

IV

PUBLIC FINANCE

In 2000, the accounts of the central government, encompassing the National Treasury, General Social Security System (RGPS) and Banco Central, registered a primary surplus of R\$21.2 billion, which is equivalent to 1.98% of GDP. Viewed individually, the National Treasury registered a surplus of R\$31.7 billion and the Social Security System and Banco Central closed with respective deficits of R\$10.1 billion and R\$477 million.

Table 4.1 - Central government primary result

R\$ million

Itemization	1998	1999	2000	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	183 982	210 906	236 517	14.6	12.1
Treasury revenues	137 761	161 838	180 800	17.5	11.7
Administered revenues	117 805	144 734	168 636	22.9	16.5
Restitutions	-3 544	-4 709	-6 704	32.9	42.4
Directly collected	7 453	0	0	-	-
Other revenues	16 814	22 562	19 863	34.2	-12.0
Fiscal incentives	- 767	- 749	- 995	-2.3	32.8
Social security	46 221	49 068	55 717	6.2	13.6
Total expenditures	178 398	189 906	214 887	6.5	13.2
Treasury expenditures	125 022	131 365	149 101	5.1	13.5
Transfers to states and municipalities	27 224	34 904	40 283	28.2	15.4
Federal government expenditures	94 832	93 875	105 181	-1.0	12.0
Subsidies and subventions	2 966	2 586	3 637	-12.8	40.6
Social security benefits	53 376	58 541	65 786	9.7	12.4
Federal government result	5 584	21 000	21 630	276.1	3.0
National Treasury	12 739	30 473	31 699	139.2	4.0
Social Security	-7 155	-9 473	-10 069	32.4	6.3
Banco Central result	- 152	- 742	- 477	388.2	-35.7
Primary result (above the line) ^{1/}	5 432	20 258	21 153	272.9	4.4
Primary result / GDP - %	0.60	2.11	1.98	-	-

Source: Ministry of Finance/Secretariat of National Treasury

1/ (+) = surplus (-) = deficit.

As a proportion of GDP, revenues increased from 21.9% in 1999 to 22.1% in 2000, while outlays increased from 19.7% to 20.1% in the period. The performance of revenues reflected the drop from 2.2% to 1% of GDP in extraordinary National Treasury revenues, at the same time in which social contributions turned in growth of 1% of GDP. This expansion was a consequence of such factors as alterations introduced into the Contribution to Social Security Financing (Cofins) as of March 1999, when the rate was raised from 2% to 3% and made applicable to financial institutions also, and reintroduction of the CPMF in June of the same year.

Table 4.2 - Outlays on federal government personnel

R\$ million

Itemization	1998	1999	2000	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
By functional status - settled	47 955	49 181	57 969	2.6	17.9
Active	27 177	26 131	33 104	-3.8	26.7
Retired	14 082	15 526	16 626	10.3	7.1
Pensioners	6 696	7 524	8 239	12.4	9.5
By government branch - released	47 070	50 071	57 322	6.4	14.5
Executive	39 490	42 046	47 371	6.5	12.7
Judiciary	5 750	6 141	7 850	6.8	27.8
Legislative	1 830	1 884	2 101	3.0	11.5

Source: Secretariat of National Treasury

Fiscal and tax policy

In the first half of 2000, the National Congress approved Complementary Law 101 (LRF). This instrument became a highly important mechanism for controlling indebtedness and public spending, since it consolidated a broad array of norms that require austerity and transparency in the management of public finance at the three levels of government. Among the measures approved, one should cite the prohibition on wage increases in the six month period before and after the end of an elected official's term in office; on initiating construction projects in the eight months previous to an election when they cannot be concluded by the end of the elected official's term in office; on formalization of contracts based on anticipated budget revenues during an election year; on the granting of increased fiscal incentives without adequate analysis of the budget impact of these incentives at the start of the year in which the incentives go into effect and in the two subsequent years. Aside from this, it stipulated that the states, municipalities and Federal District should spend no more than 60% of their budgets on personnel and payroll charges, while the limit imposed on the federal government was set at 50%. The sanctions

applicable to public administrators who do not comply with the terms of the LRF are specified in Law 10,028, dated 10.19.2000.

As a consequence of the LRF, the Budget Guidelines Law (LDO) now incorporates the central government's targets for the primary surplus. In this context, Law 9,995, dated 7.25.2000, defined parameters for elaboration of the 2001 budget, while specifying the indicative targets for the 2002 and 2003 primary surplus. However, these projections may be revised at the time of approval of the LDO for the respective years, since the only fiscal target that has the force of law is that for the year covered by the LDO.

Constitutional Amendment 27, dated 3.21.2000, instituted the Federal Revenue Set-aside (DRU) for the fiscal years from 2000 to 2003. This is the successor to the Fiscal Stability Fund and makes it possible to create a set-aside of 20% of federal budget revenues, thus providing the executive with greater autonomy in effecting expenditures. One should underscore the fact that the DRU does not apply to those funds that are legally reserved for transfer to the states, Federal District and municipalities.

The Multiyear Plan (PPA) for the 2000-2003 period was instituted by Law 9,989, dated 7.21.2000. This instrument makes it possible to meet demand for the investments required to ensure the country's development over the coming years while maintaining the fiscal austerity reflected in the targets for the primary surplus specified in the Government Economic Program.

In order to guaranty the resources required for priority social programs, the National Congress approved two constitutional amendments earmarking resources to the sector of health and creating the Fund for Combating and Eradicating Poverty.

In this context, Constitutional Amendment 29, dated 9.13.2000, determined that, in 2000, the federal government would be obligated to invest in public health services and activities the same amount as invested in 1999, plus an increase of at least 5%. In the period from 2001 to 2004, the total amount invested should be equivalent to the value of the previous year, plus the rate of nominal growth in the GDP. States and municipalities were obligated to spend a minimum of 12% and 15% of their respective net current revenues.

The Fund for Combating and Eradicating Poverty, which was instituted by Constitutional Amendment 31, dated 12.14.2000, and is scheduled to remain in effect until 2010, is designed to channel funds into supplementary activities in the areas of nutrition, housing, education, health, strengthening of family income and other programs of relevant social interest aimed at improving the quality of life. The fund will be composed of resources generated by an increase of 0.08 percentage point in

the CPMF, the additional Industrialized Products Tax (IPI) on superfluous products and donations of any nature, aside from other revenues to be defined in regulations.

The National Congress also approved two complementary laws and one ordinary law that take a more flexible approach to banking secrecy, thus increasing efficiency in the combating of tax elision.

Social Security

The Social Security System registered a deficit of R\$10.1 billion in 2000, 7% more than in 1999. At December 2000 values, corrected by the IGP-DI, the deficit declined from R\$11.1 billion in 1999 to R\$10.4 billion in 2000.

Table 4.3 - Social Security - cash flow

R\$ million

Itemization	1998	1999	2000	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Revenues	62 389	68 414	77 185	9.7	12.8
Banking inflow	50 141	52 423	59 606	4.6	13.7
Others revenues	2 207	323	536	-85.4	65.0
Revenue anticipation	0	123	1 760	-	1 330.9
Federal government transfers	10 041	15 545	15 283	54.8	-1.7
Expenditures	64 593	68 226	76 474	5.6	12.1
Benefits ^{1/}	55 650	60 835	68 506	9.3	12.6
Personnel	5 442	4 093	4 077	-24.8	-0.5
Transfers to third parties	3 501	3 298	3 891	-5.8	17.9
Cash result	-2 204	188	711
Ratio expenditures/revenues	-7 102	-9 412	-10 072
Ratio benefit/banking inflow ^{2/}	1.1	1.2	1.1

Source: Ministério da Previdência e Assistência Social

1/ It includes social security and non-social security benefits.

2/ Corresponds to ratio between benefits paid and banking inflow minus transfers to third parties.

An analysis of Social Security accounts showed a favorable inflow performance, with growth of 13.7% in the year to a level of R\$59.6 billion. For the most part, this result was due to recovery in the level of formal employment and the reform measures introduced into the Social Security System, which, aside from enhancing the efficiency of current funding inflows, also contributed to recovery in the system's credits through implementation of such legal measures as retention (subrogation), Labor Court deposits, judicial deposits, public debt certificates (CDP), maternity benefits and normalization of municipal debts.

With regard to the question of retention, Law 9,711, dated 11.20.1998, determined that companies that contract services performed through utilization of outside labor should retain 11% of the gross value registered on the invoice submitted by the service provider. The amount retained is considered as a social security contribution due by the contracted company and is to be offset against the total due to the social security system. Retention is called for in the case of services rendered as of February 1999, with deposit in the following month. The total for 2000 came to R\$675 million.

Constitutional Amendment 20, dated 12.15.1998, granted power to the Labor Court to charge social contributions due as a consequence of sentences issued by the court or agreements approved by it. This measure, which has been in effect since June 1999, generated a total of R\$578 million for the Social Security System in 2000.

Insofar as judicial deposits are concerned, Law 9,703, issued in November 1998, determined that legal entities that bring judicial suits against the Social Security System should effect court deposits equivalent to 30% of the amount in question. The purpose of this measure is to inhibit the practice of utilizing the courts for purposes of payment of current social security contributions. The inflow through judicial deposits came to R\$913 million in 2000.

The CDP is a public security created by Law 9,711/1998 allowing contributors to pay off social security debts with a discount when the generating fact occurred up to March 1999. This security is acquired in auction and is transferred to the National Social Security Institute (INSS) at its face value for purposes of payment of the debt. In 2000, revenues related to CDP came to R\$204 million.

In the case of the maternity wage, Law 9,876/1999 determined that INSS would be responsible for payment, thus eliminating the possibility of companies deducting the amount paid from its employer contribution. With this measure, the Social Security System collected an additional total of R\$565 million in 2000. However, the total financial effect of the measure is nil since there was a simultaneous increase in the system's outlays in benefit payments.

Provisional Measure 2,022/1999 allowed municipalities to pay off their debt in installments at lower rates of interest, provided that they institute systems for the automatic retention of current contributions. The basic condition is that the sum of the contribution and the value of the installment may not exceed 15% of the net current revenues of the municipalities. There was a significant level of

adhesion to the renegotiation process and an upturn of R\$769 million in withholdings of social security contributions in the year under analysis.

Here, one should cite the importance of the labor market, as growth in formal employment in 2000 contributed significantly to the broadening of the social security contribution payment base. The increased level of economic activity was also reflected in the results obtained at the level of companies that opted for the Integrated System of Micro and Small Business Tax and Contribution Payments (Simples), with growth of 30.6% in the year and an overall total of R\$2 billion.

Social Security outlays came to R\$65.8 billion or 12.4% more than in 1999. At December 2000 values, using the IGP-DI as indexing factor, spending totaled R\$68.6 billion, with a reduction of 1.1% compared to 1999.

Social Security spending was impacted by the process of compensation between the RGPS and state and municipal systems in those cases involving reciprocal calculation of the period of contribution for purposes of retirement and pension benefits. Accumulated outlays since the start of the process of compensation in December 1999 up to December 2000 came to a total of R\$15.2 million.

Another factor that impacted Social Security outlays was the heading of judicially determined payments – payments to persons insured by the system who have won legal suits referring to recalculations of benefits. In 2000, these suits totaled R\$770 million or 76.5% more than the amount registered in 1999.

In 2000, 2.95 million social security benefits were granted, representing growth of 31% in relation to the 1999 total. The effect of the alterations introduced into the system of granting the maternity benefit, which broadened coverage to include all insured parties, including optional and individual contributors, and transferred the payment obligation from the company to INSS were the factors of greatest importance to this increase. Growth of 17.4% occurred in the granting of sick leave benefits, while retirements based on the time of contribution dropped by 20.4%. This reduction was seen as a consequence of the measures taken in the social security constitutional reform to limit the number of early retirements.

Privatizations

Revenues on sales of federal and state companies came to US\$10.7 billion in 2000, compared to US\$4.4 billion in 1999, including transfers of liabilities to new controllers. The National Privatization Program generated US\$7.7 billion, compared to US\$554 million in the previous year, while state programs produced a total of US\$3 billion, against US\$3.9 billion in 1999.

The major privatization operation was the November sale of Banespa. The auction was won by the Spanish banking group Santander, which paid a total of US\$3.6 billion (R\$7 billion), reflecting a premium of 281%. Public offers of *Petrobras* stock in excess of that needed to maintain control generated revenues of US\$4 billion (R\$7.3 billion). The remainder of the federal revenue inflow on privatization operations consisted of sale of minority stockholdings (Decree 1,068/1994).

In 2000, state privatization programs included auctions of the *Companhia Energética de Pernambuco* (Celpe), *Centrais Elétricas do Maranhão* (Cemar) and *Sociedade Anônima de Eletrificação da Paraíba* (Saelpa). In the first case, the winning consortium consisted of the Spanish company *Iberdrola Energia do Brasil*, *Banco do Brasil Investimentos* and the Pension Fund of Banco do Brasil Employees, (Previ). The company was sold for the minimum price of US\$1 billion and the new controllers assumed a debt of US\$131 million.

Table 4.4 - National Privatization Program

Itemization	1996	1997	1998	1999	2000
Privatized companies	11	4	7	2	1
Steel	0	0	0	0	0
Petroquisa Complex	5	0	0	0	0
Fertilizers	0	0	0	0	0
Electric sector	1	0	1	0	0
Railroad	5	1	1	0	0
Other	0	3	5	2	1
Revenues (US\$ million)	4 231	3 995	1 656	554	7 671
Steel	0	0	0	0	0
Petroquisa Complex	212	0	0	0	0
Fertilizers	0	0	0	0	0
Electric sector	2 509	0	880	0	0
Railroad	1 477	15	206	0	0
Minority shareholdings (Decree 1,068)	33	190	421	62	34
Other ^{1/}	0	3 790	149	492	7 637
Liabilities transferred to buyers (US\$ million)	670	3 559	1 082	0	0
Steel	0	0	0	0	0
Petroquisa Complex	84	0	0	0	0
Fertilizers	0	0	0	0	0
Electric sector	586	0	1 082	0	0
Railroad	0	0	0	0	0
Other	0	3 559	0	0	0

Source: BNDES

1/ In 1999, it includes concessions of telecommunications mirror companies and offers of Telebrás System stocks to employees. In 2000, it includes stocks in excess to the Petrobras control and Banespa privatization.

Table 4.5 - Privatization program of the states
Companies privatized 1996-2000

US\$ million

Company	Economic sector	State	Auction date	Revenues	Transferred debt
Cerj	Electric energy	RJ	Nov-20-1996	587	364
Ferroeste	Railroad	PR	Dec-10-1996	25	-
Minority shareholding				794	
Banerj	Financial	RJ	Jun-26-1997	289	-
Riogás	Gas	RJ	Jul-14-1997	146	-
Ceg	Gas	RJ	Jul-14-1997	430	-
Coelba	Electric energy	BA	Jul-31-1997	1 598	213
Credireal	Financial	MG	Aug-7-1997	112	-
Cachoeira Dourada	Electric energy	GO	Sep-5-1997	714	140
CEEE - N/NE	Electric energy	RS	Oct-21-1997	1 486	149
CEEE - CO	Electric energy	RS	Oct-21-1997	1 372	64
CPFL	Electric energy	SP	Nov-5-1997	2 731	102
Enersul	Electric energy	MS	Nov-19-1997	565	218
Cia. União de Seguros Gerais	Insurance	RS	Nov-20-1997	45	-
Cemat	Electric energy	MT	Nov-27-1997	353	461
Energipe	Electric energy	SE	Dec-3-1997	520	40
Cosern	Electric energy	RN	Dec-12-1997	606	112
Metrô do Rio de Janeiro	Transportation	RJ	Dec-19-1997	262	-
Minority shareholding				2 388	
Conerj	Transportation	RJ	Feb-5-1998	29	-
Coelce	Electric energy	CE	Apr-2-1998	868	378
Eletropaulo Metropolitana	Electric energy	SP	Apr-15-1998	1 777	1241
CRT	Telecommunications	RS	Jun-19-1998	1 018	822
Celpa	Electric energy	PA	Jul-9-1998	388	116
Flumitrens	Transportation	RJ	Jul-15-1998	240	-
Elektro	Electric energy	SP	Jul-16-1998	1 273	428
Bemge	Financial	MG	Sep-14-1998	494	-
EBE - Empr. Bandeirante de Energia	Electric energy	SP	Sep-17-1998	860	375
Terminal Garagem M. Côrtes	Transportation	RJ	Oct-28-1998	67	-
Bandepe	Financial	PE	Nov-17-1998	153	-
Minority shareholding				330	
Comgás	Gas	SP	Apr-14-1999	988	88
Baneb	Financial	BA	Jun-22-1999	147	-
Cesp - Paranapanema	Electric energy	SP	Jul-28-1999	682	482
Cesp - Tietê	Electric energy	SP	Oct-27-1999	472	668
Gás Noroeste	Gas	SP	Nov-9-1999	143	-
Minority shareholding				216	
Celpe	Electric energy	PE	Feb-17-2000	1 004	131
Gás Sul	Gas	SP	Apr-26-2000	298	-
Cemar	Electric energy	MA	Jun-15-2000	289	158
Manaus Saneamento	Sanitation	AM	Jun-29-2000	106	-
Banestado	Financial	PR	Oct-17-2000	869	-
Saelpa	Electric energy	PB	Nov-30-2000	185	-
Total				27 919	6 750

Source: BNDES

Table 4.6 - National Privatization Program
Companies privatized 1991-2000

Sector/companies	Minimum price US\$ million	Selling price US\$ million	Premium (%)	Main auction date
Petroquisa Complex				
Petroflex	179	216	20.7	Apr-10-1992
Copesul	617	797	29.2	May-15-1992
Álcalis	79	79	0.0	Jul-15-1992
Nitriflex	26	26	0.0	Aug-6-1992
Polisul	57	57	0.0	Sep-11-1992
PPH	44	59	34.1	Sep-29-1992
CBE	11	11	0.0	Dec-3-1992
Poliolefinas	87	87	0.0	Mar-19-1993
Oxiteno	54	54	0.0	Sep-15-1993
PQU	270	270	0.0	Jan-24-1994
Politeno	45	45	0.0	Aug-18-1994
Coperbo	26	26	0.0	Aug-16-1994
Ciquine	24	24	0.0	Aug-17-1994
Polialden	17	17	0.0	Aug-17-1994
Acrinor	12	12	0.0	Aug-12-1994
Copene	254	254	0.0	Aug-15-1995
CPC	90	100	11.1	Sep-29-1995
Salgema	87	139	59.8	Oct-5-1995
CQR	0	2	...	Oct-5-1995
Pronor	63	64	1.6	Dec-5-1995
Nitrocarbono	30	30	0.0	Dec-5-1995
CBP	0	0	0.0	Dec-5-1995
Polipropileno	81	81	0.0	Feb-1-1996
Koppol	3	3	0.0	Feb-1-1996
Deten	12	12	0.0	May-22-1996
Polibrasil	99	99	0.0	Aug-27-1996
EDN	17	17	0.0	Sep-26-1996
Electricity				
Escelsa	444	505	13.7	Jul-11-1994
Light	2 271	2 271	0.0	May-21-1996
Gerasul	880	880	0.0	Sep-15-1995

(continues)

Cemar was sold for the minimum price of US\$289 million to the Brisk consortium, led by Pennsylvania Power & Light, of the United States. In this operation, a debt of US\$158 million was transferred to the new owners. Finally, Saelpa was acquired by a consortium composed of the *Companhia Força e Luz Cataguazes-Leopoldina* and the American company Alliant, for the minimum price of US\$185 million.

Table 4.6 - National Privatization Program (concluded)
Companies privatized 1991-2000

Sector/companies	Minimum price US\$ million	Selling price US\$ million	Premium (%)	Main auction date
Steel sector				
Usiminas	1 238	1 377	11.2	Oct-24-1991
Cosinor	12	14	16.7	Nov-14-1991
Aços Finos Piratini	42	105	150.0	Feb-14-1992
CST	339	339	0.0	Jul-16-1992
Acesita	348	450	29.3	Oct-22-1992
CSN	1 267	1 267	0.0	Apr-2-1993
Cosipa	174	340	95.4	Aug-20-1993
Açominas	285	554	94.4	Sep-10-1993
Fertilizers				
Indag	7	7	0.0	Jan-23-1992
Fosfertil	139	177	27.3	Aug-12-1992
Goiasfertil	13	13	0.0	Oct-8-1992
Ultrafertil	199	199	0.0	Jun-24-1993
Arafertil	11	11	0.0	Apr-15-1994
Railroads				
Malha Oeste	61	63	3.3	Mar-5-1996
Malha Centro-Leste	316	316	0.0	Jun-14-1996
Malha Sul	152	209	37.5	Sep-20-1996
Malha Sudeste	871	871	0.0	Nov-22-1996
Malha Tereza Cristina	16	18	12.5	Dec-13-1996
Malha Nordeste	11	15	36.4	Jul-18-1997
Malha Paulista	196	206	5.1	Nov-10-1998
Other				
Celma	73	91	24.7	Nov-1-1991
Mafersa	19	48	152.6	Nov-11-1991
SNBP	8	12	50.0	Jan-14-1992
Caraíba	5	5	0.0	Jul-28-1994
Embraer	182	183	0.5	Dec-7-1994
CVRD	2 610	3 132	20.0	May-6-1997
Tecon 1 - Porto de Santos	93	251	169.9	Sep-17-1997
Meridional	155	240	54.8	Dec-4-1997
Codesa - Cais de Capuaba	26	26	0.0	May-6-1996
Codesa - Cais de Paul	9	9	0.0	May-13-1996
Tecon 1 - Porto de Sepetiba	79	79	0.0	Sep-3-1995
CDRJ - Term. Roll-on Roll-off	16	27	68.8	Nov-3-1998
Porto de Angra dos Reis	8	8	0.0	Nov-5-1998
Datamec	50	50	0.0	Jun-23-1999
Porto de Salvador	21	21	0.0	Dec-21-1999
Banespa	945	3 604	281.0	Nov-20-2000
Public offer - Petrobras' stocks		4 032		2000
Minority shareholdings		1 134		

Source: BNDES

In the other sectors of activity, privatization operations included Gás Sul, a piped gas distributor to the southern region of the State of São Paulo, *Manaus Saneamento*, a subsidiary of the *Companhia de Saneamento do Amazonas* (Cosama), and Banestado.

Gás Sul was acquired by the Spanish company Gás Natural. The price of the concession came to US\$298 million, reflecting a premium of 462%. The Franco-Belgian firm *Lyonnaise des Eaux* was victorious in the auction for *Manaus Saneamento* and paid a total of US\$106 million for the company, 5% more than the minimum price. Following a two year restructuring process, Banestado was sold to *Banco Itaú* for US\$869 million, a premium of 303%.

The participation of foreign capital in the stock control of the companies privatized in 2000 totaled 57.9% and closed at US\$6.2 billion. The largest share went to Spanish companies (US\$3.6 billion), followed by companies from the United States (US\$2.2 billion).

Tax and federal contribution inflows

Inflows of taxes and contributions set a new record of R\$176 billion in 2000, with nominal growth of 16.2% and real growth of 2.2% - using the IGP-DI as indexing factor - in relation to the previous year. Of this total, revenues managed by the Secretariat of Federal Revenue (SRF) totaled R\$166.2 billion, while other revenues, which include the fees and contributions controlled by other entities - excluding social security contributions, came to R\$9.8 billion. With these results, the two headings in question registered expansion of 16.6% and 9,8% in relation to the 1999 figures, respectively.

Basically, this performance resulted from alterations introduced into tax legislation during the course of 1999 but which only produced their impacts in 2000, from the strong growth registered under judicial and administrative deposits and recovery in the pace of economic activity.

With regard to changes in tax legislation, the increase from 2% to 3% in the Cofins rate and the fact that the obligation to pay Cofins was extended to financial institutions, effective as of March 1999, resulted in growth in the level of contributions from R\$32.2 billion in 1999 to R\$39.9 billion in 2000, for real growth of 9.5%. One should further stress the importance of reintroduction of the CPMF as of June 1999. The inflow under this heading came to R\$14.5 billion in 2000, compared to R\$8 billion in the previous fiscal year.

Conversion of judicial deposits into federal government revenues contributed a total of R\$4.9 billion, for nominal growth of 133.3% in relation to the 1999 fiscal year. For the most part, this increase was a consequence of the anticipated deposits that are now required of those contributors who opt to go to court for the purpose of contesting the value of tax payments.

Taxes that more directly affect the activity level also registered positive growth in 2000. In this case, growth in the Cofins inflow, which is levied on company invoicing, reflected not only the rate increase and the broadening of the tax base, but also the upturn in the pace of economic activity. Aside from these factors, the IPI-related inflow increased by 0.4% in real terms, with the best performance (113.9%) under the IPI-automobiles. The reasons underlying this increase included a 20.3% upturn in sales and the fact that, as of August 1999, companies have been allowed to ship inputs to vehicle assembly companies with suspension of the IPI, which is deposited at a later stage by the assembly companies themselves. Real growth also occurred in the revenues of the Corporate Income Tax (IRPJ), 13%, partly as a result of growth in the revenues of the fuel and telecommunications sectors.

However, several tax categories registered negative results in the year. Here, one should cite the Import Tax (II), which registered a drop of 5% in real terms, as a consequence of the rate reduction from 9% to 6%, effective as of January 2000, and a drop of 22% under the heading of petroleum. The Income Withholding Tax - Capital Earnings closed with a reduction of 31% in real terms caused by a falloff in gains on financial investments and the high level of the 1999 inflow on swap operations as a result of exchange devaluation. In comparison to 1999, inflow of the IOF dropped by 44%. One of the factors responsible for this decrease was the cutback from 6%

Table 4.7 - Gross inflow of federal revenues

R\$ million

Itemization	1998	1999	2000	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	45 817	51 520	56 397	12.4	9.5
Industrialized Products Tax (IPI)	16 307	16 503	18 839	1.2	14.2
Import Tax (II)	6 544	7 919	8 510	21.0	7.5
Financial Operations Tax (IOF)	3 542	4 879	3 126	37.7	-35.9
Contribution to the Financing of the Social Security (Cofins)	18 746	32 187	39 903	71.7	24.0
Social Contribution on the Profits of Legal Entities (CSLL)	7 705	7 304	9 279	-5.2	27.0
Contribution to PIS/Pasep	7 548	9 836	10 043	30.3	2.1
Provisional Contribution on Financial Transactions (CPMF)	8 113	7 948	14 545	-	83.0
Other taxes	18 821	13 420	15 378	-28.7	14.6
Total	133 143	151 516	176 020	13.8	16.2

Source: Secretariat of Federal Revenue

to 1.5% in the rate levied on credit operations with individual consumers, extinction of the levy on financial operations and elimination of the additional 0.38% percentage point on credit operations, in effect in the period from 1.24.1999 to 6.17.1999.

Analysis of the inflow in 2000 points to increased participation of contributions in overall federal revenues. For example, the participation of the CPMF increased from 5.1% in 1999 to 8.3% in 2000, while that of Cofins moved from 21.1% to 22.6% and the Social Contribution on the Profits of Legal Entities (CSLL) increased from 4.7% to 5.3%.

Public sector primary result

The primary public sector result in 2000 was a surplus of R\$38.2 billion or 3.5% of GDP, compared to R\$31.1 billion or 3.3% of GDP in 1999. The federal government and Banco Central do Brasil accounted for a surplus of R\$20.4 billion (1.9% of GDP), state governments for R\$4.6 billion (0.4% of GDP), municipal governments for R\$1.5 billion (0.1% of GDP) and state companies for R\$11.7 billion (1.1% of GDP). The result was R\$1.4 billion more than the target defined in the sixth revision of the agreement between the Brazilian government and the IMF.

The distribution of the fiscal effort among the three public sector levels was quite different from the previous year, when the central government, which includes the federal government, Social Security System and Banco Central, accounted for 72.93% of the overall public sector primary result, while state companies were responsible for 20.3% and regional governments for 6.77%. Thus, in 2000, the participation of the central government declined to 53.55%, while that of state companies and regional governments increased to 30.66% and 15.79%, respectively.

To some extent, the increase in the participation of state companies was due to the favorable impact of fuel prices on the Petrobras result. In the case of regional governments, growth was due to passage of the LRF, which consolidated the process of adjustment in fiscal accounts at the subnational levels.

Nominal interest

Appropriation of nominal interest in 2000 came to R\$87.4 billion or 8% of GDP, compared to R\$127.2 billion and 13.8% of GDP in the previous year, with declines in all spheres of government. The total for the federal government and Banco Central came to R\$54.9 billion (5% of GDP) and reflected a strong decline when viewed against the previous year's result (R\$88.9 billion, 9.8% of GDP). This performance is based on lesser exchange depreciation and a reduction of 8.2 percentage points

Table 4.8 - Public sector borrowing requirements

Itemization	1997		1998	
	R\$ million	% of GDP ^{2/}	R\$ million	% of GDP ^{2/}
Total nominal	53 232	6.1	72 490	7.9
Federal government and Banco Central do Brasil	22 912	2.6	49 361	5.4
States ^{1/}	26 377	3.0	16 402	1.8
Local governments	-	-	2 014	0.2
State enterprises	3 943	0.4	4 713	0.5
Total primary	8 821	1.0	- 106	-0.0
Federal government and Banco Central do Brasil	2 886	0.3	-5 042	-0.6
States ^{1/}	6 436	0.7	3 726	0.4
Local governments	-	-	-1 995	-0.2
State enterprises	- 501	-0.1	3 204	0.3
Nominal interest	44 412	5.1	72 596	7.9
Federal government and Banco Central do Brasil	20 026	2.3	54 402	6.0
States ^{1/}	19 942	2.3	12 676	1.4
Local governments	-	-	4 009	0.4
State enterprises	4 443	0.5	1 508	0.2

(continues)

Table 4.8 - Public sector borrowing requirements (concluded)

Itemization	1999		2000	
	R\$ million	% of GDP ^{2/}	R\$ million	% of GDP ^{2/}
Total nominal	96 158	10.5	49 285	4.5
Federal government and Banco Central do Brasil	66 209	7.4	34 496	3.1
States ^{1/}	26 098	2.7	19 955	1.8
Local governments	4 490	0.5	2 966	0.3
State enterprises	- 640	-0.1	-8 132	-0.7
Total primary	-31 087	-3.3	-38 160	-3.5
Federal government and Banco Central do Brasil	-22 672	-2.4	-20 434	-1.9
States ^{1/}	-1 574	-0.2	-4 579	-0.4
Local governments	- 531	-0.1	-1 447	-0.1
State enterprises	-6 310	-0.7	-11 700	-1.1
Nominal interest	127 245	13.8	87 446	8.0
Federal government and Banco Central do Brasil	88 881	9.8	54 930	5.0
States ^{1/}	27 673	2.9	24 534	2.2
Local governments	5 021	0.5	4 413	0.4
State enterprises	5 670	0.6	3 569	0.3

1/ Until 1997: states and local governments; after 1998, just states.

2/ At December prices deflated by IGP-DI, based on a series published by the IBGE.

in the Selic interest rate in the period. These two figures were sufficient to neutralize the impact of the increase in net indebtedness.

In the case of regional governments, the lesser volume of interest appropriations was a consequence of downward movement of approximately ten percentage points

in inflation, as measured by the IGP-DI, the index applied to the major share of the liabilities of this government level, particularly in the cases of those that recently participated in debt renegotiations with the federal government. The drop in interest in the case of state companies mirrored a nominal reduction in rates and net debt which in turn was generated by the favorable primary results of recent years.

From the viewpoint of the alternative methodology, in which the internal debt indexed to exchange receives the same treatment as that accorded to the external debt, nominal interest appropriations in 2000 came to R\$77.7 billion or 7.1% of GDP, compared to R\$87.4 billion or 9.1% of GDP in the previous year. The federal government and Banco Central accounted for R\$45.2 billion, or 4.2% of GDP, while state governments were responsible for R\$24.5 billion (2.3% of GDP), municipal governments for R\$4.4 billion (0.4% of GDP) and state companies for R\$3.6 billion (0.3% of GDP).

Nominal result

In this context, public sector borrowing requirements (NFSP) in 2000 totaled R\$49.3 billion (4.5% of GDP) in the nominal concept, compared to R\$96.2 billion (10.3% of GDP) in 1999. The federal government and Banco Central were responsible for R\$34.5

**Table 4.9 - Public sector borrowing requirements
Alternative methodology**

Itemization	1999		2000	
	R\$ million	% of GDP ^{2/}	R\$ million	% of GDP ^{2/}
Total nominal	56 284	5.9	39 578	3.6
Federal government and Banco Central do Brasil	26 336	2.7	24 788	2.3
States ^{1/}	26 098	2.7	19 955	1.8
Local governments	4 490	0.5	2 966	0.3
State enterprises	- 640	-0.1	-8 132	-0.7
Total primary	-31 087	-3.3	-38 160	-3.5
Federal government and Banco Central do Brasil	-22 672	-2.4	-20 434	-1.9
States ^{1/}	-1 574	-0.2	-4 579	-0.4
Local governments	- 531	-0.1	-1 447	-0.1
State enterprises	-6 310	-0.7	-11 700	-1.1
Nominal interest	87 372	9.1	77 738	7.2
Federal government and Banco Central do Brasil	49 008	5.2	45 222	4.2
States ^{1/}	27 673	2.9	24 534	2.2
Local governments	5 021	0.5	4 413	0.4
State enterprises	5 670	0.6	3 569	0.3

1/ Until 1997: states and local governments; after 1998, just states.

2/ At December prices deflated by IGP-DI, based on a series published by the IBGE.

billion (3.1% of GDP), state governments for R\$20 billion (1.8% of GDP), municipal governments for R\$3 billion (0.3% of GDP) and state companies for -R\$8.1 billion, (-0.7% of GDP). In 1999, participation came to respective levels of 7.4%, 2.7%, 0.5% and -0.1% of GDP.

In the alternative methodology, NFSP totaled R\$39.6 billion (3.6% of GDP) in 2000, compared to R\$56.3 billion (3.9% of GDP) in 1999. The federal government and Banco Central accounted for R\$24.8 billion (2.3% of GDP), while state governments were responsible for R\$20 billion (1.8% of GDP), municipal governments for R\$3 billion (0.3% of GDP) and state companies for -R\$8.1 billion (-0.7% of GDP). In 1999, the corresponding levels of participation came to 2.7%, 2.7%, 0.5% and -0.1% of GDP.

Net public sector debt

The net public sector debt came to R\$563.2 billion, corresponding to 49.3% of GDP, in 2000. The debt/GDP ratio remained stable in the period. A breakdown of the public

Table 4.10 - Net public sector debt

Itemization	1997		1998	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt	307 427	34.2	379 917	41.1
Asset adjustment (basis: Dec/1995)	999	0.1	5 952	0.6
Total net debt	308 426	34.3	385 870	41.7
Federal government and Banco Central do Brasil	167 742	18.7	231 268	25.0
States ^{1/}	115 892	12.9	113 160	12.2
Local governments	-	-	17 745	1.9
State enterprises	24 793	2.8	23 697	2.6
Domestic debt	269 846	30.0	328 693	35.5
Federal government and Banco Central do Brasil	150 254	16.7	192 455	20.8
States ^{1/}	111 589	12.4	107 673	11.6
Local governments	-	-	17 084	1.8
State enterprises	8 004	0.9	11 481	1.2
External debt	38 580	4.3	57 177	6.2
Federal government and Banco Central do Brasil	17 488	1.9	38 812	4.2
States ^{1/}	4 303	0.5	5 487	0.6
Local governments	-	-	661	0.1
State enterprises	16 789	1.9	12 216	1.3
Memorandum				
GDP in R\$ million ^{2/}	898 454		924 682	

(continues)

sector shows that the ratio increased in the case of the federal government and Banco Central, in contrast to a decrease in the other spheres.

With respect to the federal government and Banco Central, the primary result and the privatization adjustment were not sufficient to offset the volume of interest appropriated, external debt methodological adjustments and asset adjustments. The debt increase consequent upon these adjustments came to R\$4.8 billion. The debt of regional governments dropped by R\$8.3 billion as a consequence of these adjustments. For the most part, this reflected more intense activity in the area of privatization at the state level. With respect to state companies, the primary result surpassed the level of interest appropriations and adjustments and closed with a nominal surplus and a reduction in net indebtedness.

Viewed in terms of the alternative methodology, the net public sector fiscal debt came to 41.3% of GDP in 2000, remaining stable during the period.

Table 4.10 - Net public sector debt (concluded)

Itemization	1999		2000	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt	476 075	45.5	525 360	46.0
Asset adjustment (basis: Dec/1995)	40 504	3.9	37 803	3.3
Total net debt	516 579	49.4	563 163	49.3
Federal government and Banco Central do Brasil	316 222	30.2	352 967	30.9
States ^{1/}	147 935	14.1	161 184	14.1
Local governments	22 851	2.2	24 139	2.1
State enterprises	29 571	2.8	24 873	2.2
Domestic debt	407 810	39.0	451 841	39.5
Federal government and Banco Central do Brasil	233 058	22.3	267 573	23.4
States ^{1/}	139 400	13.3	151 557	13.3
Local governments	21 984	2.1	22 706	2.0
State enterprises	21 984	2.1	10 004	0.9
External debt	108 769	10.4	111 322	9.7
Federal government and Banco Central do Brasil	83 164	8.0	85 395	7.5
States ^{1/}	8 535	0.8	9 626	0.8
Local governments	867	0.1	1 433	0.1
State enterprises	16 203	1.5	14 869	1.3
Memorandum				
GDP in R\$ million ^{2/}	1 045 937		1 142 473	

1/ Until 1997: States and local governments; After 1998, just states.

2/ Annual GDP at December prices deflated by the centered IGP-DI based on a series published by the IBGE.

Federal securities debt

In December 2000, the balance of the federal securities debt outside Banco Central came to R\$516.1 billion (45.2% of GDP) compared to R\$415 billion (39.7% of GDP) at the end of the previous year. Among the factors responsible for this growth, one should stress net issues of LTN with monetary impact, totaling R\$29.5 billion, NTN-C in the amount of R\$5.2 billion and LFT, totaling R\$5.4 billion. Other contributing factors were net special issues of R\$3 billion in National Treasury Financing Bills - Series B (LFT-B). In 2000, the amounts related to securitized credits, agricultural debt, Agrarian Debt Securities (TDA) and CDP were added to the federal securities debt and, in December 2000, came to R\$26.7 billion.

Table 4.11 - Federal securities

Balances in R\$ million

Itemization	1997	1998	1999	2000
National Treasury liabilities	225 732	343 820	412 752	555 913
Bacen portfolio	35 461	124 670	60 871	123 713
LTN	22 302	15 311	11 135	33 453
LFT	8 588	107 763	35 919	87 197
NTN	4 571	1 596	13 818	1 817
Securitized credits	-	-	-	1 246
Outside the Bacen	190 271	219 151	351 881	432 200
LTN	64 755	5 438	38 118	79 190
LFT	63 592	157 171	204 223	265 699
BTN	60	64	67	64
NTN	61 865	52 241	98 182	46 233
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	-	4 237	11 292	14 280
Securitized credits	-	-	-	21 119
Agrarian debt	-	-	-	3 108
TDA	-	-	-	2 495
CDP	-	-	-	14
Bacen liabilities	65 238	104 709	63 020	83 914
LBC	25 282	22 537	1 122	0
BBC/BBCA	28 327	48 372	0	0
NBCE	11 629	31 025	60 291	81 972
NBCF	-	2 478	1 606	1 942
NBCA	-	297	0	0
Outside the Bacen - Total	255 509	323 860	414 901	516 114
In % of GDP	28.4	35.0	39.7	45.2

The table 4.12 itemizes special issues of National Treasury Financing Bills – Series A (LFT-A) and LFT-B consequent upon renegotiations between the federal

government and states and municipalities in 2000 in the context of both the Program of Support to the Restructuring and Fiscal Adjustment of the States (Parafe - Law 9,496/1997) and Municipalities (Decree 3,099, dated 6.29.1999) and Proes (Provisional Measure 1,514, dated 8.7.1996 and later instruments).

Table 4.12 - Issues in the framework of Parafe and Proes

In R\$ thousand, position in 12.31.2000

States	LFT-A	LFT-B	Total
Acre	-	32 927	32 927
Amazonas	-	53 271	53 271
Bahia	-	43 717	43 717
Goiás	60 000	87 049	147 049
Minas Gerais	59 958	-	59 958
Mato Grosso do Sul	-	591 216	591 216
Paraíba	-	110 622	110 622
Pernambuco	-	144 371	144 371
Piauí	-	553 620	553 620
Rio Grande do Sul	176 273	-	176 273
Santa Catarina	-	779 987	779 987
Municipalities		646 603	646 603
Total	296 231	3 043 382	3 339 613

Securities for which the National Treasury is liable came to a total of R\$555.9 billion in December 2000. Of these, R\$123.7 billion were in Banco Central, while the remaining R\$432.2 billion, or 77.7% of the total, were outside the monetary authority. These papers correspond to 83.7% of total papers on the market. Securities issued by Banco Central added up to R\$83.9 billion, compared to R\$63 billion in the previous year, and accounted for 16.3% of the total securities debt held by the market. Among the factors that contributed to this rise, one should cite net issues of NBCE worth R\$7.2 billion and exchange depreciation.

An analysis on the basis of indexing factors shows a reduction in the participation of federal public securities indexed to the over/Selic rate due mostly to net redemptions of Banco Central Bills (LBC) which moved from 61.1% of the total in December 1999, to 52.4% in December 2000. In contrast, the participation of preset securities increased from 9.2% to 15.3% in the same period as a result of net issues of LTN. Papers indexed by the rate of exchange dropped in participation from 24.2% to 21.7%, reflecting net redemptions of National Treasury Notes (NTN). The participation of securities indexed to the TR increased from 3% to 4.7% as a result of incorporation of securitized credits, agricultural debt, TDA and CDP into the securities debt. For the same reason, the participation of papers indexed to the IGP-DI rose from 2.1% in December 1999 to 4.3% in December 2000.

Table 4.13 - Federal securities

Percentage share by indexing factors

Indexing factors	1997	1998	1999	2000
Total - R\$ million	255 509	323 860	414 901	516 114
Foreign exchange	15.4	21.0	24.2	21.7
Reference Rate (TR)	8.0	5.4	3.0	4.7
IGP-M	0.3	0.3	0.3	1.6
Over/Selic	34.8	69.1	61.1	52.4
Preset	40.9	3.5	9.2	15.3
Long-term Interest Rate (TJLP)	0.6	0.2	0.1	0.0
IGP-DI	-	0.1	2.1	4.3
Others	-	0.5	0.0	0.0
Total	100.0	100.0	100.0	100.0