

IV

Public Finance

Budget, fiscal and tax policy

The law no. 11,768, of August 14, 2008, defined the preparation and execution of the budget law of 2009 setting a target of 3.80% of the GDP for the consolidated primary surplus in the 2009 fiscal year, of which 2.20% belongs to the central government; 0.65% to federal state-owned companies and 0.95% to regional governments. That target considered a macroeconomic scenario that, by incorporating the prospect of real growth of 5% to the GDP in the triennium of 2009 to 2011, was consistent with the declining trend projected for the debt/GDP ratio.

In response to the acute changes observed in the global economy after the intensification of the crisis in financial markets, the Federal Government sent to Congress on May 4, 2009, a Bill – now the Law no. 12,053, of October 9, 2009 – proposing a reduction on the annual target surplus to be achieved in 2009 to 2.50% of the GDP, distributed between the Central Government, 1.40%, the federal state companies – excluding Petrobras, 0.20%, and regional governments, 0.90%. Additionally, the limit of the rebate of the target depending on the investments subjected to discounts was increased from R\$15.6 billion, 0.50% of the GDP, to R\$28.5 billion, 0.94% of the GDP.

The estimate of revenue to the Federal budget, incorporating the Treasury and Social Security, became inconsistent with the recessionary environment observed in the world economy, and on a smaller scale, in the Brazilian economy, in the months that followed the deepening crisis. In this scenario, intensified through the course of 2009 by the temporary fiscal stimulus introduced by the Brazilian government to boost specific economic sectors, was issued in January, a decree to update the forecasts of tax revenues and federal contributions, and advertising as a preventive measure, a contingency of R\$37.2 billion in the spending of the Executive Branch. The projections of revenues, when considering growth in economic activity, were updated during the fiscal year, along with the respective adjustments in the budget and financial program and the monthly disbursement schedule of Executive Branch.

Regarding the temporary fiscal stimulus, it must be pointed out the issue of several normative rules defining tax cuts, mainly for the exemption or reduction of the Industrialized Products Tax (IPI) rates on kitchen appliances, automobiles, construction, furniture and capital goods.

The reduction in the IPI inflow, parallel to the decrease on the Income Tax, dramatically impacted the volume of transfers of federal funds to states and municipalities, made under the terms of Equity Funds. Aiming to facilitate the administration of municipalities, the Federal Government issued, on May 14, the Provisional Measure no. 462, which ensured to these special entities the reception in 2009 of the values equivalent to those received in the context of the transfers mentioned in 2008.

The scenario of shrinking revenues, resulting from the relief of taxes and the impact of a reduced collection, prompted the adoption of alternative measures aimed to provide resources to the National Treasury, this was emphasized by:

- a) gathering, at the Treasury Operating Account, of all the judicial deposits and extrajudicial documents relating to federal taxes and contributions, held in financial institutions;
- b) anticipation of dividends from state-owned companies in which the federal government owns a stake, and;
- c) Installment of the debts arising from the improper use of sectoral tax incentives introduced by Decree-Law no. 491, of March 5, 1969 (IPI premium credit).

Other economic policy measures

In March, the government announced the program Minha Casa, Minha Vida, in order to create a mechanism to encourage the production and purchase of one million housing units for families with incomes of up to ten minimum wages. The program was implemented by Provisional Measure no. 459, of March 25, 2009, which defined the sources of funding and the steps that should be adopted for its implementation. The set of actions envisaged in this program include expanding the volume of subsidies, greater access to funding through FGTS (Employment Compensation Fund) resources, reducing the risk of funding, a cheaper insurance, opening of new credit lines for construction firms, coupled with tax relief, and greater facility for land regularization.

On December 9, 2009, Congress promulgated the Constitutional Amendment no. 62, which established new rules for the payment of judicial claims by the Federal District and Municipalities. The Amendment set minimum percentage – 1%, 1.5% and 2%, depending on the region and the amount of the debt of public entities – of the current net revenues to be allocated to the payment of commitments, and authorized an auction for the payment of judicially mandated requests of higher value. It will

be paid in preference to all others, the food-related debts whose recipients are over 60 years of age or who are suffering from serious illness.

With the issue of Provisional Measure no. 472, of December 15, 2009 and Decrees no. 7,031 and 7,032, of December 14, 2009, the government announced a set of measures aimed to finance productive investments and increasing of the GDP. The measures included relief from taxes on goods and services related to investments on oil refining and petrochemical industry and on the sale of computers at retail; allowing a new credit line of the Union to the BNDES (Brazilian Development Bank), amounting R\$80 billion, in addition to the R\$100 billion that had already been released throughout 2009; new Federal government loan to the Merchant Navy Fund, worth R\$15 billion and the creation of financial letter in order to facilitate the inflow of long-term resources by private banks. To pursue the desired goals that have been established, it was created the Special Incentive Scheme for Infrastructure Development of the Petroleum Industry in the North, Northeast and Central West Regions (Repenec); The Program One Laptop per Child (Prouca) and the Special Regime for the Acquisition of Computers for Educational Use (Recompe).

On December 23, 2009, the Interim Measures no. 474 and 475 were issued, which increased, respectively, the minimum wage and benefits paid by the General Social Security System as from January 1, 2010. The minimum wage rose from R\$465.00 to R\$510.00, for a real increase of 5.64%. The benefits with a value greater than the minimum wage were increased by 6.14%, with a real gain of 2.52%. The maximum pay-for-contribution and salary-to-benefit increased to R\$3,416.54. The budgetary and financial impact on the accounts of Social Security in fiscal year 2010 was estimated at R\$16.6 billion.

The provisional measures also set out the rules for increases that will come into force in 2011. The minimum wage will be adjusted in a percentage equal to the accumulated variation of the INPC (National Consumer Price Index), plus the GDP growth rate in 2009. Social security benefits will also be adjusted by the INPC, plus a real increase in percentage equivalent to 50% of the GDP growth in 2009. Provisional Measure no. 474/2009 decided that until March 31, 2011 the Executive Branch will send a bill to the Congress dealing with the policy of minimum wage increase for the period of 2012-2023.

Public sector borrowing requirements

The consolidated public sector primary surplus totaled R\$64.5 billion in 2009, registering an annual decrease of 1.48 p.p. to 2.06% of the GDP, but discounting the investment of the PAC (Growth Incentive Program) – around 0.57% of the GDP – eligible for rebates, the primary surplus target set for the year was 1.93% of the GDP.

Table 4.1 – Public sector borrowing requirements

Itemization	2006		2007	
	R\$ million	% of GDP ^{1/}	R\$ million	% of GDP ^{1/}
Nominal	83 890	3.5	71 492	2.7
Central government ^{2/}	74 475	3.1	59 607	2.2
States	13 740	0.6	10 335	0.4
Local governments	2 867	0.1	2 369	0.1
State enterprises	-7 191	-0.3	-819	-0.0
Primary	-76 828	-3.2	-89 730	-3.4
Central government ^{2/}	-51 352	-2.2	-59 439	-2.2
State governments	-16 370	-0.7	-25 998	-1.0
Local governments	-3 345	-0.1	-3 936	-0.1
State enterprises	-5 761	-0.2	-358	-0.0
Nominal interest	160 718	6.8	161 222	6.1
Central government ^{2/}	125 827	5.3	119 046	4.5
State governments	30 110	1.3	36 333	1.4
Local governments	6 212	0.3	6 305	0.2
State enterprises	-1 430	-0.1	-461	-0.0

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Table 4.1 – Public sector borrowing requirements (concluded)

Itemization	2008		2009	
	R\$ million	% of GDP ^{1/}	R\$ million	% of GDP ^{1/}
Nominal	57 240	1.9	104 622	3.3
Central government ^{2/}	24 891	0.8	107 363	3.4
States	29 715	1.0	-3 317	-0.1
Local governments	5 494	0.2	1 236	0.0
State enterprises	-2 860	-0.1	- 660	-0.0
Primary	-106 420	-3.5	-64 517	-2.1
Central government ^{2/}	-71 308	-2.4	-42 443	-1.4
State governments	-25 931	-0.9	-17 957	-0.6
Local governments	-4 644	-0.2	-3 045	-0.1
State enterprises	-4 538	-0.2	-1 072	-0.0
Nominal interest	163 660	5.4	169 139	5.4
Central government ^{2/}	96 199	3.2	149 806	4.8
State governments	55 646	1.9	14 639	0.5
Local governments	10 138	0.3	4 281	0.1
State enterprises	1 678	0.1	412	0.0

1/ Current prices.

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

The decline of the Central Government primary surplus, reflecting the variations observed in the Federal Government surplus, -0.84 p.p., and the Social Security deficit, 0.16 p.p., reached 1.02 p.p. of the GDP.

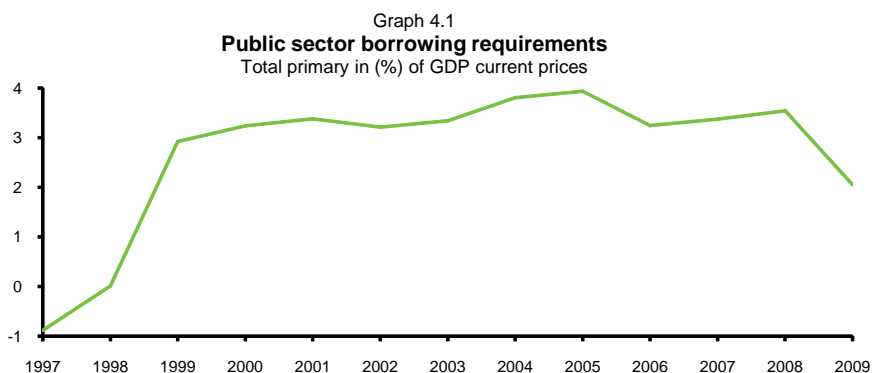


Table 4.2 – Central government primary result

Itemization	R\$ million				
	2006	2007	2008	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	543 505	618 869	716 658	13.9	15.8
National Treasury	418 412	477 141	551 343	14.0	15.6
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	630 975	13.4	12.5
National Treasury	327 259	373 645	428 984	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	130 830	10.3	12.4
Other current and capital expenditures	128 286	151 148	164 036	17.8	8.5
Worker Support Fund	15 298	18 472	21 027	20.7	13.8
Subsidies and economic subventions	9 553	10 020	5 981	4.9	-40.3
Loas/RMV	11 639	14 192	16 035	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	199 561	11.9	7.7
Central Bank	1 741	1 964	2 430	12.8	23.7
Brazil Sovereign Fund ^{1/}	-	-	14 244	-	-
Central government result ^{2/}	48 919	57 968	71 439	18.5	23.2
National Treasury	91 153	103 496	108 115	13.5	4.5
Social security	-42 064	-44 882	-36 205	6.7	-19.3
Central Bank	-170	-646	-471	280.0	-27.1
Primary result/GDP – %	2.1	2.2	2.4	-	-

Source: Ministério da Fazenda/STN

1/ It refers to National Treasury deficit

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

The National Treasury gross revenues accounted for 18.2% of GDP in 2009, against 18.8% in the previous year, emphasizing the decreases in IPI-related inflows, 22.1%, reflecting reductions in tax rates and industrial production; and Contribution to Social Security Financing (Cofins) 2.4%, reflecting a decrease in tax rates and compensations. Conversely, all the other National Treasury revenues reflecting an increase of 99.7% in dividend inflows and transfer, without matching the previous year, of judicially-mandated deposits of R\$8.9 billion to the Operating Account, for an annual rise of 23.9%.

Table 4.3 – Gross revenue of National Treasury

R\$ million					
Itemization	2007 (a)	2008 (b)	2009 (c)	Change %	
				(b)/(a)	(c)/(b)
Total revenues	490 924	564 733	569 846	15.0	0.9
Taxes and contributions	432 555	484 701	470 684	12.1	-2.9
Other revenues	58 369	80 032	99 162	37.1	23.9
Financial compensations ^{1/}	17 026	25 032	19 412	47.0	-22.5
Directly collected	18 492	22 470	23 534	21.5	4.7
Federal government dividends	6 977	13 364	26 683	91.5	99.7
Grants	2 064	6 080	3 091	194.6	-49.2
Others	13 810	13 086	26 442	-5.2	102.1

Source: Ministério da Fazenda/STN

^{1/} Revenues from oil and natural gas output.

The National Treasury expenditures experienced an annual increase of 1.14 p.p. of the GDP to 11% in 2009. Personnel expenses increased 15.9%, driven by expansion of 58.6% in the payment of judicially mandated claims, while current and capital expenditures increased 16.9%.

Table 4.4 – National Treasury expenditures

R\$ million					
Itemization	2007 (a)	2008 (b)	2009 (c)	Change %	
				(b)/(a)	(c)/(b)
Total expenditures	268 186	295 907	344 657	10.3	16.5
Personnel and social charges	116 372	130 829	151 653	12.4	15.9
Current and capital	151 293	164 036	191 825	8.4	16.9
Worker Support Fund	18 472	21 027	27 433	13.8	30.5
Economic subsidies and subventions	10 021	5 980	5 411	-40.3	-9.5
Loas – Social Assistance Law					
RMV – Lifetime Monthly Income	14 192	16 036	18 946	13.0	18.1
Other current and capital expenditures	108 608	120 993	140 035	11.4	15.7
Other current expenditures	86 499	92 724	105 898	7.2	14.2
Investment	22 109	28 269	34 137	27.9	20.8
National Treasury's onlendings to Bacen	521	1 042	1 179	100.0	13.1

Source: Ministério da Fazenda/STN

Expenditures with obligations funded by the Worker Support Fund (FAT), which aims to fund the program of unemployment insurance, the payment of salary bonuses and funding of economic development programs in charge of the BNDES increased 30, 5% in the year, amounting to R\$27.4 billion. This rise reflected the impact of 6.4% on real growth in the minimum wage, as of February 2009 and the increase in the number of beneficiaries.

The payment of welfare benefits backed by the Social Assistance Law (Loas) increased 18.1% totaling R\$18.9 billion, it must be emphasized how it was affected by the rise on the minimum wage and by the average vegetative growth of 9% in the amount of benefits paid.

The increase in investment spending, which came to R\$34.1 billion, closed at 20.8%, emphasizing the resources directed to the ministries of Transportation, R\$9 billion; Cities, R\$4.6 billion; National Integration R\$3.5 billion, Education, R\$3.1 billion and Health, R\$1.7 billion. Investments included in the PAC increased 58% in the year, coming to R\$17.9 billion.

The primary surplus of regional governments totaled 0.67% of GDP in 2009, dropping 0.35 p.p. comparing with the previous year, noting that the ratio between its net debt and the GDP, helped by the deflation seen in the IGP-DI, which indexes most of the liabilities of states and municipalities, remained on a declining trend already registered in recent years.

Table 4.5 – Uses and sources – Consolidated public sector

Itemization	2008		2009	
	R\$ million	% of GDP	R\$ million	% of GDP
Uses	57 240	1.9	104 622	3.3
Primary	-106 420	-3.5	-64 517	-2.1
Internal interest	166 106	5.5	169 306	5.4
Real interest	58 460	1.9	179 705	5.7
Monetary updating	107 647	3.6	-10 400	-0.3
External interest	-2446	-0.1	- 167	-0.0
Sources	57 240	1.9	104 622	3.3
Internal borrowing	81 484	2.7	158 038	5.0
Securities debt	171 111	5.7	265 483	8.4
Banking debt	-92 922	-3.1	-126 753	-4.0
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	3 294	0.1	19 308	0.6
Relationship TN/Bacen	767	-	-	-
External borrowing	-25 011	-0.8	-53 416	-1.7
GDP flows in 12 months ^{1/}	3 004 881		3 143 016	

^{1/} GDP at current prices.

Nominal interests, appropriated on an accrual basis, accounted for 5.40% of GDP in 2009, falling in line with the trajectory of the Selic average rate, 0.05 p.p. of GDP in the year. In this context, the nominal public sector deficit amounted to 3.34% of GDP compared with 1.9% of GDP in 2008. The funding of this result occurred, following a similar pattern noted in previous years, by expansion of the securities debt and other sources of domestic financing, including the monetary base and net reductions in banking debt and net foreign financing.

Federal securities debt

The federal securities debt outside the Central Bank, as measured by portfolio position totaled R\$1,398.4 billion, 44.4% of the GDP at the end of 2009, compared to R\$1,264.8 billion, 40.9% of GDP in 2008. The increase of 3.5 p.p. of the GDP reflected the occurrence of total net redemptions of R\$ 0.9 billion, the incorporation of interest totaling R\$137.9 billion and the contractionist effect of R\$3.4 billion due to the appreciation of the real against the dollar.

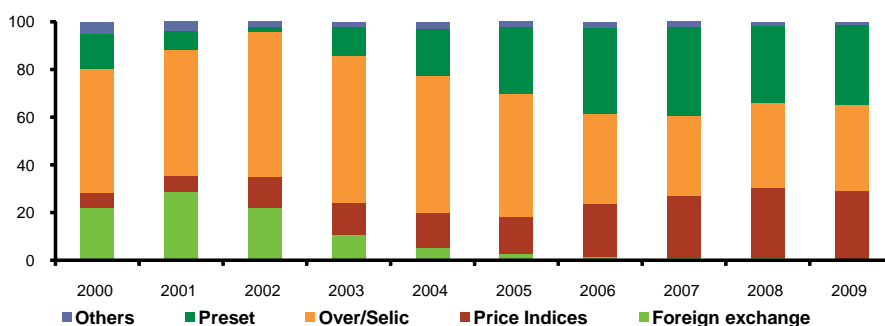
Table 4.6 – Federal securities – Portfolio position

Balances in R\$ million					
Itemization	2005	2006	2007	2008	2009
National Treasury liabilities	1 252 510	1 390 694	1 583 871	1 759 134	2 036 231
Central Bank portfolio	279 663	297 198	359 001	494 311	637 815
LTN	119 323	164 989	158 748	131 149	132 191
LFT	120 270	72 737	78 955	187 346	242 856
NTN	36 823	59 472	121 298	175 817	262 768
Securitized credits	3 247	0	0	0	0
Outside the Central Bank	972 847	1 093 495	1 224 871	1 264 823	1 398 415
LTN	263 436	346 984	325 149	239 143	247 270
LFT	504 653	412 034	409 024	453 131	500 224
BTN	48	39	27	30	18
NTN	167 379	296 598	451 132	538 380	621 479
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	15 799	14 532	13 903	14 306	12 851
Securitized credits	16 555	17 793	20 777	15 089	12 058
Agrarian debt	1 529	1 302	0	0	0
TDA	3 448	4 213	4 859	4 743	4 516
CDP	0	0	0	0	0
Central Bank liabilities	6 815	0	0	0	0
LBC	-	-	-	-	-
BBC/BBCA	-	-	-	-	-
NBCE	6 815	0	0	0	0
NBCF	-	-	-	-	-
NBCA	-	-	-	-	-
Outside the Central Bank – Total	979 662	1 093 495	1 224 871	1 264 823	1 398 415
In % of GDP	45.4	45.1	43.7	40.9	45.3

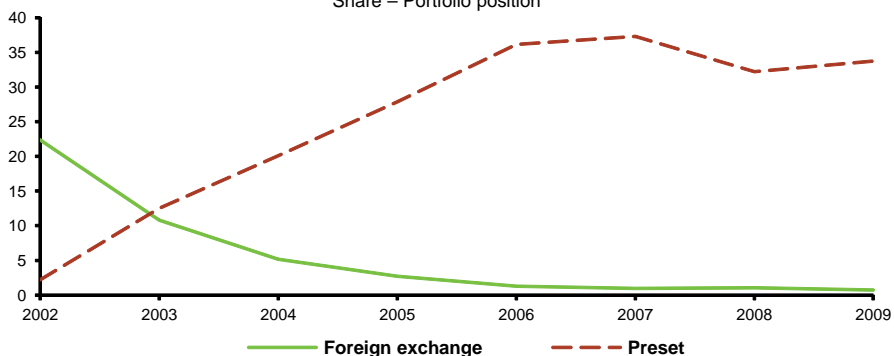
Securities for which the National Treasury is liable totaled R\$2,036.2 billion in December 2009, of which R\$637.8 billion were held by the Central Bank and R\$1,398.4 trillion were in the market.

The share of fixed-rate securities in the total debt, reflecting the incorporation of interest, increased 1.5 p.p. in the year, closing at 33.7% in December, whereas bonds indexed to the Selic rate remained at 35,8% and relating to securities tied to the exchange rate decreased from 0.4 p.p. to 0.7%. Additionally, the shares of securities indexed to the Reference Rate (TR) and those linked to price indices recorded respective reductions of 0.4 p.p. and 0.7 p.p. in the period, coming to 1.2% and 28.6% respectively.

Graph 4.2
Federal public securities
Participation by indexing factor



Graph 4.3
Federal securitized debt structure
Share – Portfolio position



Central Bank swap operations, which had totaled R\$27.8 billion in 2008, reported a null result as of July, due to the strategy used to even the quantities bought and sold in dollars. Considering the cash criterion, the cumulative result of these operations in 2009, equivalent to the difference between the ID profitability and the exchange variation plus coupon was favorable to the Central Bank in R\$3.2 billion.

Table 4.7 – Federal public securities

Percentage share by indexator – Portfolio position

Index numbers	2005	2006	2007	2008	2009
Total – R\$ million	979 662	1 093 495	1 224 871	1 264 823	1 398 415
Foreign exchange	2.7	1.3	0.9	1.1	0.7
Reference Rate (TR)	2.1	2.2	2.1	1.6	1.2
IGP-M	7.0	6.4	5.8	5.1	4.6
Over/Selic	51.8	37.8	33.4	35.8	35.8
Preset	27.9	36.1	37.3	32.2	33.7
Long-term Interest Rate (TJLP)	0.0	0.0	0.0	0.0	0.0
IGP-DI	1.1	0.9	0.7	0.6	0.4
INPC	0.0	0.0	0.0	0.0	0.0
IPCA	7.4	15.3	19.8	23.6	23.6
Others	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

The Annual Financing Plan (PAF) of the 2009 federal debt defined the following minimum and maximum limits to be reached until the end of the year for the shares of the indexing factors in the total debt: Fixed rate securities, 24% and 31%, tied to price indices, 26% and 30%; linked to the over/Selic rate, 32% and 38%; linked to the exchange rate, 7% and 11%. In December, these percentages reached, respectively, 25.8%, 21.9%, 27.4% and 0.5%.

Repo operations carried out in the open market, representing very short and short-term credit, reached R\$454.7 billion in December, compared to R\$325.2 billion in December 2008, registering year net sales of securities amounting R\$89.1 billion and interest incorporation of R\$40.5 billion.

The amortization schedule of the securities debt in the market, except for financing transactions, referring to December, showed that 21.6% of the debt matures in 2010, 20.8% in 2011, and 57.6% in January 2012. It is worth mentioning that the maturity structure for bonds maturing in 12 months, 21.6%, stood at 3.4 p.p. below the limit set by the PAF in 2009, which was 25%. The average debt maturity in December was 40.4 months, 0.4 months below the minimum limit set in the PAF in 2009, which set the range between 40.8 and 44.4 months.

Public Sector Net Debt

The Public Sector Net Debt (PSND) closed at R\$1,345.3 billion in 2009, 42.8% of GDP, compared to 38.4% in 2008, representing the first increase in the annual ratio of PSND/GDP since 2002. It is important to emphasize that the evolution of the exchange rate has been an important variable for the level of indebtedness. Accordingly, the

Table 4.8 – Repo operations – Open market

Balances and percentage share

Period		R\$ million				
		Up to 1 month		More than 1 month		Total
		Balance	%	Balance	%	Balance
2003	Dec	43 742	78.5	11 975	21.5	55 717
2004	Dec	7 797	16.5	39 410	83.5	47 207
2005	Dec	-24 430	-106.9	47 286	206.9	22 856
2006	Dec	5 800	9.7	54 231	90.3	60 030
2007	Mar	41 656	39.3	64 281	60.7	105 937
	Jun	10 198	7.5	126 562	92.5	136 760
	Sep	7 561	4.3	168 525	95.7	176 086
	Dec	-1 460	-0.9	167 274	100.9	165 813
2008	Mar	37 349	18.2	167 643	81.8	204 991
	Jun	42 818	18.4	190 311	81.6	233 129
	Sep	87 261	30.9	195 107	69.1	282 368
	Dec	88 303	29.4	212 188	70.6	300 491
2009	Mar	124 877	33.7	246 066	66.3	370 943
	Jun	68 826	17.8	316 797	82.2	385 624
	Sep	60 179	14.0	369 497	86.0	429 676
	Dec	31 846	7.4	396 029	92.6	427 874

exchange rate depreciation of 32% observed in 2008 contributed 2.6 p.p. of the GDP to the annual reduction of the net indebtedness, while the appreciation of 25.5% reported in 2009 exerted an impact of 2.5 p.p. of the GDP increasing PSND/GDP. It should be highlighted that in that year, the respective contributions of 5.4 p.p. and 0.3 p.p. inherent to the ownership of nominal interest parity and the adjustment of the currency basket comprising the net foreign debt, partially neutralized by the effects associated with primary surplus, to the GDP growth and privatizations, amounted, in the order of 2.1 p.p., 1.7 p.p. and 0.1 p.p. of GDP.

The evolution of the PSND composition in 2009 reflected, in particular, the reduction of the credit share linked to the exchange rate, because of the marked appreciation in the year, and increased portion of the creditor share linked to the TJLP, in line with growth of the Federal Government assets together with BNDES, depending on the granting of credit by this institution, by the Federal Government, through placement of government securities in its portfolio. It also highlighted the annual growth of 3.8 p.p. to 62% of debt linked to the Selic rate.

The Gross General Government Debt (GGGD), represented by the debts of the Federal Government, Social Security and regional governments, totaled R\$1,973.4 billion in 2009, representing 62.8% of GDP. The annual increase of 5 p.p. of the GDP reflects largely the impact of the incorporation of nominal interest and net debt issues, neutralized in part by the effect of nominal GDP growth and currency appreciation.

Table 4.9 – Public sector net debt growth

Itemization	2006		2007	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	1 112 701	47.0	1 200 799	45.1
Net debt – Growth accumulated in the year	77 423	0.5	88 098	-1.8
Conditioning factors (flows accumulated in the year): ^{1/}	77 423	3.3	88 098	3.3
Public sector borrowing requirements	83 890	3.5	71 492	2.7
Primary	-76 828	-3.2	-89 730	-3.4
Nominal interest	160 718	6.8	161 222	6.1
Exchange adjustment ^{2/}	-6 890	-0.3	21 016	0.8
Domestic securities debt indexed to exchange rate ^{3/}	-2 222	-0.1	-2 432	-0.1
External debt	-4 667	-0.2	23 449	0.9
External debt adjustment – Others	2 847	0.1	-2 516	-0.1
Acknowledgement of debt	- 375	-0.0	-630	-0.0
Privatizations	-2049	-0.1	-1 265	-0.0
GDP Growth effect – Debt ^{4/}		-2.7		-5.1
GDP accumulated in 12 months – Valued ^{5/}	2 369 484		2 661 344	

(continues)

Table 4.9 – Public sector net debt growth (concluded)

Itemization	2008		2009	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	1 153 631	38.4	1 345 325	42.8
Net debt – Growth accumulated in the year	-47 168	-6.7	191 694	4.4
Conditioning factors (flows accumulated in the year): ^{1/}	-47 168	-1.6	191 694	6.1
Public sector borrowing requirements	57 240	1.9	104 622	3.3
Primary	-106 420	-3.5	-64 517	-2.1
Nominal interest	163 660	5.4	169 139	5.4
Exchange adjustment ^{2/}	-77 373	-2.6	79 754	2.5
Domestic securities debt indexed to exchange rate ^{3/}	3 180	0.1	-3 414	-0.1
External debt	-80 553	-2.7	83 168	2.6
External debt adjustment – Others	-26 404	-0.9	10 880	0.3
Acknowledgement of debt	135	0.0	-345	-0.0
Privatizations	- 767	-0.0	-3217	-0.1
GDP Growth effect – Debt ^{4/}		-5.2		-1.7
GDP in R\$ million ^{5/}	3 004 881		3 143 016	

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: $Dt-1 / (PIB \text{ present month} / PIB \text{ base month}) - Dt-1$.

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).

Table 4.10 – Public sector net debt

Itemization	2008		2009	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt (G=E-F)	1 003 829	33.4	1 108 451	35.3
Internal debt methodological adjustment (F)	119 997	4.0	116 583	3.7
Fiscal net debt with exchange devaluation (E=A-B-C-D)	1 123 826	37.4	1 225 034	39.0
External debt methodological adjustment (D)	-14 448	-0.5	79 600	2.5
Asset adjustment (C)	113 770	3.8	113 425	3.6
Privatization adjustment (B)	-69 517	-2.3	-72 734	-2.3
Total net debt (A)	1 153 631	38.4	1 345 325	42.8
Federal government	760 249	25.3	971 724	30.9
Banco Central do Brasil	-31 922	-1.1	-39 189	-1.2
State governments	359 575	12.0	350 339	11.1
Local governments	55 379	1.8	56 066	1.8
State enterprises	10 351	0.3	6 385	0.2
Internal net debt	1 482 193	49.3	1 633 255	52.0
Federal government	633 793	21.1	876 731	27.9
Banco Central do Brasil	451 188	15.0	368 999	11.7
State governments	343 521	11.4	335 899	10.7
Local governments	52 879	1.8	54 059	1.7
State enterprises	813	0.0	-2 433	-0.1
Foreign net debt	-328 561	-10.9	-287 930	-9.2
Federal government	126 456	4.2	94 993	3.0
Banco Central do Brasil	-483 110	-16.1	-408 188	-13.0
State governments	16 054	0.5	14 440	0.5
Local governments	2 500	0.1	2 007	0.1
State enterprises	9 538	0.3	8 819	0.3
GDP in R\$ million ^{1/}	3 004 881		3 143 016	

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 4.11 – Gross and net government debt^{1/}

Itemization	2008		2009	
	R\$ million	% of GDP	R\$ million	% of GDP
Public sector net debt (A=B+K+L)	1 153 631	38.4	1 345 325	42.8
General government net debt (B=C+F+I+J)	1 175 203	39.1	1 378 129	43.8
General government gross debt (C=D+E)	1 740 888	57.9	1 973 424	62.8
Internal debt (D)	1 595 878	53.1	1 861 984	59.2
Foreign debt (E)	145 010	4.8	111 440	3.5
Federal government	126 456	4.2	94 993	3.0
State government	16 054	0.5	14 440	0.5
Local government	2 500	0.1	2 007	0.1
General government assets (F=G+H)	-563 425	-18.8	-830 612	-26.4
Domestic assets (G)	-563 425	-18.8	-830 612	-26.4
General government available assets	-292 507	-9.7	-445 177	-14.2
Social security system investments	-1 307	-0.0	-58	-0.0
Tax collected (not transferred)	-1 639	-0.1	-1 767	-0.1
Demand deposits	-8 351	-0.3	-7 746	-0.2
Federal government available assets in Bacen	-255 217	-8.5	-406 354	-12.9
Investment in the banking system (states)	-25 993	-0.9	-29 252	-0.9
Credits with official financial institutions	-43 087	-1.4	-144 787	-4.6
Hybrid capital and debt instruments	-7 633	-0.3	-15 550	-0.5
Credits with BNDES	-35 454	-1.2	-129 237	-4.1
Investment in funds	-61 700	-2.1	-73 851	-2.3
Credits with public enterprises	-18 977	-0.6	-16 518	-0.5
Other federal government's credits	-10 974	-0.4	-10 249	-0.3
Worker assistance fund (FAT)	-136 181	-4.5	-140 030	-4.5
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)	169 156	5.6	183 105	5.8
Exchange Equalization (J)	-171 416	-5.7	52 212	1.7
Banco Central net debt (K)	-31 922	-1.1	-39 189	-1.2
Public enterprises net debt (L)	10 351	0.3	6 385	0.2
GDP in R\$ million ^{2/}	3 004 881		3 143 016	

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).

Collection of taxes and federal contributions

The collection of federal taxes and contributions, excluding contributions to the General Social Security System (RGPS), totaled R\$ 497.6 billion in 2009 (15.8% of GDP), against R\$505.2 billion (16.8% of the GDP) in the previous year, registering a real reduction of 6.2%, considering the IPCA (Extended National Consumer Price Index) as a deflator.

Due to the economic crisis that lasted until the end of the third quarter, the collection happened in an environment of slowing economic activity associated with a comprehensive program of tax relief.

Table 4.12 – Gross federal revenues

R\$ million					
Itemization	2006	2007	2008	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	160 286	191 755	191 598	19.6	-0.1
Industrialized Products Tax (IPI)	33 853	39 466	30 752	16.6	-22.1
Import Tax (II)	12 254	17 235	16 092	40.6	-6.6
Financial Operations Tax (IOF)	7 834	20 342	19 244	159.7	-5.4
Contribution to the Financing of the Social Security (Cofins)	102 838	120 800	117 887	17.5	-2.4
Social Contrib. on the Profits of Legal Entities (CSLL)	34 485	43 972	44 238	27.5	0.6
Contribution to PIS/Pasep	26 817	31 598	31 755	17.8	0.5
Provisional Contribution on Financial Transactions (CPMF)	36 483	1 150	286	-96.8	-75.1
Contribution on Intervention in the Economic Domain (Cide)	7 937	5 985	4 827	-24.6	-19.3
Other taxes	26 134	32 895	40 940	25.9	24.5
Total	448 921	505 198	497 619	12.5	-1.5

Source: Ministério da Fazenda/Receita Federal do Brasil

The performance of the tax inflow in 2009 reflected the impact of the downturn in the level of economic activity and temporary tax relief undertaken by the federal government in order to stimulate aggregated demand, estimated at R\$24.9 billion by the Federal Revenue Secretariat of Brazil (RFB). Additionally, it must be mentioned that the compensation effects of unduly payments or payments in excess related to the Contribution to Social Security Financing (Cofins), Social Integration Program (PIS)/Civil Service Asset Formation Program (Pasep) and Contribution on Intervention in the Economic Domain (Cide), worth R\$3 billion.

Conversely, the level of revenue was boosted by the impact of atypical revenue, of which R\$8.9 billion for the transfer of judicial deposits to the National Treasury account (Provisional Measure no. 468, of August 31, 2009), and R\$5.3 billion related to the payment of debts in arrears. Similarly, it must be highlighted the impact of increases

in the Financial Operations Tax (IOF), in the settlement of exchange operations for the inflow of resources in Brazil, carried out by foreign investors, for investments in financial markets and capital, and Social Contribution on Net Corporate Profits (CSLL) at the expense of financial institutions.

Table 4.13 – Income Tax and Industrialized Products Tax

R\$ million

Itemization	2007	2008	2009	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	160 252	191 721	191 598	19.6	-0.1
Individuals	13 654	14 987	14 840	9.8	-1.0
Corporate entities	69 971	84 692	84 519	21.0	-0.2
Financial institutions	13 573	12 635	13 610	-6.9	7.7
Other companies	56 432	72 091	70 909	27.7	-1.6
Withholdings	76 627	92 042	92 239	20.1	0.2
Labor earnings	42 349	51 610	52 179	21.9	1.1
Capital earnings	21 421	24 853	22 926	16.0	-7.8
Remittances abroad	7 800	9 565	10 657	22.6	11.4
Other earnings	5 057	6 014	6 477	18.9	7.7
Industrialized Products Tax (IPI)	33 851	39 465	30 752	16.6	-22.1
Tobacco	2 803	3 210	3 312	14.5	3.2
Beverages	2 583	2 437	2 291	-5.7	-6.0
Automotive vehicles	5 208	6 001	2 054	15.2	-65.8
Other taxes	15 555	17 415	14 685	12.0	-15.7
Linked imports	7 702	10 402	8 410	35.1	-19.2

Source: Ministério da Fazenda/Receita Federal do Brasil

Social security

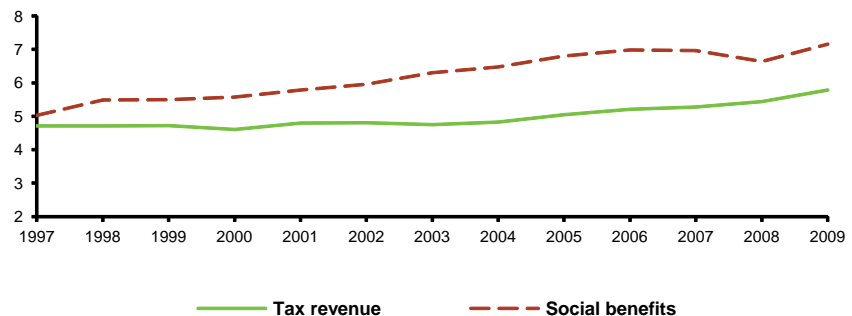
The Social Security deficit reached R\$42.9 billion, 1.36% of the GDP in 2009, interrupting the sequence of two consecutive annual reductions. Revenues in the scenario of high wage bill, amounted to 11.4% in the year, while expenditures, highlighting the impact of increases in the average value of benefits paid, reached 10.1%; the average amount of benefits paid, 3.3%; and the payment of judicially mandated payments and court rulings, R\$1 billion, grew 12.7%.

Table 4.14 – Social Security

Itemization	R\$ million				
	2007	2008	2009	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Net inflow	140 412	163 355	182 008	16.3	11.4
Gross inflow	154 589	180 891	201 172	17.0	11.2
Social security contribution	142 774	167 758	183 110	17.5	9.2
Other revenues	11 815	13 133	18 062	11.2	37.5
Refund	520	545	555	4.8	1.8
Transfers to third parties	13 657	16 991	18 609	24.4	9.5
Social security benefits	185 293	199 562	224 876	7.7	12.7
Primary result	-44 881	-36 207	-42 868

Source: Ministério da Previdência e Assistência Social

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



State and municipal finances

Tax on the Circulation of Merchandises and Services (ICMS) totaled R\$ 229.3 billion in 2009 (7.3% of GDP), rising 2.7% over the previous year, with emphasis on the marked increases in Pernambuco, 10.6%; Goiás, 9.3%, Santa Catarina, 7.4%, Rio de Janeiro, 5.3% and Sao Paulo, 1.2%, states jointly responsible by 52.2% of the total collection of the ICMS.

The transfers to states and municipalities by the Federal government totaled R\$127.7 billion in 2009, 4.1% of GDP. The annual reduction of 0.4 p.p. of the GDP reflected, in particular, the combination of the following factors:

- reduction of R\$4.3 billion in transfers to Revenue Sharing Funds, in line with the decrease in the collection of shared revenues (IPI and income tax);
- a decrease of R\$1.3 billion in transfers provided by Complementary Law no. 115, of December 26, 2002 (compensation to states, because of the unburdening of exports); and

Table 4.15 – Payment of the Tax on the Circulation of Merchandise and Services (ICMS)

R\$ million					
Itemization	2007	2008	2009	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
São Paulo	63 192	76 322	78 507	20.8	2.9
Rio de Janeiro	15 671	17 836	19 100	13.8	7.1
Minas Gerais	19 333	23 214	22 349	20.1	-3.7
Rio Grande do Sul	12 258	14 825	15 087	20.9	1.8
Paraná	10 086	11 767	12 311	16.7	4.6
Bahia	8 941	10 239	10 143	14.5	-0.9
Santa Catarina	6 823	7 944	8 528	16.4	7.4
Goiás	5 231	6 143	6 717	17.4	9.3
Pernambuco	5 416	6 209	6 866	14.6	10.6
Espírito Santo	5 878	7 001	6 670	19.1	-4.7
Other states	34 817	41 669	42 975	19.7	3.1
Total	187 645	223 168	229 253	18.9	2.7

Source: Ministério da Fazenda/Confaz

- c) reduction of R\$616 million in transfers made based on the collection of the CIDE, reflecting the reduction in the amount charged on sales of gasoline and compensation undue payments or made in excess.

Conversely, shipments for the Fund for the Maintenance of Primary Education and Teaching Enhancement (Fundef) and the financial assistance to municipalities, have increased also, R\$1.9 billion, while those associated with the payment of royalties decreased R\$3 billion, resulting in an increase of R\$0.8 billion in other transfers.

Table 4.16 – Federal government onlendings to states and municipalities

R\$ million					
Itemization	2007	2008	2009	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Constitutional onlendings (IPI, IR and others)	82 239	101 881	97 561	23.9	-4.2
Export Compensation Fund	3 888	5 216	3 900	34.2	-25.2
Cide transfers	1 850	1 579	962	-14.6	-39.1
Others ^{1/}	17 628	24 400	25 261	38.4	3.5
Total	105 605	133 076	127 684	26.0	-4.1

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.