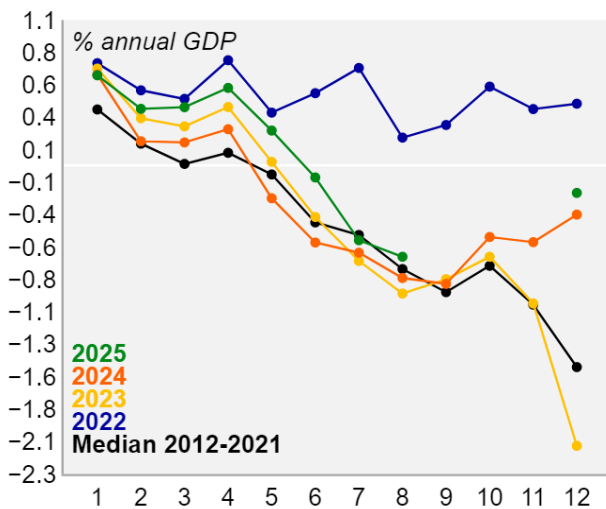


Primary deficit of BRL 17.3 bn in August

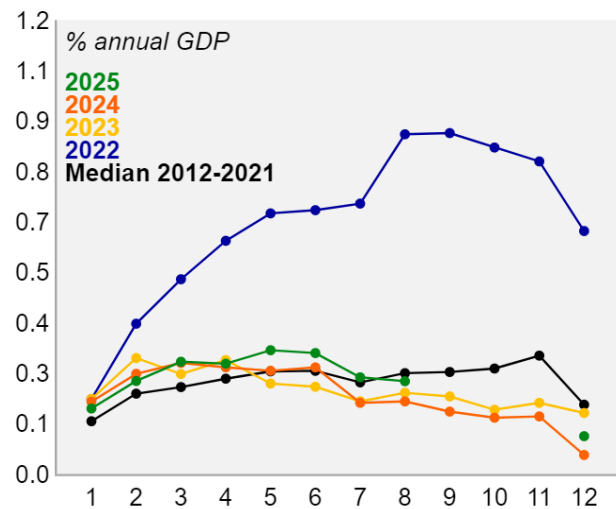
- ▶ The consolidated public sector recorded a primary deficit of BRL 17.3 bn in August, better than our estimate of BRL 19.1 bn. The central government registered a deficit of BRL 15.6 bn, as reported by the Treasury, also better than our projection of BRL 20.4 bn. According to the Central Bank, the central government posted a deficit of BRL 15.9 bn. The positive surprise in the month came mainly from stronger-than-expected non-tax revenues.
- ▶ Regional governments recorded a deficit of BRL 1.3 bn. Over the past 12 months, the consolidated primary balance remained stable at 0.2% of GDP, with the following breakdown: 0.2% of GDP for the central government (Central Bank definition) and 0.0% for regional governments and state-owned enterprises.
- ▶ General government gross debt remained stable at 77.5% of GDP in August, while public sector net debt rose from 63.6% to 64.2% of GDP. Excluding FX swaps, the 12-month accumulated nominal deficit increased from 8.2% to 8.3% of GDP between July and August, while interest expenses rose from 8.0% to 8.1% of GDP.
- ▶ **Our view:** Revenues remain at elevated levels, with one-off factors offsetting the slowdown in tax revenues, while expenditure shows signs of acceleration at the margin. Looking ahead, we see the government on track to meet its 2025 primary deficit target of -0.6% of GDP (considering allowable deductions and the lower bound of the official target range at 0%) but facing a challenge of about 0.6% of GDP to meet the 2026 target. The success of the government's proposed fiscal adjustment strategy will crucially depend on the confirmation of extraordinary revenues and the approval of measures in Congress.

Primary result of the central government, seasonal profile



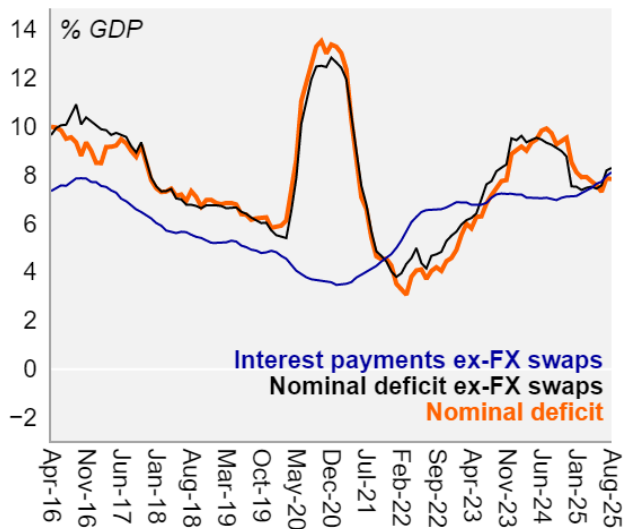
Source: STN, Itaú

Primary result of regional governments, seasonal profile



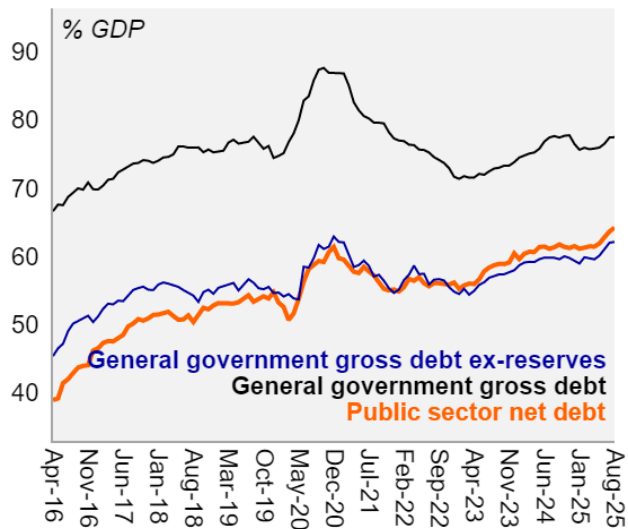
Source: BCB, Itaú

Nominal deficit and interest expenses



Source: BCB, Itaú

Public debt



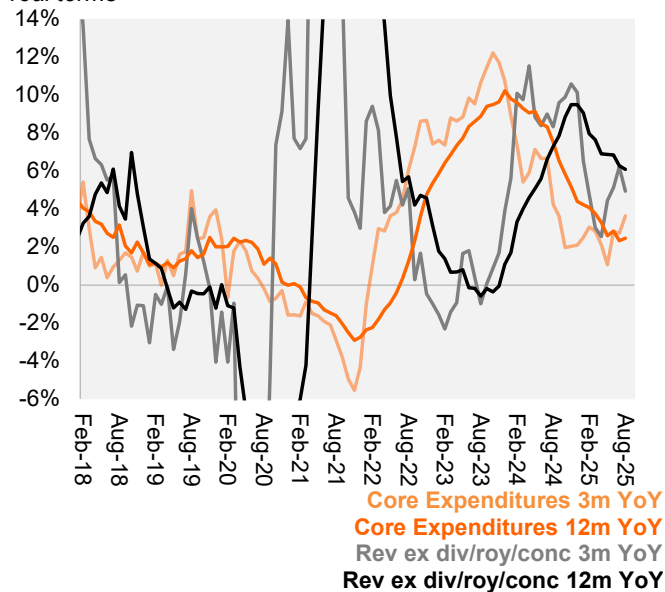
Source: BCB, Itaú

Central Gov Primary Balance	% GDP	BRL bn	12mma YoY			Real Growth 3mma YoY			YoY		
	Aug-25	Aug-25	Jun-25	Jul-25	Aug-25	Jun-25	Jul-25	Aug-25	Jun-25	Jul-25	Aug-25
Tax Collections	22.6%	208.8	7.2%	6.7%	5.7%	5.5%	6.2%	3.3%	6.6%	4.6%	-1.5%
Total Revenues	22.9%	219.6	6.4%	6.0%	5.8%	3.9%	3.8%	4.6%	2.1%	4.5%	7.1%
Tax Revenues	20.4%	195.6	7.3%	6.7%	6.2%	5.4%	6.1%	5.1%	5.8%	5.0%	4.3%
Non tax Revenues	2.4%	24.0	-0.7%	-0.2%	2.3%	-6.8%	-13.2%	-0.2%	-29.8%	0.3%	37.3%
Net Revenue	18.4%	174.2	6.0%	5.5%	5.8%	2.9%	2.4%	4.8%	0.0%	3.9%	11.1%
Total Expenditures	18.7%	189.8	-6.5%	-3.6%	-3.3%	-1.6%	6.5%	11.9%	1.6%	28.3%	5.3%
Mandatory Expenditures	14.3%	140.0	-6.3%	-1.7%	-2.3%	1.5%	13.7%	16.8%	6.2%	42.9%	1.2%
Payroll	3.1%	31.9	-3.7%	-1.9%	-1.3%	4.0%	11.1%	10.3%	3.2%	17.9%	7.6%
Social Security	8.1%	78.5	-3.1%	1.0%	1.0%	1.2%	7.6%	11.3%	5.7%	26.8%	2.9%
Other Mandatory	3.1%	29.6	-16.4%	-7.9%	-10.7%	-0.3%	35.0%	39.2%	11.4%	111.3%	-8.7%
Unempl. Insurance and Annual Bonus	0.7%	8.4	9.5%	7.8%	2.0%	0.7%	0.4%	3.1%	18.1%	-6.3%	-1.6%
LOAS/RMV (BPC)	1.0%	10.9	11.7%	11.4%	11.1%	9.4%	9.9%	11.0%	11.9%	11.2%	9.9%
FUNDEB	0.5%	4.7	22.0%	22.7%	23.1%	24.4%	25.2%	23.8%	25.0%	25.2%	21.2%
Court Order Payments	0.3%	0.7	-94.4%	-55.4%	-55.0%	-13.1%	3356.8%	3631.7%	-22.0%	11379.9%	116.3%
Extraordinary Credits	0.2%	0.7	-40.8%	-44.3%	-43.2%	-83.2%	-80.6%	-55.9%	-75.8%	-57.7%	-10.5%
Expenditures w/ Cash Control	4.4%	49.8	-6.9%	-9.5%	-6.8%	-11.1%	-15.0%	-3.0%	-12.2%	-11.0%	19.2%
Mandatory w/ Cash Control	3.0%	30.8	2.0%	0.0%	0.2%	-0.5%	-3.1%	-0.7%	4.3%	-5.6%	-0.3%
Bolsa Família	1.3%	12.6	-5.7%	-6.4%	-7.3%	-6.9%	-8.0%	-10.2%	-6.1%	-10.5%	-13.9%
Discretionary	1.4%	19.0	-21.7%	-25.2%	-18.6%	-28.4%	-32.6%	-6.9%	-34.8%	-19.3%	74.5%
Primary Balance	-0.2%	-15.6									
Core Revenues and Expenditures											
Net Revenue ex roy, div and concessions	17.2%	163.5	6.9%	6.3%	6.1%	5.1%	6.2%	4.9%	4.4%	5.3%	5.0%
Mandatory Expend. ex Court Orders and 13rd	15.0%	156.6	2.8%	2.3%	2.5%	2.8%	2.7%	3.6%	6.4%	1.2%	3.5%
Social Security ex Court Orders and 13rd	7.1%	76.0	2.2%	2.0%	2.0%	1.5%	2.0%	3.7%	5.5%	2.6%	3.0%
Expenditures with Transfers	11.1%	110.5	-1.6%	1.3%	0.8%	0.9%	5.5%	7.9%	5.6%	17.6%	0.9%

Heatmap based on 20 years in each line (Payroll and Expend. w/ control centered in 0%, Social Security and Assistance in 3.5%, others in 2.5%); core measures since 2016.

Central Gov: Core revenues and mandatory expenditures

real terms



Source: BCB, Itaú

Core Expenditures (~81% Total): Social Security+Payroll+BPC+Unemp. Insurance (ex Court Order and 13rd wage) + FUNDEB + Mandatory w/ Cash Control

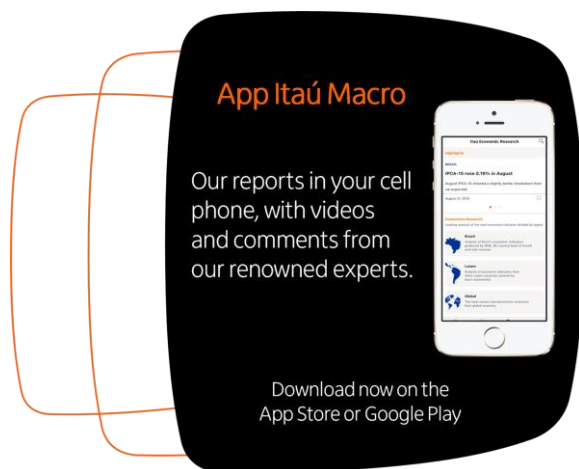
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