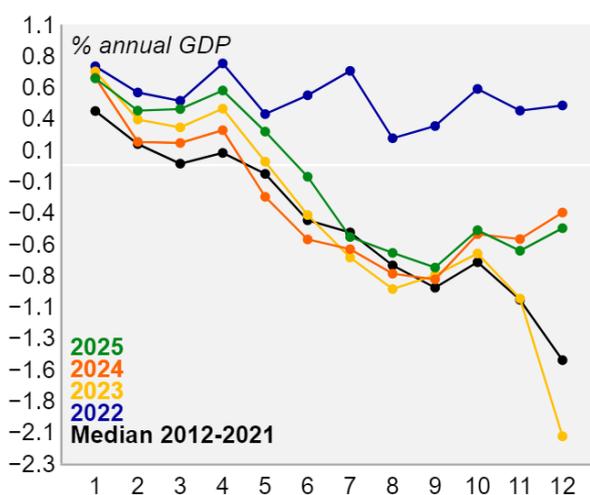


Primary deficit ended 2025 at 0.4% of GDP

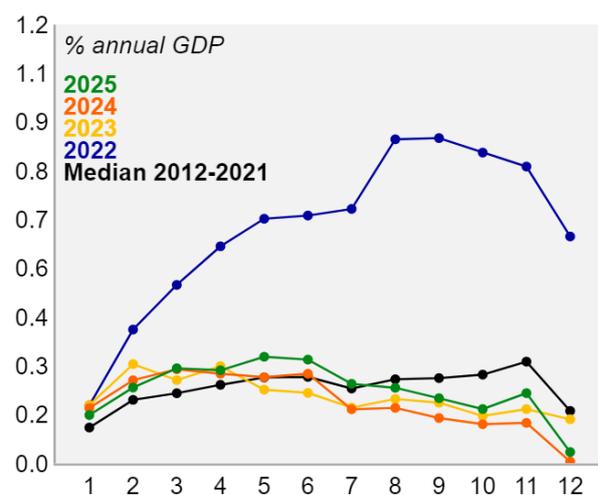
- ▶ In December, the consolidated public sector posted a primary surplus of BRL 6.3bn, above our expectation of BRL 4.4bn. The central government recorded a surplus of BRL 22.1bn, according to Treasury data (revenues and expenditures), also above our estimate (BRL 20.4bn). In the Central Bank’s “below-the-line” methodology, the central government surplus reached BRL 21.6bn.
- ▶ The regional governments registered a deficit of BRL 19.8 bn. In the past 12 months, the consolidated primary result was stable at 0.4% of GDP, with the following breakdown: -0.5% of GDP for the central government (within the fiscal framework’s lower limit when considering the floor and allowed deductions) and 0,0% for regional governments and SOEs.
- ▶ General government gross debt declined from 79.0% of GDP in November to 78.7% in December, while net public sector debt increased from 65.2% to 65.3% of GDP. For the year, gross debt rose 2.4 p.p. of GDP, and net debt rose 4.0 p.p., reinforcing the need for future fiscal adjustments.
- ▶ **Our view:** the federal government formally met the 2025 primary result target, considering the lower bound of the fiscal framework’s range and the significant volume of allowed deductions. The target was achieved mainly through revenue-recovery measures. Despite the formal compliance, the continuing rise in public debt, the deceleration of revenue growth, and the limited control of expenditures – all reflected in the most recent data – highlight that current fiscal rules remain insufficient to stabilize the public-debt trajectory. Looking ahead to 2026, we estimate a 0.3% of GDP challenge to meet the fiscal target. Achieving it will depend on confirmation of extraordinary revenues, and strict adherence to the fiscal framework without new exceptions or additional flexibilization.

Primary result of the central government, seasonal profile



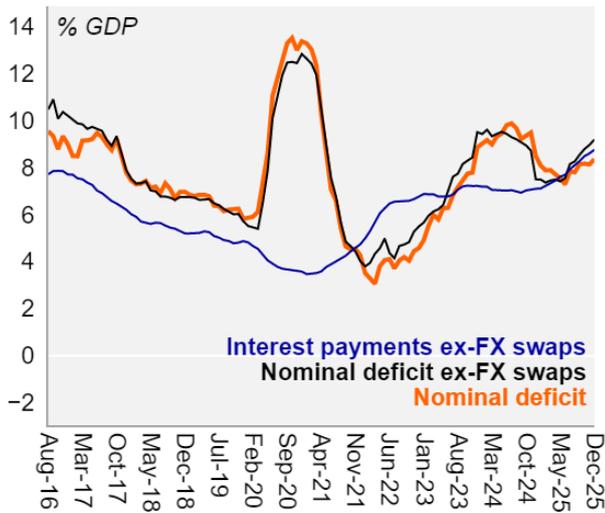
Source: STN, Itaú

Primary result of regional governments, seasonal profile



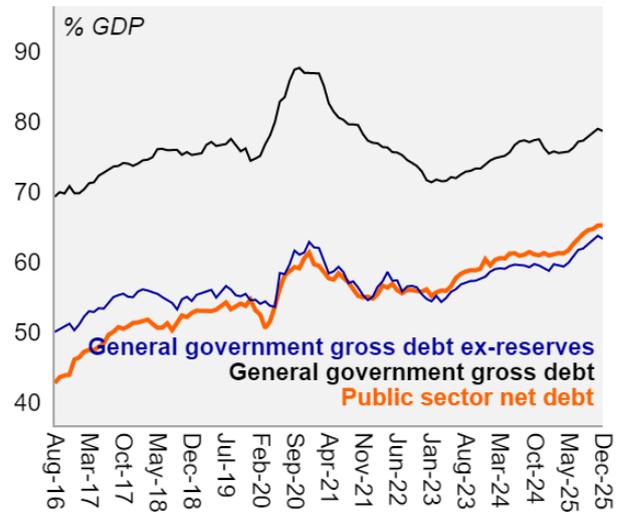
Source: BCB, Itaú

Nominal deficit and interest expenses



Source: BCB, Itaú

Public debt

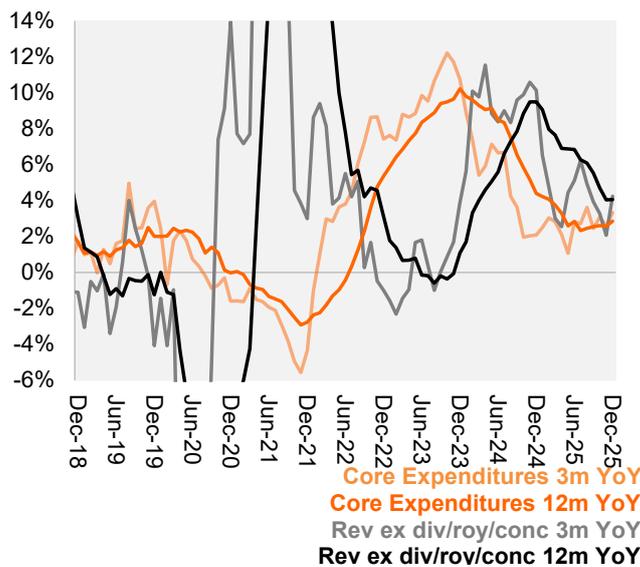


Source: BCB, Itaú

| Central Gov Primary Balance | % GDP | BRL bn | 12mmaYoY | | | Real Growth 3mma YoY | | | YoY | | |
|--|--------|--------|----------|--------|--------|----------------------|--------|--------|--------|--------|--------|
| | Dec-25 | Dec-25 | Oct-25 | Nov-25 | Dec-25 | Oct-25 | Nov-25 | Dec-25 | Oct-25 | Nov-25 | Dec-25 |
| Tax Collections | 22.7% | 292.7 | 4.2% | 3.7% | 3.7% | 0.3% | 2.0% | 4.1% | 0.9% | 3.8% | 7.5% |
| Total Revenues | 22.8% | 312.0 | 5.9% | 4.6% | 3.2% | 4.6% | 1.5% | 1.6% | 4.0% | -2.6% | 2.5% |
| Tax Revenues | 20.6% | 274.8 | 5.2% | 4.8% | 4.9% | 4.3% | 4.6% | 6.4% | 5.8% | 5.0% | 8.0% |
| Wage Bill | 8.3% | 124.6 | 5.5% | 5.6% | 5.9% | 9.2% | 7.6% | 5.8% | 6.2% | 5.4% | 5.7% |
| Consumption | 5.3% | 61.5 | 4.5% | 2.1% | 1.7% | -0.2% | -0.8% | 2.9% | 2.1% | -0.7% | 7.4% |
| Profits | 3.7% | 23.8 | 1.5% | 2.5% | 0.6% | -5.9% | -2.2% | 0.4% | 0.9% | 10.0% | -10.5% |
| Others | 3.3% | 61.3 | 10.4% | 10.4% | 12.5% | 12.2% | 15.4% | 16.3% | 22.8% | 10.7% | 15.9% |
| Non tax Revenues | 2.2% | 37.2 | 11.8% | 2.9% | -10.7% | 6.8% | -24.3% | -29.0% | -8.6% | -60.2% | -25.4% |
| Net Revenue | 18.3% | 250.1 | 6.1% | 4.5% | 2.8% | 5.2% | 0.5% | 0.8% | 4.5% | -4.8% | 1.6% |
| Total Expenditures | 18.8% | 228.0 | -2.3% | -1.5% | 3.4% | 6.7% | 6.3% | 5.2% | 9.2% | 4.0% | 3.1% |
| Mandatory Expenditures | 14.3% | 158.5 | -2.4% | -1.7% | 4.1% | 2.4% | 3.4% | 4.0% | 5.9% | 4.0% | 2.3% |
| Payroll | 3.2% | 46.4 | -0.9% | -0.6% | 4.3% | 4.3% | 2.7% | 5.6% | 3.8% | 2.6% | 9.2% |
| Social Security | 8.1% | 80.9 | 0.6% | 0.7% | 4.1% | 1.7% | 2.1% | 4.5% | 3.1% | 3.9% | 6.4% |
| Other Mandatory | 3.1% | 31.2 | -10.7% | -8.5% | 3.7% | 2.3% | 8.4% | 0.7% | 16.5% | 6.3% | -14.3% |
| Unempl. Insurance and Annual Bonus | 0.7% | 4.7 | 3.4% | 3.5% | 3.5% | 6.6% | 10.9% | 4.8% | 10.9% | 2.1% | 0.9% |
| LOAS/RMV (BPC) | 1.0% | 10.5 | 9.8% | 9.2% | 9.1% | 7.3% | 6.2% | 6.0% | 6.1% | 6.6% | 5.2% |
| FUNDEB | 0.5% | 4.9 | 21.3% | 20.5% | 19.7% | 16.7% | 14.8% | 20.2% | 30.2% | 15.1% | 15.3% |
| Court Order Payments | 0.3% | 1.1 | -54.9% | -54.5% | 17.0% | 47.6% | 45.8% | 234.8% | 442.0% | 89.8% | 223.6% |
| Extraordinary Credits | 0.1% | 1.5 | -44.2% | -28.6% | -58.1% | 1.3% | -29.0% | -69.8% | 3.1% | -76.7% | -84.0% |
| Expenditures w/ Cash Control | 4.5% | 69.5 | -2.1% | -1.0% | 1.2% | 20.4% | 14.9% | 8.6% | 19.1% | 3.8% | 5.0% |
| Mandatory w/ Cash Control | 2.9% | 34.3 | -0.1% | -0.8% | -1.4% | -1.0% | -3.2% | -3.3% | 0.2% | -6.7% | -3.1% |
| Bolsa Família | 1.2% | 12.3 | -8.7% | -9.5% | -10.4% | -13.7% | -13.6% | -14.7% | -14.6% | -13.7% | -15.8% |
| Discretionary | 1.6% | 35.2 | -5.6% | -1.4% | 6.1% | 75.2% | 58.0% | 27.9% | 57.2% | 27.2% | 14.3% |
| Primary Balance | -0.5% | 22.1 | | | | | | | | | |
| Core Revenues and Expenditures | | | | | | | | | | | |
| Net Revenue ex roy, div and concessions | 17.2% | 225.3 | 4.7% | 4.1% | 4.1% | 3.3% | 2.1% | 4.2% | 3.5% | 1.0% | 7.6% |
| Mandatory Expend. ex Court Orders and 13rd | 15.0% | 176.7 | 2.6% | 2.6% | 2.9% | 3.1% | 2.6% | 3.3% | 3.0% | 2.0% | 4.9% |
| Social Security ex Court Orders and 13rd | 7.1% | 76.9 | 2.3% | 2.5% | 2.8% | 3.3% | 3.6% | 4.4% | 3.2% | 3.9% | 6.0% |
| Expenditures with Transfers | 11.0% | 108.6 | 0.3% | 0.3% | 2.6% | 0.4% | 0.6% | 2.0% | 1.3% | 1.6% | 3.0% |

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



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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