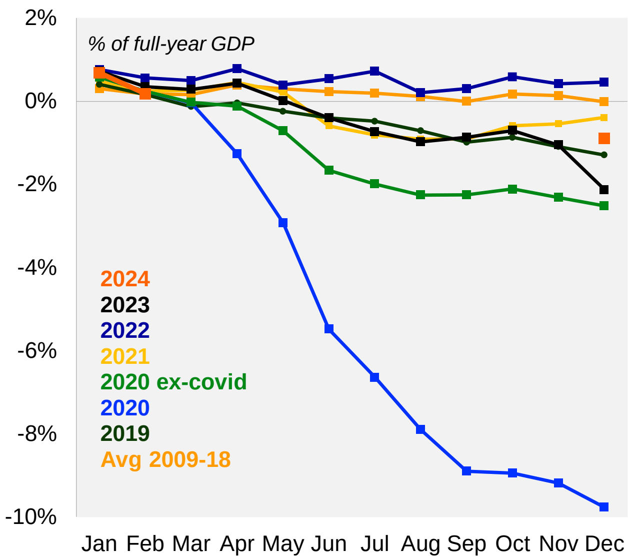
Macro Brazil

April 5, 2024

Primary deficit of BRL 48.7 bn in February, close to expectations

- The consolidated public sector recorded a primary deficit of BRL 48.7 billion in February, close to our expectation of a deficit of BRL 48.1 billion. The central government recorded a deficit of BRL 58.4 billion, close to expectations (deficit of BRL 58.1 billion). Compared to our forecasts, tax revenues were higher, with emphasis on taxes linked to consumption and the reduction in tax compensations, as well as expenses, including the early payment of BRL 30.1 billion in court-ordered debts. Regional governments recorded a surplus of BRL 8.6 billion, worse than our expectation of a surplus of BRL 10 billion. In 12 months, the consolidated primary result went from a deficit of 2.3% in January to a deficit of 2.4% of GDP in February, being -2.6% in the central government according to the BCB definition (-2 .3% in the Treasury definition) and 0.1% in states, municipalities and state-owned companies.
- General government gross debt rose to 75.5% from 75.1% of GDP in January. Net debt rose to 60.9% from 60.1% of GDP. The nominal deficit accumulated over 12 months, excluding swaps, went to 9.7% from 9.5% of GDP and interest expenses remained at 7.2% of GDP in February.
- **Our view:** tax collection has been stronger at the beginning of the year, but fiscal risks remain high, considering the government's low willingness to contingency expenses and the uncertainty regarding the effective revenue impact of the measures approved in 2023. An early change in the primary result target, or its main parameters, would damage the credibility of the government's strategy and would imply an adjustment even more dependent on increased revenues, in a country with a tax burden already high and coming from a significant increase in spending in 2023 after the approval of the Transition PEC (EC 126/22).

Primary result of the central government posts a small improvement



Source: Central Bank, Itaú

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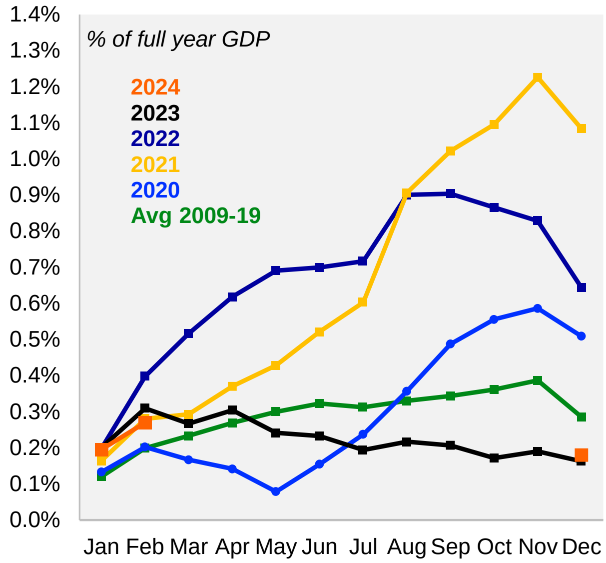
Primary result of regional governments with slight worsening



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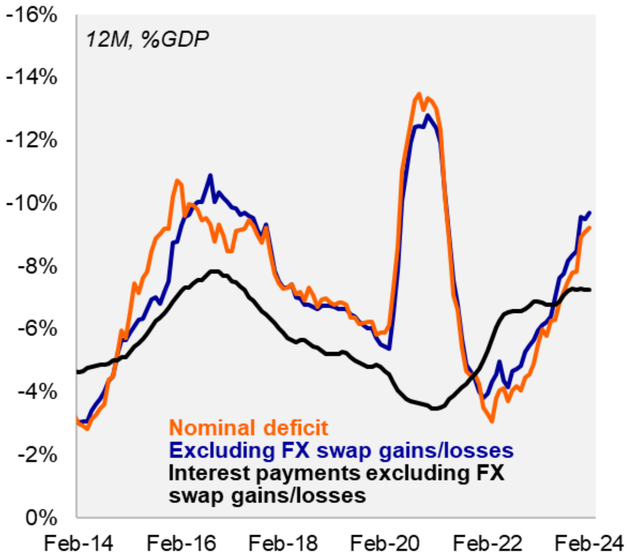
Nominal deficit is rising and interest expenses are stabilizing



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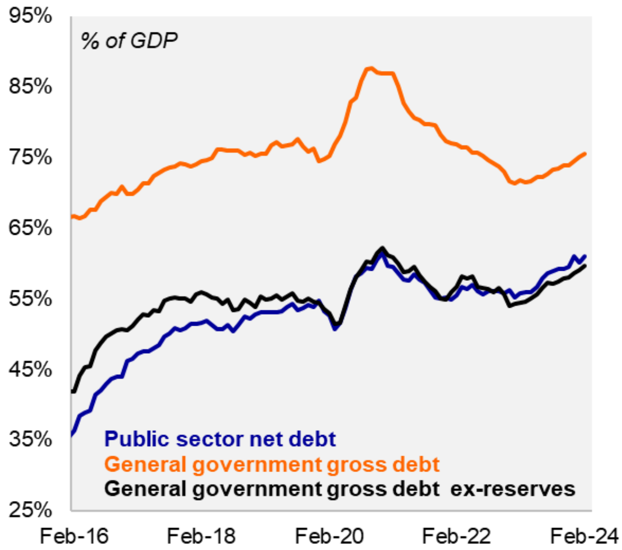
Higher public debt at the margin



Source: Central Bank, Itaú

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