

# Economic Watch

## Brazil

Madrid, 31 May 2011  
Economic Analysis

Enestor Dos Santos  
enestor.dossantos@grupobbva.com  
+34 91 537 68 87

**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.

For more on Brazil, click [here](#)

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

**BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.**