Credit, monetary and fiscal policies 3

3.1 Credit

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

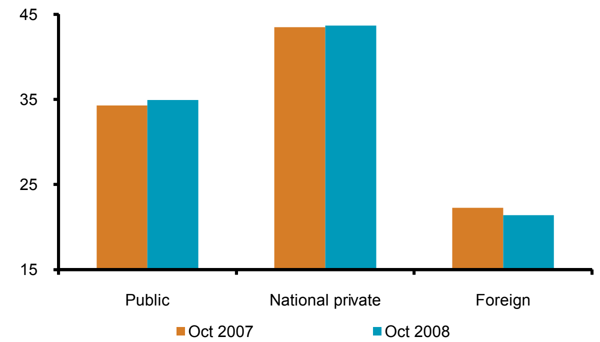
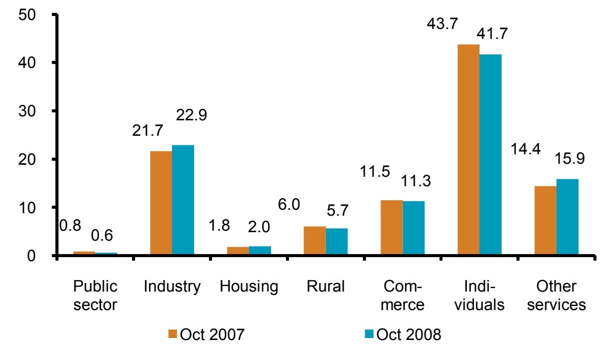


Figure 3.2 – Credit by borrower's economic activity – National private institutions

%



The National Financial System's credit operations trajectory, after reflecting, in the quarter ended in November, both the impact of the worsening crisis in the international financial markets concerning the external financing conditions, and, in the domestic scenario, the process of reduction of maturities and greater selectivity in credit granting, started to mirror, in the quarter ended in February 2009, the scenario of deceleration of economic activity, partly linked to the restriction of credit channels. In this scenario, the unfavorable evolution of expectations as regards employment conditions, income and production negatively affected the demand for resources on the part of households and the productive sector. Outstanding in the framework of uncertainties associated to the persistence of the international financial crisis, was the performance of operations backed by earmarked resources, mainly aimed at investments in infrastructure and housing.

The balance of credit operations reached R$1, 230.9 billion in February, expanding 1.9% in the quarter and 28.3% in twelve months, turning to represent 41.6% of GDP, the greatest value of the historical series initiated in July 1994. The balance of operations in national private bank portfolios came to 42.3% of the total, in the period, followed by those related to government-owned banks, 37.1%, and to the banks with foreign capital control, 20.6%.

Viewed by activity sector, loans to the private sector summed up R$1,203 billion, 97.7% of the total, and those channeled to the public sector, R$27.9 billion. One should highlight that, in the period, the expansion of 3.1% in credit granted to industry, with emphasis to the sectors of chemicals, automotive vehicles, foodstuffs and aeronautics, contrasting with the cutbacks registered in the loans granted to trade, 4.4%, reflecting seasonal factors; and to the segment of other services, 1.4%. Credit operations contracted by the public sector grew 14.3% in relation to November, boosted by the 35.3% expansion in financing channeled to the federal

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

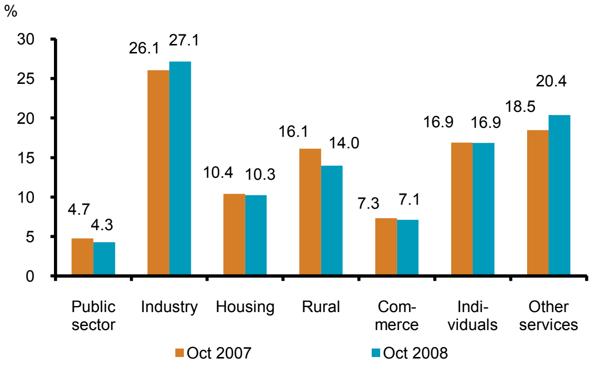


Figure 3.4 – Credit by borrower's economic activity – Foreign institutions

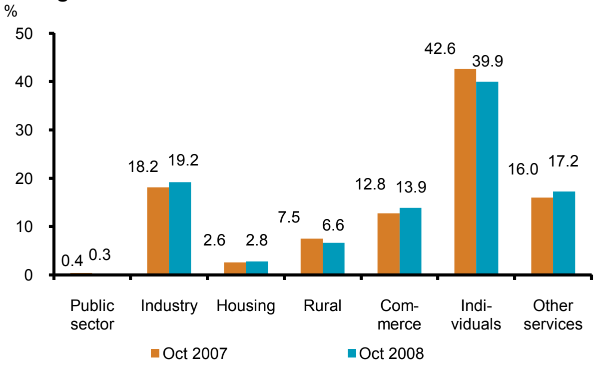


Figure 3.5 – Provisions of total financial system credit

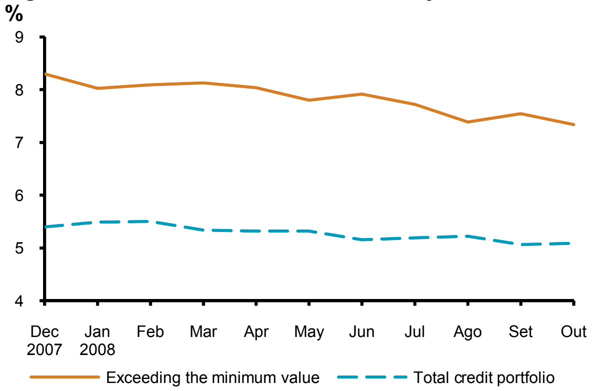


Table 3.2 – Earmarked credit operations

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

government, with highlights to the outflows related to the petroleum segment.

Provisions constituted by the financial system totaled R$79.2 billion in February, rising 24.8% in the quarter. The ratio between the values provisioned and the total credit portfolio stood at 6.4%, against 5.3% in November, while total default of the financial system's credit operations, considering installments in arrears for over ninety days, moved from 3% to 3.4%, in the period.

Earmarked credit

Loans with earmarked resources totaled R$361.9 billion in the quarter ended in February, registering increases of 4.7% in relation to November and of 29.5% in twelve months. This performance was driven, especially, by loans granted by the National Bank of Economic and Social Development (BNDES) and by credits granted to the housing segment.

Loans granted by BNDES totaled R$212.6 billion in February, representing 58.8% of earmarked credit. The 5.4% expansion in relation to November resulted from increases of 7.3% in direct operations and of 3.5% in transfers to the financial system. Disbursements totaled R$90.9 billion in 2008, a volume 40% higher than in 2007, with emphasis to growth of 47.5% in credits channeled to industry, with the sectors of foodstuffs and beverages taking the lead. Credit granting to trade and services expanded 38.3%, with highlights on the demand from the sectors of land transportation and telecommunications.

The balance of loans to the rural sector came to R$77.6 billion in February, rising 0.5% in relation to November 2008. The current expenditures operations concerning the 2008/2009 harvest expanded 2.7%, while operations with investment on machinery and equipment grew 2.2%. Credits targeted to agricultural marketing registered growth of 3.2% in the quarter. The relative participation of these modalities in the total amount of rural credit began representing 42.2%, 9.4% and 48.4%, respectively.

Housing loans, which encompass the financing for acquisition and construction of dwellings, summed up R$62.6 billion, registering increases of 7.3% in relation to November 2008 and of 40.3% in twelve months. Savings-backed credit granting, which account for the most significant share of this balance, expanded 58.7% in 2008, reaching R$28 billion, with highlights to the operations aimed at

Table 3.3 – BNDES disbursements

R$ million

Itemization	Jan-Oct 2007	Jan-Oct 2008	% growth
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

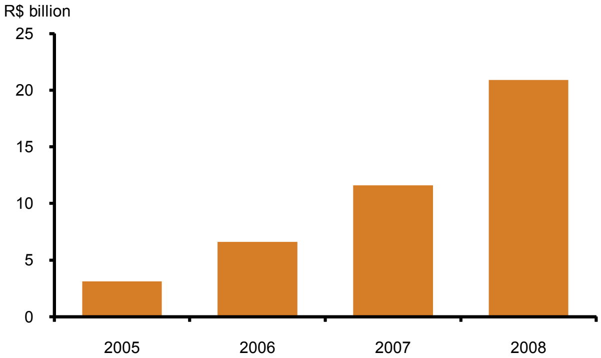


Table 3.4 – Nonearmarked credit operations

R$ billion

Itemization	2008 Jul	2008 Aug	2008 Sep	2008 Oct	% growth 3 months	% growth 12 months
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.

acquisition of dwellings. The contracting of resources from the Employment Compensation Fund (FGTS) totaled R$6.3 billion, increasing 7.2% in the year.

Nonearmarked credit

Credit operations with nonearmarked resources came to R$868.9 billion in February, registering rises of 0.7% in relation to November and of 27.8% in twelve months. The participation of these loans in the entire financial system's credit balance stood at 70.6%. Operations carried out with corporate entities represented a cutback of 1.4% in the quarter and an upturn of 32.9% in twelve months, reaching R$464.9 billion, while those carried out with individual persons registered respective increases of 3.3% and of 22.3%, totaling R$404.1 billion.

In the context of credit to corporate entities, it is worth highlighting the performance of working capital loans, translating the increased demand of large-sized companies and the exporting segment in an environment of restricted liquidity in foreign markets and downturn in capital markets. Conversely, trade-related credit lines posted a decline, evincing a lower seasonal balance of transactions at the beginning of the year and the downturn of economic activity.

Financing with external resources totaled R$88.6 billion in February, registering a cutback of 4.5% in relation to November and expansion of 24.5% in twelve months. The scarcity of these lines, as of September 2008, was progressively offset by the supply of foreign currency in auctions carried out by the Central Bank of Brazil (BCB), which benefited, especially from operations of Advances on Exchange Contracts (ACC).

The deceleration observed in credit modalities to individual persons, as of the beginning of 2008, sharpened in the latest months of the year. Personal credit loans, revealing adjustment, registered expansions of 2.1% in the quarter and of 22.1% in twelve months, with emphasis to the reduction, from 56.3%, in February 2008, to 54.4%, of the participation of guaranteed credit in this portfolio.

Credit channeled to acquisition of vehicles, incorporating the operations of mercantile leasing and the traditional loans, expanded 4%, in the quarter, as a consequence of a 12.8% increase in leasing operations to individual persons and a cutback of 2% in the other financing modalities. The balance of the modalities overdraft check and credit card showed

Average Interest Rate of the National Financial System's Credit Operations

The current structure for monitoring the evolution of interest rates and spreads of the National Financial System (SFN) credit operations originated in 1999, with the project "Interest and Banking Spread", which comprises the release of the annual report "Banking Economy and Credit"[1]. Several studies based on this project enabled a better understanding about the composition of spreads and thus contributed directly or indirectly to the adoption of measures aimed at the reduction of credit associated costs. Among these studies, it should be mentioned the regulation of payroll-deducted loans, the creation of the Banking Credit Note (CCB), the Bankruptcy Act, the dissemination of the instruments of fiduciary alienation, and the legislation on assets affected by public interest in real estate undertakings.

The "Interest and Banking Spread" project was regulated by Circular n. 2,957, dated December 30, 1999. This Circular stipulated that financial institutions should provide detailed information on the most relevant credit operations at the time, which would constitute the reference credit for interest rates. Since available information on SFN's credit operations is restricted to the modalities that compose the subset of the reference credit, the effective average interest rate of the financial system generally differ from that currently released by the Central Bank.

The goal of this box is to analyze how the inclusion of those modalities of credit operations not currently taken into account affects the SFN's average rate. For this, the calculation basis of the SFN's average interest rate will be expanded so as to incorporate a

1/ Available on http://www.bcb.gov.br/?SPREAD broader set of credit modalities, by utilizing reference values for the rates practiced in the modalities not previously taken into consideration. The calculation basis will now incorporate the interest rates related to operations carried out by leasing companies and credit unions, as well as those granted with earmarked resources, which encompass the National Bank of Economic and Social Development (BNDES) financing, as well as rural and housing loans[2].

With regard to the interest rates of the new modalities classified as nonearmarked credit operations, the effective monthly rates of similar modalities during the period under analysis were utilized as proxies[3]. Therefore, for corporate and individuals' leasing operations, the latter channeled particularly to the acquisition of vehicles, the rates utilized refer to the modalities of purchase of goods – corporations and purchase of goods – vehicles, which correspond, respectively, to 19% p.y. and 36.5% p.y., in December 2008[4]. For mutual loan operations, granted by credit unions, the interest rate utilized is of 30.8% p.y., which corresponds to the average interest rate of payroll-deducted loans, while the interest rate related to credit card, based on market research, was calculated at 248.2% p.y. in December.

In the segment of credit operations with earmarked resources, the interest rate of housing loans was estimated at 12.2% p.y., calculated on the basis of a mix of lending rates practiced in the framework of the Brazilian System of Savings and Loans (SBPE) and the Employment Compensation Fund (FGTS). The interest rate for the rural loans granted with monitored resources was stipulated at 6.9% p.y. This constitutes the lowest rate practiced by the SFN, taking as parameter the average rate of the operations with resources from demand deposits and rural savings accounts, foreseen in the Rural Credit Manual (MCR)[5].

Table 1 – Reference parameters for calculating SFN interest rates in December 2008

Modality	Interest rate – % p.y.	Reference
Nonearmarked credit		
Leasing (individuals)	33.38	Credit for vehicle acquisition
Borrower by co-op	30.80	Payrol-deducted loans
Credit card	248.20	Market survey
Leasing (corporation)	17.91	Goods acquisition – Corporations
Earmarked credit		
Rural	6.92	Rural credit manual
Housing	12.22	Average weighted rate in SFH financing
BNDES – Direct	8.05	TJLP + 1.8% p.y.
BNDES – Onlending	12.39	BNDES direct + 4.34% p.y.

2/ It should be observed that the regular calculation of an interest rate that could represent the total of credit operations would require the enhancement of the normative and operational credit monitoring apparatus by means of which the financial system would supply information on the rates of earmarked operations and the share of nonearmarked credit that are not currently included in the reference credit for the calculation of interest rates.

3/ It should be highlighted that the estimated series took into account the effective monthly rates of the period under analysis, from March 2003 to December 2008. December 2008 rates are based on the Central Bank's Monetary Policy and Credit Operations Press Release, available at http://www.bcb.gov.br/?ECOIMPOM.

4/ Rates were adjusted to effective tax differences.

5/ Chapter 2 – Basic conditions, Section 4 – Expenditures, item 3, paragraph a. There are several exceptions to this interest rate. In 2006, interest rates varied from 1% p.y. (Pronaf – Semi-Árido – Resolution n. 3,206/2004 (MCR-10-8)), and 12.34% p.y. (Finame Agrícola Especial – Resolution n. 3,215/2004).

The interest rate of direct BNDES loans is composed of the financial cost, related to the funding of resources, by the rate of credit risk, and by the BNDES interest earnings. Taking as reference the Long-Term Interest Rate (TJLP)[6], 6.25% p.y., and adding 1.8% p.y. which refers to the interest earnings and credit risk rate, the final rate reaches 8.05% p.y. As for indirect loans, carried out through transfers to financial institutions, it should be added, to the TJLP and the BNDES interest earnings, the intermediation rate, limited to 0.8% p.y., as well as the earnings of the authorized financial institution. If the authorized financial institution utilizes the Competitive Enhancement Guaranty Fund (FGPC), which guarantees up to 80% of the operation's risk, this share of the cost is limited to the ceiling of 4% p.y. The costs associated to the last two factors analyzed totals 4.34%, thus resulting in a final rate of 12.39% p.y.

Based on these parameters, as observed on Figure 1, the SFN's average rate, comprising 86.3%[7] of the country's total credit operations, would fall to 30.9% p.y. in December 2008, compared to 43.2% p.y. in compliance with the current methodology. Over the last two months, the expanded average rate increased by 5.3 p.p., as compared to 9.4 p.p. according to the current rate calculation. In general, it may be observed that the new series register a smoother evolution, since the response of earmarked credit operations to alterations in the monetary policy is not so intense as that of nonearmarked credit operations (Figure 2). With the inclusion of the aforementioned operations, the banking spread, in the month of December, would drop from 30.6 p.p. to 20.2 p.p. per year.

Moreover, changes in the calculation basis would increase the participation of credit operations with individuals, including the housing credit operations,

Figure 1 – Credit operations

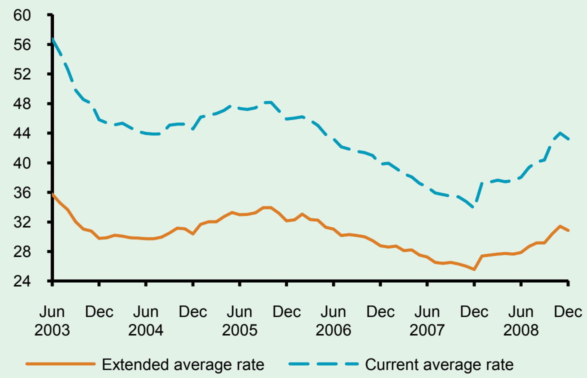
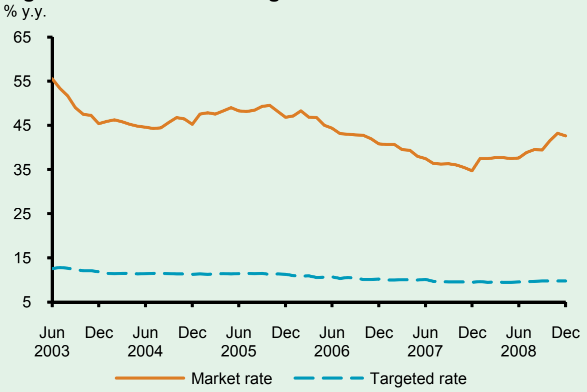


Figure 2 – Extended average rate



6/ Other indexing factors not taken into account include the National Extended Price Index (IPCA) and the Exchange variation.7/Rates were adjusted to effective tax differences.

7/ The calculation of the expanded interest rate does not include operations classified as "sundry" in the segment of corporations and individuals (anticipation of deposits, pledge), since their rates are excessively volatile and not homogeneous. In addition, in some operations classified as fixed-rate operations it is impossible to identify the indexing factor and thus the exact operation cost estimate. Finally, for some earmarked credit operations carried out with constitutional funds by fostering agencies and development banks, there are no available information on rates.

Figure 3 – Credit operations – Corporations

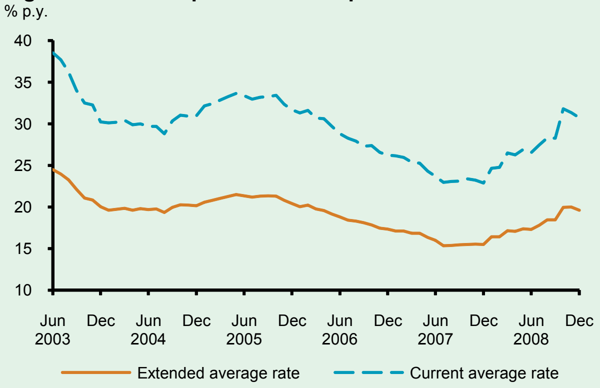


Figure 4 – Credit operations – Individuals

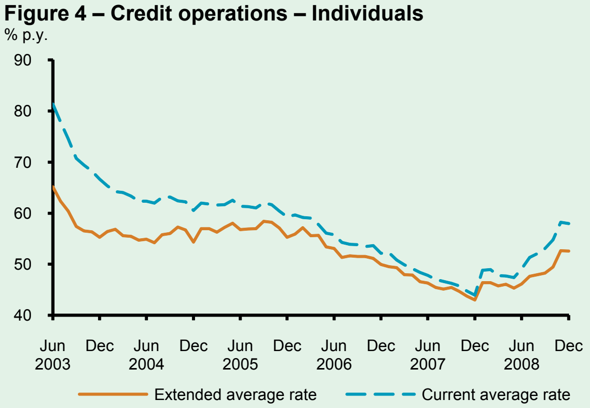


Table 2 – Interest rates and banking spread

December 2008

	Individuals	Corporations
Scope[1/] (%)	89.3	84.6
Interest rate – Current methodology (%)	58.0	30.7
Interest rate – Alternative methodology (%)	52.6	19.6
Spread – Current methodology (p.p.)	45.1	18.3
Spread – Alternative methodology (p.p.)	39.8	8.5

1/ Refers to the SFN total balance of credit.

to 89.3%. The interest rate in this segment would fall from 58% p.y., according to the current sample, to 52.6% p.y, while the spread would fall from 45.1 p.p. to 39.8 p.p. With regard to corporate credit operations, participation would increase to 84.6%, and average interest rate and spread would fall, respectively, from 30.7% p.y. to 19.6% p.y., and from 18.3 p.p. to 8.5 p.p.

It is interesting to highlight that, as shown by Figures 3 and 4, the expanded average interest rate in the segment of corporations also remain lower in the period under analysis, while, in the segment of individuals, the rates are convergent. The behavior of the rates for individuals reflects, to a large extent, the inclusion of credit card operations, which rates are higher than the average, as opposed to the housing loans rates. As for operations with corporations, it should be highlighted the effect of the inclusion of longer-term loan operations, particularly with earmarked resources, with emphasis on the long-term BNDES loans. Finally, the reduction of the interest rates practiced in the framework of the productive sector evinces the significant difference still observed between the rates associated to earmarked and nonearmarked credit operations.

The forecasts shown in this box not only constitute a more comprehensive description of the credit market but also demonstrate that the SFN's effective average interest rates differ significantly from that currently released if earmarked credit operations are also taken into account. Therefore, the improvement of statistics, as well as the institutional framework that underlie its elaboration, would make it possible to achieve a more comprehensive and accurate view of the evolution of credit operations.

Figure 3.7 – Interest rates on nonearmarked credit

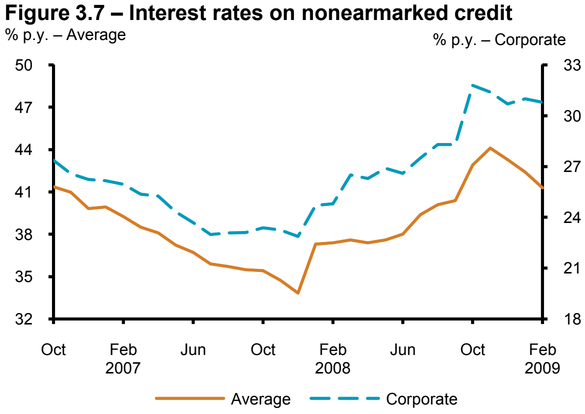


Figure 3.8 – Interest rates on fixed rate credit – Individuals

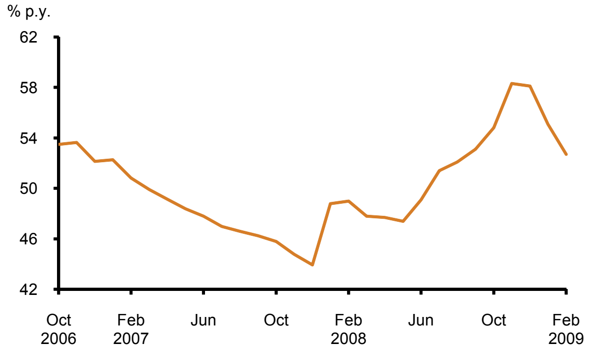


Figure 3.9 – Average spread on nonearmarked credit

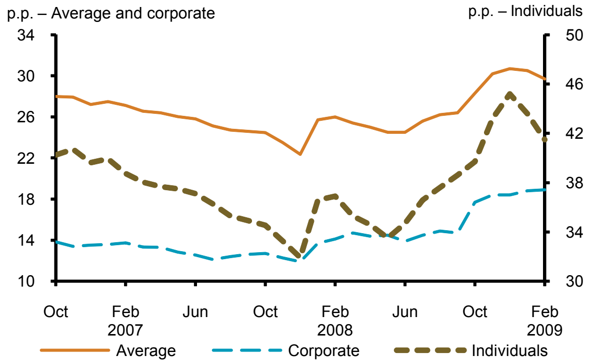
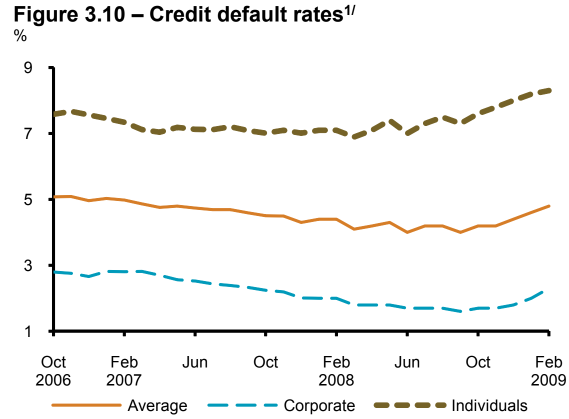


Figure 3.10 – Credit default rates1/



significant advances, a movement which, coupled with the accommodation of personal credit, tends to alter the profile of household' indebtedness, with greater participation of credit lines with higher costs and shorter maturities.

The average interest rate levied on referential credit operations reached 41.3% p.y. in February, registering a quarterly cutback of 2.8 p.p. and increase of 3.9 p.p. in twelve months. By segment, the average rates carried out in operations with corporate entities and individuals stood, in the order, at 30.8% p.y. and 52.7% p.y., registering expansions of 6 p.p. and 3.7 p.p. when compared to February 2008. Although, at the margin, the rate registered a cutback, its annual evolution was associated, especially, to the hike observed in October, in response to the increases of funding costs and to the restrictions of financial institutions to granting of new loans, after the aggravation of the crisis on the international financial markets.

In this context, the banking spread reached 29.7 p.p. in February, with contraction of 0.5 p.p. in the quarter and expansion of 3.7 p.p. in twelve months. The quarterly evolution reflected a cutback of 1.7 p.p., to 41.5 p.p., in loans contracted by households, and expansion of 0.5 p.p., to 18.9 p.p. in those contracted with the corporate segment.

Default from reference credit, considering operations in arrears above ninety days, reached 4.8% in February, registering increases of 0.6 p.p. in three months and of 0.4 p.p. in twelve months. Considering the operations with corporate entities, the indicator reached 2.3%, with expansions of 0.6 p.p. in the quarter and of 0.3 p.p. in twelve months, while in loans contracted by households, default reached 8.3%, rising, in the order, 0.5 p.p. and 1.2 p.p. on the same basis of comparison.

The average maturity of the referential credit portfolio reached 380 days in February, rising by two days in the quarter and eleven days in twelve months. The quarterly evolution reflected the occurrences of increase of 15 days in the average maturity of operations in the segment of individuals and reduction of 10 days in those referring to corporate entities, which stood, in the order, at 498 and at 294 days.

3.2 Monetary aggregates

The average daily balance of money supply (M1) reached R$198.9 billion in February, showing expansions of 1.9% in relation to November and of 6.2% in twelve months, period in

Figure 3.11 – Average term for credit operations – Calendar day

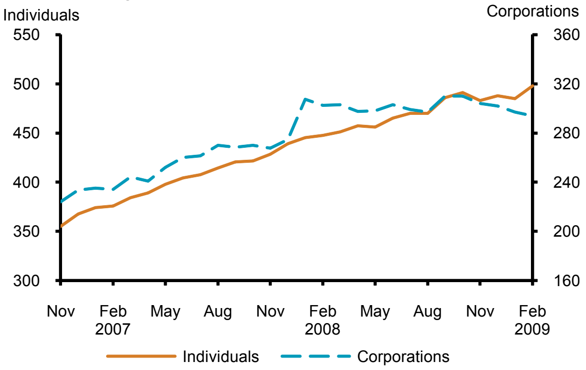


Figure 3.12 – Monetary base and M1 – Average daily balances

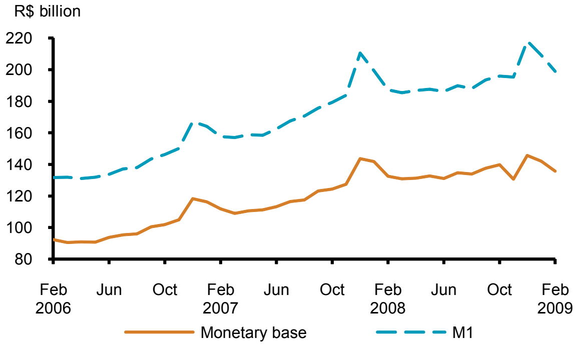
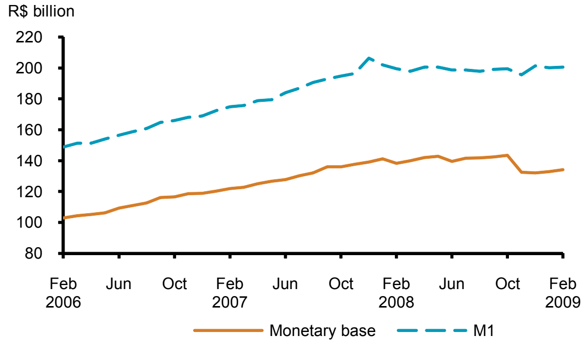
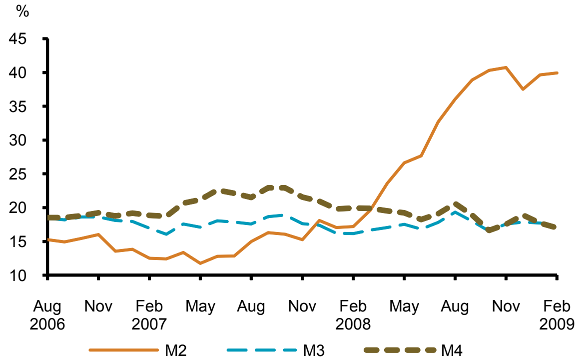


Figure 3.13 – Monetary base and M1 at February 2009 prices seasonally adjusted[1/]



1/ Deflated by: IPCA.

Figure 3.14 – Broad money supply 12-month growth



which the average balances of currency held by the public and of demand deposits registered respective increases of 14.6% and 0.8%. Considering seasonally adjusted data deflated by IPCA, M1 grew 2.6% in the quarter ended in February.

The monetary base assessed by the average of daily balances, reached R$135.9 billion in February, showing elevations of 4% in the quarter and of 2.5% compared to February 2008. The average balance of currency issued expanded by 14.4% in twelve months, while the banking reserves fell by 23.7%, reflecting the reduction, from 45% to 42%, of the rate of reserve requirements over demand resources, as of October 29, in addition to deductions resulting from contributions anticipated by the financial institutions to the Credit Guarantee Fund (FGC).

With reference to the sources of primary currency issuance, one should highlight, in the quarter ended in February, the expansionary impact underlying the reserve requirements over time deposits, R$4.1 billion, and the additional requirement over deposits, R$42.1 billion, in which case the compliance started to be carried out with public federal securities as of December 2008. Conversely, the reserve requirements over deposits in savings accounts and net sales of foreign exchange by the Central Bank on the interbank exchange market caused a contractionist effects of R$966 million and R$9.6 billion, respectively. The impact of these factors, associated to the net placements of R$31.8 billion in National Treasury bonds, resulted in expansion of R$3.9 billion in the monetary base in the quarter, considering the end-of-period balance.

Complementary to the alterations over the rules of reserve requirements, the Central Bank reduced, from 5% to 4%, the rate of the additional requirement over the time resources, effective as from January 19.At the same time, Circular 3,427, of December 19, 2008, reduced the in-kind share of collections over time deposits from 70% to 60%, included the interfinancial deposits gathered from leasing companies among the values subject to collection of time resources and extended, up to March 31, 2009, the time period required for acquisitions of assets and investments on interfinancial deposits among financial institutions, with the benefit of deduction of reserve requirements.

Expanded money supply, in the M2 concept, increased 2.6% in the quarter ended in February, reaching R$1 trillion. Savings deposit grew 3.9%, totaling R$274.5 billion, favored by the December seasonality, while the private bonds, following the behavior of time deposits, expanded 3.4%.

With reference to the M3 concept, which aggregates to the M2, the investment fund quotas and public federal securities which back up the net financing position in repo operations, and money supply rose by 2.9%, in the quarter, totaling R$1.9 trillion. The M4 concept expanded 3.2%, totaling R$2.3 trillion.

Federal public securities and Central Bank open market operations

In the quarter ended in February, the National Treasury primary operations with public federal securities resulted in an expansionist monetary impact of R$39.1 billion, registering placements of R$79.1 billion, maturities of R$116 billion and anticipated purchases and redemptions of R$2.2 billion. Swap operations came to R$12.8 billion. The Central Bank's open market net financing position, based on the average of daily balances, rose by 36.4% in the quarter, totaling R$383.9 billion.

The Central Bank's financing and very short-term go-round operations, carried out with the aim of adjusting the financial system's liquidity conditions, expanded from R$86.6 billion, in November, to R$101.8, in February. The operations with maturities of two weeks up to three months and of five months showed respective increases from R$150.7 billion to R$240.7 billion, and from R$12.8 billion to R$15.1 billion, while those with seven months maturity decreased from R$31.8 billion to R$26.3 billion.

Real interest rates and market expectations

The future interest rate curve of the ID x Fixed-rate swaps showed, in February, an inclination reduction for all vertices relative to November. This movement, evincing the expectations of basic interest rate reduction in 2009, revealed itself sharper in the vertices with maturity less than one year. The 360-day swap DI x pre suffered a contraction of 381 b.p. in relation to the previous quarter, reaching 10.62% p.y. at the end of the period, the lower value of the series.

The real ex-ante Selic rate for the next twelve months, based on the on the Market Report survey, dated February 27, conducted by the Central Bank, reached 5.8% p.y., against 7.8% p.y., in November. This reduction reflected, especially, the cutback from 13.73% p.y. to 10.69% p.y., in the expectations for the 12-month Selic rate.

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

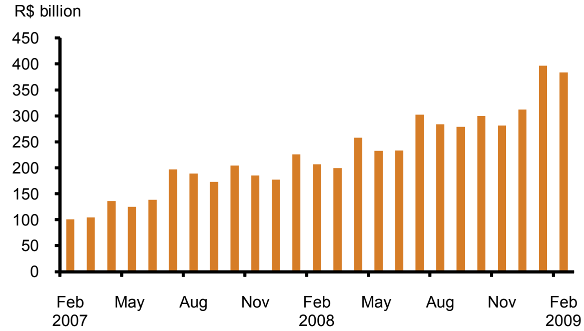


Figure 3.16 – Central Bank repo operations – Maturity – Aveage daily balances

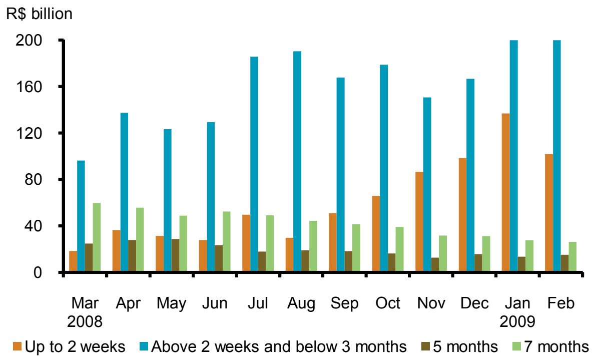
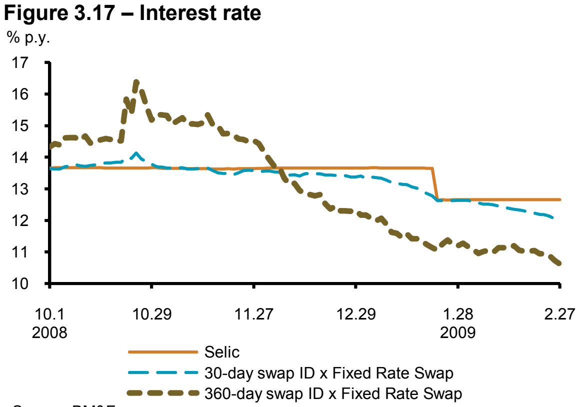


Figure 3.17 – Interest rate



Source: BM&F

Figure 3.18 – Ex-ante real interest rate – Deflated by 12-month IPCA expectations
% p.y.

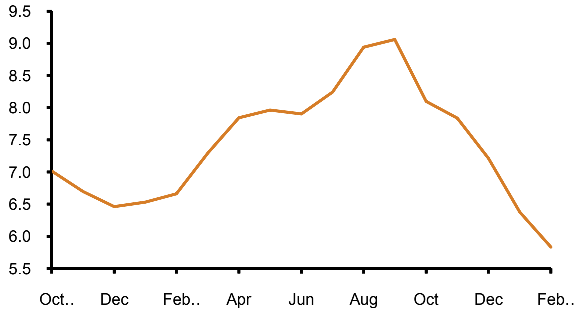
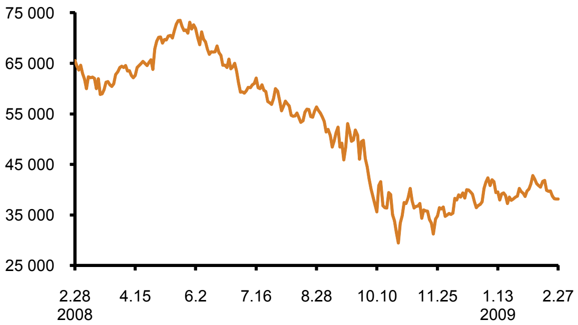


Figure 3.19 – Ibovespa
Points



Source: Bovespa

Figure 3.20 – Stock exchanges
January 2008 = 100

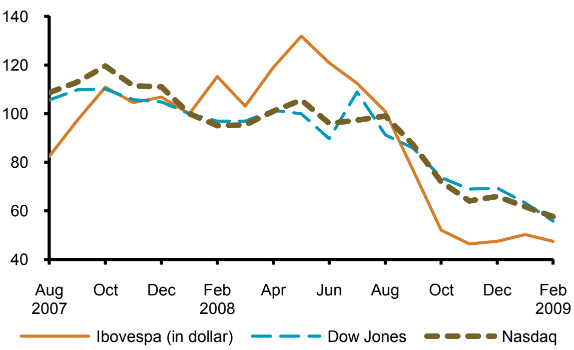
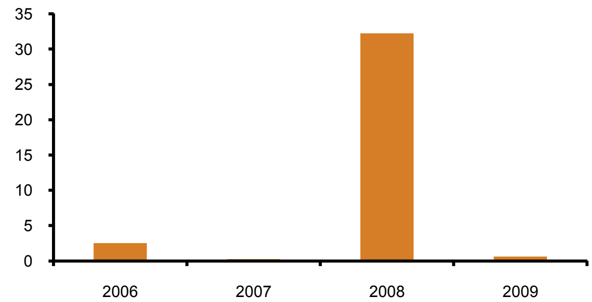


Figure 3.21 – Debenture primary issues in the capital market
R$ billion – Accumulated through February



Source: CVM

Capital market

The São Paulo Stock Exchange Index (Ibovespa), after undergoing sharp losses during the second half of 2008, showed relative recovery in the quarter ended in February, rising 4.3% against the quarter ended in November, coming to 38,183 points. The market value of companies listed in the index, after successive reductions, increased by 4.6% in the quarter, coming to R$1.42 trillion at the end of February, against R$2.42 trillion in the same period of 2008. The average daily balance of Bovespa transactions, following the reduction in liquidity observed in stock exchanges of leading economies, stood at R$3.8 billion in the quarter, a balance of 22% lower than that verified in the quarter ended in November.

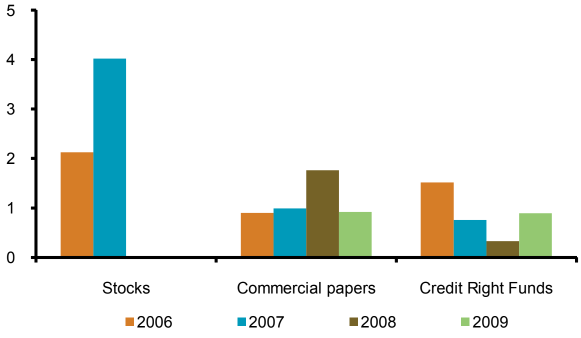
When assessed in dollar value, Ibovespa moved up 2.4% in relation to the quarter ended in November, a movement associated, in part, to the effect of depreciation of the Real against the dollar. In the same period, the Dow Jones and NASDAQ indices registered cutbacks of 19.1% and 10.1%, respectively, returning to the 2003 level.

The funding of companies in the capital market, by means of issuance of shares, debentures, promissory notes and placement of receivables of credit rights, reached R$2.4 billion in February 2009, against R$34.4 billion in the same period of 2008, with emphasis on the contraction of R$31.6 billion, to R$610 million, registered in the issuance of debentures. The primary issuance of promissory notes totaled R$918 million, against R$1.8 billion in February of the previous year.

3.3 Fiscal policy

The intensification of the effects of the international financial crisis on the internal expectations and, consequently, on the level of aggregated demand, has incentivated the government to adopt expansionist fiscal measures which contributed to the reversal of the process of activity level slowdown. Thus, in December 2008 tax cuts were introduced which favored the credit market conditions and propitiated expansion of consumers' available income. In this sense, noteworthy is the adjustment of the progressive income tax table to the growth of nominal wages of the economy; the reductions of IPI rates levied on the purchase of new vehicles and trucks, and of the Financial Operations Tax (IOF) levied on loans granted to individuals; the creation of two intermediate rates, of 7.5% and 22.5%, of the table of the Individual

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



Source: CVM

Income Tax (IRPF), reducing in up to 50% the tax levied on lower income bracket. These adjustments should cause an expansionist impact of R$8.4 billion on the 2009 fiscal year.

The government has also published a provisional measure with the aim of reducing the tax-related disputes in the administrative and judicial context. Among these provisions, one should highlight the installment payment of debts matured up to December 31, 2005, the value of which is not higher than R$10 thousand, with reductions of up to 100% of the fines and legal charges and up to 30% of interests. The debts of taxes with consolidated total value of up to R$10 thousand, which, on December 31, 2007 had been matured five years ago or longer, were forgiven. The measure also encourages the conclusion of judicial and administrative disputes consequent upon special conditions of payment of questioned debts.

In December 2008, a law was enacted creating Brazil's Sovereign Fund (FSB), which has the aim to foster investments in assets both in Brazil and abroad, in order to form public savings and reduce the effects of economic cycles and foster projects of interest to the country. The law states that the Fund´s resources will be constituted by allocations set aside in the annual budget, including those derived from issuance of public debt securities; from shares of federal mixed capital company, in excess to the maintenance of its control by the Union, or other rights with asset value; and from results of financial investments on its account.

In January, the Government published a decree dealing with the budgetary and financial planning and setting up the monthly schedule of disbursements by the Executive Power for the 2009 fiscal year. Due to the uncertainties as to the performance of the economic activity and the performance of tax collection, the Government carried out, in a preventive manner, the conditioning of R$37.2 billion in expenditures of the Executive Power, of which R$22.6 billion in current expenditures and R$14.6 billion in investments. One should highlight that the revenue estimates for 2009 took into account GDP's real growth rate of 4%.

Also in January, aiming to face the uncertainties related to liquidity conditions, a provisional measure was published assuring to BNDES the additional allocation of resources valued at R$100 billion, in 2009. Credit granting may be carried out by means of issuance, by the Federal Government, in the form of direct placement in favor of BNDES, of bonds from the Internal Federal Public Securities Debt bonds, the nature of which are defined by the State Minister of Finance, or by the utilization of the Federal Government's financial surplus in the fiscal year 2008.

Public sector borrowing requirements

Evolution in 2008

The non-financial public sector's primary surplus reached R$118 billion in 2008, representing 4.06% of GDP. The annual increased of 0.15 p.p. of GDP reflected rises in Central Government surpluses, 0.17 p.p., and of government-owned companies, 0.09 p.p., contrasting with a cutback of 0.1 p.p. verified in the context of the regional governments. One should highlight that the 2008 result was impacted by the issuance of bonds of the Brazil's Sovereign Fund (FSB), occurred at the end of the year, valued at R$14.2 billion, equivalent to 0.5% of GDP.

The Central Government's revenues, evincing the positive performance of the Treasury and of Social Security, expanded 0.82 p.p. of GDP in 2008, reaching R$716.6 billion. This evolution, which mirrored, in particular, the dynamics of the economy during the preceding period to the aggravation of the international financial crisis, also reflected administrative actions carried out by the Federal Revenue and by the General Prosecutor of the National Treasury aiming at the recovery of debts in arrears and the maintenance of regular tax collection flows.

The Treasury's revenues totaled R$551.3 billion in 2008. The annual growth of 15.5% was associated to expansions registered in the collections of Corporate Income Tax (RFPJ), 21%, and of the Social Contribution on Net Corporate Profits (CSLL), 27.4%, an evolution consistent with the increase observed in the companies' profitability, during the period. It is worth highlighting, additionally the expansions of revenues related to the Contribution to Social Security Financing (Cofins), to PIS/Pasep, to the Financial Operations Tax (IOF), to Income Tax(IR) derived from labor income and to the Import Tax (II). One should highlight that, in line with the crimp in economic activity, the annual cumulative rate of real growth of Treasury's revenues, taking IPCA as a deflator, fell from 11.4%, in September, to 6.5%, in December.

The Central Government's primary expenditures totaled R$497.9 billion in 2008, rising 9.3% in the year and turning to represent 17.2% of GDP, against 17.6% in 2007. The National Treasury's expenditures reached R$295.9 billion, followed

Table 3.5 – Public sector borrowing requirements – Primary result

Segment	2007		2008		Jan 2009	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Central Government	-59.4	-2.3	-71.3	-2.5	-4.8	-2.0
Sub-national governments	-29.9	-1.2	-30.6	-1.1	-2.4	-1.0
State companies	-12.2	-0.5	-16.2	-0.6	2.0	0.8
Total	-101.6	-3.9	-118.0	-4.1	-5.2	-2.1

Figure 3.23 – National Treasury gross revenue

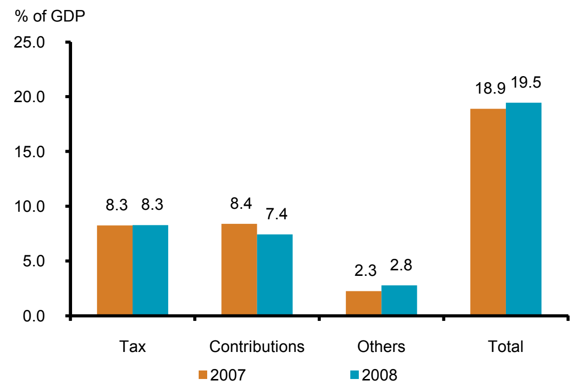
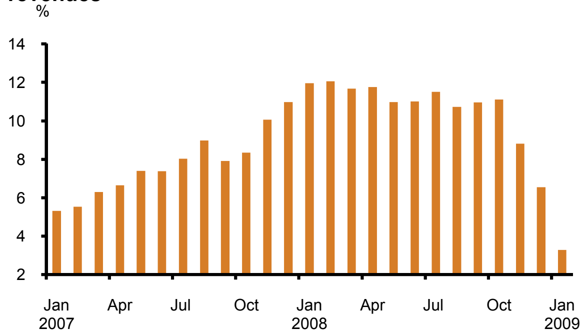


Figure 3.24 – 12-month real growth rate of Treasury revenues1/



1/ Updated by IPCA.

Figure 3.25 – Central Government expenditures

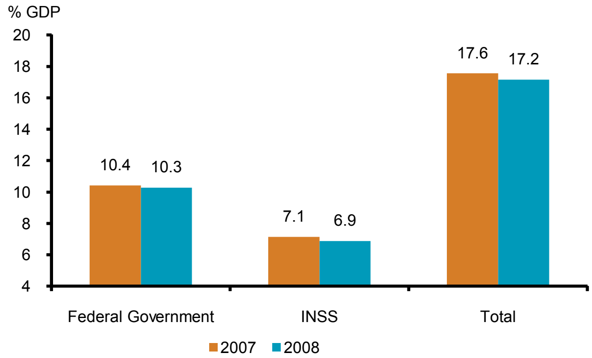
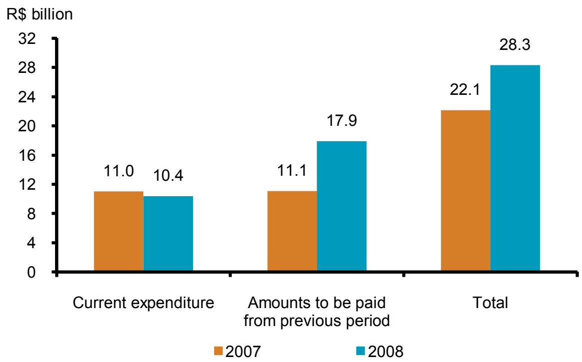


Table 3.6 – National Treasury Expenditures

Itemization	2007		2008	
	R$ million	% GDP	R$ million	% GDP
Total	268 186	10.3	295 933	10.2
Personnel and payroll charges	116 372	4.5	130 829	4.5
Capital and current expenditures	151 293	5.8	164 061	5.6
Workers Support Fund	18 472	0.7	21 026	0.7
Subsidies and economic subventions	10 021	0.4	6 006	0.2
Loas/RMV	14 192	0.5	16 036	0.6
Investment	22 109	0.9	28 269	1.0
Other capital expenditures	86 499	3.3	92 724	3.2
National Treasury transfers to the Central Bank	521	0.0	1 043	0.0

Source: Minifaz/STN

Figure 3.26 – Federal Government: investment expenditures paid



by those under the responsibility of Social Security, R$199.6 billion; and those of the Central Bank, R$2.4 billion.

Disbursements with personnel and social charges, including expenses of R$3.4 billion with the judicially mandated payment, moved from R$116.4 billion, 4.48% of GDP, in 2007, to R$130.8 billion, 4.51% of GDP in 2008. The Executive Power's expenditures, reflecting the impact of the restructuring of civil and military servants' careers and the natural growth of the payroll, expanded R$10.1 billion in the year.

The current and capital expenditures reached R$164.1 billion in 2008, reducing its participation in GDP from 5.82%, in 2007, to 5.65%, result of the reduction of 0.29 p.p. of GDP in current expenditures and the increase of 0.12 p.p. of GDP in those related to investments. Investments made increased 27.9%, to R$28.3 billion, in the year, with emphasis on allocations from the Ministry of Transport, R$6 billion, and of the Ministry of the Cities, R$4.9 billion.

One should highlight the budget operations of the Investment Pilot Project – expenditure liable to be deducted from the primary surplus target – reached R$7.8 billion in 2008, against R$5.1 billion in 2007.

A breakdown of current expenditures reveals the occurrence of a 0.18 p.p annual cutback of GDP in expenditures with subsidies, economic subventions and restructuring of liabilities. The main determinants of this reduction are based on contractions in the expenditures related to the National Development Fund (FND), R$1.9 billion; to the securitization of the farm debt, R$1.4 billion; to the Land Fund/Incra, R$559 million; and to the Program of Guarantee and Price Maintenance, R$245 million.

Social Security revenues expanded 16.3% in 2008, to R$163.4 billion, turning to represent 5.63% of GDP, against 5.41% in the previous year. The annual expansion of this collection evinced the expansion of the formal labor market and the rise in overall wages. The payment of Social Security benefits rose by 7.7% in the period, totaling R$199.6 billion, 6.88% of GDP, against 7.14% of GDP in 2007. In this scenario, the Social Security deficit dropped from 1.73% of GDP, in 2007, to 1.25% of GDP, in 2008, the second consecutive annual cutback.

The primary surplus of the regional governments topped R$30.6 billion in 2008. The annual reduction of 0.10 p.p. of GDP reflected the impact of the acceleration registered in expenditures, higher than the respective expansions of

Figure 3.27 – Basic Investment Plan (PPI) expenditures

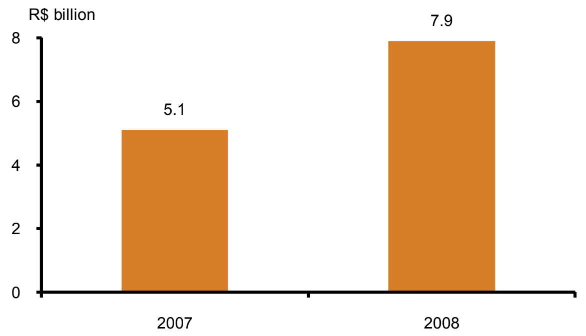


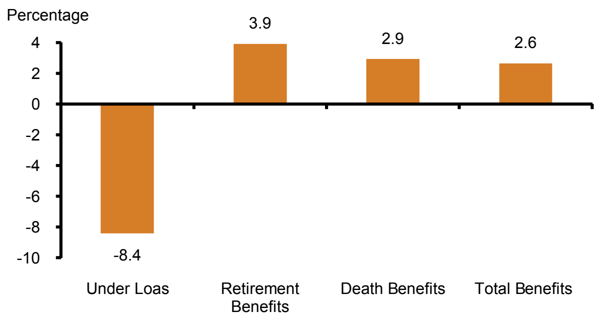
Table 3.7 – Social security primary result

January-December

R$ billion

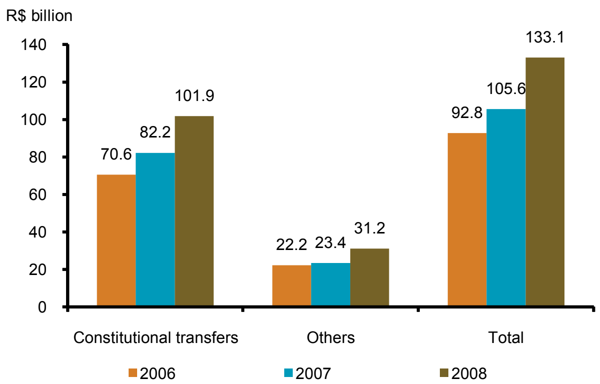
Itemization	2007	2008	Var. %
Gross inflow	154.6	180.9	17.0
Cash refunds	-0.5	-0.5	0.0
Transfers to third parties	-13.7	-17.0	24.1
Net inflow	140.4	163.4	16.4
Social Security benefits	185.3	199.6	7.7
Primary result	-44.9	-36.2	-19.4
Net inflow/GDP	5.41%	5.63%	
Social Security benefits/GDP	7.14%	6.88%	
Primary result/GDP	-1.73%	-1.25%	

Figure 3.28 – Growth in the number of benefits issued by Social Security (Jan-Oct 2008 average/Jan-Oct 2007 average)



Source: STN

Figure 3.29 – Transfers to states and municipalities



0.44 p.p. of GDP and 0.51 p.p. of GDP verified in collection of the Tax on the Circulation of Merchandise and Services (ICMS) and on the constitutional transfers, two main sources of resources from the state and municipal governments. The surplus reduction was concentrated on state governments.

The state-owned companies, mirroring improvements in the federal and state level spheres, produced a primary surplus of R$16.2 billion in 2008, a 0.09 p.p. GDP result higher than that observed in the previous year.

Nominal interests appropriated by competency came to R$162.3 billion in 2008. The annual reduction of 0.55 p.p. of GDP was impacted both by the result of exchange swap operations carried out by the Central Bank – favorable to the Institution by R$4.8 billion, against negative result of R$8.8 billion in 2007 –, and by the effects, over the domestic assets tied to exchange depreciation of 32% observed in the year.

The non-financial public sector nominal deficit came to R$44.3 billion in 2008, 1.53% of GDP, the lowest annual deficit, as proportion of output, since the beginning of the series, in 1991.This result was financed by expansions of R$171 billion in securities debt and of R$4.3 billion in other sources of domestic financing, partly offset by reductions in net banking debt, R$82.3 billion, and by the sources of external funding, R$48.8 billion.

Evolution in January 2009

The public sector primary surplus totaled R$5.2 billion in January, against R$18.7 billion in the same period of the previous year, as a result of across the board reductions in all spheres of the public sector. The twelve-month cumulative surplus came to 3.58% of GDP in January, showing respective cutbacks of 0.48 p.p. and of 0.50 p.p. of GDP as compared to the results achieved in December and in January 2008.

The Central Government's surplus summed up R$4.8 billion in January. The reduction of R$11.9 billion observed in relation to the same period of the previous year reflected the combination of increased expenditures and reduced nominal revenues. The Treasury's revenues totaled R$50.9 billion, reducing 4.9% in the period. Outstanding among the determinants of this movement were:

a) anticipation of the IRPJ collection and of Social Contribution on Corporate Net Profits (CSLL), in January 2008, related to profit obtained by the companies, in 2007;

Figure 3.30 – ICMS and IPVA inflow

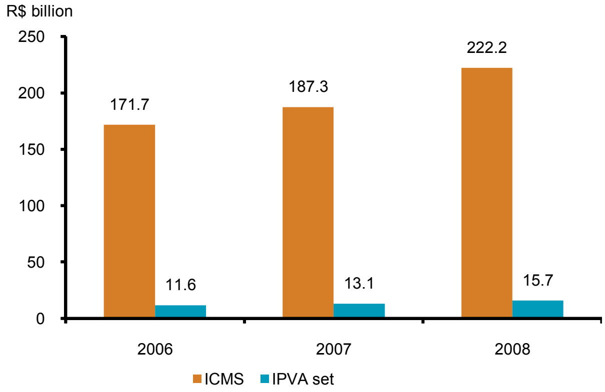


Figure 3.31 – Regional governments: Cumulative 12-month primary surplus and net debt

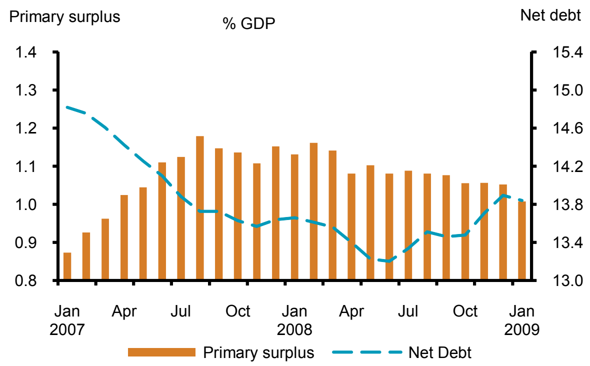
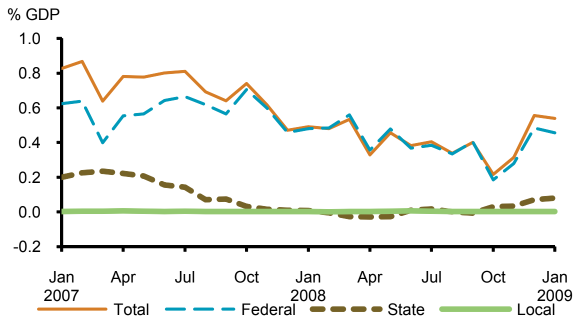
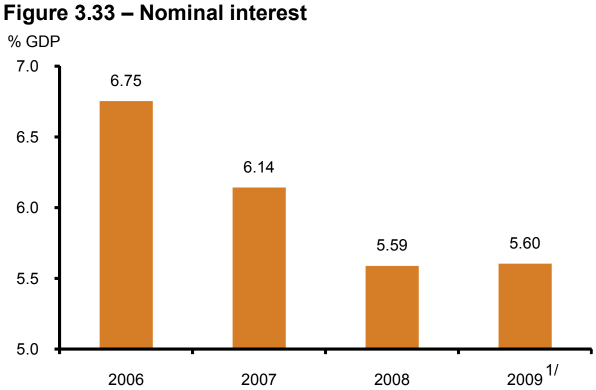


Figure 3.32 – Primary surplus of public enterprises
12-month cumulative data



(+) Surplus (-) Deficit

Figure 3.33 – Nominal interest



1/ Twelve-month accumulated up to january.

b) impact on IPI collection derived from the reduction of 14.5% in industrial production of December 2008, as compared to December 2007;
c) clearance, in January 2009, of debits of Cofins and PIS/Pasep, valued at R$811 million;
d) alteration in the table of IPI levying on automobiles on triggering events from January to March 2009, and establishment of mechanism which allowed the new table to be also applied to the stock of vehicles still not negotiated up to December 12, 2008;
e) extension, up to February 2009, of the expiry date of payment of the Integrated System of Micro and Small Business Tax and Contributions (Simples Nacional), in relation to generating facts occurred in December 2008;
f) losses of revenues originating in dividends, R$700 million; and of petroleum royalties, R$625 million.

The rate of real growth of National Treasury's (TN) twelve-month cumulative revenues, which had reached 6.5% in December 2008, closed at 3.3% in January, keeping its downward trajectory observed in the final quarter of the year.

TN's expenditures climbed from R$22.5 billion, in January 2008, to R$29.6 billion, registering in the period:
a) rise of R$1.9 billion in the payment of judiciary bonds and judicial sentences related to current expenditures and personnel;
b) financial impact of the restructuring of servants' careers and salaries; and
c) increase of R$2.7 billion in discretionary expenditures, with emphasis on the budget operations in the context of the Ministry of Health.

The Social Security's deficit came to R$6.3 billion in January 2009, rising R$1.2 billion in relation to January 2008. In the period, 7.4% increases were registered in net inflows, translating growth in overall wages and 12.7% in expenditures, driven by the minimum wage increase and by the observed increases in the volume of benefits paid, 3.3%, and in the value of judicially mandated payments, 25.3%.

The appropriated nominal interests topped R$14.4 billion in January, against R$13.1 billion in the same period of 2008, an increase associated, in particular, to the evolution of Selic rate. Viewing accumulated twelve month figures, appropriated nominal interests represented 5.6% of GDP, in January, the same level registered in December 2008.

The public sector nominal deficit totaled R$9.3 billion in January, contrasting with the nominal surplus of

R$5.5 billion indicated in the same month of 2008, accumulating 2.02% of GDP in twelve months.

Federal securities debt

The federal securities debt, assessed by the portfolio position, totaled 40.9% of GDP in January 2009, registering an increase of 0.2 p.p. of GDP in relation to October 2008 and a reduction of 2.7 p.p. of GDP in the last twelve months. The quarterly growth mirrored contractive impacts related to the occurrence of net redemptions carried out in the primary market; to the financial effects arising from the exchange depreciation of 9.5% observed in the quarter; and the incorporation of R$37 billion for purposes of nominal interests.

The participation of securities tied to price indices and fixed-rate bonds in the total of the federal securities debt registered reduction in January, compared to October 2008, contrasting with increased representativeness of the Selic-indexed securities. Additionally, the participations of bonds linked to exchange and Reference Rate (RT) maintained stable, while that related to financing taken by the Central Bank by means of open market operations increased 4.3 p.p., to 23.8%.

The revision of the Annual Financing Plan (PAF) 2008, in August of that year, established that fixed-rate securities in the federal securities debt should fluctuate between 29% and 32%, and that related to Selic-indexed bonds, between 31% and 34%. These alterations, which represent an extension of the limits of participation of the Selic-indexed securities and a reduction in that concerning the fixed-rate securities, aim to prevent short-term transitory fluctuations from raising the costs of medium and long-term financing. In December, the mentioned participations reached, in the order, 26% and 28.9%.

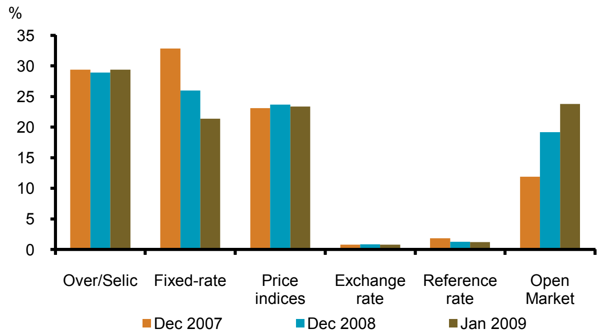
The 2009 PAF established that the participation limits, to be reached up to the end of the year, become 24% and 31%, for fixed-rate securities, and 32% and 38%, for those linked to the Special System of Settlement and Custody (Selic). In January, such participations stood, in the order, at 21.4% and 29.4%.

The repo operations carried out in the open market, which represented very short-term and short-term financing, reached R$406.2 billion in January, against R$321.7 billion in October, evincing securities net sales of R$73.8 billion and incorporation of interests of R$10.7 billion.

Table 3.8 – Public sector borrowing requirements

Itemization	2007		2008		Jan 2009	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Uses	57.9	2.2	44.3	1.5	9.3	3.8
Primary	-101.6	-3.9	-118.0	-4.1	-5.2	-2.1
Interest	159.5	6.1	162.3	5.6	14.4	6.0
Sources	57.9	2.2	44.3	1.5	9.3	3.8
Domestic financing	266.6	10.3	93.1	3.2	2.1	0.9
Securities financin	239.4	9.2	171.1	5.9	37.2	15.3
Bank financing	-2.2	-0.1	-82.3	-2.8	-25.2	-10.4
Others	29.3	1.1	4.3	0.1	-9.9	-4.1
External financing	-208.6	-8.0	-48.8	-1.7	7.2	2.9

Figure 3.34 – 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
	Dec	88 303	29.4	212 188	70.6	300 491
2009	Jan	132 202	34.7	249 018	65.3	381 220

Figure 3.35 – Profile of maturities of the securities debt

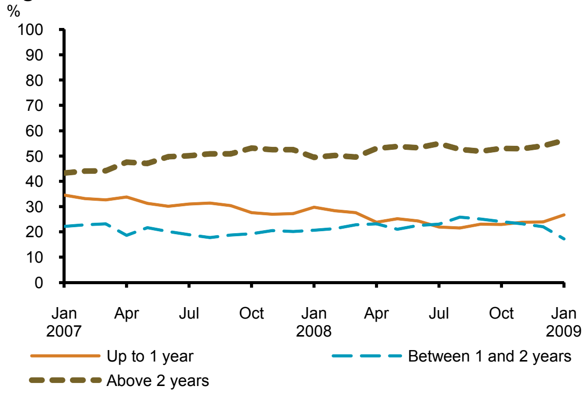


Figure 3.36 – Swap and open market position

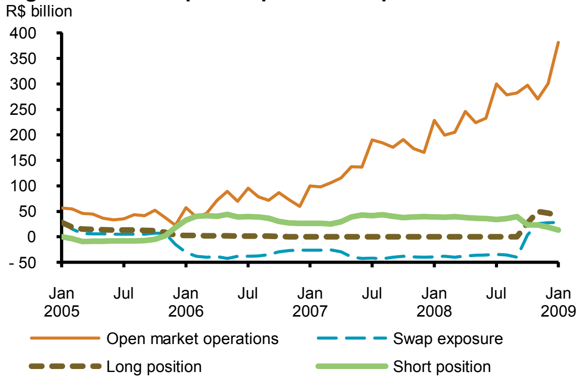


Table 3.10 – Net debt growth
Conditioning factors

Itemization	2007		2008		Jan 2009	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
Total net debt – Balance	1150 357	42.0	1069 579	35.8	1091 439	36.6
Flows	**Accumulated in the year**					
Net debt – Growth	82 994	-2.0	-80 778	-6.2	21 859	0.8
Conditioning factors	82 994	3.0	-80 778	-2.7	21 859	0.7
PSBR	57 926	2.1	44 307	1.5	9 250	0.3
Primary	-101 606	-3.7	-118 037	-4.0	-5 188	-0.2
Interest	159 532	5.8	162 344	5.4	14 438	0.5
Exchange adjustment	29 268	1.1	-98 217	-3.3	3 673	0.1
Domestic securities debt[1/]	-2 432	-0.1	3 180	0.1	- 120	0.0
External debt	31 701	1.2	-101 397	-3.4	3 792	0.1
Others[2/]	-2 305	-0.1	-26 236	-0.9	8 601	0.3
Skeletons	- 630	0.0	135	0.0	336	0.0
Privatizations	-1265	0.0	-767	0.0	0	0.0
GDP growth effect		-5.0		-3.5		0.0

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

The structure of the securities debt maturities on market, except for financing operations, was as follows, in January: 19.3% of the total, in 2009; 23%, in 2010; and 57.7%, as of January 2011. This schedule, in line with the Annual Financing Plan (PAF) objectives, represents an extension of the debt maturity, compared to the same period of 2008, when 23.9% of the total would expire in that year, 20.9% in the following year, and 55.2% as of the second year. The average maturity of the debt reached 3.44 years, respecting the limits, of 3.4 and 3.7 years, specified in the 2009 PAF.

Securities expiring in twelve months represented, in January, 26.7% of the total of the securities debt on market, standing at the gap from 25% and 29%, established by the 2009 PAF.

The foreign exchange swap operations registered a debtor position of R$28.5 billion in January, reversing the creditor position by R$40 billion, observed in September 2008. This movement proved consistent with the Central Bank actions in view of the significant demand for exchange hedge which came after the aggravation of the crisis in the international financial markets.

On the cash basis, the result of exchange swap operations, defined as the difference between the profitability of the Interfinancial Deposit (DI) and the exchange variation plus coupon, was favorable to the Central Bank by R$158 million, in the quarter ended in January. The accumulated result since 2002, when these operations were initiated, was favorable to the Central Bank by R$5.7 billion.

Gross and net public sector debt

The Public Sector Net Debt (PSND) totaled R$1,069.6 billion at the end of 2008, representing 35.8% of GDP, against 42% of GDP, in December 2007, reflecting the fifth consecutive reduction and the least percentage since August 1998. PSND showed monthly increase of 0.8 p.p. of GDP, in January.

The annual reduction of the ratio between PSND and GDP in 2008 reflected the contributions of the primary surplus verified in the period, 4 p.p. of GDP; of the effects of valued GDP, 3.5 p.p. of GDP; of the exchange depreciation of 32% occurred in the year, 3.3 p.p. of GDP; and of the parity adjustment of the basket of currencies which form the net external debt, 0.9 p.p. of GDP. The incorporation of nominal interests acted in the opposite sense, thus contributing to raise the ratio by 5.4 p.p. of GDP. The increase of the PSND/GDP registered in January mirrored, especially, the performance of the primary surplus.

Figure 3.37 – NPSD – Percentage share of indexator

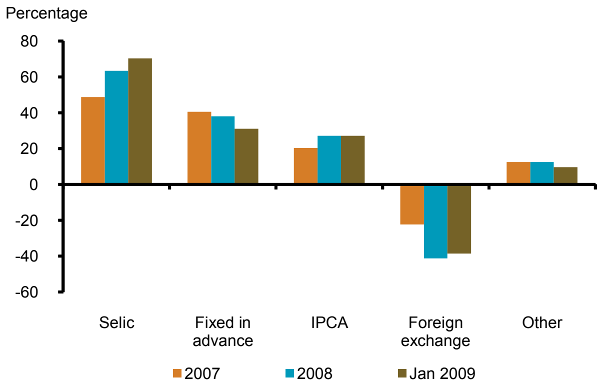


Table 3.10 – Net debt growth

Conditioning factors

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Others[2/]	-2 305	-0.1	-26 236	-0.9	8 601	0.3
Skeletons	- 630	0.0	135	0.0	336	0.0
Privatizations	-1265	0.0	-767	0.0	0	0.0
GDP growth effect		-5.0		-3.5		0.0

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

The evolution of the PSND composition during 2008 reflected, especially, the growth of issuance of Selic-indexed securities and the effect of exchange depreciation on the creditor share linked to exchange. The representativeness of the Selic-indexed net debt moved from 48.7%, at the end of 2007, to 63.4%, at the end of 2008, maintaining an upward trajectory in January 2009, when it reached 70.5%. The exchange-indexed creditor share, after growing 18.8 p.p., to 410.2%, in 2008, dropped to 38.5%, in January.

The Gross General Government Debt (GGGD), represented by debts of the Federal Government, Social Security and regional governments, reached R$1,740.9 billion in December 2008, 58.3% of GDP, rising to 1.9 p.p. of GDP compared to 2007. GGGD showed monthly increase equivalent to 1.2 p.p. of GDP, in January.

The increase indicated in the GGGD/GDP ratio in 2008 reflected the more intense impact of the incorporation of nominal interests and the effect of exchange depreciation, in relation to that propitiated by the net redemptions of debt and by the GDP nominal growth. One should highlight that the effect of exchange depreciation over GGGD is opposite to that observed in relation to PSND, considering that, in the latter case, the share suffering the impact of depreciation is a creditor one. In January, the growth of the GGGD/GDP ratio was associated to the incorporation of nominal interests and to the net issuance of debt.

3.4 Conclusion

The sharp contraction of liquidity observed in the international financial markets in the final months in 2008 continues conditioning the evolution of the domestic credit market. In this sense, as emphasized in the previous report, although the expansionist trajectory of credit remained at a high level in the quarter ended in October 2008, it showed a downward trend, associated, especially, to the deceleration registered in operations with individuals. The greater dynamics of credit operations in the corporate segment revealed the increase in demand by this segment for resources with the banking system, in line with the restrictions in external credit lines and with the internal economic activity level.

The impact of the reduced demand for goods with higher aggregate value – more dependent on the contracting of credit operations in the segment of individual persons and, therefore, more susceptible, to restrictions that occurred, both on the supply side and that of demand, for this market and on industrial sales anticipated the process of adjustment of stocks to which the companies submitted themselves at the end of 2008 and early 2009, with effects over the level of internal activity and over the demand for credit in the segment of corporate entities.

In this scenario, although the total credit stock registered expansion in the quarter ended in January, favored by growth in loan operations backed by targeted resources, which expanded their contribution to the supply of capital requirements in investment projects of the entrepreneurial sector, indicators related to the credit market began registering a downturn, at the margin. Although large-scale companies have increased their demand for resources on the domestic credit market, in view of the drop in the capital markets and external financing sources, free credit to corporate entities declined in January. In much the same way, expansion of the portfolios channeled to individuals evince deceleration, with a reduced pace of new hiring. The drop in credit demand, despite seasonal factors, reflects the uncertainties associated to the evolution of the activity level and, in particular, of employment and income. The performance of these indicators will determine the conditions for a recovery of the credit markets in the coming months.

The evolution of public accounts in 2008 propitiated, once again, the compliance with the primary surplus target and the maintenance of the declining trajectory of the DLSP/GDP ratio. The downward trend observed, in the latest months, in the growth rates of revenues generates a movement consistent with the downturn in economic activity and a sign that the fiscal scenario in 2009 will differ significantly from the pattern registered in the previous year.

In this environment, the conditioning of expenditures indicated in the budget program of the year reveals itself compatible with the fiscal austerity pledge assumed by the government. One should highlight that the Budget Guidelines Law (LDO) of 2009 foresees the possibility that the resources expended with the Investment Pilot Project, forecasted at 0.5% of GDP, may be deducted from the year's primary surplus target. Although this possibility existed in previous years and has not been used, it represents an efficient way of maintaining fiscal responsibility in a scenario of greater economic hardship, while guaranteeing productive investments for the country.

Also, it should be highlighted that the current composition of the public sector's net indebtedness reveals favorable vis-à-vis the scenario of turmoil in the international financial market, above all as a consequence of the creditor's share linked to foreign exchange and of the continuous lengthening of maturities of federal securities.