XP Macro

July's bimonthly report shows government closer to the target, but mandatory expenditures remain underestimated

Overview: July's primary revenue and expenditure assessment report unfroze BRL 20.6 billion, reverting spending cuts to comply with the primary balance target by BRL 20.7 bn but slightly increasing blocks to comply with the spending limit by BRL 0.1 billion. Revenue was revised to the upside by BRL 27.1 billion mostly due to the inclusion of new revenues as the auction of uncontracted oil areas (estimated to collect BRL 14.8 billion) and the performance of income tax in May-June. Expenditure estimates grew by BRL 5.0 billion, due to the increase in BPC/LOAS and the extraordinary credits. We believe that the July report adopted a more optimistic approach than May's by including revenues that are less likely to be achieved this year. Even so, our projections indicate that the government should remain close to its primary result target due to revenue performance and, mainly, weaker spending execution. On the other hand, we assess that expenditures should continue to increase at a stronger pace, demanding an additional block of at least BRL 5 billion.

Tiago Sbardelotto
Economist

Contact
economiaxp@xpi.com.br

The July's bimonthly Primary Revenue and Expenditure Assessment Report (RARDP) unfroze BRL 20.6 billion. The estimated 2025 primary deficit was updated from BRL 97.0 billion (0.8% of GDP) to BRL 74.9 billion (0.6% of GDP). This upward revision occurred due to a BRL 27.1 billion increase in net revenue and a BRL 5.0 billion increase in total expenditure. Excluding expenditures excepted from the primary target calculation, the primary balance shifted from a deficit of BRL 51.7 billion (0.4% of GDP) to BRL 26.3 billion (0.2% of GDP). As this is higher than **the lower limit of the primary balance target (BRL 31.0 billion, or 0.25% of GDP), it allowed the May's spending cut ("contingenciamento") of BRL 20.7 billion to be fully reverted**.

But block to comply with spending limit increased marginally. Estimates for mandatory expenditures within the spending limit fell by BRL 1.1 billion, while the spending limit was revised down by BRL 1.2 billion due to the Supreme Court decision regarding the exclusion of Judiciary own revenues from the base. Therefore, **it was necessary to block ("bloquear") an additional BRL 0.1 billion in discretionary spending to comply with the spending limit.** The total block in expenditures has now reached BRL 10.7 billion this year.

Increase in revenues due to the inclusion of new measures. Net revenue grew by 27.1 billion due to the following factors: i) the performance of the income tax in May-June (BRL 10.3 billion above the estimates); ii) The inclusion of the effects of Provisional Measure No. 1303/2025, which eliminated the exemption for investments in real estate and agribusiness credit securities, among other measures; iii) the inclusion of gains from oil auctions in non-contracted areas, estimated at around BRL 14.8 billion. Of great importance, the effect of the increase in the IOF tax was adjusted and reduced by BRL 10 billion compared to the previous report.

In turn, expenditures grew pushed by BPC/LOAS and extraordinary credits. Total spending grew by 5.0 billion due to BPC/LOAS (BRL 2.9 billion) and extraordinary credits (BRL 3.2 billion), partially offset by the fall in personnel (- BRL 2.0 billion). It is important to notice that the extraordinary credit increase is related to the frauds in social security benefits, and it is not included both in the spending limit and in the primary target calculation due to judicial decision.

We believe that the government has adopted more optimistic assumptions in this report, departing from the conservatism of the previous one. For example, the auction of oil in uncontracted areas has been included, but it depends on a series of steps—publication of a notice, a schedule, approval by supervisory bodies, among others—and that is unlikely to occur this year. But the big difference is still on the expenditure side. In our view, the projection for BPC/LOAS is still around BRL 5.2 billion below what is required, and although there is room for reducing personnel and subsidies and grants expenditures, an additional BRL 5 billion block is still necessary.

We see the government closer to the "center" of the primary balance target, but risks remain on the spending side. The difference between our forecast for net revenue and the government's fell from BRL 23.6 billion to BRL 14.3 billion. Most of this difference is related to the non-inclusion of oil auctions in non-contracted areas in our forecast – on the other hand, we expect dividends to be BRL 12.5 above the government estimates. Meanwhile, government spending estimates are BRL 5.6 billion higher than ours, largely due to differences in spending outside the limit, such as extraordinary credits and Fundeb. Finally, we now see the government closer to the "center" of the primary balance target this year, but there are risks ahead, especially regarding the expenditures related to social security benefits and BPC/LOAS that should be monitored.

BRL Mn

BREAKDOWN	May's Report	July's Report	XP 2025	Δ Bimonthly - XP
TOTAL REVENUE	2.899,0	2.924,4	2.904,4	19,9
Revenue Administered by RFB	*1.876,2*	*1.878,6*	*1.852,5*	*26,1*
Import tax	92,5	93,5	91,6	1,9
Industrialized Products Tax (IPI)	89,4	90,5	90,0	0,5
Income Tax (IR)	870,2	882,4	860,1	22,3
Financial transactions tax (IOF)	93,4	83,2	87,0	(3,8)
Social security financing(Cofins)	385,1	383,6	385,9	(2,3)
Social security funds (PIS/Pasep)	107,4	106,9	107,1	(0,2)
Social contribution on net earnings (CSLL)	185,8	184,6	185,2	(0,6)
Other administered by RBF	48,6	50,1	42,0	8,1
Social security contributions	709,2	710,9	711,8	*(0,8)*
Revenue Not Administered by the RFB	*313,6*	*334,9*	*340,2*	*(5,3)*
Concessions and Permissions	6,6	7,7	11,3	(3,5)
Exploitation of natural resources	122,3	140,2	127,2	13,0
Dividends and Shareholdings	43,4	41,9	54,4	(12,5)
TRANSFERS BY REVENUE SHARING	580,6	578,9	573,3	5,6
NET REVENUE	2.318,4	2.345,5	2.331,2	14,3
TOTAL SPENDING	2.415,4	2.420,4	2.414,8	5,6
Social Security Benefits	1.032,0	1.032,4	1.034,9	*(2,5)*
Personnel and Charges	*411,6*	*409,7*	*402,6*	*7,1*
Other Mandatory	*397,9*	*404,6*	*400,5*	*4,1*
Salary bonus and unemployment insurance	88,6	88,8	89,9	(1,1)
Elderly and disabled assistance (BPC/LOAS)	121,8	124,7	128,9	(4,2)
Subsidies and Grants	31,9	31,1	25,7	5,4
Expenditure Subject to Financial Programming	*573,8*	*573,7*	*576,8*	*(3,1)*
Mandatory with Flow Control	363,3	363,2	371,2	(8,0)
Discretionary expenditures	210,6	210,5	205,6	4,9
CENTRAL GOVERNMENT PRIMARY BALANCE	-97,0	-74,9	-83,6	8,7
Spending under execution	0,0	0,0	20,0	(20,0)
PRIMARY BALANCE W/ UNDEREXECUTION	-97,0	-74,9	-63,6	(11,3)
Spending not included in the target	*45,3*	*48,6*	*48,6*	*(0,0)*
PRIMARY BALANCE FOR TARGET CALCULATION	-51,7	-26,3	-15,0	(11,3)
PRIMARY TARGET (LOWER BOUND)	-31,0	-31,0	-31,0	-
EFFORT REQUIRED (+)/ RESOURCES SURPLUS (-)	20,7	-4,6	-15,9	11,3

[CLASSIFICAÇÃO: PÚBLICA]

Disclaimer

1) This report was prepared by XP Investimentos CCTVM S.A. ("XP Investimentos or XP") according to the requirements provided in CVM Resolution 20/2021 and aims to provide information that can help the investors make their own investment decisions, and does not constitute any kind of offer or purchase request and/or sale of any product. The information contained in this report is considered valid on the date of disclosure and has been obtained from public sources. XP Investimentos is not liable for any decisions made by the customer based on this report.

2) This report was prepared considering the product risk classification in order to generate allocation results for each investor profile.

3) All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst(s) compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this research report.

4) The signatory of this report declare that the recommendations reflect solely and exclusively their personal analyses and opinions, which have been produced independently, including in relation to XP Investimentos and which are subject to modifications without notice due to changes in market conditions, and that their remuneration are indirectly affected by revenue from business and financial transactions carried out by XP Investimentos.

5) The analyst responsible for the content of this report and the compliance with CVM Resolution 20/2021 is indicated above, and, in the event of an indication of another analyst in the report, the person responsible will be the first accredited analyst to be mentioned in Report.

6) XP Investimentos' analysts are obligated to comply with all the rules laid down in the APIMEC's conduct code for the securities analyst and XP Investimentos' analyst of securities conduct policy.

7) Customer service is carried out by XP Investimentos employees or by autonomous investment agents who perform their activities through XP, in accordance with CVM Resolution 16/2021, which are registered in the national association of brokers and distributors of securities ("ANCORD"). The autonomous agent of investment may not provide consulting, administration or management of customer net worth, and must act as an intermediary and request prior authorization from the client for the realization of any operation in the capital market.

8) The products presented in this report may not be suitable for all types of customer. Before making any decisions, customers should ensure that the products presented are suitable for their investor profile. This material does not suggest any change of portfolio, but only guidance on products suitable to a certain investor profile.

9) The profitability of financial products may present variations and their price or value may increase or decrease in a short period of time. Past performance is not necessarily indicative of future results. Performance disclosed is not net of any applicable taxes. The information present in this material is based on simulations and the actual results may be significantly different.

10) This report is intended exclusively for to the XP Investimentos' network, including independent XP agents and XP customers, and may also be released on XP's website. It is prohibited to reproduce or redistribute this report to any person, in whole or in part, whatever the purpose, without the prior express consent of XP Investimentos.

11) XP Investimentos' ombudsman has the mission to serve as a contact channel whenever customers who do not feel satisfied with the solutions given by the company to their problems. The contact can be made via telephone 0800 722 3710 if you are in Brazil or via ombudsman form if you are in other localities: ttps://institucional.xpi.com.br/ouvidoria.aspx/.

12) The cost of the transactions billing policies are defined in the operational cost tables which are made available on XP Investimentos website: www.xpi.com.br.

13) XP Investimentos is exempt from any liability for any damages, direct or indirect, that come from the use of this report or its contents.

14) Technical analysis and fundamental analysis follow different methodologies. Technical analysis is performed following concepts such as trends, support, resistance, candles, volume, and moving averages, amongst others. Fundamental analysis uses as information the results disseminated by the issuing companies and their projections. In this way, the opinions of fundamental analysts, who seek the best returns given the market conditions, the macroeconomic scenario and the specific events of the company and the sector, may differ from the opinions of technical analysts, which aim to Identify the most likely movements on asset prices, using "stops" limit possible losses.

15) Investment in stocks is appropriate for moderate and aggressive profile investors, according to the suitability policy practiced by XP Investimentos. Equity investments available are portion a company's capital that is traded on the market. Stock is a variable financial investment (i.e. an investment in which profitability is not pre-established and varies depending on market quotations). Investment in stock is a high-risk investment and past performance is not necessarily indicative of future results and no statement or warranty, expressed or implied, is made in this material in relation to future performance. Market conditions, macroeconomic scenario, company and sector specific events can affect investment performance and may even result in significant asset losses. The recommended duration for equity investments is medium-long term. There is no guarantee of investment return for customers' investments in stock.

16) Investment in options is preferably indicated for aggressive profile investors, according to the suitability policy practiced by XP Investimentos. In options market, the purchase or sale rights of a good shall be negotiated at a price fixed at a future date, and the purchaser of the negotiated duty should pay a premium to the seller as in a secure agreement. Operations with these derivatives are considered very high risk for presenting high risk and return relationships and some positions present the possibility of losses higher than the capital invested. The recommended duration for the investment is short-term and the customer's assets are not guaranteed in this type of product.

17) Investment in terms is indicated for aggressive profile investors, according to the suitability policy practiced by XP Investimentos. They are contracts for the purchase or sale of a certain number of shares at a fixed price for settlement within a specified period. The term of the contract is freely chosen by the investors, complying with the minimum period of 16 days and a maximum of 999 days. The price will be the value of the added share of a portion corresponding to the interest-which are set freely on the market, depending on the term of the contract. Every transaction in the term requires a guarantee deposit. These guarantees are provided in two forms: coverage or margin.

18) Investments in futures markets are subject to significant loss of principal, and are therefore appropriate for aggressive profile investors, according to the suitability policies practiced by XP Investimentos. A commodity is an object or price determinant of a future contract or other derivative instrument, which may substantiate an index, a fee, a movable value or a physical product. Commodities are considered high risk investments, which include the possibility of price fluctuation due to the use of financial leverage. The recommended duration for commodity investments is short-term and customers' assets are not guaranteed in this type of product. Market conditions and the macroeconomic scenario can affect the performance investments.

19) This institution is adhering ANBIMA Code of Regulation and best practices for the distribution activity of retail investment products.

20) XP Investments US, LLC, a broker-dealer registered with the U.S. Securities and Exchange Commission, has assumed responsibility for this research for purposes of U.S. law. All transactions arising from this research should be directed to XP Investments US, LLC, at+1 646-664-0525

[CLASSIFICAÇÃO: PÚBLICA]