

BRAZIL – Court-ordered debt payments mitigate the slowdown in consumption in 2H25

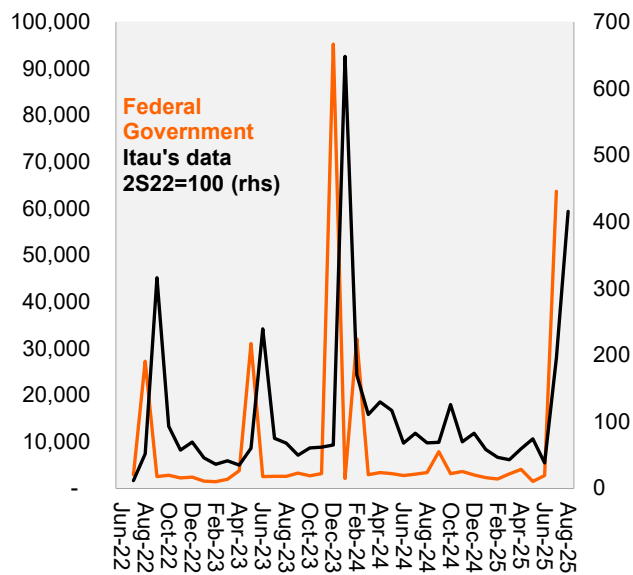
- ▶ This report assesses the timing, magnitude, and allocation of funds received through court-ordered debt payments from the federal government (*precatórios*), comparing the current payment cycle (concentrated in August of 2025) with previous cycles. We monitor wire transfers from Itaú clients' judicial accounts and track consumption and debt indicators.
- ▶ The impact on consumption is already visible. Historically: i) on average, roughly 15% of amounts received via court-ordered payments were allocated to consumption of goods and services, with around 10% spent within the first six months; and ii) spending typically peaks 35-40 days after receipt, with effects persisting for more than one quarter. In the current cycle, through end-September 2025, approximately 3.5% of the amounts received have been used for consumption, broadly consistent with prior cycles at this stage. Goods consumption has increased by 47%, led by autos/auto parts and construction materials, while services spending has risen by roughly 20%.
- ▶ A smaller share has been allocated to debt repayment. Our data indicates that i) about 30% of beneficiaries had general-purpose bank debt (personal loans, overdrafts, etc.) as of late June 2025; and ii) by late August, this group had applied approximately 4% of received funds to amortization, resulting in a 16% reduction in outstanding debt.
- ▶ The IDAT-Activity aggregate likely understates the macroeconomic impact of *precatório* disbursements. Based on prior payment cycles, only a fraction of court disbursements is captured in our databases, and beneficiaries account for just 0.1% of total IDAT spending.
- ▶ We estimate that *precatório* payments will boost the Monthly Retail Sales Survey (PMC) by 0.9% to 2.8% and add around 0.2 percentage point to GDP in the second half of 2025.

***Precatórios* are court-ordered debt payment requisitions issued by the Judiciary to settle definitive liabilities of the federal, state, and municipal governments after final judgments.** Typically concentrated in a few months each year, the payments represent a material liquidity injection into the economy, with potential impact on activity.

In 2025, federal court-ordered debt payments totaled R\$ 80 billion (of which about R\$24 billion were food-related). In July alone, disbursements amounted to R\$ 64 billion. Although funds are credited to judicial accounts held at public banks, it is possible to monitor their effects via electronic transfers (TEDs) originated from these accounts to Itaú clients, enabling us to track receipt dynamics and subsequent impacts on consumption.

The seasonality of receipts captured at Itaú closely mirrors the flow reported by the National Treasury, with an approximate one-month lag. In 2025, internal data show an intensification of TEDs beginning in late July and peaking in the first week of August, which provides a clear time frame for analysis.

Chart 1: Amounts paid/received from Court-ordered Debt Payments



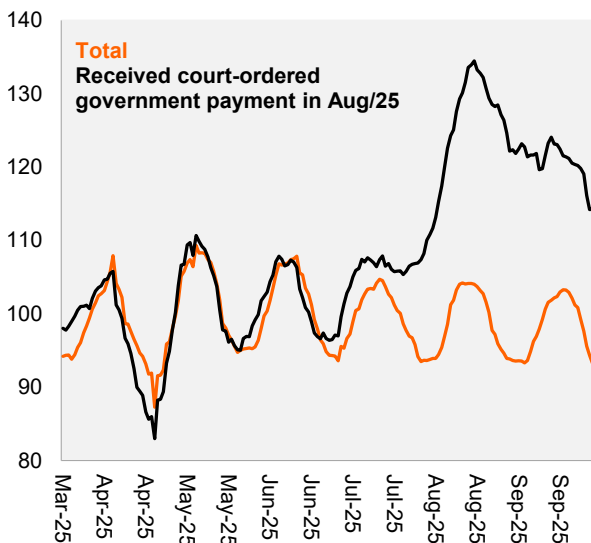
Source: National Treasury, Itaú

Evidence of impact on consumption by sector

To measure the impact of court-ordered debt payments on consumption, we identified in the IDAT database the individuals who received these funds in 2025 and built a dedicated sub-index for this cohort. Charts 2,3 and 4 compare Total IDAT (nominal, not seasonally adjusted) with the Beneficiary IDAT sub-index, both indexed (2Q25 =100). The comparison indicates a meaningful shift in the spending pattern of recipients following the disbursements.

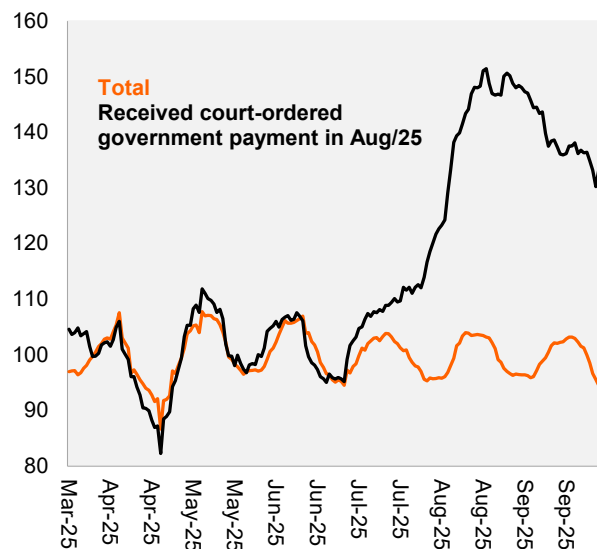
Among clients who received *precatório* payments, the increase in consumption is more pronounced for goods than for services. Relative to the Total IDAT, spending was around 29% higher on core goods, 47% higher on broad goods, and around 20% higher on services. This pattern underscores the demand impulse associated with *precatórios* disbursements, with a stronger tilt toward goods categories.

Chart 2: Expenditures of court-ordered debt recipients on core goods

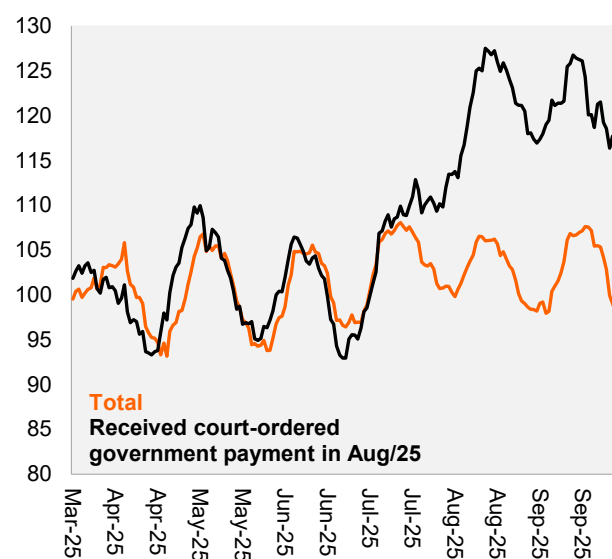


Source: Itaú

Chart 3: ...and broad above average



Source: Itaú

Chart 4: Spending on services also increased after receiving

Source: Itaú

It is worth noting that spending by clients who received court-ordered payments represents only 0.1% of total IDAT spending; therefore, the cohort-level shift does not translate into a clear increase in the aggregate indicator. Moreover, our coverage captures only a fraction of overall disbursements, as funds are credited to judicial accounts primarily at public banks and only part of these flows is transferred to Itaú accounts.

At the sectoral level, beneficiaries significantly increased purchases of automobiles and auto parts, as well as construction materials - segments that had been decelerating in previous months. Within the core goods, fabric, apparel, footwear and furniture and appliances stood out. By contrast, services showed the smallest change in consumption patterns. The impacts by sector are detailed in Table 1.

Table 1: Impact on consumption by sector among court-ordered debt recipients, 2025

Sector	Consumption Impact, %
Services	19.6
Food services	16.8
Lodging	7.1
Recreation	14.1
Beauty services	25.5
Broad retail	47.4
Vehicles and parts	153.1
Construction material	57.1
Core retail	29.1
Fuel, lubricants	9.2
Office, IT and Communication goods	33.6
Pharmaceutical, medical	14.9
Hypermarkets, Supermarkets	20.5
Books, periodicals, magazines	43.8
Furniture and appliances	49.1
Others goods of personal use	16.2
Fabric, apparel, footwear	39.4

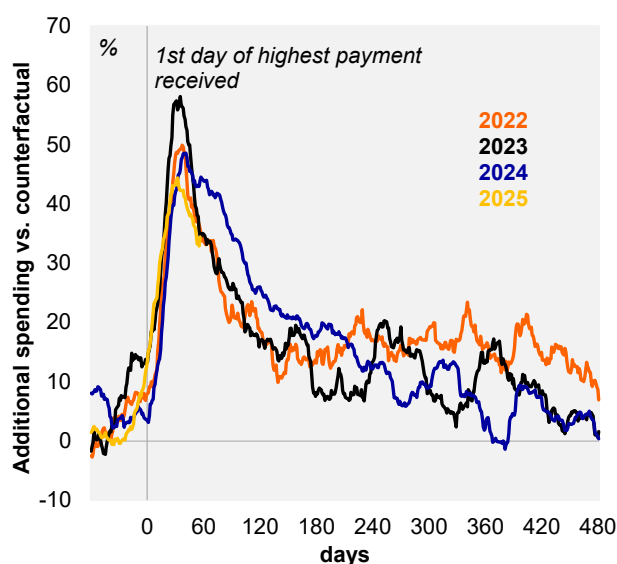
Source: Data as of September 26. Itaú

Historical comparison - Timing and intensity of consumption

The increase in consumption occurs shortly after the receipt of court-ordered debt payments, broadly consistent with prior years, with the peak typically occurring 35-40 days after funds are credited. Chart 5 summarizes this dynamic: it is constructed as the ratio of the Beneficiary IDAT sub-index to Total IDAT (orange and black lines in Charts 2,3 and 4¹), aggregating goods and services for different years. Based on the 2022, 2023 and 2024 cycles, we estimate the 2025 peak to fall in the first half of September.

Beneficiaries spend around 40%-60% above the counterfactual path (i.e., the estimated trajectory absent the disbursement), with effects that persist for more than one quarter. Comparing 2023 and 2024, the latter shows greater consumption smoothing – consistent with higher average payment amounts - characterized by a lower peak but a more diffuse impact over time, with significant effects throughout the first half of the year. By contrast, 2023 exhibited a higher, more concentrated peak in the months immediately following receipt.

Chart 5: Spending of those who received court-ordered payments – Observed/counterfactual (28-day moving average)²



Source: Itaú

Historical comparison - consumption share

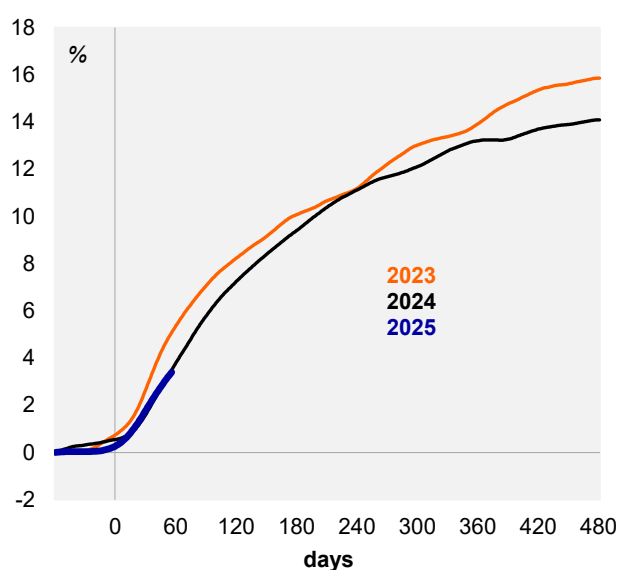
The share of funds received via court-ordered debt payments that is converted into consumption has been around 15% in recent years. In 2023, the share was 16%; in 2024, 14%, with a strong concentration in the first two months (around 6% of the total). Six months after the credit, the accumulated consumption corresponds to approximately 10% of the amount received.

In 2025, as of September 26th, cumulative spending reached 3.5% of the amount received to date, in line with the pattern observed in prior years. By sector, the increase is concentrated in goods—about 3.2% of the total—while services account for roughly 0.3%.

¹ Note that, in the Charts 2,3 and 4, the ratio between the lines captures the comparison between the spending trajectory observed after the receipt of *precatórios* and the trajectory of total spending. Because both indicators are indexed to 2Q25 = 100, the counterfactual trajectory is the one that would keep the share of *precatório* recipients in Total IDAT at the same level recorded in 2Q25.

² Each line corresponds to a year; the vertical marker indicates the first day of the month with the largest disbursement (August 1 in the case of 2025); the x-axis shows days around the receipt date of the *precatório* across different years; and the y-axis indicates how much more (in %) *precatório* recipients spend on goods and services relative to their counterfactual spending.

Graph 6: Percentage of expenditures



Source: Itaú

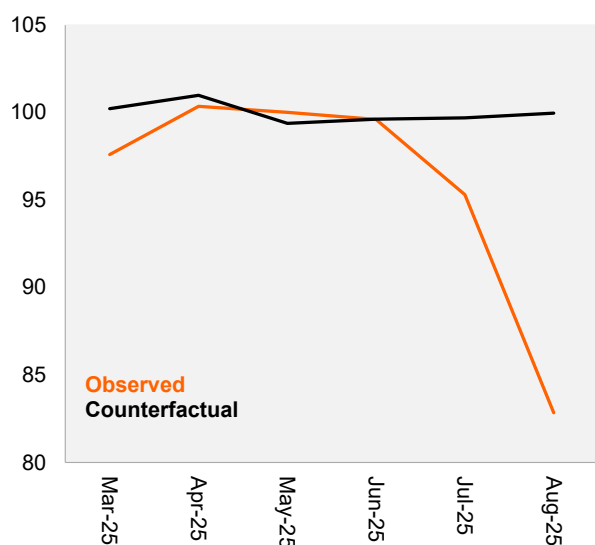
Evidence of impact on indebtedness³

To measure the allocation of court-ordered debt payments to debt reduction, we identified individuals who received these payments in 2025 and held general-purpose bank debt at Itaú (personal loans, overdrafts, etc.). As of end-June, around 30% of recipients had outstanding debt, and only 2% were delinquent.

By end-August, among clients who received *precatório* payments and held general-purpose bank debt, approximately 4% of the funds received had been applied to principal amortization, resulting in a 16% reduction in outstanding balance (Graph 7).

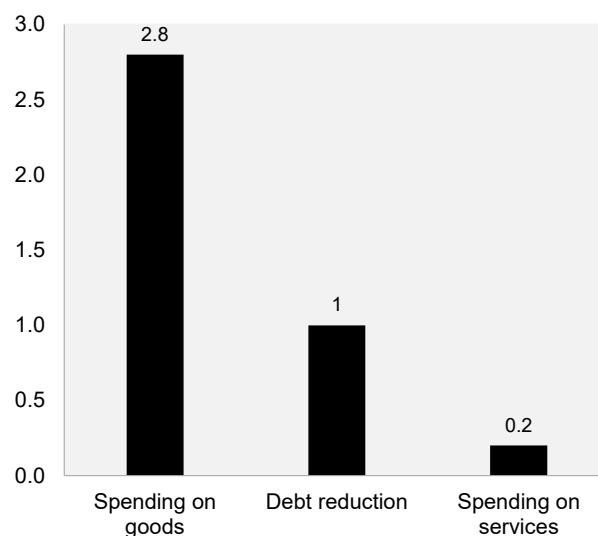
At the aggregate level - considering all *precatório* resources - roughly 1% had been allocated to debt reduction by end-August, reflecting the fact that most recipients (around 70%) did not hold general-purpose bank debt. Chart 8 summarizes the allocation of 2025 *precatório* receipts as a share of total disbursements.

³ Due to data constraints, consumption figures were computed through September 26, whereas debt data were extracted through end-August.

Graph 7: Indebtedness of those who received court-ordered payments*

* General purpose bank debt (personal loans, overdraft facilities, etc.)

Source: Itaú

Chart 8: Allocation of funds received from court-ordered debt payments in 2025, % of amount received

Source: Itaú

Caveat: IDAT data may be understating the consumption impulse

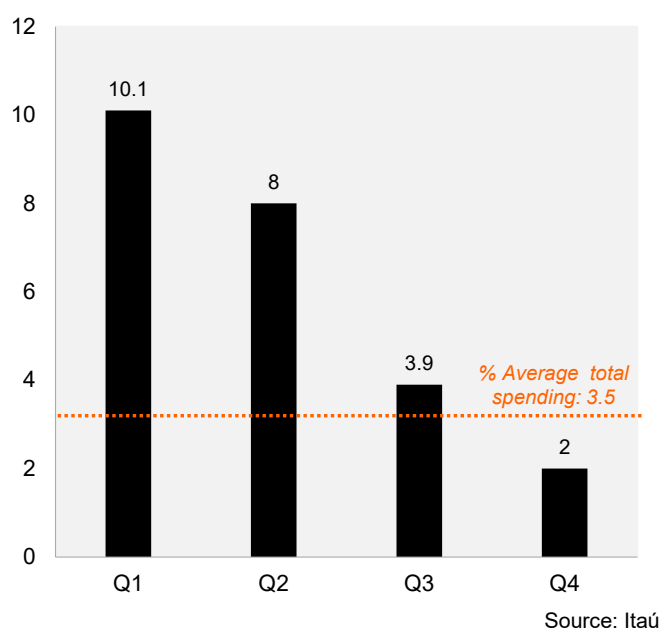
External benchmarks suggest higher consumption allocation than IDAT indicates. Based on IBGE data, last year's estimates placed the share of court-ordered debt payments directed to consumption between 25% and 30%. In the Macro Vision "[Court-ordered debt payments and the positive surprise in consumption at the start of the year](#)", we estimate an impact of approximately +0.3 p.p. on 2024 GDP, concentrated in the first quarter, due to the payment of R\$45 billion of a food-related *precatório* at the beginning of the year. In a simplified manner, we estimate that the nominal surprise relative to the consensus for retail sales in January and February of 2024 was around R\$15 billion, suggesting that approximately one third of the amounts transferred to households were used during that period.

The academic literature, although not consensual, points to a relatively low marginal propensity to consume in the face of temporary income shocks. For the United States⁴, studies estimate a marginal propensity to consume between 21% and 35%, concentrated in the short term (1 to 3 months). In Brazil, a Central Bank study (2017)⁵ on withdrawals from inactive FGTS accounts estimated a 6%-9% increase in consumption within six months. However, this result may be underestimated, as it only considers indebted households and credit card spending.

These considerations imply the consumption share measured via IDAT may also be understated. We divided the clients who received court-ordered debt payments into four equal-sized quartiles (by number of people), ordered by the amount received. Chart 9 shows the share of *precatório* spent by quartile in 2025 (up to the September cut-off date), revealing an inverse relationship between payment size and consumption share: 10.1% in the first quartile versus 2% in the fourth. Given that the average payment in our database is higher than in the aggregate, it is plausible that the overall share of spending exceeds the 10% observed in the first six months (as shown in Chart 6).

⁴ See Sokolova, A. "Marginal Propensity to Consume and Unemployment: a Meta-analysis" Review of Economic Dynamics. 2023.

⁵ BCB. "Saques das contas inativas do FGTS: Como os beneficiários utilizaram os recursos?"

Chart 9: Percentage of expenditures by income quartile received in 2025

The impact on GDP could be around 0.2pp in 2H25

We estimate an impact close to 0.2pp on GDP in the second half of this year. The effect of the payments of court-ordered debt payments from the federal government on activity will depend mainly on the marginal propensity to consume of the recipients and the distribution of the amounts paid (greater dispersion tends to increase the marginal propensity to consume and, therefore, the aggregate effect). The data from Itaú's clients, discussed in the sections above, helps to gauge both the timing of disbursement and the percentage of the amount spent.

Considering only the food-related *precatórios*⁶ (approximately R\$ 24 billion), we estimate an impact on retail sales (PMC) between 0.9% and 2.8%, distributed between August and September, with possible spillover into 4Q25. To estimate the effect on the Monthly Retail Sales Survey (PMC), we constructed a proxy for monthly nominal spending based on more recent data from the Annual Retail Sales Survey (PAC) and simulated scenarios of increased consumption resulting from the release of *precatórios*. We considered different spending shares: from 10% - the portion suggested by IDAT historical data in the first six months - to 30%, a proportion based on the forecast error of PMC projections of last year. For the PMS (services provided to households), the impact should be more contained, given the lower percentage of spending directed towards the sector.

⁶ The nature of *precatórios* is relevant for assessing the impact on household consumption. Alimentary *precatórios* (judicial awards related to wages, pensions, retirement benefits, and compensation for death or disability) cannot be seized, tend to have lower volumes traded in the secondary market, and may therefore generate a larger consumption impact. By contrast, common or non-alimentary *precatórios* (other types of claims, such as those related to expropriations and taxes) may be subject to attachment or offset (i.e., may not be effectively paid in cash and instead used to reduce debt) and are more frequently received by companies, making the evaluation of their impact on spending and GDP more complex. In this exercise, we adopt the simplifying assumption that most *precatórios* mapped in our databases and transferred to individuals are of an alimentary nature.

Table 2: Impact of court-ordered debt payments on 2H25 GDP

Estimated impact of the court-ordered debt payments on GDP			
Share of consumption	Consumption (R\$ billions)	Retail Sales	Impact on GDP
10%	2.40	0.9%	0.1%
15%	3.60	1.4%	0.1%
20%	4.80	1.9%	0.2%
25%	6.00	2.3%	0.2%
30%	7.20	2.8%	0.3%

Source: Itaú

Our base scenario assumes a consumption ratio around 20% - higher than suggested by Itaú's data but lower than observed last year, during a period of stronger economic activity — which generates an impact of 0.2 pp on 3Q25 GDP. Currently, our Tracking for 3Q25 GDP is below our scenario (+1.7%y/y⁷ vs +1.9%y/y). However, as August and September retail data confirm the positive impact of *precatórios*, we expect Tracking to converge to the base scenario.

Conclusion

The results indicate that court-ordered debt payments from the federal government (*precatórios*) have boosted household consumption and, consequently, GDP during the period. Although the base of beneficiaries represents only 0.1% of IDAT expenditures, Itaú's data suggests an impact on goods consumption, particularly in the categories of durables and semi-durables. The persistence of this effect for up to three quarters reinforces that it is not a one-off shock, but rather an additional support to economic activity in the short and medium term. In terms of indebtedness, only 1% of total resources from *precatórios* was allocated to debt amortization by the end of August – a percentage that reaches 4% of the received amount when restricting the sample to recipients who had general-purpose debt (credit card, overdraft, etc.). In this context, we project a contribution of around 0.2 pp. to GDP in 3Q25, in line with our expectation of growth of +0.3%q/q (1.9%y/y).

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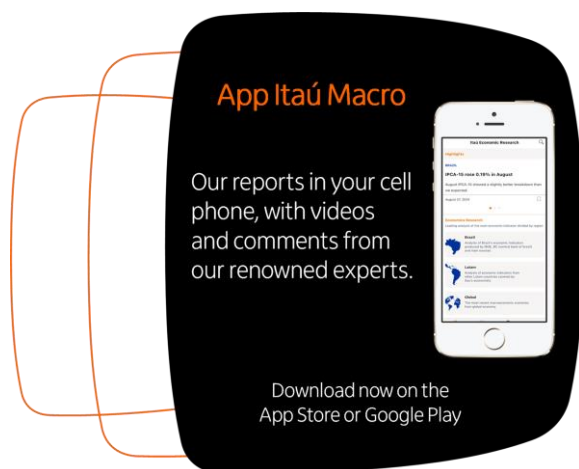
⁷ Considering 53% of the reported data.

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