Santander Macroeconomic Research

BRAZIL MACRO

May 31, 2022

DATA ANALYSIS – FISCAL POLICY

HEFTY PRIMARY SURPLUS (SEASONAL), INTEREST PAYMENTS SOARED IN APRIL

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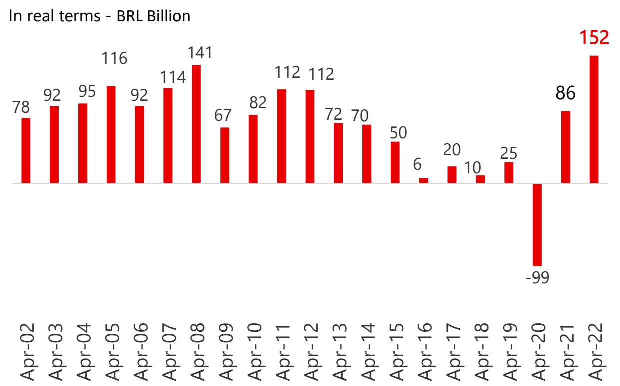
- Today, the Brazil Central Bank (BCB) unveiled the consolidated public sector's fiscal balance for April. The numbers show continued improvement in the fiscal performance, mainly owing to the positive revenue effects of price shocks (i.e., gains in terms of trade owing to higher commodity prices, as well as higher inflation). The nominal result soared in the month, with increased interest payments and lower FX swap profits.
- The public sector posted a primary surplus of BRL38.9 billion, close to our forecast (BRL40.0 billion) and better than the market's median estimate (BRL30.1 billion). This was the best result for the month in the historical series since this data has been collected. Regional governments' results remained robust, with a surplus of BRL10.3 billion, close to our call (BRL11 billion).
- The release of central government results by the National Treasury for April was postponed due to the strike by federal service employees. No new date for the release has been scheduled as of yet. We forecast a seasonal primary surplus of BRL29 billion, boosted by oil revenue. Using BCB methodology, the central government posted a seasonal primary surplus of BRL29.6 billion in the month. For 2022, our forecast points to a central government deficit of BRL45 billion (0.5% of GDP), based on an increase in expenditures and some softening in revenue growth in 2H22, yet the current activity and inflation numbers are adding a positive bias to the fiscal numbers.
- We forecast a balanced public sector result in 2022, considering an increase in expenditures and some softening in revenue growth—although a more lasting price shock effect on revenue could add a positive bias to the deficit estimate. We do not rule out the possibility of a small primary surplus in 2022.
- In April, interest payments soared and reached BRL79.9 billion, compared to -BRL5.7 billion in April 2021. The result of FX swap operations contributed less to mitigate the result in the month (loss of BRL15.4 billion, compared to a gain of BRL30.4 billion in April 2021, the first month of the year with a result below 2021 result).
- Debt results slightly declined. Gross debt dropped to 78.3% of GDP in April, compared to 78.5% in March. The result was affected by the positive primary surplus in the month and increased nominal GDP. Meanwhile, net debt reached 57.9% of GDP, compared to 58.2% of GDP in March.
- Our 2022 gross-debt-to-GDP forecast is currently at 80.6%, virtually stable compared to 2021. Yet, our current tracking shows it below the 80% mark. We continue to foresee a deterioration in the nominal (headline) budget results due to higher debt costs (in the Selic rate), implying a still steep upward trajectory for government debt in the medium term. Yet, in the short term, this nominal result will be partially offset by the BCB's profit from FX swaps in 2022 (currently above BRL100 billion).

According to BCB data published today, the consolidated public sector posted a hefty primary surplus of BRL38.9 billion in April, close to our forecast (BRL40 billion) and better than the market's median estimate (BRL30.1 billion). This was the best result for the month in the historical series. In 12 months, the public sector reached a primary surplus of BRL137.4 billion (1.5% of GDP), compared to BRL122.8 billion (1.4% of GDP) in March and BRL64.7 billion (0.75% of GDP) in December 2021.

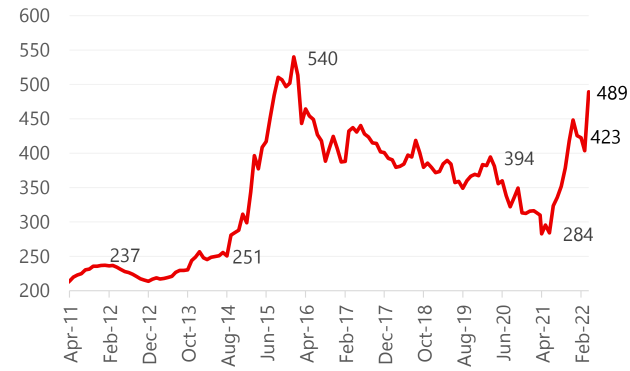
In April, interest payments soared and reached BRL79.9 billion, compared to -BRL5.7 billion in April 2021. The result of FX swap operations in the period contributed to this result (loss of BRL15.4 billion in the month compared to a gain of BRL30.4 billion in April 2021). It was the first month of the year in which the result was lower than last year. In the 12-month reading, the nominal budget balance reached BRL352 billion (3.9% of GDP), compared with BRL383 billion (4.4% of GDP) in December 2021.

Figure 1 – Consolidated Public Sector Result



Sources: Brazilian Central Bank, Santander.

Figure 2 – Nominal Interest Result – BRL billion

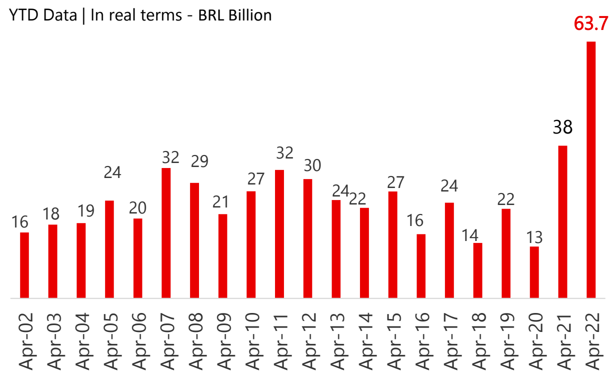


Sources: Brazilian Central Bank, Santander.

In April, regional governments' primary results (BRL10.3 billion) were once again robust, in line with our forecast (BRL11 billion). In the 12-month reading, regional governments' surplus reached an impressive BRL126.6 billion (1.4% of GDP). In 2021, the subnational entities' primary fiscal surplus was BRL97.7 billion (1.1% of GDP), the all-time high both as a percentage of GDP and in terms of real values in the full year result. In 2020, there was a surplus of BRL38.7 billion (0.5% of GDP) owing to the fiscal stimulus (BRL78.2 billion in direct federal transfers to mitigate the pandemic's effects) and the activity recovery. In 2019, there was a surplus of BRL15.2 billion (0.2% of GDP).

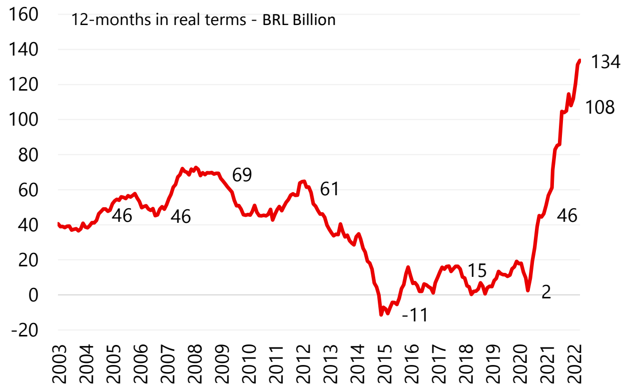
In our view, subnational entities should continue to present positive results in the short term. Our forecast for 2022 is a surplus of BRL45 billion (0.5% of GDP), though this projection is highly dependent on the duration of the price shock effect. The recent results add a significant positive bias to our estimate. In the short run, the main debate centers on whether to cap the ICMS (VAT tax) on fuel and electricity to curb the increase in inflation figures. Yet, we believe that the impact in subnational fiscal accounts would be concentrated in 2023. In addition, total cash (available in deposits) in the states and municipalities is currently above BRL225 billion mark, according to our calculus. These values tend to mitigate the effects of the measures in 2022, but for the medium term raises significant challenges, even more with the higher elevation of mandatory expenditures, mostly linked to inflation, which could lead to higher mandatory expenditures ahead.

Figure 3 – Regional Gov.– Primary Result



Sources: Brazilian Central Bank, Santander.

Figure 4 – Regional Gov. – Primary Result



Sources: Brazilian Central Bank, Santander.

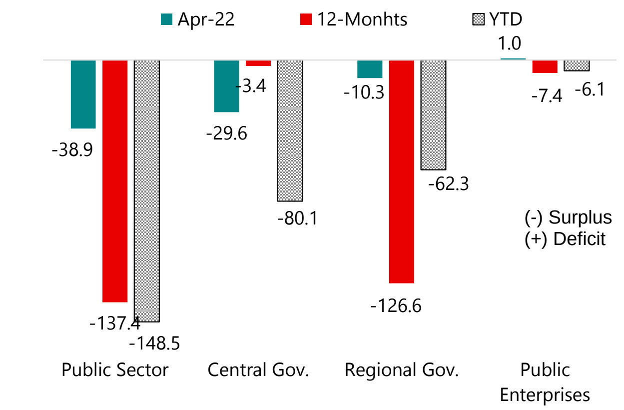
The release of central government results for April was postponed due to the strike by federal service employees. No new date for the release has been scheduled as of yet. We forecast a seasonal primary surplus of BRL29 billion, boosted by oil revenue. Using the BCB methodology, the central government posted a primary deficit of BRL29.6 billion in April. With this result, the 12-month rolling balance continues to run close to zero and is seeing its best performance since October 2014. For 2022, our forecast points to a central government deficit of BRL45 billion (0.5% of GDP), based on an increase in expenditures and some softening revenue growth. However, we see risks skewed to the upside because of commodity-driven revenue.

In light of this, adding central and regional government estimates for this year, we forecast a balanced public sector result in 2022, considering an increase in expenditures and some softening in revenue growth—although a more lasting price shock effect on revenue could add a positive bias for the fiscal estimate. Our current tracking points to a new primary surplus in 2022, due to this conjunctural factors based on the shock price.

Regarding debt statistics, the results showed a slight decline. Gross debt dropped to 78.3% of GDP in April, compared to 78.5% in March. The result was affected by the positive primary surplus in the month and an increase in nominal GDP. Meanwhile, net debt reached 57.9% of GDP, compared to 58.2% of GDP in March.

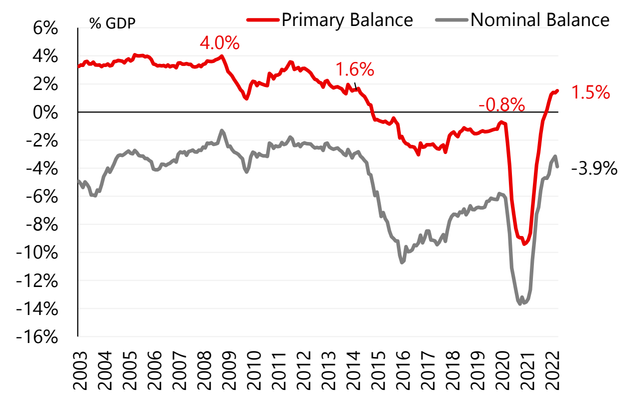
Our 2022 gross-debt-to-GDP forecast is currently at 80.6%, virtually stable compared to 2021. Yet, our current tracking shows it below the 80% mark. We continue to foresee a deterioration in the nominal (headline) budget results due to higher debt costs (in the Selic rate), implying a still steep upward trajectory for government debt in the medium term. Yet, in the short term, this nominal result will be partially offset by the BCB's profit from FX swaps in 2022 (currently above BRL100 billion).

Figure 5 – Primary Result (BRL billion)



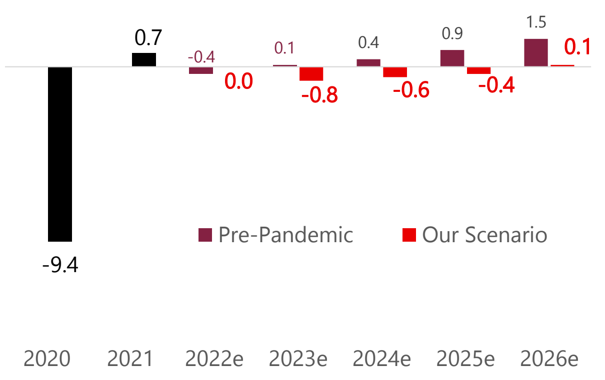
Sources: Brazilian Central Bank, Santander.

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



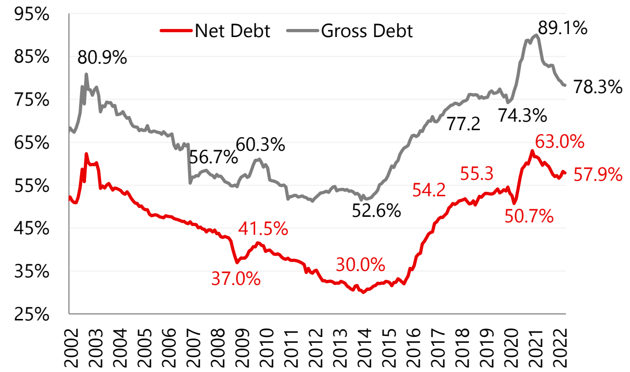
Sources: Brazilian Central Bank, Santander.

Figure 7 – Primary Result Forecast (% GDP)



Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

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