Instituição Fiscal Independente

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Highlights

- **GDP growth projections were revised up to 0.7% in 2017 and 2.3% in 2018.**
- **Short-term fiscal scenario changes little, however, in the medium term, challenge is substantial.**
- **Slackening of the primary balance target allowed government to unfreeze R$12.8 billion[1].**
- **Government met fiscal targets for the first eight months of the year, but comparison with initial target requires caution.**
- **Our basic scenario for debt gets better for the 2018-2021 period.**
- **Federal spending in infrastructure corresponds to less than 1% of GDP.**

Summary

- The **upward adjustment** in our projections for **GDP growth** stems from incorporation of the positive result for the second quarter and the good performance of high-frequency indicators. **Household consumption** takes the starring role in the process of resumption of the economy, replacing agriculture.

- The revision to **GDP growth** and **non-recurring revenues** helps short-term fiscal results. Update of macroeconomic assumptions, inflation in particular, has mixed effects on revenue and expenditure. In the medium term, fiscal consolidation remains challenging.

- The **R$20 billion slackening on central government primary deficit target** for 2017 (from $139 billion to R$159 billion) absorbed the expectation of a R$4.9 billion revenue reduction, a R$2.3 billion expenditure expansion, as well as a R$12.8 billion unfreezing on discretionary spending.

- In 2017, the **primary deficit target** of the federal Government for the first eight months of the year was **expanded** from R$54.3 billion to R$106.2 billion. This results from the R$56.3 billion frustration on revenue collection (except social security) and expenditures (except social security) R$23.8 billion below initial planning (due to budget freezing).

- **Our public debt scenarios remain challenging**. The risk of fiscal insolvency is under control, but is considered in the pessimistic scenario, in which debt reaches 100% of GDP between 2020 and 2021. Deepening fiscal adjustment and resuming growth is the way to avoid this trajectory.

- From 2007 to 2016, federal spending in infrastructure corresponded to 0.9% of GDP on average. In relation to total expenditure, the percentage is close to 4%. Infrastructure concentrates a large part of federal investments. Of the total amount, about 40% goes to Transportation. Among the biggest infrastructure iniciatives are the program Minha Casa Minha Vida, road transportation and merchant navy loans.

[1] Exchange rate on 2017.10.23: R$ 3.23 per US$ 1.00.

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Contacts: ifi@senado.leg.br | (+55 61) 3303-2875