Santander
Macroeconomic Research

BRAZIL MACRO

April 28, 2023

DATA ANALYSIS – FISCAL POLICY

PUBLIC SECTOR: NEGATIVE SURPRISE IN REGIONAL GOVERNMENTS' RESULT IN MARCH

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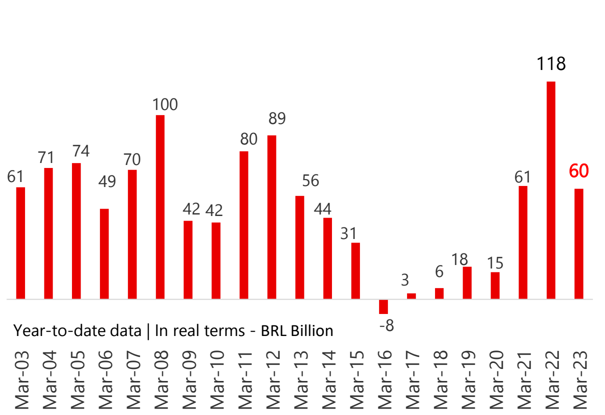
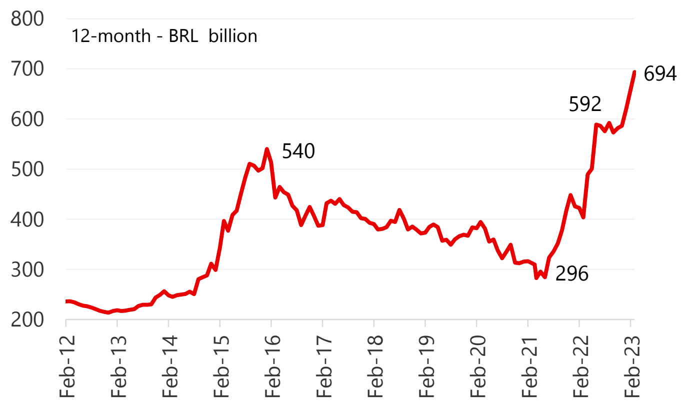
- Today, the Brazil Central Bank (BCB) released the consolidated public sector's fiscal balance for March. For the month, the public sector posted a primary deficit of BRL14.2 billion, way above our forecast of -BRL0.4 billion and the market median of +BRL1.1 billion. The subnational entities' primary result, a negative figure, was the main surprise vs. our forecast. Regional governments registered a deficit of -BRL4.6 billion vs. our call of a surplus of BRL6.8 billion and compared to a surplus of BRL11.8 billion in March 2022. We observed a 7.6% YoY drop in states' revenue in nominal terms, given the impact of legislation that limited ICMS (VAT) tax on essential goods. We believe that the disbursement of expenses rose in the month, offsetting the lower-than-expected expenses in the first two months of the year (especially in January). We were expecting a more gradual resumption in these outlays by subnational entities. Despite the still-positive performance for the year, we expect regional governments' primary result to continue to decline on the heels of a rise in outlays and a weaker revenue performance.
- In the 12-month reading, the public sector's primary surplus reached BRL75 billion (0.7% of GDP), after peaking at 2.4% in July 2022. Regional governments reached a surplus of BRL42 billion (0.4% of GDP); the peak was registered in May 2022 (BRL128.7 billion, or 1.4% of GDP). Despite the solid recent performance, we believe that fiscal expansion already in the pipeline (totaling ~2.0 p.p. of GDP), in the context of a softening in commodity prices and in real activity, will likely prompt a return to a primary deficit in 2023 (1.2% of GDP), with a downward bias. The result will be closely related to commodities' price performance, in our view. The implementation of government measures to increase revenue could help achieve compliance with the new fiscal framework proposal.
- According to April 27 Treasury data, the central government posted a primary deficit of BRL7.1 billion in March. In the 12-month reading, the result was a primary surplus of BRL36.5 billion (0.3% of GDP). However, we believe that the monthly result will lose steam ahead given an increase in expenses along with only a modest increase in revenue. In March, total revenue registered a real drop of 0.6% YoY. Year-to-date, revenue declined 2.5% YoY. On the expenditure side, we observed a drop of 0.9% YoY in real terms, owing to the following factors: (i) a reduction in the payment of the wage bonus (*Abono Salarial*) and unemployment insurance (-BRL8.8 billion), as the calendar for the payment of benefits was concentrated in the first three months of 2022, with no counterpart in 2023; and (ii) a reduction in extraordinary credits (-BRL 4.8 billion) due to lower outlays linked to Covid-19 measures. For 2023, we forecast a BRL125 billion primary deficit (-1.2% of GDP).
- Interest payments totaled BRL65 billion in March, compared to BRL30.7 billion in March 2022. FX swap operations contributed to this increase (gains of BRL40.3 billion in March 2022 and BRL11.7 billion in March 2023). In the 12-month reading, the nominal deficit totaled BRL618 billion (6.1% of GDP), compared to BRL425 billion (4.7% of GDP) in December 2022.
- Debt data posted increases in March. Gross debt reached 73% of GDP (+0.1 pp in the month), reflecting interest accrual (+0.8pp), offset by the increase in nominal GDP and debt redemptions. Net debt reached 57.2% of GDP, a rise of 0.5pp. Voluntary deposits in the Central Bank (not included in debt statistics) rose 0.3pp to 0.9% of GDP. Our 2023 gross-debt-to-GDP forecast is currently at 77.4%, with an upward bias due to a reduction in the nominal GDP deflator tracking based on a lower number for wholesale inflation.

Figure 1 – Consolidated Public Sector Result



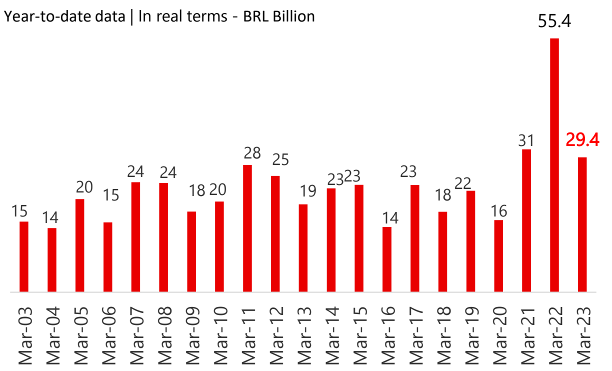
Sources: Brazilian Central Bank, Santander.

Figure 2 – Nominal Interest Result – BRL billion



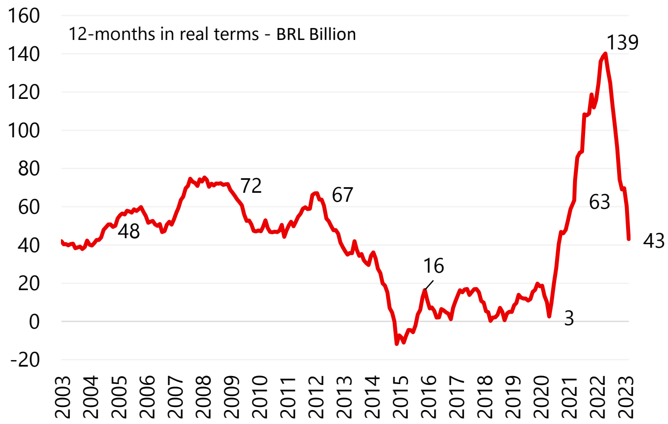
Sources: Brazilian Central Bank, Santander.

Figure 3 – Regional Gov.– Primary Result



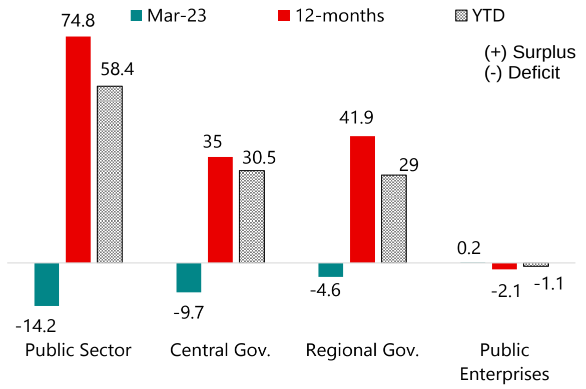
Sources: Brazilian Central Bank, Santander.

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



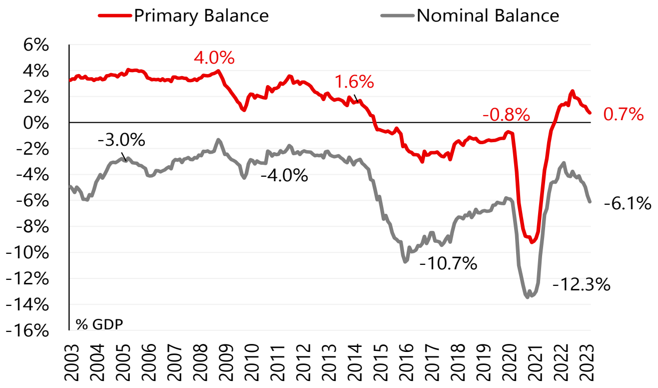
Sources: Brazilian Central Bank, Santander.

Figure 5 – Primary Result (BRL billion)



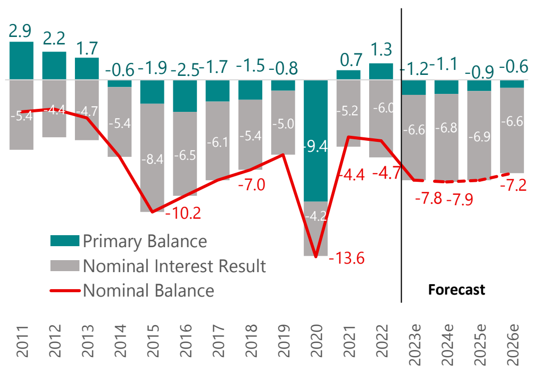
Sources: Brazilian Central Bank, Santander.

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



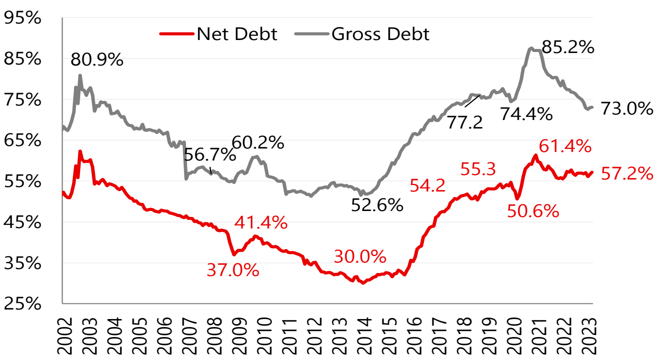
Sources: Brazilian Central Bank, Santander.

Figure 7 – Fiscal Balance (% GDP)



Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

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