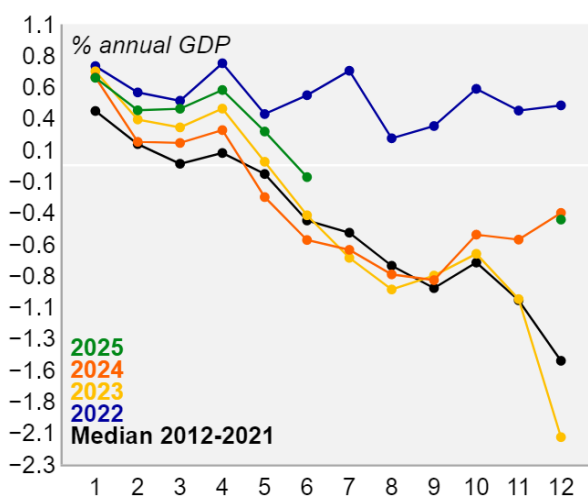


Primary deficit of BRL47.1bn in June

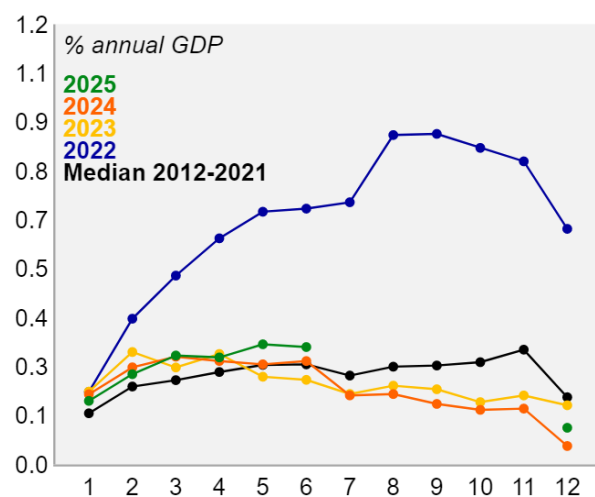
- ▶ The consolidated public sector recorded a primary deficit of BRL 47.1 bn in June, worse than our estimate (BRL 40.3 bn). The central government recorded a primary deficit of BRL 44.3 bn, as reported by the Treasury (based on revenues and expenses), worse than our projection (BRL 41.7 bn). According to the Central Bank (below-the-line figures), the central government posted a deficit of BRL 43.5 bn.
- ▶ The regional governments registered a deficit of BRL 1.0 bn, worse than our forecast of a surplus of BRL 1.4 bn for the month. Over the past 12 months, the consolidated primary result remained stable at -0.2% of GDP, with the following breakdown: -0.1% of GDP for the central government and -0.0% for regional governments and SOEs.
- ▶ General government gross debt rose from 76.1% of GDP in May to 76.6% in June, while public sector net debt increased from 62.0% to 62.9% of GDP. Excluding FX swaps, the 12-month accumulated nominal deficit rose from 7.4% to 7.6% of GDP between May and June, while interest expenses increased from 7.6% to 7.7% of GDP.
- ▶ **Our view:** we see an improvement in short-term revenue, despite it coming in below expectations in the month, while expenditures have resumed accelerating at the margin, driven by a significant increase in Social Security spending – potentially due to a reduced backlog in the INSS queue. Despite the risk of continued pressure on expenditures going forward, we see the government as being closer to meeting the target of a -0.6% of GDP primary result this year (considering deductions and the lower bound of the official target of 0%), due to the government's revenue agenda, including extraordinary revenues (such as those from oil) and the resolution of a dispute in the Supreme Court involving the increase in the IOF. Looking ahead, structural measures addressing the rigidity and high growth of mandatory expenditures would bring greater credibility to the fiscal adjustment needed for the sustainability of public debt.

Primary result of the central government, seasonal profile



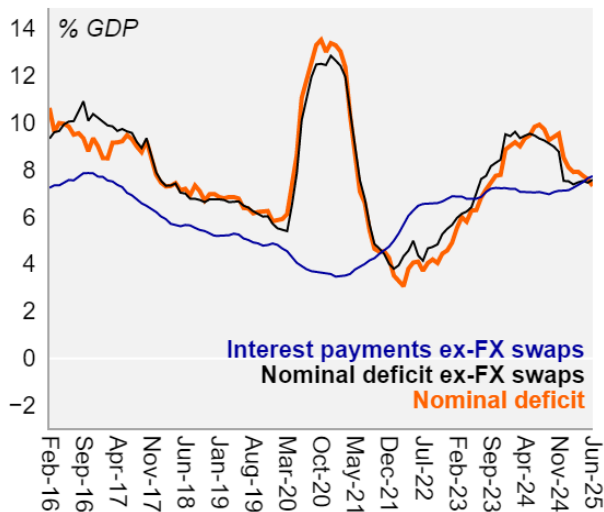
Source: STN, Itaú

Primary result of regional governments, seasonal profile



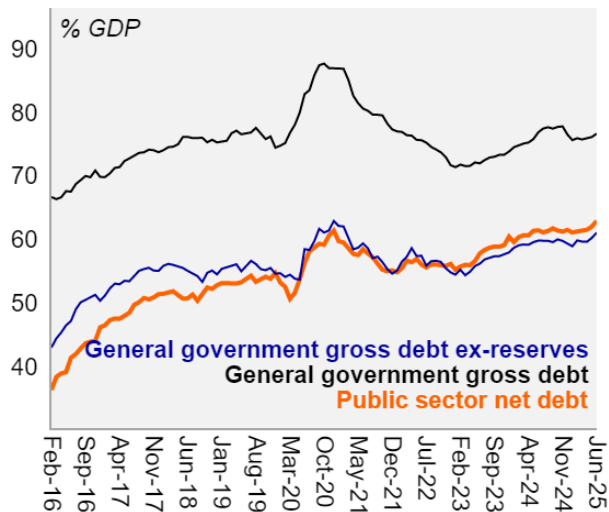
Source: BCB, Itaú

Nominal deficit and interest expenses



Source: BCB, Itaú

Public debt



Source: BCB, Itaú

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