3 Credit, monetary and fiscal policies

3.1 Credit

The National Financial System credit operations, though remaining at a high level, showed relative downturn in the quarter ended in October, an evolution consistent with the worsening crisis in the international financial markets. In the domestic scenario, increasing uncertainty and risk aversion by the economic agents is translated, especially, in the increased selectivity in credit grants, expressed both in the reduction of maximum contracting terms and in the requirement for greater resources contribution by the borrowers, as observed in the segments of and vehicle leasing and rentals to individuals.

In this environment, the federal government, aiming at ensuring the operational normalcy in the credit market, which had been an important element for the maintenance of the economic activity's dynamics, adopted a set of measures to expand the financial system liquidity. These measures incorporated both the sale of foreign currency to financial institutions, so as to enable them to finance the external trade, and release of reserve requirements, as an incentive to the negotiation of assets among financial institutions, with the objective of stimulating financial transactions in the interbank market.

In this context, the total volume of credit operations carried out with nonearmarked and channeled resources topped R$1.187 billion in October, registering growth of 9.3% in the quarter and 34.6% in twelve months, a period in which the ratio credit/GDP grew 6.6 p.p., to 40.2%.

The public bank's relative participation in the financial system total loans from increased from 34.4%, in July, to 34.9% in October, boosted by the purchase of credit portfolios from other institutions. At the same time, the participation of loans granted by the national private institutions decreased from 44.3% to 43.7% and the one related to foreign banks remained, basically, stable, growing from 21.3% to 21.4%.

Table 3.1 – Credit operations

R$ billion

Itemization	2008				% growth	
	Jul	Aug	Sep	Oct	3 months	12 months
Total	1 085.9	1 110.3	1 152.8	1 186.6	9.3	34.6
Nonearmarked	778.4	798.4	829.2	850.3	9.2	37.3
Earmarked	307.5	311.9	323.6	336.3	9.3	28.2
% participation:						
Total/ GDP	37.1	38.0	39.2	40.2		
Nonearmarked/GDP	26.6	27.3	28.2	28.8		
Earmarked/GDP	10.5	10.7	11.0	11.4		

Figure 3.1 – Credit by capital control of financial institutions

% of balance

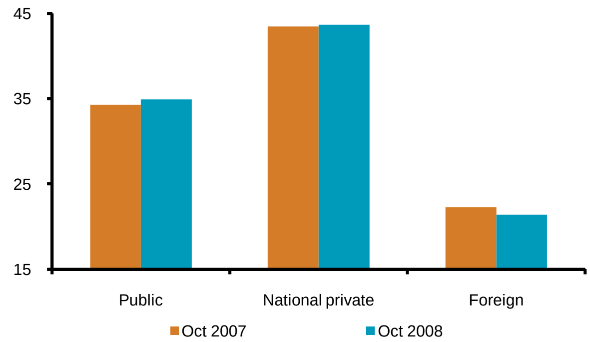


Figure 3.2 – Credit by borrower's economic activity – National private institutions

%

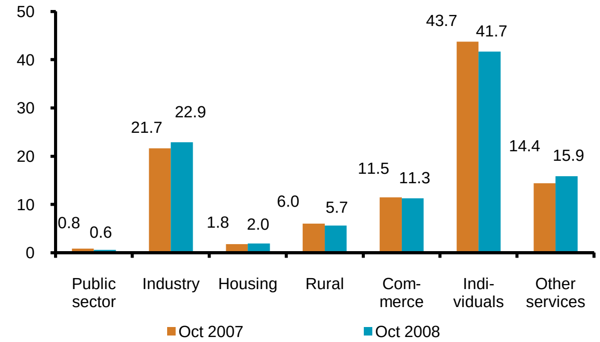


Figure 3.3 – Credit by borrower's economic activity – Public institutions

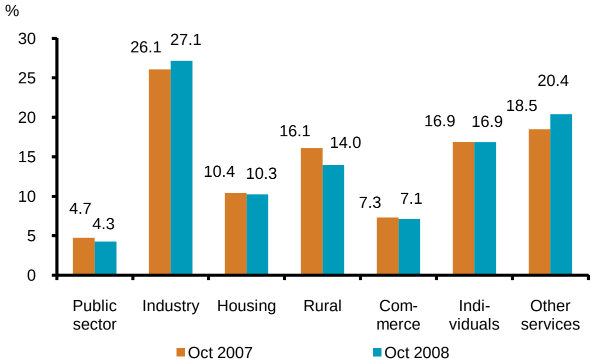


Figure 3.4 – Credit by borrower's economic activity – Foreign institutions

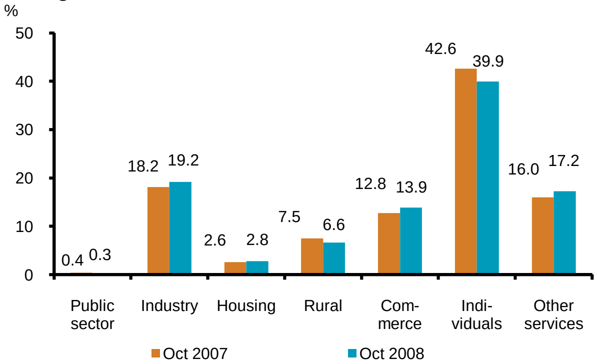


Figure 3.5 – Provisions of total financial system credit

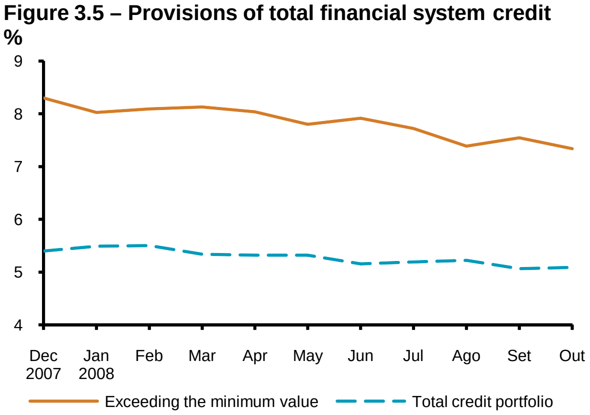


Table 3.2 – Earmarked credit operations

R$ billion

	2008				% growth	
	Jul	Ago	Set	Out	3 months	12 months
Total	307.5	311.9	323.6	336.3	9.3	28.2
BNDES	176.1	177.8	185.1	195.1	10.8	28.3
Direct	84.1	86.9	91.3	98.2	16.7	34.5
Onlendings	91.9	90.8	93.8	96.9	5.4	22.6
Rural	72.4	73.1	75.3	76.1	5.2	23.9
Banks and agencies	68.5	69.0	70.5	71.0	3.8	22.1
Credit unions	3.9	4.1	4.8	5.1	29.8	54.2
Housing	51.2	53.0	55.0	56.5	10.4	36.0
Others	7.9	8.1	8.2	8.6	8.6	19.1

The balance of operations directed to the private sector reached R$1,165 billion in October, growing 9.2% in relation to July. The operations contracted with the industrial sector increased 12.7% in the quarter, to R$280 billion, with emphasis to the demand from the sectors agribusiness, energy, chemical and petrochemical. The expansion of 12.7% in credit to the segment other services, which summed up R$210.6 billion, was linked to the disbursements to the sectors telecommunication, transportation and vehicles. Loans channeled to the trade sector grew 9.1% in the period, while those granted to individuals, excluding housing loans with earmarked resources, increased 6%, totaling R$387.4 billion. The funding granted to the public sector summed up R$21.7 billion in October, increasing 11.3% compared July.

The balance of provisions set aside by the financial institutions represented 5.2% of the total credit portfolio in October, remaining stable in the quarter, while the default rate reached 2.9%, decreasing 0.1 p.p., in the period.

Credit operations with earmarked resources

The balance of loans in the segment of earmarked resources reached R$336.3 billion at the end of October, registering expansions of 9.3% in relation to July and 28.2% in twelve months. The quarterly growth mirrored, somewhat, the expansion of 10.8% observed in the BNDES financing, which totaled R$195.1 billion, corresponding to 58% to the earmarked credits.

The BNDES disbursements summed up R$70.2 billion in the first ten months of 2008, increasing 40.8% compared to the corresponding period of 2007. Resources granted directly to the trade and services segment grew 47.9%, totaling R$36.9 billion, concentrated on the activities of land transportation, electricity and gas and telecommunications. Loans to industry reached R$28.9 billion, highlighting the relevance of operations involving the sectors of food and vehicles, while credits to micro, small, and medium companies, representing 25.4% of the BNDES total disbursements in the year, totaled R$17.8 billion, for growth of 36.4%.

Farm loans with earmarked resources topped R$76.1 billion in October, representing 73% of the segment's total portfolio. The quarterly growth of 5.2% translated increases in grants directed to trade, 7%; current expenditures, 3.7%; and investments, 0.7%, which represented, in the order, 41.1%, 9.4% and 49.5% of the farming credits, in the period.

Table 3.3 – BNDES disbursements

Itemization	Jan-Oct 2007	Jan-Oct 2008	% growth
			R$ million
Total	49 818	70 164	40.8
Industry	20 896	28 942	38.5
Mining	788	2 177	176.3
Food products	3 812	7 309	91.7
Vehicle, towing truch and wagon	2 069	3 697	78.7
Petroleum and alcohol refining	1 415	2 371	67.6
Commerce/Services	24 937	36 892	47.9
Overland transportation	9 337	14 647	56.9
Electricity and gas	4 273	6 765	58.3
Construction	2 231	3 079	38.0
Telecommunication	3 031	5 220	72.2
Crop and livestock	3 985	4 329	8.6

Source: BNDES

Figure 3.6 – Credit to housing with resources from saving deposits – January-September

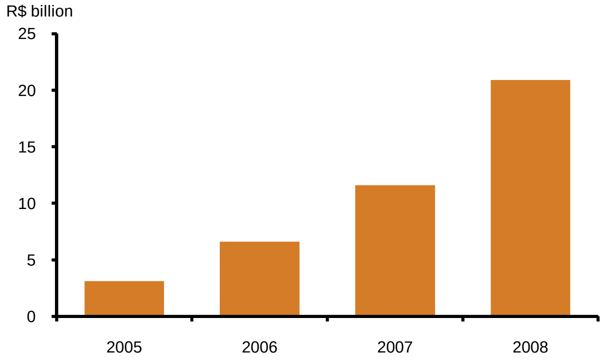


Table 3.4 – Nonearmarked credit operations

Itemization	2008 Jul	Aug	Sep	Oct	% growth 3 months	12 months
						R$ billion
Total	778.4	798.4	829.2	850.3	9.2	37.3
Corporations	408.9	423.2	444.8	458.4	12.1	45.9
Reference credit1/	338.8	349.3	368.5	379.1	11.9	46.2
Domestic funding	265.8	274.7	284.5	290.9	9.5	49.6
External funding	73.0	74.6	84.0	88.2	20.8	36.1
Leasing2/	48.0	50.8	53.7	54.4	13.3	71.9
Rural2/	2.3	2.5	2.8	3.2	37.4	70.3
Others2/	19.8	20.5	19.8	21.7	9.8	1.6
Individuals	369.5	375.2	384.3	391.9	6.1	28.4
Reference credit1/	266.2	268.5	270.5	273.4	2.7	16.5
Credit unions	14.8	15.4	16.0	16.5	11.6	37.5
Leasing	49.0	51.3	54.3	55.7	13.6	116.3
Others	39.4	40.1	43.5	46.3	17.4	41.3

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

Aiming to ensure the resources earmarked for the current harvest, the CMN increased from 25% to 30% the demand resources' share of financial institutions to be mandatorily directed to investment on rural credit. Additionally, the CMN rose from 65% to 70% the requirement for investment of savings resources from the rural savings account in credit operations to benefit farming, while it decreased, from 20% to 15%, the reserve requirements related to these deposits. Both measures will remain in force in the period from November 1, 2008 to June 30, 2009.

Housing loans granted to individuals and housing cooperatives summed up R$56.5 billion in October, rising 10.4% in relation to July, the accumulated disbursements with the savings accounts' resources totaled R$20.9 billion in the first nine months of this year, rising 80.3% compared to the corresponding period of 2007, with 87.2% contracted in the context of the Housing Financial System and 12.8% of interest rates freely contracted.

Credit Operations with nonearmarked resources

Loans granted with nonearmarked resources – responded, as observed in July, for 71.7% of the financing system's credit, totaling R$850.3 billion in October, increasing 9.2% in the quarter and 37.3% in twelve months. Loans to companies, R$458.4 billion, maintained a vigorous performance, expressed in expansions of 12.1% in the quarter and 45.9% in twelve months, with emphasis to the respective expansions of 10.2% and 48.4% experienced by the loans referenced in domestic resources, which totaled R$370.2 billion. Credit operations to individuals reached R$391.9 billion, registering expansions of 6.1% in the quarter and 28.4% in twelve months.

With regard to interest rate reference credit, loans for working capital continue registering a strong upturn evincing increases of 13.6% in the quarter and 83.8% in twelve months. The performance of this modality, besides continuing to mirror the evolution of the activity level, has been boosted by the restriction to external credit lines and in the domestic capital market, which constitute an alternative mechanism to finance productive activities.

Loans to corporate entities backed in external funding totaled R$88.2 billion in October, for a 20.8% growth in relation to July and 36.1% in twelve months. One should highlight that the quarterly growth was linked fundamentally linked to the exchange depreciation in the period.

Figure 3.7 – Interest rates on nonearmarked credit

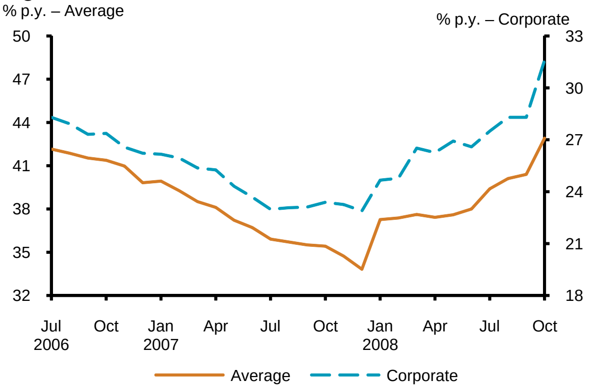


Figure 3.8 – Interest rates on fixed rate credit – Individuals

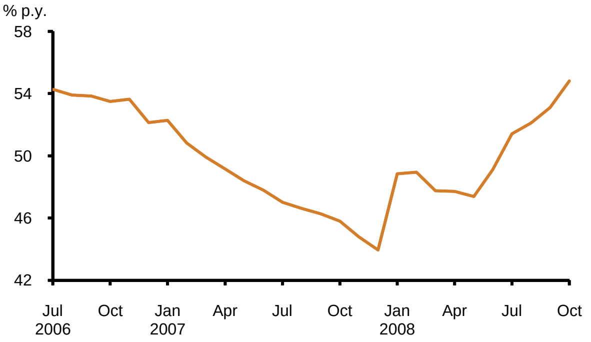


Figure 3.9 – Average spread on nonearmarked credit

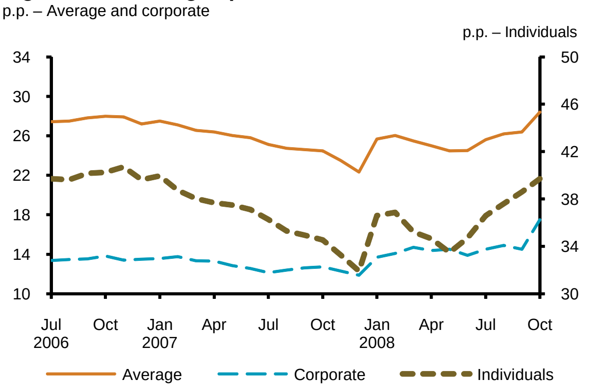
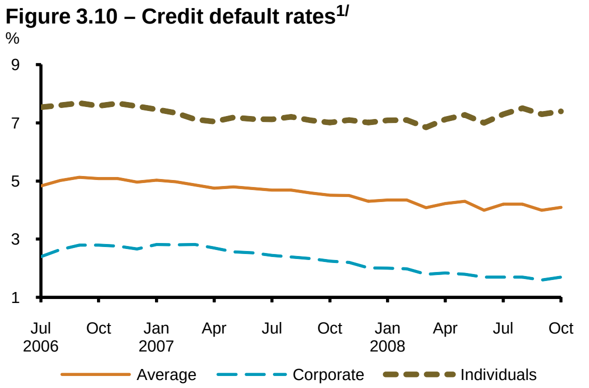


Figure 3.10 – Credit default rates1/



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

The Central Bank, aiming to ensure an adequate flow of resources in the credit lines directed to export activities, carried out operations of foreign exchange swap and auctions of foreign currencies to promote the necessary liquidity to the banking system. Additionally, the CMN established criteria for loan granting in foreign currency by the Central Bank to banking institutions. Therefore, export and import financing operations were admitted as guaranties among others, with the Central Bank determining that resources obtained by the banks be used, totally or partially, to new external trade operations Besides, as an incentive measure to carry out loans with external resources, the Presidential Decree 6,613, in force since October 23, 2008, decreased from 0.38% to zero the rate of the Financial Operations Tax (IOF) which prevailed since last March levied on foreign exchange operations related to external funding to loans and financing.

Regarding the segment to individuals, the balance of loans granted in the personal credit modality reached R$125.7 billion in October, registering expansions of 5.8% in the quarter and 27.2% in twelve months, of which R$77.9 billion referring to payroll-deducted loans, whose representation in the mode decreased from 55.8% in July, to 55.3%.

Financing to vehicle acquisition summed up R$81.4 billion in October, dropping 3% in the quarter and increasing 4.4% in twelve months. The downturn in the credit channeled to the vehicle trade has been offset by the expansion of leasing operations to individuals, which registered respective increases of 13.6% and 116.3%, on the same basis of comparison, topping R$55.7 billions.

The average interest rate of reference credit operations closed at 42.9% p.y. in October, increasing 3.5 p.p. in the quarter, a result of expansions of 4.1 p.p., to 31.6% p.y. in the segment of corporate entities, and 3.4 p.p., to 54.8%, in that related to individuals. The expansion in the corporate segment led to the respective increases of 5.6 p.p. and 5.3 p.p. observed in the fixed rate and inflation-indexed charges At the same time, in the segment of individuals the most representative increases occurred in the overdraft cheque’s segment, 8.1 p.p., and personal credit, 3.8 p.p.

The banking spread related to reference credit operations topped 28.4 p.p. in October. The quarterly growth of 2.8 p.p. is explained by a most conservative stance taken by financial institutions when grating credit, in a moment of strong wariness to risk.

Figure 3.11 – Average term for credit operations – Calendar day

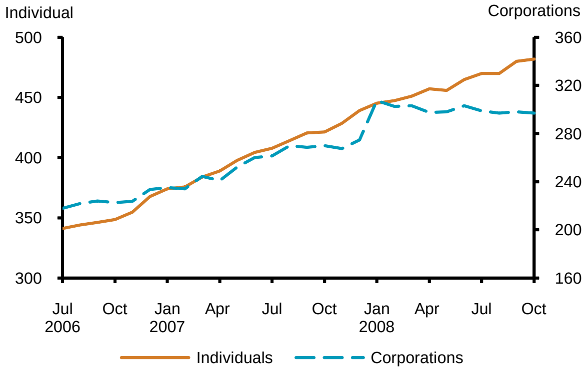


Figure 3.12 – Monetary base and M1 – Average daily balances

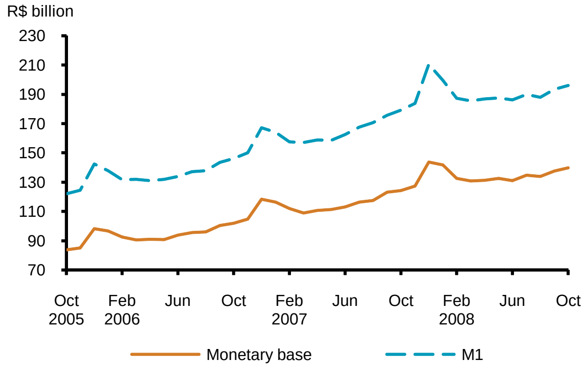
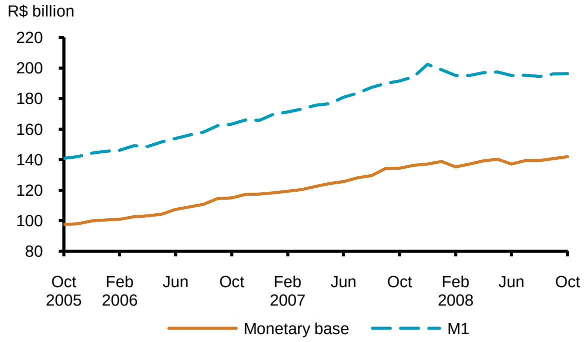


Figure 3.13 – Monetary base and M1 at October 2008 prices seasonally adjusted1/



1/ Deflated by: IPCA.

The default of the reference credit portfolio, considering arrears of over ninety days, reached 4.1% in October. The quarterly decrease of 0.1 p.p. translated identical evolution in the individuals segment, where the default reached 7.4%, while in the corporate segment remained stable at 1.7%.

The average term of loans concerning the reference credit modality posted stability in the quarter ended in October, as compared to the one ended in July, standing at 374 days. This result mirrored the increase of 12 days registered in the average term of the individuals' portfolio, which reached 482 days, highlighting growth of 24 days in the personal credit mode and the decrease of 12 days in the financing directed to vehicle purchase. On the other hand, the average term of operations with corporate entities fell 2 days, in the quarter.

3.2 Monetary aggregate

The restricted money supply (M1), considering the average daily balance, reached R$196 billion in October, registering growth of 1.3% in the month and 9.3% in twelve months, on the annual comparison, the declining trend observed since June was maintained. The average balances of currency outside banks and of demand deposits grew 17.6% and 4.2%, respectively, in twelve months. Considering seasonally adjusted and deflated data, the M1 grew 0.5% in the quarter ended in October, compared to that ended in July, mirroring the monetary aggregate stable behavior throughout the second half of the year.

The monetary base average daily balance stood at R$139.8 billion in October, with an increase of 12.4% in twelve months, corresponding to expansions of 17.7% in the currency's average balance and of 1.2% in the banking reserves.

With reference to the sources of primary currency issue, the releases related to the additional requirements on deposits totaled R$23.6 billion, mirroring both the reduction, from 8% to 5%, as of October, of the rates levied upon demand and time deposits as to the increase from R$300 million to R$1 billion, of the share to be deducted over these refunds. Such releases, linked to net redemptions of R$35.2 billion of the National Treasury's securities, contributed to the expansion of R$3.7 billion of the monetary base in the quarter. In the opposite direction, the contractionist effects linked to the National Treasury's operations, to net sales of foreign currency by the Central Bank on the interbank market of foreign exchange, and to the adjustments in

Figure 3.14 – Broad money supply
12-month growth

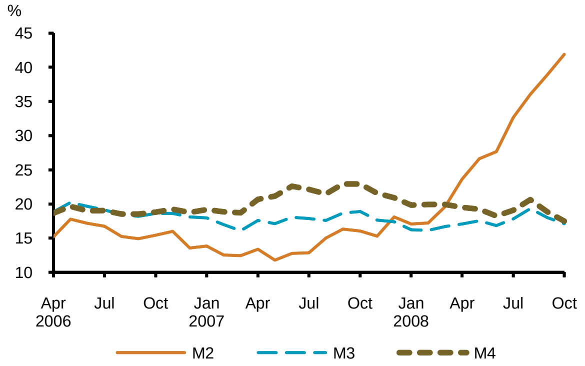


Figure 3.15 – Net financing position of the federal public securities – Daily average

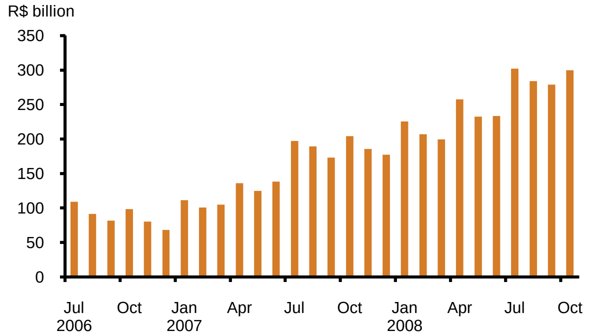
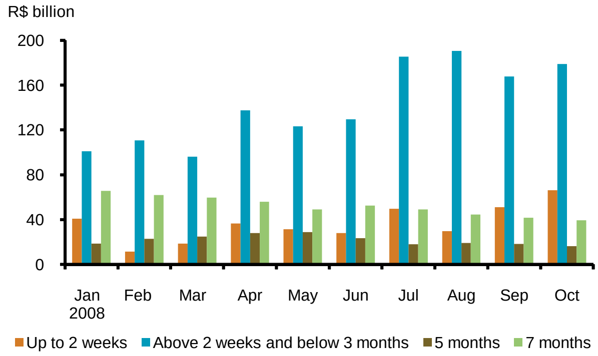


Figure 3.16 – Central Bank repo operations – Maturity – Aveage daily balances



the operations with derivatives summed up, in that order, R$26 billion, R$16 billion, and R$12.2 billion.

Money supply in the M2 concept, which aggregates the savings deposits, deposits and securities issued by financial institutions to the M1, summed up R$1.02 trillion in October, increasing 13.2% in relation to July and 41.9% in twelve months.

The M3 concept aggregates the investment fund quotas and public federal securities backing up the net financing position in repo operations to M2. Its total closed at R$1.8 trillion in October, a4.2% increase compared to July, even considering the respective decreases of 11.7% and 4.6%, in the volume of committed operations and on investment fund quotas. The M4, which encompass the sum of M3 plus public securities of nonfinancial holders, totaled R$2.2 trillion in October, with expansions of 3.3% in the quarter and of 17.4% in twelve months.

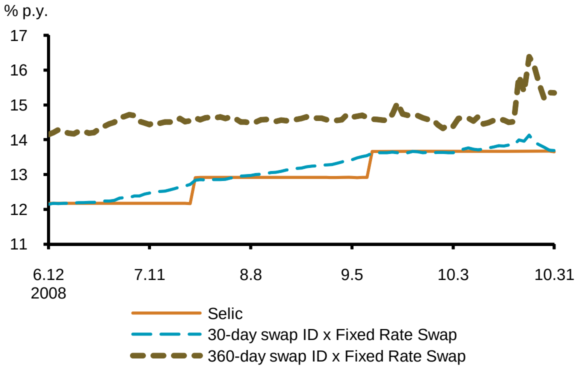
Federal public securities and Central Bank open market operations

Primary operations with federal securities carried by the National Treasury provided an expansionist impact of R$13.5 billion in the quarter ended in October, a result of placements of R$41.1 billion, maturities of R$51.1 billion and purchases and anticipated redemptions of R$3.5 billion. Swap operations reached R$9.3 billion.

The average daily balance of the Central Bank's financing net position in the open market summed up R$299.7 billion in October, against R$302.1 billion in July.

The Central Bank's financing and go-around operations, carried out with the aim of adjusting the financial system´s liquidity conditions, showed greater concentration, in October, of the participation of very-short term transfers, which totaled R$66.1 billion, against R$49.6 billion in July. On the other hand, cutbacks were registered in operations of two weeks to three months, from R$185.5 billion to R$178.8 billion; five months, from R$17.9 billion to R$16.2 billion; and seven months, from R$49.1 billion to R$39.3 billion.

Figure 3.17 – Interest rate



Source: BM&FBOVESPA

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

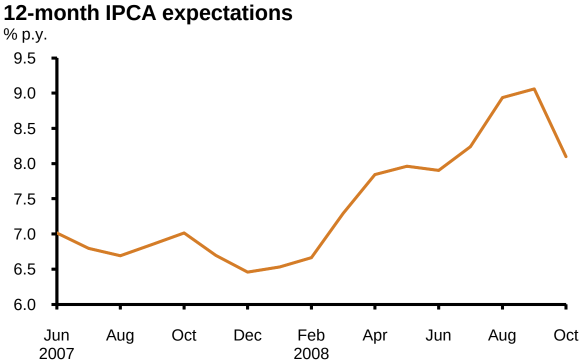
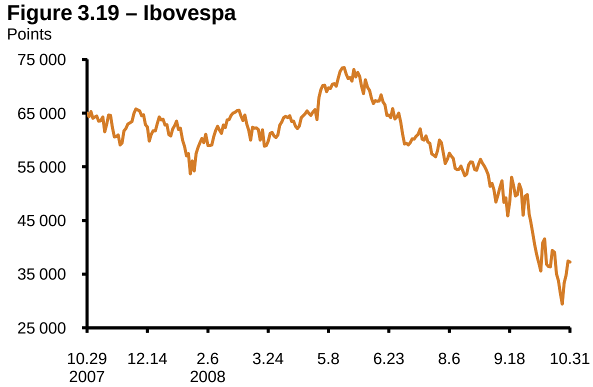
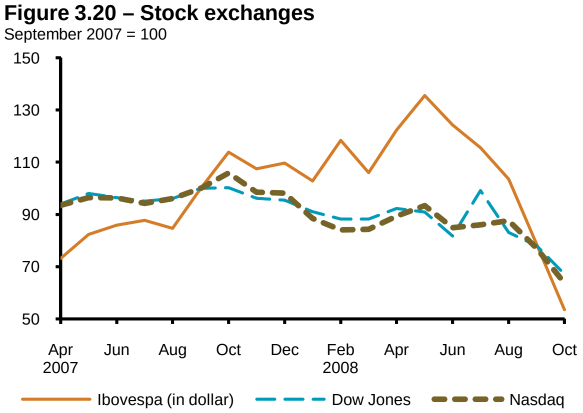


Figure 3.19 – Ibovespa



Source: BM&FBOVESPA

Figure 3.20 – Stock exchanges



Real interest rates and market expectations

The future yield curve – ID x fixed-rate swap contracts showed, in the quarter ended in October, a upward trend in all the vertices, highlighting, in line with the increased uncertainty in the international financial markets, the movement in the vertices with terms higher than on year. The 360-day swap DI x pre suffered increase of 69 b.p. in the quarter, reaching 15.3% p.y up to the end of October, after reaching 16.5% p.y. in October 24, the highest rate since December 2005.

The real ex-ante Special System of Clearance and Custody (Selic) rate for the next twelve months, calculated based on survey by the Market Survey Report of October 31, carried out by the Central Bank, reached 8.1% p.y. as compared to 8.2%p.y.in July and 9.1% p.y., in late September. The monthly cutback translated the combination of effects of accommodation of expectations of the 12-month Selic rate, from 15.6% p.y. to 13.9% p.y., and the increased IPCA growth expectations, from 5.1% p.y. to 5.3% p.y.

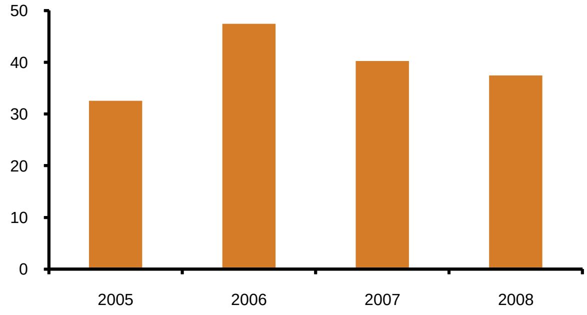
Capital market

Following the tendency of the main stock markets of mature and emerging economies, the São Paulo Stock Exchange Index (Ibovespa), indicating greater investors wariness to risk, experienced sharp losses, in an environment of strong volatility, during the quarter ended in October. The Index fell 37.4% in the quarter, reaching 37.256 points in the period, while the market average value of the companies listed in the index declined 35.6%, standing at R$1.4 trillion, level of October 2006. The average daily volume transferred in the quarter showed cutback of 17.2% compared to the one registered in the quarter ended in July.

In dollar terms, the Ibovespa showed an even stronger cutback, 53.6%, evincing the process of foreign exchange depreciation observed in the period, while the Dow Jones and Nasdaq Indices fell, in the order, by 32.3% and 26%, the same level of 2003.

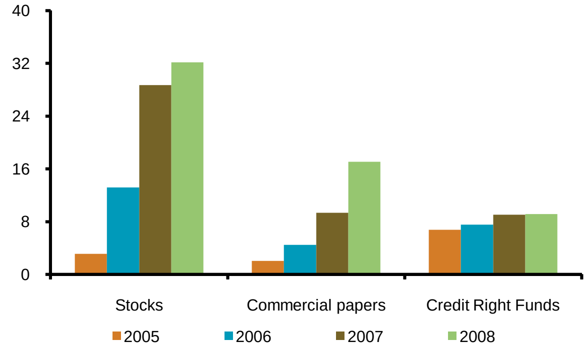
The companies’ borrowings from the capital markets, through issues of securities, debentures, promissory notes and placement of crdit rights receivables reached R$95.8 billion in the early ten months of 2008. The primary issues of securities totaled R$32.1 billion, against R$28.7 billion, in the corresponding period of 2007. One should underscore the growth of 83% in promissory notes issue, which topped R$17 billion in 2008.

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



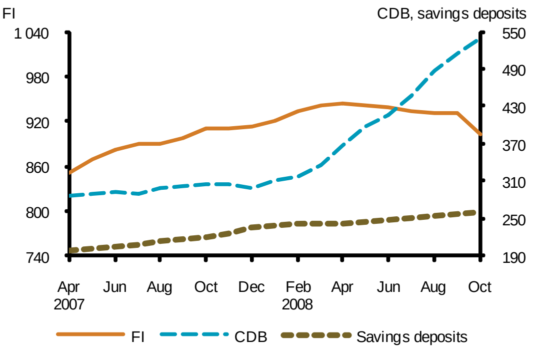
Source: CVM

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



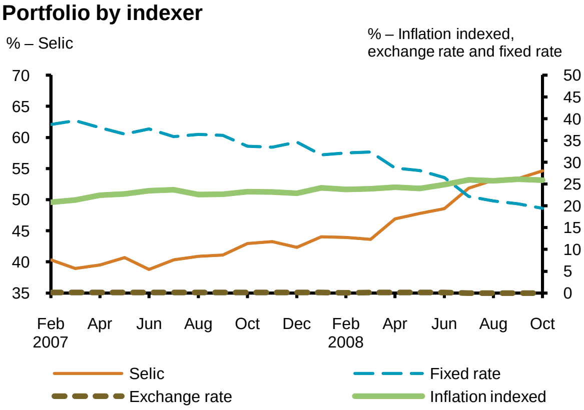
Source: CVM

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



1/ Excludes investment funds in stocks and in external debt.

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



Financial investments

Investment funds, time deposits and saving accounts totaled R$1.7 trillion in the period ended in October, registering growths of 1% in the quarter and 12.5% in twelve months.

The investment funds' net worth, considering foreign exchange, short-term, fixed income, multimarket and referenced funds, grew by 2.5% in the quarter ended in October, standing at R$974.8 billion, in line with the occurrence of net withdrawals of R$45 billion. One should highlight that among the mentioned modalities, only the referenced funds, registered a positive net inflow, R$713.9 million. The extramarket investment funds' net worth, which manages resources belonging to the indirect federal administration entities, reached R$32.9 billion, registering quarterly net inflows of R$2.2 billion.

The variable-income funds, mirroring the Ibovespa performance, totaled R$119 billion up to the end of October, showing decreases of 25.5% in the quarter and 18.4% in twelve months.

The savings accounts' balance grew by 3.2% in the quarter ended in October, standing at R$259 billion, registering net inflows of R$3 billion. Time deposits reached R$540.1 billion, showing increases of 21.1% in the quarter and 76.4% in twelve months.

3.3 Fiscal policy

The National Congress approved, in October, Law 11,793, which authorizes the Federal Government to transfer R$3.3 billion to states and municipalities, in the 2008 fiscal year, aiming at promoting exports. With this measure, transfers, as forecasted by the Complementary Law no115 dated December 26, 2002, should reach R$4.6 billion up to the end of the fiscal year, against R$3.9 billion observed in 2007.

Performing in the sense of promoting greater market liquidity, the publishing of Provisional Measure 447, in November, expanded in 10 days the term for the collection of the Industrialized Products Tax (IPI), of the Income Tax Withholdings (IRRF) and of the pension paid by the companies, and, in five days, the term for the collection of the Social Integration Program (PIS) and of the Contribution to Social Security Financing (Cofins). One should note that these procedures should be observed in relation to

Central Bank Measures Aimed at Expanding Liquidity in National Currency

Restrictive liquidity conditions on international financial markets coupled with obstruction of the credit flows used by national banks to grant advances on exports have provoked interbank market contraction.

With the aim of ensuring adequate liquidity conditions in the system, the Central Bank adopted measures targeted at generating liquidity in foreign currency (see box International Financial Crisis – Brazilian Government Measures to Strengthen Liquidity in Foreign Currency, page 98) and in national currency. These measures are summarized in Table 1 of this box. The principal initiatives taken to provide national currency liquidity took the form of alterations in the rules governing reserve requirements maintained at the Central Bank by financial institutions. These rules are considered a traditional monetary policy instrument and play a fundamental role in stabilizing short-term liquidity in the economy.

Reserve requirements are calculated by applying rates to the principal deposit modalities: demand deposits, savings deposits and time deposits and, as of January 2008, to interbank deposits contracted with leasing companies. These resources, which also encompass additional reserves on demand resources, time deposits and savings deposits are deposited in cash or maintained in the form of federal public bonds in the Special System of Settlement and Custody (Selic). The Brazilian model divides reserve requirements maintained at the Central Bank into those bearing earnings and those that do not bear earnings, thus making it possible to adjust liquidity through alterations in the opportunity costs of financial institutions.

The recent alterations introduced by the Central Bank and National Monetary Council (CMN) consisted of reductions in rates, increases in the amounts to be deducted from callable reserves, changes in earnings on reserve requirements, together with discounts on amounts to be deposited as an incentive to negotiation of assets among financial institutions. Viewed as a whole, these alterations resulted in effective release of R$93.9 billion out of the total balance of these deposits in the period extending from September 24 to December 2.

The first alteration in that period occurred on September 24 with issue of Circular n. 3,405. This instrument postponed the schedule for raising reserve requirement rates on interbank deposits contracted with leasing companies. Circular n. 3,412, dated October 13, permitted deduction of the amounts of foreign currency acquisitions with Central Bank buyback commitments from callable reserves on interbank deposits. This measure resulted in release of as much as R$18.6 billion into the banking system, as of the date of its publication. Of this amount, R$8 billion were released by December 2.

Circular n. 3,405 also raised the value to be deducted from additional reserves on demand deposits, time resources and savings deposits from R$100 million to R$300 million, resulting in additional releases of R$5.3 billion as of September 29. The deduction limit was raised once again, this time to R$1 billion by Circular n. 3,410, dated October 13, resulting in injection of approximately R$8.1 billion. With issue of Circular n. 3419 on November 13, as of December 1 deposits related to additional requirements were no longer made in cash with earnings at the Selic rate, but rather by setting aside federal public bonds in Selic.

Acquisitions of the assets of small and medium financial institutions were stimulated by the provision in Circular n. 3,407, dated October 2, later altered by Circulars n. 3,411, dated October 13, and 3,414, dated October 15, which allowed institutions that acquire assets from banks with base capital of up to R$7 billion, to deduct the value of acquisitions of credit operations, bonds and fixed yield securities from investment fund portfolios, credit rights originating in leasing operations or FIDC quotas from Credit Rights Investment Fund (FIDC) portfolios and investments in interbank deposits guarantied by credit and leasing operations or fixed yield securities, up to a limit of 70% of reserve requirements on time resources. This measure made it possible to release an amount of up to R$29.5 billion in reserve requirements to financial institutions. The incentive to interbank acquisitions of financial assets was further reinforced by Circular n. 3,417, dated October 30, which included interbank deposits of institutions not related one to another among the assets apt for deduction and determined that 70% of deposits related to time resources must be maintained in cash without earnings – up to that time, compliance was limited exclusively to bonds. The new rule on the composition of these requirements went into effect on November 14. Circular n. 3,421, dated November 25, excluded BNDES from the base capital limitation, allowing banks to deduct acquisitions and investments with that institution from reserve requirements on time resources. In effective terms, the release of resources resulting from interbank acquisitions of assets totaled R$27.1 billion through December 2.

Reserve requirements on time resources were also altered by Circulars n. 3,408, dated October 8, and n. 3,410, dated October 13, which raised the value to be deducted from these requirements in two stages from R$300 million to R$2 billion. The resulting release added up to R$18.6 billion.

The rate on demand resources was cut from 45% to 42% by Circular n. 3,413, dated October 14, resulting in release of R$3.6 billion as of the 29th day of that month. Aside from this, Circular n. 3,416, dated October 24, determined that the value of voluntary anticipated payments to the Credit Guaranty Fund (FGC) could be deducted from reserve requirements, in an amount corresponding to 60 times the value of the ordinary contribution for the month of August 2008. These voluntary anticipations added up to R$5.4 billion.

Compulsory reserve on savings deposits in the framework of the SBPE remained subject to the 20% rate. Parallel to this, Resolution n. 3,625, dated October 30, reduced the rate on rural savings to 15%, representing an additional release of resources totaling approximately R$2.6 billion as of November 10.

Aside from alterations in the reserve requirement rules, measures were adopted with the aim of channeling credit to specific sectors of economic activity. In this context, targeting of demand deposit and rural savings resources to farm credits was increased from approximately 25% to 30%, by Resolution n. 3,623, dated October 14, and from 65% to 70%, by Resolution n. 3,625, dated October 30. In both cases, the alterations will remain in effect from November 2008 to June 2009.

In another initiative aimed at expanding banking system access to liquidity, Resolution n. 3,622, dated October 9, defined criteria and special conditions for Central Bank evaluation and acceptance of assets in discount window operations in national currency. These operations can be carried out in the form of asset sales with buyback commitments by the financial institutions.

Table 1 –Timetable of Alterations

Norms	Assets	Adjustment (as of)	Alteration
Circular n. 3,413, 10.14.2008	Demand deposits	10.29.2008	Lowers the rate from 45% to 42%.
Circular n. 3,416, 10.24.2008		10.24.2008	Deducts the voluntarily anticipated instalments of the ordinary contribution to the FGC.
Resolution n.3,623, 10.14.2008		10.14.2008	Increases the rural credit channeling from 25% to 30%.
Circular n. 3,407, 10.2.2008	Time deposits	10.10.2008	Deducts from the payment on time resources in purchases of credit portfolios from financial institutions.
Circular n.3,408, 10.8.2008		10.10.2008	Raises the instalment to be deducted from payments on time resources from R$300 million to R$700 million.
Circular n. 3,410, 10.13.2008		10.17.2008	Raises from R$700 million to R$2 billion the value of the instalment to be deducted from payments on time resources.
Circular n. 3,411,10.13.2008		10.17.2008	Alters Circular n.3,407 (assets and eligible institutions).
Circular n. 3,414,10.15.2008		10.15.2008	Alters Circular n. 3,407 (included interbank deposits, advances and other credits among eligible assets.)
Circular n. 3,417, 10.30.2008		11.14.2008	Compliance with the requirements for payments shall be 30% in federal public securities and 70% in cash.
Circular n. 3,421, 11.25.2008		11.25.2008	Alteration of Circular n. 3,407 (BNDES assets included among those eligible)
Circular n. 3,405, 9.24.2008	Additional requirements	9.29.2008	Raises the instalment to be deducted from payments of additional requirements from R$100 million to R$300 million.
Circular n. 3,408, de 10.8.2008		10.13.2008	Lowers the rate of the additional requirement on demand and time resources from 8% to 5%.
Circular n. 3,410, 10.13.2008		10.13.2008	Increase from R$300 million to R$1 billion in the amount to be deducted from payments referring to additional claims.
Circular n. 3,419, 11.13.2008 and Resolution n. 3,634,		12.1.2008	Complying with the additional requirements shall be in federal public securities.
Circular n. 3,405, 9.24.2008	Interbank deposits	1.16.2009 and 3.13.2009	Alters the timetable for a gradual rate increase.
Circular n. 3,412, 10.13.2008		10.13.2008	Allows to reduce the amount of foreign currency acquisition with resale commitment from payments.
Resolution n. 3,625, 30.10.2008	Rural savings	11.10.2008	Raises the channeling of resources to the rural credit from 65% to 70% and reduces the rate of payments from 20% to 15%.

Figure 3.25 – Net inflow – Savings deposits and time deposits

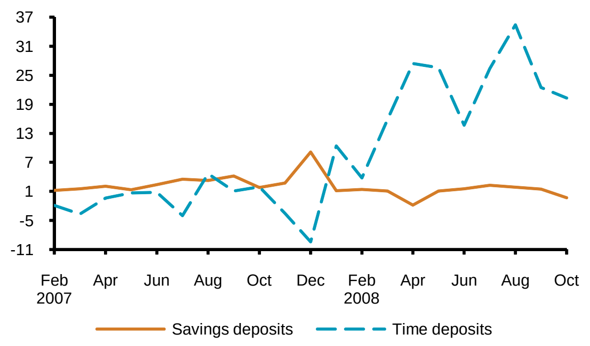
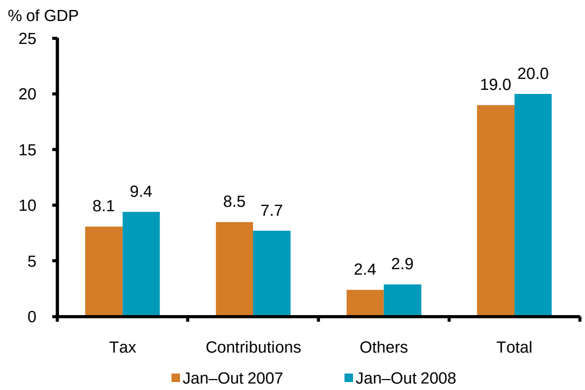


Table 3.5 – Public sector borrowing requirements – Primary result – January-October

Segment	2006		2007		2008	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Central Government	-57.2	-3.0	-63.3	-3.0	-95.3	-4.0
Sub-national governments	-19.2	-1.0	-28.6	-1.4	-29.0	-1.2
State companies	-14.6	-0.8	-14.6	-0.7	-8.6	-0.4
Total	-91.0	-4.8	-106.6	-5.1	-132.9	-5.6

Figure 3.26 – National Treasury gross revenue



the underlying facts occurred since November 1, and that these must not impact the estimations of federal revenue collections in the year.

Aiming at adjusting the Federal government's budget proposal for 2009, submitted to the National Congress in August, to the new environment experienced by the world economy, the government reduced the budget revenue estimate by R$15 billion. Evincing the reduction forecasted for expenditures, without jeopardizing social expenditures or investments estimated on the PAC, the target for the primary surplus remained at the level previously defined.

Public sector borrowing requirements

The consolidated public sector's primary surplus totaled R$132.9 billion in the ten early months of the year, increasing 0.54 p.p. of GDP as compared to the corresponding period of 2007. This evolution mirrored the growth of 1.01 p.p. in the Central Government's result, while the regional governments and state owned companies' surpluses showed respective cutbacks of 0.14 p.p. and 0.33 p.p., in the period.

The improvement in the Central Government's result mirrored the growth of the federal government's surplus and the reduction of the Social Security's deficit, having contributed, in both cases, to the higher increase in revenues as compared to expenditures, in line with the economy's favorable performance in the period.

The Central Government's revenues, excluding the transfers to states and municipalities, grew by 17.6% in relation to the first ten months of 2007, while the expenditures increased 11%.

The National Treasury's revenues increased 19.1%, to R$463.7 billion, standing 0.7 p.p. of the GDP above the level from January to October in the previous year. This evolution was connected to both positive impacts related to the upturn in activity shown by the economy in the period, and to the administrative measures carried out by the Secretariat of the Federal Revenue and by the General Attorney of the National Treasury aiming at the recovery of defaulting debts, which enabled a 26% growth in the collection of penalties and interests.

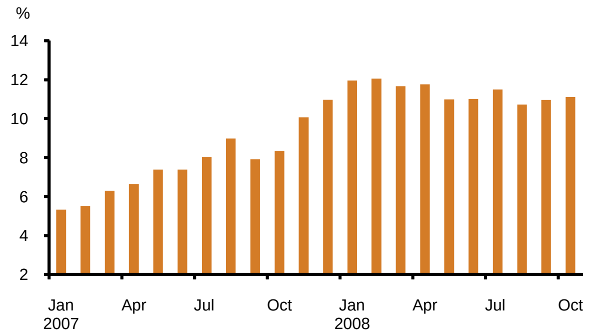
The collection of the Corporate Income Tax (IRPJ) increased 30.2% and that linked to Cofins, 20.2%, results consistent with the higher earnings evidenced by companies, especially in the sectors of financial services, fuels, automotive vehicle manufacturing, wholesale trade, metallurgy and the construction industry.

Confirming the repercussions of the improvements' in the labor market on the growth of overall wages, the difference of generating facts between the months of January 2008 and 2007, the increase in the volume of resources distributed as equity ownership on profits and business results, linked, especially, to greater earnings of the financial sector's companies, the IRRF inflow grew 20.2% in the period.

The industry's favorable performance in the sectors of vehicles, metallurgy and non-metallic minerals contributed so that the growth of IPI collection to reach 20.6%, evolution impelled, still, by the growth of the tax share linked to imports, in line with the growth trajectory of external purchases and with growth of 0.03% in the tax effective average rate.

The 164.6% growth in the IOF, in the initial ten months of 2008, mirrored both the increase on its rate, registered in the beginning of the year, and the upturn in credit operations and judicial deposits' atypical collection related to previous periods.

Figure 3.27 – 12-month real growth rate of Treasury revenues1/

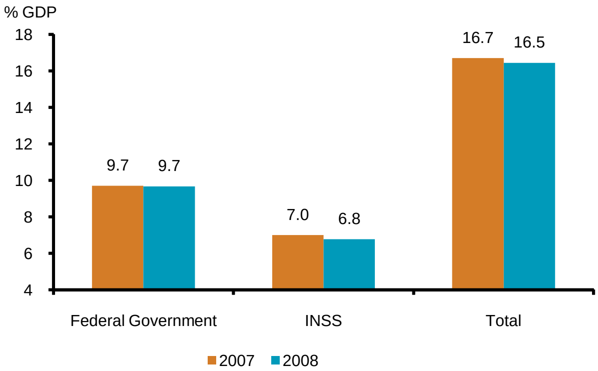


1/ Updated by IPCA.

The other National Treasury revenues expanded 39.4% in the period, with emphasis on those related to granting, 312%, boosted by the collection related to the bid of exploratory blocks of petroleum and natural gas, and of licenses for exploration of the third generation band of cellular phone service companies, both without correspondence in the equivalent period of 2007; to the dividends paid debt by state-owned companies, 94.9%; and to the participation-quota from financial clearances, 51.8%, in view of the increase in the international petroleum.

The real twelve-month growth of the National Treasury total revenues continued robust in October, though at a level lower than the one registered, on the same basis of comparison, in the first months of the year. This trajectory, taking into account the accentuated correlation among the levels of the revenue and of the domestic economic activity, will be impacted, in the following months, by the effects of the financial crisis on the real sector of the Brazilian economy.

Figure 3.28 – Central Government expenditures



The Central Government's expenditures totaled R$392.1 billion in the first ten months of 2008, dropping 0.26 p.p. of GDP in relation to the corresponding period of 2007, the first cutback registered on this basis of comparison

Table 3.6 – National Treasury Expenditures
January-October

Itemization	2007		2008	
	R$ million	% GDP	R$ million	% GDP
Total	289 018	20.0	333 995	20.5
Transfers to states and municipalities	84 588	5.8	104 298	6.4
Personnel and payroll charges	93 107	6.4	102 513	6.3
Capital and current expenditures	110 997	7.7	126 393	7.8
Workers Support Fund	15 084	1.0	17 737	1.1
Subsidies and economic subventions	5 948	0.4	3 977	0.2
Loas/RMV	11 183	0.8	13 266	0.8
Investment	14 249	1.0	20 032	1.2
Other capital expenditures	64 533	4.5	71 383	4.4
National Treasury transfers to the Central Bank	326	0.0	791	0.0

Source: Minifaz/STN

Figure 3.29 – Federal Government: investment expenditures paid

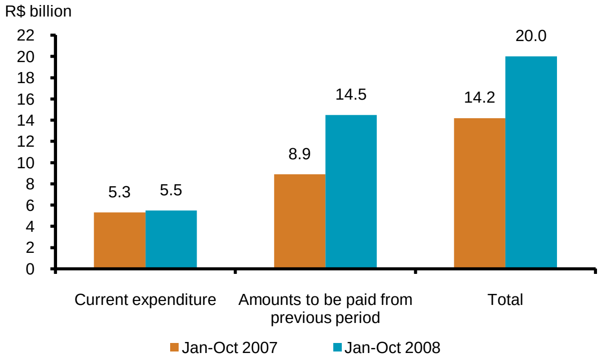
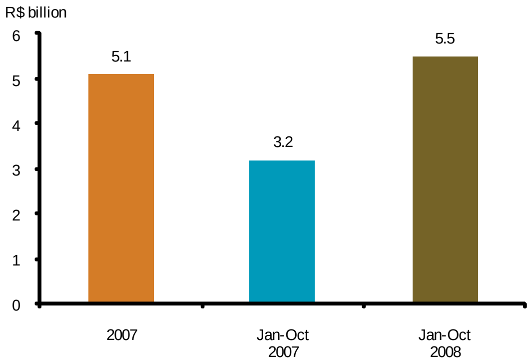


Figure 3.30 – Basic Investment Plan (PPI) expenditures



since 2003. This result translated decreases of 0.03 p.p. of GDP in the National Treasury's expenditures and of 0.23 p.p. of GDP in Social Security's expenditures, while the ones related to the Central Bank showed stability.

The cutback in the National Treasury expenditures was linked to the decrease of 0.1 p.p. of GDP, in the expenditures with personnel and social charges.

On the other hand, expenditures with current expenditures and capital increased 0.06 p.p. of GDP in the first ten months of the year. The expenditures related to the Worker Support Fund (FAT), which include wage bonus and unemployment insurance, and the ones related to the Social Assistance Law (Loas) and to the Lifetime Monthly Income (RMV) increased, in the period, in line with the increases to the minimum wage and in the number of beneficiaries assisted.

Expenditures with subsidies and grants decreased in 0.11 p.p. of GDP, result of the increase in net returns in the context of the National Development Fund (FND) and of the expenditures reduction with the programs of Farming Current Expenditures, Federal Government Acquisitions (AGF) and Price Support.

The other current and capital expenditures increased 0.11 p.p. of GDP, impelled by the growth of 40.6% of the Federal Government's total investments, with emphasis on the 73.9% increase in investments included in the Pilot Investment Project (PPI), eligible for deduction from the primary surplus target.

The Social Security's primary deficit decreased 0.41 p.p. of GDP in relation to the first ten months of 2007, result of the growth of 0.18 p.p. of GDP in the net collection, impelled by the growth in overall wages in the period, and a cutback of 0.23 p.p. of GDP on paid benefits.

The average value of the paid security benefits grew by 7%, an evolution compatible both with the minimum wage increases and of payments higher than the minimum wage value, and with growth of 2.6% in the monthly average amount of benefits, resulting in growth of 3.9% in retirements and cutback of 9.1% in the number of benefits granted.

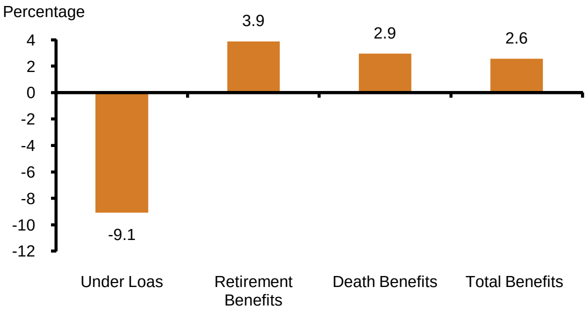
The total transfers to regional governments increased 23.3% in the first ten months of 2008, in relation to the corresponding period of the previous year, an evolution consistent with the increases registered in collections related to the Income Tax and to the IPI, taxes which form the basis of the states and municipalities revenue sharing fund, and

Table 3.7 – Social security primary result
January-October

R$ billion

Itemization	2007	2008	Var. %
Gross inflow	120.5	141.3	17.3
Cash refunds	-0.4	-0.4	0.0
Transfers to third parties	-11.3	-14.1	24.8
Net inflow	108.8	126.8	17.2
Social Security benefits	147.3	160.5	9.0
Primary result	-38.5	-33.7	-12.5
Net inflow/GDP	5.17%	5.35%	
Social Security benefits/GDP	7.00%	6.77%	
Primary result/GDP	-1.83%	-1.42%	

Figure 3.31 – Growth in the number of benefits issued by Social Security (Jan-Oct 2008 average/Jan-Oct 2007 average)



Source: STN

Figure 3.32 – Transfers to states and municipalities

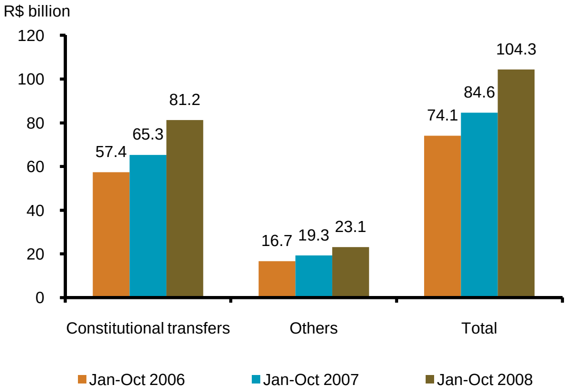
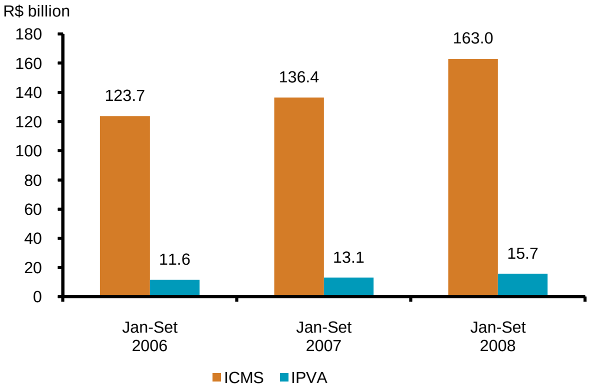


Figure 3.33 – ICMS and IPVA inflow



in the international prices of petroleum, with growth in the volume of royalties and of special participation by the petroleum and natural gas exploitation.

The collection of Tax on the Circulation of Merchandise and Services (ICMS), tax collected by the state and shared with municipalities, grew by 19.5% in the first nine months of the year, in relation to the corresponding period of 2007, while the ones related to the Tax on Ownership of Automotive Vehicles (IPVA), state tax also shared with governments municipalities, grew 20.1%.

The growth in regional revenues, in view of increases of the directly collected tax and of the federal government's transfers, did not prevent the ratio between the subnational government's primary surplus and the GDP from decreasing in the initial ten months of 2008, compared to the same period of 2007, suggesting significant growth in expenditures in the year. One should highlight that the subnational government's surplus level accumulated in twelve months continues compatible with the average in recent years, at the same time that their net debt, expressed as a percentage of the GDP, remains on a downward trend, evincing the favorable impact of the debts refinancing agreements negotiated between the subnational governments and the Federal government at the end of the last decade, linking regional revenues' share to the payment of debts.

The state-owned companies surplus, particularly reflecting the result in the federal level, dropped 0.33 p.p. of GDP in the early ten months of the year when compared to the same period in 2007. This reduction involved mostly the rise in investment expenditures, in accordance to PAC guidelines.

The appropriation of nominal interests on an accrual basis totaled R$134.7 billion in the first ten months of the year, 5.68% of GDP, fell 0.75 p.p. in relation to the same period of 2007, a cutback linked to the reversal of the result of the exchange swap operations, which moved from a financial loss of R$8.9 billion, to a gain of R$6.3 billion, in the period.

The public sector's nominal debt, evincing the primary surplus growth and the lower interest appropriation, decreased from R$28.7 billion, 1.36% of the GDP, in the first ten months of 2007, to R$1.8 billion, 0.08% of the GDP, in the corresponding period of 2008, the best result of the series initiated in 1991. This nominal debt was financed with expansion of the securities debt, partially offset by net reductions of the banking debt, of external financing, and of other domestic financing sources, which include the monetary base.

Figure 3.34 – Regional governments: Cumulative 12-month primary surplus and net debt

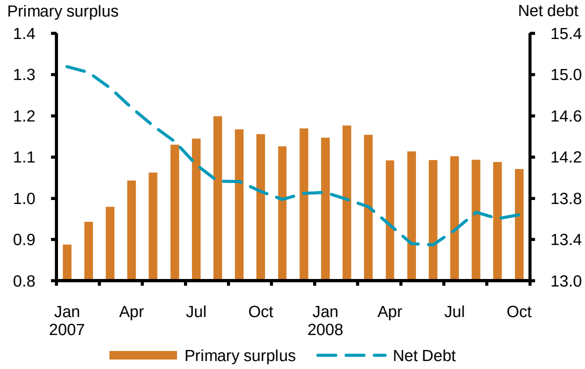
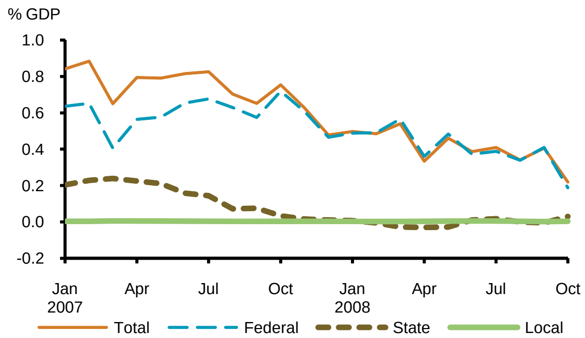


Figure 3.35 – Primary surplus of public enterprises
12-month cumulative data



(+) Surplus (-) Deficit

Figure 3.36 – Nominal interest

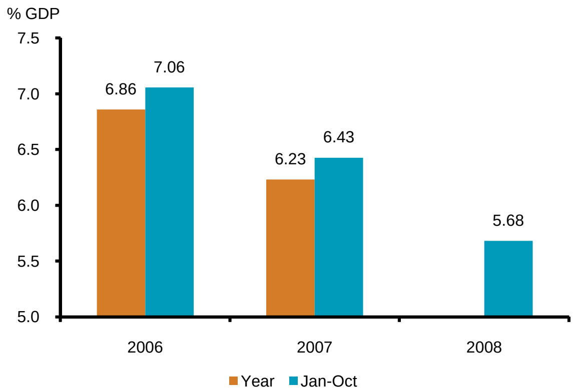
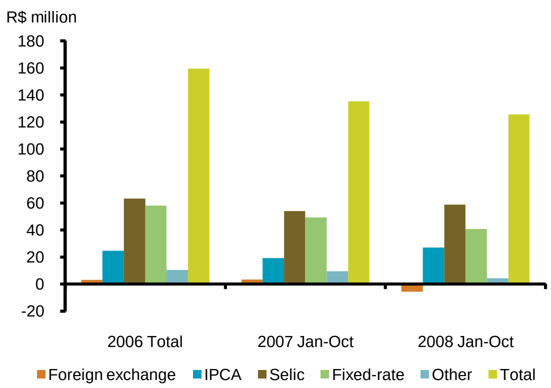


Figure 3.37 – Nominal interest by indexing factor



Federal securities debt

The federal securities debt, assessed by the portfolio position, totaled 41.3% of GDP in October, registering an increase of 0.1 p.p. in relation to July and decreasing 4.2 p.p. of GDP as compared to December 2007. The quarterly growth mirrored contractive impacts related to the occurrence of net redemptions carried out in the primary market and the expansionist effects related to the foreign exchange decline of 35% and to the nominal interest incorporation, of the order of R$38.4 billion, observed in the quarter.

The participation of foreign exchange, price indices and fixed-rate securities in the overall federal securities debt, grew from 0.6%, 23.6% and 24.7%, in July, in the same order, to 0.8% 23.9% and 25.3%, in October. The participation of securities linked to the over/Selic rate and to the reference rate dropped from 29.5% and 1.6%, respectively, to 29.2% and 1.2%. The resources borrowed by the Central Bank through open market operations decreased by 0.4 p.p., reaching 19.5%.

The Annual Financing Plan (PAF) 2008, aiming to minimize the funding costs of the long-term federal public debt and ensure prudent risk levels, had initially defined, as the target for the year, the maintenance of the fixed-rate securities participation between 35% and 40% of the debt's total composition, and that of the securities indexed to the over/Selic rate, between 25% and 30%. Later, in line with the worsening international financial crisis, these floating lines were respectively modified, to 29% to 32%, and 31% to 34%. In October, these participations reached, in the order, 25.3% and 29.2%, lower, however, than the newly established parameters.

Repo operations carried out in the open market, which represented short-term financing, reached R$321.7 billion in October, against R$323.5 billion in July, evincing net purchases of R$11.5 billion and interest incorporations of R$9.7 billion.

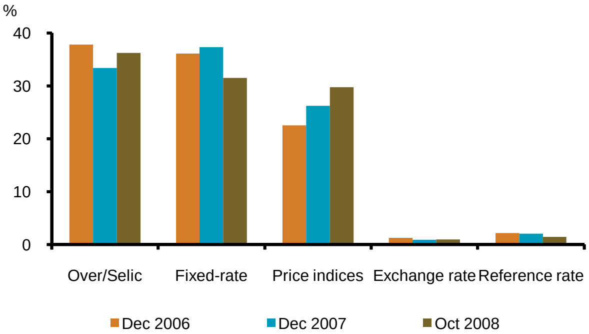
The amortization schedule of the securities debt in the market, except financing operations, registered, in October, 2.4% of the maturities in 2008; 23.8% in 2009; and 73.8% since January 2010, evincing expansion of the debt's maturity term which, in the same period of 2007, showed respective maturities of 2.7%, 27.3% and 70%.

The securities debt structure, in October, indicates that 22.9% of the securities showed maturation in up to 12 months,

Table 3.8 – Public sector borrowing requirements – January-October

Itemization	2007		2008	
	R$ billion	% GDP	R$ billion	% GDP
Uses	28.7	1.4	1.8	0.1
Primary	-106.6	-5.1	-132.9	-5.6
Interest	135.2	6.4	134.7	5.7
Sources	28.7	1.4	1.8	0.1
Domestic financing	221.4	10.5	56.9	2.4
Securities financing	238.7	11.3	132.4	5.6
Bank financing	-22.0	-1.0	-63.7	-2.7
Others	4.8	0.2	-11.8	-0.5
External financing	-192.7	-9.2	-55.1	-2.3

Figure 3.38 – Federal securities debt structure by indexing factor[1/]



1/ It does not include swap.

Table 3.9 – Repo operations – Open market
Balances and percentage share

R$ million

Period		Up to 1 month		More than 1 month		Total
		Balance	%	Balance	%	Balance
2003	Dec	43 742	78.5	11 975	21.5	55 717
2004	Dec	7 797	16.5	39 410	83.5	47 207
2005	Dec	-24 430	-106.9	47 286	206.9	22 856
2006	Dec	5 800	9.7	54 231	90.3	60 030
2007	Mar	41 656	39.3	64 281	60.7	105 937
	Jun	10 198	7.5	126 562	92.5	136 760
	Sep	7 561	4.3	168 525	95.7	176 086
	Dec	-1 460	-0.9	167 274	100.9	165 813
2008	Mar	37 349	18.2	167 643	81.8	204 991
	Jun	42 818	18.4	190 311	81.6	233 129
	Sep	87 261	30.9	195 107	69.1	282 368
	Oct	109 571	36.8	188 156	63.2	297 727

while the average term of the debt's maturation stood at 40.2 months, against respective limits of 27% and 42 months established in the PAF 2008.

The foreign exchange swap operations reached R$4.1 billion positive, in October, comparatively to R$40 billion negative, in the previous month, an evolution consistent with the Central Bank performance on the significant corporate demand for foreign exchange hedge in the period.

In the quarter, considering the cash basis, the result of the exchange swap operations, defined as the difference between the Interbank Deposits' (DI) profitability and the exchange variation plus coupon, was favorable to the Central Bank by R$12.2 billion. The result accumulated since 2002, when these operations began, is favorable to the Central Bank by R$5.5 billion.

Gross and net debt

The PSND totaled R$1,088.6 billion in October, 36.6% of GDP, decreased in 6 p.p. of GDP in relation to December 2007. By segments, the net debts of the Central Government, regional governments and state owned companies registered respective reductions of 5.3 p.p., 0.2 p.p. and 0.5 p.p. of GDP, in the period. The primary surplus forecasted for the year and the appropriated interest performance, which continued decreasing when compared to GDP, indicated a new reduction in the ratio PSND/GDP up to the end of 2008, representing the fifth consecutive positive result in the year.

The behavior of the ratio PSND/GDP in 2008 translated the effects of the primary surplus, of valuated GDP growth and of adjustments derived from the exchange depreciation of 19.4% registered in the period. In that case, the positive impacts proved to be more intense than that provided by the incorporation of appropriated nominal interests. One should highlight that the exchange decrease registered in the ten first months of the year responded for 2.1 p.p. of the fall experienced by the PSND/GDP ratio, in the period.

The PSND composition in the year mirrored, especially, the growth in net issues of securities indexed to the IPCA and to the Selic rate, which started to represent, in the order 26.2% and 64.6% of the debt, against, 20.4% and 48.7% up to the end of 2007. The participation of fixed-rate securities dropped from 40.6% to 35.5%, in the same period, evincing the deterioration of inflationary expectations.

Figure 3.39 – Profile of maturities of the securities debt

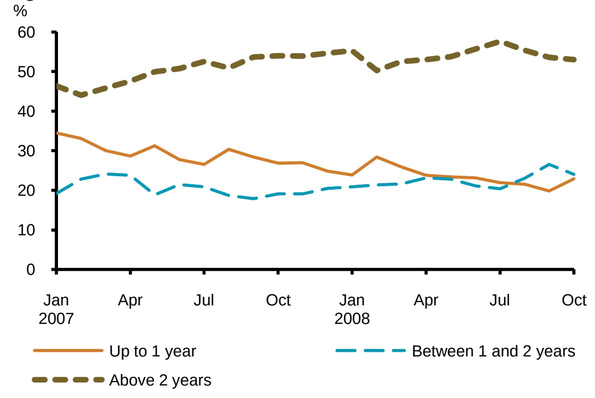


Figure 3.40 – Swap and open market position

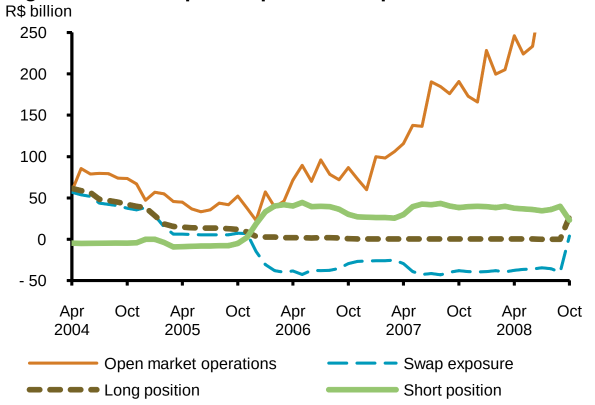
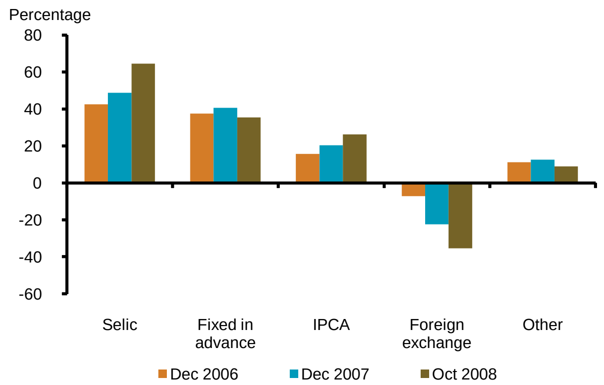


Figure 3.41 – NPSD – Percentage share of indexator



The General Government Gross Debt (GGGD), which includes the federal government, the National Social Security Institute and the regional governments, also showed reduction in 2008, when expressed as a percentage of GDP. The decline, from 57.2% to 56.7%, in the year, mirrored the overall impact of net redemptions carried out in the period and of the valued GDP growth effect, which surpassed the effect related to the nominal interest incorporation and to the adjustment due to exchange depreciation. Upon levying upon the gross indebtedness, the exchange depreciation contributed to an increase in the debt stock, resulting in an opposite effect in relation to that observed in the PSND. In that case, the exchange-indexed component of the debt is a creditor one.

3.4 Conclusion

The aggravation of the crisis in the international financial markets caused a sharp liquidity contraction on a global scale, reflected in restrictions to external credit lines access by banks and national companies, as well as in reduced operations in the domestic interbank market in an environment of growing risk aversion. In this scenario, the Central Bank adopted measures aimed at promoting liquidity in foreign currency, at the same time it carried out alterations in the rules governingreserve requirements, even including incentives to asset negotiations among financial institutions.

In this context, the expansionary trajectory of credit, although still at a high level, started to show a downward trend, with emphasis on the deceleration registered in operations with individuals related to the credit modalities of payroll-deducted loans and vehicle financing, which had been registering more significant expansion in recent years. One should note that the cooling off effect in these operations mirrors, on the supply side, greater selectivity in grants.

On the demand side, conditioned by the increased interest rates and shortening of terms, one must also include the impact of reduced consumers' optimism over their decision about an income commitment. In the corporate segment, credit operations while disclosing an increased demand for resources with the banking system, still maintained a robust growth, in line with the evolution of the economic activity level.

Growth in the activity level had a positive result on the federal and regional governments' tax inflow, permitting the primary surplus accumulated in the year and in twelve

Table 3.10 – Net debt growth
Conditioning factors

Itemization	2006		2007		Oct 2008	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
Total net debt – Balance	1067 363	44.7	1150 357	42.7	1088 606	36.6
Flows	**Accumulated in the year**					
Net debt – Growth	64 879	-1.8	82 994	-2.0	-61 752	-6.0
Conditioning factors	64 879	2.7	82 994	3.1	-61 752	-2.1
PSBR	69 883	2.9	57 926	2.1	1 835	0.1
Primary	-90 144	-3.8	-101 606	-3.8	-132 886	-4.5
Interest	160 027	6.7	159 532	5.9	134 721	4.5
Exchange adjustment	-4 881	-0.2	29 268	1.1	-60 959	-2.1
Domestic securities debt1/	-2 222	-0.1	-2 432	-0.1	1 910	0.1
External debt	-2 659	-0.1	31 701	1.2	-62 869	-2.1
Others2/	2 302	0.1	-2 305	-0.1	-4 105	-0.1
Skeletons	- 375	0.0	- 630	0.0	1 477	0.0
Privatizations	-2049	-0.1	-1265	0.0	0	0.0
GDP growth effect		-4.5		-5.1		-4.0

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

Table 3.11 – General government gross debt
Conditioning factors

Itemization	2006		2007		Oct 2008	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
GGGD - Balance	1336 645	56.0	1542 852	57.2	1684 285	56.7
Flows	**Accumulated in the year**					
GGGD – Growth	125 532	-0.1	206 207	1.2	141 434	-0.6
Conditioning factors	125 532	5.3	206 207	7.6	141 434	4.8
GGGD borrowing requirements	136 733	5.7	222 097	8.2	118 186	4.0
GGGD net issues	-35 042	-1.5	42 958	1.6	-48 152	-1.6
Interest	171 775	7.2	179 139	6.6	166 339	5.6
Exchange adjustment	-17 905	-0.8	-27 462	-1.0	23 502	0.8
Indexed internal securities debt1/	-1 666	-0.1	-2 432	-0.1	1 910	0.1
External debt	-16 240	-0.7	-25 029	-0.9	21 592	0.7
Others2/	6 130	0.3	7 123	0.3	-1 469	0.0
Skeletons	1 158	0.0	4 448	0.2	1 214	0.0
Privatizations	-583	0.0	0	0.0	0	0.0
GDP growth effect		-5.4		-6.4		-5.3

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

months to remain at levels compatible with the targets set for 2008. With the prospects of lower growth next year, the impact on public revenues cannot be despised, as well as the possible impact on social expenditures which should arise from increased demands such as the unemployment insurance.

In this sense, the reassessment of revenues and expenditures for the next year, aiming at maintaining the primary surplus, implies confronting the question with the maintenance of the fiscal responsibility and compliance with the targets of reduction of the PSND/GDP ratio. On the other hand, a breakdown of the public sector's indebtedness shows a comfortable situation in comparison with previous ones of international market stress, having in view the significant volume of net credits tied to foreign exchange.