

# Economic policy measures

## Measures related to the financial system and credit market

**Resolution 2,917, dated 12.19.2001** – Permits creation of exclusive extramarket investment funds, the resources of which may be channeled into derivatives market operations with the objective of minimizing risks consequent upon lags between maturity and application of the indexing factor viewed in the context of the fund's assets and the liabilities of those holding quotas. This measure is aimed at providing greater flexibility to specific investors who have a real need for risk coverage.

**Resolution 2,920, dated 12.26.2001** - In the context of the program that imposed conditions on credit grants to the public sector, this measure specified an additional limit of R\$1.000.000.000,00 (one billion reals), as the overall value of credit operations contracted as of 12.26.2001 under the terms of Resolution 2,827, dated 3.30.2001. Operations under the terms of the Program of Tax Administration Modernization and Management of Basic Social Sectors (PMAT), which is supported by National Bank of Economic and Social Development (BNDES) financial resources, were excluded from the overall limit.

**Resolution 2,921, dated 1.17.2002** – Multiple banks, commercial banks, the Federal Savings Bank, investment banks, credit, finance and investment companies and leasing companies are permitted to perform earmarked credit operations based on resources made available by third parties, observing the following conditions:

- a) linkage between funding operations and the corresponding credit operation, as well as subordination of the obligatory deposit of these resources to the payment flow of the earmarked operation;

- b) earnings on the earmarked asset that are sufficient to cover the costs of the funding operation;
- c) compatibility between the cash flows of the credit and funding operations and a time period for the funding operation that is equal to or greater than that of the credit operation to which it is related;
- d) postponement of any payment to the creditor, including charges or amortizations, in cases of default in the corresponding credit operation.

Aside from the conditions cited above, the rendering of any type of guaranty by the contracting financial institution or by an individual/legal entity connected to that institution and that is included in the economic-financial consolidated result is prohibited. Earmarked asset operations are not included in the calculation of the client exposure limit, but are subject to the other operational limits and conditions defined in current legislation and regulations, including those related to risk classification and the constitution of provisions.

**Resolution 2,922, dated 1.17.2002** – Deals with investment of the resources belonging to complementary pension fund entities, insurance companies and capitalization companies in acquisitions of investment fund quotas in credit rights and investment funds composed of quotas of investment funds in credit rights, duly complying with the limits defined in current regulations.

**Circular 3,080, dated 1.17.2002** – In the context of the regulating of the activities of autonomous investment agents as foreseen in Resolution 2,838, dated 5.30.2001, this measure determined that employees of financial institutions who perform similar activities should comply with the formalities and conditions determined by the Securities and Exchange Commission (CVM), within a maximum term of one year as of the date of authorization of the entity in question.

**Circular 3,082, dated 1.30.2002** - This instrument is targeted at harmonizing criteria for accounting recording and evaluation of derivative financial institutions with internationally adopted practices, thus making it possible to more effectively measure the assets of these financial institutions.

**Resolution 2,931, dated 2.14.2002** – Considering the need for adjusting the accounting procedures used in evaluating financial investment funds and funds that invest in fund quotas to the new methodology adopted for classification and evaluation of securities, in compliance with the demands of the Council of Complementary Social Security Management (CGPC), this instrument maintained the obligatory nature of adoption of criteria for evaluating the assets included in the fund portfolio at their market value, with exception of the hypotheses expressly determined in Banco Central regulations.

**Resolution 2,933, dated 2.28.2002** – With the aim of providing the financial system with modern risk management instruments and in this way reduce the risk factor in the composition of the banking spread, this instrument granted financial institutions and other institutions authorized to operate by Banco Central to carry out credit derivative operations in the modalities, forms and conditions herein set down. Multiple banks, commercial banks, investment banks, the Federal Savings Bank, credit, finance and investment companies, real estate credit companies and leasing companies were authorized to act as the counterpart receiving the credit risk.

**Circular 3,088, dated 3.1.2002** – Determined that the demand for compulsory deposits and obligatory reserves on judicial deposits is to be complied with through the earmarking of federal public securities. Compliance based on the utilization of cash deposits or state public securities is no longer permitted.

**Circular 3,093, dated 3.1.2002** – This instrument redefined the rule covering earnings on obligatory reserves on savings deposit resources. Earnings are to be paid to the respective deposit account on the business day following the daily closing of the account and are to be calculated on the basis of the Reference Rate (TR) of each business day. The earnings level is valid for the period ended on the corresponding day of the subsequent month. In the case of the inexistence of the corresponding day, the first day of the subsequent month will be considered as the end of the period. The previous system of calculation determined that earnings would be based on the TR set weekly on Monday for the date of adjustment and applied according to the number of business days, following the criterion “pro-rata-die” up to the subsequent adjustment.

**Circular 3,097, dated 3.6.2002** – Determined new dates for remittances of financial statements as determined in the Accounting Plan of National Financial System Institutions (Cosif), to be observed by financial institutions, institutions authorized to operate by Banco Central and buyer group management entities, as of base date March 2002. It should be stressed that for quarterly analytical balance sheet positions (Cadoc 4010 and 4020), such positions should be delivered by the final day of the subsequent month, while the eighteenth of the month is reserved to the other base dates.

## **Fiscal policy measures**

**Constitutional Amendment 33, dated 12.11.2001** – Determined that the contribution on intervention in the economic domain may be levied on imports of goods or services received from abroad, including electricity, telecommunications services, petroleum derivatives, fuels, even when the party to whom such are channeled is an individual person who, in the case in question, can be considered as equivalent to a legal entity.

**Law 10,331, dated 12.18.2001** – Determined that, for the 2002 fiscal year, the general review index of the earnings and wages of federal civil servants will be 3.5% (three point five percent). By way of exception, the percentages granted in the previous fiscal year as a consequence of the reorganization or restructuring of positions and careers, creation and increases of bonuses or additional payments of any nature and species, advances and other advantages inherent to public positions and employment will not be deducted from the review.

**Law 10,336, dated 12.19.2001** – Instituted the Contribution on Intervention in the Economic Domain (Cide) on imports and marketing of petroleum and derivatives, natural gas and its derivatives and ethyl fuel alcohol to which articles 149 and 177 of the Federal Constitution refer, with the text provided by Constitutional Amendment 33, dated 12.11.2001.

According to the terms of budget law, the proceeds of the inflow will be channeled into:

- a) payment of fuel alcohol, natural gas and derivatives and petroleum derivative price or transportation subsidies;
- b) financing environmental projects related to the petroleum and gas industries;
- c) financing of transportation infrastructure programs.

In 2002, the effective utilization of the resources obtained from the CIDE will be evaluated and, as of 2003, the criteria and guidelines will be defined in specific legislation.

**Law 10,407, dated 1.10.2002** – Estimated federal government revenues and set expenditures for the 2002 fiscal year according to the terms of Law 10,266, dated 7.24.2001 (Law of Budget Guidelines for the 2002 fiscal year – LDO 2002), encompassing:

- a) the Fiscal Budget;
- b) the Social Security Budget;
- c) the Investment Budget of companies in which the federal government directly or indirectly holds a majority of the voting capital stock.

Total revenues estimated in the Fiscal and Social Security Budget are R\$650.4 billion, itemized as follows:

- a) R\$280.1 billion from the Fiscal Budget, excluding operations with public securities (refinancing of the federal public debt) and including that share of social contributions released for use as a result of Constitutional Amendment 27, dated 3.21.2000 (Release of Federal Government Funds), in the amount of R\$20.3 billion.
- b) R\$149.8 billion from the Social Security Budget;
- c) R\$220.5 billion corresponding to refinancing of the internal and external federal public debt.

Total outlays defined in the Fiscal and Social Security Budget came to R\$650.4 billion, itemized as follows:

- a) R\$262.9 billion from the Fiscal Budget;
- b) R\$167.1 billion from the Social Security Budget;
- c) R\$220.5 billion corresponding to refinancing of the federal public securities debt (R\$220.2 billion from the Fiscal Budget and R\$289 billion from the Social Security Budget).

**Provisional Measure 22, dated 1.8.2002** – Updated the income tax table by 17.5% on the earnings of individual persons, effective as of 1.1.2002. In much the same way, increases were also introduced into the amounts that taxpayers can deduct under the heading of outlays on education (from R\$1.700,00 to R\$1.998,00, per dependent) and outlays on dependents (increased from R\$1.080,00 to R\$1.272,00).

With this updating, the progressive monthly income tax table now has the following levels:

- a) earnings up to R\$1.058,00, zero rate;
- b) earning from R\$1.058,01 to 2.115,00, rate of 15%;
- c) above R\$2.115,00, rate of 27.5%.

**Provisional Measure 25, dated 1.23.2002** - Facilitated payment of pension fund debts with the Secretariat of Federal Revenue, reducing the tax load levied on this segment and making it possible for the funds to be included in government amnesties through application of Provisional Measure 2,222/2001.

In relation to MP 2,222/2001, the new measure reduced the calculation base of the taxes due by the funds. According to the new rules, only administrative revenues – excluding, therefore, revenues for payment of benefits – will be used as the calculation base for payment of PIS/Cofins, both in relation to taxes to mature and to past taxes.

In the case of the Social Contribution on the Profits of Legal Entities (CSLL), the calculation base continues as the surplus of the funds, however now with exclusion of the contingency reserves or, in other words, the provision of resources for cases of unforeseen outlays. With this, the surplus of the funds will be reduced and, consequently, payment of the CSLL will also decrease.

**Federal Senate Resolution 40, dated 12.20.2001** - Determined that the consolidated net debt of the states, Federal District and municipalities at the end of the fifteenth fiscal year as of the closing of the year of publication (or, in other words, at the end of 2016) may not exceed, respectively:

- a) in the case of the states and Federal District: 2 (two) times net current revenues;
- b) in the case of the municipalities: to 1.2 (one point two) times net current revenues.

In relation to the established limits, possible excesses should be reduced to a minimum proportion of 1/15 (one fifteenth) in each fiscal year.

**Federal Senate Resolution 43, dated 12.20.2001** - Treats of the internal and external credit operations of the states, Federal District and municipalities, including the granting of guaranties, their limits and authorization conditions.

Among the measures adopted, the two levels of government cited were prohibited from carrying out the following operations:

- a) anticipated reception of amounts from companies in which the public authority directly or indirectly holds the majority share of the voting capital, with the sole exception of profits and dividends, as determined in legislation;
- b) direct assumption of commitments, confessions of debt or similar operations with suppliers of goods, merchandise or services, based on the issue, acceptance or endorsement of credit securities, stressing that this prohibition is not applicable to dependent government companies;
- c) assumption of obligations with suppliers without budget authorization for a posteriori payment of goods and services;
- d) carrying out of a credit operations that represents a violation of refinancing agreements formalized with the federal government;
- e) granting of any subsidies or exemptions, reduction of the calculation base, granting of presumed credits, incentives, amnesties, remissions, rate reductions and any other tax, fiscal or financial benefits that may be in disagreement with the terms of the Federal Constitution;
- f) granting of rights related to the period subsequent to that of the term of the head of the Executive Branch in relation to credits consequent upon obligatory government participation in the modalities of royalties, special participation and financial compensation, in the result of the working of petroleum and natural gas deposits, water resources for electricity generation purposes and other mineral resources.

**Decree 4,120, dated 2.7.2002** – Introduced a reduction of R\$12.4 billion in expenditures on investments and other current expenditures foreseen in the federal government budget for 2002. Aside from several estimates having lagged prematurely, it was seen that outlays on personnel and charges will remain above the volume specified in Annual Budget Legislation.

The new revenue estimates are approximately R\$9 billion below the volume initially expected. The most severe losses are expected to occur under the heading of the income tax (R\$3.7 billion), due to the indexing of the withholding table; of revenues on public service concessions (R\$3.4 billion); and in the framework of the Tax on Industrialized Products and the Income Tax (R\$1.6 billion), due to lesser growth in the level of economic activity.

On the expenditure side, the heading of “personnel and social charges” is to absorb an additional R\$3.6 billion due to wage readjustments in the sectors of education and social security, increases in unemployment insurance and supplementary outlays on judicial sentences.

## Measures related to the foreign sector

**Decree 4,041, dated 12.3 2001** – Added a provision to article 8 of Decree 3,937, dated 9.25.2001, which regulates Law 6,704, dated 10.26.1979, which deals with Export Credit Insurance.

**Secex Circular 58, dated 11.21.2001** – Among the companies specified therein, distributes an import quota of 50,000 vehicles in the framework of the Brazil-Mexico Trade Preference Agreement.

**Decree 4,056, dated 12.14.2001** – Altered the IPI rate on the products cited (industrialized products involving informatics and telecommunications).

**Law 10,336, dated 12.19.2001** – Institutes the Contribution on Intervention in the Economic Domain (Cide) on the import and marketing of petroleum and its derivatives, natural gas and its derivatives and ethyl fuel alcohol, and takes other pertinent measures.

**Decree 4,060, dated 12.21.2001** – Extended the time period for federal government assumption of civil liabilities before third parties in the case of terrorist attacks or acts of war against aircraft belonging to Brazilian aviation companies, as determined in the provision of Law 10,309, dated 11.22.2001, and takes other measures.

**MAPA/MDIC Interministerial Directive 623, dated 12.21.2001** – Altered the criteria of the Coffee Retention Program. Cancels MAA/MDIC Interministerial Directive 197, dated 6.15.2001.

**Camex Resolution 42, dated 12.26.2001, rectified in the Federal Government Register (DOU) published on 1.9.2002** - Released the Common External Tariff (TEC) with the temporary addition of 1.5% to the List of Exceptions to the TEC and the BIT List of Convergence; as well as the new NCM based on amendments to the Nomenclature of the Harmonized System of Designation and Codification of Merchandise. Revokes Camex Resolutions 7, dated 3.22.2001; 16, dated 6.1.2001; 24, dated 6.26.2001; 27, dated 8.16.2001; 28 and 29, dated 8.29.2001; and 35, dated 11.1.2001.

**ANP Directive 312, dated 12.27.2001** – Regulated imports of solvents.

**ANP Directive 313, dated 12.27.2001** - Regulated imports of diesel oil.

**ANP Directive 314, dated 12.27.2001** – Regulated imports of automotive gasoline.

**ANP Directive 315, dated 12.27.2001** – Regulated exports of petroleum derivatives.

**Decree 4,059, dated 12.20.2001** - Regulated Law 10,295/2001, which treats of National Energy Conservation and Rational Use Policy.

**Communique 9,229, dated 1.31.2002** - Treats of operations involving Brazilian exports to Argentina when such exports are not processed on the basis of the Reciprocal Payments and Credits Agreement (CCR).

**Decree 4,089, dated 1.15.2002** - Promulgated the International Coffee Agreement – AICAFÉ/2001.

**Decree 4,100, dated 1.24.2002** - Treats of execution of the Protocol of Cuban Adherence to the Trade Fostering Agreement based on the lowering of Technical Trade Barriers, dated 8.8.2001 among Brazil, Argentina, Bolivia, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Venezuela, Uruguay, on the one hand, and Cuba, on the other, as determined in the 1980 Montevideo Treaty.

**Camex Resolution 1, dated 1.24.2002 (Ex-tariff)** - Altered the ad valorem rates of the import tax to 4% up to 12.31.2003, levied on Capital Goods and Informatics and Telecommunications Goods and on the Integrated Systems specified therein.

**Decree 4,117, dated 2.6.2002** – Treats of implementation of the Fourth Additional Protocol to ACE 39 between Brazil and the member countries of the Andean Community (Colombia, Ecuador, Peru and Venezuela).

**Provisional Measure 29, dated 2.7.2002** – Treats of authorization for creation of the Electric Power Wholesale Market (MAE), a legal entity governed by private law, and takes other measures.

**Provisional Measure 32, dated 2.18.2002** - Extended the authorization treated in Law 10,309, dated 11.22.2001, which treats of federal government assumption of civil liabilities before third parties in cases involving terrorist attacks or acts of war against aircraft belonging to Brazilian aviation companies.