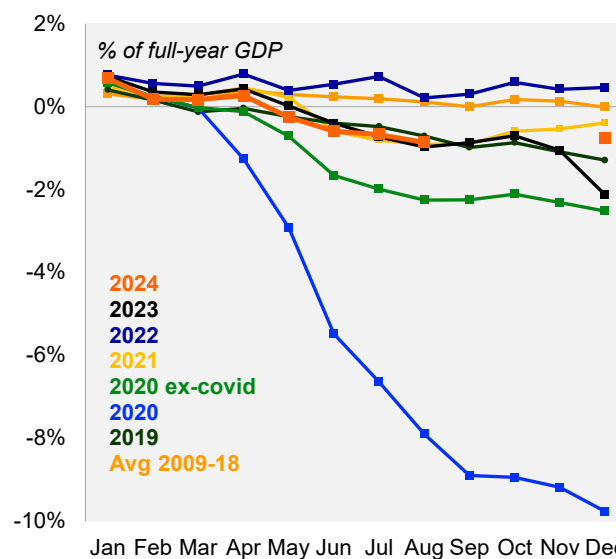


Primary deficit of BRL 21.4 bn in August, close to expectations

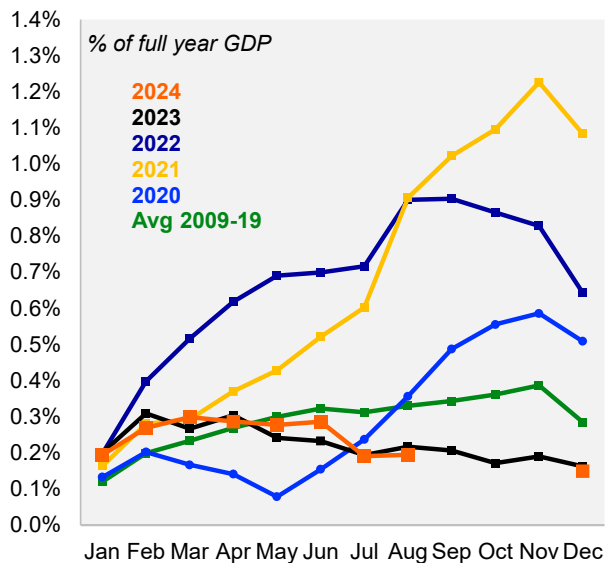
- ▶ The consolidated public sector recorded a primary deficit of BRL 21.4 billion in August, close to our expectation of a deficit of BRL 20.8 billion. The central government recorded a deficit of BRL 22.3 bn, as reported by the Central Bank (based on the debt change), close to our expectations (a deficit of BRL 22.8 bn). However, the National Treasury's calculation of revenues and expenses has not yet been released. Regional governments recorded a surplus of BRL 0.4 bn, worse than our call of a surplus of BRL 2.0 bn call. In 12 months, the consolidated primary result remained at a deficit of 2.3% of GDP, being -2.3% from the central government according to the BCB definition and +0.1% in states, municipalities and state-owned companies.
- ▶ General government gross debt rose to 78.5% in August from 78.4% of GDP in July. Net debt increased to 62.0% from 61.8% of GDP in the month. The nominal deficit accumulated over 12 months, excluding swaps, oscillated to 9.3% of GDP (from 9.4%) and interest expenses remained at 7.1% of GDP.
- ▶ **Our view:** tax collection has been stronger, but fiscal risks remain high, considering the growth in mandatory spending above the limit set by the fiscal framework and the difficulty in obtaining a trajectory of convergence for primary results. With lower contingency cuts announced in the latest bi-monthly report, the government has shown low commitment with the fiscal adjustment agenda, even facing a larger deficit (with greater expenditures not bound by the fiscal rules) and depending on extraordinary revenues (or uncertain ones) to meet the lower bound of the primary target this year. Going forward, it will be important to announce a new spending block in the November bi-monthly report to ensure compliance with the expense limit in 2024, and that revenue measures are actually yielding results to meet the primary target, in addition to structural fiscal adjustment measures that guarantee the credibility of the fiscal framework.

Primary result of the central government deteriorating at the margin



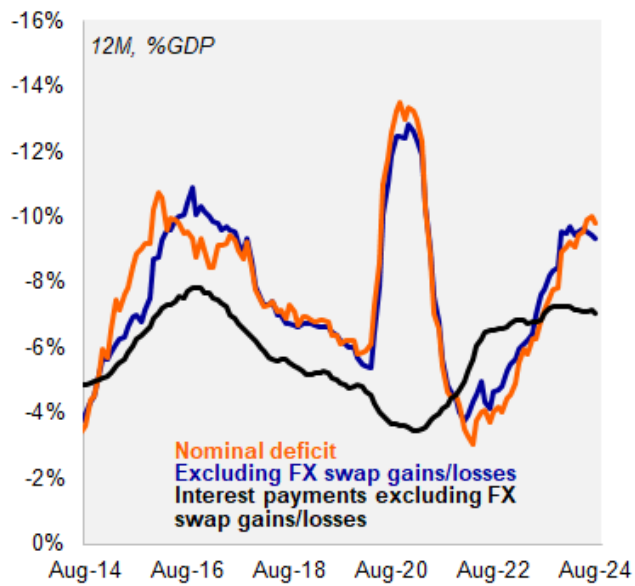
Source: Central Bank, Itaú

Weaker regional governments' primary result



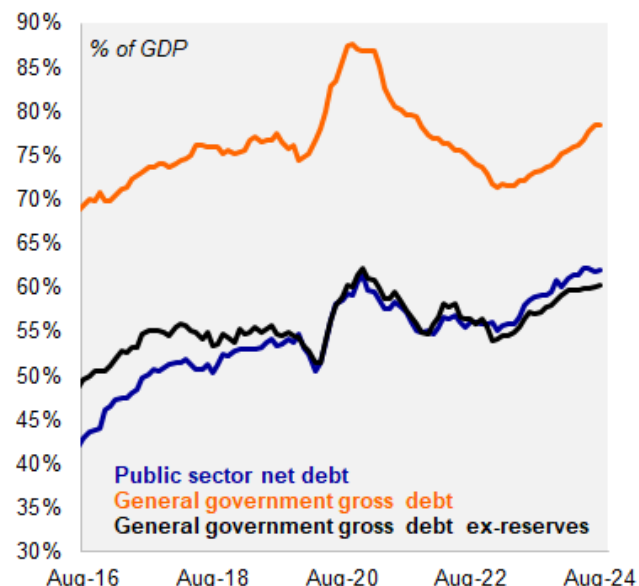
Source: Central Bank, Itaú

Nominal deficit remains elevated



Source: Central Bank, Itaú

Public debt on the rise at the margin



Source: Central Bank, Itaú

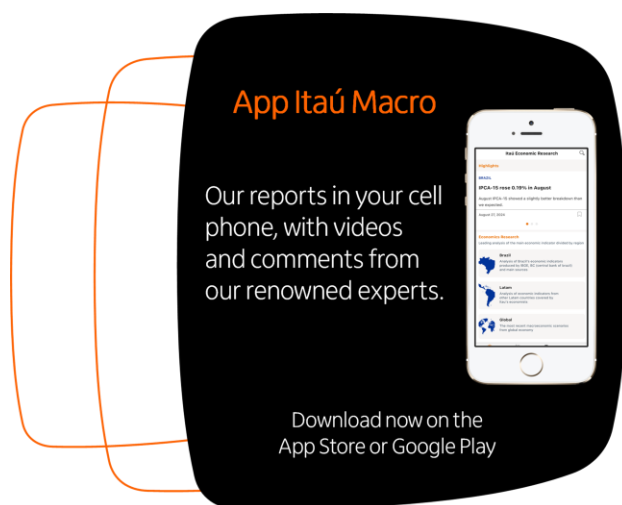
Thales Guimarães

Macro Research – Itaú

Mario Mesquita – Chief Economist

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