Credit, monetary and fiscal policies

3

3.1 Credit

The credit evolution in the quarter ended in February was mainly conditioned by seasonal factors and the effects of macroprudential measures implemented in December. In the segment of corporations, the seasonal aspect prevailed, expressed in the expansion of demand for credit in the last months of 2010 followed by moderation in January and February. In the segment of individuals, the raise of interest rates on long-term hiring operations resulted in significant restriction of contractions as of December, notably in the financing of vehicles and in payroll-deducted loans.

Table 3.1 – Credit operations

R$ billion

	2010		2011		% growth	
	Nov	Dec	Jan	Feb	3 months	12 months
Total	1 678.7	1 705.8	1 715.4	1 738.1	3.5	21.0
Nonearmarked	1 100.9	1 116.0	1 119.8	1 135.5	3.1	17.8
Earmarked	577.8	589.8	595.5	602.6	4.3	27.5
% participation:						
Total/ GDP	46.0	46.4	46.3	46.5		
Nonearmarked/GDP	30.2	30.4	30.2	30.4		
Earmarked/GDP	15.8	16.0	16.1	16.1		

Figure 3.1 – Credit by capital control of financial institutions

% of balance

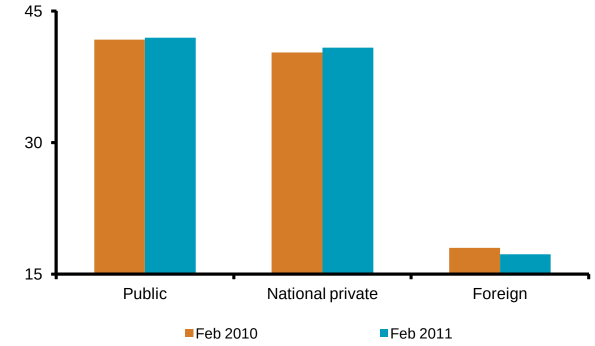
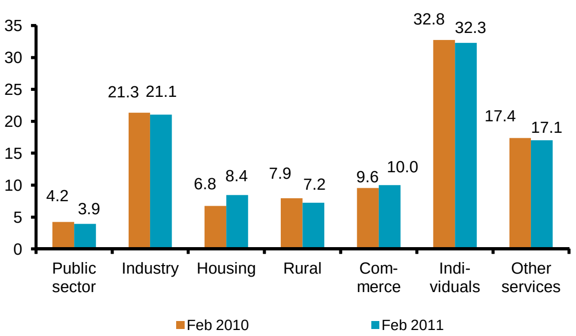


Figure 3.2 – Credit by borrower's economic activity

%



Total bank loans, comprising both operations with earmarked and nonearmarked resources, reached R$1,738 billion in February, increasing 3.5% in the quarter and 21% in twelve months. The representativeness of national private institutions in the total financial system portfolio rose 0.2 point, to 40.8% in the quarter, while the participation of public banks and foreign institutions reached 41.9% and 17.3%, respectively. The credit/GDP ratio reached 46.5%, against 46% in November and 44.1% in February 2010.

Loans channeled to the private sector accounted for R$1,670 billion in February, increasing 3.6% in the quarter and 21.4% in twelve months. The quarterly result partly reflected the expansion in the segments of commerce, 3%, emphasizing concessions to department stores and supermarkets; other services, 2.9%, especially transportation, real estate and communications; and industry, 1.8%, emphasizing the demand of the automotive, food and energy sectors. Housing credits, including earmarked and nonearmarked resources, accounted for R$146.4 billion in February, increasing 9.6% in the quarter and 50.9% in twelve months.

Credit operations channeled to the public sector accounted for R$68.2 billion in February, increasing 1.7% in comparison with November and 12.3% in twelve months. It should be highlighted respective variations of 5.4% and 29.6% in state and municipal government bank debts, with emphasis on the resources targeted to direct state administration and basic sanitation projects.

The total volume of provisions set aside by the financial system reached R$96 billion in February, accounting for 5.5% of total financial system credit portfolio, against 5.8% in November. The volume of provisions decreased 1.8% in the quarter, a trajectory consistent with the decrease of 0.1 p.p. registered in the financial system's default rate in the period, 3.2%.

Credit operations with earmarked resources

In February, loans based on earmarked resources expanded 4.3% in the quarter and 27.5% in twelve months, reaching R$602.6 billion. BNDES operations accounted for R$363 billion, highlighting transfers of R$183.3 billion carried out by other financial institutions, for respective expansions of 4.6% and 40.5%. Housing financing with resources based on savings deposits and the Employment Guarantee Fund (FGTS) accounted for R$138.1 billion, up 9.1% and 49.6%, respectively. The rural credit portfolio, excluding operations contracted with BNDES, accounted for R$87.5 billion, expanding 3% and 9.4%, respectively.

BNDES disbursements carried out in the first two months of 2011 increased 7.3% when compared to the same period of the previous year, accounting for R$17.2 billion. The concessions to the segment of commerce and services increased 13.2%, emphasizing the electricity, gas and land transportation sectors, while the concessions to the industrial segment expanded 2.9%. Meanwhile, concessions to micro, small and medium enterprises increased 17.7%.

Credit operations with nonearmarked resources

The stock of credit operations carried out with nonearmarked resources reached R$1,136 billion in February, accounting for 65.3% of the total financial system portfolio, rising 3.1% in the quarter and 17.8% in twelve months. The loans to individuals accounted for R$573.1 billion, increasing 4.3% and 19.8%, respectively, while those targeted to corporations accounted for R$562.4 billion, rising 1.9% and 15.9% in the same comparison bases.

Table 3.2 – Earmarked credit operations

R$ billion

	2010		2011		% growth	
	Nov	Dec	Jan	Feb	3 months	12 months
Total	577.8	589.8	595.5	602.6	4.3	27.5
BNDES	353.3	357.8	359.9	363.0	2.8	25.4
Direct	178.0	178.0	178.1	179.7	1.0	13.0
Onlendings	175.3	179.8	181.8	183.3	4.6	40.5
Rural	85.0	86.8	87.1	87.5	3.0	9.4
Banks and agencies	80.1	81.9	81.9	82.5	3.1	8.8
Credit unions	4.9	4.9	5.1	5.0	1.8	20.7
Housing	126.6	131.4	134.8	138.1	9.1	49.6
Others	12.9	13.8	13.8	13.9	7.7	27.5

Table 3.3 – BNDES disbursements

R$ million

	Jan-Feb		% growth
	2010	2011	
Total	16 017	17 180	7.3
Industry	5 313	5 466	2.9
Mining	156	745	377.6
Food products	2 041	1 389	-31.9
Vehicle, towing truck and wagon	372	370	-0.5
Petroleum and alcohol refining	221	363	64.3
Chemical	182	274	50.5
Transportation equipment	163	130	-20.2
Commerce/services	9 017	10 205	13.2
Overland transportation	4 035	4 319	7.0
Electricity and gas	1 012	1 725	70.5
Commerce	1 590	1 539	-3.2
Auxiliary transportation activities	343	470	37.0
Construction	830	860	3.6
Telecommunication	69	53	-23.1
Crop and livestock	1 686	1 510	-10.4

Source: BNDES

Table 3.4 – Nonearmarked credit operations

R$ billion

	2010		2011		% growth	
	Nov	Dec	Jan	Feb	3 months	12 months
Total	1 100.9	1 116.0	1 119.8	1 135.5	3.1	17.8
Corporations	551.7	556.0	554.2	562.4	1.9	15.9
Reference credit[1/]	458.6	462.7	462.0	470.8	2.7	17.1
Domestic funding	406.3	413.9	411.4	419.0	3.1	21.1
External funding	52.3	48.9	50.6	51.8	-1.0	-7.7
Leasing[2/]	41.7	41.3	40.5	39.5	-5.4	-17.9
Rural[2/]	3.2	3.1	3.1	3.2	0.1	-18.2
Others[2/]	48.1	48.9	48.5	48.9	1.6	57.1
Individuals	549.3	560.0	565.7	573.1	4.3	19.8
Reference credit[1/]	413.6	417.3	428.1	437.0	5.7	30.0
Credit unions	24.8	25.3	25.7	26.1	5.5	19.9
Leasing	46.4	45.6	43.9	41.8	-9.9	-32.1
Others	64.5	71.8	68.0	68.2	5.7	15.7

1/ Interest rate reference credit, defined according to Circular n. 2,957 dated 12.30.1999.

2/ Operations backed by domestic resources.

In the corporate segment, the performance of credit operations carried out with nonearmarked resources registered greater volume of concessions in the month of December and moderation in January and February. Thus, as a result of the typical seasonality of the period, total loans in the segment diminished 9.9% in the quarter. In December, it should be highlighted the resumption of operations involving advance exchange contracts (ACC), mostly conditioned by the reduction in the supply of other credit lines for the export activity.

In the framework of operations with individuals, the impacts of macroprudential measures were mostly felt on financing operations with terms over 24 months. This modality registered stability in the month of December, when the sales of vehicles usually increase, a significant decrease in January and partial recovery in February. In February, car loans decreased 25.7% in comparison to November, the month prior to the adoption of the macroprudential measures. Total credit granting related to the reference credit, which comprehends operations with individuals and corporations, diminished 8.9% in the quarter ended in February.

Figure 3.3 – Interest rates on nonearmarked credit

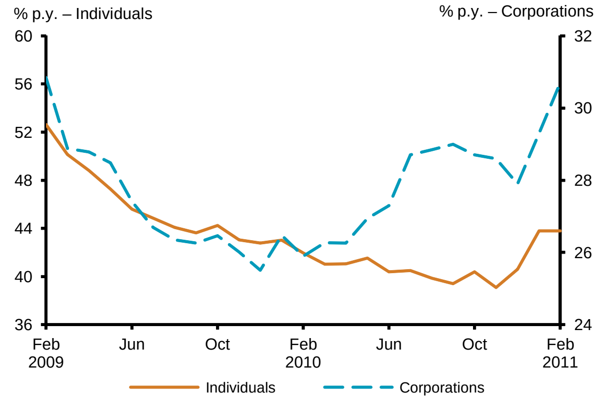
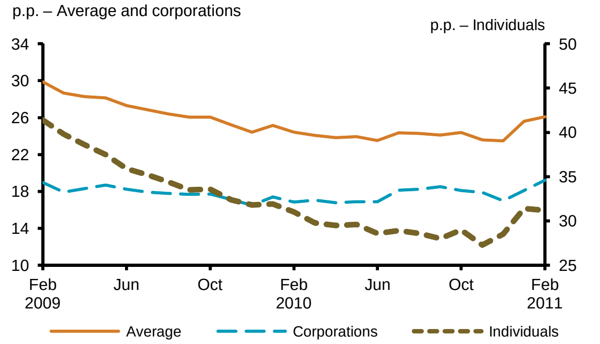


Figure 3.4 – Average spread on nonearmarked credit



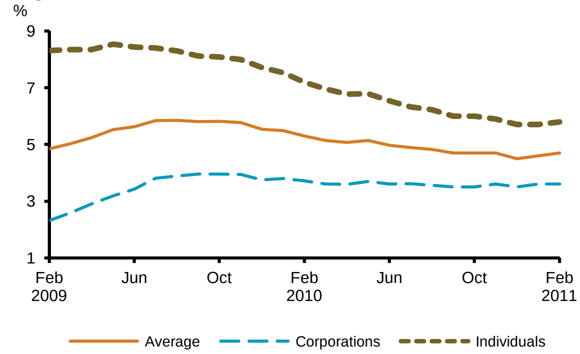
Interest rates and defaults

The average interest rate of reference credit operations reached 38.1% p.a. in February, increasing 3.3 p.p. in the quarter and 3.7 p.p. in twelve months. The quarterly trajectory mainly reflected the impact of the rise in compulsory collections and capital requirement on long-term operations with individuals, as well as the rise of the Selic rate target in January. The banking spread reached 26.1 p.p., up 2.5 p.p. in the quarter and 1.7 p.p. in twelve months.

The average interest rate closed at 43.8% in the segment of individuals, increasing by 4,7 p.p. in the quarter and 1.8 p.p. in twelve months. It should be stressed the quarterly growth under the modalities of personal credit, 6 p.p., and purchase of vehicles, 4,5 p.p. The average interest rate in the segment of corporations reached 30.7%, up 2.1 p.p. in the quarter and 4.8 p.p. in twelve months.

The default rate of the modalities that compose of the reference credit reached 4.7% in February, registering stability in the quarter and decrease of 0.6 p.p. in twelve months. The quarterly result reflected the 0.1 p.p. decrease in the segment of individuals and stability in the segment of corporations, 0.1 p.p.

Figure 3.5 – Credit default rates[1/]



1/ Nonearmarked credit in arrears of more than 90 days.

Figure 3.6 – Average term for credit operations – Calendar day

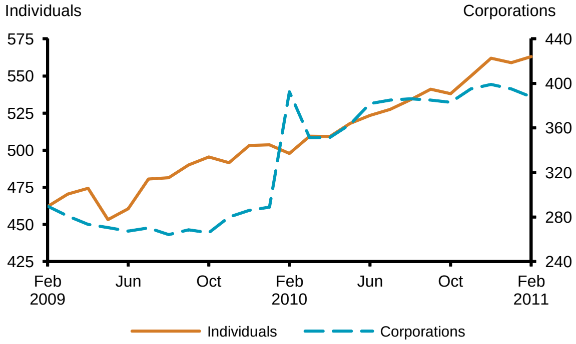


Figure 3.7 – Monetary base and M1 – Average daily balances

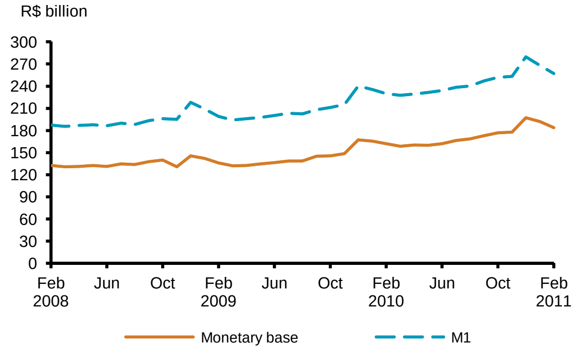
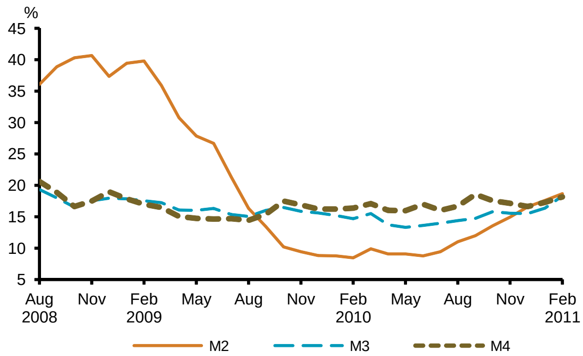


Figure 3.8 – Broad money supply
12-month growth



The average term of the reference credit portfolio reached 472 days in February, increasing 4 days in the quarter and 32 days in twelve months. Indicators referring to operations with individuals increased by 13 days, while indicators for corporations dropped by 7 days, closing at 563 and 388 days, respectively. It should be noted that, since the measures implemented in December raised the requirement of capital for longer terms loans to individuals, the portfolio's average term is expected to gradually decline in the following months.

3.2 Monetary aggregates

The daily average balance of the restricted money supply (M1) reached R$257.2 billion in February, increasing 1.6% in the quarter and 11.9% in twelve months. The average balances of currency outside the banks expanded 3.7% in the quarter and 12.9% in the year, while the demand deposits registered stability in the quarter and expanded 11.2% in the year. The average balance of the monetary base closed at R$183.9 billion, increasing 3.4% in the quarter and 13.6% in the year.

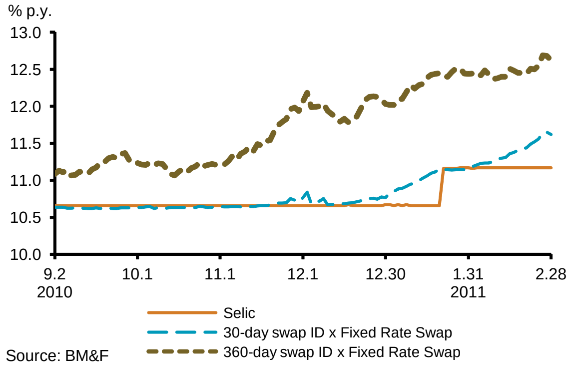
At the end of February, the monetary basis totaled R$185.6 billion. It should be noted that the quarterly expansion of R$7.1 billion mainly reflected net Central Bank foreign currency purchases of R$22 billion in the interbank exchange market and the contractionary impact of R$24.8 billion in National Treasury operations. The variation in compulsory collections totaled R$73.3 billion, reflecting increased rates on long-term resources and additional requirement on cash or long-term resources. Meanwhile, operations with federal public securities closed at R$70 billion.

The means of payment, in the M2 concept, increased 4.9% in the quarter and 18.7% in twelve months, adding up R$1.4 trillion. M3 closed at R$2.6 trillion, up 4.3% in the quarter and 18.3% in twelve months, while the M4 aggregate reached R$3.1 trillion, up 3.6% in the quarter and 18.1% in twelve months.

Real interest rates and market expectations

The curve of futures interest rates in DI x pre swap contracts, evincing expectations regarding the evolution of basic interest rate and the increase of risk premiums, registered raised inclination in all the vertices throughout the quarter. The DI x pre swap contracts of 360 days registered a 68 b.p. high in the quarter, reaching 12.62% per year in February.

Figure 3.9 – Interest rate



Source: BM&F

Figure 3.10 – Ex-ante real interest rate – Deflated by 12-month IPCA expectations

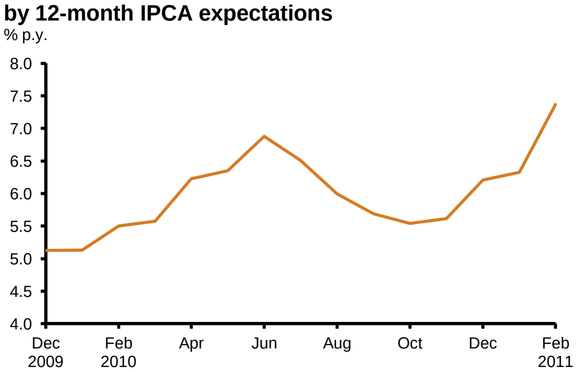
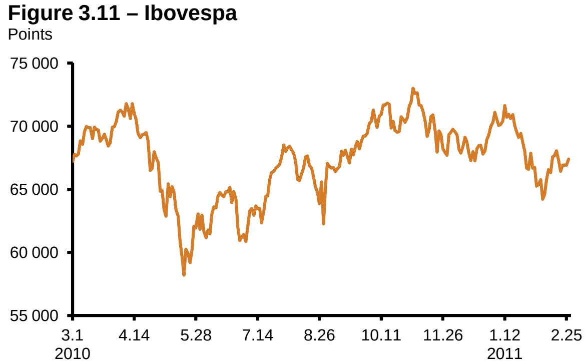
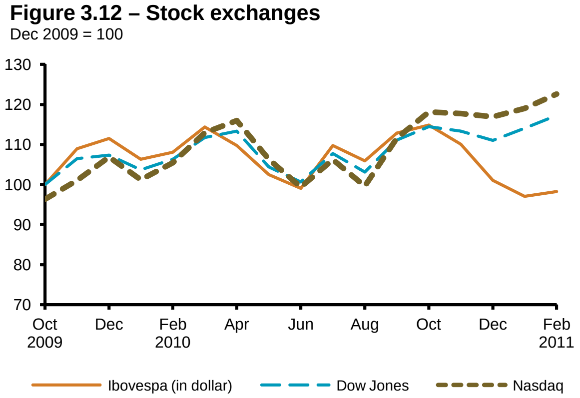


Figure 3.11 – Ibovespa



Source: Bovespa

Figure 3.12 – Stock exchanges



The real *ex-ante* Selic rate for the next twelve months, calculated by the Central Bank Market Report of February 28, stood at 74% per year, against 5.6% per year in November, with emphasis on the variation of 0.96 p.p. to 12.5% per year in the Selic rate expected for the next twelve months.

Capital market

After the upward trend followed up to December, the São Paulo Stock Exchange Index (Ibovespa) registered sharp volatility in February and closed the quarter at 67,383 points. In the period, the market value of the companies listed in the index and the daily average volume of transactions increased, in the order, 3.8% and 15.4%. The Ibovespa, evaluated in dollars, expanded 2.8% in the quarter, while the Dow Jones and the Nasdaq indices rose 11.1% and 11.4%, respectively.

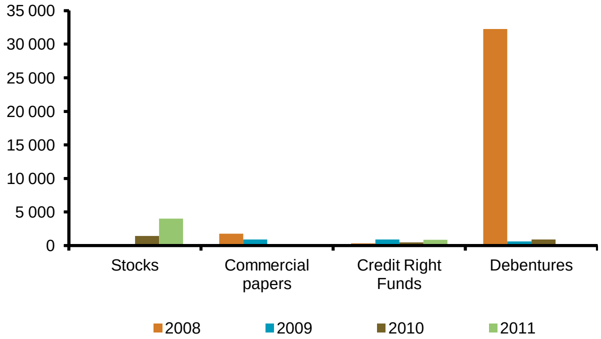
Business financing through capital market operations based on the issuance of stocks, debentures, promissory notes and placement of credit rights receivables, reached R$15.3 billion in the quarter ended in February, against R$127.2 billion in the quarter ended in November 2010, including issuance of R$120.2 billion in Petrobras stocks.

3.3 Fiscal policy

The Federal Government adopted a series of measures in order to enable the R$50.1 billion reduction in expenditures approved by the National Congress for 2011. This decision was partly stimulated by the R$19.1 billion reduction in the total primary revenues estimates, as compared to the forecast contained in the Annual Budget Law (LOA) 2011. It should be emphasized that the forecast for revenues administered by the federal revenue, except social security contributions, decreased R$22.3 billion, while non administered revenues rose R$3.2 billion.

The reduction of expenditures foresee in the scope of mandatory expenditures totals R$15.8 billion, while the reduction f discretionary expenditures amounts to R$32.7 billion. In addition, it should be mentioned an expansion of R$3.5 billion in extraordinary credits and reduction of R$1.6 billion in other expenditures. With regard to mandatory expenditures, it should be highlighted the reduction of R$8.9 billion in subsidies and economic subventions; R$3.5 billion personnel costs and social charges,; and R$3 billion in bonus and unemployment insurance. Concerning the discretionary expenditures, the

Figure 3.13 – Primary issues in the capital market
R$ million – Accumulated through February



Source: CVM

Table 3.5 – Public sector borrowing requirements – Primary result

Segment	2009		2010		Jan 2011[1/]	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Central Government	-42.4	-1.3	-78.7	-2.2	-79.0	-2.1
Sub-national governments	-21.0	-0.7	-20.6	-0.6	-22.4	-0.6
State companies	-1.3	-0.0	-2.3	-0.1	-1.9	-0.1
Total	-64.8	-2.0	-101.7	-2.8	-103.4	-2.8

1/ Twelve-month accumulated data up to january.

sharpest adjustments occurred in the Ministry of the Cities, R$8.6 billion; Ministry of Defense, R$4.4 billion; Ministry of Tourism, R$3.1 billion; Ministry of Transportation, R$2.4 billion; and in the Ministry of National Integration, R$1.8 billion.

It is important to mention that the new estimates take into account the achievement of the full target of R$81.8 billion defined for the central government primary surplus in 2011, excluding the PAC's investments eligible to be discounted.

The National Congress approved, in February, the rules for updating the minimum wage until 2015. The annual impact of 6.9% rise in the minimum wage on the Government's accounts in 2011 shall account for R$9.95 billion, including the wage adjustment carried out in January and February.

Public sector borrowing requirements

Evolution in 2010

The consolidated public sector primary surplus accounted for R$101.7 billion in 2010, representing 2.79% of GDP, against 2.03% of GDP in the previous year. This performance reflected the increased surplus of Central Government and state-owned companies, partially offset by the reduction of regional governments' result. Discounting PAC's investments, 0.6% of GDP, the adjusted surplus target for the year, 2.5% of GDP, was achieved. The target for 2011 was set in current values, for the first time, at R$117.9 billion.

Federal Government gross revenues closed at R$705.3 billion, for annual growth of 26.3% (1.83 p.p. of GDP). This expansion reflected the recovery of economic activity and the Petrobras collection of R$74.8 billion referring to onerous cession of oil exploitation. Excluding this item, the Federal Government revenue growth in 2010 reached 13.1%, down 0.2 p.p. of GDP in the year.

National Treasury expenditures accounted for R$442.2 billion in 2010, increasing 28.4% (1.3 p.p. of GDP) as compared to the previous year. Expenditures with personnel and charges rose 9.8%, while costing and capital expenditures increased 43.3%, with emphasis on the 38% expansion under investments and Federal Government expenditures with Petrobras capitalization carried out in September. Excluding the impact of Petrobras capitalization, National Treasury expenditures expanded 15.9% (0.13 p.p. GDP), while costing and capital expenditures rose by 20.9%.

Analysis of the Evolution of Nominal Interests Appropriation on the PSND

The evolution of the public indebtedness profile over the recent years mostly reflects the participation of fixed-income and indexed to price indices securities, as well as of the Worker Assistance Fund (FAT) assets, the Brazilian Development Bank (BNDES) loans and the international reserves. This box aims to analyze the major factors underlying the evolution of the Public Sector Net Debt (PSND) average cost.

While the Selic rate decreased 13.5 p.p. from 2003 to 2010, the implicit PSND rate decreased 2.6 p.p., emphasizing the distinction between the reduction of implicit credit rates, 7.9 p.p., and debit rates, 4.9 p.p. In the same comparison basis, the appropriation of nominal interests dropped by 3.2 p.p. of Gross Domestic Product (GDP). According to Table 1, since 2006 the PSND implicit interest rate has been higher than the Selic rate, evolution consistent with the changes in the indebtedness profile mentioned in the previous paragraph.

Table 1 – Selic, nominal interests and PSND implicit interest rate

% p.y.

Period	Selic average	Nominal interests (% GDP)	Implicit rate Net debt total	Credits	Debts
2002	19.2	7.7	15.6	8.8	12.9
2003	23.3	8.5	17.5	12.2	15.0
2004	16.2	6.6	14.4	8.6	12.7
2005	19.0	7.4	17.2	6.7	14.0
2006	15.1	6.8	16.3	6.6	13.0
2007	11.8	6.1	15.1	5.9	11.7
2008	12.5	5.5	14.6	7.0	11.9
2009	9.9	5.4	14.5	2.9	9.9
2010	9.8	5.3	14.9	4.3	10.1

The analysis of PSND composition shows that the participation of fixed-rate securities increased from 9.8%, at the end of 2003, to 41.8% at the end of 2010. In a scenario of downward basic interest rates, this growth contributed for a less sharp reduction in the implicit rate of appropriation of nominal interests as compared to the Selic rate. The reason for this is that the rates defined for fixed-rate securities at the issue date prevail until their maturity. However, it should be stressed that the growing participation of fixed-rate securities provides greater predictability to the government financial commitments, reducing its exposure to market risks, among other benefits.

Another factor that contributes to explain the divergent trajectory of the implicit rate and the Selic

Table 2 – International reserves
Liquidity concept

Period	US$ billion	R$ billion	Exchange rate (R$/US$)
2002	37.8	133.6	3.53
2003	49.3	142.4	2.89
2004	52.9	140.5	2.65
2005	53.8	125.9	2.34
2006	85.8	183.5	2.14
2007	180.3	319.3	1.77
2008	193.8	452.7	2.34
2009	238.5	415.1	1.74
2010	288.6	480.6	1.67
2011 - Jan	297.7	497.9	1.67

Table 3 – PSND/GDP ratio
Selic impact

Period		Selic (% p.y.) (A)	Average elasticity Selic1/ (B)	Selic cost in the PSND/GDP2/ ratio (A*B)
2002	Sep	17.90		
2003	May	26.27		
	Change	8.37	0.25	2.11
2008	Sep	13.66		
2009	Jul	8.65		
	Change	(5.01)	0.26	(1.32)
	Total			3.43

1/ Change in the PSND/GDP ratio as a result of 1 p.p. increase and maintained for one year.
2/ In percentage points of GDP.

Table 4 – PSND/GDP ratio
Exchange impact

Period		Exchange rate R$/US$ (A)	Average elasticity exchange rate1/ (B)	Exchange cost in the PSND/GDP2/ ratio (A*B)
2002	Jan	2.42		
	Sep	3.89		
	Change	61.08	0.22	13.54
2008	Aug	1.63		
2009	Feb	2.38		
	Change	45.54	-0.10	-4.73
	Total			18.27

1/ Change in the PSND/GDP ratio as a result of 1% increase in the exchange rate.
2/ In percentage points of GDP.

rate is the accumulation of certain capital assets with nonfinancial purposes. For instance, it should be mentioned the growth of international reserves, from US$49.3 billion in 2003 to US$288.6 billion in 2010 (Table 2). As a matter of fact, it is important to emphasize that, in the absence of other factors impacting liquidity, the accumulation of reserves implies contracting open market operations aimed to neutralize the monetary expansion that it generates.

In 2006, with the accumulation of international reserves, the PSND started to register a net creditor position in foreign currency. Among other benefits, this introduced important degrees of freedom for the conduction of the economic policy. In the fiscal framework, this benefit in particular may be illustrated by the impact of the exchange and Selic rate variations during two stressful financial periods in the PSND/GDP ratio: the first, in 2002, when the volume of reserves was not appropriate in view of the uncertainties prevailing in the economic environment; and the second, in 2008, with the outbreak of the international crisis, when the stock of reserves seemed to fit better to the country's requirements.

In view of the international liquidity cushion, the Selic rate dropped 5 p.p. from September 2008 to July 2009[1]. On the other hand, from September 2002 until May 2003, the Selic rate increased 8.4 p.p. due to the excessive external vulnerability. Taken into account the elasticity of the PSND/GDP ratio to the Selic rate in both periods, the estimated gain reached 3.4 p.p. of GDP in the most recent episode. In addition, the 45.5% exchange rate depreciation accumulated from September 2008 to February 2009 led to the 4.7 p.p. drop in the PSND/GDP, given the net creditor position in dollars. On the other hand, the 61.1% exchange rate depreciation registered from January to September 2002 increased the PSND/GDP ratio by 13.5 p.p. of GDP. These figures are shown in Tables 3 and 4.

Regarding domestic assets, the credits linked to the Long-Term Interest Rate (TJLP) increased from 8.8% of PSND in 2003 to 26.4% in 2010. These assets are concentrated in constitutional funds

1/ Considering the daily average interest rate, yearly updated on the basis of 252 working days.

resources, FAT investments and credits held by federal financial institutions. This growth took place especially in recent years, as a consequence of the expansion of Federal Government loans granted to the BNDES by means of issues of public securities and creation of corresponding credits to the Federal Government, with no immediate impact on PSND or financing requirements. These operations provide the Federal Government with financial assets remunerated by the TJLP and financial liabilities indexed to marked-related costs. Table 5 shows the evolution of the volume of major public sector assets, highlighting the recent growth of loans granted to the BNDES and the Central Bank's net foreign credits.

Table 5 – Growth in the main public sector financial assets

R$ million

Breakdown	2002	2003	2004	2005	2006	2007	2008	2009	2010
FAT resources	-75 840	-88 053	-102 559	-116 890	-130 807	-138 392	-153 635	-159 633	-169 517
Hybrid instrument of capital and debt 1/	0	0	0	0	-2 389	-7 504	-7 633	-15 550	-19 879
Credit with the BNDES	-11 808	-13 622	-17 773	-16 814	-9 953	-6 645	-35 454	-129 237	-236 723
Federal government investments (Funds) 2/	-42 014	-60 865	-50 305	-57 718	-54 457	-59 175	-66 250	-78 627	-100 984
Central Bank's net external credits	-59 141	-58 490	-73 080	-125 238	-183 111	-319 216	-483 110	-408 188	-473 588
State government investments	-21 620	-20 854	-23 350	-23 578	-22 664	-28 050	-32 315	-34 025	-39 279
Federal state-owned credits	-31 098	-29 122	-31 928	-29 087	-27 047	-24 217	-19 475	-15 709	-12 760
Demand deposits	-4 893	-4 469	-4 516	-6 353	-6 099	-8 267	-9 156	-8 331	-8 116
Total	-246 415	-275 474	-303 512	-375 680	-436 527	-591 467	-807 028	-849 301	-1060 846

1/ Hybrid instruments of capital and debt – BNDES, CEF and BNB.
2/ Includes constitutional funds and other federal government funds and programs.
3/ The implicit rate of the net external debt does not include changes in the exchange rate.

Table 6 – PSND/GDP elasticity to index numbers
Impact on the PSND/GDP ratio

p.p. of GDP

Period	Interest rate 1/		Price indices 1/				Exchange 2/
	Selic	TJLP	IPCA	IGP-DI	IGP-M	Total	
2002	0.25	-0.05	0.01	0.02	0.03	0.03	0.17
2003	0.26	-0.05	0.01	0.02	0.03	0.03	0.12
2004	0.27	-0.05	0.01	0.01	0.04	0.04	0.08
2005	0.23	-0.05	0.03	0.01	0.03	0.07	0.03
2006	0.21	-0.06	0.06	0.01	0.02	0.07	-0.02
2007	0.23	-0.06	0.07	0.01	0.02	0.10	-0.08
2008	0.24	-0.06	0.09	0.01	0.02	0.12	-0.11
2009	0.26	-0.08	0.08	0.00	0.02	0.10	-0.11
2010	0.27	-0.11	0.09	0.00	0.02	0.11	-0.11

1/ Variation of 1 p.p. maintained for one year.
2/ Variation of 1% in the exchange rate.

Changes in the PSND composition have impacted the elasticity of the PSND/GDP ratio in relation to several indexing factors. Thus, the elasticity regarding the Selic rate increased from 0.26 p.p. of GDP, in 2003, to 0.27 p.p. of GDP in 2010, according to Table 6. In the same period, the elasticity regarding the TJLP increased from 0.05 p.p. of GDP to -0.11 p.p. of GDP; regarding the Extended National Consumer Price Index (IPCA), from 0.01 p.p. of GDP to 0.09 p.p. of GDP; and to the exchange rate variation, from 0.12 p.p. of GDP to -0.11 p.p.

Table 7, elaborated on the basis of information gathered by Gerin with a group of experts, concerning indicators such as the Selic and exchange rate, among others, shows the trajectory of the implicit rate and the evolution of PSND/GDP ratio until 2014. Even in 2011, when the market predicts an increase in

Table 7 – Projection of fiscal variables based on market parameters[1/]

% GDP

Period	PSND	Nominal result	Nominal interests	Implicit rate (% p.y.)
2011	38.0	1.9	4.8	14.3
2012	36.0	1.2	4.3	13.1
2013	33.6	0.7	3.8	12.2
2014	31.2	0.4	3.5	12.1

1/ The primary surplus forecasted in the LDO was defined for 2011 and a 3.1% surplus was adopted for the other years. Also, a real GDP growth rate of 4% was defined for 2011. For the other years, market projections were used.

the Selic average rate, the implicit rate tends to decrease in relation to the previous year, a trend that is expected to persist in the following years.

In short, the changes in the composition of the Brazilian public indebtedness observed recently have led to a mismatch between the paces of reduction of the Selic rate, the average cost of indebtedness and the appropriation of nominal interests. In the medium-term, one should expect a reduction in the average cost of indebtedness and appropriation of nominal interests in relation to GDP.

Figure 3.14 – National Treasury gross revenue
Jan-Dec

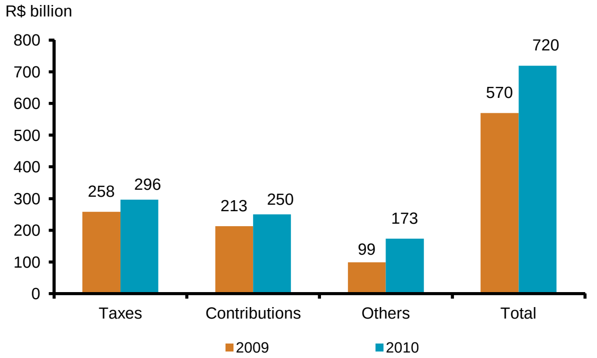


Table 3.6 – National Treasury expenditures
Jan-Dec

	2009		2010	
	R$ million	% GDP	R$ million	% GDP
Total	344 436	10.8	442 243	12.1
Personnel and payroll charges	151 653	4.8	166 486	4.6
Capital and current expenditures	191 604	6.0	274 514	7.5
Workers Support Fund	27 433	0.9	30 311	0.8
Subsidies and economic	5 190	0.9	7 846	0.8
subventions	5 190	0.2	7 846	0.2
Loas/RMV	18 496	0.6	22 234	0.6
Investment	34 137	1.1	47 107	1.3
Other capital expenditures	106 348	3.3	167 018	4.6
National Treasury transfers				
to the Central Bank	1 180	0.0	1 242	0.0

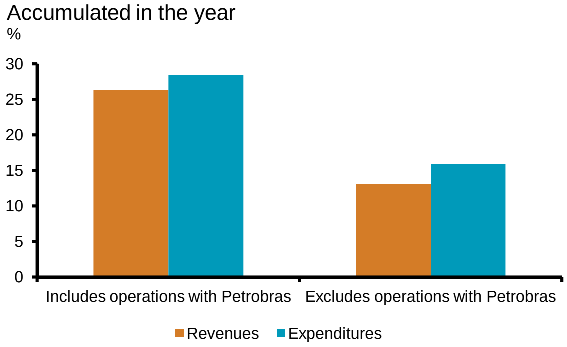
Source: Minifaz/STN

Table 3.7 – Social security primary result
Jan-Dec

R$ billion

	2009	2010	Var. %
Gross inflow	201.2	234.3	16.4
Cash refunds	-0.6	-0.7	33.3
Transfers to third parties	-18.6	-21.5	15.8
Net inflow	182.0	212.0	16.5
Social Security benefits	224.9	254.9	13.3
Primary result	-42.9	-42.9	0.1
Net inflow/GDP	5.7%	5.8%	
Social Security benefits/GDP	7.1%	7.0%	
Primary result/GDP	-1.3%	-1.2%	

Figure 3.15 – National Treasury income and expenditure growth rate
Accumulated in the year



The Social Security deficit accounted for R$42.9 billion in 2010, decreasing 0.17 p.p. of GDP as compared to the previous year. This evolution reflected, especially, the growth of overall wages in the period, which contributed to the 16.5% rise in net collection. Expenditures on social security benefits, reflecting respective rises of 8.8% and 3.2% in the average value of benefits and pensions and in the monthly average number of benefits paid, expanded 13.3%.

Revenues of the Central Government – National Treasury, Social Security and the Central Bank – increased 27.4% in 2010, while expenditures rose 22.4%.

The transfers to regional governments reached R$140.7 billion (3.85% of GDP), increasing 10.2% as compared to 2009. This performance is explained by the growth in the volume of resources transferred through the participation funds, as a consequence of greater collection of shared taxes; the expansion of transfers linked to petroleum and natural gas exploitation, consequent upon higher international oil prices; and the 14.2% growth in the transfers of the education-wage.

Revenues originating in the Tax on the Circulation of Goods and Services (ICMS), the most representative regional tax, and to the Tax on the Proprietorship of Automotive Vehicles (IPVA) increased 17.5% and 2.4%, respectively, in the year. The primary surplus of states and municipalities reached R$20.6 billion, decreasing 0.09 p.p. of GDP in comparison with the previous year, while the primary surplus of state-owned companies, concentrated in the federal sphere, accounted for 0.06 p.p. of GDP.

The appropriation of nominal interests accounted for R$195.4 billion, 5.35% of GDP, in 2010, decreasing 0.02 p.p. of GDP in comparison to the previous year. The public sector nominal deficit reached R$93.7 billion, decreasing 0.77 p.p. in the period. This deficit was financed through expansions of net banking debt, securities debt and other sources of internal financing, including the monetary base, partially offset by the reduction registered in net foreign financing.

Evolution in January 2011

The public sector primary surplus accounted for R$17.7 billion in January, against R$16.1 billion in the same period of 2010. In twelve months, the accumulated surplus reached 2.81% of GDP, against 2.29% of GDP in January 2010.

Figure 3.16 – Transfers to states and municipalities in 2010

Figure 3.17 – Regional governments: Cumulative 12-month primary surplus and net debt

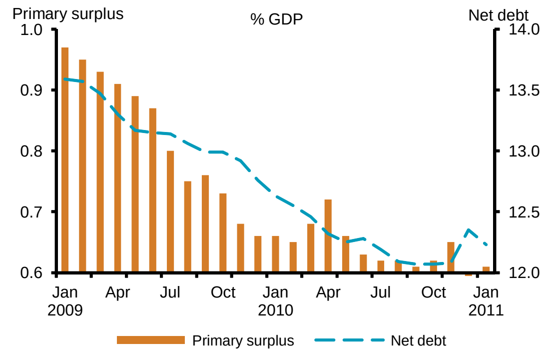
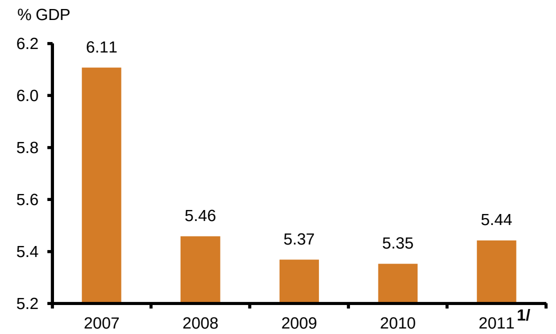


Figure 3.18 – Nominal interest



1/ Twelve-month accumulated up to January.

Table 3.8 – Public sector borrowing requirements

	2009		2010		Jan 2011	
	R$ billion	% GDP	R$ billion	% GDP	R$ billion	% GDP
Uses	106.2	3.3	93.7	2.6	1.5	0.5
Primary	-64.8	-2.0	-101.7	-2.8	-17.7	-5.7
Interest	171.0	5.4	195.4	5.4	19.3	6.2
Sources	106.2	3.3	93.7	2.6	1.5	0.5
Domestic financing	161.5	5.1	178.5	4.9	19.8	6.4
Securities financing	265.5	8.3	35.2	1.0	54.6	17.6
Bank financing	-123.2	-3.9	100.9	2.8	-23.0	-7.4
Others	19.3	0.6	42.5	1.2	-11.9	-3.8
External financing	-55.3	-1.7	-84.9	-2.3	-18.3	-5.9

The Central Government registered a surplus of R$13.8 billion in the month, against R$13.5 billion in January 2010, as a result of the greater impact of the reduction in the Social Security deficit as compared to the reduction in the Federal Government surplus. The National Treasury gross revenue increased 22.5% in the period, with emphasis on the performance of the collection of Legal Entity Income Tax (IRPJ) and of the Industrialized Products Tax (IPI). Meanwhile, expenditures increased 30%, emphasizing the 85% expansion under investments. In the framework of the Social Security, revenues rose 21.6%, while expenditures with benefits expanded 13.2%.

The appropriation of nominal interests, as a consequence of growth under the Selic rate and price indices, accounted for R$19.3 billion in the month, against R$14.1 billion in January 2010. The nominal deficit reached R$1.5 billion in the month, accumulating 2.64% of GDP in twelve months, against 2.57% of GDP in 2010.

Central Bank open market operations

National Treasury primary operations with federal public securities resulted in net redemptions of R$63.9 billion in the quarter ended in January, due to placements of R$81.2 billion and redemptions of R$145.1 billion. Swap operations, of which 82.6% were performed with National Treasury Notes – Series B (NTN-B), accounted for R$5.5 billion, while anticipated redemptions, concentrated in National Treasury Bills (LTN), added up R$1 billion.

The daily average balance of financing and go around operations performed by the Central Bank accounted for R$397.2 billion in January, decreasing 3.9% in comparison to October 2010. This performance reflected the reduction, from R$216.8 billion to R$141.1 billion, in operations with terms between two weeks and three months, and the increase in operations with six-month terms, from R$126.3 billion to R$144.8 billion, and in operations with terms lower than two weeks, from R$70.2 billion to R$111.4 billion.

Federal securities debt

The federal securities debt, evaluated by the portfolio position, stood at R$1,542.5 billion in January, 41.9% of the GDP, decreasing 1.3 p.p. of GDP as compared to October and 0.2 p.p. of GDP in twelve months. The quarterly reduction reflected net redemptions of R$61 billion carried out in the primary market, appropriation of nominal interests

Figure 3.19 – Net financing position of the federal public securities – Daily average

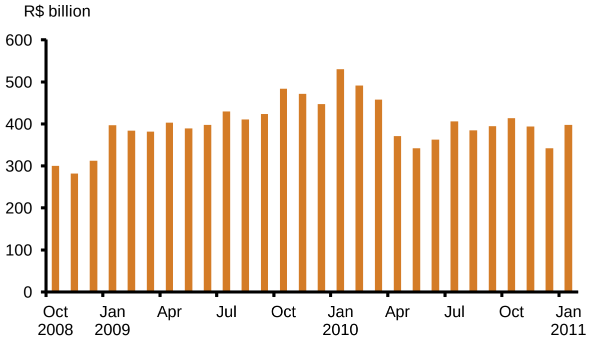


Figure 3.20 – Central Bank repo operations – Maturity – Average daily balances

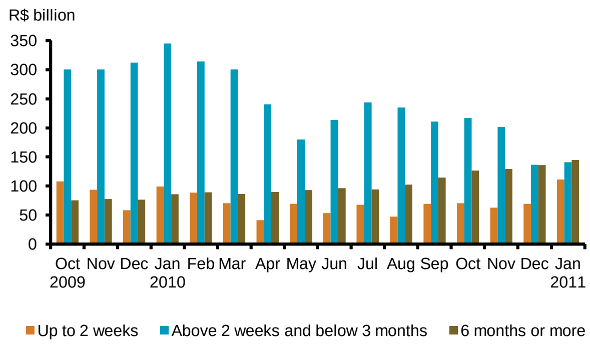
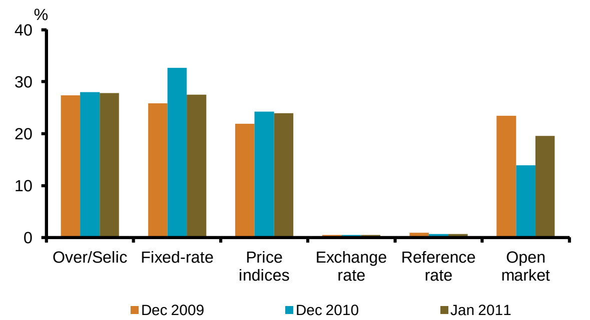
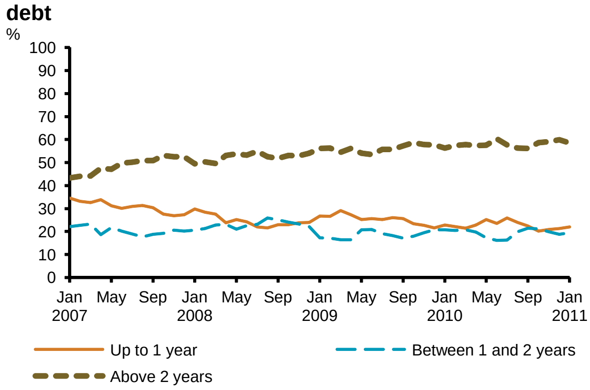


Figure 3.21 – Federal securities debt structure by indexing factor[1/]



1/ It does not include swap.

Figure 3.22 – Profile of maturities of the securities debt



of R$51 billion, and the impact of R$0.2 billion consequent upon the 1.7% exchange appreciation in the period.

The participation of securities linked to the over/Selic rate and to prices indices in the total federal securities debt registered respective quarterly increases of 1.1 p.p. and 1.3 p.p. in January, while the participation of fixed-rate securities and Central Bank financing through open market operations, reduced 1.9 p.p. and 0.5 p.p., respectively.

The amortization schedule of the securities debt on market, except financing operations, registered the following maturity structure in January: 16.2% of the total maturing in 2011; 19.5% in 2012; and 64.3% since January 2013. Securities with 12-month terms represented 22% of the total securities debt on the market, while the average term of the debt maturity reached 42.4 months, both within the respective intervals established by the Annual Financing Plan (PAF) 2011.

The Central Bank, after 18 months with zero net exposition, resumed swap exchange reverse operations in January. The stock of these operations at the end of the month reached R$5.8 billion and the result obtained, known as the difference between the DI's profitability and the exchange variation plus coupon, was favorable to the Central bank in R$12 million, considering the cash concept.

Public Sector Net Debt

The Public Sector Net Debt (PSND) totaled R$1,475.8 billion in 2010, 40.4% of GDP, decreasing 2.3 p.p. of GDP as compared to the previous year, with cutbacks in all public sector's segments, emphasizing the 1.8 p.p. drop in the framework of the Central Government. In January, the PSND reached R$1,476.1 billion, 40.1% of GDP.

The annual reduction of the PSND/GDP ratio mostly reflected the contribution of primary surplus, 2.8 p.p. of GDP; the current GDP growth, 5.4 p.p.; and the effect of privatizations, 0.1 p.p., compared to the effects consequent upon the appropriation of nominal interests, 5.4 p.p. of GDP; and the exchange appreciation of 4.31% registered in the period, 0.5 p.p. of GDP.

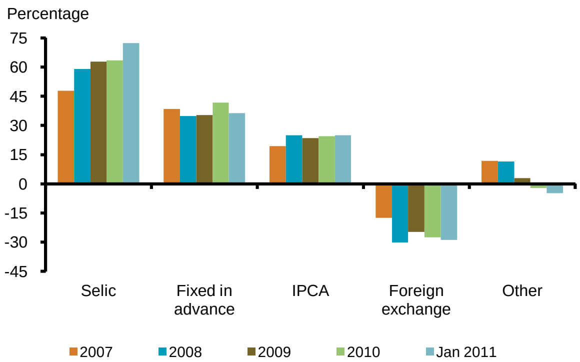
With respect to the PSND composition in 2010, it should be mentioned the 6.6 p.p. rise in the creditor position linked to the TJLP – as a result of the increase of Government assets with the BNDES, counterbalanced by the increase

Table 3.9 – Net debt growth
Conditioning factors

	2009		2010		Jan 2011	
	R$ million	% GDP	R$ million	% GDP	R$ million	% GDP
Total net debt – Balance	1362 711	42.8	1475 820	40.4	1476 105	40.1
Flows						
Net debt – Growth	194 472	4.3	113 109	-2.3	285	-0.4
Conditioning factors	194 472	6.1	113 109	3.1	285	0.0
PSBR	106 242	3.3	93 673	2.6	1 532	0.0
Primary	-64 769	-2.0	-101 696	-2.8	-17 748	-0.5
Interest	171 011	5.4	195 369	5.4	19 281	0.5
Exchange adjustment	80 886	2.5	17 677	0.5	-1 682	0.0
Domestic securities	-3 414	-0.1	1 513	0.0	- 143	0.0
debt[1/]	84 300	2.6	16 163	0.4	-1 539	0.0
External debt	10 907	0.3	1 533	0.0	604	0.0
Others[2/]	0	0.0	0	0.0	0	0.0
Skeletons	- 345	0.0	2 969	0.1	- 170	0.0
Privatizations	-3 217	-0.1	-2 742	-0.1	0	0.0
GDP growth effect		-1.9		-5.4		-0.4

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

Figure 3.23 – NPSD – Percentage share of indexator



in the federal securities debt – and of 6.5 p.p. referring to fixed-rate debts.

The General Government Gross Debt (GGGD) – Federal Government, National Social Security Institute (INSS), State and municipal governments – reached R$2,011.5 billion (55.1% of GDP) in 2010. The annual decrease of 6.8 p.p. of GDP mostly resulted of the reduction in the stock of repo operations, from 14.3% of GDP in 2009 to 7.9% in 2010. In January, the GGGB reached 55.9% of GDP.

3.4 Conclusion

In December 2010, the Central Bank introduced macroprudential measures aimed to increase the security of longer-term credit operations, especially in the modalities of acquisition of goods and personal credit, so as to mitigate the risks identified in the credit market. The impact of these measures, which are expected to raise interest rates and reduce the terms of new operations, shall reinforce the effects of the raise of the Selic rate target decided by Copom in January.

It is important to emphasize that the credit scenario continues to be favorable, as evinced by expanding credit operations, low default rates and interest rates at historically low levels. In this environment, the evolution of credit operations in 2011 should continue to stimulate consumption and investments, though at a more moderate pace.

The trajectories of GDP and primary surplus in 2010 contributed to lower the PSND/GDP rate, a trend that should persist in the following months, thus guaranteeing the sustainability of the fiscal policy.