Macro Brazil

July 29, 2024

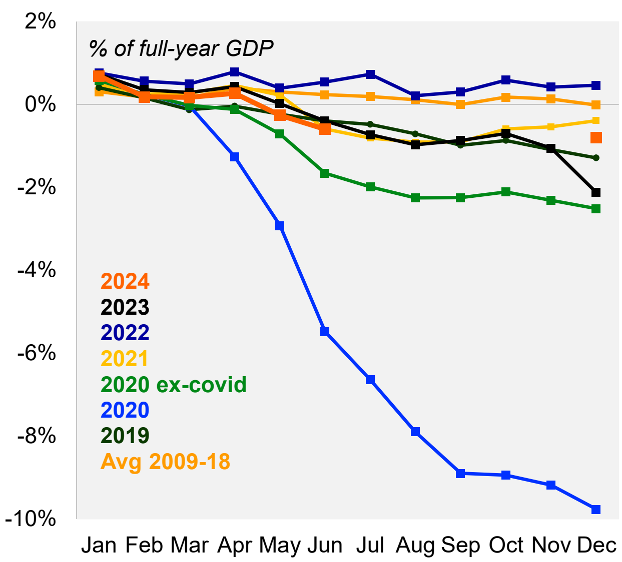
Primary deficit of BRL 40.9 bn in June, worse than expected

- The consolidated public sector recorded a primary deficit of BRL 40.9 billion in June, worse than our expectation of a deficit of BRL 34.7 billion. The central government recorded a deficit of BRL 38.8 billion, as reported by the Treasury (based on the difference between revenues and expenses), also worse than expected (deficit of BRL 35.7 billion). Compared to our forecasts, the negative highlight was once again “Other Regulated Revenues”, typically more volatile, while mandatory expenses continue to grow. Regional governments recorded a surplus of BRL 1.1 billion, better than our expectations (surplus of BRL 1.0 billion). In 12 months, the consolidated primary result reached a deficit of 2.4% of GDP in June coming from a deficit of 2.5% in May, being -2.6% from the central government according to the BCB definition (-2.3% in the Treasury definition) and +0.2% in states, municipalities and state-owned companies.

- General government gross debt rose to 77.8% in June from 76.7% of GDP in May. Net debt rose to 62.2% from 62.1% of GDP in the month. The nominal deficit accumulated over 12 months, excluding swaps, remained at 9.6% of GDP and interest expenses remained at 7.1% of GDP in June.

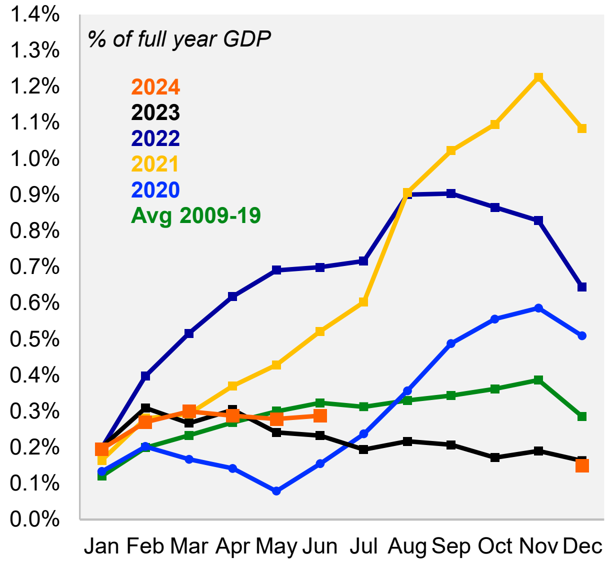
- **Our view:** tax collection has been stronger at the beginning of the year, but fiscal risks remain high, considering the growth in mandatory spending above that projected by the government and the difficulty in obtaining a trajectory of convergence for primary results. The government recently announced a BRL 15 billion spending cut, which, although still insufficient to meet the primary target and the spending limit, was an important signaling instrument of the government's willingness to comply with the fiscal framework. Going forward, it will be important to monitor additional spending control measures targeting not only 2024, but also 2025, which will be essential to avoid further damage to the credibility of the government's fiscal plan following the recent change in the primary targets from 2025 onwards.

Primary result of the central government deteriorating at the margin



Source: Central Bank, Itaú

Primary result of regional governments with a slight improvement



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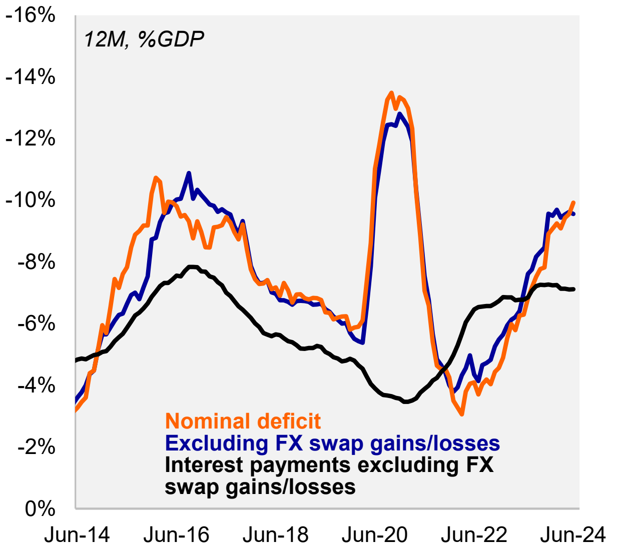
Nominal deficit remains elevated



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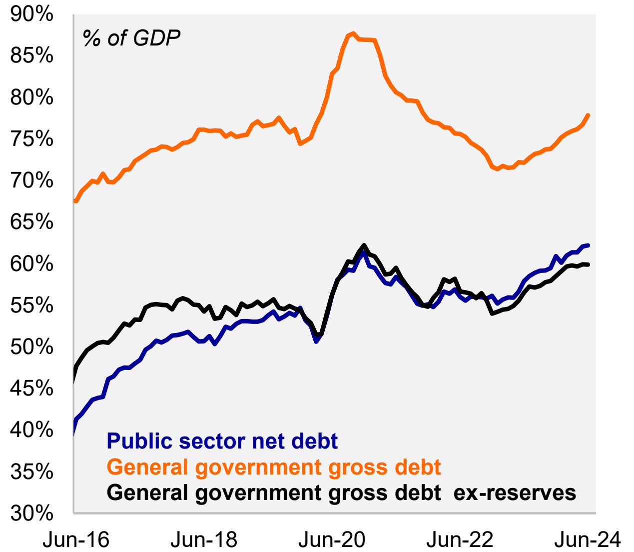
Higher public debt at the margin



Source: Central Bank, Itaú

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