



## Public Finance

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### Budget, fiscal and tax policies

On January 22, 2007, the federal government announced a series of institutional measures designated the Growth Incentive Program (PAC). This is a strategic plan aimed at recovering the nation's infrastructure and increasing the pace of economic growth over a four-year horizon. Of the 27 institutional measures included in the PAC, 18 were approved by Congress in 2007, while an additional nine dealing with long-term policies remained before that body. The latter group involves such issues as the minimum wage; improvement in Social Security management; limits on federal government personnel and payroll charges; the complementary pension fund program for federal civil servants; alterations in the law governing competitive tenders; the law on gas; regulatory agencies; the Brazilian System in Defense of Competition; and distribution of responsibilities in environmental questions.

The major PAC actions can be summarized into the following categories:

- a) infrastructure investments: increase in the resources channeled into investments backed by the Pilot Investment Project (PPI) in 2007; forecast investments in the logistics, energy and social infrastructures totaling R\$504 billion in the 2007-2010 period;
- b) credit and financing incentives: credit granted to the Federal Savings Bank (CEF) to be used in basic sanitation and housing programs; expansion in the public sector credit limit for investments in environmental sanitation and housing; creation of the Infrastructure Investment Fund based on FGTS resources; and increase in the liquidity of the Residential Lease Fund;
- c) improvement in the investment environment: opening of the reinsurance market (Law no. 126, dated January 15, 2007); approval of the regulatory framework for the sanitation sector (Law no. 11,445, dated January 5, 2007); and re-creation of Sudene and Sudam (Laws no. 124 and no. 125, dated January 3, 2007);
- d) reductions and improvements in the Tax System: tax exemption for the Digital TV Sector Incentive Program and the Semiconductor Sector Incentive Program; accelerated recovery of credits under the Social Integration Program (PIS)/Contribution to Social Security Financing (Cofins) referring to investments in buildings; suspension of PIS/Cofins on new infrastructure projects; elimination of taxation on purchases of steel profiles; lengthening of the period permitted for

- deposit of Social Security contributions; and creation of the Federal Revenue Secretariat of Brazil (RFB);
- e) long-term fiscal measures: control of personnel expenditures; valuation of the minimum wage; improvements in Social Security management; extinction of federal government companies in liquidation; and institution of the complementary pension fund for federal civil servants.

The PAC Management Committee was instituted on January 22, 2007 by Decree no. 6,025, dated January 22, 2007, and charged with releasing information every four months on the progress of the activities supported by the program. In December 2007, 62% of the 2,126 activities monitored by the Committee were classified as underway and 38% were in the stage of project design, licensing or bidding procedures.

In 2007, the federal government targeted R\$16.5 billion from the General Federal Budget into PAC investments. Of this total, R\$16 billion were allocated or, in other words, committed to specific activities by December 31. Payments made during the fiscal year totaled R\$7.3 billion, including R\$4.5 billion in outlays referring to that fiscal year and R\$2.8 billion in outlays from previous years, corresponding to 70% of the remaining amounts to be paid.

On September 20, 2007, the National Congress promulgated Constitutional Amendment no. 55, raising the federal government share of resources targeted to the Municipal Revenue Sharing Fund of Municipalities (FPM) by 1 p.p. to a level of 23.5%. It should be stressed that additional onlendings consequent upon this measure and estimated at R\$2 billion annually will be made in a single lump sum amount in the first 10 days of December of each year.

On December 20, 2007, Constitutional Amendment no. 56 extended the validity of the Release of Federal Government Resources Entitlements (DRU) from December 31, 2007 until December 31, 2011. This is a mechanism designed to reduce budget and financial rigidity, making it possible to rechannel a share of federal budget revenues. It is estimated that, in 2008, the DRU will make it possible to convert approximately R\$48 billion in revenues into ordinary resources or, in other words, resources that can be freely reprogrammed.

## Other economic policy measures

Approved on March 16, 2007, Law no. 11,457 authorized unification of the Federal Revenue Secretariat with the Social Security Revenue Secretariat, giving rise to the RFB. The structure of the new direct administration entity, subordinated to the Ministry of Finance, is expected to enhance the efficiency of federal tax management,

while simplifying collection and inspection processes, and reinforcing efforts against tax evasion.

## Public sector borrowing requirements

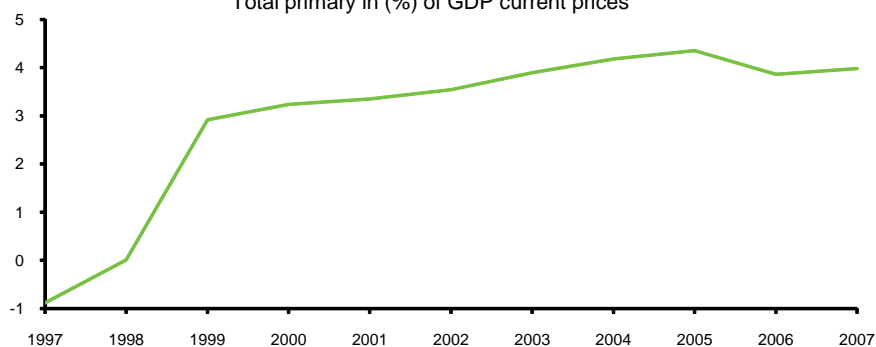
In 2007, the nonfinancial public sector registered a primary surplus of R\$101.6 billion, corresponding to 3.98% of GDP. This result reflected growth of 0.12 p.p. of GDP compared to the final 2006 figure. The Central Government posted a surplus of R\$59.4 billion, 2.33% of GDP, followed by regional governments with R\$29.9 billion, 1.76% of GDP, and state-owned companies with R\$12.2 billion, 0.48% of GDP.

**Table 4.1 – Public sector borrowing requirements**

Itemization	2004		2005	
	R\$ million	% of GDP <sup>1/</sup>	R\$ million	% of GDP <sup>1/</sup>
Nominal	47 144	2.4	63 641	3.0
Central government <sup>2/</sup>	27 033	1.4	73 284	3.4
States	27 497	1.4	4 755	0.2
Local governments	6 485	0.3	661	0.0
State enterprises	-13 872	-0.7	-15 060	-0.7
Primary	-81 112	-4.2	-93 505	-4.4
Central government <sup>2/</sup>	-52 385	-2.7	-55 741	-2.6
State governments	-16 060	-0.8	-17 194	-0.8
Local governments	-1 422	-0.1	-4 129	-0.2
State enterprises	-11 245	-0.6	-16 440	-0.8
Nominal interest	128 256	6.6	157 146	7.3
Central government <sup>2/</sup>	79 419	4.1	129 025	6.0
State governments	43 558	2.2	21 949	1.0
Local governments	7 906	0.4	4 790	0.2
State enterprises	-2 626	-0.1	1 381	0.1

(continues)

Graph 4.1  
**Public sector borrowing requirements**  
Total primary in (%) of GDP current prices



Reflecting the positive performance of National Treasury revenues which expanded 14% compared to 2006, Central Government revenues increased 0.95 p.p. of GDP in 2007, closing at R\$618.9 billion. To a great extent, the positive performance registered in the period under consideration reflected growth in Corporate Income Tax (IRPJ) revenues, with 25.1%, together with a 23% increase in the Social Contribution on Net Corporate Profits (CSLL). These results were consistent with the higher levels of profitability registered in various segments of economic activity and the increase in the number of companies that have opened their capital on the stock exchange. Among the factors underlying the strong growth registered by these revenues, mention should be made of increased inflows of Cofins, PIS/Civil Service Asset Formation Program (Pasep) and the Industrialized Products Tax (IPI), coupled with a 31.8% increase in the dollar value of taxed imports and a R\$5.1 billion increase in payments of the Individual Income Tax (IRPF).

**Table 4.1 – Public sector borrowing requirements** (concluded)

Itemization	2006		2007	
	R\$ million	% of GDP <sup>1/</sup>	R\$ million	% of GDP <sup>1/</sup>
Nominal	69 883	3.0	57 926	2.3
Central government <sup>2/</sup>	74 475	3.2	59 607	2.3
States	13 740	0.6	10 335	0.4
Local governments	2 867	0.1	2 369	0.1
State enterprises	-21 199	-0.9	-14 385	-0.6
Primary	-90 144	-3.9	-101 606	-4.0
Central government <sup>2/</sup>	-51 352	-2.2	-59 439	-2.3
State governments	-16 370	-0.7	-25 998	-1.0
Local governments	-3 345	-0.1	-3 936	-0.2
State enterprises	-19 077	-0.8	-12 234	-0.5
Nominal interest	160 027	6.9	159 532	6.3
Central government <sup>2/</sup>	125 827	5.4	119 046	4.7
State governments	30 110	1.3	36 333	1.4
Local governments	6 212	0.3	6 305	0.2
State enterprises	-2 121	-0.1	-2 152	-0.1

<sup>1/</sup> Current prices.

<sup>2/</sup> Federal Government, Central Bank and National Social Security Institute.

Central Government spending totaled R\$561 billion, for growth of 13.4% in 2007, representing 22% of GDP as against 21.2% in the previous year. Of this total, R\$373.6 billion corresponded to National Treasury outlays; R\$185.3 billion to Social Security charges; and R\$2 billion to primary outlays for which the Central Bank of Brazil is liable.

Outlays on personnel and payroll charges, including active, inactive and retired civil servants, totaled R\$116.4 billion in 2007, 4.56% of GDP, compared to R\$105.5 billion, 4.52% of GDP, in 2006. This evolution was viewed as natural payroll growth caused by increased spending generated by the restructuring of civilian and military public

sector careers and wages. In the period under consideration, it is important to stress a reduction of 14% in total payments made to civil servants as a result of judicial decisions.

**Table 4.2 – Central government primary result**

Itemization	R\$ million				
	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	488 376	543 505	618 872	11,3	13,9
National Treasury	378 550	418 412	477 140	10,5	14,0
Social security	108 433	123 522	140 412	13,9	13,7
Central Bank	1 393	1 571	1 320	12,8	-16,0
Total expenditures	435 561	494 616	561 046	13,6	13,4
National Treasury	287 844	327 289	373 791	13,7	14,2
Transfers to states and municipalities	83 938	92 779	105 604	10,5	13,8
Personnel and social charges	92 231	105 497	116 373	14,4	10,3
Other current and capital expenditures	111 121	128 315	151 293	15,5	17,9
Worker Support Fund	11 900	15 299	18 472	28,6	20,7
Subsidies and economic subventions	10 333	9 581	10 021	-7,3	4,6
Loas/RMV	9 253	11 639	14 192	25,8	21,9
Investments	-	17 481	22 109	-	26,5
Other current expenditures	79 635	74 316	86 499	-6,7	16,4
National Treasury onlendings to the Central Bank	554	697	521	25,8	-25,3
Social security	146 010	165 586	185 291	13,4	11,9
Central Bank	1 707	1 741	1 964	2,0	12,8
Central government result <sup>1/</sup>	52 815	48 889	57 826	-7,4	18,3
National Treasury	90 706	91 123	103 349	0,5	13,4
Social security	-37 577	-42 064	-44 879	11,9	6,7
Central Bank	-314	-170	-644	-45,9	278,8
Primary result/GDP – %	2,5	2,1	2,3	-	-

Source: Ministério da Fazenda/STN

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

Current expenditures and capital outlays reached R\$151.3 billion in 2007, raising their participation in GDP from 5.5% in 2006 to 5.93%. This performance reflected increases in outlays on investments, R\$4.6 billion, together with greater spending through the Worker Support Fund (FAT), R\$3.2 billion, and through Social Assistance Law (Loas/RMV), R\$2.6 billion, both of which reflected real growth in the minimum wage.

Spending allocated under other current and capital outlays moved from R\$91.8 billion in 2006 to R\$108.6 billion in 2007, a pace considered consistent with expanded outlays through the PPI, 86.2%, and discretionary spending, including other investment outlays, with 13.9%. It should be stressed that total investment spending expanded 26.5% in 2007, while Ministry of Health discretionary spending reached R\$2 billion, the largest volume of growth in the period.

One should emphasize that the major factors responsible for growth in the primary result of regional governments in 2007 were the 9.1% increase in the inflow of the Tax on the Circulation of Merchandise and Services (ICMS), and the 13.8% rise in the volume of constitutional transfers. These two items are the major revenue sources of that government level. It is important to highlight that constitutional transfers moved from R\$92.8 billion in 2006 to R\$105.6 billion in 2007, reflecting the increase in tax inflows shared with the states (Income Tax and IPI).

Nominal interest appropriated on an accrual basis totaled R\$159.5 billion in 2007, corresponding to 6.25% of GDP, compared to 6.86% of GDP in 2006. This reduction resulted from the downward trajectory registered by the Selic rate over the course of the year. Compared to 2006, the impact of the 3.2 p.p. reduction in the cumulative Selic rate during the year was partially offset by growth in the participation of fixed rate securities in the Public Sector Net Debt (PSND). On the one hand, this movement reduces the volatility and long-term cost of the PSND, while, on the other hand, generating a less intense process of incorporation of interest in periods in which basic interest rates follow a downward curve, particularly when one considers that the rates practiced at the moment of issuance are carried through to maturity.

**Table 4.3 – Uses and sources – Consolidated public sector**

Itemization	2006		2007	
	R\$ million	% of GDP	R\$ million	% of GDP
Uses	69 883	3.0	57 926	2.3
Primary	-90 144	-3.9	-101 606	-4.0
Internal interest	152 116	6.5	160 516	6.3
Real interest	117 290	5.0	71 381	2.8
Monetary updating	34 825	1.5	89 135	3.5
External interest	7 911	0.3	-984	-0.0
Sources	69 883	3.0	57 926	2.3
Internal borrowing	183 364	7.9	266 564	10.4
Securities debt	155 060	6.6	239 424	9.4
Banking debt	7 365	0.3	-2 169	-0.1
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	20 940	0.9	29 309	1.1
Relationship TN/Bacen	-	-	-	-
External borrowing	-113 482	-4.9	-208 638	-8.2
GDP flows in 12 months <sup>1/</sup>	2 332 936		2 552 510	

<sup>1/</sup> GDP at current prices.

In the nominal concept, which includes the primary surplus and appropriated nominal interest, public sector borrowing requirements posted a deficit of R\$57.9 billion in the year, equivalent to 2.27% of GDP, the lowest ratio since the series was first calculated in 1991. The Central Government and regional governments registered reductions in their borrowing requirements, compared to the previous year, with a drop of 0.85 p.p. and 0.21 p.p. of GDP, respectively. Parallel to this, state-owned companies, which have traditionally registered surpluses, showed a reduction of 0.35 p.p. in their surplus positions. The overall result was financed mainly through expansion of the securities debt, while external financing followed the downward trajectory begun in 2003.

## Federal securities debt

Evaluated according to the portfolio position, the federal securities debt outside the Central Bank reached R\$1,224.9 billion, 45.5% of GDP, at the end of 2007, against R\$1,093.5 billion, 45.8% of GDP, at the close of the previous year. The 0.3 p.p. of GDP reduction reflected net redemptions of R\$11.4 billion, interest incorporations of R\$145.2 billion and a reduction of R\$2.4 billion resulting from exchange appreciation and 17.2% valuation of dollar-indexed securities.

**Table 4.4 – Federal securities – Portfolio position**

Balances in R\$ million					
Itemization	2003	2004	2005	2006	2007
National Treasury liabilities	978 104	1 099 535	1 252 510	1 390 694	1 583 871
Central Bank portfolio	276 905	302 855	279 663	297 198	359 001
LTN	101 376	126 184	119 323	164 989	158 748
LFT	99 646	117 405	120 270	72 737	78 955
NTN	74 026	57 275	36 823	59 472	121 298
Securitized credits	1 857	1 990	3 247	0	0
Outside the Central Bank	701 199	796 680	972 847	1 093 495	1 224 871
LTN	91 055	159 960	263 436	346 984	325 149
LFT	443 180	457 757	504 653	412 034	409 024
BTN	74	62	48	39	27
NTN	126 721	133 700	167 379	296 598	451 132
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	18 236	17 343	15 799	14 532	13 903
Securitized credits	15 001	21 103	16 555	17 793	20 777
Agrarian debt	4 879	4 345	1 529	1 302	0
TDA	2 052	2 411	3 448	4 213	4 859
CDP	1	0	0	0	0
Central Bank liabilities	30 659	13 584	6 815	0	0
LBC	-	-	-	-	-
BBC/BBCA	-	-	-	-	-
NBCE	30 659	13 584	6 815	0	0
NBCF	-	-	-	-	-
NBCA	-	-	-	-	-
Outside the Central Bank – Total	731 858	810 264	979 662	1 093 495	1 224 871
In % of GDP	42.0	39.8	45.4	45.8	45.5

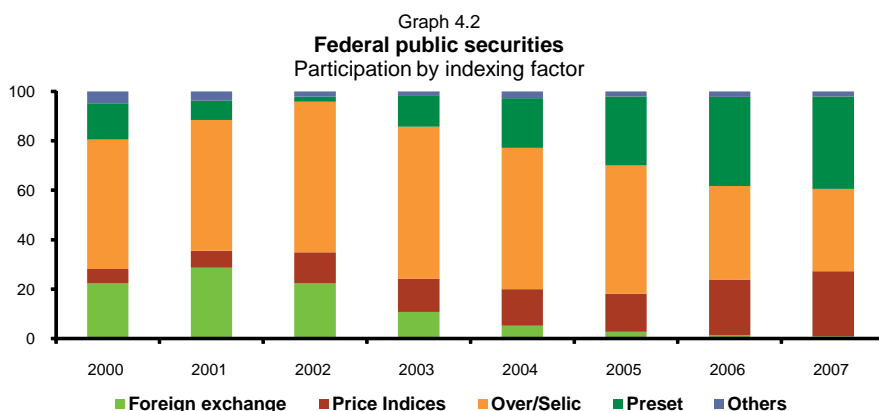
In December 2007, National Treasury securities totaled R\$1,583.9 billion, of which R\$359 billion were held by the Central Bank and R\$1,224.9 billion were circulating on the market.

As regards distribution of securities by indexing factor, the participation of fixed-rate securities increased from 36.1% of the total in December 2006 to 37.3% in December 2007, reflecting net issuances of NTN-F. The participation of securities indexed to the Selic rate moved from 37.8% to 33.4% as a consequence of net LFT redemptions. The share of securities linked to the exchange rate dropped from 1.3% to 0.9% as a result of continued redemptions of National Treasury Notes – Series D (NTN-D) and appreciation of the real against the United States dollar. At the same time, the share indexed to the TR dropped from 2.2% to 2.1%. The participation of inflation-linked securities expanded 3.7 p.p. in the year, reflecting net issuances of NTN-B, closing at 26.3%.

**Table 4.5 – Federal public securities**

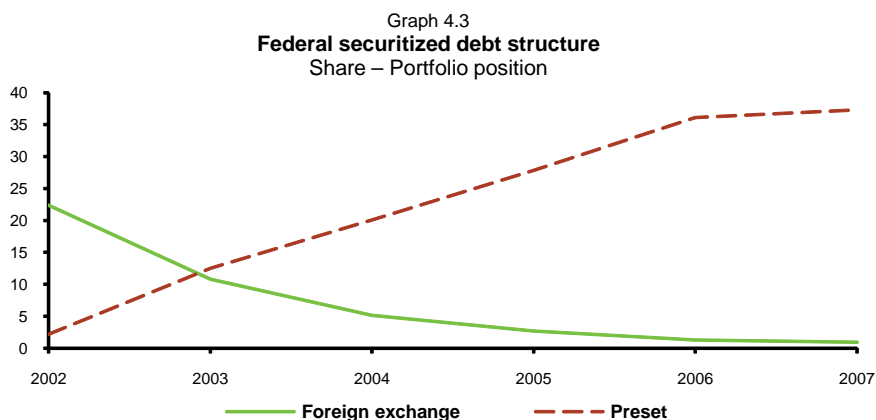
Percentage share by indexator – Portfolio position

Index numbers	2003	2004	2005	2006	2007
Total – R\$ million	731 858	810 264	979 662	1 093 495	1 224 871
Foreign exchange	10,8	5,2	2,7	1,3	0,9
Reference Rate (TR)	1,8	2,7	2,1	2,2	2,1
IGP-M	8,7	9,9	7,5	6,0	4,6
Over/Selic	61,4	57,1	51,8	37,8	33,4
Preset	12,5	20,1	27,9	36,1	37,3
Long-term Interest Rate (TJLP)	0,0	0,0	0,0	0,0	0,0
IGP-DI	2,4	1,8	1,1	0,9	0,7
INPC	0,0	0,0	0,0	0,0	0,0
IPCA	2,4	3,1	6,9	15,6	21,0
Others	0,0	0,0	0,0	0,0	0,0
Total	100,0	100,0	100,0	100,0	100,0





At the end of December, the amortization schedule of the securities debt on the market – excluding financing operations – showed the following distribution: R\$333.8 billion, 27.2% of the total, maturing in 2008; R\$247.5 billion, 20.2% of total, maturing in 2009; and R\$643.7 billion, 52.6% of total, maturing as of January 2010.



In 2007, Central Bank swap operations resulted in greater exposure in the reverse sense, closing December at -R\$39.6 billion, compared to -R\$26.2 billion at the end of 2006. Viewed in terms of the cash criterion, the cumulative overall 2007 result of these operations generated a negative impact of R\$8.8 billion on the Central Bank, equivalent to the difference between Interbank Deposit (DI) profitability and exchange variation plus coupon.

## Public Sector Net Debt

The objective of fiscal policy remained focused on achieving a consistent reduction in the ratio between public sector indebtedness and GDP. In this framework, the Public Sector Net Debt (PSND), expressed as a proportion of GDP, dropped 1.94 p.p. in 2007, compared to the previous year. Thus, the downward trend observed in recent years was maintained, falling to the lowest level since 1998, with 42.7%.

The PSND profile showed substantial alterations in 2007, particularly in terms of broadening the creditor share tied to exchange. In this sense, the creditor balance in the level of exchange participation in PSND since mid-2006 expanded in 2007, as a result of the increased volume of international reserves built during the year. Parallel to this, the participation of fixed rate and inflation-linked securities in total PSND also increased, reflecting a scenario marked by greater administrative flexibility, should any type of internal or external turbulence occur. One should further stress that, as regards the federal securities debt, which is the major component of PSND, the increase in the average maturities of securities issued was fully consistent with the management guidelines defined by the federal government in its borrowing plans.

**Table 4.6 – Public sector net debt growth**

Itemization	2004		2005	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	956 996	47,0	1 002 485	46,5
Net debt – Growth accumulated in the year	43 851	-5,5	45 488	-0,5
Conditioning factors (flows accumulated in the year): <sup>1/</sup>	43 851	2,0	45 488	2,1
Public sector borrowing requirements	47 144	2,2	63 641	2,9
Primary	- 81 112	-3,8	- 93 505	-4,3
Nominal interest	128 256	5,9	157 146	7,3
Exchange adjustment <sup>2/</sup>	- 16 193	-0,8	- 18 202	-0,8
Domestic securities debt indexed to exchange rate <sup>3/</sup>	- 3 335	-0,2	- 4 554	-0,2
External debt	- 12 858	-0,6	- 13 648	-0,6
External debt adjustment – Others	7 137	0,3	- 2 258	-0,1
Acknowledgement of debt	6 516	0,3	3 262	0,2
Privatizations	- 753	0,0	- 954	0,0
GDP Growth effect – Debt <sup>4/</sup>		-7,5		-2,6
GDP accumulated in 12 months – Valued <sup>5/</sup>	2 036 727		2 157 439	

(continues)

**Table 4.6 – Public sector net debt growth (concluded)**

Itemization	2006		2007	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	1 067 363	44,7	1 150 357	42,8
Net debt – Growth accumulated in the year	64 879	-1,8	82 994	-1,9
Conditioning factors (flows accumulated in the year) <sup>1/</sup>	64 879	2,7	82 994	3,1
Public sector borrowing requirements	69 883	2,9	57 926	2,2
Primary	-90 144	-3,8	-101 606	-3,8
Nominal interest	160 027	6,7	159 532	5,9
Exchange adjustment <sup>2/</sup>	-4 881	-0,2	29 268	1,1
Domestic securities debt indexed to exchange rate	-2 222	-0,1	-2 432	-0,1
External debt	-2 659	-0,1	31 701	1,2
External debt adjustment – Others <sup>3/</sup>	2 302	0,1	-2 305	-0,1
Acknowledgement of debt	-375	-0,0	-630	-0,0
Privatizations	-2 049	-0,1	-1 265	-0,0
GDP Growth effect – Debt <sup>4/</sup>		-4,5		-5,0
GDP in R\$ million <sup>5/</sup>	2 386 999		2 689 259	

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 valued, calculated by the formula:

$(\sum \text{ConditioningFactors} / \text{GDPAccumulatedIn12Months}) * 100$ . 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:  $Dt-1 / (\text{PIB present month} / \text{PIB base month}) - Dt-1$ .

5/ Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the following month).

In December 2007, the gross debt of the General Government (federal government, National Social Security Institute – INSS and regional governments) reached R\$1,542.9 billion, 57.4% of GDP, against R\$1,336.6 billion, 56% of the GDP, in 2006.

**Table 4.7 – Public sector net debt**

Itemization	2006		2007	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt (G=E-F)	833 230	34.9	891 155	33.1
Internal debt methodological adjustment (F)	119 249	5.0	116 817	4.3
Fiscal net debt with exchange devaluation (E=A-B-C-D)	952 479	39.9	1 007 972	37.5
External debt methodological adjustment (D)	79 723	3.3	109 119	4.1
Asset adjustment (C)	102 646	4.3	102 016	3.8
Privatization adjustment (B)	-67 485	-2.8	-68 750	-2.6
Total net debt (A)	1 067 363	44.7	1 150 357	42.8
Federal government	727 319	30.5	808 095	30.0
Banco Central do Brasil	8 481	0.4	8 585	0.3
State governments	316 864	13.3	324 107	12.1
Local governments	47 073	2.0	49 216	1.8
State enterprises	-32 373	-1.4	-39 647	-1.5
Internal net debt	1 130 902	47.4	1 393 139	51.8
Federal government	591 211	24.8	703 662	26.2
Banco Central do Brasil	191 592	8.0	327 801	12.2
State governments	304 318	12.7	313 467	11.7
Local governments	45 139	1.9	47 525	1.8
State enterprises	-1 359	-0.1	684	0.0
Foreign net debt	-63 538	-2.7	-242 782	-9.0
Federal government	136 108	5.7	104 433	3.9
Banco Central do Brasil	-183 111	-7.7	-319 216	-11.9
State governments	12 545	0.5	10 641	0.4
Local governments	1 934	0.1	1 691	0.1
State enterprises	-31 015	-1.3	-40 330	-1.5
GDP in R\$ million <sup>1/</sup>	2 386 999		2 689 259	

<sup>1/</sup> Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the subsequent month).

**Table 4.8 – Gross and net government debt<sup>1/</sup>**

Itemization	2006		2007	
	R\$ million	% of GDP	R\$ million	% of GDP
Net public debt	1 067 363	44.7	1 150 357	42.8
Net general government debt	1 091 255	45.7	1 181 418	43.9
Gross general government debt	1 336 645	56.0	1 542 852	57.4
Internal gross debt	1 186 058	49.7	1 426 087	53.0
Foreign gross debt	150 587	6.3	116 764	4.3
Federal government	136 108	5.7	104 433	3.9
State government	12 545	0.5	10 641	0.4
Local government	1 934	0.1	1 691	0.1
Assets of general government	-465 221	-19.5	-533 018	-19.8
Internal assets	-465 221	-19.5	-533 018	-19.8
Available assets of general government	-247 406	-10.4	-305 568	-11.4
Investment of social security system	-231	-0.0	-284	-0.0
Tax collected (not transferred)	-1 204	-0.1	-1 011	-0.0
Demand deposits	-5 528	-0.2	-7 072	-0.3
Available assets of federal government in Banco Central	-226 047	-9.5	-275 843	-10.3
Investment in the banking system (states)	-14 396	-0.6	-21 358	-0.8
Investment in funds	-60 247	-2.5	-61 436	-2.3
Credits with public enterprises	-20 041	-0.8	-18 805	-0.7
Other federal government's credits	-14 877	-0.6	-18 793	-0.7
Worker assistance fund (FAT)	-122 650	-5.1	-128 417	-4.8
Foreign credits	0	0.0	0	0.0
Federal government	0	0.0	0	0.0
State government	-	-	-	-
Local government	-	-	-	-
Banco Central net debt	8 481	0.4	8 585	0.3
Public enterprises net debt	-32 373	-1.4	-39 647	-1.5
GDP in R\$ million <sup>2/</sup>	2 386 999		2 689 259	

1/ Includes federal, state and local government debt, with other economic agents, including the Banco Central.

2/ Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the following month).

## Federal tax and contribution inflow

Excluding Social Security contributions that are the responsibility of the INSS, the federal tax and contribution inflow totaled R\$448.9 billion in 2007, against R\$390.3 billion in the previous year. Using the IPCA as deflator, the 11% real increase registered in the year reflected both the enhanced dynamics of the economy in the period under consideration, and greater efficiency in recovering debts in arrears, while the rates and calculation bases of the various taxes remained unchanged.

**Table 4.9 – Gross federal revenues**

R\$ million					
Itemization	2005	2006	2007	Change %	
				(a)	(b)
Income Tax (IR)	124 520	136 503	160 139	9.6	17.3
Industrialized Products Tax (IPI)	26 428	28 159	33 793	6.5	20.0
Import Tax (II)	9 080	10 035	12 254	10.5	22.1
Financial Operations Tax (IOF)	6 103	6 772	7 834	11.0	15.7
Contribution to the Financing of the Social Security (Cofins)	87 615	91 156	102 463	4.0	12.4
Social Contrib. on the Profits of Legal Entities (CSLL)	26 199	27 968	34 411	6.8	23.0
Contribution to PIS/Pasep	22 014	24 045	26 710	9.2	11.1
Provisional Contribution on Financial Transactions (CPMF)	29 273	32 033	36 483	9.4	13.9
Contribution on Intervention in the Economic Domain (Cide)	7 681	7 812	7 937	1.7	1.6
Other taxes	21 769	25 804	26 917	18.5	4.3
<b>Total</b>	<b>360 682</b>	<b>390 287</b>	<b>448 941</b>	<b>8.2</b>	<b>15.0</b>

Source: Ministério da Fazenda/Receita Federal do Brasil

The 2007 income tax inflow totaled R\$160.1 billion, against R\$136.5 billion in the previous year. Real 13.2% growth in this case reflected across-the-board real revenue gains in the various tax segments, excluding payments on capital earnings. One should

**Table 4.10 – Income Tax and Industrialized Products Tax**

R\$ million					
Itemization	2005	2006	2007	Change %	
				(a)	(b)
Income Tax (IR)	124 520	136 491	160 137	9.6	17.3
Individuals	7 369	8 533	13 654	15.8	60.0
Corporate entities	51 225	55 849	69 856	9.0	25.1
Financial institutions	7 299	9 066	13 574	24.2	49.7
Other companies	43 926	46 782	56 316	6.5	20.4
Withholdings	65 926	72 109	76 627	9.4	6.3
Labor earnings	35 642	39 082	42 349	9.7	8.4
Capital earnings	19 853	20 890	21 421	5.2	2.5
Remittances abroad	6 160	7 393	7 800	20.0	5.5
Other earnings	4 271	4 744	5 057	11.1	6.6
Industrialized Products Tax (IPI)	26 428	28 159	33 806	6.5	20.1
Tobacco	2 304	2 397	2 803	4.0	16.9
Beverages	2 336	2 610	2 583	11.7	-1.0
Automotive vehicles	3 727	4 288	5 208	15.1	21.5
Other taxes	12 773	12 701	15 510	-0.6	22.1
Linked imports	5 288	6 163	7 702	16.5	25.0

Source: Ministério da Fazenda/Receita Federal do Brasil

highlight real growth of 54.2% in the IRPF inflow, mainly as a result of increased payments on capital gains generated by sales of durable goods, net gains in stock market operations and payments resulting from income tax returns for base year 2006.

The IRPJ and CSLL registered real increases of 20.6% and 18.6%, respectively, reflecting the increased number of companies that opened their capital on the stock market, together with higher levels of profitability in the various business segments.

Posting real growth of 15.7% compared to 2006, the IPI generated R\$33.8 billion. This result reflected favorable performances in most tax segments, particularly the IPI-automobiles, 17%, generated by increased domestic market sales; IPI-others, with 17.6%, resulting from expanded industrial output in 2007; and the IPI-imports, 20.6%, as a result of 31.8% growth in the dollar value of taxed imports.

The inflow of Cofins revenues, the second most important federal tax category, reached R\$102.5 billion, for real growth of 8.4% compared to the previous fiscal year. Payments effected by financial entities increased 11.4% in the period.

Parallel to this, the total inflow under other taxes, which includes the residual share of inflows administered by the Federal Revenue Secretariat and payments that are the responsibility of other public sector entities not encompassed by the “Federal Revenue System”, reached R\$27.5 billion, quite similar in real terms to the 2006 result. This figure was achieved notwithstanding increases in judicial/administrative deposits, lottery revenues and recovery of debts from previous fiscal years, as determined by Provisional Measure no. 303/2006.

## Social Security System

The General Social Security System (RGPS) deficit dropped from 1.8% of GDP in 2006 to 1.76% of GDP in 2007, an unprecedented occurrence in the recent history of the System. In nominal values, the deficit reached R\$44.9 billion, against R\$42.1 billion in the previous year.

In 2007, Social Security revenues expanded 13.7%, climbing to a level of R\$140.4 billion, corresponding to 5.5% of GDP, against 5.29% of GDP in the previous year. Annual growth in inflow reflected an expanded supply of formal employment opportunities and increased overall wages.

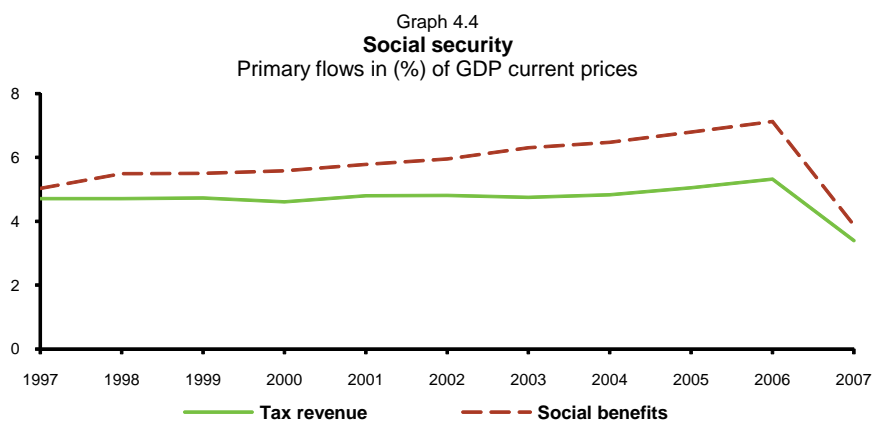
During the period under consideration, payments of Social Security benefits rose 11.9%, totaling R\$185.3 billion, 7.26% of GDP as compared to 7.1% of GDP in 2006. This growth reflected both the 5.8% increase registered in the average value of benefits paid as a result of the minimum wage increase and higher benefits for those receiving

more than the minimum wage, together with a 2.7% increase in the average number of monthly benefits paid, with a total of 576.8 thousand.

**Table 4.11 – Social Security – Cash flow**

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Revenues	172 713	201 757	216 486	16.8	7.3
Banking inflow	115 954	133 016	153 790	14.7	15.6
Other revenues	882	1 368	-377	55.1	-127.6
Revenue anticipation	10 324	-359	1 316	-	-
Federal government transfers	45 553	67 732	61 757	48.7	-8.8
Expenditures	171 796	200 507	221 941	16.7	10.7
Social security benefits	146 009	165 585	185 291	13.4	11.9
Non-social security benefits	10 001	12 332	15 014	23.3	21.7
Other expenditures	8 267	13 097	8 259	58.4	-36.9
Transfers to third parties	7 519	9 493	13 377	26.3	40.9
Cash result	917	1 250	-5 455	...	...
Social Security balance	-37 574	-42 062	-44 878	...	...

Source: Ministério da Previdência e Assistência Social



It should be stressed that, in recent years, average growth of outlays on benefits reached 0.24 p.p. of GDP, moving from 6.3% of GDP in 2003 to 7.26% of GDP in 2007.

With regard to the various segments of benefits paid in 2007, mention should be made of an additional 373.3 thousand retirement benefits, 146.8 thousand pensions paid as a result of the death of the principal beneficiary and 54.1 thousand illness assistance benefits, representing respective increases of 2.8%, 2.5% and 3.7%, compared to 2006.

## State and municipal finance

In 2007, the primary surplus of states and municipalities totaled R\$29.9 billion, against R\$19.7 billion in the previous year, representing 1.17% of GDP.

Inflow of the ICMS, the major source of revenues at the state level, reached R\$187.5 billion, for real growth of 3.8% in the year, using the IGP-DI as deflator. Here, one should stress that the overall inflow for the states of São Paulo, Minas Gerais, Rio de Janeiro, Rio Grande do Sul and Paraná represented 64.3% of this total.

**Table 4.12 – Payment of the Tax on the Circulation of Merchandise and Services (ICMS)**

R\$ million					
Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
São Paulo	51 001	57 788	63 192	13.3	9.4
Rio de Janeiro	13 396	14 805	15 671	10.5	5.9
Minas Gerais	15 638	17 018	19 318	8.8	13.5
Rio Grande do Sul	11 383	11 813	12 258	3.8	3.8
Paraná	8 760	9 264	10 086	5.8	8.9
Bahia	7 831	8 604	8 941	9.9	3.9
Santa Catarina	5 829	6 169	6 831	5.8	10.7
Goiás	4 224	4 699	5 244	11.2	11.6
Pernambuco	4 314	4 864	5 413	12.8	11.3
Espírito Santo	4 636	5 092	5 878	9.8	15.5
Other states	27 807	31 600	34 518	13.6	9.2
<b>Total</b>	<b>154 818</b>	<b>171 715</b>	<b>187 349</b>	<b>10.9</b>	<b>9.1</b>

Source: Ministério da Fazenda/Confaz

In the State of São Paulo, the tax inflow reached R\$63.2 billion, 33.7% of the total. The real increase of 4.1% compared to the previous year reflected both growth in payments tied to import operations, and to the vitality of economic activity in that state.

The state of Minas Gerais produced the second largest volume, with R\$19.3 billion. Annual real growth of 8% was linked to the performance of the segments of commerce, electrical energy, fuels and imported products. Broken down by segments, special mention should be made of growth in the production of sugar, 73%; vehicles, 58%; and minerals, 38.7%.

Transfers to states and municipalities totaled R\$105.6 billion in 2007, corresponding to 4.14% of GDP, compared to R\$92.8 billion, 3.98% of GDP, in the previous year. In this context one should stress the increase of R\$11.6 billion generated by the performance of the IR and IPI, both of which are used in calculating these transfers. Moving in the opposite direction, transfers related to the Export Compensation Fund (Complementary Law no. 87, dated September 13, 1996) – set aside for refunds of losses in ICMS



**Table 4.13 – Federal government onlendings to states and municipalities**

R\$ million					
Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Constitutional onlendings (IPI, IR and others)	63 756	70 628	82 239	10.8	16.4
Export Compensation Fund	4 757	4 343	3 888	-8.7	-10.5
Cide transfers	1 776	1 781	1 850	0.3	3.9
Others <sup>1/</sup>	13 648	16 028	17 628	17.4	10.0
<b>Total</b>	<b>83 937</b>	<b>92 780</b>	<b>105 605</b>	<b>10.5</b>	<b>13.8</b>

Source: Ministério da Fazenda/Secretaria do Tesouro Nacional

<sup>1/</sup> Contribution of education benefit, fund for the maintainance and development of the basic education and enhancement of the teaching career (Fundef), petrol royalties and other onlendings.

inflows caused by reductions in taxes on semi-manufactured and primary products – declined R\$400 million in the period under consideration. Other transfers increased R\$1.6 billion, reflecting growth of R\$1.7 billion in complementary federal payments to Fundeb and R\$500 million in Education Wage transfers, partially offset by the R\$600 million reduction in the quota share of financial compensation.