BRAZIL MACRO

September 29, 2023

DATA ANALYSIS – FISCAL POLICY

PUBLIC SECTOR: AUGUST'S PRIMARY DEFICIT REACHED 1.1% OF GDP IN YTD DATA

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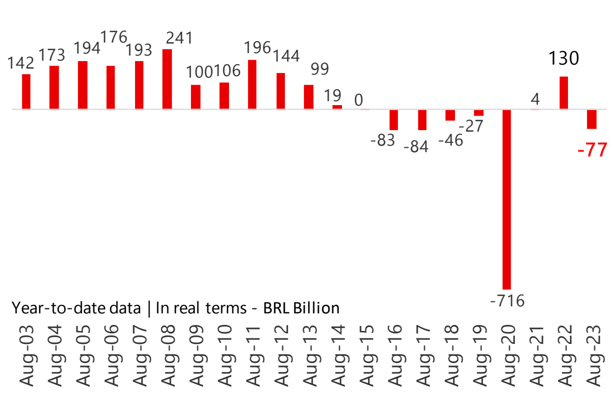
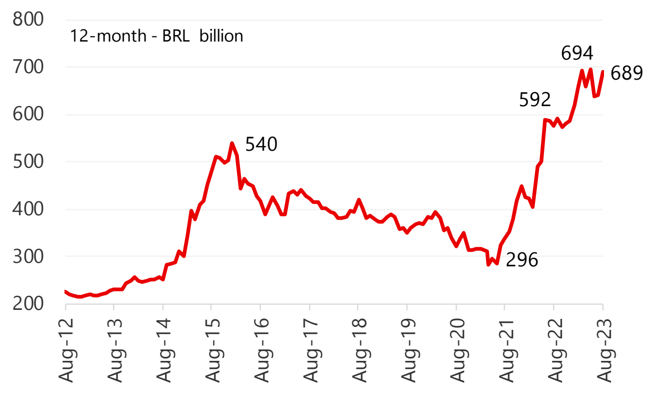
- Today, the Brazil Central Bank (BCB) released the consolidated public sector's fiscal balance for August. The public sector posted a primary deficit of BRL22.8 billion, lower than our forecast (BRL25.1 billion) and the market median estimate (BRL26.8 billion). Regional governments' result accounts for the main difference from our forecast, with a BRL2.5 billion primary surplus compared to our expectation of +BRL1.5 billion. Subnational entities' fiscal monthly balance has been showing higher than usual volatility this year. We observed a +3% YoY rise in states' revenue in nominal terms, recovering on the heels of higher fuel prices. Overall, we are observing a deterioration in the fiscal number close to our expectation on the heels of the expenditure's expansion and a cyclical downturn in revenue.
- In the 12-month reading, the public sector's primary balance reached -BRL73.1 billion (0.7% of GDP) in August, vs. -BRL80.5 billion (0.8% of GDP) in July, and after peaking at 2.4% of GDP (surplus) in July 2022. Regional governments entered negative territory, with a deficit of BRL2.3 billion (0.0% of GDP), vs. the peak registered in May 2022 (BRL128.7 billion, or 1.4% of GDP). For August, we observed a sharp drop in regional governments' results due to the positive effect of the Campo de Marte operation, which totaled BRL24 billion in August 2022. For them, we forecast a BRL15 billion surplus this year, yet we see downward risks, depending on the revenue results.
- We forecast a primary deficit of BRL100 billion, or 1.0% of GDP, for the public sector. On the positive side, the measures could add more revenue and improve the results. On the other hand, a more intense cyclical reduction in revenue and the payment of court-ordered debt stock could increase the deficit forecast for this year. The result will be closely related to the performance of commodity prices, in our view. We are also seeing a limited impact from the measures already implemented by the administration to address the deficit, and it will be important to monitor tax collection in the coming months.
- According to September 28 Treasury data, the central government posted a BRL26.4 billion primary deficit, the fourth largest deficit for the month (and for YTD data) in the historical series. In the 12-month reading, the result dropped to a primary deficit of BRL70.9 billion (-0.7% of GDP). In inflation-adjusted YTD terms, net revenue continued to lose steam (-5.5% YoY), owing to the reduction in commodity prices, as expenditures rose (+4.5% YoY in real terms), pressured by the increase in welfare program expenditures. We believe that the outlook for revenue performance will be a key issue ahead, as we already expected a rise in total outlays. For the central government, we forecast a BRL115 billion deficit (1.1% of GDP) this year.
- Interest payments totaled BRL84 billion in August, compared to BRL36 billion in August 2022. In the 12-month reading, the nominal deficit totaled BRL763 billion (7.3% of GDP), +0.35 p.p. compared to the July 2023 result and up from the BRL460 billion (4.6% of GDP) reported in December 2022. We believe that the nominal balance result will end the year slightly above 8% of GDP.
- Last month, debt rose compared to July. Gross debt increased to 74.4% of GDP (+0.4 p.p.). Net debt went up to 59.9% of GDP (+0.3 p.p. in the month), thanks to interest accrual (+0.8 p.p.) and the primary deficit result (+0.2 p.p.). Voluntary deposits into the BCB (not included in debt statistics) rose slightly to 1% of GDP (+0.1 p.p.). Our 2023 gross-debt-to-GDP forecast is currently at 76.5%, considering a reduction in the nominal GDP deflator (3.5% YoY) based on lower wholesale inflation (IGPs).

Figure 1 – Consolidated Public Sector Result



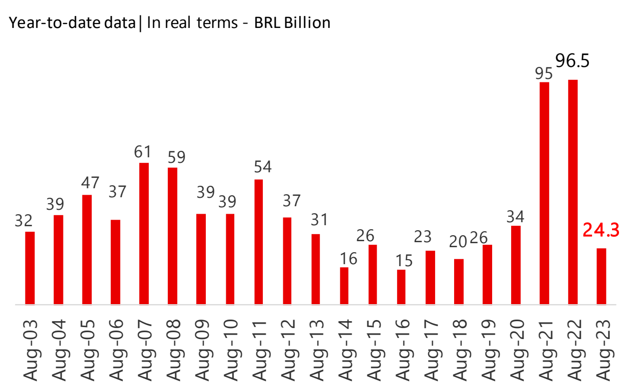
Sources: Brazilian Central Bank, Santander.

Figure 2 – Nominal Interest Result – BRL billion



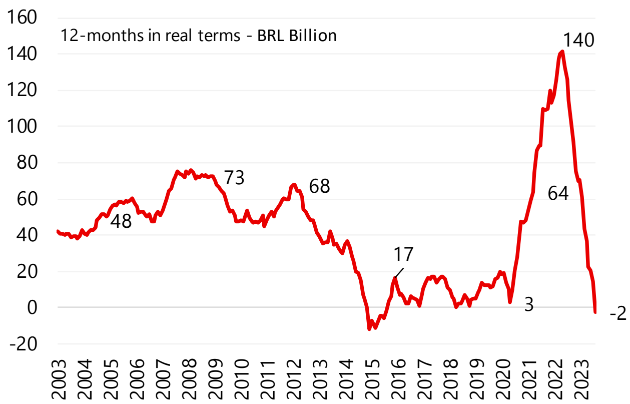
Sources: Brazilian Central Bank, Santander.

Figure 3 – Regional Gov.– Primary Result



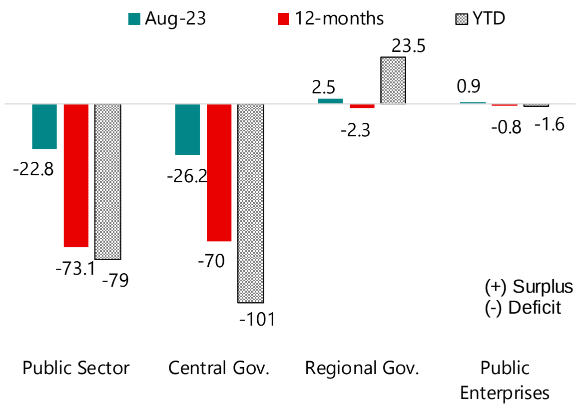
Sources: Brazilian Central Bank, Santander.

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



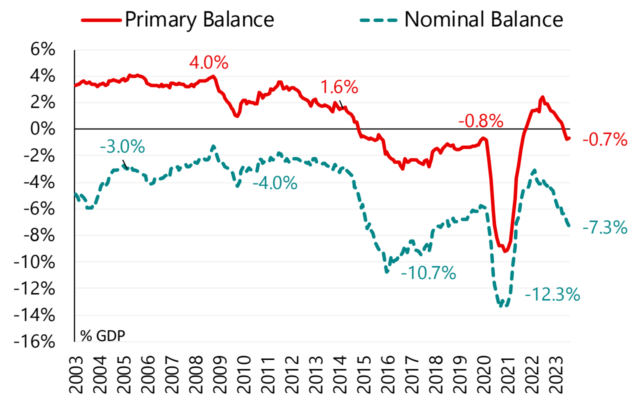
Sources: Brazilian Central Bank, Santander.

Figure 5 – Primary Result (BRL billion)



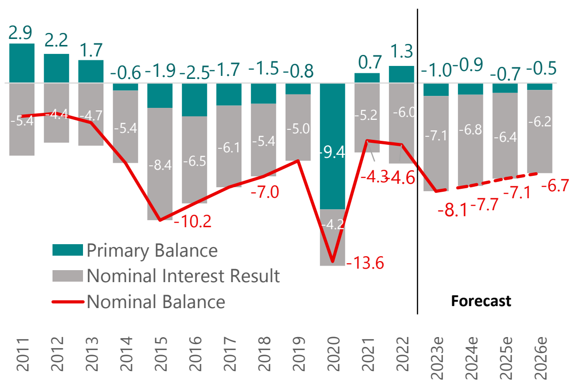
Sources: Brazilian Central Bank, Santander.

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



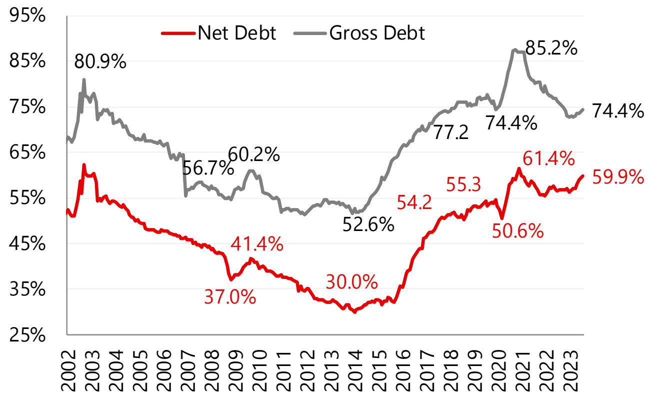
Sources: Brazilian Central Bank, Santander.

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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