



Public Finance

Budget, fiscal and tax policy

The Annual Budget Law (LOA), for the 2008 fiscal year, was approved in March (Law no. 11,647 of 3.24.2008) and Decree no. 6,439, which set the budget and financial programming and the monthly schedule of disbursement to the organs of the Executive Branch, was released in April.

According to the Fiscal Responsibility Law, after the calculation of budget operations of each two-month period, a reassessment must be made of the estimated primary revenue and expenditure of mandatory enforcement, based on updated macroeconomic parameters. Thus, during the year other decrees were issued changing the initial financial programming, and in some opportunities, expenditure contingencies were made, and gradually suspended as revenue estimates were confirmed.

In January, two measures were announced in order to neutralize in part the loss of tax revenue due to the extinction of the Provisional Contribution on Financial Operations (CPMF), estimated at R\$40 billion. Provisional Measure (MP) no. 413, converted into Law no. 11,727, of June 6, 2008, increased the rate of Social Contribution on Net Corporate Profits (CSLL) at the expense of financial institutions, from 9% to 15%, while Decree no. 6,339 led to the rise in IOF rates levied on loans to individuals, and on foreign exchange and insurance transactions. It should be noted that the new IOF rates went into effect on the date of publication of the decree as the new CSLL rate was levied on profits arising from events that occurred as of 5.1.2008. The increase in revenues associated with these measures was estimated at R\$10billion.

MP no. 413, dated 2008, further provided on tax measures to stimulate investment and modernization of the tourism sector. For purposes of assessing the income tax data base, the corporate entity that operates the hotel business may use accelerated depreciation of movable properties of plant and equipment acquired as of January 4, 2008, until December 31, 2010, thus allowing the recognition of the cost of depreciation of such property in a shorter period of time, which is translated into better capitalization of the enterprises.

In response to the impacts on the level of domestic activity resulting from the aggravation of the international financial crisis, the federal government announced in December

three measures aimed at reducing taxes with fiscal impact, projected for 2009 of R\$8.4 billion. Two intermediate rates of 7.5% and 22.5% were created in the table of Income Tax of Individuals, representing a tax waiver of R\$4.9 billion and a reduction of R\$2.9 billion in transfers to states and Municipalities, through equity participation funds. Additionally, there was a reduction in the IPI levied on new cars and trucks, effective as from 12.15.2008 until 3.31.2009, and the IOF rate on loans to individuals, from 3% to 1.5% p.y.

MP no.449 of December 3, 2008, approved the payment in installments of the outstanding debts up to 12.31.2005, whose value does not exceed R\$10,000, for which they were offered discounts as high as 100% of fines and legal charges and 30% in interests. As the deadlines for the payment in installments, they range from 6 to 60 months. Moreover, the measure provides stimulus to the closure of judicial and administrative proceedings arising from unduly use of the IPI credits through special conditions for payment of the debts disputed, and waiver of debts with the National Treasury, including those with suspended demand that, in 12.31.2007, were overdue for five years or more and whose total consolidated value on the same date was equal to or less than R\$10 000.

Other economic policy measures

MP no. 428 of May 12, 2008 (converted into Law no. 11,774, of September 17, 2008), provided for the set of measures of the development policy, aimed at, on a relevant and urgency basis, encouraging private investments, the investments in science and technology research, the productivity of domestic industry, the participation of Brazilian exports in the international market, to expand production capacity and meet growing demand for consumer goods and increase the competitiveness of the national productive sector. The impact of fiscal measures in the period 2008-2011 was estimated at R\$21.4 billion, of which R\$3.6 billion refer to the 2008 fiscal year.

Among the measures adopted, it is worth mentioning:

- a) reduction in the period for the use of credits related to capital goods, the Contribution to Social Security Financing (Cofins) and the Social Integration Program (PIS) / Program of Civil Service Asset Formation (Pasep);
- b) suspension of the requirement from Cofins and PIS/Pasep in case of sale or import of fuel oil for the coastal shipping and port and sea support;
- c) reduction to zero of Cofins and PIS/Pasep rates on imports and on sale in the domestic market, of parts and components targeted to be used in construction, maintenance, modernization and conversion of vessels registered with the Brazilian Special Register;
- d) easing the requirements for accession to the Special Taxation System for the Information Technology Services Export Platform (Repes), and for adherence to the Special Capital Goods Acquisition System for Exporting Companies (Recap)

- e) immediate depreciation for the sector of capital goods used in the development of technological innovation;
- f) extension of the Tax System for Incentives to Port Structure Modernization and Expansion (Reporto) to the railway logistics network;
- g) extending the ten-day period to monthly period the IPI deposit for which the automotive sector is liable;
- h) reducing to zero the rate of income tax levied on expenses for supplying of exports logistics services abroad;
- i) extending from 2008 to 2010, the right to use the credit regarding CSLL at the rate of 25% on accounting depreciation of machinery, apparatuses, instruments and new equipment targeted to the fixed assets and used in the manufacturing process of the buyer;
- j) permission for the software companies to reduce twice, the calculation basis of the Corporate Income Tax (IRPJ) and CSLL, the expenses with training of own personnel, and
- k) reduction from 20% to 10% of employer contribution levied on the payroll, and from 3% to zero, of the contribution of the “System – S” by the companies providing information technology (IT) services and information and communication technology (ICT) services.

MP no. 450 of December 9, 2008 authorized the Union to definitely use two sources of funds from the National Treasury – the excess of revenues and the financial surplus – for the amortization of the federal public debt. According to the law then in force, the Executive Branch could only use these two sources of funds for expenditures that justified their respective legal ties.

The National Congress has also approved a bill originated from the Executive Branch that led to Law no. 11,887 of December 24, 2008, creating the Brazil Sovereign Fund (BSF). The Fund aims to promote investments in assets in Brazil and abroad, to provide public savings, reduce the effects of business cycles and promote projects of strategic interest for the country and which are located abroad. The following assets may provide resources to the Fund:

- a) National Treasury resources, corresponding to the appropriations which are consigned to it in the annual budget, including those arising from the issuance of public debt securities. The permission for the government debt securities to be a source of resources of the BSF was introduced by MP no. 452 of December 24, 2008;
- b) shares of federal joint capital corporations, in excess to maintain their control by the Union or other rights with equity value, and
- c) results from financial investments to their account.

The federal government allotted in December R\$14.2 billion to the BSF, by issuing bonds.

Public sector borrowing requirements

The primary surplus of the nonfinancial public sector totaled R\$118 billion in 2008, representing 4.08% of GDP, compared to 3.91% of GDP in last year. This improvement reflected the impact of increases in the surpluses of the Central Government, 2.29% of GDP in 2007 to 2.47% of GDP, and state enterprises, 0.47% of GDP to 0.56% GDP, on those dates, offset in part by the decrease of 1.15% of GDP to 1.06% of GDP, reported in the regional governments results.

Table 4.1 – Public sector borrowing requirements

Itemization	2005		2006	
	R\$ million	% of GDP ^{1/}	R\$ million	% of GDP ^{1/}
Nominal	63 641	3.0	69 883	2.9
Central government ^{2/}	73 284	3.4	74 475	3.1
States	4 755	0.2	13 740	0.6
Local governments	661	0.0	2 867	0.1
State enterprises	-15 060	-0.7	-21 199	-0.9
Primary	-93 505	-4.4	-90 144	-3.8
Central government ^{2/}	-55 741	-2.6	-51 352	-2.2
State governments	-17 194	-0.8	-16 370	-0.7
Local governments	-4 129	-0.2	-3 345	-0.1
State enterprises	-16 440	-0.8	-19 077	-0.8
Nominal interest	157 146	7.3	160 027	6.8
Central government ^{2/}	129 025	6.0	125 827	5.3
State governments	21 949	1.0	30 110	1.3
Local governments	4 790	0.2	6 212	0.3
State enterprises	1 381	0.1	-2 121	-0.1

(continues)

Revenues of the Central Government – National Treasury, Social Security and the Central Bank – totaled R\$716.6 billion in 2008, enabling the increase in their share in the GDP from 23.82% in 2007 to 24.80%.

The National Treasury revenues increased 0.47 p.p. of GDP, amounting to R\$551.3 billion, of which R\$133.1 billion were transferred to states and municipalities. These transfers, in line with the performance of shared tax revenues (income tax, IPI and petroleum royalties), recorded an annual increase of R\$27.5 billion, and now represents 4.61% of GDP, compared to 4.07% in 2007.

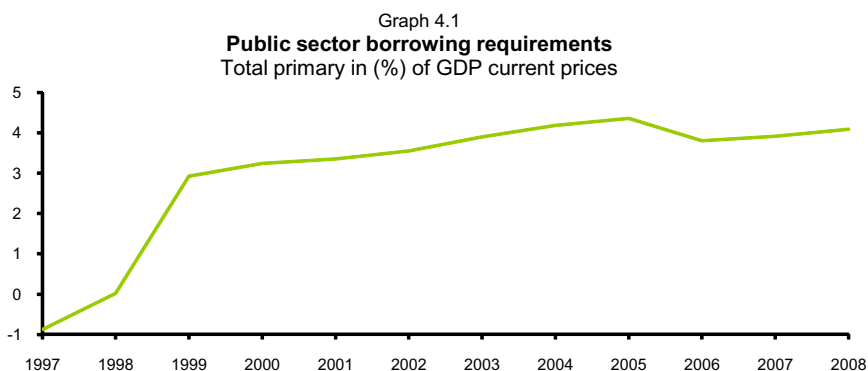
National Treasury expenditures in 2008 grew 10.3%, totaling R\$295.9 billion, representing 10.2% of GDP, compared to 10.3% in 2007. Personnel expenses and social charges increased 12.4% to R\$130.8 billion, a development associated, in part to payments relating to the restructuring of careers within the three branches and the

Table 4.1 – Public sector borrowing requirements (concluded)

Itemization	2007		2008	
	R\$ million	% of GDP ^{1/}	R\$ million	% of GDP ^{1/}
Nominal	57 926	2.2	44 307	1.5
Central government ^{2/}	59 607	2.3	24 891	0.9
States	10 335	0.4	29 715	1.0
Local governments	2 369	0.1	5 494	0.2
State enterprises	-14 385	-0.6	-15 793	-0.5
Primary	-101 606	-3.9	-118 037	-4.1
Central government ^{2/}	-59 439	-2.3	-71 308	-2.5
State governments	-25 998	-1.0	-25 931	-0.9
Local governments	-3 936	-0.2	-4 644	-0.2
State enterprises	-12 234	-0.5	-16 155	-0.6
Nominal interest	159 532	6.1	162 344	5.6
Central government ^{2/}	119 046	4.6	96 199	3.3
State governments	36 333	1.4	55 646	1.9
Local governments	6 305	0.2	10 138	0.4
State enterprises	-2 152	-0.1	361	0.0

1/ Current prices.

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



Federal Prosecution Office. Therefore, the spending with the payroll of public servants increased from 4.48% of GDP in 2007 to 4.53% of GDP in 2008.

The expenses with the Worker Support Fund (FAT) reached R\$21 billion, meaning an annual increase of 0.02 percentage points of GDP, a result associated to the impacts of minimum wage increases and the formalization of the labor market on the cost of salary bonuses and unemployment insurance, both under the responsibility of FAT.

Expenditures with economic grants and subsidies and the reordering of liabilities totaled R\$6 billion in 2008, representing 0.21% of GDP, compared to 0.39% in the previous year. This performance reflected both the non-reciprocity in 2008 of the expenditures of

Table 4.2 – Central government primary result

R\$ million					
Itemization	2006	2007	2008	Change %	
				(b)/(a)	(c)/(b)
Total revenues	543 505	618 869	716 648	13.9	15.8
National Treasury	418 412	477 141	551 333	14.0	15.5
Social security	123 522	140 410	163 356	13.7	16.3
Central Bank	1 571	1 318	1 959	-16.1	48.6
Total expenditures	494 586	560 901	631 002	13.4	12.5
National Treasury	327 259	373 645	429 009	14.2	14.8
Transfers to states and municipalities	92 779	105 604	133 075	13.8	26.0
Personnel and social charges	105 497	116 372	130 829	10.3	12.4
Other current and capital expenditures	128 286	151 148	164 062	17.8	8.5
Worker Support Fund	15 298	18 472	21 026	20.7	13.8
Subsidies and economic subventions	9 553	10 020	6 007	4.9	-40.0
Loas/RMV	11 639	14 192	16 036	21.9	13.0
Investments	17 481	22 107	28 269	26.5	27.9
Other current expenditures	74 315	86 357	92 724	16.2	7.4
National Treasury onlendings to the Central Bank	697	521	1 043	-25.3	100.2
Social security	165 586	185 292	199 562	11.9	7.7
Central Bank	1 741	1 964	2 431	12.8	23.8
Brazil Sovereign Fund	-	-	14 244	-	-
Central government result ^{1/}	48 919	57 968	71 402	18.5	23.2
National Treasury	91 153	103 496	108 080	13.5	4.4
Social security	-42 064	-44 882	-36 206	6.7	-19.3
Central Bank	-170	-646	-472	280.0	-26.9
Primary result/GDP – %	2.1	2.2	2.5	-	-

Source: Ministério da Fazenda/STN

^{1/} It refers to National Treasury deficit

^{2/} (+) = surplus; (-) = deficit.

R\$1.4 billion related either to the rural securitization recorded in 2007 and the increase of R\$1.9 billion in net receipts under the National Development Fund (FND).

Expenditures backed by the Social Assistance Law (Loas) increased 13% to R\$16 billion in 2008. This expansion was associated with the impacts of the minimum wage increase and the 9% increase in the amount of benefits paid, of which 1.4 million related to the elderly people and 1.5 million to people with special needs, meaning respective annual increases of 10% and 9%.

Outlays with investments recorded an annual growth of 27.9%, totaling R\$28.3 billion, 0.98% of GDP, compared to 0.85% of GDP in 2007, of which R\$6 billion in stock in the sphere of the Ministry of Transport and R\$4.9 billion of the Ministry of the Cities.

The financial implementation of the Investment Pilot Project, included in the total investment reached R\$7.8 billion, compared to R\$5.1 billion in 2007.

Nominal interest appropriated by the nonfinancial public sector totaled R\$162.3 billion in 2008, representing 5.62% of GDP, compared to 6.14% of GDP last year, the result of the reduction associated with foreign exchange swap operations carried out by the Central Bank in favor of the institution by R\$4.8 billion, contrasting with the negative result of R\$8.8 billion recorded in 2007. The effect of the exchange depreciation observed in 2008 on assets tied to the exchange favored, additionally, the annual reduction of appropriated interest.

Table 4.3 – Uses and sources – Consolidated public sector

Itemization	2007		2008	
	R\$ million	% of GDP	R\$ million	% of GDP
Uses	71 492	2.8	57 240	2.0
Primary	-89 730	-3.5	-106 420	-3.7
Internal interest	160 628	6.2	166 106	5.7
Real interest	69 771	2.7	58 460	2.0
Monetary updating	90 857	3.5	107 647	3.7
External interest	594	0.0	-2 446	-0.1
Sources	71 492	2.8	57 240	2.0
Internal borrowing	263 488	10.1	81 484	2.8
Securities debt	239 424	9.2	171 111	5.9
Banking debt	-4 422	-0.2	-92 922	-3.2
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	28 486	1.1	3 294	0.1
Relationship TN/Bacen	-	-	767	-
External borrowing	-191 996	-7.4	-25 011	-0.9
GDP flows in 12 months ^{1/}	2 597 611		2 889 719	

^{1/} GDP at current prices.

The public sector borrowing requirements in nominal terms, incorporating the primary result and the appropriated nominal interests recorded an annual deficit of 1.53% of GDP, compared to 2.23% of GDP in the previous year, constituting the best result since the series began in 1991. The central government deficit fell 1.43 percentage points of GDP, while those relating to regional governments and state enterprises recorded increases of 0.73 p.p. of GDP and 0.01 p.p. of GDP, respectively.

Federal securities debt

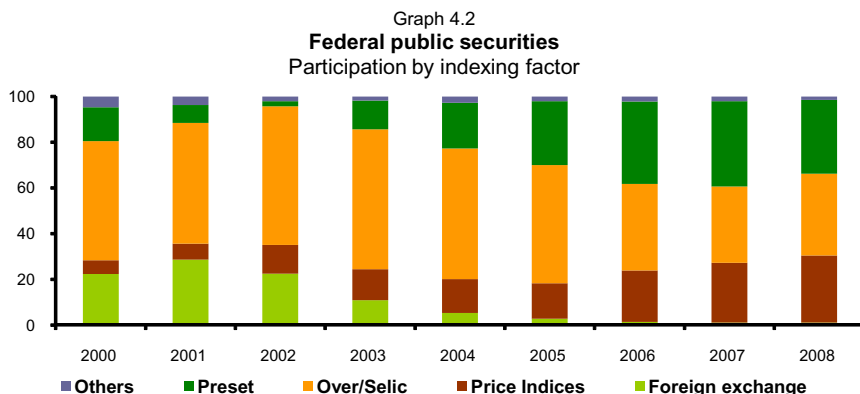
National Treasury securities totaled R\$1,759.1 billion in December 2008, of which R\$494.3 billion held by the Central Bank. The federal debt outside the Central Bank as measured by the portfolio position reached R\$1,264.8 billion, 42.6% of GDP at the end of 2008, compared to R\$1,224.9 billion, 44.8% of GDP at the end the previous year. The reduction of 2.2 p.p. of GDP reflected the occurrence of total net redemptions of R\$118.6 billion, the incorporation of interest of R\$155.5 billion, and the impact of R\$3.1 billion due to depreciation of the real against the dollar.

Table 4.4 – Federal securities – Portfolio position

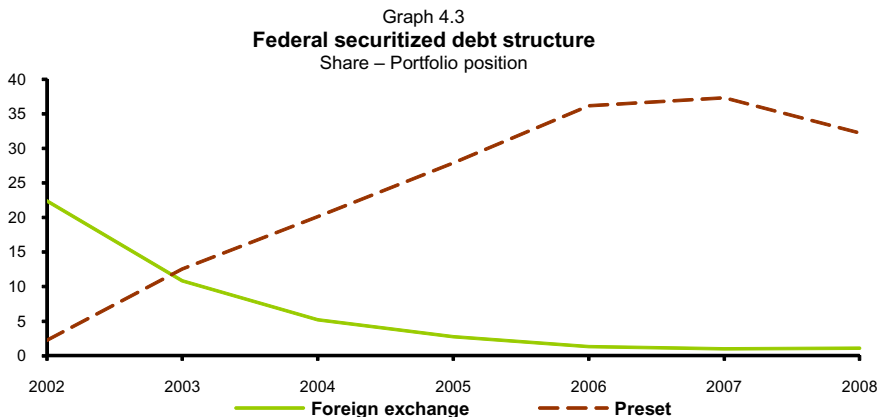
Balances in R\$ million					
Itemization	2004	2005	2006	2007	2008
National Treasury liabilities	1 099 535	1 252 510	1 390 694	1 583 871	1 759 134
Central Bank portfolio	302 855	279 663	297 198	359 001	494 311
LTN	126 184	119 323	164 989	158 748	131 149
LFT	117 405	120 270	72 737	78 955	187 346
NTN	57 275	36 823	59 472	121 298	175 817
Securitized credits	1 990	3 247	0	0	0
Outside the Central Bank	796 680	972 847	1 093 495	1 224 871	1 264 823
LTN	159 960	263 436	346 984	325 149	239 143
LFT	457 757	504 653	412 034	409 024	453 131
BTN	62	48	39	27	30
NTN	133 700	167 379	296 598	451 132	538 380
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	17 343	15 799	14 532	13 903	14 306
Securitized credits	21 103	16 555	17 793	20 777	15 089
Agrarian debt	4 345	1 529	1 302	0	0
TDA	2 411	3 448	4 213	4 859	4 743
CDP	0	0	0	0	0
Central Bank liabilities	13 584	6 815	0	0	0
LBC	-	-	-	-	-
BBC/BBCA	-	-	-	-	-
NBCE	13 584	6 815	0	0	0
NBCF	-	-	-	-	-
NBCA	-	-	-	-	-
Outside the Central Bank – Total	810 264	979 662	1 093 495	1 224 871	1 264 823
In % of GDP	39.8	45.4	45.1	44.8	42.6

Regarding the distribution of titles per indexing factor, the share of fixed rate securities in total debt reached 32.2% in December 2008, compared to 37.3% in the same period of last year, a downturn associated, in an environment of greater demand for inflation-indexed securities, with net redemptions of National Treasury Bills (LTN). The share of bonds indexed to the Selic rate, while incorporating net redemptions of Treasury Financing Bills (LFT), rose from 33.4% to 35.8%, reflecting the impact of the incorporation of interest. The share of bonds tied to the exchange rate increased from

0.9% to 1.1% due to the depreciation of the real against the dollar, while those relating to securities indexed to the Reference Rate (TR) and those tied to prices indices – the latter indicating net issues of National Treasury Notes – Series B (NTN-B) – were, in order, from 2.1% to 1.6% and 26.3% to 29.3%.



In December 2008, the share of fixed-rate bonds reached 32.2% of the price-indexed securities, 29.3%, and securities indexed to exchange, 1.1%, compared to 37.3%, 26.3% and 0.9% respectively in the same period in 2007. This follows reflects the continuity of the strategy to improve the debt structure, with favorable impacts on the level of debt exposure to market risks, especially to foreign exchange risk.



Central Bank swap operations, after registering a reverse balance of R\$39.6 billion in 2007, showed reversal of exposure throughout 2008, reaching the end of the year, R\$27.8 billion. Considering the cash basis, the cumulative result of these operations in 2008, equivalent to the difference between the profitability of the Interbank Deposit (ID) and more exchange rate variation plus coupon was favorable to the Central Bank in R\$4.8 billion.

Table 4.5 – Federal public securities

Percentage share by indexator – Portfolio position

Index numbers	2004	2005	2006	2007	2008
Total – R\$ million	810 264	979 662	1 093 495	1 224 871	1 264 823
Foreign exchange	5.2	2.7	1.3	0.9	1.1
Reference Rate (TR)	2.7	2.1	2.2	2.1	1.6
IGP-M	9.9	7.0	6.4	5.8	5.1
<i>Over/Selic</i>	57.1	51.8	37.8	33.4	35.8
Preset	20.1	27.9	36.1	37.3	32.2
Long-term Interest Rate (TJLP)	0.0	0.0	0.0	0.0	0.0
IGP-DI	1.8	1.1	0.9	0.7	0.6
INPC	0.0	0.0	0.0	0.0	0.0
IPCA	3.1	7.4	15.3	19.8	23.6
Others	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Public Sector Net Debt

The Public Sector Net Debt (PSND) totaled R\$1,069.5 billion at the end of 2008, representing 36% of GDP and keeping in the path of annual decline since 2003, when it meant 52.4% of GDP. The annual downturn, equivalent to 6 p.p. of GDP, reflecting the impacts associated to the primary surplus, 4 p.p.; adjustment arising from exchange rate depreciation of 32% in the year, 3.3 p.p., the effect of valuated GDP growth, 3, 3 p.p.; and the adjustment parity of the currency basket comprising the net external debt,

Table 4.6 – Public Sector Net Debt growth

Itemization	2005		2006	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	1 002 485	46.5	1 067 363	44.0
Net debt – Growth accumulated in the year	45 488	-0.5	64 879	-2.4
Conditioning factors (flows accumulated in the year): ^{1/}	45 488	2.1	64 879	2.7
Public sector borrowing requirements	63 641	2.9	69 883	2.9
Primary	-93 505	-4.3	-90 144	-3.7
Nominal interest	157 146	7.3	160 027	6.6
Exchange adjustment ^{2/}	-18 202	-0.8	-4 881	-0.2
Domestic securities debt indexed to exchange rate ^{3/}	-4 554	-0.2	-2 222	-0.1
External debt	-13 648	-0.6	-2 659	-0.1
External debt adjustment – Others	-2 258	-0.1	2 302	0.1
Acknowledgement of debt	3 262	0.2	-375	-0.0
Privatizations	-954	-0.0	-2 049	-0.1
GDP Growth effect – Debt ^{4/}		-2.6		-5.1
GDP accumulated in 12 months – Valued ^{5/}	2 157 437		2 424 641	

(continues)

Table 4.6 – Public Sector Net Debt growth (concluded)

Itemization	2007		2008	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	1 150 357	42.0	1 069 579	36.0
Net debt – Growth accumulated in the year	82 994	-2.0	-80 778	-6.0
Conditioning factors (flows accumulated in the year): ^{1/}	82 994	3.0	-80 778	-2.7
Public sector borrowing requirements	57 926	2.1	44 307	1.5
Primary	-101 606	-3.7	-118 037	-4.0
Nominal interest	159 532	5.8	162 344	5.5
Exchange adjustment ^{2/}	29 268	1.1	-98 217	-3.3
Domestic securities debt indexed to exchange rate ^{3/}	-2 432	-0.1	3 180	0.1
External debt	31 701	1.2	-101 397	-3.4
External debt adjustment – Others	-2 305	-0.1	-26 236	-0.9
Acknowledgement of debt	-630	-0.0	135	0.0
Privatizations	-1 265	-0.0	-767	-0.0
GDP Growth effect – Debt ^{4/}		-5.0		-3.3
GDP in R\$ million ^{5/}	2 736 836		2 970 978	

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:

(ConditioningFactors/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 adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the following month).

0.9 p.p., neutralized in part by the effect in the interest nominal interest appropriation 5.5 p.p.

The composition of the PSND started incorporating in 2008, a larger creditor participation tied to exchange, and existing balance since mid-2006, when the public sector assets indexed to exchange exceeded liabilities. The expansion of the portion owed in 2008 reflected the increase in international reserves and exchange rate depreciation during the period indicated. It should be noted that the occurrence of net credit balance at times linked to the international financial market turmoil increases the effective administration of the government's net indebtedness. Growth in the composition of the PSND in 2008 also reflected the growing share of bonds tied to price indices and the Selic rate, and reducing the participation of the fixed-rate component.

General government gross debt (Federal Government, National Social Security Institute – INSS, state and municipal governments) amounted to R\$1,740.9 billion in December, 58.6% of GDP, compared with 56.4% of GDP in 2007.

Table 4.7 – Public Sector Net Debt

Itemization	2007		2008	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt (G=E-F)	891 155	32.6	935 462	31.5
Internal debt methodological adjustment (F)	116 817	4.3	119 997	4.0
Fiscal net debt with exchange devaluation (E=A-B-C-D)	1 007 972	36.8	1 055 459	35.5
External debt methodological adjustment (D)	109 119	4.0	-18 515	-0.6
Asset adjustment (C)	102 016	3.7	102 152	3.4
Privatization adjustment (B)	-68 750	-2.5	-69 517	-2.3
Total net debt (A)	1 150 357	42.0	1 069 579	36.0
Federal government	808 095	29.5	760 249	25.6
Banco Central do Brasil	8 585	0.3	-31 922	-1.1
State governments	324 107	11.8	359 575	12.1
Local governments	49 216	1.8	55 379	1.9
State enterprises	-39 647	-1.4	-73 701	-2.5
Internal net debt	1 393 139	50.9	1 488 794	50.1
Federal government	703 662	25.7	633 793	21.3
Banco Central do Brasil	327 801	12.0	451 188	15.2
State governments	313 467	11.5	343 521	11.6
Local governments	47 525	1.7	52 879	1.8
State enterprises	684	0.0	7 413	0.2
Foreign net debt	-242 782	-8.9	-419 214	-14.1
Federal government	104 433	3.8	126 456	4.3
Banco Central do Brasil	-319 216	-11.7	-483 110	-16.3
State governments	10 641	0.4	16 054	0.5
Local governments	1 691	0.1	2 500	0.1
State enterprises	-40 330	-1.5	-81 115	-2.7
GDP in R\$ million ^{1/}	2 736 836		2 970 978	

1/ 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^{1/}

Itemization	2007		2008	
	R\$ million	% of GDP	R\$ million	% of GDP
Public sector net debt (A=B+K+L)	1 150 357	42.0	1 069 579	36.0
General government net debt (B=C+F+I+J)	1 181 418	43.2	1 175 203	39.6
General government gross debt (C=D+E)	1 542 852	56.4	1 740 888	58.6
Internal debt (D)	1 426 087	52.1	1 595 878	53.7
Foreign debt (E)	116 764	4.3	145 010	4.9
Federal government	104 433	3.8	126 456	4.3
State government	10 641	0.4	16 054	0.5
Local government	1 691	0.1	2 500	0.1
General government assets (F=G+H)	- 533 018	-19.5	-563 425	-19.0
Domestic assets (G)	- 533 018	-19.5	-563 425	-19.0
General government available assets	- 305 568	-11.2	-292 507	-9.8
Social security system investments	- 284	-0.0	-1 307	-0.0
Tax collected (not transferred)	- 1 011	-0.0	-1 639	-0.1
Demand deposits	- 7 072	-0.3	-8 351	-0.3
Federal government available assets in Bacen	- 275 843	-10.1	-255 217	-8.6
Investment in the banking system (states)	- 21 358	-0.8	-25 993	-0.9
Credits with official financial institutions	- 14 150	-0.5	-43 087	-1.5
Hybrid capital and debt instruments	- 7 504	-0.3	-7 633	-0.3
Credits with BNDES	- 6 645	-0.2	-35 454	-1.2
Investment in funds	- 54 790	-2.0	-61 700	-2.1
Credits with public enterprises	- 18 805	-0.7	-18 977	-0.6
Other federal government's credits	- 11 289	-0.4	-10 974	-0.4
Worker assistance fund (FAT)	- 128 417	-4.7	-136 181	-4.6
Foreign credits (H)	0	0.0	0	0.0
Federal government	0	0.0	0	0.0
State government	-	-	-	-
Local government	-	-	-	-
Bacen available portfolio (I)	171 585	6.3	169 156	5.7
Exchange Equalization (J)	0	0.0	-171 416	-5.8
Banco Central net debt (K)	8 585	0.3	-31 922	-1.1
Public enterprises net debt (L)	- 39 647	-1.4	-73 701	-2.5
GDP in R\$ million ^{2/}	2 736 836		2 970 978	

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

The collection of federal taxes and contributions, except social security contributions payable by the INSS, reached R\$505.2 billion in 2008, registering a real growth of 6.5%

this year, considering the IPCA as a deflator evolution consistent with the dynamism shown by the economy until the intensification of the crisis in international financial markets and administrative actions undertaken by the IRS and the National Treasury General Attorney's Office of the, aimed at recovering debts in arrears and at maintaining a regular cash flow.

Table 4.9 – Gross federal revenues

Itemization	R\$ million				
	2006	2007	2008	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	136 503	160 286	191 755	17.4	19.6
Industrialized Products Tax (IPI)	28 159	33 853	39 466	20.2	16.6
Import Tax (II)	10 035	12 254	17 235	22.1	40.6
Financial Operations Tax (IOF)	6 772	7 834	20 342	15.7	159.7
Contribution to the Financing of the Social Security (Cofins)	91 156	102 838	120 800	12.8	17.5
Social Contrib. on the Profits of Legal Entities (CSLL)	27 968	34 485	43 972	23.3	27.5
Contribution to PIS/Pasep	24 045	26 817	31 598	11.5	17.8
Provisional Contribution on Financial Transactions (CPMF)	32 033	36 483	1 150	13.9	-96.8
Contribution on Intervention in the Economic Domain (Cide)	7 812	7 937	5 985	1.6	-24.6
Other taxes	25 804	26 134	32 895	1.3	25.9
Total	390 287	448 921	505 198	15.0	12.5

Source: Ministério da Fazenda/Receita Federal do Brasil

The performance of the collection in the year reflected in particular the marked expansion in taxes as detailed below:

- a) Import Tax, 32.9%, and IPI-linked to imports, 27.6%, reflecting the annual rise of 43.9% registered in the value of imports in U.S. dollars, and increases of 4.13% and 0.75% observed in their respective average rates;
- b) IOF, 145.7%, consistent with the increase in rates falling on currency exchange and credit, and with the observed increases in the balances of credit operations in the segment of individuals, 31%, and corporations, 42.4%;
- c) Corporate Income Tax, 14.7% and CSLL, 20.7%, reflecting the increased profitability of businesses, especially in the first three quarters, and fiscal actions taken by the SRF;
- d) Cofins, 11.1%, and Pis/Pasep, 11.4%, in line with increases in imports and sales of businesses;
- e) Income Tax Withholdings, 13.7%, consistent with the scenario of growth of wages and ordinary increases in distribution of profits or results, in an environment of increased profitability of companies in the financial sector and redemptions of investments in fixed-income and swap;
- f) royalties for the extraction of oil, 52%.

Table 4.10 – Income Tax and Industrialized Products Tax

R\$ million

Itemization	2006	2007	2008	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	136 491	160 252	191 721	17.4	19.6
Individuals	8 533	13 654	14 987	60.0	9.8
Corporate entities	55 849	69 971	84 692	25.3	21.0
Financial institutions	9 066	13 573	12 635	49.7	-6.9
Other companies	46 782	56 432	72 091	20.6	27.7
Withholdings	72 109	76 627	92 042	6.3	20.1
Labor earnings	39 082	42 349	51 610	8.4	21.9
Capital earnings	20 890	21 421	24 853	2.5	16.0
Remittances abroad	7 393	7 800	9 565	5.5	22.6
Other earnings	4 744	5 057	6 014	6.6	18.9
Industrialized Products Tax (IPI)	28 159	33 851	39 465	20.2	16.6
Tobacco	2 397	2 803	3 210	16.9	14.5
Beverages	2 610	2 583	2 437	-1.0	-5.7
Automotive vehicles	4 288	5 208	6 001	21.5	15.2
Other taxes	12 701	15 555	17 415	22.5	12.0
Linked imports	6 163	7 702	10 402	25.0	35.1

Source: Ministério da Fazenda/Receita Federal do Brasil

Social Security System

The primary deficit of Social Security reached R\$36.2 billion in 2008; falling 19.3% compared to the previous year and now represents 1.25% of GDP, compared to 1.73% in 2007.

Net inflows increased 16.3%, reaching R\$163.4 billion, with an emphasis on increase of 17.5% recorded on social security contributions, which totaled R\$167.8 billion, a move consistent with the more formalized job market and increased overall wages.

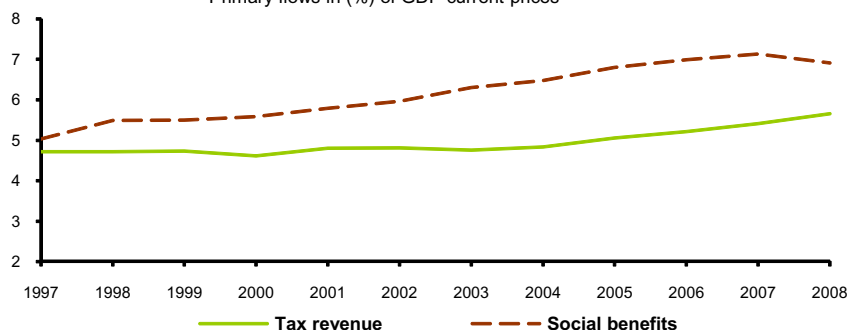
Outlays on social security benefits amounted to 7.7% in the year, reaching R\$199.6 billion, impacted by an increase of 7.1% in the average value of benefits paid, which reflected both the increase of 9.2% in the minimum wage as the benefit increase to values above the minimum wage, and the rise of 2.7% in average monthly amount of benefits paid. Expenditures on social security benefits were reduced, as a percentage of GDP from 7.13% in 2007 to 6.91%.

Table 4.11 – Social Security

Itemization	2006	2007	2008	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Net inflow	123 520	140 412	163 355	13.7	16.3
Gross inflow	133 703	154 589	180 891	15.6	17.0
Social security contribution	122 919	142 774	167 758	16.2	17.5
Other revenues	10 784	11 815	13 133	9.6	11.2
Refund	478	520	545	8.8	4.8
Transfers to third parties	9 705	13 657	16 991	40.7	24.4
Social security benefits	165 585	185 293	199 562	11.9	7.7
Primary result	-42 065	-44 881	-36 207

Source: Ministério da Previdência e Assistência Social

Graph 4.4
Social Security
Primary flows in (%) of GDP current prices



State and municipal finance

The primary surplus of regional governments (states and municipalities) totaled R\$30.6 billion in 2008, reducing its share in GDP from 1.15% in 2007 to 1.06%.

The inflow of Tax on the Circulation of Merchandise and Services (ICMS) totaled R\$222.2 billion, rising 18.6% over the previous year and now represents 7.68% of GDP, compared to 7.22% in 2007. It is noteworthy that, considering the IGP-DI as the deflator, the real revenue grew 6.6% in 2008, reflecting in particular the marked expansion in Sao Paulo, 8.5%, Minas Gerais, 8.2% and Rio de Janeiro, 2.3% three main tax collector states.

Transfers from the Federal to states and municipalities have increased by 26% in 2008, stood at R\$133.1 billion, consistent with the trajectory marked increases in revenues related to income tax, 19.6%, and the IPI, 16, 6% taxes that are the calculation basis for the States and Municipalities Sharing Funds. Additionally, the transfers for the

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

R\$ million					
Itemization	2006	2007	2008	Change %	
				(b)/(a)	(c)/(b)
São Paulo	57 788	63 192	76 322	9.4	20.8
Rio de Janeiro	14 805	15 671	17 836	5.9	13.8
Minas Gerais	17 018	19 317	23 214	13.5	20.2
Rio Grande do Sul	11 813	12 258	14 872	3.8	21.3
Paraná	9 264	10 086	11 767	8.9	16.7
Bahia	8 604	8 941	10 239	3.9	14.5
Santa Catarina	6 169	6 831	7 944	10.7	16.3
Goiás	4 699	5 244	6 143	11.6	17.1
Pernambuco	4 864	5 413	5 988	11.3	10.6
Espírito Santo	5 092	5 878	7 001	15.5	19.1
Other states	31 600	34 514	40 913	9.2	18.5
Total	171 715	187 345	222 238	9.1	18.6

Source: Ministério da Fazenda/Confaz

Table 4.13 – Federal government onlendings to states and municipalities

R\$ million					
Itemization	2006	2007	2008	Change %	
				(b)/(a)	(c)/(b)
Constitutional onlendings (IPI, IR and others)	70 628	82 239	101 881	16.4	23.9
Export Compensation Fund	4 343	3 888	5 216	-10.5	34.2
Cide transfers	1 781	1 850	1 579	3.9	-14.6
Others ^{1/}	16 028	17 628	24 400	10.0	38.4
Total	92 780	105 605	133 076	13.8	26.0

Source: Ministério da Fazenda/Secretaria do Tesouro Nacional

^{1/} 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.

payment of royalties and special participation from oil and natural gas exploitation increased by R\$5 billion in the year.