V

ECONOMIC-FINANCIAL RELATIONS WITH THE INTERNATIONAL COMMUNITY

Foreign trade policy

In 2002, the process of reducing taxes on export operations continued and was implemented parallel to the government's strategy of prioritizing trade with non-traditional markets. In this context, one should mention business missions to Russia and China which, since its admission to the World Trade Organization (WTO), has consolidated its position as Brazil's major trading partner in Asia, surpassing such more traditional markets as Japan. As a result of the Mission to China, the Brazilian Aviation Company (Embraer) and the China Aviation Industry Corporation II (Avic II), which is a Chinese aircraft industry, formalized an agreement with the support of their respective governments that will result in joint production of an Embraer aircraft model to be sold in that market. A trade partnership in the satellite sector was also announced, coupled with exports of buses, software and agribusiness products.

Just as occurred in the previous year, Brazil's external negotiating agenda was highly complex due to a deepening of its negotiations in the various organizations in which it participates, the interests involved in this process and the impacts that conclusion of these negotiations could generate on the nation's economy as a whole. In the year under analysis, however, an additional element was injected into the framework of these negotiations: rising protectionism on the part of the developed countries.

In the case of the USA, imposition of surtaxes and quotas on imports of steel products, coupled with approval of a package of farm sector subsidies, are clear examples of the protectionist content of the trade measures taken by the United States. The terms under which the Trade Promotion Authority (TPA), which is a special mandate granted to the American executive branch to negotiate trade agreements, introduced several defensive postures that were equally prejudicial to Brazil. The list of TPA exceptions includes many of the products – textiles, apparel, farm goods – in which Brazilian exports have proven to be most competitive. Furthermore, the government of the United States maintained its prohibition on imports of a number of products, based on alleged phytosanitary considerations. In summary, the products in which United States trade policy is generally more protectionist cover a significant share of Brazil's most competitive exports. The stance adopted by the United States tends to condition a solution to its litigation with Brazil to negotiations carried on in the framework of the Free Trade Area of the Americas (FTAA) and the WTO. From the Brazilian point of view, this means that a solution to these difficulties will only be achieved over the long-term.

This protectionist bias adopted in USA trade policy has a direct impact on FTAA negotiations, since the pursuit of subregional and bilateral agreements has become increasingly more intense as a result of the difficulties involved in formalizing a multilateral agreement. Aside from this, several countries from the region have begun responding affirmatively to the initiatives taken by the United States, including Chile and the Central American nations. Analysis of FTAA negotiations during the year indicates that the model based almost exclusively on discussions of market access methods and modalities, as defined by the April 2001 Ministerial Meeting in Buenos Aires, has just about exhausted its potential. As a result, the meetings of the Trade Negotiation Committee held on Margarita Island and in Panama in April and May/2002 adopted an alteration in the bloc's negotiating stance, which has shifted to negotiation of the texts of the chapters to be included in the agreement on liberalization proposals. In October, the Seventh FTAA Ministerial Meeting was held in Quito, marking the start of the final stage of negotiation of the agreement. It was decided that, in the period extending from December 15, 2002 to February 15, 2003, the parties will begin submitting their initial liberalization proposals within the groups that negotiate agriculture, market access, services, investments and government procurements. It is expected that this stage will lead to a deepening of the process of mutual concessions and to conclusion of the texts of the chapters to be included in the agreement and, ultimately, to the end of the negotiating process scheduled to occur in January 2005.

In the most recent negotiations, as the starting point for the process of reducing tariffs, Brazil notified its tariff base, utilizing the effectively applied tariff and not that consolidated in the WTO framework. In the case of Mercosul, the possibility of adjusting the Common External Tariff (TEC) was extended to 4.15.2003, in order to make it possible to achieve the necessary intrabloc tariff convergences. Since 11.1.2002, Brazil and the United States have jointly chaired the FTAA negotiations at this decisive moment for the bloc in which it is to define the central aspects of the integration process. The most important points for Brazil are guarantied access to more dynamic markets, shared rules on antidumping, reductions in nontariff barriers, the end of protectionism based on sanitary regulations and correction of asymmetries in the farm sector.

Increased American protectionism led Brussels to also adopt protective measures in the European market. In this case, however, the purpose was not to curtail the current level of imports, but rather to avoid the negative impacts that would be generated by an intense process of rechanneling trade flows caused by the American measures. In 2002, protectionism in the international steel market was one of the central themes of the WTO agenda. In this context, based on the WTO Safeguards Agreement, the Brazilian government requested consultations with the European Union (EU) in order to question the legal foundations of the measure adopted by the European bloc, according to which a WTO member state would be permitted to adopt temporary surtaxes so that an industrial sector would be able to adjust to foreign competition.

Brazil's greatest interests, however, are concentrated in the farm sector. In the year under consideration, the country assumed a position of leadership at the WTO in combating agricultural protectionism in the developed nations. In the month of September, Brazil submitted consultation petitions at the WTO concerning the subsidy policy adopted by the United States and European Union, corresponding to the first step required by the mechanism to be used in resolving WTO controversies. In this case, the complaint was divided into two parts: the first referring to the subsidies provided to sugar producers; and the other to the preferences given by Brussels to the countries of the Caribbean, Asia and Pacific regions in imports of this product. In the other case, Brazil questions the government support given to American cotton farmers, since this has impacted their Brazilian counterparts by affecting the competitiveness of their exports. In another measure concerning the USA, in the month of October the WTO approved formation of an investigation committee to analyze the barriers imposed on Brazilian orange juice. This is the oldest trade barrier faced by Brazilian exporters, dating back to the 1970s. The WTO authorized Brazil to retaliate against Canada for having granted illegal subsidies in the financing of Bombardier aircraft. The amount of this retaliation will be decided by an arbitration committee, since the Canadian government disagreed with the amount initially determined by Brazil. Here, it should be stated that Brazil does not have the intention of imposing this sanction, though it does want to ensure its right to do so, since application could have the effect of making the nation's trade relations with Canada even more complicated than they already are.

In summary, the focus of the WTO dispute is that, on the one hand, the developed countries have raised demands for more liberal approaches to nonfarm products, services, investments and government procurements, coupled with protection for the farm sector, continued utilization of antidumping and countervailing measures and, finally, inclusion of themes resisted by the developing countries, such as the environment and labor rights. On the other hand, the developing countries seek increased market access for their products, particularly agricultural and textile goods, special treatment and differentiation in terms of their WTO obligations, greater emphasis on questions involving implementation than advances in liberalization in the areas of nonfarm goods, services, investments and government procurements and non-inclusion of such themes as the environment and labor rights. In this context, the government has reiterated its demand for a significantly more liberal approach to international trade in agricultural goods in order to ensure conclusion of the Doha Round.

With respect to the Southern Common Market (Mercosul), the macroeconomic crisis that hit the region as a result of the process of political transition in the member states acted as an obstacle to more expressive results. However, there is a rising conviction among the member countries as to the need for deeper reflection on the adopted model of integration and the importance of reaffirming their commitment to building this bloc, considered their best hope for resolving current difficulties.

At the start of the year, once the two major member countries had resolved their exchange policy differences, they were able to move forward in other areas and this clearly aided in recovering Mercosul's capacity as a strategic instrument in moving toward political and economic integration and a greater international role for the member states.

With respect to the automotive agreement, Brazil and Argentina decided to expand it with the aim of achieving equilibrium in export and import operations, which is explicit in the tolerance level of just 16% for this year without payment of taxes. Above this limit, the Import Tax which stands at 35% in Brazil would be levied at a rate of 70%. With the new agreement, for every US$100 imported, exports of US$200 would be permitted. This measure was included in the Brazilian legal structure by issue of Decree 4,510, dated 12.11.2002.

In much the same way, the agreement with Mexico must be seen as an important result in the Mercosul framework, since it introduced a sense of greater predictability into the bloc's relations with that country and, at the same time, is considered a first step in the construction of a free trade agreement in the "4 + 1" format. At the start of the month of July, the Economic Complementation Agreement between Mercosul and Mexico was formalized at the Mercosul Summit in Buenos Aires. This agreement incorporated understandings already negotiated separately with Mexico by the different Mercosul member states, including those reached in the automotive sector. Of the four Mercosul partners, only Brazil did not have a trade agreement with Mexico. For this reason, just a few days prior to the Buenos Aires Summit, a bilateral Brazil-Mexico tariff preference agreement was signed, calling for reciprocal treatment in 796 tariff positions. In decreasing order, the sectors with the largest number of products negotiated were the following: chemicals, machines, apparatuses and electric equipment; foodstuffs, beverages and tobacco; plastics and rubber; plant products; and optical and photographic instruments and apparatuses.

Insofar as the automotive agreement is concerned, the opening of trade between the two countries will be a gradual process based on reciprocal bilateral quotas. In the first year, imports of light automobiles will be subject to an Import Tax of 1.1%. In the following years, the volume of vehicles defined by the quota system will be marketed with a total exemption from that tax. Trade in farm machines will be free of taxes as of the fourth year. Prior to that, however, reciprocal and variable preference margins will be applied according to the Import Tax rate then in effect. Quotas are not to be defined for this grouping. It was also decided that Import Tax exemptions would be granted to specific auto parts for the previously cited products. Aside from this, Brazil granted an exemption from payment of the Additional Freight Tax for Merchant Marine Renewal (AFRMM) to the products imported under this agreement. Decrees 4,383, dated 9.23.2002, and 4,458, dated 11.5.2002, incorporated the Brazil-Mexico tariff preferences and the Mercosul-Mexico automotive agreement into the country's legal structure.

Based on CMC Decision 31/2002, a Framework Agreement was formalized with the Andean Community, incorporating current bilateral agreements. It is important to underscore that this agreement specifies the target of 12.31.2003 for conclusion of the free trade negotiations. The bilateral agreements maintained by the countries of the two blocs were extended to that date. These provisions were an effort to meet Brazilian demands for definition of a new horizon for negotiation of a free trade agreement. Aside from this, the Framework Agreement encouraged formalization of new bilateral agreements with greater potential for progress in the future.

An agreement between Brazil and Chile was signed in the month of March. However, the measures announced at that time only became valid when approved by the other members of the bloc. The reason for this was that, since June 2001, the Mercosul members countries are no longer authorized to negotiate bilateral agreements with third countries. The understandings in question are part of Economic Complementation Agreement 35, signed by Mercosul and Chile in 1996. The current trade agreement between Brazil and Chile is expected to increase Brazilian exports to that country, which now stand at approximately US$1.3 billion. The terms of the agreement call for a reduction in import tariffs in the farm, chemical and automotive sectors. The agreement between the two countries will result in a reduction in the tariffs charged by Chile on imports of passenger cars and light commercial vehicles from Brazil to zero. In the first year of the agreement, 40 thousand vehicles will be exported to Chile. Sales above this limit will be subject to the normal 6% tariff. By 2006, expectations are that a free trade area will be implemented in this segment. In the case of bus sales, the limit will be 1,500 units at a zero tariff in the first and second years of the agreement. In the two following years, the quota will be increased to two thousand units until elimination of the quota in 2006. In exchange, Brazil will import peaches and wine from Chile. The agreement specifies a quota of 50 thousand cases of canned peaches in the first year at a zero tariff. In 2005, the volume will move to 120 thousand and, in the following year, to 200 thousand. In the case of wine, Brazil will create a quota of 100 thousand cases at a zero tariff for brands that cost more than US$50 per bottle. This agreement was incorporated into the Brazilian legal system by Decree 4,404, dated 10.3.2002.

Discussions on creation of a free trade area between Mercosul and the EU reached a consensus on the negotiating format, which is to involve simultaneous debates on matters concerning rules and market access. The major obstacle to progress in these negotiations involves the proposals made by each part to the other. The Mercosul partners argue that the bloc's products of greatest interest, such as meats and grains, were left off the listing in the European proposal. At the same time, the EU insists that the Mercosul liberalization proposal must be broadened to make it possible to move the negotiations into a decisive stage in May 2003, as defined in the schedule worked out by the ministers of the two blocs. It should be stated that, in the month of August, Brazil and the European bloc announced a textile agreement that eliminated the quotas that had limited sales of Brazilian textile products to the European market. These barriers will only be removed in December 2004, according to a WTO decision. The Brazilian counterpart was only to commit itself to not raising current tariffs on imports of textile sector goods, which now stand at 14% for fibers, 16% to 18% for fabrics and 20% for apparel. In practical terms, this agreement will make it possible for Brazilian products to enter the European market without restrictions, relying solely on their own competitiveness.

Insofar as export financing is concerned, increased international financial market aversion to risk led foreign banks to reduce their exposure in emerging nations, curtail their foreign trade credit lines, shorten average financial periods and increase the costs of those that were continued. In this context, the government adopted a series of measures aimed at increasing the supply of credit lines for Brazilian exporters. The announced volume of emergency resources channeled into export financing came to US$4.6 billion. Banco Central participated in this process by structuring the international reserve auction operation earmarked to the granting of advances on export exchange contracts in the pre (ACC) and post-shipment (ACE) stages of the merchandise. A total of US$2 billion was allocated for this purpose. By December 2002, US$1.4 billion had been auctioned. These operations are now regulated by Bacen Circular 3,146, dated 8.30.2002, which can be summarized as follows: as of the auction date, Banco Central do Brasil has two days in which to transfer the dollars to the dealer banks, which are the only financial institutions qualified for direct participation in the auction. In its turn, the dealer has seven days in which to contract the export exchange operations. If it does not do so, it will be punished by the demand that the dollars not contracted be deposited at Banco Central. The operation has a maximum term of 185 days and the individual limit of each dealer is determined by the volume of ACC and ACE granted in the last four weeks, without including resources resulting from the auction in question, with an overall limit of 20% of Base Capital. At the end of the contract, the exporter effects payment to the dealer bank which, in its turn, must liquidate its position with Banco Central in Brazilian currency. Repurchase of dollars by the monetary authority in the future is optional. The major alterations introduced by Bacen Circular 3,146 in relation to Bacen Circular 3,145, dated 8.21.2002, which was revoked by the first document above, were the increase in the Base Capital limit of the dealer from 15% to 20% for foreign currency acquisitions from Bacen, expansion of the contracting period of the operation from five to seven days as of the auction date, and the possibility of dealer banks transferring the resources obtained in the auction to other financial institutions, duly complying with the conditions of the operation. With this, these operations gained in capillarity and, therefore, reached a larger number of exporter companies.

BNDES joined in the government's emergency actions aimed at stimulating exports, by injecting an additional amount of about US$2.6 billion in new resources into the foreign trade sector. Part of these resources came from a US$1 billion Inter-American Development Bank (IDB) loan and other external funding operations. Aside from this, Provisional Measure 59, dated 8.16.2002, later converted into Law 10,595, 12.11.2002, channeled an additional US$2 billion in FAT resources into foreign trade financing. These funds are to be reimbursed in a single payment in up to 180 days. Institution of the emergency pre-shipment financing line sought to offset the cutback in private sector financing, particularly that targeted to small and medium businesses.

In 2002, disbursements by BNDES-Exim, which is the export financing arm of BNDES, came to a total of US$3.9 billion, or 51.7% more than the total released in the previous year. To a great extent, strong growth in BNDES-Exim operations in the year was due to a shortage of commercial bank credit lines, as exporters migrated to the emergency loan system offered by the institution. When compared to 2001, growth in the volume of operations encompassing all of the different financing modalities was distributed as follows: pre-shipment, with a total of US$700 million, corresponding to growth of 70.7%; special pre-shipment, which conditions loans to expansion of the borrowing company's export activities, with US$577 million and growth of 3.2%; post-shipment, with US$2.7 billion and expansion of 63.4%. It should also be mentioned that BNDES Bylaws were altered by Decree 4,418, dated 10.11.2002, in order to make it possible for the bank to finance Brazilian companies that desire to open offices abroad. Basically, this is a credit line targeted to the internationalization of Brazilian companies.

Provisional Measure 95, dated 12.26.2002, altered the text of article 4 of Law 6,704, dated 10.26.1979, which deals with export credit insurance. This alteration is aimed at giving the Reinsurance Institute of Brazil (IRB-Brasil Re) jurisdiction in the sector of export credit insurance to act in the name of the Brazilian government in the contracting of an institution qualified to operate in this insurance segment, with the objective of providing all of the services related to credit insurance, including analysis and monitoring of operations involving guaranties against commercial risks and against extraordinary political risks, as specified in Law 6,704/1979. Within a short time, the credit insurance model now in effect will gain in both dynamics and efficiency, since the Reinsurance Institute of Brazil will be able to act in the entire process of credit insurance coverage, while maintaining its authority to grant guaranties in the name of the federal government.

Just as occurred in 2001, the Export Financing Program (Proex) faced budget problems in its attempts to meet growing demand. Since adoption of the floating rate exchange system, the Program has come face-to-face with these restrictions since its resources are defined in reals, while Proex financing operations are in dollars. To get around the shortfall in resources, the government – as it has done in other years – added an additional R$98 million to the program's financing module.

A brief analysis shows that Proex operations in the financing and equalization modalities totaled US$2.5 billion, of which US$437.7 billion were targeted to the financing modality and US$2 billion was channeled into interest rate equalization operations. In the financing modality, there was a reduction of 5.7% when compared to 2001. Disbursements effected also dropped by 5.5% and totaled US$388.4 billion in the year. On the other hand, the number of operations increased from 958 to 1,075, while the number of companies benefited rose from 294 to 308, reflecting respective increases of 12.2% and 4.7%. In 2002, half of the Proex-Financing operations involved the service sector; 14.6%, referred to the transportation sector; and 11.2% were concentrated in machines and equipment. Africa accounted for 37% of exports followed by the other countries of the Latin American Integration Association (Laia), excluding Mercosul, with 25.3%, the North American Free Trade Area (Nafta), with 12.3% and the EU with 11.7%. Of a total of 1,075 operation carried out, small and medium businesses accounted for 729, with 24% of exported value, or US$106.8 million.

In the equalization modality, exports totaled US$2 billion, compared to US$8.2 billion in 2001, reflecting a drop of 75.3%. The number of operations declined by 81.5%, falling from 4,930 to 911. At the same time, the number of companies benefited fell from 216 to 152 (-29.6%). In the year, 57% of operations involved the sector of transportation, with particularly strong performances under sales of Embraer aircraft, machines and equipment with 32% and agribusiness, with 3%.

The Nafta countries were the destination for 37% of these exports, followed by the member countries of the Asian-Pacific Economic Cooperation, with 21%, and Laia, including Mercosul, with 17.6%.

Another measure related to Proex was implemented by MDIC Directive 58, dated 4.16.2002. This instrument substituted the list of items included in the Appendix to MDIC Directive 374/99, which specifies the items eligible for the equalization modality of the Program. This alteration was made in order to adjust the merchandise to the new classification determined by Camex Resolution 42, dated 12.26.2001. Furthermore, Camex Resolution 33, dated 12.16.2002, defined guidelines for utilizing Proex. The financing modality will be targeted at supporting the exports of micro, small and medium businesses. It should be stressed that operations of large scale companies will be permitted under this modality, exclusively for purposes of compliance with government commitments originating in bilateral Brazilian credit agreements. Proex-Equalization will continue providing support to companies of any size whatsoever.

Operations of the Reciprocal Credit Agreement (CCR) were limited at the start of last year to Argentina and Brazil. With this, export operations in larger amounts and with financing terms of more than one year were excluded from the system, which is a financial compensation mechanism for trade operations among the countries of Latin America. In practical terms, according to the CCR each country guaranties payment of its imports. Central banks reconcile the foreign trade accounts among themselves. Those in a deficit position remit the amount due to the other institutions. With this, the commercial and political risk among countries is sharply diminished.

In the month of October, an agreement was formalized between Brazil and Argentina creating the conditions required for resolving the question of payment of debt arrears by Argentine importers with Brazilian companies and for normalizing their operations. Bacen Circular 3,158, dated 10.25.2002, altered Export Exchange Regulations and the Regulations on the Reciprocal Payments and Credit Agreement, as they applied to Argentina. The value of the payment instrument that can be processed through the CCR was raised to a maximum of US$200 thousand for imports of goods produced and originating in Argentina. Furthermore, it also permitted payments through CCR resulting from renegotiation of credits granted for Brazilian exports to Argentina included among that country's trade debts, without any distinction as to the nature of the exports and the parties involved. Bacen Communiqué 10,379, dated 11.6.2002, extended the period allowed for remitting data on matured operations, as required by Circular 3,158 and Communiqué 10,325, both of which were issued on 10.25.2002, from 11.8.2002 to 11.20.2002. As a consequence, Brazilian exporters interested in renegotiating their matured credits by including them under the CCR were given a longer period in which to remit the necessary information. Circular 3,160, dated 10.30.2002, determined that, as of 12.10.2002, operations carried out over terms of more than 360 days among the countries covered by the system could also be processed through CCR. The difference in relation to current rules is that Banco Central will not guaranty automatic reimbursement for longer term operations in the same way as had been worked out between Brazil and Argentina.

Government measures have emphasized the need for aggregating value to exported products. In this sense, a pilot experience was developed involving coffee. The forum of competitiveness for the product was created during the year and given the task of evaluating problems that occur during the course of the entire production process. According to these studies, coffee producers receive between 8% and 10% of the final price of the product paid by the foreign consumer. The remaining amount is appropriated by three or four large multinational marketing companies, the segment of roasting and distributors in each of the consumer countries.

Another measure targeted at streamlining the processing of export operations was Camex Resolution 8, dated 4.25.2002, which cancelled 19 resolutions issued by the now extinct National Foreign Trade Council (Concex). The resolutions in question defined standards for the sale of a number of products, mostly farm goods, to other nations. With this measure, export goods, including beans, citrus fruits, potatoes, peanuts, onions, sorghum, cotton, corn, soybeans and cashew nuts were no longer obligated to obey rules that only complicated foreign sales and tended to reduce their foreign market value. Aside from this, the new standards of quality and phytosanitary rules required by the EU and USA had not been included within the standards imposed by Concex.

Following the same line of action, Camex Resolution 12, dated 6.18.2002, extended the drawback system (imports of inputs without paying taxes to be used in manufacturing goods for export) to farm inputs not manufactured in Brazil and related to production of pork and chicken, fruit, shrimp and cotton. The government is expanding utilization of instruments that benefit the exports of the farm sector, since those operating in this segment have shown themselves to be increasingly more competitive over time.

Another important measure was that focused on facilitating these operations by broadening the Special Customs System and the Computer Controlled Industrial Depot (Recof) to include the aircraft and automotive sectors. The advantages of this special system are cost reductions, as a result of temporary suspension of tax payments, and release of the merchandise in up to six hours.

With respect to the fostering of trade operations, mention should be made of the Export Promotion Agency (Apex). Several of the programs supported by the Agency have been quite successful, including Brazilian Leather, Flora Brazilian, Brazilian Fruit, Cafés do Brasil, the Brazilian Cane Brandy Development Program, the Naval School, Trademark Brazil, among others. The activities of Apex are focused on increasing exports, expanding the number of exporter companies and diversifying markets. To achieve these ends, the Agency supports formation of export consortia, dissemination of information and consolidation of the position of Brazilian products on the international market through the use of Trademark Brazil and, finally, coordinating trade promotion events. By way of example, more than 200 international events were held in the year under analysis. The sectors with the strongest participation in the Agency's projects are responsible for approximately 28% of Brazilian foreign sales.

On the import side, the Common External Tariff (TEC) remained as one of the major unresolved Mercosul problems. The TEC defines the Import Tax agreed upon by the bloc's member states for levying on products imported from other countries. The major criticism refers to the large number gaps in the TEC or, in other words, products for which tariffs have not been unified among the member states. Evidently, this fact has further deepened the imperfections found in the customs union. Reduction of these distortions is now being negotiated in the framework of the bloc's executive entity, known as the Common Market Group (GMC).

Over the course of the year, several changes were introduced into the TEC in the Mercosul framework. In general, these were concentrated in the NCM and required that the Brazilian side incorporate them into the nation's juridical structure. Camex Resolution 9, dated 4.25.2002, instituted the GMC Resolution 69/00 Technical Monitoring Group (Getar-69), in the context of the Camex Management Committee. The objective here was to examine proposals calling for a temporary and exceptional reduction in the TEC, in such a way as to ensure a normal supply of goods to Mercosul member states. Also with respect to supply, GMC Resolution 55/2002 granted Brazil exceptional authorization to include the heading "corn grain" in its list of exceptions, with a rate of 2% for a quota of 600,000 tons up to 2.28.2003.

On 12.20.2002, three Camex Resolutions were published and introduced several important changes into the TEC. Resolution 34, included alterations in the list of Brazilian exceptions, such as the exclusion of rice. The most important changes, however, were introduced by Resolution 35, which altered Common Mercosul Nomenclature (NCM) and the respective Import Tax rates. Another substantial alteration was that which excluded commodities from the temporary addition of 1.5 percentage points, which began in 1997 when the TEC was raised by three percentage points. In January 2001, the process of withdrawing this additional rate was initiated by adopting a reduction of 0.5%. A new reduction was introduced in January of this year when Camex Resolution 42 went into effect. This instrument implemented a one percentage point cutback and excluded capital goods and the items listed in its Appendix II from the balance of the 1.5% temporary addition to the TEC. With this, the addition was eliminated from more than one thousand items, almost all of which involved the sectors of textiles, iron and steel goods and their derived products.

In order to minimize the impact of exchange depreciation on the prices of imported products, the import tax rate on wheat and rice was lowered. In this case, the Import Tax was cut from the level of 14 to 18% to 11.5 to 13.5%. This measure encompassed 97% of the rice imported by Brazil. The rate on wheat dropped from 11.5% to 10%. Camex also reduced the TEC on 90 items involving microcomputer parts and components with a different objective in mind or, in other words, in order to increase the competitiveness of nationally made products and stimulate computer manufacturing in Brazil and, in this way, provide the population with greater access to computer technology. The previous median rate was 11%, which was reduced to 5%. The Camex decision meant anticipation of the convergence of the tariff on electronic components which had previously been scheduled for 2006. With this anticipation, it is hoped that the cost of internal production and the level of smuggling will be reduced.

Completing the Camex decision in the segment of computer equipment, Provisional Measure 100, dated 12.30.2002, introduced a series of measures aimed at stimulating production of computers in Brazil and thus reducing the prices paid by final consumers. With this measure, computers produced in the country with values of up to R$11 thousand will be exempt from the Industrialized Products Tax (IPI). Aside from this, the obligation imposed on industry to invest 5% of revenues in research and development was cut to 2.5%. Here, it should be recalled that, according to informatics legislation, the IPI exemption for components and computers ended in 2000. As of 2001, these products were entitled to reductions in IPI payments, starting with a discount of 95% of the tax due and then cut by five percentage points each year up to 2009, followed by cancellation of the discount in 2010. With the new Provisional Measure, computers are exempt from the IPI in 2003. In the following year, the product is to be taxed with a discount of 95% of the tax due, dropping to 90% in 2005. Between 2006 and 2009, these goods will be taxed at 70% of the tax due and the incentive will be eliminated in 2010.

As determined last year in the new regulations for the ex-tariff system, which had the objective of providing investors with a more precisely defined horizon for their applications, the policy of granting tariff reductions to imports of capital goods and informatics and telecommunications equipment was continued. The objective of the ex-tariff system is to reduce investment costs and make it possible to modernize the Brazilian industrial structure, while enhancing its competitiveness. The ad valorem rate of the Import Tax was reduced from an average of 14% to 4%. In the case of components of integrated systems, the tax benefit applies only in cases involving import of the totality of the components specified in each system when they are to be used as a whole in the productive activity of the importer. All measures related to the ex-tariff system were implemented by Camex Resolutions, dealing with more than 1,200 items.

In the segment of trade defense, definitive antidumping rights were defined or their application extended until such time as investigations are terminated for purposes of review, while safeguard measures were applied to imports of:

a) lead pencils and colored lead pencils originating in China, according to the terms of Camex Resolution 3, dated 2.19.2002, until such time as the review process is concluded;
b) food grade sodium tripolyphosphate originating in the United Kingdom, as determined in Camex Resolution 16, dated 7.30.2002, while the review process lasts;
c) dry and even grated cocoa, classified under item 0801.11.00 of the NCM, with specified import quotas, to remain in effect for four years, while the countries cited in Camex Resolution 19, dated 7.30.2002, were exempt from the measure;
d) phenol, except that designated as "analysis pure" or "extra pure" grade, in packages of not more than 20 kilograms, classified under item 2907.11.00 of the NCM, when originating in specified manufacturers from the EU and USA, as determined in Camex Resolution 24, dated 10.15.2002;
e) amonium nitrate to be used exclusively in the manufacture of fertilizers, classified under item 3102.30.00 of the NCM, when such originate in Russia and the Ukraine, as determined in Camex Resolution 29, dated 11.18.2002;
f) new rubber tires for bicycles, when such originate in specified companies in China, India, Thailand and Chinese Taipei, until conclusion of the review process, as determined in Camex Resolution 36, dated 12.18.2002;
g) mushrooms originating in China, until conclusion of the review process, as determined in Camex Resolution 37, dated 12.18.2002.

With respect to animal and plant defense in import operations, the measures taken to avoid mad cow and foot-in-mouth disease in Brazil continued. When foot-in-mouth disease was discovered in Paraguay, imports of all animals susceptible to the disease from that country were suspended, according to the terms of Livestock Defense Instruction 56, dated 10.22.2002. In the month of October, the Brazilian government temporarily suspended imports of wheat from the USA, after uncovering the presence of a weed that represented a danger to other plant life. In the case of the Ukraine, imports were suspended after a pest not found in Brazilian territory was discovered in the imported product. Countries that desire to export wheat to Brazil – with the exception of the United States, Canada and Mercosul, must observe a series of requirements, including issue of a declaration of pest-free shipment.

At this point, mention should be made of the following measures taken by the Brazilian government in order to streamline, modernize and more efficiently organize trade operations: Decree 4,331, dated 7.23.2002, promulgated the Convention on Recognition and Execution of Foreign Arbitral Sentences, representing a guaranty that arbitration decisions involving Brazilian parties will be executed without any legal problems in Brazil; SRF Instruction 157, dated 5.10.2002, which approved the consolidated text of the Explanatory Notes of the Harmonized System of Designation and Codification of Merchandise (Nesh), a tool that provides important subsidies for the classification and fiscal identification of merchandise under specific codes; SRF Instruction 144, dated 3.6.2003, altering the Nomenclature of Customs Value and Statistics (NVE), which has the objective of identifying merchandise subject to customs clearance of imports for definition of value; SRF Instruction 248, dated 11.27.2002, simplifying the customs transit clearance system, which is henceforward to be done through Siscomex Transit; interconnection of the levying of the AFRMM at the Integrated Foreign Trade System (Siscomex), as determined in MT Directive 644, dated 9.30.2002; and issue of new Customs Regulations, by Decree 4,543, dated 12.26.2002, which consolidates all of the regulations applicable to the administration of customs activities for purposes of inspection, control and taxation of foreign trade operations.

Exchange policy

The shocks that hit the world economy, particularly in the wake of September 11, 2001, demonstrated the importance of adopting floating rates of exchange as an instrument for responding to situations of financial instability. The magnitude of the international crisis and the inflationary impact of frequent depreciations of Brazilian currency demanded that Banco Central act in such a way as to attenuate some of the pressure on exchange rates by issuing securities indexed to exchange and, at the same time, intervening in the spot market. The stabilization achieved as of November of last year as the country gradually managed to make it clear that there was little or no relationship between its country risk and the Argentine crisis continued to some degree up to mid-April. With the upward movement in the value of the real, Banco Central was able to interrupt the process of rolling the maturing interest of papers indexed to the dollar. Brazil's improved access to international financial markets led the government to prepay US$3.6 billion out of the total Supplementary Reserve Program to the International Monetary Fund (IMF) in the month of April.

The rate of exchange remained relatively stable in the first four months of 2002, at a level in the range of R$2.35/US$1.

As of the end of April, financial instability worsened once again and was driven by the uncertainties surrounding the Brazilian electoral process, aggravation of the Argentine crisis and its repercussions in Brazil, the lowering of the country's classification by international rating agencies, and the crisis that gripped United States stock markets in the wake of the discovery of a series of accounting frauds at major corporations.

In this context, the rate of exchange moved upward and passed the level of R$3/US$1 at the end of July. Measured by the C-Bond, the spread expressed in base points moved from a level between 600 and 800 at the end of April to somewhere between 1900 and 2100 from the end of July to mid-August, following practically the same trajectory as the Brazil risk. It is important to underscore the fact that, even at moments of greatest tension in the July-August period, dollar futures remained close to or even below spot prices, thus signaling market expectations that depreciation of the real would be a temporary phenomenon.

As part of the emergency measures adopted by the Brazilian government, Banco Central structured an auction of reserves tied to the granting of export credits, with US$1.4 billion being channeled into this credit line in the year. At the same time, in early July, the institution announced that it would once again begin daily market interventions through spot or auction sales of external credit lines. In this case, what Banco Central does is effect a sale of the United States dollar to dealer banks which, in turn, make a matched resale operation of that currency to Banco Central. There are no predefined terms for these operations but, in general, they are short-term operations that have no impact on the long position of banks with Banco Central. In the year, the net value of spot market interventions totaled US$5.9 billion and US$1.8 billion in external credit line auctions. At the end of August, some companies managed to obtain new external financing lines for their exports, albeit in small volumes. This would suggest a change in relation to the downward movement registered under external financing sources in the preceding months.

However, the uncertainties generated by then upcoming presidential elections aggravated pressures on the exchange market and made it quite difficult to roll the internal debt indexed to the dollar. It should be stressed that, since the month of January, Banco Central adopted a policy of partial deconcentration of exchange security maturities in 2002. In doing this, it carried out NBCE purchase auctions with maturities in the year, at the same time in which it offered NTN-D for sales. These latter papers are National Treasury securities indexed to exchange, with maturities in the following years.

In the month of April, Banco Central began utilizing exchange swaps (DI versus the dollar), as well as placements of NTN-D or LFT conjugated with exchange swaps for the purpose of rolling the principal of the maturing exchange debt. As a result, the spreads over reference rates declined in these placements. LFT auctions conjugated with exchange swaps were interrupted in May so as to lessen pressures on LFT prices on the secondary market.

As of June 4, exchanges were carried out involving both exchange swaps on the market and internal debt securities earmarked to the rate of exchange. These operations had the objective of reducing distortions in the exchange coupon curve negotiated on the market and the exposure of that market to potential volatility in the prices negotiated on the secondary market. The principal norms regulating this question were Resolution 2,933, dated 2.28.2002, and Circulars 3,099, dated 3.26.2002, 3,106, dated 4.10.2002, and 3,107, dated 4.10.2002.

In order to discourage banks from maintaining foreign currency deposits, Circular 3,127, dated 6.14.2002, altered the compulsory deposit and obligatory reserve rate on time deposits, exchange acceptance resources, debenture bills, securities issued by the banks themselves and liability assumption contracts tied to operations carried out abroad, from 10% to 15%.

Banco Central Circular 3,157 was issued on 10.11.2002 for the purpose of altering exchange legislation with the aim of reducing the maximum net exchange exposure of financial institutions. The capital requirement for the net exchange exposure of these institutions was increased from 75% to 100%. On 10.7.2002, Circular 3,155 had already raised the minimum level of capitalization required to the limit on net exchange exposure from 50% to 75%. The new required capitalization applied to the totality of net exchange exposure and not only to the value that exceeds the 5% exemption limit. Aside from this, the R$30 million exemption limit in effect up to that time was increased to R$100 million.

In the same sense, Circular 3,156, dated 10.11.2002 reduced the maximum limit of the net exchange position as a proportion of weighted capital from 60% to 30%. This regulation generated not only reductions in the weighted capital of financial institutions with the reductions in capital requirements on net exchange exposure, but also reduced the factor itself, leading to a reduction in the maximum value of net exchange exposure in the system. Parallel to this, the rates of compulsory deposits were increased from 48% to 53% on demand deposits; from 18% to 23% on time deposits; and from 25% to 30% on savings deposits.

These measures were not sufficient to reverse the upward trajectory of the American currency, as the market showed signs of uncertainty in accepting government securities. This is evident in demands for high rates of earnings on security placements, which were rejected by Banco Central.

Though it did avoid the possibility of pushing interest rates to an undesirable high level, partial redemption of the debt generated speculation aimed at raising the value of the median dollar at maturity, thus increasing investor earnings and expanding the availability for banks to position themselves in dollars. At the external level, the conflict between the United States and Iraq introduced an additional source of instability. On 10.23.2003, just one week prior to the second round of the presidential election, the exchange sale rate of the dollar came to R$3.9552/US$1, the highest level since adoption of the Real Plan.

Once the electoral process had been concluded, the value of the American currency turned downward and closed the year at R$3.5333/US$1. Upward movement in the value of the real in the post-electoral period reflected positive perceptions of the financial community regarding the new government's commitment to fiscal austerity and price stability.

In this context of the external sector of the economy, one should also mention issue of Circular 3,074, dated 1.4.2002, which determined that conversions of remittable credits recorded as capital of the receiving company up to 1.4.2002, the date on which the Circular was issued, into investments, without carrying out exchange operations, should be normalized by a simultaneous foreign currency purchase and sale operation at the rate in effect on the day of conversion. It was also determined that the pertinent records at Banco Central do Brasil are to be updated, as determined in current regulations. With this rule, the quality of investments improved, thus benefiting compilation of balance of payments data.

According to the terms of Circular 3,075, dated 1.4.2002, procedures were defined for payments in foreign currency made by residents abroad to residents in the country as a result of sales of products with delivery in Brazilian territory, in situations not covered by article 6 of Law 9,826/1999. This rule regulated intracompany commercial export operations, even when the merchandise does not leave the nation's territory. In this case, for all due fiscal and exchange effects, national goods sold with payment in freely convertible foreign currency are considered as exported.

Aside from this, Circular 3,089, dated 3.1.2002, redefined and consolidated the rules on compulsory reserves and obligatory deposits on advances on exchange operations. Circular 3,113, dated 4.17.2002, altered exchange regulations as a result of the restructuring of the Brazilian payments system, which went into operation in April.

In 2002, Brazil carried out its first survey of Brazilian capital abroad in an effort to map the assets held by residents in the country, including information on portfolio investments. Circular 3,095, dated 3.6.2002, altered the deadline for individuals or corporations resident, domiciled or headquartered in the country to submit their declarations of properties and values held abroad, as specified in Circular 3,071, dated 12.7.2001.

According to Circular 3,110, dated 4.15.2002, alterations were introduced into articles 3 and 4 of Circular 3,071, dated 12.7.2001, which defined the form, limits and conditions under which individuals and corporations resident, domiciled or headquartered in the country are to declare their properties and values held abroad. Those holding assets abroad in a total amount equal to or less than R$200,000.00 on 12.31.2001, were dispensed from the obligation of submitting this declaration.

The result of the survey carried out by Banco Central is complementary to the accounting records of total Brazilian assets and liabilities abroad thus, for the first time, making it possible to verify the International Investment Position. The data thus obtained have also made it possible for Brazil to participate in the Coordinated Portfolio Investment Survey (CPIS), which is managed by the IMF and involves more than eighty countries that have committed themselves to announcing their total assets, broken down into stocks, long-term securities and short-term papers.

Another important measure was approval of Constitutional Amendment 37, dated 6.12.2002, which granted an exemption from the CPMF on current account deposits related to stock purchase and sale operations carried out within stock exchanges or through the trading systems of stock, commodities and futures exchanges. This same exemption applied to foreign investor accounts, related to inflows into the country and remittances abroad involving financial resources utilized exclusively in operations and contracts related to the operations cited above. This change is designed to stimulate inflows of foreign investments and consequently generate positive impacts on the balance of payments. At the same time, it is a way of equalizing the conditions provided to external investments in the country with what is generally found in other external markets.

Exchange movement

In 2002, the exchange market registered a net outflow of US$13 billion in contracted resources, compared to US$3 billion in 2001. The balance of contracted trade exchange operations expanded from US$10.8 billion to US$20.3 billion, reflecting the US$2 billion increase in exports and the US$7.5 billion reduction in imports. Contracting operations on the financial exchange market added up to net outflows of US$24.2 billion or US$16.6 billion more than in 2001, due mostly to the contracting of US$15.9 billion in foreign currency purchases. Contracting of operations with institutions abroad totaled net remittances of US$9.1 billion in 2002, compared to US$6.1 billion in the previous year. Outflows were concentrated in the second half of the year, when the total amount came to US$6.5 billion.

Table 5.1 – Foreign exchange operations

US$ million

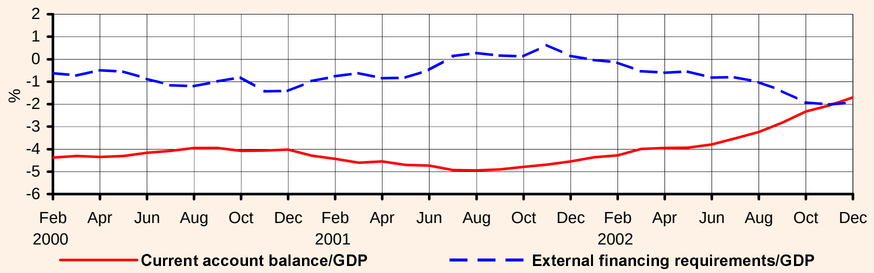
Period		Operations with clients in Brazil							Operations	Balance
		Commercial			Financial			Balance	with banks abroad (net)[1/]	
		Exports	Imports	Balance	Purchases	Sales	Balance			
				(A)			(B)	(C) = (A)+(B)	(D)	(E) = (C) + (D)
1998		47 735	43 903	3 833	126 563	120 094	6 469	10 302	-24 817	-14 515
1999		41 641	32 905	8 736	92 401	107 118	-14 717	-5 981	-10 201	-16 182
2000		51 699	46 069	5 629	99 290	92 971	6 319	11 948	-7 269	4 680
2001	Jan	4 499	4 381	118	6 688	6 039	650	767	- 498	269
	Feb	4 195	3 534	661	5 327	5 681	- 354	307	- 270	37
	Mar	5 763	4 321	1 442	8 526	9 083	- 557	885	- 198	687
	Apr	5 080	3 611	1 469	6 841	6 871	- 30	1 439	- 411	1 028
	May	5 226	3 772	1 454	6 271	8 200	-1 928	- 474	- 541	-1 015
	Jun	4 697	4 067	630	10 392	11 320	- 928	- 299	- 688	- 987
	Jul	5 713	3 965	1 748	8 175	7 621	554	2 302	- 359	1 943
	Aug	4 774	4 320	455	5 983	6 395	- 412	42	- 255	- 212
	Sep	3 978	4 012	- 33	5 166	6 464	-1 299	-1 332	- 893	-2 224
	Oct	3 872	4 264	- 393	5 819	7 449	-1 630	-2 023	- 188	-2 210
	Nov	4 544	3 510	1 034	6 063	6 807	- 744	290	- 453	- 163
	Dec	5 696	3 491	2 205	10 458	11 419	- 961	1 244	-1 357	- 113
	Year	58 036	47 248	10 789	85 710	93 350	-7 640	3 149	-6 110	-2 962
2002	Jan	4 513	4 200	313	5 240	5 893	- 652	- 339	- 402	- 741
	Feb	3 817	3 290	527	4 222	6 395	-2 173	-1 646	- 218	-1 864
	Mar	4 381	3 428	953	8 669	8 129	540	1 493	- 344	1 148
	Apr	4 924	3 380	1 544	6 511	7 633	-1 122	422	- 396	26
	May	5 042	3 229	1 813	4 781	7 291	-2 510	- 697	- 616	-1 313
	Jun	6 118	2 817	3 301	5 838	9 995	-4 157	- 856	- 605	-1 461
	Jul	6 027	3 105	2 922	6 108	9 090	-2 983	- 61	-1 249	-1 309
	Aug	5 126	3 471	1 655	5 307	7 091	-1 785	- 130	-1 633	-1 763
	Sep	5 416	2 658	2 759	5 154	7 540	-2 386	372	-1 386	-1 014
	Oct	5 309	3 405	1 904	5 235	8 157	-2 922	-1 018	-1 725	-2 743
	Nov	4 797	3 229	1 568	4 459	6 363	-1 905	- 337	- 158	- 495
	Dec	4 613	3 544	1 069	8 257	10 412	-2 155	-1 086	- 374	-1 460
	Year	60 083	39 756	20 327	69 780	93 990	-24 209	-3 882	-9 107	-12 989

1/ Transactions referring to international transfers denominated in reals.

Balance of payments

The 2002 balance of payments result was conditioned by cutbacks in autonomous sources of external financing, with an accentuated reduction in the current account deficit in the period. This result was mostly generated by growth in the trade balance surplus which offset the decline in direct foreign investments. However, the volume of external debt rolled dropped sharply, particularly in the second half of the year. In this context, financing of external accounts was completed with resources from the Financial Assistance Program (PAF), disbursed by the IMF.

Graph 5.1
Foreign direct investments and external financing requirements
Accumulated in 12 months



External financing requirements = current account deficit - net foreign direct investments

Balance of trade

In 2002, the trade balance surplus came to US$13.1 billion, compared to US$2.7 billion in the previous year. Foreign sales came to US$60.4 billion, for growth of 3.7% in the period and imports closed at US$47.2 billion, reflecting a reduction of 15%. The total trade flow decreased by 5.5% in the year.

The performance of the export sector in the first half of the year indicated some degree of world economic recovery and, to a greater extent, the Argentine crisis. In this sense, a breakdown of the US$3.9 billion reduction registered by exports in the half-year period, when compared to the first half of 2001, showed that US$1.9 billion were concentrated in sales to Argentina, with US$1.8 billion of this amount involving manufactured goods.

In the second half of the year, exports turned sharply upward, registering expansion of US$6 billion in comparison to the same period of 2001. This result was based on a drop of US$759 million in exports to Argentina and growth of US$6.8 billion in those targeted to other countries. This expansion was evident

Table 5.2 – Balance of payments

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	- 67	2 717	2 650	2 597	10 546	13 143
Exports	28 927	29 295	58 223	25 052	35 310	60 362
Imports	28 994	26 578	55 572	22 455	24 764	47 219
Services	-4 047	-3 712	-7 759	-2 678	-2 360	-5 038
Credit	4 769	4 553	9 322	4 777	4 829	9 606
Debit	8 816	8 265	17 081	7 455	7 188	14 644
Income	-10 006	-9 737	-19 743	-9 267	-8 924	-18 191
Credit	1 842	1 438	3 280	1 401	1 894	3 295
Debit	11 848	11 175	23 023	10 668	10 818	21 486
Current unrequited transfers (net)	779	859	1 638	923	1 466	2 390
Credit	935	999	1 934	1 053	1 573	2 627
Debit	156	140	296	130	107	237
Current account	-13 341	-9 874	-23 215	-8 424	728	-7 696
Capital and financial account	17 728	9 324	27 052	14 449	-5 638	8 811
Capital account[1/]	144	- 180	- 36	175	258	433
Financial account	17 585	9 503	27 088	14 274	-5 896	8 378
Direct investment (net)	12 083	12 632	24 715	8 584	5 500	14 084
Abroad	2 183	75	2 258	-1 033	-1 449	-2 482
Equity capital	2 330	- 578	1 752	-1 143	-1 258	-2 402
Intercompany loans	- 147	653	505	110	- 191	- 81
In the reporting country	9 900	12 557	22 457	9 617	6 949	16 566
Equity capital	7 748	11 017	18 765	9 101	7 993	17 094
Intercompany loans	2 153	1 540	3 692	516	-1 044	- 528
Portfolio investments	1 768	-1 691	77	904	-6 023	-5 119
Assets	- 320	- 475	- 795	- 332	11	- 321
Equity securities	- 610	- 511	-1 121	- 276	- 112	- 389
Debt securities	290	36	326	- 55	123	67
Liabilities	2 088	-1 216	872	1 236	-6 034	-4 797
Equity securities	1 892	589	2 481	2 002	- 21	1 981
Debt securities	195	-1 804	-1 609	- 765	-6 013	-6 778
Financial derivatives	- 300	- 171	- 471	- 368	12	- 356
Assets	273	293	567	371	562	933
Liabilities	- 574	- 464	-1 038	- 739	- 550	-1 289
Other investments[2/]	4 034	-1 267	2 767	5 154	-5 385	- 231
Assets	-2 117	-4 469	-6 586	- 960	-2 251	-3 211
Liabilities	6 151	3 202	9 353	6 114	-3 134	2 980
Errors and omissions	539	-1 070	- 531	- 656	- 157	- 813
Overall balance	4 926	-1 620	3 307	5 368	-5 066	302
Memo:						
Current account/GDP (%)	-5.27	-3.84	-4.55	-3.82	0.32	-1.71
Medium and long term amortizations[3/]	19 107	16 044	35 151	14 810	16 333	31 143

1/ Includes migrants' transfers.

2/ Includes trade credits, loans, currency and deposits, other assets and liabilities and exceptional financing.

3/ Includes medium- and long-term trade credit repayments, medium- and long-term loan repayments, redemptions of medium and long-term debt instruments issued abroad. Excludes Monetary Authority loan repayments and intercompany loan repayments.

Table 5.3 – Trade balance – FOB

US$ million

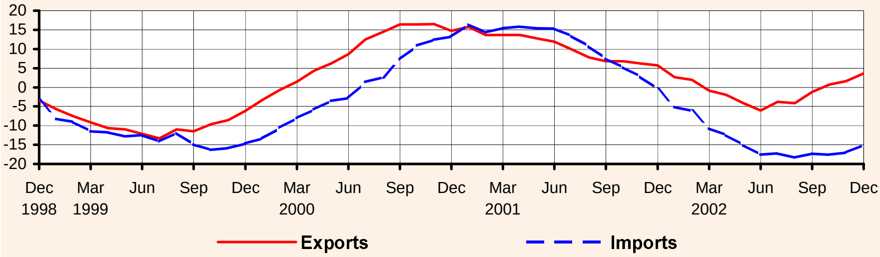
Year	Exports	Imports	Balance	Trade flow
2001	58 223	55 572	2 650	113 795
2002	60 362	47 219	13 143	107 581
% change	3.7	-15.0		-5.5

Source: MDIC/Secex

Graph 5.2

Exports and imports – FOB

Last 12 months (% growth)1/



Source: MDIC/Secex

1/ Over the same period of the previous year.

under both manufactured goods, with US$2.2 billion, compared to a decline of US$2.1 billion in the first half of the year, and under the heading of other products, with US$3.8 billion, as against a US$1.8 billion decline in the previous half-year period.

Imports also registered a positive performance in both half-year periods. In the first half of the year, there was a reduction of US$6.5 billion, of which US$938 million was registered in trade with Argentina and US$5.6 billion in operations with other countries. In the second half of the year, the overall drop declined to US$1.8 billion, of which US$522 million in trade with Argentina and US$1.3 billion with other countries.

Growth in exports reflected a rise of 8.6% in volume shipped as well as a 4.6% reduction under prices, while the decline registered under imports was caused by cutbacks of 12.2% in quantity and 3.2% under prices.

The prices of both imports and exports showed signs of recovery in the second half of the year, particularly in the case of the prices of imported goods such as fuels and lubricants, as a result of the crises in the Middle East and Venezuela. With

Table 5.4 – Trade balance – FOB

Absolute variation in 2002 from 2001

US$ million

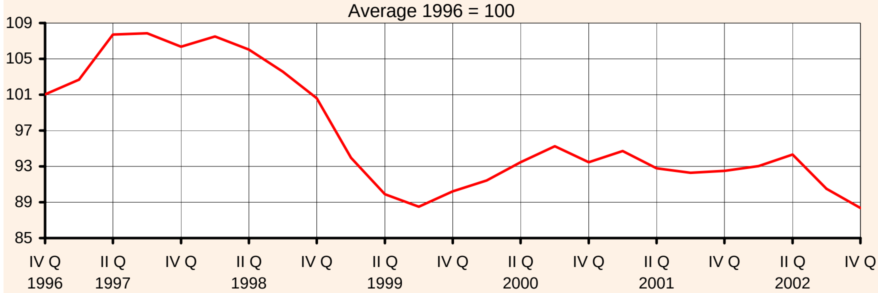
Itemization	Argentina	Other countries	Total
Exports	**-2 661**	**4 800**	**2 139**
1st half	-1 902	-1 974	-3 875
2nd half	- 759	6 773	6 014
Manufactures	-2 486	2 584	99
1st half	-1 781	- 307	-2 088
2nd half	- 705	2 892	2 187
Other	- 175	2 215	2 040
1st half	- 121	-1 666	-1 787
2nd half	- 54	3 882	3 828
Imports	**-1 460**	**-6 893**	**-8 353**
1st half	- 938	-5 602	-6 540
2nd half	- 522	-1 291	-1 814
Balance	**-1 201**	**11 693**	**10 493**
1st half	- 964	3 628	2 664
2nd half	- 237	8 065	7 828

Source: MDIC/Secex

Graph 5.3

Terms of trade index[1/]

Average 1996 = 100



Source: Funcex

1/ Seasonally adjusted by Banco Central.

this, the terms of trade, which had maintained a relative degree of stability since mid-2000, worsened considerably in the second half of the year under analysis.

The increase in foreign sales reflected improved performances in traditional markets as well as incorporation of new markets. This recovery can be attributed to the success of trade promotion policies implemented in such countries as China, Mexico, Russia, India, South Korea and Japan.

Evaluation of the nation’s exports according to aggregate factor points to an increase of 10.5% in basic products, compared to 2001, based on an increase of

Table 5.5 – Price indices and export volume

% change over the same period of the previous year

Itemization	2001		2002	
	Price	Volume	Price	Volume
Total	-3.5	9.6	-4.6	8.6
Primary products	-8.4	33.3	-4.1	15.2
Semimanufactured goods	-10.5	8.3	-4.5	13.9
Manufactured goods	-0.2	1.3	-4.6	5.2

Source: Funcex

Table 5.6 – Price indices and import volume

% change over the same period of the previous year

Itemization	2001		2002	
	Price	Volume	Price	Volume
Total	-3.2	3.0	-3.2	-12.2
Capital goods	-3.2	16.0	-2.7	-18.1
Intermediate goods	-1.4	-0.3	-2.0	-11.5
Durable consumer goods	4.1	1.9	-7.8	-32.5
Nondurable consumer goods	-6.8	-1.9	-7.2	-1.7
Fuels and lubricants	-10.9	3.2	-6.2	-6.0

Source: Funcex

15.2% in quantity shipped and a drop of 4.1% in prices. One should recall that, in 2001, these products had registered an increase of 33.3% in exported quantity.

An analysis of markets of destination shows that foreign sales of basic products turned in across-the-board expansion. In this case, the only real exception were

Table 5.7 – Exports by aggregate factor – FOB

US$ million

Itemization	1998	1999	2000	2001	2002
Total	51 140	48 011	55 086	58 223	60 362
Primary products	12 977	11 828	12 562	15 342	16 952
Industrial products	37 507	35 312	41 027	41 144	41 965
Semimanufactured goods	8 120	7 982	8 499	8 243	8 965
Manufactured goods	29 387	27 330	32 528	32 901	33 000
Special transactions	656	872	1 497	1 736	1 446

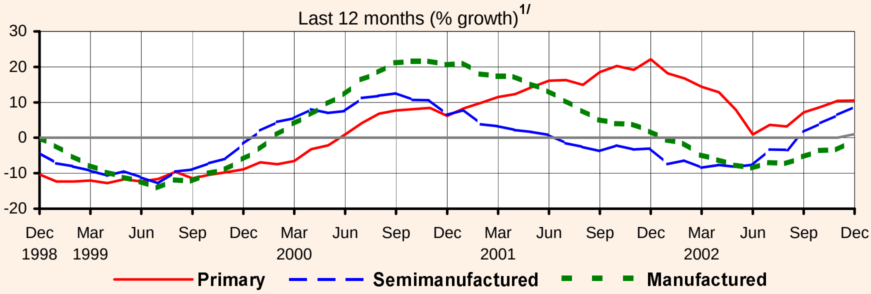
Source: MDIC/Secex

sales within the Mercosul framework, which declined by 36.6%. Sales to the United States expanded by 37.5%, while those channeled to Asia and the EU increased by respective rates of 20.9% and 1.4%.

Expanded sales to nontraditional markets in Africa, Eastern Europe, the Middle East and Asia, coupled with sales of nontraditional products, explain a considerable share of the nation's foreign sales of basic products. In this context, one should note the contribution of sales of petroleum to India, the United Arab Emirates, Santa Lucia, the Bahamas and Trinidad-Tobago, all of which are nontraditional markets. With these results, exports of this product expanded by 134.6% and closed in fourth position among the nation's overall sales of basic products. At the same time, this result reflects growth of 112.1% in volume and 10.6% in price.

Exports of iron ore increased by 4%, based on a drop of 2.7% in prices and a 6.9% high in volume shipped. With its recent admission to the WTO, China became the major buyer of this product, having increased the value of its purchases by 23.7%. Other important markets were Japan, Germany, Italy, South Korea, France, Belgium-Luxembourg, the United States, Argentina and Spain.

Graph 5.4
Exports by aggregate factor – FOB
Last 12 months (% growth)1/



Source: MDIC/Secex
1/ Over the same period of the previous year.

Foreign sales of soybeans increased by 11.2% and closed at a total of US$3 billion, as a result of 9.2% growth in prices and 1.9% under volume. In 2001, a 36.1% increase was registered under volume. Sales to China expanded by 53.5% as that nation became the world's major buyer of Brazilian soybeans.

Though exports of soy meal turned in a 4.1% drop in prices, the value of these operations increased by 6.5% as a result of 11.1% growth in volume. Among the major buyer markets, one should cite the EU countries and those of Asia.

Sales of meat had to cope with price reductions that varied between 10% and 25%, when compared to 2001. However, the increase in shipments guarantied revenue

Table 5.8 – Exports – FOB – Major primary products

% change 2002/2001

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Iron ore and concentrates	4.0	- 2.7	6.9	18.0
Soybean including grinded	11.2	9.2	1.9	17.9
Oil-cake and other residues from soybeans	6.5	- 4.1	11.1	13.0
Petroleum oils, crude	134.6	10.6	112.1	10.0
Meat and edible offal of chicken	3.4	- 19.3	28.1	7.9
Coffee, not roasted	- 1.0	- 20.1	23.9	7.0
Tobacco, unmanufactured; tobacco refuse	6.1	- 0.6	6.8	5.8
Meat of bovine animals	5.1	- 10.1	16.8	4.6
Meat of swine	35.5	- 25.4	81.6	2.8
Maize, unmilled	- 46.2	10.3	- 51.2	1.6
Shrimp, frozen	35.2	- 20.8	70.7	1.0
Kaolin and other kaolinic clays	2.9	2.4	0.5	1.0
Cashew nuts	- 5.9	- 11.6	6.5	0.6
Meat and edible offal of turkey	0.2	- 23.6	31.2	0.6
Cotton, not carded or combed	- 39.2	- 18.3	- 25.6	0.6
Aluminum ore and concentrates	- 7.8	- 6.2	- 1.7	0.5
Fishes	5.0	- 8.8	15.1	0.4
Lobster; frozen	21.2	2.3	18.5	0.4
Guts, bladders and stomachs of animals (other t	33.0	7.0	24.3	0.4
Precious or semiprecious stones, natural	69.7	3.5	64.0	0.3
Other primary products	3.3	-	- 12.7	5.6

Source: MDIC/Secex

1/ In US$/kg.
2/ In kg.
3/ Percentual participation in primary products group total.

growth of 3.4% for chicken meat, 5.1% for beef, 35.5% for pork and 0.2% for turkey meat. Russia became one of the principal markets for these products, following the restrictions that it imposed on imports of products from the EU.

Exports of other animal protein products registered a negative performance in volume terms, with reductions of 70.7% in the case of shrimp and 15.1% and 18.5%, respectively, in the cases of fish and lobster.

Among the products that turned in negative results, one should stress coffee and corn. As far as coffee is concerned, Slovenia became one of the major destination markets, together with the EU and USA and Japan. Revenues fell by 1% as a result of reductions of 20.1% in prices and 23.9% growth in quantity. Despite price growth of 10.3%, corn closed with a value drop of 46.2%, caused mostly by a 51.2% reduction in the volume shipped.

Table 5.9 – Exports by aggregate factor and by regions – FOB

US$ million

Product	2001	2002			
	Value	Value	Change from 2001 (%)	Share (%) Total	Share (%) Blocs
Total	58 223	60 362	3.7	100.0	-
Basic	15 342	16 952	10.5	28.1	-
Semimanufactured	8 243	8 965	8.8	14.9	-
Manufactured	32 901	33 000	0.3	54.7	-
Special transactions	1 736	1 446	-16.8	2.4	-
Laia	12 225	9 866	-19.3	16.3	100.0
Basic	892	749	-16.1	1.2	7.6
Semimanufactured	379	379	0.1	0.6	3.8
Manufactured	10 921	8 711	-20.2	14.4	88.3
Special transactions	32	28	-14.8	0.0	0.3
Mercosur	6 364	3 311	-48.0	5.5	100.0
Basic	438	278	-36.6	0.5	8.4
Semimanufactured	209	155	-25.9	0.3	4.7
Manufactured	5 697	2 863	-49.7	4.7	86.5
Special transactions	20	16	-21.0	0.0	0.5
USA	14 378	15 535	8.0	25.7	100.0
Basic	830	1 142	37.5	1.9	7.4
Semimanufactured	2 043	2 233	9.3	3.7	14.4
Manufactured	11 158	11 753	5.3	19.5	75.7
Special transactions	347	406	17.2	0.7	2.6
European Union	14 865	15 113	1.7	25.0	100.0
Basic	7 322	7 421	1.4	12.3	49.1
Semimanufactured	2 170	2 210	1.9	3.7	14.6
Manufactured	5 085	5 436	6.9	9.0	36.0
Special transactions	288	46	-84.1	0.1	0.3
Asia	6 949	8 791	26.5	14.6	100.0
Basic	3 459	4 180	20.9	6.9	47.6
Semimanufactured	1 925	2 306	19.8	3.8	26.2
Manufactured	1 548	2 289	47.8	3.8	26.0
Special transactions	17	16	-5.2	0.0	0.2
Others	9 805	11 056	12.8	18.3	100.0
Basic	2 838	3 459	21.9	5.7	31.3
Semimanufactured	1 726	1 836	6.4	3.0	16.6
Manufactured	4 188	4 811	14.9	8.0	43.5
Special transactions	1 052	950	-9.7	1.6	8.6

Source: MDIC/Secex

Foreign sales of semimanufactured goods increased by 8.8% when compared to 2001 and closed with a total of US$9 billion. In this case, growth was generated by performance in the second half of the year and reflected 13.9% expansion in volume and a 4.5% decrease under prices. Other factors that contributed to growth in the period were exchange depreciation, coupled with growth in traditional markets and penetration of new markets. Exports of semimanufactured products to the Laia countries increased by only 0.1%, compared to 2001. For the most part, this result was caused by reductions in exports to Argentina, since those channeled to the EU expanded by 1.9% and those to the USA and Asia increased by respective rates of 9.3% and 19.8%.

Among semimanufactured goods that registered export growth, it is important to highlight the performances of metallurgical goods, minerals and wood products. In general, growth was mostly due to upward movement under volume exported. Among metallurgical products, the most important were sales of semimanufactured iron and steel goods, with growth of 30.5% in revenues and 23.8% in volume. The products were mainly channeled to the USA, as well as Asian countries, such as South Korea, Taiwan, Thailand and China.

Table 5.10 – Exports – FOB – Major semimanufactured goods

% change 2002/2001

Products	Value	Price1/	Weight2/	Participation3/
Iron or nonalloy steel semifinished products	30.5	5.4	23.8	15.7
Chemical wood pulp	-6.9	-9.8	3.2	12.9
Cane sugar, raw	-20.7	-26.3	7.6	12.4
Hides and skins	9.6	-0.4	10.0	10.7
Aluminum, unwrought	20.3	-8.6	31.6	9.1
Soybean oil, crude	62.7	33.0	22.3	7.5
Wood, sawn or chipped lenghtwise	8.4	-6.7	16.1	6.4
Pig iron and spiegeleisen	10.4	3.7	6.4	5.3
Iron alloys	6.4	1.7	4.6	4.6
Gold, nonmonetary in semimanufactured forms	4.0	689.5	-86.8	3.9
Aluminum alloys, unwrought	3.4	-7.1	11.4	2.2
Synthetic rubber and artificial rubber	22.6	-0.6	23.4	1.5
Cooper cathodes	269.9	8.5	240.8	0.9
Cocoa butter, fat or oil	57.2	35.5	16.0	0.8
Nickel cathodes	29.0	10.5	16.8	0.8
Wood in chips or particles	6.6	-10.5	19.1	0.6
Silver in plates, sheets or strip	185.9	-22.1	267.0	0.5
Wood sheets	14.3	-26.7	55.9	0.5
Zinc, unwrought	85.8	-14.1	116.3	0.4
Nickel mattes	-35.8	-7.0	-31.0	0.4
Cocoa powder	-3.3	-	-69.0	3.0

Source: MDIC/Secex

1/ In US$/kg.
2/ In kg.
3/ Percentage participation in semimanufactured products group total.

Among foreign sales of minerals, one should highlight exports of unrefined aluminum, with revenue growth of 20.3% and a volume increase of 31.6%. Sales of these goods were mainly targeted to Japan, with 31.7% of the total, and

Belgium-Luxembourg, with 30.4%. Here, also, mention should be made of exports of unrefined zinc, with growth of 85.8% in the total exported and an increase of 116.3% in quantity.

Graph 5.5

Quarterly price indices and volume of Brazilian exports

Average of 1996 = 100

Source: Funcex

Among other important semimanufactured goods that registered growth in export revenues, one should cite leather and hides, with growth of 9.6% in revenues and 10% in volume. These products were shipped principally to Italy, Hong Kong, the USA and China, and unrefined soybean oil, which registered growth of 62.7% in value, 33% in prices and 22.3% in volume and were mostly channeled to Iran, India and China.

Another important grouping of semimanufactured goods that registered revenue growth were wood products, with volume growth that more than offset price reductions.

Among the major semimanufactured goods that registered revenue declines, one should highlight cellulose, with drops of 6.9% in value and 9.8% in prices, though volume expanded by 3.2%, while unprocessed cane sugar turned in a 20.7% reduction in value, based on a price drop of 26.3% and 7.6% growth in volume. Exports of cellulose were targeted mostly to the USA, Belgium-Luxembourg, China, Japan and Italy which, taken together, accounted for approximately 68.2% of the total. Russia was the major market for unprocessed cane sugar, absorbing 44.5% of the total, followed by Canada, Iran and Egypt. Taken as a whole, these four nations absorbed approximately 65% of the total.

In 2002, foreign sales of manufactured products came to US$33 billion, for annual growth of 0.3% and participation of 54.7% in total exports. This stability in the revenue level reflected 5.2% growth in volume, offset by a 4.6% decrease in prices. Just as occurred under the other aggregate factor categories, foreign sales of manufactured goods managed to attain some degree of recovery in prices and, principally, in volume in the second half of the year. Recovery of world trade and trade with Argentina, coupled with exchange depreciation in the period, were the primary factors underlying this recovery.

Here, it is important to stress that, over the course of 2002, the country managed to maintain the very close correlation of recent years between the performance of exports of manufactured goods and internal industrial output. This would suggest that the level of industrial activity is, to a great extent, determined by the external sales of the products concerned.

Exports of manufactured products turned in a negative performance only in the Mercosul framework, with a reduction of 49.7%, due mostly to the sharp cutback in exports to Argentina. When one analyzes trade relations with the Laia countries, the reduction closed at 20.2%, reflecting growth in exports of manufactured goods to the bloc of countries that are not part of Mercosul. With regard to sales to the United States, a market to which sales of manufactured goods accounted for 19.5% of total 2002 foreign sales, the final result reflected an increase of 5.3%, which was lower than the 6.9% expansion registered in exports of manufactured goods to the EU. In the case of the Asian market, their acquisitions of Brazilian manufactured products accounted for only 3.8% of total exports. However, at the same time, they registered the highest growth level, with 47.8% compared to 2001.

Table 5.11 – Exports – FOB – Major manufactured goods

% change 2002/2001

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Airplanes	-17.7	6.9	-23.1	7.1
Passenger motor vehicles	2.8	0.2	2.5	6.1
Transmission and reception apparatus, and components	1.2	-3.6	5.0	5.4
Footwear, parts and components	-10.0	-2.2	-7.9	4.6
Passenger motor vehicles engines and parts thereof	20.6	-10.3	34.4	4.1
Parts and acessories for motor cars and tractors	-1.1	-9.9	9.8	3.5
Cane sugar, refined	11.8	-20.2	40.2	3.0
Orange juice, frozen	7.0	30.1	-17.8	2.6
Iron or nonalloy steel flat-rolled products	35.0	-8.0	46.8	2.5
Pumps, compressors, fans and others	7.0	-10.4	19.5	2.1
Fuel oils	-21.9	1.3	-22.9	1.9
Furniture and parts thereof, except for medical-surgical use	10.7	4.5	5.8	1.6
Gasoline	4.7	-8.2	14.1	1.6
Pneumatic rubber tires	4.7	-4.7	9.9	1.5
Paper and paperboard used for writing, printing etc.	-14.5	-6.3	-8.8	1.3
Electric motors, generators and transformers; parts thereof	-3.9	-4.1	0.2	1.3
Plywood and similar laminated wood	21.9	-0.2	22.1	1.3
Motor vehicles for the transport of goods	-11.5	-9.3	-2.5	1.3
Iron and steel tubes, fittings for tubes	32.7	10.7	19.8	1.2
Chassis fitted with engines and bodies for motor vehicles	-10.6	-12.5	2.2	1.1
Civil engineering and contractors' plant and equipment	4.3	0.5	3.8	1.1
Polymer of ethylene, prophylene and sthyrene	-4.4	-16.7	14.7	1.0
Gears and gearing; ball screws; gear boxes, etc; parts thereof	9.3	-4.2	14.2	0.9
Prepared meals of the meat of bovine animals	18.4	-0.4	18.9	0.9
Tractors	81.6	0.1	81.4	0.8
Iron and steel bars and rods	17.0	-8.7	28.1	0.8
Linens for the bed, table, toilet and kitchen	14.9	-6.0	22.2	0.8
Nitrogen-function compounds	20.4	-3.9	25.3	0.7
Marble and granite works	23.6	11.2	11.2	0.7
Juices of fruit (other than orange) and vegetables	235.8	43.8	133.5	0.7
Other manufactured products	-2.9	-	19.0	36.4

Source: MDIC/Secex

1/ In US$/kg.
2/ In kg.
3/ Percentage participation in manufactured products group total.

Among exports of manufactured products, those that expanded at the highest rates were engines for automotive vehicles, with 20.6% in value and 34.4% in volume, channeled for the most part to the USA, with 36.8%; refined sugar, with 11.8% growth in value and 40.2% in quantity, shipped mainly to the countries of the Middle East and Africa; and rolled iron or steel, with a value increase of 35% and quantity growth of 46.8%. In the latter case, one should highlight the 240% expansion registered in exports to China.

Among the items that registered declining export results, the most important were aircraft, with a drop of 17.7% in value and 23.1% in volume. Basically, these operations were affected by the crisis in the airline industry that followed in the wake of the September 11, 2001 terrorist attack in the United States, resulting in a cutback of 7.1% in that country's purchases of Brazilian aircraft. However, the United States still absorbs 79.2% of the total. Sales of footwear, parts and components declined by 10%, with falloffs of 7.9% in volume and 2.2% in prices. For the most part, this reduction reflects a falloff in exports to Argentina, with 87.6%, and to the United States, with a reduction of 7.3%. It should be stressed however that 67.6% of overall exports of these products are targeted to the United States market. With regard to foreign sales of frozen orange juice, despite a 17.8% reduction in the volume of shipments, these sales increased by 7% due to recovery of 30.1% in prices. The major countries of destination were Belgium-Luxembourg, with 36.1% of the total, the Netherlands, with 28.2% and the United States with 16.4%.

Exports of other important manufactured products turned in relative stability in the year. In this sense, sales of passenger cars increased by 2.8%, reflecting growth of 2.5% in volume, concentrated mostly in Mexico, with 38.9% of the total, and expansion of 49.5% in value. Sales to the United States accounted for 31.5% of the total. Transmission or reception equipment and components turned in a high of 1.2% in value exported, reflecting an increase of 5% in quantity and a 3.6% reduction in prices. The United States was the target for 72.1% of total acquisitions, registering growth of 13.1% over the 2001 result. Sales to Argentina in the same period dropped by 88.2%. Finally, exports of auto parts dipped by 1.1%, with a 9.9% reduction under prices and growth of 9.8% under volume.

Special operations, which correspond mostly to on-board airline and ship consumption and reexport operations, dropped by 16.8% in the context of total exports when compared to 2001. Provisions for ships and aircraft accounted for 64% of total special operations and turned in a reduction of 10.2% compared to 2001, while reexport operations came to 27.8% of the total registered under this item in 2002, including 90% referring to aircraft.

Imports totaled US$47.2 billion, for a 15% reduction in the year, registering downturns in all of the various final use categories. According to the Center of

Foreign Trade Studies Foundation (Funcex), the volume of imports dropped by 12.2% while prices declined by 3.2%, despite some degree of recovery in the second half of the year. Up to June, the quantity decline stood at 16.9% with a drop of 6.9% under prices. Performance in the second half of the year was partly due to recovery in the pace of economic activity and a favorable reference base.

Table 5.12 – Imports – FOB

US$ million

Itemization	1998	1999	2000	2001	2002
Total	57 763	49 295	55 839	55 572	47 219
Capital goods	16 102	13 577	13 605	14 808	11 613
Raw materials	26 783	24 059	28 432	27 340	23 459
Consumer goods	10 777	7 401	7 442	7 148	5 907
Durable	5 269	3 183	3 450	3 516	2 507
Nondurable	5 508	4 218	3 993	3 631	3 400
Fuels and lubricants	4 100	4 258	6 358	6 276	6 241

Source: MDIC/Secex

It should be stressed that the imported quantity of raw materials and intermediate products and capital goods, which historically accompany the pace of industrial activity, turned in a highly different performance in 2002. In that year, industrial production maintained the upward trajectory that began in the final quarter of 2001, while the volume of imports of raw materials and intermediate goods and, principally, capital goods followed the downward trend that commenced in the first quarter of 2001.

This behavior suggests an ongoing process of import substitution, generated partially by the exchange depreciation that marked the period.

Imports of capital goods did not respond immediately to exchange depreciation as of August 2000. The fact of the matter is that, aside from the structural lag that exists before alterations in exchange impact these imports, the crisis in the hydroelectric sector that required imports of electricity generating groups also postponed this effect. Thus, from August 2000 to March 2001, the deseasonalized volume of imports increased by 37.7%, dropping by 54.1% up to December 2002.

Imports of raw materials and intermediate products registered a similar performance. The only difference is found in the period marked by the sharpest exchange devaluation following April 2002, while imports of raw materials remained relatively stable. The fact is that, since October 2001, when the measures taken to curtail the upward spiral in the rate of exchange began producing effects, all the way up to December 2002, the volume of raw material imports dropped by 7.2%. To some extent, this result was due to recovery in industrial growth which, after a steady decline over the course of 2001, finally started to reverse course in 2002.

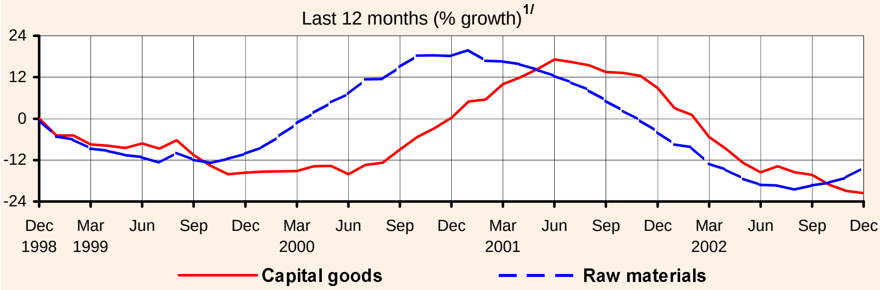
Imports of raw materials and intermediate products came to US$23.5 billion in 2002, for a reduction of 14.2% when compared to 2001, accounting for 49.7% of total imports in the year. Viewed under the angle of the origin of foreign purchases, 29.3% originated in the European Union, with a reduction of 7.2% in the year; 23.4% were acquired in the United States, for a drop of 22.3% and 18.9% and 16.8% originated in Laia member states and Asian countries, with reductions of 13.8% and 3.5%, respectively.

Among the major types of raw materials and intermediate goods imported in 2002, the most important were chemical and pharmaceutical products, with 31.1% of the total in this category, corresponding to an increase of 13.8% in imported volume, compared to 2001, and a price decline of 19.3%, resulting in a reduction of 8.2% in terms of overall values. Imports of parts and spares classified as intermediate products declined by 18.7% and closed at 16.1% of the total registered under this use category. Other important items in this category were transportation equipment accessories and mineral products, which accounted for respective levels of 15.2% and 13.1% of outlays on raw materials and intermediate products. Both of these headings registered reductions in imported values. Among mineral products, mention should be made of imports of naphthas, which dropped by 50%. The major factors responsible for this reduction were a partial production stoppage at petrochemical plants for purposes of preventive maintenance; exchanges of heavier national petroleum for lighter imported oils, that make it possible to produce such derivatives as diesel oil and aviation kerosene with lesser use of naphthas; and the strategy of the private petrochemical companies that, once

Graph 5.6

Brazilian imports by use category – FOB

Last 12 months (% growth)1/



Source: MDIC/Secex

1/ Over the same period of the previous year.

Table 5.13 – Imports – FOB – Major products

% change 2002/2001

Products	Value	Price 1/	Weight 2/	Participation 3/
Capital goods				100.0
Industrial machinery	-10.2	0.9	-11.0	37.6
Machines and apparat. for office and scientific desti	-19.6	-6.4	-14.0	19.4
Capital goods parts and components	-28.4	-14.2	-16.6	10.3
Industrial machinery accessories	-4.3	11.2	-13.9	8.4
Transportation movable equipment	-28.6	7.2	-33.4	5.1
Tools	-27.9	-5.4	-23.8	1.4
Other capital goods	-39.3	65.6	-63.3	17.7
Intermediate products and raw material				100.0
Chemical and pharmaceutical products	-8.2	-19.3	13.8	31.1
Intermediate products - parts	-18.7	24.3	-34.6	16.1
Accessories for transport equipment	-15.6	-5.1	-11.0	15.2
Mineral products	-30.8	-6.2	-26.2	13.1
Foodstuffs	5.1	10.6	-5.0	7.2
Other raw materials for farming	0.6	-2.9	3.7	6.9
Inedible farm products	-15.4	-11.1	-4.9	6.8
Other raw materials and intermediate products	-13.6	-14.2	0.6	3.6
Nondurable consumer goods				100.0
Pharmaceutical products	2.2	-2.4	4.8	35.6
Foodstuffs	-7.2	-13.7	7.6	31.9
Perfumery, cosmetics, or toilet preparations	-18.5	-2.8	-16.2	5.4
Tobacco and beverage	-9.4	-8.0	-1.5	4.8
Apparel and other textiles clothing	-33.4	3.8	-35.8	4.0
Other nondurable consumer goods	-7.1	10.2	-15.7	18.2
Durable consumer goods				100.0
Passenger motor vehicles	-45.4	-11.7	-38.2	33.3
Articles for personal use or adornment	-4.2	-12.8	9.9	27.3
Machines and appliances for household use	-11.6	2.1	-13.4	16.4
Durable consumer goods parts	-22.4	0.8	-23.1	13.2
Furniture and other household equipment	-36.9	-5.6	-33.2	6.1
Other durable consumer goods	-32.4	6.5	-36.5	3.8
Fuels and lubricants				100.0
Fuels	-0.7	-2.6	1.9	98.1
Lubricants	8.9	-11.0	22.4	1.9

Source: MDIC/Secex

1/ In US$/kg.
2/ In kg.
3/ Percentage participation in each end-use category total.

fiscal benefits had been withdrawn, reduced production of gasoline and, consequently, demand for naphthas.

Table 5.14 – Imports by category of use and by region – FOB

US$ million

Product	2001	2002			
	Value	Value	Change from 2001 (%)	Share (%) Total	Share (%) Blocs
Total	55 572	47 219	-15.0	100.0	-
Capital goods	14 808	11 613	-21.6	24.6	-
Raw material and intermediate goods	27 340	23 459	-14.2	49.7	-
Nondurable consumer goods	3 631	3 400	-6.4	7.2	-
Durable consumer goods	3 516	2 507	-28.7	5.3	-
Fuels and lubricants	6 276	6 241	-0.6	13.2	-
Laia	10 001	8 223	-17.8	17.4	100.0
Capital goods	967	686	-29.1	5.9	8.3
Raw material and intermediate goods	5 154	4 443	-13.8	18.9	54.0
Nondurable consumer goods	1 083	1 012	-6.6	29.8	12.3
Durable consumer goods	1 049	544	-48.1	21.7	6.6
Fuels and lubricants	1 749	1 538	-12.0	24.6	18.7
Mercosul	7 009	5 614	-19.9	11.9	100.0
Capital goods	812	532	-34.5	4.6	9.5
Raw material and intermediate goods	3 619	3 226	-10.9	13.8	57.5
Nondurable consumer goods	777	746	-3.9	22.0	13.3
Durable consumer goods	911	451	-50.5	18.0	8.0
Fuels and lubricants	890	658	-26.0	10.6	11.7
USA 1/	13 043	10 439	-20.0	22.1	100.0
Capital goods	4 569	3 694	-19.1	31.8	35.4
Raw material and intermediate goods	7 069	5 495	-22.3	23.4	52.6
Nondurable consumer goods	590	635	7.6	18.7	6.1
Durable consumer goods	476	325	-31.6	13.0	3.1
Fuels and lubricants	339	288	-14.9	4.6	2.8
European Union	14 822	13 095	-11.7	27.7	100.0
Capital goods	5 443	4 254	-21.8	36.6	32.5
Raw material and intermediate goods	7 411	6 879	-7.2	29.3	52.5
Nondurable consumer goods	1 082	1 000	-7.6	29.4	7.6
Durable consumer goods	723	670	-7.3	26.7	5.1
Fuels and lubricants	163	292	78.8	4.7	2.2
Asia	8 926	7 996	-10.4	16.9	100.0
Capital goods	2 761	2 174	-21.3	18.7	27.2
Raw material and intermediate goods	4 097	3 952	-3.5	16.8	49.4
Nondurable consumer goods	437	387	-11.4	11.4	4.8
Durable consumer goods	1 088	850	-21.9	33.9	10.6
Fuels and lubricants	543	634	16.8	10.2	7.9
Others	8 779	7 465	-15.0	15.8	100.0
Capital goods	1 067	805	-24.6	6.9	10.8
Raw material and intermediate goods	3 609	2 690	-25.5	11.5	36.0
Nondurable consumer goods	440	365	-16.9	10.7	4.9
Durable consumer goods	180	117	-35.1	4.7	1.6
Fuels and lubricants	3 482	3 488	0.2	55.9	46.7

Source: MDIC/Secex

1/ Includes Puerto Rico.

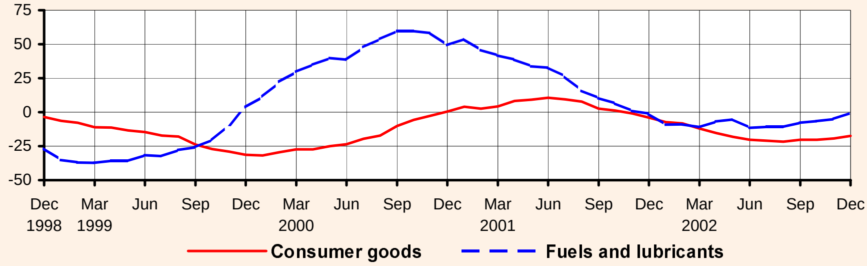
Imports of capital goods came to US$11.6 billion or 21.6% less than in 2001, when import operations were driven by an exceptional rise in demand for electricity generating groups at a time in which the country was threatened with the collapse of its hydroelectric system. These capital goods were imported mostly from the EU, with 36.6%, despite reductions of 21.8% in value compared to 2001, and from the United States, which accounted for 31.8%. with a value reduction of 19.1%.

In this use category, the item of industrial machinery represented 37.6% of total imports, for a decline of 10.2% in value, an increase of 0.9% in prices and a falloff of 11% under volume. Office machines and apparatuses, scientific services, accounting for 19.4% of the total, turned in respective reductions of 19.6%, 6.4% and 14% in value, price and quantity. An accentuated drop was also registered under imports of parts and spares for industrial capital goods. This item was responsible for 10.3% of capital goods imports, with declines of 28.4% in value, 14.2% in prices and 16.6% in quantity. One should also highlight the reduction that occurred under imports of products for the telecommunications sector, which has undergone an intense process of technological development following expansion of mobile phone services and privatization of state telephone companies in recent years.

Graph 5.7

Brazilian imports by use category – FOB

Last 12 months (% growth)[1/]



Source: MDIC/Secex

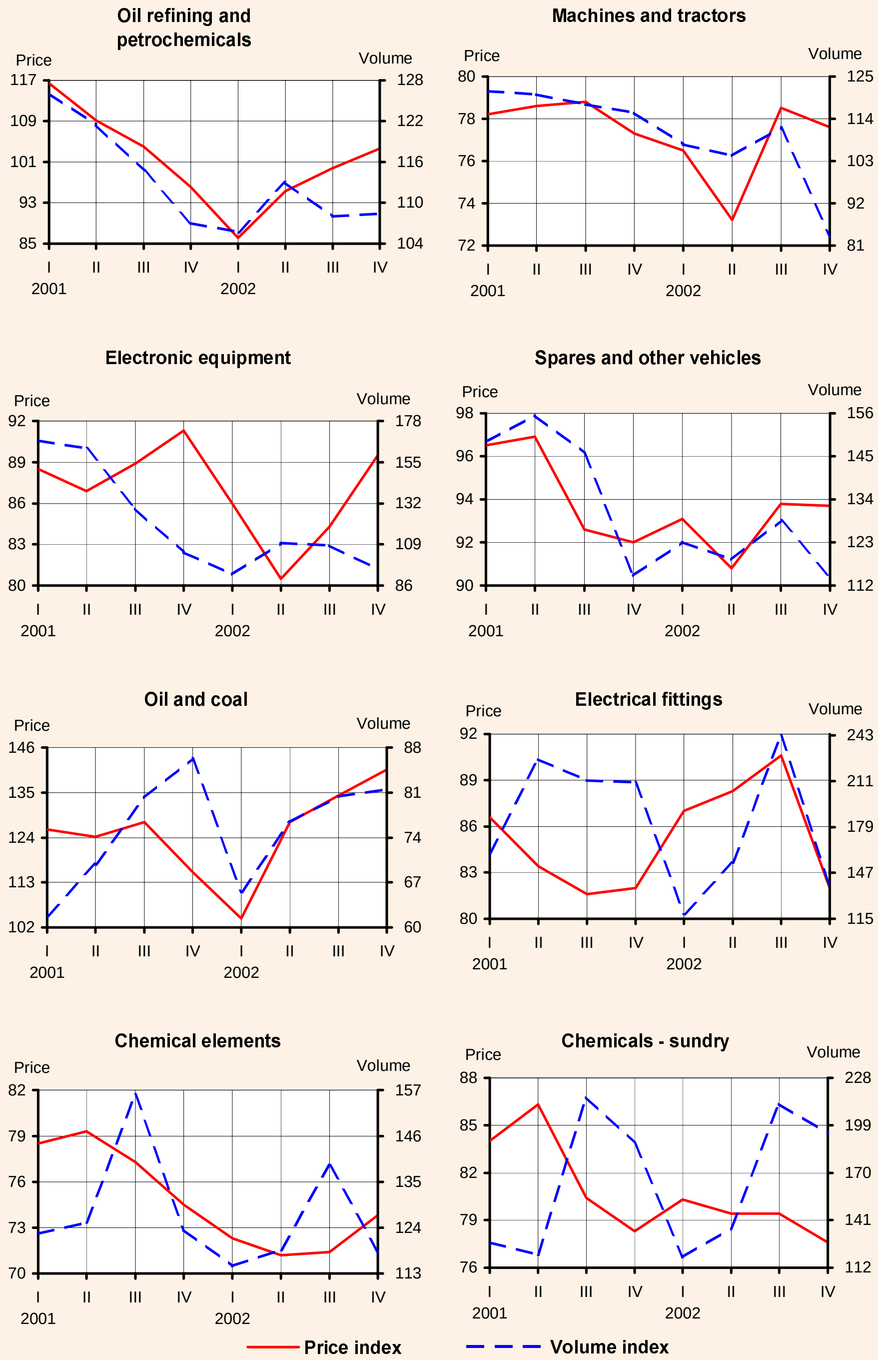
1/ Over the same period of the previous year.

External purchases of nondurable consumer goods added up to US$3.4 billion in 2002, reflecting a reduction of 6.4% compared to 2001. For the most part, this growth was due to a 7.2% reduction in imports of food products, an item that accounted for 31.9% of imports of nondurable goods. This result reflected the 13.7% decline in prices and growth of 7.6% in quantity. Imports of pharmaceutical products accounted for 35.6% of purchases of nondurable goods, with an increase of 4.8% under quantity and a price decline of 2.4%, resulting in overall value growth of 2.2%.

Graph 5.8

Quarterly price indice sand volume of Brazilian imports

Average of 1996 = 100



Source: Funcex

Table 5.15 – Brazilian trade by region – FOB

US$ million

Itemization	2001			2002		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	58 223	55 572	2 650	60 362	47 219	13 143
EFTA[1/]	629	1 227	- 598	618	1 118	- 499
Laia	12 225	10 001	2 223	9 866	8 223	1 643
Mercosur	6 364	7 009	- 646	3 311	5 614	-2 303
Argentina	5 002	6 206	-1 204	2 342	4 746	-2 404
Paraguay	720	300	420	558	383	175
Uruguay	641	503	138	410	485	- 74
Chile	1 352	845	506	1 461	654	807
Mexico	1 868	695	1 173	2 342	580	1 762
Others	2 641	1 451	1 190	2 752	1 374	1 378
Canada	555	927	- 371	782	740	42
European Union	14 865	14 822	43	15 113	13 095	2 018
Germany	2 502	4 812	-2 310	2 537	4 402	-1 866
Belgium/Luxembourg	1 812	585	1 228	1 892	535	1 357
Spain	1 042	1 225	- 183	1 120	975	145
France	1 648	2 084	- 436	1 525	1 767	- 242
Italy	1 809	2 184	- 375	1 817	1 762	55
Netherlands	2 863	533	2 330	3 182	535	2 647
United Kingdom	1 705	1 235	470	1 769	1 343	426
Others	1 484	2 165	- 680	1 272	1 775	- 503
Central and Eastern Europe[2/]	1 699	1 113	587	1 755	919	836
Asia[3/]	6 949	8 926	-1 976	8 791	7 996	795
Japan	1 986	3 064	-1 077	2 098	2 347	- 250
China	1 902	1 328	574	2 520	1 554	966
Korea, Republic of	736	1 574	- 838	852	1 067	- 214
Others	2 325	2 959	- 635	3 320	3 028	292
USA[4/]	14 378	13 043	1 335	15 535	10 439	5 096
Others	6 922	5 513	1 409	7 901	4 690	3 212
Memo:						
Nafta	16 802	14 666	2 136	18 659	11 758	6 900
Opec	3 354	4 464	-1 110	3 536	4 144	- 607

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.

With regard to origin, 29.8% of the total of imported nondurable goods originated in the Laia countries, with 22% coming from Mercosul. In value terms, these figures reflected reductions of 6.6% and 3.9%, respectively. Aside from this, 29.4% of the category total originated in EU countries, with a drop of 7.6% in value, while 18.7% came from the United States, registering growth of 7.6%.

The heading that registered the sharpest decline in imported value in 2002 was that of consumer durables, with 28.7%. To some extent, this performance was a consequence of reductions under imports of automobiles and parts and spares for consumer durables, principally for reception and transmission equipment. Foreign purchases of automobiles accounted for 33.3% of imports of consumer durables, reflecting a drop of 45.4%, with an 11.7% downturn under prices and a 38.2% reduction under volume. Imports of parts and spares for consumer durables, which represented 13.2% of the total of this heading, fell by 22.4%, with a rise of 0.8% under prices and a volume reduction of 23.1%. Purchases of personal adornments and items for personal use fell by 4.2%, and closed at 27.3% of the imports made under this heading, reflecting growth of 9.9% in imported quantity and a 12.8% drop in prices.

An analysis of countries of origin shows that 33.9% of the value of the consumer durables imported by Brazil came from Asia, despite the fact that imports from that part of the world dropped by 21.9% in the year. Parallel to this, 26.7% of purchases classified under this category came from the EU and 21.7% from the Laia countries, corresponding to reductions of 7.3% and 48.1%, in the same order. Imports of consumer durables from the United States also dropped sharply, with a reduction of 31.6% and 13% of the total.

Foreign purchases of fuels and lubricants have remained relatively stable in the last three years. In 2002, a falloff came to just 0.6% in relation to 2001 and closed at US$6.2 billion. Fuels, which represented 98.1% of the value of this use category, with 52.9% referring to petroleum, underwent a decline of 2.6% in prices and a high of 1.9% under volume.

As far as origin is concerned, approximately 24.6% of imported fuels and lubricants originated in the Laia countries, particularly Venezuela and Argentina. This result represented a falloff of 12% when compared to 2001. Imports originating in Asian countries represented 10.2% of the total, with growth of 16.8%. Here, one should mention those involving fuel oils from India, while imports from the USA and EU represented 4.6% and 4.7% of the total, respectively. The value imported from the EU increased by 78.8% while that referring to the USA declined by 14.9%. Of the other countries, 55.9% of the total were acquired principally from the countries of the Middle East and Africa.

Trade exchanges

Trade exchanges with the major trading blocs and partners closed in a highly favorable situation for Brazil, with the exception of the Mercosul countries and the Untied Kingdom. Improvement in the trade balance when compared to 2001 was mostly due to cutbacks in imports, despite some degree of growth in exports, almost entirely to the blocs and countries with which the country maintained relations.

Brazil's deficit with the Mercosul member countries increased by US$1.7 billion in 2002, reflecting a reduction of 48% in exports and 19.9% in imports. Of this growth, US$1.2 billion occurred in commercial operations with Argentina, reflecting the falloff of 53.2% in Brazilian exports to that country and a cutback of 23.5% in imports. The major products imported from Argentina were wheat, with a reduction of 14.6%, passenger cars, the item that registered the sharpest decline with 58%, crude oil, with a drop of 41.8%, cargo vehicles, with a 40.4% slide, naphthas, which remained at practically the same levels as in 2001, and auto parts, with a cutback of 10.5%. On the side of exports to Argentina, the most important were auto parts, with a decline of 42.9%; iron ore, with an increase of 6.9%, passenger cars, with a 52.2% reduction, a segment that is to be managed by the automotive agreement between the two countries, a fact that explains the drop in imports; and organic and inorganic compounds, with growth of 465%.

Among the nation's major trading partners with which Brazil's trade balance worsened, mention should be made of the United Kingdom, with a reduction of US$44 million in the surplus, based on growth of 8.7% in imports and 3.8% under foreign sales.

The strongest absolute increase in the balance occurred in trade with the United States, with US$3.8 billion, based on growth of 8% in exports and a 20% falloff in imports. Among the major products exported to that country, one should highlight such manufactured goods as aircraft, mobile phones, footwear, passenger cars, engines for automotive vehicles and auto parts, as well as semimanufactured products in iron and steel, with growth of 23.4%, despite the restrictions imposed on steel products. The major imported products were electricity generating groups, aircraft engines and turbines, integrated circuits and microelectronic equipment, measuring and verification instruments and apparatuses, automatic data processing machinery, medicines and pumps, compressors, fans, and so forth.

The second largest absolute increase was obtained in operations with Asia, and came to a total of US$2.8 billion. Exports expanded by 26.5% and imports fell by 10.4%. Among the major partners in the region, Japan registered the sharpest improvement in the balance, with a reduction of US$828 million in the deficit, principally as a result of cutbacks in imports. The deficit with South Korea dropped by US$623 million, with growth of 15.7% in foreign sales and a 32.2% reduction in imports. Trade with China generated US$393 million growth in the surplus, based on an increase of 32.5% in exports and 17% under imports. Trade operations with the other countries of the region taken as a whole produced substantial 42.8% growth in exports, with particularly strong 129% growth in sales to India.

For the most part, the region's imports from Brazil involve basic products, such as iron ore, soybeans, chicken meat, petroleum, soy meal, as well as such manufactured goods as iron and steel goods, leather and hides and soybean oil. Insofar as Brazilian imports are concerned, the most important are integrated circuits, microelectronic equipment, parts for transmission and reception equipment, fuel oils, computer parts and accessories, computers, fabrics, engines, generators and electric transformers, textile fiber yarns and heterocyclic compounds.

Imports from the European Union dropped by 11.7%, compared to 1.7% growth in exports to the EU. These results raised the Brazilian surplus by a full US$2 billion in 2002. There was an across-the-board absolute increase in the balance, with the sole exception of bilateral trade with the United Kingdom. Just as occurred in the previous year, the largest deficit was registered in operations with Germany, with US$1.9 billion, even though this result was US$444 million below the 2001 figure.

The most important exports to the bloc were basic products, such as soybeans, soy meal, iron ore, coffee beans, crude oil and chicken meat, together with such semimanufactured products as unrefined aluminum, cellulose, leather and hides, as well as other manufactured products, including orange juice and automotive vehicle engines.

An analysis of imports indicates that the most important performance occurred under auto parts, medicines, engines, electric generators and transformers, engines for automotive vehicles, measuring and verification instruments and apparatuses, and so forth, heterocyclic compounds and parts and spares for aircraft and helicopters.

With regard to the Laia countries, once the Mercosul partners are excluded, trade with Mexico occupied first position with growth of US$589 million in the surplus. This result reflects the positive evolution of the export sector, which came to US$2.3 billion, thus transforming the Mexican economy into the fifth largest market for Brazilian foreign sales. Imports turned in a reduction of 16.6%.

Services

Net outlays on services added up to US$5 billion in 2002, reflecting a drop of 35.1% in comparison to the result of the previous year.

Net outlays on international travel came to US$398 million, corresponding to 27.1% of the 2001 figure. This reduction resulted from the immediate reaction of tourism spending to changes in costs generated by depreciation of the real. Brazilian spending on foreign tourism diminished by 27.3%, while outlays by

Table 5.16 – Services

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-4 047	-3 712	-7 759	-2 678	-2 360	-5 038
Credit	4 769	4 553	9 322	4 777	4 829	9 606
Debit	8 816	8 265	17 081	7 455	7 188	14 644
Transportation	-1 527	-1 440	-2 966	-1 068	- 972	-2 040
Credit	753	669	1 422	702	888	1 590
Debit	2 279	2 109	4 388	1 770	1 860	3 630
Travel	- 879	- 589	-1 468	- 550	152	- 398
Credit	942	789	1 731	874	1 124	1 998
Debit	1 821	1 378	3 199	1 424	972	2 396
Insurance	- 91	- 184	- 275	- 152	- 268	- 420
Credit	139	41	180	137	69	206
Debit	230	225	455	289	337	626
Financial services	- 159	- 148	- 307	- 100	- 132	- 232
Credit	166	151	317	195	195	390
Debit	325	300	624	296	327	623
Computer and information	- 494	- 613	-1 106	- 596	- 523	-1 118
Credit	12	15	27	23	13	36
Debit	506	627	1 133	619	536	1 155
Royalties and license fees	- 557	- 575	-1 132	- 561	- 568	-1 129
Credit	58	54	112	47	53	100
Debit	615	630	1 244	608	621	1 229
Operational leasing	-1 031	- 837	-1 867	- 815	- 858	-1 672
Credit	45	233	278	37	12	49
Debit	1 076	1 070	2 146	852	870	1 721
Government services	- 238	- 414	- 652	- 100	- 152	- 252
Credit	324	280	604	345	417	761
Debit	562	694	1 256	444	569	1 013
Other	929	1 086	2 016	1 262	960	2 222
Credit	2 332	2 320	4 652	2 417	2 058	4 475
Debit	1 402	1 234	2 636	1 154	1 098	2 252

foreigners on tourism in Brazil increased by 14.1%, closing with a reduction of 84.2% in net spending which came to a total of US$195 million. September registered the first surplus since April 1992, while the other months of the year consolidated the tendency to reverse net flows, maintaining net positive flows up to December. Net outlays on credit cards, which are the major component of the tourism account, added up to US$303 million, for a reduction of 48.4%. Other tourism outlays closed with a surplus of US$12 million, compared to net outlays of US$634 million in 2001. In this context, one should highlight the increase in revenues that resulted principally from growth in foreign currency sale operations.

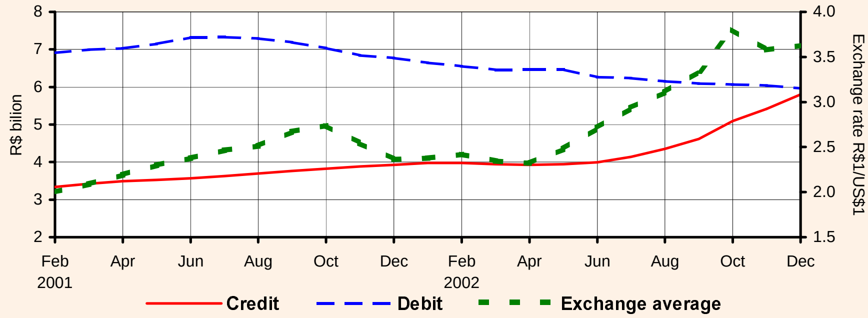
Table 5.17 – International travel

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	- 763	- 469	-1 231	- 441	246	- 195
Credit	924	771	1 696	836	1 099	1 935
Debit	1 687	1 240	2 927	1 277	852	2 129
Duty-free shop	98	79	177	75	66	142
Credit card	- 353	- 234	- 587	- 166	- 137	- 303
Credit	585	480	1 064	530	467	998
Debit	937	714	1 651	697	604	1 301
Tourism services	- 127	- 61	- 187	- 50	4	- 45
Credit	40	32	72	36	37	73
Debit	167	93	259	85	33	118
Other	- 381	- 252	- 634	- 301	312	12
Credit	201	181	382	194	528	722
Debit	583	433	1 016	495	215	710
Business	- 87	- 71	- 158	- 79	- 60	- 139
Credit	12	11	23	9	12	21
Debit	99	82	181	89	72	161
Education-related	- 25	- 43	- 68	- 26	- 30	- 56
Credit	2	2	3	4	3	7
Debit	27	45	72	30	32	63
Government employees	- 5	- 7	- 11	- 7	- 4	- 11
Credit	0	1	2	16	8	24
Debit	5	8	13	23	12	35
Health-related	0	1	1	3	0	3
Credit	4	3	7	8	3	11
Debit	4	2	6	5	3	8
Total	- 879	- 589	-1 468	- 550	152	- 398
Credit	942	789	1 731	874	1 124	1 998
Debit	1 821	1 378	3 199	1 424	972	2 396

The sharp upward movement in revenues that occurred in the second half of the year may have been caused by sales of dollars held by residents as a result of depreciation of the real. Business travel, which is one of the components of international travel that is less sensitive to exchange fluctuations, registered a less significant reduction of 12%.

Graph 5.9
Tourism
Accumulated in 12 months



The transportation account turned in net outflows of US$2 billion, for a drop of 31.2% in comparison to 2001. The increase in the trade balance surplus and the falloff in net spending on international travel were the factors that generated this result. Increased exports and a cutback in imports of goods resulted in a 40% reduction in net spending of freights. Maritime freight revenues and expenditures, which constitute practically the entirety of the transportation of goods, registered respective growth of 56.7% and a reduction of 21.5%. The fall in the international flow of travelers resulted in a increase under revenues and a decrease under spending on travel tickets, resulting in an overall reduction of 13.9% in net outlays to a level of US$390 million.

Insurance services registered net spending of US$420 million, for growth of 52.7% in relation to 2001. Revenues expanded by 14.4% to US$206 million and spending increased by 37.6% to a level of US$626 million.

Net spending on financial services added up to US$232 million for a reduction of 24.4%, with growth of 23% under revenues, which came to US$390 million, and a reduction of 0.2% under expenditures, to a level of US$623 million.

Net spending on computer and information services totaled US$1.1 billion or practically the same level as in 2001. Revenues totaled US$36 million and spending came to US$1.2 billion.

Table 5.18 – Transportation

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 527	-1 440	-2 966	-1 068	- 972	-2 040
Credit	753	669	1 422	702	888	1 590
Debit	2 279	2 109	4 388	1 770	1 860	3 630
Sea transport	- 960	- 863	-1 823	- 504	- 386	- 890
Credit	527	553	1 080	556	709	1 265
Debit	1 487	1 416	2 903	1 060	1 095	2 156
Passenger	- 1	- 4	- 6	- 1	- 1	- 2
Credit	0	0	0	0	0	0
Debit	1	4	6	1	1	2
Freight	- 699	- 608	-1 307	- 419	- 351	- 770
Credit	160	168	328	208	305	514
Debit	859	776	1 635	627	657	1 284
Others	- 259	- 250	- 510	- 85	- 33	- 118
Credit	367	385	752	348	404	752
Debit	627	635	1 262	432	438	870
Air transport	- 547	- 559	-1 106	- 558	- 578	-1 136
Credit	209	101	309	123	157	279
Debit	756	659	1 415	680	734	1 415
Passenger	- 231	- 215	- 447	- 193	- 195	- 388
Credit	80	34	113	65	78	143
Debit	311	249	560	258	273	531
Freight	52	12	65	1	25	26
Credit	101	47	148	41	58	99
Debit	49	35	83	40	32	72
Others	- 368	- 356	- 724	- 366	- 408	- 774
Credit	28	20	48	16	21	37
Debit	396	376	772	382	429	811
Other transport[1/]	- 20	- 18	- 38	- 5	- 8	- 14
Credit	17	16	32	23	22	46
Debit	37	34	70	29	31	59
Passenger	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Debit	0	0	0	0	0	0
Freight	- 26	- 23	- 49	- 13	- 18	- 31
Credit	11	11	21	16	12	28
Debit	36	33	70	28	30	59
Others	6	5	11	7	10	17
Credit	6	5	11	8	10	18
Debit	0	0	1	0	0	1

1/ Includes road transport.

Net payments of royalties and licenses abroad came to US$1.1 billion in 2002, or practically the same level as in the previous year, with reductions of 1.2% in remittances of funding abroad and 10.7% in resources received.

Net outlays on equipment rentals totaled US$1.7 billion, for a reduction of 10.4%. Revenues added up to US$49 million for a cutback of 82.4% and spending registered a decline of 19.8% to a level of US$1.7 billion.

Government services registered net spending of US$252 million in 2002, for a reduction of 61.3% compared to the previous year. This result was due to the increase of 26% in the spending of foreign governments in Brazil, which came to US$761 million, as well as the 19.3% reduction in Brazilian spending abroad, with a total of US$1 billion.

Table 5.19 – Other services

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	929	1 086	2 015	1 262	960	2 222
Credit	2 332	2 319	4 651	2 417	2 058	4 475
Debit	1 403	1 234	2 636	1 155	1 098	2 252
Communication	42	- 13	29	12	1	14
Credit	240	2	242	128	7	135
Debit	198	15	213	116	5	122
Construction	8	9	17	8	4	12
Credit	8	9	18	8	4	12
Debit	0	0	0	0	0	0
Merchanting and trade-related	- 40	17	- 23	- 12	0	- 12
Credit	182	232	413	193	228	421
Debit	221	215	436	205	228	433
Personal, cultural and recreational	- 156	- 152	- 307	- 136	- 114	- 251
Credit	31	27	58	32	26	58
Debit	186	179	365	168	141	309
Misc. business, prof.and technical	1 075	1 224	2 298	1 390	1 070	2 460
Credit	1 872	2 049	3 921	2 055	1 793	3 849
Business admin. services	823	852	1 675	925	691	1 616
Technical services	840	1 014	1 854	972	936	1 908
Other	209	183	392	159	166	325
Debit	797	825	1 622	665	724	1 389
Business admin. services	168	171	339	117	112	229
Technical services	536	549	1 086	473	532	1 005
Other	93	105	197	74	80	154

Other services registered net revenues of US$2.2 billion, for growth of 10.2%. Personal, cultural and recreational services registered net spending of US$251 million, reflecting a decline of 18.2%. Administrative services closed with net revenues of US$1.4 billion, for growth of 3.8%. Specialized technical services turned in net revenues that were 17.6% higher, closing at US$903 million.

Income

Net remittances of income abroad registered a drop of 7.9% when compared to 2001, dropping to a level of US$18.2 billion, as a result of the reduction in net remittances of portfolio investment income and income on other investments. Wage and salary flows resulted in net receptions of US$102 million, for an increase of US$7 million. Income paid to workers domiciled in the country increased by 8.5% to US$293 million and payments to nonresidents expanded by 9.1% to US$191 million.

Income on direct investment totaled US$5 billion, for growth of 7.4%. This result was due to the 17.3% increase in net remittances of profits and dividends, which came to an overall total of US$4 billion. Remittances of intercompany loan interest partially offset this result, with a reduction of 21%, moving to US$949 million.

Net remittances of income on portfolio investments registered a drop of 12.9% to a level of US$8.4 billion. Remittances of profits and dividends of resources channeled into investment portfolios registered a reduction of 25.9% and totaled US$1.1 billion. Net remittances of interest on Brazilian external debt securities registered a reduction of 10.4%, to US$7.3 billion. This reduction was due to declines in payments of interest on bonds, which fell from US$4.8 billion to US$4.5 billion and on notes and commercial papers, from US$4.8 billion to US$4.2 billion.

Income on other investments totaled net remittances of US$4.9 billion, for a cutback of 11.7%. Revenues added up to US$653 million, reflecting a reduction of 44.6% while spending came to US$5.6 billion, for a decrease of 17.5%.

The reduction in interest payments is partially explained by the decrease in the private external debt and by lower international interest rates. This effect was partially offset by the reduction in interest revenues generated by earnings on international reserve deposit accounts in the country.

Table 5.20 – Income

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-10 006	-9 737	-19 743	-9 267	-8 924	-18 191
Credit	1 842	1 438	3 280	1 401	1 894	3 295
Debit	11 848	11 175	23 023	10 668	10 818	21 486
Compensation of employees	62	33	95	24	77	102
Credit	141	130	270	126	166	293
Debit	79	96	175	102	89	191
Investment income	-10 067	-9 771	-19 838	-9 291	-9 001	-18 292
Credit	1 701	1 308	3 009	1 275	1 728	3 002
Debit	11 768	11 079	22 847	10 566	10 729	21 295
Direct investment income	-2 280	-2 359	-4 638	-2 559	-2 424	-4 983
Credit	157	210	367	350	617	967
Debit	2 437	2 569	5 005	2 908	3 041	5 950
Profits and dividends	-1 731	-1 707	-3 438	-2 118	-1 916	-4 034
Credit	118	147	264	297	560	857
Debit	1 849	1 854	3 702	2 415	2 476	4 891
Interests on intercompany loans	- 549	- 652	-1 201	- 441	- 508	- 949
Credit	40	63	103	52	57	109
Debit	588	715	1 303	493	565	1 058
Portfolio investment income	-5 097	-4 524	-9 621	-4 436	-3 948	-8 384
Credit	799	664	1 463	585	798	1 383
Debit	5 896	5 188	11 084	5 021	4 746	9 767
Income on equity (dividends)	- 874	- 649	-1 523	- 653	- 475	-1 128
Credit	1	0	1	0	0	1
Debit	875	649	1 524	653	476	1 129
Income on debt securities (interests)	-4 222	-3 875	-8 097	-3 784	-3 473	-7 256
Credit	798	664	1 462	584	798	1 382
Debit	5 020	4 539	9 560	4 368	4 270	8 638
Other investments income[1/]	-2 691	-2 888	-5 579	-2 296	-2 629	-4 925
Credit	745	434	1 179	340	313	653
Debit	3 436	3 322	6 758	2 636	2 942	5 578
Memo:						
Interest	-7 462	-7 415	-14 877	-6 521	-6 610	-13 130
Credit	1 583	1 161	2 744	977	1 168	2 144
Debit	9 045	8 576	17 621	7 497	7 777	15 275
Profits and dividends	-2 605	-2 356	-4 961	-2 771	-2 391	-5 162
Credit	118	147	265	298	560	858
Debit	2 724	2 503	5 226	3 068	2 951	6 020

1/ Includes interests on loans, supplier's credits, deposits and other assets and liabilities.

Current unrequited transfers

Current unrequited transfers registered net inflows of US$2.4 billion in 2002, for growth of 45.9% in comparison to 2001. Net inflows of resources remitted by Brazilian residents abroad, as represented under the heading of resident support, registered growth of 55.9%. For the most part, this increase occurred in the second half of the year, the period in which the strongest depreciation of the real occurred and, therefore, greater gains were registered in resources inflow operations. Of total resources received, 52.8% originated in the USA and 31.2% in Japan.

Table 5.21 – Current unrequited transfers

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	779	859	1 638	923	1 466	2 390
Credit	935	999	1 934	1 053	1 573	2 627
Debit	156	140	296	130	107	237
General government transfers	- 12	21	9	- 2	1	- 1
Credit	24	50	73	26	31	57
Debit	35	29	64	28	30	58
Other sectors transfers	791	838	1 629	926	1 465	2 391
Credit	911	949	1 860	1 027	1 542	2 570
Debit	121	111	232	102	77	179
Workers' remittances	493	516	1 009	511	1 061	1 573
Credit	578	600	1 178	591	1 120	1 711
United States	268	287	555	275	629	904
Japan	225	218	444	214	319	533
Remaining countries	85	95	180	102	172	274
Debit	85	85	169	80	58	138
Other transfers	297	322	620	414	404	818
Credit	333	349	682	436	423	859
Debit	36	26	62	22	19	41

Financial account

The capital and financial account registered a strong reduction in long-term external funding operations, as evinced by the low rates of rolling bank securities and loans, principally in the second half of the year. Net direct foreign investments, though more than sufficient to finance the current account, did not register inflows sufficient to offset the net amortizations of the other foreign investments. With this, the financing of the balance of payments was complemented by disbursements of IMF resources, in the PAF framework.

Table 5.22 – Balance of current transactions and external financing requirements 1/

US$ million

Period		Balance of current transactions			Foreign direct investments			External financing requirements		
		Value		% GDP	Value		% GDP	Value		% GDP
		Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months
1997		-3 797	-30 452	-3,77	1 925	18 993	2,35	1 872	11 459	1,42
1998		-3 662	-33 416	-4,24	2 773	28 856	3,66	889	4 560	0,58
1999		-2 999	-25 335	-4,72	2 353	28 578	5,33	646	-3 244	-0,60
2000		-2 939	-24 225	-4,02	2 305	32 779	5,44	634	-8 555	-1,42
2001	Jan	-2 306	-25 616	-4,29	1 657	31 408	5,26	648	-5 791	-0,97
	Feb	-1 754	-26 204	-4,44	995	30 713	5,20	759	-4 510	-0,76
	Mar	-2 608	-26 907	-4,61	2 086	30 552	5,23	522	-3 645	-0,62
	Apr	-2 377	-26 302	-4,55	2 029	31 212	5,40	348	-4 909	-0,85
	May	-2 186	-26 889	-4,70	2 040	31 586	5,52	145	-4 696	-0,82
	Jun	-2 110	-26 587	-4,73	1 093	29 274	5,21	1 017	-2 687	-0,48
	Jul	-2 036	-27 321	-4,94	2 490	26 611	4,81	- 454	710	0,13
	Aug	-1 144	-27 002	-4,95	1 403	25 526	4,68	- 259	1 476	0,27
	Sep	- 912	-26 316	-4,90	1 488	25 429	4,74	- 576	886	0,17
	Oct	-2 441	-25 305	-4,79	1 335	24 643	4,67	1 106	662	0,13
	Nov	-1 553	-24 367	-4,69	2 182	21 103	4,06	- 629	3 264	0,63
	Dec	-1 787	-23 215	-4,55	3 659	22 457	4,40	-1 872	757	0,15
2002	Jan	-1 180	-22 607	-4,48	1 475	20 274	4,41	- 296	2 334	0,46
	Feb	-1 078	-21 412	-4,29	856	22 137	4,43	221	- 725	-0,15
	Mar	-1 010	-19 814	-4,01	2 363	22 414	4,54	-1 353	-2 600	-0,53
	Apr	-1 968	-19 405	-3,97	1 964	22 350	4,58	4	-2 945	-0,60
	May	-1 890	-19 110	-3,96	1 428	21 737	4,51	462	-2 628	-0,55
	Jun	-1 299	-18 298	-3,83	1 530	22 174	4,64	- 232	-3 876	-0,81
	Jul	- 549	-16 811	-3,55	930	20 614	4,36	- 381	-3 803	-0,80
	Aug	305	-15 362	-3,28	882	20 093	4,29	-1 187	-4 731	-1,01
	Sep	1 237	-13 212	-2,85	1 236	19 841	4,28	-2 474	-6 629	-1,43
	Oct	- 18	-10 789	-2,35	1 244	19 751	4,30	-1 226	-8 962	-1,95
	Nov	- 156	-9 392	-2,06	1 154	18 723	4,12	- 998	-9 330	-2,05
	Dec	- 91	-7 696	-1,71	1 503	16 566	3,67	-1 412	-8 870	-1,97

1/ External financing requirements = current account deficit - net foreign direct investments (includes intercompany loans).

Net direct foreign investments in the country totaled US$16.6 billion in 2002, compared to US$22.5 billion in the previous year. This reduction was mostly due to the reversal of the net flow of intercompany loans, which registered net outflows of US$528 million, compared to net inflows of US$3.7 billion in 2001. Participation in the capital of companies in the country diminished by US$1.7 billion and closed

Table 5.23 – Rollover rate[1/]

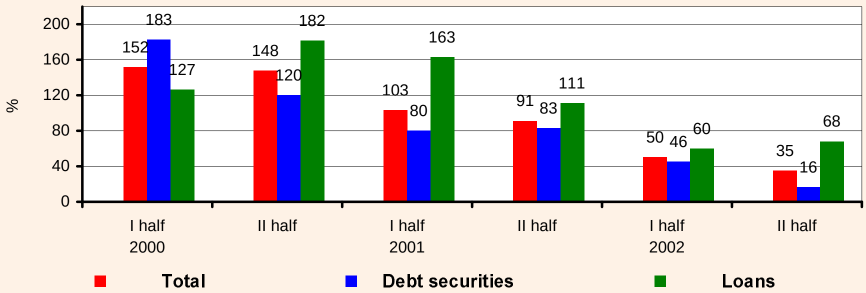
US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	103%	91%	98%	50%	35%	43%
Disbursement	6 871	5 496	12 367	2 617	1 763	4 380
Amortization[2/]	6 642	6 020	12 662	5 186	5 058	10 244
Notes and commercial papers	80%	83%	82%	46%	16%	31%
Disbursement	3 827	3 523	7 350	1 557	536	2 093
Amortization[2/]	4 774	4 243	9 017	3 420	3 258	6 678
Direct loans	163%	111%	138%	60%	68%	64%
Disbursement	3 043	1 973	5 017	1 060	1 226	2 286
Amortization[2/]	1 868	1 777	3 645	1 766	1 800	3 566

1/ Long-term operations.
2/ Excludes conversion in direct investment.

Graph 5.10

Rollover rate



Note: excluding debt conversion into direct investment.

at US$17.1 billion, of which US$8.5 billion resulted from external debt conversions into investments. These conversions, which reflect transformation of debt into venture capital, represent an important alteration in the profile of the external debt. Contrary to what occurred with liabilities in the form of external debt, direct investments do not expose the debtor to exchange risk and, consequently, to the risk of default. In relation to privatizations, there was only one operation involving the Telebrás System, in the amount of US$280 million.

Direct foreign investments originating in the USA came to US$2.6 billion in 2002. The 2002 result was exceeded by US$3.3 billion from the Netherlands, making that country the largest investor in the year under analysis. Other items of importance were reductions in investments from Spain, from US$2.8 billion to US$587 million, and from Portugal, with a reduction from US$1.7 billion to US$1 billion.

Table 5.24 – Foreign direct investments

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 900	12 557	22 457	9 617	6 949	16 566
Credit	13 499	16 517	30 017	13 442	12 994	26 436
Debit	3 599	3 960	7 559	3 825	6 044	9 870
Equity capital	7 748	11 017	18 765	9 101	7 993	17 094
Credit	9 416	11 677	21 093	9 945	8 991	18 936
Currency	8 552	8 265	16 817	5 870	4 506	10 376
Autonomous	7 930	7 808	15 738	5 590	4 506	10 096
Privatization	622	457	1 079	280	0	280
Conversions	846	3 368	4 215	4 059	4 425	8 484
Autonomous	846	3 368	4 215	4 059	4 425	8 484
Privatization	0	0	0	0	0	0
Merchandise	18	43	61	16	60	76
Debit	1 669	659	2 328	844	998	1 842
Intercompany loans	2 153	1 540	3 692	516	-1 044	- 528
Credit	4 083	4 841	8 924	3 497	4 003	7 500
Debit	1 930	3 301	5 232	2 982	5 046	8 028

Direct foreign investments by sector declined by 16.3% in services, dropping from US$12.5 billion to US$10.5 billion. This decline was concentrated in financial intermediation, with US$917 million, information-related and similar activities, with US$495 million, and insurance and private pension plans, US$413 million. Investments in petroleum extraction and services dropped to US$508 million or less than half of the 2001 total. Investments in the industrial sector registered growth of 8.8%. Here, emphasis should be given to 233% growth in resources targeted to the production of foodstuffs and beverages, both of which have played an important role in the nation's exports (meat, soybeans, orange juice). On the other hand, investments in the sector of electronic and communications equipment fell by 53.3%, while those in basic metallurgy declined by 67.7%.

Foreign portfolio investments registered total net amortizations of US$4.8 billion in 2002, as compared to net inflows of US$872 million in the preceding year. This result was due to a sharp drop in the rolling of long-term securities in the second half of the year, precisely the period in which net amortizations of foreign portfolio investments added up to US$6 billion, compared to net inflows of US$1.2 billion in the first six months of the year. Foreign stock investments generated net inflows of US$2 billion, all of which occurred in the first half of the year and were concentrated in American Depositary Receipts (ADR), with US$2.1 billion. In the second half of the year under analysis, net placements of ADR came to US$590 million. Though this volume was only slightly more than a quarter of the inflows

Table 5.25 – Foreign direct investments inflows – Distribution by country[1/]

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 342	11 700	21 042	9 885	8 869	18 754
Netherlands	899	993	1 892	1 959	1 389	3 348
United States	2 225	2 240	4 465	1 243	1 371	2 614
France	663	1 250	1 913	1 487	327	1 815
Cayman Islands	777	978	1 755	1 195	359	1 555
Bermudas	552	55	607	799	670	1 469
Portugal	345	1 347	1 692	146	873	1 019
Luxembourg	77	207	285	165	848	1 013
Canada	99	343	441	914	75	989
Germany	266	782	1 047	277	352	628
Spain	1 933	834	2 767	282	305	587
Japan	207	619	827	158	347	504
British Virgin Islands	399	513	912	223	278	501
United Kingdom	107	310	416	136	338	475
Italy	109	172	281	232	240	473
Switzerland	20	162	182	104	243	347
Uruguay	66	115	181	92	145	237
Sweden	30	25	54	56	149	205
Bahamas	82	182	264	61	144	205
Panama	42	91	133	91	50	141
Denmark	19	14	33	37	56	93
Norway	70	14	83	21	39	60
Belgium	101	12	113	12	33	45
Austria	35	32	67	2	33	34
Mexico	17	44	61	6	19	24
Singapore	14	2	16	13	7	21
Netherlands Antilles	3	92	95	6	14	19
Other countries	188	272	460	168	165	332

1/ Does not include investments in goods, real estate and domestic currency.

in the first half of the year, it was almost sufficient to offset the increase of US$611 in divestitures of stocks traded in the country. Investments in fixed income investments registered net outflows of US$6.8 billion in the year, of which US$6 billion were concentrated in the period from July to December. This scenario was basically a result of cutbacks in placements of long-term private securities (notes and commercial papers) on the external market, thus making it impossible to roll the debt scheduled to mature in the period. Net inflows through bond placements added up to US$1.6 billion. In the first half of the year, net inflows came to US$3.2 billion. Here, one should highlight placements of Global Bond 2012 in the month

Table 5.26 – Foreign direct investments inflows – Distribution by sector[1/]

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 342	11 700	21 042	9 885	8 869	18 754
Crop, livest. and mineral extraction	393	1 100	1 494	265	372	638
Petrol. extraction and related serv.	326	1 034	1 360	210	298	508
Others	67	66	134	55	74	129
Industry	2 350	4 651	7 001	3 452	4 165	7 617
Foodstuff and beverages	195	368	563	1 475	398	1 873
Manufact. and assembly of autom. engines[2/]	447	1 103	1 550	413	1 406	1 819
Chemical products	858	688	1 546	895	678	1 573
Elet. devices and communicat. equip.	51	1 115	1 166	49	494	544
Machinery and equipments	159	185	344	122	268	391
Eletr. machines, devices and apparat.	134	193	327	98	274	372
Plastic and rubber products	50	126	176	74	109	183
Basic metallurgy[3/]	42	389	431	63	75	139
Nonmetallic mineral products	96	34	130	27	97	124
Textile products	20	36	56	55	43	98
Office machines and comp. equip.	14	9	23	34	61	95
Metal products	36	73	108	33	58	91
Edition, printing and recording	98	42	140	11	33	44
Wood products	19	53	71	9	7	16
Pulp, paper and paper products	10	140	150	3	7	11
Other industries	120	98	219	91	156	247
Services	6 599	5 949	12 547	6 167	4 332	10 498
Mail and telecommunications	2 263	1 868	4 130	2 482	1 684	4 166
Eletricity, gas and hot water	828	614	1 442	1 257	277	1 534
Commerce	523	1 111	1 634	573	930	1 504
Financial intermediation	1 500	623	2 123	730	476	1 206
Services rendered to corporations	300	397	697	413	379	791
Computing and related activities[4/]	524	196	720	167	58	225
Insurance and pension funds	104	525	628	169	47	216
Real-estate	100	87	187	78	119	197
Construction[5/]	159	105	264	76	72	148
Lodging and food	36	239	275	16	109	126
Transportation	106	40	146	52	72	124
Water services	7	21	28	49	45	94
Other services	149	124	273	104	64	168

1/ Does not include investments in goods, real estate and domestic currency.
2/ Includes the industry of spare parts for the automotive sector.
3/ Includes steel making.
4/ Includes internet.
5/ Includes infrastructure works related to the energy and telecommunications sectors.

Table 5.27 – Portfolio foreign investments

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	2 088	-1 216	872	1 236	-6 034	-4 797
Credit	18 352	11 145	29 497	11 905	6 447	18 352
Debit	16 264	12 361	28 625	10 669	12 481	23 150
Equities	1 892	589	2 481	2 002	- 21	1 981
Credit	6 097	4 397	10 494	5 588	4 467	10 055
Debit	4 204	3 808	8 013	3 586	4 488	8 074
Issued in the country	165	- 710	- 545	- 113	- 611	- 723
Credit	4 077	2 938	7 015	3 339	3 764	7 103
Debit	3 912	3 648	7 560	3 451	4 375	7 826
Issued abroad (Annex V - ADR)	1 728	1 299	3 026	2 114	590	2 704
Credit	2 020	1 459	3 478	2 250	702	2 952
Debit	292	160	452	135	113	248
Debt securities	195	-1 804	-1 609	- 765	-6 013	-6 778
Credit	12 255	6 748	19 003	6 317	1 981	8 297
Debit	12 060	8 552	20 612	7 082	7 993	15 076
Issued in the country	- 168	- 106	- 274	- 17	- 206	- 223
Medium and long term	- 176	- 70	- 246	- 12	- 205	- 218
Credit	309	223	532	253	285	538
Debit	485	293	778	265	491	756
Short term	8	- 35	- 28	- 4	- 1	- 5
Credit	207	149	356	170	213	383
Debit	199	184	384	174	214	388
Issued abroad	364	-1 699	-1 335	- 749	-5 807	-6 556
Bonds	967	192	1 160	3 197	-1 600	1 597
Disbursements	7 349	2 349	9 699	4 101	-	4 101
New issues	5 199	2 349	7 549	4 070	-	4 070
Bond swaps	2 150	-	2 150	30	-	30
Amortizations	6 382	2 157	8 539	904	1 600	2 504
Paid	4 232	2 157	6 389	873	1 600	2 473
Of which nation. debt (Bradies)	2 753	510	3 263	2 753	510	3 263
Bond swaps	2 150	-	2 150	30	-	30
Face value	2 150	-	2 150	30	-	30
Discounts	-	-	-	-	-	-
Notes and commercial papers	- 947	-2 171	-3 118	-3 274	-4 065	-7 338
Disbursements	3 827	3 523	7 350	1 557	536	2 093
Amortizations	4 774	5 694	10 468	4 831	4 601	9 432
Money market instruments	343	281	623	- 673	- 142	- 815
Disbursements	562	504	1 066	236	946	1 182
Amortizations	219	223	442	908	1 088	1 996

of January, with US$1.25 billion; Global Bond 2008 in March, in the amount of US$1.25 billion; and the Euro Bond 2009 and Global Bond 2010 in April, worth US$1.4 billion. In the second half of the year, however, there were no new placements and amortizations came to a total of US$1.6 billion.

Other foreign investments in the country registered net inflows of US$3 billion. Insofar as trade credits are concerned, suppliers' credits came to US$2.6 billion, or 39.3% below the level registered in 2001. However, in this case, the maturity profile was sharply reduced. Long-term credits, which had registered net disbursements of US$480 million in 2001, closed with net amortizations of US$1.4 billion. Net short-term credits, in their turn, moved from US$3.8 billion to US$3.9 billion. External loans, which closed at a level of net inflows equivalent to US$1 billion, were characterized by net amortizations of autonomous resources and disbursements of IMF funding. Net IMF disbursements under the heading of normalization operations came to a total of US$11.5 billion, which was sufficient to offset the net amortizations of other loans, which totaled US$10.3 billion. Long-term loans totaled net amortizations of US$5.3 billion. Buyers' loans, directly related to trade in goods, tended to concentrate these payments and registered net remittances of US$4.8 billion, compared to US$1.7 billion in 2001. Aside from this, direct loans registered net amortizations of US$1.4 billion, coupled with amortizations of US$511 million paid to international agencies. The flows of resources in operations with international organizations resulted in net inflows of US$1.4 billion. Short-term loans registered net disbursements of US$5 billion, of which US$2.2 billion refer to reductions in the liabilities of Brazilian commercial banks. Net outflows of resources of nonresidents maintained in the country in the form of deposits and currency totaled US$621 million.

Direct Brazilian investments abroad, which had registered net returns in 2001, turned in an increase in Brazilian assets abroad. It should be noted that, in that year, revenues increased as a result of a foreign debt nationalization operation in the amount of US$2.8 billion, in the month of June. This operation consisted in the transfer of assets in the form of external debt securities (Bradies) from a foreign branch of a Brazilian company to its parent company in Brazil. The counterpart of this operation was amortization of foreign debt, as registered under foreign portfolio investments. Net investments abroad in 2002 added up to US$2.5 billion, of which US$2.4 billion refer to increases in participation. Loans from Brazilian companies to associated companies abroad represented net outflows of US$81 million, compared to net amortizations received totaling US$505 million in 2001.

Brazilian portfolio investments abroad totaled US$321 million in 2002, for a reduction of 59.6% when compared to the previous year. Investments in the stocks of foreign companies closed at US$389 million, despite net returns of US$106

Table 5.28 – Other foreign investments

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	6 151	3 202	9 353	6 114	-3 134	2 980
Trade credit (from suppliers)	2 816	1 417	4 233	2 229	341	2 571
Long term	159	322	480	- 889	- 481	-1 370
Credit	1 789	1 505	3 293	639	645	1 284
Debit	1 630	1 183	2 813	1 527	1 126	2 654
Short term (net)	2 657	1 096	3 753	3 118	822	3 941
Loans	3 440	2 274	5 714	3 858	-2 827	1 031
Monetary authority	1 946	4 693	6 639	5 529	5 834	11 363
Exceptional financing	2 005	4 752	6 757	5 588	5 893	11 480
Loans from the IMF	2 005	4 752	6 757	5 588	5 893	11 480
Credit	2 005	4 752	6 757	9 972	6 073	16 045
Debit	0	0	0	4 384	180	4 565
Other long term loans	- 59	- 59	- 118	- 59	- 59	- 118
Credit	0	0	0	0	0	0
Debit	59	59	118	59	59	118
Remaining sectors	1 494	-2 419	- 925	-1 671	-8 661	-10 332
Long term	1 669	- 718	951	-3 454	-1 866	-5 321
Credit	7 991	6 291	14 281	4 035	7 080	11 115
Multilateral	1 953	1 130	3 083	910	2 963	3 872
IDB	450	844	1 294	465	1 576	2 041
IBRD[1/]	1 503	286	1 788	295	1 387	1 681
Other	0	0	0	150	0	150
Agencies	776	963	1 739	547	972	1 519
Buyers credit	2 218	2 225	4 443	1 519	1 919	3 438
Direct loans	3 043	1 973	5 017	1 060	1 226	2 286
Debit	6 322	7 009	13 331	7 490	8 946	16 436
Multilateral	747	896	1 643	723	1 789	2 511
IDB	195	313	508	186	970	1 156
IBRD[1/]	552	583	1 135	537	819	1 355
Agencies	747	1 131	1 879	673	1 357	2 030
Buyers credit	2 959	3 205	6 164	4 239	4 000	8 239
Direct loans	1 868	1 777	3 645	1 855	1 800	3 655
Short term	- 174	-1 701	-1 875	1 784	-6 795	-5 011
Currency and deposits	- 107	- 489	- 596	27	- 648	- 621
Other liabilities	2	0	2	0	0	0
Long term (net)	2	1	3	0	0	0
Short term (net)	0	- 1	- 1	0	0	0

1/ Includes IFC.

million in resources invested in Brazilian Depositary Receipts (BDR). Investments in fixed income securities registered overall net returns of US$67 million.

Other Brazilian investments abroad registered net outflows of US$3.2 billion. Long-term loans abroad added up to US$1.7 billion. Investments in the form of

Table 5.29 – Direct Brazilian investments

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	2 183	75	2 258	-1 033	-1 449	-2 482
Credit	3 293	1 814	5 106	302	283	585
Debit	1 110	1 739	2 849	1 335	1 732	3 067
Equity capital	2 330	- 578	1 752	-1 143	-1 258	-2 402
Credit	3 251	985	4 236	166	250	417
Debit	921	1 562	2 483	1 310	1 509	2 818
Intercompany loans	- 147	653	505	110	- 191	- 81
Credit	42	829	871	136	33	168
Debit	189	176	365	26	223	249

Table 5.30 – Portfolio Brazilian investments

US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 320	- 475	- 795	- 332	11	- 321
Credit	886	741	1 626	426	590	1 016
Debit	1 205	1 216	2 421	758	580	1 337
Equity investment	- 610	- 511	-1 121	- 276	- 112	- 389
Credit	124	46	170	80	240	320
Debit	734	557	1 291	356	353	709
Brazilian Depositary Receipts (BDR)	115	35	150	6	100	106
Credit	116	37	153	6	108	113
Debit	1	1	3	0	7	7
Other equities	- 724	- 547	-1 271	- 282	- 213	- 495
Credit	8	9	17	74	133	207
Debit	732	556	1 288	356	345	702
Debt securities	290	36	326	- 55	123	67
Credit	761	695	1 456	346	350	696
Collateral	326	-	326	-	-	-
Other	435	695	1 130	346	350	696
Debit	472	659	1 130	402	227	629

currency and deposits turned in net outflows of US$1.3 billion, based on nonfinancial sector remittances of US$5.6 billion and returns of US$4.3 billion in external bank assets. Other assets totaled net outflows of US$172 million, of which US$122 million were long-term assets.

Table 5.31 – Other Brazilian investments

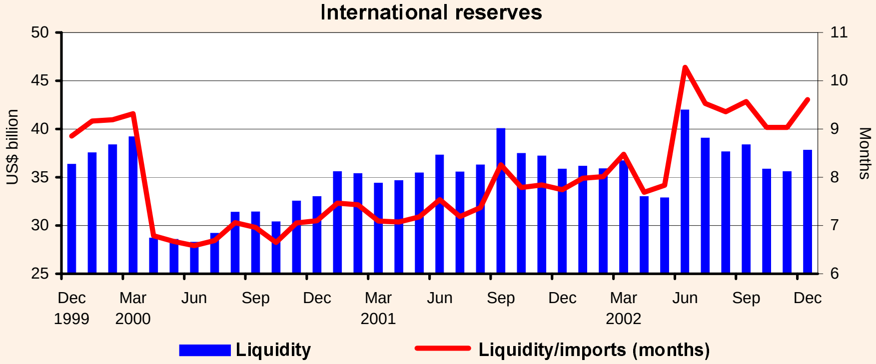
US$ million

Itemization	2001			2002		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 560	-2 430	-2 989	- 960	-2 251	-3 211
Loans	197	- 479	- 282	- 484	-1 256	-1 740
Long term	- 123	- 252	- 375	- 551	-1 173	-1 724
Credit	265	329	594	777	961	1 739
Debit	387	581	969	1 329	2 134	3 462
Short term (net)	319	- 226	93	68	- 83	- 16
Currency and deposits	- 222	-1 553	-1 774	- 475	- 825	-1 300
Banks	911	410	1 321	1 338	3 003	4 341
Remaining domestic sectors	-1 132	-1 963	-3 095	-1 813	-3 828	-5 641
Other	-1 250	-2 011	-3 261	-1 813	-3 828	-5 641
Other assets	- 535	- 399	- 933	- 2	- 170	- 172
Long term	- 8	- 97	- 105	- 53	- 70	- 122
Credit	1	2	3	2	2	3
Debit	9	99	108	54	71	126
Short term (net)	- 527	- 301	- 828	51	- 100	- 49

International reserves

In 2002, international reserves viewed under the concept of international liquidity totaled US$37.8 billion, with growth of US$2 billion in the year.

Graph 5.11
International reserves



Over the course of the year, the falloff in the supply of credit lines from foreign banks to Brazilian banks led Banco Central to intervene more intensively in the domestic exchange market in an effort to regulate system liquidity. Parallel to the sharp drop in the supply of foreign credit lines, increased exports generated greater demand for advances on exchange contracts. As a result, Banco Central

Table 5.32 – Brazil: financial flows by foreign creditor – Selected items[1/]

US$ million

Itemization	1999	2000	2001	2002
IBRD[2/]	81	305	207	- 81
Disbursements	1 686	1 837	1 789	1 681
Amortizations	1 256	1 156	1 135	1 355
Interest	349	376	447	407
IBD	2 173	1 885	144	247
Disbursements	2 898	2 837	1 294	2 041
Amortizations	343	322	508	1 157
Interest	382	630	642	638
FMI	3 544	-7 259	6 599	10 985
Disbursements	6 031	0	6 757	16 045
Amortizations	1 972	6 876	0	4 565
Interest	515	383	158	495
Government agencies				
Agencies	-1 196	- 427	- 793	-1 106
Disbursements	1 119	1 034	1 739	1 519
Amortizations	1 692	988	1 879	2 030
Interest	623	473	653	595
Memo:				
Paris Club	-1 705	- 754	-1 363	-1 519
Amortizations	1 206	469	914	1 126
Interest	499	285	449	393
Bonds	78	- 478	-3 666	-2 958
Disbursements	7 708	12 222	9 699	4 101
New inflows	4 708	6 086	7 549	4 070
Refinancing	3 000	6 136	2 150	30
Amortizations	4 408	8 515	8 539	2 504
Paid	1 410	2 370	6 389	2 473
Refinanced	2 997	6 145	2 150	30
Interest	3 222	4 185	4 826	4 555
Notes & commercial papers	-5 428	-2 238	-7 538	-11 255
Disbursements	11 976	6 496	7 350	2 093
Amortizations	13 364	4 610	10 468	9 432
Interest	4 040	4 124	4 420	3 917
Intercompany - FDI	-2 334	1 630	2 389	-1 586
Disbursements	4 882	6 888	8 924	7 500
Amortizations	6 287	4 125	5 232	8 028
Interest	929	1 133	1 303	1 058
Banks[3/]	-6 560	-2 378	-1 974	-7 245
Disbursements	11 796	10 219	9 460	5 724
Amortizations	16 218	10 724	9 809	11 894
Interest	2 138	1 873	1 625	1 075

1/ Does not include suppliers' credits.
2/ Includes IFC.
3/ Refers to loans and buyers' credits.

Table 5.33 – Statement of international reserves growth

US$ million

Itemization	2000	2001	2002
I - Reserve position (end of previous month)	36 342	33 011	35 866
1. Net purchases (+)/ sales (-) of Banco Central (interventions)	2 293	- 7 225	- 9 113
Spot	2 293	- 7 225	- 5 910
Lines with repurchase	-	-	- 1 771
Export lines	-	-	- 1 432
2. Banco Central's foreign operations	- 5 624	10 080	11 070
Disbursements	8 343	14 582	21 332
Bonds	6 217	6 680	3 940
Organizations	2 126	7 902	17 392
Amortizations	- 13 217	- 3 891	- 8 171
Bonds and MYDFA	- 2 425	- 2 844	- 2 111
Organizations	- 10 323	- 115	- 4 921
Paris Club	- 469	- 932	- 1 139
Interest	- 3 426	- 3 174	- 3 536
Bonds and MYDFA	- 3 702	- 4 494	- 4 148
Organizations	- 544	- 151	- 605
Paris Club	- 283	- 467	- 393
Reserve interest earnings	1 103	1 938	1 609
Other[1/]	2 676	2 562	1 445
II - Total Banco Central operations (1+2)	- 3 331	2 855	1 957
III - Reserve position (end of month)	33 011	35 866	37 823
Memorandum:			
Exchange market:	2 293	- 7 225	- 7 342
Transactions with residents (net)	8 742	3 152	- 4 060
Interbank transactions with non-residents (net)	- 7 232	- 6 227	- 9 133
Change in bank holdings (net)[2/]	783	- 4 150	5 850
Adjusted net reserves (excludes IMF loans)[3/]	31 541	27 797	16 339
Adjusted net reserves – according to the IMF arrangement	31 155	27 837	14 232

1/ Includes receipt/payment under reciprocal credits agreement (CCR), price fluctuations of bonds, change in currency and gold prices, acceptance/payment of premium/discount of fees, releases of collateral/guarantees and fluctuations of financial derivatives assets (forwards).

2/ Interventions undertaken through "lines with repurchase" does not change this item. Therefore, the result of the consolidated foreign exchange market only matches with the Banco Central's interventions through the "Spot" and "Export lines" modalities.

3/ The net adjusted reserves denominated in US$ take into account the parities of the last month to figure out the assets denominated in currencies unlike the US$. In order to comply with the performance criterion, in the framework of the International Monetary Fund arrangement, the calculation parameters of the net adjusted reserves - as established by the Technical Memorandum of Understanding (TMU) of the third review of the Stand-by arrangement - should be observed. In this case, the net adjusted reserves denominated in US$ take into account the parities set on dates established by the TMU to figure out the assets denominated in currencies unlike the US$, including the SDR. The same methodology is applied in the case of the gold price. Pursuant the TMU, deposits in banks domiciled abroad, though headquartered in the country, and the securities issued by residents that surpass altogether US$1,023 million should be excluded from the total net adjusted reserves. The exceeding value as of December 2002 is equal to US$2,937 million. According to the calculation parameters established by the TMU, the net adjusted reserves totaled US$14,232 million as of December 2002.

issued Circular 3,146, dated 8.30.2002, introducing a new system of Banco Central intervention: export credit lines. With an initial budget of US$2 billion, this intervention was aimed at providing dealers with the resources required for advances on export exchange contracts in both the pre and post-shipment stages. At the end of the year, net sales totaled US$1.4 billion.

Aside from this, since the month of June, operations with repurchase lines have also been utilized. What occurs in this case is that Banco Central intervenes by offering dollars on the spot market with the concomitant repurchase commitment in the future. At the end of the year, these operations had registered net sales of US$1.8 billion. Intervention operations on the spot market registered net sales of US$5.9 billion in the year. Total Banco Central interventions in the domestic exchange market totaled net sales of US$9.1 billion.

Banco Central external operations added up to net revenues of US$11 billion. Here, emphasis should be given to disbursements of US$21.3 billion, particularly to international organizations as a result of the PAF, with withdrawals of US$17.4 billion, of which US$16 billion referred to the IMF, US$497 million to the IDB, and US$850 million to the International Bank for Reconstruction and Development (IBRD). Other disbursements included US$3.9 billion originating in the issue of the Global Bond 08 (US$1.25 billion), Global Bond 10 (US$1 billion), Global Bond 12 (US$1.25 billion), and Euro Bond 09 (US$440 million).

Amortizations came to a total of US$8.2 billion distributed as follows: US$2 billion in bonds, US$118 million in the framework of the Multiyear Deposit Facility Agreement (MYDFA), US$4.9 billion to international organizations (PAF) and US$1.1 billion to the Paris Club.

Net outlays on interest added up to US$3.5 billion. Here, emphasis should be given to spending of US$4.1 billion referring to bonds and revenues of US$1.6 billion originating in earnings on reserves.

Other operations totaled net revenues of US$1.4 billion, due mostly to gains of US$1.3 billion in parity and US$443 million in security prices.

Financial assistance program – Monitoring of performance criteria with IMF

In the framework of the financial assistance program, based on the terms of the Technical Memorandum of Understanding (TMU), criteria were specified for calculating adjusted net international reserves (RLA), defined as gross government reserves less gross government liabilities.

Table 5.34 – Statement of international reserves

IMF performance criterion follow-up

US$ million

Itemization	2001	2002
I - International liquidity	35 866	37 823
(-) Loans from IMF	8 313	20 793
(-) Excess of deposits in non-resident Brazilian banks (b-a)	- 191	- 358
a - Position as of 9.14.2001 (defined on the TMU)	408	408
b - Position as of current month	217	50
(-) Excess of securities issued by residents (d-c)	152	3 296
c - Position as of 9.14.2001 (defined on the TMU)	615	615
d - Position as of current month 1/	767	3 911
(-) Difference due to price and parity changes	- 284	- 139
II - NAR according to the IMF arrangement 2/	27 837	14 232

1/ Includes buy-back operations, in accordance to measures announced by Banco Central on 6.13.2002. Net purchases as of December 2002: US$2,951 million.

2/ Denominated in US$ take into account the parities set on dates established by the TMU to figure out the assets denominated in currencies unlike the US$, including the SDR. The same methodology is applied in the case of the gold price. Pursuant the TMU, the outstanding debt with the IMF should be excluded from the reserve assets (international liquidity concept), as well as the deposits in banks domiciled abroad, though headquartered in the country, and the securities issued by residents that surpass altogether US$1,023 million.

According to the TMU, gross government reserves encompass: i) available cash resources; ii) non-committed gold; iii) assets in special drawing rights (SDR); iv) reserve position at IMF; and v) fixed income instruments. The base date for calculating changes in asset parities from i) to iv), as well as for liability items denominated in currencies other than the American dollar is defined and set by the TMU. Item v) is recorded at market value. Consequently, according to the TMU, deposits against banks domiciled abroad, but headquartered in the country, and assets in securities issued by residents which, taken together, exceeded US$1 billion (level existent on September 14, 2001), must be excluded from adjusted net reserves.

Gross government liabilities include liabilities with the IMF, short-term liabilities as well as occasional net Banco Central exchange debtor positions.

The TMU further defined minimum parameters (performance criterion) for adjusted net international reserves, which were reduced from US$20 billion to US$15 billion in the month of June and, from that level, to US$5 billion in September. The minimum parameters were exceeded during the entire year and, in the month of December, net adjusted reserves came to a level of US$14.2 billion or US$9.2 billion more than the specified minimum according to the TMU criterion.

Table 5.35 – Performance criterion on international reserves – 2002

IMF arrangement

US$ million

Period	Adjusted net reserves 1/	
	Floor	Occurred 2/
Jan	20 000	28 309
Feb	20 000	27 959
Mar	20 000	28 822
Apr	20 000	29 066
May	20 000	28 736
Jun	15 000	26 541
Jul	15 000	23 553
Aug	15 000	21 117
Sep	5 000	19 056
Oct	5 000	16 154
Nov	5 000	15 630
Dec	5 000	14 232

1/ Up to August: 2001 arrangement; as of September and on: 2002 arrangement.
2/ Parity adjustments as established in arrangement.

Foreign debt

In September 2002, the total external debt came to US$212.9 billion, for growth of US$2.9 billion in comparison to the December 2001 stock. The medium and long-term debt registered growth of US$5.7 billion. The short-term debt closed at US$24.9 billion, reflecting a reduction of US$2.7 billion. The stock of intercompany loans reached a level of US$16.4 billion, of which US$13.3 billion referred to medium and long-term loans.

In September 2002, the debt with the IMF totaled US$17.4 billion, for an increase of US$9 billion in relation to the December 2001 position. Among the factors that contributed to this result, mention should be made of IMF disbursements of US$13 billion in the period in the PAF framework. Of this total, US$10 billion were related to the second drawdown in June against the 2001 Stand-by Agreement (SBA), with US$8.6 billion in the Supplemental Reserve Facility (SRF) modality and US$1.4 billion in the credit tranche modality. In September, disbursements came to US$3 billion referring to the first drawdown of the new 2002 SBA, with US$1.5 billion in the SRF modality and US$1.5 billion in the credit tranche modality. On the other hand, in the month of April, the Brazilian government anticipated payment of US$4.2 billion referring to the IMF loan granted in the SRF modality, which the country had taken in September 2001 as part of the previous agreement.

Table 5.36 – Gross foreign indebtedness[1/]

US$ million

Itemization	1998	1999	2000	2001	2002-Sep
A. Total debt (B+C)	223 792	223 996	216 921	209 934	212 873
B. Medium and long-term debt[2/]	197 494	197 387	189 501	182 276	187 940
Exceptional financing	9 324	12 281	1 771	8 346	17 369
IMF	4 784	8 834	1 771	8 346	17 369
BIS	4 150	3 150	-	-	-
BoJ	390	297	-	-	-
IMF loans	11	-	-	-	-
Renegotiated debt bonds	40 419	35 330	25 250	18 958	18 577
Other bonds	9 321	16 509	29 504	36 024	39 526
Import financing	64 567	61 608	58 769	48 618	49 882
Multilateral	15 442	18 544	21 504	22 440	24 444
Bilateral	17 143	14 812	14 237	12 418	12 671
Other financing sources	31 982	28 252	23 027	13 760	12 767
Currency loans	73 695	71 529	74 197	70 330	62 586
Notes[3/]	63 106	61 779	61 024	57 007	50 738
Direct loans	10 589	9 750	13 173	13 323	11 848
Other loans	157	130	10	-	-
C. Short-term debt	26 298	26 609	27 420	27 658	24 933
Credit line for petroleum imports	3 355	3 318	2 572	364	65
Commercial banks (liabilities)	17 911	18 954	18 164	16 850	16 002
Resolution 2,483 – Rural financing	1 399	542	319	-	-
Special operations[4/]	3 633	3 795	6 364	10 444	8 866
Financing	...	2 616	3 850	6 121	5 764
Currency loans	...	1 179	2 514	4 323	3 102
D. Intercompany loans	17 852	15 859	19 236	15 901	16 356
E. Total debt + intercompany loans (A+D)	241 644	239 855	236 157	225 835	229 228

1/ In 2001, includes revision of debt position, which separates matured debt and excludes the stock of principal related to intercompany loans. In the years before 2001, the stock of intercompany loans are also displayed separately.
2/ Data refer to capital registration in the Banco Central do Brasil, that might not be compatible with the balance of payments figures, which represent inflows and outflows effectively occurred in the period.
3/ Includes commercial papers and securities.
4/ As of 1997, aside from Banco Central operations, it includes bridge loans and loans to be onlent 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.

The debt with international organizations increased by US$2 billion. Disbursements of complementary PAF resources with the IDB and IBRD were also made and came to a total of US$1.4 billion, of which US$500 million were disbursed by the IDB and US$859 million by the IBRD.

The stock of bonds increased by US$3.1 billion in September 2002, compared to December 2001. The share composed of Bradies dropped by US$381 million in the period, closing at a level of 32% of the total stock. The stock of other bonds increased by US$3.5 billion, coming to a participation level of 68% of the total, with 98% of that participation corresponding to Bonds of the Republic and the remainder to private sector bonds.

A breakdown of the medium and long-term external debt in September 2002 shows that 33.3% referred to credits related to financial loans, 30.9% to bonds and 26.5% to trade financing. The remaining share of 9.2% referred to IMF loans in the PAF framework. The stock of financial loans dropped by US$7.7 billion in the period under analysis, with notes and commercial papers accounting for a drop of US$6.3 billion. It should be stressed that, of total reductions of these papers, US$2.8 billion returned in the form of conversions into investments. Trade financing increased by US$1.3 billion, to a great extent as a result of net disbursements of US$2 billion from international organizations.

In September 2002, the short-term debt declined by 9.9% in relation to the December 2001 position. This result was impacted by the performance of the Financing and Loan accounts, which diminished by US$1.6 billion in the period.

When one considers only the registered external debt stock, which accounted for 92.5% of the total external debt, the public sector was the largest debtor, with 59.6% of the total, accumulating US$116 billion in medium and long-term resources and US$1.4 billion in short-term resources. The remaining 40.4% in registered external debt, represented by the private sector, was distributed as US$72.1 billion in medium and long-term debt and US$7.5 billion in short-term debt. The medium and long-term indebtedness of the private sector was concentrated in the modality of notes, with US$44.3 billion, accounting for 61.4% of the total.

In September 2002, the nonfinancial public sector held US$107 billion in medium and long-term external debt. Of this total, 70.8% were concentrated in the National Treasury, of which US$56.7 billion were in the bond modality. Of total Banco Central debt, US$17.4 billion referred to credits supplied by the IMF within the PAF framework and US$664 million referred to the MYDFA, which is the original restructured debt loan. State and municipal government debts accounted for 5.5% of the nonfinancial public sector's total and were concentrated in credits with international organizations. State company debt represented 6.8% of the nonfinancial public sector total and was mostly concentrated in credits with international organizations and notes.

The contracted debt guarantied by the public sector came to US$29.6 billion in September 2002. Of this total, only US$328 million corresponded to private sector

Table 5.37 – Registered external debt

US$ million

Debtor	Creditor				
	Bonds	Paris Club	Multilateral institutions[1/]	Bank loans	*Notes*[2/]
A. Total	58 403	5 835	41 814	26 041	51 241
B. Medium and long-term	58 103	5 835	41 814	18 947	50 738
Public sector	57 133	5 835	39 087	3 566	6 478
Nonfinancial public sector	56 886	5 835	35 785	2 819	2 384
National Treasury	56 713	5 835	10 615	1 162	-
Banco Central do Brasil	-	-	17 369	664	-
Public enterprises	173	-	2 297	942	2 384
States and municipalities	-	-	5 504	51	-
Financial sector	247	-	3 302	747	4 094
Private sector	970	-	2 727	15 381	44 260
Nonfinancial sector	600	-	2 561	9 201	34 005
Financial sector	370	-	166	6 180	10 255
C. Short-term	300	-	-	7 094	503
Loans	300	-	-	2 293	503
Nonfinancial sector	-	-	-	435	197
Financial sector	300	-	-	1 858	306
Import financing	-	-	-	4 801	-
Nonfinancial sector	-	-	-	1 531	-
Financial sector	-	-	-	3 270	-
D. Intercompany loans	-	-	-	-	2 125
E. Total debt + intercompany loans (A+D)	58 403	5 835	41 814	26 041	53 366

(continues)

debt. The remaining US$29.3 billion referred to debts guarantied by the public sector to the public sector itself, mostly involving the federal government.

The amortization schedule for the medium and long-term debt (September 2002 position) indicated a concentration of maturities in the period from 2002 to 2006, with 60.8% of maturities programmed for that period. The medium and long-term public sector debt concentrated 52.5% of its maturities in the period up to 2006, while the private sector debt concentrated 74.1%. Financial loans and bonds corresponded to 53.2% of maturities in the period from 2002 to 2006.

The average term of the registered external debt diminished from 6.5 years in the December 2001 position to 6.1 years, in September 2002. While the share referring to bonds was characterized by a rather long twelve year average term, suppliers' and buyers' financing registered the lowest average term of just 2.6

Table 5.37 – Registered external debt (concluded)

US$ million Outstanding: 9.30.2002

Debtor	Creditor			
	Government agencies	Suppliers credits	Others	Total
A. Total	6 837	6 450	185	196 806
B. Medium and long-term	6 837	5 487	179	187 940
Public sector	3 213	530	6	115 848
Nonfinancial public sector	2 719	420	6	106 854
National Treasury	1 023	273	-	75 621
Banco Central do Brasil	63	-	-	18 096
Public enterprises	1 269	143	6	7 214
States and municipalities	364	4	-	5 923
Financial sector	494	110	-	8 994
Private sector	3 624	4 957	173	72 092
Nonfinancial sector	3 397	4 916	39	54 719
Financial sector	227	41	134	17 373
C. Short-term	-	963	6	8 866
Loans	-	-	6	3 102
Nonfinancial sector	-	-	1	633
Financial sector	-	-	5	2 469
Import financing	-	963	-	5 764
Nonfinancial sector	-	962	-	2 493
Financial sector	-	1	-	3 271
D. Intercompany loans	-	-	14 231	16 356
E. Total debt + intercompany loans (A+D)	6 837	6 450	14 416	213 162

1/ Includes IMF.

2/ Includes commercial papers and securitized loans.

years. The maturity dates of the IMF loans that are part of the PAF were concentrated in the period from 2003 to 2007, thus contributing to the reduction of the average term of international organizations to four years.

A breakdown of the registered external debt by currency indicates that the participation of the American dollar dropped from 68.4% of the total, in December 2001, to 63.8% in September 2002. In the same time span, the participation of other currencies increased from 17.1% to 22%. This change in composition was impacted by growth in the debt in SDR consequent upon disbursements made in 2002 in the framework of the PAF formalized with the IMF. The participation of debts registered in euro and yen showed no significant alterations, moving from 5% and 7.9% respectively, in December 2001, to 4.9% and 7.6% in September 2002.

Table 5.38 – Public registered foreign debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	1998	1999	2000	2001	2002-Sep
Federal government (direct)	66 777	68 959	72 592	71 191	75 632
States and municipalities	4 886	5 401	5 575	5 436	5 923
Direct	746	320	97	2	4
Guaranteed by the federal government	4 140	5 081	5 478	5 434	5 919
Semi-autonomous entities, public companies and mixed companies	31 467	30 398	21 439	26 823	35 522
Direct	15 879	19 575	14 242	13 658	12 174
Guaranteed by the federal government	15 588	10 823	7 197	13 165	23 349
Private sector (garanteed by the public sector	919	919	919	396	328
Total	104 049	105 677	100 525	103 845	117 405
Direct	83 402	88 854	86 931	84 851	87 810
Guaranteed by	20 647	16 823	13 594	18 995	29 596
Federal government	19 920	16 622	13 246	18 924	29 523
States and municipalities	5	3	1	-	-
Semi-autonomous entities, public companies and mixed companies	722	198	347	70	73

Table 5.39 – Registered external debt – By debtor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt (Sep 2002)	2002 (Oct-Dec)	2003	2004	2005	2006
A. Total debt (B+C)	196 806	11 717	39 058	31 538	22 723	18 068
B. Medium and long-term debt	187 940	8 041	33 868	31 538	22 723	18 068
Nonfinancial public sector	106 854	2 067	20 062	14 132	10 677	8 618
Central government (affects reserves)	63 187	856	4 797	8 105	5 951	6 103
Others	43 667	1 211	15 265	6 027	4 726	2 515
Financial public sector	8 994	479	1 376	906	1 270	1 200
Private sector	72 092	5 495	12 430	16 500	10 776	8 250
C. Short-term debt	8 866	3 676	5 190	-	-	-
Nonfinancial public sector	55	12	43	-	-	-
Financial public sector	1 325	735	590	-	-	-
Private sector	7 487	2 929	4 558	-	-	-
D. Intercompany loans	16 356	2 864	4 715	2 197	1 345	936
E. Total debt + intercompany loans (A+D)	213 162	14 581	43 773	33 734	24 068	19 004

(continues)

Table 5.39 – Registered external debt – By debtor (concluded)

Amortization schedule[1/]

US$ million — Outstanding: 9.30.2002

Itemization	2007	2008	2009	2010	2011	Beyond and arrears
A. Total debt (B+C)	14 598	10 365	7 483	5 713	4 301	31 242
B. Medium and long-term debt	14 598	10 365	7 483	5 713	4 301	31 242
Nonfinancial public sector	6 873	5 654	4 980	3 937	3 095	26 758
Central government (affects reserves)	5 299	4 401	3 927	3 025	2 274	18 448
Others	1 574	1 253	1 053	912	821	8 310
Financial public sector	407	1 153	150	453	140	1 459
Private sector	7 318	3 557	2 353	1 323	1 067	3 025
C. Short-term debt	-	-	-	-	-	-
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	1 093	401	445	380	443	1 537
E. Total debt + intercompany loans (A+D)	15 692	10 766	7 928	6 093	4 744	32 779

1/ Includes exceptional financing.

Table 5.40 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt (Sep 2002)	2002 (Oct-Dec)	2003	2004	2005	2006
A. Total debt (B+C)	196 806	11 717	39 058	31 538	22 723	18 068
B. Medium and long-term debt	187 940	8 041	33 868	31 538	22 723	18 068
International organizations	41 813	1 364	15 475	6 865	4 160	2 311
Government agencies	12 671	737	2 112	2 259	2 271	2 285
Buyers	7 280	1 628	2 417	1 075	443	327
Suppliers	5 487	672	1 829	875	549	325
Currency loans	62 586	3 089	8 561	14 834	10 759	8 498
Notes[2/]	50 738	2 064	4 413	12 669	9 656	7 255
Direct loans	11 848	1 025	4 149	2 165	1 103	1 243
Bonds	58 104	551	3 474	5 630	4 541	4 321
C. Short-term debt	8 866	3 676	5 190	-	-	-
D. Intercompany loans	16 356	2 864	4 715	2 197	1 345	936
E. Total debt + intercompany loans (A+D)	213 162	14 581	43 773	33 734	24 068	19 004

(continues)

Table 5.40 – Registered external debt – By creditor (concluded)

Amortization schedule[1/]

US$ million — Outstanding: 9.30.2002

Itemization	2007	2008	2009	2010	2011	Beyond and arrears
A. Total debt (B+C)	14 598	10 365	7 483	5 713	4 301	31 242
B. Medium and long-term debt	14 598	10 365	7 483	5 713	4 301	31 242
International entities	1 437	1 317	1 176	1 069	961	5 678
Government agencies	690	474	371	414	222	838
Buyers	246	196	189	138	164	457
Suppliers	293	103	133	72	52	584
Currency loans	6 891	3 994	1 869	1 179	314	2 597
Notes[2/]	5 882	3 281	1 757	1 131	274	2 357
Direct loans	1 009	713	113	47	40	240
Bonds	5 041	4 280	3 746	2 842	2 589	21 088
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	1 093	401	445	380	443	1 537
E. Total debt + intercompany loans (A+D)	15 692	10 766	7 928	6 093	4 744	32 779

1/ Includes exceptional financing.
2/ Includes commercial papers and securities.

Table 5.41 – Average maturity term

Registered external debt[1/]

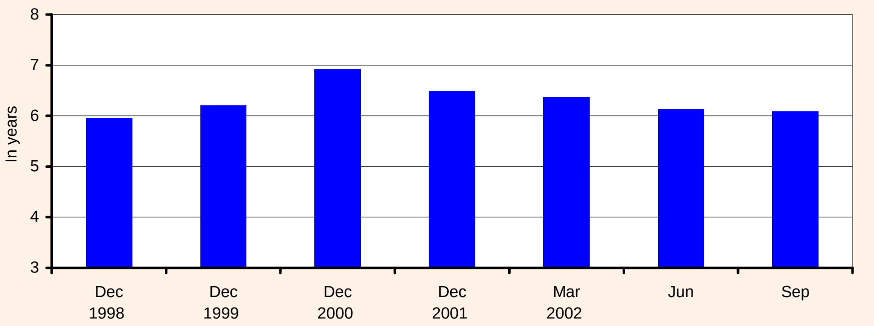
US$ million

Itemization	2002-Sep	Average maturity (years)
A. Total	194 751	6.09
International organizations	41 397	4.02
Government agencies	12 656	3.97
Buyers/suppliers	12 135	2.63
Currency loans + short-term	70 490	3.41
Bonds	58 073	11.99
Bradies	18 546	9.22
Global/Euro	38 136	13.60
Others	1 391	4.77
B. Intercompany loans	16 356	4.97
C. Total + intercompany loans	211 107	6.00

1/ Excludes debt in arrears.

Graph 5.12

Average term of registered external indebtdness

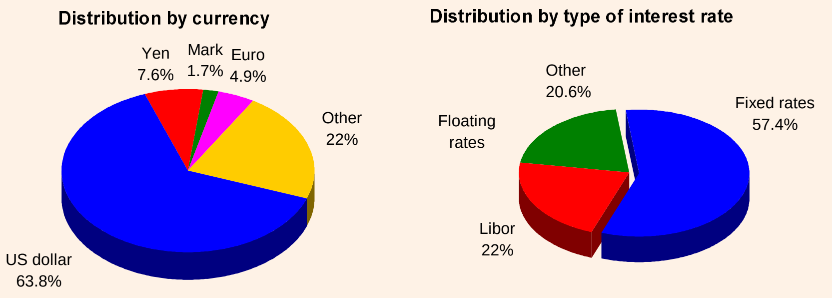


With regard to composition by interest rate modality, the stock of the debt subject to floating interest increased from 40.1% of the total in December 2001 to 42.6% in September 2002. In the stock of debt contracted at floating rates, the six month Libor remained as the major reference, though its relative participation in the debt stock did decline from 62.1% to 51.6% in the period from December 2001 to September 2002. Disbursements effected in operations with the IMF in 2002, in the PAF context, impacted these changes in the composition of rates and indicators, since PAF loans are made at floating rates and utilize the SDR rate as reference.

Graph 5.13

Registered foreign debt composition

September 2002



Indebtedness indicators

In September 2002, indebtedness indicators showed clear signs of deterioration, due to larger payments of principal, the rise in the level of medium and long-term external debt and a reduction in the dollar value of exports and GDP.

Table 5.42 – Indebtedness indicators

US$ million

Itemization	1998	1999	2000	2001	2002-Sep
Debt service[1/]	47 224	70 375	52 085	50 621	52 052
Amortizations[2/]	31 381	52 907	34 989	33 000	36 188
Gross interest	15 843	17 468	17 096	17 621	15 865
Medium and long-term external debt (A)	197 494	199 000	189 501	182 276	187 940
Short-term external debt (B)	26 298	26 609	27 420	27 658	24 933
Total debt (C)=(A+B)[3/]	223 792	225 609	216 921	209 934	212 873
International reserves (D)	44 556	36 342	33 011	35 866	38 381
Brazilian credit abroad (E)[4/]	7 441	7 274	6 801	3 050	2 913
Commercial bank assets (F)	7 380	7 534	6 028	8 313	6 401
Net debt (G)=(C-D-E-F)	164 415	174 459	171 082	162 704	165 178
Export[1/]	51 140	48 011	55 086	58 223	57 366
GDP[1/]	787 889	536 554	602 207	510 360	474 729
Indicators (in percentage)					
Debt service/exports	92	147	95	87	91
Debt service/GDP	6	13	9	10	11
Total debt/exports	438	470	394	361	371
Total debt/GDP	28	42	36	41	45
Net total debt/exports	322	363	311	279	288
Net total debt/GDP	21	33	28	32	35

1/ Accumulated in 12 months, for September, 2002.
2/ Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.
3/ Excludes intercompany loans.
4/ Export Financing Program (Proex).

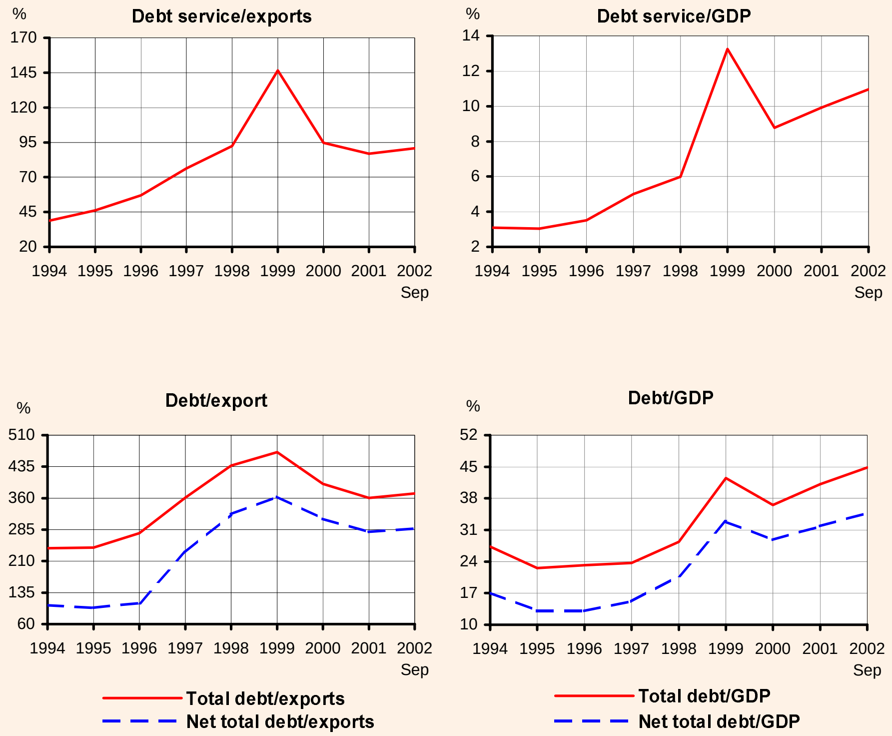
In the period analyzed, while the value of the debt service increased by 2.8%, the value of exports dropped by 1.5%, thus increasing the participation of the debt service in exports by four p.p. With the 7% reduction in GDP expressed in dollars and the 3.1% increase in the external medium and long-term debt in the period from December 2001 to September 2002, the participation of the total external debt in relation to GDP increased by four p.p. The ratio between debt service and GDP increased by one p.p. and the ratio between the total external debt and exports moved from 361% to 371%. The total debt net of assets, which stood at 279% of the value of export revenues in the last twelve months in December 2001, came to 288% in September 2002 and, in terms of percentage of GDP, moved from 32% to 35%.

External funding

The face value of the papers issued by the Federative Republic of Brazil in 2002 came to a total of US$3.9 billion. Of this total, US$3.5 billion consisted of papers

Graph 5.14

Indebtedness indicators



issued on the American market. Issues were concentrated in the first half of the year and redemptions terms varied from six to ten years. Risk premiums, the difference between the rate of return offered by American Treasury securities and that of Brazilian papers (spread) in 2002 issues registered the lowest value of 646 base points for the Euro 09 and the largest value for the Global 12, equivalent to 754 base points. The amplitude of the variation was due to the utilization of different currencies and different funding periods.

No security exchange operations occurred in 2002 external funding operations. The final exchange operation occurred in 2001, and involved the exchange of Bradies for Global 24.

The restructured external debt totaled US$19.2 billion in December 2002, corresponding to a reduction of US$900 million in relation to the December 2001 balance. This growth was due to debt redemptions in the period, including payments of Bradies in two instalments of US$351 million in April and US$351 million in October 2002.

Table 5.43 – 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[1/] basis points
Euromarco 07	2.26.1997	2.26.2007	10	592	8.000		242
Global 27[2/]	6.9.1997	6.9.2027	30	3 500	10.125	10.90	395
Eurolira[3/]	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/]	4.23.1998	4.23.2008	10	410	10 to 7	8.97	328
Global 04	4.22.1999	4.15.2004	5	3 000	11.625	11.88	675
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
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[5/]	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[6/]	7.5.2000	7.5.2005	5	1 156	9.000	10.40	470
Global 07[7/]	7.26.2000	7.26.2007	7	1 500	11.250	12.00	612
Global 40	8.17.2000	8.17.2040	40	5 157	11.000	13.73	788
Euro 07[8/]	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
Global 06	1.11.2001	1.11.2006	5	1 500	10.250	10.54	570
Euro 11	1.24.2001	1.24.2011	10	938	9.500	10.60	560
Global 24	3.22.2001	4.15.2024	23	2 150	8.875	12.91	773
Samurai 07	4.10.2001	4.10.2007	6	638	4.750	10.24	572
Global 05	5.17.2001	7.15.2005	4	1 000	9.625	11.25	648
Samurai 03	8.30.2001	8.28.2003	2	1 661	3.750	8.10	430
Global 12	1.11.2002	1.11.2012	10	1 250	11.000	12.60	754
Global 08	3.12.2002	3.12.2008	6	1 250	11.500	11.74	738
Euro 09	4.2.2002	4.2.2009	7	440	11.500	12.12	646
Global 10	4.16.2002	4.15.2010	8	1 000	12.000	12.38	719

1/ Over US Treasury, in the closing date. For bonds issued in more than one tranche, spread weightened by the value of each tranche.
2/ The inflow occured on two dates: US$3 billion, on 6.9.1997; and US$500 million, on 3.27.1998.
3/ The inflow occured on two dates: ITL500 billion, on 6.26.1997; and ITL250 billion, on 7.10.1997.
4/ Step-down - 10% in the first two years and 7% in the following years.
5/ The inflow occurred in two dates: US$1 billion, with spread of 679 bps, on 3.6.2000; and US$600 million, with spread of 635 bps, on 3.29.2000.
6/ Euro 05 was issued in two tranches: EUR750 million, with spread of 488 bps, on 7.5.2000; and EUR500 million, with spread of 442 bps, on 5.9.2001.
7/ Global 07 was issued in two tranches: US$1 billion, with spread of 610 bps, on 7.26.2000; and US$500 million, with spread of 615 bps, on 4.17.2001.
8/ Euro 07 was issued in two tranches: EUR500 million, with spread of 512 bps, on 9.19.2000; and EUR250 million, with spread of 499 bps, on 10.2.2000.

Table 5.44 – Exchange operations of bonds of the Republic

US$ million

Bonds issued	Date of inflow	Date of maturity	Value of new issue[1/]	Value of Bradies cancelled	Nominal reduction of foreign debt	Collateral released
Global 27[2/]	6.9.1997	4.15.2027	2 245	2 693	448	610
Global 04[3/]	4.30.1999	4.15.2004	1 000	1 193	193	-
Global 09[4/]	10.15.1999	10.15.2009	2 000	3 003	1 003	587
Global 30[5/]	3.29.2000	3.6.2030	578	705	127	139
Global 07[6/]	7.26.2000	7.26.2007	379	416	37	-
Global 40[7/]	8.17.2000	8.17.2040	5 158	5 400	242	334
Global 24[8/]	3.22.2001	4.15.2024	2 150	2 150	-	700
Total			13 510	15 560	2 050	2 370

1/ Includes only the amount issued as of 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.
8/ Bradies accepted for swap: Par, Discount, C Bond, DCB.

Table 5.45 – Restructured external debt – Bradies, Pre-Bradies and MYDFA

Itemization	Outstanding 12.31.2002 US$ million	Maturity
Capitalization Bonds (C Bonds)	6 540	4.15.2014
Debt Conversion Bonds (DCB)	3 777	4.15.2012
Discount Bonds	2 181	4.15.2024
Eligible Interest Bonds (EI)	1 727	4.15.2006
Front Loaded Interest Reduction Bond (FLIRB)	607	4.15.2009
New Money Bond 1994 (NMB)	1 354	4.15.2009
Par Bonds	1 988	4.15.2024
Exit Bond (BIB) - (pre-Bradies)	341	9.15.2013
Multiyear Deposit Facility Agreement (MYDFA)	664	9.15.2007
Total	19 179	-

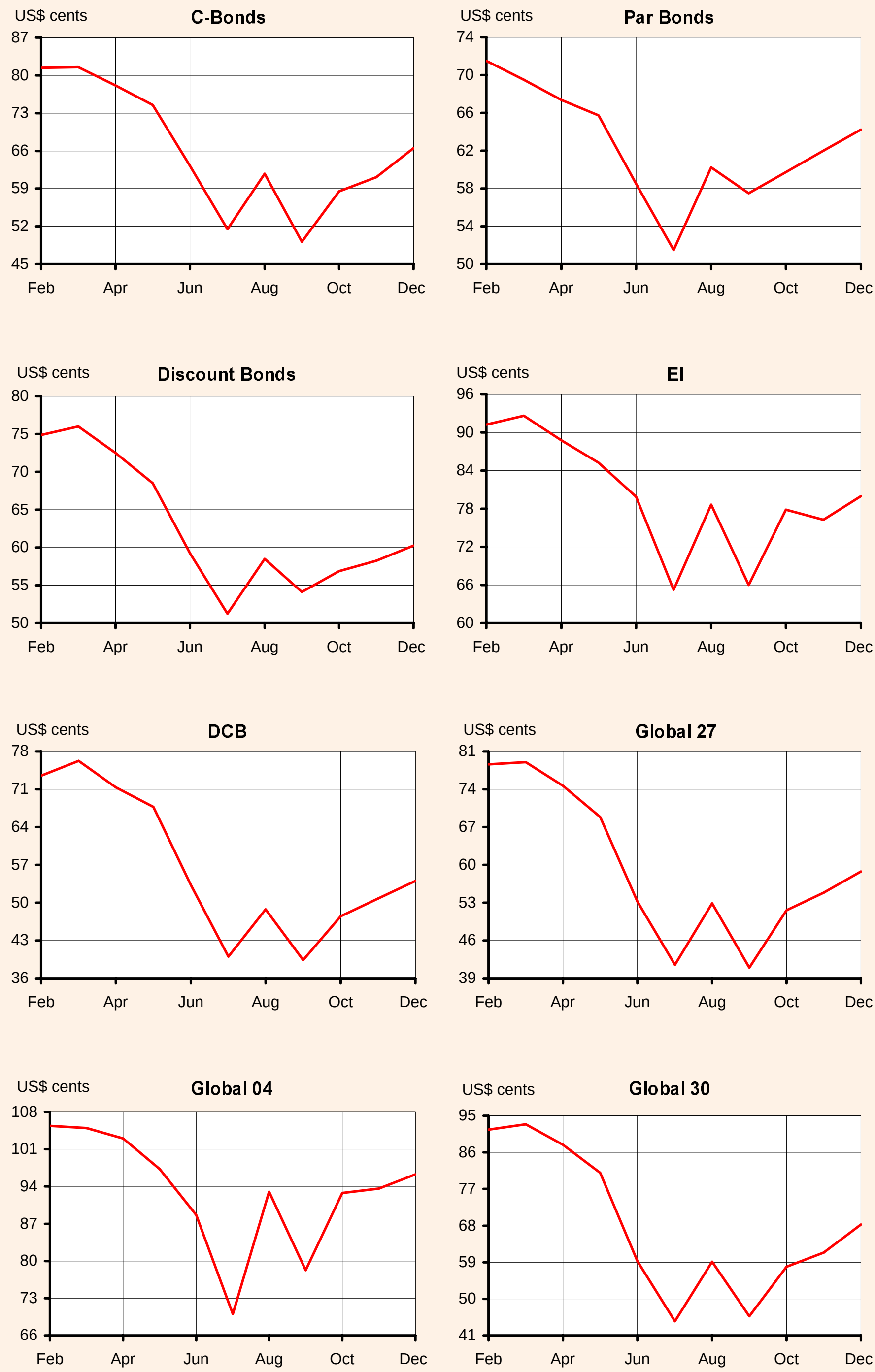
Brazilian external debt securities

In 2002, the performance of the major Brazilian external debt papers was marked by high volatility and a downward tendency in their rates, closing the year below the 2001 mark, though clearly in a process of recovery. From the start to the middle of the year, the prices of these papers dropped significantly and moved into a period of sharp volatility that lasted up to October when the rates turned upward

Graph 5.15

Prices of Brazilian securities abroad

Secondary market – bid price, end-of-period – 2002

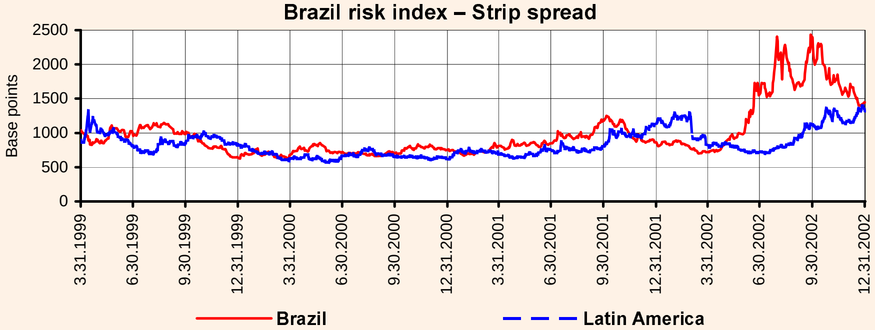


once again. The uncertainties surrounding the external scenario and the Brazilian electoral process contributed to this behavior. C-Bonds, which are high liquidity sovereign bonds used as reference for papers that bear earnings at floating rates, began the year at 77.12% of face value, before plunging to 49.12% in September, just one month before the elections. Later, these papers closed the year at 66.5% of face value, reflecting the reversal of investor expectations.

The basket containing Brazilian external debt securities, weighted by liquidity, registered an earnings differential in relation to American Treasury papers (spread) of between 700 and 2,436 base points, over the course of 2002. Calculated on the basis of daily observations, the median rate came to 1,372 base points, compared to 889 base points in 2001. In 2002, the foreign securities of the Latin American countries were considered to have a lower risk level than Brazilian papers, with spreads that were, on average, 377 base points lower.

Graph 5.16

Brazil risk index – Strip spread



Source: JPMorgan

International financial assistance program – Drawdowns and amortizations

In September 2002, the IMF Executive Board approved a new SBA after Brazil had successfully completed the revisions of the previous SBA. The new agreement, calculated at about US$30.9 billion, will remain in effect up to the end of 2003. SDR15.2 billion were made available, corresponding to approximately US$20.6 billion, in the Credit Tranche modality and SDR7.6 billion, or about US$10.3 billion, in the SRF modality, which will be available in six tranches.

The external debt targets for the nonfinancial public sector were redefined by the new SBA and were fully complied with by the end of the year. The medium and long-term debts, short-term debts and those with guaranties were also well within the new targets in 2002.

Table 5.46 – IMF financial assistance program

Stand-by arrangement – September 2002 (phasing of purchases)

Itemization	Original schedule		Effective purchases	
	Date	Millions of SDRs	Date	Millions of USD
First tranche	9.6.2002	2 282	9.11.2002	3 008
Credit tranche (CT)		1 141		1 504
Suplemental Reserve Facility (SRF)		1 141		1 504
Second tranche	12.6.2002	2 282	12.23.2002	3 065
Credit tranche (CT)		1 141		1 532
Suplemental Reserve Facility (SRF)		1 141		1 532
Third tranche	3.7.2003	3 042		
Credit tranche (CT)		1 521		
Suplemental Reserve Facility (SRF)		1 521		
Fourth tranche	6.6.2003	6 551		
Credit tranche (CT)		4 266		
Suplemental Reserve Facility (SRF)		2 285		
Fifth tranche	8.8.2003	3 043		
Credit tranche (CT)		1 521		
Suplemental Reserve Facility (SRF)		1 521		
Sixth tranche	11.7.2003	5 621		
Credit tranche (CT)		5 621		
Total of CT		15 212		3 037
Total of SRF		7 609		3 037
Total		22 821		6 073

Note: amounts available on December 31, 2002, SDR18,3 billion or US$24,8 billion.

Table 5.47 – External debt targeting – 2002 (agreement with the IMF)

US$ million

Period	Medium- and long-terms		Short-term		Collateral	
	Target	Occurred1/	Target	Occurred1/	Target	Occurred1/
Mar	96 400	87 520	3 500	287	1 600	375
Jun	96 500	90 113	3 500	80	1 600	376
Sep	97 600	89 605	3 500	65	1 600	328
Dec	96 500	91 351	3 500	2 000	1 600	1 580

1/ Data cleared at the period, before final clearing of external debt.

In 2002, IMF loans related to the PAF totaled disbursements of US$16 billion, amortizations came to US$4.6 billion and interest payments to US$495 million. Of the total volume of disbursements, US$10 billion were effected in June and referred to the second drawdown of the 2001 SBA agreement, with US$8.6 billion in the SRF modality and US$1.4 billion in the Credit Tranche modality. In the month of September, disbursements involving the first drawdown of the new 2002 SBA agreement came to US$3 billion, with US$1.5 billion in the SRF modality and US$1.5 billion in the Credit Tranche modality. In December, the second drawdown against the new SBA occurred, in an amount of US$3.1 billion, of which US$1.5 billion were in the SRF modality and US$1.5 billion in the Credit Tranche modality. In September, resources withdrawn in the SRF modality of the new SBA will be amortized in September 2003 and March 2004. Drawdowns effected in the SRF in December will be amortized in December 2003 and June 2004. Resources withdrawn in the Credit Tranche modality in September will be amortized as of December 2004 and drawdowns effected in December will be amortized as of March 2005.

The complementary PAF resources disbursed with the IDB and IBRD came to US$1.3 billion, of which US$497 million referred to the IDB and US$850 million to the IBRD. Resources withdrawn against IDB referred to the Sectoral Program

Table 5.48 – Exceptional financing

US$ million

	1998 1/	1999			2000		
	Disbursement	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD 2/	-	1 010	-	40	1 010	-	104
IDB 2/	-	1 987	-	30	1 921	-	273
IMF	4 784	6 031	1 972	515	-	6 876	383
BIS	4 150	4 500	5 500	602	-	3 150	179
BoJ	390	424	517	57	-	297	17
Total	9 324	13 952	7 989	1 244	2 931	10 323	956

(continues)

Table 5.48 – Exceptional financing (concluded)

US$ million

	2001			2002		
	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD 2/	1 162	-	220	850	253	181
IDB 2/	444	-	352	497	740	266
IMF	6 757	-	158	16 045	4 565	495
BIS	-	-	-	-	-	-
BoJ	-	-	-	-	-	-
Total	8 363	-	730	17 392	5 558	942

1/ No amortization or interest were paid this year.
2/ Included in the balance of payments under loans to others sectors, not comprising Monetary Authority.

of Human Capital Promotion and those against the IBRD to the Public Sector Adjustment Program. Amortizations with these organizations came to a total of US$993 million, of which US$740 million referred to the IDB and US$253 million to the IBRD. Interest payments to these two organizations came to US$447 million.

International investment position

The International Investment Position (IIP) presents the country's external assets and liabilities, with the balance being equivalent to net external liabilities. The data are compiled in deseasonalized terms in millions of United States dollars, following the methodology indicated in the 5th Edition of the International Monetary Fund Balance of Payments Manual.

The balances bear a close relation to the financial account flows of the balance of payments and are compiled in five items for asset positions: direct Brazilian investments abroad, portfolio investments, derivatives, other investments and international reserves; and in four headings for liability positions: direct foreign investment, portfolio investments, derivatives and other investments.

The sources of data for assets are: a) the survey of Brazilian Capital Abroad (CBE), which is compiled annually by Banco Central do Brasil; b) reports from the Bank for International Settlements (BIS) on papers deposited as collateral; c) reports on quotas of Brazilian participation in international organizations; d) data compiled by Banco Central with regard to international reserves. Considering that the CBE is published annually and contains data for the fourth quarter, the IIP asset positions referring to the first three quarters of each year are estimated on the basis of balance of payments flows.

Insofar as liabilities are concerned, in the case of direct foreign investments and capital participation, the primary source of information is the foreign capital census which is published every five years. The most recent positions released refer to 1995 and 2000. For the other positions, estimates are made on the basis of accumulated monthly flows of direct foreign investments in the balance of payments. Monthly flows of BOP are converted to reals and the final stock is once again converted to dollars on the date of the new position, both by the sale rate of the so-called end-of-period commercial dollar. Since the flows are denominated in reals and the stocks in dollars, significant exchange variations exert strong pressures on the stocks of direct foreign investments on the dates of the IIP survey. The same thing occurs in relation to portfolio investments.

The stock of intercompany loans originates in the statistics of the Electronic Declaratory Registration – Registration of Financial Operations (RDE-ROF).

Foreign portfolio investments are compiled on the basis of information in the Banco Central Information System (Sisbacen), that of the CVM and the RED-ROF system. The balance for derivatives is obtained from the CVM.

The sources of data for other investments include:
a) the RDE-ROF system;
b) the Accounting Plan of National Financial Institutions (Cosif);
c) data obtained in Banco Central accounting;
d) reports on Petróleo Brasileiro S.A. (Petrobras) credit lines.

Data on the registered external debt, RDE-ROF system, are included in the following IIP items:
a) Liabilities – Portfolio investments – Fixed income securities – Bonds and notes;
b) Liabilities – Other investments – Trade credits;
c) Liabilities – Other investments – Loans – Monetary authority and other sectors.

Data on the unregistered external debt are included under the following IIP item: Liabilities – Other investments – Loans – Other sectors.

In thesis, variations among IIP stocks should be equal to the balances of the current accounts of the balance of payments in the corresponding periods. In other words, variations in net external liabilities should be equal to inflows of external savings or to remittances of savings abroad, depending on the case in question. However, changes in assets and liabilities are also consequences of fluctuations in prices or changes in currency parities and, for this reason, changes in the stocks of the IIP and the balances of balance of payments current accounts may be different.

Analyzing IIP, one should note that there was a decline in net external liabilities between December 2001 and September 2002, from US$264 billion to US$211 billion.

Assets expanded by US$6.5 billion, with particularly strong growth under direct Brazilian investments abroad in the form of capital participation, with growth of US$2.3 billion, and under international reserve assets, with expansion of US$2.5 billion.

As can be observed, the change in the IIP was mostly due to the US$46.3 billion drop in external liabilities, particularly under direct foreign investment, with a drop of US$32.5 billion, and in portfolio investments, with a reduction of US$20.8 billion, in contrast to the rise of US$6.6 billion in other investments.

Despite the fact that the positive flow of direct foreign investments totaled approximately US$13.8 billion in the period, exchange depreciation was sufficient to reduce the final stock by US$32.5 billion. The reduction that occurred under portfolio investments was concentrated in stock investments, with net outflows of US$17.1 billion (-46.3%), resulting from the 10% decline in the values expressed in real and from the exchange impact on stocks denominated in dollars.

The growth that was registered under the item of other investments was mainly due to net disbursements of US$9 billion in the framework of the financial assistance program in the period, in contrast to the US$2.7 billion reduction in short-term indebtedness. In the latter case, this result was a consequence of reductions in credit lines offered to the country by foreign banks in the period.

Table 5.49 – International investment position

US$ million

Itemization	2001	2002-Sep
International investment position (A-B)	- 263 916	- 211 090
Assets (A)	108 145	114 687
Direct investment abroad	50 746	53 041
Equity capital 1/	43 641	45 888
Intercompany loans	7 104	7 152
Portfolio investment 2/	6 402	6 973
Equity securities	3 001	3 376
Debt securities	3 401	3 597
Bonds and notes	1 816	2 011
Of which collateral (principal)	1 239	1 423
Money-market instruments	1 585	1 585
Financial derivatives	42	-
Other investment	15 089	16 292
Trade credits	155	155
Loans	697	838
Currency and deposits	9 442	10 391
Other assets	4 795	4 909
Of which collateral (interests) and memberships in international financial organizations	1 383	1 373
Reserve assets	35 866	38 381

(continues)

Table 5.49 – International investment position (concluded)

US$ million

Itemization	2001	2002-Sep
Liabilities (B)	372 061	325 777
Direct investment in reporting economy	121 948	89 405
Equity capital[1/]	105 815	73 049
Intercompany loans	16 133	16 356
Portfolio investment	151 741	130 910
Equity securities	36 910	19 826
In the reporting country	13 386	6 180
Abroad	23 524	13 646
Debt securities	114 831	111 085
Bonds and notes	114 831	111 085
In the reporting country	1 642	1 440
Abroad	113 189	109 644
Medium and ong-term	111 989	108 841
Medium and short-term	1 200	803
Financial derivatives	45	517
Other investment	98 327	104 945
Trade credits	6 025	6 449
Medium and long-term	5 398	5 487
Medium and hort-term	628	962
Loans	90 720	96 779
Monetary authority	9 130	18 033
Use of Fund credit & loans from the Fund	8 346	17 369
Other long-term	784	664
Short-term	-	-
Other sectors	81 590	78 746
Long-term	55 759	55 579
International entities	22 440	24 444
Government agencies	12 418	12 671
Buyers	8 362	7 280
Direct loans	12 539	11 183
Short-term	25 831	23 167
Currency and deposits	1 582	1 716
Monetary authority	129	113
Banks	1 453	1 603
Other liabilities	-	-

1/ Includes reinvested earnings.
2/ Includes securities issued by residents.