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PUBLIC SECTOR NET DEBT AND BORROWING REQUIREMENTS

Chapter I – Concepts

Net Debt

Corresponds to the net balance of the indebtedness of the nonfinancial public sector and Banco Central with the financial system (public and private), nonfinancial private sector and the rest of the world.

Net balance is understood as the result of a comparison between the debts and credits of the nonfinancial public sector and Banco Central.

It is important to emphasize that net debt balances are calculated on an accrual basis or, in other words, the appropriation of charges is recorded pro rata, independently of the occurrence of releases or reimbursements in the period.

Differently from other countries, one should also cite the fact that the concept of net debt used in Brazil considers Banco Central's financial assets and liabilities and, therefore, includes the monetary base.

Public Sector

In Brazil, the concept of public sector used to measure net debt and the public deficit is that of nonfinancial public sector plus Banco Central. The nonfinancial public sector is understood as the federal, state and municipal direct administration, indirect administrations, public social security systems and nonfinancial federal, state and municipal state enterprises, as well as the Itaipu Binational company.

Also included under the nonfinancial public sector are public funds that do not operate as financial intermediaries or, in other words, those in which the sources of funding are composed only of fiscal or parafiscal contributions.

Banco Central is included in the assessment of net debt since it automatically transfers its profits to the National Treasury, while it is also the "collector" agent of the so-called inflationary tax.

Public Sector Borrowing Requirements (NFSP)

Also termed the nominal deficit or nominal result, this concept corresponds to the nominal change in the balances of the net internal debt plus effective external flows, converted into real at the average purchase rate of exchange.

Primary Result

Interest on the net debt depends on the level of the nominal rate of interest and the debt stock which, in turn, is defined by the accumulation of past nominal deficits. Thus, inclusion of interest in the calculation of the deficit makes it difficult to measure the effect of the government's fiscal policy. And it is precisely because of this difficulty that one calculates the public sector primary result, which corresponds to the nominal deficit (NFSP) less nominal interest on the internal debt and less external interest in dollars, converted according to the average purchase rate of exchange.

Asset Adjustment

Corresponds to changes in net debt balances that are not taken into account in the calculation of the public deficit. This concept includes privatization revenues and incorporation of contingent liabilities (skeletons).

Contingent liabilities (skeletons) are debts in specified amounts legally acknowledged by the government and representative of past deficits not registered in accounting (economic impact occurred in the past).

Methodological Adjustment

Generally, when countries contract financing abroad, they do so in the currency of the country in which the loan is made or in some other unit of account valid for contracts abroad (American dollar, special drawing rights – SDR, Euro and so forth). Consequently, changes in parity between foreign currencies or exchange rate changes between the American dollar and the real neither increase nor decrease the public deficit since they do not impact the foreign debt balance measured in the currency in which the financing was effected.

Thus, the foreign sector component in NFSP is measured on the basis of effective flows in American dollars converted into national currency at the average rate of exchange.

Assessment of the net external debt is a measurement of stock and is done by converting the balances by the rate of exchange at the end of the period.

When national currency exchange variations exist or when parities between different currencies and the American dollar are used, it is evident that changes in the net external debt expressed in real are different from net external flows in the foreign currency converted to reals.

Therefore, the methodological adjustment is a measurement of this differential since it corresponds to the difference between the change in the net external debt converted by the end-of-period rate of exchange and external borrowing requirements converted by the average rate of exchange.

Chapter II – Current Composition of Net Debt

Securities Debt

In the case of the Central Government, this concept corresponds to the total amount of federal public securities outside Banco Central including, aside from papers issued by the National Treasury, those issued by Banco Central. Since we are dealing here with consolidated debt, the National Treasury-issued papers belonging to the Banco Central portfolio are not included.

With respect to state and municipal governments, this concept corresponds to total papers issued by the respective treasuries less papers held in treasury. Papers issued for judicially determined payments are included.

Net Banking Debt

Corresponds to public sector indebtedness with the financial system net of investments. Debts renegotiated with the federal government under the terms of Law 8,727/1993 are included. Public sector indebtedness with the FGTS system is also included under this heading.

Inflows Receivable

This heading encompasses total taxes collected by the banking network and still not transferred to the respective treasuries. Since this is a transit account, it includes total taxes collected in the final days of the month and that will be credited to the respective treasuries in the early days of the following month.

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This account, in which the net balance of the consolidated public sector is zero, shows federal government credits with the states, municipalities and their state companies, as well as the debts of these levels of government with the federal government resulting from federal government assumption of the external liabilities of these entities.

Privatization Currencies

Corresponds to total debts issued by the federal government and apt for utilization in the privatization process. Includes

Privatization Certificates, various Matured and Renegotiated Debts and TDA.

FAT Resources

Encompasses the available cash resources of the FAT and compulsory FAT investments in BNDES. The latter are invested in both the Extramarket BB Fund and in BNDES itself.

Monetary Base

This is the monetary liability of Banco Central and corresponds to the sum total of currency issued and banking reserves.

Other Deposits at BC

Corresponds to compulsory cash deposits at Banco Central assessed on saving deposits, time deposits, financial investment funds and others.

BC Credits with Financial Institutions

Encompasses total Banco Central credits with the financial system generated by liquidity loans, credits granted to institutions in extrajudicial liquidation and Proer credits. Also includes BC credits with state banks resulting from forward sales of papers issued by Banco Central (LBCE) to those financial institutions (“state debt exchanges”).

Fund Portfolios

Includes total available cash resources of funds that are invested in both the Extramarket BB Fund and the public and private sectors.

Other BC Accounts

Corresponds to the net total of the diverse Banco Central asset and liability accounts, such as Credits Receivable, other liability accounts, and so forth.

Social Security System

Corresponds to the net total of public social security system credits and debts with the financial system.

Renegotiation with the States (Law 9,496/1997)

Account in which the net balance of the consolidated public sector is zero and which registers federal government credits with the states resulting from Law 9,496, dated 9.11.1997, as well as state debts with the federal government.

Demand Deposits

Encompasses the available cash resources of the states, municipalities and state companies held in demand deposit accounts with the financial system.

Debts with Contractors and Suppliers

Includes total indebtedness of federal state companies in arrears with suppliers and contractors.

Debentures

Includes the remaining balance of debentures issued by federal state enterprises.

State Company Public Securities Portfolio

Corresponds to total available cash resources of state companies invested in public securities, in the Extramarket BB Fund (federal state companies) or in financial investment funds.

Net Foreign Debt

Corresponds to the sum total of the gross external debt of the nonfinancial public sector and Banco Central, deducted from its investments in foreign currency. Since Banco Central is included, Banco Central International Reserves are deducted from the total.