# BRAZIL MACRO

July 28, 2023

## DATA ANALYSIS – FISCAL POLICY

## PUBLIC SECTOR: BACK TO A PRIMARY DEFICIT IN 12-MONTHS READING IN JUNE

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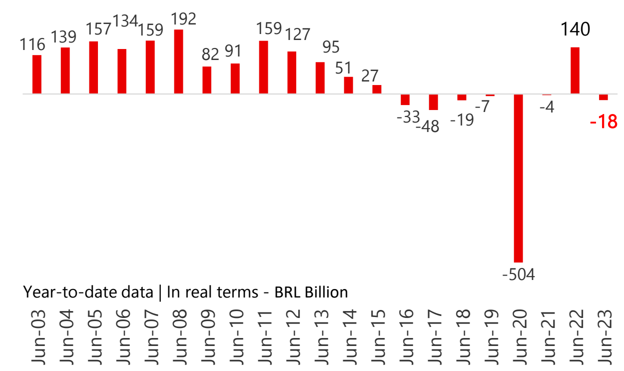
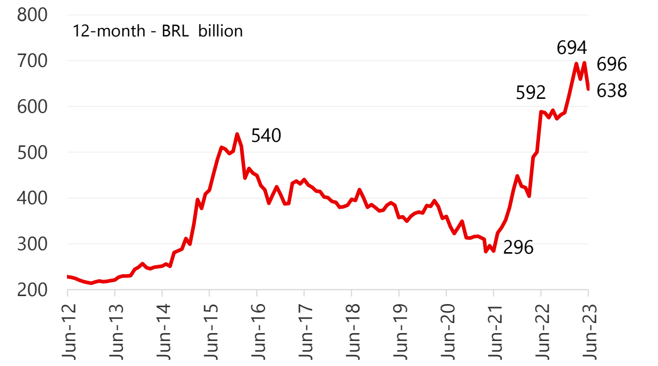
- Today, the Brazil Central Bank (BCB) released the consolidated public sector's fiscal balance for June. The public sector posted a primary deficit of BRL48.9 billion, above our forecast (BRL43.4 billion) and the market median (BRL45 billion). SOE companies' results account for the main difference to our forecast, with a BRL1.5 billion primary deficit, compared to our expectation of +BRL0.8 billion. In addition, subnational entities posted a deficit of BRL0.9 billion, while we were expecting +BRL0.3 billion. Overall, we continue to see the result gradually reducing.
- We observed a 5.4% YoY drop in states' revenue in nominal terms, considering the impact of legislation that limited the ICMS (VAT) tax on essential goods. Despite the still-positive performance in the year, we expect regional governments' primary result to continue to decline on the heels of a rise in outlays and weaker revenue performance, we still with see some impact of legislation that limited ICMS (VAT) tax on essential goods of 18%, which partially rose again in June, to ~22%.
- In the 12-month reading, the public sector's primary surplus was back in negative territory, reaching a deficit of BRL24.2 billion (0.4% of GDP), after peaking at 2.4% of GDP (surplus) in July 2022. Regional governments reached a surplus of BRL19.7 billion (0.2% 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 (~2.0 p.p. of GDP), in the context of softening commodity prices and real activity, will help the primary deficit reach BRL105 billion, or 1.0% of GDP, by the end of 2023. The result will be closely related to the performance of commodity prices, in our view. The implementation of government measures to increase revenue could help achieve compliance with the new fiscal framework proposal.
- In June, the central government returned to the primary deficit territory in the terms of the 12-month reading. According to July 27 Treasury data, the central government posted a primary deficit of BRL45.2 billion last month. In the 12-month reading, the result dropped to a primary deficit of BRL41.5 billion (-0.4% of GDP), from a primary surplus of BRL18.2 billion (0.2% of GDP) in May. This happened on the heels of higher concessions and SOE dividends totaling BRL53 billion in June 2022. In YTD terms, net revenue continued to lose steam (-5.3% YoY real) and expenditures rose (+5.1% YoY real) with the rise in spending for the welfare program and the pension benefit bonus (13th payment). For 2023, we forecast a BRL120 billion primary deficit (-1.1% of GDP).
- Interest payments totaled BRL41 billion in June, compared to BRL98 billion in June 2022. FX swap operations contributed to this result (profit of BRL21 billion in June, compared to a loss of BRL40 billion in June 2022). In the 12-month reading, the nominal deficit totaled BRL662 billion (6.4% of GDP), compared to BRL460 billion (4.6% of GDP) in December 2022. We believe that it will end the year above 8% of GDP.
- In June, debt registered mixed results compared to May. Gross debt stayed flat at 73.6% of GDP. Net debt went up to 57.8% of GDP (+1.3 p.p. in the month), on the heels of the more appreciated FX rate (+0.7 p.p.) and the primary deficit in the month (+0.5 p.p.). Voluntary deposits into the Central Bank (not included in debt statistics) went up a little, to 1.1% of GDP (+0.1 p.p.). Our 2023 gross-debt-to-GDP forecast is currently at 77.3%, considering a reduction in the nominal GDP deflator tracking based on lower wholesale inflation (IGPs), we see a slight downward bias if the year-end FX rate ends below our forecast of BRL5.40/USD.

**Figure 1 – Consolidated Public Sector Result**



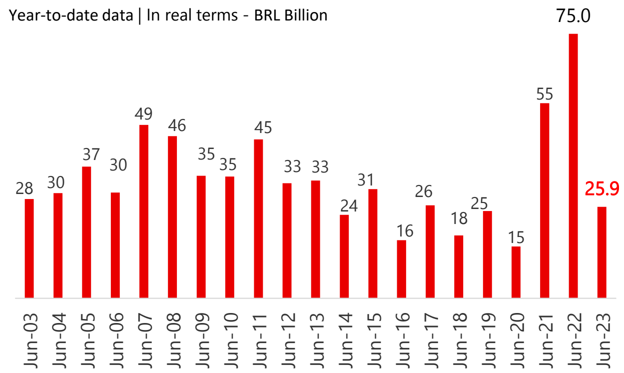

Sources: Brazilian Central Bank, Santander.

**Figure 2 – Nominal Interest Result – BRL billion**



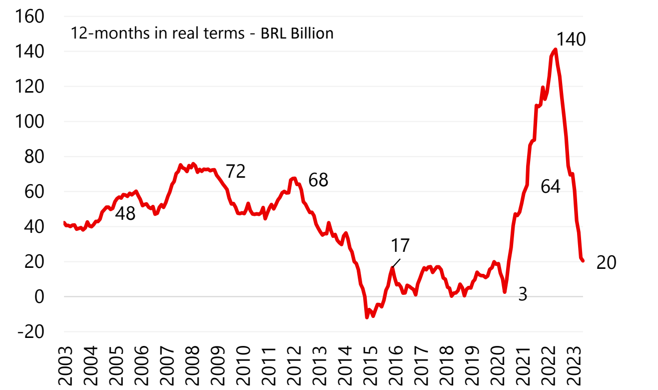

Sources: Brazilian Central Bank, Santander.

**Figure 3 – Regional Gov.– Primary Result**



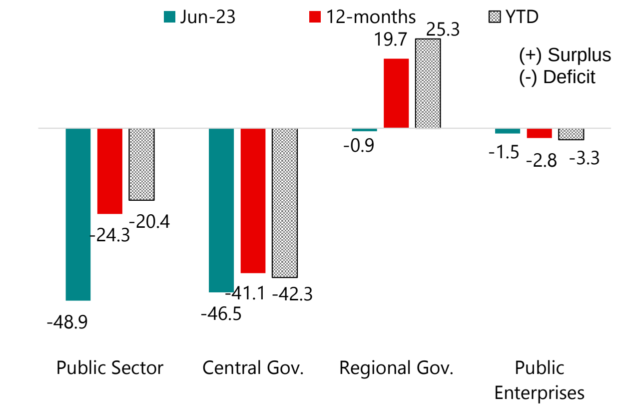

Sources: Brazilian Central Bank, Santander.

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



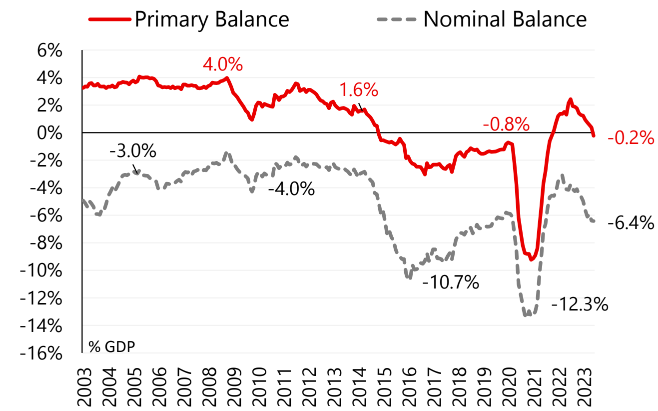

Sources: Brazilian Central Bank, Santander.

**Figure 5 – Primary Result (BRL billion)**



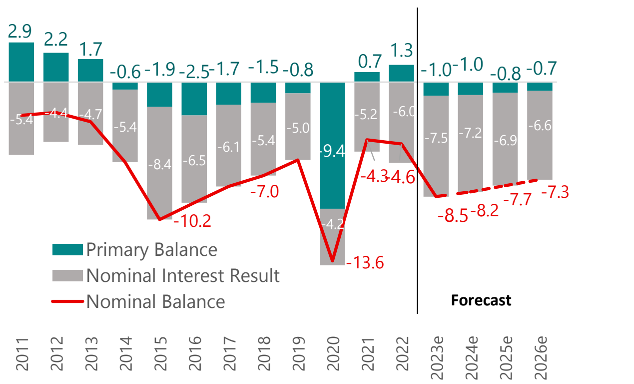

Sources: Brazilian Central Bank, Santander.

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



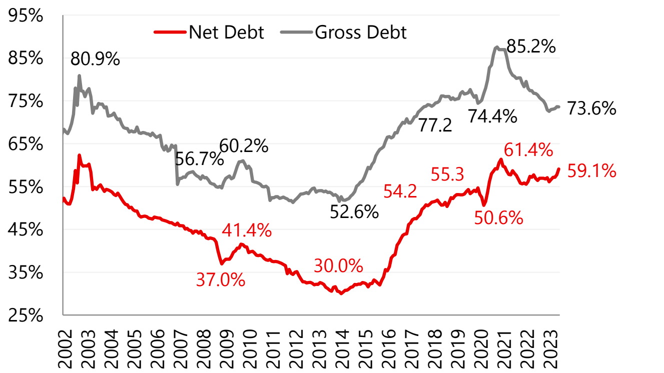

Sources: Brazilian Central Bank, Santander.

**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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