

PUBLIC SECTOR: SECOND CONSECUTIVE YEAR WITH A PRIMARY SURPLUS

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- Today, the Brazil Central Bank (BCB) released the consolidated public sector's fiscal balance for December. For the month, the public sector posted a primary deficit of BRL11.8 billion, in line with our forecast (-BRL12.1 billion). Regional governments registered a deficit of BRL18.6 billion (close to our call of BRL17.5 billion), due to the impact of reduced revenue, after legislation capped the VAT (ICMS) tax on essential goods and an unfavorable seasonal month with higher outlays. In nominal terms, the state's revenue dropped 6.8% YoY in the month.
- In the 12-month reading, the public sector primary surplus reached BRL126 billion (1.3% of GDP) in 2022, after peaking at 2.4% in July and compared to a surplus of BRL64.7 billion (0.7% of GDP) in 2021. This was the best annual result since 2011. Despite two consecutive positive results, in the last four years the primary deficit summed 5.8% of GDP. The regional governments reached a surplus of BRL64.9 billion (0.7% of GDP) in 2022. In 12-months reading, the peak was registered in May (BRL128.7 billion, or 1.4% of GDP). Despite 2022's solid performance, we believe that fiscal expansion already in the pipeline (totaling ~1.7 p.p. of GDP), in a context of softening commodity prices and real activity, will likely prompt a return to a primary deficit in 2023 (1.5% of GDP).
- According to January 27 Treasury data, the central government posted a primary surplus of BRL4.4 billion in December. In the 12-month reading, the result was a primary surplus of BRL54 billion (0.5% of GDP), compared to a deficit of BRL35 billion (-0.4% of GDP) in 2021. This was the first positive result after eight years registering primary deficits. In the year, expenditures rose 2.1% YoY in real terms: we observed public payroll falling 6.1% YoY, due to a freeze of public servants' wages and fewer new hires. Pension benefits rose 2.6% in the year, though they have risen in recent months due to a shorter queue for new concessions. Revenue went up 9.7% YoY, boosted by the tax collection performance (higher corporate profit revenues), elevated SOE dividends (BRL87 billion in 2022, the average of 2012-21 was BRL16 billion per year) and revenue from "exploitation of natural resources" (BRL132 billion, the average of 2012-21 was BRL47 billion per year). For 2023, we forecast a BRL155 billion primary deficit (-1.5% of GDP), with the risk slightly tilted to downside.
- Interest payments totaled BRL59 billion in December, compared to BRL54.4 billion in same month of last year. In 2022, the nominal result totaled -BRL460 billion (4.7% of GDP), compared to -BRL383.7 billion (4.3% of GDP) in 2021. For 2023, we expect an increase in the cost of debt, owing to the more elevated Selic rate. Thus, we expect the nominal result to reach close to 8.5% of GDP this year.
- Debt registered mixed results in 2022. Gross debt fell to 73.5% of GDP (-1.1 p.p. in the month and -4.8 in the year), with an increased nominal GDP (-7.5pp impact in the year). Gross debt is at its lowest level since 2016. Net debt ended the year at 57.5% of GDP (+0.5 p.p. in the month and +1.7 in the year). Voluntary deposits in the BCB (not included in debt statistics) shrank 0.1pp, to 0.8% of GDP. Our 2023 gross-debt-to-GDP forecast is currently at 80.2%. For the medium term, we continue to forecast deterioration in the nominal (headline) budget results due to higher debt costs (associated with the high Selic rate), implying a still steep upward trajectory for government debt.

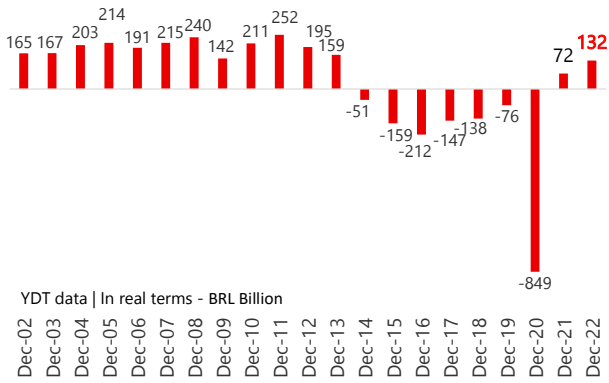
IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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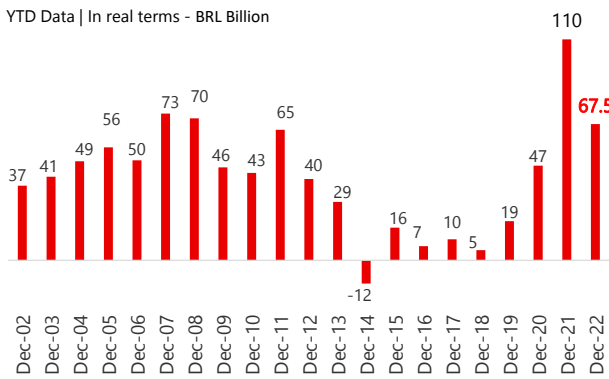


Figure 1 – Consolidated Public Sector Result



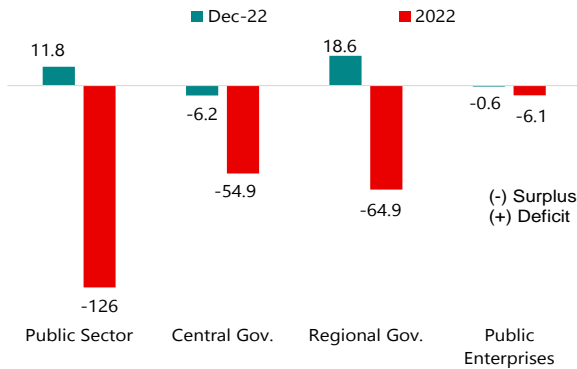
Sources: Brazilian Central Bank, Santander.

Figure 3 – Regional Gov.– Primary Result



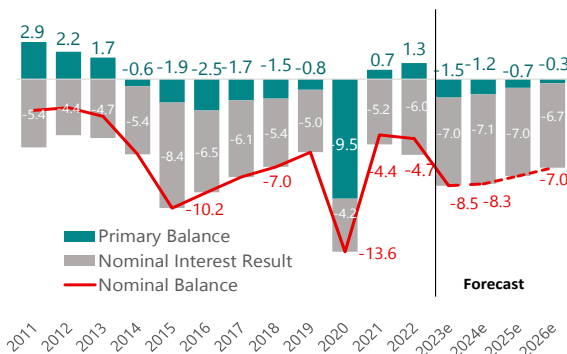
Sources: Brazilian Central Bank, Santander.

Figure 5 – Primary Result (BRL billion)



Sources: Brazilian Central Bank, Santander.

Figure 7 – Fiscal Balance (% GDP)



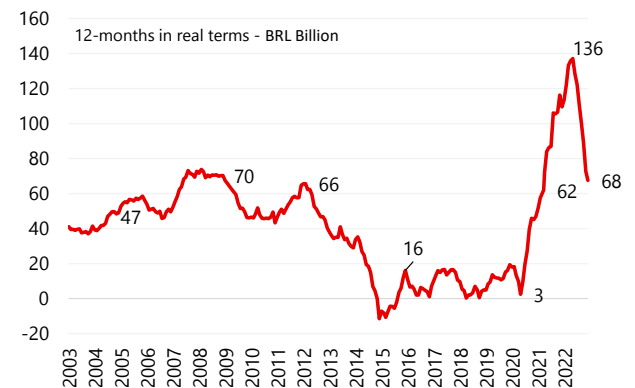
Sources: Brazilian Central Bank, Santander.

Figure 2 – Nominal Interest Result – BRL billion



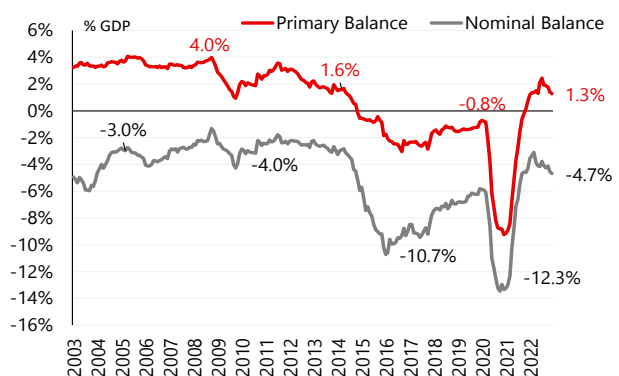
Sources: Brazilian Central Bank, Santander.

Figure 4 – Regional Gov. – Primary Result – 12-m



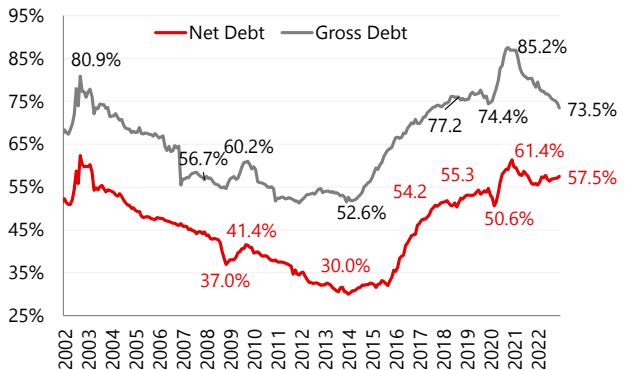
Sources: Brazilian Central Bank, Santander.

Figure 6 – Consolidated Public Sector (12m % GDP)



Sources: Brazilian Central Bank, Santander.

Figure 8 – Public Sector Debt (12m % GDP)



Sources: Brazilian Central Bank, Santander.



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