

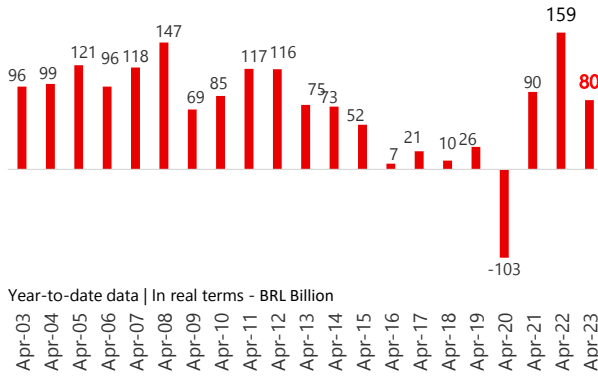
PUBLIC SECTOR: HIGHER SURPLUS IN APRIL, AS REGIONAL GOVERNMENTS' RESULT EXCEEDS FORECAST

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 April. In a seasonally favorable month, the public sector posted a primary surplus of BRL20.3 billion, above our forecast (BRL14.8 billion) and the market median (BRL16.3 billion). The subnational entities' primary result was the main difference from our forecast, on the positive side. Regional governments registered a surplus of BRL4.0 billion, beating our call of a BRL0.5 billion deficit and compared to a surplus of BRL10.3 billion in April 2022. We observed a 3.5% YoY drop in states' revenue in nominal terms, considering the impact of legislation that limited the ICMS (VAT) tax on essential goods. Despite the still-positive performance in the year, we expect regional governments' primary result to continue to decline on the heels of a rise in outlays and weaker revenue performance, even considering the rise in fuel taxes after June.
- In the 12-month reading, the public sector's primary surplus reached BRL56 billion (0.6% of GDP), after peaking at 2.4% in July 2022. Regional governments reached a surplus of BRL36 billion (0.4% of GDP) — the peak was registered in May 2022 (BRL128.7 billion, or 1.4% of GDP). Despite the solid recent performance, we believe that fiscal expansion already in the pipeline (totaling ~2.0 p.p. of GDP), in the context of a softening in commodity prices and in real activity, will likely prompt a return to a primary deficit in 2023 (1.1% of GDP). The result will be closely related to commodities price performance, in our view. The implementation of government measures to increase revenue could help achieve compliance with the new fiscal framework proposal.
- According to May 30 Treasury data, the central government posted a primary surplus of BRL15.6 billion in April. In the 12-month reading, the result was a primary surplus of BRL22.3 billion (0.2% of GDP). We expect the primary balance in the 12-month reading to present a sharper drop only after June, when concessions and SOE dividends will be lower due to elevated amounts in June 2022 (totaling BRL53 billion). In April, we observed an increase in total expenditures while net revenue lost steam. Revenue from natural resources dropped 38% YoY as a result of lower commodity prices (especially oil). In April, total revenue registered a real drop of 1.5% YoY. Year-to-date, revenue has dropped 2.2% YoY. On the expenditure side, we observed an 8.1% YoY real rise. For 2023, we forecast a BRL120 billion primary deficit (-1.2% of GDP).
- Interest payments totaled BRL45 billion in April, compared to BRL80 billion in April 2022. FX swap operations contributed to this result (profits of BRL14.2 billion in April, compared to a loss of BRL15.4 billion in March). In the 12-month reading, the nominal deficit totaled BRL603 billion (5.9% of GDP), compared to BRL460 billion (4.6% of GDP) in December 2022.
- In April, debt remained at similar levels compared to March. Gross debt reached 73.2% of GDP (+0.1 pp in the month), reflecting interest accrual (+0.6 pp), offset by an increase in nominal GDP (-0.4 pp). Net debt remained at 57.2% of GDP. Voluntary deposits into the Central Bank (not included in debt statistics) remained at 0.9% of GDP. Our 2023 gross-debt-to-GDP forecast is currently at 77.8%, with an upward bias due to a reduction in the nominal GDP deflator tracking based on lower wholesale inflation (IGPs).

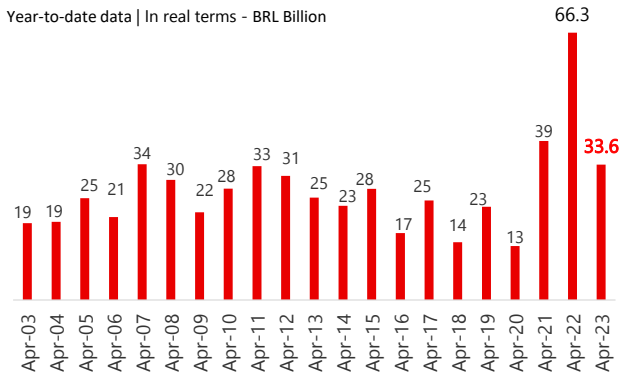


Figure 1 – Consolidated Public Sector Result



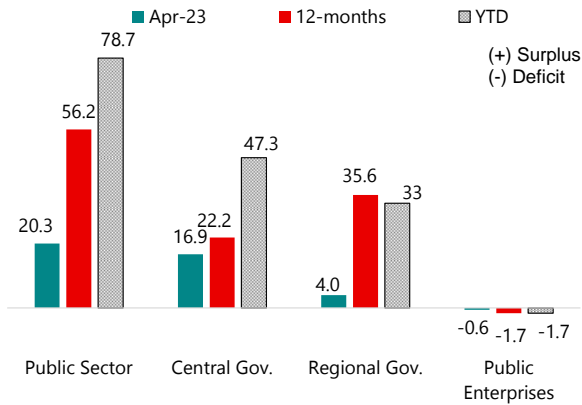
Sources: Brazilian Central Bank, Santander.

Figure 3 – Regional Gov.– Primary Result



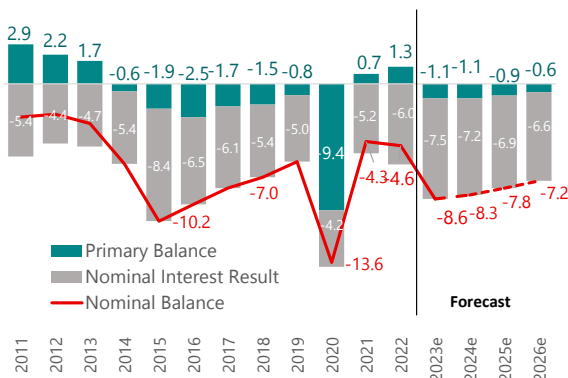
Sources: Brazilian Central Bank, Santander.

Figure 5 – Primary Result (BRL billion)



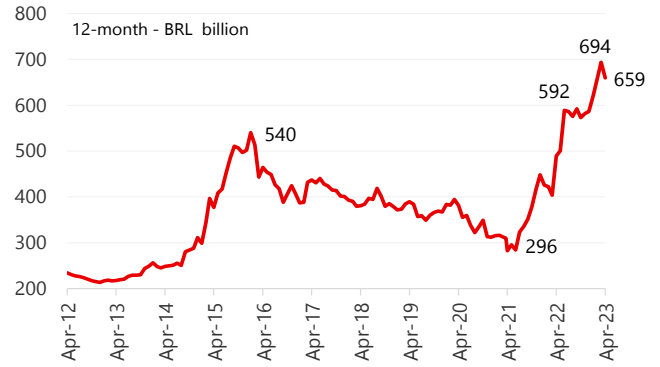
Sources: Brazilian Central Bank, Santander.

Figure 7 – Fiscal Balance (% GDP)



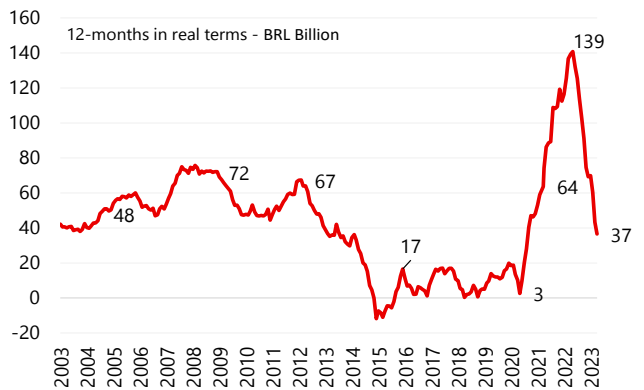
Sources: Brazilian Central Bank, Santander.

Figure 2 – Nominal Interest Result – BRL billion



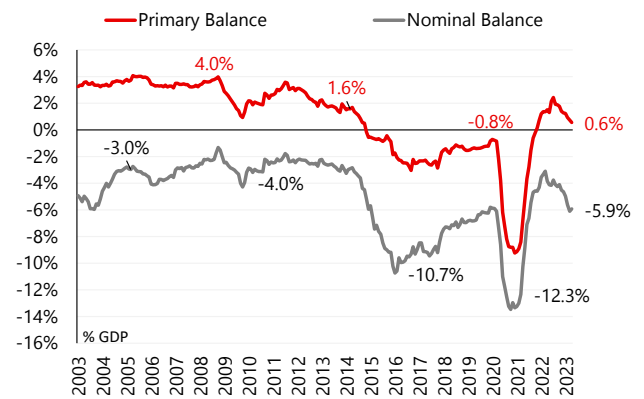
Sources: Brazilian Central Bank, Santander.

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



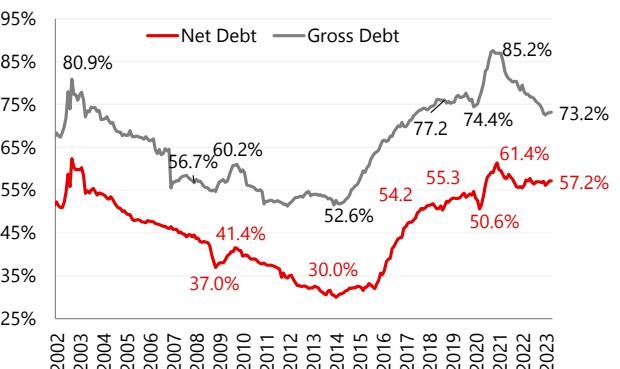
Sources: Brazilian Central Bank, Santander.

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
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

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
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
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

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This research report (“report”) has been prepared by Santander US Capital Markets LLC (is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. “Santander”)) on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This report must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. (“Santander Investment Bolsa”) and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. Santander US Capital Markets LLC, Santander London and Santander Investment Bolsa are members of Grupo Santander. ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Italo Franca*. Employed by a non-US affiliate of Santander US Capital Markets LLC and is not registered/qualified as a research analyst under FINRA rules and is not an associated person of the member firm and therefore is not subject to FINRA Rule 2241 or FINRA Rule 2242 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The information contained within this report has been compiled from sources believed to be reliable. Although all reasonable care has been taken to ensure the information contained within these reports is not untrue or misleading, we make no representation that such information is accurate or complete and it should not be relied upon as such. All opinions and estimates included within this report constitute our judgment as of the date of the report and are subject to change without notice. Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with Santander US Capital Markets LLC, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States. Hong Kong (HK): This report is distributed in Hong Kong by Banco Santander, S.A. (a public limited liability company incorporated in Spain) which has a branch in Hong Kong. Banco Santander, S.A., Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. This report is not intended for distribution to any persons other than professional investors. Banco Santander, S.A. or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.. Singapore (SG): This report is distributed in Singapore by Banco Santander, S.A. which has a branch in Singapore. It is not intended for distribution to any persons other than institutional investors,



accredited investors and expert investors (each as defined in the Securities and Futures Act 2001 of Singapore). Recipients of this report should contact Banco Santander, S.A., Singapore Branch at researchsingapore@gruposantander.com for matters arising from, or in connection with, this report. Mainland China (CN): This report is being distributed in Mainland China by Banco Santander, S.A. which has two branches in Mainland China, being Shanghai Branch and Beijing Branch ("Santander China"). Santander China is regulated by China Banking and Insurance Regulatory Commission. Banco Santander, S.A., Shanghai Branch is licensed for foreign currency business, RMB business and derivative business. Banco Santander, S.A., Beijing Branch is licensed with foreign currency business. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A. © 2023 by Santander US Capital Markets LLC All Rights Reserved.

