Credit, monetary and fiscal policies

3

Table 3.1 – Credit operations

R$ billion

Itemization	2010				% growth	
	Jan	Feb	Mar	Apr	3 months	12 months
Total	1 424.6	1 435.9	1 452.0	1 468.2	3.1	17.6
Nonearmarked	956.2	963.7	972.5	981.2	2.6	11.7
Earmarked	468.4	472.2	479.5	487.0	4.0	31.6
% share:						
Total/ GDP	45.0	45.0	45.0	45.2		
Nonearmarked/ GDP	30.2	30.2	30.2	30.2		
Earmarked/GDP	14.8	14.8	14.9	15.0		

Figure 3.1 – Credit by capital control of financial institutions

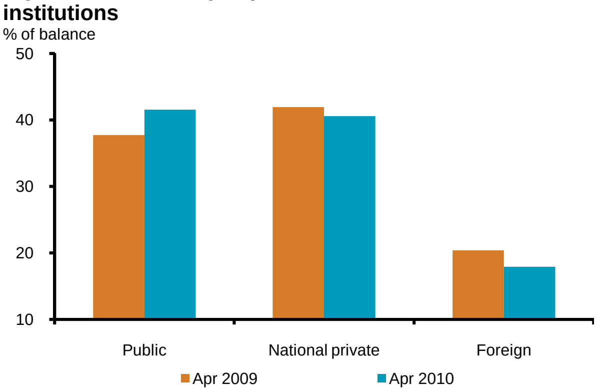
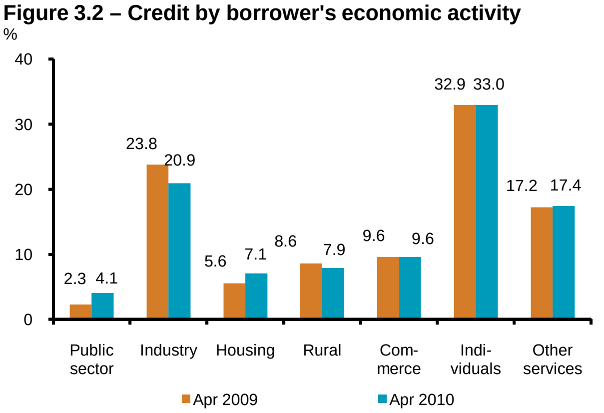


Figure 3.2 – Credit by borrower's economic activity



3.1 Credit

Financial system credit operations maintained the growth trajectory in the 3-month period ended in April, a performance consistent with the pace of economic expansion, improvements in the labor market, and maintenance of consumer and business expectations at high levels. Portfolios based on earmarked resources continued registering greater dynamism, driven by housing credit operations and financing granted by the BNDES.

Loans with nonearmarked resources also continued to grow, with emphasis on the household segment, especially auto loans and personal credit operations, the latter with increased participation of payroll-deducted credit transactions. Operations with nonearmarked in the corporate segment continued to evolve at a moderate pace, with significant settlements of contracts backed by external resources. It should be observed that the reduced dynamics of corporate credit operations, in contrast with the intense pace of economic activity, is due to the expansion of business funding based on foreign resources and on the capital markets.

The total financial system credit operations amounted to R$1,468 billion in April, rising 3.1% in the 3-month period and 17.6% in twelve months, equivalent to 45.2% of GDP, compared to 45% in January and 41.1% in the same period of the previous year. The share of public banks in total credit operations, after expanding significantly in 2009, declined 0.1 p.p., to 41.5%, in the 3-month period ended in April, while those for private national institutions and foreign banks reported respective variations of 0.4 p.p. and -0.3 p.p., reaching, in the order, 40.6% and 17.9%.

The volume of credit targeted to the private sector totaled R$1,409 billion in April, increasing 3.3% in the 3-month period and 15.4% in twelve months. Funding for trade operations increased 3.7% in the 3-month period up to April, totaling R$140.9 billion, emphasizing the expansion observed in the segments of automotive vehicles and food and beverages. The volume of credit operations with the segment of other services increased 3.5%, to R$256.1 billion, driven by increases in the energy, metallurgy, and transportation industries. Meanwhile, credit to the industry grew 0.8%, for total stocks of R$307.5 billion, with emphasis on operations in the segments of energy, agribusiness, and mining.

The balance of credit operations targeted to the public sector totaled R$59.6 billion in April, decreasing by 2.9% in the 3-month period, but expanding 110.5% in twelve months. The evolution at the margin evinced the impact of the 8.9% reduction in funding channeled to the federal government – consistent with the effect of exchange rate appreciation in contracts for state-owned oil and gas companies, in contrast with the 5.5% increase registered in the resources channeled to states and municipalities.

Total provisions set aside by the financial system amounted to R$95.9 billion in April, representing 6.5% of the total national financial system credit operations. The total volume registered a 2% reduction in the 3-month period up to April, consistent with the decrease of 0.3 p.p., to 3.9%, in the financial system default rates when delays of more than 90 days are taken into consideration.

Earmarked credit

Table 3.2 – Earmarked credit operations

R$ billion

	2010				% growth	
	Jan	Feb	Mar	Apr	3 months	12 months
Total	468.4	472.2	479.5	487.0	4.0	31.6
BNDES	288.5	289.5	291.9	295.6	2.5	36.6
Direct	159.9	159.0	158.9	159.6	-0.2	41.9
Onlendings	128.6	130.5	133.0	136.1	5.8	30.9
Rural	79.6	79.5	80.4	80.9	1.6	3.0
Banks and agencies	75.6	75.6	76.2	76.6	1.4	4.3
Credit unions	4.0	3.8	4.1	4.3	6.6	-15.7
Housing	89.7	92.3	95.9	99.0	10.3	50.5
Others	10.7	10.9	11.3	11.5	7.8	22.3

Credit operations with earmarked resources totaled R$487 billion in April, increasing by 4% in the 3-month period and 31.6% in twelve months. This evolution reflected the persistent growth of housing loans backed by funds from savings accounts and the Employment Guarantee Fund (FGTS), which totaled R$99 billion, for respective increases of 10.3% and 50,5% in the period under analyses. Disbursements with savings funds totaled R$9.6 billion in the quarter ended in March, rising 64.7% over the same period of the previous year.

The BNDES financing portfolio totaled R$295.6 billion in April, increasing 2.5% in the 3-month period and 36.6% in twelve months. Disbursements accumulated in the year reached R$35.7 billion, expanding 39.4% over the same period of 2009. Emphasis should be given to resources channeled for the segments of commerce and services, industry, crop and livestock, which totaled, in the order, R$21.7 billion, R$10.6 billion, and R$3.5 billion, for respective changes of 65.7%, -2.2%, and 100.3%, on the same comparison basis. It should be noted that financing for

Table 3.3 – BNDES disbursements

			R$ million
	2009	2010[1/]	% growth
Total	25 606	35 696	39.4
Industry	10 792	10 557	-2.2
Mining	822	317	-61.4
Food products	1 294	3 091	138.9
Vehicle, towing truck and wagon	726	957	31.8
Petroleum and alcohol refining	1 647	777	-52.8
Cellulose and paper	2 640	339	-87.2
Transportation equipments	624	556	-10.9
Commerce/services	13 085	21 677	65.7
Overland transportation	4 638	8 290	78.7
Electricity and gas	4 029	3 199	-20.6
Auxiliary transportation activities	493	1 078	118.7
Construction	1 755	2 491	41.9
Telecommunication	303	287	-5.2
Crop and livestock	1 729	3 463	100.3

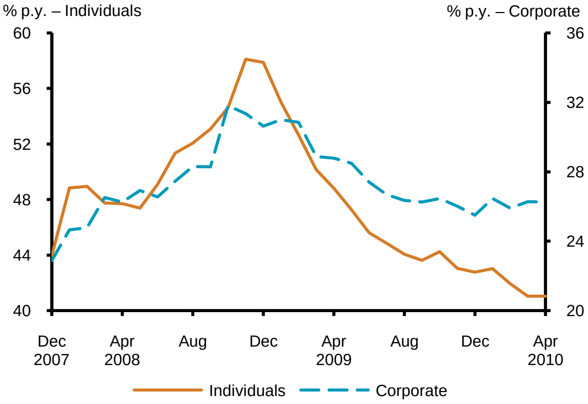
1/ Refers to April.
Source: BNDES

Table 3.4 – Nonearmarked credit operations

						R$ billion
	2010				% growth	
	Jan	Feb	Mar	Apr	3 months	12 months
Total	956.2	963.7	972.5	981.2	2.6	11.7
Corporations	481.7	485.4	485.9	488.6	1.4	5.8
Reference credit[1/]	396.9	402.1	403.5	405.4	2.2	5.0
Domestic funding	340.9	346.0	350.6	354.4	4.0	16.5
External funding	56.0	56.1	52.9	51.1	-8.8	-37.7
Leasing[2/]	47.4	46.9	46.5	46.3	-2.1	-6.6
Rural[2/]	4.0	4.1	3.9	3.8	-4.6	0.0
Others[2/]	33.4	32.3	32.0	33.0	-1.3	48.3
Individuals	474.5	478.3	486.5	492.6	3.8	18.2
Reference credit[1/]	329.8	336.1	344.5	352.6	6.9	21.7
Credit unions	21.5	21.8	22.2	22.6	5.1	24.5
Leasing	63.4	62.4	61.2	58.9	-7.1	-8.2
Others	59.8	58.0	58.7	58.5	-2.2	30.5

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

Figure 3.3 – Interest rates on nonearmarked credit



micro, small, and medium enterprises, accounting for 37.6% of the disbursements made in the 4-month period, increased by 120% in relation to the same period in 2009.

Rural credit operations totaled R$80.9 billion in April, expanding 1.6% when compared to January. This trajectory, in a scenario of seasonal reduction in the employment of funding credit, reflected, in particular, the 2.8% increase observed in fund transfers and official investment programs.

Nonearmarked credit

The balance of nonearmarked credit operations reached R$981.2 billion in April, rising 2.6% in the 3-month period and 11.7% in twelve months, accounting for 66.8% of the financial system's portfolio, compared to 70.4% in same period of 2009. The performance in the 3-month period reflected the enhanced dynamics of household consumption, in an environment of reduced interest rates, strengthened payment deadlines, and lower default rates. Moreover, it should be also mentioned the largest corporate demand for loans backed by domestic resources as of February.

Loans to individuals totaled R$492.6 billion in April. The expansions registered in the 3-month period, 3.8%, and in twelve months, 18.2%, reflected, in particular, the performance of personal credit and financing for the purchase of vehicles, in both cases benefiting from reduced interest rates and increased consumer confidence. The volume of payroll-deducted loans totaled R$118.8 billion, rising 8.2% in the 3-month period and 37.7% in twelve months, accounting for 60% of the personal credit portfolio, compared to 54.2% in the same month of the previous year. Financing for the purchase of vehicles, driven primarily by the end of the IPI reduction period for vehicles in March, grew 9.8% and 29.3% in the period under analysis.

Operations contracted in the corporate segment totaled R$488.6 billion in April, rising 1.4% in the 3-month period and 5.8% in twelve months. In the framework of operations contracted with domestic resources, the modalities of working capital and guaranteed account registered respective expansions of 4.6% and 5.6% in the 3-month period, highlighting the demand from small companies. Conversely, as a result of the impact of exchange rate appreciation observed during the period and the reduction of renewals of advances on exchange contracts (ACC), loans backed by external funds fell by 8.8% in the 3-month period and 37.7% in twelve months.

Figure 3.4 – Average spread on nonearmarked credit

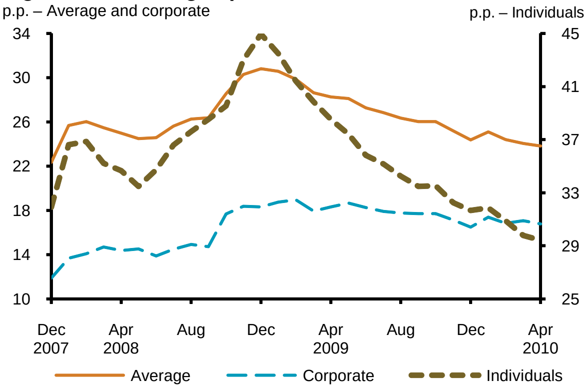
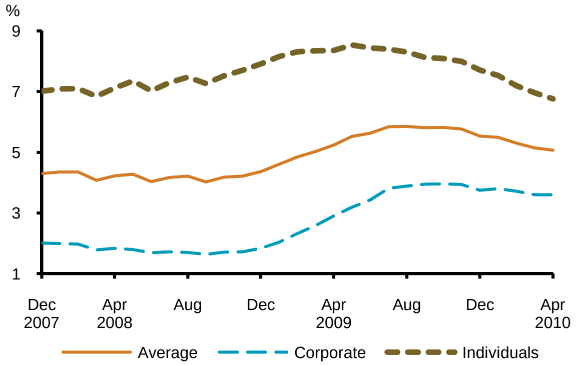
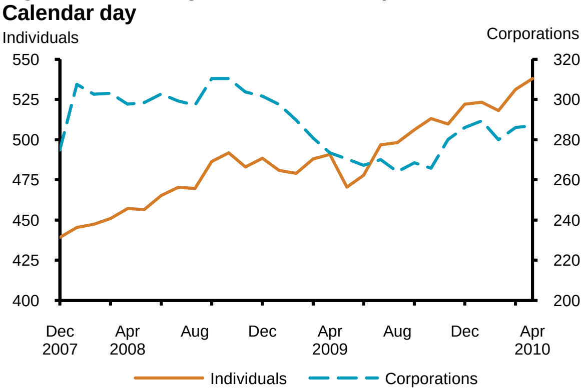


Figure 3.5 – Credit default rates[1/]



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

Figure 3.6 – Average term for credit operations – Calendar day



Interest rates on credit operations continue to follow a declining trend, despite increasing funding costs observed since August of 2009. As a consequence, bank spreads have decreased significantly, particularly in the modalities related to credit operations with individuals, which reached the lowest level of the series begun in June 2000.

Insofar as reference credit operations are concerned, the average interest rate closed at 34.3% p.a. in April, decreasing by 0.8 p.p. in the 3-month period and 4.3 p.p. in twelve months. The rate observed in the segment of individuals reached 41.1% p.a., falling by 1.9 p.p. and 7.7 p.p., respectively, in the same comparison basis. Meanwhile, the rate for corporate reference credit operations reached 26.3% p.a., decreasing by 0.2 p.p. and 2.5 p.p., respectively, in the 3-month and 12-month periods.

The banking spread reached 23.8 p.p. in April, decreasing by 1.3 p.p. in the 3-month period and 4.4 p.p. in twelve months. The spread closed at 29.5 p.p. in the segment of individuals and 16.8 p.p. in the segment of corporations, decreasing, in the order, by 2.3 p.p. and 0.6 p.p. in the 3-month period up to April, and by 9 p.p. and 1.5 p.p., respectively, in 12 months.

Default rates for the modalities that compose of the referential credit operations – taken into consideration delays of more than ninety days – continued to follow the downward trend begun in mid-2009, declining by 0.5 p.p. to 5% in the 3-month period up to April. The rate reached 6.8% in the segment of individuals and 3.6% in the segment of corporations, decreasing by 0.7 p.p. and 0.2 p.p., respectively, in the 3-month period under analyses.

The average payment term of the reference credit portfolio, highlighting the enhanced dynamics of housing financing and auto loans, reached 404 days in April, increasing 8 days in the 3-month period and 38 days in twelve months. The average payment terms for individuals and corporations reached 538 days and 287 days, respectively, compared to 523 days and 289 days in the month of January.

3.2 Monetary aggregates

The average daily balance of the restricted money supply (M1) reached R$229.1 billion in April, dropping 2.8% in the 3-month period, and rising 16.9% over twelve months. Considering seasonally adjusted data deflated by the IPCA, M1 grew 2.6% in the 3-month period and 11% in

Figure 3.7 – Monetary base and M1 – Average daily balances

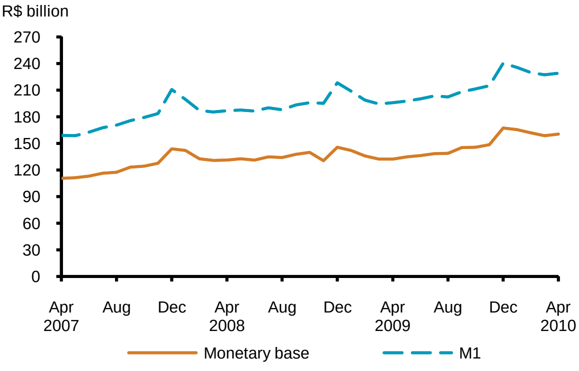
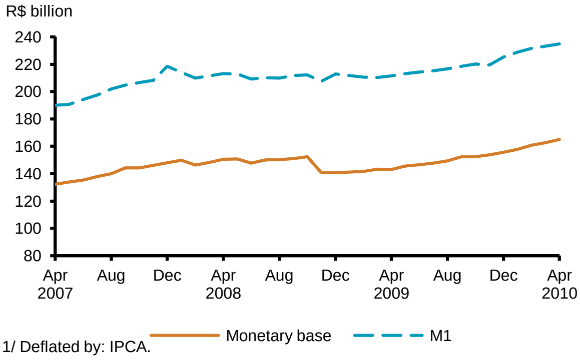


Figure 3.8 – Monetary base and M1 at April 2010 prices seasonally adjusted[1/]



1/ Deflated by: IPCA.

Figure 3.9 – Broad money supply
12-month growth

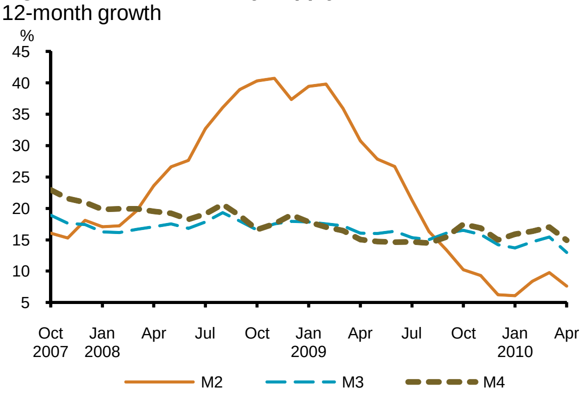
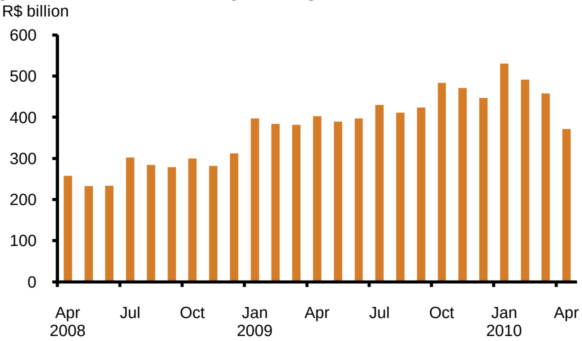


Figure 3.10 – Net financing position of the federal public securities – Daily average



twelve months, a trajectory consistent with the evolution of economic activity.

The monetary base, as assessed by average daily balances, totaled R$160.3 billion in April, for a reduction of 3.1% in the 3-month period up to April and growth of 21.1% in twelve months, as a consequence of respective increases of 17.6% and 32.7% in the average balances of currency issued and bank reserves.

Considering the end-of-period balances, the monetary base totaled R$154.6 billion in April. The contraction of R$1 billion in the period reflected, in part, Central Bank inflows of additional liabilities on deposits, R$90.4 billion, and mandatory deposits on time deposits, R$59.6 billion, which once again had to be complied entirely with in cash as of March 22 and April 9, respectively. Similarly, the National Treasury single account exerted a contractionary impact of R$18.8 billion, contrasting with the expansion associated with net redemptions of R$156.4 billion in National Treasury bills and Central Bank net purchases of R$11.4 billion on the interbank currency exchange market.

The M2 concept, which aggregates to M1 the investment deposits, savings accounts deposits, and bonds issued by financial institutions, declined by 0.3% in the 3-month period and expanded 7.6% in twelve months, totaling R$1.1 trillion. M2 components behaved distinctly in the 3-month period: while the stock of private securities decreased by 1.8%, to R$581 billion, savings account deposits grew by 2.5%, to R$331.8 billion.

M3, which aggregates to M2 the shares of fixed income funds and federal securities that back the net position of repo operations between the public and the financial sector, reached R$2.2 trillion, rising 0.8% in the 3-month period and 13% in twelve months. The M4 aggregate, which includes M3 plus federal securities held by the nonfinancial public, totaled R$2.6 trillion, growing by 1.3% in the 3-month period and 14.9% in twelve months.

Federal public securities and Central Bank open market operations

Primary National Treasury operations with federal securities resulted in a monetary contraction of R$27.5 billion in the 3-month period ended in April, corresponding to placements of R$103.6 billion and redemptions of R$76.1 billion. Swap operations totaled R$6.1 billion, of which 49% involving

Figure 3.11 – Central Bank repo operations – Maturity – Average daily balances

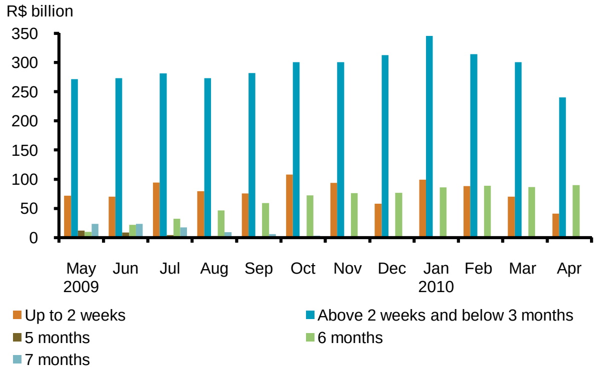
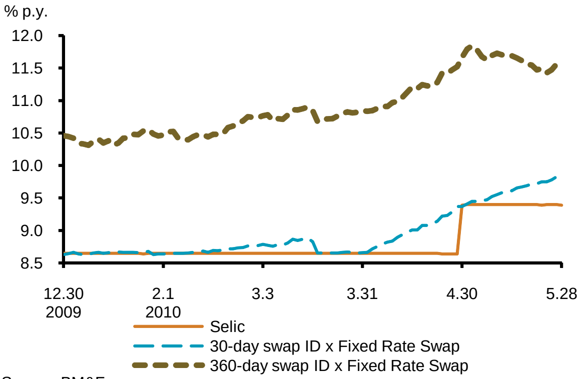


Figure 3.12 – Interest rate



Source: BM&F

Figure 3.13 – Ex-ante real interest rate – Deflated by 12-month IPCA expectations

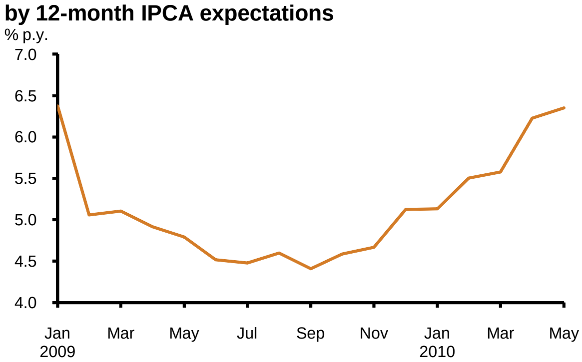
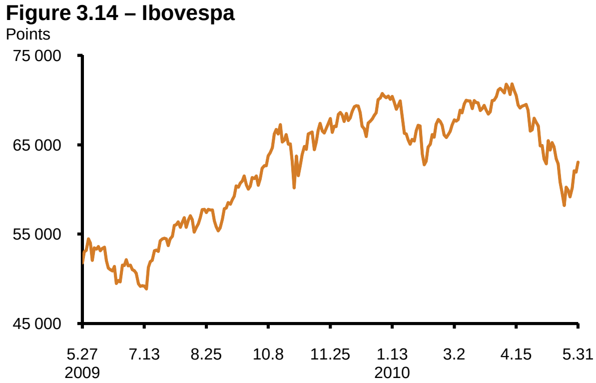


Figure 3.14 – Ibovespa



Source: Bovespa

National Treasury Bills (LTN), and anticipated redemptions totaled R$18 million.

The average daily balance of Central Bank financing and go-around operations totaled R$371.2 billion in April. The 30% decline observed in the 3-month period reflected the impact of reductions in operations with 2-week to 3-month terms, from R$345.3 billion in January to R$240.3 billion in April, as well as in operations with terms shorter than two weeks, from R$99.1 billion to R$41.2 billion, partly offset by an increase from R$86 billion to R$89.6 billion in transactions with 6-month terms.

Real interest rates and market expectations

The curve of future interest rates for Interfinancial Deposits (DI) X pre contracts previewed a slope increase for all vertices in the 3-month period ended in May. It should be stressed that this movement occurred more intensely for the vertices with payment terms lower than one year. The rate for contracts with maturities of 360 days increased by 82 b.p. in the period, reaching 11.57% p.a.

The real *ex-ante* Selic rate for the next twelve months, estimated from Central Bank's Market Report research dated May 28, reached 6.4% p.a. in May, compared to 5.5% p.a. in February, with emphasis on the increase of 1.26 p.p., to 11.5% p.a., registered in the 12-month expectations for the Selic rate.

Capital market

The São Paulo Stock Exchange Index (Ibovespa), after recovering in the second half of 2009, declined in January and recovered significantly in February and March. Increased volatility in international markets, associated with instability originated in European countries, contributed to the 5.2% index retreat registered in the 3-month period ending in May, to 63,046 points. The market value of companies listed in the index, also reflecting the consequences of European instability, fell 5.7% in the 3-month period up to May, closing at R$2.14 trillion. The volume traded in the Bovespa reached a daily average of R$6.8 billion, increasing 3.4% in the 3-month period under analysis.

In dollars, the Ibovespa fell 5.5% in the 3-month period ended in May, while the Dow Jones and Nasdaq posted respective variations of -1.8% and 0.8%.

Figure 3.15 – Stock exchanges

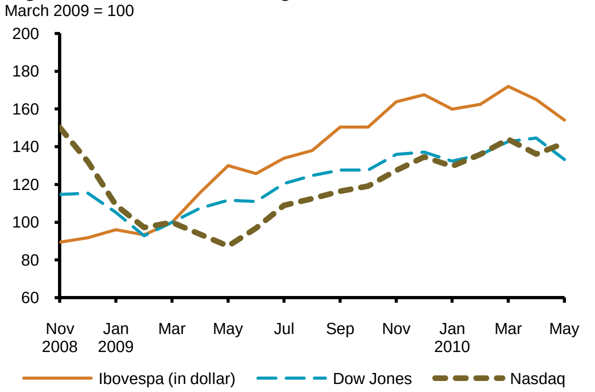
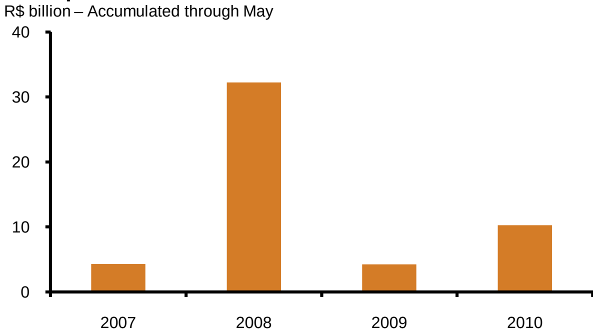
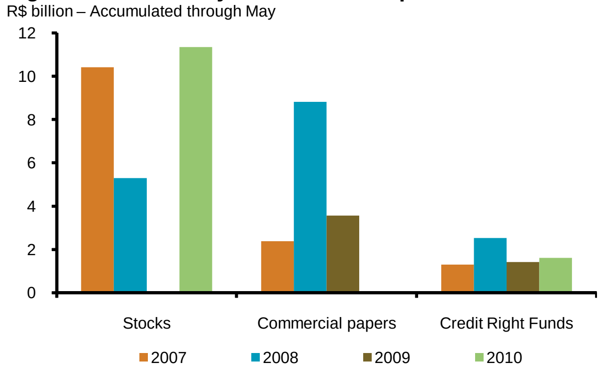


Figure 3.16 – Debenture primary issues in the capital market



Source: CVM

Figure 3.17 – Primary issues in the capital market



Source: CVM

Table 3.5 – Public sector borrowing requirements – Primary result

Segment	2008		2009		Apr 2010[1/]	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Central Government	-71.3	-2.4	-42.4	-1.4	-45.5	-1.4
Sub-national governments	-30.6	-1.0	-21.0	-0.7	-24.2	-0.7
State companies	-4.5	-0.2	-1.1	-0.0	-0.6	-0.0
Total	-106.4	-3.5	-64.5	-2.1	-70.4	-2.2

1/ Twelve-month cumulative data up to January.

Business financing in the capital markets through the issue of shares, debentures, promissory notes, and placement of receivables totaled R$23.2 billion in the first five months of 2010, compared to R$9.2 billion in the same period of 2009, with emphasis on issues of shares, which totaled R$11.3 billion.

3.3 Fiscal policy

In May, the Ministry of Planning, Budget and Management (MPOG) announced a report updating the macroeconomic parameters and re-estimating Central Government revenues for the year 2010. Aiming to preserve the primary surplus target, representing 2.4% of GDP, in a scenario of R$9.4 billion revenue reduction in relation to March's forecast, the federal government issued a decree determining a R$10 billion cut in National Treasury annual expenditures, of which R$7.6 billion referring to expenditures of discretionary nature while R$2.4 billion referring to obligatory expenditures.

It should be noted that, in March, following the disclosure of the primary result for the first two months of the year, the Government had promoted a R$15.7 billion cut in central government expenditures, accumulating, in the exercise, a contingency of R$25.7 billion.

Public sector borrowing requirements

The consolidated public sector primary surplus totaled R$36.6 billion in the first four months of 2010, equivalent to 3.41% of GDP, for a 0.23 p.p. of GDP increase over the same period in 2009. This performance reflected the greater Central Government and regional governments surpluses, partly offset by the increased state-owned enterprises deficit. The 12-month accumulated primary result amounted to R$70.4 billion in April, 2.17% of GDP, below the target set for the year, 3.3% of GDP. It is noteworthy that this goal can be reduced by up to 1.12 p.p., depending on discounts provided in the Budget Guidelines Law of 2010 with regard to PAC expenditures.

The Federal Government surplus, favored by the 19.7% growth under gross revenues, increased by 0.09 p.p. of GDP in the 4-month period. It should be highlighted that collections grew 22.9% in April, in relation to the corresponding month in 2009.

Figure 3.18 – Public sector primary surplus
12-month cumulative data

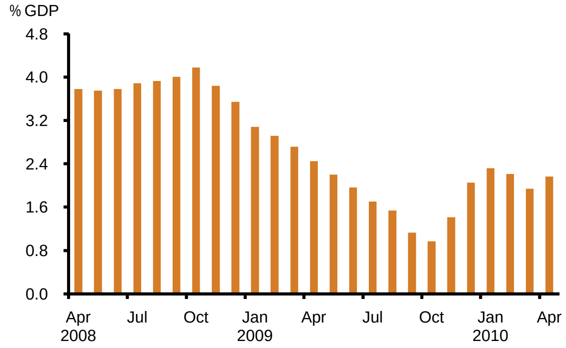


Figure 3.19 – National Treasury gross revenues
Jan-Apr

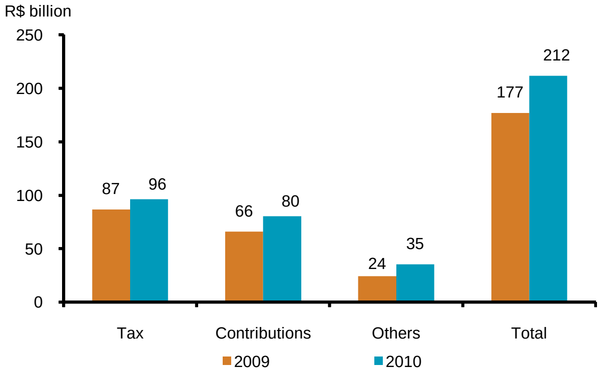
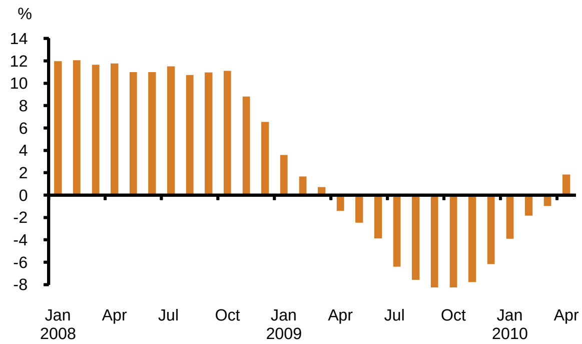


Figure 3.20 – 12-month real growth rate of Treasury revenues[1/]



1/ Updated by IPCA.

Table 3.6 – National Treasury Expenditures
Jan-Apr

Itemization	2009		2010	
	R$ million	% GDP	R$ million	% GDP
Total	102 095	10.6	123 583	11.5
Personnel and payroll charges	49 921	5.2	53 494	5.0
Capital and current expenditures	51 819	5.4	69 702	6.5
Workers Support Fund	6 790	0.7	7 279	0.7
Subsidies and economic	680	0.7	3 474	0.7
subventions	680	0.1	3 474	0.3
Loas/RMV	6 051	0.6	7 231	0.7
Investment	6 761	0.7	12 803	1.2
Other capital expenditures	31 537	3.3	38 916	3.6
National Treasury transfers				
to the Central Bank	354	0.0	388	0.0

Source: Minifaz/STN

Inflows of Cofins, driven by increased sales, rose 26.8% in the first four months of the year, compared to the same period in 2009, totaling R$43.4 billion, while that associated with IPI, reflecting the expansion of industrial production and vehicle sales, grew 22.8% to R$11.4 billion. Additionally, other Treasury revenues, reflecting the impact of rising international petroleum prices over the collection of quota-share and the increases in the collection of dividends and of revenues originating in installment payments of tax debts, increased 46.3%, to R$35.4 billion.

Considering 12-month periods, Treasury revenue real growth rates, deflated by the IPCA, reached 1.8% in April, the first positive result since March 2009 on this basis of comparison. It is important to emphasize, however, that this trajectory, although reflecting the impact of economic recovery on the level of collection, is largely due to the depressed revenue base in the period that followed the worsening of the international crisis. In this framework, the maintenance of collection recovery shall depend upon the pace of economic growth, benefiting from the reversal of tax cuts introduced to strengthen domestic demand after the intensification of the international crisis, which represented an estimated impact of R$24.9 billion over the 2009 collection.

National Treasury expenditures amounted to R$123.6 billion in the first four months of 2010, increasing 21% over the same period of the previous year. Expenditures on personnel and liabilities increased by 7.2%, despite the reduction in the payment of judicial claims and current and capital expenditures, 34.5%, with emphasis on the expansion of 89.4% under investments.

The Social Security deficit reached R$17.2 billion, rising by 0.04 p.p. of GDP, compared to that recorded from January to April 2009. The collection growth consequent upon payroll increase grew 14.9%, and expenditures on social security benefits, reflecting in particular the average growth of 9.1% in the value of pensions and benefits, increased 14.7%.

It is worth mentioning that the R$47.2 billion projected deficit in 2010 in the MPOG report aforementioned incorporates the original readjustment forecast of 6.14% for benefits above the floor. Under these conditions, that projection should take into consideration the effects regarding the 7.7% increase for benefits above the floor recently approved by the National Congress.

Transfers to regional governments totaled R$44.2 billion in the first four months of 2010, increasing 13.6% over the same period of 2009, with emphasis on the increases

Figure 3.21 – Federal Government: investment expenditures paid
Jan-Apr

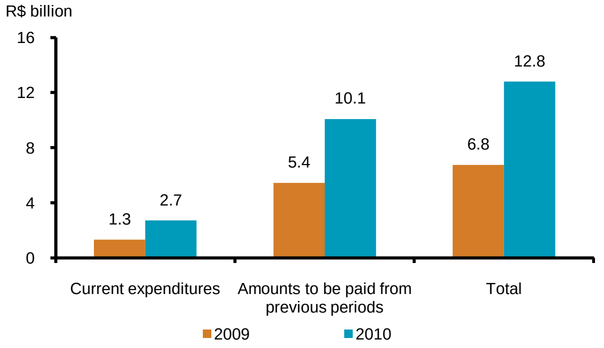


Figure 3.22 – Transfers to states and municipalities
Jan-Apr

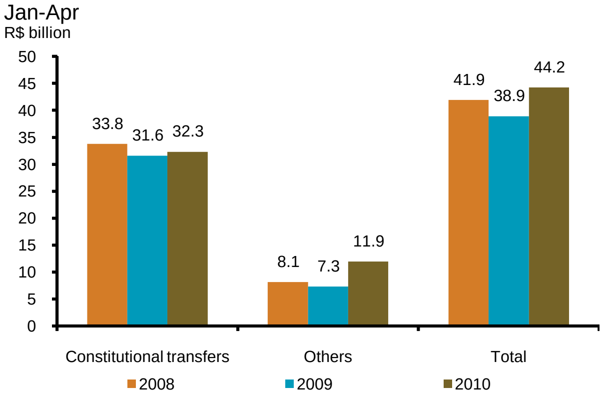
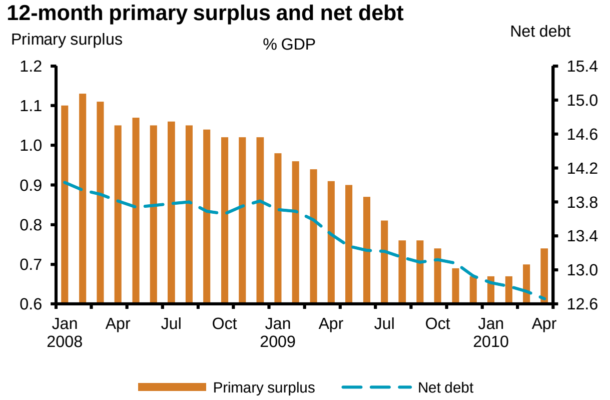


Table 3.7 – Social security primary result
Jan-Apr

R$ billion

Itemization	2009	2010	Var. %
Gross inflow	60.4	69.2	14.7
Cash refunds	-0.2	-0.2	11.3
Transfers to third parties	-6.7	-7.5	12.6
Net inflow	53.5	61.5	14.9
Social Security benefits	68.7	78.7	14.7
Primary result	-15.2	-17.2	13.7
Net inflow/GDP	5.5%	5.7%	
Social Security benefits/GDP	7.1%	7.3%	
Primary result/GDP	-1.6%	-1.6%	

Figure 3.23 – Regional governments: cumulative 12-month primary surplus and net debt



of petroleum and natural gas transfers; transfers from the Contribution of Intervention in the Economic Domain (Cide) and the Fund for Maintenance and Development of Basic Education and Enhancement of Education Professionals (Fundeb); and transfers referring to financial support to states and municipalities.

Tax collections for the Tax on the Circulation of Goods and Services (ICMS), the most significant regional tax, and the Motor Vehicle Ownership Tax (IPVA) registered respective increases of 17.2% and 16% in the quarter ended in March, compared to the same period in 2009.

The regional governments' primary surplus reached R$12.8 billion in the first four months of the year, increasing by 0.2 p.p. of GDP in relation to the same period in 2009, contributing significantly to the decline of 0.3 p.p. of GDP in regional government's net debt for 2010.

State-owned companies registered a primary deficit of 0.15% of GDP in the period, compared to 0.12% of GDP between January and April 2009. In particular, this trajectory reflects the impact of investment programs implemented by federal state-owned companies.

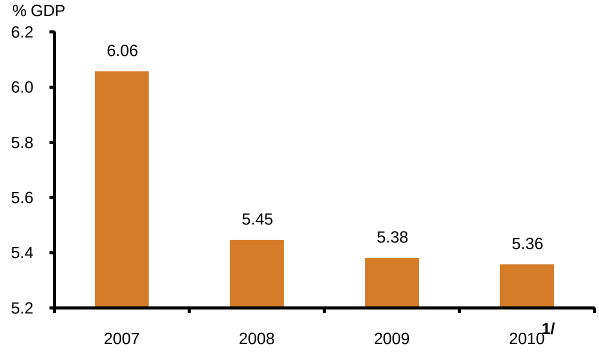
Appropriated nominal interest totaled R$59.5 billion in the first four months of the year, increasing by 0.07 p.p. of GDP over the same period in 2009. This movement reflected both the growth of 0.92 p.p. observed in the accumulated IPCA variation in the period and the reversal of the favorable result of foreign exchange swap operations recorded in first four months of 2009.

The public sector nominal deficit, which includes the primary result and appropriated nominal interests, totaled R$22.8 billion in the first four months of the year, equivalent to 2.13% of GDP, falling by 0.16 p.p. of GDP in relation to the same period in 2009. This deficit was financed through expansions of net banking debt and securities debt, partly offset by reductions in net foreign financing and other sources of domestic financing, including the monetary base.

Federal securities debt

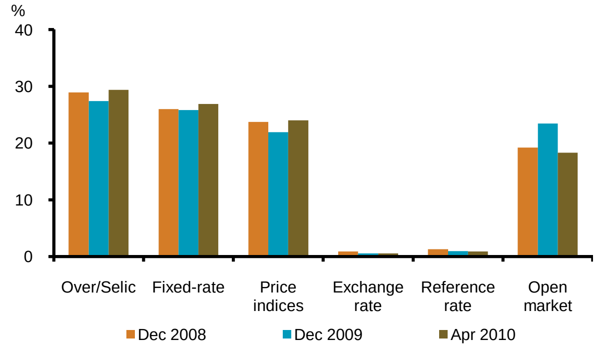
The domestic federal securities debt, evaluated by the portfolio position, totaled R$1,492.9 billion in April, 44.6% of GDP, increasing by 2.3 p.p. of GDP compared to January and 3 p.p. of GDP in twelve months. This trajectory reflected the impacts of expansions under net primary market

Figure 3.24 – Nominal interest



1/ Twelve-month cumulative data up to April.

Figure 3.25 – Federal securities debt structure by indexing factor[1/]



1/ It does not include swap.

Figure 3.26 – Profile of maturities of the securities debt

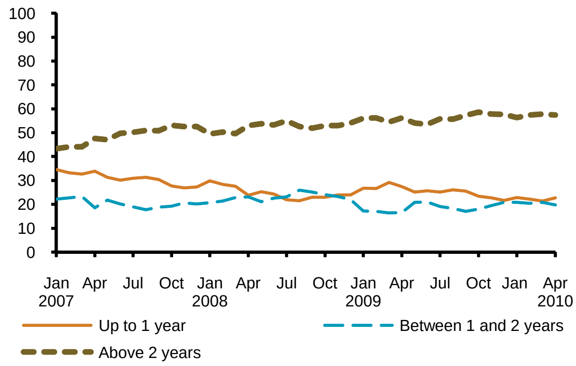


Table 3.8 – Public sector borrowing requirements

Jan-Apr

Itemization	2008 R$ billion	2008 % GDP	2009 R$ billion	2009 % GDP	2010 R$ billion	2010 % GDP
Uses	-7.4	-0.8	22.1	2.3	22.8	2.1
Primary	-62.9	-6.7	-30.8	-3.2	-36.6	-3.4
Interest	55.5	5.9	52.8	5.5	59.5	5.5
Sources	-7.4	-0.8	22.1	2.3	22.8	2.1
Domestic financing	21.2	2.3	19.7	2.0	44.0	4.1
Securities financing	75.0	8.0	68.7	7.1	2.0	0.2
Bank financing	-31.9	-3.4	-48.1	-5.0	53.3	5.0
Others	-21.9	-2.3	-0.9	-0.1	-11.2	-1.0
External financing	-28.6	-3.1	2.4	0.2	-21.2	-2.0

issues, R$98 billion; and appropriation of nominal interests, R$40 billion, contrasting with the contractionary impact of R$0.8 billion due to the effects of the 7.7% currency appreciation in the period.

In the February-April period, the participation in the domestic federal securities debt of fixed-rate securities and securities indexed to price indices and the Selic rate registered, in the order, expansions of 5.4 p.p., 2.0 p.p., and 1.6 p.p., while Central Bank financing through open market operations declined by 9 p.p.

The 2010 Federal Public Debt Annual Financing Plan (PAF) defined the following minimum and maximum limits to be pursued, until the end of the year, for the participation of public debt indexing factors: fixed-rate securities, 31% and 37%, price indices, 24% and 28%; Selic rate, 30% and 34%; exchange rate, 5% and 8%. In April, these percentages reached 26.9%, 24%, 29.4% and 0.5%, respectively.

Open market repo operations, which represent short and very short-term financing, reached R$362.1 billion in April, compared to R$535.7 billion in January, with Central Bank net purchases of securities totaling R$182.8 billion and incorporation of interests, R$9.2 billion.

The amortization schedule of the securities debt on the market, except for financing operations, registered the following maturity structure in April: 14.3% of total maturing in 2010, 20.3% in 2011, and 65.4% as of January 2012. Securities maturing in 12 months represent 22.8% of total securities debt on the market, slightly below the lower limit of 24% set by the PAF 2010. The average debt maturity reached 41.1 months, within the range set in the PAF 2010.

Net and gross debt

The Public Sector Net Debt (PSND) closed at R$1,370.7 billion in April, 42.2% of GDP, falling 0.6 p.p. of GDP in comparison to December 2009. The PSND/GDP ratio dropped in all spheres of the public sector in the period, except for state-owned companies, which remained stable.

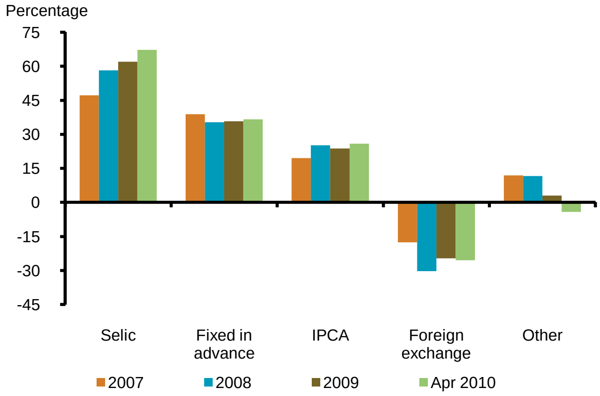
The decline recorded in PSND/GDP ratio in the four-month period under analysis reflected the primary surplus decrease, -1.1 p.p. of GDP, and current GDP growth, -1.4 p.p., partly offset by the impacts of 1.8 p.p. of GDP related to the appropriation of nominal interests, 0.1 p.p. of GDP related to

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	Mar	124 877	33.7	246 066	66.3	370 943
	Jun	68 826	17.8	316 797	82.2	385 624
	Sep	60 179	14.0	369 497	86.0	429 676
	Dec	31 846	7.4	396 029	92.6	427 874
	Mar	92 320	22.8	312 448	77.2	404 767
	Apr	84 761	25.3	250 089	74.7	334 849

Figure 3.27 – NPSD – Percentage share of indexator



exchange rate appreciation of 0.6%, and the parity variation of the parity of the basket of currencies that composes of the net debt.

The trajectory of PSND composition throughout 2010 reflected, in particular, the growth of the debt share indexed to the Selic rate and the creditor portion linked to the Long Term Interest Rate (TJLP), the latter associated with the increase in federal government assets held by the BNDES through the issue of federal securities on the domestic market. It should be also highlighted the growth of the portion linked to IPCA, in line with this inflation index acceleration throughout the year.

The General Government Gross Debt (GGGD), represented by the Federal Government, Social Security, and regional government debts totaled R$1,968.2 billion, 60.6% of GDP in April, falling 2.2 p.p. in the year. Contributed to this trend the drop in repo operations, associated with the recent increase in the rate of compulsory deposits, and GDP growth, partly offset by the incorporation of nominal interests and the issues of National Treasury securities.

3.4 Conclusion

In an environment of decreasing interest rates, spreads, and default, credit operations continued to follow an upward trajectory in the 3-month period ending in April, thus contributing to the favorable performance of consumption and, more significantly, investments. The expansion of loans occurred with greater intensity in the segment of earmarked resources, especially in BNDES credit operations and housing financing. Insofar as nonearmarked credit are concerned, the volume of operations were less pronounced, being boosted by the performance of individuals' portfolios, with emphasis on the growing participation of payroll-deducted and auto loans. It is worth emphasizing that the relative slowdown observed in the corporate segment partly reflected the increased access of companies, especially large ones, to the capital market and foreign resources.

Fiscal results accumulated in the year, more favorable in relation to those registered in the same 2009 period, appear to be consistent with the impact of economic activity recovery on the revenue levels. The maintenance of tax collection recovery should be sustained by the impact of the end of tax cuts and the outlook for persistent economic expansion. With regard to public expenditures, it should be emphasized the significant expansion observed under investments.

Table 3.10 – Net debt growth
Conditioning factors

	2008		2009		Apr 2010	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
Total net debt – Balance	1153 631	38.4	1345 325	42.8	1370 705	42.2
Flows	**Accumulated in the year**					
Net debt – Growth	-47 168	-6.7	191 694	4.4	25 380	-0.6
Conditioning factors	-47 168	-1.6	191 694	6.1	25 380	0.8
PSBR	57 240	1.9	104 622	3.3	22 847	0.7
Primary	-106 420	-3.5	-64 517	-2.1	-36 617	-1.1
Interest	163 660	5.4	169 139	5.4	59 464	1.8
Exchange adjustment	-77 373	-2.6	79 754	2.5	2 519	0.1
Domestic securities	3 180	0.1	-3 414	-0.1	214	0.0
debt[1/]	-80 553	-2.7	83 168	2.6	2 305	0.1
External debt	-26 404	-0.9	10 880	0.3	2 272	0.1
Others[2/]	0	0.0	0	0.0	0	0.0
Skeletons	135	0.0	- 345	0.0	- 908	0.0
Privatizations	- 767	0.0	-3 217	-0.1	-1 351	0.0
GDP growth effect		-5.2		-1.7		-1.4

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	2008		2009		Apr 2010	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
GGGD – Balance	1 740 888	57.9	1 973 424	62.8	1 968 165	60.6
Flows	**Accumulated in the year**					
GGGD – Growth	198 036	0.0	232 536	4.9	-5 259	-2.2
Conditioning factors	198 036	6.6	232 536	7.4	-5 259	-0.2
GGGD borrowing requirements	158 976	5.3	265 777	8.5	-6 186	-0.2
GGGD net issues	-41 963	-1.4	74 329	2.4	-73 825	-2.3
Interest	200 938	6.7	191 448	6.1	67 639	2.1
Exchange adjustment	38 473	1.3	-41 212	-1.3	- 606	0.0
Indexed internal securities debt[1/]	3 180	0.1	-3 414	-0.1	- 58	0.0
External debt	35 293	1.2	-37 798	-1.2	- 548	0.0
Others[2/]	-2 662	-0.1	6 070	0.2	1 503	0.0
Skeletons	3 250	0.1	1 902	0.1	30	0.0
Privatizations	0	0.0	0	0.0	0	0.0
GDP growth effect		-6.6		-2.5		-2.1

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

In view of fiscal targets established for the year, this trajectory should be counterbalanced by the slowdown in the growth rate of current expenditures.