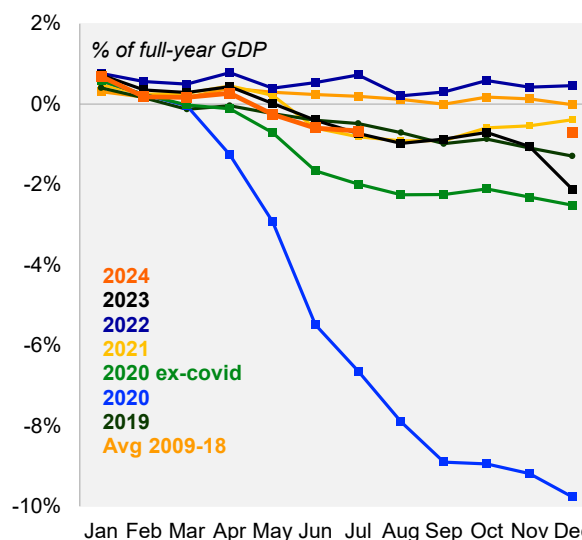


Primary deficit of BRL 21.3 bn in July, worse than expected

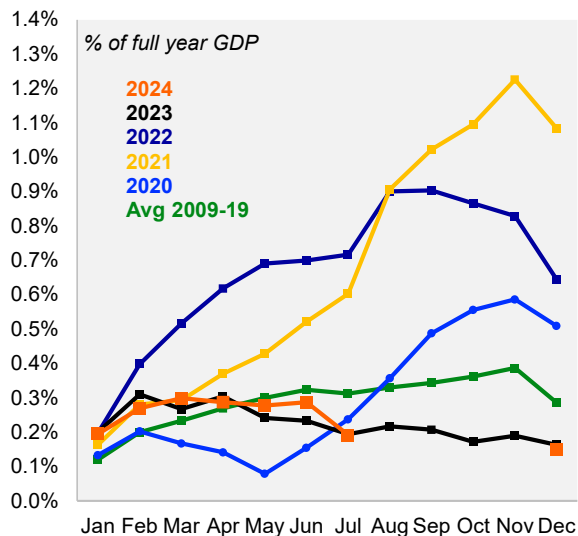
- ▶ The consolidated public sector recorded a primary deficit of BRL 21.3 billion in July, worse than our expectation of a deficit of BRL 12.9 billion. The central government recorded a deficit of BRL 8.6 bn, as reported by the Central Bank (based on the debt change), close to our expectations (a deficit of BRL 8.9 bn). However, due to the mobilization of public servants, the National Treasury's calculation of revenues and expenses has not yet been released. Regional governments recorded a deficit of BRL 11.0 bn, a larger deficit than our BRL 4.0 bn call. In 12 months, the consolidated primary result reached a deficit of 2.3% of GDP in July coming from a deficit of 2.4% in June, being -2.4% from the central government according to the BCB definition and +0.1% in states, municipalities and state-owned companies.
- ▶ General government gross debt rose to 78.5% in July from 77.8% of GDP in June. Net debt declined to 61.9% from 62.1% of GDP in the month. The nominal deficit accumulated over 12 months, excluding swaps, oscillated to 9.4% of GDP (from 9.5%) and interest expenses remained at 7.1% of GDP in July.
- ▶ **Our view:** tax collection has been stronger, but fiscal risks remain high, considering the growth in mandatory spending above the limit set by the fiscal framework and the difficulty in obtaining a trajectory of convergence for primary results. With preliminary data indicating a new upward surprise in Social Security spending in July and August compared to what the government expected, a new spending freeze in the September bi-monthly report will be essential to ensure compliance with the spending limit in 2024. Going forward, it will be important to monitor the effectiveness of the spending review announced by the government for 2025 and structural fiscal adjustment measures that guarantee the credibility of the fiscal framework.

Primary result of the central government deteriorating at the margin



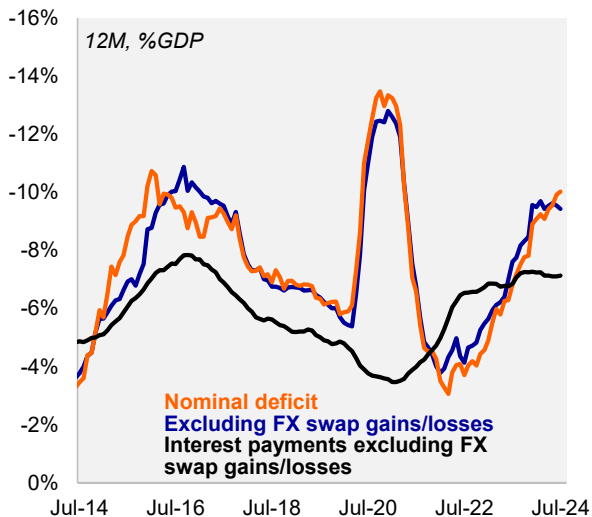
Source: Central Bank, Itaú

Regional governments' primary result weaker in July



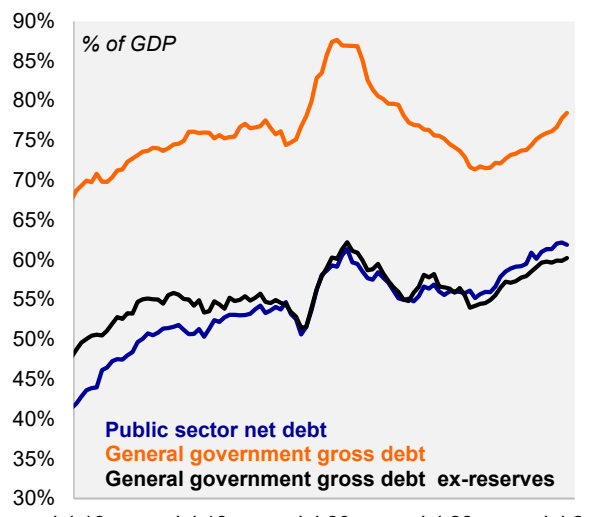
Source: Central Bank, Itaú

Nominal deficit remains elevated



Source: Central Bank, Itaú

Public debt on the rise at the margin



Source: Central Bank, Itaú

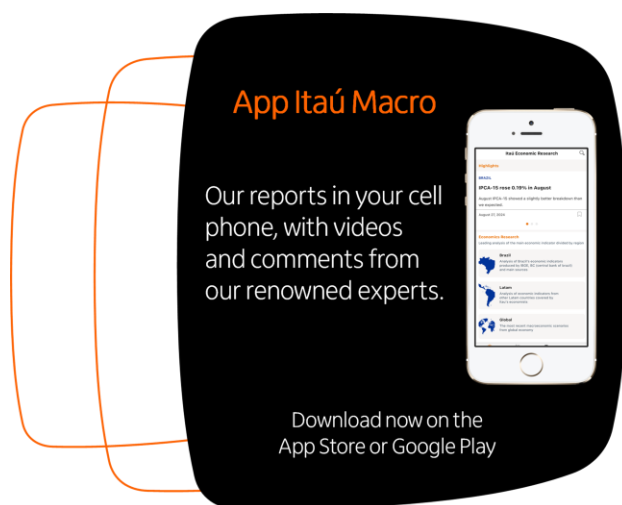
Thales Guimarães

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