Instituição Fiscal Independente

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Highlights

- **Revenues remain in negative terrain and show mixed signals over its different components.**
- **Stability of primary results contrasts with the fall of nominal interest.**
- **Federal Government revises primary balance targets for 2017 and 2018; new figures approximates IFI's projections.**
- **Social spending represents 75% of federal budget**
- **Gross debt projected path worsened and indicates peak of 93.3% of GDP by 2024.**

Summary

- GDP growth in the second quarter was due to the **reactivation of household consumption**. Investments do not show any reaction in the context of the reduction in public spending, large idle capacity and high level of uncertainty in the economy, particularly with regard to solving the fiscal problem.

- Despite the R$85 billion[1] backlash in tax breaks this year, the dynamics of revenue collection follows in negative terrain and shows mixed signals over its components, notably **negative results for corporate income and profits taxes** and positive results for industrial output and payroll taxes.

- Public sector primary balances are stable, which interrupts the decline trend, but with no hard-hitting evidence of recovery. This fact, combined with falling nominal interest, results in a **slow reduction of the nominal deficit**, which remains high and puts pressure on debt.

- **Central government primary deficit targets raised R$20 billion and $30 billion in 2017 and 2018, respectively.** In 2018, the need for adjustment sums R$44.5 billion, almost entirely explained by revenue frustration. In addition to the R$30 billion deficit slackening, other R$ 14.5 will need to come from measures that raise revenue. Otherwise, the adjustment will have to be done by freezing expenditure.

- Social spending represents 75% of federal budget, excluding debt services. The main expenses refer to social security, education, health and social assistance. In the last ten years, the increase in educational expenditure stands out, mainly because of the expansion of higher and professional education, as well as higher education loans. **Social tax expenditures totaled R$102.4 billion in 2016**, 26% of budget direct expenditure.

- The gross debt projected path is upward until 2024, when it will begin to stabilize and fall gradually. **Debt will grow up to 93.3% of GDP by 2024**, and converge to 85.5% of GDP until 2030. This evolution will depend heavily on the generation of declining primary deficits and – from 2024 on – primary surpluses, which will occur through changes in federal mandatory spending.

[1] Exchange rate on 2017.9.23: R$ 3.17 per US$ 1.00.