V

Economic-Financial Relations with the International Community

Foreign trade policy

In 2003, several export-related measures were adopted and produced important repercussions in terms of the sustainability and growth of foreign sales. Following the example of what occurred in recent years, the Brazilian trade negotiation agenda has become significantly more complex due not only to the country's participation in a variety of ongoing discussions with different economic blocs, but also to the interests involved and the impacts that conclusion of these negotiations could have on the economy as a whole. In this context, an important shift has occurred in Brazilian foreign trade policy, which has begun prioritizing the country's relations with its South American neighbors. This policy shift was also evident at the WTO Ministerial Meeting in Cancun, where the country led the process of formation of a coalition of developing countries in the farm sector. One should also stress the more aggressive stance adopted by the government, with the cooperation of the private sector, with the aim of opening new markets and intensifying already traditional trade relations.

Measures aimed at fostering exports stressed simplification of administrative procedures, trade promotion activities, elimination of export taxes and the availability of export financing and guaranties.

With respect to the ongoing process of simplifying export operations, Internet access to the export modules of the Integrated Foreign Trade System (Siscomex) was initiated in June. One of the advantages of the new system is that the legal representative of the company will no longer have to go personally to the local customs inspection unit of the Federal Revenue Secretariat (SRF) and will be able to renew export licenses directly over the Internet. The rules governing this system are set down in SRF Normative Instructions 330 and 331, as well as in SRF Directive 885, all of which are dated 6.27.2003.

In September, new measures were announced with the aim of simplifying export procedures. The most important was issued through MDIC Directive 405, dated 9.3.2003, and revoked 29 previous directives issued by the Ministry dealing with administrative aspects of export operations. In its turn, Secex Directive 12, dated

9.3.2003, consolidated 54 directives issued by that Secretariat into a single document and revoked Foreign Trade Secretariat (SCE) Directive 2, dated 12.22.1992, as well as other instruments that had defined the rules to which exporters were subject in the past. This was the first time in 10 years that the country had consolidated and simplified the rules covering exports in the MDIC framework.

The other rules included in the measures taken to simplify administrative aspects of export operations were as follows: i) revocation of the requirement of prior approval of various federal entities in order to export approximately 200 products, mostly from the chemical sector; ii) broadening of the list of products that can be placed abroad over a period of up to six months prior to formalization of the export contract, making it possible to take advantage of market niches for products subject to controls and rigid rules on unloading, such as crop/ livestock goods and tires, and, once these goods have been stocked near the target market, to offer them to clients with rapid delivery; iii) elimination of sale registration for shipments of aluminum, instant coffee and cocoa, since marketing of these goods is not based on international exchange prices; iv) authorization for exporters to include products with the same classification on a single Export Record (RE), independently of their value.

With regard to trade promotion activities, Provisional Measure 106, dated 1.22.2003, later converted into Law 10,668, dated 5.14.2003, and Decree 4,584, dated 2.5.2003, the Export Promotion Agency (Apex) was withdrawn from the Brazilian Service of Support to Micro and Small Businesses (Sebrae) and transformed into an autonomous social service, known as Apex-Brasil. The purpose of this alteration was to make the Agency more agile and able to more efficiently target its trade promotion activities. In 2003, the trade promotion work carried out by the agency resulted in overall business valued at US$400 million. The number of international events closed at 410, including 328 fairs, 31 buyer projects, 12 seller projects, 8 trade missions and 31 sectoral business missions, involving more than 8 thousand companies. Five new and important markets were researched, including South Africa, Russia, the Middle East, China and India. Seven technical cooperation agreements were formalized with various states in order to promote their products on the international market. Aside from this, several rounds of bilateral meetings were held at the level of the Deputy Ministers of Industry and Trade of the Southern Common Market (Mercosul) partner countries, particularly Argentina. As a result of these talks, important pending trade questions were resolved.

In the area of taxation, the most important alteration was introduced by Provisional Measure 135, dated 10.31.2003, later converted into Law 10,833, dated 12.29.2003. The new legislation introduced a new system of noncumulative levying of the

Cofins, eliminating overlapping charging of this contribution at different stages of production. Previously, Law 10,637, dated 12.30.2002, had done the same thing in relation to PIS/Pasep. In light of the need to maintain the Cofins inflow at the same level as before, the contribution rate was increased from 3% to 7.6%. The value of the Cofins contribution will henceforward be calculated by applying the new rate to the monthly revenues of companies, excluding credits based on application of the same rate to purchases made exclusively by companies domiciled in Brazil involving inputs and capital goods used in the production process. Other expenditures and costs, such as rents, energy, interest on loans and financing may also be deducted. In the case of exports, the principle that Cofins would not be charged on these operations was maintained. The seller company may utilize the credit calculated according to the new system as a deduction from Cofins to be paid as a result of other internal market operations and to offset the company's own debts involving matured or maturing federal taxes and contributions. This change in tax legislation benefited exported products of higher aggregate value that have a more complex productive chain.

With respect to the question of export financing and guaranties, an announcement was made at the closing of the 23rd National Foreign Trade Meeting (Enaex) at the end of November, in the sense that existent export financing and guaranty mechanisms would be revised in the areas covered by Export Financing Program (Proex-Financing), Proex-Equalization, Credit Insurance and the Reciprocal Payments and Credit Agreement (CCR). The objective is to optimize application of these budget resources and guaranty that they will be available to a larger volume of exports.

Foreign Trade Council (Camex) Resolution 45, dated 12.26.2003, altered Camex Resolution 33, dated 12.16.2002, which had determined that priority would be given to channeling Proex-Financing resources to micro, small and medium businesses. The needs of large companies would be met by BNDES-Exim, which is subject to less budget restrictions. With this review, Proex was reopened for the financing of large companies in co-financing operations with the Andean Development Corporation (CAF). This mechanism, which has already been approved by CAF, allowed Proex to finance 85% of exports of goods and services, with the guaranty of the Corporation itself, while also permitting financing of local outlays and initial payment by the importer of Brazilian exports. Aside from this, whenever government agreements exist regarding projects that cannot be made feasible by BNDES, Camex will examine the possibility of providing Proex financing on a case-by-case basis.

Another important measure was inclusion of international financing organizations in Proex-Equalization. When an international financing entity finances a project, it requires an international tender at the lowest price. Now, however, Brazilian companies are permitted to participate in the project, offering Proex equalization to the importer, in such a way as to reduce financial costs for the importer. With this, the proposal put forward by the Brazilian company will tend to be more competitive when compared to that of the competing developed countries. Since these operations call for immediate payment to be made directly by the international financing organization, Brazil will be in a position to draw benefits from growth in its exports without assuming the risk of default in the countries in which the projects are carried out. This risk will be assumed by the international organization.

Another important announcement was revocation of the limitations imposed on use of the CCR in Brazilian import operations. Provisional Measure 142, dated 12.2.2003, creating mechanisms for minimizing Banco Central do Brasil risks against possible judicial or extrajudicial interventions in accredited financial institutions, since CCR credits are not within the scope of these interventions. Aside from this, Bacen Circular 3,211, dated 12.4.2003, eliminated the demand of anticipated deposit of the value of the operations processed through the CCR. According to the previous system, the CCR was restricted to financing up to US$200 thousand for Argentina and up to US$100 thousand for the other Laia countries and the Dominican Republic, coupled with the requirement of prior deposit for a period of 360 days, a demand that had the practical effect of making use of this mechanism unfeasible. The CCR is a mechanism of enormous importance to stimulating growth in intraregional trade and making it possible for Brazilian companies to participate in the Initiative for South American Infrastructure Integration (IIRSA).

Also with respect to the CCR, the Credit Insurance system used in operations processed through that agreement was also revised. It was determined that all exports financed by Proex or BNDES and guarantied by the CCR will be classified as risk group 1 operations, which is the lowest level, for purposes of credit insurance. The purpose of this measure was to reduce the cumulative nature of guaranty costs, a factor harmful to Brazilian exports to the Laia countries, since insurance was contracted in risk groups 1 to 7, on the basis of the original classification of the countries in which the loan would be granted. Camex Resolution 44, dated 12.24.2003, defined guidelines for utilization of the Export Credit Insurance mechanism in operations processed through the CCR.

At the same time, the Export Financing and Guaranty Committee (Cofig) was created and assumed the responsibilities of the Export Credit Committee (Ccex) and the Export Guaranty Fund Board, which was abolished by Provisional Measure 143, dated 12.10.2003. The new Committee will have responsibility for examining and classifying operations under Proex-Financing, Proex-Equalization and Credit Insurance, based on guidelines drawn up by Camex. The Committee will have one representative of the National Treasury Secretariat and one from each of the ministries included in Camex (Development, Industry and Foreign Trade, Finance, Agriculture, Planning, Foreign Relations and the Civilian Staff).

Mention should also be made of creation of the Program of Incentives to the Exportable Production of Small and Medium Businesses (Propex). The National Treasury will make credit lines available for the exportable production of small and medium businesses. Budget resources will be auctioned to the financial system with spreads defined by the government. The banks that obtain these lines will offer the resources to exporters at a final rate of interest that is also set by the government.

In the year, growth in the value of the operations of the Export Financing Program (Proex) was due exclusively to the performance of the equalization line, since this expansion occurred in a framework of a sharp cutback in the number of participants, demonstrating that the line was concentrated in a small number of large companies. In the financing and equalization modalities, Proex operations totaled US$4.4 billion, of which US$308 million were targeted to the financing modality and US$4.1 billion to the modality of interest rate equalization.

In the financing modality, there was a reduction of 29.6% in the overall value of operations, as the number of operations carried out dropped from 1075 to 1035, and the number of companies benefited increased from 308 to 341. In 2003, 69% of Proex-Financing operations involved the service sector; 6% were related to transportation and machines and equipment; and 5% involved agribusiness. Africa accounted for 48% of exports concluded, followed by the Laia countries with 30%; North American Free Trade Agreement (Nafta), with 7%; and the European Union, with 6%. Of the total of 1035 operations carried out, small and medium businesses accounted for 869, or 20% of exported value, in a total amount of R$61.2 million, while large companies completed 58 operations, corresponding to 78% of exported value and a total value of R$239.2 million.

In the case of the equalization modality, there was an increase of 43.1% in the number of operations from 911 to 1304, and a 65.1% reduction in the number of companies benefited, from 152 to 53. In the year, 83.3% of the operations were concentrated the transportation sector, basically involving aircraft production; while machines and equipment accounted for 12.8% and agribusiness for 1%. The Nafta countries were the destination for 77% of exports, followed by the member countries of the Asian-Pacific Economic Cooperation (Apec), with 9%, and the European Union with 4%. In the year, the overall value of exports that generated issues of National Treasury Note – Series I (NTN-I), a security used to back interest rate equalization operations, totaled US$302.8 million, compared to US$132.6 million in the previous year, for growth of 128%.

Financing granted by BNDES-Exim came to US$4 billion in 2003, for an increase of 1.4% in the year. The post-shipment line accounted for more than half of disbursements, totaling US$2.1 billion, for a reduction of 21% in comparison to the previous year. In much the same way, the special pre-shipment line, which totaled

US$399 million in 2003 disbursements, registered a reduction of 30.8% compared to 2002. Consequently, in the year, growth in BNDES-Exim disbursements was concentrated in the pre-shipment line, which includes the short-term pre-shipment line that was instituted in 2002 in the framework of the emergency measures taken to cope with the falloff in the supply of external credit lines for the financing of Brazilian foreign sales. In 2003, the pre-shipment line registered overall disbursements of US$1.5 billion or 114% more than the amount disbursed in 2002.

There was a strong concentration of BNDES-Exim export credits among large companies, with 96.9% of disbursements in 2003. The aircraft, automotive vehicle and parts and food sectors absorbed 75% of BNDES-Exim disbursements. Participation of the aircraft production sector was more significant in the post-shipment line, accounting for 82.9% of overall credits, while the sectors of food and automotive vehicles and parts led the way in the pre-shipment line. In 2003, with the approval of the Deliberative Council of the Worker Support Fund (Codefat), BNDES increased the volume of resources targeted to the exchange-oriented Worker Support Fund (FAT) by 40% to 50%, used to finance exports, particularly those of small and medium businesses.

As part of government strategy, an effort is being made to place South American integration once again at the center of Brazilian foreign policy priorities. This integration project, known as the IIRSA, is being developed in the political arena and economic and physical integration framework. Thus, special BNDES credit lines were created for Venezuela (US$1.05 billion), Bolivia (US$600 million), Uruguay (US$50 million) and Argentina (US$1 billion). This is just one more element that confirms the strategic importance of the South American countries to Brazil.

In the area of financing and guaranties, releases of resources from the Competitiveness Promotion Guaranty Fund (FGPC) increased sharply and were channeled to the export sector. This Fund, which is administered by BNDES, was created with National Treasury resources and has the objective of covering part of the credit risk of financial institutions in the operation of credit lines with micro, small and medium exporter companies that make use of BNDES credit lines. In 2003, US$86.8 million were released to 185 operations, compared to US$52 million in 2002, channeled to 126 operations.

Also in the area of exports, mention should be made of Provisional Measure 113, dated 3.26.2003, later converted into Law 10,688, dated 6.13.2003, which dealt with the marketing of genetically modified soybeans in the 2003 harvest. With adoption of this rule, the initial period for marketing transgenic soybeans, which was originally scheduled to expire on 12.31.2004, was extended for 60 days in order to ensure that production would be entirely placed on the market. At the same time, the new legislation determined that transgenic products must be labeled with their respective identification. Provisional Measure 131, dated 9.25.2003, converted into Law 10,814, dated 12.17.2003, was issued with the objective of disciplining this question, defining rules on the planting and marketing of the production of genetically modified soybeans in the 2004 harvest.

In the case of imports, the foreign trade policy adopted was quite similar to that applied to exports. In this sense, Secex Directive 17, dated 12.2.2003, consolidated several administrative documents that had been issued by the Secex itself and by the Department of Foreign Trade Operations (Decex). This new Directive already covers procedures agreed upon in the WTO framework. With regard to the automatic licensing of imports, these instruments become effective within a maximum of ten business days as of registration at Siscomex, whereas the maximum term for nonautomatic licenses was set at 60 calendar days. Since Brazilian imports are generally exempt from licensing, importers should take steps exclusively to register the Import Declaration (DI) at Siscomex in order to initiate the process of customs clearance. This new directive also includes general provisions and specific procedures regarding the process of import licensing. As far as consolidation of these rules is concerned, specific procedures were defined for imports of used goods subject to examination of similarity; for obtaining tariff or nontariff quotas; and for imports of products subject to special procedures, such as vehicles, fabrics, programmed electronic machines and uncut diamonds. In the case of imports without exchange coverage, a nonautomatic license may be issued, defining specific procedures for imports in the form of leasing, financial leasing, charters or simple lease operations, rentals and operations in the form of donations. In summary, 87 acts were revoked and/or simplified. A single document consolidated rules on imports, with automatic updates available on the Internet.

In the month of December, Camex Directives 39, 40 and 41 implemented important changes in the Common External Tariff (TEC). The most important alteration was elimination of the temporary 1.5% additional amount instituted by Decision 15 of the Common Market Council (CMC) in 1997, which further determined that this additional tariff would be gradually reduced until its termination as of 2003. However, the additional tariff was maintained for one year beyond the original forecast and was finally abolished as of 2004. Also with respect to the TEC, in the month of June, the Brazilian government formalized an agreement with Argentina which raised the customs tariff on Argentine imports of capital goods to 14%, effective as of January 2005, when such operations do not include Mercosul countries. Capital goods classified as sophisticated that are not manufactured within Mercosul will have an external tariff of zero to four percentage points. This initiative has the objective of reducing loopholes in the TEC in such a way as to create the conditions required to recompose the Mercosul customs union.

Following the example of what occurred in previous years, the policy of granting tariff reductions in imports of capital goods and informatics and telecommunications products was continued, with the objective of making investments in these areas more predictable. The ex-tariff system has the objective of reducing investment costs making it possible to modernize the Brazilian industrial structure and enhance its competitiveness. The *ad valorem* Import Tax rate was reduced from 14% on average to 4%. The most important measure in the area of the special import system was elimination of the requirement of a prior license for imports of 1600 capital goods, based on the ex-tariff system. Aside from this, CMC Decision 34 determined that the tariff systems covering capital goods imports in effect in the four Mercosul member countries, including the unilateral TEC exceptions adopted by Brazil, would be extended up to 12.31.2005.

In the month of September, the New Brazilian Trade Defense System Strategy was announced and included a reduction in the duration of investigations from 12 to a maximum of 10 months. The processing of requests for antidumping investigations was greatly facilitated and can now be done by filling out a form available on the MDIC site. Aside from this, exporters subject to investigations in other countries will be provided with intensified support, while the services that can be provided free-of-charge by MDIC technicians are listed on the Internet.

Two of the investigative proceedings were concluded in 2003 and resulted in application of antidumping measures, as follows: imports of stone cutting blades originating in India and imports of glysophate from China. These measures were implemented, respectively, by Camex Resolutions 30, dated 10.13.2003, and 5, dated 2.12.2003. At the same time, four processes were terminated without application of antidumping measures. With respect to the processes involving subsidies, Camex Resolution 47, dated 12.30.2003, extended the definitive safeguard measure applied to imports of finished toys up to 12.31.2004, with imposition of an additional 10% to the TEC. The developing countries and less developed countries were excluded as a result of a clause in the Sixtieth Additional Protocol to the Asuncion Agreement, which created Mercosul.

Also with regard to imports, several provisions of the new Customs Regulations implemented by Decree 4,543, dated 12.26.2002, were altered by Decree 4,765, dated 6.24.2003. At the same time, SRF Normative Instruction 327, dated 5.14.2003, established a new procedure for controlling the customs value of imported merchandise, as defined in the Agreement on Implementation of article VII of the General Agreement on Tariffs and Trade (GATT), dated 1994 (Customs Valuation Agreement) and in keeping with the Customs Regulations dated December 2002 and Provisional Measure 2,158-35, 2001. With publication of the new rule, it was determined that outlays on the unloading of merchandise from the international transportation vehicle will be included in the customs value.

In the context of health restrictions on imported merchandise, the National Health Inspection Agency (Anvisa) issued Board of Directors Resolution (RDC) Resolution 1, dated 1.9.2003, instituting a system of Technical Regulations. The objective was to introduce adaptations in customs facilities that would make it possible to control consumer goods that are directly or indirectly related to health questions, including all of the various stages and processes, ranging from their production to consumption, while also controlling those services that even indirectly have a bearing on health; defining the documentation to be submitted; and determining inspection procedures, as well as the duties and obligations of individuals and corporate entities involved in import operations.

Mention should also be made of approval of Law 10,755, dated 11.4.2003, which determined the fine to be paid by importers who, on the Import Declaration registered at Siscomex, contract exchange operations or effect payments in Brazilian currency without duly complying with the time periods and conditions defined by Central Bank of Brazil (Bacen) or when payment is not effected within a period of up to 180 days as of the first day of the month subsequent to that scheduled for payment of the import operation.

With respect to trade negotiations, it is important to stress the initiative of the two major Mercosul members in resuming the bloc's negotiating agenda. This initiative was favored by increased convergence of Brazilian and Argentine macroeconomic policy, in a scenario of expectations of economic growth on the Brazilian side and the overcoming of the Argentine economic crisis. At the closing of the Paraguayan pro tem presidency at the Asuncion summit in June, the Brazilian government presented the Objective 2006 agenda, which is divided into four programs aimed at deepening the process of integration in the societies of the member countries, as well as consolidation of the customs union. In its turn, the Argentine government proposed creation of the Institute of Mercosul Monetary Cooperation, which had the objective of furthering macroeconomic coordination among the member countries.

In the year, the two major agreements formalized by Mercosul involved Peru, in the Laia context, and the Andean Community (CAN) member countries – Colombia, Venezuela and Ecuador, all of which did not yet have trade liberalization agreements formalized with the bloc. As far as the free trade agreement between Mercosul and Peru is concerned, one of the principal characteristics was recognition of existent asymmetries between the signatory countries which, in turn, resulted in differentiated schedules for eliminating these tariffs. The Agreement's major provisions were as follows: exemption from the Additional Fee on Freight for Renewal of the Merchant Marine in Brazilian imports from Peru; elimination and noncreation of tariff restrictions on reciprocal trade; application of antidumping rights and countervailing measures according to the legislation of each country, which must be consistent with the WTO; in reciprocal agricultural trade, nonapplication of export subsidies and other measures with equivalent effects that distort trade and production in this sector; nonapplication of export subsidies in reciprocal trade involving industrial products; nonapplication of the Trade Liberalization Program in operations involving used products; suspension of preferences related to agreements formalized by the Mercosul countries with Peru in the Laia framework, as of the date on which the Agreement goes into effect. The Mercosul-Peru Agreement has not yet gone into effect, since such themes as free zones and special customs areas are still being negotiated. It should be stated, however, that in December the Mercosul Summit in Montevideo scheduled inclusion of Peru as an Associate State, the same situation as Bolivia and Chile. This classification means that import tariffs can be reduced to zero without the obligation of adopting an external tariff common to the four Mercosul member countries.

Signed toward the end of the Uruguayan pro tem presidency in December, the Mercosul-CAN agreement dealt with trade liberalization schedules, safeguard systems, technical norms, phytosanitary and health measures, system of origin, antidumping and countervailing measures, special measures and dispute resolution mechanism. In summary, the foundations of the free trade agreement among the four Mercosul members and the other three Andean countries Colombia, Venezuela and Ecuador – were reaffirmed, despite the fact that the lists of products that will have reduced tariffs will only be negotiated next year.

Within the strategy that has oriented the nation’s external relations, another initiative approved by Mercosul was approval of the Mercosul-India Framework Agreement through issue of CMC Decision 9, dated 6.17.2003. This was the first step in a process of narrowing trade relations between the two countries that could eventually lead to formation of a free trade area.

Decree 4,719, dated 6.4.2003, promulgated the Mercosul International Trade Arbitration Agreement, which has the objective of regulating arbitration as an alternative private means of resolving controversies that arise out of international trade contracts between individuals or legal entities covered by private law. In processes of integration, the speed at which problems arising out of international contracts are resolved is an element of essential importance to the development and improvement of such processes.

In the month of September, the impasse that occurred in the negotiations carried forward at the WTO Cancun Ministerial Meeting revealed the differences of positions existing among the countries involved in the Doha Round. On that occasion, the result was a polarization of north-south interests. The United States and the European Union defended a minimalist position in the agricultural sector, generating a reaction on the part of the developing countries – including Brazil – that led to formation of a coalition denominated the G-22. Another divergence arose when the developed countries insisted on including such themes as investments, competition, government procurements and trade facilitation in the negotiating agenda, a fact that resulted in a final impasse at the Cancun Ministerial Meeting.

Negotiations between Mercosul and the European Union were conditioned to evolution of the WTO negotiating process, which practically stagnated as a result of the Cancun impasse. The progress achieved in the negotiations between the two blocs is closely related to what must be done to place the discussion of agricultural questions back on track. Despite this rather unfavorable scenario, the Biregional Ministerial Meeting in November formalized a commitment to conclude an agreement by October 2004 that would define the schedule of meetings marking the final stage of negotiations between the two blocs.

In the case of the Free Trade Area of the Americas (FTAA), a flexible negotiating methodology was adopted, based on what was determined in the Miami Declaration at the end of the 8th Ministerial Meeting in November. The principles of this declaration were founded upon the three concepts of scope, equilibrium and flexibility. In the FTAA architecture, two tiers were defined for the agreement. The first of these is composed of a series of rights and obligations and would be applicable to all members. The second would be applied only to those countries that desire to deepen the scope of the liberalization process by including other additional obligations and benefits. This solution avoided an impasse in the bloc's negotiating process. However, when the process of discussing the obligations and rights of the first tier ground to a halt, the Miami Ministerial Meeting decided to leave the debate on this tier to the Committee for Trade Negotiations (CNC) scheduled for February 2004.

As far as Camex organization is concerned, Decree 4,732, dated 6.11.2003, defined the new responsibilities of the entity. With this, the Camex structure came to include an Executive Management Committee (Gecex), an Executive Secretariat and a Private Sector Consultative Council (Conex). Gecex took on the task of evaluating the impact, supervising, defining and introducing improvements regarding any type of processing, barrier or bureaucratic demand applicable to foreign trade and tourism, including those related to the movement of persons and cargo. With respect to Conex, 20 private sector representatives were included and have been charged with providing advisory services in the processing of sectoral proposals for improving foreign trade policy.

Finally, one should stress the government's initiative taken in November with the objective of defining the Industrial, Technological and Foreign Trade Guidelines to be adopted in the 2004/2006 period. The objective of this strategy is to enhance economic efficiency as well as technology development and dissemination, in such a way that it will have greater inductive potential as regards the activity level and the nation's competitiveness on the international market. These guidelines were elaborated in such a way as to increase the efficiency of the Brazilian productive structure, expand the innovative capacity of Brazilian companies and intensify exports through measures designed to increase access to credit and attract a greater volume of investments. This is viewed as the foundation for increased participation of the country in international trade, stimulating sectors that have greater capacity or the need to develop competitive advantages. The guidelines defined indicate adoption of a horizontal policy for all economic sectors, concentrated on modernization and competitiveness of the companies involved, their participation in international trade, research and technology innovation and increased productive capacity and scale, coupled with vertical policies for four sectors identified as having strategic importance to the development of the Brazilian economy and the country's increased participation in world trade: microelectronics, software, pharmaceuticals and capital goods. These segments currently plan a very minor role in Brazilian foreign trade and, at the same time, are responsible for significant trade balance deficits. Four work groups were created in order to debate these guidelines and detail industrial policy.

Exchange policy

The second half of 2002 was characterized as a period of increased international investor aversion to the risk represented by the emerging countries. In the Brazilian case, the downturn in capital flows and credit lines was aggravated by the uncertainties generated by the imminent transition from one federal administration to the next, a period marked by strong exchange rate depreciation.

In this context, the measures taken by Banco Central were aimed at reducing the volatility of the American currency, as demonstrated by implementation of Circular 3,157, dated 10.11.202, which raised capital requirements for the net exchange exposure of financial institutions from 75% to 100%, and of Circular 3,156, issued on the same date, which reduced the maximum limit on net exchange positions as a proportion of weighted capital.

Market perceptions of the new federal administration's commitment to the basic principles that have guarantied monetary stability and highly positive trade balance results, founded upon an aggressive trade policy, internal productivity gains and depreciation of the real, led to significant improvement in international investor expectations in relation to the trajectory of the Brazilian economy in the transition from 2002 to 2003.

In this scenario, the rate of exchange moved upward in the period. When the end-of-period Ptax-sale rate is used, the rate of exchange moved from R$3.5258/

US$1.00 in January 2003 to R$2.8898/US$1.00 in April, a level quite closed to that in effect at the end of June 2002, the month prior to the period of strong depreciation of the real.

At the end of May, Banco Central introduced a new rule on the rolling of the internal debt tied to exchange (securities and exchange swaps). According to this decision, Banco Central will no longer commit itself to rolling a fixed percentage, then set at up to 100% of the principal at each maturity, and will now exchange the papers tied to the dollar while paying off part of the exchange debt.

With reduced exchange market volatility, appreciation of the real and inflation clearly under control, the country achieved the conditions required for a more flexible approach to the exchange restrictions imposed on banks in October 2002. Thus, according to Circular 3,194, dated 7.2.2003, the minimum capitalization required to comply with net exposure was reduced from 100% to 50%, making it possible to increase the leverage of financial institutions. It is important to observe that this rule did not reduce the system's maximum exposure which is still limited at 30%.

At the start of the month of July, Banco Central also announced new rules on the rolling of the exchange debt. The system used in this process was altered to two auctions, with the first being held on the Wednesday preceding maturity of the papers by at least five business days, and the second on the business day following that of the first auction. On the day prior to the holding of the first auction, Banco Central initiated a survey among exchange market dealers with respect to demand for exchange securities and the maturities most attractive to the market, while the details of the auction were set down at a later date in a communiqué issued by the institution. By defining the dates for rolling the exchange debt, the rules on the debt tied to the dollar became more predictable and expectations with respect to possible additional auctions were greatly attenuated.

On 9.15.2003, Banco Central announced another change in the rules covering exchange debt rolling auctions, reducing the number of auctions reserved to rolling the debt tied to the dollar from two to one. This auction was to be scheduled for at least four business days prior to maturities and preferably on a Wednesday.

In the month of July, the National Treasury adopted a more decisive exchange market stance. In the year, the National Treasury used resources acquired on the market to settle maturities of US$5.7 billion referring to bond interest and principal and Paris Club payments.

This subject was regulated by Bacen Circular 3,209, dated 10.31.2003 which expanded the maximum term for exchange settlement of Treasury contracting operations from 90 to 180 days. With this measure, the National Treasury became more flexible in effecting exchange market purchases to meet demand for payment of external debt commitments. It is worth mentioning that the previous period of 90 days had been stipulated by Bacen Circular 3,205, dated 9.18.2003.

Another factor that contributed to a considerably more serene exchange market were the terms of the new agreement formalized at the end of 2003 with the International Monetary Fund (IMF). According to the agreement in effect up to September 2003, disbursements at the end of the year would have totaled US$8.1 billion. With the new agreement, this payment was substituted by a loan of US$14 billion to be disbursed only in very adverse circumstances and basically has the objective of acting as insurance against possible international financial market turbulence. Furthermore, the maturities forecast for 2005, 2006 and 2007 were rescheduled in order to reduce the concentration of payments in 2005 by US$6 billion.

At the end of 2003, net adjusted reserves calculated according to the methodology set out in the Technical Memorandum of Understanding with the IMF came to US$17.4 billion. The strategy of rebuilding the nation’s reserve position was shown to be, above all else, a prudential measure aimed at raising the volume of reserves to a more comfortable level.

Exchange movement

The overall exchange market result in 2003 resulted in net inflows of US$718 million in contracted resources, compared to a net outflow of US$13 billion in 2002. The balance of trade-related exchange operations expanded from US$20.3 billion to US$28.4 billion, reflecting increases of US$13.1 billion or 21.8% under exports and US$5.1 billion or 12.8% under imports. Contracting on the financial exchange market added up to net outflows of US$26 billion, or US$1.8 billion more than in 2002, with growth of US$2.3 billion, 3.4%, in purchases of foreign currency, and US$4.1 billion, 4.4%, under sales. Contracting of operations with institutions abroad came to net remittances of US$1.7 billion in 2003, compared to US$9.1 billion in the previous year.

Balance of payments

The adjustment in the nation’s external accounts during the year was a response to rapid deterioration in external financing conditions in the second half of 2002. In 2003, principally in the second half of the year, international market conditions were particularly favorable to Brazil from several different points of view. The sharp increase in international liquidity was reflected in across-the-board upward movement in the stock exchanges of the emerging countries, driven by the very low level of American interest. Aside from this, despite uncertainties regarding the behavior of the American economy over the medium term, particularly with regard to growth in that country's external and fiscal deficits, the outlook for world growth improved. Coupled with relative exchange rate stability, Brazil's terms of trade registered recovery during the year. All these factors produced positive impacts on the balance of payments result.

Table 5.1 – Foreign exchange operations

US$ million

Period	Operations with clients in Brazil							Operations banks abroad with (net)[1/]	Balance
	Commercial			Financial			Balance		
	Exports	Imports	Balance (A)	Purchases	Sales	Balance (B)	(C) = (A)+(B)	(D)	(E) = (C) + (D)
2000	51 699	46 069	5 629	99 290	92 971	6 319	11 948	-7 269	4 680
2001	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
2003									
Jan	5 031	3 786	1 245	5 753	5 850	- 97	1 149	- 175	973
Feb	4 420	3 340	1 080	4 430	5 402	- 972	108	- 392	- 284
Mar	4 592	3 650	943	5 067	6 856	-1 789	- 846	- 389	-1 234
Apr	6 908	3 991	2 917	5 545	6 365	- 820	2 098	- 272	1 825
May	6 692	3 524	3 168	5 129	7 757	-2 628	540	74	614
Jun	5 635	3 661	1 973	6 572	9 495	-2 923	- 950	- 5	- 955
Jul	7 241	3 802	3 439	5 939	7 988	-2 049	1 390	- 110	1 281
Aug	5 904	3 742	2 162	5 831	6 522	- 690	1 472	- 91	1 380
Sep	6 076	3 904	2 172	5 606	8 684	-3 078	- 906	47	- 859
Oct	6 815	3 898	2 917	5 382	9 002	-3 620	- 703	- 74	- 777
Nov	6 240	3 388	2 852	7 233	9 361	-2 128	724	- 58	666
Dec	7 649	4 162	3 487	9 631	14 814	-5 183	-1 696	- 215	-1 910
Year	73 203	44 848	28 355	72 118	98 094	-25 976	2 379	-1 661	718

1/ Purchase/sale of foreign currency and gold in exchange for domestic currency. Exchange contracts.

During this process of adjustment, expectations in relation to the external sector of the economy recovered steadily, particularly as of the month of August, registering historical highs in monthly exports, as evident in steadily expanding trade surpluses.

Table 5.2 – Balance of payments

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	2 586	10 535	13 121	10 398	14 426	24 825
Exports	25 052	35 310	60 362	33 002	40 082	73 084
Imports	22 466	24 774	47 240	22 604	25 656	48 260
Services	-2 678	-2 360	-5 038	-2 323	-2 765	-5 088
Credit	4 777	4 829	9 606	5 026	5 517	10 543
Debit	7 455	7 188	14 644	7 349	8 282	15 631
Income	-9 267	-8 924	-18 191	-8 801	-9 751	-18 552
Credit	1 401	1 894	3 295	1 574	1 765	3 339
Debit	10 668	10 818	21 486	10 375	11 516	21 891
Current unilateral transfers (net)	923	1 466	2 390	1 227	1 639	2 867
Credit	1 053	1 573	2 627	1 365	1 767	3 132
Debit	- 130	- 107	- 237	- 138	- 127	- 265
Current account	-8 436	718	-7 718	502	3 550	4 051
Capital and financial account	14 484	-5 628	8 856	9 547	-4 004	5 543
Capital account 1/	175	258	433	209	290	498
Financial account	14 309	-5 886	8 423	9 339	-4 294	5 045
Direct investment (net)	8 608	5 500	14 108	2 844	7 050	9 894
Abroad	-1 033	-1 449	-2 482	- 656	407	- 249
Equity capital	-1 143	-1 258	-2 402	- 675	613	- 62
Intercompany loans	110	- 191	- 81	19	- 206	- 187
In the reporting country	9 641	6 949	16 590	3 500	6 643	10 144
Equity capital	9 125	7 993	17 118	3 315	6 006	9 320
Intercompany loans	516	-1 044	- 528	186	637	823
Portfolio investments	904	-6 023	-5 119	3 901	1 406	5 308
Assets	- 332	11	- 321	- 94	273	179
Equity securities	- 276	- 112	- 389	- 167	- 91	- 258
Debt securities	- 55	123	67	73	363	437
Liabilities	1 236	-6 034	-4 797	3 995	1 134	5 129
Equity securities	2 002	- 21	1 981	639	2 334	2 973
Debt securities	- 765	-6 013	-6 778	3 357	-1 201	2 156
Financial derivatives	- 368	12	- 356	- 71	- 80	- 151
Assets	371	562	933	390	293	683
Liabilities	- 739	- 550	-1 289	- 461	- 373	- 834
Other investments 2/	5 165	-5 375	- 210	2 665	-12 670	-10 006
Assets	- 961	-2 251	-3 211	-1 527	-6 282	-7 809
Liabilities	6 125	-3 124	3 001	4 192	-6 388	-2 196
Errors and omissions	- 680	- 156	- 836	-1 080	- 19	-1 099
Overall balance	5 368	-5 066	302	8 969	- 474	8 496
Memo:						
Current account/GDP (%)	-3.76	0.31	-1.68	0.21	1.39	0.81
Medium and long term amortizations 3/	14 810	16 333	31 143	11 740	15 440	27 180

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.

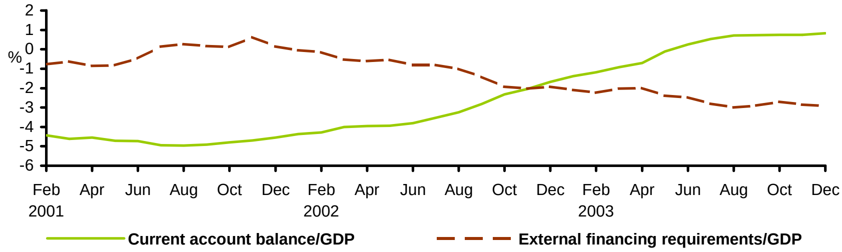
Consolidation of these perceptions created a favorable climate for issues of sovereign bonds with lesser spreads and facilitated the access of resident companies to external resources, making it possible to achieve a rate above 100% – more than double the 2002 mark – in rolling long-term private debts in the year. As a result, the country was targeted for a positive flow of foreign capital and a considerably improved maturity profile.

In the last forty years, balance of payments current accounts turned in positive results just six times, most recently in 1992, with US$6.1 billion. In 2003, this feat was repeated, registering a surplus of 0.82% of GDP, the third highest level in history. This result becomes particularly significant when compared to the deficits of 4.6% and 1.66% of GDP, respectively, in 2001 and 2002. In absolute terms, the negative balances reversed from US$23.2 billion and US$7.7 billion, respectively, to a 2003 surplus of US$4.1 billion. Basically, this result was a consequence of an exceptional trade balance performance. Even with the improved perception of country risk which, over the course of the year, moved toward consolidation, autonomous sources of external financing have reduced their operations since 2002. Thus, the financing of external accounts was completed by the current account balance which, coupled with growth in the rate of external debt rolling, more than offset reductions registered in the inflow of foreign investments to the country.

Graph 5.1

Foreign direct investments and external financing requirements

In 12 months



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

Balance of trade

In 2003, the balance of trade registered a surplus of US$24.8 billion, compared to US$13.1 billion in 2002. Contrary to what occurred in the previous year when import operations declined, the surplus was a result of 21.1% growth in exports coupled with an increase of 2.2% under imports. Thus, export operations accumulated a total of US$73.1 billion and imports closed the year at US$48.3 billion, producing an overall trade flow of US$121.3 billion or 12.8% more than in 2002.

Table 5.3 – Trade balance – FOB

US$ million

Year	Exports	Imports	Balance	Trade flow
2002	60 362	47 240	13 121	107 602
2003	73 084	48 260	24 825	121 344
% change	21.1	2.2		12.8

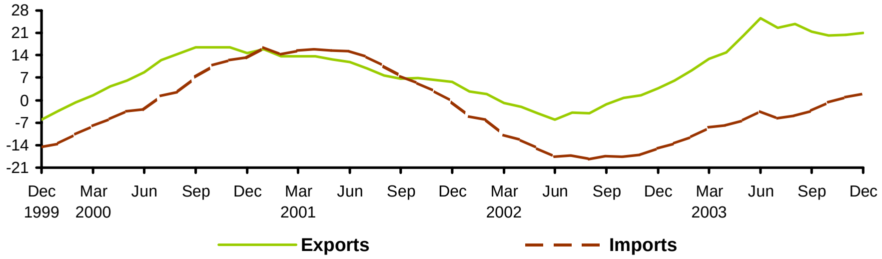
Source: MDIC/Secex

The accumulated year-over-year balance of exports began to expand in the second half of 2002 and continued on this trajectory in the first half of 2003. In the second half of the year, export growth stabilized – albeit at a still intense level – clearly revealing the strength of the country's export sector. Imports also began recovering, though at a lesser pace than exports. The reason for this was the still rather halting performance of the industrial sector, the major source of demand for foreign products.

Graph 5.2

Exports and imports – FOB

Last 12 months (% growth)1/



Source: MDIC/Secex

1/ Over the same period of the previous year.

Among the factors that contributed to the performance of the export sector in 2003, it is important to note an almost total lack of significant internal adversities, such as harvest failures, or external setbacks, of such magnitude as to provoke negative impacts on these operations. Quite to the contrary, several external factors were highly favorable to Brazilian exports. For instance, sales of meat and raw materials for the production of animal feed managed to penetrate new markets, mostly as a consequence of the outbreak of mad cow disease in Europe, while increased exports of commodities were powered by higher prices.

Aside from this, renewed exports to Argentina together with consolidation of the country's position on such markets as China provided important momentum to the nation's efforts to expand foreign sales. In this sense, attention should be given to the export promotion and incentive measures adopted in recent years, since they

Table 5.4 – Trade balance – FOB

Absolute variation in 2003 from 2002

US$ million

Itemization	Argentina	China	Other countries	Total
Exports	**2 219**	**2 012**	**8 491**	**12 722**
1st half	874	1 498	5 578	7 950
2nd half	1 345	514	2 913	4 772
Manufactures	2 055	654	6 916	9 625
1st half	778	368	2 060	3 206
2nd half	1 277	287	4 855	6 419
Other	164	1 358	1 575	3 097
1st half	96	1 131	3 517	4 744
2nd half	68	227	-1 942	-1 647
Imports	**- 70**	**594**	**496**	**1 019**
1st half	- 105	263	- 20	138
2nd half	35	331	515	881
Balance	**2 289**	**1 418**	**7 995**	**11 703**
1st half	980	1 235	5 598	7 813
2nd half	1 310	183	2 398	3 891

Source: MDIC/Secex

have produced significant impacts on sales of nontraditional products, as well as operations with nontraditional markets. Another factor of importance was the effect of exchange depreciation in 2002 on foreign sales decisions, particularly when one considers that, due to the lag between the contracting of exchange and shipment, these impacts were only fully felt in 2003.

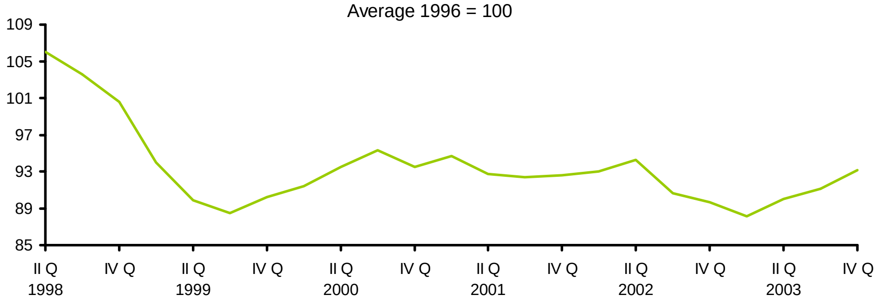
Imports remained relatively stable in 2003, principally in the first half of the year as a consequence of exchange depreciation and the low level of industrial activity. In the second half, imports showed some signs of recovery and accompanied the upturn in the pace of internal activity.

The terms of trade index declined by 1.4% in 2003, when one considers median increases in the prices of imports, 6.1%, and exports, 4.7%, when compared to 2002. Notwithstanding this performance, over the course of the year, there was a tendency toward steady growth in the deseasonalized index, indicating that the growth trajectory of export prices, particularly those involving semimanufactured and basic goods, was more intense than under import prices, which expanded in all of the final use categories, except capital goods.

Graph 5.3

Terms of trade index[1/]

Average 1996 = 100



Source: Funcex

1/ Seasonally adjusted by Banco Central.

The quantum index of Brazilian exports increased by 15.7% in 2003, registering growth of 20.9% under manufactured products, mostly as a result of increased sales to Argentina; 13.9% under basic products, mostly involving sales of soybeans and chicken meat and beef; and 9.7% for semimanufactured goods, particularly cellulose.

Table 5.5 – Exports price and volume indices

change from the same period of the previous year (%)

Itemization	2002		2003	
	Price	Volume	Price	Volume
Total	-4.6	8.6	4.7	15.7
Primary products	-4.1	15.2	10.5	13.1
Semimanufactured goods	-4.5	14.0	11.3	9.7
Manufactured goods	-4.6	5.2	-0.6	20.9

Source: Funcex

Table 5.6 – Exports price and volume indices

change from the same period of the previous year (%)

Itemization	2002		2003	
	Price	Volume	Price	Volume
Total	-3.2	-12.2	6.1	-3.7
Capital goods	-2.7	-18.1	0.0	-17.5
Intermediate goods	-2.0	-11.5	5.1	3.7
Durable consumer goods	-7.8	-32.5	3.6	-17.7
Nondurable consumer goods	-7.2	-1.7	3.0	-3.5
Fuels and lubricants	-6.2	-6.0	21.4	-14.3

Source: Funcex

Imported volume registered a reduction of 3.7% in 2003, following a 2002 decline of 12.2%, with downward movement in all categories, except raw materials and intermediate products. In the latter case, imported volume expanded by 3.7%, mostly as a result of purchases of food products. In the other categories, reductions came to 17.5% in the case of capital goods, 17.7% under consumer durables, 14.3% under fuels and lubricants and 3.5% for nondurable consumer goods.

An analysis of export operations by category of aggregate factor indicates generalized growth of more than 20% in 2003. Exports accumulated over twelve months rose sharply in the period extending from June 2002 to June 2003 for the three categories of aggregate factor. This trajectory was sustained – albeit with less intensity – by sales of manufactured goods, particularly as a consequence of increased shipments to Argentina which offset the lesser pace of growth in sales to the USA. Exports of basic goods and semimanufactured products turned in lesser growth in the second half of 2003.

Table 5.7 – Exports by aggregate factor – FOB

US$ million

Itemization	1999	2000	2001	2002	2003
Total	48 011	55 086	58 223	60 362	73 084
Primary products	11 828	12 562	15 342	16 952	21 179
Industrial products	35 312	41 027	41 144	41 965	50 597
Semimanufactured goods	7 982	8 499	8 243	8 965	10 944
Manufactured goods	27 330	32 528	32 901	33 000	39 653
Special transactions	872	1 497	1 736	1 446	1 308

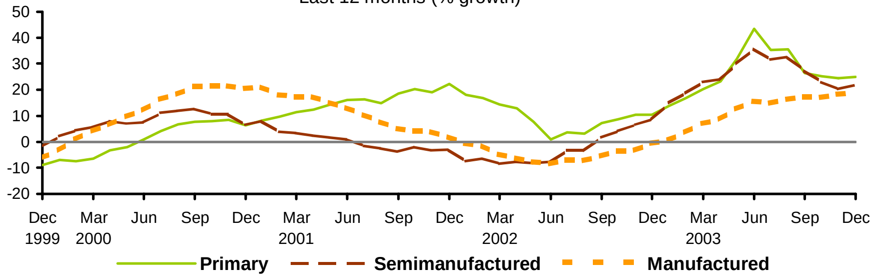
Source: MDIC/Secex

Foreign sales of basic products increased by 24.9% in 2003, reaching a total of US$21.2 billion. Here, particular mention should be made of sales of soybeans, accounting for 20.3% of the total, followed by exports of iron ore, 16.3%; soy meal, 12.3%; petroleum, 10%; chicken meat, 8.1%; coffee beans, 6.1%; beef, 5.5%; tobacco, 5%; and pork, 2.5%. Most of the products in this category registered significant growth in exported value, when compared to 2002, normally as a result of increased prices and volume. Among the major products that registered price growth, particular mention should be made of coffee, 23.5%; petroleum, 20.8%; soybeans, 13.6%; and pork, 10%. As far as volume growth is concerned, the increases were less significant, since 2002 had already closed with sharp upward movement. Among the products that managed to register volume growth, special mention should be made of beef, with a high of 44.1%; soybeans, 24.5%; and chicken meat, 20.1%, particularly as a result of the outbreak of mad cow disease, a phenomenon that impacted output of meats and animal feed. Among other basic products, it is important to stress 29.8% expansion in the volume of exported corn, as a result of increased adoption of animal feeds based on inputs of vegetable origin. The quantity of shrimp exports increased by 52.2%, while foreign sales of cotton rose by 60% and those of marble and granite expanded by 141%. On the other hand, coffee shipment slipped by 11.7%.

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.

With respect to destination, basic products were channeled mostly to the European Union (EU), which absorbed 12.4% of Brazilian sales, with a final total of US$9.1 billion, representing 50.1% of the total acquired by that bloc from Brazil. The major basic products shipped to the EU were soybeans, 25.3% of the total; soy meal, 20.1%; iron ore, 11.7%; coffee, 7.9%; petroleum, 5.7%; beef, 5.4%; and chicken, 4.8%. Special mention should also be made of 349% growth in exports of corn to the EU, a fact that clearly demonstrates that the inputs previously used in animal feed production are being substituted.

Foreign sales of basic products to the markets of Asia totaled US$5.4 billion, for growth of 29.8% compared to 2002, mostly as a result of increased sales to China. This amount represents 7.4% of total exports of basic goods and 46.5% of sales to that bloc. Other factors that should be highlighted were sales of soybeans and iron ore, which accounted for 30.6% and 28.5% of basic goods exports to that continent, in that order, together with sharp growth in exports of marble and granite, 258%; cotton, 177%; soybeans, 57.4%; and soy meal, 30.7%.

Sales of basic products to the USA added up to US$1.4 billion, representing 2% of Brazilian exports and 8.5% of those to the United States. The low level of participation of exports of basic products, when compared to total exports to the United States, reveals the similarities that exist in this category between the exports of the two nations. Foreign sales of petroleum accounted for 24.2% of sales of basic products to that country, followed by coffee, with 17.8%, tobacco in leaf with 13.1%; iron ore, with 8.8%, cashew nuts, with 7.5%, and frozen shrimp and lobster with respective levels of 6.4% and 4.5%. Positive growth was registered under foreign sales of petroleum, with 86.9%, aluminum ore with 77.6%, kaolin and other kaolinic clays, with 79.7%. Significant growth was also registered in sales of fresh grapes, with 246%, and pork and chicken meat, with 222% and 179%, respectively. In the opposite sense, exports of iron ore dropped by 10.2%; while foreign sales of frozen lobster declined by 4.2% and those of soy meal fell by 59.5%.

Table 5.8 – Exports – FOB – Major primary products

% change 2003/2002

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Soybean including grinded	41.5	13.6	24.5	20.3
Iron ore and concentrates	13.4	8.0	5.0	16.3
Oil-cake and other residues from soybeans	18.4	8.9	8.7	12.3
Petroleum oils, crude	25.5	20.8	3.9	10.0
Meat and edible offal of chicken	28.1	6.6	20.1	8.1
Coffee, not roasted	9.0	23.5	- 11.7	6.1
Meat of bovine animals	48.7	3.2	44.1	5.5
Tobacco, unmanufactured; tobacco refuse	7.6	7.4	0.2	5.0
Meat of swine	12.2	10.0	2.0	2.5
Maize, unmilled	40.2	8.0	29.8	1.8
Shrimp, frozen	39.7	- 8.2	52.2	1.2
Kaolin and other kaolinic clays	26.9	- 1.0	28.3	1.0
Cotton, not carded or combed	101.0	25.6	60.0	0.9
Meat and edible offal of turkey	46.4	18.2	23.9	0.7
Cashew nuts	36.1	2.3	33.0	0.7
Aluminum ore and concentrates	33.2	- 4.7	39.7	0.6
Marble and granite	143.5	0.9	141.3	0.5
Guts, bladders and stomachs of animals	39.5	18.6	17.6	0.5
Fishes	9.9	20.2	- 8.6	0.4
Guavas, mangoes, mangosteens	49.0	11.7	33.4	0.4
Other primary products	17.9	-	4.1	5.5

Source: MDIC/Secex

1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentual participation in primary products group total.

Total basic products channeled to the Laia countries came to US$1.1 billion in 2003, with growth of 41.3% in the year. The low level of participation of this category in Brazilian exports to the countries of that bloc was a consequence of the similarities between Brazilian exports and those of the Laia nations, much as occurred in bilateral trade with the United States. Consequently, sales of basic goods to the Laia countries represented 1.4% of total Brazilian foreign sales and 8.2% of the total exported to that bloc. Of the overall total, 81.6% were channeled to Chile, Argentina and Mexico, with respective levels of participation of 38.9%, 31.1% and 11.6% and annual growth rates of 63.4%, 49.1% and 29.9%, in the same order. The major basic products shipped to the Laia countries were petroleum, with 22% of the total; iron ore, with 18.5%; beef, 15.1%; cotton, 6.2%; soybeans, 5%; and pork and coffee, 4.5% in both cases. Special mention should also be made of growth in sales of petroleum, 147%; cotton, 154%; and pork, 180%; coupled with a reduction of 50.9% in exports of soy meal to the Laia countries.

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

US$ million

Product	2002	2003			
	Value	Value	Change from	Share (%)	
			2002 (%)	Total	Blocs
Total	60 362	73 084	21.1	100.0	-
Basic	16 952	21 179	24.9	29.0	-
Semimanufactured	8 965	10 944	22.1	15.0	-
Manufactured	33 000	39 653	20.2	54.3	-
Special transactions	1 446	1 308	-9.5	1.8	-
Laia	9 866	12 920	31.0	17.7	100.0
Basic	749	1 058	41.3	1.4	8.2
Semimanufactured	379	446	17.5	0.6	3.5
Manufactured	8 711	11 384	30.7	15.6	88.1
Special transactions	28	33	18.1	0.0	0.3
Mercosur	3 311	5 672	71.3	7.8	100.0
Basic	278	388	39.4	0.5	6.8
Semimanufactured	155	203	31.0	0.3	3.6
Manufactured	2 863	5 060	76.8	6.9	89.2
Special transactions	16	22	40.9	0.0	0.4
USA	15 535	16 900	8.8	23.1	100.0
Basic	1 142	1 442	26.2	2.0	8.5
Semimanufactured	2 233	2 342	4.9	3.2	13.9
Manufactured	11 753	13 068	11.2	17.9	77.3
Special transactions	406	49	-87.9	0.1	0.3
European Union	15 113	18 102	19.8	24.8	100.0
Basic	7 421	9 077	22.3	12.4	50.1
Semimanufactured	2 210	2 406	8.9	3.3	13.3
Manufactured	5 436	6 571	20.9	9.0	36.3
Special transactions	46	48	5.6	0.1	0.3
Asia	8 791	11 676	32.8	16.0	100.0
Basic	4 180	5 426	29.8	7.4	46.5
Semimanufactured	2 306	3 334	44.6	4.6	28.6
Manufactured	2 289	2 899	26.6	4.0	24.8
Special transactions	16	18	11.5	0.0	0.2
Others	11 056	13 485	22.0	18.5	100.0
Basic	3 459	4 177	20.7	5.7	31.0
Semimanufactured	1 836	2 416	31.5	3.3	17.9
Manufactured	4 811	5 733	19.2	7.8	42.5
Special transactions	950	1 160	22.1	1.6	8.6

Source: MDIC/Secex

Foreign sales of semimanufactured goods totaled US$10.9 billion in 2003, reflecting an increase of 22.1% in the year. The major products in this category were cellulose, 15.9%; iron or steel semimanufactured goods, with 14.8%; raw sugar, with 12.3%; leather and hides, 9.7%; soybean oil, 9.5%; aluminum, 8.3%; sawn or slit wood, 5.9%; and cast iron and Spiegel iron, 5.2%. In all of these products, growth rates were above 10% for the year, with particularly strong performances under sales of cellulose, 50.3%, mostly to the USA and China; and soybean oil, with 54.3%, mostly to Iran and China. Sales of these two products benefited from sharp increases in prices and volumes, with 13.2% and 32.7% for cellulose and 23.5% and 25% for soybean oil, respectively.

The five major countries of destination for Brazilian semimanufactured goods absorbed 50.9% of total exports under this category. Of this total, 21.3% were channeled to the USA, 9.9% to China, 7% to Japan, 6.6% to the Netherlands and 6.2% to Russia.

Table 5.10 – Exports – FOB – Major semimanufactured goods

% change 2003/2002

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Chemical wood pulp	50.3	13.2	32.7	15.9
Iron or nonalloy steel semifinished products	14.8	23.5	-7.0	14.8
Cane sugar, raw	21.5	11.0	9.5	12.3
Hides and skins	10.6	-0.1	10.7	9.7
Soybean oil, crude	54.3	23.5	25.0	9.5
Aluminum, unwrought	11.1	4.1	6.8	8.3
Wood, sawn or chipped lenghtwise	12.3	-1.8	14.4	5.9
Pig iron and spiegeleisen	21.2	19.6	1.3	5.2
Iron alloys	12.4	-4.4	17.5	4.4
Gold, nonmonetary in semimanufactured forms	-6.3	17.1	-20.0	3.0
Aluminum alloys, unwrought	11.2	5.1	5.8	2.0
Synthetic rubber and artificial rubber	34.7	10.5	21.9	1.6
Cocoa butter, fat or oil	32.7	10.1	20.6	0.9
Nickel cathodes	34.0	37.9	-2.9	0.9
Wood in chips or particles	14.5	-2.0	16.9	0.5
Cocoa paste	105.8	35.0	52.5	0.5
Cocoa powder	92.2	35.8	41.6	0.5
Zinc, unwrought	37.1	5.1	30.5	0.5
Cooper cathodes	-45.2	16.8	-53.0	0.4
Wood sheets	-0.9	-15.4	17.2	0.4
Other semimanufactured products	13.7	-	7.1	29.5

Source: MDIC/Secex

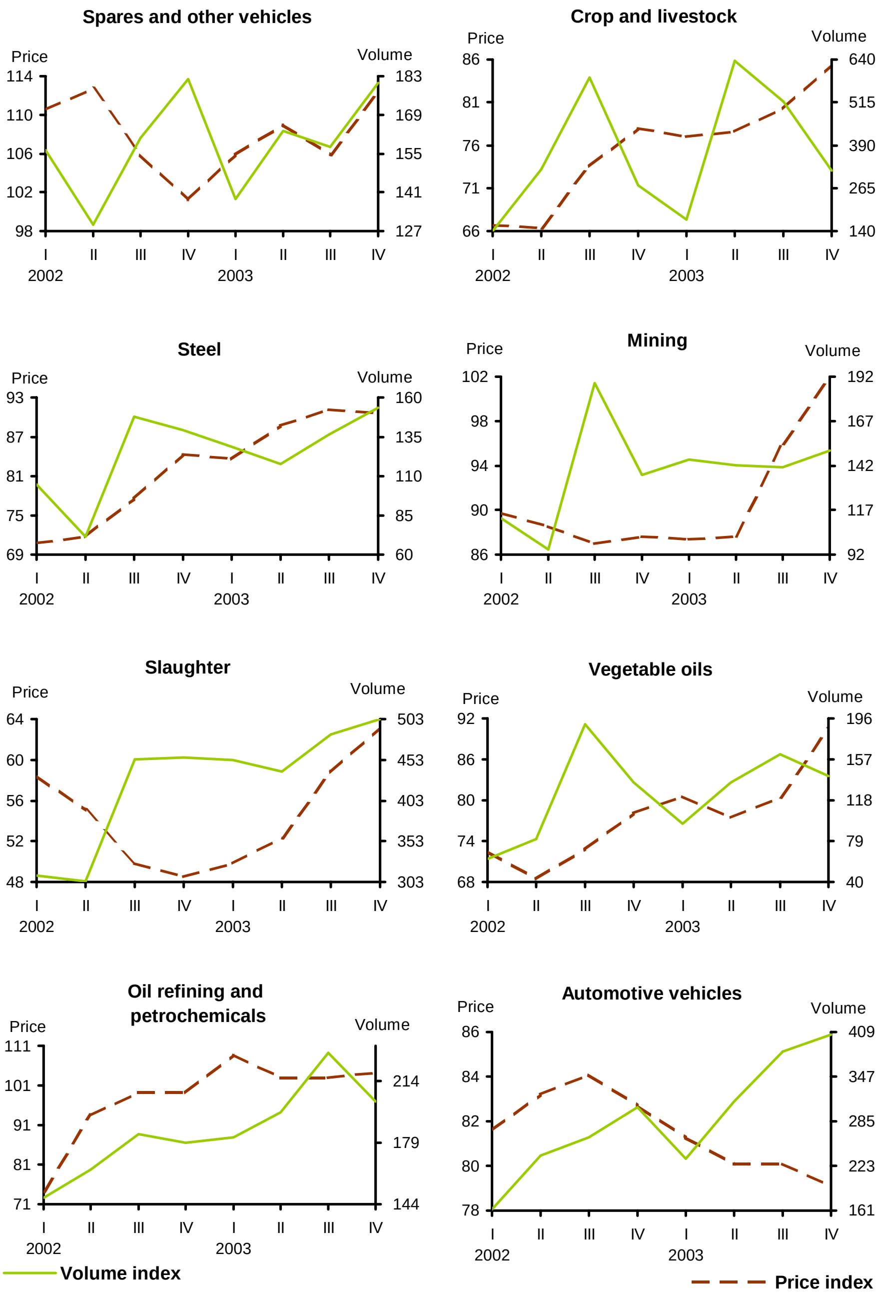
1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentage participation in semimanufactured products group total.

In the case of semimanufactured products, the primary market of destination was the Asian bloc, with US$3.3 billion, representing 4.6% of Brazilian foreign sales and 28.6% of exports to that region, with growth of 44.6% in the year. Among the factors that contributed to this result, the most important was 144% growth in exports to China, the major market of destination for semimanufactured goods in the region, with 32.4% of the total, followed by Japan, with 23%, Taiwan, with 12.4%, South Korea, with 8.8% and Hong Kong, with 6.1%.

Graph 5.5

Quarterly price indices and volume of Brazilian exports

Average of 1996 = 100



Source: Funcex

The major semimanufactured products shipped to Asia were iron or steel semimanufactured goods, accounting for 26.8% of the exports of this category to the Asian continent; cellulose, with 15.1%; soybean oil, with 13.6%; leather and hides, 12.3%; and aluminum, with 12%. Sales of all these products registered significant growth when compared to 2002, particularly in the case of iron and steel semimanufactured products, with 76.7%, and sales of cellulose, with 70.4%.

Foreign sales of semimanufactured products to the EU totaled US$2.4 billion, for growth of 8.9% when viewed against the 2002 level, representing a full 13.3% of those channeled to the region. Sales of cellulose increased by 41.9% in the year and accounted for 28.3% of exports to the region, followed by leather and hides, with 18.1%; aluminum, with 14.4%; sawn wood, 8%; iron alloys, 7.4%; and iron and steel semimanufactured products, 4.7%. Exports of aluminum and iron and steel semimanufactured goods dropped by respective rates of 21.1% and 25.1%, in the year.

The Netherlands acquired 29.8% of the semimanufactured goods absorbed by the EU, followed by Italy, with 21.8% and Belgium-Luxembourg, with 16.7%. It should be noted that exports to the Netherlands increased to US$292 million, for growth of 68.7% and those targeted to Belgium-Luxembourg dropped by US$116 million, or 22.3%.

Purchases of Brazilian semimanufactured goods by the USA totaled US$2.3 billion, for growth of 4.9% in the year. Here, the following exports should be highlighted: cellulose, 18.5% of the total; cast iron and Spiegel iron, 17.4%; iron and steel semimanufactured products, 15%; gold in semimanufactured form, 11.6%; and sawn wood, 8.9%. Exports of cellulose to the USA increased by US$135 million, for 44.9%, and those of iron and steel semimanufactured products dropped by US$161 million, corresponding to a reduction of 31.5% in the year.

The Laia countries acquired a total of US$446 million in Brazilian semimanufactured products, representing 0.6% of total Brazilian foreign sales. Argentina received 36% of the total targeted to the bloc, followed by Mexico, with 27%, Uruguay, 8.3%, and Ecuador, 7.7%. Sales to Argentina and Ecuador expanded by 49.5% and 70%, respectively, in the year. For the most part, the bloc received iron and steel semimanufactured products, 26.1%; synthetic and artificial rubber, 11.4%; iron alloys, with 10.4%; and leather and hides, 8.5%.

In the year, foreign sales of manufactured goods came to US$39.7 billion, 20.2% more than in 2002, corresponding to 54.3% of the country's external sales. Among the major exported products under this heading, those generated by the automotive industry benefited from agreements with Mexico and Argentina and from the ongoing process of economic recovery. Consequently, exports of automotive vehicles represented 6.7% of overall sales of manufactured goods, registering growth of 32.4% compared to 2002. It is important to note that this expansion was achieved despite a 5.5% reduction in prices in the period. At the same time, sales of vehicle engines expanded by 24.9%; auto parts by 28.4% and cargo vehicles by 56.8%.

Foreign sales of aircraft, the second most important item on the list of exports of manufactured goods, declined by 17%, mainly as a consequence of rather sluggish recovery in the international aviation sector following the September 11, 2001 terrorist attack, a situation that was even further aggravated in 2003 by the only moderate pace of growth in the major economies, war in the Middle East, and the spread of the severe acute respiratory syndrome (Sars).

With regard to the third most important item among manufactured goods – transmission and reception equipment – this heading accounted for 4.2% of sales under this category. The 6% reduction in the value of these exports reflected an increase of 14.7% in volume exported and a falloff of 18% under prices. Foreign sales of footwear expanded by 7% in the year, with growth of 9% under volume and a price drop of 1.8%. Two other important manufactured products registered sharp growth in both the volume of exports and prices, with 49.7% and 15.9% under flat rolled steel, and 27.7% and 26.5% under fuel oils (diesel, fuel oil, etc.).

The USA is the major importer of Brazilian manufactured goods, with a total of US$13.1 billion, representing a full 33% of Brazilian foreign sales in this category and 77.3% of overall exports to the United States. The major product shipped to the American market was aircraft, with 12.9% of the total, despite a reduction of 23.3% in relation to the 2002 result. The second most important product was transmission and reception equipment, with 9.1%, followed by footwear, with 7.7%; fuel oils, 6.4%; automobile vehicle engines, with 18.2%; automobiles, with 4.2% and auto parts, 3.7%.

The second most important destination for Brazilian exports were the Laia countries, with US$11.4 billion, equivalent to 15.6% of total Brazilian foreign sales. This total represented 88.1% of exports to that bloc and was driven by foreign sales of automobiles and other items related to the automotive industry – auto parts, cargo vehicles, tires, tractors, chassis with engines and vehicle bodies and engines – which, taken together, represented 32.8% of exports to Laia. Furthermore, one should also note exports of transmission and reception equipment, corresponding to 2.9% of the total absorbed by the bloc, flat rolled steel, with 2.8% and polymers, with 2.5%. The major countries of destination for Brazilian manufactured goods in the Laia framework were Argentina, 35.7%, Mexico, with 21.9% and Chile, with 12.6%.

The countries of the EU imported manufactured goods worth US$6.6 billion, corresponding to 9% of total Brazilian exports. This amount represented growth of 20.9%, compared to 2002, and 36.3% of total exports to that bloc. The major products were automobile engines, accounting for 9.3%; orange juice, 8.4%; fruit juices and vegetables, 4.3%; plywood, 3.9%; furniture, 3.8%; footwear, 3.6%; flat rolled steel, 3.3%; and auto parts, 3.2%.

Table 5.11 – Exports – FOB – Major manufactured goods

% change 2003/2002

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Passenger motor vehicles	32.4	-5.5	40.1	6.7
Airplanes	-17.0	-1.6	-15.7	4.9
Transmission and reception apparatus, and components	-6.0	-18.0	14.7	4.2
Passenger motor vehicles engines and parts thereof	24.9	6.5	17.2	4.2
Footwear, parts and components	7.0	-1.8	9.0	4.1
Parts and acessories for motor cars and tractors	28.4	4.9	22.5	3.8
Iron or nonalloy steel flat-rolled products	73.5	15.9	49.7	3.6
Fuel oils	61.6	26.5	27.7	2.5
Orange juice, frozen	4.7	-0.4	5.1	2.3
Pumps, compressors, fans and others	14.1	5.5	8.2	2.0
Cane sugar, refined	-19.6	0.9	-20.3	2.0
Motor vehicles for the transport of goods	56.8	5.4	48.8	1.7
Furniture and parts thereof, except for medical-surgical use	24.6	-5.2	31.5	1.7
Pneumatic rubber tires	25.6	-0.4	26.2	1.6
Plywood and similar laminated wood	34.5	6.4	26.4	1.5
Gasoline	4.6	28.4	-18.6	1.4
Paper and paperboard used for writing, printing etc.	21.1	-3.7	25.6	1.4
Polymer of ethylene, prophylene and sthyrene	59.2	16.2	37.1	1.3
Electric motors, generators and transformers; parts thereof	13.6	-10.9	27.5	1.3
Iron and steel bars and rods	83.3	5.3	74.0	1.2
Tractors	69.3	-9.8	87.7	1.2
Chassis fitted with engines and bodies for motor vehicles	24.4	2.4	21.4	1.2
Civil engineering and contractors' plant and equipment	27.3	-14.0	47.9	1.2
Gears and gearing; ball screws; gear boxes, etc; parts thereof	20.4	-7.3	29.8	0.9
Juices of fruit (other than orange) and vegetables	49.7	-4.6	56.8	0.9
Prepared meals of the meat of bovine animals	13.3	4.2	8.8	0.9
Aluminum oxide and aluminum hydroxide	85.1	14.4	61.8	0.8
Linens for the bed, table, toilet and kitchen	15.8	-8.7	26.8	0.8
Agricultural machinery (excluding tractors) and parts thereof	126.0	16.1	94.6	0.7
Aluminum bars, profile, rods, plates and sheets	52.4	1.2	50.7	0.7
Other manufactured products		-	17.3	44.3

Source: MDIC/Secex

1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentage participation in manufactured products group total.

The principal countries of destination were Germany, which received 18.3% of manufactured products exported to the EU, the Netherlands, with 17.3%, the United Kingdom, with 15.4%, Belgium-Luxembourg, with 12.5%, and Italy, with 11.7%. Among the EU countries, the only one to register a reduction in imports of manufactured goods from Brazil was Greece, with a falloff of 33.8% in 2003, while the most significant expansion was registered in exports to Germany, 23.8%, and the Netherlands, with 32.9%.

Though the participation of the countries of Asia in Brazilian exports of manufactured goods was just 7.3%, or 4% of overall Brazilian foreign sales, this heading registered strong growth of 26.6% in the year and closed at US$2.9 billion. Sales of flat rolled steel, which increased by 189% in the year, corresponded to 22.2% of total exports of manufactured products to that region of the world. Basically, this figure was generated by exports to China, which accounted for a full 71.2% of total foreign sales of flat rolled steel to the region, with growth of 384% in the period. The next most important grouping was that of auto parts, with participation of 6.3%; automobile engines, 4.9%; orange juice, with 4.4%; fuel oils, with 4%; and refined soybean oil, with 2.4%.

China was the destination for 40.7% of the manufactured goods absorbed by Asia, while the participation of Japan, South Korea and Singapore in the bloc's overall imports came to 14.3%, 10.2% and 7.1%, in that order. Purchases from China increased by 125% in the year, while those effected by Japan dropped by 11.1%.

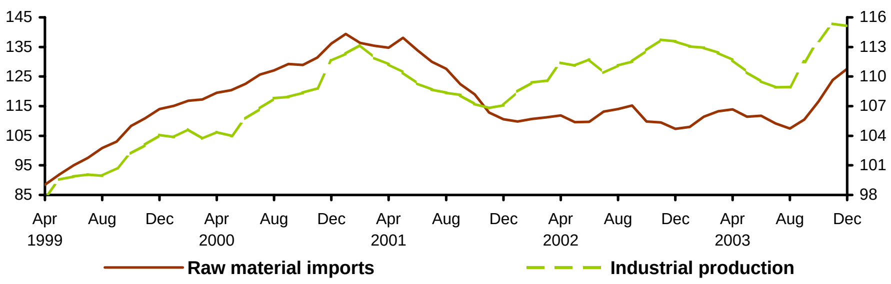
Special operations, defined as those that are difficult to classify within other categories, include such operations are onboard consumption and re-exports. In the year under consideration, these operations declined by 9.5% and closed at a total of US$1.3 billion. Basically, the reduction was due to a cutback in re-export operations, since returns of leased aircraft in 2003 came to just US$16 million, compared to US$360 million in 2002. The supply of oils and fuels for onboard consumption represented 85.7% of special operations, with growth of 19.7% in comparison to 2002.

Broken down by final use categories, imports of raw materials and intermediate goods in 2003 expanded by 10% and closed at US$25.8 billion. The increase was more intense in the final quarter of 2003, suggesting continued recovery in industrial output in the following months. As a matter of fact, analysis of the moveable three month median of imported volume under this category of products indicates recovery of a positive correlation with the moveable three month median of industrial production.

Graph 5.6

Raw material imports x industrial production

Seasonally adjusted indices – 3 month moving average



Source: IBGE and Funcex

The major imported products in this category were chemicals and pharmaceuticals, with participation of 29.2% of the total; intermediate products – parts and spares, 16.1%; transportation equipment accessories, 14.4%; and mineral products, 13.8%. With the exception of transportation equipment accessories, these products registered strong upward price movement in 2003. Consequently, the quantities imported either declined, as occurred under chemical and pharmaceutical products and intermediate products-parts and spares, or increased slightly. One should also note growth of 40.8% in imports of food products, which registered a volume increase of 25.1% and price growth of 12.5%. The performance of this group was evident in expanded imports of wheat, 15%; rice, 163%; and soybeans, 32.4%.

Raw materials and intermediate products originated principally in the EU, which accounted for 27% or US$7 billion, corresponding to 54.8% of imports from the European Union. Among the most important items imported from this block were chemical and pharmaceutical instruments, which accounted for 30.1% of the total, transportation equipment accessories, with 22.1%, and intermediate products-parts and spares, with 12.3%. The principal supplier countries under these headings were Germany, with 33.3% of the total; France, with 15.5%; Italy, with 11.4%; the United Kingdom, with 9.7% and Spain, with 9.1%.

The United States supplied 22.3% of Brazilian imports of raw materials, totaling US$5.7 billion, which was equivalent to 59% of total imports from that country. Just as occurred in relation to the EU, the three major products imported from the USA under this category were chemical and pharmaceutical goods, transportation equipment accessories and intermediate products-parts and spares, with respective participation levels of 36.6%, 17.5% and 16.7%. Mention should also be made of 45.4% growth in imports of other raw materials for the farm sector, particularly insecticides, fertilizers and urea, as demand for these goods expanded with development of the Brazilian farm sector.

The Laia countries supplied 20.3% of total raw materials imported by Brazil with a total amount of US$5.2 billion, for growth of 18% when compared to 2002. This result represented 64% of total imports from the region. Among the most important items, mention should be made of food products, with 29.3% of the total, particularly wheat; mineral products, with 24.5%, mainly consisting of naphtha; and chemical and pharmaceutical goods, with 19.8%. The major suppliers of raw materials among the Laia countries were Argentina, with 57%, mostly including wheat and naphtha; Chile, 13% and Paraguay, with 8.4%.

Imports of raw materials and intermediate goods from Asia added up to US$4.5 billion, or 17.5% of the total of this product category and 50.4% of the bloc's total imports. This value corresponded to growth of 13.9% compared to 2002. In this case, the most important purchases involved intermediate products-parts and spares, 44.5% of the region's total, and were driven by imports of electronic components; chemical and pharmaceutical products, 24%; nonfood farm products, 10.2%; and transportation equipment accessories, 9.9%. The major suppliers of raw materials in the region were Japan, with 28.7% of the total; China, with 17.8%; South Korea, 14.4%; and Taiwan, with 8.3%.

External purchases of capital goods totaled US$10.3 billion, 21.4% of total imports. Though these outlays dropped by 11.1% compared to 2002, this heading was still the second largest amount among the various use categories. The low level of industrial activity coupled with exchange depreciation in 2002 were the major factors underlying the behavior of this use category.

Among the major products in this category, the most important were industrial machinery, accounting for approximately one third of the total, with a reduction of 16.7% in quantity, the sharpest drop among the items included in this final use category, and 5.8% under prices; office machines and apparatuses, scientific services, with participation of 20.4% and a reduction of 7.2% under volume and growth of 0.6% under prices; parts and spares for industrial capital goods, 11.7%, with a drop of 2.6% in volume and 3.2% expansion in prices; and accessories for industrial machinery, 8.8%, with decreases of 5.6% in volume and 1.2% in prices.

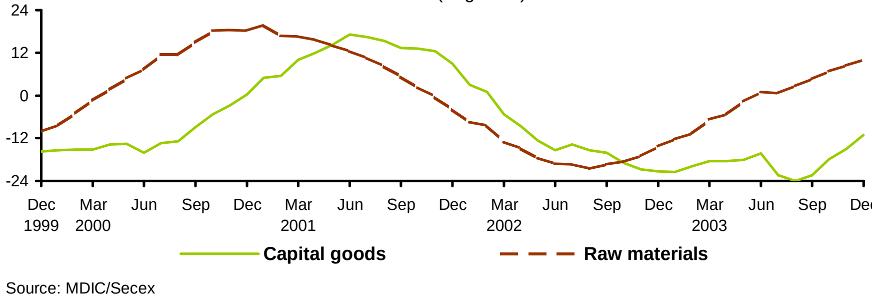
Imports of capital goods originating in the EU came to 3.6 billion, equivalent to 35% of total imports under this use category and 28.5% of the total imported from the EU. The reduction of 15.5% registered under these imports was the item most responsible for the 3.4% reduction in total acquisitions from the EU. The major items imported from the EU in this category were industrial machinery, office machines and apparatuses, scientific services and parts and spares for capital goods for the industrial sector. Purchases of industrial machinery declined by 27.4% in the year.

Even though it exported US$303 million less than in 2002, Germany was the bloc's major supplier of capital goods, with 38.1% of the total, followed by Italy, with 18.4%, and France, with 10.4%. It is important to note the generalized falloff in imports of capital goods from specific EU countries.

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 capital goods from the USA totaled US$2.9 billion, for a reduction of 20.8% in the year. This total represented 28.3% of total imports under this use category and 30.1% of the total imported from the United States. The principal items acquired were industrial machinery, accounting for 32.7%; office machines and apparatuses, scientific service, 25.2%; capital goods linked to the production of transmission and reception apparatuses, telecommunications and electronic products, with 14.6%, when viewed as a whole; and parts and spares for industrial capital goods, 10.9%.

Imports of capital goods from Asia closed at US$2.6 billion, a level equivalent to 24.9% of imports classified under this heading and to 28.8% of those originating on that continent, representing an increase of 18.3% compared to 2002. The highlights were purchases of electronic components related to the production of transmission and reception apparatuses and printed circuits which, taken together, expanded by 56.8% in the year, and represented 31.2% of purchases of capital goods to the region. The following positions were occupied by imports of industrial machinery, with participation of 26.4%, and office machines and apparatuses, scientific service, 24.9%.

The major capital goods supplier countries in the bloc were Japan, 36.1% of the total; China, with 21.7% and growth of 52.2% in the year; South Korea, 13.2%; Taiwan, 8.7%; and Singapore, 7.4%. Contrary to the tendencies registered in the EU and USA, imports of capital goods from the major Asian nations increased in 2003.

Table 5.12 – Imports – FOB

US$ million

Itemization	1999	2000	2001	2002	2003
Total	49 295	55 839	55 572	47 240	48 260
Capital goods	13 577	13 605	14 808	11 643	10 348
Raw materials and intermed.prod.	24 059	28 432	27 340	23 447	25 797
Consumer goods	7 401	7 442	7 148	5 910	5 538
Durable	3 183	3 450	3 516	2 509	2 417
Nondurable	4 218	3 993	3 631	3 400	3 121
Fuels and lubricants	4 258	6 358	6 276	6 240	6 577

Source: MDIC/Secex

Imports of capital goods from the Laia countries added up to US$488 million, with a reduction of 28.8% in the year. This total was equivalent to 4.7% of Brazilian purchases of capital goods and to 6% of the value exported to Brazil by the countries of the region. Imports of moveable transportation equipment came to 45.1% of the total, principally as a consequence of automotive agreements with Argentina and Mexico. These two countries registered the highest levels of participation in the bloc, with respective results of 80.2% and 15.8%.

Table 5.13 – Imports – FOB – Major products

% change 2003/2002

Products	Value	Price 1/	Weight 2/	Participation 3/
Capital goods				100.0
Industrial machinery	-21.6	-5.8	-16.7	33.1
Machines and apparat. for office and scientific destination	-6.6	0.6	-7.2	20.4
Capital goods parts and components	0.6	3.2	-2.6	11.7
Industrial machinery accessories	-6.7	-1.2	-5.6	8.8
Transportation movable equipment	-26.8	-38.8	19.7	4.3
Tools	6.6	3.8	2.7	1.7
Other capital goods	0.2	-73.7	280.7	20.1
Intermediate products and raw material				100.0
Chemical and pharmaceutical products	3.3	9.1	-5.4	29.2
Intermediate products - parts	9.8	16.2	-5.6	16.1
Accessories for transport equipment	3.9	1.6	2.2	14.4
Mineral products	16.7	13.9	2.5	13.8
Foodstuffs	40.8	12.5	25.1	8.8
Other raw materials for farming	20.1	11.7	7.5	7.8
Inedible farm products	5.7	-1.3	7.1	6.6
Other raw materials and intermediate products	0.5	-24.3	32.9	3.3
Nondurable consumer goods				100.0
Pharmaceutical products	3.0	7.4	-4.1	40.0
Foodstuffs	-14.8	-13.0	-2.1	29.6
Perfumery, cosmetics, or toilet preparations	6.9	2.5	4.3	6.3
Tobacco and beverage	-3.0	11.6	-13.0	5.1
Apparel and other textiles clothing	-14.7	-5.0	-10.2	3.7
Other nondurable consumer goods	-22.9	-13.6	-10.7	15.3
Durable consumer goods				100.0
Passenger motor vehicles	-17.8	6.1	-22.5	28.4
Articles for personal use or adornment	4.4	0.3	4.1	29.5
Machines and appliances for household use	-0.3	-7.5	7.8	17.0
Durable consumer goods parts	18.7	18.5	0.1	16.2
Furniture and other household equipment	-11.0	-10.3	-0.8	5.7
Other durable consumer goods	-17.8	-20.7	3.6	3.3
Fuels and lubricants				100.0
Fuels	5.2	9.2	-3.7	98.0
Lubricants	17.8	28.3	-8.2	2.0

Source: MDIC/Secex

1/ Percentage change of the unit value in US$/kg terms.
2/ Percentage change of weight in kilograms.
3/ Percentage participation in each end-use category total.

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

US$ million

Product	2002	2003			
	Value	Value	Change from	Share (%)	
			2002 (%)	Total	Blocs
Total	47 240	48 260	2.2	100.0	-
Capital goods	11 643	10 348	-11.1	21.4	-
Raw material and intermediate goods	23 447	25 797	10.0	53.5	-
Nondurable consumer goods	3 400	3 121	-8.2	6.5	-
Durable consumer goods	2 509	2 417	-3.7	5.0	-
Fuels and lubricants	6 240	6 577	5.4	13.6	-
Laia	8 224	8 186	-0.5	17.0	100.0
Capital goods	686	488	-28.8	4.7	6.0
Raw material and intermediate goods	4 438	5 237	18.0	20.3	64.0
Nondurable consumer goods	1 012	873	-13.7	28.0	10.7
Durable consumer goods	544	376	-30.9	15.6	4.6
Fuels and lubricants	1 545	1 212	-21.6	18.4	14.8
Mercosul	5 611	5 686	1.3	11.8	100.0
Capital goods	532	397	-25.4	3.8	7.0
Raw material and intermediate goods	3 225	3 795	17.7	14.7	66.7
Nondurable consumer goods	746	651	-12.7	20.9	11.5
Durable consumer goods	451	309	-31.5	12.8	5.4
Fuels and lubricants	656	534	-18.7	8.1	9.4
USA[1/]	10 438	9 725	-6.8	20.2	100.0
Capital goods	3 696	2 926	-20.8	28.3	30.1
Raw material and intermediate goods	5 488	5 740	4.6	22.3	59.0
Nondurable consumer goods	636	531	-16.6	17.0	5.5
Durable consumer goods	327	300	-8.1	12.4	3.1
Fuels and lubricants	291	227	-22.0	3.5	2.3
European Union	13 136	12 687	-3.4	26.3	100.0
Capital goods	4 283	3 619	-15.5	35.0	28.5
Raw material and intermediate goods	6 881	6 954	1.1	27.0	54.8
Nondurable consumer goods	1 000	983	-1.7	31.5	7.7
Durable consumer goods	671	740	10.2	30.6	5.8
Fuels and lubricants	300	391	30.3	5.9	3.1
Asia	7 996	8 923	11.6	18.5	100.0
Capital goods	2 174	2 572	18.3	24.9	28.8
Raw material and intermediate goods	3 952	4 502	13.9	17.5	50.4
Nondurable consumer goods	387	374	-3.5	12.0	4.2
Durable consumer goods	850	865	1.9	35.8	9.7
Fuels and lubricants	634	611	-3.7	9.3	6.8
Others	7 446	8 739	17.4	18.1	100.0
Capital goods	805	742	-7.7	7.2	8.5
Raw material and intermediate goods	2 689	3 364	25.1	13.0	38.5
Nondurable consumer goods	365	361	-1.4	11.6	4.1
Durable consumer goods	117	135	15.4	5.6	1.5
Fuels and lubricants	3 470	4 137	19.2	62.9	47.3

Source: MDIC/Secex

1/ Includes Puerto Rico.

Foreign purchases of fuels and lubricants added up to US$6.6 billion, for an increase of 5.4% compared to 2002, principally as a result of increases of approximately 15% in petroleum prices, when the average 2003 prices are compared to those of 2002. This use category represented 13.6% of the total imported in 2003, while fuels were responsible for 98% of imports under this heading, including crude oil which accounted for 58.6%.

The importance of petroleum in the grouping explains the broad distribution of suppliers, with the countries of Africa supplying 36.4% of the total. Here, one should highlight the performance of Nigeria, the largest seller of the product. The countries of the Middle East occupied the next position, with 19.1%, followed by the Laia nations, with 18.4%. The major supplier of petroleum in the region was Argentina, followed by Bolivia, which played a standout role in the supply of natural gas.

Imports of nondurable consumer goods added up to US$3.1 billion, or 6.5% of the total imported in 2003, closing the year with a reduction of 8.2%. Pharmaceutical products represented 40% of the total, with a reduction of 4.1% in volume and 7.4% growth in prices. The next positions were occupied by food products, with 29.6% participation and reductions of 13% under prices and 2.1% in volume.

A full 31.5% of the imports classified under this use category originated in the EU, 28% in the Laia countries, of which 20.9% originated in Mercosul; 12.4% in the USA; 12% in Asia and 11.6% from other countries.

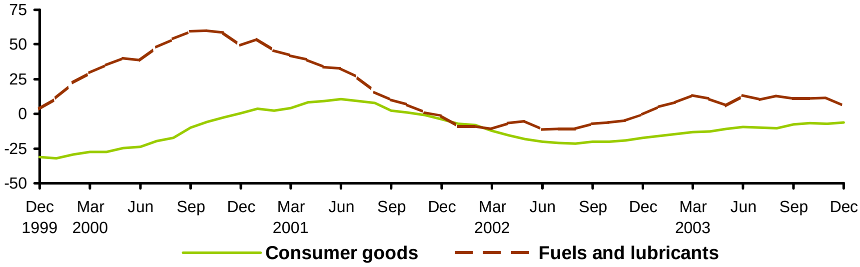
Purchases of consumer durables dropped by 3.7% in 2003, closing with US$2.4 billion, equivalent to 5% of Brazilian imports in the year. The highlights were imports of objects of adornment and personal use and other objects, which accounted for 29.5% of the total, with growth of 4.1% in volume and 0.3% under prices. The participation of imports of passenger automobiles in this category increased by 28.4%, while the participation of home machines and apparatuses came to 17% and parts for consumer durables closed at 16.2%.

A breakdown of total imports of consumer durables indicates that 35.8% originated in Asia, with 13.8% in China and 8.6% in Japan. The EU was the origin of 30.6% of the imported consumer durables in 2003, of which 14.2% came from Germany, with growth of 10.2% in the year. Purchases of consumer durables from the Laia countries dropped by 30.9%, corresponding to 15.6% of the imports under this category. This result pointed to reductions of 34% and 27.8% in imports from Argentina and Mexico, respectively. Imports of consumer durables from the United States dropped by 8.1% in the year, corresponding to 12.4% of the heading’s total.

Graph 5.8

Brazilian imports by use category – FOB

Last 12 months (% growth)1/



Source: MDIC/Secex

1/ Over the same period of the previous year.

Trade exchanges

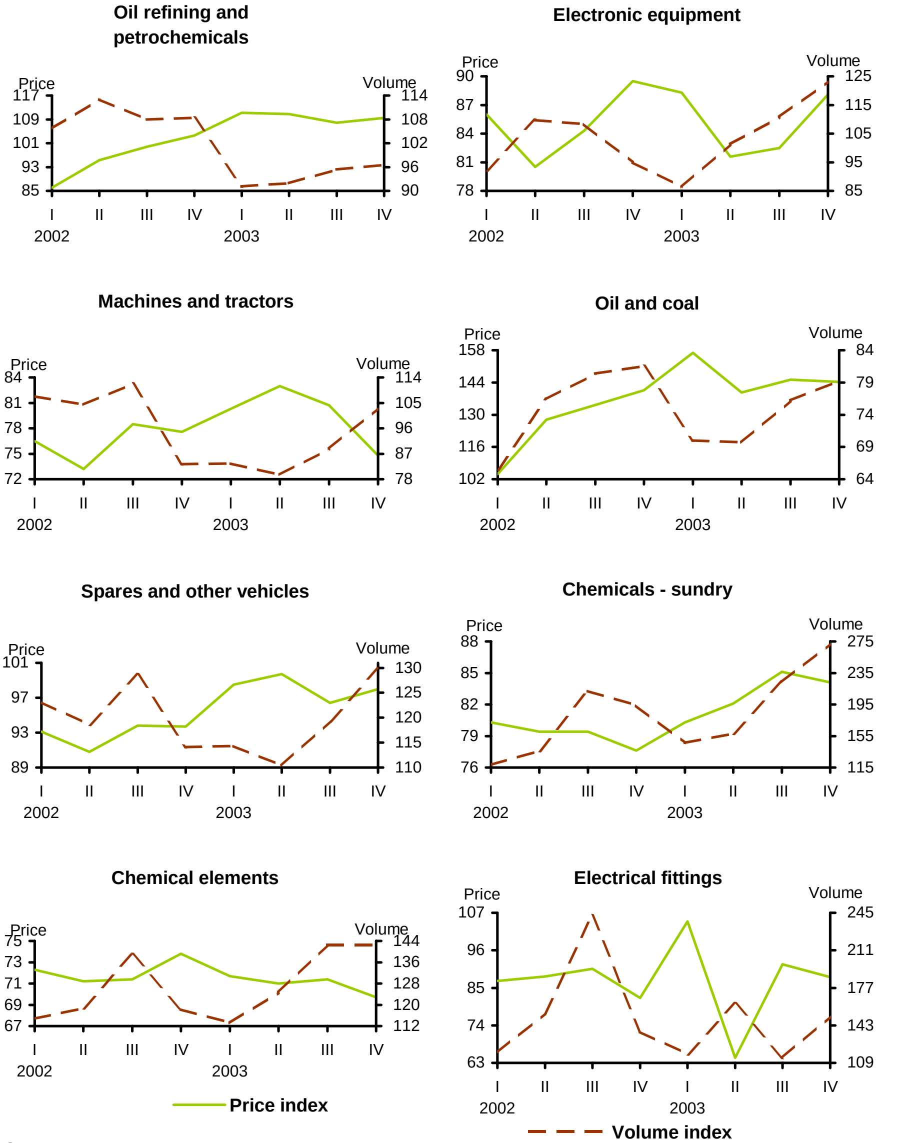
Brazilian trade exchanges improved considerably in 2003, as evinced by expanded trade surpluses with a significant number of the country's major trading partners and blocs, as well as by reductions in traditional bilateral results with a number of partners. Basically, this performance was due to growth in the volume and prices of exports, in contrast to what occurred in the previous year when the positive balances resulted from cutbacks in imports. Thus, from the qualitative point of view, one can conclude that the result of the country's trade exchanges in the current year represented improvement over the 2002 result.

The largest absolute increase in the Brazilian trade balance occurred in trade with the EU member countries, with US$3.4 billion, based on expansion of 19.8% under exports and a reduction of 3.4% under imports. Among the various EU member countries, the Netherlands were the major destination for Brazilian exports, while Germany accounted for the largest share of Brazilian imports as well as for the largest volume of overall trade exchanges. The products most commonly exported to the Netherlands were soybeans, soy meal, cellulose, fruit juices, unrefined aluminum, chicken meat and beef. With respect to the products imported from the Netherlands, the most important were fuel oils, medicines for human and veterinary use, ethylene, propylene and styrene polymers. It is important to note that trade exchanges with the Netherlands generated the largest Brazilian trade surplus in operations with the region, with a total of US$3.7 billion. As far as trade with Germany is concerned, one should stress sales of soybeans, iron ore, unprocessed coffee beans, automotive vehicle engines and their parts, soy meal and chicken meat. With respect to imports, the most important purchases were registered under parts and spares for automotive vehicles and tractors, measuring and verification instruments and apparatuses, passenger cars, engines for automotive vehicles and their parts, ball bearings and gears, their parts and spares.

Graph 5.9

Quarterly price indices and volume of Brazilian imports

Average of 1996 = 100



Source: Funcex

Also with regard to the EU, significant sales were made to Italy, the United Kingdom, Belgium-Luxembourg, Spain and France, with a particularly strong performance under such basic products as soybeans, soy meal, iron ore, unprocessed coffee beans, beef and chicken meat. In the case of imports, the most important were

Table 5.15 – Brazilian trade by region – FOB

US$ million

Itemization	2002			2003		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	60 362	47 240	13 121	73 084	48 260	24 825
EFTA[1/]	618	1 118	- 499	617	1 209	- 592
Laia	9 866	8 224	1 642	12 920	8 186	4 734
Mercosur	3 311	5 611	-2 300	5 672	5 686	- 14
Argentina	2 342	4 743	-2 401	4 561	4 673	- 112
Paraguay	558	383	175	707	475	232
Uruguay	410	485	- 74	404	538	- 134
Chile	1 461	649	812	1 880	798	1 083
Mexico	2 342	580	1 762	2 741	533	2 208
Others	2 752	1 384	1 368	2 627	1 169	1 457
Canada	782	740	41	978	749	228
European Union	15 113	13 136	1 978	18 102	12 687	5 415
Germany	2 537	4 419	-1 883	3 136	4 205	-1 070
Belgium/Luxembourg	1 892	546	1 346	1 795	515	1 281
Spain	1 120	975	145	1 552	974	578
France	1 525	1 777	- 252	1 715	1 768	- 52
Italy	1 817	1 762	55	2 208	1 757	450
Netherlands	3 182	535	2 647	4 246	509	3 737
United Kingdom	1 769	1 345	424	1 899	1 202	696
Others	1 272	1 776	- 504	1 552	1 757	- 205
Central and Eastern Europe[2/]	1 755	919	836	2 271	1 165	1 106
Asia[3/]	8 791	7 996	795	11 676	8 923	2 753
Japan	2 098	2 348	- 250	2 311	2 521	- 210
China	2 520	1 554	966	4 533	2 148	2 385
Korea, Republic of	852	1 067	- 214	1 223	1 079	144
Others	3 320	3 028	292	3 610	3 176	434
USA[4/]	15 535	10 438	5 097	16 900	9 725	7 176
Others	7 901	4 669	3 232	9 621	5 616	4 005
Memo:						
Nafta	18 659	11 759	6 900	20 619	11 007	9 612
Opec	3 536	4 132	- 596	3 844	4 509	- 665

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 the Middle East.
4/ Includes Puerto Rico.

medicines for human and veterinary use, parts and spares for aircraft, helicopters and other types of aircraft, heterocyclic compounds, their salts and sulfonamides; engines for automotive vehicles and their parts and unprocessed petroleum.

Trade exchanges with the United States turned in highly distinct performances when imports (reduction of 6.8%) are compared to exports (growth of 8.8%), resulting in 40.8% growth in the trade surplus. The major Brazilian products exported to the United States were aircraft, with a reduction of 8.4%, consequent upon the downturn in the activities of this sector following the terrorist attack in that country; transmission or reception apparatuses and components, with a reduction of 8.5%; footwear, which also registered a 2.7% reduction; and fuel oils and automotive vehicle engines and their parts, with increases of 138% and 18.3%, respectively. Imports of the major products originating in the United States declined in 2003, registering falloffs of 9.1% under aircraft engines and turbines and their parts; 42.5% under engines, generators and electric transformers and their parts; 2.7% under measurement and verification instruments and apparatuses; and 14.6% in the case of integrated circuits and electric microcircuit boards.

The balance of trade with the Laia member countries increased by 188%, basically as a consequence of 30.9% growth in Brazilian exports, while imports remained at about the same level as 2002. For the most part, this result was due to a sharp reduction in the deficit with Mercosul partners, particularly Argentina, and to the results of trade preference and automotive agreements with Mexico and Chile.

Though there was a small deficit in trade with the Mercosul partner countries, it is important to stress that a sharp reduction was registered in the negative 2002 trade balance result, which fell from US$2.3 billion to just US$14 million in the current year. This shift reflected recovery of the Argentine economy, making it possible to increase exports to that country by 94.7%, to a total of US$4.6 billion. Brazilian imports from the Argentine market dropped by 1.5% to a level of US$4.7 billion. The major products imported from Argentina were wheat in grain, with growth of 19.5%; naphthas, with growth of 66.7%; passenger cars, with a falloff of 38.1%; cargo vehicles, with a reduction of 28.7%; parts and spares for automotive vehicles and tractors, for an increase of 4.2%; crude oil, with a reduction of 49.5%, corresponding to the largest cutback among all of the major imported products. Expressive growth was registered in exports to Argentina, with particularly strong performances under passenger cars, with growth of 300%; cargo vehicles, with 274%; parts and spares for automotive vehicles and tractors, 20.2%; ethylene, propylene and styrene polymers, 95.5%; iron ore and concentrates, 31%; tractors, 889%; transmission or reception apparatuses and components, with 382%; and tires, 120%.

The trade surplus with Chile expanded by 33.3% in 2003, registering growth of 28.7% under exports and 23% under imports. The most significant exports occurred under crude oil, with growth of 165%; beef, 41.5%; chassis with engines and bodies for automotive vehicles, 36.2%; cargo vehicles, 41.2%; and passenger cars, with 74.4%. With regard to imports from Chile, the most important were those involving copper cathodes and their elements, copper ore and concentrates, acyclic alcohols and their halogenated derivatives and potassium sodium nitrate, all of which registered strong growth in the period under analysis.

Trade exchanges with Mexico registered an increase of 25.3% in the 2003 surplus, as a result of a rise of 17% in exports together with a cutback of 8.2% under imports. The major items exported and their respective annual growth rates were passenger cars, with 43.6%; engines for automotive vehicles and their parts, 3.6%, parts and spares for automotive vehicles and tractors, -17.1%; and flat rolled iron or steel, -0.21%. With regard to imports, the most important were engines for automotive vehicles and their parts, with growth of 18% and parts for transmission or reception equipment, medicines for human and veterinarian use and passenger cars, all three of which registered significant declines.

Growth in trade with the countries of Asia contributed to 246% expansion in the Brazilian 2003 trade surplus with that part of the world. This result was based on 32.8% expansion under exports and 11.6% under imports. It is important to note that the relative participation of China in total Brazilian exports moved from 4.2% in 2002 to 6.2% in the current year, thus consolidating that country's position as the third most important market for Brazilian foreign sales, after the United States and Argentina.

Thus, China accounted for 86.6% of the Brazilian surplus of 2.8 billion in trade with Asia, closing at a level of US$2.4 billion. The major products channeled to the Chinese market were soybeans, iron ore, flat rolled iron or steel, cellulose, semimanufactured goods in iron or steel, all of which turned in strong growth when compared to 2002. As far as imports are concerned, the most important products acquired from China were parts for transmission or reception apparatuses; heterocyclical compounds, their salts and sulfonamides; ball bearings and gears, their parts and spares, coal, including noncaking powder; automatic data processing machines and their units. Since China's admission to the WTO at the time of the Doha Round, Sino-Brazilian trade flows have expanded sharply, pushing Japan down to the position of Brazil's second most important trading partner in the region. The major products sold to Japan were iron ore, unrefined aluminum, chicken meat and ground soybeans. With respect to imports, the most important were parts and spares for automotive vehicles and tractors; engines, generators and electric transformers that their parts; integrated circuits and electronic microboards; ball bearings and gears, their parts and spares; and engines for automotive vehicles and their parts.

Data on trade with Central and Eastern Europe indicate that Brazil has managed to penetrate new nontraditional markets. The trade surplus in operations with the countries of the region totaled US$1.1 billion, or 32.3% more than in the previous year. This result was based on growth of 29.4% in exports and 26.7% under imports.

Russia was one of the major destinations of Brazilian exports in the region, particularly under such products as sugar, chicken meat, tobacco in leaf. Imports from the region increased as a result of larger acquisitions of fertilizers, nickel cathodes, wheat and fertilizers.

Finally, one should also highlight 21.1% growth in exports to the countries of Africa, with a total of US$2.9 billion. Analysis shows that the strongest growth was registered in sales to countries located in northern Africa and along the western coast, such as Senegal, Ghana, Libya and Algeria. South Africa was the largest buyer of Brazilian products, particularly manufactured goods, including parts and spares for automotive vehicles and tractors, chassis with engines and vehicle bodies and passenger cars. In much the same way, Brazilian imports from the African continent increased sharply, 21.6%, registering growth in purchases of products derived from petroleum, fertilizer inputs and unprocessed cocoa. It is important to underscore that Nigeria and Algeria accounted for more than half of the value of Brazilian purchases of crude oil in the year, at the same time in which they were important suppliers of liquid petroleum gas and naphthas.

Services

Service accounts closed with net outlays of US$5.1 billion in 2003, which was US$50 million higher than in the previous year. This result is indicative of the stability that has characterized the evolution of the various components of this heading.

International travel has traditionally registered deficits. In the annual series, since 1947, positive balances have been registered only in 1989 and 2003. Since September 2002, net monthly flows under this account have gradually reversed course, principally as a result of the sector's sensitivity to exchange and income. In 2003, consolidating the already mentioned tendency, this account registered net inflows of US$218 million, mostly as a consequence of growth of 25% in spending by foreign tourists in the country. Brazilian outlays on tourism abroad diminished by 6.6%, resulting in net revenues of US$430 million, as compared to net outlays of US$195 million in 2002. Net spending through the use of credit cards – the major component of the tourism account – came to US$11 million, for a reduction of 96.5% compared to the previous year, when net outlays totaled US$303 million. Other tourism expenditures registered a surplus of US$308 billion, as against US$12 million in 2002. The major component underlying this result was expansion under revenues as a result of strong growth in exchange sale operations since the second half of 2002. The result of the heading business travel, which is less sensitive to exchange fluctuations, remained stable in the year.

Table 5.16 – Services

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-2 678	-2 360	-5 038	-2 323	-2 765	-5 088
Credit	4 777	4 829	9 606	5 026	5 517	10 543
Debit	7 455	7 188	14 644	7 349	8 282	15 631
Transportation	-1 068	- 972	-2 040	- 832	- 915	-1 746
Credit	702	888	1 590	876	1 042	1 918
Debit	1 770	1 860	3 630	1 707	1 957	3 664
Travel	- 550	152	- 398	65	153	218
Credit	874	1 124	1 998	1 111	1 368	2 479
Debit	1 424	972	2 396	1 046	1 215	2 261
Insurance	- 152	- 268	- 420	- 201	- 235	- 436
Credit	137	69	206	56	67	124
Debit	289	337	626	257	302	560
Financial services	- 100	- 132	- 232	- 197	- 186	- 383
Credit	195	195	390	162	201	363
Debit	296	327	623	358	387	745
Computer and information	- 596	- 523	-1 118	- 463	- 571	-1 034
Credit	23	13	36	13	16	29
Debit	619	536	1 155	475	587	1 063
Royalties and licence fees	- 561	- 568	-1 129	- 527	- 592	-1 120
Credit	47	53	100	46	62	108
Debit	608	621	1 229	574	654	1 228
Operational leasing	- 815	- 858	-1 672	- 946	-1 367	-2 312
Credit	37	12	49	13	12	25
Debit	852	870	1 721	959	1 378	2 337
Government services	- 100	- 152	- 252	- 87	- 64	- 151
Credit	345	417	761	400	477	877
Debit	444	569	1 013	487	540	1 028
Other	1 262	960	2 222	865	1 011	1 877
Credit	2 417	2 058	4 475	2 349	2 272	4 621
Debit	1 154	1 098	2 252	1 483	1 261	2 744

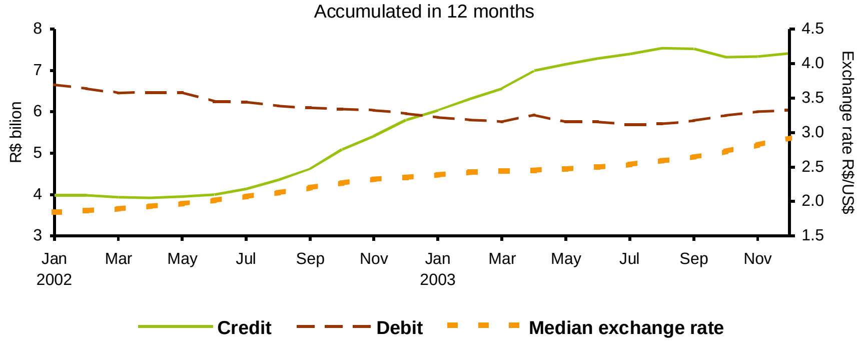
The transportation account turned in a net outflow of US$1.7 billion, for a reduction of 14.4% in comparison to 2002. The primary factors that contributed to this result were the behavior of the trade and international travel balances. The increase in exports and the low level of growth under imports of goods resulted in a reduction of 24.2% in net outlays on freight. Revenues and expenditures on maritime freight consisted almost totally of the transportation of goods, registering growth of 18.9% in the first case and a reduction of 5.4% in the second. Intensification of international travel resulted in growth under both revenues and expenditures on travel tickets. When these figures are combined, the overall result came to growth of 7.6% in net outlays under this heading, moving from US$390 million to US$419 million. Revenues expanded by 35.1% to US$194 million and spending increased by 15% to a level of

Table 5.17 – International travel

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	- 441	246	- 195	173	257	430
Credit	836	1 099	1 935	1 090	1 328	2 418
Debit	1 277	852	2 129	917	1 072	1 989
Duty-free shop	75	66	142	61	84	145
Credit card	- 166	- 137	- 303	33	- 43	- 11
Credit	530	467	998	589	648	1 237
Debit	697	604	1 301	556	692	1 248
Tourism services	- 50	4	- 45	1	- 15	- 13
Credit	36	37	73	52	71	123
Debit	85	33	118	50	86	136
Other	- 301	312	12	77	231	308
Credit	194	528	722	388	525	913
Debit	495	215	710	311	294	605
Business	- 79	- 60	- 139	- 69	- 65	- 134
Credit	9	12	21	10	12	22
Debit	89	72	161	79	78	157
Education-related	- 26	- 30	- 56	- 35	- 25	- 60
Credit	4	3	7	2	5	7
Debit	30	32	63	37	30	67
Government employees	- 7	- 4	- 11	- 3	- 15	- 18
Credit	16	8	24	6	17	24
Debit	23	12	35	9	32	42
Health-related	3	0	3	0	1	2
Credit	8	3	11	3	5	8
Debit	5	3	8	3	3	6
Total	- 550	152	- 398	66	153	218
Credit	874	1 124	1 998	1 111	1 368	2 479
Debit	1 424	972	2 396	1 045	1 215	2 261

Graph 5.10
Tourism
Accumulated in 12 months



US$613 million. Other transportation items, including the contracting of freight, resulted in net outlays of US$740 million, for a reduction of 15.5% when compared to 2002.

Insurance services registered net outlays of US$436 million, as against US$420 million in 2002. The reduction under insurance revenues came to 39.8%, with a final total of US$124 million in 2003, while outlays closed at US$560 million, for a falloff of 10.6%.

Net spending on financial services added up to US$383 million, for growth of 64.7%, based on a revenue drop of 7% to US$363 million and spending growth of 19.7%, to a final total of US$745 million, including commissions paid on loans, considered the most important item under this account.

Net spending on computer and information services came to an overall total of US$1 billion or US$84 million less than in 2002. Revenues added up to US$29 million and expenditures to US$1.1 billion.

Net payments of royalties and licenses abroad came to US$1.1 billion in 2003, the same level registered in the previous year. In this case, remittances remained stable while revenues received expanded by 7.8%, though the overall amount recorded under this heading is quite small.

Net outlays on equipment rentals came to US$2.3 billion, for growth of 38.3%, indicating 35.8% growth in expenditures, from US$1.7 billion to US$2.3 billion. To some extent, this result reflects growth in outlays on offshore petroleum drilling platforms. Revenues in this case are practically negligible.

Government services registered net spending of US$151 million in 2003, for a reduction of 40% when compared to the result for the previous year. This decline was due to 15.2% expansion under foreign government spending in Brazil, which added up to US$877 million, while Brazilian government spending abroad closed at US$1 billion, the same level as in the previous year.

Other services generated net revenues of US$1.9 billion, for contraction of 15.6% compared to the previous year. Specialized technical services registered net revenues that were 17.1% below 2002 and closed at US$748 million. Personal, cultural and leisure services registered net outlays of US$283 million, for growth of 12.8%. Administrative services turned in net revenues of US$1.2 billion, for a reduction of 10% when compared to 2002.

Table 5.18 – Transportation

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 068	- 972	-2 040	- 832	- 915	-1 746
Credit	702	888	1 590	876	1 042	1 918
Debit	1 770	1 860	3 630	1 707	1 957	3 664
Sea transportation	- 504	- 386	- 890	- 357	- 270	- 627
Credit	556	709	1 265	658	838	1 496
Debit	1 060	1 095	2 156	1 015	1 107	2 123
Passenger	- 1	- 1	- 2	- 1	- 1	- 2
Credit	0	0	0	0	0	0
Debit	1	1	2	1	1	2
Freight	- 419	- 351	- 770	- 295	- 313	- 608
Credit	208	305	514	278	329	606
Debit	627	657	1 284	572	642	1 214
Others	- 85	- 33	- 118	- 62	45	- 17
Credit	348	404	752	380	509	889
Debit	432	438	870	442	465	907
Air transportation	- 558	- 578	-1 136	- 478	- 642	-1 120
Credit	123	157	279	186	175	361
Debit	680	734	1 415	664	817	1 481
Passenger	- 193	- 195	- 388	- 144	- 275	- 418
Credit	65	78	143	108	84	193
Debit	258	273	531	252	359	611
Freight	1	25	26	11	24	35
Credit	41	58	99	47	57	104
Debit	40	32	72	36	33	69
Others	- 366	- 408	- 774	- 346	- 392	- 737
Credit	16	21	37	30	34	64
Debit	382	429	811	376	425	801
Other transportation[1/]	- 5	- 8	- 14	4	- 3	1
Credit	23	22	46	32	29	61
Debit	29	31	59	28	32	60
Passenger	0	0	0	0	1	1
Credit	0	0	0	0	1	1
Debit	0	0	0	0	0	0
Freight	- 13	- 18	- 31	- 4	- 11	- 15
Credit	16	12	28	24	20	44
Debit	28	30	59	28	31	59
Others	7	10	17	8	7	15
Credit	8	10	18	8	8	16
Debit	0	0	1	0	1	1

1/ Includes road transportation.

Table 5.19 – Other services

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 262	960	2 222	865	1 009	1 877
Credit	2 417	2 058	4 475	2 348	2 269	4 621
Debit	1 155	1 098	2 252	1 483	1 261	2 744
Communication	12	1	14	76	8	84
Credit	128	7	135	427	22	449
Debit	116	5	122	351	15	366
Construction	8	4	12	7	3	10
Credit	8	4	12	7	3	10
Debit	0	0	0	0	0	0
Merchanting and trade-related	- 12	0	- 12	- 14	- 77	- 92
Credit	193	228	421	211	178	389
Debit	205	228	433	225	256	480
Personal, cultural and recreational	- 136	- 114	- 251	- 150	- 133	- 283
Credit	32	26	58	23	31	54
Debit	168	141	309	172	164	337
Misc. business, prof.and technical	1 390	1 070	2 460	946	1 208	2 154
Credit	2 055	1 793	3 849	1 681	2 034	3 716
Business admin. services	925	691	1 616	734	784	1 518
Technical services	972	936	1 908	817	1 073	1 890
Other	159	166	325	130	178	308
Debit	665	724	1 389	736	826	1 562
Business admin. services	117	112	229	107	163	270
Technical services	473	532	1 005	554	588	1 142
Other	74	80	154	74	75	149

Income

Net remittances of income abroad were generated mostly by stocks of net external liabilities and totaled US$18.6 billion, for growth of 2% when compared to 2002. This was due to expansion in net remittances of income on portfolio investments and direct investment. Flows of salaries and wages were not particularly significant and resulted in net inflows of US$109 million, or US$7 million more than in the previous year, with a reduction of 8.3% in income paid to workers domiciled in the country to a level of US$269 million, and 16.2% in payments to nonresidents, with US$160 million.

Table 5.20 – Income

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-9 267	-8 924	-18 191	-8 801	-9 751	-18 552
Credit	1 401	1 894	3 295	1 574	1 765	3 339
Debit	10 668	10 818	21 486	10 375	11 516	21 891
Compensation of employees	24	77	102	48	60	109
Credit	126	166	293	125	144	269
Debit	102	89	191	76	84	160
Investment income	-9 291	-9 001	-18 292	-8 850	-9 811	-18 661
Credit	1 275	1 728	3 002	1 449	1 621	3 070
Debit	10 566	10 729	21 295	10 299	11 432	21 731
Direct investment income	-2 559	-2 424	-4 983	-1 993	-3 105	-5 098
Credit	350	617	967	297	589	886
Debit	2 908	3 041	5 950	2 290	3 694	5 984
Profits and dividends	-2 118	-1 916	-4 034	-1 600	-2 476	-4 076
Credit	297	560	857	234	525	760
Debit	2 415	2 476	4 891	1 834	3 002	4 836
Interests on intercompany loans	- 441	- 508	- 949	- 393	- 628	-1 022
Credit	52	57	109	62	64	126
Debit	493	565	1 058	456	693	1 148
Portfolio investment income	-4 436	-3 948	-8 384	-4 344	-4 399	-8 743
Credit	585	798	1 383	835	488	1 323
Debit	5 021	4 746	9 767	5 179	4 887	10 066
Income on equity (dividends)	- 653	- 475	-1 128	- 929	- 635	-1 564
Credit	0	0	1	1	2	3
Debit	653	476	1 129	930	637	1 568
Income on debt securities (interests)	-3 784	-3 473	-7 256	-3 415	-3 764	-7 179
Credit	584	798	1 382	834	486	1 320
Debit	4 368	4 270	8 638	4 249	4 250	8 499
Other investments income[1/]	-2 296	-2 629	-4 925	-2 513	-2 307	-4 820
Credit	340	313	653	317	544	861
Debit	2 636	2 942	5 578	2 830	2 851	5 681
Memo:						
Interest	-6 521	-6 610	-13 130	-6 321	-6 699	-13 020
Credit	977	1 168	2 144	1 213	1 094	2 307
Debit	7 497	7 777	15 275	7 534	7 793	15 328
Profits and dividends	-2 771	-2 391	-5 162	-2 529	-3 111	-5 640
Credit	298	560	858	235	527	763
Debit	3 068	2 951	6 020	2 764	3 639	6 403

1/ Includes interests on loans, trade credits, deposits and other assets and liabilities.

Income on direct investments accounted for overall outflows of US$5.1 billion, or 2.3% more than in 2002. Net remittances of profits and dividends added up to US$4.1 billion while those related to intercompany loans closed at US$1 billion, for growth of 1% and 7.6%, respectively, in 2003.

Income on portfolio investments registered net remittances of US$8.7 billion, for an increase of 4.3% compared to the preceding year. For the most part, this result was due to growth of 38.7% in net remittances of profits and dividends on resources applied to investment portfolios, which came to US$1.6 billion. Remittances of interest on fixed income securities totaled US$7.2 billion, for a reduction of 1.1% in 2003, primarily as a result of lesser payments of interest on notes and commercial papers, which slipped from US$4.3 billion to US$3.7 billion. This result reflects the decline in inflows under this type of operation that occurred in 2002.

Income on other investments, which include interest on suppliers' credits, loans, deposits and other assets and liabilities, totaled net remittances of US$4.8 billion, for a reduction of 2.1% in the year. Revenues expanded by 31.8%, closing with a total of US$861 million, and outlays increased by 1.8% to a total of US$5.7 billion.

Current unrequited transfers

Current unrequited transfers turned in net inflows of US$2.9 billion in 2003, for growth of 20% in relation to 2002. Net inflows of resources remitted by Brazilian residents abroad, classified under the heading of support of residents, produced growth of 19.6%. For the most part, this result reflected growth of 67.5% in the first half of the year, when

Table 5.21 – Current unrequited transfers

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	923	1 466	2 390	1 227	1 639	2 867
Credit	1 053	1 573	2 627	1 365	1 767	3 132
Debit	130	107	237	138	127	265
General government transfers	- 2	1	- 1	- 14	- 7	- 21
Credit	26	31	57	20	27	48
Debit	28	30	58	34	34	68
Other sectors transfers	926	1 465	2 391	1 241	1 646	2 887
Credit	1 027	1 542	2 570	1 345	1 739	3 084
Debit	102	77	179	104	93	197
Workers' remittances	511	1 061	1 573	857	1 026	1 882
Credit	591	1 120	1 711	923	1 095	2 018
United States	275	629	904	511	598	1 109
Japan	214	319	533	254	291	545
Remaining countries	102	172	274	158	206	364
Debit	80	58	138	67	69	136
Other transfers	414	404	818	385	621	1 005
Credit	436	423	859	422	645	1 066
Debit	22	19	41	37	24	61

compared to the same period of the previous year. Here, it is important to recall that the first six months of 2003 were marked by continuation of the tendency registered in the second half of 2002 which, in turn, was characterized by strong depreciation of the real and consequently increased gains on inflows of resources from abroad. Of total revenues classified under support of residents, 55% originated in the United States and 27% in Japan.

Financial account

The rebuilding of the nation's international reserve position in 2003 was favored by improved perceptions of Brazil's external vulnerabilities. The reduction in Brazil's country risk in the second half of the year was not due exclusively to improvement in internal factors. The continuity of solid fiscal and monetary policies contributed greatly to this result, in the sense that adoption of such policies tended to restore international investor confidence and, consequently, increase the funding available to the Brazilian economy. However, improvement was also a consequence of high levels of international liquidity and a significant rise in capital flows to the emerging economies, made possible by the low rates of interest in effect in the United States and European Union.

Consolidating the process of recovery in expectations regarding the external sector of the economy that resulted from the downturn in Brazil's country risk classification, the rates at which medium and long-term external loans and securities were rolled began moving upward as of the middle of the first half of the year. The rate at which notes and commercial papers were rolled jumped from 31% in 2002 to 138% in 2003, while the rate on direct loan operations climbed from 64% to 84% in the same period of comparison. Despite this, capital and financial accounts registered a reduction in the volume of foreign capital inflows, compared to the previous year's result. Parallel to this, there was no recovery in the stock of interbank lines, which closed January 2002 at US$20.2 billion. Following a long period of successive declines, this heading closed the 2003 fiscal year at US$13.6 billion.

Balance of payments financing was completed through disbursements of IMF resources in the framework of the Financial Assistance Program (PAF). The value of external financing, after deduction of normalization operations with the IMF, was less than the 2000/2001 average.

The increased confidence of external investors was clearly demonstrated in the second half of 2003 by recovery in foreign direct investments (FDI) which closed the year at a level similar to that of the first half of 2002. Despite this, however, the overall 2003 result came to US$10.1 billion, as against US$16.6 billion in the previous year.

The final result under FDI must be viewed within the framework of the low level of international

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
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		-1 787	-23 215	-4.55	3 659	22 457	4.41	-1 872	757	0.15
2002	Jan	-1 181	-22 090	-4.37	1 475	22 276	4.41	- 294	- 185	-0.04
	Feb	-1 078	-21 414	-4.28	856	22 137	4.42	221	- 723	-0.14
	Mar	-1 009	-19 815	-4.00	2 387	22 438	4.53	-1 378	-2 623	-0.53
	Apr	-1 961	-19 399	-3.95	1 964	22 374	4.56	- 3	-2 975	-0.61
	May	-1 908	-19 121	-3.94	1 428	21 761	4.49	480	-2 640	-0.54
	Jun	-1 298	-18 309	-3.80	1 530	22 198	4.61	- 232	-3 888	-0.81
	Jul	- 550	-16 824	-3.52	930	20 638	4.32	- 380	-3 815	-0.80
	Aug	304	-15 375	-3.25	882	20 117	4.25	-1 186	-4 742	-1.00
	Sep	1 228	-13 235	-2.82	1 236	19 865	4.23	-2 464	-6 630	-1.41
	Oct	- 32	-10 826	-2.32	1 244	19 775	4.24	-1 212	-8 948	-1.92
	Nov	- 140	-9 414	-2.04	1 154	18 747	4.05	-1 014	-9 333	-2.02
	Dec	- 91	-7 718	-1.66	1 503	16 590	3.61	-1 412	-8 873	-1.95
2003	Jan	154	-6 382	-1.36	905	16 020	3.46	-1 059	-9 637	-2.10
	Feb	- 208	-5 513	-1.16	788	15 952	3.42	- 580	-10 439	-2.25
	Mar	167	-4 337	-0.91	284	13 849	2.95	- 451	-9 512	-2.04
	Apr	- 957	-3 332	-0.69	796	12 681	2.69	160	-9 348	-2.00
	May	872	- 552	-0.10	541	11 794	2.49	-1 414	-11 242	-2.38
	Jun	474	1 220	0.27	186	10 450	2.19	- 659	-11 670	-2.46
	Jul	740	2 510	0.53	1 247	10 766	2.24	-1 987	-13 277	-2.78
	Aug	1 217	3 424	0.72	980	10 864	2.26	-2 197	-14 288	-2.98
	Sep	1 327	3 523	0.74	739	10 367	2.14	-2 067	-13 891	-2.87
	Oct	59	3 614	0.75	314	9 438	1.94	- 373	-13 052	-2.68
	Nov	- 143	3 612	0.74	1 954	10 237	2.09	-1 811	-13 849	-2.83
	Dec	349	4 051	0.82	1 409	10 144	2.06	-1 758	-14 195	-2.88

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

foreign investment flows. According to United Nations Conference on Trade and Development (UNCTAD), Global Direct Investment in 2003 came to US$653 billion, practically the same amount as in 2002 and well below the figures for the two previous years. In 2001, the overall flow of FDI added up to US$824 billion, as compared to US$1.4 trillion in 2000.

In the Brazilian case, the reduction in 2003 came to 38.9%, compared to 2002, and 60% when viewed against 2001. The decline in annual terms was mainly due to a reduction

Table 5.23 – Rollover rate[1/]

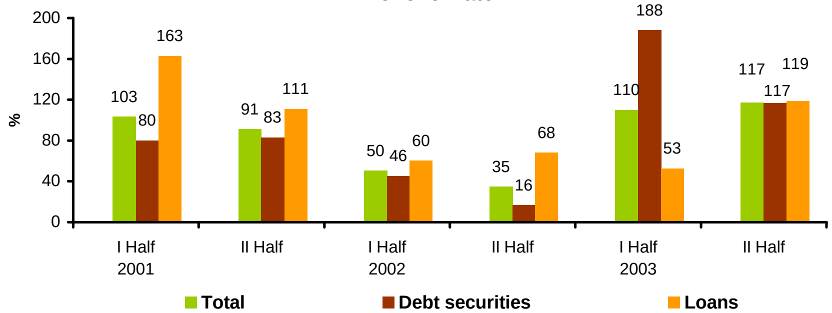
US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	50%	35%	43%	110%	117%	114%
Disbursement	2 617	1 763	4 380	3 442	5 437	8 879
Amortization[2/]	5 186	5 058	10 244	3 487	5 487	8 974
Notes and commercial papers	46%	16%	31%	188%	117%	138%
Disbursement	1 557	536	2 093	2 496	3 495	5 991
Amortization[2/]	3 420	3 258	6 678	1 669	3 841	5 510
Direct loans	60%	68%	64%	53%	119%	84%
Disbursement	1 060	1 226	2 286	811	2 152	1 942
Amortization[2/]	1 766	1 800	3 566	1 590	3 118	1 647

1/ Loans of long-term
2/ Excludes conversion in direct investiment.

Graph 5.11

Rollover rate



Note: excludes debt-equity swap

of 27.3% under inflows. The net flow of participation in the capital of companies located in the country diminished by US$7.8 billion and closed at US$9.3 billion, of which US$5.2 billion resulted from foreign debt/equity conversions, which now represent a significant alteration in the external debt profile. Analysis of these conversions indicates that US$2.4 billion originated in amortizations of intercompany loans, already classified under foreign direct investments. Consequently, the net contribution of conversions into investment was restricted to US$2.8 billion. Intercompany loans registered net disbursements of US$823 million, compared to net outflows of US$528 million in 2002. With respect to privatizations, no operations occurred in 2003, while 2002 was limited to just one operation worth US$280 million involving the Telebrás system.

Foreign direct investments from the United States, the largest direct investor, added up to US$2.4 billion in 2003. Other important sources of investment were the Cayman Islands, with

Table 5.24 – Foreign direct investments

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 641	6 949	16 590	3 500	6 643	10 144
Credit	13 466	12 994	26 460	7 802	11 436	19 238
Debit	3 825	6 044	9 870	4 302	4 793	9 094
Equity capital	9 125	7 993	17 118	3 315	6 006	9 320
Credit	9 969	8 991	18 960	5 020	8 067	13 087
Currency	5 894	4 506	10 400	3 102	4 743	7 846
Autonomous	5 614	4 506	10 120	3 102	4 743	7 846
Privatization	280	0	280	0	0	0
Conversions	4 059	4 425	8 484	1 905	3 308	5 213
Autonomous	4 059	4 425	8 484	1 905	3 308	5 213
Privatization	0	0	0	0	0	0
Merchandise	16	60	76	13	16	29
Debit	844	998	1 842	1 706	2 062	3 767
Intercompany loans	516	-1 044	- 528	186	637	823
Credit	3 497	4 003	7 500	2 782	3 368	6 150
Debit	2 982	5 046	8 028	2 596	2 731	5 327
Of which conversions	1 586	2 144	3 731	1 104	1 325	2 429
Memo:						
Net conversions contribuion fo FDI	2 473	2 281	4 754	801	1 983	2 784
Total disbursements through conversions	4 059	4 425	8 484	1 905	3 308	5 213
Amortization of intercompany loans conversions	1 586	2 144	3 731	1 104	1 325	2 429

US$1.9 billion; the Netherlands, which was the major investor in 2002, with US$1.4 billion; and Japan, with US$1.4 billion, almost three times the total invested in the previous year. In 2003, the other countries remitted less than US$1 billion, with reductions in the investments originating in Canada, Portugal, Sweden, France and the United Kingdom.

On a sector-by-sector basis, foreign direct investments dropped by 41.2% in the industrial sector, falling from US$7.6 billion to US$4.5 billion. This reduction was mostly concentrated under the food and beverage industries, with 78.2%; manufacturing and assembly of automotive vehicles, with 46.9%; and chemical products, with 41.8%. Investments targeted to the service sector decreased by 34.1%, particularly under mail and telecommunications services, electricity, gas and water, commerce and financial intermediation. In the opposite sense, foreign direct investment targeted to the extraction of metallic minerals came to US$918 million, as against US$35 million in 2002.

Net foreign portfolio investments totaled inflows of US$5.1 billion, compared to amortizations of US$4.8 billion in the previous year. This performance was due principally to the reaction that occurred in the placement and rolling of long-term fixed income securities negotiated abroad. The result of this account moved from a position of amortizations of US$6.6 billion in 2002 to inflows of US$1.9 billion in 2003. Net inflows

Table 5.25 – Foreign direct investments inflows – Equity capital[1/]

Distribution by country

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 909	8 869	18 778	4 934	7 968	12 902
United States	1 243	1 371	2 614	1 003	1 380	2 383
Cayman Islands	1 195	359	1 555	439	1 470	1 909
Netherlands	1 983	1 389	3 372	619	825	1 444
Japan	158	347	504	231	1 137	1 368
France	1 487	327	1 815	461	364	825
Spain	282	305	587	326	384	710
Bermudas	799	670	1 469	604	26	630
British Virgin Islands	223	278	501	120	430	550
Germany	277	352	628	257	249	506
Italy	232	240	473	217	173	390
Switzerland	104	243	347	100	236	336
United Kingdom	136	338	475	46	207	253
Luxembourg	165	848	1 013	76	162	238
Portugal	146	873	1 019	86	116	202
Uruguay	92	145	237	52	102	154
Panama	91	50	141	52	95	147
Canada	914	75	989	37	80	117
Singapore	13	7	21	3	88	91
Norway	21	39	60	25	30	55
Netherlands Antilles	6	14	19	0	53	53
Mexico	6	19	24	2	43	45
Sweden	56	149	205	4	39	43
Bahamas	61	144	205	15	21	36
Denmark	37	56	93	14	17	31
Belgium	12	33	45	7	11	18
Austria	2	33	34	7	4	11
Other countries	168	165	332	133	226	359

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

through bond operations came to US$2.3 billion, of which US$1.2 billion were private sector operations and US$1.1 billion involved public sector operations. The latter operations benefited from the country's return to the sovereign bond market, an area in which it had not been able to operate since mid-April 2002.

Foreign stock investments recovered sharply over the course of the year and registered net inflows of US$3 billion, 78.5% of which occurred in the second half of the year and were concentrated in stocks traded in the country, with US$2.1 billion in the year. Placements of ADR registered net inflows of US$878 million or approximately one third of the amount registered in the previous year, generating revenues of US$1.1 billion as against US$3 billion in 2002.

Table 5.26 – Foreign direct investments inflows – Equity capital[1/]

Distribution by sector

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 909	8 869	18 778	4 934	7 968	12 902
Crop, livestock and mineral extraction	265	372	638	304	1 178	1 482
Metallic mineral extraction	26	9	35	7	911	918
Petroleum extraction and related services	210	297	508	176	189	365
Others	29	66	95	121	78	199
Industry	3 452	4 165	7 617	1 846	2 634	4 480
Manufact. and assembly of automotive engines[2/]	413	1 406	1 819	326	640	966
Chemical products	895	678	1 573	460	455	916
Foodstuff and beverages	1 475	398	1 873	102	307	409
Basic metallurgy[3/]	63	75	139	333	18	351
Pulp, paper and paper products	3	7	11	26	321	348
Eletronic devices and communicat. equipments	49	494	544	90	238	328
Machinery and equipments	122	268	391	109	148	256
Plastic and rubber products	74	109	183	44	161	205
Eletrical machines, devices and apparatuses	98	274	372	138	51	189
Edition, printing and recording	11	33	44	22	123	145
Metal products	33	58	91	61	46	107
Nonmetallic mineral products	27	97	124	34	15	49
Textile products	55	43	98	13	21	34
Wood products	9	7	16	13	18	31
Office machines and computing equipments	34	61	95	3	5	8
Other industries	91	156	247	71	68	139
Services	6 191	4 332	10 523	2 784	4 157	6 940
Mail and telecommunications	2 506	1 684	4 190	919	1 890	2 810
Commerce	573	930	1 504	362	498	860
Services rendered to corporations	413	379	791	318	457	775
Financial intermediation	730	476	1 206	370	336	706
Eletricity, gas and hot water	1 257	277	1 534	394	257	651
Transportation	52	72	124	52	138	189
Real-estate	78	119	197	53	135	188
Construction[4/]	76	72	148	31	147	177
Lodging and food	16	109	126	102	70	172
Computing and related activities[5/]	167	58	225	69	86	155
Insurance and pension funds	169	47	216	80	48	128
Water services	49	45	94	1	49	50
Other services	105	64	169	34	45	79

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

2/ Includes the industry of spare parts for the automotive sector.

3/ Includes siderurgy.

4/ Includes infrastructure works related to the energy and telecommunications sectors.

5/ Includes internet.

Table 5.27 – Portfolio investments – Liabilities

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 236	-6 034	-4 797	3 995	1 134	5 129
Credit	11 905	6 447	18 352	11 770	15 577	27 347
Debit	10 669	12 481	23 150	7 775	14 443	22 218
Equities	2 002	- 21	1 981	639	2 334	2 973
Credit	5 588	4 467	10 055	4 021	6 531	10 552
Debit	3 586	4 488	8 074	3 382	4 197	7 579
Issued in the country	- 113	- 611	- 723	403	1 691	2 094
Credit	3 339	3 764	7 103	3 681	5 794	9 475
Debit	3 451	4 375	7 826	3 278	4 103	7 381
Issued abroad (Annex V - ADR)	2 114	590	2 704	236	643	878
Credit	2 250	702	2 952	340	737	1 076
Debit	135	113	248	104	94	198
Debt securities	- 765	-6 013	-6 777	3 357	-1 201	2 156
Credit	6 317	1 981	8 297	7 749	9 046	16 795
Debit	7 081	7 993	15 075	4 393	10 246	14 639
Issued in the country	- 17	- 206	- 223	57	215	272
Medium and long term	- 12	- 205	- 218	34	129	163
Credit	253	285	538	278	439	717
Debit	265	491	756	244	310	555
Short term	- 4	- 1	- 5	23	87	109
Credit	170	213	383	186	293	479
Debit	174	214	388	163	207	370
Issued abroad	- 748	-5 807	-6 555	3 300	-1 416	1 884
Bonds	3 198	-1 600	1 598	1 406	914	2 319
Private	94	- 444	- 350	605	637	1 242
Disbursements	161	0	161	625	637	1 262
Amortizations	66	444	511	20	0	20
Public	3 104	-1 156	1 948	801	276	1 077
Disbursements	3 940	0	3 940	2 250	3 575	5 825
New issues	3 910	0	3 910	2 250	2 377	4 627
Bond swaps	30	0	30	0	1 198	1 198
Amortizations	836	1 156	1 992	1 449	3 299	4 748
Paid	806	1 156	1 962	1 449	2 100	3 550
Bond swaps	30	0	30	0	1 198	1 198
Face value	30	0	30	0	1 289	1 289
Discounts	- 1	0	- 1	0	90	90
Notes and commercial papers	-3 274	-4 065	-7 338	222	- 983	- 761
Disbursements	1 557	536	2 093	1 871	2 857	4 729
Amortizations	4 831	4 601	9 432	1 649	3 841	5 490
Money market instruments	- 673	- 142	- 815	1 672	-1 346	326
Disbursements	236	946	1 182	2 539	1 244	3 783
Amortizations	908	1 088	1 996	867	2 590	3 457

Short-term papers produced net inflows of US$326 million, compared to net outflows of US$815 million in 2002. This behavior occurred despite high levels of amortizations, particularly in the second half of the year, coming to a total of US$3.5 billion, as against US$2 billion in the previous year. Among the factors that contributed to the net inflow in 2003, mention should be made of the high exchange coupon at the start of the year, low stock prices when viewed in dollar terms and improvement in foreign perceptions of Brazilian economic indicators and the consequent lesser risk of investments in Brazil.

Other foreign investments in Brazil registered net inflows of US$2.2 billion. Suppliers'

Table 5.28 – Other foreign investments

US$ million

Itemization	2002			2003		
	1º sem	2º sem	Ano	1º sem	2º sem	Ano
Total	6 126	-3 124	3 002	4 192	-6 388	-2 196
Trade credit	2 241	352	2 592	- 151	1 143	992
Long term	- 889	- 481	-1 370	- 389	- 503	- 892
Credit	639	645	1 284	527	548	1 075
Debit	1 527	1 126	2 654	916	1 051	1 967
Short term (net)	3 130	833	3 962	238	1 646	1 884
Loans	3 858	-2 827	1 031	4 248	-8 044	-3 796
Monetary authority	5 529	5 834	11 363	8 157	-3 513	4 645
Exceptional financing	5 588	5 893	11 480	8 220	-3 450	4 769
Loans from the IMF	5 588	5 893	11 480	8 220	-3 450	4 769
Credit	9 972	6 073	16 045	13 411	4 185	17 596
Debit	4 384	180	4 564	5 191	7 635	12 826
Other long term	- 59	- 59	- 118	- 62	- 62	- 125
Credit	0	0	0	0	0	0
Debit	59	59	118	62	62	125
Remaining sectors	-1 671	-8 661	-10 332	-3 909	-4 532	-8 441
Long term	-3 454	-1 866	-5 321	-2 920	-1 801	-4 721
Credit	4 035	7 080	11 115	4 724	5 386	10 110
Multilateral1/	910	2 963	3 872	1 304	1 475	2 779
Agencies	547	972	1 519	1 142	589	1 731
Buyers credit	1 519	1 919	3 438	1 333	1 379	2 712
Direct loans	1 060	1 226	2 286	946	1 942	2 888
Debit	7 490	8 946	16 436	7 644	7 187	14 831
Multilateral1/	723	1 789	2 511	1 799	2 180	3 979
Agencies	673	1 357	2 030	1 147	1 439	2 585
Buyers credit	4 239	4 000	8 239	2 881	1 922	4 803
Direct loans	1 855	1 800	3 655	1 817	1 647	3 464
Short term	1 784	-6 795	-5 011	- 989	-2 731	-3 720
Currency and deposits	27	- 648	- 621	93	511	605
Outher liabilities	0	0	0	1	2	3
Long term (net)	0	0	0	1	2	3
Short term (net)	0	0	0	0	0	0

1/ Includes IFC.

credits added up to US$1 billion, compared to US$2.6 billion in 2002. In this account, long-term credits, which had registered net 2002 remittances of US$1.4 billion, closed with net outflows of US$892 million. Net short-term credits dropped sharply, slipping from inflows of US$4 billion to US$1.9 billion, in 2003. Other loans registered net amortizations of US$3.8 billion. Net IMF disbursements added up to US$4.8 billion, which were insufficient to offset net amortizations of the other items registered under this account and which came to a total of US$8.4 billion. Long-term loans totaled net amortizations of US$4.7 billion, concentrated mainly in payments of buyers' loans, directly related to trade in goods, with a total of US$2.1 billion, as against US$4.8 billion in 2002. Aside from these factors, net amortizations of loans from organizations closed at US$1.2 billion. In 2002, these operations had registered net disbursements of US$1.4 billion. At the same time, amortizations came to US$854 million to agencies and US$576 million on direct loans. Short-term loans registered net remittances of US$3.7 billion as compared to US$5 billion in the previous year. Net inflows of funding from nonresidents maintained in the country in the form of deposits and cash added up to US$605 million, compared to net outflows of US$621 million in 2002.

Net outflows of US$249 million in Brazilian direct investments abroad represented one tenth of those registered in the previous year. In 2003, a breakdown of total remittances shows that US$62 million referred to increased stock participation. Loans from Brazilian companies to associate companies abroad accounted for net outflows of US$187 million, as against US$81 million in 2002.

Table 5.29 – Brazilian direct investments abroad

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 033	-1 449	-2 482	- 656	407	- 249
Credit	302	283	585	465	1 272	1 737
Debit	1 335	1 732	3 067	1 122	865	1 986
Equity capital	-1 143	-1 258	-2 402	- 675	613	- 62
Credit	166	250	417	437	1 208	1 645
Debit	1 310	1 509	2 818	1 112	594	1 707
Intercompany loans	110	- 191	- 81	19	- 206	- 187
Credit	136	33	168	28	64	93
Debit	26	223	249	9	270	280

Brazilian portfolio investments abroad registered inflows of US$179 million in 2003, compared to outflows of US$321 million in the previous year, closing with net outflows of US$258 million in stock investments. Fixed income securities registered a net balance of US$437 million, compared to net returns of US$67 million in the

Table 5.30 – Brazilian portfolio investments abroad

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 332	11	- 321	- 94	273	179
Credit	426	590	1 016	615	1 189	1 805
Debit	758	580	1 337	710	916	1 626
Equity investment	- 276	- 112	- 389	- 167	- 91	- 258
Credit	80	240	320	35	31	66
Debit	356	353	709	202	122	324
Brazilian Depositary Receipts (BDR)	6	100	106	- 8	- 2	- 10
Credit	6	108	113	1	1	2
Debit	0	7	7	9	3	12
Other equities	- 282	- 213	- 495	- 160	- 88	- 248
Credit	74	133	207	34	30	64
Debit	356	345	702	193	119	312
Debt securities	- 55	123	67	73	363	437
Credit	346	350	696	580	1 158	1 738
Collateral	0	0	0	0	359	359
Other	346	350	696	580	799	1 379
Debit	402	227	629	507	794	1 302

previous year.

Other Brazilian investments abroad registered net outflows of US$7.8 billion or more than double 2002 remittances. To a great extent, this performance resulted from investments in the form of currency and deposits, with net outflows of

Table 5.31 – Other brazilian investments abroad

US$ million

Itemization	2002			2003		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 961	-2 251	-3 211	-1 527	-6 282	-7 809
Loans	- 484	-1 256	-1 740	- 20	- 872	- 891
Long term	- 551	-1 173	-1 724	- 96	- 570	- 665
Credit	777	961	1 739	1 089	872	1 962
Debit	1 329	2 134	3 462	1 185	1 442	2 627
Short term (net)	68	- 83	- 16	76	- 302	- 226
Currency and deposits	- 475	- 825	-1 300	-1 344	-5 212	-6 555
Banks	1 338	3 003	4 341	- 533	-4 452	-4 985
Remaining domestic sectors	-1 813	-3 828	-5 641	- 811	- 759	-1 570
Other	-1 813	-3 828	-5 641	- 811	- 759	-1 570
Other assets	- 2	- 170	- 172	- 164	- 198	- 363
Long term	- 53	- 70	- 122	- 41	- 36	- 77
Credit	2	2	3	0	1	1
Debit	54	71	126	41	37	78
Short term (net)	51	- 101	- 50	- 123	- 162	- 286

US$6.6 billion, of which US$5 billion represented the external assets of banks abroad, offsetting the positive flow of capital to the country, and US$1.6 billion represented nonfinancial sector remittances. Long-term loans abroad added up to US$891 million, or practically half of the previous year's result. Other assets totaled net outflows of US$363 million, of which US$286 million consisted of

Table 5.32 – Brazil: Financial flow by foreign creditor – selected items[1/]

US$ million

Itemization	2000	2001	2002	2003
IBRD[2/]	305	207	- 81	- 906
Disbursements	1 837	1 789	1 681	1 327
Amortizations	1 156	1 135	1 355	1 898
Interest	376	447	407	335
IBD	1 885	144	247	-1 448
Disbursements	2 837	1 294	2 041	1 302
Amortizations	322	508	1 157	2 081
Interest	630	642	638	669
FMI	-7 259	6 616	11 003	3 673
Disbursements	0	6 757	16 045	17 596
Amortizations	6 876	0	4 565	12 826
Interest	383	141	477	1 097
Government agencies				
Agencies	- 493	- 870	-1 184	-1 366
Disbursements	1 034	1 739	1 519	1 731
Amortizations	988	1 879	2 030	2 585
Interest	539	730	673	512
memo:				
Paris Club	- 754	-1 363	-1 519	-1 474
Amortizations	469	914	1 126	1 206
Interest	285	449	393	268
Bonds	- 478	-3 666	-2 958	-2 788
Disbursements	12 222	9 699	4 101	7 087
New inflows	6 086	7 549	4 070	5 889
Refinancing	6 136	2 150	30	1 198
Amortizations	8 515	8 539	2 504	4 768
Paid	2 370	6 389	2 473	3 570
Refinanced	6 145	2 150	30	1 198
Interest	4 185	4 826	4 555	5 107
Notes & commercial papers	-2 238	-7 538	-11 255	-4 039
Disbursements	6 496	7 350	2 093	4 729
Amortizations	4 610	10 468	9 432	5 490
Interest	4 124	4 420	3 917	3 278
Intercompany - FDI	1 630	2 389	-1 586	- 325
Disbursements	6 888	8 924	7 500	6 150
Amortizations	4 125	5 232	8 028	5 327
Interest	1 133	1 303	1 058	1 148
Banks[3/]	-3 450	-2 732	-8 020	-4 148
Disbursements	10 219	9 460	5 724	5 600
Amortizations	10 724	9 809	11 894	8 267
Interest	2 945	2 382	1 850	1 481
Loans	2 067	1 625	1 075	951
Financing	878	757	775	530

1/ Does not include suppliers.

2/ Includes IFC.

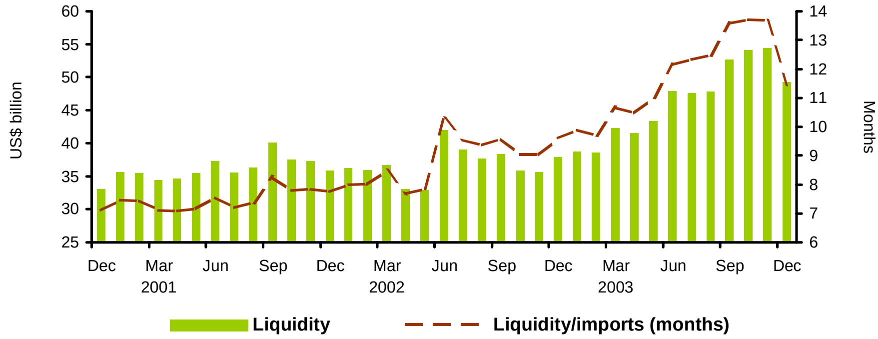
3/ Includes bank loans and buyers' credits.

short-term resources.

International reserves

In 2003, international reserves totaled US$49.3 billion, with growth of US$11.5 billion compared to the stock at the end of the previous year. Banco Central interventions on the domestic exchange market totaled net purchases of US$1.6 billion. These operations occurred only in the period extending from January to May 2003, and particularly from March onward, and involved repurchases of previously offered lines.

Graph 5.12
International reserves



External Banco Central operations generated net revenues of US$9.9 billion. Analysis shows that the most important items were disbursements of US$23 billion, particularly to organizations, as a result of the PAF, with withdrawals of US$18.5 billion, of which US$17.6 billion involved the IMF and US$902 million originated in the International Bank for Reconstruction and Development (IBRD). Furthermore, a breakdown of disbursements indicates US$5.8 billion in issues of Global 07N bonds (US$1 billion), Global 13 (US$1.25 billion), Global 11 (US$1.25 billion), Global 24B (US$825 million) and Global 10N (US$1.5 billion), with US$4.5 billion in new resources and US$1.3 billion in debt exchanges.

Amortizations totaled US$15.5 billion, distributed as follows: US$1.9 billion referring to bonds, US$125 million to the Multiyear Deposit Facility Agreement (MYDFA), US$12.8 billion to organizations (PAF) and US$706 million to the Paris Club.

Net interest outlays added up to US$1.5 billion. Here, the highlights were payments of US$1.8 billion related to bonds, expenditures of US$1.1 billion with the IMF and revenues of US$1.5 billion in earnings on reserves.

Other operations totaled net revenues of US$3.9 billion, particularly due to gains of US$2.7 billion in parity and US$232 million in security prices.

Table 5.33 – Statement of international reserves growth

US$ million

Itemization	2001	2002	2003
I - Reserve position (end of previous month)	33 011	35 866	37 823
1. Net purchases (+)/ sales (-) of Banco Central (interventions)	- 7 225	- 9 113	1 591
Spot	- 7 225	- 5 910	- 185
Lines with repurchase	-	- 1 771	1 776
Export lines	-	- 1 432	-
2. Banco Central's foreign operations	10 080	11 070	9 882
Disbursements	14 582	21 332	22 998
Bonds	6 680	3 940	4 500
Organizations	7 902	17 392	18 498
Amortizations	- 3 891	- 8 171	- 15 511
Bonds and MYDFA	- 2 844	- 2 111	- 1 977
Organizations	- 115	- 4 921	- 12 828
Paris Club	- 932	- 1 139	- 706
Interest	- 3 174	- 3 553	- 1 482
Bonds and MYDFA	- 4 494	- 4 148	- 1 753
Organizations	- 151	- 622	- 1 097
Paris Club	- 467	- 393	- 162
Reserve interest earnings	1 938	1 609	1 531
Other[1/]	2 562	1 462	3 876
II - Total Banco Central operations (1+2)	2 855	1 957	11 473
III - Reserve position (end of month)	35 866	37 823	49 296
Memorandum:			
Exchange market:	- 7 225	- 7 342	- 185
Transactions with residents (net)	3 152	- 4 060	3 078
Interbank transactions with non-residents (net)	- 6 227	- 9 133	- 1 649
Change in bank holdings (net)[2/]	- 4 150	5 850	- 1 614
Adjusted net reserves (excludes IMF loans)[3/]	27 797	16 339	20 525
Adjusted net reserves – according to the IMF arrangement	27 837	14 232	17 369

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 2003 is equal to US$2,520 million. According to the calculation parameters established by the TMU, the net adjusted reserves totaled US$17,369 million as of December 2003.

Financial assistance program – Monitoring of IMF performance criteria

Based on the technical memorandum of understanding (TMU), criteria were defined in the framework of the financial assistance program for calculating net adjusted international reserves (RLA), which are defined as gross official reserves less gross official liabilities.

Table 5.34 – Statement of international reserves

IMF performance criterion follow-up

US$ million

Itemization	2002	2003
I - International liquidity	37 823	49 296
(-) Loans from IMF	20 793	28 374
(-) Excess of deposits in non-resident Brazilian banks (b-a)	- 358	- 358
a - Position as of 9.14.2001 (defined on the TMU)	408	408
b - Position as of current month	50	50
(-) Excess of securities issued by residents (d-c)	3 296	2 878
c - Position as of 9.14.2001 (defined on the TMU)	615	615
d - Position as of current month[1/]	3 911	3 493
(-) Difference due to price and parity changes	- 139	1 033
II - NAR according to the IMF arrangement[2/]	14 232	17 369

1/ Includes buy-back operations, in accordance to measures announced by Banco Central on 6.13.2002. Net purchases as of December 2003: US$2,759 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 official reserves encompass: i) available cash reserves; ii) uncommitted gold; iii) assets in special drawing rights (SDR); iv) IMF reserve positions; and v) assets in fixed income instruments. The base date for calculating changes in the parities of assets from i) to iv), as well as for items classified under liabilities denominated in currencies other than the United States dollar, is defined and set by the TMU. Item v) is recorded at market value. Furthermore, according to the TMU, deposits against banks domiciled abroad but headquartered in the country and assets in securities issued by residents must be excluded from adjusted net reserves, when their overall value surpasses US$1,023 million (level existent on September 14, 2001).

Gross official liabilities include obligations to the IMF, short term obligations and eventual Banco Central net exchange debt positions.

The TMU also defined a floor (performance criteria) of US$5 billion for net adjusted international reserves in September 2002. Over the course of the year, the floor level was surpassed and, in December, net adjusted reserves closed at US$17.4 billion, according to the TMU criterion.

Table 5.35 – Performance criterion on international reserves – 2003

IMF arrangement

US$ million

Period	Adjusted net reserves	
	Floor	Occurred[1/]
Jan	5 000	14 758
Feb	5 000	14 256
Mar	5 000	14 154
Apr	5 000	13 001
May	5 000	14 240
Jun	5 000	14 594
Jul	5 000	14 389
Aug	5 000	15 420
Sep	5 000	16 167
Oct	5 000	17 514
Nov	5 000	17 164
Dec	5 000	17 369

1/ Parity adjustments as established in arrangement.

External debt

In December 2003, the total external debt came to US$215 billion, for growth of US$4.2 billion in relation to the stock in December 2002. The medium and long-term debt registered an increase of US$7.4 billion and the short term debt dropped by US$3.2 billion to a level of US$20.2 billion. The stock of intercompany loans reached the mark of US$20.5 billion, of which US$16.1 billion refer to medium and long-term loans.

In December 2003, the debt with the IMF totaled US$28.3 billion, for an increase of US$7.5 billion in relation to the previous year's position, closing with disbursements of US$17.6 billion and amortizations of US$12.8 billion. The change is the SDR parity in relation to the United States dollar explains the remainder of the growth in the debt position.

The stock of bonds increased by US$3.7 billion in December 2003, compared to the same month of 2002. The share composed of Bradies fell by US$2.2 billion in the period and came to represent 26% of the total stock of sovereign bonds. The stock of other bonds expanded by US$5.9 billion, corresponding to 74% of the total, with 95.6% of this participation concentrated in bonds of the Republic and the remainder in private sector papers.

Table 5.36 – Gross foreign indebtedness[1/]

US$ million

Itemization	1999	2000	2001	2002	2003-Dec
A. Total debt (B+C)	223 996	216 921	209 934	210 711	214 898
B. Medium and long-term debt[2/]	197 387	197 387	189 501	182 276	194 736
Exceptional financing	12 281	12 281	1 771	8 346	28 255
IMF	8 834	8 834	1 771	8 346	28 255
BIS	3 150	3 150	-	-	-
BoJ	297	297	-	-	-
IMF loans	-	-	-	-	-
Renegotiated debt bonds	35 330	35 330	25 250	18 958	16 068
Other bonds[3/]	16 509	16 509	29 504	36 024	45 747
Import financing	61 608	61 608	58 769	48 618	47 869
Multilateral	18 544	18 544	21 504	22 440	23 433
Bilateral	14 812	14 812	14 237	12 418	12 856
Other financing sources	28 252	28 252	23 027	13 760	11 579
Currency loans	71 529	71 529	74 197	70 330	56 797
Notes[4/]	61 779	61 779	61 024	57 007	46 661
Direct loans	9 750	9 750	13 173	13 323	10 136
Other loans	130	130	10	-	-
C. Short-term debt	26 609	26 609	27 420	27 658	20 163
Credit line for petroleum imports	3 318	3 318	2 572	364	0
Commercial banks (liabilities)	18 954	18 954	18 164	16 850	14 791
Resolution 2,483 – Rural financing	542	542	319	-	-
Special operations[5/]	3 795	3 795	6 364	10 444	5 372
Financing	2 616	2 616	3 850	6 121	1 299
Currency loans	1 179	1 179	2 514	4 323	4 073
D. Intercompany loans	15 859	15 859	19 236	15 901	20 484
E. Total debt + intercompany loans (A+D)	239 855	239 855	236 157	225 835	235 383

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 pré-bradies (BIB and Exit Bond).

4/ Includes commercial papers and securities.

5/ 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.

A breakdown of the medium and long-term external debt in December 2003 indicates that 31.7% referred to bonds, 29.2% to credits related to financial loans and 24.6% to trade financing. The remaining 14.5% referred to IMF loans. The stock of financial loans diminished by US$3.3 billion in the period under analysis, as notes, commercial papers and securities accounted for cutbacks of US$1.9 billion. It should be stressed that, of total reductions in financial loans, US$1.2 billion returned in the form of conversions of direct investments. Trade financing diminished by US$452 million, principally as a result of the US$944 million reduction in financing provided by international organizations.

In December 2003, the short-term debt dropped by 13.8% compared to the December 2002 position. This result was impacted by the performance of the financing of other operations, which dropped by US$3.5 billion in the period.

When one considers only the stock of the external registered debt, which accounted for 93.1% of the total external debt, the public sector was the largest debtor with 64.7% of the total, corresponding to an accumulated amount of US$130 billion in medium and long-term resources. The remaining 35.3% of the registered external debt, represented by the private sector, was distributed into US$65.2 billion in medium and long-term debt and US$5.4 billion in short-term debt. Medium and long-term private sector indebtedness was concentrated mostly in notes, with US$41.8 billion, or 59.2% of the total.

Table 5.37 – Registered external debt

US$ million

Debtor	Creditor				
	Bonds	Paris Club	Multilateral institutions[1/]	Bank loans	*Notes* [2/]
A. Total	61 865	4 900	51 714	19 599	48 226
B. Medium and long-term	61 815	4 900	51 688	16 370	46 661
Public sector	59 837	4 900	49 165	4 924	6 438
Nonfinancial public sector	59 523	4 900	45 977	3 384	2 247
National Treasury	59 350	4 900	9 687	1 351	-
Banco Central do Brasil	-	-	28 255	540	-
Public enterprises	173	-	2 247	1 424	2 247
States and municipalities	-	-	5 788	69	-
Financial sector	314	-	3 188	1 540	4 191
Private sector	1 978	-	2 523	11 446	40 223
Nonfinancial sector	1 253	-	2 359	7 316	31 262
Financial sector	725	-	164	4 130	8 961
C. Short-term	50	-	26	3 229	1 565
Loans	50	-	-	2 384	1 565
Nonfinancial sector	50	-	-	363	1 060
Financial sector	-	-	-	2 021	505
Import financing	-	-	26	845	-
Nonfinancial sector	-	-	-	298	-
Financial sector	-	-	26	547	-
D. Intercompany loans	35	-	-	-	2 982
E. Total debt + intercompany loans (A+D)	61 900	4 900	51 714	19 599	51 208

(continues)

Table 5.37 – Registered external debt (concluded)

US$ million | Outstanding: 12.31.2003

Debtor	Creditor			
	Government agencies	Suppliers credits	Others	Total
A. Total	7 957	5 465	382	200 107
B. Medium and long-term	7 957	5 037	308	194 736
Public sector	3 549	630	63	129 505
Nonfinancial public sector	3 082	610	63	119 785
National Treasury	981	461	-	76 729
Banco Central do Brasil	55	-	-	28 850
Public enterprises	1 542	147	63	7 843
States and municipalities	505	2	-	6 364
Financial sector	467	20	-	9 720
Private sector	4 408	4 407	245	65 230
Nonfinancial sector	4 175	4 393	50	50 808
Financial sector	233	14	195	14 422
C. Short-term	-	428	74	5 372
Loans	-	-	74	4 073
Nonfinancial sector	-	-	1	1 474
Financial sector	-	-	73	2 599
Import financing	-	428	-	1 299
Nonfinancial sector	-	427	-	725
Financial sector	-	1	-	574
D. Intercompany loans	-	-	17 468	20 484
E. Total debt + intercompany loans (A+D)	7 957	5 465	17 849	220 592

1/ Includes IMF.

2/ Includes commercial papers and securitizated loans.

In December 2003, the nonfinancial public sector held US$120 billion in medium and long-term external debt. Of this total, 64.1% were concentrated in National Treasury liabilities, of which US$59.4 billion were concentrated under bonds. Of the overall Banco Central debt, US$28.3 billion referred to credits supplied by the IMF and US$540 million to the Mydfa, which is a loan that originated in restructured debt. State and municipal government debts represented 5.3% of the nonfinancial public sector total and were concentrated in credits provided by international credit institutions. State company debts accounted for 6.6% of the nonfinancial public sector total and were concentrated in credits offered by international organizations and in notes.

The debt contracted with the endorsement of the public sector came to US$41.2 billion in December 2003. Of this total, only US$225 million consisted of private sector debt. The other US$41 billion referred to debts granted to the public sector and guarantied by the central government.

Table 5.38 – Public registered foreign debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	1999	2000	2001	2002	2003-Dec
Federal government (direct)	68 959	72 592	71 191	75 323	76 729
States and municipalities	5 401	5 575	5 436	6 149	6 364
Direct	320	97	2	3	2
Guaranteed by the federal government	5 081	5 478	5 434	6 146	6 363
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	30 398	21 439	26 823	39 650	48 328
Direct	19 575	14 242	13 658	13 539	13 708
Guaranteed by the federal government	10 823	7 197	13 165	26 111	34 620
Private sector (garanteed by the public sector)	919	919	396	328	225
Total	105 677	100 525	103 845	121 450	131 646
Direct	88 854	86 931	84 851	88 866	90 439
Guaranteed by	16 823	13 594	18 995	32 584	41 207
Federal government	16 622	13 246	18 924	32 376	41 023
States and municipalities	3	1	-	-	-
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	198	347	70	208	184

Based on the December 2003 position, the medium and long-term debt amortization schedule indicated that 64.3% of maturities were concentrated in the period from 2004 to 2007. In the medium and long-term public sector debt, 55.2% of maturities were concentrated in the period up to 2007 while 51.4% of private sector debt maturities were concentrated in the same period. Amortizations of financial loans

Table 5.39 – Registered external debt – By debtor

Amortization schedule1/

US$ million

Itemization	Outstanding debt	2004	2005	2006	2007	2008
A. Total debt (B+C)	200 107	44 624	30 726	27 668	25 583	12 877
B. Medium and long-term debt	194 736	39 253	30 726	27 668	25 583	12 877
Nonfinancial public sector	119 785	16 047	16 232	17 143	17 483	6 385
Central government (affects reserves)	105 579	13 898	14 027	15 740	16 219	5 165
Others	28 255	4 360	6 775	8 406	8 714	-
Financial public sector	14 206	2 149	2 205	1 403	1 263	1 219
Private sector	9 720	1 305	1 831	1 358	505	1 260
C. Short-term debt	5 372	5 372	-	-	-	-
Nonfinancial public sector	11	11	-	-	-	-
Financial public sector	1 905	1 905	-	-	-	-
Private sector	3 456	3 456	-	-	-	-
D. Intercompany loans	20 484	9 020	2 402	1 834	1 542	842
E. Total debt + intercompany loans (A+D)	220 592	53 644	33 128	29 502	27 125	13 719

(continues)

and bonds accounted for 54.8% of medium and long-term maturities in the period extending from 2004 to 2007 while 30.6% of the maturities in operations with international organizations were concentrated in that period.

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

Amortization schedule[1/]

US$ million Outstanding: 12.31.2003

Itemization	2009	2010	2011	2012	2013	Beyond and arrears
A. Total debt (B+C)	8 537	7 992	6 466	5 597	4 584	25 453
B. Medium and long-term debt	8 537	7 992	6 466	5 597	4 584	25 453
Nonfinancial public sector	5 539	5 987	5 150	4 611	3 086	22 123
Central government (affects reserves)	4 704	5 303	4 530	3 959	2 638	19 396
Others	-	-	-	-	-	0
Financial public sector	835	685	620	652	448	2 727
Private sector	256	596	242	239	527	1 600
C. Short-term debt	-	-	-	-	-	-
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	652	468	307	810	325	2 284
E. Total debt + intercompany loans (A+D)	9 189	8 460	6 773	6 407	4 909	27 737

1/ Includes exceptional financing.

Table 5.40 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2004	2005	2006	2007	2008
A. Total debt (B+C)	200 107	44 624	30 726	27 668	25 583	12 877
B. Medium and long-term debt	194 736	39 253	30 726	27 668	25 583	12 877
International organizations	51 689	8 191	8 978	10 154	10 367	1 564
Government agencies	12 856	2 662	2 830	2 856	1 004	727
Buyers	6 542	3 299	737	516	395	293
Suppliers	5 037	2 060	716	588	371	200
Currency loans	56 797	16 655	12 426	8 981	6 944	5 710
Notes[2/]	46 661	13 135	10 750	7 609	5 678	4 642
Direct loans	10 136	3 520	1 676	1 373	1 265	1 068
Bonds	61 815	6 386	5 039	4 573	6 502	4 383
C. Short-term debt	5 372	5 372	-	-	-	-
D. Intercompany loans	20 484	9 020	2 402	1 834	1 542	842
E. Total debt + intercompany loans (A+D)	220 592	53 644	33 128	29 502	27 125	13 719

(continues)

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

Amortization schedule[1/]

US$ million | Outstanding: 12.31.2003

Itemization	2009	2010	2011	2012	2013	Beyond and arrears
A. Total debt (B+C)	8 537	7 992	6 466	5 597	4 584	25 453
B. Medium and long-term debt	8 537	7 992	6 466	5 597	4 584	25 453
International entities	1 501	1 347	1 431	2 339	1 131	4 685
Government agencies	617	587	369	302	212	690
Buyers	264	176	155	145	127	436
Suppliers	200	135	161	60	37	508
Currency loans	2 076	1 203	244	663	673	1 222
Notes[2/]	1 860	1 039	111	451	615	771
Direct loans	216	165	134	212	58	450
Bonds	3 879	4 543	4 107	2 088	2 404	17 911
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	652	468	307	810	325	2 284
E. Total debt + intercompany loans (A+D)	9 189	8 460	6 773	6 407	4 909	27 737

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

The median term of the registered external debt declined from 6.1 years in the December 2002 position to 5.8 years, in the December 2003 position. The share that refers to bonds turned in an average term of 10.8 years, while that involving suppliers' and buyers' debt closed at 2.9 years. The due dates for IMF loans were concentrated in the period from 2004 to 2007, thus contributing to a reduction in the median term of credits granted by international organizations to 4.3 years.

Graph 5.13
Average term of registered external debt

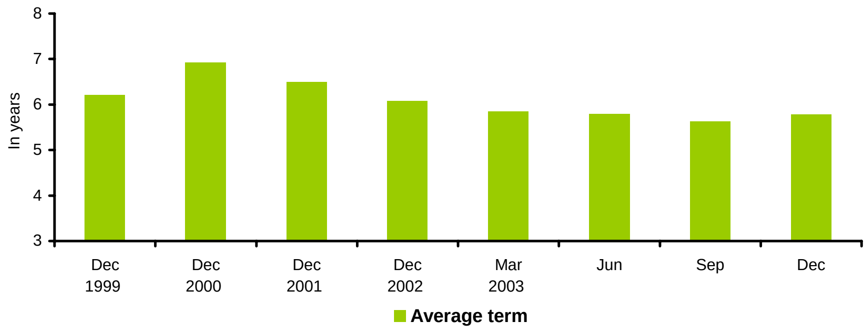


Table 5.41 – Average maturity term

Registered external debt[1/]

US$ million

Itemization	2003-Dez	Average maturity (years)
A. Total	197 406	5.78
International organizations	50 587	4.30
Government agencies	12 828	3.81
Buyers/suppliers	10 962	2.93
Currency loans + short-term	61 214	2.85
Bonds	61 815	10.80
Bradies	16 378	7.53
Global/Euro	42 972	12.41
Others	2 465	4.49
B. Intercompany loans	16 933	3.38
C. Total + intercompany loans	214 338	5.59

1/ Excludes debt in arrears.

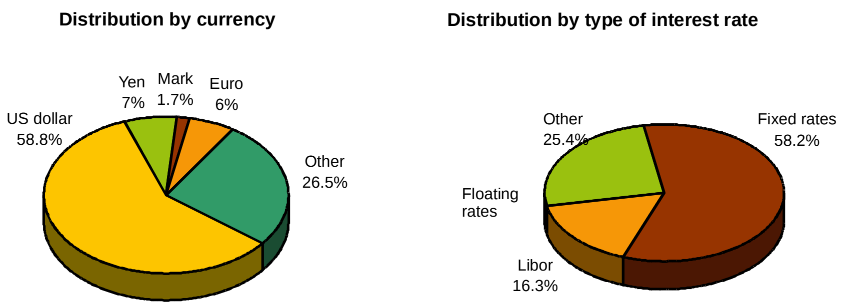
The participation of the United States dollar in the composition of the registered external debt diminished from 61.5% in December 2002 to 58.8% in December 2003. In the same period, the participation of other currencies increased from 23.9% to 26.5%. This change in composition was impacted by an increase in the debt expressed in SDR which, in turn, resulted from IMF disbursements in 2003. The participation of debts registered in euro and in yen underwent significant changes, moving from 5.2% and 7.7% in December 2002 to 6% and 7% in December 2003, respectively.

With regard to the composition of the debt according to interest rate modality, the stock of the debt subject to floating rates diminished from 43.1% in December 2002 to 41.8% in December 2003. Analysis of this share of the debt contracted at floating rates shows that the six month Libor is the major indexing factor, though its overall participation in the debt stock has declined to 39.1%, compared to 47.4% in December 2002.

Graph 5.14

Registered foreign debt composition

December 2003



Indebtedness indicators

In December 2003, improvements occurred in indebtedness indicators when compared to December of the previous year.

Table 5.42 – Indebtedness indicators

US$ million

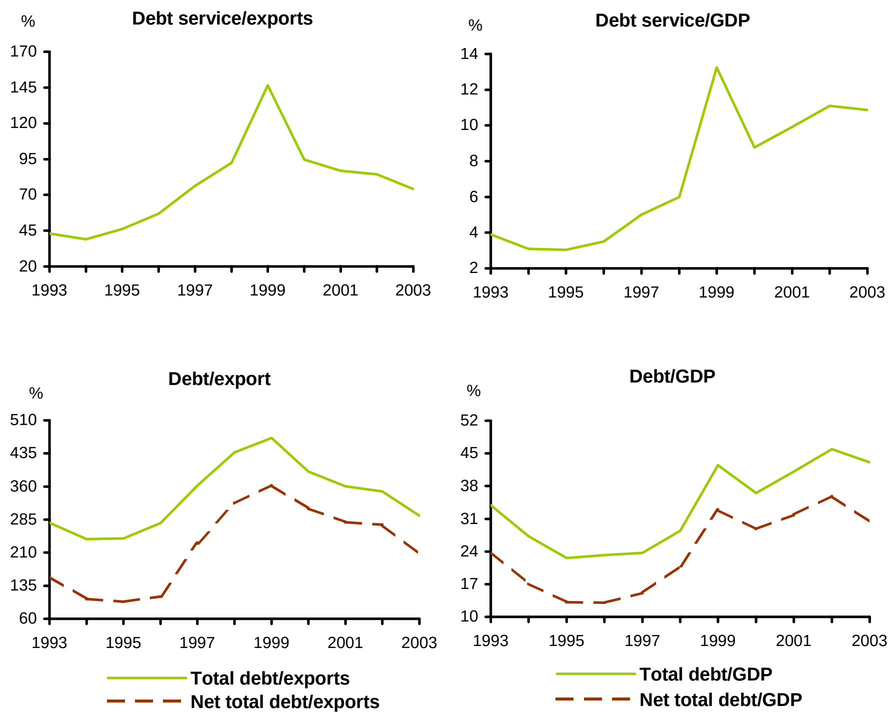
Itemization	1999	2000	2001	2002	2003-Dec
Debt service	70 375	52 085	50 621	50 952	54 137
Amortizations[1/]	52 907	34 989	33 000	35 677	38 809
Gross interest	17 468	17 096	17 621	15 275	15 328
Medium and long-term external debt (A)	199 000	189 501	182 276	187 316	194 736
Short-term external debt (B)	26 609	27 420	27 658	23 395	20 163
Total debt (C)=(A+B)[2/]	225 609	216 921	209 934	210 711	214 898
International reserves (D)	36 342	33 011	35 866	37 823	49 296
Brazilian credit abroad (E)[3/]	7 274	6 801	3 050	2 798	2 694
Commercial bank assets (F)	7 534	6 028	8 313	5 087	11 720
Net debt (G)=(C-D-E-F)	174 459	171 082	162 704	165 002	151 188
Export	48 011	55 086	58 223	60 362	73 084
GDP	536 554	602 207	510 360	459 379	493 348
Indicators (in percentage)					
Debt service/exports	147	95	87	84	74
Debt service/GDP	13	9	10	11	11
Total debt/exports	470	394	361	349	294
Total debt/GDP	42	36	41	46	44
Net total debt/exports	363	311	279	273	207
Net total debt/GDP	33	28	32	36	31

1/ Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.
2/ Excludes intercompany loans.
3/ Export Financing Program (Proex).

In that period, the value of the debt service expanded by 6.3% and the value of exports by 21.1%, while the participation of the debt service in exports decreased by 10 p.p. At the same time, increases of 7.4% in GDP expressed in dollars and 2% in the total external debt resulted in a 2 p.p. reduction in the total external debt/GDP ratio. The debt service/ GDP ratio remained stable while the total external debt/exports ratio moved from 349% to 294% in the period. The total net debt in assets, which represented 273% of the value of export revenues over the twelve month period up to December 2002, moved to 207% in December 2003, while shifting from 36% to 31% in terms of participation in GDP.

Graph 5.15

Indebtedness indicators



External funding

The face value of the papers issued by the Federative Republic of Brazil in 2003 added up to US$5.8 billion. These papers were issued on the American market, with 61.4% of these issues concentrated in the final six months of the year. Redemptions ranged from four to twenty one years. The risk premium – difference between the rate of return offered by American Treasury papers and that of the Brazilian papers (spread) – reached its lowest value of 561 base points for Global 10N, and the largest value of 783 base points for Global 07N, the first issue of the year. The gap between these two figures is attributed to improvement in Brazil's country risk classification in the second half of 2003.

One exchange operation occurred in 2003, involving the issue of US$373 million in Global 11 bonds, in exchange for cancellation of US$293 million in Discount Bonds and US$157 million in Par Bonds, and issue of US$825 million in Global 24B, in exchange for US$545 million in Discount Bonds and US$292 million in Par Bonds. The operation released US$542 million in guaranties granted to the country.

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
Euro 01	11.26.1999	11.26.2001	2	613	8.250	10.69	493
Global 20	1.26.2000	1.15.2020	20	1 000	12.750	13.27	650
Euro 10	2.4.2000	2.4.2010	10	737	11.000	12.52	652
Global 30[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 08N	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
Global 07N	37747	39098	4	1000	10.000	10.70	783
Global 13	37789	41442	10	1250	10.250	10.58	738
Global 11[9/]	37840	40762	8	1250	10.000	11.15	701
Global 24B	37840	45397	21	825	8.875	12.59	764
Global 10N	37916	10.22.2010	7	1500	9.250	9.45	561

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.

9/ Global 11 was issued in two tranches: US$500 million, with spread of 757 bps, on 8.7.2003; and US$750 million, with spread of 633 bps, on 9.18.2003.

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
Global 11[9/]	8.7.2003	8.7.2011	373	451	78	190
Global 24B[10/]	8.7.2003	4.15.2024	825	837	12	352
Total			14 708	16 848	2 140	2 912

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.
9/ Bradies accepted for swap: Par and Discount.
10/ Bradies accepted for swap: Par and Discount.

In December 2003, the restructured external debt totaled US$16.9 billion, representing a reduction of US$2.3 billion in comparison to the balance in December 2002. This result reflected an exchange operation involving issues of Global 11 and Global 24B for Discount and Par Bonds, as well as payment of two installments of Bradies, in the amount of US$398 million in April and in October 2003.

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

Itemization	Outstanding 12.31.2003 US$ million	Maturity
Capitalization Bonds (C Bonds)	6 540	4.15.2014
Debt Conversion Bonds (DCB)	3 755	4.15.2012
Discount Bonds	1 342	4.15.2024
Eligible Interest Bonds (EI)	1 233	4.15.2006
Front Loaded Interest Reduction Bond (FLIRB)	514	4.15.2009
New Money Bond 1994 (NMB)	1 146	4.15.2009
Par Bonds	1 539	4.15.2024
Exit Bond (BIB) - (pre-Bradies)	310	9.15.2013
Multiyear Deposit Facility Agreement (MYDFA)	540	9.15.2007
Total	16 918	-

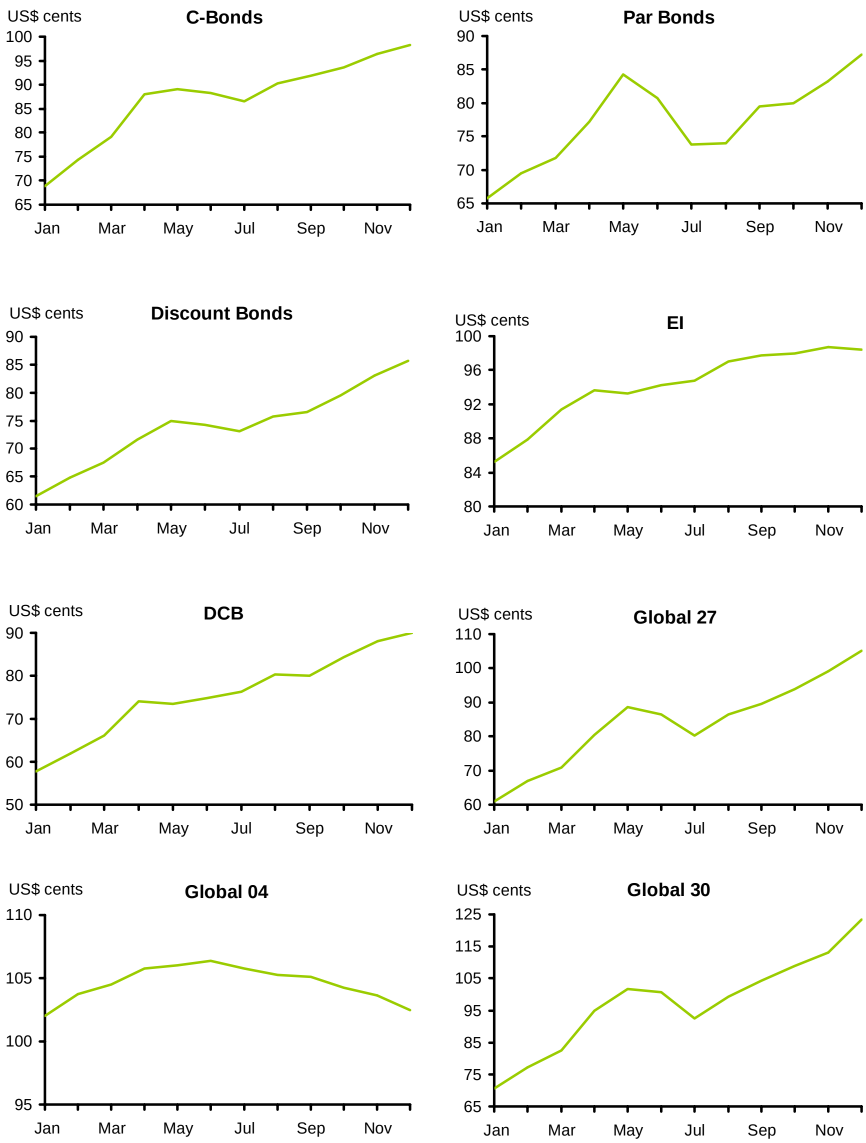
Brazilian external debt securities

In 2003, the prices of the major Brazilian external debt papers increased. The C-Bond, which is a high liquidity sovereign bond used as the reference for floating rate papers, began the year at 66.5% of its face value and ended at 98.3% of face value, demonstrating an evident reversal in investor expectations and in the nation's country risk classification.

Graph 5.16

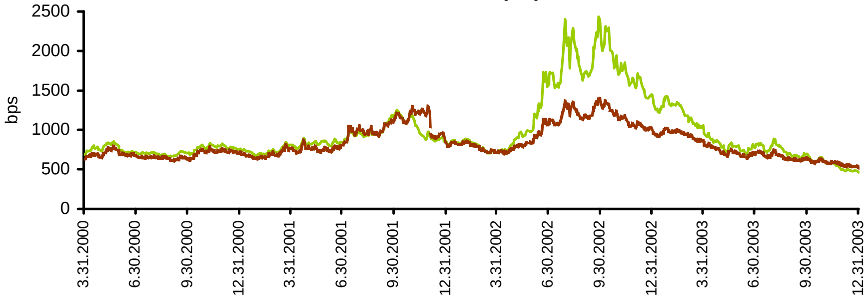
Prices of Brazilian securities abroad

Secondary market - bid price, end-of-period - 2003



Weighted by liquidity, the basket of Brazilian external debt papers registered a median earnings differential in relation to American Treasury papers (spread) calculated on the basis of daily rates, equivalent to 834 base points in 2003, compared to 1,372 base points in 2002. At the start of 2003, the spread stood at 1,379 base points and at 463 base points at the end of the year.

Graph 5.17
Brazil risk index – Strip spread



Source: JPMorgan

International financial assistance program – Withdrawals and amortizations

In December 2003, the IMF Executive Board approved a new Stand-by arrangement (SBA), given that Brazil had successfully completed the revisions of the previous SBA. Aside from the 5.6 billion SDR (US$8.2 billion) already released for withdrawal in the previous agreement, the new SBA placed an additional 4.5 billion SDR (US$6.6 billion) at the disposal of the country for a period of 15 months, allowing the country to withdraw 10.1 billion SDR (US$15 billion) at any time during that period. Aside from this, the new agreement extended a share of disbursement expectations against the Credit Tranche (CT) equivalent to 8 billion SDR (US$10.6 billion), originally scheduled to mature in 2005 and 2006, to subsequent years.

At the end of the year, the country had fully complied with the targets for the nonfinancial public sector external debt. At the same time, the medium and long-term and short-term debts with guaranties were held well within the defined targets.

In 2003, IMF loans totaled disbursements of US$17.6 billion, amortizations came to US$12.8 billion and interest payments to US$1.1 billion. Of the total amount disbursed, US$4.1 billion were effected in March, under the terms of the third withdrawal of the 2002 SBA agreement, also involving R$2.06 billion in the SRF and CT modalities. In June, US$9.3 billion were disbursed in the fourth withdrawal of the 2002 SBA, with US$3.2 billion in the SRF modality and US$6 billion in the Credit

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	3.19.2003	4 120
Credit tranche (CT)		1 521		2 060
Suplemental Reserve Facility (SRF)		1 521		2 060
Fourth tranche	6.6.2003	6 551	6.17.2003	9 329
Credit tranche (CT)		4 266		6 075
Suplemental Reserve Facility (SRF)		2 285		3 255
Fifth tranche	8.8.2003	3 043	9.9.2003	4 208
Credit tranche (CT)		1 521		2 104
Suplemental Reserve Facility (SRF)		1 521		2 104
Sixth tranche1/	11.7.2003	5 621		
Credit tranche (CT)		5 621		
Total of CT		15 212		13 276
Total of SRF		7 609		10 455
Total		22 821		23 731

1/ Not disbursed.

Note: The last tranche of the Stand-by arrangement of September 2002, is part of the new IMF arrangement, dated December 2003. According to this new arrangement, more DES 4.5 billion will be made available to Brazil during a 15-month period, in addition to the DES 5.6 billion already realeased. On 12.31.2003, the amount available was US$15 billion.

Table 5.47 – External debt targeting – 2003 (agreement with the IMF)

US$ million

Period	Non-Financ. Public Sector		Short-term		Collateral	
	Target	Occurred	Target	Occurred	Target	Occurred
Mar	95 600	89 306	3 500	50	1 600	281
Jun	95 200	90 839	3 500	31	1 600	247
Sep	94 900	90 262	3 500	0	1 600	221
Dec	95 600	91 541	3 500	0	1 600	225

Tranche modality. In September, the fifth withdrawal of this SBA occurred in the amount of US$4.2 billion, with US$2.1 billion in the SRF modality and US$2.1 billion in the Credit Tranche modality. The sixth withdrawal, in the amount of 5.6 billion SDR (US$8.2 billion) in the Credit Tranche modality, was not effected.

In 2004, the country will have to pay amortizations of 2.9 billion SDR (US$4.4 billion), with 1.8 billion SDR (US$2.7 billion) in the Credit Tranche modality and 1.1 billion SDR (US$1.7 billion) in the SRF modality. In 2005, SRF amortizations will total 4.5 billion SDR (US$6.8 billion). Amortizations scheduled for 2006 correspond to 5.7 billion SDR (US$8.4 billion), with 4.9 billion SDR (US$7.3 billion) in the Credit Tranche modality and 800 million SDR (US$1.1 billion) in the SRF modality. In 2007, forecast amortizations total 5.9 billion SDR (US$8.8 billion) in the Credit Tranche modality.

Complementary Financial Assistance Program resources disbursed by the IBRD totaled US$902 million. These resources referred to the Public Sector Adjustment Program. Amortizations with organizations totaled US$2.3 billion, with US$758 million referring to the Interamerican Development Bank (IDB) and US$1.5 billion to the IBRD. Interest payments to these two organizations totaled US$348 million.

Table 5.48 – Exceptional financing

US$ million

	2000			2001		
	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD[1/]	1 010	-	104	1 162	-	220
IDB[1/]	1 921	-	273	444	-	352
IMF	-	6 876	383	6 757	-	158
BIS	-	3 150	179	-	-	-
BoJ	-	297	17	-	-	-
Total	2 931	10 323	956	8 363	-	730

(continues)

Table 5.48 – Exceptional financing (concluded)

US$ million

	2002			2003		
	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD[1/]	850	253	181	902	758	136
IDB[1/]	497	740	266	-	1 514	212
IMF	16 045	4 565	495	17 596	12 826	1 089
BIS	-	-	-	-	-	-
BoJ	-	-	-	-	-	-
Total	17 392	5 558	942	18 498	15 098	1 437

1/ Valores incluídos no balanço de pagamentos em empréstimos a demais setores que não o Banco Central. Figures

International investment position

Analysis of the international investment position points to an increase of 13.5% in net external liabilities, between December 2002 and September 2003, moving from US$231 billion to US$262 billion

Table 5.49 – International investment position

US$ million

Itemization	2002	2003-Sep
International investment position (A-B)	- 230 515	- 261 707
Assets (A)	112 901	130 255
Direct investment abroad	54 423	54 646
Equity capital[1/]	43 397	43 452
Intercompany loans	11 026	11 194
Portfolio investment[2/]	5 845	5 415
Equity securities	2 388	2 615
Debt securities	3 457	2 800
Bonds and notes	2 337	1 680
Of which collateral (principal)	1 395	964
Money-market instruments	1 120	1 120
Financial derivatives	105	17
Other investment	14 705	17 501
Trade credits (of suppliers)	313	313
Loans	540	600
Currency and deposits	7 890	10 541
Other assets	5 962	6 046
Of which collateral (interests) and memberships	-	-
in international financial organizations	1 357	1 234
Reserve assets	37 823	52 675

(continues)

Assets expanded by US$17.4 billion, particularly under international reserve assets, with growth of US$14.9 billion, and under financial investments and deposits, with an increase of US$2.7 billion.

As is evident, the change in the international investment position was due for the most part to the increase of US$48.5 billion in external liabilities, particularly foreign direct investment, with growth of US$27.6 billion. Aside from the inflow of FDI in a total amount of US$10.1 billion in the period, exchange variation accounted for an increase of US$17.5 billion in the final stock. Furthermore, there was an increase of US$14.4 billion in portfolio investments, with US$116 billion in stocks and US$2.8 billion in fixed income papers. Another factor that contributed to the rise in external liabilities was US$12.7 billion growth in the debt with the IMF.

Table 5.49 – International investment position (concluded)

US$ million

Itemization	2002	2003-Sep
Liabilities (B)	343 416	391 961
Direct investment in reporting economy	100 847	128 425
Equity capital[1/]	83 869	109 657
Intercompany loans	16 978	18 768
Portfolio investment[2/]	137 355	151 751
Equity securities	27 249	38 877
In the reporting country	8 394	13 039
Abroad	18 855	25 838
Debt securities	110 106	112 874
Bonds and notes	110 106	112 874
In the reporting country	2 492	2 519
Abroad	107 614	110 355
Medium and long-term	106 614	107 985
Medium and short-term	1 000	2 369
Financial derivatives	250	161
Other investment	104 965	111 624
Trade credits	5 919	5 830
Medium and long-term	4 896	5 447
Medium and short-term	1 023	383
Loans	97 178	103 540
Monetary authority	21 457	33 999
Use of Fund credit & loans from the Fund	20 793	33 459
Other long-term	664	540
Short-term	-	-
Other sectors	75 721	69 541
Long-term	54 348	53 399
International entities	24 377	24 256
Government agencies	12 731	12 822
Buyers	6 317	6 844
Direct loans	10 924	9 478
Short-term	21 373	16 142
Currency and deposits	1 867	2 254
Monetary authority	237	107
Banks	1 630	2 147
Other liabilities	-	-

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