in article 2(I) of Executive Order 2179-36/2001 and article 6(I) of Act 11803/2008.

In both cases, during the period between the BCB reporting date and the date of payment, the amounts of these obligations incur interest at the rates applicable to cash held by the Federal Government at BCB, in accordance with article 164(3) of the Federal Constitution of 1988, article 2(2) of Executive Order 2179-36/2001, and article 6(4) of Act 11803/2008.

But with the enactment of Act 13820 (May 3, 2019), which became effective in the second half of 2019, new rules now apply to financial dealings between the Federal Government and BCB, especially for the purpose of conducting monetary policy, and consequently article 2 of Executive Order 2179-36/2001; articles 3, 4 and 6 of Act 11803/2008; and articles 3, 4 and 6 of Act 9069/1995 have been repealed.

Under article 2 of Act 13820/2019, a surplus reported by BCB, net of reserves, remains an obligation of BCB to the Federal Government and is required to be paid no later than the tenth business day subsequent to approval of the six-monthly financial statements. These amounts are earmarked for payment of Federal Public Securities Debt (DPMF), pursuant to paragraph 2 of the above article.

However, article 3 of the above Act establishes that a profit reserve must be recognized for the portion of surplus reported by BCB that derives from gains on foreign-exchange reserve and foreign exchange derivatives transactions in the domestic market, as reported in its six-monthly financial statements, limited to the full amount of surplus reported.

Under article 3 of the above Act, when BCB reports a loss in its six-monthly financial statements, that loss is covered by, in the following order:

I. reversing the profit reserve recognized in the six-monthly financial statements; and
II. reducing the Brazilian Central Bank’s equity.

Losses are covered as described above on BCB’s reporting date, and equity may not be reduced to less than 1.5% of total assets on the reporting date. Where both the reversal of reserves and the reduction of equity are insufficient to cover the loss, the remaining balance is deemed an obligation of the Federal Government to BCB, payable up to the tenth business day of the fiscal year subsequent to approval of the financial statements, as established in article 4(3) of Act 13820/2019.

In paying those remaining obligations, the Federal Government is permitted by article 4(5) of the above Act to issue Domestic Federal Public Securities Debt (DPMFi) appropriate for the purposes of monetary policy, having the specifications defined by the Ministry of Economy, formerly the Ministry of Finance.

In addition, under article 1 of Executive Order 2179-36/2001, regarding interest on cash held by the Federal Government at BCB, and article 2(1) and 4(4) of Act 13.820/2019, both the obligations of BCB to the Federal Government, and vice versa, carry interest at the weighted average rate for domestic federal public debt held by BCB.

The tables below show the results of operations of BCB and movements in fiscal year 2019.

Table 145 – Equity in Surplus or Deficit of the Brazilian Central Bank

US$ million

BCB Surplus/Deficit		12/31/2019	12/31/2018	HA%
Positive	Results of Operations	5,450	6,596	(17.37)
	Cost of Foreign Exchange Transactions and Reserves	0	0	-
	Sub-total	5,450	6,596	(17.37)
Negative	Results of Operations	0	0	-
	Cost of Foreign Exchange Transactions and Reserves	7,114	13,612	(47.74)
	Sub-total	7,114	13,612	(47.74)
Total			**(1,664)**	**(7,016)**

Source: SIAFI

Table 146 – Impacts on the Federal Government from Surplus/Deficit Reported by the Central Bank of Brazil

US$ million

	Net Income		Net Loss	
	Balance	Cost of Reserves	Balance	Cost of Reserves
Balance at 12/31/2018	6,341	-	-	13,086
Payment – Results of Operations for 2H17	-	-	-	(7,611)
Restatement – Results of Operations for 2H18	-	-	-	(727)
Appropriation – Results of Operations for 1H19.	5,145	-	-	1,876
Interest - Results of Operations for 2H18 and 1H19	187	-	-	491
Receipts – Results of Operations s for 2H18	(6,444)	-	-	-
Receipts – Results of Operations for 1H19	(5,229)	-	-	-
Appropriation – Results of Operations for 2H19.	5,450	-	-	-
Balance at 12/31/2019	5,450	-	-	7,114

Source: SIAFI

With respect to the surplus reported by the Central Bank of Brazil, the final balance of approximately US$ 5.5 billion is the amount the Federal Government is eligible to receive from BCB in respect of its surplus for the 2nd half of 2019.

The final negative balance of US$ 7.1 billion relating to the Cost of Foreign Exchange Transactions and Reserves is the sum of negative US$ 4.7 billion for the 2nd half of 2018 and negative US$ 1.9 billion for the 1st half of 2019. In addition, interest on these results as calculated at 12/31/2019 was incorporated into the final balance, amounting to US$ 491 million, as shown in the table below.

Table 147 – Deficit Arising from Cost of Reserves

US$ million

	Obligation	Restatement	Payment	Balance
2nd half 2018	4,747	-	-	4,747
1st half 2019	1,876	491*	-	2,367
Total	**6,623**	**491**	**-**	**7,114**

*NB: *The monetary restatement of the negative balance is the sum for fiscal years 2018 e 2019.*

Source: SIAFI

Obligations for the 2nd half of 2018 and the 1st half of 2019 were settled in fiscal year 2020 through the issuance of approximately 24.9 million government bonds for the benefit of BCB, with a present value of approximately US$ 7.1 billion, with this amount including the principal (US$ 6.6 billion) and proportional interest for fiscal year 2019 (US$ 0.5 billion), as authorized by STN Directive 16 (January 15, 2020).

This method of settlement, as previously discussed, is permitted by article 4(5) of Act 13,820/2019. The following table shows the terms of the issued securities.

Table 148 – Terms and Quantity of Securities Issued for the Benefit of BCB – Foreign Exchange Reserves

Security	Issue Date	Maturity Date	UP (US$)	Quantity	Financial Value (US$)
LTN	13/01/2020	01/04/2022	221.070900	8,061,704	1,782,208,158.09
LTN	13/01/2020	01/01/2024	195.600037	9,111,121	1,782,135,601.81
NTN-F	13/01/2020	01/01/2031	303.30	5,875,946	1,782,187,252.52
NTN-B	13/01/2020	15/05/2025	960.47	1,855,510	1,782,154,924.73
Total				**24,904,281**	**7,128,685,937.15**

Source: STN Directive 16, issued January 15, 2020

The rights and obligations arising from gains or losses on foreign exchange reserve transactions are affected by variance in the foreign exchange rates applicable to BCB's transactions of foreign currency as part of its mandate of maintaining an efficient foreign exchange market and stable foreign exchange rates, pursuant to article 11(III) of Act 4595/1964, as amended by Decree-Act 581/1969.

22 - Subsequent Events

(a) Recognition of Provisions for Inactive Military Servicemen Benefits and Military Pensions

After fiscal year-end, significant additions were made to long-term provisions under liabilities relating to military welfare, totaling US$ 146.2 billion. This includes US$ 116.0 billion relating to benefits for inactive military servicemen and US$ 30.2 billion relating to military pensions. At 12/31/2019, liabilities of US$ 34.7 billion were already recognized for vested military pensions. As a result, at the time of publishing this report a total of US$ 116.0 billion was recognized in provisions for inactive military servicemen benefits and US$ 65.0 billion in provision for military pensions.

Provision for Inactive Military Servicemen Benefits

NBC TSP 15 – *Employee Benefits*, which became effective on January 1, 2019, contains requirements on recognizing post-employment benefit liabilities, including for military servicemen.

As noted in paragraph 57 of the above Standard, accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense, and the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

The absence of actuarial calculations meeting the requirements under NBC TSP 15 – *Employee Benefits* as of year-end 2019 prevented implementation of this standard, although there are plans to develop these estimates for 2020.

However, in order to provide users with useful and timely information on this matter, these disclosures have been provided based on information existing at fiscal year-end 2019. Provisions for the future benefits of inactive military servicemen were measured as part of a financial audit by the Federal Audit Court to determine whether the actuarial estimates for the RGPS, Federal Government RPPS and the Armed Forces Welfare System, as presented in the financial statements for 2019, were made in conformity to applicable standards and good practices.

Those estimates were prepared based on the personal and financial information of active and inactive military serviceman (closed group) as at August 2019, using a simplified actuarial calculation and data provided by Military Commands. The actuarial liability for inactive military serviceman pensions was estimated to be US$ 116.0 billion. This amount is broken down as follows:

Table 149 – Provision for Inactive Military Servicemen Benefits

US$ million

	Present value
Air Force	26,061
Army	56,936
Navy	32,995
Total	**115,993**

Source: TCU

Provision for Military Pensions

The provision for military pensions, which is described in Note 16-c (Provisions for Vested Military Pensions), was US$ 34.7 billion at 12/31/2019.

However, during the course of the financial audit by the Federal Audit Court (TCU) on the actuarial estimates for the RGPS, the Federal Government RPPS and the Armed Forces Welfare System, four different gaps were found in relation to the measurement and recognition of these liabilities: failure to measure and recognize actuarial liabilities for unvested pensions; an inappropriate time horizon (16 years) for the projection of unvested pensions; failure to account for the effects of financial offsets between systems; and failure to account for the effects of Act 13954/2019. The TCU team estimates that the first three gaps generated an estimated aggregate understatement of US$ 30.6 billion in Federal Government liabilities.

As of the reporting date, the gaps relating to unvested pensions and the inappropriate time horizon for the projection had been corrected.

According to an assessment by the TCU based on projections made by the Draft Budgetary Guidelines (PLDO) for 2018, the financial results for fiscal years 2020 to 2091, discounted to present value, would in reality generate a liability of US$ 65.0 billion. Accordingly, an addition of US$ 30.2 billion was made to the provision for military pensions which, combined with the existing balance of US$ 34.7 billion, now totals US$ 65.0 billion.

Present value was calculated using the NTN-B Principal 2035 discount rate on December 30, 2019, which was 3.38%. This rate was used by the Ministry of Defense to discount to present value the projections of vested pensions and recognize the relevant provision in the statement of financial position for fiscal year 2019. This rate was used for the 16-year period from 2020 to 2035. For the remaining years, from 2036 to 2091, a rate of 5.86% was used, as adopted by the Ministry of Economy for recognizing provisions for Federal Government RPPS benefits in the statement of financial position for 2019.

(b) Impacts from the global health crisis caused by the novel coronavirus

In March 2020, after the World Health Organization declared the COVID-19 outbreak a pandemic, the Brazilian Government declared a state of emergency effective to December 31, 2020.

In Address to the Nation No. 93, on March 18, 2020, the President of Brazil acknowledged the effects on the country from the global pandemic—caused by human infection with the SARS-CoV-2 (COVID- 19) coronavirus. The impacts from the crisis have extended beyond public health and affected the economy as a whole, with some estimates predicting a drop of up to 2% in global Gross Domestic Product (GDP) in 2020.

China's economic slowdown, which had already taken a total on global growth, was severely exacerbated by the pandemic. Accounting for nearly one fifth of world GDP and a substantial part of many countries' exports, China has been the primary engine of global economic growth in recent years, and any downturn in Chinese growth would singly have adverse effects on many countries.

But the virus soon began to rapidly spread into other countries, especially in Europe, further deteriorating the global economy. Measures taken to protect people from the virus, prevent the rate of spread and keep healthcare systems from collapsing, have inevitably led to a steep downturn in economic activity. These measures have included, for example, minimizing social interaction, having employees work from home and temporarily closing down retail and industrial businesses. While on the one hand these measures are necessary to protect the health and lives of people around the world, on the other they have caused severe losses of revenue and income for both businesses and workers.

The challenge for government authorities around the world, in addition to the health crisis, lies in helping businesses and people, and especially those that are most vulnerable to the economic slowdown, to navigate the immediate crisis and prepare for resumed economic growth when the pandemic has subsided. Most countries have announced robust fiscal and monetary stimulus packages, as well as a range of measures to enhance social safety nets in order to mitigate the diverse short-term effects from the pandemic. Although uncertainty exists as to the size of the needed stimulus and the most appropriate policy instruments at this time, many experts agree that those measures that have been announced are, in general, aimed in the right direction.

But short-term recessive impacts are likely to be felt in most countries around the world, Brazil included. It is hoped that these measures will be effective in mitigating effects on people's health and at least attenuating the short-term loss of products, income and employment, while supporting the subsequent recovery.

However, the measures taken in Brazil to counter the effects of the pandemic will inevitably lead to higher government spending, which was not previously foreseeable.

In addition, the declaration of a state of emergency as a result of the COVID-19 crisis will have adverse economic effects in Brazil, such as a slower economic recovery than previously thought and significantly reduced tax revenues for the Federal Government as a result.

The COVID-19 crisis in 2020 will, in summary, have significant impacts on the Federal Government's financial position as a consequence of lower revenues, higher spending and increased outflows of cash and cash equivalents.

Glossary

This glossary is designed to aid interpretation of the technical terms used in this report. However, it should not be construed as amending or overriding the guidelines contained in the Public-Sector Accounting Handbook (MCASP).

Accrued Liabilities. Expenses committed but not paid at December 31 in the previous fiscal year.

Accumulated Surpluses/(Deficits). A subgroup of "net assets/equity" essentially consisting of the residual balance of net income or loss, in the case of companies, or accumulated surplus or deficit, in the case of direct Government entities, independent Government entities, foundations and funds. The differences between assets and liabilities in the consolidated statements of financial position have been offset within this group.

Additional Allocations. Expense authorizations not computed or insufficiently allocated in the Annual Budget Law (LOA).

Advance for Future Capital Increase (AFCI). Funds received by an entity or its owners for use in a capital increase, provided those funds cannot be returned.

Amazônia Legal. The portion of the Amazon Rainforest that is Brazilian territory, across the states of Acre, Amapá, Amazonas, Mato Grosso, Pará, Rondônia, Roraima, Tocantins and the portion of Maranhão that is west of the 44th meridian.

Appreciation and Gains on Assets and Disincorporation of Liabilities. Revenue relating to the revaluation of assets and gains on the disposal of assets, i.e. when the value of the disposed-of asset is greater than its carrying value, with the difference recognized as a gain. This item also includes the recognition of newly incorporated assets and disincorporated liabilities, including derecognition of liabilities arising from the cancellation of accrued liabilities.

Assets. Resources that are controlled in the present by an entity as a result of past events.

Budgetary Expenses. Flows arising from the use of funds allocated in an entity's budget, as well as additional allocations, whether or not they reduce its net assets/equity.

Budgetary Revenue. Revenue inflows during the budget period that constitute an addition to the Government's assets. As instruments for the implementation of public policy, budgetary revenues are sources of funding used by the Government in programs and initiatives that are primarily for the purpose of meeting demand for public services and the needs of citizenry. These revenues belong to the Government and flow through the Government's assets, increasing its cash position and, as a general rule, given the budgetary principle of universality, are included in the Annual Budget Law (LOA).

Budgetary Surplus/Deficit. The difference between realized budgetary revenue and committed budgetary expenses.

Capital Reserves. Additions to net assets/equity that do not flow through surplus or deficit as revenue, but are instead used to increase the entity's capital and are not in consideration of any effort by the entity in terms of delivering goods or providing services.

Cash and Cash Equivalents. Holdings in cash and banks or short-term investments on which there are no restrictions on immediate use. Cash and cash equivalents are measured at original value and translated, if in foreign currency, at the exchange rate prevailing on the reporting date.

Cash Flows from Financing Activities. Cash flows from activities that result in changes in the size and composition of the contributed equity and borrowings of the entity, and which are not classified as operating activities.

Cash Flows from Investing Activities. Cash flows from activities involving the acquisition and disposal of non-current assets and other investments not included in cash equivalents.

Cash Flows from Operating Activities. Cash flows from the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Cash Flows. Inflows and outflows of cash and cash equivalents.

Committed Budgetary Expense. An amount which the Government has set aside in its budget to make a given payment, whether or not the object of that payment has been received.

Common-Use Assets. Assets intended for use by the general public, such as rivers, seas, roads, streets and town squares.

Contingent Liabilities. Possible obligations arising from past events, which have not yet been recognized, whose existence will be confirmed by one or more future events. Contingent liabilities also include present obligations if it is not probable that an outflow of resources will be required or a sufficiently reliable estimate of the amount of the obligation cannot be made. When an outflow of resources becomes probable, a contingent liability is converted into a provision, which is recognized in the Statement of Financial Position.

Contractual Obligations Enforceable. Contractual obligations under contracts entered into by the Government as contracting party to obtain goods and services from third parties.

Contractual Rights Enforceable. Contractual rights enforceable under contracts entered into by the Government as contractor for the supply of goods and services to third parties.

Contributions. Any compulsory monetary amount, payable or expressible in currency, which does not constitute a penalty for any violation of any law, and is dedicated to a specific government activity, such as social and economic contributions. Contributions include social contributions to the RPPS, Contribution for Intervention in the Economic Domain (CIDE), public lighting contributions and class contributions.

Cost of Goods Sold, Products Sold and Services Rendered. Expenses related to the cost of goods sold, products sold and services rendered. Cost of products sold or services rendered should be computed in the fiscal year in which the proceeds from the sale are received. The cost of products sold is directly connected to inventories, as sales of products during the period will result in a write-off of inventories.

Current Assets. An asset is classified as current when it satisfies any of the following criteria: (a) it is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is expected to be realized within twelve months after the reporting date; or (d) it is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Current Liabilities. A liability is classified as current when it satisfies any of the following criteria: (a) it is expected to be settled in the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is due to be settled within twelve months after the reporting date; or (d) the entity does not have an unconditional right to defer settlement of the liability' for at least twelve months after the reporting date.

Deferred Assets. Pre-operating expenses and restructuring expenditure that will contribute to an increase in surplus over more than one fiscal year and not merely a reduction of costs or improvement in operational efficiency.

Deferred Revenue. The balance of deferred revenue and the relevant deferred cost at December 31, 2008, previously recognized under "Deferred Income".

Depreciation and Losses on Assets and Incorporation of Liabilities. Expense arising from the devaluation of and losses on assets, impairment, provisions for impairment, losses on disposal, and involuntary losses. Incorporation of liabilities means the recognition of borrowing transactions, provisions, accrued liabilities, etc. Disincorporation of assets includes the cancellation of tax receivables under judicial collection, assumption of debt liabilities and derecognition of assets, securities and rights.

Discretionary Property. Property which, while owned by the Government, is not intended for a specific public or government purpose, such as vacated government owned buildings, land owned by the Navy, and vacant land.

Dividends. Distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

Equity Revaluation Adjustments. Adjustments made for increases or decreases in the value of assets and liabilities arising from fair valuation in those cases prescribed in Act 6404/1976 or in financial reporting standards issued by the Brazilian Securities Commission (CVM), for as long as they are not computed in surplus or deficit for the period, on an accrual basis.

Expense. Outflows resulting in a decrease in net assets/equity, other than decreases relating to distributions to owners.

Finance Expense. Finance expense includes interest incurred, discounts awarded, commission, bank fees and foreign-exchange variance.

Finance Revenue. Finance Revenue includes discounts obtained, interest earned, premiums on the redemption of securities and debentures, positive monetary and foreign-exchange variance, interest on bank deposits and short-term financial investments, and other financial transactions positively affecting net assets/equity.

Financial Surplus/Deficit. The difference between budget and off-budget cash receipts and cash payments during the fiscal year, affecting the balance of cash and cash equivalents.

Horizontal Analysis (HA). Analysis of the relationship of each line item in the financial statements with its equivalent line item in previous fiscal years. Horizontal Analysis measures changes in line items over two or more fiscal years, informing projections of future trends.

Initial Allocation. Initial budget allocations as made in the Annual Budget Law (LOA).

Initial Projection. Initial revenue projections as made in the Annual Budget Law (LOA).

Intangible Assets. Rights in nonphysical assets used in or exercised for the purpose of maintaining an entity's operations, such as software, trademarks, rights and patents.

Interest. Interest arising from the use by third parties of cash or cash equivalents or other amounts payable to an entity.

Inventories. Inventories of consumables, raw materials, products in process, finished products and other types of inventories.

Investment property. Properties held for rental income and/or capital gain which are not used in operations and which are not sold in the short term.

Labor and Social Security Obligations Payable. Obligations relating to wages or compensation and benefits to which government employees and public servants are entitled, retirement and pension benefits, payroll charges and welfare benefits, including writs of payment arising from these obligations.

Liability. A present obligation deriving from a past event whose settlement results in an outflow of resources from the entity.

Loans and Financing. Financial obligations under loan contracts as well as purchases financed directly by suppliers.

Long Term. A period longer than twelve months from the reporting date.

Long-Term Assets. Assets, rights, receivables under judicial collection and prepaid expenses that are realizable later than twelve months after the reporting period.

Monetization and Sale of Property, Goods, Services and Rights. Revenue deriving from the monetization and sale of goods, services and rights which results in an increase in net assets/equity, whether or not receipts have been generated. This item includes usage fee, agricultural, industrial and service revenue.

Net Worth and Capital of Indirect Government Entities. A subgroup of "net assets/equity" consisting essentially of the net worth of independent government entities, foundations and funds, and the capital of other indirect government entities.

Noncurrent Assets. Assets not classified as current assets, such as property, plant and equipment and intangible assets.

Noncurrent Liabilities. Liabilities not classified as current liabilities.

Non-financial Assets Held for Sale. Non-financial assets whose carrying amount is expected to be recovered through a sale transaction rather than through continuous use, within a period not exceeding twelve months.

Obligations from Federal Transfers to State and Local Governments. Taxes and other revenue collected by the Federal Government and subsequently apportioned among states, the Federal District and municipalities.

Off-budget Payments. Expenses not covered by annual budget laws (LOAs), including certain outflows arising from deposits, settlement of accrued liabilities, settlement of factored receivables and transitory funds.

Off-Budget Receipts. Temporary receipts of funds of which the State is a mere depositary; and accrued liabilities recorded. These funds can be returned without the need for legislative approval, and are therefore not included in the Annual Budget Law (LOA).

Operating Surplus/Deficit. A surplus/deficit calculated as the difference, positive or negative, between revenue and expense.

Organizational Restructuring. A program that is planned and controlled by management, and materially changes either: (a) the scope of an entity's activities; or (b) the manner in which those activities are carried out.

Other Expense. The sum of expense items not included in specific groups, including: rewards; incentives; regulation of prices and fees; holdings; and contributions.

Other Liabilities. Obligations to third parties not included in previous sub- groups, including writs of payment arising from these obligations.

Other Reserves. Other reserves not classified as capital or profit reserves, including reserves which will be realized due to being abolished by applicable legislation.

Other Revenue. The sum of revenue items not included in specific groups, including: other current revenue; extra-budgetary receipts; revenue to be classified; and reversals of provisions and adjustments for impairment.

Paid Budgetary Expense. A budgetary expense paid during the relevant fiscal year, typically after the expense has vested.

Payroll and Related Charges. Compensation for active civil or military personnel, comprising all expenses on wages, salaries and other compensation, fixed or variable, prescribed by law as payment by virtue of their office, employment or politically appointed positions in the public service, as well as expenses on third-party labor in replacement of public servants and employees. This item also includes payroll charges incurred by government organizations and entities in their capacity as employers, contributions to pension funds, and any benefits paid to civil and military personnel, except payroll and related charges inherent to the provision of goods, products and services.

Pension and Welfare Benefits. Expenses related to retirement, pension, paid reservist and other pension benefits within the Civil Servants' Pension System (RPPS) and General Pension System (RGPS), as well as social welfare programs, defined as social security programs not requiring contributions for the purpose of alleviating poverty, satisfying minimum social rights, providing a reserve for responding to social crises, and universalizing social rights.

Permanent Investments. Equity investments in general as well as property and rights that can be classified neither as current assets nor as long-term assets, and which are not used in the normal course of an entity's activities.

Potential Assets. Amounts not included in assets which can immediately and directly result in a positive change in Federal Government assets.

Potential Liabilities. Amounts not included in liabilities which can immediately and directly result in a negative change in Federal Government assets.

Prepaid Expenses. Prepaid expenses are expenses for which the underlying benefits or services will be provided to the entity at or after the end of the following fiscal year.

Prior Year Adjustments. Adjustments used to record the effects from changes in accounting practices or restatements to prior years not attributable to subsequent events, under "Accumulated Surpluses/(Deficits)".

Processed Accrued Liabilities. Expenses committed and incurred, but not paid, at December 31 in the previous fiscal year.

Profit Reserves. Reserves established for specific purposes with portions of an entity's net surplus.

Property, Plant and Equipment. Physical assets used in an entity's operations, including assets arising from transactions which transfer to the entity the rewards, the risks and the control of those assets.

Provisions. Liabilities that are uncertain in their timing or amount.

Realized Budgetary Revenue. Revenue collected directly by the relevant entity, or through other institutions, such as banks, in accordance with article 35 of Act 4320/1964.

Receivables under Judicial Collection. Tax and non-tax receivables which, when not timely paid as required by law or a decision in regular proceedings, are placed under judicial collection by the relevant government agencies after they are confirmed to be due and owing.

Restated Allocation. The initial allocation plus additional allocations opened or reopened during the relevant fiscal year and monetary restatement following publication of the Annual Budget Law, less any annulments and cancellations.

Restated Projection. Restated revenue projections reflecting revised revenue estimates arising from, for example: (a) the recognition of collection surpluses or loan transactions used, for example, to obtain new credit facilities; (b) the creation of new types of revenue not covered by the Annual Budget Law; (c) the reclassification of revenue items; or (d) monetary restatement permitted by law, following publication of the Annual Budget Law.

Revenue. Inflows resulting in an increase in net assets/equity, other than increases relating to contributions from owners.

Royalties. Fees paid for the use of long-term assets such as patents, trademarks, intellectual property rights and software.

Short Term. A period not exceeding twelve months from the reporting date.

Short-Term Investments. Investments in securities not held for trading, which are not used in the normal course of an entity's operating activities, and which are redeemable in the short term, as well as temporary investments in bullion.

Short-Term Receivables. Amounts receivable with respect to the provision of goods and services, tax obligations, transfers, loans and financing provided and other amounts receivable within twelve months of the reporting date.

Special Purpose Assets. Assets intended for use in providing government services and public services in general, such as hospitals, universities and police cars.

Tax Expense. Expenses relating to taxes, duties, improvement contributions, social contributions, economic contributions and special contributions.

Tax Obligations. Obligations of entities to the Government in respect of taxes, duties and contributions.

Taxes, Duties and Improvement Contributions. A type of tax revenue that includes any compulsory monetary amount, payable or expressible in currency, which does not constitute a penalty for any violation of any law, and is dedicated to a specific government activity.

Tract. A tract of land which has not been parceled out or subdivided.

Trade and Other Accounts Payable. Obligations to suppliers of raw materials, goods and other materials used in the operating activities of an entity, as well as obligations arising from the supply of utilities and provision of services, including writs of payment arising from these obligations.

Transfers Made. The sum of expenses relating to intergovernmental and intragovernmental transfers to multi-governmental organizations, private for-profit or not-for-profit organizations, transfers under cooperation agreements, and transfers to foreign jurisdictions.

Transfers Received. Aggregate revenues from intergovernmental transfers, intragovernmental transfers, transfers from multi-governmental organizations, transfers from private for-profit or not-for-profit organizations, transfers under cooperation agreements, transfers from foreign jurisdictions, delegations received and transfers from individuals.

Treasury Shares. Shares in an entity that have been acquired by the entity proper.

Treasury Units. See Treasury Shares.

Unprocessed Accrued Liabilities. Expenses committed but not incurred (and therefore not paid) at December 31 in the previous fiscal year.

Use of Assets and Services and Consumption of Fixed Capital. Aggregate expenses on the maintenance and operation of government functions, except expenses on personnel and other expenses, such as accommodation, consumables, freely distributed materials, transportation tickets and commuting, third-party services, operating leases, rent, depreciation, amortization and depletion.

Vertical Analysis (VA). Analysis of the relevant weight of each line item in relation to a base figure within the statement, used to infer, for example, whether there are items out of their usual proportions and their weight within the total for a group.

Vested Budgetary Expense. A payment to which a supplier is entitled after producing the relevant goods or providing the relevant services, or satisfying all the conditions necessary for the transfer of resources agreed under cooperation or similar arrangements.

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