Brazil Flash

Fiscal target was fulfilled and public debt declined to 36.5% of GDP.

The public sector's primary surplus reached R$ 128.7bn (3.1% of GDP) in 2011, reaching the fiscal target fixed for the year (R$ 127.9bn; 3.1% of GDP). In spite of the primary surplus, interest rate payments weighted on fiscal accounts and drove public sector's total deficit down to 2.6% of GDP. The public debt dropped to 36.5% from 39.1% in 2010.

- **Strong revenues allowed the Government to meet the fiscal target**

  In line with our expectations, the public sector met the 3.1% of GDP primary surplus (which excludes interest payments) target. Central Government (which includes Federal Government, the Central Bank and the Social Security System) generated a surplus of 2.3% while Regional Governments and estate-owned companies accounted for the rest. Central government's revenues increased 7.7% in 2011 (17.2% if we do not tale into account the extraordinary revenues related to the capitalization of Petrobras in 2010), more than total expenditures which expanded 3.4% (10.2% if we exclude Petrobras-related expenditures). Public revenues benefitted from a robust domestic demand growth (tax revenues, for example, jumped 20% in the year) and from significant extraordinary revenues. On the other hand, expenditures were kept (relatively) under control in line with the cuts announced at the beginning of 2011.

- **Interest-rate burden reached 5.7% of GDP**

  Interest payments reached 5.7% of GDP in 2011, the highest share since 2007. This increase is explained at a large extent by very high (in average) SELIC rates. In spite of the monetary easing implemented in the second half of the year, the SELIC averaged 11.71% in 2011, in comparison to 10.0% in 2010. As a result of a 5.7% interest-rate burden and of 3.1% primary surplus, the public sector's total result was equal to -2.6% of GDP.

- **Public debt continued to trend downwards in 2011**

  The net public debt dropped to 36.5% of GDP in 2011 from 39.1% in 2010 due to an important GDP expansion (around 3.0%) and to a depreciation of the exchange rate in the end of the year (which drove up the value in reais of Brazil's international reserves).

- **Government will face problems to meet the target in 2012.**

  According to our current forecasts, the public sector will deliver a primary surplus around 2.7% of GDP in 2012, somewhat less than the 3.1% target for the period as revenues are not likely to repeat 2011's dynamism and as the acceleration of public investments will weight on fiscal accounts. In the next few weeks, however, the government is likely to announce some expenditure cuts (as it did at the beginning of 2011), which could imply an upward revision of our primary surplus forecast. This announcement would, actually, support CB's strategy to bring the SELIC rate down to a single-digit level still this year.

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