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.