BRAZIL MACRO

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DATA ANALYSIS – FISCAL POLICY

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Seasonally Driven Primary Surplus in January

- The consolidated public sector posted a seasonally-driven primary surplus of BRL58.4 billion, higher than our forecast (BRL51.5 billion) and the market's median estimate (BRL48.7 billion). This surplus is BRL11.5 billion higher than that recorded for the month in January 2020, and reflects the recovery in activity in 4Q20. The 12-month deficit reached BRL701 billion (9.4% of GDP).
- Gross debt reached 89.7% of GDP in January 2021, an increase of 0.5 percentage points from December 2020. Meanwhile, net debt was 61.6% of GDP, 1.3 percentage points lower on the same basis of comparison.
- According to our forecasts, the deficit should decrease to BRL250 billion in 2021 (3.1% of GDP)—meaning a (rather risky) return to gradual fiscal consolidation after the large stimulus of 2020. We expect gross debt to remain virtually stable, however, assuming that the BNDES will repay the Treasury at least BRL100 billion and also that the government will comply with the spending cap.

According to data published today by the BCB, the consolidated public sector posted a seasonally-driven primary surplus of BRL58.4 billion, higher than our forecast (BRL51.5 billion) and the market's median estimate (BRL48.7 billion). This surplus is BRL11.5 billion higher than that recorded for the month in January 2020, and reflects the recovery in activity in 4Q20. The deficit reached BRL701 billion (9.4% of GDP) in the 12-month reading. The nominal 12-month deficit was BRL1.02 trillion (13.7% of GDP), the all-time high in the BCB series.

In January 2021, the main surprise came from the regional governments (+BRL14.8 billion compared to +BRL10.7 billion in January 2020). In the 12-month reading, the regional governments posted a primary fiscal surplus of BRL43.4 billion (0.58% of GDP)—an all-time high. In our view, this result was probably affected by the impact of emergency aid on local economies (totaling BRL293 billion in 2020) —which improved tax collection—and transfers from the central government to offset the decline in tax collection (~BRL80 billion).

Given the considerable headwinds for the economy and tax collection, we expect a deterioration in the fiscal position of subnational entities—particularly states and municipalities—in 2021. Subnational entities will face the challenge of reestablishing fiscal equilibrium after these fiscal stimuli are over, in our view.

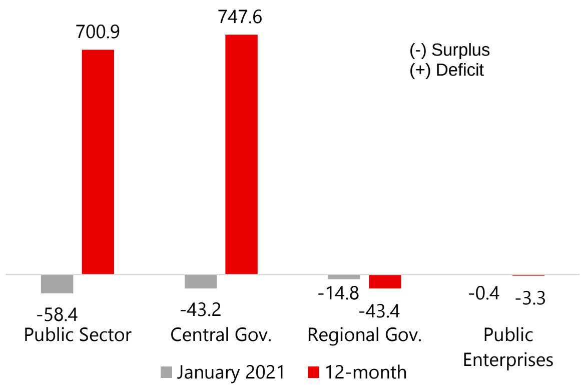
Additionally, according to the National Treasury data published on February 25, the central government posted a seasonal primary surplus of BRL43.2 billion in January 2021. This surplus is similar to that recorded in the month in January 2020, and reflects the recovery in activity in 4Q20 and the sharp reduction in fiscal stimuli. With this, the 12-month deficit reached BRL744.1 billion (all-time high), or 10.0% of GDP.

In the breakdown, total revenue dropped 0.1% YoY in the month, while total expenses declined 0.4% YoY, both in real terms. It is important to remember that the 2021 budget has not yet been approved. The government can only spend one twelfth of the amount forecast for the year until Congress approves the final budget (scheduled to be approved by the end of March). We expect a moderation in revenues in the coming months, while expenses should increase with the new fiscal stimulus (resumption of Emergency Aid and anticipation of wage bonus—related to pension benefits and *Abono*).

At the same time, the gross debt came in at 89.7% of GDP in January (see Figure 4), an increase of 0.5 percentage points from December 2020. Meanwhile, net debt was 61.6% of GDP, a drop of 1.3 percentage points on the same basis of comparison. We expect both to continue deteriorating in the coming months—although at a slower pace.

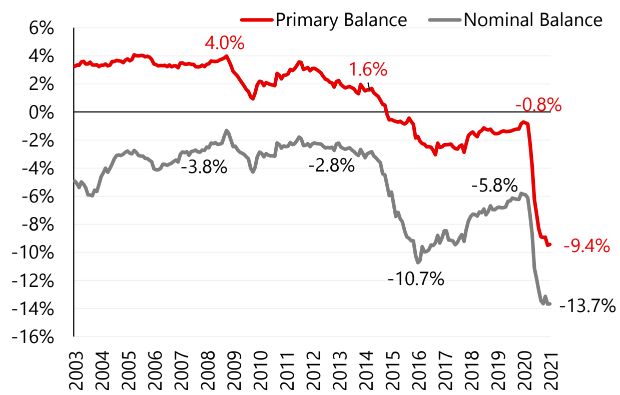
According to our forecasts, the primary deficit should decrease to BRL250 billion in 2021 (3.1% of GDP)—meaning a (rather risky) return to gradual fiscal consolidation after the large stimulus of 2020. We expect gross debt to remain virtually stable, however, assuming that the BNDES will repay the Treasury at least BRL100 billion and also that the government will comply with the spending cap rule.

Figure 1 – Primary Result (BRL billion)



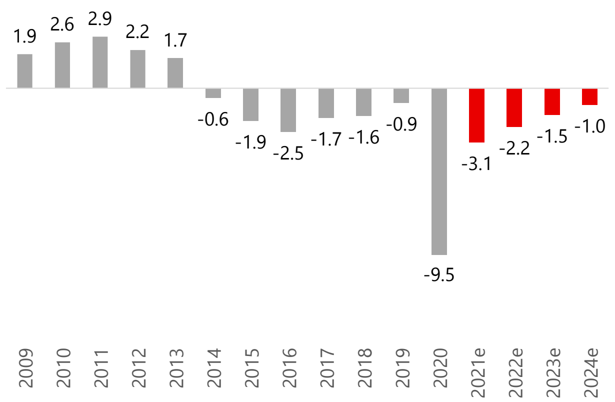
Sources: Brazilian Central Bank, Santander.

Figure 2 – Consolidated Public Sector (12m % GDP)



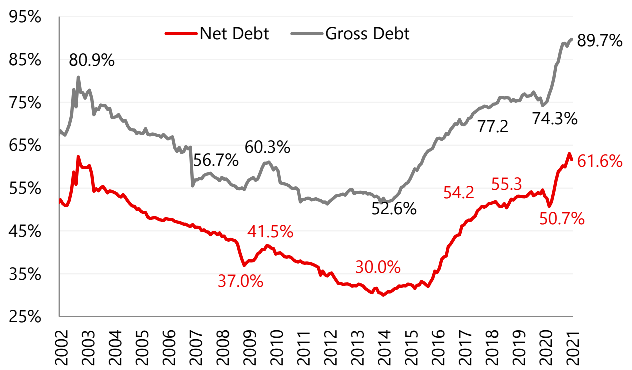
Sources: Brazilian Central Bank, Santander.

Figure 3 – Primary Result Forecast (% GDP)



Sources: Brazilian Central Bank, Santander.

Figure 4 – Public Sector Debt (12m % GDP)



Sources: Brazilian Central Bank, Santander.

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