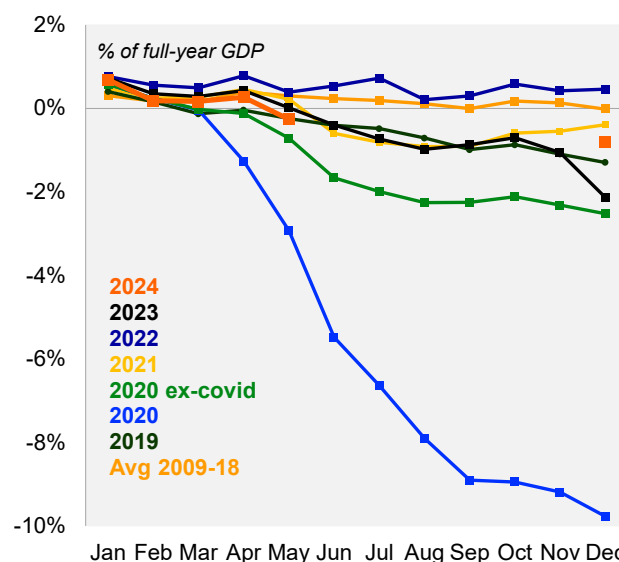


Primary deficit of BRL 63.9 bn in May, worse than expected

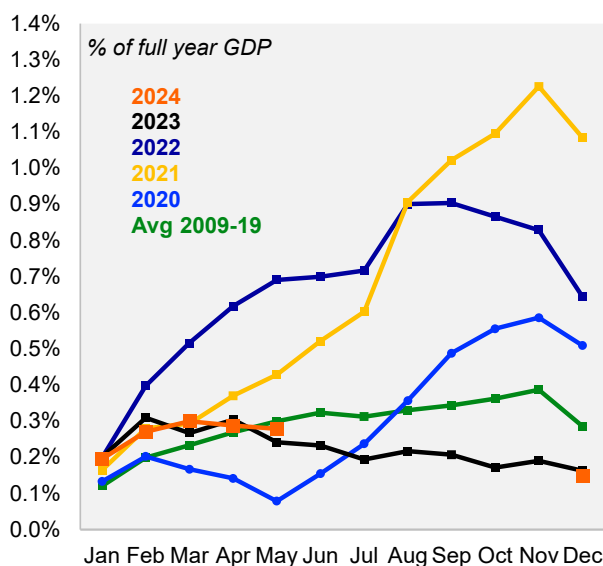
- ▶ The consolidated public sector recorded a primary deficit of BRL 63.9 billion in May, worse than our expectation of a deficit of BRL 56.2 billion. The central government recorded a deficit of BRL 61.0 billion, as reported by the Treasury (based on the difference between revenues and expenses), also worse than expected (deficit of BRL 58.8 billion). Compared to our forecasts, the negative highlight was once again “Other Regulated Revenues”, typically more volatile, while mandatory expenses continue to grow above expectations. Regional governments recorded a deficit of BRL 1.1 billion, worse than our expectations (surplus of BRL 2.6 billion). In 12 months, the consolidated primary result reached a deficit of 2.5% of GDP in May coming from a deficit of 2.4% in April, being -2.7% from the central government according to the BCB definition (-2.4% in the Treasury definition) and +0.2% in states, municipalities and state-owned companies.
- ▶ General government gross debt rose to 76.8% in May from 76.3% of GDP in April. Net debt rose to 62.2% from 61.5% 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 May.
- ▶ **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. Going forward, it will be important to monitor spending control measures to be implemented by the government, starting with a spending block on July 22 and possible reviews of social spending, essential for maintaining the fiscal framework’s spending limit and avoiding further damage to credibility to the government’s fiscal plan (following the recent change in primary targets from 2025 onwards).

Primary result of the central government deteriorating at the margin



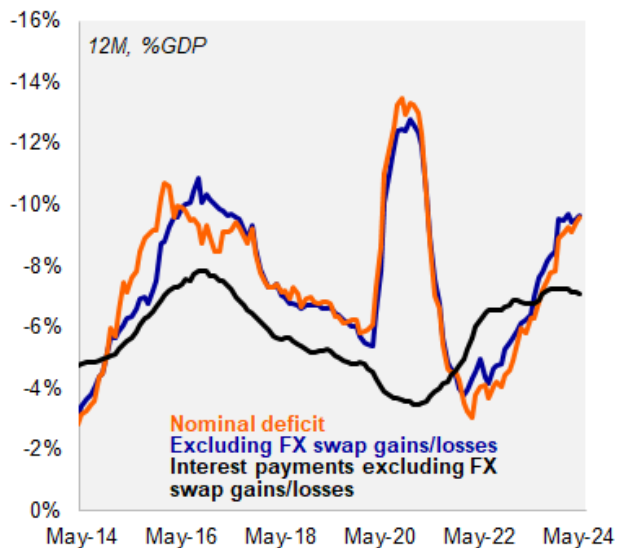
Source: Central Bank, Itaú

Primary result of regional governments with a slightly worse result



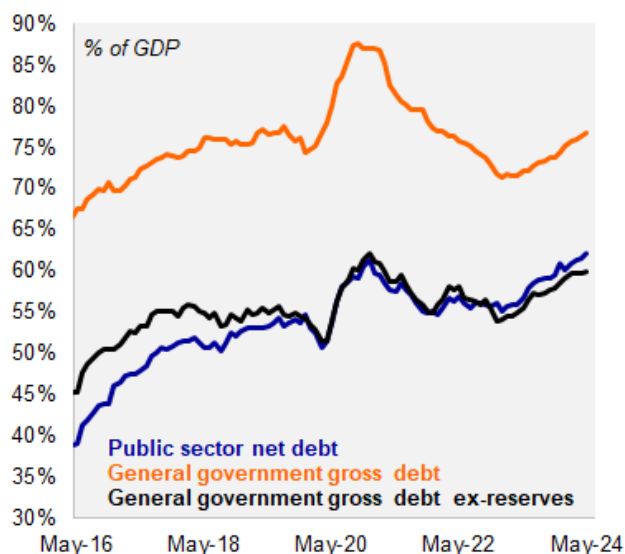
Source: Central Bank, Itaú

Nominal deficit remains elevated



Source: Central Bank, Itaú

Higher public debt at the margin



Source: Central Bank, Itaú

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