Economic-Financial Relations with the International Community

Trade policy

One of the highlights of 2005 foreign trade policy was regulation and implementation of important aspects of the Industrial, Technological and Foreign Trade Policy (PITCE) adopted in 2004. Interacting with measures implemented in the foreign trade sector to further reinforce the sustainability of the rapid growth that has marked the export sector in recent years, the objective of PITCE is to increase business investment rates and productive efficiency. At the same time, the government has taken an active stance in fostering exports through implementation of a trade promotion strategy that has succeeded in diversifying and expanding markets for Brazilian foreign sales, while simplifying and streamlining foreign trade operations.

With respect to the external negotiating agenda, the country played an active role in the Hong Kong Ministerial Meeting of the World Trade Organization (WTO), convened for the purpose of jumpstarting and finally concluding the Doha Round of trade negotiations. However, the results were disappointing since the questions of greatest interest to Brazil, such as negotiation of modalities or, in other words, definition of subsidy and tariff cutback percentages, as well as negotiations regarding access to agricultural markets, were postponed to 2006. As far as Mercosul-FTAA and Mercosul-European Union trade talks are concerned, negotiations have practically ground to a halt awaiting the outcome of multilateral negotiations at the WTO.

The external scenario described above tended to intensify pursuit of bilateral agreements and deepening of the South-South dialogue. The best example of this was the Economic Cooperation Framework Agreement formalized by the Mercosul countries and Gulf Cooperation Council in the month of May. In the Mercosul context, the integration process achieved limited success, including the December announcement of Venezuela's decision to join the bloc, though this will require detailed negotiations before coming to fruition. Another decision of importance to the integration process occurred in the energy sector, resulting in the initiative to build an oil refinery in Pernambuco, while undertaking studies on the possibility of a gas pipeline between Venezuela and the Southern Cone nations, passing through Brasil. The major challenge facing Mercosul has been the difficulty encountered in conciliating deepening of the integration process with creation of safeguard mechanisms, barriers to regional trade development as proposed by Argentina, as well as noncompliance with past agreements, such as liberalization of the bloc's automotive trade as of 1.1.2006, as a result of another decision taken by the Argentine government.

In the PITCE framework, Provisional Measure 255, dated 7.1.2005, was converted into Law 11,196, dated 11.22.2005, implementing several important points built into Provisional Measure 252, which had not been approved. This Law specifies measures aimed at reducing taxes on productive investments, stimulating software sector development and social inclusion, while encouraging technological innovation. The major points are as follows:

a) institution of Repes, with the objective of allowing Brazil to participate more intensively in exports of Information Technology (IT) services, at prices compatible with those practiced on the international market. To achieve this, levying of PIS/Pasep and Cofins on internal market purchases and imports of products and services to be utilized in the development of IT software and services for export will be suspended;
b) creation of Recap, suspending PIS/Pasep and Cofins on sales and imports of new machines and equipment acquired by companies in which exports account for 80% or more of total revenues. The government announced six projects in the Recap framework in a total amount of US$10 billion. These projects would generate significant investments in the states of Maranhão and Ceará (steel mills) and Mato Grosso do Sul (paper and pulp factory). Recap was regulated by Decree 5,649, published on 12.30.2005; and
c) the Law also introduced a series of other measures in the areas of technological innovation, building industry incentives, small businesses, regional development, long-term financing and capital market operations, as well as improvements in taxation procedures.

Also in the PITCE framework, another important government measure was issue of Decree 5,563, dated 10.13.2005, regulating the Technological Innovation Law – Law 10,793, dated 12.2.2004, introducing a series of mechanisms designed to stimulate technological innovation and research. By facilitating interaction among universities, research institutes and the productive sector, stimulating development of innovative products and processes, this Law is designed to impact the nation's competitive standing. Among the various mechanisms introduced by this Law, the most important involve nonrefundable grants of public resources channeled directly to companies, particularly micro and small businesses.

Also in the area of technological development, the federal government issued MCT/MDIC Interministerial Directive 606, dated 9.27.2005, institutionalizing the National Program of Technological Support to Exports (Progex), with the objective of fostering technological extension measures among micro, small and medium exporters or businesses that have export potential. Another measure aimed at stimulating scientific development in the biosafety and biotechnology fields was introduced by Law 11,105 (Biosafety Law), published on 3.28.2005. This Law set down regulations on items II, IV and V of paragraph 1 of article 225 of the Federal Constitution, defining safety rules and mechanisms for inspection of genetically modified organisms (GMO) and their derivatives, created the National Biosafety Technical Council and dealt with National Biosafety Policy. Various provisions in the Law were regulated by Decree 5,591, dated 11.23.2005. Enhancing Brazilian agricultural competitiveness depends on research in this area, as exemplified by increasing participation of genetically modified soybeans in Brazilian production and exports.

Another PITCE component is the National Industrial Structure Modernization Program (Modermaq), approved by BNDES in August 2004 with an initial budget allocation of R$2.5 billion, later raised to R$5.5 billion by CMN Resolution 3,330, dated 11.25.2005. Modermaq is designed to provide financing for new nationally produced machines and equipment and has the general objective of creating the conditions required for industries located in Brazilian territory to renovate and adapt their productive structures on a consistent basis. Another measure taken to stimulate productive investment and technological modernization of national companies was reduction of the IPI rate on capital goods acquisitions to zero, introduced by Decrees 5,468, dated 6.16.2005, and 5,618, dated 12.14.2005.

In this context, one should mention the ex-tariff system, which makes it possible to reduce the Import Tax rate on capital goods and informatics and telecommunications products when there is no nationally produced similar product. The Foreign Trade Council (Camex) issued ten resolutions during the course of the year, itemizing the products entitled to take advantage of these benefits. The ad valorem Import Tax rate is 2% when the good in question is produced in a Mercosul member country and zero when this production does not exist. The Mercosul Common Market Council (CMC) issued Decision 40/2005, postponing application of the Common System of Capital Goods Not Produced in Mercosul, originally approved by Decision 34/2003, which had set 1.1.2006 as the implementation date. Consequently, the bloc’s member countries can maintain their national import system for another three years. As regards the Common System of Informatics and Telecommunications Products (BIT), CMC Decision 33/2003 forecast approval for December 2005, later postponed to 12.31.2006 by CMC Decision 40/2005. At the same time, 1.1.2009 was defined as the date for application of the TEC review proposal for BITs, calling for application of the TEC convergence schedule as of 1.1.2007.

Among the measures taken to improve the business climate, one should highlight new exchange regulations for the export sector, presented in detail in the Exchange Policy section further on, as well as the Business Registration Simplification Program, introduced by MDIC in May with the objective of reducing both bureaucratic tangles and the time it takes to open and close businesses.

Trade promotion policy was intensified through trade missions abroad, with an increasingly higher level of coordination between the government and the private sector.

Among these missions, particular mention should be made of recent presidential visits to Africa in April and South Korea and Japan in May. In the first case, the Brazilian government prioritized growth in trade with the countries of the African continent, particularly Nigeria, which already accounts for the major share of Brazilian-African trade, due primarily to Brazilian oil imports. The visit identified significant potential for increased exports of manufactured goods, grain, sugar and construction services. In the latter case, the mission focused on attracting investments to the segments of infrastructure and information technology, while promoting Brazilian sales of ethanol. With regard to Apex-Brazil initiatives, the first foreign distribution center of Brazilian products was opened in Miami, with the objective of providing small and medium exporters with greater foreign market access. The second center is scheduled for opening in Frankfurt in 2006.

Health considerations have taken on particular importance in the Brazilian foreign trade agenda, mainly in light of the growing importance of meat product exports. For quite some time now, this sector has been marked by instability in various countries as a result of outbreaks of avian flu and mad cow disease and, in the case of Brazil, foot and mouth disease in states in which the disease had been considered under control for many years. With outbreak of this disease, several important importer countries, including Russia, imposed embargos on Brazilian beef purchases during the course of the year. Though these decisions did not have a significant impact on the sector's performance, the government adopted measures aimed at minimizing both problems:

a) Institution of an Interministerial Work Group with the objective of coordinating federal government activities aimed at containing the spread of foot and mouth disease in the country, negotiating the lifting of restrictions imposed by importer markets and providing emergency assistance to the population affected by the social and economic repercussions of the disease;
b) the decision issued in Ministry of Agriculture, Livestock and Supply (Mapa)/SDAC Normative Instruction 6, dated 10.7.05, determining that all animals originating in breeding facilities that channel their products to the export market would be released for slaughter once the animals had been registered in the National Data Bank for at least 90 days;
c) Provisional Measure 265, dated 10.28.2005, channeling extraordinary credits to Mapa to be used in providing assistance to the population in areas affected by the outbreak of foot and mouth disease; and
d) institution of the Interministerial Executive Group to monitor the situation and propose emergency measures as required to implement the Brazilian Influenza Pandemic Contingency.

Plan, aimed at both preventing and controlling the disease within the nation's borders. Another measure of importance in the field of health protection was Mapa Normative Instruction 4, dated 3.17.2005, creating Vigiagro. This measure determined that imports and exports of animals, plants, their products and subproducts, as well as raw materials and inputs used in the crop/livestock sector are, when subject to regulations or capable of transmitting pests or disease, subject to inspection by the Mapa Crop/Livestock Surveillance System.

In the area of trade defense, mention should be made of Decrees 5,556 and 5,558, dated 10.05.2005, regulating safeguard measures applicable to China. The first of these contains rules covering the so-called transitory safeguards foreseen in article 16 of the Accession Protocol of China to the WTO and applicable to all products, with the exception of textiles. There are specific safeguards for textiles and apparel in paragraph 242 of the Work Group Report, regulated by Decree 5,558. These documents are distinct instruments with their own specific procedures and deadlines. In the case of textiles, the safeguards will be valid until December 2008, while the others will remain in effect until December 2013. Fifty-one antidumping and safeguard measures had been applied by year's end, involving 35 products and 27 countries or blocs, led by China, followed by the United States and India.

Disbursements under the terms of BNDES-Exim export credit lines totaled US$5.9 billion, a new record for the bank's portfolio and 51.8% more than in the previous year. The post-shipment credit line, which focuses on marketing operations, accounted for 45% of the total, or US$2.7 billion, up 39% over the previous year. The three preshipment lines are concentrated on financing production of goods for export, with total disbursements of US$3.2 billion, up 64.8% in the year. BNDES-Exim encompasses all projects related to the 2003 Regional Infrastructure Integration in South America (IIRSA). Disbursements totaling US$300 million were made in that year, at the same time in which contracting operations totaling US$1.1 billion were approved. These operations included the following countries and projects: Argentina, San Martin Gas Pipeline (US$200 million) and the Northern Gas Pipeline (US$37 million); Chile, expansion of the Santiago subway (US$182 million); Paraguay, the Route 10 Highway (US$77 million); Venezuela, La Vueltosa Hydroelectric Plant (US$121 million); Line 4 of the Caracas subway (US$108 million); Line 3 of the Caracas subway (US$78 million) and Fondafa (US$20 million).

Compared to the previous year, the value of Proex operations in 2005 increased sharply, as a result of the performances of both the equalization and financing lines. Proex disbursements totaled US$3.5 billion, with US$492 million (up 50%) being channeled into financing and US$3 billion into interest rate equalization. In the financing modality, the number of operations rose from 1,300 to 1,700, while the number of exporters increased from 409 to 452. Using the same basis of comparison, exports by large companies increased 81.8% to a total of US$349 million, while foreign sales of micro, small and medium businesses reached a level of US$143 million, up 6.2%.

Contrary to what occurred in the previous year, the participation of large scale companies in exported value increased from 59% to 71% in 2005, while the share held by micro, small and medium businesses dropped to 29%. Despite the decline in relative participation, the number of operations with micro, small and medium scale companies rose sharply from 1,263 to 1,705, while the number of export companies increased from 398 to 441. Excluding operations in the service sector, which accounted for 57% of Proex-Financing operations in the year, the major sectors were as follows in order of importance: agribusiness, 38%; machines and equipment, 16%; textiles, leather goods and footwear, 16%; and transportation, 10%. The Latin American Integration Association (Laia) and the European Union member countries acquired respective shares of 28% of exports, followed by the nations of Africa and the Nafta, with 15% and 13%, in that order.

Exports in the equalization modality totaled US$3 billion, compared to US$2.1 billion in 2004, while the number of participating exporters dropped from 44 to 32 and the number of operations increased from 1,600 to 1,700. Issuance of NTN-I, used as backing for interest rate equalization operations, totaled US$231,5 million, against US$152,7.million in 2004, up 51.6. %. In the year, 73% of the operations involved the transportation sector, including Embraer foreign sales, followed by machines and equipment, with 21%. Nafta was targeted for 47% of exports; the European Union, with 10%; other Laia member countries, with 12%; and Apec member countries, with 9%. Just as occurred in previous years, operations were heavily concentrated among large scale enterprises, with 82% of total operations and 93% of value.

With respect to operations processed under the terms of the Reciprocal Credit and Payment Agreement (CCR), the tendency toward growth in the surplus continued through 2005, due primarily to transactions with Venezuela. The real cumulative balance closed in a creditor position of US$1.2 billion, based on exports totaling US$1.3 billion and imports in the amount of US$43 million, with growth of 94.8% compared to 2004. Following the example of 2004, Venezuela was Brazil's primary partner in the Agreement framework, accounting for 62.6% of total Brazilian exports in the amount of US$796 million. This figure represented 35.9% of overall Brazilian sales to Venezuela. Argentina was the second most important partner, with total CCR-based exports totaling US$101 million, representing 1% of total Brazilian exports to that country. The following countries were Ecuador, US$92.6 million, and Chile, US$78.9 million. With regard to CCR-based imports, US$24.5 million originated in Chile; US$12.4 million in Argentina; and US$3.3 million in Uruguay. Taken together, these operations corresponded to an overall total of more than 90% of total imports under the terms of the agreement.

The general lists of TEC exceptions were extended for an additional five years by the December 2005 Mercosul Summit, at which Uruguay held the pro tempore presidency. The lists contained 100 products from each of the four member countries, with validity through 12.31.2005; 125 additional items for Uruguay and 150 for Paraguay, valid until 2010; and an additional 399 products with exceptions for Paraguay, through

2010. According to CMC Decision 38/2005, elimination of the list of 100 products was postponed to the end of 2008, while a schedule for eliminating the Brazilian and Argentine lists of exceptions as of February 2008 was also approved. Uruguay and Paraguay will be allowed to maintain their lists of exceptions with no reductions through December 2008. At the same time, the additional lists of exceptions for Paraguay and Uruguay and the additional list of 399 products for Paraguay will continue in effect until the original deadline of 2010. Another important measure was CMC Decision 54/2004, dealing with elimination of dual levying of the TEC and distribution of customs revenues according to the system approved by CMC Decision 37/2005. As of 1.1.2006, the possibility of incorporating third party inputs into regional trade will be broadened, since the products listed by the respective governments with zero tariff rates and a common preference margin of 100% will be considered as originating in Mercosul not only for purposes of freely circulating within the bloc, but also for incorporation into intrabloc productive processes.

Exchange policy

In 2005, exchange policy was implemented in such a way as to continue the strategy of reducing public sector exposure, an effort that began in 2003, while replenishing the nation's reserve position through Central Bank spot market acquisitions or National Treasury contracting operations aimed at settling debts for which that institution was liable. Externally, achievement of these objectives was aided by abundant international market liquidity and, consequently, lesser risk aversion among investors in relation to emerging country debt. With these circumstances, the flow of external resources to the country increased markedly. On the domestic front, the factor most responsible for the strong current transaction surplus was robust growth in the trade balance surplus. This was the third consecutive positive annual result and contributed significantly to the ongoing process of balance of payments structural adjustment. Conjugation of these factors pushed the Brazil country risk classification to an unprecedented low, making it possible to intensify the strategy of rebuilding reserves and reducing the exchange debt.

On 2.2.2005, the Central Bank initiated weekly exchange swap auctions with the objective of accelerating the reduction in public sector exchange exposure. In these operations, the institution assumed an active position in exchange rate growth and a passive position in domestic interest rates. With no commitment to a specific nominal exchange rate, this program was guided by the principle of operating only when market conditions were consistently favorable. In this way, the program avoided any worsening of exchange market volatility, as well as interference with the exchange rate float tendency. On 11.11.2005, the Central Bank announced alterations in the rules governing reverse exchange swap auctions, determining that such operations could be carried out on any day of the week and not only on a weekly basis and that their characteristics should be announced on the day prior to the auction. In the year, net redemptions of exchange instruments (bonds and swaps) totaled US$26.5 billion, thus reducing the share of the internal public federal securities debt exposed to exchange rate variation from 9.3% in December 2004 to 1.2% in December 2005.

Net Central Bank market purchases totaled US$21.5 billion in the year, surpassing the US$18.8 billion exchange market surplus registered in the same period. These operations were concentrated in the first quarter, US$10.2 billion, and final quarter of the year, US$11.3 billion. With respect to National Treasury purchases on the market, settlements totaled US$9.3 billion in 2005, including US$2.4 billion in the first half of the year and US$6.9 billion in the second. Despite the volume of purchases, the dollar continued depreciating against Brazilian currency.

As measured by J.P. Morgan's Embi+, the spread moved from 382 points at the end of December 2004 to 311 in the same period of 2005, reflecting a reduction of 18.6%. This index registered its highest value of the year, 479 points, on April 18 and its lowest, 303 points, on December 22. This trajectory reflected both foreign investor confidence in the strengthening of Brazil's macroeconomic fundamentals, and improvement in Standard & Poor's (S&P) rating of Brazil from stable to positive in the month of November, thus aligning itself with the ratings issued by the other two major rating agencies – Moody's and Fitch. In its announcement, S&P stressed continued improvement in external indicators, as well as a much brighter outlook in terms of the country's fiscal dynamics. For example, the solvency indicators of the Brazilian economy moved consistently downward, as the external debt/exports ratio fell from 2.9 in 2003 to 2.1 in 2004 and 1.4 in 2005.

Taken together, these factors stimulated inflows of external resources and aided in strengthening the real against the dollar. In the year, issuance of medium and long-term private sector securities (bonds, notes and commercial papers) totaled US$7.1 billion. With respect to sovereign bond operations, issuance totaled US$12.5 billion, including US$4.5 billion in refinancing through exchanges of C- Bonds for A-Bonds, on 7.22.2005, for the purpose of lengthening the debt maturity profile. The increase in longer-term external loans denominated in real was another indicator of increased foreign investor confidence in the Brazilian economy. In early 2005, the maximum maturity of these operations reached five years, compared to the 10-year September operation, in which the Brazilian government obtained resources equivalent to US$1.5 billion in its first sovereign issue in real. In the year, amortization of bonds of the Republic totaled US$9.7 billion, with US$4.5 billion referring to exchanges of C-Bonds for A-Bonds and US$1.1 billion to the October exercise of a call option for the remaining stock of C-Bonds still on the market.

When the 2003 extension of the IMF agreement terminated in March, it was not renewed. This marked conclusion of the process in which, since the end of 1998, Brazil had never once requested waivers for noncompliance with the program's targets, nor did it fall behind for reasons of noncompliance with specific clauses in any of the periodic reviews. Having replenished its international reserve position and managed to improve management of Central Bank assets and liabilities, the country effected anticipated payment of US$5 billion to the IMF on July 22 against the Supplemental Reserve Facility (SRF). As the external sector of the Brazilian economy continued improving, on December 22 and 23, the Brazilian government anticipated total amortization of the remaining stock of IMF loans in the credit tranche line, totaling US$15.5 billion, resulting in a savings of approximately US$900 million in interest payments over a two-year period. At the end of December, international reserves closed at US$53.8 billion, down US$10.5 billion compared to the previous month's balance. Basically, this reduction was caused by anticipated payment of liabilities with the IMF and growth of almost US$1 billion in relation to the amount registered in December 2004, US$52.9 billion.

Brazilian currency has consistently appreciated against the United States dollar since mid-2004. On the 11.11.2005, the dollar reached its highest quote for the year, closing at R$2.1633/US$, based on the Ptax sale rate, the lowest level since 4.12.2001. As already mentioned, this fact coincides with the change introduced by the monetary authority into the rules covering reverse exchange swap auctions, despite the fact that the largest volume of net Central Bank purchases of exchange in the year, totaling US$7.9 billion, were concentrated precisely in the last two months. Based on the Ptax-sale rate, the United States currency closed the year at R$2.3407/US$, corresponding to a nominal increase of 6.1% compared to the figure for 11.30.2005. For the third consecutive year, the dollar lost value against the real, accumulating a nominal reduction of the 11.8% against the closing rate at the end of the previous year, according to Ptax-sale rates. In the same sense, real rate of exchange indices deflated by the IPA-DI and by the IPCA showed appreciation of the real against the American dollar equivalent to 13.3% and 20.5%, respectively, One should further emphasize that the highly favorable situation of the external sector of the Brazilian economy made it possible for the Central Bank to issue Circular 3,307, dated 12.30.2005, eliminating the demand that banks authorized to operate on the exchange market deposit their excess long positions at the Central Bank.

As far as exchange rules are concerned, on 3.4.2005, the CMN announced unification of the Free Rate Exchange Market (MCTL) and the Floating Rate Exchange Market (MCTF), as well as new exchange regulations for the export sector. These measures were implemented through CMN Resolutions 3,265 and 3,266, both dated 3.6.2005, regulated by Bacen Circular 3,280, dated 3.16.2005, which introduced the International Exchange and Capital Market Regulations (RMCCI), dealing with operations in national or foreign currency carried out between individual persons or corporate entities resident, domiciled or headquartered in the country and individuals or corporate entities resident, domiciled or headquartered abroad. These measures should be viewed in the context of the program of economic reform, designed to enhance the productivity of the Brazilian economy, just as occurred when measures were adopted in the areas of the credit market, capital market, insurance market, taxation, improvements in the business environment and reductions in the costs of resolving disputes. This initiative is aimed at increasing transparency in remittances and reductions in the cost of exchange operations. The major component of these regulations was publication of the New Exchange Regulations for International Freights, in August 2004.

According to the terms of CMN Resolution 3,265, currency remittances abroad are permitted, provided they be carried out through the banking network authorized to operate in exchange and with identification of the remitting agent and the party to whom the funding is addressed. Aside from this, once exchange markets had been unified, the differences in rules between the MCTL and MCTF literally disappeared, as the market was organized under a single set of rules. The purpose here is to sharply reduce the costs of exchange operations, enhancing the efficiency of the economy and achieving greater monetary authority agility. At the same time, the Central Bank will no longer issue exhaustive details on the procedures to be followed. It will be enough for the banks involved to require the necessary documentation for each operation, provided that the economic foundations, legality and legitimacy of the operation be demonstrated. In international transfers in real to accounts of nonresidents, known as CC5 accounts, operations in real will continue to exist, provided that they involve the duly identified nonresident depositor's own resources, subject to the same rules as foreign currency operations.

Viewed in terms of CMN Resolution 3,266, exchange coverage is permitted in up to 210 days as of shipment of the merchandise or rendering of the service, or 30 days from maturity of operations backed by Credit Registration (RC). In this case, the exporter has the option of choosing the most suitable moment for selling the foreign currency to the bank. Another change refers to the sending of documents abroad. This can be done directly to the foreign importer with the condition that, if exchange contracting takes place, there must be a consensus between the bank and the exporter, requiring no more than a declaration on the part of the exporter in order to earmark the contract to the Export Registration (RE). Another innovation is permission in specific situations for the exchange contract to be earmarked to the RE, after being approved in Siscomex by a third-party, as occurs in cases of merger, split-ups or acquisitions of companies, judicial decisions, and companies from the same economic group. In summary, aside from representing a simplification of regulations, these measures are expected to produce practical consequences, such as facilitating inspection of transactions that must necessarily be registered in exchange contracts.

On 9.12.2005, Bacen Circular 3,291 altered several RMCCI rules, to go into effect as of 9.19.2005. Among exchange-related alterations, the most important were permission to break payment orders down into various payments, provided that they be settled in up to 90 days as of the date on which the resources become available, including anticipated payments (receptions) of export operations; and authorization to operate in foreign currency at net value in exchange contracts involving inflows and remittances, settled on the same day and with the same debtor and creditor. Among the changes introduced into the export exchange system, one should mention the following: in specific cases, it is no longer obligatory to earmark exchange contracts to the RE; and the requirement of prior authorization in cancellations of export exchange contracts without the merchandise having been shipped or without rendering of the specific service is eliminated, provided that the provision in Law 7,738/89 be duly observed. In those cases in which the merchandise has already been shipped or in which the service has already been provided, cancellation of the respective exchange contract can only be done once certain requirements are complied with, for example, proof that the judicial proceedings aimed at executing the debt against the foreign debtor have already begun, when the debtor has the obligation to effect payment equal to or greater than US$50,000 to the national exporter, independently of the value of the cancellation. The limit for operations through international postal services with payment at destination was altered from US$10,000 to US$20,000, thus adjusting them to the new simplified exchange limits.

Exchange operations

The overall 2005 exchange market result generated net inflows of US$18.8 billion in contracted resources, compared to US$6.4 billion in 2004. This was the best result since 1992, when the net balance closed at US$20.8 billion. Net inflows in the commercial segment reached US$51.8 billion, against US$36.7 billion in 2004, the best result since the historical series was first calculated. More specifically, the increases came to US$29.6 billion, 31.6%, in exports and US$14.5 billion, 25.5%, under imports. In the financial segment, contracting resulted in net outflows of US$32.5 billion, US$7.7 billion greater than in 2004. In this case, growth came to US$35.6 billion, 42.1%, in purchases of foreign currency and US$43.3 billion, 39.6%, in sales. Up to mid-March when the RMCCI went into effect, contracting operations with institutions abroad had registered net remittances of US$492 million, against US$5.6 billion in the previous year.

Despite strong net inflows of resources during the course of the year, banks remained in a short position in the exchange spot market, moving from US$1.4 billion at the end of 2004 to US$4.1 billion at the close of 2005, indicating net Central Bank purchases and National Treasury market acquisitions of exchange during the year.

Current accounts and the financial account turned in simultaneous positive performances, resulting in an abundant supply of foreign resources on the exchange market, with exchange rate appreciation of 11.8% in 2005. The process of appreciation of the real against the dollar, begun in September 2004, continued in 2005, as the Brazilian currency closed the year at R$2,3407 per dollar.

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)
2002	60 083	39 756	20 327	69 780	93 990	-24 209	-3 882	-9 107	-12 989
2003	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
2005									
Jan	7 409	5 410	2 000	6 537	6 757	- 221	1 779	- 440	1 340
Feb	7 963	4 444	3 519	8 691	8 271	420	3 939	4	3 943
Mar	10 264	5 707	4 557	10 018	11 489	-1 470	3 086	- 56	3 030
Apr	8 846	5 339	3 507	8 396	11 372	-2 976	531	0	531
May	10 284	6 026	4 258	6 893	11 961	-5 069	- 811	0	- 811
Jun	11 369	6 059	5 310	10 059	14 640	-4 581	728	0	728
Jul	11 274	5 723	5 552	11 432	14 949	-3 518	2 034	0	2 034
Aug	11 122	6 249	4 873	10 387	15 267	-4 880	- 7	0	- 7
Sep	9 764	6 741	3 023	9 693	14 015	-4 322	-1 298	0	-1 298
Oct	11 926	6 268	5 658	9 265	11 137	-1 872	3 786	0	3 786
Nov	10 429	7 112	3 317	11 853	12 400	- 548	2 769	0	2 769
Dec	12 370	6 172	6 199	17 019	20 445	-3 426	2 773	0	2 773
Year	123 021	71 248	51 772	120 241	152 703	-32 462	19 310	- 492	18 819

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

Balance of payments

Since adoption of the floating rate system of exchange, the intense transformations that have occurred in Brazil's external accounts since 2003 have been sustained basically by steadily expanding record trade balance surpluses. The 2005 surplus reached US$44.8 billion, against US$33.6 billion in 2004.

In a framework of robust world economic growth and rising prices for Brazil's major export products, the external sector of the economy has played an increasingly important

Table 5.2 – Balance of payments

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	14 987	18 654	33 641	19 649	25 107	44 757
Exports	43 306	53 169	96 475	53 677	64 631	118 308
Imports	28 319	34 515	62 835	34 028	39 524	73 551
Services	-1 825	-2 853	-4 678	-3 556	-4 592	-8 148
Credit	6 016	6 567	12 584	7 513	8 582	16 095
Debit	7 841	9 420	17 261	11 069	13 174	24 243
Income	-10 367	-10 153	-20 520	-12 528	-13 440	-25 967
Credit	1 539	1 660	3 199	1 609	1 586	3 194
Debit	11 906	11 813	23 719	14 136	15 025	29 162
Current unilateral transfers (net)	1 602	1 667	3 268	1 683	1 874	3 558
Credit	1 738	1 844	3 582	1 893	2 157	4 051
Debit	- 137	- 177	- 314	- 210	- 283	- 493
Current account	4 396	7 315	11 711	5 249	8 950	14 199
Capital and financial account	-1 915	-5 416	-7 330	4 572	-13 380	-8 808
Capital account[1/]	398	- 59	339	399	264	663
Financial account	-2 313	-5 357	-7 670	4 174	-13 644	-9 470
Direct investment (net)	3 225	5 470	8 695	6 785	5 892	12 676
Abroad	- 820	-8 651	-9 471	-1 782	- 735	-2 517
Equity capital	- 776	-5 865	-6 640	-1 847	- 847	-2 695
Intercompany loans	- 45	-2 786	-2 831	66	112	178
In the reporting country	4 045	14 120	18 166	8 566	6 627	15 193
Equity capital	4 560	14 010	18 570	6 050	8 995	15 045
Intercompany loans	- 515	110	- 405	2 516	-2 368	148
Portfolio investments	-3 701	-1 049	-4 750	4 501	383	4 885
Assets	- 544	- 211	- 755	-1 044	- 727	-1 771
Equity securities	- 25	- 96	- 121	- 708	- 123	- 831
Debt securities	- 518	- 115	- 633	- 336	- 604	- 940
Liabilities	-3 157	- 839	-3 996	5 545	1 111	6 655
Equity securities	814	1 267	2 081	2 510	3 941	6 451
Debt securities	-3 971	-2 105	-6 076	3 034	-2 830	204
Financial derivatives	- 240	- 437	- 677	190	- 229	- 40
Assets	75	392	467	363	145	508
Liabilities	- 315	- 830	-1 145	- 173	- 375	- 548
Other investments[2/]	-1 597	-9 340	-10 937	-7 302	-19 690	-26 991
Assets	1 349	-3 545	-2 196	503	-4 295	-3 792
Liabilities	-2 946	-5 795	-8 741	-7 804	-15 395	-23 199
Errors and omissions	-1 136	-1 001	-2 137	- 190	- 882	-1 072
Overall balance	1 346	898	2 244	9 632	-5 312	4 319
Memo:						
Current account/GDP (%)	1,49	2,36	1,94	1,35	2,21	1,79
Medium and long term amortizations[3/]	16 896	16 365	33 261	12 146	20 807	32 953

1/ Includes migrants' transfers.

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

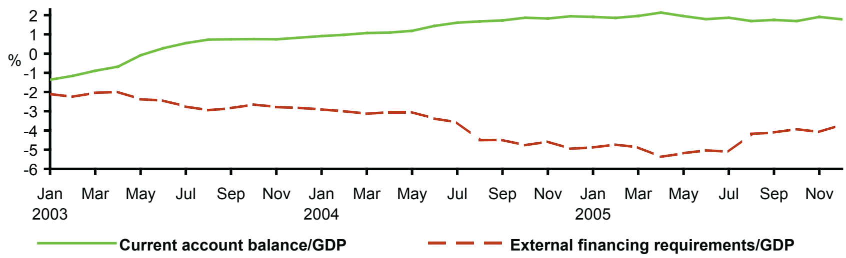
3/ Includes medium- and long-term trade credit repayments, medium- and long-term loan repayments, redemptions of medium and long-term debt instruments issued abroad.
Excludes Monetary Authority loan repayments and intercompany loan repayments.

role in the process of liability adjustment. The dynamics of the nation's exports and debt have resulted in improved external solvency indicators. There is evidence that, at different points in time, the recent decline in Brazil's risk classification has been triggered mainly by improvement in domestic economic fundamentals, as demonstrated by the exceptional trade balance surplus and current account results, substantial improvement in external and public debt indicators and the burgeoning primary fiscal surplus.

In summary, the consistency of economic policy results, abundant international liquidity, strong inflows of external resources, recovery in the nation's international reserve position and much improved access to international financial markets have made it possible for the country to adopt a strategy geared to attenuating its external vulnerability. The underpinnings of this process have been restructuring and reduction of external liabilities through anticipated payments of debts to the IMF and Paris Club, with the added advantage of improving external perceptions of the solvency of the Brazilian economy.

Compared to the US$11.7 billion result in 2004, the current account surplus reached US$14.2 billion in 2005, equivalent to 1.79% of GDP, making it the largest surplus ever recorded. Reflecting payments totaling US$23.3 billion to the IMF, capital and financial accounts closed with deficits totaling US$8.8 billion in the year. Consequently, the balance of payments closed with a surplus of US$4.3 billion, the fifth consecutive positive annual result.

Graph 5.1
Foreign direct investments and external financing requirements
In 12 months



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

Balance of trade

The 2005 balance of trade surplus closed at a record US$44.8 billion, an increase of 33% compared to the previous year. Exports totaled US$118.3 billion and imports closed with US$73.6 billion, for growth of 22.6% and 17.1%, respectively, when viewed against 2004. It is important to observe that the robust export and import growth registered in 2005 followed a similar performance in 2004, when the nation's foreign sales expanded 32% and imports increased 30.1%.

Foreign trade flows totaled US$191.9 billion, up 20.4% compared to 2004 while, according to IMF estimates for 2005, the volume of world trade grew 7%.

Table 5.3 – Trade balance – FOB

US$ million

Year	Exports	Imports	Balance	Trade flow
2004	96 475	62 835	33 641	159 310
2005	118 308	73 551	44 757	191 860
% change	22.6	17.1	33.0	20.4

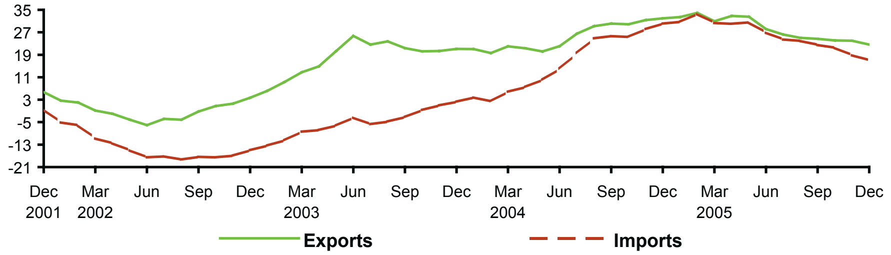
Source: MDIC/Secex

Based on cumulative 12-month figures, growth under exports and imports decelerated over the course of 2005, after surpassing the mark of 30% growth in the early months of the year. The loss of dynamics was relatively constant throughout the year, though more significant in the import sector than under exports, particularly toward the end of the period. It is important to note that this trajectory occurred in a scenario of exchange appreciation, recovery in income and employment levels and industrial expansion during the course of 2005.

Graph 5.2

Exports and imports – FOB

Last 12 months (% change)[1/]



Source: MDIC/Secex

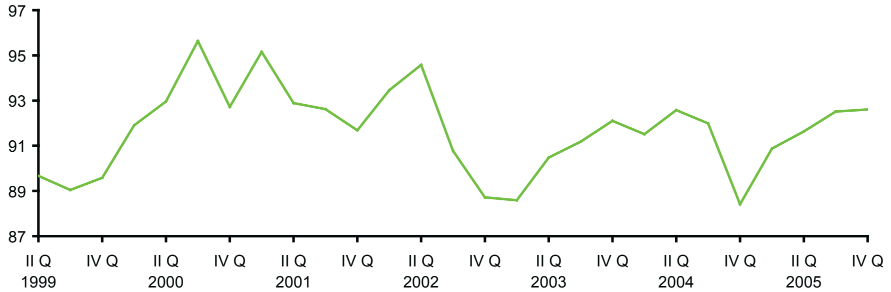
1/ From the same period of the previous year.

In the year under analysis, the prices of exports and imports rose at a pace slightly higher than in 2004, closing with rates that were quite similar in the two periods. Slightly higher growth in export prices resulted in a 0.9% rise in the terms of trade.

Graph 5.3

Terms of trade index

1996 = 100



Source: Funcex

Prices of Brazilian exports rose 12.2% in 2005, against 10.7% in the previous year. This result reflected growth in the external prices of basic products, 14.2%; semimanufactured goods, 11.8%; and manufactured products, 10.9%. Though significant, growth in the prices of both basic and semimanufactured goods was not as sharp as in 2004, while precisely the opposite occurred under manufactured products.

Among basic goods, specific mention should be made of increases in the prices of coffee, iron ore, oil and chicken meat and pork and, in the opposite sense, falloffs in the prices of soybeans and soy meal. The major semimanufactured products posted substantial price growth, particularly under basic steel industry goods.

A sector-by-sector analysis of exports shows that among the eight major products, the sharpest growth occurred in the prices of the mining sector, with 42.2%, generated by increases in the prices of iron ore, followed by oil refining, 27.8%. In the steel sector, the price increase reflected both continued world economic growth and higher iron ore prices. Contrary to what occurred in previous years, prices in the crop/livestock sector declined 11.9%.

Table 5.4 – Exports price and volume indices

Change from the previous year (%)

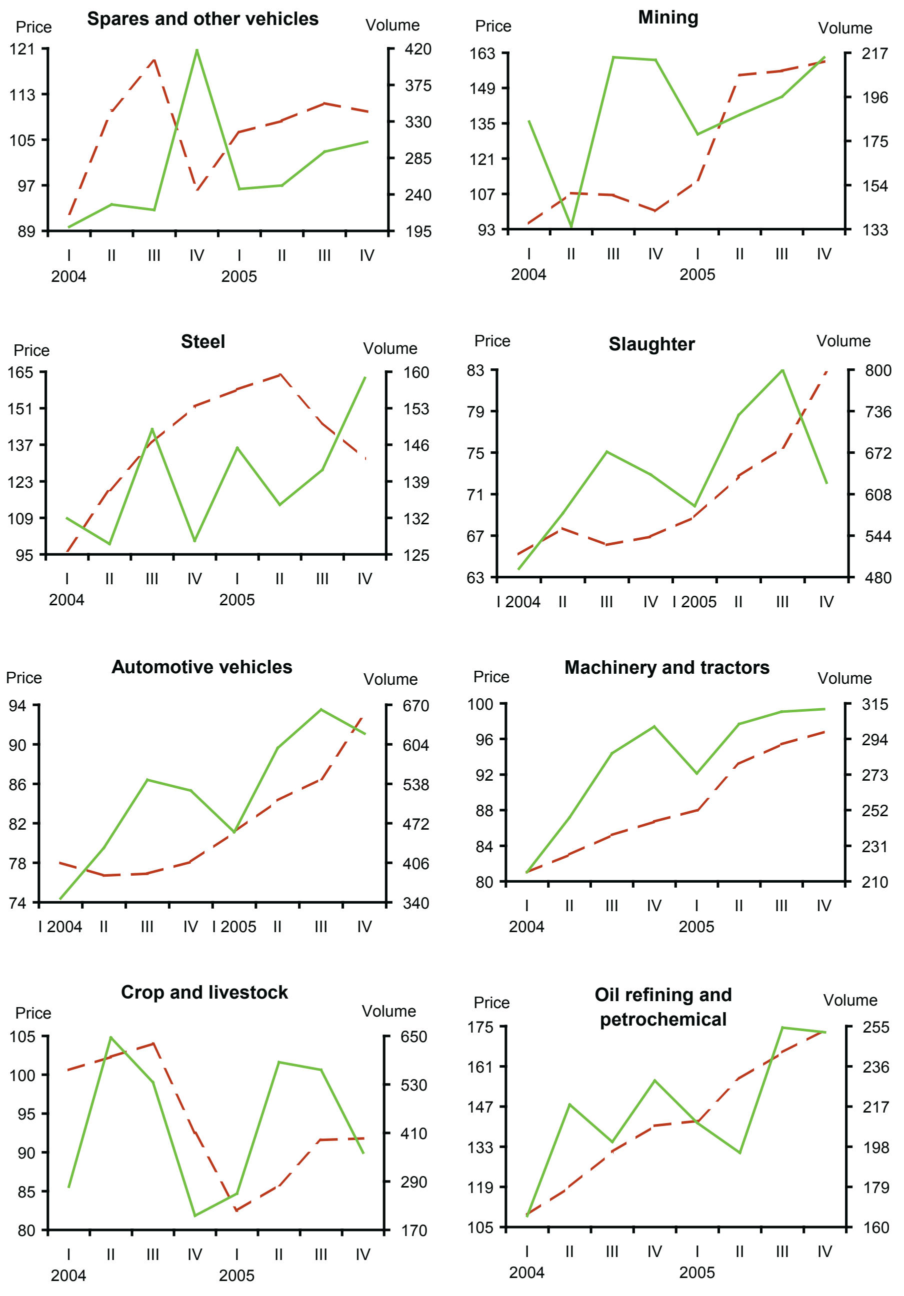
Itemization	2004		2005	
	Price	Volume	Price	Volume
Total	10.7	19.2	12.2	9.3
Primary products	18.3	13.8	14.2	6.6
Semimanufactured goods	14.5	7.2	11.8	6.3
Manufactured goods	5.9	26.1	10.9	11.0

Source: Funcex

The volume of exports increased 9.3% in 2005, against 19.2% in the previous year. Broken down by aggregate factor, the volume of basic product exports increased 6.6%, mainly as a result of greater sales of soybeans, oil and chicken meat, beef and pork; the volume of semimanufactured exports rose 6.3%, driven by the performance of unrefined cane sugar, cellulose, cast-iron and Speigel iron; while, compared to the previous year, the least dynamic sector was that of manufactured exports, closing with 11% growth despite the positive result in automobile sales. Deceleration in volume growth was, to some extent, caused by the fact that exporters had to renegotiate their prices as a consequence of exchange rate appreciation.

Automotive vehicles registered the highest volume growth, with 26.5%, followed by animal slaughters, 15.2%, despite the cutback in beef exports due to the outbreak of foot and mouth disease; machines and tractors, 14.1%; and oil refining, 12.1%.

Graph 5.4
Quarterly price indices and volume of Brazilian exports
1996 = 100



Source: Funcex

Sustained by 35.3% growth in the prices of fuels and lubricants which had grown 30.9% in 2004, the prices of overall imports expanded 11.1% in 2005, against 10.1% in the previous year. When one considers other use categories, annual growth in the prices of nondurable consumer goods moved from 6.8% to 9.2%; while capital goods prices shifted from a 2.5% reduction in 2004 to growth of 6.2% in 2005; and the prices of consumer durables reversed course, registering positive growth of 2%, compared to a 3.9% decline in 2004. Price growth in the category of raw materials and intermediate products, which accounted for 51.3% of total imports, decelerated from 9.3% in 2004 to 7.3% in 2005.

When one considers major industrial sectors, the prices of imports rose more sharply in those sectors in which oil plays a larger role in cost formation. Thus, the prices of imports in the sectors of oil and coal increased 40.7%; followed by oil refining and petrochemical goods, 21.8%; and diverse chemical products, 15.6%. Moderate growth in the range of 4.5% occurred under the prices of electronic equipment, parts and other vehicles and machines and tractors.

Table 5.5 – Exports price and volume indices

Change from the previous year (%)

Itemization	2004		2005	
	Price	Volume	Price	Volume
Total	10.1	18.1	11.1	5.4
Capital goods	-2.5	10.2	6.2	21.4
Intermediate goods	9.3	21.0	7.3	6.0
Durable consumer goods	-3.9	27.9	2.0	35.7
Nondurable consumer goods	6.8	7.7	9.2	9.5
Fuels and lubricants	30.9	17.9	35.3	-12.6

Source: Funcex

Aside from less intense price rises, the category of raw materials and intermediate goods registered downward movement in the growth of imported volume, dropping from 21% in 2004 to 6% in 2005, to some extent reflecting the loss of dynamics in the manufacturing sector during the year. In the same sense, imported volume of fuels and lubricants registered an annual reduction of 12.6%. Driven by tax incentives and

Table 5.6 – Exports by aggregate factor – FOB

US$ million

Itemization	2001	2002	2003	2004	2005
Total	58 223	60 362	73 084	96 475	118 308
Primary products	15 342	16 952	21 179	28 518	34 722
Industrial products	41 144	41 965	50 597	66 379	81 104
Semimanufactured goods	8 243	8 965	10 944	13 431	15 961
Manufactured goods	32 901	33 000	39 653	52 948	65 144
Special transactions	1 736	1 446	1 308	1 579	2 482

Source: MDIC/Secex

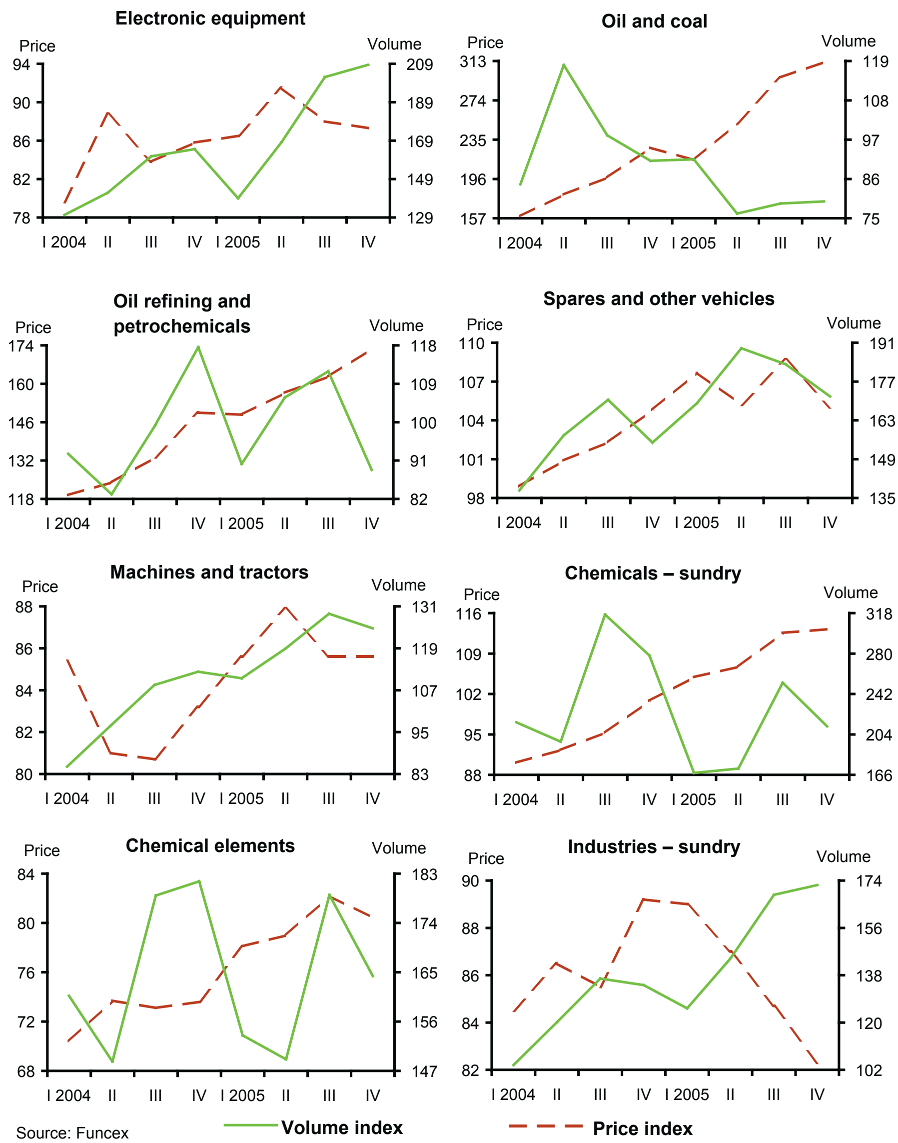
exchange appreciation, the imported volume of capital goods increased 21.4% in 2005, while imports of consumer durables rose 35.7% and nondurables increased 9.5%.

In the industrial sector, annual growth came to 23.4% under diverse industrial segments; 20.1% under electronic equipment; 19.9% for machines and tractors, and 14.9% for parts and other vehicles. The sharpest volume reductions occurred in the sectors of diverse chemical products, 20.2%, petroleum and petrochemical goods, with 16.6%, and chemical elements, with 3.6%.

Graph 5.5

Quarterly price indices and volume of Brazilian imports

1996 = 100



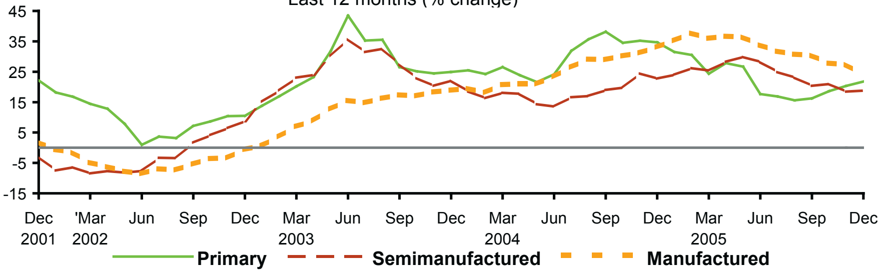
Source: Funcex

For the third consecutive year, the value of the nation's exports posted growth in all aggregate factor categories. External sales of basic products increased 21.8%, closing 2005 with US$34.7 billion, maintaining the traditional characteristic of heavy concentration in just 10 major products, accounting for 89.8% of the total. Iron ore exports increased 53.3%, followed by sales of oil, 64.8%; chicken meat, 33.3%; unprocessed coffee, 43.8%; beef, 23.2%; tobacco in leaf, 20.3%; and pork, 50.9%. With the exception of pork, increases in the prices of these products were fundamental to raising the value of exports, with 49.5% for iron ore, 38.5% for oil, 50% for unprocessed coffee and 22.7% for pork. It should be mentioned that, among the products selected, the only one to register a decrease in exported volume was coffee.

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 value of exports of soybeans and derivatives declined in 2005. External soybeanns sales diminished 0.9%, while foreign sales of soy meal dropped 12.4%, primarily as a result of lower prices. Other products of importance that registered reductions in exported value were frozen shrimp, turkey meat and corn grain.

Brazilian exports of basic products to the European Union (EU) totaled R$12.6 billion, for annual growth of 9.8%, representing 36.2% of Brazilian foreign sales in this category and 47.4% of total exports to those countries. Among the major basic products channeled to the EU, one should highlight soybeans with 20.9% of the total, iron ore, with 17.2%; soy meal, with 15.6%; and unprocessed coffee, 12%. The major markets of destination in the European Union were the Netherlands, with 24.6% of the total; Germany, 18.1%; France, 12%; and Italy, 11.8%.

External sales of basic products to the Asian continent totaled US$9.8 billion in 2005, up 32.5% in the year. These operations corresponded to 28.3% of Brazilian foreign sales in this category and 53% of total exports to the region. The major basic products acquired by the Asian countries were iron ore, 35.1% of the total; soybeans, with 22.3%; chicken meat, 10.4%; oil, 7.5%; and soy meal, 5.4%. The three major markets in the region absorbed 78.8% of the total, with 47.5% to China; 20.5% to Japan and 10.7% to South Korea. One should highlight that China was also the major market of destination for Brazilian exports of iron ore, 24.5%, and soybeans, 32.1%.

Foreign sales of basic products to the USA totaled US$2.1 billion, while those targeted to the Laia countries added up to US$1.8 billion, for annual growth rates of 24% and 15.2% respectively, accounting for a joint total of 11.3% of Brazilian sales in this category. Oil accounted for 32.8% of total basic products channeled to the United States market, followed by unrefined coffee, with 21.3%, while the Laia member countries imported oil, 34.3% of overall imports to the region, followed by iron ore, with 21.2%, and beef, with 9.2%.

Table 5.7 – Exports – FOB – Major primary products

% change 2005/2004

Products	Value	Price 1/	Weight 2/	Participation 3/
Iron ore and concentrates	53.3	49.5	2.6	21.0
Soybean including grinded	- 0.9	- 15.0	16.6	15.4
Petroleum oils, crude	64.8	38.5	18.9	12.0
Meat and edible offal of chicken	33.3	17.0	13.9	9.6
Oil-cake and other residues from soybeans	- 12.4	- 12.0	- 0.4	8.3
Coffee, not roasted	43.8	50.0	- 4.2	7.2
Meat of bovine animals	23.2	5.0	17.4	7.0
Tobacco, unmanufactured; tobacco refuse	20.3	13.0	6.4	4.8
Meat of swine	50.9	22.7	23.0	3.2
Cotton, not carded or combed	10.8	- 6.2	18.1	1.3
Aluminum ore and concentrates	21.1	17.6	3.0	0.7
Kaolin and other kaolinic clays	- 2.2	1.4	- 3.6	0.6
Shrimp, frozen	- 12.5	5.6	- 17.2	0.6
Cashew nuts	0.4	13.8	- 11.8	0.5
Meat and edible offal of turkey	- 20.8	- 4.9	- 16.8	0.5
Marble and granite	23.8	1.8	21.6	0.5
Manganese ores and concentrates	40.6	43.4	- 2.0	0.4
Guts, bladders and stomachs of animals	8.6	- 5.4	14.8	0.4
Maize, unmilled	- 79.8	- 4.9	- 78.7	0.3
Grapes, fresh	103.3	14.4	77.7	0.3
Other primary products	6.0	-	-	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.

Other markets of destination absorbed US$8.4 billion in basic products, 24.2% of total Brazilian foreign sales under this category, with positive growth of 31.8% over the 2004 result. The major basic products channeled to these countries were chicken meat, 19.3% of the total; oil, 17.4%; beef, 16.3%; and iron ore, 12.8%. Russia and Saudi Arabia were the major countries included in this grouping, accounting for 22.1% and 9.4% respectively.

Exports of semimanufactured goods totaled US$16 billion in 2005, up 18.8% over the previous year. Five major products accounted for 62% of this total, including unrefined cane sugar, 14.9%; semimanufactured iron and steel products, 14.3%; and cellulose, with 12.7%. Exports of unrefined cane sugar expanded 57.7% and were channeled mainly to Russia, India, Nigeria and the USA. At the same time, exports of unrefined cast iron and Speigel iron, 53.5%, were driven by 56.8% growth in sales to the USA, which absorbed 73.5% of overall Brazilian sales of this product.

The countries of Asia absorbed 26.9% of semimanufactured exports in 2005, corresponding to a total amount of US$4.3 billion or 23.2% of the total exported to

Table 5.8 – Exports by aggregate factor and by region – FOB

US$ million

Product	2004	2005			
	Value	Value	Change from 2004 (%)	Share (%)	
				Total	Blocs
Total	96 475	118 308	22.6	100.0	-
Basic	28 518	34 722	21.8	29.3	-
Semimanufactured	13 431	15 961	18.8	13.5	-
Manufactured	52 948	65 144	23.0	55.1	-
Special transactions	1 579	2 482	57.2	2.1	-
Laia	19 699	25 428	29.1	21.5	100.0
Basic	1 581	1 821	15.2	1.5	7.2
Semimanufactured	729	923	26.7	0.8	3.6
Manufactured	17 337	22 512	29.9	19.0	88.5
Special transactions	53	171	223.4	0.1	0.7
Mercosur	8 912	11 726	31.6	9.9	100.0
Basic	438	551	25.6	0.5	4.7
Semimanufactured	329	352	6.9	0.3	3.0
Manufactured	8 115	10 785	32.9	9.1	92.0
Special transactions	29	39	33.5	0.0	0.3
USA	20 341	22 741	11.8	19.2	100.0
Basic	1 698	2 105	24.0	1.8	9.3
Semimanufactured	3 654	4 272	16.9	3.6	18.8
Manufactured	14 925	16 221	8.7	13.7	71.3
Special transactions	64	143	123.7	0.1	0.6
European Union	24 160	26 493	9.7	22.4	100.0
Basic	11 445	12 564	9.8	10.6	47.4
Semimanufactured	2 760	3 105	12.5	2.6	11.7
Manufactured	9 902	10 774	8.8	9.1	40.7
Special transactions	54	50	-6.4	0.0	0.2
Asia	14 564	18 552	27.4	15.7	100.0
Basic	7 421	9 831	32.5	8.3	53.0
Semimanufactured	3 884	4 297	10.6	3.6	23.2
Manufactured	3 240	4 389	35.5	3.7	23.7
Special transactions	19	35	87.4	0.0	0.2
Others	17 710	25 093	41.7	21.2	100.0
Basic	6 372	8 400	31.8	7.1	33.5
Semimanufactured	2 405	3 364	39.9	2.8	13.4
Manufactured	7 544	11 247	49.1	9.5	44.8
Special transactions	1 389	2 083	49.9	1.8	8.3

Source: MDIC/Secex

the region and 3.6% of overall Brazilian foreign sales. The major target countries in the region were China, 23.4%; Japan, 20.8%; South Korea, 12.1%; and India, 11.1%. Foreign sales of semimanufactured products to the region were concentrated under iron and steel goods, 20.1%; leather and hides, 15.4%; cellulose, 12.7%; and unrefined cane sugar, 10.2%.

Table 5.9 – Exports – FOB – Major semimanufactured goods

% change 2005/2004

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Cane sugar, raw	57.7	30.2	21.0	14.9
Iron or nonalloy steel semifinished products	7.7	15.6	-6.9	14.3
Chemical wood pulp	18.1	6.2	11.2	12.7
Pig iron and spiegeleisen	53.5	34.1	14.5	11.3
Hides and skins	8.1	4.6	3.4	8.7
Soybean oil, crude	-11.6	-15.2	4.3	6.4
Aluminum, unwrought	7.1	11.2	-3.7	6.4
Wood, sawn or chipped lenghtwise	5.3	12.1	-6.1	5.5
Iron alloys	19.0	10.8	7.4	4.5
Gold, nonmonetary in semimanufactured forms	11.2	15.1	-3.5	2.9
Aluminum alloys, unwrought	-10.0	10.5	-18.6	2.4
Synthetic rubber and artificial rubber	65.3	41.4	16.9	1.8
Nickel cathodes	-1.2	6.6	-7.3	1.1
Cocoa butter, fat or oil	49.3	30.0	14.9	1.0
Cooper cathodes	95.5	30.4	49.9	0.7
Wood in chips or particles	20.6	11.2	8.5	0.6
Zinc, unwrought	56.6	30.5	20.0	0.6
Nickel mattes	8.8	-3.2	12.3	0.4
Wood sheets	22.7	2.0	20.3	0.4
Cocoa powder	-22.5	-26.9	6.0	0.3
Other semimanufactured products	18.6	-	36.6	3.0

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 USA acquired 26.8% of Brazilian exports of semimanufactured goods in 2005, accounting for 18.8% of total exports to that country. The highlights were sales of unrefined cast iron and Speigel iron, 31.1% of the total; iron and steel products, 14.3%; and gold in semimanufactured and nonmonetary forms, 9.6%. The United States was the major market of destination for Brazilian exports of unrefined cast iron and Speigel iron, with 73.5% of the total, and iron and steel products, 26.8% of the total.

Semimanufactured goods exported to the EU totaled US$3.1 billion, 12.5% more than in 2004. These products represented 11.7% of the total exported to the bloc and 19.5% of total sales of this aggregate factor category. The major markets of destination were the Netherlands, 31.6% of the total; Italy, 21.1%; and Belgium-Luxembourg, 14.6%. Among the major products exported, the most important were cellulose, 30.3% of the total; leather and hides, 14.6%; unrefined aluminum, 9.9%; and sawn wood, 9%. Italy was the major market of destination for leather and hides, with 73% of the total sent to that bloc.

Semimanufactured exports absorbed by the Laia countries totaled US$923 million, for annual growth of 26.7%, corresponding to 5.8% of exports in this category and 3.6% of total exports to that bloc. The major markets of destination were Mexico and Argentina, with 35.6% and 31.8% of the total, respectively. Among the principal products channeled to that bloc, the most important were steel, mainly iron and steel products, 35.7% of the total; iron alloys, 9.2%; synthetic and artificial rubber, 8.9%; and unrefined cast iron and Speigel iron, 8.4%.

Other countries acquired US$3.4 billion in Brazilian sales of semimanufactured products, for annual expansion of 39.9%, representing 21.1% of the total in this category and 2.8% of overall Brazilian foreign sales. Growth in exports to this group of countries stands as evidence of the ongoing process of deconcentration of Brazilian foreign sales, with 23.2% of the total targeted to Russia; followed by Canada with 13.9% and Iran, with 12.5%. The major products exported were unrefined cane sugar, accounting for 53.5% of overall purchases by this group of countries, followed by unrefined soybean oil, with 16.9%, and iron and steel products, 10.2%. The major destination for Brazilian exports of unrefined cane sugar was Russia, accounting for 32% of total foreign sales of this product.

Foreign sales of manufactured products totaled US$65.1 billion in 2005, up 23% over 2004. The excellent performance registered by this product category, which includes some of the most dynamic products on the world market, has a significant stabilizing impact on Brazilian foreign sales in general.

Among the 30 major manufactured products exported by Brazil, accounting for 63% of the overall total, just two headings closed the year with reductions: aircraft, 3.1%, and plywood and similar goods, 12%. Analysis of the other headings shows that 18 expanded at a rate above 23%, which was the overall average for this highly dynamic product category. However, seven of these products closed with reductions in the volume of exports, with declines of 10.5% under footwear and 8% under furniture and parts. Nonetheless, the exported value of these goods increased during the year as a consequence of higher average prices.

Foreign sales of manufactured products to the Laia countries totaled US$22.5 billion, 29.9% more than in 2004. These operations accounted for 34.6% of Brazilian exports of manufactured goods and 88.5% of total exports to this bloc. Sales to Argentina represented 40.5% of the total acquired by the bloc, followed by sales to Mexico, 15.9%; Chile, 12.7%; Venezuela, 8.8%; and Colombia, 5.5%. The highest rates of annual growth in value exported occurred under sales to Venezuela, 53.2%; Chile, 47.8%; Argentina, 35.6%; and Colombia, 34.1%. The increase in exports to Mexico closed at 3%, partly as a consequence of a US$275 million cutback in aircraft sales.

Among the major manufactured products targeted to the Laia member states, the most important were sales by the automotive and related industries, 35.1% of the total, mostly including passenger cars, 14.1%; cargo vehicles, 4.9%; and auto parts, 4.7%.

Table 5.10 – Exports – FOB – Major manufactured goods

% change 2005/2004

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Passenger motor vehicles	31.1	8.8	20.6	6.7
Airplanes	-3.1	-7.2	4.5	4.9
Transmission and reception apparatus, and components	98.7	144.7	-18.8	4.2
Parts and acessories for motor cars and tractors	25.6	15.1	9.1	3.8
Iron or nonalloy steel flat-rolled products	18.7	13.7	4.4	3.7
Passenger motor vehicles engines and parts thereof	17.3	1.7	15.4	3.6
Footwear, parts and components	4.2	16.5	-10.5	3.0
Motor vehicles for the transport of goods	49.8	8.8	37.6	2.6
Fuel oils	31.1	64.0	-20.1	2.4
Cane sugar, refined	36.1	28.4	6.0	2.4
Tractors	39.7	18.8	17.5	1.9
Civil engineering and contractors' plant and equipment	36.3	11.6	22.2	1.9
Pumps, compressors, fans and others	18.0	22.9	-4.0	1.9
Iron and steel bars and rods	82.2	13.4	60.6	1.7
Gasoline	87.1	33.1	40.6	1.6
Polymer of ethylene, prophylene and sthyrene	46.7	16.6	25.8	1.5
Furniture and parts thereof, except for medical-surgical use	5.2	14.3	-8.0	1.5
Chassis fitted with engines and bodies for motor vehicles	52.9	11.6	37.0	1.4
Electric motors, generators and transformers; parts thereof	50.8	22.5	23.1	1.4
Pneumatic rubber tires	20.3	10.2	9.2	1.3
Orange juice, frozen	0.8	-3.8	4.8	1.2
Plywood and similar laminated wood	-12.0	-3.7	-8.6	1.2
Ethyl alcohol, undenatured	61.0	43.2	12.4	1.1
Paper and paperboard used for writing, printing etc.	21.9	3.8	17.5	1.1
Hydrocarbons and halogenated derivatives	34.9	9.0	23.8	0.9
Aluminum oxide and aluminum hydroxide	33.5	12.5	18.7	0.9
Gears and gearing; ball screws; gear boxes, etc; parts thereof	17.0	14.0	2.7	0.9
Prepared meals of the meat of bovine animals	17.4	12.5	4.3	0.8
Iron and steel tubes, fittings for tubes	31.4	63.2	-19.4	0.8
Marble and granite works	37.5	18.2	16.3	0.8
Other manufactured products	17.7	-	7.4	43.7

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.

Sales of manufactured goods to the United States totaled US$16.2 billion, for annual growth of 8.7%, equivalent to 24.9% of Brazilian foreign sales in this category and 71.3% of total exports to the United States. Sales of aircraft and footwear were the most representative, with 11.8% and 6% of the total, respectively, despite reductions of 19.5% and 7.5% in quantities exported.

The EU countries purchased US$10.8 billion in manufactured products from Brazil, representing 8.8% annual growth. These sales accounted for 16.5% of total exports in this category and 40.7% of total foreign sales to that bloc. The major markets of destination were Germany, 23.3% of the total; the United Kingdom, 14.2%; the Netherlands, 11.2%; and Italy 10%.

Just as occurred in sales to the Laia countries and the USA, the major manufactured products exported to the EU were produced by the automotive industry, including automobile engines, 7.5% of total manufactured goods sent to the EU; passenger cars, 6%; and auto parts, 2.6%. At the same time, mention should be made of the relative participation of orange juice, 6.7% of the total; footwear, 4.2%; aircraft, 3.7%; and furniture, 3%. It is important to stress that the heading “passenger cars” expanded more than 700%, as a consequence of a US$566 million rise in exports to Germany, which accounted for 92.1% of the total.

The value of exports of manufactured products to other countries totaled US$11.2 billion, with 11.8% to Canada; 9.9% to South Africa; 7.5% to the Bahamas; and 6.6% to Nigeria. Annual growth in exports to these countries reached at 89.7%, 42.3%, 339% and 79.4%, respectively.

The major products sold to the grouping of other countries were refined sugar, accounting for 11.6% of the total; fuel oils, 6.8%; gasoline, 5.9%; and aircraft, 5.6%, aluminum oxides and hydroxides, 3.7%, wire and iron or steel bars, 3.1%, chassis with engines and bodies, 3%, passenger cars, 2.9%, and tractors, 2.8%. Among these products, the largest annual increases occurred under foreign sales of aircraft, fuel oils and gasoline.

Table 5.11 – Imports – FOB

US$ million

Itemization	2001	2002	2003	2004	2005
Total	55 572	47 237	48 305	62 835	73 551
Capital goods	14 808	11 643	10 351	12 144	15 385
Raw materials and intermediate product	27 340	23 446	25 825	33 512	37 761
Consumer goods	7 148	5 908	5 538	6 863	8 482
Durable	3 516	2 508	2 417	3 190	3 927
Nondurable	3 631	3 400	3 121	3 673	4 555
Fuels and lubricants	6 276	6 240	6 591	10 315	11 923

Source: MDIC/Secex

Special operations, a heading that includes transactions not covered by the other aggregate factor categories, such as onboard consumption and re-exports, represented 2.1% of the total exported in 2005, with US$2.5 billion for annual growth of 57.2%. Of this total, 81.7% referred to oils and fuels for onboard consumption and 12.2% to re-exports.

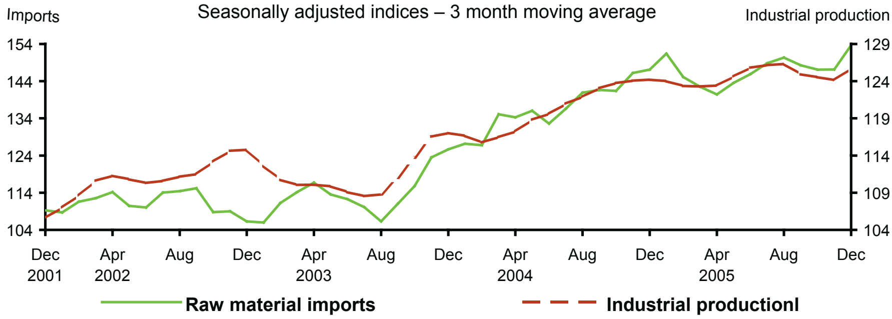
In 2005, imports expanded 17.1%, compared to 30.1% in the previous year, posting increases in all final use categories. The annual growth figure was generated by reductions in the growth rates registered by imports of fuels and lubricants from 56.5% in 2004 to 15.6% in 2005, and raw materials and intermediate products, from 29.8% to 12.7%, clearly demonstrating the loss of dynamism in the manufacturing sector. Purchases of consumer goods expanded 23.6%, practically the same result as 2004. Parallel to this figure, foreign purchases of capital goods rose 26.7%, compared to 17.3% in the previous year, reflecting incentives granted for purposes of modernization of the industrial structure, coupled with a more favorable rate of exchange.

Purchases of raw materials and intermediate goods totaled US$37.8 billion, 51.3% of the year's total imports. Foreign purchases of chemical and pharmaceutical goods accounted for 28.3% of the total, followed by intermediate products – parts and spares, 17.7%; mineral products, 16.8%; and transportation equipment accessories, 15.7%. Increases in the value of these products mainly reflected growth in imported volumes, with the sole exception of mineral products, which registered 29.8% price growth as a consequence of higher naphtha prices.

Graph 5.7

Raw material imports x industrial production

Seasonally adjusted indices – 3 month moving average



Source: IBGE and Funcex

The increase in the volume of imports of raw materials and intermediate goods was greater than 2005 growth in industrial output. The major items underlying this expansion were 24.3% and 20.8% under intermediate products – parts and spares and transportation equipment accessories, respectively. The current correlation between the volume of imports of raw materials and intermediate products and manufacturing sector output dropped from 0.97 in the August 2003-December 2005 period, to 0.6 in 2005. To some extent, the growing gap reflected sharper expansion in the more dynamic sectors of industry, including electronic apparatuses, automotive products and aircraft, which demand technologically more complex imports, or products that are part of global production strategies and, therefore, utilize a greater volume of imported raw materials and intermediate goods.

Imports of raw materials and intermediate products from the EU totaled US$10.3 billion, with annual growth of 11.4%, representing 27.2% of overall purchases under this heading and 56.7% of the total imported from the bloc's member countries.

The major suppliers of raw materials and intermediate goods in the EU framework were Germany, 32.9% of the total; France, 16.1%; Italy, 10.3%; the United Kingdom, 8.4% and Spain, 8.1%. The major products imported from the bloc were auto parts, 12.6% of the total; automobile engines, 5.7%; heterocyclic compounds, 5%; ball bearings and gears, 4.6%; and parts and spares for aircraft, 3.9%.

Imports of raw materials from Asia totaled US$8.1 billion, accounting for 47.8% of total imports from the region and 21.4% of overall purchases in this final use category. Annual 28.1% expansion reflected robust growth in imports from India, 54.5%, and China, 40.4%, responsible for 23.7% of product imports under this heading, followed by Japan, with 22.4%; South Korea, 15.7%; Formosa, 9.2%; and India, 5.4%.

The major raw materials and intermediate products imported from that region were integrated circuits and microelectronics, 22.9% of the total; parts and spares for computers, 6.6%; and auto parts, 5.2%; textile fiber yarns, 3.9%; and parts for transmission and reception equipment, 3.9%.

External purchases of raw materials and intermediate goods from the USA came to an overall total of US$7.5 billion, for annual 4.5% expansion. This total reflected 58.4% of overall imports from that country and 19.9% of the total registered under this heading. The major imported products from the United States were aircraft engines and turbines, with 12.5% of the total; parts and spares for aircraft, helicopters, 4.6%; heterocyclic compounds, 3.9%; integrated circuits and microelectronics, 3.8%; ball bearings and gears, 3.5%; auto parts, 3.2%; and computer parts and spares, 3.1%.

Raw materials and intermediate goods imported from the Laia countries totaled US$7.4 billion, for annual growth of 10.6%. This product category represented 63.8% of the overall value imported from the countries of that bloc and 19.5% of total imports in this final use category.

Table 5.12 – Imports – FOB – Major products

% change 2005/2004

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Capital goods				100.0
Industrial machinery	29.6	0.7	28.8	27.6
Machines and apparat. for office and scientific destination	25.9	-4.3	31.6	22.0
Capital goods parts and components	14.8	-0.5	15.4	11.3
Industrial machinery accessories	16.1	-4.4	21.4	8.1
Transportation movable equipment	58.9	71.3	-7.2	6.3
Tools	14.8	-5.4	21.4	1.6
Other capital goods	28.4	-1.4	30.3	23.1
Intermediate products and raw material				100.0
Chemical and pharmaceutical products	11.0	2.6	8.2	28.3
Intermediate products - parts	19.8	-3.6	24.3	17.7
Mineral products	24.8	29.8	-3.8	16.8
Accessories for transport equipment	20.3	-0.4	20.8	15.7
Other raw materials for farming	-13.1	20.0	-27.6	8.0
Inedible farm products	6.6	17.3	-9.1	6.3
Foodstuffs	-13.8	-10.6	-3.6	3.5
Other raw materials and intermediate products	31.0	11.0	18.0	3.8
Nondurable consumer goods				100.0
Pharmaceutical products	15.8	16.2	-0.3	37.0
Foodstuffs	29.8	10.0	18.0	30.2
Perfumery, cosmetics, or toilet preparations	16.3	20.9	-3.8	6.1
Apparel and other textiles clothing	54.6	20.4	28.5	6.0
Tobacco and beverage	14.6	3.1	11.2	4.6
Other nondurable consumer goods	30.8	-0.7	31.7	16.1
Durable consumer goods				100.0
Articles for personal use or adornment	22.1	7.5	13.6	28.6
Passenger motor vehicles	42.0	9.4	29.8	25.9
Machines and appliances for household use	28.4	-0.5	29.0	20.9
Durable consumer goods parts	3.0	-4.0	7.4	16.2
Furniture and other household equipment	5.0	-4.5	9.9	5.1
Other durable consumer goods	22.5	10.1	11.2	3.3
Fuels and lubricants				100.0
Fuels	15.3	28.4	-10.2	98.1
Lubricants	35.4	8.4	24.9	1.9

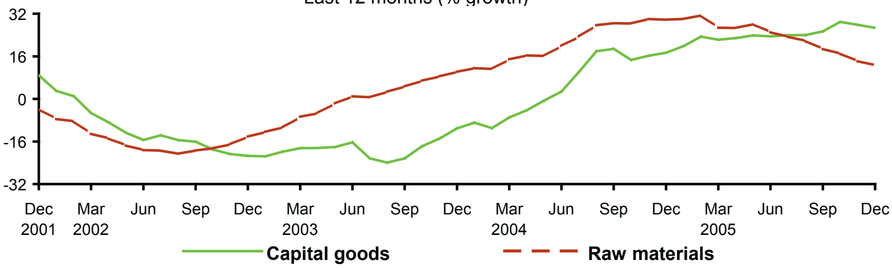
Source: MDIC/Secex

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.

Argentina was the major supplier of raw materials and intermediate goods in this bloc, with 53.4% of the total; followed by Chile, 20.6%; and Mexico, 7.8%. The major products imported were wheat grain, 8.7% of the total, and naphthas, 8.3%, both of which were imported almost entirely from Argentina; copper cathodes, 8%; auto parts, 6%; and copper ore, 5.4%.

Imports of raw materials and intermediate goods from other countries totaled US$4.5 billion, 12% of total purchases under this heading and 6.2% of total Brazilian imports in 2005. This amount represented annual growth of 9.7%. The highlights were imports from Russia, 15.1% of the total; Canada, 14%; Switzerland, 11.2%; Algeria, 10.2%; and Israel, 8.2%. The major products imported from these countries were potassium chloride, 16.6% of the total; naphthas, 15.8%; and fertilizers, 5.3%.

Graph 5.8
Brazilian imports by end use category – FOB
Last 12 months (% growth)1/



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

External purchases of capital goods totaled US$15.4 billion in 2005, 20.9% of total imports in the year. This figure represented annual growth of 26.7%, the highest level among all final use categories. This performance was generated by the behavior of exchange rates and fiscal incentives granted specifically to this product category, with the purpose of fostering modernization of the industrial structure. In this context, the volume of industrial machines imported expanded 28.8% in 2005, while their value rose 29.6%, accounting for 27.6% of overall Brazilian imports of capital goods. Imports of machines and office equipment and scientific services, a grouping in which computers represent a major share, are considered part of the process of re-equipping the industrial sector and other sectors of the economy. Viewed as a whole, these operations produced increases of 25.9% in value and 31.6% in volume, accounting for 22% of total imports under this heading. Parts and spares for capital goods for the industrial sector, which also include outlays on maintenance of the industrial structure, accounted for 11.3% of total capital goods imported, up 15.4% in volume and 14.8% in value. These investments are designed not only to preserve the conditions of the industrial structure but also to generate future product growth. It should be stressed that, contrary to other capital goods segments in which prices either declined or rose only slightly, the prices of imported movable transportation equipment increased 71.3% in 2005, resulting in overall growth of 58.9% in the value of these imports.

Just as occurred under raw material imports, the EU was the major supplier of capital goods in 2005, with US$5.3 billion, up 20.6% in annual terms. This amount represented 34.4% of total capital goods imports and 7.2% of overall Brazilian foreign purchases. Imports from Germany represented 40.5% of this total; followed by those from Italy, 15.8%; France, 12.4%; Sweden 6%; and the United Kingdom, 5%. Though relative volume is still rather small, particular mention should be made of growth in imports from countries that have only recently joined the EU, including Lithuania, 881%; Cyprus, 625%; and Greece 110%, signaling that the guarantee granted by the bloc should aid in expanding future trade operations with those countries.

The major capital goods imported from the EU were measurement and verification instruments and apparatuses, 10.5% of the total; pumps, compressors and ventilators, 6.8%; apparatuses for energy interruption and protection, 4.1%; and electric motors, generators and transformers, 3.9%.

Imports of capital goods from Asia totaled US$5.2 billion, for annual expansion of 50%, with 33.6% of overall imports of these products and 7% of total Brazilian foreign purchases. China accounted for 38.8% of the total; followed by Japan, with 21.3%; South Korea, with 16.2%; and Formosa with 9.7%. Purchases from these countries as a whole expanded sharply, particularly in operations with China, 79.2%. The major products supplied by the countries of Asia were parts for transmission and reception equipment, 15.8% of the total; and liquid crystal devices, 10%; computers and parts, 9%; electric motors, generators and transformers, 6.3%; and printed circuits, 4.7%.

The USA accounted for capital goods worth US$3.3 billion, up 12% over 2004. This total represented 4.5% of total Brazilian imports and 21.6% of imports of capital goods. Among the major products supplied by that country, the most important were measurement and verification instruments and apparatuses, 12.2% of the total; computers, 9.1%; earthmoving and drilling equipment and machines, 6%; pumps, compressors and ventilators, 6%; medical instruments and apparatuses, 5%; and railway rolling stock, 4.6%.

Capital goods imported from the Laia member countries totaled US$883 million in 2005, for annual growth of 49.3%, corresponding to 1.2% of total Brazilian imports and 5.7% of foreign purchases under this final use category. The major share of imports, 78.4%, originated in Argentina, followed by Mexico, with 16.9%, and Chile, 2.7%. Annual growth in imports from these countries reached 47.7%, 59.8% and 100%, respectively. The major capital goods imported from the bloc were cargo vehicles, 50.4% of the total; measurement and verification instruments and apparatuses, 7.1%; and pumps, compressors and ventilators, 4.2%.

Capital goods imports from the grouping of other countries totaled US$719 million, corresponding to an annual reduction of 4.7%. This total represented 4.7% of total imports under this heading. The majority of these imports came from Switzerland, 42.4%; Canada, 24.5%; Israel, 11.2%; and Norway, 9.7%. The major capital goods

Table 5.13 – Imports by category of use and by region – FOB

US$ million

Product	2004	2005			
	Value	Value	Change from 2003 (%)	Share (%)	
				Total	Blocs
Total	62 835	73 551	17.1	100.0	-
Capital goods	12 144	15 385	26.7	20.9	-
Raw material and intermediate goods	33 512	37 761	12.7	51.3	-
Nondurable consumer goods	3 673	4 555	24.0	6.2	-
Durable consumer goods	3 190	3 927	23.1	5.3	-
Fuels and lubricants	10 315	11 923	15.6	16.2	-
Laia	10 027	11 567	15.4	15.7	100.0
Capital goods	591	883	49.3	1.2	7.6
Raw material and intermediate goods	6 668	7 378	10.6	10.0	63.8
Nondurable consumer goods	985	1 181	19.9	1.6	10.2
Durable consumer goods	400	562	40.6	0.8	4.9
Fuels and lubricants	1 383	1 564	13.1	2.1	13.5
Mercosul	6 390	7 052	10.3	9.6	100.0
Capital goods	477	701	47.0	1.0	9.9
Raw material and intermediate goods	4 314	4 523	4.8	6.1	64.1
Nondurable consumer goods	734	930	26.6	1.3	13.2
Durable consumer goods	338	483	42.9	0.7	6.8
Fuels and lubricants	527	415	-21.2	0.6	5.9
USA[1/]	11 530	12 851	11.5	17.5	100.0
Capital goods	2 964	3 321	12.0	4.5	25.8
Raw material and intermediate goods	7 178	7 501	4.5	10.2	58.4
Nondurable consumer goods	577	744	29.0	1.0	5.8
Durable consumer goods	399	434	8.6	0.6	3.4
Fuels and lubricants	411	852	106.9	1.2	6.6
European Union	15 928	18 146	13.9	24.7	100.0
Capital goods	4 385	5 288	20.6	7.2	29.1
Raw material and intermediate goods	9 232	10 280	11.4	14.0	56.7
Nondurable consumer goods	1 103	1 274	15.5	1.7	7.0
Durable consumer goods	930	992	6.8	1.3	5.5
Fuels and lubricants	278	311	11.9	0.4	1.7
Asia	12 280	16 870	37.4	22.9	100.0
Capital goods	3 450	5 175	50.0	7.0	30.7
Raw material and intermediate goods	6 295	8 063	28.1	11.0	47.8
Nondurable consumer goods	561	821	46.4	1.1	4.9
Durable consumer goods	1 301	1 800	38.4	2.4	10.7
Fuels and lubricants	674	1 012	50.2	1.4	6.0
Others	13 070	14 117	8.0	19.2	100.0
Capital goods	754	719	-4.7	1.0	5.1
Raw material and intermediate goods	4 138	4 539	9.7	6.2	32.2
Nondurable consumer goods	448	535	19.4	0.7	3.8
Durable consumer goods	161	139	-13.1	0.2	1.0
Fuels and lubricants	7 570	8 185	8.1	11.1	58.0

Source: MDIC/Secex

1/ Includes Puerto Rico.

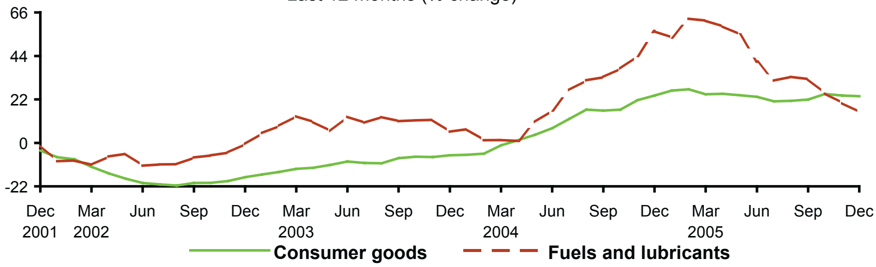
imported from these countries were measuring and verification instruments and apparatuses, 6.9%; earthmoving and drilling machines and equipment, 6.5%; machines and apparatuses for molding rubber or plastics, 4.6%; and printed circuits and other parts for telephone devices, 4%.

Foreign purchases of fuels and lubricants reached US$11.9 million in 2005, for growth of 15.6% in value, while overall volume decreased. Imports of oil accounted for 64.3% of total foreign purchases under this heading, followed by coal briquets, with 10.9%, fuel oils, 8.7%, and natural gas, 6.8%. The major supplier countries were: Nigeria, 22.1% of the total; Algeria, 19.9%; Saudi Arabia, 11%; Bolivia, 8%; the USA, 7.1%; and India, 5.2%. A breakdown of imports from Saudi Arabia, Nigeria and Algeria shows that 94.9%, 98.7% and 100% referred to oil, respectively.

Graph 5.9

Brazilian imports by end use category – FOB

Last 12 months (% change)[1/]



Source: MDIC/Secex

1/ From the same period of the previous year.

Imports of consumer goods totaled US$8.5 billion, corresponding to 11.5% of total imports, including US$3.9 billion involving consumer durables and US$4.6 billion in nondurable consumer goods. These two headings registered annual growth of 23.1% and 24%, in that order.

Among purchases of consumer durables, the highlights were personal use and adornment objects, 28.6% of the total; passenger cars, 25.9%; and machines and equipment for residential use, 20.9%; all of which registered significant volume growth.

With respect to nondurable consumer goods, imports of pharmaceutical products represented 37% of the total; followed by purchases of food products, 30.2%; beauty products, 6.1%; and apparel and other textile products, 6%.

In the case of consumer durables, the major supplier countries were China, 21.1% of the total; the USA, 10.8%; Argentina, 10.7%; Germany, 10.1%; and Japan, 8.3%. Imports from China increased 37%, while purchases in Argentina rose 49.1% in the year. The major products imported under this heading were passenger cars, 20.8% of the total; parts for transmission or reception devices, 15.3%; plastics, 5.9%; prosthetic articles and devices for orthopedic use, 5.9%; and videocassette and other image and sound equipment (DVD), 5%.

Purchases of nondurable consumer goods came primarily from Argentina, 17%; the USA, 14.5%; China, 9.3%; Switzerland, 5.8%; and France, 4.6%. All of these figures represented sharp growth over the 2004 results, particularly in the case of China, 61.4%. The principal items imported were medications, 36.7% of the total; perfumes, beauty products and cosmetics, 3.4%; and codfish, 3%.

Trade relations

In 2005, Brazilian international trade showed a tendency toward volume growth and quality improvement, as the nation expanded its surpluses and trade with several important partners. As a matter of fact, surpluses with most partners located on the American continent, Eastern European countries, Africa and the Middle East increased sharply during the year. With respect to EU member countries, no significant changes were registered. The only significant reduction in the trade surplus occurred in operations with Asia.

The overall trade flow showed an average increase of 20.4%, compared to 2004. Trade transactions with the countries of Eastern Europe expanded 32.1%; followed by operations with the countries of Asia, 32%; Laia member countries, 24.5%; EFTA, 18.9%; and the EU, 11.4%; the USA, 11.7%; Canada, 43.5%; and other countries, 25.9%.

Trade flows with the EU totaled US$44.6 billion, for annual growth of 11.4%. Exports reached US$26.5 billion and imports closed at US$18.1 billion, representing annual increases of 9.7% and 13.9%, respectively. Brazil's major trading partner in the EU was Germany, with an overall flow of US$11.2 billion, up 22.6%. This result reflected growth of 24.5% in exports and 21.1% in imports. The second most important was the Netherlands, with an overall flow of US$5.9 billion; followed by Italy, with US$5.5 billion; and France, US$5.2 billion.

Trade flows with the Laia countries reached US$37 billion, 24.5% more than in 2004, as exports closed at US$25.4 billion and imports at US$11.6 billion. One should stress the 29.1% increase registered under exports. This result was generated by increased sales to Argentina, 34.5%, and Chile, 41.9%. The trade flow in operations with Argentina reached US$16.2 billion, followed by operations with Chile, US$5.3 billion, and Mexico, US$4.9 billion. The surplus with Argentina increased US$1.9 billion in 2005.

Table 5.14 – Brazilian trade by region – FOB

US$ million

Itemization	2004			2005		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	96 475	62 835	33 641	118 308	73 551	44 757
EFTA[1/]	679	1 423	- 744	983	1 515	- 533
Laia	19 699	10 027	9 673	25 428	11 567	13 861
Mercosur	8 912	6 390	2 522	11 726	7 052	4 675
Argentina	7 373	5 570	1 804	9 915	6 239	3 677
Paraguay	872	298	574	961	319	642
Uruguay	667	523	144	850	494	356
Chile	2 546	1 399	1 147	3 612	1 700	1 913
Mexico	3 948	704	3 244	4 064	844	3 220
Others	4 294	1 534	2 760	6 026	1 972	4 054
Canada	1 199	866	333	1 944	1 020	924
European Union	24 160	15 928	8 232	26 493	18 146	8 347
Germany	4 036	5 072	-1 036	5 023	6 144	-1 121
Belgium/Luxembourg	1 931	640	1 291	2 196	760	1 436
Spain	1 984	1 176	808	2 173	1 332	841
France	2 190	2 292	- 102	2 503	2 703	- 201
Italy	2 904	2 054	851	3 224	2 280	944
Netherlands	5 917	618	5 298	5 283	586	4 697
United Kingdom	2 117	1 355	761	2 591	1 376	1 216
Others	3 082	2 721	361	3 500	2 964	536
Eastern Europe	2 488	1 324	1 164	3 861	1 174	2 687
Asia[2/]	14 564	12 280	2 284	18 552	16 870	1 682
Japan	2 768	2 869	- 101	3 476	3 407	69
China	5 440	3 710	1 729	6 834	5 353	1 480
Korea, Republic of	1 429	1 730	- 301	1 896	2 327	- 430
Others	4 927	3 970	956	6 346	5 783	563
USA[3/]	20 341	11 530	8 811	22 741	12 851	9 891
Others	13 345	9 457	3 888	18 306	10 408	7 897
Memo:						
Nafta	25 488	13 100	12 388	28 749	14 714	14 035
Opec	3 844	4 543	- 699	7 522	8 215	- 693

Source: MDIC/Secex

1/ Iceland, Liechtenstein, Norway and Switzerland.
2/ Excludes the Middle East.
3/ Includes Puerto Rico.

As already mentioned, this region was the major market of destination for Brazilian manufactured products. The importance of the region as a market for these goods has consolidated in recent years and now plays a highly significant role in ensuring the stability of the country's trade balance surplus. Exports of manufactured goods to the Laia member countries expanded 29.9% in 2005.

Trade with the United States reached US$35.6 billion, as exports climbed to US$22.7 billion and imports reached US$12.9 billion, for annual increases of 11.7%, 11.8% and 11.5%, in that order. Brazilian exports of manufactured goods to the USA represented 24.9% of the total and 71.3% of total exports to that country, with growth of 8.7% in the year.

Interchanges with the countries of Asia showed the strongest growth, with 32%, based on increases of 27.4% in exports, totaling US$18.6 billion, and 37.4% under imports, US$16.9 billion. The trade surplus with this group of countries dropped US$602 million, primarily as a result of 44.3% growth in imports from China, while Brazilian exports to that country expanded 25.6%. Growth in sales of manufactured products to Asia, accounting for 23.7% of total exports to that region, was the highest rate among all three aggregate factor categories, with 35.5%. The trade flow with China closed at US$12.2 billion, surpassed only by trade with the USA and Argentina, and followed by operations with Japan, US$6.9 billion, and South Korea US$4.2 billion. In all of these cases, 2005 witnessed significant expansion compared to the previous year.

Trade exchanges with the countries of Eastern Europe totaled US$5 billion, corresponding to 32.1% growth, based on increases of 55.2% under exports, with a total of US$3.9 billion, and an 11.3% reduction under imports, with a final total of US$1.2 billion. Russia absorbed 76% of Brazilian exports to that region and was the supplier of 61.5% of imports from Eastern Europe.

Trade flows with Canada increased 43.5% in 2005, closing at US$3 billion due primarily to 62.1% growth in exports, mostly involving sales of aircraft which represented 22.5% of total sales to that country. When Brazilian aircraft exports are excluded, the trade flow with Canada expanded 22.3%.

Services

The service account showed net spending of US$8.1 billion in 2005, US$3.5 billion more than in the previous year. For the most part, this was due to reversal of the international travel account surplus and a sharp increase in net payments for equipment rentals.

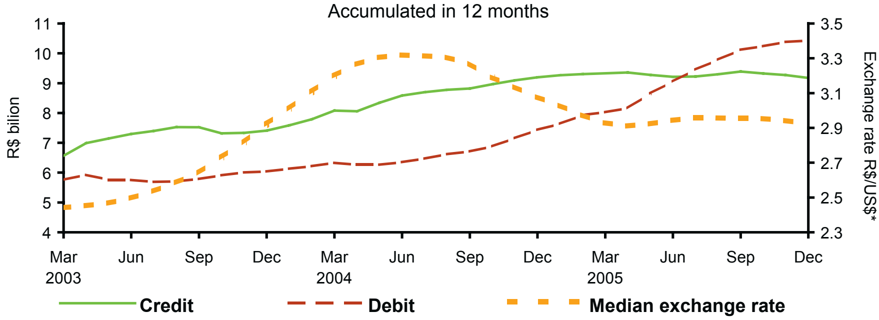
Since the end of the first quarter of 2005, net monthly flows under the international travel account have shifted toward a deficit position, since this segment is sensitive

Table 5.15 – Services

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 825	-2 853	-4 678	-3 556	-4 592	-8 148
Credit	6 016	6 567	12 584	7 513	8 582	16 095
Debit	7 841	9 420	17 261	11 069	13 174	24 243
Transportation	- 866	-1 120	-1 986	- 776	-1 013	-1 790
Credit	1 093	1 374	2 467	1 495	1 691	3 186
Debit	1 959	2 493	4 453	2 272	2 704	4 976
Travel	370	- 19	351	- 220	- 639	- 858
Credit	1 625	1 597	3 222	1 868	1 993	3 861
Debit	1 255	1 616	2 871	2 088	2 632	4 720
Insurance	- 196	- 348	- 544	- 283	- 285	- 568
Credit	70	36	105	33	101	134
Debit	265	384	649	316	385	702
Financial services	- 46	- 30	- 77	- 58	- 171	- 230
Credit	195	228	423	248	259	507
Debit	241	258	499	307	430	737
Computer and information	- 590	- 637	-1 228	- 813	- 813	-1 626
Credit	26	27	53	35	53	88
Debit	617	665	1 281	847	866	1 713
Royalties and licence fees	- 573	- 510	-1 082	- 602	- 701	-1 303
Credit	61	54	114	54	48	102
Debit	633	563	1 197	655	749	1 404
Operational leasing	- 956	-1 210	-2 166	-1 974	-2 156	-4 130
Credit	22	37	59	34	44	78
Debit	978	1 248	2 225	2 007	2 201	4 208
Government services	- 56	- 124	- 180	- 247	- 507	- 753
Credit	457	512	969	542	652	1 194
Debit	513	636	1 149	788	1 159	1 947
Other	1 088	1 147	2 235	1 416	1 693	3 109
Credit	2 468	2 703	5 171	3 204	3 741	6 945
Debit	1 380	1 556	2 936	1 788	2 047	3 836

Graph 5.10
Tourism
Accumulated in 12 months



* Average monthly rate

Table 5.16 – International travel

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	503	99	602	- 72	- 488	- 560
Credit	1 590	1 565	3 155	1 831	1 938	3 769
Debit	1 087	1 466	2 553	1 903	2 426	4 329
Duty-free shop (net)	79	91	171	355	644	998
Credit card	24	- 12	12	- 3	- 291	- 295
Credit	769	835	1 605	1 043	1 058	2 101
Debit	745	847	1 592	1 046	1 350	2 396
Tourism services	22	- 20	2	- 41	- 106	- 147
Credit	103	104	207	122	121	243
Debit	80	124	204	163	226	390
Other	377	40	417	- 383	- 734	-1 117
Credit	638	535	1 173	300	100	400
Debit	262	495	756	684	833	1 517
Business	- 75	- 86	- 160	- 100	- 113	- 213
Credit	14	14	28	17	23	40
Debit	89	100	189	117	136	253
Education-related	- 37	- 31	- 68	- 45	- 41	- 85
Credit	3	4	7	3	4	7
Debit	40	35	75	48	44	93
Government employees	- 22	- 2	- 25	- 6	- 4	- 10
Credit	14	9	23	11	17	28
Debit	36	11	48	16	22	38
Health-related	1	1	2	4	6	10
Credit	5	5	9	7	11	18
Debit	3	4	7	3	4	8
Total	370	- 19	351	- 220	- 639	- 858
Credit	1 625	1 597	3 222	1 868	1 993	3 861
Debit	1 255	1 616	2 871	2 088	2 632	4 720

to exchange rates and income levels. Consolidating this trend, the account posted net outflows of US$858 million in 2005, due primarily to 64.4% growth in spending to a level of US$4.7 billion, compared to US$2.9 billion in 2004. At the same time, spending by foreign travelers in Brazil expanded 19.8% in 2005. As a result, the final 2005 position corresponded to net spending of US$560 million under tourism, compared to net revenues of US$602 million in the previous year. Caused principally by appreciation of the real, the turnaround in this result became more accentuated in the second half of the year, when the deficit rose from US$72 million in the first six months of the year to US$488 million. Net outflows on credit card operations, the major component of this account, added up to US$295 million, while other outlays on tourism reached US$1.1 billion, compared to a US$417 million surplus in 2004. Net revenues through free shops totaled US$1 billion. Business travel, which is less sensitive to exchange

Table 5.17 – Transportation

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 866	-1 120	-1 986	- 776	-1 013	-1 790
Credit	1 093	1 374	2 467	1 495	1 691	3 186
Debit	1 959	2 493	4 453	2 272	2 704	4 976
Sea transportation	- 325	- 386	- 711	- 259	- 274	- 534
Credit	900	1 178	2 078	1 182	1 465	2 647
Debit	1 226	1 563	2 789	1 442	1 739	3 181
Passenger	- 1	- 7	- 8	- 7	0	- 8
Credit	0	0	0	0	0	0
Debit	1	7	8	7	0	8
Freight	- 302	- 345	- 647	- 385	- 386	- 772
Credit	341	451	792	411	515	926
Debit	643	796	1 439	796	902	1 698
Others	- 23	- 33	- 56	133	113	246
Credit	559	727	1 286	771	950	1 721
Debit	582	760	1 342	638	837	1 475
Air transportation	- 544	- 737	-1 281	- 516	- 743	-1 259
Credit	153	150	303	272	173	445
Debit	697	888	1 585	788	916	1 705
Passenger	- 290	- 418	- 708	- 338	- 534	- 871
Credit	81	84	165	207	100	306
Debit	371	502	873	544	633	1 178
Freight	- 2	- 19	- 21	- 2	- 15	- 17
Credit	34	41	76	46	45	91
Debit	36	61	97	48	61	109
Others	- 252	- 300	- 552	- 176	- 195	- 371
Credit	38	25	62	19	28	47
Debit	290	325	615	196	223	418
Other transportation[1/]	3	3	6	- 1	4	3
Credit	40	45	85	41	53	94
Debit	37	42	79	42	49	91
Passenger	1	1	2	1	0	1
Credit	1	1	2	1	0	1
Debit	0	0	0	0	0	0
Freight	- 6	- 4	- 10	- 8	- 1	- 8
Credit	31	38	69	34	47	81
Debit	37	42	78	41	48	89
Others	8	7	14	6	5	11
Credit	8	7	15	6	6	12
Debit	0	0	1	1	1	1

1/ Includes road transportation.

rate variations and more attuned to economic activity at the domestic and world levels, generated a deficit of US$213 million, compared to US$160 million in 2004.

The transportation account registered net outflows of US$1.8 billion, for an annual reduction of 9.9%. This result was clearly consistent with the behavior of the trade balance and the international travel account. Growth in trade flows generated a 17.6% rise in net freight outlays in 2005. Consisting almost entirely of shipments of goods, revenues and expenditures on maritime freights increased 17% and 18%, respectively.

The international flow of travelers produced 22.9% growth in net outlays on travel tickets, reaching an overall total of US$878 million. Revenues expanded 84.1% to US$307 million, while spending rose 34.5% to US$1.2 billion. Other items under the heading of transportation, including airport services and air freight outlays, reflected net spending of US$115 million, down 80.7% as a result of increases in port revenues.

Table 5.18 – Other services

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 089	1 146	2 235	1 415	1 690	3 105
Credit	2 469	2 702	5 171	3 203	3 734	6 937
Debit	1 380	1 556	2 936	1 788	2 044	3 832
Communication	103	71	174	72	55	127
Credit	117	127	243	138	102	239
Debit	14	56	70	65	47	112
Construction	1	1	2	3	5	8
Credit	1	1	3	3	5	8
Debit	0	1	1	0	0	0
Merchanting and trade-related	- 59	- 176	- 235	- 144	- 135	- 279
Credit	206	172	379	242	364	606
Debit	265	348	613	386	499	885
Personal, cultural and recreational	- 166	- 196	- 362	- 196	- 199	- 396
Credit	22	25	47	20	36	56
Debit	188	221	409	216	235	451
Misc. business, prof.and technical	1 210	1 446	2 656	1 680	1 965	3 644
Credit	2 123	2 377	4 500	2 800	3 227	6 028
Technical services	1 090	1 378	2 469	1 632	1 640	3 272
Other	1 033	999	2 031	1 168	1 588	2 756
Debit	913	931	1 844	1 121	1 263	2 383
Technical services	697	683	1 380	831	872	1 702
Other	216	248	464	290	391	681

Insurance services registered net outflows of US$568 million, against US$544 million in 2004. Insurance revenues expanded 27.5%, climbing to US$134 million, while spending increased 8.1% to a level of US$702 million.

Net outlays on financial services totaled US$230 million, against US$77 million in 2004. Reflecting commissions paid on loans, the most important heading in this account, the financial services account showed expansion of 47.6% in outlays, reaching a final total of US$737 million. Revenues increased 20% and closed at US$507 million.

Net spending on computer and information services reached US$1.6 billion, compared to US$1.2 billion in 2004. Revenues climbed to US$88 million and spending closed at US$1.7 billion.

Net payments of royalties and licenses abroad totaled US$1.3 billion in 2005. Annual growth of 20.4% reflected an increase of 17.3% under remittances and an 11.2% cutback in revenues received, though these revenues are still almost negligible.

Net spending on equipment rentals reached US$4.1 billion, for growth of 90.7% compared to 2004. To some extent, this result reflects growth in investments in the country's productive activities. Though they are still not significant, these revenues have been expanding.

Government services registered net spending of US$753 million in 2005, up 318% in the year. This growth reflected increases of 69.5% in Brazilian government outlays abroad, with a total of US$1.9 billion, while foreign government spending in Brazil increased 23.2% to a level of US$1.2 billion.

The heading of other services posted net revenues of US$3.1 billion, with growth of 39.1% over 2004. This heading includes administrative services, technical services and the communications account, with net revenues of US$1.5 billion, US$1.6 billion and US$127 million, respectively, for growth of 13.7% and 44.2%, coupled with a reduction of 26.7%, in the same order, compared to 2004. Personal, cultural and recreational services accounted for net outlays of US$396 million, up 9.2%. One factor that contributed significantly to this result was performance under the heading of transmission of events, earnings on sports competitions and courses and congresses.

Income

The income account deficit, composed mostly of interest and profits and dividends, increased 26.5% in 2005, moving from US$20.5 billion in 2004 to US$26 billion in the year under analysis. In aggregate terms, the interest account showed net remittances of US$13.5 billion, for annual growth of 1%, with a sharper percentage rise under revenues than under expenditures. It should be stressed that the external debt decreased in 2005, while external interest rates rose.

Table 5.19 – Income

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-10 367	-10 153	-20 520	-12 528	-13 440	-25 967
Credit	1 539	1 660	3 199	1 609	1 586	3 194
Debit	11 906	11 813	23 719	14 136	15 025	29 162
Compensation of employees	103	78	181	132	82	214
Credit	188	165	354	162	164	325
Debit	85	87	173	30	82	111
Investment income	-10 470	-10 231	-20 701	-12 660	-13 522	-26 181
Credit	1 351	1 494	2 845	1 447	1 422	2 869
Debit	11 821	11 725	23 546	14 107	14 944	29 050
Direct investment income	-2 522	-3 277	-5 799	-4 166	-6 086	-10 252
Credit	529	532	1 061	395	329	724
Debit	3 051	3 808	6 860	4 562	6 415	10 976
Profits and dividends	-2 053	-2 885	-4 937	-3 765	-5 376	-9 142
Credit	476	440	916	346	295	641
Debit	2 528	3 324	5 853	4 111	5 671	9 783
Interests on intercompany loans	- 469	- 392	- 861	- 401	- 709	-1 111
Credit	54	92	145	49	34	83
Debit	523	484	1 007	450	743	1 194
Portfolio investment income	-5 713	-4 727	-10 439	-6 371	-5 430	-11 801
Credit	346	387	733	436	349	785
Debit	6 059	5 114	11 173	6 808	5 779	12 587
Income on equity (dividends)	-1 556	- 845	-2 400	-2 352	-1 192	-3 544
Credit	2	2	4	5	6	10
Debit	1 558	847	2 404	2 357	1 198	3 554
Income on debt securities (interests)	-4 157	-3 882	-8 039	-4 019	-4 238	-8 257
Credit	344	385	729	431	343	775
Debit	4 501	4 267	8 768	4 451	4 581	9 032
Other investments income 1/	-2 236	-2 227	-4 463	-2 122	-2 006	-4 128
Credit	475	576	1 051	615	744	1 360
Debit	2 711	2 803	5 514	2 737	2 750	5 487
Memo:						
Interest	-6 862	-6 501	-13 364	-6 543	-6 953	-13 496
Credit	873	1 053	1 925	1 096	1 122	2 218
Debit	7 735	7 554	15 289	7 639	8 075	15 713
Profits and dividends	-3 608	-3 729	-7 338	-6 117	-6 569	-12 686
Credit	478	442	920	351	301	651
Debit	4 086	4 171	8 257	6 468	6 869	13 337

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

Net remittances of profits and dividends moved from US$7.3 billion in 2004 to US$12.7 billion. The 72.9% increase in this flow was caused primarily by growth in the stock of external investments in Brazil, increased business profitability in 2004 and appreciation of the real. At the same time, this process was further stimulated by incentives adopted by the United States government designed to encourage American companies to repatriate profits by the end of the year.

Though less significant, wage and salary flows resulted in net inflows of US$214 million, with a drop of 8% in income paid to workers domiciled in the country, totaling US$325 million. Payments to nonresidents totaled US$111 billion, down 35.5% in the year.

Net 2005 remittances of income abroad were impacted by net remittances of income on portfolio investments and, to a lesser extent, income on direct investments, though this impact was less intense than in the previous two years. A breakdown of these figures shows net remittances of portfolio investment income totaling US$11.8 billion, up 13% over 2004. This result was due primarily to 47.7% growth in net remittances of profits and dividends on resources in investment portfolios, with an overall total of US$3.5 billion. Net remittances of interest on fixed rate securities totaled US$8.3 billion, for growth of 2.7%, while payments of interest on bonds came to a total of US$5.6 billion. Interest outlays on notes remained at the same level as the previous year, US$3.7 billion.

Net remittances of income on direct investments totaled US$10.3 billion, up 76.8% over 2004. In this item, net outlays of profits and dividends totaled US$9.1 billion, for growth of 85.2%, clearly evincing the correlation among the stock of direct foreign investments, maturity of those investments, the economic activity level and exchange rate behavior. Remittances of interest on intercompany loans expanded 28.9%, moving to US$1.1 billion.

Income from other investments, including interest on suppliers' credits, loans, deposits and other assets and liabilities, registered net remittances of US$4.1 billion, corresponding to a reduction of 7.5% in 2005. Revenues increased 29.4% to US$1.4 billion and spending remained stable at US$5.5 billion.

Current unilateral transfers

These operations posted net inflows of US$3.6 billion in 2005, for annual growth of 8.9%. The major component in this account is that of support for residents in Brazil based on remittances made by people who have migrated to other countries with the intention of remaining there for more than one year. Under these conditions, such people are considered residents of the other country. In 2005, gross remittances for purposes of support remained practically stable at US$2.5 billion, representing 61.2% of total inflows of current unilateral transfers.

Table 5.20 – Current unrequited transfers

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 602	1 667	3 268	1 683	1 874	3 558
Credit	1 738	1 844	3 582	1 893	2 157	4 051
Debit	137	177	314	210	283	493
General government transfers	- 11	- 21	- 32	- 5	- 57	- 62
Credit	26	28	54	34	47	81
Debit	38	49	86	40	104	143
Other sectors transfers	1 613	1 688	3 300	1 689	1 931	3 620
Credit	1 712	1 817	3 529	1 859	2 110	3 969
Debit	99	129	228	170	179	350
Workers' remittances	1 151	1 141	2 292	1 060	1 158	2 217
Credit	1 225	1 234	2 459	1 180	1 300	2 480
United States	886	711	1 597	631	717	1 349
Japan	107	310	417	304	276	581
Remaining countries	232	213	445	244	306	551
Debit	73	94	167	121	142	263
Other transfers	461	547	1 008	629	773	1 402
Credit	488	582	1 070	679	811	1 490
Debit	26	35	61	50	37	87

Though these inflows originate in a total of 167 countries, analysis shows a significant degree of concentration as regards the country of origin. These remittances reflect both the economic importance of the country in question and the destination of Brazilian emigrants, as evident in the fact that five major countries account for 90.2% of gross revenues. The major sources of inflows for purposes of support in 2005 were the USA, 54.4%; Japan, 24.6%; Germany, 5.1%; Italy, 3.4%; and Portugal, 2.6%.

Financial account

Replenishment of Brazil's international reserves in 2005 benefited from the performance of the export sector and improved perceptions of the nation's external vulnerability, particularly as regards the consistency of its fiscal and monetary policies and consolidation of international investor confidence. In this sense, the strong adjustment in the balance of payments current accounts has made it possible to finance the capital and financial accounts with relative ease.

Table 5.21 – 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
2000	Dec	-2 939	-24 225	-4.02	2 305	32 779	5.33	634	-8 555	-1.42
2001	Dec	-1 787	-23 215	-4.55	3 659	22 457	5.44	-1 872	757	0.15
2002	Dec	- 84	-7 637	-1.66	1 503	16 590	4.41	-1 419	-8 954	-1.95
2003	Dec	343	4 177	0.82	1 409	10 144	3.61	-1 752	-14 321	-2.83
2004	Jan	689	4 693	0.91	993	10 231	1.99	-1 682	-14 924	-2.91
	Feb	208	5 095	0.98	1 024	10 467	2.01	-1 231	-15 561	-2.99
	Mar	761	5 673	1.07	703	10 886	2.06	-1 464	-16 558	-3.13
	Apr	- 749	5 862	1.09	381	10 470	1.95	369	-16 332	-3.05
	May	1 484	6 459	1.19	207	10 136	1.86	-1 691	-16 595	-3.05
	Jun	2 021	7 992	1.44	738	10 688	1.93	-2 759	-18 681	-3.38
	Jul	1 807	9 045	1.61	1 600	11 041	1.97	-3 407	-20 086	-3.58
	Aug	1 751	9 570	1.68	6 089	16 151	2.83	-7 840	-25 721	-4.51
	Sep	1 749	9 984	1.72	646	16 058	2.77	-2 395	-26 042	-4.49
	Oct	1 033	10 954	1.86	1 316	17 059	2.90	-2 349	-28 013	-4.77
	Nov	- 222	10 874	1.82	1 319	16 425	2.76	-1 097	-27 299	-4.58
	Dec	1 207	11 738	1.94	3 150	18 166	3.01	-4 357	-29 903	-4.95
2005	Jan	802	11 851	1.91	1 218	18 391	2.97	-2 021	-30 242	-4.88
	Feb	130	11 773	1.86	869	18 237	2.88	- 999	-30 010	-4.73
	Mar	1 730	12 742	1.96	1 402	18 935	2.92	-3 132	-31 677	-4.88
	Apr	715	14 207	2.13	3 038	21 593	3.24	-3 754	-35 800	-5.38
	May	597	13 320	1.95	711	22 097	3.24	-1 309	-35 417	-5.19
	Jun	1 274	12 574	1.80	1 328	22 687	3.24	-2 602	-35 261	-5.04
	Jul	2 567	13 334	1.87	2 035	23 122	3.24	-4 601	-36 455	-5.10
	Aug	806	12 389	1.70	1 143	18 175	2.49	-1 949	-30 565	-4.18
	Sep	2 393	13 033	1.75	43	17 572	2.36	-2 436	-30 606	-4.10
	Oct	880	12 880	1.69	825	17 081	2.24	-1 705	-29 962	-3.93
	Nov	1 734	14 837	1.91	1 174	16 936	2.18	-2 908	-31 773	-4.08
	Dec	570	14 199	1.79	1 407	15 193	1.91	-1 976	-29 392	-3.70

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

In this context and considering the current accounts flow, cumulative reserves and economic stability, the country has been chosen as an important target by international investors. This obviously has had highly favorable repercussions on acceptance of international bond placements and reductions in interest rate differentials. Issues of debt securities in real have produced positive effects in terms of the restructuring of the liability profile, as one element in the effort to reduce exposure to external factors.

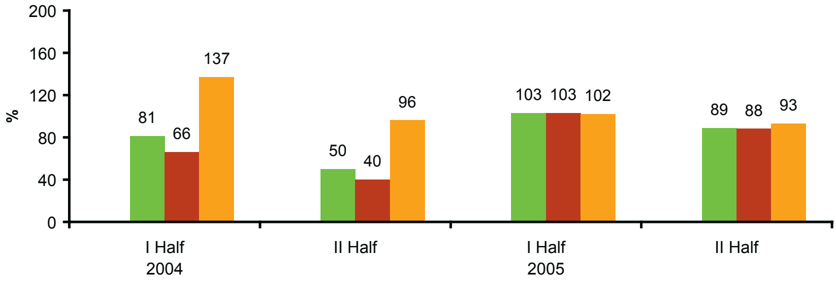
Table 5.22 – Private sector rollover rate[1/]

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total (a/b)	81%	50%	63%	103%	89%	94%
Credit (a)	4 259	3 786	8 045	3 937	5 069	9 006
Debit	5 634	8 399	14 033	3 997	7 073	11 069
Paid (b)	5 281	7 505	12 787	3 823	5 708	9 531
FDI conversions	353	894	1 246	174	1 364	1 538
Bonds, notes and commercial papers (a/b	66%	40%	50%	103%	88%	94%
Credit (a)	2 734	2 451	5 185	3 020	4 016	7 037
Debit	4 479	6 985	11 464	3 093	5 919	9 012
Paid (b)	4 172	6 109	10 281	2 921	4 575	7 496
FDI conversions	307	876	1 183	172	1 344	1 516
Direct loans (a/b)	137%	96%	114%	102%	93%	97%
Credit (a)	1 525	1 335	2 860	917	1 053	1 970
Debit	1 156	1 414	2 569	904	1 154	2 058
Paid (b)	1 109	1 396	2 506	902	1 133	2 035
FDI conversions	46	17	64	2	20	23

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

Graph 5.11
Private sector rollover rate



Note: excludes debt-equity swap

Rolling of the medium and long-term private sector external debt, with rates that reflect new disbursements in relation to amortizations, was greater than the 2004 average. Contrary to what occurred in that year, when demand for external credits by Brazilian companies declined, abundant international liquidity provided Brazil with an ample supply of external credits in 2005, under highly favorable conditions. Net inflows of external resources in the year easily surpassed 2004 figures. The percentage of bonds and medium and long-term private sector external loans rolled over in the period closed at 94%, accounting for 94% of operations involving bonds, notes and commercial papers, and 97% of direct loans.

Table 5.23 – Foreign direct investments

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	4 045	14 120	18 166	8 566	6 627	15 193
Credit	7 317	18 441	25 758	12 142	17 919	30 061
Debit	3 271	4 321	7 592	3 575	11 293	14 868
Equity capital	4 560	14 010	18 570	6 050	8 995	15 045
Credit	5 333	15 209	20 542	7 936	14 107	22 043
Currency	3 742	12 230	15 972	7 352	9 054	16 406
Autonomous	3 742	12 230	15 972	7 352	9 054	16 406
Privatization	0	0	0	0	0	0
Conversions	1 580	2 976	4 557	560	5 043	5 603
Autonomous	1 580	2 976	4 557	560	5 043	5 603
Privatization	0	0	0	0	0	0
Merchandise	10	3	13	24	11	35
Debit	772	1 199	1 971	1 886	5 112	6 998
Intercompany loans	- 515	110	- 405	2 516	-2 368	148
Credit	1 984	3 232	5 216	4 205	3 813	8 018
Debit	2 499	3 122	5 621	1 689	6 180	7 870
Of which conversions	847	982	1 829	193	3 285	3 478
Memo:						
Net conversions contribuion fo FDI	733	1 994	2 727	367	1 758	2 125
Total disbursements through conversions	1 580	2 976	4 557	560	5 043	5 603
Amortization of intercompany loans conversions	847	982	1 829	193	3 285	3 478

According to United Nations Conference on Trade and Development (UNCTAD), Direct Foreign Fnvestment (FDI) flows recovered sharply in 2005 as overall flows increased 29% to US$897 billion, thus interrupting the decline that had begun in 2001. The behavior of global foreign direct investments in 2005 reflected 38% annual growth in flows targeted to the developed countries and 13% in those channeled to the developing states. Foreign direct investment flows were distributed once again in a highly unequal pattern, with heavy concentration in just a few destinations. In this sense, while flows targeted to Asia and Latin America expanded moderately, 11% and 5%, respectively, those channeled to Africa increased 55%, a rise that brought benefits to all of the oil-producing countries.

In this context, foreign direct investments in Brazil showed net outflows of US$15.2 billion, corresponding to an annual decline of 16.4%. Of this total, participation in the capital of companies located in Brazil added up to US$15 billion, including US$5.6 billion in external debt/investment conversion operations, with important alterations in the external liabilities profile. One should stress that US$3.5 billion in conversions originated in amortizations of intercompany loans, already included in total foreign direct investments. Consequently, the net contribution of conversions into investments closed at US$2.1 billion. Intercompany loans registered net inflows of US$148 million, compared to net 2004 outflows of US$405 million.

Table 5.24 – Foreign direct investments inflows – Equity capital

Distribution by country

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	5 194	15 071	20 265	7 744	13 894	21 638
United States	1 329	2 649	3 977	1 939	2 705	4 644
Netherlands	605	7 100	7 705	1 595	1 613	3 208
Mexico	43	18	61	36	1 625	1 661
France	176	311	486	401	1 057	1 458
Canada	269	323	592	460	975	1 435
Germany	603	192	795	231	1 157	1 388
Spain	221	834	1 054	488	732	1 220
Cayman Islands	464	1 057	1 522	236	842	1 078
Australia	1	5	6	27	848	875
Japan	131	112	243	165	615	779
Belgium	2	6	8	651	35	686
Italy	194	235	429	138	208	346
Switzerland	86	278	364	202	140	342
Portugal	252	319	571	53	282	335
British Virgin Islands	118	127	245	111	143	255
Denmark	12	27	39	117	123	240
South Korea	2	21	24	67	101	168
Uruguay	81	80	161	66	101	167
Panama	109	42	151	77	88	166
United Kingdom	49	225	275	65	88	153
Luxembourg	43	705	747	68	71	139
Ireland	0	19	19	102	24	126
Argentina	28	53	81	37	68	104
Chile	2	21	23	89	13	103
Bahamas	50	48	98	52	36	88
Norway	10	17	27	16	27	43
Other countries	314	248	562	253	178	431

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

Distribution by sector

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	5 194	15 071	20 265	7 744	13 894	21 638
Crop, livestock and mineral extraction	366	705	1 071	348	1 846	2 194
Metallic mineral extraction	182	325	507	78	917	996
Petroleum extraction and related services	90	195	285	129	768	897
Crop, livestock and related services	67	100	166	100	110	210
Others	26	86	112	41	51	92
Industry	1 851	8 848	10 699	3 687	2 842	6 529
Foodstuff and beverages	76	5 270	5 346	1 642	433	2 075
Manufact. and assembly of automotive engines[2/]	603	247	850	411	633	1 044
Chemical products	180	1 183	1 363	459	305	764
Plastic and rubber products	30	104	134	314	168	481
Eletronic devices and communicat. equipments	45	221	266	90	306	396
Basic metallurgy[3/]	145	672	817	165	146	310
Machinery and equipments	76	237	313	139	115	255
Other transportation equipments	211	253	465	87	122	209
Pulp, paper and paper products	70	107	177	41	126	167
Eletrical machines, devices and apparatuses	162	81	243	43	121	164
Textile products	39	19	58	6	121	127
Wood products	18	43	61	116	8	124
Metal products	57	33	90	37	57	94
Office machines and computing equipments	10	1	11	52	8	59
Edition, printing and recording	46	85	131	12	13	26
Nonmetallic mineral products	33	186	219	5	11	17
Other industries	49	105	154	69	150	219
Services	2 977	5 518	8 495	3 708	9 206	12 915
Mail and telecommunications	903	2 067	2 970	1 051	2 907	3 958
Commerce	556	696	1 252	853	1 982	2 835
Eletricity, gas and hot water	568	623	1 191	244	1 327	1 571
Financial intermediation	150	790	940	152	1 142	1 294
Services rendered to corporations	401	471	872	493	419	912
Insurance and pension funds	60	66	126	128	733	861
Recreational, cultural and sport activities	29	123	152	347	26	373
Real-estate	70	75	145	98	199	297
Transportation	67	185	252	89	119	207
Construction[4/]	31	293	324	109	94	203
Computing and related activities[5/]	59	20	80	68	77	144
Lodging and food	38	36	74	60	68	128
Other services	44	72	116	18	114	132

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 5.26 – Portfolio investments – Liabilities

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-3 157	- 839	-3 996	5 545	1 111	6 655
Credit	13 925	16 689	30 614	23 690	35 686	59 376
Debit	17 082	17 528	34 610	18 146	34 575	52 721
Equities	814	1 267	2 081	2 510	3 941	6 451
Credit	7 740	8 630	16 370	13 685	20 348	34 033
Debit	6 926	7 363	14 289	11 175	16 407	27 582
Issued in the country	539	696	1 236	2 056	3 365	5 421
Credit	7 228	7 569	14 797	12 945	19 387	32 332
Debit	6 689	6 872	13 562	10 889	16 022	26 911
Issued abroad (Annex V - ADR)	275	570	845	454	576	1 030
Credit	512	1 061	1 572	740	961	1 701
Debit	237	491	727	286	385	671
Debt securities	-3 971	-2 105	-6 076	3 034	-2 830	204
Credit	6 185	8 060	14 245	10 005	15 338	25 344
Debit	10 157	10 165	20 321	6 971	18 169	25 139
Issued in the country	72	30	101	263	426	689
Medium and long term	43	- 5	38	158	255	413
Credit	548	573	1 121	982	1 469	2 450
Debit	505	578	1 083	824	1 213	2 037
Short term	29	34	63	105	170	276
Credit	366	382	748	654	979	1 633
Debit	337	348	685	549	809	1 358
Issued abroad	-4 043	-2 135	-6 178	2 771	-3 256	- 485
Bonds	-1 745	1 306	- 440	2 957	- 750	2 207
Private	- 50	- 625	- 675	- 599	0	- 599
Disbursements	100	100	200	0	0	0
Amortizations	150	725	875	599	0	599
Public	-1 695	1 931	235	3 557	- 750	2 806
Disbursements	2 250	3 478	5 728	4 502	7 987	12 490
New issues	2 250	3 478	5 728	4 502	3 479	7 981
Bond swaps	0	0	0	0	4 509	4 509
Amortizations	3 945	1 547	5 493	945	8 738	9 683
Paid	3 945	1 547	5 493	945	4 229	5 174
Bond swaps	0	0	0	0	4 509	4 509
Face value	0	0	0	0	4 509	4 509
Discounts	0	0	0	0	0	0
Notes and commercial papers	-1 843	-4 268	-6 111	- 849	-2 278	-3 127
Disbursements	2 734	2 351	5 085	3 020	4 316	7 337
Amortizations	4 577	6 619	11 196	3 870	6 594	10 463
Money market instruments	- 455	828	373	663	- 228	435
Disbursements	187	1 175	1 363	847	587	1 434
Amortizations	642	347	990	184	815	999

Foreign direct investments originating in the United States totaled US$4.6 billion in 2005, accounting for 21.5% of the total. With this result, the USA returned to its 2003 position as the major investor in Brazil. Significant investments also originated in the Netherlands, US$3.2 billion, 14.8% of total; Mexico, US$1.7 billion; France, US$1.5 billion; Canada and Germany, US$1.4 billion, each; Spain, US$1.2 billion; and the Cayman Islands, US$1.1 billion. In 2005, foreign direct investments originating in other countries totaled less than US$1 billion. Here, it is important to stress the recovery that has occurred in flows from Japan, a traditional investor in Brazil. The participation of Japanese investments in Brazil moved from 1.2% to 3.6%, with inflows of US$779 million.

Foreign direct investments in the service sector expanded 52% to a total of US$12.9 billion. The sharpest increases occurred under resources targeted to the segments of commerce, post and telecommunications and insurance services. In the crop/livestock and mining sectors, flows moved from US$1.1 billion to US$2.2 billion. The 105% increase was concentrated in oil production and related activities, with growth of US$612 million, and extraction of metallic minerals, up US$489 million. Moving in the opposite direction, foreign direct investments targeted to the industrial sector decreased 39%, reflecting a strong flow of investments into the food and beverage industry in 2004. In 2005, this segment remained as the major target for industrial sector investments, followed by manufacturing and assembly of automotive vehicles.

Practically all foreign portfolio investment segments posted sharply cumulative improvement in the year. Net foreign portfolio investments totaled US$6.7 billion in disbursements, compared to US$4 billion in remittances in the previous year. Basically, this performance reflected placements and rollovers of fixed income securities negotiated abroad. These papers generated amortizations of US$485 million in 2005, compared to US$6.2 billion in 2004. This behavior reflected growth in net inflows equivalent to US$2.8 billion in public sector bonds. Gross disbursements added up to US$12.5 billion and amortizations closed at US$9.7 billion, including US$4.5 billion in exchanges of C-Bonds for A-Bonds. Net amortizations of notes and commercial papers reached US$3.1 billion, compared to US$6.1 billion in the previous year.

Driven by the pursuit of higher profitability, abundant international market liquidity has been a major factor underlying capital flows. In 2005, international liquidity was impacted by the gains registered by countries that benefited from higher prices for oil and other raw materials. These countries tended to maintain a major share of their revenues in highly liquid assets.

Emerging market stock prices rose sharply in 2005 and were impacted by international financial market liquidity. The flow of international investments to emerging country stock markets has recovered sharply since the second half of 2004. Stock prices in these markets rose sharply, with significant stock issues in the year.

In Brazil, net inflows of foreign stock investments have been recovering since 2003. In 2005, these operations tripled compared to the previous year and closed at US$6.5 billion. Note that the total traded in 2005 was sharply higher than in the previous year, as revenues moved to US$34 billion and expenditures added up to US$27.6 billion, compared to respective totals of US$16.4 billion and US$14.3 billion. The balance of stocks traded in the country accounted for 84% of net inflows of foreign stock investments, with particularly strong performances in the second half of the year. Placements of American Depositary Receipts (ADR) in sharply less significant values generated net inflows of US$1 billion, against US$845 million in 2004.

Table 5.27 – Other foreign investments

US$ million

Itemization	2004			2005		
	1º sem	2º sem	Ano	1º sem	2º sem	Ano
Total	-2 946	-5 795	-8 741	-7 804	-15 395	-23 199
Trade credit	2 764	-1 583	1 181	550	2 897	3 447
Long term	- 659	- 727	-1 387	- 583	- 358	- 941
Credit	501	468	969	354	386	740
Debit	1 160	1 196	2 356	937	744	1 681
Short term (net)	3 423	- 855	2 568	1 133	3 255	4 388
Loans	-5 730	-4 711	-10 441	-8 890	-18 707	-27 597
Monetary authority	-2 766	-1 728	-4 494	-2 909	-20 493	-23 402
Exceptional financing	-2 701	-1 662	-4 363	-2 843	-20 427	-23 271
Loans from the IMF	-2 701	-1 662	-4 363	-2 843	-20 427	-23 271
Credit	0	0	0	0	0	0
Debit	2 701	1 662	4 363	2 843	20 427	23 271
Other long term	- 66	- 66	- 132	- 66	- 66	- 132
Credit	0	0	0	0	0	0
Debit	66	66	132	66	66	132
Remaining sectors	-2 963	-2 984	-5 947	-5 981	1 787	-4 194
Long term	-2 500	-2 263	-4 763	-2 995	577	-2 418
Credit	4 498	3 949	8 447	2 734	5 243	7 976
Multilateral1/	1 117	1 275	2 393	638	2 080	2 718
Agencies	655	130	785	413	806	1 219
Buyers credit	891	593	1 484	576	838	1 415
Direct loans	1 835	1 951	3 786	1 107	1 518	2 625
Debit	6 998	6 212	13 210	5 729	4 666	10 395
Multilateral1/	1 876	1 968	3 844	1 394	1 136	2 530
Agencies	1 363	1 234	2 597	1 810	813	2 624
Buyers credit	2 366	1 364	3 731	1 227	1 215	2 442
Direct loans	1 392	1 646	3 038	1 297	1 502	2 799
Short term	- 463	- 721	-1 184	-2 986	1 210	-1 776
Currency and deposits	19	499	517	501	335	835
Outher liabilities	1	0	1	34	81	115
Long term (net)	1	0	1	0	0	0
Short term (net)	0	0	0	34	81	115

1/ Includes IFC.

Short-term securities registered net inflows of US$435 million, compared to US$373 million in 2004, with relative stability under both amortizations, US$999 million, and disbursements, US$1.4 billion.

Other foreign investments in the country posted net outflows of US$23.2 billion. Suppliers' trade credits generated disbursements of US$3.4 billion, against US$1.2 billion in 2004, with long-term credits registering net remittances of US$941 million. Net short-term credits added up to US$4.4 billion, compared to US$2.6 billion in 2004. Other loans showed net amortizations of US$27.6 billion. No IMF disbursements to Brazil occurred during the period and amortizations of operations with that institution totaled US$23.3 billion. Long-term loans in other sectors of the economy registered net amortizations of US$2.4 billion, concentrated mostly in agency loans directly related to trade operations, with total payments of US$1.4 billion compared to US$1.8 billion in 2004. Parallel to these operations, mention should also be made of US$1 billion in net amortizations of buyers' loans, compared to US$2.2 billion in the previous year and, furthermore, of net amortizations of US$174 million in direct loans. Loans from international organizations registered net disbursements of US$188 million, compared to net amortizations of US$1.5 billion in 2004. Short-term loans registered net amortizations of US$1.8 billion, against US$1.2 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$835 million, compared to US$517 million in 2004.

Table 5.28 – Brazilian direct investments abroad

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 820	-8 651	-9 471	-1 782	- 735	-2 517
Credit	474	813	1 287	477	1 037	1 515
Debit	1 294	9 463	10 757	2 259	1 773	4 032
Equity capital	- 776	-5 865	-6 640	-1 847	- 847	-2 695
Credit	459	697	1 156	371	809	1 180
Debit	1 235	6 561	7 796	2 218	1 657	3 875
Intercompany loans	- 45	-2 786	-2 831	66	112	178
Credit	15	116	131	107	228	335
Debit	59	2 902	2 961	41	116	157

Net outflows of Brazilian direct investments abroad totaled US$2.5 billion in 2005. Analysis of these operations shows total remittances of US$4 billion, including US$3.9 billion in increased stock participation, clearly evincing the increased internationalization of the Brazilian business sector. Loans from Brazilian companies to their affiliate companies abroad produced net returns of US$178 million, as compared to net outflows of US$2.8 billion in 2004.

Table 5.29 – Brazilian portfolio investments abroad

US$ million

Itemization	2004			2005		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	- 544	- 211	- 755	-1 044	- 727	-1 771
Credit	1 050	1 717	2 767	1 914	1 245	3 159
Debit	1 593	1 928	3 522	2 957	1 972	4 929
Equity investment	- 25	- 96	- 121	- 708	- 123	- 831
Credit	25	10	36	16	54	70
Debit	51	106	157	724	177	901
Brazilian Depositary Receipts (BDR)	0	- 1	0	0	- 4	- 4
Credit	0	1	1	0	0	0
Debit	0	1	1	0	4	4
Other equities	- 25	- 96	- 121	- 708	- 120	- 827
Credit	25	10	35	16	54	70
Debit	51	105	156	724	173	897
Debt securities	- 518	- 115	- 633	- 336	- 604	- 940
Credit	1 024	1 707	2 731	1 898	1 191	3 089
Debit	1 543	1 822	3 365	2 233	1 795	4 029

Table 5.30 – Other brazilian investments abroad

US$ million

Itemization	2003			2004		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 349	-3 545	-2 196	503	-4 295	-3 792
Loans	- 623	- 976	-1 599	-1 056	- 775	-1 831
Long term	- 561	- 767	-1 328	-1 048	- 824	-1 872
Credit	935	1 487	2 422	722	1 347	2 069
Debit	1 496	2 254	3 750	1 770	2 171	3 941
Short term (net)	- 62	- 209	- 272	- 8	49	41
Currency and deposits	2 010	-2 679	- 668	1 636	-3 333	-1 697
Banks	3 102	-1 695	1 407	3 061	-3 014	47
Remaining domestic sectors	-1 091	- 984	-2 075	-1 425	- 319	-1 744
Other	-1 091	- 984	-2 075	-1 425	- 319	-1 744
Other assets	- 38	110	72	- 78	- 187	- 265
Long term	- 24	- 14	- 38	- 47	- 122	- 169
Credit	30	2	31	1	1	2
Debit	54	15	70	48	123	171
Short term (net)	- 14	124	110	- 31	- 65	- 96

Brazilian portfolio investments abroad registered net outflows of US$1.8 billion in 2005, compared to US$755 million in the previous year, with net remittances of US$940 million in fixed rate securities compared to US$633 million in 2004. Stock investments produced net outflows of US$831 million, as against US$121 million in the previous year.

Table 5.31 – Brazil: Financial flow by foreign creditor – Selected items[1/]

US$ million

Itemization	2002	2003	2004	2005
IBRD[2/3/]	- 186	- 872	- 611	- 121
Disbursements	1 681	1 437	1 524	1 644
Amortizations	1 355	1 886	1 818	1 424
Interest	512	424	317	341
IBD[3/]	188	-1 640	-1 965	- 576
Disbursements	2 041	1 179	719	1 073
Amortizations	1 157	2 093	2 026	1 106
Interest	697	725	658	543
FMI	11 003	3 673	-5 577	-24 370
Disbursements	16 045	17 596	-	-
Amortizations	4 565	12 826	4 363	23 271
Interest	477	1 097	1 214	1 099
Government agencies				
Agencies	-1 184	-1 366	-2 295	-1 765
Disbursements	1 519	1 731	785	1 219
Amortizations	2 030	2 585	2 597	2 624
Interest	673	512	482	360
memo:				
Paris Club	-1 519	-1 474	-1 638	-1 090
Amortizations	1 126	1 206	1 418	985
Interest	393	268	220	105
Bonds	-2 958	-2 788	-5 815	-3 438
Disbursements	4 101	7 087	5 928	12 490
New inflows	4 070	5 889	5 928	7 981
Refinancing	30	1 198	0	4 509
Amortizations	2 504	4 768	6 368	10 282
Paid	2 473	3 570	6 368	5 773
Refinanced	30	1 198	0	4 509
Interest	4 555	5 107	5 375	5 645
Notes & commercial papers	-11 276	-4 055	-9 360	-6 418
Disbursements	2 093	4 729	5 085	7 337
Amortizations	9 432	5 490	11 196	10 463
Interest	3 938	3 294	3 249	3 291
Intercompany – FDI	-1 586	- 325	-1 412	-1 046
Disbursements	7 500	6 150	5 216	8 018
Amortizations	8 028	5 327	5 621	7 870
Interest	1 058	1 148	1 007	1 194
Banks[4/]	-8 020	-4 164	-2 860	-2 530
Disbursements	5 724	5 583	5 270	4 040
Amortizations	11 894	8 267	6 769	5 241
Interest	1 850	1 481	1 361	1 329
Loans	1 075	951	866	992
Financing	775	530	495	337

1/ Does not include suppliers.
2/ Includes IFC.
3/ Includes loans and trade financing.
4/ Includes bank loans and buyers' credits.

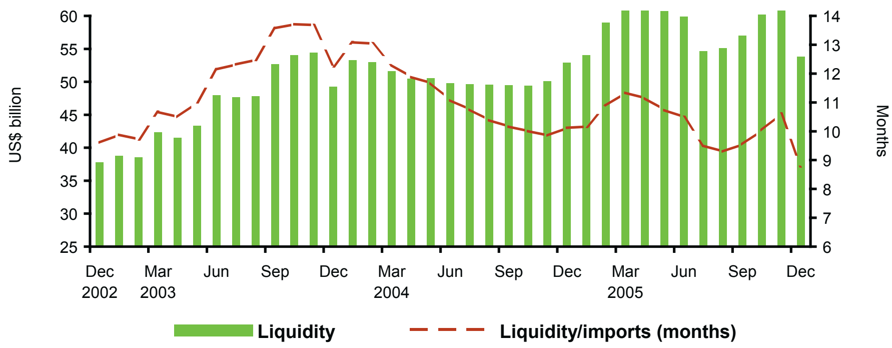
Other Brazilian investments abroad registered net outflows of US$3.8 billion, against US$2.2 billion in 2004. This result was caused primarily by net outflows of US$1.7 billion involving investments in the form of financial loans and deposits, compared to just US$668 million in the previous year. This result reflects net outflows involving external assets belonging to nonfinancial sectors abroad, US$1.7 billion; long-term loans abroad, US$1.8 billion; and other assets, US$265 million, of which US$169 million correspond to long-term operations.

International reserves

Brazil's international reserves totaled US$53.8 billion at the end of 2005, for annual growth of US$864 million.

Net Central Bank purchases on the domestic exchange market totaled US$21.5 billion and were concentrated in the first and final quarters of the year.

Graph 5.12
International reserves



Central Bank external operations generated net spending of US$20.6 billion. Total disbursements in the year added up to US$12.5 billion, originating in various bond placements: Euro 15 (US$652 million), Global 25 (US$2.25 billion), Global 15 (US$2.1 billion), Global 19 (US$500 million), Global 34 (US$1 billion), and A-Bonds (US$4.5 billion), as a result of C-Bond exchange operations, and Global BRL 16 (US$1.5 billion). No disbursements from international organizations occurred over the course of 2005.

Amortizations totaled US$27.9 billion and were distributed as follows: US$23.3 billion to the IMF, as a result of the decision taken by the Brazilian government to anticipate total payment of loans, US$4.5 billion in bonds as a result of the C-Bond exchange and US$132 million in Multi-Year Deposit Facility Agreement (MYDFA) payments.

Net interest outlays totaled US$2.3 billion, with US$2.4 billion in loan operations and US$1.1 billion to the IMF, coupled with US$1.3 billion in earnings on reserves.

Other operations totaled net spending of US$2.9 billion, representing a loss of US$3.1 billion as a result of parity variations and US$340 million in security prices.

Table 5.32 – Statement of international reserves growth

US$ million

Itemization	2003	2004	2005
I - Reserve position (end of previous month)	37 823	49 296	52 935
1. Net purchases (+)/ sales (-) of Banco Central (interventions)	1 591	5 274	21 491
Spot	- 185	5 274	21 491
Lines with repurchase	1 776	-	-
Export lines	-	-	-
2. Banco Central's foreign operations	9 882	- 1 635	- 20 627
Disbursements	22 998	6 741	12 490
Bonds	4 500	5 728	12 490
Organizations	18 498	1 013	-
Amortizations	- 15 511	- 6 813	- 27 914
Bonds and MYDFA	- 1 977	- 1 753	- 4 641
Organizations	- 12 828	- 4 365	- 23 273
Paris Club	- 706	- 696	-
Interest	- 1 482	- 2 797	- 2 261
Bonds and MYDFA	- 1 753	- 2 595	- 2 441
Organizations	- 1 097	- 1 214	- 1 099
Paris Club	- 162	- 119	- 2
Reserve interest earnings	1 531	1 131	1 280
Other1/	3 876	1 235	- 2 941
II - Total Banco Central operations (1+2)	11 473	3 639	864
III - Reserve position (end of month)	49 296	52 935	53 799
Memorandum:			
Exchange market:	- 185	5 274	21 491
Transactions with residents (net)	3 078	12 270	19 223
Interbank transactions with non-residents (net)	- 1 649	- 5 584	- 475
Change in bank holdings (net)2/	- 1 614	- 1 413	2 743
Adjusted net reserves (excludes IMF loans)3/	20 525	27 541	...
Adjusted net reserves – according to the IMF arrangement	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$. This concepthas not been applicable since the total amortization of the outstanding debt before the IMF, occurred in December, 2005.

Financial assistance program – Monitoring of the IMF performance criterion

In the framework of the financial assistance program, a technical memorandum of understanding (TMU) was formalized for the purpose of defining criteria for calculating net adjusted international reserves. This concept is defined as gross government reserves less gross government liabilities.

According to the TMU, gross government reserves include:
i) available monetary resources;
ii) uncommitted resources in gold;
iii) Special Drawing Rights (SDR);
iv) reserve position at IMF; and
v) assets in fixed rate instruments.

The base date for calculating changes in the parities of assets i) to iv), as well as for liability items denominated in currencies other than the United States dollar, is determined and set by the TMU. Item v) is accounted at market value. Furthermore, according to the terms of the TMU, deposits against banks domiciled abroad but headquartered in the country and assets in securities issued by residents in excess of an overall total of US$1.023 billion (level existent on September 14, 2001), must be excluded from net adjusted reserves.

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

Table 5.33 – Performance criterion on international reserves – 2005

IMF arrangement

US$ million

Period	Adjusted net reserves	
	Floor	Occurred[1/]
Jan	5 000	27 086
Feb	5 000	31 426
Mar	5 000	35 516
Apr	-	...
May	-	...
Jun	-	...
Jul	-	...
Aug	-	...
Sep	-	...
Oct	-	...
Nov	-	...
Dec	-	...

The TMU further defined the minimum values (performance criterion) for net adjusted international reserves, set at US$5 billion in September 2002. The floor values were surpassed in every month of the year in which the country was subject to the terms of the IMF agreement. In March 2005, net adjusted reserves totaled US$35.516 billion, or US$30.516 billion above the floor value, according to the criterion defined in the TMU. The Brazilian government opted not to renew the agreement with the IMF, which terminated in the month of March.

External debt

In December 2005, the total external debt reached US$169.5 billion, corresponding to a reduction of US$31.9 billion compared to the December 2004 position. The medium and long-term debt registered a reduction of US$32 billion, while the short-term debt closed at US$18.8 billion, the same level as the previous year. Outstanding intercompany loans dropped slightly to a level of US$18.5 billion, of which US$15 billion referred to medium and long-term loans.

In 2005, the debt with the IMF was totally paid off. Aside from the amortizations originally scheduled for March, US$1.2 billion, and June, US$1.7 billion, the Brazilian government resolved not only not to disburse already released tranches, but to anticipate settlement of the SRF modality loans to July, in a total amount of US$5 billion, and to anticipate full payment of the Stand-by Arrangement loans totaling US$15.5 billion to the month of December. The difference between the debt reduction and total amortizations in the period is attributed to variations in the parities of the SDR currency basket.

Outstanding external debt bonds increased US$557 million in December 2005, compared to December of the previous year. The share composed of Bradies dropped US$7.2 billion in the period, accounting for just 11.1% of total outstanding bonds at the end of 2005. The value of other outstanding bonds increased US$7.8 billion, representing 88.9% of the total, of which 97.8% referred to public sector bonds.

In December 2005, the composition of the medium and long-term external debt was as follows: financial loan credits, 32.5%; bonds, 41.7%; and trade financing, 25.8%. Outstanding financial loans dropped in annual terms by US$3.8 billion, particularly in the case of notes, US$3.8 billion. Trade financing operations decreased US$3.7 billion.

The short-term debt, US$18.8 billion, rose slightly, US$32 million, compared to the December 2004 position, as a result of rolling of short-term trade credit lines.

Table 5.34 – Gross foreign indebtedness[1/]

US$ million

Itemization	2001	2002	2003	2004	2005
A. Total debt (B+C)	209 934	210 711	214 930	201 374	169 450
B. Medium and long-term debt[2/]	182 276	187 316	194 736	182 630	150 674
Exceptional financing	8 346	20 793	28 255	24 946	-
IMF	8 346	20 793	28 255	24 946	-
BIS	-	-	-	-	-
BoJ	-	-	-	-	-
IMF loans	-	-	-	-	-
Renegotiated debt bonds	18 958	18 226	16 068	14 174	6 948
Other bonds[3/]	36 024	39 848	45 747	48 059	55 842
Import financing	48 618	48 321	47 869	42 609	38 877
Multilateral	22 440	24 377	23 433	22 241	21 779
Bilateral	12 418	12 731	12 856	10 970	8 614
Other financing sources	13 760	11 213	11 579	9 398	8 483
Currency loans	70 330	60 127	56 797	52 842	49 007
Notes[4/]	57 007	48 539	46 661	42 037	38 257
Direct loans	13 323	11 588	10 136	10 805	10 750
Other loans	-	-	-	-	-
C. Short-term debt	27 658	23 395	20 194	18 744	18 776
Credit line for petroleum imports	364	65	-	-	-
Commercial banks (liabilities)	16 850	15 059	14 822	15 991	15 701
Resolution 2,483 – Rural financing	-	-	-	-	-
Special operations	10 444	8 271	5 372	2 753	3 075
Financing	6 121	4 760	1 299	782	602
Currency loans	4 323	3 512	4 073	1 971	2 473
D. Intercompany loans	16 133	16 978	20 484	18 808	18 537
E. Total debt + intercompany loans (A+D)	226 067	227 689	235 414	220 182	187 987

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.

When one considers only the outstanding registered external debt, which accounted for 90.7% of the total external debt, the public sector was the largest debtor with 62.8% of the total debt, corresponding to a cumulative total of US$96 billion in medium and long-term resources and US$637 million in short-term resources. The remaining 37.2% of the total external debt pertained to the private sector and was divided into US$54.7 billion in medium and long-term debt and US$2.4 billion in short-term debt. Medium and long-term private sector debt was concentrated in the modality of notes, US$33 billion, accounting for 60.3% of the total.

Table 5.35 – Registered external debt

US$ million

Debtor	Creditor				
	Bonds	Paris Club	Multilateral institutions[1/]	Bank loans	*Notes*[2/]
A. Total	62 790	2 527	21 779	15 661	39 159
B. Medium and long-term	62 790	2 527	21 779	14 008	38 257
Public sector	61 587	2 527	19 266	4 741	4 288
Nonfinancial public sector	61 587	2 527	16 248	2 816	1 451
National Treasury	61 587	2 527	8 614	1 410	-
Banco Central do Brasil	-	-	-	277	-
Public enterprises	-	-	1 747	1 005	1 451
States and municipalities	-	-	5 887	123	-
Financial sector	-	-	3 018	1 926	2 837
Private sector	1 203	-	2 514	9 267	33 969
Nonfinancial sector	1 003	-	2 096	7 107	24 706
Financial sector	200	-	418	2 159	9 263
C. Short-term	-	-	-	1 653	901
Loans	-	-	-	1 400	-
Nonfinancial sector	-	-	-	406	-
Financial sector	-	-	-	994	-
Import financing	-	-	-	253	901
Nonfinancial sector	-	-	-	40	18
Financial sector	-	-	-	213	883
D. Intercompany loans	212	-	-	-	1 804
E. Total debt + intercompany loans (A+D)	63 002	2 527	21 779	15 661	40 963

(continues)

In December 2005, the nonfinancial public sector held US$87.6 billion in medium and long-term external debt. Of this total, 85.8% were concentrated in the National Treasury, including US$61.6 billion in bonds. Following anticipation of IMF payments to July and December, the remaining Central Bank debt reflected US$301 million, with US$277 million originating in the MYDFA, a loan rooted in the debt restructuring process, plus US$24 million in loans from government agencies. The state and municipal government debt accounted for 7.4% of the nonfinancial public sector total and was concentrated in credits received from international organizations. The state-owned company debt accounted for 6.4% of the total nonfinancial public sector debt and was distributed among credits from international organizations, banks, notes and agencies.

The contracted debt guaranteed by the public sector reached US$11.1 billion in December 2005. Of this total, only US$98 million represented debt that originated in the private sector.

Table 5.35 – Registered external debt (concluded)

US$ million				Outstanding: 12.31.2005
Debtor	Creditor			
	Government agencies	Suppliers credits	Others	Total
A. Total	6 087	4 772	974	153 749
B. Medium and long-term	6 087	4 424	801	150 674
Public sector	3 187	352	2	95 951
Nonfinancial public sector	2 583	352	2	87 567
National Treasury	745	277	-	75 160
Banco Central do Brasil	24	-	-	301
Public enterprises	1 354	71	2	5 632
States and municipalities	460	4	-	6 474
Financial sector	604	-	-	8 384
Private sector	2 900	4 072	799	54 723
Nonfinancial sector	2 763	4 068	232	41 975
Financial sector	137	4	567	12 748
C. Short-term	0	349	173	3 075
Loans	-	-	173	1 572
Nonfinancial sector	-	-	10	416
Financial sector	-	-	162	1 156
Import financing	0	349	0	1 503
Nonfinancial sector	0	343	0	402
Financial sector	-	5	-	1 102
D. Intercompany loans	-	-	16 521	18 537
E. Total debt + intercompany loans (A+D)	6 087	4 772	17 495	172 286

1/ Includes IMF.

2/ Includes commercial papers and securitizated loans.

According to the December 2005 position, the gross medium and long-term registered external debt amortization schedule indicates concentration of 44.8% of total maturities in the coming four years. The medium and long-term debt of the nonfinancial public sector concentrates 34.1% of maturities through 2009, compared to the private sector, with 61.4%. With regard to the registered external debt amortization schedule broken down by creditor, financial loans and bonds corresponded to 43.1% of medium and long-term maturities in the same period, while international organizations accounted for 35.4% of maturities.

The medium term registered external debt increased from 6.2 years in December 2004 to 7.8 years in December 2005. Analysis shows that the debt involving suppliers' and buyers' credits had the shortest average term, 3.3 years, while the share represented by bonds had the longest average maturity, 12 years. In credits from international organizations the average term came to 4.2 years in December 2004, rising to 6.5 years at the end of 2005, primarily as a result of liquidation of IMF loans concentrated in the 2005-2007 period.

Table 5.36 – Public registered external debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	2001	2002	2003	2004	2005
Federal government (direct)	71 191	75 323	76 729	75 345	75 161
States and municipalities	5 436	6 149	6 364	6 904	6 474
Direct	2	3	2	-	-
Guaranteed by the federal government	5 434	6 146	6 363	6 904	6 474
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	26 823	39 650	48 328	43 041	14 953
Direct	13 658	13 539	13 708	12 280	9 447
Guaranteed by the federal government	13 165	26 111	34 620	30 761	5 505
Private sector (garanteed by the public sector)	396	328	225	128	98
Total	103 845	121 450	131 646	125 418	96 686
Direct	84 851	88 866	90 439	87 625	84 608
Guaranteed by	18 995	32 584	41 207	37 793	11 087
Federal government	18 924	32 376	41 023	37 604	11 044
States and municipalities	-	-	-	-	-
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	70	208	184	188	44

Table 5.37 – Registered external debt – By debtor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2006	2007	2008	2009	2010
A. Total debt (B+C)	153 749	24 176	19 930	13 881	12 601	12 122
B. Medium and long-term debt	150 674	21 551	19 480	13 881	12 601	12 122
Nonfinancial public sector	87 567	8 980	8 417	6 189	6 283	6 265
Central government	75 462	7 409	6 883	4 606	5 243	5 363
Others	12 105	1 571	1 533	1 584	1 040	901
Financial public sector	8 384	1 299	1 078	1 293	392	686
Private sector	54 723	11 271	9 985	6 398	5 926	5 172
C. Short-term debt	3 075	2 625	450	-	-	-
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	637	635	2	-	-	-
Private sector	2 438	1 990	448	-	-	-
D. Intercompany loans	18 537	7 557	3 224	1 475	913	1 181
E. Total debt + intercompany loans (A+D)	172 286	31 732	23 154	15 356	13 514	13 304

(continues)

Table 5.37 – Registered external debt – By debtor (concluded)

Amortization schedule[1/]

US$ million						Outstanding: 12.31.2005
Itemization	2011	2012	2013	2014	2015	Beyond and arrears
A. Total debt (B+C)	8 745	7 873	7 327	4 987	7 236	34 870
B. Medium and long-term debt	8 745	7 873	7 327	4 987	7 236	34 870
Nonfinancial public sector	5 512	6 087	3 299	2 761	4 388	29 386
Central government	4 560	5 251	2 686	2 246	3 591	27 624
Others	953	836	613	515	797	1 762
Financial public sector	390	333	966	285	268	1 393
Private sector	2 842	1 454	3 061	1 942	2 581	4 091
C. Short-term debt	-	-	-	-	-	-
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	693	528	88	462	402	2 014
E. Total debt + intercompany loans (A+D)	9 438	8 401	7 414	5 450	7 638	36 885

1/ Includes exceptional financing.

Table 5.38 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2006	2007	2008	2009	2010
A. Total debt (B+C)	153 749	24 176	19 930	13 881	12 601	12 122
B. Medium and long-term debt	150 674	21 551	19 480	13 881	12 601	12 122
International organizations	21 779	1 866	1 892	1 852	2 091	2 115
Government agencies	8 614	3 461	838	746	694	682
Buyers	4 059	1 009	837	570	442	277
Suppliers	4 424	1 497	890	359	300	694
Currency loans	49 007	9 775	9 218	6 626	4 858	3 994
Notes[2/]	38 257	7 381	6 759	5 033	3 811	3 282
Direct loans	10 750	2 393	2 460	1 592	1 047	712
Bonds	62 790	3 943	5 804	3 728	4 216	4 361
C. Short-term debt	3 075	2 625	450	-	-	-
D. Intercompany loans	18 537	7 557	3 224	1 475	913	1 181
E. Total debt + intercompany loans (A+D)	172 286	31 733	23 154	15 356	13 514	13 304

(continues)

Participation of the United States dollar and the Japanese yen in the registered external debt profile increased from respective levels of 69.5% and 6.5% in December 2004 to 82.1% and 6.8% in December 2005. In the same period, the participation of the

Table 5.38 – Registered external debt – By creditor (concluded)

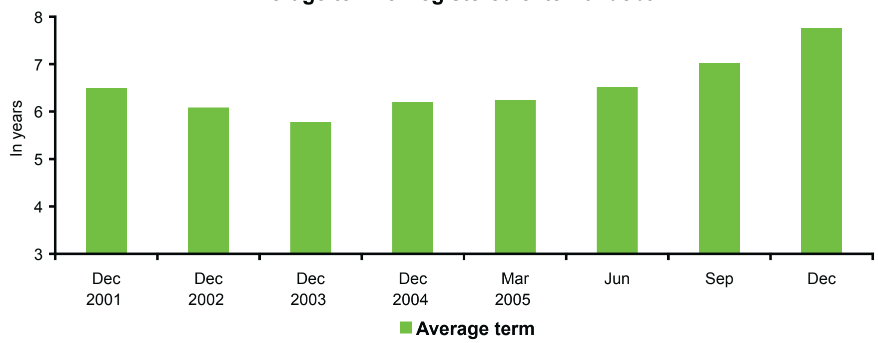
Amortization schedule[1/]

US$ million — Outstanding: 12.31.2005

Itemization	2011	2012	2013	2014	2015	Beyond and arrears
A. Total debt (B+C)	8 745	7 873	7 327	4 987	7 236	34 870
B. Medium and long-term debt	8 745	7 873	7 327	4 987	7 236	34 870
International entities	1 980	2 812	1 528	1 014	950	3 678
Government agencies	465	412	332	239	206	539
Buyers	239	285	157	133	65	44
Suppliers	169	59	41	33	32	349
Currency loans	1 984	1 119	2 987	1 817	2 790	3 840
Notes[2/]	1 507	645	2 242	1 673	2 400	3 524
Direct loans	477	474	745	145	391	316
Bonds	3 907	3 186	2 282	1 751	3 193	26 420
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	693	528	88	462	402	2 014
E. Total debt + intercompany loans (A+D)	9 438	8 401	7 414	5 450	7 638	36 885

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

Graph 5.13
Average term of registered external debt



registered debt in euro slipped from 9.7% to 8.5%. The registered debt in SDR, which corresponded to 13.5% of the total in December 2004, fell to 0, as a result of settlement of IMF loans in the period.

As regards the profile by interest rate modalities, the outstanding debt subject to floating rate interest declined from 40.6% of the total in December 2004 to 31.4% in December 2005. Of the total debt contracted at floating interest rates, the Libor was the major benchmark, increasing its participation in outstanding debt subject to floating interest rates from 37.8% to 55.1% in the period.

Table 5.39 – Average maturity term

Registered external debt[1/]

US$ million

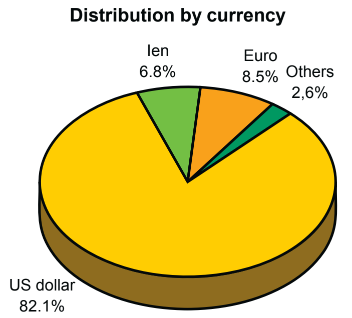
Itemization	2005	Average maturity (years)
A. Total	151 645	7.76
International organizations	21 774	6.52
Government agencies	8 509	3.71
Buyers/suppliers	8 191	3.27
Currency loans + short-term	50 381	4.40
Bonds	62 790	12.03
Bradies	7 196	9.08
Global/Euro	54 391	12.55
Others	1 203	6.07
B. Intercompany loans	15 905	2.96
C. Total + intercompany loans	167 550	7.31

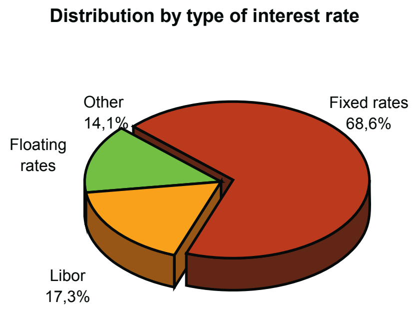
1/ Excludes debt in arrears.

Graph 5.14

Registered external debt composition

December 2005





External sustainability indicators

Analysis of the December 2005 position shows significant improvement in external sustainability indicators. This result was due to a sharp reduction in the external debt, accompanied by growth in the dollar value of exports and GDP.

Table 5.40 – Indebtedness indicators[1/]

US$ million

Itemization	2001	2002	2003	2004	2005
Debt service	49 437	49 893	52 988	51 905	66 234
Amortizations[2/]	33 119	35 677	38 809	37 623	51 715
Gross interest	16 318	14 216	14 179	14 282	14 519
Medium and long-term external debt (A)	182 276	187 316	194 736	182 630	150 674
Short-term external debt (B)	27 658	23 395	20 194	18 744	18 776
Total debt (C)=(A+B)	209 934	210 711	214 930	201 374	169 450
International reserves (D)	35 866	37 823	49 296	52 935	53 799
Brazilian credit abroad (E)[3/]	3 050	2 798	2 915	2 597	2 778
Commercial bank assets (F)	8 313	5 090	11 726	10 140	11 790
Net debt (G)=(C-D-E-F)	162 704	164 999	150 993	135 702	101 082
Export	58 223	60 362	73 084	96 475	118 308
GDP	509 797	459 379	506 784	603 994	791 897
Indicators (in percentage)					
Debt service/exports	84.9	82.7	72.5	53.8	56.0
Debt service/GDP	9.7	10.9	10.5	8.6	8.4
Total debt/exports	360.6	349.1	294.1	208.7	143.2
Total debt/GDP	41.2	45.9	42.4	33.3	21.4
Net total debt/exports	279.5	273.4	206.6	140.7	85.4
Net total debt/GDP	31.9	35.9	29.8	22.5	12.8

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.

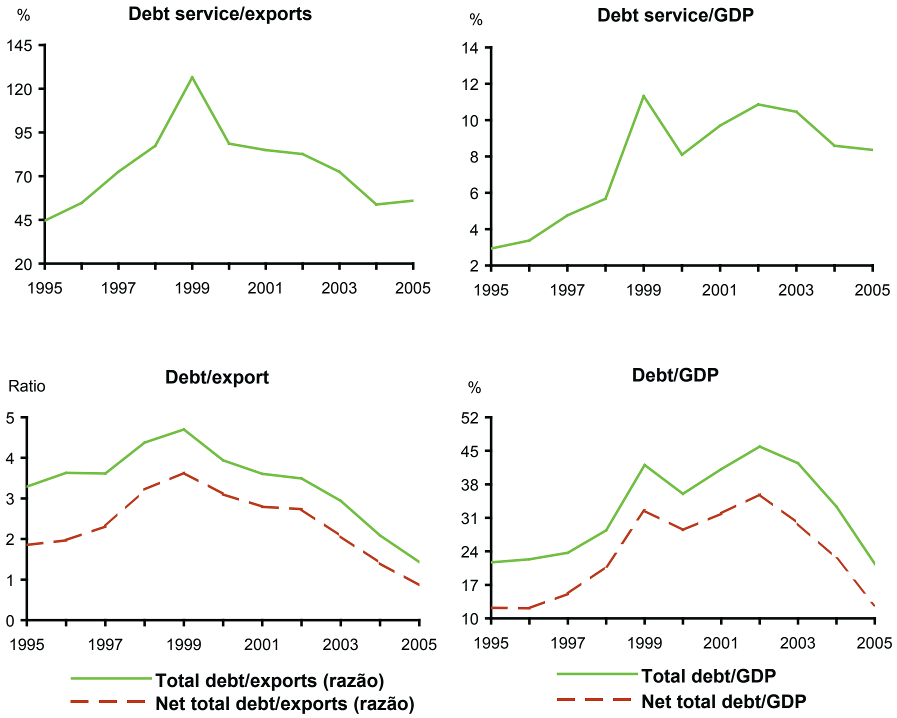
2/ Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.

3/ Export Financing Program (Proex).

In the period under analysis, the value of the debt service rose 27.6% as a result of increased amortizations generated by anticipated payments of the C-Bond in October and to the IMF in December. The value of exports rose 22.6%, in such a way that participation of the debt service in overall exports rose from 53.8% to 56%. With the 31.1% increase in the dollar value of GDP and the 15.9% decrease in the overall external debt in the period extending from December 2004 to December 2005, the ratio of the total external debt to GDP dropped from 33.3% to 21.4%. Despite the rise in the debt service in the period, the ratio between debt service and GDP dropped from 8.6% to 8.4%. The total external debt indicator in relation to exports improved significantly, moving from 209% to 143%. The total net debt in assets, which stood at 141% of the value of export revenues over the last 12 months in December 2004, dropped to 85.4% in December 2005, shifting from 22.5% to 12.8% as a percentage of GDP.

Graph 5.15

Indebtedness indicators



External funding

The face value of bonds issued by the Federative Republic of Brazil in 2005 totaled US$12.5 billion, featuring one operation in euro, through issuance of Euro 15; one in Real, Global BRL 16; and the others in dollars. Maturities of these bonds varied from nine years and five months to 28 years and seven months. Risk premiums, understood as the difference between the rate of return offered by Brazilian bonds and that offered by American Treasury bonds (spread), in 2005 issues, dropped to its lowest value in the second reopening of Global 15 in November, with 312 basic points, while the highest value occurred in May, with reopening of Global 19 at 458 basic points. The difference clearly revealed the downward trajectory of Brazil's country risk classification over the course of the year. In September, the National Treasury made its first issuance of sovereign external debt denominated in real, with placement of Global BRL 16.

At the end of July, the National Treasury carried out a partial exchange of the C-Bond stock at par for the new Global bond (A-Bond) 18, with a similar maturity structure. However, the basic difference was a 3.75 year shift in the time structure of the Bond compared to the C-Bond. As a result of this operation, approximately US$4.5 billion in C-Bonds were withdrawn from the market, while US$4.5 billion in A-Bonds were issued. The remaining C-Bond balance, totaling US$1.1 billion, was settled ahead of time in the month of October through exercise of a call option.

Table 5.41 – Issues of the Republic

Itemization	Date of inflow	Date of maturity	Maturity years	Value US$ million	Coupon % p.y.	Rate of return at issuance % p.y.	Spread over U.S. Treasury[1/] basis points
Euromarco 07	2.26.1997	2.26.2007	10	592	8.000		242
Global 27[2/]	6.9.1997	6.9.2027	30	3 500	10.125	10.90	395
Eurolira[3/]	6.26.1997	6.26.2017	20	443	11.000		348
Eurolibra	7.30.1997	7.30.2007	10	244	10.000	8.73	268
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 09	10.25.1999	10.15.2009	10	2 000	14.500	14.01	850
Euro 06	11.17.1999	11.17.2006	7	723	12.000	12.02	743
Global 20	1.26.2000	1.15.2020	20	1 000	12.750	13.27	650
Euro 10	2.4.2000	2.4.2010	10	737	11.000	12.52	652
Global 30[5/]	3.6.2000	3.6.2030	30	1 600	12.250	12.90	663
Euro 05[6/]	7.5.2000	7.5.2005	5	1 156	9.000	10.40	470
Global 07[7/]	7.26.2000	7.26.2007	7	1 500	11.250	12.00	612
Global 40	8.17.2000	8.17.2040	40	5 157	11.000	13.73	788
Euro 07[8/]	10.5.2000	10.5.2007	7	656	9.500	11.01	508
Samurai 06	12.22.2000	3.22.2006	5	531	4.750	10.92	531
Global 06	1.11.2001	1.11.2006	5	1 500	10.250	10.54	570
Euro 11	1.24.2001	1.24.2011	10	938	9.500	10.60	560
Global 24	3.22.2001	4.15.2024	23	2 150	8.875	12.91	773
Samurai 07	4.10.2001	4.10.2007	6	638	4.750	10.24	572
Global 05	5.17.2001	7.15.2005	4	1 000	9.625	11.25	648
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	5.6.2003	1.16.2007	4	1 000	10.000	10.70	783
Global 13	6.17.2003	6.17.2013	10	1 250	10.250	10.58	738
Global 11[9/]	8.7.2003	8.7.2011	8	1 250	10.000	11.15	701
Global 24B	8.7.2003	4.15.2024	21	825	8.875	12.59	764
Global 10N	10.22.2003	10.22.2010	7	1 500	9.250	9.45	561

(continues)

In December 2005, the restructured external debt totaled US$7.5 billion, corresponding to a sharp US$7.4 billion reduction compared to the December 2004 balance. The major part of this reduction is explained by settlement of the share of the debt in C-Bonds through the exchange for A-Bonds and anticipated settlement of the remaining balance through exercise of the aforementioned call option. Other factors that contributed were amortizations of Bradies concentrated in the months of April and October 2005.

Table 5.41 – Issues of the Republic (concluded)

Global 34	1.20.2004	1.20.2034	30	1 500	8.250	8.75	377
Global 09 N	6.28.2004	6.29.2009	5	750	.ibor 3m	Libor 3m	359
					+5,76	+ 5,94	
Global 14[10/]	7.14.2004	7.14.2014	10	1 250	10.500	10.80	538
Euro 12[11/]	9.24.2004	9.24.2012	8	1 228	8.500	8.57	474
Global 19	10.14.2004	10.14.2019	15	1 000	8.875	9.15	492
Euro 15	2.3.2005	2.3.2015	10	652	7.375	7.55	399
Global 25	2.4.2005	2.4.2025	20	1 250	8.750	8.90	431
Global 15	3.7.2005	3.7.2015	10	1 000	7.875	7.90	353
Global 19 (Reopening)							
Global 19 (Reopening)	5.17.2005	10.14.2019	14	500	8.875	8.83	458
Global 34 (Reopening)	6.2.2005	1.20.2034	29	500	8.250	8.81	440
Global 34 (Reopening)	6.2.2005	1.20.2034	29	500	8.250	8.81	440
Global 15 (Reopening)	6.27.2005	3.7.2015	10	600	7.875	7.73	363
Global 15 (Reopening)	6.27.2005	3.7.2015	10	600	7.875	7.73	363
A-Bond 18 (Swap C Bond)			13	4 509	8.000	7.58	336
A-Bond 18 (Swap C Bond)	8.1.2005	1.15.2018	13	4 509	8.000	7.58	336
Global 25 (Reopening)	9.13.2005	2.4.2025	20	1 000	8.750	8.52	417
Global 25 (Reopening)	9.13.2005	2.4.2025	20	1 000	8.750	8.52	417
Global BRL 16	9.26.2005	1.5.2016	10	1 479	12.500	12.75	-
Global 15 (Reopening)	11.17.2005	3.7.2015	9	500	7.875	7.77	312
Global 15 (Reopening)	11.17.2005	3.7.2015	9	500	7.875	7.77	312
Global 34 (Reopening)	12.6.2005	1.20.2034	28	500	8.250	8.31	363
Global 34 (Reopening)	12.6.2005	1.20.2034	28	500	8.250	8.31	363

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.

Table 5.42 – 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
A-Bond[11/]	8.1.2005	1.15.2018	4 509	4 509	-	-
Total			19 217	21 357	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.
11/ Bradies accepted for swap: C bond.

Table 5.43 – Restructured external debt – Bradies, Pre-Bradies and MYDFA

Itemization	Outstanding 12.31.2005 US$ million	Maturity
Capitalization Bonds (C Bonds)	-	10.15.2005
Debt Conversion Bonds (DCB)	2 871	4.15.2012
Discount Bonds	1 286	4.15.2024
Eligible Interest Bonds (EI)	247	4.15.2006
Front Loaded Interest Reduction Bond (FLIRB)	327	4.15.2009
New Money Bond 1994 (NMB)	729	4.15.2009
Par Bonds	1 489	4.15.2024
Exit Bond (BIB) – (pre-Bradies)	248	9.15.2013
Multiyear Deposit Facility Agreement (MYDFA)	277	9.15.2007
Total	7 473	-

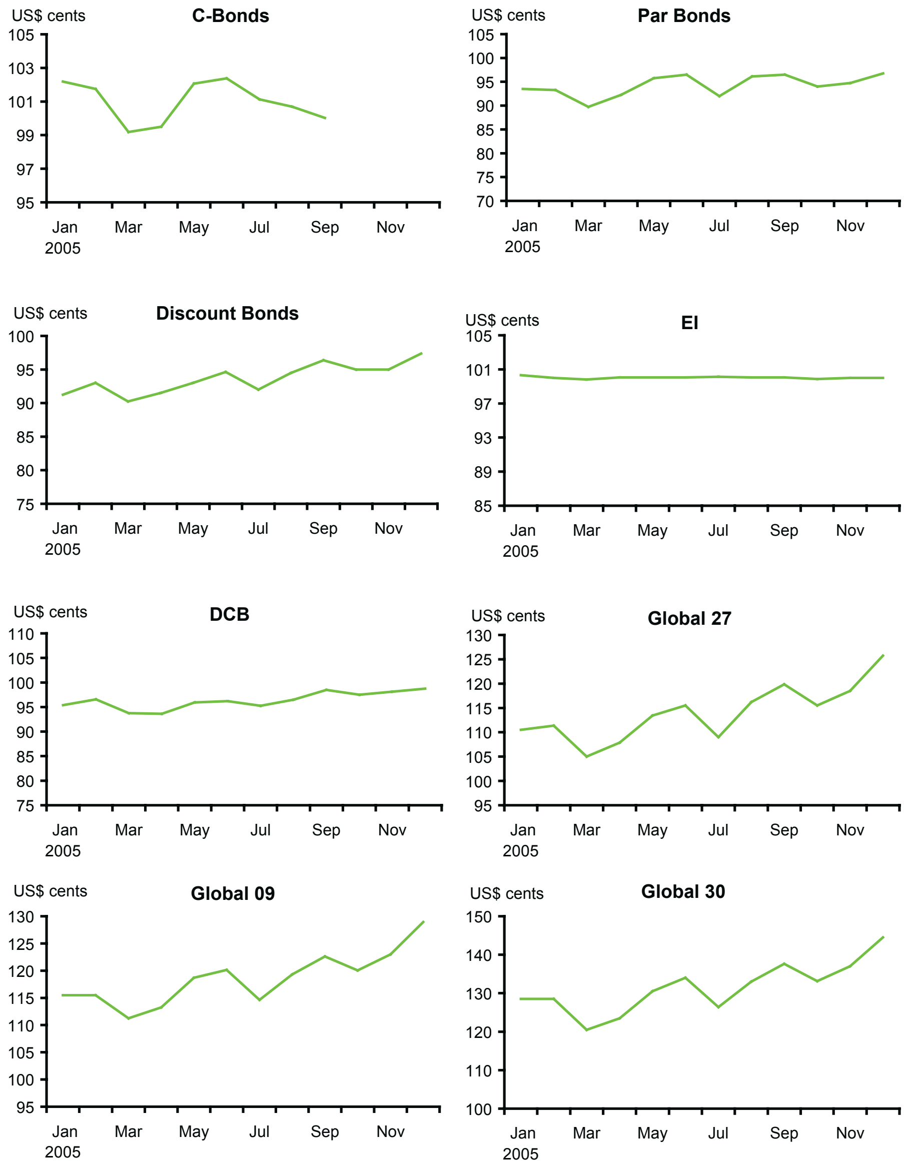
Brazilian external debt bonds

In 2005, the value of the major Brazilian external debt bonds increased. By way of example, the C-Bond, one of the sovereign bonds with the highest liquidity, used as a benchmark for floating rate securities, began the year at 102.3% of face value. The remaining balance of this bond was settled ahead of schedule in the month of October. The value increase of sovereign bonds was one of the reasons underlying improvement in foreign investor perceptions of Brazil's country risk in recent years.

Graph 5.16

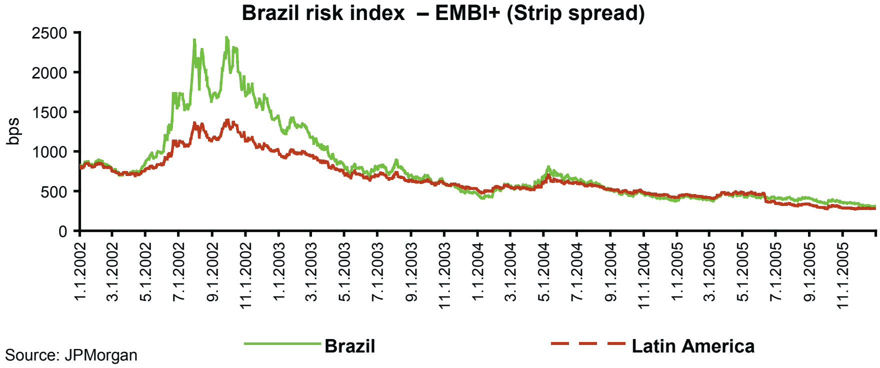
Prices of Brazilian securities abroad

Secondary market – Bid price, end-of-period – 2004



Over the course of 2005, the basket of Brazilian external debt bonds weighted by liquidity and calculated on a daily basis showed an average earnings differential in relation to American Treasury bonds equivalent to 399 basic points, well below the 2004 and 2003 averages of 542 and 834 basic points, respectively. Brazil's country risk classification opened 2005 at 385 basic points, dropping to 311 at the close of the year.

Graph 5.17
Brazil risk index – EMBI+ (Strip spread)



Source: JPMorgan

International financial assistance program – Withdrawals and amortizations

In December 2003, the IMF executive board approved the new Stand-by Agreement (SBA), once Brazil had successfully completed the revisions of the previous SBA. From that moment forward, Brazil fully complied with all of the Financial Assistance Program revisions until bringing the arrangement to a close in the month of March.

In 2005, the debt service referring to IMF loans totaled amortizations of US$23.3 billion and interest payments of US$1.1 billion. With strengthening of the nation's international reserve position and improvement in the external sector of the economy, the Brazilian government decided to anticipate full payment of the remaining SDR 10.8 billion, US$15.5 billion, debt in loans with the IMF. The original amortization schedule for this credit line called for payment of amortizations of SDR 4.9 billion in 2006 and SDR 5.9 billion in 2007. This schedule already reflected anticipated payment of the Supplemental Reserve Facility (SRF) credit line, totaling SDR 3.4 billion, in the month of July. Resources for these payments were withdrawn from Brazilian international reserves and, consequently, impacted the gross reserve position. Once the IMF debt had been fully paid, calculation of the net reserve position was no longer pertinent. For this reason, the most recent position compiled refers to November 2005.

Table 5.44 – 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	9 290
Credit tranche (CT)		4 266		6 049
Supplemental Reserve Facility (SRF)		2 285		3 241
Fifth tranche	8.8.2003	3 043	9.9.2003	4 185
Credit tranche (CT)		1 521		2 092
Supplemental Reserve Facility (SRF)		1 521		2 092
Sixth tranche[1/]	11.7.2003	5 621		
Credit tranche (CT)		5 621		
Sevent tranche[1/]	2.9.2004	911		
Credit tranche (CT)		911		
Eighth tranche[1/]	5.7.2004	911		
Credit tranche (CT)		911		
Ninth tranche[1/]	8.6.2004	911		
Credit tranche (CT)		911		
Tenth tranche[1/]	11.8.2004	911		
Credit tranche (CT)		911		
Eleventh tranche[1/]	2.8.2005	911		
Credit tranche (CT)		911		
Total of CT		19 767		13 239
Total of SRF		7 609		10 430
Total		27 376		23 669

1/ Tranches made available but not disbursed.

Note: The last tranche of the Stand-by arrangement of September 2002 is part of the new IMF arrangement, dated December 2003. According to this new arrangement, more DES 4.6 billion will be made available to Brazil during a 15-month period, in addition to the DES 5.6 billion already released. On 12.31.2005, the amount available was US$15.4 billion. The tranches made available but not drawn mounted US$15.4 billion.

Over the course of 2005, no PAF disbursements were made with the IBRD and IDB. Amortizations with these institutions totaled US$321 million, with US$69 million to the IDB and US$253 million to the IBRD. Interest payments to the two institutions totaled US$191 million in 2005.

Table 5.45 – Exceptional financing

US$ million

	2002			2003		
	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD[1/]	850	253	181	909	758	137
IDB[1/]	497	740	266	4	1 514	211
IMF	16 045	4 565	495	17 596	12 826	1 089
BIS	-	-	-	-	-	-
BoJ	-	-	-	-	-	-
Total	17 392	5 558	942	18 505	15 098	1 436

(continues)

Table 5.45 – Exceptional financing (concluded)

US$ million

	2004			2005		
	Disbursement	Amortization	Interest	Disbursement	Amortization	Interest
IBRD[1/]	1 027	758	89	-	253	118
IDB[1/]	-	1 249	116	-	69	73
IMF	-	4 363	1 204	-	23 271	1 084
BIS	-	-	-	-	-	-
BoJ	-	-	-	-	-	-
Total	1 027	6 369	1 409	-	23 592	1 276

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

International Investment Position

Analysis of the International Investment Position (IIP) shows an increase in net external liabilities from US$298 billion in December 2004, to US$354 billion in September 2005.

Changes in the IIP reflected an increase of US$70.4 billion in external liabilities, partially offset by US$14.1 billion growth in external assets. The change in external liabilities resulted from increases of US$39.9 billion in outstanding FDI and US$45.2 billion in outstanding portfolio investments, resulting from growth of US$42.9 billion in overall stock investments and US$2.4 billion in total fixed rate securities. Other investments dropped US$15.7 billion, with a particularly strong decrease of US$9.3 billion in liabilities with the IMF. The alteration in external assets was caused by increases under other investments, US$6.2 billion, of which US$4.7 billion originated in currency and deposits and US$4.1 billion in international reserves.

Table 5.46 – International investment position

US$ million

Itemization	2003	2004	2005-Sep
International investment position (A-B)	- 272 493	- 297 609	- 353 908
Assets (A)	134 223	148 536	162 611
Direct investment abroad	54 892	69 196	71 556
Equity capital[1/]	44 769	54 027	56 451
Intercompany loans	10 123	15 169	15 106
Portfolio investment[2/]	6 950	9 353	10 944
Equity securities	2 596	2 352	3 147
Debt securities	4 354	7 001	7 797
Bonds and notes	2 496	4 028	4 431
Of which collateral (principal)	1 004	1 129	1 224
Money-market instruments	1 859	2 973	3 365
Financial derivatives	81	109	2
Other investment	23 004	16 943	23 101
Trade credits (of suppliers)	186	68	68
Loans	687	631	2 061
Currency and deposits	16 412	10 418	15 070
Other assets	5 718	5 826	5 902
Of which collateral (interests) and memberships	-	-	-
in international financial organizations	1 230	1 230	1 229
Reserve assets	49 296	52 935	57 008

(continues)

Table 5.46 – International investment position (concluded)

US$ million

Itemization	2003	2004	2005-Sep
Liabilities (B)	406 716	446 145	516 519
Direct investment in reporting economy	132 818	161 259	201 183
Equity capital[1/]	112 334	142 451	182 335
Intercompany loans	20 484	18 808	18 847
Portfolio investment[2/]	166 095	184 758	229 992
Equity securities	53 138	77 261	120 125
In the reporting country	17 828	27 118	46 466
Abroad	35 310	50 143	73 660
Debt securities	112 957	107 497	109 867
Bonds and notes	112 957	107 497	109 867
In the reporting country	2 867	2 982	6 554
Abroad	110 090	104 515	103 313
Medium and long-term	108 476	104 271	102 344
Medium and short-term	1 614	244	969
Financial derivatives	125	320	1 281
Other investment	107 678	99 809	84 064
Trade credits	5 465	4 728	4 499
Medium and long-term	5 037	4 414	4 142
Medium and short-term	428	314	357
Loans	99 374	92 133	75 339
Monetary authority	28 795	25 394	15 940
Use of Fund credit & loans from the Fund	28 255	24 946	15 638
Other long-term	540	448	302
Short-term	-	-	-
Other sectors	70 579	66 739	59 399
Long-term	52 427	48 553	44 280
International entities	23 433	22 241	21 295
Government agencies	12 856	10 970	8 716
Buyers	6 542	4 984	4 252
Direct loans	9 596	10 358	10 017
Short-term	18 152	18 186	15 119
Currency and deposits	2 839	2 948	4 226
Monetary authority	108	100	93
Banks	2 731	2 848	4 133
Other liabilities	-	-	-

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