

CENTRAL GOVERNMENT FISCAL RESULT

In February 2009, the Central Government generated a primary deficit equivalent to R\$ 926.2 million, compared to a surplus of R\$ 4.0 billion in January. The National Treasury contributed to the month's performance with a surplus of R\$ 1.6 billion, while the Social Security System (RGPS) showed a deficit of R\$ 2.6 billion. In its turn, the Central Bank recorded a surplus of R\$ 27.6 million. The decrease of the Central Government result in the month is connected to the seasonal behavior of tax revenues in January.

Central Government primary deficit in February 2009 reached R\$ 926.2 million.

TABLE 1
CENTRAL GOVERNMENT PRIMARY BALANCE(*)
BRAZIL, 2008-2009

| DESCRIPTION | R\$ Million | | | |
|---|-----------------|-----------------|------------------|------------------|
| | JAN 2008 | FEB 2008 | JAN-FEB 2008 | JAN-FEB 2009 |
| I. TOTAL REVENUE | 62.843,4 | 48.344,8 | 114.685,1 | 111.188,2 |
| I.1. National Treasury Revenues | 50.690,2 | 35.003,7 | 91.292,0 | 85.693,9 |
| I.1.1 Gross Revenue (1) | 50.866,3 | 35.364,1 | 91.763,8 | 86.230,4 |
| I.1.2. (-) Restitutions | -176,1 | -360,4 | -471,9 | -536,5 |
| I.1.3. (-) Fiscal Incentives | 0,0 | 0,0 | 0,0 | 0,0 |
| I.2. Social Security Revenues | 12.031,8 | 13.169,2 | 23.134,4 | 25.201,0 |
| I.2.1 Social Security Revenues - Urban (2) | 11.733,2 | 12.867,7 | 22.515,2 | 24.600,8 |
| I.2.2 Social Security Revenues - Rural (2) | 298,6 | 301,5 | 619,3 | 600,2 |
| I.3. Central Bank Revenues | 121,4 | 171,9 | 258,7 | 293,3 |
| II. TRANSFERS TO STATES AND MUNICIPALITIES | 10.457,2 | 10.934,3 | 21.567,8 | 21.391,6 |
| III. TOTAL NET REVENUE (I-II) | 52.386,2 | 37.410,5 | 93.117,3 | 89.796,7 |
| IV. TOTAL EXPENDITURE | 48.410,6 | 38.336,7 | 72.537,5 | 86.747,3 |
| IV.1 Treasury Expenditures | 29.896,0 | 22.436,0 | 41.970,7 | 52.332,1 |
| IV.1.1. Payroll (1) | 16.495,0 | 11.181,5 | 22.077,3 | 27.676,5 |
| IV.1.2. Current and Capital Expenditures | 13.346,9 | 11.146,7 | 19.801,8 | 24.493,6 |
| IV.1.2.1. Worker Support Fund (FAT) | 1.465,5 | 1.553,8 | 2.481,3 | 3.019,3 |
| IV.1.2.2. Economic Subsidies and Grants (3) | 1.077,8 | 186,0 | 609,2 | 1.263,7 |
| IV.1.2.3. Assistance Benefits (LOAS/RMV) | 1.386,5 | 1.467,8 | 2.395,3 | 2.854,3 |
| IV.1.2.4. Other Current and Capital Expenditures | 9.417,2 | 7.939,1 | 14.315,9 | 17.356,3 |
| IV.1.2.4.1. Other Current Expenditures | 7.923,4 | 6.728,7 | 11.941,3 | 14.652,1 |
| IV.1.2.4.2. Other Capital Expenditures | 1.493,8 | 1.210,4 | 2.374,6 | 2.704,2 |
| IV.1.3. Transfer from Treasury to Central Bank | 54,2 | 107,8 | 91,7 | 162,0 |
| IV.2. Social Security Expenditures (Benefits) | 18.369,5 | 15.756,4 | 30.250,7 | 34.125,9 |
| I.2.1 Social Security Benefits - Urban (2) | 14.689,1 | 12.599,5 | 24.302,9 | 27.288,5 |
| I.2.2 Social Security Benefits - Rural (2) | 3.680,5 | 3.156,9 | 5.947,8 | 6.837,4 |
| IV.3. Central Bank Expenditures | 145,0 | 144,3 | 316,1 | 289,3 |
| V. SOVEREIGN FUND OF BRAZIL - SFB (4) | 0,0 | 0,0 | 0,0 | 0,0 |
| VI. CENTRAL GOVERNMENT PRIMARY RESULT (III - IV) | 3.975,6 | -926,2 | 20.579,8 | 3.049,3 |
| VI.1. National Treasury | 10.336,9 | 1.633,3 | 27.753,4 | 11.970,3 |
| VI.2. Social Security (RGPS) (5) | -6.337,7 | -2.587,2 | -7.116,2 | -8.924,9 |
| I.2.1 Social Security (RGPS) - Urban (2) | -2.955,9 | 268,2 | -1.787,7 | -2.687,7 |
| I.2.2 Social Security (RGPS) - Rural (2) | -3.381,8 | -2.855,4 | -5.328,5 | -6.237,2 |
| VI.3. Central Bank (6) | -23,6 | 27,6 | -57,4 | 4,0 |
| VII. PRIMARY RESULT/GDP | | | 4,63% | 0,66% |

(*) 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) Data from the Social Security Ministry. The RGPS result divided between urban and rural is done with specific methodology from the Social Security Ministry.

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

(4) 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.

(5) Contribution Revenues less Social Security Benefits.

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

| MAIN VARIATIONS ACCUMULATED 2009/2008 | |
|--|---------------|
| DISCRIMINATION | % |
| Revenues | -3.05% |
| Treasury | -6.13% |
| Social Security | 8.93% |
| Transfers | -0.82% |
| Net Revenue | -3.57% |
| Expenditures | 19.59% |
| Benefits | 12.81% |
| Payroll | 25.36% |
| Current and Capital | 23.69% |
| FAT | 21.68% |
| Subsidies | 107.42% |
| LOAS/RMV | 19.16% |
| Other | 21.24% |
| Current | 22.70% |
| Capital | 13.88% |
| Estimated GDP | 4.45% |

Gross incomes of the Central Government decreased R\$ 15.5 billion (30.5%), going from R\$ 50.9 billion in January to R\$ 35.4 billion in February. This behavior is determined mainly by the following elements: i) collection, in January, of the 1st or single quota of IRPJ and CSLL, together with financial

The behavior of revenues of Central Government in the month is due to seasonal factors, mainly collections in January regarding taxable events that occurred in the final quarter of the previous year (IRPJ, CSLL and financial compensation quotas).

compensation quotas, related to taxable events that occurred in the final quarter of the previous year; ii) concentration of collection resulting from interest on private-owned capital in January, impacting both IRRF – Capital Earnings and IRRF – Remittances Abroad, with no correspondence in February; iii) larger sales in December, impacting collection of Cofins in January, with no correspondence in the month under analysis. Contrariwise, there was an inflow of R\$ 1.3 billion on dividends in February, with no correspondence in the previous month.

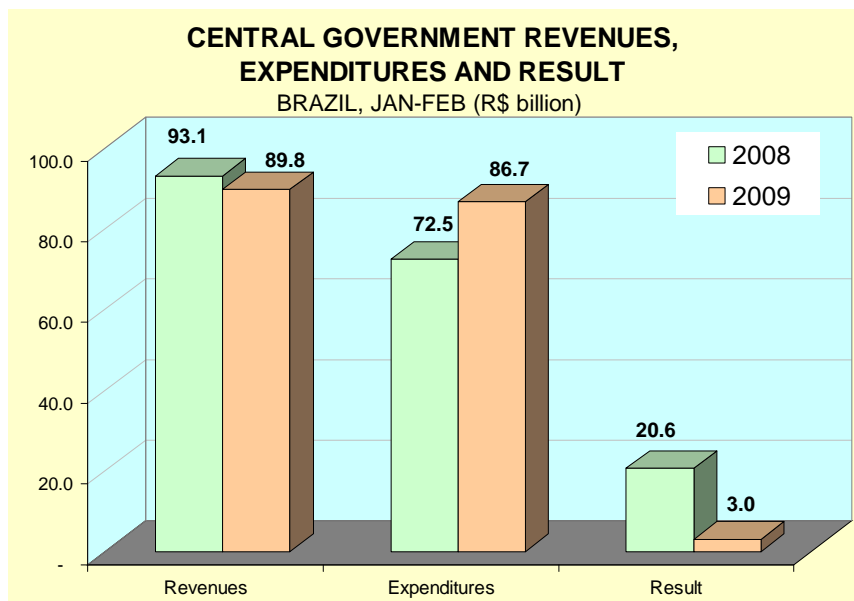
Transfers to States and Municipalities showed a nominal increase of 4.6% (R\$ 477,1 million). The rise of R\$ 808.5 million in royalty transfers was partially offset by the drop of R\$ 609.6 million in transfers to Constitutional funds (FPE and FPM).

Concerning expenses, there was a drop of R\$ 7.5 billion in the expenditures of the Central Government compared to January, mainly due to seasonality of payroll expenditures (decrease of R\$ 5.3 billion), and decline of R\$ 2.2 billion in current and capital expenditures, explained mainly by the reduction of R\$ 1.5 billion in “other current and capital expenditures”, because of the payment of R\$ 1.5 billion in court decisions in January, compared to R\$ 95.0 million in February.

Social Security deficit dropped 59,2% (R\$ 3.4 billion) compared to January, going from R\$ 6.3 billion to R\$ 2.6 billion, especially due to the decrease in judicially determined expenditures related to Social Security benefits, which concentrated in January. The division of social security expenditures by clientele shows that the urban part of RGPS recorded a surplus of R\$ 268.2 million in the month, compared to a deficit of R\$ 3.0 billion in January, while the rural part displayed a deficit of R\$ 2.9 billion, compared to a deficit of R\$ 3.4 billion in the previous month.

In the first two months of the year, Central Government primary surplus reached R\$ 3.0 billion.

In the first two months of the year, Central Government surplus reached R\$ 3.0 billion, compared to R\$ 20.6 billion recorded in the same period of 2008. Such a behavior is due to non-typical factors found both in the current and previous year. Central Government revenues, net of transfers to States and Municipalities, showed a nominal decrease of 3.6% in the period, while Central Government expenditures showed a rise of 19.6%.



Central Government gross revenue dropped 6.0% (R\$ 5.5 billion) compared to the first two months of the previous year, mainly due to the following reasons: i) strong anticipation of collection, in January and February 2008, of additional IRPJ and CSLL claims related to 2007, reflecting profits earned then; ii) decrease of 16.0% in the period from December 2008 to January 2009 compared to the period from December 2007 to January 2008 in manufacturing output, impacting IPI collection; iii) compensation of debts of R\$ 2.7 billion in Cofins, PIS/Pasep and Cide – Fuels in 2009, because of undue payment or overpayment in the previous year; and iv) change on the IPI – Automobiles’ chart on taxable events from January to March 2009, as well as the introduction of the same mechanism to the stock of vehicles that remained unsold up to December 12th, 2008 (Decree 6,687/2008).

The behavior of revenues of the Central Government in the first two months of the year is due to non-typical factors, especially the compensation of R\$ 2.7 billion in debts of Cofins, PIS/Pasep and Cide – Fuels.

In nominal terms, National Treasury expenditures expanded 24.7% compared to the same period in 2008, mainly due to the following elements: i) increase of R\$ 2.3 billion on payments of judicially determined amounts plus court decisions regarding current outlays and personnel and payroll charges; ii) payments involving governmental career and wages restructuring in the public sector; and iii) dynamics of discretionary expenses, which expanded R\$ 3.3 billion, mainly because of Ministry of Health, with expenses R\$ 2.0 billion over the same category of expenditure in 2008. On the other hand, extraordinary credit expenses decreased R\$ 596.3 million (66.4%).

The increase of National Treasury expenditures in 2009 is mainly due to payments of judicially determined amounts plus court decisions regarding current outlays and personnel and payroll charges, as well as the dynamics of discretionary expenses.

Finally, the Social Security deficit expanded 25.4% (R\$ 1.8 billion) compared to the equivalent period in 2008, going from R\$ 7.1 billion to R\$ 8.9 billion. Net inflows increased R\$ 2.1 billion (8.9%). This growth was

| SOCIAL SECURITY BALANCE | | | |
|--------------------------------|-----------------|-----------------|--------------|
| BRAZIL, JAN-FEB (R\$ billion) | | | |
| DISCRIMINATION | 2008 | 2009 | % |
| Contribution | 23,134.4 | 25,201.0 | 8.9% |
| Urban | 22,515.2 | 24,600.8 | 9.3% |
| Rural | 619.3 | 600.2 | -3.1% |
| Benefits | 30,250.7 | 34,125.9 | 12.8% |
| Urban | 24,302.9 | 27,288.5 | 12.3% |
| Rural | 5,947.8 | 6,837.4 | 15.0% |
| Primary Balance | -7,116.2 | -8,924.9 | 25.4% |
| Urban | -1,787.7 | -2,687.7 | 50.3% |
| Rural | -5,328.5 | -6,237.2 | 17.1% |

explained primarily by growth in overall wages, which impacts contributions on payroll. In their turn, outlays on social benefits increased R\$ 3.9 billion (12.8%), due to an increase of 13.5% on the average value of paid benefits, as a consequence of the increase of minimum wage (as well as the increase of payments above minimum wage), and the increase of 3.2% on the average quantity of paid benefits. It is important to mention the increase of R\$ 652.9 million on judicially determined amounts regarding social benefits.

The distribution of social security expenditures by clientele shows that the urban part of RGPS displayed a deficit of R\$ 2.7 billion, equivalent to 30.1% of the RGPS overall deficit, and the rural part recorded a deficit of R\$ 6.2 billion (69.9% of the RGPS deficit).