Macro Vision

January 23, 2025

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BRAZIL – The fundamental fiscal policy questions of 2025

- This report is a guide to the biggest fiscal events and debates of 2025. First, we assess the government's ability to comply with the rules of the fiscal framework (the spending cap as well as the primary balance target). Then, we analyze the impact of fiscal policy on economic activity and potential new initiatives throughout the year, including the proposed income tax exemption, an increase in quasi-fiscal policy, and possible stimulus measures considering that 2026 is an election year. Finally, we discuss the possibility of a fiscal dominance regime, the worsening composition of public debt, and the events calendar.
- In summary, we expect compliance with the spending cap in 2025, with risks associated with the evolution of the number of social program beneficiaries. As for the primary budget, we expect deterioration in the full result (i.e., without deductions) compared with last year, possibly reaching the lower end of the target. This situation was not yet incorporated into our baseline scenario and once again depends on the success of the revenue agenda.
- We expect the fiscal policy stance to remain expansionary, albeit to a marginally lesser extent than in 2024, with an acceleration in new loans by development bank BNDES offsetting the slowdown in the momentum via transfers to households. We do not envisage any changes to the current fiscal rules, but this is an important risk to be monitored, taking into account the country's fiscal-policy history in the run-up to national elections and the fact that compliance with the fiscal framework in its current format is no longer sufficient to generate an improvement in domestic risk perception. In our view, such an improvement will only materialize with a change toward a more balanced trajectory for public debt.
- We believe that the most suitable path is to tighten the parameters of the fiscal framework by presenting new cyclical measures (through a significant contingency plan in March) along with structural measures to contain expenses, in addition to eliminating maneuvers to circumvent fiscal rules. We do not see the country in a fiscal dominance situation, but the deterioration in the credibility of fiscal policy combined with the worsening composition of public debt, if sustained, may reduce the effects of monetary policy and increase the probability of stress scenarios.
- Finally, the main events already mapped include monitoring current data, possible expense containment measures in bimonthly reports and in the submission of the 2026 budget laws, and the proposal for income tax exemption.

1) Will the government be able to meet the 2.5% cap for expenditure growth?

Our scenario assumes compliance with the cap, but the exact size of the challenge will depend mainly on the evolution of the number of beneficiaries of social programs, which will be one of the main variables to monitor in 2025.

The recent increase in spending on social benefits exerts pressure on public finances and led the government to announce review measures in July and December 2024. The measures include anti-fraud initiatives and benefit reviews that seek to reduce the growth rate, targeting disability benefits under Social Security, the BPC program, and single-person households supported by Bolsa Família. Data up to October indicate incipient signs of success in disability benefits from Social Security, but there is still little evidence of improvement in BPC and Bolsa Família (see charts).

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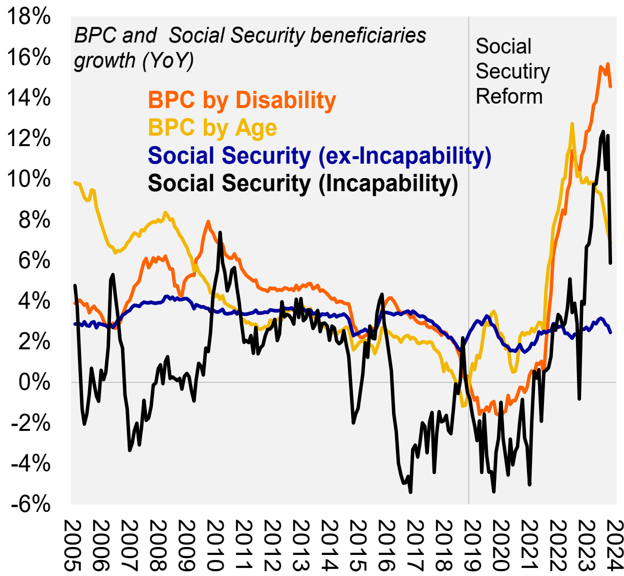
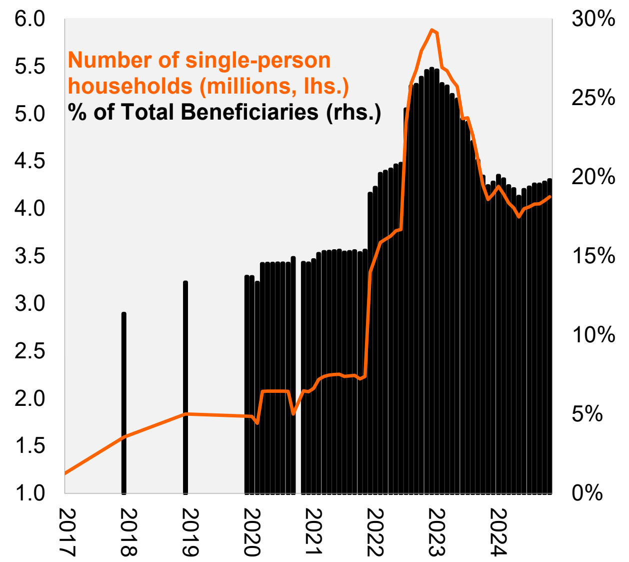
Early signs of improvement in Social Security, but BPC remains under considerable pressure



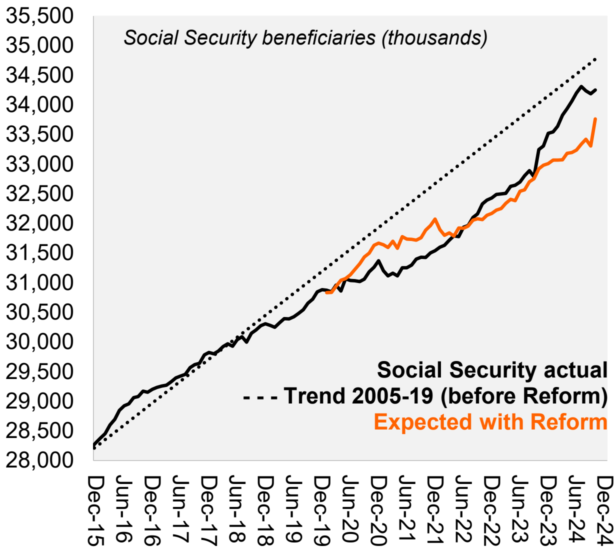
Source: MDS, INSS, Itaú

No signs of improvement in the number of single-person households receiving Bolsa Família



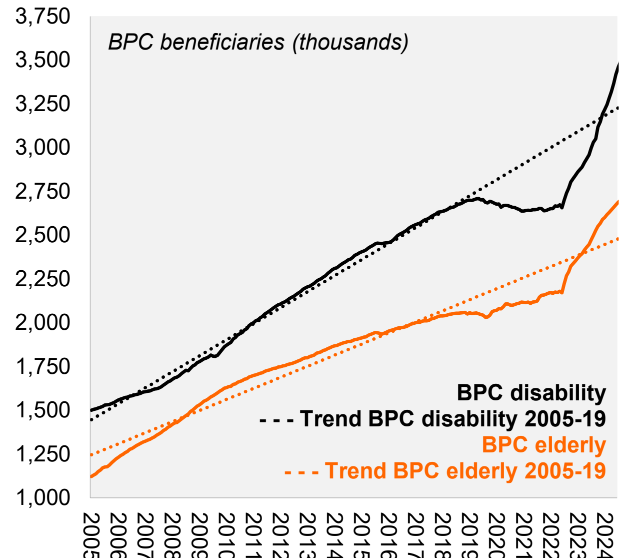
Source: MDS, INSS, Itaú

Trend of Social Security beneficiaries is above expectations following the reform



Source: MDS, INSS, Itaú

BPC beneficiaries above pre-pandemic trend



Source: MDS, INSS, Itaú

For 2025, we estimate a need to contain BRL 20 billion in other expenditures if social spending does not slow down, with the need receding to BRL 1 billion if the review measures have the expected impact. In particular, we expect the year-on-year growth rate of beneficiaries to slow down, from around 3.7% to 3.2% for Social Security and from 11.5% to 6.0% for BPC. If the growth rate is sustained in 2026, and considering the full impact that we estimate from the December fiscal package, an additional effort of around BRL 5 billion would be required next year, suggesting that new expenditure-control measures will be necessary going forward.

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Excess Spending vs Limit in 2025/26 (BRL bln)

% Beneficiaries 2025 (Social Security + BPC) \ % Beneficiaries 2026 (Social Security + BPC)	1.0%	2.0%	3.0%	3.3%	4.0%	4.9%	6.0%
1.0%	-24 / -21	-24 / -11	-24 / 0	-24 / 5	-24 / 10	-24 / 20	-24 / 31
2.0%	-13 / -8	-13 / 3	-13 / 13	-13 / 18	-13 / 24	-13 / 33	-13 / 45
3.0%	-2 / 5	-2 / 16	-2 / 26	-2 / 32	-2 / 37	-2 / 47	-2 / 58
3.3%	1 / 9	1 / 20	1 / 30	1 / 36	1 / 41	1 / 51	1 / 62
4.0%	9 / 18	9 / 29	9 / 40	9 / 45	9 / 51	9 / 61	9 / 72
4.9%	19 / 31	19 / 41	19 / 52	19 / 58	19 / 63	**19 / 73**	19 / 85
6.0%	31 / 45	31 / 56	31 / 67	31 / 72	31 / 78	31 / 88	31 / 99

Assumptions: BF = IPCA; health and education constant % GDP, other expenses real GDP/2

Scenario vs current data

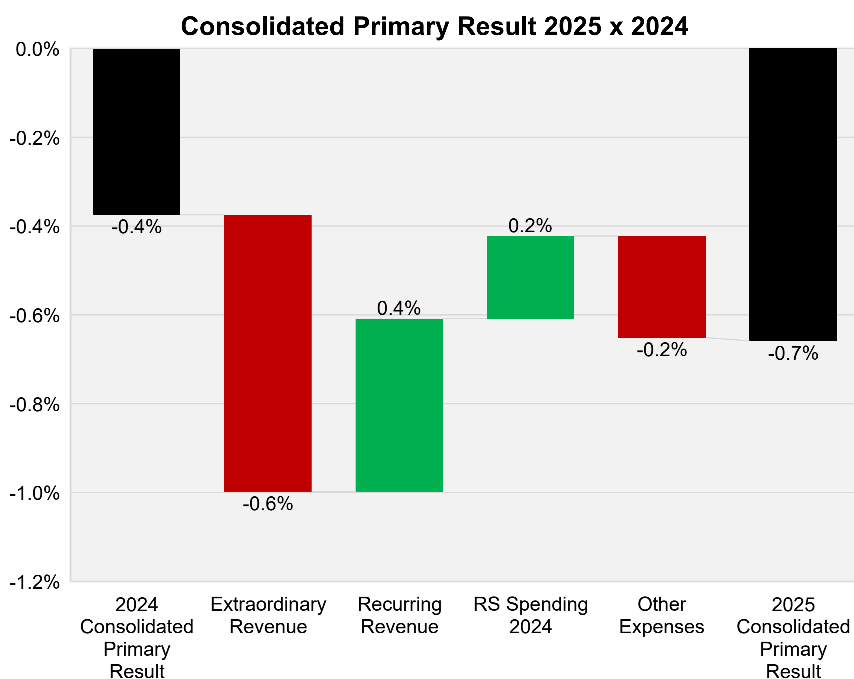
In our view, it is important for the government to announce a significant cut in discretionary spending—of approximately BRL 35 billion—to reaffirm its willingness to comply with its fiscal plan. The announcement could decrease the limitation of monthly execution to 1/18 while the 2025 budget is not approved, and ideally be announced before the first bimonthly review of the budget (not yet approved) on March 22. First, the effort would confirm that the measures to achieve budgetary flexibility (such as those involving education fund Fundeb, parliamentary amendments and subsidies) in the fiscal package approved in December will in fact generate spending reductions. Additionally, it would signal greater prudence in budget execution, given the risks of further underestimation of mandatory expenses (as was the case in 2024, mainly with Social Security and BPC) and the realization of extraordinary revenues (see question 2).

2) Will the government achieve the zero target for the primary budget balance (-0.6% of GDP considering deductions and the lower limit)?

For now, we do not expect the government to achieve the target (we estimate a deficit of 0.7% of GDP), although we recognize that the risks are of a better result than we currently estimate, given the resilience of economic activity and the government's continued efforts on the revenue agenda. We expect BRL 36 billion (0.3% of GDP) in extraordinary revenues this year (see table), while the government expects BRL 155 billion (1.2% of GDP), so monitoring and execution will remain crucial to assess whether the target will be achieved, as in 2024. Announcing robust spending containment early in the year, in March, would mitigate the risks arising from the execution agenda of revenue measures.

Revenue-increasing measures (impact in 2025)	Budget 25		Itaú	
	BRL bn	*% GDP*	BRL bn	*% GDP*
Total	**202**	**1.6%**	**36**	**0.3%**
Extraordinary Revenues	**155**	**1.2%**	**36**	**0.3%**
CARF / zero litigation / "quality vote"	29	0.2%	5	0.0%
Agreements on PGFN "great theses"	57	0.4%		
Recovery of Federal Debt's registered credits	15	0.1%		
Limiting the use of tax benefits	20	0.2%		
Concessions	15	0.1%	8	0.1%
Dividends (vs Historical average)	7	0.1%	11	0.1%
Income tax related to "precatórios" paid in 2024	11	0.1%	11	0.1%
Legislative Measures	**47**	**0.4%**	**0**	**0.0%**
Compensations for payroll tax exemptions	26	0.2%		
Increase of income tax rate in JCP (+5pp to 20%)	6	0.0%		
Increase of income tax rate in CSLL in 2025 (+1pp)	15	0.1%		
New Tax Exemptions	**0**	**0.0%**	**0**	**0.0%**

Nevertheless, the fiscal effort implicit in the primary balance target seems relatively modest. The 2024 result was achieved as extraordinary revenues took a significant role. The government pursued the lower end of the target range for the primary balance, which ideally would be deployed to accommodate potential shocks and not to ease the fiscal stance. It also used deductions, including emergency aid expenses after major floods in Rio Grande do Sul, which were necessary and worthwhile but should have been excluded only from the expenditure limit and not from the primary balance target, as was the usual practice in the past. Thus, despite the increase in recurring revenues (which should once again allow the spending cap to rise by 2.5% in real terms in the preparation of the 2026 budget) and considering new deductions from the 2025 primary balance target (related to court-ordered payments above those in 2022), we do not anticipate an improvement in the effective primary balance this year, fueling a pessimistic assessment of the speed of fiscal convergence and of public-debt dynamics.



Given the uncertainties, the government should remain active in proposing new measures to boost revenues to convey its willingness to improve the primary balance over time, such as potential new extraordinary dividends from Petrobras and BNDES, which were a major source of revenues last year, and initiatives to reduce tax benefits and compensations. Although these measures would be positive for fiscal dynamics, we see growing challenges to the credibility of an adjustment that relies on rising revenues. Therefore, initiatives that slow down expenditure growth and consequent revision of the outlook for public debt seem more relevant to improving domestic risk perception (see question 4).

3) Will fiscal policy be expansionary or contractionary for economic activity?

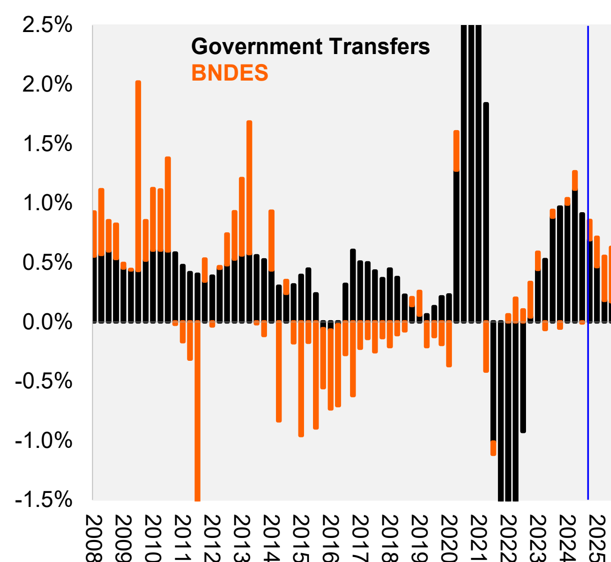
Fiscal policy has been significantly expansionary for economic activity in recent years, contributing about 0.7 pp and 1.0 pp to average GDP growth in 2023 and 2024, respectively. This stimulus was driven by spending on social transfers (Social Security, BPC, salary bonus, unemployment aid and Bolsa Família), which according to our estimates have greater impact on economic activity and resulted from the 2022 electoral initiatives, the so-called Transition PEC constitutional amendment, the reinstatement of real increases in the minimum wage, and much higher-than-anticipated growth in the number of beneficiaries of social programs. Economic activity in 2024 (and the primary budget result of 2023) was also supported by the extraordinary impact of disbursements of BRL 92 billion (0.8% of GDP) in delayed court-ordered payments (about half of which were transferred to households).

In 2025, we see a slowdown in the fiscal momentum via transfers (to 0.3 pp of GDP), but an acceleration in momentum via BNDES, supporting a remarkable contribution of 0.6 pp of GDP to economic growth this year. The deceleration in momentum via transfers arises from not repeating extraordinary court-ordered payments and from

recently approved spending containment measures (such as the limitation on real increases in the minimum monthly wage and revisions to social programs). However, we forecast an acceleration in new loans by BNDES, as suggested by the increase in inquiries and approvals by the development bank, which should offset the slowdown in the fiscal momentum (see question 7).

Importantly, fiscal policy also has indirect impacts on economic activity via financial conditions. This situation reinforces the importance of a credible and sustainable trajectory for public spending and debt (see question 4), which would support more benign levels for the exchange rate, interest rates and domestic risk premiums, reducing the burden and need for a more contractionary monetary policy in order to offset the expansionary fiscal policy.

Contribution of fiscal and quasi-fiscal momentum/BNDES to GDP growth

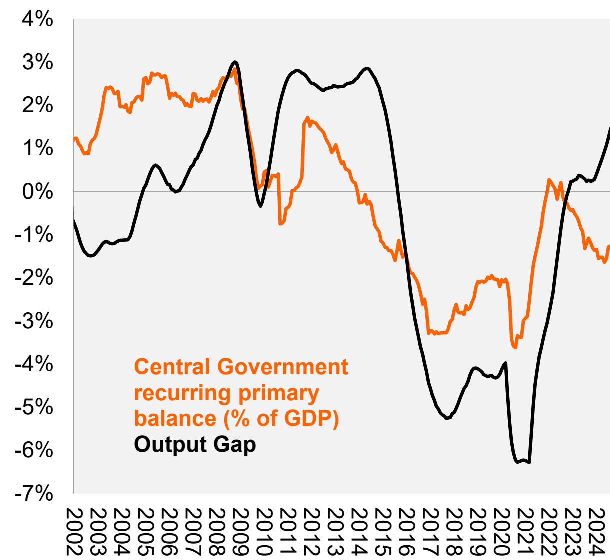


Source: National Treasury, IBGE, Itaú

4) Is compliance with the fiscal framework in its current format sufficient to improve domestic risk perception?

Even if the framework is strictly followed, the credibility of its ability to generate sustainable fiscal trajectories in the medium term has weakened significantly due to the realization that the rule does not establish the outlook for public debt stabilization in the medium term (we forecast an average increase in public debt of 4 pp per year) unless revenues rise significantly. Notably, the recurring primary balance has not improved, even as economic growth surprised to the upside (see chart). The implementation of the rule allows the fiscal stance to remain expansionary in an economy already showing signs of overheating and facing significant inflationary risks, contributing to high real interest rates.

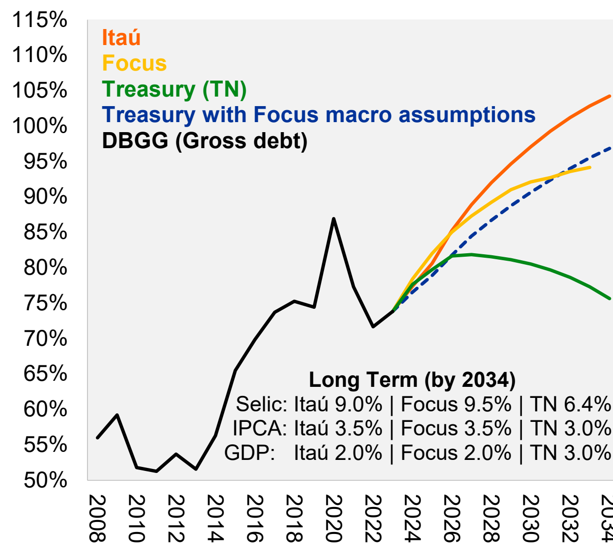
Recurring primary balance has not improved, notwithstanding a widening output gap



Source: National Treasury, Itaú

We also note that the National Treasury's official projections for public debt stabilization in the medium term are based on remarkably optimistic macroeconomic assumptions. When the debt trajectory is simulated using more conservative macro assumptions, such as those in the Focus survey, the scenario for debt stabilization becomes much more challenging.

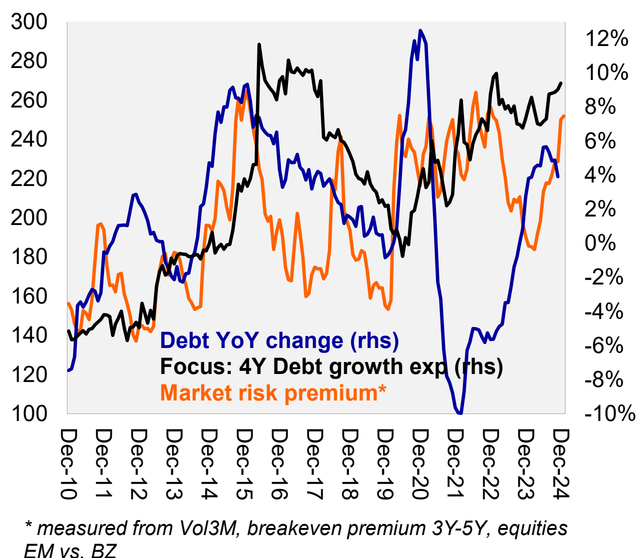
Treasury has an optimistic projection for gross debt



Source: National Treasury, BCB, Itaú

We believe that a more consistent improvement in the risk premium and in domestic assets will only materialize with a more balanced public debt trajectory in the future. Therefore, an improvement in expectations about the fiscal trajectory is necessary to reverse the recent deterioration in financial conditions. One alternative would be to strengthen the parameters of the fiscal framework—particularly lowering the cap on the growth of primary expenses—which would reduce the expected increase in public debt in the coming years (see Macro Vision: Time to strengthen the fiscal framework).

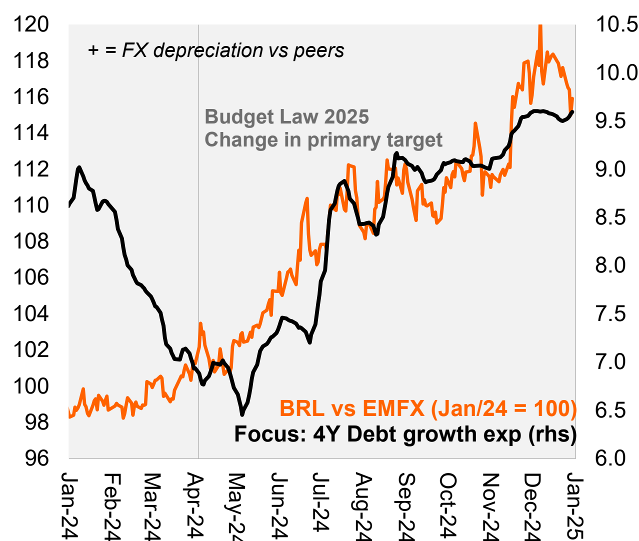
Rising debt, greater risk



** measured from Vol3M, breakeven premium 3Y-5Y, equities EM vs. BZ*

Source: BCB, Bloomberg, Itaú

BRL weakening more sharply than its EM peers amid worsening expectations for debt growth



Source: BCB, Bloomberg, Itaú

5) Will current tax rules change to allow the implementation of electoral incentives?

For now, our baseline scenario has not incorporated any changes to the rules. Still, this risk should be monitored because, historically, in national election years, governments tend to increase their primary expenditures at a fast pace and forego revenues in a more significant way (in absolute terms and also in comparison with the first half of their terms). Based on a recent article by [Alexandre Manoel, Marcos Lisboa, Marcos Mendes and Samuel Pessoa,] we have compiled several metrics of fiscal expansion in national election years since 2006 (when comprehensive data became available). On average, primary expenditures rose 8.0% in real terms (9.5% excluding 2018, when the President did not run for reelection despite being eligible)—well above the pace allowed by the fiscal framework (2.5% at the upper limit). Moreover, waived revenues increased by 0.4 pp of GDP (0.5 pp excluding 2018) when the last two years of a President's term in office are compared with the first two years.

More broadly, fiscal stimulus at the federal and state levels totaled 1.2 pp of GDP on average (1.7 pp of GDP excluding 2018) (see table). At the federal level, the sum (in percentage points of GDP) of the increase in primary expenditures, processed outstanding payments (as a proxy for some retention in expenditures), implicit subsidies (as a proxy for quasi-fiscal incentives), tax benefits and waivers, and fuel subsidies (as a deviation from international parity), and expenses associated with Energy Development Account CDE reached 0.9 pp of GDP on average (1.3 pp of GDP excluding 2018). We also listed alternative metrics to capture qualitative trends not captured by very short-term data, such as the increase in the number of civil servants, Petrobras' earnings, and interventions in the foreign exchange market.

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Selected variables in election years	Metric	2006	2010	2014	2018	2022	Avg ex-18
Fiscal (Federal + States)	**p.p. of GDP**	**1.4%**	**0.9%**	**3.0%**	**-0.7%**	**1.4%**	**1.7%**
Federal Govnt	**p.p. of GDP**	**1.3%**	**0.6%**	**2.0%**	**-0.8%**	**1.2%**	**1.3%**
Primary spending	*% real*	*10.3%*	*15.3%*	*6.3%*	*1.9%*	*6.2%*	*9.5%*
Primary spending*	Δ p.p. GDP y/y	0.4%	0.8%	0.8%	-0.1%	0.0%	0.5%
Budget leftovers	Δ p.p. GDP mm2y	-0.1%	0.1%	0.1%	0.1%	-0.2%	0.0%
Implicit subsidy	Δ p.p. GDP mm2y	0.3%	0.0%	0.1%	-0.7%	0.5%	0.2%
New tax expenditures**	Δ p.p. GDP mm2y	0.8%	-0.2%	0.7%	0.0%	0.8%	0.5%
Fuel subsidy	% GDP y/y	0.0%	-0.1%	0.1%	0.0%	0.1%	0.0%
Despesa CDE	Δ p.p. GDP mm2y	0.0%	0.0%	0.3%	-0.1%	0.0%	0.1%
States	**p.p. of GDP**	**0.1%**	**0.3%**	**0.6%**	**0.1%**	**0.3%**	**0.3%**
Primary spending at state level	Δ p.p. GDP y/y	0.1%	0.1%	0.4%	0.1%	0.3%	0.2%
Tax expenditure at state level**	Δ p.p. GDP mm2y	0.0%	0.2%	0.2%	0.0%	0.0%	0.1%
SOEs ex-Petro and Eletro deficit	**Δ p.p. GDP y/y**	**0.0%**	**0.0%**	**0.4%**	**-0.1%**	**0.0%**	**0.1%**
Alternative Metrics							
Federal servants hirings	Entries (% total workers t-1)	4.0%	6.0%	4.7%	2.8%	3.0%	4.4%
Increase in Bolsa Família beneficiaries	%	26%	2%	0%	2%	49%	19%
IRPF tax exemption	% nominal increase	8.0%	4.5%	4.5%	0%	0%	4.3%
Worsening of Petrobras result	Δ p.p. GDP mm2y	0.2%	0.5%	0.2%	-0.4%	-1.3%	-0.1%
Petrobras Investment	Δ p.p. GDP mm2y	0.2%	0.4%	-0.1%	-0.4%	-0.5%	0.0%
Public Investment	Δ p.p. GDP mm2y	0.2%	1.2%	0.1%	-0.3%	0.0%	0.4%
Primary Target rebates	% total spent for the year	1%	5%	6%	0%	3%	3.7%
Maximum Budget freeze (-)	% GDP	-1.3%	-0.8%	-0.5%	0.0%	-0.1%	-0.7%
FX Swaps Increase	Δ p.p. GDP y/y	0.0%	0.0%	1.6%	2.5%	0.1%	0.4%
Use of Treasury Cash Cushion (-)	Δ p.p. GDP y/y	0.2%	1.8%	1.8%	-2.5%	1.9%	1.4%

Source: National Treasury, BCB, CDE, Petrobras, Itaú.

It is also important to monitor the risks of initiatives that circumvent and eventually distort (without explicitly changing) fiscal rules. Among them, we note the increase in deductions from the primary balance target and the spending cap, the execution of public expenditures outside the budget, and the lack of high-conviction trade-offs for revenue waivers. Regarding the first, the fiscal framework establishes a lower end of the range for the primary budget target to accommodate possible shocks and unexpected events, but has not prevented deductions from the primary result (such as those related to the flood disaster in Rio Grande do Sul state, excess court-ordered payments, and the New PAC growth acceleration program in the case of state-owned companies). Regarding the second, government policies were created or expanded (such as the Pé-de-Meia teacher education program and the Vale Gás vouchers for cooking gas), and fueled the increase in domestic risk perception. This situation may be repeated. As for the third factor, there is a specific risk of a just-partial trade-off for modifications in the personal income tax, considering potential resistance in Congress as well as the payroll tax relief (despite the efforts of the economic team, including in the Judiciary branch).

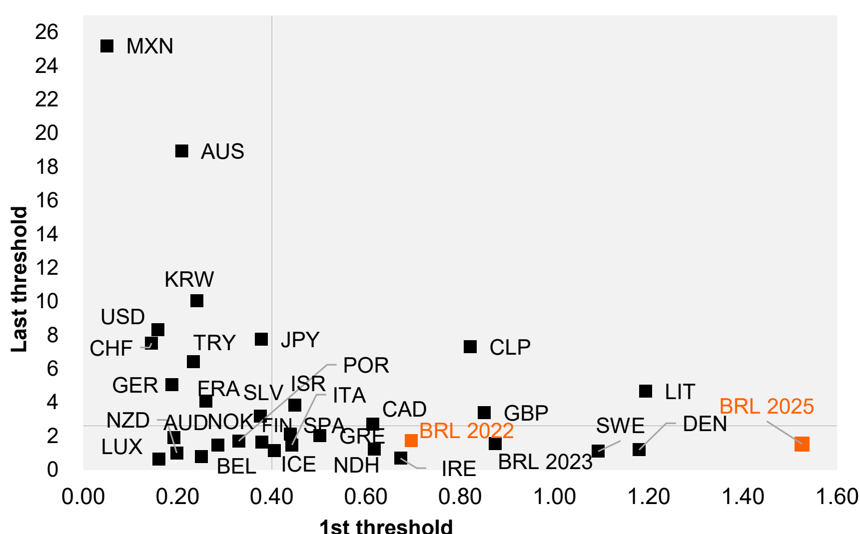
6) What about compensation for the personal income tax exemption for individuals earning up to BRL 5,000 per month?

The personal income tax exemption bill has not yet been formally sent to Congress, but should propose increasing the exemption from the current BRL 2,824 per month to BRL 5,000, with a gradual discount factor up to BRL 7,500, with compensation based on the minimum effective tax rate of 10% for those earning more than BRL 600,000 per year. The measure is an integral part of the Income Reform, which may include changes to the Corporate Income Tax and taxation of profits and dividends, in addition to potential changes to Interest on Equity (JCP) and the Social Contribution on Net Profits (CSLL).

The gross cost of the exemption is estimated at BRL 40 billion (0.35% of GDP). The compensation still lacks details and may be insufficient in the event of a materialization of the risks of dilution in Congress, with exceptions and different rules as well as higher tax avoidance by taxpayers. Therefore, our scenario of a deficit of 0.7% of GDP in 2026 assumes only partial compensation of the measure.

Regarding the merits of the proposal, the increase in the exemption seems controversial. First, if implemented, an additional 10 million people and 26 million in total (60% of those who file income tax returns) will be exempt from income taxes. When compared to OECD nations (see chart), Brazil will be one of the countries with the highest income-tax-exemption range, despite its fiscal imbalance. Second, we see the measure as having poor focus, because it favors workers who are formally employed, enjoy broad social protections, and usually reside in the wealthiest parts of the country. Third, the measure stimulates demand in an economy with signs of overheating and a constantly expansionary fiscal stance, fueling inflationary risks. Lastly, the complex process in Congress in terms of format and compensation will require government efforts on an issue that, in the best-case scenario, is only neutral in fiscal terms.

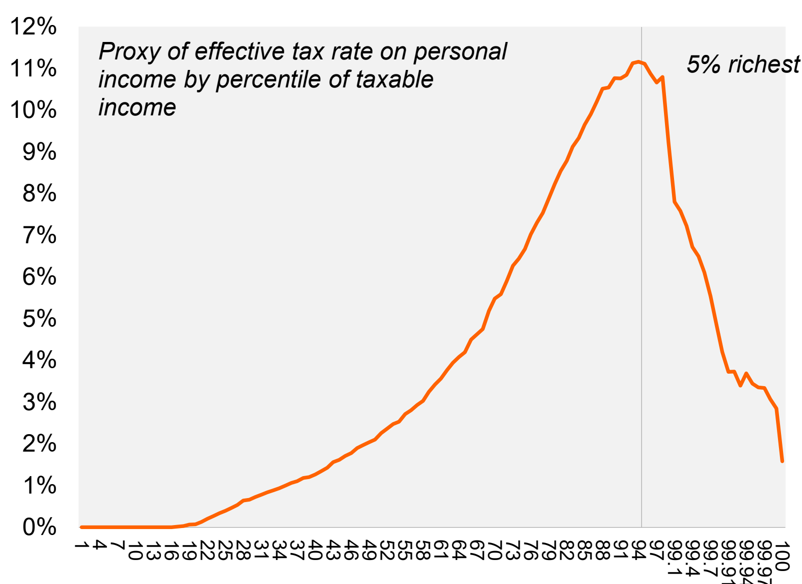
Personal income taxation by the central government (% average salary)



Source: Federal Revenue, OECD, Itaú

On the other hand, minimum taxation is positive from the fiscal and tax fairness perspectives. Effective taxation in Brazil increases with income (i.e., is progressive) for about 95% of those who file income tax returns, but becomes extremely regressive for the richest 5% (see chart) because of the large share of tax-exempt income (such as profits and dividends and capital gains from certain assets) in their total income. The proposal should spark discussions about the composition of the tax burden at the corporate and individual levels but may contribute to lower distortions in income taxation in Brazil, potentially generating revenues and efficiency gains for the government in a context of fiscal constraints.

Personal income taxation is regressive for top earners



Source: Federal Revenue, Itaú

7) Will quasi-fiscal and accounting creativity continue to increase?

The government is considering or has already implemented BRL 127 billion (1.0% of GDP) in quasi-fiscal initiatives to date—through accounting creativity, expanded balance sheets of state-owned banks or execution of normally primary expenses outside the budget (see table). These measures are also behind the weakening credibility of fiscal rules and of the framework proposed by the government because they reduce the transparency and enforceability of the fiscal rule.

Accounting creativities

Type	Name	Amount (R$ billions)
Primary revenues without fiscal effort	Withdrawal of funds and unwithdrawn private resources	40
Public policies outside the budget	"Pé-de-meia" Fund	10
	Vale-Gás (subsidy to help poor households buy cooking gas)	10
	Government-controlled companies executing public policies	4
	Expenses of dependent government-controlled companies financed by own revenues	2
	Rio Grande do Sul reconstruction fund	7
Capitalization and contributions to BNDES	Climate Fund	10
	Emergency Credit Access Program (FGI-PEAC)	0
	Social Fund	20
	Civil Aviation Fund (FNAC)	6
	Development Credit Note (LCD)	10
Subsidized credit ex-BNDES	General Tourism Fund (Fungetur)	1
	General Tourism Fund (FGO)	5
	Scientific and Technological Development Fund (FNDTC)	2
Total		**127**

Source: Marcos Mendes e Itaú; Organization Itaú

Some of these initiatives were merely in accounting, with revenues that do not reflect fiscal efforts being recorded as primary revenues. This was the case with the withdrawal of funds and the appropriation by the Treasury of leftover private resources totaling BRL 40 billion (0.3% of GDP) between 2023 and 2024, which should not be repeated this year.

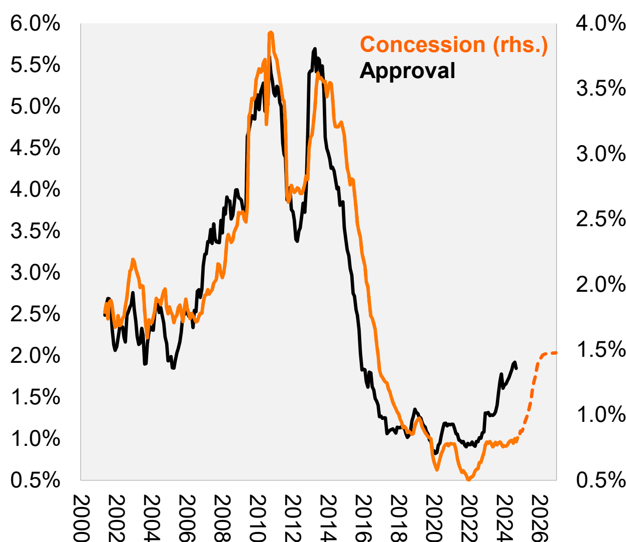
A second group involves initiatives to implement public policies outside the budget, which add up to BRL 33 billion (0.2% of GDP) to date. The main ones involve the "Pé-de-Meia" program for future teachers, the fund recently created to help rebuild Rio Grande do Sul, and the proposed expansion of cooking gas vouchers. Even though they are normally primary, these expenses are not duly considered in the public budget and accounted for in public statistics at the time they are implemented.

In the case of BNDES, the development bank's liabilities increased from 6.7% of GDP at the end of 2023 to 7.0% of GDP in September 2024 (the latest available data). This hike was partly driven by transfers of government funds such as the Climate Fund, the Pre-Salt Oil Social Fund, and the Civil Aviation Fund (FNAC). These transfers are considered financial expenses, and could have been used to reduce public debt, alleviating the need for debt issuances by the Treasury amid elevated domestic risk premiums. Additionally, this amount should still increase by 0.1% of GDP when considering the first issuance of development credit securities (LCD).

Finally, only BRL 14 billion (0.1% of GDP) of the total amount of these initiatives (17% excluding accounting items) has already materialized as a boost to economic activity. Thus, while they do little to explain the recent upward surprises in GDP, if materialized, these initiatives tend to intensify the monetary-policy challenge in decelerating the economy to levels that are closer to potential and more consistent with inflation convergence to the target.

A key source of stimulus to be monitored in the short term involves BNDES loans, set to climb from 0.8% to 1.4% of GDP by the end of 2025. The greater number of approvals by the bank suggests that new loans should go up soon (see chart) and support economic activity this year (see question 3). Although these disbursements carry smaller subsidies than in the past, they are still a channel for reducing the power of monetary policy.

BNDES loans to increase in 2025 (% GDP)



Source: BNDES, Itaú

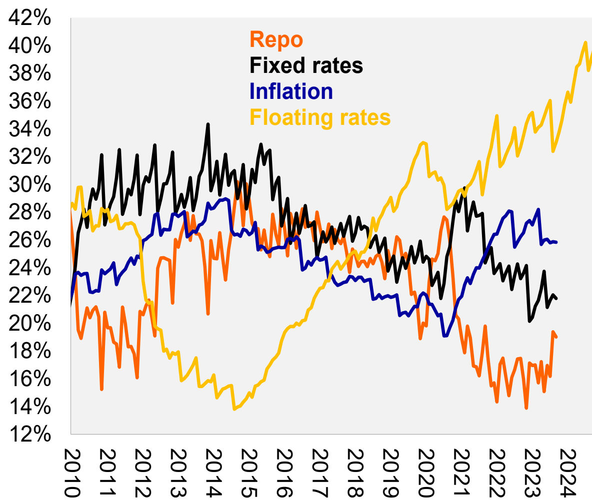
8) Is Brazil in a fiscal dominance situation?

Fiscal dominance refers to a situation where the deterioration of public finances limits or undermines the central bank's actions to control inflation, and may even have the opposite effect of what is intended. The following two conditions tend to bring a country closer to fiscal dominance: (1) a central bank that is hesitant in the fight against inflation and (2) a government that does not set credible limits on the trajectory of public debt. In our view, the Brazilian Central Bank (BCB) has not shown any hesitation in its actions to hold inflation near its target. However, if unchanged, fiscal variables' trends will bring Brazil ever closer to fiscal dominance. Although the BCB continues to act in accordance with its goal of stabilizing inflation, such actions should be seen as necessary, but not sufficient. Measures that improve the fiscal outlook, like strengthening current rules and proposing new credible measures that enhance the expected trajectory of public debt, will be essential to ward off the danger of inflation getting out of control. (see Macro Vision: Fiscal dominance in Brazil: Where do we stand?).

9) Will the composition of public debt continue to worsen? What is the size of the debt cushion?

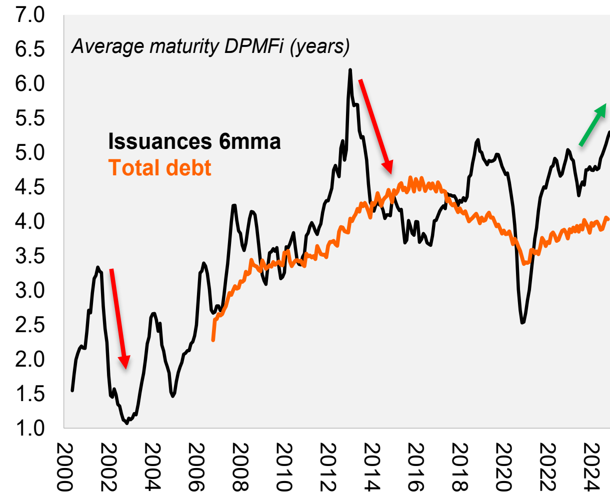
The composition of public debt has worsened since 2022, with an increasing share of floating-rate securities (see first graph). The National Treasury's decision to issue floating-rate securities instead of fixed-rate securities avoids endorsing the risk premium embedded in interest rate futures and/or the shortening of the average maturity (see second graph). However, this choice ties debt costs to monetary policy in the short term.

Deterioration of the composition of domestic public debt



Source: National Treasury, BCB, Itaú

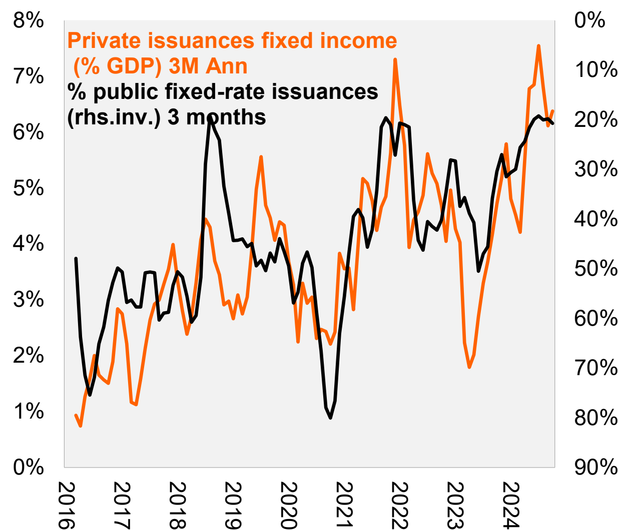
No shortening of the average maturity of public debt



Source: National Treasury, Itaú

Part of the increase in the share of floating-rate securities may be associated with the strength of private issuances (see chart). Notwithstanding the worsening perception of the fiscal situation, the buoyant capital market may be paradoxically driven by tax incentives, which have contributed to a new corporate funding profile.

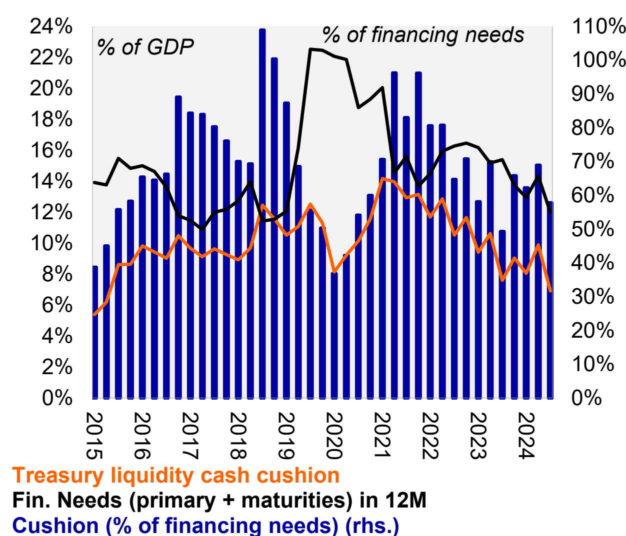
Private issuances hinder public issuances



Source: National Treasury, Itaú

The debt profile worsened even though the Treasury slowed issuances in auctions by using the debt cushion, which reached around 7% of GDP or 60% of financing needs 12 months down the road (see chart). Given that these levels are below the historical average (10% of GDP or 69% of the need 12 months ahead) and quarterly issuances totaling approximately BRL 450 billion (3.9% of GDP) in the first three quarters of 2025, the Central Bank could potentially transfer part of its result reserve, currently around BRL 220 billion (1.9% of GDP), to the Treasury during the year—if it is confirmed that "severe restrictions on liquidity conditions significantly affect the refinancing" of public debt—to ease the pressure of market issuances and comply with Law 13820/19.

Funding needs and liquidity cushion



Source: National Treasury, BCB, Itaú

The deterioration in the Treasury's funding conditions expands the need for measures to improve domestic risk perception (see question 4).

10) What are the main events of the year?

During 1Q25, the focus will be on measuring compliance with the 2024 primary result target, voting on the 2025 budget in February or March (with potential announcements of new revenue measures), and the first bimonthly report in March (which will again show the government's willingness to avert risks; moreover, the implementation of discretionary spending containment must be observed, given the negative fiscal perception).

In 2Q25, the discussion should focus on the 2026 budget law (LDO) as preparation for submitting the budget in 3Q25 (August). It will be important to monitor any discussions surrounding the flexibilization of fiscal rules (see question 5).

Throughout the year, it will be particularly important to monitor current data, especially figures related to the evolution of mandatory expenses, as well as bimonthly reports with revised government projections.

Dates have not yet been set for the government to submit the personal income tax exemption bill, the rest of the income tax reform, and potential new spending containment measures to Congress.

<table>
<tr><th>Jan</th><th>Feb</th><th>Mar</th><th>Apr</th><th>May</th><th>Jun</th><th>Jul</th><th>Aug</th><th>Sep</th><th>Oct</th><th>Nov</th><th>Dec</th></tr>
<tr><td rowspan="2">31/Jan - Primary Result 2024</td><td></td><td>22/Mar - 1st bimonthly review (budget freeze)</td><td rowspan="2">15/Apr - PLDO Budget Law 2026 (change target?)</td><td rowspan="2">22/May - 2nd bimonthly review (budget freeze)</td><td rowspan="2"></td><td rowspan="2">17/Jul - Congress recess

22/Jul - 3rd bimonthly review (budget freeze)</td><td rowspan="2">1/Aug - end of recess

31/Aug - PLOA Budget Law 2026</td><td rowspan="2">22/Sep - 4th bimonthly review (budget freeze)</td><td rowspan="2"></td><td rowspan="2">22/Nov - 5th bimonthly review (budget freeze)</td><td rowspan="2"></td></tr>
<tr><td colspan="2">Voting PLOA Budget Law 2025 (new revenue measures?)</td></tr>
</table>

PS: dates have not yet been set for the government to submit the personal income tax exemption bill.

itaú

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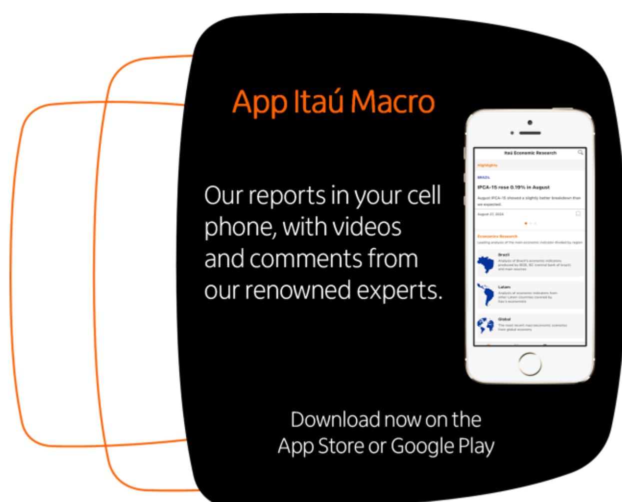

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