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Summary

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Introduction

In 2003, monetary policy was implemented in the framework of a fundamental commitment to preserving price stability. Consequently, the measures taken by Banco Central were aimed at reversing the climate of economic uncertainty that took root in the second half of 2002, as a result of a series of adverse internal and external factors.

The rise in inflation that occurred at the start of the year was caused partly by higher inflation in the final quarter of the previous year, indicating the presence of inertial components. Thus, it was recognized that this increase could not be attributed to some external shock nor could it be considered a temporary deviation from the long-term trajectory or no more than a passing phenomenon that would take care of itself over time. The upturn in inflation was recognized as a direct result of deteriorating expectations on the part of private agents and, as such, a reality that would demand rapid and firm action on the part of the monetary authority. Success in reversing the process of deteriorating expectations early on was important to minimizing the GDP reduction needed to ensure stability.

In this context, the Monetary Policy Committee (Copom) decided to increase the Selic rate target from 25% per year in December 2002 to 25.5% per year and 26.5% per year in January and February 2003, where it remained until June of that year. In February, the compulsory reserve rate on demand deposits was also increased. All of the measures adopted were further reinforced by an unflagging fiscal policy commitment to primary surpluses compatible with the sustainability of the public debt.

The initial results of the more stringent monetary policy and austere fiscal policy became evident in the first half of 2003. Soon after the decision to raise interest rates was taken, the rate of exchange turned sharply downward in March and April, falling from R$3.59/US$ in February to just below R$3.00 two months later.

However, at the same time, market expectations regarding inflation in 2003 and 2004 were somewhat harder to reverse. Up to the end of April, expectations for

2003 and 2004 remained at 12.5% and 8%, respectively, compared to targets of 8.5% (adjusted) and 5.5%. Obviously, expectations at these levels would make it increasingly difficult to achieve the defined targets while, at the same time, possibly even generating demand for adoption of some sort of indexing mechanisms. It was only after the Copom meeting in May that expectations showed the first signs of downward movement in the face of the consistently austere monetary policy followed by economic authorities.

In the middle of the year, a more flexible approach to monetary policy was adopted when it became clear that much of the uncertainty that had marked the economy had been dissipated as expectations regarding inflation began converging toward the predefined targets. With the reversal of expectations, control of aggregate demand and exchange appreciation, the rate of inflation shifted into a downward curve, making it possible for Copom to initiate the process of gradually reducing the Selic rate to a December level of 16.5%. In August, the rate of compulsory reserves on demand resources was reduced to that in effect prior to the February increase.

In this regard, Brazilian economic activity in 2003 can be divided into two distinct phases. The first extended from January to the end of the first six months and was marked by an adverse macroeconomic scenario, coupled with adoption of the measures required to overcome these difficulties. These measures included cutbacks in internal demand, particularly involving investment flows, since these reflected high rates of interest and the evolution of expectations and consumption – both of which were further impacted by deterioration in the purchasing power of earnings.

With inflation under control, the uncertainties surrounding the economy were dissipated and the process of regaining the pace of economic activity began in earnest toward the end of the first six months of the year. The downturn in inflation, coupled with a tendency toward lesser losses in real earnings and improved expectations and, principally, a more flexible monetary policy, marked the start of more dynamic industrial output, retail sales and outlays on investments. Recovery in the activity level in the second half of the year followed the same pattern seen in more recent recoveries and was driven initially and most intensively by increased demand for consumer durables and capital goods.

The two distinct periods of economic performance in 2003 were evident in the trajectory of GDP. Thus, in the first two quarters of the year, GDP declined by 0.8% and 0.9%, respectively, when compared to the previous quarters and despite strong and steady growth in the crop/livestock sector. Among other factors, the third quarter of the year reflected adoption of greater monetary policy flexibility and the start of recovery in the level of activity, as demonstrated by 0.1% GDP growth compared to the previous quarter. The interest rate reduction had a positive impact on the expectations of both businesspeople and consumers and generated repercussions on production levels. Growth in industrial output was sustained by incentives to demand, particularly involving consumer durables and capital goods, both of which are more sensitive to changes in credit conditions.

In the fourth quarter of the year, the continued downward movement in interest rates impacted consumption levels. This factor, combined with the performance of the export sector and growth in capital goods output, was the major cause of greater economic dynamism in the final months of the year. In the fourth quarter, growth closed at 1.5%, compared to the previous quarter, with expansion of 7.3% in the crop/livestock sector, 1.2% in the industrial sector and 0.8% under services.

A sectoral analysis of 2003 GDP clearly confirms the relevance of the crop/livestock sector in sustaining the activity level. This sector registered growth of 5% – the third consecutive year with expansion in this range – basically as a result of productivity increases made possible by expanded use of inputs and farm equipment and machines.

With respect to economic activity in 2003, one should further underline the positive performance of the export sector which, after setting a new record in 2002, registered steady positive growth during all of 2003. In terms of supply, this growth was particularly evident in the crop/livestock sector and in such specific industrial segments as metallurgy, mechanics and cellulose.

The adjustment in the nation's external accounts over the course of the year aided in offsetting the impact of deteriorating external financing conditions in the second half of 2002. In 2003 and, principally, in the final six months of the year, international market conditions were particularly favorable to Brazil in a number of different aspects. Sharp growth in international liquidity was reflected in across-the-board expansion in the stock exchanges of the emerging nations, mostly as a result of low rates of interest in the United States. Having achieved relative exchange rate stability, the nation's terms of trade improved sharply over the course of the year. All of these factors were obviously important to the balance of payments result.

During this process of adjustment, expectations in relation to the external sector of the economy improved steadily, particularly as of the month of August when the country managed to set consecutive monthly foreign sales records, as evident in increasingly positive trade balance surpluses. Current accounts closed with a surplus of 0.82% of GDP, the third highest level in history, compared to deficits of 4.6% and 1.66% of GDP, in 2001 and 2002, respectively. Obviously, the surplus result made an important contribution to the financing of external accounts. Consolidation of this process greatly facilitated placements of sovereign bonds with lower spreads, making it easier for resident companies to tap into external funding sources. At the same time, the nation managed to roll its long-term debt operations at a rate in excess of 100% in the year or more than double the 2002 rate. Consequently, the net flow of capital into the country was positive and was accompanied by a much more favorable maturity structure.

As evident in the relatively high level of economic activity at the end of the year, the positive performance of the economy in the second half of 2003 reflected growth in the volume of credit granted, stronger retail sales, expanding export operations and the recent evolution of real earnings, with positive impacts on sales of nondurable consumer goods, which is the major category of final industrial products.

With respect to credit operations, costs were a major factor in the growth registered under this heading. From June to December, the median rate on credit operations in the segment of nonearmarked resources declined by 10.9 p.p., reflecting reductions of 8.4 p.p. on loans with legal entities and 14.8 p.p. in operations with individual borrowers. The banking spread diminished by 3.2 p.p. in the period. In this context, the first signs of increased credit demand were noted as of September, as the volume of these operations moved into an upward curve. This movement was strongest under credits to individual borrowers, particularly consumer financing operations involving acquisitions of durable consumer goods, mainly involving vehicles.

As far as credits granted to legal entities are concerned, performance in the final months of 2003 had not yet reached a level that could be described as a consistent recovery in business demand for credit. Consequently, expectations are that growth in demand for investment financing will be gradual and will accompany recovery in economic activity in general.

Sales of the retail trade sector showed some signs of recovery in the third and fourth quarters, mostly as a result of increased credit flows. According to the IBGE, the volume of retail sales in the country declined by 3.7% in 2003, despite the fact that deseasonalized data point to recovery in the second half of the year and, principally, in the final quarter. A breakdown of the results on a category-by-category basis indicates negative annual rates under all of the activities surveyed and particularly under supermarkets, fuels and lubricants and fabrics, apparel and footwear.

The recent trajectory of Brazilian exports has benefited from a series of positive factors. Just as there were no major setbacks, such as harvest failures, on the internal scenario, the external framework was marked by factors that had the result of driving Brazilian sales upward, particularly increases in commodity prices, growing exports to Argentina and penetration of new markets for the nation's goods. Here, it is important to note that measures taken in recent years to promote and stimulate the country's foreign sales have played a highly important role.

The real median habitual earnings of Brazilian workers declined by 12.6% in 2003, mostly as a result of sluggish economic activity in the first six months of the year. The second half, on the other hand, witnessed a process of relative recovery caused by lesser inflation and improvements in the economic scenario that made it possible for important professional categories to negotiate significantly better contracts.

However, it is important to stress that the factors underlying demand could be somewhat less dynamic in 2004, as the recently registered upturn in activity may well continue at a somewhat less intensive pace. It is important to note, however, that this process of less intensive growth following in the wake of the sharp initial upturn reflects a pattern that also occurred in previous recoveries.

I

The Brazilian Economy

Activity level

The activity level of the Brazilian economy in 2003 can be divided into two highly different moments. The first period was marked by the repercussions of the political transition to the new federal administration, mainly upward movement in country risk, a lesser volume of available external resources and the consequent depreciation of the rate of exchange. All of these factors began in the second half of 2002 and produced significant impacts on general price levels.

In this context, monetary policy was conducted in the framework of a fundamental commitment to preserving price stability. Thus, the measures taken by Banco Central were targeted at reversing the situation of economic uncertainties caused by the coming together of a series of unfavorable internal and external factors in the final six months of 2002. The adverse macroeconomic situation noted since the start of 2003, coupled with the adjustments required to overcome it, resulted in a sharp falloff in internal demand and investment flows.

A process of recovery in the activity level began toward the end of the first half of the year, once the earlier rise in inflation and the uncertainties surrounding economic policy had dissipated. Industrial production, retail sales and outlays on investments became much more dynamic, as inflation declined, wage losses diminished in real terms, expectations improved and the authorities adopted a considerably more flexible monetary policy. Recovery in the activity level in the second half of the year followed the pattern of previous recoveries and was initially driven by more intense demand for consumer durables and capital goods.

Exports continued as one of the driving factors underlying expanded internal activity. Basically, growth in foreign sales has resulted from the aggressive policy adopted by the government, in a partnership with the private sector, aimed at consolidating the position of Brazilian goods in new markets. Other factors of importance to expanded economic activity were increases in the prices of commodities and productivity gains. With respect to supply, this evolution was, above all else, reflected in the positive performance of the crop/livestock sector and of such specific industrial segments as metallurgy, mechanics and cellulose.

Gross Domestic Product (GDP)

Calculated on the basis of market prices, GDP diminished by 0.2% in 2003, with reductions of 1% in the industrial sector and 0.1% under services. Output of farm goods registered 5% growth in the year. At current values, GDP at market prices came to R$1,514 billion.

Table 1.1 – GDP at market price

Year	At 2002 prices (R$ million)	Real change (%)	Implicit deflator (%)	At current prices[1/] (US$ million)	Population (million)	Per capita GDP At 2002 prices (R$)	Per capita GDP Real change (%)	Per capita GDP At current prices[1/] (US$)
1980	968 371	9,2	92,1	237 772	118,6	8 168	7,0	2 005
1981	927 215	- 4,3	100,5	258 553	121,2	7 649	- 6,3	2 133
1982	934 911	0,8	101,0	271 252	123,9	7 547	- 1,3	2 190
1983	907 518	- 2,9	131,5	189 459	126,6	7 170	- 5,0	1 497
1984	956 524	5,4	201,7	189 744	129,3	7 399	3,2	1 468
1985	1 031 602	7,8	248,5	211 092	132,0	7 816	5,6	1 599
1986	1 108 869	7,5	149,2	257 812	134,7	8 235	5,4	1 915
1987	1 148 012	3,5	206,2	282 357	137,3	8 363	1,6	2 057
1988	1 147 323	- 0,1	628,0	305 707	139,8	8 206	- 1,9	2 186
1989	1 183 579	3,2	1 304,4	415 916	142,3	8 317	1,4	2 923
1990	1 132 093	- 4,3	2 737,0	469 318	147,6	7 670	- 7,8	3 180
1991	1 143 754	1,0	416,7	405 679	149,9	7 629	- 0,5	2 706
1992	1 137 536	- 0,5	969,0	387 295	152,2	7 473	- 2,0	2 544
1993	1 193 557	4,9	1 996,2	429 685	154,5	7 725	3,4	2 781
1994	1 263 415	5,9	2 240,2	543 087	156,8	8 059	4,3	3 464
1995	1 316 779	4,2	77,5	705 449	159,0	8 281	2,8	4 436
1996	1 351 787	2,7	17,4	775 475	161,2	8 383	1,2	4 809
1997	1 396 009	3,3	8,3	807 814	163,5	8 540	1,9	4 942
1998	1 397 850	0,1	4,9	787 889	165,7	8 437	- 1,2	4 755
1999	1 408 830	0,8	5,7	536 554	167,9	8 390	- 0,5	3 195
2000	1 470 265	4,4	8,4	602 207	170,1	8 641	3,0	3 539
2001	1 489 563	1,3	7,4	509 797	172,4	8 641	0,0	2 957
2002	1 518 264	1,9	10,2	459 379	174,6	8 694	0,6	2 631
2003	1 514 924	- 0,2	12,8	493 348	176,9	8 565	- 1,5	2 789

Source: IBGE

1/ Estimates obtained by the Banco Central do Brasil dividing the GDP at current prices by the annual average buying rate of exchange.

The overall performance of the economy in the first and second halves of the year varied sharply and this was reflected in GDP results calculated on the basis of deseasonalized quarterly growth figures. Thus, in the first quarter of the year, GDP registered a drop of 0.8% when compared to the previous quarter. This was the first negative quarterly result, following four consecutive positive performances. Among the various sectors of activity, only crop/livestock production turned in positive growth, with a final figure of 3.9% in the period.

Table 1.2 – GDP – Quarterly growth/previous quarter – Seasonally adjusted

Percentage

Itemization	2003			
	I	II	III	IV
GDP at market price	- 0,8	- 0,9	0,1	1,5
Crop and livestock sector	3,9	0,2	- 6,4	7,3
Industrial sector	- 2,1	- 3,5	2,6	1,2
Service sector	- 0,7	- 0,1	0,2	0,8

Source: IBGE

The generally unfavorable situation continued into the second quarter of the year when the seasonally adjusted GDP dropped by 0.9% in comparison to the previous quarter. In keeping with what occurred in the previous period, output of the crop/livestock sector expanded by 0.2%, while the industrial and service sectors turned in reductions of 3.5% and 0.1%, respectively.

Reflecting the start of a somewhat more flexible monetary policy, among other factors, the third quarter of the year marked the beginning of a recovery in the activity level, as demonstrated by 0.1% GDP expansion in relation to the previous quarter. The falloff in interest rates generated improved business and consumer expectations, with positive impacts on output levels. This movement acted as an incentive to demand, generating growth in industrial output, particularly in the segments of consumer durables and capital goods, both of which are more sensitive to alterations in credit conditions.

The continuity of the interest rate decline in the fourth quarter of the year impacted consumption levels. This factor, taken together with the performance of the export sector and growth in the output of capital goods, was the element most responsible for the increased dynamism of the economy in the final months of the year. In the fourth quarter, GDP expanded by 1.5%, compared to the previous quarter, with growth of 7.3% in the crop/livestock sector, 1.2% under industry and 0.8% for the service sector.

In the first six months of the year, GDP expanded by 0.4% at market prices when compared to the same period of the previous year. This performance was mainly

Table 1.3 – GDP real change rates

Percentage

Itemization	2001	2002	2003
GDP	1.3	1.9	- 0.2
Crop and livestock sector	5.8	5.5	5.0
Industrial sector	- 0.5	2.6	- 1.0
Mineral extraction	3.7	6.7	2.8
Manufacturing	0.7	3.6	0.7
Building	- 2.7	- 1.8	- 8.6
Public utility industrial services	- 5.6	3.0	1.9
Service sector	1.8	1.6	- 0.1
Commerce	0.5	- 0.2	- 2.6
Transportation	1.7	3.4	- 0.8
Communications	10.5	9.8	0.1
Public administration	0.9	1.7	0.5
Other services	1.8	1.1	- 0.5
Financial institutions	0.8	2.1	0.1
Rents	2.1	0.6	0.9
Financial dummy	1.3	2.3	0.3

Source: IBGE

attributed to the positive results of the crop/livestock and export sectors. Broken down by sectors of activity, only crop/livestock farming managed to register positive growth, with 8.8%. Industry closed with a drop of 0.2% and the service sector remained stable in the first six months of the year. Using the same basis of comparison, in the second half of the year, GDP dropped by 0.8%, as a result of downward movements of 1.7% under industry and 0.2% under services, while crop/livestock farming expanded by 0.7% in the period.

A sectoral analysis of GDP in 2003 demonstrates the importance of the crop/livestock sector to sustaining the activity level. The 5% growth registered by the sector marked the third consecutive positive annual rate and was basically a consequence of increased productivity, made possible by expanded use of inputs and steady growth in acquisitions of farm equipment and machinery. The increased profitability of the farm sector was generated mainly by greater exports and had the result of sharply expanding self-financing operations in the sector.

Industrial output diminished by 1% in 2003, mostly as a result of the performance of the construction industry. The mining sector turned in growth of 2.8% in the year, with successive increases in monthly production of petroleum and natural gas. Manufacturing expanded by 0.7% and was sustained principally by positive growth in the various export-oriented segments. The sector of public utility industrial

Table 1.4 – Gross Domestic Product under the prism of expenditure

In R$ million

Itemization	2000	2001	2002	2003
Gross Domestic Product	1 101 255	1 198 736	1 346 028	1 514 924
Final consumption expenditure	880 655	956 501	1 052 139	1 154 367
Family consumption	670 702	725 760	781 174	862 447
Government consumption	209 953	230 741	270 965	291 920
Gross capital formation	237 255	254 137	265 953	303 977
Gross fixed capital formation	212 384	233 384	246 606	273 321
Changes in inventories	24 871	20 753	19 348	30 656
Exports of goods and services	117 423	158 501	208 489	255 385
Imports of goods and services (-)	134 079	170 403	180 554	198 805

Source: IBGE

Table 1.5 – Quarterly Gross Domestic Product

In R$ million

Year		GDP at market price	Taxes on products	Crop and livestock sector	Industrial sector	Service sector
1999	I quarter	221 629	23 573	17 058	65 249	126 374
	II quarter	247 582	25 094	19 458	77 191	134 103
	III quarter	241 182	26 269	17 087	82 093	127 106
	IV quarter	263 453	28 451	18 253	85 542	142 163
2000	I quarter	250 907	26 301	19 275	80 445	135 381
	II quarter	271 619	28 229	21 174	91 405	138 887
	III quarter	284 896	31 511	20 822	96 956	146 586
	IV quarter	293 833	33 353	16 987	99 669	153 900
2001	I quarter	279 749	32 067	21 496	95 089	140 996
	II quarter	295 374	34 390	25 396	96 623	145 746
	III quarter	302 812	34 181	20 445	104 430	154 176
	IV quarter	320 800	34 329	21 949	105 032	187 042
2002	I quarter	301 080	33 300	25 365	96 548	159 264
	II quarter	330 657	35 379	29 071	111 058	174 718
	III quarter	343 532	37 046	26 642	121 135	184 727
	IV quarter	370 759	41 158	23 829	130 565	191 554
2003	I quarter	348 749	39 013	35 763	118 513	177 966
	II quarter	374 756	39 596	39 638	125 314	191 297
	III quarter	386 322	39 200	31 681	137 919	195 816
	IV quarter	405 097	41 583	30 794	142 252	203 239

Source: IBGE

services (Siup), which is constituted mostly of electricity generation and transmission services, turned in growth of 1.9%, reflecting not only the natural expansion of this area of activity but also the modest – albeit positive – growth of the industrial sector. The building industry was the only real exception among the various industrial segments and closed with an overall decline of 8.6% in the year. This was the third consecutive year of downward movement in the building industry.

Output of the tertiary sector of the economy declined by 0.1% in the year, with negative performances under commerce, transportation and other services caused, among other aspects, by the evolution of industrial activity in the year. The other segments managed to achieve rather discreet growth.

Table 1.6 – Quarterly National Accounts

In R$ million

Year		GDP at market price	Family consumption	Government consumption	Gross fixed capital formation	Changes in inventories	Exports	Imports (-)
1999	I quarter	221 629	139 530	42 764	43 001	- 1 013	21 323	23 976
	II quarter	247 582	145 837	44 614	46 234	13 991	23 802	26 896
	III quarter	241 182	157 976	48 388	46 852	- 8 071	26 611	30 574
	IV quarter	263 453	163 357	50 062	48 011	7 330	28 400	33 708
2000	I quarter	250 907	150 798	45 919	53 855	2 717	25 354	27 737
	II quarter	271 619	163 902	49 293	51 281	9 405	29 049	31 311
	III quarter	284 896	175 602	51 426	52 950	8 589	32 463	36 134
	IV quarter	293 833	180 400	63 315	54 298	4 159	30 557	38 897
2001	I quarter	279 749	173 258	48 224	57 574	5 979	32 641	37 927
	II quarter	295 374	180 293	53 246	58 726	6 556	39 754	43 202
	III quarter	302 812	183 538	53 600	59 354	7 751	44 526	45 957
	IV quarter	320 800	188 671	75 671	57 730	466	41 580	43 318
2002	I quarter	301 080	181 687	57 012	56 016	6 893	34 285	34 814
	II quarter	330 657	190 956	66 316	59 521	13 638	38 297	38 070
	III quarter	343 532	198 435	62 430	64 022	4 866	64 835	51 057
	IV quarter	370 759	210 096	85 206	67 047	- 6 050	71 072	56 613
2003	I quarter	348 749	207 686	57 712	65 332	8 138	61 741	51 861
	II quarter	374 756	210 600	69 533	64 321	16 182	60 876	46 755
	III quarter	386 322	216 716	73 270	69 914	9 597	65 356	48 531
	IV quarter	405 097	227 445	91 404	73 755	- 3 262	67 413	51 658

Source: IBGE

Analyzed under the prism of the various demand components, evolution of the activity level in 2003 indicates a decline of 6.6% under investments, excluding inventory variations. This performance was a consequence of the uncertainties that surrounded the transition to the new federal administration. Household consumption also declined by 3.3% and, for the most part, reflected declining real earnings generated by upward movement in inflation toward the end of 2002 and early part of 2003.

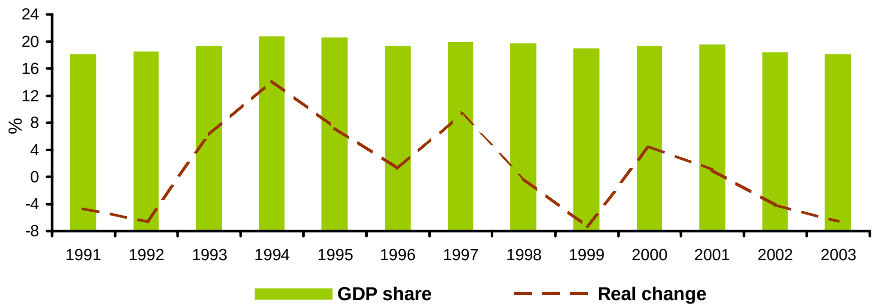
On the other hand, for the third consecutive year, the performance of the foreign trade sector was the bulwark underlying the pace of economic activity. Growth of 14.2% in exports and a reduction of 1.9% under imports accounted for 2.6 p.p. of the GDP result.

Investments

According to the national accounts released by IBGE, the 6.6% reduction in investment outlays in 2003 resulted in a cutback in the participation of this heading in GDP from 18.3% in 2002 to 18%, the lowest level since 1990. Investment components evolved in highly diverse manners, accompanying alterations and expectations regarding the overall scenario, as well as the downward movement in interest rates that occurred in the second half of the year.

Graph 1.1

Gross fixed capital formation



Source: IBGE

Production of construction industry inputs dropped by 8.7% in 2003, despite the recovery that marked the third and fourth quarters of the year, when this item expanded by respective rates of 0.1% and 2.9% in comparison to the previous quarters, based on deseasonalized data.

Production of capital goods expanded by 1% in 2003. Based on seasonally adjusted data, the behavior of this heading during the year points to recovery only in the third and fourth quarters, with growth rates of 2.5% and 9.2%, when compared to previous quarters. The first two quarters of the year registered reductions of 0.7% and 2.6%, using the same basis of comparison. A breakdown of capital goods production data in 2003 pointed to expanded output of farm machines and equipment, 24.8%; parts for farm machines, 8.9%; machines and equipment for the industrial sector, 8.1%; and transportation equipment, with 0.9%. Increases in the production of farm machines and equipment and parts accompanied the favorable performance of crop/livestock production. Output of electricity supply equipment closed with the most accentuated falloff in the segment, with 26.5%, compared to a reduction of 27% in 2002. This result was followed by a falloff of 18.6% in production of goods for the building industry.

Table 1.7 – Gross capital formation (GCF)

Percentage

Year	Share in GCF				At current prices	
	Gross fixed capital formation (GFCF)			Changes in inventories	GFCF/GDP	GCF/GDP
	Building	Machines and equipments	Others			
1990	65.7	34.0	2.7	- 2.4	20.7	20.2
1991	60.4	28.7	2.5	8.4	18.1	19.8
1992	64.8	26.3	6.3	2.7	18.4	18.9
1993	62.5	24.2	5.8	7.5	19.3	20.8
1994	60.6	27.2	5.8	6.3	20.7	22.1
1995	57.4	28.9	5.8	7.8	20.5	22.3
1996	62.0	25.3	4.8	7.9	19.3	20.9
1997	63.2	24.8	4.4	7.6	19.9	21.5
1998	65.4	23.5	4.4	6.8	19.7	21.1
1999	65.0	23.7	5.0	6.2	18.9	20.2
2000	60.0	24.7	4.8	10.5	19.3	21.5
2001	58.8	28.0	5.0	8.2	19.5	21.2
2002	59.8	27.9	5.1	7.3	18.3	19.8
2003	...	...	...	...	18.0	20.1

Source: IBGE

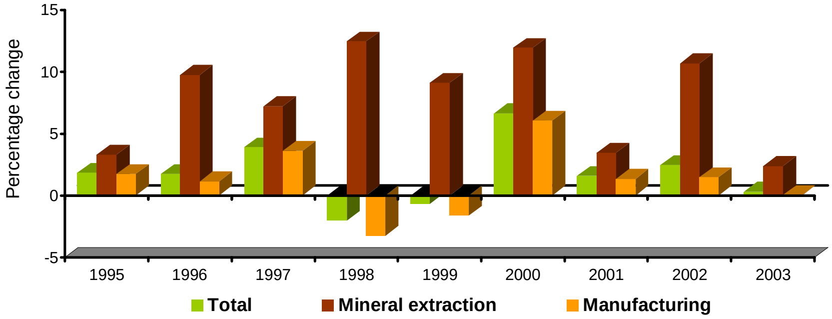
Disbursements made by the BNDES System – National Bank of Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – totaled R$33.5 billion in 2003. This result reflects a real drop of 27% compared to 2002, when the General Price Index – Internal Supply (IGP-DI) is used as deflator. On an activity-by-activity level, declines were registered in the financing targeted to all sectors, with particularly sharp drops in operations with the manufacturing sector, 24.5%, and with the sector of services and commerce, 32.4%.

The Long-Term Interest Rate (TJLP), the basic cost of the financing contracted with the BNDES System, was reduced to 11% per year in the final quarter of 2003, returning to the level in effect at the start of the year. This rate had risen to 12% per year in the second and third quarters of 2003.

Industrial output indicators

According to the Monthly Industrial Survey (PIM), which is carried out by the Brazilian Institute of Geography and Statistics (IBGE)[1], industrial activity expanded by 0.3% in 2003 as a result of highly distinct performances during the year. Consequently, in the first half of 2003, industrial production declined by 1.5% in relation to the final half of the previous year, based on deseasonalized data. Starting in the third quarter, the progressive reduction in interest rates that began in June, coupled with improved expectations stimulated an accentuated recovery in the pace of industrial activity, with a gain of 2.3% in production in the second half of the year, compared to the previous period.

Graph 1.2
Industrial production



Source: IBGE

Industrial activity during the year varied sharply from one industrial class to another. Mining turned in growth of 2.4% in 2003, registering particularly strong growth of 3.1% in the first six months of the year. In the subsequent six month period, the result was a falloff of 0.3% compared to the immediately previous period, primarily as a result of a halt in production on offshore oil platforms for maintenance purposes.

The output of the manufacturing sector, which was strongly impacted by the macroeconomic environment, remained at the same level as the previous year. Analysis of the results, based on deseasonalized data, points to a decline of 2.1% in the first half of the year and positive growth of 2.7% in the second, when compared to the previous half-year periods.

On a monthly basis, acceleration in the pace of industrial activity was concentrated in the period from July to September and was followed by somewhat more moderate

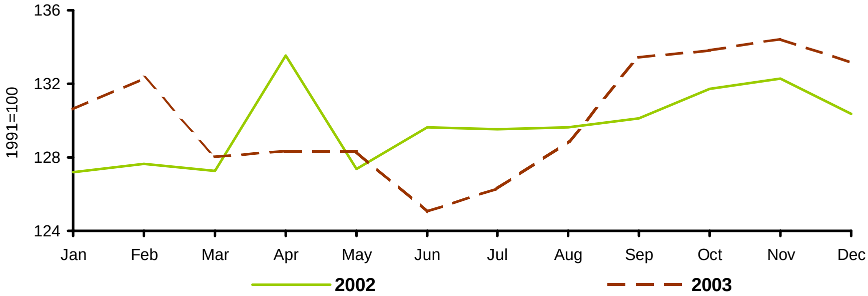
1/ On April 2004, IBGE will release revised data for the years 2002 and 2003, in accordance to the new methodology adopted by the Monthly Industrial Survey – Physical Production (PIM-PF). Howerer, results are not expected to be considerably different.

growth. A quarterly comparison points to a falloff of 2.2% in the second quarter and positive growth of 1.9% and 3.1%, respectively, in the third and fourth quarters, compared to the immediately previous period.

Graph 1.3

Industrial production

Seasonally adjusted data



Source: IBGE

Just as in the previous year, 2003 growth in the industrial sector was a consequence of the positive performance of the crop/livestock and foreign trade sectors. Consequently, those segments that supply the farm sector, such as fertilizers and agricultural machines, together with those that have strong participation in the export sector, such as minerals, steel and cellulose, registered more accentuated growth in the year. Among the items that made the most important contributions to 2003 industrial performance, mention should be made of farm tractors, stationary diesel engines, molded cast iron and steel, parts and stainless steel plates, petroleum and aluminum ore.

According to IBGE, growth in the production of insecticides and fungicides, 16.6%, as well as of other industrial products used by the farm sector, 17.2%, offset downward movement of 1.7% under industrial products derived from agriculture and 1.2% in industrial products used in the livestock sector. Consequently, the agribusiness complex repeated the trend of the last two years and expanded by 1.6% in 2003, which was higher than the average for the industrial sector as a whole.

Among the nineteen manufacturing segments surveyed by IBGE, eight managed to close with positive results. Special mention should be made of 8.9% growth registered by the mechanics industry, its fourth consecutive strongly positive annual expansion. Aside from mechanics, the most significant positive rates of growth were registered under rubber, 5.8%; metallurgy, 4.5%; wood, 4.1%; leather and hides, 2.9%; paper and cellulose, 2.8%; transportation equipment, 1.8%; and chemicals, 0.9%. In the opposite sense, accentuated downturns were registered by the following industries: pharmaceuticals, 18.7%; apparel and footwear, 12.4%; plastics, 10.8%; tobacco, 8.8%; beverages, 7.2%; textiles, 6.9%; and nonmetallic minerals, 6.1%.

In the second half of the year, the recovery process began among companies targeted to the domestic market and, therefore, considerably more sensitive to credit conditions. In this sense, based on data from which seasonal factors have been purged, the half-year period was marked by growth in the output of transportation equipment, 9.4%; furniture, 6.5%; and electric and communications equipment, 3.4%, compared to output in the first half of the year.

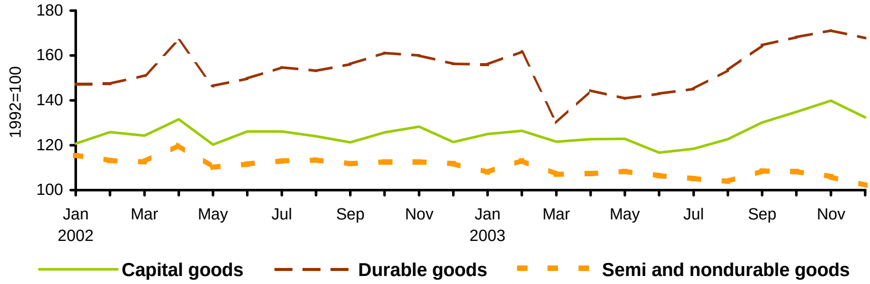
According to the National Association of Automotive Vehicle Manufacturers (Anfavea), automobile production expanded by 2% in the year, reaching total output of 1.8 million units, the same level registered in 2001. Foreign sales of automotive vehicles expanded by 26% in 2003 and accounted for 28.9% of overall sales or 5 p.p. more than in the previous year. Though internal sales declined by 4.9% in the year, closer analysis of this result points to a falloff of 13.5% in the first half of the year and positive expansion of 11.9% in the second half, indicating a strong upturn in internal vehicle demand in more recent months.

In the same sense, according to IBGE, output of home appliances dropped by 2.1% in 2003, though the final months of the year were marked by positive growth. In more specific terms, the first half of the year registered a production decrease of 10.8%, compared to the result for the latter half of 2002, while the second half was marked by positive growth of 18.5% when set against the previous half-year period. Once again, these figures have been purged of seasonal factors.

Graph 1.4

Industrial production – By category of use

Seasonally adjusted data



Source: IBGE

Analysis according to use categories also demonstrates the impact of exports, credit and overall wage levels on production. In this sense, the heading of intermediate goods, which concentrates the majority of the export segments, registered the highest rate of growth in the year, with 1.6%. Output of capital goods expanded by 1% in 2003, with a significant upturn in the final quarter. According to the Center of Foreign Trade Studies Foundation (Funcex), this result reflected demand for farm machines, as well as an increase of 16.1% in the volume of capital goods exports in the year.

Table 1.8 – Industrial production

Itemization	Percentage change		
	2001	2002	2003
Total	1.6	2.4	0.3
By category of use			
Capital goods	13.5	- 1.0	1.0
Intermediate goods	- 0.1	3.1	1.6
Consumer goods	1.2	0.9	- 4.4
Durable	- 0.6	2.7	- 0.5
Semi and nondurable	1.6	0.4	- 5.5

Source: IBGE

Following a decline of 7.1% in the first six months of the year, compared to the previous half-year period, output of durable consumer goods, which are particularly sensitive to credit conditions, moved into an upward curve, with growth of 10.9% in the second half of the year, when expressed in deseasonalized terms. More intensive growth in recent months, however, did not avoid a production decline of 0.5% under this category during the year.

Production of semidurable and nondurable consumer goods dropped by 5.5% in 2003, compared to positive growth of 0.4% in 2002. However, this sector of activity was strongly impacted by adverse labor market conditions, particularly the 12.6% decline in the habitual earnings of the working population, compared to monthly averages in 2003 and 2002. It is important to note that the foreign trade sector has powered the sales of specific segments of this category, such as footwear and foodstuffs, though this expansion was not sufficient to offset the falloff under internal demand.

From the regional point of view, production in the State of Espírito Santo expanded by 11.6% and was driven by the mining sector and manufacturing of cellulose and paper. Downward movement was concentrated in the states of Santa Catarina, 2.5%; Bahia, 1.9%; Ceará, with 1.4%; Rio de Janeiro, with 0.9%; and Minas Gerais, with 0.6%.

Real sales of the Brazilian manufacturing industry expanded by 0.4% in the year, according to figures released by the National Confederation of Industry (CNI), while real industrial sales in the State of São Paulo rose by 3%, based on data calculated by the Federation of Industries of the State of São Paulo (Fiesp).

The relative stability of manufacturing industry output in the year was reflected in the levels of utilization of installed production capacity which, according to the CNI,

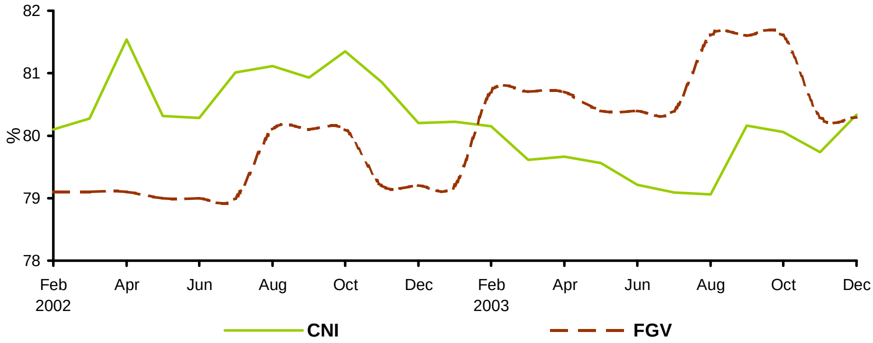
Table 1.9 – Selected capital goods production

Itemization	Percentage change		
	2001	2002	2003
Capital goods	13.5	- 1.0	1.0
Industrial	4.1	5.2	8.1
Serial	3.5	1.9	15.0
Non-serial	6.6	20.2	- 18.2
Agricultural	20.0	18.6	24.8
Agricultural parts	3.4	0.3	8.9
Building	18.3	0.0	- 18.6
Electric energy	42.6	- 27.0	- 26.5
Transportation	12.2	8.1	0.9
Mixed	2.8	- 0.9	- 2.8

Source: IBGE

moved to 78.6% in December 2003, the same level registered in December of the previous year. According to Fiesp data, median utilization of installed capacity in the State of São Paulo increased from 78.2% in December 2002 to 78.9% in the same month of 2003. The results calculated by the Getulio Vargas Foundation (FGV) for Brazil as a whole indicated a similar movement, as the level of utilization of installed capacity shifted from 79.2% in the final quarter of 2002 to 80.3% in the same period of 2003.

Graph 1.5
Industrial capacity utilization



Though the FGV figures do point to steady growth in the median level of installed production capacity in 2003, there are no signs that any of the important use categories are nearing the limits of their output capacity. In the various industrial sectors, few reached relatively high levels of utilization in the final quarter. Among those that came closest to their limits, mention should be made of paper and cardboard, 91.6%, rubber, 90.5%, and metallurgy, 90.4%, as well as part of the mechanics and petrochemical industries. Since these sectors are particularly important to the productive chain and to the foreign trade sector, there are clear indications that investments will have to be made in order to meet the demand of the nation's new foreign markets and of expected growth in internal demand.

Commerce sector indicators

Table 1.10 – Capacity utilization[1/]

Percentage

Itemization	2001	2002	2003
Manufacturing industry	80	79	80
Consumer goods	74	75	74
Capital goods	76	70	76
Building material	83	80	80
Intermediate goods	84	86	85

Source: FGV

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

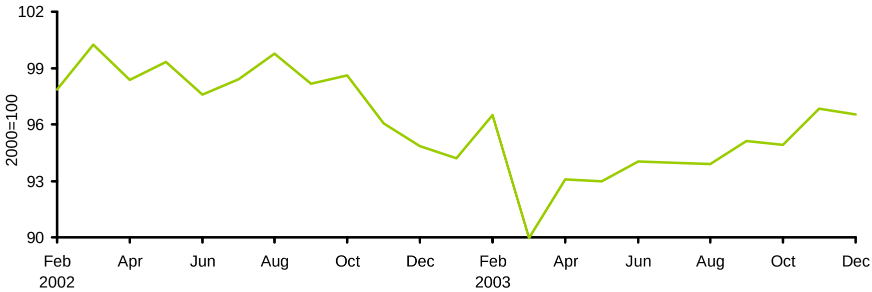
Retail sector indicators closed 2003 with negative results. Just as in the other segments of the economy, sales recovered in the third and fourth quarters and, above all else, reflected growth in credit operations.

According to IBGE's Monthly Survey of Commerce (PMC) which includes all states, the volume of retail sales dropped by 3.7% in 2003, despite the fact that analyses based on deseasonalized data indicate recovery in the second half of the year and, particularly, in the final quarter. A breakdown of the result according to categories indicates negative results in all activities surveyed, with especially strong reductions under supermarkets, fuels and lubricants, fabrics, apparel and footwear. Sales of the

Graph 1.6

Sales volume index in the retail sector

Seasonally adjusted data



Source: IBGE

automotive trade sector, which are not included in the calculation of the overall index, dropped by 7.2% in the year. At the state level, only six states registered positive retail sales growth in 2002, led by Rondônia, with 6.8%; Mato Grosso, 1.8%; and Paraná, 0.9%. The sharpest reductions occurred in Roraima, 13.2%; Paraíba, 9.4%; and Alagoas, 9.3%.

Data released by the Trade Federation of the State of São Paulo (Fecomercio SP) accompanied the tendency evident in the IBGE survey, indicating an overall drop in retail activity in 2003. Analysis of the metropolitan region of São Paulo shows that physical sales declined by 15.3%, reaching as low as 16.5% under consumer goods which, in turn, was caused by reductions of 12.7% under consumer durables, 15.4% under semidurable goods and 18% under the heading of nondurable consumer goods. Following sharp recovery in the second half of the year, automotive sales closed the year with overall growth of 1.2%, while sales of building materials declined by 16.9%. It is important to observe that the IBGE survey is different from that performed by Fecomercio SP not only in terms of the geographic area covered but also in methodological terms since the IBGE sample involves only companies with twenty or more employees.

Other indicators confirmed the downturn in consumption in 2003. According to the Trade Association of São Paulo (ACSP), the number of consultations with the Credit Protection Service (SPC) and the Usecheque system dropped by respective rates of 1.4% and 1.3% in the year, when compared to 2002.

Table 1.11 – Physical sales of the retail sector in São Paulo[1/]

Percentage change

Itemization	2001	2002	2003
Total	- 6.3	0.0	- 15.3
Consumer goods	- 6.7	2.4	- 16.5
Durable	- 4.5	- 5.1	- 12.7
Semidurable	- 25.5	- 13.2	- 15.4
Nondurable	- 4.6	8.9	- 18.0
Automotive trade	1.0	- 20.1	1.2
Building material	- 5.2	- 10.1	- 16.9

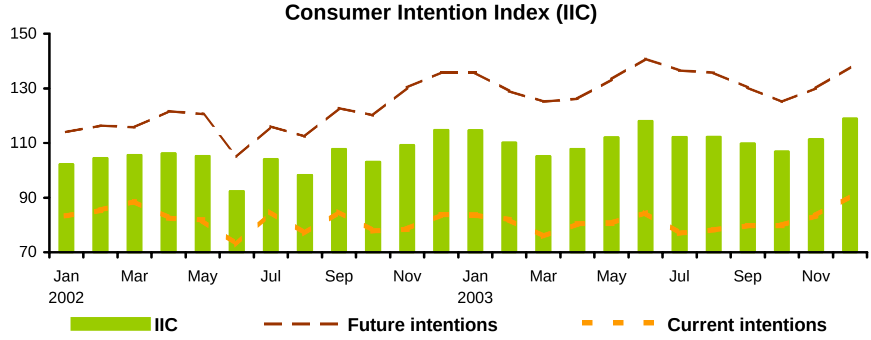
Source: Fecomercio SP

1/ Deflated by IPCA.

Default indicators registered highly distinct results in 2003. The ratio of checks returned due to insufficient backing to total checks cleared in the country came to 5.3% in the year, compared to 4.7% in 2002. In the opposite sense, the net default rate in the Metropolitan Region of São Paulo, as measured by the ACSP, came to 5.2% in 2003, compared to 6.4% in 2002. This reduction was to some extent a consequence of the 8.2% rise in the number of occurrences cancelled, reflecting the fact that consumers are targeting their available funds into payment of already contracted debts.

Surveys on consumer expectations generated more optimistic results than in 2002. The Consumer Intentions Index (IIC), released by Fecomercio SP, registered growth of 6.9% in 2003 and was impacted by the 10% increase in the Future Intentions Index, which accounts for 60% of the overall index. The Index of Current Intentions, which represents the remainder of the general index, declined by 0.5% in the year.

Graph 1.7
Consumer Intention Index (IIC)



Source: Fecomercio SP

The quarterly National Consumer Expectations Index (Inec), which is calculated by the National Confederation of Industry (CNI), expanded by 4.1% in 2003. Among the components of the general index, the best results was registered under improved expectations regarding inflation, reflecting the turnaround that had occurred in the previously accelerated upward price trajectory.

Crop/livestock output indicators

According to data drawn from the Systematic Farm Production Survey (LSPA), which is calculated by IBGE, national grain production came to 123.2 million tons, for growth of 26.8% compared to 2002. The underlying reasons for this growth were 9.9% expansion in the area under cultivation and 15.4% growth in average yield. For the most part, this performance was a consequence of growth in the production of wheat, soybeans, cotton, corn and beans, all of which benefited from intensified use of agricultural inputs, continued investments in mechanization and highly favorable climatic conditions.

A breakdown of the nation’s overall grain production indicates that 112.5 tons were harvested in the South, Central-West and Southeast regions, with respective growth rates of 36.1%, 19.9% and 15.1% in that order. Though they had less overall participation (8.7%), production in the northeast and north of the country registered strong growth of 25.1% and 22.2%, respectively.

Table 1.12 – Agricultural production – Major crops

Millions of tons

Products	2002	2003
Grain production	97.2	123.2
Cotton seed	1.4	1.4
Rice (in husk)	10.5	10.2
Beans	3.1	3.3
Corn	35.5	47.8
Soybeans	42.0	51.5
Wheat	2.9	5.9
Others	1.8	3.0
Change in grain production (%)	- 1.4	26.8
Other crops		
Bananas	6.5	6.5
White potatoes	2.9	3.1
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.5	2.0
Sugarcane	363.7	389.9
Tobacco (in leaf)	0.7	0.6
Oranges	18.4	16.9
Cassava	23.1	22.2
Tomatoes	3.6	3.6

Source: IBGE

When one looks at the major products, the soybean harvest turned in growth of 22.6% in the year, with total output of 51.5 million tons. The State of Mato Grosso, which is the major production center of the country, closed with 12.7 million tons, while productivity was highest in Paraná, with 3,019 kg/ha, followed by Mato Grosso do Sul, with 2,899 kg/ha and Rio Grande do Sul, with 2,667 kg/ha.

In 2003, the failure of the United States harvest, coupled with greater external demand, particularly in the case of China, generated sharp upward movement in prices and acted as an added incentive to Brazilian crop production. As a result, producers began expanding the output of such other crops as corn and beans. In this context, foreign sales of soybeans reached a level of 19.9 million tons or 24.6% more than in 2002, according to the Foreign Trade Secretariat (Secex) of the Ministry of Development, Industry and Foreign Trade (MDIC).

Corn production totaled 47.8 million tons in the two harvests, corresponding to growth of 34.7% over the 2002 harvest. In the first harvest, the total came to 34.8

million tons, for an increase of 18.7% in the year. Here, the underlying factors were 2.7% expansion in the area under cultivation and 15.5% in median productivity. Even though a shortage of rainfall was somewhat damaging to the first stage of the cultivation period and a rather large number of producers had migrated to soybeans, the results were still positive. In the second harvest, production came to 13 million tons, for growth of 110% in the year, reflecting expansion of 33.5% in the area harvested and 57.5% in average yield. The strong performance registered by this harvest was a consequence of high international prices, which favored expansion of the area under cultivation, as well as rather good climatic conditions and intensified utilization of inputs which aided in enhancing productivity. One should also stress that demand for this product, which is one of the major components of animal feed, was also driven by increased foreign sales of meats.

Output of wheat came to 5.9 million tons or 102% more than in 2002. Particularly in the State of Paraná, which is the major wheat producing region in the country, output set a new record, principally as a result of favorable climatic conditions which, together with such factors as improved soil conditions and renewed genetic material, contributed significantly to improved productivity. One should further stress that the prices in effect in the previous year, caused by adverse climatic conditions in the States of Paraná and Rio Grande do Sul, acted as an incentive to producers in 2003. The area harvested increased by 21.7% and yield expanded by an average of 65.7%, closing at a level of 2,371 kg/ha in the year.

Rice production closed with a volume of 10.2 million tons, for a reduction of 2.6% compared to the 2002 harvest. Productivity closed at 3,238 kg/ha, for a reduction of 2.7%, while the area under cultivation increased by 0.1%. Basically, the falloff in production was due to the excess rains that occurred during the planting period in the southern region of the country, which accounts for 58% of the country's overall production. The 2003 harvest in that region closed at 5.9 million tons, or 10.1% less than in the previous year.

Viewed under the prism of the three annual harvests, production of beans came to 3.3 million tons, for an increase of 8.5% in comparison to the 2002 harvest, despite the fact that the area under cultivation diminished by 0.9%. The first harvest totaled 1.7 million tons, with growth of 1.3% in volume and a productivity increase of 4%, despite a 2.6% reduction in the area harvested. In this case, only the southern region managed to register increases in both output and area planted, despite the fact that excessive rain was prejudicial to the crop in both Rio Grande do Sul and Santa Catarina. As far as the second harvest is concerned, production of this crop came to 1.2 million tons, for growth of 14%. Average yield expanded by 14%, mostly reflecting favorable climatic conditions. Finally, the third harvest turned in the year's best results and was driven mainly by the attractive prices obtained by producers in the first and second harvests. with this, production closed at 461 thousand tons of grain, for growth of 24.2%, and expansion of 14% in the area harvested and 8.9% in median productivity.

Table 1.13 – Agricultural production, harvested area and average earnings

Major crops

Percentage change

Products	Production		Area		Average earnings	
	2002	2003	2002	2003	2002	2003
Grain production	- 1.4	26.8	7.6	9.9	- 8.4	15.4
Cotton (seed)	- 18.2	1.6	- 13.4	- 6.6	- 5.6	8.7
Rice (in husk)	2.8	- 2.6	0.2	0.1	2.7	- 2.7
Beans	24.4	8.5	20.3	- 0.9	3.4	9.4
Corn	- 15.4	34.7	- 4.4	9.7	- 11.5	22.8
Soybeans	10.9	22.6	17.0	13.0	- 5.2	8.5
Wheat	- 13.1	101.6	18.3	21.7	- 26.5	65.7

Source: IBGE

In 2003, total production of processed coffee came to 2 million tons or 21% less than in the record 2002 harvest. The major producer states, Minas Gerais and Espírito Santo, which accounted for more than 70% of overall output, registered production declines due to adverse climatic conditions and low international prices. In the latter case, the price decline was a response to a high level of supply and discouraged producers from intensifying use of more efficient inputs in their crops.

The sugar cane harvest totaled 389.9 million tons, or 7.2% more than in 2002. Both the area under cultivation and productivity expanded by 4.9% and 2.3%, respectively. This performance was powered by sugar and alcohol prices in the period in which planting decisions are taken, as well as by an agreement between the sugar-alcohol production sector and the government, with the aim of ensuring supply of the product.

Livestock

According to the Quarterly Survey of Animal Slaughters, which is calculated by the IBGE, the livestock sector continued expanding in 2003. This result was powered by increased exports made possible, to some extent, by the opening of new markets for the country's products. The segment of beef registered the highest annual growth, with 6%, followed by poultry, with 3.7%, and pork, with 1.7%. With respect to total carcass weight, the beef sector closed with 5 billion tons, while the poultry sector registered 6.3 billion tons and the swine sector with 1.9 billion tons.

Table 1.14 – Grain stock – Major crops

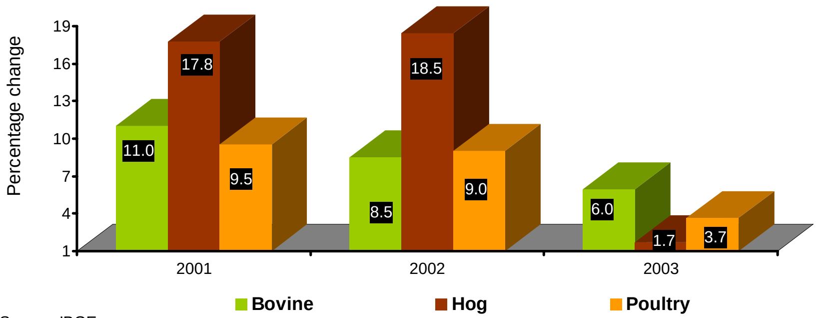
Thousands of tons

Products	2000/2001	2001/2002	2002/2003
Grain production			
Rice (in husk)			
Beginning of the year	1 824.9	1 360.1	763.4
End of the year	1 360.1	763.4	502.0
Beans			
Beginning of the year	270.5	104.5	167.2
End of the year	104.5	167.2	435.2
Corn			
Beginning of the year	3 534.8	4 218.9	1 049.6
End of the year	4 218.9	1 049.6	5 848.7
Soybeans			
Beginning of the year	2 562.0	2 388.8	2 055.7
End of the year	2 388.8	2 055.7	3 988.4
Wheat			
Beginning of the year	716.5	770.5	763.9
End of the year	770.5	763.9	571.6

Source: Conab

Graph 1.8

Animal production



Source: IBGE

With regard to exports, shipments totaled 1.9 million tons of poultry, 620.1 thousand tons of beef and 458 thousand tons of pork, corresponding to annual increases of 20.1%, 44.1% and 2%, respectively.

Farm policy

The resources injected into the 2003/2004 Crop Livestock Plan by the Ministry of Agriculture, Livestock and Supply (Mapa) totaled R$32.6 billion or 25.8% more than in the previous harvest. Of this total, R$21.4 billion were channeled into current expenditures and marketing costs, with R$16.4 billion at fixed rates and R$5 billion at market rates. At the same time, an additional R$5.8 billion were forecast for investment programs financed with resources supplied by BNDES, Constitutional Funds (north, northeast and central-west) and the Rural Employment and Income Generation Program (Proger Rural), aimed at making the crop/livestock sector more competitive. Aside from these resources, R$5.4 billion were channeled through the National Program of Strengthening Family Farming (Pronaf), which is administered by the Ministry of Agrarian Development (MDA).

Greater incentives have been given to Floor Price Policy (PGPM), with priority to basic foodstuffs. Prices were defined following analysis of the variable costs of production in the different regions of the country, market fundamentals and outlook and export and import parities.

Resources for Proger rural were increased by 150% and are being targeted to producers with annual gross income above the limit defined for the Pronaf target public. With this, the government sought to reach a greater number of rural workers, covering those with areas corresponding to up to fifteen fiscal modules and with annual gross income of up to R$80 thousand and providing for their needs through the program's financing agents.

In the context of the Program of Support to the Marketing and Stocking of Products, as well as the basic PGPM and rural credit instruments – Federal Government Acquisitions (AGF),Federal Government Loans (EGF), Rural Product Bills (CPR), Promissory Notes and Rural Invoices – and the Special Line of Marketing Credits (LEC), the Mapa budget proposal called for allocation of R$3 billion for direct purchases from producers, options contracts and price equalization programs based on sales option contracts, product outflow premiums (PEP) and product outflow value (VEP).

Productivity

Productivity indicators in the primary and secondary sector performed in highly distinct manners in 2003. Industrial productivity, understood as the ratio between the index of physical production of the sector, as announced by IBGE, and the indicator of hours paid in production, which is calculated by the CNI, dropped by 0.3% in 2003, the fourth consecutive decrease, compared to a reduction of 0.1% in the previous year. A comparison among the states shows declines in three of the ten states surveyed, with 11.4% in Bahia, 5.8% in Santa Catarina and 2.3% in Minas Gerais. The highest growth was registered in Espírito Santo, 11.4%; Ceará, with 7.7%; and Rio de Janeiro, with 6.7%, while industrial productivity in São Paulo increased by 1.2%.

The farm sector registered a high of 15.4% in the average yield of grain production, calculated as the ratio between output and area under cultivation, compared to a reduction of 8.4% in 2002, which had interrupted two consecutive years of strong increases. For the most part, this growth was due to climatic conditions. Here, one should stress that, following the trend perceived in previous years, the utilization of inputs expanded in the year. Physical sales of fertilizers expanded by 19.3%, according to the National Association for Dissemination of Fertilizers (Anda), while sales of farm machines and equipment expanded by 17.3%, according to Anfavea data.

Energy

In 2003, petroleum production, including Natural Gas Liquid (NGL), continued on the growth curve begun in 1992, registering expansion of 3.5%, according to the National Petroleum Agency (ANP). Output came to 1.6 million barrels/day (mbd), compared to 1.5 mbd in 2002. The highest production level occurred once again in the month of August with 1.6 mbd and the lowest in November and December, with 1.5 mbd. The falloff in output in the final months of the year is explained by programmed and normal stoppages for purposes of maintenance at the production sites. Production of natural gas increased by 1.7% in 2003, reaching a level of 272 thousand barrels/day.

Total oil processed at the nation's refineries declined by 0.6% in 2003, registering an increase of 1.2% in the participation of national petroleum, which moved to a level of 79%. Petroleum imports declined by 4.7% in the year, closing at 343.3 thousand barrels per day. Exports expanded by 2.9% to 242.7 thousand barrels per day. Once again, this result reflects growth in the production of heavy oil beyond the level of internal refining capacity. Data on production and exports and imports of petroleum indicate apparent consumption of 1.7 mbd, with national production accounting for 94% of the total.

Internal sales of petroleum derivatives declined by 5% in 2003, with reductions in all segments of consumption. The cutback in the marketing of fuel oils came to 18.6%, followed by decreases under liquefied petroleum gas (LPG), with 6%; gasoline, with 4.5%; and diesel oil, with 2.7%. Overall consumption of alcohol diminished by 6.8%, for a reduction of 1.4% in sales of anhydrous alcohol, which is mixed into the nation's gasoline supply, and 14.8% in sales of hydrated alcohol.

National electricity consumption expanded by 3.7% in 2003, according to Centrais Elétricas Brasileiras (Eletrobrás), with expansion of 5% in the commercial segment; 4.8% in residential use; 1.8% under industry; and 6.2% under the remaining categories. All of the various regions registered growth in consumption, with rates in a range varying from 1.5% in the southeast to 13.5% in the central-west region.

Table 1.15 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2001	2002	2003
Petroleum	1 386	1 355	1 287
Fuel oil	156	132	107
Gasoline	301	293	280
Diesel oil	639	648	630
Liquid gas	218	209	196
Other derivatives	72	74	74
Fuel alcohol	140	155	145
Anhydrous	81	92	91
Hydrated	59	63	54

Source: ANP

Table 1.16 – Electric energy consumption[1/]

GWh

Itemization	2001	2002	2003
Total	283 257	289 868	300 652
By sectors			
Commercial	44 434	45 256	47 525
Residential	73 622	72 660	76 168
Industrial	122 539	127 626	129 884
Other	42 663	44 326	47 075

Source: Eletrobrás

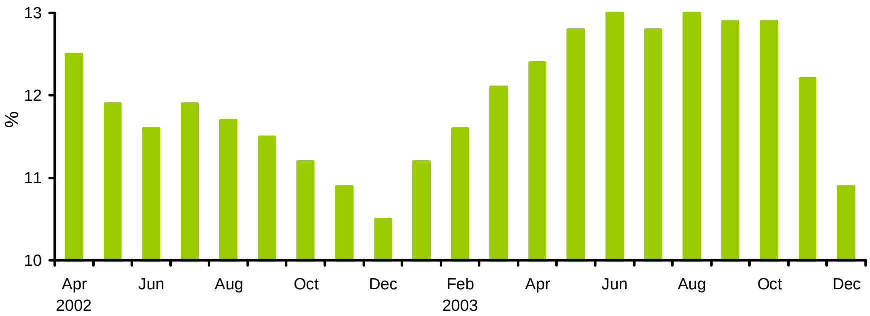
1/ Self-producers not included.

Employment indicators

According to the IBGE's Monthly Employment Survey (PME), which is calculated in six metropolitan regions, the rate of open unemployment reached 12.3% in 2003, compared to 11.7% in the previous year. Reflecting the adverse economic environment, the rate of unemployment followed an upward curve in the first half of the year, closing in the range of 13%. In the second half of the year, this movement was halted with the start of a gradual process of recovery in the pace of economic activity, which further accentuated in the last two months of the year.

It should be stressed that the increase in the jobless rate in 2003 resulted from generation of a quantity of job positions that was insufficient to absorb the number of workers joining the economically active population, although the average number

Graph 1.9
Median unemployment rate



Source: IBGE

created was higher than the level registered in recent years in percentage terms[2]. In 2003, the economically active population expanded at a pace that was unprecedented since the survey was first carried out, coming to 5.5% from March to December, when compared to the same period of 2002. Basically, this behavior may well have been due to people who had stopped looking for work returning to the job market, particularly as a result of improvements in expectations when compared to 2002, as demonstrated by the different surveys on confidence levels.

Analysis on the basis of labor categories indicated continued growth in informal employment. In absolute terms, the PME shows that the major share of the jobs created in 2003 was concentrated in the informal sector of the economy, with expansion of 8.4%. By way of comparison, jobs in which workers are duly registered expanded by just 1.1% while the self-employed and employers increased by 8.2% and 14.3%, respectively.

An evaluation by metropolitan region shows growth in the unemployment rate in four of the regions surveyed, with a particularly sharp increase in Salvador where average joblessness in the year closed at 16.7%. The metropolitan region of Rio de Janeiro managed to reduce unemployment from 10.1% in 2002 to 9.2%, while the rate in Belo Horizonte remained stable at 10.8%.

In the entire country, formal employment expanded in 2003, though at a less intense pace than in the previous year. According to the Ministry of Labor and Employment (MTE), 645 thousand positions were created for registered workers, compared to 762 thousand in 2002. A sectoral analysis indicates that the service sector produced the most dynamic performance, creating a total of 260 thousand jobs, followed by the sector of commerce, with 226 thousand, manufacturing with 129 thousand, and crop/

2/ The growth of occupied people as compared to 2002 figures came to 4,5% when March to December data of the new PME are considered. Data from January and February 2002 where not included since distortions coccurred. Annual changes for the period from 1991 to 2002 were calculated using data from the former PME. In percentage terms, job creation in 2003 was the highest in the period from 1991 to 2003.

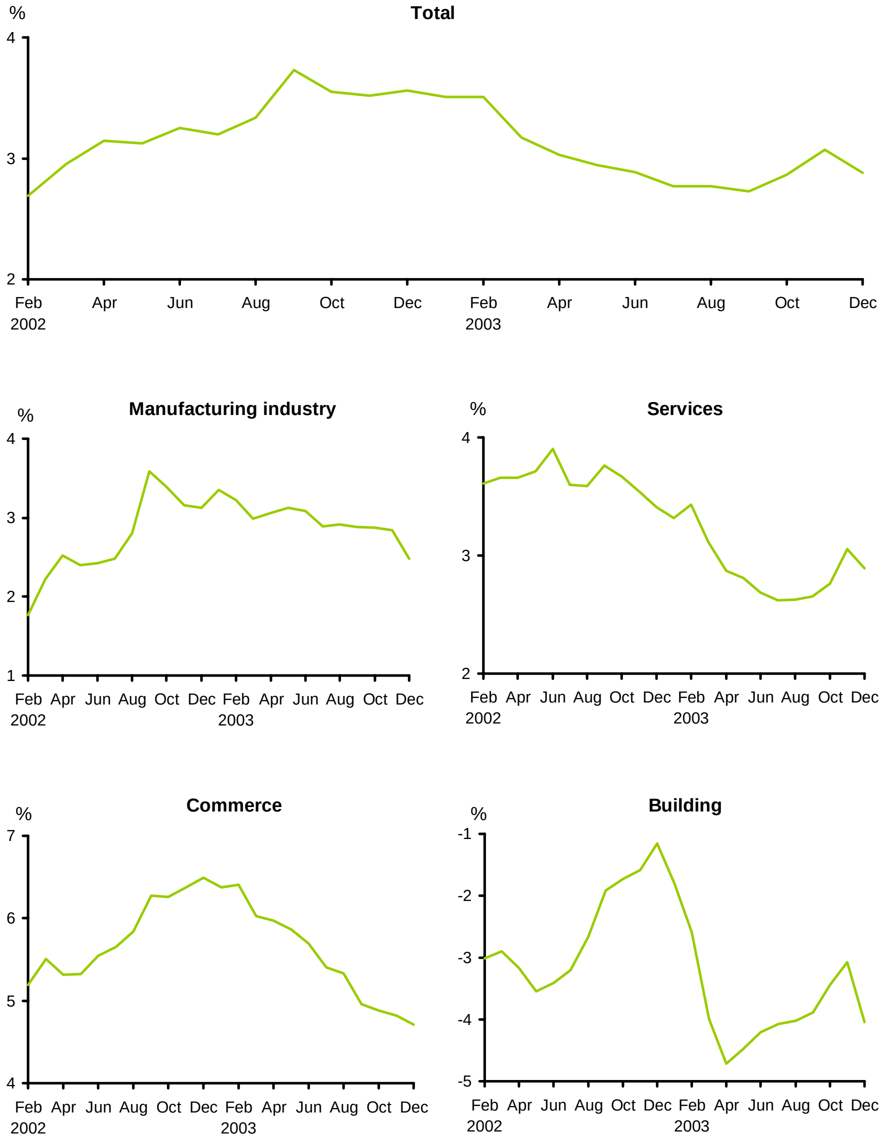
livestock activities with 58 thousand. The only sector to register a reduction in the number of openings in 2003 was the building industry, with elimination of 48 thousand jobs, maintaining a tendency that dates to 1998.

With regard to unemployment compensation, MTE figures indicate growth of 3.2% in the number of persons requesting coverage, when compared to 2002, raising total requests to 5.04 million, of which 4.94 million received affirmative responses. Half of the requests were submitted by workers earning up to one minimum monthly

Graph 1.10

Level of formal employment

Percentage change in 12 months



Source: Ministério do Trabalho e Emprego wage; 31.5% by those earning from 1 to 3 times the value of the minimum wage; 11.3% in the range of 3 to 5 times the minimum wage; while 6.5% of demand originated with workers earning more than 5 times the minimum wage.

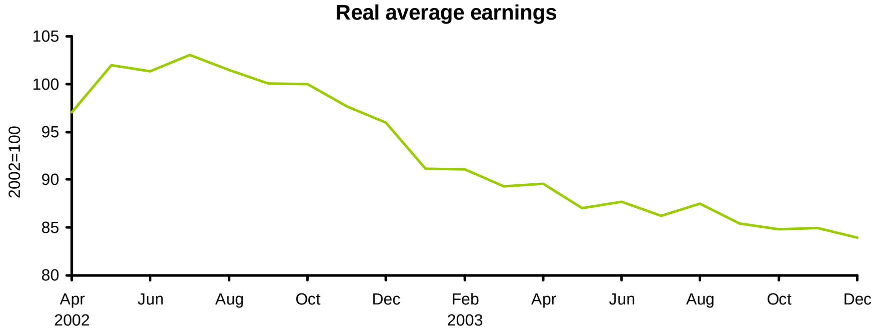
According to the Seade Foundation's Survey of Employment and Unemployment, carried out jointly with Dieese, median overall unemployment in the metropolitan region of São Paulo came to 19.9% in 2003, compared to 19% in the previous year, registering the second consecutive annual increase. Consequently, just as in the figures calculated by the IBGE, the jobs created were not sufficient to meet demand on the part of workers entering the economically active population of the region. Consequently, the ranks of the unemployed closed December at 1.9 million. On a sector-by-sector basis, vacancies in the manufacturing sector declined by 3.2%, while the sector of commerce remained stable and jobs available in the service sector increased by 1.4%

In the industrial sector, the employment level calculated by CNI in twelve states increased by 0.7% in 2003, following a reduction of 0.1% in 2002. Among the sharpest reductions, mention should be made of Rio de Janeiro, with 2.6%; Pernambuco, with 2.3%; and São Paulo, with 1.2%. The other states surveyed registered growth in employment positions in the industrial sector, particularly in Goiás, with 9.3%; Amazonas, with 6.8%; and Ceará, with 5.9%.

Wage and earnings indicators

According to the PME, the nominal median earnings of workers remained unchanged over the course of 2003, mainly reflecting the reduction that occurred in the level of economic activity in the first half of the year. Notwithstanding the fact that, in the second half of the year, the improved economic scenario made it possible for several important worker categories to obtain more favorable wage agreements, at

Graph 1.11
Real average earnings



Source: IBGE

the same time in which inflation subsided, real median habitual earnings[3] dropped by 12.6%, compared to 2002. The loss of purchasing power occurred in all job categories and reached a level of 20.8% among the self-employed, 8.4% among registered workers and 7.9% among those working within the informal economy.

Table 1.17 – Real average earnings of occupied people[1/]

Percentage change

Itemization	2002	2003
Total	- 7.3	- 9.5
Job position		
Registered	- 10.9	- 4.9
Unregistered	- 3.0	- 4.1
Self-employed	- 20.9	- 12.1
By sector		
Private sector	- 9.1	- 5.1
Public sector	- 10.3	- 6.5

Source: IBGE

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

The median value of nominal initial wages in the formal sector of the economy increased by 10.1% in 2003, closing at a level of R$451.90, according to national data released by the MTE. In real terms, when one considers the INPC as deflator, this salary declined by 6.2% in the year. A sectoral analysis revealed a generalized downturn in real wages that was most accentuated under the heading of public utility industrial services, 10%, followed by crop/livestock activities, with 9.9%, and services, with 9.5%.

Real average earnings in the metropolitan region of São Paulo declined by 6.7% in 2003, according to data released by the Seade Foundation and Dieese and deflated by the ICV-Dieese. The loss absorbed by salaried workers came to 4.9%, compared to 10.8% under the heading of nonsalaried employees. On a sector-by-sector basis, the most significant losses occurred under employees of the construction industry and commerce, both of which closed with 7.7%, followed by services, with 6.1%, and industry, with 5.1%.

In the industrial segment, the CNI survey indicated a reduction of 4.2% under real wages in 2003. After registering a lag at the start of the year when compared to the levels in effect in the previous year, wages in the industrial sector began moving

3/ Considering the INPC as deflator. Unlike the calculations of effective earnings, when calculating habitual earnings gains with overhours, vacations, etc are not included.

gradually upward and, in the final two months of 2003, surpassed the level in effect in the same period of 2002. On a state-by-state basis, there was a generalized reduction in real wages in 2003, with the exception of Goiás, Bahia and Ceará.

The value of the minimum monthly wage moved from R$200.00 to R$240.00 in April 2003. It is important to note that the 25% increase was well above the 17.7% level of inflation registered in the period from April 2002 to March 2003, according to the INPC.

Price indicators

The evolution of prices in 2003 was impacted by the political transition to the new federal administration and, above all else, the effects of the transition on exchange, with repercussions for both government monitored prices and market prices. This movement prevailed during all of the first quarter of the year, a period in which the inflation rate accounted for more than 50% of the level registered by consumer price indices for the entire year. In terms of the general price indices, the period accounted for more than 70% of the final rate. At the same time, restricted supplies of several farm products of importance to the basic food supply exerted additional pressure on food prices in the course of the year.

At this point, one should underscore the success of the monetary policy measures adopted at the start of the year, with the objective of restricting the possibility of increases in prices in sectors directly impacted by exchange being transmitted to the other segments of the economy. The reach of these measures can be noted in the behavior of the prices of nontradables, particularly services, when compared to the prices of tradables, as well as in the reversal of market expectations in relation to the inflation trajectory over all of 2003. In this sense, at the start of the year, estimates for annual IPCA growth fluctuated in the range of 12%, dropping to 10% at the end of July and 9.6% at the end of the third quarter.

Once inflationary pressures had been overcome, price indices began registering relatively stable monthly rates of about 0.4%, a level fully consistent with inflation targets. The falloff in internal demand coupled with exchange appreciation and its repercussions on the prices of products impacted by the rate of exchange, especially gasoline, industrialized goods and meats, were the factors responsible for this behavior. With this, the Broad National Consumer Price Index (IPCA) came to 3% in the final eight months of the year, compared to 6.2% in the first four months.

Table 1.18 – IPCA items share in 2003

Percentage change

Groups	IPCA				
	Weight[1/]	Accumulated in the first half-year	Accumulated in the second half-year	Accumulated share in the year	Index share[2/]
IPCA	100.0	6.6	2.5	9.3	100.0
Foodstuffs and beverages	23.4	6.5	0.9	1.8	19.1
Housing	16.6	8.0	4.0	2.0	21.4
Housing products	5.6	5.9	1.0	0.4	4.3
Apparel	5.2	5.8	4.1	0.5	5.8
Transportation	21.2	6.7	0.5	1.6	17.0
Health and personal care	10.5	7.3	2.6	1.1	11.3
Personal outlays	9.0	4.0	5.3	0.9	9.5
Education	4.7	8.8	1.4	0.5	5.2
Communication	3.8	5.6	12.4	0.7	7.0

Source: IBGE

1/ In December 2003.
2/ It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

General price indices

The General Price Index – Internal Supply (IGP-DI), calculated by the FGV, which is composed of changes in the prices measured by the Wholesale Price Index – Internal Supply (IPA-DI), accounting for 60% of the index, and by the Consumer Price Index – Brazil (IPC-Br), with weight of 30%, and finally by the National Cost of Construction Index (INCC) with weight of 10%, expanded by 7.7% in 2003. This rate was below the level registered by the other indices, due to lesser growth in prices at the wholesale level, which were more sensitive to exchange appreciation over the course of the year. Consequently, the IPA-DI increased by 6.3% in the year, reflecting growth of 4.6% in the prices of farm products and 6.9% in industrial prices, while the IPC-Br expanded by 8.9% and the INCC shot upward by 14.4%, basically as a consequence of a rise of 17.4% in labor costs.

Consumer price indices

The IPCA, which reflects changes in prices for families with monthly earnings between 1 and 40 times the minimum monthly wage and is used as the parameter for the inflation targeting system, accumulated 9.3% growth in 2003. Though it closed above the target (adjusted) of 8.5% defined for the year, the change in the IPCA was significantly below expectations of more than 12% that had prevailed in the early part of the year. At the start of the year, the trajectory of the indicator reflected not only accentuated pressure for exchange depreciation in 2002, stressing that the IPCA expanded by 6.2% in the first four months, but also the upward movement in government monitored prices, also as a result of alterations in the rate of exchange, and items from the grouping of foodstuffs. Among these, the largest pressures were generated by the prices of semi-elaborated foodstuffs, which increased by 9.3%; rice, 25.2%; poultry, 13%; and beef, 9,4%.

Table 1.19 – IPCA items share in 2003

Percentage change

Groups	IPCA					
	Weight[1/]	Accumulated variation in first semester	Accumulated variation in the year	Accumulated share in first semester	Accumulated share in the year	Index share[2/]
IPCA	100.0	6.6	9.3	6.6	6.6	100.0
Managed	28.9	8.9	13.2	2.6	3.8	56.6
Agricultural	16.5	9.1	9.0	1.3	1.5	22.4
Exchange	14.2	4.3	6.6	0.6	0.9	14.3
Services	20.2	4.3	7.3	1.0	1.5	21.8
Others	20.2	5.7	8.2	1.2	1.6	24.8

Source: IBGE

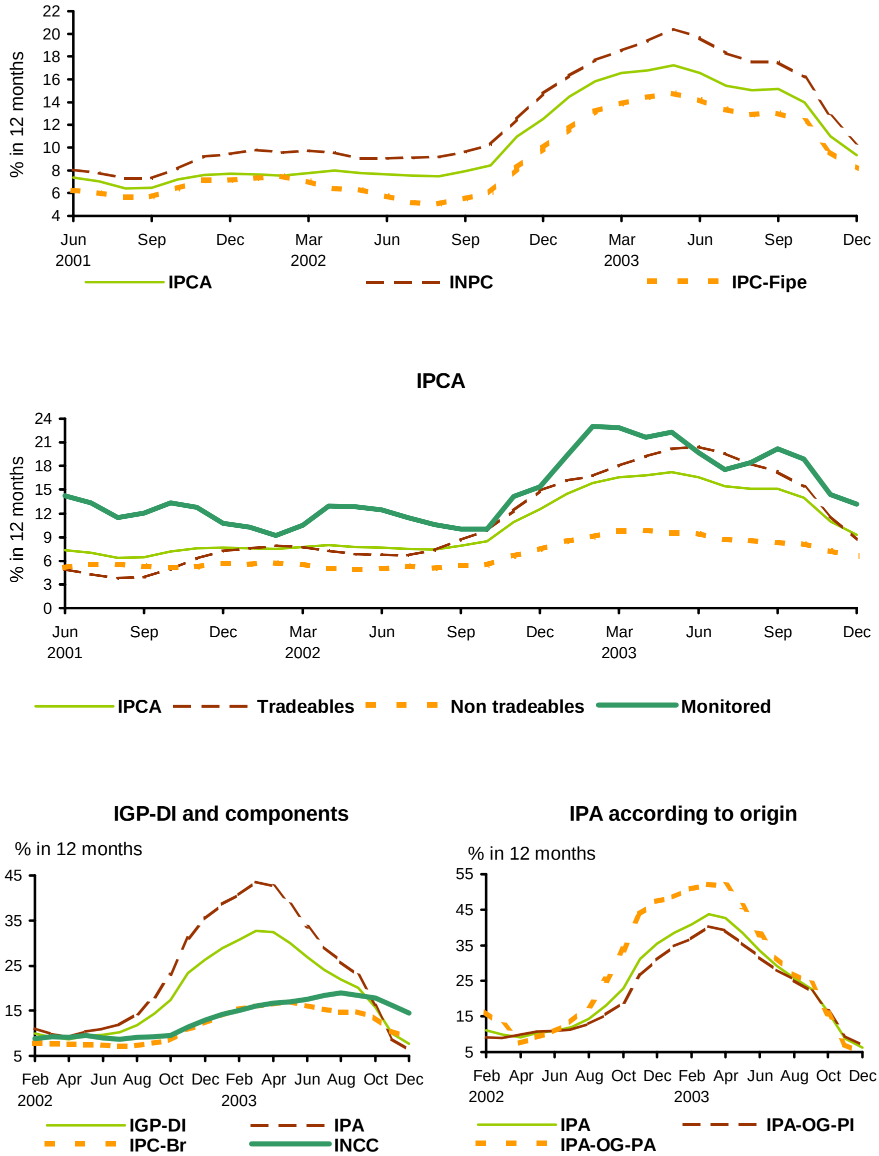
1/ In December 2003.

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

The INPC, which is also calculated by the IBGE, accumulated 2003 growth of 10.4%. This indicator differs from the IPCA, principally in that which concerns its target public, which corresponds to families with monthly earnings between 1 and 8 times the minimum wage. The higher growth in the INPC in the year when compared to the IPCA is explained by its weighting structure, which gives greater importance to the groupings of foodstuffs and government monitored prices, particularly public transportation and electricity, both of which exerted strong inflationary pressures during the entire year.

The IPC-Fipe, which is calculated for families with earnings between 1 and 20 times the minimum wage in the Metropolitan Region of São Paulo (RMSP), registered inflation of 8.2% in 2003. The IPC-Br, which is calculated by the FGV, encompasses twelve state capitals and accumulated growth of 8.9%. Among the major impacts on inflation in the year, mention should be made of increases in outlays on housing, with 10.5%, and diverse expenditures, with 15.9%.

Graph 1.12
Consumer price indices



Source: IBGE, Fipe and FGV

Government monitored prices

In 2003, government monitored prices[4] expanded by 13.2% and accounted for approximately 40% of the change in the IPCA in the year, corresponding to 3.76 p.p.

4/ Monitored prices are understood as those which are directly or indirectly defined by the federal, state or municipal governments. In certain cases, readjustments are set by contracts between producers suppliers and their corresponding regulating agencies as, for instance, in the cases of electricity and fixed telephone systems.

The items that exerted the strongest pressures on inflation in the period were lotteries and urban bus fares, fixed telephone, water, sewage and electricity services, which were responsible for about 72% of the overall growth in government monitored prices in the year. At this point, mention should be made of the very small increases registered under gasoline (1.2%) and bottled gas (2.9%), both of which reflect short-term changes in the rate of exchange. These two items are quite different from electricity prices, since changes in this case are still being impacted by the depreciation that occurred in 2002. Also with regard to fuels, emphasis should be given to the 12.6% drop in alcohol prices, as a result of the good sugar cane harvest.

Table 1.20 – Major items included in the IPCA during 2003

Percentage change

Itemization	IPCA		
	Weight[1/]	Accumulated variation	Accumulated share
Index (A)	100.0	9.3	9.3
Non-monitored prices	71.1	7.8	5.5
Monitored prices	28.9	13.2	3.8
Selected monitored items			
Urban transportation	5.1	20.9	0.9
Electric energy	4.6	21.4	0.8
Barreled cooking gas	1.7	2.9	0.1
Gasoline	4.1	1.2	0.1
Lottery games	0.2	43.1	0.1
Telephone	3.3	19.1	0.5
Water and sewage rate	1.8	21.0	0.3
Health care	2.4	8.7	0.2
Total (B)	23.1	...	3.0
Share (B/A)			32.6

Source: IBGE

1/ In December 2003.

Urban bus fares, which are stipulated at the municipal administration level, were the item that exerted the greatest pressure on the IPCA in the year. On average, these fares increased by 21% in 2003.

With regard to fixed telephone services, price changes are authorized by the National Telecommunications Agency (Anatel) every twelve months, after due analysis of the impact of changes in the IGP-DI on overall services provided. In 2003, a judicial decision determined that the index used to adjust these prices would be the IPCA accumulated in the 12 month period ended in May. The change in rates during the year came to an average of 19.1%.

In 2003, median increases in electricity rates came to 21.4%, varying from 6.1% in Curitiba to 44.1% in Belo Horizonte. These increases follow a schedule elaborated by the National Electric Energy Agency (Aneel), which specifies the period for the annual price increase permitted to the concession companies. The percentage authorized by Aneel takes due account of manageable costs, which are adjusted principally according to the IGP-M accumulated in the twelve month period prior to the increase, and the nonmanageable costs, such as electricity purchased and power transmission costs which, among other factors, reflect exchange rate variations.

Water and sewage rates increased by 21% in 2003, reflecting increases in 10 of the 11 regions surveyed, while the prices of lottery tickets expanded by 43.1%. Among the six games that make up the heading of lotteries, two were increased by 100%, though it is important to stress that these prices had not been adjusted since August 1999, when the costs of lotteries began to be collected by the index.

Cores

The core is formed by excluding government monitored prices and food taken at home from the IPCA. With the exception of March, these rates declined up to the month of July. From August to November, the indicator remained stable in the range of 0.4%, while December was marked by a sharp rise, basically as a result of increases in the prices of apparel and changes in cigarette prices. In 2003, the core expanded by 8.17%, compared to 8.3% in the previous year.

Table 1.21 – Consumer prices and core inflation in 2003

Percentage change

Itemization	2002	2003		
		1 H	2 H	In the year
IPCA	12.5	6.6	2.5	9.3
Exclusion	8.3	5.5	2.5	8.2
Trimmed means				
Smoothed	8.8	6.6	4.2	11.1
Non smoothed	8.5	5.7	2.5	8.3
IPC-Br	12.2	6.6	2.2	8.9
Core IPC-Br	8.8	6.5	3.0	9.7

Source: IBGE and FGV

Based on the method of rounded smoothed medians, the core accumulated a high of 11.11% in the year. This median is obtained by eliminating the items with the highest and lowest changes, until the items complete 20% of the weight at each extremity, and by 12-month forward distribution (smoothing) of specific items with increases concentrated in just a few months of the year, such as education, electricity and communications. Due precisely to the smoothing process, this measurement registered the highest rate in 2003, since it was clearly contaminated by inflation in 2002.

Based on nonsmoothed rounded medians, the core increased by 8.35% in the year. In the first five months of 2003, the core registered accentuated deceleration, signaling the future price trajectory more efficiently than the other secondary measurements. This performance is basically attributed to the fact that the indicator was not contaminated by past inflation.

II

Money and Credit

Monetary policy

Brazilian monetary policy in 2003 was circumscribed by deteriorating expectations as of the fourth quarter of 2002 and by the liquidity conditions encountered in the international economy. The supply shock that occurred in 2002 was provoked by cutbacks in external credits and led to increased short-term inflationary expectations, within a scenario of exchange market volatility and passthrough to internal prices. At the same time, inertial factors rooted in the rules covering increases in government monitored prices exerted added pressure on inflation indices.

However, the continued commitment to the inflation targeting system and stronger application of fiscal adjustment policy were key elements in placing the foundations of the Brazilian economy solidly on the road to recovery. The 2003 inflation target was adjusted from 4% to 8.5%, in order to avoid greater losses of product growth. Parallel to that decision, the fiscal surplus target was raised from 3.75% to 4.25% of GDP, in order to hold the public debt trajectory at manageable levels.

With the magnitude of the shocks that hit the Brazilian economy in the period, Banco Central made every effort to achieve – and clearly managed to do so – a sharp reduction in the growth rates of major price indices, as the trajectory of inflation expectations gradually shifted in the direction of convergence with the targeted parameters defined for coming years. It is important to stress, in this context, that the National Monetary Council (CMN) set inflation targets at 5.5% for 2004 and 4.5% for 2005, with a tolerance interval of 2.5 percentage points.

Using interest rates as the major monetary policy instrument in its efforts to reverse upward movement in inflation, Copom increased the Selic rate target by 50 base points in its first meeting of the year. In February, the Selic rate was raised once again, this time by 100 base points to 26.5% per year. At the same time, CMN raised the compulsory reserve rate on demand resources from 45% to 60%, withdrawing approximately R$8 billion from circulation.

The monetary policy adopted in the first half of the year had the effect of curtailing pressures on price levels, reducing the uncertainties that had hovered over the economy and bringing market expectations more into line with the inflation target trajectory.

Appreciation of the real in the first six months of the year also aided in lowering inflation indices through decreases in the costs of imported goods. For the most part, this movement was generated by improvement in the trade balance position and in international liquidity conditions.

Over the course of 2003, the value of emerging country securities, including those issued by Brazil, rose sharply. The spread between American and Brazilian papers dropped gradually from 1,324 base points in January to an average range of 569 in December, thus facilitating new external funding operations.

As a consequence of these factors, in June 2003 Banco Central began progressively shifting toward a more gradual monetary policy, reducing the Selic interest rate target at seven consecutive Copom meetings. By December, the Selic rate had dropped to 16.5%p.y., a reduction of 1000 base points when compared to the rate in effect in February. Aside from this, the compulsory reserve rate on demand deposits was cut from 60% to 45% in August, thus returning to the level in effect at the start of the year.

These measures generated a direct impact on the cost of credit operations and the banking spread in the segment of nonearmarked funding. From June to December, the median rate on asset operations dropped by 10.9%, reflecting reductions of 8.4 p.p. in loans to corporate entities, and 14.8 p.p. in operations with individual borrowers. The banking spread shrank by 3.2 p.p. in the period.

In this context, the first signs of rising credit demand were perceived as of September and were evident in the results of operations based on nonearmarked resources. This movement was more significant in operations with individual borrowers, particularly consumer financing operations targeted at acquisitions of durable consumer goods, especially vehicles. At the same time, credit is an important instrument in stimulating consumption, since incentives rooted in growth in real available income depend on improvement in employment and wage increases.

Analysis of credit operations with corporate entities indicates that growth in the final months of 2003 had not yet registered signs of consistent recovery in business credit demand. Expectations are that demand for investment financing will rise gradually in response to the budding process of recovery in economic activity, particularly when one considers indicators of idle capacity in the productive sector.

Federal public securities

The adverse factors that affected placements of federal public securities in the second half of 2002 were progressively reversed over the course of 2003. Demand for public securities increased steadily as improvement in the foundations of the economy provoked a turnaround in the forward interest rate structure, shifting demand toward preset instruments.

In the month of January, Treasury Financing Bills (LFT), which are indexed to the Selic rate, accounted for 100% of the papers issued by the National Treasury as a direct result of the uncertainties that marked the period. The first issue of preset papers since October 2002 took place on February 25 and involved National Treasury Bills (LTN), indicating the shift in the public security demand structure in 2003.

Consequently, over the course of the year, the participation of LFT in monthly issues fell gradually to a level of 5.1% in December. In the opposite direction, the participation of LTN rose gradually to 77.9% at the end of 2003. As a result, once one ignores security exchange operations, the participation of LFT in total issues came to 63%, that of LTN to 34% and other securities, mostly involving NTN-B and NTN-C, which are indexed to price indices, to 3%.

The change in placement conditions impacted the profile of the internal federal public securities debt (DPMF) held by the public. Following the upward trajectory that marked the start of the year, participation of LFT in the total debt reached 66.6% in April and closed the year at 60.6%, which was slightly higher than in December 2002. The relative participation of LTN, in turn, increased from 2.2% to 12.5% in the period, while that of NTN-B and NTN-C moved from 9% to 10.7%.

At the end of August, the National Treasury introduced a new federal security auction system. In order to induce institutions accredited to operate with the government (dealers) to work more intensively with market makers and, thereby, provide liquidity to the secondary securities market, the Treasury began holding special operations at the time of public offers. In these operations, a percentage of the volume sold at auction is offered exclusively to these institutions at the median price negotiated in the public offer. The percentage available for the special operation is defined in the first notification of the public offer.

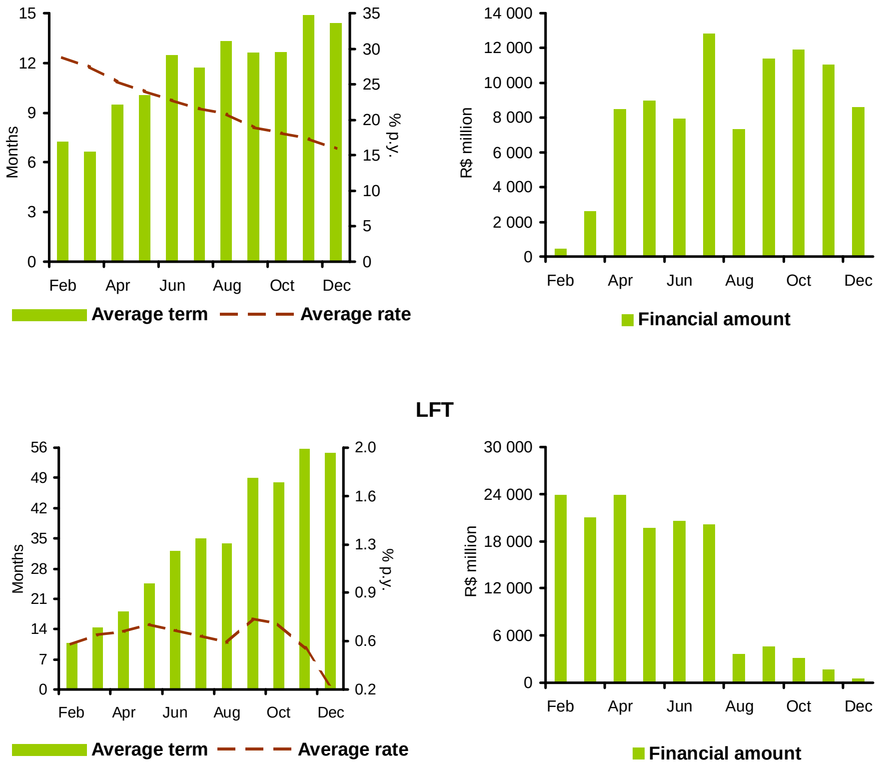
The reason it was decided to offer NTN-B – a security tied to the IPCA and, therefore, more appropriate to protecting the capital of institutional investors – in the month of September was that pension funds had been identified as the sources of demand for long-term instruments. In the same sense, the start of NTN-B and NTN-C purchase auctions had the objective of reducing the liquidity risk of these investors, by increasing the volume of transactions with securities on the secondary market.

In December, the National Treasury introduced the NTN-F, a new debt instrument designed to lengthen the issue term of preset papers. The fundamental difference between this security and the LTN is payment of the half-yearly coupon. The presence of these coupons, which may be negotiated separately, reduces the paper's duration and makes it more attractive. The offer of NTN-F was well received by the market, as the papers offered were totally absorbed at an average rate just a bit lower than the LTN auction on the same day.

Graph 2.1

Auctions of federal public securities – 2003

LTN

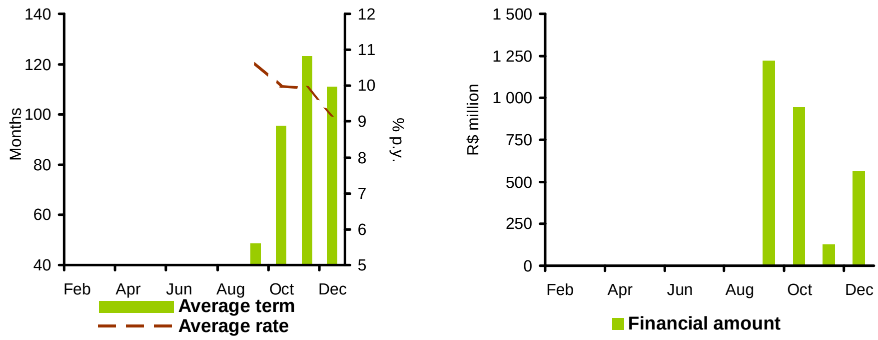


Aside from the change in the participation of preset and postset instruments, it was also possible to lengthen terms and reduce contracted rates. The rates agreed upon in the LTN auctions fell from 28.8% per year in February, with terms of 217 days, to 16% per year in December, with terms of 560 calendar days. The discount on 343 day LFT negotiated at the start of January came to 0.72% per year, while in December the discount closed at 0.23% per year, with terms of 1,645 days. The same process occurred with NTN-C, with rates of 10.59% per year in February, aside from indexing according to the IGP-M, and 9% per year in December, for papers with terms of just less than 6,500 calendar days.

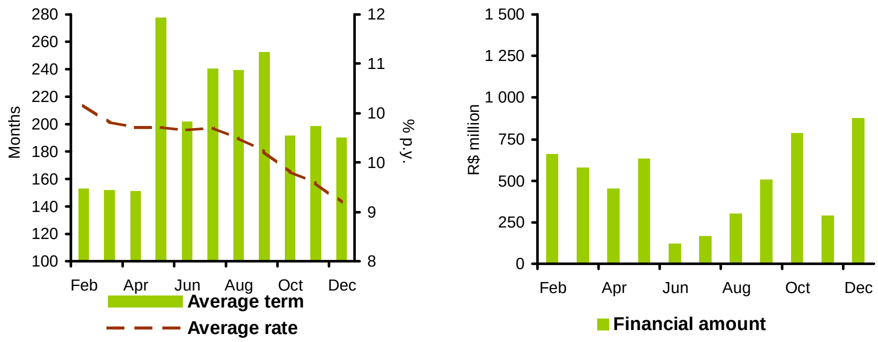
Graph 2.2

Auctions of federal public securities – 2003

NTN-B



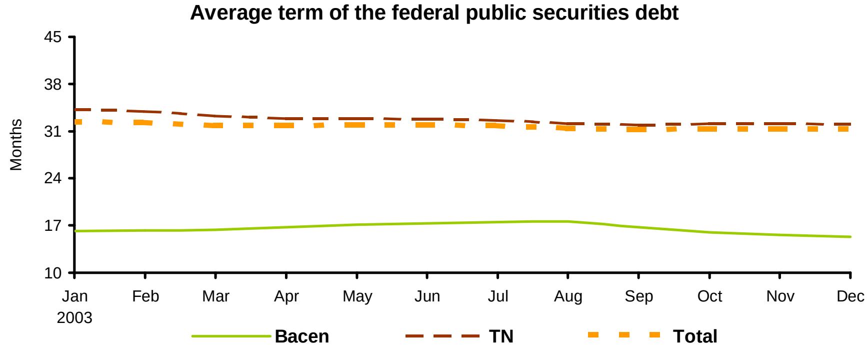
NTN-C



Despite the increase in the overall average term of issues, the median term of the DPMFi dropped from 33.24 months to 31.34 months, as a result of the larger volume

Graph 2.3

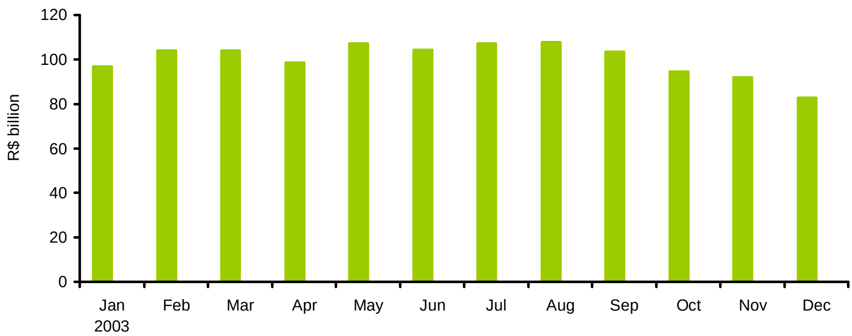
Average term of the federal public securities debt



of issues in the first half of 2003, when issue terms were shorter, and of the increase in the participation of LTN in total issues. The median term of the debt tied to preset papers increased from 3.06 to 6.5 months and that of the debt indexed to the Selic rate moved from 21.83 months to 22.74 months. The median term of the debt tied to price indices dropped from 79.18 months to 77.88 months.

With respect to rolling of the debt indexed to exchange rate variation, the only occurrence perceived was the contracting of exchange swaps in detriment to issues of NTN-D, which are indexed to the dollar. With the decline in demand for hedging and with the objective of gradually reducing public sector exchange rate exposure, the auction system was altered several times during the year. Consequently, in January, Banco Central announced that it would no longer roll the interest on maturing exchange instruments and, in May, the institution declared its intention of no longer determining a fixed percentage for the rolling of the principal of swaps and exchange securities, thus separating monetary policy measures from exchange policy on the primary market. This change was targeted at reducing public debt exposure to exchange rate fluctuations, to the extent permitted by demand for hedging. In September, auctions were carried out in just one day, independently of the value rolled.

Graph 2.4
Balance of exchange-indexed swaps



These measures impacted exchange turnover in the period. This item had reached a mark above 90% of total maturities up to June, considering only principal, and closed the year with a rolling rate of 15.1% after reaching 2.5% in November. Consolidated results for 2003 indicate that exchange turnover – excluding final and intermediate interest – came to 73.2%. Public debt exchange exposure was reduced by R$69.2 billion in the period, representing a reduction in the relative participation of these papers in DPMFi from 37% to 22%.

With regard to daily management of financial system liquidity, strategies were adopted with the aim of lengthening the terms of repo operations. Starting in

January, aside from very short-term two day operations, go-around auctions were held with terms of up to 28 calendar days. However, in the second half of the year, the terms of these operations were positioned in the range of 14 days. In November, Banco Central started holding LTN sale operations with resale commitment and maturity of three months with the objective of increasing this term.

The median net financing position with federal public securities in January came to R$74.6 billion. Following a small increase in February, the volume of these operations dropped by R$46.6 billion in June. Here, it is important to stress the adjustments that were made in swap operations calculated against demand for hedging, considering that interest rate movements were favorable to the position of the monetary authority. Starting in July and up to the end of the year, turnover value oscillated between R$50 billion and R$56 billion.

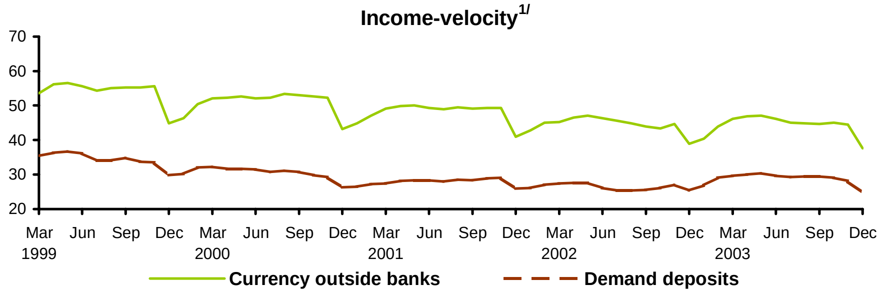
Monetary aggregates

The evolution of the monetary aggregates in 2003 reflected the reversal in the uncertainties that had marked the second half of 2002, as well as normalization of the flow of external resources. Here, one should also cite the start of the process of renewed economic activity and the increased volume of credit operations generated by the more flexible monetary policy, as evinced by the downward movement in basic interest rates as of June and in exchange rate stability.

In this context, viewed in the restricted concept (M1), median daily money supply balances came to R$104.9 billion in December for an increase of 2.5% in the year. With regard to the various components, growth was registered in the balances of currency held by the public, 3.1%, and in demand deposits, 2.2%. The slight growth in the aggregate was due to the atypically high basis of comparison consequent, fundamentally, upon disbursements originating in extraordinary releases of FGTS, migration of resources out of fixed income funds and the volume of resources

Graph 2.5

Currency outside banks and demand deposits – Income-velocity[1/]

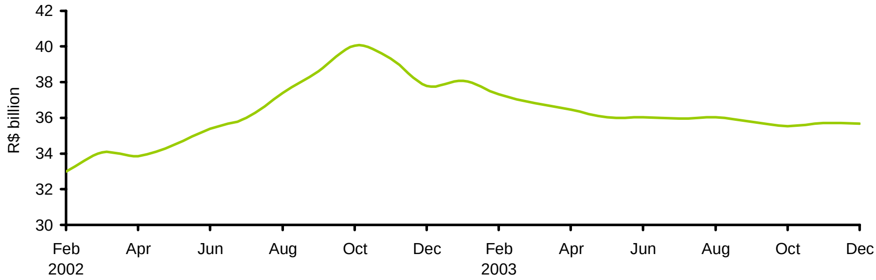


1/ Defined as the ratio between 12 month accumulated GDP (valuated by IGP-DI) and the average balance of the monetary aggregate.

channeled into outlays on the electoral process. Income velocity of M1 components was stable during the year and compatible with performance. Based on an analysis of data purged of seasonal factors and deflated by the IPCA, it is important to stress the reversal of the downward trend registered under this aggregate in the final quarter of the year. For the most part, this performance was a result of slight recovery in credit operations, the income tax refund schedule, which concentrated releases in the final months of the year, and to movement of resources resulting from external funding operations.

Graph 2.6

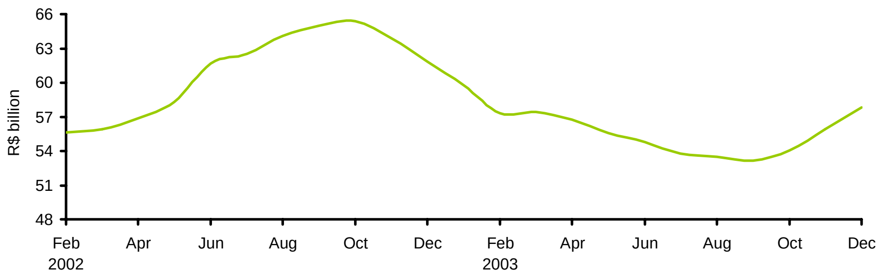
Currency outside banks – Seasonally adjusted at December 2003 prices[1/]



1/ Price index: IPCA.

Graph 2.7

Demand deposits – Seasonally adjusted at December 2003 prices[1/]



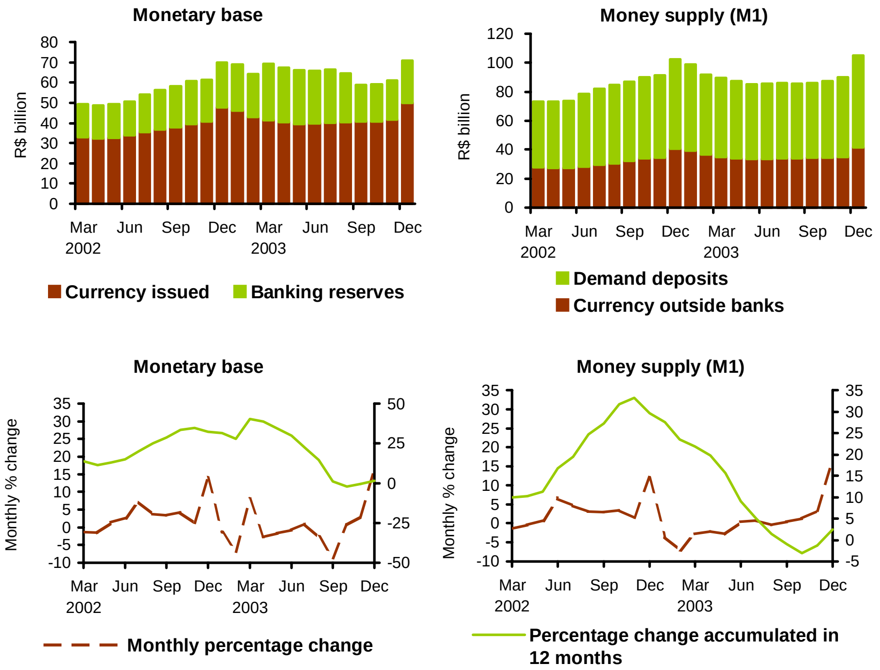
1/ Price index: IPCA.

In keeping with demand for demand deposits, the monetary base, which had been dropping steadily since March in terms of median daily balances, registering an accumulated drop of 15.8% up to September, began registering growth in the final quarter and closed the year with expansion of 1.3% and a total of R$70.8 billion. The percentage change in 12 months reflected an increase of 4.8% in the average balance of currency issued and a reduction of 6.3% in the banking reserve position. Mention should also be made of the reduction in the compulsory reserve rate on demand deposits in the month of August.

Graph 2.8

Monetary base and money supply (M1)

Average daily balances



Analysis of the sources of primary currency issues involving Banco Central's relations with the financial system, adjustments in derivative operations through exchange swaps – the mechanism used to provide exchange hedging to the market – were the most important cause of monetary base reductions, with an impact of R$15.6 billion in the year. At the same time, the segment "other accounts" dropped by R$1.9 billion, caused mostly by amortizations of the debts of financial institutions involved in extrajudicial liquidation. The factors that attenuated these results were releases related to additional compulsory reserve requirements on deposits and refunds involving the compulsory reserve on the deposits of the Brazilian System of Savings and Loans (SBPE) which, taken together, generated growth of R$7.3 billion. In the opposite sense, National Treasury accounts – excluding security operations – resulted in a contractive annual flow equivalent to R$1.1 billion, as the transfer of tax resources to the Operating Account came to R$256.8 billion, with growth of 12.2% or less than the result for the preceding year. Considering this performance and stability in monetary base demand, the liquidity adjustment of the economy was achieved through net purchases of federal public securities in the amount of R$11.2 billion.

Two alterations were introduced into the compulsory reserve system and obligatory reserves on demand deposits. Circular 3,177, dated 2.19.2003, moved the rate on the arithmetic average of the amounts subject to reserve (VSR) from 45% to 60%. Once confidence in economic policy had been restored, with the consequent stabilization of the rate of exchange and convergence of inflation rates toward the predefined targets, Banco Central issued Circular 3,199, dated 8.8.2003, reestablishing the rate on bank deposits at 45%. At the same time, successive declines were registered in

Table 2.1 – Collection rate on mandatory reserves

Percentage

Period		Demand deposits 1/	Time deposits 1/	Savings deposits 1/	Credit operations	FIF Short-term	FIF 30 days	FIF 60 days
Prior to Real Plan		40	-	15	-	-	-	-
1994	Jun	100	20	20	-	-	-	-
	Aug	"	30	30	-	-	-	-
	Oct	"	"	"	15	-	-	-
	Dec	90	27	"	"	-	-	-
1995	Apr	"	30	"	"	-	-	-
	May	"	"	"	12	-	-	-
	Jun	"	"	"	10	-	-	-
	Jul	83	"	"	"	35	10	5
	Aug	"	20	15	8	40	5	0
	Sep	"	"	"	5	"	"	"
	Nov	"	"	"	0	"	"	"
1996	Aug	82	"	"	"	42	"	"
	Sep	81	"	"	"	44	"	"
	Oct	80	"	"	"	46	"	"
	Nov	79	"	"	"	48	"	"
	Dec	78	"	"	"	50	"	"
1997	Jan	75	"	"	"	"	"	"
1999	Mar	"	30	"	"	"	"	"
	May	"	25	"	"	"	"	"
	Jul	"	20	"	"	"	"	"
	Aug	"	"	"	"	0	0	"
	Sep	"	10	"	"	"	"	"
	Oct	65	0	"	"	"	"	"
2000	Mar	55	"	"	"	"	"	"
	Jun	45	"	"	"	"	"	"
2001	Sep	"	10	"	"	"	"	"
2002	Jun	"	15	"	"	"	"	"
	Jul	"	"	20	"	"	"	"
2003	Feb	60	"	"	"	"	"	"
	Aug	45	"	"	"	"	"	"

1/ As of August/2002, a new additional payment on demand resources (3%), time deposits (3%) and savings deposits (5%) became effective. As of October/2002, rates for additional payments on demand resources, time deposits and savings deposits moved to 8%, 8% and 10%, in that order.

the Selic rate targets, moving from 26.5% per year in May to 16.5% per year, in December.

With respect to the broad monetary aggregates, the broad monetary base, which is composed of monetary and federal internal high liquidity security liabilities, expanded by 12.5% in the year, coming to R$886.9 billion at the end of December. According to the accrual system, the major factor underlying this growth was the appropriation of federal security debt charges held by the market. It should be stressed that the expansionary impact on the broad base was partially offset by the updating of the federal securities debt indexed to exchange and by adjustments in derivative operations.

Above all else, the behavior of the broad money supply in 2003 reflected 46% growth in the quotas of fixed income funds, compared to a 2% falloff in 2002, which was a result of the strong flow of resources targeted to investment fund and originating in savings accounts, time deposits and foreign capital inflows. The M2 concept,

Table 2.2 – Financial assets

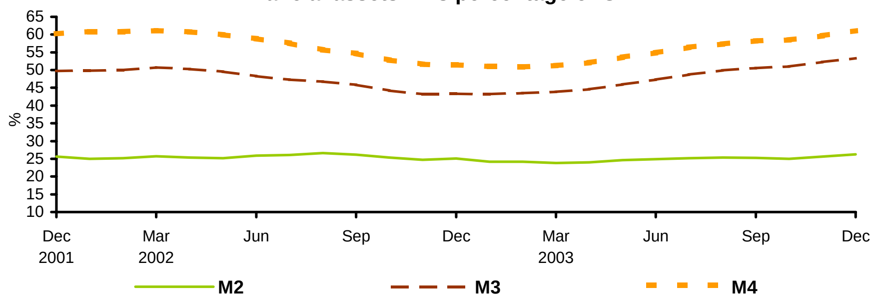
End-of-period balance R$ billion

Period		M1	M2	M3	M4
2002	Jan	74.7	314.5	625.8	758.3
	Feb	73.9	316.2	628.5	758.0
	Mar	73.2	324.0	639.0	761.9
	Apr	74.8	322.7	638.6	764.7
	May	73.8	324.5	638.3	764.7
	Jun	79.7	342.0	638.5	769.6
	Jul	82.8	353.5	640.9	771.4
	Aug	85.5	369.2	648.7	765.3
	Sep	88.2	375.9	658.6	776.7
	Oct	88.8	382.2	666.0	786.2
	Nov	91.9	385.6	675.4	796.2
	Dec	107.8	397.5	688.3	807.5
2003	Jan	92.5	388.5	693.3	818.1
	Feb	91.0	391.1	703.9	823.5
	Mar	87.1	385.2	707.8	827.4
	Apr	84.5	382.3	709.6	829.3
	May	83.3	385.4	718.2	839.3
	Jun	85.6	383.2	728.4	846.3
	Jul	84.3	385.7	746.0	862.7
	Aug	84.3	387.6	762.9	877.0
	Sep	85.4	388.1	775.9	893.4
	Oct	85.5	386.0	787.8	902.4
	Nov	92.3	398.7	811.8	927.8
	Dec	109.5	412.7	838.2	959.9

which includes M1, savings deposits and securities issued by financial institutions, expanded by 3.8% in the year, or less than the capitalization of its components. This result was generated by net negative inflows registered under savings accounts and time deposits.

Graph 2.9

Financial assets – As percentage of GDP[1/]



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

M3, which includes M2 plus quotas in fixed income funds and the federal public securities that provide backing to the net financing position in repo operations between the nonfinancial sector and financial system, registered growth of 21.8% in the year. Particular mention should be made here of the net inflow of investment funds in 2003, with R$65.1 billion. The M4 concept, which includes M3 and public securities held by nonfinancial institutions increased by 18.9% in the year, compared to 6.8% in 2002, totaling R$959.9 billion at the end of 2003.

The targets defined by monetary programming for the major aggregates were fully met in 2003 in a manner that was consistent with the chosen monetary policy, based

Table 2.3 – Monetary program

R$ billion

Itemization		Restricted monetary base			Expanded monetary base		
		Minimum	Maximum	Confirmed	Minimum	Maximum	Confirmed
2002	1st quarter	45.1	53.0	49.4	625.0	733.7	666.4
	2nd quarter	45.4	53.3	50.6	640.6	752.0	715.4
	3rd quarter	49.4	57.7	58.2 /1	659.3	774.0	772.7
	4th quarter	65.0	87.9	69.9	669.8	906.1	788.0
2003	1st quarter	56.4	76.3	69.3	697.3	943.4	810.2
	2nd quarter	62.3	84.3	65.7	716.4	969.2	804.5
	3rd quarter	60.6	82.0	58.9 /2	724.3	979.9	847.3
	4th quarter	60.1	81.3	70.8	750.7	1 015.6	886.9

(continues)

Table 2.3 – Monetary program (concluded)

R$ billion

Itemization		Money supply (M1)			Money supply broader concept (M4)		
		Minimum	Maximum	Confirmed	Minimum	Maximum	Confirmed
2002	1st quarter	67.0	78.6	73.4	728.0	854.6	761.9
	2nd quarter	66.8	78.5	78.4	720.7	846.0	769.6
	3rd quarter	72.4	85.0	87.0 /1	746.8	876.6	776.7
	4th quarter	93.5	126.5	102.3	698.8	945.4	807.5
2003	1st quarter	83.9	113.5	89.4	719.5	973.5	827.4
	2nd quarter	81.4	110.2	85.4	749.7	1 014.3	846.3
	3rd quarter	84.4	99.0	86.1	756.4	1 023.5	893.4
	4th quarter	85.4	115.5	104.9	796.7	1 077.9	959.9

1/ Increase of issuing limits, which have been altered according to the National Monetary Council authorization in 9.19.2002.
2/ Change inferior issuing limits, which have been altered according to the National Monetary Council authorization in 9.25.2003.

on targets for inflation and giving due consideration to expected performances under national income, interest rates, credit operations and other like indicators.

Financial system credit operations

The slight growth registered under financial system credit operations in the first half of 2003 was a consequence of the adverse economic scenario that marked the period, including sluggish economic activity, declining real family income and restrictive credit market conditions. This scenario resulted from the uncertainties that had marked 2002, mostly involving expectations regarding the economic policy of the new federal administration and limitations on the external financing available to the country.

These aspects provoked an increase in futures market interest rates and increased exchange rate volatility. The effects of these factors on price levels resulted in adoption of a more stringent monetary policy, as reflected in higher basic interest rates and increases in reserve rates on demand resources. Consequently, the cost of funding operations increased, rising to their highest level toward the end of the first quarter. The convergence of these factors, coupled with the cautious stance adopted by financial institutions in the granting of new credits, was one of the major factors responsible for the decline in funding demand by companies and families.

Starting in June, however, uncertainties were attenuated as futures market interest rates moved into a downward curve, exchange rate stability was achieved and inflation expectations began converging toward the trajectory of the predetermined targets, thus preparing the way for a more flexible monetary policy. This scenario made it possible to reduce the interest rates charged by the financial system and, in this way, stimulate growth in credit portfolios in the final months of the year. At the same time, measures were taken to expand and facilitate access of the population to credit and to reduce the banking spread. Here, it is important to stress microcredit operations, improvement in the operations of credit cooperatives and payroll-based loans.

In this context, the overall volume of financial system credit operations came to R$409.9 billion in December 2003, for growth of 8.3% compared to the previous year. Consequently, the percentage of loans compared to GDP increased from 23.8% in December 2002 to 26.4%. Growth in credit in the period was sustained mostly by expansion of 15.5% in the operations of the public financial system, which registered a volume of R$166.8 billion and particularly strong performances under the rural and service sectors. Loans granted by private institutions turned in annual growth of 3.9% and a balance of R$243.1 billion, with emphasis on financing targeted to individual persons.

Table 2.4 – Balance of credit operations

R$ billion

Itemization	2001 Dec	2002 Dec	2003 Dec	Growth (%) 2003
Total	332.4	378.3	409.9	8.3
Nonearmarked	194.1	212.4	224.2	5.6
Corporations	124.2	136.3	136.1	-0.1
Ref. to exchange	54.3	57.2	48.0	-16.0
Individuals	69.9	76.2	88.1	15.7
Earmarked	116.9	142.9	161.7	13.1
Housing	21.3	21.6	23.1	6.9
Rural	26.1	34.7	44.9	29.4
BNDES	65.5	84.7	91.1	7.5
Others	4.0	1.9	2.6	37.0
Leasing	11.5	9.5	9.0	-4.9
Public sector	9.8	13.5	15.0	11.0
% participation:				
Total/GDP	26.5	23.8	26.4	
Nonearmarked/GDP	15.5	13.4	14.4	
Earmarked/GDP	9.3	9.0	10.4	

Operations with earmarked resources totaled R$161.7 billion in 2003, for growth of 13.1% in the year. The result was a consequence of 29.4% expansion under disbursements to crop/livestock activity, as well as of positive 7.5% expansion under financing granted by the BNDES system. As a matter of fact, the farm policy implemented in 2003 prioritized measures taken to stimulate credit, as is evident in the larger volume of resources made available for the 2003/2004 harvest.

With regard to operations of the BNDES system, accumulated disbursements for medium and long-term investments came to R$33.5 billion in 2003, reflecting an annual decline of 10.4%. The reduction in the period, however, was a result of the very high basis of comparison in 2002 consequent upon government incentives to infrastructure investment projects related to electricity generation, transmission and distribution.

In sectoral terms, the flow of resources to the segment of trade and services added up to R$12.8 billion in 2003, as a result of a 17% reduction in relation to the previous year. For the most part, this performance resulted from a decline of 41.6% in credits granted to energy and electricity company infrastructure in an overall amount of R$5.2 billion.

Table 2.5 – BNDES disbursements

R$ million

Itemization	Jan-Dec		Growth
	2002	2003	(%)
Total	37 419	33 534	-10.4
Industry	17 178	15 937	-7.2
Other transport equipment[1/]	6 594	5 755	-12.7
Food and drink products	2 328	1 981	-14.9
Cellulose and paper	1 273	430	-66.2
Motor vehicles	1 450	2 651	82.8
Basic metallurgy	1 020	997	-2.3
Commerce/Services	15 482	12 844	-17.0
Electricity, gas and hot Water	8 852	5 166	-41.6
Commerce and reparition	1 221	1 689	38.3
Land transport	2 136	2 862	34.0
Mail and telecommunications	654	252	-61.5
Farming	4 509	4 595	1.9

Source: BNDES

1/ It includes aircraft industry.

BNDES disbursements to industry registered relative participation of 48% of the total and closed at R$16.1 billion in 2003, for a reduction of 7.7% in the year. This reduction was caused above all else by cutbacks in credits to the sector of aviation. Here, it is important to recall that, with the restrictions imposed on foreign credit lines in 2002, BNDES financing in the year under consideration was an important complementary source of financing to foreign trade-related activities.

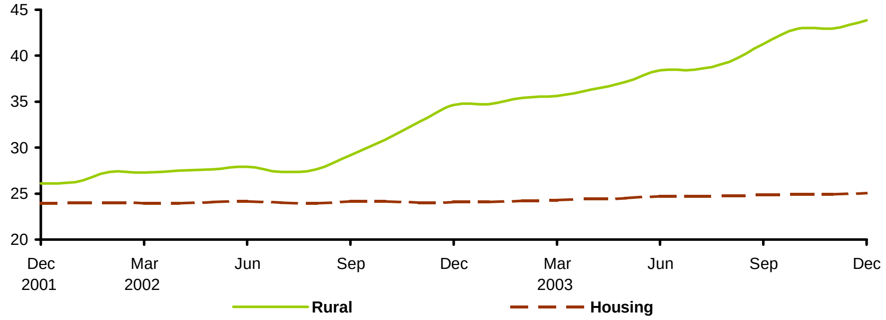
In the opposite sense, operations granted to the crop/livestock sector expanded by 1.9% in the year and totaled R$4.6 billion. Credits channeled to micro, small and medium businesses added up to R$10 billion, for growth of 20.2%. These financing operations represented 29.9% of total disbursements and corresponded to 96.5 thousand operations contracted, with particularly strong performances under crop/livestock production, infrastructure and industry.

Consultations with the BNDES system, considered an indicator of new financing operations, totaled R$44.6 billion in 2003, the same amount registered in the previous year. A breakdown of this figure indicates that 64.3% were concentrated in the second half of the year, demonstrating more favorable business expectations regarding future investments. Analysis on the basis of economic activities, indicates 56.9% growth in the requests submitted by the industrial sector, which totaled R$21.7 billion. The major source of these requests was the transportation and vehicle segment and, more specifically, the area focused on exports. Requests related to crop/livestock activity, R$6.1 billion, increased by 27.8% in the year, indicating that farm investments in 2004 should be quite similar to those made in 2003. On the other hand, demand for new investments in commerce and services dropped by 34% in the year, registering a volume of R$16.8 billion, with particularly strong cutbacks in consultations from the areas of energy and electricity and the telecommunications sector.

Credits contracted by the private sector with the financial system added up to R$394.9 billion in 2003, for growth of 8.2%, and were concentrated mostly in the rural sector and the individual consumer credit market. In this sense, financing extended to the crop/livestock sector expanded by 29.4%, registering a volume of R$44.9 billion, mostly involving investment and current expenditure credits, with respective participation levels of 50.9% and 41%. Among the factors that contributed to this performance were reductions in interest rates charged on various credit lines, as well as growth in the floor prices of selected products in the context of farm policy. Given the favorable market conditions, the higher agribusiness demand contributed to growth of 26.8% in the 2003 grain harvest, with positive repercussions on income and job generation in the rural sector. With respect to rural investments, one should underscore the importance of the Program of Modernization of the Farm Tractor and Associated Implements and Harvester Fleet (Moderfrota), with accumulated disbursements of R$7.4 billion since implementation of the program in 2002. Of the overall amount, R$1.9 billion were concentrated in 2003.

Loans to individual persons totaled R$94.2 billion, for expansion of 15.3% in the year. The more intense demand for banking resources was mostly a consequence of improved credit conditions, particularly in those areas related to consumption, such as the vehicle segment.

Graph 2.10
Balance of rural and housing credit
R$ billion



One should further mention that family-based credit operations benefited from a series of government measures aimed at generating more favorable credit conditions. Evidently, these measures had important impacts on medium and long-term operations. Among the measures adopted, the most important were July implementation of a new modality of microcredit operation targeted at providing the low income population with access to banking services, by making it obligatory to invest at least 2% of demand resources maintained at banks at an effective interest rate of up to 2% per month. This credit line was limited to R$600 per individual and R$1 thousand for companies and is based on highly simplified reference file requirements suited to the low income clientele, very often employed by the informal sector of the economy.

Aside from this, in the month of September, a system of payroll based credits was made available to private sector workers. The loans are contracted with the financial system and deducted from payroll. Installments may be no more than 30% of the available income of the borrower, as required by Law 10,820. In order to facilitate these operations, agreements between financial institutions and companies or labor unions were permitted.

As far as other business activities are concerned, credit performance turned in more discreet growth. However, the volume of the credit flow tended to increase in the final months of the year when interest rates moved into a downward curve and the wages of important labor categories began a gradual process of recovery. Mention should also be made of the fact that exchange appreciation produced a contractive impact on the balances of operations expressed in foreign currencies.

Consequently, operations with the sector of commerce registered a surplus of R$43.1 billion, with growth of 8.4% in 2003 compared to 9.2% in the previous year. The segments that drew the greatest benefit from this growth were those related to automotive vehicles and fuels, as well as the wholesale food segment. The stock of credits to other services accumulated a total of R$71.1 billion, with expansion of

3.1%, with the largest volumes of disbursements going to transportation and communications companies, while the resources targeted to industry totaled R$116.6 billion, for growth of 0.8%, with a particularly strong performance under energy generation and companies active in the automotive sector.

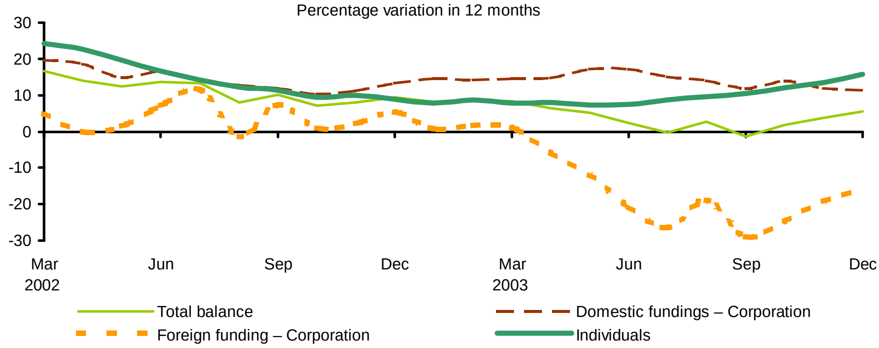
The volume of housing credits, which include both earmarked and nonearmarked resources expanded by 4% in 2003, raising the total to R$25 billion. The accumulated flow of savings account resources to individuals and housing cooperatives expanded by 25.1% in the year and closed at R$2.2 billion. Of this total, 55.8% were channeled into acquisitions of real estate and the remainder into the construction of new units. With regard to financial charges, financing contracted at interest rates calculated according to the Housing Finance System (SFH) came to R$1.8 billion, and accounted for 81.1% of the total, while those contracted at market rates corresponded to 18.9%.

Credits to the public sector totaled R$15 billion at the end of 2003, for growth of 11% in the year. The stock of operations contracted by the federal government increased by 13.2% and closed at R$4.7 billion, while loans to state and municipal governments rose by 10% to R$10.3 billion. Growth in these financing operations was a result of BNDES releases to companies from the electricity sector, due to continued implementation of the electricity supply expansion program, based on the terms of Law 10,438, dated 4.26.2002. With respect to the outlook for the supply of resources to state and municipal governments, one should mention Resolution 3,153, dated 12.11.2003, which authorized the contracting of operations in a total amount of R$2.9 billion to be used for investments in environmental sanitation. Release of these funds is scheduled for the first half of 2004.

In December, the balance of leasing operations came to R$9 billion, for a reduction of 4.9% in the year. This result reflected a significant level of settlements, particularly in the service sector of the economy, which accounts for 47.2% of total leasings. However, it is important to note the improvement in leasing operations as of the second half of the year, partly as a result of a court decision in favor of the execution of contractually specified guaranties. With this, disbursements expanded by 30.8% in relation to the previous half-year period, with a particularly strong performance under acquisitions of machines and equipment by the sectors of commerce and industry and vehicle acquisitions by individual persons. In the year, the accumulated flow totaled R$6 billion, compared to R$4.6 billion in 2002.

The balance of credit operations granted with nonearmarked resources came to R$224.2 billion in December 2003, for an increase of 5.6% in twelve months. This discreet growth was conditioned by the economic scenario that predominated in the first six months of the year, though specific mention should be made of the performance of the portfolios of individual persons which registered significant growth in the final months of the year, as a consequence of improved expectations and more favorable credit supply conditions. In this sense, loans targeted to families expanded by 15.7% in the year and closed at R$88.1 billion.

Graph 2.11
Growth of credit with nonearmarked resources
Percentage variation in 12 months



Disbursements to individual persons expanded by 22.7% in 2003. This result reflected utilization of short-term credit lines to supplement family income, caused principally by deteriorating real income and, as of the second half of the year, expanded consumer credit in response to the interest rate downturn. The effects of this process were felt most strongly in the segment of consumer durables. In this sense, one should stress the increase in vehicle acquisition financing, a type of operation that was further stimulated by cutbacks in the Industrialized Products Tax (IPI) in effect since the month of August.

The credit portfolio for corporations totaled R$136.1 billion at the end of 2003, with a reduction of 0.1% in the year. This performance was a consequence of reductions in portfolios tied to foreign currency by a margin similar to the growth registered under those modalities tied to internal resources.

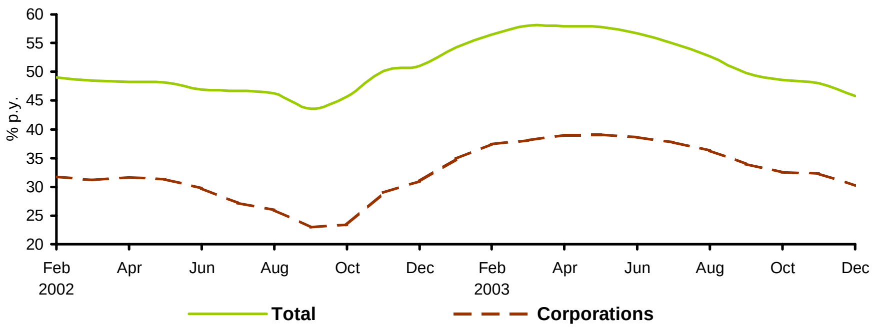
Funding operations involving domestic resources expanded by 11.4% in twelve months, reaching a total of R$88.1 billion. In this case, the strongest growth occurred in the final quarter of the year, principally as a result of the seasonal increase in business demand for purposes of building end-of-year inventories. The relative volume of the modalities expressed in foreign currencies dropped by 16% in the year and closed at R$48 billion. This growth reflected the accounting impact of 22.3% exchange appreciation on the balances of external onlendings and export financing in 2003, as well as the significant volume of settlements of loans based on external resources, considering that the major share of these external funding operations was carried out directly by companies, mostly in the final quarter of the year.

The sum total of credit operations granted to corporations increased by 11.9% compared to the accumulated 2002 total. The increase in modalities tied to internal resources came to 11.1% while the operations of portfolios backed by funding contracted abroad closed with 16.6%, primarily as a result of expanded export financing operations.

Interest on bank loans in 2003 reflected the monetary policy adopted in the period. In the first quarter, the behavior of these rates was marked by growth in the basic rate and in the compulsory reserve on demand deposits. In this case, the average rate on credit operations based on nonearmarked resources closed at 58% per year in March, the highest level of the year.

Graph 2.12

Interest rates of credit operations with nonearmarked resources



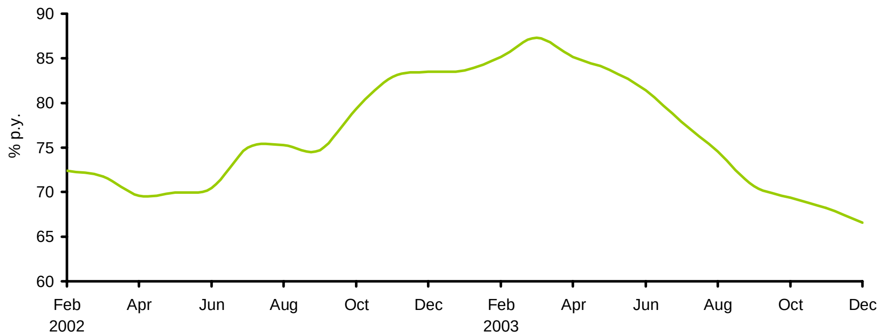
Starting in the month of April, the cost of these operations moved into a downward curve that became more accentuated in the second half of the year as a consequence of adoption of a more flexible monetary policy. This process of positive growth was accompanied by reductions in futures market interest rates and Brazil's country risk rating, both of which were taken as an indicator of improved market confidence in the performance of the nation's economy. With this result, the average rate came to 45.8% per year in December, 5.2 p.p. less than in the previous year.

In operations with individual persons contracted at predominantly preset rates, the average rate increased by 3.8 p.p. in the first quarter of the year, rising to a level of 87.3% per year, fully in line with the increase in basic interest rates. As of April, however, futures market rates – used as reference for longer term operations – turned downward and the average rate of interest fell. The pace of this reduction intensified in the second half of the year, as a result of concomitant cutbacks in the Selic rate. In December, rates in this segment moved to 66.6% per year, for a reduction of 16.9 p.p. in the year.

The average rate on business loans dropped by 0.7 p.p. in 2003, reaching a level of 30.2% per year. This result was due to growth of 6 p.p. in the year in rates on operations referenced to exchange. In December 2002, expectations of exchange appreciation reduced the projected costs of these loans to 12.8% per year. However, once this appreciation had run its course, the market once again projected moderate exchange depreciation on the futures market, raising the average rate of these operations to 18.8% per year at the end of 2003.

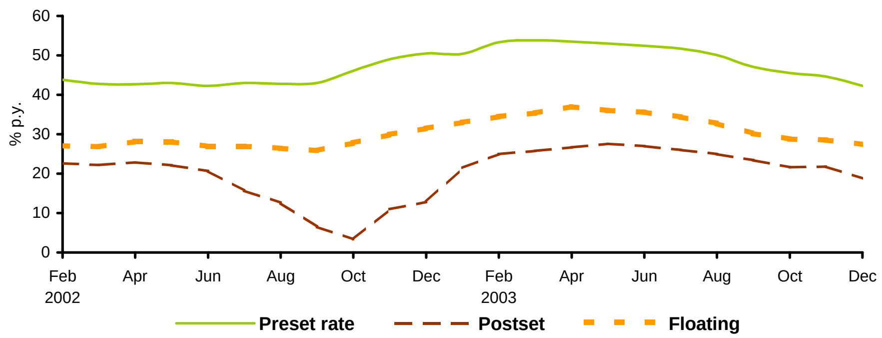
Graph 2.13

Interest rates of credit operations – Individuals



Graph 2.14

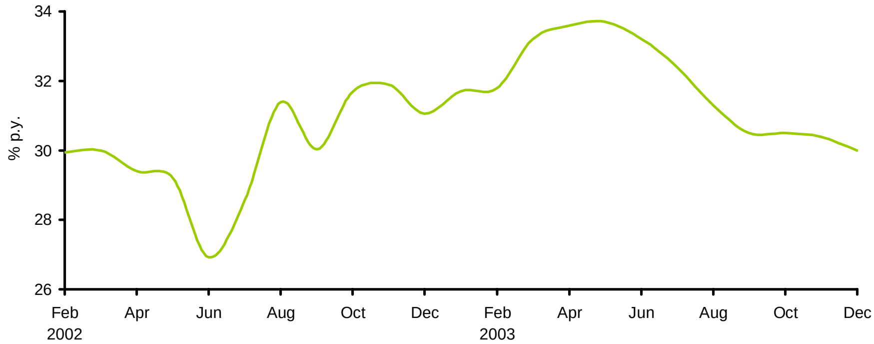
Interest rates of credit operations – Corporations



In operations reserved to corporations and negotiated at preset rates, the average rate closed with a performance similar to that observed in loans to individual persons, with a decline of 8.2 p.p. in the year, closing December with 42.3% per year. In contracts formalized at floating rates, referenced mostly to the rate on Interbank Certificates of Deposit (CDI) or the Selic rate, the median rate came to 27.4% per year, for a reduction of 4.1 p.p. in the year. It should be stressed that these loans are fundamentally formalized with large scale businesses that tend to register very low rates of default. Consequently, these companies have the bargaining clout required to obtain lower rates of interest.

With the increase risk perceptions that marked the first quarter of 2003, together with the increase in the compulsory reserve rate on demand deposits, the banking spread in credit operations based on nonearmarked resources moved to its highest point of the year in May, 33.7 p.p. In the following months, this indicator followed a downward trajectory that was impacted by the turnaround in risk perceptions and by the return of the compulsory reserve rate to its previous level. In the month of December, the spread came to 30 p.p., registering a decline of 1.1 p.p. in the year.

Graph 2.15
Spread of credit operations with nonearmarked resources



With respect to the efforts made to reduce the banking spread, the government defined rules for lower interest rate loans to be made against payroll. The purpose of this measure was to make credit available to the lower income population, while also providing people with access to simplified bank accounts. At the same time new incentives were granted to microcredit operations and improvements in the credit cooperative system.

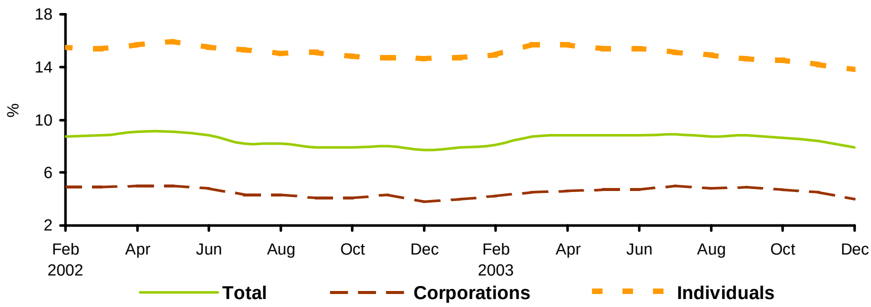
The median term of credit portfolios based on nonearmarked resources came to a December level of 220 days, for a reduction of 7 days compared to the previous year, mirroring the more restrictive conditions imposed on credit operations, particularly in the first half of 2003. In operations with individual persons, the median term declined by 21 days in the year and closed at 296 days while, in the segment of corporate entities, there was a 6 day drop to 170 days.

In the wake of a seasonal high in the first quarter, defaults in operations with nonearmarked resources remained relatively stable during the year, reaching a level of 7.9% of the portfolio in December, for growth of 0.2 p.p. in the year. This result reflected the performance of business loan portfolios, with growth of 0.2 p.p. in arrears, closing 2003 at 4%. Despite the difficulties caused by declining real wages and higher average unemployment, the default rate in operations with individuals dropped by 0.8 p.p., closing at 13.8%. This result is viewed as a consequence of payments of bank debt, together with the more cautious stance adopted by families before taking on new loans.

As far as the financial system credit portfolio profile is concerned, the balance of normal risk operations (AA to C) came to R$360.6 billion in December, for growth of 9.5% in the year, raising the participation of this heading to 88% of the portfolio total. In the opposite sense, the volume of loans registered under risk level 1 (D to G) totaled R$32.5 billion, for a reduction of 9.8%, mostly as a consequence of risk increases in operations with the electricity sector. These operations came to 7.9% of the total, compared to 9.5% in 2002. With this reclassification of operations, credits classified under risk level 2 (H), which demand total provisioning, added up to R$16.7 billion, with an increase of 29.4% in the year, corresponding to a share of 4.1% of overall credits.

Graph 2.16

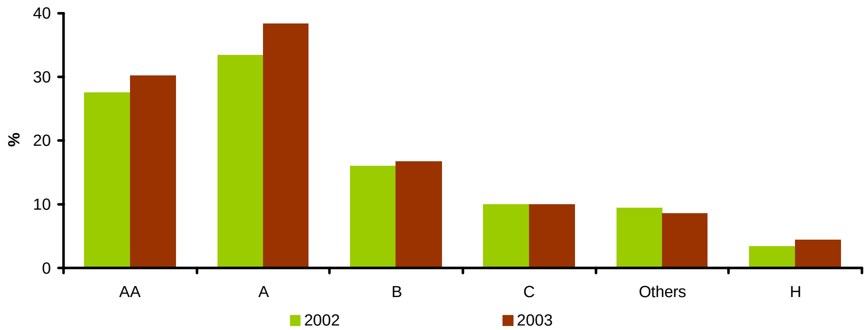
Default rate of credit operations with nonearmarked resources[1/]



1/ Portifolio's percentage share in arrears of more than 15 days.

Graph 2.17

Financial system credit operations by risk level – December



Provisions set aside by the financial system closed at R$29.8 billion at the end of 2003, registering accumulated growth of 9.7% in the year. Consequently, the participation of provisions in total credits moved from 7.2% in 2002 to 7.3%. The volume set aside by public banks increased by 11.4%, though participation in total credits dropped to 8.3% in December, as against 8.6% in the same month of the preceding year. Provisions set aside by private financial system institutions increased in participation from 6.3% to 6.6% of total credits and expanded in value terms by 8.3%, clearly indicating deterioration in the quality of the portfolios of credits with individuals and with industry.

National Financial System

Once the upward tendency in inflation had been reversed, the second half of 2003 was marked by a shift in macroeconomic policy targeted at stimulating the internal market, in view of the importance of consumption to sustained recovery in aggregate demand, as well as the need for reducing regional and income inequalities. In this context, measures were taken to concentrate credit growth within the banking system so that the access of the low income population to banking services could be enhanced.

Starting in the month of June, banks and the Federal Savings Bank were authorized to open demand deposit accounts for individuals that do not have checking accounts These accounts are limited to a maximum balance of R$1,000.00 at any time whatsoever and they will not be allowed to use checks, though cashier checks will be permitted in exceptional cases. In order to facilitate the opening of these accounts, the account holders will not be obligated to present copies of their payroll receipts, at the same time in which financial institutions will be prohibited from charging for their services, except in those cases in which more than four withdrawals, deposits and bank statements occur within a single month. Utilizing these same procedures, the public will also be provided with increased access to savings deposits.

In order to stimulate the supply of financial products and services in places located far from urban centers, the possibility of contracting correspondent institutions was extended to all financial institutions and all other institutions authorized to operate by Banco Central. Basically, this right was restricted to banking institutions. At the same time, among the services to be provided by the correspondents will be reception and processing of proposals involving issue of credit cards.

With regard to the institutional improvement of the financial system, one should stress that the rules governing the operations of cooperatives and microentrepreneur credit companies have been made considerably more flexible, particularly in the context of the government's policy of stimulating microcredit operations. In this sense, functioning cooperatives expanded from 1,374 at the end of 2002 to 1,399 in 2003, while the number of microentrepreneur credit companies increased from 26 to 41 in the same period.

With respect to cooperatives, the major alteration was the possibility of freely admitting associates, covering not only authorization for the operations of new cooperatives but also alterations in the stockholding structure of those already existent. However, several conditions must be met in order to freely admit new members, including association of the cooperative to a central credit cooperative with at least three years of regular operation and participation in a deposit guaranty fund. With these conditions, monitoring of the institutions' operations and protection for its depositors are guarantied. Aside from this, in order to encourage the dissemination of these institutions to the less developed regions of the country, new cooperatives able to freely admit new members will only be permitted in areas in which the local population is no more than 100 thousand inhabitants.

In the month of July, measures were taken to allow cooperatives to reach high levels of leverage. This was done by reducing the factors used in calculating their own capital required for coverage of operations, according to the level of credit risk. In the case of credit cooperatives associated to central cooperatives, the factor was reduced from 0.15 to 0.11, the same level of leverage applied to other financial institutions. As a result the credit operations of those entities are allowed to reach 9.1 times net worth.

Data on the participation of loans granted by credit cooperative, when compared to the participation levels of banking institutions, show that the percentage has been increasing in recent years, having closed December 2003 at 2.2%, as against 1.8% in 2002, 1.6% in 2001 and 1.2% in 2000. It should be stressed that, though this percentage is still quite low, the relative increase of these loans has transformed them into an important bank credit alternative, particularly when one considers that they are available at lower interest and more often than not to people who do not normally have access to the traditional financial market.

With respect to microentrepreneur credit companies, which were first instituted in 1999, changes in the rules were introduced with the purpose of facilitating authorization for these entities to operate. At the same time, the obligation that the financial statements of the controlling entities of these companies had to be audited by independent auditors since this relationship involved control exercised by Public Interest Civil Society Organizations (Oscip) was eliminated.

Insofar as the policy of microfinancing is concerned, the official objectives have demonstrated not only that the institutions have improved, but also that the financial instruments used in these operations have become more efficient. In this sense, in order to comply with the demand stated in Resolution 3,109 regarding the obligation of investing in microcredits, the resources transferred to other financial institutions through acquisitions of interbank deposits will be considered, provided that this deposit has a minimum term of thirty days and has not been negotiated.

In the month of September, financial institutions were allowed to make use of more than one base or price index for calculating earnings in time deposit contracts, provided that the one that provides depositors with the highest level of earnings is chosen. This more flexible approach is designed to achieve increased competition in the financial system, while also reducing costs for savers, to the extent that these measures will diminish the need for derivative operations, while protecting their investments against scenarios different from that in which the operation was first contracted.

With regard to the question of prudential regulation, the monetary authority has consolidated the instruments adopted in recent years to control the risks to which financial institutions are vulnerable. In this context, specific mention should be made of increased transfers of responsibility to the internal control management of institutions, together with the adaptability of prudential mechanisms to the overall situation of the financial market.

As far as the monitoring of operational risks is concerned, in terms of the efficiency of internal control systems, the major innovation refers to the obligation of forming an audit committee in those institutions with reference capital holdings equal to or more than R$200 million. This committee must be in full operation by March 31, 2004, and will be composed of a minimum of three members who will remain in office for a maximum of five years. Among the committee's responsibilities, the most important are as follows: recommendation as to the entity to be contracted to provide independent auditor services, as well as a possible substitute for such an entity, should that become necessary; evaluation of the effectiveness of the independent and internal audits and verification of compliance on the part of the entity's administration with the recommendation put forward by the auditors.

As far as market risk is concerned, Circular 3,194 reduced the factor applicable to operations with gold and referenced to exchange variation from 1.0 to 0.5 in the month of July. The purpose here was to calculate required net worth in terms of the quality of asset and liability operations. With this, a lesser volume of an institution's own resources was required for coverage of operations referenced to variations in exchange rates, made possible by the fact that financial flows on the exchange market had been normalized as of the first quarter of 2003.

Progress in prudential regulation in recent years has minimized the possibility of systemic crises and, thereby, made it possible to adopt greater flexibility in the rules applicable to the Credit Guaranty Fund (FGC), which is a mechanism designed to protect bank deposits, financed on the basis of contributions from financial institutions. Resolution 3,161, published in the month of December, states that the FGC Council of Administration will have the responsibility of defining the percentage of ordinary monthly contributions, provided that it has prior Banco Central authorization. Previously, this contribution was set at 0.025% of the balance of liabilities covered by the guaranty.

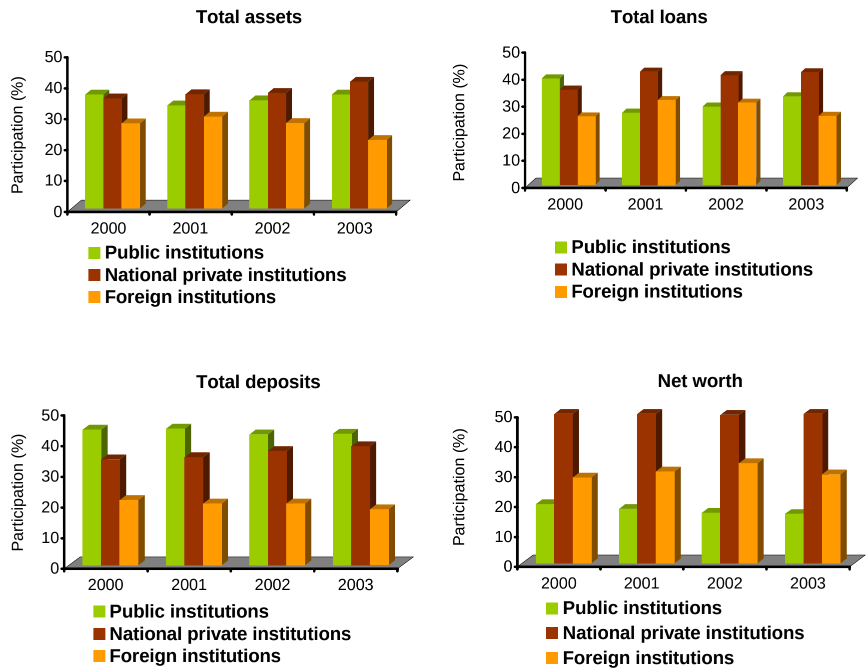
With the new rule, this will be the maximum percentage, meaning that it can be considerably smaller. The purpose of this measure was to obtain lower costs in funding operations and reductions in the banking spread.

With respect to the organization and functioning of the financial system, 189 banking institutions were in operation in December 2003, of which 163 were classified as commercial and multiple banks. Compared to the end of 2002, there was a reduction of five institutions, mainly as a result of alterations in the nature of several institutions as well as in the number of banks.

During the year, the monetary authority performed its role of supervising and restructuring the financial system and, as a result, decreed the extrajudicial liquidation of one investment bank and nine group buyer associations. According to the December 2003 position, there remained a total of 98 institutions subject to special administration until termination of their operations, including 20 banks and 38 group buyer association management companies.

Graph 2.18

Banking System – Participation by segment[1/]



1/ Consider only banking institutions, not consolidated by conglomerates.

As far as the segmentation of the banking system in terms of the origin of capital is concerned, the participation of foreign banks has diminished. In December 2003, there were 62 banks classified as branches or subject to foreign control, compared to 66 in 2002. At the same time, the participation of this segment in total assets declined to 22.2% in 2003, as against 27.7% in 2002 and 29.7% in 2001. One of the reasons for the lesser level of foreign participation is that several banks were transformed into national banks. With this, following the increased inflow of foreign capital to the national financial system since the restructuring process undertaken by the Real Plan, the market has settled into a process in which those foreign banks that concentrate more on wholesale and treasury operations have begun moving into specific market niches.

With respect to complementary pension fund entities. the National Monetary Council is responsible for regulating their investments, determining the maximum limits for investments in the different operational modalities, in order to achieve the required level of diversification and security for savers. In terms of the evaluation of these investments, a new system of risk control and evaluation was introduced in September. According to this system, these entities must maintain a system of control within each benefit plan to offset unplanned differences between the value of a portfolio and the value projected for the same portfolio with the minimum actuarial rate.

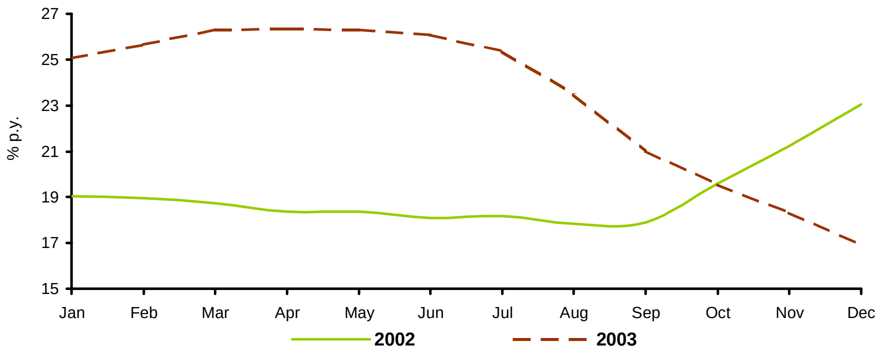
The complementary pension fund market has registered accentuated growth since the reforms introduced into the social security system, contributing sharply to growth in long-term savings. With this, the participation of pension fund assets in the major broad money supply components – private and public securities and fixed income funds – expanded from 11.8% in 1998 to 17.4% in 2002 and 18.4% in 2003, clearly demonstrating the importance of these entities as holders of financial assets.

III Capital and Financial Markets

Basic interest rates and market expectations

At the start of 2003, the Brazilian economy, which had only recently recovered from the credibility crisis of the previous half-year period, had to cope with price rises generated by exchange depreciation in 2002. In order to combat inflation, Banco Central further reinforced the monetary policy adopted in the final quarter of the previous year by raising the Selic rate target from 25% per year in December to 26.5% per year in February.

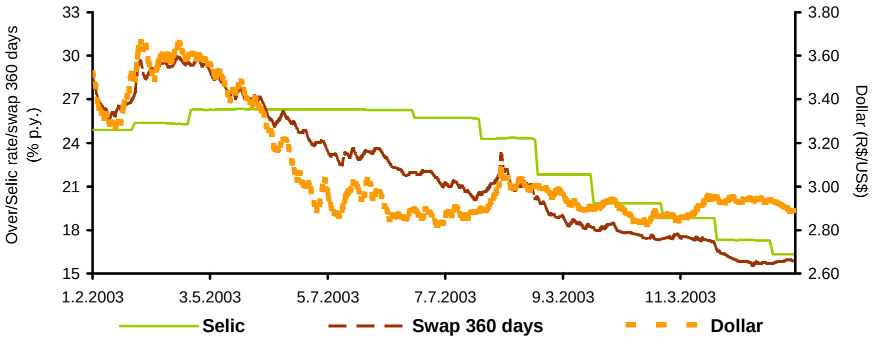
Graph 3.1
Over/Selic rate



The measures announced by the new administration confirmed its commitment to currency stability and fiscal responsibility, attenuated market uncertainties and created a climate conducive to reductions in the dollar rate of exchange and in futures market interest rates.

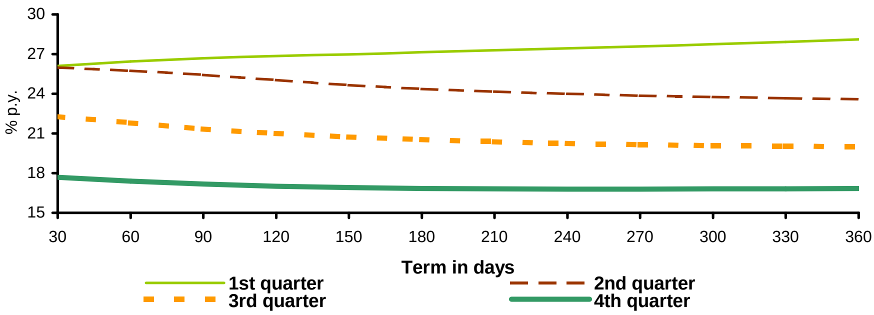
However, this process was temporarily interrupted by the imminent outbreak of war in the Middle East. In the second quarter of the year, as the war in Iraq drew to a close, the market redefined its expectations regarding the Brazilian economy, particularly in light of the effectiveness of monetary policy in controlling inflation. As this perception took hold, foreign investors turned their attention to the emerging markets in pursuit of interest higher than the rates available on the international market. Among the emerging economies, Brazil attracted special interest since the

Graph 3.2
Over/Selic rate x dollar x swap 360 days



value of its papers had been somewhat depreciated by the adverse conditions that existed in 2002. In this sense, the value of the real appreciated against the dollar and provoked a passthrough effect to the prices of tradables. As inflation was gradually reined in, financial agents began projecting futures market interest rate reductions, with an interest curve characterized by a negative inclination.

Graph 3.3
Yield curve – Swap DI x Preset
Quarterly average



With the reversal in inflation expectations for 2003 and 2004, Banco Central adopted a more flexible monetary policy stance in June and reduced the Selic rate target by 0.5 p.p. This was followed by more accentuated interest rate cuts in subsequent months, as the target slipped to a level of 16.5% per year in December. Despite these reductions, the Selic rate accumulated over the course of 2003 came to 23.4%, or 4.2 p.p. more than the accumulated 2002 total.

Using market expectations of inflation and the Selic rate in the next twelve months as the basis of calculation, the real ex-ante rate in December 2003 closed at 8.6%, for a reduction of 1.1 p.p. in relation to expectations at the end of the previous year. Deflated by the IPCA, the accumulated Selic rate for the year closed at 12.9%.

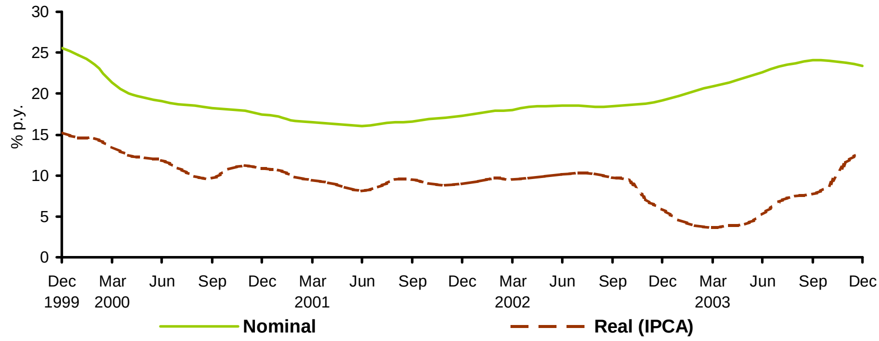
Table 3.1 – Interest rates

% p.y.

Rate	End of period		Accumulated in the year		Difference
	Dec 2002	Dec 2003	2001	2002	
			(a)	(b)	(b-a)
Selic	23.03	16.91	19.17	23.35	4.18
DI	22.91	16.81	19.11	23.25	4.14
TR	4.42	2.20	2.77	4.65	1.88
TBF	21.78	16.37	18.22	22.42	4.20
TJLP	10.00	11.00	9.87	11.50	1.63

Graph 3.4

Over/Selic rate accumulated in 12 months



Capital market

At the end of December 2003, the São Paulo Stock Exchange Index (Ibovespa) rose to a record level of 22,236 points. In the year, upward movement at the exchange came to 97.3%, interrupting a sequence of negative annual results that had begun in 2000. Basically, this performance was a consequence of macroeconomic stabilization and increases in international liquidity.

Starting in October 2002, with the end of the presidential elections and the first clear signs of the policies to be followed by the new administration, stock markets shifted into a positive curve that was to be interrupted momentarily by the outbreak of the war in Iraq.

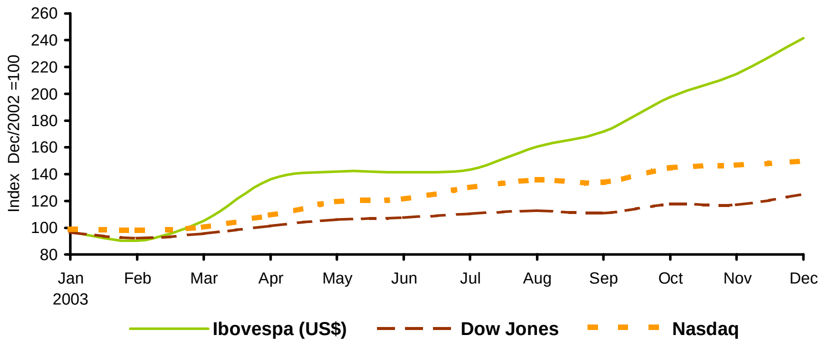
In the following months, the Ibovespa moved gradually upward, driven by improving market expectations, as inflation was brought under control, interest rates and country risk began to decline and the value of Brazilian papers on the international market began moving upward. The result of this generally positive situation was an increased inflow of foreign investments into the São Paulo Stock Exchange (Bovespa), as the volume of stock purchases increased.

Graph 3.5
Ibovespa

With the more flexible monetary policy adopted by the government in June, the Ibovespa gained momentum and spiraled from 13,000 to 22,000 in December. At the same time, this period was marked by congressional approval of the Social Security Reform Bill and agreement on the basic points of the tax reform, both of which set the stage for consolidation of the positive evolution of the nation's economic fundamentals.

Evaluated in dollars, the Bovespa position rose by 140% in 2003 and easily surpassed the performance of exchanges in the United States. In more specific terms, the Dow Jones Industrial Average (DJIA) closed with growth of 29.8% in the same period and the National Association of Securities Dealers Automated Quotations (Nasdaq) rose by 51.7%.

Graph 3.6
Ibovespa x Dow Jones x Nasdaq



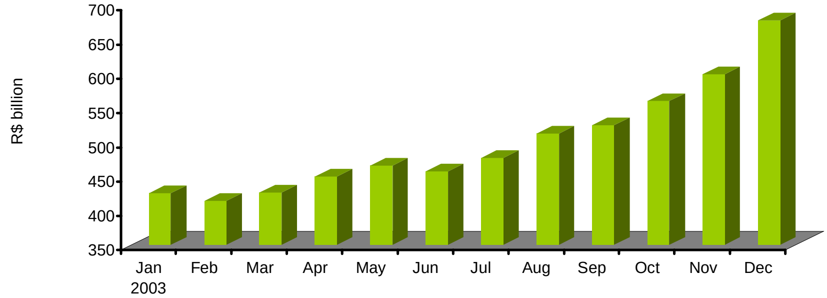
With these results, the market value of the companies listed at Bovespa registered growth of 54.4% compared to the December 2002 value and reached a level of R$676.7 billion.

In nominal terms, the median daily financial volume increased by 46.6% over the median level of trading in 2002, registering daily financial turnover of R$818.3

Graph 3.7

Market value

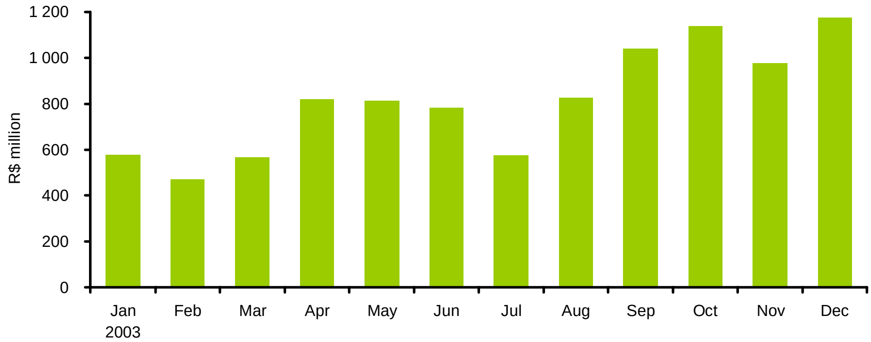
Open capital companies – Bovespa



million. This result reflects not only upward movement in the value of stocks, but also a significant increase in the number of operations. With this, the daily median totaled 39,597 operations or 40.5% more than in 2002. One should further stress net inflows of R$7.5 billion in resources from foreign investors over the course of the year.

Graph 3.8

Traded average daily volume in Bovespa



With respect to special trading segments that give added value to corporate governance and investor relations, the number of companies that have voluntarily adhered to these programs increased from 29 in 2002 to 36 in 2003. Taken together, these companies accounted for 33.9% of market capitalization and 21.7% of the volume of trading at Bovespa in December, and were classified into Level 1 (31 companies), Level 2 (3 companies) and New Market (2 companies).

Capital market financing of companies, based on primary issues of stocks, debentures and promissory notes, added up to R$7.5 billion or 62% less than the 2002 volume. The falloff came to 92% in operations involving stocks, 64% in debenture issues and 45% in the case of promissory notes. To some extent, this reduction reflects improved opportunities for businesses to tap into foreign financing sources, together with postponement of some investments as a result of the economic downturn the marked the first six months of the year.

Graph 3.9
Primary market – Issues

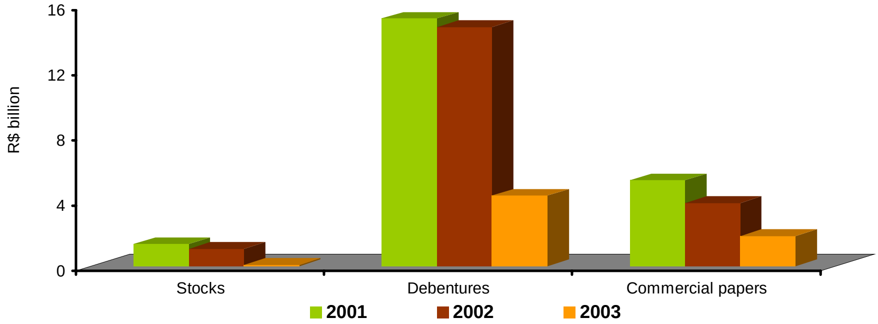


Table 3.2 – Primary issues of companies

Issues - CVM (R$ million)

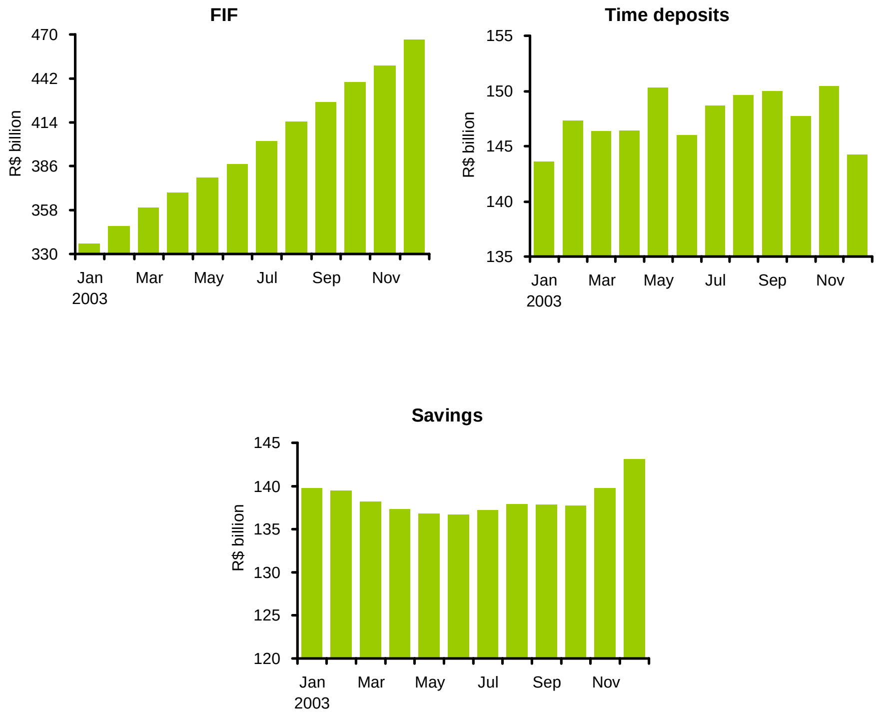
Period	Stocks		Debentures		Commercial papers		Total	
	2002	2003	2002	2003	2002	2003	2002	2003
Jan	351	0	100	0	7	2	459	2
Feb	0	80	1 790	219	44	700	1 834	999
Mar	0	0	0	0	0	200	0	200
Apr	0	0	0	1 800	1 160	150	1 160	1 950
May	0	0	2 380	60	100	0	2 480	60
Jun	0	0	450	350	106	23	556	373
Jul	0	0	0	250	2	3	2	253
Aug	597	0	750	830	0	0	1 347	830
Sep	96	0	1 245	260	400	180	1 741	440
Oct	0	0	775	205	2 010	475	2 785	680
Nov	6	0	500	340	40	95	546	435
Dec	0	0	6 646	969	7	300	6 653	1 269
Total	1 051	80	14 636	5 283	3 876	2 128	19 562	7 491

Source: CVM

Financial investments

When financial investment funds (FIF), stock funds, extramarket funds, savings accounts and time deposits (CDB) are included and the funds belonging to the FIF portfolio are excluded, the balance of financial investments reached R$777.4 billion in December 2003, with growth of 25.1% in the year. Here, special mention should be made of the strong net inflow registered by FIF in 2003, easily offsetting the previous year's losses. Basically, this result was due to migration of resources away from such other financial investments as CDB and savings accounts, together with funding contracted abroad.

Graph 3.10
Financial investments – Balances

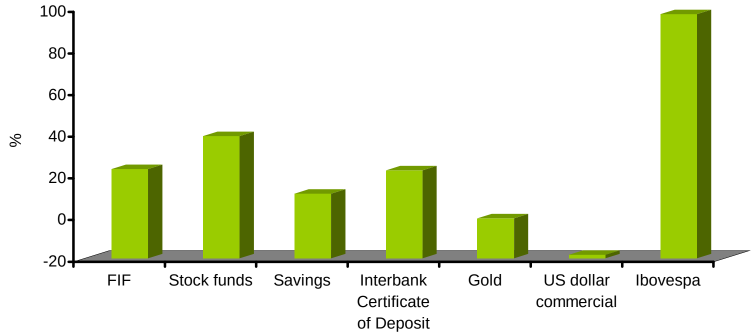


FIF registered net worth of R$466.8 billion, with annual growth of 45.2%. Net funding operations came to R$65.1 billion in 2003, compared to net redemptions of R$60.9 billion in the previous year. With respect to movement of resources among the different types of investment funds, the flow to fixed income investments increased. With the successive cutbacks in basic interest rates, these operations became particularly attractive when compared to those referenced to interbank deposits (DI). In this sense, the participation of preset public securities in the FIF portfolio increased from 2.2% at the end of 2002 to 16.3% in December 2003, at the same time in which the participation of exchange securities slipped from 10.4% to 5.7% in the same period, due mostly to exchange rate appreciation over the course of the year.

On the other hand, savings deposits and time deposits registered net negative inflows of R$10.4 billion and R$23 billion, respectively. Savings accounts turned in a balance of R$143.1 billion and time deposits closed December 2003 with R$144.2 billion. These results were conditioned by investor preference for investment funds since, compared to savings accounts and CDB, these funds generate higher earnings and are much more flexible when making deposits or redemptions.

With respect to financial investment profitability, investment funds and time deposits produced returns of 22.9% and 22.3%, respectively, in the year, while savings deposits closed with 11.1%, thus surpassing the level of inflation measured by the IPCA, which closed at 9.3%.

Graph 3.11
Nominal income of major financial investments – 2003



The net worth of stock funds, which encompasses stock and security investment funds (FITVM) and mutual privatization funds (FMP), closed with an increase of R$9.4 billion in the year, reaching a total of R$41.7 billion. Basically, the stock market was impacted by expectations of renewed economic activity and successive declines in the basic rate of interest, both of which made this type of operation considerably more attractive than investments in securities, particularly in the second half of the year.

Extramarket funds, which operate exclusively with the resources of entities belonging to the federal indirect administration and funds controlled by the federal government, registered total capital of R$13.3 billion in December 2003, with growth of 14.9% and profitability of 22.8%.

Table 3.3 – Nominal income of financial investment – 2003

%

Itemization	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2003	Memo: 2002
FIF	2.44	2.09	1.63	1.08	1.82	1.42	2.10	1.81	1.70	1.59	1.73	1.39	22.88	21.37
Extramarket	1.92	1.79	1.74	1.83	1.93	1.83	2.05	1.75	1.65	1.61	1.32	1.34	22.84	18.65
Stock funds	- 1.84	- 1.72	2.56	2.16	3.21	- 1.85	3.53	5.03	2.04	4.59	4.50	11.77	38.78	8.45
Savings	0.99	0.91	0.88	0.92	0.97	0.92	1.05	0.91	0.84	0.82	0.68	0.69	11.10	9.14
CDB	1.93	1.82	1.75	1.82	1.91	1.81	1.98	1.68	1.58	1.51	1.26	1.28	22.33	19.07

IV

Public Finance

Fiscal and tax policies

On 12.19.2003, the National Congress promulgated Constitutional Amendments 41 and 42, implementing the Social Security Reform and alterations in the National Tax System. The two bills, which were sent to the Congress for its deliberation in the month of April, were the major points on the federal government's fiscal agenda for 2003.

The reform of the Social Security System had the objective of transforming it into a more equitable and socially more just system that, at one and the same time, is also feasible in financial and actuarial terms. Analysis of the changes introduced indicates that, in some cases, the reform has created significantly more convergence between the public and private systems, with the rules governing private sector workers being applied also to public sector civil servants. The major points of the Social Security reform are as follows:

1. Veteran civil servants:

a) civil servants entitled to full or proportional retirement up to the date on which Constitutional Amendment 41/2003 was promulgated may request such retirement at any time whatsoever, based on the rules set down in Constitutional Amendment 20/98, which are as follows: minimum age of 53 (men) and 48 (women), five years of public service, contributions to the system over a period of 35/30 years (men/women), with addition of 20% (in the case of full retirement) and 40% (proportional) in relation to the time lacking to be entitled to retirement on 12.15.1998. Should the person continue working, he/she may request retirement according to the rules issued under Constitutional Amendment 20/1998 or the terms of the new legislation;

b) only those civil servants will be entitled to retirement in the amount of the final wage received (integral pay) who cumulatively comply with the following conditions: 60 years of age (men) and 55 years (women); 35 years of contribution to the system (men) and 30 years (women); 20 years of public service, 10 years within a specific career classification and 5 of effective service in the position in which that person retires. Retirement of those not in compliance with these requirements will be calculated on the basis of median social security contributions from July 1994 onward;

c) those who were admitted to public service by 12.15.1998 and who desire to retire before completing 60/55 years of age (men/women) must have 5 years of public service, comply with an additional period of service equivalent to 20% of the period lacking on 12.15.98 to complete the period of contribution of 35/30 years (men/women) and pay a reduction factor of 3.5% for each anticipated year of age, should that person request the benefit by 12.31.2005, or of 5% for each year, should the person request retirement after that date. The maximum anticipation was set at 7 years and the value to be used as the basis for calculating retirement will give due consideration to the social security contributions effectively paid by that civil servant during his/her entire professional life, independently of the system (public or private sector). Ordinary legislation will define the system to be used to update the value of these contributions. In this case, the retiree loses the right to active-inactive worker parity;
d) current civil servants will be entitled to partial parity or, in other words, a law will define what financial advantages will be excluded from the parity;
e) a social security contribution of 11% will be charged on the benefits of all retirees and pensioners, with two well-defined situations: a) the discount will be levied on the value of the benefit in excess of R$1,200.00, in the case of state and municipal civil servants, and R$1,440.00 for federal civil servants; b) for those civil servants still on active duty, the discount will be applied to the amount in excess of R$2,400.00. Charging of the social security contribution will begin 90 days after promulgation of the reform;
f) new pensions will be paid in full value up to the limit of R$2,400.00. The amount greater than this limit will be subject to a discount of 30%. Ordinary legislation will define the manner in which the new pensions will be updated;
g) all civil services who reach the conditions required to petition retirement and who continue working will be entitled to what is termed a permanence bonus equivalent to the 11% social security contribution. According to previous legislation, the bonus would only be granted to those who had reached the conditions required for full retirement. With the reform, the bonus was also extended to those who had achieved the age required for proportional retirement, based on Constitutional Amendment 20/98 by the date on which the new legislation was promulgated;
h) the ceiling for retirement benefits for current civil servants will be equivalent to the salary of a minister of the Federal Supreme Court (STF). For states and municipalities, second tier ceilings were defined: the salary of the state governor for civil servants belonging to the state executive branch; for municipal employees, the ceiling was defined as the salary of the local mayor; in state assemblies, the limit will be the salary of state deputies; finally, in the state judiciary, the limit will be equivalent to 90.25% of the salary of a minister of the STF;

i) the reform unifies the social security contribution rates at a minimum of 11%. Higher rates are permitted at the state and municipal levels;
j) the reform raises the ceiling on INSS benefits from R$1,869.34 to R$2,400.00.

2. **New civil servants**:

a) retirement benefits of those who enter the civil service after promulgation of Constitutional Amendment 41 will be limited to R$2,400.00. Should the civil servant desire to retire with benefits higher than this limit, it will be necessary to contribute to a complementary pension fund. Calculation of the benefit will be based on contributions paid during the person's professional life and updated according to a formula to be defined in law;
b) such civil servants will not be entitled to active-inactive parity and the system according to which benefits will be increased over time will be defined in law.

With regard to changes in tax legislation, this process began with passage of Law 10,684, dated 5.30.2003, which introduced changes into legislation on social contributions and defined procedures to be used for the purpose of receiving debts owed to the Federal Revenue Secretariat (SRF) and the National Social Security Institute (INSS). The most important aspects of this law are as follows:

a) Contribution to Financing of the Social Security System (Cofins): increase in the rate on the monthly revenues of financial institutions from 3% to 4%;
b) Social Contribution on Net Profits (CSLL): increase in the calculation base for those service companies that deposit this contribution on the basis of presumed profits (companies with annual revenues of up to R$48 million) from 12% to 32% of gross revenues;
c) Program of Social Integration and Program of Formation of Civil Service Assets (PIS/Pasep) and Cofins: permission for crop/livestock production and rural electrification cooperatives to exclude the costs aggregated to products and services marketed by their associates, involving generating facts that occurred as of 10.26.1999, from the base used in calculating their contributions. Aside from this, revenues consequent upon the marketing of raw materials, intermediate products and packaging material were exempted from these contributions, when such are produced in the Manaus Free Zone to be used in industrialization processes by industrial establishments located in that region.
d) Integrated system of Tax and Contribution Payments for Micro and Small Businesses (Simples): extension of the possibility of opting for the "Simples" system to daycare centers, preschool institutions, primary schools, lottery shops, outsourced mail services and centers for the training of drivers of automotive vehicles to be used in land transportation of passengers and cargos;
e) Fiscal Recovery Program (Refis); payment in up to 180 monthly installments of debts with the SRF and with the National Treasury Prosecutor's Office, with

maturity up to 2.28.2003 and in up to 120 months, involving debts referring to Pasep, for which the states, Federal District and municipalities are responsible;

f) PIS/Pasep: exclusion of revenues earned on the rendering of services by journalistic, broadcasting and image and sound companies from the new system of taxation (rate of 1.65% of aggregate value).

Among fiscal measures, mention should also be made of the issue of Provisional Measure 135, dated 10.31.2003, converted into Law 10,833, dated 12.29.2003, which, in relation to Cofins, adopted a procedure identical to that instituted for PIS/Pasep in December 2002. Thus, for a major share of the various economic sectors, charging of the contribution would no longer be cumulative and would be charged on the basis of aggregate value. According to the new system, companies become eligible to receive a tax credit equivalent to the difference between what is due at the time of application of the rate to the calculation base of the tax, in this case the value of monthly revenues, and what has already been deposited in previous stages of the productive chain.

The new model will go into effect as of 2.1.2004 and is a response to the demand for modernization of the social security cost structure without, however, placing the volume of revenues obtained through this contribution in jeopardy, as required by Fiscal Responsibility Law (LRF). Considering that the new system presupposes the offsetting of tax credits generated in previous stages of the productive chain, the rate of this tax was increased from 3% to 7%, in order to preserve the basic premise of this model which is not to jeopardize the level of inflow registered up to January 2004.

There is no doubt that the new system of charging Cofins will result in a redistribution of the tax load among various sectors of the economy, since it fosters alterations in costs over the entire productive chain, with the heaviest burden on the segments in the initial stages of production or those that aggregate greater value to the product/service, since they have a lesser volume of tax credits to offset at the time of payment of the tax. Just the opposite occurs for the segments situated at the end of the productive chain, in such a way that changes in relative prices can be expected. At the same time, the new model will tend to enhance the competitiveness of national products since imported goods do not generate rights to these credits since there are no previous stages on which the tax is levied, while the burden of the tax has been removed from exports.

It is important to stress that Law 10,637/2002, which instituted the new base for levying PIS, determined that, by 12.31.2003, the executive branch should send a bill to the National Congress with the purpose of making charging of Cofins noncumulative and, if required, introducing alterations into the PIS/Pasep rate, which was increased from 0.65% to 1.65%, with the aim of ensuring that the inflow level will be preserved.

The generating fact underlying noncumulative levying of Cofins are monthly revenues, considered as total income earned by the legal entity independently of its denomination or accounting classification. Total revenues encompass gross revenues on sales of goods and services by the company itself and by others and all other revenues earned by the legal entity.

The following revenues are not included in the calculation base of the Contribution:

a) those exempt or not covered by the levying of the Contribution or that are subject to a zero rate;
b) nonoperating revenues, consequent upon sales of permanent assets;
c) those earned by legal entities involved in the resale of merchandise in which case the contribution will be required of the resale company, in the form of a tax substitute;
d) sale of products subject to one time only levying of the contribution;
e) those on canceled sales and unconditional discounts granted; reversions of provisions and recovery of credits previously written off as losses that do not involve inflows of new revenues; positive results of the assessment of investments at the value of net worth and profits and dividends derived from investments assessed at acquisition cost, and that have been calculated as revenues.

In order to determine the value of Cofins, the rate of 7.6% is applied to the calculation base, while taking advantage of credits calculated in relation to:

a) goods acquired for resale;
b) goods and services used as inputs in the rendering of services and in the production or manufacturing of goods or products to be resold, including fuels and lubricants;
c) electricity consumed in establishments belonging to the legal entity;
d) rentals paid to the legal entity, involving buildings, machines and equipment used in the company’s activities;
e) financial outlays consequent upon loans, financing and the value of counterinstallments in the legal entity’s leasing operations, with the exception of companies that have opted for the Integrated System of Tax and Contribution Payments for Micro and Small Businesses (Simples);
f) machines and equipment and other goods incorporated into fixed assets acquired for utilization in the production of goods for sale or in the rendering of services;
g) buildings and improvements in the company’s own or third party real estate utilized in the company’s activities;
h) goods returned when the sale revenues have been integrated into the month’s revenues or those of the previous month and taxed according to the provisions of this law;

i) storage of merchandise and freight in sale operations in cases involving the goods cited under letters a and b above.

The following segments were excluded from the new model as a result of their specific natures:

a) cooperatives;
b) companies that have opted for the “Simples” system;
c) financial institutions;
d) private companies that operate in the protection and transportation of valuables;
e) legal entities subject to the income tax on the basis of presumed or arbitrated profits (companies with monthly revenues of up to R$4 million);
f) public sector entities, semi-autonomous agencies and federal, state and municipal public foundations, and foundations that have been authorized by law;
g) legal entities exempted from taxes;
h) revenues taxed at a single stage or by tax substitution;
i) companies that operate in the purchase and sale of automotive vehicles;
j) revenues consequent upon the rendering of telecommunications services and the providing of the services of journalistic and broadcasting and sound and image companies;
k) revenues related to contracts formalized prior to 10.31.2003;
l) revenues consequent upon the rendering of collective highway, subway, railway and waterway transportation of passengers;
m) revenues consequent upon the rendering of hospital, first aid, clinical and recovery services under medical orientation and blood banks;
n) revenues derived from education services for young children, primary, secondary and university education.

Due to the complexity and peculiarities of the activities performed by real estate companies in land development programs, real estate incorporation, construction of buildings for sale, as well as the sale of already built real estate, the law allows these companies to utilize presumed profits calculated on the basis of the cost budgeted for conclusion of a specific undertaking, in the proportion of revenues earned as determined by income tax legislation.

The Law also determined that payment of Cofins will be effected by the final business day of the first fifteen days of the month subsequent to that in which the generating fact occurred. According to previous legislation, the period was up to the last business day of the subsequent ten day period.

Finally, among the other measures introduced through Law 10,833/2003, the following should be stressed:

a) IPI: as of February 2004, calculation of the tax will be carried out every fifteen days (previously, every ten days) and will become monthly as of 2005;
b) Provisional Contribution on Financial Operations (CPMF): up to December 1, 2003, foreign investments entering stock exchanges would be subject to levying of the tax at only one stage of the operation or, in other words, they would be exempt from payment at the time of remittance abroad of the resources calculated upon liquidation of the operations;
c) Income tax on capital gains: in cases involving transfers of goods by foreign individuals or legal entities to residents in the country, the national buyer becomes co-responsible for payment of the tax;
d) Combating Smuggling: bus companies that transport passengers to countries that have common borders with Brazil will be obligated to identify baggage and their respective owners on return trips to Brazil. Noncompliance with these rules will subject the company to fines and loss of the concession for two years.

Though essential to achieving short-term equilibrium of the nation's public accounts, alterations in the Tax System, instituted by Constitutional Amendment 42/2003, represented continuation of a process that will only be consolidated in 2007. It should be stated that the bill sent to the National Congress was considerably more inclusive. However, the more complex questions and those that require deeper study were shifted to a new constitutional amendment proposal. Among other measures, this proposal involves unification of ICMS legislation, increased resources from the Municipal Revenue Sharing Fund, creation of the National Regional Development Fund and definition of the ceiling on budget resources for the effecting of judicially determined payments.As far as the measures implemented through Constitutional Amendment 42/2003, the following deserve mention:

a) CPMF: extended to 2007, at the same rate of 0.38%;
b) Elimination of Federal Revenue Entitlements (DRU): extended to 2007, at the same level of 20% in effect since 2003;
c) Contribution on Intervention in the Economic Domain (Cide): to be shared among the three levels of government: 75% for the federal government, 18.75% for the states and 6.25% for municipal governments;
d) Compensation Fund for Export Tax Losses: once the law had been approved, the federal government began channeling resources to the states and Federal District with the purpose of offsetting ICMS losses caused by elimination of this tax on export operations. In order to define the volume of these resources, the law must, among other factors, give due consideration to the volume of exports involving primary and semimanufactured goods, the ratio between exports and imports and acquisitions reserved to fixed assets;
e) Cofins and PIS/Pasep: levying of the contributions extended to imports of goods and services from abroad;

f) Fiscal incentives: extension for ten years of the effectiveness of fiscal incentives granted to companies located in the Manaus Free Zone (from 2013 to 2023) and of those granted under the terms of informatics legislation (2009 to 2019);
g) Rural Land Tax (ITR): this tax, for which the federal government is responsible, may be supervised and collected by those municipalities that opt to do so, according to the terms of legislation. In this case, the total amount collected will remain with the municipal government charged with collection.

It was only with issue of Provisional Measures 161, dated 1.21.2004, and 164, dated 1.29.2004, that the variables to be taken into consideration in the distribution of the Cide among the states were defined, and the two new contributions were instituted. In the latter case, these contributions will be levied on imports of goods and services from abroad (PIS/Pasep-Imports and Cofins-Imports).

Provisional Measure 161 determined that 25% of the Cide inflow would be transferred to the states, Federal District and municipalities on a quarterly basis up to the fifth business day of the month subsequent to the closing month of each quarter. This is to be done through a credit to an account opened for this purpose. The criteria for distribution of these resources take due account of the dimensions of the nation's paved federal and state highway networks in each state, fuel consumption subject to charging of the CIDE and the size of the population.

Provisional Measure 164 determined that the contribution rates will be equal to those practiced in internal operations or, in other words, 1.65% for PIS/Pasep-Imports and 7.6% for Cofins-Imports. The measure also defined the generating fact, those making the contributions, the calculation base, exemptions and the periods allotted for payment of the contributions.

With formalization of Decree 4,800, dated 8.5.2003, IPI rates on automobiles with cylinder capacity of up to 2000 were reduced by three percentage points, to remain in effect from 8.6.2003 up to 11.30.2003. Considering the positive impacts of this measure on production and employment levels, Decree 4,902 was issued on 11.28.2003 extending this benefit to 2.29.2004. Companies committed themselves to not laying employees off during the period in which the rate reduction remains in effect.

At the level of municipal finances, mention should be made of approval of Complementary Law 116, dated 7.31.2003, which defined the calculation base, rates and services subject to levying of the Tax on Services of Any Nature (ISS), which is subject to municipal and Federal District jurisdiction. Aside from this, Law 10,819, dated 12.16.2003, was approved with the purpose of providing equal treatment to municipalities from the federative point of view, granting them the right to utilize judicial and extrajudicial deposits related to judicial suits that question payment of municipal taxes. In order to utilize the benefit, the law requires that the local administration approve municipal laws instituting reserve funds to be used to ensure return of such deposits to taxpayers, should the final judicial decision in such cases be unfavorable to such administrations.

With the aim of making the work of the state in implementing social programs more rational, more effectively organized and more efficient, the government issued Provisional Measure 132, dated 10.20.2003, later converted into Law 10,836, dated 1.9.2004, creating the Family Assistance Program. This Program, based on a series of conditions, is to operate in the area of income transfers and has the objective of unifying the federal government's management and implementation of its income transfer activities, particularly involving the National Education-related Minimum Income Program (*Bolsa Escola*), the National Food Assistance Program (PNAA), the National Health-related Minimum Income Program (*Bolsa Alimentação*), the Kitchen Gas Assistance Program and the Single Federal Government Reference File.

Duly complying with the provisions defined in regulations, the benefits of the Program are as follows:

a) basic benefit: targeted to family units in situations of extreme poverty;
b) variable benefit: targeted to family units in situations of poverty and extreme poverty and that include pregnant women, breastfeeding mothers, children between zero and twelve years of age and adolescents of up to fifteen years of age.

On 10.22.2003, the National Congress approved Law 10,748, which instituted the National Program of Incentives to First Employment for Youth (PNPE), which involves a series of measures targeted at stimulating absorption of young people into the labor market, furthering their schooling, strengthening the participation of society in the process of formulating policies and job and income generation measures. The Program has the objective of creating job opportunities for young people and preparing them for the job market and alternative occupations that generate income, as well as training for young people for the job market and the process of social inclusion.

Finally, one must refer to creation of the Special Low-cost Housing Program that is designed to provide households with monthly family income of up to three times the minimum monthly wage with the possibility of access to adequate housing. According to Provisional Measure 133, dated 10.23.2003 (later converted into Law 10,840, 2.11.2004), resources allocated to the Program will be targeted to implementation of the following measures, in terms of financial aid or assistance:

a) production or acquisition of housing units;
b) production or acquisition of urbanized lots;
c) acquisition of building materials;
d) urbanization of still precarious settlements;
e) urban reclassification.

Public sector borrowing requirements

The nonfinancial public sector registered a primary surplus of R$66.2 billion, or 4.37% of GDP, in 2003, compared to R$52.4 billion, or 3.89% of GDP, in the previous year. Evidently, the target of 4.25% of GDP set for the period was clearly met.

Analyzing the contribution of the different public sector segments to this result, improvement was registered in the surplus as a proportion of GDP in all spheres of activity, with the exception of municipal governments.

In the context of the Central Government, the adjustment was concentrated in the spending column, with the aim of offsetting losses generated by the economic slowdown and by the strong atypical inflow in 2002.

The Central Government's primary surplus in 2003 came to R$38.7 billion, corresponding to 2.53% of GDP, compared to R$31.9 billion in 2002, 2.37% of GDP. In the 2003 result, R$65.3 billion corresponded to the surplus registered in National Treasury accounts and R$26.4 billion in the Social Security deficit. The result also included the R$195 million Banco Central deficit.

Central Government revenues added up to R$357.9 billion, for nominal growth of 11.2% in comparison to the previous year, accounting for 23.62% of GDP, compared to 23.91% in 2002. The determining factor of this reduction was deceleration in the level of economic activity in the first half of the year, particularly in the industrial sector. Mention should also be made of the negative impacts generated by the restructuring of import tax and industrialized products tax rates on inflow rates, as well as of judicial decisions that went against the Federal Revenue position and provoked revenue losses on the CIDE-Fuels and the IPI. Finally, there was an accentuated reduction in the inflow of atypical and extraordinary revenues (payments of debts in arrears, conversion of judicial and administrative deposits into Treasury revenues, etc.), from R$18.5 billion in 2002 to R$7.9 billion in 2003.

Overall spending, net of transfers to the states and municipalities, came to R$257.8 billion, for growth of 10.5% in relation to the 2002 result, equivalent to 16.92% of GDP, as against 17.01% in 2002. Taken by themselves, Social Security outlays,

Table 4.1 – Public sector borrowing requirements

Itemization	2000		2001	
	R$ million	% of GDP 1/	R$ million	% of GDP 1/
Total nominal	39 806	3.6	42 789	3.6
Federal government and Banco Central do Brasil	25 016	2.3	25 273	2.1
States	19 955	1.8	23 080	1.9
Local governments	2 966	0.3	1 178	0.1
State enterprises	-8 132	- 0.7	-6 742	- 0.6
Total primary	-38 157	- 3.5	-43 655	- 3.6
Federal government and Banco Central do Brasil	-20 431	- 1.9	-21 980	- 1.8
States	-4 579	- 0.4	-7 211	- 0.6
Local governments	-1 447	- 0.1	-3 260	- 0.3
State enterprises	-11 700	- 1.1	-11 204	- 0.9
Nominal interest	77 963	7.1	86 443	7.2
Federal government and Banco Central do Brasil	45 447	4.1	47 253	3.9
States	24 534	2.2	30 291	2.5
Local governments	4 413	0.4	4 437	0.4
State enterprises	3 569	0.3	4 463	0.4

(continues)

Table 4.1 – Public sector borrowing requirements (concluded)

Itemization	2002		2003	
	R$ million	% of GDP 1/	R$ million	% of GDP 1/
Total nominal	61 614	4.6	79 030	5.2
Federal government and Banco Central do Brasil	10 029	0.7	62 150	4.1
States	43 797	3.3	22 936	1.5
Local governments	7 696	0.6	4 067	0.3
State enterprises	92	0.0	-10 124	- 0.7
Total primary	-52 390	- 3.9	-66 173	- 4.4
Federal government and Banco Central do Brasil	-31 919	- 2.4	-38 744	- 2.6
States	-8 560	- 0.6	-11 916	- 0.8
Local governments	-2 073	- 0.2	-1 906	- 0.1
State enterprises	-9 838	- 0.7	-13 608	- 0.9
Nominal interest	114 004	8.5	145 203	9.6
Federal government and Banco Central do Brasil	41 948	3.1	100 894	6.7
States	52 356	3.9	34 851	2.3
Local governments	9 770	0.7	5 973	0.4
State enterprises	9 929	0.7	3 484	0.2

1/ Current prices.
2/ Federal Government, Central Bank and National Social Security Institute.

R$107.1 billion, expanded by 21.7% and National Treasury spending came to R$143.7 billion, for a reduction of 1.1% in the year. The two major headings under Treasury outlays are "personnel and social charges" and "other current and capital spending", with respective increases of 6.5% and 1.5%, compared to 2002 while, as a proportion of GDP, these headings declined by about 0.29 p.p. and 0.53 p.p.

Following the example registered within the framework of the Central Government, the results registered by regional governments were conditioned by management of outlays, highlighted by qualitative improvements in the implementation of fiscal adjustment policies which not only took on a lasting character, but also contributed to enhanced economic efficiency, by avoiding adjustments based on tax increases.

Table 4.2 – Central government primary result

R$ million

Itemization	2001	2002	2003	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	271 927	321 842	357 891	18.4	11.2
Treasury revenues	209 436	250 815	277 159	19.8	10.5
Administered revenues[1/]	183 759	224 860	247 272	22.4	10.0
Non administered revenues	25 677	25 955	29 887	1.1	15.1
Social security revenues	62 491	71 027	80 732	13.7	13.7
Total expenditures	249 500	289 383	318 383	16.0	10.0
Treasury expenditures	174 171	201 354	211 248	15.6	4.9
Transfers to states and municipalities	46 024	56 138	60 226	22.0	7.3
Personnel and social charges	64 381	73 306	78 066	13.9	6.5
Other current and capital expenditures	63 766	71 910	72 956	12.8	1.5
Social security benefits	75 329	88 029	107 135	16.9	21.7
Federal government result	22 427	32 459	39 508	44.7	21.7
National Treasury	35 265	49 461	65 911	40.3	33.3
Social security	-12 838	-17 002	-26 403	32.4	55.3
Banco Central result	- 690	- 777	- 196	12.6	-74.8
Primary result (above the line)[2/]	21 737	31 682	39 312	45.8	24.1
Primary result/GDP – %	1.8	2.4	2.6	-	-

Source: Ministério da Fazenda/STN

1/ Deducted from returns and fiscal incentives.
2/ (+) = surplus (-) = deficit.

In this way, continuity was given to the process of introducing measures aimed at fully implementing the parameters defined by the Fiscal Responsibility Law, particularly in that which concerns fiscal equilibrium, management of outlays on maintenance of the public sector government structure and compliance with debt limits. These measures were determining factors in offsetting the loss of ICMS revenues and of constitutional transfers, both of which are major revenue subgroupings of subnational government administrations. When deflated by the IPCA, these headings dropped by 1.9% and 7.1%, respectively, in 2003.

Total nominal interest appropriated in 2003 came to R$145.2 billion or 9.58% of GDP, compared to R$114 billion or 8.47% of GDP in the previous year. Among the factors responsible for this increase, one should stress the increase in the Selic rate from 18% per year in October 2002 to 26.5% per year in March 2003, where it remained until July when the Selic rate shifted into a downward curve. It should be stressed that the 12 month Selic rate followed a downward curve as of November 2003. This movement should continue in the coming months and is already reflected in the evolution of the flows of interest appropriated on the debt on an annual bases – with the sole exception of exchange swap operations.

Table 4.3 – Uses and sources – Consolidated public sector

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Uses	61 614	4.6	79 030	5.2
Primary	- 52 390	- 3.9	- 66 173	- 4.4
Internal interest	96 975	7.2	126 043	8.3
Real interest	628	0.0	91 267	6.0
Monetary updating	96 347	7.2	34 776	2.3
External interest	17 029	1.3	19 160	1.3
Sources	61 614	4.6	79 030	5.2
Internal borrowing	36 980	2.7	94 486	6.2
Securities debt	3 364	0.2	122 438	8.1
Banking debt	14 692	1.1	- 31 361	- 2.1
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	18 923	1.4	3 409	0.2
Relationship TN/Bacen	-	-	-	-
External borrowing	24 634	1.8	- 15 456	- 1.0
GDP flows in 12 months[1/]	1 346 028		1 514 924	

1/ GDP at current prices.

Based on the nominal concept, public sector borrowing requirements, which encompass the primary result and nominal interest appropriated, registered a deficit of R$79 billion, or 5% of GDP in 2003, compared to R$61.6 billion, or 4.58% of GDP in 2002.

With regard to the major sources of financing of the nominal deficit accumulated in the year, the banking debt and external financing registered reductions of R$31.4 billion and R$15.5 billion, respectively, while the securities debt turned in expansion of R$122.4 billion.

Federal tax and contribution inflow

In the 2003 fiscal year, the inflow of the taxes and contributions administered by the Secretariat of Federal Revenue and that of revenues controlled by other public sector entities, excluding social security contributions, came to a total of R$273.4 billion, for nominal annual growth of 12.5%, reflecting a real decline of 1.9% when the IPCA is used as deflator[5].

Emphasis should be given to the fact that, in 2002, the Secretariat of Federal Revenue had registered R$18.5 billion in extra and atypical revenues, compared to just R$7.9 billion in 2003. These revenues mostly involved payments of debts in arrears and conversions of judicial and administrative deposits into Treasury revenues. Consequently, the total inflow – excluding these atypical operations – increased by 3.3% in the year, in real terms.

The increase in the PIS/Pasep inflow, which came to R$17.3 billion, was to a great extent due to the effects of the increase in the PIS rate from 0.65% to 1.65%, effective as of 12.1.2002, on imports made by companies that contribute according to the noncumulative system. Since the value of these imports can not be deducted from the calculation base of the tax in the noncumulative system, it is indirectly

Table 4.4 – Gross inflow of federal revenues

R$ million

Itemization	2001	2002	2003	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	64 909	85 803	93 016	32.2	8.4
Industrialized Products Tax (IPI)	19 456	19 799	19 674	1.8	-0.6
Import Tax (II)	9 090	7 972	8 143	-12.3	2.1
Financial Operations Tax (IOF)	3 584	4 022	4 450	12.2	10.6
Contribution to the Financing of the Social Security (Cofins)	46 364	52 267	59 565	12.7	14.0
Social Contrib. on the Profits of Legal Entities (CSLL)	9 367	13 364	16 750	42.7	25.3
Contribution to PIS/Pasep	11 396	12 872	17 337	13.0	34.7
Provisional Contribution on Financial Transactions (CPMF)	17 197	20 369	23 046	18.4	13.1
Contribution on Intervention in the Economic Domain (Cide)	-	-	7 496	-	3.5
Other taxes	15 349	19 295	23 881	25.7	23.8
Total	196 712	243 006	273 358	23.5	12.5

Source: Secretaria da Receita Federal

5/ This will be the index number used in the inflow analysis, any time there is a reference to real rates.

incorporated into the calculation base. Aside from this, the Pasep inflow, which corresponded to about 15% of the total, registered real growth of 39.9% in 2003, as a consequence of the resolution of a number of judicial litigations.

Inflow of the CSLL came to R$16.8 billion, with an increase of 9.1%, impacted mainly by growth in the calculation base for service companies that pay the contribution on the basis of presumed profits. In this case, the calculation base had been increased from 12% to 32% of gross revenues. The two segments that constitute the CSLL inflow registered highly distinct individual performances, as deposits for which financial entities are responsible came to R$1.9 billion, for a reduction of 43.7%, while those of all other companies came to R$14.9 billion, for growth of 23.2%.

Table 4.5 – Extra and atypical inflow of federal revenues

R$ million

Itemization	2002	2003	Growth %
	(a)	(b)	(b)/(a)
Income Tax (IR)	13 498	4 525	-66.5
Corporate entities	12 714	4 262	-66.5
Individuals	784	263	-66.5
Social Contribution on Net Profits (CSLL)	2 203	1 873	-15.0
PIS/Pasep	215	97	-54.9
Cofins	1 569	41	-97.4
CPMF	306	125	-59.2
Other taxes	696	1 226	76.1
Total	18 487	7 887	-57.3

Source: Secretaria da Receita Federal

The income tax inflow came to R$93 billion, for a real reduction of 5.5%, in the year. When the so-called extra and atypical revenues (R$4.5 billion and R$13.5 billion in 2003 and 2002, respectively) are excluded from these amounts, the tax inflow registered a real increase of 6.2%.

With the exception of inflows on labor earnings, R$26.5 billion, and those on capital earnings, R$19.1 billion, which expanded by 2.9% and 2.3%, respectively, all the other tax segments closed with real revenue losses. In the case of capital earnings, the most important were the resources generated by fixed income funds, R$9 billion, with real growth of 5% over the previous year.

Payments of income tax by corporate entities (IRPJ) totaled R$33.8 billion, for a real decline of 13.5%, compared to 2002. The atypical revenues specified under this heading came to R$4.3 billion, compared to R$12.7 billion, of which R$8.8 billion were the responsibility of pension funds in 2002. Without the influence of this atypical inflow, the IRPJ expanded by 19.4% in real terms, due basically to the results registered by the sector of fuels.

The Industrialized Products Tax generated an inflow of R$19.7 billion, for a real reduction of 13.3%, when compared to 2002. All five sectors included in the tax inflow registered real revenue declines: IPI-tobacco, 7.6%; IPI-beverages, 7.6%; IPI-automobiles, 24.1%; IPI-imports, 18.4%; and IPI-others, 9%. The revenue loss on IPI-imports was a consequence of the conjugation of increases of 2.28% in the dollar value of taxed imports and 5.37% in the median rate of exchange, and of reductions of 6.9% in the median effective import tax and 24.4% in the median rate of IPI-imports. The inflow of the IPI-automobiles was negatively impacted by a reduction of 1.7% in internal market sales and cutbacks in the rates on medium and popular models, as defined by Decrees 4,441/2002 and 4,800/2003. At the same time, the falloff in the IPI-others reflected the restructuring of rates, with reductions in the sectors of basic metallurgy, as well as judicial decisions that favored taxpayers.

Table 4.6 – Income Tax and Industrialized Products Tax

R$ million

Itemization	2001	2002	2003	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	64 909	85 803	93 016	32.2	8.4
Individuals	4 058	4 462	5 103	10.0	14.4
Corporate entities	16 985	33 893	33 833	99.5	-0.2
Financial institutions	2 362	4 589	5 871	94.3	27.9
Other companies	14 623	29 304	27 962	100.4	-4.6
Withholdings	43 866	47 450	54 079	8.2	14.0
Labor earnings	21 584	22 480	26 456	4.2	17.7
Capital earnings	15 213	16 362	19 056	7.6	16.5
Remittances abroad	4 504	5 371	5 596	19.2	4.2
Other earnings	2 565	3 237	2 971	26.2	-8.2
Industrialized Products Tax (IPI)	19 456	19 799	19 673	1.8	-0.6
Tobaco	2 006	1 924	1 993	-4.1	3.6
Bevereges	2 008	1 796	1 899	-10.6	5.7
Automotive vehicles	2 594	2 664	2 312	2.7	-13.2
Other taxes	8 079	8 528	8 905	5.6	4.4
Linked imports	4 769	4 887	4 564	2.5	-6.6

Source: Secretaria da Receita Federal

The second most important tax, Cofins, registered an inflow of R$59.6 billion, for a real decline of 0.5% in the year. In much the same way as occurred with the Income Tax, the performance of this contribution was impacted by atypical inflows in both years, involving R$1.6 billion in 2002 and R$41 million in 2003. When one abstracts from the effects of these factors, the Cofins inflow increased in real terms by 1.9%, in 2003.

Federal securities debt

The balance of the federal securities debt outside Banco Central, assessed in terms of the portfolio position, came to R$731.9 billion, 46.6% of GDP, in December 2003, compared to R$623.2 billion, or 39.3% of GDP, at the end of the previous year. To some extent, this result reflected total net issues of R$12.3 billion, compared to total net redemptions of R$169.5 billion in 2002. In 2003, one should highlight the following operations: net issues of R$70 billion in LTN, R$5.9 billion in NTN-B and R$4.2 billion in NTN-C, and net redemptions of R$16 billion in LFT, R$15.5 billion in NTN-D and R$326 million in LFT-Series A (LFT-A), R$5.5 billion in LFT-Series B (LFT-B) and R$30.9 billion in NBCE.

Table 4.7 – Federal securities – Portfolio position

Balances in R$ million

Itemization	2000	2001	2002	2003
National Treasury liabilities	555 908	687 329	838 796	970 565
Bacen portfolio	130 897	189 442	282 730	269 366
LTN	37 243	27 970	45 775	101 376
LFT	90 595	114 986	145 614	99 646
NTN	1 812	44 943	89 664	66 487
Securitized credits	1 246	1 543	1 678	1 857
Treasury MP 1,789	-	-	-	-
Outside the Bacen	425 011	497 887	556 066	701 199
LTN	75 399	48 791	13 596	91 055
LFT	262 301	322 153	372 584	443 180
BTN	64	67	100	74
NTN	46 233	87 488	127 399	126 721
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	14 280	19 366	19 214	18 236
Securitized credits	21 119	16 044	15 406	15 001
Agrarian debt	3 108	1 689	5 761	4 879
TDA	2 495	2 276	2 005	2 052
CDP	14	11	1	1
Banco Central liabilities	85 686	126 198	67 125	30 659
LBC	-	-	-	-
BBC/BBCA	-	-	-	-
NBCE	83 745	124 707	67 125	30 659
NBCF	1 942	1 490	-	-
NBCA	-	-	-	-
Outside the Banco Central – Total	510 698	624 084	623 191	731 858
In % of GDP	44.2	49.7	39.3	47.1

Papers for which the National Treasury is liable came to a December 2003 total of R$970.6 billion, of which R$269.4 billion were held by Banco Central, and R$701.2 billion, corresponding to 72.2% of the total, were outside the monetary authority. Papers issued by Banco Central added up to R$30.7 billion, compared to R$67.1 billion in December of the previous year and accounted for 4.2% of the total securities debt held by the market. Among the factors that contributed to this reduction, mention should be made of net redemptions of R$30.9 billion in NBCE and 18.2% appreciation of the real against the dollar.

With regard to the distribution of securities by indexing factor, the participation of preset papers increased from 2.2% of the total in December 2002 to 12.5% in December 2003, due mostly to net issues of LTN. The participation of papers indexed to the over/Selic increased from 60.8% to 61.4%, despite net redemptions in LFT. Securities tied to exchange reduced their participation from 22.4% to 10.8%, reflecting redemptions of NBCE, NTN-D and appreciation of the real against the dollar. Papers indexed to the Reference Rate (TR) reduced their participation from 2.1% to 1.8%, while those indexed to price indices increased their participation from 12.5% to 13.5%.

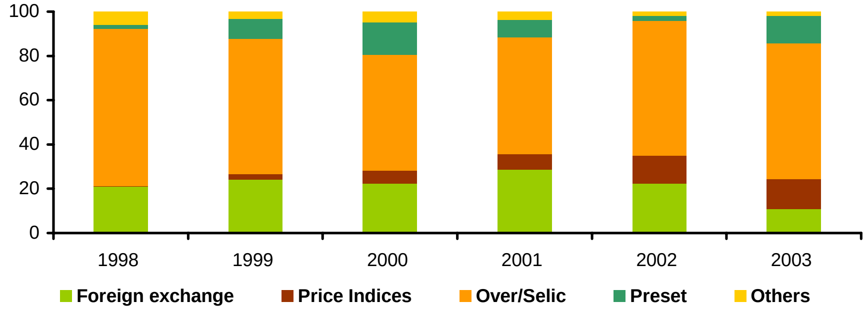
In December 2003, the amortization schedule of the securities debt on the market registered the following configuration: R$244.2 billion, 33.4% of the total, with maturity in 2004; R$180.5 billion, 24.7%, in 2005; and R$307.3 billion, 42%, to mature as of January 2006.

Table 4.8 – Federal public securities

Percentage share by indexator – Portfolio position

Index numbers	2000	2001	2002	2003
Total - R$ million	510 698	624 084	623 191	731 858
Foreign exchange	22.3	28.6	22.4	10.8
Reference Rate (TR)	4.7	3.8	2.1	1.8
IGP-M	1.6	4.0	7.9	8.7
Over/Selic	52.2	52.8	60.8	61.4
Preset	14.8	7.8	2.2	12.5
Long-term Interest Rate (TJLP)	0.0	0.0	0.0	0.0
IGP-DI	4.4	3.0	3.1	2.4
INPC	0.0	0.0	0.0	0.0
IPCA	-	-	1.5	2.4
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Graph 4.1
Federal public securities
Participation by indexing factor



The median duration of the federal public securities issued by Banco Central and the National Treasury in public offers came to 10.85 months in December 2003, compared to 11.35 months in December 2002. Broken down by issuer, the median duration came to 15.35 months for Banco Central securities and 10.59 months for National Treasury papers.

Total exposure in exchange swap operations carried out up to December 2003 came to R$82.3 billion. Based on the accrual criterion, the result of these operations accumulated in the year, understood as the difference between the profitability of DI and exchange growth plus coupon, was favorable to Banco Central by a margin of R$17.6 billion. In the cash criterion, the favorable results accumulated in the year totaled R$15.6 billion.

Net public sector debt

The net public sector debt totaled R$913.1 billion or 58.74% of GDP in December 2003, compared to R$881.1 billion or 55.5% of GDP, in December 2002.

Analyzing the major factors that conditioned growth of 3.24 p.p. in the net debt/GDP ratio in 2003, borrowing requirements accounted for an increase of 5.08 p.p.; growth in the parity of the basket of currencies underlying the net external debt, for 1.08 p.p.; debt recognition, for 0.04 p.p.; and the effect of valued GDP growth, for 1.18 p.p.. On the other hand, the impact of accumulated exchange appreciation in the year contributed to a reduction equivalent to 4.14 p.p.

The general government's gross debt, which includes the federal government, state governments and municipal governments, came to R$1,228.6 billion, or 79% of GDP, in December 2003, compared to R$1,132.9 billion or 71.4% of GDP, in December 2002.

Table 4.9 – Public sector net debt growth

Itemization	2000		2001	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	563 163	48.8	660 867	52.6
Net debt – Growth accumulated in the year	46 586	0.1	97 704	3.9
Conditioning factors (flows accumulated in the year):1/	46 586	4.0	97 704	7.8
Public sector borrowing requirements	39 806	3.4	42 789	3.4
Primary	- 38 157	-3.3	- 43 655	-3.5
Nominal interest	77 963	6.8	86 443	6.9
Cambial adjustment2/	18 345	1.6	37 814	3.0
Domestic securities debt indexed to exchange rate3/	9 479	0.8	19 182	1.5
External debt	8 866	0.8	18 633	1.5
External debt adjustment – Others	0	0.0	- 383	0.0
Acknowledgement of debt	8 672	0.8	18 465	1.5
Privatizations	- 20 238	-1.8	- 980	-0.1
GDP Growfh effect – Debt4/		-3.9		-3.9
GDP accumulated in 12 months – Valued5/	1 154 561		1 255 658	

(continues)

Table 4.9 – Public sector net debt growth (concluded)

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	881 108	55.5	913 146	58.7
Net debt – Growth accumulated in the year	220 241	2.9	32 037	3.2
Conditioning factors (flows accumulated in the year):1/	220 241	13.9	32 037	2.1
Public sector borrowing requirements	61 614	3.9	79 030	5.1
Primary	- 52 390	-3.3	- 66 173	-4.3
Nominal interest	114 004	7.2	145 203	9.3
Exchange adjustment2/	147 225	9.3	- 64 309	-4.1
Domestic securities debt indexed to exchange rate3/	76 662	4.8	- 22 715	-1.5
External debt	70 564	4.4	- 41 594	-2.7
External debt adjustment – Others	753	0.0	16 712	1.1
Acknowledgement of debt	14 286	0.9	604	0.0
Privatizations	- 3 637	-0.2	0	0.0
GDP Growth effect – Debt4/		-11.0		1.2
GDP in R$ million5/	1 587 670		1 554 625	

1/ Net accumulated debt growth as percentage of GDP when considering all factors taken together GDP, divided by the current GDP accumulated in the last 12 month period valuated, calculated by the formula: (∑CondictioningFactors/GDPAccumulatedIn12Months)*100. Not reflecting debt growth as percentage of GDP.

2/ Indicates the sum of the monthly impacts up to the reference month.

3/ Includes adjustment of rate between the basket of currencies composing international reserves and the external debt as well as other adjustments in the external area.

4/ It takes into account the change in the ratio debt/GDP due to growth observed in GDP, calculated by the formula: Dt-1/(PIB present month/PIB base month)-Dt-1.

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

Table 4.10 – Net debt of the public sector

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Fiscal net debt (F=D-E)	573 531	36.1	652 560	42.0
Internal debt adjustment (E)	152 076	9.6	129 361	8.3
Fiscal net debt with exchange devaluation (E=A-B-C-D)	725 606	45.7	781 921	50.3
External debt adjustment (D)	126 590	8.0	101 708	6.5
Inventory adjustment (C)	92 640	5.8	93 245	6.0
Privatization adjustment (B)	- 63 729	-4.0	- 63 729	-4.1
Total net debt (A)	881 108	55.5	913 145	58.7
Federal government	566 734	35.7	584 544	37.6
Banco Central do Brasil	- 5 906	-0.4	- 5 796	-0.4
States	257 986	16.2	278 016	17.9
Local governments	34 992	2.2	38 703	2.5
State enterprises	27 302	1.7	17 678	1.1
Domestic debt	654 312	41.2	726 688	46.7
Federal government	310 003	19.5	365 776	23.5
Banco Central do Brasil	53 235	3.4	52 694	3.4
States	239 578	15.1	261 587	16.8
Local governments	32 092	2.0	36 098	2.3
State enterprises	19 404	1.2	10 533	0.7
External debt	226 796	14.3	186 458	12.0
Federal government	256 732	16.2	218 767	14.1
Banco Central do Brasil	- 59 141	-3.7	- 58 490	-3.8
States	18 408	1.2	16 429	1.1
Local governments	2 900	0.2	2 605	0.2
State enterprises	7 897	0.5	7 146	0.5
GDP in R$ million[1/]	1 587 670		1 554 625	

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

Social Security

The General Social Security System (RGPS) registered a nominal deficit of R$26.4 billion in 2003, based on the difference between the net inflow, excluding transfers to third parties, which came to R$80.7 billion, and outlays on social security benefits in an overall amount of R$107.1 billion.

In real values, deflated by the INPC, the deficit came to R$27 billion, with growth of 33.6% in relation to 2002. Growth in the deficit was impacted by a 2.6% inflow reduction, which came to R$82.7 billion, accompanied by an increase of 4.4% in outlays on benefits, which totaled R$109.7 billion.

Table 4.11 – Gross and net government debt[1/]

Itemization	2002		2003	
	R$ million	% of GDP	R$ million	% of GDP
Net public debt	881 108	55.5	913 145	58.7
Net general government debt	859 712	54.1	901 263	58.0
Gross general government debt	1 132 894	71.4	1 228 569	79.0
Internal gross debt	848 570	53.4	987 116	63.5
Foreign gross debt	284 324	17.9	241 453	15.5
Federal government	263 016	16.6	222 418	14.3
State government	18 408	1.2	16 429	1.1
Local government	2 900	0.2	2 605	0.2
Assets of general government	- 273 182	- 17.2	- 327 306	- 21.1
Internal assets	- 266 898	- 16.8	- 323 655	- 20.8
Available assets of general government	- 104 513	- 6.6	- 136 461	- 8.8
Investment of social security system	- 876	- 0.1	- 860	- 0.1
Tax collected (not transferred)	- 1 144	- 0.1	- 1 587	- 0.1
Demand deposits	- 4 528	- 0.3	- 4 371	- 0.3
Available assets of fed. govern. in Banco Central	- 88 527	- 5.6	- 120 190	- 7.7
Investment in the banking system (states)	- 9 438	- 0.6	- 9 454	- 0.6
Investment in funds and financial programs	- 38 847	- 2.4	- 58 132	- 3.7
Credits with public enterprises	- 32 613	- 2.1	- 29 215	- 1.9
Other federal government's credits	- 23 791	- 1.5	- 25 624	- 1.6
Laborer assistance fund (FAT)	- 67 133	- 4.2	- 74 223	- 4.8
Foreign credits	- 6 284	- 0.4	- 3 651	- 0.2
Federal government	- 6 284	- 0.4	- 3 651	- 0.2
State government	-	-	-	-
Local government	-	-	-	-
Banco Central net debt	- 5 906	- 0.4	- 5 796	- 0.4
Public enterprises net debt	27 302	1.7	17 678	1.1
GDP in R$ million[2/]	1 587 670		1 554 625	

1/ Includes federal, state and local government debt, with other economic agents, including the Banco Central.
2/ GDP of the last 12 months, at prices of month indicated. Centered IGP-DI deflator (geometirc mean of IGP-DI variation in the month and in the following month.

The inflow performance reflected negative growth of 1.3% in current revenues, which closed at R$83.4 billion, and 17.9% in resources originating in measures taken to recover social security credits, in a total amount of R$5.6 billion.

The performance of current revenues reflected reductions of 2.6% in inflows from the business sector in general and 16.5% in inflows from individual persons, corresponding to totals of R$57.7 billion and R$4 billion, respectively.

Table 4.12 – Social Security – Cash flow

R$ million

Itemization	2001 (a)	2002 (b)	2003 (c)	Change % (b)/(a)	(c)/(b)
Revenues	88 172	105 032	122 227	19.1	16.4
Banking inflow	66 997	76 080	86 588	13.6	13.8
Other revenues	635	361	602	- 43.1	66.8
Revenue anticipation	- 3	2 939	- 3 238	-	-
Federal government transfers	20 543	25 652	38 275	24.9	49.2
Expenditures	88 033	102 145	123 359	16.0	20.8
Social security benefits	75 329	88 029	107 135	16.9	21.7
Non-social security benefits	3 368	4 083	5 062	21.2	24.0
Other expenditures	4 830	4 980	5 304	3.1	6.5
Transfers to third parties	4 506	5 053	5 857	12.1	15.9
Cash result	139	2 887	- 1 131	...	...
Social Security balance	- 12 838	- 17 002	- 26 405	...	...
Ratio benefit/banking inflow[1/]	1.1	1.2	1.2	...	...

Source: Ministério da Previdência e Assistência Social

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

The business inflows accounted for approximately 69% of total current revenues in 2003. The downward trend that marked the last two years was basically a result of sluggish economic activity.

With respect to the inflow from individual persons, the negative result was impacted by job market performance, which registered a decline of 9.9% in the real median earnings of registered workers, who constitute the contribution base of the social security system. These figures refer to 2003 and were drawn from the IBGE Monthly Employment Survey.

Among the other headings included in current revenues, mention should be made of the “Simples” involving the contribution of employees of companies that have opted for this system. This inflow registered growth of 24.9%, closing with a total of R$2.7 billion, while the inflow originating in rural producers, at the time of marketing, closed with R$1.7 billion, for growth of 16.3% in relation to 2002.

The reduction in revenues originating in measures aimed at recovering system credits was due to maturation of several older measures and a halt in the issue of new measures for purposes of replanning.

In 2003, inflows from urban and rural areas totaled R$79.8 billion and R$2.9 billion, respectively. In relation to benefits, a breakdown of the total amount paid (R$109.7 billion) indicates that R$88.6 billion were paid in urban areas and the remainder in rural areas. Consequently, the ratio between the net inflow and benefit payments in urban areas was more balanced than in rural areas or, in other words, while net inflows covered 90.1% of total benefits paid in urban areas, coverage in rural areas came to only 13.8%.

However, it should be stressed that, as of 2002, the urban inflow has been declining, principally as a result of the shrinkage of the formal labor market. Consequently, this has created a lag between revenues and benefit payments. This is evident in the fact that, in 2002, outlays surpassed revenues by R$2.5 billion, while this difference came to R$8.8 billion in 2003.

On the expenditure side, growth in outlays on benefits was mostly due to the impact of adjustments of 20% in the minimum wage and 19.7% in other benefits, resulting in overall growth in the stock of benefits granted.

In 2003, the Social Security System paid an average of 21.4 million benefits, with growth of 4% in relation to the average for the previous year. Of this total, 12 million consisted of retirement benefits and 5.4 million of death pensions, with respective growth rates of 3.1% and 2.7%. With regard to the other benefits paid, growth came to 27.5% under social security illness assistance and 18.1% under assistance to the elderly.

The median value of the benefits granted in 2003 came to R$433.17, for an increase of 0.85%. New benefits granted came to 3.6 million, for a reduction of 8.3% compared to 2002, when atypical growth occurred in the granting of benefits. This growth had been interrupted as a result of a strike by INSS workers toward the end of 2001.

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.

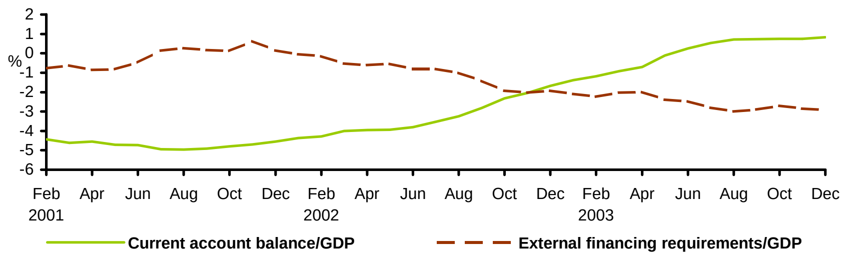
Consolidation of these perceptions created a favorable climate for issues of sovereign bonds with lesser spreads and facilitated the access of resident companies to external resources, making it possible to achieve a rate above 100% – more than double the 2002 mark – in rolling long-term private debts 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

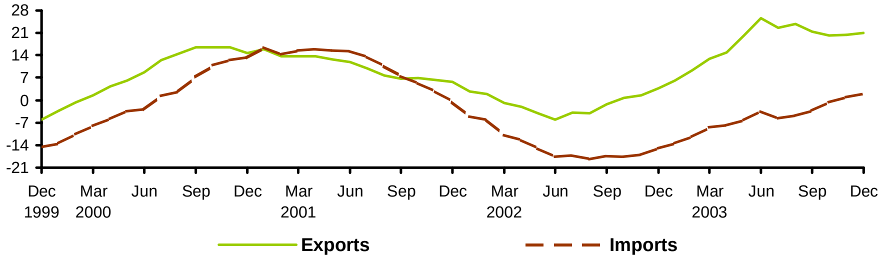
Source: MDIC/Secex

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.

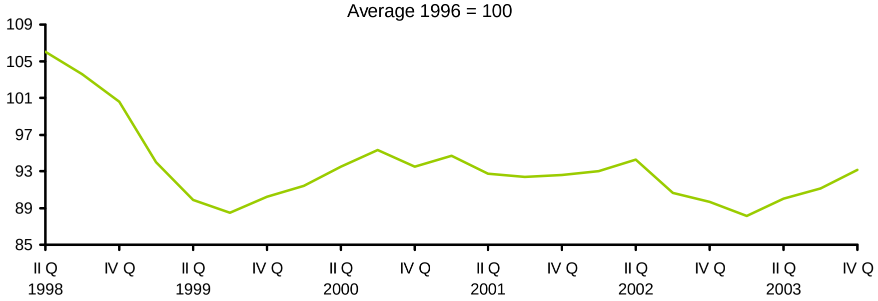
Imports remained relatively stable in 2003, principally in the first half of the year as a consequence of exchange depreciation and the low level of industrial activity. In the second half, imports showed some signs of recovery and accompanied the upturn in the pace of internal activity.

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

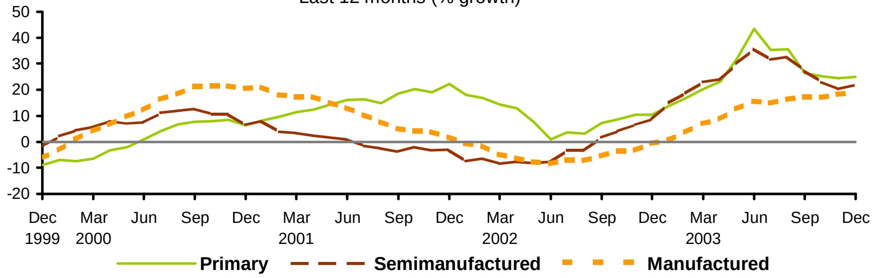
Source: MDIC/Secex

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 2002 (%)	Share (%)	
				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

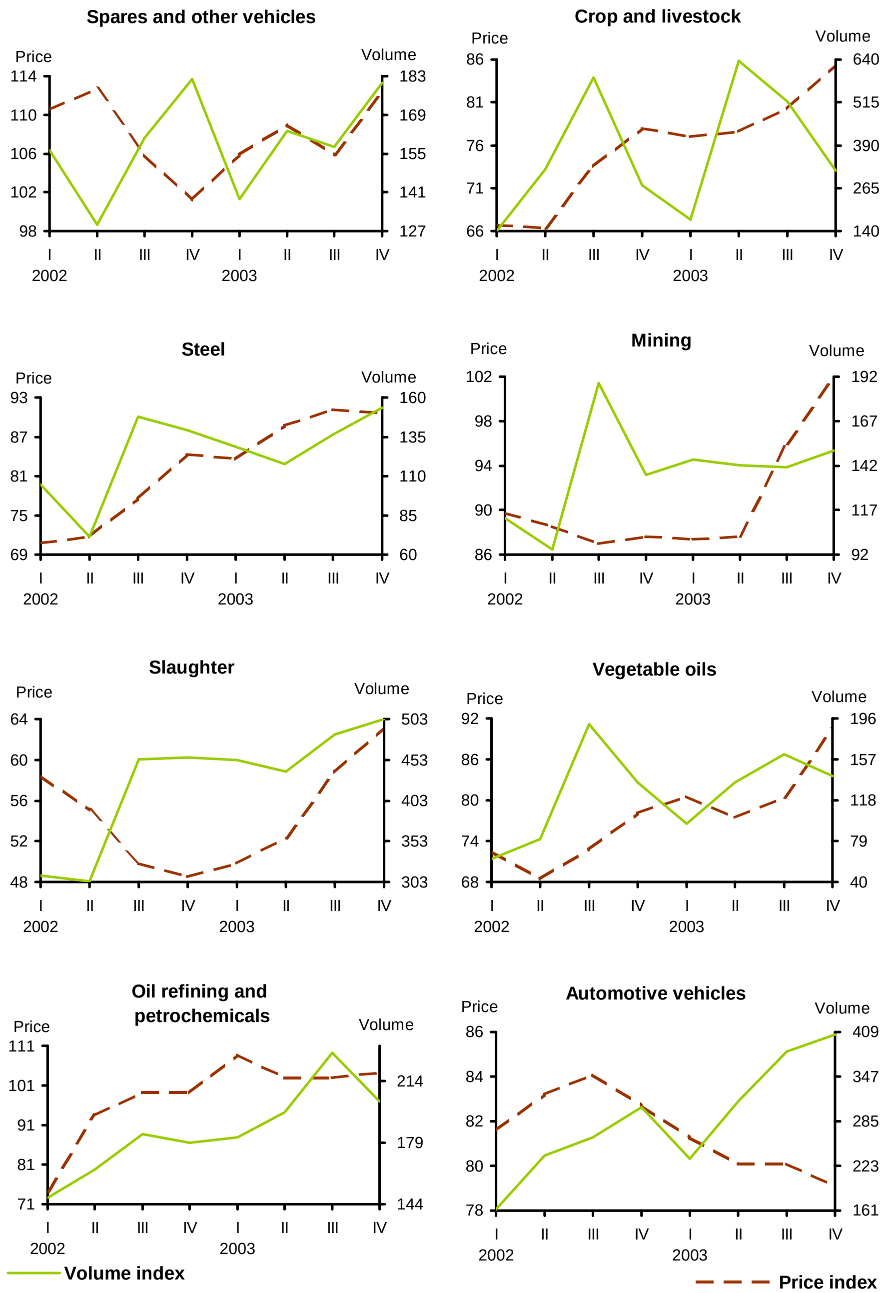
1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentage participation in semimanufactured products group total.

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%.

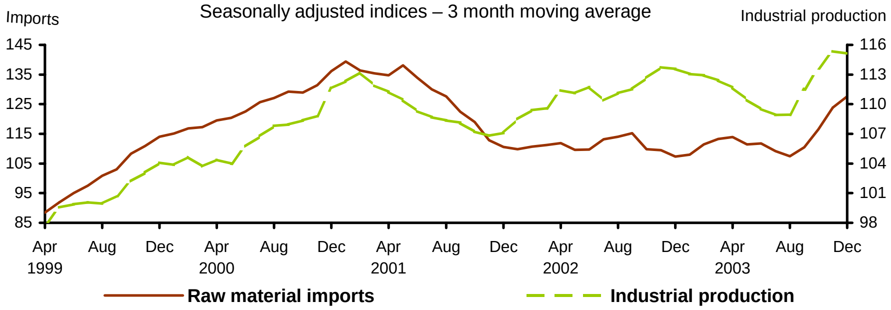
Special operations, defined as those that are difficult to classify within other categories, include such operations are onboard consumption and re-exports. In the year under consideration, these operations declined by 9.5% and closed at a total of US$1.3 billion. Basically, the reduction was due to 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.

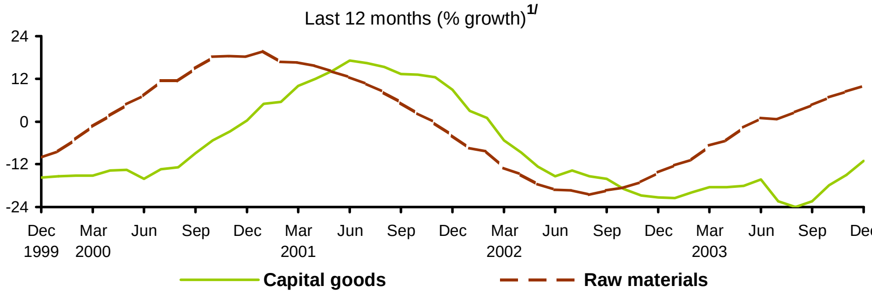
Imports of capital goods originating in the EU came to 3.6 billion, equivalent to 35% of total imports under this use category and 28.5% of the total imported from the EU. The reduction of 15.5% registered under these imports was the item most responsible for the 3.4% reduction in total acquisitions 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.

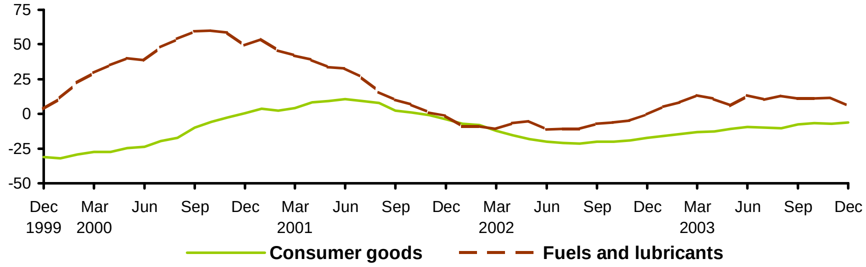
Purchases of consumer durables dropped by 3.7% in 2003, closing with US$2.4 billion, equivalent to 5% of Brazilian imports in the year. The highlights were imports of objects of adornment and personal use and other objects, which accounted for 29.5% of the total, with growth of 4.1% in volume and 0.3% 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

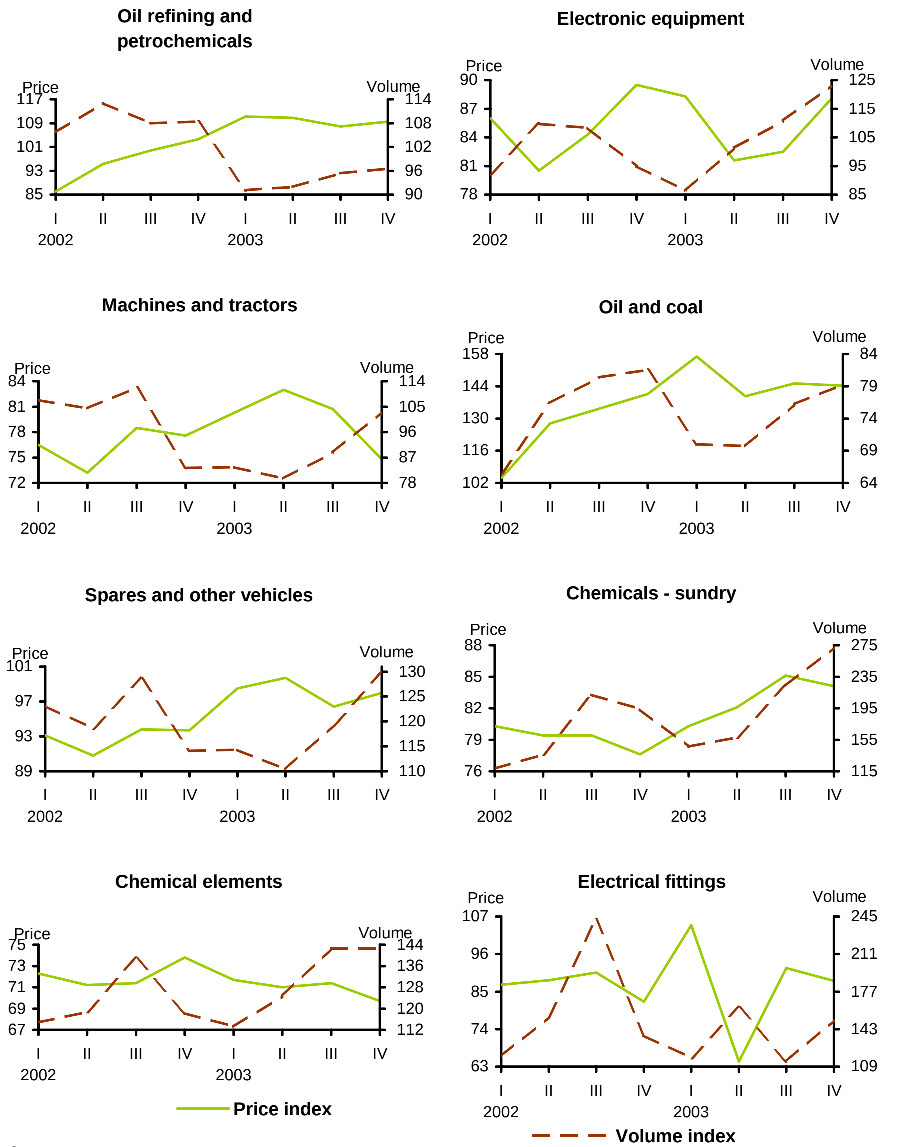
Brazilian trade exchanges improved considerably in 2003, as evinced by expanded trade surpluses with a significant number of the country's major trading partners and blocs, as well as by reductions in traditional bilateral results with a number of partners. Basically, this performance was due to growth 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

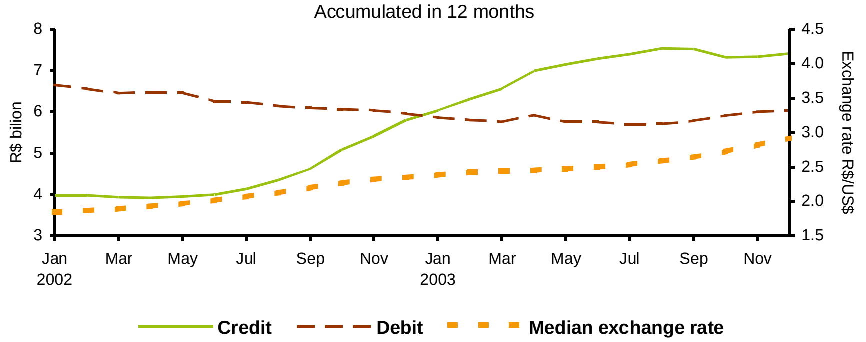
US$ million

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/]

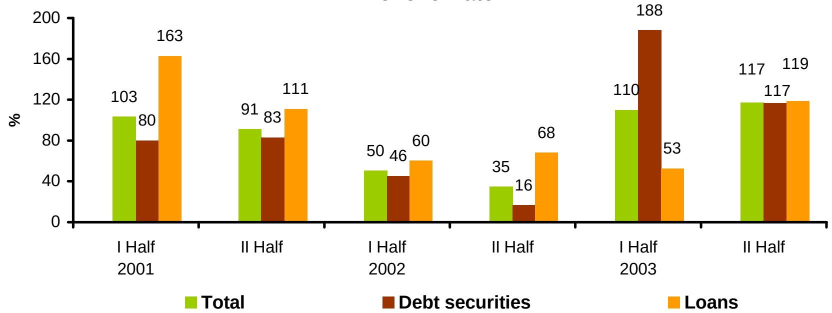
US$ million

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 short-term resources.

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.

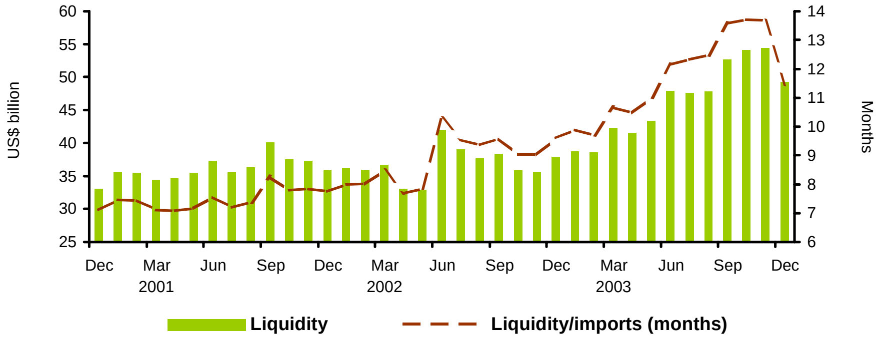
2/ Includes IFC.

3/ Includes bank loans and buyers' credits.

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 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
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

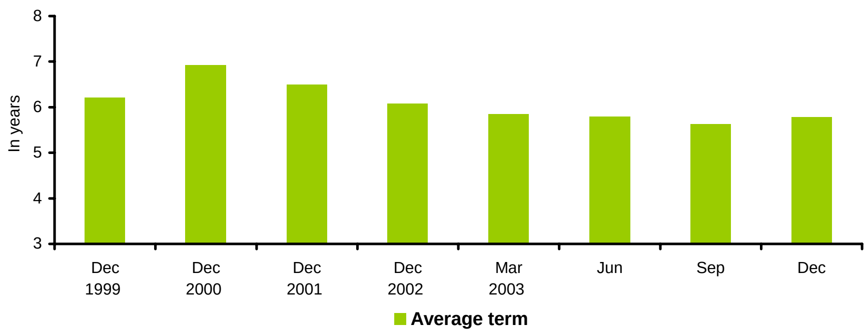


Table 5.41 – Average maturity term

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.

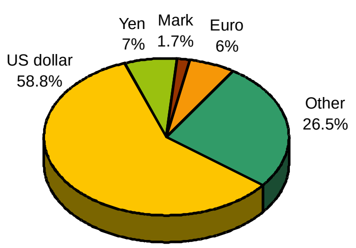
The participation of the United States dollar in the composition of the registered external debt diminished from 61.5% in December 2002 to 58.8% in December 2003. In the same period, the participation of other currencies increased from 23.9% to 26.5%. This change in composition was impacted by an increase 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.

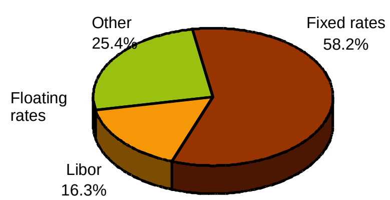
With regard to the composition of the debt according to interest rate modality, the stock of the debt subject to floating rates diminished from 43.1% in December 2002 to 41.8% in December 2003. Analysis of this share of the debt contracted at floating rates shows that the six month Libor is the major 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

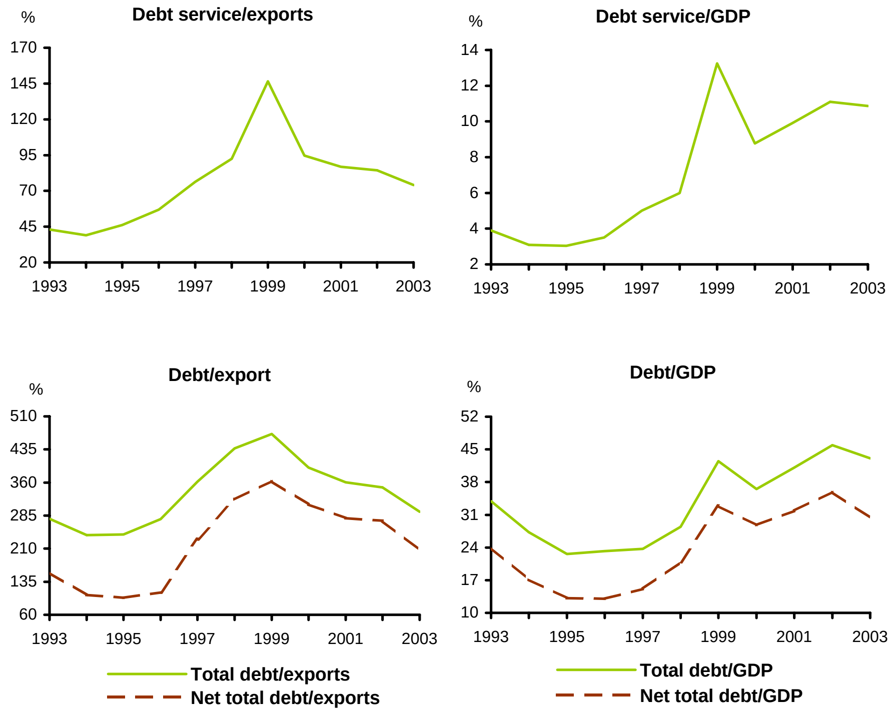
US$ million

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.

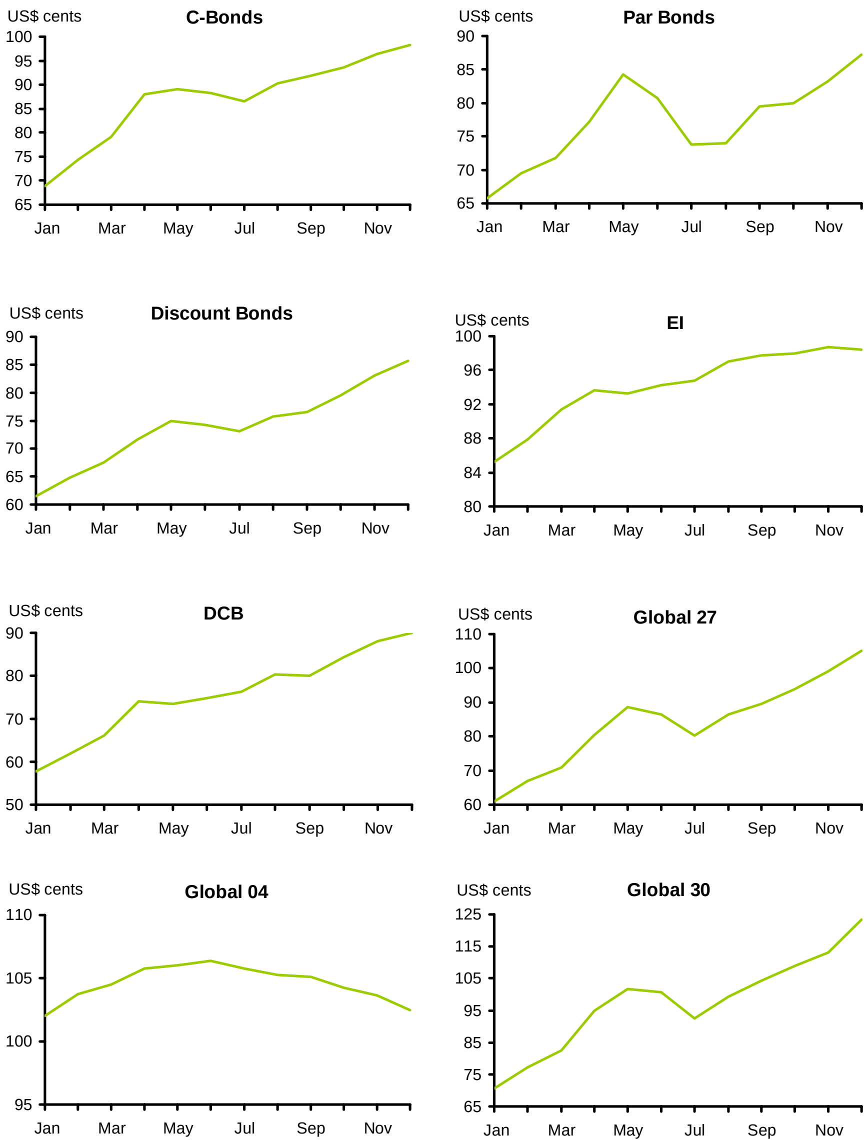
Table 5.45 – Restructured external debt – Bradies, Pre-Bradies and MYDFA

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.

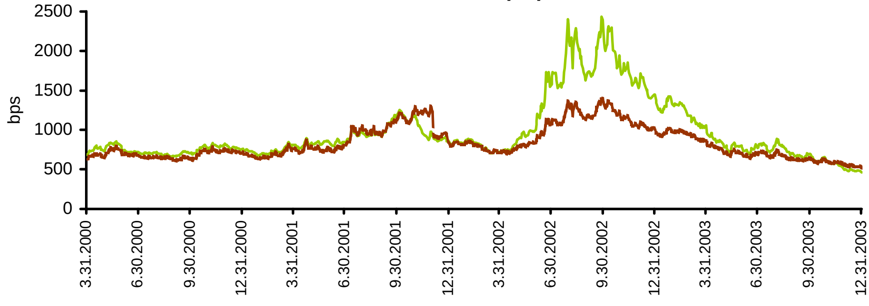
Graph 5.16
Prices of Brazilian securities abroad
Secondary market - bid price, end-of-period - 2003



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 tranche[1/]	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.

VI

The International Economy

The trajectory of the international economy in 2003 can be divided into two distinct phases. The early part of the year was marked by a series of uncertainties such as the outbreak of war in Iraq and the consequent upward movement in oil prices, coupled with deteriorating expectations on the part of economic agents. At the same time, the Asian Development Bank estimated the negative impact of the behavioral changes caused by Severe Acute Respiratory Syndrome (SARS) on activity levels in the East Asian economies at between 0.6% and 2% of GDP in the countries most severely hit by the epidemic. Though less intense than originally expected, the adverse effects on the economy were concentrated in the months of April and May and were most strongly felt in the various service segments, particularly those related to tourism.

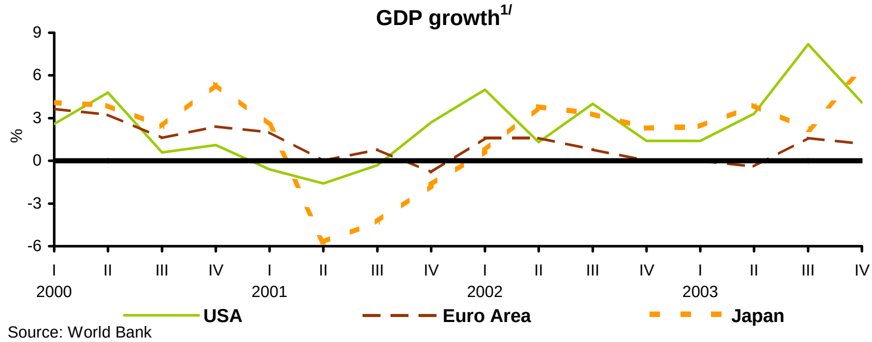
In the middle of the year, the situation of uncertainty was reversed, mainly as a consequence of macroeconomic incentives that resulted in a rapid upturn in activity levels. In the initial stages, recovery was perceived most clearly in the United States before later extending – albeit with lesser intensity – to Japan and to the Euro zone countries. In much the same way as in 2002, China expanded rapidly and generated highly positive repercussions on the outlook for economic recovery on a global scale, mainly as a result of the impact of this growth on expanded foreign sales in such diverse economic regions as East Asia and Latin America. With regard to this recovery, however, one worrisome aspect that still remains is the as yet insufficient response on the part of the labor market. Even in the United States, where growth was more accentuated, there was no significant drop in jobless levels. Since the evolution of the major employment indicators for the United States economy is an aspect of the utmost importance to the sustainability of growth on both a national and world scale, authorities began giving very special attention to the monitoring of the various employment indicators in search of signs that could point to future changes in the country's monetary policy.

Economic activity

Just as has occurred in recent years, global economic performance was directly impacted by the United States economy. Though GDP in the United States has grown at a positive pace since the end of 2001, it was only in the second quarter of 2003 that this expansion came to be considered sustainable. Though, on the one hand, the war in Iraq was a source of significant economic uncertainties, it also acted as an incentive to economic growth, particularly as a result of massive increases in military spending. Once the instability caused by the war had been overcome, the economic scenario at the start of the third quarter of the year became considerably more positive and reflected a combination of such factors as lower petroleum prices, rapid improvement in business and consumer expectations, introduction of a fiscal incentive program and financial market recovery, following exhaustion of the impact of the bursting of the stock market bubble and a series of corporate scandals. Among the factors of fundamental importance to this process, particular mention should be made of continued historically low interest rates, which have made it possible to refinance debts at sharply lower costs and, consequently, release funding for consumption and investment outlays by households and businesses. Despite the strong cutback in public sector spending in the third quarter, United States GDP expanded by an annualized rate of more than 8% in the period, with substantial increases under exports, consumer spending and, principally, investments. In the fourth quarter, the pace of growth lessened but still remained above the level of 4%.

Graph 6.1

GDP growth[1/]



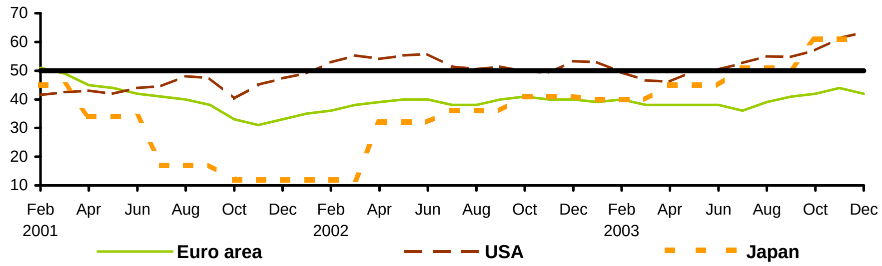
Source: World Bank

1/ Quarterly growth seasonally adjusted annualized rate.

Japan turned in positive product growth in 2003, continuing a process that began in the first quarter of 2002. In the fourth quarter of the year, the pace of growth picked up speed, indicating the possibility of overcoming the stagnation that has marked that country's economy since the start of the 1990s. In the final three months of the year, GDP expanded at an annualized rate of 6.4%, driven mainly by external demand and fixed investments. The positive growth that marked the economic scenario was generated principally by reactivation of the world economy and by steps taken by the Bank of Japan (BoJ) with the aim of strengthening liquidity. Other positive factors were important advances in the recovery of the financial system and strong growth in business profitability.

Graph 6.2

Business confidence indicators[1/]



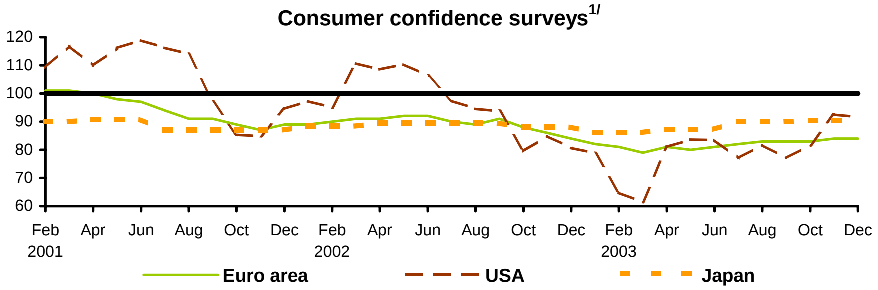
Source: European Comission, ISM, Bank of Japan

1/ Readings above 50 reflect positive expectations, below 50, negative expectations. Some of the series has been adapted to allow for comparisons.

In the Euro zone countries, indicators that reflect business expectations improved consistently in 2003, signaling a process of economic expansion that did not come about with the forecast intensity. Following three quarters of nil or negative growth, the region's GDP expanded by 1.6% and 1.2% in annualized terms in the last two quarters of the year. Internal demand was insufficient, while exports – the major force underlying GDP growth – were hampered by appreciation of the euro. European consumers remained wary not only in the first half of the year, in the context of the uncertainties that marked the world economy, but also in the final six months, particularly as a result of a very weak labor market.

Graph 6.3

Consumer confidence surveys[1/]



Source: European Comission, Conference Board, Economic and Social Research Institute (Japan)

1/ Readings above 100 reflect positive expectations, below 100, negative expectations. Some of the series have been adapted to allow for comparisons.

Once again, the Chinese economy managed to generate the strong economic growth that has become characteristic of recent years, closing 2003 with expansion of 9.1% of GDP. Aside from continued rapid growth under foreign sales, imports also grew sharply and were sufficient to impact the trade balance results not only of East Asian countries, which were the largest beneficiaries, but also in other region's of the world, including Brazil. Chinese demand for imports produced strong growth in such commodity prices as steel, copper and soybeans, making it possible for exporter countries to achieve recovery in their terms of trade.

Though it has been lower than in such other developing regions as East Asia and Eastern Europe, the economic performance of Latin America was considerably more positive in 2003, mainly as a consequence of the repercussions of recovery in the United States and Japan and strong expansion in China. As a result, the overall GDP of the region expanded by 1.5%, compared to a reduction of 0.4% in 2002.

The highest growth was registered in Argentina (8.7%), following negative results of 4.4% in 2001 and 10.8% in 2002. Performance in 2003 was marked by strong growth under investments and a sharp downturn in the jobless rate. Notwithstanding growth under imports, which had previously been quite low, the trade surplus remained high. In the opposite sense, Venezuelan product dropped by 9.5% in 2003, as a result of the shutdown of the country's petroleum output at the start of the year. Mexico and Chile closed with respective growth rates of 1.2% and 3.2%.

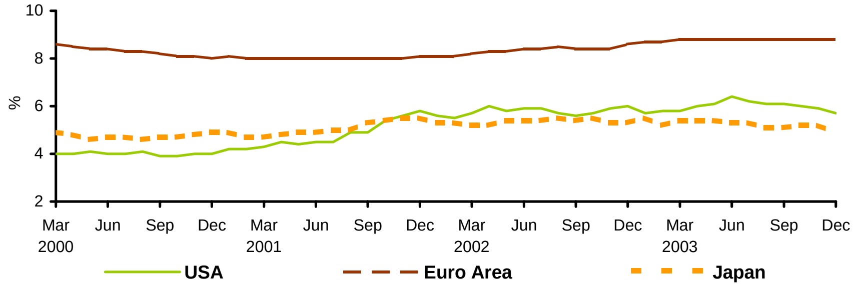
Another factor of importance to the start of the recovery process in the region was that the nations of the region, particularly Argentina and Brazil, managed to overcome the financial instability that had characterized 2002. This fact, coupled with less risk aversion on the international scenario, made it possible to reduce the external debt spreads of the major economies of the region. On the other hand, the ratio of investments to GDP continued on the downward curve that dates back to 1999 while, just as occurred in the major developed countries, the unemployment rate remained quite high, reaching the mark of 10.7% in 2003.

Despite the strong upturn in economic growth in a number of important economies, employment levels remained sluggish. After peaking at 6.4% in June, the jobless rate in the United States moved into a downward trajectory, closing December at 5.7%. However, this reduction was attributed mostly to a lesser number of people seeking employment than to an expanded supply of job opportunities. Here, it is important to note that job positions remained practically stable during the entire year and were even below the level registered up to mid-2001. Among the causes of continued slow growth in job levels, various analysts have pointed to such factors as strong productivity gains registered particularly in the manufacturing sector, coupled with introduction of important structural changes in productive activities. A similar performance was registered by labor market indicators in the Euro zone countries, where unemployment remained stable at 8.8% in the period extending from March to December 2003.

In Japan, on the other hand, unemployment dropped sharply from 5.5% in January to 5% in December, as a direct consequence of economic expansion.

Graph 6.4

Unemployment rates



Source: Bureau of Labor Statistics (USA), Eurostat, Ministry of Public Management, Home Affairs, Posts and Telecommunications (Japan)

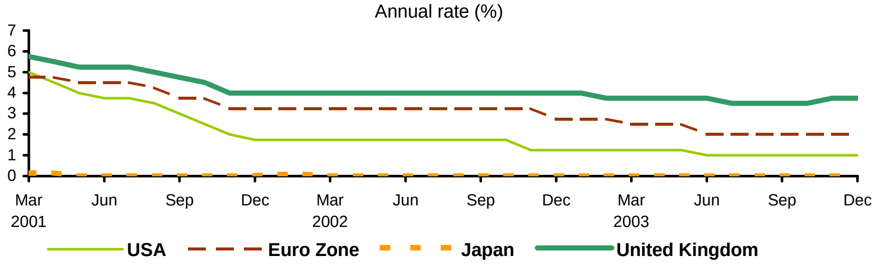
Monetary policy and inflation

Monetary policy in the United States has reflected the rather flexible posture adopted by the Federal Reserve (Fed) since the stock market bubble burst toward the end of 2000. The only interest reduction occurred in June, when the rate was lowered to just 1% per year where it has remained since that time, even though the American economy has begun showing signs of sustained recovery. This more optimistic scenario became more evident as of the midpoint of the year, principally following announcement of the extraordinary rate of GDP growth in the third quarter. From that point forward, many analysts began predicting the date on which the Fed would begin the process of raising interest rates. However, since labor market performance was unable to keep pace with the more optimistic expectations, previous forecasts, which had indicated a more gradual though solid recovery in the activity level and a progressive rise in interest rates, gained greater credibility. Depreciation of the dollar against the major currencies and, particularly, against the euro, did not produce inflationary impacts, except in the case of imported goods at the wholesale level. Given the high level of idle capacity, particularly in the industrial

Graph 6.5

Official interest rates[1/]

Annual rate (%)



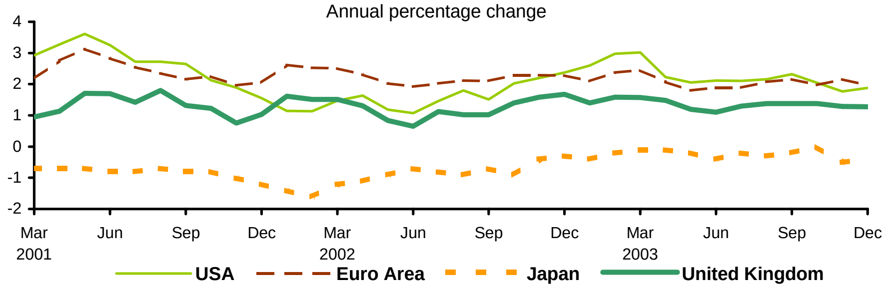
Source: USA – Federal Reserve, Euro Area – ECB, Japan – Bank of Japan and United Kingdom – Bank of England

1/ USA – fed funds target rate, Euro Area – minimum bid rate, Japan – call rate and United Kingdom – securities repurchase.

Graph 6.6

Inflation[1/]

Annual percentage change



Source: USA – ILS, Euro Zone – Eurostat, Japan – Bloomberg and United Kingdom – ONS

1/ Consumer prices.

sector, these impacts had relatively little effect in other areas of the economy. As a matter of fact, consumer inflation declined during the year, as core inflation fell consistently before closing December at just 1%.

During the entire year, the BoJ maintained its zero interest policy. However, principally as a consequence of exchange market operations performed by the Japanese central bank in order to avoid pressures generated by valuation of the yen, the monetary policy centered on growth in the monetary aggregates was strongly expansionary. Since many of these interventions were not offset by sterilization operations, the money supply expanded sharply. Therefore, the BoJ sought to accommodate the increased supply by shifting the upper limit of the banking reserve targets upward, increasing it by ¥12 trillion over the course of the year. As a result these parameters were set at ¥27-32 trillion on October 10.

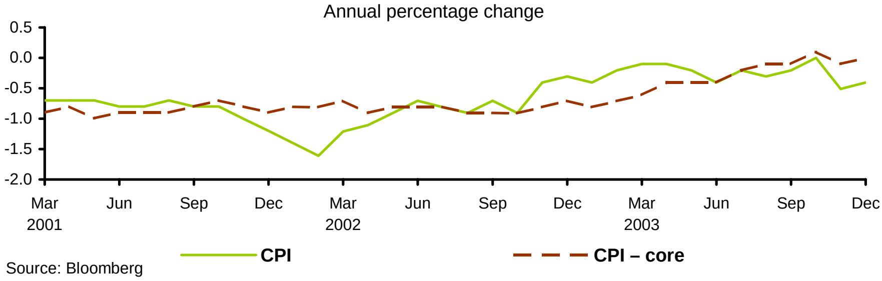
Table 6.1 – 2003 BoJ monetary policy

Date	Reserves target (trillions of yen)	Other announced changes
January	15-20	
April 1	17-22	
April 30	22-27	
May 20	27-30	
June 11		Program to purchase asset-backed securities
October 10	27-32	

Source: Bank of Japan

Deflation continued as the major monetary policy problem in the sense that it blocked transmission channels to the broader monetary aggregates. Thus, once again, the GDP deflator turned downward. The results under consumer prices, however, were considerably more positive, as the CPI core moved gradually toward zero at the end of the year.

Graph 6.7
Japan: Inflation[1/]
Annual percentage change



Source: Bloomberg
1/ Consumer prices.

In the Euro zone countries, the European Central Bank (ECB) reduced interest rates on only two occasions, both of which occurred in the first six months of the year. The rather conservative stance taken by the Bank was sharply criticized, as analysts felt that, since the region had absorbed the largest share of the impact of depreciation of the dollar in 2003, it would be entitled to receive compensatory monetary incentives in a volume required to avoid exaggerated appreciation of the euro. However, inflation in the region proved to be quite resistant to downward pressures and tended to oscillate in the range of the annual target of 2%. If, on the one hand, this posture may have hindered economic growth in the region, on the other hand it may well have avoided the possibility of rapidly exhausting the effectiveness of a monetary policy based on interest rate adjustments.

The Bank of England (BoE) adopted highly distinct monetary policy positions over the course of the year, reducing interest in the early part of the period, only to raise rates toward the end of the year. The expansionary position that marked most of the year was interpreted as a type of “insurance” against the risks of an upturn in world economic growth that were felt in the first half of the year, when signs of a more sustained recovery in the American economy had not yet become clear. Once these risks had been dissipated, the BoE assumed a more defensive stance in light of the threats represented by the real estate bubble. Important alterations were introduced into the monetary policy framework, including substitution of the retail price index, excluding mortgage interest (RPIX), with the harmonized consumer price index (IPC-H). The British Treasury defined the new official inflation target at 2% per year. When consumer inflation dropped below the target, the BoE found itself in the rather paradoxical position of further restricting its monetary policy in November, precisely when the current framework provided it with increased leeway in pursuing the target. However, the BoE explained that monetary policy restrictions had the objective of maintaining inflation within the officially defined target over a horizon of 1.5 to 2 years, which is the time span required for full transmission of monetary impacts.

In Southeast Asia, monetary policy was marked by alignment with the United States dollar, following the examples of such major regional economies as Japan and China. With this, the competitiveness of export products was preserved and countries intensified their accumulation of international reserves. To a great extent, these reserves were converted into United States Treasury papers, which, in turn, aided in holding interest rates in that country at low levels. In the case of China, where a fixed rate of exchange is used, the entire impact of the change in the value of the dollar was absorbed by the central bank with the consequence of strong monetary expansion, just as occurred in Japan. Vigorous economic growth and the first signs of upward movement in inflation generated expectations of appreciation of the yuan. The country, which had registered deflation in 2001 and 2002, closed with inflation of 3.6% (IPC) in the year under analysis.

Table 6.2 – Asian foreign exchange reserves, end-2003

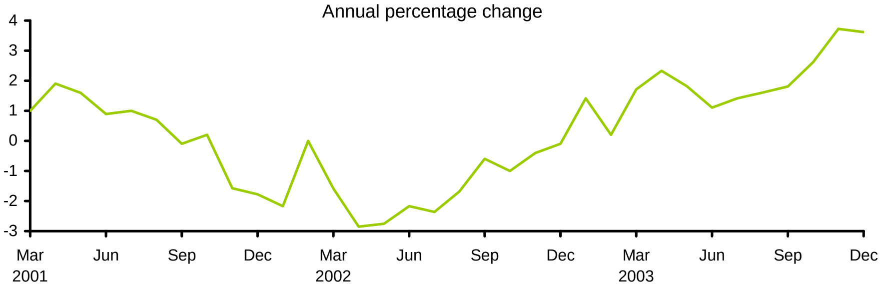
	US$ billion	% of GDP
Japan	674	17
China	403	33
Taiwan	207	73
Singapore	163	110
Korea	155	33
Hong Kong	119	74
India	97	18
Regional total	1 863	25

Source: JP Morgan

Graph 6.8

China: Inflation[1/]

Annual percentage change



Source: Bloomberg

1/ Consumer prices.

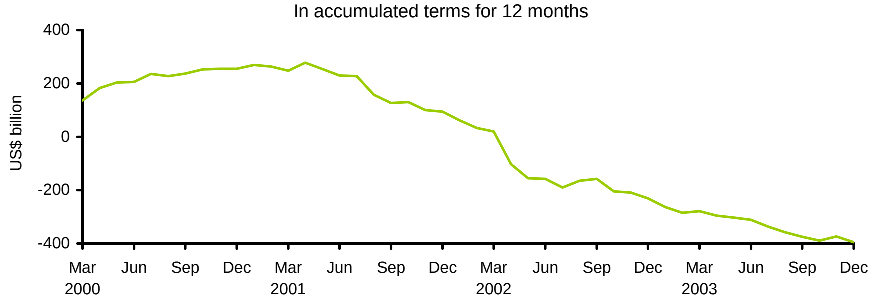
Across-the-board reductions in inflation were registered in Latin America, at the same time in which enhanced fiscal discipline pushed interest rates downward in most of the countries of the region. In the southern cone nations, the 2002 interest rate high was reversed, due mostly to the severe process of exchange depreciation that had occurred in the previous year. Interest rates in the Andean countries – with the sole exception of Colombia – continued on the downward curve that had marked previous years, while inflation fell to historically low levels in both Peru and Chile. In Mexico, the inflationary peak that occurred in 2002 when rates surpassed the predefined target, led to adoption of a more restrictive monetary policy at the start of the year. However, when inflation began to decrease, the country also began a process of sharp interest rate cutbacks. The political and social climate that has taken hold in Venezuela generated alterations in the country's system of exchange, together with measures to control prices. However, despite upward movement under inflation, these measures did not avoid reductions in interbank interest rates over the course of the year.

Fiscal policy

One of the fundamental components of the recovery in the United States economy in 2003 was the incentive provided by the fiscal policy implemented at the midpoint of the year, which included reductions in taxes on dividends earned and the granting of tax credits to families with children. The combination of these measures with strong growth in military spending generated by the Iraqi war resulted in sharp deterioration in that country's fiscal result. The public deficit, which stood at US$157.8 billion in the fiscal year ended in September 2002, climbed to US$374 billion at the end of the 2003 fiscal year. Financing of this effort was achieved as a result of massive purchases of American bonds by the major Asian economies.

As had occurred in 2002, the fiscal deficit in the major Euro zone economies remained above the limit of 3% of GDP, defined by the Stability and Growth Pact, closing at

Graph 6.9
USA – Fiscal balance
In accumulated terms for 12 months



Source: Department of the Treasury

respective levels of 3.9% and 4% of GDP in Germany and France, according to preliminary government estimates.

The major Latin American countries registered increasingly higher primary surpluses, in some cases within the framework of agreements negotiated with the International Monetary Fund (IMF). In the region as a whole, the primary result was a surplus of 0.6% of GDP, in contrast to a 2002 deficit of 0.3% of GDP. Here, particular mention should be made of the progress achieved in the Argentine fiscal adjustment. This was a factor of importance to economic growth in that nation and resulted in a sharp rise in tax inflows and stringent control over government spending, as exemplified by the restrictions imposed on federal civil service pay increases.

International financial markets

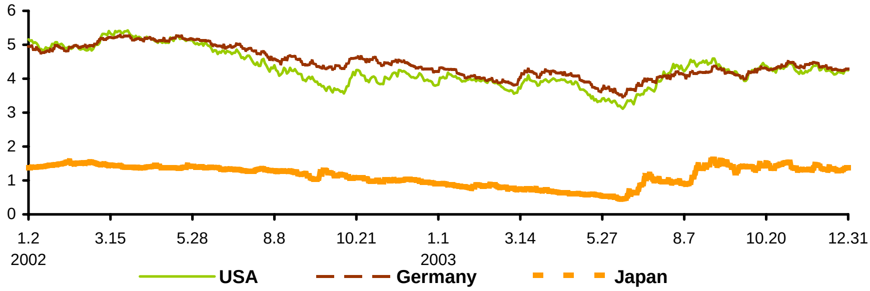
International financial market performance can be divided into two distinct periods in 2003. While the risks consequent upon geopolitical tensions in the Middle East continued, markets were characterized by high levels of risk aversion which, in turn, generated increased negative pressures on spreads and tended to restrict liquidity on a global scale. However, the instabilities caused by the war in Iraq were gradually dissipated, at the same time in which a more optimistic view of the outlook for economic growth solidified, particularly in the United States and Japan. Taken together, these factors encouraged agents to accept greater exposure to risk, generating increased liquidity and migration of investors toward assets with higher risk and return ratios.

Returns on government papers in the industrialized countries were quite low, principally as a result of the highly flexible monetary policies adopted. In the United States, returns on Treasury bonds increased slightly in June caused, on the one hand, by a lessening of the possibility of the Fed adopting nonconventional strategies involving secondary market purchases of long-term securities to ward off eventual deflationary pressures and, on the other, by technical adjustments in the fixed income market related specifically to the operations of mortgage bond portfolios held by mortgage securitization companies. Starting in June, however, United States Treasury securities produced stable income levels since, despite the very large supply of papers to be used in financing the American government’s fiscal deficit, the prices of these papers remained high, partly as a response to the enormous and growing demand for these papers, particularly by Asian central banks.

In the other large financial centers, the earnings curve of government securities followed the American trajectory, with upward movement in June followed by stability. In Europe, earnings on long-term public securities reflected expectations that more consistent growth in the United States economy would generate positive repercussions on the activity level of the region. A similar movement occurred with long-term Japanese government papers, despite the fact that the measures taken by the BoJ over the course of the year, particularly through interventions in the secondary securities market, clearly ratified its commitment to maintenance of an expansionary monetary policy.

Graph 6.10

Yield on treasury bonds[1/]



Source: Bloomberg

1/ 10 year treasury nominal yields.

In their pursuit of more attractive earnings, investors reallocated their portfolios, raising their exposure to assets with higher risk classifications. In the case of the emerging economies, this movement resulted in a sharp drop in financing costs, as demonstrated by the trajectory of the Emerging Markets Bond Index (Embi+), which is the proxy for measuring emerging market risk. The result of all this was creation of an environment propitious to the contracting of funding operations on foreign markets.

Graph 6.11

Emerging Markets Bond Index (Embi +)

Source: Bloomberg

According to preliminary estimates issued by the Institute of International Finance (IIF), the net flow of private capital toward the emerging economies is expected to reach US$187.4 billion in 2003, compared to US$124.2 billion in the previous year, mostly as a result of vigorous expansion in portfolio investments and in loans by the nonbanking sector. However, foreign direct investment is expected to drop by 16%, when the same basis of comparison is used. From the regional point of view, Asian countries are expected to occupy the lead position in the expansion of private capital flows to the emerging countries, while the participation of Latin America is expected to drop from 14.9% in 2002 to 14.1%, even though the overall volume of these flows will increase in absolute terms.

Table 6.3 – Net capital flows to emerging economies

US$ billion

Itemization	2001	2002	2003[1/]	2004[2/]
Private flows	126.6	124.2	187.4	196.2
Latin America	49.5	18.6	26.5	38.7
Direct investment, net	139.8	112.1	93.6	110.7
Latin America	57.7	34.7	26.0	29.1
Private portfolio investment, net	7.7	1.1	30.3	28.6
Latin America	-0.7	-0.2	-2.5	-0.7
Commercial banks, net	-26.7	-6.2	18.8	11.9
Latin America	-9.7	-12.9	-7.0	-7.5
Other private flows	5.8	17.2	44.7	45
Latin America	2.2	-3.0	10	17.8
Official flows	11.2	-4.6	-12.9	-9.8
Latin America	22.6	7.4	3.0	-1.8

Source: IIF (2004). Capital Flows to Emerging Market Economies, January

1/ Estimate.
2/ Forecast.

With respect to nonbank loans, sharp growth was registered in public and private sector bond issues in the emerging countries, with a 2003 total of US$64.2 billion, the highest issue level since 1997 according to data released by the Bank for International Settlements (BIS). Brazil accounted for about 22% of these issues and closed the year as the largest net issuer among the emerging economies.

Even through the exposure of international banks in emerging markets increased in the period, banking sector loans decreased in relative terms, as demonstrated by BIS statistics for the third quarter of 2003. According to that institution, while total international banking assets of the banks reporting to the BIS expanded by 17.4%, compared to the same quarter of the previous year, the share of this volume in the developing countries dropped from 10.4% to 10% in the same period, mainly reflecting the reduction in exposure to assets in Latin America.

Table 6.4 – Banks' foreign claims[1/]

US$ billion

Period		All countries	Developing countries	Latin America & the Caribbean	Asia[2/]	Europe[2/]	Brazil
2002	I	11 474.3	1 334.4	528.1	386.1	264.8	134.9
	II	12 426.9	1 335.0	487.9	391.8	288.5	123.3
	III	12 478.8	1 303.3	449.2	396.2	292.7	105.0
	IV	13 153.6	1 343.2	480.4	381.0	314.1	103.4
2003	I	13 810.9	1 362.0	461.5	402.3	328.1	100.6
	II	14 584.9	1 403.9	470.2	416.3	343.5	103.5
	III	14 659.0	1 458.7	468.2	447.2	362.9	105.8

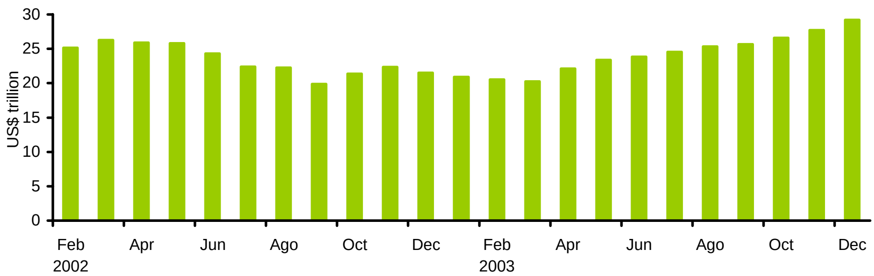
Source: BIS (BIS Consolidated Banking Statistics)

1/ Cross-border claims plus their foreign affiliates' claims.
2/ Developing countries.

The scenario of historically low interest rates contributed to the strong private sector capital adjustment achieved through the refinancing of debts and the consequent reduction in the level of business leverage. Better-structured liabilities combined with high productivity and a more favorable environment in terms of reductions in risk aversion on a global scale and a more dynamic pace of economic activity were reflected in increases in corporate profits. When all these factors are taken together, the result was a framework conducive to improved performances on the world's stock exchanges, as demonstrated by the Morgan Stanley Capital Index (MSCI), which registered an increase of 23% in 2003. Simultaneously, stock capitalization of the world's 33 major stock exchange came to approximately US$30 trillion in December. According to data released by the International Federation of Stock Exchanges, this was the highest value registered since January 2001. It should be stressed here that appreciation of local currencies in relation to the dollar in several different countries made investments in the assets of these markets even

Graph 6.12

World market capitalization[1/]



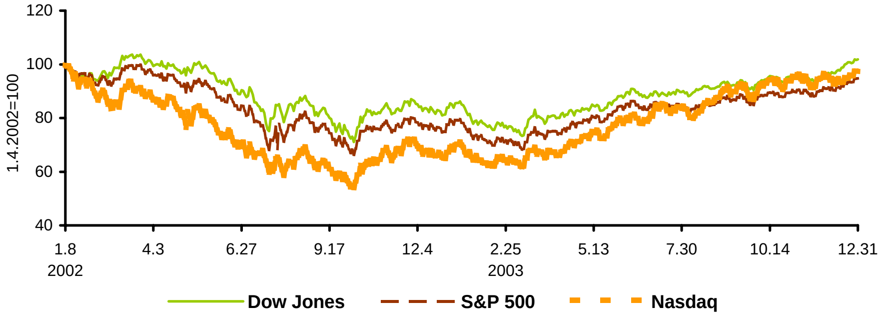
Fonte: World Federation of Exchanges
1/ Data from 33 stock exchanges.

more attractive to foreigners, due to the exchange rate gain. This was a factor that impacted the value rise in stock markets in Europe and several emerging countries.

American stock exchanges registered a strongly positive performance and were led by upward movement in the value of the stocks of companies operating in the segments of computers, software and semiconductors. In this sense, the Index of the National Association of Securities Dealers Automated Quotations (Nasdaq), which is mostly concentrated in high technology companies, registered upward movement of 50% over the course of the year, while the Dow Jones Industrial Average (Dow Jones) and Standard & Poor's 500 closed with respective increases of 25% and 26%, in the same period. No less important was the fact that United States exchanges were driven by the additional incentive of the fiscal package approved by Congress in May, reducing the tax load on dividend payments.

Graph 6.13

Stock exchanges – USA

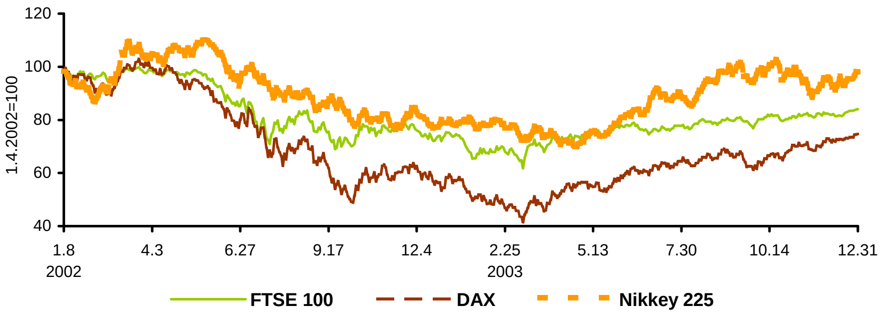


Source: Bloomberg

In Europe, stock exchanges kept pace with the United States, though their returns were generally lower. This result is evident in such indicators as the London Exchange's Financial Times Securities Exchange Index (FTSE 100), the Deutscher Aktienindex (DAX), issued by the Frankfurt market, and the Cotation Assistée en

Graph 6.14

Stock exchanges – Europe and Japan



Source: Bloomberg

Continue (CAC-40), issued by the Paris Exchange. Even though domestic demand was still sluggish and appreciation of the euro had begun generating negative impacts on foreign sales as of November, European companies still managed to register profit growth, mostly as a consequence of the restructuring of their liabilities and of reductions in financing costs.

In the early part of the year in Japan, the primary sources of stock market uncertainties were fears that, aside from the effects of the troubled global geopolitical scenario, the SARS epidemic would produce highly negative impacts on economic growth on a global scale. However, once this period of instability had been overcome, the Tokyo exchange began moving sharply upward, mostly under the influence of the optimism generated by macroeconomic indicators that pointed to clear signs of recovery in the activity level coupled with a sharp rise in corporate profits. Improvement in the situation of the Banking sector acted as an added incentive to the positive trajectory of the Japanese stock market in 2003 due, to some extent, to successive initiatives taken by the government with the aim of reducing the volume of matured and unpaid loans held by banks.

Such factors as the pursuit of more attractive returns, a more favorable environment for investments in higher risk assets and the more stable macroeconomic scenario came together to raise the participation of variable income assets issued by the emerging countries in international investor portfolios. This was the fundamental element underlying the strong positive stock market performance of most emerging nations.

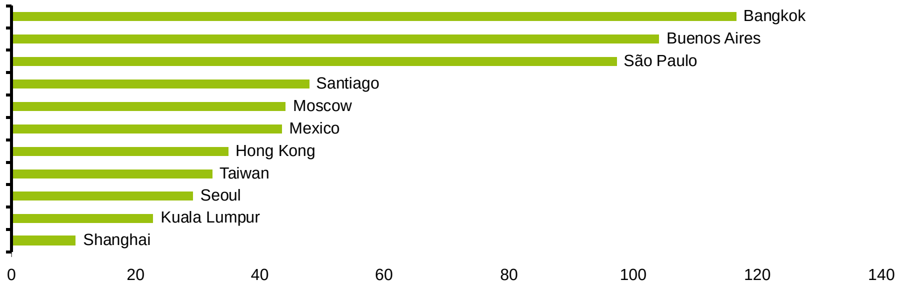
Asian markets tended to accompany the Japanese trajectory and registered negative growth in the early part of the year. However, from April onward, most of these markets turned positive, with the sole exception of Shanghai, which registered a highly distinct performance when expressed in local currency. This can be explained by restrictions on the participation of foreign capital, which made it impossible for the Chinese stock market to take advantage of greater demand for higher return emerging market assets.

In Latin America, an improved macroeconomic environment in Brazil, following the crisis of confidence that occurred in 2002, resulted in accentuated growth in foreign capital flows toward variable income assets and this flow, in turn, made a decisive contribution to the upward trajectory of Ibovespa. In Argentina, which managed to register strong growth in activity and greater institutional stability in 2003, the measures implemented in June to control capital inflows did not hinder 104% upward value movement in local currency in the Merval Index, issued by the Buenos Aires Exchange.

Graph 6.15

Stock exchanges – Emerging markets

Percentual change in 2003 in local currency



Source: Bloomberg

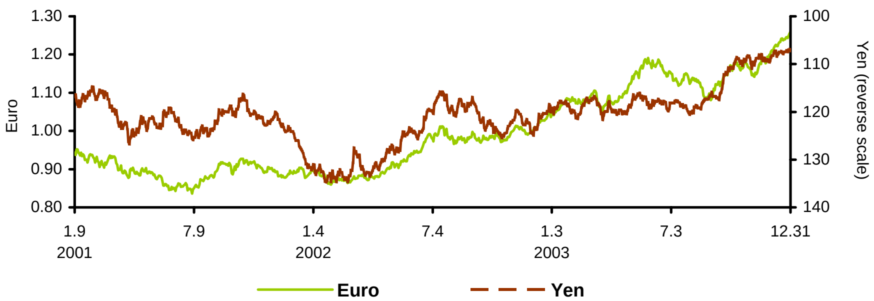
During the year under analysis, the exchange market was characterized by sharp volatility and strong depreciation of the dollar against the currencies of the Euro zone countries and Japan. The American dollar devalued by 20% against the euro and 10% against the yen. The euro was particularly volatile during the year as a result of the increased flexibility adopted by the ECB in managing its exchange policy, in contrast to the interventionist approach of the BoJ.

In the midst of the international geopolitical uncertainties that followed upon the Middle East conflict, the euro appreciated in the first half of 2003 up to the end of June, while the yen remained relatively stable.

In the second half of the year, following a downward slide that lasted from June to the end of August, both the European currency and the yen shifted into a process of sharp appreciation and continued on that trajectory to the end of the year, as the euro climbed to a level of US$1.26/•, the highest level in the history of that currency. Accentuated oscillations were registered in intraday operations, leading the ECB to declare that the excessive volatility was unwanted and could result in uncertainties

Graph 6.16

US dollar exchange rates



Source: Bloomberg

in the region. However, it also confirmed that the level of exchange would not jeopardize the economic upturn in the Euro zone and, consequently, dismissed the danger of short-term exchange market intervention.

In the case of the Japanese currency, which closed the year at ¥107.2/US$, appreciation would have been even greater had it not been for strong market intervention by the BoJ. In the final quarter of the year alone, that institution accumulated approximately US$69 billion in foreign currency reserves.

Basically, strong depreciation of the dollar was caused by rising uncertainties consequent upon the increasing size of the twin deficits registered in the United States and the doubts raised with regard to the sustainability of economic growth in that nation.

The trajectory of depreciation of the dollar was also driven by a communiqué released by the G-7 finance ministers on September 20, affirming that exchange rates should reflect market economic fundamentals, stressing that greater exchange flexibility was desirable in order to foster needed international financial system adjustments. The communiqué made it clear that the intention of the United States government was to allow the dollar to depreciate as a way of improving its trade balance and, in this way, stimulate the process of economic recovery.

The declaration was also interpreted as an attempt to bring added pressure on the Asian countries, and particularly China, so that they would initiate processes of liberalizing their exchange systems. Such a move would have the result of realigning these currencies in relation to the dollar, with the aim of balancing trade flows and reducing the surplus of the Asian countries with the rest of the world. However, it is important to observe that little progress had been made in this discussion by the end of 2003.

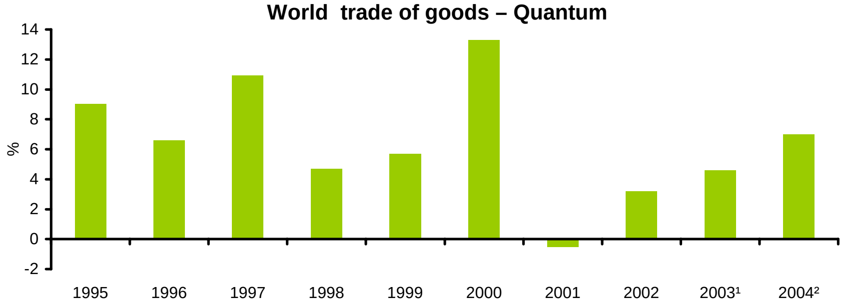
World trade

According to preliminary IMF estimates, the volume of trade is expected to increase by 4.5% in 2003 and 6.8% in 2004, reflecting the process of world economic recovery underway since the second half of last year. In the same sense, the World Trade Organization estimates growth of 4.5% in the international commerce of goods in 2003.

In the first half of the year, trade flows remained practically stagnated and were impacted by the still incipient growth in the world economy and by the uncertainties rooted in the Middle East conflict and the outbreak of the SARS epidemic. Among

Graph 6.17

World trade of goods – Quantum



Source: IMF

1/ Estimate.

2/ Forecast.

the wealthy nations, the loss of dynamics in European economies became a source of concern with respect to the possibilities of economic recovery in the region. Tensions in the Middle East were reflected in higher world energy costs, a clear threat to the outlook for global recovery. On the other hand, the spread of the SARS epidemic was limited to East Asia and had a particularly strong impact on the sectors of tourism and air transportation.

Starting in the second half of the year, improved trade flows were accompanied by consistent signs of world economic recovery led by the United States, reductions in the uncertainties generated by the war in Iraq and containment of the SARS outbreak. The dynamics of the American and Asian economies produced strong demand for imports. This was particularly true in China and, in the final months of the year, was the element responsible for the rapid rise registered in the prices of the major commodities in 2003.

Recovery of the United States economy, especially as of the second half of the year, generated increased import demand and resulted in deterioration of that country's trade balance. Consequently, the deficit in trade in goods increased to US$549.4 billion in the year, reflecting an increase of US$66.5 billion over the 2002 level. Here, it is important to note that this occurred despite depreciation of the dollar against the major currencies. The bilateral trade balance with China set a new record, with a deficit of US$124 billion, followed in second position by the US$66 billion deficit in trade with Japan

In the year under analysis, trade flows in the Euro zone countries diminished as the surplus dropped from € 98.9 billion in 2002 to € 72.7 billion in 2003, as a result of a sharper falloff under exports than under imports. Trade flows increased sharply, particularly in operations with China, but also with Russia, Poland, the Czech Republic and Hungary. Parallel to this, trade flows with the United States and the United Kingdom diminished.

Following a rather weak performance in the first quarter of the year, Japanese ties to China resulted in strong growth in the country's foreign sales, despite appreciation of the yen, particularly in the final quarter of 2003. With this, the trade surplus expanded by approximately 3%, moving to a level of ¥10.3 trillion, or approximately US$89 billion. Net exports of goods and services accounted for growth of 0.7 percentage points of GDP in 2003 and made a major contribution to Japanese economic recovery.

Table 6.5 – International trade of goods

US$ billions

Countries/ Regions	Exports			Imports		
	2002	2003 [1/]	Percentage change	2002	2003 [1/]	Percentage change
USA	681.9	713.8	4.7	1 164.7	1 263.2	8.5
Canada	284.6	288.5	1.4	244.6	245.8	0.5
Euro Area [2/]	1 082.9	1 053.1	- 2.8	984.0	980.3	- 0.4
Germany [2/]	619.5	755.4	21.9	493.5	609.5	23.5
France [2/]	314.4	368.3	17.1	308.5	367.2	19.0
Italy [2/]	128.6	150.1	16.7	124.3	149.9	20.6
United Kingdom	281.3	308.7	9.7	351.9	385.0	9.4
Japan	419.2	472.3	12.7	339.2	383.1	12.9
Latin America and the Caribbean	346.4	371.9	7.4	322.8	330.8	2.5
China	325.6	438.5	34.7	295.3	413.1	39.9
South Korea	162.5	193.8	19.3	152.1	178.8	17.6

Source: Bloomberg and Eclac (Latin America and the Caribbean)

1/ Estimate and forecast.
2/ With the rest of the world.

Strong growth in the Chinese economy stimulated the economies of neighboring countries by raising demand for their exports, transforming the emerging Asian countries into the second most important center of economic growth, following only the United States. Aside from its verticalized productive structure, the Chinese balance of trade also benefited from an exchange system that defined parity between the yuan and the dollar in the second half of the 1990s. This measure was responsible for the increased competitiveness of the nation's exports, at the same time in which its effects were further enhanced by depreciation of the dollar against major currencies as of 2002. In 2003, growth in Chinese imports surpassed that registered under exports by 39.9% against 34.7%, respectively, and provoked a reduction in the trade surplus in the period to a level of 210 billion yuan or about US$25.5 billion.

Just as in the case of China, South Korea and Taiwan have sustained the strong demand of the emerging Asian countries, while demand among the member countries of the Association of Southeast Asian Nations (Asean) remained moderate.

The countries of Latin America benefited from the more favorable international scenario in 2003, as well as from the strengthening of the economies of the region. In almost all of the subregions and particularly in the Mercosul countries, the most important component of GDP growth was external demand. Increased volumes of exports and higher prices for basic export products made it possible to achieve high trade surpluses, with an overall current account surplus of US$6 billion.

The year under analysis was marked by across-the-board improvement in commodity prices. The SARS epidemic, which had caused some degree of market havoc in the first half of the year, was quickly brought under control while the simultaneous upward movement in the world's major economies exerted added pressures on the prices of raw materials, metals, farm products and petroleum derivatives.

Pressure on these prices was caused not only by increased world demand, but also by depreciation of the dollar against other currencies and higher shipping costs. In the latter case, between the midpoint and end of 2003, these costs rose by approximately 120% due mostly to the greater volume of Chinese imports. The Baltic Dry[6] Index, which is composed of median freight costs charged on the major shipping routes rose to a level three times greater than the average for the last 20 years. The difficulties involved in providing a greater number of vessels over the short-term are expected to hold prices at high levels in 2004.

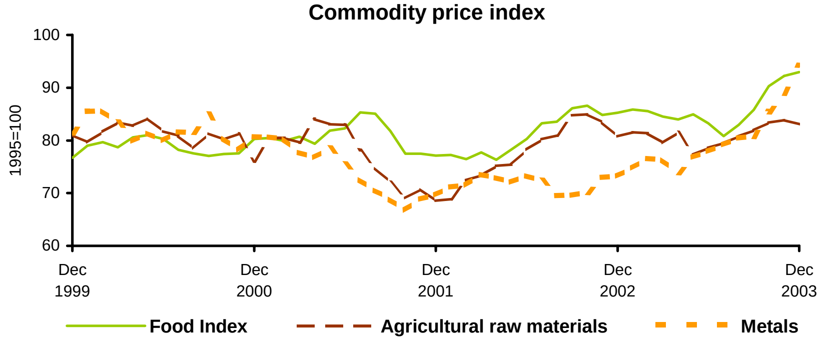
The price index of metals, calculated by the IMF, showed upward price movement of 29% in 2003, thus continuing the recovery that began in 2002 following the generalized decline in the previous year. With regard to Special Drawing Rights (SDR), the 2003 increase came to 17.4%. Copper prices increased by 38.2%, iron ore by 9% and nickel by 97%. Strong upward movement in the value of gold, which had reached the highest level of the past seven years at the beginning of December, reflected depreciation of the dollar and uncertainties regarding its point of equilibrium. In 2002, gold had increased in value by about 25% and, in 2003, continued on this trajectory, rising by an additional 19%.

Farm commodities in general registered positive growth, though the overall price increase was less intense as a consequence of depreciation of the dollar. However, such products as soybeans and corn benefited from the reduced United States harvest, which provoked not only a falloff in that country's stock levels but also

6/ Index calculated by the B. E., a traditional British association whitch includes shipowners and brokers in the freight market.

sharp reductions in its export capacity, at the same time in which Asian demand – particularly in China – rose sharply. Soybean prices increased by about 40% in 2003, reaching their highest level in sixteen years.

Graph 6.18
Commodity price index

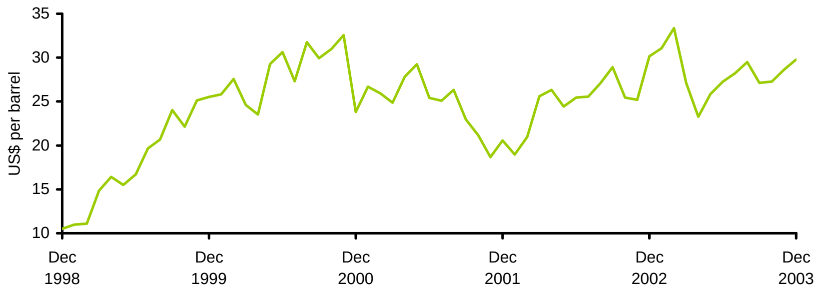


Source: IMF

The outbreak of bird influenza and mad cow disease produced an accentuated impact on world supply of chicken meat and beef. When this factor is added to the process of world economic recovery, the prices of chicken meat and beef rose by respective rates of 12% and 25.5%.

In historical terms, petroleum prices remained high in 2003. The median per barrel price of Brent type petroleum, which had reached US$27.5 in 2002, increased to US$27.8, still within the parameters of US$22 to US$28 per barrel defined as the target price by the Organization of Petroleum Exporting Countries (Opec). To some extent, the persistently high prices in effect over the course of 2003 was a consequence of the tensions generated by the war in Iraq and of production cutbacks decreed by Opec, as well as of the effects of the strike among Venezuelan oil workers at the start of the year, and of recovery in the world economy. The level of international stocks remained at an historically low level during all of 2003, repeating the performance of the final six months of 2002.

Graph 6.19
Brent oil – Spot market



Source: Bloomberg

VII

International Financial Organizations

The international economic scenario in 2003 was marked by uncertainties regarding the still incipient recovery of the world economy and the possible aftermath of the war in Iraq. Over the course of the year, expectations that the process of economic recovery would gain momentum in 2004 were further strengthened, particularly as a result of the less stringent macroeconomic policies adopted by the major economies; high international liquidity and a greater willingness on the part of investors to accept risk, in the obvious benefit of the emerging economies; and clear improvements on the geopolitical scenario.

This was the context that defined the backdrop for the agenda adopted by international financial organizations, as they sought to consolidate the recovery and move forward with structural reforms that would make it possible for Europe and Japan to share responsibility for a sustained upturn in world growth with the United States. International organizations have given particular attention to the need for correcting imbalances in both fiscal and current accounts, since these factors could clearly imperil world economic performance over the medium term.

Debates on private sector involvement in resolving crises and on the conduct of sovereign debtors in situations of default continued during the year in the IMF framework and within the G-20 (encompassing the G-7 countries, several other mature economies and the major emerging countries) and directly between emerging economies and private investor associations. Collective Action Clauses (CAC), a mechanism that defines criteria covering possible alteration of the financial terms of contracts in those exceptional cases in which restructuring may be required, have been widely adopted in sovereign issues placed on international markets.

International Monetary Fund (IMF)

The IMF was created in 1945 and currently has 184 member countries. The organization’s primary function is to foster international monetary cooperation, pursue exchange stability, generate economic expansion and high levels of employment and provide temporary financial assistance to countries during periods of balance of payments adjustment. Furthermore, it monitors and analyzes the economies of the member countries annually, while performing a variety of studies. Among the Fund's many publications, the most important are the WEO (World Economic Outlook) and the GFSR (Global Financial Stability Report), both of which are published at half-year intervals.

As part of its analysis and multilateral macroeconomic supervision activities, the Fund estimated 2003 world economic growth at 3.8%, compared to the 3% result registered in 2002. The volume of world trade in 2003 increased by 4.1% compared to the previous year, while the dollar prices of petroleum and other international commodities increased by 15.8% and 7.1%, respectively. Consumer inflation came to 1.8% in the developed countries, and 6.2% in the other nations.

Aside from analyzing the international economy and finances, the IMF also consults with the member countries according to the terms of Article IV of the Articles of Agreement. The purpose of these consultations is to analyze the macroeconomic situation of each member country, normally on an annual basis, while also performing Program Reviews. In general, these reviews are quarterly and are only performed when a particular country has a Financial Assistance Program sponsored by the Fund. These tasks constitute an indispensable source of information used by Banco Central do Brasil in monitoring the international economy.

The IMF's agenda can be described as an ongoing effort to restructure the international financial system through development of more effective mechanisms for preventing and dealing with crises, including statistical tools designed to issue alerts of oncoming crises, while issuing supervisory reports. With the overall aim of making its monitoring activity more transparent, the IMF adopted a Resolution that presumes publication of consultation reports under the terms of Article IV, provided that publication be authorized by the authorities of the evaluated country.

In the framework of its deliberations on initiatives targeted at crisis resolution, in 2003 the IMF Executive Board concluded its discussions on the Sovereign Debt Restructuring Mechanism (SDRM), as well as on voluntary inclusion of Collective Action Clauses in sovereign debt securities, including the possibility of debt restructuring without the unanimous consent of creditors. When the SDRM was not adopted, both the Bank of France, in the G-20 framework, and associations composed of private financial institutions with direct interaction in the emerging market economies, came forward with proposals for a Sovereign Debt Restructuring – Code of Conduct. Discussions on elaboration and possible voluntary adoption of this Code of Conduct will continue throughout 2004.

In 2003, the Executive Board lengthened the maturities of Supplementary Reserve Financing (SRF), allowed Contingency Credit Lines (CCL) to expire in November, defined operational criteria for exceptional access to Fund resources (above 100% of the yearly quota, or above 300% of the cumulative quota), and discussed policies to be adopted with respect to countries that have made prolonged use of Fund resources or, in other words, countries involved in Programs with the Fund during a period of seven or more years over the course of a ten year period. Created for the purpose of avoiding propagation of capital account crises to countries with solid macroeconomic policies, CCL operations never came to be utilized and were abolished in November 2003. The conviction at the Fund was that this type of credit was never utilized mainly as a result of attenuation of the risk of balance of payments crises as a consequence of the strengthening of the international financial system. However, Brazil took the position that the CCL should be preserved until such time as a new, more complete and efficient instrument could be developed.

Aside from the already mentioned reports, the IMF and World Bank work together to produce Reports on the Observance of Standards and Codes (ROSC) – evaluations of the degree to which different countries have adopted internationally recognized codes and standards in twelve areas: quality of data, monetary and financial policy transparency, fiscal transparency, banking supervision, capital market regulation, insurance supervision, payments systems, combating money laundering and the financing of terrorism, corporate governance, accounting, auditing, insolvency and creditor rights. Since these assessments first began in March 1999 up to December 31, 2003, 492 ROSC were produced for 101 countries (55% of the member countries), of which 364 (74% of the reports), referring to 89 countries (48% of the member countries), were published.

Another important activity, also carried out jointly with the World Bank, involves Financial Sector Assessment Programs (FSAP). FSAP are voluntary programs implemented at the request of a member country. Aside from calling for elaboration of ROSC, the FSAP uses stress tests to evaluate the degree of financial stability in periods of economic shocks and produces an extensive report with recommendations to authorities, together with two other synthetic reports – the Financial System Stability Assessment (FSSA) and the Financial Sector Assessment (FSA) – that are submitted to the Executive Boards of the IMF and World Bank, respectively.

With regard to publication of economic data, 55 countries, including Brazil, had subscribed to the Special Data Dissemination Standard (SDDS) by the end of 2003. The SDDS is designed to become a guide for disseminating economic and financial data to the public, improving the availability of timely and broad statistical information and, consequently, contributing to solid macroeconomic policies, while improving financial market operations.

At the end of 2003, total IMF capital came to SDR 219 billion, and total outstanding credits to be received by the Fund came to SDR 71.9 billion or just a bit above the level that had prevailed up to the end of the previous year, SDR 70.5 billion.

At the end of 2003, financial assistance programs were under way in 58 countries: 17 Stand-by Agreements, with a total value of SDR 54.4 billion[7]; 3 Extended Fund Facilities (EFF), in a total amount of SDR 4.4 billion and 38 Poverty Reduction Growth Facilities (PRGF), totaling SDR 4.8 billion.

The IMF's financial commitment to the Heavily Indebted Poor Countries Initiative (HIPC Initiative), which is designed to provide foreign debt relief to countries covered by this definition, increased from SDR 1.6 billion in the previous year to SDR 1.8 billion. Of this total, the end of 2003 had already disbursed SDR 1.1 billion.

Brazil's quota in the Fund is SDR 3,036 million, with participation of 1.43% of the organization's total capital. In December 2003, the Stand-by Agreement signed between Brazil and the IMF in September 2002 was extended for an additional 15 months (up to March 2005) and expanded by a total amount of SDR 4.6 billion – moving from SDR 22.8 billion to SDR 27.4 billion. This program has a preventive character since, in principle, there are no plans to make any further withdrawals. Of the total agreement, withdrawals came to SDR 17.2 billion, of which SDR 12.6 billion were withdrawn in the course of 2003. This amount was slightly more than the SDR 12.3 billion withdrawn in 2002 (when withdrawals against the 2001 Agreement were also made). It is worth mentioning that the tranches of SDR 5.6 billion and SDR 911 million made available in December 2003 and March 2004, respectively, were not withdrawn by Brazil. In 2003, the country's amortizations with the Fund added up to SDR 8.9 billion, while interest and other charges paid came to SDR 541 million.

On 12.31.2003, Brazil's debt balance with the IMF came to SDR 19 billion, the largest pending balance with that institution, followed by those of Turkey and Argentina. Reformulation of the Agreement included the lengthening of Brazil's debt amortization schedule with the Fund, with reduction of the amount to be amortized in 2004 from SDR 8.6 billion to SDR 4.6 billion, while increasing 2007 amortizations from SDR 1.8 billion to SDR5.9 billion.

The Annual Meeting of the IMF and World Bank Boards of Governors was held in Dubai, United Arab Emirates, on September 23 and 24, 2003. In the first half of the year, the meetings of the International Monetary and Financial Committee (IMFC) and the Development Committee were held in Washington, DC, on April 12 and 13.

7/ On 12.31.2003, rate SDR/US$ = 1.48597.

Bank for International Settlements (BIS)

The BIS is an international organization founded on January 20, 1939, with the task of encouraging international financial and monetary cooperation. It operates as the bank for central banks, taking on the role of correspondent in their financial transactions. At the same time, the BIS is a forum used by central banks and the international financial community for purposes of coordinating their activities, while it also serves as a center of financial and monetary research and as fiduciary agent in international operations performed by central banks.

In 2003, the BIS expanded its membership to 56 central banks. In March of that year, the Executive Board of the BIS decided to substitute the gold franc with Special Drawing Rights (SDR) as its unit of account – with composition and values identical to the system used by the IMF. Authorized capital corresponds to SDR 3 billion: 600 thousand nominal shares of SDR 5 thousand, with 529,125 shares issued. Since March 25, 1997, Brazil has held 3000 subscribed shares in the amount of SDR 15 million. By the end of the Fiscal year 2002/2003, BIS assets stood at SDR 149.6 billion and its own resources, capital and reserves totaled SDR 8.8 billion.

The BIS acts as a catalyst of cooperation among central banks, organizing regular meetings among the members of the G-10[8] and the major emerging economies.

In the course of 2003, the Meeting of Banco Central Governors dealt with the following topics, among others:

- deflation, recent experience: typologies, risks and implications for monetary policy;
- financial industry and the outlook for recovery;
- post-crises capital flows in Eastern Asia;
- banco central communication with the public, part of effective monetary policy;
- European monetary integration; challenges for Central Europe;
- difficulties in external financing and their implications;
- prices of real estate assets and their implications for monetary policy and financial stability;
- resistance to exchange appreciation and accumulation of reserves and their consequences for the financial system.

The institution hosts the secretariats of various committees and reports are issued to the G-10 on the work carried out by them, as follows:

8/ Group of industrial countries including: Germany, Belgium, Canada, the United States, France, the Netherlands, Britain, Italy, Japan, Sweden and Switzerland.

The Basel Committee on Banking Supervision does not have a supranational supervision mandate, but formulates prudential supervision standards and guidelines with the purpose of further reinforcing the financial solidity of banking institutions. Implementation of a new accord is forecast for the end of 2006 (also known as the Basel Accord II). This instrument will further refine prudential rules on bank capitalization and risk sensitivity indicators, while also dealing with minimum capital requirements. The new Accord will encourage banks to develop their own credit risk assessment models based on three fundamental pillars: minimum capital requirements; review of capital adequacy supervision; and, finally, transparency or market discipline based on public disclosure.

Aside from this, the Committee works to develop practical cooperation among national and international supervisors, with the objective of improving supervisory efficiency.

The Committee on Payment and Settlement Systems defines international standards for fostering the security of payment systems, strengthening market infrastructure and reducing systemic risk. It operates in a partnership with the International Organization of Securities Commissions (Iosco). In 2003, the Committee published a report on the retail payments policies of a variety of countries.

The Committee on the Global Financial System focuses on the vulnerability of the global financial market, viewed under the prism of both the industrialized countries and the emerging economies. Among the topics dealt with by the Committee, the following should be underscored: bond market liquidity; market behavior in times of crisis; information transparency; and improvements in BIS statistics. In 2003, the Committee also dealt with such subjects as analysis of incentive structures in the management of institutional assets and their implications for the financial market, and credit risk transfers.

The Market Committee (formerly known as the Committee on Gold and Foreign Currencies) monitors exchange market activities and identifies their implications for central bank policies and the operational implementation of such policies, in such areas as exchange rate volatility.

The BIS acts as the secretariat for the Financial Stability Forum (FSF), which was created by the G-7 in 1999 and given the task of debating questions involving the strengthening of international financial architecture and fostering cooperation among national authorities and international organizations and regulatory agencies. In November 2003, the FSF sponsored the 3rd Regional Latin American Meeting in Chile, for the purpose of discussing, among other points, public debt sustainability and management, crises prevention, the New Basel Accord, and initiatives in corporate governance. The Forum sponsored plenary sessions in March and

September in Berlin and Paris, respectively. Among the themes discussed recently, mention should be made of the following: development of the reinsurance market; the lack of transparency and potential risk in the reinsurance industry; transferring credit risk through credit derivatives; transferring operational risk among sectors, their integration and aggregation; market foundations and corporate governance; stock market volatility; accounting standards; credit risk ratings agencies; and the strengthening of supervision, regulation and information exchange agreements in offshore financial centers.

Performing its role as the bank of central banks, BIS offers a wide array of banking services specifically designed to aid in managing reserves. In 2003, 130 central banks had reserves under BIS management. The institution is one of the external managers of part of Brazil's foreign reserves, providing a flow of knowledge and asset portfolio management technologies.

Center of Latin American Monetary Studies (Cemla)

Created in 1952, Cemla has the following objectives:

a) foster a better understanding of monetary and banking affairs in Latin America and the Caribbean, together with pertinent aspects of fiscal and exchange policies;
b) aid in improving the preparedness of the personnel of Latin American and Caribbean central banks and other financial institutions;
c) coordinate investigations and systematize their results in the above mentioned fields;
d) transfer information to members, dealing with facts of international and regional interest in the framework of monetary and financial policies.

The Center is composed of 50 institutions, 30 of which are associate members – Central Banks of the region – with voice and vote in the Meeting of Governors. The 2003 budget was US$2.6 million, fully covered by annual contributions. Brazil has been a Cemla member since 1957 and makes annual contributions in the amount of US$283 thousand.

Cemla operates by itself or in partnerships with central banks and international institutions in promoting courses, seminars, lectures and international meetings targeted to central bank specialists; it publishes studies, reports and technical and academic papers on subjects of interest to the membership.

The Center is directed by the Meeting of Governors, which is composed of the presidents of the associated central banks and the Board of Governors, with seven members. Management is the responsibility of the Director General and Deputy Director General. Since it is the site of the Center's headquarters, Mexico has a permanent seat on the Board, while the other seats are occupied by associate members elected for two year terms. Aside from Mexico, the current Board of Governors is composed of representatives of Argentina, Brazil, Colombia, Guatemala, Barbados and Venezuela. Banco Central do Brasil has occupied the Presidency of the Board of Governors since May 2003, with a mandate of two years.

The Center issues several different periodical publications (also available at www.cemla.org), including the magazines *Monetária* and *Money Affairs*. It also grants the Rodrigo Gómez Award for academic papers on central bank questions, with a US$10 thousand prize for the winning author and publication of the paper.

VIII

Main Economic Policy Measures

National Monetary Council Resolutions

3,061, 1.30.2003 – Makes provisions on premiums to be granted on operations renegotiated under Resolution 3,032, of 2002.

3,062, 1.30.2003 – Makes provisions on agricultural zoning for the culture of sorghum.

3,063, 1.30.2003 – Makes provisions on extending terms for coffee crop financing, formalized under the National Program for Strengthening Family Agriculture (Pronaf).

3,064, 2.19.2003 – Makes provisions on the sale of put options as an instrument of agricultural policy.

3,065, 2.19.2003 – Makes provisions on special measures supporting the production and marketing of corn and sorghum.

3,066, 2.19.2003 – Makes provisions on the channeling of rural credit mandatory funds (MCR-62).

3,067, 2.27.2003 – Institutes a credit line for funding coffee harvesting and warehousing in the 2002/2003 agricultural period, supported by the Coffee Economy Defense Fund (Funcafé).

3,068, 2.27.2003 – Makes provisions on the Agricultural Tractors and Associated Equipment and Harvesting Machines Modernization Program (Moderfrota).

3,069, 3.27.2003 – Makes provisions on the periodical replacement of independent auditor in financial institutions and other operations authorized to operate by the Central Bank of Brazil.

3,070, 3.27.2003 – Makes provisions on the granting of additional term for payment of the first installment of interests on operations renegotiated under Resolution 3,003, of 2002, supported by the Coffee Economy Defense Fund (Funcafé).

3,071, 3.27.2003 – Changes the special credit line supporting production and marketing of corn and sorghum mentioned by Resolution 3,065, of 2003.

3,072, 3.27.2003 – Defines the Long-term Interest Rate (TJLP) for the second quarter of 2003.

3,073, 4.24.2003 – Changes the form of updating envisaged by Article 3 of Resolution no, 3,005, of 2002, and amends provisions of such Resolution.

3,074, 4.24.2003 – Makes provisions on the maintenance of Reserve for Fostering Currency Stability and Checks Utilization (Recheque) assets with the Central Bank of Brazil.

3,075, 4.24.2003 – Makes provisions on the special conditions for the financing of machines and equipment, supported by the National Bank of Economic and Social Development (BNDES) – Special Agricultural Finame.

3,076, 4.24.2003 – Makes provisions on extension of repayment terms for loans granted by the State of Bahia Cocoa Crop Recovery Program.

3,077, 4.24.2003 – Makes provisions on terms in the context of the Agribusiness Cooperatives Revitalization Program (Recoop).

3,078, 4.24.2003 – Makes provisions on renegotiation terms of debts originated by rural credit operations, mentioned by Resolution 2,471, of 1998.

3,079, 4.24.2003 – Makes provisions on renegotiation of rural credit operations supported by funds of Special Credit Program for Agrarian Reform (Procera), National Program for Strengthening Family Agriculture (Pronaf), North, Northeast and Center-West Financing Constitutional Funds and other sources.

3,080, 4.24.2003 – Makes provisions on changes of conditions applicable to operations renegotiated under Resolution 2,471, of 1998, Resolution 2,666, of 1999, and Resolution 2,963, of 2002.

3,081, 5.29.2003 – Deals with rendering independent auditing services to financial institutions, other institutions authorized to operate by the Central Bank of Brazil and to the chamber and institutions rendering clearing and liquidation services.

3,082, 5.29.2003 – Extends the deadline for exempting the compulsory payments and reserve requirements on demand deposits of all deposits carried out by pioneering agencies.

3,083, 6.25.2003 – Deals with the targeting of controlled rural credit resources, alters current expenditure and marketing financing limits, institutes the Special Marketing Line (LEC) for products supported by the Floor Price Guaranty Policy (PGPM) and defined other conditions for rural credit.

3,084, 6.25.2003 – Deals with financing for purposes of retaining swine matrixes, based on Obligatory Resources (MCR6-2).

3,085, 6.25.2003 – Deals with the terms and maturities of Federal Government Loans (EGF).

3,086, 6.25.2003 – Deals with the Program of Modernization of the Farm Tractor and Associated Implements and Harvester Fleet (Moderfrota).

3,087, 6.25.2003 – Deals with the Program of Cooperative Development for Aggregating Value to Crop/Livestock Farming (Prodecoop).

3,088, 6.25.2003 – Deals with the Program of Incentives to the Mechanization, Cooling and Bulk Transportation of Milk Production (Proleite).

3,089, 6.25.2003 – Deals with the Program of Commercial Planting of Forests (Propflora).

3,090, 6.25.2003 – Deals with the Rural Employment and Income Generation Program (Proger Rural).

3,091, 6.25.2003 – Institutes the Rural Family Employment and Income Generation Program (Proger Rural Family).

3,092, 6.25.2003 – Institutes the Program of Incentives to Irrigation and Storage (Moderinfra).

3,093, 6.25.2003 – Institutes the Program of Modernization of Agriculture and Natural Resources Conservation (Modeagro).

3,094, 6.25.2003 – Institutes the Program of Agribusiness Development (Prodeagro).

3,095, 6.25.2003 – Institutes the Fruit Farming Development Program (Prodefruta).

3,096, 6.25.2003 – Institutes a line of credit targeted to financing the stocking of ethyl fuel alcohol, based on resources drawn from the Contribution on Intervention in the Economic Domain (Cide).

3,097, 6.25.2003 – Deals with alterations in the Regulations of the National Program for Strengthening Family Farming (Pronaf).

3,098, 6.25.2003 – Deals with conditions for classification of operations in the framework of the Crop/Livestock Activity Guaranty Program (Proagro) of operations under the terms of the National Program for Strengthening Family Farming (Pronaf) and the Rural Family Employment and Income Generation Program (Proger Rural Familiar).

3,099, 6.25.2003 – Deals with extension of coffee crop financing terms, when such operations were formalized under the terms of the National Program for Strengthening Family Farming (Pronaf).

3,100, 6.25.2003 – Deals with the line of credit targeted at financing the coffee harvest and its warehousing in the 2002/2003 agricultural period, based on resources from the Coffee Economy Defense Fund (Funcafé).

3,101, 6.25.2003 – Institutes a line of credit based on resources of the Coffee Economy Defense Fund (Funcafé) and targeted to current expenditure financing in the 2003/2004 agricultural period.

3,102, 6.25.2003 – Deals with the granting of Federal Government Loans without Sales Option (EGF/SOV) for the 2002/2003 coffee harvest, based on Obligatory Resources (MCR 6-2).

3,103, 6.25.2003 – Deals with resources received in rural savings deposits.

3,104, 6.25.2003 – Deals with the opening of special deposit accounts.

3,105, 6.25.2003 – Deals with the granting of a period of time for the National Bank of Economic and Social Development (BNDES) to adjust to the limitation on investment of resources in Permanent Assets.

3,106, 6.25.2003 – Deals with the requirements and procedures for constitution, operating authorization and bylaw alterations, as well as for cancellation of the operating authorization of credit cooperatives.

3,107, 6.25.2003 – Defines the Long-Term Interest Rate (TJLP) for the third quarter of 2003.

3,108, 6.25.2003 – Defines inflation targets and their respective tolerance bands for 2004 and 2005.

3,109, 7.24.2003 – Deals with microcredit operations targeted to the low income population and micro-entrepreneurs.

3,110, 7.31.2003 – Alters and consolidates the rules applicable to the contracting of correspondents in the country.

3,111, 7.31.2003 – Deals with the concept of affiliated business in cases involving acquisition of Certificates of Real Estate Values to be Received (CRI).

3,112, 7.31.2003 – Deals with calculation of the quotas of real estate investment funds and credit rights investment funds, structured within the framework of the Program of Incentives to Implementation of Projects of Social Interest (PIPS), instituted by Provisional Measure 122/2003, with regard to the channeling of savings deposit resources.

3,113, 7.31.2003 – Alters article 4 of Resolution 3,104/2003, which deals with the opening of special demand deposit accounts, and defines rules applicable to the opening of savings deposit accounts.

3,114, 7.31.2003 – Deals with alterations in the conditions applicable to operations renegotiated under the terms of Resolutions 2,471/1998, 2,666/1999 and 2,963/2002.

3,115, 7.31.2003 – Deals with renegotiation of rural credit operations based on resources from the Special Program of Credit for Agrarian Reform (Procera), the National Program for Strengthening Family Farming (Pronaf), the North, Northeast and Central-West Constitutional Financing Funds and other sources.

3,116, 7.31.2003 – Deals with investment of the resources of complementary pension fund entities.

3,117, 8.25.2003 – Provides on the changing of maturity of Federal Government Loans without a Put (EGF/SOV) for the 2002/2003 coffee crop, under Mandatory Funds (MCR 6-2) and the ceiling for Federal Government Loans (EGF) for coffee, under rural credit controlled funds.

3,118, 8.25.2003 – Changes Article 1(II) of Resolution 3,011, of 8.16.2002, providing for the granting of loans by the Federal Government to the National Bank of Economic and Social Development (BNDES), as envisaged by Article 2 of Law 10,595, of 12.11.2002.

3,119, 8.25.2003 – Establishes conditions for the granting of loans by the Federal Government to the National Bank of Economic and Social Development (BNDES), according to Article 3 of Provisional Measure 127, of 8.4.2003.

3,120, 9.25.2003 – Defines the Long Term Interest Rate (TJLP) for the last quarter of 2003. (**Revoked**).

3,121, 9.25.2003 – Changes and consolidates the rules setting guidelines for investment of funds belonging to closed complementary pension plans.

3,122, 9.25.2003 – Provides on loans entered into under the Japanese-Brazilian Program of Cooperation for Development of the Savannahs – Phase 3 (Prodecer III).

3,123, 9.25.2003 – Provides on changes to the National Program for Strengthening Family Agriculture (Pronaf) Regulation.

3,124, 9.25.2003 – Provides on the granting of complementary credit to the household producer of the National Program for Strengthening Family Agriculture (Pronaf) Group "A" or household beneficiary of the Special Credit Program for Agrarian Reform (Procera).

3,125, 9.25.2003 – Provides on extension of payment term for debts matured and to mature related to loans granted under the National Program for Strengthening Family Agriculture (Pronaf) with Federal Government risk.

3,126, 9.25.2003 – Provides on renegotiations of rural credit operations with funds of the Special Credit Program for Agrarian Reform (Procera), National Program for Strengthening Family Agriculture (Pronaf), Constitutional Funds for the Financing of the North, Northeast and Center-West, and other sources.

3,127, 10.30.2003 – Provides on the conditions for eligibility to the Agricultural Activity Guaranty Program (Proagro) of unfounded activity, linked to the Food Acquisition Program.

3,128, 10.30.2003 – Amends Resolution 3,109, of 2003, providing on the performance of micro-finance operations channeled to low income individuals and micro-businesses.

3,129, 10.30.2003 – Reduction of Credit to the Public Sector and Change of Ceilings – Amendment to Article 9 of Resolution 2,827, of March 30, 2001.

3,130, 10.31.2003 – Provides on recontracting and maturity extensions of debts related to rural credit operations by Procera, Pronaf and other sources.

3,131, 10.31.2003 – Provides on the granting of loans by the State of Bahia Cocoa Agriculture Recovery Program.

3,132, 10.31.2003 – Provides on the Program of Rural Income and Employment Generation (Proger Rural).

3,133, 10.31.2003 – Provides on the Program of Rural Household Employment and Income Generation (Proger Rural Household). (**Revoked**).

3,134, 10.31.2003 – Provides on the term for renegotiating debts originated from rural credit, mentioned by Resolution 2,471 of 1998.

3,135, 10.31.2003 – Provides on terms and conditions for settlement of due and payable debts of Pronaf loans.

3,136, 10.31.2003 – Establishes the Special Credit Line (LEC) for wheat, under Mandatory Funds (MCR-6-2). (**Revoked**).

3,137, 10.31.2003 – Provides on ceilings for financing investments of rural credit controlled funds.

3,138, 10.31.2003 – Changes the Regulation of the National Program for Strengthening Family Agriculture (Pronaf).

3,139, 10.31.2003 – Provides on the Program of Commercial Planting and Recovery of Forests (Propflora).

3,140, 11.27.2003 – Changes provisions related to requirements and procedures for the establishment, authorization to operate, and statutory changes of credit cooperatives.

3,141, 11.27.2003 – Changes provisions related to requirements and procedures for the establishment, authorization to operate, transfer of corporate control and reorganization of financial institutions and other institutions authorized to operate by the Central Bank of Brazil, and provides on office duties of statutory bodies of such institutions.

3,142, 11.27.2003 – Changes Resolution 3,121, of 2003, providing on directives related to investment of funds belonging to closed complementary pension plans.

3,143, 11.27.2003 – Extends the term for full operation of auditing committees.

3,144, 11.27.2003 – Changes Article 3 of Resolution 3,034, of 2002, which disciplines the investment of reserve and provision funds, and funds of insurance corporations, capitalization corporations and open pension plan entities, as well as the acceptance of corresponding assets as guarantors of the respective funds, under the legislation and regulation in effect.

3,145, 11.27.2003 – Provides on funds gathered from rural savings deposits.

3,146, 11.28.2003 – Provides on special lending conditions for machines and equipment with funds managed by the National Bank of Economic and Social Development (BNDES) – Special Agricultural Finame.

3,147, 11.28.2003 – Provides on the Cooperative Development Program for Aggregating Value to Agricultural Production (Prodecoop).

3,148, 11.28.2003 – Provides on the Agribusiness Development Program (Prodeagro).

3,149, 11.28.2003 – Provides on the granting of credit for wheat commercialization, funded by the Special Credit Line (LEC).

3,150, 11.28.2003 – Provides on the changes in the regulation of the National Program for Strengthening Family Agricultura (Pronaf).

3,151, 11.28.2003 – Provides on the Program of Rural Household Employment and Income Generation (Proger Rural Household).

3,152, 11.28.2003 – Provides on the granting of time extension for making regular obligations related to operations with funds of the Coffee Economy Defense Fund (Funcafé).

3,153, 12.11.2003 – Conditioning of Credit to the Public Sector and Change of Ceilings – Changes to Resolution 2,827, of March 30, 2001.

3,154, 12.17.2003 – Sets general conditions for the sale of shares belonging to the Federal Government, issued by Banco do Estado do Maranhão S.A. (BEM).

3,155, 12.17.2003 – Provides on the calculation of the value of Certificates of Real Estate Receivables (CRI) purchase guarantee letters in channeling funds gathered from savings deposits under the conditions established and makes other provisions.

3,156, 12.17.2003 – Changes Resolution 3,110, of 2003, providing on the retaining of correspondents within the country.

3,157, 12.17.2003 – Provides on the definition of institutions integrating the Housing Financing System (SFH).

3,158, 12.17.2003 – Provides on the certification of employees of financial institutions and other institutions authorized to operate by the Banco Central do Brasil.

3,159, 12.17.2003 – Provides on the granting of Federal Government Loans without Sales Option (EGF/SOV) for the 2003/2004 industrial grape crop.

3,160, 12.17.2003 – Defines the Long Term Interest Rate (TJLP) for the first quarter of 2004.

3,161, 12.17.2003 – Change provisions of Resolution 3,024, of 2002 and its Annexes I and II, providing on the statute and regulation of the Credit Guaranty Fund (FGC).

Banco Central Circulars

3,173, 1.9.2003 – Disseminates the list of financial institutions included in the sample for calculating the Reference Rate (TR) and the Financial Basic Rate (TBF).

3,174, 1.15.2003 – Establishes procedures for recognition, accounting recording and assessment of deferred tax credits and fiscal obligations for buyer association administrations.

3,175, 1.15.2003 – Establishes procedures related to the publication of a statement of purpose by founding partners and administrators of credit cooperatives of small- and micro-contractors and micro-entrepreneurs.

3,176, 2.5.2003 – Makes provisions on the procedures for canceling the authorization to operate of institutions mentioned.

3,177, 2.19.2003 – Changes the compulsory character of mandatory deposits and cash deposits on demand funds mentioned by Circular 3,169, dated 2.19.2002.

3,178, 2.26.2003 – Amends Circular 2,502/1994, providing on authorization to operate, transfer of corporate control and reorganization of institutions authorized to operate by the Central Bank of Brazil, except for credit cooperatives.

3,179, 2.26.2003 – Makes provisions on the procedures for the establishment, authorization to operate, transfer of corporate control and reorganization, as well as for cancellation of authorization to operate of institutions mentioned.

3,180, 2.26.2003 – Provides on complementary procedures to be followed by financial institutions, other institutions authorized to operate by the Central Bank of Brazil and buyers' association administration institutions.

3,181, 3.6.2003 – Establishes form, limits, and conditions for the statement of goods and valuables held abroad by individuals or legal entities resident, domiciled, or headquartered in the country.

3,182, 3.6.2003 – Makes provisions on the procedures for authorization to operate, transfer of corporate control, reorganization, and cancellation of authorization to operate of micro-entrepreneur credit society, as well as for the establishment of micro-entrepreneur service units.

3,183, 3.12.2003 – Makes provisions on exemption of penalties for delay in delivering documents and sets a new term for delivery thereof in the context of the Credit Risk Central System.

3,184, 3.27.2003 – Establishes criteria for periodic replacement of independent auditor of buyer association administrations.

3,185, 4.2.2003 – Amends the Regulations of the Special System of Clearance and Custody (Selic), passed by Circular 3,108, dated April 10, 2002.

3,186, 4.9.2003 – Makes provisions on winning bids in a buyer club association group by embedded call and by calls drawing on Severance Fund Contribution (FGTS) funds.

3,187, 4.16.2003 – Amends Articles 9 and 10 of Circular 2,677, dated April 10, 1996, making provisions for accounts in domestic currency held by individuals domiciled abroad and provides for international transfers denominated in Reals.

3,188, 4.23.2003 – Amends the term for analysis carried out by the Clearance of Checks and Other Papers Centralizing Bureau (Compe) and makes other provisions.

3,189, 4.23.2003 – Alters the system for utilizing deposits in advance in order to participate in the sessions of the Centralizing Agency for Clearing Checks and other Documents (Compe).

3,190, 4.28.2003 – Revokes Circular 3,146, dated August 30, 2002 and similar rules, providing on the performance by the Central Bank of Brazil of auctions for the sale of foreign currency linked to the granting of advancements on foreign exchange export contracts.

3,191, 5.29.2003 – Revokes provisions of the Circular 3,169, dated 12.19.2002. (**Cancelled**)

3,192, 6.5.2003 – Deals with the rendering of independent auditing services to group buyer management companies and their respective buyer groups.

3,193, 6.11.2003 – Releases the new regulations of the Monetary Policy Committee (Copom).

3,194, 7.2.2003 – Reduces the "R" factor applicable to operations involving gold and assets and liabilities indexed to exchange rate variations, as found in the PLE formula included in the Regulations in Appendix IV to Resolution 2,099/1994, and later alterations.

3,195, 7.10.2003 – Releases the listing of financial institutions included in the sampling used for purposes of calculating the Reference Rate (TR) and Basic Financing Rate (TBF).

3,196, 7.17.2003 – Deals with the calculation of the Required Net Worth (PLE) of cooperatives and cooperative banks.

3,197, 7.31.2003 – Deals with interbank deposits tied to the microcredit operations that are the subject of Resolution 3,109/2003.

3,198, 8.6.2003 – Provides on operation limits for buyers' association operations.

3,199, 8.8.2003 – Changes the mandatory character of the reserve requirements and mandatory reserves on demand deposits mentioned by Circular 3,169, dated December 19, 2002.

3,200, 8.15.2003 – Changes and adds provisions to the Regulation for the Special System of Clearance and Custody (Selic), passed by Circular 3,108, dated April 10, 2002.

3,201, 8.28.2003 – Provides on procedures to be followed by credit cooperatives in lawsuits' program of proceedings (**Cancelled**).

3,202, 8.28.2003 – Defines criteria for investment and accounting records of funds paid by subscribers of shares of buyers' association groups being created (**Cancelled**).

3,203, 9.4.2003 – Changes risk weights mentioned by the Asset Classification Table of the Regulation Annex IV to Resolution 2,099, dated 1994, as amended, for linked active operations, tax credits, and loans of the Credit Guarantee Fund (FGC).

3,204, 9.4.2003 – Makes public the new Monetary Policy Committee (Copom) regulation.

3,205, 9.18.2003 – Changes the settlement terms of foreign exchange operations of financial nature in which the customer is the Secretariat of the National Treasury.

3,206, 9.25.2003 – Changes Circular 2,905, dated 1999, providing on minimum terms and yield of asset and liability operations performed in the financial market.

3,207, 10.22.2003 – Changes Circular 3,188 of 2003, providing on Checks and Other Papers Clearance Centralized Operator (Compe), and makes other provisions.

3,208, 11.3.2003 – National Debureaucratization Program Establishes the Foreign Capitals and Foreign Exchange Information Network (RedeCEC).

3,209, 11.3.2003 – Changes the settlement terms of foreign exchange operations of financial nature in which the customer is the Secretariat of the National Treasury.

3,210, 11.13.2003 – Changes the Regulation of the Special System of Clearance and Custody (Selic), passed by Circular 3,108, dated April 10, 2002.

3,211, 12.4.2003 –Eliminates the requirement of prepayment to the Central Bank of the value related to the payment instrument of an import performed under (CCR) (**Cancelled**).

3,212, 12.4.2003 – Provides on the term for delivery of financial statements.

3,213, 12.10.2003 – Establishes procedures for the accounting records of credit assignment and lease operations.

3,214, 12.12.2003 – Provides on the delivery of documents in the context of the Credit Risk Central System (SCR).

3,215, 12.12.2003 – Defines procedures related to the delivery of bylaws and articles of incorporation of financial institutions and other institutions authorized to operate by the Banco Central do Brasil, as well as those of buyers' group administration institutions.

3,216, 12.16.2003 – Changes risk weights of lending operations mentioned by the Asset Classification Table of the Regulation Annex IV to Resolution 2,099, dated 1994, as amended.

3,217, 12.19.2003 – Changes the procedures for calculating and preparing information related to the follow-up and control of exposures in gold, in foreign currencies and in assets and liabilities subject to foreign exchange variations, on a consolidated basis, mentioned by Resolution 2,606, dated 1999, and the Regulation Annex IV of Resolution 2,099, dated 1994.

Appendix

Members of the Conselho Monetário Nacional

Banco Central do Brasil Management

Central units (departments) of the Banco Central do Brasil

Regional offices of the Banco Central do Brasil

Acronyms

Members of the Conselho Monetário Nacional (December 31, 2003)

Antonio Palocci Filho
Minister of Finance – President

Guido Mantega
Minister of Planning and Budget

Henrique de Campos Meirelles
Governor of the Banco Central do Brasil

Banco Central do Brasil Management (December 31, 2003)

Board of Directors

Henrique de Campos Meirelles
Governor

Afonso Sant'Anna Bevilaqua
Deputy Governor

Alexandre Schwartsman
Deputy Governor

Antonio Gustavo Matos do Vale
Deputy Governor

Eduardo Henrique de Mello Motta Loyo
Deputy Governor

João Antônio Fleury Teixeira
Deputy Governor

Luiz Augusto de Oliveira Candiota
Deputy Governor

Paulo Sérgio Cavalheiro
Deputy Governor

Sérgio Darcy da Silva Alves
Deputy Governor

Board of Governors Executive Secretariat

Executive Secretary:	Antônio Carlos Monteiro
Secretary for the Board of Governors and for the Conselho Monetário Nacional:	Sérgio Albuquerque de Abreu e Lima
Secretary for Institutional Relations:	Gerson Bonani
Secretary for Projects:	Hélio José Ferreira

Consultants for the Board of Governors

Alexandre Pundek Rocha	Alvir Alberto Hoffmann
Anthero de Moraes Meirelles	Antonio José Barreto de Paiva
Cláudio Jaloretto	Dalmir Sérgio Louzada
Fernando Antônio Gomes	Flávio Pinheiro de Melo
Gustavo Alberto Bussinger	Katherine Hennings
Luiz do Couto Neto	Marco Antonio Belém da Silva

Central units of the Banco Central do Brasil (December 31, 2002)

Financial Administration Department (Deafi)
Edifício-Sede – 2º subsolo
SBS Quadra 3 Zona Central
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Head: *Jefferson Moreira*

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Head: *Gustavo Alberto Bussinger*

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Department of Planning and Organization (Depla)
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2nd Region – Regional Office in Fortaleza (ADFOR)

Av. Heráclito Graça, 273 – Centro
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60140-061 Fortaleza (CE)
Regional Delegate: *Luiz Edivam Carvalho*

Jurisdiction: Ceará, Maranhão and Piauí

3rd Region – Regional Office in Recife (ADREC)

Rua Siqueira Campos, 368 – Santo Antônio
Caixa Postal 1445
50010-010 Recife (PE)
Regional Delegate: *Pedro Rafael Lapa*

Jurisdiction: Alagoas, Paraíba, Pernambuco and Rio Grande do Norte

4th Region – Regional Office in Salvador (ADSAL)

Av. Anita Garibaldi, 1211 – Ondina
Caixa Postal 44
40176-900 Salvador (BA)
Regional Delegate: *Godofredo Massarra dos Santos*

Jurisdiction: Bahia and Sergipe

5th Region – Regional Office in Belo Horizonte (ADBHO)

Av. Álvares Cabral, 1605 – Santo Agostinho
Caixa Postal 887
30170-001 Belo Horizonte (MG)
Regional Delegate: *José Roberto de Oliveira*

Jurisdiction: Minas Gerais, Goiás and Tocantins

6th Region – Regional Office in Rio de Janeiro (ADRJA)

Av. Presidente Vargas, 730 – Centro
Caixa Postal 495
20071-001 Rio de Janeiro (RJ)
Regional Delegate: *Paulo dos Santos*

Jurisdiction: Espírito Santo and Rio de Janeiro

7th Region – Regional Office in São Paulo (ADSPA)

Av. Paulista, 1804 – Cerqueira César
Caixa Postal 8984
01310-922 São Paulo (SP)
Regional Delegate: *Fernando Roberto Medeiros*

Jurisdiction: São Paulo

8th Region – Regional Office in Curitiba (ADCUR)

Rua Marechal Deodoro, 568 – Centro
Caixa Postal 1408
80010-010 Curitiba (PR)
Regional Delegate: *Salim Cafruni Sobrinho*

Jurisdiction: Paraná, Mato Grosso and Mato Grosso do Sul

9th Region – Regional Office in Porto Alegre (ADPAL)

Travessa Araújo Ribeiro, 305 – Centro
Caixa Postal 919
90010-010 Porto Alegre (RS)
Regional Delegate: *José Afonso Nedel*

Jurisdiction: Rio Grande do Sul and Santa Catarina

Acronyms

ACSP	São Paulo Trade Association
AGF	Federal Government Procurements
Alca	Free Trade Association of the Americas
Anatel	National Telecommunications Agency
Anda	National Association for Fertilizers Distribution
Aneel	National Electric Energy Agency
ANP	National Petroleum Agency
Anvisa	Brazilian Sanitary Surveillance Agency
Apex	Export Promotion Agency
Asean	Association of South east Asian Nations
BCE	European Central Bank
BID	Inter-American Development Bank
BIS	Bank for International Settlements
BNDES	National Bank of Economic and Social Development
BoE	Bank of England
BoJ	Bank of Japan
CAC 40	Cotation Assisté en Continue
CAF	Andean Development Corporation
CAN	Andean Comunity
CCL	Contingent Credit Line
CCR	Reciprocal Payment and Credit Agreement
CDB	Caribbean Development Bank
CDI	Certificate of Deposit among Financial Institutions
Cemla	Latin-American Monetary Studies Centre
Cide	Contribution on Intervention in the Economic Domain
CMC	Mercosul Common Market Council
CNC	Committee for Trade Negotiations
CNI	National Confederation of Industry
Codefat	Worker Support Fund - Deliberative Body
Cofig	Export Financing and Guarantee Committee
Cofins	Contribution to Social Security Financing
Conex	Private Sector Consultive Committee
Copom	Monetary Policy Committee
CPMF	Provisional Contribution on Financial Transactions
CSLL	Social Contribution on the Profits of Legal Entities
CVM	Securities and Exchange Commission
DAX	Deutsche Aktienindex
DES	Special Drawing Rights
DI	Interbank Deposit
DJIA	Dow Jones Industrial Average
DRU	Federal Revenue Set-aside
EFF	Extended Fund Facilities
EGF	Federal Government Loans
Eletrobras	Brazilian Power Stations
Embi+	Emerging Markets Bond Index

Enaex	Foreign Trade National Meeting
EU	European Union
FAT	Worker Support Fund
Fecomercio SP	São Paulo State Trade Federation
Fed	Federal Reserve System
FGC	Credit Guaranty Fund
FGPC	Competitiveness Enhancement Fund
FGV	Getulio Vargas Foundation
Fiesp	Federation of Industries of the State of São Paulo
FIF	Financial Investment Fund
Finame	Special Industrial Financing Agency
FITVM	Funds based on investments in stocks and securities
FMI	International Monetary
FMP	Privatization Mutual Funds
FSA	Financial Sector Evaluation
FSAP	Financial System Evaluation Program
Fonplata	Financial Fund for the Development of the River Plate Basin
FSF	Foreign Capital Fixed Income Funds
FSSA	Free Trade Area of the Americas
FTSE 100	Financial Times Securities Exchange Index
Funcafe	Coffee Economy Defense Fund
Funcex	Foreign Trade Study Center Foundation
Gecex	Management Executive Committee
GDP	Gross Domestic Product
GFSR	Global Finanacial Stability Report
GLP	Liquefied Petroleum Gas
Ibovespa	Quotation Index of the São Paulo Stock Exchange
IGP-DI	General Price Index-Domestic Supply
IIC	Inter American Investment Corporation
IIF	Institute of International Finance
IIRSA	South -America Infrastructure Integration Initiative
INCC	National Cost of Construction Index
Inec	Consumer Expectation National Index
INSS	National Social Security Institute
IOSCO	International Organization of Securities Commissions
IPA-DI	Wholesale Price Index – Internal Supply
IPCA	Broad Consumer Price Index
IPC-Br	Consumer Price Index-Brazil
IRPJ	Corporate Income Tax
ISS	Tax on Services
ITR	Rural Land Tax
LEC	Special Credit Line for Trade
LGN	Natural Gas Liquids
LRF	Fiscal Responsibility Law
LSPA	Systematic Farm Production Survey
mbd	million barrels a day
MDA	Ministry of Agrarian Development
MDIC	Ministry of Development, Industry and Commerce

Moderfrota	Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters
MTE	Ministry of Labor and Employment
MYDFA	Multiyear Deposit Facility Agreement
Nasdaq	National Association of Securities Dealers Automated Quotation
OFI	International Financial Organizations
PAF	Financial Assistance Program
Pasep	Program of Civil Service Asset Formation
PGPM	Minimum Price Guarantee Policy
PII	International Investment Position
PIM-PF	Monthly Industrial Survey
PIS	Social Integration Plan
PMC	Monthly Trade Survey
PME	Monthly Employment Survey
PNAA	National Program for Food Access
PNPE	National Program of Incentive to First Job for Young People
PRGF	Poverty Reduction and Growth Facilities
Proger Rural	Rural Employment and Income Generation Program
Pronaf	National Program for Strengthening Family Agriculture
Propex	Program of Incentive for Exporting the Output of Small and Medium-Sized Businesses
Refis	Fiscal Recovery Program
RGPS	General Social Security System
RLA	Net Adjusted International Reserves
RMSP	São Paulo Metropolitan Region
Rosc	Reports on the Observance of Standards and Codes
SBPE	Brazilian System of Savings and Loans
SDDS	Special Data Dissemination Standard
Sebrae	Support to Micro and Small Bussinesses
Secex	Foreign Trade Secretariat
Selic	Special System of Liquidation and Custody
SFH	Housing Financing System
Simples	Integrated System of Micro and Small Business Tax and Contribution Payments
Siscomex	Integrated Foreign Trade System
SDRM	Sovereign Debt Restructuring Mechanism
SIUP	Public Utility Industrial Services
SPC	Credit Protection Service
SRF	Secretariat of Federal Revenue
STF	Federal Supreme Court
TEC	Common External Tariff
TJLP	Long-Term Interest Rate
TR	Reference Rate
UCI	Installed Capacity Utilization
VaR	Risk Value
VEP	Product Marketing Value
VSR	Amount Subject to Collection
WEO	World Economic Outlook