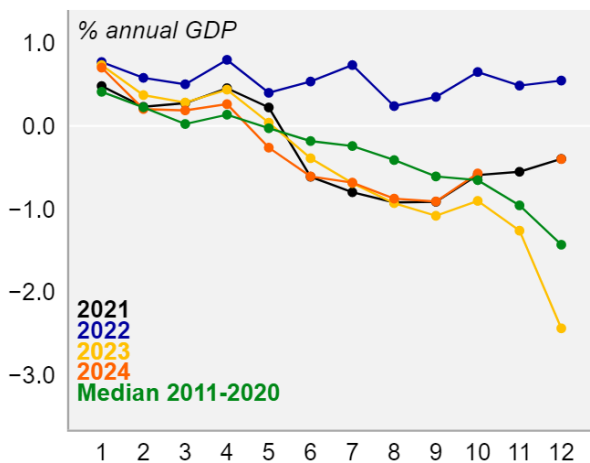


Primary surplus of BRL 36.9 bn in October

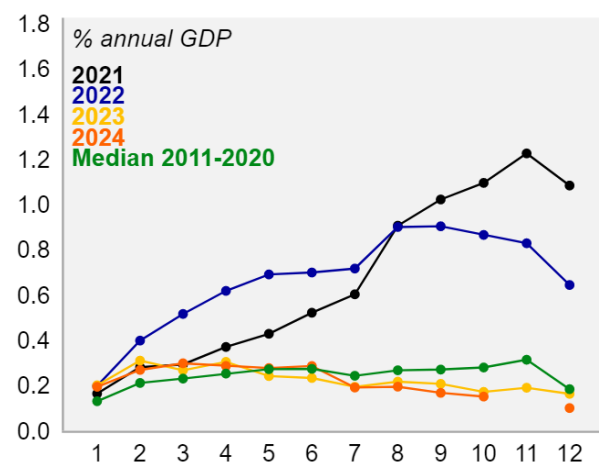
- ▶ The consolidated public sector recorded a primary surplus of BRL 36.9 bn in October, close to our expectation of a surplus of BRL 37.0bn. According to the Central Bank, the central government posted a surplus of BRL 39.1 bn worse than our estimate of BRL 41.0 bn.
- ▶ The regional governments registered a deficit of BRL 1.9 bn, better than our expectation of a BRL 4.0 deficit. In the past 12 months, the consolidated primary result was 1.9% of GDP (vs. 2.2% in September), with the following breakdown: 2,0% of GDP for the central government and -0.1% for regional governments and SOEs.
- ▶ General government gross debt rose from 78.2% of GDP in September to 78.6% of GDP in October, while the public sector net debt fell from 62.4% to 62.1% of GDP. Ex-FX swaps, 12-month accumulated nominal deficit retreated from 9.2% to 9.1% of GDP between September and October, while and interest expenses increased from 7.0% to 7.1% of GDP.
- ▶ **Our view:** Despite the government nearing the lower limit of this year's primary surplus target due to strong tax collection, fiscal risks remain elevated, considering the perception that mandatory expenditures growing above the fiscal framework limit will prevent its compliance until 2026 and the difficulty in achieving a trajectory of convergence of primary results. In our view, the recently announced government fiscal package fell short of expectations and may be insufficient to ensure compliance with the framework until 2026, with few structural changes capable of altering the recent dynamics of expenditures, bringing more measures to gain budgetary flexibility than effective spending reductions. We estimate a potential saving of BRL 53 bn in 2 years, with BRL 31 bn in 2026, below the estimated need of R\$ 35 billion. Looking ahead, it will be important to monitor the progress of the package in Congress and whether new structural measures for spending control will be implemented, in addition to the risks of primary result deterioration associated with the proposed income tax exemption.

Primary result of the central government, seasonal profile



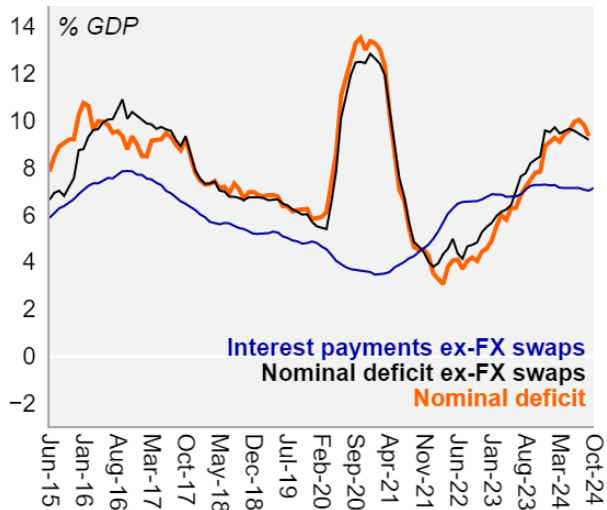
Source: BCB, Itaú

Primary result of regional governments, seasonal profile



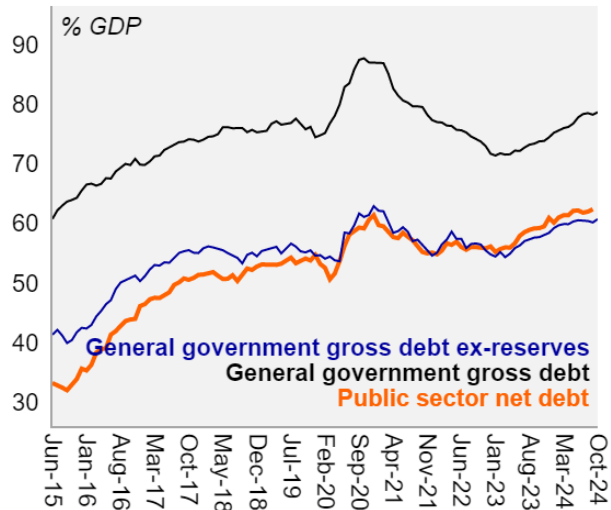
Source: BCB, Itaú

Nominal deficit and interest expenses



Source: BCB, Itaú

Public debt



Source: BCB, Itaú

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