BBVA Research Flash

Brazil

2011 fiscal target to be fulfilled. What about 2012?

Recent data suggests that the public sector will meet the primary surplus target for this year (3.15% of GDP) due to robust revenues and controlled spending. In 2012, series of pressures on expenditures should prevent the government from meeting the 3.1% target. Preliminary 2012 budget figures support this view.

- **High revenues and controlled spending in 2011**
  The public sector primary surplus was equal to R$ 96.5bn in the year up to August, practically the double that the result observed in the same period last year. This year's primary surplus represents already 75% of the R$127.9bn (around 3.15% of GDP) target for 2011. In terms of GDP, the surplus accumulated between January and August is equal to 3.6%. The improvement of fiscal accounts this year is a consequence of robust revenues (which are 19% up in the year up to date) and some control of expenditures (which grew 11% in the year, much less than the 22% rate observed in 2010). Given the positive performance observed in the year up to now, and considering that the revenues boom should continue in the remainder of the year, we expect the public sector to meet the fiscal target in 2011. Public sector's net debt, which was equal to 39.2% in August, should trend down in the remainder of the year due to a more depreciated exchange rate (which has a positive impact on fiscal accounts as the public sector is an external creditor due to its USD 353bn reserves) and lower interest payments (as a result of a lower SELIC).

- **We do not expect the public sector to meet the fiscal target next year**
  In 2012, fiscal accounts will be negatively affected by the minimum wage adjustment to be implemented in the second quarter of the year (around 14%), by the acceleration of the expenditures related to the 2014 World Cup and 2016 Olympic Games, and by political pressures related to regional elections. In addition to that, revenues can be impacted by a moderation of the domestic demand. Taking all this into account, we expect primary surplus to be around 2.7% of GDP and, therefore, to fall short of the 3.1% target.

- **Preliminary budget shows that meeting the target in 2012 will be a challenge**
  Based on a 5.0% GDP growth forecast, the preliminary 2012 budget estimates that net revenues will grow 11% and reach 20.1% of GDP next year. Our calculations, based on a 3.9% GDP growth, show that revenues should instead grow 9.0% and reach 19.6% of GDP. In spite of being optimist on revenues, the preliminary budget piece foresees a primary surplus of 2.5% of GDP next year. Preliminary budgets in Brazil should be taken with caution as they are subject to a lot of changes, but we take the figures preliminarily presented as a support to the view that the government will have a hard time trying to deliver the target next year.

For more on Brazil, click here.

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