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Economic Watch

Brazil

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Economic Analysis

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The primary surplus reached 3.1% of GDP in April following moderation of expenditures and strong revenues in the first four months of the year. From now on, we expect the government to calibrate fiscal expenditures to reach the 2.9% primary surplus target by the end of the year, but not more than that

Brazil: moderation of expenditures and strong revenues drive primary fiscal surplus up

- The public sector primary surplus continued trending up and reached R$ 18.053 million in April. This is more than in February (R$ 13.600 million) but slightly less than in April 2010 (R$ 20.289 million).
- The primary surplus accumulated in the January-April period, R$ 57.315 million, is 45.5% higher than in the same period last year. This is close to the best result for the period recorded right before the crisis in 2008.
- The main contributor to the generation of this significant surplus in the first four months of the year is the Central Government, which includes the Federal Government, the Central Bank, and the Social Security accounts.
- The improvement in the Central Government's accounts is explained by strong revenue performance (17.9%y/y) in the January-April period, which was in turn supported by the dynamism of domestic demand, and also by some control of expenditures (9.7%y/y) in line with the cuts announced in the beginning of the year.
- Although the moderation of expenditures is positive news, the data released today show that wage expenditures gained some momentum in April vis-à-vis other expenditures.
- The public sector primary surplus accumulated in the last 12 months is now at 3.1% of GDP, slightly less than in March (3.2%) but more than the target for the end of the year (around 2.9%).
- Although fiscal results were relatively strong in the beginning of this year, we expect the government to gradually adopt a looser control of expenditures from now on, meaning that authorities will do whatever they have to do to meet the target but no more than that.
- The total public sector result, which includes interest payments, was equal to -2.5% of GDP in the last 12 months. Interest payments therefore represent a burden equal to 5.6% of GDP, which is the highest value since September 2008.
- By the end of the year we expect the total public deficit to be around 2.7% of GDP, which is more than in 2010 (2.55%). The net public debt, which was equal to 39.8% of GDP in April, should slide to around 39.0% by the end of the year as the negative impact of a larger deficit will be lower than the positive impact of the GDP growth.

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