Credit, monetary and fiscal policies

3

3.1 Credit

The financial system credit operations continued registering significant expansion in the quarter ended in May, consistent with the upturn in domestic demand activity. Credit increase was conditioned by positive performances both with nonearmarked portfolio and with channeled resources, in a context of default stability and expansion – in the individual person segment – of medium-term operations. The demand for banking resources in this segment, however, a result of favorable conditions in the labor market, showed a relative margin downturn highlighting the decrease in the personal credit modality. Hirings by companies, however, continue in line with an upturn in economic activity, registering expansions, especially in loans backed by domestic resources. This activity upturn may also mirror a financial re-intermediation process, while the, capital market has shown to be a less effective borrowing source, than it was in 2007.

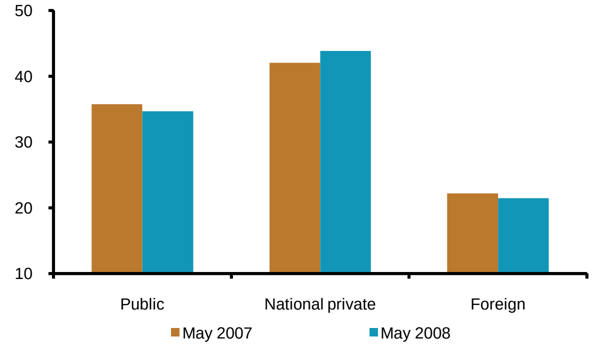
Table 3.1 – Credit operations

R$ billion

Itemization	2008				% growth	
	Feb	Mar	Apr	May	3 months	12 months
Total	959.5	993.1	1018.1	1044.4	8.8	32.4
Nonearmarked	680.1	705.7	725.7	746.5	9.8	36.1
Earmarked	279.4	287.4	292.4	297.9	6.6	24.0
% participation:						
Total/ GDP	35.0	35.9	36.2	36.5		
Nonearmarked/GDP	24.8	25.5	25.8	26.1		
Earmarked/GDP	10.2	10.4	10.4	10.4		

Figure 3.1 – Credit by capital control of financial institutions

% of balance



The nonearmarked and directed credit totaled R$1.044 billion in May, expending 8.8% in the quarter and 32.4% in twelve months. The relation between the total volume of credit and GDP reached 36.5%, against 35% in February and 31.9% in May 2007.

Regarding the segmented credit supply by financing institutions´ capital holding, the operations granted by private national banks, boosted by increases in the segments of individual persons, industry and other services, reached R$457.9 billion in May, rising 8.6% in relation to February and corresponding to 43.8% of the financial system's total portfolio. Loans carried out by foreign banks, 21.5% of the financial system's total, increased by 6.4% in the period. One should highlight credit channeled to individuals, industry and commerce segments, while the stock of credit granted by public institutions, with emphasis on loans directed to industry, individuals and other services, grew by 10.7%, totaling R$362 billion.

Figure 3.2 – Credit by borrower's economic activity – National private institutions

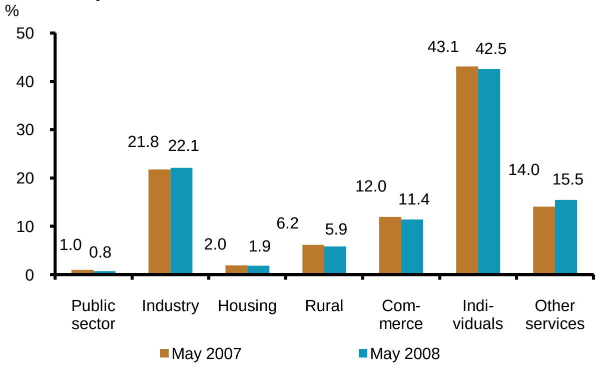


Figure 3.3 – Credit by borrower's economic activity – Public institutions

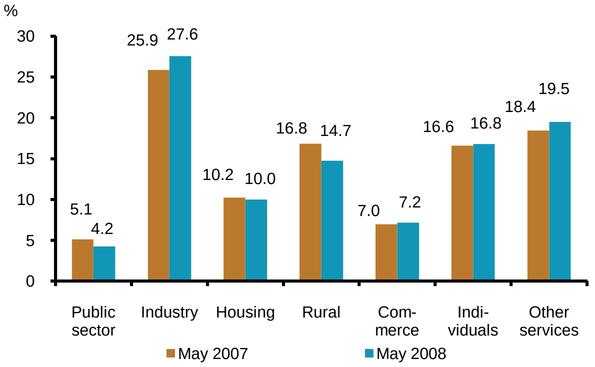


Figure 3.4 – Credit by borrower's economic activity – Foreign institutions

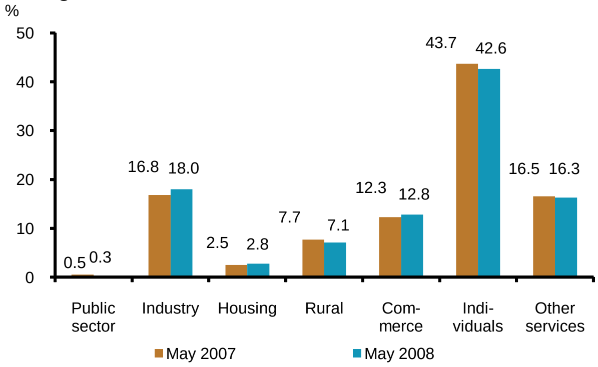
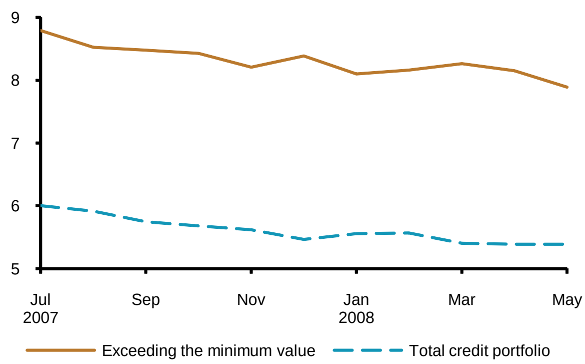


Figure 3.5 – Provisions of total financial system credit %



The financial system's loans to the private sector, considering the operations with nonearmarked and directed resources, reached R$1.025 billion in the quarter ended in May, with increase of 8.9% as compared to February. Individual portfolio grew by 7.5%, totaling R$351.3 billion, with emphasis on the modalities personal credit and vehicles leasing, while credit to industry, boosted by granting to the petrochemical, metallurgy and farming sectors, increased by 10.3% reaching R$241.3 billion. Credits directed to the services segment increased by 12.5% in the quarter, totaling R$178.1 billion. The most important were operations with credit card administration, communications and transportation sectors. Loans directed to the trade sector increased by 8.1%, totaling R$106.9 billion, with special mention to the activities related to farming, vehicles and department stores.

The balance of operations directed to the public sector reached R$19.6 billion in May, 4% higher than in February. The federal government's banking debt, mirroring the financing for the energy sector, increased 11.4%, reaching R$3.9 billion. The resources contracted by states and municipalities, concentrated on operations benefiting the basic sanitation sector with resources from the Employment Compensation Fund (FGTS), totaling R$15.7 billion, with an increase of 2.3% in the period.

The total provisions carried out by the financial system reached R$56.3 billion in May, with increase of 5.3% in the quarter, corresponding to 5.4% of the entire credit portfolio, against 5.6% in February. The default rate of the financial system, considering payment in arrears for over ninety days, closed at 3.1%, against 3.2% in February.

Credit operations with earmarked resources

Loans granted with earmarked resources totaled R$297.9 billion in May, increases of 6.6% in the quarter and 24% in twelve months. Credits granted by BNDES represent 57.9% of the segment's total, summing up R$172.5 billion, a 6.5% increase, as compared to February, results of expansion in directly granted operation, 6.3%, and transfers by financial institutions, 6.7%. Housing and rural credit registered respective increases of 7.9% and 6.3%, as compared to February.

Disbursements carried out by the BNDES totaled R$25.9 billion in the four–month period ended in April, growing 74.6% in the corresponding period of 2007. Loans

Table 3.2 – Earmarked credit operations

R$ billion

	2008				% growth	
	Feb	Mar	Apr	May	3 months	12 months
Total	279.4	287.4	292.4	297.9	6.6	24.0
BNDES	162.0	167.5	170.0	172.5	6.5	24.6
Direct	78.0	81.1	82.1	82.9	6.3	21.9
Onlendings	84.0	86.4	87.9	89.6	6.7	27.3
Rural	65.4	66.6	68.0	69.6	6.3	21.9
Banks and agencies	61.9	62.9	64.1	65.5	5.8	20.6
Credit unions	3.5	3.7	3.9	4.0	14.3	47.1
Housing	44.6	45.8	46.9	48.1	7.9	26.5
Others	7.4	7.5	7.6	7.7	4.5	14.1

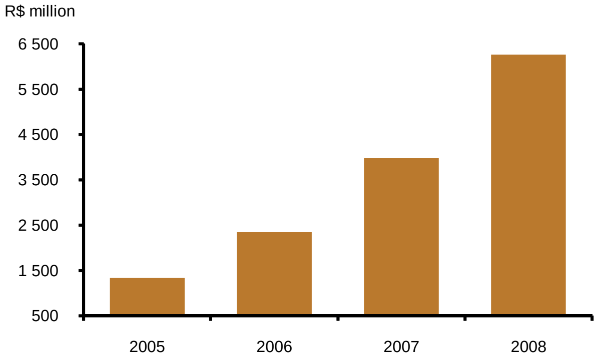
Table 3.3 – BNDES disbursements

R$ million

Itemization	Jan-apr		% growth
	2007	2008	
Total	14 845	25 922	74.6
Industry	7 054	12 363	75.3
Mining	628	818	30.3
Food products	1 114	3 398	205.0
Motor vehicles	602	2 122	252.5
Petroleum and alcohol refining	470	755	60.6
Electrical machines and apparatuses	241	344	42.7
Commerce/Services	6 297	11 792	87.3
Overland transportation	2 627	3 620	37.8
Electricity and gas	1 003	3 334	232.4
Construction	417	902	116.3
Crop and livestock	1 493	1 766	18.3

Source: BNDES

Figure 3.6 – Credit to housing with resources from saving deposits – Jan-Apr



contracted by the trade and services segments summed up R$11.8 billion, an 87.3% growth, basically conditioned by increased credit granting to the sectors of energy and land transportation. Operations directed to industries grew 75.3%, reaching R$12.4 billion, with emphasis on the sectors of automotive vehicles and foodstuffs, while the ones directed to farming summed up R$1.8 billion, an increment of 18.3% in the period.

Requests submitted to the BNDES, which represent potential demands for medium and long term investments, totaled R$58.7 billion in the first four months, 59.6% higher than that registered in the same period of 2007. This evolution was fundamentally conditioned to the growth of 75.9% in the requests from the trade and services segments, representing an upturn in activity in the sectors of electricity, construction industry and trade, totaling R$34.2 billion. Requests from the industrial sector expanded 44.1%, totaling R$22.7 billion, with emphasis to the sectors of foodstuffs, metallurgy and vehicles.

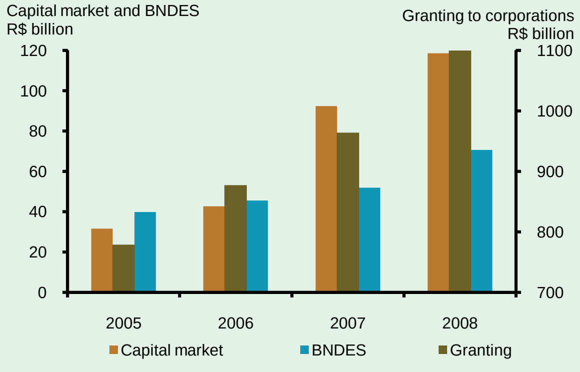
The rural credit portfolio totaled R$69.6 billion in May, expanding 6.3% in relation to February, highlighting mandatory resources investments and fund transfers and public program operations. The resources contracted for current expenditures, the most representative mode, grew 6.7% in the period, while the ones related to investments and trading rose 3.6% and 10.8%, respectively.

The credit balances directed to housing, including individuals and housing cooperatives, topped R$48.1 billion in May, rising 7.9% in relation to February and 26.5% in 12 months, with emphasis to FGTS resources and utilization of savings accounts. New disbursements with savings account resources totaled R$3.9 billion in the quarter ended in April, rising 41.5% in relation to the same period of the previous year, a result of 36% increase in financing under the Housing Financing System (SFH) regulation, which accounted for 80.4% of the direct credit granting to the sector, and 291% in those agreed upon with market interest rates. The total number of housing credit loans grew by 56.8%, in the period.

Nonearmarked Corporate Credit – Recent Evolution

The demand for corporate credit was intensive in 2007 and in the early months of 2008, a performance justified by the diverse liquidity instruments available on the market. The upturn in credit activity, expressed in the growth of operations related to capital market, to the National Bank of Economic and Social Development (BNDES) system and to the banking credit with nonearmarked resources, mirrored, mainly, the effects of the Brazilian economy's growth cycle on the economic agents' expectations, stimulating consumers´ income commitment and entrepreneurs´ decisions on investment expansion.

Figure 1 – Sources of financing to corporations
Cumulative 12-month amounts trough April of each year



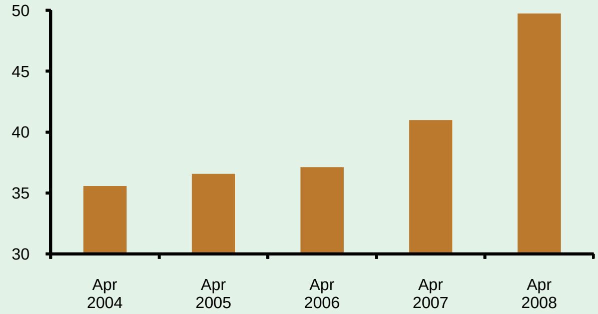
Increased demand for nonearmarked resources by the corporate segment translates the upward trend in economic activity, sustained by strengthened domestic demand, intensified since 2006. In this scenario, investment spending started to significantly increase, in response to both increased level of installed capacity utilization and to favorable conditions, in spending terms, of industrial base enhancement. In 2007, investments had a 13,4% annual increase, while consumption grew 6.5%.

Financing with nonearmarked resources contracted by the corporate sector has grown significantly, reaching a level higher than that of individuals. Considering operations with domestic resources and those backed by foreign currencies, credit value channeled to companies totaled R$378.6 billion in April this year, a 35.7% increase, as compared to the same period in 2007 and corresponding to 52.2% of the total portfolio with nonearmarked resources. In the same period, credits targeted to individuals increased by 34.1%, totaling R$347 billion.

The upturn in activity registered in the corporate segment had been impacted by the performance

Figure 2 – Nonearmarked credit – Balances
12-month growth (%)

Figure 3 – Working capital – Participation in the balances of corporations (reference credit, domestic resources)
%



of working capital credits, which reached R$117.4 billion in April 2008, an annual increase of 66.7%. This modality of operations started representing 49.7% of the total domestic credit benchmark portfolio, against 41% in April 2007. The accumulated granting increased 55.4% in the year, totaling R$63.1 billion, corresponding to 22% of corporate credits with domestic resources, against 14.3% in April 2007. One should highlight that the participation of the operations with fluctuating charges, of lower cost to borrowers, represented 55.8% of the total balance of working capital credits.

Working capital operations, usually designed to attend to cash-flow requirements, create a modality of credit quite attractive to companies, taking into account its reduced financial cost, operational flexibility and, more recently, the possibility of contracting with long-term maturities. In fact, in January 2008, the average term of these operations reached the highest level of 487 days, mirroring the intensification of contracting with debt terms higher than five years.[1]

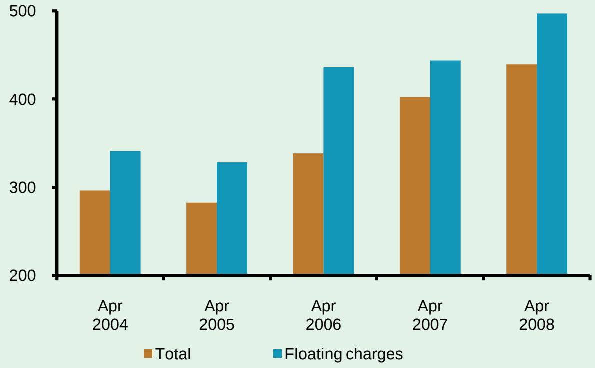
Considering fixed interest rate operations, the interest rate average of working capital operations dropped from 38.8% per year (p.y), in August 2005, to 30.1% p.y, in April t 2008, while the average rate related to operations with floating interest rates dropped from 28% p.y to 19.5% p.y, during the same period. This aspect becomes more relevant when is observed that operations directed to the corporate segment are carried out, mainly, with financial charges and reduced spreads, basically represented by interest rates based on the rate related to interbank deposits.

Additionally, it is worth highlighting the increasing use of banking credit as bridge loans, a modality designed to supply resources in advance to capital market issuances and to merge and acquisition processes. Initially these credits finance those operations, being later replaced by the issuance of bonds in the capital market. The banking credit with nonearmarked resources fulfills, thereby, a complementary function in the process of the capital market's corporate financing.

1/ Statistics referring to the average-term are concerned to the portfolio total balance and not to new granting. Because of this aspect, data released took long to reflect the expansion of the debt terms observed in recent contracts.

Figure 4 – Working capital – Average terms

Nº of days



Significant working capital credit increase has also mirrored the increasing participation of operations with micro, small and medium-size companies in the credit operation of the main financial institutions. Based on data from the balance sheets of the country's four main banks, credit for these borrowers, including working capital and other modalities, such as receivables and BNDES transfers, topped R$106.6 billion in the first quarter of 2008, registering an increase of 48% in twelve months. Credit supply increase for this business segment is associated to strategies of financial institutions aiming at expanding their position in this market segment through the introduction of credit products adapted to the specific profile of these customers. This stance has been favoring the pace toward meeting a stronger demand for resources by these companies, taking into account the upturn of industrial activity and of trade sales.

One should also highlight the performance of the corporate leasing operations, in which case the balance totaled R$42.1 billion in April 2008, an 87.6% hike in the period of twelve months. This result highlights the growing importance of this credit instrument to make feasible potential productive investments, allowing, especially, the expansion of the vehicle fleets and acquisition of machines and equipment, and informatics equipment.

Nonearmarked credits

Table 3.4 – Nonearmarked credit operations

R$ billion

Itemization	2008				% growth	
	Feb	Mar	Apr	May	3 months	12 months
Total	680.1	705.7	725.7	746.5	9.8	36.1
Corporations	349.8	367.7	379.0	391.4	11.9	39.8
Reference credit[1/]	291.7	305.3	312.7	323.9	11.0	40.2
Domestic funding	220.6	226.9	236.2	247.6	12.3	43.2
External funding	71.1	78.4	76.5	76.2	7.1	31.2
Leasing[2/]	37.8	39.8	42.4	43.6	15.3	86.9
Rural[2/]	2.0	2.0	2.1	2.1	9.3	8.8
Others[2/]	18.3	20.6	21.9	21.7	19.0	-7.8
Individuals	330.4	338.0	346.7	355.2	7.5	32.1
Reference credit[1/]	250.0	253.6	258.1	261.9	4.7	21.6
Credit unions	13.2	13.5	13.8	14.0	6.5	30.3
Leasing	33.8	36.3	38.9	42.4	25.5	128.6
Others	33.4	34.6	35.9	36.9	10.4	53.3

1/ Interest rate reference credit, defined according to Circular n. 2,957 dated 12.30.1999.
2/ Operations backed by domestic resources.

Credit granted with nonearmarked resources topped R$746.5 billion in May, increasing 9.8% in relation to February and 36.1% in twelve months. Participation of these credits in the financial system total stock reached 71.5% in May, against 70.9% in February.

Corporate credit operations totaled R$391.4 billion in May, expanding 11.9% in the quarter and 39.8% in twelve months, notwithstanding some increase in the funding costs of the financial institutions. From this total, R$323.9 billion is referred to reference credit operations, representing 82.8% of credit for these borrowers, with respective growths of 11% and 40.2%, on the same basis of comparison.

The reference credit operations performance translated financing backed both in domestic and external resources, totaling R$247.6 billion and R$76.2 billion, respectively, in May, rising, in the order, 12.3% and 7.1%, in the quarter, and 43.2% and 31.2% in twelve months. The expansion of operations linked to domestic resources was conditioned to the upturn in working capital operations, which grew 18.5% and 77.6%, on the same basis of comparison. The most intensive demand in this modality has mirrored, especially, the increase of major companies contracting involving high-volume and longer-term operations, at least partially in replacement to the credit market operations, as well as the growth related to the micro and small business segment.

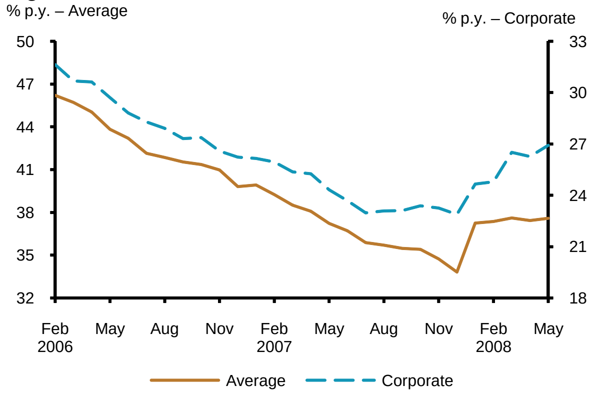
Loans backed by foreign resources increased 7.1% in the quarter and 31.2% in twelve months. The quarterly growth was associated to the rise of 24.7% in the balance of the segment financing to imports and others, which reached R$16.4 billion, while foreign transfers remained stable. One should highlight that this portfolio had a significant growth in March, 15.8%, translating the significant contracting volume which preceded the end of the Financial Operations Tax (IOF) exemption.

The stock of leasing operations reached R$43.6 billion in May, with rises of 15.3% in relation to February and 86.9% in twelve months, with emphasis on operations related to the segments of vehicles, machinery and equipment. It is worth mentioning that IOF exemption on leasing operations has turning into an additional incentive to these types of loans.

The stock of individual credit topped R$355.2 billion in May, with increases of 7.5% in relation to February and 32.1% in twelve months, highlighting that the portfolios of personal credit and vehicle financing corresponded altogether 76.1% of the total reference credit in this segment.

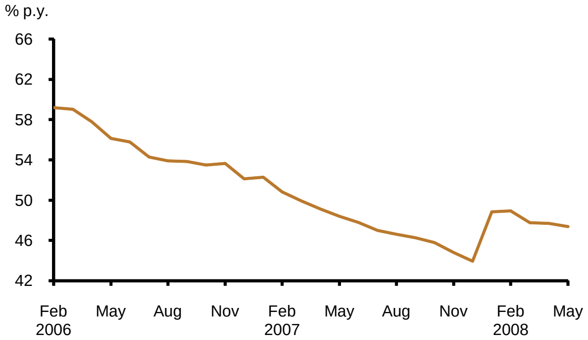
Personal credit stock grew by 6.9% in the quarter and 26.6% in twelve months, totaling R$115 billion. Payroll-deducted loans, accounting for this portfolio's most significant share, turned in a quarterly increase of 6.7%, indicating the somewhat sharp expansion of credit lines focused on income tax and Christmas bonus anticipation. Vehicle purchase financing registered a 1% growth in the quarter and 20.6% in twelve months, totaling R$84.3 billion.

Figure 3.7 – Interest rates on nonearmarked credit



Leasing operations totaled R$42.4 billion in May, increasing 25.5% as compared to February and 128% in twelve months. These operations, showing their enhanced appeal over vehicle financing as major activity, continues its accelerated expansion trend, representing 11.9% of the credit stock in the segment of individual persons, against 6.9% in the corresponding period of 2007.

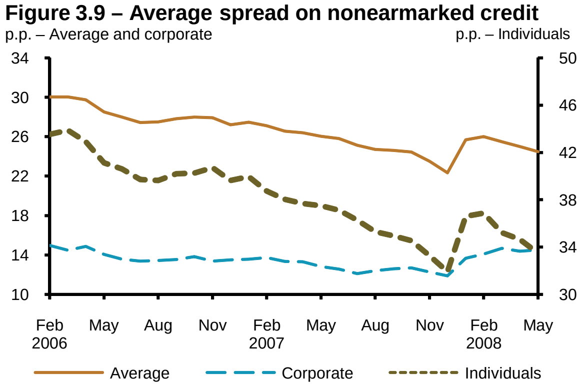
Figure 3.8 – Interest rates on fixed rate credit – Individuals



The average interest rate of reference credit operations topped 37.6% p.y in May, registering an increase of 0.2 p.p. as compared to February and 0.4 p.p. in twelve months. The average cost of loans closed at 47.4% p.y in the segment of individuals, decreasing, in the order, 1.6 p.p. in the quarter and 1 p.p. in twelve months, while in the corporate segment the average rate reached 26.9% p.y., increasing 2.1% p.p. in the quarter and 2.6 p.p. in twelve months.

The growth in interest rates during the first months of the year, especially in the corporate segment, mirrored both the fiscal operations associated to the IOF and the anticipation of the characteristic effects due to the Social Contribution on Net Corporate Profits (CSLL) rate alterations. In particular, foreign resources transfer operations suffered downturns relatively to other modalities, consequent upon IOF exemption stoppage since March. The interest rate hike in the corporate segment was additionally impacted by increased funding costs associated to the behavior of interest rates in the market.

Figure 3.9 – Average spread on nonearmarked credit



The banking *spread* closed at 24.5 p.p. in May, registering decreases of 1.5 p.p. both in relation to February and to twelve months. This result translated the occurrence of respective cutbacks of 3.4 p.p. and 4 p.p. in the individual segment and respective expansions of 0.4 p.p. and 1.7 p.p. in the corporate segment, with the *spread* reaching, respectively, 33.5 p.p. and 14.5 p.p.

Credit Operations for Vehicle Acquisitions – Recent Developments

Table 1 – Credit for the purchase of vehicles

R$ billion[1/]

Itemization	2005	2006	2007	2008	% change 12 months	% change 36 months
Total	46.7	65.6	85.7	123.1	43.7	163.6
Financing	41.0	55.2	68.3	84.2	23.3	105.4
Leasing	5.7	10.4	17.4	38.9	123.6	582.5

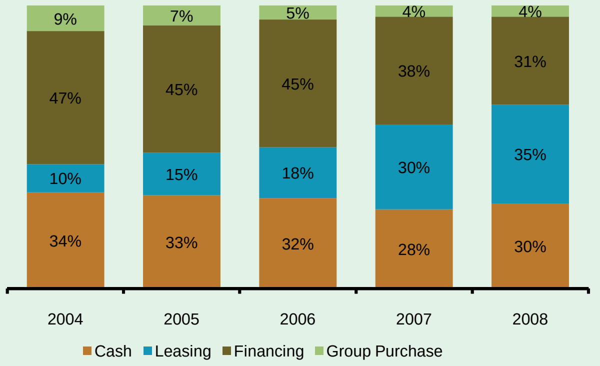
1/ Balances refer to the month of April.

In April the volume of credit channelled to acquisition of vehicles, including the modality of direct credit to consumer (CDC) and that by leasing companies, increased, 43.7% in twelve months and 163.6% in three years, reaching R$123.1 billion. This development, illustrated on Table 1, mirrored the improved conditions in the labor market, expressed in growth of formalization and of overall wages, and favorable conditions experienced by credit borrowers. In this sense, the average term of corporate credit for vehicle acquisition, excluding operations by leasing companies, reached 589 days in April 2008, against 472 days in the same month of 2005, while the average interest rate of this portfolio fell 7.2 percentage points (p.p.), in the same period, to 29.8%

The relative participation of the credit modalities intended for vehicle acquisition has changed in the latest years. The leasing companies operations, after the institutional improvements related to the recognition of the legality of installment payment within the Guaranteed Residual Value (GRV), in 2003, have shown a major upturn in activity, with a 123.6% increase in twelve months and 582.5% in the latest three years, compared to increases of 23.3% and 105.4% in the CDC type. Transforming into figures, the participation of leasing operations in the overall balance of credit for vehicle acquisition moved from 12.2%, in April 2005, to 31.6%, in April 2008.

The trend path of credits contracted with leasing companies changed significantly in the composition of disbursements for vehicle acquisition, according to Graph 1. According to the National Association of Automakers Financing Companies (ANEF), operations related to leasing were responsible, in the

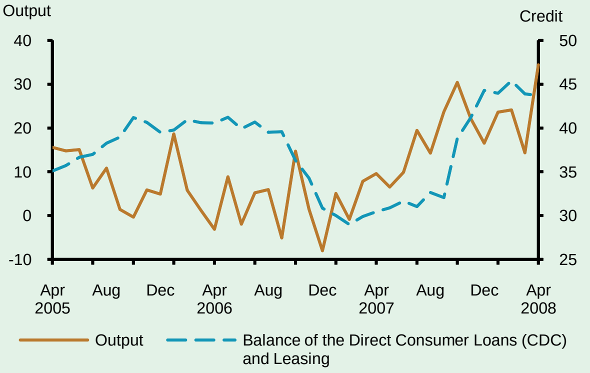
Figure 1 – Vehicle acquilition – Payment modalities[1/]



1/ The 2008 data refer to the 1st quater.

Figure 2 – Vehicles – Output and credit

12-month variation (%)

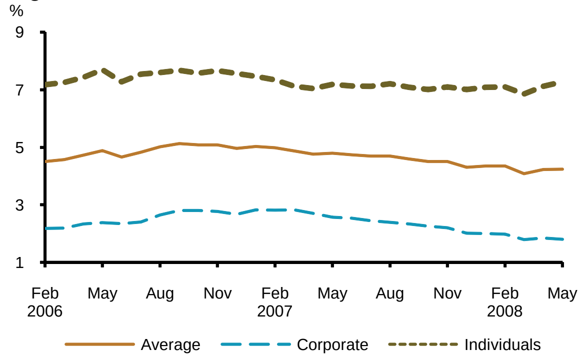


first quarter of 2008, for 35% of the new operations targeted to vehicle purchases, while the part related to the CDC modality corresponded to 31% of the total, against 10% and 47%, 2004. The major preference for leasing operations, observed in the latest years, were additionally stimulated by increasing of the Financial Operations Tax (IOF) on the direct financing to the consumer, since last January.

The increase in production and sales indicators of the automotive industry reflects, in a significant way, the upward trend of credit in this segment. This effect, illustrated on Graph 2, is enlarged while more favorable financing conditions foster a displacement of the demand in the automotive market, with increased search for vehicles, especially in the segment of used vehicles. As a result, the automotive market has registered consecutive records in production and sales reaching 300.6 thousand and 295 thousand units, respectively. The 12-month cumulative production summed up 3.2 million units in April. This represented 19.9% more than the total of the corresponding months in the previous year.

One should highlight that the upturn in activity of the automotive sector, even with the intensification of investments in the sector, has required increasing levels of installed capacity utilization. In this sense, the Installed Capacity Utilization Level (Nuci) index corresponding to the segment of transportation materials, which includes vehicle makers and the industries of automobile parts, reached 92.5% in May, against 86% in May 2007, while the indicator related to the Manufacturing Industry grew 1.2 p.p., to 85.6% in the period, highlighting the emergence of limits to the additional expansion of domestic supply – which has been supplemented by imports.

Figure 3.10 – Credit default rates1/



1/ Nonearmarked credit in arrears of more than ninety days.

Figure 3.11 – Average term for credit operations – Calendar day

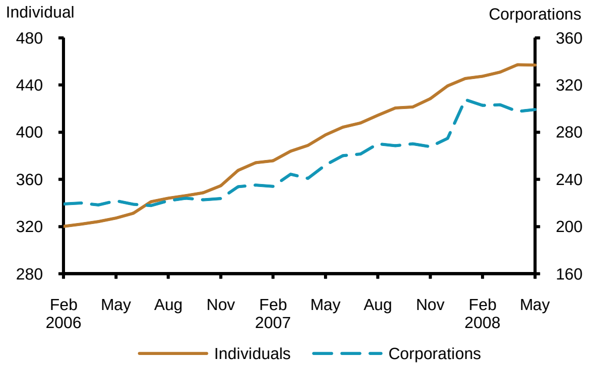
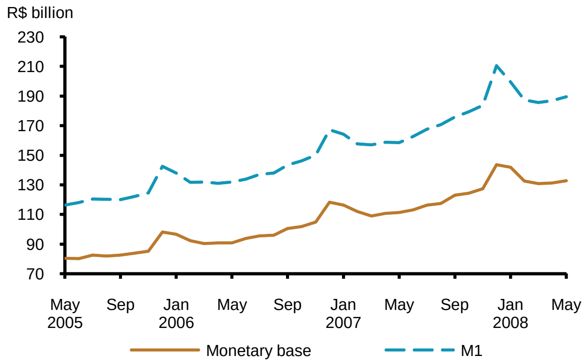


Figure 3.12 – Monetary base and M1 – Average daily balances



Default in the reference credit segment, considering operations in arrears for more than ninety days, increased by 4.2% in May, decreasing 0.2 p.p. in the quarter and 0.6 p.p. in twelve months. Delays concerning individual operations registered growth of 0.2 p.p. in the quarter and 0.1 p.p. in twelve months, while the ones registered in the context of corporate operations showed respective decreases of 0.2 p.p. and 0.8 p.p., totaling, in the order, 7.3% and 1.8%. One should highlight that the environment of accelerated credit expansion, considering the high volume of new contracts, favors the cutback in participation of delayed payment operations in the total portfolio.

The average term of the reference credit portfolio reached 370 days in May, showing stability in the quarter and growth of 48 days as compared to the same period in the last year. The indicator reached 299 days in the corporate segment and 457 in that related to individuals, registering respective annual increases of 47 days and 59 days, while in the quarter the average term related to corporate entities dropped 4 days and the one associated to individuals rose 10 days. The average related to individual portfolio corresponds to the highest in the series initiated in June 2000, a result attributed, mostly, to the growing participation of payroll-deducted loan and of vehicle financing operations.

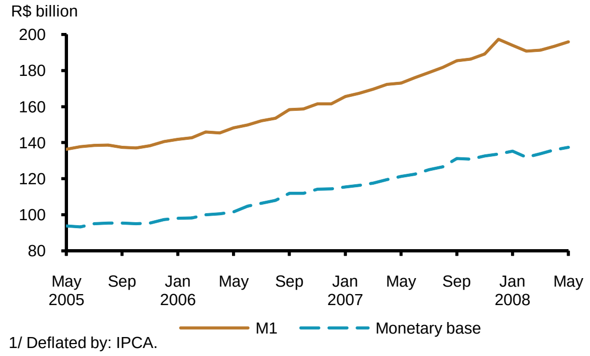
3.2 Monetary aggregates

The daily average balance of money supply (M1) topped R$187.7 billion in May, growing 0.4% in the month and 18.4% in twelve months, period in which the average balance of currency outside banks and demand deposits increased, respectively, 18.5% and 18.3%.

Considering seasonally adjusted IPCA deflated data, the M1 rose 2.7% in the quarter ended in May, in relation to the one ended in February, accumulating expansion of 13.2% in twelve months. The aggregate increase continues to be associated to domestic demand performance and, especially, to the expansion of credit operations.

The average daily balance of the monetary base reached R$132.7 billion in May, with increases of 0.1% in the quarter and 19.2% in twelve months, period of increases of 19.8% in the average balance of the currency issued and 18% in the one related to observed banking reserves.

Figure 3.13 – M1 and monetary base at May 2008 prices seasonally adjusted[1/]



1/ Deflated by: IPCA.

Figure 3.14 – Broad money supply 12-month growth

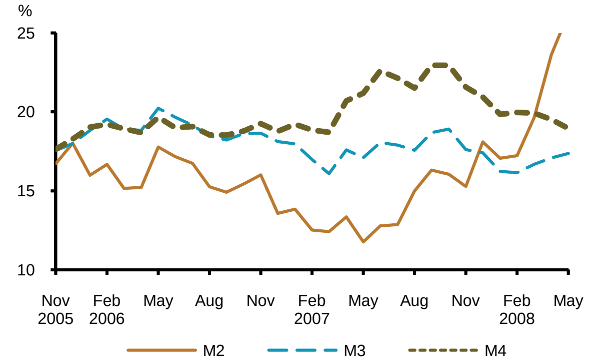
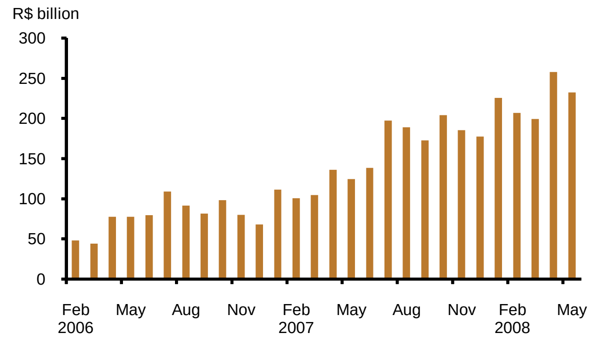


Figure 3.15 – Net financing position of the federal public securities – Daily average



Considering the end-of-period position, the monetary base expanded R$6.8 billion in the quarter ended in May. This result translated both expansionist impacts derived from net redemptions of R$20.4 billion of National Treasury's stocks, net purchases of R$12.9 billion currencies from the foreign exchange real state market by the Central Bank, and adjustments of R$1.4 billion in operations with derivatives, and from the contractive pressures resulting from the turnover of the National Treasury's single account, R$23.9 billion, as well as from inflows referring to additional requirements on deposits, R$3.9 billion.

The money supply in the M2 concept, which aggregated to M1 the investment deposits, savings and private deposits, totaled R$838.1 billion in May, increasing 10.5% in relation to February and 26.2% in twelve months. One should note that quarterly net inflows of R$69.9 billion registered by time deposits, contributing to the private stock balance expansion from R$330.6 billion, in February, to R$405.1 billion. Savings accounts deposits, which turned in net inflows of R$332.9 million in the quarter, representing 6.7% of the ones observed in the same period of the previous year totaled R$245 billion in May.

The M3 balance, a concept which aggregates to the M2 the investment funds share and repo operations backed in federal securities between the community and the financial sector, expanded 4.8% in the quarter ended in May, against the one ended in February, closing at R$1.7 trillion. Aside from the M2growth, This result translated an increase of R$19 million in repo operations and decrease of 2.4% in the investment fund quota balance, which totaled R$806.4 billion. The balance of M4, the largest concept of monetary aggregates, rose by 4.9% in the quarter and 19% in twelve months, reaching R$2 trillion.

Federal public securities and Central Bank open market operations

The National Treasury's (TN) primary operations with federal securities caused a expansionist monetary impact of R$16.3 billion in the quarter ended in May, result of placement of R$81.2 billion, maturities of R$94.5 billion and purchases and advanced redemptions of R$3 billion. Swap operations reached R$22.5 billion and were concentrated on the National Treasury Notes – series B (NTN-B), with participation of 36%.

Figure 3.16 – Central Bank repo operations – Maturity – End of period

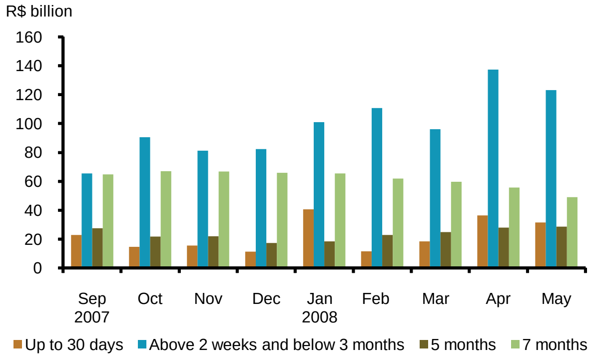
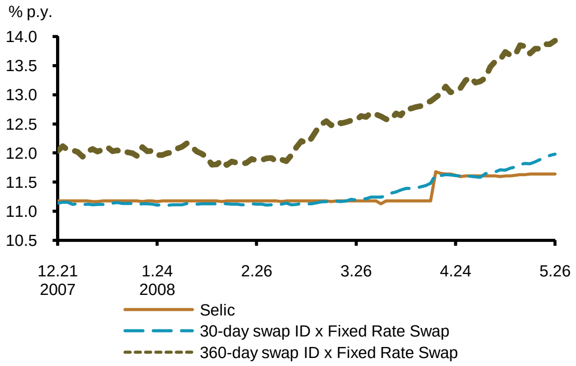


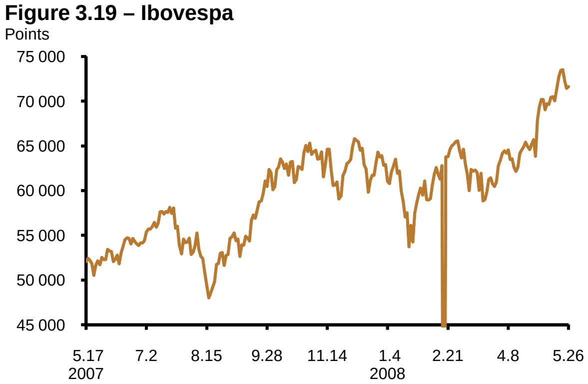
Figure 3.17 – Interest rate



Source: BM&F

Figure 3.18 – Ex-ante real interest rate – Deflated by 12-month IPCA expectations

Figure 3.19 – Ibovespa



Source: Bovespa

Financing and *go around* operations carried out by the Central Bank, aiming at the adjustment of liquidity conditions, summed up an average daily balance of R$31.4 billion in May, against R$11.5 billion in February. The balance of operations with two-week to three-month terms and five-month-term increased, in the order, from R$110.7 billion and R$22.8 billion, in February, to R$123.3 billion and R$28.7 billion, respectively, in May. In the opposite sense, the balances of seven-month term operations dropped from R$61.9 billion, in February, to R$50 billion. The net open market financing position expanded from R$206.8 billion, in February, to R$232.3 billion, in May.

Real interest rates and market expectations

The future interest rate curves of the *ID x fixed rate Swap* contracts for May 30 showed increase in all vertices, in relation to the end of February, consistent with expectations related to the monetary policy management and to the growth in inflation rates. The *ID x fixed rate Swap* contract of 360 days rose 183 base points (b.p.), reaching 13.75% p.y., the highest rate since October 2006. At the same time, the country risk showed an average of 241 points in the quarter ended in May, against 238 points in that quarter ended in February.

The real *ex-ante* Selic interest rate for the coming months, calculated on the basis of the May 30 Market Survey Report, released by the Central Bank, topped 8% p.y., against 6.7% p.y at the end of February. This trend mirrored increased expectations for the twelve-month Selic rate, from 11.25% p.y., and IPCA, from 4.3% p.y. to 5.01 p.y.

Capital market

The sharp upturn of the São Paulo Stock Exchange Index (Ibovespa), registered in the quarter ended in May, translated the international financial markets volatility, largely a consequence of expansion movements followed by profit taking. The market instability, in the quarter, gave way to a tendency of significant profits, favored by greater participation of foreign investments with consequences both to the fall in USA interest rates and wariness to risk in the financial market, and to the Brazilian sovereign *rating* revision to investment grade category. In this environment, after a cutback of 6,728 points between the end of February and Mach 19, when it closed at 58.827 points, the Ibovespa resumed its upward movement, showing successive records,

Figure 3.20 – Stock exchanges
April 2007 = 100

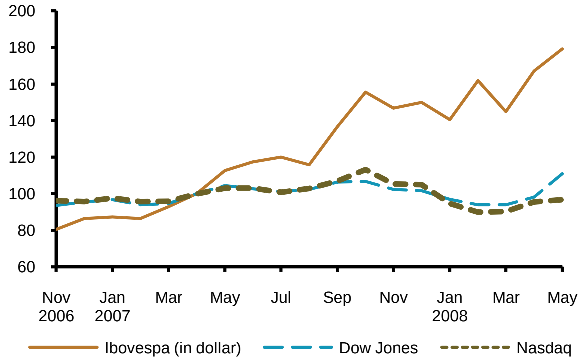
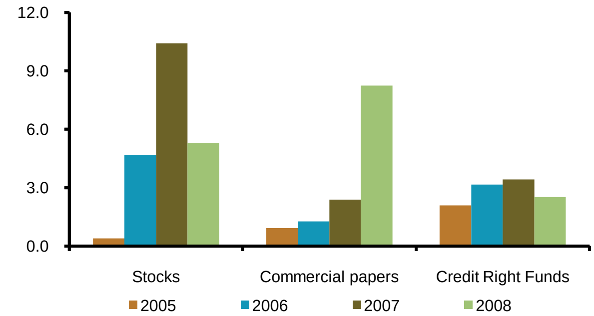


Figure 3.21 – Debenture primary issues in the capital market
R$ billion – Accumulated through May

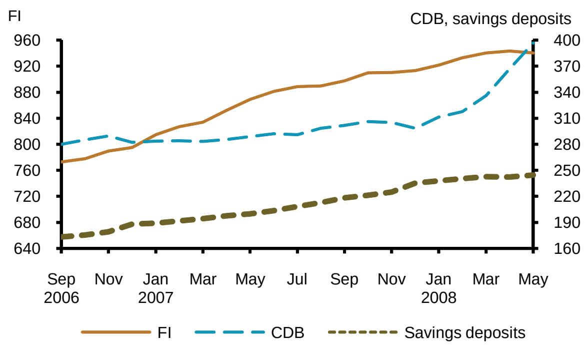
Source: CVM

Figure 3.22 – Primary issues in the capital market
R$ billion – Accumulated through May



Source: CVM

Figure 3.23 – CDB, FI[1/] and savings deposits
R$ billion



1/ Excludes investment funds in stocks and external debt.

with a maximum of 73.516 points in May 20. The indice reached 72,592 points at the end of May, rising 10.7% as compared to the one registered at the end of February, while daily average transactions at Bovespa totaled R$6.2 billion in the quarter ended in May, against R$6.1 billion in that ended in February, and R$4.8 billion throughout 2007.

Viewed in dollar terms, the Ibovespa turned in a quarterly increase of 14.4% in May, evincing the combined effects of indice growth in reais and foreign exchange amortization. The Dow Jones and NASDAQ indices increased by 3% and by 11.6% respectively, in the period, returning to the level of January 2008.

Corporate financing in the capital market, through issues of stocks, debentures, promissory notes and the collocation of credit right receivables, reached R$49.2 billion in the first five months of 2008, of which R$32.6 billion represented by debenture issuance. One should highlight that the sharp expansion in utilization of this funding instrument, observed in the first two months, was not confirmed in the following months, indicating cutback in its appeal due to impacts in both alterations in the levying on mandatory deposits, on leasing companies´ interfinancial deposits and of growing funding costs, in line with growth in future interests. One should highlight that the primary stock issues totaled R$5.3 billion, against R$10.4 billion in the first five months of 2007.

Financial investments

The balance of investment funds, time deposits and saving accounts totaled R$1.7 trillion in May, indicating expansions of 5.1%, in relation to February, and 19.1% in a twelve-month period.

The net worth of investment funds, taking into account foreign exchange, short term, fixed income, multimarket and indexed funds, increased 2.1% in the quarter, totaling R$1 trillion. Net redemptions totaled R$10.6 billion, registering net redemptions of R$13 billion of multimarket funds and net inflows of R$3.8 billion in short-term funds.

The consolidated portfolio of investment funds did not show significant changes in the quarter. Participations of federal securities, private securities and repo operations, major components of these funds assets, closed at 51.4%, 18.4% and 23.8%, respectively; it should be stressed that the participation of the inflation-indexed bonds in federal securities rose 4 p.p., to 71.8%, while those related to fixed rate bonds fell 4 p.p., to 28.1% of the total portfolio.

Figure 3.24 – Public securities in investment funds – Portfolio by indexer

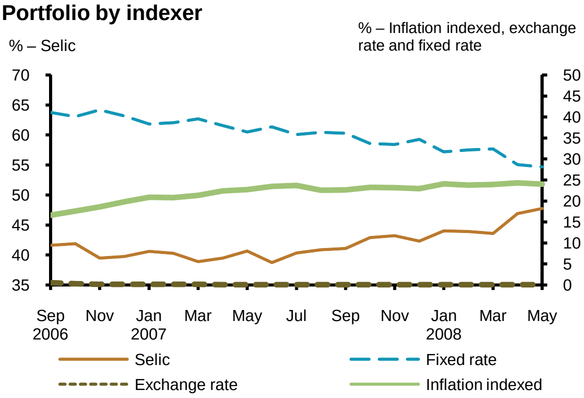
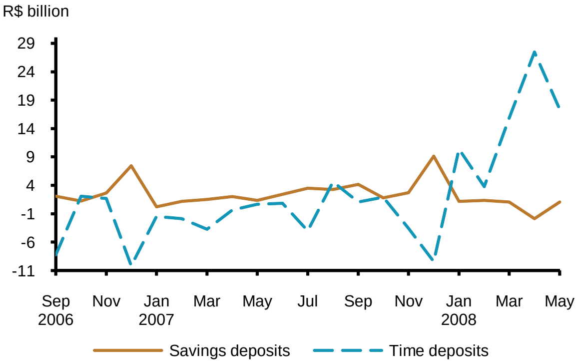


Figure 3.25 – Net inflow – Savings deposits and time deposits



Net worth of extramarket investment fund, which manages resources owned by the entities from the indirect federal administration, totaled R$28.5 billion at the end of May, registering net redemptions of R$144.5 million in the quarter.

Variable income funds totaled R$181.1 billion in the period, increasing 9.7% in relation to February and 66.4% in twelve months. Mutual Privatization Funds (FMP-FGTS) and Mutual Privatization Funds – Free Portfolio (FMP-FGTS-CL) net worth, totaled, taken together, R$20 billion, while those related to stock funds, highlighting the Ibovespa performance, in particular after the Brazilian sovereign debt risk rating to investment grade, reached R$161.1, billion, showing quarterly expansions of 10.1% and 9.6%, respectively.

The savings accounts balance grew by 1.7% in the quarter ended in May, reaching R$244.4 billion. Withdrawals were higher than new deposits by R$333 million, mirroring the negative net inflow of R$1.8 billion. Time deposits totaled R$396.5 billion, with increases of 24.9% in the quarter and 37.3% in twelve months, an evolution mostly associated to the increase of funding costs in the foreign market and to the loss in issuance of debentures, in response to the institution of reserve requirements over the leasing companies' interfinancial deposits.

3.3 Fiscal policy

The budgetary and financial programming and the monthly schedule of the Executive Branch disbursements became effective in April, with the publishing of Decree nº 6,439. In the same month, the Budget and Management Department sent to the National Congress a report with new forecasts for revenue and expenditures in 2008, resulting in growth of R$3 billion in the central government primary surplus target, to R$62.4 billion, in order to maintain it at 2.2% of the GDP.

In a second report sent to the National Congress, in May, revenues, including constitutional transfers, expanded by R$18.3 billion for the National Treasury and R$2.1 billion for Social Security, while the planned expenditures for the fiscal year increased R$13.4 billion, to R$529.9 billion. With reference to the National Treasury´s revenue increase, R$4.4 billion will be transferred to states and municipalities, by virtue of constitutional provisions, and R$7.5 billion will be absorbed by civil servants' wage readjustments and R$4.3 billion will be channeled to increase the allocation of discretionary spending.

In line with the productive development policy, announced by the federal government in May, alterations were introduced in the legislation aiming at the tax and financial unburdening of investments and exports. In this sense, the Provisional Measure nº 428 and the Decree nº 6,453, both dated December 5, 2008, provide:

a) reduction, from 24 to 12 months, of the Social Integration Program (PIS)/Contribution to Social Security Financing (Cofins) utilization period in the purchase of capital goods;
b) extension of the coverage of the Tax System for Incentive to Port Structure Modernization and Expansion (Reporto);
c) extension of the Special Capital Goods Acquisition System for Exporting Companies (Recap);
d) exemption of IOF levying on credit operations carried out by the BNDES;
e) extension of payment period of the Industrialized Products Tax (IPI) by the automotive sector;
f) double cutback of the Corporate Income Tax (IRPJ) and CSLL assessment base of expenditures with own staff training carried out by software corporations.
g) suspension of the IPI, PIS and Cofins levying on parts and materials directed to the construction of new ships, by national shipbuilding companies.
h) Accelerated amortization for the automotive sector with permission wherefore the amortization tax usually admitted be multiplied by four.

The stringent fiscal impact of these measures, in the period from 2008 to 2011, was estimated at R$21.4 billion, which R$3.6 billion in 2008; R$7.9 billion in 2009; R$6 billion in 2010; and R$3.9 billion in 2011.

Public sector borrowing requirements

The nonfinancial public sector primary surplus reached R$61.7 billion in the first four months, 6.82% of the GDP, with GDP increase of 0.51 p.p. in the same period of 2007, registering GDP growth of 1.24 p.p. in Central Government surplus and respective drops in the GDP of 0.29 p.p. and 0.43 p.p. in the regional government and stated owned companies results.

The Central Government net revenues totaled R$192 billion in the first four months, a 21.2% of the GDP, a growth of 16.6% as compared to the same period of 2007, when they represented

Table 3.5 – Public sector borrowing requirements – Primary result – January-April

	2006		2007		2008	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Central government	-28.5	-3.9	-33.3	-4.1	-48.7	-5.4
Sub-national governments	-8.0	-1.1	-13.4	-1.7	-12.4	-1.4
State companies	-3.9	-0.5	-4.0	-0.5	-0.6	-0.1
Total	-40.4	-5.6	-50.7	-6.3	-61.7	-6.8

Figure 3.26 – National Treasury gross revenue

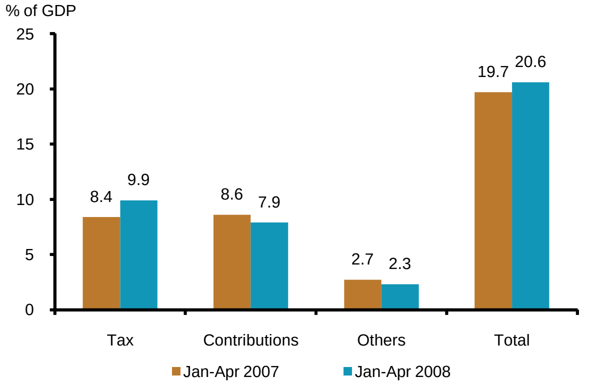


Table 3.6 – National Treasury Expenditures

Jan-Apr

Itemization	2007		2008	
	R$ million	% GDP	R$ million	% GDP
Total	109 073	13.5	124 765	13.5
Transfers to states				
and municipalities	33 246	4.1	41 902	4.1
Personnel and payroll charges	37 656	4.7	40 184	4.7
Capital and current expenditures	38 010	4.7	42 431	4.7
Workers Support Fund	3 930	0.5	4 852	0.5
Subsidies and economic				
subventions	1 606	0.2	1 652	0.2
Loas/RMV	4 206	0.5	4 994	0.5
Investment	4 693	0.6	5 374	0.6
Other capital expenditures	23 575	2.9	25 559	2.9
National Treasury transfers				
to the Central Bank	161	0.0	248	0.0

Source: Minifaz/STN

Figure 3.27 – Federal Government: investment expenditures paid

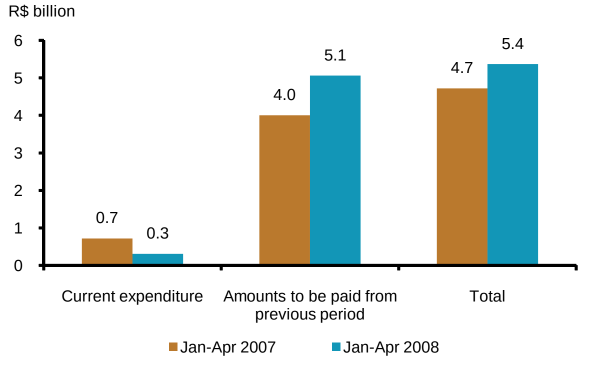
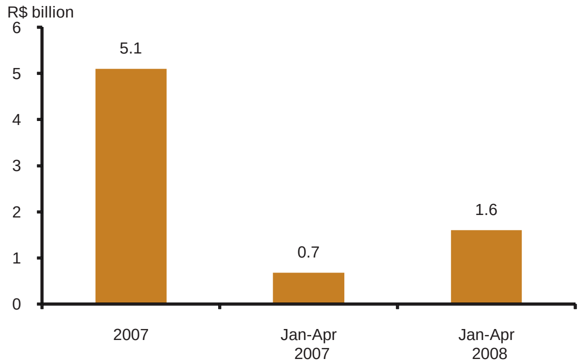


Figure 3.28 – Basic Investment Plan (PPI) expenditures



20.5% of the GDP. Growth in revenues was largely associated to the economic upturn and to administrative measures carried out by the Federal Revenue Secretariat and by the General Prosecutor of the National Treasury with the aim of recovering debts in arrears with regard to the maintenance of a regular flow of tax collection and contributions for which the Federal Government is liable.

Taxes which turned in more significant inflow increases in the period were IOF, 158.2%, indicating growth in rates since January 2008; the Import Tax(II), 32.8%, effect of increases of 44.2% in the value of imports in dollar terms and of 8.4% in the tax effective average rate; and the Income Tax (IR), 28.4%, a result consistent with the environment of overall earnings expansion of companies and workers.

Additionally, inflows linked to the CSLL increased 28.2% in the first four months, indicating inflow expansion based on corporate earnings, while Cofins translated the pace of economic activity, and the atypical tax collection event of R$512 million, arising out of legal deposits, grew by 20.5%. One should also highlight the increases of R$2.2 billion collection related to credit granting and R$2.3 billion related to financial compensation for participation quotas of petroleum royalties.

The Central Government expenditures represented 15.9% of the GDP in the first four months of 2008. The drop of 0.46 p.p. of the GDP, compared to the same period of the previous year, mirrored expenditure cutbacks both with regard to the National Treasury and to Social Security.

In the framework of the National Treasury expenditures, disbursements with payment of personnel and social charges topped R$40.2 billion in the first four months, falling 0.25 p.p. of GDP in comparison to the same period of the previous year.

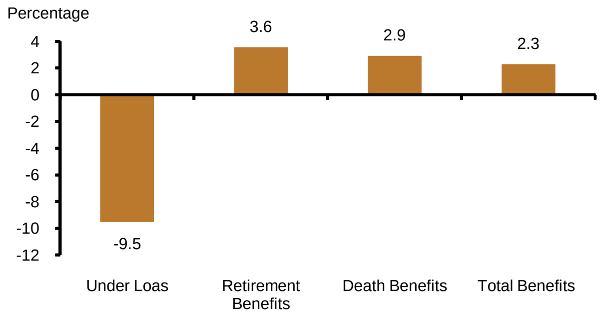
Additionally, the current and capital expenditures decreased by 0.04 p.p. of the GDP, despite the spending growth related to the Worker Support Fund (FAT) and to the Social Assistance Law (Loas)/Lifetime Monthly Income (RMV). It should be highlighted that FAT spending growth, to cover the unemployment insurance and the salary bonuses disbursements, was linked to the real minimum wage value and formal employment increases. Expenditures with subsidies and grants fell 0.02 p.p. of the GDP, in line with lower outlays with the Farm Activity Support Program, Price Support and the Federal Government Acquisitions Program, whereas the ones considered under the heading

Table 3.7 – Social security primary result
January-April

R$ billion

Itemization	2007	2008	Var. %
Gross inflow	45.6	53.9	18.2
Cash refunds	0.1	0.1	0.0
Transfers to third parties	4.4	5.9	34.1
Net inflow	41.1	47.9	16.5
Social Security benefits	55.1	60.4	9.6
Primary Result	-14.0	-12.5	-10.7
Net inflow/GDP	5.11%	5.29%	
Social Security benefits/GDP	6.86%	6.68%	
Primary Result/GDP	-1.75%	-1.38%	

Figure 3.29 – Growth in the number of benefits issued by Social Security (Jan-Apr 2008 average/Jan-Apr 2007 average)



Source: STN

Figure 3.30 – Transfers to states and municipalities

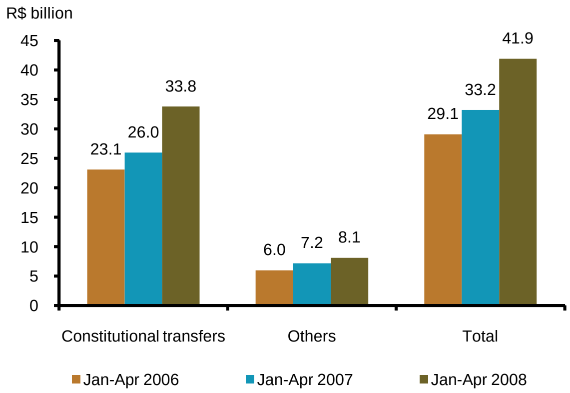
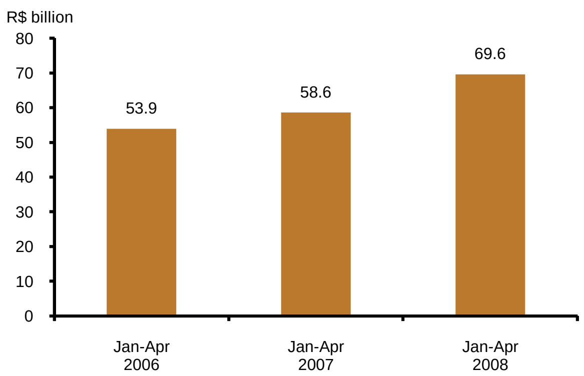


Figure 3.31 – ICMS inflow



other current and capital expenditures decreased 0.1 p.p. of GDP. The investment expenditures, included in this item, increased by 14.9%, while the ones included in the Pilot Investment Project grew by 141%.

The Social Security deficit reached R$12.5 billion in the first four months of 2008, falling 0.37 p.p. of GDP in relation to the corresponding period of the previous year. The net inflow showed growth of 16.6% in the first four months of the year, closing at R$47.9 billion and repesenting 5.29% of the GDP, against 5.11% of the GDP in the first four months of 2007. This behavior mirrored the continued impact of the overall wage spending process on payroll-related contribution.

Expenditures with social security benefits increased by 9.6%, reaching R$60.4 billion. As a GDP proportion, these expenditures decreased from 6.86%, in the four first months of 2007, to 6.68%, with emphasis on the drop in the health assistance component.

The constitutional transfers to states and municipalities totaled R$41.9 billion, growing 26.1% during period and representing 4.63% of the GDP, against 4.14% in the first four months of 2007. Growth in these transfers mirrored the shared taxes performance and the funds transfer originating in the working of petroleum and natural gas.

Inflow linked to the Tax on the Circulation of Merchandise and Services (ICMS), the most representative tax at state level, grew by 18.8% in the four months, impelled by performances registered in the Northeast region, 19.2%m and Southeast, 18.8%. The occurrence of surplus decrease in regional level, even in a scenario of expanding transfers and ICMS collection, which are responsible, taken altogether, for about 90% of states and municipalities collection, mirrors the strong growth in expenditures, which, considering available data for the first two months of the year, related to the states of São Paulo, Minas Gerais, Rio de Janeiro and Rio Grande do Sul, increased 18.9% in comparison to the first two months of 2007.

The states and municipalities' surplus, accumulated in twelve months, expressed as proportion of GDP, after showing growth trend in 2007, when decreased from 1.04% in April, to 1.2%, in August, showed, in recent months, a reversal of this trend, by reaching 1.09% in April 2008.

Apropriated nominal interests by the consolidated public sector in the first four months of 2008, considering the accrual basis, totaled R$54.9 billion, 6.06% of the GDP, against 6.36% of GDP in the corresponding period of 2007,

Figure 3.32 – Regional governments: primary surplus and tax inflow
Cumulative 12-month results

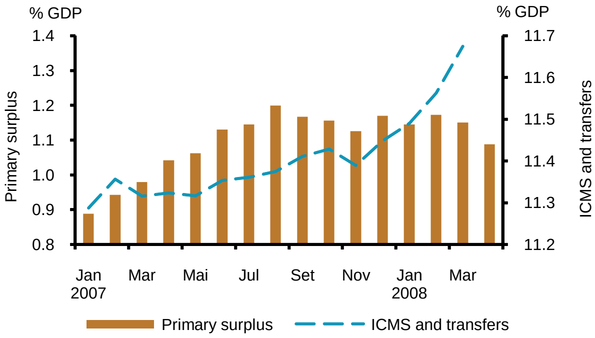


Figure 3.33 – SP, RJ, MG and RS primary expenditures
January-February

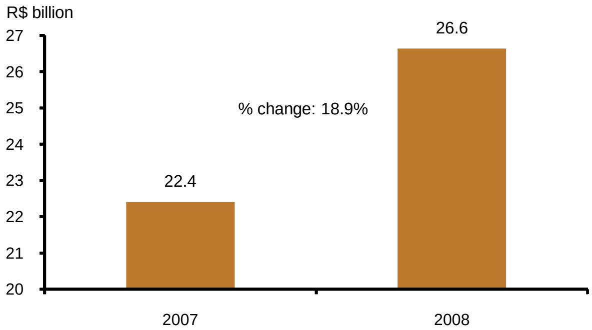
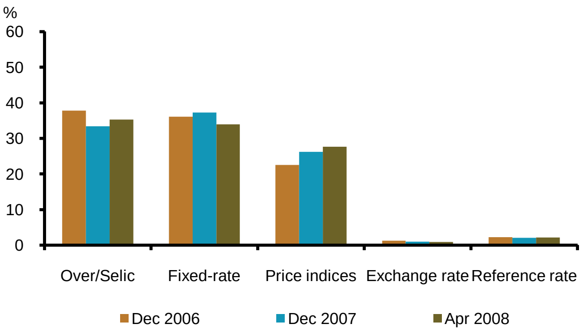


Table 3.8 – Public sector borrowing requirements – January-April

Itemization	2007		2008	
	R$ billion	% GDP	R$ billion	% GDP
Uses	0.4	0.1	-6.9	-0.8
Primary	-50.7	-6.3	-61.7	-6.8
Interest	51.1	6.4	54.9	6.1
Sources	0.4	0.1	-6.9	-0.8
Domestic financing	94.1	11.7	27.6	3.1
Securities financing	114.2	14.2	75.0	8.3
Bank financing	-13.9	-1.7	-25.6	-2.8
Others	-6.2	-0.8	-21.8	-2.4
External financing	-93.7	-11.7	-34.5	-3.8

Figure 3.34 – Federal securities debt structure by indexing factor[1/]



1/ It does not include swap.

a result consistent with the 0.49 p.p. cutback registered in the accumulated Selic rate of the respective periods.

The public sector borrowing requirements, in the nominal concept, registered surplus of R$6.9 billion from January to April, the first positive result observed in the corresponding period since the beginning of the historic series, in 1991, registering cutbacks in net external financing, R$34.5 billion; in net banking debt, R$25.6 billion, and in other domestic borrowing sources, R$21.8 billion, and, in the opposite sense, expansion of R$75 billion in securities debt.

Federal Securities Debt

The federal securities debt evinced by the portfolio position, reached R$1,218.7 billion in April, 43.3% of GDP, decreased 0.9 p.p. of GDP, compared to January. The quarterly growth translated contractive impacts related to the occurrence of net redemption of R$20.6 billion in the primary market, the financial effect of R$0.5 billion related to the 4.2% foreign exchange growth registered in the period and the nominal interest incorporation of R$35.8 billion.

The participation, in the total of federal securities debt, of securities linked to over/Selic rate and to price indices topped 29.4% and 23%, respectively, in April, registering increases, in order, of 0.2 p.p. and 0.1 p.p. in relation to January, while, on the other hand, the prefixed stocks representation, translated net redemptions of R$27.4 billion in the National Treasury Bills (LTN), fell 1.1 p.p., to 28.3% in the period. The participation of stocks linked to foreign exchange remained unaltered, at 0.8%.

In April, the schedule of the security debt amortization on market, except financing operations, registered the following distribution: R$183.2 billion, 15% of the total, with maturity in 2008, R$269.7 billion, 22.1% in 2009; and R$765.9 billion, 62.8%, since January 2010. One should highlight the continuity of the average term increase of federal security debt, which increased from 37.6 months, in January, to 39.3 months, in April 2008.

The foreign exchange *swap* operations reached negative R$37.4 billion in April. Considering the cash basis, the result of these operations, defined as the difference between the Interfinancial Deposit (DI) liability and the exchange variation plus coupon, was unfavorable to the Central Bank by R$2 billion, from February to April 2008. The accumulated result since 2002, when these operations initiated, was negative to the Central Bank by R$2.5 billion.

Table 3.9 – Repo operations – Open market

Balances and percentage share

R$ million

		Up to 1 month		More than 1 month		Total	
		Balance	%	Balance	%	Balance	%
2003	Dec	43 742	78.5	11 975	21.5	55 717	100
2004	Mar	47 718	72.1	18 440	27.9	66 158	100
	Jun	46 509	58.8	32 578	41.2	79 088	100
	Sep	34 839	47.0	39 250	53.0	74 089	100
	Dec	7 797	16.5	39 410	83.5	47 207	100
2005	Mar	5 239	11.5	40 506	88.5	45 744	100
	Jun	4 099	12.3	29 165	87.7	33 264	100
	Sep	-6 857	-16.4	48 591	116.4	41 734	100
	Dec	-24 430	-106.9	47 286	206.9	22 856	100
2006	Mar	-8 399	-18.3	54 395	118.3	45 996	100
	Jun	7 241	10.3	62 821	89.7	70 062	100
	Sep	19 120	26.6	52 779	73.4	71 899	100
	Dec	5 800	9.7	54 231	90.3	60 030	100
2007	Mar	41 656	39.3	64 281	60.7	105 937	100
	Jun	10 198	7.5	126 562	92.5	136 760	100
	Sep	7 561	4.3	168 525	95.7	176 086	100
	Dec	-1 460	-0.9	167 274	100.9	165 813	100
2008	Mar	37 349	18.2	167 643	81.8	204 991	100
	Apr	52 522	21.3	193 495	78.7	246 017	100

Figure 3.35 – Swap and open market position

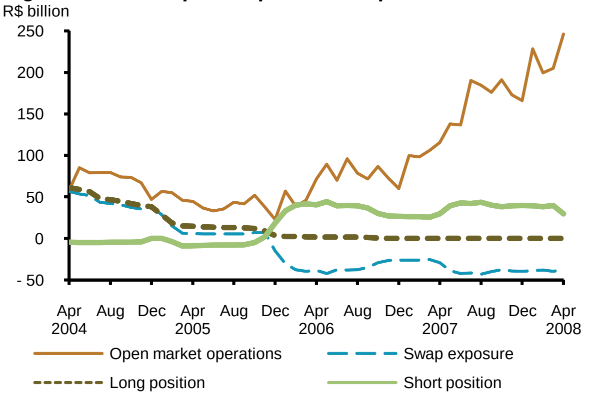
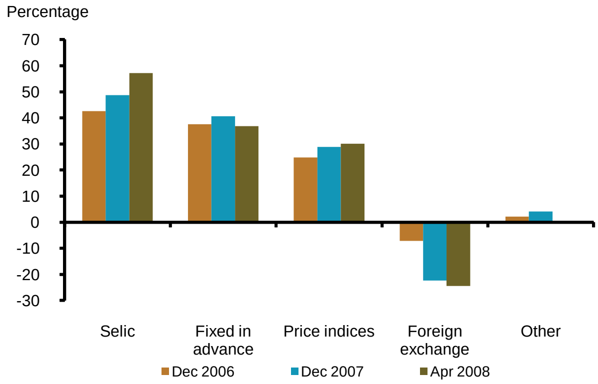


Figure 3.36 – NPSD – Percentage share of indexator



Public Sector Net Debt

The Public Sector Net Debt (PSND) totaled R$1.153,29 billion in April, 41% of the GDP, the best result since December 1998, while it closed at 38.9% of GDP. One should highlight that the PSND remains on a declining trend since September 2008, when topped by 56% of the GDP, the highest level since the series beginning, in 1991.

The DLSP decreased 1.72 p.p. of the GDP in relation to December 2007, an evolution associated, on one hand, to the nominal surplus incorporation in the year and to the valued GDP growth, while, conversely the adjustment arising out of the foreign exchange growth of 4.8% accumulated in the four months until April, contributing with 0.4 p.p. to the debt growth, acted in the opposite direction.

The net debt share indexed to the Selic rate grew from 48.7%, in December 2007, to 57.2% in April, while that linked to price indices increased 1.2 p.p., to 30.1%. The foreign exchange share, stimulated by the international reserves growth, decreased from -22.3% to -24.4%. The participation of fixed-rate debts and without earnings fell from 40.6% and 11.7%, respectively, to, in the order, 36.8% and 8.5%, in the same period.

The general government's gross debt, including the Federal Government, National Institute of Social Security (INSS) and regional governments, reached 56.9% of the GDP, in April, against 57.6% of the GDP, in March, and 57.2% of the GDP, in December 2007.

3.4 Conclusion

The evolution of monetary aggregates in the quarter ended in May has proved to be consistent with the dynamics of the domestic demand activity and, especially, with the maintenance of the pace of credit operations, which continued favoring household consumption expenditures, particularly with regard to the acquisition of vehicles and other durable consumer goods, as well as corporate investments, followed by enhancement of financing in financial institutions. At the same time, the default remains stable, without representing risks to the financial system soundness.

Among credit segments, noteworthy is the increasing participation of operations contracted with nonearmarked resources, while with regard to credit modalities, increased leasing operations reflect the incorporation of this additional

Table 3.10 – Net debt growth
Conditioning factors

Itemization	2006		2007		Apr 2008	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
Total net debt – Balance	1 067 363	44.7	1 150 357	42.7	1 153 289	41.0
Flows	**Accumulated in the year**					
Net debt – Growth	64 879	-1.8	82 994	-2.0	2 932	-1.7
Conditioning factors	64 879	2.7	82 994	3.1	2 932	0.1
PSBR	69 883	2.9	57 926	2.1	-6 885	-0.3
Primary	-90 144	-3.8	-101 606	-3.8	-61 743	-2.3
Interest	160 027	6.7	159 532	5.9	54 858	2.0
Exchange adjustment	-4 881	-0.2	29 268	1.1	11 942	0.4
Domestic securities debt1/	-2 222	-0.1	-2 432	-0.1	- 554	0.0
External debt	-2 659	-0.1	31 701	1.2	12 496	0.5
Others2/	2 302	0.1	-2 305	-0.1	-2 026	-0.1
Skeletons	- 375	0.0	- 630	0.0	- 99	0.0
Privatizations	-2049	-0.1	-1265	0.0	0	0.0
GDP growth effect		-4.5		-5.1		-1.8

1/ Domestic dollar – Indexed securities.
2/ Parity of the basket of currencies in the net external debt.

activity as credit mode in view of IOF rate increase in other credit operations. Loans collected by companies translated the maintenance of interest rate at low levels, relatively to historic standards, and lengthening of maturities was boosted by working capital operations.

The recent increase in interest rates did not curb the credit expansion trend, a behavior which, considering the strong demand for loans, both by individuals and companies, shows that the growing participation of credit in the economy is consistent with the activity level and with the degree of institutional development of the national financial system.

Results concerning the first four months of the year evinced that the fiscal policy management continues to ensure the decrease of the ratio between distinct concepts of debt and GDP. The primary surplus accumulated in twelve months remains at a level consistent with the forecasted target for the year, despite the observed decrease in the regional areas and stated owned companies. The primary growth result, favored, in part, by a decrease in the Social Security deficit – determined by growth in inflows and by a reduction in benefits paid, and the fall of 0.30 p.p. of GDP registered in the nominal interest appropriation enabled that, for the first time, a nominal surplus in public accounts was accounted for, in the first four months of the year.

The recent growth in Selic rate, despite affecting the pace of reduction of the appropriated interests, may not compromise the declining trend of the debt/DGP ratio observed in the last years, which will continue mirroring the upturn in economic activity.