

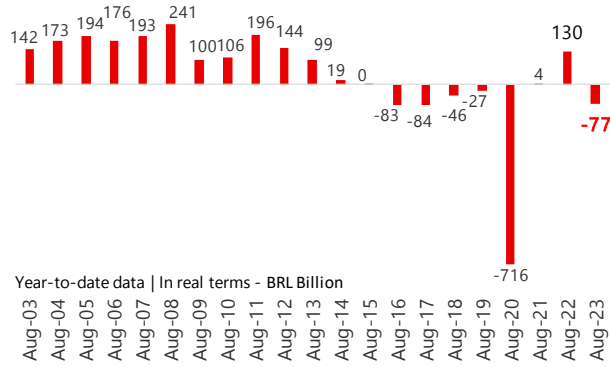
## **PUBLIC SECTOR: AUGUST'S PRIMARY DEFICIT REACHED 1.1% OF GDP IN YTD DATA**

**Ítalo Franca\***  
italo.franca@santander.com.br  
+5511 3553 5235

- Today, the Brazil Central Bank (BCB) released the consolidated public sector's fiscal balance for August. The public sector posted a primary deficit of BRL22.8 billion, lower than our forecast (BRL25.1 billion) and the market median estimate (BRL26.8 billion). Regional governments' result accounts for the main difference from our forecast, with a BRL2.5 billion primary surplus compared to our expectation of +BRL1.5 billion. Subnational entities' fiscal monthly balance has been showing higher than usual volatility this year. We observed a +3% YoY rise in states' revenue in nominal terms, recovering on the heels of higher fuel prices. Overall, we are observing a deterioration in the fiscal number close to our expectation on the heels of the expenditure's expansion and a cyclical downturn in revenue.
- In the 12-month reading, the public sector's primary balance reached -BRL73.1 billion (0.7% of GDP) in August, vs. -BRL80.5 billion (0.8% of GDP) in July, and after peaking at 2.4% of GDP (surplus) in July 2022. Regional governments entered negative territory, with a deficit of BRL2.3 billion (0.0% of GDP), vs. the peak registered in May 2022 (BRL128.7 billion, or 1.4% of GDP). For August, we observed a sharp drop in regional governments' results due to the positive effect of the Campo de Marte operation, which totaled BRL24 billion in August 2022. For them, we forecast a BRL15 billion surplus this year, yet we see downward risks, depending on the revenue results.
- We forecast a primary deficit of BRL100 billion, or 1.0% of GDP, for the public sector. On the positive side, the measures could add more revenue and improve the results. On the other hand, a more intense cyclical reduction in revenue and the payment of court-ordered debt stock could increase the deficit forecast for this year. The result will be closely related to the performance of commodity prices, in our view. We are also seeing a limited impact from the measures already implemented by the administration to address the deficit, and it will be important to monitor tax collection in the coming months.
- According to September 28 Treasury data, the central government posted a BRL26.4 billion primary deficit, the fourth largest deficit for the month (and for YTD data) in the historical series. In the 12-month reading, the result dropped to a primary deficit of BRL70.9 billion (-0.7% of GDP). In inflation-adjusted YTD terms, net revenue continued to lose steam (-5.5% YoY), owing to the reduction in commodity prices, as expenditures rose (+4.5% YoY in real terms), pressured by the increase in welfare program expenditures. We believe that the outlook for revenue performance will be a key issue ahead, as we already expected a rise in total outlays. For the central government, we forecast a BRL115 billion deficit (1.1% of GDP) this year.
- Interest payments totaled BRL84 billion in August, compared to BRL36 billion in August 2022. In the 12-month reading, the nominal deficit totaled BRL763 billion (7.3% of GDP), +0.35 p.p. compared to the July 2023 result and up from the BRL460 billion (4.6% of GDP) reported in December 2022. We believe that the nominal balance result will end the year slightly above 8% of GDP.
- Last month, debt rose compared to July. Gross debt increased to 74.4% of GDP (+0.4 p.p.). Net debt went up to 59.9% of GDP (+0.3 p.p. in the month), thanks to interest accrual (+0.8 p.p.) and the primary deficit result (+0.2 p.p.). Voluntary deposits into the BCB (not included in debt statistics) rose slightly to 1% of GDP (+0.1 p.p.). Our 2023 gross-debt-to-GDP forecast is currently at 76.5%, considering a reduction in the nominal GDP deflator (3.5% YoY) based on lower wholesale inflation (IGPs).

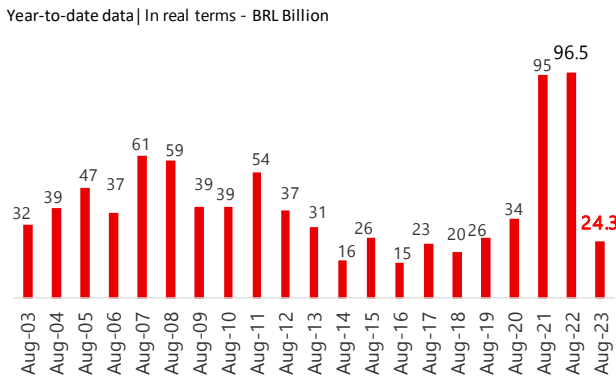


**Figure 1 – Consolidated Public Sector Result**



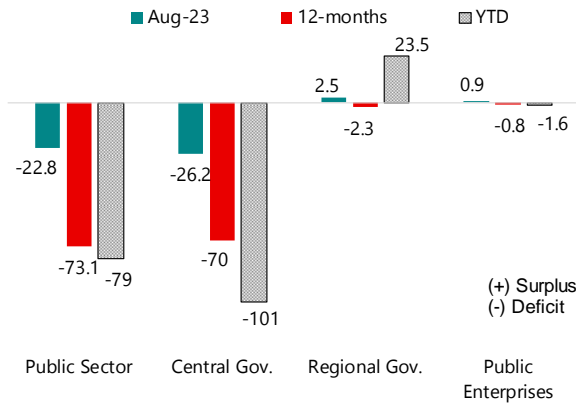
Sources: Brazilian Central Bank, Santander.

**Figure 3 – Regional Gov.– Primary Result**



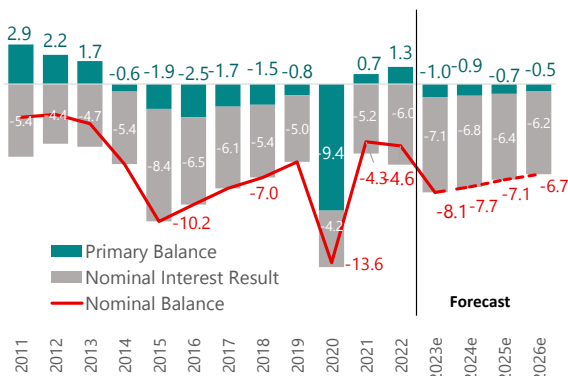
Sources: Brazilian Central Bank, Santander.

**Figure 5 – Primary Result (BRL billion)**



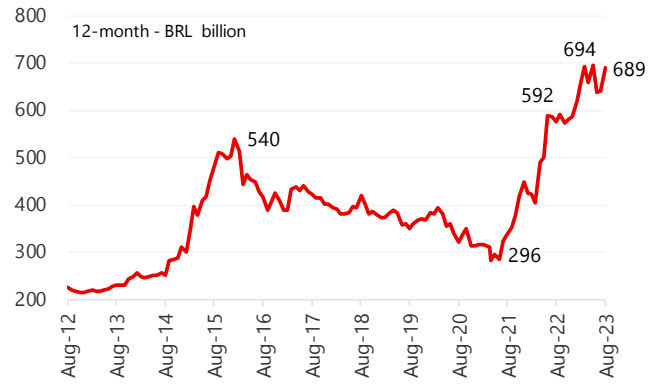
Sources: Brazilian Central Bank, Santander.

**Figure 7 – Fiscal Balance (% GDP)**



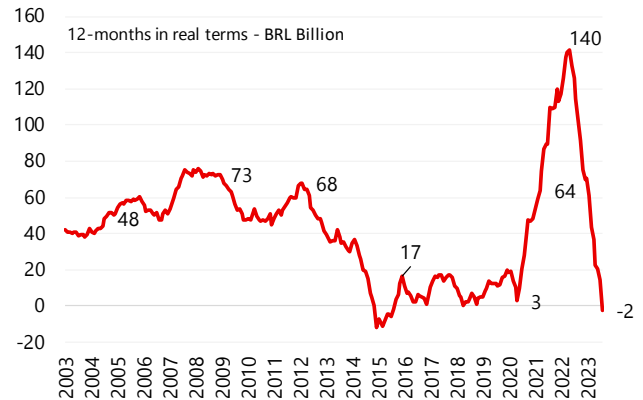
Sources: Brazilian Central Bank, Santander.

**Figure 2 – Nominal Interest Result – BRL billion**



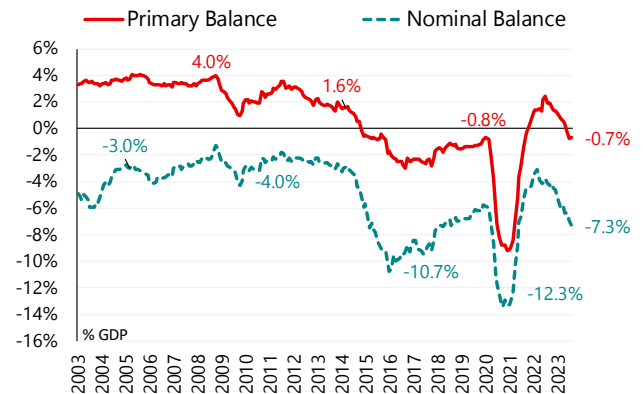
Sources: Brazilian Central Bank, Santander.

**Figure 4 – Regional Gov. – Primary Result – 12-m**



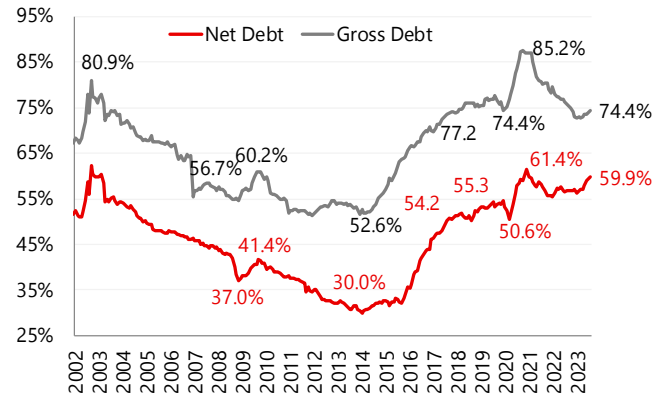
Sources: Brazilian Central Bank, Santander.

**Figure 6 – Consolidated Public Sector (12m % GDP)**



Sources: Brazilian Central Bank, Santander.

**Figure 8 – Public Sector Debt (12m % GDP)**



Sources: Brazilian Central Bank, Santander.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Adriano Valladao Ribeiro*	Economist – Inflation	adriano.ribeiro@santander.com.br	5511-3553-7495
Ana Julia Carvalho*	Economist – Special Projects	ana.carvalho.silva@santander.com.br	5511-3553-8071
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Activity	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Henrique Danyi Correia*	Economist – Credit / Monetary Policy	henrique.danyi@santander.com.br	5511-3553-7350
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

### Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

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