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BANCO CENTRAL
DO BRASIL

Annual Report 2004

Volume 40

On the reverse of the banknote, the Justice and Navigation emblems

On the front of the banknote, a view from the port of Rio de Janeiro

Museu de Valores do
Banco Central do Brasil Collection

500 thousand réis notebank
Bank of the Republic of Brazil, 1893

The Bank of the Republic of Brazil (Banco da República do Brasil) was created in 1892, through the consolidation of the Bank of the Republic of the United States of Brazil (Banco da República dos Estados Unidos do Brasil) and the Bank of Brazil (Banco do Brasil).

The new bank unified the currency issuance and replaced other bank's notes with its own notes. In 1896, the government took exclusive responsibility for banknote issues, replacing them with National Treasure Notes.

In 1905, the Bank of the Republic of Brazil (Banco da República do Brasil) was liquidated under law and got back its old name, Bank of Brazil (Banco do Brasil).

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...	data not available.
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*****	preliminary figures.

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Introduction

The excellent results turned in by the Brazilian economy in 2004 were a consequence of the adequate control exercised by the Central Bank of Brazil´s (BCB) Monetary Policy Committee (Copom) over monetary policy instruments, guided by the fundamental objective of guarantying the gains inherent to price stability. Starting in September, therefore, the Committee adopted a strategy of gradually raising basic interest rates. The perception underlying this decision was that, if no alterations were adopted in the country's monetary policy stance, the strong upturn in the pace of economic activity would not of itself settle back to the level required to spontaneously close the product gap in a manner compatible with the continued convergence of inflation toward the trajectory of the predetermined targets.

The decision to raise the rate of the Special System of Clearance and Custody (Selic) represented a reversal of the process of lowering rates begun in mid-2003 and further intensified in the second half of that year, when the target for the basic interest rate dropped 10 percentage points (p.p.) to 16.5% per year in December, compared to 26.5% per year in June.

At the beginning of 2004, indications that inflation could exceed the targets set for that year and 2005 led Copom to adopt a more conservative monetary policy posture. This was evident in the decision to hold the basic interest rate target at 16.5% per year in the three-month period ended in February. The fundamental reason for this measure was the perception that, even though the behavior of inflation at that time was caused by extraordinary or seasonal factors and could possibly shift back into a trajectory compatible with the targets set for the coming months, compliance with the target required greater monetary policy wariness than had been previously foreseen.

In the two following months, Copom gave special attention to inflation projections formulated in the context of the hypothesis of a low degree of inflationary persistence in the first quarter of the year. This hypothesis was confirmed by seasonal attenuation of inflation in market prices in the second and third quarters of the year, in line with the pattern registered in recent years. In this framework, successive cutbacks of 0.25 p.p. were introduced into the Selic rate target in March and April.

In the four following meetings, Copom maintained the basic rate at 16% per year. In September, however, Copom recognized that growth in economic activity and the level of utilization of installed output capacity were clearly not compatible with recovery in investments and that projections for inflation suggested a growing risk of noncompliance with the targets. With this in mind, the Committee initiated a gradual process of basic interest rate hikes. In that month, the Selic rate was raised by 0.25 p.p., followed by consecutive increases of 0.50 p.p. in the following months, raising the rate to 17.75% per year at the end of 2004.

In this context, despite the impact of the strong upward spiral in international oil prices during the year, inflation closed below the 2003 level, reflecting deceleration in both market and regulated prices. The Broad National Consumer Price Index (IPCA), which is used to undergird the inflation targeting system, closed at 7.6%, well within the parameters defined for the 2004 target by the National Monetary Council (CMN).

It is important to recognize that the more rigid monetary policy adopted did not hamper the economy from expanding through the end of the year at an annual pace unmatched since 1994, all within a scenario of steady positive evolution of the nation's economic fundamentals since last year. The current year has been marked by a sharp rise in investment outlays, following years of only very modest growth.

Viewed under the prism of demand, 2004 growth in the activity level was driven by a continued strong export performance and internal market recovery. Expanded investments reflected the highly positive outlook for the economy evident since the second half of 2003, while growth in consumption was generated by the increased availability of credit, particularly in the first half of the year, with important repercussions on sales of consumer durables, and by growing income levels, primarily in the final months of the year. The latter factor, obviously, acted as a trigger to increased sales of nondurable consumer goods.

The enhanced dynamics of the economy in 2004 were also evident in job market indicators, particularly the employment level. New employment opportunities were created in all of the various sectors of the economy and at historically high levels.

Improvement in the nation's external accounts reflected the extraordinary performance of the trade balance which posted unprecedented surpluses in 2003 and 2004. The enormous transformations that have occurred in the external sector of the Brazilian economy began with adoption of the floating exchange system in 1999. Parallel to that, one should also stress the positive impacts of measures taken to simplify and streamline export operations, coupled with an aggressive trade promotion strategy aimed at diversifying and expanding the products exported by Brazilian companies and the markets to which they are targeted.

The positive results achieved by the external sector of the Brazilian economy not only expanded the activity level, but also made an essential contribution to significant improvement in external solvency indicators. Favored by expectations of strong world growth and an only moderate rise in United States interest rates, despite uncertainties regarding the medium-term performance of that economy in light of its burgeoning external and fiscal deficits, Brazil's country risk dropped sharply. In 2004, there is evidence that, at several moments in time, the downturn in country risk was powered by the progress achieved in the nation's internal economic fundamentals, as demonstrated by the exceptional trade surplus, current account results, despite strong growth in Gross Domestic Product (GDP), by substantial improvement in external and public debt indicators, and by a primary surplus well above the target agreed upon with the International Monetary Fund (IMF).

Since the end of 2003, international market conditions have been particularly favorable to Brazil from various points of view and, consequently, have generated highly positive impacts on the balance of payments result. Coupled with adoption of consistent macroeconomic policies, these results have made it possible to improve the country's sovereign rating, thus enhancing access to international financial markets, with lesser spreads and foreign debt security issues in national currency since last November. Other positive factors have been recovery in the international reserve position and stability and subsequent reductions in the external debt.

The contribution of the internal market to consistent recovery in the activity level can be summarized in increased credit and growing income. The process of expanded internal income reflected highly positive labor market evolution. In this sense, notwithstanding the fact that the overall labor force has expanded at a rate above that of previous years, strong growth in new hirings has resulted in declining unemployment in 2004, with positive expansion in all months of the year and in a broad diversity of economic sectors.

In the context of steadily declining default levels, credit operations reflected the process of expanding economic activity. Here, it should be noted that the increased costs of credit operations since September have not had an undue impact on the volume of new operations, particularly in light of the already traditional rise in demand that marks the final months of the year. Basically, growth in loans to individual borrowers in 2004 reflected personal credit operations and, more specifically, payroll loans, since these credits are offered at lower interest rates due to the considerably lesser risk of default. In the case of credits granted to corporate entities, the volume of operations backed by internal resources expanded in detriment to those linked to external resources.

In this framework, one should also stress the sharp downturn of 5.4 p.p. in the ratio between the net public sector debt and GDP, thus interrupting the upward trajectory of this indicator dating to 1994. This performance resulted from a combination of positive factors, among which one should highlight continued fiscal equilibrium in all segments of the economy, economic growth, lesser interest appropriations and exchange rate stability.

In 2004, the strategy of reducing the share of the internal public debt indexed to the dollar and purchasing exchange on the market for external debt payment purposes and replenishment of international reserve levels was maintained, primarily in light of the need to attenuate the vulnerability of the balance of payments and the public sector asset balance. Net BCB purchases and settlement of market debts by the National Treasury resulted in a gradual rebuilding of the country's international reserves. At the end of December, the international reserve position – viewed according to the liquidity concept – totaled US$52.9 billion, corresponding to an increase of US$3.6 billion compared to the end of 2003. At the same time, net adjusted reserves, as defined in the IMF agreement, totaled US$25.3 billion, representing growth of US$8 billion in relation to the same period of 2003.

I

The Brazilian Economy

Economic activity

The activity level in 2004 reflected the ongoing positive evolution of the nation's economic fundamentals since the preceding year. In this context, such realities as compliance with fiscal targets, the positive and persistent performance of foreign trade and a monetary policy aimed basically at preserving the gains inherent to price stability, created an environment for economic recovery practically unmatched in the country's recent history. Among other factors, this is clearly revealed by indicators that point to the highest GDP growth since 1994; a record level of new manpower hirings in the formal sector of the economy; a sharp rise in investment outlays, following years of tepid growth; and a record trade balance surplus.

As the year moved forward, the rate of economic growth declined in a manner consistent with the natural process of leveling off, following the recent relative highs in output levels. In this sense, at the midpoint of the year, utilization of industrial output capacity had risen sharply, moving to a level that could have generated inflationary pressures and threatened the sustainability of the growth cycle. At that moment, monetary policy was adjusted in pursuit of a state of equilibrium between economic growth and preservation of a situation of low inflation.

Consequently, in the month of May, Copom interrupted the process of successive interest rate cutbacks and held the basic rates at 16% per year up to September. At that point, the Committee initiated a process of moderate monetary policy adjustment, gradually raising interest by 1.75 p.p., including the 0.5 p.p. increase adopted at the December 2004 meeting. The decision to move in this direction led to more moderate growth in the second half of the year, at the same time in which ongoing investments matured to a degree sufficient to ward off any pessimism with regard to price growth. Despite these measures, the activity level continued expanding through the end of 2004, closing with the highest rate of annual expansion since 1994.

Viewed in terms of demand, 2004 growth in the activity level was generated by the extraordinary dynamics of the export sector, coupled with recovery on the internal market. Investment growth mirrored the positive economic outlook that marked the second half of 2003, while growth in consumption was driven by an expanded credit supply, particularly in the first six months of the year, with evident impacts on sales of consumer durables. In the final months of the year, income levels moved steadily upward, fostering increased sales of nondurable consumer goods.

The increased economic dynamism of 2004 was also evident in job market figures, particularly as regards employment. New job opportunities opened in all of the different economic sectors at rates close to the nation's historical highs.

Gross Domestic Product (GDP)

According to the Brazilian Institute of Geography and Statistics (IBGE), GDP expanded 5.2% in 2004, the highest level since the 5.9% figure reached in 1994. In current values, GDP totaled R$1,769 billion in the year, calculated at market prices.

A breakdown of GDP expansion in 2004 indicates that 4.1 p.p. were generated by a growing internal market and 1.1 p.p. by the external sector. Internal demand had not made a significant contribution to GDP growth since 2000. On a sector-by-sector basis, all of the different sectors turned in positive results, while industry ended with its best performance in the last ten years.

Continuing the process of economic recovery begun in the second half of 2003, GDP expanded 1.8% in the first quarter of the year, compared to the final quarter of 2003. Using the same basis of comparison, the crop/livestock sector expanded 2.5%, due mainly to soybean production, among other major crops, while industrial growth closed at 1.4%, driven primarily by capital goods and consumer durables. Finally, the service sector posted an increase of 1.1%.

The highly positive outlook continued through the second quarter of the year, as GDP expanded 1.5% compared to the previous quarter, based on seasonally adjusted data. Once again, all of the various sectors turned in positive results, with 0.5% in crop/livestock activity, 1.2% in the industrial sector and 1.5% for services.

In the third quarter of the year, GDP expressed in seasonally adjusted figures expanded 1.1% over the previous quarter. This result was impacted by a 1.9% drop in crop/livestock output. Confirming the results of monthly activity level indicators, industry expanded 2.5% using the same basis of comparison. Powered by a steady upward trend in income, the service sector registered the fifth consecutive month of positive growth, with 0.7%.

Table 1.1 – GDP at market price

Year	At 2004 prices (R$ million)	Real change (%)	Implicit deflator (%)	At current prices[1/] (US$ million)	Population (million)	Per capita GDP		
						At 2004 prices (R$)	Real change (%)	At current prices[1/] (US$)
1980	1 067 035	9.2	92.1	237 772	118.6	9 000	7.0	2 005
1981	1 021 686	- 4.3	100.5	258 553	121.2	8 429	- 6.3	2 133
1982	1 030 166	0.8	101.0	271 252	123.9	8 315	- 1.3	2 190
1983	999 982	- 2.9	131.5	189 459	126.6	7 900	- 5.0	1 497
1984	1 053 981	5.4	201.7	189 744	129.3	8 153	3.2	1 468
1985	1 136 708	7.8	248.5	211 092	132.0	8 613	5.6	1 599
1986	1 221 847	7.5	149.2	257 812	134.7	9 074	5.4	1 915
1987	1 264 978	3.5	206.2	282 357	137.3	9 215	1.6	2 057
1988	1 264 219	- 0.1	628.0	305 707	139.8	9 042	- 1.9	2 186
1989	1 304 169	3.2	1 304.4	415 916	142.3	9 164	1.4	2 923
1990	1 247 437	- 4.3	2 737.0	469 318	146.6	8 510	- 7.1	3 202
1991	1 260 286	1.0	416.7	405 679	149.1	8 453	- 0.7	2 721
1992	1 253 435	- 0.5	969.0	387 295	151.5	8 271	- 2.2	2 556
1993	1 315 164	4.9	1 996.1	429 685	154.0	8 541	3.3	2 790
1994	1 392 139	5.9	2 240.2	543 087	156.4	8 899	4.2	3 472
1995	1 450 940	4.2	77.5	705 449	158.9	9 133	2.6	4 440
1996	1 489 515	2.7	17.4	775 475	161.3	9 233	1.1	4 807
1997	1 538 242	3.3	8.3	807 814	163.8	9 392	1.7	4 932
1998	1 540 272	0.1	4.9	787 889	166.3	9 265	- 1.4	4 739
1999	1 552 370	0.8	5.7	536 554	168.8	9 199	- 0.7	3 180
2000	1 620 064	4.4	8.4	602 207	171.3	9 459	2.8	3 516
2001	1 641 328	1.3	7.4	509 797	173.8	9 443	- 0.2	2 933
2002	1 672 954	1.9	10.2	459 379	176.4	9 484	0.4	2 604
2003	1 682 071	0.5	15.0	506 784	179.0	9 398	- 0.9	2 831
2004	1 769 202	5.2	8.1	604 876	181.6	9 743	3.7	3 331

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.

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

Percentage

Itemization	2004			
	I	II	III	IV
GDP at market price	1.8	1.5	1.1	0.4
Crop and livestock sector	2.5	0.5	- 1.9	2.0
Industrial sector	1.4	1.2	2.7	0.5
Service sector	1.1	1.5	0.7	0.5

Source: IBGE

It is important to emphasize that, at the end of the first six months of the year, the activity level had already reached a record high, with obvious impacts on installed output capacity, particularly in those industrial sectors that operate on the foreign market. This was the first harbinger of the need for a more moderate pace of growth. As a result, GDP in the fourth quarter of the year turned in seasonally adjusted expansion of just 0.4%, when viewed against the previous quarter, with 2% in the crop/livestock sector and 0.5% in both industry and services.

Table 1.3 – GDP real change rates – Under the prism of production

Percentage

Itemization	2002	2003	2004
GDP	1.9	0.5	5.2
Crop and livestock sector	5.5	4.5	5.3
Industrial sector	2.6	0.1	6.2
Mineral extraction	6.7	2.9	- 0.7
Manufacturing	3.6	1.1	7.7
Building	- 1.8	- 5.2	5.7
Public utility industrial services	3.0	2.7	5.0
Service sector	1.6	0.6	3.7
Commerce	- 0.2	- 1.9	7.9
Transportation	3.4	1.4	4.9
Communications	9.8	1.8	2.0
Public administration	1.7	1.0	1.6
Other services	1.1	0.5	5.6
Financial institutions	2.1	0.6	4.3
Rents	0.6	1.3	1.8
Financial dummy	2.3	0.6	4.4

Source: IBGE

A sector-by-sector analysis of 2004 GDP growth demonstrates that expansion in the year disseminated out into other areas of the economy. The crop/livestock sector, which has been powered by exports in recent years, turned in 5.3% growth in the year, reflecting continued expansion in livestock output and positive grain harvest figures, particularly under rice, coffee and soybeans. One should stress here that 2004 marked the seventh consecutive year of positive expansion in the sector, with total output growth of 37.6% in the period. The increased profitability of the farm sector in recent years has clearly broadened the sectors self-financing capacity, while fostering greater investments, primarily in machines and equipment.

The industrial sector expanded 6.2% in 2004, reflecting positive performances in all of the various subsectors, with the sole exception of mining. Manufacturing grew 7.7% in the year. For the most part, this expansion was caused by an increased credit supply which leveraged growth in the output of consumer durables for the internal market, coupled with continued strong growth in exports of manufactured products. Following three consecutive years of decline, the building industry registered strong 5.7% growth, partly as a result of increased investment outlays. The sector of public utility industrial services, composed basically of electricity generation, expanded 5%, clearly evincing the ongoing process of economic recovery. Mining output dropped 0.7% in 2004, with a falloff of the 0.9% in oil production, according to the National Petroleum Agency (ANP).

Output of the service sector increased 3.7% in 2004, with positive results in all of the different segments and particularly strong performances in the subsectors of commerce, 7.9%, and transportation, 4.9%. The segments of other services and financial institutions also registered high levels of growth, with 5.6% and 4.3%, in that order. The subsectors of communications, rentals and public administration expanded by respective rates of 2%, 1.8% and 1.6%.

Viewed under the prism of demand, GDP results in the year were a clear demonstration of internal market recovery. Analyzed in real terms, household consumption and investments, excluding inventory alterations, turned in growth of 4.3% and 10.9%, respectively, reflecting an increased credit supply and positive expectations regarding the economy over the course of the entire year, among other factors. Foreign sales increased 18% in the year, further intensifying the ongoing process of expansion that began in 1997, while imports closed with 14.3%, the highest level of the last seven years. Growth in government consumption reached 0.7% in 2004.

Table 1.4 – GDP real change rates – Under the prism of expenditure

Percentage

Itemization	2002	2003	2004
GDP	1.9	0.5	5.2
Family consumption	- 0.4	- 1.5	4.3
Government consumption	1.4	1.3	0.7
Gross fixed capital formation	- 4.2	- 5.1	10.9
Exports of goods and services	7.9	9.0	18.0
Imports of goods and services	- 12.3	- 1.7	14.3

Source: IBGE

Table 1.5 – Gross Domestic Product – At current value

In R$ million

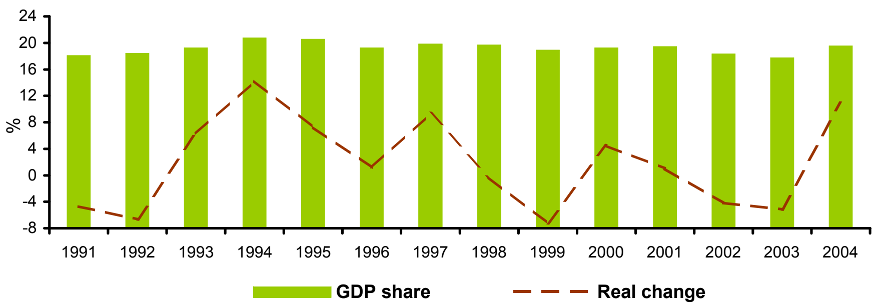
Itemization	2001	2002	2003	2004
Gross Domestic Product	1 198 736	1 346 028	1 556 182	1 769 202
Under the prism of product				
Crop and livestock sector	89 287	104 908	138 191	159 749
Industrial sector	401 174	459 306	540 890	615 988
Service sector	627 960	710 263	791 184	881 623
Under the prism of expenditure				
Final consumption expenditure	956 501	1 052 139	1 192 613	1 310 323
Family consumption	725 760	781 174	882 983	977 991
Government consumption	230 741	270 965	309 631	332 332
Gross capital formation	254 137	265 953	307 491	376 408
Gross fixed capital formation	233 384	246 606	276 741	346 258
Changes in inventories	20 753	19 348	30 750	30 151
Exports of goods and services	158 501	208 489	254 832	318 387
Imports of goods and services (-)	170 403	180 554	198 754	235 917

Source: IBGE

Investments

Continuing the upturn that marked the end of 2003, investments expanded sharply in 2004. According to the Quarterly National Accounts, released by IBGE, gross fixed capital formation, which is defined as investment outlays excluding inventory variations, expanded 10.9% in real terms in 2004. Following two consecutive years of sharp negative rates, this was the best result since 1994. The participation of investments in GDP moved from 17.8% in 2003 to 19.6% in 2004.

Graph 1.1
Gross fixed capital formation



Source: IBGE

Table 1.6 – 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	56.4	28.4	5.2	10.0	17.8	19.8
2004	...	...	...	...	19.6	21.3

Source: IBGE

Table 1.7 – Selected capital goods production

Itemization	Percentage change		
	2002	2003	2004
Capital goods	- 5.8	2.2	19.7
Industrial	6.5	4.7	16.1
Serial	4.0	6.7	20.2
Non-serial	...	- 4.8	- 6.6
Agricultural	10.7	21.9	6.4
Agricultural parts	...	28.6	- 7.5
Building	7.6	- 7.6	38.0
Electric energy	...	10.0	12.5
Transportation	9.1	7.4	25.6
Mixed	- 12.5	- 3.5	14.8

Source: IBGE

Based on data purged of seasonal factors, production of inputs for the building industry expanded 5.7% in 2004, registering the best results in the second and third quarters of the year, 2.5% and 3.8%, respectively, compared to the immediately previous quarters.

Output of capital goods expanded 19.7% in 2004. Over the course of the year, seasonally adjusted data indicate steady though declining growth rates in the second, third and fourth quarters of the year, with 6.5%, 1.2% and 0.6%, respectively, compared to the previous quarters. In the first quarter of the year, this heading registered a downturn of 1.2%, using the same basis of comparison. A breakdown of data on capital goods output in 2004 shows positive expansion under goods for the building industry, 38%; transportation equipment, 25.6%; machines and equipment for the industrial sector, 16.1%; electricity supply equipment, 12.5%; and farm machinery and equipment, 6.4%. Output of parts for farm equipment was unable to keep pace with the positive performance under crop/livestock production, registering a decline of 7.5% in the year, following strong 28.6% growth in 2003.

Disbursements by the BNDES System – National Bank of Economic and Social Development (BNDES), the Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – totaled R$39.8 billion in 2004, registering real growth of 8.6% compared to 2003, deflated by average growth in the General Price Index – Internal Supply (IGP-DI), which is released by the Getulio Vargas Foundation (FGV). A breakdown at the level of activity shows real growth of 37.9% under resources channeled to the crop/livestock sector and 21.9% in the funding targeted to the sector of commerce and services, together with a 10.9% reduction under financing channeled to the manufacturing sector.

The Long-Term Interest Rate (TJLP), which represents the basic cost of financing contracted with the BNDES system, was cut to 10% per year in the first quarter of 2004 and to 9.75% per year in the subsequent quarter, where it remained during the final two quarters of the year.

Table 1.8 – BNDES disbursement[1/]

In R$ million

Itemization	2002	2003	2004
Total	37 419	33 534	39 834
By sector			
Manufacturing industry	17 178	15 937	15 539
Commerce and service	15 482	12 844	17 122
Crop and livestock	4 509	4 595	6 930
Extraction industry	250	157	243

Source: BNDES

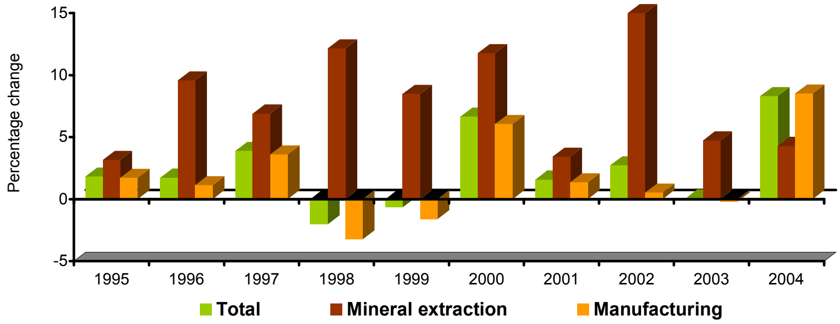
1/ Includes BNDES, Finame and BNDESpar.

Industrial output indicators

According to IBGE's Monthly Industrial Survey (PIM), industrial output set a new record, with growth of 8.3% in 2004, compared to 2003. This figure surpassed such previous outstanding annual performances as those achieved in 1993, 7.5%, and 1994, 7.6%, and was the highest growth figure registered since 1986, when the sector expanded by 10.9%. Industrial growth in 2004 was generated by 8.5% expansion in the manufacturing sector and 4.3% in the mining industry.

Graph 1.2

Industrial production



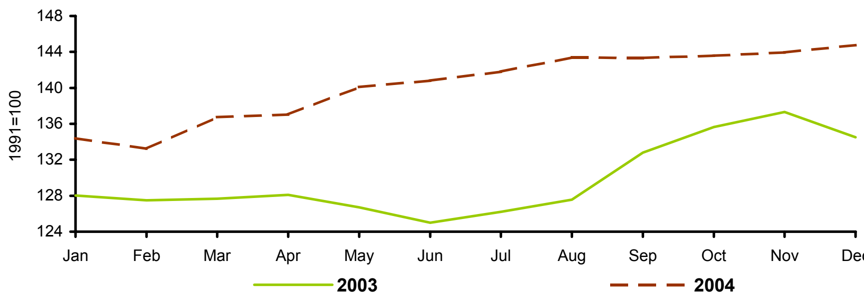
Source: IBGE

The performance of industry was not uniform throughout the year. Based on seasonally adjusted data, the first quarter of the year was marked by a decline of 0.6%, compared to the final quarter of the previous year. This performance was, to some extent, caused by a natural falloff in capital goods investments, in the wake of the strong growth registered in the second half of 2003. Industrial output in the second and third quarters turned sharply upward once again, 3.3% and 2.4% compared to the previous quarters, respectively. In the fourth quarter, production expanded 0.7% using the same basis of comparison.

Graph 1.3

Industrial production

Seasonally adjusted data



Source: IBGE

Analysis of industrial activity broken down according to the use categories of the final products reveals the factors that had the greatest impact on performance over the course of 2004. Output of consumer durables increased 21.8% in the year, second only to the 1993 result, and was driven by the automotive and electric-electronic segments. These sectors were the first to reveal signs of recovery in internal demand in the second half of 2003, driven mainly by growth in the credit supply and the continued dynamics of the export sector.

Table 1.9 – Industrial production

Itemization	Percentage change		
	2002	2003	2004
Total	2.7	0.1	8.3
By category of use			
Capital goods	- 5.8	2.2	19.7
Intermediate goods	4.2	2.0	7.4
Consumer goods	1.5	- 2.7	7.3
Durable	4.7	3.0	21.8
Semi and nondurable	1.1	- 3.9	4.0

Source: IBGE

Expanding credit generated increased confidence among economic agents, enhancing their likelihood of assuming commitments in the future. Aside from this, more intensive use of payroll loans and declining default rates, among other factors, tended to push interest rates on operations with individual borrowers downward. By way of example, average annual interest rates levied on individuals in operations involving acquisitions of goods (vehicles and others) dropped from 48.7% in 2003 to 39.3% in 2004. Exports of consumer durables were driven by an expanding world economy and gains in the productivity of the Brazilian industrial sector. Export volume in this category expanded 30.4% in 2004, according to data released by the Foreign Trade Studies Center Foundation (Funcex).

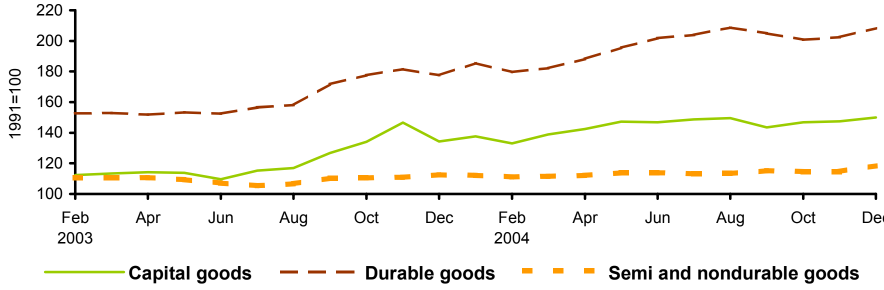
Capital goods output registered strong 19.7% expansion in 2004. This was the highest rate since 1986 and was sustained primarily by growth in investments in the economy. This sector also benefited from the increased credit supply, including both nonearmarked and earmarked resources, particularly operations channeled through the BNDES, as well as from growth in exports which, according to Funcex data, registered volume growth of 71.1% compared to 2003.

Growth in the output of nondurable consumer goods closed at 4% in 2004, the highest mark since 1995. This result was in keeping with the expectations of the sector, since the major factor underlying this growth is the evolution of income and, more specifically overall wages. According to the National Confederation of Industry (CNI), overall wages expanded 9% in real terms in 2004, when compared to the previous year.

Graph 1.4

Industrial production – By category of use

Seasonally adjusted data



Source: IBGE

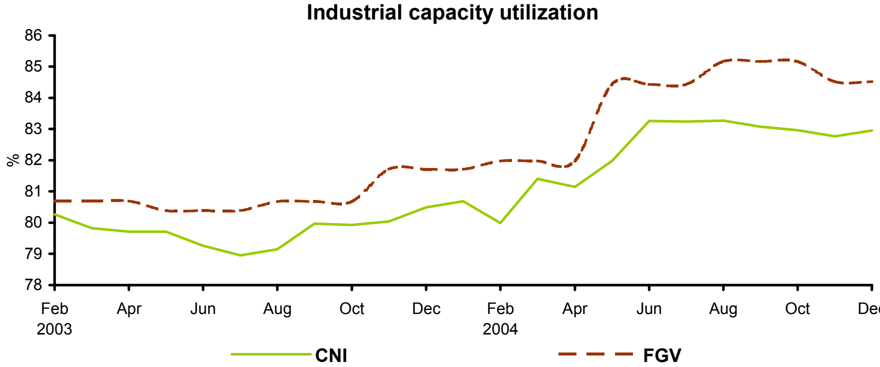
An analysis of output by segments of activity showed across-the-board expansion in 25 of the 26 segments of the manufacturing sector used in the PIM survey. Of these, ten turned in growth above 10%.

According to seasonally adjusted data released by the CNI, the vigorous pace of industrial expansion generated a new record in the level of utilization of installed industrial capacity in June 2004. From that point forward, this indicator moved gradually downward, primarily as a consequence of the maturation of investments made as of the third quarter of 2003. This is evident in the fact that industrial output continued expanding in the second half of the year, albeit at a less accentuated pace.

Statistics released by the FGV on the various use categories in 2004 indicate that the level of utilization of installed industrial capacity registered its highest growth in the segment of capital goods and construction industry inputs, with average growth figures of 7.4 p.p. and 4.3 p.p., respectively, as compared to 2003. Consumer goods and

Graph 1.5

Industrial capacity utilization



intermediate goods registered average annual growth of 2.2 p.p. and 1.7 p.p., in that order. Despite lesser growth in the period, the category of intermediate goods closed with the highest level of utilization of installed industrial capacity at the end of the year, 87.8%, with exceptionally high levels in the segments of rubber, 96.2%; metallurgy, 93.1%; paper and cardboard, 91.5%; and mechanics, 90.1%.

Table 1.10 – Industrial capacity utilization[1/]

Percentage

Itemization	2002	2003	2004
Manufacturing industry	79.4	80.9	84.0
Consumer goods	74.9	76.3	78.5
Capital goods	70.6	73.9	81.4
Building material	80.8	79.1	83.5
Intermediate goods	85.4	86.1	87.8

Source: FGV

1/ Quarterly survey. Average in the year.

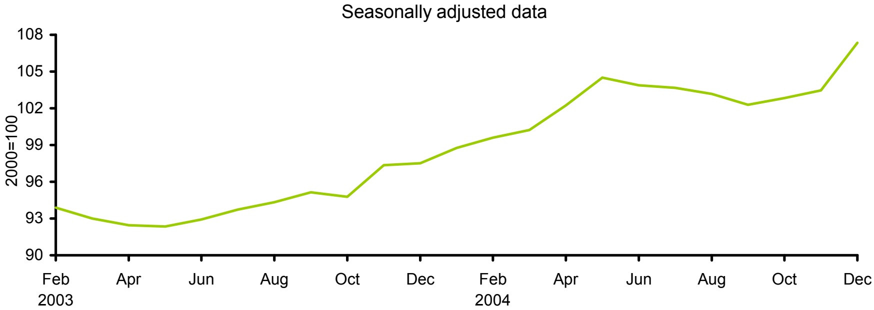
Trade indicators

According to the Monthly Survey of Trade (PMC), released by the IBGE, the Retail Sales Volume Index registered a high of 9.2% in 2004, the highest rate of annual growth since the survey was first taken. All of the various segments turned in positive growth, including durable and semidurable consumer goods, which are more sensitive to credit conditions, and nondurable consumer goods, a segment that depends more intensively on income growth. Sales in all of the different areas of activity increased in 2004 and were particularly strong under furniture and home appliances, 26.4%; hypermarkets and supermarkets, 7.2%; fabrics, apparel and footwear, 4.9%; and fuels and lubricants, 4.6%. Sales of automobiles, motorcycles, parts and spares, which are not included in the general index, increased 17.8% in 2004.

Graph 1.6

Sales volume index in the retail sector

Seasonally adjusted data



Source: IBGE

Analysis of the 27 states included in the survey shows that only Roraima registered declining sales in 2004, 8.7%. The strongest growth occurred in Mato Grosso, 22.4%, Rondônia, 22.2%, Amazonas, 18.3%, Espírito Santo, 16.2%, and Maranhão, 15.4%.

Nominal Sales Revenues expanded 13% in 2004. This result was generated by a combination of increases of 9.2% in sales volume and 3.4% in retail prices. It should be stressed that, compared to 2003, average prices in 2004 increased 6.6% according to IPCA results released by the IBGE. This index includes not only the retail sector but also the prices of services. In the period under consideration, all segments of the retail trade sector registered nominal revenue growth above the average IPCA, with the exception of fuels and lubricants, which are subject to regulated prices. Special mention should be made of growth in nominal revenues on furniture and home appliances, 29.9%, and automobiles and motorcycles, 30.6%, both of which were impacted by the rise in the prices of metallurgical products.

Other indicators confirmed the excellent performance of consumption in 2004. According to the São Paulo Trade Association (ACSP), the number of consultations with the Credit Protection Service (SPC) and the Usecheque system increased 6% and 2.2%, respectively, when viewed against 2003.

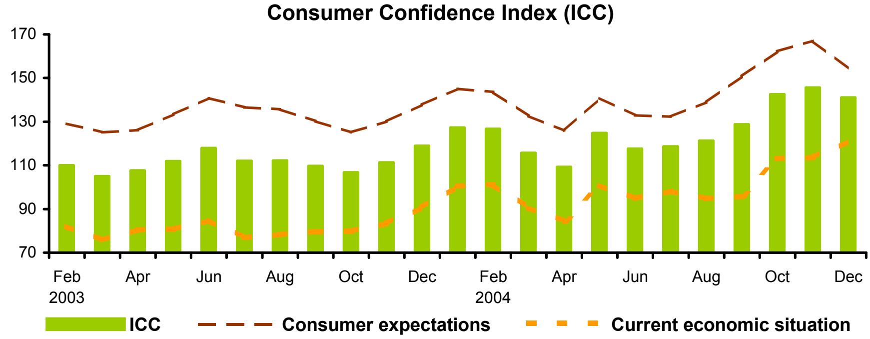
Default indicators turned in downward growth in 2004. The ratio between the number of checks returned due to insufficient backing and total checks cleared in all parts of the country closed December at 4.8%, the lowest level of the year. In the São Paulo Metropolitan Region, the net rate of default measured by the ACSP closed 2004 at 4.2%, compared to 5.2% in 2003. To some extent, this reduction was a consequence of a 13.4% rise in the number of arrears settled, reflecting the fact that resources were being channeled into payments of debts. In December 2004, the number of arrears canceled surpassed the number of new occurrences, for the first time since December 1967.

Consumer expectation surveys showed positive results in 2004. The Consumer Confidence Index (ICC), released by the Trade Federation of the State of São Paulo (Fecomercio SP), closed the year at 13.5%, well above the 2003 average. This result reflected increases of 8.9% in the Consumer Expectation Index, which accounts for 60% of the general index, and 23.9% in the Index of Current Economic Conditions, which is responsible for the rest of the general index. It should be stressed that, on average, the ICC closed the final months of 2004 at the highest level since the index was first created in June 1994.

Crop/livestock output indicators

According to IBGE, national grain production totaled 119.1 million tons in 2004, 3.7% below the previous harvest. The area planted increased 7.5%, while average productivity declined 11.8%. The major cause of this falloff was poor weather; particularly in the states of Goiás, Mato Grosso, Mato Grosso do Sul, Paraná and Rio Grande do Sul. The hardest hit crops were soybeans, corn, beans and wheat. Aside from the negative impact of the climatic adversities, producers also had to cope with rising production costs as a consequence of higher prices for petroleum-based inputs, particularly fertilizers. Despite these factors, however, the rice, cotton seed and coffee harvests turned in significant output growth.

Graph 1.7
Consumer Confidence Index (ICC)



Source: Fecomercio SP

Table 1.11 – Agricultural production – Major crops

Millions of tons

Products	2003	2004
Grain production	123.6	119.1
Cotton seed	1.5	2.3
Rice (in husk)	10.3	13.3
Beans	3.3	3.0
Corn	48.0	41.9
Soybeans	51.5	49.2
Wheat	6.0	5.8
Others	3.1	3.6
Change in grain production (%)	27.2	- 3.7
Other crops		
Bananas	6.5	6.5
White potatoes	3.1	2.9
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.0	2.5
Sugarcane	389.9	409.6
Tobacco (in leaf)	0.6	0.9
Oranges	16.9	18.3
Cassava	22.2	26.1
Tomatoes	3.6	3.4

Source: IBGE

Grain production in the southern region of the country declined 17.4% in 2004 and was responsible for 41% of the nation's total production. In the other regions of the country, the grain harvest expanded by 8.1% in the southeast and 6.1% in the central-west region. The north and northeast regions of the country accounted for a joint total of 10.8% of annual grain production, with growth between 21.2% and 19.8%, respectively.

The soybean crop totaled 49.2 million tons in 2004 corresponding to a drop of 5.2% compared to the previous year. The area planted increased 15.9% and average productivity declined 18.2%, mainly as a consequence of the drought that affected the southern region and the state of Mato Grosso do Sul and the heavy rains and occurrences of Asian rust in the states of Goiás and Mato Grosso, the major production state.

Corn output dropped 13.4% in the year and closed at 41.9 million tons. This result reflected drought in the states of Paraná, the leading producer state, and Rio Grande do Sul, among other producer regions. Furthermore, it is important to mention the migration of producers from corn to other crops with greater profit potential, such as soybeans, the increased cost of imports and lower international prices.

The wheat harvest totaled 5.8 million tons in 2004, representing a decline of 5.5% compared to the previous year. Average productivity dropped 13.5% and the area under cultivation increased 9.3%.

Output of rice totaled 13.3 million tons, for an annual increase of 28.3% in volume. The area under cultivation expanded 17.3% and average productivity rose 9.4%, primarily as a result of favorable climatic conditions and improved crop technology. The harvests in the southern and central-west regions accounted for a joint total of 77.8% of national production. It should be stressed that output in the states of Rio Grande do Sul and Mato Grosso set new records, with respective totals of 6.3 million tons and 2.2 million tons, corresponding to growth of 34.9% in the first case and 73.4% in the second.

Production of beans totaled 3 million tons, a decrease of 9.8% compared to the 2003 harvest. For the most part, this result was caused by relatively low prices and adverse weather conditions, particularly in the second of the three bean harvests. The area planted diminished 1.9%.

In 2004, the national coffee crop produced 2.5 million tons of coffee beans, an increase of 24.1% over the preceding year. One of the factors underlying this performance was the high point in the two year cycle of this crop. Consequently, despite a reduction of 0.5% in the area under cultivation, average productivity increased 24.7%.

Sugar cane output in the year totaled 409.6 million tons for growth of 5.1% in the year. Among the factors that contributed to this result, one should emphasize the increase in international sugar prices and expanded international demand for alcohol. The area under cultivation expanded 4.1% and average yields were up 0.9%.

With regard to transition stocks, the quantities of rice and beans increased at the end of 2004, compared to the previous year. This evolution favored internal supply of these products since they generated evident repercussions on the behavior of price indices.

Table 1.12 – Agricultural production, harvested area and average earnings – Major crops

Percentage change

Products	Production		Area		Average earnings	
	2003	2004	2003	2004	2003	2004
Grain production	27.2	- 3.7	8.5	7.5	17.3	- 10.4
Cotton (seed)	1.4	64.4	- 8.2	- 2.5	10.4	68.6
Rice (in husk)	- 1.2	28.3	1.1	17.3	- 2.3	9.4
Beans	7.8	- 9.8	- 1.2	- 1.9	9.1	- 8.0
Corn	34.5	- 13.4	10.3	- 4.3	21.9	- 9.4
Soybeans	23.3	- 5.2	13.2	15.9	8.9	- 18.2
Wheat	98.1	- 5.5	21.6	9.3	62.9	- 13.5

Source: IBGE

Livestock

According to the Quarterly Survey of Animal Slaughters, released by the IBGE, 2004 production came to 5.9 million tons of beef, 7.1 million tons of poultry and 1.9 million tons

Table 1.13 – Grain stock – Major crops

Thousands of tons

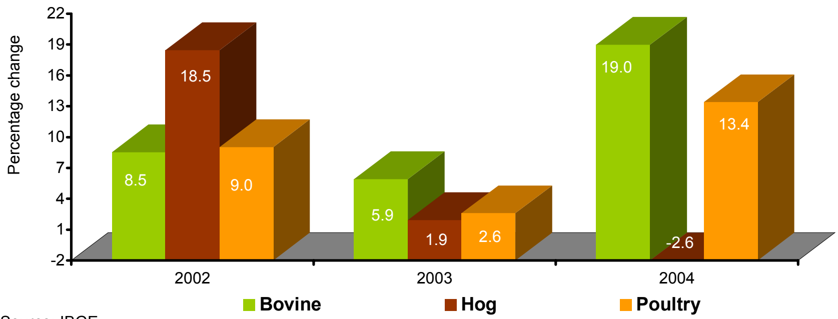
Products	2001/2002	2002/2003	2003/2004
Grain production			
Rice (in husk)			
Beginning of the year	1 321.7	663.2	358.4
End of the year	663.2	358.4	1 576.6
Beans			
Beginning of the year	89.9	139.0	414.5
End of the year	139.0	414.5	434.5
Corn			
Beginning of the year	4 322.9	1 047.0	6 595.2
End of the year	1 047.0	6 595.2	4 916.7
Soybeans			
Beginning of the year	688.2	230.3	3 076.5
End of the year	230.3	3 076.5	2 297.2
Wheat			
Beginning of the year	716.5	770.5	593.9
End of the year	770.5	593.9	626.3

Source: Companhia Nacional de Abastecimento (Conab) of pork, for growth of 19% and 13.4%, in the first two cases, and a drop of 2.6% in the third, when viewed against 2003. Exports of beef, poultry and pork came to an overall total of 925.1 thousand tons, 2.4 million tons and 471,000 tons in 2004, for respective rates of growth equivalent to 49.2%, 26.1% and 2.8% compared to 2003.

Farm policy

According to the 2004/2005 Agriculture and Livestock Plan (PAP), released by the Ministry of Agriculture, Livestock and Supply (Mapa), the availability of credit for the 2004/2005 harvest came to R$39.5 billion, of which R$28.8 billion were targeted to current expenditures and marketing operations and R$10.7 billion to investments, representing growth of 45.5% in relation to the resources released in the previous harvest year. At the same time, the National Program for Strengthening Family Farming (Pronaf), which is managed by the Ministry of Agrarian Development (MDA), made an additional R$7 billion available corresponding to 30% more than in the previous year.

Graph 1.8
Animal production



Source: IBGE

In the framework of the Mapa-BNDES investment program, R$3.5 billion were targeted to the Farm Tractor and Associated Implements and Harvester Fleet Modernization Program (Moderfrota); R$600 million to the Agricultural Modernization and Natural Resources Conservation Program (Moderagro); R$700 million to the Irrigation and Storage Incentive Program (Moderinfra); R$550 million to the Agricultural Production Value Added Cooperative Development Program (Prodecoop), which targets resources into investments by farm cooperatives; and R$600 million into the Agribusiness Development Program (Prodeagro).

Among the measures taken to expand credit to the farm sector, special mention should be made of the 10% increase in the share of compulsory investments in rural credit on the part of Banco do Brasil. At the same time, regulations were issued on funding for rural savings accounts to be used in credit operations with the sector by cooperative banks – Banco Cooperativo do Brasil S.A. (Bancoob) and Banco Cooperativo Sicredi (Bansicredi). Furthermore, improvements were introduced into some of the new funding instruments used to obtain internal and external savings, such as the Certificate of Agribusiness Receivables (CRA), the Crop/Livestock Deposit Certificates (CDA) and the Crop/Livestock Warrant.

With respect to the traditional marketing and income guarantee support instruments, the following were maintained: Federal Government Acquisitions (AGF), the Special Marketing Credit Line (LEC), Sale Option Contracts, repurchase or transfer of these contracts, the premium and product outflow value (respectively, PEP and VEP), the Rural Producer Bill (CPR), as well as operations with Promissory Notes (NP) and Rural Invoices (DR). With respect to Federal Government Loans (EGF), the demand for a lien on the merchandise financed in the operation without substitution of guarantees was instituted.

Productivity

In the primary and secondary sectors of the economy, productivity indicators turned in similar results in 2004. Understood as the ratio between the physical production index of the sector, as released by the IBGE and the indicator of hours paid in production, calculated by the CNI, industrial productivity increased 2.2%, against a reduction of 0.5% in the previous year. In regional terms, three of the ten states surveyed registered declines with 3.6% in Espírito Santo, 1.5% in Minas Gerais and 0.4% in Rio Grande do Sul. The strongest growth occurred in Paraná, with 10.5%; Bahia, 10.2%, and Santa Catarina, 4.7%. in São Paulo, industrial productivity expanded 3.7%, while Rio de Janeiro registered 1.7%.

Calculated as the ratio between output and area under cultivation, the average yield of the grain sector closed with a reduction of 10.4%, compared with an increase of 17.3% in 2003. Basically, this reduction was a consequence of adverse climatic conditions in 2004. Fertilizer utilization remained practically stable during the year, thus interrupting a growth trajectory that had marked recent years. In this case, the final result was a drop of 0.1% in physical sales of fertilizers, according to the National Association of Fertilizer Dissemination (Anda). Sales of farm machines and equipment expanded 13.9%, according to data released by the National Association of Automotive Vehicles (Anfavea).

Energy

Oil production, including Liquefied Natural Gas (LNG), declined 0.9% in 2004, according to the ANP, thus reversing a growth tendency dating back to 1992. Production closed the year at 1,539 thousand barrels/day, as against 1,553 thousand barrels/day in 2003.

The largest monthly total was registered in September with a daily average of 1,587 thousand barrels, while the lowest occurred in May, with 1,482 thousand barrels. The decline in annual output was explained by programmed stoppages for maintenance purposes at several drilling platforms. Natural gas output expanded 7.2% in 2004, closing at 292 thousand barrels/day.

Total oil processed at the nation's refineries increased 6.7% in 2004, coming to 1,705 thousand barrels/day, reflecting a reduction of 4 p.p. in the participation of national petroleum, to 75%. Oil imports increased 27.6% in the year, closing at 437.3 thousand barrels/day. Exports diminished 4.5%, closing at 229.6 thousand barrels/day, which was compatible with the falloff in national production in the period.

Internal sales of petroleum derivatives expanded 3.5% in 2004, with increases in all of the various consumption segments, with the sole exception of fuel oil, which dropped 13.4%. The strongest growth occurred under diesel oil, 6.3%; gasoline, 4.7%, and liquid petroleum gas (LPG), 2.3%. Overall consumption of alcohol increased 17.2% with growth of 7.4% in sales of anhydrous alcohol, which is mixed into the gasoline supply, and 33.5% in sales of hydrated alcohol.

Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2002	2003	2004
Petroleum	1 363	1 290	1 336
Fuel oil	132	107	93
Gasoline	296	281	294
Diesel oil	652	632	672
Liquid gas	209	196	201
Other derivatives	74	73	75
Fuel alcohol	159	147	172
Anhydrous	93	91	98
Hydrated	65	55	74

Source: ANP

According to Centrais Elétricas Brasileiras (Eletrobrás), national electricity consumption expanded 4.5% in 2004. With growth of 7.2% in the industrial segment; 4.5% under commerce and 3% in residential consumption. The consumption of other segments not cited here, including public lighting, dropped 1.1% in the same period.

Employment indicators

As the pace of economic activity expanded, job market indicators turned in highly positive results in 2004. In this context, despite higher growth in the overall labor force than in recent years, unemployment dropped as a consequence of increased hirings. Growth in employment levels in 2004 occurred in every month of the year and involved all of the various sectors of the economy.

The average rate of open unemployment in 2004 came to 11.5%, as against 12.3% in 2003, according to data included in the Monthly Employment Survey (PME), calculated by the IBGE in six metropolitan regions (São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Recife and Porto Alegre). Compared to 2003, the reduction in unemployment was more accentuated in the second half of the year, with an average rate of 10.7%, against 12.5% in the corresponding period of 2003. The reduction in unemployment in 2004 reflected increases of 3.2% in the number of persons employed and 2.2% in the overall labor force. The decrease in the number of persons unemployed corresponded to 5%.

Table 1.15 – Electric energy consumption[1/]

GWh

Itemization	2002	2003	2004
Total	289 868	306 987	320 772
By sectors			
Commercial	45 256	47 531	49 686
Residential	72 660	76 162	78 470
Industrial	127 626	136 221	146 065
Other	44 326	47 073	46 551

Source: Eletrobrás

1/ Self-producers not included.

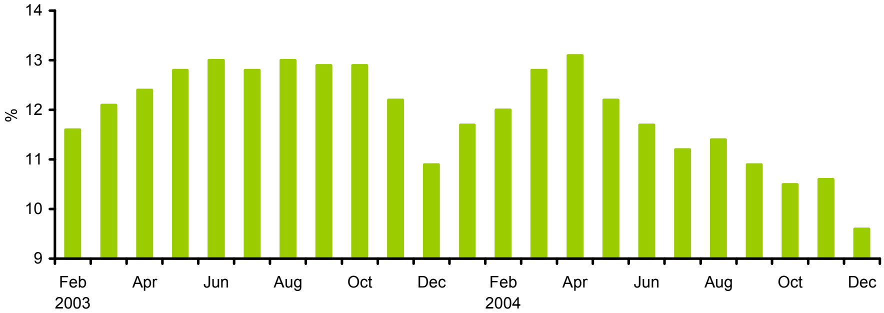
A breakdown by categories shows growth in both formal and informal employment. According to the PME, the greater availability of employment opportunities in 2004 occurred in the segment of nonregistered workers, with an increase of 6.1%. Using the same basis of comparison, the number of registered workers increased 1.9% and the self-employed rose 4.9%, while the number of employers diminished 1.3%.

An evaluation at the level of metropolitan regions points to a reduction in the average rate of unemployment in the entire region's surveyed. In absolute terms, the sharpest drop, 1.4 p.p., occurred in the metropolitan region of São Paulo, and the lowest, 0.2 p.p., in the metropolitan region of Rio de Janeiro.

Looking at the country as a whole, formal employment registered strong growth in 2004. According to the Ministry of Labor and Employment (MTE), 1,523 thousand jobs were created in the formal sector of the economy, the highest rate of growth in a single year. A sector-by-sector analysis indicates that the manufacturing sector generated the most jobs, with 505 thousand, followed by the different service sectors, with 470 thousand, and commerce, 404 thousand. None of the various segments registered a reduction in the number of jobs. It should be stressed that employment in the building industry expanded by 51 thousand positions, turning in the first positive results since 1997.

Graph 1.9

Median unemployment rate



Source: IBGE

Based on MTE figures, the number of persons requesting unemployment insurance in 2004 dropped 3.2% compared to 2003, closing with 4.9 million requests, of which 4.8 million were granted.

According to the Employment and Unemployment Survey (PED) carried out by the State Data Analysis System Foundation (Seade), together with the Interunion Department of Statistics and Social Economic Studies (Dieese), the average rate of overall unemployment in the São Paulo metropolitan region came to 18.8% in 2004, compared to 19.9% in the previous year. The number of persons employed expanded from 7,817 thousand in 2003 to 8,066 thousand, while the number of those unemployed dropped from 1,940 thousand to 1,868 thousand individuals.

In the industrial sector, the employment level calculated in twelve states by the CNI increased 3.5% in 2004, following an increase of 0.7% in 2003. In regional terms, the number of persons employed declined only in Rio de Janeiro, 1.7%. In the other states surveyed, growth in employment levels occurred in the industrial sector, particularly in Goiás, 12.2%; Amazonas, 8.5%; and Pernambuco, 6.7%.

Graph 1.10

Level of formal employment

Percentage change in 12 months

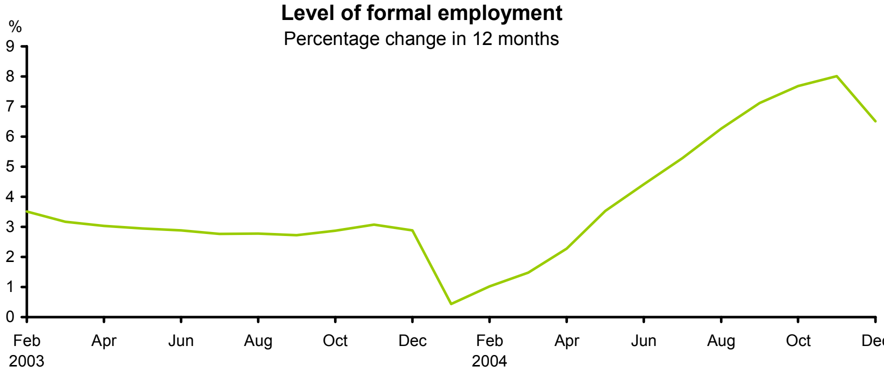


Table 1.16 – Formal employment – New jobs openings

1,000 employees

Itemization	2002	2003	2004
Total	762.4	645.4	1 523.3
By sectors			
Manufacturing industry	161.2	128.8	504.9
Commerce	283.3	225.9	403.9
Services	285.8	260.3	470.1
Building	- 29.4	- 48.2	50.8
Crop and livestock	103.6	58.2	79.3
Public utilities	5.3	3.1	4.6
Others[1/]	- 47.3	17.3	9.7

Source: Eletrobrás

1/ Includes mineral extraction, public administration and others.

Wage and income indicators

According to the PME, the nominal average income habitually received[1] by worker families expanded 5.2% in 2004. Using the National Consumer Price Index (INPC) as deflator, real average habitual income dropped 0.7% using the same basis of comparison. Here, it is important to note that the average for the fourth quarter of 2004 was 2.4% greater than in the corresponding period of 2003.

The average value of the nominal initial wage in the formal employment sector increased 9.8% in 2004, closing at R$496.96, according to national statistics released by the MTE. In real terms, this wage item increased 3.3% in the year, using the INPC as deflator.

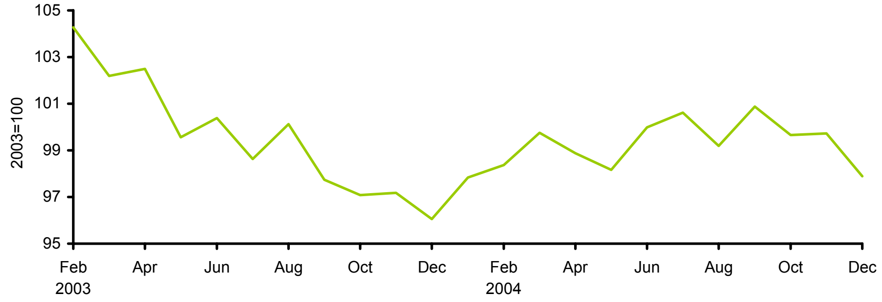
In the São Paulo metropolitan region, real average earnings expanded 1.9% in 2004, according to figures released by Seade and Dieese and deflated by the Cost of Living Index (ICV), calculated by Dieese. Overall real earnings increased 5.1%.

In the industrial segment, the CNI survey showed growth of 9% in real overall wages in 2004 with increases in all of the states. The sharpest growth was registered in Bahia, 13.1%; Goiás, 12.6%; and Santa Catarina, 12.6%. Average industrial wages understood as the ratio between real overall wages and employment in the sector, expanded 5.3% in 2004.

The minimum wage was raised from R$240.00 to R$260.00 in April 2004. The increase corresponded to 8.33%, which was higher than inflation measured from April 2003 to March 2004, 6.6% according to the INPC.

1/ Earnings with overhaours, delayed payments, vacations are not included in the calculations of habitual earnings.

Graph 1.11
Real average earnings



Source: IBGE

Table 1.17 – Average earnings of occupied people – 2004

Percentage change

Itemization	Nominal	Real 1/
Total	5.2	- 0.7
Job position		
Registered	6.2	0.3
Unregistered	5.6	- 0.2
Self-employed	5.7	- 0.2
By sector		
Private sector	5.7	- 0.2
Public sector	3.9	- 1.9

Source: IBGE

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

Price indicators

Inflation in 2004 reflected the success of the monetary policy measures adopted during the year with the aim of avoiding the possibility of localized price increases disseminating into other segments of the economy, in a context of expanding internal demand. In this context, which benefited from deceleration under both market and regulated prices, inflation closed at a level below 2003. In the year, the IPCA, which is calculated by the IBGE, closed at 7.6%, well within the upper and lower parameters defined for inflation in 2004 by the CMN.

The factors that resulted in lesser growth in market prices in 2004 were, among others, an abundant supply of farm products and exchange appreciation. In the first case, the decline in the prices of such goods as rice, perishable foodstuffs and soybean oil exerted a strong downward influence on the overall prices of the grouping of food products. The impact of exchange appreciation is clear in more accentuated deceleration in the prices of internationally tradeable goods *vis-à-vis* nontradeable goods.

The evolution of exchange and the deceleration registered under price indices were also caused by a lesser high under regulated prices – particularly fixed telephone services and electricity rates – despite the powerful impact of rising international oil prices on internal fuel prices during the entire year.

General price indices

The IGP-DI, calculated by the FGV, increased 12.1% in 2004. This index aggregates the changes in prices measured by the Wholesale Price Index – Internal Supply (IPA-DI), by the Consumer Price Index – Brazil (IPC-Br) and by the National Cost of Construction Index (INCC), with respective weights of 60%, 30% and 10%. This rate was higher than the other indices and reflected more accentuated expansion in wholesale prices, particularly in the industrial sector. The major factors underlying the latter growth were increases in international commodity prices during the entire year or, more specifically, in the prices of petroleum derivatives and metallic goods. Thus, the IPA-DI rose 14.7% in the year, reflecting expansion of 2.7% in the prices of farm products and 19.5% in those of industrial products. The IPC-Br rose 6.3% and the INCC increased 11%, basically as a result of a 15.5% rise in the costs of materials and services.

Consumer Price Index

The IPCA, which reflects changes in the prices paid by families with monthly income between 1 and 40 times the minimum wage and is used as the parameter for the inflation targeting system, accumulated growth of 7.6% in 2004. This result was sharply lower than the 9.3% figure for the previous year. Regulated prices increased 10.2% in 2004, against 13.2% in the previous year and market prices increased 6.5%, compared to 7.8% using the same basis of comparison. Among market prices, those that exerted the greatest pressures were the prices of courses, with an increase of 11.2%; new automobiles, 13.7%; used cars, 12.4%; and meals away from home, with 9.3%. It should be stressed that the increase in the first item reflects the annual adjustment of these prices, based on inflation in the previous year. Vehicle prices were impacted mainly by higher prices for inputs, particularly iron and steel.

The INPC, which is calculated by the IBGE, posted cumulative growth of 6.1% in 2004. This indicator differs from the IPCA in that its target population covers families with monthly income between 1 and 8 times the minimum wage. Lesser growth in the INPC during the year, when compared to the IPCA, is explained by the lesser weight attributed to the headings of transportation, education and communication, in the weighting structure of the index, since these were the headings that turned in the highest increases in the period under consideration. Aside from this, upward movement in food prices, the item of greatest weight in the INPC, closed at 2.94%, well below the growth registered in the general index.

The Consumer Price Index, calculated by the Institute of Economic Research Institute Foundation (IPC-Fipe), referring to families with earnings between 1 and 20 times the minimum wage in the metropolitan region of São Paulo, closed 2004 with inflation of 6.6%.

Regulated prices

In 2004, growth in regulated prices[2] closed at 10.2%, accounting for 39% of the change in the IPCA in the year or 2.94 p.p. The items that generated the greatest pressure on inflation in the period were gasoline, alcohol, health plans and fixed telephone, water and sewage and electricity rates, representing approximately 76% of the growth registered in regulated prices. More specifically, sharp price increases occurred under gasoline, 14.7%, and alcohol, 31.6%, compared to 1.2% and a falloff of 12.6% in 2003, in the same order.

Table 1.18 – IPCA items share in 2004

Percentage change

Groups	IPCA				
	Weight1/	Accumulated change in 2003	Accumulated change in 2004	Accumulated share in 2004	Index share2/
IPCA	100.0	9.3	7.6	7.6	100.0
Foodstuffs and beverages	23.1	7.5	3.9	0.9	11.8
Housing	16.6	12.3	7.1	1.2	15.5
Housing products	5.6	6.9	5.4	0.3	4.1
Apparel	5.2	10.2	10.0	0.5	6.8
Transportation	21.2	7.3	11.0	2.3	30.7
Health and personal care	10.5	10.0	6.9	0.7	9.5
Personal outlays	9.1	9.6	6.9	0.6	8.3
Education	4.8	10.2	10.4	0.5	6.4
Communication	3.8	18.7	13.9	0.5	6.8

Source: IBGE

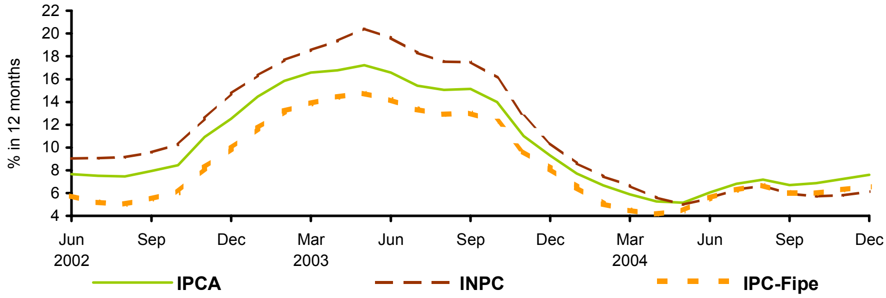
1/ Average weight in 2004.
2/ It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

2/ Regulated prices are those directly or indirectly defined by the federal, state or municipal governments. In some cases, readjustments are set through contracts between producers/suppliers and the corresponding regulating agencies as, for instance, in the cases of eletric energy and fixed telephones.

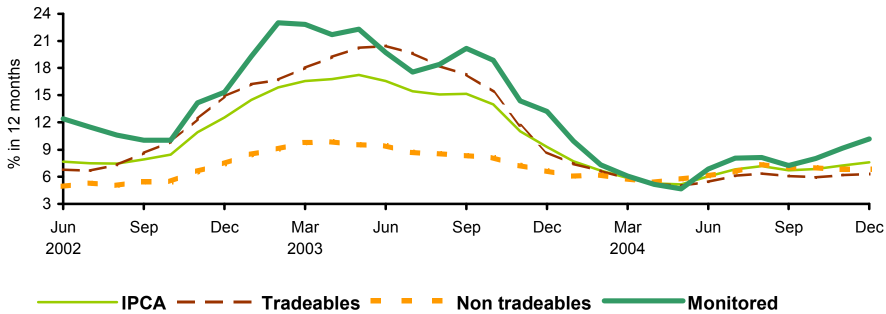
With regard to fixed telephone rates, increases are authorized annually by the National Telecommunications Agency (Anatel), through application of the IGP-DI to overall services rendered. In 2004, aside from the annual increase, two other increases were introduced in September and November as a consequence of a judicial decision with the objective of compensating the previous year's increase, which had been based on the IPCA. The increase in rates in the year closed at an average of 14.8%.

Graph 1.12

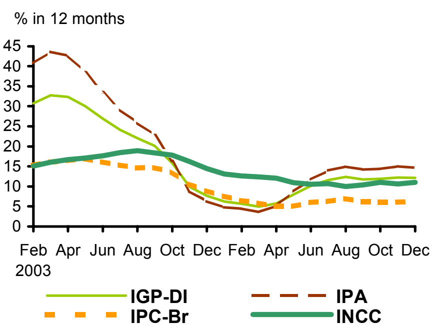
Consumer price indices



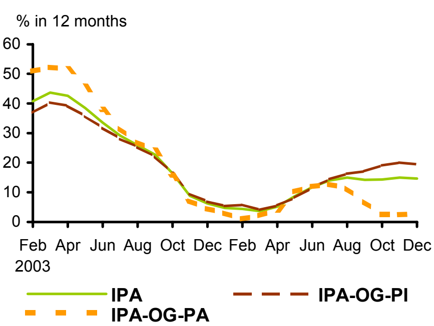
IPCA



IGP-DI and components



IPA according to origin



Source: IBGE, Fipe and FGV

The average change in electricity rates came to 9.6% in 2004, ranging from -1.4% in Belém to 22.2% in Curitiba. These increases were granted according to the schedule elaborated by the National Electric Energy Agency (Aneel), which determines the date of the annual increase allowed to each one of the concession companies. The percentage authorized by the Agency is based on such manageable cost factors as purchased energy and transmission costs which, among other headings, reflect alterations in exchange rates.

Table 1.19 – Major items included in the IPCA during 2004

Percentage change

Itemization	IPCA			
	Weight[1/]	Accumulated change in 2003	Accumulated change in 2004	Accumulated share in 2004
Index (A)	100.0	9.3	7.6	7.6
Non-monitored prices	71.1	7.8	6.5	4.7
Monitored prices	28.9	13.2	10.2	2.9
Selected monitored items				
Urban transportation	5.0	20.9	4.7	0.2
Electric energy	4.7	21.4	9.6	0.4
Water and sewage fees	1.8	21.0	10.4	0.2
Real estate tax	1.1	13.7	9.6	0.1
Gasoline	4.0	1.2	14.7	0.6
Alcohol	0.9	- 12.6	31.6	0.3
Barreled cooking gas	1.7	2.9	7.1	0.1
Health care	2.5	8.7	10.5	0.3
Telephone	3.3	19.1	14.8	0.5
Total (B)	24.9			2.7
Share (B/A)				35.7

Source: IBGE

1/ Average weight in 2004.

Water and sewage rates increased 10.4% and the prices of health plans rose 10.5% in the year.

Cores

The IPCA core registered declining rates in the first three quarters of the year. In the final quarter, however, the core turned upward once again, primarily as a result of increases in the prices of clothing, new automobiles and cigarettes. This indicator, which excludes increases in regulated prices and food away from home, expanded 7.9% in 2004, as against 8.2% in the previous year.

Using the smoothed trimmed-means method, the core registered a high of 7.5% in the year, quite close to the IPCA result. However, the deceleration observed during the year was more accentuated than in the case of the IPCA, since these indices had increased 11.1% and 9.3% in 2003, respectively. This result for the core is obtained by eliminating the items with the highest and lowest rates of growth until elimination of those items responsible for 20% of the weight at each extremity. At that point, the result of those items in which increases are concentrated in just a few months of the year is distributed twelve months ahead (smoothing). Among these items, one should cite education, electricity and communications. Thus, the growth registered in 2003 also reflected the high 12.5% rate of inflation registered by the IPCA in 2002.

Application of the trimmed-means method without smoothing resulted in a core increase of 6.4% in 2004, compared to 8.3% in the previous year. Annual growth in 2004 reflected half-yearly rates of 3% and 3.3%, respectively, compared to 5.7% and 2.5% in 2003, indicating acceleration in the second half of the year.

The IPC-Br core, calculated through application of the trimmed-means method with smoothing of specific items, increased 5.9% in 2004, in contrast to 9.7% in 2003, according to data released by the FGV.

Table 1.20 – Consumer prices and core inflation in 2004

Percentage change

Itemization	2003	2004		
		1 H	2 H	In the year
IPCA	9.3	3.5	4.0	7.6
Exclusion	8.2	4.5	3.3	7.9
Trimmed means				
Smoothed	11.1	3.8	3.6	7.5
Non smoothed	8.3	3.0	3.3	6.4
IPC-Br	8.9	3.7	2.5	6.3
Core IPC-Br	9.7	3.3	2.5	5.9

Source: IBGE and FGV

II

Money and Credit

Monetary policy

Monetary policy implementation in 2004 was targeted at achieving the overriding objective of preserving the gains inherent to price stability. In this sense, monetary policy instruments were used in such a way as to ensure sustained product growth, within a framework of expanding internal economic activity and sharp upward movement in both international liquidity and commodity prices driven, in turn, by world economic growth.

At the start of the year, Copom decided to interrupt the process of a gradually less restrictive monetary policy begun in June of the previous year. This decision was based on major economic indicators suggesting that a more cautious monetary policy would have to be adopted in order to meet 2004 inflation targets. The basic interest rate target was maintained at 16.5% per year at the ordinary January and February Copom meetings.

Although the March and April meetings cut the basic interest rate by additional amounts of 0.25 p.p., partly as a result of the outlook for declining inflation, starting in the month of May Copom opted not to alter the basic interest rate of 16% p.p. for four consecutive months. This position reflected increased uncertainties regarding the future evolution of inflation; in an environment of changing expectations with respect to United States interest rates, intense oil market volatility and rising internal market demand.

Despite gradually rising interest rates in the United States, coupled with economic indicators that showed no risk of an accentuated rise in inflation, there was a clear process of progressive deterioration in the expectations of market agents regarding internal prices in 2004 and 2005. Among the factors that contributed to this scenario, it is important to mention oil market volatility, depreciation of the real in the second quarter and uncertainties surrounding the sustainability of the more intense pace of expanding economic activity since, despite renewed investments, growth in the Brazilian economy in 2004 has resulted in increasingly greater occupation of installed industrial output capacity.

Considering that expanding economic activity and increased use of installed industrial output capacity were not compatible with recovery in investments and that inflation projections pointed to a growing risk of noncompliance with the predetermined targets, Copom decided to initiate a gradual process of raising basic interest rates as of September. Thus, at the ordinary meeting held in that month, the Selic rate target was raised 0.25 p.p., followed by consecutive increases of 0.50 p.p. in the three subsequent meetings, to a level of 17.75% per year at the end of the year.

Credit market conditions reflected monetary policy, as the rates negotiated generally accompanied alterations in the basic interest rate. In the wake of the period of moderate growth early in the year caused by seasonal factors, the credit stock increased steadily and kept pace with steadily expanding economic activity. It is important to stress that the higher costs of credit operations as of September did not have a significant impact on the volume of new operations, primarily as a result of increased seasonal demand for credit in the final months of the year. Furthermore, steady downward movement in default rates reflected improved employment and income levels in the economy.

Loans to individual borrowers increased in 2004, mainly as a result of expanded personal credit operations. Among these, the most important were payroll loans which have lesser interest rates due to the implicit guarantee of repayment of these credits. In the corporate sector, the volume of credit operations backed by internal resources expanded sharply, in detriment to those based on external resources.

Federal public securities

The Selic rate trajectory in 2004 impacted demand for federal public securities. In the period from January to April, issues were concentrated in National Treasury Bills (LTN), preset papers that accounted for 85.4% of the total. This is clearly a reflection of expectations of continuation of the downward movement in basic interest rates that began in the second half of 2003. In the month of May and in June, considerable speculation regarding the impact of a turnaround in United States monetary policy on the Brazilian basic rate stimulated issues of Treasury Financing Bills (LFT). These papers, which are indexed to the Selic rate, accounted for 78.7% of that total, as against 13% in the case of LTN. From July to December, the participation of LFT in total issues came to 43.8%, compared to 53.4% for LTN.

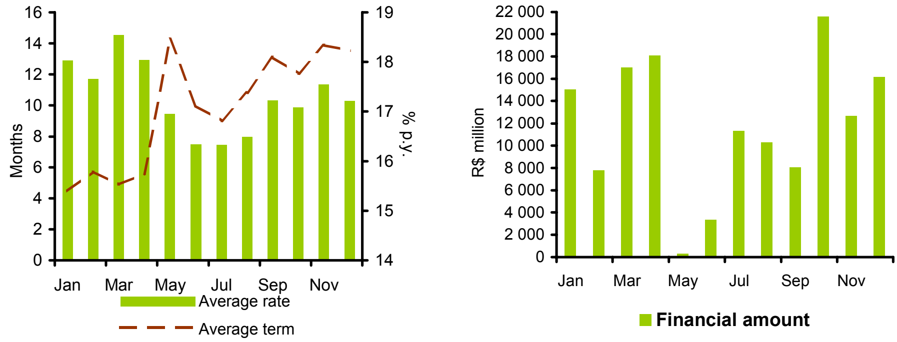
Consolidation of 2004 issues shows that LTN placements represented 57.6% of the total and LFT placements accounted for 37.4%. Issues of price-indexed papers, National Treasury Notes – Series B (NTN-B) and National Treasury Notes – Series C (NTN-C), which are indexed to the IPCA and to the General Price Index – Market (IGP-M), respectively, accounted for 4% of the papers auctioned, while National Treasury Notes – Series F (NTN-F), which are preset papers with intermediate financial flows (half-yearly coupons), registered 0.9%.

At the end of 2004, the participation of LFT in the total Internal Federal Public Securities Debt (DPMFi) came to 56.5%, while that of LTN reached 19.7%, and price-indexed securities accounted for 14.9%. In December of the previous year, these papers represented 60.6%, 12.5% and 13.6%, respectively.

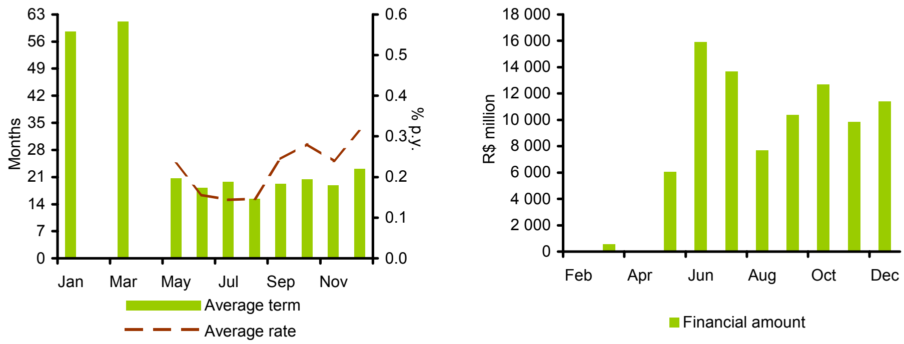
Graph 2.1

Auctions of federal public securities – 2004

LTN



LFT



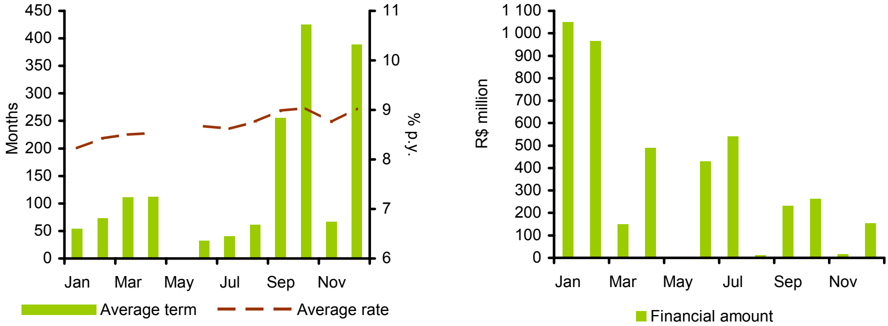
Lesser demand for exchange hedge in 2004 aided in reducing the level of internal public debt exchange exposure. In the three-month period extending from June to August, placements of exchange swaps totaled US$1.3 billion. In the year, the exchange turnover represented 5.1% of the principal maturing in the period, while redemptions came to US$25 billion. Consequently, considering derivative contracts, exchange exposure dropped from 22.1% in December 2003 to 9.9% in December 2004.

The average term of security issues dropped in 2004, primarily as a result of increased placements of preset papers and reductions in the maximum maturities of the LFT offered as of May from 1880 days to 1020 days. Thus, the average term of the public debt held by the public dropped from 31.3 months to 28.1 months. It is important to stress that, in September, for the very first time, the National Treasury placed NTN-B to mature in 2045 at a rate of 9.1% per year plus growth in the IPCA.

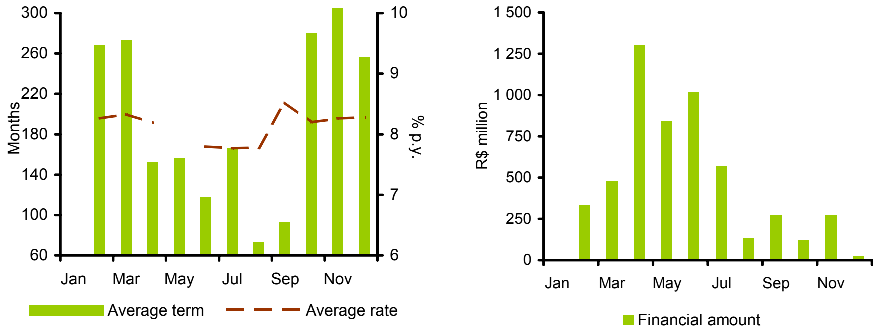
Graph 2.2

Auctions of federal public securities – 2004

NTN-B

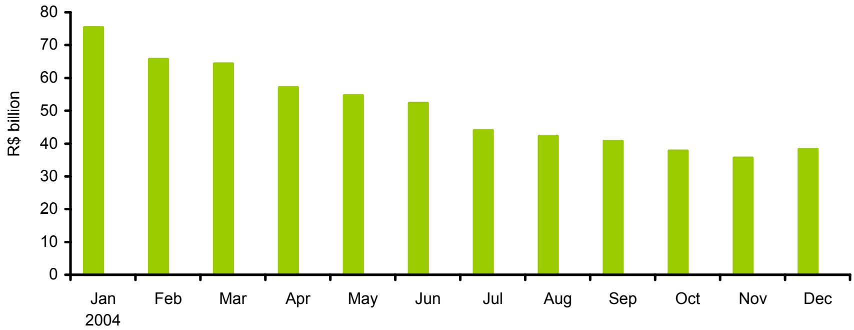


NTN-C



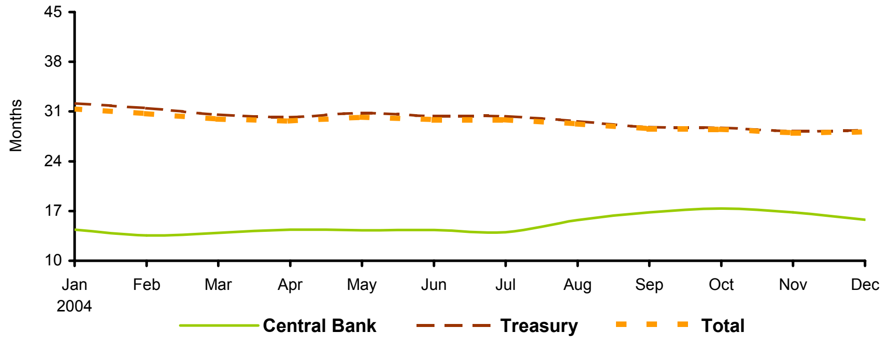
Graph 2.3

Balance of exchange-indexed swaps



The strategy of daily administration of financial system liquidity in order to hold the Selic rate within the parameters determined by Copom emphasized the importance of lengthening maturity terms. The operations carried out included three-month preset forward operations and postset repo operations in which maturity was lengthened from 14 to 28 days in September. Go around and leveling operations, aimed at daily adjustment of this excess, were contracted with terms ranging between one and four business days. In this way, BCB sought to obtain more effective control over the money supply by rolling excess liquidity through longer repo operations. In January, operations with maturities of more than 30 days accounted for 21.1% of the rollover operations. In December, this participation had risen to 71%.

Graph 2.4
Average term of the federal public securities debt



The liquidity position remained at a level similar to that in effect at the end of 2003, despite the expansionary pressures that occurred during the year. Thus, reflecting market purchases of dollars with the purpose of rebuilding the country's international reserve position, the daily average moved from R$56.2 billion in December 2003 to R$73 billion in January 2004. In July, the liquidity position moved to R$88.5 billion, primarily as a result of concentration of federal public security maturities. At the end of the year, this figure dropped to R$58 billion. This falloff was generated by seasonal monetary base expansion in December and the contractionary impact of public security operations on the primary market, together with adjustments in derivative operations brought about by devaluation of the dollar in the second half of the year.

Monetary aggregates

Above all else, the behavior of monetary aggregates in 2004 was caused by recovery in the pace of economic activity, as expanding aggregate demand stimulated a rapid rise in credit operations, as well as by a strong flow of external resources generated by the unprecedented trade balance surplus and foreign direct investments.

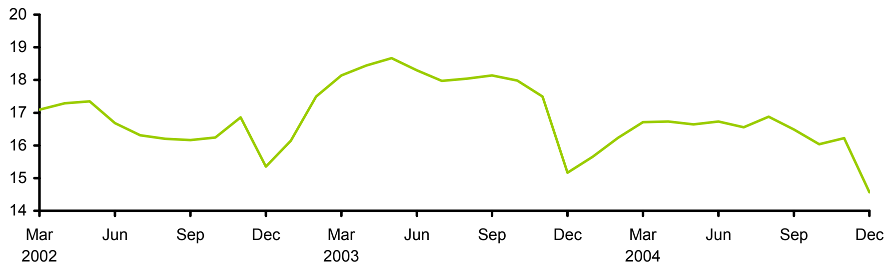
Another factor that deserves mention is Law 10,936, dated 8.12.2004, which extended the right to full one-time-only payment of monetary indexing of Employment Compensation Fund (FGTS) accounts, as specified in Law 110, 6.29.2001, to all account holders of sixty years of age or older and to all others, no matter what their age, when the value of the payment is equal to or less than R$100. This measure resulted in withdrawals of approximately R$3.2 billion by more than 630 thousand elderly people. Overall releases in the 2004 fiscal year came to a total of approximately R$11.2 billion, of which R$8.7 billion were effectively withdrawn.

Consequently, viewed in terms of the more restricted concept (M1), the average monthly money supply balance expanded 21.2% in the year, reaching a level of R$127.1 billion at the end of December. This growth was based on increases of 22.5% in the average balance of currency held by the public and 20.3% in the position of demand deposits. Reflecting these results, the income velocity of M1 components remained stable during the year, albeit at a level below 2003. Using seasonally adjusted data deflated by the IPCA, this monetary aggregate followed a steady upward curve, primarily as a result of consistent growth in economic activity and improved income and employment conditions.

In the concept of average daily balances, the monetary base totaled R$87.3 billion in December, registering 23.4% growth in the year. This result reflected expansion of 22.2% in currency issued and 26.3% in banking reserves.

Graph 2.5

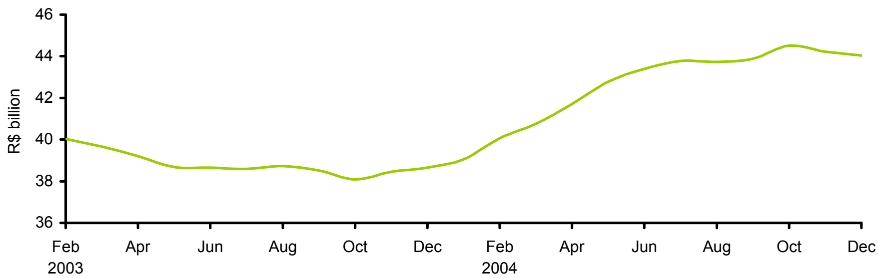
Money supply (M1) – Income velocity[1/]



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

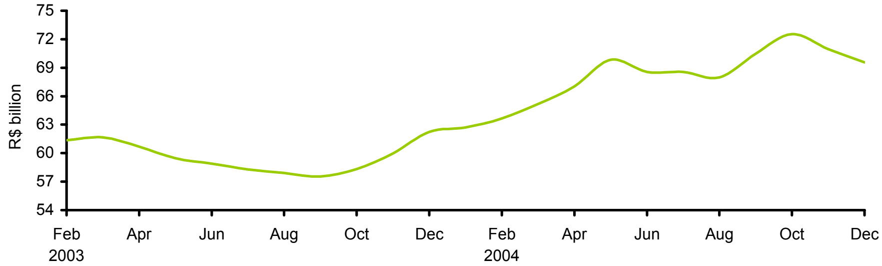
Graph 2.6

Currency outside banks – Seasonally adjusted at December 2004 prices[1/]



1/ Price index: IPCA.

Graph 2.7
Demand deposits – Seasonally adjusted at December 2004 prices1/



1/ Price index: IPCA.

With regard to the sources of primary currency issues, National Treasury operations – excluding security operations – were the major cause of monetary base contraction in the year, with a flow of R$48.3 billion. Here, one should highlight the tax inflow of R$302.2 billion, for growth of 17.7% compared to the previous year. Adjustments in derivative operations through exchange swaps generated contraction of R$6 billion. Aside from this, as determined by Resolution 3,109, dated 7.24.2003, inflows consequent upon insufficient investments in micro credit operations, an area in which compliance with minimum investment requirements was verified for the first time in August 2004, and deposits generated by the additional reserve on deposits and reserve requirements on the deposits of the Brazilian System of Savings and Loans (SBPE), came to a joint total of R$2.6 billion. Partially offsetting this result, external sector operations had an expansionary impact of R$14.6 billion, based on net sales of exchange on the interbank exchange market. With monetary base demand of R$15.5 billion in the year, the liquidity adjustment through net purchases of federal public securities came to a volume of R$57.8 billion.

BCB introduced alterations into reserve requirements on time deposits with the objective of equalizing competitive conditions among institutions of varying sizes, following a process of intervention in one banking institution. Consequently, Circular 3,262 was issued on 11.19.2004, determining that financial institutions would be obligated to deposit reserve requirements only on amounts in excess of R$300 million of total resources subject to reserve.

The broad monetary base, which includes the restricted base, compulsory reserves and federal public securities outside the BCB portfolio, closed the year at R$979.9 billion, for growth of 10.4% compared to 2003. On the one hand, this result reflected autonomous expansion consequent upon the updating of the federal securities debt on the market and, on the other hand, the contractionary impact of National Treasury operations, excluding security operations and adjustments in derivative operations.

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		50	-	15	-	-	-	-
1994	Jun[2/]	100 [2/]	20	20	-	-	-	-
	Aug	" [2/]	30	30	-	-	-	-
	Oct	" [2/]	"	"	15	-	-	-
	Dec	90 [2/]	27	"	"	-	-	-
1995	Apr	" [2/]	30	"	"	-	-	-
	May	" [2/]	"	"	12	-	-	-
	Jun	" [2/]	"	"	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	"	"	"	"	"	"

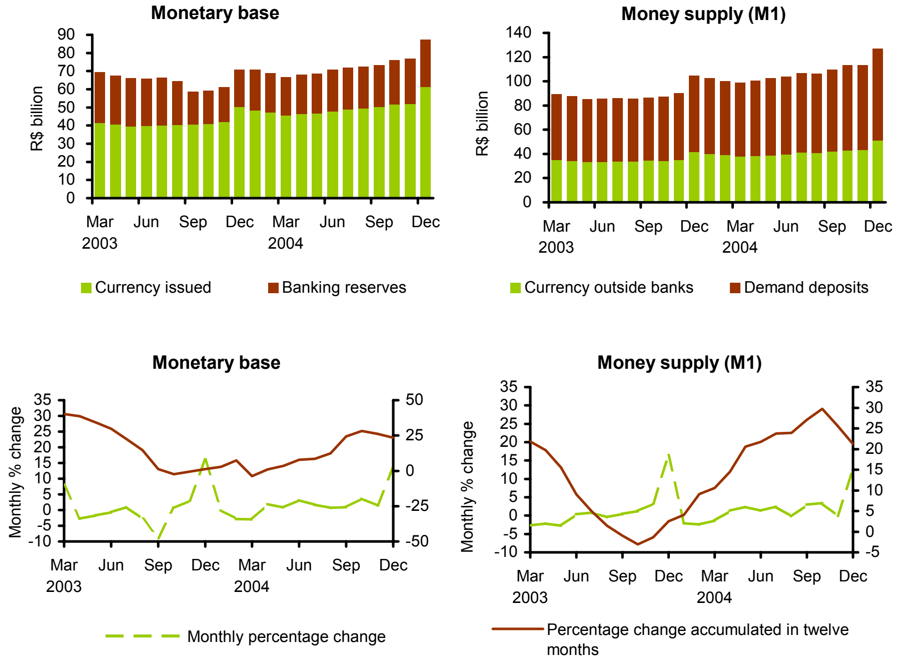
1/ As of August/2002, a new additional requirement on demand resources (3%), time deposits (3%) and savings deposits (5%) became effective. As of October/2002, rates for additional requirements on demand resources, time deposits and savings deposits moved to 8%, 8% and 10%, in that order.

2/ From June/1994 to June/1995 the 100% and the 90% rates refers to in addittional collection in relation to the base-period wich was calculated between June 23 and 30, 1994.
As of July 1995, the levying of compulsory deposits refers only to the arithmetic median of daily balances in each calculation period.

Graph 2.8

Monetary base and money supply (M1)

Average daily balances



The evolution of the broad money supply in 2004 was impacted principally by inflows of external resources and the expansionary nature of financial system credit operations. The M2 concept, which includes M1, savings deposits and securities issued by financial institutions, closed with growth of 19.5% in the year, led by 29.2% expansion in the balance of private securities. For the most part, this result reflected net inflows of R$21.7 billion in time deposits and R$4.3 billion in savings account deposits.

M3, which is composed of M2 plus fixed income fund quotas and the federal public securities used as backing for the net financing position in repo operations among the nonfinancial and financial sectors, rose 17.9% in the year. The M4 concept, which includes M3 and the public securities held by nonfinancial entities, increased 15.8% in the year, compared to 18.7% in 2003, reaching an end-2004 balance of R$1.1 trillion.

In line with the inflation target system and based on the expected performance of national income, interest rates, price indices and other similar indicators, the projections defined by monetary programming for the major monetary aggregates were fully complied with in 2004.

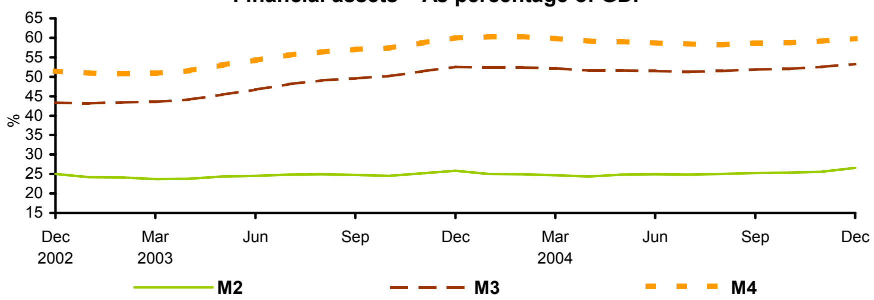
Table 2.2 – Financial assets

End-of-period balance R$ billion

Period		M1	M2	M3	M4
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	92.1	398.4	811.6	927.6
	Dec	109.6	412.9	838.4	958.5
2004	Jan	98.1	405.1	847.2	973.3
	Feb	99.5	408.1	857.0	986.6
	Mar	97.7	409.8	867.1	995.0
	Apr	97.9	411.0	872.3	999.7
	May	101.3	427.8	886.9	1 014.7
	Jun	102.5	436.5	899.6	1 025.9
	Jul	103.2	441.9	910.4	1 037.4
	Aug	105.8	450.2	924.7	1 047.5
	Sep	109.9	457.3	939.0	1 062.1
	Oct	109.8	463.0	948.9	1 071.2
	Nov	113.4	470.8	966.5	1 088.7
	Dec	127.9	493.5	988.6	1 109.5

Graph 2.9

Financial assets – As percentage of GDP[1/]



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

Table 2.3 – Monetary program

R$ billion

Itemization		Restricted monetary base			Expanded monetary base		
		Minimum	Maximum	Confirmed	Minimum	Maximum	Confirmed
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 1/	724.3	979.9	847.3
	4th quarter	60.1	81.3	70.8	750.7	1 015.6	886.9
2004	1st quarter	55.7	75.4	66.8	767.4	1 038.3	916.8
	2nd quarter	58.5	79.2	70.8	800.1	1 082.5	936.3
	3rd quarter	63.2	85.4	73.2	825.4	1 116.8	950.4
	4th quarter	73.6	99.6	87.3	880.0	1 190.6	979.2

(continues)

Table 2.3 – Monetary program (concluded)

R$ billion

Itemization		Money supply (M1)			Money supply broader concept (M4)		
		Minimum	Maximum	Confirmed	Minimum	Maximum	Confirmed
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	958.5
2004	1st quarter	81.1	109.7	98.9	823.8	1 114.5	995.0
	2nd quarter	85.8	116.1	104.0	876.0	1 185.1	1 025.9
	3rd quarter	94.4	127.7	109.5	908.1	1 228.6	1 062.1
	4th quarter	108.7	147.0	127.1	954.2	1 291.0	1 109.5

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

Financial system credit operations

Credit expansion was generated by increased demand for resources for consumption and investment purposes and was concentrated in portfolios referenced to nonearmarked resources. Credit growth was more significant in financing contracted with individual persons, particularly personal credit operations and, more specifically, payroll loans. In this sense, it should be stressed that growth in payroll loans has contributed significantly to improvement in the profile of household indebtedness, with longer maturities and lower lending rates.

In December 2004, the overall volume of financial system credits reached R$485 billion, for annual growth of 17.9%, corresponding to 26.2% of GDP as against 25.8% in 2003. Loans granted by the private financial system increased 19.9%, totaling R$293.3 billion, concentrated mainly in operations with individual persons and the sector of commerce.

Financing operations by public sector banks added up to R$191.7 billion, for growth of 15% in the year. In this case, the highlights of the year were operations with individual persons and the segments of other services and rural operations.

Table 2.4 – Balance of credit operations

R$ billion

Itemization	2002 Dec	2003 Dec	2004 Dec	Growth (%) 2003
Total	379.5	411.4	485.0	17.9
Nonearmarked	212.4	224.2	271.4	21.0
Corporations	136.3	136.1	158.1	16.2
Ref. to exchange	57.2	48.0	46.2	-3.7
Individuals	76.2	88.1	113.3	28.6
Earmarked	144.1	163.1	180.4	10.6
Housing	21.6	23.1	24.3	4.9
Rural	34.7	44.9	55.3	23.3
BNDES	84.7	91.1	97.2	6.7
Others	3.1	4.1	3.6	-10.9
Leasing	9.5	9.1	14.0	55.0
Public sector	13.5	15.0	19.2	28.2
% participation:				
Total/GDP	23.9	25.8	26.2	
Nonearmarked/GDP	13.4	14.0	14.7	
Earmarked/GDP	9.1	10.2	9.8	

The stock of credits based on earmarked resources totaled R$180.4 billion in 2004, for growth of 10.6% in the year. For the most part, this performance reflected an increase of 23.3% in financing granted to the crop/livestock sector, as a result of releases of resources for investments and current outlays in the 2004/ 2005 harvest. BNDES system operations totaled R$97.2 billion in December, for growth of 6.7% in the period. These results were somewhat attenuated by securitization of electricity sector debts, as well as by exchange appreciation in contracts referenced to foreign currency.

In 2004, disbursements by the BNDES system totaled R$39.8 billion, with growth of 18.8% in the year. This growth was driven partly by improved expectations regarding the macroeconomic environment, as reflected in rising credit demand for investment purposes. Among the most important of these was the 33.3% rise in releases to the segment of services, primarily for investment in the energy and land transportation infrastructure. In the crop/livestock sector, operations contracted totaled R$6.9 billion, for annual growth of 50.8%, primarily as a consequence of continued sales of farm machinery and implements. Credits granted to the industrial sector, however, declined

1.9% in the period, closing at R$15.8 billion. One should also stress that 32% of disbursements, in a total amount of R$12.6 billion, were targeted to micro, small and medium businesses, reflecting an increase of 25.5% over the 2003 figure.

Table 2.5 – BNDES disbursements

R$ million

Itemization	Jan-Dec		Growth
	2003	2004	(%)
Total	33 534	39 834	18.8
Industry	16 094	15 782	-1.9
Other transport equipment[1/]	5 755	5 963	3.6
Food and drink products	1 981	1 888	-4.7
Cellulose and paper	430	1 052	144.7
Motor vehicles	2 651	2 568	-3.1
Basic metallurgy	997	741	-25.7
Commerce/Services	12 844	17 122	33.3
Electricity, gas and hot Water	5 166	6 663	29.0
Commerce and reparition	807	1 218	50.9
Land transport	2 862	4 499	57.2
Mail and telecommunications	252	1 645	552.8
Farming	4 595	6 930	50.8

Source: BNDES

1/ It includes aircraft industry.

Consultations with BNDES, the preliminary stage of medium and long-term financing operations, came to R$98.4 billion in 2004, against R$44.6 billion in the previous year. This performance was consistent with positive expectations regarding new investments and the increasingly more intense effort to expand output capacity. On a sector-by-sector basis, requests from the industrial sector totaled R$52.2 billion, with growth of 141% in the year, generated by greater demand on the part of the segments of metallurgy, air transportation and vehicles. Requests put forward by the service sector expanded 127%, reaching R$38.1 billion, concentrated primarily under electricity and gas and construction. Consultations involving the crop/livestock sector added up to R$8.1 billion, 33.4% more than in 2003.

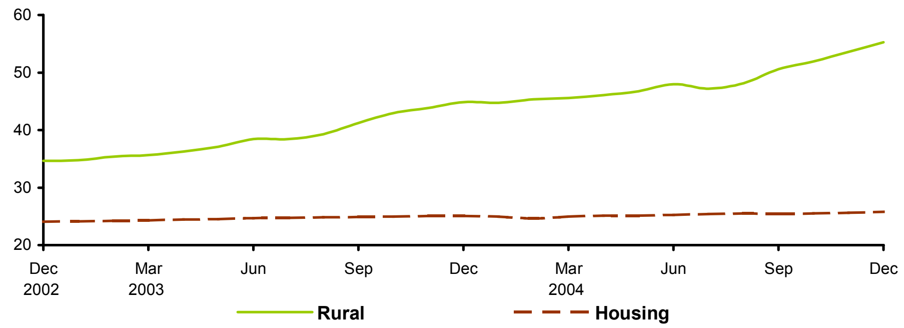
The balance of credit operations with the private sector totaled R$465.8 billion in 2004, representing annual growth of 17.5%. Credits channeled into business activities were driven by 26.3% annual growth in loans to commerce, totaling R$54.7 billion. Among these operations, the most important were those channeled to supermarkets, food and beverage industries and the automotive sector. Credits to the segment of other services closed at R$79.4 billion, representing an increase of 10.5%. Here, the highlights were disbursements to electricity companies, transportation and communications firms. Loans to industry closed at R$124.9 billion for growth of 6.9% in the year, concentrated mainly in the aircraft, automotive and energy sectors.

With respect to the credit market, mention should also be made of measures taken by the government to stimulate micro credit operations. Among these, it is important to highlight implementation of the National Targeted Productive Microcredits Program (PNMPO) which, aside from fostering inclusion of the banking sector, is also targeted at generating jobs and income among individuals and corporate entities responsible for small scale productive activities. This operational modality, which creates a direct relationship between the credit agent and the microentrepreneur at the place of the latter's activity, levies interest rates of up to 2% per year in direct operations and up to 4% per year in operations channeled through Civil Society and Public Interest Organizations (Oscip). It is important to mention that, at the core of this measure, was repeal of the maximum limit of R$1,000.00 per client, while the CMN was given responsibility for defining the maximum value of these operations among those carried out by banking institutions.

Financing granted to the crop/livestock sector continued the performance noted since 2002, with a total amount of R$55.3 billion in 2004, for growth of 23.3% over the previous year. Current expenditure operations closed at R$24.9 billion, with 80% involving obligatory investments. The share corresponding to agricultural investments added up to R$28.6 billion, of which funding in government programs backed 83.6%. In the Moderfrota framework, disbursements moved from R$1.8 billion in 2003 to R$2.4 billion in 2004.

The volume of housing credits, including both nonearmarked and earmarked resources, expanded 2.9% in 2004, reaching a total of R$25.8 billion. With respect to disbursements, releases of funding from savings accounts, the major source used by the segment, expanded 26.9% in the year and closed at R$3 billion, channeled basically into real estate acquisitions. Contracts at rates defined by Housing Finance System (SFH) rules came to R$2.7 billion, 89.7% of the total, with the remainder being financed at market rates.

Graph 2.10
Balance of rural and housing credit
R$ billion



In 2004, the public sector debt increased 28.2%, reaching R$19.2 billion. Operations contracted by states and municipalities totaled R$14.2 billion, for growth of 38.2% due primarily to releases of financing to electricity sector companies, as part of the program aimed at expanding the energy supply as defined in Law 10,438, dated 4.26.2002, and to urban transportation infrastructure. Loans to the federal government increased 6.4% to R$5 billion.

The portfolio of leasing operations increased 55% in the year to a total of R$14 billion. Operations with individual persons accounted for 26.9% of the portfolio, compared to 12.9% in 2003. Disbursements moved from R$6 billion in 2003 to R$12.8 billion, mainly involving auto loans and financing of machines and equipment.

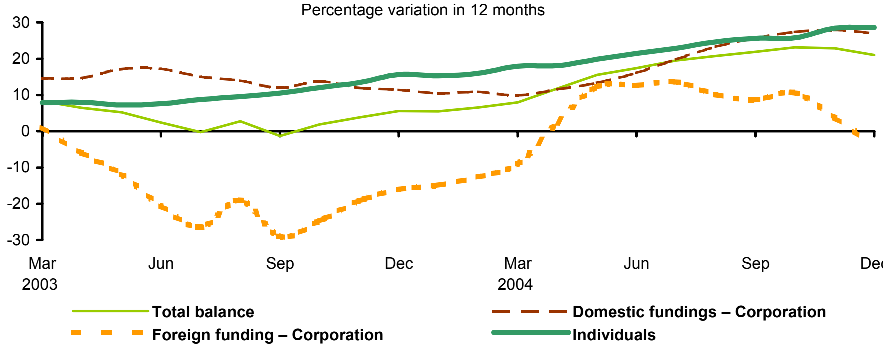
The stock of credits based on nonearmarked resources totaled R$271.4 billion, for growth of 21% in the year, the highest level since 2001. The balance of loans to individual persons increased 28.6%, rising to a total of R$113.3 billion. These operations were concentrated primarily in personal credit operations, reflecting sharp growth in payroll loans. Furthermore, one should emphasize growth in the financing of goods including both vehicles and other goods. This expansion became possible with lesser rates of interest in the first half of the year and growing income and employment in the second half.

The balance of credit operations with corporate entities increased 16.2% in the year, closing at R$158.1 billion. Of this total, R$111.9 billion referred to operations backed by internal resources with growth of 27% generated by the upturn in the level of economic activity. The balance of operations based on external resources totaled R$46.2 billion, with annual growth of 3.7%, powered primarily by excellent liquidity conditions on the international market, making it possible for companies to contract funding directly at the source. Another positive factor was exchange appreciation in the second half of 2004, encouraging anticipated settlement of debts.

Graph 2.11

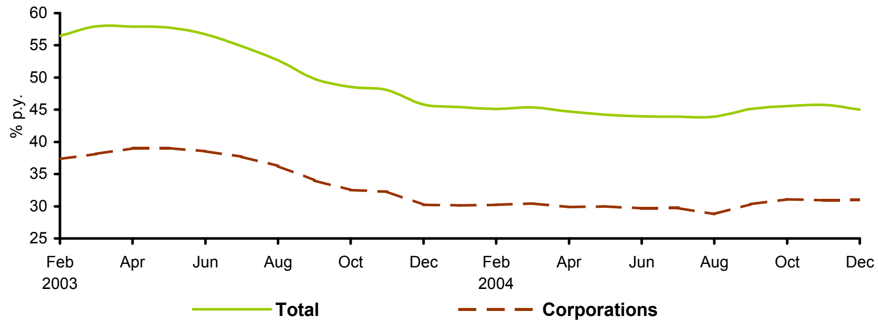
Growth of credit with nonearmarked resources

Percentage variation in 12 months



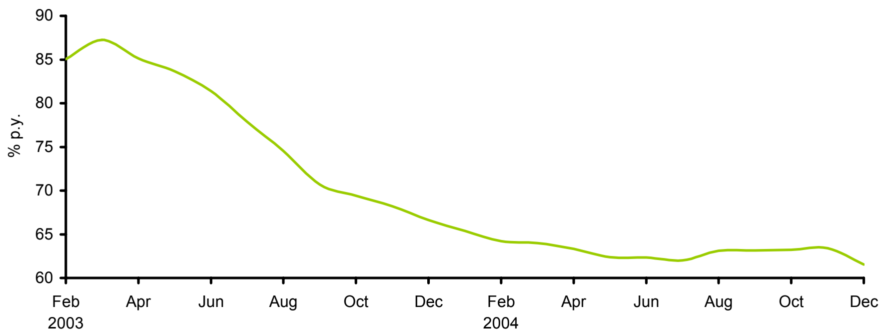
Interest rates on credit operations backed by nonearmarked resources turned in sharply different performances during the year, reflecting the alterations introduced into monetary policy. Consequently, in the first half, the average rate continued the gradual process of decline begun in 2003, closing August at 43.9% per year, corresponding to a drop of 1.9 p.p. compared to December of the previous year. Starting in September, the costs of bank loans accompanied upward movement in basic interest rates, shifting to 45% per year in December, though this figure was still 0.8 p.p. below December of the previous year.

Graph 2.12
Interest rates of credit operations with nonearmarked resources



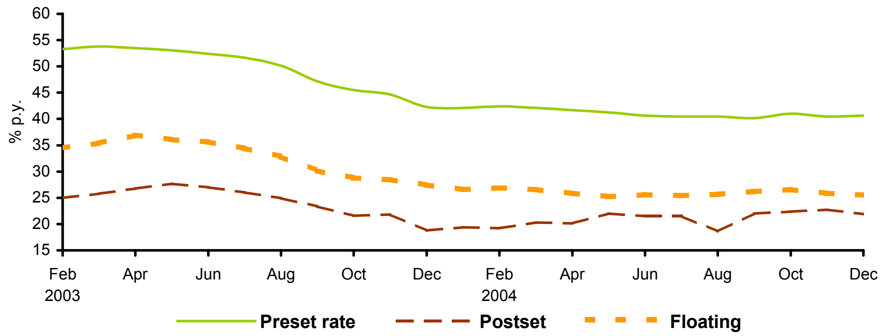
The average rate on operations with individual persons, which are normally contracted at preset rates, reached 61.5% per year in December, corresponding to a reduction of 5.1 p.p. in the year. For the most part, this result reflected the larger volume of payroll loans. Average interest on this modality closed December at 39.2% per year, contributing to a 9.5 p.p. decline in the rates on personal credit operations to 70.8% in December.

Graph 2.13
Interest rates of credit operations – Individuals



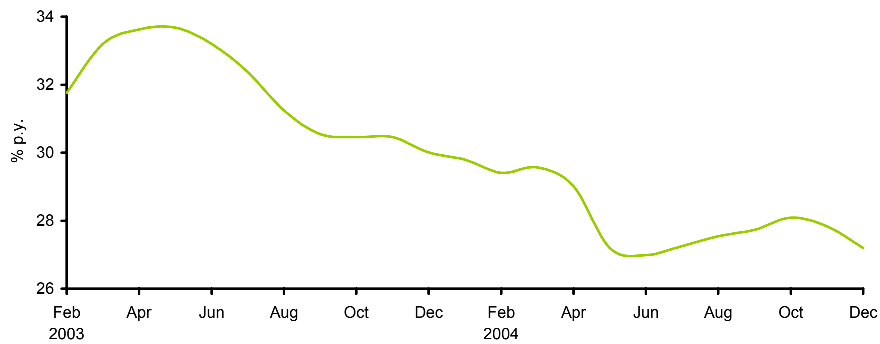
In the segment of corporate entities, average interest expanded 0.8 p.p. in 2004, closing December at 31% per year. This increase reflected a rise of 3.1 p.p. in the average rate on postset contracts, which closed at 21.9% per year, and reductions of 1.9 p.p. in the rates on operations with floating interest referenced to the rate on Interbank Certificates of Deposit and 1.7 p.p. in preset contracts, closing at 25.5% per year and 40.7% per year, respectively.

Graph 2.14
Interest rates of credit operations – Corporations



In credit operations based on nonearmarked resources, the banking spread accompanied lending rates, reaching 27 p.p. in June, the lowest level since June 2002, and moving steadily upward in the subsequent months. In December 2004, the spread came to 27.2 p.p., reflecting a reduction of 2.8 p.p. compared to December of the preceding year. At the same time, another factor that contributed to this result was the ongoing effort to reduce banking spreads as a result of measures taken in 2003. These measures included, among others, introduction of the system of payroll loans, programs aimed at attracting the low income population into the banking system and creation of investment accounts.

Graph 2.15
Spread of credit operations with nonearmarked resources

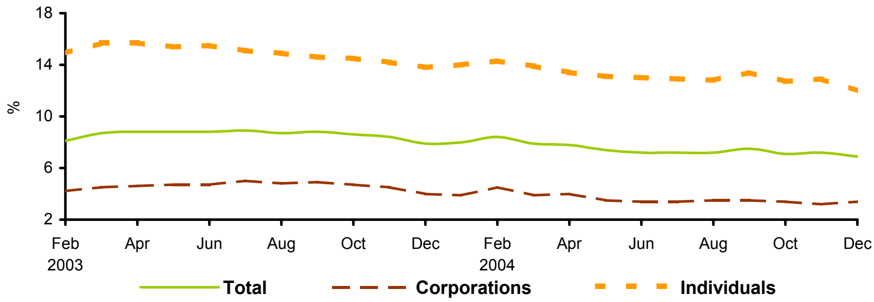


The average maturity of the credit portfolio based on nonearmarked resources closed December 2004 at 233 days, corresponding to an increase of thirteen days compared to December 2003. In the segment of corporate entities, the average term increased nineteen days, closing at 189 days, while operations with individual persons remained stable at 296 days. In this segment, it is important to emphasize the increase of 47 days in the average terms of personal loans to a total of 273 days, mainly reflecting the growing importance of payroll loans.

Following a seasonal high in the first quarter of the year, defaults on credit operations with nonearmarked resources moved downward during the course of the year. The percentage of arrears of more than fifteen days dropped 1 p.p., closing at 6.9% in December 2004, the lowest level in the history of this statistical series. The underlying causes of this performance were reductions of 1.8 p.p. in loans to individual borrowers and 0.6 p.p. in operations with corporate entities, which closed at respective levels of 12% and 3.4%.

Graph 2.16

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



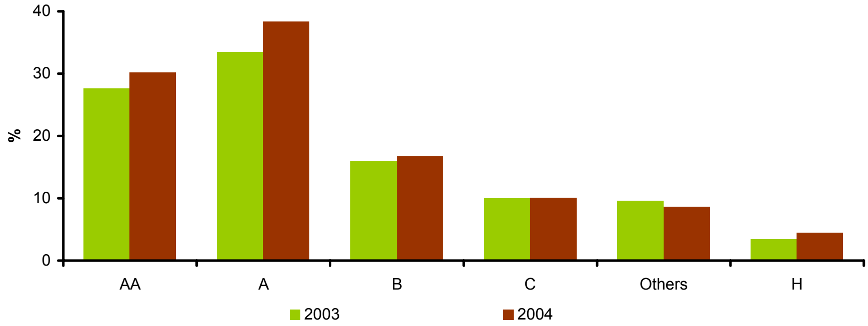
1/ Portifolio's percentage share in arrears of more than 15 days.

As reflected in lower default levels, the positive conditions that characterized the credit market in 2004 resulted in higher quality financial system loan portfolios, when viewed under the prism of risk levels. In this sense, the participation of operations classified as normal risk (levels AA to C) in the overall credit portfolio increased from 88% in December 2003 to 89.6% in December 2004. In the opposite direction, loans registered as risk level 1 (D to G) and risk level 2 (H), which requires full provisioning, declined from 7.9% and 4.1% to 7.2% and 3.2%, respectively, on the same dates.

Provisions set aside by the financial system totaled R$29.8 billion in December 2004, reflecting an annual decline of 0.3%. This volume corresponded to 6.2% of total credits, as against 7.3% in December 2003. The provisions set aside by private institutions diminished 2.3% while those reserved by the public financial system increased 2.1% in the period.

Graph 2.17

Financial system credit operations by risk level – December



National Financial System (SFN)

The evolution of the National Financial System clearly evinces the more flexible approach taken to the rules applicable to financial instruments and institutions, as well as an increasingly greater degree of adaptation to international rules. This became possible within the framework of the new Payments System, which has made it possible to enhance risk management by the system itself, while increasing the efficiency of intermediation activity. At the same time, the processes of stockholding acquisitions and reorganization demonstrate the need for adjusting the credit supply system in a scenario of sustained economic expansion.

With regard to controlling the risks to which financial institutions are subject, BCB issued Communiqué 12,746 in December 2004, announcing the procedures to be followed in implementing the new Basel Accord (Basel 2), based on a proposal recently put forward by the Bank for International Settlements (BIS). Compared to the previous Accord adopted by Brazil in August 1994, Basel 2 stresses procedures for banks that operate internationally, suggesting adoption of capital requirements based on the ratings released by external credit risk ratings agencies. Furthermore, the new Accord sets out capital requirements not only for credit risk and market risk, but also for operational risk, encourages the use of credit risk reduction techniques and increases the responsibility of supervisors in analyzing the internal assessment models utilized by banks.

The Communiqué mentioned above determines that ratings announced by external agencies will not be utilized in calculating capital for coverage of credit risks. In this case, the standard simplified approach is to be applied to the majority of financial institutions. This approach involves improvement of the current system, which is based on assets weighted by risk, while seeking to incorporate instruments that mitigate such risks. With regard to larger scale institutions that operate on the international market, they will be allowed to utilize the advanced approach based on an internal risk classification system to be evaluated by BCB. For implementation of the new Accord, a phased in planning process was defined that will begin in 2005 and is scheduled to be concluded in 2011.

Continuing in the context of evaluating asset quality, recent years have witnessed introduction of new risk mitigation instruments, such as earmarked credits and credit derivatives, at the same time in which clearance and settlement houses have improved risk management systems, within the framework of the new Payments System. These changes indicate that the National Financial System has already been preparing itself to adjust to the new Basel Accord which, contrary to the previous Accord, now recognizes the question of risk guarantees and transfers related to asset operations.

In keeping with the evolution of the risk monitoring process by the new Payments System, restricted repo operations were authorized involving any fixed income security. In these operations, the buyer of securities in a repo operation may effect definitive sale of the papers, maintaining the resale commitment with other securities. Previously, these operations were permitted only with papers issued by the National Treasury or BCB. However, in order to make it possible to use the other securities, operations must be registered and settled in financial terms within the same clearing house or clearing and settlement service, which then acts as the contracting party for purposes of settlement of the operations they have mediated.

Aside from this, as of the month of May, security exchanges and loans were permitted. In this sense, financial institutions may borrow securities, as well as exchange and lend securities that are part of their respective portfolios, in operations that have financial settlement through a clearinghouse or clearing and settlement service provider. These operations can be carried out with individual persons and corporate entities that may or may not be part of the National Financial System, thus enhancing the liquidity and dynamism of the secondary public and private securities market since it makes operations without coverage possible with the guarantees given by the clearinghouses.

Also in the context of prudential regulation, Circular 3,229 was issued in March 2004, permitting changes in the methodology used for calculating exposure in gold, foreign currencies and assets and liabilities subject to exchange variations, utilized in calculating the Basel ratio. Should the financial Institution opt to offset contrary positions in different currencies, it will be allowed to include gold on the list of currencies considered as a whole in calculating exchange, in such a way as to incorporate the effect of diversification on the calculation of the capital required to cover market risk.

With respect to improvement of the internal controls used by financial institutions, the BCB has altered the rules that define obligatory implementation of the audit committee, following examination of the cost-benefit relation involved in implementing this committee in smaller scale institutions. The committee is to act as an adviser to the senior management of the institution and has as its principal tasks evaluation of the effectiveness of independent and internal audits, while verifying compliance with the recommendations put forward by the auditors. Thus, implementation of the committee is now obligatory at those institutions that registered base capital equal to or greater than R$1 billion in the last two fiscal years. This represented a significant change in relation to the previous limit that was equal to or greater than R$200 million.

Going on to the criteria used in evaluating financial instruments, the various types of securities have been registered in three categories since April 2002: securities for trading, securities available for sale, both of which are evaluated at market value, and securities maintained in portfolio until maturity, which are evaluated at acquisition cost plus earnings. Once securities have been classified among those to be maintained until maturity, transfers to other categories are only permitted at the time of half-yearly balance sheets. In the December 2004 position, 70.9% of the National Financial System portfolio was designated as evaluated at market value.

With the objective of lengthening the public debt profile, permission was granted to sell federal securities classified in the category “held to maturity”, without in any way altering the intention of the financial institutions when they classified such securities, provided that transfer occur simultaneously with the purchase of new securities of the same nature in an amount equal to or greater than those sold, but with longer maturities.

As far as the new institutional modalities are concerned, formation of commercial banks under the direct stock control of the commodities and futures exchange was permitted. These banks will restrict their operations to contracting and investing resources, acting exclusively as central liquidator and custodian, providing services to the exchange and to the economic agents involved in operations on financial, physical and futures asset markets. Among their responsibilities, it is important to cite centralization of the accounts of clients participating in the market, reception of guarantees and settlement of operations. The authorization given to create such banks will allow for greater centralization of these operations, minimization of the risks implicit in the participation of a larger number of intermediating entities.

In the micro credit segment, one should highlight the adaptation of credit cooperatives to the new model defined as of the second half of 2003. Several projects were submitted to BCB requesting transformation of already existent restricted membership cooperatives into free membership cooperatives. A comparison with the banking segment shows that the participation of credit cooperatives expanded in the past year, thus creating greater possibilities of access to credit. In December 2004, credit operations contracted with these institutions reached 2.4% of the total National Financial System credit balance, as compared to 2.2% in 2003 and 1.8% in December 2002.

In the context of banking supervision, the year was marked by decrees imposing special administrative systems on seven institutions, with extrajudicial liquidation of four group buyer administration entities and one credit cooperative, as well as interventions in the Banco Santos and in an exchange brokerage company belonging to the same group. In

December 2004, 85 institutions including 17 banks remained subject to special systems of administration.

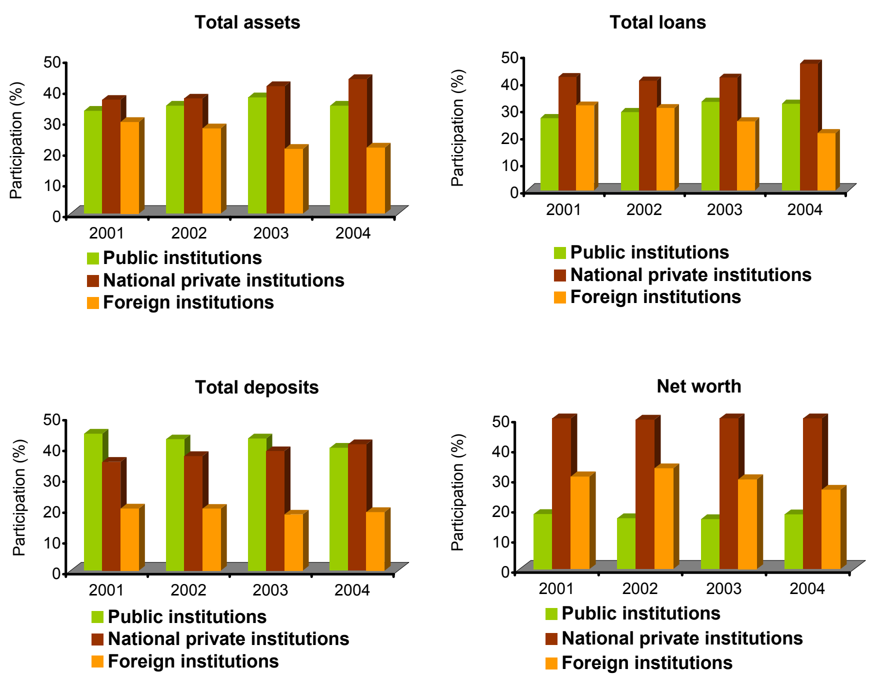
With regard to transfers of stock control, acquisitions in the year revealed a strategy aimed at obtaining the scale required to operate on the retail segment, above all on the part of private national banks. Consequently, in the first half of the year, Banco Bradesco acquired control of Banco Zogbi, thus ensuring itself of increased participation in the personal credit segment, and Banco ABN Amro acquired control of Banco Sudameris Brasil. In the second half of the year, Unibanco acquired control of Banco BNL do Brasil, which had previously been controlled by foreign capital.

The participation of foreign banks in total banking system assets remained relatively stable in the year, moving from 21% in December 2003 to 21.4% at the end of 2004, while the participation of private national banks moved from 41.3% to 43.6% in the same period.

It should be stressed that the reduction in foreign capital participation in banking system assets in recent years does not reflect withdrawal of this capital from the system, but rather processes of stockholding reorganization, in which foreign capital has opted no longer to control specific institutions, but rather to become minority stockholders in national groups.

Graph 2.18

Banking System – Participation by segment[1/]



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

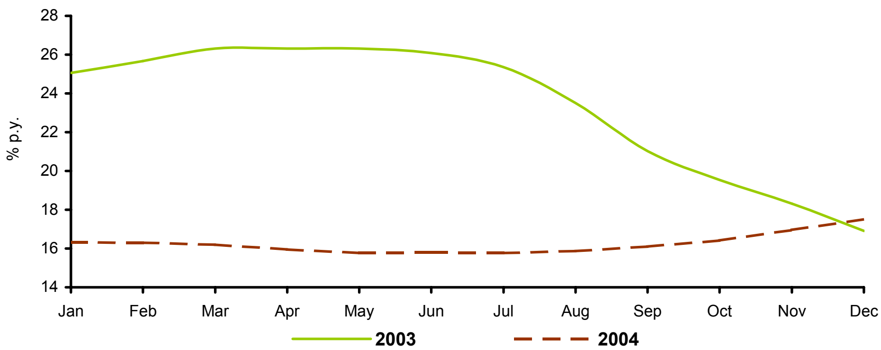
III

Capital and Financial Markets

Basic interest rate and market expectations

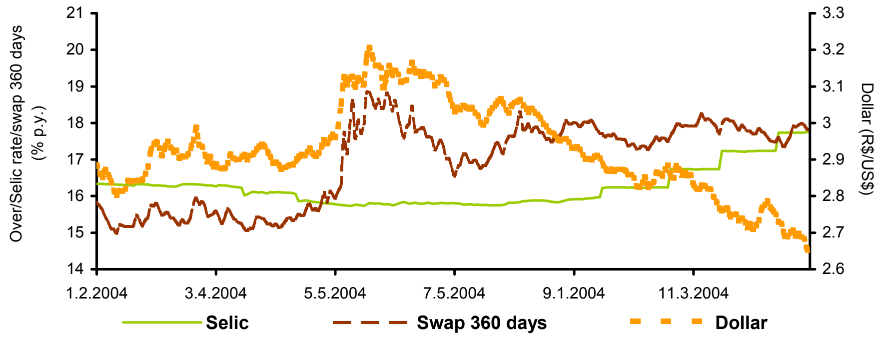
As of September 2004, Copom adopted a more restrictive monetary policy stance. Though it represented a reversal of the successive interest rate reductions adopted since mid-2003 and further intensified in the second half of that year, when the target for the basic interest rate dropped 10 p.p. to 16.5% per year in December, compared to 26.5% per year in June, adoption of the strategy of gradually raising rates was clearly the most appropriate option for preserving price stability in an environment characterized by rapidly expanding internal economic activity.

Graph 3.1
Over/Selic rate



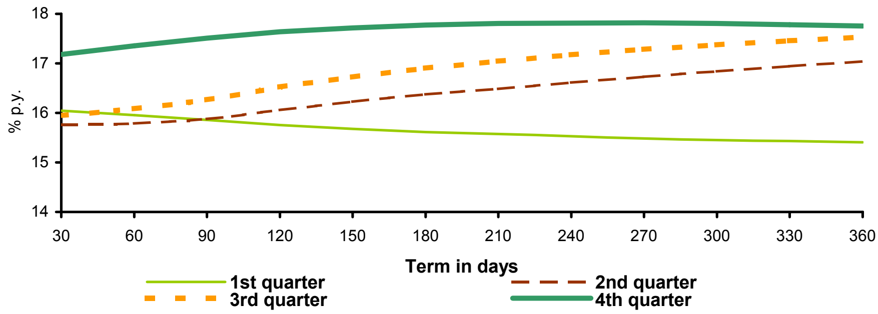
At the start of the year, the perception that inflation could exceed the targets for 2004 and 2005 led Copom to adopt a more conservative monetary policy. This decision became clear when it decided to hold the basic interest rate at 16.5% per year in January and February. In the following two months, lesser exchange and interest rate market volatility, coupled with downward movement in the country risk level, resulted in consecutive 0.25 p.p. cutbacks in the Selic rate target. Keeping pace with the trajectory of basic interest rates, 360-day DI swap X pre contracts registered successive downturns in their interest curves, closing the first half of the year at 17% per year.

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

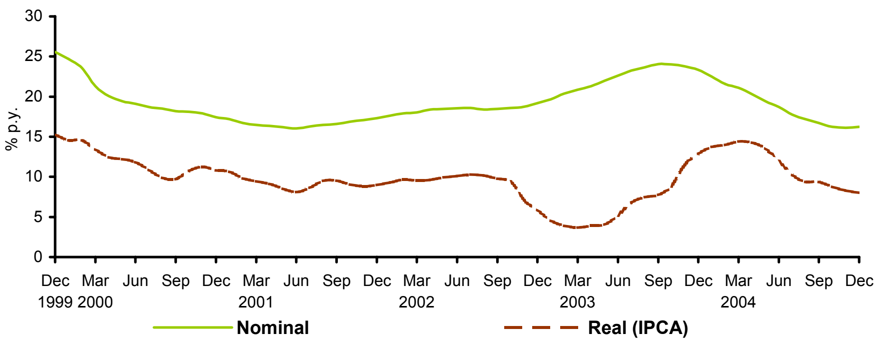


In the four following Copom meetings, it was decided to hold the basic rate at 16% per year. Subsequently, in response to deteriorating expectations regarding the possibility of compliance with predetermined inflation targets, BCB initiated a process of moderate monetary policy adjustments, gradually raising the Selic rate target by a cumulative total of 1.75 p.p. by December. In this context, 360-day DI swap x pre contracts closed the year at 17.8% per year, corresponding to a high of 1.95 p.p. over the rate in effect at the end of 2003.

Graph 3.3
Yield curve – Swap DI x Preset
Quarterly average



Graph 3.4
Over/Selic rate accumulated in 12 months



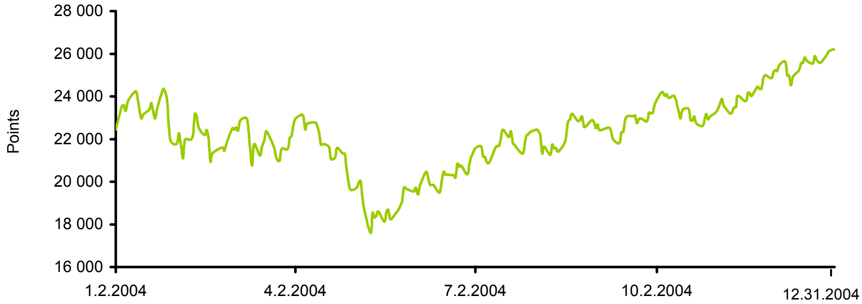
Taking due account of market expectations for inflation and the Selic rate in the coming twelve months, the real ex-ante December 2004 rate closed at 9.6% per year, as against 8.4% in the same month of the previous year. Deflated by the IPCA, the cumulative Selic rate hit 8%.

Capital market

The São Paulo Stock Exchange Index (Ibovespa) followed a downward curve in the early months of the year, registering a cumulative nominal decline of 12.1% through May compared to the final December 2003 figure. This performance, which matched what occurred in American exchanges, was generated by increased international and domestic market volatility caused by the situation in the Middle East, escalating oil prices and uncertainties surrounding the evolution of United States interest rates.

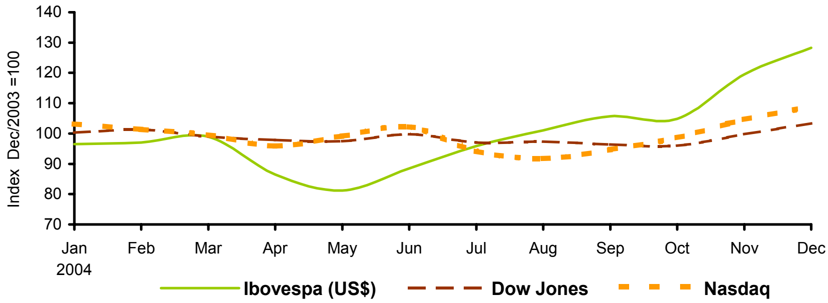
Beginning in May, however, the Ibovespa turned upward in a context of declining international market uncertainties and positive evolution in the major fundamentals of the Brazilian economy, moving to a high of 17.8% in the year and a new end-December record of 26,196 points. In dollar terms, the São Paulo Stock Exchange (Bovespa) showed

Graph 3.5
Ibovespa



Source: Broadcast

Graph 3.6
Ibovespa x Dow Jones x Nasdaq



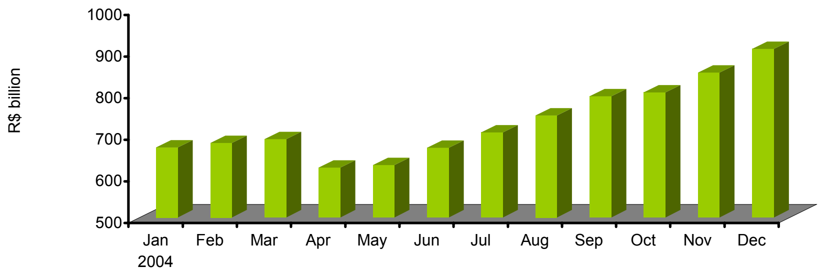
Source: Broadcast

even better results, with growth of 28.2% in the year, surpassing the position of the American exchanges, which only began recovering in November. In this sense, the Dow Jones and National Association of Securities Dealers Automated Quotations (Nasdaq) indices registered annual gains of 3.3% and 8.7%, respectively.

Expanding internal economic activity impacted business profits and resulted in improved expectations regarding the future evolution of stock prices. This scenario, coupled with an ongoing pursuit of new alternatives by international investors, generated net inflows of external resources to Bovespa in the amount of approximately R$ 1.8 billion. At the same time, average daily trading expanded to a total of 53,751 operations in 2004, 35.7% more than in the preceding year. Total trading volume reached R$ 304.1 billion, corresponding to annual growth of 48.6% concentrated primarily in the final months of the year.

At the end of 2004, the market value of the companies listed on the Brazilian exchange came to R$ 904.9 billion, for growth of 33.7% over the December 2003 figure. Here, Ibovespa companies accounted for a full 70.9% of the total.

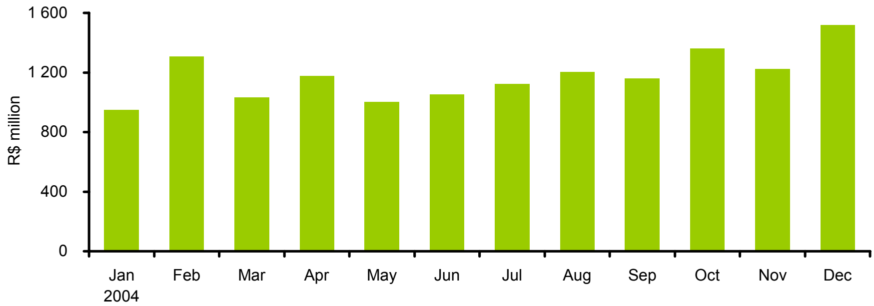
Graph 3.7
Market value
Open capital companies – Bovespa



Source: Bovespa

Business financing on capital markets through primary issues of stocks, debentures and promissory notes totaled R$ 16.3 billion, for an increase of 113.6% compared to 2003.

Graph 3.8
Traded average daily volume in Bovespa

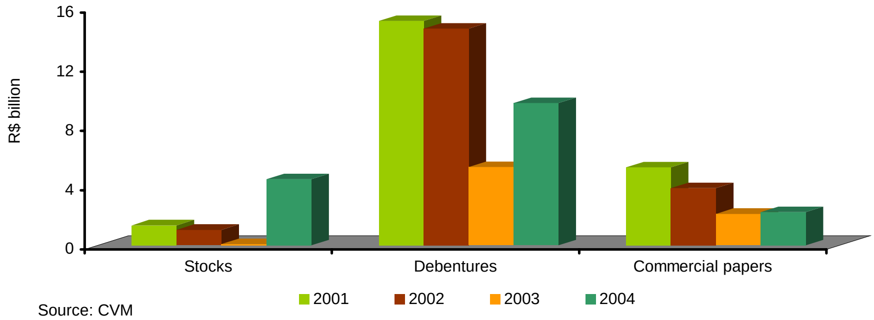


Source: Bovespa

Debenture issues totaled R$ 9.6 billion, for growth of 82% over the 2003 result while stock issues closed at R$ 4.5 billion, compared to R$ 230 million in the previous year. Among the factors that contributed to the strengthening of capital markets were such microeconomic measures as adoption of Securities and Exchange Commission (CVM) Instruction 404[3] which stimulated growth in the corporate debt sector by requiring greater market transparency.

Graph 3.9

Primary market – Issues



Source: CVM

Table 3.1 – Primary issues of companies

Issues – CVM (R$ million)

Period	Stocks		Debentures		Commercial papers		Total	
	2003	2004	2003	2004	2003	2004	2003	2004
Jan	0	0	0	1 580	2	1	2	1 581
Feb	80	0	219	0	700	40	999	40
Mar	0	0	0	180	200	0	200	180
Apr	0	375	1 800	50	150	1	1 950	426
May	0	0	60	150	0	0	60	150
Jun	0	808	350	180	23	1	373	989
Jul	0	0	250	1 629	3	200	253	1 829
Aug	0	0	830	1 380	0	0	830	1 380
Sep	0	1 889	260	1 857	180	0	440	3 746
Oct	0	0	205	1 839	475	0	680	1 839
Nov	0	321	340	0	95	2 000	435	2 321
Dec	0	1 076	969	769	300	0	1 269	1 845
Total	80	4 469	5 283	9 614	2 128	2 242	7 491	16 326

Source: CVM

3/ CVM Instruction 404, dated 2.13.2004, sought to encourage the development of a debentures market. For that purpose, it created, in its art. 2º, the Standardized Debentures, thus making the debentures issues more uniform and determining the need for securities evaluation. When defining objective clauses, easy to understand and apply, the instruction has contributed to increase both the transparency and liquidity of this market.

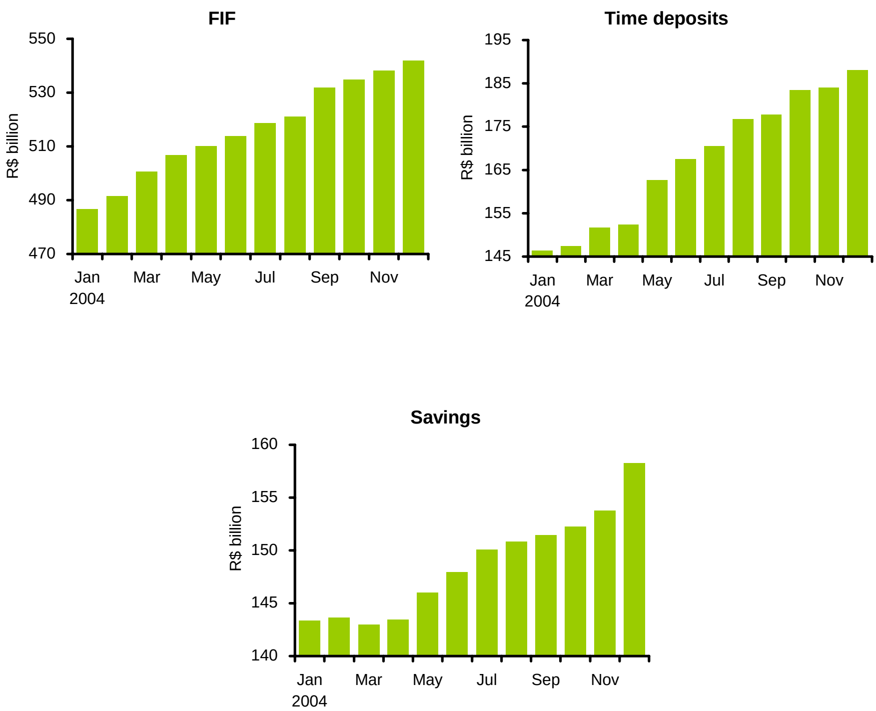
Financial investments

When savings accounts, investment funds and time deposits are included, the volume of financial investments came to R$ 914.5 billion in December 2004, for growth of 17.6% in the year.

The net worth of financial investment funds (FIF) closed December at R$ 541.9 billion, for an annual increase of 16.1%, with net inflows of R$ 7.3 billion in 2004 compared to R$ 65.1 billion in the previous year. Funds registered net outflows of R$ 4.7 billion in the second quarter, primarily as a consequence of the volatility of returns in the period, principally in the case of fixed income funds. This performance reflected the high registered under futures interest rates in the earnings of preset securities which are adjusted at market prices on a daily basis.

Graph 3.10

Financial investments – Balances



With respect to the evolution of investment fund security portfolios, it is important to note that while the Selic rate followed a downward curve, the participation of preset papers increased from 17.2% in January to 21.5% in June, while the share of postset securities dropped from 66.3% to 60.8% in the same time span. In the second half of the year, this tendency reversed course. At the same time, one should stress that the participation of exchange-indexed securities dropped as a consequence of net redemptions of exchange securities and appreciation of the real during the year.

In December 2004, stock fund equity reached R$ 49.5 billion, for growth of 18.8% and profitability of 17.2% in the year. Among the various stock fund modalities, mutual privatization funds registered an equity increase of 21.7%.

The balance of time deposits closed the year at R$ 188.1 billion. The net inflow of R$ 21.7 billion in the year resulted from increased banking credits, considering that most of these operations are backed by time deposit resources. In the year, demand for postset and floating Bank Deposit Certificates (CDB) predominated. Savings deposits added up to R$ 158.3 billion, compared to R$ 143.1 billion in 2003, with net inflows of R$ 4.3 billion.

In order to enhance the efficiency of funding allocations on the financial market while fostering competition among the various types of investments, the federal government issued Provisional Measure 179, dated 4.1.2004, later converted into Law 10,892, dated 7.13.2004, making it possible to create specific deposit accounts for investment purposes that would be exempt from the Provisional Contribution on Financial Operations (CPMF).

In order to expand the period of permanence of resources in financial investments and, therefore, encourage long-term savings, the federal government issued Provisional Measure 206, dated 8.6.2004, later converted into Law 11,033, 12.21.2004. This measure altered the tax treatment accorded financial investments by establishing differentiated tax rates depending on the maturities of financial market operations. In this sense, rates varied from 22.5% for investments of up to six months to 15% for those with maturities of more than 24 months, effective as of 1.1.2005. In the case of investment funds, earnings appropriated on a half-yearly basis will be taxed at a rate of 20% for short-term funds and 15% for long-term operations.

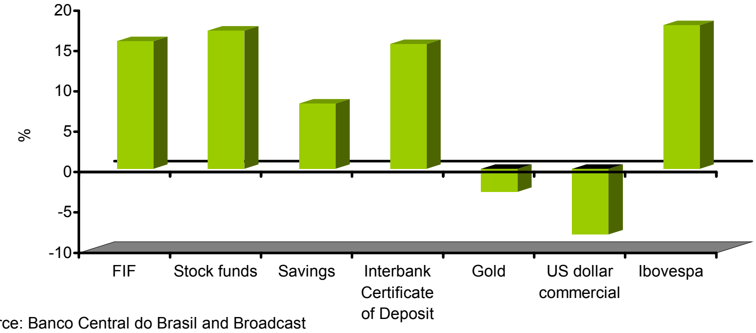
Normative Instruction 409 was issued by the CVM on 8.18.2004 and set down new rules for investment funds. Among the innovations included in this measure for the purpose of enhancing transparency and reducing the risks faced by holders of quotas in these funds, mention should be made of the obligation of classifying investment funds according to the composition of their assets: short-term, reference, fixed income, stock, exchange, external debt and multimarket.

Short-term funds are to channel their resources exclusively into federal public securities, with maturities no greater than 375 days and average portfolio maturities of less than 60 days. Fixed income, exchange and external debt funds are to target at least 80% of their portfolios into assets tied to the risk factor to which they refer.

Reference funds are to include their specific performance indicators in the official designations adopted for them and must have at least 80% of their assets in federal public securities and/or private papers, in which the issuer is classified as a low credit risk. Aside from this, these funds must have 95% of their portfolios indexed to a performance indicator. Multimarket funds must have investment policies that involve various risk factors.

Graph 3.11

Nominal income of major financial investments – 2004



Source: Banco Central do Brasil and Broadcast

Table 3.2 – Nominal income of financial investment – 2004

%

Itemization	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2004	Memo: 2003
FIF	1.42	0.97	1.35	0.99	1.26	1.27	1.23	1.22	1.21	1.19	1.17	1.49	15.82	22.88
Stock funds	-0.09	0.57	1.69	-6.90	-0.43	2.66	4.36	3.25	3.76	-0.01	2.49	5.13	17.14	38.78
Savings	0.63	0.55	0.68	0.59	0.66	0.68	0.70	0.70	0.67	0.61	0.62	0.74	8.10	11.10
CDB	1.18	1.02	1.29	1.10	1.18	1.18	1.22	1.24	1.25	1.17	1.20	1.45	15.49	22.33
Gold	-1.81	-2.37	6.22	-7.38	8.93	-2.90	-1.30	1.05	0.26	1.56	0.05	-4.14	-2.85	-0.77
US dollar commercial	1.79	-0.92	-0.18	1.24	6.26	-0.69	-2.60	-3.07	-2.56	-0.07	-4.40	-2.79	-8.13	-18.23
Ibovespa	- 1.73	- 0.44	1.78	- 11.45	- 0.32	8.21	5.62	2.09	1.94	- 0.83	9.01	4.25	17.81	97.33

Source: Banco Central do Brasil, CVM, Bovespa and BM&F

IV

Public Finance

Fiscal and tax policy

In the fiscal and tax policy framework, the measures approved by the National Congress in 2004 were generally aimed at stimulating new investments in strategic areas, in order to sustain the momentum of growth in economic activity. These measures can be classified into four large groups:

1. Measures aimed at reducing taxes on investments and stimulating long-term savings:

a) authorization granted to financial institutions to open current accounts for purposes of investment deposits. This new bank account modality makes it possible for investors to rechannel their funds without having to pay the CPMF, thus optimizing returns on their investments;
b) reduction of the Financial Operations Tax (IOF) from 7% to 4% on life insurance policies and definition of a programmed schedule of reductions designed to diminish this rate to zero in September 2006;
c) broadening of the existent tax exemption on Mortgage Bonds, as well as its extension to Real Estate Credit Bills and Certificates of Real Estate Receivables, when they are held by individual persons, and application of differentiated tax treatment to both fixed income and variable income financial investments; and
d) with regard to Social Security-type benefit plans instituted as of January 1, 2005 and structured into defined or variable contribution modalities, permission for pension fund entities and insurance companies to opt for a tax system in which the amounts paid to participants or to those assisted by such entities in the form of benefits or redemptions of cumulative amounts are subject to the income withholding tax at declining rates that vary from 35%, for resources with periods of accumulation of two years or less, to 10%, for resources with accumulation periods of more than ten years.

2. Measures aimed at reducing the acquisition costs of capital and investment goods in general:

a) institution of the Port Structure Modernization and Expansion Incentive Tax System (Reporto);

b) lengthening of the period for payment of the Industrialized Products Tax (IPI), to be levied monthly instead of every fifteen days, effective as of October 2004;
c) reduction of the IPI rate on capital goods from 5% to 2% and expansion of the list of machines and equipment entitled to tax reductions with inclusion of an additional 29 product lines;
d) institution of the "Invest Now Program", which consists of a reduction in the period for deducting Contribution to Social Security Financing (Cofins) and Social Integration Plan/Program of Civil Service Asset Formation (PIS/Pasep) in the form of tax credits when such are levied on acquisitions of machines and equipment in the period from 10.1.2004 to 12.31.2005, from four to two years, as well as permission for depreciation of such equipment in four years, instead of the previous period of ten years; and
e) creation of the National Industrial Structure Modernization Program (Modermaq), which encompasses financing for acquisitions of machines and equipment and other capital goods, with the objective of generating jobs, increasing productivity and technological development of the national industrial structure.

3. Measure designed to reduce taxation on specific sectors of economic activity, so as to diminish the tax load on foodstuffs and farm products in general:

reduction of the Cofins and PIS/Pasep rates on internal market imports and marketing of agricultural fertilizers and elimination of the levying of these contributions on revenues generated by sales of beans, rice, manioc flour, farm production inputs, vaccines for veterinary use and other products.

4. Measure designed to implement rules applicable to the construction industry market, including new credit and securitization instruments:

institution of an optional and irrevocable special system of taxation applicable to real estate incorporation transactions, during such time as the credit rights or obligations of the incorporating entity with the parties acquiring the real estate included in the incorporation transaction remain in effect.

Aside from these measures, mention should also be made of issue of Provisional Measure 222, dated 10.4.2004, which authorized the executive branch to create the Social Security Revenue Secretariat (SRP) within the structure of the Ministry of Social Security. The major objective of this measure is to achieve greater agility and efficiency in the collection of Social Security revenues. With creation of the Secretariat, the National Social Security Institute (INSS) will henceforward be able to dedicate itself with greater intensity to the activities involved in rendering services to Social Security beneficiaries, concentrating its efforts on improving both the services provided to society and the systems used in granting, maintaining and paying benefits.

At the same time, based on a decision taken by the Federal Supreme Court (STF), regulations were issued on the provisions of Constitutional Amendment 41, dated 12.19.2003, involving the charging of contributions to be paid by civil service retirees and pensioners belonging to any branch of government. As a result, inactive civil servants were obligated to pay 11% of the value of their retirement and pension benefits which exceeds the ceiling imposed on the benefits paid by the INSS to private sector workers.

Law 10,887, dated 6.18.2004, determined that active civil servants will be obligated to contribute 11% of their base pay to their specific civil service social security system. Base pay is understood as the earnings attributed to a position plus any permanent financial advantages granted by law, additional amounts of an individual character or any other advantages, excluding any amounts paid on a nonregular basis. For purposes of calculating retirement benefits, civil servants occupying effective government positions may opt to incorporate the amount received as a consequence of holding a commissioned position or position of trust into the contribution base, duly respecting the ceiling defined at R$2,400.00.

On 6.30.2004, the National Congress approved Constitutional Amendment 44, dated 6.30.2004, which raised the participation of the states and municipalities in the collection of the Contribution on Intervention in the Economic Domain (Cide) from 25% to 29%. It is important to note that state and municipal participation in Cide was authorized by Constitutional Amendment 42, dated 12.19.2003, which went into effect in January 2004.

Law 11,079, dated 12.30.2004, was approved by the National Congress following thirteen months of deliberation. This Law introduced a series of general rules on the tendering and contracting of Public-Private Partnerships (PPP) within the public administration (federal, state and municipal governments, plus the Federal District). The Law defined two modalities of concession contracts formalized within the PPP framework:

a) sponsored concession: consists of the concession of a public service or public works project as defined in Law 8987/1995, when such a system also involves amounts to be paid by the public partner to the private partner, aside from rates charged to users; and
b) administrative concession: consists of a service contract in which the public administration is the direct or indirect user, even though it may involve execution of specific works or the supply and installation of goods.

With the partnership mechanism, the government hopes to attract private investments in order to finance public works projects considered to be of vital importance to driving and ensuring the country's economic growth. Between 23 and 25 projects are expected to be executed through this type of contract over a period of three years, with estimated investments of R$13 billion. Among the priorities, mention should be made of construction of railway segments and recovery of the nation's highway network in different regions of the country, together with investments in the port system.

Institution of two other programs of a social character deserves mention:

a) the University for All Program (Prouni), which is designed to grant scholarships for undergraduate courses and continuation of specific training courses at profit-seeking and nonprofit private higher education institutions. Those institutions that adhere to the program will be exempted from payment of the income tax, Social Contribution on Net Profits, PIS/Pasep and Cofins; and
b) National Targeted Productive Microcredit Program (PNMPO), which has the objective of facilitating and expanding access to productive credit on the part of microentrepreneurs. Targeted productive microcredit is defined as credit granted on the basis of a direct relationship between the credit agent and the microentrepreneur at the site of the latter's activity, through:
   i) services provided by persons trained to offer guidance on business management and credit needs, aimed at achieving sustainable development;
   ii) personal contact, among other aspects, during the entire credit period; and
   iii) definition of the value of the credit and the conditions underlying the operation, following evaluation of the activity and of the borrower's debt capacity.

Public sector borrowing requirements

The nonfinancial public sector registered a primary surplus of R$81.1 billion, 4.6% of GDP in 2004, as against R$66.2 billion, 4.3% of GDP in 2003. The increase of 0.3 p.p. of GDP in the 2004 primary surplus reflected growth of 0.49 p.p. in the central government result and 0.11 p.p. in the result for regional governments, together with a reduction of 0.24 p.p. for state-owned companies.

In 2004, the central government registered a surplus of R$52.4 billion, based on a federal government surplus of R$84.7 billion and deficits of R$32 billion in INSS accounts and R$336 million in BCB operations.

The federal government result was a consequence of revenue growth equivalent to 0.87 p.p. of GDP, generated basically by upward movement in the pace of economic activity. It should be stressed that revenue growth was also driven by changes in PIS and Cofins legislation introduced by Law 10,865/2004. This legislation extended this tax to all imported goods and services, effective as of the start of May 2004, with the overall objective of harmonizing internal and external market operations with respect to the levying of these contributions.

Annual growth in 2004 spending was equivalent to 0.47 p.p. of GDP. Transfers to states and municipalities and outlays on personnel and social charges registered declines of 0.03 p.p. of GDP. Moving in the opposite direction, spending on other current and capital outlays increased 0.52 p.p. of GDP. Among other factors, this heading also includes

Table 4.1 – Public sector borrowing requirements

Itemization	2001		2002	
	R$ million	% of GDP[1/]	R$ million	% of GDP[1/]
Total nominal	42 789	3.6	61 614	4.6
Central government[2/]	25 273	2.1	10 029	0.7
States	23 080	1.9	43 797	3.3
Local governments	1 178	0.1	7 696	0.6
State enterprises	-6 742	- 0.6	92	0.0
Total primary	-43 655	- 3.6	-52 390	- 3.9
Central government[2/]	-21 980	- 1.8	-31 919	- 2.4
States	-7 211	- 0.6	-8 560	- 0.6
Local governments	-3 260	- 0.3	-2 073	- 0.2
State enterprises	-11 204	- 0.9	-9 838	- 0.7
Nominal interest	86 443	7.2	114 004	8.5
Central government[2/]	47 253	3.9	41 948	3.1
States	30 291	2.5	52 356	3.9
Local governments	4 437	0.4	9 770	0.7
State enterprises	4 463	0.4	9 929	0.7

(continues)

Table 4.1 – Public sector borrowing requirements (concluded)

Itemization	2003		2004	
	R$ million	% of GDP[1/]	R$ million	% of GDP[1/]
Total nominal	79 030	5.1	47 142	2.7
Central government[2/]	62 150	4.0	27 031	1.5
States	22 936	1.5	27 497	1.6
Local governments	4 067	0.3	6 485	0.4
State enterprises	-10 124	- 0.7	-13 872	- 0.8
Total primary	-66 173	- 4.3	-81 112	- 4.6
Central government[2/]	-38 744	- 2.5	-52 385	- 3.0
States	-11 916	- 0.8	-16 060	- 0.9
Local governments	-1 906	- 0.1	-1 422	- 0.1
State enterprises	-13 608	- 0.9	-11 245	- 0.6
Nominal interest	145 203	9.3	128 253	7.3
Central government[2/]	100 894	6.5	79 417	4.5
States	34 851	2.2	43 557	2.5
Local governments	5 973	0.4	7 906	0.4
State enterprises	3 484	0.2	-2 627	- 0.1

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

spending on assistance benefits, particularly those carried out under the terms of the Social Assistance Law (Loas), which increased from R$4.4 billion to R$7.5 billion, and outlays on public investments, which expanded from R$5.1 billion to R$9.2 billion, in 2004. Furthermore, it is important to mention that spending related to other current and capital outlays was pressured by education and health spending. These two headings have their own specific dynamics and are not subject to conditioning factors. Thus, annual outlays on education may not be less than 18% of the overall tax inflow, after deduction of 20% in Nonearmarked Federal Government Resources and constitutional transfers, while disbursements on health activities and services are expected to close at last year’s level, plus nominal growth in GDP.

Table 4.2 – Central government primary result

R$ million

Itemization	2002	2003	2004	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	321 842	357 891	422 450	11.2	18.0
Treasury revenues	250 815	277 159	328 685	10.5	18.6
Administered revenues1/	224 860	246 244	287 924	9.5	16.9
Non administered revenues	25 955	30 915	40 761	19.1	31.8
Social security revenues	71 027	80 732	93 765	13.7	16.1
Total expenditures	289 383	318 407	372 730	10.0	17.1
Treasury expenditures	201 354	211 272	246 978	4.9	16.9
Transfers to states and municipalities	56 138	60 226	67 559	7.3	12.2
Personnel and social charges	73 304	78 068	87 730	6.5	12.4
Other current and capital expenditures	71 912	72 978	91 689	1.5	25.6
Social security benefits	88 029	107 135	125 751	21.7	17.4
Federal government result	32 459	39 484	49 721	21.6	25.9
National Treasury	49 461	65 887	81 707	33.2	24.0
Social security	-17 002	-26 403	-31 986	55.3	21.1
Central Bank result	- 777	- 195	- 336	-74.9	72.5
Primary result (above the line)2/	31 682	39 289	49 384	24.0	25.7
Primary result/GDP – %	2.4	2.5	2.8	-	-

Source: Ministério da Fazenda/STN

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

INSS revenues increased from 5.18% of GDP in 2003 to 5.32% in 2004. The major determinants of this performance were employment growth in the formal market sector and a higher contribution ceiling. Outlays on benefit payments also expanded, moving from 6.88% of GDP to 7.15%, primarily as a consequence of increases of 11.1% in the average value of the benefits paid, reflecting the minimum wage increase, coupled with a rise of 4.08% in the average monthly volume of benefits paid. At the same time, it should be stressed that the heading of “judicially determined payments” also increased; due primarily to payments of suits involving adjustments in retirement benefits.

The result for regional governments remained positive over the entire year of 2004, particularly as a result of the inflow response of the Tax on the Circulation of

Merchandise and Services (ICMS) to the upturn in the pace of economic activity. Deflated by the IGP-DI, growth in these revenues closed the year at 52.7%. As far as spending is concerned, observance of debt limits and restrictions on administrative outlays were determining factors in the continuity of the fiscal performance of this sector.

State-owned companies turned in a primary surplus that was below the 2003 level. This decline reflected the deficit for the first half of the year, when outlays were concentrated in investments and dividend distributions. This tendency reversed course in the second half of the year, as state-owned companies accumulated a surplus of approximately 0.6% of GDP in 2004, compared to 0.9% in the previous year.

Nominal interest appropriated in 2004 totaled R$128.3 billion or 2 p.p. of GDP below the previous year's result. This is a clear indication of a reduction in the Selic rate target accumulated in 2004, as well as a downturn in the debt/GDP ratio observed over the course of the year. It is important to stress that, in 2004, gains obtained in exchange swap operations carried out by BCB closed at R$6 billion, as against R$15.6 billion in 2003.

The strong increase in the nonfinancial public sector primary surplus, coupled with a sharp reduction in interest appropriations, resulted in significant contraction of the

Table 4.3 – Uses and sources – Consolidated public sector

Itemization	2003		2004	
	R$ million	% of GDP	R$ million	% of GDP
Uses	79 030	5.1	47 142	2.7
Primary	- 66 173	- 4.3	- 81 112	- 4.6
Internal interest	126 043	8.1	111 196	6.3
Real interest	91 267	5.9	39 226	2.2
Monetary updating	34 776	2.2	71 969	4.1
External interest	19 160	1.2	17 058	1.0
Sources	79 031	5.1	47 144	2.7
Internal borrowing	94 486	6.1	88 950	5.0
Securities debt	122 438	7.9	68 553	3.9
Banking debt	- 31 361	- 2.0	9 449	0.5
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	3 409	0.2	10 949	0.6
Relationship TN/Bacen	-	-	-	-
External borrowing	- 15 456	- 1.0	- 41 806	- 2.4
GDP flows in 12 months[1/]	1 556 182		1 762 499	

1/ GDP at current prices.

nominal nonfinancial public sector deficit to the level of R$47.1 billion, 2.7% of GDP, in 2004. This result is equivalent to 60% and 76% of the cumulative deficits registered in 2003 and 2002, respectively. As a ratio of GDP, the nominal 2004 deficit stands as the best result obtained since the series was first created in 1991.

The cumulative 2004 nominal deficit was financed through issues of security debt totaling R$68.6 billion; monetary base in the amount of R$10.9 billion; and R$9.4 billion expansion in the banking debt. In the opposite direction, there was a reduction of R$41.8 billion in the net external sector debt in the year.

Federal tax and contribution inflow

In 2004, the inflow of federal taxes and contributions totaled R$322.6 billion, compared to R$273.4 billion in the previous fiscal year, corresponding to a real increase of 10.6% using the IPCA as deflator. Revenues administered by the Federal Revenue Secretariat came to R$300.6 billion, while those collected by other public entities, excluding social security contributions on labor earnings which are the responsibility of the INSS, totaled R$22 billion. It is important to emphasize that the sharp inflow gains in 2004 were a consequence of alterations introduced into the legislation covering Cofins and the income tax in the year under analysis.

The Income Tax (IR) inflow climbed to R$102.8 billion or 31.9% of the total, corresponding to real growth of 3.6% compared to the previous year. This result reflected a 7.8% real increase in Corporate Income Tax (IRPJ) revenues, which totaled R$40.3 billion.

Income tax withholdings registered 0.1% real growth in 2004, closing at R$59.7 billion. Inflows on labor earnings and other segments increased 11.7% and 7.4%, respectively, while those levied on capital earnings and remittances abroad decreased 15% and 6.8% in the year. Withholdings on labor earnings reflected the upturn in employment levels as well as court decisions determining that the income tax should be withheld from earnings paid by the party effecting payment. On the other hand, the inflow of taxes on capital earnings and remittances abroad was impacted by reductions in fixed income investments, in the first case, and by exchange stability and it's repercussions on swap operations, in the latter case.

In 2003, the Cofins inflow reached R$76.9 billion, as against R$59.6 billion in the previous year, corresponding to real growth of 20.6%. The major factors underlying this performance were:

a) extension of this tax to imports of goods and services, effective as of 5.1.2004;

b) increase in the rate levied on the revenues of financial institutions from 3% to 4%, effective as of 6.1.2003;
c) withholding of taxes on payments made by public sector entities and companies to corporate entities, resulting in a revenue gain consequent upon the enhanced control exercised by the Secretaria da Receita Federal (SRF).

Table 4.4 – Gross federal revenues

R$ million

Itemization	2002	2003	2004	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	85 803	93 016	102 820	8.4	10.5
Industrialized Products Tax (IPI)	19 799	19 674	22 830	-0.6	16.0
Import Tax (II)	7 972	8 143	9 200	2.1	13.0
Financial Operations Tax (IOF)	4 022	4 450	5 253	10.6	18.0
Contribution to the Financing of the Social Security (Cofins)	52 267	59 565	76 890	14.0	29.1
Social Contrib. on the Profits of Legal Entities (CSLL)	13 364	16 750	19 647	25.3	17.3
Contribution to PIS/Pasep	12 872	17 337	19 454	34.7	12.2
Provisional Contribution on Financial Transactions (CPMF)	20 369	23 046	26 432	13.1	14.7
Contribution on Intervention in the Economic Domain (Cide)	7 243	7 496	7 669	3.5	2.3
Other taxes	19 295	23 881	32 361	23.8	35.5
Total	243 006	273 358	322 556	12.5	18.0

Source: Secretaria da Receita Federal

The IPI inflow totaled R$22.8 billion, for real growth of 8.7% in the year. This result mirrored the significant expansion registered by the industrial sector in 2004, together with volume increases in internal market sales of automobiles and upward movement in tobacco-derived products.

The Social Contribution on Net Profits (CSLL) registered an inflow of R$19.6 billion, for real growth of 9.7% compared to 2004. This figure not only reflected improved business results, was also generated by two other factors:

a) increase in the calculation base from 12% to 32% of gross revenues, effective as of 6.1.2003, applicable to service companies that effect payment of their contributions based on presumed profits; and
b) expansion of the universe of businesses subject to the withholding tax as of 2.1.2004, when the service in question is rendered to public sector entities and companies.

Inflows administered by other public sector entities that are not included in the "Federal Revenue System" totaled R$22 billion and registered real growth of 12.7% in 2004. The

Table 4.5 – Income Tax and Industrialized Products Tax

R$ million

Itemization	2002	2003	2004	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	85 803	93 016	102 820	8.4	10.5
Individuals	4 462	5 103	6 136	14.4	20.2
Corporate entities	33 893	33 833	38 894	-0.2	15.0
Financial institutions	4 589	5 871	6 195	27.9	5.5
Other companies	29 304	27 962	32 699	-4.6	16.9
Withholdings	47 450	54 079	57 790	14.0	6.9
Labor earnings	22 480	26 456	31 523	17.7	19.2
Capital earnings	16 362	19 056	17 281	16.5	-9.3
Remittances abroad	5 371	5 596	5 575	4.2	-0.4
Other earnings	3 237	2 971	3 411	-8.2	14.8
Industrialized Products Tax (IPI)	19 799	19 673	22 830	-0.6	16.0
Tobaco	1 924	1 993	2 305	3.6	15.7
Beverages	1 796	1 899	2 005	5.7	5.6
Automotive vehicles	2 664	2 312	2 965	-13.2	28.2
Other taxes	8 528	8 905	10 378	4.4	16.5
Linked imports	4 887	4 564	5 177	-6.6	13.4

Source: Secretaria da Receita Federal

factor that made the major contribution to this inflow was growth in the inflow of the contribution to the Civil Service Social Security Plan (CPSS). In more specific terms, this involved an increase in the employer contribution from 11% to 22%, coupled with the Federal Supreme Court decision as to the constitutionality of the contribution required from civil service retirees and pensioners.

Federal securities debt

Evaluated in terms of the portfolio position, the federal securities debt outside BCB came to R$810.3 billion, 43.8% of GDP, in December 2004, compared to R$731.9 billion, 45.8% of GDP, at the end of the previous year. The reduction of 2 p.p. of GDP reflected overall net redemptions of R$36.8 billion in 2004, based on net issues of R$49.6 billion in LTN; R$4.7 billion in NTN-B; R$2.1 billion in NTN-F; and R$1.1 billion in NTN-C; together with net redemptions of R$53.2 billion in LFT; R$19.7 billion in National Treasury Note – Series D (NTN-D); R$18.9 billion in Central Bank of Brazil Notes – Special Series (NBCE); and R$1.6 billion in LFT – Series B (LFT-B).

In December 2004, National Treasury securities totaled R$1099.5 billion, of which R$302.9 billion were held by BCB and R$796.7 billion were held outside the monetary authority. BCB securities added up to R$13.6 billion, 1.6% of the total securities debt on the market, as compared to R$30.7 billion in the previous year, when it accounted for 4.2% of the debt. The decline in this participation reflected net redemptions of NBCE and 8.1% appreciation of the real against the dollar in 2004.

Table 4.6 – Federal securities – Portfolio position

Balances in R$ million

Itemization	2000	2001	2002	2003	2004
National Treasury liabilities	555 908	687 329	838 796	978 104	1 099 543
Central Bank portfolio	130 897	189 442	282 730	276 905	302 863
LTN	37 243	27 970	45 775	101 376	126 184
LFT	90 595	114 986	145 614	99 646	117 405
NTN	1 812	44 943	89 664	74 026	57 275
Securitized credits	1 246	1 543	1 678	1 857	1 999
Outside the Central Bank	425 011	497 887	556 066	701 199	796 680
LTN	75 399	48 791	13 596	91 055	159 960
LFT	262 301	322 153	372 584	443 180	457 757
BTN	64	67	100	74	62
NTN	46 233	87 488	127 399	126 721	133 700
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	14 280	19 366	19 214	18 236	17 343
Securitized credits	21 119	16 044	15 406	15 001	21 103
Agrarian debt	3 108	1 689	5 761	4 879	4 345
TDA	2 495	2 276	2 005	2 052	2 411
CDP	14	11	1	1	0
Central Bank liabilities	85 686	126 198	67 125	30 659	13 584
LBC	-	-	-	-	-
BBC/BBCA	-	-	-	-	-
NBCE	83 745	124 707	67 125	30 659	13 584
NBCF	1 942	1 490	-	-	-
NBCA	-	-	-	-	-
Outside the Central Bank – Total	510 698	624 084	623 191	731 858	810 264
In % of GDP	44.2	49.7	39.3	45.8	43.8

With regard to the distribution of securities by indexing factor, the participation of preset papers in the total securities debt rose from 12.5% of the total in December 2003 to 20.1% in December 2004, due primarily to net issues of LTN and NTN-F. The participation of Selic-indexed securities dropped from 61.4% to 57.1%, reflecting net LFT redemptions. The share of exchange-indexed papers dropped from 10.8% to 5.2%, reflecting redemptions of NBCE and NTN-D, as well as appreciation of the real against the dollar. Parallel to this, the participation of securities indexed to the Reference Rate (TR) moved from 1.8% to 2.7%, while the participation of price-indexed securities rose from 13.5% to 14.9%.

The amortization schedule of the federal securities debt on the market was distributed as follows in December 2004: R$359.8 billion, 44.4% of the total, to mature in 2005; R$218.1 billion, 26.9%, in 2006; and, R$232.4 billion, 28.7%, as of January, 2007.

Table 4.7 – Federal public securities

Percentage share by indexator – Portfolio position

Index numbers	2000	2001	2002	2003	2004
Total – R$ million	510 698	624 084	623 191	731 858	810 264
Foreign exchange	22.3	28.6	22.4	10.8	5.2
Reference Rate (TR)	4.7	3.8	2.1	1.8	2.7
IGP-M	1.6	4.0	7.9	8.7	9.9
Over/Selic	52.2	52.8	60.8	61.4	57.1
Preset	14.8	7.8	2.2	12.5	20.1
Long-term Interest Rate (TJLP)	0.0	0.0	0.0	0.0	0.0
IGP-DI	4.4	3.0	3.1	2.4	1.8
INPC	0.0	0.0	0.0	0.0	0.0
IPCA	-	-	1.5	2.4	3.1
Others	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

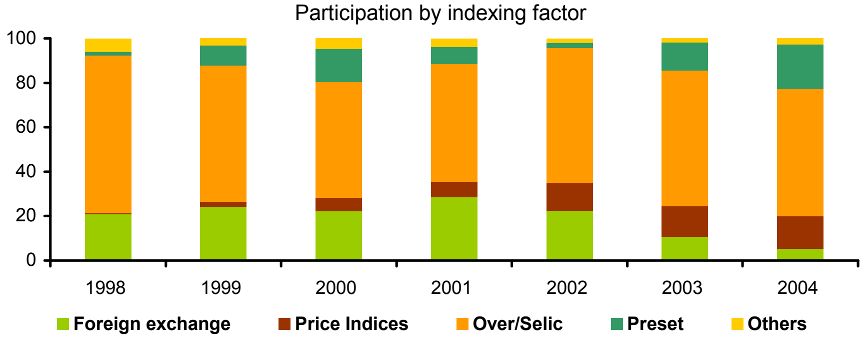
The average duration of federal public securities issued by BCB and the National Treasury in public offers closed at 11.31 months in December 2004, compared to 10.85 months in December 2003. When separated by issuing entity, the average duration of BCB papers closed at 15.77 months, while that of National Treasury securities came to 11.22 months.

Total exposure in exchange swap operations carried out up to December 2004 came to R$38.3 billion, compared to R$82.3 billion in December 2003. Viewed in terms of the accrual criterion, the cumulative results of these operations in the year, encompassing the difference between DI profitability and exchange variation plus coupons, closed at a positive figure of R$7.6 billion for the BCB. Viewed according to the cash criterion, the cumulative positive result in the year was R$6 billion.

Graph 4.1

Federal public securities

Participation by indexing factor



Net Public Sector Debt (DLSP)

At the end of 2004, DLSP totaled R$957 billion, 51.8% of GDP, compared to R$913.1 billion, 57.2% of GDP, at the end of 2003.

The sharp reduction of 5.4 p.p. of GDP in the DLSP/GDP ratio interrupted the steady upward trend registered by this indicator since 1994. This performance was generated by a combination of positive factors, including continued fiscal equilibrium in all segments, economic growth, lesser interest appropriations and exchange rate stability.

It is important to stress that the public sector fiscal effort was targeted specifically to amortization of the internal securities debt and the external debt, since these segments are particularly important in terms of cost. In the case of the internal securities debt, the highlight was the volume of net redemptions of exchange-indexed securities. To understand the importance of this it is enough to state that the participation of these papers in the total securities debt dropped from 20.5% in December 2003 to 9.3% at the end of 2004, already considering exchange swap operations. These alterations reflect the public debt management strategy adopted with the aim of sharply reducing the level of vulnerability to market risk.

The gross general government debt, which includes the federal government (INSS, state governments and municipal governments), totaled R$1331.8 billion, 72.1% of GDP, at the end of 2004, as against R$1228.6 billion, 76.9% of GDP, at the end of the preceding year. The decline of 4.8 p.p. in relation to GDP was caused, above all, by a drop of 3 p.p. in the federal government external debt.

Table 4.8 – Public sector net debt growth

Itemization	2001		2002	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	660 867	52.6	881 108	55.5
Net debt – Growth accumulated in the year	97 704	3.5	220 241	2.9
Conditioning factors (flows accumulated in the year):[1/]	97 704	7.8	220 241	13.9
Public sector borrowing requirements	42 789	3.4	61 614	3.9
Primary	- 43 655	-3.5	- 52 390	-3.3
Nominal interest	86 443	6.9	114 004	7.2
Exchange adjustment[2/]	37 814	3.0	147 225	9.3
Domestic securities debt indexed to exchange rate[3/]	19 182	1.5	76 662	4.8
External debt	18 633	1.5	70 564	4.4
External debt adjustment – Others	- 383	0.0	753	0.0
Acknowledgement of debt	18 465	1.5	14 286	0.9
Privatizations	- 980	-0.1	- 3 637	-0.2
GDP Growfh effect – Debt[4/]		-4.2		-11.0
GDP accumulated in 12 months – Valued[5/]	1 255 658		1 587 584	

(continues)

Table 4.8 – Public sector net debt growth (concluded)

Itemization	2003		2004	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	913 145	57.2	956 994	51.8
Net debt – Growth accumulated in the year	32 037	1.7	43 848	-5.4
Conditioning factors (flows accumulated in the year):[1/]	32 037	2.0	43 848	2.4
Public sector borrowing requirements	79 030	4.9	47 142	2.6
Primary	- 66 173	-4.1	- 81 112	-4.4
Nominal interest	145 203	9.1	128 253	6.9
Exchange adjustment[2/]	- 64 309	-4.0	- 16 194	-0.9
Domestic securities debt indexed to exchange rate[3/]	- 22 715	-1.4	- 3 336	-0.2
External debt	- 41 594	-2.6	- 12 858	-0.7
External debt adjustment – Others	16 712	1.0	7 137	0.4
Acknowledgement of debt	604	0.0	6 516	0.4
Privatizations	0	0.0	- 753	0.0
GDP Growth effect – Debt[4/]		-0.3		-7.8
GDP in R$ million[5/]	1 596 846		1 847 872	

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 4.9 – Net debt of the public sector

Itemization	2003		2004	
	R$ million	% of GDP	R$ million	% of GDP
Fiscal net debt (F=D-E)	652 560	40.9	699 702	37.9
Internal debt adjustment (E)	129 361	8.1	126 025	6.8
Fiscal net debt with exchange devaluation (E=A-B-C-D)	781 921	49.0	825 727	44.7
External debt adjustment (D)	101 708	6.4	95 988	5.2
Inventory adjustment (C)	93 245	5.8	99 760	5.4
Privatization adjustment (B)	- 63 729	-4.0	- 64 482	-3.5
Total net debt (A)	913 145	57.2	956 994	51.8
Federal government	584 544	36.6	610 075	33.0
Banco Central do Brasil	- 5 796	-0.4	- 8 600	-0.5
States	278 016	17.4	305 961	16.6
Local governments	38 703	2.4	45 098	2.4
State enterprises	17 678	1.1	4 460	0.2
Domestic debt	726 688	45.5	818 062	44.3
Federal government	365 776	22.9	411 878	22.3
Banco Central do Brasil	52 694	3.3	64 480	3.5
States	261 587	16.4	289 981	15.7
Local governments	36 098	2.3	42 447	2.3
State enterprises	10 533	0.7	9 277	0.5
External debt	186 458	11.7	138 931	7.5
Federal government	218 767	13.7	198 197	10.7
Banco Central do Brasil	- 58 490	-3.7	- 73 080	-4.0
States	16 429	1.0	15 980	0.9
Local governments	2 605	0.2	2 651	0.1
State enterprises	7 146	0.4	- 4 817	-0.3
GDP in R$ million[1/]	1 596 846		1 847 872	

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

Social Security

In the year under analysis, the General Social Security System (RGPS) registered a nominal deficit of R$32 billion, 21% more than in the previous year. Excluding transfers to third parties, net inflow came to R$93.8 billion, with outlays of R$125.8 billion on Social Security benefits. As a proportion of GDP, the annual deficit closed 0.12 p.p. higher than in 2003, with 1.82% of GDP.

The net 2004 inflow was the largest in history, reflecting growth of 16.2% compared to 2003. The major determinants of this growth were:

Table 4.10 – Gross and net government debt[1/]

Itemization	2003		2004	
	R$ million	% of GDP	R$ million	% of GDP
Net public debt	913 145	57.2	956 994	51.8
Net general government debt	901 263	56.4	961 133	52.0
Gross general government debt	1 228 569	76.9	1 331 758	72.1
Internal gross debt	987 116	61.8	1 111 246	60.1
Foreign gross debt	241 453	15.1	220 512	11.9
Federal government	222 418	13.9	201 881	10.9
State government	16 429	1.0	15 980	0.9
Local government	2 605	0.2	2 651	0.1
Assets of general government	- 327 306	- 20.5	- 370 625	- 20.1
Internal assets	- 323 655	- 20.3	- 366 941	- 19.9
Available assets of general government	- 136 461	- 8.5	- 175 855	- 9.5
Investment of social security system	- 860	- 0.1	- 289	0.0
Tax collected (not transferred)	- 1 587	- 0.1	- 745	0.0
Demand deposits	- 4 371	- 0.3	- 3 965	- 0.2
Available assets of fed. govern. in Banco Central	- 120 190	- 7.5	- 158 232	- 8.6
Investment in the banking system (states)	- 9 454	- 0.6	- 12 624	- 0.7
Investment in funds and financial programs	- 58 132	- 3.6	- 53 298	- 2.9
Credits with public enterprises	- 29 215	- 1.8	- 24 970	- 1.4
Other federal government's credits	- 25 624	- 1.6	- 25 800	- 1.4
Laborer assistance fund (FAT)	- 74 223	- 4.6	- 87 018	- 4.7
Foreign credits	- 3 651	- 0.2	- 3 683	- 0.2
Federal government	- 3 651	- 0.2	- 3 683	- 0.2
State government	-	-	-	-
Local government	-	-	-	-
Banco Central net debt	- 5 796	- 0.4	- 8 600	- 0.5
Public enterprises net debt	17 678	1.1	4 460	0.2
GDP in R$ million[2/]	1 596 846		1 847 872	

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

a) positive growth in formal market employment in 2004, aiding in improving overall wages and, consequently, generating increased current Social Security revenues, which expanded 9.5% in the year;
b) annual growth of 14.8% in the recovery of Social Security credits from debtors of the system; and
c) increase in the RGPS ceiling from R$1,869.34 to R$2400, effective as of January 2004, thus expanding the contribution base and raising current revenues.

Table 4.11 – Social Security – Cash flow

R$ million

Itemization	2002	2003	2004	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Revenues	105 032	122 227	160 000	16.4	30.9
Banking inflow	76 080	86 588	101 126	13.8	16.8
Other revenues	361	602	2 610	66.8	333.4
Revenue anticipation	2 939	- 3 238	6 885	-	-
Federal government transfers	25 652	38 275	49 380	49.2	29.0
Expenditures	102 145	123 359	151 742	20.8	23.0
Social security benefits	88 029	107 135	125 751	21.7	17.4
Non-social security benefits	4 083	5 062	8 168	24.0	61.3
Other expenditures	4 980	5 304	10 463	6.5	97.3
Transfers to third parties	5 053	5 857	7 360	15.9	25.6
Cash result	2 887	- 1 131	8 259	...	...
Social Security balance	- 17 002	- 26 405	- 31 985	...	...

Source: Ministério da Previdência e Assistência Social

It is also important to note that revenues generated by business contributions accounted for 77.6% of the overall net inflow in 2004.

The primary causes of growth in outlays on Social Security benefits were as follows:

a) the impact of the real minimum wage increase, resulting in upward movement in the real value of the Social Security benefit floor. The average value of the benefits paid by the Social Security system rose 8.5% above inflation, moving from R$459.74 in 2003 to R$498.68 in 2004;
b) natural growth in the stock of benefits; and
c) increase of 185% in outlays on judicially determined payments, compared to 2003.

In 2004, the Social Security system paid 23.1 million benefits to those insured by the system, 5.9% more than in the previous year. Of this total, 19.7 million corresponded to Social Security benefits (retirements, pensions by reason of the death of the insured party, maternity assistance, among others), 757 thousand accident benefits and 2.6 million assistance benefits granted to the elderly, the handicapped, and others.

A comparison of 2004 averages with those of the previous year points to growth of 428.3 thousand retirements, 296.9 thousand illness assistance benefits and 267.4 thousand benefits granted under the terms of Loas, reflecting respective rates of growth equivalent to 3.6%, 31.8% and 16.4% in the period under analysis.

In the Loas framework, additional benefit grants to the elderly came to 193.6 thousand benefits, for annual growth of 30.8%. This expansion reflected the cutback in the minimum age defined in the Law on the Elderly from 67 to 65 in order to qualify for this benefit.

Illness assistance benefits continued on the growth curve that has marked the last four years. From 2000 to 2004, annual outlays under this heading jumped from R$2 billion to R$9 billion, raising the participation of these outlays in overall benefits paid by the system from 7.2% to 7.5%.

In 2004, inflows generated in urban and rural areas came to R$92.8 billion and R$3.2 billion, respectively, while outlays on benefits totaled R$104.9 billion and R$23.9 billion, in the same order. The ratio between inflows and benefit payments was 88.5% in urban areas as against 13.4% in rural areas.

State and municipal finance

Federal government transfers to the states and municipalities added up to R$67.6 billion in 2004, 12.2% more than in the preceding year. The major factors underlying this growth were inflows of the income tax and the IPI, which are used as the basis for calculating constitutionally determined transfers, coupled with state participation of 25% in the Cide inflow as of January 2004.

Table 4.12 – Federal government onlendings to states and municipalities

R$ million

Itemization	2002	2003	2004	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Constitutional onlendings (IPI, IR and others)	44 596	46 243	51 138	3.7	10.6
Export Compensation Fund	3 953	3 900	4 295	-1.3	10.1
Cide transfers	-	-	1 109	-	-
Others[1/]	7 591	10 083	11 015	32.8	9.2
Total	56 140	60 226	67 557	7.3	12.2

Source: Ministério da Fazenda/Secretaria do Tesouro Nacional

1/ Contribution of education benefit, Fund for the Support and Development of Primary Education and Enhancement of the Teaching Career (Fundef), petrol royalties and other onlendings.

With regard to the sources of funding, transfers are grouped into four segments:

a) constitutional transfers (IPI, income tax and others): R$51.2 billion;
b) Export Compensation Fund (L.C. 87/1996): R$4.3 billion;

c) Cide transfers (E.C. 42/2003): R$1.1 billion; and
d) others: R$11 billion.

The heading of constitutional transfers refers to State and Municipal Revenue Sharing Funds (FPE/FPM), North, Northeast and Central West Constitutional Financing Funds (FNO, FNE and FCO) and the Industrialized Product Export Compensation Fund (FPEX). The Export Compensation Fund refers to reimbursement of ICMS inflow losses caused by reductions in taxation on exports of semimanufactured and primary products. "Other transfers" encompass payments of royalties for the working of oil deposits, federal government contributions to the Fund for the Support and Development of Primary Education and Enhancement of the Teaching Career (Fundef), as well as the share corresponding to the Education Wage Contribution.

In 2004, the ICMS inflow totaled R$138.2 billion, reflecting real growth of 5.7% in the year, using the IGP-DI as deflator. In São Paulo, the total inflow came to R$45.9 billion, 33.3% of the overall inflow of this tax and real growth of 4.1% compared to the previous year. The other four states that turned in significant levels of tax inflows were Rio de Janeiro and Minas Gerais, both of which closed with figures in the range of R$13.1 billion; Rio Grande do Sul, R$9.6 billion; and Paraná, with R$7.8 billion. The sum total ICMS revenues obtained by these five states accounted for 64.9% of the total national inflow.

Table 4.13 – Payment of the Tax on the Circulation of Merchandise and Services (ICMS)

R$ million

Itemization	2002	2003	2004	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
São Paulo	37 254	40 289	45 922	8.1	14.0
Rio de Janeiro	10 409	11 181	13 052	7.4	16.7
Minas Gerais	9 544	11 026	13 222	15.5	19.9
Rio Grande do Sul	7 441	8 989	9 638	20.8	7.2
Paraná	5 787	6 710	7 824	15.9	16.6
Bahia	5 154	5 871	7 133	13.9	21.5
Santa Catarina	3 858	4 663	5 258	20.9	12.8
Goiás	3 020	3 699	3 978	22.5	7.6
Pernambuco	2 865	3 178	3 667	10.9	15.4
Espírito Santo	2 382	2 935	3 732	23.2	27.2
Other states	17 270	20 787	24 815	20.4	19.4
Total	104 984	119 328	138 241	13.7	15.9

Source: Ministério da Fazenda/Confaz

V

Economic-Financial Relations with the International Community

Trade policy

In 2004, Industrial, Technological and Foreign Trade Policy (PITCE) was targeted at implementing measures designed to increase the investment rates and productive efficiency of Brazilian companies. These measures consist of a series of steps taken in the foreign trade sector with the objective of sustaining and expanding exports over the coming years and playing a role in diminishing the nation's external vulnerability.

In keeping with the example of recent years, Brazil's external negotiating agenda is quite complex, as the country participates in major international trade negotiations. Although there has been a certain loss of dynamics in negotiations with the member countries of the Free Trade Area of the Americas (FTAA) and the European Union, the South-South dialogue has been clearly strengthened. As far as the Southern Common Market (Mercosul) is concerned, the safeguard measures taken by Argentina in relation to exports of Brazilian products, as well as that country's decision not to liberalize trade in the automotive sector as of January 2006, as called for in the 2002 agreement, suggest that difficulties will be encountered as the movement toward integration progresses, despite the importance of the organization's political dimension.

Other government measures that demonstrate the continuity of foreign trade policy were implementation of measures aimed at simplifying and streamlining administrative customs processes, together with trade promotion strategy, which has already generated highly significant results in terms of the diversification and broadening of the markets of destination for Brazilian foreign sales.

The PITCE guidelines were announced on 3.31.2004 and were clearly elaborated with the objective of increasing economic efficiency while developing and disseminating technologies with greater potential for stimulating the activity level and enhancing the country's competitiveness on the international market. These measures were aimed specifically at increasing the efficiency of the productive structure, as well as enhancing the innovative capacity of the Brazilian business community and thereby expanding exports. With this objective in mind, the following government action lines were defined as part of the process of implementing PITCE: i) innovation and technological development; ii) insertion in the international economic community; iii) industrial modernization; iv) expanded productive capacity and scale; v) strategic options, concentrating efforts in such knowledge-intensive areas as semiconductors, software, pharmaceuticals and medicines, plus capital goods. These four sectors have trade deficits that will tend to increase as the country's economy expands.

The objectives implicit in the measures adopted with the aim of achieving the nation's insertion into the international economy are sustained growth in exports and an expanding export base, with incorporation of new products, companies and businesses, encompassing: export incentives, including financing, simplification of procedures and elimination of taxes; trade promotion and market prospecting; incentives for Brazilian companies to create distribution centers abroad, together with the internationalization of these companies; and support to international supply chains and consolidation of the nation's image and dissemination of Brazilian brand names abroad. It is important to stress that some of these points represent improvements introduced into measures implemented by the government in the past without, however, being viewed as components of a coherent overall industrial policy strategy. This continuity in government policy measures contributed to the record external sector result attained in 2004.

In the same PITCE framework, an announcement was made on 8.6.2004 regarding implementation of a series of measures aimed at reducing tax loads with the objective of stimulating investments and long-term savings, developing capital markets and reducing the risk of bottlenecks capable of hampering foreign trade. Among these measures, the following deserve mention:

a) institution of *Reporto*, originally defined in Provisional Measure 206, 8.6.2004, and converted into Law 11,033, 12.22.2004. The *Reporto* is applicable to the list of machines, equipment and other goods itemized in Decree 5,281, 11.23.2004. This program, which is scheduled to remain in effect until the end of 2007, has the objective of stimulating investments in the recovery, modernization and expansion of the nation's port structure through reductions in taxes on machines and equipment to be used in ports, including exemptions from the IPI, Cofins, PIS/Pasep and Import Tax in the case of equipment for which there is no nationally produced similar.
b) broadening of the tax reductions granted to capital goods as of January 2004 when Decree 4,955, 1.15.2004, reduced the IPI on 643 types of machines and equipment from 5% to 3.5%. In August 2004, an additional 29 product groups were included, at the same time that Decree 5,173, 8.9.2004, lowered the tax rate once again from 3.5% to 2%. The ultimate aim is to eliminate levying of these taxes on all capital goods by 2006.

Following the same policy of reducing taxation on productive investments, the Foreign Trade Chamber (Camex) issued Resolution 5 on 3.1.2004, altering the Ex-Tariff system, reducing the import tax rate on capital goods and informatics and telecommunications equipment when there is no nationally produced similar product. If there is production in any Mercosul country, the ad valorem rate of the import tax was reduced from 4% to 2%. The rate was reduced from 4% to zero in those cases in which there is no production in one of the bloc's member countries. With adoption of the new system, there will be a common Mercosul list, which now has sixty products, consisting of those goods not produced by any of the member countries. As part of the "Invista Já" (Invest Now) program introduced by Provisional Measure 219, 9.30.2004, and converted into Law 11,051, 12.30.2004, accelerated depreciation was authorized, reducing the normal period of time by half for capital goods acquired up to December 2005. At the same time, the period for taking advantage of PIS and Cofins credits consequent upon acquisitions of new capital goods as of 10.1.2004 was reduced from ten to four years. In the case of machines and equipment with IPI reductions, the period for utilizing PIS/Cofins credits will be 24 months. This means that entrepreneurs will be able to discount a larger share of credits on investments made in purchases of machines and equipment, thus benefiting the working capital situation of the investing companies. Aside from this, effective as of 10.1.2004, the period for calculating and depositing the IPI was altered to a monthly basis. It should be recalled that, on 1.1.2004, the period for calculation had already been changed from every ten days to every fifteen days.

Modermaq, which is also a component of PITCE, was approved by BNDES in August with an initial budget of R$2.5 billion. Modermaq, which has the objective of financing new nationally produced machines and equipment is aimed at offering conditions to industries operating in the country as required for them to undertake the constant renewal and updating of their productive structures. Investments in the Modermaq framework will enhance the competitiveness of the nation's industrial output, increase productive capacity, improve product quality, reduce production costs, expand infrastructure, foreign sales and employment opportunities. The conditions applicable to financing in the framework of this program were specified in CMN Resolution 3,227, 8.5.2004, and were based on those determined for Moderfrota, regulated by CMN Resolutions 3,182, dated 4.30.2004, and 3,225, dated 8.5.2004.

Another important government measure was adoption of indirect business incentives. In November, the federal government released funding to the states to be used in reimbursing export companies for the tax credits generated by the 1996 Kandir Law, which reduced state taxes on export operations. Companies that purchase raw materials outside the states in which they operate to be used in industrializing products to be channeled to the foreign market accumulate credits that are not transformed into money. To avoid discouraging the operations of these companies, the government authorized release of R$900 million so that the states could begin reimbursing tax credits to export companies. Mention should also be made of Law 11,080, 12.31.2004, which authorized operation of the Brazilian Industrial Development Agency (ABDI), the institution responsible for execution and coordination of industrial policy activities and strategies, based on the providing of support to the development of innovative process and incentives to productive sector competitiveness.

Just as occurred in previous years, trade promotion policy was based on a large number of trade missions sent abroad, coupled with a significant increase in cooperation between the government and private initiative. The most important of these was the May mission sent to China, involving the participation of many Brazilian business community representatives. During that mission, fifteen agreements were formalized, including four by the Companhia Vale do Rio Doce and others by Petrobras, BNDES, Varig, Comexport, Cosipar, CNI, Companhia Brasileira de Bicicletas, Central Termelétrica do Sul and the Três Marias Group. The mission also involved formalization of such cooperation agreements as the Criminal Justice Cooperation Treaty, agreements permitting visa exemptions for diplomatic passports and measures to facilitate issue of visas for business people, cooperation in the areas of satellites, health, medical sciences, nuclear energy, health and phytosanitary safety. The Chinese government announced investments of US$5 billion in railways and ports in Brazil. Products such as alcohol, soybeans, wood, iron ore and steel products are of particular interest to China which, on its part, is willing to supply railroad tracks, railroad cars, locomotives and cooperation in improving Brazilian infrastructure. It was during that presidential visit that the Chinese announced an embargo on Brazilian soybeans based on an allegation of fungicide contamination. Suspension of the embargo on 6.24.2004 was negotiated by representatives of the two countries with Chinese acceptance of the new Brazilian rules covering soybean exports, introduced by Ministry of Agriculture, Livestock and Supply Normative Instruction 15, dated 6.11.2004. This instrument established a limit of one fungicide contaminated seed per kilogram of soybeans exported. In the United States, the tolerance level is set at three contaminated seeds per kilogram, thus demonstrating the rigorous nature of Brazilian legislation on this subject.

Important missions were also sent to Brazil in 2004, resulting in the signing of various agreements in the areas of trade, tourism, space, energy, diplomacy, eradication of hunger, combating of drugs, culture, sports, science and technology, and the environment. Among the agreements signed during the visit of the Chinese president to Brasil, mention should also be made of four protocols on the sanitary conditions of Brazilian beef, pork and poultry exports, as well as Brazilian recognition of China as a market economy.

Among the measures taken to stimulate trade promotion activities, perhaps the most important was simplification of the procedures required for granting income tax exemption benefits to companies making remittances abroad for the purpose of promoting Brazilian products in other countries. Published on 8.16.2004, Decree 5,183 implemented these alterations, which were regulated by Foreign Trade Secretariat (Secex) Directive 12, published on 8.26.2004.

At the same time, the "Radar Comercial" was created. This is an instrument utilized by the Trade Intelligence Nucleus of the Export Promotion Agency (Apex-Brasil), providing free-of-charge access to previously registered companies. The purpose of the system is to aid companies in defining their target markets and to increase the possibilities of success on the part of trade missions and other trade promotion activities sponsored by Brazilian companies.

Also in the trade promotion framework, the Apex-Brasil Investment Unit was implemented in December. The objectives put forward by this organization are to bring together trade promotion activities and incentives to investments in Brazil, coordinate government actions, harmonize information and national and regional opportunities, channel investments into export companies and medium and small businesses, while bringing even greater agility to decision-making processes through reduction of barriers and facilitation of negotiations and enhancing the visibility of Brazilian opportunities. In order to attract new investments, the Agency will utilize its international structure, which will be extended to sixty countries and three hundred cities in 2006. The new Apex unit will be responsible for government missions targeted at attracting investments, at the same time in which it will sponsor projects in international fairs and take on responsibility for management of the Brasil & Partners Trademark.

As far as the measures taken to streamline foreign trade operations are concerned, particular mention should be made of the improvements introduced into the rules governing the Computerized Customs Controlled Industrial Depot System (Recof), which makes it possible to import inputs with or without exchange coverage and with suspension of federal taxes. Federal Revenue Secretariat (SRF) Normative Instruction 417, published on 4.27.2004, consolidated and updated legislation on Recof.

Based on Normative Instruction 455, dated 10.5.2004, the SRF consolidated legislation on the Integrated Foreign Trade System (Siscomex), while also creating the ordinary, special and simplified qualification modalities, increasing the level of detail of system user information and extending the facility of issuing shipment documents to exporters. Previously, this document could only be issued by customs agencies. Along this same line, Secex Directive 14, dated 11.23.2004, consolidated the administrative treatment of imports and the drawback system, which permits imports of inputs free of taxes when they are to be used in the production of goods for the export market. Various other instruments were revoked, including Secex Directives 17/2003 and 11/2004. At the same time, Secex Directive 15, 11.23.2004, consolidated administrative rules on exports and revoked several other documents on the subject, such as Secex Directives 15/2001 and 12/2003, and Communiqué 2/1999, issued by the Department of Foreign Trade Operations (Decex).

Improvements in the Brazilian health defense system have required both implementation of measures aimed at developing new technologies as well as effective disease control. Among government measures adopted in this area, mention should be made of implementation of the Brazilian System of Identification and Certification of Cattle and Buffalo Origin (Sisbov). Adhesion of cattle farmers to the system was later converted from obligatory to voluntary, except in those cases in which target markets such as the European Union require the possibility of tracking the origin of animals.

Insofar as export financing is concerned, CMN Resolution 3,219, 6.30.2004, redefined the criteria applicable to interest rate equalization system operations under the Export Financing Program (Proex), revoking CMN Resolution 2,799, 12.6.2000. Among the alterations introduced, it is important to highlight authorization of the Andean Development Corporation (CAF) in the modalities of import financing and export refinancing and the updating of pertinent rules, including substitution of the Export Credit Committee with the Export Financing and Guaranty Committee (Cofig). The latter entity brings together the responsibilities of the Export Credit Committee and the Export Guaranty Fund Council, which was instituted by Decree 4,993, dated 2.19.2004.

In 2004, the value of Proex operations closed at US$3.2 billion, compared to US$4.4 billion in the previous year. Basically, this reduction reflected an accentuated decline in the value of operations classified under the interest rate equalization modality, together with growth in the total amount registered under the financing line, using the same basis of comparison.

Exports in the equalization modality totaled US$2.9 billion, down 29.3% compared to 2003. The number of exporters diminished from 53 to 44 and the number of operations rose from 1,304 to 1,599. The transportation sector registered the highest concentration of operations with 62% of that total, in an overall amount of US$1.8 billion of which US$662.7 million corresponded to aircraft and US$1.1 billion to vehicles. In terms of overall exports, the second largest sector was that of machines and equipment, with US$617.5 million, followed by services, with US$421.7 million, corresponding to 22% and 15% of total operations in 2004. The North American Free Trade Agreement (Nafta) member countries received 32% of exports and the European Union received 18%. In the year, interest rate equalization operations in the Proex framework were financed through issues of National Treasury Note – Series I (NTN-I) totaling US$152.8 million, compared to US$302.8 million in 2003, reflecting a reduction of 49.5%.

Operations in the financing modality totaled US$326.4 million, up 6% compared to 2003. The number of operations rose from 1,035 to 1,295 and the number of exporters increased from 341 to 409, suggesting possible deconcentration in this Proex modality. In this sense, the value of operations involving micro, small and medium businesses climbed from US$69 million to US$134.3 million, as participation in the total amount rose from 22% to 41%. Aside from this, micro, small and medium businesses accounted for 1,263 of the overall total of 1,295 operations carried out. In 2004, 43% of Proex-Financing operations involved the service sector; 17% referred to machines and equipment; 11% to transportation; 11% to agribusiness; and 7% to textiles, leather and footwear. A breakdown of total exports in this modality indicates that 49% were targeted to Africa; 19% to the Latin American Integration Association (Laia) member countries, excluding Mercosul; 13% to the European Union; and 9% to Nafta.

With regard to BNDES-Exim export credit lines, the amount disbursed in 2004 came to US$3.9 billion, compared to US$4 billion in 2003, corresponding to an annual reduction of 3.6%. This is a post-shipment line of credit focused on product marketing, accounting for approximately half of overall disbursements, with a total of US$1.9 billion, down 4.2% compared to the previous year. In much the same way, special pre-shipment and short-term pre-shipment credit lines, which operate in the financing of production for the export market, registered disbursements of US$328 million and US$15 million, respectively, in 2004, corresponding to reductions of 32.3% and 83.3% in relation to the preceding year. The short-term pre-shipment credit line was instituted in 2002 as an emergency measure taken in response to a cutback in the supply of external financing for Brazilian exports. In that year, these operations totaled US$634 million and, since that time, they have registered steadily lesser amounts as external sources of financing have reopened. Just as occurred in the previous year, growth in BNDES-Exim disbursements was concentrated in the pre-shipment line, with total outlays of US$1.6 billion, 12.2% more than in 2003.

Based on the terms of Circular Letter 36, dated 8.13.2004, BNDES-Exim created a credit line denominated Anchor Company Pre-Shipment with the objective of providing micro, small and medium businesses with alternative access to export credit lines. Utilizing this system, a trading company or an export company gains access to financing under preferential conditions, as if it were a micro, small or medium business. This company then coordinates logistics together with the export companies included in the productive chain in order to structure feasible export operations. In August, measures were taken in order to adopt a more flexible approach to financing within the pre-shipment line in operations involving capital goods carried out by large companies – with gross operating revenues of more than R$60 million per year. In the previous system, 40% of the financing was offered on the basis of a basket of foreign currencies and 60% on the basis of the TJLP, later increased to 100% wholly based on the latter factor. At the same time, the participation of BNDES-Exim in total financing of machines and equipment was increased from 70% to 100%. It is important to stress that BNDES has effectively acted as the financing agent of the Brazilian government in the framework of the South American Infrastructure Integration Initiative (IIRSA), having increased the volume of resources targeted to financing infrastructure projects now being implemented in a number of different countries, including Venezuela, Paraguay, Peru and Ecuador.

The balance of operations carried out by Brasil in 2004 under the terms of the Reciprocal Credit and Payment Agreement (CCR) closed in a creditor position of US$630.5 million, against US$339.7 million in the previous year, based on US$659.8 million in exports and transfers from abroad and US$29.3 million in imports and transfers abroad. Annual growth of 85.6% reflected elimination of Brazilian restrictions on the processing of operations under the Agreement. Export operations with Venezuela totaled US$252.3 million in 2004, corresponding to 38.2% of the total, followed by Argentina with 14% and Ecuador with 13.6%. Argentina, Chile and Uruguay accounted for 97% of Brazilian imports processed through the aforementioned Agreement, with each of them accounting for approximately one third of the total.

The International Ship and Port Facility Security (ISPS) Code went into effect on 7.1.2004 and has the objective of implementing security rules for the international transportation of cargoes in ports, ships and port terminals of the Member Countries of the International Maritime Organization (IMO). In Brazil, Resolution 7, 8.21.2003, issued by the National Public Security Secretariat, approved the Terms of Reference for implementation of Port Facilities Evaluation Studies, encompassing three stages: i) evaluation of vulnerability; ii) implementation of a security plan; iii) certification. Responsibility for certifying security plans and notifying the IMO was attributed to the National Commission on Public Security in Ports, Terminals and Navigable Waterways (Conportos). Other measures with regard to the port network were adopted with the aim of eliminating bottlenecks, including integration of the information systems of those entities authorized to operate in the ports. Another measure in the maritime transportation sector was implemented by Provisional Measure 177, dated 3.26.2004, later converted into Law 10,893, dated 7.13.2004, altering the provisions of the Merchant Marine Fund (FMM). With the new rules in place, incentives were made available to the shipping industry to renew and modernize its fleet, including creation of a credit reserve that will assume responsibility for up to 20% of total financing granted, in cases involving contractual noncompliance on the part of shipyards in execution of the specified projects.

Going on to imports, nine investigations on the application, extension or maintenance of definitive antidumping rights were terminated. Aside from this, an investigation was concluded on subsidies involving application of countervailing duties for a period of five years involving imports of stainless steel rods produced by Indian steel companies, with the exception of Chandan Steel. Parallel to this, in the month of December, Camex extended the period the validity of the safeguard measures adopted in the toy sector for an additional year and a half, effective as of 12.31.2004. In December 2004, total processes included 49 cases involving antidumping rights and safeguard measures, encompassing 31 products, mainly against China.

Provisional Measure 164, 1.29.2004, later converted into Law 10,865, 4.30.2004, instituted charging of the PIS-Pasep and the Cofins on imports of goods and services from abroad. As a result, goods produced and services rendered in the country, which were already subject to PIS-Pasep and Cofins, and imports of goods and services were subjected to equivalent tax treatment, with application of identical contribution rates. At the same time, the legislation permitted discounting of the credits for those companies subject to noncumulative levying. The hypotheses of prohibiting current credits to the internal market were extended to imports of goods and services subject to the contributions instituted by the new legislation. Also in this context, Provisional Measure 183, 4.30.2004, converted into Law 10,925, dated 7.23.2004, reduced the PIS/Pasep and Cofins rates on imports and internal market sales of fertilizers and agricultural pesticides and herbicides.

With regard to Mercosul, the external negotiating agenda was marked by a series of trade disputes between Brazil and Argentina and by growing demands for special treatment on the part of Paraguay and Uruguay. In July, the Argentine government instituted a system of nonautomatic licensing for imports of kitchen ranges, refrigerators, clothes washers and footwear from Brazil; imposed import surcharges on such items as television sets originating in the Manaus Free Port; and announced its decision not to honor the agreement formalized by the two countries in the automotive sector and scheduled to go into effect as of 2006. With the difficulties encountered in furthering the Mercosul process and the current stagnation in negotiations with the FTAA, attention has turned to south-south relations as indicated by the agreements signed with Egypt, India and the member countries of the Southern African Customs Union. The agreement with India proposes reductions from 10% to 100% in the rates levied on 900 products corresponding to 30% of bilateral trade. The agreement with the Southern African Customs Union involves 1909 items with the same rate reductions as those in the agreement with India.

In the Mercosul framework, Mercosul Common Market Council (CMC) Decision 54/2004 was approved, involving a work program targeted at eliminating dual charging of the Common External Tariff, with the aim of redistributing customs income and interconnecting customs control systems. Dual charging is one of the difficulties that has hindered Mercosul from operating as a full customs union, with integration of the customs systems of the four countries. Another two important measures related to Mercosul were registration with Laia of the free trade agreement signed between Mercosul and the Andean countries that are not members of Laia (Venezuela, Colombia, Ecuador and Peru), together with promulgation of the Olivos Protocol on the resolution of disputes in the Mercosul framework, through Decree 4,982, dated 2.10.2004. The headquarters of the Mercosul Permanent Review Tribunal was installed in Asunción. This is the organization’s first permanent entity of a judicial nature and is charged with resolving disputes within the Mercosul framework.

With respect to Mercosul-European Union relations, the enormous difference that separates the positions taken by the parties involved has hindered progress in negotiations between these two blocs. In the FTAA framework, the strategy adopted by the United States has changed in the last two years in such a way that that country has prioritized bilateral negotiations. At the same time, discussions involving antidumping and subsidies have been transferred to the Doha Round. During the January Economic Forum in Davos, Brasil presented a negotiating proposal to the United States involving access to markets for goods and services in the “4+1” format. However, this proposal was not well received by American authorities who prefer to continue negotiations with Mercosul in the FTAA framework, as determined in the minimum commitment, baseline agreements, approved in 2003 at the Miami Summit. Aside from internal Mercosul difficulties, presidential elections in the United States also contributed to stagnation in FTAA negotiations during the year.

In the month of June, the World Trade Organization (WTO) decided in favor of Brazil in its complaint against subsidies paid by the United States government to its cotton producers. The WTO agreed with the thesis that subsidies have been depressing the prices of commodities, thus setting a precedent for other disputes involving incentives to rice, wheat and corn production. The WTO decision regarding cotton may have a direct impact on the Doha Round negotiations, which began in 2001 and are expected to be concluded in 2005. This is particularly true regarding negotiation of agricultural subsidies, in light of their damaging effects on the poorer countries. In the month of August, Brazil was victorious once again in its complaint against subsidies granted by the European Union to sugar producers. In this case, Brazil’s demand, supported by Australia and Thailand, focused on two points: i) European subsidies to internal production of this product have been targeted to exports, since the volume produced is greater than demand in the European bloc; ii) the European Union was accused of re-exporting sugar imported from India and its former colonies in Africa, the Caribbean and the region of the Pacific at prices below the international market.

Parallel to these events, on 10.31.2004, the WTO authorized the European Union, Japan, Brazil and five other countries to impose retaliatory measures of more than US$150 million against the United States for not respecting the December 2003 deadline for altering the so-called Byrd Amendment, already condemned by the WTO. This law permitted distribution of the amount collected by the government through antidumping and antisubsidy surtaxes to the American companies that requested the investigation against the foreign product accused of charging prices below market levels.

Following a two year dispute, Brazil and the United States terminated their disagreement regarding the charging of an equalization tax on orange juice imported from Brazil by the state of Florida. This agreement became possible when an amendment to Florida legislation was sanctioned in May 2004, modifying the rules applied to charging of the equalization tax. With this change, importers may opt not to pay two-thirds of this tax, while the remaining amount is obligatory. However, the same importer may determine that these resources are not to be channeled into campaigns designed to promote orange juice in Florida.

One should also note termination of the Agreement on Textiles and Clothing on 12.31.2004. This instrument was responsible for formulation of the means that made it possible to integrate textiles into the rules and disciplines of the General Agreement on Tariffs and Trade (GATT), with elimination of all quotas that hindered liberalization of global trade in this sector. All countries may freely export their products with the exception of China which, on entering the WTO, accepted safeguard clauses that guarantied that other countries could impose quotas on Chinese products up to 2008.

Exchange policy

In 2004, the country maintained its strategy of reducing the share of the internal public debt tied to the dollar and of purchasing exchange on the market for purposes of external debt payments and rebuilding of its international reserve position. Here, the overall aim was to attenuate balance of payments and public sector balance sheet the vulnerability.

On 1.6.2004, a program of rebuilding the country's international reserve position was announced. This program was designed to make it possible to take advantage of liquidity conditions whenever they turned favorable, in order to be able to ensure a neutral impact on exchange market volatility and floating exchange rates. The BCB began purchasing exchange on the market in order to gradually restructure its international reserves and the National Treasury interrupted its policy of acquiring exchange on the market to be used for external debt servicing involving bonds and the Paris Club. Net BCB purchases on the market totaled US$5.3 billion in 2004 and were concentrated in the months of January, US$2.6 billion, and December, US$2.7 billion.

With regard to BCB and National Treasury operations, it is important to mention that the transition agreement signed between these two entities was published on 1.8.2004, maintaining the BCB as National Treasury agent for the activities involved in issues, placements, repurchases and restructuring of bonds issued on international markets by the Federative Republic of Brazil up to 12.31.2004. The Strategic Committee on External Debt Management (Codex) was created and is composed of technicians from the two entities. The committee's objectives are to define the guidelines to be followed in pursuing the previously mentioned activities. According to the agreement, these activities will become the exclusive responsibility of the National Treasury, effective as of 1.1.2005.

According to the Emerging Market Bond Index Plus (Embi+), country risk rose from January to May from approximately 400 basic points to between 700 and 800 basic points. This risk indicator registered its highest value in the year, 808 points on 5.10.2004. Despite successive surpluses on the exchange spot market, the rate of exchange depreciated in the period, moving from R$2.80/US$ to R$3.20/US$. Here, one should mention the large disbursements made by the National Treasury in April as a consequence of the concentration of Brazilian external debt servicing in a total amount of US$5.1 billion. These disbursements included US$3 billion referring to Global-04 and US$930 million to Bradies, as well as US$1.2 billion corresponding to interest. The resulting amortizations were made on the basis of exchange acquired on the market in the months prior to the policy shift in January 2004. These operations had no significant impact on the exchange market nor on the international reserve position in that month.

Starting at the end of June, international financial instability diminished greatly as it became evident that interest rates in the United States would be increased at a gradual pace. The external sector fundamentals of the Brazilian economy solidified with the ongoing adjustment in current accounts, primarily as a result of the generation of strong trade balances that, in turn, reduced balance of payments borrowing requirements and thereby attenuated the external vulnerability of the Brazilian economy. In a framework of abundant internationally liquidity brought about by monetary policy and fiscal and current account deficits in the United States, the internal scenario made it possible to issue sovereign bonds with lesser spreads and in amounts greater than the target for the year. With this, partial pre-financing of 2005 borrowing requirements became feasible.

Starting in September 2004, the Brazilian currency appreciated significantly, closing the year at R$2.65 per dollar. In 2004, based on Ptax-sales, the United States currency accumulated depreciation of 8.1%, continuing the trend first noted in 2003, when depreciation ended at 18.2%. On the one hand, this evolution was a consequence of uncertainties regarding the United States fiscal and trade deficits, which generated considerable negative pressure on the dollar in relation to the major international currencies. On the other hand it was a consequence of positive exchange market flows that can be explained by the sharp drop in the nation's country risk. Deflated by either the IPA-DI or the IPCA, real rate of exchange indices at the time registered appreciation of the real against the American dollar in 2004, with approximately 13.1% and 10.8%, respectively.

Aside from this trend toward depreciation of the United States currency on the international market, Brazilian economic growth, consolidation of the external sector adjustment, improvement in external indebtedness indicators – such as the drop in the external debt/exports ratio from almost 3.9 in 2000 to 2.2 in September 2004, the increase in basic interest rates in the second half of the year, the reduction in Brazil risk indicators, evinced by an average spread in the Embi+ that moved from approximately 700 basic points at the end of May to 382 basic points at the end of 2004, corresponding to a reduction of approximately 45%, are all factors that stimulated the contracting of external resources, thus forcing the value of the dollar downward. Starting in November, resident banking sector companies began contracting resources denominated in real, in view of the outlook for continued depreciation of the dollar, among other reasons. In the year, sovereign bond issues totaled US$5.7 billion; issues of notes, commercial papers and private financial sector bonds came to US$2.5 billion; and private nonfinancial sector bonds closed at US$3.1 billion.

Steady improvement in balance of payments results expanded the maneuvering room available to exchange purchase policy. In this sense, an announcement was made on 11.24.2004 that the National Treasury would purchase exchange resources on the market to be utilized in the payment of the renegotiated external debt service (Bradies, pre-Bradies and Paris Club) estimated at US$3.1 billion from December 2004 to June 2005. In the past, the National Treasury settled these debts with international reserve resources. In the year, National Treasury purchases of exchange closed at US$7.3 billion.

With regard to exchange-indexed internal public debt, net redemptions of US$27.8 billion in exchange instruments, including interest maturities, were effected. With this, the share of the public debt indexed to the dollar, including swap operations, moved downward from 22.1% in 2003 to 9.9% in December 2004, representing a significant contribution to mitigating public debt vulnerability to exchange rate fluctuations.

As far as exchange legislation is concerned, mention should be made of publication of the New Import Exchange Regulations, released through BCB Circular 3,231, dated 4.2.2004, with the following innovations:

a) elimination of the requirement on presentation of a paper-based Import Document (CI), and substitution of this process with a system of exclusive monitoring of these operations through electronic means, based on data in the Import Declaration (DI) registered in Siscomex;
b) adjustment of those situations in which the contracting of exchange by persons other than the importer as indicated in the corresponding Import Declaration is permitted, such as in cases involving imports under the responsibility of third parties;
c) regulation of aspects referring to fines, according to the terms of Law 10,755, dated 11.3.2003, which revoked Law 9817, dated 8.23.2003;
d) permission for anticipated or immediate payment, as well as the opening of a letter of credit, not only for imports in which the import license is granted by the entity responsible, but also for those in which the import license is authorized for shipment by the entity responsible;
e) definition of Import Declarations with exchange coverage, such as those used as backing for payments of imports, whether in national or foreign currency, and Import Declarations without exchange coverage, such as those not utilized as backing for such payments; and
f) definition of the figure of the "legitimate external creditor" such as the foreign exporter, foreign financing agent, foreign guarantor or the credit assignee abroad.

With regard to payment of imports in currencies other than those registered on the Import Declaration, BCB Circular 3,231, dated 4.2.2004, determined that only those imports contracted for payment in foreign currency could be paid in another foreign currency. However, this regulation was altered by BCB Circular 3,264, dated 12.8.2004, which permitted payment of imports in any currency, independently of the currency registered on the Import Declaration, including when the currency in question is the real. Consequently, the benefit was extended to all importers who, depending on their specific interests, are now able to choose the currency to be used in payment of their imports.

At the same time, Circular 3,264 incorporated several provisions from CMN Resolution 3,217, dated 6.30.2004, including that which permitted anticipated payment of imports registered for payment in up to 360 days, provided that the amounts indicated on the Import Declaration be respected. It should be noted that should payment of a lesser amount than that stated on the Import Declaration be made, this should be notified to BCB so that the amount in question can be deducted from the balance stated on the respective Import

Declaration. This measure provided importers with greater leeway in settling their liabilities, making it possible to take advantage of favorable changes in exchange rates.

With regard to anticipated payment of liabilities, it is also important to cite BCB Circular 3,258, dated 9.17.2004, and BCB Communiqué 12,523, dated 9.20.2004, which defined and clarified the conditions for anticipated payment of liabilities involving external credit operations and leasing operations registered in the Financial Operations Registration System (ROF), Electronic Declaratory Registration module (RDE) in Sisbacen.

In keeping with its policy of simplifying, adjusting and updating exchange regulations, BCB issued Circular 3,249, 8.2.2004, with the New Regulations on International Freight. In this context, it is important to recall that, with implementation of the export module in 1993 and the import module in 1997, both of which operate in the Siscomex framework, exchange regulations became somewhat more flexible, though the rules on remittances of freight payments abroad dated back to the 1980s. With the new regulations, the rules on remittances of freights abroad were revised, particularly with regard to the definition of the rate of exchange applied in conversion of the freight into national currency. According to the new rules, freight transfers must follow the principle of legality, based on the economic foundations of the operations involved, in which responsibilities for payment must be foreseen and supported in the respective Incoterm negotiated, duly observing the licensed sale conditions as indicated in the documentation.

a) permission for exporters and importers domiciled in Brazil to remit amounts referring to prepaid freight for their exports and freight to be received at destination for their imports directly to shipping companies resident abroad;
b) permission for importers to make remittances abroad prior to shipment, as payment of freight in Free-on-Board (FOB) operations; and
c) authorization for banks permitted to operate in exchange to process transfers to and from abroad involving amounts consequent upon international cargo shipments in all of the various modalities.

As Brazilian currency appreciated against the dollar and foreign demand for assets denominated in real increased, conditions were created for issue of securities with these characteristics on the international market. CMN Resolution 3,221, dated 7.29.2004, and Bacen Circular 3250, dated 7.30.2004, set down the conditions for registration of resources obtained on the international market through security issues denominated in Brazilian currency. On 11.19.2004, a pioneering issue was made by a private resident bank, obtaining US$75 million through a bond issue in real at preset rates. Other operations followed and were led by some of the largest banks in the country.

With respect to the operations of nonresident investors, CMN Resolution 3,245, dated 11.25.2004, revoked the prohibition on utilization of resources originating in judicial transactions and the trading of stocks tied to stockholder agreements on the securities market.

CMN Resolution 3,250, dated 12.16.2004, and BCB Circular 3,268, dated 12.16.2004, introduced an alteration into exchange legislation in order to facilitate both Brazilian investments abroad and foreign investments in Brazil. In this sense, individual persons or corporate entities resident, domiciled or headquartered in Brazil were permitted to invest abroad through international stock operations based on donations or exchanges of stock holdings in Brazilian companies, as a result of processes involving sales of stock control in open Brazilian corporations to corporations headquartered abroad.

Brazilians working abroad, particularly in the United States and Japan, have been remitting increasingly larger amounts of exchange in operations classified in the balance of payments as unrequited transfers. In order to simplify these operations, the CMN issued Resolutions 3,203, 6.18.2004; 3,211, 7.1.2004; and 3,213, 6.30.2004, permitting multiple banks that have commercial portfolios, commercial banks and the Federal Savings Bank to open demand deposit accounts for Brazilian individuals temporarily abroad in the individual modality. In this case, the sum total of deposits made into these deposit accounts in each month and originating in remittances from abroad may not be greater than R$10.000,00. Aside from this, it also allows financial institutions to accept international and national credit cards as instruments for deposits into demand deposit accounts, as well as for issues of money orders.

One should also mention CMN Resolution 3,179, dated 3.29.2004, and BCB Circular 3,242, dated 6.23.2004, which revoked the prohibition on granting credits to credit card users for purposes of financing goods and services acquired abroad. This prohibition had been imposed in 1997 in the context of a sharp decline in international financial flows and increasing aversion to emerging market risk caused by the Asian crisis.

Exchange operations

Overall exchange market results in 2004 generated net inflows of US$6.4 billion in contracted resources, compared to US$718 million in 2003. This was the largest result since 1996, when the net balance ended at US$10.8 billion. Net inflows in the trade segment came to US$36.7 billion, against US$28.4 billion in 2003, the best result since the series was first calculated in 1992. These figures represent increases of US$20.3 billion, 27.7%, under exports and US$11.9 billion, 26.6%, under imports. Contracting operations in the financial segment resulted in net outflows of US$24.7 billion, US$1.2 billion less than in 2003, with growth of US$12.5 billion, 17.3%, in purchases of foreign currency, and US$11.3 billion, 11.5%, in sales. Operations contracted with institutions abroad showed net remittances of US$5.6 billion, as against US$1.7 billion in the previous year.

At the end of 2004, banks held a short position of US$1.4 billion, as a consequence of strong net inflows of resources despite BCB exchange acquisitions.

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)
2001	58 036	47 248	10 789	85 710	93 350	-7 640	3 149	-6 110	-2 962
2002	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
2004									
Jan	6 576	4 051	2 525	7 828	6 853	975	3 500	- 132	3 368
Feb	5 963	4 244	1 719	5 736	6 229	- 494	1 226	87	1 313
Mar	8 026	4 411	3 615	5 610	9 615	-4 004	- 389	- 222	- 611
Apr	8 884	3 902	4 982	5 796	8 003	-2 207	2 775	- 140	2 635
May	9 207	4 026	5 181	5 357	8 803	-3 446	1 735	- 158	1 577
Jun	6 802	4 666	2 136	5 507	9 500	-3 993	-1 857	- 459	-2 316
Jul	8 059	4 531	3 528	5 295	9 125	-3 830	- 302	- 515	- 816
Aug	7 179	5 084	2 095	13 021	13 584	- 563	1 532	-2 110	- 579
Sep	8 057	5 084	2 973	5 019	7 307	-2 287	685	- 813	- 128
Oct	8 259	5 409	2 850	6 303	8 228	-1 925	925	- 253	672
Nov	7 098	5 642	1 456	7 026	9 133	-2 108	- 652	- 404	-1 056
Dec	9 355	5 744	3 612	12 123	12 989	- 866	2 746	- 444	2 303
Year	93 466	56 794	36 672	84 622	109 369	-24 747	11 925	-5 563	6 362

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

Balance of payments

Transformation of Brazilian external accounts began in 1999 with adoption of the floating exchange system. The major element responsible for this phenomenon has been the performance of the trade balance, with unprecedented surpluses in 2003 and 2004.

Table 5.2 – Balance of payments

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	10 398	14 396	24 794	15 015	18 678	33 693
Exports	33 002	40 082	73 084	43 306	53 169	96 475
Imports	22 604	25 686	48 290	28 292	34 490	62 782
Services	-2 226	-2 705	-4 931	-1 895	-2 877	-4 773
Credit	4 987	5 460	10 447	5 976	6 466	12 442
Debit	7 213	8 165	15 378	7 871	9 344	17 215
Income	-8 801	-9 751	-18 552	-10 367	-10 153	-20 520
Credit	1 574	1 765	3 339	1 539	1 660	3 199
Debit	10 375	11 516	21 891	11 906	11 813	23 719
Current unilateral transfers (net)	1 227	1 639	2 867	1 602	1 667	3 268
Credit	1 365	1 767	3 132	1 738	1 844	3 582
Debit	- 138	- 127	- 265	- 137	- 177	- 314
Current account	598	3 580	4 177	4 354	7 315	11 669
Capital and financial account	9 125	-4 014	5 111	-1 929	-5 381	-7 310
Capital account[1/]	209	290	498	398	305	703
Financial account	8 917	-4 304	4 613	-2 327	-5 687	-8 013
Direct investment (net)	2 844	7 050	9 894	3 225	5 470	8 695
Abroad	- 656	407	- 249	- 820	-8 651	-9 471
Equity capital	- 675	613	- 62	- 776	-5 865	-6 640
Intercompany loans	19	- 206	- 187	- 45	-2 786	-2 831
In the reporting country	3 500	6 643	10 144	4 045	14 120	18 166
Equity capital	3 315	6 006	9 320	4 560	14 010	18 570
Intercompany loans	186	637	823	- 515	110	- 405
Portfolio investments	3 901	1 406	5 308	-3 701	-1 049	-4 750
Assets	- 94	273	179	- 544	- 211	- 755
Equity securities	- 167	- 91	- 258	- 25	- 96	- 121
Debt securities	73	363	437	- 518	- 115	- 633
Liabilities	3 995	1 134	5 129	-3 157	- 839	-3 996
Equity securities	639	2 334	2 973	814	1 267	2 081
Debt securities	3 357	-1 201	2 156	-3 971	-2 105	-6 076
Financial derivatives	- 71	- 80	- 151	- 240	- 437	- 677
Assets	390	293	683	75	392	467
Liabilities	- 461	- 373	- 834	- 315	- 830	-1 145
Other investments[2/]	2 243	-12 681	-10 438	-1 611	-9 670	-11 281
Assets	-1 527	-7 956	-9 483	1 440	-2 902	-1 462
Liabilities	3 770	-4 725	- 955	-3 051	-6 767	-9 818
Errors and omissions	- 754	- 39	- 793	-1 079	-1 035	-2 115
Overall balance	8 969	- 474	8 496	1 346	898	2 244
Memo:						
Current account/GDP (%)	0.24	1.38	0.82	1.48	2.38	1.94
Medium and long term amortizations[3/]	11 740	15 440	27 180	16 896	16 365	33 261

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.

The positive external sector results of the Brazilian economy have contributed not only to expanding economic activity, but also to significant improvement in external solvency indicators. Significant declines were registered under Brazil risk, primarily as a result of expectations of world economic growth and an only moderate rise in United States interest rates, notwithstanding the uncertainties surrounding the performance of that economy over the medium-term in light of its growing external and fiscal deficits. In 2004, there is evidence that, at several points in time, the reduction in Brasil risk was generated by the progress achieved in internal economic fundamentals, as evident in the exceptional trade balance surplus, current account results, despite strong GDP growth in the year, substantial improvement in external debt and public sector debt indicators and a primary surplus above that agreed upon with the IMF.

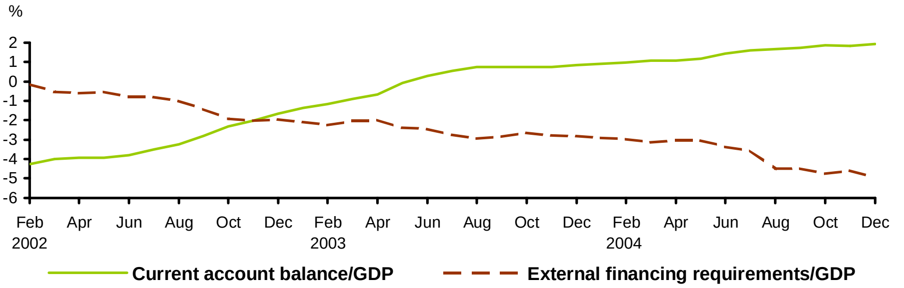
Since the end of 2003, international market conditions have been particularly favorable to Brazil from various standpoints. This has generated evident positive impacts on the balance of payments result. Coupled with adoption of consistent macroeconomic policies, these results have made it possible to raise the country's sovereign rating, thus improving access to international financial markets, with lesser spreads and issues of external debt securities in national currency since last November. Other important events have been recovery in the international reserve position and stabilization and subsequent reduction in the volume of the external debt.

Since 1947, when the balance of payments series was first calculated, the current account result has been positive only nine times. Following the 1992 surplus, the next surplus was only achieved in 2003. In 2004, current accounts accumulated a positive balance of US$11.7 billion, equivalent to 1.94% of the GDP. This was the best result ever registered in terms of both value and participation in GDP, compared to the second best result of US$4.2 billion and 0.82% of GDP, achieved in 2003. Thus, there was a significant reduction in external borrowing requirements, since the successive current account surpluses, coupled with net foreign direct investment flows, moved from US$14.3 billion, 2.83% of GDP, in 2003, to US$29.8 billion, 4.96% of GDP, in 2004.

Graph 5.1

Foreign direct investments and external financing requirements

In 12 months



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

Trade balance

In the year under analysis, the trade balance surplus closed at US$33.7 billion, compared to US$24.8 billion in the previous year. Exports ended at US$96.5 billion and imports closed at US$62.8 billion, for respective growth levels of 32% and 30% in the year. These figures represent new records for the Brazilian economy.

Table 5.3 – Trade balance – FOB

US$ million

Year	Exports	Imports	Balance	Trade flow
2003	73 084	48 291	24 793	121 375
2004	96 475	62 782	33 693	159 257
% change	32.0	30.0	35.9	31.2

Source: MDIC/Secex

Graph 5.2

Exports and imports – FOB

Last 12 months (% change)[1/]

Source: MDIC/Secex

1/ From the same period of the previous year.

Exports in 2004 corresponded to 16% of GDP, demonstrating that this sector has continued on the upward curve begun in 1998, when the figure closed at 6.5%. As far as imports are concerned, this ratio reached its highest level in 2001, with 10.9%, dropping in both 2002 and 2003 before turning upwards once again in 2004 to a level of 10.4%.

The strong growth in Brazilian trade flows in 2004 benefited from growth in world trade and international market prices for farm and metallic commodities. In this context, it is important to mention the September 2004 IMF projection of 9.1% expansion in the annual volume of world trade in goods coupled with 8.5% growth in prices, representing expansion of approximately 18.4% in terms of value.

Furthermore, the evolution of foreign trade in 2004 was a consequence of export promotion policies adopted in recent years with the aim of expanding the number of exporters, markets of destination and the variety of products shipped abroad. Parallel to these policies, measures have also been taken to streamline and simplify export processes and to provide support to medium and small exporting companies. From the point of view of the import sector, one should stress the effects of the strong upturn in internal economic activity on the volume of foreign purchases.

Table 5.4 – Trade balance – FOB

Absolute change from the previous period

US$ million

Itemization	Argentina	China	Other countries	Total
Exports				
2003	2 219	2 012	8 491	12 722
2004	2 812	907	19 672	23 391
Imports				
2003	- 71	594	532	1 054
2004	900	1 562	12 028	14 491
Balance				
2003	2 290	1 418	7 959	11 668
2004	1 912	- 655	7 643	8 900

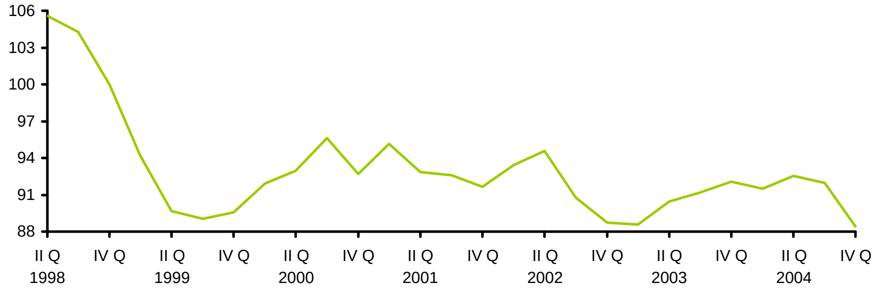
Source: MDIC/Secex

The increased diversity of markets was evident in the decreasing participation of several countries in expanding Brazilian exports in 2004, compared to the previous year. Cases in point are Argentina and China, which accounted for 17.4% and 15.8% of the absolute increase in Brazilian exports in 2003, dropping to 12% and 3.9%, respectively, in 2004.

After moving upward in 2003 and the early days of 2004, the terms of trade index dropped in the second half of the year, primarily as a result of the sharp upward spiral under petroleum prices. The index for 2004 increased 0.6% compared to the preceding year.

Export prices rose 10.7% in 2004, reaching 18.3% for basic products, 14.5% for semimanufactured products and 5.9% for manufactured goods. All of the major basic products registered strong price growth, particularly pork, 37.5%, coffee, 30.4%, and soybeans, 29.9%. In the case of semimanufactured products, the prices of ferrous and nonferrous metallic products jumped by more than 40%. As far as volume is concerned, exports rose 19.2% in 2004, following 15.7% growth in 2003. Once again, growth was driven by manufactured goods, with an increase of 26.1%, as against 20.9% in 2003. The items most responsible for the volume increase in Brazilian exports were such traditional manufactured goods as those turned out by the automotive, aircraft, tractor and earth-moving machines and drilling equipment industries. Furthermore, several new products turned out by the manufacturing sector also gained in importance in 2004, including ethyl alcohol and woodworking products for the building industry, clearly ratifying the diversification of markets and products in the Brazilian export sector.

Graph 5.3
Terms of trade index
1996 = 100



Source: Funcex

Table 5.5 – Exports price and volume indices

Change from the previous year (%)

Itemization	2003		2004	
	Price	Volume	Price	Volume
Total	4.7	15.7	10.7	19.2
Primary products	10.5	13.1	18.3	13.8
Semimanufactured goods	11.3	9.7	14.5	7.2
Manufactured goods	-0.6	20.9	5.9	26.1

Source: Funcex

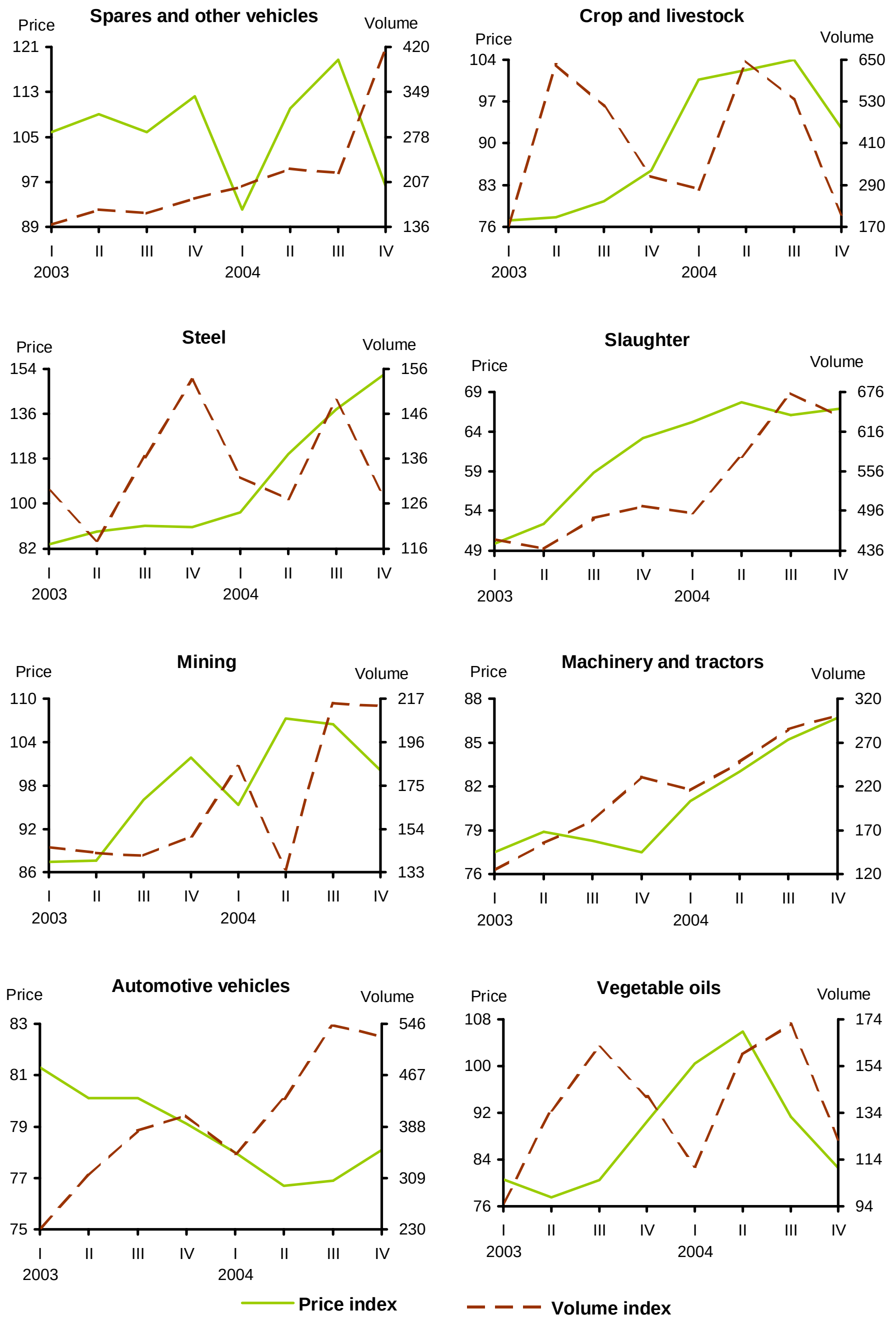
A sector-by-sector analysis of export sector volume and price indices showed growth of 66.7% in the exported quantity of parts and other vehicles (except automobiles), the sector responsible for 10.3% of total Brazilian foreign sales in 2004, notwithstanding a 3.6% decline in prices during the period. Farm sector foreign sales accounted for 7.2% of total exports, with growth of 24.7% in prices and 1.3% in quantity shipped. The steel sector was responsible for 7.1% of total exports, reflecting growth of 42.9% in prices and a reduction of 0.2% in volume. In the segment of animal slaughters, prices rose 18.7% and exported volume expanded 26.8%, accounting for 6.5% of 2004 Brazilian foreign sales. One should also highlight the volume growth in exports by the mining industry, with 29%, as well as the sectors of machines and tractors, 51.8%, and automotive vehicles, 38.9%.

Growth in the prices of products imported by Brasil rose 10.1% in 2004 primarily as a result of the rise in fuel and lubricant prices, 30.9%, and raw materials and intermediate products, 9.3%. The major factor underlying this growth was, once again, the oil price high since this is an important input in the production of several types of raw materials, particularly chemicals, and nondurable consumer goods, 6.8%. The prices of capital goods and consumer durables declined 2.5% and 3.9%, respectively, in the year.

Graph 5.4

Quarterly price indices and volume of Brazilian exports

1996 = 100



Source: Funcex

Table 5.6 – Imports price and volume indices

Change from the previous year (%)

Itemization	2003		2004	
	Price	Volume	Price	Volume
Total	6.1	-3.7	10.1	18.1
Capital goods	0.0	-17.5	-2.5	10.2
Intermediate goods	5.1	3.7	9.3	21.0
Durable consumer goods	3.6	-17.7	-3.9	27.9
Nondurable consumer goods	3.0	-3.5	6.8	7.7
Fuels and lubricants	21.4	-14.3	30.9	17.9

Source: Funcex

A sectoral breakdown of the prices of imported products clearly reveals the impact of the oil price high in 2004. In this sense, prices rose 30.4% in the sector of petroleum and coal; 19.7% under oil refining and the petrochemical industry; 14.1% under "other chemicals". In the import sector, the volume increase closed 2004 at 18.1%, following a reduction of 3.7% in the previous year. Growth was registered in all of the different use categories, a result clearly consistent with the rise in industrial activity and the increases registered in farm production and income over the course of 2004. Increases in imported volume closed at 27.9% in the category of consumer durables; 21% for raw materials and intermediate products; 10.2% for capital goods, a category considered an important indicator of new investments; and 17.9% under fuels and lubricants which, together with raw materials and intermediate products, best reflects the level of industrial activity.

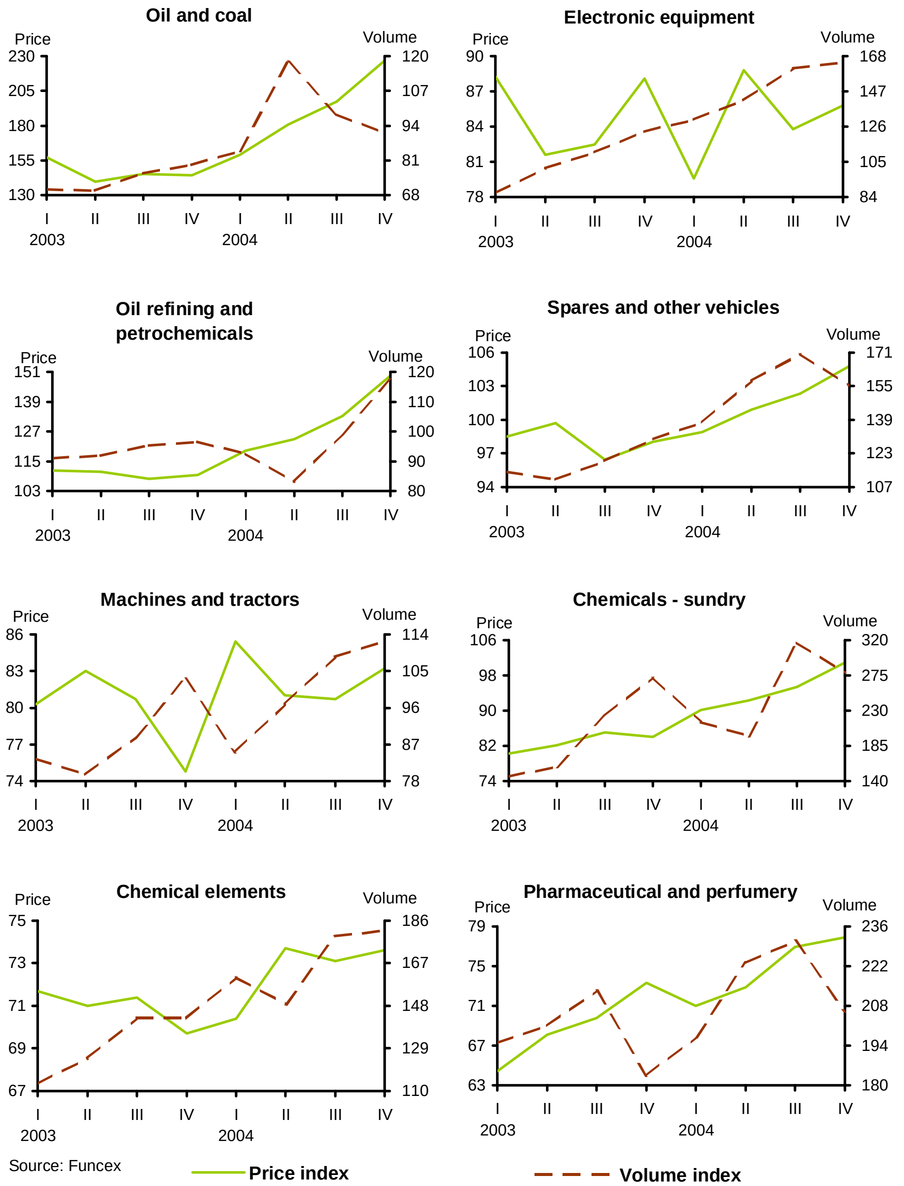
An examination of exported value by category of aggregate factor shows strong across-the-board expansion in 2004 foreign sales. Consequently, although exports of basic products have expanded quite sharply in recent years – an area in which Brazil has been highly competitive for quite some time, external sales of industrialized products, especially manufactured goods, have grown at an even stronger pace, shifting from a level of US$32.8 billion, in the 2000/2002 period, to US$39.7 billion in 2003 and US$52.9 billion in 2004. This evolution further strengthens the sustainability of the ongoing process of expanding Brazilian exports.

Exports of basic products in 2004 climbed to US$28.5 billion, 34.7% more than in 2003. In this case, prices rose by 18.3% and exported volume increased 13.8%. Among the major basic products, the only item that registered a sales reduction in the year was frozen shrimp. Analysis shows the following increases in export operations: unprocessed cotton, 115%; beef, 70%; corn, 59.2%; chicken meat, 45.9%; pork, 41.3%; and iron ore, 37.7%. With few exceptions, value increases reflected both price and volume growth. Exports of basic products were concentrated in the soybean complex, with soy beans accounting for 19.1% and soy meal for 11.6% of sales in this category, followed by meat products, iron ore and petroleum, with 18.3%, 16.8% and 8.9%, respectively, of overall

Graph 5.5

Quarterly price indices and volume of Brazilian imports

1996 = 100



Source: Funcex

foreign sales of basic products. Just as occurred in 2003, the prices of basic products registered sharp increases in 2004, with very few exceptions. The highlights were pork, 37.5%; raw coffee beans, 30.4%; soybeans, 29.9%; and petroleum, 24.8%. Insofar as exported volume is concerned, increases were registered under cotton, 88.7%; beef, 49.2%; chicken meat, 26.1%; iron ore, 25%; tobacco, 24.3%; and corn, 41.1%. Moving in the opposite direction, the exported volume of soybeans and petroleum declined 3.2%

and 4.5%, in that order. The reduction in the volume of soybean sold abroad was concentrated in the major countries of destination in Europe and Asia, including Germany, Belgium-Luxembourg, China, France, Japan and South Korea. This falloff was somewhat offset by rising sales to Mexico, Taiwan, Iran, the United States and Thailand.

Table 5.7 – Exports by aggregate factor – FOB

US$ million

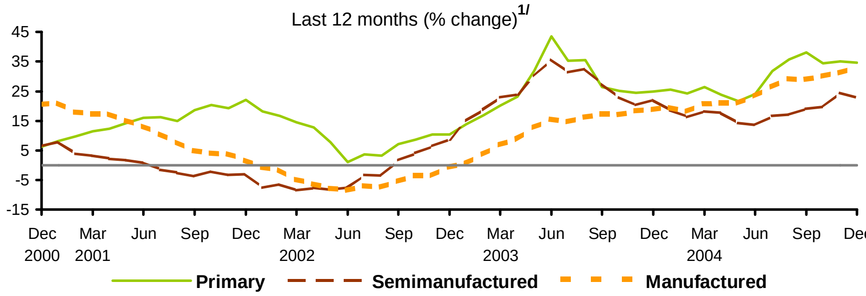
Itemization	2000	2001	2002	2003	2004
Total	55 086	58 223	60 362	73 084	96 475
Primary products	12 562	15 342	16 952	21 179	28 518
Industrial products	41 027	41 144	41 965	50 597	66 379
Semimanufactured goods	8 499	8 243	8 965	10 944	13 431
Manufactured goods	32 528	32 901	33 000	39 653	52 948
Special transactions	1 497	1 736	1 446	1 308	1 579

Source: MDIC/Secex

Graph 5.6

Exports by aggregate factor – FOB

Last 12 months (% change)1/



Source: MDIC/Secex

1/ From the same period of the previous year.

The European Union absorbed 40.1% of Brazilian foreign sales of basic products, with a total amount of US$11.4 billion, up 23.7% compared to 2003. This total represented 47.4% of the exports channeled to that bloc in 2004.

Asian country imports totaled US$7.4 billion in basic products, corresponding to 26% of overall exports under this category, with 36.8% growth compared to 2003. Sales of basic products to Asia represented 51% of total imports by the region from Brazil, to some extent reflecting strong exports of soybeans and iron ore to China. These products represented 9.6% of the exports of basic products in 2004. Foreign sales of basic products to the United States and to the Laia countries represented 6% and 5.5%, respectively, of total foreign sales in this category. Exports to the Laia member countries increased 49.4%, mostly involving petroleum, which accounted for 26.1%; iron ore, 15.4%; beef, 14.1%; soybeans, 11.2%; and chicken meat, 5.6%. Foreign sales to the United States increased 17.8% with strong participation on the part of petroleum sales,

Table 5.8 – Exports – FOB – Major primary products

% change 2004/2003

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Soybean including grinded	25.7	29.9	- 3.2	19.1
Iron ore and concentrates	37.7	10.2	25.0	16.8
Oil-cake and other residues from soybeans	25.7	18.0	6.5	11.6
Petroleum oils, crude	19.1	24.8	- 4.5	8.9
Meat and edible offal of chicken	45.9	15.6	26.1	8.8
Meat of bovine animals	70.0	14.0	49.2	6.9
Coffee, not roasted	34.4	30.4	3.1	6.2
Tobacco, unmanufactured; tobacco refuse	31.2	5.5	24.3	4.9
Meat of swine	41.3	37.5	2.8	2.6
Maize, unmilled	59.2	12.9	41.1	2.1
Cotton, not carded or combed	115.4	14.1	88.7	1.4
Kaolin and other kaolinic clays	12.1	- 3.3	16.0	0.8
Shrimp, frozen	- 10.5	0.1	- 10.6	0.8
Meat and edible offal of turkey	39.5	14.7	21.6	0.8
Aluminum ore and concentrates	56.5	1.0	54.9	0.7
Cashew nuts	29.6	13.6	14.1	0.7
Marble and granite	12.2	10.8	1.2	0.4
Guts, bladders and stomachs of animals	15.3	- 3.8	19.9	0.4
Manganese ores and concentrates	117.9	23.8	76.1	0.4
Fish	10.1	15.3	- 4.6	0.3
Other primary products	31.3	-	5.8	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.

21.1%; coffee, 18.5%; tobacco in leaf, 11.5%; Brazil nuts, 8.1%; and iron ore, 8%. Basic product exports to other countries totaled US$6.4 billion, 22.3% of the total, corresponding to 36% of foreign sales to these nations. The 59.2% increase in sales of basic products to this grouping of countries compared to 34.7% growth in total foreign sales in 2004 clearly demonstrates the ongoing process of diversification of market destinations for this product category. The highlights of these operations were sales of chicken meat, 18.4% of the total; petroleum 14.8%; beef, 13.5% iron ore, 11.6%; pork, 8.7%; and soy meal, 7.3%.

In 2004, foreign sales of semimanufactured products increased 22.7%, registering a total of US$13.4 billion, with 14.5% price growth and 7.2% volume growth. Participation in total foreign sales dropped from 15% in 2003 to 13.9% in 2004. Here, the highlights were growth in exports of metallic products, principally semimanufactured goods in iron or steel, 30.7%; cast iron and Spiegel iron, 106%; iron alloys, 23%; aluminum alloys, 92.1%; and nonmonetary gold, 26.2%, representing 35.4% of overall sales of semimanufactured products. Mention should be made of increases of 49.8% in the prices of semimanufactured iron or steel products and 48.3% under cast iron and Spiegel iron and reductions of 12.8% in the volume of semimanufactured goods in iron or steel and 11.2% in the volume of unrefined aluminum.

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

US$ million

Product	2003	2004			
	Value	Value	Change from 2003 (%)	Share (%)	
				Total	Blocs
Total	73 084	96 475	32.0	100.0	-
Basic	21 179	28 518	34.7	29.6	-
Semimanufactured	10 944	13 431	22.7	13.9	-
Manufactured	39 653	52 948	33.5	54.9	-
Special transactions	1 308	1 579	20.7	1.6	-
Laia	12 920	19 699	52.5	20.4	100.0
Basic	1 058	1 581	49.4	1.6	8.0
Semimanufactured	446	729	63.5	0.8	3.7
Manufactured	11 384	17 337	52.3	18.0	88.0
Special transactions	33	53	62.0	0.1	0.3
Mercosur	5 672	8 912	57.1	9.2	100.0
Basic	388	438	13.1	0.5	4.9
Semimanufactured	203	329	62.4	0.3	3.7
Manufactured	5 060	8 115	60.4	8.4	91.1
Special transactions	22	29	33.6	0.0	0.3
USA	16 900	20 341	20.4	21.1	100.0
Basic	1 442	1 698	17.8	1.8	8.3
Semimanufactured	2 342	3 654	56.0	3.8	18.0
Manufactured	13 068	14 925	14.2	15.5	73.4
Special transactions	49	64	30.2	0.1	0.3
European Union	18 461	24 160	30.9	25.0	100.0
Basic	9 250	11 445	23.7	11.9	47.4
Semimanufactured	2 421	2 760	14.0	2.9	11.4
Manufactured	6 741	9 902	46.9	10.3	41.0
Special transactions	49	54	9.3	0.1	0.2
Asia	11 676	14 564	24.7	15.1	100.0
Basic	5 426	7 421	36.8	7.7	51.0
Semimanufactured	3 334	3 884	16.5	4.0	26.7
Manufactured	2 899	3 240	11.8	3.4	22.2
Special transactions	18	19	3.6	0.0	0.1
Others	13 126	17 710	34.9	18.4	100.0
Basic	4 003	6 372	59.2	6.6	36.0
Semimanufactured	2 401	2 405	0.2	2.5	13.6
Manufactured	5 563	7 544	35.6	7.8	42.6
Special transactions	1 159	1 389	19.8	1.4	7.8

Source: MDIC/Secex

Other highlights include growth in the value of exports of sawn wood, 29.3%; leather and hides, 22.1%; raw cane sugar, 11.9%; and soybean oil, 10.9%. Sales of cellulose represent the second highest value among exports of semimanufactured goods, accounting for 12.9% of the total. This product, together with rubber, were the only goods among the more significant products included in this category to register reductions in exported value in 2004. In the case of cellulose, the reduction came to 9.6% in prices, with an increase of 9.2% in exported volume.

Table 5.10 – Exports – FOB – Major semimanufactured goods

% change 2004/2003

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Iron or nonalloy steel semifinished products	30.7	49.8	-12.8	15.8
Chemical wood pulp	-1.2	-9.6	9.2	12.9
Cane sugar, raw	11.9	-2.3	14.5	11.3
Hides and skins	22.1	-1.9	24.4	9.7
Pig iron and spiegeleisen	105.8	48.3	38.8	8.8
Soybean oil, crude	10.9	11.1	-0.1	8.7
Aluminum, unwrought	5.4	18.7	-11.2	7.1
Wood, sawn or chipped lenghtwise	29.3	15.4	12.1	6.3
Iron alloys	23.0	27.1	-3.2	4.5
Aluminum alloys, unwrought	92.1	16.3	65.3	3.2
Gold, nonmonetary in semimanufactured forms	26.2	13.3	11.4	3.1
Synthetic rubber and artificial rubber	-0.4	15.6	-13.8	1.3
Nickel cathodes	76.8	49.1	18.5	1.3
Cocoa butter, fat or oil	5.0	3.4	1.5	0.8
Wood in chips or particles	41.0	11.6	26.4	0.6
Nickel mattes	77.7	68.6	5.4	0.5
Cooper cathodes	36.3	49.1	-8.6	0.4
Cocoa powder	1.4	-21.9	29.7	0.4
Wood sheets	31.9	18.9	10.9	0.4
Tin, unwrought	168.6	78.6	50.4	0.3
Other semimanufactured products	26.0	-	13.3	32.8

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.

The major destination of Brazilian exports of semimanufactured goods in 2004 were the countries of Asia, with US$3.9 billion, equivalent to 28.9% of this category. This amount represented an increase of 16.5% compared to 2003. The major products channeled to the countries of Asia were iron and steel semimanufactured goods, soybean oil, leather and hides and cellulose which, taken together, accounted for 64.4% of all semimanufactured products sold to Asia and, primarily, to China, Japan, Taiwan and South Korea. Exports of semimanufactured products to the United States totaled US$3.7 billion, 27.2% of total overall sales of semimanufactured products in 2004, with growth of 56% compared to 2003.

Exports classified under this heading represented 18% of total United States acquisitions of Brazilian products, as against 13.9% in 2003. The major products were cast iron and Spiegel iron, semimanufactured products in iron and steel, gold in semimanufactured forms and cellulose, accounting for a joint total of 62.9% of sales under this category to the United States.

The countries of the European Union acquired US$2.8 billion in semimanufactured goods from Brazil. This amount was 14% greater than in the preceding year and equivalent to 20.5% of total Brazilian exports in this category and 11.4% of overall Brazilian products acquired by the countries of the region. The Netherlands, Italy, Belgium-Luxembourg and Spain absorbed 76.9% of the total acquired by the region. The major products shipped to the European Union were cellulose, leather and hides, unrefined aluminum and sawn wood, accounting for a joint total of 64.6%. The highlights were sales of steel products, such as iron alloys, iron or steel semimanufactured products, cast iron and Spiegel iron which, taken together, added up to 14.5% of the total channeled to the European Union.

Exports of semimanufactured goods to the Laia countries are normally not particularly significant. The year under analysis was no exception, with overall sales of US$728.7 million, 5.4% of the total under this category. Of this amount, 37.7% were targeted to Argentina and 30.4% to Mexico. The major items exported to the countries of the region were steel products, with particularly strong sales of iron or steel semimanufactured products and iron alloys, accounting for respective levels of 32.9% and 12.1% of the total.

In 2004, exports of manufactured products came to US$52.9 billion, representing 54.9% of overall Brazilian foreign sales. Sales under this category expanded 33.5% in the year, based on increases of 5.9% in prices and 26.1% in exported volume. This evolution clearly ratifies the structural change that has occurred in Brazilian exports, attributing increased relative importance to sales of products with greater aggregate value. A breakdown of exports of the major manufactured products shows a reduction in value only in the case of transmission and reception equipment, 18%, based on a drop of 19% in prices and an increase of 1.3% in volume, and orange juice, 13.2%, as a result of downturns of 9.5% and 4.2% under prices and volume, respectively. It is important to emphasize that foreign sales of ethyl alcohol and woodworking products for the building industry expanded sharply.

Products of importance to Brazilian foreign sales of manufactured goods turned in significant increases in volume in 2004. This was particularly true in the transportation equipment industry, with strong performances under earth-moving machines and drilling equipment, 90.2%; aircraft, 69.7%; tractors, 69.4%; cargo vehicles, 65.7%; automobiles, 34.3%; auto parts, 24.3%; and automobile engines, 20.1%. Parallel to these figures, increases were also registered in the exported volumes of fuel oils, 23.4%; refined sugar, 35.9%; pumps and compressors, 17.3%; furniture, 30%; and plywood, 25.5%.

With regard to price evolution, reductions occurred in the prices of automobiles, 6%, and automobile engines, 1.9%. On the other hand, prices of flat rolled steel expanded 42.5% in 2004.

As far as destination is concerned, exports of manufactured products to the Laia countries represented 32.7% of total sales in this category and were equivalent to US$17.3 billion, an increase of 52.3% over 2003. Foreign sales of manufactured products

Table 5.11 – Exports – FOB – Major manufactured goods

% change 2004/2003

Products	Value	Price 1/	Weight 2/	Participation 3/
Passenger motor vehicles	26.2	-6.0	34.3	6.4
Airplanes	68.6	-0.7	69.7	6.2
Iron or nonalloy steel flat-rolled products	42.3	42.5	-0.1	3.8
Passenger motor vehicles engines and parts thereof	17.8	-1.9	20.1	3.7
Parts and acessories for motor cars and tractors	31.8	6.0	24.3	3.7
Footwear, parts and components	17.1	10.9	5.5	3.6
Transmission and reception apparatus, and components	-18.0	-19.0	1.3	2.6
Fuel oils	19.2	-3.4	23.4	2.3
Cane sugar, refined	42.9	5.2	35.9	2.1
Motor vehicles for the transport of goods	67.4	1.0	65.7	2.1
Pumps, compressors, fans and others	29.7	10.5	17.3	2.0
Furniture and parts thereof, except for medical-surgical use	41.7	9.0	30.0	1.8
Civil engineering and contractors' plant and equipment	98.3	4.3	90.2	1.7
Plywood and similar laminated wood	51.5	20.7	25.5	1.7
Tractors	90.5	12.5	69.4	1.7
Orange juice, frozen	-13.2	-9.5	-4.2	1.5
Pneumatic rubber tires	12.2	7.2	4.7	1.3
Polymer of ethylene, prophylene and sthyrene	31.6	42.6	-7.7	1.3
Chassis fitted with engines and bodies for motor vehicles	32.4	3.0	28.5	1.1
Iron and steel bars and rods	25.1	47.4	-15.1	1.1
Electric motors, generators, transformers; parts thereof	19.9	-1.5	21.6	1.1
Paper and paperboard used for writing, printing etc.	7.2	2.6	4.5	1.1
Gasoline	4.0	38.1	-24.7	1.1
Agricultural machinery (excluding tractor); parts thereof	66.5	17.3	41.9	0.9
Gears and gearing; ball screws; gear boxes; parts thereof	34.4	-0.9	35.5	0.9
Ethyl alcohol, undenatured	214.3	-1.8	220.2	0.9
Prepared meals of the meat of bovine animals	32.1	24.1	6.5	0.8
Wood work for constructions	75.2	23.0	42.4	0.8
Hydrocarbons and halogenated derivatives	48.7	63.9	-9.3	0.8
Aluminum oxide and aluminum hydroxide	29.1	24.7	3.6	0.8
Other manufactured products		-	21.0	45.1

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.

accounted for 88% of total products absorbed by that bloc, with US$8.1 billion targeted to Mercosul, including US$6.7 billion to Argentina. Sales to Mexico and Chile totaled US$3.5 billion and US$1.9 billion, respectively. When taken together with sales to Argentina, exports to these three countries accounted for 70% of Laia member country purchases of Brazilian manufactured products. Among the most important products channeled to the region, the highlights were goods turned out by the automotive industry, primarily as a consequence of trade agreements formalized within the Mercosul framework and with Mexico. Automobiles were the major item exported to the region, 15.9% of the total, followed by cargo vehicles, 4.2%; auto parts, 4.1%; transmission and reception apparatuses, 3.5%; and flat rolled steel, 3.5%.

Exports of manufactured products to the United States totaled US$14.9 billion, 14.2% more than in 2003. These operations were equivalent to 28.2% of Brazilian exports in this category, accounting for 73.4% of total sales to the United States, compared to 77.3% in 2003. Growth of 315% was registered in exports of flat rolled steel, in contrast to 2003 when these products were subject to restrictions in that market; followed by sales of earth-moving and drilling machines and equipment, 121%; woodworking products for the building industry, 104%; plywood, 57.6%; aircraft, 40.6%; furniture, 40%; and auto parts, 33.5%. The major product sold to the United States consisted of aircraft, accounting for 16% of sales of manufactured products to that country. In the opposite sense, reductions were registered under exports of fuel oils, 17.9%, and reception and transmission equipment, 57.6%, mainly reflecting the downturn in sales of mobile telephones.

Sales of manufactured products to the European Union totaled US$9.9 billion in 2004, up 46.9% compared to the preceding year. This market absorbed 18.7% of the exported total under this category, representing 41% of Brazilian exports to that bloc, as against 36.5% in 2003. This increase was a consequence of strong growth of 183% in foreign sales to the countries that joined the European Union in 2004, while sales to the former members increased 43.4%. In the latter case, one should highlight exports of manufactured products to the Netherlands, the major market of destination in that bloc, with a total of US$2.3 billion in 2004 and annual growth of more than 100%. Other important partners in the bloc also expanded their purchases of Brazilian manufactured products in 2004, particularly Sweden, 79.4%; Italy, 38%; Germany, 36.8%; Spain, 33.2%; France, 30.9%; and the United Kingdom, 26.9%. Among the new members of the European Union, accentuated increases were registered under exports channeled to Poland, the Czech Republic, Hungary and Cyprus. Among the major products acquired by the European Union, the most important were automobile engines, which accounted for 7.5% of total manufactured goods channeled to that economic bloc, corresponding to a 16.8% increase over 2003, followed by aircraft, with 5.3% participation and an increase of 278%; orange juice, 5.2% and a reduction of 7.4% in value; and flat rolled steel, with 4.2% participation and an increase of 81.4% in the year.

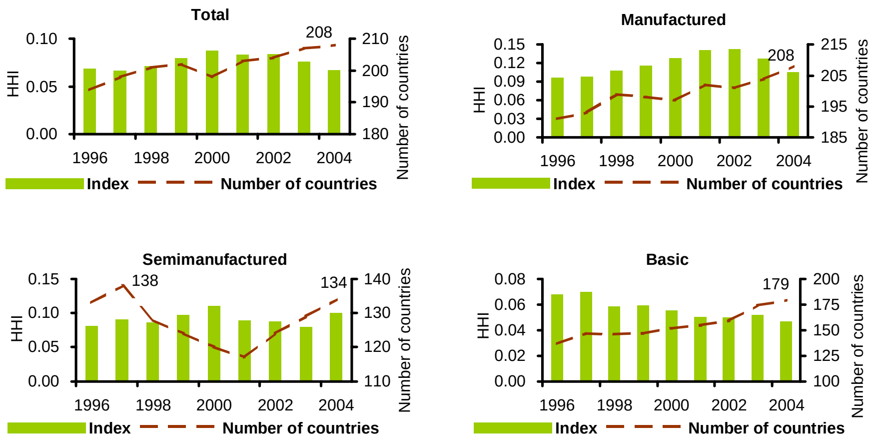
The countries of Asia absorbed 6.1% of Brazilian exports of manufactured products, US$3.2 billion, posting growth of 11.8% over 2003. The major destination of these products was China, with 29.8% of the total, despite a reduction of 17.8% compared to 2003. The following positions were occupied by Japan, Singapore, South Korea and India, which, together with China, represented 74.8% of total exports to that region. Foreign sales to Singapore increased 93.9% and those targeted to India rose 104%. Among the products exported to the region, the most important were rolled steel, accounting for 12.4% of that total, despite a reduction of 37.6% when compared to 2003.

In terms of growth, the highlights were sales of ethyl alcohol, 387%, corresponding to 5.8% of the total; refined sugar, 294% and 3.9%; fuel oils, 102% and 7.2%; tractors, 60.7% and 3.3%; and refined soybean oil, 51.1% growth and a share of 3.3%. Special operations, a heading that is used to encompass transactions that can not be classified under other items of the Common Mercosul Nomenclature and reexports, totaled US$1.6 billion in 2004, corresponding to growth of 20.7% over 2003. Reexport operations came to 6.8% of this total, while supplying of oil and fuel for ships and aircraft represented 79.5% of the total.

Growth in the number of countries of destination for Brazilian exports together with a reduction in the concentration of these operations, in terms of both countries and products, are undeniable indicators of the structural change that has occurred in world demand for Brazilian goods. This has been a factor of great importance to maintaining the upward movement in the nation's exports.

Evaluation of the concentration of Brazilian exports by country of destination and products is based on the Hirschman-Herfindahl Index[4] (HHI). This analysis was based on a listing of exports to specific countries provided by the Ministry of Development, Industry and Commerce (MDIC) according to category of aggregate factor, excluding special transactions, on-board consumption, reexports and exports to destinations still to be named. Participation of these items in the period extending from 1996 to 2004 averaged 1.7% of total exports, hitting a maximum of 2.1% in 2001. Consequently, it is clear that these operations have an only residual influence on the results of the analysis.

Graph 5.7
Export concentration by countries
Hirschman-Herfindahl Index



4/ HHI corresponds to the sum total of the square number of the participation of each item. In this case, it corresponds to the total amount for countries an products and ranges from zero to one. The increase in the index indicates higher concentration.

Brazilian exports were shipped to 208 countries in 2004, the largest number ever registered in the history of Brazilian foreign commerce. It is important to note that manufactured products were sold to all of these countries. Since 2002, exports of semimanufactured goods have been channeled to an increasingly greater number of countries. In the case of primary products in which Brazil has a greater comparative advantage, this tendency has been registered during the entire period considered.

As measured by the HHI the evolution of the concentration of Brazilian exports by country of destination has shown differentiated behaviors by category of aggregate factor. In the case of basic products, concentration decreased from 1997 onward, registering a slight rise in 2003 basically as a consequence of an increased volume of purchases on the part of China, which had only recently joined the WTO. With regard to manufactured products, concentration increased up to 2002. This was followed by an accentuated process of diversification in the two following years, to the point that the 2004 HHI came quite close to the figures registered in 1996 and 1997.

Under semimanufactured products, concentration increased up to 2000 and was reversed in the following years. However, there was a new increase in 2004 when the HHI was impacted to some extent by growing participation in Brazilian exports on the part of China and by a relatively greater increase in the prices of metallic commodities, a grouping that is very much in demand in the industrialized nations.

Another indicator that reveals the structural changes that have favored Brazilian exports is concentration by products sold abroad. In this case, the HHI is based on the aggregation of products according to the Standard International Trade Classification (SITC) at the three digit level, which is equivalent to 262 items, of which 259 were included in Brazilian exports in the period extending from 1996 to 2004. The conversion of Common Mercosul Nomenclature to UCIT was elaborated by Depec based on the third revision of the United Nations Conference on Trade and Development (Unctad) (SITC, Rev. 3).

Utilization of UCIT does not permit cross referencing of data by category of aggregate factor, though the result for total exports points to greater diversification in recent years starting in 2002, just as occurred in concentration by country. In 2003 and 2004, which were marked by strong growth in the value of Brazilian exports, the HHI turned in the lowest levels since 1996.

Examination of imports by final use category and economic destination reveals a process of spreading growth in 2004. By contrast, in 2003 only imports of raw materials and intermediate products and fuels and lubricants had registered growth, due primarily to the upward spiral in petroleum prices. In 2004, the oil price rise exerted a significant influence on the value of imports, principally those involving raw materials and intermediate goods and fuels and lubricants. However, the rise in volume was the preponderant factor in the shift in the level of imports, showing growth in industry, the farm sector and income during the course of the year.

Imports of raw materials and intermediate products totaled US$33.5 billion, 53.4% of the total imported, corresponding to growth of 29.7% compared to 2003. Among the major items listed under this category, the most important were acquisitions of chemical and pharmaceutical products, which accounted for 28.8% of the total in this category and an increase of 27.9% in value; intermediate products-parts and spares, 16.7% of the total and annual growth of 34.5%; transportation equipment accessories, 15.1% and 40.8%; and other raw materials for the farm sector, 10.4% and 52.7% respectively.

Graph 5.8
Export concentration by products (Cuci classification, i.e. 3 digits)
(Hirschman-Herfindahl index)

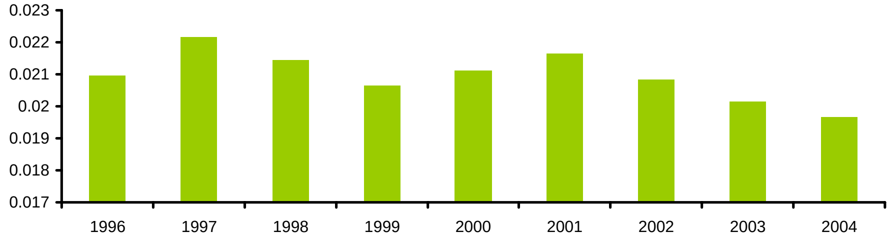


Table 5.12 – Imports – FOB

US$ million

Itemization	2000	2001	2002	2003	2004
Total	55 839	55 572	47 237	48 291	62 782
Capital goods	13 605	14 808	11 643	10 350	12 126
Raw materials and intermed.prod.	28 432	27 340	23 446	25 824	33 495
Consumer goods	7 442	7 148	5 908	5 539	6 859
Durable	3 450	3 516	2 508	2 417	3 187
Nondurable	3 993	3 631	3 400	3 121	3 672
Fuels and lubricants	6 358	6 276	6 240	6 579	10 302

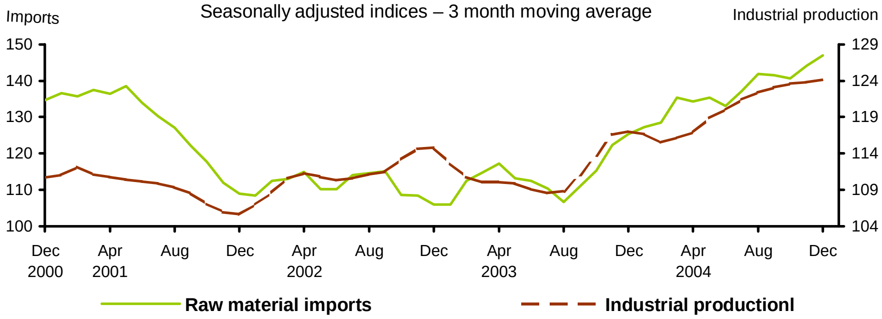
Source: MDIC/Secex

As far as origin is concerned, 27.6% of the raw materials imported in 2004, in a total amount of US$9.2 billion, originated in the European Union (EU). This total represented an increase of 29.2% over 2003, representing 58% of total purchases from that economic bloc. Among these products, the most significant were auto parts, 11.5% of the total; heterocyclic compounds, 5.9%; parts and spares for aircraft, 5%; automobile engines, 4.9%; and ball bearings and gears, 4.4%. In the EU framework, the largest suppliers of raw materials were Germany, 31.8% of the total, France, 15.5%, and Italy, 11.3%.

Graph 5.9

Raw material imports x industrial production

Seasonally adjusted indices – 3 month moving average



Source: IBGE and Funcex

Purchases of raw materials and intermediate products on the United States market expanded 24.9% in 2004, closing with a total of US$7.2 billion. This total was equivalent to 11.4% of total Brazilian imports in the year and 62.3% of Brazilian imports from that country. The principal items imported were motors, turbines, parts and spares for aircraft and helicopters, representing 14.5% of total imports from the United States, up 42.1% compared to 2003; heterocyclical compounds, 5.2% and 51.5%, respectively; and integrated circuits and microelectronics, 4.6% and 18.1%, in that order.

Imports of raw materials and intermediate products from the Laia countries increased 26.6% in 2004, closing at US$6.7 billion. This total represented 19.9% of the imports in this category and 66.5% of total imports from that bloc. Purchases from Argentina, Chile and Mexico corresponded to 55.3%, 18.8% and 7.3% of total raw materials imported from the bloc, with respective annual increases of 23.5%, 77.6% and 45.2%. Wheat purchases, 10.8% of the total, were one of the few headings to close with a reduction in comparison to the previous year; napthas, 8.9%; copper ore, 6.7%.

Graph 5.10

Brazilian imports by use category – FOB

Last 12 months (% growth)[1/]

Source: MDIC/Secex

1/ From the same period of the previous year.

Asia provided Brasil with the US$6.3 billion in raw materials and intermediate products, up 39.9% over 2003. This total corresponded to 10% of total Brazilian imports and 18.8%

of imports in this product category. Just as occurred in operations with other economic blocs, imports of raw materials accounted for the largest share with 51.3% of the total purchased in Asia. Four countries were responsible for 71.5% of this total; Japan, 24.9%, China, 21.6%, South Korea, 15.7%, and Taiwan, 9.2%. Among the major products imported from the region, the most important were integrated circuits and microelectronics, accounting for 22.9% of that total, a rise of 42.2% against 2003; and computer parts and accessories and auto parts, with participation of 6% and 5.4% and annual increases of 39.6% and 53.4%, respectively.

Imports of capital goods in 2004 totaled US$12.1 billion, 17.2% more than in 2003. Here, it is important to note that 2002 registered a reduction of 21.4% and 2003 closed with a drop of 11.1%. This growth was consistent with the evolution of industrial output and the policy measures taken to stimulate modernization of this sector. Across-the-board increases were registered in the imported volume of all of the major capital goods subitems, particularly in operations involving mobile transportation equipment, 49.9%; tools, 36.2%; parts and spares for industrial capital goods, 30.2%; office and scientific service machines and apparatuses, 25.5%; accessories for industrial machinery, 15.9%; and industrial machinery, 4.7%.

The subgroup of industrial machinery represented 27.1% of capital goods imports in 2004 and was the only subgroup to register a reduction in the value of imports, 4.3%. This reduction reflected an 8.6% decline in prices, as well as a falloff in the value of imports of generator groups, a heading that registered highly significant imports in both 2002 and 2003 as a result of the problems encountered at that time in maintaining a normal electricity supply. All of the other items registered value growth in imports with the best performances under office and scientific service machines and apparatuses, 26.7%, and parts and spares for industrial capital goods, 25.8%.

Imports of capital goods from the European Union totaled US$4.4 billion, an increase of 17.8% compared to 2003. These operations were responsible for 27.5% of total imports from that economic bloc, the major supplier of capital goods to Brazil, with 36.1% of the category total. A breakdown of total capital goods imported from the European Union shows that 37.1% originated in Germany, 16.6% in Italy, 11.6% in France and 6.9% in Sweden. Among the major capital goods imported from that region, the most important were measuring and verification instruments and apparatuses, 11.1% of the total; pumps, compressors and fans, 6.7%; motors, generators and electric transformers, 4.7%; and electricity interruption and protection devices, 4.5%. Imports of these items expanded 30.7%, 25%, 3.3% and 32.7%, respectively, compared to the previous year. In 2004, imports of capital goods from Asia totaled US$3.4 billion, 34.1% more than in the previous year. This amount corresponded to 28.4% of total Brazilian imports of capital goods and 28.1% of imports from Asia in the year. Chinese exports of capital goods to Brasil closed at US$1.1 billion, double the 2003 value. These operations were responsible for 32.4% of imports from the region, followed by Japan, with 26.1%; South Korea, 17.2%; and Taiwan, 9.7%.

Table 5.13 – Imports – FOB – Major products

% change 2004/2003

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Capital goods				100.0
Industrial machinery	-4.3	-8.6	4.7	27.1
Machines and apparat. for office and scientific purpose	26.7	1.0	25.5	22.0
Capital goods parts and components	25.8	-3.4	30.2	12.5
Industrial machinery accessories	17.0	1.0	15.9	8.8
Transportation movable equipment	37.2	-8.5	49.9	5.0
Tools	24.1	-8.9	36.2	1.8
Other capital goods	33.0	265.3	-63.6	22.8
Intermediate products and raw material				100.0
Chemical and pharmaceutical products	27.9	13.9	12.3	28.8
Intermediate products – Parts	34.5	-5.7	42.6	16.7
Mineral products	32.4	-0.2	32.7	14.6
Accessories for transport equipment	40.8	33.2	5.6	15.1
Other raw materials for farming	52.7	21.6	25.5	10.4
Inedible farm products	-24.8	6.8	-29.6	4.5
Foodstuffs	30.7	0.4	30.2	6.6
Other raw materials and intermediate products	29.3	66.0	-22.1	3.3
Nondurable consumer goods				100.0
Pharmaceutical products	16.6	-2.4	19.4	39.6
Foodstuffs	14.5	12.7	1.6	28.8
Perfumery, cosmetics, or toilet preparations	21.0	-7.6	31.0	6.5
Tobacco and beverage	15.9	1.2	14.5	5.0
Apparel and other textiles clothing	51.7	-25.2	102.7	4.8
Other nondurable consumer goods	17.4	-8.9	28.8	15.3
Durable consumer goods				100.0
Articles for personal use or adornment	28.8	-0.6	29.5	28.8
Passenger motor vehicles	4.3	-0.7	5.1	22.4
Machines and appliances for household use	55.6	-12.0	76.8	20.0
Durable consumer goods parts	57.8	17.7	34.1	19.4
Furniture and other household equipment	38.6	2.6	35.2	5.9
Other durable consumer goods	34.8	-25.6	81.1	3.4
Fuels and lubricants				100.0
Fuels	57.1	34.3	17.0	98.4
Lubricants	31.1	11.0	18.1	1.6

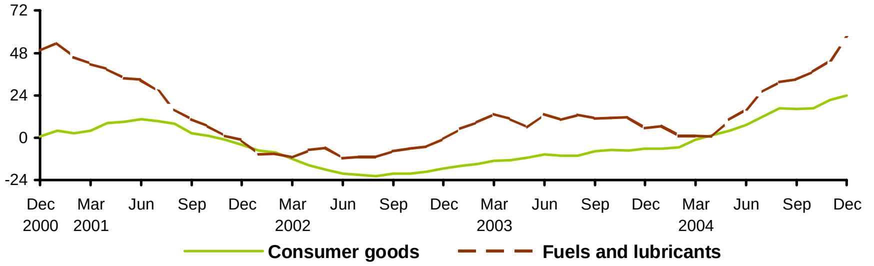
Source: MDIC/Secex

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.

United States exports of capital goods to Brazil totaled US$3 billion, representing 24.4% of the total imported in this use category and 25.7% of overall purchases of products from that country. The highlights were imports of measuring and verification instruments and apparatuses, 13.3% of the total, with an increase of 27.2% compared to 2003;

computers, 9.4% of the total and growth of 15.1%; pumps, compressors and fans, 5.9% and a 5.2% drop; and earth-moving and drilling machines and equipment, 5% and an increase of 27.6%.

Graph 5.11
Brazilian imports by use category – FOB
Last 12 months (% change)[1/]



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

Imports of capital goods from the Laia countries totaled US$591 million, 21.2% more than in 2003. This result was equivalent to 4.9% of purchases of products classified in this category. Of this total, 79.2% originated in Argentina and 15.8% in Mexico, with annual increases of 19.7% and 21.4%, respectively. The major products imported from that economic bloc were cargo vehicles, 37.6%; measuring and verification instruments and apparatuses, 10.2%; and tractors, 5.3%.

Imports of fuels and lubricants reached US$10.3 billion, reflecting an increase of 56.6% compared to 2003. Basically, this result reflected the rise in petroleum prices, which came to approximately 33% in the year. The major suppliers of fuels and lubricants were Nigeria, with 33.7% of the total, followed by Algeria, 16.4%, and Saudi Arabia, 11.4%. Petroleum imports represented 97.8%, 98.2% and 74.2% of overall purchases from these countries, respectively.

Consumer goods purchases totaled US$6.9 billion in 2004, up 23.8% over the previous year. Of this total, which accounted for 10.9% of overall imports in the year, US$3.2 billion referred to consumer durables and US$3.7 billion to nondurables.

Imports of consumer durables expanded 31.8%, reflecting the increase in imported volume. Among the major products, one should highlight purchases of objects for personal adornment or use, passenger cars, machines and apparatuses for the home and parts for consumer durables. Taken together, these items were responsible for approximately 90.7% of imports in this category.

With respect to the origin of foreign purchases of passenger cars, which registered expansion of 4.3% in 2004, the major exporting countries were Argentina, 37.2% of the total, Germany, 15.3%, and Japan, 14.7%. For the most part, other consumer durables originated

Table 5.14 – Imports by end-use category and by region – FOB

US$ million

Product	2003	2004			
	Value	Value	Change from 2003 (%)	Share (%) Total	Share (%) Blocs
Total	48 291	62 782	30.0	100.0	-
Capital goods	10 350	12 126	17.2	19.3	-
Raw material and intermediate goods	25 824	33 495	29.7	53.4	-
Nondurable consumer goods	3 121	3 672	17.6	5.8	-
Durable consumer goods	2 417	3 187	31.8	5.1	-
Fuels and lubricants	6 579	10 302	56.6	16.4	-
Laia	8 209	10 021	22.1	16.0	100.0
Capital goods	488	591	21.2	0.9	5.9
Raw material and intermediate goods	5 262	6 662	26.6	10.6	66.5
Nondurable consumer goods	873	985	12.7	1.6	9.8
Durable consumer goods	376	400	6.3	0.6	4.0
Fuels and lubricants	1 209	1 383	14.4	2.2	13.8
Mercosul	5 685	6 393	12.5	10.2	100.0
Capital goods	397	477	20.1	0.8	7.5
Raw material and intermediate goods	3 795	4 317	13.7	6.9	67.5
Nondurable consumer goods	651	734	12.7	1.2	11.5
Durable consumer goods	309	338	9.2	0.5	5.3
Fuels and lubricants	532	528	-0.8	0.8	8.3
USA[1/]	9 726	11 511	18.4	18.3	100.0
Capital goods	2 927	2 955	1.0	4.7	25.7
Raw material and intermediate goods	5 741	7 172	24.9	11.4	62.3
Nondurable consumer goods	531	576	8.5	0.9	5.0
Durable consumer goods	300	397	32.2	0.6	3.4
Fuels and lubricants	227	411	81.0	0.7	3.6
European Union	13 022	15 923	22.3	25.4	100.0
Capital goods	3 722	4 383	17.8	7.0	27.5
Raw material and intermediate goods	7 142	9 230	29.2	14.7	58.0
Nondurable consumer goods	991	1 103	11.3	1.8	6.9
Durable consumer goods	782	929	18.8	1.5	5.8
Fuels and lubricants	384	278	-27.6	0.4	1.7
Asia	8 923	12 278	37.6	19.6	100.0
Capital goods	2 573	3 450	34.1	5.5	28.1
Raw material and intermediate goods	4 501	6 294	39.9	10.0	51.3
Nondurable consumer goods	374	560	50.0	0.9	4.6
Durable consumer goods	866	1 300	50.3	2.1	10.6
Fuels and lubricants	610	674	10.3	1.1	5.5
Others	8 411	13 048	55.1	20.8	100.0
Capital goods	640	747	16.7	1.2	5.7
Raw material and intermediate goods	3 178	4 137	30.2	6.6	31.7
Nondurable consumer goods	353	448	27.0	0.7	3.4
Durable consumer goods	93	161	72.3	0.3	1.2
Fuels and lubricants	4 147	7 556	82.2	12.0	57.9

Source: MDIC/Secex

1/ Includes Puerto Rico.

in China, 23.2% of the total, the United States, 14.4%, and Germany, with 8.7%, all of which registered sharp growth compared to 2003. Furthermore, one should cite the 81.1% increase registered in imports of consumer durables from China, excluding automobiles.

Imports of nondurable consumer goods added up to US$3.7 billion in 2004, with annual growth of 17.6%. This increase reflected growth in employment and income and larger trade flows with China, with volume increases in all of the various subgroups in this category. External acquisitions of pharmaceutical products were responsible for 39.6% of imports registered in this category, for an increase of 19.4% in imported volume, when compared to 2003. Parallel to this, imports of food products represented 28.8% of the imports of nondurable consumer goods, despite the fact that the volume of these purchases registered the lowest rate of growth among the subgroups included in this category, 1.6%.

The major share of imports of nondurable consumer goods originated in Argentina, 16.6% of the total, followed by the United States, 13.9%. Intensification of trade relations with China was evident in the 73.7% increase in imports from that country, particularly involving growing acquisitions of toys, games and leisure products, photographic plates and films and footwear.

Trade exchanges

The improvements that have occurred in Brazil’s trade relations with the world are evident in expanding surpluses with most of its trading partners and reductions in the deficits that it has traditionally had in bilateral trade with certain countries. Simultaneous growth in exports and imports generated by volume and price increases for exported and imported products at rates that are not only quite high but also very similar to each other point to the improvement that has occurred in the nation’s trade exchanges and surplus, thereby consolidating a tendency that had become evident in the previous year.

Viewed as an economic bloc, trade exchanges with the European Union member countries turned in the highest results, with US$40.1 billion, based on exports of US$24.2 billion and imports of US$15.9 billion. Absolute growth in the trade surplus came to US$2.8 billion, with increases of 30.9% under exports and 22.3% under imports. The Netherlands acquired US$5.9 billion in Brazilian products, up 39.4% over 2003. This result was impacted by the purchase of two floating drilling platforms, at a total cost of US$1.2 billion. As a result, that country moved into third position among the countries of destination for Brazilian exports, supplanting China. Among the European Union partners, the largest trade flow was registered with Germany, US$9.1 billion, based on exports of US$4 billion and imports of US$5.1 billion, corresponding to the third largest Brazilian deficit in bilateral trade in the year. Other highly significant trade flows were registered with Italy, US$4.9 billion; France, US$4.5 billion; the United Kingdom, US$3.5 billion; and Spain, US$3.2 billion.

Trade exchanges with the United States, Brazil's largest individual trading partner, posted exports of US$20.3 billion, imports of US$11.5 billion and a trade surplus of US$8.8 billion, reflecting annual growth figures of 20.4%, 18.4% and 23.1%, respectively. Despite the increase in trade flows, the relative participation of the United States in total Brazilian exports and imports shifted downward, moving from 23.1% to 21.1%, and from 20.1% to 18.3%, respectively.

Table 5.15 – Brazilian trade by region – FOB

US$ million

Itemization	2003			2004		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	73 084	48 291	24 793	96 475	62 782	33 693
EFTA[1/]	617	1 209	- 592	679	1 423	- 744
Laia	12 920	8 209	4 711	19 699	10 021	9 679
Mercosur	5 672	5 685	- 13	8 912	6 393	2 519
Argentina	4 561	4 672	- 111	7 373	5 572	1 801
Paraguay	707	475	232	872	298	574
Uruguay	404	538	- 134	667	523	144
Chile	1 880	821	1 059	2 546	1 390	1 156
Mexico	2 741	533	2 208	3 948	704	3 244
Others	2 627	1 170	1 457	4 294	1 534	2 760
Canada	978	750	227	1 199	866	333
European Union	18 461	13 022	5 439	24 160	15 923	8 237
Germany	3 136	4 206	-1 070	4 036	5 072	-1 036
Belgium/Luxembourg	1 795	515	1 281	1 931	640	1 291
Spain	1 552	974	577	1 984	1 175	809
France	1 715	1 768	- 52	2 190	2 287	- 97
Italy	2 208	1 736	471	2 904	2 053	852
Netherlands	4 246	509	3 737	5 917	618	5 299
United Kingdom	1 899	1 205	694	2 117	1 355	762
Others	1 911	2 110	- 199	3 082	2 723	359
Eastern Europe	2 028	853	1 176	2 488	1 324	1 164
Asia[2/]	11 676	8 923	2 754	14 564	12 278	2 286
Japan	2 311	2 520	- 210	2 768	2 868	- 100
China	4 533	2 148	2 385	5 440	3 710	1 730
Korea, Republic of	1 223	1 079	144	1 429	1 730	- 300
Others	3 610	3 176	434	4 927	3 971	956
USA[3/]	16 900	9 726	7 174	20 341	11 511	8 830
Others	9 504	5 600	3 904	13 345	9 435	3 910
Memo:						
Nafta	20 619	11 009	9 610	25 488	13 081	12 407
Opec	3 844	4 533	- 688	5 714	7 855	-2 141

Source: MDIC/Secex

1/ Iceland, Liechtenstein, Norway and Switzerland.

2/ Excludes the Middle East.

3/ Includes Puerto Rico.

The trade surplus with the Laia member countries expanded 105% in 2004, closing at US$9.7 billion. For the most part, this positive performance can be attributed to three factors: i) reversal of the trade deficit with Mercosul partners, primarily as a result of the performance of trade with Argentina, which moved from a deficit of US$111 million in 2003 to a surplus of US$1.8 billion in 2004; ii) expansion in trade surpluses with Chile and Mexico, as a consequence of trade preference and automotive agreements; iii) growth in the surplus and trade flows with the member countries of the Andean Community, particularly Venezuela. Suspension of Brazilian restrictions imposed on the CCR contributed strongly to this growth, particularly as regards the latter country.

The importance of trade with the Laia countries is related to the dynamics of Brazilian exports of manufactured goods, which are less sensitive to price changes and have greater aggregate value. In this sense, sales registered in this product grouping and channeled to Laia members increased 52.3% in 2004, closing with a total of US$17.3 billion, while sales to the United States, the second largest importer, expanded 14.2%, closing with a total of 14.9 billion. Aside from this, the participation of exports of manufactured products in relation to total Brazilian sales to the United States dropped from 17.9% in 2003 to 15.5% in 2004 compared to an increase from 15.6% to 18%, in the framework of the Laia countries. Sales to Argentina, the second largest individual market of destination for Brazilian products, closed at US$7.4 billion, an increase of 61.7% over 2003, followed by the Laia countries, by Mexico, US$3.9 billion, 44%; Chile, US$2.5 billion, 35.4%; and Venezuela, US$1.5 billion, 142%.

With respect to Brazilian imports from the Laia countries, these operations were strongly concentrated in acquisitions of raw materials and intermediate products and fuels and lubricants, equivalent to 80.3% of the total imported from that economic bloc, in a total amount of US$8 billion. After the United States, Argentina was the largest individual supplier of products to Brazil, with a total amount of US$5.6 billion and growth of 19.3% compared to 2003. In order of importance, the major products imported from Argentina were wheat grain and naphtha; auto parts and tractors; ethylene polymers, propylene and styrene; cargo vehicles and passenger cars. Among Laia member countries, the next major suppliers of the Brazilian market were Chile, Bolivia and Mexico, with Brazilian imports of US$1.4 billion, US$713.5 million and US$703.8 million, with respective growth levels of 69.3%, 37.3% and 32.1%, compared to the preceding year.

Expanding trade exchanges with the countries of Asia in 2004 registered increases of 24.7% in exports, with US$14.6 billion, and 37.6% in imports, US$12.3 billion, resulting in a 17% reduction in the Brazilian trade surplus with those countries, dropping to US$2.3 billion as against US$2.8 billion in 2003. This was the largest decline registered in the year. The relative participation of the countries of that region closed at 15.1% in exports and 19.6% in total Brazilian imports. China was Brazil's major trading partner in the region, occupying fourth position between both buyers of Brazilian products and suppliers of goods imported by Brasil.

The results of trade with Eastern Europe demonstrate the success of the trade promotion strategy adopted by Brasil with the objective of increasing its trade flows with nontraditional markets. Brazilian exports registered growth of 22.7%, closing at a total of US$2.5 billion, while imports increased 55.3%, to a total amount of US$1.3 billion. Brazil's major trading partner in the region was Russia accounting for a full two-thirds of Brazilian foreign sales and 61% of Brazilian imports from that region of the world.

Services

In 2004, the service account registered net outlays of US$4.8 billion, US$158 million below the 2003 result. This comparison demonstrates the stability that has characterized the performance of the various items covered by this account.

Since 1947, the heading of international travel has registered a positive balance in only three years, 1989, 2003 and 2004. Since mid-2002, the reversal of the tendency toward a deficit has been evident in net monthly flows under this account, primarily as a consequence of its high level of sensitivity to exchange rates and income levels.

Consolidating the tendencies cited above, this account registered net inflows of US$351 million in 2004, basically as a result of 30.5% growth in the spending of foreign tourists in Brazil with a total of US$3.2 billion, against US$2.5 billion in 2003. Brazilian spending on tourism abroad, in turn, expanded 28.4% in 2004. These movements resulted in net revenues of US$602 million in the tourism account, as compared to US$430 million in 2003. With appreciation of the real and growing internal income, however, the balance of this account has declined sharply, moving from US$503 million in the first half of the year to US$99 million in the second half. Net inflows through credit card operations ended at US$12 million, in contrast to net outflows of US$11 million in the previous year. Other outlays on tourism registered a surplus of US$417 million, as compared to US$308 million in 2003. In this context, one should highlight growth in revenues, reflecting the accentuated increase in foreign currency sale operations, a trend attributed at least partly to sales of dollars held by residents. Business travel, which is less sensitive to exchange rate fluctuations and tends to reflect the level of internal and world economic activity, expanded 19.3% and closed with a deficit of US$160 million, as against US$134 million, in 2003.

The transportation account registered net outflows of US$2.1 billion, for growth of 30.9% over 2003. This result was clearly consistent with the behavior of the balance of trade and international travel. The performance of the export and import sectors resulted in 23.5% growth in net spending on freights in 2004. Despite this growth, however, the deficit under this heading was significantly below that registered up to the start of the 2002, since the increased volume of trade in recent years has resulted in growth in freight

Table 5.16 – Services

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-2 226	-2 705	-4 931	-1 895	-2 877	-4 773
Credit	4 987	5 460	10 447	5 976	6 466	12 442
Debit	7 213	8 165	15 378	7 871	9 344	17 215
Transportation	- 735	- 855	-1 590	- 937	-1 144	-2 081
Credit	837	985	1 822	1 052	1 273	2 325
Debit	1 572	1 840	3 412	1 989	2 417	4 406
Travel	65	153	218	370	- 19	351
Credit	1 111	1 368	2 479	1 625	1 597	3 222
Debit	1 046	1 215	2 261	1 255	1 616	2 871
Insurance	- 201	- 235	- 436	- 196	- 348	- 544
Credit	56	67	124	70	36	105
Debit	257	302	560	265	384	649
Financial services	- 197	- 186	- 383	- 46	- 30	- 77
Credit	162	201	363	195	228	423
Debit	358	387	745	241	258	499
Computer and information	- 463	- 571	-1 034	- 590	- 637	-1 228
Credit	13	16	29	26	27	53
Debit	475	587	1 063	617	665	1 281
Royalties and licence fees	- 527	- 592	-1 120	- 573	- 510	-1 082
Credit	46	62	108	61	54	114
Debit	574	654	1 228	633	563	1 197
Operational leasing	- 946	-1 367	-2 312	- 956	-1 210	-2 166
Credit	13	12	25	22	37	59
Debit	959	1 378	2 337	978	1 248	2 225
Government services	- 87	- 64	- 151	- 56	- 124	- 180
Credit	400	477	877	457	512	969
Debit	487	540	1 028	513	636	1 149
Other	865	1 011	1 877	1 088	1 147	2 235
Credit	2 349	2 272	4 621	2 468	2 703	5 171
Debit	1 483	1 261	2 744	1 380	1 556	2 936

revenues that was more than proportional to the increase in outlays under this heading. Revenues and expenditures on maritime freights, composed almost entirely of shipments of goods, registered respective growth levels of 34.1% and 28.5%.

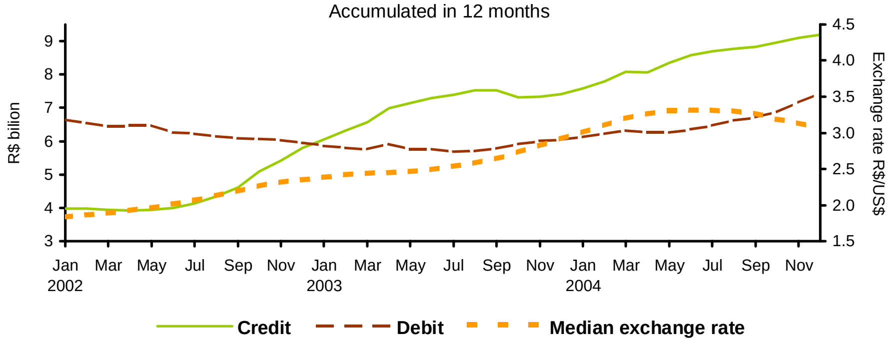
International flows of travelers led to growth of 70.4% in net outlays on travel tickets, moving from US$419 million to US$714 million. Revenues diminished 13.9% to US$167 million, while spending increased 43.7% to US$881 million. Other transportation items, including charters, turned in net outlays of US$642 million, for growth of 10.1% compared to 2003.

Table 5.17 – International travel

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	173	257	430	503	99	602
Credit	1 090	1 328	2 418	1 590	1 565	3 155
Debit	917	1 072	1 989	1 087	1 466	2 553
Duty-free shop	61	84	145	79	91	171
Credit card	33	- 43	- 11	24	- 12	12
Credit	589	648	1 237	769	835	1 605
Debit	556	692	1 248	745	847	1 592
Tourism services	1	- 15	- 13	22	- 20	2
Credit	52	71	123	103	104	207
Debit	50	86	136	80	124	204
Other	77	231	308	377	40	417
Credit	388	525	913	638	535	1 173
Debit	311	294	605	262	495	756
Business	- 69	- 65	- 134	- 75	- 86	- 160
Credit	10	12	22	14	14	28
Debit	79	78	157	89	100	189
Education-related	- 36	- 25	- 61	- 37	- 31	- 68
Credit	2	5	7	3	4	7
Debit	38	30	68	40	35	75
Government employees	- 3	- 15	- 18	- 22	- 2	- 25
Credit	6	17	24	14	9	23
Debit	9	32	42	36	11	48
Health-related	0	1	2	1	1	2
Credit	3	5	8	5	5	9
Debit	3	3	6	3	4	7
Total	65	153	218	370	- 19	351
Credit	1 111	1 368	2 479	1 625	1 597	3 222
Debit	1 046	1 215	2 261	1 255	1 616	2 871

Graph 5.12
Tourism
Accumulated in 12 months



Insurance services registered net outflows of US$544 million, compared to US$436 million in 2003. Revenues on insurance operations declined 14.9%, closing 2004 at US$105 million. At the same time, spending under this heading expanded 16%, totaling US$649 million.

Net outlays on financial services added up to US$77 million, for a reduction of 80% in relation to the previous year. This result indicated expansion of 16.5% in revenues, totaling US$423 million, and a 33% decline under spending, US$499 million, reflecting a reduction in commissions paid on loans, which is the most important heading under this account.

Net spending on computer and information services added up to US$1.2 billion, compared to US$1 billion in 2003. Revenues came to US$53 million and spending ended the period at US$1.3 billion.

Net payments of royalties and licenses abroad closed at US$1.1 billion in 2004, approximately the same level as the previous year. Further analysis shows that remittances remained stable while revenues received increased 5.9%, reflecting movement that is not considered significant.

Net spending on equipment rentals totaled US$2.2 billion, down 6.3% compared to 2003. This result reflected growth in outlays on offshore oil drilling platforms, as well as 137% expansion under revenues, though the latter heading was still not significant in overall value.

Government services registered net outlays of US$180 million in 2004, up 19.3% compared to the preceding year. This growth reflected increases of 10.5% and 11.8%, respectively, in foreign government spending in Brazil and Brazilian government outlays abroad, both of which closed in the range of US$1 billion.

Other services closed with net revenues of US$2.2 billion, for growth of 19.1% compared to the previous year. A breakdown of this heading shows that administrative services registered net revenues of US$1.3 billion for growth of 6.4% over 2003. Specialized technical services registered net revenues that were 45.5% greater than in 2003 with a total amount of US$1.1 billion. Personal, cultural and leisure services generated net outlays of US$362 million, an increase of 28%. This performance also made a significant contribution to the results registered under transmissions of events, earnings on sports competitions and courses and congresses. The communications account closed with net revenues of US$174 million in 2004, as against US$84 million in the previous year. This result reflects a sharp reduction in both revenues, 45.9%, moving from US$449 million to US$243 million, and in spending, 81%, dropping from US$366 million to US$70 million.

Table 5.18 – Transportation

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 735	- 855	-1 590	- 937	-1 144	-2 081
Credit	837	985	1 822	1 052	1 273	2 325
Debit	1 572	1 840	3 412	1 989	2 417	4 406
Sea transportation	- 340	- 277	- 617	- 365	- 374	- 740
Credit	628	815	1 443	860	1 076	1 936
Debit	969	1 091	2 060	1 225	1 450	2 675
Passenger	- 1	- 1	- 2	- 1	- 7	- 8
Credit	0	0	0	0	0	0
Debit	1	1	2	1	7	8
Freight	- 278	- 287	- 565	- 301	- 394	- 696
Credit	248	305	553	341	401	742
Debit	526	593	1 119	642	795	1 438
Others	- 62	12	- 50	- 63	27	- 36
Credit	380	509	889	519	675	1 194
Debit	442	497	939	582	648	1 230
Air transportation	- 399	- 575	- 974	- 574	- 773	-1 347
Credit	176	142	318	153	152	304
Debit	575	716	1 292	727	925	1 652
Passenger	- 144	- 275	- 418	- 290	- 418	- 708
Credit	108	84	193	81	84	165
Debit	252	359	611	371	502	873
Freight	2	- 9	- 8	- 2	- 18	- 20
Credit	38	24	61	34	43	77
Debit	36	33	69	36	61	97
Others	- 257	- 291	- 548	- 283	- 337	- 620
Credit	30	34	64	38	25	62
Debit	287	324	612	320	362	682
Other transportation[1/]	4	- 3	1	3	3	6
Credit	32	29	61	40	45	85
Debit	28	32	60	37	42	79
Passenger	0	1	1	1	1	2
Credit	0	1	1	1	1	2
Debit	0	0	0	0	0	0
Freight	- 4	- 11	- 15	- 6	- 4	- 10
Credit	24	20	44	31	38	69
Debit	28	31	59	37	42	78
Others	8	7	15	8	7	14
Credit	8	8	16	8	7	15
Debit	0	1	1	0	0	1

1/ Includes road transportation.

Table 5.19 – Other services

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	865	1 013	1 877	1 089	1 146	2 235
Credit	2 348	2 273	4 621	2 469	2 702	5 171
Debit	1 483	1 261	2 744	1 380	1 556	2 936
Communication	76	8	84	103	71	174
Credit	427	22	449	117	127	243
Debit	351	15	366	14	56	70
Construction	7	3	10	1	1	2
Credit	7	3	10	1	1	3
Debit	0	0	0	0	1	1
Merchanting and trade-related	- 14	- 77	- 92	- 59	- 176	- 235
Credit	211	178	389	206	172	379
Debit	225	256	480	265	348	613
Personal, cultural and recreational	- 150	- 133	- 283	- 166	- 196	- 362
Credit	23	31	54	22	25	47
Debit	172	164	337	188	221	409
Misc. business, prof.and technical	946	1 212	2 158	1 210	1 446	2 656
Credit	1 681	2 038	3 720	2 123	2 377	4 500
Business admin. services	734	788	1 522	840	785	1 625
Technical services	817	1 073	1 890	1 090	1 378	2 469
Other	64	0	64	0	0	0
Debit	736	826	1 562	913	931	1 844
Business admin. services	107	163	270	136	157	293
Technical services	554	588	1 142	697	683	1 380
Other	74	75	149	80	91	171

Income

Composed primarily of interest and profits and dividends, the income account deficit increased 10.6% in 2004, moving from US$18.6 billion in 2003 to US$20.5 billion. In aggregate terms, the interest account showed net remittances of US$13.4 billion, reflecting annual growth of 2.6%, with falloffs in revenues and expenditures. One should stress that, in 2004, the external debt diminished, while external interest rates increased. Net remittances of profits and dividends, in turn, moved from US$5.6 billion in 2003 to US$7.3 billion.

Flows of wages and earnings were less significant and resulted in net inflows of US$181 million, US$72 million more than in 2003, principally as a consequence of a 31.7% rise in income paid to workers living in the country to a level of US$354 million. Payments to nonresidents totaled US$173 million, up 8% in 2004.

Just as occurred in the previous year, net remittances of income abroad were impacted in 2004 by net remittances of income on portfolio investments and, to a lesser extent, by remittances of income on direct investments. A breakdown of these operations shows that net remittances of income on portfolio investments totaled US$10.4 billion, reflecting a 19.4% increase compared to 2003. For the most part, this result was due to

Table 5.20 – Income

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-8 801	-9 751	-18 552	-10 367	-10 153	-20 520
Credit	1 574	1 765	3 339	1 539	1 660	3 199
Debit	10 375	11 516	21 891	11 906	11 813	23 719
Compensation of employees	48	60	109	103	78	181
Credit	125	144	269	188	165	354
Debit	76	84	160	85	87	173
Investment income	-8 850	-9 811	-18 661	-10 470	-10 231	-20 701
Credit	1 449	1 621	3 070	1 351	1 494	2 845
Debit	10 299	11 432	21 731	11 821	11 725	23 546
Direct investment income	-1 993	-3 105	-5 098	-2 522	-3 277	-5 799
Credit	297	589	886	529	532	1 061
Debit	2 290	3 694	5 984	3 051	3 808	6 860
Profits and dividends	-1 600	-2 476	-4 076	-2 053	-2 885	-4 937
Credit	234	525	760	476	440	916
Debit	1 834	3 002	4 836	2 528	3 324	5 853
Interests on intercompany loans	- 393	- 628	-1 022	- 469	- 392	- 861
Credit	62	64	126	54	92	145
Debit	456	693	1 148	523	484	1 007
Portfolio investment income	-4 344	-4 399	-8 743	-5 713	-4 727	-10 439
Credit	835	488	1 323	346	387	733
Debit	5 179	4 887	10 066	6 059	5 114	11 173
Income on equity (dividends)	- 929	- 635	-1 564	-1 556	- 845	-2 400
Credit	1	2	3	2	2	4
Debit	930	637	1 568	1 558	847	2 404
Income on debt securities (interests)	-3 415	-3 764	-7 179	-4 157	-3 882	-8 039
Credit	834	486	1 320	344	385	729
Debit	4 249	4 250	8 499	4 501	4 267	8 768
Other investments income[1/]	-2 513	-2 307	-4 820	-2 236	-2 227	-4 463
Credit	317	544	861	475	576	1 051
Debit	2 830	2 851	5 681	2 711	2 803	5 514
Memo:						
Interest	-6 321	-6 699	-13 020	-6 862	-6 501	-13 364
Credit	1 213	1 094	2 307	873	1 053	1 925
Debit	7 534	7 793	15 328	7 735	7 554	15 289
Profits and dividends	-2 529	-3 111	-5 640	-3 608	-3 729	-7 338
Credit	235	527	763	478	442	920
Debit	2 764	3 639	6 403	4 086	4 171	8 257

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

53.4% growth in net remittances of profits and dividends on resources channeled into investment portfolios, totaling US$8 billion, for an increase of 12%. Interest payments on bonds came to US$5.4 billion while interest on notes remained at the same level as in the preceding year, US$3.6 billion, indicating a downturn in operations under this modality.

Net remittances of income on direct investments added up to US$5.8 billion, an increase of 13.8% over 2003. In this case, net spending on profits and dividends reached US$4.9 billion, for growth of 21.1%, which is clearly compatible with the stock of foreign direct investments and the maturation period of those investments. Remittances involving interest on intercompany loans dropped 15.7%, closing at US$861 million.

Income on other investments, which includes interest on suppliers credits, loans, deposits and other assets and liabilities registered net remittances of US$4.5 billion, a reduction of 7.4% in 2004. Just as in the previous year, revenues increased 22% to US$1.1 billion, while spending dropped 2.9% to US$5.5 billion.

Current unrequited transfers

Current unrequited transfers registered net inflows of US$3.3 billion in 2004 reflecting growth of 14% compared to 2003. The major component of this account is support of residents in Brazil. For the most part, these funds are sent by persons who have migrated to other countries with the intention of remaining there for more than one year and, consequently, are considered to be residents of those countries.

In recent years, inflows of remittances from Brazilians resident abroad with the objective of supporting residents in the country have increased steadily. In nominal annual values, the net revenues registered under this account more than doubled from 2000 to 2004, totaling US$2.3 billion. In terms of the sources of financing the Brazilian balance of payments, these flows targeted at supporting persons resident in the country have not shown the same volatility registered in the financing account. Consequently, though these inflows are relatively modest in terms of amounts, they have been a very stable source of exchange.

Compared to other sources of balance of payments financing, the ratio of resident support inflows/exports moved from 2% in 2000 to 2.5% in 2004. Aside from this, using the same basis of comparison, even more accentuated differences are found to exist when one compares inflows for purposes of supporting residents in the country with both disbursements on bonds, notes and commercial papers, and inflows of foreign direct investments. More specifically, these ratios shifted from 16.5% to 46.5% and from 2.8% to 9.5%, respectively.

Table 5.21 – Current unrequited transfers

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 227	1 639	2 867	1 602	1 667	3 268
Credit	1 365	1 767	3 132	1 738	1 844	3 582
Debit	138	127	265	137	177	314
General government transfers	- 14	- 7	- 21	- 11	- 21	- 32
Credit	20	27	48	26	28	54
Debit	34	34	68	38	49	86
Other sectors transfers	1 241	1 646	2 887	1 613	1 688	3 300
Credit	1 345	1 739	3 084	1 712	1 817	3 529
Debit	104	93	197	99	129	228
Workers' remittances	857	1 026	1 882	1 151	1 141	2 292
Credit	923	1 095	2 018	1 225	1 234	2 459
United States	511	598	1 109	886	711	1 597
Japan	254	291	545	107	310	417
Remaining countries	158	206	364	232	213	445
Debit	67	69	136	73	94	167
Other transfers	385	621	1 005	461	547	1 008
Credit	422	645	1 066	488	582	1 070
Debit	37	24	61	26	35	61

In 2004, gross remittances to the country for purposes of supporting residents totaled US$2.5 billion for growth of 21.8% compared to the previous year. Though inflows came from 151 countries, there was a high degree of concentration in just six, which accounted for 92.1% of gross revenues. Here, the United States accounted for 64.9% and Japan for 17%. The distribution of countries of origin reflected both the economic importance of the remitting country and the destinations of Brazilian emigration.

Financial account

Rebuilding of Brazilian international reserves in 2004 benefited from improved perception of the external vulnerability of the economy. Continued application of solid fiscal and monetary policies played an important role in consolidating the confidence of international investors. At the same time, the strong adjustment in balance of payments current accounts made it possible to manage the process of financing the capital and financial accounts with relative ease.

Compared to the 2003 result, net inflows of external resources diminished in 2004. At the same time, interbank financing lines did not recover during the course of the year, closing 2004 at US$12.6 billion compared to US$13.6 billion at the end of 2003.

Rolling of the medium and long-term private sector external debt, which reflects new disbursements compared to amortizations, was only partial and below the average level of 2003. despite sharp improvement in external evaluations of Brazil risk. Inflows of external resources remained well below the amounts registered up to the first quarter of 2002. The percentage of rolling private sector bonds and medium and long-term external loans came to 65%, with 49% referring to bonds, notes and commercial papers, and 127% to direct loan operations.

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
1999	Dec	-2 999	-25 335	-4.72	2 353	28 578	5.33	646	-3 244	-0.60
2000	Dec	-2 939	-24 225	-4.02	2 305	32 779	5.44	634	-8 555	-1.42
2001	Dec	-1 787	-23 215	-4.55	3 659	22 457	4.41	-1 872	757	0.15
2002	Dec	- 84	-7 637	-1.66	1 503	16 590	3.61	-1 419	-8 954	-1.95
2003	Jan	173	-6 289	-1.36	905	16 020	3.45	-1 078	-9 730	-2.10
	Feb	- 194	-5 412	-1.16	788	15 952	3.41	- 595	-10 540	-2.25
	Mar	183	-4 227	-0.90	284	13 849	2.94	- 467	-9 622	-2.04
	Apr	- 939	-3 212	-0.68	796	12 681	2.67	143	-9 469	-1.99
	May	887	- 425	-0.09	541	11 794	2.46	-1 428	-11 369	-2.37
	Jun	487	1 354	0.28	186	10 450	2.16	- 673	-11 804	-2.44
	Jul	755	2 652	0.55	1 247	10 766	2.21	-2 002	-13 419	-2.76
	Aug	1 225	3 568	0.73	980	10 864	2.22	-2 205	-14 433	-2.95
	Sep	1 336	3 673	0.74	739	10 367	2.10	-2 075	-14 040	-2.84
	Oct	64	3 761	0.75	314	9 438	1.89	- 378	-13 198	-2.65
	Nov	- 142	3 751	0.75	1 954	10 237	2.04	-1 811	-13 988	-2.79
	Dec	343	4 177	0.82	1 409	10 144	2.00	-1 752	-14 321	-2.83
2004	Jan	680	4 684	0.91	993	10 231	1.99	-1 672	-14 915	-2.91
	Feb	202	5 080	0.98	1 024	10 467	2.02	-1 226	-15 546	-2.99
	Mar	748	5 645	1.07	703	10 886	2.06	-1 451	-16 530	-3.13
	Apr	- 764	5 819	1.09	381	10 470	1.95	384	-16 289	-3.04
	May	1 478	6 411	1.18	207	10 136	1.86	-1 685	-16 547	-3.04
	Jun	2 010	7 934	1.44	738	10 688	1.93	-2 748	-18 622	-3.37
	Jul	1 817	8 996	1.60	1 600	11 041	1.97	-3 417	-20 038	-3.57
	Aug	1 741	9 512	1.67	6 089	16 151	2.83	-7 830	-25 663	-4.50
	Sep	1 744	9 921	1.71	646	16 058	2.78	-2 390	-25 979	-4.49
	Oct	1 030	10 887	1.86	1 316	17 059	2.91	-2 346	-27 946	-4.77
	Nov	- 229	10 801	1.82	1 319	16 425	2.76	-1 091	-27 225	-4.58
	Dec	1 211	11 669	1.94	3 150	18 166	3.02	-4 361	-29 835	-4.96

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

Contrary to what occurred in 2002 when Brazil had to cope with a sharp cutback in the supply of external loans, the relatively low rollover rate in 2004 resulted from entirely different causes that had nothing to do with any lack of credit on international markets. Furthermore, Brazilian securities were in great demand as is evident in an analysis of the rise in the prices of these papers on international markets and the consequent reduction

Table 5.23 – Rollover rate[1/]

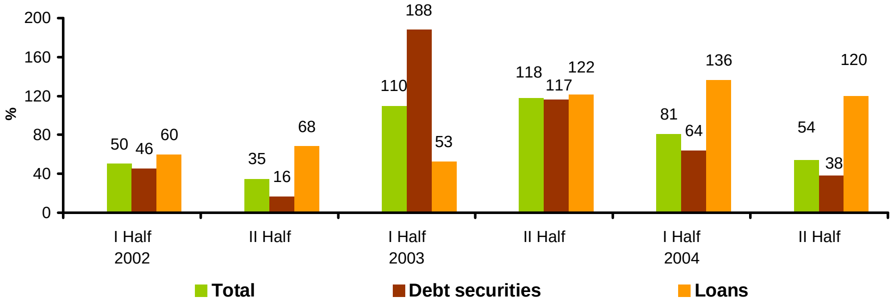
US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total (a/b)	110%	118%	115%	81%	54%	65%
Credit (a)	3 442	5 437	8 879	4 669	4 402	9 071
Debit [2/]	3 487	5 487	8 974	6 119	8 990	15 109
Paid (b)	3 126	4 593	7 719	5 766	8 097	13 863
FDI conversions	361	894	1 255	353	894	1 246
Bonds, notes and commercial papers (a/b)	188%	117%	138%	64%	38%	49%
Credit (a)	2 496	3 495	5 991	2 834	2 451	5 285
Debit [2/]	1 669	3 841	5 510	4 727	7 344	12 071
Paid (b)	1 327	2 999	4 326	4 420	6 468	10 889
FDI conversions	342	842	1 184	307	876	1 183
Direct loans (a/b)	53%	122%	85%	136%	120%	127%
Credit (a)	946	1 942	2 888	1 835	1 951	3 786
Debit [2/]	1 817	1 647	3 464	1 392	1 646	3 038
Paid (b)	1 799	1 594	3 393	1 346	1 628	2 974
FDI conversions	19	53	71	46	17	64

1/ Private sector, loans of long-term
2/ Excludes conversion in direct investiment.

Graph 5.13

Rollover rate[1/]



1/ Private sector, loans of long term. Excludes conversion in direct investiment.

in risk premiums.

A reduction in the average rate of renewals of external maturities was a consequence of anticipated contacting of credits in 2003 and early 2004, as well as lesser demand for external credits on the part of Brazilian companies since many had managed to become sufficiently capitalized. This reduction can also be explained by the fact that many companies chose not to renew their external liabilities, at least not entirely, because of the high cost of exchange hedge. This fact had the impact of making it more advantageous to resort to the internal market including through debenture issues. At the same time, companies found that they could obtain lesser spreads by contracting external operations through their subsidiaries abroad. In this case, these amounts are not registered in the balance of payments since the operations were contracted by nonresident companies.

The voluntary decision not to roll over a share of liabilities has positive and important implications. On the one hand, there is a reduction in the value of the external debt, which aids in attenuating external vulnerability indicators, while improving the solvency perceptions of external agents. An additional implication is the impact of the rate of rolling on the rate of exchange, since it tends to maintain the rate at a relatively stable level by historical standards. It should be noted that the real effective rate of exchange began to appreciate more sharply as of September 2004, more as a consequence of the international tendency toward depreciation of the dollar than as a result of any purely internal factors. It was only toward the end of the year that this item began reflecting inflows of capital to the country.

The result of foreign direct investments in Brazil should be viewed in the context of recovery in the flow of international investments in general in 2004, a period in which such investments came to a global volume of US$612 billion, thus ending the cycle of downward movement that had begun in 2001. In that year, global flows of foreign direct investments came to US$818 billion as against US$1.4 trillion in 2000.

According to Unctad, the behavior of global foreign direct investment in 2004 reflected 48% growth in flows to the developing countries and central and Eastern Europe. This result more than offset the downturn in resources targeted to the developed countries for the fourth consecutive year. The distribution of global foreign direct investments remained extremely unequal and concentrated in just a few countries of destination. While these investments expanded 6% compared to the previous year, flows to Latin American and Caribbean nations increased for the first time in five years, registering 37%, moving to US$69 billion.

Direct investments in Brazil were substantial with a total of US$18.2 billion. The net flow of capital participation in the country increased US$9.3 billion moving to US$18.6 billion, a figure sharply higher than in the previous year, US$9.3 billion, due primarily to strong recovery in the final six months of the year. Of this total, US$4.6 billion resulted from foreign debt/equity conversions, with important alterations in the profile of foreign liabilities. A breakdown of these conversions shows that US$1.8 billion originated in amortizations of intercompany loans, already included in total foreign direct investments.

Consequently, the net contribution of conversions to investments closed at US$2.7 billion. Intercompany loans turned in net outflows of US$405 million, compared to net disbursements of US$823 million in 2003. As far as privatizations are concerned, there were no operations in 2004.

Table 5.24 – Foreign direct investments

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	3 500	6 643	10 144	4 045	14 120	18 166
Credit	7 802	11 436	19 238	7 317	18 441	25 758
Debit	4 302	4 793	9 094	3 271	4 321	7 592
Equity capital	3 315	6 006	9 320	4 560	14 010	18 570
Credit	5 020	8 067	13 087	5 333	15 209	20 542
Currency	3 102	4 743	7 846	3 742	12 230	15 972
Autonomous	3 102	4 743	7 846	3 742	12 230	15 972
Privatization	0	0	0	0	0	0
Conversions	1 905	3 308	5 213	1 580	2 976	4 557
Autonomous	1 905	3 308	5 213	1 580	2 976	4 557
Privatization	0	0	0	0	0	0
Merchandise	13	16	29	10	3	13
Debit	1 706	2 062	3 767	772	1 199	1 971
Intercompany loans	186	637	823	- 515	110	- 405
Credit	2 782	3 368	6 150	1 984	3 232	5 216
Debit	2 596	2 731	5 327	2 499	3 122	5 621
Of which conversions	1 104	1 325	2 429	847	982	1 829
Memo:						
Net conversions contribuion fo FDI	801	1 983	2 784	733	1 994	2 727
Total disbursements through conversions	1 905	3 308	5 213	1 580	2 976	4 557
Amortization of intercompany loans conversions	1 104	1 325	2 429	847	982	1 829

In the second half of the year, the merger of Interbrew of Belgium and the Companhia de Bebidas das Américas (Ambev) was concluded, with Interbrew coming into possession of Ambev voting capital. On the other hand, the former controllers of Ambev acquired stock participation in Interbrew and became part of the group of major stockholders. This exchange of assets resulted in foreign investments worth US$4.9 billion by Interbrew and Brazilian investments abroad by Ambev in the same amount. It is important to clarify that, though this operation did not involve any movement of exchange, it did generate economic consequences that went beyond its impact on the stock of foreign investments in the country and Brazilian investments abroad.

The Netherlands regained its 2002 position as the largest investor in Brazil, with foreign direct investments totaling US$7.7 billion in 2004, almost six times more than in the previous year. Resources originating in the Netherlands accounted for 38% of total inflows in the year, primarily as a consequence of the Interbrew/Ambev merger. Though

Interbrew is a Belgian company, the capital involved originated in the Netherlands through the company's international subsidiary located there. Other significant volumes of investments originated in the United States, US$4 billion, 19.8% of the total; the Cayman Islands, US$1.5 billion; and Spain US$1.1 billion. In 2004, other countries remitted amounts of less than US$1 billion to Brasil on an individual basis. One case that is emblematic of the decline in these flows is that of Japan, a traditional source of foreign investments in Brazil. From 2003 to 2004, Japan dropped from fourth position to

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

Distribution by country

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	4 934	7 968	12 903	5 194	15 071	20 265
Netherlands	619	825	1 444	605	7 100	7 705
United States	1 003	1 380	2 383	1 329	2 689	4 017
Cayman Islands	439	1 470	1 909	464	1 017	1 482
Spain	326	384	710	221	834	1 054
Germany	257	249	506	603	192	795
Luxembourg	76	162	238	43	705	747
Canada	37	80	117	269	323	592
Portugal	86	116	202	252	319	571
France	461	364	825	176	311	486
Italy	217	173	390	194	235	429
Switzerland	100	236	336	86	278	364
United Kingdom	46	207	253	49	225	275
British Virgin Islands	120	430	550	118	127	245
Japan	231	1 137	1 368	131	112	243
Bermudas	604	26	630	160	51	211
Uruguay	52	102	154	81	80	161
Panama	52	95	147	109	42	151
Bahamas	15	21	36	50	48	98
Austria	7	4	11	89	7	96
Sweden	4	39	43	4	87	90
Mexico	2	43	45	43	18	61
Denmark	14	17	31	12	27	39
Norway	25	30	55	10	17	27
Netherlands Antilles	0	53	53	0	23	23
Belgium	7	11	18	2	6	8
Singapore	3	88	91	1	0	1
Other countries	133	226	359	94	199	293

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

fourteenth position, with just US$243 million in the year under analysis.

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

Distribution by sector

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	4 934	7 968	12 902	5 194	15 071	20 265
Crop, livestock and mineral extraction	304	1 180	1 484	366	705	1 071
Metallic mineral extraction	7	911	918	182	325	507
Petroleum extraction and related services	176	191	367	90	195	285
Crop, livestock and related services	108	62	170	67	100	166
Others	13	16	29	26	86	112
Industry	1 846	2 509	4 355	1 851	8 848	10 699
Foodstuff and beverages	102	307	409	76	5 270	5 346
Chemical products	460	265	726	180	1 183	1 363
Manufacturing and assembly of automotive engines[2/]	326	640	966	603	247	850
Basic metallurgy[3/]	333	18	351	145	672	817
Other transportation equipments	21	6	27	211	253	465
Machinery and equipments	109	148	256	76	237	313
Eletronic devices and communicat. equipments	90	238	328	45	221	266
Eletrical machines, devices and apparatuses	138	51	189	162	81	243
Nonmetallic mineral products	34	15	49	33	186	219
Pulp, paper and paper products	26	321	348	70	107	177
Plastic and rubber products	44	161	205	30	104	134
Edition, printing and recording	22	123	145	46	85	131
Metal products	61	46	107	57	33	90
Wood products	13	18	31	18	43	61
Textile products	13	21	34	39	19	58
Office machines and computing equipments	3	5	8	10	1	11
Other industries	50	127	177	49	105	154
Services	2 784	4 279	7 063	2 977	5 518	8 495
Mail and telecommunications	919	1 890	2 810	903	2 067	2 970
Commerce	362	623	985	556	696	1 252
Eletricity, gas and hot water	394	257	651	568	623	1 191
Financial intermediation	370	229	599	150	790	940
Services rendered to corporations	313	562	875	401	471	872
Construction[4/]	31	147	177	31	293	324
Transportation	52	138	189	67	185	252
Real-estate	53	135	188	70	75	145
Insurance and pension funds	80	48	128	60	66	126
Computing and related activities[5/]	73	86	159	59	20	80
Lodging and food	102	70	172	38	36	74
Water services	1	49	50	1	2	3
Other services	34	45	79	72	193	265

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	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	3 995	1 134	5 129	-3 157	- 839	-3 996
Credit	11 770	15 577	27 347	13 925	16 689	30 614
Debit	7 775	14 443	22 218	17 082	17 528	34 610
Equities	639	2 334	2 973	814	1 267	2 081
Credit	4 021	6 531	10 552	7 740	8 630	16 370
Debit	3 382	4 197	7 579	6 926	7 363	14 289
Issued in the country	403	1 691	2 094	539	696	1 236
Credit	3 681	5 794	9 475	7 228	7 569	14 797
Debit	3 278	4 103	7 381	6 689	6 872	13 562
Issued abroad (Annex V - ADR)	236	643	878	275	570	845
Credit	340	737	1 076	512	1 061	1 572
Debit	104	94	198	237	491	727
Debt securities	3 357	-1 201	2 156	-3 971	-2 105	-6 076
Credit	7 749	9 046	16 795	6 185	8 060	14 245
Debit	4 393	10 246	14 639	10 157	10 165	20 321
Issued in the country	57	215	272	72	30	101
Medium and long term	34	129	163	43	- 5	38
Credit	278	439	717	548	573	1 121
Debit	244	310	555	505	578	1 083
Short term	23	87	109	29	34	63
Credit	186	293	479	366	382	748
Debit	163	207	370	337	348	685
Issued abroad	3 300	-1 416	1 884	-4 043	-2 135	-6 178
Bonds	1 406	914	2 319	-1 745	1 306	- 440
Private	605	637	1 242	- 50	- 625	- 675
Disbursements	625	637	1 262	100	100	200
Amortizations	20	0	20	150	725	875
Public	801	276	1 077	-1 695	1 931	235
Disbursements	2 250	3 575	5 825	2 250	3 478	5 728
New issues	2 250	2 377	4 627	2 250	3 478	5 728
Bond swaps	0	1 198	1 198	0	0	0
Amortizations	1 449	3 299	4 748	3 945	1 547	5 493
Paid	1 449	2 100	3 550	3 945	1 547	5 493
Bond swaps	0	1 198	1 198	0	0	0
Face value	0	1 289	1 289	0	0	0
Discounts	0	90	90	0	0	0
Notes and commercial papers	222	- 983	- 761	-1 843	-4 268	-6 111
Disbursements	1 871	2 857	4 729	2 734	2 351	5 085
Amortizations	1 649	3 841	5 490	4 577	6 619	11 196
Money market instruments	1 672	-1 346	326	- 455	828	373
Disbursements	2 539	1 244	3 783	187	1 175	1 363
Amortizations	867	2 590	3 457	642	347	990

On a sector-by-sector basis, direct foreign investments showed growth of 146% in industry, moving from US$4.4 billion to US$10.7 billion. This increase was concentrated in the food and beverage industries, mainly involving the US$4.9 billion operation resulting from the Interbrew/Ambev merger; chemical products, 87.8%; and basic metallurgy, 133%. Investments channeled to the service sector increased 20.3% and were concentrated in postal and telecommunications services, commerce, electricity, gas and water and financial intermediation. In the opposite direction, investments in automotive vehicle manufacturing and assembly declined 12%, together with a cutback from US$918 million in 2003 to US$507 million in foreign direct investments targeted to the metallic mineral mining sector.

Net foreign portfolio investments registered amortizations of US$4 billion, compared to inflows of US$5.1 billion in the previous year. This performance was due primarily to the results achieved in placements and rolling of long-term fixed income securities negotiated abroad, shifting from inflows of US$1.9 billion in 2003 to amortizations of US$6.2 billion in 2004. This behavior reflected growth in net amortizations of notes and commercial papers to US$6.1 billion, reflecting the maturity of operations carried out in 1996 with tax incentives. Gross amortizations added up to US$11.2 billion and disbursements came to US$5.1 billion. Outflows through bonds closed at US$440 million, with US$675 million by the private sector, while the public sector registered net disbursements of US$235 million.

Prices of emerging market stocks dropped sharply in the second quarter of 2004, as a result of financial market difficulties and a period of temporary liquidations on the stock markets of the developed countries. In that period, the flow of international stock market investments to the emerging countries dropped sharply. With the recovery that marked the second half of the year, stock prices in these countries moved generally upward, hitting their highest level in November 2004. Stock issues remained strong throughout the year.

Despite these results, foreign stock investments registered net inflows of US$2.1 billion in 2004, 30% below the total in the previous year, which had been marked by strong recovery. Despite the reduction in the balance, the volume of trading was much higher than in 2003, with revenues of US$16.4 billion, against 10.6 billion in 2003, while spending came to US$14.3 billion, against US$7.6 billion, using the same basis of comparison. The balance of stocks traded in the country accounted for 59.4% of the net inflow of foreign investments in stocks, with operations distributed over the course of the year. Placements of American Deposit Receipts (ADR) in significantly lesser volumes registered net inflows of US$845 million, reflecting stability in relation to 2003.

Short-term papers registered net inflows of US$373 million, compared to US$326 million in 2003.

Other foreign investments registered net outflows of US$9.8 billion. Suppliers trade credits closed with disbursements of US$873 million, compared to amortizations of US$34 million in 2003. In this account, long-term credits registered net remittances of US$1.4 billion. Short-term credits generated net inflows of the US$2.3 billion, against US$926 million in 2003. Other loans posted net amortizations of US$11.3 billion. There were no IMF disbursements in the period, while amortizations came to US$4.4 billion. Other long-term loans ended with net amortizations of US$4.8 billion concentrated under buyers' loans. These operations were directly related to trade in goods with total payments of US$2.2 billion, compared to US$2.1 billion in 2003. Parallel to these operations, net amortizations came to US$1.5 billion in loans from organizations, compared to US$1.2 billion in the previous year coupled with amortizations of US$1.8 billion with agencies and net disbursements of US$748 million in direct loans. Short-term loans showed net

Table 5.28 – Other foreign investments

US$ million

Itemization	2003			2004		
	1º sem	2º sem	Ano	1º sem	2º sem	Ano
Total	3 770	-4 725	- 955	-3 051	-6 767	-9 818
Trade credit	- 549	515	- 34	2 660	-1 786	873
Long term	- 379	- 580	- 959	- 659	- 727	-1 387
Credit	537	471	1 007	501	468	969
Debit	916	1 051	1 967	1 160	1 196	2 356
Short term (net)	- 170	1 096	926	3 319	-1 059	2 260
Loans	4 225	-5 774	-1 549	-5 730	-5 600	-11 330
Monetary authority	8 157	-3 513	4 645	-2 766	-1 728	-4 494
Exceptional financing	8 220	-3 450	4 769	-2 701	-1 662	-4 363
Loans from the IMF	8 220	-3 450	4 769	-2 701	-1 662	-4 363
Credit	13 411	4 185	17 596	0	0	0
Debit	5 191	7 635	12 826	2 701	1 662	4 363
Other long term	- 62	- 62	- 125	- 66	- 66	- 132
Credit	0	0	0	0	0	0
Debit	62	62	125	66	66	132
Remaining sectors	-3 933	-2 261	-6 194	-2 963	-3 873	-6 836
Long term	-2 944	-1 807	-4 751	-2 500	-2 266	-4 765
Credit	4 701	5 380	10 081	4 498	3 946	8 444
Multilateral 1/	1 374	1 392	2 766	1 117	1 273	2 390
Agencies	1 142	589	1 731	655	130	785
Buyers credit	1 239	1 457	2 696	891	593	1 484
Direct loans	946	1 942	2 888	1 835	1 951	3 786
Debit	7 644	7 187	14 831	6 998	6 212	13 210
Multilateral 1/	1 799	2 180	3 979	1 876	1 968	3 844
Agencies	1 147	1 439	2 585	1 363	1 234	2 597
Buyers credit	2 881	1 922	4 803	2 366	1 364	3 731
Direct loans	1 817	1 647	3 464	1 392	1 646	3 038
Short term	- 989	- 454	-1 443	- 463	-1 607	-2 070
Currency and deposits	93	532	625	19	619	637
Outher liabilities	1	2	3	1	0	1
Long term (net)	1	2	3	1	0	1
Short term (net)	0	0	0	0	0	0

1/ Includes IFC.

remittances of US$2.1 billion, as against US$1.4 billion in the previous year. Net inflows of resources from nonresidents maintained in the country in the form of deposits and currency added up to US$637 million, compared to US$625 million in 2003.

Net outflows of Brazilian direct investments abroad came to US$9.5 billion in 2004. Loans from Brazilian companies to associated companies abroad counted for net outflows of US$2.8 billion, as against US$187 million in 2003. Analysis of total remittances shows that US$6.6 billion referred to increases in stock holdings. Among these, the major

Table 5.29 – Brazilian direct investments abroad

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 656	407	- 249	- 820	-8 651	-9 471
Credit	465	1 272	1 737	474	813	1 287
Debit	1 122	865	1 986	1 294	9 463	10 757
Equity capital	- 675	613	- 62	- 776	-5 865	-6 640
Credit	437	1 208	1 645	459	697	1 156
Debit	1 112	594	1 707	1 235	6 561	7 796
Intercompany loans	19	- 206	- 187	- 45	-2 786	-2 831
Credit	28	64	93	15	116	131
Debit	9	270	280	59	2 902	2 961

Table 5.30 – Brazilian portfolio investments abroad

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 94	273	179	- 544	- 211	- 755
Credit	615	1 189	1 805	1 050	1 717	2 767
Debit	710	916	1 626	1 593	1 928	3 522
Equity investment	- 167	- 91	- 258	- 25	- 96	- 121
Credit	35	31	66	25	10	36
Debit	202	122	324	51	106	157
Brazilian Depositary Receipts (BDR)	- 8	- 2	- 10	0	- 1	0
Credit	1	1	2	0	1	1
Debit	9	3	12	0	1	1
Other equities	- 160	- 88	- 248	- 25	- 96	- 121
Credit	34	30	64	25	10	35
Debit	193	119	312	51	105	156
Debt securities	73	363	437	- 518	- 115	- 633
Credit	580	1 158	1 738	1 024	1 707	2 731
Collateral	0	359	359	0	0	0
Other	580	799	1 379	1 024	1 707	2 731
Debit	507	794	1 302	1 543	1 822	3 365

operation was the exchange of assets in the Ambev/Interbrew merger. This operation corresponded to direct foreign investment of US$4.9 billion in the form of stock participation. Since the former controllers of Ambev acquired participation in Interbrew, the operation was marked by Brazilian investment abroad in the same amount. This value was registered as an inflow and an outflow in the flow of foreign direct investment in the balance of payments.

Brazilian portfolio investments abroad totaled net outflows of US$755 million in 2004, compared to net disbursements of US$179 million in the previous year, with net remittances of US$121 million in stock investments. Fixed income papers closed with net outflows of US$633 million, compared to net returns of US$437 million in the previous year.

Other Brazilian investments abroad registered net outflows of US$1.5 billion, against US$9.5 billion in 2003. These results were primarily due to investments in the form of currency and deposits in 2004, with net inflows of US$148 million, compared to net outflows of US$8.6 billion in the previous year. This figure demonstrates the reduction of US$2.2 billion in external assets held by banks abroad, as the counterpart of the capital flow, and remittance of US$2.1 billion by the nonfinancial sector. The net balance of long-term loans abroad showed amortizations of US$1.7 billion, as against US$665 million in the previous year. Other assets totaled net inflows of US$72 million, with outflows of US$38 million in

Table 5.31 – Other brazilian investments abroad

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 527	-7 956	-9 483	1 440	-2 902	-1 462
Loans	- 20	- 522	- 541	- 533	-1 150	-1 682
Long term	- 96	- 570	- 665	- 561	-1 131	-1 692
Credit	1 089	872	1 962	935	1 123	2 058
Debit	1 185	1 442	2 627	1 496	2 254	3 750
Short term (net)	76	48	124	28	- 19	9
Currency and deposits	-1 344	-7 235	-8 579	2 010	-1 863	148
Banks	- 533	-6 476	-7 009	3 100	- 887	2 213
Remaining domestic sectors	- 811	- 759	-1 570	-1 090	- 975	-2 065
Other	- 811	- 759	-1 570	-1 090	- 975	-2 065
Other assets	- 164	- 198	- 363	- 38	110	72
Long term	- 41	- 36	- 77	- 24	- 14	- 38
Credit	0	1	1	30	2	31
Debit	41	37	78	54	15	70
Short term (net)	- 123	- 162	- 286	- 14	124	110

long-term operations and inflows of US$110 million in short-term operations.

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

US$ million

Itemization	2001	2002	2003	2004
IBRD[2/]	207	- 81	- 783	- 910
Disbursements	1 789	1 681	1 437	1 521
Amortizations	1 135	1 355	1 886	1 818
Interest	447	407	335	613
IBD	144	247	-1 584	-1 560
Disbursements	1 294	2 041	1 179	719
Amortizations	508	1 157	2 093	2 026
Interest	642	638	669	253
FMI	6 616	11 003	3 673	-5 574
Disbursements	6 757	16 045	17 596	0
Amortizations	0	4 565	12 826	4 363
Interest	141	477	1 097	1 211
Government agencies				
Agencies	- 870	-1 184	-1 366	-2 430
Disbursements	1 739	1 519	1 731	785
Amortizations	1 879	2 030	2 585	2 597
Interest	730	673	512	617
memo:				
Paris Club	-1 363	-1 519	-1 474	-1 638
Amortizations	914	1 126	1 206	1 418
Interest	449	393	268	220
Bonds	-3 666	-2 958	-2 788	-5 813
Disbursements	9 699	4 101	7 087	5 928
New inflows	7 549	4 070	5 889	5 928
Refinancing	2 150	30	1 198	0
Amortizations	8 539	2 504	4 768	6 368
Paid	6 389	2 473	3 570	6 368
Refinanced	2 150	30	1 198	0
Interest	4 826	4 555	5 107	5 373
Notes & commercial papers	-7 538	-11 276	-4 055	-9 360
Disbursements	7 350	2 093	4 729	5 085
Amortizations	10 468	9 432	5 490	11 196
Interest	4 420	3 938	3 294	3 249
Intercompany – FDI	2 389	-1 586	- 325	-1 412
Disbursements	8 924	7 500	6 150	5 216
Amortizations	5 232	8 028	5 327	5 621
Interest	1 303	1 058	1 148	1 007
Banks[3/]	-2 732	-8 020	-4 164	-2 860
Disbursements	9 460	5 724	5 583	5 270
Amortizations	9 809	11 894	8 267	6 769
Interest	2 382	1 850	1 481	1 361
Loans	1 625	1 075	951	866
Financing	757	775	530	495

1/ Does not include suppliers.

2/ Includes IFC.

3/ Includes bank loans and buyers' credits.

International reserves

In 2004, international reserves totaled US$52.9 billion, for growth of US$3.6 billion over the previous year.

Net BCB purchases on the domestic exchange market reached US$5.3 billion and were concentrated in the months of January, US$2.620 billion February, US$7 million, and December, US$2.647 billion.

External BCB operations turned in net outlays of US$1.6 billion. Total disbursements in the year added up to US$6.7 billion, of which US$5.7 billion originated in bond issues: Global 34 (US$1.5 billion), Global 09 N (US$750 million), Global 14 (US$1.25 billion), Euro 12 (US$1.2 billion) and Global 19 (US$1 billion). Disbursements from organizations added up to US$1 billion totally withdrawn in operations with the International Bank for Reconstruction and Development (IBRD).

Amortizations totaled US$6.8 billion and were distributed as follows: US$1.6 billion in bonds, US$132 million in Multi-Year Deposit Facility Agreement (MYDFA), US$4.4 billion to the IMF and US$696 million to the Paris Club.

Net interest outlays totaled US$2.8 billion, including US$2.6 billion on bonds and US$1.2 billion to the IMF and revenues of US$1.1 billion in earnings on reserves.

Other operations totaled net revenues of US$1.2 billion, mostly explained by parity gains of US$1.5 billion and by losses of US$108 million in security prices.

Graph 5.14
International reserves

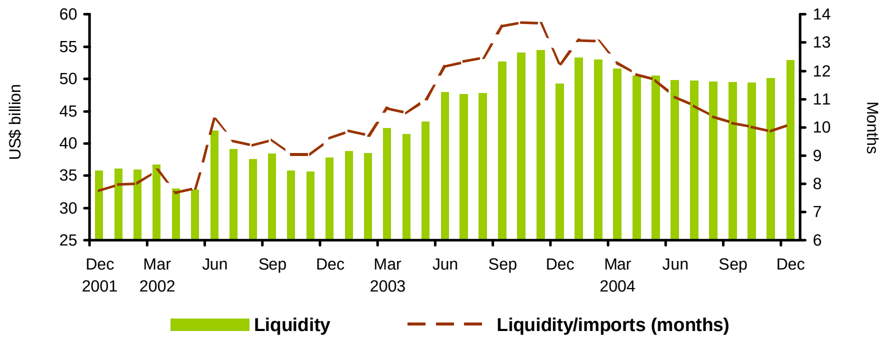


Table 5.33 – Statement of international reserves growth

US$ million

Itemization	2002	2003	2004
I - Reserve position (end of previous month)	35 866	37 823	49 296
1. Net purchases (+)/ sales (-) of Banco Central	- 9 113	1 591	5 274
Spot	- 5 910	- 185	5 274
Lines with repurchase	- 1 771	1 776	-
Export lines	- 1 432	-	-
2. Banco Central's foreign operations	11 070	9 882	- 1 635
Disbursements	21 332	22 998	6 741
Bonds	3 940	4 500	5 728
Organizations	17 392	18 498	1 013
Amortizations	- 8 171	- 15 511	- 6 813
Bonds and MYDFA	- 2 111	- 1 977	- 1 753
Organizations	- 4 921	- 12 828	- 4 365
Paris Club	- 1 139	- 706	- 696
Interest	- 3 553	- 1 482	- 2 797
Bonds and MYDFA	- 4 148	- 1 753	- 2 595
Organizations	- 622	- 1 097	- 1 214
Paris Club	- 393	- 162	- 119
Reserve interest earnings	1 609	1 531	1 131
Other[1/]	1 462	3 876	1 235
II - Total Banco Central operations (1+2)	1 957	11 473	3 639
III - Reserve position (end of month)	37 823	49 296	52 935
Memorandum:			
Exchange market:	- 7 342	- 185	5 274
Transactions with residents (net)	- 4 060	3 078	12 270
Interbank transactions with non-residents (net)	- 9 133	- 1 649	- 5 584
Change in bank holdings (net)[2/]	5 850	- 1 614	- 1 413
Adjusted net reserves (excludes IMF loans)[3/]	16 339	20 525	27 541
Adjusted net reserves – according to the IMF arrangement	14 232	17 369	25 321

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$. In order to comply with the performance criterion, in the framework of the International Monetary Fund arrangement, the calculation parameters of the net adjusted reserves - as established by the Technical Memorandum of Understanding (TMU) of the Stand-by arrangement of September 2002 - should be observed. In this case, the net adjusted reserves denominated in US$ 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 2004 was equal to US$837 million.

Financial assistance program – Monitoring of IMF performance criteria

In the context of the financial assistance program, the Technical Memorandum of Understanding established criteria for calculating Net Adjusted International Reserves (RLA), defined as gross government reserves less gross government liabilities.

According to this Memorandum, gross government reserves encompass:

i) available monetary resources;
ii) noncommitted gold;
iii) assets in Special Drawing Rights (SDR);
iv) reserve position at IMF; and
v) assets in fixed income instruments.

The Technical Memorandum of Understanding determines and sets the base date for calculating changes in parity in assets from i to iv, as well as for liability headings denominated in currencies other than the American dollar. Item v is registered at market value. Furthermore, according to the memorandum, deposits against banks domiciled abroad, but headquartered in the country, and assets in securities issued by residents that do not exceed a joint value of US$1,023 million (level existent on September 14, 2001), are to be excluded from net reserves.

Table 5.34 – Statement of international reserves

IMF performance criterion follow-up

US$ million

Itemization	2003	2004
I - International liquidity	49 296	52 935
(-) Loans from IMF	28 374	24 946
(-) Excess of deposits in non-resident Brazilian banks (b-a)	- 358	- 408
a - Position as of 9.14.2001 (defined on the TMU)	408	- 408
b - Position as of current month	50	-
(-) Excess of securities issued by residents (d-c)	2 878	1 245
c - Position as of 9.14.2001 (defined on the TMU)	615	615
d - Position as of current month[1/]	3 493	1 860
(-) Difference due to price and parity changes	1 033	1 832
II - NAR according to the IMF arrangement[2/]	17 369	25 321

1/ Includes buy-back operations, in accordance to measures announced by Banco Central on 6.13.2002. Net purchases as of December 2004: US$2,773 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.

Table 5.35 – Performance criterion on international reserves – 2004

IMF arrangement

US$ million

Period	Adjusted net reserves	
	Floor	Occurred[1/]
Jan	5 000	21 502
Feb	5 000	21 212
Mar	5 000	21 404
Apr	5 000	22 427
May	5 000	22 162
Jun	5 000	22 766
Jul	5 000	23 001
Aug	5 000	22 613
Sep	5 000	22 978
Oct	5 000	22 246
Nov	5 000	22 186
Dec	5 000	25 321

1/ Parity adjustments as established in arrangement.

Gross government liabilities encompass liabilities with the IMF, short-term liabilities and possible BCB net exchange debtor positions.

The September 2 memorandum further determined the minimum level (performance criterion) of US$5 billion for net adjusted international reserves. The minimum levels were exceeded in every month of the year and, in December, net adjusted reserves added up to US$25,321 million, based on the Technical Memorandum Of Understanding.

External debt

In December 2004, the overall external debt stood at US$201.4 billion, corresponding to a reduction of US$13.6 billion compared to the debt stock in December 2003. The medium and long-term debt dropped US$12.1 billion during the same period, and the short-term debt fell US$1.5 billion to a level of US$18.7 billion. The stock of intercompany loans reached US$18.8 billion, of which US$14.4 billion referred to medium and long-term loan operations.

At the close of the year, the debt with the IMF came to US$24.9 billion, reflecting a reduction of US$3.3 billion compared to the December 2003 position. The major factors underlying this result were the absence of IMF disbursements, as well as amortizations of US$4.4 billion and a parity change estimated at US$1.1 billion in the basket of SDR currencies.

Table 5.36 – Gross foreign indebtedness[1/]

US$ million

Itemization	2000	2001	2002	2003	2004
A. Total debt (B+C)	216 920	209 934	210 711	214 930	201 374
B. Medium and long-term debt[2/]	189 500	182 276	187 316	194 736	182 630
Exceptional financing	1 771	8 346	20 793	28 255	24 946
IMF	1 771	8 346	20 793	28 255	24 946
BIS	-	-	-	-	-
BoJ	-	-	-	-	-
IMF loans	-	-	-	-	-
Renegotiated debt bonds	25 250	18 958	18 226	16 068	14 174
Other bonds[3/]	29 504	36 024	39 848	45 747	48 059
Import financing	58 769	48 618	48 321	47 869	42 609
Multilateral	21 504	22 440	24 377	23 433	22 241
Bilateral	14 237	12 418	12 731	12 856	10 970
Other financing sources	23 027	13 760	11 213	11 579	9 398
Currency loans	74 197	70 330	60 127	56 797	52 842
Notes[4/]	61 024	57 007	48 539	46 661	42 037
Direct loans	13 173	13 323	11 588	10 136	10 805
Other loans	10	-	-	-	-
C. Short-term debt	27 420	27 658	23 395	20 194	18 744
Credit line for petroleum imports	2 572	364	65	0	0
Commercial banks (liabilities)	18 164	16 850	15 059	14 822	15 991
Resolution 2,483 – Rural financing	319	-	-	-	-
Special operations	6 364	10 444	8 271	5 372	2 753
Financing	3 850	6 121	4 760	1 299	782
Currency loans	2 514	4 323	3 512	4 073	1 971
D. Intercompany loans	19 236	16 133	16 978	20 484	18 808
E. Total debt + intercompany loans (A+D)	236 156	226 067	227 689	235 414	220 182

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).

4/ Includes commercial papers and securities.

The stock of bonds in December 2004 increased US$418 million compared to December 2003. The share composed of Bradies, 22.8% of the total bond stock, dropped US$1.9 billion in the period. The stock of other bonds increased US$2.3 billion, coming to represent 77.2% of total, with 97.9% of this participation represented by bonds issued by the public sector.

In December 2004, 28.9% of the medium and long-term external debt referred to credits in the form of financial loans, 34.1% to bonds and 23.3% to trade financing. The remaining 13.7% involved loans with the IMF. The stock of financial loans registered a reduction of US$4 billion in the period under analysis. In this case, the highpoints were a US$4.6 billion reduction in notes, together with an increase of US$669 million in direct loans. Trade financing operations dropped US$5.3 billion while liabilities with the IMF declined US$3.3 billion, demonstrating the government's option not to effect withdrawals in 2004, at the same time in which amortizations came to US$4.4 billion.

The short-term debt in December 2004 diminished 7.2% compared to the December 2003 position. For the most part, this result was impacted by a reduction of US$2.1 billion in

Table 5.37 – Registered external debt

US$ million

Debtor	Creditor				
	Bonds	Paris Club	Multilateral institutions[1/]	Bank loans	*Notes* [2/]
A. Total	62 258	3 653	47 296	17 389	42 256
B. Medium and long-term	62 233	3 653	47 187	15 345	42 037
Public sector	60 930	3 653	44 488	5 324	5 917
Nonfinancial public sector	60 589	3 653	41 706	3 304	1 903
National Treasury	60 416	3 653	8 429	1 485	-
Banco Central do Brasil	-	-	24 946	408	-
Public enterprises	173	-	2 094	1 306	1 903
States and municipalities	-	-	6 237	105	-
Financial sector	341	-	2 782	2 020	4 014
Private sector	1 303	-	2 699	10 021	36 120
Nonfinancial sector	1 003	-	2 319	6 913	28 520
Financial sector	300	-	380	3 108	7 600
C. Short-term	25	-	109	2 044	219
Loans	-	-	100	1 585	-
Nonfinancial sector	-	-	-	483	-
Financial sector	-	-	100	1 101	-
Import financing	25	-	9	459	219
Nonfinancial sector	-	-	-	155	5
Financial sector	25	-	9	304	214
D. Intercompany loans	239	-	-	-	2 336
E. Total debt + intercompany loans (A+D)	62 497	3 653	47 296	17 389	44 592

(continues)

Table 5.37 – Registered external debt (concluded)

US$ million				Outstanding: 12.31.2004
Debtor	Creditor			
	Government agencies	Suppliers credits	Others	Total
A. Total	7 317	4 728	486	185 383
B. Medium and long-term	7 317	4 414	444	182 630
Public sector	3 493	501	3	124 309
Nonfinancial public sector	3 053	501	3	114 712
National Treasury	955	407	-	75 345
Banco Central do Brasil	40	-	-	25 394
Public enterprises	1 496	94	3	7 069
States and municipalities	562	-	-	6 904
Financial sector	440	-	-	9 597
Private sector	3 824	3 913	441	58 321
Nonfinancial sector	3 511	3 901	129	46 296
Financial sector	313	12	312	12 025
C. Short-term	-	314	42	2 753
Loans	-	-	42	1 727
Nonfinancial sector	-	-	6	489
Financial sector	-	-	36	1 237
Import financing	-	314	-	1 026
Nonfinancial sector	-	314	-	474
Financial sector	-	-	-	552
D. Intercompany loans	-	-	16 233	18 808
E. Total debt + intercompany loans (A+D)	7 317	4 728	16 719	204 191

1/ Includes IMF.

2/ Includes commercial papers and securitizated loans.

loan operations in the period.

When one considers only the stock of the registered external debt, which accounted for 92.1% of the total external debt, the public sector was the largest debtor with 67.6% of the total registered debt and a cumulative total of US$124.3 billion in medium and long-term resources and US$1 billion in short-term resources. The private sector was liable for the remaining 32.4% of the registered external debt, distributed as US$58.3 billion in medium and long-term debt and US$1.8 billion in short-term debt. The medium and long-term indebtedness held by the private sector was mostly concentrated under notes, US$36.1 billion, accounting for 61.9% of the total.

In December 2004, the nonfinancial public sector held US$114.7 billion in medium and long-term external debt. Of this total, 65.7% was the responsibility of the National Treasury, including US$60.4 billion in the modality of bonds. Analysis of the BCB debt indicates US$24.9 billion in credits provided by the IMF and US$408 million in MYDFA, the original restructured debt loan. The debts of state and municipal governments corresponded to 6% of the nonfinancial public sector total and were concentrated in credits from international organizations. The debts held by state-owned companies, accounting for 6.2% of the nonfinancial public sector total, were concentrated in credits with international organizations and notes.

The debt contracted with the guaranty of the public sector came to US$37.8 billion in December 2004, including US$128 million in private sector debt.

Based on the December 2004 position, the gross medium and long-term registered external debt amortization schedule shows concentration of 52.2% of total maturities in the 2005-2007 period. In the case of the medium and long-term public sector debt, 46.8% of maturities are concentrated up to 2007, while 61.2% of the maturities of the private sector debt come due in the same period. Financial loans and bonds corresponded to 52.5% of medium and long-term maturities in the same period, while indebtedness with international organizations accounted for 33.4% of maturities.

The average term of the registered external debt increased from 5.8 years in December 2003 to 6.2 years in December 2004. In this context, trade financing operations were the modality that had the shortest average term, just 3.1 years, while the longest average term was 11.2 years in the case of bond operations. The amortization schedule of IMF loans in the period from 2005 to 2007 was responsible for the low average term of 4.2 years

Table 5.38 – Public registered external debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	2000	2001	2002	2003	2004
Federal government (direct)	72 592	71 191	75 323	76 729	75 345
States and municipalities	5 575	5 436	6 149	6 364	6 904
Direct	97	2	3	2	-
Guaranteed by the federal government	5 478	5 434	6 146	6 363	6 904
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	21 439	26 823	39 650	48 328	43 041
Direct	14 242	13 658	13 539	13 708	12 280
Guaranteed by the federal government	7 197	13 165	26 111	34 620	30 761
Private sector (garanteed by the public sector)	919	396	328	225	128
Total	100 525	103 845	121 450	131 646	125 418
Direct	86 931	84 851	88 866	90 439	87 625
Guaranteed by	13 594	18 995	32 584	41 207	37 793
Federal government	13 246	18 924	32 376	41 023	37 604
States and municipalities	1	-	-	-	-
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	347	70	208	184	188

Table 5.39 – Registered external debt – By debtor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2005	2006	2007	2008	2009
A. Total debt (B+C)	185 383	37 309	29 953	29 427	14 336	12 360
B. Medium and long-term debt	182 630	34 556	29 953	29 427	14 336	12 360
Nonfinancial public sector	114 712	17 034	18 070	18 510	6 881	6 680
Central government	100 739	14 671	16 434	16 951	5 296	5 659
Others	13 973	2 363	1 636	1 559	1 585	1 021
Financial public sector	9 597	2 112	1 424	1 086	1 295	348
Private sector	58 321	15 410	10 459	9 832	6 161	5 332
C. Short-term debt	2 753	2 753	-	-	-	-
Nonfinancial public sector	1	1	-	-	-	-
Financial public sector	982	982	-	-	-	-
Private sector	1 770	1 770	-	-	-	-
D. Intercompany loans	18 808	8 937	2 455	1 714	886	822
E. Total debt + intercompany loans (A+D)	204 191	46 246	32 408	31 141	15 222	13 182

(continues)

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

Amortization schedule[1/]

US$ million Outstanding: 12.31.2004

Itemization	2010	2011	2012	2013	2014	Beyond and arrears
A. Total debt (B+C)	9 480	7 495	7 726	5 746	4 313	27 238
B. Medium and long-term debt	9 480	7 495	7 726	5 746	4 313	27 238
Nonfinancial public sector	6 358	5 666	6 254	3 309	2 463	23 487
Central government	5 503	4 753	5 470	2 746	1 982	21 274
Others	855	913	784	563	481	2 213
Financial public sector	648	275	271	548	224	1 366
Private sector	2 474	1 554	1 200	1 889	1 626	2 384
C. Short-term debt	-	-	-	-	-	-
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	505	461	433	117	983	1 496
E. Total debt + intercompany loans (A+D)	9 985	7 956	8 159	5 863	5 296	28 734

1/ Includes exceptional financing.

in operations with international organizations.

A breakdown of the external debt by currency reveals that the participation of the United States dollar remained at 69.5% of the total in December 2003 and the subsequent year.

In the same period, the participation of debts registered in Euro increased from 8.8% to 9.7%, while debts registered in yen declined from 7% to 6.5%. Debt registered in SDR dropped from 14.1% to 13.5%, reflecting amortizations with the IMF in the period.

Table 5.40 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2005	2006	2007	2008	2009
A. Total debt (B+C)	185 383	37 309	29 953	29 427	14 336	12 360
B. Medium and long-term debt	182 630	34 556	29 953	29 427	14 336	12 360
International organizations	47 187	9 523	10 819	11 046	1 833	1 941
Government agencies	10 970	3 016	2 987	1 046	777	672
Buyers	4 983	1 840	765	687	385	346
Suppliers	4 414	1 459	859	582	273	238
Currency loans	52 843	13 525	9 758	9 278	6 649	4 483
Notes[2/]	42 037	10 992	8 072	6 595	5 141	3 642
Direct loans	10 806	2 533	1 686	2 683	1 508	841
Bonds	62 233	5 193	4 767	6 788	4 419	4 678
C. Short-term debt	2 753	2 753	-	-	-	-
D. Intercompany loans	18 808	8 937	2 455	1 714	886	822
E. Total debt + intercompany loans (A+D)	204 191	46 246	32 408	31 141	15 222	13 182

(continues)

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

Amortization schedule[1/]

US$ million Outstanding: 12.31.2004

Itemization	2010	2011	2012	2013	2014	Beyond and arrears
A. Total debt (B+C)	9 480	7 495	7 726	5 746	4 313	27 238
B. Medium and long-term debt	9 480	7 495	7 726	5 746	4 313	27 238
International entities	1 745	1 709	2 582	1 376	858	3 755
Government agencies	636	414	348	241	183	650
Buyers	207	185	165	142	127	134
Suppliers	134	184	62	40	32	551
Currency loans	2 140	797	1 079	1 544	1 553	2 037
Notes[2/]	1 761	508	789	1 441	1 484	1 612
Direct loans	379	289	290	103	69	425
Bonds	4 618	4 209	3 488	2 404	1 561	20 108
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	505	461	433	117	983	1 496
E. Total debt + intercompany loans (A+D)	9 985	7 956	8 159	5 863	5 296	28 734

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

Graph 5.15
Average term of registered external debt

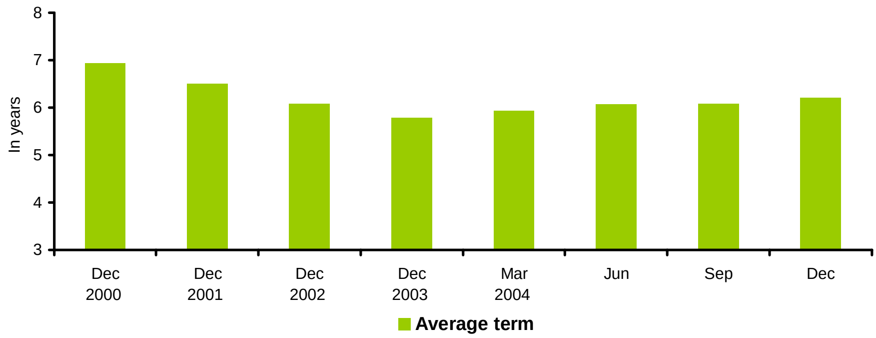


Table 5.41 – Average maturity term

Registered external debt[1/]

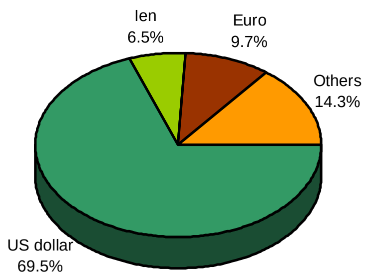
US$ million

Itemization	2004	Average maturity (years)
A. Total	183 010	6.20
International organizations	47 183	4.15
Government agencies	10 898	3.64
Buyers/suppliers	8 892	3.12
Currency loans + short-term	53 803	3.29
Bonds	62 234	11.17
Bradies	14 453	7.36
Global/Euro	45 964	12.60
Others	1 817	5.02
B. Intercompany loans	15 972	3.06
C. Total + intercompany loans	198 982	5.95

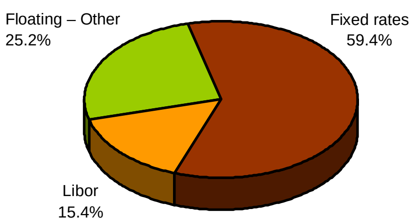
1/ Excludes debt in arrears.

Graph 5.16
Registered external debt composition
December 2004

Distribution by currency



Distribution by type of interest rate



With regard to composition by interest rate modality, the stock of debt subject to floating rates declined from 41.8% of the total in December 2003 to 40.6% in December 2004. Of the total debt contracted at floating rates, the six-month Libor remained as the major indexing factor, though its relative participation in the debt stock subject to floating interest rates dropped from 39.1% to 37.8% in the period extending from December 2003 to December 2004.

Indebtedness indicators

At the close of the year, external indebtedness indicators had registered significant improvement. This result reflected the increase in the dollar value of exports and GDP, as well as the reduction that occurred in the external debt.

In the 2003-2004 period, the value of debt service dropped 2% and the value of exports expanded 32%, thus reducing the participation of the debt service in exports from 72.5% to 53.8%. With the 18.9% increase in the dollar value of GDP and the 6.3% reduction in the total external debt in the period from December 2003 to December 2004, the total external debt in relation to GDP dropped from 42.4% to 33.4%. The debt service/GDP ratio fell from 10.5% to 8.6%. The total external debt indicator in relation to exports registered

Table 5.42 – Indebtedness indicators[1/]

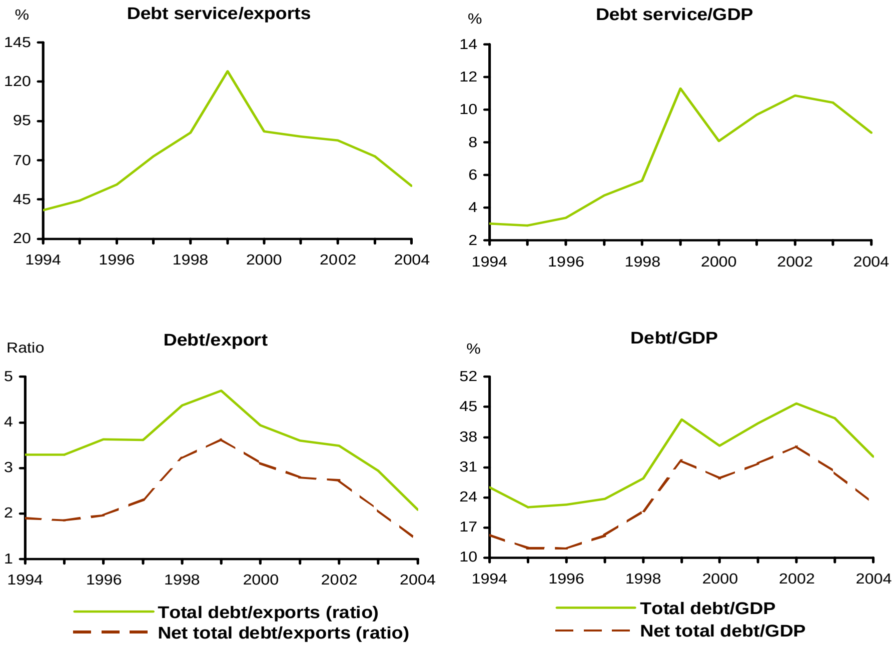
US$ million

Itemization	2000	2001	2002	2003	2004
Debt service	48 781	49 437	49 893	52 988	51 905
Amortizations[2/]	32 819	33 119	35 677	38 809	37 623
Gross interest	15 962	16 318	14 216	14 179	14 282
Medium and long-term external debt (A)	189 501	182 276	187 316	194 736	182 630
Short-term external debt (B)	27 420	27 658	23 395	20 194	18 744
Total debt (C)=(A+B)	216 921	209 934	210 711	214 930	201 374
Intercompany loans	105 281	108 209	125 245	135 689	132 259
MLT	0	0	0	0	0
ST	33 011	35 866	37 823	49 296	52 935
International reserves (D)	33 011	35 866	37 823	49 296	52 935
Brazilian credit abroad (E)[3/]	6 801	3 050	2 798	2 915	2 597
Commercial bank assets (F)	6 028	8 313	5 090	11 726	10 140
Net debt (G)=(C-D-E-F)	171 082	162 704	164 999	150 993	135 702
Export	55 086	58 223	60 362	73 084	96 475
GDP	602 207	509 797	459 379	506 784	602 584
Indicators					
Debt service/exports (%)	88.6	84.9	82.7	72.5	53.8
Debt service/GDP (%)	8.1	9.7	10.9	10.5	8.6
Total debt/exports (ratio)	3.9	3.6	3.5	2.9	2.1
Total debt/GDP (%)	36.0	41.2	45.9	42.4	33.4
Net total debt/exports (ratio)	3.1	2.8	2.7	2.1	1.4
Net total debt/GDP (%)	28.4	31.9	35.9	29.8	22.5

1/ Excludes stock of principal, amortizations and interests concerning intercompany loans. Considers a review in the medium and long-term indebtedness position of the private sector.
2/ Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.
3/ Export Financing Program (Proex).

significant improvement, moving from 2.9 in December 2003 to 2.1 in December 2004. The total net asset debt/export revenues ratio fell from 2.1 to 1.4 in the same period. As a percentage of GDP, the total net debt moved from 29.8% to 22.5%.

Graph 5.17
Indebtedness indicators



External funding operations

The face value of the securities issued by the Federative Republic of Brazil in 2004 totaled US$5.7 billion, mostly concentrated in the second half of the year. In the Euro 12 issue in September, Brasil returned to the European market. The maturities of these papers varied between 5 and 30 years. The risk premiums, difference between the rate of return offered by Brazilian securities and the rate on American Treasuries (spread) in 2004 issues were lowest for the Global 09N, 359 basic points, and highest for the Global 14, with 538 basic points. The dimensions of the difference between these two results was due to the behavior of country risk which, despite the fact that the increase was heavily concentrated in the second quarter of the year, turned downward and closed 2004 at a level below the start of the year. Over the course of the year, there were no exchange operations involving bonds of the Republic.

In December 2004, the restructured external debt totaled US$14.9 billion, down US$2.1 billion compared to the December 2003 balance. For the most part, this result reflected amortizations of US$1.9 billion in Bradies, concentrated in the months of April and October 2004.

Brazilian external debt securities

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	5.15.2027	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
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	697
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	679
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	5,25	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
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	6.5.2003	16.1.2007	4	1 000	10.000	10.70	783
Global 13	17.6.2003	17.6.2013	10	1 250	10.250	10.58	738
Global 11[9/]	7.8.2003	7.8.2011	8	1 250	10.000	11.15	757
Global 24B	7.8.2003	15.4.2024	21	825	8.875	12.59	764
Global 10N	22.10.2003	22.10.2010	7	1 500	9.250	9.45	561
Global 34	20.1.2004	20.1.2034	30	1 500	8.250	8.75	377
Global 09 N	28.6.2004	29.6.2009	5	750	Libor 3m +5,76	Libor 3m + 5,94	359
Global 14[10/]	14.7.2004	14.7.2014	10	1 250	10.500	10.80	538
Euro 12[11/]	24.9.2004	24.9.2012	8	1 228	8.500	8.57	474
Global 19	14.10.2004	14.10.2019	15	1 000	8.875	9.15	492

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.
10/ Global 14 was issued in two tranches: US$750 million, with spread of 632 bps, on 7.7.2004; and US$500 million, with spread of 398 bps, on 12.06.2004.
11/ Euro 12 was issued in two tranches: EUR 750 million, with spread of 482 bps, on 9.8.2004; and EUR 250 million, with spread of 448 bps, on 9.22.2004.

In 2004, the major Brazilian external debt papers increased in value, despite the relative volatility that marked the entire year, principally as a result of the uncertainties generated by United States monetary policy. Despite the downward movement in the value of these papers, particularly in the second quarter of the year, confirmation that American

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.

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

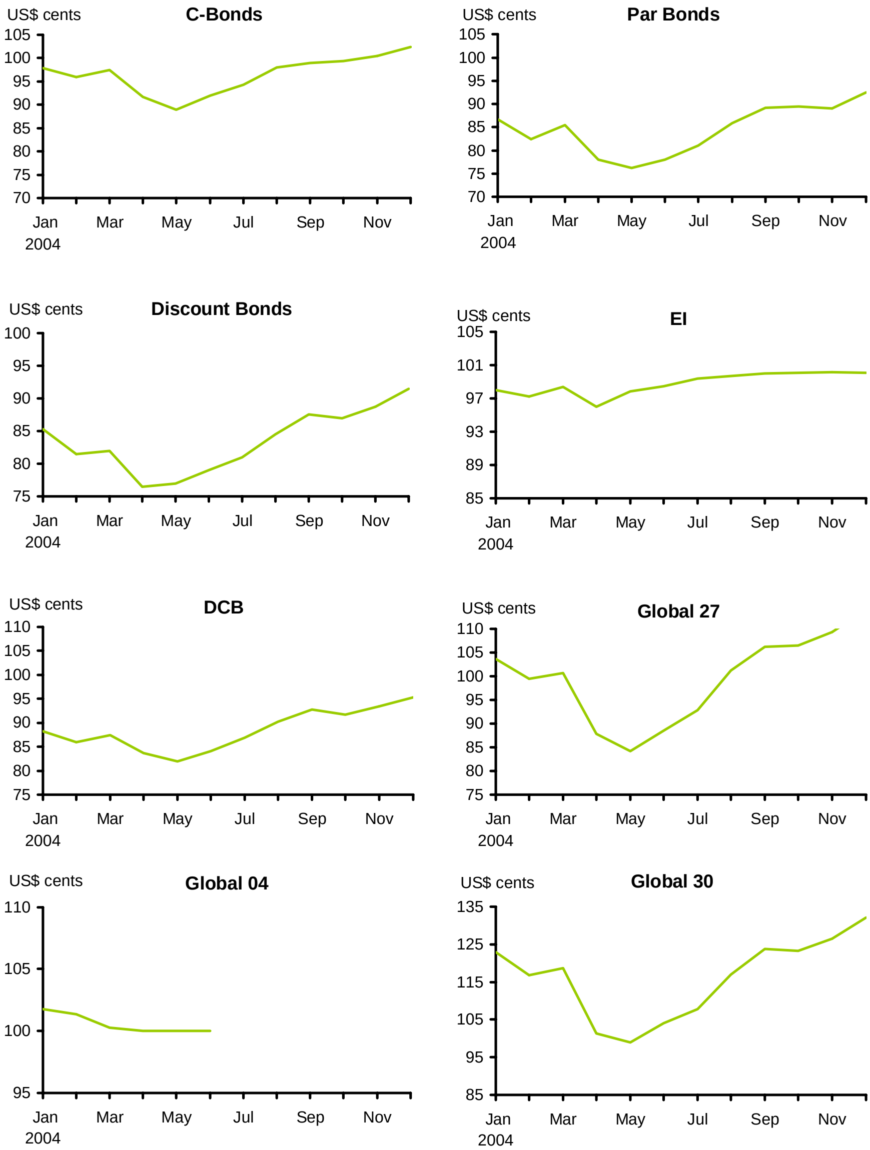
Itemization	Outstanding 12.31.2004 US$ million	Maturity
Capitalization Bonds (C Bonds)	5 917	4.15.2014
Debt Conversion Bonds (DCB)	3 313	4.15.2012
Discount Bonds	1 312	4.15.2024
Eligible Interest Bonds (EI)	740	4.15.2006
Front Loaded Interest Reduction Bond (Flirb)	420	4.15.2009
New Money Bond 1994 (NMB)	938	4.15.2009
Par Bonds	1 534	4.15.2024
Exit Bond (BIB) – (pre-Bradies)	279	9.15.2013
Multiyear Deposit Facility Agreement (MYDFA)	408	9.15.2007
Total	14 861	-

monetary authorities would adopt a gradualist approach to raising interest rates in that country created the climate needed for continued upward movement in the value of Brazilian securities, which closed the year at a level higher than at the start of 2004. C-bonds, the sovereign bonds with the highest liquidity utilized as reference for papers that bear earnings at floating interest rates, started the year at 98.6% of face value and ended the year at 102.4%. This increase in the value of sovereign securities mirrored the continued improvement in perceptions of Brazilian country risk by external investors that has marked the last two years.

Graph 5.18

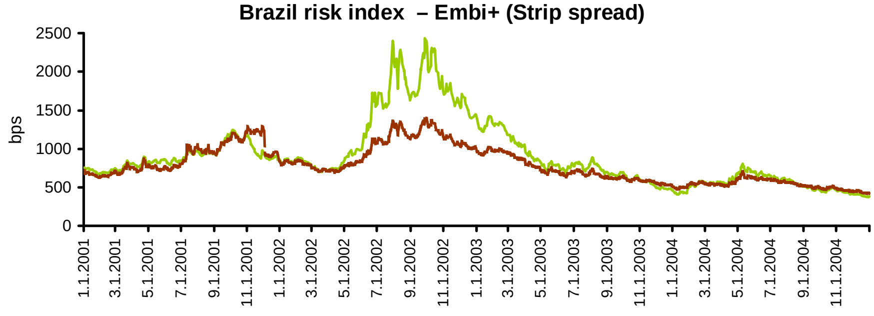
Prices of Brazilian securities abroad

Secondary market - bid price, end-of-period - 2004



Graph 5.19

Brazil risk index – Embi+ (Strip spread)



Source: JPMorgan

Over the course of 2004, calculations on the basis of daily observation show that the basket composed of Brazilian external securities weighted by their liquidity registered an average differential in earnings compared to American Treasury Bonds (spread) of 542 basic points, against 834 and 1,372 basic points in 2003 and 2002, respectively. The Brasil risk indicator began the year at 450 basic points, dropping to 382 points at the end of December.

International financial assistance program – Withdrawals and amortizations

In December 2003, the IMF executive board approved the revision and extension of the Stand-by Agreement (SBA), once Brasil had successfully completed the revisions of the previous SBA. In 2004, Brasil successfully complied with all of the revisions of the Financial Assistance Program – PAF, opting not to withdraw the resources released during the year. In this way, in December 2004, the total amount released and not withdrawn at the disposal of Brazil came to 9.3 billion SDR, equivalent to US$14.4 billion.

Medium-term, long-term and short-term nonfinancial public sector debts, as well as those with guaranties contracted in 2004 were well within the targets defined by the IMF.

In 2005, the country will have to amortize 4.6 billion SDR (US$7 billion), all of them classified under the SRF. In 2006, the total will be SDR 5.7 billion (US$8.7 billion) in amortizations with the IMF. A breakdown of this total shows 761 million SDR (US$1.2 billion) in the SRF modality and 4.9 billion SDR referring to the credit tranche. In 2007, 5.9 billion SDR (US$9 billion) will be amortized, concentrated exclusively in the credit tranche modality.

Complementary PAF resources disbursed in operations with the World Bank totaled US$1 billion in 2004 and involved the Public Sector Adjustment Program. Amortizations

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 US$
First tranche	9.6.2002	2 282	9.11.2002	3 008
Credit tranche (CT)		1 141		1 504
Supplemental 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
Supplemental 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
Supplemental 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
Supplemental 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
Supplemental Reserve Facility (SRF)		1 521		2 104
Sixth tranche1/	11.7.2003	5 621		
Credit tranche (CT)		5 621		
Sevent tranche1/	2.9.2004	911		
Credit tranche (CT)		911		
Eighth tranche1/	5.7.2004	911		
Credit tranche (CT)		911		
Ninth tranche1/	8.6.2004	911		
Credit tranche (CT)		911		
Tenth tranche1/	11.8.2004	911		
Credit tranche (CT)		911		
Eleventh tranche2/	2.8.2005	911		
Credit tranche (CT)		911		
Total of CT		19 767		13 276
Total of SRF		7 609		10 455
Total		27 376		23 731

1/ Tranches made available but not disbursed.
2/ Tranche not yet made available.
Note: The last tranche of the September 2002 Stand-by agreement (SDR 5.6 billion) was included in the review of the agreement that ocurred in December 2003. Besides the SDR 5.6 billion already released, this review made available to Brazil more SDR 5.6 billion, during a 15-month period, for a total of US$15.8 billion on 12.31.2004. The tranches released but not withdrawn on the same date totaled US$14.4 billion.

with organizations and the Interamerican Development Bank (IDB) totaled US$2 billion of which US$1.2 billion referred to operations with the IDB and US$758 million with the World Bank. Interest payments to these organizations totaled US$205 million in 2004.

Table 5.47 – External debt targeting – 2004 (IMF arrangement)

US$ million

Period	Non-Financ. Public Sector		Short-term		Collateral	
	Target[1/]	Occurred	Target[1/]	Occurred	Target[1/]	Occurred
Mar	95 900	92 677	3 500	0	1 600	173
Jun	93 100	88 639	3 500	0	1 600	155
Sep	94 700	89 412	3 500	0	1 600	148
Dec	94 700	89 767	3 500	0	1 600	128

1/ Maximum limit.

Table 5.48 – Exceptional financing

US$ million

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

(continues)

Table 5.48 – Exceptional financing (concluded)

US$ million

	2003			2004		
	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD[1/]	909	758	137	1 027	758	89
IDB[1/]	-	1 514	211	-	1 249	116
IMF	17 596	12 826	1 089	-	4 363	1 204
BIS	-	-	-	-	-	-
BoJ	-	-	-	-	-	-
Total	18 505	15 098	1 436	1 027	6 369	1 409

1/ Included in the balance of payments under loans to others sectors, not comprising Monetary Authority.

International Investment Position (IIP)

Analysis of the IIP shows a reduction in net external liabilities from US$272 billion in December 2003 to US$269 billion in September 2004, corresponding to a downturn of 1.4% in the period.

Growth in the IIP reflected increases of US$9.2 billion in external assets and US$5.4 billion in external liabilities. The increase in external assets is explained, above all else, by US$8.8 billion growth in the stock of Brazilian investments abroad. A breakdown of this total shows US$6 billion under the heading of stock participation and US$2.8 billion in intercompany loans. With regard to changes in external liabilities, it is important to highlight increases of US$12.6 billion in the stock of foreign direct investments and US$1.9 billion in the stock of portfolio investments, offset by a reduction of US$9.1 billion in the stock of other investments generated primarily by the downturn of US$8.7 billion in the stock of loans.

Table 5.49 – International investment position

US$ million

Itemization	2002	2003	2004-Sep
International investment position (A-B)	- 230 515	- 272 474	- 268 733
Assets (A)	112 901	134 223	143 408
Direct investment abroad	54 423	54 892	63 707
Equity capital[1/]	43 397	44 769	50 793
Intercompany loans	11 026	10 123	12 913
Portfolio investment[2/]	5 845	6 950	7 603
Equity securities	2 388	2 596	2 664
Debt securities	3 457	4 354	4 939
Bonds and notes	2 337	2 496	3 080
Of which collateral (principal)	1 395	1 004	1 094
Money-market instruments	1 120	1 859	1 859
Financial derivatives	105	81	453
Other investment	14 705	23 004	22 149
Trade credits (of suppliers)	313	186	186
Loans	540	687	1 469
Currency and deposits	7 890	16 412	14 807
Other assets	5 962	5 718	5 687
Of which collateral (interests) and memberships	-	-	-
in international financial organizations	1 357	1 230	1 228
Reserve assets	37 823	49 296	49 496

(continues)

Table 5.49 – International investment position (concluded)

US$ million

Itemization	2002	2003	2004-Sep
Liabilities (B)	343 416	406 697	412 141
Direct investment in reporting economy	100 847	132 799	145 369
Equity capital[1/]	83 869	112 314	127 239
Intercompany loans	16 978	20 484	18 130
Portfolio investment[2/]	137 355	166 095	168 030
Equity securities	27 249	53 138	58 664
In the reporting country	8 394	17 828	20 941
Abroad	18 855	35 310	37 723
Debt securities	110 106	112 957	109 366
Bonds and notes	110 106	112 957	109 366
In the reporting country	2 492	2 867	2 685
Abroad	107 614	110 090	106 681
Medium and long-term	106 614	108 476	106 279
Medium and short-term	1 000	1 614	402
Financial derivatives	250	125	189
Other investment	104 965	107 678	98 552
Trade credits	5 919	5 465	4 808
Medium and long-term	4 896	5 037	4 475
Medium and short-term	1 023	428	333
Loans	97 178	99 374	90 698
Monetary authority	21 457	28 795	25 086
Use of Fund credit & loans from the Fund	20 793	28 255	24 641
Other long-term	664	540	445
Short-term	-	-	-
Other sectors	75 721	70 579	65 612
Long-term	54 348	52 427	47 725
International entities	24 377	23 433	22 906
Government agencies	12 731	12 856	11 307
Buyers	6 317	6 542	5 040
Direct loans	10 924	9 596	8 472
Short-term	21 373	18 152	17 887
Currency and deposits	1 867	2 839	3 046
Monetary authority	237	108	99
Banks	1 630	2 731	2 947
Other liabilities	-	-	-

1/ Includes reinvested earnings.

2/ Includes securities issued by residents.

VI

The International Economy

Economic growth consolidated on a global scale in 2004, accelerating in the United States, spreading into Latin America, Japan and the Euro Area, regions in which the recovery had been sluggish up to 2003, and barreling along at consistently high rates in China. Consequently, according to IMF estimates, global GDP growth moved from 3.9% in 2003 to 5.1% in 2004. The solidity of this growth process was, to some extent, a result of the strengthening of the institutional frameworks charged with macroeconomic policy implementation and was patently evident in the relative ease with which the international community overcame the effects of the oil price spiral, without any untold impacts on inflation rates nor interruptions in the growth cycles of the major economies, as had occurred in similar episodes in the past.

Though rising long-term interest rates on Treasuries in the second quarter of 2004 provoked a sharp drop in private capital flows in that period, the gradualist monetary policy stance adopted in the United States coupled with the more flexible approach taken by the Euro Area and Japan led to reestablishment of international capital flows during the course of the year, together with continued growth in private capital flows to the emerging countries, which had commenced in 2003.

Foreign capital flows targeted to the emerging nations were also impacted by the steady lessening of the vulnerabilities of these economies to international financial conditions, by new investment opportunities created by more intense economic expansion in these countries, upward movement in international commodity prices and, furthermore, expectations of financial gains generated by the possibility of alterations in the rigid exchange policies adopted by several emerging countries.

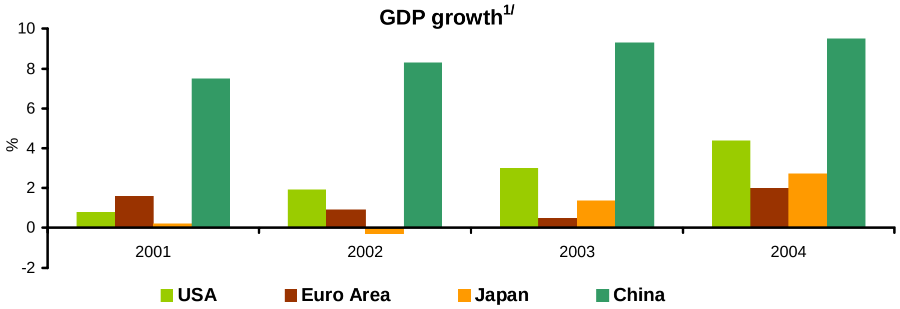
Economic activity

Powered by the fiscal policy adopted in previous years by the United States and continued low interest rates, growth in the American economy was driven by domestic demand. The low cost of credit stimulated the real estate market and, more specifically, mortgage refinancing operations, with evident repercussions on expanding liquidity.

Though macroeconomic incentives were somewhat mitigated in 2004, recovery in employment levels aided in maintaining internal demand at a high level, offsetting the net negative impact of the foreign trade sector. The sound performance of the business sector drove investments, new hirings and increased asset values, resulting in consistent growth in consumer spending, particularly for consumer durables. Private investments grew 13.2% in 2004, reflecting both increased business outlays on machines, equipment and softwares to be used in expanding output capacity, and a sharp rise in the pace of building industry activity made possible by low interest rate levels.

Graph 6.1

GDP growth[1/]



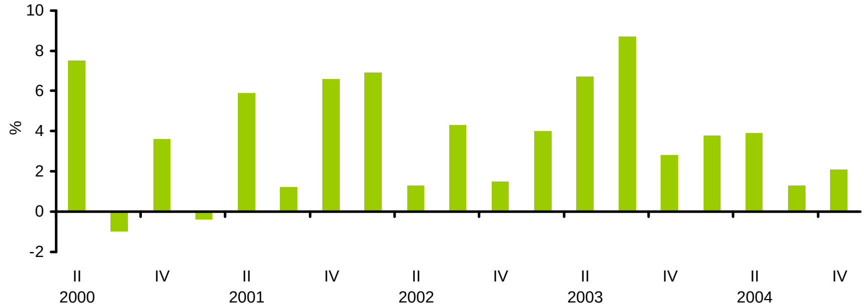
Source: *Bureau of Economic Analysis,* Eurostat, *Economic and Social Research Institute*, Bloomberg
1/ Annual growth.

It is important to stress that strong productivity gains in the United States economy increased the differential of that country's growth potential in relation to other industrialized economic regions. However, in the second half of 2004, the productivity curve turned sharply downward while the unit cost of labor shifted upward, giving rise to doubts regarding the continuity of that process, which could demand changes in the Federal Reserve (Fed) monetary policy posture.

Continued high public and current account deficits also represent a significant risk to the sustainability of United States economic growth and to the stability of international financial markets, given the enormous volume of American bonds among the assets held by the world's major central banks. In 2004, the cumulative twelve-month fiscal deficit remained practically stable, at US$412 billion, equivalent to 3.6% of GDP at the end of December.

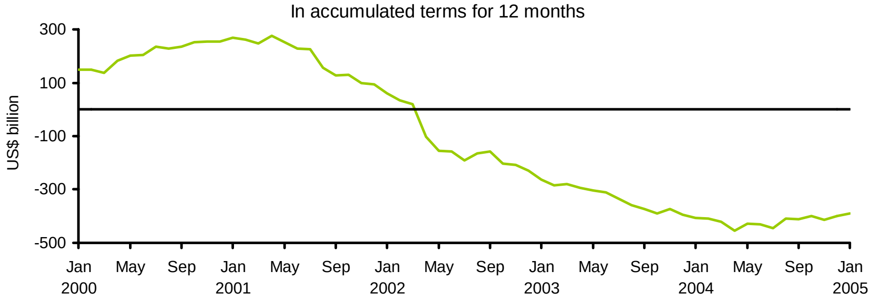
The Chinese economy was a major driving force underlying world economic growth, since the continued and rapid expansion of the output and exports of that country demanded consistently greater volumes of foreign inputs. Consequently, this growth not only aided in expanding world trade but also played a central role in sustaining the prices of various commodities. With the strong inflow of foreign investments, the Chinese economy expanded 9.5% in 2004, closing more than two decades of annual average growth above 9%. Gross fixed capital formation spiraled 26%, resulting in adoption of administrative measures aimed at reducing the imminent risk of overheating in specific productive sectors. Implemented in the second quarter of the year, these measures helped to dampen GDP growth in the following quarter. However, in the final quarter of the year, the economy once more surged forward despite an October increase in interest rates.

Graph 6.2
USA – Nonfarm productivity



Source: Bureau of Labor Statistics

Graph 6.3
USA – Fiscal balance
In accumulated terms for 12 months



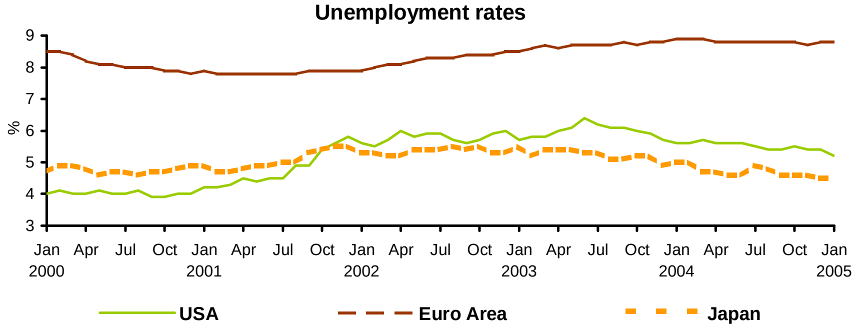
Source: Department of the Treasury

The Japanese economy benefited from positive business sector evolution, characterized by reductions in indebtedness and higher profit levels. With this, annualized growth rates came to approximately 6% in the final quarter of 2003 and first quarter of 2004. However, a sharp falloff in exports provoked a downturn in the activity level in the second half of the year. Private consumption closed with its highest growth since 1996, despite the decline that began in the second quarter.

A similar performance was noted in the Euro Area. In this case, the promising results that marked the start of the year gave way to much less intense economic activity in the second half, particularly in Germany and Italy where GDP rose by just 1.6% and 1.1% in 2004, respectively. Among the factors that contributed to the bloc's growth, mention should be made of moderate upturns in household consumption and investments, as well as 6% export growth, despite exchange appreciation. Nonetheless, external demand diminished and, as consumer expectation indicators demonstrated, internal demand turned sluggish and incapable of driving the activity level upward. The difficulties involved in achieving higher growth levels are explained by a series of factors, including structural obstacles to productivity gains that not only jeopardize the competitiveness of the goods and services produced but add to consumer insecurity, at a time of high unemployment.

Following 1.9% growth in 2003, Latin American GDP expanded 5.5% in 2004, according to estimates released by the Economic Commission for Latin America and the Caribbean (Cepal), an entity of the United Nations Organization. The highest rates of growth were registered by Argentina, Uruguay and Venezuela. Just as occurred in the previous year, the countries of the region benefited from the general upturn in global growth and, more particularly, from significant hikes in the prices of various important commodities, such as oil and metals, both of which have considerable weight among the exports of the region's major economies. Given the impact of growth on tax flows, the solid macroeconomic performances registered by these countries contributed to sustained fiscal improvement and recovery in job levels.

Graph 6.4
Unemployment rates



Sources: Bureau of Labor Statistics, Eurostat, Ministry of Internal Affairs and Communications

The advances registered by the global economic scenario led to significant recovery in employment indicators. In the United States, the number of formal job openings increased 2.17 million in 2004, following a rise of just 94 thousand in the previous year. The jobless rate slipped from 5.7% at the end of 2003 to 5.4% in December 2004, demonstrating the return of workers to the job market and an expanding labor force. Using the same basis of comparison, unemployment dropped from 4.9% to 4.5% in Japan and from 10.7% to 10% in Latin America, while remaining stable at 8.8% in the Euro Area.

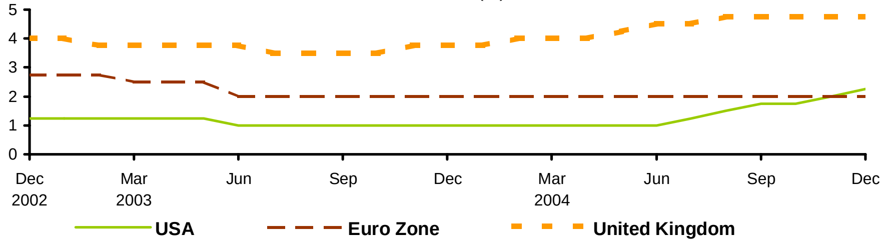
Monetary policy and inflation

At the end of June, the Fed initiated a process of gradually restricting monetary policy. In the months preceding this alteration – primarily in April and May – speculation regarding the imminent end of the period of low interest that had marked the last five decades impacted the high in earnings on Treasuries. However, in the immediately subsequent period, market rates began dropping once again and accompanied the pace at which the official rate was raised, as the gradualist policy adopted by the Fed became increasingly clear. Despite the brief period of nervousness that gripped financial markets in the second quarter of the year, the Fed was successful in its efforts to coordinate the process of formation of expectations, avoiding the possibility of an accentuated high in rates in the longer segment of the earnings curve frustrating the process of economic recovery. At the end of the year, the fed fund target had been raised by 1 p.p. to 2.25% per year. Producer and consumer inflation rates followed a parallel trajectory, increasing 1 p.p. in the year. Core inflation also moved upward in 2004, registering a cumulative high of just over 2% in December. More important than the interest level in itself was the fact that the upward trajectory of inflation served to solidify perceptions of a steady high in Fed interest rates.

Graph 6.5

Official interest rates[1/]

Annual rate (%)



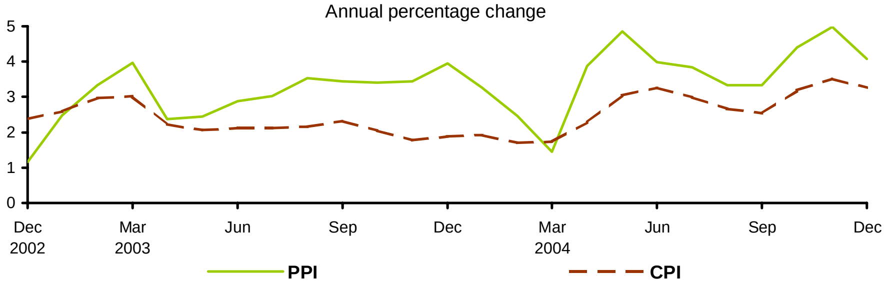
Source: USA – Federal Reserve, Euro Area – ECB, and United Kingdom – Bank of England

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

Graph 6.6

USA: Inflation[1/]

Annual percentage change

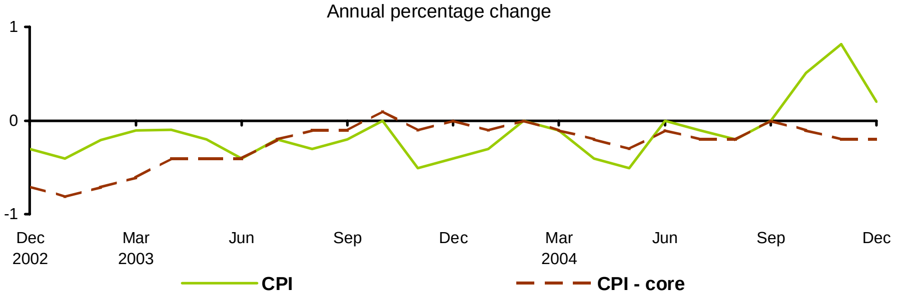


Source: Bureau of Labor Statistics

1/ Producer and consumer prices.

In 2004, the Central Bank of Japan (BoJ) maintained its zero interest policy. Only one alteration was introduced into the policy of gradually shifting the target to the interval of the banking reserve balance deposited at the central bank, moving from ¥ 27 – 32 trillion to ¥ 30 – 35 trillion in January. Maintenance of the banking reserves target for almost the entire year suggests that the monetary authority had reduced the intensity of its exchange market interventions, as is demonstrated by appreciation of the yen in the period. The process of price deflation continued as the GDP deflator remained negative and consumer inflation moved to a slightly positive level at the end of the year, without revealing any signs of a continued rise.

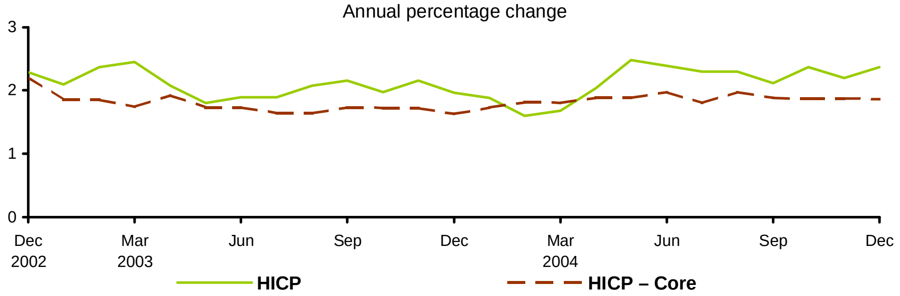
Graph 6.7
Japan: Inflation[1/]
Annual percentage change



Source: Bloomberg
1/ Consumer prices.

The European Central Bank (ECB) maintained interest at the 2% level in effect since June 2003. The position adopted by the monetary authority was a consequence of the evolution of inflation, which surpassed the official target during most of the year, despite moderate growth in the region and strong appreciation of the euro. Another factor that may well have contributed to the rigid stance adopted by the ECB was the behavior of the M3 monetary aggregate, which pointed to rapid currency and credit expansion. On the other hand, core inflation remained consistently below the 2% limit.

Graph 6.8
Euro area: Inflation[1/]
Annual percentage change



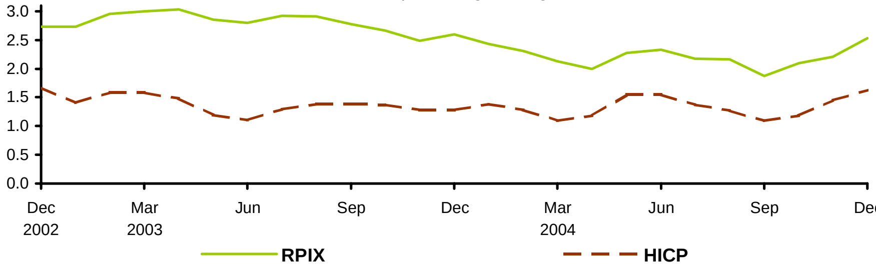
Source: Bloomberg
1/ Consumer prices.

In the United Kingdom, the official rate of interest moved upward in February, May, June and August, closing the year at 4.75%. The monetary policy adjustment implemented by the Bank of England (BoE) reflected developments in both the real sector and financial sector. As a matter of fact, the British economy had been expanding at a rate higher than the average of its European Union partners. This factor, coupled with abundant liquidity, triggered strong valuation in assets, particularly in the real estate market. Following a somewhat different trend, the prices of goods and services evolved only moderately, especially in the case of the harmonized consumer price index. On several occasions, the BoE raised interest rates when inflation began decelerating, suggesting efforts to avoid formation of an asset bubble through careful management of credit conditions and, consequently, control of household indebtedness.

Graph 6.9

United Kingdom: Inflation[1/]

Annual percentage change



Source: Bloomberg

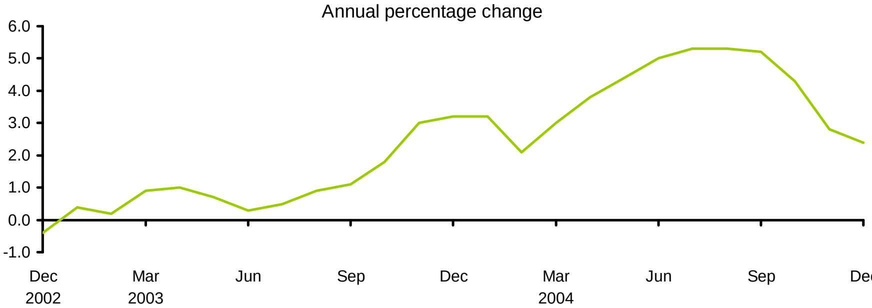
1/ Consumer prices. RPIX stands for retail price index excluding mortgage interest payments.

In the period extending through September 2004, inflation rose in China, before dropping sharply in the final quarter of the year. To some extent, this came as a surprise, since economic expansion at the end of the year was quite a bit higher than expected, primarily when one considers the measures taken by the government to dampen growth. Since the country operates within a fixed exchange system, the Central Bank intervened heavily in the exchange market with the purpose of acquiring the foreign resources

Graph 6.10

China: Inflation – Consumer prices

Annual percentage change



Source: Bloomberg

generated by the strong foreign trade surplus and inflows of speculative capital triggered, in the latter case, by speculation regarding an exchange policy modification in that country.

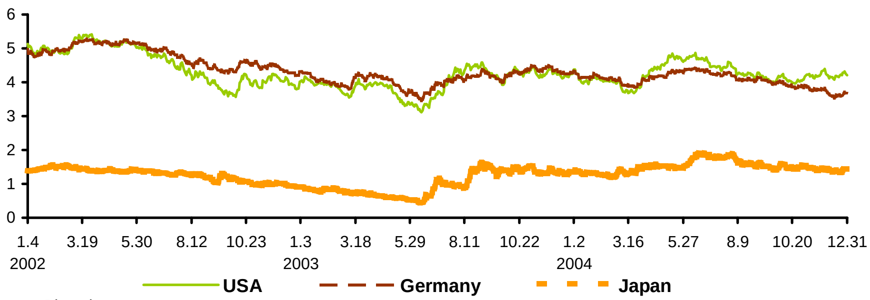
International financial market

The stability that characterized international financial markets in early 2004 – based on signs of recovery in economic activity in the industrialized economies, abundant international liquidity and reduced risk aversion – dissipated as of mid-March. The scenario of financial instability was marked by an accentuated rise in long-term interest rates on the treasury bonds issued by the industrialized economies, devaluation of variable income assets and a sharp downturn in the prices of emerging market bonds. Basically, the turbulence that hit the market was generated by uncertainties surrounding the behavior of inflation in the major economies, the direction to be taken in United States monetary policy, the impact of the announced induced deceleration of the Chinese economy and increasingly higher oil prices.

As the uncertainties regarding inflation in Europe and the United States were dispelled, as of May returns on the ten-year government bonds issued by the industrialized countries shifted back into the downward trajectory that marked most of 2004. In Europe and Japan, returns on fixed income assets remained low due to the perception that a monetary stimulus would be needed to sustain the cycle of economic growth, reinforced by appreciation of the euro and the yen.

Graph 6.11

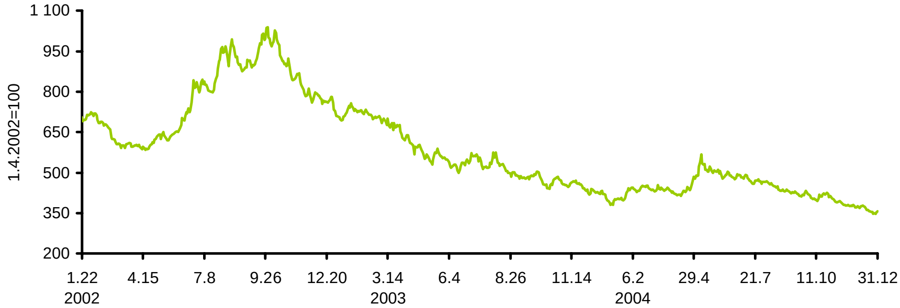
Yield on treasury bonds1/



Source: Bloomberg
1/ 10 year treasury nominal yields.

During the major part of the year, ample international liquidity and market receptivity to risk exposure made it possible to reduce spreads in almost all types of financing, independently of the debtor profile and the degree of risk involved. The only exception to this tendency occurred between mid-April and May when, despite positive economic performances in most of the emerging economies, the Embi+, which is used as a proxy for the external debt risk of these economies, expanded 37% to 567 points on May 10, the highest level registered in the year. As of that date, tensions declined and the Embi+ shifted steadily downward, ending 2004 at 358 points. This tendency was further reinforced by the gradualist approach adopted by United States monetary policy and consolidation of the economic fundamentals of most of the emerging economies in the second half of the year.

Graph 6.12
Emerging Markets Bond Index Plus (Embi +)



Source: Bloomberg

According to the Institute of International Finance (IIF), foreign direct investments expanded 43.9% compared to 2003. Flows to the emerging countries increased 32.5%. IIF data also indicate that capital flows involving bank credits, stock portfolios and nonbank credits rose 86.4%, 12.6% and 4.5%, respectively, in the year.

The persistent rise in international oil prices generated negative impacts on stock market evolution, reflecting concerns with the long-term tendencies of oil supply and demand, as well as the potential adverse impact of these trends on renewed economic growth. Stock market price declines in the United States as of the second quarter of the year were a clear reflection of these uncertainties, while impacts on other markets were less accentuated.

Starting in the month of November, United States stock markets moved into a sustained upward trajectory, rather closely aligned with the performances of other markets in the period. Basically, this was caused by recovery of confidence regarding the vigor of the global economic recovery as well as growth in corporate profits. In 2004, the Nasdaq index registered nominal valuation of 8.6%, while the Dow Jones and Standard & Poor's 500 indices turned in growth of 3.1% and 9%, respectively.

Table 6.1– Emerging markets: foreign private capital flows

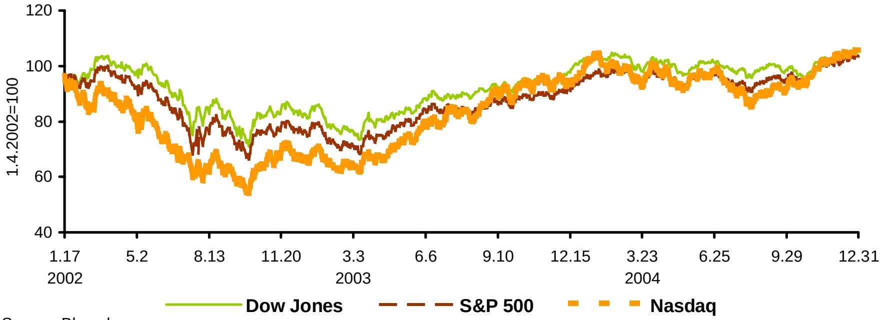
US$ billion

	2001	2002	2003	2004
Private capital flows	130.5	124.9	210.7	279.1
Africa	9.4	1.5	3.5	9.2
Latin America	52.9	17.3	25.2	26.1
Asia	51.4	60.5	116.3	146.3
Europe	16.8	45.6	65.6	97.4

Source: IIF

Graph 6.13

Stock exchanges – USA

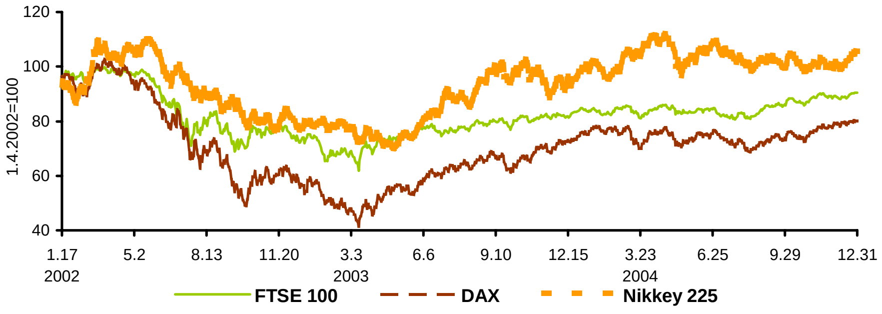


Source: Bloomberg

In Japan, the Nikkei index rose 7.6%. Here, one should stress that the evolution of Japanese exchanges was negatively impacted by the only moderate pace of economic activity in that country as of the second half of the year, as well as the adverse pressures perceived by United States markets. European exchanges were less volatile than those of the United States and Japan, as the FTSE 100, the London stock exchange index, and the Frankfurt DAX rose 7.5% and 7%, in that order.

Graph 6.14

Stock exchanges – Europe and Japan



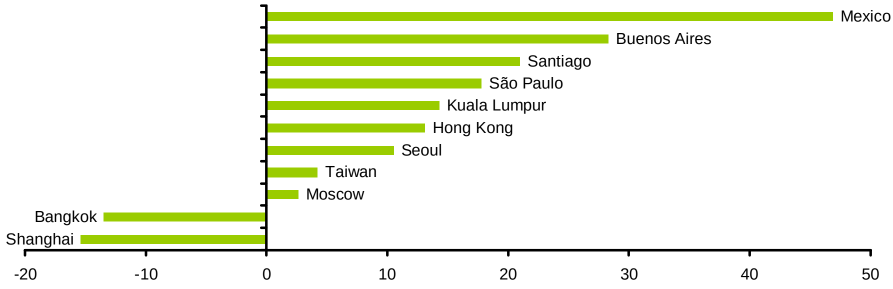
Source: Bloomberg

In most of the emerging stock markets, the negative effects of high and volatile oil prices were partially offset by migration of resources into more profitable assets. Particularly as of the second half of the year, recovery in stock market prices was driven primarily by attenuation of the risks of an interruption in the petroleum supply, perception that inflation had been effectively harnessed in the major economies, the attractiveness of stock prices and announcement of considerably more robust economic activity indicators. In Latin America, the major Mexican and Argentine stock indices rose 46.8% and 28.3%, respectively, while the Chilean and Brazilian indices posted hikes of 21% and 17.8%, in that order.

Graph 6.15

Stock exchanges – Emerging markets

Percentual change in 2004 in local currency



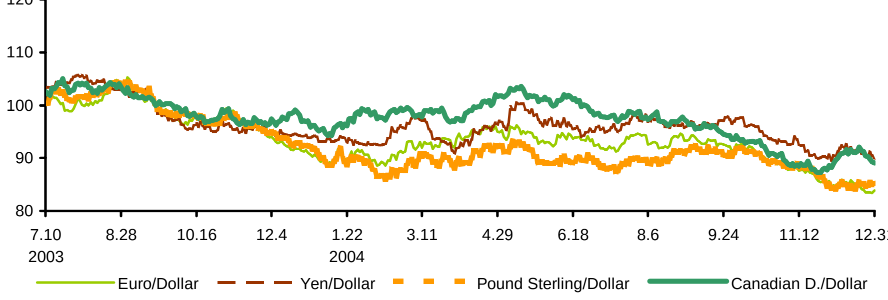
Source: Bloomberg

As far as exchange markets are concerned, job market recovery and higher long-term interest rates on treasury bonds resulted in appreciation of the American dollar against the currencies of the other developed countries in the period extending from February to May 2004. However, this tendency was reversed in the second half of the year, primarily as a result of uncertainties regarding economic growth generated by weak labor markets and the persistent steady rise in international oil prices, as well as questions raised with respect to the possibility of financing the enormous and growing American current account deficit. Thus, when one considers average December 2004 and 2003 exchange rates, the pound sterling appreciated 10.1%, the Euro, 8.9%, the Canadian dollar, 7.7%, and the yen, 3.8%, in relation to the American dollar.

Graph 6.16

Developed countries

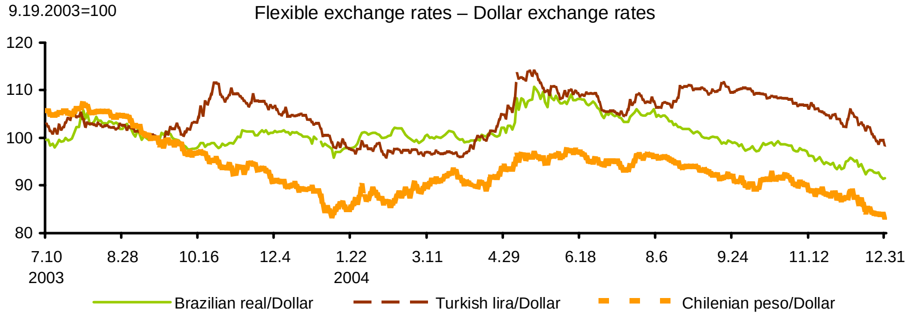
Dollar exchange rates



Source: Bloomberg

The excellent exchange supply conditions generated by the positive evolution of emerging country balance of payments current and financial accounts led to currency appreciation against the dollar in those nations that had flexible exchange systems. This trend was temporarily interrupted in the second quarter of 2004 when long-term interest rates on Treasuries shifted upward.

Graph 6.17
Emerging markets currencies
Flexible exchange rates – Dollar exchange rates

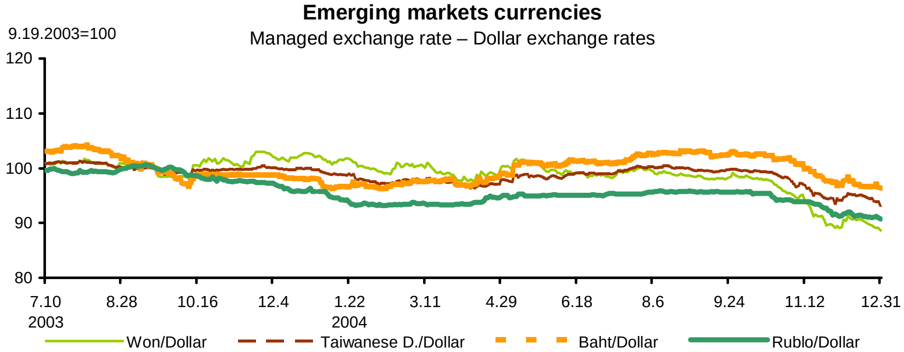


Source: Bloomberg

Even the currencies of such countries as Russia and the nations of southeast Asia, which have considerably more rigid exchange systems, appreciated against the dollar as of the month of October. This was a clear indication of the continued ample supply of international funding and short-term capital flows.

A comparison of average exchange rates in December 2004 and 2003 shows that the currencies of Thailand, Korea, Singapore and Taiwan appreciated at respective rates of 1.3%, 13.5%, 4.2% and 5.8%, against the dollar. Basically, this movement resulted from the upward trajectory in currency values between September and December, when these currencies appreciated by 5.7%, 9.3%, 3.3% and 5.3%, in that order.

Graph 6.18
Emerging markets currencies
Managed exchange rate – Dollar exchange rates



Source: Bloomberg

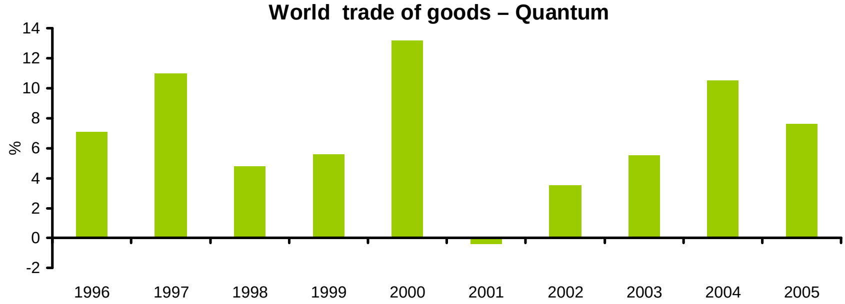
It is important to emphasize that depreciation of the American currency did not restrict financing of the nation's external debt, since growth in the flow of private foreign capital, including foreign direct investment, and government capital originating in purchases of United States securities by Asian central banks was sufficient to finance the 25.5%, or US$135.2 billion, increase in the country's current account deficit, together with the rise in United States investments abroad.

World trade

According to IMF estimates, the volume of world trade in goods registered growth of 10.5% in 2004. This was the best result in the last four years and reflected across-the-board growth in the world economy as of the second half of 2003. Parallel to these figures, the World Bank and WTO projected annual increases of 10.2% and 8.5%, respectively, in the volume of 2004 trade.

Graph 6.19

World trade of goods – Quantum



Source: IMF
2004 = Estimate.
2005 = Forecast.

Increased trade flows in 2004 were a consequence of more intense economic activity, particularly in the United States and China, the major driving forces underlying expanded world demand. Though practically all of the world's economies registered foreign trade growth, the developing countries turned in rates that were higher than those of the developed world. Recovery in manufacturing activity resulted in increased purchases of capital goods and raw materials for the industrial sector. At the same time, commodity demand remained strong, primarily as a consequence of Chinese economic vitality, which guaranteed continued high prices for these products. Greater energy demand caused by consolidation of world economic expansion was reflected in the volatility of international oil prices throughout the year. Pressures intensified in the final six months of the year, when prices set new nominal highs, generating negative impacts on world trade growth.

In the United States, despite some degree of loss in the dynamics of the economy in the second half of 2004, domestic demand remained high, leading to more rapid growth in imports when compared to exports. In a context of strong economic growth and higher oil prices, increased outlays on energy played an important role in raising the level of imports. Consequently, the balance of trade in goods registered a deficit of US$666.2 billion in the year, mirroring an increase of 21.7% compared to 2003.

Intra and extrabloc trade flows intensified in the Euro Area countries. With regard to extrabloc flows, exports accelerated in the early months of the year, resulting in a larger trade surplus. In the following period, foreign sales declined simultaneously to a rise in imports, resulting in trade balance deterioration. Strong appreciation of the Euro, particularly in the final months of the year, diminished the competitiveness of the bloc's exports which had already been curbed as a result of falling external demand. In Germany, the region's major economy, output was adversely impacted by the behavior of trade flows in the second half of the year. As a result, the external sector contribution to GDP in the third and fourth quarters was negative, in contrast to the four previous quarters. In France, an upturn in export flows in the final months of the year was sufficient to avoid excessive trade balance deterioration. In the case of the United Kingdom, appreciation of the pound sterling hampered the export flow. As a result, the sharp rise in imports led to a record 2004 trade deficit.

Japanese exports benefited from strong demand in China and the United States, as the trade surplus for the first six months of the year expanded. However falling external

Table 6.2 – International trade of goods

US$ billions

Countries/ Regions	Exports			Imports		
	2003	2004 1/	Percentage change	2003	2004 1/	Percentage change
USA	713.1	807.6	13.2	1 260.7	1 473.8	16.9
Canada	288.7	334.2	15.8	246.0	279.9	13.8
Euro Area 2/	1 208.6	1 433.2	18.6	1 128.4	1 339.5	18.7
Germany 2/	757.1	915.5	20.9	608.3	721.3	18.6
France 2/	368.7	424.2	15.1	366.3	433.9	18.5
Italy 2/	153.8	177.1	15.2	152.0	178.1	17.1
United Kingdom	310.1	350.5	13.0	388.3	456.3	17.5
Japan	472.9	567.7	20.1	383.9	455.8	18.7
Latin America and the Caribbean	376.3	460.7	22.4	333.0	398.8	19.8
China	438.4	593.4	35.3	412.9	561.4	36.0
South Korea	193.8	254.2	31.2	178.8	224.5	25.5

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

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

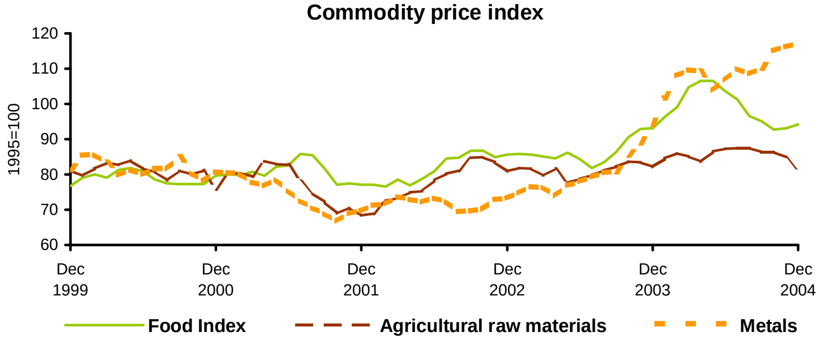
demand, appreciation of the yen and a new oil price spiral, coupled with real growth in imports, provoked deterioration in the trade balance through the end of the year. Consequently, the foreign trade contribution to GDP was negative in the third and fourth quarters.

In China, trade flows expanded sharply in 2004. Increased exports reflected rising world economic activity and enhanced competitiveness, partly as a result of the exchange system alterations adopted by that country. Imports grew at a pace above the previous year, clearly ratifying the vigor of the Chinese economy despite the measures taken by authorities in 2003 to dampen the pace of economic expansion. Chinese economic performance had a powerful impact on the trade sectors of the Asian economies, as a result of the verticalization of the region's productive chain, as well as on trade by the Latin American countries, since they are major suppliers of raw materials and commodities.

The accelerated pace of world economic growth, particularly in the United States and China, had important impacts on Latin American foreign sales. In the Mercosul framework, an important share of the increase in exports was due to sales of manufactured goods to the United States by Brazil, while the exports of the Andean countries benefited from sales of basic products and, to a lesser extent, manufactured goods. Export growth not only generated increased import capacity, but also made it possible for the region to maintain a surplus balance in the trade of goods for the third consecutive year. Parallel to this, the current account balance remained positive for the second consecutive year, increasing from 0.5% to 1.1% of GDP.

Though the international prices of major farm commodities turned downward toward the end of the second quarter of 2004, primarily as a consequence of an increased world supply of such crops as soybeans, corn and cotton, the prices of these goods remained at levels well above those in effect in past years. On the other hand, the prices of the major metallic commodities continued on a steady upward curve.

Graph 6.20
Commodity price index

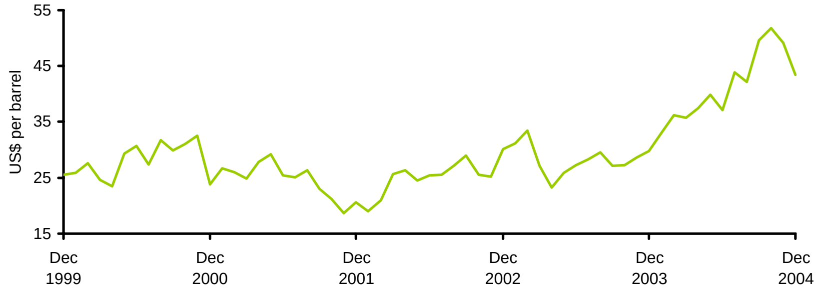


Source: IMF

The international petroleum market was highly volatile in 2004, as a result of sharply rising prices, coupled with such other factors as futures market speculation and uncertainties regarding the possibility of maintaining an adequate supply to meet growing demand, particularly in the United States and China. The doubts raised with respect to the evolution of supply took due account of the rather slow recovery of production in the region of the Gulf of Mexico, hit by hurricane Ivan at the end of September, and of conflicts in the Middle East and Nigeria and uncertainties regarding Russian output. These were the major factors responsible for the spikes that occurred in the daily prices of this commodity. Another factor that helped to maintain oil prices at very high levels was depreciation of the dollar on the international market.

In this context, the price of Brent-type oil negotiated on the London market reached an October maximum of US$50.95, closing 2004 at US$40.24, representing a rise of 35% compared to the price in effect one year previously. West Texas Intermediate (WTI) negotiated at the New York Commodities Exchange set a record of US$55.50, also in October.

Graph 6.21
Brent oil – Spot market



Source: Bloomberg

It is important to note that the volatility that marked the per barrel price of petroleum occurred parallel to a shift in overall price levels. In other words, the price of Brent-type oil increased from annual averages of US$25.02 in 2002 and US$28.87 in the following year to US$38.32 in 2004, corresponding to a cumulative rise of 53.2% in the period. This increase occurred despite the measures taken by the Organization of the Petroleum Exporting Countries (Opec) to raise supply of the product to 25.5 million barrels/day (mbd) as of July, adding another 0.5 mbd on August 1.

VII

International Financial Organizations

In 2004, the world economy continued on the path toward recovery begun in the second half of 2003. The pace of growth differed from one country and economic bloc to another, as the United States, China and most of the developing countries managed to register more accentuated growth than expected. In contrast to this performance, Europe and Japan turned in a lesser degree of expansion than had been previously predicted, primarily as a result of the limited performance of their exports and internal demand.

The recovery process was driven by highly favorable conditions on world financial markets. In real terms, interest rates remained near zero in most countries; stock markets recovered across the world; long-term interest rates remained below equilibrium levels; and spreads dropped to historically low levels for both corporations and emerging markets, accompanied by a new wave of foreign loans to such markets. To some extent, these events reflect solid economic fundamentals, including well-based inflation expectations, strengthening of corporate equity positions and reductions in the external vulnerabilities of the developing countries.

Global current account balances worsened, as the American deficit set a new record of 5.5% of GDP in 2004. However, this deficit generated current account surpluses in Southeast Asia, Japan and, to a lesser extent, Europe. Accumulation of international reserves, composed mainly of United States dollars, continued expanding sharply in the oil producing countries and in Southeast Asia.

Oil prices remained high and intensely volatile due to such factors as strong demand and uncertainties surrounding the evolution of Opec production. Inflation and global inflationary pressures remained under relative control, with no significant signs of adverse effects caused by the spiral in international oil prices.

This was the basic backdrop to the agenda of International Financial Organizations, clearly demonstrating the need for correcting fiscal imbalances and current account distortions that could jeopardize world economic performance over the medium-term.

International Monetary Fund (IMF)

The IMF was created in 1945 and now has 184 member countries. It's primary functions are to foster international monetary cooperation; seek exchange rate stability; foster economic growth and high levels of employment; provide temporary financial assistance to countries involved in balance of payments adjustment processes; and facilitate balanced expansion in international trade. At the same time, the organization monitors and analyses the economies of the member countries on a yearly basis and also carries out a wide variety of studies, most important of which are World Economic Outlook and the Global Financial Stability Report, which are published on a half-year basis.

As an element of its multilateral macroeconomic analysis and supervision activities, the Fund estimated world economic expansion at 5.1% in 2004, somewhat higher than the 2003 figure of 3.9%. In comparison to 2003, the volume of world trade expanded 9.8%, as the prices of petroleum and other international commodities expressed in dollar terms expanded at respective rates of 30.7% and 17.9%. Consumer inflation reached 2% in the developed countries and 5.8% in the other nations of the world.

Aside from analyzing the international economy and finances, the IMF also performs consultations specified in Article IV of its Articles of Agreement, consisting of macroeconomic supervision of each member country, normally on an annual basis, while it also carries out Program Reviews on a quarterly basis, when a country participates in a Financial Assistance Program sponsored by the Fund.

Aside from the already stated reports, the IMF works together with the World Bank to produced the Reports on Observance of Codes and Standards (Roscs), which are evaluations regarding the degree to which countries have adopted internationally recognized codes and standards in twelve areas: data quality; monetary and financial policy transparency; fiscal transparency; banking supervision; capital market regulation; insurance supervision; payment systems; combating money laundering and the financing of terrorism; corporate governance; accounting; auditing; and, finally, insolvency and creditor rights.

Another important activity carried out together with the World Bank is the Financial Sector Assessment Program (FSAP), which is carried out at the request of a member country. Aside from elaboration of the Roscs, the FSAP uses stress tests to verify the degree of financial stability in the face of economic shocks and produces a report with recommendations to the authorities of that specific member country. These results are accompanied by two synthetic reports – the Financial System Stability Assessment (FSSA) and the Financial Sector Assessment (FSA), which are submitted to the Boards of the IMF and World Bank.

With regard to the publication of economic data, by the end of 2004, 58 countries, including Brazil, had subscribed to the Special Data Dissemination Standard (SDDS). The objective of the SDDS is to act as a guide for publication of economic and financial data, thus improving the availability of timely and wide-ranging statistics, contributing in this way to solid macroeconomic policies and financial market improvement.

The Fund's 2004 agenda calls for a continued effort to restructure the international financial system, through development of more effective mechanisms designed to prevent and deal with crises, including such tools as Liquidity Management, Balance Sheet Approach (BSA) and Debt Analysis Sustainability (DAS). Discussions also took place on the creation of a preventive line of credit that would substitute the now extinct Contingency Credit Line (CCL); on adoption of the Policy Monitoring Agreement (PMA), a program that does not involve disbursement of resources by the Fund; and on Trade Integration Mechanisms (TIM), a mechanism that provides countries with balance of payments problems related to trade integration questions with more direct access to IMF financing programs. This component went into operation in April of 2004.

In the month of July, the Biennial Surveillance Review was concluded. This process included discussion and implementation of various measures, including a deepening of studies on various existent exchange systems and strengthening of supervision in the globalized financial sector. These are studies that may well contribute to making the process of international monetary supervision carried out regularly by the IMF significantly more effective.

Another important review that was carried out involved the way in which the Fund acted in the program's financed between 1995 and 2000. During this review, the IMF discussed the objectives, results and analytical frameworks used in these programs, concluding as to the need for improving future programs.

At the same time, mention should be made of the discussions carried out on public investments and fiscal policy that resulted in an exchange of ideas regarding the ways in which public investments in infrastructure can be fostered in a responsible manner and the treatment to be given to PPP in fiscal accounts.

In the framework of the discussion on the initiatives taken to resolve financial crises, a proposal was presented regarding adoption of a rigid Code of Conduct, which later evolved into the formulation of flexible and voluntary principles. In further discussions carried out with the mediation of the G-20 – composed of representatives of the industrialized nations and emerging economies – and by private financial institutions, progress was achieved in defining the Principles of Stable Cash Flows and Fair Restructuring of Emerging Market Debts, to be established on a voluntary basis among security issuer countries and private sector participants.

Total IMF capital came to approximately US$327 billion at the end of 2004. Overall credits reached US$90 billion, including US$10 billion in loans granted on a concessional basis. Of the total member countries, 82 are debtors (with 59 involving concessional loans).

IMF participation in the initiative to provide external debt relief to the Highly Indebted Poor Countries (HIPC Initiative) remained at the same commitment level as in the previous year, SDR 1.8 billion, of which SDR 1.3 billion had been disbursed in cumulative terms up to the end of 2004.

Brazil's quota in the Fund corresponds to SDR 3,036 million, representing participation of 1.43% in the organization's total capital. In December 2003, the Stand-By Agreement between Brazil and the IMF formalized in September 2002 was extended for an additional fifteen months (up to March 2005), with the overall value of the agreement being increased by SDR 4.6 billion – moving from SDR 22.8 billion to SDR 27.4 billion. Withdrawals against the agreement came to SDR 17.2 billion, of which SDR 12.6 billion occurred in 2003. This amount was just slightly more than the SDR 12.3 billion withdrawn in 2002 (when withdrawals against the 2001 agreement were still being 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. This fact demonstrates that the program between Brazil and the Fund was essentially a preventive program. In 2004, Brazil's amortizations with the Fund came to SDR 2.9 billion, while interest and other charges paid reached SDR 814 million.

On December 31, 2004, the Brazilian debt balance with the IMF was SDR 19 billion, making it the largest pending debt balance with the institution, with Turkey and Argentina occupying the following positions. The reformulation of the Agreement also included lengthening of the amortization schedule of the Brazilian debt with the Fund, reducing the amount to be paid in 2004 and increasing amortizations scheduled for 2007 from SDR 1.8 billion to SDR 6 billion.

Bank for International Settlements (BIS)

The BIS is an international organization founded in 1930 and has the basic function of fostering international financial and monetary cooperation, acting as a forum in coordinating processes among central banks and the financial community; as a financial and monetary research center; and as a fiduciary agent in international operations carried out by central banks.

Headquartered in Basel, Switzerland, the organization coordinates committees and organizations charged with promoting financial stability. Among these, mention should be made of the Basel Banking Supervision Committee; the Committee on Payment and

Settlement Systems; the Committee on the Global Financial System; and the Market Committee. These committees were founded over the last 40 years by the central banks of the G-10[5] countries and they enjoy a high level of autonomy in structuring their agendas and activities. The BIS also acts as the Secretariat of the Financial Stability Forum (FSF), which was created in 1999 to debate questions involving the strengthening of the international financial architecture and to foster cooperation among national authorities and international organizations and regulatory entities.

At the end of the fiscal year on March 31, 2004, BIS assets came to a record value of SDR 167.9 billion, reflecting 12.2% growth compared to the previous year. Foreign currency deposits, which account for the major share of BIS liabilities, rose to SDR 133.2 billion, after having closed the previous fiscal year at SDR 122.5 billion. It is important to note that the currency composition of these deposits changed significantly. The share in American dollars diminished from 67.1% in the previous year to 62.4% on March 31, 2004.

Brazil has been a stockholder in BIS since March 26, 1997, with 3000 subscribed shares worth SDR 15 million. In the 2004 fiscal year, BIS decided to include six new members among its stockholders. These members were the central banks of Algeria, Chile, the Philippines, Indonesia, Israel and New Zealand.

The tendencies that have driven the most recent developments in global markets were the subjects that received the greatest attention during the regular 2004 BIS meetings, in which discussions on themes related to the structural aspects of financial and monetary stability prevailed.

Among the activities carried out by the organization, the most important involve studies carried out by the Committee on the Global Financial System on foreign direct investment in the financial system of emerging market economies; the activities of the Basel Banking Supervision Committee for purposes of implementation of the framework of the Basel Accord II; and discussions within the Committee on Payments and Settlement Systems – which operates in a partnership with the International Organization of Securities Commissions (Iosco), for the purpose of fostering security in payment systems by strengthening market infrastructure and reducing systemic risk.

In its turn, the Basel Banking Supervision Committee continued its efforts aimed at strengthening prudential supervision in banking institutions; adopting more transparent practices in financial records; and encouraging banking systems to move forward in the area of risk evaluation. Furthermore, the Basel Committee also turned its attention to implementation of a revised framework that indicates optimal capital levels for banking institutions.

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

Finally, with regard to the role of the bank of central banks, it offers a wide variety of banking services, designed specifically to aid in the area of reserve management. In 2004, more than 100 central banks, including the Central Bank of Brazil, had part of their reserves administered by the BIS, which also transfers knowledge and technology to these institutions on the subject of asset portfolio administration.

Latin American Center of Monetary Studies (Cemla)

Cemla was founded in 1952 and is a civil association headquartered in Mexico City. Among its various responsibilities, the most important concern questions related to monetary and financial stability and the operation of the international financial system.

More specifically, Cemla has the objective of fostering a better understanding of monetary and banking questions in Latin America and the Caribbean, while also dealing with important aspects of the exchange and fiscal policies of the member countries; assistance in training central bank staffs and those of other Latin American and Caribbean financial entities; research and systematization of results in the fields mentioned above; and dissemination of information to members on facts of international and regional interest in the framework of monetary and financial policies.

Cemla is currently composed of fifty institutions, thirty of which are associated central banks. The others are distributed among collaborating and assistant institutions. Cemla has four levels of management authority: the Assembly, Board of Governors, the Director General and the Deputy Director General.

The Assembly is the highest level of authority in the institution and is composed of the governors of the central banks of the associated members, all of whom have active voice and vote in the deliberations of the Center. The major share of the organization's budget – approximately US$2.2 million in the 2004 fiscal year – is composed of contributions on the part of associated members and collaborating members. Brazil's annual contribution has been unaltered in recent years, totaling US$283 thousand.

The Board of Governors is composed of the governors of seven associated central banks, with Mexico as a permanent participant as the host country, and two extra regional banks as collaborating members. The Board is subordinated to the Assembly and its members are elected for two-year terms as the representatives of the group of associates who elected them and in proportion to the voting power of that group. In the 2003–2005 period, Brazil has occupied the presidency of the Board of Governors.

Cemla organized 57 events in 2004, including courses, seminars and workshops on themes of interest to central banks. More than 1,700 people from all parts of Latin America and the

Caribbean participated in these events. Among the themes included in the Cemla activities program, the highlights were management of private capital flows and debt; strategic communication among central banks; and compilation of statistics by central banks.

Another area of interest has been in the dissemination of knowledge. In this regard, the highpoints are a series of periodical publications (the *Boletín*, *Monetária* and *Money Affairs* magazines) and other nonperiodicals (essays, articles, research), which analyze economic, financial and banking questions. Furthermore, in order to provide incentives and recognition, the Center awards the annual Rodrigo Gómez Award, to the best paper on themes of importance to central banks.

VIII

Main Economic Policy Measures

National Monetary Council Resolutions

3,162, 1.15.2004 – Revokes regulations on the utilization of resources drawn from the budget heading “Government Credit Operations”, for purposes of providing coverage and financing of outlays on the formation and maintenance of government stocks of crop/livestock products.

3,163, 1.15.2004 – Deals with renegotiation of rural credit operations backed by resources from the Special Credit Program for Agrarian Reform (Procera), the National Program for Strengthening Family Farming (Pronaf), the Constitutional Financing Funds of the North, Northeast and Central-West, and other sources.

3,164, 1.20.2004 – Authorizes the National Bank of Economic and Social Development (BNDES) to finance acquisitions of new and used trucks, truck tractors, trailers, semitrailers, chasses and truck bodies for not more than seven years, based on conditions determined by the institution.

3,165, 1.29.2004 – Deals with the constitution of a commercial bank under the direct control of the Commodities and Futures Exchange, to operate exclusively as the settlement institution of the operations processed through that market.

3,166, 1.29.2004 – Deals with corroboration of the origin of resources targeted to subscriptions to capital increases in cash involving financial institutions and other institutions authorized to operate by Banco Central do Brasil.

3,167, 1.29.2004 – Deals with extension of the maturity term of operations carried out with resources drawn from the Coffee Economy Defense Fund (Funcafé), supported by Resolutions 3,003, 3,026, 3,048, all of which were issued in 2002, and 3,100, issued in 2003.

3,168, 1.29.2004 – Deals with the granting of Federal Government Loans without Sales Option (EGF/SOV) for the 2003/2004 coffee harvest, based on Obligatory Resources (MCR 6-2).

3,169, 1.30.2004 – Alters the maturities of shares of credit operations targeted to financing stocking of ethyl fuel alcohol, based on resources originating in the Contribution on Intervention in the Economic Domain (Cide), and contracted under the terms of Resolution 3,096, dated 2003.

3,170, 1.30.2004 – Alters Resolution 3,081, dated 2003, which disciplines the providing of independent auditing services for financial institutions, other institutions authorized to operate by Banco Central do Brasil and for clearance and settlement houses and providers of such services.

3,171, 2.19.2004 – Deals with the carrying out of repo operations as treated in the regulations appended to Resolution 2,950, dated 2002.

3,172, 2.19.2004 – Deals with the marketing of corn and sorghum under the terms of the Special Credit Line (LEC).

3,173, 2.19.2004 – Imposes conditions on credits extended to the public sector and alters limits – Alteration in art. 9 of Resolution 2,827, 3.30.2001.

3,174, 2.19.2004 – Conditioned the credit to the public sector and altered its limit. Alteration made in article 9 of Resolution 2,827, dated 3.30.2001.

3,175, 2.20.2004 – Alters the Regulations appended to Resolution 2,309/1996 dealing with leasing operations, with regard to the right to negotiate exchange rate variation in these operations.

3,176, 3.8.2004 – Deals with alterations in the conditions applicable to financing based on the resources of the Land and Agrarian Reform Fund, as treated in Law 93/1998 and Decree 4,892/2003.

3,177, 3.8.2004 – Alters the fraction foreseen in art. 2, indent II, and in art. 3, indent II, of Resolution 3,005/2002, earnings on resources obtained in savings deposits channeled to Banco Central do Brasil, while also limiting acquisitions of real estate credit bills and mortgage bonds by institutions that are members of the Brazilian System of Savings and Loans (SBPE).

3,178, 3.29.2004 – Defines the Long-Term Interest Rate (TJLP) for the second quarter of 2004.

3,179, 3.29.2004 – Revokes Resolution 2,389/1997, which deals with the prohibition on the granting of credits to users of international credit cards.

3,180, 3.29.2004 – Alters provisions related to the suspension of services provided to the public in outlets of financial institutions and other institutions authorized to operate by Banco Central do Brasil.

3,181, 3.29.2004 – Defines procedures for transfer of federal public securities classified in the category of securities held to maturity.

3,182, 3.29.2004 – Deals with the Program of Modernization of the Fleet of Farm Tractors and Associated Implements and Harvesters (Moderfrota).

3,183, 3.29.2004 – Deals with the Program of Cooperative Development for Value Added to Crop/Livestock Production (Prodecoop).

3,184, 3.29.2004 – Deals with the credit line targeted to the financing of the harvesting and stocking of coffee in the 2003/2004 farm year, based on resources of the Coffee Economy Defense Fund (Funcafé).

3,185, 3.29.2004 – Deals with the marketing of Arabian and Robust coffees from the 2003/2004 harvest, based on the Special Credit Line (LEC).

3,186, 3.29.2004 – Authorizes the National Bank of Economic and Social Development (BNDES) to finance acquisitions of trucks, truck tractors, trailers, semitrailers, chasses and bodies, including both new and used with up to seven years of age, under the conditions set down therein.

3,187, 3.29.2004 – Treats of alterations in the Regulations of the National Program for Strengthening Family Farming (Pronaf).

3,188, 3.29.2004 – Authorizes cooperative banks to receive rural savings deposits, alters the minimum percentage of investment of resources obtained in rural savings deposits and increases the resources of the reserve requirement on Banco do Brasil S.A. rural savings.

3,189, 4.29.2004 – Deals with alterations in the regulations of the National Program for Strengthening Family Farming (Pronaf).

3,190, 4.29.2004 – Deals with the period for renegotiating debts that originated in rural credit operations, as stated in Resolution 2,471/1998.

3,191, 4.29.2004 – Imposes conditions on credits extended to the public sector and alters limits – Alteration in Resolution 2,827, 3.30.2001.

3,192, 4.30.2004 – Alters the provisions of Resolution 1,065, dated 12.5.1985, which regulates the application of penalties.

3,193, 5.5.2004 – Deals with the credit line reserved for the financing of the harvest and stocking of coffee for the 2003/2004 farm period, based on the resources of the Coffee Economy Defense Fund (Funcafé).

3,194, 5.11.2004 – Deals with the granting of exceptional rebates on the debts of current expenditure operations contracted under the National Program for the Strengthening of Family Farming (Pronaf).

3,195, 5.11.2004 – Deals with extension of the maturity of installments of investment financing operations carried out under the terms of the National Program for Strengthening Family Farming (Pronaf).

3,196, 5.27.2004 – Extends the period of exemption from the compulsory deposit and obligatory reserve on demand resources originating in deposits obtained at pioneering branches.

3,197, 5.27.2004 – Deals with the carrying out of operations involving exchanges and loans of securities by financial institutions and other institutions authorized to operate by Banco Central do Brasil.

3,198, 5.27.2004 – Alters and consolidates the regulations regarding the rendering of independent auditing services to financial institutions, other institutions authorized to operate by Banco Central do Brasil and clearance and settlement houses and entities that provide such services.

3,199, 5.27.2004 – Deals with extension of the period for formalization of renegotiation of rural credit operations backed by resources of the National Program for Strengthening Family Farming (Pronaf), the National Constitutional Financing Funds of the North, Northeast and Central-West Regions and other sources.

3,200, 5.27.2004 – Deals with the granting of time for purposes of payment of debts originating in current expenditure operations carried out under the terms of the National Program for Strengthening Family Farming (Pronaf).

3,201, 5.27.2004 – Imposes conditions on credits granted to the public sector and alters limits – Alterations in Resolution 2,827, dated March 30, 2001.

3,202, 5.27.2004 – Institutes a line of credit targeted to the financing of the stocking of ethyl fuel alcohol, backed by the resources of the Contribution on Intervention in the Economic Domain (Cide).

3,203, 6.18.2004 – Deals with the opening, maintenance and operation of demand deposit accounts for individual Brazilian persons temporarily abroad.

3,204, 6.18.2004 – Imposes conditions on credits extended to the public sector and alters limits – Alterations in indents I, II and III of art. 9-B of Resolution 2,827, dated March 30, 2001, included by Resolution 3,153, dated December 11, 2003, and modified by Resolutions 3,191, dated April 29, 2004, and 3,201, dated May 27, 2004.

3,205, 6.22.2004 – Deals with the investment of resources contracted in rural savings deposits.

3,206, 6.24.2004 – Deals with alterations in the Regulations of the National Program for Strengthening Family Agriculture (Pronaf).

3,207, 6.24.2004 – Deals with alterations in investment programs backed by resources equalized by the National Treasury with the National Bank of Economic and Social Development (BNDES), with extension of the maturity of financing installments of the cited programs and with adjustments in financing conditions under the terms of the Program of Rural Job and Income Generation (Proger Rural).

3,208, 6.29.2004 – Deals with the channeling of controlled rural credit resources, with terms and maturities of Federal Government Loans (EGF) and with other rural credit conditions.

3,209, 6.30.2004 – Defined the Long-Term Interest Rate (TJLP) for the third quarter of 2004.

3,210, 6.30.2004 – Set the inflation target and the upper and lower parameters for 2006.

3,211, 7.1.2004 – Altered and consolidated the rules that deal with the opening, maintenance and operation of special demand deposit and savings deposit accounts.

3,212, 7.1.2004 – Altered Resolution 3,109/2003, which deals with the carrying out of microfinancing operations targeted to the low income population and microentrepreneurs.

3,213, 7.1.2004 – Deals with the utilization of credit cards for purposes of making deposits in demand deposit accounts and for the transmission of money orders.

3,214, 7.1.2004 – Deals with the Purchase Option Contract as a sales instrument of public stock.

3,215, 7.1.2004 – Deals with alterations in the conditions on financing based on resources that are administered by the National Bank of Economic and Social Development (BNDES) – Special Finame Agriculture.

3,216, 7.1.2004 – Deals with the marketing of apples based on the Special Credit Line (LEC), with the Program of Modernization of the Fleet of Farm Tractors and Associated Implements and Harvesters (Moderfrota) and with the granting of time for payment of current expenditure operation debts contracted under the terms of the National Program for Strengthening Family Farming (Pronaf).

3,217, 7.1.2004 – Permitted anticipated settlement of liabilities related to external credit operations, leasing and short-term imports.

3,218, 7.1.2004 – Deals with the guaranties rendered in internal credit operations by international organizations in which Brazil participates.

3,219, 7.1.2004 – Redefined the criteria applicable to the operations of the interest rate equalization system of the Export Financing Program (Proex).

3,220, 7.29.2004 – Deals with the requirement on investments in microfinancing operations targeted to the low income population and microentrepreneurs, altering provisions of Resolution 3,109/2003, modified by Resolution 3,212/2004.

3,221, 7.29.2004 – Defined conditions for registration of resources obtained abroad through issues of securities denominated in reals on the international market.

3,222, 7.29.2004 – Deals with requirements regarding investments in rural credit based on obligatory resources (MCR 6-2) and rural savings (MCR 6-4), with Interbank Deposits Tied to Rural Credit (DIR), with the Aptitude Declaration to Pronaf (DAP) and Proagro terms.

3,223, 7.29.2004 – Deals with alterations in the Regulations of the National Program for Strengthening Family Farming (Pronaf).

3,224, 7.30.2004 – Deals with requirements regarding investments in rural credit based on obligatory resources (MCR 6-2) and rural savings (MCR 6-4), with Interbank Deposits Tied to Rural Credit (DIR), with the Aptitude Declaration to Pronaf (DAP) and Proagro terms.

3,225, 8.5.2005 – Deals with adjustments in the Program of Modernization of the Fleet of Farm Tractors and Associated Implements and Harvesters (Moderfrota).

3,226, 8.5.2004 – Defined conditions for the granting of credits for purposes of financing the stock of coffee from the 2003/2004 agricultural period.

3,227, 8.5.2004 – Defined conditions for the granting of financing based on the terms of National Industrial Structure Modernization Program (Modermaq).

3,228, 8.26.2004 – Imposed conditions on credits granted to the public sector and reestablished limits – Alterations in Resolution 2,827, 3.30.2001.

3,229, 8.27.2004 – Permitted financial institutions to onlend resources to microentrepreneur credit companies for purposes of carrying out targeted productive microcredit operations, as well as to acquire such operations.

3,230, 8.31.2004 – Deals with the credit line targeted to financing the current expenditures of the 2004/2005 coffee harvest, based on Coffee Economy Defense Fund (Funcafé) resources.

3,231, 8.31.2004 – Altered the conditions applicable to financing based on resources of the Land and Agrarian Reform Fund, as dealt with in Law 93/1998 and Decree 4,892/2003.

3,232, 8.31.2004 – Altered the regulations appended to Resolution 3,121/2003, which deals with guidelines on investment of the resources of the benefit plans of closed pension fund entities.

3,233, 8.31.2004 – Defined the earnings of financial agents in financing operations contracted with resources from the Constitutional Financing Funds of the North, Northeast and Central-West Regions.

3,234, 8.31.2004 – Altered the provisions of Farm Activity Guaranty Program (Proagro), creating the "Proagro Mais" within the framework of the system in order to meet the needs of small rural producers included within Pronaf.

3,235, 8.31.2004 – Fostered complementary adjustments in the Regulations on Federal Government Loans (EGF) to meet the financing needs of the 2004/2005 harvest.

3,236, 9.29.2004 – Defined the Long-Term Interest Rate (TJLP) for the final quarter of 2004.

3,237, 9.30.2004 – Altered and consolidated the conditions applicable in the framework of "Proagro Mais", created by Resolution 3,234/2004.

3,238, 9.30.2004 – Defined conditions for the granting of credits to be used for financing the stocking of coffee from the 2003/2004 farm period.

3,239, 9.30.2004 – Deals with alterations in credit lines to be used in financing expenditures on the stocking of coffee from the 2003/2004 farm year, as well as the current expenditures of the 2004/2005 harvest, based on Coffee Economy Defense Fund (Funcafé) resources, and in the credits channeled into the financing of the stocking of coffee in the 2003/2004 farm year, based on resources equalized by the National Treasury for the 2004/2005 Harvest Plan.

3,240, 10.28.2004 – Deals with reimbursements of the financing of the current expenditures of the 2004/2005 soybean harvest, based on controlled rural credit resources.

3,241, 10.28.2004 – Altered Resolution 3,121/2003, which deals with the guidelines applicable to investment of the resources of the benefit plans of closed complementary pension fund entities.

3,242, 10.28.2004 – Authorized the National Bank of Economic and Social Development (BNDES) to operate crop/livestock current expenditure credit lines in the framework of the National Program for Strengthening Family Farming (Pronaf).

3,243, 10.28.2004 – Deals with conditions for the participation of Housing Financing Agents (SFH) in the Program of Subsidized Housing of Social Interest (PSH), with the exception of those included in the Brazilian System of Savings and Loans (SBPE) and of mortgage companies.

3,244, 10.28.2004 – Deals with investment of the resources of the specific social security systems instituted by the federal government, states, Federal District or municipalities.

3,245, 11.25.2004 – Altered Resolution 2,689/2000, which deals with the investments of nonresident investors in the financial and capital markets.

3,246, 11.25.2004 – Altered the conditions of “Proagro Mais”, which was created within the framework of the Crop/Livestock Activity Guaranty Program (Proagro), in order to meet the needs of producers participating in the National Program for Strengthening Family Farming (Pronaf).

3,247, 11.25.2004 – Deals with the granting of time for purposes of complementing the financing of structuring project investments with beneficiaries of Group “A” of the National Program for Strengthening Family Farming (Pronaf).

3,248, 11.25.2004 – Deals with the granting of Federal Government Loans without Sales Options (EGF/SOV) for the 2004/2005 industrial grape harvest and with complementary adjustments in the EGF regulations in the case of milk derivatives, to meet the financing needs of the 2004/2005 harvest.

3,249, 12.16.2004 – Defined the Long-Term Rate of Interest (TJLP) for the first quarter of 2005.

3,250, 12.16.2004 – Authorized Brazilian investments abroad through the holding of international stock conferences involving the donation or exchange of stock participation held by individuals or legal entities resident, domiciled or headquartered in Brazil, consequent upon the sale of stock control in a Brazilian company.

3,251, 12.16.2004 – Altered and consolidated the rules dealing with the bylaws and regulations of the Credit Guaranty Fund (FGC).

3,252, 12.16.2004 – Deals with indication of the date of the listing of clients of National Financial System institution clients on check forms.

3,253, 12.16.2004 – Revoked the provision in Resolution 3,106/2003 which disciplines the constitution and operation of credit cooperatives.

3,254, 12.31.2004 – Deals with adjustments in the rate of interest applied to operations under the terms of the Program of Incentives to Irrigation and Storage (Moderinfra).

3,255, 12.31.2004 – Deals with the terms and conditions for payment of matured financing debts formalized under the terms of the National Program for Strengthening Family Farming (Pronaf), in those cases in which the federal government has assumed the risk.

3,256, 12.17.2004 – Altered the conditions applicable to financing based on the resources of the Land and Agrarian Reform Fund, as dealt with in Law 93/1998, and Decree 4,892/2003.

3,257, 12.17.2004 – Deals with extension of the maturity of coffee current expenditure operations carried out with the resources of the Coffee Economy Defense Fund (Funcafé), for the 2002/2003 and 2003/2004 harvests, and with extension of the term of the contracting of coffee current expenditure operations for the 2004/2005 harvest.

Banco Central do Brasil Circulars

3,218, 1.8.2004 – Alters provisions related to the requirements and procedures for constitution, operating authorization, stock control transfer and stock control reorganization of financial institutions and other institutions authorized to operate by Banco Central do Brasil, as well as for occupying legally defined positions in such institutions.

3,219, 1.9.2004 – Excludes subheadings of the Accounting Plan of National Financial System Institutions (Cosif) and alters the Appendix to Circular 3,164/2002.

3,220, 1.14.2004 – Releases the listing of financial institutions included in the sample constituted for purposes of calculating the Reference Rate (TR) and the Basic Financing Rate (TBF).

3,221, 1.21.2004 – Alters the procedures to be followed in the accounting of capital stock increases and reductions on the part of managing entities of group buyer associations.

3,222, 2.5.2004 – Creates accounting headings and subheadings in the Accounting Plan of National Financial System Institutions (Cosif), defines weighting factors and provides clarifications regarding registration of repo operations with free operation clauses.

3,223, 2.6.2004 – Abolishes the requirements related to compulsory deposits and obligatory reserves on judicial deposits and guaranties for bank bonds.

3,224, 2.12.2004 – Defines procedures regarding the Credit Document (DOC).

3,225, 2.13.2004 – Defines the form, limits and conditions applicable to declarations of properties and values held abroad by individuals or legal entities resident, domiciled or headquartered in the country.

3,226, 2.18.2004 – Deals with the rendering of services by multiple banks, commercial banks and the Federal Savings Bank to credit cooperatives, involving the clearing of checks and access to payment settlement systems and Interbank transfers.

3,227, 2.19.2004 – Alters the Regulations on Exchange Operations of a Financial Nature on the Free Rate Exchange Market.

3,228, 3.25.2004 – Deals with application of the schedule determined for providing services to the public in the offices of financial institutions and other institutions authorized to operate by Banco Central.

3,229, 3.26.2004 – Alters the procedures for calculating and elaborating information related to the monitoring and control of exposure in gold, in foreign currencies and in assets and liabilities subject to exchange rate variations, on consolidated bases, as treated in Resolution 2,606/1999, and the Regulations in Appendix IV of Resolution 2,099/1994.

3,230, 3.25.2004 – Defines procedures related to the remittance of the internal bylaws of central credit cooperatives.

3,231, 4.2.2004 – Releases new Import Exchange Regulations and takes other measures.

3,232, 4.6.2004 – Releases new Regulations on the Banco Central Information System (Sisbacen).

3,233, 4.8.2004 – Creates and excludes headings and subheadings in the Accounting Plan of National Financial System Institutions (Cosif) for purposes of control of credit operations carried out by financial institutions with the Credit Guaranty Fund (FGC), tax credits and related asset operations.

3,234, 4.16.2004 – Alters exchange regulations for purposes of permitting digital signatures in exchange contracts through the utilization of digital certificates issued in the framework of the Public Keys Infrastructure (ICP-Brasil), and takes other measures.

3,235, 4.22.2004 – Deals with transfers of resources as treated in articles 3 and 8 of Law 9,311/1966 and art. 85 of the Transitory Constitutional Provisions Act, the opening, maintenance and operation of current savings deposit accounts with additional earnings, while also altering the Accounting Plan of National Financial System Institutions (Cosif) and the Economic-Financial Consolidation (Conef), for purposes of registration of deposits for investment purposes.

3,236, 5.6.2004 – Alters the base for levying the compulsory deposit and obligatory reserve on demand resources and the additional reserve requirement.

3,237, 5.12.2004 – Approves the new Regulations of the Special System of Settlement and Custody (Selic).

3,238, 5.17.2004 – Creates breakdowns of subgroups and headings in the Accounting Plan of National Financial System Institutions (Cosif) to allow cooperatives to centralize their financial operations.

3,239, 5.27.2004 – Deals with remittances of data on investments of savings deposit resources in real estate financing.

3,240, 6.9.2004 – Determined procedures for the elaboration and remittance of information to Banco Central do Brasil with regard to the simplified accounts, the targeting of demand deposit resources into microcredit operations and payroll credit operations.

3,241, 6.17.2004 – Released title-13 of Import Exchange Operations.

3,242, 6.23.2004 – Altered Floating Rate Exchange Market Regulations.

3,243, 6.24.2004 – Altered the provisions on the utilization of international credit cards.

3,244, 6.30.2004 – Regulated remittances of information to the members of group buyer associations and alters art. 22 of Circular 2,381/1993, which deals with the filing of documents at the headquarters of the entity responsible for administration.

3,245, 7.9.2004 – Announced the sampling dealt with in art. 1 of Resolution 2,809/2000, for purposes of calculating the Basic Financing Rate (TBF) and the Reference Rate (TR).

3,246, 7.14.2004 – Deals with the period of adjustment of financial institutions to the provisions in Circular 3,226/2004.

3,247, 4.17.2004 – Deals with the maintenance of judicial deposits at financial institutions subjected to the privatization process.

3,248, 8.2.2004 – Deals with transfer of the resources treated of in articles 3 and 8 of Law 9,311/1966, and 85 of the Transitory Constitutional Provisions Act, the opening, maintenance and operation of current deposit accounts for investment purposes and the modality of savings deposits with additional earnings, at the same time in which it alters Accounting Plan of National Financial System Institutions (Cosif) and Consolidated Economic-Financial Reports (Conef), for purposes of registering investment deposits.

3,249, 8.2.2004 – Released the regulations on international freight and takes other measures.

3,250, 8.2.2004 – Determined conditions for registration of the resources contracted on the international market through issues of securities denominated in Reals.

3,251, 8.9.2004 – Altered provisions on the utilization of international credit cards.

3,252, 8.30.2004 – Defined procedures for the accounting of repo operations with free operation agreements and creates, maintains, alters and excludes Accounting Plan of National Financial System Institutions (Cosif) headings and subheadings.

3,253, 8.30.2004 – Defined criteria for the verification of compliance with requirements regarding utilization of demand deposits in microfinancing operations and determines procedures for the accounting and remittance of information on such operations.

3,254, 8.31.2004 – Established procedures for Interbank settlement of checks in amounts equal to or greater than the Gross Settlement Reference Value for Checks (VLB-Check), defines this value, determines the maximum period of embargo on the deposit of these checks and takes other measures.

3,255, 8.31.2004 – Deals with the issue and liquidation of charging instruments, creates the Gross Settlement Reference Value for Charging Documents (VLB-Charging), defines this value and adopts complementary measures.

3,256, 9.2.2004 – Deals with the possibility of integrating investments in stocks and in contracts referenced to stocks and stock indices into the current investment deposit account, transfers of resources without levying of the Provisional Contribution on Financial Transactions (CPMF), as well as the scope of the concept of current deposit accounts, thus altering Circular 3,248/2004.

3,257, 9.8.2004 – Altered the base used in levying compulsory deposits and obligatory reserves on demand resources, as well as the additional reserve requirement.

3,258, 9.17.2004 – Defined conditions for anticipation of the payment of operations registered under the terms of Circulars 2,731, dated 12.13.1996, 2,816, dated 4.15.1998, and 3,027, dated 2.22.2001, and Circular Letter 2,795, dated 4.15.1998.

3,259, 9.28.2004 – Altered the accounting of resources received by group buyer associations still in formation.

3,260, 10.28.2004 – Deals with the granting of authorization and cancellation of authorization to administer group buyer associations, transfers of company stock control, divisions, mergers, incorporations and other acts and defines the conditions for the exercise of positions of administration and as members of fiscal councils within the administrative entities of such groups.

3,261, 10.29.2004 – Deals with the investment of resources collected from group buyer associations, the leverage limit for group buyer association administrators and indication of those directly responsible for rendering the information.

3,262, 11.19.2004 – Added a paragraph to article 4 of Circular 3,091, dated March 1, 2002, which defines rules on compulsory deposits and obligatory reserves on time deposits.

3,263, 11.24.2004 – Defined procedures for interbank deposits tied to microfinancing operations (DIM).

3,264, 12.9.2004 – Announced alterations in Import Exchange Regulations.

3,265, 12.15.2004 – Altered operational limits for the carrying out of repo operations.

3,266, 12.15.2004 – Deals with the period permitted for financial institutions to adjust to the provisions of Circular 3,226/2004.

3,267, 12.15.2004 – Altered the period for registration of operations in Recor and for deposit of the additional Farm Activity Guaranty Program (Proagro) payment.

3,268, 12.16.2004 – Altered Floating Rate Exchange Market Regulations – Brazilian Investments Abroad.

3,269, 12.21.2004 – Altered the regulatory provisions related to the standard model of checks.

3,270, 12.21.2004 – Altered and consolidated the provisions regarding the calculation base and deposit of the ordinary contributions of institutions associated to the Credit Guaranty Fund (FGC).

3,271, 12.21.2004 – Altered the regulations on the Financial Operations Registration Module (ROF) of the Declaratory Electronic Registration (RDE) referring to loans among those resident or domiciled in the country and those resident or domiciled abroad, instituted by Circular 3,027, February 22, 2001.

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 Conselho Monetário Nacional (December 31, 2004)

Antonio Palocci Filho
Minister of Finance – President

Nelson Machado
Minister of Planning and Budget

Henrique de Campos Meirelles
Governor of the Banco Central do Brasil

Banco Central do Brasil Management (December 31, 2004)

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

Paulo Sérgio Cavalheiro
Deputy Governor

Sérgio Darcy da Silva Alves
Deputy Governor

Board of Governors Executive Secretariat

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

Consultants for the Board of Governors

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

Central units of Banco Central do Brasil (December 31, 2004)

Financial Administration Department (Deafi)
Edifício-Sede – 2º subsolo
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *Jefferson Moreira*

Internal Auditing Department (Deaud)
Edifício-Sede – 15º andar
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *Eduardo de Lima Rocha*

Banking Operations Department (Deban)
Edifício-Sede – 18º andar
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *José Antônio Marciano*

Foreign Capital and Exchange Department (Decec)
Edifício-Sede – 7º andar
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *Vânio César Pickler Aguiar*

Enforcement Against Illegal Foreign Exchange and Financial Activities Department (Decif)
Edifício-Sede – 18º andar
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *Ricardo Liao*

Department of Records and Information (Defin)
Edifício-Sede – 14º andar
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *Sérgio Almeida de Souza Lima*

Department of Information Systems Management (Deinf)
Edifício-Sede – 2º andar
SBS Quadra 3 Zona Central
70074-900 Brasília (DF)
Head: *Fernando de Abreu Faria*

Legal Department (Dejur)
Edifício-Sede – 11º andar
SBS Quadra 3 Zona Central
700074-900 Brasília (DF)
General Attorney: *Francisco José de Siqueira*

Department of Bank Liquidation (Deliq)
Edifício-Sede – 13º andar
SBS Quadra 3 Zona Central
700074-900 Brasília (DF)
Head: *José Irenaldo Leite de Ataíde*

Department of Open Market Operations (Demab)
Av. Pres. Vargas, 730 – 6º andar
20071-001 Rio de Janeiro (RJ)
Head: *Sérgio Goldenstein*

Department of Material Resources Administration (Demap)
Edifício-Sede – 1º subsolo
SBS Quadra 3 Zona Central
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Head: *Luiz Edson Feltrim*

Department of Economics (Depec)
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Head: *Altamir Lopes*

Research Department (Depep)
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Head: *Marcelo Kfoury Muinhos*

Department of Human Resources Administration (Depes)
Edifício-Sede – 18º andar
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Head: *Miriam de Oliveira*

Department of International Reserves Operations (Depin)
Edifício-Sede – 5º andar
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70074-900 Brasília (DF)
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Department of Planning and Organization (Depla)
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Head: *José Clóvis Batista Dattoli*

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Head: *Cornélio Farias Pimentel*

On-site Supervision Department (Desup)
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Head: *Osvaldo Watanabe*

Currency Management Department (Mecir)
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Head: *José dos Santos Barbosa*

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Regional offices of the Banco Central do Brasil (December 31, 2004)

1st Region – Regional Office in Belém (ADBEL)
Boulevard Castilhos França, 708 – Comércio
Caixa Postal 651
66010-020 Belém (PA)
Regional Delegate: *Maria de Fátima Moraes de Lima*

Jurisdiction: Acre, Amapá, Amazonas, Pará, Rondônia and Roraima

2nd Region – Regional Office in Fortaleza (ADFOR)
Av. Heráclito Graça, 273 – Centro
Caixa Postal 891
60140-061 Fortaleza (CE)
Regional Delegate: *Luiz Edivam Carvalho*

Jurisdiction: Ceará, Maranhão and Piauí

3rd Region – Regional Office in Recife (ADREC)
Rua Siqueira Campos, 368 – Santo Antônio
Caixa Postal 1.445
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, 1.211 – 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, 1.605 – 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, 1.804 – Cerqueira César
Caixa Postal 8.984
01310-922 São Paulo (SP)
Regional Delegate: *Fernando Roberto Medeiros*

Jurisdiction: São Paulo

8th Region – Regional Office in Curitiba (ADCUR)

Rua Carlos Pioli, 133 – Bom Retiro
Caixa Postal 1.408
80520-170 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

ABDI	Brazilian Agency for Industrial Development
ACSP	São Paulo Trade Association
ADR	American Depositary Receipts
AGF	Federal Government Acquisitions
AmBev	Americas' Beverages Company
Anatel	National Telecommunications Agency
Anda	National Association for Fertilizer Dissemination
Aneel	Brazilian Electricity Regulatory Agency
Anfavea	National Association of Automotive Vehicle Manufacturers
ANP	National Petroleum Agency
Apex-Brasil	Trade and Investment Promotion Agency
Bacen	Central Bank of Brazil
Bancoob	Banco Cooperativo do Brasil
Bansicredi	Banco Cooperativo Sicredi
BCB	Central Bank of Brazil
BIS	Bank for International Settlements
BNDES	Brazilian Development Bank
BNDESpar	BNDES Participações S.A.
BoE	Bank of England
BoJ	Bank of Japan
Bovespa	São Paulo Stock Exchange
BSA	Balance Sheet Approach
C Bonds	Capitalization Bonds
CAF	Andean Development Corporation
Camex	Foreign Trade Council
CCL	Contingent Credit Lines
CCR	Reciprocal Credit and Payment Agreement
CDA	Agriculture and Livestock Deposit Certificate
CDB	Caribbean Development Bank
Cemla	Center of Latin American Monetary Studies
Cepal	Economic Commission for Latin America and the Caribbean
CI	Import Document
Cide	Contribution on Intervention in the Economic Domain
CMC	Mercosul Common Market Council
CMN	National Monetary Council
CNI	National Confederation of Industry
Codex	Committee on External Debt Management
Cofig	Export Financing and Guarantee Committee
Cofins	Social Contribution on Social Security Financing
Conab	National Supply Company
Conef	Consolidated Economic-Financial Reports
Conportos	National Commission on Public Security in Ports, Terminals and Navigable Waterways
Copom	Monetary Policy Committee

Cosif	Accounting Plan of National Financial System Institutions
Cosipar	Companhia Siderurgica do Pará
CPMF	Provisional Contribution on Financial Transactions
CPR	Rural Product Bill
CPSS	Contribution to the Civil Service Social Security Plan
CRA	Agribusiness Receivables Certificate
CSLL	Social Contribution on Net Profit
CVM	Securities and Exchange Commission of Brazil
DAP	Aptitude Declaration to Pronaf
DAS	Debt Analysis Sustainability
DAX	Deutscher Aktienindex
DCB	Debt Conversion Bond
Decex	Department of External Trade Operations
DI	Import Declaration
DI	Interfinancial Deposit
Dieese	Inter Trade Union Department of Statistics and Socio-Economic Studies
DIM	Interbank deposits tied to microfinancing operations
DIR	Interbank Deposits Tied to Rural Credit
DLSP	Net Public Sector Debt
DOC	Credit documents
DPMFi	Internal federal public securities debt
DR	Rural Invoice
ECB	European Central Bank
EGF	Federal Government Loans
EGF/SOV	Federal Government Loans with no Sales Option
EI	Eligible Interest Bonds
Eletrobrás	Brazilian Power Stations
Embi+	Emerging Market Bond Index Plus
EU	European Union
FAT	Worker Support Fund
FCO	Constitutional Fund for the Financing of the Central-West Region
FDI	Foreign Direct Investments
Fecomercio SP	Trade Federation of the State of São Paulo
FGC	Credit Guaranty Fund
FGTS	Severance Fund Contribution
FGV	Getulio Vargas Foundation
FIF	Financial Investment Funds
Finame	Special Industrial Financing Agency
Flirb	Front-loaded Interest Reduction Bonds
FMM	Merchant Navy Fund
FNE	Constitutional Fund for the Financing of the Northeast
FNO	Constitutional Funds for the Financing of the North
FOB	Free on Board
FPE	State Revenue Sharing Funds
FPEX	Industrialized Products Export Compensation Fund
FPM	Municipal Revenue Sharing Funds
FSA	Financial Sector Assessment
FSAP	Financial Sector Assessment Program

FSF	Financial Stability Forum
FSSA	Financial System Stability Assessments
FTAA	Free Trade Area of the Americas
FTSE 100	Financial Times Securities Exchange Index
Funcafé	Coffee Economy Defense Fund
Funcex	Foreign Trade Study Center Foundation
Fundef	Fund for the Support and Development of Primary Education and Enhancement of the Teaching Career
GATT	General Agreement on Tariffs and Trade
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HHI	Hirschman-Herfindahl Index
HIPC	Highly Indebted Poor Countries
IBGE	Brazilian Institute of Geography and Statistics
Ibovespa	São Paulo Stock Exchange Index
IBRD	International Bank for Reconstruction and Development
ICC	Consumer Confidence Index
ICMS	Tax on the Circulation of Merchandise and Services
ICP-Brasil	Public Keys Infrastructure
ICV	Cost of Living Index
IDB	Inter-American Development Bank
IGP-DI	General Price Index – Domestic Supply
IGP-M	General Price Index – Market
II	Import Tax
IIF	Institute of International Finance
IIP	International Investment Position
IIRSA	Regional Infrastructure Integration in South America
IMF	International Monetary Fund
IMO	International Maritime Organization
INCC	National Cost of Construction Index
INPC	National Consumer Price Index
INSS	National Social Security Institute
IOF	Tax on Credit, Exchange and Insurance Operations, or Stock or Security Operations
Iosco	International Organization of Securities Commissions
IPA-DI	Wholesale Price Index – Domestic Supply
IPCA	Broad National Consumer Price Index
IPC-Br	Consumer Price Index – Brazil
IPC-Fipe	Consumer Price Index – Institute of Economic Research Foundation
IPI	Industrialized Products Tax
IR	Income Tax
IRPJ	Corporate Income Tax
ISPS Code	International Ship and Port Facility Security Code
Laia	Latin American Integration Association
LEC	Special Trade Credit Line
LFT	National Treasury Financing Bills

LFT-B	National Treasury Financing Bills – Series B
LNG	Liquified Natural Gas
Loas	Organic Social Assistance Law
LTN	National Treasury Bills
LPG	Liquid Petroleum Gas
Mapa	Ministry of Agriculture, Livestock and Supply
mbd	Million barrels per day
MDA	Ministry of Agrarian Development
MDIC	Ministry of Development, Industry and Commerce
Mercosul	Southern Common Market
Moderagro	Program of Agricultural Modernization and Conservation of Natural Resources
Moderfrota	Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters
Moderinfra	Program of Incentives to Irrigation and Storage
Modermaq	National Industrial Structure Modernization Program
MTE	Ministry of Labor and Employment
MYDFA	Multi-Year Deposit Facility Agreement
Nafta	North American Free Trade Agreement
Nasdaq	National Association of Securities Dealers Automated Quotation
NBCE	Banco Central do Brasil Note – Special Series
NMB	New Money Bond 1994
NP	Promissory Note
NTN-B	National Treasury Note – Series B
NTN-C	National Treasury Note – Series C
NTN-D	National Treasury Note – Series D
NTN-F	National Treasury Note – Series F
NTN-I	National Treasury Note – Series I
Opec	Organization of the Petroleum Exporting Countries
Oscip	Organization of the Civil Society for Public Interest
p.p.	Percentage points
PAP	Crop and Livestock Plan
Pasep	Program of Civil Service Asset Formation
PED	Survey of Employment and Unemployment
PEP	Production Outflow Awards
PIM	Monthly Industrial Survey
PIS	Program of Social Integration
PITCE	Industrial, Technological and Foreign Trade Policy
PMA	Policy Monitoring Agreement
PMC	Monthly Survey of Trade
PME	MONTHLY Employment Survey
PNMPO	Targeted Productive Microcredits National Program
PPP	Public-Private Partnerships
Procera	Special Program of Credits to Agrarian Reform
Prodeagro	Agribusiness Development Program
Prodecoop	Program of Cooperative Development for Aggregating Value to Crop/ Livestock Production
Proex	Export Financing Program

Proger Rural	Rural Employment and Income Generation Program
Pronaf	National Program for Strengthening Family Agriculture
Prouni	University for All Program
PSH	Program of Subsidies to Housing of Social Interest
RDE	Electronic Declaratory Registration
Recof	Special Customs System for Industrial Deposit with Information System Control
Reporto	Port Restructuring Program
RGPS	General Social Security System
RLA	Net Adjusted International Reserves
ROF	Financial Operation Record Module
Rosc	Reports on the Observance of Standards and Codes
SBA	Stand-By Accord
SBPE	Brazilian System of Savings and Loans
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
Seade	State System of Data Analysis Foundation
Secex	Foreign Trade Secretariat
Selic	Special System of Clearance and Custody
SITC	Standard International Trade Classification
SRF	Secretaria da Receita Federal
SRF	Supplemental Reserve Facility
SFH	Housing Financing System
SFN	National Financial System
Sisbacen	Central Bank Information System
Sisbov	Brazilian System of Identification and Certification of Cattle and Buffalo Origin
Siscomex	Integrated Foreign Trade System
SPC	Secretariat of Complementary Social Security
SRF	Supplemental Reserve Facility
SRP	Social Security Revenue Secretary
STF	Federal Supreme Court
TBF	Basic Financial Rate
TIM	Trade Integration Mechanism
TJLP	Long-Term Interest Rate
TN	National Treasury
TR	Reference Rate
UNCTAD	United Nations Conference on Trade and Development
VEP	Product Marketing Value
VLB-Check	Gross Settlement Reference Value for Checks
VLB-Charging	Gross Settlement Reference Value for Charging Documents
WTI	West Texas Intermediate
WTO	World Trade Organization