

BRAZIL MACRO: FISCAL POLICY

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Tax Collection: Good Result in October with Payment of Tax Deferrals and Recovery in Activity

Data published today by the Brazilian Revenue Service (Portuguese acronym, RFB) showed that federal tax collection totaled BRL153.9 billion in October, higher than our forecast and the median of market expectations (both at BRL150.5 billion). Tax collection increased 9.6% YoY in real terms in October (Figure 1A), boosted by the payment of tax deferrals (BRL16.3 billion in October). This result reinforces our expectation of a gradual recovery, as it marks the third consecutive month of growth, after five months of steep decreases due to the impact of COVID-19.

Real core tax revenue increased 9.1% YoY. This improvement comes on the heels of a gradual recovery (or normalization) of economic activity. Although the faster-than-expected economic rebound spawns upside risks for tax collection, the greater use of tax credits implies significant downside risks for the coming months, in our view. Year-to-date, tax credits reached BRL131.4 billion, compared to BRL83.8 billion in 2019.

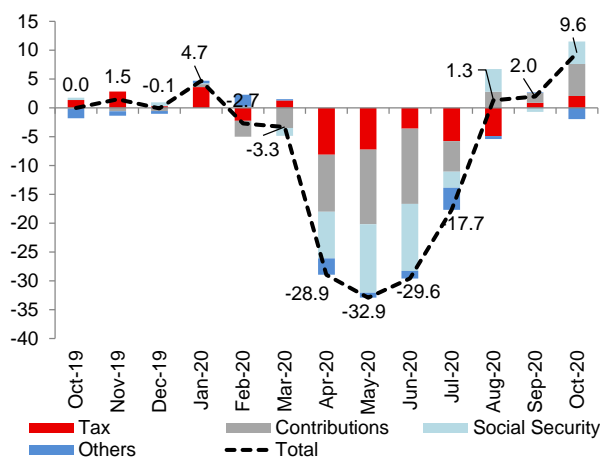
The breakdown shows a notable improvement (Figure 2). The IRPJ/CSLL (business tax) increased 18.0% YoY—reflecting the recovery in domestic activity in the third quarter of the year. Taxes related to the labor market (withholding income tax) also recovered in October, although we expect those taxes to take longer to show a consistent recovery.

Year-to-date, revenue continued to record a decline of 9.5% (Figure 1B). We continue to expect total federal tax collection to plunge close to 8.5% in real terms this year, equivalent to tax losses of ~BRL135 billion compared to 2019.

Considering this revenue data and extraordinary budget expenses of BRL29 billion, **we estimate that the central government's primary deficit will have totaled BRL11.7 billion in October 2020** (the government is scheduled to be published this report on November 27).

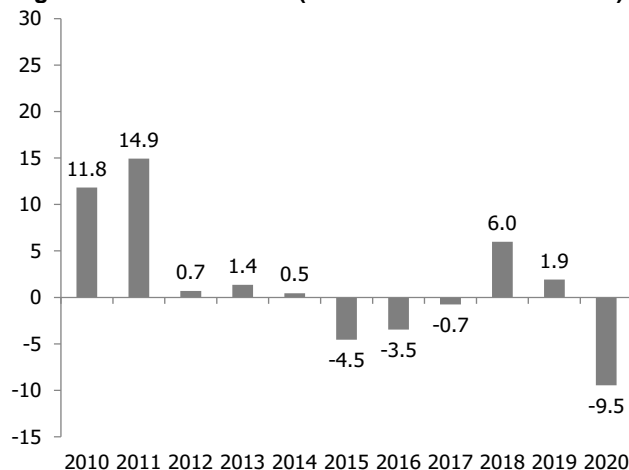
Given the faster-than-expected recovery in economic indicators in recent months, we see upside risk to our central government revenue forecasts for this year. Currently, we see the central government's primary fiscal deficit totaling BRL880 billion (12.4% of GDP) in 2020.

Figure 1A. Federal Revenue (% YoY real terms)



Sources: Brazilian Revenue Service and Santander.

Figure 1B. Tax Revenue (% YTD October - real terms)



Sources: Brazilian Revenue Service and Santander.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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Figure 2. Tax Revenue Breakdown (BRL million)

Brazilian Tax Collection							
	Weight ¹	Month ²				YTD ²	
		Oct-19	Sep-20	Oct-20	Annual change (%)	Oct-20	Annual change (%)
Total	100	140,511	120,856	153,938	9.6	1,198,258	-9.5
Taxes	38.6	51,640	44,290	54,557	5.6	467,655	-6.1
Foreign Trade	3.0	4,410	4,040	4,414	0.1	36,722	-2.6
Industrialized Products (IPI)	3.8	5,258	5,719	6,060	15.3	45,561	-7.2
Income Tax	29.9	38,399	32,421	42,924	11.8	365,015	-2.7
Households	2.8	3,020	3,633	3,602	19.3	34,208	-0.2
Companies	11.5	17,842	12,532	21,090	18.2	148,550	-1.9
Withholding income tax	15.6	17,537	16,256	18,232	4.0	182,257	-3.8
Financial Operations (IOF)	1.8	3,377	869	973	-71.2	18,734	-45.9
Rural land property	0.1	196	1,241	187	-4.3	1,624	6.9
Contributions	28.1	39,911	37,366	47,669	19.4	341,231	-12.1
Social Security (COFINS)	15.1	22,076	21,553	25,844	17.1	179,849	-17.8
Social contribution (PIS/Pasep)	4.3	5,812	6,004	7,609	30.9	52,312	-11.1
Net profit (CSLL)	6.0	9,192	6,359	10,799	17.5	76,873	-5.0
Other Contrib.	2.7	2,832	3,451	3,417	20.7	32,196	9.4
Pension	28.2	36,539	34,545	42,019	15.0	323,533	-10.0
Others Revenue	5.1	12,422	4,654	9,693	-22.0	65,839	-15.5

Source: Brazilian Revenue Service and Santander

1 - average in 12 months

2- real terms



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