Instituição Fiscal Independente

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Highlights

- By 2017, we forecast a GDP growth of 0.46%, but there is a probability of decrease of around 45%.
- Primary deficit in 2017 should reach R$ 182 billion (2.8% of GDP), against the R$ 143 billion deficit target (2.2% of GDP).
- Spending cuts required to meet the 2017 fiscal target would demand a real decrease in spending of 0.5%.
- Tax expenditures will reach R$ 284.8 billion in 2017, one-fifth of all revenue collected by the Federal Revenue of Brazil (RFB).
- Interest expenditure has declined in 2016, but it is still the largest among major economies (6.6% of GDP).
- Public debt is expected to reach 76.9% of GDP by the end of 2017 and 84.3% in 2021.

Summary

- By 2017, we forecast a GDP growth of 0.46%, much lower than the forecast of the Annual Budgetary Law of 2017 (1.6%). The dynamics of the activity is essential to define the trend of public revenues and, ultimately, the evolution of the primary balance and the public debt.

- Primary deficit is expected to close 2017 at R$ 182 billion (or 2.8% of GDP). Our forecasts embody a real increase of 0.2% for total revenues and a 2.4% advance for central government's primary expenditure. Until 2021, there will be gradual improvement, but balances will remain negative for a long time.
- Tax expenditures could reach R$ 284.8 billion in 2017, the equivalent of 4.2% of GDP and 21.3% of total revenue collected by the Federal Revenue of Brazil (RFB). Costs and results of these policies need to become more transparent.
- IFI simulations show that the targets set in the Budget Guidelines Law, if pursued, would require an adjustment much more concentrated on the expenditure and/or revenue side.
- Spending cuts required to meet the 2017 fiscal target, at least R$ 38.9 billion, would demand a real decrease in spending of 0.5% in the current year. For purposes of comparison, the mere application of the expenditure ceiling (Constitutional Amendment no. 95) allows primary expenditure real growth of 2.2%.
- Brazil will converge to lower real interest rates based on the new Selic reduction cycle initiated by the Central Bank. In the short term, public sector interest expenses will be directly affected: each Selic reduction point generates annual savings of R$ 28 billion.
- The reversal of FX swaps costs between 2015 and 2016 generated a significant slack in interest payments, despite the increase in outlays related to government bonds. However, our net interest payment is still the largest among major economies (6.6% of GDP).
- Public debt is expected to reach 76.9% of GDP by the end of 2017 and 84.3% in 2021. Primary effort required to stabilize such level of indebtedness (under a series of assumptions) would have to be positive by at least 1.2% of GDP, well above the 1.2% of GDP deficit projected for 2021.