IV

Public Finance

Fiscal and tax policies

On 12.19.2003, the National Congress promulgated Constitutional Amendments 41 and 42, implementing the Social Security Reform and alterations in the National Tax System. The two bills, which were sent to the Congress for its deliberation in the month of April, were the major points on the federal government's fiscal agenda for 2003.

The reform of the Social Security System had the objective of transforming it into a more equitable and socially more just system that, at one and the same time, is also feasible in financial and actuarial terms. Analysis of the changes introduced indicates that, in some cases, the reform has created significantly more convergence between the public and private systems, with the rules governing private sector workers being applied also to public sector civil servants. The major points of the Social Security reform are as follows:

1. Veteran civil servants:

a) civil servants entitled to full or proportional retirement up to the date on which Constitutional Amendment 41/2003 was promulgated may request such retirement at any time whatsoever, based on the rules set down in Constitutional Amendment 20/98, which are as follows: minimum age of 53 (men) and 48 (women), five years of public service, contributions to the system over a period of 35/30 years (men/women), with addition of 20% (in the case of full retirement) and 40% (proportional) in relation to the time lacking to be entitled to retirement on 12.15.1998. Should the person continue working, he/she may request retirement according to the rules issued under Constitutional Amendment 20/1998 or the terms of the new legislation;

b) only those civil servants will be entitled to retirement in the amount of the final wage received (integral pay) who cumulatively comply with the following conditions: 60 years of age (men) and 55 years (women); 35 years of contribution to the system (men) and 30 years (women); 20 years of public service, 10 years within a specific career classification and 5 of effective service in the position in which that person retires. Retirement of those not in compliance with these requirements will be calculated on the basis of median social security contributions from July 1994 onward;

c) those who were admitted to public service by 12.15.1998 and who desire to retire before completing 60/55 years of age (men/women) must have 5 years of public service, comply with an additional period of service equivalent to 20% of the period lacking on 12.15.98 to complete the period of contribution of 35/30 years (men/women) and pay a reduction factor of 3.5% for each anticipated year of age, should that person request the benefit by 12.31.2005, or of 5% for each year, should the person request retirement after that date. The maximum anticipation was set at 7 years and the value to be used as the basis for calculating retirement will give due consideration to the social security contributions effectively paid by that civil servant during his/her entire professional life, independently of the system (public or private sector). Ordinary legislation will define the system to be used to update the value of these contributions. In this case, the retiree loses the right to active-inactive worker parity;
d) current civil servants will be entitled to partial parity or, in other words, a law will define what financial advantages will be excluded from the parity;
e) a social security contribution of 11% will be charged on the benefits of all retirees and pensioners, with two well-defined situations: a) the discount will be levied on the value of the benefit in excess of R$1,200.00, in the case of state and municipal civil servants, and R$1,440.00 for federal civil servants; b) for those civil servants still on active duty, the discount will be applied to the amount in excess of R$2,400.00. Charging of the social security contribution will begin 90 days after promulgation of the reform;
f) new pensions will be paid in full value up to the limit of R$2,400.00. The amount greater than this limit will be subject to a discount of 30%. Ordinary legislation will define the manner in which the new pensions will be updated;
g) all civil services who reach the conditions required to petition retirement and who continue working will be entitled to what is termed a permanence bonus equivalent to the 11% social security contribution. According to previous legislation, the bonus would only be granted to those who had reached the conditions required for full retirement. With the reform, the bonus was also extended to those who had achieved the age required for proportional retirement, based on Constitutional Amendment 20/98 by the date on which the new legislation was promulgated;
h) the ceiling for retirement benefits for current civil servants will be equivalent to the salary of a minister of the Federal Supreme Court (STF). For states and municipalities, second tier ceilings were defined: the salary of the state governor for civil servants belonging to the state executive branch; for municipal employees, the ceiling was defined as the salary of the local mayor; in state assemblies, the limit will be the salary of state deputies; finally, in the state judiciary, the limit will be equivalent to 90.25% of the salary of a minister of the STF;

i) the reform unifies the social security contribution rates at a minimum of 11%. Higher rates are permitted at the state and municipal levels;
j) the reform raises the ceiling on INSS benefits from R$1,869.34 to R$2,400.00.

2. **New civil servants**:

a) retirement benefits of those who enter the civil service after promulgation of Constitutional Amendment 41 will be limited to R$2,400.00. Should the civil servant desire to retire with benefits higher than this limit, it will be necessary to contribute to a complementary pension fund. Calculation of the benefit will be based on contributions paid during the person's professional life and updated according to a formula to be defined in law;
b) such civil servants will not be entitled to active-inactive parity and the system according to which benefits will be increased over time will be defined in law.

With regard to changes in tax legislation, this process began with passage of Law 10,684, dated 5.30.2003, which introduced changes into legislation on social contributions and defined procedures to be used for the purpose of receiving debts owed to the Federal Revenue Secretariat (SRF) and the National Social Security Institute (INSS). The most important aspects of this law are as follows:

a) Contribution to Financing of the Social Security System (Cofins): increase in the rate on the monthly revenues of financial institutions from 3% to 4%;
b) Social Contribution on Net Profits (CSLL): increase in the calculation base for those service companies that deposit this contribution on the basis of presumed profits (companies with annual revenues of up to R$48 million) from 12% to 32% of gross revenues;
c) Program of Social Integration and Program of Formation of Civil Service Assets (PIS/Pasep) and Cofins: permission for crop/livestock production and rural electrification cooperatives to exclude the costs aggregated to products and services marketed by their associates, involving generating facts that occurred as of 10.26.1999, from the base used in calculating their contributions. Aside from this, revenues consequent upon the marketing of raw materials, intermediate products and packaging material were exempted from these contributions, when such are produced in the Manaus Free Zone to be used in industrialization processes by industrial establishments located in that region.
d) Integrated system of Tax and Contribution Payments for Micro and Small Businesses (Simples): extension of the possibility of opting for the "Simples" system to daycare centers, preschool institutions, primary schools, lottery shops, outsourced mail services and centers for the training of drivers of automotive vehicles to be used in land transportation of passengers and cargos;
e) Fiscal Recovery Program (Refis); payment in up to 180 monthly installments of debts with the SRF and with the National Treasury Prosecutor's Office, with

maturity up to 2.28.2003 and in up to 120 months, involving debts referring to Pasep, for which the states, Federal District and municipalities are responsible;

f) PIS/Pasep: exclusion of revenues earned on the rendering of services by journalistic, broadcasting and image and sound companies from the new system of taxation (rate of 1.65% of aggregate value).

Among fiscal measures, mention should also be made of the issue of Provisional Measure 135, dated 10.31.2003, converted into Law 10,833, dated 12.29.2003, which, in relation to Cofins, adopted a procedure identical to that instituted for PIS/Pasep in December 2002. Thus, for a major share of the various economic sectors, charging of the contribution would no longer be cumulative and would be charged on the basis of aggregate value. According to the new system, companies become eligible to receive a tax credit equivalent to the difference between what is due at the time of application of the rate to the calculation base of the tax, in this case the value of monthly revenues, and what has already been deposited in previous stages of the productive chain.

The new model will go into effect as of 2.1.2004 and is a response to the demand for modernization of the social security cost structure without, however, placing the volume of revenues obtained through this contribution in jeopardy, as required by Fiscal Responsibility Law (LRF). Considering that the new system presupposes the offsetting of tax credits generated in previous stages of the productive chain, the rate of this tax was increased from 3% to 7%, in order to preserve the basic premise of this model which is not to jeopardize the level of inflow registered up to January 2004.

There is no doubt that the new system of charging Cofins will result in a redistribution of the tax load among various sectors of the economy, since it fosters alterations in costs over the entire productive chain, with the heaviest burden on the segments in the initial stages of production or those that aggregate greater value to the product/service, since they have a lesser volume of tax credits to offset at the time of payment of the tax. Just the opposite occurs for the segments situated at the end of the productive chain, in such a way that changes in relative prices can be expected. At the same time, the new model will tend to enhance the competitiveness of national products since imported goods do not generate rights to these credits since there are no previous stages on which the tax is levied, while the burden of the tax has been removed from exports.

It is important to stress that Law 10,637/2002, which instituted the new base for levying PIS, determined that, by 12.31.2003, the executive branch should send a bill to the National Congress with the purpose of making charging of Cofins noncumulative and, if required, introducing alterations into the PIS/Pasep rate, which was increased from 0.65% to 1.65%, with the aim of ensuring that the inflow level will be preserved.

The generating fact underlying noncumulative levying of Cofins are monthly revenues, considered as total income earned by the legal entity independently of its denomination or accounting classification. Total revenues encompass gross revenues on sales of goods and services by the company itself and by others and all other revenues earned by the legal entity.

The following revenues are not included in the calculation base of the Contribution:

a) those exempt or not covered by the levying of the Contribution or that are subject to a zero rate;
b) nonoperating revenues, consequent upon sales of permanent assets;
c) those earned by legal entities involved in the resale of merchandise in which case the contribution will be required of the resale company, in the form of a tax substitute;
d) sale of products subject to one time only levying of the contribution;
e) those on canceled sales and unconditional discounts granted; reversions of provisions and recovery of credits previously written off as losses that do not involve inflows of new revenues; positive results of the assessment of investments at the value of net worth and profits and dividends derived from investments assessed at acquisition cost, and that have been calculated as revenues.

In order to determine the value of Cofins, the rate of 7.6% is applied to the calculation base, while taking advantage of credits calculated in relation to:

a) goods acquired for resale;
b) goods and services used as inputs in the rendering of services and in the production or manufacturing of goods or products to be resold, including fuels and lubricants;
c) electricity consumed in establishments belonging to the legal entity;
d) rentals paid to the legal entity, involving buildings, machines and equipment used in the company's activities;
e) financial outlays consequent upon loans, financing and the value of counterinstallments in the legal entity's leasing operations, with the exception of companies that have opted for the Integrated System of Tax and Contribution Payments for Micro and Small Businesses (Simples);
f) machines and equipment and other goods incorporated into fixed assets acquired for utilization in the production of goods for sale or in the rendering of services;
g) buildings and improvements in the company's own or third party real estate utilized in the company's activities;
h) goods returned when the sale revenues have been integrated into the month's revenues or those of the previous month and taxed according to the provisions of this law;

i) storage of merchandise and freight in sale operations in cases involving the goods cited under letters a and b above.

The following segments were excluded from the new model as a result of their specific natures:

a) cooperatives;
b) companies that have opted for the “Simples” system;
c) financial institutions;
d) private companies that operate in the protection and transportation of valuables;
e) legal entities subject to the income tax on the basis of presumed or arbitrated profits (companies with monthly revenues of up to R$4 million);
f) public sector entities, semi-autonomous agencies and federal, state and municipal public foundations, and foundations that have been authorized by law;
g) legal entities exempted from taxes;
h) revenues taxed at a single stage or by tax substitution;
i) companies that operate in the purchase and sale of automotive vehicles;
j) revenues consequent upon the rendering of telecommunications services and the providing of the services of journalistic and broadcasting and sound and image companies;
k) revenues related to contracts formalized prior to 10.31.2003;
l) revenues consequent upon the rendering of collective highway, subway, railway and waterway transportation of passengers;
m) revenues consequent upon the rendering of hospital, first aid, clinical and recovery services under medical orientation and blood banks;
n) revenues derived from education services for young children, primary, secondary and university education.

Due to the complexity and peculiarities of the activities performed by real estate companies in land development programs, real estate incorporation, construction of buildings for sale, as well as the sale of already built real estate, the law allows these companies to utilize presumed profits calculated on the basis of the cost budgeted for conclusion of a specific undertaking, in the proportion of revenues earned as determined by income tax legislation.

The Law also determined that payment of Cofins will be effected by the final business day of the first fifteen days of the month subsequent to that in which the generating fact occurred. According to previous legislation, the period was up to the last business day of the subsequent ten day period.

Finally, among the other measures introduced through Law 10,833/2003, the following should be stressed:

a) IPI: as of February 2004, calculation of the tax will be carried out every fifteen days (previously, every ten days) and will become monthly as of 2005;
b) Provisional Contribution on Financial Operations (CPMF): up to December 1, 2003, foreign investments entering stock exchanges would be subject to levying of the tax at only one stage of the operation or, in other words, they would be exempt from payment at the time of remittance abroad of the resources calculated upon liquidation of the operations;
c) Income tax on capital gains: in cases involving transfers of goods by foreign individuals or legal entities to residents in the country, the national buyer becomes co-responsible for payment of the tax;
d) Combating Smuggling: bus companies that transport passengers to countries that have common borders with Brazil will be obligated to identify baggage and their respective owners on return trips to Brazil. Noncompliance with these rules will subject the company to fines and loss of the concession for two years.

Though essential to achieving short-term equilibrium of the nation's public accounts, alterations in the Tax System, instituted by Constitutional Amendment 42/2003, represented continuation of a process that will only be consolidated in 2007. It should be stated that the bill sent to the National Congress was considerably more inclusive. However, the more complex questions and those that require deeper study were shifted to a new constitutional amendment proposal. Among other measures, this proposal involves unification of ICMS legislation, increased resources from the Municipal Revenue Sharing Fund, creation of the National Regional Development Fund and definition of the ceiling on budget resources for the effecting of judicially determined payments.As far as the measures implemented through Constitutional Amendment 42/2003, the following deserve mention:

a) CPMF: extended to 2007, at the same rate of 0.38%;
b) Elimination of Federal Revenue Entitlements (DRU): extended to 2007, at the same level of 20% in effect since 2003;
c) Contribution on Intervention in the Economic Domain (Cide): to be shared among the three levels of government: 75% for the federal government, 18.75% for the states and 6.25% for municipal governments;
d) Compensation Fund for Export Tax Losses: once the law had been approved, the federal government began channeling resources to the states and Federal District with the purpose of offsetting ICMS losses caused by elimination of this tax on export operations. In order to define the volume of these resources, the law must, among other factors, give due consideration to the volume of exports involving primary and semimanufactured goods, the ratio between exports and imports and acquisitions reserved to fixed assets;
e) Cofins and PIS/Pasep: levying of the contributions extended to imports of goods and services from abroad;

f) Fiscal incentives: extension for ten years of the effectiveness of fiscal incentives granted to companies located in the Manaus Free Zone (from 2013 to 2023) and of those granted under the terms of informatics legislation (2009 to 2019);
g) Rural Land Tax (ITR): this tax, for which the federal government is responsible, may be supervised and collected by those municipalities that opt to do so, according to the terms of legislation. In this case, the total amount collected will remain with the municipal government charged with collection.

It was only with issue of Provisional Measures 161, dated 1.21.2004, and 164, dated 1.29.2004, that the variables to be taken into consideration in the distribution of the Cide among the states were defined, and the two new contributions were instituted. In the latter case, these contributions will be levied on imports of goods and services from abroad (PIS/Pasep-Imports and Cofins-Imports).

Provisional Measure 161 determined that 25% of the Cide inflow would be transferred to the states, Federal District and municipalities on a quarterly basis up to the fifth business day of the month subsequent to the closing month of each quarter. This is to be done through a credit to an account opened for this purpose. The criteria for distribution of these resources take due account of the dimensions of the nation's paved federal and state highway networks in each state, fuel consumption subject to charging of the CIDE and the size of the population.

Provisional Measure 164 determined that the contribution rates will be equal to those practiced in internal operations or, in other words, 1.65% for PIS/Pasep-Imports and 7.6% for Cofins-Imports. The measure also defined the generating fact, those making the contributions, the calculation base, exemptions and the periods allotted for payment of the contributions.

With formalization of Decree 4,800, dated 8.5.2003, IPI rates on automobiles with cylinder capacity of up to 2000 were reduced by three percentage points, to remain in effect from 8.6.2003 up to 11.30.2003. Considering the positive impacts of this measure on production and employment levels, Decree 4,902 was issued on 11.28.2003 extending this benefit to 2.29.2004. Companies committed themselves to not laying employees off during the period in which the rate reduction remains in effect.

At the level of municipal finances, mention should be made of approval of Complementary Law 116, dated 7.31.2003, which defined the calculation base, rates and services subject to levying of the Tax on Services of Any Nature (ISS), which is subject to municipal and Federal District jurisdiction. Aside from this, Law 10,819, dated 12.16.2003, was approved with the purpose of providing equal treatment to municipalities from the federative point of view, granting them the right to utilize judicial and extrajudicial deposits related to judicial suits that question payment of municipal taxes. In order to utilize the benefit, the law requires that the local administration approve municipal laws instituting reserve funds to be used to ensure return of such deposits to taxpayers, should the final judicial decision in such cases be unfavorable to such administrations.

With the aim of making the work of the state in implementing social programs more rational, more effectively organized and more efficient, the government issued Provisional Measure 132, dated 10.20.2003, later converted into Law 10,836, dated 1.9.2004, creating the Family Assistance Program. This Program, based on a series of conditions, is to operate in the area of income transfers and has the objective of unifying the federal government's management and implementation of its income transfer activities, particularly involving the National Education-related Minimum Income Program (*Bolsa Escola*), the National Food Assistance Program (PNAA), the National Health-related Minimum Income Program (*Bolsa Alimentação*), the Kitchen Gas Assistance Program and the Single Federal Government Reference File.

Duly complying with the provisions defined in regulations, the benefits of the Program are as follows:

a) basic benefit: targeted to family units in situations of extreme poverty;
b) variable benefit: targeted to family units in situations of poverty and extreme poverty and that include pregnant women, breastfeeding mothers, children between zero and twelve years of age and adolescents of up to fifteen years of age.

On 10.22.2003, the National Congress approved Law 10,748, which instituted the National Program of Incentives to First Employment for Youth (PNPE), which involves a series of measures targeted at stimulating absorption of young people into the labor market, furthering their schooling, strengthening the participation of society in the process of formulating policies and job and income generation measures. The Program has the objective of creating job opportunities for young people and preparing them for the job market and alternative occupations that generate income, as well as training for young people for the job market and the process of social inclusion.

Finally, one must refer to creation of the Special Low-cost Housing Program that is designed to provide households with monthly family income of up to three times the minimum monthly wage with the possibility of access to adequate housing. According to Provisional Measure 133, dated 10.23.2003 (later converted into Law 10,840, 2.11.2004), resources allocated to the Program will be targeted to implementation of the following measures, in terms of financial aid or assistance:

a) production or acquisition of housing units;
b) production or acquisition of urbanized lots;
c) acquisition of building materials;
d) urbanization of still precarious settlements;
e) urban reclassification.

Public sector borrowing requirements

The nonfinancial public sector registered a primary surplus of R$66.2 billion, or 4.37% of GDP, in 2003, compared to R$52.4 billion, or 3.89% of GDP, in the previous year. Evidently, the target of 4.25% of GDP set for the period was clearly met.

Analyzing the contribution of the different public sector segments to this result, improvement was registered in the surplus as a proportion of GDP in all spheres of activity, with the exception of municipal governments.

In the context of the Central Government, the adjustment was concentrated in the spending column, with the aim of offsetting losses generated by the economic slowdown and by the strong atypical inflow in 2002.

The Central Government's primary surplus in 2003 came to R$38.7 billion, corresponding to 2.53% of GDP, compared to R$31.9 billion in 2002, 2.37% of GDP. In the 2003 result, R$65.3 billion corresponded to the surplus registered in National Treasury accounts and R$26.4 billion in the Social Security deficit. The result also included the R$195 million Banco Central deficit.

Central Government revenues added up to R$357.9 billion, for nominal growth of 11.2% in comparison to the previous year, accounting for 23.62% of GDP, compared to 23.91% in 2002. The determining factor of this reduction was deceleration in the level of economic activity in the first half of the year, particularly in the industrial sector. Mention should also be made of the negative impacts generated by the restructuring of import tax and industrialized products tax rates on inflow rates, as well as of judicial decisions that went against the Federal Revenue position and provoked revenue losses on the CIDE-Fuels and the IPI. Finally, there was an accentuated reduction in the inflow of atypical and extraordinary revenues (payments of debts in arrears, conversion of judicial and administrative deposits into Treasury revenues, etc.), from R$18.5 billion in 2002 to R$7.9 billion in 2003.

Overall spending, net of transfers to the states and municipalities, came to R$257.8 billion, for growth of 10.5% in relation to the 2002 result, equivalent to 16.92% of GDP, as against 17.01% in 2002. Taken by themselves, Social Security outlays,

Table 4.1 – Public sector borrowing requirements

Itemization	2000		2001	
	R$ million	% of GDP1/	R$ million	% of GDP1/
Total nominal	39 806	3.6	42 789	3.6
Federal government and Banco Central do Brasil	25 016	2.3	25 273	2.1
States	19 955	1.8	23 080	1.9
Local governments	2 966	0.3	1 178	0.1
State enterprises	-8 132	- 0.7	-6 742	- 0.6
Total primary	-38 157	- 3.5	-43 655	- 3.6
Federal government and Banco Central do Brasil	-20 431	- 1.9	-21 980	- 1.8
States	-4 579	- 0.4	-7 211	- 0.6
Local governments	-1 447	- 0.1	-3 260	- 0.3
State enterprises	-11 700	- 1.1	-11 204	- 0.9
Nominal interest	77 963	7.1	86 443	7.2
Federal government and Banco Central do Brasil	45 447	4.1	47 253	3.9
States	24 534	2.2	30 291	2.5
Local governments	4 413	0.4	4 437	0.4
State enterprises	3 569	0.3	4 463	0.4

(continues)

Table 4.1 – Public sector borrowing requirements (concluded)

Itemization	2002		2003	
	R$ million	% of GDP1/	R$ million	% of GDP1/
Total nominal	61 614	4.6	79 030	5.2
Federal government and Banco Central do Brasil	10 029	0.7	62 150	4.1
States	43 797	3.3	22 936	1.5
Local governments	7 696	0.6	4 067	0.3
State enterprises	92	0.0	-10 124	- 0.7
Total primary	-52 390	- 3.9	-66 173	- 4.4
Federal government and Banco Central do Brasil	-31 919	- 2.4	-38 744	- 2.6
States	-8 560	- 0.6	-11 916	- 0.8
Local governments	-2 073	- 0.2	-1 906	- 0.1
State enterprises	-9 838	- 0.7	-13 608	- 0.9
Nominal interest	114 004	8.5	145 203	9.6
Federal government and Banco Central do Brasil	41 948	3.1	100 894	6.7
States	52 356	3.9	34 851	2.3
Local governments	9 770	0.7	5 973	0.4
State enterprises	9 929	0.7	3 484	0.2

1/ Current prices.
2/ Federal Government, Central Bank and National Social Security Institute.

R$107.1 billion, expanded by 21.7% and National Treasury spending came to R$143.7 billion, for a reduction of 1.1% in the year. The two major headings under Treasury outlays are "personnel and social charges" and "other current and capital spending", with respective increases of 6.5% and 1.5%, compared to 2002 while, as a proportion of GDP, these headings declined by about 0.29 p.p. and 0.53 p.p.

Following the example registered within the framework of the Central Government, the results registered by regional governments were conditioned by management of outlays, highlighted by qualitative improvements in the implementation of fiscal adjustment policies which not only took on a lasting character, but also contributed to enhanced economic efficiency, by avoiding adjustments based on tax increases.

Table 4.2 – Central government primary result

R$ million

Itemization	2001	2002	2003	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	271 927	321 842	357 891	18.4	11.2
Treasury revenues	209 436	250 815	277 159	19.8	10.5
Administered revenues[1/]	183 759	224 860	247 272	22.4	10.0
Non administered revenues	25 677	25 955	29 887	1.1	15.1
Social security revenues	62 491	71 027	80 732	13.7	13.7
Total expenditures	249 500	289 383	318 383	16.0	10.0
Treasury expenditures	174 171	201 354	211 248	15.6	4.9
Transfers to states and municipalities	46 024	56 138	60 226	22.0	7.3
Personnel and social charges	64 381	73 306	78 066	13.9	6.5
Other current and capital expenditures	63 766	71 910	72 956	12.8	1.5
Social security benefits	75 329	88 029	107 135	16.9	21.7
Federal government result	22 427	32 459	39 508	44.7	21.7
National Treasury	35 265	49 461	65 911	40.3	33.3
Social security	-12 838	-17 002	-26 403	32.4	55.3
Banco Central result	- 690	- 777	- 196	12.6	-74.8
Primary result (above the line)[2/]	21 737	31 682	39 312	45.8	24.1
Primary result/GDP – %	1.8	2.4	2.6	-	-

Source: Ministério da Fazenda/STN

1/ Deducted from returns and fiscal incentives.
2/ (+) = surplus (-) = deficit.

In this way, continuity was given to the process of introducing measures aimed at fully implementing the parameters defined by the Fiscal Responsibility Law, particularly in that which concerns fiscal equilibrium, management of outlays on maintenance of the public sector government structure and compliance with debt limits. These measures were determining factors in offsetting the loss of ICMS revenues and of constitutional transfers, both of which are major revenue subgroupings of subnational government administrations. When deflated by the IPCA, these headings dropped by 1.9% and 7.1%, respectively, in 2003.

Total nominal interest appropriated in 2003 came to R$145.2 billion or 9.58% of GDP, compared to R$114 billion or 8.47% of GDP in the previous year. Among the factors responsible for this increase, one should stress the increase in the Selic rate from 18% per year in October 2002 to 26.5% per year in March 2003, where it remained until July when the Selic rate shifted into a downward curve. It should be stressed that the 12 month Selic rate followed a downward curve as of November 2003. This movement should continue in the coming months and is already reflected in the evolution of the flows of interest appropriated on the debt on an annual bases – with the sole exception of exchange swap operations.

Table 4.3 – Uses and sources – Consolidated public sector

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Uses	61 614	4.6	79 030	5.2
Primary	- 52 390	- 3.9	- 66 173	- 4.4
Internal interest	96 975	7.2	126 043	8.3
Real interest	628	0.0	91 267	6.0
Monetary updating	96 347	7.2	34 776	2.3
External interest	17 029	1.3	19 160	1.3
Sources	61 614	4.6	79 030	5.2
Internal borrowing	36 980	2.7	94 486	6.2
Securities debt	3 364	0.2	122 438	8.1
Banking debt	14 692	1.1	- 31 361	- 2.1
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	18 923	1.4	3 409	0.2
Relationship TN/Bacen	-	-	-	-
External borrowing	24 634	1.8	- 15 456	- 1.0
GDP flows in 12 months[1/]	1 346 028		1 514 924	

1/ GDP at current prices.

Based on the nominal concept, public sector borrowing requirements, which encompass the primary result and nominal interest appropriated, registered a deficit of R$79 billion, or 5% of GDP in 2003, compared to R$61.6 billion, or 4.58% of GDP in 2002.

With regard to the major sources of financing of the nominal deficit accumulated in the year, the banking debt and external financing registered reductions of R$31.4 billion and R$15.5 billion, respectively, while the securities debt turned in expansion of R$122.4 billion.

Federal tax and contribution inflow

In the 2003 fiscal year, the inflow of the taxes and contributions administered by the Secretariat of Federal Revenue and that of revenues controlled by other public sector entities, excluding social security contributions, came to a total of R$273.4 billion, for nominal annual growth of 12.5%, reflecting a real decline of 1.9% when the IPCA is used as deflator[5].

Emphasis should be given to the fact that, in 2002, the Secretariat of Federal Revenue had registered R$18.5 billion in extra and atypical revenues, compared to just R$7.9 billion in 2003. These revenues mostly involved payments of debts in arrears and conversions of judicial and administrative deposits into Treasury revenues. Consequently, the total inflow – excluding these atypical operations – increased by 3.3% in the year, in real terms.

The increase in the PIS/Pasep inflow, which came to R$17.3 billion, was to a great extent due to the effects of the increase in the PIS rate from 0.65% to 1.65%, effective as of 12.1.2002, on imports made by companies that contribute according to the noncumulative system. Since the value of these imports can not be deducted from the calculation base of the tax in the noncumulative system, it is indirectly

Table 4.4 – Gross inflow of federal revenues

R$ million

Itemization	2001	2002	2003	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	64 909	85 803	93 016	32.2	8.4
Industrialized Products Tax (IPI)	19 456	19 799	19 674	1.8	-0.6
Import Tax (II)	9 090	7 972	8 143	-12.3	2.1
Financial Operations Tax (IOF)	3 584	4 022	4 450	12.2	10.6
Contribution to the Financing of the Social Security (Cofins)	46 364	52 267	59 565	12.7	14.0
Social Contrib. on the Profits of Legal Entities (CSLL)	9 367	13 364	16 750	42.7	25.3
Contribution to PIS/Pasep	11 396	12 872	17 337	13.0	34.7
Provisional Contribution on Financial Transactions (CPMF)	17 197	20 369	23 046	18.4	13.1
Contribution on Intervention in the Economic Domain (Cide)	-	-	7 496	-	3.5
Other taxes	15 349	19 295	23 881	25.7	23.8
Total	196 712	243 006	273 358	23.5	12.5

Source: Secretaria da Receita Federal

5/ This will be the index number used in the inflow analysis, any time there is a reference to real rates.

incorporated into the calculation base. Aside from this, the Pasep inflow, which corresponded to about 15% of the total, registered real growth of 39.9% in 2003, as a consequence of the resolution of a number of judicial litigations.

Inflow of the CSLL came to R$16.8 billion, with an increase of 9.1%, impacted mainly by growth in the calculation base for service companies that pay the contribution on the basis of presumed profits. In this case, the calculation base had been increased from 12% to 32% of gross revenues. The two segments that constitute the CSLL inflow registered highly distinct individual performances, as deposits for which financial entities are responsible came to R$1.9 billion, for a reduction of 43.7%, while those of all other companies came to R$14.9 billion, for growth of 23.2%.

Table 4.5 – Extra and atypical inflow of federal revenues

R$ million

Itemization	2002 (a)	2003 (b)	Growth % (b)/(a)
Income Tax (IR)	13 498	4 525	-66.5
Corporate entities	12 714	4 262	-66.5
Individuals	784	263	-66.5
Social Contribution on Net Profits (CSLL)	2 203	1 873	-15.0
PIS/Pasep	215	97	-54.9
Cofins	1 569	41	-97.4
CPMF	306	125	-59.2
Other taxes	696	1 226	76.1
Total	18 487	7 887	-57.3

Source: Secretaria da Receita Federal

The income tax inflow came to R$93 billion, for a real reduction of 5.5%, in the year. When the so-called extra and atypical revenues (R$4.5 billion and R$13.5 billion in 2003 and 2002, respectively) are excluded from these amounts, the tax inflow registered a real increase of 6.2%.

With the exception of inflows on labor earnings, R$26.5 billion, and those on capital earnings, R$19.1 billion, which expanded by 2.9% and 2.3%, respectively, all the other tax segments closed with real revenue losses. In the case of capital earnings, the most important were the resources generated by fixed income funds, R$9 billion, with real growth of 5% over the previous year.

Payments of income tax by corporate entities (IRPJ) totaled R$33.8 billion, for a real decline of 13.5%, compared to 2002. The atypical revenues specified under this heading came to R$4.3 billion, compared to R$12.7 billion, of which R$8.8 billion were the responsibility of pension funds in 2002. Without the influence of this atypical inflow, the IRPJ expanded by 19.4% in real terms, due basically to the results registered by the sector of fuels.

The Industrialized Products Tax generated an inflow of R$19.7 billion, for a real reduction of 13.3%, when compared to 2002. All five sectors included in the tax inflow registered real revenue declines: IPI-tobacco, 7.6%; IPI-beverages, 7.6%; IPI-automobiles, 24.1%; IPI-imports, 18.4%; and IPI-others, 9%. The revenue loss on IPI-imports was a consequence of the conjugation of increases of 2.28% in the dollar value of taxed imports and 5.37% in the median rate of exchange, and of reductions of 6.9% in the median effective import tax and 24.4% in the median rate of IPI-imports. The inflow of the IPI-automobiles was negatively impacted by a reduction of 1.7% in internal market sales and cutbacks in the rates on medium and popular models, as defined by Decrees 4,441/2002 and 4,800/2003. At the same time, the falloff in the IPI-others reflected the restructuring of rates, with reductions in the sectors of basic metallurgy, as well as judicial decisions that favored taxpayers.

Table 4.6 – Income Tax and Industrialized Products Tax

R$ million

Itemization	2001	2002	2003	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	64 909	85 803	93 016	32.2	8.4
Individuals	4 058	4 462	5 103	10.0	14.4
Corporate entities	16 985	33 893	33 833	99.5	-0.2
Financial institutions	2 362	4 589	5 871	94.3	27.9
Other companies	14 623	29 304	27 962	100.4	-4.6
Withholdings	43 866	47 450	54 079	8.2	14.0
Labor earnings	21 584	22 480	26 456	4.2	17.7
Capital earnings	15 213	16 362	19 056	7.6	16.5
Remittances abroad	4 504	5 371	5 596	19.2	4.2
Other earnings	2 565	3 237	2 971	26.2	-8.2
Industrialized Products Tax (IPI)	19 456	19 799	19 673	1.8	-0.6
Tobaco	2 006	1 924	1 993	-4.1	3.6
Bevereges	2 008	1 796	1 899	-10.6	5.7
Automotive vehicles	2 594	2 664	2 312	2.7	-13.2
Other taxes	8 079	8 528	8 905	5.6	4.4
Linked imports	4 769	4 887	4 564	2.5	-6.6

Source: Secretaria da Receita Federal

The second most important tax, Cofins, registered an inflow of R$59.6 billion, for a real decline of 0.5% in the year. In much the same way as occurred with the Income Tax, the performance of this contribution was impacted by atypical inflows in both years, involving R$1.6 billion in 2002 and R$41 million in 2003. When one abstracts from the effects of these factors, the Cofins inflow increased in real terms by 1.9%, in 2003.

Federal securities debt

The balance of the federal securities debt outside Banco Central, assessed in terms of the portfolio position, came to R$731.9 billion, 46.6% of GDP, in December 2003, compared to R$623.2 billion, or 39.3% of GDP, at the end of the previous year. To some extent, this result reflected total net issues of R$12.3 billion, compared to total net redemptions of R$169.5 billion in 2002. In 2003, one should highlight the following operations: net issues of R$70 billion in LTN, R$5.9 billion in NTN-B and R$4.2 billion in NTN-C, and net redemptions of R$16 billion in LFT, R$15.5 billion in NTN-D and R$326 million in LFT-Series A (LFT-A), R$5.5 billion in LFT-Series B (LFT-B) and R$30.9 billion in NBCE.

Table 4.7 – Federal securities – Portfolio position

Balances in R$ million

Itemization	2000	2001	2002	2003
National Treasury liabilities	555 908	687 329	838 796	970 565
Bacen portfolio	130 897	189 442	282 730	269 366
LTN	37 243	27 970	45 775	101 376
LFT	90 595	114 986	145 614	99 646
NTN	1 812	44 943	89 664	66 487
Securitized credits	1 246	1 543	1 678	1 857
Treasury MP 1,789	-	-	-	-
Outside the Bacen	425 011	497 887	556 066	701 199
LTN	75 399	48 791	13 596	91 055
LFT	262 301	322 153	372 584	443 180
BTN	64	67	100	74
NTN	46 233	87 488	127 399	126 721
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	14 280	19 366	19 214	18 236
Securitized credits	21 119	16 044	15 406	15 001
Agrarian debt	3 108	1 689	5 761	4 879
TDA	2 495	2 276	2 005	2 052
CDP	14	11	1	1
Banco Central liabilities	85 686	126 198	67 125	30 659
LBC	-	-	-	-
BBC/BBCA	-	-	-	-
NBCE	83 745	124 707	67 125	30 659
NBCF	1 942	1 490	-	-
NBCA	-	-	-	-
Outside the Banco Central – Total	510 698	624 084	623 191	731 858
In % of GDP	44.2	49.7	39.3	47.1

Papers for which the National Treasury is liable came to a December 2003 total of R$970.6 billion, of which R$269.4 billion were held by Banco Central, and R$701.2 billion, corresponding to 72.2% of the total, were outside the monetary authority. Papers issued by Banco Central added up to R$30.7 billion, compared to R$67.1 billion in December of the previous year and accounted for 4.2% of the total securities debt held by the market. Among the factors that contributed to this reduction, mention should be made of net redemptions of R$30.9 billion in NBCE and 18.2% appreciation of the real against the dollar.

With regard to the distribution of securities by indexing factor, the participation of preset papers increased from 2.2% of the total in December 2002 to 12.5% in December 2003, due mostly to net issues of LTN. The participation of papers indexed to the over/Selic increased from 60.8% to 61.4%, despite net redemptions in LFT. Securities tied to exchange reduced their participation from 22.4% to 10.8%, reflecting redemptions of NBCE, NTN-D and appreciation of the real against the dollar. Papers indexed to the Reference Rate (TR) reduced their participation from 2.1% to 1.8%, while those indexed to price indices increased their participation from 12.5% to 13.5%.

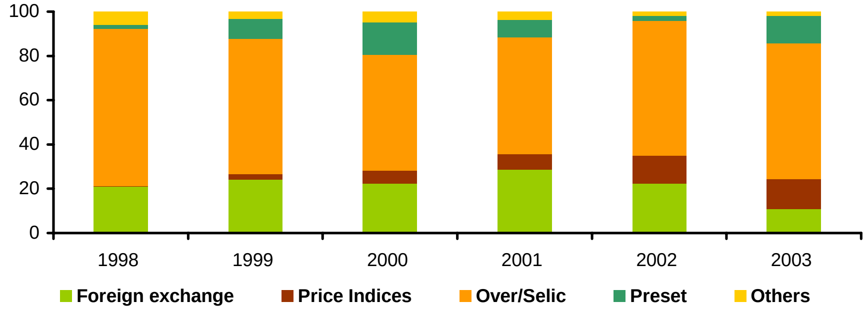
In December 2003, the amortization schedule of the securities debt on the market registered the following configuration: R$244.2 billion, 33.4% of the total, with maturity in 2004; R$180.5 billion, 24.7%, in 2005; and R$307.3 billion, 42%, to mature as of January 2006.

Table 4.8 – Federal public securities

Percentage share by indexator – Portfolio position

Index numbers	2000	2001	2002	2003
Total - R$ million	510 698	624 084	623 191	731 858
Foreign exchange	22.3	28.6	22.4	10.8
Reference Rate (TR)	4.7	3.8	2.1	1.8
IGP-M	1.6	4.0	7.9	8.7
Over/Selic	52.2	52.8	60.8	61.4
Preset	14.8	7.8	2.2	12.5
Long-term Interest Rate (TJLP)	0.0	0.0	0.0	0.0
IGP-DI	4.4	3.0	3.1	2.4
INPC	0.0	0.0	0.0	0.0
IPCA	-	-	1.5	2.4
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Graph 4.1
Federal public securities
Participation by indexing factor



The median duration of the federal public securities issued by Banco Central and the National Treasury in public offers came to 10.85 months in December 2003, compared to 11.35 months in December 2002. Broken down by issuer, the median duration came to 15.35 months for Banco Central securities and 10.59 months for National Treasury papers.

Total exposure in exchange swap operations carried out up to December 2003 came to R$82.3 billion. Based on the accrual criterion, the result of these operations accumulated in the year, understood as the difference between the profitability of DI and exchange growth plus coupon, was favorable to Banco Central by a margin of R$17.6 billion. In the cash criterion, the favorable results accumulated in the year totaled R$15.6 billion.

Net public sector debt

The net public sector debt totaled R$913.1 billion or 58.74% of GDP in December 2003, compared to R$881.1 billion or 55.5% of GDP, in December 2002.

Analyzing the major factors that conditioned growth of 3.24 p.p. in the net debt/GDP ratio in 2003, borrowing requirements accounted for an increase of 5.08 p.p.; growth in the parity of the basket of currencies underlying the net external debt, for 1.08 p.p.; debt recognition, for 0.04 p.p.; and the effect of valued GDP growth, for 1.18 p.p.. On the other hand, the impact of accumulated exchange appreciation in the year contributed to a reduction equivalent to 4.14 p.p.

The general government's gross debt, which includes the federal government, state governments and municipal governments, came to R$1,228.6 billion, or 79% of GDP, in December 2003, compared to R$1,132.9 billion or 71.4% of GDP, in December 2002.

Table 4.9 – Public sector net debt growth

Itemization	2000		2001	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	563 163	48.8	660 867	52.6
Net debt – Growth accumulated in the year	46 586	0.1	97 704	3.9
Conditioning factors (flows accumulated in the year):1/	46 586	4.0	97 704	7.8
Public sector borrowing requirements	39 806	3.4	42 789	3.4
Primary	- 38 157	-3.3	- 43 655	-3.5
Nominal interest	77 963	6.8	86 443	6.9
Cambial adjustment2/	18 345	1.6	37 814	3.0
Domestic securities debt indexed to exchange rate3/	9 479	0.8	19 182	1.5
External debt	8 866	0.8	18 633	1.5
External debt adjustment – Others	0	0.0	- 383	0.0
Acknowledgement of debt	8 672	0.8	18 465	1.5
Privatizations	- 20 238	-1.8	- 980	-0.1
GDP Growfh effect – Debt4/		-3.9		-3.9
GDP accumulated in 12 months – Valued5/	1 154 561		1 255 658	

(continues)

Table 4.9 – Public sector net debt growth (concluded)

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	881 108	55.5	913 146	58.7
Net debt – Growth accumulated in the year	220 241	2.9	32 037	3.2
Conditioning factors (flows accumulated in the year):1/	220 241	13.9	32 037	2.1
Public sector borrowing requirements	61 614	3.9	79 030	5.1
Primary	- 52 390	-3.3	- 66 173	-4.3
Nominal interest	114 004	7.2	145 203	9.3
Exchange adjustment2/	147 225	9.3	- 64 309	-4.1
Domestic securities debt indexed to exchange rate3/	76 662	4.8	- 22 715	-1.5
External debt	70 564	4.4	- 41 594	-2.7
External debt adjustment – Others	753	0.0	16 712	1.1
Acknowledgement of debt	14 286	0.9	604	0.0
Privatizations	- 3 637	-0.2	0	0.0
GDP Growth effect – Debt4/		-11.0		1.2
GDP in R$ million5/	1 587 670		1 554 625	

1/ Net accumulated debt growth as percentage of GDP when considering all factors taken together GDP, divided by the current GDP accumulated in the last 12 month period valuated, calculated by the formula: (∑CondictioningFactors/GDPAccumulatedIn12Months)*100. Not reflecting debt growth as percentage of GDP.

2/ Indicates the sum of the monthly impacts up to the reference month.

3/ Includes adjustment of rate between the basket of currencies composing international reserves and the external debt as well as other adjustments in the external area.

4/ It takes into account the change in the ratio debt/GDP due to growth observed in GDP, calculated by the formula: Dt-1/(PIB present month/PIB base month)-Dt-1.

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

Table 4.10 – Net debt of the public sector

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Fiscal net debt (F=D-E)	573 531	36.1	652 560	42.0
Internal debt adjustment (E)	152 076	9.6	129 361	8.3
Fiscal net debt with exchange devaluation (E=A-B-C-D)	725 606	45.7	781 921	50.3
External debt adjustment (D)	126 590	8.0	101 708	6.5
Inventory adjustment (C)	92 640	5.8	93 245	6.0
Privatization adjustment (B)	- 63 729	-4.0	- 63 729	-4.1
Total net debt (A)	881 108	55.5	913 145	58.7
Federal government	566 734	35.7	584 544	37.6
Banco Central do Brasil	- 5 906	-0.4	- 5 796	-0.4
States	257 986	16.2	278 016	17.9
Local governments	34 992	2.2	38 703	2.5
State enterprises	27 302	1.7	17 678	1.1
Domestic debt	654 312	41.2	726 688	46.7
Federal government	310 003	19.5	365 776	23.5
Banco Central do Brasil	53 235	3.4	52 694	3.4
States	239 578	15.1	261 587	16.8
Local governments	32 092	2.0	36 098	2.3
State enterprises	19 404	1.2	10 533	0.7
External debt	226 796	14.3	186 458	12.0
Federal government	256 732	16.2	218 767	14.1
Banco Central do Brasil	- 59 141	-3.7	- 58 490	-3.8
States	18 408	1.2	16 429	1.1
Local governments	2 900	0.2	2 605	0.2
State enterprises	7 897	0.5	7 146	0.5
GDP in R$ million1/	1 587 670		1 554 625	

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

Social Security

The General Social Security System (RGPS) registered a nominal deficit of R$26.4 billion in 2003, based on the difference between the net inflow, excluding transfers to third parties, which came to R$80.7 billion, and outlays on social security benefits in an overall amount of R$107.1 billion.

In real values, deflated by the INPC, the deficit came to R$27 billion, with growth of 33.6% in relation to 2002. Growth in the deficit was impacted by a 2.6% inflow reduction, which came to R$82.7 billion, accompanied by an increase of 4.4% in outlays on benefits, which totaled R$109.7 billion.

Table 4.11 – Gross and net government debt[1/]

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Net public debt	881 108	55.5	913 145	58.7
Net general government debt	859 712	54.1	901 263	58.0
Gross general government debt	1 132 894	71.4	1 228 569	79.0
Internal gross debt	848 570	53.4	987 116	63.5
Foreign gross debt	284 324	17.9	241 453	15.5
Federal government	263 016	16.6	222 418	14.3
State government	18 408	1.2	16 429	1.1
Local government	2 900	0.2	2 605	0.2
Assets of general government	- 273 182	- 17.2	- 327 306	- 21.1
Internal assets	- 266 898	- 16.8	- 323 655	- 20.8
Available assets of general government	- 104 513	- 6.6	- 136 461	- 8.8
Investment of social security system	- 876	- 0.1	- 860	- 0.1
Tax collected (not transferred)	- 1 144	- 0.1	- 1 587	- 0.1
Demand deposits	- 4 528	- 0.3	- 4 371	- 0.3
Available assets of fed. govern. in Banco Central	- 88 527	- 5.6	- 120 190	- 7.7
Investment in the banking system (states)	- 9 438	- 0.6	- 9 454	- 0.6
Investment in funds and financial programs	- 38 847	- 2.4	- 58 132	- 3.7
Credits with public enterprises	- 32 613	- 2.1	- 29 215	- 1.9
Other federal government's credits	- 23 791	- 1.5	- 25 624	- 1.6
Laborer assistance fund (FAT)	- 67 133	- 4.2	- 74 223	- 4.8
Foreign credits	- 6 284	- 0.4	- 3 651	- 0.2
Federal government	- 6 284	- 0.4	- 3 651	- 0.2
State government	-	-	-	-
Local government	-	-	-	-
Banco Central net debt	- 5 906	- 0.4	- 5 796	- 0.4
Public enterprises net debt	27 302	1.7	17 678	1.1
GDP in R$ million[2/]	1 587 670		1 554 625	

1/ Includes federal, state and local government debt, with other economic agents, including the Banco Central.
2/ GDP of the last 12 months, at prices of month indicated. Centered IGP-DI deflator (geometirc mean of IGP-DI variation in the month and in the following month.

The inflow performance reflected negative growth of 1.3% in current revenues, which closed at R$83.4 billion, and 17.9% in resources originating in measures taken to recover social security credits, in a total amount of R$5.6 billion.

The performance of current revenues reflected reductions of 2.6% in inflows from the business sector in general and 16.5% in inflows from individual persons, corresponding to totals of R$57.7 billion and R$4 billion, respectively.

Table 4.12 – Social Security – Cash flow

R$ million

Itemization	2001 (a)	2002 (b)	2003 (c)	Change % (b)/(a)	Change % (c)/(b)
Revenues	88 172	105 032	122 227	19.1	16.4
Banking inflow	66 997	76 080	86 588	13.6	13.8
Other revenues	635	361	602	- 43.1	66.8
Revenue anticipation	- 3	2 939	- 3 238	-	-
Federal government transfers	20 543	25 652	38 275	24.9	49.2
Expenditures	88 033	102 145	123 359	16.0	20.8
Social security benefits	75 329	88 029	107 135	16.9	21.7
Non-social security benefits	3 368	4 083	5 062	21.2	24.0
Other expenditures	4 830	4 980	5 304	3.1	6.5
Transfers to third parties	4 506	5 053	5 857	12.1	15.9
Cash result	139	2 887	- 1 131	...	...
Social Security balance	- 12 838	- 17 002	- 26 405	...	...
Ratio benefit/banking inflow[1/]	1.1	1.2	1.2	...	...

Source: Ministério da Previdência e Assistência Social

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

The business inflows accounted for approximately 69% of total current revenues in 2003. The downward trend that marked the last two years was basically a result of sluggish economic activity.

With respect to the inflow from individual persons, the negative result was impacted by job market performance, which registered a decline of 9.9% in the real median earnings of registered workers, who constitute the contribution base of the social security system. These figures refer to 2003 and were drawn from the IBGE Monthly Employment Survey.

Among the other headings included in current revenues, mention should be made of the “Simples” involving the contribution of employees of companies that have opted for this system. This inflow registered growth of 24.9%, closing with a total of R$2.7 billion, while the inflow originating in rural producers, at the time of marketing, closed with R$1.7 billion, for growth of 16.3% in relation to 2002.

The reduction in revenues originating in measures aimed at recovering system credits was due to maturation of several older measures and a halt in the issue of new measures for purposes of replanning.

In 2003, inflows from urban and rural areas totaled R$79.8 billion and R$2.9 billion, respectively. In relation to benefits, a breakdown of the total amount paid (R$109.7 billion) indicates that R$88.6 billion were paid in urban areas and the remainder in rural areas. Consequently, the ratio between the net inflow and benefit payments in urban areas was more balanced than in rural areas or, in other words, while net inflows covered 90.1% of total benefits paid in urban areas, coverage in rural areas came to only 13.8%.

However, it should be stressed that, as of 2002, the urban inflow has been declining, principally as a result of the shrinkage of the formal labor market. Consequently, this has created a lag between revenues and benefit payments. This is evident in the fact that, in 2002, outlays surpassed revenues by R$2.5 billion, while this difference came to R$8.8 billion in 2003.

On the expenditure side, growth in outlays on benefits was mostly due to the impact of adjustments of 20% in the minimum wage and 19.7% in other benefits, resulting in overall growth in the stock of benefits granted.

In 2003, the Social Security System paid an average of 21.4 million benefits, with growth of 4% in relation to the average for the previous year. Of this total, 12 million consisted of retirement benefits and 5.4 million of death pensions, with respective growth rates of 3.1% and 2.7%. With regard to the other benefits paid, growth came to 27.5% under social security illness assistance and 18.1% under assistance to the elderly.

The median value of the benefits granted in 2003 came to R$433.17, for an increase of 0.85%. New benefits granted came to 3.6 million, for a reduction of 8.3% compared to 2002, when atypical growth occurred in the granting of benefits. This growth had been interrupted as a result of a strike by INSS workers toward the end of 2001.