XP Macro

July bimonthly report reduces spending block by BRL 5.7 billion

Overview: July's primary revenue and expenditure assessment report brought no spending cuts ("contingenciamento") and a spending block ("bloqueio") reduction of BRL 5.7 billion (totaling BRL 17.9 billion). Revenues were revised upward, mainly reflecting stronger tax collection performance. On the expenditure side, the revision was concentrated in extraordinary credit and discretionary spending, while social security benefits and BPC/LOAS estimates were reduced. We expect the government to meet the primary balance target and now see the possibility of additional expenditure unblock in upcoming bimonthly reports. However, we still see risks related to measures to mitigate oil prices

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May's bimonthly Primary Revenue and Expenditure Assessment Report (RARDP) presented no expenditure cuts ("contingenciamento") and indicated a reduction in expenditure block ("bloqueio"). The estimated 2026 primary deficit was updated from BRL 60.3 billion (0.4% of GDP) to BRL 52.0 billion (0.4% of GDP). Excluding the off-target expenditures, the primary balance reached a surplus of BRL 10.8 billion (0.1%) from BRL 4.1 billion (0.0%) in the previous report. As the deficit remained between the lower bound (BRL 0) and the midpoint of the primary balance target (BRL 34.9 billion, or 0.25% of GDP), no spending cut was required. However, as mandatory expenditure within the limit fell by BRL 5.7 billion, the total block in discretionary spending to comply with the spending cap rule was reduced from BRL 23.7 billion to BRL 17.9 billion.

Main revisions

Tax revenues were revised upward. The forecast for revenues administered by the RFB rose by BRL 27.8 billion, led by Income Tax (BRL 12.7 billion) and PIS/Cofins (BRL 5.6 billion). In turn, both social security revenues and revenues not administered by RFB fell by BRL 4.3 billion, the latter due to a downward revision in other revenue not administered by RFB. Of high relevance, revenue grew despite the reduction in oil prices for the coming months, most of it reflecting the results from May and June that were above expectations. Overall, net revenue rose by BRL 12.3 billion.

Expenditure estimates grew by only BRL 4.0 billion. Most of this increase was due to expenditure not included in the limit, such as extraordinary credit (BRL 4.1 billion), which can be explained by the growth in fuel subsidies. There were downward revisions in personnel (- BRL 4.3 billion), social security benefits (- BRL 2.9 billion), and BPC/LOAS (- BRL 3.2 billion). Finally, it is worth noting that the discretionary expenditure rose by BRL 6.8 billion, mostly due to the expenditure unblock of BRL 5.7 billion.

Meeting the target remains the baseline scenario. The upward revision to this year's revenue projections was expected due to the strong tax collection performance in the previous months. That said, we assess that the fuel subsidies were not fully incorporated in this report and therefore remain a source of risk to the primary balance target.

The reduction in spending blockage was expected but it could be higher. We estimated that the government could reduce the spending block by BRL 12.4 billion given the recent trend in social security benefits and BPC/LOAS, whose expenditure did not rise as expected even with a fast pace of reduction in the backlog of applications and a potential downward revision to personnel and subsidies and grants. Accordingly, the BRL 5.7

billion reduction in the spending block reveals a more conservative approach for the government, which is required at this point.

Therefore, we see room for additional spending block reduction in the coming months. Our current forecast is a deficit of BRL 45.5 billion (0.3% of GDP), or a surplus of BRL 14.5 billion (0.1% of GDP) excluding off-target expenditure, thus remaining slightly above the lower bound of the primary balance target. On the spending limit front, we consider it possible that about BRL 6.7 bn in discretionary expenditure may be unblocked in upcoming bimonthly reports.

BRL Bn

BREAKDOWN	2nd Bimonthly report	3rd Bimonthly report	XP 2026	XP - Bimonthly
TOTAL REVENUE	3,218.0	3,237.2	3,225.2	(12.0)
Revenue Administered by RFB	*2,052.0*	*2,079.8*	*2,055.4*	*(24.4)*
Import tax	112.4	114.3	103.8	(10.5)
Industrialized Products Tax (IPI)	95.6	100.0	93.5	(6.5)
Income Tax (IR)	940.8	953.5	949.3	(4.2)
Financial transactions tax (IOF)	105.9	106.1	108.2	2.1
Social security financing(Cofins)	414.1	419.7	416.4	(3.3)
Social security funds (PIS/Pasep)	110.4	110.5	111.7	1.2
Social contribution on net earnings (CSLL)	196.4	201.2	199.4	(1.8)
Other administered by RBF	72.6	70.8	70.0	(0.8)
Social security contributions	*788.3*	*784.0*	*785.9*	*1.9*
Revenue Not Administered by the RFB	*377.7*	*373.4*	*383.8*	*10.4*
Exploitation of natural resources	172.5	172.1	170.7	(1.4)
Dividends and Shareholdings	55.4	55.5	57.5	2.0
Other Revenue Not Administered by the RFB	65.0	60.9	62.4	1.5
TRANSFERS BY REVENUE SHARING	636.7	643.6	638.8	(4.8)
NET REVENUE	2,581.3	2,593.6	2,586.4	(7.2)
TOTAL SPENDING	2,641.7	2,645.6	2,651.9	6.3
Social Security Benefits	*1,135.7*	*1,133.0*	*1,128.1*	*(4.9)*
Personnel and Charges	*454.1*	*449.9*	*447.1*	*(2.8)*
Other Mandatory	*454.8*	*455.3*	*460.7*	*5.4*
Salary bonus and unemployment insurance	96.6	98.2	98.9	0.7
Elderly and disabled assistance (BPC/LOAS)	148.0	144.7	141.4	(3.3)
Extraordinary credits	19.4	23.4	36.0	12.6
Court-ordered debts (funding and capital)	45.3	43.2	42.5	(0.7)
Subsidies and Grants	30.7	30.8	26.9	(3.9)
Expenditure Subject to Financial Programming	*596.9*	*607.3*	*615.9*	*18.9*
Mandatory with Flow Control	377.5	381.0	390.0	12.5
Discretionary expenditures	219.5	226.3	225.9	6.4
CENTRAL GOVERNMENT PRIMARY BALANCE	(60.3)	(52.0)	(65.5)	(5.2)
Expenditure under execution	-	-	20.0	20.0
PRIMARY BALANCE FOR TARGET CALCULATION	(60.3)	(52.0)	(45.5)	14.8
Spending not included in the target	64.4	62.8	59.9	(4.4)
PRIMARY BALANCE FOR TARGET CALCULATION	4.1	10.8	14.5	10.4
Primary balance target (lower bound)	-	-	-	-
EFFORT REQUIRED	(4.1)	(10.8)	(14.5)	(10.4)

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