Fiscal Tracker

Lower expenditure leads to better primary balance in May

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- Tax collection grew 8.0 % YoY in real terms in May after a 3.0% expansion in April. The highlights were import tax, income tax on remittances abroad and social security contribution;

- Tax collection was in line with budget estimates. However, the breakdown shows important negative deviations in other revenues administered by RFB (internal revenue), which was offset by gains in income tax;

- Net revenue rose by 3.0% in May from an increase of 5.2% in April. Revenue administered by RFB expanded 4.6% pushed by import tax and income tax. In turn, revenue not administered by RFB fell by 8.5% due to the lower influx of dividends. Social security contributions also performed well and grew by 8.1%;

- Total spending fell by 7.9% pushed by social security benefits (-3.2%), extraordinary credits (-95.7%) (effect of the expenditures related to the Rio Grande do Sul last year) and lower execution of discretionary spending (-44.5%). Of high relevance, social security benefits and BPC/LOAS decelerated in May, partly due to lower court-ordered debt payments;

- The primary balance reached a deficit of 39.7 billion in May, better than last year's due to the lower expenditures. Year-to-date, the central government accumulates a surplus of BRL 34.5 bn. A part of the improvement from last year's is due to the change in court-ordered debts calendar of payments – approximately BRL 31 billion.

- All in all, May's balance is positive and put an upward bias on our forecast.

Tax collection rebound in May

Tax collection rebounded in May. According to data from Siga Brazil, federal tax collection expanded by 8.0% YoY in real terms last month (from 3.0% in April and 5.6% in March). The change was pushed by: i) import tax (26.6%), due to the rise in imports; ii) withholding income tax on remittances abroad (50.9%); iii) PIS/Cofins (9.9%) and iii) Social security contribution (6.5%). On the other hand, IRPJ/CSLL, which had a strong performance at the beginning of the year, fell by 4.8% YoY. All in all, tax collection growth recovered in May, providing some relief for the primary balance target achievement this year.

BRL Mn, constant prices

GROSS REVENUES	Mai/25			
	2024	2025	Change (BRL)	Change (YoY%)
TOTAL REVENUE	207,142	223,664	16,522	8.0
REVENUE ADMINISTERED BY RFB	152,723	165,694	12,971	8.5
Import tax	5,850	7,371	1,521	26.0
Industrialized Products Tax (IPI)	6,522	6,791	270	4.1
Income Tax (IR)	75,509	82,412	6,902	9.1
Individual (IRPF)	24,240	25,507	1,267	5.2
Corporate (IRPJ)	18,133	16,909	-1,224	-6.7
Withheld at source (IRRF)	33,137	39,996	6,859	20.7
Labor earnings	17,706	19,634	1,928	10.9
Capital gains	8,654	10,567	1,913	22.1
Remittances abroad	4,984	7,522	2,538	50.9
Other earnings	1,793	2,273	480	26.8
Financial transactions tax (IOF)	5,601	5,940	340	6.1
Social security financing(Cofins)	33,534	37,008	3,474	10.4
Social security funds (PIS/Pasep)	9,144	9,902	757	8.3
Social contribution on net earnings (CSLL)	9,538	9,429	-109	-1.1
Other administered by RBF	3,376	3,003	-373	-11.1
SOCIAL SECURITY CONTRIBUTION	54,419	57,969	3,550	6.5

Source: RFB, Siga Brasil, XP

The outcome was in line with budget forecasts. Tax collection was just BRL 0.5 billion above the budget forecast – we emphasize that the most updated forecast is not available yet. However, the breakdown has important differences. While income tax had a strong performance (BRL 5.4 billion), other revenue administered by RFB (BRL -5.6 bn) disappointed. There were also negative surprises on IRPJ (BRL -4.0 billion) and CSLL (BRL -2.5 billion) which may be related to calendar effects.

BRL Mn

GROSS REVENUE	May/25				
	Budget bill	XP	Preview	Preview - Budget	Preview - XP
TOTAL REVENUE	223,131	216,732	223,664	533	6,932
REVENUE ADMINISTERED BY RFB	166,562	161,100	165,694	-868	4,594
Import tax	6,672	6,988	7,371	699	383
Industrialized Products Tax (IPI)	7,569	6,705	6,791	-778	86
Income Tax (IR)	76,977	79,586	82,412	5,435	2,826
Individual (IRPF)	22,411	22,783	25,507	3,096	2,724
Corporate (IRPJ)	20,941	18,739	16,909	-4,032	-1,830
Withheld at source (IRRF)	33,625	38,064	39,996	6,371	1,932
Labor earnings	18,104	21,529	19,634	1,530	-1,895
Capital gains	8,252	9,147	10,567	2,315	1,420
Remittances abroad	5,207	5,439	7,522	2,315	2,082
Other earnings	2,062	1,948	2,273	211	325
Financial transactions tax (IOF)	5,718	6,977	5,940	222	-1,037
Social security financing(Cofins)	35,734	33,719	37,008	1,274	3,289
Social security funds (PIS/Pasep)	9,660	10,218	9,902	242	-316
Social contribution on net earnings (CSLL)	11,979	10,677	9,429	-2,550	-1,247
Other administered by RBF	8,608	2,677	3,003	-5,605	326
SOCIAL SECURITY CONTRIBUTION	56,569	55,632	57,969	1,400	2,338

Source: Budget bill, RFB, XP.

Tax collection above our expectation. Gross revenue was BRL 6.9 billion above our forecast. The main deviation was PIS/Cofins (BRL 3.0 bn) followed by income tax (BRL 2.8 bn). Our current forecast of BRL 2,862.1 for the federal tax collection is now clearly tilted to the upside.

Lower spending supports better primary balance in May

Net revenue slowdowns in May. Net revenue grew by 3.0% last month after growing by 5.2% in April. Revenues administered by RFB rose by 7.1% YoY, on the heels of the increase in import tax, income tax and other revenue administered by RFB. In turn, PIS/Cofins remained flat, reverting the fall presented in the last months. Social security contribution rose by 8.1%, while revenue not administered by RFB (non-tax revenue) fell 8.5%, thanks to the lower influx of dividends and shareholdings from BNDES and Petrobras, a movement partially offset by the revenue with exploitation of natural resources (oil royalties and special shares).

Total expenditure fell in May due to lower social security benefits and discretionary spending. Total expenditure fell by 7.9% YoY last month after rising by 5.2% in April. Of high relevance, social security benefits fell by 3.2% partly due to lower payment of court-ordered debts in May. Other expenditures also had a negative variation, in particular salary bonus (-8.0%) and extraordinary credits (-95.7%) – the latter due to the expenditures related to the flood in Rio Grande do Sul that occurred last year. We also noticed that BPC/Loas decelerated from 9.9% in April to 6.8% in May, which may be due to the postponement of small claims. Finally, discretionary spending plummeted by 44.5% on the back of payment of parliamentary amendments last year.

Primary balance reached a deficit of BRL 39.7 bn in May. The result means an improvement from last year's, mostly due to the lower expenditure this year – as we presented above. Even excluding the extraordinary credits related to RS, we verify an improvement this year.

May — BRL Mn, constant prices

BREAKDOWN	2024	2025 (Preview)	Change (BRL)	Change (YoY%)
TOTAL REVENUE	220,954	231,530	10,576	4.8
Revenue Administered by RFB	*133,113*	*142,607*	*9,494*	*7.1*
Import tax	5,823	7,348	1,525	26.2
Industrialized Products Tax (IPI)	6,904	6,999	95	1.4
Income Tax (IR)	67,232	73,452	6,220	9.3
Social security financing(Cofins)	27,630	27,961	331	1.2
Social security funds (PIS/Pasep)	8,404	8,075	-329	-3.9
Social contribution on net earnings (CSLL)	10,169	9,899	-270	-2.7
Other administered by RBF	1,081	2,605	1,524	141.0
Social security contributions	*51,557*	*55,714*	*4,157*	*8.1*
Revenue Not Administered by the RFB	*36,284*	*33,209*	*-3,075*	*-8.5*
Dividends and Shareholdings	18,092	9,362	-8,730	-48.3
Exploitation of natural resources	5,980	7,324	1,345	22.5
TRANSFERS BY REVENUE SHARING	47,554	53,010	5,455	11.5
NET REVENUE	173,399	178,520	5,121	3.0
TOTAL SPENDING	236,856	218,233	-18,623	-7.9
Social Security Benefits	*115,664*	*112,016*	*-3,648*	*-3.2*
Personnel and Charges	*29,526*	*32,770*	*3,244*	*11.0*
Other Mandatory	*36,486*	*30,363*	*-6,123*	*-16.8*
Salary bonus and unemployment insurance	10,532	9,692	-840	-8.0
BPC/LOAS	9,734	10,392	659	6.8
Extraordinary credits	6,975	298	-6,677	-95.7
Basic educ. fund (Union complementation)	3,419	4,298	879	25.7
Subsidies and Grants	2,502	2,460	-42	-1.7
Expenditure Subject to Fin. Programming	*55,180*	*43,084*	*-12,096*	*-21.9*
Mandatory with Flow Control	33,275	30,924	-2,351	-7.1
Discretionary expenditures	21,905	12,160	-9,745	-44.5
CENTRAL GOVT PRIMARY BALANCE	-63,457	-39,713	23,743	-37.4
SPENDING NOT INCLUDED IN TARGET	6,601	0	-6,601	
PRIM. BAL. FOR TARGET CALCULATION	-56,856	-39,713	17,142	-30.2

Source: STN, Siga Brasil, XP

May — BRL Mn

BREAKDOWN	XP	Preview	Difference (BRL Mn)	Difference (%)
TOTAL REVENUE	232,809	231,530	-1,279	-0.5
Revenue Administered by RFB	*144,344*	*142,607*	*-1,737*	*-1.2*
Import tax	6,977	7,348	371	5.3
Industrialized Products Tax (IPI)	6,723	6,999	275	4.1
Income Tax (IR)	74,061	73,452	-609	-0.8
Social security financing(Cofins)	27,637	27,961	324	1.2
Social security funds (PIS/Pasep)	7,853	8,075	222	2.8
Social contribution on net earnings (CSLL)	10,510	9,899	-611	-5.8
Other administered by RBF	3,259	2,605	-654	-20.1
Social security contributions	*53,042*	*55,714*	*2,673*	*5.0*
Revenue not Administered by RFB	*35,423*	*33,209*	*-2,214*	*-6.3*
Dividends and Shareholdings	11,634	9,362	-2,272	-19.5
Exploitation of natural resources	7,169	7,324	156	2.2
TRANSFERS BY REVENUE SHARING	53,947	53,010	-937	-1.7
NET REVENUE	178,861	178,520	-341	-0.2
TOTAL SPENDING	229,844	218,233	-11,611	-5.1
Social Security Benefits	115,340	112,016	*-3,324*	*-2.9*
Personnel and Charges	35,705	32,770	*-2,936*	*-8.2*
Other Mandatory	*33,903*	*30,363*	*-3,540*	*-10.4*
Elderly and disabled assistance (BPC/LOAS)	10,636	10,392	-243	-2.3
Basic education fund (Union complementation)	4,431	4,298	-133	-3.0
Subsidies and Grants	3,454	2,460	-994	-28.8
Exp. Subject to Financial Programming	*44,896*	*43,084*	*-1,811*	*-4.0*
Mandatory with Flow Control	31,213	30,924	-288	-0.9
Discretionary expenditures	13,683	12,160	-1,523	-11.1
PRIMARY BALANCE	-50,983	-39,713	11,269	-22.1
SPENDING NOT INCLUDED IN TARGET	0	0	0	
PRIMARY BALANCE FOR TARGET	-50,983	-39,713	11,269	-22.1

Source: STN, Siga Brasil, XP

May's outcome was BRL 11.3 bn above our forecast. The difference was mostly due to a much lower expenditure (BRL -11.6 bn). The main deviations were in social security benefits (BRL -3.3 bn), personnel and charges (BRL -2.9 bn) and discretionary spending (BRL -1.5 bn).

Year-to-date, central government now accumulates a surplus of BRL 34.5 bn. Most of the difference from last year is due to the payment of court-ordered debts (about BRL 31 billion), which was brought forward to February in 2024. In addition, we notice that: i) there was an important increase in net revenue (3.2%) led by revenue administered by RBF (4.6%), while revenue not administered by RFB had a worse performance due to lower dividends payments; ii) spending fell by 3.4% due to the change in the court-ordered debts calendar of payments – excluding this effect, we would have a fall of only 0.3%; iii) discretionary spending execution remains below last year's and it is not likely that this will be reverted in the coming months as: i) there was a strong execution in parliamentary amendments in the first half of last year, and ii) there is a higher spending containment this year.

Year-to-date — BRL Mn, constant prices

BREAKDOWN	2024	2025	Difference (BRL Mn)	Difference (%)
TOTAL REVENUE	1,175,488	1,217,284	41,796	3.6
Revenue Administered by RFB	*763,350*	*798,623*	*35,274*	*4.6*
Import tax	28,481	37,706	9,225	32.4
Industrialized Products Tax (IPI)	31,893	35,436	3,543	11.1
Income Tax (IR)	377,995	392,621	14,627	3.9
Social security financing(Cofins)	154,344	152,759	-1,585	-1.0
Social security funds (PIS/Pasep)	45,478	43,617	-1,861	-4.1
Social contribution on net earnings (CSLL)	86,252	88,423	2,171	2.5
Other administered by RBF	9,377	17,796	8,418	89.8
Social security contributions	*265,668*	*275,359*	*9,690*	*3.6*
Revenue Not Administered by the RFB	*146,470*	*143,302*	*-3,168*	*-2.2*
Dividends and Shareholdings	29,143	21,342	-7,801	-26.8
Exploitation of natural resources	53,229	59,739	6,509	12.2
TRANSFERS BY REVENUE SHARING	227,848	239,193	11,346	5.0
NET REVENUE	947,640	978,090	30,450	3.2
TOTAL SPENDING	976,844	943,590	-33,254	-3.4
Social Security Benefits	428,060	430,834	*2,774*	*0.6*
Personnel and Charges	153,246	153,647	*401*	*0.3*
Other Mandatory	*174,668*	*150,403*	*-24,265*	*-13.9*
Salary bonus and unemployment insurance	40,386	41,149	763	1.9
Elderly and disabled assistance (BPC/LOAS)	47,337	52,338	5,001	10.6
Basic education fund (Union complementation)	22,054	26,759	4,705	21.3
Court-ordered debts (funding and capital)	32,977	1,721	-31,256	-94.8
Exp. Subject to Financial Programming	*220,871*	*208,707*	*-12,164*	*-5.5*
Mandatory with Flow Control	152,584	152,201	-384	-0.3
Discretionary expenditures	68,286	56,506	-11,780	-17.3
PRIMARY BALANCE	-29,204	34,500	63,704	-218.1
SPENDING NOT INCLUDED IN TARGET	6,601	0	-6,601	
PRIMARY BALANCE FOR TARGET	-22,603	34,500	57,103	-252.6

Source: STN, Siga Brasil, XP

Our forecast for this year primary balance have a positive bias. Our most up-to-date forecast is a deficit of BRL 69.0 billion (0.5% of GDP), which already includes the increase in the IOF rate (or other measures to increase revenue) and a deficit of BRL 22.7 billion (0.2% of GDP) excluding the court-ordered debt above the constitutional limit. On the expenditure side, we keep our view that and additional block of about BRL 9 billion will be necessary, but this could be lower if government reduces its personnel estimates for this year.

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