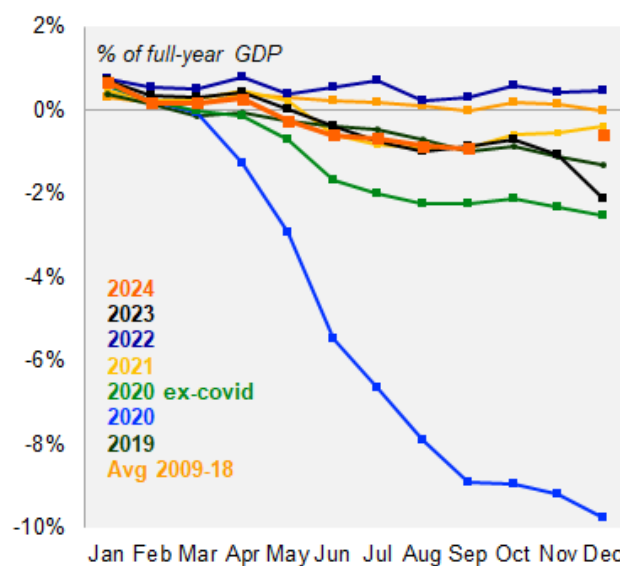


## Primary deficit of BRL 7.3 bn in September, better than expectations

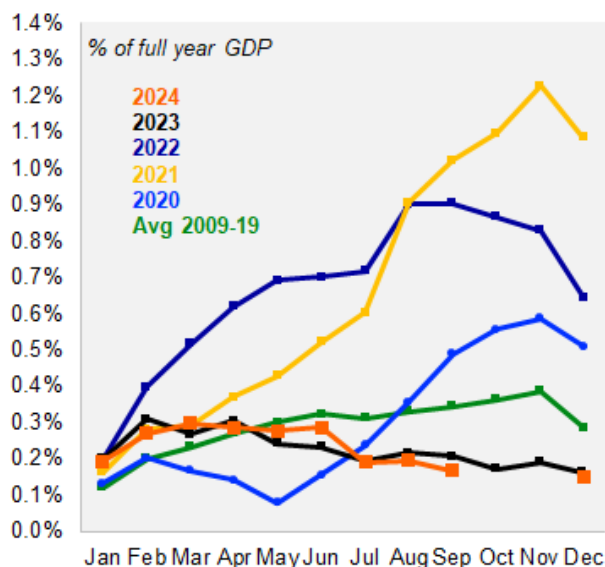
- ▶ The consolidated public sector recorded a primary deficit of BRL 7.3 billion in September, better than our expectation of a deficit of BRL 9.2 billion. The central government recorded a deficit of BRL 5.3 bn, as reported by the Treasury (based on the revenues and expenses), better than our expectations (a deficit of BRL 11.2 bn). However, more details were not released due to the servants' mobilization.
- ▶ Regional governments recorded a deficit of BRL 3.2 bn, worse than our call of a surplus of BRL 2.0 bn. In 12 months, the consolidated primary result oscillated to a deficit of 2.2% of GDP (from 2.3% in August), being -2.2% from the central government according to the BCB definition and +0.1% in states, municipalities and state-owned companies.
- ▶ General government gross debt decreased to 78.3% in September from 78.5% of GDP in August. Net debt increased to 62.4% from 62.0% of GDP in the month. The nominal deficit accumulated over 12 months, excluding swaps, oscillated to 9.2% of GDP (from 9.3%) and interest expenses decreased to 7.0% of GDP, from 7.1%.
- ▶ **Our view:** revenue collection has been strong, but fiscal risks remain high, given the perception that mandatory expenditures growing above the fiscal framework limit will prevent compliance by 2026 and the difficulty in achieving a path of convergence of primary results. In order to increase confidence in the sustainability of the fiscal framework and subsequently reduce the perception of risk, we estimate that an expenditure adjustment of at least BRL 60 bn is necessary, with BRL 25 bn in 2025 and BRL 35 bn in 2026. We understand that it is important to combine these measures with a short-term impact that ensure compliance with the framework in 2026 with structural changes that ensure lower expenditure growth in the medium term, with a reduction in indexations of public expenditures, in addition to reinforcing the transparency and credibility of fiscal rules.

**Primary result of the central government deteriorating at the margin**



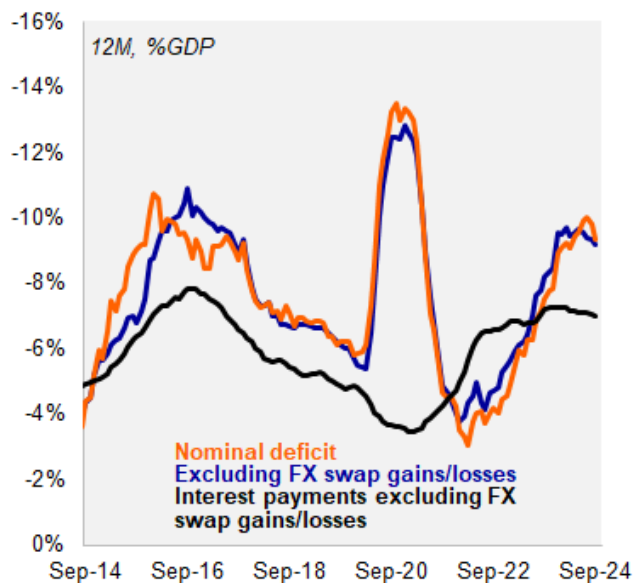
Source: Central Bank, Itaú

### Weaker regional governments' primary result



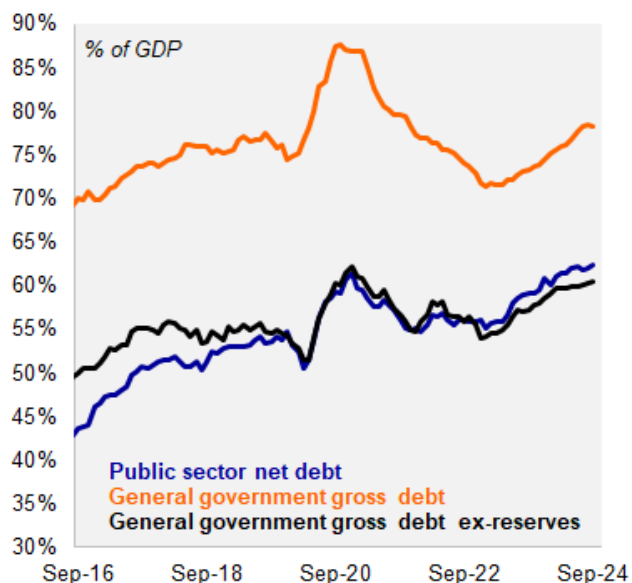
Source: Central Bank, Itaú

### Nominal deficit remains elevated



Source: Central Bank, Itaú

### Public debt on the rise at the margin



Source: Central Bank, Itaú

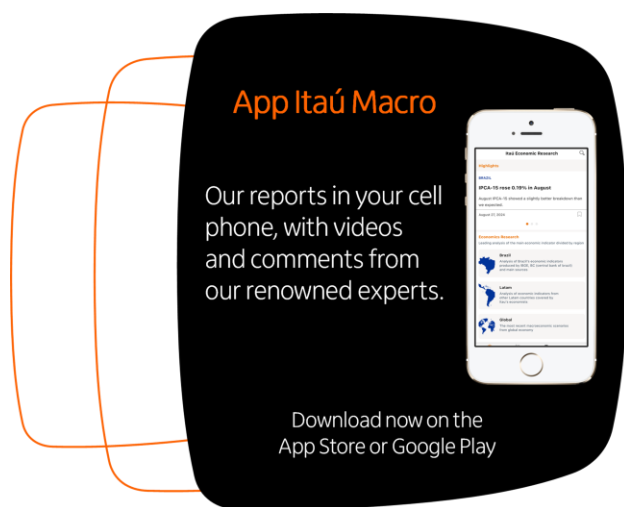
Thales Guimarães

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