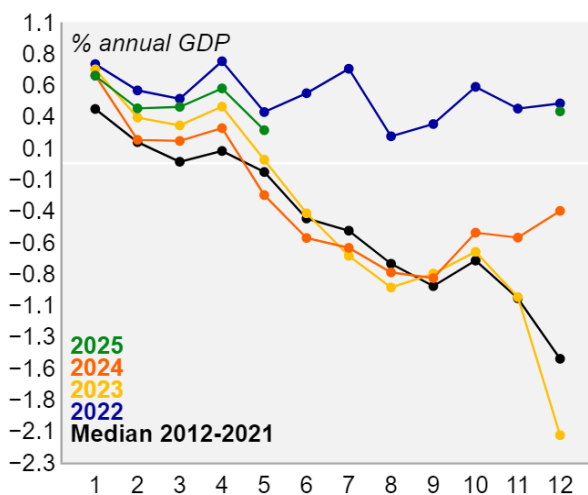


Primary deficit of BRL 33.7 bn in May

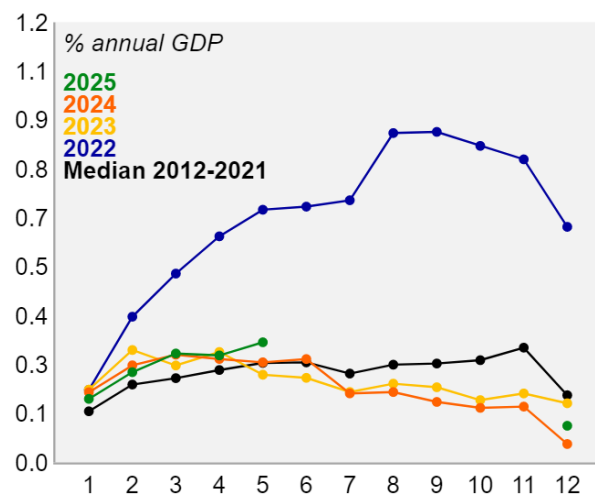
- ▶ The consolidated public sector recorded a primary deficit of BRL 33.7 bn in May, better than our estimates (a deficit of BRL 40.9 bn). The central government recorded a primary deficit of BRL 40.6 bn, as reported by the Treasury (based on the revenues and expenses), worse than our expectation (a deficit of BRL 39.9 bn). According to the Central Bank (below the line figures), the central government posted a deficit of BRL 37.4 bn.
- ▶ The regional governments registered a surplus of BRL 4.5 bn, better than our call of a BRL 1.0 bn deficit. In the past 12 months, the consolidated primary result reached 0.2% of GDP (vs. 0.0% in April), with the following breakdown: +0.1% of GDP for the central government and +0.1% for regional governments and SOEs.
- ▶ General government gross debt rose from 76.0% of GDP in April to 76.1% of GDP in May, while the public sector net debt rose from 61.5% to 62.0% of GDP. Ex-FX swaps, 12-month accumulated nominal deficit reached 7.4% of GDP (from 7.5% in the previous month), while interest expenses increased to 7.6% of GDP (from 7.5%).
- ▶ **Our view:** we see a slowdown in both revenues and expenses this year. However, while the effect on expenses may be temporary – due to the prospect of normalization of the INSS waiting list, greater budget execution after its approval, retroactive payment of civil servants' readjustments and postponement of payment of court orders – the slowdown in revenues may be more lasting. Thus, meeting the primary result target of -0.6% of GDP this year (considering deductions and the lower limit of the official target of 0%) will depend on the government's success in replacing the previously expected revenue with an increase in IOF, probably via an auction of surplus oil from the pre-salt layer, in addition to continued efforts on the agenda of other extraordinary revenues. Going forward, structural measures to address the rigidity and high growth of mandatory expenses would bring greater credibility to the fiscal adjustment necessary for public debt sustainability.

Primary result of the central government, seasonal profile



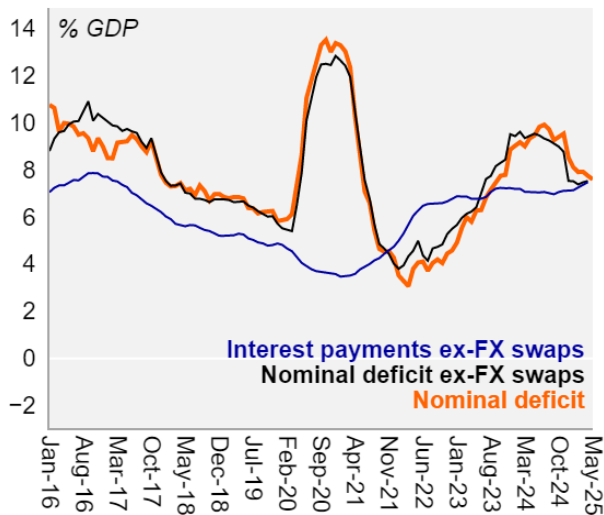
Source: STN, Itaú

Primary result of regional governments, seasonal profile

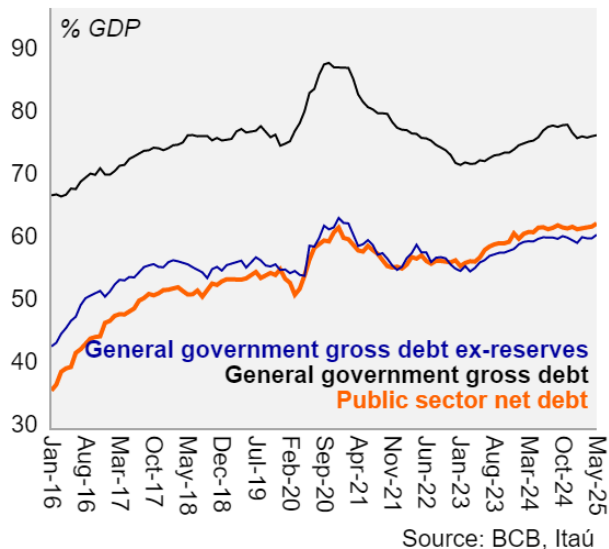


Source: BCB, Itaú

Nominal deficit and interest expenses



Public debt



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