

CENTRAL GOVERNMENT FISCAL RESULT

In December 2008, the Central Government generated a primary deficit equivalent to R\$ 20.0 billion, compared to a deficit of R\$ 4.4 billion in the previous month and a primary deficit of R\$ 8.1 billion in December 2007. The National Treasury contributed to the month's performance with a deficit of R\$ 21.7 billion. In their turn, the Social Security System (RGPS) and the Central Bank ended the month with a respective surplus of R\$ 1.7 billion and a deficit of R\$ 58.4 million. The result of the month reflected, mainly, the expenses related to paid-in capital for the Fiscal Investment and Stabilization Fund (FFIE) from the Sovereign Fund of Brazil (SFB), in a total amount of R\$ 14.2 billion (check Box 1). Without this impact, the Central Government deficit would have reached R\$ 5.8 billion, or R\$ 2.2 billion above the result of 2007. It is important to mention that the Social Security surplus in December 2008 is due to the anticipation of the payment of the annual Christmas bonus for pensioners and for retired people to the end of November 2008. Additionally, the contributions on the workers' annual Christmas bonus were registered in December.

Central Government primary surplus in December reflected the expenses related to paid-in capital for the Fiscal Investment and Stabilization Fund (FFIE) from the SFB, in a total amount of R\$ 14.2 billion.

TABLE 1
CENTRAL GOVERNMENT PRIMARY BALANCE(*)
BRAZIL, 2007-2008

DESCRIPTION	R\$ Million			
	NOV 2008	DEC 2008	JAN-DEC 2007	JAN-DEC 2008
I. TOTAL REVENUE	55,273.6	69,330.2	618,872.9	716,647.0
I.1. National Treasury Revenues	41,496.7	46,151.5	477,142.0	551,332.4
I.1.1 Gross Revenue (1)	43,743.4	47,252.5	490,924.4	564,721.2
I.1.2. (-) Restitutions	-2,246.7	-1,099.9	-13,772.3	-13,387.7
I.1.3. (-) Fiscal Incentives	0.0	-1.1	-10.1	-1.1
I.2. Social Security Revenues	13,559.2	22,964.2	140,411.8	163,355.3
I.3. Central Bank Revenues	217.7	214.6	1,319.1	1,959.3
II. TRANSFERS TO STATES AND MUNICIPALITIES	14,261.4	14,515.9	105,604.7	133,075.5
III. TOTAL NET REVENUE (I-II)	41,012.2	54,814.3	513,268.2	583,571.5
IV. TOTAL EXPENDITURE	45,434.0	60,593.3	455,442.8	497,926.4
IV.1 Treasury Expenditures	27,381.8	39,093.6	268,185.6	295,933.0
IV.1.1. Payroll (1)	12,456.1	15,859.9	116,372.0	130,829.1
IV.1.2. Current and Capital Expenditures	14,819.7	23,087.8	151,292.8	164,061.4
IV.1.2.1. Worker Support Fund (FAT)	1,581.0	1,708.8	18,472.2	21,026.3
IV.1.2.2. Economic Subsidies and Grants (2)	1,064.4	1,204.3	10,021.0	6,005.9
IV.1.2.3. Assistance Benefits (LOAS/RMV)	1,378.4	1,392.1	14,192.0	16,036.2
IV.1.2.4. Other Current and Capital Expenditures	10,796.0	18,782.6	108,607.6	120,993.1
IV.1.2.4.1. Other Current Expenditures	7,874.7	13,467.1	86,498.9	92,724.4
IV.1.2.4.2. Other Capital Expenditures	2,921.3	5,315.5	22,108.7	28,268.7
IV.1.3. Transfer from Treasury to Central Bank	106.0	145.9	520.8	1,042.5
IV.2. Social Security Benefits	17,783.9	21,226.7	185,293.4	199,562.0
IV.3. Central Bank Expenditures	268.3	273.0	1,963.8	2,431.3
V. SOVEREIGN FUND OF BRAZIL - SFB (3)	-	14,244.0	-	14,244.0
VI. CENTRAL GOVERNMENT PRIMARY RESULT (III - IV)	-4,421.8	-20,023.0	57,825.4	71,401.1
VI.1. National Treasury	-146.5	-21,702.1	103,351.7	108,079.9
VI.2. Social Security (RGPS) (4)	-4,224.7	1,737.5	-44,881.7	-36,206.7
VI.3. Central Bank (5)	-50.6	-58.4	-644.7	-472.0
VII. PRIMARY RESULT/GDP			2.23%	2.46%

(*) Data revised, subject to changes. Does not include FGTS contribution revenues or monetary restatement complement expenses as provided in Complementary Law 110/2001.

(1) Excludes the employer share of federal civil service CPSS payments from revenues originating in contributions to the Social Security Plan (CPSS) and personnel outlays, with no impact on the consolidated primary result.

(2) Includes outlays on grants to regional funds and, as of 2005, spending on the restructuring of liabilities.

(3) Expenses related to paid-in capital for the Fiscal Investment and Stabilization Fund (FFIE) from the SFB, as established by Law 11,887/2008, MP 452/2008 and Decree 6,713/2008.

(4) Contribution Revenues less Social Security Benefits.

(5) Administrative expenditures net of own revenues (includes transfers from the National Treasury).

CENTRAL GOVERNMENT BALANCE BRAZIL, JAN - DEC (% GDP)		
DISCRIMINATION	2007	2008
National Treasury	3.98%	3.72%
Social Security	-1.73%	-1.25%
Central Bank	-0.02%	-0.02%
Central Government	2.23%	2.46%

Central Government primary surplus reached R\$ 71.4 billion in 2008, equivalent to 2.46% of estimated GDP for the period. Considering the savings for the SFB, the primary surplus reached R\$ 85.6 billion, equivalent to 2.95% of GDP.

MAIN VARIATIONS ACCUMULATED JAN-DEC: %		
DISCRIMINATION	2007/2006	2008/2007
Revenues	13.9%	15.8%
Treasury	14.0%	15.5%
Social Security	13.7%	16.3%
Transfers	13.8%	26.0%
Net Revenue	13.9%	13.7%
Expenditures	13.3%	9.3%
Benefits	11.9%	7.7%
Payroll	10.3%	12.4%
Current and Capital	17.9%	8.4%
FAT	20.7%	13.8%
Subsidies	4.6%	-40.1%
LOAS/RMV	21.9%	13.0%
Other	18.3%	11.4%
Current	16.4%	7.2%
Capital	26.5%	27.9%
Estimated GDP	9.6%	11.7%

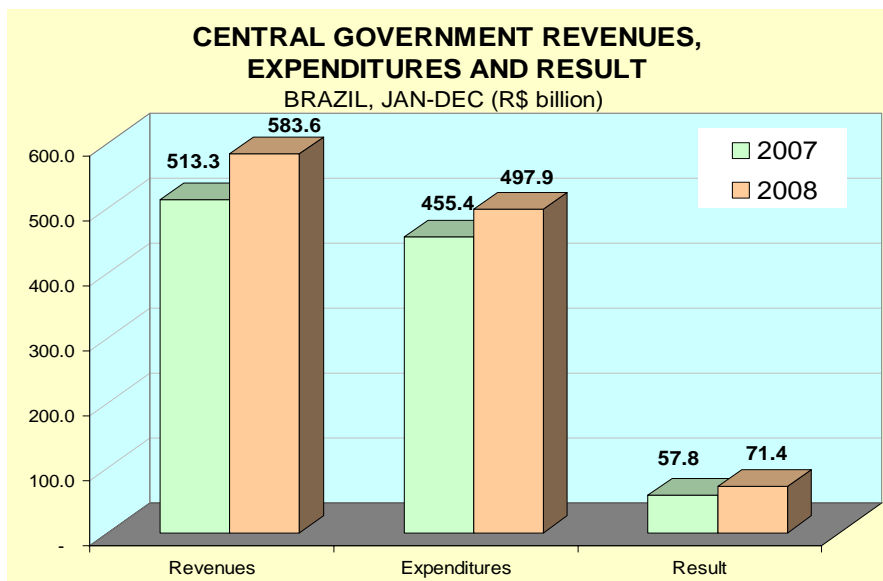
The increase of revenues of the National Treasury in December, compared to the previous month, is due to seasonal factors.

Within the year primary surplus reached R\$ 71.4 billion, equivalent to 2.46% of estimated GDP for the period, against a surplus of R\$ 57.8 billion in 2007, equivalent to 2.23% of GDP. Considering the savings for the Sovereign Fund of Brazil – SFB, the primary surplus reached R\$ 85.6 billion, equivalent to 2.95% of GDP. This way, primary surplus target (R\$ 63.4 billion), established in the Budget Guideline Law (LDO-2008), is fulfilled. This result, together with the expectation of a surplus from the federal enterprises indicates the fiscal target of primary surplus established in LDO-2008 for the whole Federal Government is to be accomplished.

Gross incomes of the National Treasury showed a R\$ 3.5 billion (8.0%) increase in December, determined mainly by seasonal elements: i) payment of the collection of IRRF – Capital Earnings on investment funds due to the 6-month period ended in December (Law 10,892/2004); and ii) payment related to the operating permits for 3G cell phone services. Transfers to states and municipalities remained almost the same of the previous month, once increase of R\$ 2.5 billion in constitutional transfers was greatly compensated by the seasonal reduction of royalties and special partnership on the exploration of oil and natural gas reserves. Regarding expenditures, there was an increase of R\$ 11.7 billion (42.8%) compared to November, mainly explained by the increase of R\$ 8.3 billion (55.8%) on current and capital outlays and of R\$ 3.4 billion (27.3%) related to personnel and payroll charges, mainly expenses denoted by financial impacts from payment of the second part of the annual Christmas bonus of the Executive Branch, as well as the additional payment owed by civil servants from vacations.

In the year, Central Government surplus was R\$ 13.6 billion (23.5%) higher than in 2007. Within this context, the National Treasury generated a surplus of R\$ 108.1 billion, while the Social Security System (RGPS) and the Central Bank generated respective deficits of R\$ 36.2 billion and R\$ 472.0 million.

Central Government revenues, remaining after transfers to the states and municipalities, expanded 1.7% above nominal GDP growth in the period (11.74%), while Central Government outlays registered a decline of 2.2%.



The behaviour of revenues reflects the excellent performance of the economy, mainly in the first ten months of the year, as well as the administrative measures and legal actions endeavoured by the RFB and PGFN to recover debts. Collection of fines and interests increased 17.4%, including debts subject to judicial charging (back taxes), compared to 2007. In light of their legislative impact, the major changes introduced in 2008 were: i) extinction of CPMF and upward movement in IOF rates, scheduled to go into effect since January; ii) quota reduction of CIDE – Fuels on gasoline and diesel and upward movement in CSLL rates from 9% to 15% on the earnings of financial institutions, with effect from June on; and iii) change in the payment period of the industrialized products tax (IPI) on automobiles from a 10-daily to a monthly basis, as of July and IPI on beverage as of September.

The Central Government revenue increase of 15.8% in 2008 is mainly a result of economic growth, with evident impacts on business profits, and recovery of debts in arrears, with significant reflects on the growth of payments of fines and interest.

The major increases in tax and contribution revenues were as follows: i) IRPJ (R\$ 14.8 billion or 21.3%) and CSLL (R\$ 9.6 billion and 27.8%), as a result of increases under the items Monthly Tax Estimate and Presumed Profits, whose inflows are based mainly on the earnings of financial institutions, as well as the non-typical inflow of R\$ 2.2 billion with reference to debts from previous fiscal years; ii) IRRF – Labor Earnings (R\$ 9.3 billion or 21.9%), due to the growth in overall wages and to the difference in taxable events that resulted from the transition rule set down by Law 11,196/2005 (article 70, paragraph); and iii) Cofins (R\$ 18.3 billion or 17.9%), due to the increase of imported goods and the increase of the earnings of enterprises. Finally, other revenues expanded 37.1%, to a great extent as a result of the R\$ 4.0 billion increase in inflows from concession companies exploring oil and natural gas reserves, and from operating permits for 3G cell phone services; due to the increase of R\$ 6.4 billion on

TRANSFERS TO STATES AND MUNICIPALITIES
 BRAZIL, JAN - DEC (% GDP)

DISCRIMINATION	2007	2008
Constitutional (IR/IPI/Other)	3.17%	3.51%
CIDE - Fuels	0.07%	0.05%
Comp. Law 115/2002 ¹	0.15%	0.18%
Other	0.68%	0.84%
Total	4.07%	4.58%

¹ Includes financial support.

dividends, as well as an increase of R\$ 8.0 billion in financial compensation quotas, as a result of increased international market oil prices in the majority of the year.

In nominal terms, transfers to states and municipalities expanded 26.0% (R\$ 27.5 billion), thus surpassing growth in Treasury revenues (15.5%). These transfers totaled 4.6% of GDP, against 4.1% of GDP in 2007. Constitutional transfers (FPM and FPE) expanded 23.9% (R\$ 19.6 billion) in the period, above estimates of nominal GDP growth (11.74%) and fully in line with the behavior of shared taxes (income tax and IPI).

NATIONAL TREASURY EXPENDITURES
 Brazil, JAN-DEC (% GDP)

DESCRIPTION	2007	2008
National Treasury	10.32%	10.20%
Payroll	4.48%	4.51%
Capital and Current	5.82%	5.65%
FAT	0.71%	0.72%
Subsidies and Subventions/1	0.39%	0.21%
LOAS/RMV	0.55%	0.55%
Others	4.18%	4.17%
Transfers to Central Bank	0.02%	0.04%

¹ Including expenditures with subvention to regional funds and, since 2005, outlays with realignment of liabilities.

National Treasury expenditures expanded 10.3% (R\$ 27.7 billion) compared to 2007. Nominal increase on personnel and payroll charges reached 12.4% (R\$ 14.5 billion), reflecting, among other reasons, payments involving governmental career restructuring from the three branches of the Brazilian Government. Thus, outlays on the civil service payroll, which accounted for 4.48% of GDP in 2007, reached 4.51% of GDP in 2008.

In 2008, while current expenditures decreased 4.1% below the estimated GDP growth compared to 2007, capital outlays grew 14.4% above GDP growth. The RGPS deficit dropped from 1.73% of GDP to 1.25% in the same period.

In its turn, spending on subsidies and economic grants registered a nominal decrease of R\$ 4.0 billion compared to 2007. This heading posted a reduction of 18 basis points of GDP, moving from 0.39% in 2007 to 0.21% in 2008. This behaviour is mainly explained by the R\$ 1.4 billion expenses in agriculture securitization in 2007, not observed in 2008, as well as the increase in net inflows from the National Development Fund (R\$ 1.9 billion).

SOCIAL SECURITY BENEFITS
 BRAZIL, AVERAGE JAN - DEC

DISCRIMINATION	2007	2008	%
Quantity RGPS*	21.9	22.4	2.7%
Average Value RGPS*	606.7	649.7	7.1%

 (*) in millions
 (**) in R\$ 1.00

With regard to other current and capital outlays, compared to the cumulative amount through 2007, growth came to 11.4% (R\$ 12.4 billion), from which 7.2% (R\$ 6.2 billion) refer to current outlays and 27.9% (R\$ 6.2 billion) to capital expenditures. Therefore, though current outlays closed 4.1% below estimated nominal GDP growth for the period, capital spending expanded 14.4% above GDP growth.

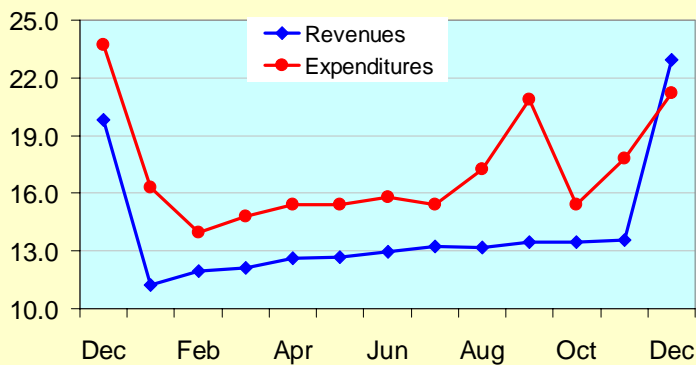
SOCIAL SECURITY BALANCE
 BRAZIL, JAN - DEC (% GDP)

DISCRIMINATION	2007	2008
Contribution	5.41%	5.63%
Benefits	7.13%	6.88%
Primary Balance	-1.73%	-1.25%

The Social Security deficit reached R\$ 36.2 billion in 2008, against R\$ 44.9 billion in 2007 (reduction of 19.3%). Net inflows increased from R\$ 140.4 billion to R\$ 160.4 billion (16.3%). This growth was driven mainly by inflows of social security contributions, which moved from R\$ 142.8 billion to R\$ 167.8 billion (increase of 17.5%), explained primarily by growth in overall wages, which impacts contributions on payroll. In their turn, outlays on benefits increased R\$ 14.6 billion (7.7%), reaching a volume of R\$ 199.6 billion. Just as in previous months, RGPS primary deficit declined as a proportion of GDP, dropping to 1.25%, 48 b.p. below the level registered in 2007 (1.73%).

SOCIAL SECURITY REVENUES AND EXPENDITURES

BRAZIL, 2007/2008 (R\$ billion)



Box 1 – Sovereign Fund of Brazil (SFB) Statistical Treatment of the paid-in capital for the Fiscal Investment and Stabilization Fund (FFIE) from the SFB

On December 30 2008, the National Treasury implemented the financial operation of the paid-in capital for the Fiscal Investment and Stabilization Fund (FFIE) from the SFB, totaling R\$ 14,244.0 million, as established by Law 11,887/2008, MP 452/2008 and Decree 6,713/2008. The creation of a sovereign fund in Brazil – a growing tendency in many countries around the world – tries to promote investments in assets both in the country and abroad. Therefore, it is an instrument to stimulate public savings, smooth the effects of economic cycles and promote strategic projects for Brazil in other nations.

Statistical Treatment of the paid-in capital

It is important to indicate that FIEE has a private nature. This way, fiscal impacts only appear when there are capital transactions with financial assets of the FIEE done by the SFB. Acquisition or selling of capital from an investment fund represents primary expenditure or primary income, respectively. Thus, contributed capital has a negative impact on the primary surplus while bond selling boosts it. The recording of the primary operations involving FIEE is to be shown on its net value under the heading “V. SOVEREIGN FUND OF BRAZIL – SFB”, that is, paid-in capital minus sold-up bonuses. Its impact on the primary result is reflected under the heading “VI. CENTRAL GOVERNMENT PRIMARY RESULT”. This way, these operations are registered separated from revenues and incomes. This treatment is essential to avoid the existence of non-continuing revenue and expenses time series, preserving the adequate analysis of the evolution of those headings and, at the same time, setting aside the operations of increase or decrease of public savings via FFIE.

Characteristics of the Bond Issue

The financial operation involving the paid-in capital of the FFIE was held taking account the bond market, issuing 10,201,373 bonds in a total of R\$ 14,244.0 million, from which R\$ 3,171.5 million of LTN due in 01/01/11; R\$ 4,934.2 million of NTN-B, due in 08/15/12, 05/15/13, 08/15/24 and 05/15/35; R\$ 2,040.9 million of NTN-F, due in 01/01/12 and 01/01/13; and R\$ 4,097.3 million of LFT, due in 09/07/10 and 03/16/11. The issues were authorized by National Treasury Ordinance 736/2008.