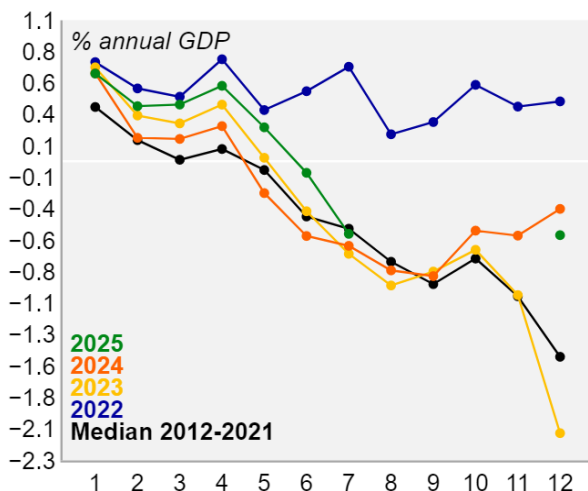


Primary deficit of BRL66.6bn in July

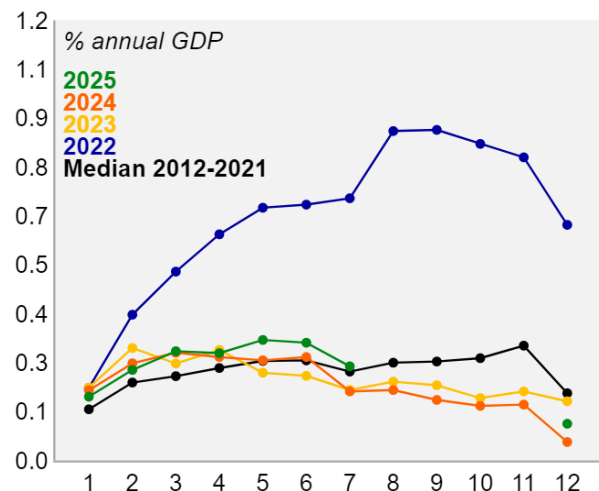
- ▶ The consolidated public sector recorded a primary deficit of BRL 66.6 bn in July, worse than our estimate of BRL 60.2 bn. The central government recorded a primary deficit of BRL 59.1 bn, as reported by the Treasury, worse than our projection of BRL 56.7 bn. According to the Central Bank, the central government posted a deficit of BRL 56.4 bn. In addition to the elevated payment of court-ordered debts (*precatórios*) during the month, a notable development was the double-digit growth in BPC, partially offset by, limited growth in social security (due to a higher INSS waiting list), under-execution of discretionary expenditures (due to delayed budget approval), and a significant reduction in the number of Bolsa Familia beneficiaries.
- ▶ The regional governments registered a deficit of BRL 8.1 bn in the month, worse than our forecast of BRL 3 bn. Over the past 12 months, the consolidated primary result shifted from a surplus of 0.2% of GDP in June to a deficit of 0.2% of GDP in July, with the following breakdown: -0.3% of GDP for the central government and +0.1% for regional governments and state-owned enterprises.
- ▶ General government gross debt rose from 76.6% of GDP in June to 77.6% in July, while public sector net debt increased from 62.9% to 63.7% of GDP. Excluding FX swaps, the 12-month accumulated nominal deficit rose from 7.6% to 8.2% of GDP between June and July, while interest expenses increased from 7.7% to 8.0% of GDP.
- ▶ **Our view:** Revenues remain resilient despite signs of a slowdown in economic activity, while mandatory expenditures – excluding seasonal factors – continue to exceed the fiscal framework's spending cap. We see the government on track to meet its primary deficit target of -0.6% of GDP this year, considering allowable deductions and the lower bound of the official target range (0%). Toward year-end, it will be important to monitor how the government addresses the necessary fiscal adjustment – estimated at around 0.5% of GDP – to meet the 2026 target. In the annual budget bill (PLOA) to be submitted today, the government is expected to include uncertain revenue sources and is unlikely to propose new measures to curb mandatory spending, which we consider essential to enhance credibility in the pursuit of public debt sustainability.

Primary result of the central government, seasonal profile



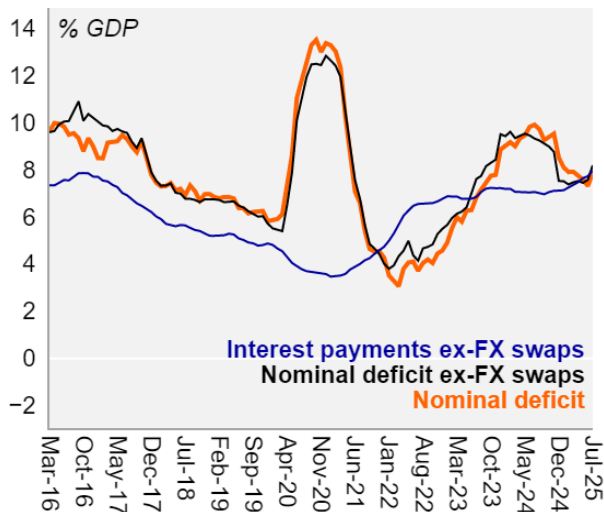
Source: STN, Itaú

Primary result of regional governments, seasonal profile



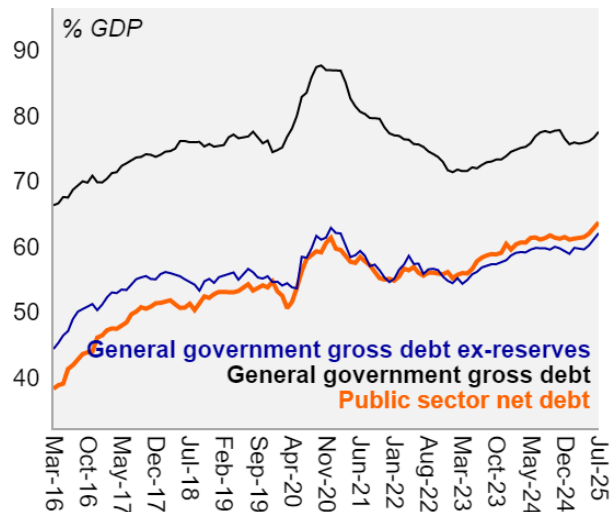
Source: BCB, Itaú

Nominal deficit and interest expenses



Source: BCB, Itaú

Public debt



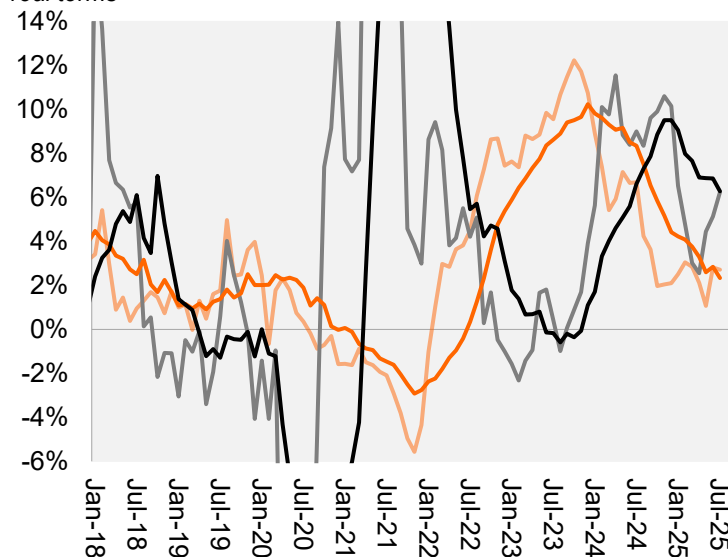
Source: BCB, Itaú

Central Gov Primary Balance	% GDP	BRL bn	12mma YoY			Real Growth 3mma YoY			YoY		
	Jul-25	Jul-25	May-25	Jun-25	Jul-25	May-25	Jun-25	Jul-25	May-25	Jun-25	Jul-25
Tax Collections	22.7%	252.5	7.5%	7.2%	6.7%	4.7%	5.5%	6.0%	7.7%	6.6%	3.8%
Total Revenues	22.9%	244.0	6.9%	6.4%	6.0%	4.0%	3.9%	3.8%	4.7%	2.1%	4.5%
Tax Revenues	20.5%	220.3	7.4%	7.3%	6.7%	4.9%	5.4%	6.1%	7.5%	5.8%	5.0%
Non tax Revenues	2.4%	23.7	2.2%	-0.7%	-0.2%	-2.7%	-6.8%	-13.2%	-11.7%	-29.8%	0.3%
Transfers to S & M	4.5%	42.8	8.6%	8.1%	7.9%	7.3%	8.0%	9.4%	10.6%	9.9%	7.5%
Net Revenue	18.4%	201.2	6.4%	6.0%	5.5%	3.2%	3.0%	2.4%	3.0%	0.0%	3.9%
Total Expenditures	18.7%	260.3	-6.6%	-6.5%	-3.6%	-2.3%	-1.6%	6.5%	-7.6%	1.6%	28.3%
Mandatory Expenditures	14.4%	211.4	-7.1%	-6.3%	-1.7%	0.3%	1.5%	13.7%	-3.3%	6.2%	42.9%
Payroll	3.1%	45.4	-3.7%	-3.7%	-1.9%	2.3%	4.0%	11.1%	10.4%	3.2%	17.9%
Social Security	8.1%	97.9	-4.4%	-3.1%	1.0%	-0.2%	1.2%	7.6%	-3.4%	5.7%	26.8%
Other Mandatory	3.1%	68.1	-16.8%	-16.4%	-7.9%	-0.1%	-0.3%	35.0%	-14.3%	11.4%	111.3%
Unempl. Insurance and Annual Bonus	0.7%	9.3	7.7%	9.5%	7.8%	0.7%	0.7%	0.4%	-8.3%	18.1%	-6.3%
LOAS/RMV (BPC)	1.0%	11.0	12.0%	11.7%	11.4%	8.7%	9.4%	9.9%	6.5%	11.9%	11.2%
FUNDEB	0.4%	4.6	21.4%	22.0%	22.7%	21.9%	24.4%	25.2%	25.4%	25.0%	25.2%
Court Order Payments	0.3%	35.9	-94.4%	-94.4%	-55.4%	-6.0%	-13.1%	3356.8%	-48.3%	-22.0%	11379.9%
Extraordinary Credits	0.2%	1.4	-37.4%	-40.8%	-44.3%	-75.4%	-83.2%	-80.6%	-92.3%	-75.8%	-57.7%
Expenditures w/ Cash Control	4.3%	48.9	-4.9%	-6.9%	-9.5%	-10.6%	-11.1%	-15.0%	-21.7%	-12.2%	-11.0%
Mandatory w/ Cash Control	3.0%	31.3	2.0%	2.0%	0.0%	-3.8%	-0.5%	-3.1%	-7.3%	4.3%	-5.5%
Bolsa Família	1.3%	13.1	-6.0%	-5.7%	-6.4%	-7.3%	-6.9%	-8.0%	-7.5%	-6.1%	-10.5%
Discretionary	1.3%	17.5	-16.5%	-21.7%	-25.2%	-24.0%	-28.4%	-32.6%	-43.6%	-34.8%	-19.3%
Primary Balance	-0.3%	-59.1									
Core Revenues and Expenditures											
Net Revenue ex roy, div and concessions	17.2%	188.2	6.9%	6.9%	6.3%	4.5%	5.1%	6.2%	9.1%	4.4%	5.3%
Mandatory Expend. ex Court Orders and 13rd	15.0%	166.6	2.6%	2.8%	2.3%	1.1%	2.8%	2.7%	0.7%	6.4%	1.2%
Social Security ex Court Orders and 13rd	7.1%	76.8	1.9%	2.2%	2.0%	0.3%	1.5%	1.9%	-2.0%	5.5%	2.5%
Expenditures with Transfers	11.1%	131.4	-2.7%	-1.6%	1.3%	-0.3%	0.9%	5.5%	-3.5%	5.6%	17.6%

Heatmap based on 20 years in each line (Payroll and Expend. w/ control centered in 0%, Social Security and Assistance in 3.5%, others in 2.5%); core measures since 2016.

Central Gov: Core revenues and mandatory expenditures

real terms



Core Expenditures 3m YoY

Core Expenditures 12m YoY

Rev ex div/roy/conc 3m YoY

Rev ex div/roy/conc 12m YoY

Source: BCB, Itaú

Core Expenditures (~81% Total): Social Security+Payroll+BPC+Unemp. Insurance (ex Court Order and 13rd wage) + FUNDEB + Mandatory w/ Cash Control

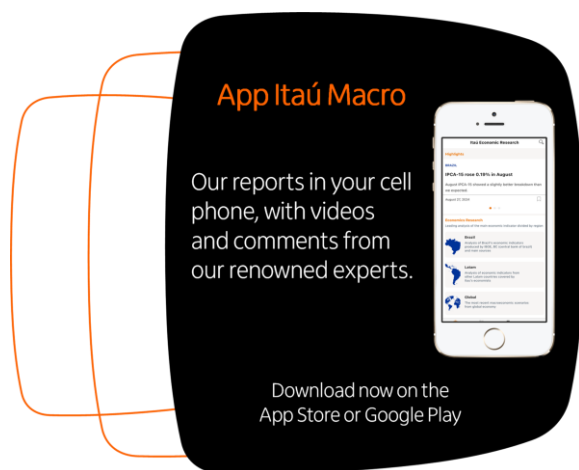
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