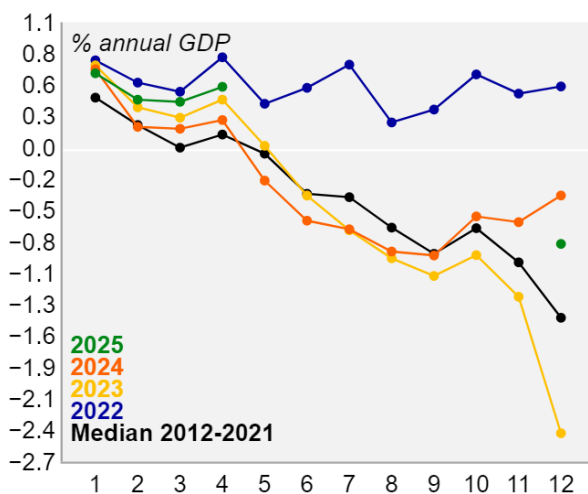


Primary surplus of BRL 14.1bn in April

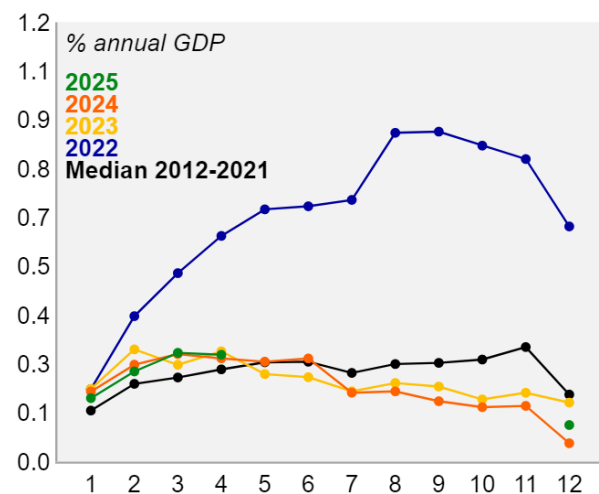
- ▶ The consolidated public sector recorded a primary surplus of BRL 14.1 bn in April, worse than our expectation (a surplus of BRL 19.8bn). According to the Central Bank, the central government posted a surplus of BRL 16.2 bn, below the surplus of BRL 17.8 bn reported by the Treasury and worse than our expectation (a surplus of BRL 18.1 bn).
- ▶ The regional governments registered a deficit of BRL 0.7 bn, worse than our expectation (a surplus of BRL 1.6 bn). Over 12 months, the consolidated primary result was 0.0% of GDP (from 0.1% in March), with the following breakdown: 0.1% of GDP for the central government and 0,0% for regional governments and SOEs.
- ▶ The general government gross debt rose to 76.2% of GDP in April, from 75.9% in the previous month, while the public sector net debt rose to 61.7% of GDP, from 61.6%. Ex-FX swaps, 12-month accumulated nominal deficit was stable at 7.5% of GDP, while and interest expenses increased to 7.5% of GDP, from 7.4%.
- ▶ **Our view:** we anticipate a slowdown in both revenues and expenditures this year. However, while the impact on expenditures is likely to be temporary - driven by the expected normalization of the Social Security backlog, increased budget execution following the budget's approval, and retroactive payments of public sector wage adjustments - the deceleration in revenues may prove more persistent. As a result, following a stronger-than-expected fiscal freeze, achieving the primary result target of -0.6% of GDP in 2025 (considering deductions and the lower bound of the official target of 0%) will hinge on the government's continued efforts to secure extraordinary revenues. Looking ahead, it will be crucial to monitor whether the government maintains the increase in the IOF (Tax on Financial Transactions) or opts to replace it - at least partially - with other revenue-enhancing measures aimed at reducing inefficiencies or distortions. These could include higher taxation on betting and cryptocurrencies, extraordinary revenues from oil auctions and dividends from state-owned enterprises, as well as structural expenditure reforms, such as revisiting unemployment insurance spending, for example.

Primary result of the central government, seasonal profile



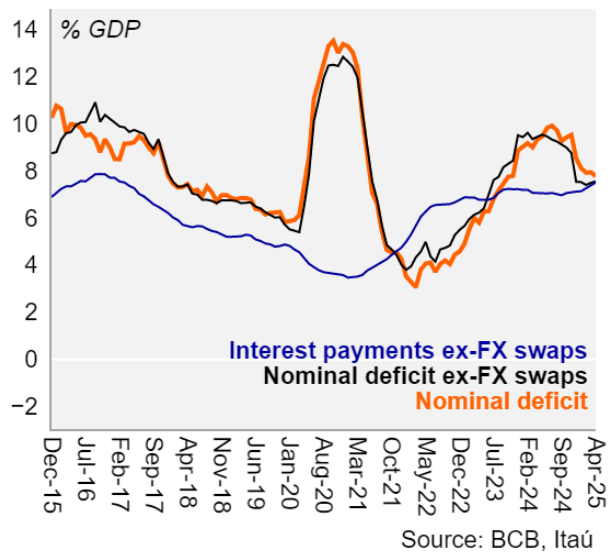
Source: BCB, Itaú

Primary result of regional governments, seasonal profile

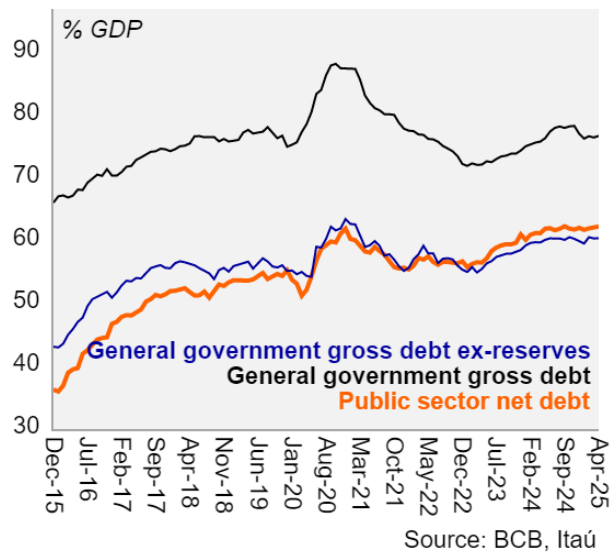


Source: BCB, Itaú

Nominal deficit and interest expenses



Public debt



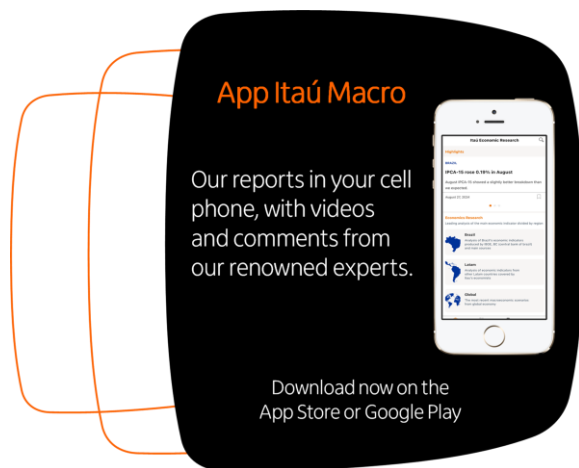
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