Santander
Macroeconomic Research

BRAZIL MACRO

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DATA ANALYSIS – FISCAL POLICY

PUBLIC SECTOR: REGIONAL GOV. UPS AND DOWNS: NEGATIVE SURPRISE IN MAY

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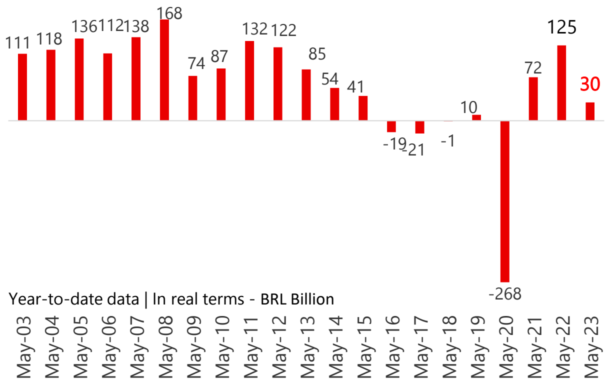
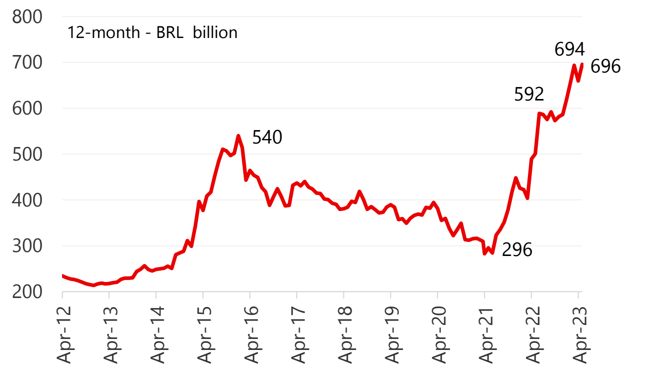
- Today, the Brazil Central Bank (BCB) released the consolidated public sector's fiscal balance for May. The public sector posted a primary deficit of BRL50.2 billion, above our forecast (BRL44.2 billion) and the market median (BRL45.5 billion). Again, the subnational entities' primary result was the main difference from our forecast, this time on the negative side. Regional governments registered a deficit of BRL6.8 billion, beating our call of a BRL0.5 billion deficit and compared to a surplus of BRL7.3 billion in May 2022. This year the subnational entities are registering ups and downs, probably with frictions in usual revenues and expenditures results for the months. We observed three positive surprises and two negatives, with significant magnitudes. Overall, we continue to see the result gradually reducing.
- We observed an 8% 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, even considering the rise in fuel taxes after June.
- In the 12-month reading, the public sector's primary surplus reached BRL39 billion (0.4% of GDP), after peaking at 2.4% in July 2022. Regional governments reached a surplus of BRL22 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 (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 (BRL105 billion or 1.0% of GDP). 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.
- In May, the central government registered the second largest deficit for May on court-ordered debt payments. According to June 29 Treasury data, the central government posted a primary deficit of BRL45 billion in May. In the 12-month reading, the result was a primary surplus of BRL18.2 billion (0.2% of GDP). We expect the primary balance in the 12-month reading to return to negative territory in June and register a sharper drop after July, when concessions and SOE dividends will be lower due to elevated amounts in June 2022 (totaling BRL53 billion). In YTD-terms, we observed net revenue losing steam and expenditures increasing with the rise in the welfare program. Revenue from natural resources dropped 20% YoY as a result of lower commodity prices (especially oil). For 2023, we forecast a BRL120 billion primary deficit (-1.1% of GDP).
- Interest payments totaled BRL69 billion in May, compared to BRL33 billion in May 2022. FX swap operations contributed to this result (loss of BRL3 billion in May, compared to a profit of BRL27 billion in May 2022). In the 12-month reading, the nominal deficit totaled BRL657 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 May, debt rose compared to April. Gross debt reached 73.6% of GDP (+0.7 pp in the month), reflecting interest accrual (+0.7 pp) and debt issuance (+0.3 pp), offset by an increase in nominal GDP (-0.4 pp). Net debt went up to 57.8% of GDP. Voluntary deposits into the Central Bank (not included in debt statistics) went up a little to 1.0% of GDP. 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).

Figure 1 – Consolidated Public Sector Result



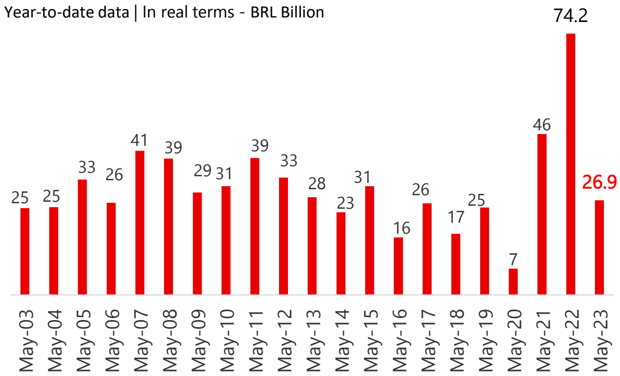
Sources: Brazilian Central Bank, Santander.

Figure 2 – Nominal Interest Result – BRL billion



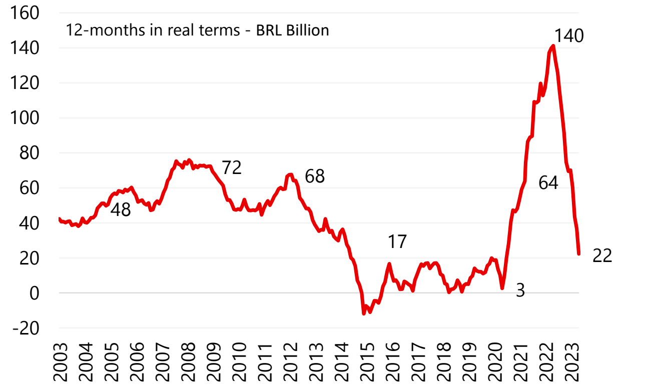
Sources: Brazilian Central Bank, Santander.

Figure 3 – Regional Gov.– Primary Result



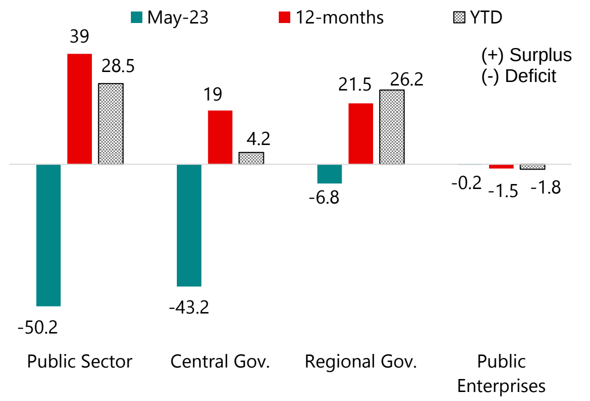
Sources: Brazilian Central Bank, Santander.

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



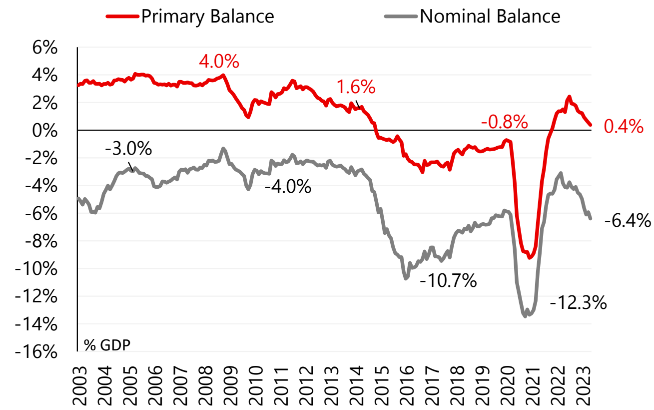
Sources: Brazilian Central Bank, Santander.

Figure 5 – Primary Result (BRL billion)



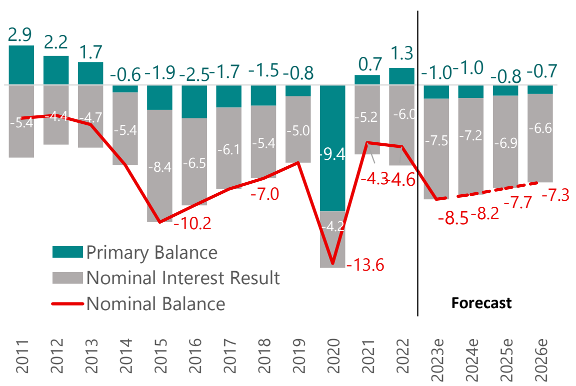
Sources: Brazilian Central Bank, Santander.

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



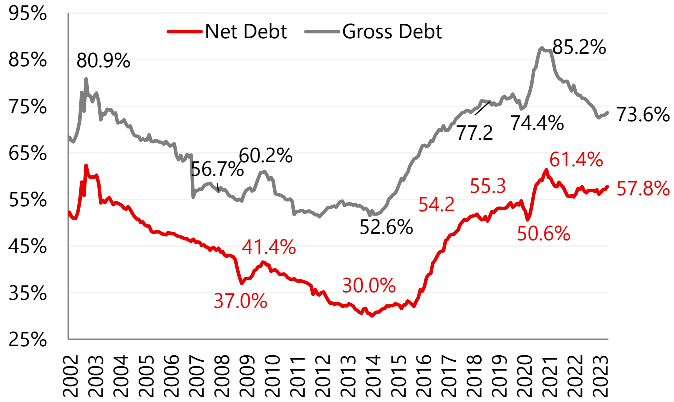
Sources: Brazilian Central Bank, Santander.

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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