

# ANNUAL REPORT

## 2 0 0 0



ISSN 0104-3307  
CGC 00038 166/0001-05

|                                    |          |       |               |      |            |
|------------------------------------|----------|-------|---------------|------|------------|
| Boletim do Banco Central do Brasil | Brasília | v. 36 | Annual Report | 2000 | P. 1 - 285 |
|------------------------------------|----------|-------|---------------|------|------------|

# Boletim do Banco Central do Brasil

Published monthly by the **Banco Central do Brasil/Department of Economics (Depec)**. The contents and their correspondent statistical tables are under the charge of the following component parts:

**The Brazilian economy** - Consultative Group on Economic Research and Analysis (Copec) (e-mail: copec.depec@bcb.gov.br); and  
Consultative Group on Domestic Economic Activity (Coace) (e-mail: coace.depec@bcb.gov.br);

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Subscription request: subscribers should complete the accompanying form at the last page and send it with a cheque for the appropriate amount payable to the Banco Central do Brasil at the following prices: R\$258,00 (domestic) and US\$801,11 (abroad) to the General Control of Subscription. Subscription to the Boletim includes twelve monthly issues and the Annual Report.

Reproduction permitted only if source is stated: Boletim do Banco Central do Brasil, Volume 36, Annual Report 2000.

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SBS - Quadra 3 - Bloco B - Edifício Sede - 2º Subsolo  
Caixa Postal 8670  
70074-900 - Brasília (DF)  
Phone: 55.61. 414-3165  
Fax: 55.61. 414-1359

Single copy: US\$21.16  
Number printed: 300

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## INTRODUCTION

Consolidation of the process of steady and consistent economic growth in 2000 takes on particular importance when viewed in the context of the highly restrictive external scenario that has persisted since mid-1997. The positive results achieved in the year were evident in 4.5% Gross Domestic Product (GDP) growth and were marked by declining inflation, rising formal and informal employment rates, expanding credit operations, positive fiscal results and improvement in the nation's external accounts. For the second consecutive year, the country managed to hold inflation to the targeted level, despite upward movement in international petroleum prices. These results clearly demonstrate the effectiveness of current monetary policy and the flexible system of exchange.

Over the course of the year, the intensified pace of economic activity was generated to a great extent by growth in credit to the private sector, particularly in operations with individual consumers and the sectors of commerce and other services. This trajectory reflected steady downward movement in the basic interest rate of the economy, cutbacks in the rates of compulsory reserves on demand resources and adoption of a series of prudential measures aimed at improving and streamlining banking activities. These measures had the added result of forcing a downturn in the interest rates charged on lending operations. Taken as a whole, these circumstances encouraged financial institutions to return to their classic role as suppliers of credit, breathing new life into this channel of monetary policy transmission.

Despite the highly positive performance registered in the fundamentals of the Brazilian economy, the rigidity of monetary policy management in the second half of the year clearly reflected the persistently high levels of international petroleum prices, a growing crisis of confidence in relation to the Argentine economy and uncertainties surrounding the trajectory of United States interest rates.

The ratio of gross fixed capital formation to GDP remained stable in 2000, when compared to the previous year. For the most part, this result was a consequence of only moderate expansion in the construction industry, when contrasted with the sharp upward movement of about 13% in the output of capital goods. At the same time, imports of capital goods, which had slipped somewhat in the previous two

years, registered real growth in 2000. In this framework, stability in the ratio between investments and GDP should not be interpreted as a sign that productive capacity has remained at the same level. The fact of the matter is that output capacity has expanded particularly under such headings as transportation equipment, farm equipment and mass produced capital goods for the industrial sector. This growth is also clear in the upturn in the real revenues of the machinery and equipment industry, though one should note clearly that expanding industrial output levels have yet to reflect any serious threat to price stability.

In this sense, one should highlight the fact that the low level of growth in average utilization of installed industrial capacity in the period from January 2000 to January of the current year when compared, for instance, to the performance of the trade sector, obviously reflected the improved productivity levels achieved as a consequence of the re-equipping of the nation's industrial structure. The upturn in the pace of activity in the sector of commerce was based on increasing sales of consumer goods and automotive vehicles, at the same time in which imports of consumer goods turned downward. The underlying reasons for the positive performance of this sector of activity were improvements in the labor market and expanded consumer credit at steadily lower rates of interest.

Insofar as the job market is concerned, the balance between hirings and firings was positive. Here, one should note that growth in labor demand has not altered downward movement in the unit labor cost, which, in turn, is a reflection of the productivity gains that have been achieved. Thus, the annual rate of open unemployment came to 7.1% in 2000 as compared to 7.6% in the previous year.

The consistency of Brazilian economic policy has further reinforced confidence in the fundamentals of the Brazilian economy among both internal market agents and external investors. In this context, the austerity that has marked fiscal policy has generated consistently significant primary surpluses and ratified the nation's capacity to generate public sector savings, which is fundamental to stabilizing the debt/GDP ratio. At the state and municipal levels, one should cite the fact that the Fiscal Responsibility Law has made a significant contribution to achieving the required level of austerity. With these results, the primary surplus of the consolidated public sector came to 3.6% of GDP in 2000, as compared to 3.2% in 1999, thus surpassing the target agreed upon in the financial assistance program coordinated by the International Monetary Fund (IMF).

Furthermore, the steady decline in public sector borrowing requirements, viewed under the prism of the nominal concept, reflects the downward trend registered under interest rates and has contributed significantly to improved perceptions regarding the long-term sustainability of public sector liabilities. Aside from this, the credibility of the ongoing process of fiscal adjustment has made it possible to

lengthen the term of the internal federal public debt, which closed the year at 15.3 months or practically twice the period registered at the end of 1999.

With respect to the external sector of the economy, growth in exports contributed to a drop of about 45% in the trade deficit registered in the year, despite 13.2% expansion in imports. The latter figure was a consequence of increased international petroleum prices and larger foreign purchases of raw materials and intermediate goods. It is important to note that the growth registered under imports has mirrored the strong upturn in industrial output and will no doubt leverage exports over the medium term. Evidently, this process will lead to gradual recovery under the trade balance and a decline in the current account balance.

Over the course of the year, the nation was able to finance its foreign accounts with considerable ease as a result of the reduction in the risk level perceived by foreign investors and the steady improvements registered under the foundations of the Brazilian economy. More specifically, financing of the current account deficit was fully covered by the strong inflow of direct foreign investments, which came to a net total of US\$30.6 billion. Furthermore, the nation was also able to lengthen the terms of its sovereign bond issues.

In this scenario, growth under the major price indices followed a clearly downward curve, in relation to 1999. For the most part, this reflected the highly positive performance of the farm sector, particularly in the first half of the year, and the impact of increases in government managed prices and the minimum monthly wage. The fact that these latter elements exerted practically no inflationary pressures confirmed that indexing mechanisms have been virtually eliminated from the nation's economy. It should also be stressed that market expectations with respect to the Broad Consumer Price Index (IPCA) in 2000 pointed to a downward curve that would close December at about 6%, the goal that had been defined by the inflation targeting system.



# I

## THE BRAZILIAN ECONOMY

### Output indicators

Expectations regarding the level of economic activity in 2000 were highly positive at the start of the year and were backed by a favorable international scenario and exceptionally low inflation indicators. The upturn in the pace of economic activity began as of the final quarter of 1999 as the repercussions of that year's financial crisis ran out of steam and the impacts of the change in the nation's exchange system were fully absorbed – which, it should be stated, were considerably less intense than initially expected. In general, the favorable scenario continued throughout the year and was sustained partly by a steady decline in interest rates and by adoption of a series of monetary policy measures aimed at increasing the credit supply and reducing credit costs. In this sense, the rate of compulsory reserves on demand resources was cut from 65% at the start of the year to 45% as of June, while the Selic (Special System of Liquidation and Custody) rate target dropped from 19% per year in January to 15.25% per year in December.

Ratifying these rather optimistic expectations, GDP expanded by 4.5% in 2000 at market prices, following two years of almost negligible growth (0.2% in 1998 and 0.8% in 1999). This performance was quite similar to that registered in 1995 and raised the average rate for the 1990s from 1.8% up to 1999 to 2%. Per capita product registered real growth of 3.1% in 2000 and closed at R\$6,560.00.

At market prices and based on seasonally adjusted data, GDP registered growth of 1.3% in the first quarter of 2000, when compared to the final quarter of the previous year and 4.1% when contrasted to the first three months of the previous year. All the sectors concerned turned in positive results, with a particularly good performance under crop and livestock production (7%). For the most part, this result is explained by crop output (7.9%), which accounted for more than 60% of the sector's overall product. Livestock output and plant and forest extracts increased by 4.9% and 8.3%, respectively. Secondary sector growth closed at 5.5%. In this context, one should underscore the 6.5% result achieved by manufacturing, which is particularly sensitive to changes in credit conditions and to upward movement in export operations. Significant results were also achieved in terms of growth in the mining sector (8%) and public utility industrial services (6.6%). In the service sector, which

turned in growth of 3.7%, the best performances occurred under communications (15.9%), followed by commerce (5.5%) and transportation (5%).

**Table 1.1 - Gross Domestic Product (GDP) at market price**

| Year | At 2000<br>prices<br>(R\$<br>million) | Real<br>change<br>(%) | Implicit<br>deflator<br>(%) | At current<br>prices <sup>1/</sup><br>(US\$<br>million) | Population<br>(million) | Per capita GDP             |                       |  |
|------|---------------------------------------|-----------------------|-----------------------------|---|-------------------------|----------------------------|-----------------------|--|
|      |                                       |                       |                             |   |                         | At 2000<br>prices<br>(R\$) | Real<br>change<br>(%) | At current<br>prices <sup>1/</sup><br>(US\$) |
| 1980 | 716 417                               | 9.2                   | 92.1                        | 237 772   | 118.6                   | 6 042                      | 7.0                   | 2 005  |
| 1981 | 685 969                               | - 4.3                 | 100.5                       | 258 553   | 121.2                   | 5 659                      | - 6.3                 | 2 133  |
| 1982 | 691 662                               | 0.8                   | 101.0                       | 271 252   | 123.9                   | 5 583                      | - 1.3                 | 2 190  |
| 1983 | 671 397                               | - 2.9                 | 131.5                       | 189 459   | 126.6                   | 5 304                      | - 5.0                 | 1 497  |
| 1984 | 707 652                               | 5.4                   | 201.7                       | 189 744   | 129.3                   | 5 474                      | 3.2                   | 1 468  |
| 1985 | 763 196                               | 7.8                   | 248.5                       | 211 092   | 132.0                   | 5 783                      | 5.6                   | 1 599  |
| 1986 | 820 359                               | 7.5                   | 149.2                       | 257 812   | 134.7                   | 6 092                      | 5.4                   | 1 915  |
| 1987 | 849 318                               | 3.5                   | 206.2                       | 282 357   | 137.3                   | 6 187                      | 1.6                   | 2 057  |
| 1988 | 848 808                               | - 0.1                 | 628.0                       | 305 707   | 139.8                   | 6 071                      | - 1.9                 | 2 186  |
| 1989 | 875 631                               | 3.2                   | 1 304.4                     | 415 916   | 142.3                   | 6 153                      | 1.4                   | 2 923  |
| 1990 | 837 541                               | - 4.3                 | 2 737.0                     | 469 318   | 144.1                   | 5 813                      | - 5.5                 | 3 257  |
| 1991 | 846 167                               | 1.0                   | 416.7                       | 405 679   | 146.4                   | 5 780                      | - 0.6                 | 2 771  |
| 1992 | 841 598                               | - 0.5                 | 969.0                       | 387 295   | 148.7                   | 5 660                      | - 2.1                 | 2 605  |
| 1993 | 883 005                               | 4.9                   | 1 996.2                     | 429 685   | 150.9                   | 5 850                      | 3.4                   | 2 847  |
| 1994 | 934 660                               | 5.9                   | 2 240.2                     | 543 087   | 153.1                   | 6 103                      | 4.3                   | 3 546  |
| 1995 | 974 103                               | 4.2                   | 77.6                        | 705 449   | 155.3                   | 6 272                      | 2.8                   | 4 542  |
| 1996 | 1 000 014                             | 2.7                   | 17.4                        | 775 475   | 157.5                   | 6 350                      | 1.2                   | 4 924  |
| 1997 | 1 032 715                             | 3.3                   | 8.3                         | 807 814   | 159.6                   | 6 469                      | 1.9                   | 5 060  |
| 1998 | 1 034 987                             | 0.2                   | 4.7                         | 787 499   | 161.8                   | 6 397                      | - 1.1                 | 4 867  |
| 1999 | 1 043 163                             | 0.8                   | 4.3                         | 529 398   | 163.9                   | 6 363                      | - 0.5                 | 3 229  |
| 2000 | 1 089 688                             | 4.5                   | 8.6                         | 595 881   | 166.1                   | 6 560                      | 3.1                   | 3 587  |

Source: IBGE

1/ Estimates obtained dividing the GDP at current prices by the annual average rate of exchange, which is calculated according to the methodology described in the Boletim do Banco Central do Brasil, December 1996 issue.

In the second quarter of the year, GDP growth closed at 1.45%, in comparison to the immediately previous period. This result reflected positive growth under industry (1.53%) and services (0.95%) and a negative performance under crop/livestock farming (0.33%).

In the first half of the year, GDP expanded by 4.3% at market prices in relation to the same period of the previous year. For the most part, this result was attributed to improvement in credit conditions and expanding exports, particularly those involving manufactured goods, and to the results of the farm harvest. This GDP growth figure also benefited from a sharply depressed basis of comparison, since the activity level in the first half of 1999 was strongly impacted by the repercussions of the Russian crisis, together with uncertainties surrounding the alteration in Brazil's exchange system. On a sector-by-sector basis, following the example of the first quarter of the

year, the highest rate of growth was registered by crop/livestock farming (7.3%), followed by industry (5.3%) and services (3.9%).

**Table 1.2 - Gross Domestic Product under the prism of expenditure and income**

In R\$ million

| Itemization  | 1996    | 1997    | 1998    | 1999    |
|--|---------|---------|---------|---------|
| Gross Domestic Product                                     | 778 887 | 870 743 | 913 735 | 960 858 |
| Final consumption expenditure                              | 630 814 | 704 200 | 738 747 | 775 098 |
| Family consumption   | 486 813 | 545 698 | 567 001 | 593 938 |
| Government consumption                                     | 144 001 | 158 502 | 171 746 | 181 160 |
| Gross capital formation                                    | 162 953 | 187 187 | 193 436 | 196 452 |
| Gross fixed capital formation                              | 150 050 | 172 939 | 179 484 | 181 813 |
| Changes in inventories                                     | 12 903  | 14 248  | 13 951  | 14 639  |
| Exports of goods and services                              | 54 430  | 65 356  | 69 727  | 101 809 |
| Imports of goods and services (-)                          | 69 311  | 86 000  | 88 174  | 112 501 |
| Remuneration of employees                                  | 300 208 | 326 145 | 349 118 | 360 096 |
| Wages and earnings   | 224 329 | 241 949 | 250 841 | 255 059 |
| Effective social contributions                             | 45 337  | 50 051  | 55 199  | 59 847  |
| Ascribed social contributions                              | 30 542  | 34 146  | 43 078  | 45 189  |
| Earnings of non-salaried workers                           | 44 306  | 48 630  | 50 345  | 49 003  |
| Gross operating surplus                                    | 319 137 | 372 396 | 386 929 | 397 593 |
| Taxes on production and imports<br>deducted from subsidies | 115 236 | 123 572 | 127 343 | 154 167 |

Source: IBGE

In the third quarter of the year, the pace of GDP growth diminished. In comparison to the previous quarter, product growth came to 1.1%, utilizing data from which seasonal impacts have been purged. When one analyzes the results accumulated in the year, growth closed at 4.6%. Following the standard of previous quarters, the crop/livestock sector expanded most intensively (6.2%), while industry, which accounts for approximately 35% of GDP, turned in positive growth of 5.1%, with particularly strong performances under manufacturing (6.1%) and mining (10%). Output of services expanded by 3.8%, mostly as a consequence of growth under communications (17.1%), commerce (5.3%) and other services (5.2%).

In the last quarter, 0.3% GDP growth – based on seasonally adjusted data – pointed to a strong reduction in the pace of economic growth. Despite this result, however, the final 4.5% figure was similar to the third quarter result and mirrored expansion of 3% under crop/livestock farming, 5% under industry and 3.9% under services. The subgroupings that expanded at an above average pace were manufacturing (5.7%), mining (11.5%), public utility industrial services (5.3%), communications (17%), other services (5.7%) and commerce (5.5%).

**Table 1.3 - Quarterly Gross Domestic Product**

In R\$ million

| Year |             | GDP at<br>market price | Taxes<br>on<br>products | Crop<br>and livestock<br>sector | Industrial<br>sector | Service<br>sector |
|------|-------------|------------------------|-------------------------|---------------------------------|----------------------|-------------------|
| 1996 | I Quarter   | 188 230                | 19 113                  | 20 319                          | 52 092               | 106 189           |
|      | II Quarter  | 193 604                | 20 501                  | 17 450                          | 57 626               | 107 185           |
|      | III Quarter | 199 097                | 21 482                  | 12 553                          | 64 603               | 109 929           |
|      | IV Quarter  | 197 956                | 22 824                  | 7 669                           | 66 860               | 109 730           |
| 1997 | I Quarter   | 198 579                | 20 870                  | 10 303                          | 62 147               | 114 459           |
|      | II Quarter  | 217 537                | 22 370                  | 16 996                          | 69 513               | 118 627           |
|      | III Quarter | 230 032                | 23 202                  | 17 969                          | 72 990               | 126 257           |
|      | IV Quarter  | 224 595                | 23 879                  | 16 840                          | 70 111               | 123 911           |
| 1998 | I Quarter   | 221 074                | 22 543                  | 17 355                          | 66 727               | 124 409           |
|      | II Quarter  | 237 020                | 23 983                  | 20 855                          | 73 105               | 129 830           |
|      | III Quarter | 234 653                | 23 333                  | 16 020                          | 74 960               | 131 209           |
|      | IV Quarter  | 220 988                | 23 756                  | 13 698                          | 68 796               | 125 161           |
| 1999 | I Quarter   | 214 023                | 23 654                  | 14 846                          | 62 101               | 123 728           |
|      | II Quarter  | 233 996                | 24 907                  | 18 609                          | 72 080               | 129 123           |
|      | III Quarter | 250 509                | 26 559                  | 18 883                          | 82 870               | 132 541           |
|      | IV Quarter  | 262 329                | 29 043                  | 18 463                          | 86 856               | 137 812           |
| 2000 | I Quarter   | 248 549                | 26 432                  | 18 509                          | 79 138               | 134 012           |
|      | II Quarter  | 268 900                | 28 370                  | 20 407                          | 89 124               | 138 372           |
|      | III Quarter | 281 884                | 31 668                  | 20 056                          | 95 006               | 145 300           |
|      | IV Quarter  | 290 355                | 33 520                  | 16 221                          | 97 067               | 153 252           |

Source: IBGE

## Investments

The participation of gross fixed capital formation (GFCF) in GDP declined in the period from 1995 to 1999. In the first year of the period, investments accounted for 21.4% of GDP, at the previous year's prices or 20.5% at current prices. In 1999, the corresponding figures had dropped to 18% and 18.9%. One should note that the gross capital formation (GCF), which includes variation in inventories, decreased from 22.3% to 20.5% during the period under analysis.

According to Banco Central Department of Economics (Depec) figures, the result for 2000 is estimated at 18.6% at the previous year's prices and 18.8% at current



**Table 1.4 - GDP real change rates**

Percent

| Itemization                        | 1998  | 1999  | 2000 |
|------------------------------------|-------|-------|------|
| GDP                                | 0.2   | 0.8   | 4.5  |
| Crop and livestock sector          | 1.9   | 7.4   | 3.0  |
| Vegetable production               | 1.3   | 8.3   | 2.8  |
| Animal production                  | 6.4   | 6.9   | 3.1  |
| Vegetal extraction                 | - 4.9 | 1.1   | 4.3  |
| Industrial sector                  | - 1.4 | - 1.6 | 5.0  |
| Mineral extraction                 | 7.8   | 5.0   | 11.5 |
| Manufacturing                      | - 3.8 | - 1.6 | 5.7  |
| Building                           | 1.4   | - 3.2 | 2.1  |
| Public utility industrial services | 3.8   | 2.5   | 5.3  |
| Service sector                     | 1.1   | 1.9   | 3.9  |
| Commerce                           | - 5.1 | 0.3   | 5.5  |
| Transportation                     | 5.1   | 0.6   | 3.4  |
| Communications                     | 13.6  | 21.3  | 17.0 |
| Public administration              | 1.9   | 2.8   | 2.0  |
| Other services                     | - 0.4 | - 1.3 | 5.7  |
| Financial institutions             | - 0.6 | 0.9   | 2.9  |
| Rents                              | 2.9   | 2.5   | 2.3  |
| Financial dummy                    | 0.1   | 0.5   | 4.3  |

Source: IBGE

prices. The relative stability in relation to 1999 reflected the differentiated performances of the major investment indicators in the period. The construction industry, which has accounted for approximately 68% of GFCF, turned in 2.1% growth in the year, closing below the rate of GDP growth. On the other hand, this performance was offset by 12.7% expansion registered under capital goods output, with participation of about 27% of GFCF. Aside from these results, imports of capital goods, which had declined in the past two years, moved upward by 2.8% in real terms in 2000. Thus, despite the fact that the proportion of investment outlays in relation to GDP remained stable, the productive capacity of the economy increased as evinced in the strong upturn registered under output of machines and equipment.

Growth in investment indicators over the course of the year pointed to sharper expansion in the second half of the period, mostly as a response to the ongoing rise in the level of activity. In this sense, production of construction inputs, which had expanded by 0.8% in the first half of the year when compared to the second half of 1999, increased by 1.5% in the second half, using the same basis of comparison. These data have already been purged of seasonal factors. In the case of capital goods output, the respective rates came to 6.4% and 10.3%.

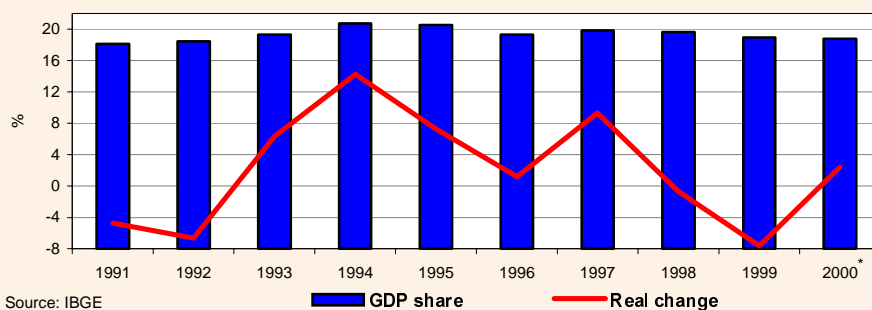
Table 1.5 - Gross capital formation (GCF)

Percent

| Year               | Share in GCF                         |                         |        | Changes in inventories | GFCF/GDP          |                               |
|--------------------|--------------------------------------|-------------------------|--------|------------------------|-------------------|-------------------------------|
|                    | Gross fixed capital formation (GFCF) |                         |        |                        | At current prices | At the previous year's prices |
|                    | Building                             | Machines and equipments | Others |                        |                   |                               |
| 1990               | 65.7                                 | 34.0                    | 2.7    | -2.5                   | 20.7              | -                             |
| 1991               | 60.4                                 | 28.7                    | 2.5    | 8.4                    | 18.1              | 19.5                          |
| 1992               | 64.8                                 | 26.3                    | 6.3    | 2.7                    | 18.4              | 17.0                          |
| 1993               | 62.5                                 | 24.2                    | 5.8    | 7.5                    | 19.3              | 18.7                          |
| 1994               | 60.6                                 | 27.2                    | 5.8    | 6.3                    | 20.7              | 20.8                          |
| 1995               | 57.4                                 | 28.9                    | 5.8    | 7.8                    | 20.5              | 21.4                          |
| 1996               | 62.0                                 | 25.3                    | 4.8    | 7.9                    | 19.3              | 20.3                          |
| 1997               | 63.2                                 | 24.8                    | 4.4    | 7.6                    | 19.9              | 20.4                          |
| 1998               | 65.3                                 | 23.2                    | 4.3    | 7.2                    | 19.6              | 19.7                          |
| 1999               | 65.0                                 | 23.0                    | 4.5    | 7.5                    | 18.9              | 18.0                          |
| 2000 <sup>1/</sup> | 64.8                                 | 23.8                    | 4.6    | ...                    | 18.8              | 18.6                          |

Source: IBGE

1/ Banco Central do Brasil estimates.

Graph 1.1  
Gross fixed capital formation

Source: IBGE

\* Banco Central do Brasil estimates.

Growth in the construction industry at a level below the average for the economy is explained to some extent by the low levels of public sector investment and housing construction and acquisition financing. In this sense, the resources set aside by the Brazilian System of Savings and Loans (SBPE) dropped by 0.5% in 2000 in nominal values, while housing financing operations registered a reduction of 15.9%. Financing of commercial real estate, which accounts for less than 1% of total SBPE resources, recovered sharply in 2000 and closed with growth of 10.2%. Analyzed under the prism of the number of real estate financing operations approved, growth came to 9.8% in operations channeled into GCF construction, following a cutback of 22.7% in 1999. Operations targeted to real estate purchases dropped by 2.9%, following positive growth of 1.7% in 1999.

Output of capital goods was stimulated by reductions in idle industrial capacity, as well as by the favorable results registered under farm production. Statistics released by the Brazilian Institute of Geography and Statistics (IBGE) on specific groupings of products indicate that, after two consecutive years of reductions under most of the segments involved, across-the-board product growth was achieved in 2000, with the strongest upturns registered under transportation equipment, mass produced capital goods for the industrial sector, farm equipment, construction industry equipment and parts for farm machines.

**Table 1.6 - Selected capital goods production**

| Itemization        | Percentage share <sup>1/</sup> | Percent change |        |      |
|--------------------|--------------------------------|----------------|--------|------|
|                    |                                | 1998           | 1999   | 2000 |
| Capital goods      | 100.0                          | - 1.6          | - 9.1  | 12.7 |
| Industrial         | 24.6                           | - 5.5          | - 7.0  | 18.5 |
| Serial             | 16.8                           | - 3.0          | - 4.0  | 21.2 |
| Non-serial         | 7.9                            | - 13.2         | - 17.6 | 7.4  |
| Agricultural       | 9.7                            | - 1.7          | - 15.2 | 19.3 |
| Agricultural parts | 1.5                            | - 12.3         | - 1.9  | 14.6 |
| Building           | 3.4                            | 2.7            | - 41.9 | 15.0 |
| Electric energy    | 5.5                            | - 3.4          | - 5.2  | 3.2  |
| Transportation     | 26.0                           | 8.3            | 2.7    | 22.7 |
| Mixed              | 29.2                           | - 4.2          | - 9.1  | 7.8  |

Source: Monthly Industrial Survey - IBGE

1/ It refers to the estimated share in 2000.

Data released by the National Association of Automotive Vehicle Manufacturers (Anfavea) corroborated the results of the IBGE survey. Following a 1999 decline of 13%, output of farm machines and equipment increased by 25.1%, mostly reflecting growth in the production of wheeled tractors (30.7%) and harvesters (14.5%). The item “others”, which refers to motorized harvesters, caterpillar-type tractors and rear-mounted ditch diggers turned in growth of 3.2%. In the same context, the number of bus and truck units produced expanded by 50.9% and 26.2%, respectively.

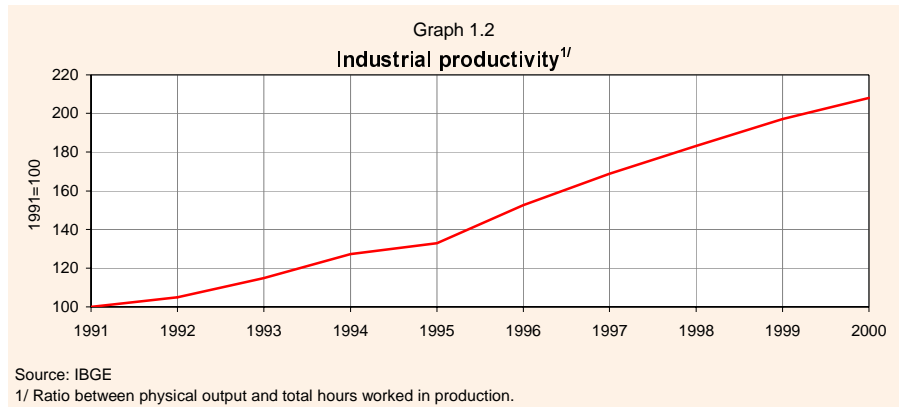
Another indicator that corroborates the growth in the nation’s installed output capacity is 12.8% expansion in the real sales of the machine and equipment industry in 2000, following the 11.7% decline registered in 1999, according to data released by the Brazilian Association of the Machinery and Equipment Industry (Abimaq). Recovery in the sector generated 9% growth in the number of persons employed, coupled with upward movement in the average utilization level of the industries that are members of the Association from 67.7% in 1999 to 75.9%.

Total disbursements by the BNDES System – National Bank of Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESPar) – increased by 27.7% in 2000 in nominal terms, closing with a total of R\$23 billion, compared to R\$18 billion in 1999. On a sector-by-sector basis, disbursements targeted to crop/livestock farming turned in the sharpest growth, with 48.3%, followed by commerce and services (28.7%) and manufacturing (25.9%). Financing for the mining industry declined by 53.2%, mostly as a result of the high basis of reference used in the comparison. The distribution of resources on a region-by-region basis pointed to concentration in the southeast region (56.5%), a figure that was somewhat lower than in 1999 (60.4%). Financing channeled to the south region added up to 18.5% of the total, compared to 21.1% in 1999. The levels of participation in the other regions of the country tended to increase, with the northern region moving from 2.5% in 1999 to 4% and the northeast and central-west regions increasing their participation from 9.2% to 12.2% and from 6.6% to 9%, respectively.

The Long-Term Interest Rate (TJLP), which is the basic cost of BNDES System financing, continued on a downward curve in the period, dropping from 12% per year in the first quarter to 9.75% per year in the final quarter.

### **Productivity**

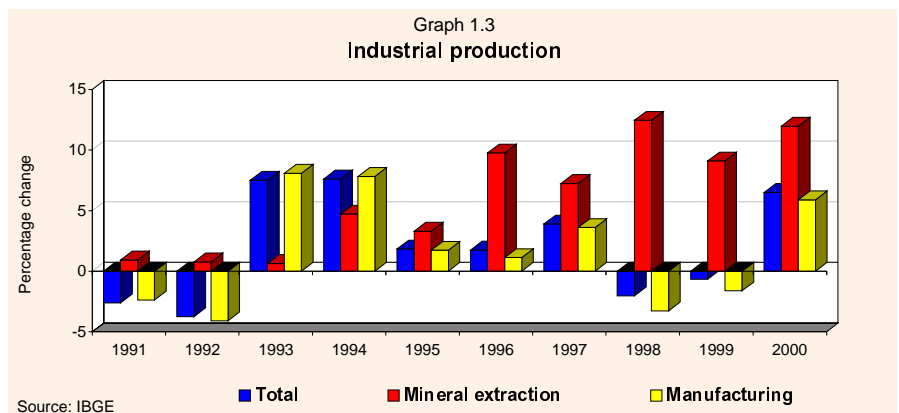
Labor productivity continued on the growth trajectory begun in 1993. According to 1999 National Accounts, total productivity in that year, as measured by the ratio between growth in aggregate value at the previous year's prices and growth in the working population, increased by 2.3% compared to 2.2% in 1998. Of the 43 activities analyzed, productivity declined in only seven, with the sharpest falloffs occurring in the plant-based processing industry, including tobacco (6.47%), followed by textiles (3.2%) and real estate rentals (1.1%). In the other sectors analyzed, reductions closed at a level of less than 1%. On the other hand, highly positive performances occurred under activities related to the coffee industry (26.2%) and sugar production (20.3%), as well as under public utility industrial services (15.9%). Other segments of activity that turned in growth of more than 10% were extraction of oil, natural gas, coal and other fuels, with 14.7%, manufacturing of pharmaceutical and perfume products with 12.2%, rubber with 10.6%, and the manufacturing of electric apparatuses and equipment, with 10% growth. In the crop/livestock sector, productivity expanded by 2.3% while that of the building industry increased by 2.2%.



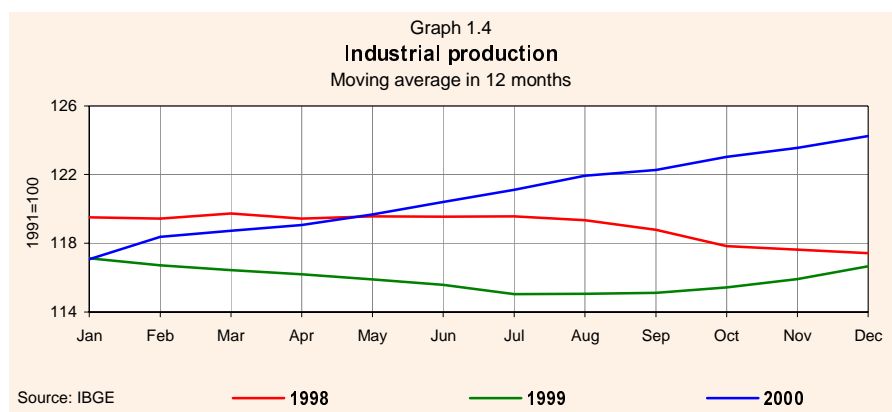
Statistics available for 2000 make it possible to monitor the evolution of productivity in the manufacturing and mining industries. The ratio between physical output and total hours worked in general industrial production increased by 5.6%, compared to 7.6% in 1999. The rise in productivity was more intense in the mining industry (10%) than in manufacturing (5%). An analysis of productivity by industrial segment shows that the most intense growth occurred under transportation equipment (14.6%) and mechanics (13.7%), both of which are closely linked to the output of the automotive sector. Significant productivity growth was also achieved under beverages (10.1%), electric and communications equipment (9.2%) and textiles (8.3%). Reductions occurred in just five of the twenty segments surveyed: plastics (4.1%), food products (3.8%), tobacco (3.9%), wood (3.4%) and leather and hides (3.3%).

### Industrial production indicators

Following two consecutive years of decline, indicators of the level of industrial activity pointed to output recovery in 2000. According to IBGE figures, industrial production increased by 6.5% in the year, which was the best result since 1994. The index for the month of December was the highest ever registered in the seasonally adjusted statistical series for both total physical output and for the use categories of intermediate goods and consumer durables.



The mineral extraction industry continued the growth trajectory that has marked recent years, closing with 11.9% growth in 2000. For the most part, this expansion was generated by increased extraction of crude oil and natural gas. The manufacturing industry, which accounts for about 90% of total output, turned in growth of 5.9% when compared to the average for 1999 and 2000. An analysis of the twenty industrial segments surveyed indicates that fifteen registered production growth. These results clearly point to an across-the-board upturn in the activities of the sector in response to the highly favorable economic scenario, represented by a cutback in interest rates and increased internal and external sales. The highest growth occurred under transportation equipment (18.9%), followed by mechanics (18%), rubber (13%), electric and communications equipment (11.9%), furniture (7.8%) and metallurgy (7.6%). Among the five segments that turned in output declines, the most important were leather and hides (8%) and tobacco (7.8%).



**Table 1.7 - Industrial production**

| Itemization         | Percentage share <sup>1/</sup> | Percent change |       |       |
|---------------------|--------------------------------|----------------|-------|-------|
|                     |                                | 1998           | 1999  | 2000  |
| Total               | 100.0                          | - 2.0          | - 0.7 | 6.5   |
| By category of use  |                                |                |       |       |
| Capital goods       | 8.6                            | - 1.6          | - 9.1 | 12.7  |
| Intermediate goods  | 65.4                           | - 0.7          | 1.9   | 6.9   |
| Consumer goods      | 26.0                           | - 5.4          | - 2.8 | 3.0   |
| Durable             | 5.7                            | - 19.6         | - 9.3 | 20.5  |
| Semi and nondurable | 20.3                           | - 1.1          | - 1.2 | - 1.0 |

Source: Monthly Industrial Survey - IBGE

<sup>1/</sup> It refers to the estimated share in 2000.

A breakdown by categories of usage indicates that output of intermediate goods, a heading of considerable weight in the industrial sector, expanded by 6.9%. Production of capital goods expanded by 12.7%, suggesting an ongoing process of re-equipping not only the industrial sector, but other sectors of activity as well.

Taken as a whole, the heading of consumer goods accounts for approximately 26% of the total, with growth of 3% in the year. However, the consumer goods industry did not register totally homogeneous results. The subheading of consumer durables, which is basically composed of automotive vehicles, electric and electronic appliances and furniture, expanded by 20.5% in the period and benefited from the increase in employment, overall wages and, principally, improved credit market supply conditions. Data released by Anfavea indicated recovery in the automotive industry, with growth of 23.6% in the output of automobiles and light commercial vehicles. The subheading of semidurable and nondurable consumer goods registered a reduction of 1%, partly as a result of a 5.7% drop in the production of fuels.

Output growth was reflected in the average utilization of installed manufacturing industry production capacity. According to the Getulio Vargas Foundation (FGV), the level of utilization of installed output capacity, which had registered a January 2000 level of 81.3%, moved to 84.1% in October before dropping back to 82% in January 2001. In the statistical series purged of seasonal factors, however, the January 2001 level was 0.6% higher than the October 2000 mark as a result of the upturn in seasonally adjusted production indicators in the final quarter of the year.

**Table 1.8 - Capacity utilization<sup>1/</sup>**

Percent

| Itemization               | 1998 | 1999 | 2000 |
|---------------------------|------|------|------|
| Manufacturing industry    | 79   | 81   | 82   |
| Consumer goods            | 76   | 75   | 77   |
| Capital goods             | 65   | 75   | 81   |
| Building material         | 82   | 79   | 86   |
| Others intermediate goods | 83   | 85   | 86   |

Source: FGV

1/ Quarterly survey. January figures of the following year.

On a sector-by-sector basis, intermediate goods registered the highest level of utilization during the course of the year, with 86.2% in the most recent survey. Average utilization in the construction inputs industry moved along an upward curve in the year and closed January at 85.6%. In the same month, capacity utilization levels in the capital goods and consumer goods industries came to 81.3% and 77.1%, respectively. Among the various industrial segments, rubber, paper and cardboard, wood and textiles turned in the highest utilization levels, with final January 2001 figures above 90%.

The drop in the level of idle capacity was also evident in the survey released by the National Confederation of Industry (CNI), based on figures calculated by industrial federations in 12 different states. This survey pointed to an average utilization level of 79.9% in December 2000, compared to 78.6% in the same month of the previous year. On a state-by-state basis, output capacity utilization levels were higher than the overall national level in Santa Catarina (85.4%), Rio Grande do Sul (83.8%), Minas Gerais (82.5%) and Ceará (81.2%). The São Paulo level closed the year at 79.8%.

Despite the fact that some sectors were operating at levels close to their limits, one should note that average capacity in the manufacturing industry in no way restricted production. Growth in utilization indicators has been less than output growth, suggesting incorporation of economies of scale and increased productivity or even expansion of industrial output capacity as a result of ongoing investments.

Other important indicators confirmed the positive industrial result registered in 2000. According to the CNI, real industrial sales increased by 10.8% in the year, while the number of hours worked in production expanded by 4%. In the case of São Paulo industry, figures released by the Federation of Industries of the State of São Paulo (Fiesp) demonstrate that these same variables expanded by rates of 13.7% and 4.7%, in the same order as above.

## **Energy**

Petroleum output, including natural gas liquid, continued on the growth curve that has marked recent years. According to the National Petroleum Agency (ANP), the final growth mark in 2000 was 12.3%. Average daily production over the year came to 1,270.6 thousand barrels, compared to 1,131.7 thousand in 1999. Output of natural gas turned in similar results, with growth of 11.7% in the period.

Total oil processed at refineries increased by 2.1% in 2000, with an average of 1,585.3 thousand barrels per day, for an increase in the participation of national petroleum in the processed total from a 1999 level of 71% to 74%. Imports of petroleum declined by 14.2% in the year and closed at 397.1 thousand barrels/day.

Internal sales of petroleum derivatives dropped by an average of 1.6% in the year, according to figures released by the ANP. This performance curve, which was just the opposite of the behavior of economic activity as a whole, can to some extent be explained by consumer reactions to higher prices. Gasoline sales declined by 4.4% while marketing of fuel oils dropped by 6.1%. In contrast, sales of liquefied petroleum gas and diesel oil expanded by 1.7% and 0.7%, respectively. Sales of the other derivatives dropped by 7% while those of automotive gasoline, including the anhydrous alcohol added to the gasoline supply, dropped by 6.2%.



**Table 1.9 - Oil derivatives and fuel alcohol**

Apparent consumption - daily average (1,000 b/d)

| Itemization       | 1998  | 1999  | 2000  |
|-------------------|-------|-------|-------|
| Petroleum         | 1 382 | 1 385 | 1 362 |
| Fuel oil          | 186   | 185   | 173   |
| Gasoline          | 313   | 308   | 295   |
| Diesel oil        | 589   | 596   | 600   |
| Liquid gas        | 205   | 215   | 218   |
| Aviation kerosene | 86    | 79    | 72    |
| Other derivatives | 3     | 3     | 4     |
| Fuel alcohol      | 201   | 201   | 161   |
| Anhydrous         | 94    | 97    | 86    |
| Hydrated          | 107   | 104   | 76    |

Source: ANP

Consumption of fuel alcohol declined by 19.7% in 2000. Viewed separately, sales of anhydrous alcohol dropped by 12% due partly to the change in the proportion of anhydrous alcohol in the automotive gasoline supply, which was cut from 24% to 20% as of last August. Sales of hydrated alcohol have been declining since 1996 and registered a falloff of 27% in 2000. Average daily sales of hydrated alcohol came to the equivalent of 75.7 thousand barrels, and were surpassed by sales of anhydrous alcohol, which closed in the range of 85.7 thousand barrels per day.

With respect to electric energy, total consumption increased by 4.6% in 2000, according to Centrais Elétricas Brasileiras S.A. (Eletrobrás). Commercial consumption, which accounts for approximately 15.5% of the total market, registered the strongest growth (8.5%). Industrial consumption of electricity followed the growth curve registered by installed industrial output capacity, closing with expansion of 5.9%. Residential consumption came to 27.3% of the total, with more moderate 2.7% growth. This rate can be explained by a drop in the real average earnings of working people, tariff increases and more moderate temperatures during the course of the year. Taken together, these factors contributed to a cutback in average residential consumption. According to Eletrobrás, approximately 158 thousand new connections were made on a monthly basis over the course of 2000, raising the number of residential consumers by 4.9% to a total of 40.3 million. However, a significant share of these connections was concentrated in residences classified as low energy consumption units. The aggregate of the other classes, which include rural consumers, public lighting, government installations, public services and consumption by electricity companies themselves, increased by just 0.1% due partly to cutbacks in irrigation levels.

**Table 1.10 - Electric energy consumption<sup>1/</sup>**

GWh

| Itemization | 1998    | 1999    | 2000    |
|-------------|---------|---------|---------|
| Total       | 284 737 | 292 188 | 305 570 |
| By sectors  |         |         |         |
| Commercial  | 41 561  | 43 588  | 47 384  |
| Residential | 79 364  | 81 291  | 83 491  |
| Industrial  | 122 099 | 123 893 | 131 234 |
| Other       | 41 713  | 43 416  | 43 461  |

Source: Eletrobrás

1/ Self-producers not included.

On a region-by-region basis, consumption of energy in the southeast region, which includes approximately 57% of the overall total for the country, rose by 3.9%. Industrial consumption in the region expanded by 4.9%, while commercial and residential consumption expanded by 8.8% and 1.7%, respectively.

Total consumption in the north, central-west and south regions expanded at a pace higher than the national average and closed with respective growth levels of 7.4%, 6% and 5.8%. The northeast region kept pace with the national average, registering growth of 4.5%. One should stress consumption growth in the industrial category of the south and central-west regions, with 10.5% and 10.2%, in the same order, as well as expanded residential consumption in the north region (7.9%), all of which were substantially higher than the average calculated for the country as a whole.

### Trade sector indicators

According to the Quarterly National Accounts published by the IBGE, the trade sector registered growth of 5.5% in 2000, compared to 0.3% in 1999. This recovery was a consequence of positive growth in the labor market and expansion of the credit supply. In the latter case, the underlying reasons for the additional credit available in the period were the downturn in average monthly interest from 7.5% in January, a figure equivalent to 138.2% per year, to 6.8% in December, equivalent to 121.5% per year. These figures were calculated by the National Association of Finance, Management and Accounting Executives (Anefac).

The evolution of default levels also closed 1999 with a positive performance. The net level of default, as measured by the Credit Protection Service of the São Paulo Trade Association, declined from 5.3% in December 1999 to 4.2% at the end of 2000. Viewed in terms of annual average rates, there was an even more accentuated drop,

from 9.6% in 1999 to 5.8%. The national indicator, calculated by Teledata and based on data gathered in 10 major Brazilian cities<sup>1</sup>, also indicated a drop in the average rate of defaults from 1.3% in December 1999 to 1.2% in the corresponding month of 2000. In the opposite sense, the participation of checks returned due to insufficient backing in total checks cleared at the national level increased from 3.1% in December 1999 to 3.5% in December 2000.

According to the Trade Federation of the State of São Paulo (FCESP), real sales expanded by 10.4% in 2000. To a great extent, this performance was impacted by growth in sales of consumer goods, as the segment of consumer durables expanded by 13.7% and nondurable consumer goods by 15.7%, offsetting the 34.5% decline in revenues earned on sales of semidurable consumer goods. Real sales in the automotive trade sector and building materials segment expanded by respective rates of 13.8% and 4.5% in the year.

**Table 1.11 - Trade real sales**

Percentage change

| Itemization                  | 1997  | 1998  | 1999  | 2000 |
|------------------------------|-------|-------|-------|------|
| Wholesale <sup>1/</sup>      | 2.1   | 3.6   | 3.5   | -0.5 |
| Retail sales                 |       |       |       |      |
| Brasil <sup>2/</sup>         | ...   | ...   | -2.9  | 4.7  |
| São Paulo <sup>3/</sup>      | -2.1  | 3.5   | -0.6  | 10.4 |
| Rio de Janeiro <sup>4/</sup> | -13.3 | -11.2 | -3.2  | -5.5 |
| Belo Horizonte <sup>5/</sup> | -12.6 | -20.9 | -11.2 | 4.0  |
| Supermarket <sup>1/</sup>    | -0.4  | 6.1   | -2.8  | -1.2 |

Source: Abad, FCESP, IBGE, FCEMG and Abras

1/ Deflated by IGP-DI.

2/ Weighted by the 1996 IBGE Annual Commerce Survey: São Paulo (53.6%), Rio de Janeiro (24.8%), Belo Horizonte (12.5%), Salvador (5.2%) and Recife (3.9%).

3/ Deflated by IPCA.

4/ Deflated by Rio de Janeiro IPCA.

5/ Deflated by Belo Horizonte IPCA.

The indicator that aggregates the results of the retail trade sector in Rio de Janeiro, São Paulo, Salvador and Recife registered growth of 4.7% in 2000, with expansion of 12.2% in the automotive segment. These figures are based on the weighting system used in IBGE's Annual Trade Sector Survey for 1996<sup>2</sup>. Real sales of consumer goods and transportation equipment expanded at respective rates of 4.6% and 0.6%. Aside from São Paulo, only Belo Horizonte was able to register an increase in real revenues in the trade sector in relation to 1999 (4%), as Rio de Janeiro, Recife and Salvador turned in reductions of 5.5%, 1.1% and 0.6%, respectively.

1/ Belém, Fortaleza, Recife, Salvador, Belo Horizonte, São Paulo, Ribeirão Preto, Rio de Janeiro, Curitiba and Porto Alegre.

2/ Weighting by metropolitan region: São Paulo (53.6%), Rio de Janeiro (24.8%), Belo Horizonte (12.5%), Salvador (5.2%) and Recife (3.9%).

In the segment of supermarkets, real sales dropped once again in 2000, with a 1.2% result, following a drop of 2.8% in the previous year, according to the Brazilian Association of Supermarkets (Abrás). One should note that part of the negative result was due to the use of the General Price Index – Domestic Supply (IGP-DI) as deflator. Just as occurred in 1999, this index in 2000 was higher than the results generated by consumer price indices. In the retail trade sector, in which the calculation of real revenues also uses the IGP-DI as the deflation factor, the reduction came to 0.5% according to data released by the Brazilian Association of Wholesalers and Distributors (Abad).

### **Farm production indicators**

In 2000, the crop/livestock sector registered growth of 3%, compared to 7.4% in the previous year. This result was a consequence of 2.8% expansion in crop output and 3.1% in livestock production. Plant extraction activities, with participation in GDP lower than 1%, closed the period with an increase of 4.3%.

In relation to the measures taken to stimulate farm production, the Farm Plan for the 1999/2000 harvest specified investments of R\$13 billion, representing growth of R\$3 billion compared to the immediately previous harvest. The principal rules covering current expenditure and investment financing remained in effect, as did the essential elements of the National Program for Strengthening Family Agriculture (Pronaf) and the Rural Employment and Income Program (Proger Rural).

No alterations were introduced into the interest rates levied on operations with earmarked resources. This rate had been specified at 8.75% per year in 1999. The development of family farming has received priority attention. Interest rates on current expenditure financing operations in the Pronaf framework were reduced from 5.75% per year to a minimum of 2% per year and a maximum of 4% per year. At the same time, farmers gained greater access to funding for investment outlays as the costs of these operations were cut from 50% of the TJLP plus 6% per year to rates that vary between 1% and 3% per year.

The 2000 grain harvest came to 83.1 million tons or 0.9% more than the 1999 mark, according to the Systematic Farm Production Survey (LSPA), carried out in the month of December by IBGE. Basically, this growth was generated by recovery in crop harvests in the north and northeast regions, where expansion came to 27% due mostly to the herbaceous cotton, soybean and corn crops. The results for the southeast, south and central-west regions, which concentrate 88% of overall national output of grains, legumes and oil-bearing crops, turned in a decline of 1.7% in overall output. The principal cause of this falloff was the occurrence of drought and frost that hampered crop development in major output centers. In absolute terms, output on a region-by-region basis came to 37.6 million tons in the south, 24.1

**Table 1.12 - Agricultural production - major crops**

Millions of tons

| Products                                 | 1998  | 1999  | 2000  |
|--|-------|-------|-------|
| Grain production                         | 75.2  | 82.4  | 83.1  |
| Cotton (seed)                            | 0.8   | 1.0   | 1.3   |
| Rice (in husk)                           | 7.7   | 11.8  | 11.1  |
| Beans                                    | 2.2   | 2.8   | 3.1   |
| Corn                                     | 29.5  | 32.0  | 31.7  |
| Soybeans                                 | 31.4  | 30.9  | 32.7  |
| Wheat                                    | 2.2   | 2.4   | 1.7   |
| Others                                   | 1.3   | 1.4   | 1.6   |
| Change in grain production (%)           | - 3.0 | 9.5   | 0.9   |
| Other crops                              |       |       |       |
| Bananas (millions of bunches)            | 532.5 | 553.0 | 630.0 |
| White potatoes                           | 2.7   | 2.8   | 2.6   |
| Cocoa (beans)                            | 0.3   | 0.2   | 0.2   |
| Coffee (beans)                           | 3.5   | 3.3   | 3.7   |
| Sugarcane                                | 339.0 | 337.2 | 317.6 |
| Tobacco (in leaf)                        | 0.5   | 0.6   | 0.6   |
| Oranges (millions of fruits)             | 103.7 | 113.8 | 108.6 |
| Cassava                                  | 19.7  | 20.9  | 23.2  |
| Tomatoes                                 | 2.8   | 3.3   | 3.1   |
| Change in real output of crop sector (%) | 1.3   | 8.3   | 2.8   |

Source: IBGE

million in the central-west region, 12.5 million in the southeast, 5.9 million in the northeast and 2.3 million in the north.

Soybean production, which accounts for 39% of the grain harvest, came to 32.7 million tons, setting an all time record. This volume was 5.8% higher than the previous harvest and reflected growth of 4.7% in the area under cultivation and 1% in average yields. Due to a series of climatic factors, the southeast and south regions turned in harvests that were below the previous year's level. In the other regions of the country, productivity was high, particularly in the State of Mato Grosso, where the average came to 3,022 kg/hectare, compared to the national average of 2,400 kg/hectare. Grain exports came to 11.5 million tons or 2.6 million more than in 1999. The performance of prices during the year was quite positive for both the internal and external markets. The average monthly price for a 60 kilogram bag moved from R\$18.30 in January to R\$19.10 in December, according to the Institute of Agricultural Economy of São Paulo.

Taking the year's two harvests together, the overall corn harvest totaled 31.7 million tons, for a reduction of 1% in relation to the previous year. The recovery in marketing

prices that began in 1998 continued during the following year and resulted in 1.6% growth in the area under cultivation in the first harvest, when total output came to 27.7 million tons or 1.7 million more than in 1999. However, performance differed widely from one region to another. By way of example, one should cite the State of Mato Grosso do Sul where climatic problems cut production by 43% while output in the northeast region increased by 47.9%. The second corn harvest was severely affected by drought during practically the entire growth cycle of the crop. In June, frost hit the Paraná crop and caused a loss of 60.4% of the output expected in that state. Though the total area planted for the second harvest was 7% greater, the average yield came to just 1,955 kg/hectare, compared to 2,452 kg/hectare in the same period of the preceding year. Imports totaled 7.5 million tons in the year or 115% more than in 1999 to meet internal demand estimated at 34.5 million tons. Prices remained high over the course of the year due to low stock levels and higher prices for the imported product.

Output of rice turned in results that were just the opposite of those of the previous year when growth came to 51.6%. Production of this crop in 2000 came to 11.1 million tons for a drop of 5.4% compared to the 1999 volume. The overall reduction resulted to a great extent from the 11.43% output decline caused by drought in the State of Rio Grande do Sul, which accounted for 44.7% of the overall national rice harvest. Reductions were also registered in terms of area under cultivation (4.6%) and productivity (1%). Positive figures were achieved only in the northeast region even though average yield came to just 1,647 kg/hectare and was well below the national average of 3,036 kg/hectare and the average in the southern region of the country, which stands at 5,137 kg/hectare. In the State of Mato Grosso, the largest producer of this grain, the reduction in area planted came to 7.2% and was offset by growth of 10.1% in productivity. Internal consumption totaled 11.7 million tons and closed at the same level as in 1999, while imports dropped by 39.6% due to the high volume of stocks that existed at the start of the year under analysis.

Production of beans totaled 3 million tons in 2000, 6.7% more than in the previous harvest. Though reductions were registered in the area under cultivation, the area harvested came to 4.3 million hectares with average yield of 699 kg/hectare. These figures were 3.7% and 2.9% higher than in 1999. In the first harvest of the year, which totaled 1.7 million tons, only the south region – still the major producer with 662 thousand tons – failed to generate positive results as a consequence of the prolonged drought that hit the area during the entire crop cycle. In the northeast region, the harvest came to 612 thousand tons and set a new record, accounting for 35.9% of the total harvest. This result was achieved as a consequence of excellent climatic conditions, particularly in the State of Bahia, the largest production center in the northeast. In the second harvest, the total came to 1.1 million tons in an area of 1.7 million hectares. These figures reflect growth of 7.6% and 8.7% respectively in relation to the same harvest in the previous year. The northeast is responsible for

48.3% of the harvest and was the only region to register increases in area and output. Here, one should make special mention of the 108.8 thousand ton harvest in the State of Paraíba, compared to 20.4 thousand in the previous harvest. The reductions that occurred in all of the other regions reflected the impact of low prices in the marketing period of the first harvest as well as the severe drought that hit several important production regions. Finally, the third harvest registered a result that was just the opposite of the two previous harvests, with declines of 36.6% in the area harvested and 29.6% in production. These reductions were caused by the low prices received by producers during the marketing of both the first and second harvests. To meet consumer demand, the country imported 78.5 thousand tons or 15.4% less than in the previous year.

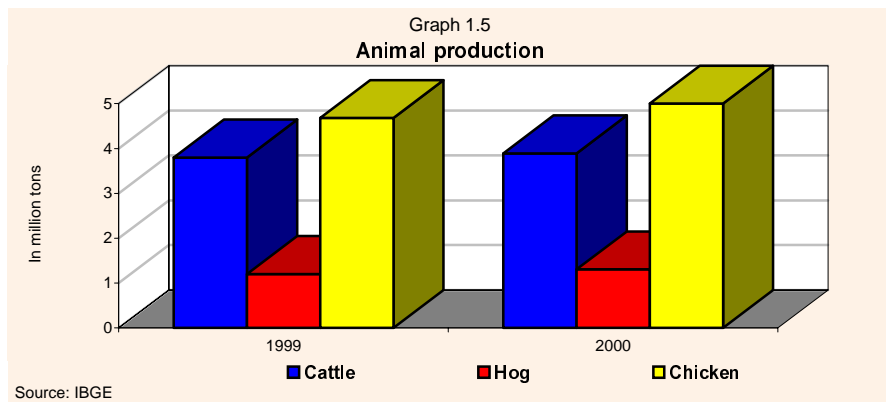
The wheat harvest came to 1.7 million tons for a reduction of 31.8% compared to the 1999 result. This was the second poorest result in the last decade and was only surpassed by the 1995 harvest. Despite expansion of 21.6% in area planted, the drought that hit the south, southeast and central-west regions up to the middle of the year, coupled with the frosts that occurred in July, resulted in an output decline. In the south region, which accounts for 94.4% of the nation's harvest, the decline came to 31.4%. In Paraná, crops were severely affected by drought in the initial stages of development and frosts at the time of flowering and fructification. Consequently, the Paraná harvest, which had reached a level of 1.5 million tons in 1999, dropped to 635.4 thousand tons in 2000. Internal demand, which is estimated at about 10 million tons, was completed with imports of 7.5 million tons and utilization of buffer stocks.

Output of unprocessed herbaceous cotton came to 1.9 million tons in 2000, thus repeating the volume registered in 1999. With the exception of the north region, which has almost negligible participation in national output, this crop turned in an excellent overall performance, particularly in the northeast and central-west regions where growth came to respective levels of 136% and 34.5%. The State of Mato Grosso has consolidated its position in recent years as the major Brazilian producer. In the most recent harvest, the state accounted for 47.5% of total output. Productivity in that state came to 3,380 kg/hectare or well above the national average of 2,023 kg/hectare. The factors most responsible for this result were more intensive use of technology, favorable climate and such government incentives as reductions in the rate of the Tax on the Circulation of Goods and Services (ICMS).

Output of coffee beans came to 3.7 million tons or 11.7% more than in the previous harvest. Productivity, which is calculated on a twice yearly basis, increased by 8.4%. The southeast region harvested 81.6% of the national harvest, with the State of Minas Gerais leading the way with 1.6 million tons, while São Paulo achieved the highest average yield, with 2,004 kg/ha. In the 1999 harvest, prices remained steady since international stocks were not particularly large. This situation was reversed

in 2000, since the increase in the volume of supply occurred at a time when consumer countries had already set aside very voluminous stocks. Increasing market complexity led to creation of the harvest retention plan that was accepted by the Association of Coffee Producing Countries (APPC) and was designed as an attempt to discipline world supply. In the latter weeks of the year, the per bag price of processed coffee fluctuated between 120 and 140 dollars, a level considered low by coffee farmers when compared to the high costs of production. Exports of coffee beans came to 967 thousand tons, for a decline of 24% in relation to 1999.

Following a trend that dates to 1994, production of the livestock sector expanded in 2000 and closed with growth of 3.3% compared to 6.9% in 1999. Data available up to the fourth quarter of the year points to expanded meat output in all segments, based on IBGE's Quarterly Survey of Animal Slaughters. The largest growth occurred in the output of the hog farming segment (8.8%), followed by chicken (8.6%) and cattle (2.4%). Production of milk increased by 6%. Export operations registered across-the-board expansion, with the best performance under pork, which registered total sales of 127.9 thousand tons or 46.5% more than in 1999. Foreign sales of beef came to 215.6 thousand tons while the marketing of chicken totaled 949.6 thousand tons, for increases of 27.4% and 19.3%, respectively.



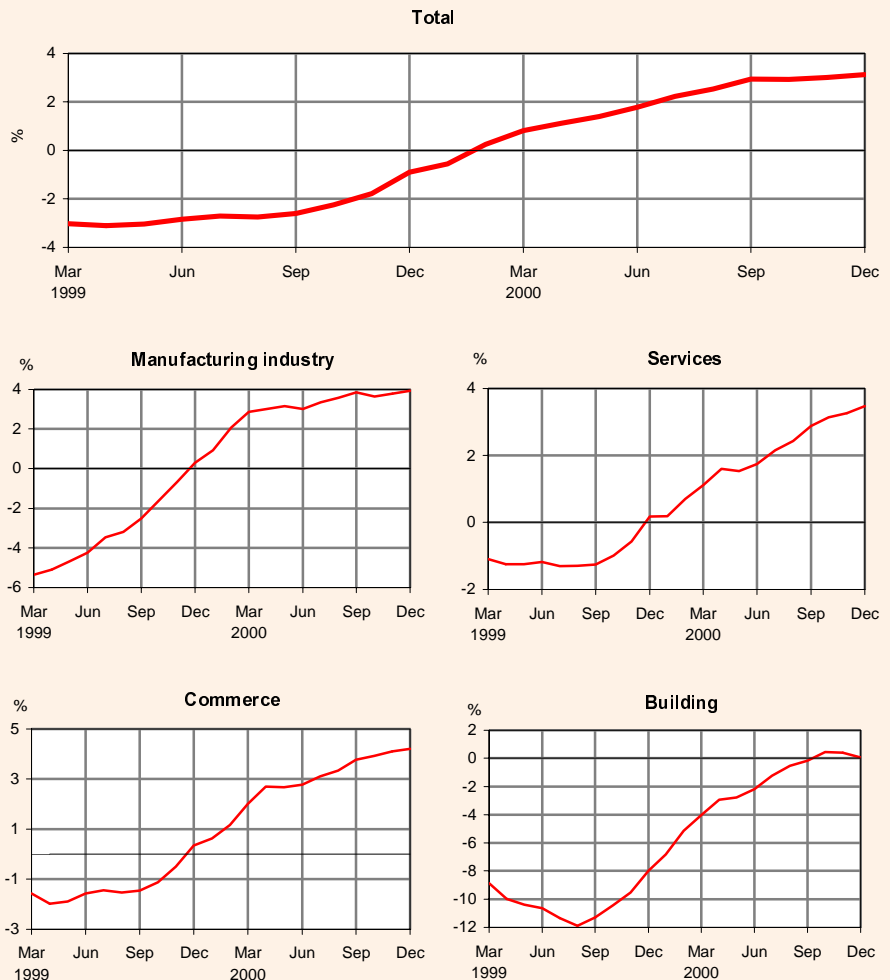
### Employment indicators

Employment indicators reflected the ongoing process of recovery in the pace of economic activity and turned in positive performances over the course of 2000 in both the formal and informal sectors. Utilizing the rates for the final month of the year, open unemployment as measured by the IBGE declined sharply and closed at a level similar to that of 1997. Parallel to this, Ministry of Labor and Employment (MTE) data on formal employment pointed to interruption in the downward trend in employment levels for the first time since 1995.



In 2000, 657.6 thousand employment positions were created in the formal sector of the economy according to data included in MTE's General Record of the Employed and Unemployed (Caged). This result was not sufficient to offset elimination of 1.62 million positions in the period extending from 1995 to 1999. An analysis of that period based on annual average employment indices shows that the sharpest drops occurred in 1999 (2.52%) and 1996 (1.85%). In 2000, the average annual increase came to 1.8%, as the December 2000 index closed 3.12% above that of the same month of the previous year. When the statistical series purged of seasonal factors is utilized, growth was registered in every month of the year. On a sector-by-sector basis, the building industry and the sector of public utility industrial services registered

Graph 1.6  
Level of formal employment  
Percentage change in 12 months



Source: Ministry of Labor and Employment

elimination of 1.6 thousand and 15.3 thousand jobs, respectively, while the best result in absolute terms occurred under services, with creation of 283.9 thousand vacancies. In the manufacturing sector, the increase came to 192.9 thousand positions, while the sector of commerce added 175.5 thousand jobs.

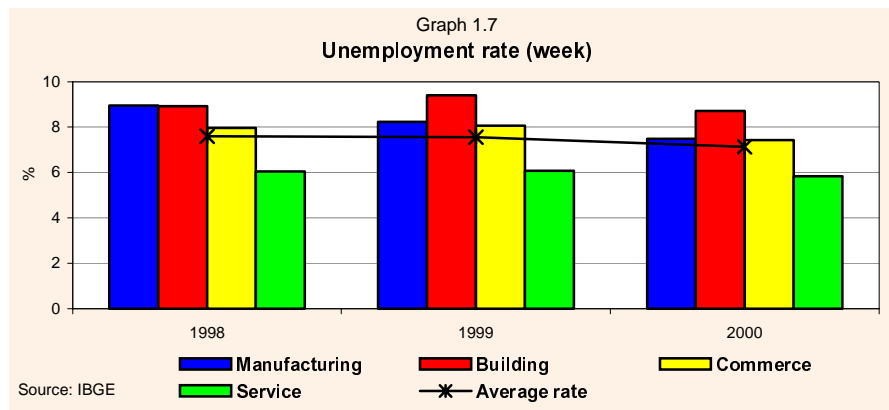
According to MTE records, 4.24 million unemployment compensation requests were submitted in 2000 and 4.13 million benefits were granted. This result reflected a decline of 4.52% in total requests and 4.85% in the number of workers covered, in contrast to 1999. The reduction in the number of benefits occurred in the wage brackets above two times the minimum monthly wage. In the other wage brackets, the following increases occurred: up to one minimum monthly wage, 7.14%; between one and 1.5 times the minimum wage, 11.23%; and between 1.51 and twice the value of the minimum monthly wage, 1.32%.

On a sector-by-sector basis, the monthly Fiesp survey indicates that industrial employment expanded by 0.97% in 2000 in response to the upturn in manufacturing activity. A comparison between the current year and the corresponding months of the preceding year indicate that recovery in the industrial employment level got underway in the month of March and became more accentuated as the year progressed. This is evident in the evolution of the growth rate from 0.35% to 1.73% in the period. The weekly survey, which is based on a Fiesp survey of 47 employer categories, showed an even more positive result, with growth of 1.71% in the number of job positions and generation of 27.4 thousand in 2000. Of the 47 employer associations surveyed, five turned in accumulated growth of more than 10%: rubber goods (10.07%), olive oil and food oils (12.76%), railroad and highway equipment (12.85%), foundries (15.83%) and footwear (16.69%). Negative results occurred in 17 segments, including 13.73% for jewelry and 29.5% for beverages.

Aggregate statistics for the industrial sectors of twelve different states announced by CNI also pointed to upward movement in employment levels. In this sense, the average monthly index pointed to an increase of 0.76% in relation to 1999. This was the best performance since the survey was first carried out in 1993. Declines in employment levels were registered in Rio de Janeiro (3.82%), Minas Gerais and Bahia (1.86%) and Paraná (1.63%). In the states that registered the highest growth in industrial employment, the sharpest rates occurred in Santa Catarina (3.42%) and Rio Grande do Sul (5.02%), while all of the other states were concentrated between 0.43% and 1.91%.

With the exception of February and May, the average rate of open unemployment in 2000 as released by the IBGE in its Monthly Employment Survey closed below the levels of the corresponding months of the previous year, ending with an annual average of 7.14% compared to 7.56% in 1999. When one considers data for the second half of each year, the average came to 6.46% and 7.29%, respectively, with

the sharpest drop in the jobless rate occurring in the second half of the year. The behavior of the jobless rate was a consequence of favorable performances under both the number of working people and those without work. In the entire year, comparisons with the corresponding months of 1999 pointed to upward movement under the heading of the working population. The number of those without work, however, only began to decline as of the month of June, as the budding process of economic recovery provoked growth in those entering the labor market or those returning in search of employment opportunities. In average terms for the year, the number of working people expanded by 4.26% while the number of those without work declined by 2.05%. In December 2000, the Monthly Employment Survey, which encompasses six metropolitan regions, registered an economically active population of 18.2 million people, for growth of 1.34% in comparison to the same month of the previous year.



In every month of the year, Rio de Janeiro registered the lowest level of open unemployment among the six major metropolitan regions covered by the Monthly Employment Survey, while Salvador registered the highest rates. When compared to the other regions of the country, the results for the metropolitan region of São Paulo were more favorable in 2000 even though they were, with the exception of December, higher than the average rate. The second highest jobless rates were registered alternately in Recife and Belo Horizonte. The metropolitan region of Porto Alegre followed a fluctuating curve, with rates that were below the average in six months of the year.

The increase in the employment level was a generalized phenomenon in all of the different categories. In all of them, the number of persons working in 2000 was greater than in the corresponding months of the previous year. The only exception to this rule occurred in January when the number of employers closed 2.19% below the 1999 result. A comparison of annual averages shows that the largest increase occurred under employees without legal working papers (8.77%), followed by the self-employed (3.39%), employers (3.18%) and registered workers (2.19%).

The Employment and Unemployment Survey carried out by the Foundation State System of Data Analysis (Seade) in a partnership with the Interunion Department of Statistics and Social and Economic Studies (Dieese), covering homes in the metropolitan region of São Paulo, registered a decline in the average rate of unemployment from 19.28% in 1999 to 17.67% in 2000. The rates of unemployment calculated in terms of movable quarterly averages were below those of the previous year in all periods, as of January 2000. It should be stressed that, in the period between December 1999 and December 2000, 73 thousand persons were incorporated into the economically active population of the region. When one compares annual averages, the falloff in the rate of unemployment occurred both as a consequence of a 6.59% reduction in the working population and as a result of a 4.02% increase in the employment level. According to the same basis of comparison, growth occurred in the number of working people in all of the categories considered, with the strongest rates (14.73%) occurring under unregistered workers and the lowest (2.5%) among employees with working papers registered by the private sector. In the case of the public sector, growth came to 4.04% in the number of working people, while the number of the self-employed expanded by 4.53%. This result confirms the data calculated by the Ministry of Labor, which pointed to low growth in the formal employment level in the southeast region (1.41%). In the north region, growth came to 3.75%, while the northeast, south and central-west regions closed with respective marks of 2.07%, 2.4% and 2.48%. In relation to the different economic sectors, the lowest growth came to 1.02% and occurred under the sector of commerce, followed by 2.18% expansion under other activities and higher rates under manufacturing (4.77%) and services (5.07%).

### **Wage and earnings indicators**

Over the course of 2000, growth in wage and earnings indicators points to generalized recovery in all sectors and professional categories. In São Paulo, a survey carried out by Fiesp – utilizing the Consumer Price Index – Institute of Economic Research Foundation (IPC-Fipe) as deflator – indicates that average real wages paid in the industrial sector expanded by 2.67% when one compares the average in 2000 with that of the previous year. This result, combined with 0.97% expansion in the employment level, resulted in an increase of 3.75% in overall wages. The twelve state survey of overall wages carried out by the CNI, using the National Consumer Price Index (INPC) as deflator accompanied the Fiesp results and registered average growth of 2.79% in the year. However, one should note that this result was still insufficient to offset the losses of 4.91% and 9.29% in 1998 and 1999, respectively. The increase in the industrial employment level was less than 2.79% in the year and suggests that, in average terms, the real wages paid in the sector were higher than in the previous year.

According to Caged, average initial wages in 2000 increased by 5.31%. Among the sectors analyzed, the initial wages of those contracted in the service sector increased most intensively (10.07%), followed by those paid in the building industry (6.47%), industrial sector (5.43%), commerce (2.69%) and crop/livestock activities (0.53%). With the exception of the sector of commerce, in which the highest average initial wage was equivalent to that paid in December 1999, higher average initial wages were paid in 2000. In the case of the service sector, the average reached R\$520.13. The average registered in the industrial sector (R\$420.43) came close to the overall average (R\$420.47), while the other categories registered the following averages: agriculture (R\$229.30), commerce (R\$341.15) and construction (R\$382.97).

According to IBGE's Monthly Employment Survey in six metropolitan regions, the average earnings of working people declined by 0.57% between January and December 2000, according to figures deflated by the INPC. The falloff was considerably more accentuated in the previous year: 5.48%. Growth in average real earnings occurred in a highly differentiated manner in the different sectors surveyed. While the headings of services, other activities and manufacturing turned in reductions in earnings equivalent to 0.93%, 1.76% and 1.9%, respectively, the building industry and commerce closed with growth rates of 1.87% and 2.64%, in the same order. An analysis of the various employment categories indicates that the real earnings of registered workers declined by 1.03% while those of the self-employed dropped by 0.76%. The earnings of employers increased by 0.19% and those of unregistered workers rose by 0.66%.

**Table 1.13 - Real average earnings of occupied people<sup>1/</sup>**

Percentage change

| Itemization         | 1998  | 1999   | 2000  |
|---------------------|-------|--------|-------|
| Total               | - 0.4 | - 5.5  | - 0.6 |
| Sectors of activity |       |        |       |
| Manufacturing       | - 0.3 | - 7.5  | - 1.9 |
| Building            | - 5.5 | - 6.8  | 1.9   |
| Commerce            | - 4.9 | - 6.7  | 2.6   |
| Services            | 1.0   | - 4.9  | - 0.9 |
| Position            |       |        |       |
| Registered          | 0.0   | - 4.2  | - 1.0 |
| Unregistered        | 0.5   | - 1.3  | 0.7   |
| Self-employed       | - 4.1 | - 7.3  | - 0.8 |
| Employers           | 3.6   | - 10.8 | 0.2   |

Source: IBGE

1/ Deflated by the INPC. Includes the metropolitan regions of Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo and Porto Alegre.

The Employment and Unemployment Survey carried out in the metropolitan region of São Paulo by the Seade Foundation and Dieese pointed to an across-the-board decline in real earnings when compared to the January to December averages. In the private sector, the earnings of unregistered workers dropped by 1.69% when deflated by the Cost of Living Index (ICV/Dieese) and those of registered workers fell by 6.66%. Real losses for the total working population came to 6.5%, using the same reference base.

The minimum wage was set at R\$151.00 effective as of April, corresponding to US\$76.91 in December 2000 or US\$3.11 more than in December 1999.

### **Price indicators**

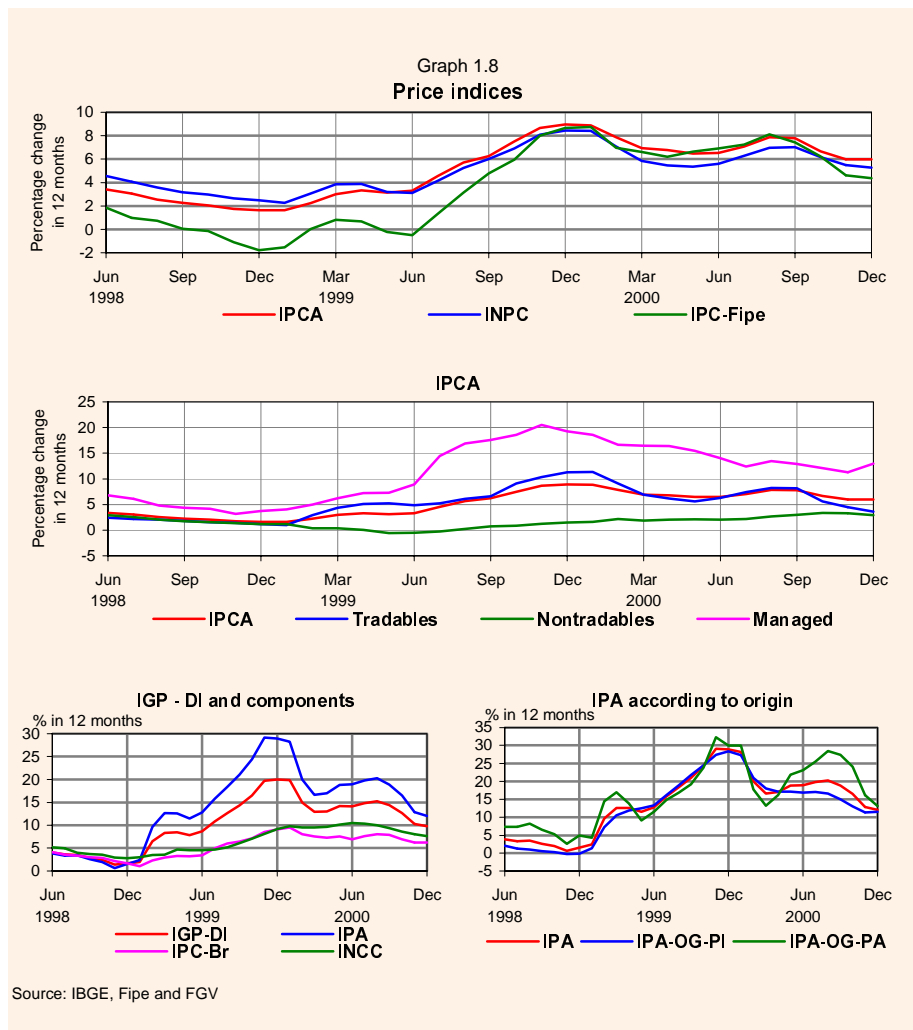
Inflation in 2000 was strongly impacted by food and government managed prices. The performance of the farm sector was marked by a record grain harvest, making it possible to avoid undue price increases under foodstuffs, particularly in the first half of the year. In several months of that period, food prices registered some degree of deflation. In the opposite sense, government managed prices accounted for the highest rates of monthly inflation in the year, with the most accentuated increases concentrated in July, August and December.

At the start of the year, price indices continued on the downward curve registered since the end of 1999. The start of the farm harvest and cutbacks in industrial prices were the factors of greatest importance underlying this scenario, despite the seasonal pressures generated by *in natura* foodstuffs and outlays on education and the impact of the upward movement in gasoline prices at the start of the month of March. This latter factor was responsible for the greatest individual contribution to the IPCA in the month.

In the second quarter of the year, the 11% minimum wage increase, which impacted the maintenance costs of residential condominiums and the wages of domestic help, together with fuel price increases, were the items that exerted the greatest upward pressure on price indices. However, despite these results, the behavior of food prices over the first six months of the year led to the lowest growth levels in consumer price indices ever registered in that period of the year, as the IPCA closed at 1.64% and the IPC-Fipe at 0.87%. The IGP-DI accumulated growth of 3.16% in the period, the lowest level of the past fifty years.

At the start of the second half of the year, however, price indices pointed to an upturn in inflation as the IPCA expanded by 1.61% and 1.31% in July and August,

respectively. The elements responsible for growth in the two month period were the start of the off-season farm period and increases in government managed prices, particularly in the case of fuels. The reasons behind the latter increases were higher international oil prices and, in the case of fuel alcohol, one should note the sugar cane harvest failure. It should be stressed that the increases registered in the period did not disseminate to the other sectors of the economy. Evidently, this is a sign that the economy has practically freed itself from any remnants of indexing mechanisms. Thus, once the impacts of the price pressures that had marked the early part of the year had been overcome, inflation indices became relatively stable at a level similar to the first six months of the year. Toward the end of the year, however, a new fuel price increase in November brought upward pressure to bear on the indices once again.



## Government managed prices

In 2000, government managed goods and services – the prices which are directly or indirectly set by federal, state or municipal government authorities – contributed approximately 58% of the growth in the IPCA. This was equivalent to 3.46 percentage points in the index of 5.97% registered in the year. The items that generated the greatest inflationary pressure in the period were fuels, urban bus fares and fixed telephone rates.

**Table 1.14 - Managed prices: main items of inflation indices in 2000**

Percentage change

| Itemization          | IPCA                 |                       |                   | IPA-DI               |                       |                   |
|----------------------|----------------------|-----------------------|-------------------|----------------------|-----------------------|-------------------|
|                      | Weight <sup>1/</sup> | Accumulated variation | Accumulated share | Weight <sup>1/</sup> | Accumulated variation | Accumulated share |
| Index (A)            | 100.0                | 5.97                  | 5.97              | 100.0                | 12.1                  | 12.1              |
| Urban transportation | 6.6                  | 7.7                   | 0.5               | ...                  | ...                   | ...               |
| Gasoline             | 4.1                  | 30.7                  | 1.1               | 2.1                  | 37.6                  | 0.8               |
| Alcohol              | 1.1                  | 32.9                  | 0.3               | 1.7                  | 44.6                  | 0.8               |
| Diesel oil           | 0.1                  | 27.1                  | 0.0               | 3.4                  | 35.7                  | 1.2               |
| Barreled cooking gas | 1.2                  | 21.0                  | 0.2               | 0.4                  | 51.9                  | 0.2               |
| Electric energy      | 3.5                  | 12.7                  | 0.4               | ...                  | ...                   | ...               |
| Telephone            | 3.0                  | 13.7                  | 0.4               | ...                  | ...                   | ...               |
| Fuel oil             | ...                  | ...                   | ...               | 1.2                  | 26.0                  | 0.3               |
| Total (B)            | 19.6                 | ...                   | 2.9               | 8.8                  | ...                   | 3.1               |
| Share (B/A)          |                      |                       | 48%               |                      |                       | 25%               |

Source: IBGE and FGV

1/ December 2000 weight.

Growth in the prices of gasoline and hydrated alcohol accounted for approximately 40% of the upward movement registered under government managed prices in the year. Gasoline prices reflected the accentuated rise in international oil prices, which came to US\$37.20/barrel at the end of July. It should be noted that the prices of gasoline and hydrated alcohol at the pump were released from controls in February 1999, while the sale price at the refinery level to fuel distribution companies depends on issue of an interministerial directive.

Increases in fuels prices have also generated pressures on the costs of public transportation. In this case, fares are defined at the level of municipal governments. One should note that such important state capitals as São Paulo, Salvador, Recife and others did not alter the fare structures of public urban mass transit systems. On average, urban bus fares increased by 7.87%.



With regard to fixed telephone service rates, the National Telecommunications Agency (Anatel) is responsible for authorizing increases at 12 month intervals based on the impact of the IGP-DI on the various services rendered by the concession companies. Growth in phone rates during the course of the year came to an average of 13.67%.

In 2000, electric energy rates increased by an average of 12.66%. These increases follow a schedule defined by the National Electric Energy Agency (Aneel), which is responsible for defining the annual increases to be charged by each one of the concession companies. The percentage authorized by the Agency gives due consideration to the impact of the General Price Index - Market (IGP-M) accumulated over the previous twelve months on those costs that the company has the power to manage, together with the costs over which companies have no power, such as energy purchased from outside sources, fuel consumption and financial compensation for the utilization of resources.

### **General price index**

In 2000, the IGP-DI registered growth of 9.81%, compared to 19.98% in the previous year. The Wholesale Price Index (IPA) registered a high of 12.06%. Fuels and lubricants accounted for approximately one fifth of this growth. The Consumer Price Index - Brazil (IPC-Br) closed the year with a high of 6.21%, compared to 9.12% in the preceding year. In its turn, the National Cost of Construction Index (INCC) registered growth of 7.66%, following the mark of 9.21% in 1999, with increases of 7.27% under labor and 8.02% in the prices of building materials.

The IGP-M differs from the IGP-DI only in terms of the period in which the data is gathered. This index registered growth of 9.95% in 2000, compared to 20.1% in 1999.

### **Consumer price index**

The Consumer Price Index, which is calculated by Fipe, registered inflation of 4.38% in the metropolitan region of São Paulo. Growth in government managed prices accounted for the major share of inflation, as increases in public tariffs and in fuel prices represented approximately half of the growth in the index, despite the fact that no alterations had been incorporated into urban bus fares in the city of São Paulo. Food prices registered deflation of 0.15%, with reductions of 1.99% under semi-elaborated goods and 0.61% under industrialized products, compared to positive growth of 2.13% under the prices of *in natura* foodstuffs. To some extent, the favorable performance under food products offset higher than average increases registered under outlays on education (9%), health (4.67%) and housing (4.88%).

The IPCA, which reflects growth in the prices of goods purchased by families in the wage bracket between 1 and 40 times the minimum monthly wage, is used as the parameter underlying the inflation targeting system adopted by Brazil. In 2000, this index rose by 5.97%, compared to 8.94% in 1999. This result was within the interval of 6% with a deviation of two percentage points either up or down defined as the inflation target in 2000 by the National Monetary Council (CMN) in June 1999.

Just as occurred under the other inflation indices, the greatest pressures perceived by the IPCA originated in government managed prices, particularly communications (12.89%) and transportation (12.08%). In contrast to this performance, the other groupings registered growth below the average index level, particularly in the sectors of health and personal care (2.2%) and foodstuffs and beverages (3.2%). When one considers only food products, the following increases should be cited: white potatoes (67.31%) and refined sugar (37.21%), parallel to declines under black beans (17.08%), soybean oil (14.63%) and rice (10.21%). Moderate price growth occurred under apparel (4.14%), new automobiles (3.94%) and medicines (0.97%). The heading of rentals registered negative growth of 2.31%.

**Table 1.15 - IPCA items share in 2000**

Percentage change

| Groups                   | IPCA                 |  |   |                                     |                              |
|--------------------------|----------------------|--|---|-------------------------------------|------------------------------|
|                          | Weight <sup>1/</sup> | Accumulated<br>in the first<br>half-year | Accumulated<br>in the second<br>half-year | Accumulated<br>share<br>in the year | Index<br>share <sup>2/</sup> |
| IPCA                     | 100.0                | 1.64                                     | 4.26                                      | 5.97                                | 100.00                       |
| Foodstuffs and beverages | 22.3                 | -0.8                                     | 4.0                                       | 0.7                                 | 11.8                         |
| Housing                  | 15.8                 | 0.8                                      | 3.6                                       | 0.7                                 | 11.6                         |
| Housing products         | 5.9                  | 1.9                                      | 3.3                                       | 0.3                                 | 5.0                          |
| Apparel                  | 5.5                  | 0.1                                      | 4.1                                       | 0.2                                 | 3.7                          |
| Transportation           | 21.2                 | 3.2                                      | 8.6                                       | 2.4                                 | 41.0                         |
| Health and personal care | 11.3                 | 1.6                                      | 1.0                                       | 0.3                                 | 5.0                          |
| Personal outlays         | 9.6                  | 4.2                                      | 1.4                                       | 0.5                                 | 8.9                          |
| Education                | 4.9                  | 4.0                                      | 0.7                                       | 0.2                                 | 3.8                          |
| Communications           | 3.4                  | 4.5                                      | 8.0                                       | 0.4                                 | 7.0                          |

Source: IBGE

1/ 2000 average.

2/ It is obtained by dividing the accumulated share in the year by the IPCA accumulated change in the year.

Market estimates regarding the IPCA in 2000 declined systematically over the course of the year, with the exception of the August-September period, when inflation was pressured by rises in government managed prices and the start of the

off-season farm period. As the year came to a close, all of these factors were converging toward a level of 6%. In the month of January, median expectations placed inflation at 6.94%, compared to 6.07% in December. Here, one should mention that the December rate was quite close to the rate that effectively occurred (5.97%).

The INPC, which is also calculated by IBGE, accumulated growth of 5.27% in 2000. This indicator differs from the IPCA principally with regard to the target population, which corresponds to families with monthly income between 1 and 8 times the monthly minimum wage.



# II

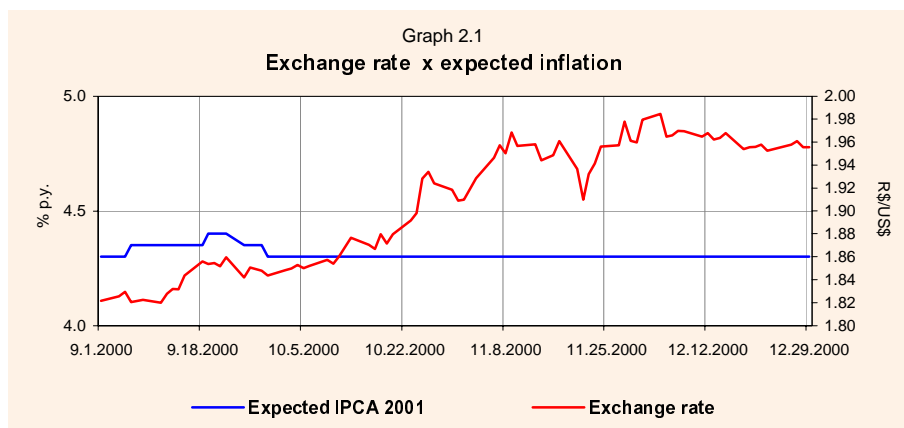
## MONEY AND CREDIT

The monetary policy model based on inflation targeting and floating exchange adopted in mid-1999 has gradually consolidated its position as an adequate instrument for ensuring continued price stability. This is clear in the fact that the nation was successful in complying with the inflation targets set for 2000. The positive results achieved by monetary policy are evinced in the minimization of both supply shock passthrough and the use of indexing mechanisms, at the same time in which the country has achieved consistent recovery in its macroeconomic fundamentals. Unmistakable signs of this improvement are found in the persistent favorable fiscal results, in the lengthening of federal securities debt maturities and in the current account financing profile, in which direct investments now play an increasingly important role.

However, over the course of 2000, monetary policy management was conditioned by uncertainties on the international scenario. In this context, one should cite increases in international petroleum prices since the start of the year, together with uncertainties regarding the overall thrust of United States monetary policy and difficulties that have hit the Argentine economy and produced clearly negative impacts on the sovereign risk evaluations elaborated by external agents with respect to Argentina, coupled with a less favorable outlook for Brazil.

In this framework, the Selic rate target was gradually reduced over the course of the year, though there were moments of greater uncertainty when authorities had to adopt a more rigid approach. In 2000, one can identify two distinct levels for the Selic rate target. In the first half of the year, the target leveled off at 19% per year up to April when it was cut to 18.5% per year, remaining at that level for two months. In the middle of the year, lessening international uncertainties made it possible to reduce interest rates to 17.5% per year in June and 16.5% per year in the month of July. In the second half, in the midst of rising doubts regarding the international scenario, the Selic rate slide was halted and no more reductions were adopted until December 21, when the rate was cut to 15.75% per year.

Among the major indicators of economic policy credibility, one should stress the improvement that occurred in the results of competitive issues of federal securities



in 2000. In comparison to the end of the previous year, participation of the debt indexed to foreign currency dropped from 30.2% to 28%, reflecting less exposure of the internal debt to exchange rate fluctuations. The participation of the preset debt, in turn, increased from 12.9% to 21%, thus reducing the volatility of the federal securities debt by diminishing its sensitivity to interest and exchange rates. Aside from this, the profile of the competitively issued debt was lengthened, registering average duration of 6.3 months and an average term of 15.8 months at the end of the year, compared to 3.9 months and 8.6 months, respectively, at the end of the previous year.

Aside from the goal of achieving compatibility between aggregate supply and demand, monetary policy was conducted with the objective of contributing to the economic development process by stimulating increased private sector participation. In this context, monetary policy measures were targeted at creating a more dynamic credit market through reductions in both the risks and indirect costs of financial intermediation. Among these measures, one should stress cutbacks in the rates of compulsory reserves on demand resources from 65%, in effect since October 1999, to 55% in March and 45% in June 2000.

Parallel to the measures cited above, Banco Central adopted a new system of classifying credit operations with the aim of reducing the credit risks to which financial institutions are subject. Implementation of the new system began with the financial statements for the month of March. Among these innovations, the following aspects deserve mention:

- a) classification of credit operations at differentiated risk levels, based on consistent and verifiable criteria that make it possible to identify the risk levels of each operation with a higher degree of accuracy;
- b) introduction of a new system of setting aside provisions for hard-to-recover credits based on a technically more suitable foundation;
- c) adoption of a stricter system of dealing with credits in arrears, with restrictions on recognition of charges and reclassification of renegotiated credits, coupled with more homogeneous rules for longer term operations.

Table 2.1 - Collection rate on mandatory reserves

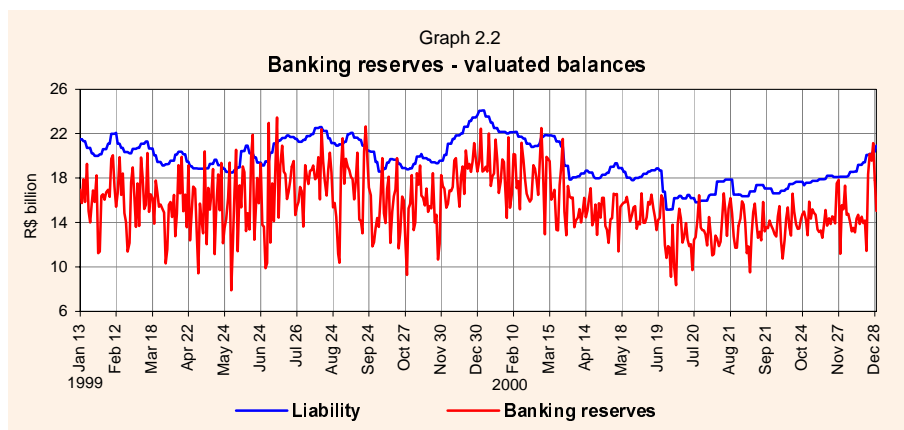
| Percentage |                 |               |                  |                   |                |             |             |
|------------|-----------------|---------------|------------------|-------------------|----------------|-------------|-------------|
| Period     | Demand deposits | Time deposits | Savings deposits | Credit operations | FIF Short-term | FIF 30 days | FIF 60 days |
| Prior to   |                 |               |                  |                   |                |             |             |
| Real Plan  | 40              | -             | 15               | -                 | -              | -           | -           |
| 1994 Jun   | 100             | 20            | 20               | -                 | -              | -           | -           |
| Aug        | "               | 30            | 30               | -                 | -              | -           | -           |
| Oct        | "               | "             | "                | 15                | -              | -           | -           |
| Dec        | 90              | 27            | "                | "                 | -              | -           | -           |
| 1995 Apr   | "               | 30            | "                | "                 | -              | -           | -           |
| May        | "               | "             | "                | 12                | -              | -           | -           |
| Jun        | "               | "             | "                | 10                | -              | -           | -           |
| Jul        | 83              | "             | "                | "                 | 35             | 10          | 5           |
| Aug        | "               | 20            | 15               | 8                 | 40             | 5           | 0           |
| Sep        | "               | "             | "                | 5                 | "              | "           | "           |
| Nov        | "               | "             | "                | 0                 | "              | "           | "           |
| 1996 Aug   | 82              | "             | "                | "                 | 42             | "           | "           |
| Sep        | 81              | "             | "                | "                 | 44             | "           | "           |
| Oct        | 80              | "             | "                | "                 | 46             | "           | "           |
| Nov        | 79              | "             | "                | "                 | 48             | "           | "           |
| Dec        | 78              | "             | "                | "                 | 50             | "           | "           |
| 1997 Jan   | 75              | "             | "                | "                 | "              | "           | "           |
| 1999 Mar   | "               | 30            | "                | "                 | "              | "           | "           |
| May        | "               | 25            | "                | "                 | "              | "           | "           |
| Jul        | "               | 20            | "                | "                 | "              | "           | "           |
| Aug        | "               | "             | "                | "                 | 0              | 0           | "           |
| Sep        | "               | 10            | "                | "                 | "              | "           | "           |
| Oct        | 65              | 0             | "                | "                 | "              | "           | "           |
| 2000 Mar   | 55              | "             | "                | "                 | "              | "           | "           |
| Jun        | 45              | "             | "                | "                 | "              | "           | "           |

Viewed in a context that was more propitious to economic growth recovery, the improvements introduced into risk management instruments strengthened the role of banking credits in monetary policy transmission. Thus, the new system of classifying credit operations tends to favor private spending as a consequence of more efficient financial system credit allocations.

One should also stress the alterations introduced into operational rules applicable to the charging base, calculation periods and utilization of compulsory reserves on demand resources. These changes were regulated by Resolution 2,725, dated May 31, and Circular 2,986, dated June 23. The charging base has incorporated demand deposits and deposits subject to notification effected at service outposts as of October 1, 2000 and in pioneering branches as of June 1, 2003. As of July 2000, the resources originating in the expenditure invoices of public service concession companies are no longer exempt. In contrast to this, an exemption from compulsory

reserves on demand deposits was granted to deposits reserved to acquisitions of federal public securities.

The lengthening from one to two weeks of the periods of calculation and compliance with these requirements which are to be maintained as banking reserves has operational implications for monetary policy. In the previous system, the calculation and utilization of these requirements occurred over a period of five business days, which was sometimes reduced to four or even three days as a result of holidays. In this way, institutions were able to position themselves at a minimum in the range of 60% of the average requirement during a few days of the operating period. The alterations introduced into these parameters aided in reducing the volatility of banking reserves, while making management of these reserves by banking institutions more flexible. Consequently, the need for monetary authority intervention to achieve balance in the market has tended to lessen.



### Federal public securities

Operations with federal public securities over the course of the year were impacted by favorable growth in internal macroeconomic fundamentals and by uncertainties on the international scenario. One factor that should be highlighted is that the process begun last year of expanding the secondary security market moved forward, with implementation of measures aimed at achieving greater transparency and liquidity in operations with these papers.

In this sense, measures were introduced in the month of August with the aim of expanding the volume of operations on the secondary federal public securities market. These measures were designed in such a way as to utilize the Rio de Janeiro stock exchange to stimulate utilization of electronic systems in operations with federal securities. In much the same way, security sales operations were introduced

with resale commitments assumed by the buyer, at the same time in which institutions have been permitted to operate freely with these papers. The added flexibility includes the possibility of anticipating the resale date and in this way encouraging the involvement of new economic agents in this market.

In order to facilitate secondary market operations, July 1, 2000 was specified as the single base date to be used as reference for updating the nominal value of preset papers. In practical terms, papers issued on different dates will have the same nominal value.

In the month of September, the criteria for expressing the profitability rate of the federal papers registered in the Special System of Liquidation and Custody (Selic) were standardized. The profitability of papers for which nominal value is updated according to the value of the dollar is to be calculated according to the internal rate of return based on a period of 360 calendar days and the system of simple capitalization. The profitability of other papers is to be calculated as an annual effective rate, based on 252 business days and the system of compound capitalization. With this measure, it should be possible to enhance the comparability of domestic interest rates and those practiced on the international market.

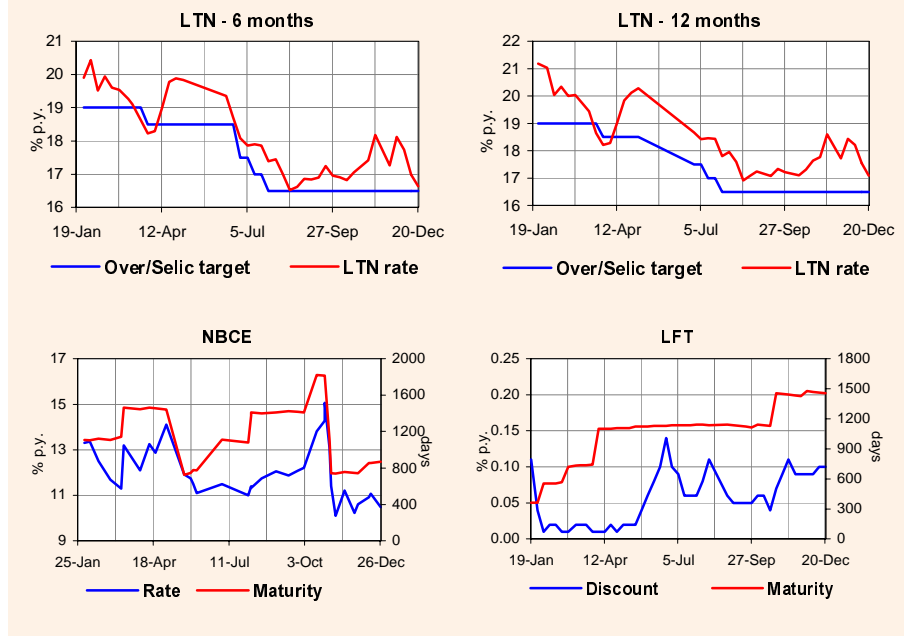
Competitive Banco Central offers of federal securities in definitive operations were restricted to rolling the federal securities debt indexed to exchange. In early 2000, Banco Central Notes - Special Series (NBCE) were placed with terms of two years at an average rate of 11.3% per year. In March, maturity was raised to four years at an average rate of 12% per year. In mid-April, international uncertainties forced the rates on NBCE placements upward to a level of 12.6% per year, despite a cutback in the terms of these papers to two years. In the August-September period, the federal government adopted the strategy of partially rolling maturities in order to reduce its participation in the total public debt and, in this way, diminish exposure to external financial shocks. However, the strategy of partially rolling the debt was suspended as unfavorable expectations loomed ever larger on the international scenario. With this, the volatility of the internal exchange market increased sharply. In its quest for market stability, Banco Central began making net placements of these papers.

Another factor of great importance to monetary and exchange policy implementation was passage of Complementary Law 101 (Fiscal Responsibility Law). Article 34 of that law prohibited Banco Central from issuing public securities, effective as of May 2003.

Competitive operations with National Treasury securities continued and had the dual objective of lengthening maturities and reducing the financial costs of the securities debt. As of the end of January, preset papers – National Treasury Bills

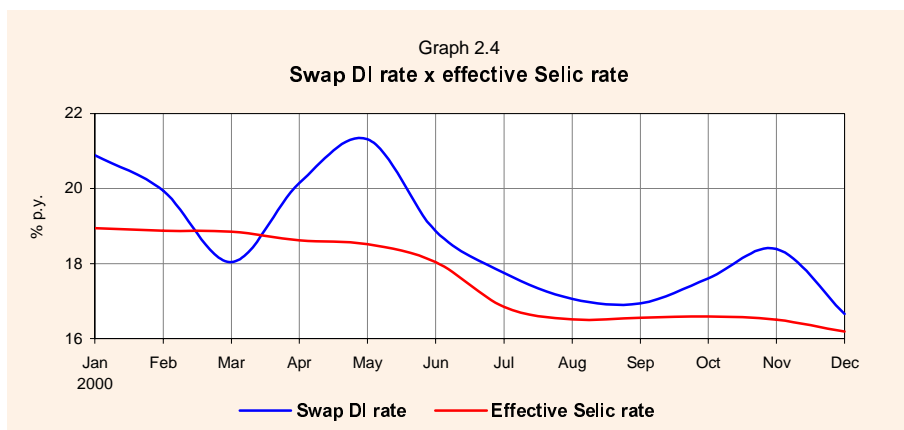


Graph 2.3  
Auctions - placement rates - 2000



(LTN) – were offered with terms of one year. Up to that time, they had been placed with maturities of three and six months. At the same time in which maturities were being lengthened, there was a sharp cutback in placement rates from 21.2% per year on January 21 to 18.2% per year on March 28. In the month of May, international financial market instability led to interruption of security placements following the May 2 auction when the rate moved to 20.3% per year. With the calming of the international situation, Banco Central began offering LTN once again as of June 13. During the half year period, placements were made with maturities of six months and one year at steadily declining rates of interest, which dropped to a level of 16.6% per year for six month LTN and 17.1% per year for one year papers on December, 20. In that period, one should take particular note of LTN placements with maturity of 670 days, with a firm purchase proposal, at 17.6% per year. One should note here that placement of these papers with similar terms had not occurred since the outbreak of the Asian crisis in October 1997. In December, the average term of LTN placements came to 291 days, for growth of 144.5% in relation to December 1999.

The placement terms of National Treasury papers indexed to the Selic rate and issued in public offers increased consistently since the start of the year, moving from almost 12 months to three years in the month of April. As of October, placement terms increased to four years. In keeping with the National Treasury's strategy of reducing the participation of postset securities in the composition of the internal



federal securities debt, Treasury Financing Bills (LFT) represented 52.1% of the total debt at the end of the year, reflecting a reduction of 9 percentage points in relation to the end of the previous year.

Auctions involving National Treasury Notes - Series C (NTN-C), which are indexed to the IGP-M, were also held during the year and followed the system used for NBCE, with a single price for each maturity. At the start of the year, the terms for NTN-C increased to three and seven years. Annualized placement rates for business days varied between 12.6% in March, with a term of seven years, and 11% in September, with terms of five years. One should also cite December placements of NTN-C with thirty year maturities and a rate of 11.97% p.y.

The procedures for exchanging securitized credits were altered as of the month of February, when utilization of these credits was permitted for payment of auctions, with predetermined discounts. The purpose of these changes was to make NTN-C operations more dynamic. In the context of the new system, the first stage defines the price of NTN-C and only offers in cash are accepted. In the second, an auction is held to determine the prices of the securitized credits and the participants make proposals involving sale of the credits they hold. The major objective of NTN-C is to contribute to strengthening the long-term parameters of the Brazilian economy, since their role in the financial market is to act as backing for long-term liabilities.

The duration of federal securities issued in public offers registered an upward trajectory over the course of the year, as the indicator moved from 3.95 months in December 1999 to 6.32 months in December 2000. To a great extent, this result was impacted by the lengthening of the terms of preset and exchange securities placed on the market. The average duration of LTN increased from 1.96 month at the end of 1999 to 5.07 months at the end of 2000. For NBCE, the indicator moved from 10.76 months to 17.64 months in the same period.

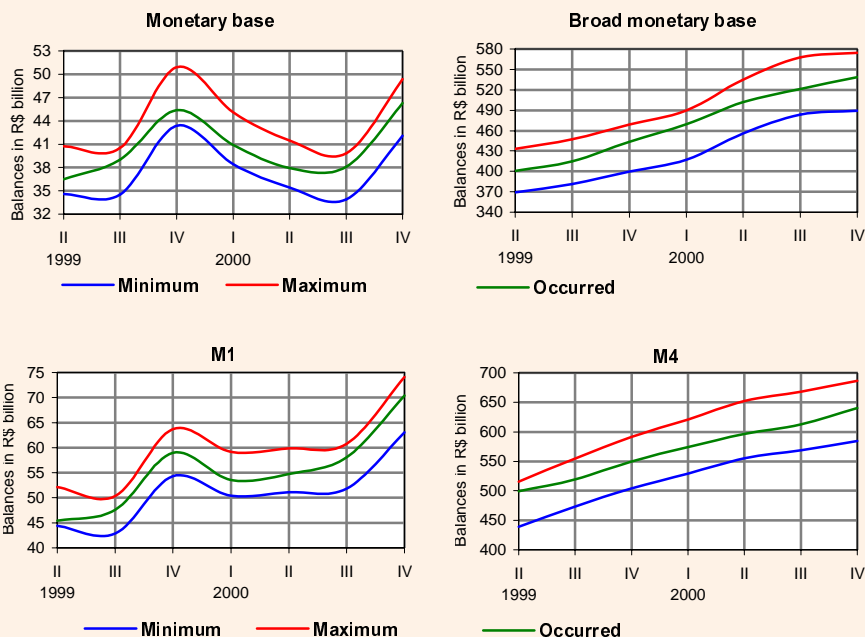
## Monetary aggregates

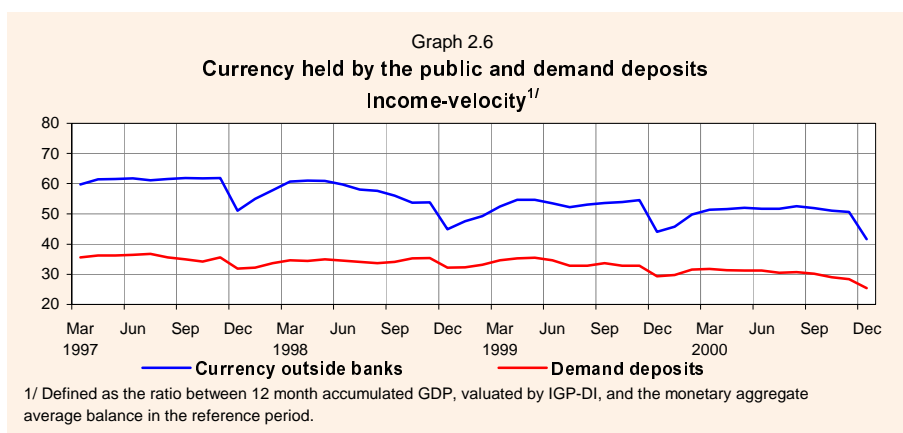
The behavior of the monetary aggregates reflected a process of gradual recovery in the pace of economic activity, expanded credit operations and reductions in the volume of resources that had to be maintained in non-interest bearing accounts. In this framework, viewed under the prism of monthly average daily balances, the money supply expanded by 19.2% in the year and, just as occurred in the case of the other aggregates, closed the period well within the parameters defined in monetary program for the period. Demand deposits declined in terms of income-velocity, basically as a result of the volume of resources transiting through credit operations and greater banking system interest in this type of funding operation, which is marked by the greater volume of non earmarked resources generated by reductions in the compulsory reserve rate. Thus, the average balance of demand deposits increased by 23.2% in the year. Currency held by the public, which is less sensitive to shocks in the allocation of the portfolios of economic agents, such as changes in reserve requirements, registered stationary income-velocity, as the monthly average of the daily balances of the aggregate increased by 13.2% in the same period.

Graph 2.5

### Monetary base and money supply

Monetary program and values occurred





Based on the criterion of monthly average daily balances, the monetary base came to R\$46.3 billion in December, with growth of 2% in the year, or considerably less than in the case of the money supply. This performance reflects a drop of 14.4% in demand for banking reserves, while the average balance of currency issued increased by 12.8%.

Insofar as the sources of monetary issues are concerned, the major monetary base conditioning factors in the period, on the supply side, were transactions through the National Treasury operating account, with a net contractive impact of R\$26.5 billion, and external operations, with expansion of R\$4.4 billion. These results were achieved through direct and timely interventions in the interbank exchange market that were fully consistent with the floating rate exchange system. Over the course of 2000, the only moments in which this occurred were on November 23, when a higher than usual volume of resources had to be internalized for payment of the privatization of *Banco do Estado de São Paulo S.A.* (Banespa), and on December 29, as a prudential measure taken in light of the transition to the new year. Parallel to growth of R\$897 million in monetary base demand, these results generated net redemptions of the federal security debt in a total amount of R\$20.6 billion.

With respect to the broad monetary aggregates, the more inclusive concept of the monetary base, as a measurement of the monetary debt and high liquidity federal securities debt, closed the year with a balance of R\$538.7 billion, for growth of 20.5% in the period. For the most part, this result is attributed to upward movement caused by the rise in the value of the federal securities debt and to issues of securities related to state and municipal debt restructuring program, particularly that involving the municipality of São Paulo. The expansionary factors cited were equivalent to R\$113 billion and were partially attenuated by net deposits to the National Treasury operating account.

**Table 2.2 - Monetary program**

R\$ billion

| Itemization      | Restricted monetary base |         |          | Broad monetary base |         |          |
|------------------|--------------------------|---------|----------|---------------------|---------|----------|
|                  | Minimum                  | Maximum | Occurred | Minimum             | Maximum | Occurred |
| 1999 1st quarter | 35.4                     | 41.6    | 37.6     | 353.0               | 414.4   | 388.0    |
| 2nd quarter      | 34.6                     | 40.7    | 36.5     | 368.9               | 433.0   | 400.7    |
| 3rd quarter      | 34.5                     | 40.5    | 39.0     | 381.3               | 447.6   | 414.8    |
| 4th quarter      | 43.4                     | 50.9    | 45.4     | 399.6               | 469.1   | 447.1    |
| 2000 1st quarter | 38.4                     | 45.1    | 40.9     | 417.2               | 489.8   | 469.3    |
| 2nd quarter      | 35.4                     | 41.5    | 37.9     | 455.8               | 535.1   | 501.9    |
| 3rd quarter      | 33.9                     | 39.8    | 38.1     | 483.9               | 568.0   | 521.3    |
| 4th quarter      | 42.1                     | 49.4    | 46.3     | 489.2               | 574.3   | 538.7    |

(continues)

**Table 2.3 - Factors conditioning the monetary base**

Accumulated flows in the month (R\$ million)

| Period   | National Treasury | Operations with federal securities | Foreign sector operations | Discount window operations |
|----------|-------------------|------------------------------------|---------------------------|----------------------------|
| 1999 Jan | - 100             | 7 113                              | -4 756                    | -1 502                     |
| Feb      | - 815             | -2 008                             | 285                       | - 27                       |
| Mar      | -1 768            | 5 076                              | -3 812                    | - 316                      |
| Apr      | -2 650            | 3 631                              | -1 950                    | - 6                        |
| May      | 25                | 3 254                              | 659                       | - 30                       |
| Jun      | - 843             | -6 657                             | 8                         | - 7                        |
| Jul      | -1 627            | 9 333                              | - 13                      | - 7                        |
| Aug      | -6 434            | -4 139                             | - 296                     | - 7                        |
| Sep      | -2 901            | 4 518                              | - 11                      | - 7                        |
| Oct      | 723               | - 69                               | -1 411                    | - 7                        |
| Nov      | 607               | 1 201                              | - 823                     | - 7                        |
| Dec      | 221               | 13 672                             | -2 759                    | - 15                       |
| 2000 Jan | 2 243             | -11 253                            | 2 387                     | 0                          |
| Feb      | -1 383            | 1 378                              | 69                        | - 8                        |
| Mar      | -3 288            | 483                                | 38                        | - 16                       |
| Apr      | -3 704            | 2 159                              | - 13                      | 0                          |
| May      | -2 014            | - 50                               | - 1                       | - 8                        |
| Jun      | -2 146            | -1 239                             | 12                        | - 39                       |
| Jul      | 1 229             | 3 092                              | - 3                       | 0                          |
| Aug      | -5 710            | 8 586                              | 19                        | - 8                        |
| Sep      | -2 744            | 1 145                              | - 6                       | - 9                        |
| Oct      | 714               | - 99                               | 5                         | - 38                       |
| Nov      | -9 647            | 8 101                              | 3 836                     | - 520                      |
| Dec      | - 90              | 9 095                              | -1 942                    | 0                          |

(continues)

**Table 2.2 - Monetary program (concluded)**

R\$ billion

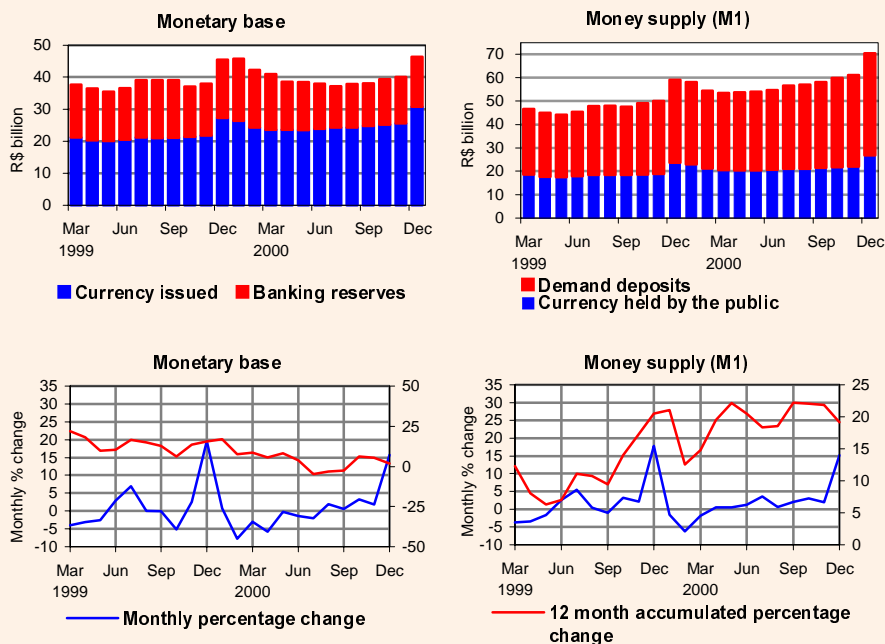
| Itemization | Money supply (M1) |         |          | Money supply broader concept (M4) |         |          |       |
|-------------|-------------------|---------|----------|-----------------------------------|---------|----------|-------|
|             | Minimum           | Maximum | Occurred | Minimum                           | Maximum | Occurred |       |
| 1999        | 1st quarter       | 46.0    | 54.0     | 46.6                              | 436.7   | 512.6    | 477.4 |
|             | 2nd quarter       | 44.4    | 52.1     | 45.4                              | 439.0   | 515.4    | 498.9 |
|             | 3rd quarter       | 42.9    | 50.3     | 47.6                              | 472.9   | 555.1    | 519.1 |
|             | 4th quarter       | 54.3    | 63.7     | 59.0                              | 504.2   | 591.9    | 550.2 |
| 2000        | 1st quarter       | 50.4    | 59.2     | 53.5                              | 528.8   | 620.8    | 574.6 |
|             | 2nd quarter       | 51.1    | 59.9     | 54.7                              | 555.5   | 652.1    | 596.4 |
|             | 3rd quarter       | 51.8    | 60.8     | 58.1                              | 569.1   | 668.1    | 612.7 |
|             | 4th quarter       | 63.1    | 74.1     | 70.4                              | 584.8   | 686.5    | 640.2 |

**Table 2.3 - Factors conditioning the monetary base (concluded)**

Accumulated flows in the month (R\$ million)

| Period | Deposits               |                  |       |       | Other accounts | Monetary base change |        |
|--------|------------------------|------------------|-------|-------|----------------|----------------------|--------|
|        | Financial institutions | Investment funds | DVR   | Total |                |                      |        |
| 1999   | Jan                    | - 111            | - 171 | 7     | - 275          | - 29                 | 451    |
|        | Feb                    | 89               | 496   | 0     | 585            | 201                  | -1 779 |
|        | Mar                    | 227              | 2     | 1     | 230            | - 34                 | - 624  |
|        | Apr                    | 199              | 154   | 0     | 353            | - 259                | - 881  |
|        | May                    | 107              | 42    | 0     | 149            | 27                   | 4 083  |
|        | Jun                    | 47               | 183   | 0     | 231            | 12                   | -7 257 |
|        | Jul                    | 55               | 210   | 0     | 265            | 33                   | 7 985  |
|        | Aug                    | - 64             | 3 629 | 0     | 3 565          | 18                   | -7 292 |
|        | Sep                    | 528              | 0     | 0     | 528            | - 26                 | 2 100  |
|        | Oct                    | 544              | 0     | 0     | 544            | 100                  | - 121  |
|        | Nov                    | 485              | 0     | 0     | 485            | 25                   | 1 488  |
|        | Dec                    | 8                | 0     | 0     | 8              | - 35                 | 11 093 |
| 2000   | Jan                    | 71               | 0     | 0     | 71             | 14                   | -6 538 |
|        | Feb                    | 42               | 0     | 0     | 42             | - 72                 | 28     |
|        | Mar                    | 84               | 0     | 0     | 84             | - 129                | -2 827 |
|        | Apr                    | 297              | 0     | 0     | 297            | - 111                | -1 373 |
|        | May                    | 263              | 0     | 0     | 263            | - 35                 | -1 845 |
|        | Jun                    | - 22             | 0     | 0     | - 22           | - 125                | -3 560 |
|        | Jul                    | - 186            | 0     | 0     | - 186          | 3                    | 4 136  |
|        | Aug                    | - 110            | 0     | 0     | - 110          | - 107                | 2 670  |
|        | Sep                    | 182              | 0     | 0     | 182            | - 170                | -1 601 |
|        | Oct                    | 590              | 0     | 0     | 590            | - 58                 | 1 115  |
|        | Nov                    | 394              | 0     | 0     | 394            | - 70                 | 2 095  |
|        | Dec                    | - 127            | 0     | 0     | - 127          | 20                   | 6 955  |

Graph 2.7  
**Monetary base and money supply (M1)**  
 Average daily balances



In its broader concept, which corresponds to M4, the money supply closed 2000 at R\$640.2 billion, with annual growth of 16.2%, while accumulated Selic rate growth came to 17.4%, pointing to moderate expansion in internal financial savings. Following some degree of recovery in the month of December, savings deposits expanded by 0.9% in the year, while private securities dropped by 4.4%. This performance was a factor of importance to the 67.2% growth in fixed income funds and federal public securities, taken as a whole. This migration can be explained in terms of the daily liquidity and profitability levels registered by fixed income funds, as well as by the reduction in financial institution investments in federal securities as they shifted these resources into credit operations.

### Financial system credit operations

Continuing the policy adopted in the previous year, credit policy in 2000 was implemented with the aim of expanding the availability of resources for final borrowers. Among the most important measures taken to achieve this objective, one should cite the reduction in the rate of compulsory reserves on demand deposits from 65% to 45%. Parallel to this step, a program was initiated that provides

information over the Internet on the interest rates practiced by financial institutions in their major credit operations. The purpose here was to achieve greater transparency in banking operations and further competition among institutions.

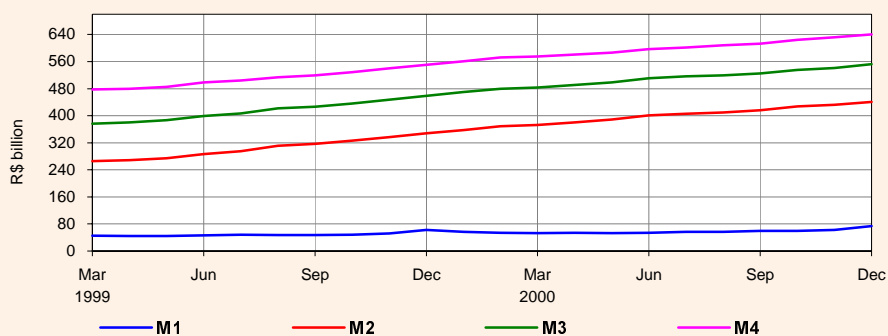
**Table 2.4 - Financial assets**

Percentage share of GDP<sup>1/</sup> (%)

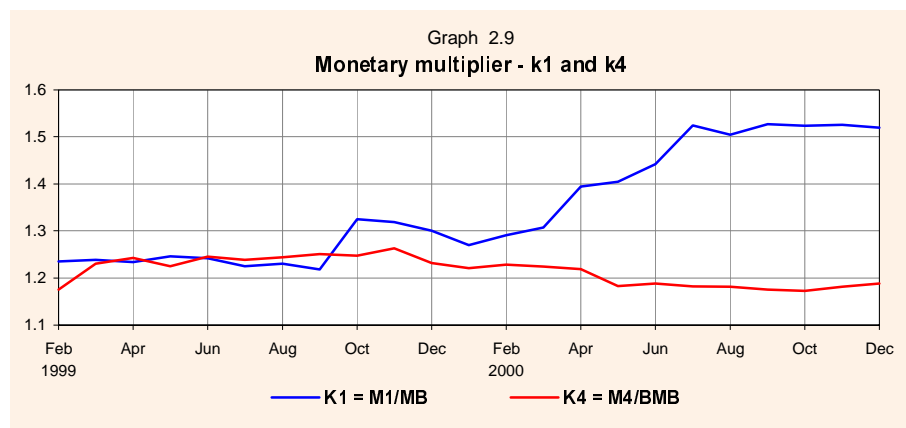
| Period | M1  | M2   | M3    | M4    |       |
|--------|-----|------|-------|-------|-------|
| 1999   | Jan | 5.64 | 29.52 | 41.74 | 52.30 |
|        | Feb | 5.40 | 29.72 | 42.17 | 53.30 |
|        | Mar | 5.11 | 29.83 | 42.31 | 53.64 |
|        | Apr | 4.86 | 29.63 | 41.92 | 52.82 |
|        | May | 4.75 | 29.61 | 41.74 | 52.38 |
|        | Jun | 4.84 | 30.24 | 42.04 | 52.56 |
|        | Jul | 4.98 | 30.63 | 42.21 | 52.31 |
|        | Aug | 4.85 | 31.78 | 43.12 | 52.47 |
|        | Sep | 4.71 | 31.75 | 42.80 | 52.02 |
|        | Oct | 4.75 | 31.89 | 42.63 | 51.73 |
|        | Nov | 4.92 | 32.18 | 42.69 | 51.60 |
|        | Dec | 6.00 | 33.31 | 43.90 | 52.66 |
| 2000   | Jan | 5.57 | 35.21 | 46.24 | 55.25 |
|        | Feb | 5.48 | 37.36 | 48.64 | 58.00 |
|        | Mar | 5.40 | 37.79 | 49.02 | 58.31 |
|        | Apr | 5.26 | 37.30 | 48.13 | 56.96 |
|        | May | 5.00 | 36.66 | 47.03 | 55.29 |
|        | Jun | 5.02 | 37.03 | 47.23 | 55.11 |
|        | Jul | 5.23 | 37.54 | 47.76 | 55.70 |
|        | Aug | 5.27 | 38.24 | 48.52 | 56.80 |
|        | Sep | 5.55 | 39.06 | 49.29 | 57.53 |
|        | Oct | 5.58 | 39.82 | 49.90 | 58.17 |
|        | Nov | 5.78 | 39.90 | 49.94 | 58.35 |
|        | Dec | 6.76 | 40.31 | 50.53 | 58.55 |

1/ Last 12 month GDP at prices of indicated month (deflator IGP-DI), based on the series released by IBGE.

Graph 2.8  
Financial assets - end-of-period







The rates charged on preset credit operations carried out with non earmarked resources confirmed the downward interest rate trajectory that marked the entire year of 1999. The interest rate slide in 2000 can be attributed to the convergence of a series of positive factors that occurred in the period, including cutbacks in the Selic rate target, government measures to expand the credit supply and reduce interest, enhanced competition among banks and a higher level of financial institution confidence in the stability of the internal economic scenario.

Average interest rates on preset operations with individuals and legal entities declined from 62.3% per year at the end of 1999 to 51% per year in 2000, while the rates on funding operations (Bank Deposit Certificates - CDB) dropped from 18.1% per year to 15.8% per year in the period.

With the results of funding and lending rates, the average spread in credit operations dropped to 35.2% per year in December 2000, indicating a change of 9 percentage points (p.p.) in relation to the level registered in the same period of the previous year. In operations with individual persons, the falloff in the average spread was even more significant, closing at 20.6 p.p. compared to 12.2 p.p. in operations with legal entities.

Among the different types of operations with individual consumers, the spread in personal credit operations turned in the most accentuated reduction, dropping from 68.4% per year in December 1999 to 51.9% per year at the end of 2000. On the other hand, the spread in operations with special overdraft checks increased from 120.7% per year to 136.9% per year in the same period.

Analysis of the operations classified under the heading of legal entities points to reductions in average spreads in all credit modalities, and particularly those involving guaranteed overdraft accounts and working capital operations, with respective falloffs of 15.2 p.p. and 12.8 p.p. in the period.

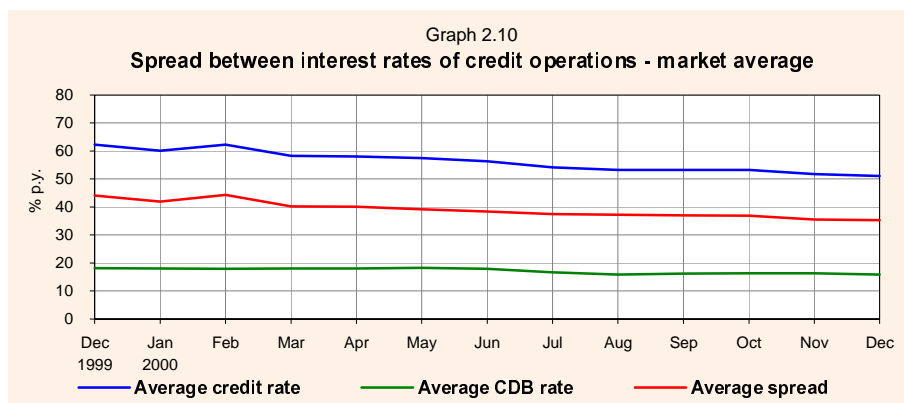
**Table 2.5 - Rates for preset credit operations - 2000<sup>1/</sup>**

| % p.y.                   |       |       |       |       |       |       |       |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Itemization              | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   |
| Interest rates - general | 60.0  | 62.3  | 58.3  | 58.1  | 57.4  | 56.4  | 54.1  | 53.3  | 53.3  | 53.2  | 51.9  | 51.0  |
| Legal entities           | 47.8  | 49.2  | 46.1  | 45.7  | 44.1  | 38.0  | 35.8  | 34.8  | 34.6  | 34.4  | 33.8  | 34.6  |
| Discount of trade bills  | 54.6  | 55.6  | 53.9  | 54.3  | 50.5  | 46.6  | 44.3  | 44.5  | 43.7  | 44.7  | 44.1  | 44.7  |
| Working capital          | 46.9  | 48.5  | 46.4  | 45.7  | 43.7  | 34.3  | 33.1  | 32.6  | 32.2  | 32.3  | 32.7  | 32.5  |
| Guaranteed overdraft     |       |       |       |       |       |       |       |       |       |       |       |       |
| accounts                 | 55.6  | 56.7  | 51.1  | 50.5  | 49.7  | 47.0  | 42.3  | 40.6  | 41.4  | 40.4  | 38.0  | 41.2  |
| Acquisition of goods     | 40.4  | 42.1  | 36.9  | 35.7  | 34.1  | 31.2  | 30.9  | 30.4  | 28.1  | 26.7  | 27.9  | 30.7  |
| Individuals              | 83.3  | 85.3  | 78.3  | 77.8  | 75.1  | 76.7  | 73.4  | 71.7  | 71.3  | 71.0  | 68.7  | 66.5  |
| Special overdraft        |       |       |       |       |       |       |       |       |       |       |       |       |
| checks                   | 144.9 | 152.7 | 144.8 | 152.3 | 142.2 | 163.3 | 156.8 | 151.3 | 151.8 | 151.3 | 153.8 | 152.7 |
| Personal credit          | 75.6  | 76.5  | 68.9  | 68.1  | 67.1  | 70.1  | 70.6  | 69.9  | 71.6  | 72.5  | 72.0  | 67.7  |
| Acquisition of goods     |       |       |       |       |       |       |       |       |       |       |       |       |
| Vehicles                 | -     | -     | -     | -     | -     | 35.5  | 35.9  | 34.8  | 35.2  | 34.2  | 34.3  | 35.0  |
| Acquisition of goods     |       |       |       |       |       |       |       |       |       |       |       |       |
| Others                   | -     | -     | -     | -     | -     | 84.3  | 77.5  | 78.0  | 73.9  | 63.8  | 65.1  | 66.5  |
| CDB rate                 | 18.0  | 17.9  | 18.0  | 18.0  | 18.2  | 17.9  | 16.6  | 15.9  | 16.2  | 16.3  | 16.3  | 15.8  |
| Spread - general         | 42.0  | 44.3  | 40.3  | 40.1  | 39.2  | 38.4  | 37.5  | 37.4  | 37.1  | 36.9  | 35.5  | 35.2  |
| Legal entities           | 29.7  | 31.3  | 28.1  | 27.7  | 25.9  | 20.0  | 19.3  | 18.9  | 18.4  | 18.1  | 17.5  | 18.8  |
| Discount of trade bills  | 36.5  | 37.7  | 35.8  | 36.3  | 32.3  | 28.7  | 27.7  | 28.6  | 27.5  | 28.4  | 27.7  | 28.8  |
| Working capital          | 28.9  | 30.6  | 28.4  | 27.7  | 25.5  | 16.4  | 16.5  | 16.7  | 16.0  | 16.0  | 16.3  | 16.7  |
| Guaranteed overdraft     |       |       |       |       |       |       |       |       |       |       |       |       |
| accounts                 | 37.6  | 38.8  | 33.1  | 32.5  | 31.5  | 29.1  | 25.8  | 24.8  | 25.2  | 24.1  | 21.6  | 25.4  |
| Acquisition of goods     | 22.4  | 24.2  | 18.9  | 17.8  | 15.9  | 13.3  | 14.4  | 14.6  | 11.9  | 10.4  | 11.6  | 14.9  |
| Individuals              | 65.3  | 67.4  | 60.3  | 59.8  | 56.9  | 58.8  | 56.8  | 55.8  | 55.1  | 54.7  | 52.3  | 50.7  |
| Special overdraft        |       |       |       |       |       |       |       |       |       |       |       |       |
| checks                   | 126.9 | 134.8 | 126.8 | 134.3 | 124.0 | 145.4 | 140.2 | 135.4 | 135.6 | 135.0 | 137.5 | 136.9 |
| Personal credit          | 57.5  | 58.6  | 50.9  | 50.1  | 48.8  | 52.1  | 54.0  | 54.0  | 55.4  | 56.2  | 55.7  | 51.9  |
| Acquisition of goods     |       |       |       |       |       |       |       |       |       |       |       |       |
| Vehicles                 | -     | -     | -     | -     | -     | 17.6  | 19.4  | 18.9  | 19.0  | 18.0  | 18.0  | 19.2  |
| Acquisition of goods     |       |       |       |       |       |       |       |       |       |       |       |       |
| Others                   | -     | -     | -     | -     | -     | 66.4  | 61.0  | 62.1  | 57.7  | 47.6  | 48.8  | 50.7  |

Source: Sisbacen, userkey PEFI300

1/ Yearly rates are obtained by raising to 252 the geometric mean of daily rates in the month.

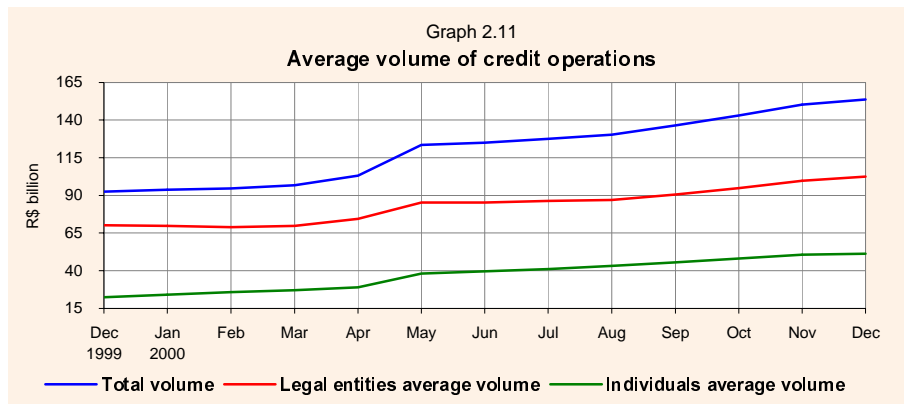
Insofar as the credit operation rates announced by Banco Central are concerned, one should note that important alterations were introduced into their calculation as of June 2000. The average rates of each type of credit are now obtained on the basis of the volume of credits granted by the financial institution instead of the simple arithmetic average. The purpose here is to avoid the distortions inherent to situations in which the rates of large financial institutions differed from those practiced by smaller scale institutions. The more significant impacts of these changes on average rates were perceived in the May-June period, precisely the period of transition in which institutions had to adapt to the recently introduced alteration, particularly under the heading of operations with individual consumers.



The stock of credits granted by the financial system turned in positive growth over the course of the year, especially with regard to credits targeted at individual persons, particularly in personal credit operations and credits for acquisitions of goods. Financing granted to the productive sector moved upward in the final quarter of the year and contributed to a more dynamic pace of economic activity.

The balance of credit operations based on non earmarked resources, which exclude real estate, rural and leasing operations, as well as those based on onlendings of public sector funds, came to a level of R\$153.9 billion in December 2000, for growth of 66.4% in relation to the previous year. This growth can be attributed to a decline in the lending rates practiced by financial institutions in the period, a factor that has contributed significantly to growth in the pace of economic activity.

Loans contracted by individual consumers totaled R\$51.3 billion at the end of 2000, for growth of 129% in 12 months. Personal credit operations, which accounted for 32% of the overall value for this segment, registered the highest growth in the period (71.6%), closing December 2000 at R\$16.3 billion. Aside from this, financing for vehicle acquisitions increased by 99% in the period from June to December of last year. One should note that growth in these two credit categories can be attributed to the decreased use of rotating credits.



With respect to legal entities, growth in the total volume of credit operations not only reflected the cost reduction, but also the need for replenishing stocks at a time of increasingly more intense economic activity. The volume of credit granted to the segment came to R\$102.6 billion, for growth of 46.4% in relation to December 1999. The balances of operations involving the discounting of commercial invoices and guaranteed overdraft accounts are responsible for a considerable share of the overall volume. These operations closed the period with respective growth rates of 54.3% and 46.2%. Operations involving guaranteed overdraft accounts gained momentum as a result of the expanded supply of credits at floating rates, tied for the most part to deposits among financial institutions.

In order to expand the daily volume of available information on credit operations backed by non earmarked resources submitted by financial institutions, Circular 2,957/1999 was issued setting down rules covering data on the balance of portfolios that are indexed by income appropriated, the values of new credit operations and the average term of the portfolios of each credit modality. Aside from this, institutions are to inform as to the classification of credit portfolios according to levels of default and the segregation of interest rates into basic interest, operational charges and fiscal charges. Another alteration refers to information on credits granted to individuals for acquisition of goods. These operations are now distributed according to the purpose of the financing into the categories of vehicles and other goods.

In order to intensify application of prudential rules and apply improved bank supervision mechanisms more in keeping with international standards, CMN (National Monetary Council) issued Resolution 2,682, dated 12.21.1999, defining more rigorous criteria that would ensure improvements and transparency in credit operations. The overall objective here was to reorganize and streamline the allocation of resources and, consequently, reduce the costs of financial intermediation.

Thus, the CMN carried out a review of the procedures set down in Resolution 1,748, dated 8.30.1990, making them more objective and inclusive for the classification of credit operation portfolios. At the same time, the Council called for provisions for losses to be set aside on technically more appropriate bases.

According to Resolution 1,748, the rules for classifying credit portfolios were based exclusively on the period of default, while the potential risk of the borrower and of the operation itself was ignored. Credits were classified as follows:

- a) normal, when matured for up to 60 days;
- b) in arrears, when matured for more than 60 days and covered by a guaranty;
- c) in liquidation, when matured for more than 60 days with no guaranties or for more than 180 days with sufficient guaranties.

As of adoption of Resolution 2,682, issued in March 2000, credit operations are classified into nine different levels in the increasing order of risk (AA, A, B, C, D, E, F, G and H), with provisions to be set aside on a gradually increased basis as of the second level.

Classification methodologies are the responsibility of the financial institution and are to take the following factors into consideration among others:

- a) in relation to the debtor and guarantors:
  - i. economic-financial situation;
  - ii. degree of indebtedness;
  - iii. capacity to generate results;
  - iv. cash flow;
  - v. administration and quality of controls;
  - vi. punctuality and payment arrears;
  - vii. contingencies;
  - viii. sector of economic activity;
  - ix. credit limit;
- b) in relation to the operation:
  - i. nature and purpose of the transaction;
  - ii. characteristics of the guaranties, particularly as regards sufficiency and liquidity;
  - iii. value.

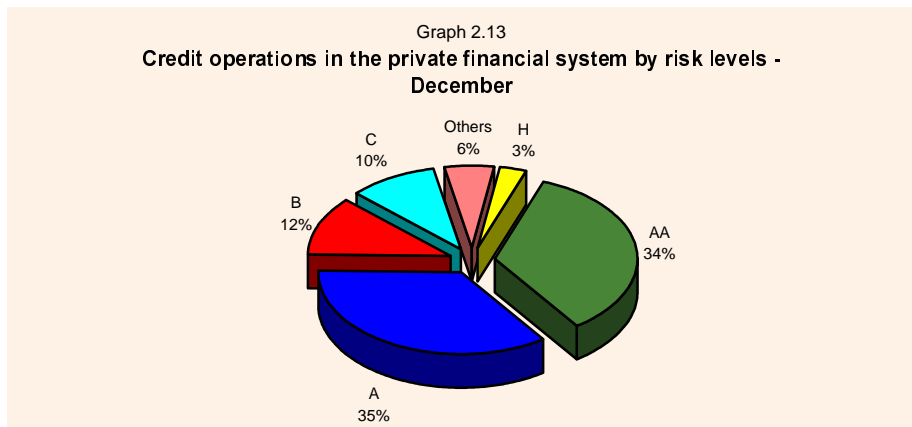
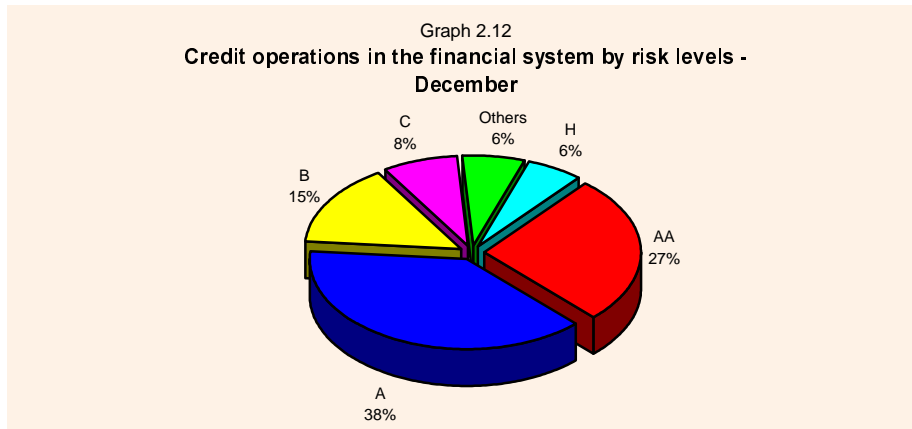
Aside from these points, it was determined that risk classification levels were to be revised at least:

- a) monthly, at the time of the issue of balance sheets and financial statements, with such reviews to be based on defaults in the payment of principal and financial charges. In those cases in which the term of the operation extends for more than an additional 36 months, the time periods foreseen may be calculated at double their value and the operations are to be defined as follows:
  - i. arrears between 15 and 30 days: at least B level risk;
  - ii. arrears between 31 and 60 days: at least C level risk;
  - iii. arrears between 61 and 90 days: at least D level risk;
  - iv. arrears between 91 and 120 days: at least E level risk;
  - v. arrears between 121 and 150 days: at least F level risk;
  - vi. arrears between 151 and 180 days; at least G level risk;
  - vii. arrears of more than 180 days: H level risk;
- b) every six months for operations of a single client or economic group when the volume is greater than 5% of adjusted net worth;
- c) once every 12 months in all situations, except for credit operations contracted by clients whose total liability is less than R\$50 thousand. The classification of these operations may be carried out a single time automatically as a consequence of arrears in payments of the principal and financial charges.

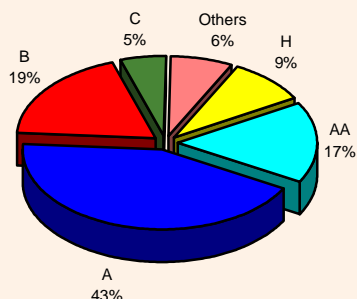
It is important to note that noncompliance with the period defined for review of the classification of operations at their respective level will result in compulsory reclassification to risk level “H” by the financial institution involved, together with application of other administrative measures by Banco Central.

Reclassification of portfolios into risk levels will result in constitution of provisions that are no less than the sum total of the following percentages:

- a) 0.5% of the value of operations classified under risk level A;
- b) 1% of the value of operations classified under risk level B;
- c) 3% of the value of operations classified under risk level C;
- d) 10% of the value of operations classified under risk level D;
- e) 30% of the value of operations classified under risk level E;
- f) 50% of the value of operations classified under risk level F;
- g) 70% of the value of operations classified under risk level G;
- h) 100% of the value of operations classified under risk level H.



Graph 2.14  
Credit operations in the public financial system by risk levels -  
December



In the month of December, the overall volume of financial system credit operations, which include both non earmarked and targeted resources, came to a total of R\$317 billion, when one includes all nine risk levels. Growth over the nine month period came to 10.8%. Among the factors that contributed to this result, one should cite growth in loans to the private sector, particularly operations with the trade sector, the sector of other services and individual consumers. Thus, participation of total credits granted by the financial system in relation to GDP ended at 26.8%, compared to 27.2% in 1999.

When one analyzes the distribution of financial institution credit portfolios according to risk levels, one notes that R\$211 billion of total credits granted were concentrated under levels AA and A, while level H, which requires provision of 100%, registered a total of R\$18.6 billion.

In the case of the private financial system, the stock of credits granted came to R\$176.7 billion for growth of 26.3% in nine months, while the balance for the public financial system came to R\$140.4 billion, for a reduction of 4% in the same period.

On a sector-by-sector basis, the volume of loans contracted by individuals came to R\$59.7 billion in December, with growth of 38.6%. Among the factors that contributed to this performance, one should note greater demand for personal credits and for financing of acquisitions, particularly involving automotive vehicles. These classes of credits were positively impacted by interest reductions and longer payment terms, at the same time in which employment and income indicators moved sharply upward. An analysis by risk levels shows that the greatest share of these operations was classified under level A (64%) while just 4.9% were covered by level H.

Loans to the industrial sector came to R\$84.6 billion in December, for growth of 2.7%. Particular note should be taken of 6.9% growth registered in the final quarter of the year. In terms of risk levels, 63.1% of credits were concentrated under levels AA and A.

Insofar as credit operations with the trade sector are concerned, total credits contracted added up to R\$31.5 billion, for growth of 15.4% in relation to the month of March. It is important to note that growth in the October-December quarter came to 11.5% and was basically due to financing of stock for end-of-year sales.

Total loans allocated to the segment of other services registered a balance of R\$45.2 billion, for growth of 20.4%, mostly as a consequence of greater demand on the part of the telecommunications and transportation sectors. One should stress, however, that the major share of these resources was classified under level AA, with 42.9%, while operations under risk level H accounted for 3.2%.

In the last nine months of the year, the rural credit portfolios held by financial institutions expanded by 2.2%, closing December with a balance of R\$26.4 billion. Credits recorded under levels AA and A came to 61.2%, while those under level H came to 4.9%. In relation to the composition of the sources of financial system resources for the rural sector, data available up to November indicate that investments with obligatory resources accounted for 49.8%. The second most important item was that of funding channeled through onlending operations with participation of 44.8%, while non earmarked and agroindustrial investments accounted for a joint total of 5.4%.

Aside from setting down rules aimed at making rural current expenditure financing feasible, the rural policy implemented in 2000 also focused on various other programs aimed at increasing investments in strategic activities. These programs generate such benefits as additional jobs and income, while also diversifying the sector's output.

Insofar as current expenditures are concerned, the CMN issued Resolution 2,764 on 7.27.2000, setting down the rules for these operations, as regards the target client, time periods, including grace periods, financial charges (specifying interest of 8.75% per year for small scale producers), financing ceilings, insurance premiums and the required guaranties. It is important to emphasize that, in the September-October period, funding releases for financing the planting of the 2000/2001 summer harvest increased considerably. As a matter of fact, the balance of credit operations channeled to the sector in the period in question increased by a total of R\$800 million.

With regard to the rules on rural investment credits, one should underscore the fact that the economic cycle and financial return of rural activities are characterized by time spans and market conditions highly peculiar to the sector. Thus, programs involving rural investments not only provide minimum terms of 5 years, but also have built-in systems of renegotiating interest rates, within the limits specified for government credit operations. Consequently, diverse programs with regulations dating to 6.29.2000, were either renewed or implemented by the government. Among existent programs, the BNDES budget set aside a total of R\$300 million for



the Program of Incentives to the Use of Soil Correction Agents (Prosolo). According to Resolution 2,749, these funds are to be utilized by 6.30.2001. The Program of Incentives to the Mechanization, Cooling and Bulk Transportation of Milk Production (Proleite) is aimed at improving the competitiveness of national producers in the context of the competition of other Southern Common Market (Mercosul) members. A total of R\$200 million was set aside under conditions quite similar to those defined in Resolution 2,748. The Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters (Moderfrota), which is maintained by BNDES/Finame and has the objective of financing acquisitions of farm machinery, received an allocation of R\$800 million based on the terms of Resolution 2,699, dated 2.24.2000.

Among other efforts that deserve mention, one should highlight the June 29, 2000 creation of programs aimed at providing financing to floodplains production, recovery of degraded pastures, fish farming, fruit farming, wine-making, sheep and goat raising and bee farming. The rules specify individual credit limits that vary from R\$20 thousand to R\$40 thousand, preset interest of 8.75% per year, terms from 5 to 8 years, including a 2 to 3 year grace period, half-yearly and yearly amortizations, depending on the revenue flow of the property and an overall budgeted total of R\$760 million.

With respect to the norms covering this segment of operations, Resolution 2,766, dated 8.10.2000, imposed a reduction in the interest rates charged on financing operations through Pronaf. At the same time, the price-product equivalency system was eliminated from contracts with smaller scale producers and farmers who depend primarily on rural activity. The purpose of this step was to preserve their income in the face of the sharp rise in the floor prices of several farm commodities.

With regard to the housing portfolio, which includes both individuals and housing cooperatives, growth in relation to March came to 4.3% with a balance of R\$56 billion in December. One should underline the fact the final quarter registered a drop of 7.7% due to anticipated liquidation of contracts formalized under the terms of the Wage Variation Compensation Fund (FCVS), in the context of Provisional Measure 1,981-52, dated 9.27.2000. This measure determined that debts related to contracts formalized with final borrowers of the housing finance system under the responsibility of that fund and signed up to 12.31.1987 could be renewed in an amount corresponding to 100% of the debt balance on the date of contract readjustment. With this, FCVS responsibility over these contracts was abolished. With regard to the distribution of credits by risk brackets, those registered under AA and A accounted for 66.9% of the total and those classified under level H for 12.2%.

In order to channel a larger volume of resources into the building industry, Resolution 2,706 was issued on 3.30.2000, raising the share of the savings account resources within SBPE that must necessarily be channeled into housing financing from 60% to 65%.

In order to generate improved conditions for the refinancing of real estate foreclosed by financial institutions that accept demand deposits and operate with real estate credits, Resolution 2,789, dated 11.30.2000, allowed multiple banks with commercial and real estate credit portfolios and the Federal Savings Bank to utilize a new system of financial leasing. This is a special type of real estate leasing in which the lessee assumes the commitment of paying the lessor monthly installments over a specific period of time during which that person occupies the property. According to the terms of Provisional Measure 1,981-53, dated 10.26.2000, the lessee has the right to exercise a purchase option at the end of the contract period. This type of operation is to be utilized for real estate that the financial institution has acquired through auction, a court judgement or as payment-in-kind of a previous housing finance contract.

Also with regard to the private sector, disbursements by the BNDES System – including Finame and BNDESpar – channeled to industry came to a level of R\$10.4 billion in accumulated terms for the year, compared to R\$8.4 billion in the same period of the previous year. Services, including commerce, received a total of R\$10.7 billion for financing its investments, compared to R\$8.3 billion in the same period of 1999. In the case of the crop/livestock sector, the accumulated flow in the year came to R\$1.9 billion, for growth of 48.4% when viewed against the result for 1999. This behavior reflects the continuity of the process of expanding economic activity vis-à-vis the drop in the rate of interest, particularly the TJLP, which declined from 12.5% per year at the end of 1999 to 9.75% per year in December 2000.

Going on to the public sector, at the institutional level, Complementary Law 101 went into effect on 5.4.2000. This law is termed the LRF and deals with the questions of transparency and control of indebtedness and assumption of public sector expenditures. The measures preserve the roles of the CMN, which is charged with regulating financial system activities in relation to credits granted to the public sector, and of the Federal Senate, which has the task of defining parameters for borrowers and analyzing improvements in the credit market in its relations to the public sector. This is especially important in defining an adequate allocation of funding in the form of investments.

Credits granted to the consolidated public sector came to a balance of R\$13.6 billion in December, for a decline of 16.9% in nine months, indicating a situation of increased control over public finances. The adjusted volume of credits contracted by state and municipal governments came to R\$9.9 billion, reflecting a contraction of 15% in relation to March. Of this total, 44.6% were classified under levels AA and A. The volume of the federal government banking debt was cut by 21.6% in the period and closed at R\$3.7 billion, mostly as a consequence of the securitization of operations involving renegotiation of state debt and liquidation of the debts of state companies

referenced to exchange in the final quarter of the year. In the case of credits channeled to the federal public sector, 68.4% of the total were concentrated under risk level AA.

According to the terms of Resolution 2,784, issued on 10.18.2000, as of the month of October credits for which the National Treasury is liable or to which it has given a formal, total and specific guaranty were excluded from the limit of 45% of adjusted net worth (PLA) for purposes of calculating the balance of credit operations with public sector organs and entities in the financial system framework. Aside from this, the overall value of new credit operations was raised from R\$600 million to R\$1 billion, in consolidated terms for financial institutions in general.

In order to reduce default levels and adapt the Credit Risk Center to the new structure of information on credit operations, Circular 2,977, dated 4.6.2000, determined that the information provided monthly by financial institutions with the values of client liabilities are to be classified according to their risk level, as specified in Resolution 2,682/1999. Furthermore, the amount to be informed to the system was reduced from R\$20 thousand to R\$5 thousand according to the terms of Circular 2,999, dated 8.24.2000. This change was to go into effect in January 2001.

In recent years, credit assigns have been stimulated with the objective of lengthening the terms of operations for the borrower and improving the management of assets and leveraging of the assigning institutions. It is in this context that one should understand the entities that have been created with the exclusive objective of acquiring such credits (Resolution 2,493/1998). These entities are not components of the national financial system and contract funding basically through long-term instruments, such as stock and debenture issues in the country and securities abroad. Initially, some restrictions were imposed on transfers of receivables to these companies, avoiding the possibility of the risk returning to the assigning institution, even indirectly.

With issue of Resolution 2,686, dated 1.26.2000, assigning of all types of securities was permitted with joint liability on the part of the assigning institution. Repurchase in a single payment and acquisitions by the assignor institutions involving securities issued by the assignees backed by these receivables was also permitted. However, following prudential rules the new norms demand additions to the net required worth of the institution that transfers receivables with joint liability or another type of risk retention, except when the assignor acquires debentures from the assignee. In this case, provisions have to be made for the respective securities according to the risks of the credits to which they are tied.

This more flexible approach was adopted in a context in which the national financial system has consolidated its own mechanisms of evaluation and control of credit risks, particularly in light of the adoption of new rules governing classification of the credit portfolio and constitution of the respective provisions according to the potential risk level of the borrower.

**Table 2.6 - Credits granted by the financial system**

Percentage share

| Itemization                       | 1998  | 1999  | 2000  |
|-----------------------------------|-------|-------|-------|
| Total                             | 100.0 | 100.0 | 100.0 |
| Deposit money banks               | 91.4  | 87.6  | 70.9  |
| Commercial and multiple banks     | 80.0  | 66.6  | 52.4  |
| Banco do Brasil                   | 7.7   | 11.7  | 9.1   |
| Other public banks                | 56.7  | 27.6  | 3.8   |
| Private banks                     | 15.5  | 27.3  | 39.5  |
| Domestic                          | 10.1  | 16.0  | 23.7  |
| Foreign                           | 5.4   | 11.3  | 15.8  |
| Savings banks                     | 11.4  | 21.0  | 18.5  |
| Development and investment banks  | 5.9   | 8.4   | 21.1  |
| BNDES                             | 5.0   | 7.3   | 19.8  |
| Others                            | 0.9   | 1.1   | 1.3   |
| Nonbanking financial institutions | 2.7   | 4.0   | 8.0   |

### National Financial System

In recent years, the National Financial System (SFN) has gone through a series of structural transformations, following a trend already found on the international market. In this sense, Banco Central has adopted important policies in the area of banking supervision with the aim of ensuring continued financial market stability by limiting risks - particularly systemic risks, since this is considered a fundamental condition for preserving macroeconomic stability.

The measures implemented since the start of the Real Plan have the objective of restructuring and strengthening the system as a whole, with the aim of gradually reducing public sector presence in the banking sector, while adopting guidelines on changes in private sector stockholding structures with the purpose of capitalizing and strengthening operational structures. In this context, one should cite the importance of the presence of external capital, particularly at the retail level, coupled with pursuit of greater efficiency in intermediation activities.

Aside from these points, adoption of prudential rules already followed on the international market has aided in improving instruments of preventive control of financial system activities, independently of whether this is done through the action of supervisory authorities or through controls imposed by the institutions themselves, while significantly improving the regulatory structure.

As of 1994 and the issue of Resolution 2,099, prudential regulations have demonstrated greater concern with the principles defined by the Basle Committee, based on the minimum capital required of financial institutions to serve as a permanent base for its activities, plus constitution of reserves to cover risks and future losses defined in terms of the quality of the institution's investments. This concept is defined as required net worth (PLE).

The methodology used in calculating PLE has evolved in the sense of including the diverse types of risks inherent to intermediation activities. In this sense, systems of measuring credit risk and market risk were incorporated. Resolution 2,692, dated 2.24.2000, deals with the most recent alteration introduced into the calculation methodology of the Basle index, which draws a relation between PLE and PLA, defining what the institution effectively possesses to cover risk, according to the terms of current legislation.

In light of the new regulations set down in Circular 2,972, dated 3.23.2000, the calculation of PLE includes those resources for coverage of market risk consequent upon the exposure of operations denominated in real, with earnings at preset rates tied to the rates practiced on the market. This amount to be added in the capitalization is to be calculated daily on the basis of the sum of the amounts that represent the risk value (VaR) of operations referenced in interest rates. This methodology is dynamic in the sense that it seeks to make capital requirements compatible with fluctuations in macroeconomic variables.

Aside from credit and market risks, the activity of intermediation is subject to other types of risks, including both operational and liquidity risks. The operational risks are directly related to the degree of efficiency of the internal controls systems maintained by the institutions themselves. Resolution 2,554/1998 defined criteria for creation and implementation of these systems so that financial institutions would be able to adapt their technical and operational structures in order to be able to more effectively evaluate each type of risk to which they are subject, including both internal and external risks.

With respect to liquidity risk, Resolution 2,804 was issued in December 2000 defining the procedures to be adopted by institutions in the context of internal controls, so that this type of risk could be correctly identified and managed. The period allotted to institutions to adjust to this measure was a maximum of six months. Liquidity risk is a consequence of the degree of incompatibility between negotiable assets and callable liabilities, in light of the currency, term and rates involved in the operations in question, a reality that can result in financial imbalances for institutions.

Among the procedures adopted, one should highlight the prospective evaluation of different scenarios capable of impacting the cash flows of institutions, periodic re-evaluation of the control systems implemented, as well as immediate dissemination of information and analyses on liquidity risk to the managerial and operational sectors of the institution. Furthermore, the established controls should at least make it possible to perform a daily evaluation of operations with liquidation terms of less than ninety days.

Another measure to be viewed in the context of prudential regulation is Resolution 2,802, dated 12.21.2000, which defined a new basis of calculation for verifying the operational limits to be observed by financial institutions, termed the Reference Worth (PR). Previously, the basis of calculation for all limits, except the Basle limit, was equivalent to the value of net worth adjusted by the creditor and debtor profit and loss accounts. In the case of the Basle limit, the basis of calculation had already been defined according to internationally accepted principles, such as the sum total of principal and supplementary capital.

The new rules defined the PR for all limits with the exception of the limit on investments of resources in permanent assets. This was due to the schedule that calls for gradual reductions in the limit on setting aside permanent assets up to the end of 2002. The definition of PR follows the PLA concept of the Basle limit and is composed of two capital levels: level I (principal capital) and level II (supplementary capital).

It is the separation between these two levels that determined the different leverage potentials according to the quality of the capitalization instrument. With this, net worth and profit and loss accounts, with reduction of some reserves such as the reevaluation reserve and of some amounts referring to cumulative preferred shares and redeemable preferred shares, are the components of level I of PR. On the other hand, level II includes the items deducted from level I, hybrid capital and debt instruments and subordinated debt. The latter two are sources of resources with low degrees of liability in which payment of charges cannot compromise the classification of the institution within operational limits. The volume of level II is limited to the value of level I.

The consolidation of monetary stability and the floating exchange rate system have resulted in a broad process of increasing financial market flexibility, targeted mostly at developing more efficient channels in the allocation of funding available for consumption and investment, aside from reducing the costs of these operations. In this context, one should highlight the new rules covering the operation of investment funds in effect since August 1999, as well as the new system of obtaining and investing external loans.

According to the terms of Resolution 2,683/1999, financial institutions and leasing companies have, as of the month of January 2000, been permitted to contract external funding to be used freely on the internal market, eliminating the minimum periods for amortization of these resources and for the permanence of this capital in the country. The various rules that restricted short-term capital flows were substituted by restrictions of a fiscal nature, while speculative flows were discouraged through levying of the Financial Operations Tax (IOF).

In this framework, Resolution 2,770 was issued on 8.30.2000 consolidating the rules on external loan operations and the operations of financial and nonfinancial borrowers. The major alterations introduced were as follows: end of the demand for prior Banco Central authorization for the contracting of loans, except when the borrowers are public sector entities; undefined interest rate maturities are no longer permitted; inclusion of onlendings to individual persons by financial institutions in the context of the free targeting of resources on the internal market. The basic norms defined rules of a general character, with specific items regarding operations with public sector borrowers. The reasons for these restrictions are the need for preserving the objective of reducing and lengthening the public debt profile.

With regard to the reduction of public sector presence in banking activities, one should observe that, in 2000, the São Paulo State Bank (Banespa) was privatized and was transferred to the Spanish group Santander in an auction held on November 20. The sale price came to R\$7.05 billion, with a premium of 281%. An analysis of the conglomerate as a whole indicates assets of R\$28.3 billion and net worth – excluding the profit and loss statement – of R\$4.44 billion in the November 2000 position.

In the context of the Program of Incentives to the Reduction of the State Public Sector in Banking Activities (Proes), the Banco do Estado do Paraná S.A. (Banestado) was privatized and acquired by the Itaú Group for R\$1.62 billion on October 17, with a premium of 303% over the minimum price. Up to the end of the year, of the 13 institutions designated for privatization through Proes, seven were sold and the other six were federalized so that the process of privatization could be carried out by the federal government. Another two institutions opted for transformation into development agencies, bringing the overall total to 16 institutions. Of the 44 institutions participating in Proes, the majority opted for transformation into development agencies (36%), while another 30% resolved to follow through on privatization.

In 2000, the monetary authority decreed the extrajudicial liquidation of four institutions including two private national multiple banks. On the other hand, extrajudicial liquidation processes were concluded for 16 institutions, including the commercial and development banks of the State of Rio Grande do Norte, the operations of which

had been suspended. By December, 95 institutions were still subject to special systems of administration including 29 banks, 18 stock and bond distribution companies and 14 buyer group administration companies.

The changes in stockholding structures that occurred in the financial system reflect the trend common on the international market toward cost reductions and increased competitiveness through economies of scale. Banco Central has improved its direct and indirect inspection activities with the objective of achieving greater transparency in these processes and guarantying adequate monitoring of operations among institutions belonging to the same conglomerate.

In this context, it was determined that institutions would be obligated to elaborate the Consolidated Economic-Financial Reports (Conef) and remit them monthly as of July 2000. This document is to be submitted by the controlling financial institution and has the purpose of providing the instruments required for consolidated banking supervision of the entire conglomerate, including its nonfinancial companies. Insofar as is suitable, the operations of these companies are to be classified according to the same criteria adopted for financial institutions which are aimed at defining the required net worth of the economic group in the basis of the degree of risk of its operations.

Parallel to this, alterations were introduced into the norms related to the processes of incorporation, merger and division involving financial institutions. As of December 6 and issue of Circular 3,017, several new accounting rules went into effect with the aim of adapting the recording of premiums and discounts to prudential considerations, while also fostering greater transparency in alterations of stockholding structures.

Consequently, the explanatory notes to the financial statements should present the reasons or purposes of the merger, incorporation or division, with emphasis on the benefits to be gained in terms of strategy, assets, financial and tax concerns. With these alterations, institutions are also required to submit a detailed breakdown of these liabilities and liability conditioning factors that are not registered and are to be assumed by the company resulting from the operation.

With respect to the functions of investment banks, Circular 2,998, dated 8.24.2000, granted these institutions the right to provide services related to the management of companies whose corporate objective is directly linked to operations carried out in the context of the financial market. As a matter of fact, these banks already have the necessary structures required to support development of the private companies, particularly through measures aimed at stimulating investments in the sector.



Another important aspect at the institutional level is that involved in the project designed to restructure the Brazilian payments system. This project is being carried forward by the monetary authority with the participation of financial institutions and was approved in June 1999, with the major objectives of improving management of systemic risk involved in operations based on fund transfers, changes in the operational system used in the Banking Reserves account and implementation of systems of transferring large amounts of resources in real time.

With respect to changes in the operations of Banking Reserves, a system is being developed that makes it possible to monitor this account in real time and will take the place of the current system which allows for monitoring only at the end of the day. In this sense, it was determined that, as of October 1, 2001, the Banking Reserves Account maintained at Banco Central by the financial institution would not be permitted to register a negative balance at any point during the course of the day.

The schedule of activities aimed at making the new system operational was defined by Circular 3,018, dated 12.20.2000, determining that, as of August 1, 2001, the monetary authority will perform real time monitoring of balances and financial liquidations registered in this account. The participation of clearance and liquidation houses will be of essential performance to ensuring financial liquidation even before the operation is recorded in the banking reserve account. Thus, Banco Central will share with the market the task of managing systemic risk generated by transfers of funding in the economy.

With regard to the analysis of economic-financial indicators for large segments of the National Financial System under the prism of the origin of the capital, independently of transitory events that may have a temporary impact on their accounting positions it is evident that these institutions have adapted well to the structural changes introduced after adoption of the Real Plan.

With respect to the administrative expenditures of national private institutions broken down by asset unit, reductions have become common in recent years. The drop in this indicator when compared to December 1999 reflects the increase in total assets and the cutback in these expenditures, pointing to a more effective relationship between the administrative structure and the management of investment resources.

Looking at the segment of public institutions, the drop in this indicator in November 2000 was, above all, a consequence of the cutback of approximately 34% in administrative outlays due partly to the sale of Banespa to the Spanish Santander group. Even if one included Banespa in the public segment in November 2000, the month in which the institution was privatized, there would still have been a reduction in administrative outlays per asset unit in the public system from 3.08% in December 1999 to 2.25% in November 2000.

Table 2.7 - Financial system indicators

| Itemization                                  | 1997  | 1998  | 1999 | 2000* |
|--|-------|-------|------|-------|
| Credit operations leverage <sup>1/</sup>     |       |       |      |       |
| Public system                                | 4.38  | 5.68  | 4.38 | 4.40  |
| Private system                               |       |       |      |       |
| Domestic                                     | 3.03  | 1.94  | 1.92 | 2.25  |
| Foreign                                      | 3.11  | 2.10  | 2.09 | 2.46  |
| Administrative expenditures by unit of asset |       |       |      |       |
| Public system                                | 2.82  | 2.61  | 3.08 | 1.96  |
| Private system                               |       |       |      |       |
| Domestic                                     | 3.29  | 3.03  | 2.93 | 2.24  |
| Foreign                                      | 2.69  | 2.83  | 2.69 | 2.52  |
| Profitability of net worth                   |       |       |      |       |
| Public system                                | 1.30  | -2.60 | 2.05 | 4.03  |
| Private system                               |       |       |      |       |
| Domestic                                     | -5.95 | 6.30  | 3.89 | 4.54  |
| Foreign                                      | -0.19 | 1.77  | 3.66 | -4.31 |
| Gross operating profit margin <sup>2/</sup>  |       |       |      |       |
| Public system                                | 1.15  | 1.18  | 1.37 | 1.29  |
| Private system                               |       |       |      |       |
| Domestic                                     | 1.18  | 1.28  | 1.32 | 1.33  |
| Foreign                                      | 1.31  | 1.27  | 1.38 | 1.43  |

1/ It indicates how many times credit operations exceed net worth.

2/ Operating profit revenues in relation to operating profit expenditures. The main operating profit revenues refer to credit, exchange and securities operations. The main operating profit expenditures refer to inflow, exchange, loans, on-lendings and provision for hard-to-recover credits.

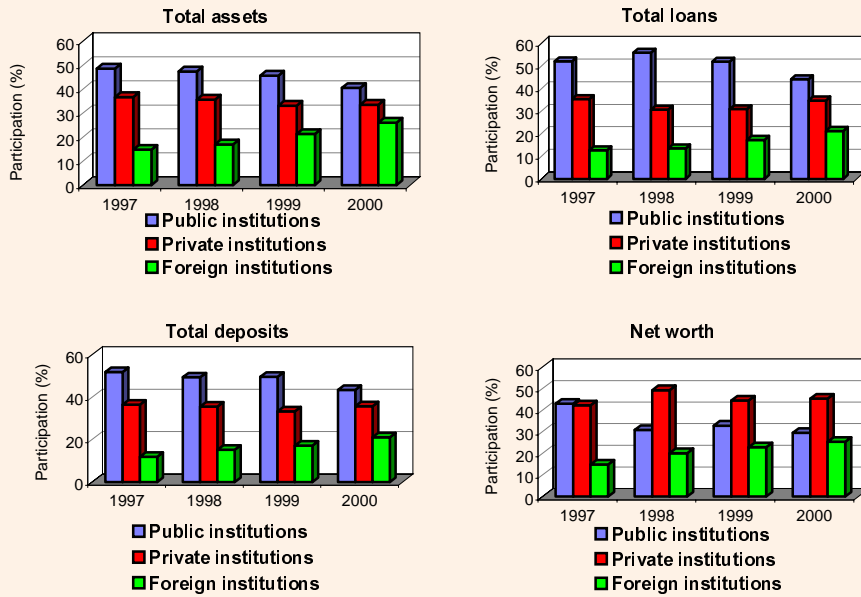
\* Refers to Nov/2000.

Growth in the participation of the public and private segments in total assets in November 2000 points to an accentuated decline in the participation of the public segment, mostly as a result of the Banespa privatization, since that conglomerate accounted for 2.7% of SFN assets in the same month. Independently of this fact, one can perceive that recent years have been marked by frequent reductions in public sector participation, moving downward from 48.5% in December 1997 to 40.5% in November 2000, as well as greater participation of foreign capital in SFN investments from 14.7% in December 1997 to 25.9% in November 2000.

With regard to the profitability of the capital belonging to the institutions themselves, this indicator registered considerable recovery under the heading of national private institutions as of 1998. In the segment of foreign institutions, the November 2000 index of -4.3% reflects inclusion of Banespa since the auction of that institution was held just days prior to the closing of the month's balance sheet. As a matter of fact, the negative result registered by Banespa was a consequence of adjustments and provisions made in preparation for transfer of the various institutions belonging to the group. Were Banespa to be excluded, the profitability of foreign institutions would close November 2000 at a positive level of 4.7%.

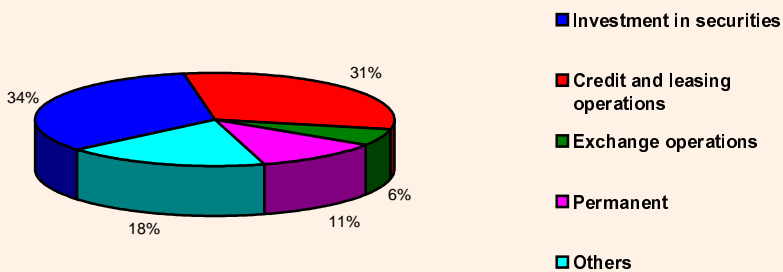
Graph 2.15

National Financial System - participation by segment



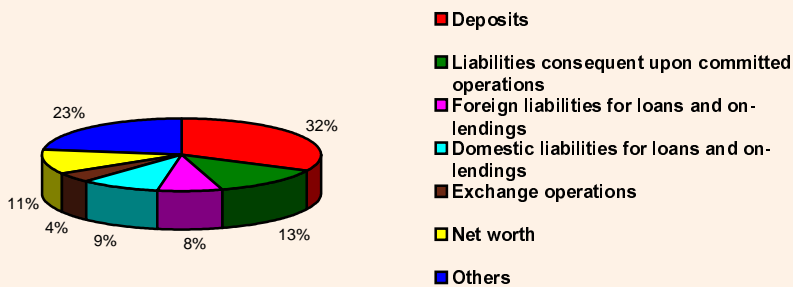
Graph 2.16

Assets' breakdown in the National Financial System - 2000



Graph 2.17

Liabilities' breakdown in the National Financial System - 2000



Between 1999 and 2000, the indicator of credit operation leverage for the national and foreign private segments points to still rather small but steadily increasing growth in credit operations as a consequence of the greater capitalization of these segments of the SFN. As a matter of fact, the measures adopted as of the second half of 1999 with the purpose of stimulating credit operations - many of which involved institutional aspects - are expected to generate their major impact in terms of the creation of a credit culture, fostering the conditions required for growth in the credit supply in relation to GDP, while ensuring the financial security of the system as a whole.

## III

## CAPITAL AND FINANCIAL MARKETS

In 2000, interest rates followed a steadily downward trajectory that began in March 1999. The Selic rate for the period closed at 17.4%, while the rate on Certificates of Deposit among Financial Institutions (CDI) closed with 17.3%, reflecting a reduction of approximately eight percentage points when compared to the 1999 figure. In real terms, using the IPCA as deflator, the Selic rate closed at 10.8% per year, compared to 15.3% per year in 1999.

**Table 3.1 - Interest rate**

Percentage p.y.

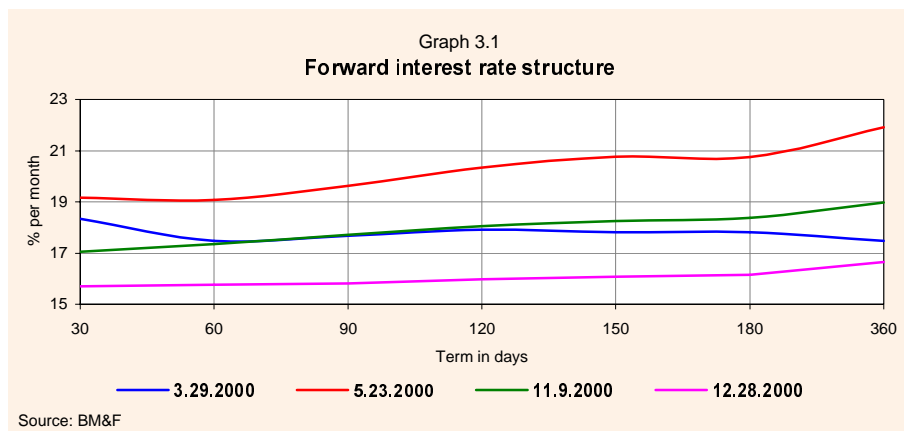
| Rate  | Dec 1999 | Dec 2000 | 1999<br>(a) | 2000<br>(b) | Diference<br>(b-a) |
|-------|----------|----------|-------------|-------------|--------------------|
| Selic | 18.99    | 16.19    | 25.59       | 17.43       | -8.16              |
| DI    | 18.77    | 16.13    | 25.63       | 17.12       | -8.51              |
| TR    | 3.66     | 1.20     | 5.73        | 2.10        | -3.63              |
| TBF   | 20.32    | 14.85    | 24.71       | 16.76       | -7.95              |
| TJLP  | 12.50    | 9.75     | 13.22       | 10.75       | -2.47              |

Calculated on the basis of the preset 30 to 35 day CDB funding rate, the Basic Financing Rate (TBF) closed at 16.8% in the year, while the Interest Reference Rate (TR), which is used to calculate earnings on savings accounts as well as the rates charged on housing finance contracts, closed at 2.1%. The difference between the TBF and TR, which is a consequence of the TR reduction factor, was clearly compatible with the objective of these rates, which is to eliminate the need for estimates of real interest rates and the effects of taxation on financial assets during the course of the year.

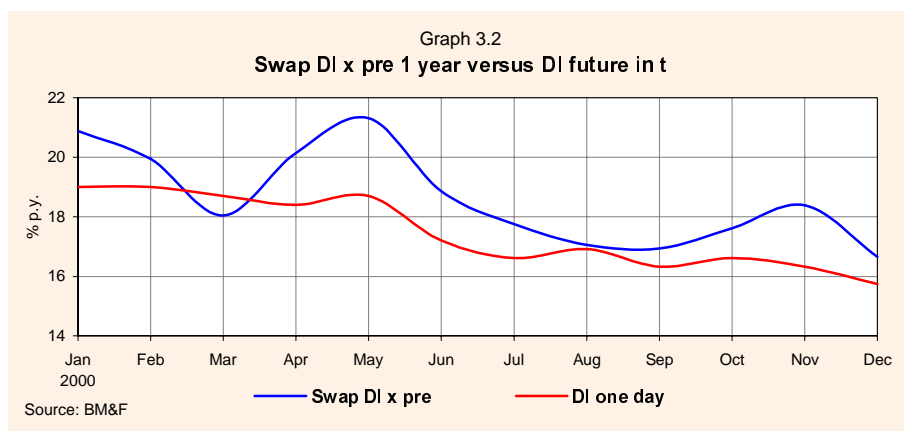
The TJLP, which is calculated on the basis of the pro rata inflation target and the risk premium, was reduced from 12.5% per year in December 1999 to 9.75% per year in December 2000. The downward trajectory of inflation targets, coupled with improvement in the country's risk rating, were the elements responsible for this trend, which is expected to continue in 2001.

## Futures market

The rates negotiated on the Commodities and Futures Exchange (BM&F) followed a downward curve in the first quarter of 2000, as the outlook for higher than targeted fiscal surpluses and steady economic growth created expectations of a new cutback in basic interest rates. This was reflected in the forward structure of interest rates, which shifted into a negative inclination toward the end of March.



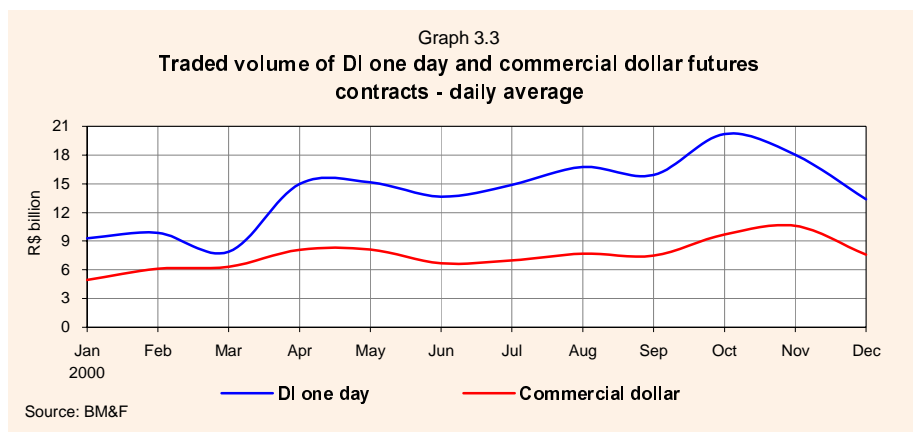
In April, the impact of the crisis on American stock exchanges, particularly in the case of the National Association of Securities Dealers Automated Quotations (Nasdaq), spread into capital markets and had an especially strong impact on the emerging market countries. The result was a climate of insecurity among investors and, consequently, a reversal in interest rate expectations. Rates on one year swap contracts increased by 5 percentage points in the period from March to May.



Gradual improvement in the external scenario and, principally, the June-July falloff in the Selic rate defined a new interest level and generated expectations of a further drop in the third quarter of the year. As of the end of the third quarter, the international scenario was marked by new uncertainties provoked by the petroleum

crisis and the worsening performance of macroeconomic fundamentals in both the United States and Argentine economies. These were reflected in the curve of the forward interest rate structure, which registered an inclination similar to that of the month of May. Observers interpret this as a sign of increased wariness among investors with regard to the possibilities of a recession in the United States. Later, downward movement in petroleum prices, coupled with progress in foreign assistance negotiations with Argentina and attenuation of fears of a recession in the United States, generated more positive expectations and exerted downward pressure on interest rates, which closed the year at 16.7% per year. The difference between the rate on one year contracts and that on 30 day contracts came to 95 points, compared to a closing figure of 21.7% per year in 1999 and a difference of 260 points.

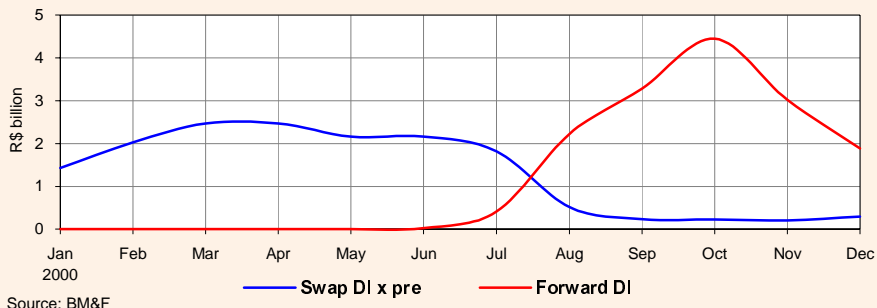
The average daily volume negotiated through one day DI (Interbank Deposit) contracts increased by 90.3% in the month of April and closed at R\$15 billion. To some extent, this very significant growth is due to expectations regarding the medium-term interest rate trajectory, which increased demand for hedging. In the month of October, growth came to 26.8% with an average of R\$20.2 billion, the largest volume since May 1998. The volume of futures contracts based on the commercial exchange rate expanded by 28% in April and 29.7% in October, clearly mirroring uncertainties generated on the external market and the deficit in Brazilian trade operations.



In the month of June, the BM&F offered DI forward contracts with adjustment as an alternative to contracts involving swaps between preset and postset rates. The essence of these contracts is similar to that of DI x pre swap contracts. At the same time, these contracts have predefined terms and allow for consolidation of asset and liability positions, with the possibility of closing prior to maturity. Adjustment of positions is effected periodically, with monthly liquidation of the financial result obtained in the contract. In view of these advantages in relation to traditional swap contracts, the market migrated into forward contracts. These operations expanded sharply up to October when an average of R\$4.4 billion was negotiated. The DI x pre

swap contracts, which registered an average in the range of R\$2.2 billion prior to creation of the forward contract, closed December with an average of just R\$300 million.

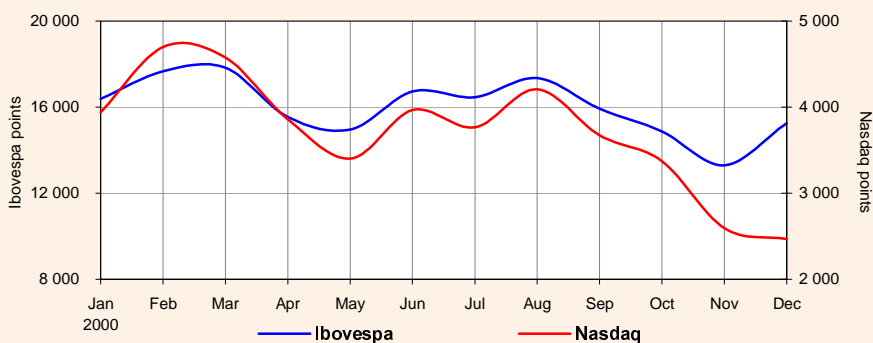
Graph 3.4  
Traded volume of swap DI x pre and forward DI - daily average



## Capital market

In 2000, stock exchanges registered losses in the world's principal markets and were unable to repeat the 1999 performance. At the start of the year, stock operations had led the way among financial investments mostly as a result of the 151.9% value growth registered in the previous year. Thus, the Quotation Index of the São Paulo Stock Exchange (Ibovespa) maintained its growth trajectory in the first quarter, hitting the historic high of 18,951 points on 3.27.2000. In March, the Nasdaq exchange registered accumulated 12 month upward movement of 85.8%, a result attributed to expectations of future profits to be earned by Internet and genetic engineering companies. This very vigorous expansion attracted the attention of investors, in detriment to the stocks of the more traditional companies traded on the New York Stock Exchange (NYSE).

Graph 3.5  
Ibovespa x Nasdaq



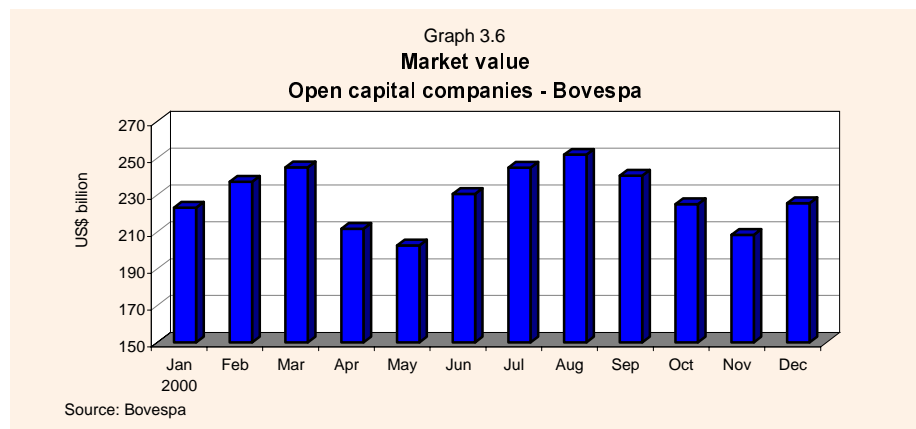


However, the decision taken by the American judiciary regarding the breakup of Microsoft altered the positioning of investors, who began ascribing greater value to current results when compared to the future prospects of asset prices. Evidently, this movement generated successive declines in stock market indices. In April alone, Nasdaq dropped by 15.6%, leading large scale investors to close their positions in emerging markets with the aim of covering their losses. It was in this context that Ibovespa dropped by 12.8% in the month of April.

The reduction in volatility and the drop in interest rates in the month of June, coupled with the low value of stocks in relation to the month of March, created the conditions required to attract investors back to the stock market. With the outbreak of the petroleum crisis, Ibovespa shifted into a new negative cycle that was further aggravated by the Argentine crisis and uncertainties regarding the future of the United States economy, and registered a loss of 23.4% between September and November. The Nasdaq index was marked by strong volatility and sharp downward movement, resulting in losses of 41.3% between September and December.

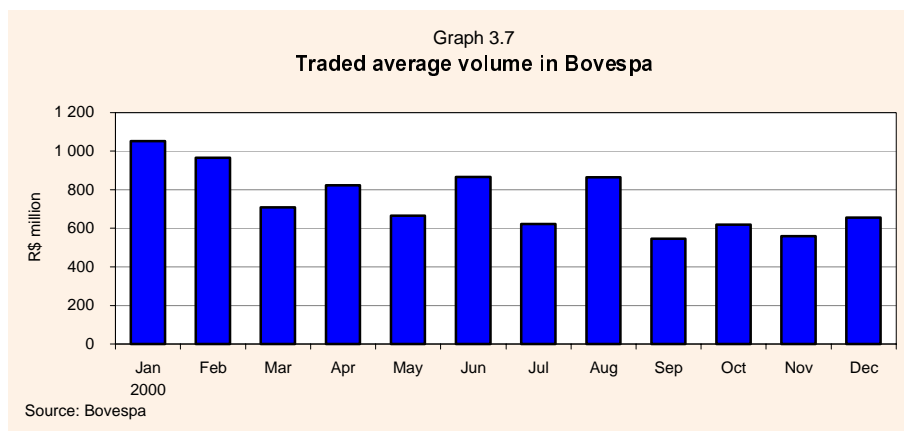
The December drop in petroleum prices coupled with progress in negotiation of international assistance for Argentina reduced market uncertainties and created the conditions required for stock purchases, particularly in view of the fact that the Ibovespa had lost 22.3% in the year up to the end of November. The Brazilian stock market index rose by 14.8%, while the Nasdaq lost 4.9% and maintained the downward trajectory begun in September. This result reflects the greater importance accorded by the market to internal economic fundamentals.

The market value of companies increased by 7.9% and closed the year at R\$441 billion. In dollar terms, the value of these companies dropped by just 1.3% despite the falloff in the Ibovespa, devaluation of exchange and a cutback in the number of companies listed on the São Paulo Stock Exchange (Bovespa) from 478 to 459. This result is explained by the capitalization or rising value of such first line companies as *Petróleo Brasileiro S.A. (Petrobras)*, *Empresa Brasileira de Aeronáutica*



(Embraer), *Banco Bradesco S.A.* (Bradesco) and *União de Bancos Brasileiros S.A.* (Unibanco), among others.

In this scenario, the average volume of trading at Bovespa diminished over the course of the year after having reached the highest monthly average since April 1998 in the month of January. In 2000, average daily trading came to R\$746 million, representing an increase of 18.8% in relation to the previous year. One should stress that the average volume registered in 1999 was impacted by uncertainties consequent upon changes in exchange policy and expectations of an upturn in price indices.



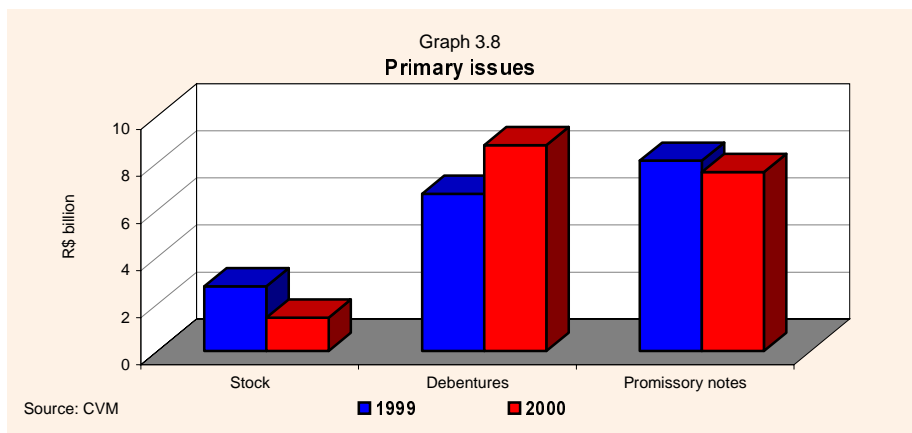
Resolution 2,786, dated 10.18.2000, authorized international investors to contract exchange in direct operations with the Brazilian Clearance and Custody Company (CBLC) for purposes of stock investments on the Brazilian market. The purpose of this measure was to reduce investor costs by eliminating levying of the Provisional Contribution on Financial Transactions (CPMF) and, in this way, enhance the attractiveness of the domestic capital market.

Parallel to this, in the month of December, Bovespa introduced rules for the so-called New Market, somewhat along the lines of the German *Neuer Market*. These rules specify more rigid conditions for improving relations between investors and controllers. In order to issue stocks on this market, companies commit themselves, among other things, to issue only common shares, grant equal treatment to minority stockholders should stock control be sold to another party, maintain a minimum share of stocks representing 25% of capital in circulation, release information aimed at providing the market with the transparency required for price formation, including publication of balance sheets based on international models. These measures will ensure new companies of access to the capital market under conditions that are more advantageous than has traditionally occurred.

The Rio de Janeiro Stock Exchange (BVRJ) terminated stock trading activities on April 28. According to a protocol signed with Bovespa, the São Paulo Exchange

assumed responsibility for stock trading and the BVRJ concentrated public security operations. This dual system went into operation as of the second semester.

Inflows through primary issues of stocks, debentures and promissory notes remained stable in relation to 1999 and ended the year at a level of R\$17.7 billion compared to R\$17.5 billion in the previous year. Debenture issues turned in expansion of 31% in the period, demonstrating evident business preference for this type of funding operation. The underlying reason for this preference is the fact that costs of these operations are tied to the evolution of interest rates and, therefore, have followed a steadily downward curve since 1999.



**Table 3.2 - Primary issues of companies**

Issues - CVM (R\$ million)

| Period | Stocks |       | Debentures |       | Promissory notes |       |
|--------|--------|-------|------------|-------|------------------|-------|
|        | 1999   | 2000  | 1999       | 2000  | 1999             | 2000  |
| Jan    | 94     | 0     | 80         | 35    | 405              | 529   |
| Feb    | 246    | 468   | 902        | 1 007 | 96               | 165   |
| Mar    | 0      | 0     | 1 480      | 200   | 365              | 586   |
| Apr    | 19     | 0     | 244        | 280   | 465              | 100   |
| May    | 0      | 0     | 0          | 1 525 | 338              | 1 393 |
| Jun    | 300    | 33    | 1 001      | 10    | 1 760            | 599   |
| Jul    | 0      | 440   | 590        | 2 465 | 440              | 1 921 |
| Aug    | 0      | 0     | 280        | 162   | 200              | 590   |
| Sep    | 1 466  | 0     | 362        | 202   | 569              | 60    |
| Oct    | 390    | 191   | 215        | 1 033 | 365              | 5     |
| Nov    | 84     | 0     | 833        | 100   | 1 642            | 560   |
| Dec    | 150    | 278   | 690        | 1 729 | 1 400            | 1 083 |
| Total  | 2 749  | 1 410 | 6 676      | 8 748 | 8 044            | 7 591 |

Source: CVM

## Financial investments

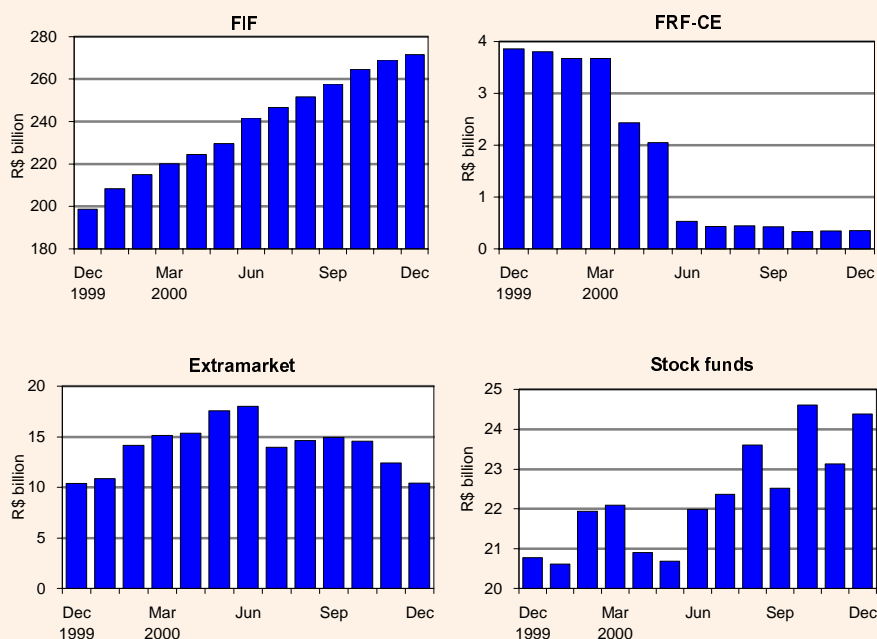
Financial investments registered growth in 2000 that was consistent with expanding economic activity, improved liquidity conditions and an increased credit supply. The overall balance invested in Financial Investment Funds (FIF), savings accounts, Banking Deposit Certificates (CDB) – excluding the CDB in investment fund portfolios – and stock funds expanded by 16.7%, increasing from R\$412.4 billion in 1999 to R\$481.4 billion in 2000.

**Table 3.3 - Nominal income of financial investments - 2000**

| Itemization | % p.m. |       |      |       |       |       |       |      |       |       |       |      | % p.y. |       |
|-------------|--------|-------|------|-------|-------|-------|-------|------|-------|-------|-------|------|--------|-------|
|             | Jan    | Feb   | Mar  | Apr   | May   | Jun   | Jul   | Aug  | Sep   | Oct   | Nov   | Dec  | 1999   | 2000  |
| FIF         | 1.55   | 1.43  | 1.37 | 1.26  | 1.46  | 1.42  | 1.28  | 1.32 | 1.20  | 1.26  | 1.23  | 1.26 | 26.20  | 17.26 |
| FRF-CE      | 2.00   | -0.06 | 1.14 | 3.78  | 2.79  | -0.76 | -0.24 | 2.90 | 1.95  | 3.40  | 4.15  | 2.98 | 168.64 | 26.71 |
| Extramarket | 1.40   | 1.39  | 1.39 | 1.24  | 1.43  | 1.34  | 1.26  | 1.35 | 1.17  | 1.24  | 1.17  | 1.15 | 24.40  | 14.17 |
| Stock funds | -0.79  | 4.23  | 1.18 | -5.55 | -1.03 | 8.72  | -0.08 | 3.74 | -4.42 | -1.38 | -6.10 | 5.96 | 61.15  | 3.36  |
| Savings     | 0.72   | 0.73  | 0.73 | 0.63  | 0.75  | 0.72  | 0.66  | 0.70 | 0.60  | 0.63  | 0.62  | 0.60 | 12.25  | 8.39  |
| CDB         | 1.42   | 1.42  | 1.42 | 1.26  | 1.48  | 1.36  | 1.28  | 1.35 | 1.20  | 1.26  | 1.21  | 1.17 | 25.28  | 17.05 |

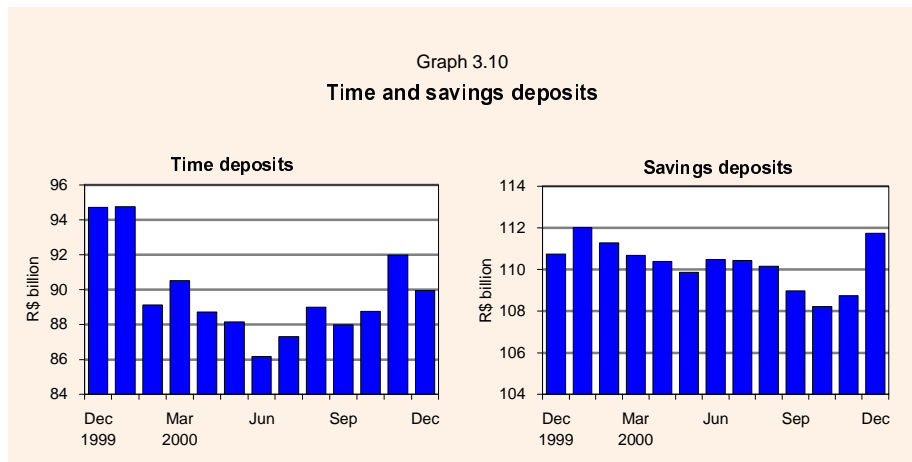
Among financial investments, FIF led the way in terms of resources inflows, closing the year with net worth of R\$271.5 billion, with growth of 36.7% in the period. The

Graph 3.9  
Investment funds



total for the year came to R\$35 billion, with the sharpest growth being registered in June (R\$8.9 billion). The performance of FIF resulted basically from the provisions in Circular 2,958, dated 1.6.2000, which authorized these funds to invest up to 49% of their portfolios in stock and investment fund quotas, in modalities regulated by the Securities and Exchange Commission (CVM), making it possible to combine fixed income assets, variable income assets and derivative operations and, in this way, achieve cost reductions in stock operations when compared to direct operations on the market. Among financial investments, FIF registered the second best performance in terms of profitability, with an accumulated result of 17.3% in the year.

Savings accounts closed the year with a balance of R\$111.7 billion, compared to R\$110.7 billion in the previous year. This type of investment registered less attractive returns (8.4% per year) vis-a-vis those generated by investment funds and this factor resulted in a loss of resources in the period. The resources outflow was attenuated in the fourth quarter when net inflows came to R\$2.8 billion as a result of payment of the Christmas wage bonus, which traditionally occurs at the end of the year, and of the programs implemented in the period by several important financial institutions aimed at stimulating investments.



Aside from this, Resolution 2,809, dated 12.22.2000 was issued for the purpose of creating the mechanism of automatic alteration of the “b” factor - a component of the TR reduction factor – to keep pace with changes as they occur in the level of the Selic rate target. Through this mechanism, the ratio between the profitability of savings and the profitability of CDB net of income tax came to be inversely proportional to the Selic rate target. This factor, therefore, has led to a gradual convergence of the profitability levels of financial investments, one of the hallmarks of economies in which interest rates are low.

Resolution 2,689 was issued on 1.26.2000, with the objective of providing nonresidents of the country with direct and simplified access to Brazilian financial and capital markets. This instrument specified that Foreign Capital Fixed Income Funds (FRF-CE) must be incorporated or transformed into FIF by 3.31.2001, or be abolished. It further determined that no new quota issues would be permitted as of 3.31.2000. With this, the net worth of the FRF-CE was reduced from R\$3.9 billion in 1999 to R\$348.2 million in December 2000.

The Extramarket Fund, which has the objective of investing the available funding of entities of the indirect federal administration and foundations supervised by the federal government, closed the year with assets of R\$10.4 billion or practically the same result registered in 1999. As of June, CMN authorized Petrobras to invest its available cash resources freely on the financial market in federal public debt securities.

Accompanying the performance of the stock exchange, stock funds registered low profitability levels in 2000. Despite this, their net worth came to R\$24.4 billion at the end of the year, as compared to R\$20.8 billion in 1999. One should note that, as of the month of July, this item has included Privatization Mutual Funds (FMP), with approximately R\$2.4 billion in Employment Guaranty Fund resources (FGTS) (FMP-FGTS). The FMP-FGTS were created with the aim of making it possible to acquire shares of the companies included in the National Privatization Program (PND) through utilization of FGTS resources. The overall purpose of this measure was to broaden the shareholder base of these companies to the maximum extent possible. Once these resources are subtracted, the change in net worth declines from 17.4% to 5.7% in the year.

## IV

## PUBLIC FINANCE

In 2000, the accounts of the central government, encompassing the National Treasury, General Social Security System (RGPS) and Banco Central, registered a primary surplus of R\$21.2 billion, which is equivalent to 1.98% of GDP. Viewed individually, the National Treasury registered a surplus of R\$31.7 billion and the Social Security System and Banco Central closed with respective deficits of R\$10.1 billion and R\$477 million.

**Table 4.1 - Central government primary result**

R\$ million

| Itemization                                   | 1998    | 1999    | 2000    | Change % |         |
|---|---------|---------|---------|----------|---------|
|   | (a)     | (b)     | (c)     | (b)/(a)  | (c)/(b) |
| Total revenues                                | 183 982 | 210 906 | 236 517 | 14.6     | 12.1    |
| Treasury revenues                             | 137 761 | 161 838 | 180 800 | 17.5     | 11.7    |
| Administered revenues                         | 117 805 | 144 734 | 168 636 | 22.9     | 16.5    |
| Restitutions                                  | -3 544  | -4 709  | -6 704  | 32.9     | 42.4    |
| Directly collected                            | 7 453   | 0       | 0       | -        | -       |
| Other revenues                                | 16 814  | 22 562  | 19 863  | 34.2     | -12.0   |
| Fiscal incentives                             | - 767   | - 749   | - 995   | -2.3     | 32.8    |
| Social security                               | 46 221  | 49 068  | 55 717  | 6.2      | 13.6    |
| Total expenditures                            | 178 398 | 189 906 | 214 887 | 6.5      | 13.2    |
| Treasury expenditures                         | 125 022 | 131 365 | 149 101 | 5.1      | 13.5    |
| Transfers to states and municipalities        | 27 224  | 34 904  | 40 283  | 28.2     | 15.4    |
| Federal government expenditures               | 94 832  | 93 875  | 105 181 | -1.0     | 12.0    |
| Subsidies and subventions                     | 2 966   | 2 586   | 3 637   | -12.8    | 40.6    |
| Social security benefits                      | 53 376  | 58 541  | 65 786  | 9.7      | 12.4    |
| Federal government result                     | 5 584   | 21 000  | 21 630  | 276.1    | 3.0     |
| National Treasury                             | 12 739  | 30 473  | 31 699  | 139.2    | 4.0     |
| Social Security                               | -7 155  | -9 473  | -10 069 | 32.4     | 6.3     |
| Banco Central result                          | - 152   | - 742   | - 477   | 388.2    | -35.7   |
| Primary result (above the line) <sup>1/</sup> | 5 432   | 20 258  | 21 153  | 272.9    | 4.4     |
| Primary result / GDP - %                      | 0.60    | 2.11    | 1.98    | -        | -       |

Source: Ministry of Finance/Secretariat of National Treasury

1/ (+) = surplus (-) = deficit.

As a proportion of GDP, revenues increased from 21.9% in 1999 to 22.1% in 2000, while outlays increased from 19.7% to 20.1% in the period. The performance of revenues reflected the drop from 2.2% to 1% of GDP in extraordinary National Treasury revenues, at the same time in which social contributions turned in growth of 1% of GDP. This expansion was a consequence of such factors as alterations introduced into the Contribution to Social Security Financing (Cofins) as of March 1999, when the rate was raised from 2% to 3% and made applicable to financial institutions also, and reintroduction of the CPMF in June of the same year.

**Table 4.2 - Outlays on federal government personnel**

R\$ million

| Itemization                     | 1998   | 1999   | 2000   | Change % |         |
|---------------------------------|--------|--------|--------|----------|---------|
|                                 | (a)    | (b)    | (c)    | (b)/(a)  | (c)/(b) |
| By functional status - settled  | 47 955 | 49 181 | 57 969 | 2.6      | 17.9    |
| Active                          | 27 177 | 26 131 | 33 104 | -3.8     | 26.7    |
| Retired                         | 14 082 | 15 526 | 16 626 | 10.3     | 7.1     |
| Pensioners                      | 6 696  | 7 524  | 8 239  | 12.4     | 9.5     |
| By government branch - released | 47 070 | 50 071 | 57 322 | 6.4      | 14.5    |
| Executive                       | 39 490 | 42 046 | 47 371 | 6.5      | 12.7    |
| Judiciary                       | 5 750  | 6 141  | 7 850  | 6.8      | 27.8    |
| Legislative                     | 1 830  | 1 884  | 2 101  | 3.0      | 11.5    |

Source: Secretariat of National Treasury

## Fiscal and tax policy

In the first half of 2000, the National Congress approved Complementary Law 101 (LRF). This instrument became a highly important mechanism for controlling indebtedness and public spending, since it consolidated a broad array of norms that require austerity and transparency in the management of public finance at the three levels of government. Among the measures approved, one should cite the prohibition on wage increases in the six month period before and after the end of an elected official's term in office; on initiating construction projects in the eight months previous to an election when they cannot be concluded by the end of the elected official's term in office; on formalization of contracts based on anticipated budget revenues during an election year; on the granting of increased fiscal incentives without adequate analysis of the budget impact of these incentives at the start of the year in which the incentives go into effect and in the two subsequent years. Aside from this, it stipulated that the states, municipalities and Federal District should spend no more than 60% of their budgets on personnel and payroll charges, while the limit imposed on the federal government was set at 50%. The sanctions



applicable to public administrators who do not comply with the terms of the LRF are specified in Law 10,028, dated 10.19.2000.

As a consequence of the LRF, the Budget Guidelines Law (LDO) now incorporates the central government's targets for the primary surplus. In this context, Law 9,995, dated 7.25.2000, defined parameters for elaboration of the 2001 budget, while specifying the indicative targets for the 2002 and 2003 primary surplus. However, these projections may be revised at the time of approval of the LDO for the respective years, since the only fiscal target that has the force of law is that for the year covered by the LDO.

Constitutional Amendment 27, dated 3.21.2000, instituted the Federal Revenue Set-aside (DRU) for the fiscal years from 2000 to 2003. This is the successor to the Fiscal Stability Fund and makes it possible to create a set-aside of 20% of federal budget revenues, thus providing the executive with greater autonomy in effecting expenditures. One should underscore the fact that the DRU does not apply to those funds that are legally reserved for transfer to the states, Federal District and municipalities.

The Multiyear Plan (PPA) for the 2000-2003 period was instituted by Law 9,989, dated 7.21.2000. This instrument makes it possible to meet demand for the investments required to ensure the country's development over the coming years while maintaining the fiscal austerity reflected in the targets for the primary surplus specified in the Government Economic Program.

In order to guaranty the resources required for priority social programs, the National Congress approved two constitutional amendments earmarking resources to the sector of health and creating the Fund for Combating and Eradicating Poverty.

In this context, Constitutional Amendment 29, dated 9.13.2000, determined that, in 2000, the federal government would be obligated to invest in public health services and activities the same amount as invested in 1999, plus an increase of at least 5%. In the period from 2001 to 2004, the total amount invested should be equivalent to the value of the previous year, plus the rate of nominal growth in the GDP. States and municipalities were obligated to spend a minimum of 12% and 15% of their respective net current revenues.

The Fund for Combating and Eradicating Poverty, which was instituted by Constitutional Amendment 31, dated 12.14.2000, and is scheduled to remain in effect until 2010, is designed to channel funds into supplementary activities in the areas of nutrition, housing, education, health, strengthening of family income and other programs of relevant social interest aimed at improving the quality of life. The fund will be composed of resources generated by an increase of 0.08 percentage point in

the CPMF, the additional Industrialized Products Tax (IPI) on superfluous products and donations of any nature, aside from other revenues to be defined in regulations.

The National Congress also approved two complementary laws and one ordinary law that take a more flexible approach to banking secrecy, thus increasing efficiency in the combating of tax elision.

## Social Security

The Social Security System registered a deficit of R\$10.1 billion in 2000, 7% more than in 1999. At December 2000 values, corrected by the IGP-DI, the deficit declined from R\$11.1 billion in 1999 to R\$10.4 billion in 2000.

**Table 4.3 - Social Security - cash flow**

R\$ million

| Itemization                                | 1998   | 1999   | 2000    | Change % |         |
|--|--------|--------|---------|----------|---------|
|  | (a)    | (b)    | (c)     | (b)/(a)  | (c)/(b) |
| Revenues                                   | 62 389 | 68 414 | 77 185  | 9.7      | 12.8    |
| Banking inflow                             | 50 141 | 52 423 | 59 606  | 4.6      | 13.7    |
| Others revenues                            | 2 207  | 323    | 536     | -85.4    | 65.0    |
| Revenue anticipation                       | 0      | 123    | 1 760   | -        | 1 330.9 |
| Federal government transfers               | 10 041 | 15 545 | 15 283  | 54.8     | -1.7    |
| Expenditures                               | 64 593 | 68 226 | 76 474  | 5.6      | 12.1    |
| Benefits <sup>1/</sup>                     | 55 650 | 60 835 | 68 506  | 9.3      | 12.6    |
| Personnel                                  | 5 442  | 4 093  | 4 077   | -24.8    | -0.5    |
| Transfers to third parties                 | 3 501  | 3 298  | 3 891   | -5.8     | 17.9    |
| Cash result                                | -2 204 | 188    | 711     | ...      | ...     |
| Ratio expenditures/revenues                | -7 102 | -9 412 | -10 072 | ...      | ...     |
| Ratio benefit/banking inflow <sup>2/</sup> | 1.1    | 1.2    | 1.1     | ...      | ...     |

Source: Ministério da Previdência e Assistência Social

1/ It includes social security and non-social security benefits.

2/ Corresponds to ratio between benefits paid and banking inflow minus transfers to third parties.

An analysis of Social Security accounts showed a favorable inflow performance, with growth of 13.7% in the year to a level of R\$59.6 billion. For the most part, this result was due to recovery in the level of formal employment and the reform measures introduced into the Social Security System, which, aside from enhancing the efficiency of current funding inflows, also contributed to recovery in the system's credits through implementation of such legal measures as retention (subrogation), Labor Court deposits, judicial deposits, public debt certificates (CDP), maternity benefits and normalization of municipal debts.

With regard to the question of retention, Law 9,711, dated 11.20.1998, determined that companies that contract services performed through utilization of outside labor should retain 11% of the gross value registered on the invoice submitted by the service provider. The amount retained is considered as a social security contribution due by the contracted company and is to be offset against the total due to the social security system. Retention is called for in the case of services rendered as of February 1999, with deposit in the following month. The total for 2000 came to R\$675 million.

Constitutional Amendment 20, dated 12.15.1998, granted power to the Labor Court to charge social contributions due as a consequence of sentences issued by the court or agreements approved by it. This measure, which has been in effect since June 1999, generated a total of R\$578 million for the Social Security System in 2000.

Insofar as judicial deposits are concerned, Law 9,703, issued in November 1998, determined that legal entities that bring judicial suits against the Social Security System should effect court deposits equivalent to 30% of the amount in question. The purpose of this measure is to inhibit the practice of utilizing the courts for purposes of payment of current social security contributions. The inflow through judicial deposits came to R\$913 million in 2000.

The CDP is a public security created by Law 9,711/1998 allowing contributors to pay off social security debts with a discount when the generating fact occurred up to March 1999. This security is acquired in auction and is transferred to the National Social Security Institute (INSS) at its face value for purposes of payment of the debt. In 2000, revenues related to CDP came to R\$204 million.

In the case of the maternity wage, Law 9,876/1999 determined that INSS would be responsible for payment, thus eliminating the possibility of companies deducting the amount paid from its employer contribution. With this measure, the Social Security System collected an additional total of R\$565 million in 2000. However, the total financial effect of the measure is nil since there was a simultaneous increase in the system's outlays in benefit payments.

Provisional Measure 2,022/1999 allowed municipalities to pay off their debt in installments at lower rates of interest, provided that they institute systems for the automatic retention of current contributions. The basic condition is that the sum of the contribution and the value of the installment may not exceed 15% of the net current revenues of the municipalities. There was a significant level of

adhesion to the renegotiation process and an upturn of R\$769 million in withholdings of social security contributions in the year under analysis.

Here, one should cite the importance of the labor market, as growth in formal employment in 2000 contributed significantly to the broadening of the social security contribution payment base. The increased level of economic activity was also reflected in the results obtained at the level of companies that opted for the Integrated System of Micro and Small Business Tax and Contribution Payments (Simples), with growth of 30.6% in the year and an overall total of R\$2 billion.

Social Security outlays came to R\$65.8 billion or 12.4% more than in 1999. At December 2000 values, using the IGP-DI as indexing factor, spending totaled R\$68.6 billion, with a reduction of 1.1% compared to 1999.

Social Security spending was impacted by the process of compensation between the RGPS and state and municipal systems in those cases involving reciprocal calculation of the period of contribution for purposes of retirement and pension benefits. Accumulated outlays since the start of the process of compensation in December 1999 up to December 2000 came to a total of R\$15.2 million.

Another factor that impacted Social Security outlays was the heading of judicially determined payments – payments to persons insured by the system who have won legal suits referring to recalculations of benefits. In 2000, these suits totaled R\$770 million or 76.5% more than the amount registered in 1999.

In 2000, 2.95 million social security benefits were granted, representing growth of 31% in relation to the 1999 total. The effect of the alterations introduced into the system of granting the maternity benefit, which broadened coverage to include all insured parties, including optional and individual contributors, and transferred the payment obligation from the company to INSS were the factors of greatest importance to this increase. Growth of 17.4% occurred in the granting of sick leave benefits, while retirements based on the time of contribution dropped by 20.4%. This reduction was seen as a consequence of the measures taken in the social security constitutional reform to limit the number of early retirements.

### **Privatizations**

Revenues on sales of federal and state companies came to US\$10.7 billion in 2000, compared to US\$4.4 billion in 1999, including transfers of liabilities to new controllers. The National Privatization Program generated US\$7.7 billion, compared to US\$554 million in the previous year, while state programs produced a total of US\$3 billion, against US\$3.9 billion in 1999.

The major privatization operation was the November sale of Banespa. The auction was won by the Spanish banking group Santander, which paid a total of US\$3.6 billion (R\$7 billion), reflecting a premium of 281%. Public offers of *Petrobras* stock in excess of that needed to maintain control generated revenues of US\$4 billion (R\$7.3 billion). The remainder of the federal revenue inflow on privatization operations consisted of sale of minority stockholdings (Decree 1,068/1994).

In 2000, state privatization programs included auctions of the *Companhia Energética de Pernambuco* (Celpe), *Centrais Elétricas do Maranhão* (Cemar) and *Sociedade Anônima de Eletrificação da Paraíba* (Saelpa). In the first case, the winning consortium consisted of the Spanish company *Iberdrola Energia do Brasil*, *Banco do Brasil Investimentos* and the Pension Fund of Banco do Brasil Employees, (Previ). The company was sold for the minimum price of US\$1 billion and the new controllers assumed a debt of US\$131 million.

**Table 4.4 - National Privatization Program**

| Itemization                                      | 1996  | 1997  | 1998  | 1999 | 2000  |
|--|-------|-------|-------|------|-------|
| Privatized companies                             | 11    | 4     | 7     | 2    | 1     |
| Steel  | 0     | 0     | 0     | 0    | 0     |
| Petroquisa Complex                               | 5     | 0     | 0     | 0    | 0     |
| Fertilizers                                      | 0     | 0     | 0     | 0    | 0     |
| Electric sector                                  | 1     | 0     | 1     | 0    | 0     |
| Railroad   | 5     | 1     | 1     | 0    | 0     |
| Other  | 0     | 3     | 5     | 2    | 1     |
| Revenues (US\$ million)                          | 4 231 | 3 995 | 1 656 | 554  | 7 671 |
| Steel  | 0     | 0     | 0     | 0    | 0     |
| Petroquisa Complex                               | 212   | 0     | 0     | 0    | 0     |
| Fertilizers                                      | 0     | 0     | 0     | 0    | 0     |
| Electric sector                                  | 2 509 | 0     | 880   | 0    | 0     |
| Railroad   | 1 477 | 15    | 206   | 0    | 0     |
| Minority shareholdings (Decree 1,068)            | 33    | 190   | 421   | 62   | 34    |
| Other <sup>1/</sup>                              | 0     | 3 790 | 149   | 492  | 7 637 |
| Liabilities transferred to buyers (US\$ million) | 670   | 3 559 | 1 082 | 0    | 0     |
| Steel  | 0     | 0     | 0     | 0    | 0     |
| Petroquisa Complex                               | 84    | 0     | 0     | 0    | 0     |
| Fertilizers                                      | 0     | 0     | 0     | 0    | 0     |
| Electric sector                                  | 586   | 0     | 1 082 | 0    | 0     |
| Railroad   | 0     | 0     | 0     | 0    | 0     |
| Other  | 0     | 3 559 | 0     | 0    | 0     |

Source: BNDES

1/ In 1999, it includes concessions of telecommunications mirror companies and offers of Telebrás System stocks to employees. In 2000, it includes stocks in excess to the Petrobras control and Banespa privatization.

**Table 4.5 - Privatization program of the states**  
**Companies privatized 1996-2000**

US\$ million

| Company                            | Economic sector    | State | Auction date | Revenues | Transferred debt |
|------------------------------------|--------------------|-------|--------------|----------|------------------|
| Cerj                               | Electric energy    | RJ    | Nov-20-1996  | 587      | 364              |
| Ferroeste                          | Railroad           | PR    | Dec-10-1996  | 25       | -                |
| Minority shareholding              |                    |       |              | 794      |                  |
| Banerj                             | Financial          | RJ    | Jun-26-1997  | 289      | -                |
| Riogás                             | Gas                | RJ    | Jul-14-1997  | 146      | -                |
| Ceg                                | Gas                | RJ    | Jul-14-1997  | 430      | -                |
| Coelba                             | Electric energy    | BA    | Jul-31-1997  | 1 598    | 213              |
| Credireal                          | Financial          | MG    | Aug-7-1997   | 112      | -                |
| Cachoeira Dourada                  | Electric energy    | GO    | Sep-5-1997   | 714      | 140              |
| CEEE - N/NE                        | Electric energy    | RS    | Oct-21-1997  | 1 486    | 149              |
| CEEE - CO                          | Electric energy    | RS    | Oct-21-1997  | 1 372    | 64               |
| CPFL                               | Electric energy    | SP    | Nov-5-1997   | 2 731    | 102              |
| Enersul                            | Electric energy    | MS    | Nov-19-1997  | 565      | 218              |
| Cia. União de Seguros Gerais       | Insurance          | RS    | Nov-20-1997  | 45       | -                |
| Cemat                              | Electric energy    | MT    | Nov-27-1997  | 353      | 461              |
| Energipe                           | Electric energy    | SE    | Dec-3-1997   | 520      | 40               |
| Cosern                             | Electric energy    | RN    | Dec-12-1997  | 606      | 112              |
| Metrô do Rio de Janeiro            | Transportation     | RJ    | Dec-19-1997  | 262      | -                |
| Minority shareholding              |                    |       |              | 2 388    |                  |
| Conerj                             | Transportation     | RJ    | Feb-5-1998   | 29       | -                |
| Coelce                             | Electric energy    | CE    | Apr-2-1998   | 868      | 378              |
| Eletropaulo Metropolitana          | Electric energy    | SP    | Apr-15-1998  | 1 777    | 1241             |
| CRT                                | Telecommunications | RS    | Jun-19-1998  | 1 018    | 822              |
| Celpa                              | Electric energy    | PA    | Jul-9-1998   | 388      | 116              |
| Flumitrens                         | Transportation     | RJ    | Jul-15-1998  | 240      | -                |
| Elektro                            | Electric energy    | SP    | Jul-16-1998  | 1 273    | 428              |
| Bemge                              | Financial          | MG    | Sep-14-1998  | 494      | -                |
| EBE - Empr. Bandeirante de Energia | Electric energy    | SP    | Sep-17-1998  | 860      | 375              |
| Terminal Garagem M. Côrtes         | Transportation     | RJ    | Oct-28-1998  | 67       | -                |
| Bandepe                            | Financial          | PE    | Nov-17-1998  | 153      | -                |
| Minority shareholding              |                    |       |              | 330      |                  |
| Comgás                             | Gas                | SP    | Apr-14-1999  | 988      | 88               |
| Banab                              | Financial          | BA    | Jun-22-1999  | 147      | -                |
| Cesp - Paranapanema                | Electric energy    | SP    | Jul-28-1999  | 682      | 482              |
| Cesp - Tietê                       | Electric energy    | SP    | Oct-27-1999  | 472      | 668              |
| Gás Noroeste                       | Gas                | SP    | Nov-9-1999   | 143      | -                |
| Minority shareholding              |                    |       |              | 216      |                  |
| Celpe                              | Electric energy    | PE    | Feb-17-2000  | 1 004    | 131              |
| Gás Sul                            | Gas                | SP    | Apr-26-2000  | 298      | -                |
| Cemar                              | Electric energy    | MA    | Jun-15-2000  | 289      | 158              |
| Manaus Saneamento                  | Sanitation         | AM    | Jun-29-2000  | 106      | -                |
| Banestado                          | Financial          | PR    | Oct-17-2000  | 869      | -                |
| Saelpa                             | Electric energy    | PB    | Nov-30-2000  | 185      | -                |
| Total                              |                    |       |              | 27 919   | 6 750            |

Source: BNDES

**Table 4.6 - National Privatization Program**  
**Companies privatized 1991-2000**

| Sector/companies   | Minimum price<br>US\$ million | Selling price<br>US\$ million | Premium (%) | Main auction date |
|--------------------|-------------------------------|-------------------------------|-------------|-------------------|
| Petroquisa Complex |                               |                               |             |                   |
| Petroflex          | 179                           | 216                           | 20.7        | Apr-10-1992       |
| Copesul            | 617                           | 797                           | 29.2        | May-15-1992       |
| Álcalis            | 79                            | 79                            | 0.0         | Jul-15-1992       |
| Nitriflex          | 26                            | 26                            | 0.0         | Aug-6-1992        |
| Polisul            | 57                            | 57                            | 0.0         | Sep-11-1992       |
| PPH                | 44                            | 59                            | 34.1        | Sep-29-1992       |
| CBE                | 11                            | 11                            | 0.0         | Dec-3-1992        |
| Poliolefinas       | 87                            | 87                            | 0.0         | Mar-19-1993       |
| Oxiteno            | 54                            | 54                            | 0.0         | Sep-15-1993       |
| PQU                | 270                           | 270                           | 0.0         | Jan-24-1994       |
| Politeno           | 45                            | 45                            | 0.0         | Aug-18-1994       |
| Coperbo            | 26                            | 26                            | 0.0         | Aug-16-1994       |
| Ciquine            | 24                            | 24                            | 0.0         | Aug-17-1994       |
| Polialden          | 17                            | 17                            | 0.0         | Aug-17-1994       |
| Acrinor            | 12                            | 12                            | 0.0         | Aug-12-1994       |
| Copene             | 254                           | 254                           | 0.0         | Aug-15-1995       |
| CPC                | 90                            | 100                           | 11.1        | Sep-29-1995       |
| Salgema            | 87                            | 139                           | 59.8        | Oct-5-1995        |
| CQR                | 0                             | 2                             | ...         | Oct-5-1995        |
| Pronor             | 63                            | 64                            | 1.6         | Dec-5-1995        |
| Nitrocarbono       | 30                            | 30                            | 0.0         | Dec-5-1995        |
| CBP                | 0                             | 0                             | 0.0         | Dec-5-1995        |
| Polipropileno      | 81                            | 81                            | 0.0         | Feb-1-1996        |
| Koppol             | 3                             | 3                             | 0.0         | Feb-1-1996        |
| Deten              | 12                            | 12                            | 0.0         | May-22-1996       |
| Polibrasil         | 99                            | 99                            | 0.0         | Aug-27-1996       |
| EDN                | 17                            | 17                            | 0.0         | Sep-26-1996       |
| Electricity        |                               |                               |             |                   |
| Escelsa            | 444                           | 505                           | 13.7        | Jul-11-1994       |
| Light              | 2 271                         | 2 271                         | 0.0         | May-21-1996       |
| Gerasul            | 880                           | 880                           | 0.0         | Sep-15-1995       |

(continues)

Cemar was sold for the minimum price of US\$289 million to the Brisk consortium, led by Pennsylvania Power & Light, of the United States. In this operation, a debt of US\$158 million was transferred to the new owners. Finally, Saelpa was acquired by a consortium composed of the *Companhia Força e Luz Cataguazes-Leopoldina* and the American company Alliant, for the minimum price of US\$185 million.

**Table 4.6 - National Privatization Program (concluded)**  
**Companies privatized 1991-2000**

| Sector/companies                 | Minimum price<br>US\$ million | Selling price<br>US\$ million | Premium (%) | Main auction date |
|----------------------------------|-------------------------------|-------------------------------|-------------|-------------------|
| <b>Steel sector</b>              |                               |                               |             |                   |
| Usiminas                         | 1 238                         | 1 377                         | 11.2        | Oct-24-1991       |
| Cosinor                          | 12                            | 14                            | 16.7        | Nov-14-1991       |
| Aços Finos Piratini              | 42                            | 105                           | 150.0       | Feb-14-1992       |
| CST                              | 339                           | 339                           | 0.0         | Jul-16-1992       |
| Acesita                          | 348                           | 450                           | 29.3        | Oct-22-1992       |
| CSN                              | 1 267                         | 1 267                         | 0.0         | Apr-2-1993        |
| Cosipa                           | 174                           | 340                           | 95.4        | Aug-20-1993       |
| Açominas                         | 285                           | 554                           | 94.4        | Sep-10-1993       |
| <b>Fertilizers</b>               |                               |                               |             |                   |
| Indag                            | 7                             | 7                             | 0.0         | Jan-23-1992       |
| Fosfertil                        | 139                           | 177                           | 27.3        | Aug-12-1992       |
| Goiásfertil                      | 13                            | 13                            | 0.0         | Oct-8-1992        |
| Ultrafertil                      | 199                           | 199                           | 0.0         | Jun-24-1993       |
| Arafertil                        | 11                            | 11                            | 0.0         | Apr-15-1994       |
| <b>Railroads</b>                 |                               |                               |             |                   |
| Malha Oeste                      | 61                            | 63                            | 3.3         | Mar-5-1996        |
| Malha Centro-Leste               | 316                           | 316                           | 0.0         | Jun-14-1996       |
| Malha Sul                        | 152                           | 209                           | 37.5        | Sep-20-1996       |
| Malha Sudeste                    | 871                           | 871                           | 0.0         | Nov-22-1996       |
| Malha Tereza Cristina            | 16                            | 18                            | 12.5        | Dec-13-1996       |
| Malha Nordeste                   | 11                            | 15                            | 36.4        | Jul-18-1997       |
| Malha Paulista                   | 196                           | 206                           | 5.1         | Nov-10-1998       |
| <b>Other</b>                     |                               |                               |             |                   |
| Celma                            | 73                            | 91                            | 24.7        | Nov-1-1991        |
| Mafersa                          | 19                            | 48                            | 152.6       | Nov-11-1991       |
| SNBP                             | 8                             | 12                            | 50.0        | Jan-14-1992       |
| Caraíba                          | 5                             | 5                             | 0.0         | Jul-28-1994       |
| Embraer                          | 182                           | 183                           | 0.5         | Dec-7-1994        |
| CVRD                             | 2 610                         | 3 132                         | 20.0        | May-6-1997        |
| Tecon 1 - Porto de Santos        | 93                            | 251                           | 169.9       | Sep-17-1997       |
| Meridional                       | 155                           | 240                           | 54.8        | Dec-4-1997        |
| Codesa - Cais de Capuaba         | 26                            | 26                            | 0.0         | May-6-1996        |
| Codesa - Cais de Paul            | 9                             | 9                             | 0.0         | May-13-1996       |
| Tecon 1 - Porto de Sepetiba      | 79                            | 79                            | 0.0         | Sep-3-1995        |
| CDRJ - Term. Roll-on Roll-off    | 16                            | 27                            | 68.8        | Nov-3-1998        |
| Porto de Angra dos Reis          | 8                             | 8                             | 0.0         | Nov-5-1998        |
| Datamec                          | 50                            | 50                            | 0.0         | Jun-23-1999       |
| Porto de Salvador                | 21                            | 21                            | 0.0         | Dec-21-1999       |
| Banespa                          | 945                           | 3 604                         | 281.0       | Nov-20-2000       |
| Public offer - Petrobras' stocks |                               | 4 032                         |             | 2000              |
| Minority shareholdings           |                               | 1 134                         |             |                   |

Source: BNDES



In the other sectors of activity, privatization operations included Gás Sul, a piped gas distributor to the southern region of the State of São Paulo, *Manaus Saneamento*, a subsidiary of the *Companhia de Saneamento do Amazonas* (Cosama), and Banestado.

Gás Sul was acquired by the Spanish company Gás Natural. The price of the concession came to US\$298 million, reflecting a premium of 462%. The Franco-Belgian firm *Lyonnaise des Eaux* was victorious in the auction for *Manaus Saneamento* and paid a total of US\$106 million for the company, 5% more than the minimum price. Following a two year restructuring process, Banestado was sold to *Banco Itaú* for US\$869 million, a premium of 303%.

The participation of foreign capital in the stock control of the companies privatized in 2000 totaled 57.9% and closed at US\$6.2 billion. The largest share went to Spanish companies (US\$3.6 billion), followed by companies from the United States (US\$2.2 billion).

### **Tax and federal contribution inflows**

Inflows of taxes and contributions set a new record of R\$176 billion in 2000, with nominal growth of 16.2% and real growth of 2.2% - using the IGP-DI as indexing factor - in relation to the previous year. Of this total, revenues managed by the Secretariat of Federal Revenue (SRF) totaled R\$166.2 billion, while other revenues, which include the fees and contributions controlled by other entities - excluding social security contributions, came to R\$9.8 billion. With these results, the two headings in question registered expansion of 16.6% and 9,8% in relation to the 1999 figures, respectively.

Basically, this performance resulted from alterations introduced into tax legislation during the course of 1999 but which only produced their impacts in 2000, from the strong growth registered under judicial and administrative deposits and recovery in the pace of economic activity.

With regard to changes in tax legislation, the increase from 2% to 3% in the Cofins rate and the fact that the obligation to pay Cofins was extended to financial institutions, effective as of March 1999, resulted in growth in the level of contributions from R\$32.2 billion in 1999 to R\$39.9 billion in 2000, for real growth of 9.5%. One should further stress the importance of reintroduction of the CPMF as of June 1999. The inflow under this heading came to R\$14.5 billion in 2000, compared to R\$8 billion in the previous fiscal year.

Conversion of judicial deposits into federal government revenues contributed a total of R\$4.9 billion, for nominal growth of 133.3% in relation to the 1999 fiscal year. For the most part, this increase was a consequence of the anticipated deposits that are now required of those contributors who opt to go to court for the purpose of contesting the value of tax payments.

Taxes that more directly affect the activity level also registered positive growth in 2000. In this case, growth in the Cofins inflow, which is levied on company invoicing, reflected not only the rate increase and the broadening of the tax base, but also the upturn in the pace of economic activity. Aside from these factors, the IPI-related inflow increased by 0.4% in real terms, with the best performance (113.9%) under the IPI-automobiles. The reasons underlying this increase included a 20.3% upturn in sales and the fact that, as of August 1999, companies have been allowed to ship inputs to vehicle assembly companies with suspension of the IPI, which is deposited at a later stage by the assembly companies themselves. Real growth also occurred in the revenues of the Corporate Income Tax (IRPJ), 13%, partly as a result of growth in the revenues of the fuel and telecommunications sectors.

However, several tax categories registered negative results in the year. Here, one should cite the Import Tax (II), which registered a drop of 5% in real terms, as a consequence of the rate reduction from 9% to 6%, effective as of January 2000, and a drop of 22% under the heading of petroleum. The Income Withholding Tax - Capital Earnings closed with a reduction of 31% in real terms caused by a falloff in gains on financial investments and the high level of the 1999 inflow on swap operations as a result of exchange devaluation. In comparison to 1999, inflow of the IOF dropped by 44%. One of the factors responsible for this decrease was the cutback from 6%

**Table 4.7 - Gross inflow of federal revenues**

R\$ million

| Itemization   | 1998           | 1999           | 2000           | Change %    |             |
|---|----------------|----------------|----------------|-------------|-------------|
|   | (a)            | (b)            | (c)            | (b)/(a)     | (c)/(b)     |
| Income Tax (IR)   | 45 817         | 51 520         | 56 397         | 12.4        | 9.5         |
| Industrialized Products Tax (IPI)                             | 16 307         | 16 503         | 18 839         | 1.2         | 14.2        |
| Import Tax (II)   | 6 544          | 7 919          | 8 510          | 21.0        | 7.5         |
| Financial Operations Tax (IOF)                                | 3 542          | 4 879          | 3 126          | 37.7        | -35.9       |
| Contribution to the Financing of the Social Security (Cofins) | 18 746         | 32 187         | 39 903         | 71.7        | 24.0        |
| Social Contribution on the Profits of Legal Entities (CSLL)   | 7 705          | 7 304          | 9 279          | -5.2        | 27.0        |
| Contribution to PIS/Pasep                                     | 7 548          | 9 836          | 10 043         | 30.3        | 2.1         |
| Provisional Contribution on Financial Transactions (CPMF)     | 8 113          | 7 948          | 14 545         | -           | 83.0        |
| Other taxes   | 18 821         | 13 420         | 15 378         | -28.7       | 14.6        |
| <b>Total</b>  | <b>133 143</b> | <b>151 516</b> | <b>176 020</b> | <b>13.8</b> | <b>16.2</b> |

Source: Secretariat of Federal Revenue

to 1.5% in the rate levied on credit operations with individual consumers, extinction of the levy on financial operations and elimination of the additional 0.38% percentage point on credit operations, in effect in the period from 1.24.1999 to 6.17.1999.

Analysis of the inflow in 2000 points to increased participation of contributions in overall federal revenues. For example, the participation of the CPMF increased from 5.1% in 1999 to 8.3% in 2000, while that of Cofins moved from 21.1% to 22.6% and the Social Contribution on the Profits of Legal Entities (CSLL) increased from 4.7% to 5.3%.

### **Public sector primary result**

The primary public sector result in 2000 was a surplus of R\$38.2 billion or 3.5% of GDP, compared to R\$31.1 billion or 3.3% of GDP in 1999. The federal government and Banco Central do Brasil accounted for a surplus of R\$20.4 billion (1.9% of GDP), state governments for R\$4.6 billion (0.4% of GDP), municipal governments for R\$1.5 billion (0.1% of GDP) and state companies for R\$11.7 billion (1.1% of GDP). The result was R\$1.4 billion more than the target defined in the sixth revision of the agreement between the Brazilian government and the IMF.

The distribution of the fiscal effort among the three public sector levels was quite different from the previous year, when the central government, which includes the federal government, Social Security System and Banco Central, accounted for 72.93% of the overall public sector primary result, while state companies were responsible for 20.3% and regional governments for 6.77%. Thus, in 2000, the participation of the central government declined to 53.55%, while that of state companies and regional governments increased to 30.66% and 15.79%, respectively.

To some extent, the increase in the participation of state companies was due to the favorable impact of fuel prices on the Petrobras result. In the case of regional governments, growth was due to passage of the LRF, which consolidated the process of adjustment in fiscal accounts at the subnational levels.

### **Nominal interest**

Appropriation of nominal interest in 2000 came to R\$87.4 billion or 8% of GDP, compared to R\$127.2 billion and 13.8% of GDP in the previous year, with declines in all spheres of government. The total for the federal government and Banco Central came to R\$54.9 billion (5% of GDP) and reflected a strong decline when viewed against the previous year's result (R\$88.9 billion, 9.8% of GDP). This performance is based on lesser exchange depreciation and a reduction of 8.2 percentage points

**Table 4.8 - Public sector borrowing requirements**

| Itemization                                    | 1997        |                        | 1998        |                        |
|--|-------------|------------------------|-------------|------------------------|
|  | R\$ million | % of GDP <sup>2/</sup> | R\$ million | % of GDP <sup>2/</sup> |
| Total nominal                                  | 53 232      | 6.1                    | 72 490      | 7.9                    |
| Federal government and Banco Central do Brasil | 22 912      | 2.6                    | 49 361      | 5.4                    |
| States <sup>1/</sup>                           | 26 377      | 3.0                    | 16 402      | 1.8                    |
| Local governments                              | -           | -                      | 2 014       | 0.2                    |
| State enterprises                              | 3 943       | 0.4                    | 4 713       | 0.5                    |
| Total primary                                  | 8 821       | 1.0                    | - 106       | -0.0                   |
| Federal government and Banco Central do Brasil | 2 886       | 0.3                    | -5 042      | -0.6                   |
| States <sup>1/</sup>                           | 6 436       | 0.7                    | 3 726       | 0.4                    |
| Local governments                              | -           | -                      | -1 995      | -0.2                   |
| State enterprises                              | - 501       | -0.1                   | 3 204       | 0.3                    |
| Nominal interest                               | 44 412      | 5.1                    | 72 596      | 7.9                    |
| Federal government and Banco Central do Brasil | 20 026      | 2.3                    | 54 402      | 6.0                    |
| States <sup>1/</sup>                           | 19 942      | 2.3                    | 12 676      | 1.4                    |
| Local governments                              | -           | -                      | 4 009       | 0.4                    |
| State enterprises                              | 4 443       | 0.5                    | 1 508       | 0.2                    |

(continues)

**Table 4.8 - Public sector borrowing requirements (concluded)**

| Itemization                                    | 1999        |                        | 2000        |                        |
|--|-------------|------------------------|-------------|------------------------|
|  | R\$ million | % of GDP <sup>2/</sup> | R\$ million | % of GDP <sup>2/</sup> |
| Total nominal                                  | 96 158      | 10.5                   | 49 285      | 4.5                    |
| Federal government and Banco Central do Brasil | 66 209      | 7.4                    | 34 496      | 3.1                    |
| States <sup>1/</sup>                           | 26 098      | 2.7                    | 19 955      | 1.8                    |
| Local governments                              | 4 490       | 0.5                    | 2 966       | 0.3                    |
| State enterprises                              | - 640       | -0.1                   | -8 132      | -0.7                   |
| Total primary                                  | -31 087     | -3.3                   | -38 160     | -3.5                   |
| Federal government and Banco Central do Brasil | -22 672     | -2.4                   | -20 434     | -1.9                   |
| States <sup>1/</sup>                           | -1 574      | -0.2                   | -4 579      | -0.4                   |
| Local governments                              | - 531       | -0.1                   | -1 447      | -0.1                   |
| State enterprises                              | -6 310      | -0.7                   | -11 700     | -1.1                   |
| Nominal interest                               | 127 245     | 13.8                   | 87 446      | 8.0                    |
| Federal government and Banco Central do Brasil | 88 881      | 9.8                    | 54 930      | 5.0                    |
| States <sup>1/</sup>                           | 27 673      | 2.9                    | 24 534      | 2.2                    |
| Local governments                              | 5 021       | 0.5                    | 4 413       | 0.4                    |
| State enterprises                              | 5 670       | 0.6                    | 3 569       | 0.3                    |

1/ Until 1997: states and local governments; after 1998, just states.

2/ At December prices deflated by IGP-DI, based on a series published by the IBGE.

in the Selic interest rate in the period. These two figures were sufficient to neutralize the impact of the increase in net indebtedness.

In the case of regional governments, the lesser volume of interest appropriations was a consequence of downward movement of approximately ten percentage points

in inflation, as measured by the IGP-DI, the index applied to the major share of the liabilities of this government level, particularly in the cases of those that recently participated in debt renegotiations with the federal government. The drop in interest in the case of state companies mirrored a nominal reduction in rates and net debt which in turn was generated by the favorable primary results of recent years.

From the viewpoint of the alternative methodology, in which the internal debt indexed to exchange receives the same treatment as that accorded to the external debt, nominal interest appropriations in 2000 came to R\$77.7 billion or 7.1% of GDP, compared to R\$87.4 billion or 9.1% of GDP in the previous year. The federal government and Banco Central accounted for R\$45.2 billion, or 4.2% of GDP, while state governments were responsible for R\$24.5 billion (2.3% of GDP), municipal governments for R\$4.4 billion (0.4% of GDP) and state companies for R\$3.6 billion (0.3% of GDP).

### Nominal result

In this context, public sector borrowing requirements (NFSP) in 2000 totaled R\$49.3 billion (4.5% of GDP) in the nominal concept, compared to R\$96.2 billion (10.3% of GDP) in 1999. The federal government and Banco Central were responsible for R\$34.5

**Table 4.9 - Public sector borrowing requirements  
Alternative methodology**

| Itemization                                    | 1999        |                        | 2000        |                        |
|--|-------------|------------------------|-------------|------------------------|
|  | R\$ million | % of GDP <sup>2/</sup> | R\$ million | % of GDP <sup>2/</sup> |
| Total nominal                                  | 56 284      | 5.9                    | 39 578      | 3.6                    |
| Federal government and Banco Central do Brasil | 26 336      | 2.7                    | 24 788      | 2.3                    |
| States <sup>1/</sup>                           | 26 098      | 2.7                    | 19 955      | 1.8                    |
| Local governments                              | 4 490       | 0.5                    | 2 966       | 0.3                    |
| State enterprises                              | - 640       | -0.1                   | -8 132      | -0.7                   |
| Total primary                                  | -31 087     | -3.3                   | -38 160     | -3.5                   |
| Federal government and Banco Central do Brasil | -22 672     | -2.4                   | -20 434     | -1.9                   |
| States <sup>1/</sup>                           | -1 574      | -0.2                   | -4 579      | -0.4                   |
| Local governments                              | - 531       | -0.1                   | -1 447      | -0.1                   |
| State enterprises                              | -6 310      | -0.7                   | -11 700     | -1.1                   |
| Nominal interest                               | 87 372      | 9.1                    | 77 738      | 7.2                    |
| Federal government and Banco Central do Brasil | 49 008      | 5.2                    | 45 222      | 4.2                    |
| States <sup>1/</sup>                           | 27 673      | 2.9                    | 24 534      | 2.2                    |
| Local governments                              | 5 021       | 0.5                    | 4 413       | 0.4                    |
| State enterprises                              | 5 670       | 0.6                    | 3 569       | 0.3                    |

1/ Until 1997: states and local governments; after 1998, just states.

2/ At December prices deflated by IGP-DI, based on a series published by the IBGE.

billion (3.1% of GDP), state governments for R\$20 billion (1.8% of GDP), municipal governments for R\$3 billion (0.3% of GDP) and state companies for -R\$8.1 billion, (-0.7% of GDP). In 1999, participation came to respective levels of 7.4%, 2.7%, 0.5% and -0.1% of GDP.

In the alternative methodology, NFSP totaled R\$39.6 billion (3.6% of GDP) in 2000, compared to R\$56.3 billion (3.9% of GDP) in 1999. The federal government and Banco Central accounted for R\$24.8 billion (2.3% of GDP), while state governments were responsible for R\$20 billion (1.8% of GDP), municipal governments for R\$3 billion (0.3% of GDP) and state companies for -R\$8.1 billion (-0.7% of GDP). In 1999, the corresponding levels of participation came to 2.7%, 2.7%, 0.5% and -0.1% of GDP.

### Net public sector debt

The net public sector debt came to R\$563.2 billion, corresponding to 49.3% of GDP, in 2000. The debt/GDP ratio remained stable in the period. A breakdown of the public

**Table 4.10 - Net public sector debt**

| Itemization                                    | 1997           |             | 1998           |             |
|--|----------------|-------------|----------------|-------------|
|  | R\$ million    | % of GDP    | R\$ million    | % of GDP    |
| Fiscal net debt                                | 307 427        | 34.2        | 379 917        | 41.1        |
| Asset adjustment (basis: Dec/1995)             | 999            | 0.1         | 5 952          | 0.6         |
| <b>Total net debt</b>                          | <b>308 426</b> | <b>34.3</b> | <b>385 870</b> | <b>41.7</b> |
| Federal government and Banco Central do Brasil | 167 742        | 18.7        | 231 268        | 25.0        |
| States <sup>1/</sup>                           | 115 892        | 12.9        | 113 160        | 12.2        |
| Local governments                              | -              | -           | 17 745         | 1.9         |
| State enterprises                              | 24 793         | 2.8         | 23 697         | 2.6         |
| <b>Domestic debt</b>                           | <b>269 846</b> | <b>30.0</b> | <b>328 693</b> | <b>35.5</b> |
| Federal government and Banco Central do Brasil | 150 254        | 16.7        | 192 455        | 20.8        |
| States <sup>1/</sup>                           | 111 589        | 12.4        | 107 673        | 11.6        |
| Local governments                              | -              | -           | 17 084         | 1.8         |
| State enterprises                              | 8 004          | 0.9         | 11 481         | 1.2         |
| <b>External debt</b>                           | <b>38 580</b>  | <b>4.3</b>  | <b>57 177</b>  | <b>6.2</b>  |
| Federal government and Banco Central do Brasil | 17 488         | 1.9         | 38 812         | 4.2         |
| States <sup>1/</sup>                           | 4 303          | 0.5         | 5 487          | 0.6         |
| Local governments                              | -              | -           | 661            | 0.1         |
| State enterprises                              | 16 789         | 1.9         | 12 216         | 1.3         |
| <b>Memorandum</b>                              |                |             |                |             |
| GDP in R\$ million <sup>2/</sup>               | 898 454        |             | 924 682        |             |

(continues)

sector shows that the ratio increased in the case of the federal government and Banco Central, in contrast to a decrease in the other spheres.

With respect to the federal government and Banco Central, the primary result and the privatization adjustment were not sufficient to offset the volume of interest appropriated, external debt methodological adjustments and asset adjustments. The debt increase consequent upon these adjustments came to R\$4.8 billion. The debt of regional governments dropped by R\$8.3 billion as a consequence of these adjustments. For the most part, this reflected more intense activity in the area of privatization at the state level. With respect to state companies, the primary result surpassed the level of interest appropriations and adjustments and closed with a nominal surplus and a reduction in net indebtedness.

Viewed in terms of the alternative methodology, the net public sector fiscal debt came to 41.3% of GDP in 2000, remaining stable during the period.

**Table 4.10 - Net public sector debt (concluded)**

| Itemization                                    | 1999        |          | 2000        |          |
|--|-------------|----------|-------------|----------|
|  | R\$ million | % of GDP | R\$ million | % of GDP |
| Fiscal net debt                                | 476 075     | 45.5     | 525 360     | 46.0     |
| Asset adjustment (basis: Dec/1995)             | 40 504      | 3.9      | 37 803      | 3.3      |
| Total net debt                                 | 516 579     | 49.4     | 563 163     | 49.3     |
| Federal government and Banco Central do Brasil | 316 222     | 30.2     | 352 967     | 30.9     |
| States <sup>1/</sup>                           | 147 935     | 14.1     | 161 184     | 14.1     |
| Local governments                              | 22 851      | 2.2      | 24 139      | 2.1      |
| State enterprises                              | 29 571      | 2.8      | 24 873      | 2.2      |
| Domestic debt                                  | 407 810     | 39.0     | 451 841     | 39.5     |
| Federal government and Banco Central do Brasil | 233 058     | 22.3     | 267 573     | 23.4     |
| States <sup>1/</sup>                           | 139 400     | 13.3     | 151 557     | 13.3     |
| Local governments                              | 21 984      | 2.1      | 22 706      | 2.0      |
| State enterprises                              | 21 984      | 2.1      | 10 004      | 0.9      |
| External debt                                  | 108 769     | 10.4     | 111 322     | 9.7      |
| Federal government and Banco Central do Brasil | 83 164      | 8.0      | 85 395      | 7.5      |
| States <sup>1/</sup>                           | 8 535       | 0.8      | 9 626       | 0.8      |
| Local governments                              | 867         | 0.1      | 1 433       | 0.1      |
| State enterprises                              | 16 203      | 1.5      | 14 869      | 1.3      |
| Memorandum                                     |             |          |             |          |
| GDP in R\$ million <sup>2/</sup>               | 1 045 937   |          | 1 142 473   |          |

1/ Until 1997: States and local governments; After 1998, just states.

2/ Annual GDP at December prices deflated by the centered IGP-DI based on a series published by the IBGE.

## Federal securities debt

In December 2000, the balance of the federal securities debt outside Banco Central came to R\$516.1 billion (45.2% of GDP) compared to R\$415 billion (39.7% of GDP) at the end of the previous year. Among the factors responsible for this growth, one should stress net issues of LTN with monetary impact, totaling R\$29.5 billion, NTN-C in the amount of R\$5.2 billion and LFT, totaling R\$5.4 billion. Other contributing factors were net special issues of R\$3 billion in National Treasury Financing Bills - Series B (LFT-B). In 2000, the amounts related to securitized credits, agricultural debt, Agrarian Debt Securities (TDA) and CDP were added to the federal securities debt and, in December 2000, came to R\$26.7 billion.

**Table 4.11 - Federal securities**

Balances in R\$ million

| Itemization                       | 1997    | 1998    | 1999    | 2000    |
|-----------------------------------|---------|---------|---------|---------|
| National Treasury liabilities     | 225 732 | 343 820 | 412 752 | 555 913 |
| Bacen portfolio                   | 35 461  | 124 670 | 60 871  | 123 713 |
| LTN                               | 22 302  | 15 311  | 11 135  | 33 453  |
| LFT                               | 8 588   | 107 763 | 35 919  | 87 197  |
| NTN                               | 4 571   | 1 596   | 13 818  | 1 817   |
| Securitized credits               | -       | -       | -       | 1 246   |
| Outside the Bacen                 | 190 271 | 219 151 | 351 881 | 432 200 |
| LTN                               | 64 755  | 5 438   | 38 118  | 79 190  |
| LFT                               | 63 592  | 157 171 | 204 223 | 265 699 |
| BTN                               | 60      | 64      | 67      | 64      |
| NTN                               | 61 865  | 52 241  | 98 182  | 46 233  |
| CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E | -       | 4 237   | 11 292  | 14 280  |
| Securitized credits               | -       | -       | -       | 21 119  |
| Agrarian debt                     | -       | -       | -       | 3 108   |
| TDA                               | -       | -       | -       | 2 495   |
| CDP                               | -       | -       | -       | 14      |
| Bacen liabilities                 | 65 238  | 104 709 | 63 020  | 83 914  |
| LBC                               | 25 282  | 22 537  | 1 122   | 0       |
| BBC/BBCA                          | 28 327  | 48 372  | 0       | 0       |
| NBCE                              | 11 629  | 31 025  | 60 291  | 81 972  |
| NBCF                              | -       | 2 478   | 1 606   | 1 942   |
| NBCA                              | -       | 297     | 0       | 0       |
| Outside the Bacen - Total         | 255 509 | 323 860 | 414 901 | 516 114 |
| In % of GDP                       | 28.4    | 35.0    | 39.7    | 45.2    |

The table 4.12 itemizes special issues of National Treasury Financing Bills – Series A (LFT-A) and LFT-B consequent upon renegotiations between the federal



government and states and municipalities in 2000 in the context of both the Program of Support to the Restructuring and Fiscal Adjustment of the States (Parafe - Law 9,496/1997) and Municipalities (Decree 3,099, dated 6.29.1999) and Proes (Provisional Measure 1,514, dated 8.7.1996 and later instruments).

**Table 4.12 - Issues in the framework of Parafe and Proes**

In R\$ thousand, position in 12.31.2000

| States             | LFT-A   | LFT-B     | Total     |
|--------------------|---------|-----------|-----------|
| Acre               | -       | 32 927    | 32 927    |
| Amazonas           | -       | 53 271    | 53 271    |
| Bahia              | -       | 43 717    | 43 717    |
| Goiás              | 60 000  | 87 049    | 147 049   |
| Minas Gerais       | 59 958  | -         | 59 958    |
| Mato Grosso do Sul | -       | 591 216   | 591 216   |
| Paraíba            | -       | 110 622   | 110 622   |
| Pernambuco         | -       | 144 371   | 144 371   |
| Piauí              | -       | 553 620   | 553 620   |
| Rio Grande do Sul  | 176 273 | -         | 176 273   |
| Santa Catarina     | -       | 779 987   | 779 987   |
| Municipalities     |         | 646 603   | 646 603   |
| Total              | 296 231 | 3 043 382 | 3 339 613 |

Securities for which the National Treasury is liable came to a total of R\$555.9 billion in December 2000. Of these, R\$123.7 billion were in Banco Central, while the remaining R\$432.2 billion, or 77.7% of the total, were outside the monetary authority. These papers correspond to 83.7% of total papers on the market. Securities issued by Banco Central added up to R\$83.9 billion, compared to R\$63 billion in the previous year, and accounted for 16.3% of the total securities debt held by the market. Among the factors that contributed to this rise, one should cite net issues of NBCE worth R\$7.2 billion and exchange depreciation.

An analysis on the basis of indexing factors shows a reduction in the participation of federal public securities indexed to the over/Selic rate due mostly to net redemptions of Banco Central Bills (LBC) which moved from 61.1% of the total in December 1999, to 52.4% in December 2000. In contrast, the participation of preset securities increased from 9.2% to 15.3% in the same period as a result of net issues of LTN. Papers indexed by the rate of exchange dropped in participation from 24.2% to 21.7%, reflecting net redemptions of National Treasury Notes (NTN). The participation of securities indexed to the TR increased from 3% to 4.7% as a result of incorporation of securitized credits, agricultural debt, TDA and CDP into the securities debt. For the same reason, the participation of papers indexed to the IGP-DI rose from 2.1% in December 1999 to 4.3% in December 2000.

**Table 4.13 - Federal securities**

Percentage share by indexing factors

| Indexing factors               | 1997    | 1998    | 1999    | 2000    |
|--------------------------------|---------|---------|---------|---------|
| Total - R\$ million            | 255 509 | 323 860 | 414 901 | 516 114 |
| Foreign exchange               | 15.4    | 21.0    | 24.2    | 21.7    |
| Reference Rate (TR)            | 8.0     | 5.4     | 3.0     | 4.7     |
| IGP-M                          | 0.3     | 0.3     | 0.3     | 1.6     |
| Over/Selic                     | 34.8    | 69.1    | 61.1    | 52.4    |
| Preset                         | 40.9    | 3.5     | 9.2     | 15.3    |
| Long-term Interest Rate (TJLP) | 0.6     | 0.2     | 0.1     | 0.0     |
| IGP-DI                         | -       | 0.1     | 2.1     | 4.3     |
| Others                         | -       | 0.5     | 0.0     | 0.0     |
| Total                          | 100.0   | 100.0   | 100.0   | 100.0   |

## V

## ECONOMIC-FINANCIAL RELATIONS WITH THE INTERNATIONAL COMMUNITY

### Foreign trade policy

Foreign trade policy in 2000 was influenced initially by expectations of trade balance recovery as a result of the gains in competitiveness generated by the 1999 exchange devaluation. Later, when signs of trade balance deterioration became evident in September, the government issued its Export 2001 Program consisting of a series of measures aimed at providing significantly greater support to foreign sales operations.

However, one should note that the budget restrictions demanded by the fiscal adjustment process impacted export and import management policy. In this context, the number of operations approved under the terms of the Export Financing Program (Proex) during the course of the year actually declined, particularly under the heading of interest rate equalization operations. In this case, it should be stressed that Proex was somewhat altered as a result of the unfavorable conclusion of the World Trade Organization (WTO) panel opened against Brazil by Canada in the dispute between Bombardier and Embraer, the two large aircraft manufactures involved in the question.

Another item that deserves mention in terms of export policy management was implementation of the Coffee Retention Plan, issued by the APPC, an organization in which Brazil holds membership. This intervention had the objective of reversing the slide in international market coffee prices.

In the external framework, an increasingly important aspect of foreign trade policy has been the growing importance of bilateral trade negotiations, as a consequence of the nation's strategy of expanding trade with other Latin American countries as a way of offsetting the losses generated by barriers raised against the country's products in European and American markets and by the deepening economic recession that has gripped Argentina, Brazil's major trading partner in the region. However, this in no way means that Brazil has decided to relegate multilateral trade negotiations to the back burner.

As a matter of fact, despite sharply contested trade issues between Brazil and Argentina over the course of the year – just as occurred in 1999 in the wake of

devaluation of the real – the four Mercosul partners were able to achieve considerable progress, particularly during the December 2000 Florianópolis Meeting. This event was marked by the signing of a common automotive agreement, definition of a two and a half percentage point addition to the Common External Tariff (TEC) and creation of common obligatory rules to deal with dumping accusations against members of the bloc. These measures resulted in a sense of stronger cohesion within the bloc, principally as the Free Trade Area of the Americas (FTAA) negotiations showed signs of added momentum.

The impact of higher international market prices for petroleum and derivatives on the nation's import operations was significant. However, no alterations were introduced into government policy in this segment since the ongoing process of deregulation is considered the most efficient means of reducing dependence on petroleum imports.

The year under analysis was marked by continuity of the trade policy adopted in recent years with emphasis on operational modernization and improvement in customs processing, enhanced competitiveness, defense of domestic industry, trade promotion operations and health control measures.

Structured in such a way as to stimulate exports, Provisional Measure 1,991-13, dated 1.13.2000, has as of 1.1.2000 allowed companies to take advantage of presumed IPI credit grants, as refunds of contributions to PIS/Pasep and Cofins on the value of raw materials, intermediate goods and packaging materials purchased on the internal market and used in manufacturing products to be shipped abroad. This tax benefit had been suspended since 4.1.1999.

Other tax alterations related to exports were defined by Decrees 3,646 and 3,647, both dated 10.30.2000. These measures were targeted at reducing tobacco and cigarette smuggling into Brazil by imposing an Export Tax (IE) increase to 150% on foreign sales of tobacco to Paraguay and Uruguay and exports of cigarette paper and filters to South and Central America, including the Caribbean. The only exceptions are Argentina, Chile and Ecuador. Another measure taken to combat smuggling was Decree 3,658, dated 11.13.2000, which raised the Export Tax to 150% on foreign sales of firearms and ammunition to both South and Central America, including the nations of the Caribbean and excluding Argentina, Chile and Ecuador.

In the case of hides and skins exports, the 9% increase in the Export Tax, introduced by Decree 3,684, dated 12.7.2000, had the objective of hampering external sales of wet blue and indirectly stimulating foreign sales of more sophisticated products of greater aggregate value such as finished leather and footwear. The new rate is scheduled to remain in effect until 11.30.2001.

With respect to foreign trade financing, Banco Central Circular 2,982, dated 5.11.2000, introduced an important change by restricting operations under the terms of the Reciprocal Payments and Credit Agreement (CCR) to imports with payment in up to 360 days and exports effected to be paid in the same time frame. The only exception to the rule were foreign trade operations through the Mercosul system, Bolivia or Chile, provided that contract value be no more than US\$100 thousand. From the viewpoint of the Brazilian government, it is not Banco Central's task to guaranty credit risk in foreign trade operations. This function should be assumed by such other institutions as BNDES-Exim and the Brazilian Export Credit Insurance Corporation (SBCE).

Alterations were also introduced into Proex for the purpose of complying with the WTO's decision in the Embraer-Bombardier dispute. In this context, Banco Central issued Resolution 2,799, dated 12.6.2000, for the purpose of redefining the criteria applicable to financing of foreign sales of aircraft to be used in regional operations. With this, interest rate equalization operations are now to be determined on an operation-by-operation basis and the levels may be differentiated according to the characteristics of each operation. The ceiling on these operations is to be the Commercial Interest Reference Rate (CIRR), which is issued monthly by the Organization for Economic Cooperation and Development (OECD), for the currency and financing term of the specific operation. The reference rate used in the past was that of ten year United States Treasury Bonds plus a spread of 0.2% per year.

In 2000, exports accepted for inclusion in Proex came to US\$12 billion or 24.1% less than the 1999 total. To a great extent, this reduction was caused by budget restrictions imposed specifically on interest rate equalization operations. Foreign sales that benefited from the program totaled US\$8.2 billion, representing an increase of US\$1.6 billion in absolute terms in comparison to 1999. This result reflected growth of 97.8% in financing operations and 22.3% in interest rate equalization operations, with respective overall totals of US\$413 million and US\$7.8 million.

Disbursements approved totaled US\$1.8 billion or 15.1% of the related exports, while those effected upon shipment of the merchandise closed at US\$791 million. In the case of financing operations, disbursements effected increased by 102% compared to the previous year and totaled US\$359 million or 86.7% of the related foreign sales, accounting for 29.8% of the total amount of disbursements approved for this operational modality. With regard to disbursements for purposes of interest rate equalization, these operations increased by 2.8% to a total of US\$433 million, or 5.5% of the related exports. The final total represented 71.5% of the disbursements approved for this modality.

One should also mention that Proex financing operations became more diversified during the year as a result of incorporation of 224 new participants, compared to 190 in the previous year. The number of exporters receiving this assistance in the period rose from 284 to 346. However, at the same time, the number of exporters covered by the interest rate equalization program diminished from 232 in 1999 to 157 in 2000, while the number of new participants also dropped from 53 to 32. These figures refer to contracts approved but not necessarily implemented.

Also with regard to export financing, one should note that BNDES operations in this area also increased as the institution opened a line of credit in September 2000 for special preshipment operations indexed to the TJLP. In this financing line, the company receives the resources beforehand on the basis of a commitment to expand the volume of foreign sales over a period of one year. Substitution of the former indexing factor – Libor plus exchange indexing – with the TJLP plus a spread of between 1% and 2% per year made it possible for companies to avoid exchange risk.

In 2000, the world supply of coffee beans expanded more rapidly than demand and sharply raised world stocks of the product and, consequently, pushed world prices into a downward slide. In an effort to reverse this trend, the APPC member countries adopted a coffee retention plan. The norms covering the retention policy were issued in Banco Central Resolution 2,732, dated 6.14.2000, which instituted a credit line based on resources from the Coffee Economy Defense Fund (Funcafé) to be utilized in the warehousing of export-grade coffee in government warehouses accredited for this purpose. Aside from this, Interministerial Directive 197, dated 6.15.2000, issued by the Ministry of Agriculture and Supply (MAA) and the Ministry of Development, Industry and Commerce (MDIC), instituted the unprocessed coffee bean retention system, based on the terms of the Coffee Retention Plan signed by the member countries on 5.19.2000. Issue of Sale Registrations (RV) depends on the existence of a volume of coffee deposited in government warehouses equivalent to 20% of the amount stated on the respective RV. The retention percentage can be altered should the indicative prices defined in the APPC's Coffee Retention Plan be achieved.

With the deterioration in the nation's trade balance position in the final quarter of the year, the government launched its Export 2001 Program on 11.17.2000. This program is targeted at three fundamental objectives of government policy for this sector of activity: reduction in export costs, incentives to the development of business strategies and dissemination of an export-oriented mentality. With this program, the Brazilian government seeks to ensure 20% annual growth in the export sector as of 2001. The measures underlying the Program are as follows:

- a) creation of the Port Restructuring Program (Reporto), a program scheduled to be implemented over a period of two years with the objectives of stimulating the processes of modernization, re-equipping and technological updating of the

nation's ports. The port terminal concession companies will draw evident benefits from the process of adaptation of port operations to international standards, elimination of taxes on export operations and competitive financing for acquisitions of machinery, equipment and computer goods. This program is also aimed at providing Brazilian ports with the information technology required to manage costs, utilization levels and container flows efficiently;

- b) creation of a single fiscal document for the multimodal transportation of products to the external market, a measure considered essential to streamlining the processing of exports and adopting more flexible approaches to these operations;
- c) three measures aimed at instilling greater dynamics into foreign trade credits:
  - 1) strengthening of Export Credit Insurance as the successor to CCR, which is now restricted to guarantying short-term operations of up to 360 days;
  - 2) expansion of the budget allocation of the Export Guaranty Fund by R\$500 million, making it possible to raise its assets to a level of R\$1.4 billion, and in this way guaranty operations worth R\$7 billion; and
  - 3) restructuring of the SBCE, which is a private company with minority Banco do Brasil participation aimed at enhancing efficiency in the process of insurance requests by exporters;
- d) expansion of BNDES-Exim, which will have a full 25% or more than R\$5 billion from the BNDES budget; The BNDES board of directors is now analyzing three other measures for immediate implementation:
  - 1) improvements in the Guaranty Fund aimed at providing small scale entrepreneurs with increased access to export credits;
  - 2) special support to Brazilian companies for projects involving installation abroad of production and distribution units for Brazilian goods; and
  - 3) increased financial support for service exports.
- e) reduction of the Income Tax rate from fifteen percent to zero on the costs of trade promotion events involving Brazilian products abroad. This was clearly one of the most important measures in this area and was implemented through Provisional Measure 2,062-61, dated 12.28.2000, effective as of 1.1.2001;
- f) implementation of the export consignment system, considered an important instrument in making new business strategies feasible and increasing Brazilian participation in foreign trade operations. Stocks of Brazilian goods in strategically positioned localities will ensure rapid distribution to large scale traditional consumers. Exports in consignment will also bring new dynamics to electronic commerce in the business-business and business-consumer modalities. The fundamental characteristic of these operations is delivery within 72 hours. This measure was regulated by Circular 3,016, dated 12.6.2000;
- g) reexamination of the formula governing presumed PIS(Social Integration Plan)/Cofins(Contribution to Social Security Financing) credits. The new definition of this formula will stimulate exports of goods of greater aggregate value and diminish the cascade effect of these two taxes at each level of the productive chain. At the same time, it will act as a stimulus to outsourcing at various stages of the manufacturing process;

- h) creation of Industrial Customs Airports, which are large scale industrial complexes designed for the processing of exportable goods. These facilities, which represent a refinement of the drawback system, are to be built on land adjoining major airports and will be free of customs barriers. The Federal Revenue Secretariat, in a partnership with the Brazilian Airport Infrastructure Company (Infraero), is now finalizing the project that will result in Industrial Customs Airports in Confins (Minas Gerais) and São José dos Campos (São Paulo);
- i) implementation of *Exporte Fácil*, a program that has the objective of facilitating export operations by small companies with sales through the Post and Telegraph Company (ECT) in values of up to US\$10 thousand per remittance. This measure was implemented through Bacen (Central Bank of Brazil) Circular 3,015, dated 12.6.2000;
- j) expansion of the Program of Technological Support to Exports (Progex), which had previously been restricted to the State of São Paulo, to other regions of the country. This Program is aimed at perfecting and adapting the technology built into Brazilian products to the demands of the international market. Research institutions considered apt to participate in this Program will be accredited and duly qualified to provide consulting services to medium and large companies;
- l) implementation of the Brazil Trademark project, which is designed to certify Brazilian products that meet international quality standards. The selection process will be done annually and companies will be permitted to exhibit this quality stamp on the packaging of their goods. The Brazil Trademark project is expected to contribute to forming and fostering a positive image among international market consumers, indicating Brazil as an important producer of world class goods, including items of greater aggregate value, such as aircraft, automotive vehicles, home appliances, electric-electronic goods, software and cosmetics.

In the field of trade promotion, fundamental changes were implemented within the Export Promotion Agency (Apex), which is now a department of the Brazilian Service of Support to Micro and Small Businesses (Sebrae). As of June 2000, the Agency has had greater autonomy, making it possible to act with greater agility in project analysis and approval. In the year, R\$51 million were invested, for an increase of 78.3% in relation to 1999. Since its creation, Apex has concluded 45 projects, with 17 of these concentrated in 2000. Of the 121 projects underway, 24 are national projects being implemented by professional institutions and installed in several different states. Forty nine of total projects are state programs. Among the sectors that have benefited from the national projects, one should mention apparel, flowers, furniture, cane brandy, the cinema industry and others. Though only moderate results have been achieved to this point, the medium-term outlook is bright since experience has demonstrated that these projects have a maturation period of about two years.



Insofar as imports are concerned, new tariff positions have been included in the ex-tariff system with the aim of stimulating renovation and modernization of the country's industrial structure. This measure reduced the Import Tax rate on capital goods when similar nationally made products are not available. Ministry of Finance Directive 3, dated 1.12.2000 reduced the ad valorem Import Tax rate to 5% on 407 items and excluded 55 products. The sectors that drew the greatest benefits from these measures were chemicals, followed by electric-electronic goods, foodstuffs, hygiene and cleaning material. No alterations were introduced into the headings of telecommunications, computer goods and theme parks. Ministry of Finance Directive 336 was issued on 9.20.2000, canceling 115 ex-tariff positions and altering the descriptions of 29 others.

Also with regard to the ex-tariff system, Ministry of Finance Directives 464 and 465, both dated 12.26.2000, were issued, since the Mercosul member countries had decided to postpone the period for adopting the common listing of capital goods not produced within the bloc. The first of these reduced the ad valorem rate on external purchases of products included in the former ex-tariff listing from 5% to 4%, extending validity from 1.1.2001 to 6.30.2001, when they are to be revised once again. The other included a new listing of 414 products at an Import Tax rate of 4% and validity from 1.1.2001 to 12.31.2002.

In the Mercosul framework, considerable progress was achieved at the Florianópolis Summit in December 2000, including creation of common obligatory rules for dealing with dumping accusations among member countries, so as to avoid application of measures without prior notification to trading partners. The signing of the automotive agreement among bloc members was another important step forward since it resolved the impasse that had existed with Argentina and incorporated both Paraguay and Uruguay into the system, thus stimulating the development of long-term projects on the part of the region's vehicle assembly plants.

The debate concerning the TEC was also an important element of Mercosul import policy. Discussions involved elimination or reduction of the three percentage points added to the TEC by Decree 2,376, dated 11.12.1997, which remained in effect until 12.31.2000, as well as a review of the bloc's tariff structure. The Florianópolis Mercosul Meeting introduced an additional two and a half percentage points to the TEC Import Tax rates, reflecting a drop of one half percentage point in relation to the three percentage points levied up to 12.31.2000. Since this is a measure that impacts the very foundations of the customs union itself, it can be interpreted as almost a new inauguration of the bloc.

Since the alteration did not include all TEC items, one should note that the products excluded from the temporary levy of two and a half percentage points were listed in Appendix II of Decree 3,704, dated 12.27.2000. This exclusion also covered all

capital goods for which rates had been reduced from 18% to 14%. The same Decree issued the new List of TEC Exceptions, with a lesser quantity of items since more products were excluded than the number of new products included. With respect to the List of Convergence of the Computer and Telecommunications Sector, no substantial alterations were introduced and the previous norms remained generally in effect.

Also with regard to Mercosul, the system of adaptation for Paraguay and Uruguay terminated as of 1.1.2000, according to the terms of Decision 5/1994 issued by the Mercosul Common Market Council (CMC). The system of adaptation for Brazil and Argentina came to an end on 1.1.1999. As a matter of fact, intrazone trade has practically eliminated barriers as evinced by the fact that the only systems that have not yet become fully operational are those involving sugar and automotive vehicles.

Growing protectionism in European and American markets has motivated the Brazilian government to retarget its external priorities, giving emphasis to Latin America. In this sense, bilateral trade negotiations took on added importance, as occurred in the case of the tariff preference trade agreement with Mexico involving the automotive sector. According to the agreement implemented by Decree 3,494, dated 5.29.2000, both countries are permitted to levy an ad valorem tariff of 8% on automobile imports, provided that they comply with the adjusted origin requirements. This preferential tariff will be applicable to the following quotas: in the first year of validity, on 40,000 units, or a larger quantity defined by the importer; and 50,000 units in the second year. If the quota is not reached in the second year, it may be transferred to the following year.

The path of bilateral trade negotiations is one aspect of CMC Decision 32/2000, dated June 2000, which set a deadline of 6.30.2001 for the Mercosul countries to come to individual trade agreements. Once this period had elapsed, such agreements would only be permitted when signed by the four bloc members. Decision 32/2000 also specified that the four member countries would commit themselves to recommencing understandings with Mexico and the Andean community (Peru, Ecuador, Venezuela and Colombia) with the objective of signing an agreement by 12.31.2001 on creation of a free trade zone between Mercosul and the Andean Community and Mercosul and Mexico. Should it not be possible to conclude these negotiations by that date, the current preference would be maintained only until 6.30.2003. With these limitations, the Brazilian government will have only the first half of 2001 to formalize the agreement that would expand trade preferences with Mexico and complete the revision of Economic Complementation Agreement 39, dated August 1999, signed with the Andean Community. From the viewpoint of the Brazilian Ministry of External Relations, formalization of these agreements would significantly improve the possibilities of Brazil and Mercosul obtaining more advantageous results during FTAA negotiations.

Petroleum purchases brought added pressures to bear on Brazilian imports during the year. The increase in world demand, coupled with economic growth, low stock levels in the United States and measures taken by the Organization of Petroleum Exporting Countries (Opec) were just some of the factors that generated sharp fluctuations in international oil prices. In the context of the turbulent international scenario, the National Petroleum Agency carried out the second round of a tender process on 6.7.2000 and sold petroleum and gas prospecting rights in 21 different areas. With the ongoing process of deregulation in the sector, it is expected that Brazil will manage to increase its petroleum output and sharply reduce the nation's dependence on imported petroleum over the medium and long-term.

Another measure related to the petroleum sector was implemented by SRF Normative Instruction 87, dated 9.1.2000, which regulated application of the special customs system for exports and imports of goods to be utilized in petroleum and natural gas research and production activities (Repetro). Aside from this, Decree 3,609, dated 9.22.2000 excluded naphtha for petrochemical use from the Basic List of TEC Exceptions, resulting in a reduction in the Import Tax rate from 6% to zero. In highly volatile internal and external scenarios, this anticipation of the tariff reduction had the objective of facilitating negotiations between Petrobras and petrochemical production centers regarding the definition of product prices, which were released from government controls on 8.9.2000.

Insofar as measures taken to improve certain administrative aspects of foreign trade operations are concerned, one should underscore the importance of the first step taken in efforts to open the Brazilian insurance market, reflected in issue of Law 9,932, dated 12.20.1999, regulating Constitutional Amendment 13, dated 1996. This will result in a reduction in the costs of contracted insurance operations, particularly those involving international and customs transportation insurance.

With regard to the streamlining of customs procedures, Secex Directive 1, dated 1.21.2000, simplified the system of drawback operations and thus reduced their costs. This was achieved by no longer requiring the presenting of printed documents, coupled with utilization of the Unified Drawback Report for identifying electronic documents that have been registered in the Integrated Foreign Trade System (Siscomex).

Moving in the same direction, Banco Central issued Circular 2,967, dated 2.8.2000, permitting the contracting of simplified exchange for import operations worth a maximum of US\$10 thousand. This had already been permitted for export operations. Authorization was also given for payment or reception of all international orders for both import and export operations through the use of international credit cards, when such operations are based on the Simplified Declaration.

Law 9,611, dated 2.19.1998, which deals with Multimodal Cargo Transportation, was regulated by Decree 3,411, dated 4.12.2000. This represented an important step forward in efforts to improve and reduce the costs of foreign trade operations.

In much the same way, Bacen Circular Letter 2,947, dated 12.6.2000, permitted extension of export exchange contracts for a period of up to 180 days as of the date of shipment in an amount corresponding to the value of the merchandise shipped, when all possibilities of negotiation with the external debtor have been exhausted. A transit period of up to 15 days is permitted and the obligation of charging interest does not apply. In the past, the extension required the exporter to submit the importer's agreement to pay interest during the extension period, together with issues of withdrawals for both principal and interest to substitute the original withdrawal documents. This normative instrument also authorized intermediation of brokerage firms in simplified export exchange contracts and required that the documentation involved be kept on file for 5 years at the disposal of Banco Central when requested.

With regard to health control measures, the government removed controls from Brazilian purchases of United States soft wheat for manufacturing biscuits. These purchases had been suspended almost three years previously because of health problems caused by the fungus designated as *Tilletia controversa*. In this context, the MAA issued Normative Instruction 12, dated 11.23.2000, defining the health control requirements applicable to wheat imports from the United States. Each shipment must be accompanied by a certificate and shipment is to occur exclusively on the east coast of the United States. Imports of the product from the States of Washington, Oregon, Idaho, California, Nevada and Arizona are prohibited.

Going further, on 12.29.2000, the MAA sent a report to the Technical Veterinary Commission on Foot-and-Mouth Disease of the International Epizootic Organization (OIE) declaring the East Livestock Circuit as "free of foot-and-mouth disease with vaccination". In January 2001, the OIE responded favorably to the request. Here, one should highlight the results achieved by the National Program of Combating Foot-and-Mouth Disease, which is coordinated by the MAA. The work carried out to eradicate outbreaks of the disease in four municipalities in the northwest part of the State of Rio Grande do Sul made it possible to formalize a health protocol between Brazil and Russia, once again opening that country's market to Brazilian pork products.

In the trade defense arena, definitive ad valorem antidumping rights were applied to imports of the following products:

- a) nonhydrophobically modified hydroxylated ethylcellulose, a compound used in the manufacture of medicines, paints, cement, mortar and other products, when originating in the United States and the Netherlands. Measure applied by MF/MDIC Interministerial Directive 22, dated 4.7.2000;

- b) flat stainless steel products, cold-rolled in thicknesses of not more than 3 mm originating in South Africa, Spain, France, Japan and Mexico, including refractory and stainless steels. Measure regulated by MF/MDIC Interministerial Directive 34, dated 5.24.2000;
- c) Portland cement originating in Mexico and Venezuela, when shipped to the States of Acre, Amazonas, Roraima and the region to the west of the State of Pará. Measure implemented by MDIC/MF Interministerial Directive 46, dated 7.12.2000.

It is important to note that MD(Defence Ministry)Directive 657/GC-5, dated 10.30.2000, went into effect on 11.1.2000. This instrument approved criteria and defined amounts for the levying and charging of the Airport Storage and Wharfage Tariff on imported cargoes and those to be exported or classified in special situations. The major impact of this measure was felt by products of greater weight or volume, such as computers, seafood, fruits and other goods.

One should also note the fact that the Federal Senate and Chamber of Deputies approved the new Informatics Law on 12.14.2000 and 12.27.2000, respectively, extending incentives to the sector and defining schedules for the gradual withdrawal of fiscal incentives until these benefits are totally eliminated in 2009. The pace of the withdrawal will depend on the region in which the company is installed. Aside from this, the informatics goods and services to which the law applies were also defined and, among other items, include cell phones and video monitors. With this measure, cell phones and monitors produced in the Manaus Free Zone lost the 88% exemption from the Import Tax on components to which they had previously been entitled.

### **Exchange policy**

The year under analysis marked the second year of the free floating exchange system, originally implemented in 1999. In this system, Banco Central interventions in the domestic exchange market are limited to avoiding exchange rate fluctuations over short periods of time, thus breaking the bond that had linked the international reserve level to exchange market results.

The rules governing Banco Central exchange market interventions in the free floating exchange system were introduced by Circular 2,884, dated 5.6.1999, and Circular 2,888, dated 5.20.1999. These rules determine that Banco Central interventions would be implemented among dealers, institutions accredited to operate on the exchange and public debt securities markets through interbank exchange purchase and sale operations carried out either directly or through electronic or telephone auctions with simultaneous offers to a minimum of five dealers.

A slight alteration was introduced into the criteria for granting and withdrawing dealer accreditation in the course of 2000. According to the terms of Circular Letter 2,923, dated 7.4.2000, performance evaluation is still the basis of the selection criterion and is expressed by the weighted average of the volume of import and export operations (weight 3), financial exchange (weight 3), quality of the information provided to Banco Central (weight 2), operations with exchange securities (weight 1.5) and interbank market activities (weight 0.5). With respect to the previous provisions, the importance attributed to the quality of information, the volume of trade operations and operations with exchange securities increased, while that ascribed to the volume of interbank market operations was reduced. Once classified, the institution is then obligated to comply with a series of other criteria. These principles are the same as those applied in the past and include the following: the institution must be in operation for a minimum of six years; be considered in a good economic-financial situation; be considered as normally operating; adopt policies geared to strengthening its capital stock; not be subject to any restrictions or caveats on the part of Banco Central that in any way whatsoever would not recommend accreditation of the institution; not be included, under the name of the institution itself, its managers or controllers, in the Informative Record of Unpaid Federal Public Sector Credits (Cadin); and have an exclusive telephone line available for communication with the International Reserve Operations Department desk at Banco Central (Depin). Adoption of methods that are contrary to normal and healthy market practices, such as attempts to manipulate prices, are sufficient reason for withdrawal of accreditation.

The principal measures taken to adapt the exchange market to the free floating rate system were adopted in 1999. In 2000, measures were issued mostly for the purpose of providing new opportunities for foreign capital investments in the Brazilian stock and financial markets while encouraging residents to contract loans abroad. Simultaneously to this, Banco Central took steps to implement systems designed to monitor and control capital flows, while issuing regulations on areas not duly regulated in the past and adjusting the content of previously issued regulations.

In the first quarter of the year, the renewed confidence shown by agents in the country's economic recovery coupled with balanced exchange flows and the absence of significant external sector pressures were reflected in the downturn in exchange rates. Dollar rates in the period followed a downward trajectory fluctuating between a minimum of R\$ 1.71 and a maximum of R\$ 1.865. On March 24, the currency value was quoted at R\$ 1.7234 per dollar, PTAX sale rate. This was the lowest rate for the year and reflected upward movement of 3.7% in the value of the real, compared to the rate in effect on December 31, 1999.

As of the second quarter of the year, the external scenario became a source of considerable exchange rate pressures as the booming United States economy generated fears of rising inflation and international market uncertainties regarding the possibility of a rise in United States interest rates. And it was precisely this that occurred in May when the Federal Reserve System (Fed) decided to ratchet interest rates up by an additional notch. Simultaneously to these movements, international oil prices moved into an upward growth trajectory as of the month of May. In this scenario, the dollar was quoted at R\$1.8083 on April 27, reflecting 3.5% nominal devaluation of the real in relation to the end of March, when the rate closed at R\$1.7473. New increases in petroleum prices generated additional pressures on exchange, raising the rate to R\$1.8537 on May 23, for devaluation of 6.1% in relation to the March rate and 3.6% in relation to that of 1999. Rates remained stable up to the end of July before turning upward once again in August. This movement became even more intense toward the end of the month when petroleum prices registered sharp fluctuations as a result of the ongoing conflict in the Middle East. The per barrel price of Brent-type petroleum on the spot market was quoted at US\$37.73 on September 7, the highest rate for the year and an increase of 51.3% compared to the December 31, 1999 position.

Though American interest rates stabilized at 6.5% since the month of May, uncertainties persisted in the final months of the year with regard to the behavior of the United States economy. The worsening conflict in the Middle East provoked strong fluctuations in oil prices and an overall upward trend. Despite these results, however, prices turned downward as of the second ten days of November and closed the year at US\$22.54 per barrel, a 9.6% drop in relation to the end of the previous year. Political and economic instability in Argentina also contributed to the deteriorating external scenario that was reflected in higher rates of exchange. On December 4, the United States dollar reached its highest level of the year with R\$1.9847, corresponding to nominal 10.9% devaluation of the real.

With regard to the measures adopted by the Brazilian government with the aim of adjusting external capital flows, one should highlight the authorizations granted to foreign investors to invest in capital and financial market modalities previously restricted to residents. These alterations were introduced basically through two resolutions issued in January. In the first place, Resolution 2,687, dated 1.26.2000, permitted operations on the commodities and futures markets with both forward and option contracts referenced to crop/livestock products. Prior to issue of that Resolution, foreign investors were restricted exclusively to operations with futures contracts, as determined in Resolution 2,622, dated 7.29.1999. Resolution 2,687 also ratified the previous provisions and maintained the prohibition on the carrying out of operations with preset earnings, except when expressly authorized by Banco Central. The reference norms valid for resident investors were extended to nonresident investors and registration at Banco Central is obligatory.

Aside from these measures, Resolution 2,689, dated 1.26.2000, considers resident and foreign investors as equivalent and authorizes foreign investors to operate on the financial and capital markets in those areas previously reserved to residents. Those foreign investors who desire to take advantage of this opportunity are obligated to name a representative in the country, complete a form instituted by Banco Central and register at CVM. If that representative is neither a natural person nor a nonfinancial legal entity, the investor must indicate an institution authorized to operate by Banco Central which will then be coresponsible for compliance with the investor's obligations. The investment must be registered, held by a custodian or maintained in a deposit account at the institution providing this service which, in turn, must be recognized by Banco Central or CVM. Aside from this, the institution must be included in recognized systems of registration, liquidation or custody. Investment registrations should be supplied to Banco Central and the CVM by the depositor institutions and custody and registration service providers. Acquisitions and transfers must be carried out on the appropriate markets regulated by the CVM. This does not apply to the hypotheses of subscription, bonuses, conversions of debentures into stocks, indices referenced in securities, acquisitions and transfers of quotas of open investment funds in stocks or bonds and, finally, in the cases of closing capital, cancellation or suspension of negotiations, with prior CVM authorization. Nonresidents are not allowed to transfer or assign title abroad. With exception of transfers resulting from stockholding alterations abroad or inheritance rights, as regulated by Banco Central and CVM, those cases registered in the country and not classified under this norm are also subject to this prohibition.

All operations with the international community under the terms of Resolution 2,689 are to be carried out on the basis of exchange contracts. As stated in Resolution 2,786, dated 10.18.2000, exchange contracts may be directly formalized by the CBLIC.

Aside from the new system that is foreseen, Resolution 2,689 authorized new investments only in the modality regulated by appendix III to Resolution 1,289, issued in 1987, or in those forms expressly approved by Banco Central and the CVM. The period for adaptation of the modality covered by Appendix IV to Resolution 1,289/1987 expired on 9.30.2000, according to the terms of Resolution 2,742, dated 6.28.2000. In transfers to the new system, the positions held by the nonresident investor are to be maintained strictly in line with the respective custody account positions. Noncompliance with these norms will result in the application of penalties.

As of 3.31.2000, issues and placements of Foreign Capital Fixed Income Fund quotas (Resolution 2,034, dated 12.17.1993), Foreign Capital Investment Company stocks (Appendix I to Resolution 1,289, dated 1987) and Foreign Capital Investment Fund quotas (Appendix II to Resolution 1,289, dated 1987) were prohibited. For purposes of adaptation to the new system, authorization was granted for transformation or incorporation of Fixed Income Funds into financial investment funds, Investment Companies, for transformation or incorporation into stock and security investment company funds, while authorization was given to investment funds to be transformed or incorporated into stock and security investments funds. In all of these cases, securities are to be evaluated at market prices. Another alternative was the possibility



of liquidation of these funds and companies, with due compliance with the regulations in effect. Aside from this, permission was granted for investments covered by the terms of Appendix V to Resolution 1,289/1987 to be transferred to the new system or vice versa, with due compliance with the conditions defined by Banco Central and the CVM.

The conditions for registration and investment under the terms of Resolution 2,689 were determined by Circular 2,963, dated 1.26.2000. Registration in declaratory form and the use of electronic transmission are prerequisites for operations and datings abroad. This norm also defined the manner in which investment information is to be provided, while it also dealt with the question of how transfers to the new system were to take place when they involved investments governed by Appendices I, II and IV to Resolution 1,289/1987.

The regulations governing foreign currency accounts were also issued in the first quarter of the year. Resolution 2,694, dated 2.24.2000, authorized insurance companies, local reinsurers or reinsurance brokers to open and maintain foreign currency accounts at banks authorized to deal in exchange in the country. In cases involving insurance companies, local reinsurers and authorized reinsurers, operations are limited to receiving and paying premiums and indemnities, insurance and reinsurance contracts formalized in foreign currencies and amounts related to such contracts, income on investment of the existent balances – in the case of the authorized reinsurers deposits may be accepted to the extent needed to maintain the minimum balance in the account. Withdrawal may only occur after the deposit is released by the Superintendency of Private Insurance (Susep). In the case of reinsurance brokers, account operations are limited to the transiting of payments of reinsurance premiums and indemnities as related to contracts formalized in foreign currencies and other amounts earmarked to such operations. Financial transfers both into and out of the country included in the specified operations should be carried out by contracting and liquidating exchange, except when dealing with earnings on investment of existent balances. The amounts registered in foreign currency accounts may be freely converted into reals, with the exception of those related to investments of the resources set aside as guaranties for the entity's technical provisions, expressly prohibited in the applicable regulations. The provisions on investments of these resources were determined by Resolution 2,695, dated 2.24.2000, which also dealt with investments of the resources required in the country to guaranty the liabilities of authorized reinsurers.

Circular 2,971, dated 3.17.2000, regulated Resolution 2,644, dated 9.10.1999, which deals with the foreign currency accounts of companies charged with implementing and developing projects in the areas of prospecting, production, working, processing and transportation of petroleum and natural gas and electricity generation and transmission, as well as Resolutions 2,694 and 2,695, dated 2.24.2000, and issued regulations on foreign currency accounts in the country.

Circular Letter 2,917, dated 6.13.2000, altered the regulations on the accounts of companies charged with implementing and developing energy sector projects and authorized companies to open accounts when they have received delegation in the form of concessions, authorizations or permissions from agencies operating in the respective sectors. In the past, opening of these accounts was permitted only in the case of companies that had received delegation by concession.

The norms related to the contracting of external loans were significantly altered in order to stimulate new contracting operations. Circular Letter 2,905, dated 3.24.2000, extinguished the demand of a minimum term for external loan operations, as previously required by Resolution 2,683, dated 12.29.1999, in effect since 1.3.2000. Later on, Resolution 2,770, dated 8.30.2000, altered and consolidated the disciplinary norms governing foreign loan operations, eliminating loans contracted under the terms of Resolution 63 and Firce Communiqué 10. The obligatory nature of the prior and express manifestation on the part of Banco Central in order to contract loans and pay commissions and expenditures simultaneously to the inflow was suspended, except in those cases in which public sector borrowers are involved – federal government, states, Federal District, municipalities, their semi-autonomous agencies, foundations and companies including their controlled companies. In this hypothesis, operations must receive prior accreditation, accompanied by a description of the financing conditions of the loan and the payment period, as required by the legal provisions currently in effect.

Loan operations should be registered at Banco Central and alterations in registrations, renewals and extensions depend on the approval of that institution. Financial institutions and leasing companies were authorized to contract resources abroad for free investment on the domestic market, as well to transfer resources through financial institutions to like institutions. At the same time, financial institutions were permitted to transfer resources to natural persons and nonfinancial legal entities. These decisions were applied to funds transferred prior to the date on which the normative instrument went into effect.

Circular 3,003, dated 8.30.2000, defined the criteria governing external loan operations. In this sense, the contracting of incoming exchange is subject to presentation of a registration request by the borrower. The registration is valid for 120 days following maturity of the installment in question. For a public sector borrower to obtain a loan through a security issue, the operation must be accredited by Banco Central and obey all due procedures: notification to Banco Central of the entity's intention of going to the market; a favorable and definitive statement of position issued by the Secretariat of the National Treasury of the Ministry of Finance; consultations with market agents; and presentation of the financial conditions of the offers received as well as the selection criteria. The number of the letter of credentials supplied by Banco Central must be stated on the exchange contract used in the inflow operation.

Registration of exchange or national currency operations related to the financial transactions carried out abroad must contain the registration number issued by Banco Central, independently of the nature of the borrower. Circular Letter 2,934, dated 9.1.2000, informed as to the adjustments made in the regulations on exchange contracts as a result of changes in the norms governing loan contracting operations.

With issue of Resolution 2,716, dated 4.13.2000, closed social security entities were allowed to invest up to 10% of their resources in Security Deposit Certificates (Brazilian Depository Receipts – BDR) backed by stocks in open capital corporations headquartered abroad, when distribution has been authorized by the CVM.

Resolution 2,721, dated 4.24.2000, authorized financial institutions and leasing companies to transfer resources contracted abroad through financial institutions to institutions and companies of the same nature. The contracting of such operations with exchange variation clauses was also permitted. This norm was repealed by Resolution 2,770, issued at the end of August.

Resolution 2,763, dated 8.9.2000, introduced alterations into the regulations governing Brazilian investments abroad through the BDR mechanism. The major change was the item that considers the nonresident investor as equivalent to the resident investor, as stated in Resolution 2,689. With respect to previous regulations (Resolution 2,318, dated 9.26.1996), Resolution 2,763 eliminated the obligation of selling and repatriating the resources in cases of cancellation of the certificates acquired by the nonresident investor. However, that investor is obligated to register the operation in the Banco Central Information System (Sisbacen). Aside from this, the rights obtained in cash by the Brazilian investor may be reinvested abroad, provided that the investment be made in the subscription or acquisition of the securities that generated these rights.

The conditions for registration of investments in BDR were defined by Circular 2,996, dated 8.9.2000. Prior to the registration request, the depositing/issuing institution should provide reference information about itself, the custodian institution and the company issuing the securities. This is to be done through utilization of Sisbacen transactions. The financial operations should be carried out on the free rate exchange market and the intervening bank should receive and maintain on file the documents required for finalizing exchange, as defined by Banco Central. On a monthly basis, the depositor institution should send a statement of operations to Banco Central and maintain on file all documentation related to the investment in BDR.

Another measure that broadened the possibilities of Brazilian investments abroad was Circular 3,013, dated 11.23.2000, which permitted employees of Brazilian companies belonging to foreign economic groups to acquire shares abroad and

quotas of investment fund applications in the stocks of the foreign parent company, based on the terms of programs designed exclusively for employees. This norm represented expansion of the permission granted by Circular 2,794, dated 12.17.1997, which had limited these acquisitions to those involving shares of the parent company.

In comparison to the previous system, Banco Central's monitoring and control capacity was greatly enhanced. In this context, the accredited bank is obligated to supply reference information on the Brazilian company and the foreign parent company involved in the Program through specific Sisbacen transactions. Prior and express Banco Central authorization is required in the case of programs in which loans must be contracted directly abroad, savings must be set aside outside the country or the corresponding operations carried out. To be able to do this, a specific request containing a complete characterization of the operation, together with the documentation required for remittances and liquidation of the respective exchange operations should be remitted to Banco Central at least 30 days prior to the final date for joining the program.

The other provisions remained valid: notification to Banco Central regarding the characteristics of the intended investment, limited to US\$20,000.00 or its equivalent in other currencies per employee of each company and for a period of not less than 12 months (cases beyond this limit should be analyzed and approved by Banco Central); registration, monitoring and control of investments by Banco Central; presentation of the documents specified in the norms covering remittances and liquidation of exchange contracts, as well as proof of payment-in-full of the corresponding taxes or of an exemption from such taxes; corroboration of investment of the resources up to 90 days after each transfer abroad, as well as submission of annual financial statements, with information on the investment position of each employee, the amount of the dividends paid in cash and/or stocks, participants and amounts incorporated or participants excluded and important occurrences that affect the value of these investments. Transfers of the securities acquired may be carried out exclusively with foreign concerns and the product of the sale must be immediately repatriated. In the case of dismissal of the employee, the investment abroad should be cancelled and the resources previously remitted should be repatriated. All operations are to be processed through the floating rate exchange market.

With regard to the monitoring and control of capital and investment flows, aside from defining the conditions for registration of the investments of nonresidents under the terms of Resolution 2,689 (Circular 2,963, dated 1.26.2000) and of investments in BDR (Circular 2,996, dated 8.9.2000), Banco Central also issued other normative instruments on this matter. According to the terms of Circular 2,975, dated 3.29.2000, regulations were issued on the electronic declaratory registration of

nonresident resources entering the country and invested in the financial and capital markets – Module RDE-Portfolio. With issue of Circular 2,997, dated 8.15.2000, the electronic declaratory registration of direct external investments was instituted and regulated – Module RDE (Electronic Declaratory Registration) -IED (Direct External Investments).

Petrobras' possibilities of obtaining credits abroad were enhanced by Resolution 2,790, dated 11.30.2000, which excluded that company from the policy imposed on the public sector that limited its external credit operations to those amounts required to refinance the public sectors own preexistent financial obligations.

Circular 3,015, issued on 12.6.2000, restricted both outgoing and incoming postal payment orders to US\$3,000.00 per operations and permitted legal entities to utilize this system also. The system was authorized for new operations, such as payment of expenditures on repairs, fixing and reconditioning of parts and machines abroad. Among the former operations that remain within the system, one should cite payments of support of persons abroad, acquisitions of computer programs for one's own use, contributions and pensions, acquisitions of medicines for one's own use and varied commitments, such as vehicle rentals, traffic fines and hotel reservations. Payment of Brazilian exports by postal money order or reimbursement was permitted up to a limit of US\$10,000.00 per operation. Prior Banco Central authorization was dispensed with for the carrying out of postal service exchange operations through the banking network.

Finally, one should cite Provisional Measure 2,062-60, DOU 231, dated 12.12.2000, in light of its possible impacts on the flow of services. This measure increased the income tax withholding rate from 15% to 25% on the amounts paid, credited, delivered, utilized or remitted abroad in the form of royalties of any nature related to generating facts that occurred as of 1.1.2001. The rate will drop back to 15%, should any new contribution be levied within the economic domain on those same amounts.

### **Exchange operations**

Exchange operations in 2000 were characterized by growth in flows in relation to 1999. The volume of operations in the free and floating rate segments totaled US\$290 billion or 6.6% above the previous year's level, reversing the 1999 deficit of US\$6 billion to a surplus of US\$11.9 billion. The overall turnover in the free rate segment, encompassing exports plus imports and purchases plus sales, registered growth of 31.2% in trade operations and a decline of 4.7% in financial operations. On the revenue side, growth came to 12.8%, while the downturn under expenditures closed at 1.6%.

Exchange contracting operations for export purposes increased by 24.2%, reflecting growth in foreign sales, as expressed in 14.7% expansion in the volume of shipments. The negative difference between exchange contracting and shipments declined from US\$6.4 billion in 1999 to US\$3.4 billion in 2000, the same level as in 1998.

With regard to imports, growth in exchange contracting operations and unloading operations came to respective levels of 40% and 13.4%. This performance reflects the upturn in the economic activity level, which in turn required growth in foreign purchases. The increase in import contracting operations surpassed that registered under exports, resulting in a decline in the exchange trade balance, which came to US\$5.6 billion, compared to US\$8.7 billion in 1999.

**Table 5.1 - Exchange movement - free rate market**

US\$ million

| Period | Commercial |         |         | Financial |         |         | Global balance |
|--------|------------|---------|---------|-----------|---------|---------|----------------|
|        | Exports    | Imports | Balance | Buying    | Selling | Balance |                |
| 1997   | 55 887     | 58 545  | -2 658  | 102 820   | 83 090  | 19 730  | 17 071         |
| 1998   | 47 735     | 43 903  | 3 833   | 121 504   | 108 032 | 13 472  | 17 305         |
| 1999   | 41 641     | 32 905  | 8 736   | 87 012    | 100 788 | -13 776 | -5 040         |
| 2000   | 51 699     | 46 070  | 5 628   | 93 394    | 85 515  | 7 878   | 13 506         |
| Jan    | 3 318      | 3 224   | 94      | 7 569     | 6 017   | 1 551   | 1 645          |
| Feb    | 3 226      | 3 070   | 156     | 6 654     | 5 777   | 877     | 1 033          |
| Mar    | 4 045      | 3 833   | 213     | 6 601     | 7 114   | - 513   | - 301          |
| Apr    | 4 864      | 2 947   | 1 917   | 4 629     | 6 603   | -1 974  | - 56           |
| May    | 4 667      | 3 558   | 1 109   | 6 405     | 6 270   | 134     | 1 243          |
| Jun    | 4 397      | 3 771   | 625     | 9 428     | 8 158   | 1 270   | 1 896          |
| Jul    | 3 994      | 4 613   | - 619   | 11 170    | 9 149   | 2 022   | 1 403          |
| Aug    | 4 827      | 4 587   | 240     | 10 460    | 8 531   | 1 929   | 2 169          |
| Sep    | 4 464      | 4 046   | 418     | 6 405     | 6 136   | 269     | 687            |
| Oct    | 4 962      | 4 408   | 554     | 6 110     | 6 842   | - 732   | - 178          |
| Nov    | 4 644      | 3 985   | 659     | 9 809     | 6 065   | 3 744   | 4 403          |
| Dec    | 4 290      | 4 028   | 262     | 8 154     | 8 854   | - 700   | - 438          |

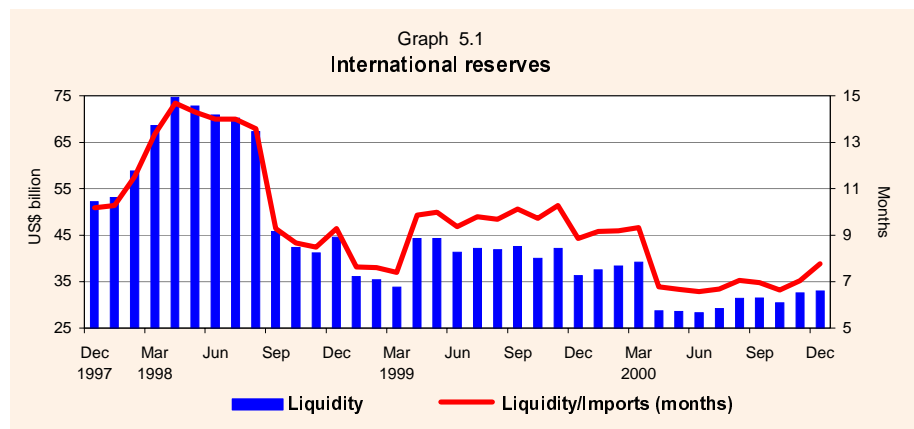
The performance of the financial segment shows considerable improvement in 2000, as represented by the US\$7.9 billion surplus, compared to a deficit of US\$13.8 billion in the preceding year. This result was generated by a decline of 15.2% in financial sales, which closed near the 1997 level. One should note that 1997 was the year immediately prior to the emerging market crisis. Consequently, these figures indicate normalization of remittances following the 1999 alteration of the exchange system. A second factor of importance was 7.3% growth in financial purposes.

With regard to the floating rate segment, the deficit expanded from US\$941 million in 1999 to US\$1.6 billion, as a consequence of growth in Brazilian investments abroad.

### International reserves

In 2000, payments of principal and interest in the framework of the financial assistance program coordinated by the IMF were the items of greatest weight in the reduction of the country's international reserve position. Up to March, the reserve position improved to a level of US\$39.2 billion, in the international liquidity concept, compared to US\$36.3 billion in December 1999. Above all, this was due to bond operations, which generated revenues of US\$1.8 billion in the period. It should be highlighted that, in the month of January, Banco Central repurchased US\$1.3 billion on the market, the amount sold in December 1999 with the objective of ensuring exchange liquidity in the transition to the new year.

In April, liquidation of credit operations with the Bank for International Settlements (BIS) and Bank of Japan (BoJ), coupled with payments of principal to the IMF, totaled US\$10.5 billion. As a result, international reserves dropped to US\$28.7 billion and leveled off at that mark until July. In August, US\$2.6 billion in revenues on purchases of exchange on sales of Petrobras American Depositary Receipts (ADR) pushed the reserve level up to US\$31.4 billion. In October, central government external debt payments generated a decline in the reserve level to US\$30.4 billion. With privatization of Banespa, a share of the revenues generated was incorporated into reserves, which moved to US\$32.5 billion in November. Just as occurred in the preceding year, Banco Central sold exchange on the market in December, with repurchase scheduled for January 2001. The purpose of these operations was to provide additional liquidity during the transition to the new year.



Consequently, in December 2000, international reserves came to US\$32.9 billion in the cash concept and US\$33 billion in the international liquidity concept, reflecting respective declines of US\$2.6 billion and US\$3.3 billion, in comparison to 1999. These figures reflect the net result of Banco Central interventions in the domestic exchange market, which accounted for an increase of US\$2.3 billion in international reserves, and operations with the external sector, which had a negative impact of US\$4.9 billion. One should stress that, during the course of the year, the targets defined for minimum net reserves were easily met.

**Table 5.2 - International reserves targeting - 2000 (agreement with IMF)**

US\$ million

| Period | Adjusted net reserves <sup>1/</sup> |          |
|--------|-------------------------------------|----------|
|        | Floor                               | Occurred |
| Jan    | 18 950                              | 25 259   |
| Feb    | 19 750                              | 26 097   |
| Mar    | 21 350                              | 27 088   |
| Apr    | 21 800                              | 27 144   |
| May    | 23 700                              | 26 898   |
| Jun    | 23 750                              | 26 070   |
| Jul    | 25 000                              | 27 382   |
| Aug    | 25 000                              | 29 923   |
| Sep    | 25 000                              | 30 139   |
| Oct    | 25 000                              | 29 572   |
| Nov    | 25 000                              | 31 071   |
| Dec    | 25 000                              | 31 155   |

1/ Third, fourth and fifth versions of the agreement.

## Balance of payments

In 2000, the balance of payments turned in a lesser level of foreign resources utilization. The current account deficit remained stable, while external debt service payments declined. With this, the net flow of medium and long-term foreign capital reversed course from net amortizations of US\$4.9 billion in 1999 to a net inflow of US\$7.8 billion in 2000, at the same time in which net short-term capital outflows registered a reduction of US\$2.1 billion. Net direct foreign investments came to US\$30.6 billion, closing at the highest value in history. This result made it possible to improve the position of external financing requirements to 1.01% of GDP.

## Trade balance

The country's foreign trade flows expanded by 14%, moving from US\$97.3 billion in 1999 to US\$110.9 billion. This figure represented a new record for the country and was



**Table 5.3 - Balance of payments**

US\$ million

| Itemization                    | 1999     |          |         | 2000     |          |         |
|--------------------------------|----------|----------|---------|----------|----------|---------|
|                                | 1st half | 2nd half | Year    | 1st half | 2nd half | Year    |
| Trade balance - FOB            | - 638    | - 623    | -1 260  | 786      | -1 484   | - 698   |
| Exports                        | 22 451   | 25 560   | 48 011  | 26 153   | 28 933   | 55 086  |
| Imports                        | 23 089   | 26 183   | 49 272  | 25 367   | 30 416   | 55 783  |
| Services (net)                 | -12 877  | -12 951  | -25 829 | -12 906  | -12 801  | -25 706 |
| Interest                       | -7 750   | -7 487   | -15 237 | -7 681   | -7 407   | -15 088 |
| Other services <sup>1/</sup>   | -5 127   | -5 465   | -10 592 | -5 224   | -5 394   | -10 618 |
| Unrequited transfers           | 1 090    | 937      | 2 027   | 885      | 912      | 1 796   |
| Current transactions           | -12 425  | -12 637  | -25 062 | -11 235  | -13 373  | -24 608 |
| Capital                        | 1 898    | 12 267   | 14 165  | 13 659   | 16 555   | 30 215  |
| Investment (net) <sup>2/</sup> | 13 860   | 16 183   | 30 042  | 13 197   | 16 362   | 29 559  |
| Medium- and long-term          |          |          |         |          |          |         |
| financing                      | -6 731   | 1 875    | -4 856  | 3 381    | 4 422    | 7 803   |
| Disbursements                  | 21 575   | 22 689   | 44 264  | 17 856   | 24 637   | 42 494  |
| Financing                      | 8 206    | 7 741    | 15 948  | 6 578    | 4 717    | 11 295  |
| Foreign                        | 8 613    | 8 077    | 16 690  | 6 708    | 5 026    | 11 734  |
| Brazilian                      | - 406    | - 336    | - 742   | - 130    | - 309    | - 439   |
| Currency loans                 | 13 368   | 14 948   | 28 316  | 11 278   | 19 921   | 31 199  |
| Foreign commercial banks       | 1 220    | 1 515    | 2 735   | 1 985    | 3 997    | 5 982   |
| Others <sup>3/</sup>           | 12 149   | 13 433   | 25 581  | 9 293    | 15 924   | 25 217  |
| Amortizations                  | -28 306  | -20 814  | -49 120 | -14 475  | -20 215  | -34 690 |
| Paid                           | -27 113  | -17 811  | -44 924 | -13 770  | -14 399  | -28 169 |
| Refinancing                    | -1 193   | -3 003   | -4 196  | - 705    | -5 816   | -6 521  |
| Short-term capital             | -3 942   | -4 511   | -8 452  | -2 726   | -3 659   | -6 384  |
| Other capital                  | -1 288   | -1 280   | -2 569  | - 193    | - 570    | - 764   |
| Errors and omissions           | - 809    | 967      | 157     | 128      | 2 326    | 2 454   |
| Surplus (+) or deficit (-)     | -11 336  | 596      | -10 740 | 2 553    | 5 508    | 8 061   |
| Financing                      | 11 336   | - 596    | 10 740  | -2 553   | -5 508   | -8 061  |
| Assets (- = increase)          | 2 915    | 4 907    | 7 822   | 7 770    | -5 508   | 2 262   |
| Liabilities - IMF              | - 11     | 0        | - 11    | 0        | 0        | 0       |
| Short-term liabilities         | - 37     | 0        | - 37    | 0        | 0        | 0       |
| Arrears                        | 0        | 0        | 0       | 0        | 0        | 0       |
| Others                         | - 37     | 0        | - 37    | 0        | 0        | 0       |
| Exceptional financing          | 8 469    | -5 503   | 2 966   | -10 323  | 0        | -10 323 |

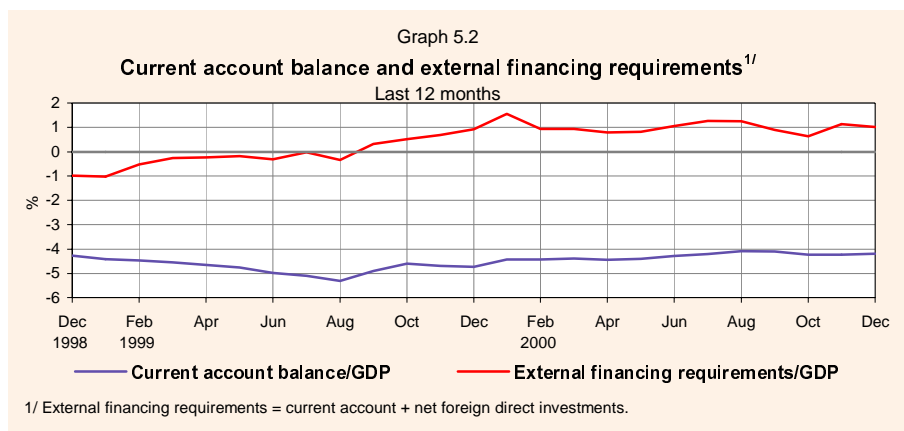
1/ Includes reinvested earnings.

2/ Includes reinvestments.

3/ Includes bonds, commercial paper, fixed/floating rate notes, securitization and intercompany loans.

In 1999, includes US\$3 billion in debt swaps (bonds).

based on US\$55.1 billion in exports, the highest foreign sales mark in history, and imports worth US\$55.8 billion. The final result was a deficit of US\$698 million in the year.

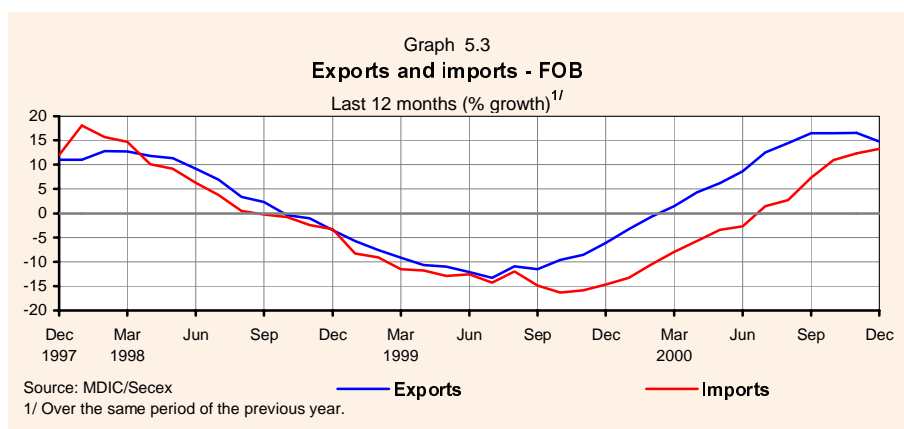


**Table 5.4 - Trade balance - FOB**

US\$ million

| Year     | Exports | Imports | Balance |
|----------|---------|---------|---------|
| 1999     | 48 011  | 49 272  | -1 260  |
| 2000     | 55 086  | 55 801  | - 715   |
| % change | 14.7    | 13.3    |         |

Source: MDIC/Secex



The trade balance result reflected growth in oil prices and expanded imports of raw materials and intermediate goods as a result of the high level of industrial growth in the year. Total imports increased by 13.2% with growth of 13% in volume and 0.3% in prices. However, even though the period ended with a deficit, the performance

of the export sector was significant, with growth of 11% in volume and 3.3% in prices, resulting in a 14.7% increase in value.

Exports benefited from intense growth in world trade, which registered the best result in a decade. The volume of world trade increased by 10% in 2000, compared to 5.1% in 1999 and 4.3% in 1998, according to data released by the OECD. One should note that the gain in competitiveness was achieved through modernization of the industrial structure and the opening of the economy to international competition in the 1990s.

Exchange devaluation also played an important role in increased foreign market competitiveness, as is evident in the results of export profitability indices in recent years and, particularly, in early 1999.



**Table 5.5 - Export price and quantum indices**

% change over the same period of the previous year

| Itemization            | 1999  |         | 2000  |         |
|------------------------|-------|---------|-------|---------|
|                        | Price | Quantum | Price | Quantum |
| Total                  | -12.8 | 7.7     | 3.3   | 11.0    |
| Primary products       | -16.1 | 8.7     | -2.1  | 8.5     |
| Semimanufactured goods | -15.8 | 16.8    | 14.4  | -6.9    |
| Manufactured goods     | -10.8 | 4.3     | 1.7   | 17.1    |

Source: Funcex

Insofar as imports are concerned, the steady rise in oil prices over the course of the year and particularly in the final six months was a factor of fundamental importance. One should note here that the outlook for oil prices at the start of the year pointed to stabilization more or less at the average between the maximum and minimum prices

determined by Opec (US\$28/barrel and US\$25/barrel) or, in the opinion of some observers, closer to the minimum level. However, the supply restrictions imposed by the Opec member countries coupled with increased demand for purposes of replenishing developing countries' stocks and, furthermore, the effects of the severe winter in the northern hemisphere and increased violence in the Middle East had the result of pressuring prices upward. The final result for Brent-type oil was a maximum of US\$37.73/barrel in September, an average price in the range of US\$30/barrel in the second half of the year and an annual average of approximately US\$28/barrel, or quite close to the Opec maximum.

The impact of the rise in petroleum prices on the trade balance can be evaluated through a comparison of growth in the overall trade balance result with the same balance less exports and imports of fuels and oils. In the first case, total exports expanded by 14.7% and imports grew by 13.2%, resulting in a reduction in the trade deficit from US\$1.3 billion in 1999 to US\$698 million in 2000. Once fuels and oils are excluded, exports expanded by 13.8% and imports by 8.3%, resulting in an increase in the trade surplus from US\$3.8 billion in 1999 to US\$6.7 billion in 2000. Viewed from a different angle, one notes that net outlays on acquisitions of fuels and oils at current prices came to US\$7.4 billion in 2000, a figure that drops to US\$5.2 billion at average 1997-1999 prices, a decline of approximately 30%.

**Table 5.6 - Exports and imports of petroleum and derivatives**

US\$ million

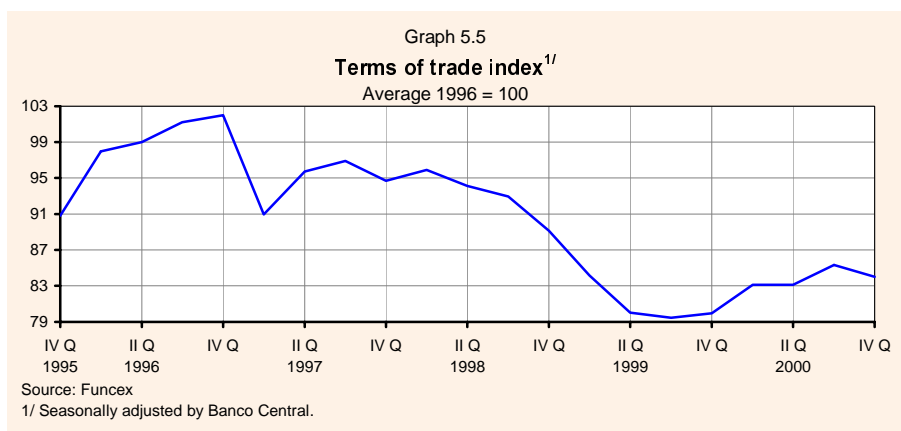
| Itemization | At current prices | Simulation     |                     |
|-------------|-------------------|----------------|---------------------|
|             |                   | At 1999 prices | At 1997-1999 prices |
| Exports     | 908               | 492            | 530                 |
| Imports     | 8 303             | 5 404          | 5 728               |
| Balance     | -7 394            | -4 912         | -5 198              |

Source: MDIC/Secex

Other factors of a structural nature that impacted foreign trade in 2000 were increased imports of raw materials and intermediate products and high utilization levels of installed output capacity in several important industries.

The increase in demand for raw materials and intermediate products was, to a great extent, a consequence of industrial growth in 2000 which, in turn, was stimulated by expanded foreign sales of manufactured goods of greater aggregate value, such as automobiles and aircraft. Thus, considering that these products utilize a high level of imported components, the result was a sharp upturn in the trade flow. Aside from these factors, other intermediate goods used by industries operating near maximum capacity, such as paper, cardboard, rubber and steel, also registered increased imports.

Thus, the trade balance, which had registered positive growth in the first six months of the year, though at a level below expectations, moved into a downward curve. The terms of trade, which had improved in the period between mid-1999 to the third quarter of 2000, reversed course in the final quarter as a result of both a slowdown in the process of recovery in export prices and a sharp rise in those of imported products, principally as a consequence of continued high petroleum prices.



Analysis of exports by aggregate factor indicated an increase of 11% in volume in 2000 due to growth in the volume of basic product exports (8.5%) and, principally, foreign sales of manufactured goods (17.1%). The quantity of semimanufactured products exported dropped by 6.9%. In terms of export prices, the 14.4% high registered under semimanufactured products and the 1.7% increase under the prices of manufactured goods neutralized the 2.1% reduction in the prices of basic product sales. With these results, export prices in general increased by 3.3%.

**Table 5.7 - Exports by aggregate factor - FOB**

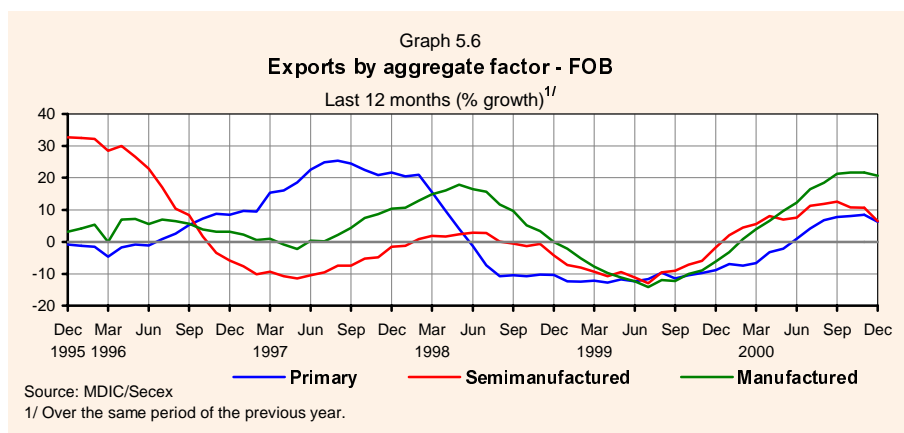
US\$ million

| Itemization            | 1996   | 1997   | 1998   | 1999   | 2000   |
|------------------------|--------|--------|--------|--------|--------|
| Total                  | 47 747 | 52 994 | 51 140 | 48 011 | 55 086 |
| Primary products       | 11 900 | 14 475 | 12 977 | 11 828 | 12 562 |
| Industrial products    | 35 025 | 37 676 | 37 507 | 35 312 | 41 027 |
| Semimanufactured goods | 8 615  | 8 480  | 8 120  | 7 982  | 8 499  |
| Manufactured goods     | 26 410 | 29 196 | 29 387 | 27 330 | 32 528 |
| Special transactions   | 822    | 844    | 656    | 872    | 1 497  |

Source: MDIC/Secex

Though based primarily on expanded volume in the sales of several major products, growth of 6.2% in exports of basic products, which came to an overall total of US\$12.6 billion in 2000, was also stimulated by a less accentuated falloff in the prices of these goods. This deceleration would have been even stronger were it not for the sharp decline in the prices of several types of exported meats. On the other hand, several important products registered highs, the most important being soy meal with an increase of 22.1%.

Foreign sales of iron ore came to US\$3 billion or 11% more than in 1999, due basically to 12.2% expansion in the volume of foreign sales. In the case of the mineral extraction industry, one should mention 20.2% growth in the exported volume of kaolin, generating revenues of US\$151 million, together with growth of 103% in the volume of manganese ore sales (US\$46.6 million). Exports of aluminum ore dropped by 7.7% in volume and 2.2% in revenues, closing at US\$113 million, partly as a consequence of increased internal demand.



Among farm products, soybean exports came to US\$2.2 billion, with growth of 29.2% in volume and 37.3% in prices. This growth was, to some extent, a consequence of initial operation of soybean processing units in China which has demanded a greater volume of imports by that country. At the same time, the greater demand for soybeans has resulted in a cutback of 10.1% in the volume of soy meal exported. However, reflecting the rise in the prices of this product, these sales earned US\$1.7 billion, for an increase of 9.8% over 1999. Foreign sales of unprocessed coffee beans registered a falloff of 8% in prices and 24% in volume, resulting in a revenue drop of 30.1% to a level of US\$1.7 billion. To some extent, the reduction in quantity was due to retention of 20% of the volume targeted to the foreign market, as required by the plan approved by producer countries in an effort to support international prices. The reduction in coffee prices was due to the high level of supply generated by increased output and exports from such countries as Vietnam, India and Mexico. Tobacco in leaf also registered a price decline in the period (8.1%), though the volume exported remained stable. The result was a revenue loss of 8%, dropping to US\$813 million.

**Table 5.8 - Exports - FOB - main primary products**

% change 2000/1999

| Products   | Value | Price <sup>1/</sup> | Weight <sup>2/</sup> |
|--|-------|---------------------|----------------------|
| Iron ore and concentrates                                | 11.0  | -1.1                | 12.2                 |
| Soybean including grinded                                | 37.3  | 6.3                 | 29.2                 |
| Oil-cake and other residues from soybeans                | 9.8   | 22.1                | -10.1                |
| Coffee, not roasted                                      | -30.1 | -8.0                | -24.0                |
| Tobacco, unmanufactured; tobacco refuse                  | -8.0  | -8.1                | 0.2                  |
| Meat and edible offal of chicken                         | -8.0  | -21.8               | 17.7                 |
| Meat of bovine animals                                   | 13.4  | -9.4                | 25.2                 |
| Cashew nuts  | 16.1  | -16.7               | 39.4                 |
| Meat of swine  | 41.8  | -7.8                | 53.8                 |
| Kaolin and other kaolinic clays                          | 23.0  | 2.3                 | 20.2                 |
| Aluminum ore and concentrates                            | -2.2  | 5.9                 | -7.7                 |
| Shrimp, frozen   | 161.3 | -4.9                | 174.8                |
| Meat and edible offal of turkey                          | 61.7  | -3.4                | 67.4                 |
| Pepper, neither crushed nor ground                       | -21.0 | -24.0               | 3.9                  |
| Fishes   | 63.3  | 10.1                | 48.3                 |
| Lobster; frozen  | 26.4  | 6.4                 | 18.7                 |
| Guts, bladders and stomachs of animals (other than fish) | -2.7  | -8.2                | 6.0                  |
| Manganese ore and concentrates                           | 77.9  | -12.2               | 102.6                |

Source: MDIC/Secex

1/ In US\$/kg.

2/ In kg.

Foreign market prices of the major types of exported meat moved downward. This was one of the most important factors responsible for the slow pace of recovery in the prices of basic products in 2000. However, the volume exported expanded considerably, resulting in growth of 13.4% in revenues on foreign sales of meat of bovine animals, which came to a total of US\$503 million, followed by an increase of 41.8% in sales of meat of swine (US\$163 million) and 61.7% in those of turkey (US\$73.6 million). The 17.7% increase in the volume of chicken meat sales was not sufficient to offset the 21.8% drop in prices. The final result of these figures was a reduction of 8% in value, which closed at US\$806 million.

One should further note that, among basic products, revenue growth on sales of seafood resulted mostly from volume increases and consolidated the segment's position among primary product exports. In this context, foreign sales of frozen shrimp expanded by 161% and closed at US\$105 million, while sales of frozen fish and lobster increased by 63.3% and 26.4%, respectively, closing with totals of US\$61.2 million and US\$50.7 million.

Foreign sales of semimanufactured goods came to US\$8.5 billion, for growth of 6.5% in the year with a decline of 6.9% in the volume of these operations and an increase

Graph 5.7  
**Quarterly price and quantum indices of Brazilian exports**

Average of 1996 = 100



Source: Funcex



of 14.4% under prices. The reduction in volume was mostly due to the peculiarities of the sugar and soybean oil markets and to growth in internal demand for various types of goods.

**Table 5.9 - Exports - FOB - main semimanufactured goods**

% change 2000/1999

| Products                                     | Value | Price <sup>1/</sup> | Weight <sup>2/</sup> |
|--|-------|---------------------|----------------------|
| Chemical wood pulp                           | 28.8  | 33.1                | -3.2                 |
| Iron or nonalloy steel semifinished products | 24.1  | 27.4                | -2.6                 |
| Aluminum, unwrought                          | 9.5   | 17.2                | -6.5                 |
| Cane sugar, raw                              | -34.5 | 18.0                | -44.5                |
| Hides and skins                              | 27.2  | 25.9                | 1.0                  |
| Wood, sawn or chipped lengthwise             | 4.5   | -8.5                | 14.1                 |
| Iron alloys                                  | 11.8  | -10.8               | 25.4                 |
| Pig iron and spiegeleisen                    | 38.4  | 10.1                | 25.7                 |
| Gold, nonmonetary in semimanufactured forms  | 7.9   | -                   | 6.5                  |
| Soybean oil, crude                           | -46.9 | -24.3               | -29.8                |
| Aluminum alloys, unwrought                   | 27.9  | 15.0                | 11.2                 |
| Synthetic rubber and artificial rubber       | 13.7  | 21.2                | -6.2                 |
| Nickel cathodes                              | 43.2  | 56.1                | -8.3                 |
| Cocoa butter, fat or oil                     | -2.4  | -29.1               | 37.8                 |
| Nickel mattes                                | 38.7  | 61.5                | -14.1                |
| Wood sheets                                  | -9.5  | 17.9                | -23.2                |
| Vegetable waxes                              | 3.5   | 16.4                | -11.0                |
| Tin, unwrought                               | 14.4  | -1.0                | 15.5                 |
| Zinc, unwrought                              | 0.4   | 8.3                 | -7.3                 |
| Copper cathodes                              | -21.8 | 23.0                | -36.5                |

Source: MDIC/Secex

1/ In US\$/kg.

2/ In kg.

Reduced exports of raw sugar reflected the severe drought that hit the central-west region of the country, which accounts for 90% of the nation's sugar production. The results in that region of the country generated a 20% cutback in the nation's overall output of sugarcane. Parallel to this factor, one should also cite internal market growth in sales of sugar and alcohol, since prices were more attractive than on the foreign market. The result of this preference was a 44.5% drop in the quantity of sugar shipped abroad. The world market showed sign of shortages, leading to a price increase of 18% which, albeit substantial, was still insufficient to avoid a 34.5% drop in revenues, which closed at US\$761 million. With regard to exports of crude soybean oil, the final total came to US\$300 million for a reduction of 46.9% in comparison to those of 1999 and was strongly impacted by both lesser demand in the Chinese market and a strong falloff in prices.

Other important semimanufactured products classified as intermediate goods registered sharp price growth and slight declines in the volume of exports. Foreign of chemical wood pulp (cellulose), the major semimanufactured product on the list of Brazilian exports, came to a total of US\$1.6 billion, representing growth of 28.8% in the year. Foreign sales of semimanufactured iron or nonalloy steel semifinished products expanded by 24.1% and closed at US\$1.4 billion, while those of unwrought aluminum increased by 9.5% to US\$946 million, and sales of synthetic or artificial rubber came to 13.7%, rising to a total of US\$114 million.

Exports of hides and skins registered increases in both quantity and prices and closed at US\$756 million, equivalent to growth of 27.2%. Exports of pig iron and *spiegeleisen* registered growth in both quantity and prices, closing with a final total of US\$446 million and 38.4% expansion in the year under analysis. Sales of unwrought aluminum alloys came to US\$236 million for growth of 27.9% and sales of gold in semimanufactured form ended the period at US\$375 million, for an increase of 7.9%.

One should note that, among the major semimanufactured products, those that registered the strongest price reductions and quantity increases were sawn wood and iron alloys, which closed with total sales of US\$520 million and US\$456 million, respectively. The volumes exported rose by 14.1% and 25.4% and prices declined by 8.5% and 10.8%, for revenue growth of 4.5% and 11.8%, in the same order.

Foreign sales of manufactured products represented 59% of total foreign sales, compared to 57% in 1999, with a final total of US\$32.5 billion. This total was 19% higher than in 1999, and reflected growth of 17.1% in volume exported and 1.7% in prices. The performance of this category, the component most responsible for export growth in the year, was a consequence of international economic expansion and improvement in the nation's competitive position as a result of the January 1999 exchange devaluation and an ongoing process of technological modernization at the company level.

One of the fundamental differences between exports of basic and semimanufactured goods and those involving manufactured products is that the first two sectors are highly concentrated in relatively few products. In each of these sectors, just ten products account for about 88% of overall exports, while sales of manufactured goods are marked by a significantly higher degree of dispersion: the ten major manufactured goods account for just 42% of overall value, while such nontraditional products, such as aircraft and computers, are playing an increasingly important role in this area.

Foreign market sales of airplanes increased by 72.4% and closed at US\$3.1 billion and are now the leading Brazilian export product. One should underscore the fact that this was achieved despite the alterations introduced into Proex as a consequence

**Table 5.10 - Exports - FOB - main manufactured goods**

% change 2000/1999

| Products   | Value | Price <sup>1/</sup> | Weight <sup>2/</sup> |
|--|-------|---------------------|----------------------|
| Airplanes  | 72.4  | 10.6                | 55.9                 |
| Passenger motor vehicles                                       | 55.3  | 6.0                 | 46.6                 |
| Transmission and reception apparatus, and components           | 115.2 | 47.6                | 45.8                 |
| Footwear, parts and components                                 | 20.5  | 0.7                 | 19.6                 |
| Parts and accessories for moto cars and tractors               | -1.9  | -3.1                | 1.3                  |
| Passenger motor vehicles engines and parts thereof             | 2.0   | -0.6                | 2.7                  |
| Orange juice   | -17.5 | -21.3               | 4.8                  |
| Iron or nonalloy steel flat-rolled products                    | 7.9   | 23.0                | -12.3                |
| Pumps, compressors, fans and others                            | 6.8   | -5.7                | 13.3                 |
| Motor vehicles for the transport of goods                      | 11.2  | -7.4                | 20.1                 |
| Pneumatic rubber tires   | 2.7   | -6.9                | 10.2                 |
| Paper and paperboard used for writing, printing etc.           | -3.5  | 17.3                | -17.7                |
| Furniture and parts thereof, except for medical-surgical use   | 27.0  | -4.5                | 32.9                 |
| Polymer of ethylene, propylene and styrene                     | 48.0  | 15.4                | 28.3                 |
| Cane sugar, refined  | -41.5 | 15.8                | -49.5                |
| Gasoline   | 113.2 | 63.6                | 30.4                 |
| Electric motors, generators and transformers; parts thereof    | 21.2  | -6.2                | 29.2                 |
| Hydrocarbons and their halogenated, derivatives                | 43.5  | 53.1                | -6.3                 |
| Plywood and similar laminated wood                             | 8.3   | -12.0               | 23.0                 |
| Chassis fitted with engines and bodies for motor vehicles      | 69.2  | 2.8                 | 64.6                 |
| Automatic data processing machines and devices thereof         | 7.8   | -30.2               | 54.5                 |
| Gears and gearing; ball screws; gear boxes, etc; parts thereof | 19.2  | 3.3                 | 15.4                 |
| Civil engineering and contractors' plant and equipment         | -3.6  | -4.5                | 0.9                  |
| Fuel oils  | 54.4  | 104.5               | -24.5                |
| Prepared meals of the meat of bovine animals                   | -20.8 | -11.5               | -10.6                |
| Aluminum and aluminum alloys, worked                           | 51.1  | 7.4                 | 40.8                 |
| Iron and steel bars and rods                                   | 4.5   | 5.2                 | -0.7                 |
| Aluminum oxide and aluminum hydroxide                          | 29.2  | 12.2                | 15.1                 |
| Nitrogen-function compounds                                    | 0.7   | -6.7                | 8.0                  |
| Linens for the bed, table, toilet and kitchen                  | 10.7  | -11.0               | 24.5                 |
| Instant coffee   | -4.5  | -7.8                | 3.6                  |

Source: MDIC/Secex

1/ In US\$/kg.

2/ In kg.

of WTO arbitration of the dispute between Embraer, the Brazilian aircraft manufacturer and exporter, and Bombardier of Canada, the major international competitor of the Brazilian corporation. In this regard, Banco Central issued Resolution 2,667, dated 11.19.1999, effectively revising the Proex system in the area of interest rate equalization. With this alteration, Banco Central defined the United States Treasury ten year bond rate plus a spread of 0.2% per year as the reference rate to be used in equalizing interest in aircraft export financing operations. Circular Letter 2,881 was issued on the same date and reduced the equalization limits applicable to all of

the different financing maturities. In April 2000, a report delivered by the WTO to the two countries classified the Proex international reference rate below market rates. As a result, Banco Central issued Resolution 2,799, dated 12.6.2000, designating the CIRR, the minimum reference rate for commercial interest applied by the OECD, to be used as the interest equalization rate. This measure did not apply to contracts involving 671 units to be delivered by 2010 since these contracts were formalized prior to November 1999. This measure attenuated the possible negative impacts of these adjustments on exports in 2000.

Foreign sales of other goods related to the transportation industry also turned in strong growth in the year, particularly in volume terms. Exports of passenger cars benefited from sectoral agreements with Mercosul member countries and Mexico and rose by 55.3% to a level of US\$1.8 billion. Approximately 54% of foreign sales of passenger cars are channeled to Mercosul, principally Argentina, and Mexico, the largest importer of Brazilian automobiles in 2000. Newly inaugurated assembly plants raised the participation of passenger cars in total exports from eleventh position to number four in the ranking of the nation's major export items, generating revenues that surpassed those of such traditional products as soy meal, footwear and coffee. The number of cargo vehicles exported also increased in the period, though prices did decline. The final result under this heading was an increase of 11.2% in revenues, which came to US\$696 million. Exports of chassis fitted with engines already mounted and automobile bodies increased by 69.2% and closed at US\$365 million.

Though they turned in a less favorable performance, exports of automotive industry components have assumed an important position in the wake of rising vehicle sales. In this context, foreign sales of parts and accessories for moto cars and tractors registered a decline of 1.9% to US\$1.2 billion, principally due to declining prices. One should note that sales of passenger moto vehicles engines and parts thereof increased by 2% and closed at US\$1.1 billion. Sales of pneumatic rubber tires came to a total of US\$525 million, for an increase of 2.7% in the year.

Exports of transmission and reception apparatus and components expanded by 115% and closed at US\$1.6 billion. This result was based on 45.8% growth in volume and 47.6% in prices. For the most part, the expansion registered in this segment was generated by the dissemination of cell telephone services both in terms of domestic consumption and reexport operations.

Among products with greater aggregate value, foreign sales in the segments of pumps, compressors, fans and others, as well as electric motors, generators and transformers, and parts thereof, all of which are items traditionally exported by the country, came to levels of US\$725 million and US\$377 million for growth figures of 6.8% and 21.2%, respectively.

Among manufactured goods of lesser aggregate value, one should emphasize foreign sales of footwear, which totaled US\$1.6 billion, for expansion of 20.5%; rolled iron or steel, with US\$859 million, and growth of 7.9%, principally as a consequence of price increases; paper and paperboard, with growth of US\$518 million, a reduction of 3.5%, principally as a result of a cutbacks in quantity; furniture, with a total of US\$488 million, or 27% more than in 1999; and polymers, with a total of US\$447 million and expansion of 48% in the year.

The major manufactured products derived from simple transformation of crop/livestock goods in general registered a price decline, following the trend of crop/livestock commodities. Exports of frozen orange juice came to US\$1 billion or 17.5% less than in 1999; sales of refined sugar closed with US\$438 million, reflecting a reduction of 41.5%, despite a 15.8% increase in prices; prepared meals of the meat of bovine animals ended the period at US\$252 million, for a reduction of 20.8%; and instant coffee sales ended at US\$202 million, a cutback of 4.5% in the year.

One should also emphasize special operations which added up to US\$1.5 billion, with growth of 71.6% in comparison to 1999. For the most part, this was due to reexports of aircraft in the amount of US\$371 million when their lease contracts expired in 2000, and the effect of petroleum price increases on the supply of fuels to ships and aircraft, resulting in an increase of 33.7% in on-board consumption, which closed at US\$1 billion.

With respect to major markets for Brazilian goods, exports increased to the Latin American Integration Association (Laia), particularly in the cases of basic products (16.5%) and manufactured goods (23.4%), while sales of semimanufactured goods expanded by 3.7%. The strongest increase occurred under sales to countries outside Mercosul, particularly Mexico, Chile and Venezuela. In the case of Mexico, this growth was due to the automotive sector agreement formalized on 5.29.2000. According to the terms of this instrument, foreign sales of passenger cars, engines for automotive vehicles, auto parts, cargo vehicles and chassis/engine combinations and automobile bodies, which accounted for 37% of exports to Mexico in 1999, raised their participation to a level of 52% in 2000, with growth of 124% in revenues, totaling US\$889 million. In overall terms, exports to Mexico added up to US\$1.7 billion, 60.2% more than in 1999. In the case of Chile, total foreign sales increased by 39.1% and came to a level of US\$1.2 billion. Though with lesser concentration than occurred in operations with Mexico, the major products here were also passenger vehicles, cargo vehicles and chassis/engine combinations and automobile bodies, which produced overall revenues of US\$222 million or 17.8% of the total, compared to 13.8% in 1999.

Insofar as the Mercosul countries are concerned, foreign sales of manufactured goods added up to US\$7.1 billion, with growth of 15.7%, while exports of basic

products ended at US\$453 million, for growth of 4% and those involving semimanufactured products dropped by 6.5% to a level of US\$193 million. A breakdown according to export markets indicates that Argentina acquired goods worth US\$6.2 billion, for growth of 16.2% in the year. Products turned out by the automotive sector, such as passenger cars, auto parts, cargo vehicles and engines for automotive vehicles registered a reduction in participation in sales to Argentina from 21.7% in 1999 to 18.9% in 2000, adding up to a total of US\$1.2 billion. Despite this result, one should note that sales of passenger cars increased by 23.6% to a level of US\$422 million. One should also emphasize that sales of transmission and reception apparatus totaled US\$531 million and growth of 203%, accounting for 69.7% of the total. For the most part, these operations involved sales of cell telephones, which accounted for a full 69.7% of the item. Sales of computers ended at US\$192 million, for growth of 25.1%.

Paraguay increased its acquisitions of Brazilian products by 11.8% to a total of US\$832 million. The overall listing of exports to that country was quite varied as the ten major items accounted for approximately one fourth of the total exported. Here, one should stress sales of tires, pesticides and agricultural equipment, footwear, beverages and products turned out by the paper and home appliance industries. Exports to Uruguay dropped slightly (0.2%) and closed at US\$669 million. These sales were also quite diversified, as the ten major products accounted for 26.9% of the total. The most significant items were furniture, polymers, maté, passenger cars, cargo vehicles, auto parts, footwear and home appliances.

Exports to the United States, including Puerto Rico, came to a total of US\$13.4 billion, for growth of 23.2%, ratifying the position of that country as the major market for Brazilian goods. Sales of manufactured products ended at US\$9.7 billion for growth of 27.2% in relation to 1999, accounting for 72.7% of total sales to the USA. Here, one should mention operations involving aircraft, with sales of US\$1.7 billion and growth of 46.7%, accounting for more than half of aircraft sale during the course of the year; footwear, with US\$1.1 billion and growth of 22.9%, reflecting a full 67% of exports of these goods; transmission/reception equipment, with a total of US\$662 million and growth of 87.7%, a segment in which cell telephones accounted for approximately 35%. Foreign sales of semimanufactured products came to a total of US\$2.4 billion for growth of 17.2%, of which US\$548 million were concentrated in iron or steel semimanufactured products, with growth of 6.5%. These operations were followed by sales of cellulose, with a total of US\$428 million and growth of 30.8%, and pig iron and *spiegeleisen*, with a total of US\$364 million and growth of 44.6%. Foreign sales of basic products dropped by 13.7%, coming to a total of US\$937 million, principally as a result of a reduction of 53.5% in exports of unprocessed coffee beans, which dropped to US\$218 million and reduced their participation in total sales of basic goods to the USA from 43.2% in 1999 to 23.3% in 2000. Exports of tobacco in leaf dropped by 7.8%, adding up to US\$121 million.

**Table 5.11 - Exports by aggregate factor and by regions - FOB**

US\$ million

| Product              | 1999   |        | 2000                    |           |       |
|----------------------|--------|--------|-------------------------|-----------|-------|
|                      | Value  | Value  | Change from<br>1999 (%) | Share (%) |       |
|                      |        |        |                         | Total     | Blocs |
| Total                | 48 011 | 55 086 | 14.7                    | 100.0     | -     |
| Basic                | 11 828 | 12 562 | 6.2                     | 22.8      | -     |
| Semimanufactured     | 7 982  | 8 499  | 6.5                     | 15.4      | -     |
| Manufactured         | 27 330 | 32 528 | 19.0                    | 59.1      | -     |
| Special transactions | 872    | 1 497  | 71.6                    | 2.7       | -     |
| Laia                 | 10 560 | 12 902 | 22.2                    | 23.4      | 100.0 |
| Basic                | 665    | 775    | 16.5                    | 1.4       | 6.0   |
| Semimanufactured     | 354    | 367    | 3.7                     | 0.7       | 2.8   |
| Manufactured         | 9 501  | 11 726 | 23.4                    | 21.3      | 90.9  |
| Special transactions | 40     | 34     | -15.3                   | 0.1       | 0.3   |
| Mercosul             | 6 778  | 7 733  | 14.1                    | 14.0      | 100.0 |
| Basic                | 435    | 453    | 4.0                     | 0.8       | 5.9   |
| Semimanufactured     | 206    | 193    | -6.5                    | 0.4       | 2.5   |
| Manufactured         | 6 106  | 7 066  | 15.7                    | 12.8      | 91.4  |
| Special transactions | 31     | 22     | -28.6                   | 0.0       | 0.3   |
| USA                  | 10 849 | 13 366 | 23.2                    | 24.3      | 100.0 |
| Basic                | 1 086  | 937    | -13.7                   | 1.7       | 7.0   |
| Semimanufactured     | 2 088  | 2 447  | 17.2                    | 4.4       | 18.3  |
| Manufactured         | 7 635  | 9 714  | 27.2                    | 17.6      | 72.7  |
| Special transactions | 41     | 268    | 559.3                   | 0.5       | 2.0   |
| European Union       | 13 736 | 14 784 | 7.6                     | 26.8      | 100.0 |
| Basic                | 6 112  | 6 277  | 2.7                     | 11.4      | 42.5  |
| Semimanufactured     | 1 986  | 2 552  | 28.5                    | 4.6       | 17.3  |
| Manufactured         | 5 580  | 5 897  | 5.7                     | 10.7      | 39.9  |
| Special transactions | 59     | 58     | -1.2                    | 0.1       | 0.4   |
| Asia                 | 5 732  | 6 324  | 10.3                    | 11.5      | 100.0 |
| Basic                | 2 313  | 2 681  | 15.9                    | 4.9       | 42.4  |
| Semimanufactured     | 1 915  | 1 892  | -1.2                    | 3.4       | 29.9  |
| Manufactured         | 1 497  | 1 581  | 5.6                     | 2.9       | 25.0  |
| Special transactions | 7      | 170    | 2511.5                  | 0.3       | 2.7   |
| Others               | 7 134  | 7 710  | 8.1                     | 14.0      | 100.0 |
| Basic                | 1 652  | 1 892  | 14.5                    | 3.4       | 24.5  |
| Semimanufactured     | 1 639  | 1 242  | -24.2                   | 2.3       | 16.1  |
| Manufactured         | 3 117  | 3 610  | 15.8                    | 6.6       | 46.8  |
| Special transactions | 726    | 967    | 33.1                    | 1.8       | 12.5  |

Source: MDIC/Secex

The European Union (EU) acquired US\$14.8 billion in Brazilian products or 7.6% more than in the preceding year. The European bloc was the major buyer of Brazilian primary and semimanufactured goods, absorbing 50% and 30% of total Brazilian sales under these two headings. The performance registered under sales of basic goods in the period was no more than modest, however, with an increase of just 2.7% and a drop in the level of overall participation from 51.7% in 1999 to 50% in 2000, while the participation of semimanufactured goods increased from 24.9% to 30% in the same period, registering growth of 28.5% in relation to 2000. Purchases of manufactured products by the bloc expanded by 5.7% in the year, but declined in overall participation from 20.4% in 1999 to 18.1% in 2000, closing with a total of US\$5.9 billion.

Of total sales to the European bloc, the Netherlands accounted for the highest percentage with 18.9%, with purchase totaling US\$2.8 billion and growth of 7.8% in the year. Foreign sales of soybeans and soy meal added up to respective levels of US\$657 million and US\$411 million, with growth of 20.8% and 8.7%, respectively. This result was followed by frozen orange juice, with US\$348 million and a reduction of 19.6%, unwrought aluminum, with a total of US\$238 million and growth of 123%. Taken together, these items accounted for 59% of exports channeled to that country.

Germany was the second largest market in the European bloc, with US\$2.5 billion and a reduction of 0.7% in relation to 1999. Among the major export products, the most important registered under basic goods were iron ore, with a total of US\$429 million and growth of 21.7%; unprocessed coffee beans, with US\$268 million, making Germany the largest importer of this product, despite a drop of 39.9%; soybeans, with US\$201 million and expansion of 29.4%; and tobacco in leaf, with a total of US\$117 million, for a decline of 18.9%. Among semimanufactured products, one should mention sales of cellulose, with US\$83.5 million and growth of 23.7% while, in the case of manufactured products, the leading product was that of automobile engines with a total of US\$144 million and growth of 14.4% when compared to 1999.

Exports to Italy came to US\$2.1 billion for growth of 16.3% in the year. A breakdown of basic goods shows that the most important items were iron ore (US\$240 million), unprocessed coffee beans (US\$174 million) and soybeans (US\$85 million) which, taken together, represented 23.2% of the total targeted to the country. The most important items were hides and skins with US\$305 million and cellulose with US\$127 million, reflecting participation of 20.1% of the total. Among manufactured products, the most important were products generated by the transportation industry, particularly passenger cars, with US\$192 million, cargo vehicles, US\$145 million, and aircraft, US\$108 million, representing an overall participation level of 20.7%.

Exports to Belgium-Luxembourg came to US\$1.9 billion, for growth of 2.7%, with particularly strong performances under orange juice (US\$314 million) and cellulose



(US\$292 million). Foreign sales to France added up to US\$1.7 billion for growth of 44.3%, the highest rate of expansion among all European bloc countries. The two major items here were soy meal with US\$413 million and aircraft with US\$369 million. Sales to the United Kingdom came to US\$1.5 billion or 4.3% more than in 1999, principally involving aircraft (US\$217 million), footwear (US\$111 million) and cellulose (US\$109 million).

Exports to Asia, including operations with Indonesia, came to a total of US\$6.3 billion, reflecting 11.9% of the total and growth of 10.3% in the year. The region acquired basic products totaling US\$2.7 billion, for growth of 15.9%, and semimanufactured products worth US\$1.9 billion, for a reduction of 1.2% in the year. Exports of manufactured products totaled US\$1.6 billion for an increase of 5.6% in the year under analysis.

The major market for Brazilian products in the region was Japan, with 39.1% of the total or US\$2.5 billion. Of this amount, which was 12.8% greater than in 1999, the most important basic products were iron ore, with US\$456 million and growth of 7.6%; unprocessed coffee beans, with US\$154 million and a reduction of 16%, chicken meat with a total of US\$119 million and a cutback of 24.3%; and soybeans, with US\$103 million and growth of 60.1%, in comparison to 1999. Of total exports to Japan, these products accounted for 33.6%. The major semimanufactured products were unwrought aluminum, with US\$358 million and growth of 0.2% in comparison to 1999; cellulose with US\$197 million, for growth of 24.8%; and iron-alloys, with a total of US\$110 million, for a reduction of 5.1%. Taken together, these products accounted for 26.9% of total sales to the Japanese market. Among manufactured goods, foreign sales of orange juice came to US\$70 million, while sales of transmission and reception apparatus totaled US\$56 million, of which 76.8% referred to components for these apparatus.

Foreign sales to China increased by 60.5%, particularly as a result of the 203% increase in sales of soybeans, which came to a total of US\$337 million, accounting for approximately one third of total sales to that country. This growth was due to initial operation of soybean crushing industries in China, a fact that resulted in a cutback in Chinese imports of soy meal and oil. Exports of iron ore added up to US\$271 million, for growth of 12.4% and, coupled with sales of soybeans, accounted for 56.1% of total sales to that country. One should further note sales of cellulose, with US\$54 million, tobacco in leaf, with US\$50 million, and aircraft, with US\$37 million.

Insofar as imports are concerned, a breakdown by categories of usage and final destination demonstrates that the 13% growth registered in the volume of imports was fundamentally due to growth in foreign purchases of raw materials and intermediate goods, which registered a volume increase of 24.5%. In contrast to this

performance, imports under capital goods, consumer durables and nondurables registered only moderate expansion of 3.1%, 5.5% and 1%, respectively, despite the fact that these headings turned in sharp reductions in 1999. Downward movement in the volume of fuels and lubricants imported continued as these operations closed with a reduction of 8.4% due to growth in domestic output which has gradually been supplanting the imported product.

Insofar as prices are concerned, fuels and lubricants turned in growth of 73.4%, demonstrating the strong growth that occurred in 2000 under petroleum prices. Among the price declines that occurred under other categories, one should underscore the performances of nondurable consumer goods, with a drop of 10.6%, followed by capital goods (7.1%), raw materials and intermediate products (6.4%) and consumer durables (5.3%). When one considers overall imports, the variation in prices came to 0.2%.

**Table 5.12 - Import price and quantum indices**

% change over the same period of the previous year

| Itemization               | 1999  |         | 2000  |         |
|---------------------------|-------|---------|-------|---------|
|                           | Price | Quantum | Price | Quantum |
| Total                     | 0.5   | -15.0   | 0.2   | 13.0    |
| Capital goods             | 1.2   | -20.0   | -7.1  | 3.1     |
| Intermediate goods        | -1.6  | -8.4    | -6.4  | 24.5    |
| Durable consumer goods    | -2.3  | -49.7   | -5.3  | 5.5     |
| Nondurable consumer goods | -4.6  | -22.6   | -10.6 | 1.0     |
| Fuels and lubricants      | 20.6  | -7.5    | 73.4  | -8.4    |

Source: Funcex

**Table 5.13 - Imports - FOB**

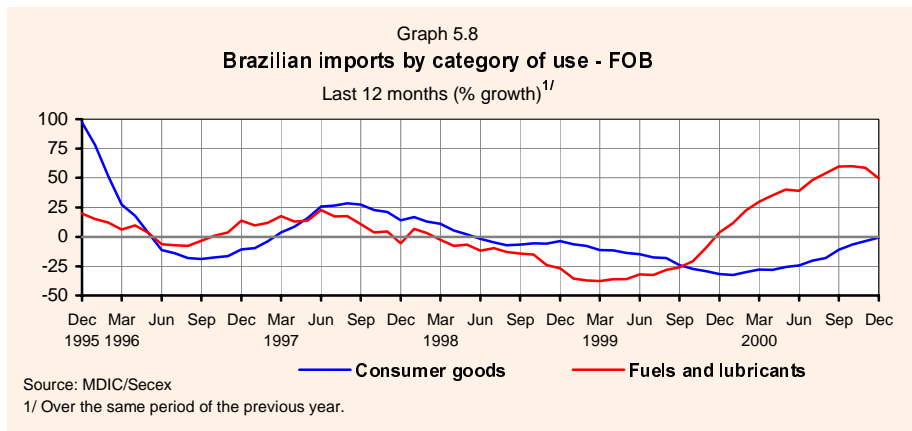
US\$ million

| Itemization          | 1996   | 1997   | 1998   | 1999   | 2000   |
|----------------------|--------|--------|--------|--------|--------|
| Total                | 53 346 | 59 742 | 57 743 | 49 272 | 55 783 |
| Capital goods        | 12 918 | 16 106 | 16 102 | 13 568 | 13 591 |
| Raw materials        | 24 742 | 26 903 | 26 812 | 24 101 | 28 524 |
| Consumer goods       | 9 758  | 11 137 | 10 723 | 7 345  | 7 307  |
| Durable              | 4 586  | 5 652  | 5 253  | 3 171  | 3 375  |
| Nondurable           | 5 172  | 5 486  | 5 470  | 4 174  | 3 932  |
| Fuels and lubricants | 5 929  | 5 597  | 4 106  | 4 258  | 6 362  |

Source: MDIC/Secex

The value of consumer and capital goods imports registered relatively little variation in relation to the 1999 result, a year in which value had dropped below average as a consequence of exchange devaluation. In this context, imports of consumer goods came to US\$7.3 billion, for a reduction of 0.5% in relation to 1999 and 30.7% when compared to the average for the period from 1996 to 1998, while foreign market purchases of capital goods came to US\$13.6 billion, for growth of 0.2% and a reduction of 9.6%, utilizing the same bases of comparison. Imports of raw materials and intermediate products, on the other hand, increased by 18.4% in relation to 1999, and closed at a level of US\$28.5 billion, mirroring growth of 9.1% when compared to the 1996-1998 average.

Among consumer products, imports of nondurables totaled US\$3.9 billion for a reduction of 5.8% in the year. However, purchases of consumer durables registered growth of 6.4% and a total of US\$3.4 billion. These products are more sensitive to exchange variations due to the fact that it is more difficult to substitute these goods. Imports of consumer durables in 1999 declined by 38.6% in relation to the 1996-1998 average, while foreign purchases of nondurables dropped by 22.4%.



Among nondurable products, the most important were imports of foodstuffs, principally dairy products, which came to a level of US\$1.5 billion, for a decline of 9% in the year, followed by purchases of pharmaceutical goods, with US\$1.1 billion and a decline of 5.5% of which medicines administered in doses accounted for a full 81.5%. Among consumer durables, imports of passenger motor vehicles closed at US\$1.2 billion or 0.2% less than in 1999. This performance was generated basically by the fact that Brazil had formalized bilateral agreements with such countries as Argentina, the point of origin of 49.4% of the automobiles imported by the country in 2000, and Mexico, which moved from a total of US\$3 million in 1999 to US\$17.2 million in 2000. Parallel to these results, imports of items for personal use or adornment totaled US\$696 million, while purchases of machines and appliances for household use came to US\$550 million, with growth of 29.8% due mostly to imports

of cell telephone apparatuses and components, and parts and spares for durable consumer goods, with US\$503 million.

Imports of capital goods have followed a gradual upward trend in recent months, mostly as a result of the combination of enhanced internal economic stability and solidly based exchange rules. The volume of imports of capital goods decreased in

**Table 5.14 - Imports - FOB - main products**

% change 2000/1999

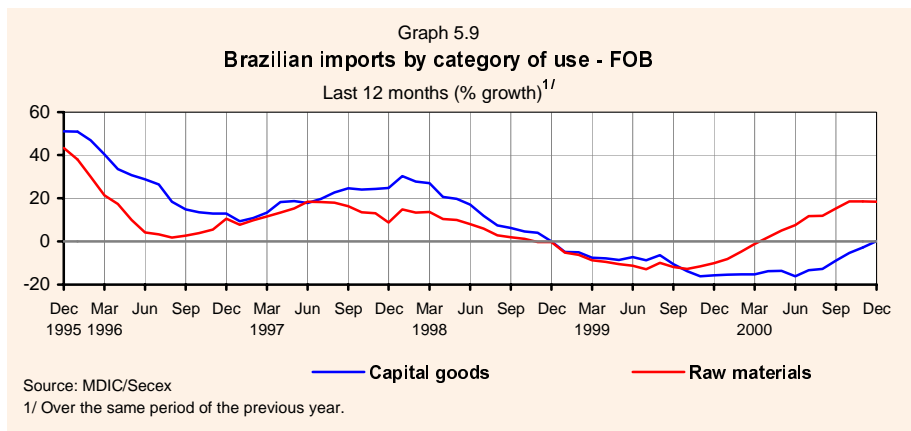
| Products   | Value | Price <sup>1/</sup> | Weight <sup>2/</sup> |
|--|-------|---------------------|----------------------|
| <b>Capital goods</b>   |       |                     |                      |
| Industrial machinery   | -18.7 | 15.4                | -29.5                |
| Other fixed equipments   | 14.5  | -3.4                | 18.5                 |
| Machines and apparatuses for office and scientific destination | 15.4  | -1.0                | 16.6                 |
| Capital good parts and components                              | 11.2  | -11.9               | 26.2                 |
| Transportation movable equipment                               | -4.6  | -5.9                | 1.4                  |
| Industrial machinery accessories                               | 12.3  | -3.0                | 15.8                 |
| <b>Intermediate products and raw material</b>                  |       |                     |                      |
| Chemical and pharmaceutical products                           | 8.2   | -11.9               | 22.8                 |
| Mineral products   | 32.2  | 24.4                | 6.3                  |
| Intermediate products - parts                                  | 43.2  | -7.2                | 54.3                 |
| Accessories for transport equipment                            | 10.0  | -10.5               | 22.9                 |
| Inedible farm products   | 13.4  | -1.9                | 15.6                 |
| Foodstuffs   | -5.6  | -9.7                | 4.5                  |
| <b>Nondurable consumer goods</b>                               |       |                     |                      |
| Foodstuffs   | -9.0  | 7.9                 | -15.7                |
| Pharmaceutical products  | -5.5  | -13.0               | 8.6                  |
| Other nondurable consumer goods                                | 0.3   | -3.1                | 3.5                  |
| Perfumery, cosmetics, or toilet preparations                   | 4.9   | 2.1                 | 2.7                  |
| Apparel and other textiles clothing                            | -14.9 | -2.1                | -13.0                |
| Tobacco and beverage   | -6.9  | -21.3               | 18.3                 |
| <b>Durable consumer goods</b>                                  |       |                     |                      |
| Passenger motor vehicles                                       | -0.2  | -5.9                | 6.0                  |
| Articles for personal use or adornment                         | 6.3   | 0.6                 | 5.6                  |
| Machines and appliances for household use                      | 29.8  | -3.4                | 34.5                 |
| Durable consumer goods parts                                   | -0.5  | -10.6               | 11.3                 |
| Furniture and other household equipment                        | 12.6  | 6.3                 | 5.9                  |
| Household articles   | 12.3  | 0.5                 | 11.7                 |
| <b>Fuels and lubricants</b>                                    |       |                     |                      |
| Fuels  | 49.8  | 51.6                | -1.2                 |
| Lubricants   | 29.3  | -4.1                | 34.8                 |

Source: MDIC/Secex

1/ In US\$/kg.

2/ In kg.

1998 as a result of uncertainties surrounding economic performance in the wake of the 1997 Asian crisis and the additional 3% charge on Mercosul TEC rates in the same year. However, signs of an increase became evident in the second half of 2000. Consequently, the quantum index for capital goods imports expanded from 47.6 in 1994 to 125.1 in 1997, for an average increase of 34.5% per year in the period according to the Foreign Trade Study Center Foundation (Funcex) calculations. In 1998, the quantum index dropped back to 121.5 and in 1999 slipped to 97.2. In 2000, the index turned upward once more and moved from an average of 89.3 in the first quarter to 109.7 in the final quarter of the year, for growth of 22.8%. Part of this growth can be attributed to the behavior of prices. In this case, the 1994 average index of 111.4 dropped in the period between 1995 and 1999 to a level between 101.4 and 99.5 and stabilized at that point, before declining to 93.9 in 2000.

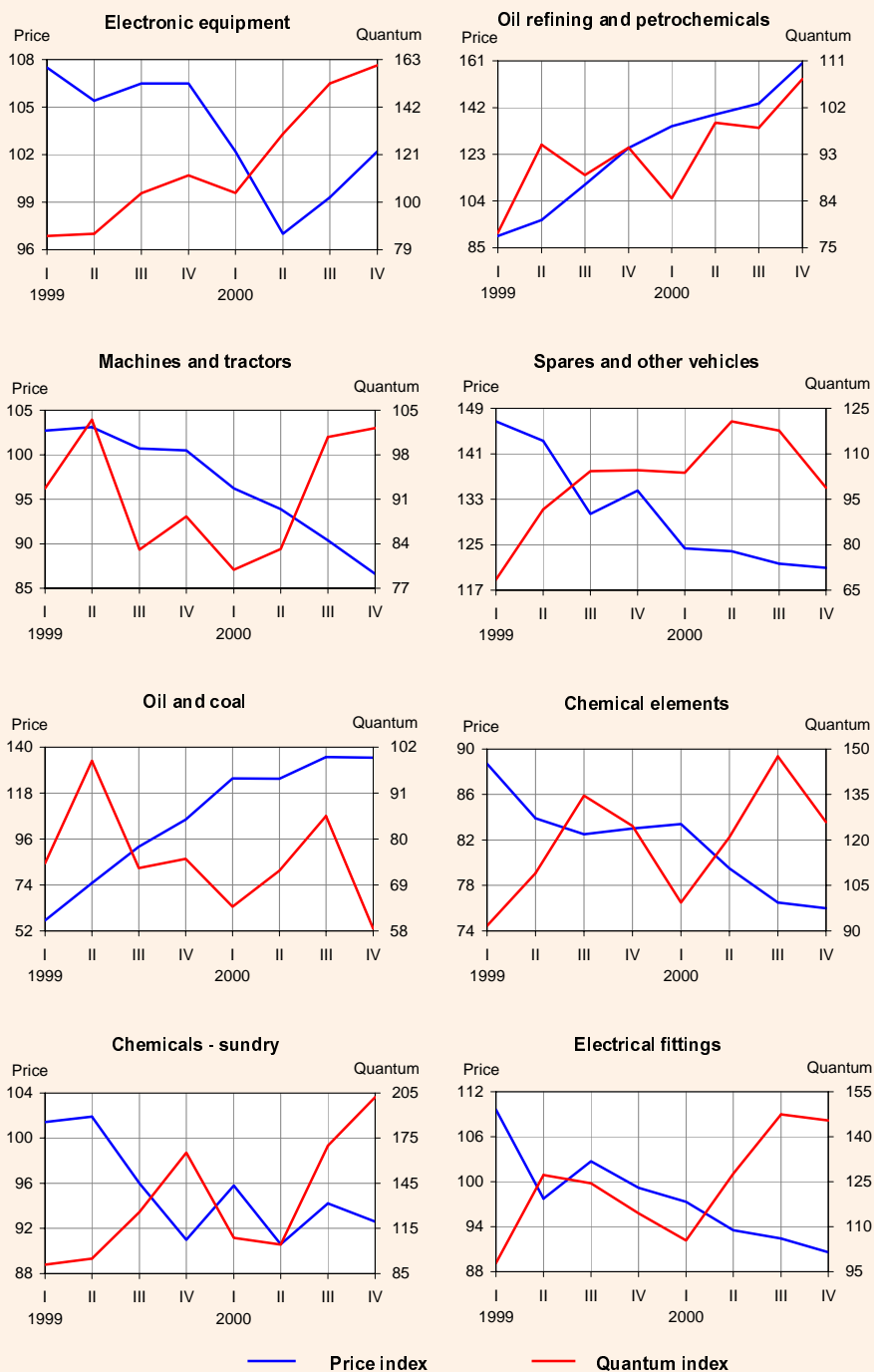


In value terms, the most significant growth in the segment's imports occurred under other capital goods, composed mostly of such other fixed equipments as electric apparatuses and telephone transmitters, with a high of 14.5% and a total of US\$2.9 billion; apparatuses for office and scientific destination, with an increase of 15.4% and a total balance of US\$2.5 billion, of which 40.7% refer to computers; and parts and components for industrial capital goods, which registered growth of 11.1% and a balance of US\$1.6 billion, concentrated also in electric apparatuses for use in telephone systems (28.9%).

Consequently, the recovery in acquisitions of capital goods in 2000 was mostly concentrated in the sector of telephone communications which, in turn, gained considerably greater momentum as a result of privatizations and the technological advances being implemented in the nation's cell telephone services.

Imports of industrial machinery, the major item among the nation's capital goods imports, dropped by 18.7% to a level of US\$3.9 billion. This heading, taken together with imports of transportation movable equipment, which registered a drop of 4.6%

Graph 5.10  
**Quarterly price and quantum indices of Brazilian imports**  
 Average of 1996 = 100



Source: Funcex

to a level of US\$1.3 billion, offset growth in imports of equipment in the areas of telephone communications and informatics. However, one should highlight the fact that purchases of industrial machinery toward the end of the year had begun registering strong marginal growth and were clearly moving toward recovery of the high levels that had marked 1997.

Imports of raw materials and intermediate products were influenced by growth in the manufacturing industry, particularly in such areas as aircraft, automobiles and home appliances and other sectors oriented to the export market. Here, one should underline the importance of imports of parts and spares classified under intermediate products, such as integrated circuits and microelectronic devices, with growth of 43.2% and a total of US\$4.9 billion; mineral products, mostly including naphthas, with an increase of 32.2% and a total of US\$4.9 billion; accessories for transportation equipment, principally parts and accessories for automotive vehicles and aircraft, which came to US\$4 billion with growth of 10%; fertilizers and other raw materials for the farm sector, which tend to keep pace with growth in the exported quantity of basic products, with a final figure of US\$1.6 billion and expansion of 31.4%; and chemical and pharmaceutical goods, particularly semi-elaborated goods, with US\$7.8 billion and growth of 8.2%. Imports of inedible farm products, including mostly paper and cellulose, cotton, hides and skins, registered expansion of 13.4%, rising to a level of US\$2.5 billion.

Among the principal raw materials and intermediate products that registered cutbacks in imported value, the most important were foodstuffs, principally wheat and derivatives, rice and soybeans and derivatives. Purchases of these goods came to US\$1.6 billion, for a reduction of 5.6% in the year, followed by building materials, with a less significant total of US\$390 million and a reduction of 9.6%.

Insofar as countries of origin are concerned, approximately 25% of overall imports originated in the EU, with a total of US\$14 billion, 6.5% less than in 1999. Of this total, 50.2% reflected raw materials and intermediate products, 34.7% mirrored capital goods and 13.6% represented consumer goods. The reduction in imports from the EU was mostly due to cutbacks in acquisitions of industrial machinery (27.1%).

Germany was the largest supplier of products to Brazil among EU members and third largest in world terms, surpassed only by the United States and Argentina. It should be stated that this performance was achieved despite a drop of 6.9% in Brazilian purchases when compared to 1999. The following positions were held by Italy (US\$2.2 billion) and France (US\$1.9 billion), reflecting drops of 16.5% and 5.2%, respectively, and the United Kingdom (US\$1.2 billion) and Spain (US\$1.1 billion), for increases of 0.9% and 2.4% in that order.

Table 5.15 - Imports by category of use and by region - FOB

US\$ million

| Product                             | 1999   |        | 2000                    |           |       |
|-------------------------------------|--------|--------|-------------------------|-----------|-------|
|                                     | Value  | Value  | Change from<br>1999 (%) | Share (%) |       |
|                                     |        |        |                         | Total     | Blocs |
| Total                               | 49 272 | 55 783 | 13.2                    | 100.0     | -     |
| Capital goods                       | 13 568 | 13 591 | 0.2                     | 24.4      | -     |
| Raw material and intermediate goods | 24 101 | 28 524 | 18.4                    | 51.1      | -     |
| Nondurable consumer goods           | 4 174  | 3 932  | -5.8                    | 7.0       | -     |
| Durable consumer goods              | 3 171  | 3 375  | 6.4                     | 6.0       | -     |
| Fuels and lubricants                | 4 258  | 6 362  | 49.4                    | 11.4      | -     |
| Laia                                | 9 460  | 11 660 | 23.3                    | 20.9      | 100.0 |
| Capital goods                       | 806    | 961    | 19.2                    | 1.7       | 8.2   |
| Raw material and intermediate goods | 4 898  | 5 732  | 17.0                    | 10.3      | 49.2  |
| Nondurable consumer goods           | 1 525  | 1 360  | -10.9                   | 2.4       | 11.7  |
| Durable consumer goods              | 772    | 787    | 1.9                     | 1.4       | 6.7   |
| Fuels and lubricants                | 1 459  | 2 820  | 93.3                    | 5.1       | 24.2  |
| Mercosul                            | 6 721  | 7 796  | 16.0                    | 14.0      | 100.0 |
| Capital goods                       | 697    | 818    | 17.4                    | 1.5       | 10.5  |
| Raw material and intermediate goods | 3 574  | 3 987  | 11.6                    | 7.1       | 51.1  |
| Nondurable consumer goods           | 1 189  | 1 042  | -12.4                   | 1.9       | 13.4  |
| Durable consumer goods              | 726    | 716    | -1.4                    | 1.3       | 9.2   |
| Fuels and lubricants                | 534    | 1 233  | 130.9                   | 2.2       | 15.8  |
| USA                                 | 11 880 | 13 002 | 9.4                     | 23.3      | 100.0 |
| Capital goods                       | 4 001  | 4 307  | 7.6                     | 7.7       | 33.1  |
| Raw material and intermediate goods | 6 318  | 7 222  | 14.3                    | 12.9      | 55.5  |
| Nondurable consumer goods           | 757    | 669    | -11.6                   | 1.2       | 5.1   |
| Durable consumer goods              | 477    | 501    | 5.1                     | 0.9       | 3.9   |
| Fuels and lubricants                | 327    | 304    | -7.0                    | 0.5       | 2.3   |
| European Union                      | 15 022 | 14 048 | -6.5                    | 25.2      | 100.0 |
| Capital goods                       | 5 958  | 4 872  | -18.2                   | 8.7       | 34.7  |
| Raw material and intermediate goods | 6 890  | 7 050  | 2.3                     | 12.6      | 50.2  |
| Nondurable consumer goods           | 1 070  | 1 066  | -0.3                    | 1.9       | 7.6   |
| Durable consumer goods              | 876    | 850    | -3.0                    | 1.5       | 6.0   |
| Fuels and lubricants                | 229    | 210    | -8.6                    | 0.4       | 1.5   |
| Asia                                | 6 477  | 8 593  | 32.7                    | 15.4      | 100.0 |
| Capital goods                       | 2 067  | 2 602  | 25.9                    | 4.7       | 30.3  |
| Raw material and intermediate goods | 2 993  | 4 217  | 40.9                    | 7.6       | 49.1  |
| Nondurable consumer goods           | 393    | 393    | -0.1                    | 0.7       | 4.6   |
| Durable consumer goods              | 942    | 1 085  | 15.2                    | 1.9       | 12.6  |
| Fuels and lubricants                | 82     | 296    | 261.4                   | 0.5       | 3.4   |
| Others                              | 6 433  | 8 480  | 31.8                    | 15.2      | 100.0 |
| Capital goods                       | 737    | 849    | 15.3                    | 1.5       | 10.0  |
| Raw material and intermediate goods | 3 002  | 4 303  | 43.3                    | 7.7       | 50.7  |
| Nondurable consumer goods           | 429    | 444    | 3.6                     | 0.8       | 5.2   |
| Durable consumer goods              | 105    | 152    | 44.8                    | 0.3       | 1.8   |
| Fuels and lubricants                | 2 161  | 2 732  | 26.4                    | 4.9       | 32.2  |

Source: MDIC/Secex



Imports from the United States including Puerto Rico came to a total of US\$13 billion or 9.4% more than in 1999. This result was generated mostly by growth in imports of raw materials and intermediate products, which accounted for 55.5% of the total, representing an increase of 14.3%. Among the major products, one should highlight chemical and pharmaceutical goods, parts and spares for intermediate products and transportation equipment accessories. Purchases of capital goods rose to a level of US\$4.3 billion or 33.1% of the total. This heading registered positive growth of 7.6%, principally as a result of increased imports of computers. Imports of consumer goods represented 9% of the total, with nondurable consumer goods closing at US\$669 million or 11.6% less than in 1999, particularly as a consequence of a 21.2% cutback in purchases of pharmaceutical goods. At the same time, purchases of consumer durables totaled US\$501 million, for an increase of 5.1% due to the high level of imports involving manufactured objects for personal adornment, which came to 38.3% of the total under this heading.

Imports from the Laia countries, including Venezuela, added up to US\$11.7 billion, with growth of 23.3% in relation to 1999. Of this total, 66.9% originated in Mercosul, corresponding to a total of US\$7.8 billion or 16% more than in 1999, with Argentina – the nation's second largest individual trading partner – contributing a total of US\$6.8 billion. Venezuela participated with US\$1.3 billion, Chile with US\$974 million and Mexico with US\$754 million. These countries, taken together with Argentina, accounted for 84.8% of the Laia total.

Of total imports from the Laia countries, US\$5.7 billion consisted of raw materials and intermediate goods and represented 20.1% of total Brazilian imports under these two categories. A breakdown of this total shows that Mercosul contributed 69.6%, concentrated principally under primary food products and semi-elaborated chemical and pharmaceutical goods.

Foreign purchases of fuels and lubricants increased as a consequence of the rise in world petroleum prices and closed at US\$2.8 billion, representing 44.3% of external supplies of these products. Mercosul participated with 43.7% of the Laia total, of which US\$1 billion was supplied by Argentina.

The region was also responsible for the supply of 29.4% of imports of consumer goods. Foreign purchases in the segment of nondurable consumer goods came to US\$1.4 billion or 34.6% of the total under this heading, with US\$1 billion originating in Mercosul. The major products in this grouping were foodstuffs, while imports of consumer durables closed at US\$787 million or 23.3% of the total. Automobiles were responsible for about 82% of this value and benefited from the automotive agreement formalized with Argentina which, in turn, accounted for US\$598 million or 76% of the total.

Capital goods from the Laia countries added up to US\$961 million or 7.1% of the total under this heading, of which 85.1% originated in the Mercosul countries. Here, the most important items were transportation movable equipment (US\$545 million), mostly involving cargo vehicles.

Imports from Asia added up to US\$8.6 billion, for growth of 32.7%, of which US\$3 billion originated in Japan, US\$1.4 billion in the Republic of South Korea and US\$1.2 billion in China, representing an overall total of 65.3% of purchases in that region of the world.

Raw materials and intermediate goods accounted for 49.1% of imports from the region, coming to a total of US\$4.2 billion, with growth of 40.9%. This expansion reflected the 67.8% growth in imports of parts and spares, which are classified as intermediate goods, particularly, electronic components, and came to a total of US\$1.9 billion. Capital goods represented 30.3% of overall imports, with a total of US\$2.6 billion and growth of 25.9%. The major factor here was growth in imports of apparatuses for office and scientific destination (43%) with a total of US\$594 million and parts for the industrial capital goods segment (31.8%), closing with a total of US\$255 million. Imports of industrial machinery came to US\$664 million or 2.7% more than in 1999.

Imports of consumer goods from the countries of Asia added up to US\$1.5 billion or 17.2% of the total. A breakdown of this figure shows US\$1.1 billion in durable goods, particularly appliances for household use, with US\$352 million and growth of 43%, followed by parts for consumer durables, which closed at a level practically equal to the 1999 mark of US\$223 million, and automobiles with a drop of 2.8% to a total of US\$157 million.

One should stress the negative impact of rising oil prices on trade with the Opec member countries. In this case, exports to those countries increased by 2.4% and closed at US\$2.3 billion, while imports spiraled by 33.1% from US\$3.7 billion in 1999 to US\$5 billion in 2000, raising the trade deficit with that bloc from US\$1.5 billion to US\$2.7 billion in the same period.

### **Trade exchanges**

The US\$698 million trade deficit was strongly affected by petroleum imports, as is evident in the fact that Brazil closed with a US\$2.7 billion deficit in trade operations with the Opec member countries.

In the year, Brazil turned in a surplus of US\$1.2 billion in trade with the Laia nations, compared to US\$1.1 billion in the previous year, and registered growth in both exports and imports. Trade exchanges with the Mercosul countries ended the period with a deficit of US\$63 million due mostly to a negative result of US\$611 million with Argentina. Insofar as trade with the EU countries is concerned, the final figure was

**Table 5.16 - Brazilian trade by region - FOB**

US\$ million

| Itemization                              | 1999    |         |         | 2000    |         |         |
|--|---------|---------|---------|---------|---------|---------|
|  | Exports | Imports | Balance | Exports | Imports | Balance |
| Total                                    | 48 011  | 49 276  | -1 264  | 55 086  | 55 801  | - 715   |
| EFTA <sup>1/</sup>                       | 389     | 967     | - 578   | 756     | 1 040   | - 284   |
| Laia                                     | 10 560  | 9 460   | 1 100   | 12 902  | 11 662  | 1 240   |
| Mercosul                                 | 6 778   | 6 721   | 57      | 7 733   | 7 797   | - 63    |
| Argentina                                | 5 364   | 5 814   | - 450   | 6 233   | 6 844   | - 611   |
| Paraguay                                 | 744     | 260     | 484     | 832     | 351     | 480     |
| Uruguay                                  | 670     | 647     | 23      | 669     | 602     | 67      |
| Chile                                    | 896     | 719     | 177     | 1 246   | 976     | 271     |
| Mexico                                   | 1 068   | 618     | 450     | 1 711   | 754     | 957     |
| Others                                   | 1 818   | 1 402   | 416     | 2 211   | 2 136   | 75      |
| Canada                                   | 513     | 974     | - 460   | 566     | 1 086   | - 520   |
| European Union                           | 13 736  | 15 023  | -1 287  | 14 784  | 14 056  | 728     |
| Germany                                  | 2 544   | 4 749   | -2 205  | 2 526   | 4 421   | -1 895  |
| Belgium/Luxembourg                       | 1 817   | 493     | 1 324   | 1 867   | 571     | 1 296   |
| Spain                                    | 1 169   | 1 179   | - 10    | 1 008   | 1 119   | - 110   |
| France                                   | 1 200   | 1 990   | - 790   | 1 732   | 1 886   | - 155   |
| Italy                                    | 1 845   | 2 598   | - 753   | 2 146   | 2 171   | - 25    |
| Netherlands                              | 2 594   | 595     | 1 999   | 2 796   | 698     | 2 098   |
| United Kingdom                           | 1 437   | 1 222   | 216     | 1 498   | 1 233   | 265     |
| Others                                   | 1 129   | 2 197   | -1 068  | 1 211   | 1 957   | - 746   |
| Central and Eastern Europe <sup>2/</sup> | 1 175   | 704     | 471     | 972     | 1 162   | - 189   |
| Asia <sup>3/</sup>                       | 5 732   | 6 476   | - 744   | 6 324   | 8 597   | -2 273  |
| Japan                                    | 2 193   | 2 576   | - 383   | 2 472   | 2 960   | - 488   |
| China                                    | 676     | 865     | - 189   | 1 085   | 1 222   | - 137   |
| Korea, Republic of                       | 628     | 1 019   | - 392   | 581     | 1 430   | - 849   |
| Others                                   | 2 236   | 2 016   | 220     | 2 186   | 2 985   | - 800   |
| USA <sup>4/</sup>                        | 10 849  | 11 882  | -1 034  | 13 366  | 13 008  | 358     |
| Others                                   | 5 057   | 3 790   | 1 267   | 5 416   | 5 190   | 226     |
| Memo:                                    |         |         |         |         |         |         |
| Nafta                                    | 12 430  | 13 474  | -1 044  | 15 643  | 14 848  | 795     |
| Opec                                     | 2 269   | 3 746   | -1 477  | 2 324   | 4 982   | -2 658  |

Source: MDIC/Secex

1/ Iceland, Liechtenstein, Norway and Switzerland.

2/ Albania, Bulgaria, Hungary, Poland, Slovak Republic, Czech Republic, Romania and countries of the former Soviet Union.

3/ Excludes Middle East.

4/ Includes Puerto Rico.

a surplus of US\$728 million, compared to a deficit of US\$1.3 billion in 1999. A similar turnaround occurred in trade with the United States as the year closed with a surplus of US\$364 million, as against a 1999 deficit of US\$1 billion.

The increase in petroleum prices resulted in an expanded deficit with the Opec countries, moving from US\$1.5 billion in 1999 to US\$2.7 billion in 2000. Also in relation to the Asian countries, the deficit increased from US\$744 million in 1999 to US\$2.3 billion in 2000, reflecting growth of 10.3% under exports and 32.8% under imports.

## Services

The service account registered a deficit of US\$25.7 billion in 2000. This result was quite close to the 1999 figure and reflected expansion of 16% in revenues and 4.6% in expenditures.

Net outlays on international travel expanded by 43.2% in relation to 1999. This growth is seen as a consequence of the strong downturn in exchange operations in 1999 when the nation's exchange system was totally revamped. Brazilian spending on foreign tourism added up to US\$3.6 billion, for an increase of 25.2%. while the spending of incoming tourism totaled US\$1.8 billion, for expansion of 10.9%. Business travel generated net spending of US\$167 million for growth of 27.9%.

**Table 5.17 - Services**

US\$ million

| Itemization            | 1999    |             |         | 2000    |             |         |
|------------------------|---------|-------------|---------|---------|-------------|---------|
|                        | Revenue | Expenditure | Balance | Revenue | Expenditure | Balance |
| Total                  | 11 415  | 37 244      | -25 829 | 13 256  | 38 962      | -25 706 |
| International travel   | 1 628   | 3 085       | -1 457  | 1 807   | 3 893       | -2 086  |
| Tourism                | 1 594   | 2 877       | -1 283  | 1 768   | 3 602       | -1 834  |
| Credit cards           | 878     | 1 891       | -1 013  | 1 151   | 1 935       | - 784   |
| Other tourism services | 716     | 986         | - 270   | 617     | 1 667       | -1 050  |
| Others                 | 35      | 209         | - 174   | 39      | 291         | - 252   |
| Transport              | 1 141   | 4 212       | -3 071  | 1 295   | 4 602       | -3 308  |
| Freight                | 367     | 1 484       | -1 118  | 470     | 1 800       | -1 330  |
| Other                  | 774     | 2 728       | -1 953  | 824     | 2 802       | -1 977  |
| Insurance              | 165     | 293         | - 128   | 312     | 316         | - 4     |
| Capital income         | 3 663   | 22 999      | -19 336 | 3 419   | 22 097      | -18 677 |
| Interest               | 2 231   | 17 468      | -15 237 | 2 454   | 17 542      | -15 088 |
| Profits and dividends  | 1 432   | 5 531       | -4 099  | 965     | 4 555       | -3 589  |
| Governmental (n.i.e.)  | 318     | 816         | - 498   | 537     | 1 086       | - 550   |
| Sundry                 | 4 500   | 5 839       | -1 339  | 5 886   | 6 967       | -1 081  |

Spending by foreign business travelers to Brazil came to US\$30 million, an increase of US\$4 million, while Brazilian business travelers abroad spent US\$197 million, reflecting growth of US\$40 million. Net outlays by student travelers, which include support and remittances of tuition, came to a total of US\$73 million or more than double the 1999 figure and reflected an increase in spending from US\$37 million to US\$77 million. Net spending by government employees came to US\$9 million while outlays on health treatment closed at US\$3 million.

Net spending on transportation registered an increase of 7.7%, reflecting growth in the flow of trade and in travel abroad. Freight services resulted in net outlays of US\$1.3 billion for an increase of US\$212 million in relation to 1999. For the most part, this resulted from increased exports, which generated a revenue increase of US\$104 million, and larger imports, with an increase in outlays totaling US\$316 million. Expenditures on ship charters dropped by US\$74 million, with growth of US\$25

**Table 5.18 - Income remitted abroad<sup>1/</sup>**

US\$ million

| Itemization            | 1999     |                       |        | 2000     |                       |        |
|------------------------|----------|-----------------------|--------|----------|-----------------------|--------|
|                        | Interest | Profits and dividends | Total  | Interest | Profits and dividends | Total  |
| Total                  | 17 468   | 5 531                 | 22 999 | 17 542   | 4 555                 | 22 097 |
| United States          | 7 404    | 2 766                 | 10 170 | 8 464    | 1 584                 | 10 048 |
| Japan                  | 2 902    | 121                   | 3 023  | 2 840    | 133                   | 2 973  |
| United Kingdom         | 1 105    | 551                   | 1 656  | 1 403    | 254                   | 1 657  |
| Cayman Islands         | 1 143    | 116                   | 1 259  | 920      | 345                   | 1 265  |
| Netherlands            | 253      | 852                   | 1 106  | 394      | 804                   | 1 199  |
| Germany                | 783      | 146                   | 929    | 657      | 283                   | 940    |
| Bahamas                | 741      | 41                    | 782    | 527      | 119                   | 646    |
| Belgium                | 609      | 12                    | 621    | 399      | 27                    | 427    |
| France                 | 289      | 218                   | 506    | 241      | 243                   | 483    |
| Luxembourg             | 450      | 42                    | 492    | 409      | 27                    | 436    |
| Switzerland            | 88       | 250                   | 339    | 83       | 236                   | 318    |
| Italy                  | 155      | 71                    | 226    | 141      | 52                    | 193    |
| Panama                 | 170      | 58                    | 228    | 121      | 68                    | 189    |
| Portugal               | 265      | 20                    | 284    | 82       | 21                    | 103    |
| Uruguay                | 144      | 25                    | 169    | 133      | 73                    | 206    |
| Spain                  | 232      | 16                    | 248    | 52       | 25                    | 78     |
| Netherlands Antilles   | 129      | 60                    | 189    | 89       | 8                     | 97     |
| Sweden                 | 102      | 8                     | 110    | 101      | 7                     | 108    |
| Canada                 | 70       | 37                    | 107    | 65       | 28                    | 92     |
| British Virgin Islands | 21       | 15                    | 36     | 30       | 55                    | 86     |
| Finland                | 9        | 30                    | 39     | 8        | 60                    | 69     |
| Bermuda                | 35       | 8                     | 43     | 31       | 24                    | 55     |
| Argentina              | 43       | 15                    | 58     | 35       | 5                     | 39     |
| Barbados               | 43       | 0                     | 43     | 44       | 0                     | 44     |
| Other                  | 284      | 54                    | 338    | 272      | 74                    | 346    |

1/ Does not include production factor-related sundry services.

million in maritime charters and a reduction of US\$99 million in air transportation charters. The increase in the international tourist flow resulted in greater outlays on tickets, with revenues of US\$159 million, for an increase of US\$66 million and outlays of US\$654 million, reflecting an increase of US\$188 million. Other transportation outlays, which include port and airport fees, airport services, payments of fuels and other auxiliary transportation services, came to a total of US\$1.1 billion.

Capital earnings registered a reduction of US\$659 million in remittances abroad. Net payments of interest registered a drop of US\$149 million and net remittances of profits and dividends fell by US\$510 million.

The United States was the country to which the major share of these earnings was channeled, with a total of US\$10 billion or just under half of the total. Japan and the United Kingdom ended in second and third positions, with respective totals of US\$3 billion and US\$1.7 billion. One should also note the volume of profits and dividends remitted to the Netherlands (US\$804 million), making that nation the second largest beneficiary of income of this type remitted by Brazilians.

Interest outlays came to US\$17.5 billion and closed quite close to the 1999 result, registering an increase of just US\$74 million.

**Table 5.19 - Interest payments<sup>1/</sup>**

US\$ million

| Itemization                          | 1999     |          |        | 2000     |          |        |
|--------------------------------------|----------|----------|--------|----------|----------|--------|
|                                      | 1st half | 2nd half | Year   | 1st half | 2nd half | Year   |
| Total                                | 8 803    | 8 665    | 17 468 | 8 929    | 8 612    | 17 542 |
| Loans                                | 5 773    | 4 953    | 10 726 | 5 742    | 5 679    | 11 422 |
| Debt securities                      | 3 982    | 3 431    | 7 413  | 4 155    | 4 343    | 8 498  |
| Bonds                                | 1 764    | 1 458    | 3 221  | 1 988    | 2 198    | 4 185  |
| Notes                                | 2 051    | 1 805    | 3 856  | 2 032    | 1 978    | 4 009  |
| Commercial papers                    | 83       | 68       | 151    | 91       | 96       | 187    |
| Other                                | 84       | 101      | 185    | 45       | 71       | 116    |
| Restructured debt                    | 331      | 234      | 565    | 307      | 47       | 355    |
| Other                                | 1 460    | 1 288    | 2 748  | 1 280    | 1 289    | 2 569  |
| Resolution 63                        | 461      | 309      | 770    | 252      | 111      | 362    |
| Loans to agricultural sector         | 127      | 89       | 215    | 52       | 18       | 70     |
| Other                                | 872      | 890      | 1 762  | 976      | 1 161    | 2 137  |
| Financing                            | 2 428    | 2 522    | 4 949  | 2 287    | 2 517    | 4 804  |
| Import financing                     | 1 331    | 1 499    | 2 831  | 1 338    | 1 499    | 2 837  |
| Export financing                     | 1 096    | 1 022    | 2 118  | 948      | 1 018    | 1 967  |
| of which related to advance payments | 577      | 558      | 1 134  | 488      | 483      | 971    |
| Other                                | 602      | 1 190    | 1 792  | 900      | 416      | 1 316  |
| of which loans managed by            |          |          |        |          |          |        |
| Banco Central do Brasil              | 364      | 775      | 1 139  | 495      | 60       | 555    |

1/ Classified according to the modalities through which funds are raised.

Insofar as loans are concerned, interest payments in the form of securites came to US\$8.5 billion, compared to US\$7.4 billion in 1999. For the most part, this was due to payments involving bonds, which increased by 29.9% equivalent to US\$964 million. This growth was higher than the increase in bond liabilities, a performance that is justified by the payment characteristics of new bonds issued for purposes of either exchanges for restructured foreign debt securities or of obtaining new funding, with payment of larger volumes of interest during the validity of the bond and amortization of principal only at maturity. Aside from this, payments related to notes and commercial papers increased by 4% and 24.1%, respectively. Payments of the restructured foreign debt dropped by US\$211 million as a result of January 2001 payment of interest owed to the Paris Club and matured on December 31, 2000. This payment occurred in January because the final day of 2000 coincided with a holiday. Payments related to loans under the terms of Resolution 63 declined to US\$362 million or 47% of the total registered in 1999, while loans to the agroindustrial sector ended the period at US\$70 million.

Interest payments on the financing of goods and services added up to US\$4.8 billion, for a reduction of US\$145 million. Payments of import financing operations remained practically stable, while those involving export financing granted to residents of the country for goods and service diminished by US\$152 million and remittances for purposes of anticipated payment dropped by US\$163 million. Interest paid on other liabilities dropped by US\$476 million due mostly to reductions in remittances involving normalization loans.

Net remittances of profits and dividends dropped by 12.4% in relation to those effected in 1999. Profit and dividend revenues diminished by 32.6% due to the reduction in profit remittances to the country, which came to a total of just US\$458 million or approximately half the 1999 amount. Dividends and stock bonus revenues fell by 4.4% to US\$507 million.

**Table 5.20 - Remittances of profits and dividends**

US\$ million

| Itemization                          | 1999     |          |       | 2000     |          |       |
|--------------------------------------|----------|----------|-------|----------|----------|-------|
|                                      | 1st half | 2nd half | Year  | 1st half | 2nd half | Year  |
| Total                                | 2 725    | 2 805    | 5 531 | 2 561    | 1 993    | 4 554 |
| Dividends and bonuses                | 553      | 779      | 1 332 | 937      | 492      | 1 429 |
| Stocks                               | 193      | 319      | 511   | 265      | 71       | 336   |
| Appendices I to V (Resolution 1,289) | 336      | 446      | 782   | 498      | 259      | 757   |
| Other <sup>1/</sup>                  | 25       | 14       | 38    | 174      | 161      | 336   |
| Profits                              | 2 172    | 2 027    | 4 199 | 1 624    | 1 502    | 3 125 |

1/ Includes capital earnings.

**Table 5.21 - Sundry services**

US\$ million

| Itemization                                 | 1999   |       |        | 2000   |       |        |
|---|--------|-------|--------|--------|-------|--------|
|   | Credit | Debit | Total  | Credit | Debit | Total  |
| Total                                       | 4 500  | 5 839 | -1 339 | 5 886  | 6 967 | -1 081 |
| Related to production factors               | 4 130  | 5 274 | -1 145 | 5 411  | 6 281 | - 870  |
| Equipment rental                            | 6      | 605   | - 599  | 172    | 1 401 | -1 229 |
| Rental of motion pictures                   | 0      | 87    | - 87   | 0      | 76    | - 76   |
| Rental of tapes and records                 | 0      | 19    | - 19   | 0      | 20    | - 19   |
| Rental of real-estate                       | 6      | 4     | 3      | 6      | 4     | 2      |
| Contractual commissions                     | 348    | 338   | 10     | 423    | 389   | 34     |
| Brokerage                                   | 1      | 4     | - 3    | 3      | 3     | - 1    |
| Administrative services                     | 1 304  | 428   | 876    | 1 506  | 358   | 1 147  |
| Copyright                                   | 31     | 194   | - 163  | 12     | 184   | - 172  |
| Assignment rights of professional athletes  | 94     | 33    | 61     | 130    | 23    | 107    |
| Fees  | 51     | 17    | 34     | 63     | 18    | 45     |
| Merchanting gains/losses                    | 434    | 77    | 357    | 368    | 66    | 302    |
| Transactions in commodity exchange abroad   | 109    | 112   | - 3    | 104    | 93    | 11     |
| Trans. in commodity exchange in Brazil      | 0      | 1     | - 1    | 0      | 0     | 0      |
| Wages                                       | 306    | 168   | 139    | 234    | 158   | 76     |
| Participation in exhibits                   | 15     | 10    | 4      | 12     | 22    | - 9    |
| Hedging operations                          | 175    | 179   | - 4    | 151    | 174   | - 23   |
| Use of brands or advertisement              | 5      | 38    | - 33   | 12     | 31    | - 19   |
| Use of copyrights                           | 0      | 97    | - 97   | 0      | 94    | - 94   |
| Supply of industrial technology             | 15     | 482   | - 467  | 4      | 619   | - 615  |
| Supply of industrial cooperation            | 5      | 434   | - 429  | 7      | 401   | - 394  |
| Supply of other services                    | 1      | 25    | - 24   | 0      | 34    | - 34   |
| Franchises                                  | 0      | 4     | - 4    | 1      | 12    | - 11   |
| Implementation/installation of projects     | 23     | 16    | 8      | 558    | 17    | 541    |
| Brands and copyrights <sup>1/</sup>         | 76     | 7     | 68     | 88     | 7     | 81     |
| Specialized technical services              | 1 121  | 932   | 189    | 1 550  | 1 050 | 500    |
| Software (copy)                             | 2      | 958   | - 956  | 4      | 1 023 | -1 019 |
| Guarantee to export credit                  | 0      | 4     | - 4    | 0      | 0     | - 0    |
| Non-related to production factors           | 370    | 565   | - 194  | 475    | 686   | - 211  |
| Subscriptions to newspapers, magazines etc. | 1      | 42    | - 40   | 1      | 67    | - 66   |
| Acquisition of medication                   | 0      | 0     | - 0    | 0      | 0     | - 0    |
| Communications                              | 30     | 13    | 17     | 35     | 30    | 5      |
| Courses and congresses                      | 15     | 244   | - 230  | 26     | 231   | - 205  |
| Banking services                            | 112    | 140   | - 29   | 136    | 115   | 21     |
| Advertising                                 | 125    | 56    | 70     | 161    | 110   | 51     |
| Competitions/exhibits                       | 24     | 21    | 2      | 36     | 32    | 4      |
| Information services                        | 11     | 26    | - 14   | 29     | 53    | - 24   |
| International orders                        | 0      | 11    | - 11   | 1      | 28    | - 27   |
| Other                                       | 52     | 12    | 40     | 49     | 18    | 31     |

1/ Registry, deposit and maintenance.



Spending registered a reduction of 17.7%, equivalent to US\$977 million and reflected the US\$1.1 billion drop in profits. Dividends and bonuses sent abroad added up to US\$1.4 billion, for an increase of 7.3%. This result was generated by growth of US\$286 million in capital gains remittances, partially offset by reductions of US\$175 million in stock dividend remittances and US\$26 million in investments under the terms of Appendices I to V.

Net outlays on diverse services dropped from US\$1.3 billion to US\$1.1 billion, with reductions in those consequent upon services related to production factors and an increase under services not related to production factors. Net outlays on diverse services related to production factors came to a total of US\$870 million, corresponding to a reduction of 24% when compared to the 1999 result. The increase in revenues (US\$1.3 billion) was greater than the rise in outlays (US\$1 billion). Here, one should note that the increase in outlays reflects the process of modernization of the internal productive sector, while the increase in revenues points to the existence of an external market from which resident companies can supply technology. The growth in revenues and expenditures resulted in 24.3% growth in the flow of these services. The sharpest increase occurred under technology transfers, moving from US\$3.1 billion to US\$3.8 billion. Among other services related to production factors, revenues on administrative services came to US\$1.5 billion, for an increase of US\$202 million; outlays on equipment rentals closed at US\$1.4 billion, with growth of US\$796 million; and acquisitions of software ended the period at US\$1 billion, reflecting growth of US\$65 million.

Net outlays on diverse services not related to production factors totaled US\$211 million, reflecting a decrease of US\$17 million. The most important outlays occurred under courses and congresses (US\$231 million), banking services (US\$115 million) and advertising (US\$110 million), while the highest revenue totals were obtained by banking services (US\$136 million) and advertising (US\$161 million).

### **Unrequited transfers**

Net unrequited transfers to residents came to US\$1.8 billion, reflecting a falloff of 11.4% in comparison to the 1999 total. Among the operations registered under this heading, one should cite reductions of US\$80 million in inflows of funding to constitute resources available in the country and US\$59 million in total assets transferred from abroad to Brazil. Resources remitted for purposes of support of residents, which encompass remittances by Brazilians residing abroad to residents in Brazil, remained at the same level as in 1999. The reduction in total transfers to the country was due principally to a 42% decline – equivalent to US\$270 million – in remittances from Japan, while those from the United States increased by US\$115 million. With this result, the United States increased its participation in the total amount remitted to Brazil from 47.8% to 57.6%. This fact is consistent with expectations that the good performance of economic activity in the United States in recent years would increase the volume of resources transferred by Brazilian residents of the United States to Brazil.

**Table 5.22 - Unrequited transfers**

US\$ million

| Itemization    | 1999   |       |       | 2000   |       |       |
|----------------|--------|-------|-------|--------|-------|-------|
|                | Credit | Debit | Total | Credit | Debit | Total |
| Total          | 2 329  | 302   | 2 027 | 2 133  | 337   | 1 796 |
| United States  | 1 114  | 135   | 980   | 1 230  | 143   | 1 373 |
| Japan          | 642    | 7     | 635   | 372    | 7     | 379   |
| Germany        | 141    | 7     | 134   | 118    | 9     | 127   |
| Portugal       | 41     | 33    | 7     | 45     | 36    | 81    |
| Italy          | 58     | 12    | 46    | 58     | 20    | 78    |
| Switzerland    | 43     | 7     | 36    | 39     | 12    | 51    |
| United Kingdom | 34     | 13    | 21    | 36     | 13    | 49    |
| Spain          | 23     | 24    | - 1   | 20     | 27    | 47    |
| France         | 25     | 10    | 15    | 23     | 11    | 35    |
| Netherlands    | 24     | 1     | 23    | 25     | 2     | 26    |
| Canada         | 5      | 8     | - 4   | 4      | 7     | 11    |
| Uruguay        | 10     | 3     | 7     | 7      | 2     | 9     |
| Bahamas        | 2      |       | 2     | 10     | 9     | 18    |
| Panama         | 7      | 3     | 4     | 9      | 1     | 10    |
| Argentina      | 6      | 4     | 2     | 5      | 4     | 9     |
| Other          | 154    | 34    | 120   | 133    | 35    | 167   |

## Capital movement

Capital movement in 2000 was characterized by an increase in risk investments in Brazil, particularly in the form of foreign direct investments, and by a reversal in net medium and long-term loan flows.

**Table 5.23 - Direct investments**

US\$ million

| Itemization                 | 1999     |          |        | 2000     |          |        |
|-----------------------------|----------|----------|--------|----------|----------|--------|
|                             | 1st half | 2nd half | Year   | 1st half | 2nd half | Year   |
| Foreign                     | 12 955   | 17 032   | 29 987 | 12 712   | 17 851   | 30 563 |
| Inflows                     | 13 867   | 17 495   | 31 362 | 13 781   | 19 766   | 33 547 |
| Foreign currency            | 12 260   | 14 677   | 26 937 | 13 170   | 18 451   | 31 621 |
| Privatization <sup>1/</sup> | 5 018    | 3 768    | 8 786  | 1 462    | 5 589    | 7 051  |
| Other                       | 7 242    | 10 909   | 18 151 | 11 708   | 12 862   | 24 570 |
| Goods                       | 106      | 21       | 127    | 31       | 186      | 216    |
| Conversions                 | 1 501    | 2 797    | 4 298  | 580      | 1 130    | 1 710  |
| Outflows                    | 912      | 463      | 1 375  | 1 069    | 1 915    | 2 984  |
| Brazilian                   | - 494    | - 622    | -1 116 | - 539    | -1 217   | -1 756 |
| Inflows                     | 201      | 182      | 383    | 450      | 389      | 839    |
| Outflows                    | 695      | 803      | 1 498  | 989      | 1 606    | 2 596  |

1/ In 2000, US\$ 374 million were included as conversion.

Net direct foreign investments in Brazil during the year under analysis set a net record, reaching a total of US\$30.6 billion. This result reflects inflows of autonomous resources totaling US\$26.5 billion, for growth of 17.4% when compared to the 1999 total, and privatization investments, with US\$7.1 billion, of which US\$3.7 billion were channeled into the Banespa sale and US\$2.3 billion invested in the telecommunications sector. Insofar as the origin of resources is concerned, the country that injected the largest volume of direct investments into Brazil in 2000 was Spain, with a net total of US\$9 billion, corresponding to 54.4% growth. The United States made net investments of US\$6 billion, representing a decline of 8.6% compared to the 1999 total, and dropped from first to second position among the largest investors. The third most important source of these funds was Portugal, with net investments of US\$2.3 billion, for a reduction of US\$140 million.

**Table 5.24 - Foreign direct investments in Brazil**  
According to country of origin/destination

| Country                | US\$ million |        |          |       |
|------------------------|--------------|--------|----------|-------|
|                        | Inflows      |        | Outflows |       |
|                        | 1999         | 2000   | 1999     | 2000  |
| Total                  | 31 362       | 33 547 | 1 375    | 2 984 |
| Spain                  | 5 810        | 9 649  | 2        | 682   |
| United States          | 7 069        | 6 355  | 549      | 398   |
| Portugal               | 2 403        | 2 600  | 6        | 342   |
| Cayman Islands         | 2 094        | 2 144  | 41       | 897   |
| Netherlands            | 1 810        | 2 298  | 47       | 142   |
| France                 | 2 079        | 2 064  | 1        | 108   |
| United Kingdom         | 1 315        | 461    | 4        | 34    |
| Germany                | 624          | 457    | 10       | 33    |
| Luxembourg             | 49           | 1 068  | 2        | 0     |
| Belgium                | 102          | 395    | 495      | 0     |
| Italy                  | 496          | 465    | 1        | 0     |
| Switzerland            | 436          | 377    | 17       | 16    |
| British Virgin Islands | 315          | 361    | 72       | 32    |
| Japan                  | 348          | 274    | 5        | 115   |
| Bermuda                | 263          | 369    | 47       | -     |
| Canada                 | 297          | 214    | 6        | 31    |
| Sweden                 | 214          | 301    | -        | -     |
| Bahamas                | 197          | 235    | 16       | 6     |
| Uruguay                | 158          | 221    | 13       | 17    |
| Argentina              | 160          | 137    | 25       | 61    |
| Denmark                | 13           | 289    | -        | -     |
| Mexico                 | 28           | 255    | -        | 5     |
| Barbados               | 123          | 149    | -        | -     |
| Panama                 | 121          | 44     | 9        | 29    |
| Chile                  | 88           | 40     | -        | 21    |
| Other <sup>1/</sup>    | 4 751        | 2 324  | 10       | 12    |

1/ Includes operations in national currency, reinvestments, merchandise and conversions of loans and financing in investments.

**Table 5.25 - Foreign direct investments**  
Privatization-related inflows

US\$ million

| Itemization   | 1996  | 1997  | 1998  | 1999  | 2000  |
|---|-------|-------|-------|-------|-------|
| Total   | 2 645 | 5 249 | 6 121 | 8 785 | 7 051 |
| Electric sector                                     | 1 760 | 3 079 | 1 927 | 1 020 | 693   |
| Light   | 1 177 | -     | -     | -     | -     |
| CERJ  | 583   | -     | -     | -     | -     |
| Coelba  | -     | 448   | -     | -     | -     |
| Cachoeira Dourada - Goiás                           | -     | 715   | -     | -     | -     |
| Cia. Norte e NE de Distribuição de Energia Elétrica | -     | 363   | -     | -     | -     |
| Cia. Estadual de Energia Elétrica - RS              | -     | 1 373 | -     | -     | -     |
| Cia. de Distribuição de Energia Elétrica - SE       | -     | 180   | -     | -     | -     |
| Cia. de Energia Elétrica do Ceará (Coelce) - CE     | -     | -     | 551   | -     | -     |
| Elektro   | -     | -     | 909   | -     | -     |
| Gerasul   | -     | -     | 409   | -     | -     |
| Empresa Bandeirantes de Energia S/A                 | -     | -     | 58    | -     | -     |
| CESP-Parapanema                                     | -     | -     | -     | 710   | -     |
| CESP-Tiete  | -     | -     | -     | 310   | -     |
| Companhia Energética de Pernambuco (CELPE)          | -     | -     | -     | -     | 398   |
| Companhia Energética do Maranhão (Cemar)            | -     | -     | -     | -     | 295   |
| Railways  | 341   | -     | -     | -     | -     |
| Ferrovia Novoeste                                   | 20    | -     | -     | -     | -     |
| Malha Sudeste                                       | 300   | -     | -     | -     | -     |
| Malha Centro-Leste                                  | 17    | -     | -     | -     | -     |
| Malha Sul   | 5     | -     | -     | -     | -     |
| Telecommunications                                  | 544   | 433   | 4 168 | 6 659 | 2 289 |
| CRT   | 544   | -     | 1 019 | -     | -     |
| Banda B   | -     | 433   | 427   | 250   | 866   |
| Sistema Telebrás                                    | -     | -     | 2 721 | 6 308 | 1 424 |
| Eletronet   | -     | -     | -     | 101   | -     |
| Gas utilities                                       | -     | 574   | -     | 1 106 | 295   |
| Rio Gás S/A   | -     | 336   | -     | -     | -     |
| Cia. Estadual de Gás (CEG) - RJ                     | -     | 238   | -     | -     | -     |
| Cia. de Gás de São Paulo (Comgás)                   | -     | -     | -     | 963   | -     |
| Gas concession - São Paulo - second area            | -     | -     | -     | 143   | -     |
| Natural gas concession - São Paulo Sul              | -     | -     | -     | -     | 295   |
| Banks   | -     | -     | -     | -     | 3 715 |
| Meridional  | -     | -     | -     | -     | 15    |
| Banespa   | -     | -     | -     | -     | 3 700 |
| Other   | -     | 1 163 | 27    | -     | 58    |
| Porto de Sepetiba                                   | -     | -     | 27    | -     | -     |
| CVRD  | -     | 1 163 | -     | -     | -     |
| Cia. de Saneamento do Amazonas (Cosama)             | -     | -     | -     | -     | 58    |

In 2000, legislation on foreign portfolio investments was altered through issue of Resolution 2,689, dated 3.31.2000, which granted foreign investors greater liberty to channel their funds into the financial and capital markets by allowing them to make the same investments as Brazilian investors. This Resolution revoked Appendices I and II of Resolution 1,289 and defined a specific period of time for transfers of investment positions under the terms of Appendix IV of Resolution 1,289. Once Resolution 2,689 had gone into effect, new foreign investments in the financial and capital markets were only accepted under the terms of that Resolution and Appendix III of Resolution 1,289. Insofar as financial flows are concerned, net foreign portfolio investments came to a total of US\$2.7 billion or double the 1999 figure. This result was a consequence of inflows through ADR (Appendix V to Resolution 1,289) which came to a total of US\$6.3 billion. With the change in legislation, inflows into fund

**Table 5.26 - Portfolio investments**

US\$ million

| Itemization        | 1999     |          |        | 2000     |          |        |
|--------------------|----------|----------|--------|----------|----------|--------|
|                    | 1st half | 2nd half | Year   | 1st half | 2nd half | Year   |
| Foreign            | 1 018    | 342      | 1 360  | 1 367    | 1 355    | 2 722  |
| Inflows            | 11 463   | 6 840    | 18 303 | 10 484   | 9 335    | 19 819 |
| Outflows           | 10 445   | 6 497    | 16 943 | 9 117    | 7 980    | 17 097 |
| Appendices I to IV | 1 481    | 102      | 1 583  | -1 482   | 208      | -1 274 |
| Inflows            | 7 647    | 4 866    | 12 513 | 3 735    | 363      | 4 098  |
| Outflows           | 6 165    | 4 765    | 10 930 | 5 217    | 155      | 5 373  |
| Appendix V         | 604      | 477      | 1 081  | 2 406    | 3 929    | 6 335  |
| Inflows            | 1 548    | 1 405    | 2 953  | 3 474    | 4 448    | 7 922  |
| Outflows           | 943      | 929      | 1 872  | 1 068    | 519      | 1 587  |
| Resolution 2,689   | -        | -        | -      | 1 189    | -2 668   | -1 479 |
| Inflows            | -        | -        | -      | 3 117    | 4 524    | 7 641  |
| Outflows           | -        | -        | -      | 1 928    | 7 192    | 9 120  |
| Funds              | -1 068   | -236     | -1 304 | -746     | -113     | -859   |
| Inflows            | 2 269    | 568      | 2 837  | 158      | -        | 158    |
| Outflows           | 3 337    | 804      | 4 141  | 904      | 113      | 1 017  |
| Brazilian          | 428      | -506     | -79    | -343     | -1 627   | -1 970 |
| Outflows           | 2 966    | 871      | 3 837  | 581      | 4 002    | 4 583  |
| Inflows            | 3 393    | 365      | 3 758  | 239      | 2 375    | 2 613  |
| Fiex               | 575      | 187      | 763    | -41      | 13       | -28    |
| Outflows           | 2 464    | 165      | 2 628  | 224      | 435      | 659    |
| Inflows            | 3 039    | 352      | 3 391  | 183      | 449      | 632    |
| BDR                | 6        | -        | 6      | -        | -945     | -945   |
| Outflows           | 1        | -        | 1      | -        | 2 614    | 2 614  |
| Inflows            | 7        | -        | 7      | -        | 1 669    | 1 669  |
| DR                 | -58      | -64      | -122   | -302     | -807     | -1 110 |
| Outflows           | 59       | 70       | 129    | 342      | 923      | 1 264  |
| Inflows            | 1        | 6        | 6      | 39       | 115      | 155    |
| Other              | -143     | -694     | -836   | 1        | 112      | 112    |
| Outflows           | 496      | 706      | 1 202  | 16       | 30       | 45     |
| Inflows            | 353      | 13       | 366    | 17       | 141      | 158    |

investments were terminated as of April. This type of operation, consequently, closed the year with a net outflow of US\$859 million. Investments covered by Appendices I to IV turned in net outflows of US\$1.3 billion in the year, with reductions in comparison to the first and second halves of 2000 from US\$3.7 billion to US\$363 million in inflows and from US\$5.2 billion to US\$155 million in outflows. The flow of resources covered by Resolution 2,689, through which the major share of foreign portfolio investments were processed, closed with a net outflow of US\$1.5 billion.

With respect to the origin and destination of portfolio investments, the United States were the largest source of inflows as well as the country that received the major share of outflows. A full US\$14.2 billion in investments originated in that country, with growth of 27.5%, while US\$12 billion flowed back to the United States, corresponding to an increase of 20.2%. The following position was occupied by the Bahama Islands, with inflow of US\$1.8 billion, reflecting a reduction of 38%, and outflow of US\$1 billion, a cutback of 66.7%.

**Table 5.27 - Portfolio investments in Brazil**  
Distribution by country of origin/destination

| Country                  | Inflows |        | Outflows |        |
|--------------------------|---------|--------|----------|--------|
|                          | 1999    | 2000   | 1999     | 2000   |
| Total                    | 18 303  | 19 819 | 16 943   | 17 097 |
| United States            | 11 168  | 14 244 | 9 990    | 12 007 |
| Bahamas                  | 2 962   | 1 837  | 3 061    | 1 018  |
| United Kingdom           | 1 123   | 805    | 1 179    | 827    |
| Cayman Islands           | 1 133   | 620    | 763      | 1 099  |
| Luxembourg               | 366     | 563    | 305      | 412    |
| British Virgin Islands   | 238     | 11     | 284      | 203    |
| Switzerland              | 252     | 78     | 332      | 48     |
| Hong Kong                | 4       | 1      | 401      | 3      |
| Ireland                  | 147     | 14     | 130      | 63     |
| France                   | 162     | 47     | 83       | 37     |
| Uruguay                  | 31      | 144    | 32       | 103    |
| Germany                  | 38      | 60     | 20       | 57     |
| Argentina                | 52      | 21     | 33       | 42     |
| Netherlands Antilles     | 38      | 8      | 73       | 16     |
| Bermuda                  | 50      | 37     | 39       | 4      |
| Puerto Rico              | -       | 113    | -        | -      |
| Turks and Caicos Islands | 49      | -      | 0        | 33     |
| Spain                    | 23      | 4      | 5        | 13     |
| Netherlands              | 9       | 6      | 15       | 10     |
| Canada                   | 15      | -      | 23       | 0      |
| Panama                   | 4       | -      | 32       | 0      |
| Other <sup>1/</sup>      | 436     | 1 206  | 143      | 1 101  |

1/ Includes operations in national currency.

Brazilian investments abroad in 2000 resulted in net outflows of US\$3.7 billion, for an increase of 185% in relation to 1999, of which US\$1.8 billion were concentrated under direct investments and US\$2 billion under portfolio investments. Investments in Investment Funds Abroad (Fiex), the segment in which 1999 outflows were concentrated, registered total net outflows of US\$28 million.

Resources entering the country through loan and financing operations turned in a highly differentiated performance in 2000, generating net inflows of US\$8.2 billion in foreign capital in the year.

**Table 5.28 - Medium & long-term loans and financing**

US\$ million

| Itemization                | 1999     |          |        | 2000     |          |        |
|----------------------------|----------|----------|--------|----------|----------|--------|
|                            | 1st half | 2nd half | Year   | 1st half | 2nd half | Year   |
| Total                      | -6 731   | 1 875    | -4 856 | 3 381    | 4 422    | 7 803  |
| Foreign                    | -6 325   | 2 211    | -4 114 | 3 511    | 4 732    | 8 243  |
| Financing                  | -1 600   | -2 291   | -3 891 | - 954    | -1 844   | -2 797 |
| Disbursements              | 8 613    | 8 077    | 16 690 | 6 708    | 5 026    | 11 734 |
| Multilateral organizations | 2 074    | 2 510    | 4 584  | 2 767    | 1 940    | 4 707  |
| Government agencies        | 384      | 742      | 1 126  | 531      | 466      | 997    |
| Suppliers/buyers' credits  | 6 154    | 4 825    | 10 979 | 3 409    | 2 620    | 6 029  |
| Amortizations              | 10 213   | 10 368   | 20 580 | 7 662    | 6 869    | 14 531 |
| Multilateral organizations | 866      | 734      | 1 599  | 753      | 717      | 1 470  |
| Government agencies        | 887      | 801      | 1 688  | 705      | 283      | 988    |
| Suppliers/buyers' credits  | 8 460    | 8 833    | 17 293 | 6 203    | 5 870    | 12 073 |
| Loans                      | -4 725   | 4 501    | - 224  | 4 465    | 6 575    | 11 040 |
| Disbursements              | 13 368   | 14 948   | 28 316 | 11 278   | 19 921   | 31 199 |
| New inflows                | 12 368   | 12 948   | 25 316 | 10 678   | 14 384   | 25 063 |
| Bonds                      | 2 000    | 2 719    | 4 719  | 3 562    | 2 524    | 6 086  |
| Notes                      | 5 547    | 5 776    | 11 323 | 2 474    | 3 011    | 5 485  |
| Commercial paper           | 1 044    | 602      | 1 646  | 325      | 625      | 950    |
| Banks                      | 1 220    | 1 515    | 2 735  | 1 985    | 3 997    | 5 982  |
| Intercompany               | 1 812    | 1 669    | 3 480  | 2 021    | 3 845    | 5 866  |
| Securitization             | 124      | 130      | 254    | 178      | 300      | 477    |
| Other                      | 621      | 538      | 1 159  | 133      | 83       | 217    |
| Refinancing                | 1 000    | 2 000    | 3 000  | 600      | 5 536    | 6 136  |
| Amortization               | 18 094   | 10 446   | 28 540 | 6 813    | 13 345   | 20 159 |
| Paid                       | 16 900   | 7 443    | 24 343 | 6 108    | 7 529    | 13 638 |
| Bonds                      | 1 288    | 123      | 1 411  | 1 724    | 646      | 2 370  |
| Notes                      | 9 098    | 3 606    | 12 704 | 1 328    | 2 496    | 3 824  |
| Commercial paper           | 498      | 148      | 645    | 203      | 587      | 789    |
| Banks                      | 3 202    | 1 659    | 4 860  | 1 640    | 1 912    | 3 552  |
| Intercompany               | 979      | 1 015    | 1 994  | 1 085    | 1 466    | 2 551  |
| Securitization             | 397      | 62       | 459    | 48       | 192      | 240    |
| Other                      | 1 437    | 832      | 2 269  | 81       | 231      | 312    |
| Refinancing                | 1 193    | 3 003    | 4 196  | 705      | 5 816    | 6 521  |
| Brazilian (net)            | - 406    | - 336    | - 742  | - 130    | - 309    | - 439  |

Foreign medium and long-term financing resulted in net amortizations of US\$2.8 billion or 28.1% less than in 1999, reflecting declines of US\$5 billion in disbursements and US\$6 billion in amortizations. Net outflows of resources were concentrated in suppliers' and buyers' credits, with net amortizations of US\$6 billion, an improvement of US\$270 million. The reduction of US\$5 billion in disbursements was accompanied by a reduction of US\$5.2 billion in payments. Financing from organizations generated net disbursements of US\$3.2 billion. The International Bank for Reconstruction and Development (IBRD) disbursed a net total of US\$804 million, representing an increase of US\$186 million, while the Interamerican Development Bank (IDB) registered net disbursements of US\$2.6 billion in 2000, the same amount as in the previous year. Government agencies contributed significantly to improvement in the financing result, with net disbursements of US\$9 million compared to net payments of US\$562 million in 1999.

**Table 5.29 - Official financing and suppliers'/buyers' credits**

Disbursements to Brazil

US\$ million

| Itemization                | 1999     |        |        | 2000     |                     |        |
|----------------------------|----------|--------|--------|----------|---------------------|--------|
|                            | Currency | Goods  | Total  | Currency | Goods <sup>1/</sup> | Total  |
| Total                      | 5 538    | 11 152 | 16 690 | 5 704    | 6 029               | 11 734 |
| Multilateral organizations | 4 583    | 2      | 4 584  | 4 707    | ...                 | 4 707  |
| IDB                        | 2 896    | 2      | 2 898  | 2 871    | ...                 | 2 871  |
| IBRD                       | 1 533    | 0      | 1 533  | 1 692    | ...                 | 1 692  |
| IFC                        | 154      | 0      | 154    | 144      | ...                 | 144    |
| Government agencies        | 955      | 171    | 1 126  | 997      | ...                 | 997    |
| Eximbank - Japan           | 513      | 8      | 522    | 186      | ...                 | 186    |
| KFW                        | 149      | 23     | 172    | 475      | ...                 | 475    |
| Other                      | 293      | 140    | 432    | 336      | ...                 | 336    |
| Suppliers'/buyers'         | -        | 10 979 | 10 979 | -        | 6 029               | 6 029  |

1/ Financing from multilateral organizations and government agencies are included under suppliers'/buyers' credits.

Medium and long-term foreign loans registered disbursements of US\$25.1 billion in the form of new resources in 2000, a reduction of US\$254 million in comparison to the previous year. One should highlight the change in the composition of resources, with growth in direct loans – from banks and connected companies (intercompany operations) – and a drop under funding operations through security issues, with the exception of bonds. Disbursements from commercial banks added up to US\$6 billion or more than double the 1999 amount, while intercompany credits climbed to US\$5.9 billion, for an increase of 68.6%. Placements of notes generated inflows of US\$5.5 billion, for a reduction of 51.6%, while funding operations based on issues of commercial papers added up to US\$950 million, for a reduction of 42.3%.



Amortizations paid on medium and long-term loans added up to US\$13.6 billion, for a reduction of 44% compared to the 1999 total. Here, one should stress that the first quarter of that year registered payments of US\$12.7 billion due to the strong funding operations contracted at the end of 1997 and early 1998, with maturity terms in the range of one year. A comparison between the two halves of 2000 shows that payments remained constant, with no alteration in relation to the expected pattern. Amortizations of notes added up to US\$3.8 billion, corresponding to 30% of the amortizations registered in 1999, as evident in the fact that outflows in that year were concentrated in this type of operation, while payments of commercial papers came to US\$789 million. Payments of intercompany loans totaled US\$2.6 billion, for a reduction of US\$557 million. Amortizations of bank loans resulted in US\$3.6 billion, of which practically half was related to payments of resources contracted under the terms of Resolution 63. One should also mention that Resolution 2,770 was issued on 8.30.2000 in the framework of the National Program for Streamlining Bureaucracy. The purpose of this instrument was to simplify and consolidate norms on contracting external loans. Among other norms, this Resolution revoked Resolution 63 and Firce (Foreign Capital Department) Communiqué 10. With regard to other loan amortizations, there was a reduction in payments involving resources for onlending to the agroindustrial sector from US\$2.2 billion in 1999 to US\$310 million in 2000.

Bond operations generated net inflows of US\$3.3 billion in the balance of payments in 2000. This amount includes refinancing of loans and refinanced amortizations, which correspond entirely to the total bonds delivered (US\$6.1 billion) and bonds received (US\$6.5 billion) in operations involving exchanges of Bonds of the Republic (Global Bonds) for renegotiated external debt bonds (Bradies). Aside from exchanges of debt, Bonds of the Republic resulted in new inflows totaling US\$5.8 billion. Other inflows of new bond resources resulted from issues of US\$246 million in securities by BNDES.

Short-term capital, which includes Brazilian and foreign resources with maturities of up to 360 days and without specified maturity terms, such as deposits, registered a reduction of 24.5% in net outflows in 2000. Foreign capital, which represents the constitution of external liabilities by residents with nonresidents, came to a total of US\$4.4 billion, for a reduction of US\$550 million compared to the total for the previous year. One should stress the alteration in the composition of net credits, with growth of US\$2 billion in net loans granted to residents and a reduction of US\$3.1 billion in redemptions of nonresident deposits effected with residents, partially offset by the turnaround in the financing flow, from net inflows of US\$1 billion to net amortizations totaling US\$2.3 billion.

Brazilian short-term capital, representing the constitution of external assets by residents with nonresidents in the form of loans, financing, deposits and other assets, registered net outflows of US\$1.9 billion, with a reduction of 43.9% in relation to

**Table 5.30 - Short-term capital**

US\$ million

| Itemization                                      | 1999      |           |         | 2000      |           |        |
|--|-----------|-----------|---------|-----------|-----------|--------|
|  | 1st. half | 2nd. half | Year    | 1st. half | 2nd. half | Year   |
| Total  | -3 942    | -4 511    | -8 452  | -2 726    | -3 659    | -6 384 |
| Foreign capital                                  | -3 917    | -1 078    | -4 994  | -2 124    | -2 321    | -4 445 |
| Loans  | 620       | - 205     | 415     | 1 138     | 1 234     | 2 372  |
| Inflows  | 2 803     | 1 729     | 4 532   | 3 318     | 3 251     | 6 570  |
| Debt securities                                  | 717       | 176       | 893     | 216       | 239       | 455    |
| Direct loans                                     | 2 086     | 1 553     | 3 639   | 3 103     | 3 012     | 6 115  |
| Of which intercompany                            | 1 285     | 769       | 2 054   | 1 160     | 1 505     | 2 665  |
| Amortization                                     | 2 183     | 1 934     | 4 117   | 2 180     | 2 018     | 4 198  |
| Debt securities                                  | 243       | 362       | 605     | 93        | 38        | 131    |
| Direct loans                                     | 1 940     | 1 572     | 3 512   | 2 087     | 1 979     | 4 066  |
| Of which intercompany                            | 973       | 702       | 1 675   | 361       | 533       | 894    |
| Financing (net)                                  | - 913     | 1 930     | 1 016   | -1 343    | - 952     | -2 295 |
| Bank lines of credit                             | - 723     | 1 944     | 1 220   | -1 428    | 325       | -1 103 |
| Other lines of credit                            | - 190     | - 14      | - 204   | 85        | -1 277    | -1 192 |
| Deposits   | -1 969    | -2 006    | -3 974  | 278       | -1 170    | - 892  |
| At commercial banks                              | - 376     | 237       | - 138   | 516       | - 486     | 31     |
| At other sectors                                 | -1 593    | -2 243    | -3 836  | - 239     | - 684     | - 923  |
| Other capital                                    | -1 655    | - 796     | -2 451  | -2 197    | -1 433    | -3 630 |
| Brazilian capital                                | - 25      | -3 433    | -3 458  | - 601     | -1 338    | -1 940 |
| Loans (net)                                      | - 225     | - 737     | - 962   | 133       | - 614     | - 480  |
| Commercial bank financing                        | 17        | 9         | 26      | - 17      | 2         | - 14   |
| Deposits   | 183       | -2 705    | -2 522  | - 718     | - 727     | -1 445 |
| By commercial banks                              | 1 417     | -1 029    | 387     | 875       | 1 389     | 2 264  |
| By other sectors                                 | -1 233    | -1 675    | -2 909  | -1 593    | -2 116    | -3 709 |
| Memo item:                                       |           |           |         |           |           |        |
| Transactions with foreign financial institutions | -4 782    | -5 481    | -10 263 | -2 968    | -4 265    | -7 233 |
| Bank liabilities                                 | -1 099    | 2 181     | 1 082   | - 912     | - 160     | -1 072 |
| Bank assets                                      | 1 444     | -1 599    | - 155   | 1 243     | 1 391     | 2 634  |

1999. For the most part, this growth was due to a reduction of US\$1.1 billion in Brazilian deposits abroad. Total deposits abroad (US\$1.4 billion) resulted from net constitution of US\$3.7 billion in deposits abroad by nonbanking sectors and net returns of US\$2.3 billion in commercial bank deposits abroad.

In 2000, payments worth US\$10.3 billion in amortizations of the financial assistance program (PAF), which is coordinated by the IMF, were effected. These payments were distributed as follows: US\$6.9 billion to the IMF, US\$3.2 billion to the BIS and US\$296 million to the BoJ. Other disbursements came to US\$2.8 billion, with US\$1.7 billion supplied by the IBRD and US\$1 billion by the IDB. Interest paid on this program added up to US\$911 million in 2000.

Net flows of resources consequent upon growth in Brazilian external liabilities registered net outflows of US\$14.9 billion in 2000 or less than half of the 1999 total. For the most part, this result was due to reductions in amortizations, particularly in the form of notes and import financing operations, since very little change was registered in disbursements and interest payments.

Net credits from international organizations - with the exception of the IMF - came to US\$1.9 billion. Net resources from the IBRD totaled US\$104 million, with an increase of US\$150 million in disbursements and a reduction of US\$102 million in amortizations. A net total of US\$1.8 billion was received from the IDB, while interest payments increased by US\$269 million.

Interest payments to the IMF came to a total of US\$383 million, for a reduction of US\$132 million. This was a consequence of a reduction in the liabilities tied to balance of payments normalization loans.

Operations with government agencies resulted in net payments of US\$575 million for a reduction of US\$757 million in relation to 1999. The reason underlying this performance was a cutback of US\$951 million in debt service with the Paris Club. The flow of resources with other agencies resulted in net inflows of US\$179 million, corresponding to a reduction of US\$195 million. A breakdown of this figure shows a drop of US\$129 million in disbursements and increases of US\$38 million in amortizations and US\$28 million in interest payments.

Net payments to commercial banks dropped sharply in 2000, when compared to the previous year. Amortizations totaled US\$3.6 billion for a reduction of 26.9% and interest payments fell by 10.5%, closing at US\$2.5 billion. On the other hand, disbursements more than doubled and closed at US\$6 billion.

Net payments of resources tied to notes also mirrored the improvement in the country's external financing conditions in 2000, as evinced by the 55.3% reduction in net payments. Amortizations diminished to US\$3.8 billion or less than a third of the preceding year's total. The reduction in disbursements, in turn, represented an additional voluntary cutback in this type of funding operation more than an actual restriction imposed on these transactions by foreign creditors.

Bond operations generated net payments of US\$595 million. This result reflects a reversal in net flows in comparison to 1999, but reaffirms the downturn in payments in relation to the years prior to 1999. One should stress that this result does not include bonds issued and amortized in exchange operations.

**Table 5.31 - Brazil: Financial flow by foreign creditor<sup>1/</sup>**

US\$ million

| Itemization                 | 1996   | 1997   | 1998    | 1999    | 2000    |
|-----------------------------|--------|--------|---------|---------|---------|
| Total                       | -1 279 | -9 301 | 739     | -31 365 | -14 944 |
| Disbursements               | 25 904 | 31 130 | 47 962  | 31 026  | 30 767  |
| Amortizations               | 14 419 | 26 021 | 31 381  | 44 924  | 28 169  |
| Interest                    | 12 764 | 14 410 | 15 843  | 17 468  | 17 542  |
| IBRD <sup>2/</sup>          | 174    | 121    | 704     | - 148   | 104     |
| Disbursements               | 2 043  | 1 781  | 2 121   | 1 686   | 1 837   |
| Amortizations               | 1 366  | 1 166  | 1 112   | 1 257   | 1 155   |
| Interest                    | 503    | 493    | 304     | 578     | 578     |
| IDB                         | 248    | 716    | 1 448   | 2 079   | 1 810   |
| Disbursements               | 830    | 1 369  | 2 050   | 2 898   | 2 871   |
| Amortizations               | 342    | 354    | 347     | 343     | 315     |
| Interest                    | 240    | 300    | 255     | 476     | 745     |
| IMF <sup>3/</sup>           | - 24   | - 22   | - 20    | - 515   | - 383   |
| Interest                    | 24     | 22     | 20      | 515     | 383     |
| Government agencies         | -3 987 | -1 492 | -1 853  | -1 332  | - 575   |
| Agencies                    | - 154  | 760    | 400     | 374     | 179     |
| Disbursements               | 394    | 1 260  | 1 144   | 1 126   | 997     |
| Amortizations               | 355    | 319    | 563     | 481     | 519     |
| Interest                    | 194    | 181    | 181     | 271     | 299     |
| Paris Club                  | -3 833 | -2 252 | -2 253  | -1 705  | - 754   |
| Amortizations               | 2 136  | 1 496  | 1 497   | 1 206   | 469     |
| Interest                    | 1 697  | 756    | 756     | 499     | 285     |
| Bonds                       | -2 549 | -8 368 | -3 310  | 69      | - 595   |
| Disbursements               | 1 263  | 2 751  | 2 698   | 4 719   | 6 086   |
| Amortizations <sup>4/</sup> | 571    | 7 624  | 2 867   | 1 411   | 2 370   |
| Interest                    | 3 240  | 3 496  | 3 141   | 3 239   | 4 311   |
| Notes                       | 13 672 | 7 002  | 17 838  | -5 260  | -2 353  |
| Disbursements               | 17 242 | 15 591 | 24 602  | 11 323  | 5 485   |
| Amortizations               | 2 491  | 6 622  | 3 868   | 12 704  | 3 824   |
| Interest                    | 1 078  | 1 967  | 2 896   | 3 879   | 4 014   |
| Intercompany                | 474    | 1 250  | 3 770   | 159     | 2 049   |
| Disbursements               | 1 578  | 3 062  | 6 339   | 3 480   | 5 866   |
| Amortizations               | 355    | 494    | 1 219   | 1 994   | 2 551   |
| Interest                    | 749    | 1 318  | 1 350   | 1 327   | 1 267   |
| Banks                       | -5 465 | -3 099 | 269     | -4 960  | - 107   |
| Disbursements               | 565    | 2 434  | 5 801   | 2 735   | 5 982   |
| Amortizations               | 3 640  | 2 569  | 2 705   | 4 860   | 3 552   |
| Interest                    | 2 389  | 2 964  | 2 827   | 2 834   | 2 537   |
| Others                      | -3 822 | -5 409 | -18 108 | -21 458 | -14 893 |
| Disbursements               | 1 990  | 2 882  | 3 209   | 3 059   | 1 644   |
| Amortizations               | 3 162  | 5 378  | 17 204  | 20 667  | 13 414  |
| Interest                    | 2 650  | 2 913  | 4 113   | 3 850   | 3 122   |

1/ Does not include suppliers/buyers' credits.

2/ Includes IFC.

3/ Disbursements and amortizations regarding to exceptional financing are not included.

4/ In 1997 includes US\$ 5.296 billion related to debt swap for National Treasury Note (NTN).

Flows of intercompany resources – the credit modality utilized frequently in foreign direct investments – resulted in a net inflow of US\$2 billion. Disbursements increased by 68.6% to US\$5.9 billion and amortizations rose by 27.9% to US\$2.6 billion.

### **External debt**

The total external debt reached the mark of US\$236.2 billion in December 2000, representing a drop of US\$5.3 billion in relation to the December 1999 stock. The medium and long-term debt closed with a reduction of US\$7.9 billion. Amortizations came to US\$10.3 billion in the PAF framework. The short-term debt closed at US\$30 billion, with growth of 9.4% in the period.

IMF loans included in the PAF were reduced by US\$7 billion, as a result of alterations in the exchange parity of Special Drawing Rights (SDR), a reduction of US\$196 million and full amortization of resources withdrawn under the heading of Supplemental Reserve Facility (SRF), with the remaining US\$1.8 billion withdrawn in the Credit Tranche modality. Complementary PAF resources contracted in dollars with BIS and BoJ were totally amortized, generating a reduction of US\$3.4 billion in the total debt.

The bond stock, composed of Bradies, eurobonds, Samurai bonds and global bonds, increased by 5.6% or US\$2.9 billion, with important alterations in composition. The share represented by Bradies dropped by US\$10.1 billion, while the stock of other bonds increased by US\$13 billion, thus surpassing the participation of Bradies in the total security stock by 16.8%. Aside from the programmed maturities and the contracting of new resources, this movement is explained by the volume involved in swap operations (US\$6.5 billion in 2000) in which the Republic issued global bonds and accepted Bradies from investors as matching funds.

Despite growth of US\$6.5 billion in imports in 2000, the stock of medium and long-term financing registered a reduction of 4.6% in the period. This falloff was concentrated under buyers' and suppliers' credits (US\$5.2 billion), while agencies accounted for US\$575 million. The stock due to international organizations increased by US\$3 billion.

A breakdown of the medium and long-term foreign debt in December 2000 indicates that 44.1% represented currency loans, 28.5% referred to trade financing and 26.6% involved bonds. The remaining 0.9% referred to the PAF.

The short-term debt increased by US\$2.6 billion for growth of 9.4% in comparison to the 1999 period. While the stock of commercial bank liabilities declined by US\$790

**Table 5.32 - Gross foreign indebtedness**

US\$ million

| Itemization   | 1996    | 1997    | 1998    | 1999    | 2000    |
|---|---------|---------|---------|---------|---------|
| A. Total debt (B+C)                                 | 179 935 | 199 998 | 241 644 | 241 468 | 236 151 |
| B. Medium and long-term debt <sup>1/</sup>          | 142 148 | 163 283 | 215 215 | 214 076 | 206 190 |
| Exceptional financing                               | -       | -       | 9 324   | 12 281  | 1 771   |
| IMF   | -       | -       | 4 784   | 8 834   | 1 771   |
| BIS   | -       | -       | 4 150   | 3 150   | -       |
| BoJ   | -       | -       | 390     | 297     | -       |
| IMF loans   | 68      | 32      | 11      | -       | -       |
| Renegotiated debt bonds                             | 51 239  | 41 930  | 40 419  | 35 330  | 25 250  |
| Other bonds   | 3 637   | 7 457   | 9 321   | 16 509  | 29 504  |
| Import financing                                    | 34 165  | 50 785  | 64 568  | 61 607  | 58 769  |
| Multilateral  | 11 325  | 12 353  | 15 442  | 18 544  | 21 504  |
| Bilateral   | 15 821  | 14 348  | 17 142  | 14 812  | 14 237  |
| Other financing sources                             | 7 019   | 24 084  | 31 984  | 28 252  | 23 027  |
| Currency loans                                      | 52 836  | 62 898  | 91 415  | 88 219  | 90 886  |
| Other loans   | 203     | 181     | 157     | 130     | 10      |
| C. Short-term debt                                  | 37 787  | 36 715  | 26 429  | 27 392  | 29 961  |
| Credit line for petroleum imports                   | 4 985   | 5 695   | 3 355   | 3 318   | 2 572   |
| Other credit lines of nonfinancial public companies | 177     | -       | -       | -       | -       |
| Commercial banks (liabilities)                      | 30 611  | 26 501  | 17 911  | 18 954  | 18 164  |
| Resolution 2,483 - Rural financing                  | 1 944   | 4 003   | 1 399   | 542     | 319     |
| Special operations <sup>2/</sup>                    | 70      | 516     | 3 764   | 4 578   | 8 905   |
| Financing   | ...     | ...     | ...     | 2 616   | 3 850   |
| Currency loans                                      | ...     | ...     | ...     | 1 962   | 5 055   |

1/ Data refer to capital registration in the Banco Central do Brasil. They are not compatible with the balance of payments figures, which represent inflows and outflows effectively occurred in the period.

2/ As of 1997, aside from Banco Central operations, it includes bridge loans and loans to be onlend to export companies. In 1999, it also includes short-term inflows of commercial papers, notes, bonds, direct loans and import financing registered in Banco Central.

billion, the stock of other credits, for which registration has been required since 1999, expanded by US\$4.1 billion, distributed as follows: US\$2.9 billion in the form of loans and US\$1.2 billion as financing. The stock of credit lines for petroleum imports dropped by US\$746 million. With revocation of Resolution 2,483 in August 2000 and the consequent extinction of funding operations for rural financing purposes, the stock of these operations declined by US\$223 million.

When one considers only the stock of the registered external debt, which represents 91.2% of the total external debt, the private sector is the largest debtor, accumulating US\$107.9 billion in medium and long-term resources and US\$7.9 billion in short-term resources. The remaining 46.2% of the registered external debt are due by the public sector, including US\$98.2 billion in medium and long-term debt and US\$1.3 billion in short-term debt.

**Table 5.33 - Registered external debt**

US\$ million

| Debtor                     | Creditor |            |   |            |        |
|----------------------------|----------|------------|---|------------|--------|
|                            | Bonds    | Paris Club | Multilateral institutions <sup>1/</sup> | Bank loans | Notes  |
| Total                      | 54 754   | 7 494      | 23 275                                  | 27 148     | 61 021 |
| Medium and long-term       | 54 754   | 7 494      | 23 275                                  | 23 390     | 60 756 |
| Public sector              | 54 631   | 7 494      | 20 732                                  | 2 477      | 6 708  |
| Nonfinancial public sector | 54 207   | 7 494      | 18 020                                  | 2 174      | 2 877  |
| National Treasury          | 53 958   | 7 494      | 8 628                                   | 208        | -      |
| Public enterprises         | 249      | -          | 2 379                                   | 1 032      | 2 877  |
| States and municipalities  | -        | -          | 5 241                                   | 28         | -      |
| Banco Central do Brasil    | -        | -          | 1 771                                   | 907        | -      |
| Financial sector           | 424      | -          | 2 713                                   | 303        | 3 831  |
| Private sector             | 122      | -          | 2 543                                   | 20 913     | 54 048 |
| Nonfinancial sector        | 122      | -          | 2 297                                   | 12 063     | 41 467 |
| Financial sector           | -        | -          | 246                                     | 8 850      | 12 581 |
| Short term                 | -        | -          | -                                       | 3 757      | 265    |
| Loans                      | -        | -          | -                                       | 1 056      | 265    |
| Nonfinancial sector        | -        | -          | -                                       | 477        | 148    |
| Financial sector           | -        | -          | -                                       | 579        | 117    |
| Import financing           | -        | -          | -                                       | 2 701      | -      |
| Nonfinancial sector        | -        | -          | -                                       | 1 249      | -      |
| Financial sector           | -        | -          | -                                       | 1 452      | -      |

(continues)

Medium and long-term private sector indebtedness (US\$107.9 billion) is concentrated in notes, which account for 50.1% of the total, followed by creditor banks with 19.4% and intercompany credits (14.8%). The share of indebtedness that refers to the private nonfinancial sector corresponded to 78% of the total.

In December 2000, the nonfinancial public sector held medium and long-term external debt worth US\$89.8 billion. Of this total, 80.8% were concentrated within the National Treasury, including 74.4% represented by bond operations. While the National Treasury debt is mostly referenced to bonds, state company debts are concentrated in notes (32.5%), though credits supplied by international organizations represent a quite close participation level, 26.8%. The latter figure is higher for state and municipal indebtedness (94%). With respect to Banco Central indebtedness, US\$1.8 billion refer to the PAF and US\$907 million to the Multiyear Deposit Facility Agreement (MYDFA), a loan consequent upon the debt restructuring.

Using the December 2000 position as reference, the amortization schedule for medium and long-term indebtedness indicated that 14.8% of the maturities are

**Table 5.33 - Registered external debt (concluded)**US\$ million Outstanding: 12.31.2000

| Debtor                     | Creditor            |                   |                      | Total   |
|----------------------------|---------------------|-------------------|----------------------|---------|
|                            | Government agencies | Suppliers credits | Others <sup>2/</sup> |         |
| Total                      | 6 742               | 11 409            | 23 573               | 215 415 |
| Medium and long-term       | 6 742               | 10 767            | 19 012               | 206 190 |
| Public sector              | 3 485               | 568               | 2 160                | 98 257  |
| Nonfinancial public sector | 2 847               | 366               | 1 796                | 89 780  |
| National Treasury          | 1 142               | 212               | 925                  | 72 567  |
| Public enterprises         | 1 313               | 142               | 869                  | 8 861   |
| States and municipalities  | 295                 | 12                | 0                    | 5 576   |
| Banco Central do Brasil    | 97                  | -                 | 1                    | 2 777   |
| Financial sector           | 639                 | 203               | 364                  | 8 477   |
| Private sector             | 3 257               | 10 198            | 16 852               | 107 933 |
| Nonfinancial sector        | 3 099               | 10 149            | 15 013               | 84 210  |
| Financial sector           | 158                 | 50                | 1 838                | 23 723  |
| Short term                 | -                   | 642               | 4 561                | 9 225   |
| Loans                      | -                   | -                 | 4 054                | 5 375   |
| Nonfinancial sector        | -                   | -                 | 2 533                | 3 158   |
| Financial sector           | -                   | -                 | 1 521                | 2 217   |
| Import financing           | -                   | 642               | 507                  | 3 850   |
| Nonfinancial sector        | -                   | 640               | 254                  | 2 143   |
| Financial sector           | -                   | 2                 | 253                  | 1 707   |

1/ Includes IMF.

2/ Includes intercompany loans.

**Table 5.34 - Public registered foreign debt**

Breakdown of principal by debtor and by guarantor

US\$ million

| Itemization  | 1996   | 1997   | 1998    | 1999    | 2000    |
|--|--------|--------|---------|---------|---------|
| Federal government (direct)                                    | 74 010 | 65 989 | 66 777  | 68 959  | 72 592  |
| States and municipalities                                      | 2 796  | 3 512  | 4 886   | 5 401   | 5 575   |
| Direct   | 347    | 364    | 746     | 320     | 97      |
| Guaranteed by the federal government                           | 2 449  | 3 148  | 4 140   | 5 081   | 5 478   |
| Semi-autonomous entities, public companies and mixed companies | 15 742 | 16 173 | 31 467  | 30 398  | 21 439  |
| Direct   | 7 668  | 9 297  | 15 879  | 19 575  | 14 242  |
| Guaranteed by the federal government                           | 8 074  | 6 876  | 15 588  | 10 823  | 7 197   |
| Private sector (guaranteed by the public sector)               | 370    | 489    | 919     | 919     | 919     |
| Total  | 92 918 | 86 163 | 104 049 | 105 677 | 100 525 |
| Direct   | 82 025 | 75 650 | 83 402  | 88 854  | 86 931  |
| Guaranteed by  | 10 893 | 10 513 | 20 647  | 16 823  | 13 594  |
| Federal government   | 10 255 | 10 111 | 19 920  | 16 622  | 13 246  |
| States and municipalities                                      | 1      | 1      | 5       | 3       | 1       |
| Semi-autonomous entities, public companies and mixed companies | 637    | 401    | 722     | 198     | 347     |



programmed for 2001, 9.5% for 2002, 8.3% for 2003 and 12.4% for 2004. As of 2005, the percentage moves downward. Bond operations registered the longest maturity terms, while trade financing credits registered the shortest maturities. The concentration of currency loans in 2004 and 2005 is explained by the high volume of inflows in 1996 and 1997 at the start of the Real Plan. The underlying reason for this is that, at that time, funding operations based on security issues with terms equal to or greater than 8 years were exempt from the income tax.

**Table 5.35 - Medium and long-term external debt**

Amortization schedule<sup>1/</sup>

US\$ million

| Itemization                | Debt stock | 2001   | 2002   | 2003   | 2004   | 2005   |
|----------------------------|------------|--------|--------|--------|--------|--------|
| Government bonds           | 54 754     | 3 190  | 2 180  | 1 880  | 5 861  | 3 494  |
| Organizations and agencies | 35 742     | 3 548  | 5 153  | 6 068  | 5 185  | 3 628  |
| Loans and securities       | 90 895     | 15 126 | 9 628  | 7 630  | 13 246 | 11 498 |
| Buyers and suppliers       | 23 027     | 8 398  | 2 503  | 1 343  | 985    | 579    |
| Total                      | 204 419    | 30 262 | 19 464 | 16 921 | 25 276 | 19 199 |

(continues)

**Table 5.35 - Medium and long-term external debt (concluded)**

Amortization schedule<sup>1/</sup>

US\$ million

Outstanding: 12.31.2000

| Itemization                | 2006   | 2007   | 2008  | 2009  | 2010  | 2011 and Beyond |
|----------------------------|--------|--------|-------|-------|-------|-----------------|
| Government bonds           | 3 184  | 4 162  | 3 384 | 3 619 | 2 171 | 21 630          |
| Organizations and agencies | 3 147  | 1 427  | 1 179 | 857   | 864   | 4 686           |
| Loans and securities       | 6 441  | 9 181  | 3 858 | 2 506 | 1 530 | 10 252          |
| Buyers and suppliers       | 357    | 299    | 200   | 194   | 116   | 8 053           |
| Total                      | 13 129 | 15 069 | 8 621 | 7 175 | 4 680 | 44 622          |

1/ Excludes regularization operations (IMF - Credit Tranche).

Placements of bonds with longer terms made it possible to lengthen the average term of the registered external debt, which moved from 5.7 years in the December 1999 position to 6.4 years in the December 2000 position.

**Table 5.36 - Average term of total external debt<sup>1/</sup>**

In years

| Itemization | 1997 | 1998 | 1999 | 2000 |      |      |      |
|-------------|------|------|------|------|------|------|------|
|             | Dec  | Dec  | Dec  | Mar  | Jun  | Sep  | Dec  |
| Total       | 6.06 | 5.79 | 5.70 | 5.81 | 5.93 | 6.47 | 6.36 |

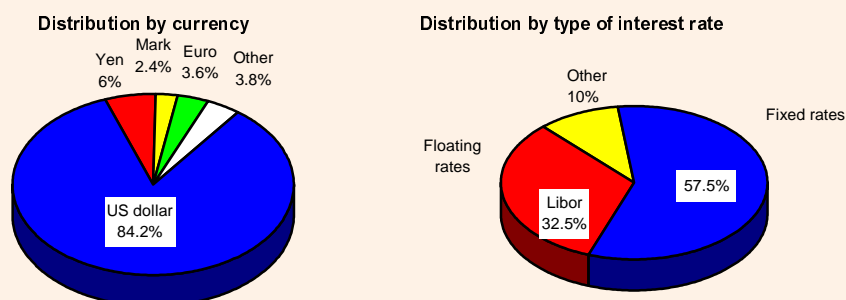
1/ Based on the amortization schedule.

In terms of composition by currency, the registered external debt remained stable. The American dollar continued in a predominant position as reference currency for 84.2% of the value of liabilities in December 2000. The participation of the euro, which came to 3.6%, and the Japanese yen, with 6%, increased over the course of the year. In the first case, there was a natural process of substitution of the national currencies of the Euro Zone member countries with the recently adopted new currency, which had gradually consolidated its position as the unit of account for international financial market operations. In this context, the Republic continued its issues denominated in euro, with a total US\$2.1 billion in 2000. Insofar as the second case is concerned, there were no alterations in the participation of the Japanese yen in private indebtedness. The increase in participation in total debt was a consequence of issues of Bonds of the Republic in yen, which came to a total of US\$1.1 billion.

Between December 1999 and December 2000, alterations in exchange parities reflected a decrease of approximately US\$2.7 billion in registered external indebtedness. The largest share of this reduction originated in upward movement in the value of the dollar against the euro and, consequently, against the individual currencies of the Euro Zone countries.

In December 1999, 47.8% of the debt stock earned floating rates of interest, dropping to 42.5% in December 2000. This alteration reflected a reduction in the exposure of Brazilian indebtedness to interest rate risk, making the debt service less sensitive to changes on the international economic scenario. Aside from private sector preference for loans and financing with fixed rates of interest, two other factors contributed to the change in percentage distribution: amortization of US\$10.3 billion in credits related to the international financial assistance program, with floating rates of interest, and operations involving exchanges of external debt securities, with cancellation of Bradies, some of which are subject to fixed rates and others to floating rates, and issue of Global Bonds, all of which are subject to fixed rates. The

Graph 5.11  
Registered foreign debt composition  
December 2000



half-yearly Libor continued as the major indexing factor in 76.4% of the debt stock contracted on the basis of floating rates.

### Indebtedness indicators

The trajectory of deterioration in indebtedness indicators, which began in 1995, was reversed in 2000, mostly as a consequence of reductions in the external debt stock and payments of interest and principal. The turnaround in this trajectory initiated a process of improvement in all the major indices and led the various risk classification agencies to raise the ranking of Brazilian external debt securities in 2000.

**Table 5.37 - Indebtedness indicators**  
US\$ million

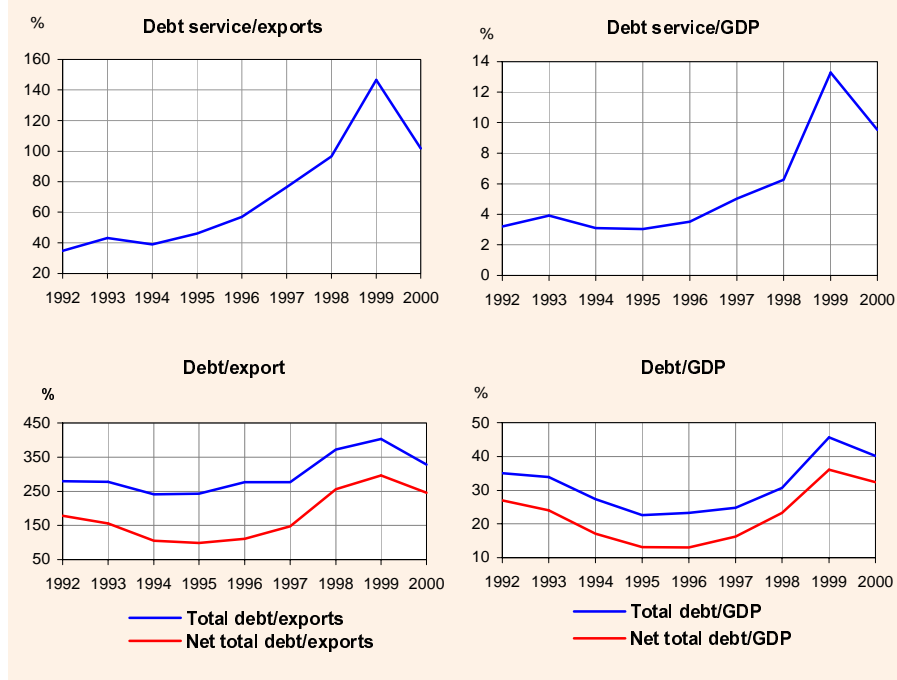
| Itemization                            | 1996    | 1997    | 1998    | 1999    | 2000    |
|--|---------|---------|---------|---------|---------|
| Debt service                           | 27 183  | 40 431  | 47 224  | 70 375  | 56 034  |
| Amortizations <sup>1/</sup>            | 14 419  | 26 021  | 31 381  | 52 907  | 38 492  |
| Gross interest                         | 12 764  | 14 410  | 15 843  | 17 468  | 17 542  |
| Medium and long-term external debt (A) | 142 148 | 163 283 | 215 214 | 214 076 | 206 190 |
| Short-term external debt (B)           | 37 787  | 36 715  | 26 430  | 27 392  | 29 961  |
| Total debt (C)=(A+B)                   | 179 935 | 199 998 | 241 644 | 241 468 | 236 151 |
| International reserves (D)             | 60 110  | 52 173  | 44 556  | 36 342  | 33 011  |
| Brazilian credit abroad (E)            | 7 587   | 7 331   | 7 441   | 7 274   | 6 801   |
| Commercial bank assets (F)             | 11 675  | 9 639   | 7 380   | 7 481   | 6 028   |
| Net debt (G)=(C-D-E-F)                 | 100 563 | 130 856 | 182 267 | 190 371 | 190 312 |
| Export                                 | 47 747  | 52 990  | 51 140  | 48 011  | 55 086  |
| GDP                                    | 775 475 | 807 814 | 787 499 | 529 398 | 587 971 |
| Memorandum (in percentage)             |         |         |         |         |         |
| Debt service/exports                   | 57      | 76      | 92      | 147     | 102     |
| Debt service/GDP                       | 4       | 5       | 6       | 13      | 10      |
| Total debt/exports                     | 377     | 377     | 473     | 503     | 429     |
| Total debt/GDP                         | 23      | 25      | 31      | 46      | 40      |
| Net total debt/exports                 | 211     | 247     | 356     | 397     | 345     |
| Net total debt/GDP                     | 13      | 16      | 23      | 36      | 32      |

<sup>1/</sup> Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.

While the value of exports increased by 14.7% in 2000, the debt service – particularly in terms of amortizations – declined by 20.4% in the same period. The result was that export revenues once again came quite close to total debt service outlays. GDP measured in dollars in 2000 expanded by 11.1% in relation to 1999. As a result, the debt service expressed as a percentage of the aggregate declined from 13.3% in 1999 to 9.5% in 2000. The 2.2% reduction in the total external debt stock between the

December 1999 and December 2000 positions, together with growth in the GDP and exports, reduced the participation of the external debt in relation to GDP from 45.6% in 1999 to 40.2% in 2000, and the ratio between the external debt and exports from 502.9% to 428.7%, using the same basis of comparison. Excluding assets, the total debt, which, in the month of December, represented 397.8% of the value of export revenues over the last 12 months, moved to 345.5% in December 2000 and declined from 36.1% to 32.4% as a percentage of GDP.

Graph 5.12  
Indebtedness indicators



## External funding

Recent growth in the volume of sovereign funding operations based on bond issues demonstrated the degree of access that Brazil enjoys to the international financial market. This type of operation clearly consolidated itself in the year as the principal means of maintaining an appropriate level of international reserves and external financing. Since the process of external debt restructuring was concluded in 1994, the Federative Republic of Brazil has obtained US\$1.7 billion in 1995, US\$1.3 billion in 1996, US\$5.3 billion in 1997, US\$2.2 billion in 1998, US\$7.7 billion in 1999 and US\$12 billion in 2000. In much the same way, the weighted average term of these operations expressed in years increased from 2.4 in 1995 to 4.6 in 1996, 23.4 in 1997, 8.8 in 1998, 6 in 1999 and 25.2 in 2000.

The face value of the papers issued in 2000 by the Federative Republic of Brazil came to US\$12 billion, of which US\$5.8 billion referred to new resources and US\$6.2 billion to cancellation of restructured debt securities (Bradies). There were six issues based entirely on new resources: Global-20, denominated in dollars, Samurai 03 and Samurai 06, denominated in yen, Euro 10, Euro 05 and Euro 07, denominated in euro, coupled with two others that were combinations of new resources and cancellation of Bradies, designated Global 30 and Global 07, denominated in dollars. Continuing the policy initiated in 1999, papers with varied maturities were issued with the aim of broadening the reference cost curve for the issues of private agents. As a matter of fact, a reference was created for funding operations in euro with terms of 10 years and in dollars for longer terms of 20 and 30 years.

With respect to the rate of return offered to Brazil by American Treasury papers, the lowest risk premium paid in issues during the course of 2000 came to 474 basis points and the largest closed at 788 basis points. The gap between the two was due to utilization of different currencies and, principally, different funding periods.

### External funding operations – exchange operations

Federal Senate Resolution 69, dated 9.12.1996, authorized the federal government to carry out Brazilian external debt security repurchase and restructuring operations, with the objective of acquiring securities with a discount on the

**Table 5.38 - Exchange operations of bonds of the Republic**

US\$ million

| Bonds issued            | Date of inflow | Date of maturity | Value of new issue <sup>1/</sup> | Value of Bradies cancelled | Nominal reduction of foreign debt | Collateral released |
|-------------------------|----------------|------------------|----------------------------------|----------------------------|-----------------------------------|---------------------|
| Global 27 <sup>2/</sup> | 6.9.1997       | 4.15.2027        | 2 245                            | 2 693                      | 448                               | 610                 |
| Global 04 <sup>3/</sup> | 4.30.1999      | 4.15.2004        | 1 000                            | 1 193                      | 193                               | -                   |
| Global 09 <sup>4/</sup> | 10.15.1999     | 10.15.2009       | 2 000                            | 3 003                      | 1 003                             | 587                 |
| Global 30 <sup>5/</sup> | 3.29.2000      | 3.6.2030         | 600                              | 705                        | 105                               | 139                 |
| Global 07 <sup>6/</sup> | 7.26.2000      | 7.26.2007        | 379                              | 416                        | 37                                | -                   |
| Global 40 <sup>7/</sup> | 8.17.2000      | 8.17.2040        | 5 158                            | 5 400                      | 242                               | 334                 |
| Total                   |                |                  | 11 382                           | 13 410                     | 2 028                             | 1 670               |

1/ Includes only the amount issued as from the cancellation of Bradies.

2/ Bradies accepted for swap: Par, Discount and C Bond.

3/ Bradies accepted for swap: EI and IDU.

4/ Bradies accepted for swap: Par, Discount, C Bond and DCB.

5/ Bradies accepted for swap: Par, Discount, DCB, FLIRB, and EI.

6/ Bradies accepted for swap: FLIRB, NMB, EI and BIB.

7/ Bradies accepted for swap: Par, Discount, C Bond, DCB, FLIRB, NMB, EI, IDU and BIB.

secondary market and issuing new papers to replace those acquired. This operational format is targeted at various objectives, including reductions in charges or stocks, lengthening of terms and profile adjustments.

Based on the terms of the Resolution, between 1997 and 2000, the federal government repurchased US\$13.4 billion in Bradies at face value and issued six new securities known as Globals, which added up to US\$11.4 billion. The difference between the face value of the cancelled papers and the face value of the issued securities – a consequence of the ratio between the secondary market prices of Bradies and the prices of Global bonds at the time of issue – resulted in a nominal external debt reduction of US\$2 billion.

At issue of some Bradies – Par Bonds, Discount Bonds and Front Loaded Interest Reduction Bonds (FLIRB) – Brazil constituted guaranties for payment of the interest and principal of these papers. The guaranties of principal consisted of American Treasury securities held in custody at BIS with maturities similar to those of the Bradies, zero coupon. The interest guaranties consisted of fixed term interest bearing deposits, also held in custody at BIS. In exchange operations involving these collateralized Bradies, the share of guaranties referring to the amount of securities cancelled is released and incorporated into international reserves. When one considers the market value of American Treasury papers, the total release of collaterals came to US\$1.7 billion since the start of the exchange operations.

Investor demand for papers issued in exchange operations demonstrated the highly positive development of the nation's macroeconomic conditions, at the same time in which it was further stimulated by an almost natural wariness in relation to restructured liabilities. By providing issuers with added advantages, the conditions governing exchanges indicate the higher costs built into the papers generated in the debt renegotiation in comparison to papers for which demand is naturally created. In Bradies for Global Bond exchanges, investors opt to exchange papers marked by highly complex structures, with floating rate interest and scaled amortizations for other securities with much simpler structures, earnings defined exclusively on the basis of fixed interest and amortizations in a single payment. The new structure was responsible for transformation of the profile of indebtedness, considering that the increase in interest outlays as a result of increases in new coupons was more than offset by the reduction in expenditures on principal, which were restricted to the date of maturity. The implicit rate of interest, calculated according to interest outlays in a specific period of time in relation to the total debt stock, increased, while the temporal profile of the indebtedness was lengthened. In this way, the external debt service forecast for coming years was reduced as improved conditions for financing external liabilities are obtained.

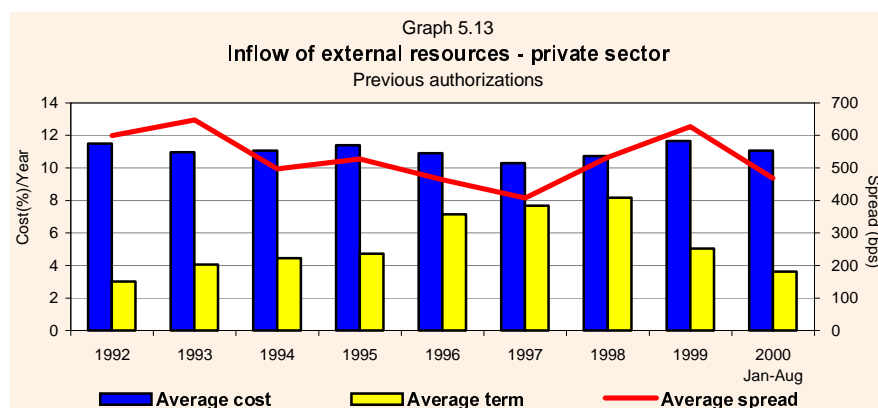
**Table 5.39 - Issues of the Republic**

| Itemization  | Date of inflow | Date of maturity | Maturity years | Value US\$ million | Coupon % p.y. | Rate of return at issuance % p.y. | Spread over U.S. Treasury basis points |
|--------------|----------------|------------------|----------------|--------------------|---------------|-----------------------------------|--|
| Euroiene     | 6.19.1995      | 6.19.1997        | 2              | 942                | 6.000         |                                   | 481                                    |
| Euromarco    | 7.20.1995      | 7.20.1998        | 3              | 730                | 9.000         |                                   | 410                                    |
| Samurai 01   | 3.22.1996      | 3.22.2001        | 5              | 281                | 5.500         |                                   | 320                                    |
| Caravela     | 5.15.1996      | 5.15.1999        | 3              | 76                 | Libor + 2,400 |                                   | 262                                    |
| Eurolibra    | 6.11.1996      | 6.11.1999        | 3              | 153                | 9.750         |                                   | 250                                    |
| Global 01    | 11.5.1996      | 11.5.2001        | 5              | 750                | 8.875         | 8.91                              | 265                                    |
| Euromarco 07 | 2.26.1997      | 2.26.2007        | 10             | 592                | 8.000         |                                   | 242                                    |
| Fung NLG     | 5.21.1997      | 5.21.2002        | 5              | 210                | 6.625         |                                   | 190                                    |
| Fung FRF     | 5.21.1997      | 5.21.2002        | 5              | 175                | 6.625         |                                   | 195                                    |
| Fung ATS     | 5.21.1997      | 5.21.2002        | 5              | 168                | 6.625         |                                   | 190                                    |
| Global 27    | 6.9.1997       | 6.9.2027         | 30             | 3 500              | 10.125        | 10.90                             | 395                                    |
| Eurolira     | 6.26.1997      | 6.26.2017        | 20             | 443                | 11.000        |                                   | 348                                    |
| Eurolibra    | 7.30.1997      | 7.30.2007        | 10             | 244                | 10.000        | 8.73                              | 268                                    |
| Euro 03      | 3.3.1998       | 3.3.2003         | 5              | 547                | 8.625         | 9.67                              | 417                                    |
| Global 08    | 4.7.1998       | 4.7.2008         | 10             | 1 250              | 9.375         | 10.29                             | 375                                    |
| Euromarco 08 | 4.23.1998      | 4.23.2008        | 10             | 410                | 10.000        | 8.97                              | 328                                    |
| Global 04    | 4.22.1999      | 4.15.2004        | 5              | 3 000              | 11.625        | 11.88                             | 675                                    |
| Euro 02      | 7.29.1999      | 7.29.2002        | 3              | 859                | 9.500         | 12.24                             | 650                                    |
| Euro 04      | 9.30.1999      | 9.30.2004        | 5              | 531                | 11.125        | 13.18                             | 742                                    |
| Global 09    | 10.25.1999     | 10.15.2009       | 10             | 2 000              | 14.500        | 14.01                             | 850                                    |
| Euro 06      | 11.17.1999     | 11.17.2006       | 7              | 723                | 12.000        | 12.02                             | 743                                    |
| Euro 01      | 11.26.1999     | 11.26.2001       | 2              | 613                | 8.250         | 10.69                             | 493                                    |
| Global 20    | 1.26.2000      | 1.15.2020        | 20             | 1 000              | 12.750        | 13.27                             | 650                                    |
| Euro 10      | 2.4.2000       | 2.4.2010         | 10             | 737                | 11.000        | 12.52                             | 652                                    |
| Global 30    | 3.6.2000       | 3.6.2030         | 30             | 1 600              | 12.250        | 12.90                             | 663                                    |
| Samurai 03   | 4.17.2000      | 4.17.2003        | 3              | 573                | 4.500         | 11.23                             | 474                                    |
| Euro 05      | 7.5.2000       | 7.5.2005         | 5              | 714                | 9.000         | 11.10                             | 488                                    |
| Global 07    | 7.26.2000      | 7.26.2007        | 7              | 1 000              | 11.250        | 12.43                             | 610                                    |
| Global 40    | 8.17.2000      | 8.17.2040        | 40             | 5 157              | 11.000        | 13.73                             | 788                                    |
| Euro 07      | 10.5.2000      | 10.5.2007        | 7              | 656                | 9.500         | 11.01                             | 508                                    |
| Samurai 06   | 12.22.2000     | 3.22.2006        | 5              | 531                | 4.750         | 10.92                             | 531                                    |

In the course of 2000, Global Bonds 30 were issued in March, Global 07 in July and Global 40 in August. The latter was significant in terms of value (US\$5.2 billion) and, principally, maturity (40 years), the longest term security ever placed by a Latin American country. The substitution of the estimated expenditure flow for the volume of Bradies cancelled with the Global 40 flow resulted in a reduction of US\$191 million in the debt service over a period of one year, US\$463 million in five years and US\$960 million in ten years.

### External funding operations – private sector

External funding operations authorized by Banco Central for private sector borrowers registered total costs – including fees and commissions – equivalent to 11.7% per year in the period from January to August 2000, reflecting a reduction of 0.6 percentage points in relation to the 1999 result. The fact that both financial and nonfinancial Brazilian companies registered a lesser degree of risk in 2000 was more sharply reflected in the differential in return rates, which were impacted by growth in the rates paid by American Treasury securities in 2000. The rate of return differential was constructed as the weighted average of the value of authorizations for the first eight months of 2000 and came to 469 basis points, in contrast to 626 basis points for all of 1999. The cost reduction can be explained to some extent by the decrease in the average term of funding operations from 5 years in 1999 to 3.6 year in the aforementioned period of 2000.



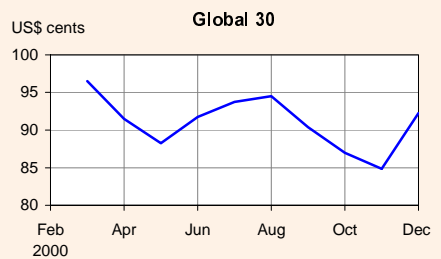
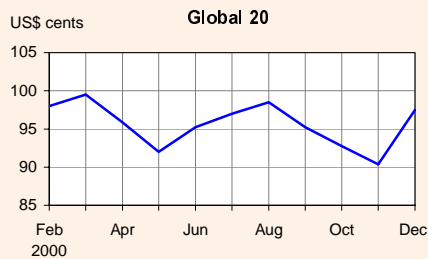
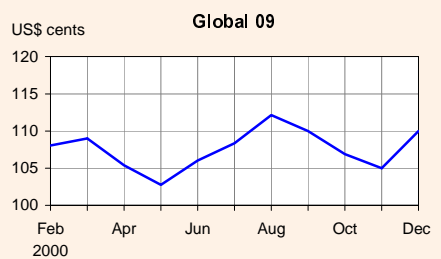
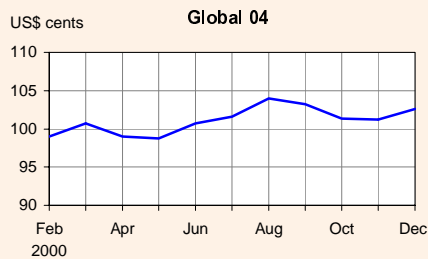
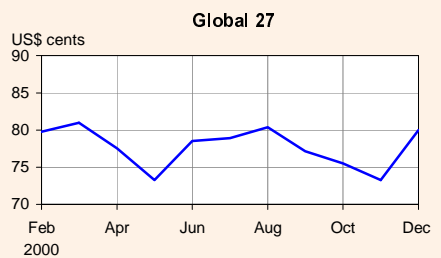
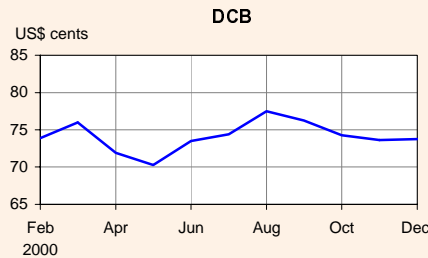
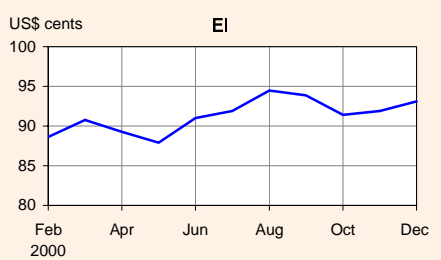
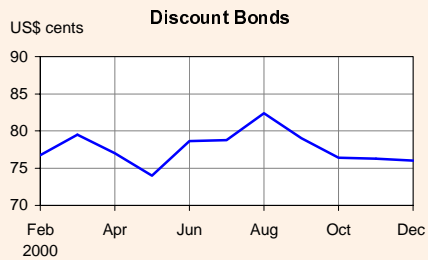
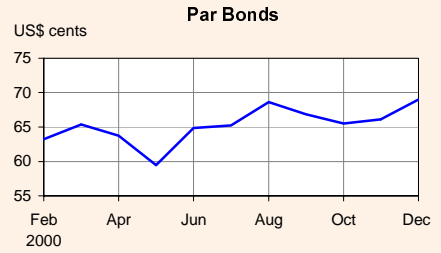
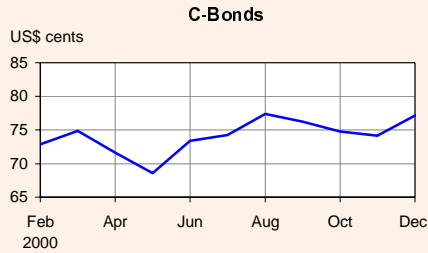
### Brazilian external debt securities

The performance of the major Brazilian external debt securities in 2000 was marked by low volatility in comparison to the previous year and an upward trend in value. With the exception of Global 30, all of the papers closed the year at price levels higher than in 1999. C-Bonds, which are the Brazilian external debt papers with the highest liquidity levels and the reference for papers subject to floating rates, moved up in value by 10.2% between January and December 2000.

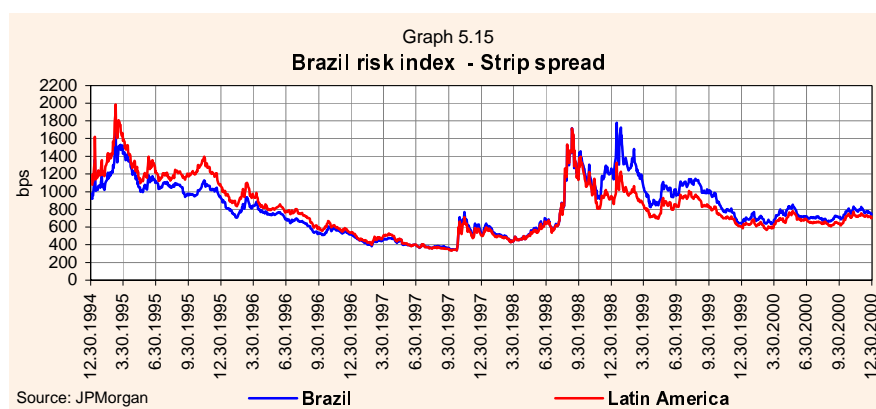
The behavior of Bradies was impacted by security exchange operations, as demonstrated by the price peaks that occurred in March – issue date of the Global 30 – and August – issue date of the Global 40. The Federative Republic of Brazil's willingness to accept Bradies in issues of new securities generated a rise in secondary market demand and, consequently, in prices.



Graph 5.14  
**Prices of Brazilian securities abroad**  
 Secondary market - bid price, end-of-period  
 2000



Over the course of 2000, the basket of Brazilian external debt securities, weighted by liquidity, registered a rate of return differential in relation to American Treasury papers that varied between 626 and 854 points and an average of 688 basis points calculated on the basis of daily observations. With the exchange problems that occurred in Mexico, Southeast Asia, Russia and Brazil, the differential moved sharply upward, only to fall back as the degree of volatility subsided, closing more or less at the level in effect at the end of 1999. In 2000, the external securities of Latin American countries were considered to have a slightly lower risk than Brazilian papers, offering an average rate of return that was 42 basis points lower.



### International financial assistance program – drawdowns and amortizations

In the framework of the international financial assistance program, amortizations in April 2000 added up to US\$10.3 billion, distributed as follows: US\$6.9 billion to the IMF, US\$3.1 billion to BIS and US\$297 million to the BoJ.

A breakdown of total amortizations with the IMF shows that US\$2 billion referred to 50% of the drawdown in the SRF modality in December 1998 and US\$4.9 billion to the 100% drawdown under the same heading in April 1999. For the amount equivalent to 50% of the second drawdown, the fact of no amortization in April added 50 basis points to the rate of interest initially defined as the Charge Rate plus 300 basis points. However, amortization of 50% of the first drawdown could have occurred in June 2000 and 50% of the second drawdown in October 2000, with no increase in interest. In much the same way, the renewal of loans with BIS and the BoJ would result in addition of 50 points to the interest rate initially defined as the six month Libor plus 460 basis points. Therefore, payment of US\$10.3 billion reflected the fact that Brazil had opted not to renew US\$6.4 billion and had anticipated payment of US\$3.9 billion, thus generating a cutback in expenditures on interest to be paid on IMF, BIS and BoJ resources in a total amount from US\$1.1 billion in 1999 to US\$534 million in 2000. When one analyzes normalization operations,

the debt balance was restricted to US\$1.8 billion withdrawn from the IMF in the form of a Credit Tranche, with initial maturities scheduled for 2002.

The new exchange system implemented in 1999 and, principally, the evolution of the nation's external accounts made it possible to amortize resources allocated into normalization operations, maintaining an adequate level of international reserves.

In 2000, resources supplied by international development organizations, IBRD and IDB, provided inflows of US\$2.8 billion and interest outlays that came to US\$377 million, compared to US\$69 million in 1999. The credit line channeled by IDB to social programs was fully withdrawn by the National Treasury, while other resources from different credit lines that can only be withdrawn by the BNDES were not fully withdrawn. At the end of 2000, the debt balance with these organizations came to US\$5.8 billion, in terms of the financial assistance program, with maturities scheduled to occur between 2002 and 2019. Of the total initially made available, US\$9 billion, US\$3.2 billion are still available for withdrawal, provided that such an operation be authorized by the National Congress.

**Table 5.40 - Exceptional financing**

US\$ million

|                    | 1998 <sup>1/</sup> |               | 1999          |          |               | 2000          |          |  |
|--------------------|--------------------|---------------|---------------|----------|---------------|---------------|----------|--|
|                    | Disbursements      | Disbursements | Amortizations | Interest | Disbursements | Amortizations | Interest |  |
| IBRD <sup>2/</sup> | -                  | 1 000         | -             | 40       | 1 000         | -             | 104      |  |
| IDB <sup>2/</sup>  | -                  | 1 999         | -             | 29       | 1 787         | -             | 273      |  |
| IMF                | 4 784              | 6 025         | 1 966         | 463      | -             | 6 876         | 338      |  |
| BIS                | 4 150              | 4 500         | 5 500         | 602      | -             | 3 150         | 179      |  |
| BoJ                | 390                | 424           | 517           | 57       | -             | 297           | 17       |  |
| Total              | 9 324              | 13 947        | 7 983         | 1 191    | 2 787         | 10 323        | 911      |  |

1/ No amortization or interest were paid this year.

2/ Included in the balance of payments under financing.

### **International financial assistance program – external indebtedness targets**

The agreement formalized between Brazil and the IMF involved nominal targets for macroeconomic variables. The targets specified were defined as performance criteria so that noncompliance would make it impossible for Brazil to make new drawdowns. Among these performance criteria, ceilings were determined for the nonfinancial public sector external debt stock, private sector external debt guaranteed by the public sector and short-term public sector external debt.

Just as had occurred in 1999, the external indebtedness targets were met with considerable leeway. A quarterly calculation up to December indicates that the difference between the effective value and the nonfinancial public sector indebtedness target came to US\$4.8 billion. The amount registered for December under short-term indebtedness and private sector debt guaranteed by the public sector represented 62.6% of the value of the targets.

**Table 5.41 - External debt targeting - 2000 (agreement with IMF)**

US\$ million

| Period | Medium- and long-terms |                        | Short-term |          | Collateral |                        |
|--------|------------------------|------------------------|------------|----------|------------|------------------------|
|        | Target                 | Occurred <sup>1/</sup> | Target     | Occurred | Target     | Occurred <sup>1/</sup> |
| Mar    | 92 900                 | 88 846                 | 4 343      | 3 936    | 1 580      | 919                    |
| Jun    | 94 680                 | 90 909                 | 4 430      | 3 581    | 1 580      | 919                    |
| Sep    | 95 000                 | 91 193                 | 4 700      | 3 141    | 1 580      | 919                    |
| Dec    | 95 500                 | 90 684                 | 4 000      | 2 572    | 1 580      | 919                    |

1/ Data cleared at the period.



# VI

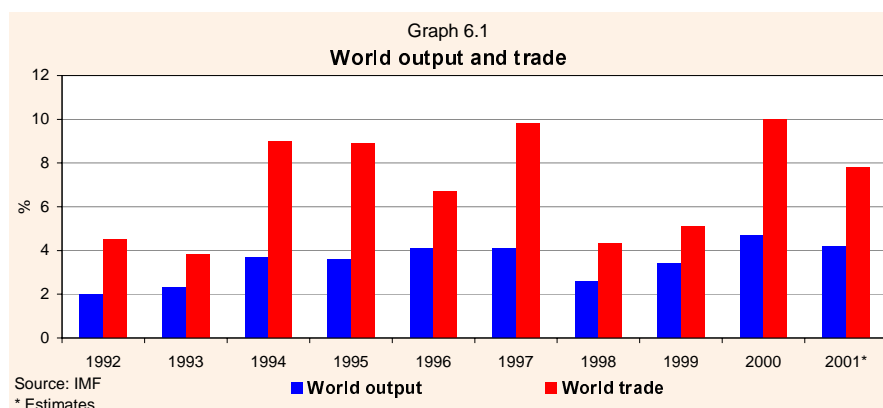
## THE INTERNATIONAL ECONOMY

### Introduction

World economic growth in 2000 was generated basically by the trajectories of the United States economy and petroleum prices. The American economy expanded more intensively in the first half of the year than in the second, with productivity gains that aided in controlling inflationary pressures in a framework of full employment. In a context of rising international energy prices, estimates of growth in demand at a level higher than the expansion capacity of potential product led the Federal Reserve to raise the basic interest rate target on several successive occasions in the period from February to May by a total of 100 basis points to a final level of 6.5% per year. Consequently, despite the fact that the pace of American economic activity remained high in the second half of the year, the rise in the cost of financial resources, coupled with reductions in available income caused by rising energy costs and the negative wealth effect resulting from adjustments in the market value of stocks, contributed to a decrease in the dynamics of demand indicators, falloffs in the pace of industrial production growth and forecasts of declines in confidence indicators. Parallel to these factors, measures taken by Opec with the objective of raising and, subsequently, managing international petroleum prices generated changes in the relative prices of the economy with strong negative impacts on the costs inherent to importer economies. At the same time, these measures made it possible for the petroleum exporting countries to increase their revenues on international sales.

The level of economic activity in the United States, renewed expansion in the Euro Zone countries and recovery in the emerging economies of Southeast Asia, Latin America and Eastern Europe contributed to sharp growth in the trade level. In this sense, IMF estimates indicate that the marketed volume of goods and services increased by 10% in 2000, 2.1 percentage points above the projection elaborated in May, compared to expansion of 5.1% in 1999.

In much the same way as occurred in previous years, the Japanese economy showed no real signs of consistent recovery. The scenario in that country can be described as one marked by weak internal demand, particularly under private consumption, while external demand was the factor most responsible for the positive growth



registered in industrial output. In this context, expectations of deceleration in world economic growth and a consequent downturn in the American economy clearly suggests that short-term expansion in the Japanese economy will be limited.

Economic performance in the Euro Zone countries benefited from devaluation of the single currency in relation to the dollar and renewed growth in the emerging economies. With this, the economic growth process consolidated in the range of 3% in a framework of declining unemployment and expanding productivity indices. Growth in consumer price indices at a level above the reference defined by the European Central Bank (ECB) and increases in United States interest rates contributed to the more restrictive nature of European monetary policy, as the interest reference rate closed at 4.75% per year at the end of the year, for an increase of 175 basis points.

According to preliminary estimates issued by the Economic Commission for Latin America and the Caribbean (Cepal), GDP expanded by 4% in the region, a result considered quite significant following the stability that marked 1999. This performance can be ascribed to the increase in foreign sales that resulted from greater world demand and a slight recovery in the international prices of exported products. However, the Argentine economy was characterized by an ongoing recession that dates to the end of 1998 and has been further aggravated by deterioration in public sector accounts. In this framework, at the end of the year the Argentine government opted for a new financial support agreement with the IMF, international organizations and private banks. This decision is expected to contribute to restoring investor confidence in the Argentine economy and making it possible to regain a process of economic expansion.

In general, the emerging Asian economies registered strong recovery in the pace of activity in 2000 despite the fact that several serious problems, such as the restructuring of the South Korean banking system, must still be coped with.

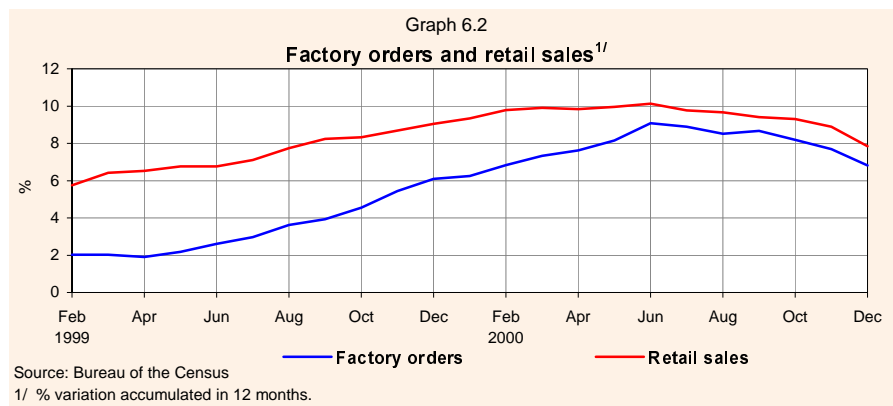
In this context, the IMF's estimate of world economic growth in 2000 suggests a rate of 4.7% for the year or 0.5 percentage point higher than the forecast made in the month of May. This result indicates the continued trend toward accelerated world economic growth that had reached a level of 2.6% in 1998 and 3.4% in 1999.

### United States

In the first half of the year, utilization of production factors moved to a very high level, particularly in the context of the labor market, thus reducing the product gap. The pace of internal absorption surpassed that of GDP and led to a gradual increase in the utilization of external savings. Even though it has not generated significant inflationary pressures, this imbalance did lead the Federal Open Market Committee (FOMC) to adopt successive interest rate increases in order to adjust the rate of aggregate demand growth to that of GDP. In the second half of the year, the United States economy, which had registered positive annual growth rates for ten consecutive years, showed the first signs of deceleration. However, this trend did not result in changes in the basic interest rate (fed funds) target of 6.5% per year.

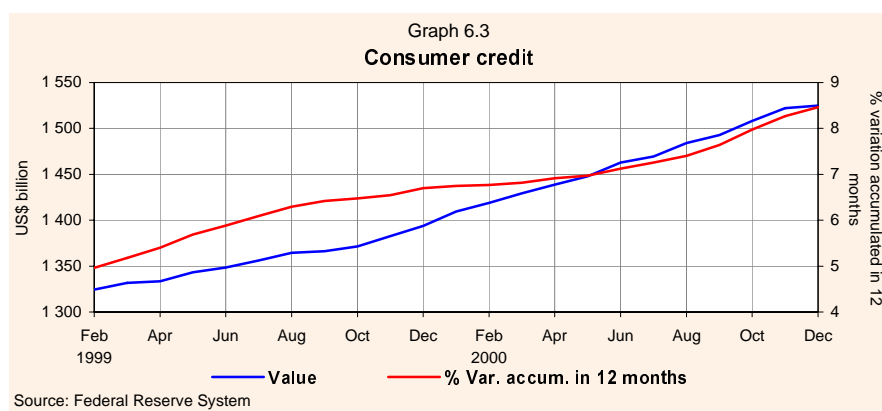
The slowdown in the growth pace was more evident under aggregate investments, government spending and net external demand, as shown in the statistics released by the Bureau of Economic Analysis. The reduction in the growth of net income available to the private sector and the decline in the capital stock on securities markets have aided in generating a slowdown in household consumption, as is evident in the trends under factory orders and retail sales at the end of the year.

Following accelerated growth in the period between mid-1999 and the end of the first half of 2000, accumulated factory orders over twelve months reversed course as of the start of the second half of the year. Annual accumulated twelve month growth came to 9.1% in June 2000, declining to 6.8% in December. In much the same way, retail sales accumulated over twelve months moved steadily upward in accumulated



annual terms in the period from 1999 to June 2000 when this heading closed with expansion of 10.1%, before dropping back to 7.9% in December.

Despite both declining orders and sales, consumer credit operations followed a strongly positive growth curve even in the second half of 2000 before turning downward in the month of December. Consequently, growth in November came to 10.4% compared to the same month of the previous year, before slipping to 10% in the final month of the year.



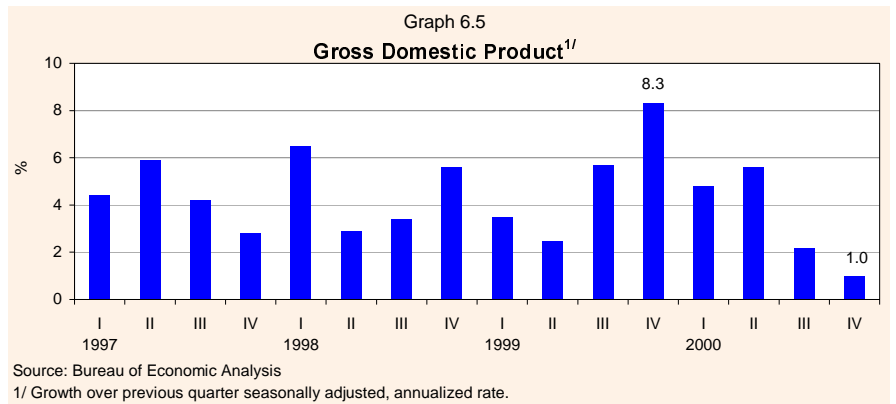
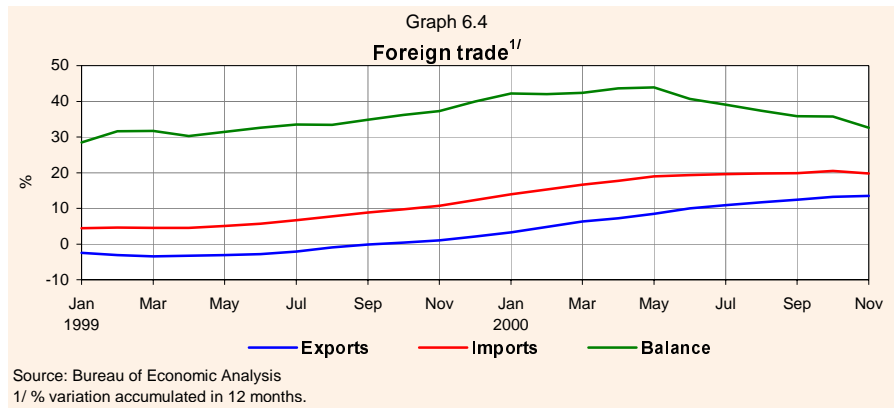
The construction industry was the segment that registered the sharpest slowdown over the course of the year. The pace of new building starts slowed gradually in the period between 1999 and the first quarter of 2000, turning negative as of the month of May. For the most part, this performance was a consequence of the rise in mortgage interest rates.

Government accounts exerted no demand pressures on the economy since, according to the Department of the Treasury, the federal government registered a surplus of US\$236.7 billion in fiscal year 2000, which ended in May of that year. This amount was sharply higher than in 1999 and 1998.

With respect to foreign trade, exports have expanded at a rapid pace, while the growth rate under imports remained stable at a level higher than export operations.

GDP expanded by 5% in the year, compared to growth of 4.2% in 1999. Here, it should be stressed that, though the annual result pointed to upward movement, data for the third and fourth quarters of the year reveal an accentuated decline in growth, from 2.2% in the third quarter to 1% in the fourth, when compared to the previous quarters, based on annualized rates from which seasonal effects have been removed.





Unemployment varied between 3.9% and 4.1% during the year according to the Bureau of Labor Statistics, interrupting the sharp downward trend that has marked recent years. However, one should note that this level is significantly below that of the historical series.

Industrial output expanded at an accelerated pace up to the third quarter of the year, before turning negative in the final three months of the year. Consequently, the year's total industrial output expanded by 5.6% when viewed against the previous

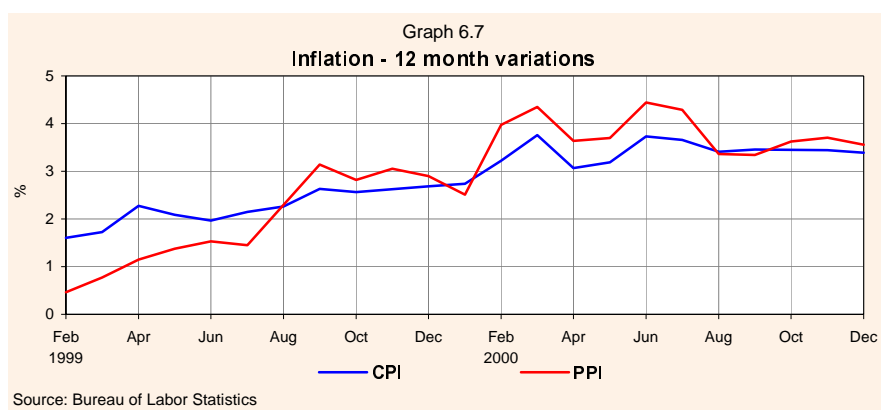


year compared to growth of 4.2% in 1999. Just as occurred in the previous year, this expansion was powered by sectors involved in production of computers and supplies for the informatics and telecommunications industries. Evidently, this growth reflected more intense utilization of these goods and this fact, in turn, generated a positive impact on labor productivity.

The compatibility between increased output and stability in the jobless rate resulted from enhanced productivity, principally in the manufacturing industry. Labor productivity in this sector increased by an average of 7.1% in the year, according to data released by the Bureau of Labor Statistics. When one analyzes the totality of the nonfarm sector, growth in labor productivity came to 4.3%. The productivity increase was accompanied by growth in real average earnings. With this, the unit labor cost remained relatively stable in the nonfarm sector, while declining in the manufacturing sector.

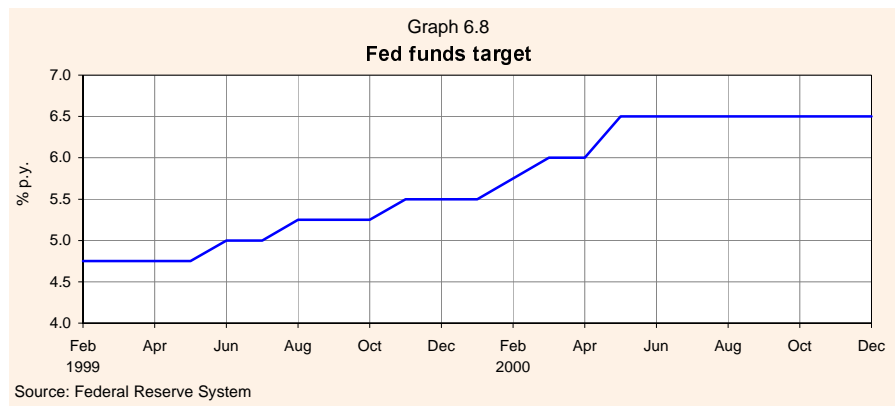
Price indices registered relatively low levels of growth despite the pressures generated by upward movement in international market petroleum prices. The Consumer Price Index (CPI), measured by the Bureau of Labor Statistics, increased by 3.4% in the year, compared to expansion of 2.7% in 1999. The core index, which excludes the effects of energy and foodstuffs, increased by 2.6% in 2000.

The Producer Price Index (PPI) for final goods rose by 3.6% in 2000 following a 2.9% increase in 1999, once again according to the Bureau of Labor Statistics. Just as occurred in 1999, the prices of final energy products produced the greatest pressure on the index with growth of 17.1%, while the prices of other items moved upward by an overall rate of 1.3%, demonstrating that the impact of the price rise under energy goods had restricted effects on the other prices of the economy.



Growth in aggregate demand at a pace higher than potential aggregate supply resulted in successive increases in the fed funds interest rate target between 1999 and the first half of 2000, even when one takes into consideration the gains in labor productivity.

Though the first signs of a slowdown in the pace of economic growth were perceived in the second half of the year, the probable impacts of the rise in international oil prices and stabilization of the jobless rate at historically low levels contributed to maintaining the target at 6.5% per year. It was only at the November and December FOMC meetings that the Committee emphatically expressed its concern at the decelerating pace of economic activity. On January 3, the Committee held an extraordinary meeting and reduced the fed funds interest rate target by 50 basis points, followed by another cutback of 50 basis points at its ordinary meeting on January 31, 2001.



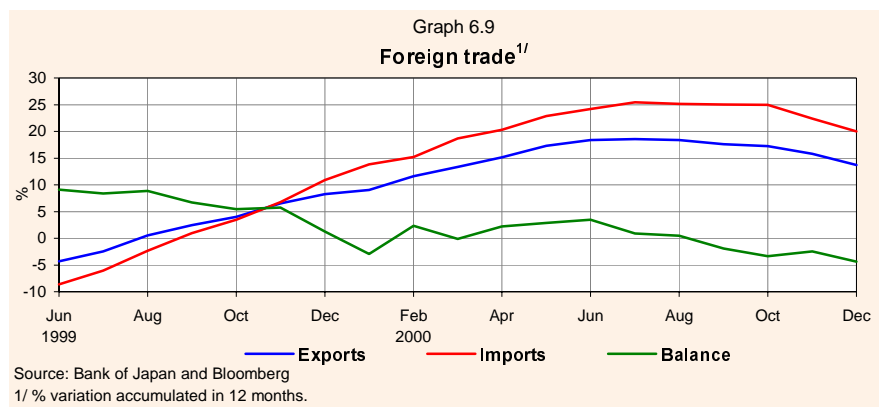
Economic deceleration in the second half of the year was reflected in the expectations of economic agents for 2001. Contrary to the relative stability noted in 1999, the Purchasing Managers Index (PMI) of the National Association of Purchasing Managers (NAPM) registered a downward trajectory over the course of the year. In the first half of 2000, confidence in the continuity of the economic growth process remained stable at a level above 50 up to July. However, in the following months, the index moved into a downward curve, revealing expectations of declining expansion.

## Japan

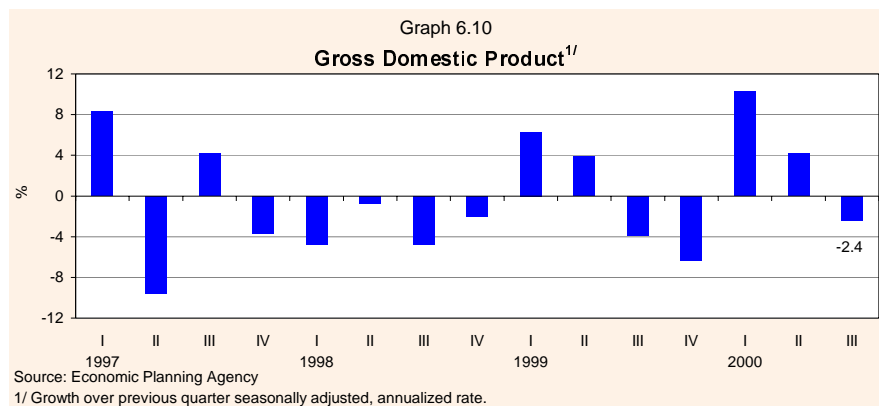
In early 2000, indicators related to the economic activity level suggested an upturn in the pace of growth. One should stress that, in response to external demand, industrial output expanded during the entire year. However, the weak performance of internal demand was not sufficient to support a process of consistent recovery, particularly when foreign sales and public sector acquisitions cooled in the final six months of the year.

Fiscal policy guidelines that had previously been anti-cyclical and sharply expansionary gradually gave way to efforts to stimulate private demand. Nonetheless, the still strong presence of the government in the economy contributed to expectations of a deficit equivalent to 10% of GDP in December 2000 and a gross public debt of more than 130% of GDP at the end of the fiscal year in March 2001. However, one should add that, with the assets available to the country, the Japanese government has a net debt in the range of 45% of GDP, a level considered low by international standards. Despite this, in September, Moody's lowered the country's ranking from AA1 to AA2 and justified this step in terms of Japan's reduced capacity to honor commitments in its own currency.

Parallel to public demand, external demand acted as the most important mechanism for stimulating economic activity. Up to the month of November, exports came to US\$439.5 billion or 15.6% more than in the same period of 1999, while imports expanded by 21.5% to a level of US\$340.2 billion. The trade surplus dropped by 1.1% using the same basis of comparison and closed at US\$95.1 billion.

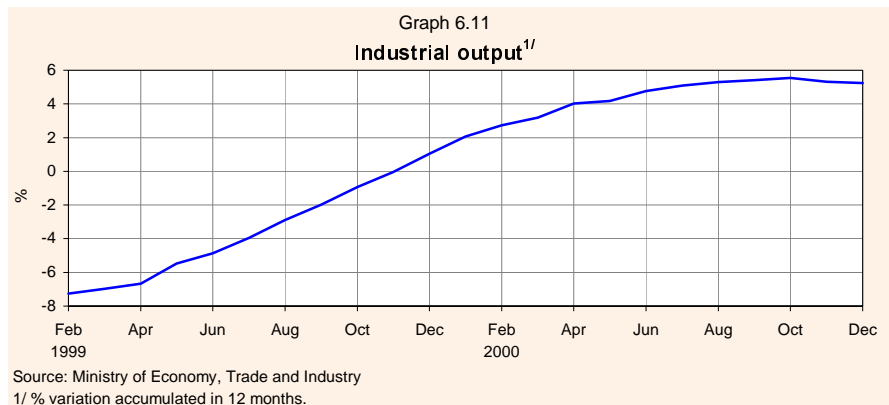


Economic performance in the year can be characterized as low growth with high GDP volatility. In the seasonally adjusted series, product increased by 4.2% in the second



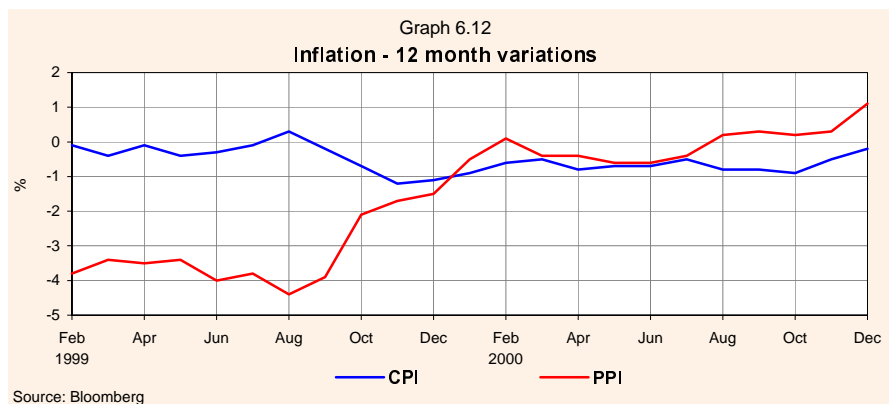
quarter, following 10.3% in the first quarter. Based on figures from which seasonal factors have been purged, the third quarter was marked by a further drop to 2.4% when annualized growth in comparison to the previous quarter is considered.

Up to October, industrial production expanded at increasingly greater rates as the 12 month accumulated result closed at 5.6%. In November and December, this upward movement reversed course as the respective rates ended at 5.3% and 5.2%. Growth in industrial output is partially explained by exports to the Asian countries which, in turn, raised profit levels and stimulated investments.



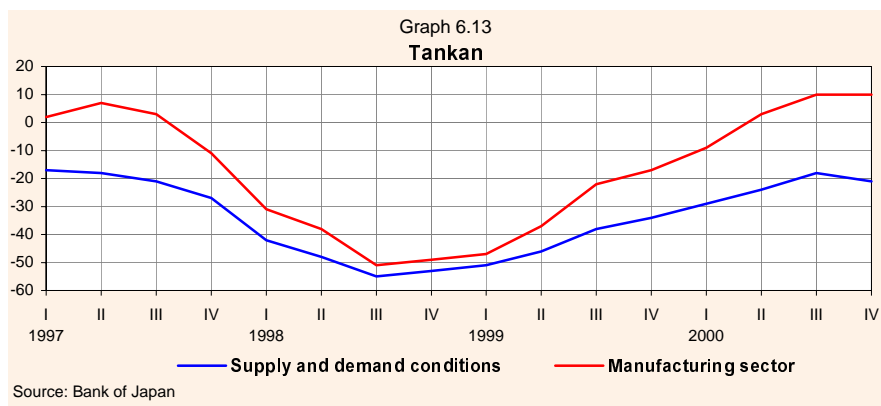
The labor market mirrored economic performance. Unemployment closed in the range of 5% in the first quarter of the year and declined in the following two quarters, returning to the level of 4.8% in both November and December.

Price indices made it clear that the country had not yet emerged from the deflationary environment. Since February 1999, CPI has consistently registered negative 12 month growth and closed at -0.2% in December. The PPI, on the other hand, which had turned in a similar performance in the first half of the year, became positive as of the month of August, registering 1.1% in December, when the same basis of comparison is utilized.



Developments on the international scenario during the year were not favorable to a positive economic performance. In this sense, considering that the economy is a net buyer of petroleum, the rise in the prices of that commodity generated considerable pressures on imports, while the downturn in the United States economy and the contagion impact that this trend had on Asian importer countries dampened exports and neutralized the expected impact of depreciation of the yen.

The perception that the Japanese economic environment has stagnated was reflected in the Tankan business confidence index for the manufacturing sector. Following steady growth since the first quarter of 1999, the index stabilized in December. In terms of supply and demand conditions, the same index registered a trend reversal from -18 in the third quarter to -21 in the fourth.



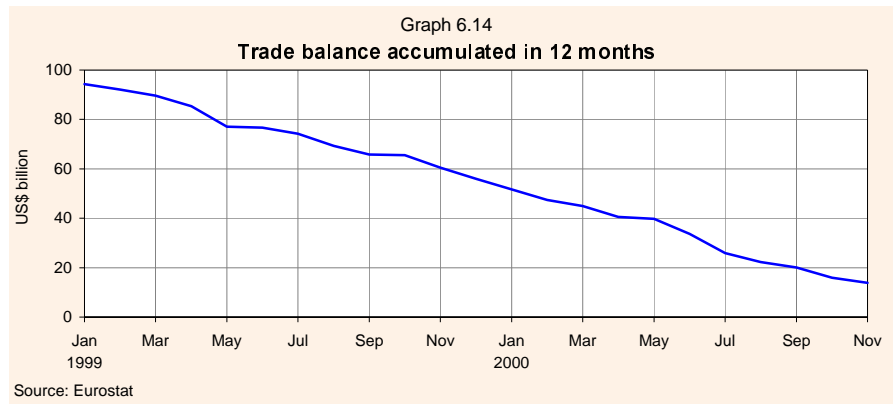
Positive expectations regarding the behavior of the economy in the first half of the year stimulated the Bank of Japan to alter the policy of almost zero interest, raising the rate from 0.03% per year to 0.25% per year. The less favorable scenario that marked the second half of the year was not accompanied by a return to the initial policy.

## Euro Zone

Following GDP growth of 2.7% in 1998 and 2.5% in 1999, expansion is expected to surpass the mark of 3% in 2000 for the Euro Zone countries as a whole. One should underscore the fact that the upturn in growth is a consequence of devaluation of the euro which has had a significant impact, primarily on the trade balance result and on growth in internal demand. In this context, the demand indicator calculated by the ECB on the basis of data released by The Statistical Office of the European Communities (Eurostat), composed basically of data on private consumption, public consumption and gross fixed capital formation, revealed positive quarterly growth rates. However, it should be noted that these rates, while still positive, did move downward from 1% for the final two quarters of 1999 to 0.9%, 0.8% and 0.7% for the first three quarters of 2000, in that order.

Analyzing the performance of these indicators in the final quarter of 2000 in comparison to the same period of 1999, the trend toward deceleration noted in previous quarters continued. Thus, the private consumption indicator of the demand index, which registered 0.4% growth in the last three months of 2000, registered expansion of 0.7% in the corresponding quarter of the previous year, while public consumption increased by 0.2% and 0.4% using the same bases of comparison. In these two periods, gross fixed capital formation increased by 1.4% and 2%, respectively.

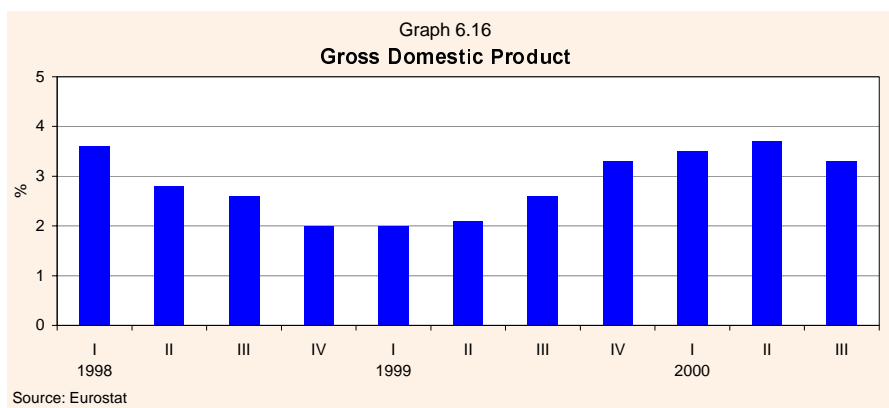
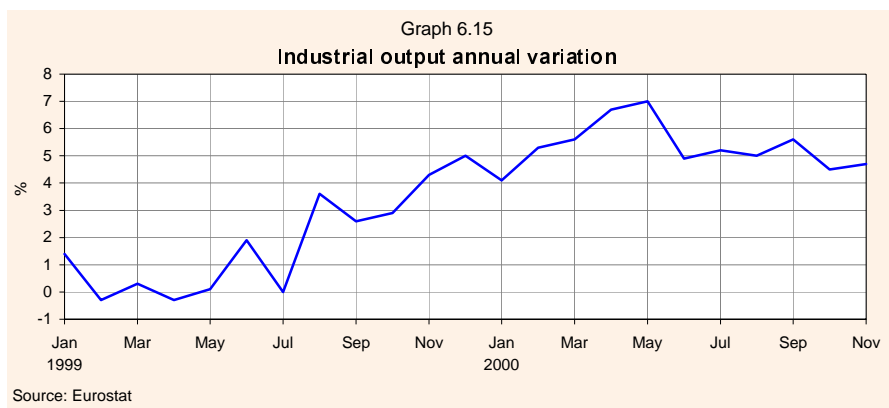
The positive trade balance has benefited from depreciation of the euro and growing international demand, at the same time in which it has been adversely impacted by high world energy prices. Analysis of the accumulated 12 month balance points to a sharp reduction in the surplus, which totaled US\$13.8 billion in November 2000, a figure 77.1% below the corresponding result for the same month in 1999.



This result is based on exports of US\$910.7 billion, for growth of 5% in comparison to the same period of the previous year, coupled with imports of US\$896.8 billion, or 11.3% more than in 1999. This latter result was caused mostly by higher prices for imported goods, particularly petroleum, and the adverse impact of devaluation of the euro.

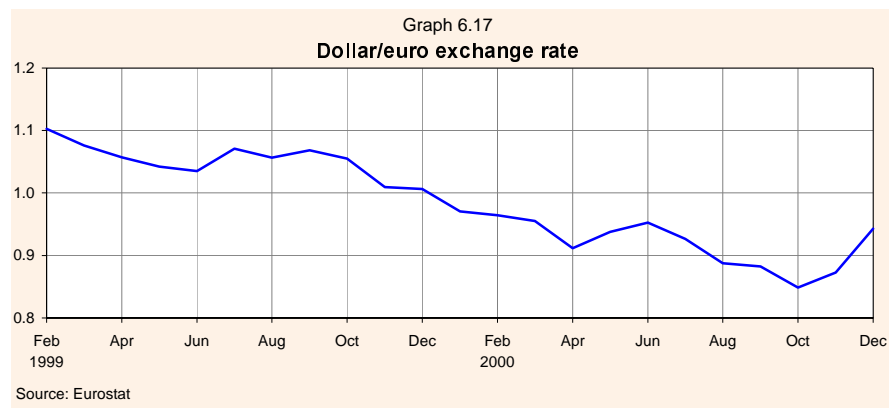
Up to May, industrial output registered steadily higher growth in comparison to the corresponding months of the previous year, closing at 7% in that month. Since June, growth leveled off in the range of 5%, closing November at 4.7%.

In the same sense, GDP growth measured in annual terms fluctuated in the range of 3.5% per year in the first three quarters of the year, with some degree of slowdown. In comparison to previous quarters, an analysis based on annualized rates and data from which seasonal factors have been removed points to percentages of 3.6%, 3.6% and 2.4% in the first three quarters of 2000, respectively.



Unemployment continued on a downward curve, moving from 9.5% in January to 8.7% in December. Labor productivity increased by 1.7% and 1.3% in the first two quarters of the year, compared to the same periods of 1999, while the earnings of workers – including both wages and benefits – increased by 2.4% and 1.9% respectively, using the same bases of comparison.

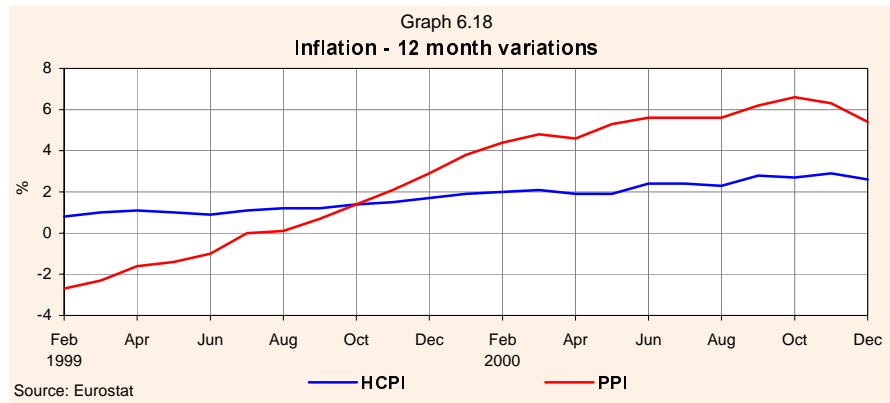
The dollar/euro rate of exchange registered a downward trajectory during the entire year, with some degree of recovery as of the month of October, when depreciation





set a record and closed at 0.8231 dollar/euro. At the end of December 2000, the rate had moved to 0.9427 dollar/euro compared to 1.0062 dollar/euro in December of the preceding year.

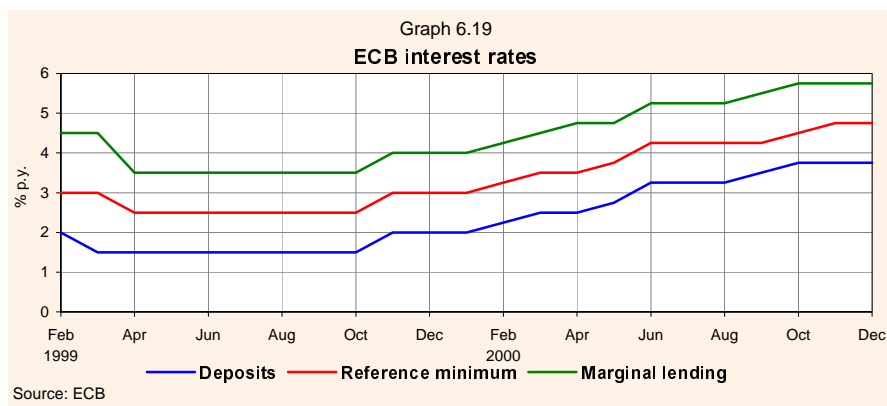
Consumer inflation and, principally, producer inflation registered upward movement throughout the year as a result of exchange devaluation, growth in the activity level and rising oil prices. Annual growth in the Harmonized Consumer Price Index (HCPI) came to 2.9% in November 2000, compared to an accumulated 1.5% in the corresponding period of the previous year. The result was higher than the medium-term reference rate defined by the ECB at 2%. The PPI registered annual growth of 6.3% in November 2000 as against 2.2% in the same month of 1999, pointing to greater sensitivity to external price and exchange pressure.



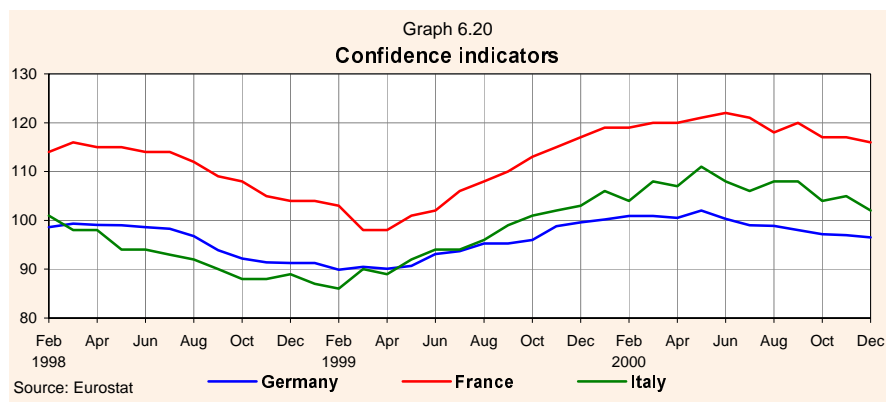
In this context, the ECB raised the basic interest rate for the Euro Zone, with the minimum refinancing rate of the economy at a November level of 4.75%, compared to 3% in January. In annual terms, the M3 aggregate increased by 5.3% in October 2000 and, therefore, above the 4.5% reference rate. However, the ECB allows the growth rate of this aggregate to move within an acceptable margin, particularly because it signals medium-term price growth with convergence following a lag of six quarters.

The expectation indicators used by the ECB for the industrial sector and consumers points to continuation of the growth process. The first moved from 18 in the final quarter of 1999 to 23 in the third quarter of 2000, while the index for consumer perspective remained at 10 in the fourth quarter of 1999 and in the third quarter of 2000.

These results are consistent with the expectations measured by other confidence indicators such as the General Business Climate Index, calculated by the Institute for Economic Research (IFO) in Germany, which closed November 2000 at 97 after



reaching 98.8 in the same month of the previous year; the French Industrial Trends Survey, measured by the *Institut National de la Statistique e des Études Économiques* (Insee) of France, which came to 117 and 115 in the same periods; and the Italian Business Confidence Indicator, measured by the *Istituto di Studi e Analisi Economica* (ISAE), in Italy, which came to 104 in October 2000 and 101 in the same month of the previous year.



## Emerging Asian countries

### South Korea

In 2000, the Korean economy maintained a high rate of economic activity. According to government estimates, growth in the period came to 8.8%, following expansion of 10.9% in 1999. The trajectory of internal and external demand, however, registered signs of a slowdown toward the end of the year, in response to the effects of reductions in liquidity and the credit supply due to the process of financial sector restructuring and deceleration of the growth pace of the world economy.

The internal context has been affected by the restructuring of the financial and business sectors in the wake of the 1997 and 1998 crisis. In this sense, adjustment of the capital requirements of the banking sector above the internationally recommended 8% limit reduced the number of commercial banks and increased state participation in their capital. In contrast, the nonbanking financial sector was significantly lowered, thus diminishing the possibilities of systemic risk, at the same time in which the sector registered advances in the areas of supervision and regulation of the financial system, with adoption of stricter standards of classification and provisioning of credits, capital adequacy, accounting and transparency, crossed guaranties, liquidity in foreign currency and exposure to risk.

The government required a reduction in the degree of business sector indebtedness through sale of assets and subsidiaries and issues of rights. Such large groups as Daewoo and Hyundai were split and the crossed guaranties of the 30 largest *chaebols* and their subsidiaries were eliminated. However, one should note that the sector continued vulnerable and indebtedness is still high and could certainly be negatively affected by the unfavorable international context.

With respect to external trade, the country registered a surplus of US\$11.8 billion in the year, which was 51% below the 1999 level. Exports totaled US\$172.6 billion and imports came to US\$160.5 billion, representing growth rates of 19.9% and 34%, respectively, pointing to a downward trend in exports. When growth under this heading is compared to the same period of the previous year, the result came to 0.1% in December, compared to a rate of 30.1% in August.

## **China**

The Chinese GDP expanded by 8% in 2000, mostly as a result of increased exports. The government announced a 7% annual growth target for the next five years, recognizing that the growth process would slow in comparison to the results achieved during the Ninth Five Year Plan, which registered an annual average of 8.3%. Industrial output surpassed the 1999 mark by 10%.

The balance of trade turned in an annual surplus of US\$24.2 billion, compared to US\$29.2 billion in 1999, as exports closed at US\$249.3 billion and imports ended the period with US\$225 billion, for respective growth rates of 28% and 36% when compared to the previous year's results. Inflows of foreign direct investments totaled US\$40.7 billion, reflecting relative stability in relation to the 1999 inflow.

Several factors have contributed to the favorable prospects of the Chinese economy, including membership in the WTO, liberalization of domestic capital markets, development projects for specific regions of the country and the positive signs of

ongoing internal growth as reflected by a rise of 1.5% in the consumer price index in 2000, as compared to 0.2% deflation in 1999.

## Latin America

### Argentina

The evolution of internal and external economic factors in Argentina in 2000 led the government to adopt measures aimed at achieving fiscal balance and creating conditions for recovering the growth process. In this sense, the month of May witnessed announcement of measures to cut the federal budget by US\$938 million, including reductions in civil service wages, cutbacks in special retirements and restructuring of government organizations. In the month of October, following sharp growth in interest rates in response to a climate of greater uncertainty generated by the resignation of the vice president, the government announced an investment incentive program aimed at shifting the focus of economic policy away for the fiscal adjustment. At the same time, reform proposals were announced in November for the social security and collection systems, reductions in the tax burden and an agreement between the central government and provinces aimed at diminishing public spending.

Announcement of this pact and approval of the 2001 budget in the month of December aided in successfully concluding negotiation of a financial assistance loan with the IMF and other multilateral organizations in a total amount of US\$19.7 billion. Parallel to this agreement, another financial agreement was announced with local private banks and pension funds and is expected to result in inflows of an additional US\$20 billion, raising available funding to a total of US\$39.7 billion.

The pace of growth in aggregate demand turned downward in the first three quarters of the year when compared to the same periods of the previous year. However, according to data included in the *Dirección Nacional de Cuentas Nacionales*, exports of goods and services turned in real growth and gross fixed capital formation declined.

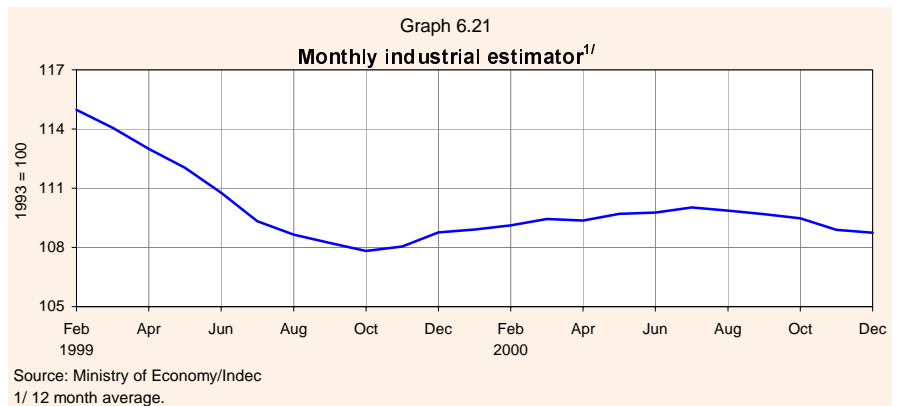
Demand indicators followed a downward curve during the course of the year. Supermarket and shopping center sales accumulated over the 12 month period up to November declined by 1.16% and 2%, respectively. The Synthetic Indicator of Industrial Activity (ISAC), which encompasses sales of building materials, followed a similar trajectory, registering a decline of 12.3% in the year. The behavior of demand indicators over the course of the year led authorities to revise product growth rate estimates downward from 3% at the start of the year to 0.5%.

The public sector fiscal result, including privatizations, pointed to a deficit of US\$6.8 billion in 2000 or 42% more than in 1999. Current revenues increased by 1% and total revenues declined by 3.1%, particularly as a result of a drop of 85% in privatization inflows. Current spending increased by 0.8% mostly in response to growth of 17.4% in interest payments, despite the central government's efforts to reduce current outlays. Another important factor underlying the fiscal deficit was the highly adverse impact of the ongoing internal recession, particularly in terms of the tax inflow generated by economic activity.

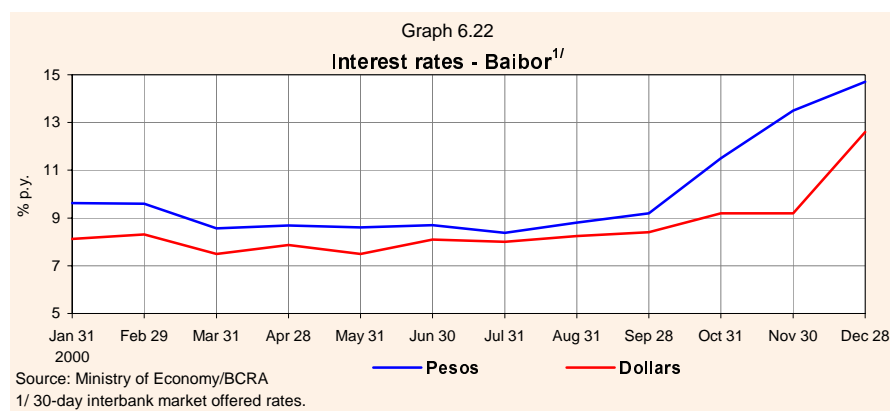
The overall deficit, which includes the central bank result and excludes privatization revenues, totaled US\$6.6 billion in 2000, or less than the US\$6.7 billion revised target in the IMF Agreement.

Ministry of the Economy estimates of the current account result up to the third quarter point to a deficit of US\$7 billion, compared to US\$9 billion in the same 1999 period. One should note that the trade sector turned in considerable improvement in the year as a consequence of higher petroleum prices and continued recovery in the Brazilian economy, Argentina's major trading partner. In this context, the trade surplus for the year accumulated a total of US\$1.1 billion, with exports of US\$26.2 billion and imports of US\$25.1 billion. In 1999, the balance of trade turned in a deficit of US\$2.2 billion.

Measured by the Monthly Industrial Estimator (EMI), industrial output remained at an average level equivalent to 1999, while the jobless rate, which had climbed to 15.4% in May, ended the month of October at 14.7%, compared to an average of 14.3% in the previous year. The price trajectory followed a downward curve throughout the year. The consumer price index accumulated 2.2% deflation in the year, reflecting lesser demand, and the wholesale price index closed with positive growth of 2.6% as a result of higher petroleum prices.



Interest rates moved along a declining trajectory up to October, when increased financial market uncertainties, coupled with the political crisis, provoked an interest rate hike to the same level registered in the second half of 1998, the period in which the emerging economies were still reeling under the weight of the Russian crisis. In this context, the differential between funding rates in local currency and in foreign currency, just as the Argentine sovereign risk, moved to significantly high levels. As of the month of December, with expectations of the signing of a new agreement with the IMF, rates tended to stabilize.



## Chile

In 2000, the Chilean economy showed clear signs of recovery from the period of negative growth in the preceding year when GDP registered a drop of 1.1%. In comparison to the same periods of 1999, GDP growth remained above the 5% level in the first three quarters of 2000, climbing to 6.1% in the second quarter. Following a period of accumulated 12 month negative results that extended from April 1999 to January 2000, the monthly economic activity indicator (Imacec) turned in increasingly positive results during the remainder of the year, moving from 0.19% in February to 5.6% in December.

Signs of recovery in the level of activity were also perceptible in industrial output. Accumulated 12 month growth, which had registered negative results during all of 1999, expanded over the course of the year, moving from 0.1% in January to 6.2% in October. The result of the final two months points to a process of deceleration that was consistent with the international economic scenario, as growth in November and December closed at 5.4% and 4.2%, respectively.

The behavior of the jobless rate reflected labor market reaction to the favorable evolution of the economy. In this sense, in contrast to what occurred in 1999, when

the rate held firm above 10% for five months, unemployment varied between 8.9% and 9.9% in 2000, based on the statistical series free of seasonal factors, and closed at the year's lowest level in the month of December.

Insofar as inflation is concerned, annual growth in the consumer price index, which had reached a level of 2.3% in 1999, increased to 4.5% in 2000. Wholesale prices performed in just the opposite way, with 1999 growth of 13.5% dropping to 7.9% in 2000. To some extent, this result was influenced by 1.2% deflation in the month of December.

With respect to the foreign sector, the trade surplus came to US\$1.4 billion in 2000 or 14.27% less than in 1999. Imports closed at US\$16.7 billion, expanding by 19.93% in the period, while exports closed at US\$18.2 billion, or 16.28% more than in the previous year.

The monetary policy implemented by the Central Bank of Chile in the first half of the year was basically restrictive, as evinced by the two 25 basis point increases introduced into the basic interest rate on January 20 and March 16. In the month of August, however, the rate was cut by 50 basis points and closed at 5% per year above the change in the so-called Development Unit. Following that alteration, interest remained stable to the end of the year.

### **Mexico**

The Mexican economy was strongly impacted by growth in the United States, higher petroleum prices and more favorable funding conditions on international capital markets. This scenario was important to the efforts of the Mexican economy to achieve results considerably better than initially expected at the start of the year.

At market prices, GDP growth increased from 3.8% in 1999 to 6.9% in 2000. However, one should note that growth rates in the first three quarters of the year in relation to the same periods of 1999 closed in the range of 7.5%, reflecting sharp improvement when compared to the final quarter of the year (5.1%), a decline that can be attributed to the slowdown then taking hold in the United States economy.

Comparisons with the corresponding periods of the previous year indicate that industrial output declined sharply in the fourth quarter of the year. This is more than clear in the plunge from a growth mark of 7.1% in October to a negative December result of 0.4%. This decline is attributed to the performance of the manufacturing and construction industries, which registered declines of 2% and 0.9% in December. Moving in the opposite direction, the industries that assemble products for

subsequent export turned in annual growth of more than 13% in the final quarter of the year. In this scenario, the rate of open unemployment remained low during the year, fluctuating between 2.6% in August and 1.9% in December.

Growth in the consumer price index dropped sharply in relation to the 1999 result and closed at 8.96%, the lowest mark of the last six years. With this result, Mexico has complied with its inflation target – defined at 10% for 2000 - for the second consecutive year. Accumulated growth in the producer price index (excluding crude oil for export) in the year registered a small decline and closed at 7.38%, compared to 8.66% in the previous year.

The balance of trade ended 2000 with a negative total of US\$8 billion, representing a 44.2% increase compared to the previous year's deficit. Imports accumulated US\$174.5 billion, for growth of 22.9%, and exports ended at US\$166.4 billion, an increase of 22%. It should be stressed that petroleum sales increased by 64.98% and accounted for 9.84% of the nation's total foreign sales, with an overall total of US\$16.38 billion.

On six different occasions, the central bank of Mexico further tightened its already restrictive monetary policy. Though nominal interest at the end of the year was only slightly higher than at the start of 2000, the falloff in inflation generated an accentuated rise in real rates.



# VII

## INTERNATIONAL FINANCIAL ORGANIZATIONS

The financial crises that marked the final years of the 1990s made it possible to identify the points of greatest fragility in the international financial system, some of which are a consequence of the growing magnitude and importance of transborder capital flows. At the same time, it became clear that the process of globalization implies both significant risks and important benefits. In this context, international financial organizations have focused their attention on understanding the recent crises and on discussing and implementing mechanisms designed to prevent and resolve situations of turbulence in the world's financial markets.

One should note that there has been an increasing degree of collaboration among the major multilateral financial organizations and other international institutions and associations that deal with institutional and structural aspects, particularly those of a systemic nature that impact the operations of national and world financial markets. Based on the theme of the Strengthening of the Architecture of the International Monetary System, these organizations – and particularly the IMF – have targeted their efforts at achieving greater security and stability in the international financial system. Thus, they have sought to act in five major areas: i) Transparency; ii) Financial Sector Strengthening; iii) Private Sector Participation; iv) Alteration of IMF Financial Services and other systemic questions; v) Elaboration and Evaluation of Internationally Accepted Codes and Standards.

With respect to the last item, the underlying notion is that compliance with international standards and good practice codes is a condition of essential importance to the efficient operation of national and international financial systems. Currently, more than sixty standards and codes are under discussion, including the Special Data Dissemination Standard (SDDS), the General Data Dissemination System (GDDS), the Code of Good Practices for Fiscal Transparency, the Good Practice Code for Monetary and Financial Policy Transparency, all of which were elaborated by the IMF and the Core Principles for Effective Banking Supervision, put forward by the Basel Committee/BIS.

The Debt Initiative for the Heavily Indebted Poor Countries (HIPC) gained considerable momentum in 2000 once the proposal on accelerating implementation and broadening the scope of the process of granting poorer countries relief from

their debt burdens had been approved. The fundamental objective of the Initiative is to ensure debt sustainability to those low income countries that adopt adjustment and reform programs supported by the IMF or World Bank. To qualify for inclusion in the Initiative, the performance of the structural and macroeconomic policies of these countries, as well as their social development criteria are subjected to intense monitoring.

At the end of 2000, 22 countries out of an overall total of 41 had reached the point of decision or, in more specific terms, were considered eligible to receive the benefits of the Initiative, representing a total of approximately US\$34 billion in external debt relief. Of these 22 nations, 18 are located in Africa and 4 in Latin America (Nicaragua, Bolivia, Guyana and Honduras).

In light of the new reality generated by Provisional Measure 1,980-26, which determined that responsibility for payments of quotas and shares of the international financial organizations in which Brazil participates was to be transferred from Banco Central to the federal government, it was decided that, with the exception of the IMF and BIS, which were to remain under Banco Central responsibility, institutional relations with these organizations would also be transferred, effective as of January 2001.

### **International Monetary Fund (IMF)**

At the end of 2000, the IMF concluded 55 years of activity with membership of 183 nations, compared to an initial total of just 35. In the same time span, the capital of the institution expanded from a level of US\$7.6 billion to approximately US\$300 billion or SDR 212 billion, of which Brazil holds SDR 3 billion.

In the course of 2000, IMF efforts were concentrated on strengthening the architecture of the international monetary and financial systems, particularly as regards the reviewing of the internal policies and procedures of the Institution in the pursuit of enhanced operational transparency and efficacy.

In this framework, the Independent Evaluation Office was created with the objective of providing systematic evaluation of the organization's programs, policies and procedures. At the same time, the institution adopted a plan aimed at achieving stricter monitoring of the use of the Fund's resources by borrower countries.

The February review of the Fund's various facilities resulted in a decision to eliminate the Buffer Stock Credit Facility and the contingency element of the Contingent Credit Lines Facility. In March/April, the Currency Stabilization Fund and the Credit Facility for Debt and Debt Service Reduction Operations were also

eliminated.

At the end of the year, important changes were introduced into the various financial assistance modalities. Measures were approved with the objective of stimulating anticipated payments of loans granted and discouraging the excessive use of IMF resources. The recently created Contingent Credit Line (CCL) facility became a more attractive option for member countries as a result of lower loan costs. This facility has become a readily available defense mechanism for countries with solid economic policies that have been adversely impacted by events in other nations.

In terms of the dissemination of economic data, the GDDS, which was established in 1997, moved into the operational stage while the scope of the SDDS was revised and greater detail was required in the data supplied. Up to 12.31.2000, 47 countries had subscribed to the SDDS. In December 1998, at the time of the financial assistance agreement, Brazil committed itself to adhere to the SDDS and adjust its information flow to the standards suggested by the Fund.

At the close of 2000, the Fund had 58 ongoing financial assistance programs, corresponding to two more than in the previous year. Of this total, 15 are Stand-by Agreements, in a total value of SDR 26.9 billion (approximately US\$35.2 billion), nine were Extended Fund Facilities (EFF), with a total value of SDR 9.1 billion (approximately US\$11.6 billion) and 34 were Poverty Reduction and Growth Facilities (PRGF), with a commitment of SDR 3.1 billion (US\$4.1 billion).

With regard to the loans granted to the Program of Financial Assistance to Brazil, no drawdowns were made in 2000. Amortizations involving IMF financial assistance totaled an amount equivalent to US\$6.8 billion, fully paying the share that refers to the Supplemental Reserve Facility. Of the total amount withdrawn under the terms of the Credit Tranche, the pending balance was equivalent to US\$1.8 billion on 12.31.2000, with amortizations beginning in 2002.

Assistance to the HIPC Initiative is provided through the PRGF, which is also used to foster the social agenda jointly with the World Bank. Up to 12.31.2000, approximately SDR 1.3 billion (equivalent to US\$1.7 billion) of this mechanism had been committed and SDR 452 million, or about US\$589 million, had been disbursed.

### **Bank for International Settlements (BIS)**

Founded in January 20, 1930, BIS has played an important role in fostering cooperation among central banks. In the wake of recent financial crises, the

institution has assumed a position of leadership in efforts to preserve financial stability and improve risk management at the institutional and market levels.

In 2000, understood as the fiscal period extending from April 1, 1999 to March 31, 2000 (FY2000), BIS had 49 associated central banks aside from the European Central Bank. The BIS executive board is composed of the central bank governors from Belgium, Canada, United States, France, Germany, Italy, Japan, Holland, Sweden, Switzerland and the United Kingdom, plus directors designated from six of these countries. Brazil became a member of BIS in 1997 following congressional ratification of the membership agreement.

In FY2000, BIS assets came to a total of US\$147 billion, of which US\$6.7 billion involved the institution's own resources (capital and reserves). Authorized BIS capital corresponds to US\$2.9 billion divided into 600 thousand shares with 529,165 shares issued. The value of the paid-in capital came to US\$6.45 billion in FY2000.

In September, BIS announced its intention of repurchasing all of the organization's shares then in the hands of private investors. These shares represented approximately 13.73% of total nonvoting shares. The associated central banks hold 86.27% of total shares and 100% of the voting shares.

Among other functions, BIS plays the role of Collateral Agent and Trustee. In this context, it is responsible for the custody of the United States Treasury bonds (zero coupon bonds) offered by Brazil as guaranty for the Bradies. In this case, BIS acts as Collateral Agent and is also responsible for the bonds issued by Peru and the Côte d'Ivoire. The organization also plays a highly important role as trustee in several other cases.

In its specific field of activity, BIS is an entity charged with mobilizing resources. Working with 19 central banks, BIS coordinated part of the financial assistance provided to Brazil in 1998 in the amount of US\$13.28 billion. The totality of the loan was paid on April 12, 2000. Other short-term credit lines were extended to other BIS stockholders with or without collateral.

BIS contributed to the process of cooperation among central banks by organizing regular meetings among G-10 members, the major emerging economies and the institution's own stockholders. The Bank acts as the Secretariat and coordinates the various committees that submit reports on their operations to the G-10 member countries. The Central Bank Governance Steering Group was created and is composed of representatives of the central banks of the industrialized countries and emerging economies. This Group is responsible for coordinating the gathering and analysis of information on their activities.

The three committees established by the G-10 central banks and supported by the BIS are denominated the Committee on Bank Supervision, the Committee on the Global Financial System and the Committee on Payments and Settlement Systems and participate in the Financial Stability Forum which was established in 1999 by the G-7 countries and central banks with the objective of ensuring financial stability through surveillance and cooperation in financial supervision.

The Committee on Bank Supervision is focused on discussing specific bank supervision problems, the responsibility of national authorities in the supervision of the domestic banking system and bank supervision standards directly related to the question of the solvency of these institutions.

The Basel Accord, which has been in a process of reformulation since 1999, is targeted at adapting already existent regulations to new market instruments and their risks. Approximately 130 countries have already adopted the principles of the Accord. One should stress that the new design of the Accord is based on the broadening of the minimum required capital standards, review of the control of the capital adequacy and internal processes of the institution in question, as well as effective use of discipline on the market.

The Committee on the Global Financial System monitors the vulnerability of the financial market in the industrialized countries and emerging economies. The major topics discussed by the Committee are the liquidity of the bond or securities market, market behavior in times of crisis, the transparency of the information provided to participants and improvements in the statistics elaborated by BIS. In 1999, the Committee made specific recommendations to the bond market regarding strategies on the management of debt, taxation, transparency, negotiating rules and the infrastructure and development of the repurchase agreement, futures and options markets. The Committee also works in harmony with IMF's SDDS, detailing the process to be followed in completing the template.

The Committee on Payments and Settlement Systems is charged with fostering the security of payments and settlement systems through the strengthening of market infrastructure and, consequently, reducing systemic risk. It operates in a partnership with the International Organization of Securities Commissions (IOSCO).

### **World Bank Group**

This is a development institution that has the primary mission of combating poverty and improving the quality of life of the populations of the developing nations. The IBRD, the International Development Association (IDA), the International Financial Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the

International Centre for Settlement of Investment Disputes (ICSID) constitute what is known as the World Bank Group. These institutions have specific profiles and objectives that range from poverty reduction to improving the quality of life in the more needy regions of the world, extending into implementation of incentives to private investment in developing country through loans, guaranties, consulting services and technical assistance.

The IBRD was founded in 1945 with the primary functions of fostering sustainable development of the economies of the developing nations and contributing to reductions in poverty levels. To achieve these objectives, it provides loans, guaranties and technical assistance to its 181 member countries, while also acting as the major catalyst in efforts to mobilize funding from other sources.

In fiscal year 2000 (FY2000), which extends from 7.1.1999 to 6.30.2000, 97 new financing operations in a total amount of US\$10.9 billion were approved for 41 countries, corresponding to a cutback of 50.8% in relation to the previous fiscal year's total. To a great extent, this decrease reflected greater stability in emerging markets. The largest financing volumes were granted to Turkey (US\$1.7 billion), China (US\$1.6 billion) and Brazil (US\$1.3 billion).

Disbursements in the period totaled US\$13.2 billion, corresponding to a reduction of 27.1% compared to the previous fiscal year.

Up to the end of FY2000, Brazil had accumulated loans worth US\$28.7 billion in 256 projects. The current loan portfolio for Brazil entails US\$10.2 billion of which US\$2.6 billion have yet to be disbursed.

In FY2000, Brazil received approval for eight projects in a total value of US\$1.3 billion, corresponding to 33.3% of the value made available to Latin American and the Caribbean. Of this total, two projects in a total amount of US\$505.1 million each were targeted at the administrative reform and the second stage of the Social Security Reform Program.

At the same time, disbursements came to US\$1.6 billion for projects in the execution stage. Amortizations came to US\$934 million and interest payments added up to US\$477 million, resulting in a net transfer to Brazil of US\$229 million.

The IDA was created in 1960 and now has 161 member countries. It is the major provider of zero interest loans for the poorer countries with annual per capita income levels below US\$925 in fiscal year 1997. In fiscal year 2000, 81 countries were considered apt to receive these resources from the IDA.

In FY2000, the IDA carried out 126 new operations in 52 countries in a total value of US\$4.4 billion, corresponding to a reduction of 36% in comparison to the amount approved in the previous period.

On 6.30.2000, the loan portfolio came to US\$104.8 billion, of which US\$18.9 billion have not yet been disbursed.

The HIPC Trust Fund, which is administered by IDA without any fee charges, is the major instrument used by the World Bank and other multilateral creditors to participate in the HIPC Initiative, making it possible to reduce the debts of the eligible countries. This instrument facilitates coordinated action among multilateral creditors in the framework of the Initiative, makes it possible to satisfy the funding or financial policy restrictions of creditors and aids in concentrating these resources in providing debt relief to the countries in question.

Up to the end of 2000, the World Bank worked proactively in order to implement the expanded HIPC Initiative. The HIPC Trust Fund obtained a total of US\$2.5 billion in bilateral contributions from approximately 20 countries and US\$1.3 billion from the World Bank.

The IFC was founded in 1956 and currently has 174 member countries. Its objective is to foster economic growth in the developing countries through investments in the private sector, mobilize resources on international financial markets, and provide technical assistance to the public and private sectors. Here, one should note that the Corporation operates as a private institution and, therefore, is profit-oriented.

FY2000 witnessed approval of 259 projects, equivalent to US\$5.8 billion, of which US\$3.5 billion originated in the institution's own funds and US\$2.3 billion in other sources. Brazil holds 1.67% of the capital of the Institution and, up to 6.30.2000, had a total of 127 projects approved in an accumulated total value of US\$4.9 billion.

MIGA was created in 1988 and has 152 member countries. Its major objective is to work with governments in attracting direct investments to the developing countries, providing guaranties to foreign investors against noncommercial risks. Aside from this, MIGA supplies technical assistance to its members and seeks to facilitate dissemination of information on investment opportunities.

In FY2000, the Agency issued 53 guaranty agreements with total coverage of US\$1.6 billion, benefiting 26 developing countries. The total amount of the Agency's coverage expanded by 19% to a level of US\$4.4 billion. Latin America and the Caribbean have received the greatest benefit from MIGA guaranties, absorbing a full 51% of its portfolio. The three principal countries have been Argentina, Brazil

and Peru. In the period under consideration, approximately US\$410 million in guaranties to Brasil were approved. The country's gross participation in the Agency's portfolio came to 14.5%, followed by Argentina (9.9%), Peru (7.6%), Russia (6.2%) and Turkey (5.2%).

ICSID was created in October 1966 and has 131 members. Its primary objective is to ensure the flow of external investments to the developing countries through arbitration and reconciliation instruments. The total number of cases registered up to FY2000 came to 75, of which 12 occurred in the most recent fiscal year. The process of Brazil's adhesion to ICSID is under analysis at the Office of the Attorney General of the National Treasury.

### **Inter-American Development Bank Group (IDB)**

In 2000, the IDB approved a total of US\$5.3 billion in new loans, of which 42% were targeted at projects in the social area. In 1994, at the time of the 8<sup>th</sup> General Increase in Resources, it was determined that loans for purposes of poverty relief, sewage and water supply infrastructure improvements, education and health should account for 40% of the resources made available to member countries and 50% of the number of operations approved as of that year.

In 2000, the IDB disbursed approximately US\$7.4 billion, of which US\$7 billion represented Ordinary Capital (OC) and US\$385.7 million corresponded to the Special Operations Fund (SOF), an IDB mechanism that provides soft loans to just five less developed countries in Latin America and the Caribbean. Aside from these amounts, disbursements came to US\$209.2 million for other funds that are also subject to IDB management. A major share of the record disbursement volume is explained by emergency financing provided by the organization. The principal characteristic of these operations is rapid disbursement after approval.

With regard to Brazil, the organization approved 12 financing operations in 2000 based on OC resources in a total amount of US\$767.2 million. Of this total, US\$346 million referred to private sector loans with no government guaranties. A total of US\$3.2 million in nonreimbursable technical cooperation was also approved. No operations under the heading of the SOF were approved for Brazil since the country is not eligible for this type of operation. However, disbursements to ongoing projects came to a total of US\$20.1 million. Total disbursements to Brazil came to US\$2.8 billion, of which US\$1.9 billion correspond to IDB participation in the Financial Assistance Program, with a total value of US\$4.5 billion. Amortizations and debt charges came to a total of US\$267.1 million and US\$752.3 million, respectively. At the end of the period, the country registered a positive cash flow of approximately US\$1.6 billion.



With respect to IDB participation in the HIPC Initiative, the total updated cost for the institution was estimated at US\$1.1 billion for 1999. Of this total, US\$800 million originated in the organization's own resources and US\$320 million were obtained from donor sources.

The Inter-American Investment Corporation (IIC), which is affiliated to the IDB, was founded in 1984 and has the objective of fostering economic development in Latin America and the Caribbean through capital investments, loans and consulting services to small and medium companies in the region.

In 2000, 19 operations were approved in a total amount of US\$143 million, of which US\$107 million (74.8%) were utilized in long-term financing and US\$36 million (25.2%) in equity investments (stock participation). In the specific case of Brazil, two long-term financing operations worth US\$1.5 million were approved.

The Multilateral Investment Fund (MIF) is an autonomous fund managed by the IDB. It was founded in 1993 and has the objective of accelerating development of the private sector and aiding in strengthening the climate for private investments in the developing countries of Latin America and the Caribbean.

MIF's assistance is mainly nonreimbursable and is channeled primarily to small businesses. In 2000, financing was approved for 80 projects in a total amount of US\$115 million, of which US\$11.4 million involving 5 projects were channeled to Brazil.

### **African Development Bank Group (ADB/ADF)**

The ADB/ADF Group is composed of the African Development Bank (ADB), the African Development Fund (ADF), the organization responsible for providing soft loans in the region, and the Nigerian Trust Fund (NTF). The Group is an instrument of essential importance to eradicating poverty and fostering growth in Africa.

The ADB is headquartered in Abidjan, capital of the Côte d'Ivoire, and had 77 member countries in 2000. Of this total, 53 are regional members and 24 are nonregional. In the year under consideration, the ADB approved new loans worth SDR 860.6 million, equivalent to US\$1.1 billion. Disbursements came to SDR 395 million, or approximately US\$514.6 million.

The ADF now has 79 members, of which 53 are regional and 26 are nonregional. The Fund provides financing at zero interest to low income regional members and its activities focus on reducing poverty levels. Loans approved by the Fund in 2000 came to a total of SDR 1.3 billion, which is equivalent to US\$1.6 billion. The total amount disbursed added up to SDR 281.1 million or about US\$366.2 million.

Just as in the case of other institutions, the ADB/ADF Group participates in the HIPC Initiative. Of the various regional organizations, the ADB/ADF has the largest number of member countries eligible to receive assistance from the Initiative (31 countries). Considering their economic-financial situations, all of these countries are exclusive ADF borrowers. The cost of the Initiative for the Group is estimated at US\$2 billion, including US\$370 million in internal funds and the remainder in donor contributions.

### **International Fund for Agricultural Development (IFAD)**

This Fund is a specialized United Nation's entity headquartered in Rome. It has the objective of mobilizing and supplying financial and technical assistance under special conditions to the agricultural development of the target countries, with priority to regions marked by extreme poverty.

In 2000, the organization, which has a total of 161 member countries, approved 28 new loan operations in a total amount of US\$408 million. Parallel to these, total nonreimbursable technical cooperation agreements came to US\$36 million.

On 7.31.2000, the Institution's 5<sup>th</sup> General Replenishment of Resources was approved (IFAD-V). A capital increase in new resources worth US\$460 million was approved, including US\$360 million from the developed countries and US\$100 million from the developing nations. In the current arrangement, the Brazilian contribution to IFAD-V will be US\$8 million.

IFAD's participation in the Expanded HIPC Initiative was approved at the 23<sup>rd</sup> Session of the Assembly of Governors in the month of February. Preliminary estimates indicate that the organization's contribution to debt relief for the eligible countries will be US\$336 million. The Fund has already committed itself to providing US\$25 million to the original Initiative and an additional US\$331 million are to be committed in the 2000-2003 period.

The resources required for participation in the HIPC Initiative are to originate in the reduction of the current level of commitment to loan and donation operations, in additional contributions from donors and revision of the reserve policy as applied to the contributions of past increases in resources.

**Financial Fund for the Development of the River Plate Basin (Fonplata)**

Fonplata was founded in 1974 with the objective of meeting the financing needs of its members in fostering the economic development and physical integration of the River Plate Basin and its adjoining area of influence. The member countries are Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Brazilian and Argentine participation in the Fund's capital came to individual levels of 33.33% each, while Bolivia, Paraguay and Uruguay accounted for 11.11% each. Subscribed capital on 12.31.2000 came to US\$308 million, with paid-in capital of US\$268 million and outstanding capital of US\$40 million.

Since the start of its activities up to 12.31.2000, 54 loans were approved in a total value of US\$383.3 million. Brazil contracted 4 loans with a total value of US\$37 million.

**Andean Development Corporation (ADC)**

The ADC is a financial institution created in 1970 by the Andean Community of Nations (former Andean Pact) with the objective of supporting both regional integration and development in the member countries.

The Corporation is composed of regional members (Bolivia, Colombia, Ecuador, Peru and Venezuela) and has the stock participation of extra-regional countries (Brazil, Chile, Jamaica, Mexico, Panama, Paraguay and Trinidad-Tobago) and 22 private banks from the Andean region.

Brazil has been an extra-regional member since 1995 when it subscribed 2,700 series C shares in a total amount of US\$25 million, fully paid-in. The Brazilian portfolio in operations with the Institution totals US\$337 million involving paving of the BR-174 highway (US\$86 million), the Brazil-Bolivia Pipeline Energy Integration Project (US\$165 million) and the Brazil-Venezuela Electricity Interconnection Project (US\$86 million). To these operations, one should also add a total of US\$381.3 million in short-term loans to the private sector.

At the end of 1998, Brazil agreed to increase its participation in the AFC by subscribing an additional 2,512 shares in the amount of approximately US\$25 million. With this, the margins for the contracting of new loans will be increased, thus contributing to the process of economic development, building closer relations with the countries on the nation's northern border and adding to the momentum of the regional integration movement. Ratification of this increase is under analysis at the National Congress.



# VIII

## MAIN ECONOMIC POLICY MEASURES

### National Monetary Council resolutions

**2,684, dated 1.12.2000** - Authorizes Banco Central do Brasil to use the sample of institutions released by Circular 2,911, dated 1999, for the calculation of the Reference Rate (TR) and the Basic Financial Rate (TBF) up to July 2000.

**2,685, dated 1.26.2000** - Authorizes Banco Central do Brasil to institute and discipline the granting of rediscount operations in the modalities of rediscount and purchase, with resale commitment, of securities, credits and credit rights that make up the financial institutions' assets.

**2,686, dated 1.26.2000** - Defines the conditions for granting credits to corporations with specific purposes and to real estate securitization companies.

**2,687, dated 1.26.2000** - Permits the carrying out of forward, futures and options operations with farm products by nonresidents in the country.

**2,688, dated 1.26.2000** - Authorizes the carrying out, in the over-the-counter market, of swap and swap options referenced in gold, exchange, interest, stocks, commodities and price and stock indices by the institutions specified.

**2,689, dated 1.26.2000** - Deals with investments by nonresidents in the financial and capital markets.

**2,690, dated 1.28.2000** - Alters and consolidates the regulations that discipline the establishment, organization and operation of stock markets.

**2,691, dated 2.24.2000** - Treats of the callability of rural credit investments (MCR6-2).

**2,692, dated 2.24.2000** - Sets the criteria to be observed by institutions referred to in Regulation Appendix IV to Resolution 2,099/1994, in calculating the required net worth for coverage of risk exposure consequent upon market interest rate volatility of the operations registered in their accounting statements.

**2,693, dated 2.24.2000** - Deals with the investment of resources backing local reinsurance institutions' technical provisions.

**2,694, dated 2.24.2000** - Deals with the opening and operation of foreign currency accounts by insurance companies, authorized reinsurance company or reinsurance broker company, among other measures.

**2,695, dated 2.24.2000** - Deals with the investment of resources backing insurance and local reinsurance institutions' technical provisions denominated in foreign currency, as well as disciplines the investment of mandatory funds targeted at guaranteeing authorized reinsurance companies' liabilities.

**2,696, dated 2.24.2000** - Admits the possibility of alteration in the address of the Collection and Payment Banking Service Centers (PAP).

**2,697, dated 2.24.2000** - Deals with the criteria for classifying credit operations and releasing information through explanatory notes to accounting statements.

**2,698, dated 2.24.2000** - Treats of the extension of financing terms of the Bahia Cocoa Crop Recovery Program.

**2,699, dated 2.24.2000** - Institutes the program for modernizing the fleet of farm tractors, farm tractor-related implements and harvesters supported by resources of the National Bank of Economic and Social Development (BNDES) and the Special Industrial Financing Agency (Finame), channeled to the financing of investment components.

**2,700, dated 3.14.2000** - Deals with recontracting of maturities referring to installments of farm current expenditure financing operations for the 1999/2000 rice harvest.

**2,701, dated 3.14.2000** - Alters provisions of the Program for Financing Daily Adjustments and Premiums in the Futures and Options Markets, based on the use of resources drawn from the Coffee Economy Defense Fund (Funcafé).

**2,702, dated 3.14.2000** - Treats of current expenditure credits for the 2000 northeast harvest, channeled to rural producers of the northeast region classified under Group "A" of the National Program for Strengthening Family Agriculture (Pronaf).

**2,703, dated 3.14.2000** - Treats of extension of maturities for current expenditure credits and the granting of rebates on investment credit operations with mini and small rural producers.

**2,704, dated 3.14.2000** - Deals with the granting of direct credit to members of cooperatives as well as financial charges, in the framework of the Program for the

Recovering of Farm Production Cooperatives (Recoop), as treated in Provisional Measure 1,961-20, dated 2000, and Decree 2,936, dated 1999.

**2,705, dated 3.14.2000** - Deals with the period permitted for renegotiation of debts originating in rural credit operations, as treated in article 5, § 6 of Law 9,138, dated 1995, Resolution 2,238, dated 1996, and Resolution 2,471, dated 1998.

**2,706, dated 3.30.2000** - Deals with the channeling of resources obtained through savings deposits in the member institutions of the Brazilian System of Savings and Loans (SBPE).

**2,707, dated 3.30.2000** - National Program for Streamlining Bureaucracy - Decree 83,740, dated July 18, 1979, treats of the contracting of correspondents in the country.

**2,708, dated 3.30.2000** - Defines the Long-Term Interest Rate (TJLP) for the second quarter of 2000.

**2,709, dated 3.30.2000** - Alters article 36 of the Regulations appended to Resolution 2,690/2000, which disciplines the constitution, organization and operation of stock exchanges.

**2,710, dated 3.30.2000** - Deals with the granting of Federal Government Loans (EGF) for products of the 2000 north-northeast harvest.

**2,711, dated 3.30.2000** - Treats of the granting of Federal Government Loans without Sales Options (EGF/SOV) for the winter harvest and cotton seeds.

**2,712, dated 3.30.2000** - Eliminates the obligation of submitting a veterinary report for the granting of financing under the terms of the resources of the Program of Incentives to the Mechanization, Cooling and Bulk Transportation of Milk Production (Proleite).

**2,713, dated 4.7.2000** - Treats of the Investment Credit Line for Aggregation of Income to Rural Activity (Aregar), under the terms of the National Program for Strengthening Family Agriculture (Pronaf).

**2,714, dated 4.7.2000** - Treats of the extension in terms of operations in the framework of the Program for the Recovering of Farm Production Cooperatives (Recoop), as treated by Provisional Measure 1,961-21, dated 2000, and Decree 3,399, dated 2000.

**2,715, dated 4.7.2000** - Deals with advances against current expenditure credit accounts in the context of MCR 10-5-3 "a".

**2,716, dated 4.12.2000** - Deals with the investment of resources of closed social security companies in real estate certificates of deposit backed by stocks issued by corporations or companies like Brazilian corporations, whose headquarters are abroad, provided that stock distribution has been authorized by the Securities and Exchange Commission (CVM) - Brazilian Depositary Receipts (BDR).

**2,717, dated 4.12.2000** - Deals with the investment of resources of insurance, capitalization and open social security companies in real estate certificates of deposit backed by stocks issued by corporations or companies like Brazilian corporation, whose headquarters are abroad, provided that stock distribution has been authorized by the Securities and Exchange Commission (CVM) - Brazilian Depositary Receipts (BDR).

**2,718, dated 4.24.2000** - Deals with the rendering of services on payments of wages, retirements and like with no fees.

**2,719, dated 4.24.2000** - Defines the period for communicating the option for the prerogative stated by Article 1<sup>st</sup> of Resolution 2,691, dated 2000.

**2,720, dated 4.24.2000** - Approves the regulation that alters and consolidates the norms conditioning the investment of resources of closed social security companies.

**2,721, dated 4.24.2000** - Deals with the on-lending of foreign funds by financial institutions and leasing companies.

**2,722, dated 4.24.2000** - Institutes credit lines in the framework of the Coffee Economy Defense Fund (Funcafé), targeted at financing harvest expenditures of the 1999/2000 coffee crop.

**2,723, dated 5.31.2000** - Defines the norms, conditions and procedures for installation of offices abroad and for direct or indirect stock participation in the country and abroad by financial institutions and other institutions authorized to operate by the Banco Central do Brasil.

**2,724, dated 5.31.2000** - Defines procedures on providing for information to the Credit Risk Center system.

**2,725, dated 5.31.2000** - Eliminates the exemption from mandatory deposits and reserve requirements on demand deposits related to pioneer branches and Advanced Banking Service Centers (PAA).

**2,726, dated 6.2.2000** - Alters article 5 of Resolution 2,645, dated 9.22.1999, which defines conditions for occupying positions in the legally established entities of financial institutions.

**2,727, dated 6.8.2000** - Alters the text of articles 3 and 7 of Resolution 2,653/1999, which, in turn, had been modified by Resolution 2,668/1999, with respect to credit operations with public companies and joint capital companies.

**2,728, dated 6.14.2000** - Deals with alterations in the conditions applicable to financing based on resources of the Land and Agrarian Reform Fund - Land Bank, treated in Complementary Law 93/1998 and Decree 3,475/2000.

**2,729, dated 6.14.2000** - Deals with alterations in the regulations of the National Program for Strengthening Family Agriculture (Pronaf).

**2,730, dated 6.14.2000** - Treats of the conditions and procedures to be observed in the renegotiation of rural credit operations with mini and small rural producers.

**2,731, dated 6.14.2000** - Deals with the granting of credit in the framework of the Program for the Recovering of Farm Production Cooperatives (Recoop), as treated in Provisional Measure 1,961-23/2000 and Decree 3,469/2000.

**2,732, dated 6.14.2000** - Institutes a line of credit based on the funds of the Coffee Economy Defense Fund (Funcafé) to be used in financing the stocking of export quality coffee in the government warehouse network.

**2,733, dated 6.28.2000** - Deals with the investment of the resources of insurance companies, capitalization companies, open private social security entities and local reinsurance companies in credits securitized by the National Treasury and in public securities issued by states and municipalities when such have been refinanced by the National Treasury.

**2,734, dated 6.28.2000** - Deals with the investments of the resources of insurance companies, capitalization companies, open private social security entities and local reinsurance companies in credits securitized by the National Treasury and in public securities issued by states and municipalities when such have been refinanced by the National Treasury.

**2,735, dated 6.28.2000** - National Program for Streamlining Bureaucracy - Disciplines the constitution and operations of real estate credit companies.

**2,736, dated 6.28.2000** - Deals with financing for acquisition of Rural Product Bills (CPR) based on the use of Obligatory Resources (MCR 6-2).

**2,737, dated 6.28.2000** - Deals with extension of the financing term of the Bahia Cocoa Crop Recovery Program.



**2,738, dated 6.28.2000** - Deals with the period for renegotiating debts originating in rural credit operations, as treated in article 5, §6 of Law 9,138/1995, Resolution 2,238/1996, and Resolution 2,471/1998.

**2,739, dated 6.28.2000** - Defines financial charges for agrobusiness credit operations contracted with funding from Government Credit Operations.

**2,740, dated 6.28.2000** - Defines financial charges for rural credit operations contracted with funding from Government Credit Operations.

**2,741, dated 6.28.2000** - Treats of the granting of Federal Government Loans (EGF).

**2,742, dated 6.28.2000** - Deals with the period for adaptation of the foreign investment modality cited in the Regulations in Appendix IV to Resolution 1,289/1987, to the provisions of Resolution 2,689/2000.

**2,743, dated 6.28.2000** - Alters the procedures for direct or indirect stock participation in the country and abroad on the part of financial institutions and other institutions authorized to operate by Banco Central do Brasil.

**2,744, dated 6.28.2000** - Defines the inflation target and its respective tolerance bands, as well as the price index to which they apply for 2002.

**2,745, dated 6.28.2000** - Defines the Long-Term Interest Rate (TJLP) for the third quarter of 2000.

**2,746, dated 6.28.2000** - Deals with the channeling of controlled rural credit resources for purposes of current expenditure financing and Federal Government Loans (EGF) and defines other conditions for rural credit operations.

**2,747, dated 6.28.2000** - Alters norms on the opening and closing of deposit accounts, service tariffs and checks.

**2,748, dated 6.29.2000** - Deals with the Program of Incentives to the Mechanization, Cooling and Gross Transportation of Milk Production (Proleite), instituted by Resolution 2,618/1999.

**2,749, dated 6.29.2000** - Deals with the Program of Incentives to the Use of Soil Correction Products (Prosolo), instituted by Resolution 2,534/1998.

**2,750, dated 6.29.2000** - Institutes the Program of Floodplains Systematization, based on funding managed by the National Bank of Economic and Social Development (BNDES).

**2,751, dated 6.29.2000** - Institutes the National Program of Recovery of Degraded Pastures, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,752, dated 6.29.2000** - Institutes the Program of Support to the Development of “Tilápias”, Shrimp and Mollusks, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,753, dated 6.29.2000** - Institutes the Program of Support to Fruit Farming, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,754, dated 6.29.2000** - Institutes the Program of Support to the Development of Wine Production, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,755, dated 6.29.2000** - Institutes the Program of Development of Sheep and Goat Farming, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,756, dated 6.29.2000** - Institutes the Program of Development of Cashew Fruit Farming, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,757, dated 6.29.2000** - Institutes the Program of Development of Apiculture, based on resources managed by the National Bank of Economic and Social Development (BNDES).

**2,758, dated 7.13.2000** - Alters Resolution 2,437, dated 1997, dealing with the constitution of the sample for calculating the Reference Rate (TR) and the Basic Financial Rate (TBF).

**2,759, dated 7.13.2000** - Defines the adjustments to be made in credit lines in the framework of Coffee Economy Defense Fund (Funcafé), targeted at financing coffee storage, export variety, in the government warehouses.

**2,760, dated 7.27.2000** - Alters the characteristics of Banco Central do Brasil Notes - Special Series (NBCE).

**2,761, dated 7.27.2000** - Treats of the channeling of rural credit controlled resources as well as of financing targeted at purchasing Rural Producer Notes (CPR) in the framework of Obligatory Resources (MCR 6-2).

**2,762, dated 8.2.2000** - Alters provisions of the Regulation Appendix I to Resolution 2,099, dated 1994, which disciplines authorization for operation, transfer of partnership control and reorganization of financial institutions and other institutions authorized by Banco Central do Brasil.

**2,763, dated 8.9.2000** - Deals with Brazilian Depositary Receipts (BDR) backed by securities issued by open capital corporations and like companies, headquartered abroad.

**2,764, dated 8.10.2000** - Deals with the extension of the term for payment of current expenditures and investment financing carried out in the framework of the National Program for Strengthening Family Agriculture (Pronaf).

**2,765, dated 8.10.2000** - Sets down the conditions and procedures to be observed in the renegotiation of rural credit operations contracted by mini and small rural producers.

**2,766, dated 8.10.2000** - Alters the Regulation of the National Program for Strengthening Family Agriculture (Pronaf).

**2,767, dated 8.10.2000** - Treats of the extension of the term for payment of current expenditures and investment financing as a consequence of the losses generated by frosts occurred in July/2000.

**2,768, dated 8.10.2000** - Institutes credit lines targeted at financing coffee pre-marketing with resources of the Coffee Economy Defense (Funcafé).

**2,769, dated 8.10.2000** - Extends the term for payment of financing in the framework of the Coffee Economy Defense (Funcafé).

**2,770, dated 8.30.2000** - National Program for Streamlining Bureaucracy: alters and consolidates the norms that discipline lending operations between residents or domiciled in the country and residents or domiciled abroad.

**2,771, dated 8.30.2000** - Approves the regulation that disciplines the constitution and operation of credit cooperatives.

**2,772, dated 8.30.2000** - Releases some institutions from obligation to comply with minimum paid-in capital and net worth and required net worth.

**2,773, dated 8.30.2000** - Concedes additional time for the National Bank of Economic and Social Development (BNDES) to comply with the limit for investment of resources classified as Permanent Assets.

**2,774, dated 8.30.2000** - Alters dispositions of the Regulation Appendix to Resolution 2,690/2000, which disciplines the constitution, organization and operation of stock exchanges.

**2,775, dated 9.20.2000** - Defines the Long-Term Interest Rate (TJLP) for the last quarter of 2000.

**2,776, dated 10.3.2000** - Defines the general rules for the sale of federal government stocks issued by the *Banco do Estado de São Paulo S.A.* (Banespa).

**2,777, dated 10.10.2000** - Institutes credit lines in the framework of the Coffee Economy Defense Fund (Funcafé) resources, channeled to financing current expenditures of the 2000/2001 coffee crop.

**2,778, dated 10.10.2000** - Treats of the extension of terms for payment of financing in the framework of the Coffee Economy Defense Fund (Funcafé) resources.

**2,779, dated 10.18.2000** - Deals with the authorization of financial agents to operate with the Coffee Economy Defense Fund (Funcafé) resources.

**2,780, dated 10.18.2000** - Alters the terms for reimbursement of financing granted in the framework of programs supported by resources managed by the National Bank of Economic and Social Development (BNDES).

**2,781, dated 10.18.2000** - Deals with discounting of Rural Invoices (DR) and Rural Promissory Notes (NPR), as well as with loans to cooperatives for purposes of advances to members based on obligatory resources (MCR 6-2).

**2,782, dated 10.18.2000** - Deals with current expenditure credits for the 2000/2001 crop and the 2001 northeastern crop when such are channeled to beneficiaries classified under Group "A" of the National Program for Strengthening Family Agriculture (Pronaf). It also defines adjustments in the Pronaf's regulations.

**2,783, dated 10.18.2000** - Deals with the term for formalizing renegotiations in the framework of Resolution 2,765/2000.

**2,784, dated 10.18.2000** - Alters the provisions of Resolution 2,653/1999, which defines the rules for conditioning the granting of credits to the public sector. This resolution had been altered by Resolutions 2,668/1999 and 2,727/2000.

**2,785, dated 10.18.2000** - Alters provisions of regulations annexed to Resolutions 454/1977 and 1,657/1989, which discipline the procedures to be observed in the filing

of Administrative Suit and Administrative Process by the Stock and Securities Commission(CVM).

**2,786, dated 10.18.2000** - Deals with investments in the stock market made by nonresidents.

**2,787, dated 11.1.2000** - Deals with the investment of resources from the Merchant Navy Fund (FMM).

**2,788, dated 11.30.2000** - Treats of the establishment and operation of commercial banks and multiple banks under the control of central credit cooperatives.

**2,789, dated 11.30.2000** - Treats of the carrying out of operations of Special Real Estate Leasing with Purchase Option.

**2,790, dated 11.30.2000** - Alters article 1 of Resolution 2,515, dated June 29, 1998, which sets the criteria for accreditation and authorization of foreign credit operations related to the states, Federal District, municipalities, semi-autonomous agencies, foundations and state companies, including controlled and subsidiary companies and nonfinancial federal semi-autonomous agencies, foundations and companies, including their controlled and subsidiary companies.

**2,791, dated 11.30.2000** - Revokes Resolution 2,720/2000, related to the investment of resources belonging to the private social security closed entities.

**2,792, dated 11.30.2000** - Treats of the granting of Federal Government Loans (EGF) channeled to regional products and seeds for the 2000/2001 harvest.

**2,793, dated 11.30.2000** - Grants additional funds for the program for modernizing the fleet of farm tractors, farm tractor-related implements and harvesters, which was established by Resolution 2,699/2000.

**2,794, dated 11.30.2000** - Institutes credit lines in the framework of the Coffee Economy Defense Fund (Funcafé), channeled to the financing of current expenditure of coffee crops in the 2000/2001 harvest.

**2,795, dated 11.30.2000** - Institutes credit lines in the framework of the Coffee Economy Defense Fund (Funcafé), channeled to the financing of investments carried out in coffee crops damaged by frosts.

**2,796, dated 11.30.2000** - Deals with the granting of credits in the framework of the Program for the Recovering of Farm Production Cooperatives (Recoop), as treated by Provisional Measure 1,961-29/2000 and Decree 3,641/2000.

**2,797, dated 11.30.2000** - Treats of the renegotiation terms of debts originating in rural credits, as treated by art. 5, §6, of Law 9,138/1995, Resolution 2,238/1996, and Resolution 2,471/1998.

**2,798, dated 11.30.2000** - Treats of the remittance of information to the Credit Risk Center by credit cooperatives.

**2,799, dated 12.6.2000** - Redefines the criteria applicable to interest rate equalization system operations within the framework of the Export Financing Program (Proex).

**2,800, dated 12.6.2000** - Alters articles 2 and 3 of Resolution 2,653, issued in 1999, altered by Resolutions 2,668/1999 and 2,727/2000 - limits to be observed by public sector entities - interpretation of criteria governing outlays on debt service - credit operations foreseen in fiscal adjustment operations formalized by the states.

**2,801, dated 12.7.2000** - Treats of certificates that are representative of forward purchase and sale contracts involving merchandise and services.

**2,802, dated 12.21.2000** - Defines the reference assets of financial institutions and other institutions authorized to operate by Banco Central do Brasil.

**2,803, dated 12.21.2000** - Defines the long-term interest rate (TJLP) for the first quarter of 2001.

**2,804, dated 12.21.2000** - Treats of controls imposed on liquidity risk.

**2,805, dated 12.21.2000** - Treats of the granting of Federal Government Loans (EGF) for products generated by the north/northeast harvest in 2001.

**2,806, dated 12.21.2000** - Treats of the period allotted for formalization of the renegotiations carried out under the terms of Resolution 2,765, dated 2000.

**2,807, dated 12.21.2000** - Credit operations carried out in the framework of the Tax Administration Modernization Program (PMAT) are excluded from the provision of indent IV of article 2 of Resolution 2,653/1999, altered by Resolutions 2,668/1999, 2,727/2000, 2,784/2000, and 2,800/2000, while an indent is added to § 1 of article 3 of Resolution 2,784/2000.

**2,808, dated 12.21.2000** - Treats of the supply of client reference information and releases of information on the financial charges levied on special overdraft check operations.

**2,809, dated 12.21.2000** - Alters and consolidates the norms related to the calculation methodology of the Basic Financing Rate (TBF) and Reference Rate (TR), while also dealing with the supply of information for this purpose.

**2,810, dated 12.28.2000** - Treats of the utilization of the resources of closed private social security institutions in investment funds or managed stock and security portfolios.

**2,811, dated 12.28.2000** - Treats of extension of the period for the financing of the Bahia Cocoa Crop Recovery Program.

**2,812, dated 12.28.2000** - Treats of the broadening of the purposes of the Program of Modernization of the Farm Tractor and Associated Implements and Harvester Fleet, instituted by Resolution 2,699/2000 and extension of the deadlines for the contracting of financing under the terms of Resolution 2,662/1999.

**2,813, dated 12.28.2000** - Treats of the granting of credit in the framework of the Program for the Recovering of Farm Production Cooperatives (Recoop).

### **Banco Central do Brasil circulars**

**2,958, dated 1.6.2000** - Deals with the investment of resources from financial investment funds and from investment funds in quotas of investment funds, as well as defines the regulations to be observed by the institutions managing such funds.

**2,959, dated 1.12.2000** - Alters to 6.30.2000 the period for implementing internal control systems by credit cooperatives.

**2,960, dated 1.19.2000** - Treats of the criteria for calculating interest payments on Banco Central do Brasil Notes - Special Series (NBCE).

**2,961, dated 1.20.2000** - Alters to 2.29.2000 from 1.31.2000 the period for implementing and complying with regulations of Circular 2,958, dated 1.6.2000. This circular deals with investment of resources from financial investment funds and from investment funds in quotas of investment funds.

**2,962, dated 1.26.2000** - Institutes and disciplines the granting of Banco Central rediscount operations in the modalities of rediscount and purchase, with resale commitment, of securities, credits and credit rights that make up the financial institutions' assets.

**2,963, dated 1.26.2000** - Defines conditions for electronic declaratory record and for investments of nonresidents dealt with in Resolution 2,689, dated 1.26.2000.

**2,964, dated 2.3.2000** - Makes obligatory the elaboration, remittance and disclosure of financial statements by credit companies targeted at microbusinesses.

**2,965, dated 2.8.2000** - Defines and disciplines the granting of Banco Central rediscount in the modalities of rediscount and purchase, with resale commitment, of securities, credits and other credit rights that compose financial institutions assets.

**2,966, dated 2.8.2000** - Alters the goals and functions of the Monetary Policy Committee (Copom) and releases its new regulations. It also sets the differentials to be added to the Selic rate in Banco Central's rediscount operations.

**2,967, dated 2.11.2000** - Alters exchange regulations as a result of adoption of the Simplified Export Declaration and the Simplified Import Declaration in the framework of Siscomex.

**2,968, dated 2.24.2000** - Deals with the carrying out of exchange operations related to the payment of premiums and compensations of insurance denominated in foreign currency.

**2,969, dated 3.14.2000** - Reduces the compulsory deposit/obligatory reserve rate on demand resources as treated in Circular 2,700, dated June 28, 1996.

**2,970, dated 3.16.2000** - Alters the period for implementation and adaptation to the provisions in Circular 2,957/1999.

**2,971, dated 3.17.2000** - Regulates Resolutions 2,644/1999 and 2,694 and 2,695, both of which were issued in 2000, and issues Regulations on Foreign Currency Accounts in the country.

**2,972, dated 3.23.2000** - Defines criteria and conditions for calculating the volume of Required Net Worth (PLE) for coverage of risks consequent upon the exposure of operations denominated in real and that generate earnings according to interest rates preset to changes in market rates, as treated in Resolution 2,692/2000.

**2,973, dated 3.23.2000** - Deals with financial investment funds and funds organized to invest in investment fund quotas.

**2,974, dated 3.24.2000** - Determines procedures on adjustments in provisioning for credit operations, for operations contracted up to December 31, 1999.

**2,975, dated 3.29.2000** - Determines conditions for registration of external investments in the financial and capital markets - Module RDE - Portfolio.



**2,976, dated 3.30.2000** - Alters factor “F” applicable to operations with gold and assets and liabilities referenced to exchange rate variations, as stated in the PLE formula dealt with in the Regulations in Appendix IV to Resolution 2,099/1994, with the text given by Resolution 2,692/2000.

**2,977, dated 4.6.2000** - Defines procedures on providing for monthly information on customers in the context of the Credit Risk Center system.

**2,978, dated 4.19.2000** - Deals with the procedures related to process instruction and providing for information on retention of correspondents within the country.

**2,979, dated 4.26.2000** - Alters Circular 2,965, dated 2.8.2000, dealing with Banco Central rediscount.

**2,980, dated 4.26.2000** - Changes the goals and responsibilities of the Monetary Policy Committee (Copom) and releases its new regulations.

**2,981, dated 4.28.2000** - Defines the procedures for authorizing the setting up of dependencies abroad, as well as for stockholding, direct or indirect, in the country and abroad, by financial institutions and other institutions whose operation has been authorized by Banco Central do Brasil.

**2,982, dated 5.10.2000** - Alters the regulations on the Reciprocal Payment Credits Agreement (CCR).

**2,983, dated 6.7.2000** - Reduces the compulsory deposit/obligatory reserve rate on demand resources to 45%, as treated in Circular 2,700, dated 6.28.1996.

**2,984, dated 6.15.2000** - Defines the obligation of elaborating and remitting the Consolidated Economic-Financial Document (Conef).

**2,985, dated 6.15.2000** - Treats of remittances of information on time deposits as defined in article 2 of Circular 2,132/1992.

**2,986, dated 6.23.2000** - Redefines the rules for compulsory deposits and obligatory reserves on demand resources contracted by multiple banks with commercial portfolios, commercial banks and savings banks.

**2,987, dated 6.23.2000** - Redefines the rules for compulsory deposits on deposit resources and guaranties made by multiple banks, without commercial portfolios, holders of investment portfolios and/or credit, finance and investment portfolios, investment banks and credit, finance and investment companies.

**2,988, dated 6.28.2000** - Institutes the obligatory nature of daily remittances of information by stock and futures exchanges as related to the contracts registered at those institutions.

**2,989, dated 6.28.2000** - Alters norms related to the use of checks.

**2,990, dated 6.28.2000** - Defines the obligation of elaborating and remitting quarterly financial information.

**2,991, dated 7.6.2000** - Revokes Circular 1,897, dated 1991, which calls off the authorization for operation of the institutions mentioned.

**2,992, dated 7.13.2000** - Releases the listing of financial institutions that compose of the sample for calculating the Reference Rate (TR) and the Basic Financial Rate (TBF).

**2,993, dated 7.14.2000** - Sets the criteria governing the selection of institutions authorized to operate with the Department of Open Market Operations (Demab).

**2,994, dated 7.20.2000** - Deals with the provision of information on time deposits (CDB/RDB).

**2,995, dated 7.26.2000** - Alters the criteria for accounting for revenues and expenditures consequent upon asset and liability operations in the framework of Cosif.

**2,996, dated 8.9.2000** - Defines conditions for registration of Brazilian investments abroad in Brazilian Depositary Receipts (BDR), representative of securities issued by open capital corporations and like institutions, headquartered abroad.

**2,997, dated 8.15.2000** - Institutes and regulates the Electronic Declaratory Record of Foreign Direct Investments - Module RDE-IED.

**2,998, dated 8.24.2000** - Deals with the management of companies by investment banks.

**2,999, dated 8.24.2000** - Alters the minimum value of client credit operations to be notified to the Central Risk System.

**3,000, dated 8.24.2000** - Alters articles 10 and 11 of Circular 2,981/2000, dealing with the remittance of information on stock participation of financial institutions and other institutions authorized to operate by Banco Central do Brasil.

**3,001, dated 8.24.2000** - Deals with the registration of values corresponding to receipts and payments made by third parties.

**3,002, dated 8.24.2000** - Redefines rules concerning compulsory reserves/obligatory deposits on demand resources.

**3,003, dated 8.30.2000** - Defines criteria for carrying out foreign loans operations.

**3,004, dated 8.31.2000** - Deals with the remittance of information on investment funds - foreign capital, conversion funds - foreign capital, investment funds in securities and real estate, mutual privatization funds - FGTS and mutual privatization funds - FGTS - free portfolio.

**3,005, dated 8.31.2000** - Calls of the Circular 2,995/2000, dealing with the criteria for accounting for revenues and expenditures consequent upon lending and borrowing operations.

**3,006, dated 9.5.2000** - Defines procedures and complementary conditions to open, operate and close deposit accounts.

**3,007, dated 9.28.2000** - Alters the risk weighting factor of the Classification Table of Assets included in Regulation Appendix IV to Resolution 2,099/1994, altered by Circular 2,568/1995.

**3,008, dated 9.28.2000** - Releases federal social security contributions from the obligatory deposit/reserve requirement on demand resources.

**3,009, dated 10.11.2000** - Releases the listing of financial institutions that composes of the sample constituted for purposes of calculating the Reference Rate (TR) and the Basic Financial Rate (TBF).

**3,010, dated 10.17.2000** - Alters the goals and operating procedures of the Monetary Policy Committee (Copom) and releases its new Regulation.

**3,011, dated 11.1.2000** - Treats of the remittance of monthly information foreseen by article 1 of Circular 3,004/2000, for October, November and December, 2000.

**3,012, dated 11.6.2000** - Treats of the identification and registration of operations involving deposits made through checks and liquidation of checks deposited in other financial institutions.

**3,013, dated 11.23.2000** - Alters the Floating Rate Exchange regulations.

**3,014, dated 12.6.2000** - Institutes alternative procedures for registration of operations with federal securities in the Special System of Clearance and Custody (Selic).

**3,015, dated 12.6.2000** - Alters the Regulations on the Floating Rate Exchange Market to include the heading on Postal Transfers.

**3,016, dated 12.6.2000** - Alters the Regulations on Export Exchange Operations and those on Exchange Contracts and Classification of Free Rate Exchange Market Operations, as released in Circular 2,231, dated September 25, 1992.

**3,017, dated 12.6.2000** - Alters and consolidates the accounting procedures to be observed in processes of incorporation, merger and division of financial institutions.

**3,018, dated 12.20.2000** - Defines rules for the operations of the Banking Reserve account held by financial institutions at Banco Central do Brasil in the framework of the Projects of Restructuring of the Brazilian System of Payments.

**3,019, dated 12.20.2000** - Determines the risk weighting factor for Special Real Estate Leasing operations with Purchase Option.

**3,020, dated 12.22.2000** - Defines criteria for accounting appropriation of revenues and expenditures consequent upon funding and credit operations.

**3,021, dated 12.28.2000** - Direct Foreign Investment - Electronic Declaratory Registration (RDE-IED) - Alteration of deadline.

# APPENDIX

**Balance Sheet of the Banco Central do Brasil (December 31, 2000)**

**Explanatory notes on accounting statements**

**Members of the Conselho Monetário Nacional**

**Banco Central do Brasil Management**

**Central units (departments) of the Banco Central do Brasil**

**Regional offices of the Banco Central do Brasil**

**Acronyms**

**Balance Sheet of the Banco Central do Brasil** (December 31, 2000)

R\$1,000

| ASSETS   | 2000               | 1999               |
|--|--------------------|--------------------|
| <b>LONG-TERM CURRENT ASSETS AND RECEIVABLES</b> .....                                      | <u>265,127,439</u> | <u>239,275,885</u> |
| FOREIGN (Note 4) .....   | <u>72,539,197</u>  | <u>68,545,752</u>  |
| Foreign Sector Operations .....  | 72,626,061         | 71,347,331         |
| (Provision for Hard-to-Recover Credits).....   | (86,864)           | (2,801,579)        |
| INTERNAL .....   | <u>192,588,242</u> | <u>170,730,133</u> |
| Operations .....   | <u>146,048,393</u> | <u>129,272,467</u> |
| Loans to Financial Institutions (Note 5).....  | 8,306,973          | 8,744,673          |
| Federal Public Securities - Open Market (Note 6) .....                                     | 127,901,429        | 64,283,328         |
| Security operations - Resale commitment.....   | 7,960,613          | 2,603,802          |
| National Treasury Notes-NTN-A 10 (Note 6) .....  | 1,798,448          | 1,844,139          |
| National Treasury Notes-NTN-P (Note 6) .....   | 2,736              | 3,866              |
| Investment of National Treasury resources with reverse repurchase commitment (Note 6)..... | -                  | 51,759,393         |
| Other Operations.....  | 78,222             | 33,266             |
| (Provision for Losses and Hard-to-Recover Credits).....                                    | (28)               | -                  |
| Other Credits .....  | <u>45,735,500</u>  | <u>40,127,211</u>  |
| Credits Receivable (Note 7).....   | 36,205,134         | 36,366,899         |
| Credit to be Paid by National Treasury (Note 8).....                                       | 15,377,342         | 13,041,763         |
| Credits with Centrus (Note 9) .....  | 1,592,227          | 1,183,333          |
| Securities Receivable (Note 10) .....  | 1,774,161          | 2,137,887          |
| Credits Registered under Debts in Execution (Note 11) .....                                | 907,233            | 904,131            |
| Real Estate Commitment Debtors .....   | 8,948              | 9,668              |
| (Provision for Hard-to-Recover Credits) .....  | (10,129,545)       | (13,516,470)       |
| Other Accounts .....   | <u>84,156</u>      | <u>825,586</u>     |
| Fines (Note 12) .....  | 1,482,943          | 314,707            |
| Deposits Earmarked to Appeals (Note 13) .....  | 417,968            | 418,270            |
| Credits whit Proagro (Note 14) .....   | 58,880             | 57,206             |
| Other Accounts .....   | 26,224             | 35,747             |
| (Provision for Judicial Losses and Hard-to-Recover Credits) .....                          | (1,901,859)        | (344)              |
| Securities and Goods .....   | <u>14,109</u>      | <u>19,699</u>      |
| Inventory .....  | 1,825              | 2,328              |
| Real Estate not Reserved to Use.....   | 12,284             | 17,371             |
| Expenditures to be Appropriated .....  | <u>706,084</u>     | <u>485,170</u>     |
| Expenditures to be Appropriated - NBC (Note 15) .....                                      | 139,239            | -                  |
| Expenditures to be Appropriated - Bacen/Centrus Settlement (Note 16) .....                 | 566,813            | 469,142            |
| Expenditures to be Appropriated - Bacen/Brazilian Mint Settlement.....                     | -                  | 16,000             |
| Other Expenditures to Appropriate .....  | 32                 | 28                 |
| <b>PERMANENT</b> .....   | <u>8,524,739</u>   | <u>8,239,386</u>   |
| <b>INVESTMENTS</b> .....   | <u>7,786,587</u>   | <u>7,492,370</u>   |
| Capital Quotas in International Financial Organizations (Note 17) .....                    | <u>7,786,587</u>   | <u>7,492,370</u>   |
| International Monetary Fund (IMF) .....  | 7,716,461          | 7,428,213          |
| Bank for International Settlements (BIS) .....   | 70,126             | 64,157             |
| <b>IMMOBILIZED</b> .....   | <u>738,152</u>     | <u>747,016</u>     |
| Movable Properties .....   | 103,174            | 101,039            |
| Fixed Estate .....   | 764,716            | 758,401            |
| (Accumulated Depreciation).....  | (129,867)          | (112,553)          |
| Intangible Goods .....   | 129                | 129                |
| <b>TOTAL</b> .....   | <u>273,652,178</u> | <u>247,515,271</u> |

## Balance Sheet of the Banco Central do Brasil (December 31, 2000)

R\$1,000

| LIABILITIES  | 2000                      | 1999                      |
|--|---------------------------|---------------------------|
| <b>LONG-TERM CURRENT AND CALLABLE LIABILITIES.....</b>         | <b>237,546,707</b>        | <b>214,506,804</b>        |
| FOREIGN (Note 18) .....  | 17,073,808                | 34,096,518                |
| Foreign Currency Liabilities.....                              | 8,917,003                 | 26,039,317                |
| Deposits of International Financial Organizations.....         | 8,105,305                 | 8,010,093                 |
| Other Accounts .....   | 51,500                    | 47,108                    |
| INTERNAL .....   | 220,472,899               | 180,410,286               |
| Financial Institution Deposits (Note 19) .....                 | 30,010,503                | 33,783,918                |
| Banking Reserves .....   | 15,045,826                | 18,602,185                |
| Deposits of Brazilian Savings and Loans System.....            | 16,699,114                | 16,433,476                |
| Compulsory Reserves on Time Deposits .....                     | -                         | 837                       |
| Compulsory Reserves on Judicial Deposits.....                  | 6,828,066                 | 5,660,320                 |
| Other Deposits .....   | 217,138                   | 267,000                   |
| (Deposits in public securities) .....                          | (8,779,641)               | (7,179,900)               |
| Deposits at the Orders of Federal Government (Note 20).....    | 88,380,288                | 75,779,217                |
| Other Deposits .....   | 26,477                    | 25,917                    |
| Deposits earmarked to Guaranties (Note 21) .....               | 2,663,454                 | 1,646,353                 |
| (Deposits in Federal Public Securities).....                   | (2,663,452)               | (1,646,338)               |
| Other Accounts.....  | 26,475                    | 25,902                    |
| Other Liabilities Callable .....                               | 100,933,522               | 69,881,249                |
| Banco Central Bills (LBC) (Note 22).....                       | -                         | 1,122,332                 |
| Banco Central Notes (NBC) (Note 22) .....                      | 85,781,881                | 61,345,717                |
| Security Operations - Repurchase Commitment .....              | 14,009,561                | 7,343,081                 |
| Result to be Transferred to National Treasury (Note 23) .....  | 1,083,872                 | 4,041                     |
| Funds and Programs - Available at Banco Central (Note 27)..... | 3                         | 80                        |
| Remainder to be Paid - Expenditures Processed.....             | 11                        | 5,561                     |
| Remainder to be Paid - Expenditures not Processed.....         | 4,557                     | 7,678                     |
| Other Accounts .....   | 53,637                    | 52,759                    |
| Other Accounts .....   | <u>1,122,109</u>          | <u>939,985</u>            |
| Other Liabilities Registered in Foreign Currency .....         | 85,077                    | 168,744                   |
| Earnings on Federal Government Deposits, to be Deposited ..... | 209,269                   | 203,006                   |
| Revenues to be appropriated (Note 15).....                     | 196,752                   | -                         |
| Centrus - Other Values to be Deposited (Note 16) .....         | 566,813                   | 469,142                   |
| Brazilian Mint - Values to be Deposited .....                  | -                         | 16,000                    |
| Other Accounts.....  | 64,198                    | 83,093                    |
| <b>CURRENCY .....</b>  | <b><u>32,633,056</u></b>  | <b><u>29,837,941</u></b>  |
| <b>NET WORTH .....</b>   | <b><u>3,472,415</u></b>   | <b><u>3,170,526</u></b>   |
| Equity .....   | 2,576,356                 | 2,576,356                 |
| Contingency Reserves (Note 24) .....                           | 404,406                   | 67,819                    |
| Re-evaluation Reserves (Note 25).....                          | 491,653                   | 526,351                   |
| <b>TOTAL .....</b>   | <b><u>273,652,178</u></b> | <b><u>247,515,271</u></b> |

**Balance Sheet of the Banco Central do Brasil** (December 31, 2000)

| STATEMENT OF RESULTS (NOTE 26)  |                     |                     |                     | R\$1,000             |
|---|---------------------|---------------------|---------------------|----------------------|
|   | 2nd half/2000       | 2nd half/1999       | 2000                | 1999                 |
| <b>OPERATING REVENUES</b>   | <u>29,999,255</u>   | <u>49,973,267</u>   | <u>60,421,258</u>   | <u>143,978,470</u>   |
| Security operations   | 13,069,185          | 23,516,554          | 25,936,367          | 56,125,254           |
| Foreign Sector Operations   | 10,536,171          | 17,239,162          | 18,120,267          | 73,307,614           |
| Banking Sector Operations   | 1,219,488           | 1,482,985           | 1,851,578           | 3,654,501            |
| Operations with Institutions under Special Systems                            | 1,322,604           | 1,164,741           | 2,214,295           | 3,020,839            |
| Earnings on the Result to be Paid by Treasury Reversion and Monetary/Exchange | 1,170,315           | -                   | 2,335,578           | -                    |
| Updating of Provisions  | 1,816,572           | 5,571,147           | 9,096,355           | 7,581,810            |
| Other   | 864,920             | 998,678             | 866,818             | 288,452              |
| <b>OPERATING EXPENDITURES</b>   | <u>(29,804,688)</u> | <u>(57,762,558)</u> | <u>(60,365,112)</u> | <u>(160,971,194)</u> |
| Security Operations   | (14,672,211)        | (16,760,380)        | (24,709,136)        | (60,617,056)         |
| Foreign Sector Operations   | (4,406,064)         | (18,219,089)        | (12,265,629)        | (66,047,179)         |
| Banking Sector Operations   | (674,227)           | (972,842)           | (3,687,552)         | (2,020,771)          |
| Operations with Institutions under Special Systems                            | (45,916)            | -                   | (850,335)           | -                    |
| Operations with the National Treasury Constitution and Monetary/Exchange      | (6,862,492)         | (9,622,670)         | (12,742,321)        | (17,143,463)         |
| Updating of Provisions  | (2,350,381)         | (10,034,195)        | (4,894,691)         | (12,601,366)         |
| Administrative Expenditures   | (672,920)           | (516,876)           | (1,059,097)         | (881,350)            |
| Other   | (120,477)           | (1,636,506)         | (156,351)           | (1,660,009)          |
| <b>OPERATING RESULT</b>   | <u>194,567</u>      | <u>(7,789,291)</u>  | <u>56,146</u>       | <u>(16,992,724)</u>  |
| <b>NON-OPERATING REVENUES</b>   | <u>1,372,585</u>    | <u>1,926,537</u>    | <u>2,188,224</u>    | <u>7,659,875</u>     |
| <b>NON-OPERATING EXPENDITURES</b>   | <u>(258,679)</u>    | <u>(1,150,279)</u>  | <u>(626,746)</u>    | <u>(3,708,914)</u>   |
| <b>NON-OPERATING RESULT</b>   | <u>1,113,906</u>    | <u>776,258</u>      | <u>1,561,478</u>    | <u>3,950,961</u>     |
| <b>RESULT IN THE PERIOD</b>   | <u>1,308,473</u>    | <u>(7,013,033)</u>  | <u>1,617,624</u>    | <u>(13,041,763)</u>  |

Note: Values corresponding to 2nd half/1999 are presented only for comparative purposes, since the result for that year was calculated in the period from January 1 to December 31.

| UTILIZATION OF RESULT                |               |               |             | R\$1,000 |
|--------------------------------------|---------------|---------------|-------------|----------|
|                                      | 1st half/2000 | 2nd half/2000 | 2000        |          |
| <b>RESULT IN THE PERIOD</b>          | 309,151       | 1,308,473     | 1,617,624   |          |
| Constitution of Contingency Reserves | (77,288)      | (327,118)     | (404,406)   |          |
| Transfer to National Treasury        | (231,863)     | (981,355)     | (1,213,218) |          |

| STATEMENT OF CHANGES IN NET WORTH |           |                      |                        | R\$1,000  |
|-----------------------------------|-----------|----------------------|------------------------|-----------|
| FACTS                             | WORTH     | CONTINGENCY RESERVES | RE-EVALUATION RESERVES | NET WORTH |
| Balance in December 31, 1998      | 2,576,356 | 67,819               | 526,351                | 3,170,526 |
| Balance in December 31, 1999      | 2,576,356 | 67,819               | 526,351                | 3,170,526 |
| Constitution                      | -         | 77,288               | -                      | 77,288    |
| Balance in June 30, 2000          | 2,576,356 | 145,107              | 526,351                | 3,247,814 |
| Constitution                      | -         | 327,118              | -                      | 327,118   |
| Reversion/Cancellation            | -         | (67,819)             | (34,698)               | (102,517) |
| Balance in December 31, 2000      | 2,576,356 | 404,406              | 491,653                | 3,472,415 |



## **Explanatory notes on accounting statements** (31-December-2000)

### **Note 1 - BANCO CENTRAL AND ITS RESPONSIBILITIES**

Banco Central do Brasil was created by Law 4,595, promulgated on 12.31.1964 as a semi-autonomous federal agency and component of the National Financial System. It operates as the agent of Brazilian society in fostering stability in the purchasing power of the nation's currency, through the permanent pursuit of the following objectives:

- a) ensure an adequate level of liquidity in the economy;
- b) maintain the nation's international reserves at an adequate level;
- c) stimulate the formation of savings at levels compatible with the investment demands of the nation;
- d) ensure stability and foster a permanent process of National Financial System improvement.

### **Note 2 - PRESENTATION OF ACCOUNTING STATEMENTS**

The accounting statements were elaborated according to the legislation applicable to Banco Central, particularly Law 4,320/1964, Law 4,595/1964 (altered by Decree Law 2,376/1987), Decree Law 278/1967, Law 7,862/1989, Provisional Measure 2,101/2000 (originally Provisional Measure 1,789/1998, incorporating the terms 1,852 and 1,980) and Complementary Law 101/2000 (Fiscal Accountability Law). Based on the terms of the aforementioned legislation, as of 5.4.2000 Banco Central has calculated its result and elaborated half-yearly financial statements in June and December of each year, as well as balance sheets in each of the other months. The financial statements for the fiscal year ended on December 31, 1999, together with the income statements for the half-year period ended on the same date and for 2000 are presented for purposes of comparison, though these have not been submitted to independent auditing yet.

Considering the peculiarities of Banco Central operations, there is no segregation between Current/Long-Term Assets and Liabilities. The classification "Foreign" and "Internal" is used to record rights and obligations in foreign currency and in national currency, respectively.

Accounting statements are released primarily through publication in the "Diário Oficial da União" and on the Internet ([www.bcb.gov.br](http://www.bcb.gov.br)).

**Note 3 – BASIC ACCOUNTING GUIDELINES**

Revenues, expenditures, rights and obligations are appropriated on an accrual basis as required by the paragraph of article 8 of Law 4,595/1964, with the text given in Decree Law 2,376/1987. However, one should note the impact of specific legislation on the matter, particularly § 6 of art. 5 of Complementary Law 101/2000 (Fiscal Accountability Law), which includes Banco Central administrative outlays in the Federal Government Budget.

Based on the legal provision cited above, the expenditures covered by Budget Law only impact the result when and if approved by the National Congress on the basis of the financial and budget programming defined by the Executive Branch. One should observe that Budget Law forecasts annual programming, while Banco Central accounting statements are issued half-yearly. Thus, the major effects are as follows:

- a) obligations representative of liabilities known and incurred with maturity in fiscal years subsequent to Budget Law are registered under the heading of Expenditures to be Appropriated;
- b) contingent liabilities consequent upon legal suits are registered as of issue of the judicial decision and not on the basis of an evaluation of the probability of that decision.

Insofar as guidelines are concerned, one should also cite the following:

- a) Permanent – investments are recorded at acquisition value and updated according to changes in the rates of the currencies in which they were paid-in. Permanent investments are depreciated on a linear basis according to the following criteria:
  - I. movable property:
    - information processing equipment, vehicles and tools – useful life of 5 years and annual depreciation rate of 20%;
    - other equipment, installations and permanent materials – useful life of 10 years and annual depreciation rate of 10%;
    - library, museum and art collections are not depreciated;
  - II. real estate (excluding land): depreciation of 80% of the value of the property in 50 years with annual rate calculated on the basis of remaining useful life;
- b) real estate belonging to the Banco Central is reevaluated periodically and expressed under the heading of Re-evaluation Reserve, which is adjusted monthly according to the depreciation value of the property;
- c) Foreign currency balances subject to updating – rights and obligations in foreign currency and subject to updating are adjusted at the rate of exchange in effect on the date of the balance sheet, using the purchase rate of the currency for assets and the sale rate for liabilities, according to the contractually agreed upon indexing factors and the terms of legal and regulatory provisions;

- d) Valuation of Lending Operations – normally performing lending operations not subject to provisioning have been recorded at market value or current value since 12.31.1999, based on the following criteria:
- I. those with adequate liquidity are recorded at market price;
  - II. those that do not have adequate liquidity are adjusted at current value, observing the following when applicable:
    - internal credits indexed to exchange variation – discounted at the rates of papers issued internally by the National Treasury and updated according to exchange rate variations;
    - internal credits indexed to price indices or the Reference Rate (TR) – discounted at the negotiation rates of papers issued by the National Treasury and indexed to price indices or the TR;
    - external credits – discounted at the rate based on the earnings of the external debt securities of debtor countries;
- e) the Currency Stock is represented by total currency and metallic coins placed in circulation (held by the public and financial institutions) and recorded at issue value.

The criteria for constituting and adjusting provisions are based on the following general rules:

- a) when the credit is deemed hard to recover – at the value corresponding to the difference between the accounting value and that considered receivable;
- b) when an outside factor reduces market value – at the value corresponding to the difference between the accounting value and that in effect on the market.

#### Note 4- FOREIGN SECTOR OPERATIONS

| FOREIGN ASSETS                           | 12.31.2000              |                   | 12.31.1999              |                   |
|--|-------------------------|-------------------|-------------------------|-------------------|
|  | In equivalent US\$1,000 | In R\$1,000       | In equivalent US\$1,000 | In R\$1,000       |
| Cash                                     | 562,112                 | 1,098,704         | 993,050                 | 1,775,772         |
| Very short-term deposits                 | 3,375,509               | 6,597,770         | 2,687,450               | 4,805,698         |
| Fixed term deposits                      | 14,359,276              | 28,066,641        | 19,188,825              | 34,313,457        |
| Securities                               | 14,774,801              | 28,878,826        | 12,823,759              | 22,931,445        |
| Credits to countries                     | 2,827,596               | 5,526,820         | 3,838,260               | 6,863,577         |
| Contracted operations - to be liquidated | 1,181,150               | 2,308,676         | 200                     | 357,640           |
| Other                                    | 76,038                  | 148,624           | 367,422                 | 299,742           |
| Provisions                               | (44,441)                | (86,864)          | (1,566,703)             | (2,801,579)       |
| <b>TOTAL</b>                             | <b>37,112,041</b>       | <b>72,539,197</b> | <b>38,332,263</b>       | <b>68,545,752</b> |

The amounts stated under “Contracted Operations – to be Liquidated” refer to security deposit and acquisition contracts carried out in the final days of December and liquidated at the beginning of January. In these operations, there is normally a three day lag between the contracting date and the date of liquidation of the operation.

For the most part, changes under Provisions and Credits to Countries refer to accounting reclassification for setting aside provisions for the foreign asset balance through adjustment to current value.

#### Note 5 – LOANS TO FINANCIAL INSTITUTIONS

The amount registered under this heading on 12.31.2000 includes financing in the framework of the Program of Incentives to the Restructuring and Strengthening of the National Financial System (Proer). These loans are adjusted to current value and generate earnings at the TR plus interest of approximately 8% per year, with maturities up to 2005. On 12.31.1999, this heading also included balances related to the Program of Incentives to the Reduction of the State Public Sector in Banking Activities (Proes).

#### Note 6 - FEDERAL PUBLIC SECURITIES

| SECURITIES                                       | 2000        |             | 1999       |             |
|--|-------------|-------------|------------|-------------|
|  | QUANTITY    | VALUE       | QUANTITY   | VALUE       |
| In R\$1,000                                      |             |             |            |             |
| 1) FREE  |             |             |            |             |
| LFT  | 26,897,611  | 30,362,322  | 30,491,129 | 35,192,453  |
| LFT-A  | 32,563,225  | 50,141,854  | 62         | 88          |
| LFT-B  | 554,266     | 599,662     | -          | -           |
| LTN  | 35,406,430  | 33,380,452  | 9,999,890  | 9,866,326   |
| NTN-S  | -           | -           | 9,900,000  | 11,966,922  |
| SUM 1  | 95,421,532  | 114,484,290 | 50,391,081 | 57,025,789  |
| 2) OPERATIONS WITH REPURCHASE COMMITMENT         |             |             |            |             |
| LTN  | 4,293,570   | 3,997,601   | 110        | 109         |
| LFT  | 730,415     | 791,720     | -          | -           |
| LFT-A  | 5,740,296   | 8,627,818   | 5,270,591  | 7,257,430   |
| SUM 2  | 10,764,281  | 13,417,139  | 5,270,701  | 7,257,539   |
| 3) OPERATIONS WITH REVERSE REPURCHASE COMMITMENT |             |             |            |             |
| LFT-A  | -           | -           | 36,533,013 | 51,759,393  |
| SUM 3  | -           | -           | 36,533,013 | 51,759,393  |
| SUBTOTAL (1+2+3)                                 | 106,185,813 | 127,901,429 | 92,194,795 | 116,042,721 |
| 4) NON-NEGOTIABLE                                |             |             |            |             |
| NTN-A10  | 2,024,090   | 1,798,448   | 2,024,090  | 1,844,139   |
| NTN-P  | 2,748,370   | 2,736       | 2,746,911  | 3,866       |
| SUM 4  | 4,772,460   | 1,801,184   | 4,771,001  | 1,848,005   |
| TOTAL  | 110,958,273 | 129,702,613 | 96,965,796 | 117,890,726 |

As of the 12.31.1999 balance sheet, negotiable securities in the Banco Central's portfolio, including those earmarked to committed operations and containing reverse

agreements, have been registered at their market price, calculated on the basis of values effectively negotiated on the institutional market.

National Treasury Notes – Series A 10 (NTN-A10) were issued in an amount limited to the Banco Central do Brasil external liabilities balance to be assumed by the National Treasury according to the terms of the Medium and Long-Term External Debt Restructuring Agreement with private banks and the Paris Club. These papers have characteristics similar to those of the cited external liability.

According to art. 2 of PM 1,980, currently PM 2,101, since 5.31.1999, the National Treasury has invested in federal internal public securities debt papers held by Banco Central with a mutual reverse repurchase commitment. These investments have been prohibited since issue of the Fiscal Accountability Act.

#### Note 7 – CREDITS RECEIVABLE

| INSTITUTIONS IN EXTRAJUDICIAL<br>LIQUIDATION | In R\$1,000       |                    |                   |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | 12.31.2000        |                    | 12.31.1999        |                    |
|  | Balance           | Provision          | Balance           | Provision          |
| - Banco NACIONAL                             | 15,537,192        | (5,015,606)        | 15,216,944        | (6,093,699)        |
| - Banco ECONÔMICO                            | 9,863,513         | (1,761,303)        | 9,642,655         | (2,123,007)        |
| - Banco BAMERINDUS                           | 2,360,322         | (1,115,913)        | 2,311,672         | (1,015,735)        |
| - Banco MERCANTIL                            | 721,571           | -                  | 706,698           | (64,648)           |
| - Banco BANORTE                              | 539,212           | (288,011)          | 528,098           | (192,664)          |
| - Banco do Estado de Alagoas                 | 320,321           | (160,161)          | 313,719           | (156,395)          |
| - Banco CREFISUL                             | 167,836           | (65,148)           | 163,689           | (484)              |
| - Banco BANFORT                              | 223,629           | (57,865)           | 219,019           | (61,196)           |
| - Banco PONTUAL                              | 760,226           | (583,191)          | 744,417           | (2,509)            |
| - Other                                      | 133,810           | (80,380)           | 132,674           | (29,777)           |
| <b>TOTAL</b>                                 | <b>30,627,632</b> | <b>(9,127,578)</b> | <b>29,979,585</b> | <b>(9,740,114)</b> |

When elaborating the financial statements and balance sheets of companies subjected to special systems of administration, the receivers must comply with legal norms applicable to their task as well as accounting criteria defined by Banco Central, particularly Circular 2,246, dated 11.5.1992. Parallel to this, the Special Administrative Measures Department (Deres) has the task of monitoring and supervising extrajudicial liquidation proceedings and judging appeals against decisions taken by Receivers during the process of claim filings aimed at elaborating the definitive listing of creditors.

Credits with institutions in extrajudicial liquidation reflect the debt situation on the date of the financial statements, with the exception of those adjustments, updates and alterations generated by current legislation – including contingencies and external factors – for which there is generally some delay in registration of the necessary information. These credits are adjusted according to the legally determined indices and provisions are set aside corresponding to the difference between the value of the credits and the institution's total assets, less labor and tax liabilities.

In the process of quantifying the provisions to be set aside for Banco Central credits to companies in liquidation, the assets of these institutions are, whenever possible, evaluated at market value or according to criteria suited to each type of asset, with due consideration of the fact that, according to bankruptcy law, Banco Central has the same privileged position as the Treasury in terms of its right to receive payment of its credits. It should be added that part of the assets of institutions in liquidation is represented by securities issued by the federal government and directly tied to the original Proer contracts which are controlled by Banco Central and submitted for registration in the Selic and Cetip systems. Three cases in point are those of the Nacional, Econômico and Mercantil banks which, taken together, hold assets that correspond to 85.3% of the total of R\$30.6 billion in funding that Banco Central holds in the form of credits with the banks in liquidation. These three institutions, therefore, hold 90.6%, 82.57% and 90.2%, respectively, of their total assets in federal government papers. Consequently, there is no credit risk here since, according to the verification and calculation procedures used by Deres, there is no doubt as to payment of these credits. Aside from this, these assets were evaluated at current values, based on mathematical discount models applied to the estimated recovery flow of these credits, and at rates compatible with their nature and maturity terms.

Starting toward the end of 1999, Deres instituted and now maintains a monitoring program that makes it possible to review and verify the balance sheets elaborated by receivers on the basis of Cosif norms, with periodic direct inspections of the institutions in liquidation and indirect analysis of the data and managerial information contained in their reports, thus making it possible to evaluate the quality and reliability of the accounting records.

In the 2000 fiscal year, Deres adopted new procedures aimed at improving existent routines and controls with the objective of more effectively evaluating the assets and liabilities of these institutions. The overall purpose here is to ensure that all asset and liability items of those companies accurately mirror their worth, including what is stated in Banco Central financial statements dated 12.31.2000.

Despite the array of procedures followed by Banco Central in certifying the consistency of data, the Banco Central Board of Directors has decided to submit institutions in extrajudicial liquidation to independent audits in order to ensure the total accuracy and

reliability of the amounts stated for their assets and liabilities. This measure is to be applied to those cases in which the complexity and dimensions of the operation justify it. Receivers are expected to implement this decision as of 2001. At the same time, Deres is improving the inspection procedures applied by Banco Central to institutions in liquidation.

With respect to the demonstrative chart presented, one should note the following:

- a) the adjustment in the balance of provisions referring to Banco Pontual was only possible in 2000, since liquidation of that institution occurred toward the end of the previous fiscal year;
- b) the other changes in provisions were a consequence of the normal evolution of the asset situations of the institutions in question.

| OTHER CREDITS    | In R\$1,000      |                |                  |                    |
|------------------|------------------|----------------|------------------|--------------------|
|                  | 12.31.2000       |                | 12.31.1999       |                    |
|                  | Balance          | Provision      | Balance          | Provision          |
| FCVS             | 1,647,855        | -              | 735,989          | -                  |
| States           | 3,924,582        | -              | 5,645,847        | (1,946,839)        |
| Other operations | 5,065            | (5,052)        | 5,478            | (5,448)            |
| <b>TOTAL</b>     | <b>5,577,502</b> | <b>(5,052)</b> | <b>6,387,314</b> | <b>(1,952,287)</b> |

Basically, the change in the balance of the FCVS is due to adaptations to information recently supplied by the Fund's management which provided a breakdown of these credits according to the interest rates applied. These credits bear earnings according to the TR plus interest of 3.12% and 6.17% per year, with maturities up to 2027.

Credits with states were altered as a result of amortizations and reclassification of provisions to current value. These credits bear earnings according to the IGP-DI plus interest of 6% per year, with final maturity set for 2028.

### **Note 8—CREDITS TO BE PAID BY THE NATIONAL TREASURY**

Refers to the National Treasury liability consequent upon the negative result calculated on 12.31.1999. This amount has been corrected by the same index applied to the Deposits at the Orders of the Federal Government (Note 20). The credit was received on 1.15.2001 updated in accordance with PM 2,101. Resources were composed of federal public securities (STN Directive 15, dated 1.15.2001) distributed as follow:

| Security | Quantity  | Unit price at issue<br>date (R\$1,000) | Total price<br>(R\$1,000) | Maturity   |
|----------|-----------|--|---------------------------|------------|
| NTN-D    | 2,914,893 | 1.114964                               | 3,250,000                 | 5.17.2007  |
| NTN-D    | 2,977,854 | 1.091390                               | 3,250,000                 | 7.12.2007  |
| NTN-D    | 2,732,271 | 1.097988                               | 3,000,000                 | 12.13.2007 |
| NTN-D    | 2,644,704 | 1.134343                               | 3,000,000                 | 2.14.2008  |
| LFT      | 2,738,752 | 1.083910                               | 2,968,560                 | 7.17.2002  |

#### **Note 9 - CREDITS WITH CENTRUS**

The amount of R\$1,592,227 thousand results from the recovery of employer contributions to Centrus up to December 1990 referring to employees covered by the Single Civil Service System (RJU). As a consequence of Law 9,650/1998, these amounts, which have been managed by Centrus on behalf of Banco Central and will be used to pay monthly retirement benefits and pensions classified under the aforementioned system for which Banco Central is liable, are to be updated according to the average profitability of Centrus assets as determined by Decree 2,842/1998. On 12.31.1999, the credit was registered at December 1997 values. Withdrawals have been made only through transactions resulting from monthly payments of benefits. On 4.26.2000, the balance was updated and it has been monthly updated since then.

#### **Note 10 – SECURITIES RECEIVABLE**

This heading is composed mostly of guaranties received in operations with financial institutions. Since these are normally performing operations, previously constituted provisions were reversed and adjustments to current value were made. These papers bear earnings according to the TR, with maturity forecast for 2004.

#### **Note 11 – CREDITS IN ARREARS AND SUBJECT TO JUDICIAL EXECUTION**

According to the terms of article 39 of Law 4,320/1964, credits still due after the lapse of the appropriate payment period are classified as in arrears and subject to judicial execution. For the most part, these involve amounts levied in the form of fines.

#### **Note 12 – PECUNIARY FINES**

Basically a consequence of penalties levied as a result of punitive administrative processes initiated by Banco Central.

#### **Note 13 – DEPOSITS EARMARKED TO APPEALS**

Refers to judicial suits in which the Judiciary requires the Banco Central to effect deposits in order to file appeals. Almost all of these credits are duly provisioned in light of uncertainties as to the outcome of these suits.



**Note 14 – CREDITS WITH PROAGRO**

Refers to the management fee due to the Banco Central by the Farm Activity Guaranty Program (Proagro). Since the resources of the Program have been exhausted, the Banco Central Board of Directors authorized suspension of deposits until such time as payments pending to other beneficiaries have been duly normalized, in order to avoid prioritizing payments to Banco Central in detriment to other creditors.

**Note 15 – EXPENDITURES/REVENUES TO APPROPRIATE - NBC**

Up to the financial statements issued at the close of the first half of 2000, profits or losses on security sales – difference between the issue value registered in rectifying asset accounts and the sale value – were appropriated fully in the month in which the operation was carried out. As of the second half of 2000, this result has been registered “pro rata” on the basis of the security’s maturity.

Recording under accounts to be appropriated is a consequence of the income balance existent at the time of the change, which will tend to disappear to the extent in which the respective papers are redeemed.

**Note 16 – EXPENDITURES/VALUES TO APPROPRIATE – CENTRUS**

Refers to the balance of Centrus mathematical reserves to be paid-in by Banco Central in order to make it possible for that Foundation to fully assume responsibility for retirement and pension benefits under the General Social Security System (RGPS) up to December 1990.

This amount is indexed to the IGP-M + 6% per year and the contra account entry is registered under the liability heading of “Amounts to Deposit – Centrus”. On 12.31.1999, these credits were registered at December 1997 prices. Updating of the balance occurred on 5.30.2000. Payment should be effected in 10 annual payments as of 2000.

**Note 17 – PARTICIPATION IN INTERNATIONAL FINANCIAL ORGANIZATIONS**

|  | 12.31.2000                 |                  | 12.31.1999                 |                  |
|--|----------------------------|------------------|----------------------------|------------------|
|  | In equivalent<br>US\$1,000 | In R\$1,000      | In equivalent<br>US\$1,000 | In R\$1,000      |
| International Monetary Fund (IMF)        | 3,947,846                  | 7,716,461        | 4,154,017                  | 7,428,213        |
| Bank for International Settlements (BIS) | 35,878                     | 70,127           | 35,878                     | 64,157           |
| <b>TOTAL</b>                             | <b>3,983,724</b>           | <b>7,786,588</b> | <b>4,189,895</b>           | <b>7,492,370</b> |

The country's participation in IMF and BIS, approved by the National Congress, is made through capital shares paid-in by the Banco Central do Brasil.

### Note 18- FOREIGN LIABILITIES

| TYPE OF LIABILITIES  | 12.31.2000              |                   | 12.31.1999              |                   |
|--|-------------------------|-------------------|-------------------------|-------------------|
|  | US\$1,000<br>Equivalent | R\$1,000          | US\$1,000<br>Equivalent | R\$1,000          |
| <b>Foreign currency liabilities</b>                                      | <b>4,560,194</b>        | <b>8,917,003</b>  | <b>14,555,236</b>       | <b>26,039,317</b> |
| - Brazilian Financing Plan   | 925,120                 | 1,808,980         | 1,036,348               | 1,854,027         |
| - Paris Club/Exchange Centralization - Resolution 1,564                  | 7,092                   | 13,867            | 94,307                  | 168,715           |
| - Bank of Japan (BoJ)  | -                       | -                 | 300,669                 | 537,897           |
| - Bank for International Settlements (BIS)                               | -                       | -                 | 3,194,765               | 5,715,434         |
| - International Monetary Fund (IMF)                                      | 1,779,095               | 3,478,842         | 8,908,065               | 15,936,528        |
| - Reciprocal Credit Agreements   | 166,858                 | 326,274           | 121,853                 | 217,996           |
| - Deposits earmarked to the exchange market                              | 12,247                  | 23,948            | 118,020                 | 211,137           |
| - SDR allocations - IMF  | 469,991                 | 919,020           | 494,936                 | 885,440           |
| - Contracted operations - to be liquidated                               | 1,181,706               | 2,310,709         | 260,789                 | 466,552           |
| - Other liabilities  | 18,085                  | 35,363            | 25,484                  | 45,591            |
| <b>International financial organizations deposits</b>                    | <b>4,145,089</b>        | <b>8,105,305</b>  | <b>4,477,413</b>        | <b>8,010,093</b>  |
| - International Development Association (IDA)                            | 1,074                   | 2,100             | 1,074                   | 1,922             |
| - Multilateral Agency for Investment Guaranty (Miga)                     | 1                       | 1                 | -                       | -                 |
| - Interamerican Development Bank (IDB)                                   | 176,015                 | 344,181           | 260,691                 | 466,377           |
| - International Bank for Reconstruction and Development (IBRD)           | 9,035                   | 17,667            | 12,910                  | 23,096            |
| - International Monetary Fund (IMF)                                      | 3,958,781               | 7,741,000         | 4,202,641               | 7,518,525         |
| - African Development Fund (ADF)   | 2                       | 3                 | 2                       | 3                 |
| - Financial Fund for the Development of the River Plate Basin (Fonplata) | 180                     | 352               | 94                      | 169               |
| - African Development Bank (ADB)   | 1                       | 1                 | 1                       | 1                 |
| <b>Other accounts</b>  | <b>26,337</b>           | <b>51,500</b>     | <b>26,332</b>           | <b>47,108</b>     |
| - Funds earmarked to loans and financing in foreign currency             | 26,128                  | 51,091            | 26,332                  | 47,108            |
| - Other accounts   | 209                     | 409               | -                       | -                 |
| <b>TOTAL</b>   | <b>8,731,620</b>        | <b>17,073,808</b> | <b>19,058,981</b>       | <b>34,096,518</b> |

In 2000, Banco Central effected full payment of its commitments to BoJ and BIS, together with partial payment to the IMF.

The amounts indicated under "Deposits Earmarked to Exchange Market" refer to deposits at Banco Central of excess long positions in exchange by financial institutions, effected according to the terms of Circular 2,566/1995.

The amounts stated under "Contracted Operations – to be Liquidated" refer to the contra account entry of operations registered under assets with a normal lag of three days between the contracting and liquidation dates.

The amounts described under the item "Deposits of International Financial Organizations" refer principally to the cash values of these Organizations at Banco

Central generated by payment of capital shares in national currency. The value of these quotas is to be maintained, and assets, internal inflows, remittances abroad and disbursements within the country are to be duly adjusted.

#### **Note 19 – FINANCIAL INSTITUTION'S DEPOSITS**

The major headings under this item are as follows:

- a) Banking Reserves: registered a reduction in the rate of compulsory reserves on demand deposits, Circular 3,002/2000 (45% on 12.31.2000 and 75% on 12.31.1999);
- b) Deposits of the Brazilian Savings and Loans System: rate remained at 15% (Resolution 2,519/1998);
- c) Compulsory Reserve on Time Deposits: rate set at zero percent (Circular 2,939/1999);
- d) Compulsory Reserve on Judicial Deposits: deposit of up to 60% of the balance of judicially determined deposits as registered in the balance sheets/financial statements of financial institutions (Circ. 2,462/1994);
- e) Deposits in Public Securities: to be used for recording deposits effected by financial institutions, demonstrating compliance with requirements. Recording in rectification accounts is justified by the fact that these papers are registered in the System of Clearance and Custody (Selic) in the name of the institution but are earmarked to the operations and, consequently, cannot be utilized.

#### **Note 20 – DEPOSITS AT THE ORDERS OF THE FEDERAL GOVERNMENT**

As a result of the provision in paragraph 3 of art. 164 of the Federal Constitution, available federal government resources are deposited at Banco Central and, in keeping with the terms of article 1 of Provisional Measure 2,101, are credited with earnings on the basis of the average weighted arithmetic rate of intrinsic profitability of Federal Public Security Debt papers issued by the National Treasury and held by Banco Central.

As of the second half of 2000, part of the Deposits at the Orders of the Federal Government was segregated for purposes of public debt management. On 12.31.2000, this amount came to R\$32,274,942 thousand.

In the second half of 2000, charges on Deposits at the Orders of the Federal Government came to R\$6,652,939 thousand.

**Note 21 – DEPOSITS EARMARKED TO GUARANTIES**

These refer to the resources of financial institutions in extrajudicial liquidation generated by redemptions of federal public securities received to guaranty operations contracted with Banco Central prior to the liquidation decree. These resources are invested in public securities in order to protect their value and are registered in a rectification account.

**Note 22 – SECURITIES FOR WHICH THE INSTITUTION IS LIABLE**

| SECURITIES        | R\$1,000    |             |              |             |            |            |
|-------------------|-------------|-------------|--------------|-------------|------------|------------|
|                   | ISSUED      |             | IN PORTFOLIO |             | ON MARKET  |            |
|                   | Quantity    | Value       | Quantity     | Value       | Quantity   | Value      |
| <b>12.31.2000</b> |             |             |              |             |            |            |
| NBCA              | 4,000,000   | 6,158,961   | 4,000,000    | 6,158,961   | -          | -          |
| NBCE              | 262,200,000 | 293,850,424 | 187,040,750  | 210,013,268 | 75,159,250 | 83,837,157 |
| NBCF              | 2,400,000   | 3,491,218   | 1,100,000    | 1,546,494   | 1,300,000  | 1,944,724  |
| TOTAL             | 268,600,000 | 303,500,603 | 192,140,750  | 217,718,723 | 76,459,250 | 85,781,881 |
| <b>12.31.1999</b> |             |             |              |             |            |            |
| BBC               | 5,000,000   | 4,785,586   | 5,000,000    | 4,785,586   | -          | -          |
| BBCA              | 15,000,000  | 17,343,818  | 15,000,000   | 17,343,818  | -          | -          |
| LBC               | 4,630,928   | 6,204,781   | 3,660,000    | 5,082,449   | 970,928    | 1,122,332  |
| NBCA              | 4,000,000   | 5,211,424   | 4,000,000    | 5,211,424   | -          | -          |
| NBCE              | 145,200,000 | 141,911,445 | 86,766,250   | 82,202,457  | 58,433,750 | 59,708,988 |
| NBCF              | 3,200,000   | 4,089,201   | 1,900,000    | 2,452,472   | 1,300,000  | 1,636,729  |
| TOTAL             | 177,030,928 | 179,546,255 | 116,326,250  | 117,078,206 | 60,704,678 | 62,468,049 |

Papers issued by Banco Central and used as monetary policy instruments are registered at their sale value and adjusted daily with the value of the charges incurred.

Securities in portfolio are those held by Banco Central and are registered in rectification accounts at the average price of the portfolio.

According to the Fiscal Accountability Law, Banco Central will refrain from issuing federal public debt securities as of May 2002. Thus, discussions were initiated with the National Treasury in order to guaranty that the institution will have the instruments required for monetary policy implementation - Directive 155/2000, dated 5.22.2000, and MF Directive 23/2001, dated 1.25.2001.

**Note 23 – RESULT TO BE TRANSFERRED TO THE NATIONAL TREASURY**

In keeping with the terms of § 3 of Provisional Measure 2, 101/2000, 25% of the value of the result was channeled into constitution of a contingency reserve. The objective of

|                          |                      |                        |       | R\$1,000  |
|--------------------------|----------------------|------------------------|-------|-----------|
| Itemization              | Contingency reserves | Re-evaluation reserves | Total |           |
| Result                   | -                    | -                      |       | 1,308,473 |
| Constitution             | (327,118)            | -                      |       | (327,118) |
| Reversion/cancellation   | 67,819               | 34,698                 |       | 102,517   |
| Result to be transferred |                      |                        |       | 1,083,872 |

this allocation is to reduce the loss on amortizations of securities from the Banco Central's portfolio and, consequently, preserve the conditions required for monetary policy implementation.

Parallel to this, part of the Re-evaluation Reserves was cancelled and a share of Contingency Reserves to be used in covering labor suits that no longer existed was reverted. With this, the balance of R\$1,083,872 thousand represents a debit for the National Treasury to be transferred by the 10<sup>th</sup> business day subsequent to that of approval of the Banco Central's financial statements, based on the terms of article 7 of the Fiscal Accountability Law, with earnings credited according to the same criteria as applied to Deposits at the Orders of the Federal Government (Note 20) up to the date of effective payment.

#### **Note 24 – CONTINGENCY RESERVES**

The balance existent in Contingency Reserves, in the amount of R\$404,406 thousand, corresponds to 25% of the positive results calculated. In the first half of 2000, a reserve in the amount of R\$77,288 thousand was constituted, coming to a total of R\$327,118 thousand in the second half of the year.

#### **Note 25 – RE-EVALUATION RESERVES**

Re-evaluation Reserves are converted into cash monthly on the final day of each month. However, cancellation of the amounts converted into cash at the time of half-yearly financial statements occurred only up to December 1997. In this statements, the amounts of the re-evaluation reserves for the 1998, 1999 and 2000 were retired, as demonstrated below:

|                             |  | R\$1,000      |
|-----------------------------|--|---------------|
| Related to 1998 fiscal year |  | 10,487        |
| Related to 1999 fiscal year |  | 10,487        |
| Related to 2000 fiscal year |  | 13,724        |
| <b>TOTAL</b>                |  | <b>34,698</b> |

**Note 26 - RESULT FOR THE 2nd HALF OF 2000**

## a) Operations with Securities:

|                                    | R\$1,000          |                     |                    |
|------------------------------------|-------------------|---------------------|--------------------|
|                                    | REVENUES          | EXPENDITURES        | RESULT             |
| LTN                                | 3,118,930         | (273,264)           | 2,845,666          |
| LFT                                | 6,448,982         | (698,506)           | 5,750,476          |
| Own securities (NBC and LBC)       | 3,007,249         | (13,337,023)        | (10,329,774)       |
| Other                              | 232,986           | (89,927)            | 143,059            |
| Adjustment to present/market value | 261,038           | (273,491)           | (12,453)           |
| <b>TOTAL</b>                       | <b>13,069,185</b> | <b>(14,672,211)</b> | <b>(1,603,026)</b> |

Include revenues on the earnings of National Treasury Securities held in portfolio and charges on securities issued by the institution itself.

When the value of the real rises in relation to the American dollar during the month, papers in the Banco Central portfolio issued by the National Treasury and indexed to the dollar generate charges, while those issued by the institution itself and indexed to the same currency generate revenues.

## b) Foreign Sector Operations:

|  | R\$1,000          |                    |                  |
|--|-------------------|--------------------|------------------|
|  | REVENUES          | EXPENDITURES       | RESULT           |
| Operations earmarked to international reserves | 7,744,908         | (1,461,094)        | 6,283,814        |
| Operations earmarked to foreign debt           | 235,687           | (750,377)          | (514,690)        |
| International organizations and agreements     | 289,383           | (805,208)          | (515,825)        |
| Loans and financing in foreign currency        | 485,345           | (77,147)           | 408,198          |
| Re-evaluation of assets in gold                | 458,362           | (474,521)          | (16,159)         |
| Liabilities in foreign currency                | -                 | (137,963)          | (137,963)        |
| Other operations                               | 221,310           | (27,889)           | 193,421          |
| Adjustment to present/market value             | 1,101,176         | (671,865)          | 429,311          |
| <b>TOTAL</b>                                   | <b>10,536,171</b> | <b>(4,406,064)</b> | <b>6,130,107</b> |

Foreign sector operations include the earnings on external assets and the charges on external liabilities. The surplus registered in these operations was due primarily to the fact that the value of the asset was greater than the liability of the same nature during the entire period and to valuation of the currencies used to generate the earnings on these operations in the period.

One should stress that, in the months in which the real rises in value against the foreign currency used to index the operation, assets generate charges and liabilities generate exchange indexing revenues.

## c) Operations with the National Treasury:

|  | R\$1,000         |                    |                    |
|--|------------------|--------------------|--------------------|
|  | REVENUES         | EXPENDITURES       | RESULT             |
| Earnings on the result to be covered by Treasury | 1,170,315        | -                  | 1,170,315          |
| Earnings on federal government deposits          | -                | (6,652,939)        | (6,652,939)        |
| Previous years' expenditures (DL 2,288/1986)     | -                | (202,024)          | (202,024)          |
| Earnings on positive result                      | -                | (7,529)            | (7,529)            |
| <b>TOTAL</b>                                     | <b>1,170,315</b> | <b>(6,862,492)</b> | <b>(5,692,177)</b> |

The result under this item was generated by:

- I. earnings on the credit with the National Treasury, as a consequence of the negative result calculated by this Institution on 12.31.1999 (Note 8);
- II. charges on federal government deposits at Banco Central (Note 20);
- III. settlements consequent upon transfers of compulsory deposits dealt with in Decree Law 2,288/1986 to the federal government, according to the terms of article 7 of Provisional Measure 1,789/1998, currently 2,101/2000.
- IV. earnings on the positive result calculated on 6.30.2000 and transferred to the National Treasury in September 2000.

## d) Banking Area Operations:

|   | R\$1,000         |                  |                |
|---|------------------|------------------|----------------|
|   | REVENUES         | EXPENDITURES     | RESULT         |
| Financial assistance operations                   | 455,262          | -                | 455,262        |
| Fines on financial institutions                   | 709,038          | -                | 709,038        |
| Financial institutions' deposits at Banco Central | -                | (587,179)        | (587,179)      |
| Other accounts                                    | 622              | (3)              | 619            |
| Adjustment to present value                       | 54,566           | (87,045)         | (32,479)       |
| <b>TOTAL</b>                                      | <b>1,219,488</b> | <b>(674,227)</b> | <b>545,261</b> |

Income earned basically from Proer operations and fines levied on financial institutions for not providing required information. For the most part, the charges result from earnings on SBPE deposits at Banco Central.

## e) Operations with Institutions under Special Systems:

|                             | R\$1,000         |                 |                  |
|-----------------------------|------------------|-----------------|------------------|
|                             | REVENUES         | EXPENDITURES    | RESULT           |
| Operations                  | 776,532          | -               | 776,532          |
| Adjustment to present value | 546,072          | (45,916)        | 500,156          |
| <b>TOTAL</b>                | <b>1,322,604</b> | <b>(45,916)</b> | <b>1,276,688</b> |

- f) Other operating revenues/expenditures: basically result from revenues on fines levied as a result of exchange violations;
- g) Provisions: the result was generated by constitutions and reversions effected on the basis of the criteria defined in Note 3, as well as updating of the amount set aside which utilizes the same indexing factor as the operation's principal account;
- h) Administrative Expenditures: those required for the functioning of the Institution and included in the General Federal Government Budget approved by the National Congress. These outlays are made on the basis of financial and budget programming defined by the Executive Branch;
- i) Non-Operating Result:

|   | R\$1,000         |                  |                  |
|---|------------------|------------------|------------------|
|   | REVENUES         | EXPENDITURES     | RESULT           |
| Earnings on paid-in quotas of IMF                         | 656,860          | (230,774)        | 426,086          |
| Diverse incomes   | 315,192          | -                | 315,192          |
| Asset increases consequent upon reconciliation of credits | 210,115          | -                | 210,115          |
| Earnings on credits with Centrus                          | 152,334          | -                | 152,334          |
| Other   | 38,084           | (27,905)         | 10,179           |
| <b>TOTAL</b>  | <b>1,372,585</b> | <b>(258,679)</b> | <b>1,113,906</b> |

As shown above, the non-operating result in the second half of 2000 was mostly a consequence of earnings on paid-in quotas of the International Monetary Fund (IMF), diverse incomes, principally originating in the levying of fines on nonfinancial companies (which are fully provisioned until payment is received), asset increases as a result of reconciliation of credits negotiated in the Paris Club framework and Earnings on Credits with Centrus.

#### **Note 27 – FUNDS AND PROGRAMS MANAGED BY BANCO CENTRAL**

Based on legal and regulatory provisions, Banco Central manages:

- a) the Reserve for the Fostering of Currency Stability and Check Utilization (Recheque);
- b) the Deposit and Security Guaranty Fund (FGDLI);
- c) Proagro – Decree 175/1991;
- d) the Monetary Reserve.

The reserves, funds and programs managed by Banco Central are in compliance with fundamental accounting principles and the same accounting guidelines that are applicable to this institution.



The cash amounts available to Banco Central are invested in federal public securities with the purpose of preserving the buying power of these resources.

Administrative costs are reimbursed to Banco Central through fee payments authorized by the CMN.

The Balance Sheet and the Statement of Income of Recheque, FGDLI, Proagro and the Monetary Reserve follow, together with additional comments.

a) Reserve for the Fostering of Currency Stability and Check Utilization (Recheque)

| BALANCE SHEET - 12.31.2000   |                 | R\$1,000        |                 |
|--|-----------------|-----------------|-----------------|
| <b>A S S E T S</b>   |                 |                 |                 |
|  | 2000            | 1999            |                 |
| LONG-TERM CURRENT ASSETS AND RECEIVABLES                           | 791,239         | 830,014         |                 |
| - Available at Banco Central                                       | 1               | 1               |                 |
| - Investments in federal public securities                         | 383,922         | 327,478         |                 |
| - Federal public securities  | 589             | 665             |                 |
| - Refinancing program of credits granted to the federal government | 236             | 211             |                 |
| - Credits registered under debts in execution                      | 609             | 609             |                 |
| - Credits with institutions under intervention or in liquidation   | 512,366         | 501,658         |                 |
| - (Provision for hard-to-recover credits)                          | (106,485)       | (609)           |                 |
| <b>T O T A L</b>   | <b>791,239</b>  | <b>830,014</b>  |                 |
| <b>L I A B I L I T I E S</b>                                       |                 |                 |                 |
|  | 2000            | 1999            |                 |
| NET WORTH  | 791,239         | 830,014         |                 |
| - Accumulated results  | 791,239         | 830,014         |                 |
| <b>T O T A L</b>   | <b>791,239</b>  | <b>830,014</b>  |                 |
| <b>STATEMENT OF INCOME</b>   |                 | <b>R\$1,000</b> |                 |
|  | 2nd half/2000   | 2nd half/1999   | 2000            |
|  |                 |                 | 1999            |
| REVENUES   | 31,867          | 33,617          | 67,759          |
| - Interest/monetary updating                                       | 4,386           | 6,379           | 11,976          |
| - Earnings on investments in federal securities                    | 27,474          | 27,238          | 55,776          |
| - Reversion of provisions  | 7               | -               | 7               |
| EXPENDITURES   | (94,968)        | (300)           | (106,534)       |
| - Management fee   | (342)           | (299)           | (651)           |
| - Variations consequent upon provisions                            | (94,625)        | -               | (105,883)       |
| - Cancellation of previous periods' revenues                       | -               | -               | (64,813)        |
| - Other  | -               | (1)             | (1)             |
| <b>RESULT</b>  | <b>(63,101)</b> | <b>33,317</b>   | <b>(38,775)</b> |
|  |                 |                 | <b>20,650</b>   |

Recheque was regulated by Banco Central do Brasil Circular 1,590/1990. With the alterations introduced by CMN Resolution 2,155/1995, the program had the following objectives:

- I. foster dissemination and promotion of the defense of national currency stability;
- II. foster valuation of checks as a payment instrument;
- III. contribute to improvement in banking operations, involving dissemination of information and instructions on the correct use of checks so as to enhance the credibility of this payment instrument;
- IV. bear expenses on the elaboration and dissemination of the File of Issuers of Checks with Insufficient Funding.

Resolution 2,211/1995 sets down regulations on the Credit Guaranty Fund (FGC), a private nonprofit entity charged with managing mechanisms designed to protect holders of credits against financial institutions. According to Resolution 2,197/1995, which authorized creation of the Fund, the assets of Recheque and the FGDLI would be transferred to the FGC.

However, this transfer was suspended as a result of an injunction issued by the Federal Supreme Court (STF) in a case that challenged the constitutionality of the operation (1,398/1996). The case is now awaiting a final decision by the Court.

With transfer of responsibility for providing the guaranties defined in current regulations, as well for deposit and management of the resources flow generated by the contributions of financial institutions to the FGC as of January 1996, Recheque and the FGDLI are charged only with administration of the operations formalized up to issue of the aforementioned injunction.

In the half-year period, one should note the changes in credit provisions with the Econômico and Banesa banks, both of which are in the process of extrajudicial liquidation.

#### b) Deposit and Security Guaranty Fund (FGDLI)

| BALANCE SHEET - 12.31.2000                    |  | R\$1,000    |             |
|---|--|-------------|-------------|
| A S S E T S                                   |  | 2000        | 1999        |
| LONG-TERM CURRENT ASSETS AND RECEIVABLES      |  | 1,336,861   | 1,313,333   |
| - Investments in federal public securities    |  | 217,836     | 182,811     |
| - Credits with on-lending institutions        |  | 1,015,555   | 943,246     |
| - Credits with institutions in liquidation    |  | 608,473     | 567,394     |
| - Mortgage bonds                              |  | 166,088     | 169,575     |
| - Credits with FCVS                           |  | 844,533     | 746,821     |
| - Credits with FGTS                           |  | 509         | 440         |
| - Credits registered under debts in execution |  | 1,037,741   | 1,037,741   |
| - (Adjustment to present value)               |  | (348,376)   | -           |
| - (Provision for hard-to-recover credits)     |  | (2,205,498) | (2,334,695) |
| TOTAL   |  | 1,336,861   | 1,313,333   |

|  |   | R\$1,000      |           |           |
|--|---|---------------|-----------|-----------|
| L I A B I L I T I E S                      |   | 2000          | 1999      |           |
| LONG-TERM CURRENT AND CALLABLE LIABILITIES |   | 17,732        | 16,618    |           |
| -  | Liabilities with institutions receiving savings and real estate bonds | 13,157        | 12,140    |           |
| -  | Liabilities for real estate bonds - earmarked to foreign loans        | 3,220         | 3,152     |           |
| -  | Liabilities with savers   | 1,256         | 1,229     |           |
| -  | Liabilities with investors  | 99            | 97        |           |
| NET WORTH                                  |   | 1,319,129     | 1,296,715 |           |
| -  | Accumulated results   | 1,319,129     | 1,296,715 |           |
| T O T A L                                  |   | 1,336,861     | 1,313,333 |           |
| STATEMENT OF INCOME                        |   | R\$1,000      |           |           |
|  | 2nd half/2000   | 2nd half/1999 | 2000      | 1999      |
| REVENUES                                   | 535,388   | 122,458       | 664,561   | 333,110   |
| -  | Interest  | 47,895        | 45,150    | 94,200    |
| -  | Monetary updating   | 70,949        | 61,521    | 137,666   |
| -  | Contribuições Ordinárias  | -             | -         | -         |
| -  | Earnings on investments in federal securities                         | 15,515        | 15,057    | 31,374    |
| -  | Revenues on debts in execution  | -             | -         | 14,548    |
| -  | Reversion of provisions   | 400,621       | -         | 400,621   |
| -  | Other revenues  | 408           | 730       | 700       |
| EXPENDITURES                               | (581,626)   | (58,296)      | (642,147) | (173,963) |
| -  | Interest/monetary updating  | (530)         | (612)     | (1,114)   |
| -  | Management fee  | (293)         | (256)     | (558)     |
| -  | Offsetting of credits   | -             | -         | (14,548)  |
| -  | Cancellation of previous years' revenues                              | (15,614)      | -         | (20,322)  |
| -  | Constitution and adjustment of provisions                             | (216,641)     | (57,140)  | (271,424) |
| -  | Adjustment to present value   | (348,376)     | -         | (348,376) |
| -  | Other   | (172)         | (288)     | (353)     |
| RESULT                                     | (46,238)  | 64,162        | 22,414    | 159,147   |

The FGDLI was created by Resolution 3/1967, issued by the Council of Administration of the now extinct National Housing Bank. Management of the Fund was transferred to Banco Central by Decree Law 2,291/1986 and CMN Resolution 1,219/1986.

The objective of the FGDLI is to guaranty savings deposits (excluding rural savings accounts) and real estate bonds in their various modalities, conditions and amounts as defined by the National Monetary Council, against the risk of insolvency on the part of the institutions holding the savings deposits and real estate bonds.

As of January 1996, the assets of the FGDLI were to be transferred to the FGC. However, as noted under the heading of Recheque, this process was suspended by the STF.

The rights and obligations of the Fund are subject to updating based on the TR, with due compliance with the terms of the contracts and legal and normative precepts governing them.

## c) Proagro - Decree 175/1991

| BALANCE SHEET - 12.31.2000                             |               | R\$1,000       |                 |               |
|--|---------------|----------------|-----------------|---------------|
| A S S E T S  |               | 2000           | 1999            |               |
| LONG-TERM CURRENT ASSETS AND RECEIVABLES               |               | 795            | 74              |               |
| - Available at Banco Central                           |               | -              | 74              |               |
| - Investment in federal public securities              |               | 795            | -               |               |
| UNCOVERED LIABILITIES                                  |               | 127,332        | 110,927         |               |
| - Accumulated losses                                   |               | 127,332        | 110,927         |               |
| <b>TOTAL</b>   |               | <b>128,127</b> | <b>111,001</b>  |               |
|  |               | R\$1,000       |                 |               |
| L I A B I L I T I E S                                  |               | 2000           | 1999            |               |
| LONG-TERM CURRENT AND CALLABLE LIABILITIES             |               | 128,127        | 111,001         |               |
| - Loss corroboration services, to be paid              |               | 2,133          | 1,540           |               |
| - Coverage to be paid                                  |               | 61,071         | 46,212          |               |
| - Other liabilities to be paid                         |               | 58,880         | 57,206          |               |
| - Values in the securitization process                 |               | 6,043          | 6,043           |               |
| <b>TOTAL</b>   |               | <b>128,127</b> | <b>111,001</b>  |               |
|  |               | R\$1,000       |                 |               |
| STATEMENT OF INCOME                                    |               | R\$1,000       |                 |               |
|  | 2nd half/2000 | 2nd half/1999  | 2000            | 1999          |
| REVENUES   | 32,249        | 67,813         | 50,013          | 79,058        |
| - Additional   | 14,411        | 8,915          | 18,410          | 11,081        |
| - Earnings on investments in federal public securities | 62            | 191            | 157             | 2,583         |
| - Cancellation of previous years' expenditures         | 1,734         | 1,843          | 3,884           | 8,530         |
| - Transfers of federal government budget allocations   | 16,040        | 48,500         | 27,560          | 48,500        |
| - Other revenues                                       | 2             | 8,364          | 2               | 8,364         |
| EXPENDITURES   | (32,552)      | (22,004)       | (66,418)        | (66,596)      |
| - Loss corroboration services                          | (632)         | (696)          | (1,608)         | (2,665)       |
| - Coverages  | (31,040)      | (20,462)       | (63,136)        | (62,343)      |
| - Management fee                                       | (880)         | (769)          | (1,674)         | (1,511)       |
| - Previous' years expenditures                         | -             | (77)           | -               | (77)          |
| <b>RESULT</b>  | <b>(303)</b>  | <b>45,809</b>  | <b>(16,405)</b> | <b>12,462</b> |

Proagro – Decree 175/1991 was instituted by Law 5,969/1973 and regulated by Decree 175/1991 and CMN Resolution 1,855/1991 and has the following objectives:

- I. release rural producers from financial obligations resulting from rural credit current expenditure operations when liquidation of such obligations has become difficult as a consequence of natural phenomena, infestations and disease that affect plantations and herds;
- II. when losses occur as a result of the aforementioned events, offsetting the resources utilized by farmers for rural current expenditure purposes.

Despite being managed by the Banco Central, the Program does not receive funding from the institution. The revenues needed to cover the Programs current expenditures are the responsibility of rural producers at the time in which additional charges are paid. When additional charges are not sufficient for payment of losses and coverage, the National Treasury is charged with providing the resources through transfers of budget allocations.

With regard to the Balance Sheet, one should further mention that:

- I. the reclassification of Accumulated Losses to Assets, under the heading of Uncovered Liabilities, was effected as a result of Federal Accounting Council Resolution (CFC) 847/1999;
- II. the account Other Liabilities to be Paid includes the Banco Central Management Fee. Payment of this item was suspended by the Banco Central Board of Directors;
- III. the origin of negative net worth is found in liabilities with coverages to be paid and corroboration of losses, in a total amount that is greater than the inflow of additional funding and other Program revenues.

d) Monetary Reserve

| BALANCE SHEET - 12.31.2000                                     |  | R\$1,000    |             |
|--|--|-------------|-------------|
| A S S E T S  |  | 2000        | 1999        |
| LONG-TERM CURRENT ASSETS AND RECEIVABLES                       |  | 967,043     | 2,073,537   |
| - Available at Banco Central                                   |  | 1           | 5           |
| - Investments in federal public securities                     |  | 615,230     | 487,221     |
| - Credits and rights granted by third parties                  |  | 160,053     | 165,243     |
| - Refinancing program of credits granted to federal government |  | 276,615     | 247,621     |
| - Anticipation to institutions in liquidation                  |  | 160,696     | 148,658     |
| - Securities received through debt composition                 |  | 1,889,758   | 1,521,584   |
| - Credits registered under debts in execution                  |  | 1,648,259   | 1,648,259   |
| - Credits in foreign currency                                  |  | 1,293,871   | -           |
| - Other credits and assets                                     |  | 74,324      | 1,231,418   |
| - (Adjustment to present value)                                |  | (90,914)    | -           |
| - (Provision for hard-to-recover credits)                      |  | (5,060,850) | (3,376,472) |
| TOTAL  |  | 967,043     | 2,073,537   |
|  |  | R\$1,000    |             |
| L I A B I L I T I E S  |  | 2000        | 1999        |
| NET WORTH  |  | 967,043     | 2,073,537   |
| - Accumulated results  |  | 967,043     | 2,073,537   |
| TOTAL  |  | 967,043     | 2,073,537   |

| STATEMENT OF INCOME                             | R\$1,000      |               |             |           |
|---|---------------|---------------|-------------|-----------|
|   | 2nd half/2000 | 2nd half/1999 | 2000        | 1999      |
| REVENUES  | 596,309       | 484,798       | 945,005     | 927,062   |
| - Interest                                      | 121,297       | 105,974       | 235,730     | 253,553   |
| - Monetary/exchange updating                    | 232,113       | 129,246       | 423,271     | 329,035   |
| - Earnings on debt composition                  | -             | 9,496         | -           | 24,060    |
| - Earnings on credits in execution              | -             | -             | -           | 15,712    |
| - Earnings on investments in federal securities | 43,454        | 178,201       | 86,558      | 219,678   |
| - Previous years' revenues                      | -             | 61,881        | -           | 67,682    |
| - Cancellation os previous years' expenditures  | -             | -             | -           | 1,630     |
| - Variations consequent upon provisions         | 181,752       | -             | 181,752     | 15,712    |
| - Adjustment to present value                   | 17,693        | -             | 17,694      | -         |
| EXPENDITURES                                    | (566,449)     | (356,817)     | (2,051,499) | (617,170) |
| - Management fee                                | (436)         | (512)         | (965)       | (1,008)   |
| - Monetary/exchange updating                    | (20,011)      | (97,505)      | (75,792)    | (105,047) |
| - Offsetting of credits                         | -             | -             | -           | (15,712)  |
| - Previous years' expenditures                  | -             | -             | -           | (707)     |
| - Cancellation os previous years' revenues      | -             | (286)         | -           | (1,917)   |
| - Variations consequent upon provisions         | (482,933)     | (177,953)     | (1,866,130) | (412,218) |
| - Adjustment to present value                   | (63,065)      | -             | (108,608)   | -         |
| - Other   | (4)           | (80,561)      | (4)         | (80,561)  |
| RESULT  | 29,860        | 127,981       | (1,106,494) | 309,892   |

The Monetary Reserve was created by Law 5,143/1966 and altered by Decree Law 1,342/1974, and has the objective of ensuring the normality of financial and capital markets.

Monetary Reserve resources are invested by Banco Central in financial and capital market interventions, with due authorization of the National Monetary Council. Such operations are targeted at safeguarding the legitimate interests of the creditors of institutions under intervention or in extrajudicial liquidation.

In the half-year period, one should note the following:

- I. the constitution of credit provisions with the now extinct Comind and Auxiliar banks;
- II. adjustment at current value, aimed at adapting Monetary Reserve assets to the criteria defined by the National Monetary Council, based on a proposal put forward by Banco Central.

#### **Note 28 – FISCAL ACCOUNTABILITY ACT – REQUIRED INFORMATION**

- a) the fiscal impact and cost of its operations:

The paragraph of art. 8 of Law 4,595/1964, with the text provided in Decree Law 2,376/1987, states that the “Banco Central do Brasil result, including the revenues and expenditures of all its operations, will be calculated on an accrual basis and transferred as of January 1, 1988 to the National Treasury, once possible losses of previous fiscal years have been duly offset”. Insofar as the accrual basis is concerned, it should be in accordance with Banco Central accounting peculiarities as described in Note 3.

This provision was partially altered by the heading and paragraph 1 of art. 7 of the Fiscal Accountability Act.

“Art. 7 – Calculated subsequent to the constitution or reversion of reserves, Banco Central do Brasil results constitute National Treasury revenues and are to be transferred by the tenth business day subsequent to approval of the half-year balance sheets.

§ 1 – The negative result will constitute a Treasury liability with Banco Central do Brasil and will be specified in a specific budget allocation.”

Observe furthermore that:

- I. the Banco Central do Brasil result encompasses the revenues and expenditures of all its operations;
- II. positive results are transferred as revenues and the negative results are covered as National Treasury expenditures;
- III. these results are specified in the Fiscal Budget under the National Treasury account.

Thus, once reserves in the amount of R\$327,118 thousand and reversion in the amount of R\$102,517 thousand are duly constituted, the result of Banco Central operations in the second half of 2000 totaling R\$1,308,473 thousand – positive results of R\$47,304 thousand in the July to September period and of R\$1,261,169 thousand in the October to December period – will be transferred to the National Treasury (R\$1,083,872 thousand).

- b) the cost of earnings on National Treasury cash amounts:

The available cash resources of the federal government are deposited at Banco Central and, according to the terms of article 1 of Provisional Measure 2,101, earn interest based on the weighted arithmetic average rate of the intrinsic profitability of internal Federal Public Debt securities issued by the National Treasury and held by Banco Central.

Outlays corresponding to earnings on National Treasury deposits came to R\$3,367,455 thousand in the third quarter of 2000 and R\$3,285,484 thousand in the fourth quarter. In the half-year period, these outlays totaled R\$6,652,939 thousand.

c) the cost of maintaining exchange reserves:

In the October/December 2000 quarter, exchange reserves deposited at Banco Central do Brasil were equivalent to R\$60,537,033 thousand, according to the criterion of average daily balances. Earnings on these reserves in national currency came to 8.1149% in the period. In contrast, average earnings on the liabilities of the institution came to 4.7626% in the period, resulting in a difference of 3.3523 percentage points. In monetary terms, net revenues of R\$2,029,383 thousand were registered on the maintenance of exchange reserves in the period in question.

Revenues and expenditures consequent upon operations with exchange reserves deposited at Banco Central directly impact its result.

d) highlighting federal government issues, the profitability of its securities portfolio was as follows:

| Itemization                   | R\$1,000    |             |               |
|-------------------------------|-------------|-------------|---------------|
|                               | 3rd quarter | 4th quarter | 2nd half/2000 |
| REVENUES                      | 6,973,233   | 6,095,954   | 13,069,187    |
| Federal government securities | 4,986,646   | 5,075,291   | 10,061,937    |
| Own securities                | 1,986,587   | 1,020,663   | 3,007,250     |
| EXPENDITURES                  | (6,072,758) | (8,599,453) | (14,672,211)  |
| Federal government securities | (588,574)   | (746,614)   | (1,335,188)   |
| Own securities                | (5,484,184) | (7,852,839) | (13,337,023)  |
| NET RESULT                    | 900,475     | (2,503,499) | (1,603,024)   |

In the fourth quarter, the result of operations with securities occurred as a consequence of the following factors:

- I. Federal government securities – basically, the result of the portfolio – R\$4,328,677 thousand – reflects earnings paid at 3.75% of the Selic rate in the period;
- II. securities issued by the institution itself – the net negative result of R\$6,832,176 thousand results from payment of coupon interest, discounts granted at placement of the securities and outlays on exchange variations (5.8%) in the period, the factor used to index most of the papers placed on the market.

In the brief analysis of the result of security operations in the second half of 2000, one should note that the negative result of R\$1,603,024 thousand is mostly due to revenues on earnings on the National Treasury securities portfolio – R\$10,061,937 thousand – which reflect the earnings of the Selic rate plus charges on securities issued by the institution itself – R\$13,337,023 thousand – as a result of exchange variation and interest.



**Note 29 – OTHER INFORMATION**

## a) Financial relationship with the National Treasury

|   | R\$1,000    |             |
|---|-------------|-------------|
|   | 12.31.2000  | 12.31.1999  |
| <b>DEBIT BALANCES</b>   | 145,083,658 | 130,944,314 |
| National Treasury Notes - NTN (Note 6)                              | 1,801,184   | 13,814,927  |
| National Treasury Financing Bills - LFT (Note 6)                    | 90,523,377  | 42,449,972  |
| National Treasury Bills - LTN (Note 6)                              | 37,378,053  | 9,866,434   |
| Operations with reverse repurchase agreement with Treasury (Note 6) | -           | 51,759,393  |
| 1999 negative result, to be paid by Treasury (Note 8)               | 15,377,342  | 13,041,763  |
| National Treasury judicial deposits                                 | 3,701       | 3,701       |
| Foreign debt - MYDFA - bonds issued in excess                       | -           | 8,124       |
| Adjustment referring to PM 2,101                                    | 1           | -           |
| <b>CREDIT BALANCES</b>  | 89,701,337  | 76,157,367  |
| National Treasury resources   | 88,380,288  | 75,779,217  |
| Banco Central's positive result, to be transferred (Note 23)        | 1,083,873   | 4,041       |
| Earnings on federal government cash availabilities, to be deposited | 209,269     | 203,006     |
| Social Security Plan, to be deposited                               | 3,285       | 9,683       |
| Proagro   | -           | 6           |
| Deposits in foreign currency - Paris Club and Res. 1,564/1989       | 5,884       | 65,023      |
| Resources earmarked to foreign debt administration                  | 9,777       | 87,610      |
| Deposits consequent upon judicial deposits                          | 8,960       | 8,776       |
| Available Monetary Reserve resources                                | 1           | 5           |

The balance of “Foreign Currency Deposits” on 12.31.2000 includes only liabilities in relation to the Paris Club still in the process of reconciliation at the National Treasury. In 1999, the balance of this heading – excluding the Paris Club with a total of R\$2,765 thousand – also included R\$62,258 thousand originating in Resolution 1,564/1989 which, following reconciliation, generated a transfer of R\$18,620 thousand to the National Treasury in December 2000.

The change noted in the item Resources Earmarked to Management of Foreign Debt Guaranties resulted from release of guaranties totaling R\$86,395 thousand from the Brazilian Financing Plan, transferred to the Single Account in December 2000.

## b) Financial Flow with National Treasury

The balance registered as “Foreign Debt Transfers - Resolution 1,564/1989” corresponds to total Banco Central liabilities with the National Treasury related to Resolution 1,564/1989, transferred in December 2000.

|  | R\$1,000            |                   |
|--|---------------------|-------------------|
|  | 2nd half/2000       | 2nd half/1999     |
| FEDERAL PUBLIC SECURITIES                                  | (16,808,780)        | 46,863,256        |
| Acquisitions   | (42,436,437)        | (9,515,670)       |
| Redemptions  | 25,358,646          | 55,246,036        |
| Interest   | 269,011             | 1,132,890         |
| SUNDRY DEPOSITS  | (7,030,461)         | (10,377,386)      |
| Earnings on available resources                            | (6,686,053)         | (4,201,314)       |
| Earnings on investments with reverse repurchase commitment | -                   | (6,176,072)       |
| Transfer of the June 2000 result                           | (239,393)           | -                 |
| Transfer of foreign debt - Resolution 1,564/1989           | (18,620)            | -                 |
| Release of Brazilian Financing Plan collaterals            | (86,395)            | -                 |
| <b>NET FINANCIAL FLOW</b>                                  | <b>(23,839,241)</b> | <b>36,485,870</b> |

Note: 2nd half/1999 values are presented only for comparison purposes. In 1999, that result was calculated in the period from January 1 to December 31.

#### c) Law 9,650/1998

With classification of Banco Central employees within RJU, Banco Central and the National Social Security Institute (INSS) are now involved in a process of calculating the amounts to be refunded by that Institute. The reconciliation of accounts will include employer and personnel contributions, as well as the amounts to be transferred to the Civil Service Social Security Plan (PSS). The same procedure is to be adopted in relation to the Employment Compensation Guaranty Fund (FGTS).

#### d) Judicially Determined Payments and Claims

According to § 1 of article 100 of the Federal Constitution, public law entities are obligated to include allocations in their budgets as required to cover judicially determined payments submitted by July 1 of each year for payment up to the close of the following fiscal year.

In this context, every year Banco Central receives a number of these instruments from the judiciary demanding that specific payments be made. With issue of Constitutional Amendment 30, dated September 13, 2000, payments of claims judged up to 12.31.1999 are to be liquidated at their real value in legal tender plus legal interest in annual, equal and successive installments over a maximum period of ten years, with the exception of credits classified as personal support and those of lesser values, among others.

With application of the terms of this amendment, R\$13,792 thousand were approved for payment in the Federal Government Budget in the 2001 fiscal year, with the remaining amount of R\$83,593 thousand to be paid over nine years.

On 12.31.2000, Banco Central was subject to legal claims in 56,606 suits as itemized below and broken down according to the nature of the suit and the underlying causes:

| NATURE OF SUIT        | TOTAL         | UNDERLYING CAUSE                   | TOTAL         |
|-----------------------|---------------|------------------------------------|---------------|
| Temporary injunction  | 3,469         | Collor Plan                        | 43,609        |
| Execution             | 2,882         | SFH                                | 512           |
| Declaratory           | 2,318         | FGTS                               | 1,463         |
| Preventive injunction | 1,863         | Extrajudicial liquidation          | 629           |
| Statutory Law         | 40,023        | Bankruptcy                         | 458           |
| Labor Law             | 983           | Proagro                            | 607           |
| Interlocutory appeal  | 3,192         | Cadin, Cadip, Serasa               | 324           |
| Bankruptcy            | 455           | Exchange                           | 564           |
| Others                | 1,421         | Financial charges                  | 422           |
|                       |               | Civil servant                      | 88            |
|                       |               | Debt subject to judicial execution | 1,591         |
|                       |               | Tender processes                   | 73            |
|                       |               | Services provided                  | 74            |
|                       |               | Group buyer associations           | 531           |
|                       |               | Public debt securities             | 161           |
|                       |               | Others                             | 5,500         |
| <b>TOTAL</b>          | <b>56,606</b> | <b>TOTAL</b>                       | <b>56,606</b> |

Once these cases have been settled, the impact on the Banco Central will depend on the amount involved in the cases in which the institution is sentenced to effect payments. It would make no sense to attempt to estimate possible financial impact prior to a definitive judgment for the simple reason that some cases involve a simple review of previous decisions, while in others the amount claimed is totally out of proportion to the value of the sentence. The following chart indicate the amount of the judicially determined payments effected in the last three fiscal years.

| YEAR | Values effectively paid (R\$1,000) |
|------|------------------------------------|
| 1998 | 13,557                             |
| 1999 | 6,354                              |
| 2000 | 15,621                             |

President: ARMINIO FRAGA NETO

Directors: CARLOS EDUARDO DE FREITAS, DANIEL LUIZ GLEIZER, EDISON BERNARDES DOS SANTOS, LUIZ FERNANDO FIGUEIREDO, SERGIO DARCY DA SILVA ALVES, ILAN GOLDFAJN and TEREZA CRISTINA GROSSI TOGNI

Head of the Financial Administration Department: JEFFERSON MOREIRA  
Accountant: CRC-DF 7,333 – CPF 119,361,931-91

**Members of the Conselho Monetário Nacional** (December 31, 2000)

**Pedro Sampaio Malan**  
Minister of Finance - President

**Martus Antonio Rodrigues Tavares**  
Minister of Planning and Budget

**Arminio Fraga Neto**  
Governor of the Banco Central do Brasil

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*Governor*

**Carlos Eduardo de Freitas**  
*Deputy Governor*

**Daniel Luiz Gleizer**  
*Deputy Governor*

**Edison Bernardes dos Santos**  
*Deputy Governor*

**Ilan Goldfajn**  
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**Luiz Fernando Figueiredo**  
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**Sérgio Darcy da Silva Alves**  
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**Tereza Cristina Grossi Togni**  
*Deputy Governor*

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*Secretary for the Board of Governors and  
for the Conselho Monetário Nacional:* José Antonio de Castro

*Secretary for Institutional Relations:* Gerson Bonani

*Secretary for Projects:* Hélio José Ferreira

**Consultants for the Board of Governors**

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*Senior Advisor:* Alvir Alberto Hoffmann

*Senior Advisor:* Clarence Joseph Hillerman Junior

*Senior Advisor:* Dalmir Sérgio Louzada

*Senior Advisor:* João Antonio Fleury Teixeira

*Senior Advisor:* Luiz Sampaio Malan

*Senior Advisor:* Luiz do Couto Neto

*Senior Advisor:* Sérgio Goldenstein

## Central units of the Banco Central do Brasil (December 31, 2000)

### **Financial Administration Department (Deafi)**

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Head: *Jefferson Moreira*

### **Department of Human Resources Administration (Depes)**

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70074-900 Brasília (DF)  
Head: *Mardônio Walter Sarmiento Pereira Silva*

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Head: *Belmivam Borges Borba*

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Head: *Luiz Pereira Leite*

### **Department of Records and Information (Decad)**

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Head: *José Maria Ferreira de Carvalho*

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Head: *Altamir Lopes*

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Head: *Vânio César Pickler Aguiar*

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Head: *Paulo Sérgio Cavalheiro*

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Head: *Fernando Antônio Gomes*

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Head: *Roberto Ozu*

**Legal Department (Dejur)**

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General Attorney: *José Coelho Ferreira*

**Currency Management Department (Mecir)**

Av. Rio Branco, 30  
20071-001 Rio de Janeiro (RJ)  
Head: *José dos Santos Barbosa*

**Department of Financial System Regulation (Denor)**

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Head: *Carlos Eduardo Sampaio Lofrano*

**Banking Operations Department (Deban)**

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Head: *Luis Gustavo da Matta Machado*

**Department of Open Market Operations (Demab)**

Av. Pres. Vargas, 730 - 6º andar  
20071-001 Rio de Janeiro (RJ)  
Head: *Eduardo Hitiro Nakao*

**Department of International Reserves Operations (Depin)**

Edifício-Sede - 5º andar  
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70074-900 Brasília (DF)  
Head: *Daso Maranhão Coimbra*

**Department of External Debt and International Relations (Derin)**

Edifício-Sede - 4º andar

SBS Quadra 3 Zona Central

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Head: *José Linaldo Gomes de Aguiar*

**Department of Financial System Organization (Deorf)**

Edifício-Sede - 16º andar

SBS Quadra 3 Zona Central

70074-900 Brasília (DF)

Head: *Luiz Edson Feltrim*

**Department of Planning and Organization (Depla)**

Edifício-Sede - 13º andar

SBS Quadra 3 Zona Central

70074-900 Brasília (DF)

Head: *Paulo dos Santos*

**Research Department (Depep)**

Ed.-Sede - 9º andar

SBS Quadra 3 Zona Central

70074-900 Brasília (DF)

Head: *Alexandre Antônio Tombini*

**Enforcement Against Illegal Foreign Exchange and Financial Activities Department (Decif)**

Ed.-Sede - 18º andar

SBS Quadra 3 Zona Central

70074-900 Brasília (DF)

Head: *Ricardo Liao*

## Regional offices of the Banco Central do Brasil (December 31, 2000)

### 1st Region - Regional Office in Belém (ADBEL)

Boulevard Castilhos França, 708 - Comércio  
 Caixa Postal 651  
 66010-020 Belém (PA)  
 Regional Delegate: *Maria de Fátima Morais de Lima*

Jurisdiction: Acre, Amapá, Amazonas, Pará,  
 Rondônia and Roraima

### 2nd Region - Regional Office in Fortaleza (ADFOR)

Av. Heráclito Graça, 273 - Centro  
 Caixa Postal 891  
 60140-061 Fortaleza (CE)  
 Regional Delegate: *Luiz Edivam Carvalho*

Jurisdiction: Ceará, Maranhão and Piauí

### 3rd Region - Regional Office in Recife (ADREC)

Rua Siqueira Campos, 368 - Santo Antônio  
 Caixa Postal 1445  
 50010-010 Recife (PE)  
 Regional Delegate: *Pedro Rafael Lapa*

Jurisdiction: Alagoas, Paraíba,  
 Pernambuco and Rio Grande do Norte

### 4th Region - Regional Office in Salvador (ADSAL)

Av. Anita Garibaldi, 1211 - Ondina  
 Caixa Postal 44  
 40176-900 Salvador (BA)  
 Regional Delegate: *Godofredo Massarra dos Santos*

Jurisdiction: Bahia and Sergipe

### 5th Region - Regional Office in Belo Horizonte (ADBHO)

Av. Álvares Cabral, 1605 - Santo Agostinho  
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 30170-001 Belo Horizonte (MG)  
 Regional Delegate: *José Roberto de Oliveira*

Jurisdiction: Minas Gerais, Goiás and Tocantins

### 6th Region - Regional Office in Rio de Janeiro (ADRJA)

Av. Presidente Vargas, 730 - Centro  
 Caixa Postal 495  
 20071-001 Rio de Janeiro (RJ)  
 Regional Delegate: *Márcio Teixeira Silva*

Jurisdiction: Espírito Santo and Rio de Janeiro

### 7th Region - Regional Office in São Paulo (ADSPA)

Av. Paulista, 1804 - Cerqueira César  
 Caixa Postal 8984  
 01310-922 São Paulo (SP)  
 Regional Delegate: *Fernando Roberto Medeiros*

Jurisdiction: São Paulo



**8th Region - Regional Office in Curitiba (ADCUR)**

Rua Marechal Deodoro, 568 - Centro

Caixa Postal 1408

80010-010 Curitiba (PR)

Regional Delegate: *Salim Cafruni Sobrinho*

Jurisdiction: Paraná, Mato Grosso and  
Mato Grosso do Sul

**9th Region - Regional Office in Porto Alegre (ADPAL)**

Travessa Araújo Ribeiro, 305 - Centro

Caixa Postal 919

90010-010 Porto Alegre (RS)

Regional Delegate: *José Afonso Nedel*

Jurisdiction: Rio Grande do Sul and Santa Catarina

## ACRONYMS

|                  |   |
|------------------|---|
| <b>Abad</b>      | Brazilian Association of Wholesalers and Distributors                 |
| <b>Abimaq</b>    | Brazilian Association of Machinery and Equipment Industry             |
| <b>Abras</b>     | Brazilian Association of Supermarkets                                 |
| <b>ADB</b>       | African Development Bank  |
| <b>ADC</b>       | Andean Development Corporation  |
| <b>ADF</b>       | African Development Fund  |
| <b>ADR</b>       | American Depositary Receipts  |
| <b>Anatel</b>    | National Telecommunications Agency                                    |
| <b>Aneel</b>     | National Electric Energy Agency                                       |
| <b>Anefac</b>    | National Association of Finance, Management and Accounting Executives |
| <b>Anfavea</b>   | National Association of Automotive Vehicles Manufacturers             |
| <b>ANP</b>       | National Petroleum Agency   |
| <b>Apex</b>      | Export Promotion Agency   |
| <b>APPC</b>      | Association of Coffee Producing Countries                             |
| <b>Bacen</b>     | Central Bank of Brazil  |
| <b>Banespa</b>   | São Paulo State Bank  |
| <b>Banestado</b> | Parana State Bank   |
| <b>BDR</b>       | Brazilian Depositary Receipts   |
| <b>Bemge</b>     | Minas Gerais State Bank   |
| <b>BIS</b>       | Bank for International Settlements                                    |
| <b>BM&amp;F</b>  | Commodities & Futures Exchange  |
| <b>BNDES</b>     | National Bank of Economic and Social Development                      |
| <b>BNDESpar</b>  | BNDES Participation   |
| <b>BoJ</b>       | Bank of Japan   |
| <b>Bovespa</b>   | São Paulo Stock Exchange  |
| <b>Bradesco</b>  | Brazilian Discount Bank   |
| <b>Bradies</b>   | Renegotiated External Debt Bonds                                      |
| <b>BVRJ</b>      | Rio de Janeiro Stock Exchange   |
| <b>Cadin</b>     | Informative Record of Unpaid Federal Public Sector Credits            |
| <b>Caged</b>     | Ministry of Labor's General Record of the Employed and Unemployed     |
| <b>CBLC</b>      | Brazilian Clearance and Custody Company                               |
| <b>CCL</b>       | Contingent Credit Line  |
| <b>CCR</b>       | Reciprocal Payment and Credit Agreement                               |
| <b>CDB</b>       | Caribbean Development Bank  |
| <b>CDI</b>       | Certificate of Deposit among Financial Institutions                   |
| <b>CDP</b>       | Public Debt Certificates  |
| <b>Celpe</b>     | Pernambuco Energy Company   |
| <b>Cemar</b>     | Maranhão State Power Stations   |
| <b>Cepal</b>     | Economic Commission for Latin America and the Caribbean               |
| <b>CIRR</b>      | Commercial Interest Reference Rate                                    |
| <b>CMC</b>       | Mercosul Common Market Council  |
| <b>CMN</b>       | National Monetary Council   |
| <b>CNI</b>       | National Confederation of Industry                                    |
| <b>Cofins</b>    | Contribution to Social Security Financing                             |
| <b>Conef</b>     | Consolidated Economic-Financial Reports                               |

|                   |   |
|-------------------|---|
| <b>Cosama</b>     | Amazonas State Sanitation Company                                   |
| <b>Copesul</b>    | South Petrochemical Company   |
| <b>CPI</b>        | Consumer Price Index  |
| <b>CPMF</b>       | Provisional Contribution on Financial Transactions                  |
| <b>CSLL</b>       | Social Contribution on the Profits of Legal Entities                |
| <b>CVM</b>        | Securities and Exchange Commission                                  |
| <b>Depec</b>      | Department of Economics   |
| <b>Depin</b>      | Department of International Reserves Operations                     |
| <b>DI</b>         | Interbank Deposit   |
| <b>Dieese</b>     | Interunion Department of Statistics and Social and Economic Studies |
| <b>DOU</b>        | Official Daily Government Newspaper                                 |
| <b>DRU</b>        | Federal Revenue Set-aside   |
| <b>ECB</b>        | European Central Bank   |
| <b>ECT</b>        | Post and Telegraph Company  |
| <b>EFF</b>        | Extended Fund Facilities  |
| <b>Eletrobrás</b> | Brazilian Power Stations  |
| <b>Embraer</b>    | Air Force Brazilian Company   |
| <b>EMI</b>        | Monthly Industrial Estimator  |
| <b>EU</b>         | European Union  |
| <b>Eurostat</b>   | The Statistical Office of the European Communities                  |
| <b>FCESP</b>      | Trade Federation of the State of São Paulo                          |
| <b>FCVS</b>       | Wage Variation Compensation Fund                                    |
| <b>Fed</b>        | Federal Reserve System  |
| <b>FGTS</b>       | Employment Guaranty Fund  |
| <b>FGV</b>        | Getulio Vargas Foundation   |
| <b>Fiesp</b>      | Federation of Industries of the State of São Paulo                  |
| <b>Fiex</b>       | Investment Funds Abroad   |
| <b>FIF</b>        | Financial Investment Fund   |
| <b>Finame</b>     | Special Industrial Financing Agency                                 |
| <b>Firce</b>      | Foreign Capital Department  |
| <b>Flirb</b>      | Front loaded Interest Reduction Bonds                               |
| <b>FMP</b>        | Privatization Mutual Funds  |
| <b>FOMC</b>       | Federal Open Market Committee                                       |
| <b>Fonplata</b>   | Financial Fund for the Development of the River Plate Basin         |
| <b>FRF-CE</b>     | Foreign Capital Fixed Income Funds                                  |
| <b>FTAA</b>       | Free Trade Area of the Americas                                     |
| <b>Funcafé</b>    | Coffee Economy Defense Fund   |
| <b>Funcex</b>     | Foreign Trade Study Center Foundation                               |
| <b>GCF</b>        | Gross Capital Formation   |
| <b>GDDS</b>       | General Data Dissemination System                                   |
| <b>GDP</b>        | Gross Domestic Product  |
| <b>GFCF</b>       | Gross Fixed Capital Formation                                       |
| <b>Global</b>     | Bonds of the Republic   |
| <b>GLP</b>        | Liquefied Petroleum Gas   |
| <b>HCPI</b>       | Harmonized Consumer Price Index                                     |
| <b>HIPC</b>       | Heavily Indebted Poor Countries                                     |
| <b>IBGE</b>       | Brazilian Institute of Geography and Statistics                     |


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|-----------------|---|
| <b>Ibovespa</b> | Quotation Index of the São Paulo Stock Exchange                                 |
| <b>IBRD</b>     | International Bank for Reconstruction and Development                           |
| <b>ICMS</b>     | Tax on the Circulation of Goods and Services                                    |
| <b>ICSID</b>    | International Centre for Settlement of Investment Disputes                      |
| <b>ICV</b>      | Cost of Living Index  |
| <b>IDA</b>      | International Development Association   |
| <b>IDB</b>      | Inter-American Development Bank Group   |
| <b>IE</b>       | Export Tax  |
| <b>IED</b>      | Direct External Investments   |
| <b>IFAD</b>     | International Fund for Agricultural Development                                 |
| <b>IFADV</b>    | 5th Replenishment of the Institution  |
| <b>IFC</b>      | International Financial Corporation   |
| <b>IFO</b>      | Institute for Economic Research   |
| <b>IGP-DI</b>   | General Price Index-Domestic Supply   |
| <b>IGP-M</b>    | General Price Index-Market  |
| <b>II</b>       | Import Tax  |
| <b>IIC</b>      | Inter American Investment Corporation   |
| <b>Imacec</b>   | Monthly Economic Activity Indicator   |
| <b>IMF</b>      | International Monetary Fund   |
| <b>INCC</b>     | National Cost of Construction Index   |
| <b>Infraero</b> | Brazilian Airport Infrastructure Company  |
| <b>INPC</b>     | National Consumer Price Index   |
| <b>Inséé</b>    | Institut National de la Statistique e des Études Économiques                    |
| <b>INSS</b>     | National Social Security Institute  |
| <b>IOE</b>      | Tax on Credit Exchange and Insurance Operations or<br>Stock and Bond Operations |
| <b>IOF</b>      | Financial Operations Tax  |
| <b>IOSCO</b>    | International Organization of Securities Commissions                            |
| <b>IPA</b>      | Wholesale Price Index   |
| <b>IPC</b>      | Consumer Price Index  |
| <b>IPCA</b>     | Broad Consumer Price Index  |
| <b>IPC-Br</b>   | Consumer Price Index-Brazil   |
| <b>IPC-Fipe</b> | Consumer Price Index - Institute of Economic Research Foundation                |
| <b>IPI</b>      | Industrialized Products Tax   |
| <b>IRPJ</b>     | Corporate Income Tax  |
| <b>ISAC</b>     | Synthetic Indicator of Industrial Activity                                      |
| <b>ISAE</b>     | Istituto di Studi e Analisi Economica   |
| <b>Laia</b>     | Latin American Integration Association  |
| <b>LBC</b>      | Banco Central Bills   |
| <b>LDO</b>      | Budget Guidelines Law   |
| <b>LFT</b>      | National Treasury Financing Bills   |
| <b>LFT-A</b>    | National Treasury Financing Bills - Series A                                    |
| <b>LFT-B</b>    | National Treasury Financing Bills - Series B                                    |
| <b>LRF</b>      | Fiscal Responsibility Law   |
| <b>LSPA</b>     | Systematic Farm Production Survey   |
| <b>LTN</b>      | National Treasury Bill  |
| <b>MAA</b>      | Ministry of Agriculture and Supply  |
| <b>MD</b>       | Defence Ministry  |

|                     |  |
|---------------------|--|
| <b>MDIC</b>         | Ministry of Development, Industry and Commerce   |
| <b>Mercosul</b>     | Southern Common Market   |
| <b>MF</b>           | Ministry of Finance  |
| <b>MIF</b>          | Multilateral Investment Fund   |
| <b>MIGA</b>         | Multilateral Investment Guarantee Agency   |
| <b>Moderfrota</b>   | Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters          |
| <b>MP</b>           | Provisional Measure  |
| <b>MTE</b>          | Ministry of Labor and Employment   |
| <b>MYDFA</b>        | Multiyear Deposit Facility Agreement   |
| <b>NAPM</b>         | National Association of Purchasing Managers  |
| <b>Nasdaq</b>       | National Association of Securities Dealers Automated Quotation                                 |
| <b>NBCE</b>         | Banco Central Note - Special Series  |
| <b>NFSP</b>         | Public Sector Borrowing Requirements   |
| <b>NTF</b>          | Nigerian Trust Fund  |
| <b>NTN</b>          | National Treasury Note   |
| <b>NTN-C</b>        | National Treasury Note - Series C  |
| <b>NYSE</b>         | New York Stock Exchange  |
| <b>OC</b>           | Ordinary Capital   |
| <b>OECD</b>         | Organization for Economic Cooperation and Development  |
| <b>OIE</b>          | International Epizootic Organization   |
| <b>Opec</b>         | Organization of Petroleum Exporting Countries  |
| <b>PAF</b>          | Financial Assistance Program   |
| <b>Parafe</b>       | Program of Support to the Restructuring and Fiscal Adjustment of the States                    |
| <b>Petrobras</b>    | Brazilian Petroleum Company  |
| <b>PIS</b>          | Social Integration Plan  |
| <b>PLA</b>          | Adjusted net worth   |
| <b>PLE</b>          | Required net worth   |
| <b>PMI</b>          | Purchasing Managers Index  |
| <b>PND</b>          | National Privatization Program   |
| <b>PPA</b>          | Multiyear Plan   |
| <b>PPI</b>          | Price Index of the Final Goods Producer  |
| <b>PR</b>           | Reference Worth  |
| <b>Previ</b>        | Pension Fund of Banco do Brasil Employees  |
| <b>PRGF</b>         | Poverty Reduction and Growth Facilities  |
| <b>Proer</b>        | Program of Incentives to the Restructuring and Strengthening of the National Financial System  |
| <b>Proes</b>        | Program of Incentives to the Reduction of the State Public Sector in Banking Activities        |
| <b>Proex</b>        | Export Financing Program   |
| <b>Proger Rural</b> | Rural Employment and Income Generation Program   |
| <b>Progex</b>       | Program of Technological Support to Exports  |
| <b>Proleite</b>     | Program of Incentives to the Mechanization, Cooling and Bulk Transportation of Milk Production |
| <b>Pronaf</b>       | National Program for Strengthening Family Agriculture  |
| <b>Prosolo</b>      | Program of Incentives to the Use of Soil Correction Agents                                     |
| <b>RDE</b>          | Electronic Declaratory Registration  |
| <b>Repetro</b>      | Petroleum and Natural Gas Research and Production Activities                                   |

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| <b>Reporto</b>  | Port Restructuring Program  |
| <b>RGPS</b>     | General Social Security System  |
| <b>RV</b>       | Sale Registration   |
| <b>Saelpa</b>   | Paraíba State Electricity Company   |
| <b>SBCE</b>     | Brazilian Export Credit Insurance Corporation                               |
| <b>SBPE</b>     | Brazilian System of Savings and Loans                                       |
| <b>SDDS</b>     | Special Data Dissemination Standard   |
| <b>SDR</b>      | Special Drawing Right   |
| <b>Seade</b>    | Foundation State System of Data Analysis                                    |
| <b>Sebrae</b>   | Support to Micro and Small Businesses                                       |
| <b>Secex</b>    | Foreign Trade Secretariat   |
| <b>Selic</b>    | Special System of Liquidation and Custody                                   |
| <b>SFN</b>      | National Financial System   |
| <b>Simples</b>  | Integrated System of Micro and Small Business Tax and Contribution Payments |
| <b>Sisbacen</b> | Banco Central Information System  |
| <b>Siscomex</b> | Integrated Foreign Trade System   |
| <b>SOF</b>      | Special Operations Fund   |
| <b>SRF</b>      | Secretariat of Federal Revenue  |
| <b>Susep</b>    | Superintendency of Private Insurance  |
| <b>TBF</b>      | Basic Financial Rate  |
| <b>TDA</b>      | Agrarian Debt Securities  |
| <b>TEC</b>      | Common External Tariff  |
| <b>TJLP</b>     | Long-Term Interest Rate   |
| <b>TR</b>       | Reference Rate  |
| <b>Unibanco</b> | United Brazilian Banks  |
| <b>WTO</b>      | World Trade Organization  |
| <b>VaR</b>      | Risk Value  |

# SUBSCRIPTION CARD



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