Flash

Brazil

Tax revenues also suggest the economy is slowing down

Tax revenues grew 14.4%y/y in September, significantly less than in previous months (23%y/y on average between January and July; 14.9%y/y in August). In spite of this moderation, the public sector should have no problems meeting the 3.15% primary surplus target this year. However, meeting the target next year will be more challenging.

- **Tax revenues expanded in September by the least in the year**
  Central government's tax revenues increased by 14.4%y/y in nominal terms in September, according to the seasonally adjusted series. Although this growth is still very strong, it is significantly lower than the 22%y/y average observed in the year from January to August. The tax revenues growth in September was, actually, the lowest in the year. The moderation of tax revenues reinforces the view that economic activity is slowing down. Our GDP estimations show the economy will grow around 0.2%q/q in Q3 after growing 1.2%q/q and 0.8%q/q, respectively, in Q1 and Q2.

- **But controlled expenditures should guarantee the fulfilling of the 2011 target**
  In spite of the moderation of tax revenues, overall central government's revenues remain strong and growing more than overall primary expenditures (which exclude interest rate payments). More precisely, in the year up to now, overall revenues increased 20.2% in comparison to expenditures between January and September last year. On the other hand, overall expenditures increased "only" 9.9% in the same period (for comparison reasons, these rates are calculated excluding expenditures and revenues related to Petrobras' IPO in 2010). Therefore, as expenditures remain under control, central government's primary surplus in the year up to date reached R$ 75.2bn, which is around 90% of the target for the year. Taking into account regional governments and state-owned firms, the overall public sector surplus in the year is equal to R$104.6bn or 3.5% of GDP. The public sector should, therefore, have no problems to meet the R$127.9bn (3.15% of GDP) target this year. However, meeting the 2012 fiscal target (3.1% of GDP) will be more challenging as tax revenues should continue moderating next year and as fiscal accounts will be negatively impacted by the 14% increase in minimum wage planned to be implemented at the beginning of the year.

For more on Brazil, click here.

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