

**CENTRAL GOVERNMENT FISCAL RESULT**

In September, the Central Government generated a primary result surplus equivalent to R\$ 6.0 billion, compared to R\$ 6.3 billion in the previous month and R\$ 38.7 million in September 2007. The National Treasury contributed to the month's performance with a surplus of R\$ 13.6 billion. In their turn, the Social Security System (RGPS) and Central Bank closed with respective deficits of R\$ 7.4 billion and R\$ 139.9 million.

*The primary Central Government result in the first nine months of 2008 reached R\$ 80.8 billion, equivalent to 3.81% of estimated GDP for the period.*

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

DESCRIPTION	R\$ Million			
	AUG 2008	SEP 2008	JAN-SEP 2007 2008	
<b>I. TOTAL REVENUE</b>	<b>58,451.1</b>	<b>60,006.9</b>	<b>444,507.2</b>	<b>526,247.8</b>
<b>I.1. National Treasury Revenues</b>	<b>45,128.5</b>	<b>46,373.6</b>	<b>346,546.5</b>	<b>411,628.0</b>
I.1.1 Gross Revenue (1)	46,932.0	47,818.2	354,813.6	419,856.0
I.1.2. (-) Restitutions	-1,803.5	-1,444.6	-8,257.0	-8,228.1
I.1.3. (-) Fiscal Incentives	0.0	0.0	-10.1	0.0
<b>I.2. Social Security Revenues</b>	<b>13,193.2</b>	<b>13,430.0</b>	<b>97,108.1</b>	<b>113,356.2</b>
<b>I.3. Central Bank Revenues</b>	<b>129.4</b>	<b>203.3</b>	<b>852.5</b>	<b>1,263.6</b>
<b>II. TRANSFERS TO STATES AND MUNICIPALITIES</b>	<b>12,080.6</b>	<b>9,530.0</b>	<b>76,464.3</b>	<b>94,115.3</b>
<b>III. TOTAL NET REVENUE (I-II)</b>	<b>46,370.5</b>	<b>50,476.9</b>	<b>368,042.9</b>	<b>432,132.4</b>
<b>IV. TOTAL EXPENDITURE</b>	<b>40,112.9</b>	<b>44,469.3</b>	<b>316,547.2</b>	<b>351,304.3</b>
<b>IV.1 Treasury Expenditures</b>	<b>22,690.6</b>	<b>23,279.6</b>	<b>182,304.5</b>	<b>204,474.1</b>
IV.1.1. Payroll (1)	9,524.0	9,949.1	84,091.8	92,090.9
IV.1.2. Current and Capital Expenditures	13,098.4	13,255.8	97,925.3	111,789.1
IV.1.2.1. Worker Support Fund (FAT)	2,651.4	1,911.4	13,126.4	15,439.2
IV.1.2.2. Economic Subsidies and Grants (2)	-1,294.4	535.5	4,747.8	3,053.2
IV.1.2.3. Assistance Benefits (LOAS/RMV)	1,351.8	1,366.8	10,001.1	11,890.3
IV.1.2.4. Other Current and Capital Expenditures	10,389.6	9,442.0	70,050.0	81,406.4
IV.1.2.4.1. Other Current Expenditures	7,355.0	7,094.9	57,554.7	63,159.7
IV.1.2.4.2. Other Capital Expenditures	3,034.6	2,347.1	12,495.3	18,246.7
IV.1.3. Transfer from Treasury to Central Bank	68.2	74.6	287.4	594.1
<b>IV.2. Social Security Benefits</b>	<b>17,253.5</b>	<b>20,846.5</b>	<b>132,848.9</b>	<b>145,166.5</b>
<b>IV.3. Central Bank Expenditures</b>	<b>168.8</b>	<b>343.2</b>	<b>1,393.8</b>	<b>1,663.8</b>
<b>V. CENTRAL GOVERNMENT PRIMARY RESULT (III - IV)</b>	<b>6,257.5</b>	<b>6,007.6</b>	<b>51,495.7</b>	<b>80,828.1</b>
V.1. National Treasury	10,357.2	13,564.0	87,777.7	113,038.6
V.2. Social Security (RGPS) (3)	-4,060.3	-7,416.5	-35,740.8	-31,810.3
V.3. Central Bank (4)	-39.4	-139.9	-541.3	-400.2
<b>VIII. PRIMARY RESULT/GDP</b>			<b>2.74%</b>	<b>3.81%</b>

(\*) 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) Contribution Revenues less Social Security Benefits.

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

MAIN VARIATIONS ACCUMULATED 2008/2007	
DISCRIMINATION	%
<b>Revenues</b>	<b>18.39%</b>
Treasury	18.78%
Social Security	16.73%
<b>Transfers</b>	<b>23.08%</b>
<b>Net Revenue</b>	<b>17.41%</b>
<b>Expenditures</b>	<b>10.98%</b>
Benefits	9.27%
Payroll	9.51%
Current and Capital	14.16%
FAT	17.62%
Subsidies	-35.69%
LOAS/RMV	18.89%
Other	16.21%
Current	9.74%
Capital	46.03%
<b>Estimated GDP</b>	<b>12.80%</b>

The result of the month reflected the increase of the Central Government's net revenue, explained mainly by the increase of revenues of the National Treasury and the seasonal reduction of transfers to states and municipalities. Additionally, it reflected the increase of expenses, mainly social security benefits, due to the the payment of the first installment of the annual Christmas bonus to the majority of Social Security dependents.

With reference to the revenues, there was an increase of R\$ 1.2 billion,

CENTRAL GOVERNMENT BALANCE BRAZIL, JAN - SEP (% GDP)		
DISCRIMINATION	2007	2008
National Treasury	4.67%	5.33%
Social Security	-1.90%	-1.50%
Central Bank	-0.03%	-0.02%
<b>Central Government</b>	<b>2.74%</b>	<b>3.81%</b>

*The increase of revenues of the National Treasury in September, compared to the previous month, comes from non-typical reasons, from seasonal elements and from the increase of the exchange rate.*

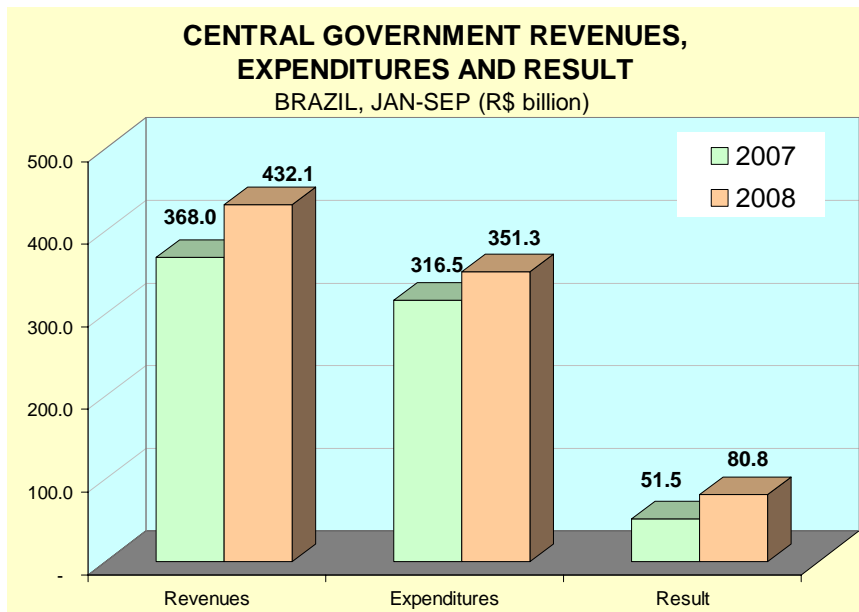
mainly located on inflows: i) IRPF (R\$ 556.5 million) due to the effect of non-typical inflow of capital gains from the selling of an enterprise; ii) IPI linked to imports and the import tax (R\$ 226.3 million and R\$ 210.8 million, respectively) because of the exchange rate; iii) ITR (R\$ 225.7 million) due to the payment of the first or the only installments for the year of 2007; and iv) directly collected revenues (R\$ 542.0 million). These effects were partially compensated by the reduction of R\$ 1.5 billion on dividends this month.

Regarding expenditure, there was an increase of R\$ 588.9 million compared to August, from which R\$ 425.1 million related to personnel and payroll charges and R\$ 1.8 billion related to subsidies and economic grants, due to the net receiving of R\$ 1.7 billion from FND in August, against R\$ 9.7 million this month. These effects were partially compensated by the reduction of R\$ 743.4 million on outflows of bonus and social security benefits on unemployment and of R\$ 947.6 million on other current and capital outlays, mainly on expenses of additional credits and on discretionary expenses.

MAIN REAL VARIATIONS (ABOVE NOMINAL GDP GROWTH) (% ACCUMULATED JAN-SEP)		
DISCRIMINATION	07/06	08/07
<b>Revenues</b>	<b>1.9%</b>	<b>5.0%</b>
Treasury	1.6%	5.3%
Social Security	3.3%	3.5%
<b>Transfers</b>	<b>2.6%</b>	<b>9.1%</b>
<b>Net Revenue</b>	<b>1.7%</b>	<b>4.1%</b>
<b>Expenditures</b>	<b>2.5%</b>	<b>-1.6%</b>
Benefits	1.0%	-3.1%
Payroll	2.2%	-2.9%
Current and Capital	5.2%	1.2%
FAT	9.7%	4.3%
Subsidies	-7.7%	-43.0%
LOAS/RMV	6.4%	5.4%
Other	5.2%	3.0%
Current	3.0%	-2.7%
Capital	16.5%	29.5%

The Social Security deficit reached R\$ 7.4 billion in September, compared to the R\$ 4.1 billion in the previous month (increase of 82.7%). This situation reflects the anticipation of part of the financial impacts of the payment of the first quota of the annual Christmas bonus to August with major impacts in September. A minor parcel of this impact had already happened in the previous month, due to the legislative changes which came after Law 11,665/2008. These changes modified article 41-A of Law 8,213/1991 (Social Security Benefits Plan).

In the year, the Central Government result was 57.0% higher than in the same period of 2007 (R\$ 80.8 billion, against R\$ 51.5 billion). As a consequence, the primary result moved from 2.74% to 3.81% of estimated GDP for the period. Central Government revenues, net of transfers to the states and municipalities, expanded 4.1% above nominal GDP growth in the period (12.8%), while Central Government outlays registered a decline of 1.6%.



The behavior of revenues reflects the excellent performance of the economy as well as the administrative measures taken by the RFB and PGFN in their efforts to recover debts. Collection of fines and interest increased 31.8%, including debts subject to judicial charging, compared to the first nine months of 2007. In light of their legislative impact, the major alterations introduced in 2008 were: i) extinction of CPMF and upward movement in IOF rates, scheduled to go into effect as of 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 18.4% 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 (29.9%) and CSLL (34.8%), as a result of increases under the items Monthly Estimate and Presumed Profits, the inflows of which are based mainly on the earnings of financial institutions, as well as the non-typical inflow of R\$ 1.9 billion with reference to debts from previous fiscal years; ii) IRRF – Labor Earnings (23.9%), due to growth in overall wages and to the difference in generating facts that resulted from the transition rule set down in Law 11,196/2005 (article 70, paragraph); iii) import tax (36.4%), due to growth in taxed imports, expressed in dollars; and iv) IRPF (21.2%), as a result of capital gains taxes on property transfers. Finally, other revenues expanded 39.4%, to a great extent as a result of the R\$ 3.3 billion increase in inflows from concession companies working oil and natural gas reserves and from permissions of cell telephone services; due to the increase of R\$ 6.3 billion on dividends, as well as

a R\$ 5.8 billion in financial compensation quotas, as a result of increased international market oil prices.

TRANSFERS TO STATES AND MUNICIPALITIES BRAZIL, JAN - SEP (% GDP)		
DISCRIMINATION	2007	2008
Constitutional (IR/IPI/Other)	3.15%	3.49%
CIDE - Fuels	0.07%	0.06%
Comp. Law 115/2002 <sup>1</sup>	0.16%	0.07%
Other	0.68%	0.82%
<b>Total</b>	<b>4.07%</b>	<b>4.44%</b>

<sup>1</sup> Includes financial support.

*Personnel and payroll charges expenditure reached 2.9% below nominal estimated GDP growth rate for the period.*

In nominal terms, transfers to states and municipalities expanded 23.1% (R\$ 17.7 billion), thus surpassing growth in Treasury revenues (18.8%). These transfers totaled 4.44% of GDP, against 4.07% of GDP in 2007. Constitutional transfers (FPM and FPE) expanded 24.8% (R\$ 14.7 billion) in the period, above estimates of nominal GDP growth (12.8%) and fully in line with the behavior of shared taxes (income tax and IPI).

National Treasury expenditure expanded 12.2% (R\$ 22.2 billion) compared to the first nine months of 2007. Nominal increase on personnel and payroll charges reached 9.5% (R\$ 8.0 billion), reflecting, among other reasons, payments involving the restructuring of careers in government service. However, these outflows were 2.9% below the nominal GDP growth rate. Outlays on the civil service payroll, which accounted for 4.47% of GDP at the end of September 2007, dropped to 4.34% of GDP in the same period of 2008.

NATIONAL TREASURY EXPENDITURES BRAZIL, JAN - SEP (% GDP)		
DISCRIMINATION	2007	2008
<b>Payroll</b>	<b>4.47%</b>	<b>4.34%</b>
<b>Capital and Current</b>	<b>5.21%</b>	<b>5.27%</b>
FAT Expenditures	0.70%	0.73%
Subsidies and Grants <sup>1</sup>	0.25%	0.14%
LOAS/RMV	0.53%	0.56%
Other	3.73%	3.84%
<b>Transfers to Central Bank</b>	<b>0.02%</b>	<b>0.03%</b>

<sup>1</sup> Includes outlays on grants to regional funds and, as of 2005, spending on the restructuring of liabilities.

*Through September 2008, while current expenditures decreased 2.7% below the estimated GDP growth compared to the same period of 2007, capital outlays grew 29.5% above GDP growth. The RGPS deficit dropped from 1.90% of GDP to 1.50% in the same period.*

In its turn, spending on subsidies and economic grants registered a nominal decrease of R\$ 1.7 billion compared to the same period of the previous year. This heading posted a reduction of 0.11 p.p. of GDP, moving from 0.25% in 2007 to 0.14% in 2008. This behaviour is mainly explained by the increase of net inflows from the National Development Fund (R\$ 911.4 million), by the decrease of current outlays on agriculture and cattle raising (R\$ 531.4 million) and by the reduction of the expenses related to the Federal Government Acquisition program (falloff of R\$ 492.5 million).

With regard to other current and capital outlays, compared to the cumulative amount through September of last year, growth came to 16.2% (R\$ 11.4 billion) with 9.7% (R\$ 5.6 billion) referring to current outlays and 46.0% (R\$ 5.8 billion) to capital expenditure. Therefore, though current outlays closed 2.7% below estimated nominal GDP growth for the period, capital spending expanded 29.5% above GDP growth.

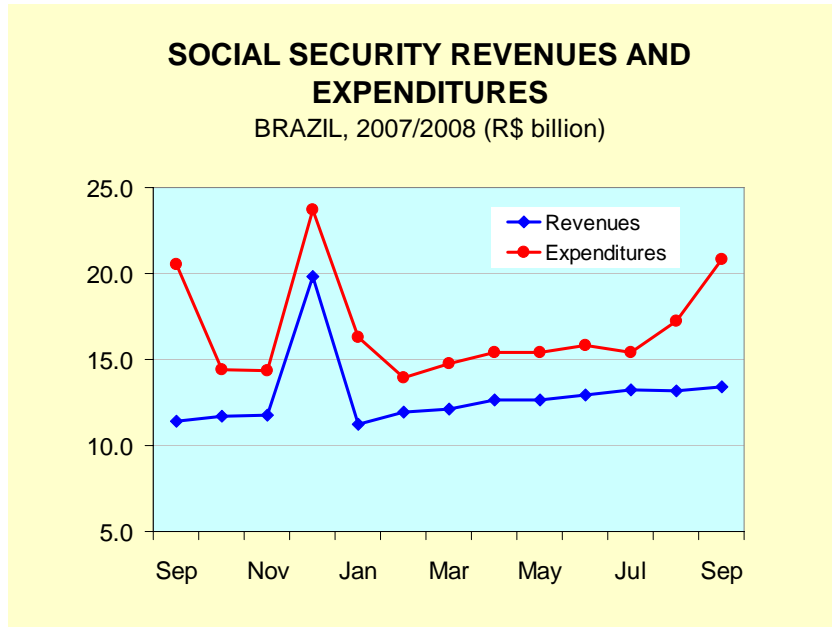
The Social Security deficit reached R\$ 31.8 billion in the first nine months of 2008, against R\$ 35.7 billion in the same period of 2007 (reduction of 11.0%). Net inflows increased from R\$ 97.1 billion to R\$ 113.4 billion (16.7%). This growth was driven mainly by inflows of social security contributions, which moved from R\$ 98.6 billion to R\$ 116.9 billion (increase of 18.6%), explained primarily by growth in overall wages, which impacts contributions on payroll. In their turn, outlays on benefits increased R\$ 12.3 billion (9.3%), reaching a volume of R\$ 145.2 billion. Just as in previous months, the primary

SOCIAL SECURITY BENEFITS BRAZIL, AVERAGE JAN - SEP			
DISCRIMINATION	2007	2008	%
Quantity RGPS*	21.8	22.3	2.5%
Average Value RGPS*	588.2	629.0	6.9%

(\*) in millions

(\*\*) in R\$ 1.00

deficit of the RGPS declined as a proportion of GDP, dropping to 1.50%, 0.40 p.p. below the level registered in the same period of 2007 (1.90%).



<b>SOCIAL SECURITY BALANCE</b> BRAZIL, JAN - SEP (% GDP)		
<b>DISCRIMINATION</b>	<b>2007</b>	<b>2008</b>
Contribution	5.17%	5.35%
Benefits	7.07%	6.85%
<b>Primary Balance</b>	<b>-1.90%</b>	<b>-1.50%</b>