Brazil

Economic Watch

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Economic Analysis

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Brazil: expenditures prevent public sector to meet 2010 fiscal goals

- The public sector's primary surplus reached 2.8% of GDP in 2010 and, therefore, did not meet the 3.1% goal for the year. The nominal result, which includes the payment of interests, was equal to -2.6% of GDP.
- These figures compare relatively well with 2009 fiscal accounts (+2.0% primary surplus; -3.3% nominal result), but poorly with pre-crisis results (in 2008, +3.3% primary surplus; and -2.0% nominal result).
- The limited recovery of fiscal results in 2010 was especially striking given the very good performance of tax revenues (central government's tax revenues expanded 16%y/y) and the amount of extraordinary resources generated this year (the capitalization of Petrobras by itself generated 0.9% of GDP in net revenues for the public sector).
- The strong expansion of expenditures, therefore, prevented the public sector to meet the 3.1% primary surplus goal for the year in spite of exceptionally high revenues.
- Central government's primary expenditures grew 22%y/y (15%y/y if we exclude those related to Petrobras' IPO).
- Regional governments' results were driven down by electoral expenditures and help to explain the limited recovery of fiscal accounts in 2010. More precisely, regional governments' primary surplus was equal to 0.6% of GDP in 2010 (0.7% in 2009 and 1.0% in 2008) and regional governments' nominal result equal to -1.3% (0.1% in 2009 and -1.2% in 2008).
- The net debt of the public sector dropped to 40.4% of GDP in 2010 from 42.8% in 2009 (38.5% in 2008).
- For 2011, we expect the government to announce measures to slow expenditures down so that public sector can reach the 3.1% primary surplus this time. In this case, the net debt of the public sector would continue trending down and would reach 38.6% of GDP by the end of 2011.

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