

Highlights

- **Economic activity data indicate slow growth in the third quarter.**
- **Recurring net income advances 1.1% year to date, above the 0.2% of official indicator.**
- **State level primary balances evolve favourably, but at the expense of public investments.**
- **Public debt interest payments fall, but persistent primary deficit keeps rising liabilities.**
- **Revised version of 2018 Budget Proposal raises expenses (R\$44.5 billion¹) and primary deficit (R\$30 billion)**
- **Federal spending with Powers of the State and Administration account for about 10% of total.**

Summary

- Economic activity data indicate **slow growth** in the third quarter. Obstacles to the recovery of investments, due to the low level of capacity utilisation in industry and the inability of the Government to promote stimuli, represent risk to the consolidation of the recovery of Brazilian economy.
- The high volume of non-recurring revenues have hampered the performance evaluation of revenue collection. Either because of the occurrence of new extraordinary operations this year, or the lack of correspondence in the same period of the previous year, **recurring revenue** shows more **favorable** momentum than official figures indicate.
- **State Governments** fiscal adjustment results in a favorable evolution of primary balances, but in ways that penalize **investments**. The contraction of investments, currently at the lowest level of the decade, is responsible for more than two-thirds of the required fiscal effort to enlarge the primary balance and offset the increase in personnel costs.
- **Gross debt** remains its **upward trajectory** in September, with an increase of 0.2 percentage point of GDP. The reduction of the Selic rate target and, consequently, of the interest due, will help to slow down the pace of debt expansion, but debt sustainability will come only with the reduction of high primary deficits.
- **The increase** of R\$30 billion on the **primary deficit target**, which now amounts to R\$159 billion, combined with new macroeconomic parameters and the legal measures that integrate the new version of 2018 Budget Proposal, increase net revenue in R\$14.5 billion and allow an increase of R\$44.5 billion in primary expenditure.
- From 2007 to 2016, federal spending with **Powers of the State and Administration** corresponded to **2.2% of GDP**, on average, or about 10% of total federal spending. Almost two-thirds are intended for personnel and social charges. The area aggregates the Judiciary and Legislative Branches, the Public Ministry and the Public Defensory, as well as some sectors of the Executive, such as Defense, Foreign Affairs and Public Order and Safety.

¹ Exchange rate on 2017.12.08: R\$ 3.29 per US\$ 1.00.