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...	data not available.
-	nil or non-existence of the event considered.
0 ou **0.0**	less than half the final digit shown.
*	preliminary figures.

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A bar (/) between years (1970/75) indicates the average of the years covered, including the beginning and ending years, or even crop or agreement year, when mentioned in the text.

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Summary

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Introduction

In early 2007, the Central Bank Monetary Policy Committee (Copom) maintained its strategy of following a more flexible monetary policy. In the ordinary meetings held in the early part of the year, the Committee introduced successive cuts of 25 b.p. in the Selic rate target. Though it could be considered relatively conservative compared to the previous year's trajectory – cutbacks of 75 b.p. in each of the three initial meetings, followed by five consecutive reductions of 50 b.p. – the pace adopted by the Committee was, in fact, the most appropriate position, particularly when viewed against the scenario of more rapid growth in price indices since the end of 2006.

The early months of 2007 reflected a price behavior influenced by the impact of foreign market prices of major commodities as well as the effects of expanding levels of employment and income, credit, government transfers and other sources of fiscal momentum that marked 2006 and were expected to continue in 2007. An additional element to be taken into consideration is the delayed impact of the 650 b.p. reduction observed in the Selic rate in 2006.

In this context, the reductions introduced by Copom in the first three meetings of 2007 revealed the Committee's perception that the short-term rise in prices was basically caused by factors of a transitory nature. Despite the outlook for consolidation of a global environment of reduced liquidity, generated by the impacts of rising interest rates in the industrialized economies and increased global market volatility, the external scenario remained favorable, particularly as regards financing for the Brazilian economy.

In the two following meetings held in June and July, Copom concluded that the evolution of inflation was consistent with the specified targets, in contrast to the relatively high rates that had persisted since the end of 2006. At the same time, the Committee judged that the contribution of the external sector to consolidation of a benign inflationary scenario was greater than originally thought, particularly as a result of the discipline imposed on the prices of tradable goods and the measures taken to expand investments. In this environment, growth in aggregate demand and domestic supply moved once again toward a state of equilibrium within a timeframe appropriate to monetary policy decisions, without in any way jeopardizing convergence toward the inflation target path. Consequently, a decision was made to increase the pace of cutbacks in the Selic rate target, reflected in successive reductions of 50 b.p.

In the final three meetings of the year, Copom took the position that evolution of the world economic scenario and more rapid growth in the domestic economy justified a reduction in monetary incentives. In the month of September, though a decision not to alter interest rates at that meeting could have been justified by several factors, the Committee decided that the balance of the risks to the prospective trajectory of inflation still called for an additional monetary stimulus in the form of a 25 b.p. cutback in the Selic rate. Starting in the month of October, as it became clearer that initially localized inflationary pressures could endanger the trajectory of domestic inflation, particularly when one considers that the favorable impact of the external sector on inflation in the segment of tradable goods could be neutralized by the upward pressures generated by rising domestic demand on the sector of nontradables, in an environment of expanding credit and real overall wages, Copom opted to hold the Selic rate target at 11.25% per year.

The continued effectiveness of the monetary policy allowed the country to absorb the external financial market turbulence of the second half of the year without any significant trauma, while avoiding deterioration of internal expectations in response to the sharp rise in agricultural prices. As a result, annual growth in the IPCA – the third lowest rate since the series was first calculated in 1980 – remained well within the parameters defined by the CMN in the framework of the inflation targeting system. Furthermore, price evolution reflected the positive impact of austere public accounts management, as is evident in the downward slide of the proportion between net public sector debt and GDP, which closed 2007 at 42.7%, the lowest level since 1998.

In this framework of persistent gains consequent upon the process of macroeconomic stability, the dynamics of internal demand, evident both in the sharp rise in the volume of investments and in the steady expansion under household consumption were once again responsible for acceleration in the pace of Brazilian economic growth. Annual GDP expansion hit 5.4% in 2007, the third best result of the last twenty years, as the current cycle of sustained Brazilian economic expansion closed at eighteen quarters at the end of the year with favorable perspectives into the future.

Consolidation of internal demand as the driving force underlying this economic growth cycle, therefore, reflected both consumption and investment decisions. Based on the optimism shown in both consumer and business expectations, these decisions were stimulated by improved credit market conditions, evident in the downward trajectory of interest rates and longer maturities in lending operations. Thus, boosted by improved labor market conditions, credit operations registered sharp growth in the year, with particular emphasis on operations targeted to the financing of household consumption, particularly in the form of personal loans for purposes of vehicle acquisitions, a segment in which leasing operations have played a growing role. In much the same way, loans granted to the business sector also expanded sharply, particularly under the headings of disbursements for working capital and investment operations, despite the fact that many companies, particularly larger enterprises, have pursued alternative long-term sources of financing.

Demand growth has generated positive impacts on labor market conditions. In this environment, formal labor market hirings have grown steadily and become almost commonplace in various sectors of the economy; unemployment has dropped to the lowest levels in the historical statistical series, at the same time in which skilled labor shortages have appeared in specific sectors of the economy.

Evolution of consumption and investment levels has contributed to lesser trade balance surpluses. This movement – which has not been reflected in balance of payments financing restrictions due to a continued inflow of longer-term capital generated by growing confidence among international investors regarding the consistency of Brazil's macroeconomic fundamentals – has been driven by increased imports of capital and consumer goods, thus favoring short-term equilibrium between supply and demand, with positive impacts on price stability and, over the medium term, adjustments in utilization of installed industrial capacity.

The balance of payments registered an overall surplus for the seventh consecutive year, closing with an annual record of US$87.5 billion. The positive results of the country's external accounts has made it possible to adopt a consistent policy for managing net external liabilities, now in a creditor position as a result of sharp growth in foreign reserves and significant reductions in the external debt stock. Maintenance of the strategy of reducing public sector exchange exposure and rebuilding reserves adopted since 2003 has created a more solid external accounts position, while enhancing the resilience of the economy to external adversities. This became patently clear in the only marginal impact on the country's economy of the outbreak of international credit market turbulence that followed upon the subprime crisis in the USA.

Net inflows of US$87.5 billion on the domestic exchange market in 2007 created the conditions needed for the Central Bank to increase its exchange purchases on the spot market, with settlement of US$78.6 billion, of which US$57 billion in the first half of the year. Only in the month of September, with the worsening of the international financial market turbulence, the monetary authority did not make any foreign exchange acquisitions on the spot market. Consequently, international reserves more than doubled during the year, shifting from US$85.8 billion at the end of 2006 to US$180.3 billion in 2007. It is important to recall that, just as in previous years, continued application of this policy by the Central Bank reflected a constant process of adjustment to changing market conditions, in such a way as to avoid increased exchange market volatility, without assuming any commitment as regards the level of exchange rates.

Aside from this, the National Treasury continued applying its strategy of acquiring exchange market resources to pay the external debt service and carry out anticipated sovereign bond buyback operations, thus further strengthening the temporal profile of the nation's debt.

Over the course of 2007, the performance of external sustainability indicators produced a highly favorable external Brazilian accounts situation. The positive evolution of risk premiums, viewed in the international context, was consistent throughout the year, as the Brazil risk closed at 138 points in mid-June, the lowest level since the series was first calculated in 1994. In the second half of the year, the risk level rose to a maximum of 254 points toward the end of November as a result of the international financial volatility generated by the subprime market crisis, only to settle back into a downward trajectory, closing the year at 221 points.

Improvements in macroeconomic fundamentals, the record level of international reserves, expanding trade flows, unprecedented inflows of international capital, improvement in sustainability indicators, elimination of exposure in internal and external public debt linked to exchange rate variations, among other factors, generated the conditions required for the major international risk rating agencies – Standard & Poor's, Fitch and Moody's – to raise the country's sovereign risk ratings to just one level below investment grade. It should be noted that Moody's rating was issued in the month of August and thus incorporates the impact of intense international financial market volatility, clearly bearing witness to the robustness of Brazil's economic fundamentals.

The Brazilian Economy

Activity level

In 2007, for the second consecutive year, the Brazilian economy intensified the pace of growth. The annual result – third best in the last 20 years – revealed the growing dynamics of internal demand, with a sharp upturn in investments and steady expansion of household consumption. At the same time, the characteristics underlying the current cycle of Brazilian economic expansion indicate that it will continue well into the future.

Evolving consumption and investment levels are two of the factors responsible for a reduction in the trade balance surplus. This tendency, which has not resulted in balance of payments financing restrictions, in view of continued inflows of longer term capital driven by growing confidence among international investors as regards the consistency of Brazil's macroeconomic fundamentals, has been powered by rising imports of capital and consumer goods, thus favoring short-term equilibrium between supply and demand, with positive impacts on price stability and, in the medium term, adjustments in utilization of installed industrial capacity.

Growing demand has had positive impacts on labor market conditions. In this context, formal job openings have expanded steadily in various sectors of the economy, while unemployment has dropped to one of its lowest levels since the jobless rate was first calculated and shortages of skilled manpower have already appeared in some economic segments.

Gross Domestic Product (GDP)

According to data released by the Brazilian Institute of Geography and Statistics (IBGE), GDP expanded 5.4% in 2007, representing the highest annual rate since 2004 when product growth closed at 5.7%. It should be added that this was the 15th consecutive year of positive economic growth. Analysis of this result shows a steady process of strengthening internal demand, with emphasis on the sustainability provided by sharp expansion under investments during the period. In current values, GDP reached R$2,558.8 billion at market prices.

Once again, positive GDP performance resulted from across-the-board expansion in its various components. Crop/livestock output increased 5.3%, driven by 13.6% growth in the grain harvest, mainly as a consequence of 14.1% average productivity gains, made possible by improved climatic conditions and investment incentives generated mainly by marketing prices. The area harvested declined 0.4% in the year.

Industrial activity expanded 4.9% in 2007, with positive growth in all of the various subsectors. Above all else, growth of 5.1% in manufacturing output reflected the effects of economic stability and improved credit and labor market conditions on output of capital goods and consumer durables. Taking advantage of rising income levels and measures adopted to stimulate growth in this sector, the construction industry expanded 5%, registering the fourth consecutive positive annual growth rate. Production and distribution of electricity, gas and water rose 5%, reflecting a process of economic recovery during the year. Parallel to this, mining activity expanded 3%, with increases in petroleum production – crude oil and natural gas liquid (NGL), with 1.3% – and iron ore output, 10,8%.

In 2007, the service sector expanded 4.7%, posting across-the-board growth in the various subsectors, particularly financial intermediation services, 13%; commerce, 7.6%; and transportation, storage and postal services, 4.8%, with the latter two being impacted by the performance of the primary and secondary sectors. One should also note expansion in the segments of information services, 8%; real estate activities and rents, 3.5%; other services, 2.5%; and administration, health and public education services, 0.9%.

The contribution of internal demand to GDP growth reached 6.8 percentage points (p.p.) in 2007. Gross Fixed Capital Formation (GFCF) rose 13.4%, followed by household consumption, 6.5% and government consumption, 3.5%. Moving in the opposite direction, the external sector generated a 1.4 p.p. negative impact on annual GDP growth, a result that is compatible with the increased dynamics of internal demand. In this context, while exports of goods and services expanded 6.6% in the year, imports of importance to development of the industrial structure and preservation of consumer goods supply-demand equilibrium increased 20.7%.

GDP performance in 2007 reflected a succession of positive quarterly results during the period under consideration. In this context, ratifying perceptions of recovery in the pace of economic growth, mainly as a result of steady expansion in real income and employment levels, the excellent performance of the agricultural sector and adoption of a more flexible monetary policy, GDP expanded 1% in the first quarter of the year, compared to the previous quarter, when purged of the seasonal factors.

Using the same basis of comparison, the service sector registered growth of 1.4%, while crop/livestock and industrial output dropped 1.2% and 1.3%, in that order. With regard

Table 1.1 – GDP at market price

Year	At 2007 prices (R$ million)	Real change (%)	Implicit deflator (%)	At current prices[1/] (US$ million)	Population (million)	Per capita GDP At 2007 prices (R$)	Per capita GDP Real change (%)	Per capita GDP At current prices[1/] (US$)
1980	1 357 648	9.2	92.1	237 772	118.6	11 451	7.0	2 005
1981	1 299 948	-4.3	100.5	258 553	121.2	10 724	-6.3	2 133
1982	1 310 737	0.8	101.0	271 252	123.9	10 580	-1.3	2 190
1983	1 272 333	-2.9	131.5	189 459	126.6	10 052	-5.0	1 497
1984	1 341 039	5.4	201.7	189 744	129.3	10 374	3.2	1 468
1985	1 446 297	7.8	248.5	211 092	132.0	10 959	5.6	1 599
1986	1 554 625	7.5	149.2	257 812	134.7	11 545	5.4	1 915
1987	1 609 503	3.5	206.2	282 357	137.3	11 725	1.6	2 057
1988	1 608 537	-0.1	628.0	305 707	139.8	11 504	-1.9	2 186
1989	1 659 367	3.2	1304.4	415 916	142.3	11 660	1.4	2 923
1990	1 587 185	-4.3	2737.0	469 318	146.6	10 827	-7.1	3 202
1991	1 603 533	1.0	416.7	405 679	149.1	10 755	-0.7	2 721
1992	1 594 816	-0.5	969.0	387 295	151.5	10 524	-2.2	2 556
1993	1 673 357	4.9	1996.1	429 685	154.0	10 867	3.3	2 790
1994	1 771 296	5.9	2240.2	543 087	156.4	11 323	4.2	3 472
1995	1 846 112	4.2	93.9	770 350	158.9	11 620	2.6	4 849
1996	1 885 813	2.2	17.1	840 268	161.3	11 690	0.6	5 209
1997	1 949 465	3.4	7.6	871 274	163.8	11 903	1.8	5 320
1998	1 950 154	0.0	4.2	843 985	166.3	11 730	-1.5	5 077
1999	1 955 109	0.3	8.5	586 777	168.8	11 586	-1.2	3 477
2000	2 039 299	4.3	6.2	644 984	171.3	11 906	2.8	3 766
2001	2 066 022	1.3	9.0	553 771	173.8	11 886	-0.2	3 186
2002	2 120 943	2.7	10.6	504 359	176.4	12 024	1.2	2 859
2003	2 145 266	1.1	13.7	553 603	179.0	11 986	-0.3	3 093
2004	2 267 893	5.7	8.0	663 783	181.6	12 489	4.2	3 655
2005	2 339 522	3.2	7.2	882 439	184.2	12 702	1.7	4 791
2006	2 427 371	3.8	4.7	1 071 973	186.8	12 997	2.3	5 740
2007	2 558 821	5.4	4.0	1 313 901	189.3	13 517	4.0	6 941

Source: IBGE

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

to demand components, it is important to stress 2.3% growth in Gross Fixed Capital Formation. Household consumption increased 1.5% and government consumption rose 2.5%, while exports increased 1% and imports expanded 4.3%, reflecting the upturn in the activity level.

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

Percentage

Itemization	2007			
	I	II	III	IV
GDP at market price	1.0	1.5	1.8	1.6
Crop and livestock sector	-1.2	1.2	7.1	-0.3
Industrial sector	-1.3	2.9	1.3	1.4
Service sector	1.4	0.9	1.3	1.6

Source: IBGE

In the second quarter of the year, the pace of GDP growth quickened, as is evident in across-the-board expansion of its different components. The 1.5% increase in product in the period under consideration reflected a 2.9% rise in the industrial segment, sustained mainly by the evolution of the construction industry and manufacturing; 1.2% growth in crop/livestock output; and 0.9% under services. With regard to demand components, it is important to stress the continued growth of Gross Fixed Capital Formation, with 4.9%. Household consumption increased 1.6%, while government consumption dropped 0.1%, and exports and imports moved upward at respective rates of 1.1% and 3%.

Quarterly GDP growth continued in the third quarter of the year, closing at 1.8%, representing the eighth consecutive positive quarterly rate using this basis of comparison. Crop/livestock production expanded 7.1%, the highest rate of the last 37 quarters, while industry and services posted increases of 1.3%, respectively, representing the fifth and 10th best results in this type of comparison. From the viewpoint of demand and based only on seasonally adjusted data, the quarter registered strong growth in investments, as reflected in 4.6% expansion under Gross Fixed Capital Formation, while household consumption increased 1.6% and government consumption rose 0.2%. Exports and imports rose at respective rates of 1.4% and 8.8%, as foreign purchases expanded for the 17th consecutive quarter.

Ratifying the evolution of leading and coincident indicators, GDP expanded 1.6% in the fourth quarter of the year, compared to the previous period. This was the ninth consecutive positive result using this type of analysis. Crop/livestock production declined 0.3% in the quarter, following a 7.1% high in the previous quarter.

Viewed in terms of demand, analysis at the margin reveals aspects that suggest the sustainability of this growth process. In more specific terms, these aspects would be the continuity of investments and the qualitative character of the external sector's negative contribution. In this sense, Gross Fixed Capital Formation and household consumption expanded 3.4% and 3.7%, respectively, in the fourth quarter of the year, compared to the previous period, while government consumption remained stable, raising the contribution of internal demand to the quarterly GDP result to a level of 1.9 p.p. Parallel to this, the negative contribution of the external sector, while totaling only 0.3 p.p., reflected a quarterly rise of 2.6% in exports and 5.6% in imports, a result considered fully consistent with the vigor of internal demand and important to both expanding investments and preservation of price stability.

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

Percentage

Itemization	2005	2006	2007
GDP	3.2	3.8	5.4
Crop and livestock sector	0.3	4.2	5.3
Industrial sector	2.1	2.9	4.9
Mineral extraction	9.3	5.7	3.0
Manufacturing	1.2	2.0	5.1
Building	1.8	4.6	5.0
Production and distribution of electricity, gas and water supply	3.0	3.3	5.0
Service sector	3.7	3.8	4.7
Commerce	3.5	5.1	7.6
Transportation, storage and postal services	3.5	3.2	4.8
Information services	4.0	2.5	8.0
Financial intermediation, insurance, complementary pension system and related services	5.3	6.2	13.0
Other services	5.2	3.1	2.3
Real estate activities and rent	4.7	2.3	3.5
Public administration, health and education	1.1	3.7	0.9

Source: IBGE

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

Percentage

Itemization	2005	2006	2007
GDP	3.2	3.8	5.4
Family consumption	4.5	4.6	6.5
Government consumption	2.3	2.8	3.1
Gross Fixed Capital Formation	3.6	10.0	13.4
Exports of goods and services	9.3	4.7	6.6
Imports of goods and services	8.5	18.3	20.7

Source: IBGE

Table 1.5 – Gross Domestic Product – At current value

In R$ million

Itemization	2004	2005	2006	2007
Gross Domestic Product at market prices	1 941 498	2 147 239	2 332 936	2 558 821
Under the prism of product				
Crop and livestock sector	115 194	105 163	103 228	120 847
Industrial sector	501 771	539 316	602 834	628 915
Service sector	1 049 293	1 197 774	1 295 414	1 441 144
Under the prism of expenditure				
Final consumption expenditure	1 533 895	1 721 783	1 870 947	2 060 853
Family consumption	1 160 611	1 294 230	1 407 940	1 557 544
Government consumption	373 284	427 553	463 007	503 310
Gross Capital Formation	332 333	347 976	393 865	458 856
Gross Fixed Capital Formation	312 516	342 237	385 007	449 558
Changes in inventories	19 817	5 739	8 857	9 298
Exports of goods and services	318 892	324 842	340 457	354 943
Imports of goods and services (-)	243 622	247 362	272 333	315 831

Source: IBGE

Investments

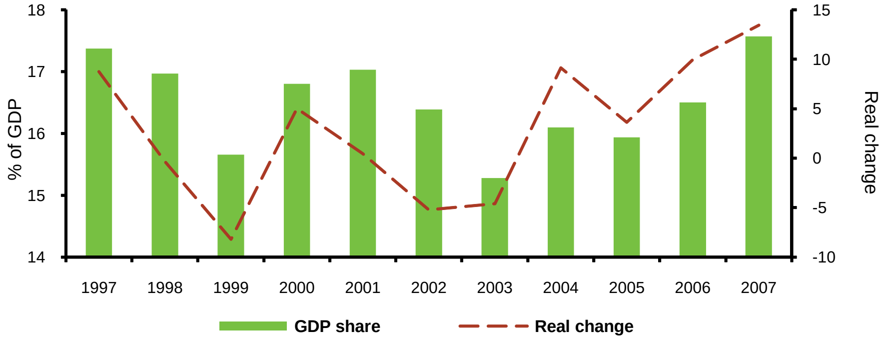
According to IBGE's Quarterly National Accounts, investments – excluding stock variations – expanded 13.4% in 2007, the highest annual rate since 1994 and the fourth successive positive result. This pace of growth, which was substantially higher than GDP expansion, not only reflected business confidence in the continuity of the growth cycle, but also stood as a clear sign that, over the medium term, output capacity would be maintained at a level compatible with internal demand, posting an annual increase of 1.1 p.p. in the ratio between GF CF and GDP (17.6% in 2007).

Building industry inputs expanded at an annual rate of 5.1% in 2007, compared to 4.5% in the previous year. As the pace of activity in this sector intensified over the course of the year, half-yearly growth rates came to 2.3% in the first six months and a 3.7% in the final six months, based on comparisons with the immediately previous period, utilizing seasonally adjusted data.

In much the same way, output of capital goods expanded in 2007, closing with a 19.5% growth as compared to 5.7% in the previous year, mainly as a result of across-the-board increases in the various segments of this industry. However, it is important to stress strong recovery in the income of segments connected to the crop/livestock sector, particularly farm machines and equipment, with 48.4%, and parts for farm machinery, 170.8%. Furthermore, it is important to mention significant increases in the production of capital goods targeted to the sectors of electricity, 26%; construction, 18.7%; and transportation equipment, 18%. Production of typically industrialized goods expanded 17% in the year, reflecting growth in the segments of assembly-line products, 18.5%, and those turned out on an order basis, 7.4%.

The performance of investments takes on even more significant proportions when one considers the comparison between the relative results for the fourth quarter of 2007 and those of the previous year, revealing growth of 16%. This was the 16th consecutive positive result applying this type of comparison and clearly confirms the longest period of growth in the statistical series since it was first calculated in 1991. Analysis at the margin shows seasonally adjusted growth of 3.4% in fourth quarter investments, compared to the previous period.

Graph 1.1
Gross fixed capital formation



Source: IBGE

Table 1.6 – Gross capital formation (GCF)

Percentage

Year	Share in GCF				At current prices	
	Gross Fixed Capital Formation (GFCF)			Changes in inventories	GFCF/GDP	GCF/GDP
	Building	Machines and equipments	Others			
1995	44.5	48.9	8.3	-1.6	18.3	18.0
1996	48.2	43.5	7.3	1.0	16.9	17.0
1997	49.5	43.1	7.0	0.3	17.4	17.4
1998	51.9	40.8	6.9	0.3	17.0	17.0
1999	50.6	37.2	7.8	4.4	15.7	16.4
2000	45.7	39.3	7.1	7.9	16.8	18.3
2001	43.9	43.3	7.3	5.5	17.0	18.0
2002	47.8	44.8	8.5	-1.2	16.4	16.2
2003	42.8	45.3	8.7	3.1	15.3	15.8
2004	41.1	45.0	7.9	6.0	16.1	17.1
2005	41.6	49.0	7.7	1.6	15.9	16.2
2006	...	...	...	...	16.5	16.9
2007	...	...	...	...	17.6	17.9

Source: IBGE

Table 1.7 – Selected capital goods production

Itemization	Percentage change		
	2005	2006	2007
Capital goods	3.6	5.7	19.5
Industrial	-2.2	5.5	17.0
Serial	-2.2	5.2	18.5
Non-serial	10.4	6.9	7.4
Agricultural	-37.7	-16.5	48.4
Agricultural parts	-69.0	-38.9	170.8
Building	32.0	8.2	18.7
Electric energy	28.5	22.2	26.0
Transportation	6.6	-1.6	18.0
Mixed	3.4	11.6	15.4

Source: IBGE

According to the National Bank of Economic and Social Development (BNDES) disbursements of the BNDES system – BNDES, Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – totaled R$64.9 billion in 2007, for growth of 26.5% over the previous year. It is estimated that disbursements will continue expanding in the coming years, since the volume of projects approved increased 33% in 2007, surpassing disbursements for the third consecutive year. A sectoral analysis shows that the performance of the infrastructure sector dominated in terms of both disbursements and the number of projects approved, posting respective annual growth rates of 62% and 104%.

Table 1.8 – BNDES disbursement[1/]

In R$ million

Itemization	2005	2006	2007
Total	46 980	51 318	64 892
By sector			
Manufacturing industry	23 104	25 734	25 395
Commerce and service	19 479	20 704	33 448
Crop and livestock	4 059	3 423	4 998
Extraction industry	338	1 458	1 051

Source: BNDES

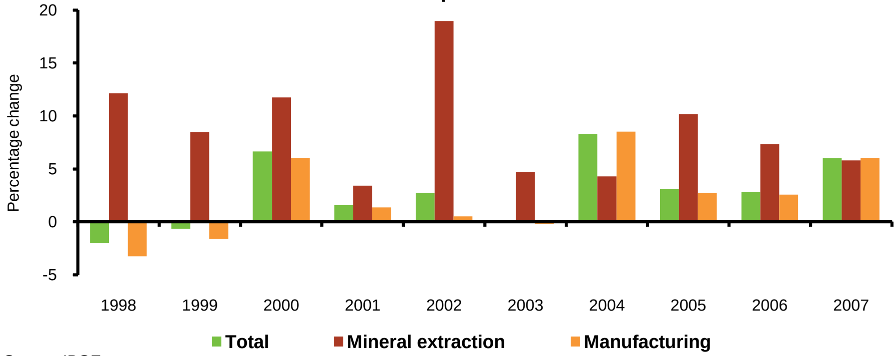
1/ Includes BNDES, Finame and BNDESpar.

The Long-Term Interest Rate (TJLP), which is utilized as the indexing factor for financing operations contracted with the BNDES system, declined during the year from 6.85% per year at the end of 2006 to 6.5% per year in the first quarter and later to 6.25%, where it remained until the final quarter of 2007. Aside from stimulating further investments, these reductions reflected the environment of Brazilian economic stability.

Industrial output indicators

The physical production of the industrial sector expanded 6% in 2007, according to IBGE's Monthly Industrial Survey (PIM). This result reflected increases of 6% in the manufacturing sector and 5.9% under mining. The 2007 figure followed upon highs of 2.8% in 2006 and 3.1% in 2005, making it the third highest result since the Real Plan was adopted. The only two better results occurred in 1994 and 2004.

Graph 1.2
Industrial production



Source: IBGE

Just as occurred in the case of GDP, the annual performance of the industrial sector revealed a sequence of positive quarterly results during the year. Utilizing only seasonally adjusted data, industrial output expanded 1.5% in the first quarter, compared to the previous quarter. Using the same type of comparison, growth in subsequent quarters came to 2.5%, 1.7% and 1.9%, respectively.

Table 1.9 – Industrial production

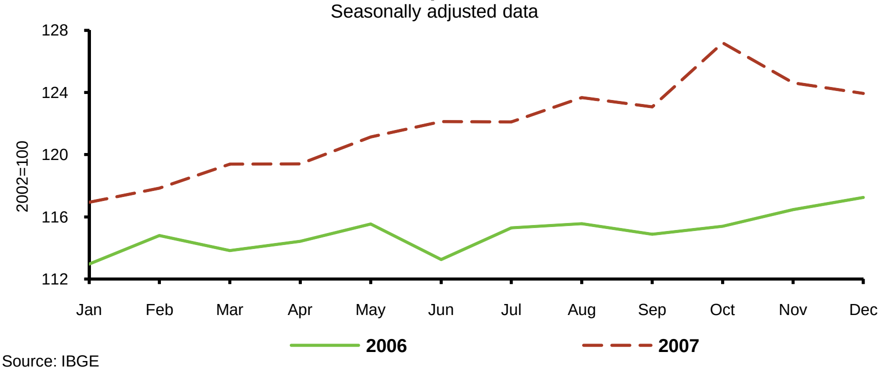
Itemization	Percentage change		
	2005	2006	2007
Total	3.1	2.8	6.0
By category of use			
Capital goods	3.6	5.7	19.5
Intermediate goods	0.9	2.1	4.9
Consumer goods	6.0	3.3	4.7
Durable	11.4	5.8	9.1
Semi and nondurable	4.6	2.7	3.4

Source: IBGE

Segmentation of the annual result broken down by categories shows across-the-board expansion. Here, stress should be given to the dynamics of capital goods and consumer durables output, both of which kept pace with investment growth and consolidation of internal demand. In this scenario, capital goods production expanded 19.5% in 2007, the second best result in the historical series that began in 1991. This figure was only surpassed by the 2004 record of 19.7% and was driven by the highly favorable climate generated by rising business confidence in the continuity of the stable macroeconomic situation and the interest rate trajectory, coupled with credit and labor market results.

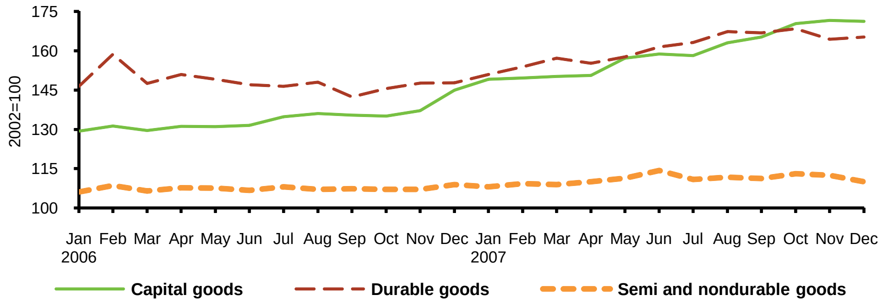
Production of consumer durables expanded 9.1% in 2007, the fourth consecutive annual result above 5%, driven both by greater consumer confidence, evident in the commitment of higher percentages of future income, and by an increased volume of available income, together with improved credit market conditions.

Graph 1.3
Industrial production
Seasonally adjusted data



Source: IBGE

Graph 1.4
Industrial production – By category of use
Seasonally adjusted data



Source: IBGE

In 2007, production of intermediate goods grew 4.9%, the fourth consecutive annual result below the rate for industry as a whole. One should emphasize that this result was consequent upon lesser expansion under the segments of textiles, 3.8%, food products, 2.6%, and oil refining and alcohol, 3.1%.

The results achieved by semi-durable and nondurable consumer goods were the least expressive in 2007. To some extent, annual growth of 3.4% reflected the reduced importance of credit to the sector, coupled with a 2.2% decline in the activities of the footwear and leather sectors, primarily as a result of lesser participation in external market operations.

In the year under analysis, industrial output expanded in 21 of the 27 activities surveyed. As regards activities that closed with positive results, seven achieved rates higher than the industrial average, mainly including those related to the segment of capital goods, such as machines and equipment, 17.7%; automotive vehicles, 15%; office machinery and computer equipment, 14.4%; and electric machines, apparatuses and equipment, 14%. A breakdown of segments that registered reductions during the year points to four segments of activity: wood, footwear and leather articles, electronic equipment, communications devices and equipment and diverse products. These activities repeated the negative performance of the previous year, suggesting structural changes in the nation's industrial base. Aside from this, the negative results were concentrated under activities related more to the category of semi-durable and nondurable consumer goods, such as tobacco, -8.1%, and footwear and leather, -2.2%.

The activities of the industrial segments that registered the most significant advances and turned in the best results in the 13 states surveyed by the IBGE were basically concentrated among consumer durables, capital goods and typical export products. It should be observed that 8.6% annual growth registered in the State of Minas Gerais was driven by the dynamics of the automotive industry and iron ore mining, followed by the States of Espírito Santo and Rio Grande do Sul, with respective growth rates of 7.5% and 7.4%; Paraná, with 6.7%; and São Paulo, 6.2%. The states that registered performances below the national average were Ceará, 0.3%; Bahia, 2%; Rio de Janeiro, 2.1%; and Goiás, 2.3%.

Personnel occupied in the industrial sector expanded 2.2% in 2007, the highest rate since this index was first calculated in 2001. Here, particular mention should be made of growth in São Paulo, 3.5%, and Paraná, with 3.1%, in contrast to a situation of stability in the State of Rio Grande do Sul. A breakdown by industrial segments shows that absorption of labor was most intense under food products and beverages and transportation equipment, while the sharpest reductions occurred under footwear and leather articles, apparel and wood.

The real payroll of the industrial sector expanded 5.4% in 2007, following a 1.3% rise in the previous year. Particular mention should be made of the 8.3% increase registered in Rio Grande do Sul, though the number of persons employed in this state remained stable. The activities that registered the sharpest payroll growth were mining, with 16.5%, coke, oil refining, nuclear fuels and alcohol, 12.7%; chemical products, 12%; and metal products, excluding machines and equipment, 10%.

According to the Getulio Vargas Foundation (FGV), the level of utilization of installed capacity utilization level (Nuci) trended upward throughout 2007. Demonstrating the continuity of the industrial growth process, the Nuci reached 86.7% in December, even at a time of increased investments. On average, the 2007 Nuci came to 85.1%, for growth of 1.7 p.p. compared to the previous year.

Table 1.10 – Industrial capacity utilization[1/]

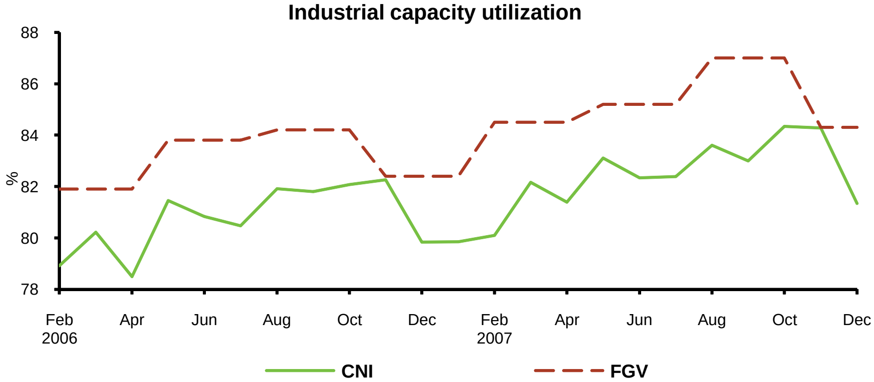
Percentage

Itemization	2005	2006	2007
Manufacturing industry	83.5	83.3	85.1
Consumer goods	81.2	80.1	83.1
Capital goods	81.4	82.0	85.7
Building material	81.8	85.1	84.6
Intermediate goods	87.5	87.3	87.8

Source: FGV

1/ Quarterly survey. Average in the year.

Graph 1.5
Industrial capacity utilization



According to data revealed by the Industrial Survey carried out by the National Confederation of Industry (CNI) for the third quarter of 2007, the tax load and rate of exchange were the major restrictions faced by industrial companies, while insufficient demand and higher rates of interest became less relevant. One should emphasize growing concern on the part of the business community in relation to the shortage of skilled labor.

The October 2007 FGV Manufacturing Industry Survey showed that, among the interviewees that reported factors that restricted increased output during the year, 27.5% cited the shortage of raw materials as the major limitation, followed by the level of demand, 20%, and a shortage of skilled labor, 17.5%.

The industrial confidence index released by FGV hit 116 points in December 2007, compared to 106.3 points in the same month of 2006. Analysis of its components shows that the current situation index reached 129.3 points, and the expectations index, which was adversely impacted by the uncertainties surrounding the external environment, closed at 102.7 points.

Commerce indicators

The major retail sales indicators showed strong growth rates in 2007, reflecting robust performances both in sectors that depend more on the level of available consumer income and those in which credit conditions play a determining role.

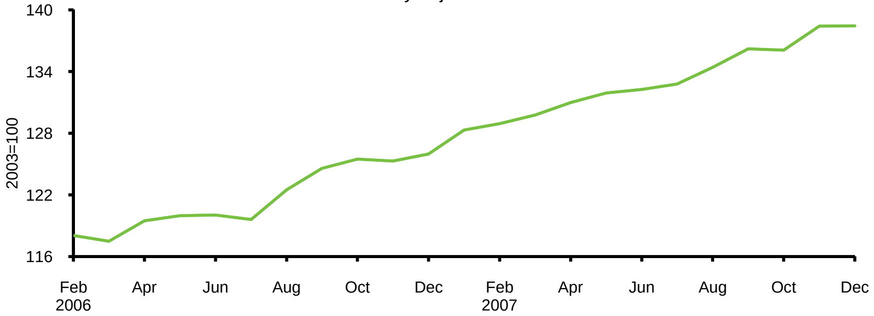
According to IBGE's Monthly Retail Trade Survey (PMC), the Retail Sales Volume Index expanded 9.7% in 2007, the highest annual rate since 2000 when the survey became national in scope. Sales increased in the eight segments included in the general index, with particularly strong expansion under office, computer and communications equipment and material, 29.5%; other personal and home use articles, 22.7%; furniture and home appliances, 15.4%; and fabrics, apparel and footwear, 10.6%. Sales of the expanded retail trade sector, a concept that incorporates the segments of automobiles, motorcycles, parts and spares, as well as building materials, grew 13.6% in the year, with respective rates of 22.6% and 10.8% in the two sectors cited above.

The 2007 increase in retail sales was registered in all of the country's five major regions. The highest growth rate occurred in the Southeast, 10.6%; followed by the Northeast, 10.5%; Central West region, 9.8%; South, 8%; and North, 8.1%. The strong performances registered in the Southeast and the Central West regions were, to some extent, generated by recovery in farm income in those regions. As regards the various states, mention should be made of retail sales increases in the states of Alagoas, 19.2%; Maranhão, 14.3%; Mato Grosso do Sul, 13.4%; São Paulo, 12.6%; and Mato Grosso, 12.2%.

In all regions of the country, growth rates in the sales of the expanded trade sector surpassed those posted in the restricted concept, registering 18.8% in the North region. A breakdown by states indicates strong growth in Rondônia, 28.8%; Acre, 23%; Alagoas, 20.5%; and Amapá, 19.8%.

Nominal Sales Revenues showed expansion of 11.8% in 2007, generated by 9.7% expansion in sales volume and 1.9% price growth. All of the various segments, except fuels and lubricants, registered growth in nominal revenues that surpassed the 4.46% inflation rate, as measured by IBGE's Expanded National Consumer Price Index (IPCA) during the period under consideration. In this case, particular emphasis should be given to the enhanced dynamics of the segments of vehicles, motorcycles, parts and spares, with 23.2%; hypermarkets, supermarkets, food products, beverages and tobacco, 19.1%; and fabrics, apparel and footwear, 19%.

Graph 1.6
Sales volume index in the retail sector
Seasonally adjusted data



Source: IBGE

Indicators for the state of São Paulo trade sector clearly ratified across-the-board growth in sales of consumer durables, semi-durables and nondurables in 2007. In this context, data released by the São Paulo Trade Association (ACSP) indicate that the number of consultations with the Credit Protection Service Center (SCPC), which is used for analyzing installment purchases, increased 6.2% in the year, while consultations with the Usecheque system, considered an indicator of sales with immediate payment, rose 6.1% in the period.

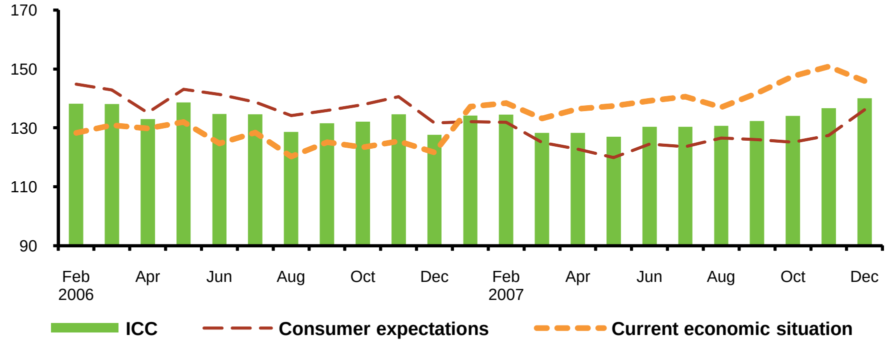
The strength of automobile sales in 2007 was supported by statistics published by the National Federation of Automotive Vehicle Distribution (Fenabrave), reflecting an annual increase of 27.8% in sales of automobiles, light commercial vehicles, trucks and buses through factory authorized outlets. This was the best result since 1995.

Despite upward movement in commerce sector sales, default indicators remained stable over the last three years, as the ratio between the number of checks returned due to insufficient backing and total checks cleared moved to an average of 6.2% in 2007, against 6% in 2005 and 6.4% in 2006. Broken down by region, the highest rates were registered in the North and Northeast. Defaults in the Metropolitan Region of São Paulo, as measured by the ACSP, also remained stable, moving from an average of 5.3% in 2006 to 5.4% in 2007.

National surveys of consumer expectations registered highly divergent results in 2007. The National Confidence Index (INC), released by the ACSP, reached 130.5 points on average, reflecting a drop of 0.4% compared to the previous year. This result reflected worsening under components dealing with the local economic situation and improvement in areas related to personal short-term finances. Analyzed by region, the INC showed declines during the year in the Northeast, 1.4%; North and Central West, 1.7%; and South, 9.5%; coupled with an increase of 3.5% in the Southeast region. FGV's consumer confidence index (ICC) expanded 4.7% in the year, as a result of increases of 5.6% in the Expectations Index (IE) and 3.6% under the Current Situation Index (ISA).

The ICC, which is released by the State of São Paulo Trade Federation (Fecomercio SP), declined to 1.1% in 2007, clearly reflecting the 8.5% drop under the Consumer Expectations Index (IEC), which represents 60% of the general index, and 11.1% upward movement in the Current Economic Conditions Index (Icea).

Graph 1.7
Consumer Confidence Index



Source: Fecomercio SP

Crop/livestock output indicators

The 2007 grain harvest set a record of 132.9 million tons, for an annual growth of 13.6% that reflected a 14.1% rise in productivity, coupled with a 0.4% drop in the area

Table 1.11 – Agricultural production – Major crops

Millions of tons

Products	2006	2007
Grain production	117.0	132.9
Cotton seed	1.8	2.3
Rice (in husk)	11.5	11.1
Beans	3.4	3.3
Corn	42.6	51.5
Soybeans	52.4	58.2
Wheat	2.5	4.0
Others	2.8	2.4
Change in grain production (%)	3.9	13.6
Other crops		
Bananas	7.1	7.0
White potatoes	3.1	3.4
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.6	2.2
Sugarcane	455.3	515.3
Tobacco (in leaf)	0.9	0.9
Oranges	18.1	18.3
Cassava	26.7	26.8
Tomatoes	3.3	3.4

Source: IBGE

harvested. The year's final result was positively impacted by the wheat, herbaceous cotton, corn and soybean crops, while production under the rice and bean crops had the opposite effect.

Particular mention should be made of performances in the South and Central West harvests, clearly the country's most important regions. These two areas registered positive growth of 23.3% and 10.8%, respectively, accounting for 45.1% and 33.1% of national agricultural output.

Soybean production closed 2007 with a total of 58.2 million tons. Annual growth of 11.1% reflected expansion of 18.5% in average crop yields, mainly as a result of adequate climatic conditions and a 6.2% reduction in the area harvested. The reduction in the area harvested reflected migration toward more profitable crops, such as corn and sugarcane.

The corn harvest totaled 51.5 million tons, a 20.9% rise compared to the previous year. Average crop productivity increased 10.5%, while the area cultivated expanded 9.4%. These results were driven by favorable climatic conditions during the planting season and the incentive of price growth, keeping pace with rising American demand for ethanol.

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

Percentage change

Products	Production		Area		Average earnings	
	2006	2007	2006	2007	2006	2007
Grain production	3.9	13.6	-2.7	-0.4	6.9	14.1
Cotton (seed)	-21.3	29.2	-28.8	23.1	11.4	5.0
Rice (in husk)	-13.0	-3.7	-24.0	-2.5	14.8	-1.3
Beans	14.1	-4.4	7.2	-4.7	6.2	0.4
Corn	21.4	20.9	9.1	9.4	11.3	10.5
Soybeans	2.4	11.1	-4.1	-6.2	6.7	18.5
Wheat	-46.7	62.3	-34.0	18.0	-19.3	37.5

Source: IBGE

Bean production closed 2007 with 3.3 million tons. The annual reduction of 4.4% reflected a 4.7% drop in the area under cultivation, coupled with 0.4% growth in productivity. The first harvest, which corresponded to 54% of the year's total output, expanded 13% to a level of 1.8 million tons, reflecting growth in harvested area, 5.6%, and average yield, 7.1%. The second harvest was negatively impacted by poor weather and the absence of technology investments, while producer prices were far from attractive. The result was a 23% drop compared to the previous year.

Just as in the case of the bean crop, the price level discouraged cultivation of rice. Production of this crop totaled 11.1 million tons, an annual falloff of 3.7% caused by a 2.5% reduction in the area harvested and a 1.3% cutback in average yield.

The wheat harvest totaled 4 million tons. Annual growth of 62.3% reflected increases in the area harvested, 18%, and in average productivity, 37.5%.

Cottonseed output rose 29.2% in 2007, reaching a total of 2.3 million tons. The area harvested expanded 23.1%, while average productivity rose 5%.

The result for the coffee crop was heavily influenced by the biannual downward cycle in the production of this grain, resulting in a 15% reduction in 2007 harvest productivity. The area harvested diminished 2% and contributed to the 16.7% decline in annual coffee production, which closed at 2.2 million tons.

Sugarcane production reached 515.3 million tons, an increase of 13.2% in the year. The area cultivated increased 9% and average productivity rose 3.9%.

Table 1.13 – Grain stock – Major crops

Thousands of tons

Products	2004/2005	2005/2006	2006/2007
Grain production			
Rice (in husk)			
Beginning of the year	2 728.4	3 532.1	2 879.3
End of the year	3 532.1	2 879.3	1 745.2
Beans			
Beginning of the year	169.7	113.6	353.3
End of the year	113.6	353.3	381.0
Corn			
Beginning of the year	7 801.7	3 135.4	5 568.3
End of the year	3 135.4	5 568.3	6 638.2
Soybeans			
Beginning of the year	4 522.2	2 734.7	2 469.7
End of the year	2 734.7	2 469.7	3 636.1
Wheat			
Beginning of the year	390.4	1 112.5	575.8
End of the year	1 112.5	575.8	143.4

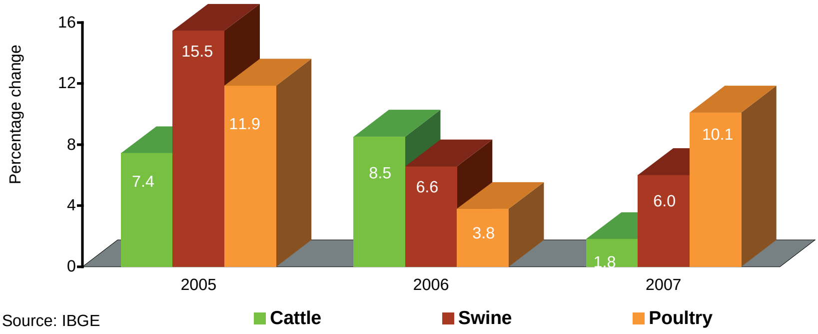
Source: Companhia Nacional de Abastecimento (Conab)

Livestock

According to the Quarterly Survey of Animal Slaughters, released by the IBGE, production of beef cattle reached 7 million tons in 2007, a 1.8% increase over the previous year. Poultry and swine production closed at 9 million and 2.4 million tons, for respective increases of 10.1% and 6%.

Beef exports totaled 1.3 million tons in 2007, an increase of 4.9% compared to the previous year, while poultry and pork exports expanded at rates of 16.3% and 14% in that order, closing at 3 million and 552.2 thousand tons.

Graph 1.8
Animal production



Source: IBGE

Farm policy

As released in June 2007, the Agriculture and Livestock Plan (PAP) for the 2007/2008 harvest, calls for injection of R$58 billion, corresponding to growth of 16% over the previous year.

Of this total, R$49.1 billion will be targeted to current expenditure and marketing operations and R$8.9 billion to investments, for annual increases of 18.6% and 3.5%, in that order.

Of total resources to be channeled to current expenditures and marketing operations, R$37.9 billion are earmarked resources and are subject to controlled rates of interest. These rates, held to 8.75% per year since the 1998/1999 plan, were reduced 2 p.p., thus contributing to a reduction in the financial cost of farming activities.

In order to ensure that the largest possible number of producers will have access to funding, rural credit legislation defines limits for each group of borrowers. According to the current plan, which is designed to accompany increased costs and stimulate production, these limits were broadened for several crops, particularly those of importance to internal market supply, such as rice, beans, manioc, sorghum, wheat and corn. Animal production has also benefited from the introduction of higher financing limits, particularly in the segments of poultry and pig farming.

The resources available in investment credit programs totaled R$8.9 billion, a 3.5% rise compared to the previous harvest. The major modifications were interest rate reductions from 8.75% per year to 6.75% per year for all programs, except the Program of Modernization of the Farm Tractor and Associated Implements and Harvester Fleet (Moderfrota); and the interest rate reduction from 8.75% per year to 7.5% per year in operations in the framework of Moderfrota, which was extended to a larger universe of machines apt for financing. Seeking to improve their operational aspects, the Program of Agricultural Modernization and Natural Resources Conservation (Moderagro), the Agribusiness Development Program (Prodeagro) and the Program of Development of Fruit Farming (Prodefruta) were unified into a single program, denominated Moderagro II.

At the same time, the current PAP introduced alterations into the Rural Employment and Income Generation Program (Proger Rural). In this context, the income limit for classification within the program was increased from R$100 thousand to R$220 thousand; interest rates were cut by 1.75 p.p. to 8%; and available funding was increased from R$700 million to R$2.2 billion.

Productivity

Repeating the trajectory observed in the recent past, productivity indicators in the primary and secondary sectors of the economy showed positive growth in 2007. The productivity of industrial labor, defined as the ratio between the sector's physical production index and the indicator of the number of hours paid to salary-earning personnel in manufacturing production, both of which are published by the IBGE, expanded 4.1% in 2007, following a 2.5% high in the previous year. In this context, particular mention should be made of increases registered in the mining sector, 3.5%, and manufacturing, 4.1%, mainly the increases posted in the segments of machines and equipment (excluding electric and electronic equipment, precision machinery and communications equipment), 10.4%, and apparel, 10.3%.

The productivity of industrial labor registered generalized growth in the 10 states surveyed by IBGE, with the best performances in Minas Gerais, 8.1%; Rio Grande do Sul, 8%; Espírito Santo, 7.4%; Pernambuco, 4.6%; and Santa Catarina, with 3.9%.

Average productivity of the farm sector, defined as the ratio between grain production and the area harvested, expanded 14.1% in 2007, a figure consistent with growth in overall demand for fertilizers. According to the National Association for Fertilizer Dissemination (Anda), this demand reached 17.3% in the year, revealing increases of 11.9% in national output and 44.8% under imports. In the same sense, internal sales of farm machinery expanded 49.4% compared to 2006, according to Anfavea data, led by sales of wheel-based tractors, 52.4%, and harvesters, 127.9%, coupled with a reduction under planters, 16.6%.

Energy

According to the National Petroleum Agency (ANP), oil output, including natural gas liquid, increased 1.3% in 2007, following growth of 5.6% in the previous year. In average terms, the year ended with 1,833 thousand barrels/day. The greatest daily average production occurred in December, 1,894 thousand barrels, and the smallest in October, 1,772 thousand barrels. Natural gas production expanded 2,5% in 2007, closing at /313 thousand barrels day.

Total oil processed at national refineries averaged 1,744 thousand barrels/day, 2.3% more than in 2006. The participation of national oil dropped 2 p.p. to a level of 77%, while imports expanded 9.8% in the year, closing at 401.5 thousand barrels/day. Reflecting the increased production of heavy oil to a level beyond the nation's internal refining capacity, oil exports expanded 14.8% in 2007, closing at 420.9 thousand barrels/day.

Sales of oil derivatives on the internal market increased 8.5% in 2007, reflecting increases in the segments of fuel oils, 84.5%; aviation kerosene, 9.5%; diesel oil, 6.4%; aviation gasoline, 4.8%; and liquefied petroleum gas (GLP), with 0.2%. In the opposite direction, sales of kerosene for lighting purposes dropped 27.4%, while automotive gasoline declined 2.5%. With the evolution of dual fuel automobile sales, alcohol consumption expanded 34.5%, as a consequence of increased sales of both hydrated alcohol, 50.7%, and anhydrous alcohol, 14.7%.

Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2005	2006	2007
Petroleum	1 348	1 371	1 488
Fuel oil	90	88	163
Gasoline	304	326	318
Diesel oil	675	672	715
Liquid gas	200	206	206
Other derivatives	78	79	86
Fuel alcohol	182	194	261
Anhydrous	101	88	101
Hydrated	80	107	161

Source: ANP

According to the Energy Research Company (EPE), which is subordinated to the Ministry of Mines and Energy (MME), national consumption of electrical energy expanded 5.4% in 2007, for growth in the commercial segment, 6.6%; residential segment, 6%, and industrial segment, 5%. Other segments, like public lightening, public service and rural sector, registered an expansion of 4.5% in the year. The sharpest rise was registered in the Central West region, with 6.4%, followed by the Northeast, 6.2%; North, 5.4%; South, 5.3%; and Southeast, 5%.

Table 1.15 – Electric energy consumption[1/]

GWh

Itemization	2005	2006	2007
Total	335 909	357 529	376 905
By sectors			
Commercial	52 979	55 224	58 875
Residential	82 722	85 784	90 940
Industrial	150 243	164 725	172 948
Other	49 961	51 796	54 143

Source: EPE

1/ Self-producers not included.

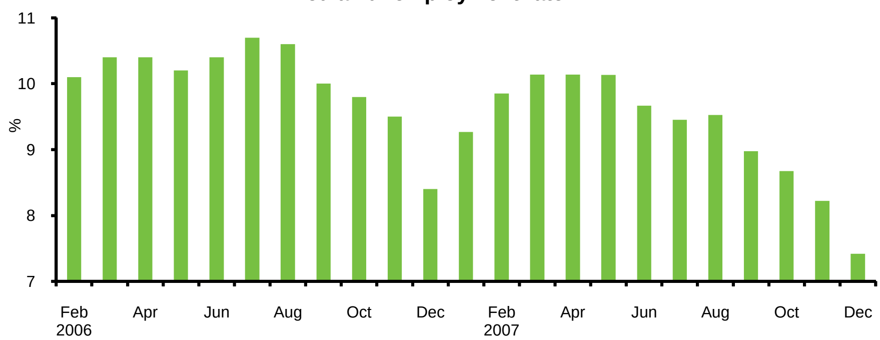
Employment indicators

The growing dynamics of economic activity have generated positive impacts on labor market conditions, in both quantitative and qualitative terms.

According to IBGE's Monthly Employment Survey (PME), unemployment in the six major metropolitan regions of the country reached an average of 9.5% in 2007, against 10% in 2006.

The employment rate rose 3% in the year, corresponding to creation of 623,000 jobs in the area covered by the survey. By incorporating 617,000 formal jobs, this result ratified the continuity of the process of growth in the formal labor market in recent periods. Parallel to this, the number of unregistered workers dropped 1.5%, while the number of the self-employed expanded 4.2%.

Graph 1.9
Median unemployment rate



According to the General File of Employed and Unemployed Persons (Caged), which is calculated by the Ministry of Labor and Employment (MTE), 1,617,392 jobs were created in the formal sector of the economy in 2007. This was clearly the best result obtained since this statistical series was first calculated in January 1985. The number of registered workers increased 5.2% in the year, as a result of across-the-board growth in employment levels in the major sectors of the economy, with 6.1% under commerce, 5.3% for manufacturing and 4.8% in the service sector. It should be stressed that employment levels in the segments of commerce and services set new records, while the result for the manufacturing sector was the second highest in the historical series. At the same time, employment in the building sector remained on the upward trajectory that began in 2005, registering growth of 8.3% in 2007.

Table 1.16 – Formal employment – New jobs openings

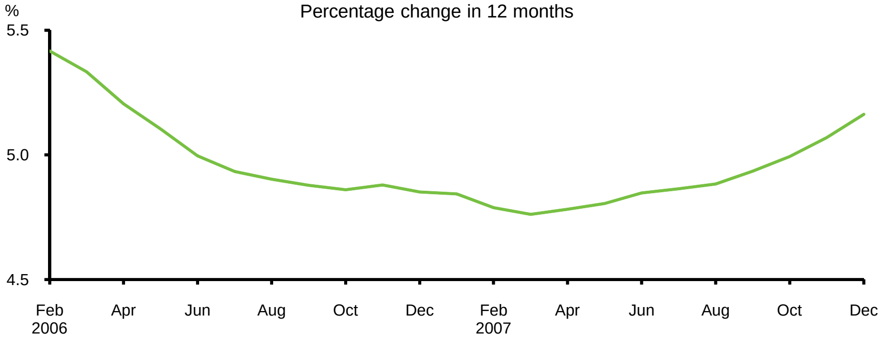
1,000 employees

Itemization	2005	2006	2007
Total	1 254.0	1 228.7	1 617.4
By sectors			
Manufacturing industry	177.5	250.2	394.6
Commerce	389.8	336.8	405.1
Services	569.7	521.6	587.1
Building	85.1	85.8	176.8
Crop and livestock	-12.9	6.6	21.1
Public utilities	13.5	7.4	7.8
Others[1/]	31.2	20.3	25.0

Source: Ministério do Trabalho e Emprego (MTE)

1/ Includes mineral extraction, public administration and others.

Graph 1.10
Level of formal employment
Percentage change in 12 months



Wage and earnings indicators

The average earnings habitually received by persons employed in the six metropolitan regions covered by the PME reached R$1,143.73 in 2007, rising 3.2% compared to the previous year. This result reflected increases in the earnings of the self-employed, 6.6%; nonregistered workers, 5%; and registered workers, 1%. It should be stressed that the pace of growth in earnings slowed somewhat in the second half of the year, registering an increase of 2% compared to the same period of 2006, following a rise of 4.4% in the previous half-year period, using the same type of comparison. Real overall wages, the product of real average earnings habitually received multiplied by the number of persons employed, expanded 6.3% in 2007.

Table 1.17 – Average earnings of occupied people – 2007

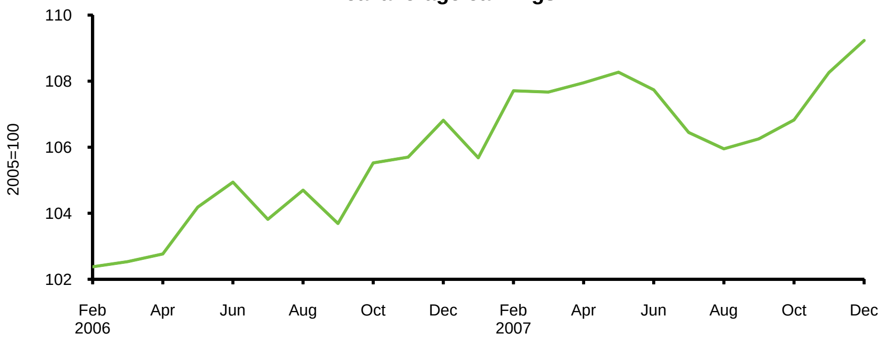
Percentage change

Itemization	Nominal	Real[1/]
Total	7.4	3.2
Job position		
Registered	5.0	1.0
Unregistered	9.3	5.0
Self-employed	10.9	6.6
By sector		
Private sector	6.5	2.3
Public sector	10.4	6.2

Source: IBGE

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

Graph 1.11
Real average earnings



Source: IBGE

Price indicators

Acceleration in 2007 inflation rates, compared to the previous year, was impacted by the behavior of market prices which, in turn, reflected intensification of the pace of economic activity and higher food prices. IPCA variation, which is calculated by the IBGE, came to 4.46%, well within the parameters stipulated as the target by the National Monetary Council (CMN), in the framework of the inflation targeting system.

General price indices

The General Price Index (IGP-DI), which is calculated by the FGV, aggregates the Wholesale Price Index (IPA-DI), the Consumer Price Index – Brazil (INPC-Br) and the National Cost of Construction Index (INCC), with respective weights of 60%, 30% and 10%, registered growth of 7.89% in 2007, against 3.79% in the previous year.

Annual growth in the three IGP-DI components quickened in 2007. Reflecting the behavior of wholesale prices in response to the high in farm products prices, the IPA-DI increased 9.44% in the year, against 4.29% in 2006, as the prices of farm products increased 24.82%, and those of industrial products rose 4.42%, against 6.92% and 3.46%, respectively, in 2006. The IPC-Br rose 4.60%, and the INCC increased 6.15%, against 2.05% and 5.04% in 2006, in the same order.

Consumer price indices

As released by the IBGE, the IPCA increased 4.46% in 2007, registering growth of 1.65% in the prices of goods and services subject to regulated prices[1] and 5.73% under market prices, compared to 4.27% and 2.57%, respectively, in the previous year.

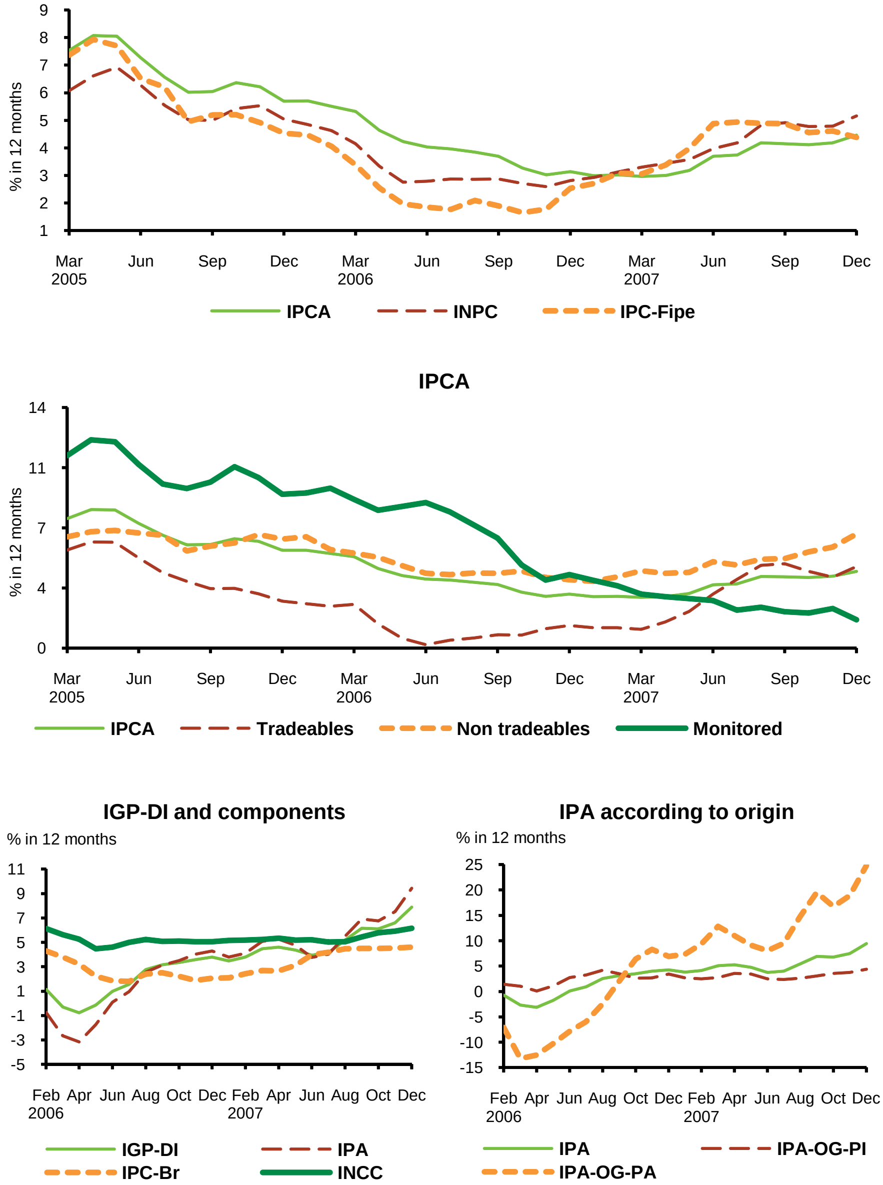
Growth in the IPCA, which considers the products included in the basket of basic consumption products for households with monthly earnings between 1 and 40 minimum monthly wages, reached 4.46% in 2007, the third lowest annual rate since the Index was first announced in 1980, compared to 3.14% in the previous year. It should be stressed that the increase in the annual rate of this indicator followed four consecutive declines, as evident in the rates registered from 2002 to 2005: 12.53%, 9.30%, 7.60% and 5.69%, respectively.

The behavior of the IPCA in 2007 reflected more rapid growth in market prices, which increased 5.73% in the year, compared to 2.58% in 2006. This shift was caused by intensification of the pace of economic activity and the behavior of food prices, particularly chicken, meat, milk, soybean oil, beans and perishable products. Regulated prices increased 1.65% in the year, against 4.27% in 2006.

Growth in the National Consumer Price Index (INPC), which is also calculated by the IBGE, accelerated at a more rapid pace than the IPCA, moving from 2.81% in 2006 to 5.16% in 2007. The difference between the behavior of these indicators is found in the 27.78% level of participation of food and beverages in the INPC, against just

1/ Regulated prices are those directly or indirectly defined by the federal, state or local governments. In some cases, price readjustments are set through contracts between producers/suppliers and the corresponding regulating agencies, as for instance in the cases of electric energy and fixed telephone system.

Graph 1.12
Consumer price indices



Source: IBGE, Fipe and FGV

20.94% in the IPCA. The reason for this is that the INPC considers the basket of basic products consumed by families with monthly earnings from 1 to 6 times the minimum monthly wage, considering that the percentage of income committed to outlays on food for these families is relatively greater.

Table 1.18 – IPCA items share in 2007

Percentage change

Groups	IPCA				
	Weight1/	Accumulated change in 2006	Accumulated change in 2007	Accumulated share in 2007	Index share2/
IPCA	100.0	3.1	4.5	4.5	100.0
Meats	1.9	0.7	22.1	0.4	8.4
Beans	0.4	-13.0	109.0	0.3	6.4
Meals	3.8	4.6	7.8	0.3	6.3
Domestic services	3.1	10.7	9.5	0.3	6.1
Health insurance	3.4	12.3	8.1	0.3	5.8
Apparel	6.5	5.1	3.8	0.2	5.4
Tuition, school fees and childcare	4.9	6.8	5.0	0.2	5.4
Sugar (crystal)	0.1	16.5	-28.7	-0.1	-1.2
Sugar (refined)	0.2	15.8	-22.7	-0.1	-1.3
Motor vehicle insurance	0.4	1.5	-14.9	-0.1	-1.5
Electric household equipment	1.9	-5.3	-4.7	-0.1	-2.1
Electricity	3.5	0.3	-6.2	-0.2	-5.2

Source: IBGE

1/ Average weight in 2007.
2/ It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

Table 1.19 – IPCA items share in 2007

Percentage change

Groups	IPCA				
	Weight1/	Accumulated change in 2006	Accumulated change in 2007	Accumulated share in 2007	Index share2/
IPCA	100.0	3.14	4.46	4.46	100.0
Foodstuffs and beverages	20.9	1.23	10.77	2.18	49.7
Housing	13.5	3.07	1.76	0.23	5.3
Housing products	4.6	-2.71	-2.48	-0.11	-2.6
Apparel	6.5	5.07	3.78	0.24	5.5
Transportation	20.6	3.02	2.08	0.43	9.7
Health and personal care	10.8	6.01	4.47	0.47	10.8
Personal outlays	9.6	7.26	6.54	0.61	14.0
Education	7.1	6.24	4.16	0.29	6.6
Communication	6.3	-0.24	0.69	0.04	1.0

Source: IBGE

1/ Average weight in 2007.
2/ It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

The Consumer Price Index (IPC), which is calculated by the Economic Research Institute Foundation (Fipe)[2] expanded 4.38% in 2007, against 2.54% in the previous year, also reflecting the pace of activity and the rise in food prices.

Regulated prices

Regulated prices increased 1.65% in 2007, accounting for 0.51 p.p. of the total IPCA variation in the year. The sharpest positive shifts occurred under health plans, 8.13%; water and sewage rates, 4.82%; and urban bus fares, 4.69%; while residential electricity, 6.16%, and gasoline prices, 0.68%, moved in the opposite direction. Regulated prices expanded more intensely in Salvador, 5.64%, and in Belo Horizonte, 4.4%, while they dropped 0.03% in São Paulo. Parallel to this, these prices rose 0.52% in Goiânia, 0.57% in Fortaleza and 0.95% in Porto Alegre.

Table 1.20 – Major items included in the IPCA during 2007

Percentage change

Itemization	IPCA			
	Weight[1/]	Accumulated change in 2006	Accumulated change in 2007	Accumulated share in 2007
Index (A)	100.0	3.14	4.46	4.46
Non-monitored prices	69.1	2.57	5.73	3.96
Monitored prices	30.9	4.27	1.65	0.51
Selected monitored items				
Health care	3.3	12.29	8.13	0.26
Urban transportation	3.8	8.12	4.69	0.18
Water and sewage fees	1.6	4.99	4.82	0.08
Medicine	0.8	1.22	8.52	0.06
Telephone	1.2	8.87	4.20	0.05
Air ticket	1.5	5.61	2.92	0.04
Domestic gas	0.1	0.69	-0.42	-0.00
Gasoline	4.5	2.94	-0.68	-0.03
Electric energy	3.6	0.27	-6.16	-0.23

Source: IBGE

1/ Average weight in 2007.

Payments of health plans, which are regulated by the National Supplementary Health Agency (ANS), increased 8.13% in 2007, generating an impact of 0.26 p.p. on the IPCA, with variations of 7.7% in the metropolitan region of Fortaleza and 8.97% in Brasília. Urban bus fares increased 4.69% in 2007, accounting for 0.18 p.p. of the IPCA. In this case, the sharpest fare increases occurred in Salvador, 17.64%; Belém,

2/ For families with an income bracket between one and twenty minimum wages in the city of São Paulo.

11.12%; and Porto Alegre and Belo Horizonte, both with 8.11%. Variations in water and sewage rates represented 0.08 p.p. of the IPCA increase, with upward movement of 13.24% in Salvador and 9.11% in Fortaleza.

Adjustments in fixed telephone rates, whichare authorized annually by the National Telecommunications Agency (Anatel) on the basis of changes in the impact of a basket of price indices on the rates charged for services, came to an average of 0.34% in 2007.

Average adjustments in electricity rates, which declined in 7 of the 11 regions covered by the IPCA, closed at -6.16%, with variations from 6.23% in Brasília, to -15.54% in São Paulo. Gasoline prices dropped 0.68% in 2007, compared to a 2.94% high in the previous year. At the same time, the price of bottled kitchen gas increased 0.11% and 7.49%, respectively, in the two years under consideration. Medicine prices and intermunicipal bus fares increased 0.54% and 4.20%, respectively, compared to 4.62% and 8.87% in 2006.

Cores

Inflation cores calculated by the Central Bank registered 2007 growth lower than the IPCA. Cores by exclusion and nonsmoothed trimmed means posted higher growth than in 2006, while inflation measured on the basis of smoothed trimmed means moved downward.

The core by exclusion increased 4.11% in 2007, against 3.56% in the previous year, while the core by nonsmoothed trimmed means turned in respective variations of 3.62% and 2.76%.

Growth in the smoothed trimmed means core decelerated in 2007, increasing just 4.04% against 4.63% in the previous years. It should be stressed that, since the month

Table 1.21 – Consumer prices and core inflation in 2007

Percentage change

Itemization	2006	2007		
		1 H	2 H	In the year
IPCA	3.14	2.08	2.33	4.46
Exclusion	3.56	2.02	2.05	4.11
Trimmed means				
Smoothed	4.63	1.86	2.14	4.04
Non smoothed	2.76	1.63	1.96	3.62
IPC-Br	2.05	2.51	2.04	4.60
Core IPC-Br	2.82	1.66	1.62	3.31

Source: IBGE and FGV

of July, cumulative 12-month growth in the indicator has remained below IPCA growth. This had not occurred since May 2005 and, to some extent, reflected the calculation methodology, which considers the 12-month ahead distribution (smoothing) of items for which price variations are concentrated in specific periods of the year.[3]

Changes in the IPC-Br core, calculated by the FGV using the smoothed trimmed means method shifted from 2.82% in 2006 to 3.31% in 2007, closing at a level below the 4.60% posted by the IPC-Br.

3/ Smoothed items, according to the new IPCA structure, introduced in July 2006, fuel (domestic), household electric energy, public transportation, fuel (vehicles), personal services, tobacco, courses, diverse courses and communication.

Money and Credit

Monetary policy

Price behavior over the course of 2007 reflected the continued effectiveness of monetary policy. The position adopted by the monetary authority was designed to make it possible for the economy to absorb international financial market turbulence in the second half of the year without significant trauma, while avoiding deterioration of internal expectations in response to the sharp rise in farm prices. The result of this posture was to strengthen the conditions required to maintain annual IPCA growth – the third smallest variation since the series was first calculated in 1980 – well within the target range stipulated by the National Monetary Council (CMN) in the framework of the inflation targeting system.

In early 2007, the Central Bank Monetary Policy Committee (Copom) continued its strategy of applying a more flexible monetary policy. Consequently, in its ordinary meetings held early in the year, the Committee adopted three successive 25 basis point reductions in the Selic rate target. Though this pace of reduction could be considered somewhat conservative compared to the previous year's trajectory, when cutbacks of 75 basis points were adopted at each one of the first three ordinary meetings, followed by five successive reductions of 50 basis points, it was in fact the most appropriate position that could have been adopted by the Committee in light of the upturn in price indices toward the end of 2006.

In early 2007, price behavior reflected the impact of growth in the external prices of the major commodities, together with the effects of expanding employment, income and credit levels, government transfers and other fiscal drivers that had marked 2006 and were expected to continue through 2007. Parallel to these factors, mention should be made of the delayed impact of the 650 basis point reduction registered in the Selic rate in 2006.

In this framework, the reductions adopted by Copom during the first three 2007 meetings were a reaction to the perception that the short-term price high was caused basically by transitory factors. Aside from this, the Committee concluded that the external scenario remained favorable, particularly with regard to the outlook for financing the Brazilian economy, despite expectations of lesser global liquidity, caused by rising interest rates in the industrialized economies, coupled with increased global market volatility.

At its June and July meetings, Copom concluded that the recent evolution of inflation was consistent with the established targets, in contrast to the relatively high rates that had persisted since the end of 2006. It was also determined that the higher than initially thought contribution of the external sector to consolidation of a benign inflation scenario, particularly as a result of the discipline imposed on the prices of tradables and of increased investments, had established the conditions required for growth in aggregate demand and for internal supply to return to a state of equilibrium over a period of time considered important to monetary policy decisions, without in any way jeopardizing the process of convergence to the inflation target trajectory. Thus, it was decided that the pace of cutbacks in the Selic rate target would be quickened, as evinced in successive reductions of 50 basis points.

In its final three meetings of the year, Copom concluded that the evolution of the world economic scenario and the upturn in the pace of domestic economic activity justified reductions in monetary incentives. In September, despite the understanding that various factors existed that would recommend a decision not to alter interest rates at that meeting, the Committee determined that the balance of the risks to the prospective inflationary trajectory still justified an additional monetary stimulus, expressed as a 25 basis points reduction in the Selic target. Starting in October, reflecting perceptions that the increased probability of initially localized inflationary pressures could become a risk to the trajectory of domestic inflation and considering that the favorable impact of the external sector on inflation in the sector of tradables could be neutralized by upward pressures generated by rising domestic demand on the prices of nontradables in an environment of expanding credit and real overall wages, Copom opted to maintain the inflation target rate of 11.25% per year.

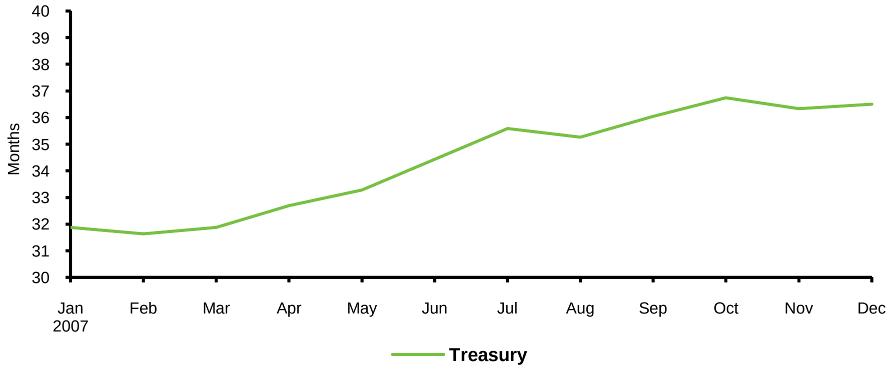
Federal public securities and Central Bank open market operations

Primary National Treasury operations with federal public securities resulted in net placements of R$7.3 billion in 2007, with maturities of R$349.7 billion, anticipated redemptions of R$24.7 billion and placements of R$357 billion in Internal Federal Public Securities Debt (DPMFi). Exchanges made for the purpose of lengthening the terms of maturing debt totaled R$134.6 billion, of which 39.9% were National Treasury Bills (LTN).

In the month of January, the National Treasury released the 2007 Annual Financing Plan (PAF), highlighting the strategies adopted in order to lengthen average maturities; smooth the maturity profile; substitute securities indexed to exchange and the Selic rate with fixed-rate and inflation-linked securities; and develop the forward interest rate structure for federal public securities on internal and external markets. It should be noted that, since January 2007, the Treasury has refrained from offering 18-month LTN, while adopting a 12 and 24-month maturity horizon. At the same time, the maximum maturity for National Treasury Notes – Series F (NTN-F) was set at 10 years, compared to the previous level of seven years. With these conditions, as of early 2007, the issuing structure of fixed-rate securities posted benchmarks of 6, 12 and 24 months for LTN and 3, 5 and 10 months for NTN-F.

Over the course of the year, the average DPMFi maturity increased gradually to a level of 36.5 months in December, against 31 months in January. At the same time, the profile of the stock held by the public moved into an unprecedented position at the end of the year, as fixed-rate securities assumed a position higher than floating-rate securities, with 37.3% and 33.4%, respectively, against 36.1% and 37.8% at the end of 2006. The participation of inflation-linked securities reached 26.3% of total DPMFi, against 22.5% at the end of 2006.

Graph 2.1
Average term of the federal public securities debt



Gross issuances of LTN and NTN-F totaled R$139.4 billion and R$79.2 billion, respectively, in 2007, while those involving National Treasury Financing Bills (LFT), which are tied to the Selic rate, totaled R$81.7 billion. Placements of National Treasury Notes – Series B (NTN-B), referenced to the IPCA, reached a level of R$56.7 billion, accounting for the totality of issuances linked to price indices. This should be viewed against the fact that the PAF defined the Treasury's strategy of not offering National Treasury Notes – Series C (NTN-C), which generate earnings according to the General Price Index – Market (IGP-M), in 2007.

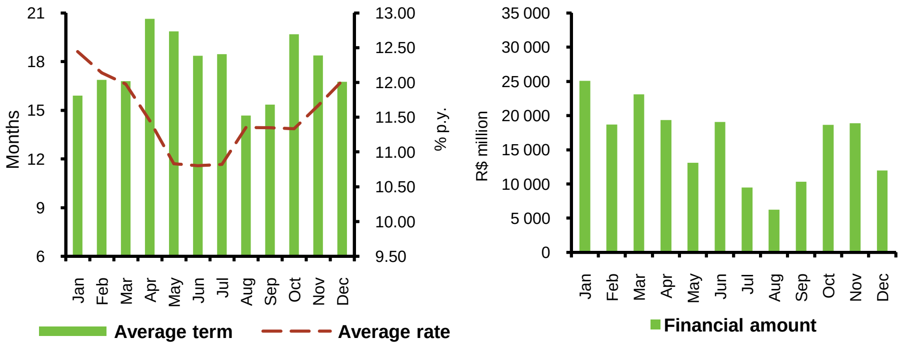
The measures taken by the monetary authority regarding the banking reserve market consisted basically of withdrawing resources from the economy or injecting resources in order to maintain the effective Selic rate at levels close to the nominal targets defined by Copom at its eight 2007 meetings.

The daily average balance of financing and go-around operations carried out by the Central Bank increased from R$11 billion in December 2006 to R$11.4 billion

Graph 2.2

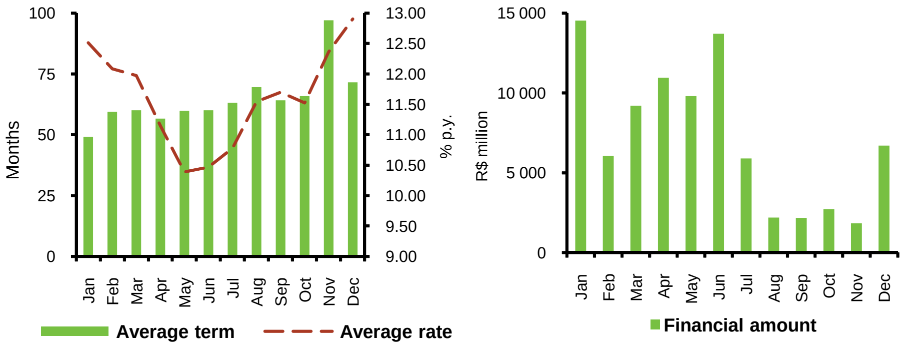
Auctions of federal public securities – 2007

LTN



Auctions of federal public securities – 2007

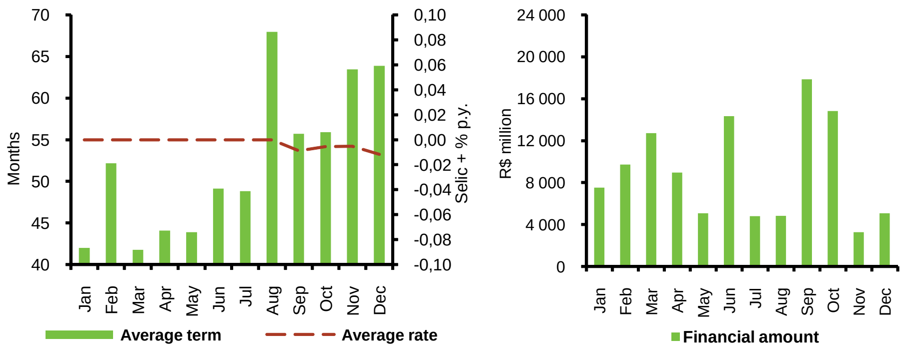
NTN-F



Graph 2.3

Auctions of federal public securities – 2007

LFT

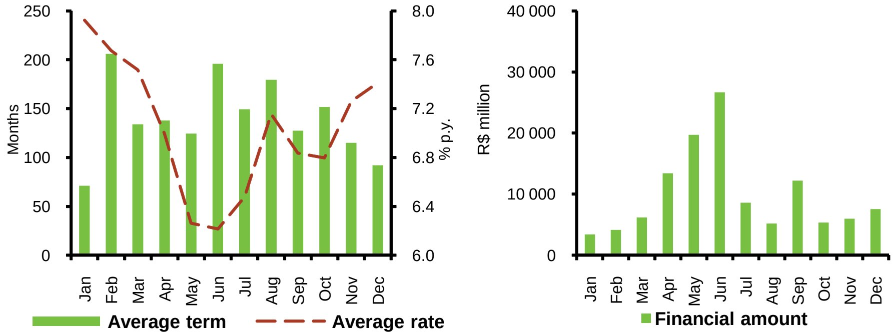


at the end of 2007, while the balance of five-month operations declined from R$30.8 billion to R$17.2 billion. Moving in the opposite direction, the average daily balances of operations with maturities from two weeks to three months and seven months increased in that order from R$2.5 billion to R$82.4 billion and from R$23.7 billion to R$65.9 billion.

Graph 2.4

Auctions of federal public securities – 2007

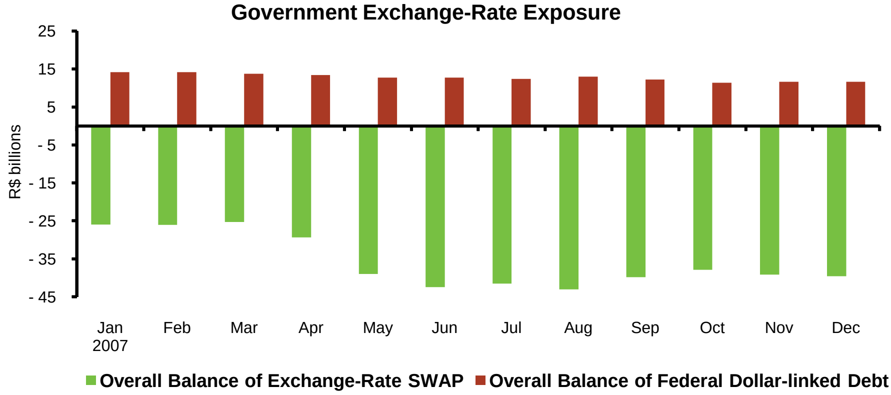
NTN-B



The daily average of the Central Bank net financing position on the open market reached R$177.3 billion at the end of 2007, compared to R$68.1 billion in the corresponding period of 2006. Despite the turbulence that hit international financial markets as of the middle of the year, the internal financial market managed to maintain a comfortable level of liquidity. The increase in the monetary authority's net financing position was to some extent connected to sterilization of exchange acquisitions by the Central Bank, which totaled R$155.4 billion in the year, as well as to adjustments in the margin of operations involving exchange swaps generating a financial flow of R$8.8 billion for the public holding these derivative contracts. Going in the opposite direction, operation of the Single Operating Account at the Central Bank produced a contractionary impact of R$55.6 billion, revealing the primary surplus registered during the year. Once operations with federal public securities are incorporated, the negative monetary impact came to R$74 billion.

Graph 2.5

Government Exchange-Rate Exposure

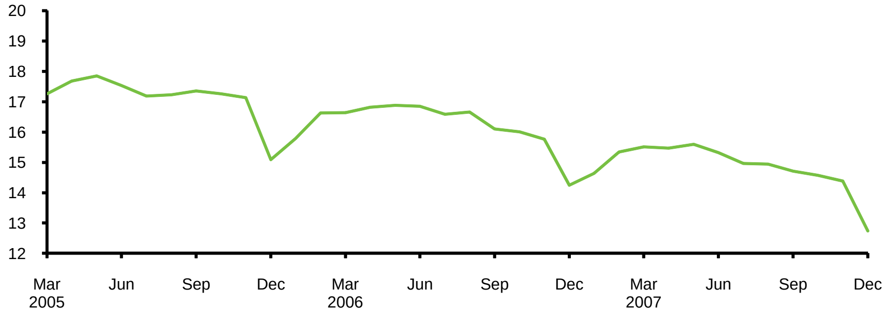


In order to ensure consolidation of the asset position in federal public debt exchange exposure and minimization of exchange rate volatility, reverse exchange swap offers carried out by the Central Bank totaled US$24.6 billion over the course of 2007, while redemptions came to US$15.9 billion. These net placements of US$8.7 billion were reflected in a reduction from -1.1% at the start of the year to -2.3% of the share of DPMFi exposed to exchange rate variations. In nominal terms, government exchange exposure, understood as the difference between the balance associated to the remaining share of public exchange securities and the stock of derivatives, further accentuated the downward trend evident since January 2006, closing 2007 with a negative position of R$28.4 billion.

Monetary aggregates

Monetary aggregates mirrored the accentuated dynamics of economic activity in 2007, particularly as regards expansion of lending operations and external resources inflows. In this framework, the average daily balances of the money supply, viewed in the restricted concept (M1), reached R$210.5 billion in December, an increase of 25.9% in the year. At the component level, the balance of currency held by the public increased 18.2% in the year, while demand deposits expanded 31.1%. Viewed in terms of seasonally adjusted data deflated by the IPCA, the M1 balance expanded 22.2% in 2007, as a result of real growth in wages, the performance of credit operations and expanded federal government income transfer programs. Income velocity of the aggregate remained stable during the year, at a level compatible with the overall scenario.

Graph 2.6
Money supply (M1) – Income velocity[1/]

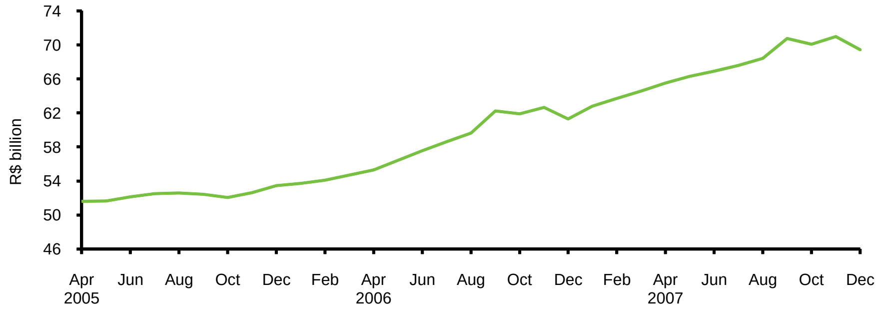


1/ Defined as the ratio between twelve-month accumulated GDP (valuated by IGP-DI) and the average balance of the monetary aggregate.

Using the concept of average daily balances, the monetary base accompanied evolution of the money supply, reaching R$143.6 billion in December. Annual growth of 21.4% reflected increases of 19% in the average balance of currency and 27.1% in banking reserves.

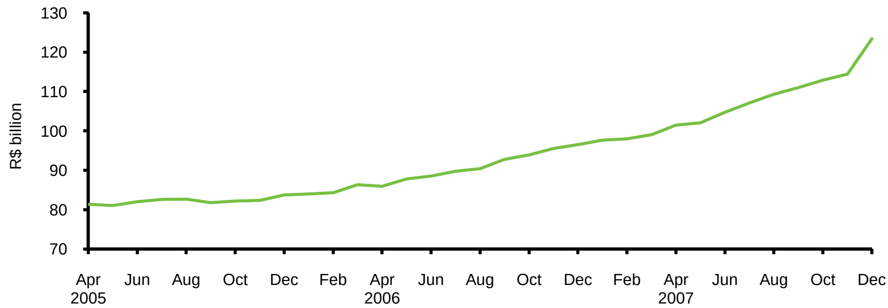
Reflecting net Central Bank exchange purchases on the interbank market, foreign sector operations generated an expansionary impact of R$155.4 billion on the monetary base, reflecting a 108.9% increase over the 2006 position. Parallel to this, monetary growth consequent upon adjustments in derivative operations implemented through exchange swaps – a mechanism for offering exchange hedge to the market – came to a total of

Graph 2.7
Currency outside banks – Seasonally adjusted at December 2007 prices[1/]



1/ Price index: IPCA.

Graph 2.8
Demand deposits – Seasonally adjusted at December 2007 prices[1/]



1/ Price index: IPCA.

R$8.8 billion. Moving in the opposite direction, National Treasury operations, excluding security operations, produced an annual contractionary flow of R$55.6 billion, while deposits resulting from additional requirements on deposits and compulsory reserves on the resources of the Brazilian System of Savings and Loans (SBPE) generated contraction of R$10.4 billion. Measures taken by the Central Bank to adjust the liquidity of the economy resulted in net sales of R$74 billion.

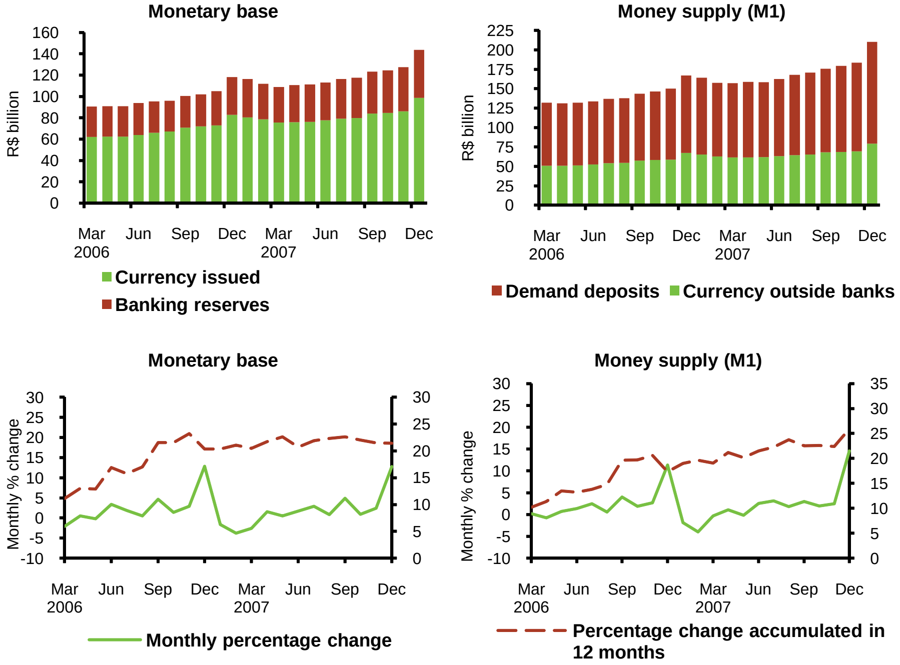
The expanded monetary base, which incorporates the restricted base, compulsory deposits in cash and federal public securities outside the Central Bank, totaled R$1.6 trillion at the end of 2007, an increase of 20.9% in 12 months. For the most part, this behavior reflected the evolution of the federal securities debt held by the market, together with National Treasury measures aimed at attenuating the monetary impact of external sector operations.

In the M2 concept, the money supply expanded 18.1% in the year, emphasizing 24.9% growth in the balance of savings accounts, driven by net inflows of R$33.4 billion. Private securities registered growth of 5.2%, reflecting net redemptions of R$15.1 billion in time deposits.

Graph 2.9

Monetary base and money supply (M1)

Average daily balances



The M3 monetary aggregate expanded 17.4% in the year, for 16% growth in the balance of investment fund quotas, with net inflows of R$21.3 billion. Annual growth of M4, which totaled R$1.9 trillion at the end of 2007, reached 20.9%, led by 47.7% expansion in the balance of federal securities on the market.

Table 2.1 – Collection rate on mandatory reserves

Percentage

Period		Demand deposits[1/]	Time deposits[1/]	Savings deposits[1/]	Credit operations	FIF Short-term	FIF 30 days	FIF 60 days
Prior to Real Plan		50	-	15	-	-	-	-
1994	Jun[2/]	100[2/]	20	20	-	-	-	-
	Aug	" [2/]	30	30	-	-	-	-
	Oct	" [2/]	"	"	15	-	-	-
	Dec	90[2/]	27	"	"	-	-	-
1995	Apr	" [2/]	30	"	"	-	-	-
	May	" [2/]	"	"	12	-	-	-
	Jun	" [2/]	"	"	10	-	-	-
	Jul	83	"	"	"	35	10	5
	Aug	"	20	15	8	40	5	0
	Sep	"	"	"	5	"	"	"
	Nov	"	"	"	0	"	"	"
1996	Aug	82	"	"	"	42	"	"
	Sep	81	"	"	"	44	"	"
	Oct	80	"	"	"	46	"	"
	Nov	79	"	"	"	48	"	"
	Dec	78	"	"	"	50	"	"
1997	Jan	75	"	"	"	"	"	"
1999	Mar	"	30	"	"	"	"	"
	May	"	25	"	"	"	"	"
	Jul	"	20	"	"	"	"	"
	Aug	"	"	"	"	0	0	"
	Sep	"	10	"	"	"	"	"
	Oct	65	0	"	"	"	"	"
2000	Mar	55	"	"	"	"	"	"
	Jun	45	"	"	"	"	"	"
2001	Sep	"	10	"	"	"	"	"
2002	Jun	"	15	"	"	"	"	"
	Jul	"	"	20	"	"	"	"
2003	Feb	60	"	"	"	"	"	"
	Aug	45	"	"	"	"	"	"

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

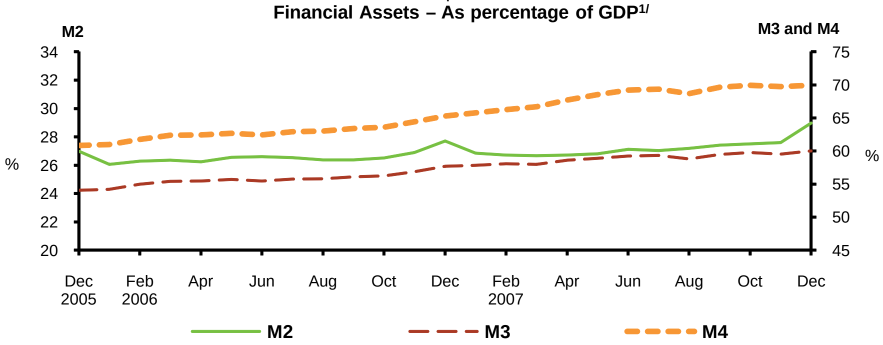
2/ From June/1994 to June/1995 the 100% and the 90% rates refers to in addittional collection in relation to the base-period wich was calculated between June 23 and 30, 1994.
As of July 1995, the levying of compulsory deposits refers only to the arithmetic median of daily balances in each calculation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

Table 2.2 – Financial assets

End-of-period balance R$ billion

Period		M1	M2	M3	M4
2006	Jan	130.0	567.3	1 179.5	1 327.2
	Feb	131.1	574.9	1 202.2	1 349.7
	Mar	128.7	578.8	1 217.8	1 370.8
	Apr	127.5	579.7	1 225.5	1 379.3
	May	130.9	594.0	1 245.9	1 401.1
	Jun	132.1	600.4	1 252.5	1 409.3
	Jul	133.6	604.8	1 271.6	1 434.7
	Aug	136.3	607.0	1 283.7	1 450.3
	Sep	143.1	611.9	1 301.9	1 471.3
	Oct	145.0	622.4	1 320.2	1 493.8
	Nov	151.9	637.7	1 348.1	1 527.4
	Dec	174.3	661.5	1 377.7	1 558.6
2007	Jan	155.6	645.8	1 391.5	1 582.0
	Feb	153.7	647.0	1 406.5	1 604.2
	Mar	155.6	650.7	1 413.8	1 627.1
	Apr	156.5	657.1	1 441.0	1 664.6
	May	157.9	663.9	1 459.0	1 697.7
	Jun	164.2	677.2	1 478.8	1 727.8
	Jul	166.9	682.6	1 499.1	1 752.3
	Aug	170.0	698.1	1 509.4	1 762.1
	Sep	174.8	711.7	1 545.2	1 809.0
	Oct	178.1	722.4	1 569.7	1 836.6
	Nov	187.8	735.2	1 585.6	1 856.9
	Dec	231.4	781.3	1 617.6	1 884.8

Graph 2.10
Financial Assets – As percentage of GDP[1/]



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

Financial system credit operations

Financial system credit operations expanded sharply in 2007, a tendency considered consistent with downward movement in interest rates and the impact of consolidation of the nation's economic stability on consumption and investment decisions. In this context, marked by longer maturity terms and stability in default levels, particular mention should be made of household consumer financing operations, driven by improved labor market conditions. This was particularly true in the segment of auto loans, an area in which the participation of leasing operations increased sharply. In much the same way, credits channeled to the business segment registered strong growth, led by disbursements for working capital and investment operations, despite the ongoing efforts by large scale companies in pursuit of alternative long-term sources of financing.

Financing based on nonearmarked and earmarked resources totaled R$936 billion at the end of 2007, for annual growth of 27.8% against 20.7% in the previous year. The ratio between the total volume of loans and GDP closed at 34.7%, the highest level since July 1995, compared to 30.7% at the end of 2006.

Classification of credits according to the capital control of financial institutions shows that operations contracted with private national banks expanded 35.7% in the year, reaching R$410 billion, or 43.8% of total credits granted by the financial system. These operations were concentrated mainly in the segments of personal loans, industrial credits and operations with other services. Loans by public institutions totaled R$318.9 billion, 34.1% of the total portfolio, with growth of 18.7% in the year. Here, particular mention should be made of expanded operations with industry and individual borrowers. Financing granted by foreign banks reflected increased demand on the part of individual borrowers, industry and other services, with growth of 27.9% in the period, accounting for 22.1% of total loans granted by the financial system.

Table 2.3 – Credit operations

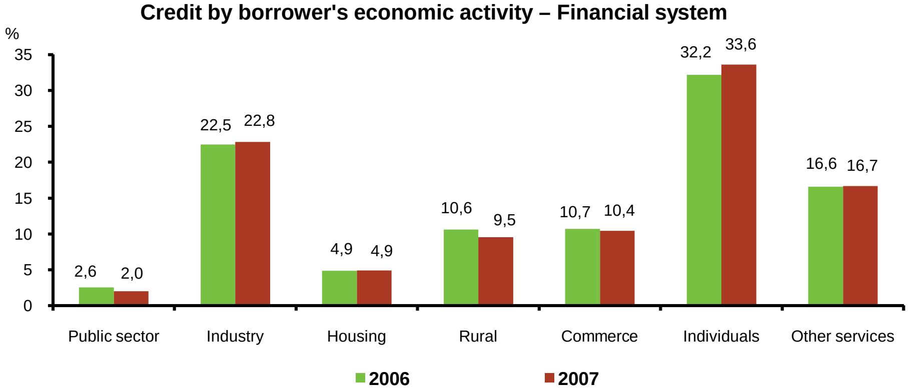
R$ billion

Itemization	2005	2006	2007	% growth
Total	607.0	732.6	936.0	27.8
Non-earmarked	403.7	498.3	660.8	32.6
Earmarked	203.3	234.3	275.2	17.5
% participation:				
Total/ GDP	28.1	30.7	34.7	
Non-earmarked/GDP	18.7	20.9	24.5	
Earmarked/GDP	9.4	9.8	10.2	

The volume of credits targeted to the private sector, including both nonearmarked and earmarked resources, totaled R$917.1 billion in December, reflecting growth of 28.5% compared to the same period of 2006. A sectoral breakdown indicates that operations contracted with individual borrowers totaled R$314.3 billion, for annual growth of 33.3%, reflecting the performances of personal loans and auto loans.

Loans targeted to the industrial segment expanded 29.9% in the year, adding up to a total of R$213.8 billion, with strong participation of the segments of energy, mining and agribusiness. Operations carried out with the segment of other services climbed to R$156.3 billion, reflecting annual growth of 28.6%. Here, it is important to emphasize the participation of telecommunications, credit card administration companies and transportation. Financing targeted to commerce increased 24.5% over 12 months, closing at R$97.6 billion, with increased demand in the segments of department stores and the automotive and food sectors.

Graph 2.11
Credit by borrower's economic activity – Financial system



The housing credit portfolio, which includes individuals and housing cooperatives, totaled R$45.9 billion in December, for an annual increase of 28.5%. The strong performance registered in this segment, which incorporates longer-term financing, mainly reflected the impact of consolidation of Brazilian economic stability on decisions regarding real estate demand and investments in this sector. Cumulative disbursements of savings account resources in 2007 expanded at an annual rate of 92.1%, totaling R$17.6 billion, of which 90.7% were granted according to the rules governing the Housing Finance System and 9.3% at market interest rates. Flows granted with Employment Compensation Fund (FGTS) resources targeted specifically to the financing of housing for the low income population totaled R$5.9 billion in 2007, reflecting a reduction of 13.7% compared to the previous year, though still higher than in the years prior to 2006.

Operations contracted with the rural sector reached R$89.2 billion in December 2007. Here, it is important to stress that the 14.8% increase registered in the year resulted from recovery in the crop/livestock sector. Loans targeted into current expenditure and investment operations and driven by obligatory funding and government fund and program resources expanded 15.7% and 11.6%, in that order, while those involving marketing operations expanded 9.2%. Credits granted in the form of working capital for the agribusiness sector increased 86.3% in the period.

Total credits channeled to the public sector added up to R$18.8 billion at the end of 2007, reflecting a 0.2% drop compared to the previous year. Financing contracted with the federal government declined 14.5% during the period, reflecting amortizations and exchange appreciation in contracts with gas, petroleum and electricity generation companies. In the opposite sense, the banking debt of state and municipal governments increased 3.9% to a level of R$15.2 billion, concentrated in operations with companies from the electricity and basic sanitation sectors.

Growth in credits to the public sector was tied to demand for funding for infrastructure projects, particularly electricity and basic sanitation. In this framework, mention should be made of the fact that the supply of resources for infrastructure investments was maintained, as demonstrated by the authorization granted since August for the financial system to grant new financing to *Centrais Elétricas Brasileiras* (Eletrobrás), following the schedule that defined 2007 disbursements at R$590 million, rising to a level of R$1.8 billion in December 2010. Parallel to this, on June 13, 2007, an additional source of funding was created in order to make it possible to channel financing into basic sanitation projects. This was done by increasing the base capital of the Federal Savings Bank (CEF), since that institution did not have a sufficient operational margin to grant the amount intended by the federal government to states, municipalities and their controlled companies in the form of lending operations. Consequently, as of January 2008, investment of resources up to the limit of R$6 billion was permitted in activities related to environmental sanitation in the framework of public sector-supported programs.

The volume of credits based on nonearmarked resources totaled R$660.8 billion in December, for annual growth of 32.6%, driven by 33.4% expansion in credits targeted to individual borrowers with a total of R$317.6 billion. This result represented 70.6% of total financial system credits.

Aside from growth in reference credits, the sharp expansion of operations with individual borrowers accounted for the 117.2% increase in leasing operations, with a total of R$30.1 billion at the end of 2007. Loans granted to cooperatives increased to 27.9% in the year, closing at R$12.5 billion.

The performance of reference credits reflected 34.3% growth in payroll-deducted loans and 28.4% in auto loans, the balances of which closed 2007 at R$64.7 billion and R$81.5 billion, respectively.

Table 2.4 – Non-earmarked credit operations

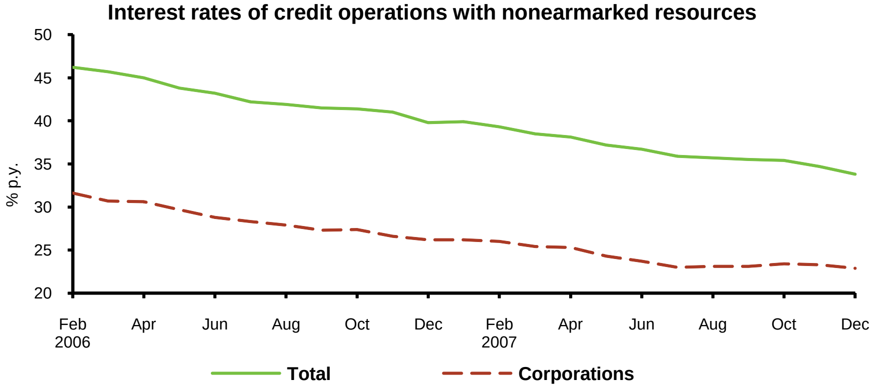
				R$ billion
Itemization	2005	2006	2007	% growth
Total	403.7	498.3	660.8	32.6
Corporat e entities	213.0	260.4	343.2	31.8
Domestic funding	164.9	207.8	274.7	32.2
Reference credit[1/]	137.3	165.0	214.9	30.2
Leasing	12.8	20.6	34.8	69.1
Rural	2.1	1.4	2.0	40.2
Others	12.7	20.7	23.0	10.8
External funding	48.1	52.6	68.6	30.3
Individuals	190.7	238.0	317.6	33.4
Reference credit[1/]	155.2	191.8	240.2	25.2
Credit cooperative	8.3	9.8	12.5	27.9
Leasing	8.4	13.9	30.1	117.2
Others	18.8	22.5	34.7	54.3

1/ Interest rate reference credit, defined according to Circular 2,957 dated 12.30.1999.

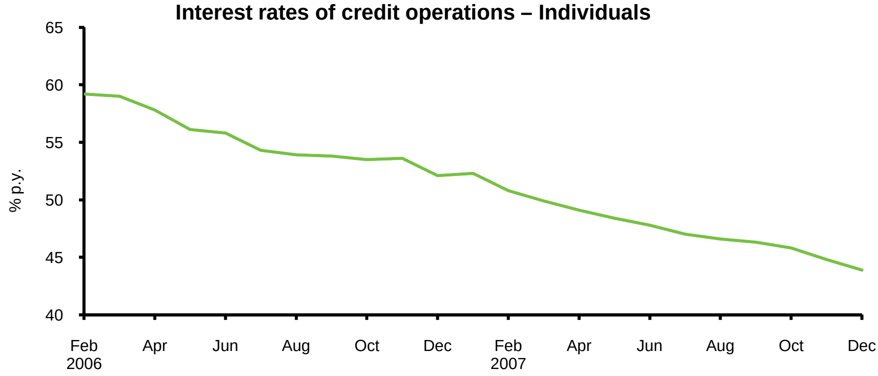
Corporate loans added up to R$343.2 billion in December, for growth of 31.8% in the year. The modalities contracted with domestic resources reached R$274.7 billion, reflecting 32.2% growth in the period. For the most part, this result was tied to 30.2% growth in reference credit operations, which accounted for 78.2% of total domestic resources. In this case, one should highlight 43.7% growth in working capital operations, the principal modality in this credit segment. Operations based on external resources expanded 30.3% in the year, with increases of 30.7% in external onlending operations and 22.3% in Advances on Exchange Contracts (ACC).

Average interest rates in credit reference operations followed a downward trajectory over the course of 2007, including the period following the October interruption of the process of reducing the basic rate of interest. It is important to mention that information on these operations is based on the terms of Circular no. 2,957, dated December 30, 1999.

Graph 2.12
Interest rates of credit operations with nonearmarked resources



Graph 2.13
Interest rates of credit operations – Individuals

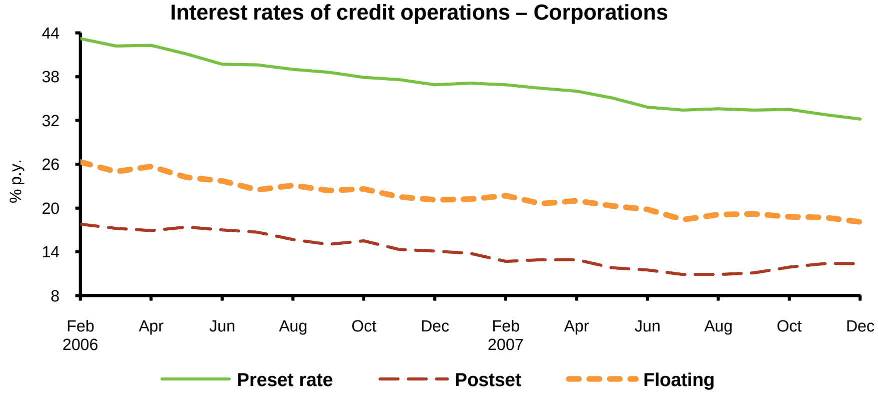


The average rate on loans dropped 6 p.p. in the year, closing at 33.8% per year, the lowest rate ever registered in the historical series which began in June 2000.

The average rate of interest practiced in household financing operations closed at 43.9% per year in December, the lowest level in the historical series which began in July 1994 and 8.2 p.p. below the level registered at the end of 2006. This performance was even more significant in the modality of personal loans, particularly as a result of the high level of participation of payroll-deducted credits in this modality. These operations – it should be stressed – are offered at sharply lower rates of interest since the risk involved is much lower.

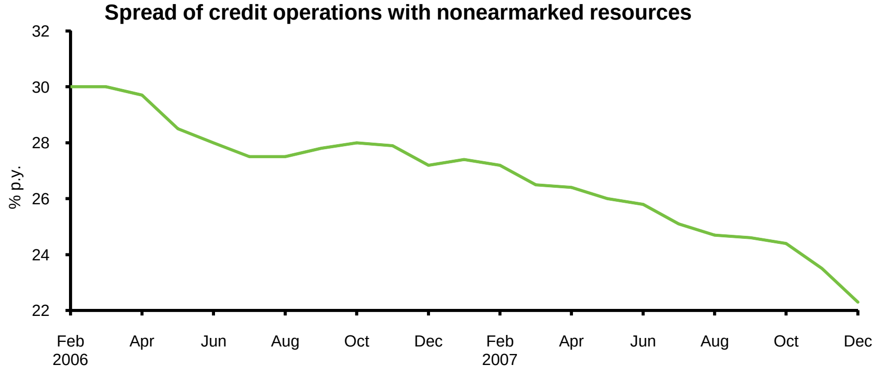
The average rate of interest on corporate loans declined 3.3 p.p. in the year, closing at 22.9% per year in December, the lowest level since the series was first calculated in June 2000. This reduction was even sharper in financing operations based on fixed-rate and floating interest rates, which registered respective averages of 32.2% per year and 18.1% per year, the lowest rates ever registered.

Graph 2.14
Interest rates of credit operations – Corporations



The banking spread in credit reference operations dropped 4.9 p.p. over the course of 2007, reaching 22.3 p.p. in December, the lowest level in the historical series which first began in 2000. During the period under analysis, reductions in the spread were registered in operations with individual borrowers, 7.7 p.p. and with corporate entities, 1.6 p.p., closing at respective levels of 31.9 p.p. – the lowest mark since the series was first calculated in July 1994 – and 11.9 p.p. at the end of 2007.

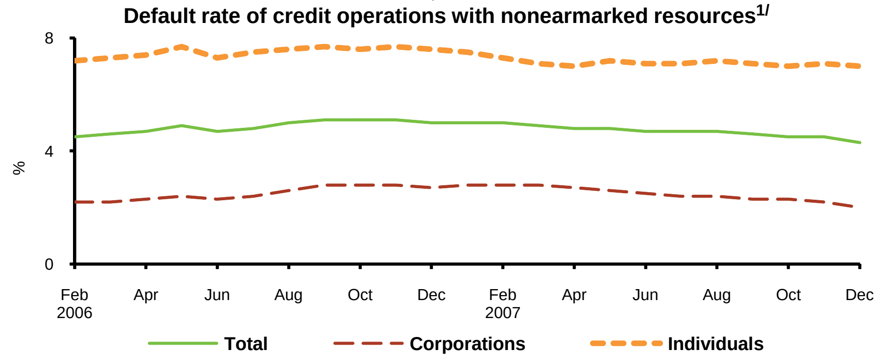
Graph 2.15
Spread of credit operations with nonearmarked resources



The average maturity of loans related to the reference credit modality, which corresponds to average periods to maturity of the balance or remaining shares of ongoing operations, reached 350 days in December 2007, the highest level in the historic statistical series, against 296 days in the same month of 2006. The average maturity of the corporate portfolio expanded 41 days to a level of 275 days, while that of financing granted to individuals closed at 439 days, with annual growth of 71 days in the year. The levels achieved in both segments corresponded to the longest average terms registered since June 2000.

Default levels in the reference credit portfolio, including only arrears of more than 90 days, closed 2007 at 4.3%, the lowest level since December 2005, reflecting a 0.7 p.p.

Graph 2.16
Default rate of credit operations with nonearmarked resources[1/]



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

reduction compared to the corresponding previous period. This movement reflected reductions of 0.7 p.p. in the corporate portfolio and 0.6 p.p. in the personal loan portfolio, registering respective rates of 2% and 7%.

Credit operations based on targeted resources totaled R$275.2 billion at the end of 2007, for annual growth of 17.5%. This evolution reflected both the performance of rural and housing sector operations, and 15.1% growth in BNDES financing operations, which totaled R$160 billion at the end of the year, distributed in a balanced way among direct operations and credits through financial institutions.

Table 2.5 – Earmarked credit operations

R$ billion

Itemization	2005	2006	2007	% growth 2007/2006
Total	203,3	234,3	275,2	17,5
BNDES	124,1	139,0	160,0	15,1
Direct	66,3	71,7	77,8	8,5
On lendings	57,8	67,3	82,2	22,1
Rural	45,1	54,4	64,3	18,2
Banks and agencies	43,3	51,9	60,7	16,9
Credit unions	1,8	2,4	3,6	46,5
Housing	28,1	34,5	43,6	26,4
Others	6,0	6,4	7,3	14,3

In 2007, BNDES disbursements accumulated a total of R$64.9 billion. Annual growth of 26.5% was driven by the dynamics of PAC-related investments, targeted mainly to infrastructure. Credits granted to the segments of commerce and services increased 61%, reaching R$33.4 billion, concentrated mainly under land transportation, electricity and gas and construction. Financing to the crop/livestock sector increased 46%, while disbursements to industry declined 25%. Funding released to micro, small and medium businesses, which accounted for 25% of total 2007 BNDES disbursements, added up to R$16.1 billion, for growth of 45% in the period.

Consultations formalized with BNDES, representing both potential disbursements for medium and long-term business investments, totaled R$126.8 billion in 2007, for growth of 19.6% compared to the previous year. This performance was associated with growth of 29.3% in financing requests put forward by the segment of commerce and services, in a total amount of R$67.3 billion. This demand was, to a great extent, driven by the sectors of construction and land transportation. Consultations submitted by industry totaled R$54.3 billion, increasing 9.6% in the year. The leading segments were food products and coke, oil and fuels. Requests related to crop/livestock activity totaled R$5.2 billion, with growth of 17% in the period.

Table 2.6 – BNDES disbursements

Itemization	Jan-Dec		Growth
	2006	2007	(%)
			R$ million
Total	51 318,0	64 891,7	26,5
Industry	27 120,8	26 445,8	-2,5
Chemical	1 062,0	1 882,8	77,3
Ruber and plastic	472,7	1 124,9	138,0
Cellulose and paper	2 315,0	1 808,5	-21,9
Food products	3 385,2	4 504,1	33,1
Basic metallurgy	2 160,8	3 119,8	44,4
Motor vehicles	5 186,2	3 065,2	-40,9
Other transport equipment 1/	4 222,7	1 699,6	-59,8
Commerce/Services	20 774,6	33 448,1	61,0
Land transport	7 197,6	11 472,3	59,4
Construccion	1 538,7	3 109,0	102,1
Telecommunications	2 133,7	3 379,2	58,4
Electricity and gas	4 789,8	8 056,3	68,2
Farming	3 422,6	4 997,8	46,0

Source: BNDES
1/ It includes aircraft industry.

Provisions set aside by the financial system added up to R$51.2 billion in December 2007. Annual growth of 11.7% was compatible with 27.8% expansion in the credit portfolio and resulted from increases in the provisions set aside by national private institutions, 14.2%, and foreign institutions, 22.1%, together with provisions by the public financial system, 4.3%. The ratio between the volume of provisions and overall credits reached 5.5%, against 6.2% in December 2006.

National Financial System

In the year under analysis, the National Financial System was able to preserve adequate liquidity, profitability and asset quality standards, even in the midst of intense international financial market volatility in the second half of the year. This sustainability reflected both the continued dynamics of internal demand as the force driving economic growth, and the measures adopted by the monetary authority to improve prudential regulation. Aside from this, it is important to highlight measures taken by the Central Bank to improve the quality of financial services, thereby enhancing competition among financial system institutions.

Credit operations represented 32.2% of total banking system assets, excluding intermediation, in December 2007. This was the same level registered at the end of 2006. The participation of stocks and securities dropped from 27.8% to 24.8% during the period, while the participation of interbank liquidity investments and exchange operations increased 3.9 p.p., closing at 20.6%.

Demonstrating the increased importance of other instruments in financial institution portfolios, particularly debentures and stocks, the participation of public securities in security portfolios declined from 73.2% at the end of 2006 to 65% in December 2007.

Accompanying growth in credit and leasing operations, revenues originating in these assets continued greater than those involving security investments, accounting for 55.1% of total financial intermediation in December 2007, against 52.7% in December 2006. In the same time span, the participation of revenues consequent upon securities and derivative instruments dropped from 41.5% to 39.7%.

With regard to sources of financing for intermediation activities, following the example of 2006, one should highlight growth in the participation of sources other than the classic instruments of deposits made by the public, consistent with the downward trajectory of domestic interest rates. In this scenario, while the joint participation of exchange market operations and interbank liquidity inflows (repo operations and interbank deposits) in total liabilities reached 41.7% in December 2007, against 37.2% in the corresponding period of the previous year, participation in total deposits obtained with the public, including demand deposits, time deposits and savings deposits, dropped from 33.8% to 29.6%.

The number of operating credit unions evolved from 1,452 institutions in December 2006 to 1,465 at the end of 2007, partly as a result of expansion of the population limit of the area in which cooperatives are allowed to operate with free admission of members from 750,000 to 2 million inhabitants, as determined in Resolution no. 3,442.

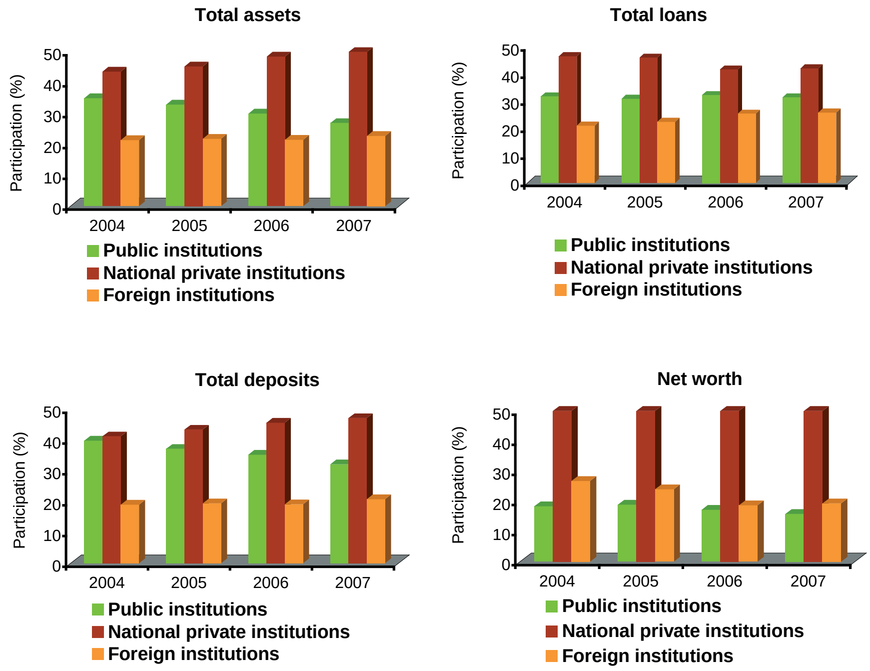
The participation of national private bank assets in the Brazilian banking system expanded from 48.5% in December 2006 to 50.3% in the corresponding months of 2007, while the participation of foreign banks shifted from 21.5% to 22.8%, and that of public banks dropped from 30% to 27%.

Insofar as prudential regulations are concerned, the monetary authority published new capital requirement rules for covering various types of risk inherent to financial intermediation, such as credit, market and operational risk. These rules are to go into effect as of July 2008, in the framework of adjustment to the Basel Accord II.

In this sense, Resolution no. 3,444 redefined Base Capital (PR), considered as the institutions own capital utilized in order to verify its compliance with the operational limits to which financial institutions are submitted. In order to avoid an artificial increase in the capitalization levels of the system, various deductions from PR were implemented by excluding tax credits to be received over periods of more than five years, together with

Graph 2.17

Banking System – Participation by segment[1/]



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

various instruments issued by other financial institutions. With respect to authorization for funding instruments to be included in PR, the possibility of including effectively paid-in amounts of hybrid capital and debt instruments in Tier I of PR, corresponding to the highest quality capital, was adopted, provided that certain conditions be fulfilled, among which one should cite a maximum level of 15% of that tier.

With regard to the new system of calculating capital requirements, Resolution no. 3,490 defined the concept of Required Base Capital (PRE), which is to be compared to the institution's own capital calculated according to PR in order to verify compliance with minimum capitalization levels as of July 2008. PRE corresponds to the minimum required capital of institutions for them to be able to absorb unexpected losses originating in the risks to which they are subjected. It is composed of the sum total of six components, each one of which is defined for coverage of a specific risk modality, as follows: credit risk, exchange exposure risk, interest rate exposure risk, commodity price variation risk, stock price variation risk and operational risk.

Growth in the flow of exchange market resources, particularly in the first half of 2007, impacted growth of the short position of banks. With the purpose of controlling leverage with these positions, Circular no. 3,352 reduced the PR limit from 60% to 30% for exposure in gold and in assets and liabilities referenced to exchange rate variations.

Parallel to this, Circular no. 3,353 increased capital requirements on exchange exposure from 50% to 100%. Starting in the month of August, the prudential effect of these measures and the reduction in the flow of exchange resources to the country impacted the reversal of the exchange position of banks, which shifted from a short to a long position, remaining there until the end of the year.

During the course of 2007, the Central Bank decreed the extrajudicial liquidation of four institutions: two brokerage companies, one stock and security distribution company and one group buyer management company. At the end of the year, 63 institutions remained subject to the special system of administration, seven less than at the end of the previous year.

Regarding the providing of banking services to the citizenry, Resolution no. 3,477 dealt with the position of the ombudsman as an organizational component of financial institutions. The role of this component is to ensure strict compliance with the rules governing consumer rights, while also providing a channel of communication between institutions and their clients. Therefore, the ombudsman is charged with receiving, recording, preparing, analyzing and giving formal treatment to complaints submitted by clients and product and service users, when such complaints are not resolved at the branch level or at any other of the institution's service outlets. The ombudsman should inform complainants of the time foreseen for a conclusive response, which is restricted to a maximum of 30 days. The services of the ombudsman should be made available free of charge, including free direct dialing in the case of institutions that have individual persons or organizations classified as microbusinesses among their clients.

In December, the monetary Authority published a series of rules disciplining the fees charged by financial institutions. Resolution no. 3,518 determined that the Central Bank of Brazil will define the standardization and uniformity of the headings used in fee tables for priority services provided to individual clients, thus making it easier for them to compare the prices charged by different institutions.

Resolution no. 3,516, prohibited the charging of fees as a result of early settlement of loan and lease contracts, at the same time in which it defined criteria for calculating the current value of amortization or settlement of such contracts. Previously, the absence of homogeneous criteria applied to anticipated settlement of credit operations made it difficult for borrowers to move from one institution to another offering more favorable cost conditions. This measure is part of the effort designed to encourage portability of credit and enhanced competition, while ensuring equity in relations and a reduction of informational asymmetry among agents.

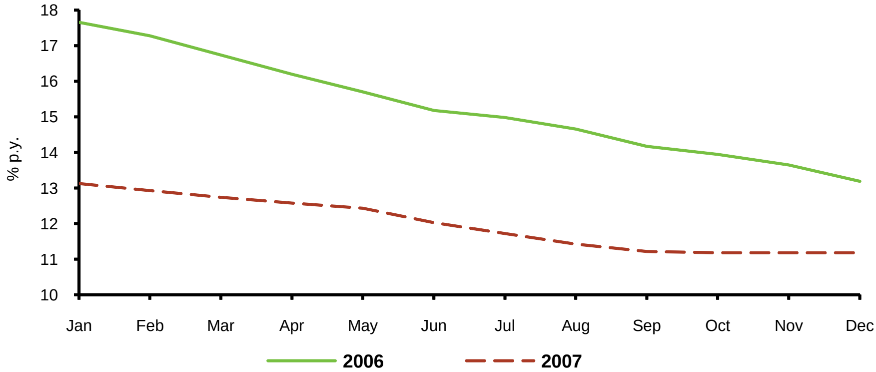
Aside from this, Resolution no. 3,517 deals with the providing of information on the total effective cost corresponding to all charges and expenses involved in credit and leasing operations contracted by or offered to individual clients. The methodology for calculating this cost was defined, at the same time in which providing of this information to the public was made obligatory, together with the effective annual rate of interest charged on such operations.

Capital and Financial Markets

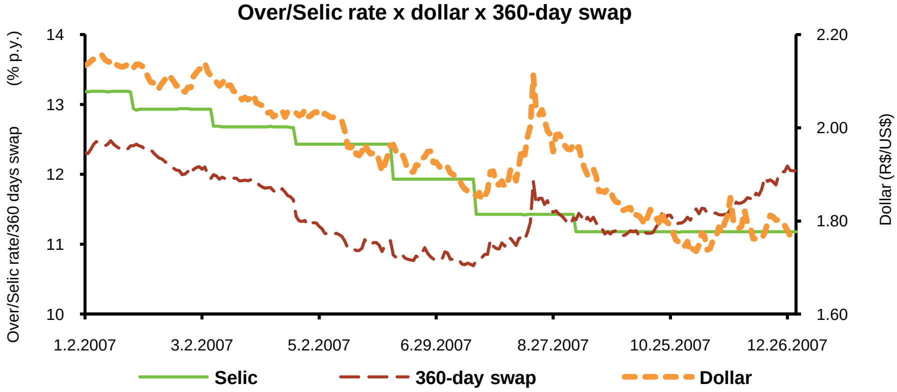
Real interest rates and market expectations

The more flexible approach to monetary policy begun in September 2005 was preserved in 2007. The highlights of this process were a success of reductions in the basic interest rate target through October, when Copom decided to hold the rate at 11.25% per year, 2 p.p. below the final 2006 level. When one analyzes market expectations for interest rate and inflation as shown in the Central Bank Market Report survey, real ex-ante interest rates reached 6.5% per year at the end of 2007, corresponding to a decline of 1.4 p.p. against December 2006. For the most part, this performance reflected adjustments in expectations regarding the evolution of the basic rate of interest in a

Graph 3.1
Over/Selic rate



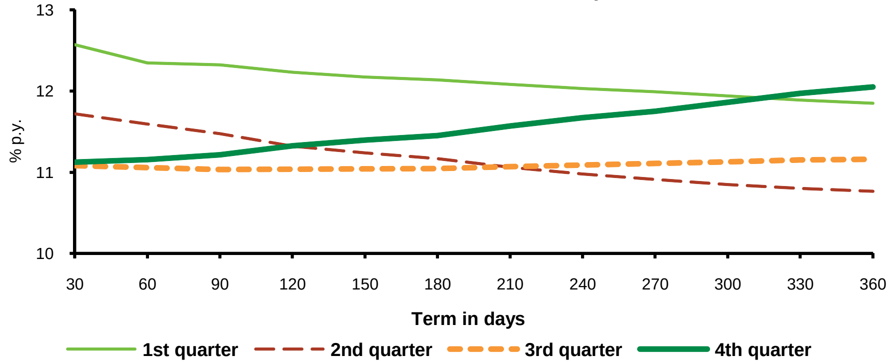
Graph 3.2
Over/Selic rate x dollar x 360-day swap



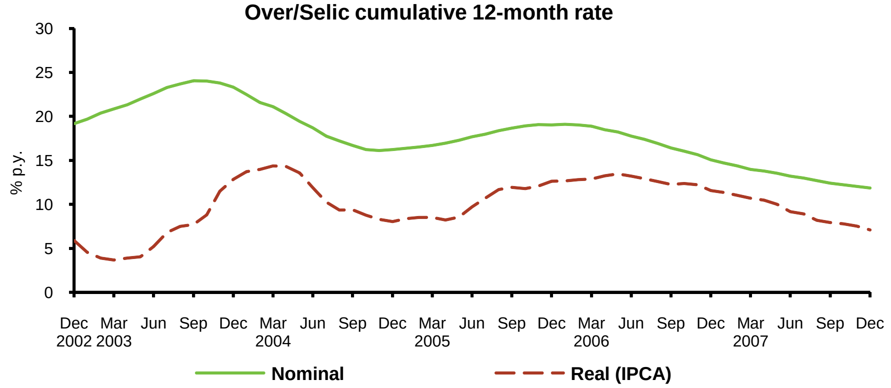
scenario of stable inflation, thus stimulating reductions in risk premiums through the end of August. Following that period, expectations indicated a relatively stable R$ rate, mainly as a consequence of increased uncertainties on international financial markets and deterioration in the prospective scenario of inflation.

In the derivatives market, 360-day DI swap contracts x pre accompanied the declining trajectory of the basic rate of interest through mid-2007. This movement reversed course as of July, as inflation expectations and the level of investor uncertainty regarding the impact of the United States economic performance on other economies increased. With this, these contracts closed the year at 12.05% per year, corresponding to a 33 basic point reduction compared to December 2006.

Graph 3.3
Yield curve – ID x fixed rate swap



Graph 3.4
Over/Selic cumulative 12-month rate

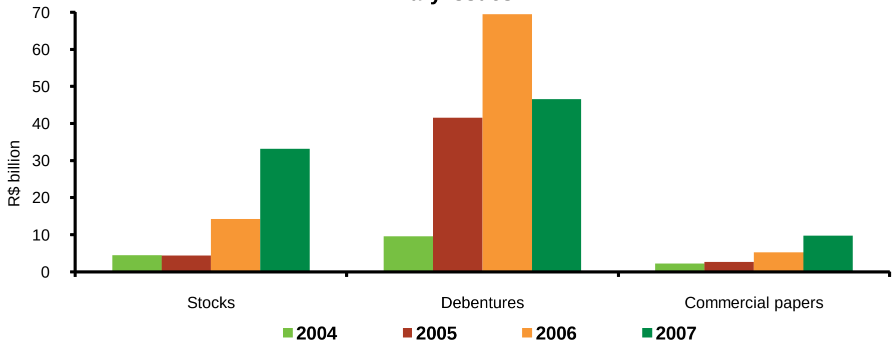


Capital market

The 2007 performance of the Capital Market continued the positive trajectory of previous years. Issuances of stocks and securities registered at the Securities and Exchange Commission (CVM), including stocks, debentures and promissory notes, reached a level of R$89.5 billion in 2007, for growth of 0.6% compared to the previous year. Particular mention should be made of growth of 133.5% in issuance of new shares, totaling R$33.2 billion, together with 146.2% expansion in 64 initial public offers registered in 2007, in a total amount of R$28.9 billion.

The participation of foreign investors in public offers came to 75.4%, with a total of R$65.5 billion in 2007. The participation of this group of investors in the secondary stock market shifted from 35.5% of total operations on the São Paulo Stock Exchange (Bovespa) in 2006 to a level of 34.5% in 2007.

Graph 3.5
Primary issues

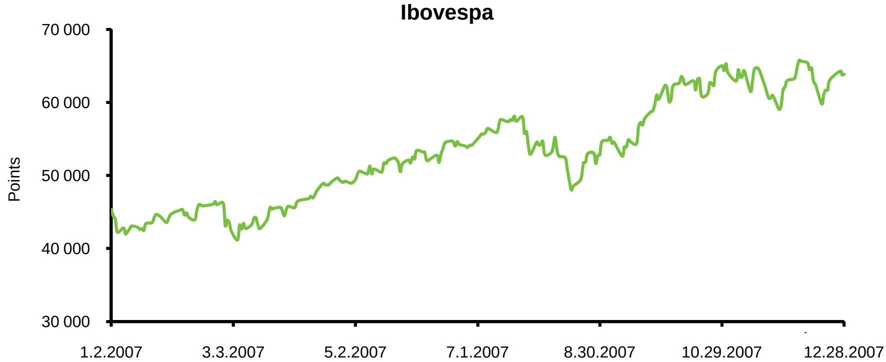


Source: CVM

Issuances of Stock Investment Fund (FIP) reached R$22.3 billion at the end of 2007, reflecting 366.2% growth compared to the previous year. The performance of these offers demonstrates continuity of the strong growth that characterized the private equity market in Brazil, sustained mostly by foreign institutional investors.

The ongoing economic stabilization process and a more flexible monetary policy stance have contributed to the enhanced dynamics of the secondary stock market. Nominal profitability of the São Paulo Stock Exchange Index (Ibovespa) reached 43.7% in 2007, accumulating 467% since 2003. This result is seen to be even more significant when

Graph 3.6
Ibovespa

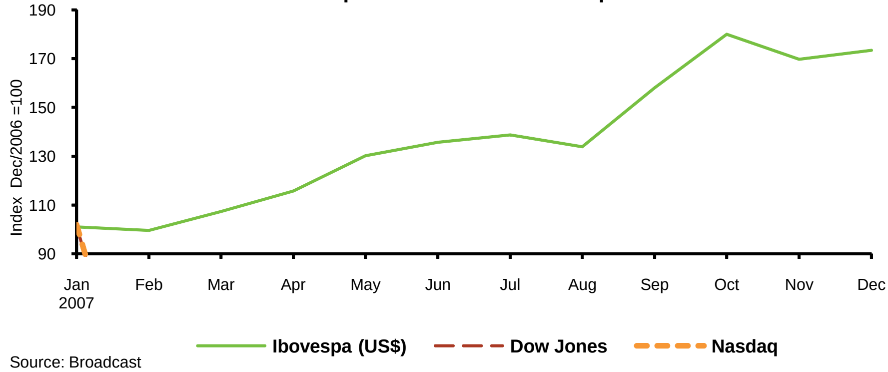


Source: Broadcast

one considers the turmoil that marked financial markets in the second half of the year, in response to deterioration of the United States subprime real estate credit market. In this scenario, following a period of relative stability in the first half of 2007 and a worsening of volatility in the early months of the second half of the year, Ibovespa closed the year at 63,886 points after having achieved a record 65,790 points on December 6, clearly reflecting investor perceptions regarding the positive conditions of the domestic economy.

In dollar terms, the Bovespa profitability reached 73.4% in 2007, eight gross level consistent with the process of exchange appreciation registered during the year. This result was sharply higher than the final figures for the Dow Jones and Nasdaq indices, 6.4% and 9.8%, respectively, both of which were heavily impacted by the repercussions of the subprime market crisis.

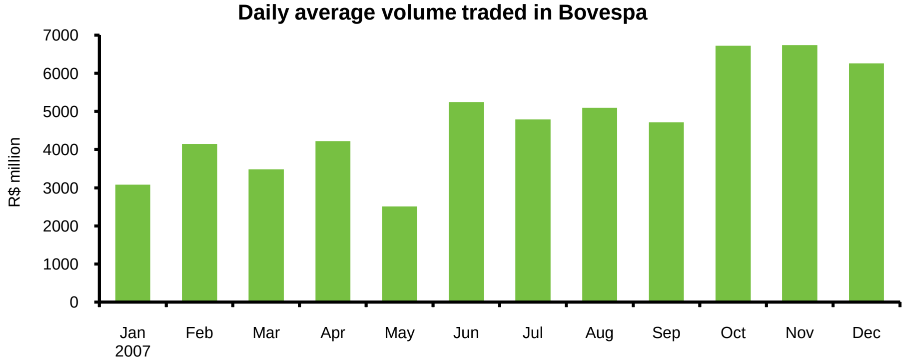
Graph 3.7
Ibovespa x Dow Jones x Nasdaq



Source: Broadcast

The average volume of trading at Bovespa posted annual growth of 100%, setting a record of R$4.9 billion in 2007, while capitalization of the companies listed at Bovespa rose 60.4% in the 12-month period ended in December, closing with a record total of R$2.5 trillion. Viewed over the longer term, the volume of trading and the value of capitalization increased 749% and 465%, respectively, in the last five years.

Graph 3.8
Daily average volume traded in Bovespa

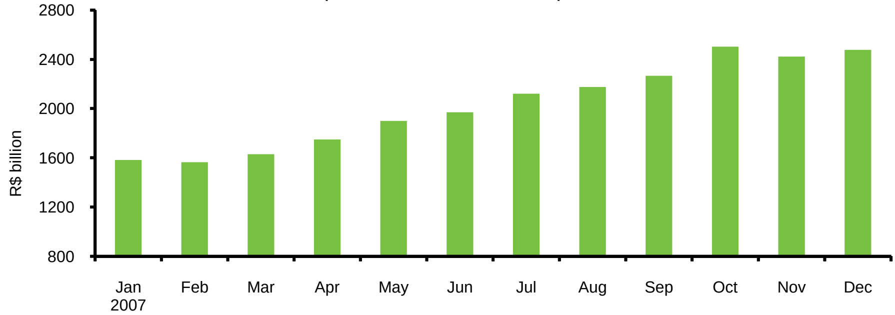


Source: Bovespa

Graph 3.9

Market capitalization

Corporations listed in Bovespa



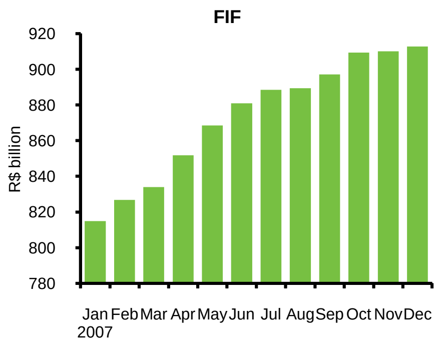
Source: Bovespa

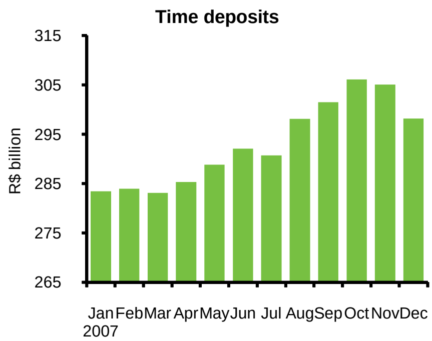
Financial investments

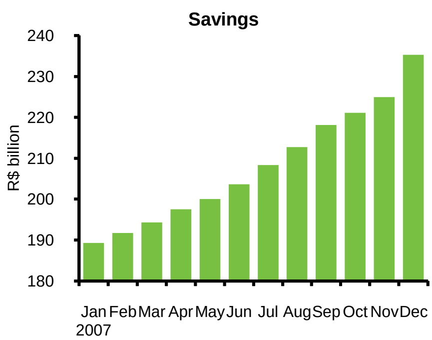
The aggregate balance of investment funds, time deposits and savings accounts reached R$1.5 trillion in December 2007, reflecting growth of 19.6% over the corresponding period of the previous year.

Graph 3.10

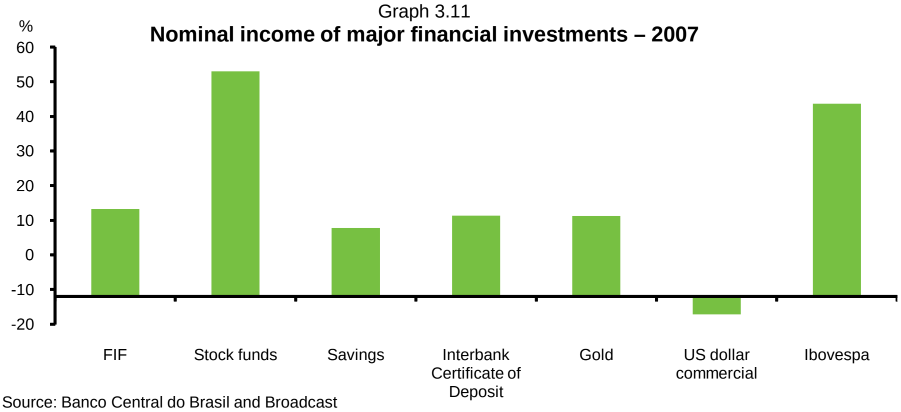
Financial investments – Balances







Graph 3.11
Nominal income of major financial investments – 2007



Source: Banco Central do Brasil and Broadcast

The consolidated net worth of investment funds reached R$1.1 trillion at the end of December, posting growth of 22% in the year. The balance for fixed income investment funds, multimarket funds, reference funds, short-term and exchange funds totaled R$912.9 billion, while those involving extra market funds and variable income investment funds reached levels of approximately R$25.9 billion and R$164.1 billion, for respective increases of 14.8%, 11.8% and 86.6%.

At the end of December, the consolidated portfolio of fixed income investment funds, multimarket funds, reference funds, short-term and exchange funds was composed primarily of public securities, with 56.1% of total, followed by repo operations, 20.8%, and private instruments, with 23.1%, compared to 2006 levels of 60.9%, 17.3% and 21.8%, in the same order. International financial market uncertainties generated a powerful impact on the distribution of fixed-rate-and inflation-indexed securities issued by the National Treasury in the fund portfolio. In this sense, growth was registered in the participation of NTN-B and NTN-C, both of which are tied to price indices, while securities with preset interest rates declined in terms of their participation.

After obtaining a net total of R$36.4 billion in the first half-year, the resources channeled to fixed income fund tended to decline in the months following the final reduction in the Selic rate target, closing the year with a net negative inflow of R$6.6 billion. With regard to referenced investment funds, net redemptions in the year totaled R$10.5 billion, including R$9.7 billion in the first half of the year. This performance reflected increased demand for this investment modality in periods of growing uncertainty on international markets. Parallel to this, growth in the net worth of multimarket funds, registering net inflows of R$40.6 billion, maintained the positive performances of recent years.

The net worth of extra market investment funds, charged with management of the funding belonging to the indirect federal administration, totaled R$25.9 billion at the end of 2007, posting net redemptions of R$115.1 million in the year.

Reflecting the dynamics of the capital markets, the assets of variable income, investment funds expanded 86.6% in 2007, posting net deposits in every month and closing the year at R$25.7 billion. The net worth of the Mutual Privatization Funds (FMP-FGTS) and Free Portfolio of Mutual Privatization Funds (FMP-FGTS-CL) increased 64%, reaching a level of R$17.7 billion, considered consistent with the increase in the value of Petrobras and Vale shares, while the net worth of other stock funds totaled R$146.4 billion, an increase of 89.9% in the year.

The balances of savings accounts and time deposits totaled R$235.3 billion and R$298.1 billion, respectively, at the end of 2007, f registering respective annual growth rates of 25.2% and 5.7%. It should be stressed that savings accounts registered net deposits in every month of the year, totaling R$36 billion, while time deposits posted net redemptions of R$873.5 million.

Table 3.1 – Nominal income of financial investment – 2007

%

Itemization	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2007	Memo: 2006
FIF	1.13	0.87	1.19	1.21	1.41	0.89	1.13	0.23	1.47	0.99	0.99	0.93	13.17	15.53
Stock funds	0.47	-0.34	2.42	5.07	4.45	2.81	2.66	-1.17	8.59	6.98	-1.55	13.98	53.01	36.14
Savings	0.72	0.57	0.69	0.63	0.67	0.60	0.65	0.65	0.54	0.61	0.56	0.56	7.70	8.33
CDB	1.03	0.85	1.01	0.90	0.99	0.84	0.90	0.95	0.76	0.90	0.82	0.82	11.31	14.64
Gold	3.22	1.34	-1.54	3.91	-5.48	-3.41	-2.59	2.42	3.77	7.95	5.89	-3.78	11.26	12.69
US dollar commercial	-0.62	-0.70	-2.82	-0.80	-5.16	-0.14	-2.52	4.50	-6.27	-5.16	2.28	-0.70	-17.15	-8.66
Ibovespa	0.38	-1.68	4.36	6.88	6.77	4.06	-0.39	0.84	10.67	8.02	-3.54	1.40	43.65	32.93

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

In order to adjust savings account profitability to that provided by other fixed income financial investment modalities, the CMN issued Resolution no. 3,446, dated March 6, 2007, altering article 5, paragraph 1 of Resolution no. 3, 354, which defined the methodology for calculating the Reference Rate (TR). Parallel to this, article 5, paragraph 2 of Resolution no. 3,354 authorizes the Central Bank to determine in the value of parameter “b” should the Basic Financing Rate (TBF) be lower than 11% per year, Circular no. 3,356, dated July 19, 2007, determined the following standards for parameter “b”, according to the value of the TBF: 0.32 for TBF of less than 11 and greater than or equal to 10.5; 0.31 for TBF below 10.5 and greater than or equal to 10; 0.26 for TBF of less than 10 and greater than or equal to 9.5; and 0.23 for TBF be load 9.5 and greater than or equal to 9.

Public Finance

Budget, fiscal and tax policies

On January 22, 2007, the federal government announced a series of institutional measures designated the Growth Incentive Program (PAC). This is a strategic plan aimed at recovering the nation's infrastructure and increasing the pace of economic growth over a four-year horizon. Of the 27 institutional measures included in the PAC, 18 were approved by Congress in 2007, while an additional nine dealing with long-term policies remained before that body. The latter group involves such issues as the minimum wage; improvement in Social Security management; limits on federal government personnel and payroll charges; the complementary pension fund program for federal civil servants; alterations in the law governing competitive tenders; the law on gas; regulatory agencies; the Brazilian System in Defense of Competition; and distribution of responsibilities in environmental questions.

The major PAC actions can be summarized into the following categories:

a) infrastructure investments: increase in the resources channeled into investments backed by the Pilot Investment Project (PPI) in 2007; forecast investments in the logistics, energy and social infrastructures totaling R$504 billion in the 2007-2010 period;
b) credit and financing incentives: credit granted to the Federal Savings Bank (CEF) to be used in basic sanitation and housing programs; expansion in the public sector credit limit for investments in environmental sanitation and housing; creation of the Infrastructure Investment Fund based on FGTS resources; and increase in the liquidity of the Residential Lease Fund;
c) improvement in the investment environment: opening of the reinsurance market (Law no. 126, dated January 15, 2007); approval of the regulatory framework for the sanitation sector (Law no. 11,445, dated January 5, 2007); and re-creation of Sudene and Sudam (Laws no. 124 and no. 125, dated January 3, 2007);
d) reductions and improvements in the Tax System: tax exemption for the Digital TV Sector Incentive Program and the Semiconductor Sector Incentive Program; accelerated recovery of credits under the Social Integration Program (PIS)/Contribution to Social Security Financing (Cofins) referring to investments in buildings; suspension of PIS/Cofins on new infrastructure projects; elimination of taxation on purchases of steel profiles; lengthening of the period permitted for

deposit of Social Security contributions; and creation of the Federal Revenue Secretariat of Brazil (RFB);

e) long-term fiscal measures: control of personnel expenditures; valuation of the minimum wage; improvements in Social Security management; extinction of federal government companies in liquidation; and institution of the complementary pension fund for federal civil servants.

The PAC Management Committee was instituted on January 22, 2007 by Decree no. 6,025, dated January 22, 2007, and charged with releasing information every four months on the progress of the activities supported by the program. In December 2007, 62% of the 2,126 activities monitored by the Committee were classified as underway and 38% were in the stage of project design, licensing or bidding procedures.

In 2007, the federal government targeted R$16.5 billion from the General Federal Budget into PAC investments. Of this total, R$16 billion were allocated or, in other words, committed to specific activities by December 31. Payments made during the fiscal year totaled R$7.3 billion, including R$4.5 billion in outlays referring to that fiscal year and R$2.8 billion in outlays from previous years, corresponding to 70% of the remaining amounts to be paid.

On September 20, 2007, the National Congress promulgated Constitutional Amendment no. 55, raising the federal government share of resources targeted to the Municipal Revenue Sharing Fund of Municipalities (FPM) by 1 p.p. to a level of 23.5%. It should be stressed that additional onlendings consequent upon this measure and estimated at R$2 billion annually will be made in a single lump sum amount in the first 10 days of December of each year.

On December 20, 2007, Constitutional Amendment no. 56 extended the validity of the Release of Federal Government Resources Entitlements (DRU) from December 31, 2007 until December 31, 2011. This is a mechanism designed to reduce budget and financial rigidity, making it possible to rechannel a share of federal budget revenues. It is estimated that, in 2008, the DRU will make it possible to convert approximately R$48 billion in revenues into ordinary resources or, in other words, resources that can be freely reprogrammed.

Other economic policy measures

Approved on March 16, 2007, Law no. 11,457 authorized unification of the Federal Revenue Secretariat with the Social Security Revenue Secretariat, giving rise to the RFB. The structure of the new direct administration entity, subordinated to the Ministry of Finance, is expected to enhance the efficiency of federal tax management, while simplifying collection and inspection processes, and reinforcing efforts against tax evasion.

Public sector borrowing requirements

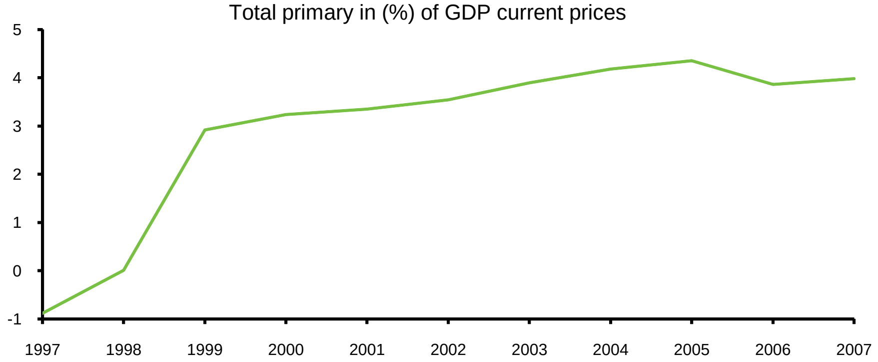
In 2007, the nonfinancial public sector registered a primary surplus of R$101.6 billion, corresponding to 3.98% of GDP. This result reflected growth of 0.12 p.p. of GDP compared to the final 2006 figure. The Central Government posted a surplus of R$59.4 billion, 2.33% of GDP, followed by regional governments with R$29.9 billion, 1.76% of GDP, and state-owned companies with R$12.2 billion, 0.48% of GDP.

Table 4.1 – Public sector borrowing requirements

Itemization	2004		2005	
	R$ million	% of GDP[1/]	R$ million	% of GDP[1/]
Nominal	47 144	2.4	63 641	3.0
Central government[2/]	27 033	1.4	73 284	3.4
States	27 497	1.4	4 755	0.2
Local governments	6 485	0.3	661	0.0
State enterprises	-13 872	-0.7	-15 060	-0.7
Primary	-81 112	-4.2	-93 505	-4.4
Central government[2/]	-52 385	-2.7	-55 741	-2.6
State governments	-16 060	-0.8	-17 194	-0.8
Local governments	-1 422	-0.1	-4 129	-0.2
State enterprises	-11 245	-0.6	-16 440	-0.8
Nominal interest	128 256	6.6	157 146	7.3
Central government[2/]	79 419	4.1	129 025	6.0
State governments	43 558	2.2	21 949	1.0
Local governments	7 906	0.4	4 790	0.2
State enterprises	-2 626	-0.1	1 381	0.1

(continues)

Graph 4.1
Public sector borrowing requirements
Total primary in (%) of GDP current prices



Reflecting the positive performance of National Treasury revenues which expanded 14% compared to 2006, Central Government revenues increased 0.95 p.p. of GDP in 2007, closing at R$618.9 billion. To a great extent, the positive performance registered in the period under consideration reflected growth in Corporate Income Tax (IRPJ) revenues, with 25.1%, together with a 23% increase in the Social Contribution on Net Corporate Profits (CSLL). These results were consistent with the higher levels of profitability registered in various segments of economic activity and the increase in the number of companies that have opened their capital on the stock exchange. Among the factors underlying the strong growth registered by these revenues, mention should be made of increased inflows of Cofins, PIS/Civil Service Asset Formation Program (Pasep) and the Industrialized Products Tax (IPI), coupled with a 31.8% increase in the dollar value of taxed imports and a R$5.1 billion increase in payments of the Individual Income Tax (IRPF).

Table 4.1 – Public sector borrowing requirements (concluded)

Itemization	2006		2007	
	R$ million	% of GDP 1/	R$ million	% of GDP 1/
Nominal	69 883	3.0	57 926	2.3
Central government 2/	74 475	3.2	59 607	2.3
States	13 740	0.6	10 335	0.4
Local governments	2 867	0.1	2 369	0.1
State enterprises	-21 199	-0.9	-14 385	-0.6
Primary	-90 144	-3.9	-101 606	-4.0
Central government 2/	-51 352	-2.2	-59 439	-2.3
State governments	-16 370	-0.7	-25 998	-1.0
Local governments	-3 345	-0.1	-3 936	-0.2
State enterprises	-19 077	-0.8	-12 234	-0.5
Nominal interest	160 027	6.9	159 532	6.3
Central government 2/	125 827	5.4	119 046	4.7
State governments	30 110	1.3	36 333	1.4
Local governments	6 212	0.3	6 305	0.2
State enterprises	-2 121	-0.1	-2 152	-0.1

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

Central Government spending totaled R$561 billion, for growth of 13.4% in 2007, representing 22% of GDP as against 21.2% in the previous year. Of this total, R$373.6 billion corresponded to National Treasury outlays; R$185.3 billion to Social Security charges; and R$2 billion to primary outlays for which the Central Bank of Brazil is liable.

Outlays on personnel and payroll charges, including active, inactive and retired civil servants, totaled R$116.4 billion in 2007, 4.56% of GDP, compared to R$105.5 billion, 4.52% of GDP, in 2006. This evolution was viewed as natural payroll growth caused by increased spending generated by the restructuring of civilian and military public sector careers and wages. In the period under consideration, it is important to stress a reduction of 14% in total payments made to civil servants as a result of judicial decisions.

Table 4.2 – Central government primary result

R$ million

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	488 376	543 505	618 872	11,3	13,9
National Treasury	378 550	418 412	477 140	10,5	14,0
Social security	108 433	123 522	140 412	13,9	13,7
Central Bank	1 393	1 571	1 320	12,8	-16,0
Total expenditures	435 561	494 616	561 046	13,6	13,4
National Treasury	287 844	327 289	373 791	13,7	14,2
Transfers to states and municipalities	83 938	92 779	105 604	10,5	13,8
Personnel and social charges	92 231	105 497	116 373	14,4	10,3
Other current and capital expenditures	111 121	128 315	151 293	15,5	17,9
Worker Support Fund	11 900	15 299	18 472	28,6	20,7
Subsidies and economic subventions	10 333	9 581	10 021	-7,3	4,6
Loas/RMV	9 253	11 639	14 192	25,8	21,9
Investiments	-	17 481	22 109	-	26,5
Other current expenditures	79 635	74 316	86 499	-6,7	16,4
National Treasury onlendings to the Central Bank	554	697	521	25,8	-25,3
Social security	146 010	165 586	185 291	13,4	11,9
Central Bank	1 707	1 741	1 964	2,0	12,8
Central government result[1/]	52 815	48 889	57 826	-7,4	18,3
National Treasury	90 706	91 123	103 349	0,5	13,4
Social security	-37 577	-42 064	-44 879	11,9	6,7
Central Bank	-314	-170	-644	-45,9	278,8
Primary result/GDP – %	2,5	2,1	2,3	-	-

Source: Ministério da Fazenda/STN

1/ (+) = surplus; (-) = deficit.

Current expenditures and capital outlays reached R$151.3 billion in 2007, raising their participation in GDP from 5.5% in 2006 to 5.93%. This performance reflected increases in outlays on investments, R$4.6 billion, together with greater spending through the Worker Support Fund (FAT), R$3.2 billion, and through Social Assistance Law (Loas/RMV), R$2.6 billion, both of which reflected real growth in the minimum wage.

Spending allocated under other current and capital outlays moved from R$91.8 billion in 2006 to R$108.6 billion in 2007, a pace considered consistent with expanded outlays through the PPI, 86.2%, and discretionary spending, including other investment outlays, with 13.9%. It should be stressed that total investment spending expanded 26.5% in 2007, while Ministry of Health discretionary spending reached R$2 billion, the largest volume of growth in the period.

One should emphasize that the major factors responsible for growth in the primary result of regional governments in 2007 were the 9.1% increase in the inflow of the Tax on the Circulation of Merchandise and Services (ICMS), and the 13.8% rise in the volume of constitutional transfers. These two items are the major revenue sources of that government level. It is important to highlight that constitutional transfers moved from R$92.8 billion in 2006 to R$105.6 billion in 2007, reflecting the increase in tax inflows shared with the states (Income Tax and IPI).

Nominal interest appropriated on an accrual basis totaled R$159.5 billion in 2007, corresponding to 6.25% of GDP, compared to 6.86% of GDP in 2006. This reduction resulted from the downward trajectory registered by the Selic rate over the course of the year. Compared to 2006, the impact of the 3.2 p.p. reduction in the cumulative Selic rate during the year was partially offset by growth in the participation of fixed rate securities in the Public Sector Net Debt (PSND). On the one hand, this movement reduces the volatility and long-term cost of the PSND, while, on the other hand, generating a less intense process of incorporation of interest in periods in which basic interest rates follow a downward curve, particularly when one considers that the rates practiced at the moment of issuance are carried through to maturity.

Table 4.3 – Uses and sources – Consolidated public sector

Itemization	2006		2007	
	R$ million	% of GDP	R$ million	% of GDP
Uses	69 883	3.0	57 926	2.3
Primary	-90 144	-3.9	-101 606	-4.0
Internal interest	152 116	6.5	160 516	6.3
Real interest	117 290	5.0	71 381	2.8
Monetary updating	34 825	1.5	89 135	3.5
External interest	7 911	0.3	-984	-0.0
Sources	69 883	3.0	57 926	2.3
Internal borrowing	183 364	7.9	266 564	10.4
Securities debt	155 060	6.6	239 424	9.4
Banking debt	7 365	0.3	-2 169	-0.1
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	20 940	0.9	29 309	1.1
Relationship TN/Bacen	-	-	-	-
External borrowing	-113 482	-4.9	-208 638	-8.2
GDP flows in 12 months[1/]	2 332 936		2 552 510	

1/ GDP at current prices.

In the nominal concept, which includes the primary surplus and appropriated nominal interest, public sector borrowing requirements posted a deficit of R$57.9 billion in the year, equivalent to 2.27% of GDP, the lowest ratio since the series was first calculated in 1991. The Central Government and regional governments registered reductions in their borrowing requirements, compared to the previous year, with a drop of 0.85 p.p. and 0.21 p.p. of GDP, respectively. Parallel to this, state-owned companies, which have traditionally registered surpluses, showed a reduction of 0.35 p.p. in their surplus positions. The overall result was financed mainly through expansion of the securities debt, while external financing followed the downward trajectory begun in 2003.

Federal securities debt

Evaluated according to the portfolio position, the federal securities debt outside the Central Bank reached R$1,224.9 billion, 45.5% of GDP, at the end of 2007, against R$1,093.5 billion, 45.8% of GDP, at the close of the previous year. The 0.3 p.p. of GDP reduction reflected net redemptions of R$11.4 billion, interest incorporations of R$145.2 billion and a reduction of R$2.4 billion resulting from exchange appreciation and 17.2% valuation of dollar-indexed securities.

Table 4.4 – Federal securities – Portfolio position

Balances in R$ million

Itemization	2003	2004	2005	2006	2007
National Treasury liabilities	978 104	1 099 535	1 252 510	1 390 694	1 583 871
Central Bank portfolio	276 905	302 855	279 663	297 198	359 001
LTN	101 376	126 184	119 323	164 989	158 748
LFT	99 646	117 405	120 270	72 737	78 955
NTN	74 026	57 275	36 823	59 472	121 298
Securitized credits	1 857	1 990	3 247	0	0
Outside the Central Bank	701 199	796 680	972 847	1 093 495	1 224 871
LTN	91 055	159 960	263 436	346 984	325 149
LFT	443 180	457 757	504 653	412 034	409 024
BTN	74	62	48	39	27
NTN	126 721	133 700	167 379	296 598	451 132
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	18 236	17 343	15 799	14 532	13 903
Securitized credits	15 001	21 103	16 555	17 793	20 777
Agrarian debt	4 879	4 345	1 529	1 302	0
TDA	2 052	2 411	3 448	4 213	4 859
CDP	1	0	0	0	0
Central Bank liabilities	30 659	13 584	6 815	0	0
LBC	-	-	-	-	-
BBC/BBCA	-	-	-	-	-
NBCE	30 659	13 584	6 815	0	0
NBCF	-	-	-	-	-
NBCA	-	-	-	-	-
Outside the Central Bank – Total	731 858	810 264	979 662	1 093 495	1 224 871
In % of GDP	42.0	39.8	45.4	45.8	45.5

In December 2007, National Treasury securities totaled R$1,583.9 billion, of which R$359 billion were held by the Central Bank and R$1,224.9 billion were circulating on the market.

As regards distribution of securities by indexing factor, the participation of fixed-rate securities increased from 36.1% of the total in December 2006 to 37.3% in December 2007, reflecting net issuances of NTN-F. The participation of securities indexed to the Selic rate moved from 37.8% to 33.4% as a consequence of net LFT redemptions. The share of securities linked to the exchange rate dropped from 1.3% to 0.9% as a result of continued redemptions of National Treasury Notes – Series D (NTN-D) and appreciation of the real against the United States dollar. At the same time, the share indexed to the TR dropped from 2.2% to 2.1%. The participation of inflation-linked securities expanded 3.7 p.p. in the year, reflecting net issuances of NTN-B, closing at 26.3%.

Table 4.5 – Federal public securities

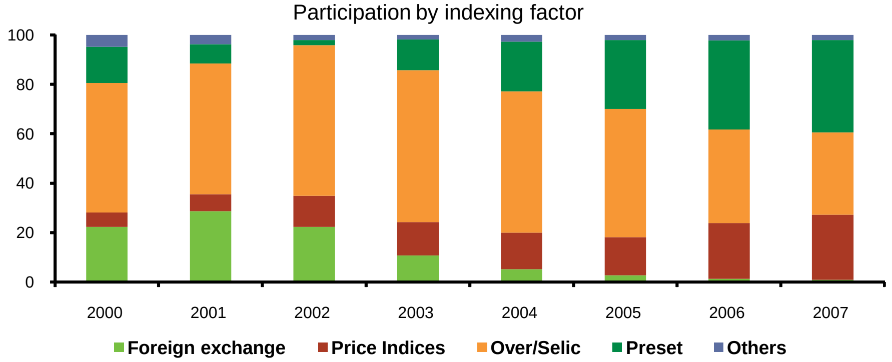
Percentage share by indexator – Portfolio position

Index numbers	2003	2004	2005	2006	2007
Total – R$ million	731 858	810 264	979 662	1 093 495	1 224 871
Foreign exchange	10,8	5,2	2,7	1,3	0,9
Reference Rate (TR)	1,8	2,7	2,1	2,2	2,1
IGP-M	8,7	9,9	7,5	6,0	4,6
Over/Selic	61,4	57,1	51,8	37,8	33,4
Preset	12,5	20,1	27,9	36,1	37,3
Long-term Interest Rate (TJLP)	0,0	0,0	0,0	0,0	0,0
IGP-DI	2,4	1,8	1,1	0,9	0,7
INPC	0,0	0,0	0,0	0,0	0,0
IPCA	2,4	3,1	6,9	15,6	21,0
Others	0,0	0,0	0,0	0,0	0,0
Total	100,0	100,0	100,0	100,0	100,0

Graph 4.2

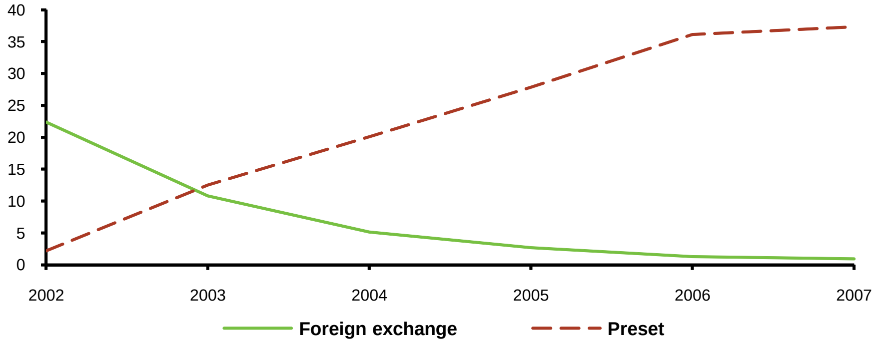
Federal public securities

Participation by indexing factor



At the end of December, the amortization schedule of the securities debt on the market – excluding financing operations – showed the following distribution: R$333.8 billion, 27.2% of the total, maturing in 2008; R$247.5 billion, 20.2% of total, maturing in 2009; and R$643.7 billion, 52.6% of total, maturing as of January 2010.

Graph 4.3
Federal securitized debt structure
Share – Portfolio position



In 2007, Central Bank swap operations resulted in greater exposure in the reverse sense, closing December at -R$39.6 billion, compared to -R$26.2 billion at the end of 2006. Viewed in terms of the cash criterion, the cumulative overall 2007 result of these operations generated a negative impact of R$8.8 billion on the Central Bank, equivalent to the difference between Interbank Deposit (DI) profitability and exchange variation plus coupon.

Public Sector Net Debt

The objective of fiscal policy remained focused on achieving a consistent reduction in the ratio between public sector indebtedness and GDP. In this framework, the Public Sector Net Debt (PSND), expressed as a proportion of GDP, dropped 1.94 p.p. in 2007, compared to the previous year. Thus, the downward trend observed in recent years was maintained, falling to the lowest level since 1998, with 42.7%.

The PSND profile showed substant0i0al alterations in 2007, particularly in terms of broadening the creditor share tied to exchange. In this sense, the creditor balance in the level of exchange participation in PSND since mid-2006 expanded in 2007, as a result of the increased volume of international reserves built during the year. Parallel to this, the participation of fixed rate and inflation-linked securities in total PSND also increased, reflecting a scenario marked by greater administrative flexibility, should any type of internal or external turbulence occur. One should further stress that, as regards the federal securities debt, which is the major component of PSND, the increase in the average maturities of securities issued was fully consistent with the management guidelines defined by the federal government in its borrowing plans.

Table 4.6 – Public sector net debt growth

Itemization	2004		2005	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	956 996	47,0	1 002 485	46,5
Net debt – Growth accumulated in the year	43 851	-5,5	45 488	-0,5
Conditioning factors (flows accumulated in the year):[1/]	43 851	2,0	45 488	2,1
Public sector borrowing requirements	47 144	2,2	63 641	2,9
Primary	- 81 112	-3,8	- 93 505	-4,3
Nominal interest	128 256	5,9	157 146	7,3
Exchange adjustment[2/]	- 16 193	-0,8	- 18 202	-0,8
Domestic securities debt indexed to exchange rate[3/]	- 3 335	-0,2	- 4 554	-0,2
External debt	- 12 858	-0,6	- 13 648	-0,6
External debt adjustment – Others	7 137	0,3	- 2 258	-0,1
Acknowledgement of debt	6 516	0,3	3 262	0,2
Privatizations	- 753	0,0	- 954	0,0
GDP Growfh effect – Debt[4/]		-7,5		-2,6
GDP accumulated in 12 months – Valued[5/]	2 036 727		2 157 439	

(continues)

Table 4.6 – Public sector net debt growth (concluded)

Itemization	2006		2007	
	R$ million	% of GDP	R$ million	% of GDP
Total net debt – Balance	1 067 363	44,7	1 150 357	42,8
Net debt – Growth accumulated in the year	64 879	-1,8	82 994	-1,9
Conditioning factors (flows accumulated in the year)[1/]	64 879	2,7	82 994	3,1
Public sector borrowing requirements	69 883	2,9	57 926	2,2
Primary	-90 144	-3,8	-101 606	-3,8
Nominal interest	160 027	6,7	159 532	5,9
Exchange adjustment[2/]	-4 881	-0,2	29 268	1,1
Domestic securities debt indexed to exchange rate	-2 222	-0,1	-2 432	-0,1
External debt	-2 659	-0,1	31 701	1,2
External debt adjustment – Others[3/]	2 302	0,1	-2 305	-0,1
Acknowledgement of debt	-375	-0,0	-630	-0,0
Privatizations	-2 049	-0,1	-1 265	-0,0
GDP Growth effect – Debt[4/]		-4,5		-5,0
GDP in R$ million[5/]	2 386 999		2 689 259	

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

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

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

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

5/ Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometirc mean of IGP-DI growth in the month and in the following month).

In December 2007, the gross debt of the General Government (federal government, National Social Security Institute – INSS and regional governments) reached R$1,542.9 billion, 57.4% of GDP, against R$1,336.6 billion, 56% of the GDP, in 2006.

Table 4.7 – Public sector net debt

Itemization	2006		2007	
	R$ million	% of GDP	R$ million	% of GDP
Fiscal net debt (G=E-F)	833 230	34.9	891 155	33.1
Internal debt methodological adjustment (F)	119 249	5.0	116 817	4.3
Fiscal net debt with exchange devaluation (E=A-B-C-D)	952 479	39.9	1 007 972	37.5
External debt methodological adjustment (D)	79 723	3.3	109 119	4.1
Asset adjustment (C)	102 646	4.3	102 016	3.8
Privatization adjustment (B)	-67 485	-2.8	-68 750	-2.6
Total net debt (A)	1 067 363	44.7	1 150 357	42.8
Federal government	727 319	30.5	808 095	30.0
Banco Central do Brasil	8 481	0.4	8 585	0.3
State governments	316 864	13.3	324 107	12.1
Local governments	47 073	2.0	49 216	1.8
State enterprises	-32 373	-1.4	-39 647	-1.5
Internal net debt	1 130 902	47.4	1 393 139	51.8
Federal government	591 211	24.8	703 662	26.2
Banco Central do Brasil	191 592	8.0	327 801	12.2
State governments	304 318	12.7	313 467	11.7
Local governments	45 139	1.9	47 525	1.8
State enterprises	-1 359	-0.1	684	0.0
Foreign net debt	-63 538	-2.7	-242 782	-9.0
Federal government	136 108	5.7	104 433	3.9
Banco Central do Brasil	-183 111	-7.7	-319 216	-11.9
State governments	12 545	0.5	10 641	0.4
Local governments	1 934	0.1	1 691	0.1
State enterprises	-31 015	-1.3	-40 330	-1.5
GDP in R$ million 1/	2 386 999		2 689 259	

1/ Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the subsequent month).

Table 4.8 – Gross and net government debt[1/]

Itemization	2006		2007	
	R$ million	% of GDP	R$ million	% of GDP
Net public debt	1 067 363	44.7	1 150 357	42.8
Net general government debt	1 091 255	45.7	1 181 418	43.9
Gross general government debt	1 336 645	56.0	1 542 852	57.4
Internal gross debt	1 186 058	49.7	1 426 087	53.0
Foreign gross debt	150 587	6.3	116 764	4.3
Federal government	136 108	5.7	104 433	3.9
State government	12 545	0.5	10 641	0.4
Local government	1 934	0.1	1 691	0.1
Assets of general government	-465 221	-19.5	-533 018	-19.8
Internal assets	-465 221	-19.5	-533 018	-19.8
Available assets of general government	-247 406	-10.4	-305 568	-11.4
Investment of social security system	-231	-0.0	-284	-0.0
Tax collected (not transferred)	-1 204	-0.1	-1 011	-0.0
Demand deposits	-5 528	-0.2	-7 072	-0.3
Available assets of federal government in Banco Central	-226 047	-9.5	-275 843	-10.3
Investment in the banking system (states)	-14 396	-0.6	-21 358	-0.8
Investment in funds	-60 247	-2.5	-61 436	-2.3
Credits with public enterprises	-20 041	-0.8	-18 805	-0.7
Other federal government's credits	-14 877	-0.6	-18 793	-0.7
Worker assistance fund (FAT)	-122 650	-5.1	-128 417	-4.8
Foreign credits	0	0.0	0	0.0
Federal government	0	0.0	0	0.0
State government	-	-	-	-
Local government	-	-	-	-
Banco Central net debt	8 481	0.4	8 585	0.3
Public enterprises net debt	-32 373	-1.4	-39 647	-1.5
GDP in R$ million[2/]	2 386 999		2 689 259	

1/ Includes federal, state and local government debt, with other economic agents, including the Banco Central.
2/ Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometirc mean of IGP-DI growth in the month and in the following month).

Federal tax and contribution inflow

Excluding Social Security contributions that are the responsibility of the INSS, the federal tax and contribution inflow totaled R$448.9 billion in 2007, against R$390.3 billion in the previous year. Using the IPCA as deflator, the 11% real increase registered in the year reflected both the enhanced dynamics of the economy in the period under consideration, and greater efficiency in recovering debts in arrears, while the rates and calculation bases of the various taxes remained unchanged.

Table 4.9 – Gross federal revenues

R$ million

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	124 520	136 503	160 139	9.6	17.3
Industrialized Products Tax (IPI)	26 428	28 159	33 793	6.5	20.0
Import Tax (II)	9 080	10 035	12 254	10.5	22.1
Financial Operations Tax (IOF)	6 103	6 772	7 834	11.0	15.7
Contribution to the Financing of the Social Security (Cofins)	87 615	91 156	102 463	4.0	12.4
Social Contrib. on the Profits of Legal Entities (CSLL)	26 199	27 968	34 411	6.8	23.0
Contribution to PIS/Pasep	22 014	24 045	26 710	9.2	11.1
Provisional Contribution on Financial Transactions (CPMF)	29 273	32 033	36 483	9.4	13.9
Contribution on Intervention in the Economic Domain (Cide)	7 681	7 812	7 937	1.7	1.6
Other taxes	21 769	25 804	26 917	18.5	4.3
Total	360 682	390 287	448 941	8.2	15.0

Source: Ministério da Fazenda/Receita Federal do Brasil

The 2007 income tax inflow totaled R$160.1 billion, against R$136.5 billion in the previous year. Real 13.2% growth in this case reflected across-the-board real revenue gains in the various tax segments, excluding payments on capital earnings. One should

Table 4.10 – Income Tax and Industrialized Products Tax

R$ million

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax (IR)	124 520	136 491	160 137	9.6	17.3
Individuals	7 369	8 533	13 654	15.8	60.0
Corporate entities	51 225	55 849	69 856	9.0	25.1
Financial institutions	7 299	9 066	13 574	24.2	49.7
Other companies	43 926	46 782	56 316	6.5	20.4
Withholdings	65 926	72 109	76 627	9.4	6.3
Labor earnings	35 642	39 082	42 349	9.7	8.4
Capital earnings	19 853	20 890	21 421	5.2	2.5
Remittances abroad	6 160	7 393	7 800	20.0	5.5
Other earnings	4 271	4 744	5 057	11.1	6.6
Industrialized Products Tax (IPI)	26 428	28 159	33 806	6.5	20.1
Tobaco	2 304	2 397	2 803	4.0	16.9
Beverages	2 336	2 610	2 583	11.7	-1.0
Automotive vehicles	3 727	4 288	5 208	15.1	21.5
Other taxes	12 773	12 701	15 510	-0.6	22.1
Linked imports	5 288	6 163	7 702	16.5	25.0

Source: Ministério da Fazenda/Receita Federal do Brasil highlight real growth of 54.2% in the IRPF inflow, mainly as a result of increased payments on capital gains generated by sales of durable goods, net gains in stock market operations and payments resulting from income tax returns for base year 2006.

The IRPJ and CSLL registered real increases of 20.6% and 18.6%, respectively, reflecting the increased number of companies that opened their capital on the stock market, together with higher levels of profitability in the various business segments.

Posting real growth of 15.7% compared to 2006, the IPI generated R$33.8 billion. This result reflected favorable performances in most tax segments, particularly the IPI-automobiles, 17%, generated by increased domestic market sales; IPI-others, with 17.6%, resulting from expanded industrial output in 2007; and the IPI-imports, 20.6%, as a result of 31.8% growth in the dollar value of taxed imports.

The inflow of Cofins revenues, the second most important federal tax category, reached R$102.5 billion, for real growth of 8.4% compared to the previews fiscal year. Payments effected by financial entities increased 11.4% in the period.

Parallel to this, the total inflow under other taxes, which includes the residual share of inflows administered by the Federal Revenue Secretariat and payments that are the responsibility of other public sector entities not encompassed by the "Federal Revenue System", reached R$27.5 billion, quite similar in real terms to the 2006 result. This figure was achieved notwithstanding increases in judicial/administrative deposits, lottery revenues and recovery of debts from previous fiscal years, as determined by Provisional Measure no. 303/2006.

Social Security System

The General Social Security System (RGPS) deficit dropped from 1.8% of GDP in 2006 to 1.76% of GDP in 2007, an unprecedented occurrence in the recent history of the System. In nominal values, the deficit reached R$44.9 billion, against R$42.1 billion in the previous year.

In 2007, Social Security revenues expanded 13.7%, climbing to a level of R$140.4 billion, corresponding to 5.5% of GDP, against 5.29% of GDP in the previous year. Annual growth in inflow reflected an expanded supply of formal employment opportunities and increased overall wages.

During the period under consideration, payments of Social Security benefits rose 11.9%, totaling R$185.3 billion, 7.26% of GDP as compared to 7.1% of GDP in 2006. This growth reflected both the 5.8% increase registered in the average value of benefits paid as a result of the minimum wage increase and higher benefits for those receiving more than the minimum wage, together with a 2.7% increase in the average number of monthly benefits paid, with a total of 576.8 thousand.

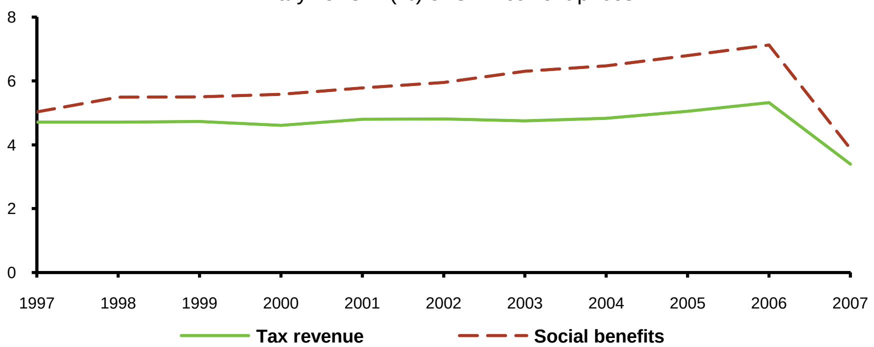
Table 4.11 – Social Security – Cash flow

R$ million

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Revenues	172 713	201 757	216 486	16.8	7.3
Banking inflow	115 954	133 016	153 790	14.7	15.6
Other revenues	882	1 368	-377	55.1	-127.6
Revenue anticipation	10 324	-359	1 316	-	-
Federal government transfers	45 553	67 732	61 757	48.7	-8.8
Expenditures	171 796	200 507	221 941	16.7	10.7
Social security benefits	146 009	165 585	185 291	13.4	11.9
Non-social security benefits	10 001	12 332	15 014	23.3	21.7
Other expenditures	8 267	13 097	8 259	58.4	-36.9
Transfers to third parties	7 519	9 493	13 377	26.3	40.9
Cash result	917	1 250	-5 455	...	...
				...	...
Social Security balance	-37 574	-42 062	-44 878	...	...

Source: Ministério da Previdência e Assistência Social

Graph 4.4
Social security
Primary flows in (%) of GDP current prices



It should be stressed that, in recent years, average growth of outlays on benefits reached 0.24 p.p. of GDP, moving from 6.3% of GDP in 2003 to 7.26% of GDP in 2007.

With regard to the various segments of benefits paid in 2007, mention should be made of an additional 373.3 thousand retirement benefits, 146.8 thousand pensions paid as a result of the death of the principal beneficiary and 54.1 thousand illness assistance benefits, representing respective increases of 2.8%, 2.5% and 3.7%, compared to 2006.

State and municipal finance

In 2007, the primary surplus of states and municipalities totaled R$29.9 billion, against R$19.7 billion in the previous year, representing 1.17% of GDP.

Inflow of the ICMS, the major source of revenues at the state level, reached R$187.5 billion, for real growth of 3.8% in the year, using the IGP-DI as deflator. Here, one should stress that the overall inflow for the states of São Paulo, Minas Gerais, Rio de Janeiro, Rio Grande do Sul and Paraná represented 64.3% of this total.

Table 4.12 – Payment of the Tax on the Circulation of Merchandise and Services (ICMS)

R$ million

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
São Paulo	51 001	57 788	63 192	13.3	9.4
Rio de Janeiro	13 396	14 805	15 671	10.5	5.9
Minas Gerais	15 638	17 018	19 318	8.8	13.5
Rio Grande do Sul	11 383	11 813	12 258	3.8	3.8
Paraná	8 760	9 264	10 086	5.8	8.9
Bahia	7 831	8 604	8 941	9.9	3.9
Santa Catarina	5 829	6 169	6 831	5.8	10.7
Goiás	4 224	4 699	5 244	11.2	11.6
Pernambuco	4 314	4 864	5 413	12.8	11.3
Espírito Santo	4 636	5 092	5 878	9.8	15.5
Other states	27 807	31 600	34 518	13.6	9.2
Total	154 818	171 715	187 349	10.9	9.1

Source: Ministério da Fazenda/Confaz

In the State of São Paulo, the tax inflow reached R$63.2 billion, 33.7% of the total. The real increase of 4.1% compared to the previous year reflected both growth in payments tied to import operations, and to the vitality of economic activity in that state.

The state of Minas Gerais produced the second largest volume, with R$19.3 billion. Annual real growth of 8% was linked to the performance of the segments of commerce, electrical energy, fuels and imported products. Broken down by segments, special mention should be made of growth in the production of sugar, 73%; vehicles, 58%; and minerals, 38.7%.

Transfers to states and municipalities totaled R$105.6 billion in 2007, corresponding to 4.14% of GDP, compared to R$92.8 billion, 3.98% of GDP, in the previous year. In this context one should stress the increase of R$11.6 billion generated by the performance of the IR and IPI, both of which are used in calculating these transfers. Moving in the opposite direction, transfers related to the Export Compensation Fund (Complementary Law no. 87, dated September 13, 1996) – set aside for refunds of losses in ICMS

Table 4.13 – Federal government onlendings to states and municipalities

R$ million

Itemization	2005	2006	2007	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Constitutional onlendings (IPI, IR and others)	63 756	70 628	82 239	10.8	16.4
Export Compensation Fund	4 757	4 343	3 888	-8.7	-10.5
Cide transfers	1 776	1 781	1 850	0.3	3.9
Others[1/]	13 648	16 028	17 628	17.4	10.0
Total	83 937	92 780	105 605	10.5	13.8

Source: Ministério da Fazenda/Secretaria do Tesouro Nacional

1/ Contribution of education benefit, fund for the maintainance and development of the basic education and enhancement of the teaching career (Fundef), petrol royalties and other onlendings.

inflows caused by reductions in taxes on semi-manufactured and primary products – declined R$400 million in the period under consideration. Other transfers increased R$1.6 billion, reflecting growth of R$1.7 billion in complementary federal payments to Fundeb and R$500 million in Education Wage transfers, partially offset by the R$600 million reduction in the quota share of financial compensation.

Economic-Financial Relations with the International Community

Foreign trade policy

As noted in the previous chapter, introduction of the Growth Incentive Program (PAC), incorporating a variety of measures designed to generate direct and indirect impacts on the export sector, is targeted at enhancing the nation's international market competitiveness. In general, the focal point of these measures is to reduce taxes on investments, particularly in segments of logistical importance, such as ports. These measures are targeted at the infrastructure sector and are of fundamental importance to reducing export costs, while making it possible to continue expanding the volume of exports and imports.

Suspended since July 2006, negotiations on the liberalization of global trade in the World Trade Organization (WTO) framework did not progress in any significant way in 2007, as a consequence of the ongoing impasse between the developing and developed countries. While the latter seek greater freedom in the industrial and service sectors in the developing countries, these nations are seeking tariff cuts on exports of agricultural products, coupled with reductions in the farm subsidies paid by the developed world.

Over the course of 2007, various initiatives were taken with the aim of reinitiating the negotiation process, including the proposal put forward by Pascal Lamy, the WTO Director General, to the representatives of thirty countries during the January Davos Forum, stressing the fact that progress in the bilateral negotiations could make it feasible to recommence negotiations among all WTO members. In April, China and India issued a joint statement in which they demanded that the developed countries respect their need to preserve their subsistence farmers and guarantee food security to almost 2.5 billion people. At the same time, they blamed the USA and European Union for the possible failure of the Doha Round. It should be observed that divergent positions are found even among emerging nations belonging to the G-20. While Brazil and Argentina proposed wide-ranging agricultural liberalization, China and India reject new tariff cuts in their markets.

The G-4 – Brazil, India, USA and UK – countries met in June in Potsdam, Germany, with the objective of getting the Doha Round back on track. The meeting ended two days earlier than scheduled, when Brazil and India decided to withdraw from the negotiations as a result of the impasse in discussions of subsidy cutbacks and tariff reductions. Following that, United States authorities blamed Brazil and India for the lack of progress at the Doha Round and announced elimination of various trade benefits granted to both countries in the framework of the General System of Preferences (GSP). As a result, the new deadline for conclusion of the Doha Round was postponed to the end of 2008.

In the context of the Southern Common Market (Mercosur) integration, discussion of the bloc's asymmetries dominated the agenda during the year. Among the major measures related to this subject, one should emphasize proposals referring to elimination of double charging of the Common External Tariff (TEC) and distribution of customs revenues, as well as the Strategic Plan for Overcoming Asymmetries. This plan has four pillars: asymmetries, productive integration policies, market accessibility and issues of an institutional character. Nonetheless, Brazil and Argentina expressed divergent positions regarding elimination of double charging of the TEC and the timeliness of its implementation. While Brazil defends a position of more rapid adoption of this proposal, Argentina has taken a more cautious approach.

At the 34th Mercosul Summit, held in Uruguay in December, conclusion of agreements on resolving asymmetries and redistributing customs income was postponed to the first half of 2008, together with elimination of double charging of the TEC. Another decision postponed to 2008 involved ratification of Venezuela's definitive entry into the bloc by the Brazilian and Paraguayan parliaments. Also with respect to new members, Argentina blocked Bolivia's full membership in Mercosul without a commitment to compliance with the TEC, the instrument that transforms the bloc into a customs union.

Also with regard to the TEC, at their last meeting in the year, Mercosul member countries decided to postpone the date determined for extinction of their 100-item exception lists in the cases of Paraguay and Uruguay until December 31, 2015. Brazil and Argentina may maintain lists of exceptions with 100 products up to December 31, 2009, when they will drop to 93 items. Starting on February 1, 2010, the list will be reduced to 80 products and then to 50 on August 1, 2010, before being totally eliminated on December 31, 2010.

In the case of the Common System for Informatics and Telecommunications Goods (BIT) and for Capital Goods (BK), the period allotted to the High Level Group to Examine the Consistency and Dispersion of the TEC (Gantec) and submit a proposal for review of the systems was extended to December 2008. Mercosul Common Market Council Decision no. 61, dated December 17, 2007, determined that Brazil and Argentina may maintain exceptions to the BIT until December 31, 2008, while Paraguay and Uruguay may apply tariffs of 0% or 2% through December 31, 2015.

During the aforementioned summit, Brazil announced creation of BNDES offices in the Uruguayan capital. These offices will be used to provide support to operations in Latin America, and will be the bank's first international office since it terminated the activities of its Washington office, which had opened in the 1950s and operated continuously for more than 30 years.

In December, in Buenos Aires, the presidents of Brazil, Argentina, Venezuela, Bolivia, Ecuador, Uruguay and Paraguay signed the act creating the *Banco do Sul*, reflecting their political commitment to its implementation. The objective of the bank is to finance development projects in the region and become an alternative to existent multilateral financial institutions. To do this, initial capital is forecast at US$7 billion, distributed in equal quotas among the seven participating countries.

Also in 2007, the Free Trade Treaty between Mercosul and Israel was formalized. This treaty, the first of its kind to be signed with a country not located in Latin America, represented the end of long years of external negotiations with no significant progress. This is evident in the fact that the Trade Preference Agreement signed with India in 2004 has not yet gone into effect due to the lack of parliamentary ratification.

With regard to Brazil-Argentina negotiations, in the month of February the Brazilian government announced that it would not renew the restrictive agreements involving footwear and appliances in effect in the period from 2004 to 2006, considering that the restrictions have already achieved their objectives of expanding the output of Argentine industry and raising investments in those sectors.

Brazilian wheat imports from Argentina represented another item of importance on the bilateral agenda. Representatives of the Brazilian business community and government requested that the Argentine government standardize export tariffs at 10%. Currently, these tariffs stand at 10% for flour, 10% for unrefined wheat and 20% for wheat. Brazil took the position that the difference between tariffs burdened domestic production, since it was more advantageous to import Argentine flour than to purchase wheat to be processed in the country. It should be stressed that Brazil produces only about 40% of the wheat it consumes. In this scenario, acting through the Brazilian Association of the Wheat Industry (Abitrigo), business representatives from the sector are demanding a reduction in tariffs on imports of the product from countries that do not participate in Mercosul.

As far as Brazilian-Uruguayan trade relations are concerned, the automotive agreement was extended to June 30, 2008. This agreement determines annual export quotas of 6.5 thousand Brazilian automobiles and light commercial vehicles to the Uruguayan market with no import tax, and twenty thousand Uruguayan automobiles and light commercial vehicles to the Brazilian market, excluding armored vehicles. This agreement represented an important step in consolidating Mercosul Automotive Policy (PAM).

Foreign Trade Chamber (Camex) Resolution no. 38, dated June 9, 2007 and published on September 28, disciplined imports of remolded tires from Mercosul and defined quotas at 250,000 units per year with 130,000 from Uruguay and 120,000 from Paraguay. At the same time, a maximum quota of 2,000 units per year of remolded tires for buses and trucks was approved and should be divided equally between Uruguay and Paraguay. This resolution prohibited imports of remolded tires for motorcycles and three wheeled vehicles.

Moreover, Brazilian trade policy in 2007 was characterized by adoption of emergency measures focused on strengthening industry by stimulating exports and restructuring the productive sector. These measures were announced on June 12 and were targeted at strengthening and enhancing the competitiveness of the manufacturing sector in the following specific areas: leather goods, footwear, textiles and apparel, ornamental stones, furniture, electronic appliances and automobiles.

Following its approval by Mercosul partners, Camex Resolution no. 40, dated September 28, 2007, raised the Import Tax rates of the TEC on footwear, fabrics and apparel to respective levels of 35%, 26% and 35%. Aside from this, Law no. 11,529, dated October 22, 2007, later regulated by Decree no. 6,252, dated November 13, 2007, authorized equalization of interest rates and granting of interest bonuses for payments made on the due date in the financing and the credit operations of companies in these sectors. The ceiling was set at R$3 billion, including R$2 billion in resources from BNDES and R$1 billion from the FAT. As regards measures taken to reduce taxes, the period of time for appropriating PIS/Cofins credits on investments was shortened, permitting immediate appropriation in acquisitions of capital goods for the sectors of textiles, footwear, furniture, electronic appliances and automotive vehicles. In the same context, it should be highlighted the sectoral expansion of the Special Capital Goods Acquisition System for Exporting Companies (Recap), with reduction from 80% to 60% of the minimum percentage of exports that generates the right to suspension of PIS/Cofins on acquisitions of inputs for companies in the sectors mentioned.

On June 14, the Naval Industry Chamber was created and charged with reorganizing the sector, particularly as regards long-term planning. Studies carried out by various workgroups resulted in suggestions of measures for that sector. These were channeled to the government organizations charged with elaborating the new phase of industrial policy, which is expected to include broad sectoral initiatives based on measures taken jointly by BNDES, government ministries and the private sector.

Provisional Measure no. 412, dated December 31, 2007 extended the Tax System for Incentives to Port Structure Modernization and Expansion (Reporto) until December 31, 2010. This System had originally been instituted by Law no. 11,033, dated December 21, 2004. In purchases of machinery and equipment for ports, Reporto, which is a federal government program, suspends charging of the IPI, PIS/Pasep, Cofins and the Import Tax (II), when national industry does not produce goods similar to those being imported.

BNDES-Exim disbursements totaled US$4.2 billion in the year, a reduction of 34.3% compared to the previous year. This falloff was registered in all of the various modalities of support to export operations. In the post-shipment modality, resources totaled US$697.5 million, representing an annual decline of 62.6%, while the resources made available in the pre-shipment modality (traditional, special and agile), involving financing for production of goods to be exported, reached US$3.5 billion, of which 92.7% were concentrated in the traditional segment, reflecting a falloff of 22.6% using the same basis of comparison.

Decree no. 6,322, dated December 21, 2007, expanded the activities of BNDES, authorizing the institution, as a member of the national financial system, to carry out any financial or capital market operations regulated by CMN rules and guidelines. Aside from this, the institution may contract technical studies and provide technical and financial support, including on a non-reimbursable basis, for the structuring of projects that foster the economic and social development of the country or its integration into Latin America.

As regards the guidelines and implementation of the PAC, BNDES reduced spreads on operations in the infrastructure sector, thus encouraging new investments. Other sectors that benefited from this measure include production and distribution of gas, railways, ports, airports, highways, urban sanitation and transportation.

Decree no. 6,041, dated February 8, 2007, implemented government policy regarding the biotechnology sector. This policy proposes strategic measures that encompass investments, infrastructure and regulatory frameworks, reflecting an effort to create an environment conducive to the sector's development, enhancing its competitiveness and the country's participation in world trade. One should stress that BNDES is the major financing agent of companies operating in the area of biotechnology, since investments in this sector necessarily take a long time to reach maturity.

During the year, BNDES announced that it would double the budget of the Footwear Sector Financial Support Program to a total volume of US$240 million, while extending the program to the end of 2007. The objective of the program was to increase the competitiveness of the sector's foreign sales. The bank was also responsible for injection of US$200 million into the Andean Development Corporation (CAF), the financial arm of the Andean Community. From the point of view of the Brazilian government, the injection of capital into the CAF increases the country's presence in the process of regional development, while also strengthening the institution itself.

In the year under analysis, the value of Export Financing Program (Proex) operations increased 10.2% over the previous year, closing with US$4,414.1 million, of which US$374.7 million referred to the financing modality and US$4,039.4 million to interest rate equalization. The financing modality accounted for 8.5% of exported value and reflected a reduction of 14.8% compared to the previous year, when the total reached US$439.7 million. In much the same way, disbursements showed a reduction from US$382.9 million to US$331.6 million in the period under analysis. Despite these cutbacks, the number of operations shifted from 1,391 to 1,660, as a result of growth from 219 to 435 in the operations of micro-businesses and from 335 to 358 in the number of exporters. The participation of micro and medium-sized businesses in exported value increased from 20% to 26%, while that of small businesses remained constant at 10% and the participation of large-scale companies dropped from 70% to 64%.

In descending order, the major economic sectors that made use of Proex financing in 2007 were services, 40%; machinery and equipment, 15%; agribusiness, 14%; transportation, 14%; and textiles, leather and footwear, 9%.

Exports in the equalization modality totaled US$4,039.4 million in 2007 compared to US$3,566.9 million in the previous year. Issuances of National Treasury Notes – Series I (NTN-I), used as backing for interest rate equalization operations, added up to US$183.8 million, against US$191.8 million in 2006. In the year, 2,126 operations were carried out by 35 exporters, as compared to 1,716 operations in the preceding year, carried by 32 companies. It is important to stress that 71% of exports involved the transportation sector, including Embraer external sales, followed by machinery and equipment with 25%, and services with 4%. Just as occurred in previous years, there was a strong concentration of operations among large-scale companies, reaching 74% of the total and representing 77% of the value of exports through this modality.

Also with regard to Proex, the Aviation Sector Understanding on Export Credits for Civilian Aircraft between Brazil and the member countries of the Organisation for Economic Co-operation and Development (OECD) was signed on July 30 in Rio de Janeiro, following three years of negotiations. The objective of the agreement is to find a balance among the competitive conditions of the world's largest manufacturers of commercial aircrafts.

Camex Resolution no. 35, dated August 22, 2007, defined the guidelines for utilization of Proex, while Provisional Measure no. 363, dated April 18, 2007, converted into Law no.11,499, dated June 28, 2007, defined the authority of Camex and reaffirmed that of the CMN in this area, at the same time in which it determined that the National Treasury could agree to conditions accepted by international practice as applied to countries, projects or sectors with limitations on their access to market financing. According to the terms of Resolution no. 3,512, dated November 30, 2007, the CMN determined that interest rates on Proex equalization or financing operations may not be less than 2% per year. Camex was given authority to dispense with guarantees by the beneficiaries of the operation.

First observed as of 2004, the tendency toward growth in the positive balance of foreign trade operations through the Reciprocal Credit and Payment Agreement (CCR) was maintained, particularly in terms of operations with Venezuela. The cumulative balance in 2007 closed in a creditor position of US$2.9 billion, based on US$3 billion in exports and US$122.5 million in imports, corresponding to an increase of 40.8% compared to 2006. As occurred in previous years, Venezuela was Brazil's major partner in the framework of the agreement, accounting for 85.7% of Brazilian foreign sales. Argentina was the second most important destination for Brazilian exports backed by the CCR, with 3.6%, followed by Ecuador, 3.2%. Brazilian imports through the agreement increased 78.8% in the year and originated mainly in Chile, Argentina and Uruguay, with 98.3% of total acquisitions. Just as in the previous year, Chile was the only country with which Brazil registered a negative balance in the CCR framework.

In 2007, government measures aimed at stimulating exports were maintained. This effort was led by the Export Promotion Agency of Brazil (Apex-Brasil) and resulted in the expansion and diversification of Brazilian foreign sales. The trade promotion effort can be measured by growth in the exports of companies participating in projects developed by the agency, together with different entities from the industrial sector. Growth in these operations has surpassed expansion of overall Brazilian exports. As regards trade promotion incentives, implementation of the Export Promotion Remittance Authorization System (Sisprom) deserves mention. This is a tool that aids in the granting of benefits to members of the business community carrying out trade promotion activities involving their products through fairs and exhibits abroad.

Also in the context of trade promotion, Apex-Brazil inaugurated the fifth Distribution Center in Poland. This center consists of a space in which Brazilian businesspeople from various sectors can store their merchandise, participate in negotiations with foreign buyers, and maintain offices, all within the strategy of internationalizing Brazilian export companies. At the same time, Apex coordinated the participation of Brazilian companies in important international fairs, while the agency also provided support to the organization of trade missions to Asian and Arab countries, Portugal and Venezuela.

Another line of action, focused on creating an environment conducive to development of partnerships between Brazil and other countries, consists of bilateral discussion committees composed of company directors from different sectors. Following the example of the Joint Brazil-United Kingdom Trade and Economic Committee, 2007 witnessed creation of the Brazil-United States and Brazil-India committees, composed of private and public sector representatives of the countries involved. These forums, which met twice a year on an alternating basis, were coordinated, on the Brazilian side, by the Ministry of Development, Industry and Foreign Trade (MDIC). Trade diplomacy has played an important role in disseminating Brazilian biofuel production technology, particularly involving alcohol, as an alternative aimed at reducing dependence on fossil fuels in the energy matrix of different countries. In this context, several technical cooperation memoranda were formalized on this theme with a diversity of countries.

Camex Resolution no. 70, dated December 11, 2007, was designed to facilitate, simplify and reduce bureaucracy in the Brazilian foreign trade structure, determining a deadline of 80 days for implementation of measures targeted to this objective. According to Camex, there are more than 4,700 multiple permissions required in import operations and 378 in exports or, in other words, products are subjected to a multiplicity of measures implemented by a variety of different government organizations. This is a situation that must be eliminated through adoption of a system of harmonized procedures aimed at avoiding possible losses to Brazilian companies.

In terms of trade defense, it is important to state that greater velocity has been implemented in the process of analyzing cases involving damage to Brazilian industry as a result of dumping, with increased application of provisional anti-dumping rights for a period of up to six months. According to WTO rules, application of such measures can occur 60 days after the start of investigation of damages to domestic industry, a measure that would leave Brazilian industry in a less vulnerable position. The investigation process for application of definitive anti-dumping measures for periods of up to five years can take from eight to twelve months.

Camex applied six provisional anti-dumping rights, of which four were transformed into definitive rights. Aside from these measures, ten definitive rights were also determined, most of them questioning imports from China. Furthermore, one should emphasize approval of a price commitment in support of imports of semi-rigid cardboard from Chile and, effective as of August 17, suspension of all import licenses involving products from the Mattel company, with the objective of hampering entry of defective toys, when such items are cited in the company's world recall list. It was decided that the suspension would only be revoked after the manufacturer had satisfied all of the technical rules defined by government entities, followed by inspection by the National Institute of Metrology and Industrial Quality (Inmetro).

At the same time, mention should be made of the fact that Ukraine was recognized as having a market economy. The practical consequence of this recognition is the need for Brazil to utilize cost and price data from the Ukrainian economy to determine dumping margins, instead of basing these analyses on information from similar third-party markets.

In terms of health measures, emphasis should be given to negotiations involving Brazil's compliance with the health demands of the European bloc required for the country's beef exports to continue entering that market. In the month of March, Brazil received a technical mission from the EU that detected deficiencies in some procedures of this productive chain. As a result, correction of these deficiencies by the end of the year was required, subject to the European Commission's adoption of restrictions on purchases of Brazilian meat. In November, the country received another technical mission from the European bloc with the objective of verifying implementation of improvements in the system of cattle tracking, animal transit control, vaccination, certification, legislation regarding areas hit by foot and mouth disease and control and diagnoses of various diseases. The Brazilian government ensured compliance with four demands: implementation of new electronic certificates printed by the Brazilian Mint for meat exported to the EU; approval of new legislation on foot and mouth disease and its control; availability of a system capable of diagnosing the disease within up to one week; and improvements in the control of animal transportation procedures.

Camex Resolution no. 12, dated April 25, 2007, authorized payment of Brazilian exports in real. Aside from reducing the costs of exchange operations, this measure was aimed at encouraging regional integration, since trade negotiations can be formalized in local currencies. The first country with which Brazil will carry out this type of negotiation will be Argentina and the process will be known as the Local Currency Payments System (SML).

On September 27, with the unrestricted support of 30 member countries of the World Industrial Property Organization (WIPO), Brazil's candidacy to the position of International Authority for Preliminary Research and Examination of Patents was approved, thus making the country the 13th nation to perform this function, and the first in Latin America. Brazil's request to utilize Portuguese as a language for international patent deposits and publications was also approved, making it unnecessary to translate patent requests to a foreign language, thus generating savings and enhanced facility in making international patent deposits through the National Institute of Intellectual Property.

Exchange policy

Over the course of 2007, the policy of reducing public sector exchange exposure and rebuilding reserves, which was adopted in 2003, was maintained. Continued application of these measures has resulted in greater solidification of the country's external accounts, while increasing the economy's resistance to adverse changes on the external scenario, as demonstrated by the somewhat marginal impact on the Brazilian economy, generated by the turbulence that hit international markets as a result of the subprime market crisis in the USA.

Net inflows of US$87.5 billion to the domestic exchange market in 2007 created conditions for the Central Bank to increase exchange purchases on the spot market, with settlements of US$78.6 billion, including US$57 billion in the first half of the year. It was only in September, at the worst moment of international financial market turbulence, that spot market exchange acquisitions by the monetary authority were not registered. As a result, the foreign reserve position more than doubled in the year, moving from US$85.8 billion at the end of 2006 to US$180.3 billion in 2007. It is important to recall that, just as in previous years, continued Central Bank application of this strategy obeyed changing market conditions, considering that the final objective was not to increase exchange market volatility, nor assume a commitment to a specific exchange rate level.

In the same way, the Central Bank carried out reverse exchange swap auctions, in which it assumed an active position in exchange variation and a passive position in domestic interest rates, with the primary objective of rolling over maturities. The greatest volume of these operations was concentrated from April 17 to June 4, when eleven auctions were held in a total amount of US$11 billion. One should stress that as of the end of April, the Central Bank stopped anticipating the date of these auctions by one day. In the year as a whole, reverse exchange swap auctions totaled US$24.5 billion.

At the same time, the National Treasury continued its strategy of acquiring resources on the exchange market in order to service the external debt and carry out sovereign bond buyback operations, thus strengthening the temporal profile of the debt structure. As regards National Treasury market purchases, US$14 billion were settled in the year, of which US$7.7 billion in the first six months.

In June, the Central Bank issued three circulars that altered rules and procedures regarding exposure of financial institutions to exchange risk. Circular no. 3,352, dated June 8, 2007, returned the exchange exposure limit from 60% to 30% of base capital. Aside from this, Circular no. 3,353, issued on the same date, raised capital requirements (factor “F”) on exchange exposure from 50% to 100%, effective as of July 2. Circular no. 3,351, dated September 6, 2007, determined that, as of July 2, specific treatment would be given to exposures offset among institutions belonging to the same conglomerate in the country and abroad. Prior to this rule, contrary exposures (long and short) in the country and abroad by institutions belonging to the same conglomerate offset one another, and did not result in exchange exposure subject to the limits and requirements demanded, as already mentioned above. With this new circular, the amount internationally offset by the conglomerate was added to the net exchange exposure of the conglomerate in the country. By reducing the risk assumed by financial institutions, these measures forced a reduction in short positions in the dollar futures market.

Among other factors, improvements in macroeconomic fundamentals, the record international reserve position, increased trade flows, record exchange flows into the country, improvements in sustainability indicators and elimination of internal and external public debt exposure to exchange rate variations created the conditions required for the major international risk rating agencies – Standard & Poor’s, Fitch and Moody’s – to upgrade their sovereign risk ratings, placing the country in a position just one level removed from investment grade. One should mention that upgrading of Moody’s rating occurred in August, at a moment of intense international financial market volatility. This fact clearly demonstrates the strength of Brazilian economic fundamentals. In the press release issued by Moody's, that institution affirmed that the new rating reflected improvements in the profile of overall government indebtedness, anticipation of more rapid reductions in debt indicators in the near future and expected continuation of the process of strengthening external sustainability indicators. At the same time, the institution emphasized that accumulation of international reserves had created a financial cushion that would serve well as protection against external shocks.

For the fifth consecutive year, the dollar depreciated against the real and closed the year at R$1.7713, accumulating nominal devaluation of 17.15% based on the Ptax-sale rate, compared to last year's closing. Effective real exchange rate indices, deflated by the IPA-DI and IPCA, also showed appreciation of the Brazilian currency against the United States dollar, with respective rates of 12.6% and 12.8%. As regards the spread measured by the Embi+, calculated by J.P. Morgan, final 2007 figures showed a level of 221 points, somewhat higher than the December 2006 mark of 192 points. In the year under consideration, the risk indicator for Brazil showed a downward tendency through the end of the first half of the year, dropping to a minimum level of 138 points on June 18. In the month of July, starting with the turbulence registered on the United States mortgage loan market, this trend reversed course, registering a maximum value of 254 points on November 26.

CMN Resolution no. 3,447, dated March 5, 2007, regulated foreign capital registration at the Central Bank of Brazil as dealt with in Law no. 11,371, dated June 28, 2006. This measure made it possible to normalize direct foreign investments that had not yet been registered at the Central Bank since they were not covered by the regulations then in effect. This capital should have been registered at the Central Bank, since it was already subject to taxation; nonetheless, since it did not meet the formal conditions for such registration – including the absence of effective inflows of foreign currency to the country in the manner required in article 1 of Law no. 4,131, dated September 3, 1962 – registration had not taken place. The only capital that can be registered is that included in the accounting records of the Brazilian corporate entity receiving the foreign capital, as determined in current legislation and regulations. Aside from this, the Central Bank was authorized to publish the data included in the registration. Operational procedures for registration were defined by Circular no. 3,344, dated March 7, 2007, with the following deadlines: up to June 30, 2007, capital existent on December 31, 2005; up to the final business day of the calendar year subsequent to the annual balance sheet in which the legal entity is obligated to register the capital, capital registered in accounting as of and including 2006.

In order to improve prudential regulations as a result of Brazil's adoption of the Basel Accord II, the CMN issued Resolutions no. 3,488 and no. 3,490, both dated August 29, 2007, dealing respectively with the limit on total exposure in gold, foreign currency and exposures subject to exchange rate variations, as well as calculation of the PRE. In September, the Central Bank issued nine circulars numbered from 3,360 to 3,368, for the purpose of presenting detailed criteria and formulas for calculating capital requirements related to exposures weighted by the risk factor and to market factors, including interest rates, exchange rates and interest coupons and foreign currencies. All these Circulars are to go into effect as of July 1, 2008, with the exception of Circular no. 3,367, dated September 12, 2007, which dealt with calculation of exchange exposure and went into effect on the date of publication.

This Circular consolidated current regulations and introduced improvements regarding convertibility risk in operations carried out abroad. In calculating the volume of exchange exposure, three parts were considered which, after being added together, are multiplied by an “F” factor, currently set at 1. Exchange exposure was maintained at 30% of PRE. These prudential measures in the exchange sector, coupled with improvements in risk management and review of capital requirement rules applicable to financial institutions, resulted in a reduction in the exchange exposure of those institutions and thereby aided in avoiding contagion of the National Financial System as a result of rapid deterioration of the global economy as of August.

The CMN approved Resolution no. 3,525, dated December 20, 2007, with the objective of regulating article 18 of Law no. 126, dated January 15, 2007, which opened the Brazilian reinsurance market. This measure disciplines the opening and operation of foreign currency accounts in the country by insurance companies, including export credits, local reinsurance institutions, reinsurance companies admitted to the country and insurance brokers. The rule refers only to operation of accounts reserved for receiving and paying premiums; indemnities; credit recovery and other amounts foreseen in insurance, reinsurance, retro-assignments and coinsurance contracts and receiving deposits involving resources for maintaining minimum balances in such accounts; and earnings on investments of existent balances. With the new regulations, specific provisions of Resolution no. 2,532, dated August 14, 1988, and all of Resolution no. 2,694, dated February 24, 2000, were revoked.

Exchange operations

The result of exchange operations carried out on the market was a surplus of US$87.5 billion in 2007, the highest amount ever registered, compared to US$37.3 billion in 2006. This result made it possible for the National Treasury to continue implementing its policy of obtaining market resources for servicing the external debt and maintaining the program of sovereign bond buybacks, at the same time in which the Central Bank increased its acquisitions of exchange on the market.

This very significant result was a consequence of the positive performance of the exchange trade balance, as well as of the reversal of successive deficits in the financial segment since 2001. Net inflows in the trade segment reached US$76.7 billion, against

US$57.6 billion in 2006, the best result of the series. These figures represent an increase of 28% under exports and 24.5% under imports. The surplus in the financial segment totaled US$10.7 billion, compared to a deficit of US$20.3 billion in the previous years, for growth of 78.3% in foreign currency purchases and 56.5% in sales.

Table 5.1 – Foreign exchange operations

US$ million

Period	Operations with clients in Brazil							Operations with banks abroad	Balance
	Commercial			Financial			Balance		
	Exports	Imports	Balance	Purchases	Sales	Balance	(C)	(net)[1/]	(E)
			(A)			(B)	= (A)+(B)	(D)	= (C) + (D)
2004	93 466	56 794	36 672	84 622	109 369	-24 747	11 925	-5 563	6 362
2005	123 021	71 248	51 772	117 761	153 216	-35 455	16 317	-492	15 825
2006									
Jan	9 410	6 261	3 149	13 631	14 831	-1 200	1 949	0	1 949
Fev	10 582	5 647	4 935	16 813	13 998	2 815	7 750	0	7 750
Mar	12 334	6 797	5 537	17 252	14 797	2 456	7 993	0	7 993
Abr	10 116	6 792	3 325	11 128	13 844	-2 715	609	0	609
Mai	14 080	6 750	7 330	17 372	17 199	174	7 504	0	7 504
Jun	11 144	7 568	3 575	16 689	22 940	-6 251	-2 676	0	-2 676
Jul	11 831	7 036	4 795	11 575	13 878	-2 303	2 492	0	2 492
Ago	12 379	8 554	3 824	14 410	16 944	-2 533	1 291	0	1 291
Set	12 522	7 022	5 501	14 516	14 882	-366	5 134	0	5 134
Out	11 690	8 955	2 735	28 589	28 137	452	3 187	0	3 187
Nov	12 751	7 661	5 090	17 319	16 909	410	5 500	0	5 500
Dez	15 537	7 734	7 802	16 086	27 352	-11 265	-3 463	0	-3 463
Ano	144 376	86 778	57 598	195 382	215 710	-20 328	37 270	0	37 270
2007									
Jan	17 335	7 272	10 063	17 193	23 486	-6 293	3 770	0	3 770
Fev	12 246	7 547	4 699	19 664	17 386	2 278	6 977	0	6 977
Mar	13 946	8 070	5 876	26 333	25 561	772	6 647	0	6 647
Abr	17 081	7 254	9 827	24 043	23 143	900	10 728	0	10 728
Mai	13 988	7 993	5 995	27 855	26 906	949	6 944	0	6 944
Jun	17 572	8 116	9 456	36 405	29 299	7 105	16 561	0	16 561
Jul	15 025	9 531	5 494	33 779	27 684	6 095	11 588	0	11 588
Ago	17 224	10 343	6 880	28 518	28 557	-39	6 841	0	6 841
Set	12 521	10 540	1 980	23 688	25 671	-1 983	-3	0	-3
Out	16 569	10 674	5 895	36 909	36 082	828	6 722	0	6 722
Nov	17 232	9 927	7 304	32 308	34 331	-2 023	5 281	0	5 281
Dez	14 025	10 749	3 276	41 588	39 467	2 121	5 397	0	5 397
Ano	184 764	108 018	76 746	348 281	337 573	10 708	87 454	0	87 454

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

Balance of payments

The deterioration registered in the world economic scenario toward the end of 2007 as a result of worsening expectations regarding United States economic performance and rising international financial market volatility, produced a limited impact on the Brazilian economy. This was a clear demonstration of the significance of the macroeconomic adjustment process that marked recent years, particularly the strengthening of the country's external situation in coping with international market turbulence.

During all of 2007, the performance of external sustainability indicators reflected a favorable situation in Brazilian foreign accounts. The positive evolution of risk premiums, when viewed in the international context, remained consistent throughout the year, while Brazil risk closed mid-June at 138 points, the lowest level since 1994. In the second half of the year, with the outbreak of international financial volatility generated by the subprime market crisis, this risk measurement rose to a maximum level of 254 points at the end of November, before dropping back and closing the year at 221 points, consolidating the outlook for obtaining an investment grade rating.

The favorable results obtained made it possible to adopt consistent policies in managing the country's net external liabilities. In this case, the creditor position has been influenced as much by sharp growth in international reserves as by reductions in outstanding external debt. Accumulation of international reserves and improvements in the debt profile have contributed to a steady process of strengthening the Brazilian balance of payments and, consequently, enhancing the resistance of the nation's economy to external shocks.

It is important to stress that this increased resistance – and not the net financial position in relation to the international community, which will tend to change over time – is the fundamental objective of measures taken by the Central Bank in the external sector of the economy.

The balance of payments registered an overall surplus for the seventh consecutive year, setting an annual record of US$87.5 billion, including incorporation of excess external financing, defined as the sum total of the result in current account and net direct foreign investment flows, totaling US$36 billion in the year, compared to US$32.5 billion in 2006.

Table 5.2 – Balance of payments

US$ million

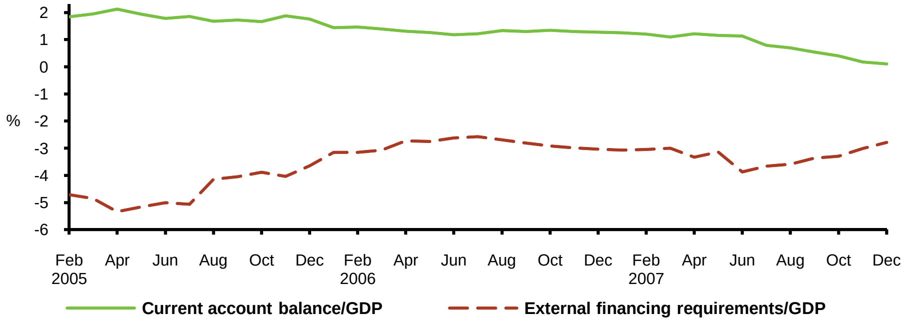
Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance – FOB	19 533	26 923	46 457	20 575	19 453	40 028
Exports	61 057	76 751	137 807	73 214	87 435	160 649
Imports	41 524	49 827	91 351	52 639	67 982	120 621
Services	-4 197	-5 443	-9 640	-6 019	-7 336	-13 355
Credit	9 147	10 329	19 476	11 065	12 830	23 895
Debit	13 344	15 773	29 116	17 083	20 166	37 250
Income	-14 599	-12 881	-27 480	-14 062	-15 179	-29 242
Credit	3 623	2 839	6 462	5 002	6 491	11 493
Debit	18 222	15 720	33 942	19 064	21 670	40 734
Current unilateral transfers (net)	2 036	2 270	4 306	1 944	2 085	4 029
Credit	2 279	2 568	4 847	2 358	2 613	4 972
Debit	-243	-298	-541	-415	-528	-943
Current account	2 773	10 869	13 643	2 438	-977	1 461
Capital and financial account	5 814	10 484	16 299	60 662	28 493	89 155
Capital account 1/	430	439	869	342	414	756
Financial account	5 385	10 045	15 430	60 321	28 078	88 399
Direct investment (net)	2 879	-12 259	-9 380	24 278	3 240	27 518
Abroad	-4 502	-23 700	-28 202	3 426	-10 493	-7 067
Equity capital	-4 525	-18 889	-23 413	-4 620	-5 471	-10 091
Intercompany loans	23	-4 812	-4 789	8 046	-5 022	3 025
In the reporting country	7 381	11 441	18 822	20 852	13 733	34 585
Equity capital	5 405	9 968	15 373	15 168	10 907	26 074
Intercompany loans	1 976	1 473	3 450	5 684	2 826	8 510
Portfolio investments	-694	9 775	9 081	24 128	24 263	48 390
Assets	1 034	-1 029	6	-52	338	286
Equity securities	-387	-529	-915	-686	-727	-1 413
Debt securities	1 421	-500	921	634	1 065	1 699
Liabilities	-1 728	10 804	9 076	24 179	23 925	48 104
Equity securities	4 141	3 575	7 716	7 584	18 634	26 217
Debt securities	-5 869	7 229	1 360	16 595	5 291	21 887
Financial derivatives	46	-5	41	-248	-462	-710
Assets	270	212	482	88	0	88
Liabilities	-224	-217	-441	-336	-463	-799
Other investments 2/	3 154	12 534	15 688	12 163	1 038	13 201
Assets	-3 929	-4 486	-8 416	-19 330	607	-18 723
Liabilities	7 083	17 021	24 104	31 493	431	31 923
Errors and omissions	-428	1 055	628	-1 489	-1 642	-3 131
Overall balance	8 160	22 409	30 569	61 610	25 874	87 484
Memo:						
Current account/GDP (%)	1	2	1	0	-0	0
Medium and long term amortizations 3/	26 300	17 782	44 082	22 789	14 797	37 586

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.

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



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

Balance of trade

In 2007, the trade balance surplus totaled US$40 billion, against US$46.5 billion in the previous year, the seventh consecutive positive result. The 13.8% reduction in the annual surplus interrupted a series of four consecutive annual records since 2003 and was consequent upon the sharp upward movement under imports led by the more intense domestic economic activity. As a whole, imports totaled US$120.6 billion in the year, up 32% over 2006, when growth came to 24.1%. Foreign sales increased 16.6% in 2007, a level quite similar to that of the previous year, posting a total of US$160.6 billion.

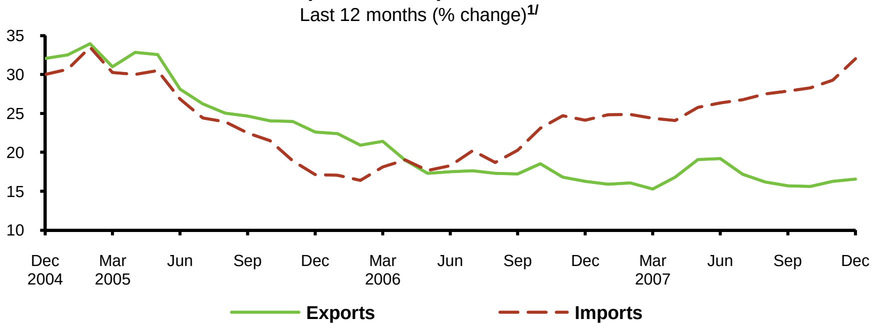
Table 5.3 – Trade balance – FOB

US$ million

Year	Exports	Imports	Balance	Trade flow
2006	137 807	91 351	46 457	229 158
2007	160 649	120 621	40 028	281 270
% change	16.6	32.0	-13.8	22.7

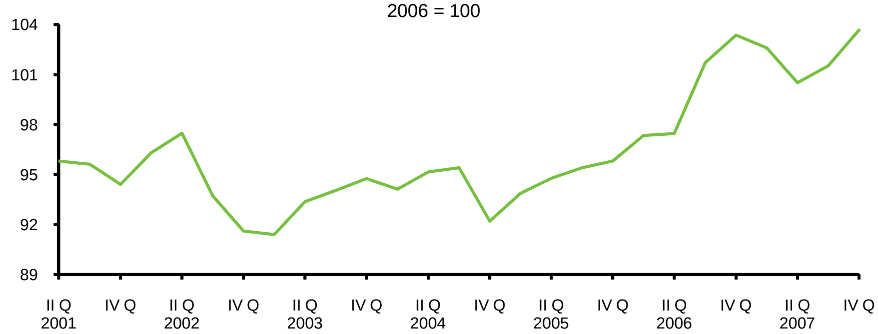
Source: MDIC/Secex

Graph 5.2
Exports and imports – FOB
Last 12 months (% change)1/



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

Graph 5.3
Terms of trade index
2006 = 100



Source: Funcex

Evolution of the terms of trade over the course of 2007, particularly as regards the acceleration observed in the second half of the year, represented a factor of importance to neutralizing the impact of the rising volume of imports on the overall trade balance. After a period of uninterrupted growth since the fourth quarter of 2004, the indicator dropped in the first two quarters of 2007 and closed the year at the level that marked the end of 2006.

Repeating the pattern of recent years, performance of the export sector resulted primarily from 10.5% growth in the price index, which had already risen 12.5% in the preceding year. The volume index rose 5.5%, against 3.3% in the previous year.

Table 5.4 – Exports price and volume indices

Change from the previous year (%)

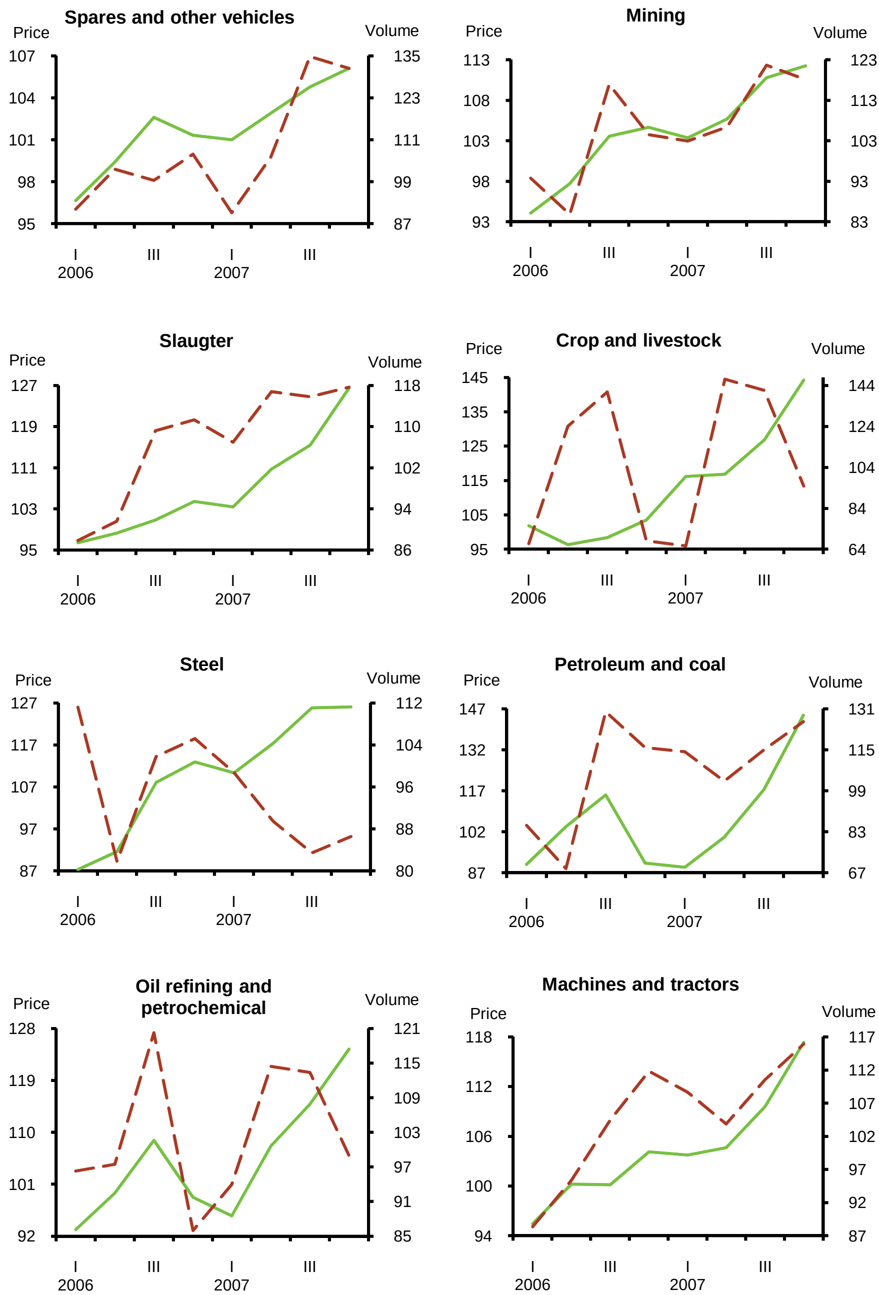
Itemization	2006		2007	
	Price	Volume	Price	Volume
Total	12,5	3,3	10,5	5,5
Primary products	9,4	6,1	14,5	11,8
Semimanufactured goods	18,1	3,5	10,9	0,7
Manufactured goods	12,4	2,2	8,4	3,2

Source: Funcex

A breakdown of external sales by aggregate factor shows across-the-board growth in price indices. The prices of basic products, which had increased at a more modest pace in 2006, rose 14.5%, a rate compatible with the level of world demand for the major agricultural commodities. Price indices for the categories of semimanufactured and manufactured goods rose 10.9% and 8.4%, respectively, corresponding to respective declines of 7.2 p.p. and 4 p.p.

To a great extent, the evolution of basic prices reflected upward movement under soybeans, chicken meat, oil and corn. The reduction in growth under semimanufactured products reflected a sharp decline under the most important price in the category, raw

Graph 5.4
Quarterly price indices and volume of Brazilian exports
2006 = 100



Source: Funcex

Price index — Volume index

sugar. The impact was partially offset by significant increases incorporated by the prices of metallic commodities, such as iron alloys and semimanufactured iron or steel products, cellulose, soybean oil and leather and hides. In this same sense, deceleration in the prices of manufactured products reflected accentuated falloffs in the prices of such items as refined sugar and ethyl alcohol, while, moving in the opposite direction, prices rose under frozen orange juice, rolled iron or steel, transmission and reception equipment and fuel oils.

The increase in the annual growth of the total volume index reflected sharper growth rates in the categories of basic and manufactured goods, while the volume of semimanufactured products exported increased 0.7%, against 3.5% in 2006.

The performance of the exported volume of basic items reflected across-the-board expansion in foreign sales of the major items included in this category, with the exception of soybeans. Particular mention should be made of corn, oil, iron ore and chicken meat. Rapid growth in the volume of manufactured exports reflected the more intense impact of increased sales of aircraft, gasoline, refined sugar, orange juice and tractors, compared to the effect of volume declines under transmission and reception apparatuses, rolled iron or steel and fuel oils. The modest result under exported volume of semimanufactured products reflected a drop in the volume of iron or steel manufactured goods, leathers and hides, raw sugar, aluminum and rubber, while sales of copper cathodes, cellulose and nonmonetary gold increased.

The eight major export sectors showed annual growth in prices in 2007. The highest rate occurred in the crop/livestock sector, with 26%, followed by steel, 19.9%; animal slaughters, 14%; oil and coal, 12.8%; oil refining, 10.6%; machines and tractors, 8.8%; mineral products, 8%; and parts and other vehicles, 3.7%.

Table 5.5 – Exports price and volume indices

Change from the previous year (%)

Itemization	2006		2007	
	Price	Volume	Price	Volume
Total	6,9	16,1	8,2	22,0
Capital goods	0,8	24,0	2,9	32,1
Intermediate goods	3,3	15,7	8,5	19,6
Durable consumer goods	5,4	73,5	0,4	50,6
Nondurable consumer goods	13,0	14,1	14,9	14,1
Fuels and lubricants	24,4	4,7	11,0	19,9

Source: Funcex

The same type of analysis shows that exported volume dropped only in the steel sector, 10.4%. The sharpest annual increase in exported volume was registered by the segment of parts and other vehicles, 15.6%, followed by oil and coal, 14.5%; animal slaughters, 14.3%; crop/livestock products, 12.4%; mineral products, 12.3%; machines and tractors, 9.8%; and oil refining, 5.2%.

Just as noted in 2006, annual growth in imports was basically generated by 22% expansion in imported volume, while prices rose 8.2%. This pattern, which is repeated in major final use categories, strengthens the beneficial aspect – as regards the short-term impact on internal prices and medium-term effects on installed industrial output capacity – as related to increased external purchases.

Annual evolution of imports of raw materials and intermediate goods resulted from 19.6% growth in imported volume and an 8.5% rise in prices, stressing that, with the exception of mineral products and intermediate goods, the imported volume of the major items in this category, parts and spares, expanded in the period.

Imports of consumer durables registered strong growth in imported volume, with 50.6%, coupled with stable prices. Purchases of passenger cars, which accounted for 37.8% of imports under this category, incorporated 63.5% expansion in the volume of purchases and a 1.7% drop in prices paid. One should stress that growth in the imported volume of this category is quite similar to the increase that occurred in the retail trade sector in 2007.

The imported volume of capital goods increased 32.1% compared to 2006, with emphasis on sharp growth under the most representative items in this category, including industrial machinery and office machines and apparatuses and scientific services. The increase in the prices of imported capital goods closed the year at 2.9%.

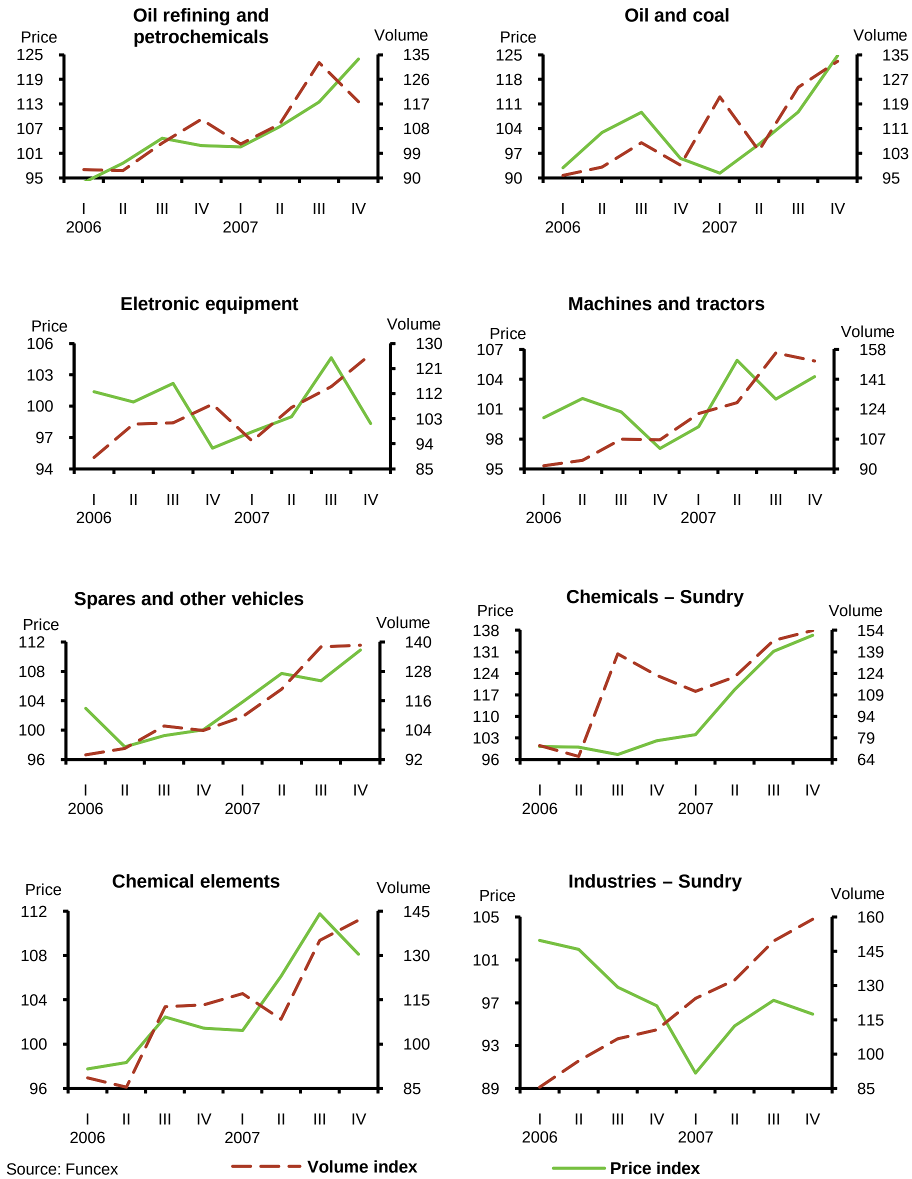
Contrary to what occurred in the other final use categories, the prices of nondurable consumer goods showed 14.9% growth, a figure that even surpassed expansion in imported volume, 14.1%. To a great extent, this result reflected the performance of food products, which registered a decline in imports during the year due to a sharp price rise. Moving in the opposite direction, mention should be made of increases in the volumes of pharmaceutical products and apparel acquired abroad.

In keeping with the increased dynamics of domestic demand, the imported volume of fuels and lubricants expanded 19.9% in 2007, while prices in this category rose 11%. This result represents an inversion of the pattern evident last year, when oil prices accounted for the preponderant impact.

Graph 5.5

Quarterly price indices and volume of Brazilian imports

2006 = 100



Source: Funcex

Broken down by industrial sectors, analysis of imports shows significant and generalized growth in volume in 2007. The most important increases occurred under diverse industrial sectors, 41.3%; machines and tractors, 39.2%; diverse chemical products, 33.4%; and parts and other vehicles, 26.8%. The average rate of growth in other sectors was 17.5%, fluctuating from 25.7% in the segment of chemical elements to 10.7% under electronic equipment.

The prices of imported products increased in most sectors, with emphasis on diverse chemicals, 22.6%; pharmaceuticals and perfumes, 15.1%; and apparel, 14.5%. Prices in the segment of diverse industrial products dropped 5.4% in 2007.

Table 5.6 – Exports by aggregate factor – FOB

US$ million

Itemization	2003	2004	2005	2006	2007
Total	73 203	96 678	118 529	137 807	160 649
Primary products	21 186	28 529	34 732	40 285	51 595
Industrial products	50 709	66 571	81 315	94 541	105 743
Semimanufactured goods	10 945	13 433	15 963	19 523	21 800
Manufactured goods	39 764	53 137	65 353	75 018	83 943
Special transactions	1 308	1 579	2 482	2 981	3 311

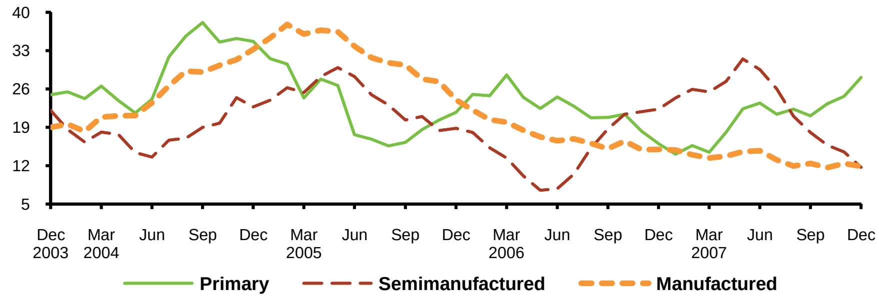
Source: MDIC/Secex

Segmentation of the value of exports by aggregate factor shows significant expansion under sales of basic products, with 28.1% in 2007 against 16% in the preceding year. Foreign sales of semimanufactured goods increased 11.7%, while those of manufactured products rose 11.9% – the lowest rates since 2002 – compared to 22.3% and 14.8% in 2006, in that order.

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.

Exports of basic products added up to US$51.6 billion in the year, with a daily average of US$206.4 million, 27.7% more than in the previous year. This result reflected increases under foreign sales of the five major products in this category, accounting for 65.7% of the total, led by chicken meat, with 43.7%. Aside from this, oil exports rose 28.6%, followed by soybeans, with 18%; iron ore, 17.5%; and beef, 10.8%. In this specific category, it should be stressed that only sales of soybeans, kaolin and marble and granite showed reductions in 2007 volumes, while the prices of all products expanded during the period.

Table 5.7 – Exports – FOB – Major primary products

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Iron ore and concentrates	17,5	6,2	10,7	20,5
Petroleum oils, crude	28,6	12,8	14,0	17,3
Soybean including grinded	18,0	24,6	-5,3	13,0
Meat and edible offal of chicken	43,7	24,1	15,8	8,2
Meat of bovine animals	10,8	6,0	4,5	6,8
Coffee, not roasted	14,9	14,4	0,5	6,5
Oil-cake and other residues from soybeans	21,7	20,8	0,7	5,7
Tobacco, unmanufactured; tobacco refuse	29,0	5,6	22,2	4,3
Maize, unmilled	296,6	43,4	176,5	3,7
Meat of swine	16,9	2,9	13,6	2,3
Cupper ore and concentrates	97,7	26,1	56,8	2,0
Cotton, not carded or combed	49,3	8,8	37,2	1,0
Kaolin and other kaolinic clays	12,2	14,5	-2,1	0,6
Bovine animals, live	259,9	70,9	110,6	0,5
Aluminum ore and concentrates	22,2	12,6	8,5	0,5
Cashew nuts	19,6	0,7	18,8	0,4
Guts, bladders and stomachs of animals	55,9	42,7	9,2	0,4
Marble and granite	-3,5	3,2	-6,5	0,4
Grapes, fresh	42,6	12,8	26,4	0,3
Meat and edible offal of turkey	24,7	17,4	6,2	0,3
Other primary products	36,6	-	-	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.

The countries of the EU were the largest buyers of Brazilian basic products, absorbing 35.3% of the external sales of this category, with a daily average of US$72.8 million. This value, 33% more than in the previous year, represented 45% of overall acquisitions of Brazilian products by the bloc. The six major basic items channeled to the EU were iron ore, soybeans, soy meal, coffee, oil and corn.

The major destinations for basic products in the bloc were the Netherlands, 21.5% of the total; Germany, 17.6%; Spain, 10.9%; Italy, 10.4%; and France, 9.8%. It should be highlighted the 74.4% growth in exports channeled to Spain.

The Asian countries acquired 28.9% of Brazilian exports of basic goods. Daily average sales under this category totaled US$59.7 million, accounting for 59.5% of total exports to the region, with emphasis on acquisitions of iron ore and soybeans, which accounted for more than 60% of total sales of basic products to those countries.

China, the major importer of basic goods in the region, absorbed 53.1% of these sales, 2.2 p.p. more than in the previous year. The participation of Japan dropped from 17.4% in 2006 to 15.8%, while that of South Korea fell from 9.9% to 7.9%.

Average daily sales of basic products to the USA increased 37.2% in 2007, totaling US$19.5 billion, equivalent to 19.3% of Brazilian exports to that country and 9.4% of exports under this category. Acquisitions were concentrated in oil, with annual growth of 59.6%; coffee; tobacco in leaf; and cashew nuts. Iron ore exports, the fourth most important item needed by the USA in 2006, dropped 17.9% in 2007.

The countries belonging to the Latin American Association of Integration (Laia) acquired 6.5% of Brazilian exports of basic goods, registering a daily average of US$13.5 million, 20.3% more than in 2006. These sales – which accounted for 9.3% of overall foreign sales to the region, of which 21.1% were targeted to Mercosul member countries – were concentrated in oil, iron ore, chicken meat and live cattle. One should stress the performance of exports of live cattle, which rose from US$32.5 million in 2006 to a level of US$189 billion in 2007, basically reflecting increased sales to Venezuela. The most important buyer countries in the region were Chile, 43.1%; Venezuela, 17.1%; Argentina, 16.5%; and Peru.

Daily average exports of basic products to other countries – mostly involving chicken meat, beef, oil, iron ore, pork, corn and soybeans – increased 25.6% in 2007, reaching a level of US$41 million. This amount represented 19.9% of Brazilian foreign sales in this category and 30.8% of total sales to those countries. Russia continued as the major market of destination among these countries, absorbing 21.4% of the total, compared to 25.3% in 2006.

Brazilian exports of semimanufactured goods in 2007 totaled US$21.8 billion, for a daily average of US$87.2 million, 11.2% over the previous year's results. Sales of the category were concentrated under raw sugar, cellulose, iron or steel manufactured products, leathers and hides and cast iron and Spiegel iron. The prices of all of the different types of items in this category rose during the year, with the exception of raw sugar, wood veneers and copper cathodes, which declined 18.2%, 8% and 2.3%, respectively. As regards exported volumes, mention should be made of increases in sales of copper cathodes, 81.4%, and nickel cathodes, 29.4%; coupled with reductions under iron or steel manufactured products, 11.5%; leathers and hides, 5.3%; and raw sugar, 3.2%.

Asia, which is the major market of destination for Brazilian semimanufactured goods, acquired 27.4% of sales, equivalent to 23.9% of the total exported to the region. One should highlight sales of leathers and hides, iron or steel semimanufactured goods, cellulose and unrefined soybean oil. The countries that accounted for the largest imports of semimanufactured products in the region were China, with participation grew from

27.8% in 2006 to 32.4% in 2007; Japan, 20.2% against 25.6% in the previous year; South Korea, 10%; and Malaysia, 6.4%.

The EU acquired 26.8% of the semimanufactured products exported by Brazil in 2007. The daily average of US$23.4 million, 31.3% more than in the previous year, corresponded to 14.5% of overall Brazilian exports to the bloc. The major items targeted to the region were cellulose; leathers and hides; and iron alloys, registering 98.1%

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

Daily average – US$ million

Product	2006	2007			
	Value	Value	Change from 2006 (%)	Share (%)	
				Total	Blocs
Total	552	641	16,2	100,0	-
Basic	162	206	27,6	32,2	-
Semimanufactured	78	87	11,2	13,6	-
Manufactured	301	336	11,4	52,4	-
Special transactions	10	12	14,3	1,8	-
Laia	126	145	15,4	22,6	100,0
Basic	11	13	20,3	2,1	9,3
Semimanufactured	5	5	2,8	0,8	3,6
Manufactured	109	126	15,5	19,7	87,1
Special transactions	0	0	-5,6	0,0	0,0
Mercosur	56	69	23,7	10,8	100,0
Basic	3	3	8,4	0,4	4,1
Semimanufactured	2	2	8,3	0,3	2,9
Manufactured	52	64	25,1	10,1	93,0
Special transactions	0	0	-100,0	0,0	0,0
USA[1/]	99	101	1,8	15,7	100,0
Basic	14	19	37,2	3,0	19,3
Semimanufactured	17	17	0,8	2,7	16,9
Manufactured	68	64	-5,3	10,0	63,6
Special transactions	0	0	5,9	0,0	0,1
European Union	125	162	29,7	25,2	100,0
Basic	55	73	33,0	11,4	45,0
Semimanufactured	18	23	31,3	3,7	14,5
Manufactured	52	65	25,7	10,2	40,4
Special transactions	0	0	2,3	0,0	0,1
Asia	83	100	20,2	15,6	100,0
Basic	49	60	21,7	9,3	59,5
Semimanufactured	18	24	29,8	3,7	23,9
Manufactured	16	17	4,2	2,6	16,6
Special transactions	0	0	35,9	0,0	0,1
Others	119	133	12,1	20,8	100,0
Basic	33	41	25,6	6,4	30,8
Semimanufactured	20	18	-12,7	2,7	13,2
Manufactured	56	63	12,6	9,9	47,7
Special transactions	10	11	14,6	1,7	8,4

Source: MDIC/Secex

1/ Includes Puerto Rico.

growth in exported value in the year, while the principal markets of destination were the Netherlands, 33.4% of the total; Italy, 20.8%; Belgium, 13.6%; and Germany, 8.5%.

Average daily exports of semimanufactured products to the USA increased 0.8% in 2007, to US$17.1 million, accounting for 19.6% of Brazilian exports in this category and 16.9% of Brazilian products imported by that country. One should highlight the performance of sales of cast iron and Spiegel iron, 27% of the total; gold in semimanufactured forms; cellulose; iron or steel semimanufactured products; and leathers and hides.

Table 5.9 – Exports – FOB – Major semimanufactured goods

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Cane sugar, raw	-20,8	-18,2	-3,2	14,4
Chemical wood pulp	21,0	15,4	4,9	13,8
Iron or nonalloy steel semifinished products	2,4	15,6	-11,5	10,7
Hides and skins	16,3	22,7	-5,3	10,0
Pig iron and spiegeleisen	13,5	19,7	-5,1	8,6
Aluminum, unwrought, not alloyed	1,1	7,1	-5,7	7,0
Iron alloys	74,0	79,1	-2,8	6,7
Soybean oil, crude	46,8	45,3	1,1	5,6
Wood, sawn or chipped lenghtwise	9,1	8,5	0,5	4,3
Gold, nonmonetary in semimanufactured forms	19,6	10,0	8,7	3,6
Cooper cathodes	77,2	-2,3	81,4	3,1
Aluminum alloys, unwrought	13,1	7,2	5,5	3,1
Nickel cathodes	75,3	35,4	29,4	1,7
Synthetic rubber and artificial rubber	-1,3	10,7	-10,8	1,4
Nickel mattes	78,9	64,0	9,0	0,8
Cocoa butter, fat or oil	7,4	20,5	-10,8	0,7
Zinc, unwrought, not alloyed	-27,2	8,6	-33,0	0,7
Wood in chips or particles	8,9	2,8	5,9	0,5
Wood sheets	27,7	-8,0	38,8	0,4
Tin, unwrought, not alloyed	98,4	57,7	25,8	0,4
Other semimanufactured products	11,0	-	2,5	2,6

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 Laia countries were the destination of 6% of Brazilian exports of semimanufactured goods. Average daily sales – concentrated under iron or steel semimanufactured goods, iron alloys, aluminum, synthetic rubber and artificial rubber, cast iron and Spiegel iron and raw sugar – reached US$5.2 million, an increase of 2.8% compared to the previous year, representing 3.6% of total Brazilian products imported by the bloc. The major countries of destination in the region were Argentina, 32.1%; Mexico, 29.6%; Colombia, 10.5%; and Venezuela, 8.1%. The Mercosul countries absorbed 37.9% of the total exported to the Laia region, 8.3% more than in 2006.

Average daily exports of semimanufactured goods to other countries reached US$17.5 million, 12.7% less than in the previous year, accounting for 20.1% of total sales of semimanufactured products and 13.2% of total Brazilian products imported by those countries. This result was driven by the performance of foreign sales of raw sugar, which, despite a 20.5% falloff in the year, accounted for 57.6% of the total; raw aluminum, with annual growth of 32.6%; unrefined soybean oil; and iron or steel semimanufactured products. Basically, these sales were targeted to Russia, with 23.9% of the total; Switzerland, 15.1%; Iran, 13%; and Canada, with 6.7%.

Table 5.10 – Exports – FOB – Major manufactured goods

% change 2007/2006 – Daily average

Products	Value	Price 1/	Weight 2/	Participation 3/
Airplanes	45,0	-7,1	56,1	5,6
Passenger motor vehicles	0,8	8,0	-6,6	5,5
Parts and acessories for motor cars and tractors	6,8	8,8	-1,8	3,8
Passenger motor vehicles engines and parts thereof	-9,0	2,5	-11,2	3,0
Iron or nonalloy steel flat-rolled products	-7,2	25,6	-26,2	3,0
Transmission and reception apparatus, and components	-23,6	21,2	-37,0	2,8
Fuel oils	1,4	18,2	-14,2	2,7
Motor vehicles for the transport of goods	9,5	6,0	3,3	2,4
Footwear, parts and components	3,2	8,3	-4,7	2,4
Cane sugar, refined	-12,0	-22,6	13,6	2,3
Gasoline	52,6	11,7	36,7	2,2
Electric motors, generators and transformers; parts thereof	27,5	14,6	11,3	2,0
Tractors	26,6	8,3	16,9	1,9
Pumps, compressors, fans and others	13,9	18,6	-4,0	1,9
Polymer of ethylene, prophylene and sthyrene	12,1	10,6	1,4	1,8
Orange juice, frozen	47,3	47,3	-0,0	1,8
Civil engineering and contractors' plant and equipment	4,3	5,4	-1,0	1,8
Ethyl alcohol, undenatured	-8,3	-10,9	2,9	1,8
Pneumatic rubber tires	35,2	18,9	13,8	1,6
Aluminum oxide and aluminum hydroxide	16,3	4,5	11,3	1,5
Chassis fitted with engines and bodies for motor vehicles	7,6	10,0	-2,2	1,3
Iron and steel bars and rods	0,5	16,2	-13,5	1,2
Furniture and parts thereof, except for medical-surgical use	3,1	4,3	-1,2	1,2
Paper and paperboard used for writing, printing etc.	16,1	10,3	5,3	1,0
Hydrocarbons and halogenated derivatives	28,5	15,4	11,3	1,0
Marble and granite works	5,5	6,9	-1,3	0,9
Gears and gearing; ball screws; gear boxes, etc; parts thereof	13,4	-4,5	18,8	0,9
Orange juice, not frozen	66,0	22,2	35,8	0,8
Plywood and similar laminated wood	6,7	19,6	-10,8	0,8
Prepared meals of the meat of bovine animals	5,7	2,8	2,7	0,8
Other manufactured products	16,6	-	2,6	37,9

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.

Exports of manufactured products in 2007 totaled US$83.9 billion, with a daily average of US$335.8 million, 11.4% more than in the previous year. Among the 10 most important items in this category, with 33.8% of total sales in 2007, six registered annual growth in exported value, mainly aircraft, the major item among these products, with 45%; and cargo vehicles, 9.5%; while four posted downward movement, mainly transmission devices, 23.6%; and refined sugar, 12%. With regard to the behavior of export prices in this category, declines were registered only under refined sugar, 22.6%; and aircraft, 7.1%, while the most important price increases occurred under frozen orange juice, 47.3%; and flat rolled iron/steel, 25.6%. As regards the volume of exports, it is important to stress increases under aircraft, 56.1%; and gasoline, 36.7%; and reductions in the cases of transmission or reception apparatuses, 37%; and flat rolled iron/steel, 26.2%.

Exports of manufactured products to the Laia countries reached a daily average of US$126.2 million in 2007, 15.5% more than in the previous year. This amount was equivalent to 37.6% of total exports in this category and to 87.1% of the total exported to the region. These sales, which were concentrated under passenger cars, transmission or reception devices, auto parts and cargo vehicles, were mainly targeted to Argentina, 42.5%; Venezuela, 12.4%; Mexico, 11.8%; and Chile, 8.7%. Exports to the Mercosul member countries came to a daily average of US$64.5 million, up 25.1% in the year, accounting for 51.1% of the total acquired by the region, of which 83.2% were absorbed by Argentina.

Exports of manufactured products to the EU totaled US$65.3 million in terms of daily average, with growth of 25.7% compared to 2006. These sales represented 19.4% of total sales in this category and 40.4% of the total exported to the bloc. The main countries of destination were Germany, 21.5% of the total; the Netherlands, with 18.1%; the United Kingdom, 11.8%; and Belgium, 11.4%, while the major products shipped to the region were aircraft, frozen orange juice – with annual growth of 51.6% –, automobile engines, passenger cars and flat rolled steel.

Sales of manufactured products to the USA reached a daily average of US$64.2 million in 2007, a falloff of 5.3% compared to the preceding year. This total accounted for 63.6% of the total amount exported to the country, representing 19.1% of Brazilian exports in this category, against 22.5% in 2006. The major items exported to the USA were aircraft, with growth of 49.8%; automobile engines; footwear; motors, electric generators and transformers; and auto parts. One should also highlight strong annual growth of 359% in sales of fuel oils, an item that rose from 38th position to 10th position among Brazilian exports; plus a 58.8% decline in foreign sales of ethyl alcohol, following growth of more than 1000% in 2006.

Daily average sales of manufactured products to the countries of Asia increased 4.2% in 2007, reaching US$16.6 million or 16.6% of Brazilian products acquired by the region and 4.9% of total exports of manufactured goods. These sales were concentrated under fuel oils, frozen orange juice, ethyl alcohol, flat rolled steel and automobile engines. One should stress the 91.4% reduction that occurred under sales of refined sugar, which dropped from 2nd to 38th position among the major export items. The main countries of destination in the region were Singapore, 25.4% of the total; China, 20.9%; Japan, 18.1%; and India 7.6%.

Acquisitions of products manufactured by the other countries – mostly refined sugar, gasoline, aircraft, aluminum oxides and hydroxides and tractors – reached a daily average of US$63.5 million in 2007, for annual growth of 12.6%, corresponding to 47.7% of the total exported to that group of countries and to 18.9% of total exports of manufactured products. The major countries of destination were Canada, 11.4%; South Africa, 8.8%; Nigeria, 7.9%; Angola, 6.8%; and the Dutch Antilles, with 5.1%.

Analysis of exports according to their technological intensity shows annual growth of 12.8% in the external sales of industrial products in 2007, representing a daily average of US$476 million and 74% of overall foreign sales. Segmentation of industrial exports according to their technological complexity shows that sales of items with low technological content were the most representative goods in the year, accounting for 27% of overall exports in 2007. Here, particular emphasis should be given to the dynamics of exports of food products, beverages and tobacco, which increased 14.9%

Table 5.11 – Exports by tecnological intensity – FOB

US$ million – Daily average

Itemization	2006	2007		
		Valor	Var.%	Part.%
Total	553	643	16,1	100,0
Industrial products	422	476	12,8	74,0
High tecnology	38	41	8,4	6,4
Aircraft	15	21	38,5	3,2
Telecom, audio and video equipment	14	11	-20,7	1,8
Other	8	9	4,4	1,4
Middle-high tecnology	131	146	11,8	22,7
Road motor vehicles	57	59	3,7	9,2
Non-electrical machinery Nesoy	33	39	16,8	6,1
Chemicals products, excluded pharmaceutical	27	33	19,6	5,1
Other	13	15	18,6	2,4
Middle-low tecnology	100	115	15,4	18,0
Fabricated metal products	68	76	10,9	11,8
Petroleum products and other fuels	15	17	17,7	2,7
Other	17	22	31,9	3,5
Low tecnology	154	173	12,9	27,0
Food, beverages and tobacco	96	111	14,9	17,3
Wood, paper and pulp	29	33	11,6	5,1
Textiles, hides and skins and footwear	22	24	7,6	3,8
Manufactured products Nesoy and recycled products	6	6	6,0	0,9

Source: MDIC/Secex,

Note: 2006, 249 working days; 2007, 250 working days.

in the year, corresponding to 17.3% of the sales of this product grouping. Exports of goods with medium to high technological content registered a daily average of US$146 million, 22.7% of total exports. These operations were driven by the vigor of sales of automobiles, mechanical machines and equipment and nonpharmaceutical chemical products. Average daily exports of medium to low technological content products and goods with high technological content came to US$115 million and US$41 million, representing 18% and 6.8% of the country's total foreign sales.

The most accentuated growth occurred under products with medium to low technological content, with 15.4%, driven mainly by the dynamics of the sector of metallic products, followed by the products of low technology industries, 12.9%; medium to high technology industries, 11.8%; and high technology industries, 8.4%. The latter item reflects the negative performance of the segment of radio, TV and communications equipment, which registered a 20.7% decline in exported value compared to 2006.

Table 5.12 – Imports – FOB

US$ million

Itemization	2003	2004	2005	2006	2007
Total	48 326	62 836	73 600	91 351	120 621
Capital goods	10 353	12 145	15 387	18 920	25 108
Raw materials and intermediate product	25 832	33 512	37 804	45 237	59 295
Consumer goods	5 540	6 864	8 484	11 996	16 150
Durable	2 419	3 190	3 928	6 079	8 260
Nondurable	3 121	3 674	4 556	5 918	7 890
Fuels and lubricants	6 600	10 315	11 925	15 197	20 068

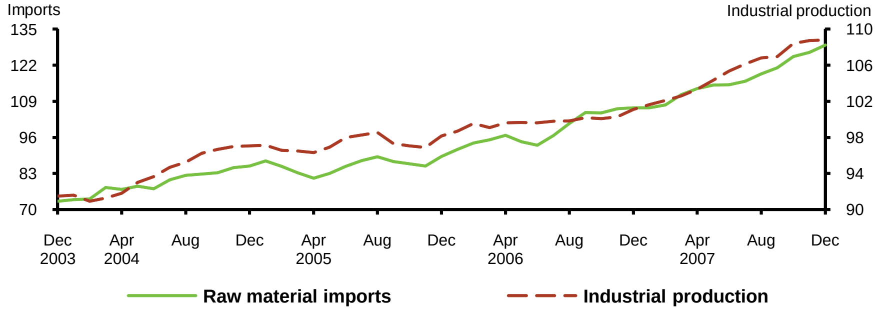
Source: MDIC/Secex

The upturn in overall imports in 2007 reflected growth between 30.6% and 35.3% in average daily purchases in all final use categories. This was the fourth consecutive year of expansion under all categories imported. Purchases of raw materials and intermediate goods and capital goods, which accounted for 70% of annual imports, increased at rates of 30.6% and 32.2%, against 20.6% and 23.9%, respectively, in 2006. This performance was clearly in step with the upturn in the output of the manufacturing sector, and with overall growth in the level of utilization of installed output capacity. Imports of fuels and lubricants expanded 31.5%, against 28.5% in the previous year, while those related to consumer goods registered for the second consecutive year the highest rate of annual growth, with 34.1%, although at a less intense pace than in 2006.

Imports of raw materials and intermediate goods accounted for 49.2% of total imports, reaching a daily average of US$237 million in 2007, driven by purchases of chemical and pharmaceutical products, mineral products, intermediate goods – parts and spares as well as transportation accessories and equipment – which accounted for 75.1%

of imports in this category. Annual growth in the value of purchases of both mineral products and intermediate goods – parts and spares – resulted from price increases, while the volume imported was the major determining factor of alterations in exports in the other segments.

Graph 5.7
Raw material imports x industrial production
Seasonally adjusted indices – 3 month moving average



Source: IBGE and Funcex

Purchases of raw materials and intermediate products from the EU reached US$57 million in terms of daily averages, representing annual growth of 28.3%. This result represented 24.1% of purchases in this category and 53.5% of the total imported from that bloc. The major products acquired were auto-parts, 12.8% of the total; heterocyclical compounds, 5.2%; automobile engines, 5%; ball bearings and gears, 4.7%; and parts and spares for aircraft, 4.5%; while the major supplier countries were Germany, 32.4% of total; France, 14.8%; Italy, 10.5%; the United Kingdom, 8.2%; and Spain, 7.2%. Imports from the United Kingdom and Germany were the most dynamic, with increases of 40.7% and 36.2% in the year, respectively.

Purchases of raw materials and intermediate goods from Asia came to a daily average of US$56 million, representing an increase of 31.6% in the year. This result corresponded to 23.7% of purchases in this category and 45.8% of the total imported from the region. The major products from Asia were integrated circuits and electronic micro-sets, 17.5% of the total; computer parts and accessories, 7.9%; synthetic or artificial textile fiber yarns, 5.6%; auto-parts, 4.9%; and natural rubber, 3.4%. The major suppliers were China, with 34.8% of the total; Japan, 17.3%; South Korea, 10%; and Taiwan, 8.3%.

Average daily purchases of raw materials and intermediate goods from the Laia countries totaled US$50 million, 25.9% more than in 2006, corresponding to 21.2% of imports in this category and 61.1% of imports from the bloc. These goods came mainly from Argentina, with 47.9% of total; Chile, 25.2%; Peru, 7.7%; and Mexico, 7.6%. Products with more representative participation were copper cathodes, 12.9% of the total; wheat, 9.8%; naphthas, 9.7%; copper ore, 8.4%; and auto-parts, 5.3%.

Table 5.13 – Imports – FOB – Major products

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Capital goods				100,0
Industrial machinery	37,9	-1,1	39,5	29,3
Machines and apparat. for office and scientific destination	28,2	4,8	22,3	21,8
Capital goods parts and components	97,7	46,6	34,9	16,7
Transportation movable equipment	33,4	16,7	14,3	7,5
Industrial machinery accessories	34,4	-0,9	35,7	7,3
Tools	41,7	-5,5	49,9	1,9
Other capital goods	-6,1	168,4	-65,0	15,6
Intermediate products and raw material				100,0
Chemical and pharmaceutical products	27,6	9,3	16,7	26,4
Mineral products	26,1	26,6	-0,4	19,6
Intermediate products – Parts	12,6	14,1	-1,3	14,9
Accessories for transport equipment	34,1	8,2	24,0	14,3
Inedible farm products	81,3	32,0	37,3	9,3
Other raw materials for farming	25,7	14,5	9,8	6,9
Foodstuffs	50,9	37,6	9,6	4,4
Other raw materials and intermediate products	46,6	18,4	23,8	4,3
Nondurable consumer goods				100,0
Pharmaceutical products	33,4	16,3	14,8	37,4
Foodstuffs	20,0	42,2	-15,6	26,8
Apparel and other textiles clothing	65,9	7,5	54,4	8,8
Perfumery, cosmetics, or toilet preparations	33,1	0,9	32,0	5,6
Tobacco and beverage	22,7	0,6	22,0	4,5
Other nondurable consumer goods	36,5	9,5	24,7	16,9
Durable consumer goods				100,0
Passenger motor vehicles	60,7	-1,7	63,5	42,7
Articles for personal use or adornment	31,5	9,7	19,9	22,3
Machines and appliances for household use	21,5	-9,0	33,5	19,1
Durable consumer goods parts	-15,3	-30,5	21,8	7,8
Furniture and other household equipment	44,3	4,3	38,4	4,8
Other durable consumer goods	53,3	-7,4	65,6	3,3
Fuels and lubricants				100,0
Fuels	31,3	12,5	16,8	97,8
Lubricants and electricity	39,7	-2,4	43,1	2,2

Source: MDIC/Secex

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

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

Daily average – US$ million

Product	2006	2007			
	Value	Value	Change from	Share (%)	
			2006 (%)	Total	Blocs
Total	367	482	31,5	100,0	-
Capital goods	76	100	32,2	20,8	-
Durable consumer goods	24	33	35,3	6,8	-
Nondurable consumer goods	24	32	32,5	6,5	-
Fuels and lubricants	61	80	31,5	16,6	-
Raw material and intermediate goods	182	238	30.7	49.3	-
Laia	65	82	25,9	17,1	100,0
Capital goods	5	6	24,1	1,2	7,0
Durable consumer goods	6	10	71,6	2,1	12,1
Nondurable consumer goods	6	7	20,1	1,4	8,4
Fuels and lubricants	9	9	1,6	1,9	11,3
Raw material and intermediate goods	40	50	25,9	10,4	61,1
Mercosul	36	47	29,2	9,6	100,0
Capital goods	4	4	20,6	0,9	9,1
Durable consumer goods	4	8	75,2	1,6	16,2
Nondurable consumer goods	4	5	17,0	1,1	11,2
Fuels and lubricants	2	2	-6,0	0,4	4,0
Raw material and intermediate goods	22	28	27,2	5,7	59,5
USA[1/]	60	76	27,0	15,7	100,0
Capital goods	16	19	18,4	3,8	24,6
Durable consumer goods	2	3	22,6	0,6	3,6
Nondurable consumer goods	4	4	22,2	0,9	5,9
Fuels and lubricants	4	6	54,9	1,2	7,9
Raw material and intermediate goods	34	44	28,5	9,1	58,1
European Union	81	107	31,8	22,2	100,0
Capital goods	23	32	38,4	6,7	30,3
Durable consumer goods	5	6	11,5	1,2	5,3
Nondurable consumer goods	6	9	32,7	1,8	8,0
Fuels and lubricants	2	3	94,1	0,6	2,9
Raw material and intermediate goods	45	57	28,3	11,9	53,5
Asia	92	123	33,7	25,5	100,0
Capital goods	29	39	35,7	8,1	31,8
Durable consumer goods	11	14	29,3	2,9	11,3
Nondurable consumer goods	5	7	50,4	1,4	5,7
Fuels and lubricants	5	7	33,2	1,4	5,5
Raw material and intermediate goods	43	56	31,6	11,7	45,8
Others	69	95	37,5	19,6	100,0
Capital goods	3	5	33,9	1,0	4,9
Durable consumer goods	1	1	40,8	0,2	0,8
Nondurable consumer goods	3	5	40,5	0,9	4,8
Fuels and lubricants	41	55	33,4	11,4	58,2
Raw material and intermediate goods	20	30	46.9	6.2	31.6

Source: MDIC/Secex

1/ Includes Puerto Rico.

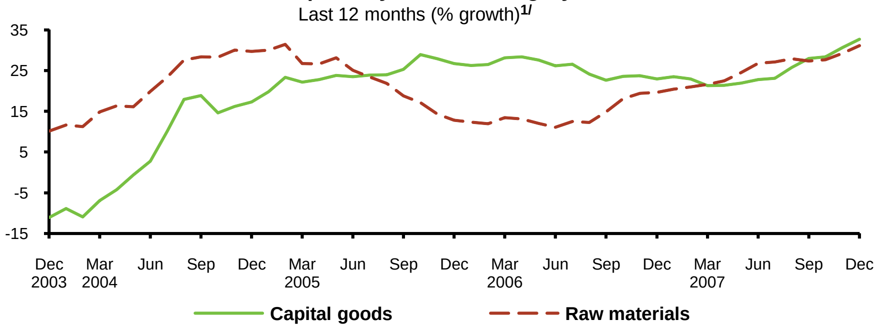
Imports of raw materials and intermediate goods from the United States came to a daily average of US$44 million, with annual growth of 28.5%. These operations corresponded to 18.5% of imports in this category and 58.1% of the total purchased from that country. The most important products were motors and airplane turbines, 13.2% of the total; aircraft parts and spares, 4.7%; heterocyclical compounds, 4%; and ball bearings and gears, 3.2%.

Purchases of raw materials and intermediate goods from all other countries reached US$30 million in terms of daily averages, 46.9% more than in 2006. These operations represented 12.6% of total purchases in this category and 31.6% of the total imported from this group of countries. The major items imported were potassium chloride, 16.5% of the total; naphthas, 9.8%; fertilizers, 9.5%; urea, 9.2%; and superphosphates, 4.6%.

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.

Average daily imports of capital goods added up to US$100 million in 2007, corresponding to 20.8% of Brazilian foreign purchases, with emphasis on industrial machinery, 29.3% of total; machines and office equipment and scientific equipment, 21.8%; parts and spares for industrial capital goods, 16.7%; and movable transportation equipment, 7.5%. The value of the imports of these items registered accentuated increases in the year, as a result of both increases in imported volumes and price growth, particularly in the case of parts and spares for industrial capital goods.

Imports of capital goods from Asia represented 31.8% of overall purchases from that region, closing with a daily average of US$39 million in 2007 for 35.7% growth compared to 2006. This result consolidated the region as a major supplier of these goods to the country, with 38.8% participation in this category. The major items imported from Asia were printed circuits, 15.3% of the total; liquid crystal devices, 11.2%; computers and parts, 11.1%; motors, generators and electric transformers, 5.9%; and transmission and receiver devices, 4.2%. The major supplier countries were China, 48.9% of total; Japan, 15.6%; South Korea, 12.8%; and Taiwan, 7.9%.

Imports of capital goods from the EU came to a daily average of US$32 million in 2007, 32.2% of overall imports in this category, corresponding to 38.4% growth as compared to the previous year and representing 30.3% of imports from that bloc of nations. Purchases were concentrated under measuring and verification instruments and apparatuses, 9.4% of the total; pumps, compressors and ventilators, 6.5%; electric motors, generators and transformers, 4.1%; and energy interruption and protection equipment, 3.9%. The most important supplier countries were Germany, 37.3% of total; Italy, 16.5%; France, 10.2%; Sweden, 6.4%; and Spain, 5.8%.

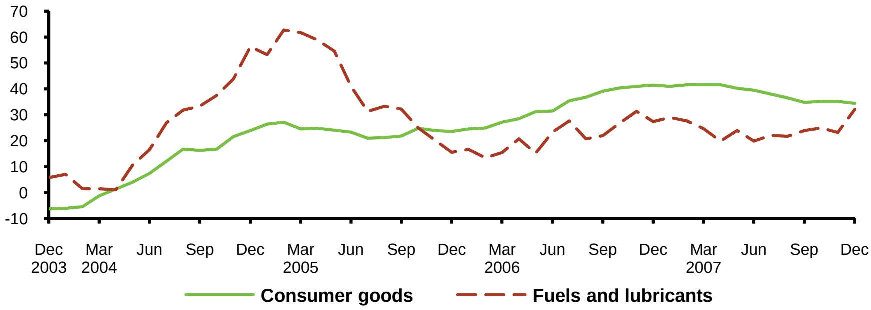
Average daily acquisitions of capital goods from the USA increased 18.4% in the year, rising to US$19 million, corresponding to 18.5% of purchases in this category and 24.6% of imports from the US. The major products acquired were measurement and verification instruments and apparatuses, with 12.1% of the total; computers and parts, 6.3%; aircraft, 6.2%; medical instruments and apparatuses, 5.9%; pumps, compressors and ventilators, 5.7%; and machines and earthmoving and drilling equipment, 5.7%. Here, one should highlight that imports of aircraft were almost four times greater than in 2006.

Capital goods imported from the Laia member countries averaged US$6 million, 24.1% more than in 2006, representing 5.8% of purchases in this category and 7% of acquisitions from that bloc. Purchases were concentrated under cargo vehicles, 48.7%; measuring and verification instruments and apparatuses, 5.5%; transmission and reception apparatuses, 5.2%; and buses and other vehicles for more than 10 people, 4.5%. These goods originated mainly from Argentina, 72.8%; Mexico, 23.2% and Chile, with 2.2%. It is important to observe that imports from Mexico grew 43.2% in the year, the highest rate of any country in that bloc.

Foreign purchases of capital goods from the grouping of other countries totaled US$5 million per day, a 34.9% increase over 2006, accounting for 4.7% of imports in this category and 5% of the total acquired from that group. Purchases were concentrated for the most part in Switzerland, 36.5% of the total; Canada, 32.1%; Israel, 10.5%; Norway, 5.2%; and Australia, 4.2%, and consisted mainly of measurement and verification instruments and apparatuses, with 6.9% of the total; earthmoving and drilling machines and equipment, 6.4%; aircraft, 6.1%; and railway vehicles and equipment, 4.5%.

Average daily imports of fuels and lubricants reached US$80 million in 2007, equivalent to 16.6% of Brazilian foreign purchases, of which 59.7% consisted of crude oil, followed by fuel oils, 15.2%; coal, 7.6%; and natural gas, 7.5%. The most important supplier countries were Nigeria, 25.7%; Algeria, 8.7%; Saudi Arabia, 8.1%; Bolivia, 7.6%; USA, 7.5%; and India, with 5.4%. Imports from Nigeria, Algeria and Saudi Arabia accounted for 69.8% of crude oil acquisitions, while Bolivia accounted for 98.3% of Brazilian purchases of natural gas.

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.

Average daily imports of consumer durables, which expanded 35.2% in 2007, reached US$33 million, corresponding to 6.8% of the country's external purchases. These acquisitions originated particularly in Asia, with 42.1% of the total; the Laia countries, with 30.2%, as a result of 71.6% annual growth; and the EU, 17.3%. The major supplier countries were Argentina, 21.6% of the total; China, 21.1%; South Korea, 8.2%; the United States, 8.1%; Mexico, 7.1%; and Japan, 6.3%. Here, one should stress annual growth in imports from Argentina, which had a participation level in 2006 below that of China. The major products imported in this category were passenger cars, 42.7%; personal adornment and use articles, 22.3%; and machines and apparatuses for domestic use, 19.1%.

Average daily imports of nondurable consumer goods reached US$31 million in 2007, for growth of 31.7% compared to the previous year, accounting for 6.4% of Brazilian external acquisitions. For the most part, purchases originated in the EU, with 27.6% of the total; Asia, 22.5%; and the Laia countries, with 22.3%, while the most important supplier countries were Argentina, 14.1%; the United States, 13.2%; China, 12.6%; Switzerland, 7.6%; and Germany, 5.2%. Imports of this category were concentrated under medicines, including for veterinary usage, 37.2%; toys and games, with 3.4%; perfume and dresser products, 3.3%; dried fish, 2.9%; and footwear and parts, 2.7%.

Trade exchanges

In 2007, the Brazilian trade flow came to US$281.3 billion, 22.7% above the record of US$229.5 billion set in the previous year. Based on daily averages, growth was registered in trade operations with all of the different blocs and regions, with particular emphasis on operations with the EU, 30.5%, Asia, 27.2%, while trade with China increased 42% and operations with the Laia countries expanded 18.8%. A breakdown of the latter figure shows 25.8% expansion in trade with the Mercosul member countries. Though positive with the major blocs and areas, the country's trade balance surplus with the

United States declined 35.7%, while the deficit in operations with the countries of Asia worsened, particularly as a result of increased imports from China.

Bilateral trade with the EU closed with a daily average of US$269 million in 2007 accounting for 23.9% of the country's trade flow. Average daily imports added up to US$107 million, while average exports closed at US$162 million, reflecting respective growth rates of 31.8% and 29.7% compared to 2006. The major trading partners in the bloc were Germany, with a daily flow of US$64 million, corresponding to 26.2% growth in exports and 32.9% under imports, which closed at respective levels of US$29 million and US$35 million per day, followed by the Netherlands, with daily average exports and imports of approximately US$35 million and US$4 million, respectively, and Italy, with total bilateral trade of US$31 million, based on Brazilian exports of US$18 million and imports of US$13 million. Just as occurred in the previous year, the trade flow with France closed in a state of balance between imports and exports, with a daily average of US$28 million.

The flow of trade operations with the Laia member countries came to US$228 million per day, making them the second most important for the country. Exports to the region, which have been consolidating itself as one of the major destinations for Brazilian manufactured goods with greater technological content, reached US$146 million, while imports closed at US$82 million, with respective annual growth rates of 15.2% and 25.9%. The trade flow with Argentina, Brazil's second most important individual trading partner, posted growth of 22.3% under Brazilian exports and 28.7% in imports from Argentina, with respective totals of approximately US$58 million and US$42 million and a daily overall average of US$99 million. The latter figure represented 43.6% of total trade flows with the bloc. The relative balance between the growth rates registered by these trade flows contributed to stabilize the trade exchange between the two countries.

Still in the Laia context, the second most important trade flow was that with Chile, with a daily flow of US$31 million, for growth of 8.5% under exports and 21% under imports. These operations closed with respective average daily balances of US$17 million and US$14 million. The trade flow with Mexico, Brazil's third most important trading partner within the bloc, reached a level of US$25 million, the same amount as in 2006. It is important to stress that, among the other Laia countries, the trade flow with Venezuela expanded 21.5%, registering a daily average of US$20 million. In this case particular emphasis should be given to annual growth of US$5 million in Brazilian exports to the Venezuelan market, closing with a daily average of US$19 million.

The trade flow with Asia expanded 27.2% in 2007, reflecting a 20% increase in Brazilian foreign sales and 33.7% in imports, with respective daily totals of US$100 million and US$123 million. The increased dynamics of the import sector generated growth in the deficit with the countries of that region, as the daily average shifted from US$8 million

Table 5.15 – Brazilian trade by region – FOB

Daily average – US$ million

Itemization	2006			2007		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	553	367	187	643	482	160
EFTA[1/]	6	7	-1	7	11	-4
Laia	126	65	61	146	82	63
Mercosur	56	36	20	69	47	23
Argentina	47	32	15	58	42	16
Paraguay	5	1	4	7	2	5
Uruguay	4	2	2	5	3	2
Chile	16	12	4	17	14	3
Mexico	17	8	9	17	8	9
Others	37	10	28	42	14	28
Canada	9	5	4	9	7	3
European Union	125	81	44	162	107	55
Germany	23	26	-3	29	35	-6
Belgium/Luxembourg	12	4	8	16	5	11
Spain	9	6	3	14	7	6
France	11	11	-1	14	14	-0
Italy	15	10	5	18	13	4
Netherlands	23	3	20	35	4	31
United Kingdom	11	6	6	13	8	5
Others	20	15	5	23	20	3
Eastern Europe	16	6	10	17	11	6
Asia[2/]	84	92	-8	100	123	-23
Japan	16	15	0	17	18	-1
China	34	32	2	43	50	-7
Korea, Republic of	8	12	-5	8	14	-5
Others	26	32	-6	32	40	-9
USA[3/]	99	60	40	101	76	26
Others	89	52	37	100	66	34
Memo:						
Nafta	127	70	57	128	90	37
Opec	46	42	4	55	53	3

Source: MDIC/Secex

1/ Iceland, Liechtenstein, Norway and Switzerland.

2/ Excludes the Middle East.

3/ Includes Puerto Rico.

in 2006 to US$23 million. Daily average trade with China, Brazil's major trading partner in that region of the world, moved to US$93 million, accounting for 41.9% of overall trade flows with Asia. Basically, this result was generated by increases of 27.4% in Brazilian exports and 57.3% in imports, with average daily balances of approximately

US$43 million and US$50 million. The daily trade flow with Japan expanded from US$31 million in 2006 to US$36 million, representing an increase of 10.5% under exports, with a total of US$17 million per day, and 19.6% under imports, with US$18 million per day. Once again, the third most important trade balance result in that region was that involving operations with South Korea, with a daily total of US$22 million. Annual growth of 6.8% in these flows basically reflected larger Brazilian imports.

Just as in previous years, bilateral trade with the United States represented the most significant flow with any individual country in the world, registering a daily average of US$177 million, against US$159 million in 2006. The annual growth level of 11.2% was, for the most part, a result of daily average imports, which expanded 27% in the period, totaling US$76 million, while Brazilian exports to that country increased 1.8%, closing with US$101 million per day. In that scenario, the trade surplus declined 35.7% in the year, closing at US$26 million per day.

Services

In 2007, the service account registered net outlays of US$13.4 billion, US$3.7 billion more than in the previous year. The trajectory of growing net outlays on services is basically explained by the behavior of international travel, transportation, equipment rentals, royalties and licenses, government services and insurance.

In 2007, both revenues and expenditures on international travel reached their highest values of the historical data series, which began in 1947. Revenues, which have increased since 2002, expanded an additional 14.8% in the year, closing with a total of US$5 billion, while outlays, which have risen since 2004, expanded 42.5% to a level of US$8.2 billion. This account registered net outflows of US$3.3 billion in the year, 125% above the 2006 result. This trajectory was consistent with the evolution of available income and nominal appreciation of the rate of exchange.

The deficit under international travel reflected annual growth of 45.1% in outlays by Brazilian tourists abroad, totaling US$7.7 billion, and 14.9% in spending by foreign tourists in Brazil, with a total of US$4.8 billion. These movements resulted in net expenditures of US$2.9 billion under tourism, 160.9% more than in 2006. Here, it is important to stress that the second half of the year posted a deficit of US$2 billion. The major component of trade flows related to tourism consisted of payments made abroad involving credit card outlays. In this case, net outflows rose 131% during the year, closing at US$2.2 billion. Other spending on tourism posted a deficit of US$504 million, against US$149 million in the previous year. Business travel, which is less sensitive to exchange rate fluctuations and reflects domestic and international economic activity levels, expanded 16.5%, closing with a deficit of US$278 million.

The transportation account posted net outflows of US$4.5 billion in 2007, 44.6% more than in the previous year. This evolution was fully in keeping with trade balance performance and the international travel account. Net outlays on freight expanded 40.4% in 2007, mainly as a result of 51.5% growth under net spending on maritime freight, almost all of which involves shipments of goods.

Table 5.16 – Services

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-4 197	-5 443	-9 640	-6 019	-7 336	-13 355
Credit	9 147	10 329	19 476	11 065	12 830	23 895
Debit	13 344	15 773	29 116	17 083	20 166	37 250
Transportation	-1 380	-1 746	-3 126	-2 191	-2 330	-4 521
Credit	1 613	1 826	3 439	1 912	2 147	4 059
Debit	2 993	3 572	6 565	4 103	4 477	8 580
Travel	-469	-979	-1 448	-1 060	-2 198	-3 258
Credit	2 195	2 121	4 316	2 436	2 517	4 953
Debit	2 664	3 099	5 764	3 496	4 716	8 211
Insurance	-198	-233	-430	-368	-397	-766
Credit	100	225	324	193	349	543
Debit	297	458	755	562	747	1 308
Financial services	-4	-105	-110	108	175	283
Credit	327	424	751	496	594	1 090
Debit	331	530	861	388	419	807
Computer and information	-989	-915	-1 903	-1 066	-1 045	-2 112
Credit	43	58	102	86	75	161
Debit	1 032	973	2 005	1 153	1 120	2 273
Royalties and licence fees	-700	-813	-1 513	-830	-1 110	-1 940
Credit	65	85	150	176	143	319
Debit	765	898	1 664	1 006	1 253	2 259
Operational leasing	-2 352	-2 535	-4 887	-2 741	-3 030	-5 771
Credit	31	46	77	13	18	31
Debit	2 383	2 580	4 964	2 754	3 048	5 802
Government services	-93	-357	-450	-390	-744	-1 134
Credit	733	784	1 517	617	722	1 340
Debit	826	1 141	1 967	1 007	1 466	2 473
Other	1 988	2 239	4 227	2 519	3 343	5 863
Credit	4 039	4 761	8 800	5 134	6 264	11 398
Debit	2 051	2 522	4 573	2 615	2 920	5 536

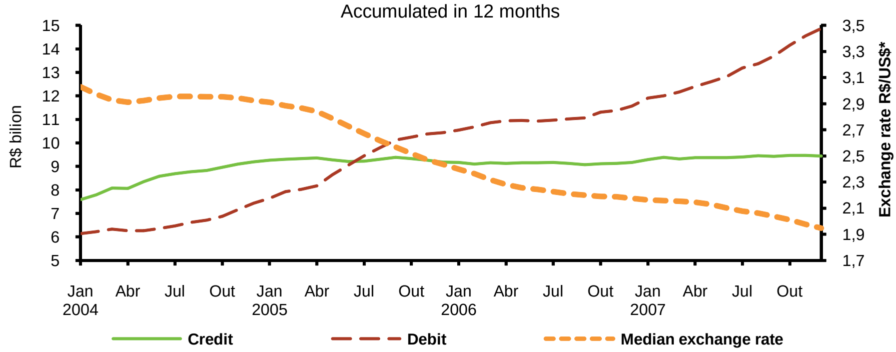
The international flow of travelers indicated annual growth of 28.2% under net outlays on travel tickets, with a total of US$1.9 billion, thus contributing to growth in the transportation account deficit. Revenues on travel tickets increased 26.6% compared to 2006, reaching US$331 million, while spending increased 28% to a level of US$2.2 billion. These results indicated that tourists resident in the country continued to

Table 5.17 – International travel

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	-290	-810	-1 101	-846	-2 027	-2 873
Credit	2 150	2 068	4 217	2 389	2 458	4 847
Debit	2 440	2 878	5 318	3 235	4 484	7 719
Duty-free shop (net)	120	109	229	104	136	240
Credit card	-356	-600	-956	-797	-1 416	-2 213
Credit	1 109	1 061	2 170	1 234	1 260	2 494
Debit	1 466	1 661	3 128	2 031	2 676	4 707
Tourism services	-97	-128	-225	-140	-255	-395
Credit	148	147	295	178	166	343
Debit	245	275	520	318	420	738
Other	43	-192	-149	-12	-492	-504
Credit	757	741	1 498	873	896	1 769
Debit	714	933	1 646	886	1 388	2 274
Business	-126	-112	-239	-131	-147	-278
Credit	20	23	43	22	26	49
Debit	147	136	282	154	173	327
Education-related	-45	-57	-102	-70	-25	-95
Credit	4	5	9	5	6	11
Debit	49	62	111	76	31	107
Government employees	-15	-2	-17	-15	-6	-22
Credit	8	12	20	8	13	21
Debit	23	14	37	23	19	43
Health-related	8	5	13	3	7	10
Credit	14	12	26	11	14	25
Debit	6	7	13	8	8	15
Total	-469	-979	-1 448	-1 060	-2 198	-3 258
Credit	2 195	2 121	4 316	2 436	2 517	4 953
Debit	2 664	3 099	5 764	3 496	4 716	8 211

Graph 5.10
Tourism
Accumulated in 12 months



* Average monthly rate

utilize more intensely the foreign airlines when traveling abroad. Other items under the transportation account, including freights and airports services, registered net spending of US$1 billion in 2007, for annual growth of 101.1%.

Table 5.18 – Transportation

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 380	-1 746	-3 126	-2 191	-2 330	-4 521
Credit	1 613	1 826	3 439	1 912	2 147	4 059
Debit	2 993	3 572	6 565	4 103	4 477	8 580
Sea transportation	- 597	- 690	-1 286	-1 201	-1 111	-2 312
Credit	1 375	1 523	2 897	1 523	1 771	3 294
Debit	1 971	2 212	4 184	2 724	2 882	5 606
Passenger	- 1	- 1	- 1	- 1	- 1	- 2
Credit	0	0	0	0	0	0
Debit	1	1	1	1	1	2
Freight	- 466	- 610	-1 076	- 639	- 992	-1 631
Credit	459	520	979	546	579	1 124
Debit	925	1 130	2 055	1 185	1 571	2 755
Others	- 130	- 78	- 209	- 562	- 118	- 680
Credit	916	1 003	1 918	977	1 193	2 170
Debit	1 046	1 081	2 127	1 539	1 310	2 849
Air transportation	- 790	-1 054	-1 844	- 979	-1 204	-2 183
Credit	181	244	426	334	308	642
Debit	971	1 298	2 269	1 313	1 512	2 825
Passenger	- 631	- 845	-1 476	- 875	-1 017	-1 892
Credit	99	161	260	174	156	330
Debit	730	1 006	1 736	1 048	1 173	2 222
Freight	- 13	- 40	- 53	55	19	74
Credit	41	36	77	122	118	241
Debit	54	76	130	67	99	166
Others	- 145	- 169	- 314	- 160	- 206	- 366
Credit	42	47	89	38	34	72
Debit	187	216	403	198	239	437
Other transportation[1/]	7	- 2	4	- 10	- 16	- 26
Credit	57	58	116	56	67	123
Debit	51	61	112	66	83	149
Passenger	1	0	1	1	0	1
Credit	1	0	1	1	0	1
Debit	0	0	0	0	0	0
Freight	1	- 7	- 7	- 15	- 23	- 38
Credit	51	53	104	49	59	108
Debit	50	61	111	64	82	146
Others	5	4	10	5	7	12
Credit	6	5	10	7	8	15
Debit	0	0	1	2	1	3

1/ Includes road transportation.

The heading of equipment rentals registered net remittances of US$5.8 billion in 2007, against US$4.9 billion in the previous year. Growth of 16.9% in gross remittances is to some extent a result of increasing in-country utilization of capital goods belonging to nonresidents, with positive reflections on the productive capacity level of the economy.

Net payments of royalties and licenses abroad, a heading that includes such services as technology supply, copyrights, licenses and registration and use of trademarks, patents and franchises, among other things, totaled US$1.9 billion in 2007, with annual growth of 28.2%, for expansion of 35.8% under remittances and 112.5% under still incipient revenues.

Government services registered net outlays of US$1.1 billion in 2007. Growth of 151.9% compared to the previous year reflected a 25.7% rise in Brazilian government spending abroad, which totaled US$2.5 billion, coupled with a reduction of 11.7% in foreign government spending in Brazil, which closed at US$1.3 billion.

Insurance services posted net outflows of US$766 million, against US$430 million in 2006. Revenues increased 67.3% in the year, coming to US$543 million. This behavior was a consequence of growth in direct insurance operations, which exclude freight and life insurance, while outlays increased 73.4%.

Net revenues on financial services totaled US$282 million in 2007, compared to net spending of US$110 million in the previous year. This result indicated 45.1% growth under revenues, which totaled US$1.1 billion, coupled with a 6.2% decline under outlays, totaling US$807 million.

Net spending on computer and information services added up to US$2.1 billion, against US$1.9 billion in 2006, as revenues reached US$161 million and spending totaled US$2.3 billion.

The item other services generated net revenues of US$5.9 billion in 2007, representing growth of 38.7% compared to the previous year. In this grouping, specialized technical services posted net revenues of US$2.1 billion, against US$1.6 billion in 2006. Net outlays on personal services, cultural services and leisure reached US$578 million, an increase of 27.9%. Aside from this, the communications account posted net revenues of US$180 million, against US$104 million in the previous year, as revenues moved from US$205 million to US$276 million and spending dropped 5.8% to a level of US$96 million.

Table 5.19 – Other services

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 988	2 239	4 227	2 519	3 343	5 863
Credit	4 039	4 761	8 800	5 134	6 264	11 398
Debit	2 051	2 522	4 573	2 615	2 920	5 536
Communication	68	36	104	40	139	180
Credit	109	96	205	87	188	276
Debit	41	60	102	47	49	96
Construction	14	5	18	5	7	12
Credit	14	8	23	6	11	17
Debit	1	4	4	1	4	4
Merchanting and trade-related	-28	28	1	26	-7	18
Credit	409	558	967	471	485	956
Debit	437	530	967	445	493	938
Personal, cultural and recreational	-247	-205	-452	-272	-306	-578
Credit	31	50	81	34	39	73
Debit	278	255	533	306	345	651
Misc. business, prof.and technical	2 181	2 375	4 556	2 719	3 510	6 229
Credit	3 476	4 048	7 524	4 536	5 541	10 077
Technical services	1 655	1 841	3 496	2 031	2 573	4 604
Other	1 820	2 207	4 028	2 505	2 968	5 472
Debit	1 294	1 673	2 967	1 817	2 030	3 847
Technical services	804	1 077	1 881	1 161	1 326	2 487
Other	490	596	1 086	656	705	1 361

Income

The income account deficit totaled US$29.2 billion in 2007, for a 16.4% increase in comparison to the previous year. As in 2006, it was strongly impacted by net outflows related to direct investments. In addition, as a consequence of reductions in external indebtedness, net remittances of profits and dividends once again surpassed net outlays on interest, reflecting the predominance of overall foreign direct and portfolio investments in the country, compared to outstanding external indebtedness in the external liabilities profile.

Net remittances of profits and dividends added up to a total of US$22.4 billion in 2007, against US$16.4 billion in the previous year. Basically, the annual increase of 37.1% reflected growth in the stock of external investments in Brazil, greater corporate profitability and appreciation of the real.

Net interest outlays dropped from US$11.3 billion in 2006 to US$7.3 billion, the lowest level since 1994. The annual reduction of 35.7% in these outlays reflected a substantial

92.2% increase in interest revenues, a figure that is fully compatible with the increase in Brazilian assets abroad, mainly international reserves. Interest outlays increased 4.2%, reflecting anticipated payments of interest and growth in private sector funding operations, normally at rates higher than those contracted by the public sector.

Table 5.20 – Income

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-14 599	-12 881	-27 480	-14 062	-15 179	-29 242
Credit	3 623	2 839	6 462	5 002	6 491	11 493
Debit	18 222	15 720	33 942	19 064	21 670	40 734
Compensation of employees	95	82	177	233	215	448
Credit	192	205	397	257	240	497
Debit	97	123	220	24	25	49
Investment income	-14 695	-12 963	-27 657	-14 296	-15 394	-29 690
Credit	3 431	2 634	6 064	4 745	6 251	10 996
Debit	18 125	15 596	33 722	19 041	21 645	40 686
Direct investment income	-6 116	-6 711	-12 826	-7 123	-10 367	-17 489
Credit	885	188	1 073	1 210	993	2 202
Debit	7 000	6 899	13 899	8 332	11 359	19 692
Profits and dividends	-5 440	-6 006	-11 445	-6 540	-10 206	-16 745
Credit	795	133	928	995	157	1 152
Debit	6 235	6 138	12 373	7 535	10 363	17 898
Interests on intercompany loans	-676	-705	-1 381	-583	-161	-744
Credit	89	55	145	215	836	1 050
Debit	765	761	1 526	798	996	1 794
Portfolio investment income	-6 826	-4 202	-11 028	-4 709	-2 356	-7 065
Credit	1 644	1 429	3 073	2 563	4 392	6 955
Debit	8 469	5 631	14 101	7 272	6 748	14 020
Income on equity (dividends)	-3 425	-1 499	-4 924	-3 268	-2 422	-5 689
Credit	16	5	21	5	8	13
Debit	3 441	1 504	4 945	3 272	2 430	5 702
Income on debt securities (interests)	-3 401	-2 703	-6 104	-1 441	66	-1 376
Credit	1 627	1 424	3 052	2 558	4 384	6 942
Debit	5 029	4 128	9 156	3 999	4 319	8 318
Other investments income[1/]	-1 753	-2 050	-3 803	-2 464	-2 671	-5 135
Credit	902	1 016	1 919	973	866	1 839
Debit	2 655	3 066	5 721	3 437	3 538	6 974
Memo:						
Interest	-5 831	-5 458	-11 289	-4 489	-2 766	-7 255
Credit	2 619	2 496	5 115	3 745	6 086	9 831
Debit	8 450	7 954	16 404	8 234	8 852	17 086
Profits and dividends	-8 864	-7 505	-16 369	-9 807	-12 628	-22 435
Credit	812	138	949	1 000	165	1 165
Debit	9 676	7 642	17 318	10 807	12 793	23 600

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

The wage and earnings account generated net receptions of US$448 million in 2007, against US$177 million in the previous year. Income paid to workers domiciled in the country added up to US$497 million, reflecting a 25.1% increase in the year, while payments to nonresidents dropped 77.9%, totaling US$49 million.

When broken down, net remittances of income on direct investments totaled US$17.5 billion, up 36.4% over 2006. In this case, net outlays of profits and dividends reached US$16.7 billion, with annual growth of 46.3%. This figure was compatible with the larger stock of direct external investments and maturation of those investments. Net remittances involving interest on intercompany loans dropped 46.1% in the year, falling to a level of US$744 million, impacted by a substantial increase in revenues from US$145 million to US$1.1 billion.

Net remittances of income on portfolio investments totaled US$7.1 billion, a 35.9% drop compared to 2006. This result reflected a drop of 77.5% under net interest outlays on fixed income securities, totaling US$1.4 billion. Net remittances of profits and dividends on funds channeled into investment portfolios, an item of particular importance to the result of this heading, totaled US$5.7 billion, up 15.6%. Distribution of profits and dividends on stock in Brazilian companies is important, particularly with regard to companies in which export revenues have relatively greater weight in overall revenues.

Income on other investments, including interest on suppliers' credits, loans, deposits and other assets and liabilities, totaled net remittances of US$5.1 billion in 2007, reflecting an increase of 35% compared to the previous year. Revenues dropped 4.1% to a level of US$1.8 billion, while expenditures expanded 21.9% and closed at US$7 billion.

Companies from the industrial sector were responsible for 61.1% of gross profit and dividend remittances, while the service sector accounted for 36.5%. In sectoral terms, remittances were characterized by considerable dispersion particularly those associated to the segments of automotive vehicle manufacturing and assembly, 16.2% of total gross remittances; metallurgy, 11.4%; financial intermediation, 10.8%; and electricity, gas and other utilities, 7.4%.

Current unilateral transfers

Interrupting the growth trajectory that began in 2000, net unilateral transfers dropped 6.4% in 2007, posting inflows of US$4 billion, against US$4.3 billion in 2006. This result was impacted by exchange rate appreciation and growth in expenditures. Gross revenues classified as support of residents declined 2.8% in the year and totaled US$2.8 billion, partly as a consequence of the crisis in the United States economy. The major countries of origin of amounts sent from abroad for purposes of providing support to residents in Brazil were the United States, with 48.3% of total, and Japan, with 23%.

Table 5.21 – Current unrequited transfers

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	2 036	2 270	4 306	1 944	2 085	4 029
Credit	2 279	2 568	4 847	2 358	2 613	4 972
Debit	243	298	541	415	528	943
General government transfers	-3	-31	-34	12	-3	10
Credit	40	46	86	66	73	139
Debit	43	77	120	54	75	129
Other sectors transfers	2 040	2 301	4 341	1 931	2 088	4 019
Credit	2 239	2 522	4 761	2 292	2 541	4 833
Debit	200	221	421	361	452	813
Workers' remittances	1 259	1 321	2 581	1 197	1 097	2 295
Credit	1 402	1 488	2 890	1 404	1 405	2 809
United States	698	716	1 415	676	679	1 355
Japan	324	325	649	324	323	647
Remaining countries	380	447	826	404	402	806
Debit	143	167	309	207	307	514
Other transfers	780	980	1 760	734	991	1 725
Credit	837	1 034	1 872	888	1 136	2 024
Debit	57	54	111	154	145	299

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

US$ million

Period		Balance of current transactions			Foreign direct investments			External financing requirements		
		Value		% GDP	Value		% GDP	Value		% GDP
		Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months
2002	Dec	-84	-7 637	-1,66	1 503	16 590	3,61	-1 419	-8 954	-1,95
2003	Dec	343	4 177	0,82	1 409	10 144	2,00	-1 752	-14 321	-2,83
2004	Dec	1 207	11 738	1,94	3 150	18 166	3,01	-4 357	-29 903	-4,95
2005	Dec	530	13 985	1,76	1 406	15 066	1,89	-1 936	-29 051	-3,65
2006	Jan	-314	12 874	1,44	1 474	15 337	1,71	-1 161	-28 212	-3,15
	Feb	627	13 371	1,47	854	15 347	1,68	-1 481	-28 718	-3,15
	Mar	1 311	12 952	1,39	1 658	15 610	1,68	-2 969	-28 562	-3,08
	Apr	133	12 370	1,31	785	13 358	1,42	-918	-25 728	-2,73
	May	383	12 160	1,27	1 577	14 226	1,48	-1 960	-26 387	-2,75
	Jun	632	11 509	1,18	1 032	13 933	1,43	-1 665	-25 442	-2,62
	Jul	3 068	12 037	1,22	1 586	13 490	1,36	-4 654	-25 528	-2,58
	Aug	2 184	13 450	1,33	1 256	13 656	1,35	-3 440	-27 107	-2,69
	Sep	2 249	13 340	1,30	1 752	15 377	1,50	-4 001	-28 718	-2,81
	Oct	1 536	14 032	1,35	1 722	16 276	1,57	-3 258	-30 308	-2,92
	Nov	1 393	13 734	1,30	2 667	17 771	1,68	-4 061	-31 505	-2,98
	Dec	438	13 643	1,27	2 457	18 822	1,76	-2 896	-32 465	-3,03
2007	Jan	-369	13 587	1,25	2 422	19 770	1,81	-2 053	-33 357	-3,06
	Feb	376	13 336	1,21	1 378	20 293	1,83	-1 754	-33 629	-3,04
	Mar	235	12 259	1,09	2 766	21 401	1,90	-3 001	-33 661	-2,99
	Apr	1 806	13 932	1,22	3 471	24 087	2,10	-5 277	-38 020	-3,32
	May	-151	13 398	1,15	497	23 007	1,97	-346	-36 406	-3,12
	Jun	541	13 307	1,12	10 318	32 293	2,72	-10 859	-45 601	-3,85
	Jul	-823	9 416	0,78	3 613	34 321	2,85	-2 790	-43 737	-3,63
	Aug	1 291	8 523	0,70	1 979	35 044	2,86	-3 270	-43 567	-3,56
	Sep	411	6 684	0,54	1 537	34 828	2,79	-1 948	-41 513	-3,33
	Oct	-152	4 996	0,39	3 188	36 294	2,86	-3 035	-41 290	-3,25
	Nov	-1 305	2 297	0,18	2 530	36 156	2,80	-1 225	-38 454	-2,97
	Dec	-398	1 461	0,11	886	34 585	2,63	-487	-36 046	-2,74

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

Financial account

Overall global investment flows reveal a process of growth in the activities of Brazilian companies on foreign markets, coupled with Brazil's attractiveness to international investors. Consequently, the financial account has gone through significant alterations in recent years, with important shifts in the makeup of external assets.

The uncertainties that predominated on financial markets in the second half of 2007, mainly as a result of the impact of the subprime crisis on confidence in other complex financial structures, with additional cutbacks in liquidity and increased volatility in the prices of a wide variety of debt markets, generated highly negative repercussions on the real sector of the major mature economies, particularly that of the United States. Even in this scenario, positive conditions in relation to Brazilian balance of payments financing kept unchanged.

The country's attractiveness for foreign direct investments and other types of loans and financing persisted, as international markets showed high levels of receptivity to bond placements at more favorable rates. In this context, rolling of the medium and long-term private sector external debt reached 109%, a rate that reflects new disbursements viewed against amortizations that have already occurred.

Table 5.23 – Private sector rollover rate[1/]

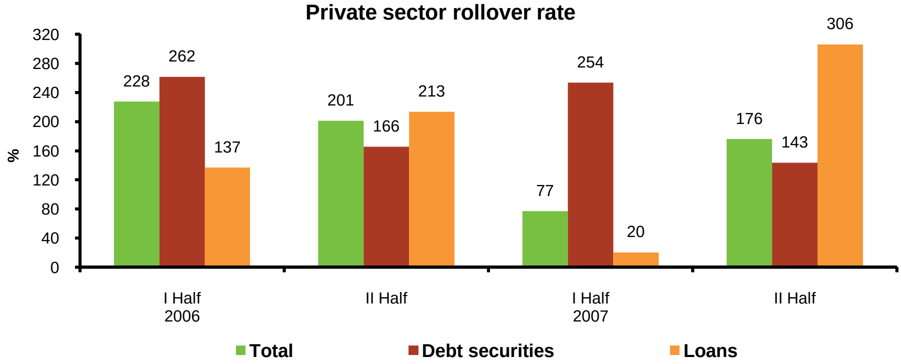
US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total (a/b)	228%	201%	207%	77%	176%	109%
Credit (a)	6 224	21 038	27 262	9 970	10 921	20 891
Debit	3 429	10 479	13 908	13 450	6 364	19 815
Paid (b)	2 734	10 467	13 201	12 910	6 201	19 110
FDI conversions	695	12	707	541	164	704
Bonds, notes and commercial papers (a/b)	262%	166%	206%	254%	143%	186%
Credit (a)	5 204	4 504	9 708	7 979	7 104	15 083
Debit	2 671	2 723	5 394	3 680	5 117	8 798
Paid (b)	1 989	2 718	4 706	3 145	4 954	8 099
FDI conversions	683	5	688	536	164	699
Direct loans (a/b)	137%	213%	207%	20%	306%	53%
Credit (a)	1 020	16 534	17 554	1 991	3 817	5 809
Debit	757	7 756	8 514	9 770	1 247	11 017
Paid (b)	745	7 750	8 495	9 765	1 247	11 012
FDI conversions	12	7	19	5	0	5

1/ Loans of long-term

The balance of payments financial account showed record level net inflows of US$88.4 billion in 2007, against US$15.4 billion in the previous year, due to high levels of investment profitability and a significant drop in country risk. In the year, direct investments registered net inflows of US$27.5 billion, while portfolio investments and other investments generated net disbursements of US$48.4 billion and US$13.2 billion, respectively.

Graph 5.11
Private sector rollover rate



Note: excludes debt-equity swap.

According to estimates presented by the United Nations Conference on Trade and Development (Unctad), the annual flow of Foreign Direct Investments (FDI) in the global economy set a new record in 2007, with US$1.5 trillion, a 17.8% increase over the previous year and the fourth consecutive positive annual result. FDI flows registered across-the-board growth in comparison to all groups of countries, expanding by 16.8%, when one considers only the developed countries, which absorbed US$1 trillion of the annual flow, and 19.5% when viewed against developing and transition countries, which received US$536 million.

Table 5.24 – Foreign direct investments

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	7 381	11 441	18 822	20 852	13 733	34 585
Credit	14 170	18 230	32 399	27 124	23 108	50 233
Debit	6 789	6 789	13 577	6 272	9 376	15 648
Equity capital	5 405	9 968	15 373	15 168	10 907	26 074
Credit	9 610	13 159	22 769	18 615	15 719	34 335
Currency	8 046	12 479	20 525	17 340	14 367	31 707
Autonomous	8 046	12 248	20 295	17 340	14 367	31 707
Privatization	0	230	230	0	0	0
Conversions	1 559	675	2 234	1 263	1 339	2 602
Autonomous	1 559	675	2 234	1 263	1 339	2 602
Privatization	0	0	0	0	0	0
Merchandise	4	5	9	12	14	26
Debit	4 205	3 191	7 396	3 448	4 813	8 260
Intercompany loans	1 976	1 473	3 450	5 684	2 826	8 510
Credit	4 560	5 071	9 631	8 509	7 389	15 898
Debit	2 584	3 598	6 181	2 824	4 563	7 387
Of which conversions	349	454	803	529	890	1 419
Memo:						
Net conversions contribuion fo FDI	1 210	221	1 431	733	450	1 183
Total disbursements through conversions	1 559	675	2 234	1 263	1 339	2 602
Amortization of intercompany loans conversions	349	454	803	529	890	1 419

Table 5.25 – Foreign direct investments inflows – Equity capital

Distribution by country

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 548	13 159	22 706	18 615	15 719	34 335
Netherlands	1 065	2 441	3 506	6 576	1 553	8 129
United States	2 346	2 176	4 522	3 262	2 811	6 073
Luxembourg	596	150	746	650	2 207	2 857
Spain	715	848	1 564	1 406	796	2 202
Germany	204	663	867	1 226	575	1 801
Cayman Islands	1 278	697	1 974	1 228	376	1 604
Bermudas	226	289	515	299	1 199	1 497
France	342	421	763	271	962	1 233
United Kingdom	88	338	426	371	682	1 053
Switzerland	391	1 268	1 659	287	618	905
Canada	805	483	1 287	380	439	819
Chile	11	15	27	8	709	717
Bahamas	21	44	65	211	391	603
Portugal	226	121	347	201	316	517
Japan	228	431	660	191	310	501
Australia	22	95	117	227	267	494
Mexico	6	775	782	340	69	409
British Virgin Islands	127	159	286	143	228	371
Italy	152	102	254	193	119	313
Norway	81	288	369	200	84	284
South Korea	42	68	110	145	120	265
Uruguay	142	96	237	77	135	212
Colombia	1	231	232	162	6	167
Panama	48	92	140	54	88	141
Denmark	56	41	97	72	50	122
Austria	8	8	16	18	98	116
Belgium	8	270	278	72	19	91
Finland	8	1	9	6	82	88
Argentina	39	87	126	31	39	70
Ireland	31	6	37	6	58	64
Sweden	13	7	20	56	8	64
Netherlands Antilles	2	0	2	21	9	29
Singapore	9	70	79	5	19	24
Hong Kong	82	19	101	8	6	13
Costa Rica	0	212	212	0	0	0
Other countries	130	145	275	214	274	488

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

Distribution by sector

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 548	13 159	22 706	18 615	15 720	34 335
Crop, livestock and mineral extraction	667	875	1 542	1 108	3 643	4 751
Metallic mineral extraction and related services	288	306	595	639	2 610	3 249
Oil extraction and related services	283	250	532	336	556	892
Crop, livestock and related services	83	93	176	118	185	303
Others	13	225	239	16	291	307
Industry	3 616	4 846	8 462	7 518	5 963	13 481
Basic metallurgy	904	809	1 713	3 479	1 220	4 699
Foodstuff	141	384	525	341	1 411	1 752
Coke, oil derivatives and biofuels	16	244	260	494	1 149	1 644
Chemical products	378	559	936	1 242	136	1 378
Manufacturing and assembly of automotive engines	225	65	290	436	425	861
Plastic and rubber products	157	61	219	225	269	494
Pulp, paper and paper products	77	1 542	1 619	337	140	477
Nonmetallic mineral products	108	43	152	161	294	454
Machinery and equipments	232	126	357	136	293	428
Electrical machines, devices and apparatuses	31	239	270	237	148	385
Pharmaceuticals	75	115	191	48	113	160
Computer equipment, electronic and optical products	199	95	294	80	79	159
Sundry	19	7	27	35	88	124
Textile products	627	22	649	64	26	90
Other industries	427	534	962	204	172	376
Services	5 264	7 438	12 702	9 989	6 114	16 103
Financial and auxiliary services	1 045	1 947	2 993	3 073	1 450	4 524
Commerce, except vehicles	751	776	1 527	1 669	1 090	2 759
Headquarter consulting and management activities	112	52	164	1 471	136	1 607
Buildings	536	76	613	621	618	1 240
Electricity and gas	1 143	1 188	2 332	574	482	1 055
Real estate	423	468	890	361	461	822
Telecommunication	269	945	1 214	444	108	551
Insurance and pension funds	116	136	252	180	336	516
Transportation	9	154	163	270	118	387
Nonfinancial holdings	173	265	438	250	126	376
Information technology services	57	85	141	106	85	191
Office services and administrative support	37	144	181	57	107	164
Architectural and engineering services	30	173	203	85	46	132
Storage and transportation auxiliary activities	68	71	140	86	35	121
Infrastructure works	23	191	213	32	89	121
Other services	471	766	1 237	711	826	1 537

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

2/ Includes siderurgy.

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

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

5/ Includes internet.

Following a long period of relative stagnation, FDI flows toward Latin America and the Caribbean recovered and set a new record of US$125.8 billion in 2007. The highlights were FDI increases in new projects and in productive capacity, compared to the standard observed in developed countries where FDI growth was led primarily by mergers and corporate acquisitions. For the most part, this situation reflected a renewed upturn of sustained growth in Latin America and the Caribbean in recent years. Flows remained unequally distributed, being concentrated in just a few countries of destination. In this context, while flows targeted to the region expanded 50.1%, those channeled to Asia and Africa increased just 6.6% and 0.3%, respectively.

Accompanying the pace of FDI growth in Latin America, flows to Brazil set a record of US$34.6 billion, an increase of 83.7% compared to 2006. This result even surpassed the high levels of inflows registered in the period from 1998 to 2001, when such flows benefited from the privatization program. This evolution is evident in the increase in the stock of foreign direct investments, which totaled US$328.5 billion in 2007.

Of total net inflows in 2007, participation in the capital of companies in the country reached US$26.1 billion, including US$2.6 billion in external debt/investment conversion operations. It should be stressed that, of these conversions, US$1.4 billion originated in amortizations of intercompany loans, already included in total foreign direct investments. In this way, the net contribution of conversions to investments closed at US$1.2 billion. Intercompany loans registered net inflows of US$8.5 billion, as against US$3.5 billion in 2006.

In the modality of capital participation, inflows of foreign direct investment originating in the Netherlands, the major foreign investor in the country, totaled US$8.1 billion in 2007, 23.7% of the total. Other significant investments originated in the United States, US$6.1 billion, 17.7% of total; Luxembourg, US$2.9 billion, 8.3%; and Spain, with US$22.2 billion, 6.4%.

Inflows of FDI targeted to the three sectors of activity registered significant growth in 2007. The service sector, despite declining participation, was still the major target of these flows, absorbing US$16.1 billion, representing 46.9% of the year’s total and 26.8% growth compared to 2006. The largest growth rates occurred in the segments of financial services, commerce, consultancy, construction, insurance and transportation, while the sharpest declines were registered under inflows to the sectors of electricity, gas and other utilities and telecommunications. FDI channeled to the industrial sector expanded 59.3% in the year, totaling US$13.5 billion, highlighting expansion registered in the segments of coke, oil derivatives and biofuels, food products, nonmetallic mineral products, automotive vehicles, metallurgy, rubber goods and plastics. Inflows targeted to the cellulose and paper, textiles, informatics equipment and pharmochemical and pharmaceutical product industries closed with the sharpest declines. FDI flows to crop farming, livestock and mining, which expanded 208.1% compared to 2006, closing at

Table 5.27 – Portfolio investments – Liabilities

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 728	10 804	9 076	24 179	23 925	48 104
Credit	52 259	47 108	99 367	87 058	122 869	209 927
Debit	53 987	36 304	90 291	62 879	98 944	161 823
Equities	4 141	3 575	7 716	7 584	18 634	26 217
Credit	26 886	24 401	51 287	46 348	73 075	119 424
Debit	22 745	20 826	43 571	38 765	54 442	93 206
Issued in the country	2 334	3 525	5 859	6 239	18 374	24 613
Credit	24 600	23 911	48 511	44 545	72 036	116 581
Debit	22 266	20 386	42 652	38 307	53 662	91 968
Issued abroad (Annex V – ADR)	1 807	50	1 857	1 345	259	1 604
Credit	2 286	490	2 776	1 803	1 040	2 842
Debit	480	440	919	458	780	1 238
Debt securities	-5 869	7 229	1 360	16 595	5 291	21 887
Credit	25 373	22 707	48 080	40 710	49 793	90 503
Debit	31 242	15 478	46 720	24 114	44 502	68 616
Issued in the country	6 066	4 976	11 042	12 512	7 970	20 482
Medium and long term	3 941	3 031	6 971	8 232	5 317	13 548
Credit	10 121	7 655	17 776	15 961	25 026	40 987
Debit	6 180	4 625	10 805	7 729	19 709	27 439
Short term	2 125	1 945	4 070	4 280	2 653	6 933
Credit	5 881	4 519	10 400	8 299	12 038	20 337
Debit	3 756	2 574	6 330	4 018	9 385	13 403
Issued abroad	-11 935	2 253	-9 682	4 083	-2 678	1 405
Bonds	-13 304	81	-13 223	-3 435	-4 445	-7 880
Private	0	25	25	-100	-3	-103
Disbursements	0	125	125	0	0	0
Amortizations	0	100	100	100	3	103
Public	-13 304	56	-13 248	-3 335	-4 442	-7 777
Disbursements	2 060	3 390	5 450	2 883	0	2 883
New issues	1 862	2 890	4 752	2 883	0	2 883
Bond swaps	198	500	698	0	0	0
Amortizations	15 364	3 334	18 698	6 218	4 442	10 660
Paid	15 166	2 601	17 767	6 218	4 442	10 660
Face value	14 257	2 337	16 594	5 179	3 970	9 149
Discounts	-909	-263	-1 172	-1 039	-472	-1 512
Bond swaps	198	733	931	0	0	0
Notes and commercial papers	1 768	1 682	3 450	4 380	1 254	5 633
Disbursements	5 504	4 739	10 244	8 330	7 104	15 434
Amortizations	3 737	3 057	6 794	3 950	5 850	9 801
Money market instruments	-399	490	91	3 138	513	3 651
Disbursements	1 806	2 278	4 084	5 237	5 625	10 862
Amortizations	2 205	1 788	3 993	2 099	5 112	7 211

US$4.8 billion, were concentrated under mining of mineral ores, with participation of 9.5% in total 2007 inflows.

The segment of foreign portfolio investments showed significant improvement in 2007, compared to the previous year. Capital flows, driven by the pursuit of profitability, totaled US$48.1 billion in net inflows, against US$9.1 billion in 2006, as a result of 111.3% growth under inflows and 79.2% under remittances. The behavior of flows broken down by financial instrument varied widely over the course of 12 months. Impacted by financial market liquidity, stock market flows, which had risen sharply in 2005 and 2006, were quite active in 2007, when stock prices in the emerging markets reached very high levels. In 2007, net disbursements of these investments added up to US$26.2 billion, against US$7.7 billion in 2006, with revenues rising 132.9% to a level of US$119.4 billion, and spending increasing 113.9%, to US$93.2 billion.

The result for this segment reflected acceleration in net inflows of foreign investments in stocks traded in the country, which accounted for 93.9% of net inflows of foreign stock investments. In 2007, these inflows added up to US$24.6 billion, against US$5.9 billion in the previous year, with intensification of operations in the second half of the year. In that period, the results were 194.5% above the net amounts for the first half of the year. ADR placements, which correspond to less significant amounts, registered net inflows of US$1.6 billion, as against US$1.9 billion in 2006.

Foreign investments in fixed income securities, which registered their strongest flows in the first half of the year, closed 2007 with net disbursements of US$21.9 billion, against US$1.4 billion in the previous year. The amounts negotiated reached unprecedented highs, with US$90.5 billion in inflows and US$68.6 billion in remittances, revealing increases of 88.2% and 46.9% against 2006. The net amounts of operations carried out in the second half of the year were 68.1% below those of the first six months of the year.

Foreign investments in fixed income securities negotiated in the country registered sharp disbursements, accumulating net inflows of US$20.5 billion, compared to US$11 billion in 2006, of which US$12.5 billion were registered in the first half of the year.

Capital flows referring to sovereign bonds registered net outflows of US$7.8 billion in 2007, as a result not only of the original maturity schedule but, above all, anticipated redemptions of debt (buyback program, public offers and implementation of prepayment clauses). From the point of view of new issuances, emphasis should be given to total disbursements, US$2.9 billion, resulting from issue of the Global BRL 28 bond, US$1.9 billion, including reopening, and reopening of the Global 17, US$525 million, and the Global 37, US$500 million.

Operations with notes and commercial papers showed net inflows of US$5.6 billion, against US$3.5 billion in 2006. Short-term securities showed net disbursements of US$3.7 billion in 2007, against US$91 million in the previous year. Inflows expanded 166% and outflows increased 80.6%.

Table 5.28 – Other foreign investments

US$ million

Itemization	2006			2007		
	1º sem	2º sem	Ano	1º sem	2º sem	Ano
Total	7 083	17 021	24 104	31 493	431	31 923
Trade credit	8 369	4 420	12 789	17 213	298	17 511
Long term	-345	-496	-841	-323	456	133
Credit	417	395	812	434	1 184	1 618
Debit	762	890	1 653	756	728	1 484
Short term (net)	8 714	4 916	13 630	17 536	-158	17 378
Loans	-2 292	12 143	9 851	13 638	156	13 794
Monetary authority	-69	-69	-138	-69	-69	-138
Exceptional financing	0	0	0	0	0	0
Loans from the IMF	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Debit	0	0	0	0	0	0
Other long term	-69	-69	-138	-69	-69	-138
Credit	0	0	0	0	0	0
Debit	69	69	138	69	69	138
Remaining sectors	-2 223	12 213	9 990	13 707	225	13 933
Long term	932	9 574	10 505	-8 071	8 234	163
Credit	7 345	19 905	27 250	4 048	12 028	16 076
Multilateral[1/]	3 608	1 492	5 100	957	1 998	2 955
Agencies	752	717	1 469	266	553	819
Buyers credit	1 001	1 116	2 117	774	5 510	6 284
Direct loans	1 985	16 579	18 564	2 050	3 968	6 018
Debit	6 414	10 331	16 745	12 119	3 794	15 914
Multilateral[1/]	1 069	1 081	2 150	998	955	1 953
Agencies	3 131	339	3 470	269	246	515
Buyers credit	1 257	1 056	2 313	645	776	1 420
Direct loans	957	7 855	8 812	10 208	1 817	12 025
Short term	-3 154	2 639	-516	21 778	-8 008	13 770
Currency and deposits	1 002	456	1 458	629	-22	607
Outher liabilities	4	1	5	13	-1	11
Long term (net)	0	0	0	0	0	0
Short term (net)	4	1	5	13	-1	11

1/ Includes IFC.

Other foreign investments posted net inflows of US$31.9 billion, against US$24.1 billion in 2006, as a result of expanded short-term operations, including both trade credits and loans. Consequently, at the same time in which the medium and long-term external debts remained practically stable since the end of 2006, the short-term debt rose sharply over the course of 2007. Suppliers' trade credits posted overall disbursements of US$17.5 billion against US$12.8 billion in 2006. Here, long-term credits posted net inflows of US$133 billion, while short-term credits posted inflows of US$17.4 billion, compared to US$13.6 billion in 2006.

Medium and long-term loans and financing of other sectors totaled net inflows of US$163 million, while short-term operations posted net disbursements of US$13.8 billion, against net amortizations of US$516 million in 2006. The long-term loan operations of other sectors were concentrated under buyers' credits, with net disbursements of US$4.9 billion; organizations, US$1 billion; and agencies, US$304 million. Parallel to this, net amortizations of direct loans totaled US$6 billion occurred, against net disbursements of US$9.8 billion in the previous year. Net inflows of resources from nonresidents maintained in the country in the form of deposits and currencies totaled US$607 million, against US$1.5 billion in the previous year.

Table 5.29 – Brazilian direct investments abroad

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-4 502	-23 700	-28 202	3 426	-10 493	-7 067
Credit	501	628	1 129	10 442	12 055	22 497
Debit	5 003	24 328	29 331	7 016	22 547	29 563
Equity capital	-4 525	-18 889	-23 413	-4 620	-5 471	-10 091
Credit	390	613	1 002	658	1 386	2 044
Debit	4 915	19 501	24 416	5 279	6 856	12 135
Intercompany loans	23	-4 812	-4 789	8 046	-5 022	3 025
Credit	111	15	126	9 784	10 669	20 453
Debit	88	4 827	4 915	1 737	15 691	17 428

Table 5.30 – Brazilian portfolio investments abroad

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 034	-1 029	6	-52	338	286
Credit	3 857	2 167	6 024	2 328	3 408	5 736
Debit	2 823	3 195	6 018	2 380	3 070	5 449
Equity investment	-387	-529	-915	-686	-727	-1 413
Credit	160	247	406	163	399	562
Debit	546	775	1 322	849	1 127	1 976
Brazilian Depositary Receipts (BDR)	-291	-323	-614	-452	-784	-1 235
Credit	3	3	6	10	1	12
Debit	294	326	620	462	785	1 247
Other equities	-96	-205	-301	-234	56	-178
Credit	156	244	400	152	398	550
Debit	252	449	701	387	342	728
Debt securities	1 421	-500	921	634	1 065	1 699
Credit	3 698	1 920	5 618	2 165	3 008	5 173
Debit	2 277	2 420	4 697	1 531	1 943	3 474

Favorable conditions for financing the external accounts can be understood as a requirement for internationalization of Brazilian companies, which allow them to expand scale and play an important role in the world market, thus increasing the level of amounts registered in Brazilian investment accounts abroad. This evolution is more evident in the increase in the stock of Brazilian direct investments abroad, which totaled US$129.8 billion in 2007.

Table 5.31 – Other Brazilian investments abroad

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-3 929	-4 486	-8 416	-19 330	607	-18 723
Loans	-1 983	-3 032	-5 015	-15	-1 759	-1 773
Long term	-2 096	-2 883	-4 979	74	-1 665	-1 590
Credit	788	725	1 513	2 109	789	2 898
Debit	2 884	3 608	6 492	2 035	2 453	4 489
Short term (net)	113	-149	-35	-89	-94	-183
Currency and deposits	-1 698	-1 045	-2 743	-18 890	2 607	-16 283
Banks	-703	-531	-1 234	-9 974	-738	-10 712
Remaining domestic sectors	-995	-514	-1 509	-8 916	3 345	-5 571
Other	-995	-514	-1 509	-8 916	3 345	-5 571
Other assets	-248	-410	-658	-425	-241	-666
Long term	-51	-147	-198	-205	-54	-260
Credit	3	0	4	236	86	322
Debit	54	147	201	441	140	581
Short term (net)	-197	-262	-460	-219	-187	-406

Direct Brazilian investments abroad showed net investments of US$7.1 billion, against US$28.2 billion in 2006, when, for the first time, direct Brazilian investments surpassed foreign direct investments, both being expressed in net values. In 2007, US$10.1 billion of the total referred to increased participation, net outflows for new Brazilian assets abroad, against US$23.4 billion in 2006. Loans granted by Brazilian companies to associated companies abroad generated net returns of US$3 billion, compared to net investments of US$4.8 billion in 2006.

Brazilian portfolio investments abroad totaled net returns of US$286 million in 2007, compared to US$6 million in the previous year. Net remittances of investments in stocks of foreign companies closed at US$1.4 billion, against US$915 million in 2006. Investments in fixed income securities posted net returns of US$1.7 billion in 2007, compared to US$921 million in the previous year.

Other Brazilian investments abroad registered net outflows of US$18.7 billion, against US$8.4 billion in 2006. For the most part, this evolution resulted from investments in currency and deposits, with US$16.3 billion, of which US$10.7 billion originated

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

US$ million

Itemization	2004	2005	2006	2007
IBRD[2/3/]	-615	-121	1 255	-535
Disbursements	1 524	1 644	2 717	938
Amortizations	1 821	1 424	1 046	947
Interest	317	341	416	526
IBD[3/]	-1 965	-576	710	361
Disbursements	719	1 073	2 388	2 017
Amortizations	2 026	1 106	1 084	1 006
Interest	658	543	594	650
FMI	-5 577	-24 370	-125	-23
Disbursements	-	-	-	-
Amortizations	4 363	23 271	-	-
Interest	1 214	1 099	125	23
Government agencies				
Agencies	-2 314	-1 765	-2 278	50
Disbursements	785	1 219	1 469	819
Amortizations	2 617	2 624	3 470	515
Interest	482	360	277	255
Memo:				
Paris Club	-1 638	-1 090	-2 667	-
Amortizations	1 418	985	2 584	-
Interest	220	105	83	-
Bonds	-5 815	-3 438	-18 727	-12 718
Disbursements	5 928	12 490	5 575	2 883
New inflows	5 928	7 981	4 877	2 883
Refinancing	0	4 509	698	-
Amortizations	6 368	10 282	18 798	10 763
Paid	6 368	5 773	16 694	9 251
Refinanced	0	4 509	2 103	1 512
Interest	5 375	5 645	5 504	4 838
Notes & commercial papers	-9 360	-6 392	-99	2 290
Disbursements	5 085	7 337	10 194	15 434
Amortizations	11 196	10 463	6 769	9 801
Interest	3 249	3 265	3 524	3 343
Intercompany – FDI	-1 431	-1 231	1 884	6 716
Disbursements	5 259	8 018	9 590	15 898
Amortizations	5 683	7 997	6 181	7 387
Interest	1 007	1 253	1 525	1 794
Banks[4/]	-2 817	-2 403	7 614	-3 130
Disbursements	5 227	4 039	20 563	12 302
Amortizations	6 683	5 114	11 125	13 428
Interest	1 361	1 329	1 824	2 004
Loans	866	992	1 481	1 676
Financing	495	337	343	328

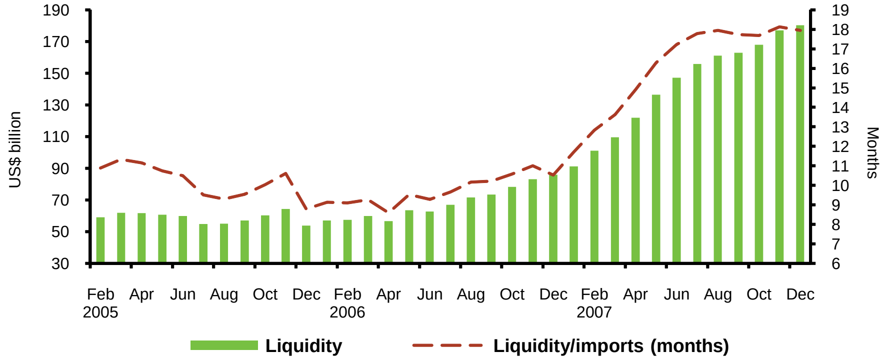
1/ Does not include suppliers.
2/ Includes IFC.
3/ Includes loans and trade financing.
4/ Includes bank loans and buyers' credits.

in banks and US$5.6 billion in other sectors. The balance of long-term loans abroad added up to net remittances of US$1.6 billion, against US$5 billion in 2006. Other assets totaled net remittances of US$666 million, of which US$406 million referred to short-term assets.

International reserves

The steady inflow of external resources over the course of 2007 made it possible for the Central Bank to close the year with net purchases on the domestic exchange market totaling US$78.6 billion. These purchases made a decisive contribution to growth in the international reserve position to a record level of US$180.3 billion at the close of the year, corresponding to growth of US$94.5 billion compared to the previous year.

Graph 5.12
International reserves



External Central Bank operations generated net revenues of US$15.9 billion. Overall disbursements of US$2.9 billion were exclusively a result of bond issuances that can be itemized as follows: Global 17, US$525 million; Global 37, US$500 million; and Global BRL 28, US$1.9 billion.

Amortizations totaled US$140 million, of which US$138 million referred to the Multi-year Deposit Facility Agreement (MYDFA).

During the year, net interest revenues totaled US$6.3 billion, as a result of payments of interest on allocations to the IMF, with US$23 million, and revenues generated by earnings on reserves, US$6.3 billion.

Other operations totaled net revenues of US$6.9 billion, basically as a result of appropriation of gains in bond prices, with US$5.3 billion, and parities, US$1.8 billion.

Table 5.33 – Statement of international reserves growth

US$ million

Itemization	2005	2006	2007
I – Reserve position (end of previous month)	52 935	53 799	85 839
1. Net purchases (+)/ sales (-) of Banco Central (interventions)	21 491	34 336	78 589
Spot	21 491	34 336	78 589
Lines with repurchase	-	-	-
Export lines	-	-	-
2. Banco Central's foreign operations	-20 627	-2 297	15 905
Disbursements	12 490	6 605	2 883
Bonds	12 490	5 450	2 883
Organizations	-	1 155	-
Amortizations	-27 914	-12 856	-140
Bonds and MYDFA	-4 641	-12 854	-138
Organizations	-23 273	-2	-2
Paris Club	-	-	-
Interest	-2 261	2 417	6 300
Bonds and MYDFA	-2 441	-273	-7
Organizations	-1 099	-125	-24
Paris Club	-2	-	-
Reserve interest earnings	1 280	2 815	6 330
Other[1/]	-2 941	1 537	6 863
II – Total Banco Central operations (1+2)	864	32 040	94 495
III – Reserve position (end of month)	53 799	85 839	180 334
Memorandum:			
Exchange market:	21 491	34 336	78 589
Transactions with residents (net)	19 223	36 428	87 940
Interbank transactions with non-residents (net)	-475	-	-
Change in bank holdings (net)[2/]	2 743	-2 092	-9 351

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.

National Treasury External Debt Service

In 2007, as the nation's external accounts continued to evolve positively, the National Treasury Secretariat (STN) decided to continue the policy begun in 2003 of contracting exchange on the market for the purposes of payment of the bond-related debt service, including principal and interest. During the year, STN market settlements totaled US$14 billion, of which US$9.1 billion referred to principal, and US$4.8 billion to interest. Among payments of principal, one should highlight those referring to bonds denominated as Global 07-N, US$571.7 million; Euromarco 07, US$603 million; Samurai 07, US$526.9 million; Global 07, US$959 million; Eurolibra 07, US$278.6 million; and Euro 07, US$820.6 million.

Table 5.34 – National Treasury – External debt services [1/]

US$ million

Period	Maturity profile			Maturity settlement		
	Principal	Interest	Total	Market	Reserves	Total
2007						
Jan	597	895	1 491	1 491	-	1 491
Feb	1 177	614	1 791	1 791	-	1 791
Mar	837	205	1 042	1 042	-	1 042
Apr	1 485	479	1 963	1 963	-	1 963
May	778	198	976	976	-	976
Jun	305	135	440	440	-	440
Jul	1 579	979	2 558	2 558	-	2 558
Aug	532	370	902	902	-	902
Sep	118	291	409	409	-	409
Oct	1 223	449	1 672	1 672	-	1 672
Nov	462	161	624	624	-	624
Dec	55	62	117	117	-	117
Year	9 149	4 838	13 986	13 986	-	13 986

1/ Includes principal and interest maturities related to Paris Club and bonds.

As of January 2007, the program designed to repurchase Brazilian external debt securities on the international market, which, until December 2006, had focused on securities maturing through 2012, widened its target to include potentially all securities independently of their maturities. Aside from this, the program is now implemented through the National Treasury's external debt operations desk. Its fundamental guideline is to achieve improvement in the Brazilian interest curve profile abroad.

Table 5.35 – National Treasury – External debt sovereign bonds buyback operations
By settlement date

US$ million

Itemization	Principal	Interest	Premium/Discount	Total
2007				
Jan	25	1	6	31
Feb	575	8	131	714
Mar	821	13	258	1 092
Apr	958	20	284	1 262
May	778	25	295	1 098
Jun	305	10	66	381
Jul	342	9	73	423
Aug	532	11	121	664
Sep	102	2	27	132
Oct	403	9	103	515
Nov	462	12	128	602
Dec	55	1	21	77
Year	5 358	121	1 511	6 990

Through this program, approximately US$7 billion were settled on the market, including US$5.4 billion in outlays on amortizations, corresponding to the value of the effective reduction in the external debt; US$121 million in interest; and US$1.5 billion in outlays on premiums.

External debt

In December 2007, the total external debt reached US$193 billion, representing an increase of US$21 billion compared to the December 2006 stock. The medium and long-term debt increased US$2 billion in that period of time, closing with a total of US$154.3 billion, while the short-term debt expanded US$18.6 billion to a level of US$38.9 billion and the stock of intercompany loans increased US$20.5 billion, closing at US$47.3 billion, including US$43.1 billion in medium and long-term loans.

In the same period, the volume of outstanding external debt bonds declined US$4.8 billion, including 97.6% referring to public sector bonds.

Currency loan operations accounted for 39.1% of the medium and long-term external debt in December 2007, followed by bonds, with 30.6%, and trade financing operations, with 30.3%. Outstanding currency loans remained practically stable in 2007, registering growth in liabilities in notes, US$5.7 billion, offset by a reduction in direct loans in the same amount. Keeping step with growth in the country's trade flow, trade financing operations expanded US$6.8 billion in 2007.

Growth in the short-term debt came to 91.4%, basically reflecting increases in commercial bank loans, US$11.1 billion, and loan operations of other sectors, US$7.7 billion.

In December of 2007, considering only outstanding registered external debt, accounting for 85.7% of the total external debt, the private sector was the largest debtor, with 51.2% of the total, and a cumulative amount of US$75.2 billion in medium and long-term resources, together with US$9.7 billion in short-term resources. The medium and long-term indebtedness of the private sector was concentrated mainly in notes, US$42.9 billion, reflecting 51% of registered private liabilities.

The remaining 48.8% of the registered external debt for which the public sector is liable was distributed into US$79.2 billion in liabilities with original maturities of more than 360 days and US$1.6 billion in short-term liabilities. Of the total nonfinancial public sector medium and long-term external debt, 84% was concentrated at the National Treasury, including US$46.1 billion in bond operations. The state and municipal government debt represented 10% of the total nonfinancial public sector debt and was concentrated mainly in credits with international organizations. The debt of state-owned enterprises accounted for 6% of the total nonfinancial public sector debt and corresponded to credits granted by international organizations, banks and agencies, together with note issuances.

The debt contracted with a public sector guarantee reached US$13.5 billion in December 2007, of which only US$436 million represented private sector debt.

Table 5.36 – Gross foreign indebtedness[1/]

US$ million

Itemization	2003	2004	2005	2006	2007
A. Total debt (B+C)	214 930	201 374	169 450	172 589	193 219
B. Medium and long-term debt[2/]	194 736	182 630	150 674	152 266	154 318
Exceptional financing	28 255	24 946	-	-	-
IMF	28 255	24 946	-	-	-
BIS	-	-	-	-	-
BoJ	-	-	-	-	-
IMF loans	-	-	-	-	-
Renegotiated debt bonds	16 068	14 174	6 948	-	-
Other bonds[3/]	45 747	48 059	55 842	51 968	47 195
Import financing	47 869	42 609	38 877	39 983	46 758
Multilateral	23 433	22 241	21 779	25 148	26 981
Bilateral	12 856	10 970	8 614	6 259	6 482
Other financing sources	11 579	9 398	8 483	8 575	13 295
Currency loans	56 797	52 842	49 007	60 315	60 365
Notes[4/]	46 661	42 037	38 257	40 151	45 884
Direct loans	10 136	10 805	10 750	20 164	14 481
Other loans	-	-	-	-	-
C. Short-term debt	20 194	18 744	18 776	20 323	38 901
Credit line for petroleum imports	-	-	-	-	-
Commercial banks (liabilities)	14 822	15 991	15 701	16 527	27 613
Resolution 2,483 – Rural financing	-	-	-	-	-
Special operations	5 372	2 753	3 075	3 796	11 288
Financing	1 299	782	602	530	305
Currency loans	4 073	1 971	2 473	3 266	10 983
D. Intercompany loans	20 484	18 808	18 537	26 783	47 276
E. Total debt + intercompany loans (A+D)	235 414	220 182	187 987	199 372	240 495

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.

Based on the December 2007 position, the amortization schedule of the gross medium and long-term registered external debt showed concentration of 51.2% of total maturities in the next five years. Considering the medium and long-term debt maturing up to 2012, the participation of the nonfinancial public sector reached 32%; that of the financial public sector accounted for 6%; and the private sector for 62%.

Broken down by type of creditor or instrument, the amortization schedule of the registered external debt shows that currency loans and bonds corresponded to 46.8% and 15.8%, respectively, of medium and long-term maturities through 2012, while debts with international organizations accounted for 18.1% of the scheduled maturities.

Table 5.37 – Registered external debt

US$ million — Outstanding: 12.31.2007

Debtor	Creditor							
	Bonds	Multilateral institutions[1/]	Bank loans	Notes[2/]	Government agencies	Suppliers credits	Others	Total
A. Total	47 195	27 200	26 211	51 823	6 482	5 197	1 497	165 606
B. Medium and long-term	47 195	26 981	21 423	45 884	6 482	5 063	1 289	154 318
Public sector	46 070	22 421	4 299	3 028	3 078	269	1	79 165
Nonfinancial public sector	46 070	18 277	1 917	1 500	2 216	269	1	70 250
National Treasury	46 070	11 102	989	-	666	164	-	58 991
Banco Central do Brasil	-	-	-	-	14	-	-	14
Public enterprises	-	887	621	1 500	1 110	97	1	4 215
States and municipalities	-	6 289	307	-	426	8	-	7 029
Financial sector	-	4 143	2 382	1 528	862	-	-	8 915
Private sector	1 125	4 560	17 125	42 856	3 405	4 794	1 289	75 153
Nonfinancial sector	1 000	2 692	12 884	22 105	3 269	4 782	511	47 244
Financial sector	125	1 868	4 240	20 750	136	12	778	27 910
C. Short-term	-	219	4 788	5 939	-	134	208	11 288
Loans	-	175	4 661	-	-	-	208	5 044
Nonfinancial sector	-	-	539	-	-	-	35	574
Financial sector	-	175	4 123	-	-	-	173	4 470
Import financing	-	44	126	5 939	-	134	-	6 244
Nonfinancial sector	-	-	5	4	-	134	-	143
Financial sector	-	44	122	5 936	-	-	-	6 101
D. Intercompany loans	255	-	-	3 223	-	-	43 798	47 276
E. Total debt + intercompany loans (A+D)	47 451	27 200	26 211	55 046	6 482	5 197	45 295	212 882

1/ Includes IMF.

2/ Includes commercial papers and securitizated loans.

The average maturity of the registered external debt dropped from 8.1 years in December 2006 to 7.5 years in December 2007. Analysis of the latter figure shows that the debt corresponding to suppliers/buyers credits was the category with the shortest average term, 3.3 years, while that referring to bonds had the longest average term, with 13.7 years. The average maturity of liabilities with international organizations decreased from 6.7 years to 6.4 years in 2007.

Segmentation of the registered external debt according to disbursement currency indicates that the share accounted for by the United States dollar dropped from 81.4% of the total in 2006 to 74.7% in December 2007. The relative participation of the debt registered in euro shifted from 7.5% to 6.3% during the same period, while the external liabilities expressed in the yen and real shifted from 7.1% to 10.9% and from 3.7% to 7.9%, in that order.

As regards the profile of the registered external debt by interest rate modality, the share that generates earnings based on floating rates dropped from 35.9% in 2006 to 35.8% in December 2007. Of the total amount of debt contracted at floating rates of interest, the six-month Libor remained as the major indexing factor, with an increase in its relative participation from 55.7% to 56.9% during the period.

Table 5.38 – Public registered external debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	2003	2004	2005	2006	2007
Federal government (direct)	76 729	75 345	75 161	63 942	58 991
States and municipalities	6 364	6 904	6 474	6 815	7 055
Direct	2	-	0	-	41
Guaranteed by the federal government	6 363	6 904	6 474	6 815	7 013
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	48 328	43 041	14 953	14 777	14 700
Direct	13 708	12 280	9 447	9 041	8 619
Guaranteed by the federal government	34 620	30 761	5 505	5 735	6 081
Private sector (garanteed by the public sector)	225	128	98	89	436
Total	131 646	125 418	96 686	85 622	81 182
Direct	90 439	87 625	84 608	72 983	67 652
Guaranteed by	41 207	37 793	12 078	12 640	13 530
Federal government	41 023	37 604	12 034	12 597	13 454
States and municipalities	-	-	4	3	8
Semi-autonomous entities, public					
companies and mixed companies	184	188	40	40	67

Table 5.39 – Registered external debt – By debtor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2008	2009	2010	2011	2012
A. Total debt (B+C)	165 606	34 588	16 927	16 176	11 515	11 158
B. Medium and long-term debt	154 318	23 300	16 927	16 176	11 515	11 158
Nonfinancial public sector	70 250	4 938	4 519	4 604	5 150	6 070
Central government	59 005	3 448	3 345	3 592	4 017	5 111
Others	11 244	1 490	1 174	1 012	1 133	960
Financial public sector	8 915	1 419	571	843	1 394	499
Private sector	75 153	16 944	11 838	10 729	4 971	4 589
C. Short-term debt	11 288	11 288	-	-	-	-
Nonfinancial public sector	22	22	-	-	-	-
Financial public sector	1 559	1 559	-	-	-	-
Private sector	9 706	9 706	-	-	-	-
D. Intercompany loans	47 276	11 399	4 236	3 489	3 405	3 538
E. Total debt + intercompany loans (A+D)	212 882	45 988	21 163	19 665	14 920	14 696

(continues)

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

Amortization schedule[1/]

US$ million — Outstanding: 12.31.2007

Itemization	2013	2014	2015	2016	2017	Beyond and arrears
A. Total debt (B+C)	9 806	5 992	9 880	7 580	6 890	35 093
B. Medium and long-term debt	9 806	5 992	9 880	7 580	6 890	35 093
Nonfinancial public sector	3 547	2 551	5 287	3 499	3 835	26 250
Central government	2 618	1 915	3 963	2 819	3 386	24 792
Others	929	637	1 324	679	449	1 457
Financial public sector	1 138	434	394	348	307	1 569
Private sector	5 122	3 007	4 198	3 734	2 747	7 274
C. Short-term debt	-	-	-	-	-	0
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	2 565	2 729	2 647	2 469	2 819	7 980
E. Total debt + intercompany loans (A+D)	12 372	8 721	12 527	10 049	9 708	43 073

1/ Includes exceptional financing.

Graph 5.13

Average term of registered external debt

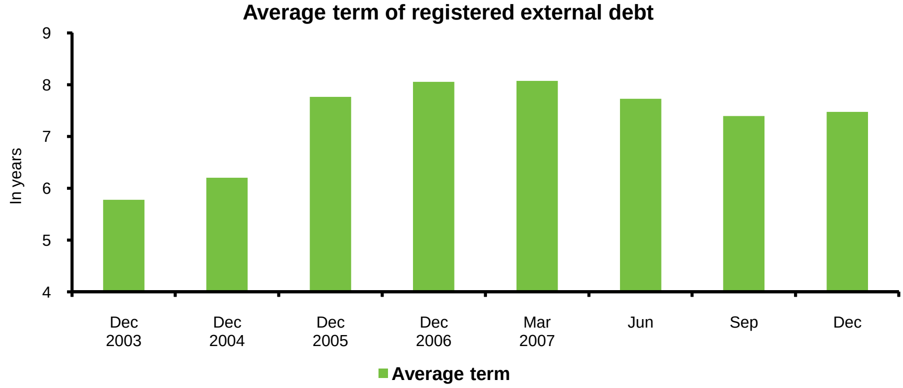


Table 5.40 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million						Outstanding: 12.31.2007
Itemization	Outstanding debt	2008	2009	2010	2011	2012
A. Total debt (B+C)	165 606	34 588	16 927	16 176	11 515	11 158
B. Medium and long-term debt	154 318	23 300	16 927	16 176	11 515	11 158
International organizations	26 981	2 048	2 566	3 179	2 763	3 724
Government agencies	6 482	837	929	931	730	686
Buyers	8 232	1 487	1 708	1 432	1 097	1 222
Suppliers	5 063	1 235	541	2 028	251	123
Currency loans	60 365	15 266	9 148	6 324	3 648	2 654
Notes[2/]	45 884	10 728	6 263	4 748	1 732	1 783
Direct loans	14 481	4 538	2 885	1 577	1 916	871
Bonds	47 195	2 428	2 035	2 282	3 026	2 749
C. Short-term debt	11 288	11 288	-	-	-	-
D. Intercompany loans	47 276	11 399	4 236	3 489	3 405	3 538
E. Total debt + intercompany loans (A+D)	212 882	45 988	21 163	19 665	14 920	14 696
Itemization	2013	2014	2015	2016	2017	Beyond and arrears
A. Total debt (B+C)	9 806	5 992	9 880	7 580	6 890	35 093
B. Medium and long-term debt	9 806	5 992	9 880	7 580	6 890	35 093
International entities	2 264	1 744	1 568	1 313	1 168	4 643
Government agencies	566	454	399	329	234	387
Buyers	602	387	189	33	15	59
Suppliers	309	47	53	45	48	384
Currency loans	4 139	2 205	4 367	3 460	2 517	6 636
Notes[2/]	3 188	1 829	3 761	3 241	2 383	6 229
Direct loans	951	376	606	219	134	408
Bonds	1 926	1 156	3 304	2 400	2 907	22 983
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	2 565	2 729	2 647	2 469	2 819	7 980
E. Total debt + intercompany loans (A+D)	12 372	8 721	12 527	10 049	9 708	43 073

1/ Includes exceptional financing.

2/ Includes commercial papers and securities.

Table 5.41 – Average maturity term

Registered external debt[1/]

US$ million

Itemization	2007	Average maturity (years)
A. Total	162 136	7.47
International organizations	26 976	6.40
Government agencies	6 468	4.87
Buyers/suppliers	12 916	3.28
Currency loans + short-term	68 580	4.63
Bonds	47 195	13.72
Bradies	186	3.50
Global/Euro	45 884	13.96
Others	1 125	5.44
B. Intercompany loans	43 572	5.68
C. Total + intercompany loans	205 707	7.09

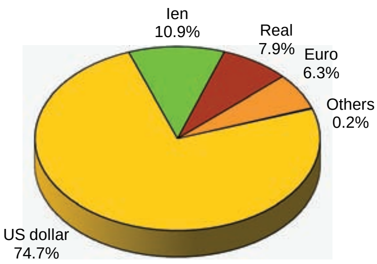
1/ Excludes debt in arrears.

Graph 5.14

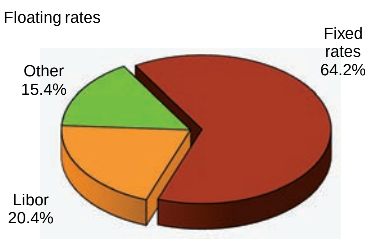
Registered external debt composition

December 2007

Distribution by currency



Distribution by type of interest rate



External sustainability indicators

In 2007, the trend toward improvement in the external sustainability indicators that had marked previous years continued. This result was basically due to the significant increase in the international reserve position, which more than doubled in the year under analysis, and to the reduction in the external debt service, particularly amortizations, accompanied by growth in the dollar value of exports and GDP.

The value of the debt service dropped 8.8% in 2007, compared to the previous year. This reduction was a consequence of the high basis of comparison, considering anticipated payments of Brady bond call operations, the Tender Offer and the 2006 settlement of liabilities with the Paris Club. In 2007, exports expanded 16.6%, implying a reduction in the participation of the debt service in exports from 41.3% to 32.3% in the period.

Table 5.42 – Indebtedness indicators[1/]

US$ million

Itemization	2003	2004	2005	2006	2007
Debt service	52 988	51 800	66 048	56 902	51 880
Amortizations[2/]	38 809	37 561	51 587	42 024	36 588
Gross interest	14 179	14 239	14 460	14 878	15 292
Medium and long-term external debt (A)	194 736	182 630	150 674	152 266	154 318
Short-term external debt (B)	20 194	18 744	18 776	20 323	38 901
Total debt (C)=(A+B)	214 930	201 374	169 450	172 589	193 219
International reserves (D)	49 296	52 935	53 799	85 839	180 334
Brazilian credit abroad (E)[3/]	2 915	2 597	2 778	2 939	2 894
Commercial bank assets (F)	11 726	10 140	11 790	8 990	21 938
Net debt (G)=(C-D-E-F)	150 993	135 702	101 082	74 821	-11 948
Export	73 084	96 475	118 308	137 807	160 649
GDP	553 603	663 783	882 439	1 071 973	1 313 901
Indicators (in percentage)					
Debt service/exports	72.5	53.7	55.8	41.3	32.3
Debt service/GDP	9.6	7.8	7.5	5.3	3.9
Total debt/exports	294.1	208.7	143.2	125.2	120.3
Total debt/GDP	38.8	30.3	19.2	16.1	14.7
Net total debt/exports	206.6	140.7	85.4	54.3	-7.4
Net total debt/GDP	27.3	20.4	11.5	7.0	-0.9

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).

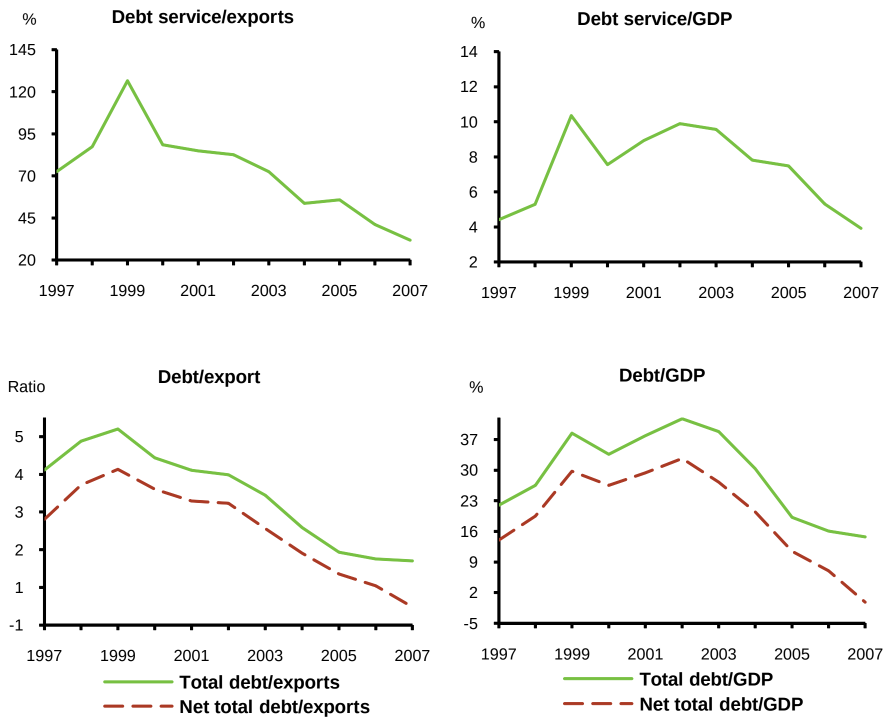
Nominal GDP in dollars increased 22.6% in 2007, while the overall external debt increased 12%, resulting in a reduction of 1.4 p.p. in the external debt/GDP indicator to a level of 14.7%. The ratio between debt service and GDP also declined, dropping from 5.3% to 3.9%.

The indicator that expresses total external debt as a proportion of exports remained on a downward trajectory, moving from 125.2% in 2006 to 120.3% at the end of 2007.

The total external debt net of assets shifted into a negative position, meaning that, in 2007, Brazil assumed the position of international creditor for the first time, as the total amount of Brazilian financial assets against nonresidents (international reserves, trade credits and bank assets abroad) surpassed the value of the total external debt. Thus, the ratio between the net external debt and the value of export revenues in the last 12 months moved from 54.3% in December 2006 to -7.4% in December 2007. In relation to GDP, the same net liabilities dropped from 7% to -0.9% in the period.

Graph 5.15

Indebtedness indicators



External funding operations

The face value of the bonds issued by the Federative Republic of Brazil in 2007 came to US$2.9 billion. As distributed in the first six months of the year, international market funding operations were expressed in the following currencies: in dollars, with the reopenings of Global 37 and Global 17; and in reals, with issuance and three reopenings of the Global BRL 28 bond. The maturity terms of the securities varied from 10 to 30 years. Risk premiums, defined as the difference between the rate of return offered by Brazilian securities and the equivalent American Treasury bonds, in 2007 issuances, reached 173 b.p. for the reopening of the Global 37 and 122 b.p. in the reopening of the Global 17. In the month of February, the National Treasury held its third external sovereign debt issuance expressed in real, with placement of the Global BRL 28, with reopenings in March, May and June.

The remaining restructured external debt totaled US$186 million in 2007, dropping by US$169 million compared to the 2006 balance. The major share of this reduction resulted from Central Bank settlement of the MYDFA in September 2007. The residual balance of the restructured external debt in the position analyzed refers exclusively to the pre-Brady Exit Bond balance (Brazil Investment Bonds – BIB).

Table 5.43 – Issues of the Republic

Itemization	Date of inflow	Date of maturity	Maturity years	Value US$ million	Coupon % p.y.	Rate of return at issuance % p.y.	Spread over U.S. Treasury[1/] basis points
Euromarco 07	2.26.1997	2.26.2007	10	592	8.000		242
Global 27[2/]	6.9.1997	6.9.2027	30	3 500	10.125	10.90	395
Eurolira[3/]	6.26.1997	6.26.2017	20	443	11.000		348
Eurolibra	7.30.1997	7.30.2007	10	244	10.000	8.73	268
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 a 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
Global 07[6/]	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[7/]	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 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[8/]	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
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	Libor 3m +5,76	Libor 3m + 5,94	359
Global 14[9/]	7.14.2004	7.14.2014	10	1 250	10.500	10.80	538
Euro 12[10/]	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)	5.17.2005	10.14.2019	14	500	8.875	8.83	458

(continues)

Table 5.43 – Issues of the Republic (concluded)

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
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
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 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 34 (Reopening)	12.6.2005	1.20.2034	28	500	8,250	8,31	363
Global 37	1.18.2006	1.20.2037	31	1 000	7,125	7,56	295
Euro 15 (Reopening)	2.3.2006	2.3.2015	9	362	7,375	5,45	185
Global 37 (Reopening)	3.23.2006	1.20.2037	31	500	7,125	6,83	204
Global 34 (Reopening)	6.2.2006	1.20.2034	28	198	8,250	8,24	-
Global 37 (Reopening)	8.15.2006	1.20.2037	30	500	7,125	7,15	205
Global BRL 22	9.13.2006	1.5.2022	15	743	12,500	12,88	-
Global BRL 22 (Reopening)	10.13.2006	1.5.2022	15	301	12,500	12,47	-
Global 17	11.14.2006	1.17.2017	10	1 500	6,000	6,25	159
Global BRL 22 (Reopening)	12.11.2006	1.5.2022	15	346	12,500	11,66	-
Global 37 (Reopening)	1.30.2007	1.20.2037	30	500	7,125	6,64	173
Global BRL 28	2.14.2007	1.10.2028	21	715	10,250	10,68	-
Global BRL 28 (Reopening)	3.27.2007	1.10.2028	21	361	10,250	10,28	-
Global 17 (Reopening)	4.11.2007	1.17.2017	10	525	6,000	5,89	122
Global BRL 28 (Reopening)	5.17.2007	1.10.2028	21	389	10,250	8,94	-
Global BRL 28 (Reopening)	6.26.2007	1.10.2028	21	393	10,250	8,63	-

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/ 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.

7/ 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.

8/ 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.

9/ 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.

10/ 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 5.44 – Restructured external debt

Itemization	Outstanding 12.31.2007 US$ million	Maturity
Exit Bond (Brazil Investment Bond – BIB) – (pre-Bradies)	186	9.15.2013
Total	186	-

Brazilian external debt securities

Over the course of 2007, the basket of Brazilian external debt securities weighted by liquidity showed an average earnings spread in relation to American Treasury bonds of 181 b.p, compared to 399 b.p. in 2005 and 235 b.p. in 2006, when calculated on the basis of daily observations.

International Investment Position

The International Investment Position (IIP) posted an increase of US$189.7 billion in net external liabilities in December 2007, compared to December 2006. This figure resulted from increases of US$315.8 billion in gross external liabilities and US$126.1 billion in external assets.

In the case of external assets, mention should be made of increases of US$94.5 billion in international reserves and US$16.3 billion in assets abroad in the modality of currency and deposits. At the same time, growth of US$15.9 billion in Brazilian direct investments abroad and US$0.9 billion in Brazilian portfolio investments was also registered.

With regard to the evolution of external liabilities, one should stress the increase of US$206.1 billion in outstanding foreign portfolio investments, including US$172.5 billion in stock investments and US$33.6 billion in fixed income securities. The stock of FDI increased US$92.3 billion, particularly as a result of growth in the modality of capital participation, with US$71.8 billion.

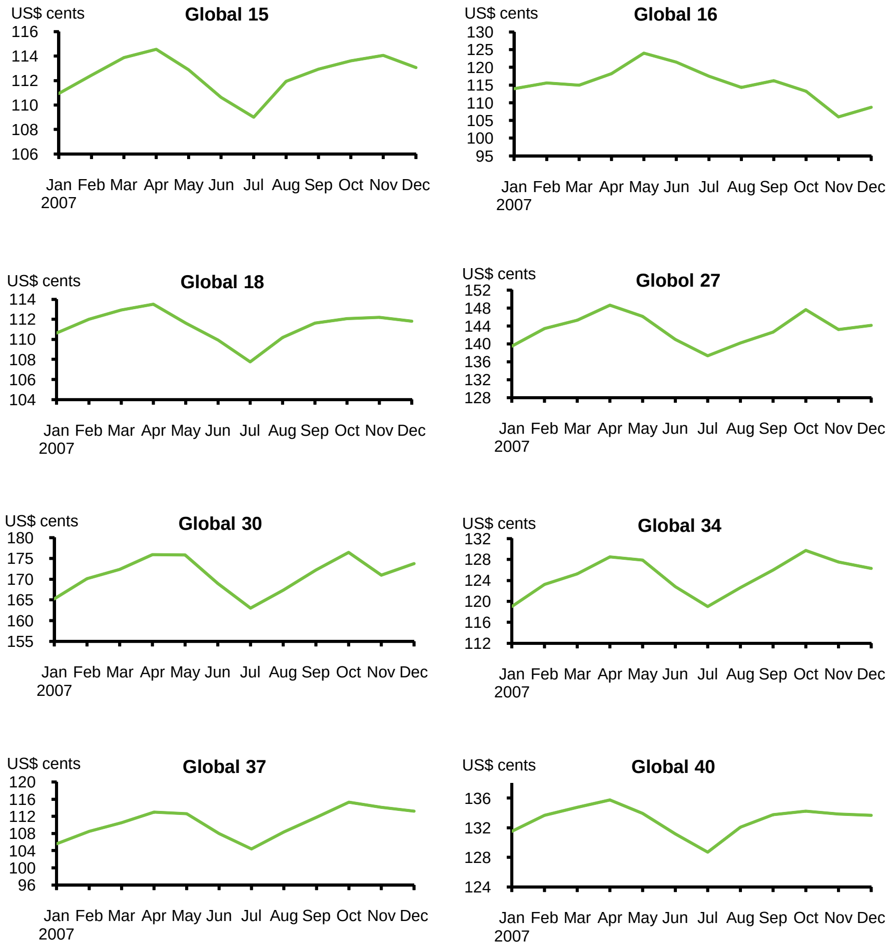
The stock of other investments expanded US$16.1 billion, wholly as a result of increases in loans contracted by residents in the country with nonresidents, registering growth of US$1.1 billion in the stock of medium and long-term operations and US$14.4 billion in short-term operations.

Despite being published in United States dollars, outstanding FDI-capital participation and stock investments and fixed income securities negotiated in the country are expressed and calculated in real and, for this reason, were directly impacted by 17.2% exchange

Graph 5.16

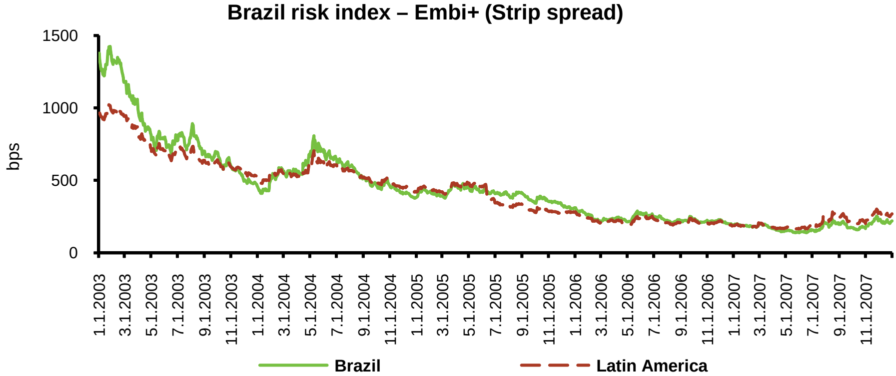
Prices of Brazilian securities abroad

Secondary market – Bid price, end-of-period – 2007



Graph 5.17

Brazil risk index – Embi+ (Strip spread)



Source: JPMorgan

appreciation in 2007. Parallel to this, stock investments registered significant price gains which, based on the Bovespa Index, reached 43.6% in the same time period. Consequently, for the most part, the 172.5% growth registered in outstanding foreign investments in the stock market reflected variations in the prices of the stocks traded coupled with exchange appreciation, giving due consideration also to net positive flows of US$26.2 billion in the period under analysis, according to balance of payments statistics.

Table 5.45 – International investment position

US$ million

Itemization	2005	2006	2007
International investment position (A-B)	-331 085	-384 377	-574 063
Assets (A)	168 182	238 924	365 008
Direct investment abroad	79 259	113 925	129 839
Equity capital[1/]	65 418	97 465	107 556
Intercompany loans	13 842	16 460	22 284
Portfolio investment[2/]	10 834	14 429	15 337
Equity securities	2 809	3 754	5 167
Debt securities	8 026	10 675	10 170
Bonds and notes	4 850	6 185	5 590
Of which collateral (principal)	1 249	-	0
Money-market instruments	3 176	4 490	4 580
Financial derivatives	119	113	62
Other investment	24 171	24 617	39 436
Trade credits (of suppliers)	98	70	70
Loans	727	562	-1 580
Currency and deposits	17 077	17 200	33 539
Other assets	6 269	6 785	7 407
Of which collateral (interests) and memberships in international financial organizations	1 363	1 121	1 076
Reserve assets	53 799	85 839	180 334

(continues)

Table 5.45 – International investment position (concluded)

US$ million

Itemization	2005	2006	2007
Liabilities (B)	499 268	623 300	939 071
Direct investment in reporting economy	195 562	236 186	328 455
Equity capital[1/]	177 024	209 403	281 179
Intercompany loans	18 537	26 783	47 276
Portfolio investment[2/]	232 627	303 583	509 648
Equity securities	125 532	191 513	363 999
In the reporting country	50 394	82 994	165 708
Abroad	75 138	108 520	198 291
Debt securities	107 096	112 070	145 650
Bonds and notes	107 096	112 070	145 650
In the reporting country	5 147	18 163	46 631
Abroad	101 949	93 907	99 018
Medium and long-term	101 047	92 119	93 079
Medium and short-term	901	1 788	5 939
Financial derivatives	219	445	1 771
Other investment	70 859	83 087	99 197
Trade credits	4 772	5 216	5 197
Medium and long-term	4 424	4 869	5 063
Medium and short-term	349	347	134
Loans	62 729	73 466	89 003
Monetary authority	301	157	14
Use of Fund credit & loans from the Fund	-	-	-
Other long-term	301	157	14
Short-term	-	-	-
Other sectors	62 428	73 309	88 989
Long-term	44 902	55 121	56 162
International entities	21 779	25 148	26 981
Government agencies	8 614	6 259	6 482
Buyers	4 059	3 707	8 232
Direct loans	10 449	20 007	14 467
Short-term	17 527	18 188	32 827
Currency and deposits	3 358	4 405	4 996
Monetary authority	111	83	73
Banks	3 246	4 321	4 923
Other liabilities	-	-	-

1/ Includes reinvested earnings.

2/ Includes securities issued by residents.

The International Economy

World economic activity was marked by two distinct phases in 2007. In the first six months, positive performances occurred in the three major economic regions and in most of the emerging economies. In the United States, on the other hand, the ongoing drop in home investments that began in mid-2006 resulted in a gradual process of economic deceleration. The positive results registered in the Euro Area and Japan were driven by investments.

Nonetheless, in the second half of the year, the overall balance of risks to global growth worsened as a result of growing defaults on the United States subprime market, with serious repercussions on the balance sheets of financial institutions. Defaults on financial products backed by securities generated repercussions on the world credit market, leading major central banks to coordinate their efforts to maintain international financial system liquidity at adequate levels, in order to mitigate the macroeconomic impact of financial sector difficulties.

Although the measures taken attenuated liquidity restrictions, markets were unable to return to their pre-crisis conditions. Liquidity restrictions prevailed on forward interbank markets during the entire second half of the year, resulting in revisions of economic activity and world inflation forecasts.

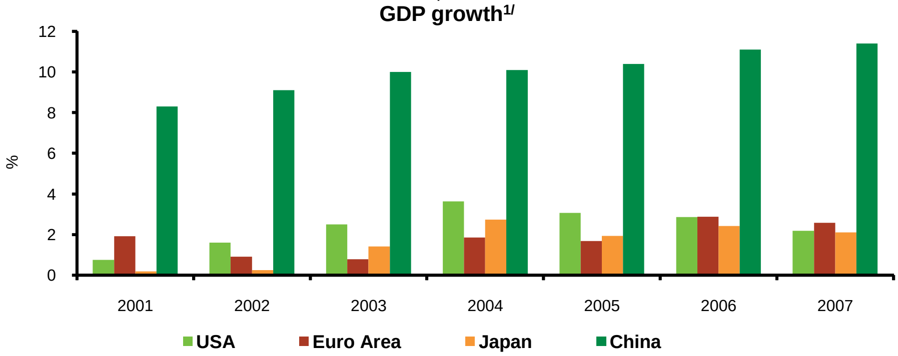
Economic activity

Over the course of 2007, economic activity in the USA was conditioned to real estate market evolution. The scenario of a gradual deceleration that had marked the first half of the year was progressively replaced by much more pessimistic expectations regarding economic growth. Starting in the third quarter of the year, the increase in defaults was reflected in additional restrictions on credit, despite the efforts made by the Federal Reserve to curtail interbank market tensions.

Even in this environment, however, reflecting strong growth in the job market, consumer spending continued expanding, closing 2007 with real growth of 2.9% compared to 3.1% in 2006. As a result, GDP in the USA rose 2.2% in 2007, compared to 2.9% in the previous year. Impacted by the falloff in home investments, private investments declined 4.9% in the year, compared to expansion of 2.7% in 2006. Domestic demand, which had expanded 3% in 2006, increased 1.6% in 2007.

Net exports contributed 0.6 p.p. to annual GDP growth. This result, representing the first positive contributions since 1995, reflected the impacts of domestic demand and depreciation of the dollar on imports, which expanded 1.9% in the year, compared to 5.9% in 2006. Parallel to this, one should stress the impact of real export growth, which came to more than 8% for the second consecutive year, reflecting the evolution of exchange rate, continued expansion of emerging economies and growth in Europe and Japan.

Graph 6.1
GDP growth[1/]



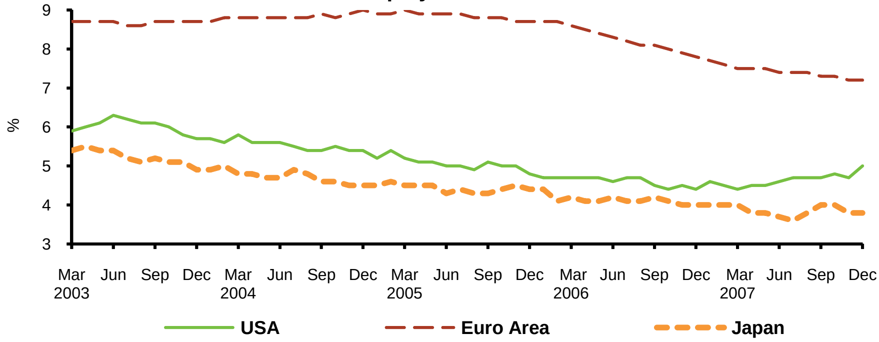
Source: Bureau of Economic Analysis, Eurostat, Economic and Social Research Institute, Bloomberg
1/ Annual growth.

Particularly in the first six months of the year, economic growth in the Euro Area was driven by domestic demand, as a result of rising private investments generated by an environment of corporate recovery and positive labor market growth. In the second half of the year, despite positive labor market evolution and rising corporate investments, credit market tensions, increasing energy prices, the impact of appreciation of the euro and declining United States economic activity reduced the dynamics of the region. In this framework, GDP expanded 2.6% in the year, against 2.9% in 2006.

To a great extent, 2.1% Japanese GDP growth in 2007, against 2.4% in the previous year, resulted from the performance of exports to the Asian continent, deceleration of import growth and rising government spending. Taken together, these factors partially offset the impacts of decelerating consumption growth and private investment. One should note that high levels of profitability, positive business expectations and evolving external demand made it possible for growth in private sector investments (2.4%) to surpass GDP expansion.

Reflecting both external demand and intensification of domestic consumption, the Chinese economy expanded at quarterly rates of 11% in 2007, compared to the corresponding periods of previous years. To some extent, the dynamics of this growth offsets relative deceleration in the United States and Euro Area economies and, to a lesser degree, similar performances in various emerging economies which, despite the uncertainties rooted in the United States financial crisis, continued expanding at a robust pace, revealing the reduced importance of channels of contamination from the United States economy to those of other nations.

Graph 6.2
Unemployment rates



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

The economies of the major Latin American countries have mainly been sustained by strong domestic demand and, consequently, have not been impacted seriously by the United States crisis. Given this, economic growth in the region is expected to close 2007 at 5.6%, according to the Economic Commission for Latin America and the Caribbean (Cepal).

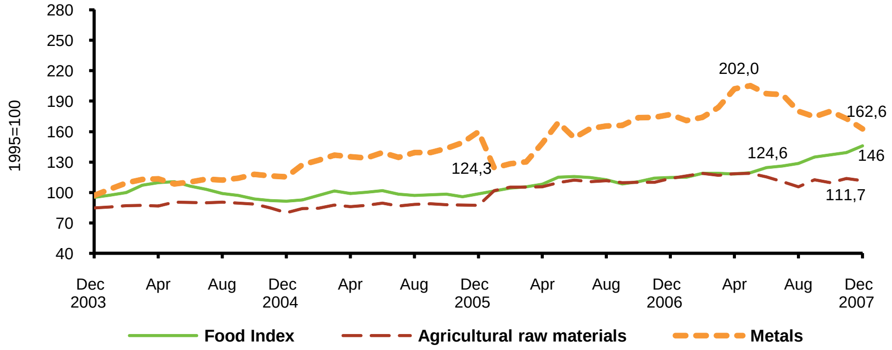
It should be noted that the economies of the emerging countries have mostly become less dependent on the performance of the more mature economies. The fact of the matter is that, in recent years, China's contribution to world growth has been significantly greater than that generated by the USA and the Euro Area countries. This is considered, to a certain degree, a result of that country's inclusion in the WTO in mid-2001, which altered the relevance of the major economic blocs in international flows of goods and services. Inter-regional trade, particularly in Asia, but also in Latin America, has played a role of increasing importance in this scenario.

In this environment, globalization of world trade has favored reductions in the correlation between the emerging economies and the central economies, particularly in relation to those nations that produce commodities since, in this case, their economies were leveraged by growing demand in that market.

Rising commodity prices in 2007 reflected the lag between growth in supply and demand, in the latter case driven by strong growth in emerging market consumption, and their enhanced attractiveness as an alternative asset and hedge option in a global scenario marked by depreciation of the dollar, declining short-term interest rates and rising inflation.

Graph 6.3

Commodity price index in terms of U.S. Dollars



Source: IMF

Reflecting an annual average increase of 56.6% in the segment of grains, the prices of the major farm commodities expanded in 2007 at a higher rate than in previous years. Here, particular mention should be made of the annual increase in the prices of wheat, 76.7%; soybeans, 75.4%; cocoa, 24.5%; cotton, 21.1%; and corn, with 16.7%. In the opposite direction, international sugar prices dropped 7.91% as a result of excess of world output.

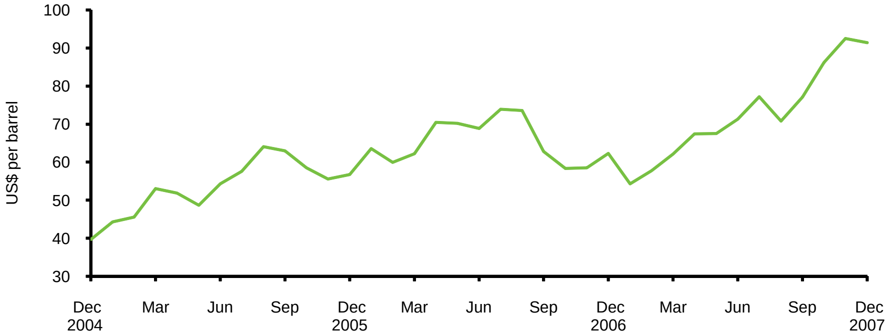
The increase in farm commodity prices not only revealed the existence of low stock levels, but also resulted from such factors as the impact of higher oil prices on the cost of inputs used in the production of the major crops. In the same context, increased demand for meat and dairy products in such countries as China and India has also impacted the prices of grains used as animal feed. At the same time, emphasis should be given to the impact of rising demand for unprocessed matter for the production of biofuels, which, according to the World Bank, accounted for 20% of corn production in the United States and 68% of vegetable oils in the European Union.

Following a period of strong growth in early 2007, the prices of metallic commodities moved into a downward trajectory starting in the month of May and, compared to the previous year, accumulated an annual average drop of 12.1%. To a great extent, this result reflected the reduction that occurred in the prices of zinc, 44.8%; nickel, 22.7%; and aluminum, 14.4%, impacted by the crisis that hit the United States real estate market. Moving in the opposite direction, the price of lead rose 55.6% in the year, as a result of increased activities in the segments of chemicals, munitions, medical-hospital equipment and electric equipment.

Reflecting greater investor demand at a time of depreciation of the dollar, the price of gold rose 28.5% in the year, generating pressures on prices in the segment of precious metals, which expanded by an average of 25.9%.

Oil prices showed considerable volatility in 2007, generated by pressures caused by the negative ratio between supply and demand. This factor reflected output difficulties in Nigeria in the first half of the year, together with OPEC's reluctance to raise the oil cartel's output; a weakened dollar against the world's major currencies; intensification of operations in speculative investment funds; and geopolitical factors rooted in the Middle East.

Graph 6.4
U.K. Brent oil – Spot market



Source: Bloomberg

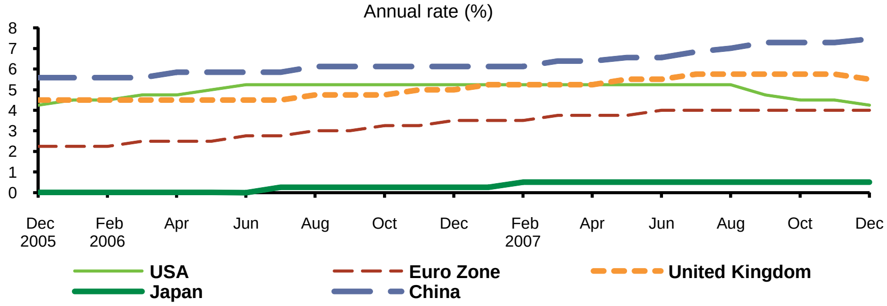
In this context, the average per barrel price of WTI hit US$72.23 in 2007, against US$66.09 in the previous year, setting successive records during the course of the year and registering an historic high of US$98.88 on November 20. The price of Brent type oil accompanied the prices of WTI and reached its highest value of US$95.81 on November 23.

Monetary policy and inflation

Monetary policy was implemented by the major central banks in a manner compatible with evolving expectations of world economic activity. The year under analysis can be divided into two distinct stages. In the first six months, prices remained relatively stable, particularly in the period prior to the outbreak of the international financial crisis, as central banks tended to maintain the cycle of monetary restrictions, with the exception of the Federal Reserve, which did not alter its Fed fund target.

Starting in mid-August, however, this scenario was radically altered. On the one hand, unemployment declined, utilization of installed industrial output capacity remained high and commodity prices increased as a result of supply shocks, expanding global demand for foodstuffs and geopolitical tensions in oil-producing areas. At the same time, growing perceptions that investments in mortgage-backed assets would generate losses of still unknown magnitude further aggravated uncertainties and worsened liquidity problems on short-term financing markets, initially in the United States and, soon afterwards, on global markets. Thus, paying attention to growing financial market tensions, central banks, with the exception of China, were forced to expand their open market operations, alleviate the restricted character of their monetary policies and avoid occurrences of short-term rates above predetermined targets.

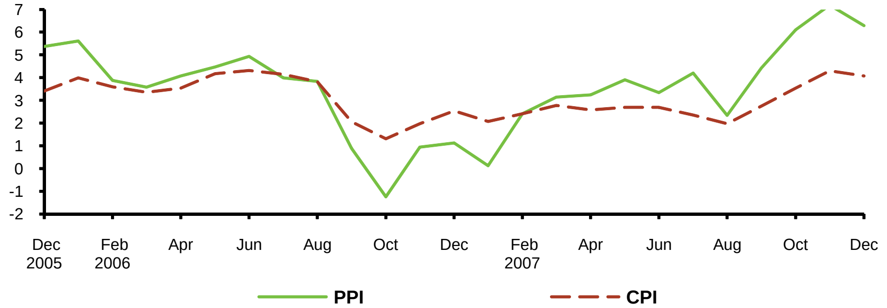
Graph 6.5
Official interest rates[1/]
Annual rate (%)



Source: USA – Fed, Euro Area – ECB, United Kingdom – BoE, Japan – BoJ and China – PBoC
1/ USA – Fed funds, Euro Area – minimum bid rate, United Kingdom – Securities repurchase, Japan – Overnight call rate and China – 1-year working capital.

In the USA, though inflation increased in the second quarter of the year – cumulative 12-month growth in the consumer price index reached 4.3% in November, after remaining below 3% in the first half of the year – the Federal Reserve opted to reverse the cycle of monetary tightening, in light of the worsening of the subprime mortgage market crisis and its repercussions on the financial market. This decision was reflected in reductions in the discount window rate and in cutbacks in the Fed fund target, which was lowered from a 5.25% per year in August to 4.25% per year in December.

Graph 6.6
USA: Inflation[1/]
Annual percentage change



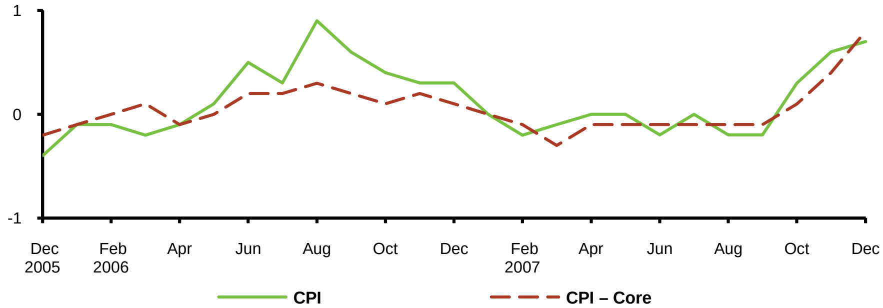
Source: Bureau of Labor Statistics
1/ Producer and consumer prices.

In a second front designed to combat reductions in the credit flow, the Fed coordinated global efforts aimed at injecting financial resources through forward auctions in which, in the USA as well as the Euro Area, Switzerland, England and Canada, loans were made at rates below those available through discount window operations, at the same time in which maturities and types of collateral guaranties accepted were also broadened. Aside from the Term Auction Facility (TAF), the name given to these auctions in the United States, the Fed established currency swap lines with the European Central Bank (ECB) and the National Bank of Switzerland in order to reduce pressures on the eurodollar.

In Japan, the general price level remained on a downward or stable trajectory in the first half of the year. Free of external restrictions, the Bank of Japan (BoJ) continued the process of eliminating its very flexible monetary policy, raising the overnight call rate to 0.50% per year in the month of February.

In the second half of the year, considering the outlook for a global economic downturn and appreciation of the yen, the BoJ interrupted the process of monetary normalization despite the fact that, in the fourth quarter, upward movement in international commodity prices had neutralized deflationary pressures. In this way, Japan did not accompany the other mature economies in their joint efforts to aid the international financial system. In this context, in which cumulative growth in the consumer price index and its core reached 0.70% and 0.80%, respectively, the real rate of interest closed the year with a negative result.

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

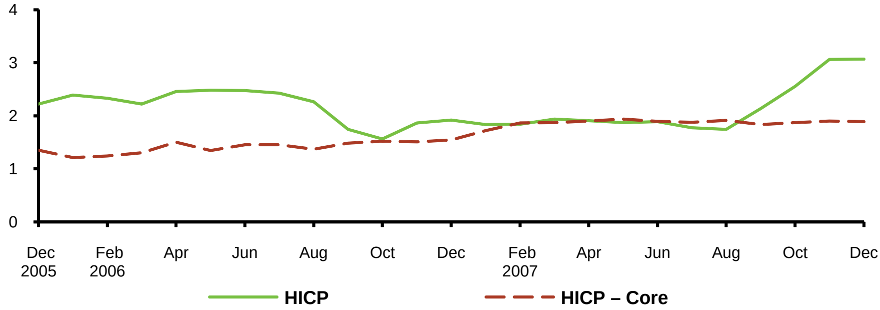


Source: Bloomberg
1/ Consumer prices.

In the Euro Area, despite the fact that the general price index remained below the 2% target through August, the ECB perceived a growing risk of higher inflation and acted with the objective of anchoring medium and long-term inflation expectations. Thus, in a scenario of vigorous growth in the money and credit supply and intense utilization of production factors, the ECB continued its cycle of monetary squeeze begun in December 2005, raising the refi rate to 4% per year in June.

In mid-August, with the first signs of a possible financial system crisis, the ECB took steps on the local market to inject the equivalent of US$250 billion through forward open market operations. Although the evolution of price indices since September showed imminent risk of higher inflation – cumulative 12-month growth in the consumer price index reached 3.1% in December – deteriorating financial conditions and banking system reluctance to provide resources to final consumers, coupled with the Fed's increasingly flexible monetary policy and, finally, persistent appreciation in the value of the euro, locked the ECB into a dilemma between reacting to the inflation rise or injecting liquidity into the financial system. In this framework, basic interest rates were held at 4% per year through December.

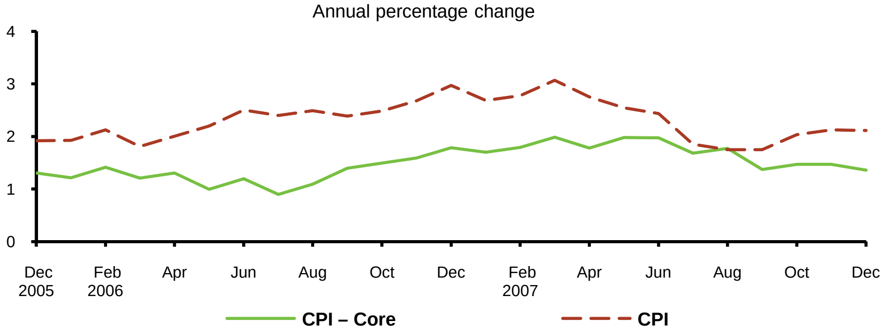
Graph 6.8
Euro Area: Inflation[1/]
Annual percentage change



Source: Bloomberg
1/ Consumer prices.

In the United Kingdom, the sharp rise in prices, particularly education and food products, brought added pressures to bear on annual consumer inflation, which closed March at 3.1%. In response to this, the Bank of England (BoE) continued its restrictive monetary policy begun in August 2006, raising the basic rate of interest – repo rate – twice, to a level of 5.75% per year in July. In the second half of the year, reflecting the outbreak of the global financial crisis which literally slammed the Northern Rock Bank, restrictions on the flow of credit and the outlook for declining economic activity in 2008, the BoE opted to reduce the repo rate for the first time in more than two years, closing the period at a level of 5.5% per year.

Graph 6.9
United Kingdom: Inflation[1/]
Annual percentage change

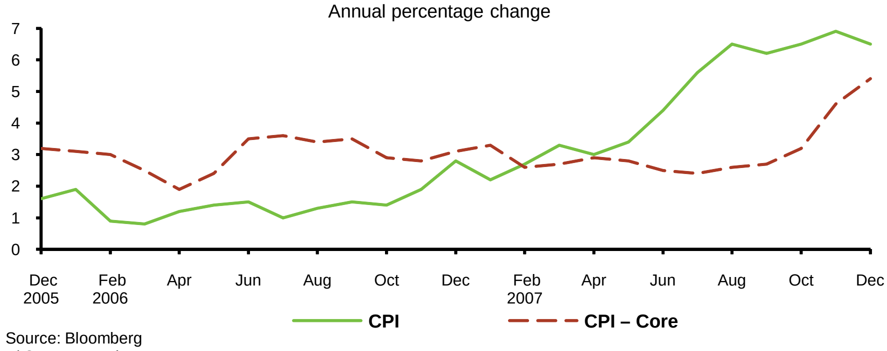


Source: Bloomberg
1/ Consumer prices.

Inflation in China rose persistently over the course of 2007. Responding to the pressures brought to bear by food prices, cumulative 12-month growth in the consumer price index increased from less than 3% in the first two months of the year to approximately 7% in the fourth quarter, the highest level of the last 10 years.

In a scenario of overheated economic activity and recurrent trade surplus records, which closed the year at US$262 billion, with repercussions on growth in domestic liquidity, the People's Bank of China implemented monetary restrictions once again. In this context, the basic interest rate was lifted 135 b.p. over the course of 2007, closing December at 7.47% per year, while reserve requirements were raised 550 b.p. to a level of 14.5%. Aside from continuing the guided currency sterilization policy, in the fourth quarter of the year, the government of Beijing opted to implement new administrative measures, including a temporary freeze on some energy and food sector prices, coupled with utilization of government meat stocks and reductions in taxes on grain imports.

Graph 6.10
China: Inflation[1/]
Annual percentage change



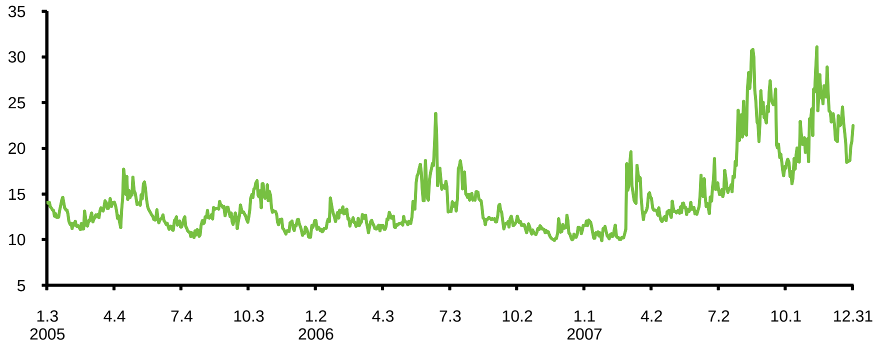
Source: Bloomberg
1/ Consumer prices.

International financial market

In 2007, two distinct dynamics predominated on international financial markets. The first, which lasted through mid-July, was marked by ample international liquidity and low risk aversion. Starting in that month, the sequence of negative results on the subprime market contaminated other areas of United States financial and capital markets, with repercussions on liquidity levels, volatility and risk aversion. In this framework, dissemination of the financial turmoil, which was initially concentrated in a specific segment of the United States financial market, impacted the real sector of important economies, setting off a process of steady deterioration in expectations regarding the effects, breadth and depth of the crisis on the world economy.

The sharp increase in defaults in the subprime market triggered a process of repricing assets that resulted in equity losses to a variety of United States and European financial institutions, further worsening capital market volatility. In this scenario, the average of the Chicago Board Options Exchange Volatility Index (VIX) index, which measures the implicit short-term volatility of Standard & Poor's 500 (S&P500) index and is considered an important indicator of risk aversion, closed the second half of 2007 at 21.8 points, after reaching a maximum of 31.1 points on November 12. These results should be compared to averages in the range of 13 points both in the previous half-year period and in the 2005/2006 period, when the maximum value of the indicator reached 23.8 points. The level in the second half of 2007 had only been reached previously during the crises in

Graph 6.11
VIX



Source: Bloomberg

Asia and Russia, the collapse of the Long-Term Capital Management (LTCM) fund, bursting of the high tech stock bubble, the September 11, 2001 terrorist attack and the outbreak of the Iraqi war.

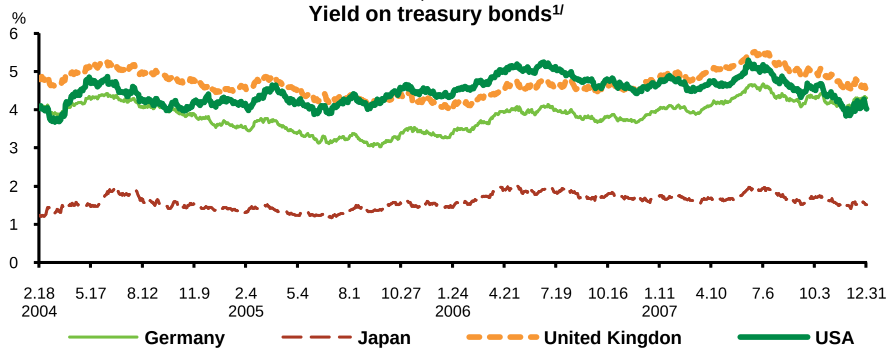
In this environment of growing uncertainty and deteriorating confidence regarding domestic financial systems, the central banks of the United States and United Kingdom adopted measures aimed at reducing short-term interest rates, while the central banks of the Euro Area and Japan opted for stability.

These movements aided in reducing long-term interest rates in the second half of the year, a trend further stimulated by rising demand for these securities, keeping step with growing risk aversion among investors. This downward movement – following the upturn in the first half of the year in interest rates on 10-year government bonds in the United States, Germany and the United Kingdom, when monetary policies were implemented with the aim of curtailing inflationary pressures – resulted in greater horizontalization of the forward interest rate curve in those countries and a reversal of the inverted interest curve, which had existed in the USA and United Kingdom since 2006.

Average annual earnings on 10-year United States Treasury Bonds reached 4.62% in 2007, against 4.78% in 2006, while earnings on similar papers in Japan closed at 1.68% and 1.75%, in the same order. In the opposite sense, the average annual rate on 10-year bonds in Germany and the United Kingdom increased from 3.78% and 4.5%, respectively, in 2006, to 4.23% and 5%.

With the exception of Japan, the major stock markets posted positive results in 2007, despite intense volatility during the course of the year. This performance reflected the repercussions of the subprime market crisis, particularly announced and the potential book losses at important financial institutions, expectations regarding reductions in corporate profits and the outlook for a downturn in the level of world economic activity.

Graph 6.12
Yield on treasury bonds[1/]

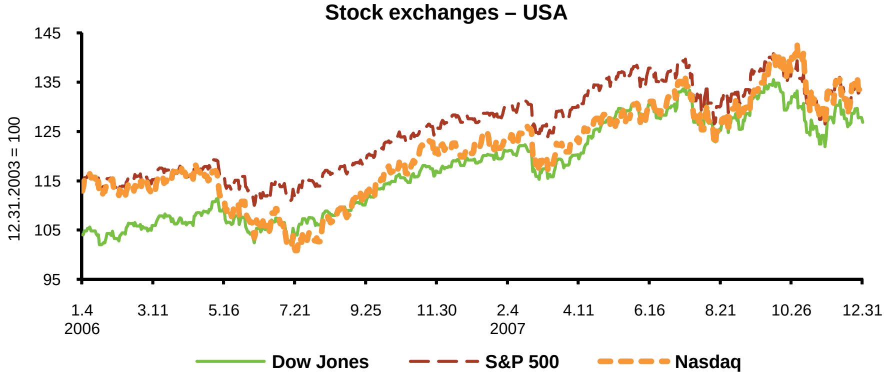


Source: Bloomberg
1/ 10 year treasury nominal yields.

Annual growth in the United States Dow Jones index, the British Financial Times Securities Exchange Index (FTSE 100) and the German Deutscher Aktienindex (DAX) closed at levels of approximately 6.4%, 3.8% and 22.3% in 2007, against 16.3%, 10.7% and 22%, respectively, in the previous year, while the Japanese Nikkei index dropped 11.1%, compared to a 6.9% increase in 2006 and 40.2% in 2005.

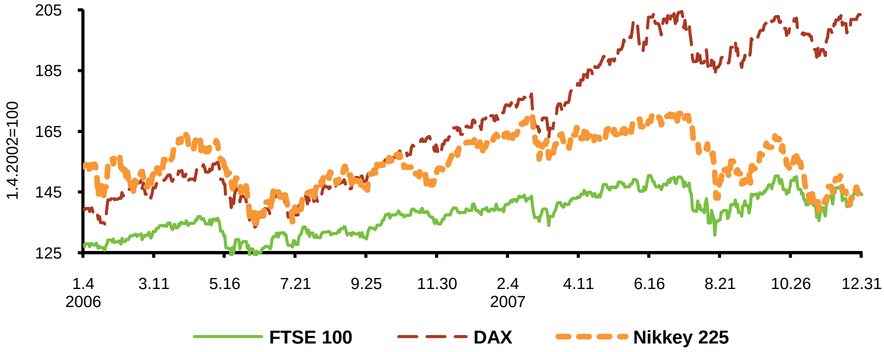
The evolution of these stock exchanges can be broken down into different stages during the year, particularly in the final six months. Reflecting the crisis in the Chinese stock exchange toward the end of February, the Dow Jones, FTSE 100, DAX and Nikkei dropped 4.6%, 5.8%, 7% and 8.6% between February 27 and March 5, followed by a period of recovery through July 23, the eve of the outbreak of the subprime crisis, when indices closed with growth of 15.7%, 9.3%, 21.6% and 7.9%. From July 24 to August 16, a period in which the dimensions of the financial crisis became considerably clearer, the same indices dropped 7.9%, 11.6%, 8.5% and 15%, respectively. These indicators which had shown recovery of the previous year's losses through the end of October posted additional losses in the final two months of the year, reflecting more restrictive credit conditions, new and significant book losses in the balance sheets of financial institutions, diminishing demand in light of increased possibilities of lesser growth in the income of borrowers, coupled with rising unemployment.

Graph 6.13
Stock exchanges – USA



Source: Bloomberg

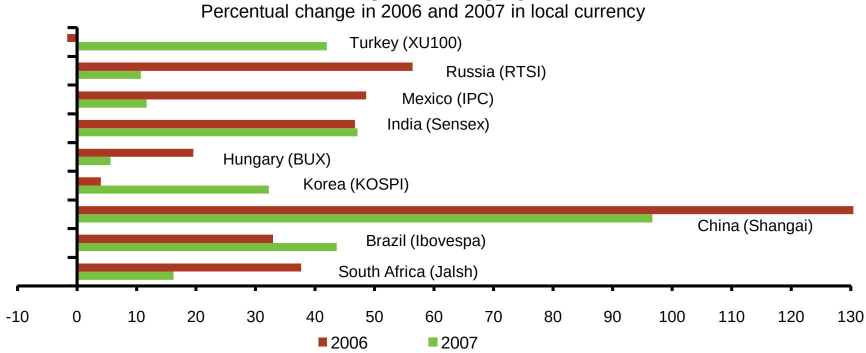
Graph 6.14
Stock exchanges – Europe and Japan



Source: Bloomberg

The stock exchanges of the major emerging countries posted positive results in 2007, with 43.6%, 32.3% and 42% in Brazil, South Korea and Turkey, against 32.9%, 4% and a 1.7% drop, respectively, in 2006. The Indian stock market posted positive growth of 46.7%, matching the 2006 result, while the Chinese stock market expanded 96.7%, against 130.4% in the previous year, even in a framework of intensification of restrictive monetary and credit policies. Parallel to this, the stock exchanges of South Africa, Mexico and Russia posted respective growth figures of 16.2%, 11.7% and 10.1% in 2007, against 37.7%, 48.6% and 56.4% in the previous year, in the same order. These results are indicative of the financial turbulence that broke out in the mature economies, but that tended to impact the emerging economies with less intensity than in previous episodes.

Graph 6.15
Stock exchanges – Emerging markets
Percentual change in 2006 and 2007 in local currency



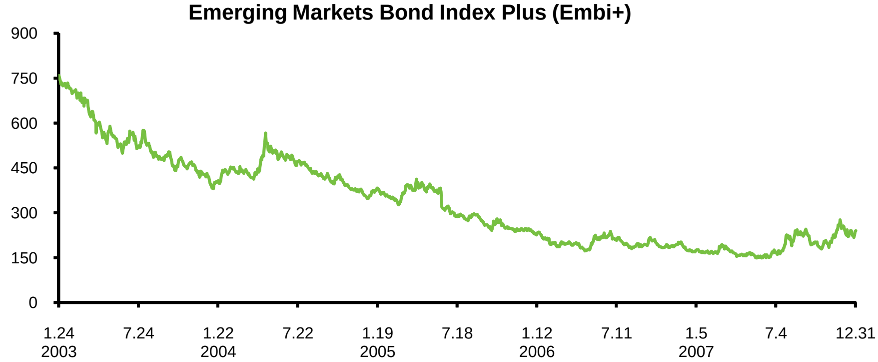
Source: Bloomberg

Revealing generalized sales of higher risk assets, mainly for purposes of paying debts and covering positions, as well as profit-taking, it is important to stress that the stock markets of the emerging countries posted more accentuated losses than the markets of developed nations in the period extending from July 24 to August 16. In that time frame, the Mexican *Índice de Precios y Cotizaciones* (IPC), the Argentine *Mercado de Valores de Buenos Aires* (Merval), the South African JSE All Share Index (Jalsh), Turkey's Istanbul Stock Exchange National 100 Index (XU100) and Brazil's Ibovespa posted respective declines of 13.6%, 20.4%, 13%, 20% and 17.3%.

The spreads practiced on international credit markets remained at historically low levels in 2007. The Emerging Markets Bond Index Plus (Embi+), considered an indicator for emerging markets, registered an average of 190 points in the year, compared to 199 points in 2006. This result was compatible with the reduction in external exposure, growth in the international reserve position and the dynamics and stability found in many of these economies. It should be stressed that, despite occurring at a moment of greater adversity for the world economy, the increase in this indicator was not significant, as demonstrated by the average of 166 points through July 23 and 219 points during the remainder of the year. The Embi+ for Brazil registered an average of 181 points during the year, closing below the general indicator for the first time.

When one looks at the final 2007 position and that of the previous year, the general indicator and the Embi+ for Brazil, Mexico, Russia and Turkey increased 42%, 15.1%, 52%, 53.1% and 15.5%, respectively.

Graph 6.16
Emerging Markets Bond Index Plus (Embi+)

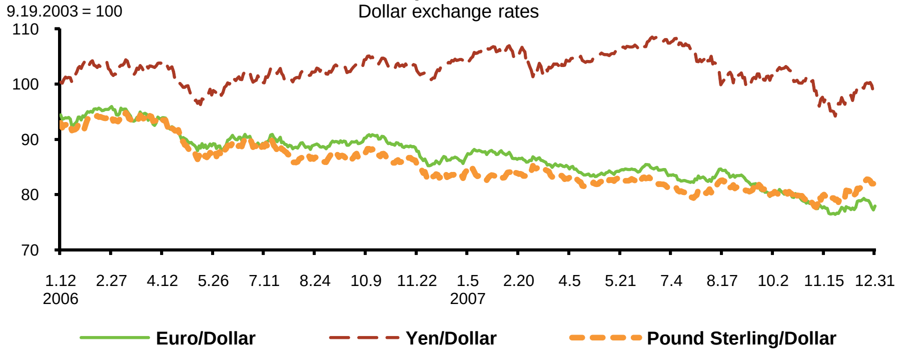


Source: Bloomberg

Expectations of deceleration in the level of economic activity and continued high current account deficits in the United States, coupled with the more flexible monetary policy adopted by the Federal Reserve compared to other important central banks and lessening of the earnings differential along the interest curve aided in reinforcing the tendency toward long-term depreciation of the dollar against the other major currencies.

In this environment, the United States currency registered annual depreciation of 9.5% against the euro; 6.2% against the yen; and 1.3% against the pound sterling. With the exception of the pound sterling, this process was more intense in the second half of the year. Worsening financial turbulence, with evident impacts on risk aversion among investors, stimulated settlements of higher risk operations, such as carry trade operations – funding taken on the Japanese market for investment in assets denominated in dollars – thus provoking appreciation of the yen against the dollar and pound sterling, and its depreciation against the euro.

Graph 6.17
Developed countries
Dollar exchange rates

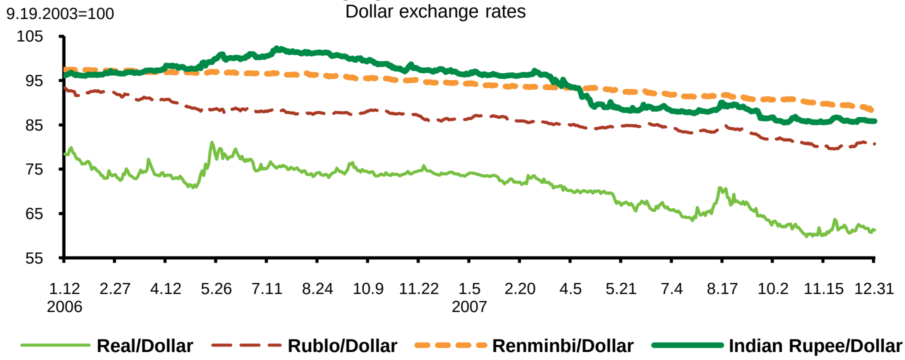


Source: Bloomberg

In much the same way, the dollar devalued against the currencies of the major emerging economies, following a trajectory that mirrored improvement in the macroeconomic fundamentals of those countries, solidity in their external accounts and the interest rates practiced on their markets. Depreciation of the United States currency against the real reached 16.7% in 2007, followed by a 10.9% drop against the Indian rupee, 6.5% against the Chinese renminbi; and 6.4% against the Russian ruble. In China, despite the fact that the daily limit on fluctuations of the renminbi against the dollar remained at 0.5%, appreciation of the currency reflected the combined impact of rate cutbacks on Fed funds and increases in the domestic basic interest rate.

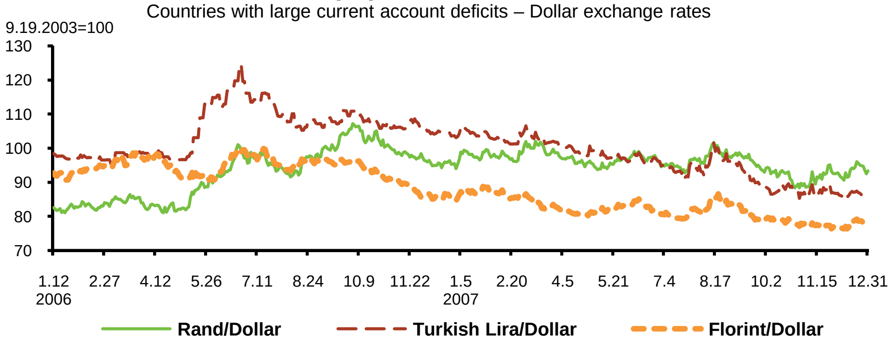
Parallel to this, one should stress that even the currencies of emerging countries that registered high current account deficits, such as Turkey, South Africa and Hungary, appreciated against the dollar in 2007. These currencies posted appreciation of 17.3%, 8.9% and 2% in that order during the year, mainly reflecting improvement in the financing conditions of their current account deficits.

Graph 6.18
Emerging markets currencies
Dollar exchange rates



Source: Bloomberg

Graph 6.19
Emerging markets currencies
Countries with large current account deficits – Dollar exchange rates



Source: Bloomberg

International Financial Organizations

International Monetary Fund

The primary functions of the International Monetary Fund (IMF) are to foster international monetary cooperation, exchange stability, economic growth with high levels of employment, temporary financial assistance to countries involved in balance of payments adjustment processes, as well as to facilitate balanced foreign trade growth.

Parallel to this, the organization monitors and analyzes the economies of member countries on a yearly basis and performs a variety of studies, among which one should mention World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR), both of which are half-yearly publications.

Aside from analyzing the international economy and finances, the IMF carries out the consultations defined by Article IV of its Articles of Agreement – focused on the macroeconomic supervision of each member country, normally on an annual basis – while also performing Program Revisions, which are normally quarterly reviews when a country is involved in a Financial Assistance Program sponsored by the Fund. Going further, working together with the World Bank, the IMF produces Reports on the Observance of Standards and Codes (ROSC), which are evaluations of the degree to which countries have adopted internationally recognized codes and standards in 12 areas: data quality; monetary and financial policy transparency; fiscal transparency; banking supervision; capital market regulation; insurance supervision; payment systems; combating money laundering and financing of terrorism; corporate governance; accounting; auditing; and insolvency and creditor rights.

Another important activity, also carried out jointly with the World Bank, is the Financial Sector Assessment Program (FSAP), which occurs at the request of member countries. Aside from providing elaboration of the ROSC, the FSAP utilizes stress tests in order to verify the degree of financial stability in the face of economic shocks and produces a report with recommendations to the authorities of the country in question, together with two synthetic reports – Financial System Stability Assessment (FSSA) and the Financial Sector Analysis (FSA), which are submitted to the IMF and World Bank boards, respectively.

As regards the release of economic data, by the end of 2007, 64 countries had signed the Special Data Dissemination Standard (SDDS), including Brazil. The SDDS is a guide for releasing economic and financial statistics to the public in an timely and wide-ranging manner, generating favorable repercussions on the solidity of macroeconomic policies and improving financial markets.

For 2007, the IMF agenda gave priority to discussions of global imbalances and the implications of the financial crisis for the global economy, as well as implementation of the organization's medium-term strategy.

With regard to the subject of global imbalance, meetings were held with the United States, Japan, China, the Euro Area and Saudi Arabia by means of the Multilateral Consultation Mechanism. The objective of these meetings was to resolve problems in a manner compatible with sustained growth and shared responsibility. Insofar as medium-term strategy is concerned, the major questions discussed referred to surveillance within the member countries, reform of the system of representation of member countries (quotas and voice) and the institution's new income model.

With respect to the question of surveillance, emphasis was given to the review and updating of the 1977 Decision on Exchange Rate Supervision. The review[1] created no new obligations for the members, but rather updated the previous decision. Among the new elements, the most important were introduction of the concept of external stability as the organizing principle of bilateral surveillance; definition of the scope of surveillance in the framework of monetary integration systems establishment of collaboration, dialogue and existence of open and impartial discussions as elements of fundamental importance to surveillance; and a clear definition of the nature of exchange rate manipulation aimed at obtaining competitive advantages over other members.

As regards reform of the system of representation of member countries, though no proposal has been considered feasible, significant progress was made toward an agreement in 2008, based on a consensus in the sense of tripling basic votes, and indirectly benefiting countries with lesser degrees of representation.

The theme of discussion of a new IMF income model was debated during the course of 2007, particularly in light of the budget problems that resulted from sharp reductions in the loan revenues of member countries. Among the major measures suggested by the Fund's Executive Board, emphasis should be given to broadening of its mandate to invest the resources of the Investment Account (IA)[2] and of the Special

1/ Also called Decision 2007.

2/ Account created in June 2006 through transfer of resources from the IMF precautionary reserves to permit the investment of fund resources in a member-country or international organization assets with low risk and that show expected returns above the SDR rate during the same period.

Disbursement Account (SDA)[3] and the possibility of selling gold obtained by the IMF as of 1978 (when the Second Amendment to the Articles was adopted).[4]

Total capital of the IMF reached Special Drawing Rights (SDR) 217 billion at the end of 2007, and total credits to be received, SDR 9.7 billion. Brazil's quota stands at SDR 3,036 million, with participation of 1.4% in the organization's total capital.

Group of 20 (G-20)

The Group of 20 (G-20) is an informal forum that fosters open and constructive debate among industrialized countries and the more dynamic emerging economies, dealing with key questions related to global economic stability. The G-20 supports growth and world development through strengthening of the international financial architecture and opportunities for dialogue on national policies, international cooperation and international economic-financial institutions.

Created in response to the financial crises of the end of the 1990s, the G-20 is composed of the Ministers of Finance and Central Bank Governors of 19 countries: South Africa, Germany, Saudi Arabia, Argentina, Australia, Brazil, Canada, China, South Korea, France, India, Indonesia, Italy, Japan, Mexico, Russia, Turkey, United Kingdom and the United States. The European Union is also part of the group, and is represented by the revolving presidency of the Council of the European Union and European Central Bank. Furthermore, the Managing Director of the IMF and President of the World Bank also participate *ex-officio* in such meetings, for the purpose of guaranteeing that the work is carried out simultaneously with international institutions.

Differently from such international organizations as the OECD, the IMF or World Bank, the G-20 does not have a permanent staff. The presidency of the group is occupied for one year on a rotating basis among the members, with a provisional Secretariat that is named each year. In order to avoid interruptions in the Group's work, it is managed by three parties: the most recent host country, the current host country and the next host country. In that order, the 2007 leadership was composed of Australia, South Africa and Brazil. Chosen at the end of the year to occupy the presidency in 2009, the United Kingdom became a member of the three party group in 2008, replacing Australia.

Since it is an informal forum, the G-20 has an annual meeting of Ministers (Central Bank Governors and Ministers of Finance), preceded by two meetings of Deputies (generally, Deputy Governors of Central Banks and Executive Secretaries of Ministries of Finance), while also fostering seminars on specific themes and virtual work groups.

3/ Account which accepts and invests the profit from selling IMF gold in the market and that may transfer resources to other accounts, whenever authorized by the Executive Board.

4/ There are 12,966 millions ounces, which would generate approximately US$250 millions.

In 2007, the themes upon which the G-20 concentrated involved the international economic scenario and reform of Bretton Woods institutions. With regard to the latter question, efforts were concentrated on reforming the IMF quota and voice system. It was agreed that the highly important and necessary theme of World Bank Reform could await conclusion of the IMF reform process. Furthermore, seminars were held on fiscal space and the connection between commodities markets and financial system stability.

G-20 members created two study groups to deal with specific themes of significant relevance to the current scenario: climate change and the history of the G-20. In the latter question, an important debate took place regarding the efficiency of the G-20 and its role in the near future, principally in light of the current difficulties faced by Bretton Woods institutions (IMF, World Bank and WTO) in their efforts to play a more active role in global economic coordination.

Brazil is the President of the G-20 in 2008, with the Central Bank of Brazil and Ministry of Finance being charged with elaborating and implementing all of the group's activities during that period of time. During the Brazilian presidency, the work agenda of the G-20 will be characterized by introduction of the themes Clean Energy and the Commodities Market and Financial Sector Competition, as well as continued discussion of the themes of Reform of Bretton Woods Institutions and Fiscal Space.

Finally, one should stress that the presidency of the G-20 represents an opportunity for Brazil to participate actively in discussions and decisions referring to themes of strategic importance to the world economy. Parallel to that, the country will also benefit from a clearer perception of the major options and feasible paths toward the necessary changes in governance frameworks and strategies as related to current global imbalances – in the context of the task of coordination and management of the other participating countries.

Bank for International Settlements

The Central Bank of Brazil has been a quota holder in the Bank for International Settlements (BIS) since March 25, 1997, holding 3,000 subscribed shares worth SDR 15 million, accounting for 0.55% of the organization's total capital. The BIS has the primary function of fostering financial and monetary cooperation on an international scale, acting as fiduciary agent in the international operations of central banks and as a financial and monetary research center.

Headquartered in Basel, Switzerland, the BIS coordinates committees and organizations that have the objective of furthering financial stability, including the Basel Committee on Banking Supervision; the Committee on Payment and Settlement Systems; the Committee on the Global Financial System; and the Market Committee. Established over the years by the central banks of G-10 countries,[5] these committees have considerable autonomy in structuring their agendas and activities.

The BIS also acts as Secretariat of the Financial Stability Forum (FSF), which was created in 1999 for the purpose of the debating questions involving strengthening of the international financial architecture and fostering of cooperation among national authorities and international organizations and regulatory organs.

BIS assets at the end of the 2007 fiscal year set a record of SDR 270.9 billion, 23% more than in the previous year. In January 2001, the BIS decided to close its capital to private agents, restricting participation exclusively to central banks. With this in mind, it proceeded to purchase the shares that previously belonged to private institutions, reselling them to the central banks of interested member countries.

It is important to highlight the activities of the Committee on the Global Financial System and the Committee on Payment and Settlement Systems. In the latter case, it is important to mention its work in partnership with the International Organization of Securities Commissions (IOSCO) in the sense of fostering security in payments systems, strengthening market infrastructure and reducing systemic risk.

The Basel Committee on Banking Supervision continued making every effort to strengthen the prudential supervision of banking institutions, with adoption of more transparent practices in financial records, coupled with incentives for banking systems to move ahead in the area of risk assessment.

Also in 2007, discussions were held regarding the possible creation of a Consultative Council for the Americas (CCA) in the BIS framework. The objective of the CCA would be to act as a communications vehicle between the BIS and the central banks of the Americas in questions of interest to those institutions. It would repeat for the Americas the positive experience of creation of the Asian Consultative Council (ACC).

Finally, in its role as the Bank of central banks, the BIS offers a wide array of banking services tailored to aid in management of reserves. Approximately 140 institutions, including various central banks, make use of this service.

Latin American Center of Monetary Studies

The Center for Latin American for Monetary Studies (Cemla), an organization founded in 1952, is a civil Association headquartered in Mexico City with the specific objectives of fostering better understanding of monetary and banking affairs in Latin America and

5/ Group of industrialized countries composed of Germany, Belgium, Canada, United States, France, Holland, England, Italy, Japan, Sweden and Switzerland.

the Caribbean, as well as assistance in the training of Central Bank staffs; research and systematization of results; release of information to members on facts of international and regional interest in the framework of monetary and financial policies.

Cemla is composed currently of 50 institutions, 30 of which are associated central banks. The other institutions are distributed among collaborating members and assistant members.

The largest share of the Cemla budget, which totaled US$2,580 million in the 2007 fiscal year, is composed of the annual contributions of associated members and collaborating and assistant members. Here, one should stress growth in the participation of external funds, particularly in the financing of multiannual programs.

Also with respect to the release of knowledge, emphasis should be giving to Cemla's periodic publications, the magazines *Boletin*, *Monetaria* and *Money Affairs*, together with non-periodical publications (essays, articles and research reports) that analyze economic, financial and banking affairs. Furthermore, every year, with the aim of stimulating and acknowledging research work, the Center grants the *Rodrigo Goméz Award* to the best paper published on themes of relevance to central banks. In the 2007 edition, the award was granted to a Brazilian paper.

VIII Main Economic Policy Measures

Constitutional Amendments

55, dated 9.20.2007 – Altered article 159 of the Constitution, raising federal government transfers to the Revenue Sharing Fund of Municipalities (FPM) by one percentage point (from 22.5% to 23.5%, with disbursement in the first 10-day period of December of each year. In the 2007 fiscal year, this alteration applies solely to tax collections registered as of September 1. The measure implies an increase of approximately R$1.97 billion in 2008 in the federal government transfers to municipalities, based on the 2008 budget proposal estimates of the Income Tax (IR) and Industrialized Products Tax (IPI).

56, dated 12.20.2007 – Extended the legal effects of the Release of the Federal Government Resources Entitlements (DRU) through 12.31.2011.

Complementary Laws

124, dated 1.3.2007 – According to the terms of article 43 of the Federal Constitution, instituted the Amazon Region Development Authority (Sudam), a special semi-autonomous agency with administrative and financial autonomy included in the Planning System and Federal Budget. The entity will be headquartered in the city of Belém (Pará) and is subordinated to the Ministry of National Integration. The objective of Sudam is to further inclusive and sustainable development in its area of activity and foster the competitive integration of the regional productive base into the national and international economy. The law determined its composition, legal nature, objectives, area of jurisdiction and action instruments and also dealt with the Amazon Region Development Fund (FDA).

125, dated 1.3.2007 – According to the terms of article 43 of the Federal Constitution, instituted the Northeast Region Development Authority (Sudene), a special semi-autonomous agency with administrative and financial autonomy included in the Planning System and Federal Budget. The entity will be headquartered in the city of Recife (Pernambuco) and is subordinated to the Ministry of National Integration. The objective of Sudene is to further inclusive and sustainable development in its area of activity and foster the competitive integration of the regional productive base into the national and international economy. The law determined its composition, legal nature, objectives, area of jurisdiction and action instruments and dealt with the Northeast Development Fund (FDNE).

126, dated 1.15.2007 – Dealt with reinsurance policy, retrocession and its intermediation, coinsurance operations, contracting of insurance abroad and foreign currency operations in the insurance sector.

127, dated 8.14.2007 – Altered Law no. 123, dated December 14, 2006, which instituted the National Micro and Small-Scale Business Statute.

Laws

11,445, dated 1.5.2007 – Defined national guidelines for basic sanitation and related policy. Basic sanitation is defined as the complex of services, infrastructure and operational facilities for supplying drinking water, sewage services, urban cleaning and solid waste management, as well as draining and management of urban rainwater.

11,451, dated 2.7.2007 – For the 2007 fiscal year, estimated federal government revenues at R$1,575,881 million and set expenditures at an equal amount. Of this total, R$558,326 million referred to the Fiscal Budget; R$312,067 billion to the Social Security Budget; R$655,751 million to federal public debt refinancing; and R$49,737 million to the Investment Budget of state-owned companies.

11,452, dated 2.27.2007 – Dealt with federal government financial assistance provided to states and municipalities during the 2006 fiscal year, with the objective of stimulating the nation’s exports; altered laws no. 8,248/1991, no. 8,387/1991, no. 10,865/2004, no. 11,051/2004, no. 10,833/2003, no. 11,314/2006, no. 11,119/2005, no. 7,713/1988, no. 9,250/1995, no. 11,281/2006, Decree Law no. 1,593/1977, Provisional Measure no. 2,185-35/2001 and Law no. 10,168/2000. Provisional Measure no. 328, dated 11.1.2006 was converted into law.

11,457, dated 3.16.2007 – Authorized unification of the Federal Revenue Secretariat with the Social Security Revenue Secretariat, subordinated to the Ministry of Social Security. This unification gave rise to a new entity within the direct government administration, designated Federal Revenue Secretariat of Brazil, subordinated to the State Minister of Finance.

11,460, dated 3.21.2007 – Dealt with planting of genetically modified organisms in conservation units; added provisions to laws no. 9,985/2000 and no. 11,105/2005; revoked article 11 of Law no. 10,814/2003.

11,474, dated 5.15.2007 – Altered Law no. 10,188, dated 2.12.2001, which created the residential lease program and instituted residential leasing with purchase option, and Law no. 11,265, dated 1.3.2006, which regulated marketing of foodstuffs for suckling infants and young children, as well as related puericulture products.

11,477, dated 5.29.2007 – Altered provisions of Law no. 11,439, dated 12.29.2006, which deals with guidelines for elaboration of the 2007 Budget Law.

11,478, dated 5.29.2007 – Instituted the Infrastructure Participation Investment Fund (FIP-IE).

11,480, dated 5.30.2007 – Authorized renegotiation of federal government and Brazilian Power Stations (Eletrobrás) credits with the Binational Itaipu Enterprise.

11,482, dated 5.31.2007 – Introduced alterations into the individual income tax table; determined a reduction to 0 (zero) of the rate of the Provisional Contribution on Financial Operations (CPMF) in the cases cited therein; altered Laws no. 7,713, dated 12.22.1988, no. 9,250, dated 12.26.1995, no. 11,128, dated 6.28.2005, no. 9,311, dated 10.24.1996, no. 10,260, dated 7.12.2001, no. 6,194, dated 12.19.1974, no. 8,387, dated 12.30.1991, no.9,432, dated 1.8.1997, no. 5,917, dated 9.10.1973, no. 8,402, dated 1.8.1992, no. 6,094, dated 8.30.1974, no. 8,884, dated 6.11.1994, no. 10,865, dated 4.30.2004, no. 8,706, dated 9.14.1993; and revoked provisions of laws no. 11,119, dated 5.25.2005, no. 11,311, dated 6.13.2006, no. 11,196, dated 11.21.2005, and Decree Law no. 2,433, dated 5.19.1988.

11,484, dated 5.31.2007 – Dealt with incentives to the digital TV equipment industry and that of semiconductor electronic components and intellectual property protection of integrated circuit topographies, instituting the Program of Support to Technological Development of the Semiconductor Industry (Padis) and the Program of Support to Technological Development of the Digital TV Equipment Industry (PATVD); altered Law no. 8,666, dated June 21, 1993; and revoked article 26 of Law no. 11,196, dated November 21, 2005. Provisional Measure no. 352/2007 converted into law.

11,487, dated 6.15.2007 – Altered Law no. 11,196/2005, which instituted the Special System of Taxation for the Information Technology Services Export Platform, the Special System of Capital Goods Acquisitions for Exporter Companies and the Digital Inclusion Program and dealt with fiscal incentives to technological innovation, in order to include new incentives to technological innovation and modify the rules on accelerated amortization for investments earmarked to research and development.

11,488, dated 6.15.2007 – Created the Special System of Incentives Infrastructure Development (Reidi):

- reduced to twenty four months the minimum term for utilization of credits of the contribution to the Social Integration Program/Civil Service Asset Formation

Program (PIS/Pasep) and of the Contribution to Social Security Financing (Cofins) resulting from acquisitions of edifications;
- increased the deadlines for payment of taxes and contributions;
- altered Provisional Measure no. 2,158-35, dated 8.24.2001 and Laws no. 9,779, dated 1.19.1999, no. 8,212, dated 7.24.1991, no. 10,666, dated 5.8.2003, no. 10,637, dated 12.30.2002, no. 4,502, dated 11.30.1964, no. 9,430, dated 12.27.1996, no. 10,426, dated 4.24.2002, no. 10,833, dated 12.29.2003, no. 10,892, dated 7.13.2004, no. 9,074, dated 7.7.1995, no. 9,427, dated 12.26.1996, no. 10,438, dated 4.26.2002, no. 10,848, dated 3.15.2004, no. 10,865, dated 4.30.2004, no. 10,925, dated 7.23.2004, no. 11,196, dated 11.21.2005; and
- revoked provisions of laws no. 4,502, dated 11.30.1964, no. 9,430, dated 12.27.1996, and Decree Law no. 1,593, dated 12.21.1977.

11,491, dated 6.20.2007 – Instituted the Employment Compensation Fund Investment Fund (FI-FGTS) and altered Law no. 8,036, dated 5.11.1990.

11,492, 6.20.2007 – Dealt with federal government financial assistance provided to the states, Federal District and municipalities during the 2007 fiscal year, with the objective of stimulating the nation's exports. Provisional Measure no. 355, dated 2.23.2007, converted into law.

11,494, dated 6.20.2007 – Regulated the Fund for Maintenance and Development of Basic Education and Enhancement of Education Professionals (Fundeb), as treated in article 60 of the Transitory Constitutional Provisions:
- altered Law no. 10,195, dated 2.14.2001; and
- revoked provisions of Laws no. 9,424, dated 12.24.1996, no. 10,880, dated 6.9.2004 and no. 10,845, dated 3.5.2004.

11,495, dated 6.22.2007 – Introduced new text into the heading of article 836 of Consolidated Labor Legislation (CLT), approved by Decree Law no. 5,452, dated May 1, 1943, for purposes of prior deposits in layoff suits.

11,496, dated 6.22.2007 – Introduced new text into article 894 of Consolidated Labor Legislation (CLT), approved by Decree Law no. 5,452, dated May 1, 1943, and into line "b" of indent III of article 3 of Law no. 7,701, dated 12.21.1988, in order to alter processing of appeals at the Higher Labor Court.

11,498, dated 6.28.2007 – Dealt with the minimum wage in effect as of April 1, 2007.

11,499, dated 6.28.2007 – Added article 2-A and altered article 3 of Law no. 10,184, dated 1.12.2001, which deals with granting of financing earmarked to exports of national goods and services. In financing or equalization operations earmarked to exports of national goods or services, the National Treasury may agree to conditions accepted according to the international practices applied to countries, projects or sectors with limited access to market financing. Conversion of Provisional Measure no. 363, dated 4.18.2007.

11,508, dated 7.23.2007 – Dealt with the tax, exchange and administrative systems of Export Processing Zones and revoked Decree Law no. 2,452/1988, laws no. 8,396/1992 and no. 8,924/1994, indent II of §2 of article 14 of Provisional Measure no. 2,158-35/2001 and indent XVI of the heading of article 88 of Law no. 9,430/1996.

11,512, 8.9.2007 – Dealt with federal government financial assistance provided to the states, Federal District and municipalities during the 2007 fiscal year, with the objective of stimulating the nation's exports. Provisional Measure no. 368, dated 5.4.2007, converted into law.

11,514, dated 8.13.2007 – Dealt with guidelines for elaboration and execution of 2008 Budget Law and took other measures.

11,529, dated 10.22.2007 – Dealt with deduction of credits of the Contribution to the Social Integration Program/Civil-Service Asset Formation Program (PIS/Pasep) and of the Contribution to Social Security Financing (Cofins) in domestic market acquisitions or imports of capital goods to be used in production of the goods listed in Appendices I and II of Law no. 10,485/2002 and of goods classified in the Industrialized Products Tax Table (Tipi), approved by Decree no. 6,006/2006; authorized economic grants in loan and financing operations targeted to companies in the sectors of gems, wood processing, leather processing, footwear and leather goods, textiles, apparel and wood furniture; and altered laws no. 10,637/2002 and no. 10,865/2004.

11,531, dated 10.24.2007 – Altered article 12 of Law no. 10,666, dated May 8, 2003, which deals with granting of special retirement to members of labor or production cooperatives, subject to labor conditions that threaten their health or physical integrity, extending the period for submitting data until the month of May 2010, for purposes of financial compensation from the General Social Security System (RGPS) and specific social security systems of the federal government, states, Federal District and municipalities, as related to support benefits on 5.5.1999, granted as of 10.5.1988, the date on which the Federal Constitution was promulgated. Aside from this, the following measures were adopted:

- altered article 4 Law no. 11,354, dated 10.19.2006, which dealt with payments to persons awarded political amnesty, in the form of economic reparations;
- extended the period for installment payment of social security debts of the states and Federal District until 12.31.2007, as treated in article 33 of Law no. 11,457, dated 3.16.2007.

11,540, dated 11.12.2007 – Dealt with the National Scientific and Technological Development Fund (FNDCT).

11,578, 11.26.2007 – Dealt with obligatory transfers of financial resources to allow for execution of Growth Incentive Program (PAC) projects by the states, Federal District and municipalities, and with the system of operational implementation of the Program of Subsidies to Housing of Social Interest (PSH) in the 2007 and 2008 fiscal years.

11,580, dated 11.27.2007 – Revoked Provisional Measure no. 380/2007, which instituted the Unified Taxation System (RTU) in overland imports of merchandise from Paraguay.

11,604, dated 12.5.2007 – Revoked Provisional Measure no. 382/2007, which dealt with deduction of credits of the Contribution to the Social Integration Program/Civil Service Asset Formation Program (PIS/Pasep) and of the Contribution to Social Security Financing (Cofins) in domestic market acquisitions or imports of capital goods to be used in production of the goods listed in Appendices I and II of Law no. 10,485/2002 and of goods classified in the Industrialized Products Tax Table (Tipi), approved by Decree no. 6,006/2006; authorized economic grants in loan and financing operations targeted to companies in the sectors of footwear and leather goods, textiles, apparel and wood furniture. Conversion of Provisional Measure no. 392, dated 9.18.2007, into law.

Provisional Measures

347, dated 1.22.2007 – Authorized the federal government to grant credits to the Federal Savings Bank (CEF) in the amount of R$5.2 billion, for investment in basic sanitation and housing under financial and contractual conditions that make it possible to classify the operation as a hybrid capital and debt instrument, as defined by the National Monetary Council (CMN).

348, dated 1.22.2007 – Instituted the Infrastructure Participation Investment Fund (FIP-IE), which will have the objective of investing in new infrastructure projects in the national territory.

349, dated 1.22.2007 – Instituted the Employment Compensation Fund Investment Fund (FI-FGTS), characterized by investment of FGTS resources in investments in undertakings in the sectors of energy, highways, railways, ports and basic sanitation, following guidelines, criteria and conditions determined by the FGTS Curator Council.

350, dated 1.22.2007 – Altered Law no. 10,188, dated 2.12.2001, which created the Residential Lease Program with purchase options to meet the housing needs of the low income population, and took other measures.

351, dated 1.22.2007 – Created the Special System of Incentives for Infrastructure Development (Reidi), reduced to twenty four months the minimum term for utilization of credits of the Contribution to the Social Integration Program/Civil-Service Asset Formation Program (PIS/Pasep) and of the Contribution to Social Security Financing (Cofins) resulting from acquisitions of edifications, increased the deadlines for payment of taxes and contributions and took other measures.

352, dated 1.22.2007 – Dealt with incentives to the digital TV equipment industry and that of semiconductor electronic components and intellectual property protection of integrated circuit topographies, through creation of the Program of Support to Technological Development in the Semiconductor Industry (Padis) and the Program of Support to Technological Development of the Digital TV Equipment Industry (PATVD).

353, dated 1.22.2007 – Dealt with termination of the process of liquidation and extinction of the *Rede Ferroviária Federal S.A.* (Federal Railway Network) (RFFSA), a joint capital corporation instituted on the basis of authorization contained in Law no. 3,115, dated 3.16.1957, and altered provisions of Law no. 10,233, dated 6.5.2001.

355, dated 2.26.2007 – Dealt with federal government financial assistance provided to the states, Federal District and municipalities in the 2007 fiscal year, with the objective of stimulating the nation's exports.

362, dated 3.29.2007 – Raised the value of the minimum wage in effect as of April 1, 2007 from R$350,00 to R$380,00.

363, dated 4.19.2007 – Added article 2-A and altered article 3 of Law no. 10,184/2001, which deals with granting of financing earmarked to exports of national goods and services. The National Treasury may agree to conditions accepted according to international practices applied to countries, projects or sectors with limited access to market financing.

368, dated 5.4.2007 – Dealt with federal government financial assistance provided to the states and municipalities in the 2007 fiscal year, with the objective of stimulating the nation's exports.

372, dated 5.22.2007 – Dealt with utilization of obligatory rural credit investments originating in rural savings accounts and demand deposits for purposes of financing to be used in settlement of the debts of rural producers and their cooperatives with input suppliers, as related to the 2004/2005 and 2005/2006 harvests.

374, dated 5.31.2007 – Altered article 12 of Law no. 10,666, dated 5.8.2003, which deals with the period permitted for presentation of information for purposes of financial compensation from the General Social Security System and specific social security systems.

378, dated 6.20.2007 – Introduced a new text into the heading of article 5 of Law no. 10,195, dated 2.14.2001, which institutes additional measures of incentive and support to the restructuring and fiscal adjustment of the States.

380, dated 6.28.2007 – Instituted the Unified Taxation System (RTU) in overland imports of merchandise from Paraguay. The objective is to regulate border trade between Paraguay and Brazil, in such a way as to implement measures targeted to structuring and facilitating bilateral trade, particularly as regards simplification of customs and tax control procedures.

382, dated 7.24.2007 – Dealt with deduction of credits of the Contribution to the Social Integration Program/Civil-Service Asset Formation Program (PIS/Pasep) and of the Contribution to Social Security Financing (Cofins) in domestic market acquisitions or imports of capital goods to be used in production of the goods listed in Appendices I and II of Law no. 10,485/2002 and of goods classified in the Industrialized Products Tax Table (Tipi), approved by Decree no. 6,006/2006; authorized economic grants in loan and financing operations targeted to companies in the sectors of footwear and leather goods, textiles, apparel and wood furniture; and takes other measures. Resources were redirected from the special credit line "FAT – Sectoral Turnover" and, in the framework of the National Bank of Economic and Social Development (BNDES), the Program for Supporting the Revitalization of the Footwear, Furniture and Apparel Sectors (Revitaliza) for credit lines targeted to "Working Capital", "Investments" and "Exports" (pre-shipment modality), which will benefit companies with gross operational incomes of up to US$300 million, active in the footwear and leather goods, textiles, apparel, and furniture manufacturing sectors.

384, dated 8.20.2007 – Instituted the National Program of Public Security with Citizenship (Pronasci) and took other measures.

385, dated 8.22.2007 – Added a paragraph to article 1 of Law no. 11,368, dated November 9, 2006, for the purpose of extending the time period determined in article 143 of Law 8,213, dated July 24, 1991, to rural workers classified as individual contributors.

387, dated 8.31.2007 – Dealt with obligatory transfers of financial resources to allow for execution of Growth Incentive Program (PAC) projects by the states, Federal District and municipalities, and with the system of operational implementation of the Program of Subsidies to Housing of Social Interest (PSH) in the 2007 and 2008 fiscal years. This measure provides for an adequate degree of prioritization and rapidity in the execution of PAC projects involving federal resources when they are carried out by other government bodies, together with more rational utilization of resources targeted to infrastructural projects. As regards the PSH, the measure has the objective of making program execution feasible, following the system determined in Law no. 10,198, dated December 15, 2004.

404, dated 12.11.2007 – Altered article 41-A of Law 8,213, dated July 24, 1991, for the purpose of anticipating part of the payment of National Social Security Institute (INSS) social security and assistance payments to the final five days of the same month to which they refer, effective as of December 2007.

410, dated 12.28.2007 – Added an article to Law no. 5,889, dated 6.8.1973, creating the short-term rural labor contract, defined transitory rules for retirement of rural workers and extended the time period permitted for contracting of rural financing, as dealt with in §6 of article 1 of Law no. 11,524, dated 9.24.2007.

412, dated 12.31.2007 – Dealt with extension of the Tax System for Incentives to Port Structure Modernization and Expansion (Reporto), instituted by Law no. 11,033/2004.

Decrees

6,018, dated 1.22.2007 – Regulated Provisional Measure no. 353, dated 1.22.2007, which deals with termination of the process of liquidation and the extinction of the Rede Ferroviária Federal S.A. (Federal Railway Network) (RFFSA) and determined that the Ministry of Transportation will be charged with coordination and supervision of the administrative procedures related to its stocktaking.

6,019, dated 1.22.2007 – In the framework of the Ministry of Social Security, instituted the National Social Security Forum (FNPS), with the following objectives: foster debate among representatives of workers, retirees and pensioners, employers and the federal government for purposes of improvement and sustainability of social security systems and their coordination with social assistance policies; support elaboration of legislative proposals and pertinent infra-legislation rules; and submit the results and conclusions regarding themes discussed within the FNPS to the State Minister of Social Security.

6,020, dated 1.22.2007 – Dealt with dissolution and liquidation of the *Companhia de Navegação do São Francisco* (São Francisco Navigation Company) (Franave), included in the National Development Program (PND) by Decree no. 99,666, dated 11.1.1990. Liquidation of Franave will be carried out under the supervision of the Ministry of Planning, Budget and Management and, insofar as fitting, will comply with the provisions of Law no. 8,029, dated 4.12.1990.

6,021, dated 1.22.2007 – Created the Interministerial Commission on Corporate Governance and Administration of Federal Stockholdings (CGPAR), with the objective of dealing with subjects related to corporate governance in federal state-owned enterprises and management of federal government stockholdings.

6,022, dated 1.22.2007 – Instituted the Public Digital Accounting System (Sped), which unifies the activities of reception, validation, storage and authentication of books and documents included in commercial and fiscal accounting of businesspersons and business companies, based on a single computerized information flow.

6,023, dated 1.22.2007 – Extended the exemption from the Contribution to Social Security Financing (Cofins) and the Social Integration Program (PIS) to computers worth up to R$4 thousand.

6,024, dated 1.22.2007 – Reduced the Industrialized Products Tax rate from 5% to zero on steel shapes.

6,025, dated 1.22.2007 – Instituted the Growth Incentive Program (PAC), composed of measures designed to stimulate private investment, expand public infrastructure investments, improving the quality of public sector investments and controlling expansion of current expenditures in the framework of the Federal Public Administration. Defined its Management Committee and took other measures.

6,038, dated 2.7.2007 – Instituted the Management Committee of Micro and Small-Scale Business Taxation, designated the National *Simples* Management Committee (CGSN).

6,042, dated 2.12.2007 – Defined rules for the Simplified Plan of Social Security Inclusion foreseen in Complementary Law no. 123, dated 12.14.2006, which instituted the National Micro and Small-Scale Business Statutes. With this plan, the contribution rate for which individual contributors are responsible was reduced from 20% to 11% and charged on the value of one minimum monthly wage, and no longer the total earnings of the insured party.

6,046, dated 2.22.2007 – Dealt with budget and financing programming and established the monthly executive branch disbursement schedule for the 2007 fiscal year. It should be stressed that the schedule was elaborated on the basis of new revenue and expenditure estimates, due to revising of some of the macroeconomic variables utilized in projecting these aggregates in the Budget Law. With regard to revenues administered by the Federal Revenue Secretariat, the new estimate points to a reduction of R$17.8 billion (dropping from R$411.7 billion to R$393.9 billion), while the projection for inflows of “other revenues” indicates a reduction of R$2.8 billion (falling from R$70.7 billion to R$67.9 billion). This new scenario required an adjustment in nonobligatory outlays for purposes of compliance with the primary result target, and generated the need for a limitation on set asides and payments in the amount of R$16.4 billion.

6,047, dated 2.22.2007 – Instituted the National Regional Development Policy (PNDR) with the objective of reducing inequalities in living standards among the different

Brazilian regions and fostering equity in access to development opportunities, while also orienting federal programs and actions in the national territory, in response to the provision in indent III of article 3 of the Federal Constitution.

6,088, dated 4.23.2007 – Dealt with implementation of the 65th Additional Protocol to Economic Complementation Agreement no. 2 between Brazil and Uruguay, dated 12.29.2006, extending the rules on bilateral trade in effect in 2006 in the automotive sector through 6.30.2007.

6,112, dated 5.10.2007 – Promulgated the Scientific and Technological Cooperation Agreement between Brazil and the European Community formalized in Brasília on 1.19.2004.

6,118, dated 5.22.2007 – Dealt with implementation of United Nations Security Council Resolution no. 1,747, dated 3.24.2007 in the nation's territory. This instrument further aggravated the sanctions determined in Security Council Resolution no. 1,737/2006, which was incorporated into Brazilian legislation by Decree no. 6,045, dated 2.21.2007, and, among other provisions, calls upon the Member States to refrain from making new commitments involving donations, financial assistance and loans to Iran; prohibits the supply, sale or transfer of weapons by Iran or its citizens; and exhorts the Member States to restrict supplying, selling or transferring to that country combat vehicles, armored vehicles, high caliber artillery systems, combat aircraft, attack helicopters, warships and missiles.

6,121, dated 6.13.2007 – Dealt with implementation of the Third Additional Protocol to Economic Complementation Agreement no. 53, between Brazil and Mexico, dated 5.4.2007. Increased the tariff preference granted by Brazil to 100% as regards the product "terephthallic acid and its salts", Nomenclature of the Latin American Association of Integration/Harmonized System of Merchandise Designation and Codification (Naladi/SH) (96) 2917.36.00.

6,127, dated 6.18.2007 – Dealt with suspension of the requirement for the Contribution to the Social Integration Program/Civil Service Asset Formation Program (PIS/Pasep) and the Contribution to Social Security Financing (Cofins), levied on revenues in the marketing of packaging materials to companies headquartered abroad for delivery in national territory.

6,135, dated 6.26.2007 – Dealt with the Single Federal Government Reference File for Social Programs.

6,140, dated 7.3.2007 – Regulated the Provisional Contribution on Operations or Transmission of Values and Credits and Rights of a Financial Nature (CPMF).

6,144, dated 7.3.2007 – Regulated the system of qualification and coqualification for the Special System of Incentives for Infrastructure Development (Reidi), instituted by articles 1 to 5 of Law no. 11,488, dated 6.15.2007.

6,157, dated 7.16.2007 – Introduced a new text into article 19 of Decree no. 5,209, dated 9.17.2004, which created the "*Bolsa Família*" Program.

6,158, dated 7.16.2007 – Altered Decree no. 4,544, dated 12.26.2002, which regulates taxation, inspection, collection and administration of the Industrialized Products Tax (IPI).

6,166, dated 7.24.2007 – Regulated installment payment of the debts of states and the Federal District related to the social contributions cited in lines "a" and "c" of the paragraph of article 11 of Law no. 8,212, dated 7.24.1991, instituted by articles 32 to 39 of Law no. 11,457, dated 3.16.2007.

6,167, dated 7.24.2007 – Altered and added provisions to Decree no. 6,144, dated 7.3.2007, which regulated the system of qualification and co-qualification for the Special System of Incentives for Infrastructure Development (Reidi), instituted by articles 1 to 5 of Law no. 11,488, dated 6.15.2007.

6,174, dated 8.1.2007 – Instituted and regulated the Permanent Forum of Micro and Small-Scale Businesses and took other measures.

6,184, dated 8.13.2007 – Altered the Industrialized Products Tax (IPI) rates on the products cited therein.

6,187, dated 8.14.2007 – Regulated Law no. 11,345, dated September 14, 2006, and dealt with installment payment of tax and nontax debts, as well as with the Employment Compensation Fund (FGTS), and takes other measures.

6,204, dated 9.5.2007 – Regulated preferential, differentiated and simplified treatment for micro and small-scale businesses in public sector contracting operations for goods, services and works, in the framework of the federal public administration.

6,227, dated 10.8.2007 – Altered the Industrialized Products Tax Table (Tipi), approved by Decree no. 6,006/2006, reducing the Industrialized Products Tax (IPI) to zero on equipment to be used in digital television.

6,233, dated 10.11.2007 – Defined criteria for purposes of qualification for the Program of Support to Technological Development in the Semiconductor Industry (Padis), instituted by articles 1 to 11 of Law no. 11,484/2007. This measure granted exemption from the Income Tax (IR) and reduced the rates of the Contribution to the Social Integration

Program/Civil-Service Asset Formation Program (PIS/Pasep), the Contribution to Social Security Financing (Cofins) and the Industrialized Products Tax (IPI) to zero.

6,234, dated 10.11.2007 – Defined criteria for purposes of benefiting from incentives consequent upon the Program of Support to Technological Development of the Digital TV Equipment Industry (PATVD), instituted by articles 12 to 22 of Law no. 11,484/2007. This measure reduced the rates of the Contribution to the Social Integration Program/Civil Service Asset Formation Program (PIS/Pasep), the Contribution to Social Security Financing (Cofins) and the Industrialized Products Tax (IPI) to zero.

6,242, dated 10.19.2007 – Expanded the amount stated in the reserve of appendix I and line "b" of indent I of article 10 and altered appendices VIII, IX, X and XI of Decree no. 6,046, dated 2.22.2007, which deals with budget and financial programming and defined the monthly disbursement schedule of the executive branch for the 2007 fiscal year.

6,251, dated 11.6.2007 – Approved the Global Spending Program of federal state-owned enterprises for the 2008 fiscal year.

6,252, dated 11.13.2007 – Dealt with economic grants in loan and financing operations targeted to companies in the sectors of ornamental stones, processing of wood, processing of leather, footwear and leather goods, textiles, apparel, including articles for home use, and wood furniture, with gross annual operational income of up to R$300 million, as treated in article 2 of Law no. 11,529, dated 10.22.2007.

6,253, dated 11.13.2007 – Dealt with the Fund for Maintenance and Development of Basic Education and Enhancement of Education Professionals (Fundeb), regulated Law no. 11,494, dated 6.20.2007, and adopted other measures.

6,259, dated 11.20.2007 – Instituted the Brazilian System of Technology (Sibratec) and revoked Decree no. 4,776/2003.

6,260, dated 11.20.2007 – Dealt with exclusion of net profit for purposes of calculating real profits and the calculation base of the Social Contribution on Net Corporate Profits (CSLL), outlays on scientific and technological research projects and technological innovation to be implemented by a Scientific and Technological Institution (ICT).

6,262, dated 11.20.2007 – Determined that the Ministries of Science and Technology, Finance, Health and Development, Industry and Foreign Trade, as well as their subordinate organs and entities, should, within 45 days, which may be extended for an additional equal period, discipline simplified customs clearance in imports of goods for purposes of scientific and technological research, each in its specific area of jurisdiction and duly observing the provisions in articles 2 and 3 of Law no. 9,010, dated 3.29.1990.

6,276, dated 11.28.2007 – Itemized the activities of the Growth Incentive Program (PAC) to be implemented through obligatory transfers.

6,306, dated 12.14.2007 – Regulated the Financial Operations Tax (IOF).

6,307, dated 12.14.2007 – Dealt with the occasional benefits treated in article 22 of Law no. 8,742, dated 12.7.2007. Occasional benefits are supplementary and temporary provisions, provided to citizens and to families as a consequence of births, deaths, situations of temporary vulnerability and public calamity.

6,308, dated 12.14.2007 – Dealt with social assistance entities and organizations treated in article 3 of Law no. 8,742, dated December 7, 1993, and took other measures.

6,309, dated 12.18.2007 – Increased the amount stated in the budget and financial program of the 2007 Federal Government Budget.

6,314, dated 12.20.2007 – Regulated article 5 of Law no. 9,818, dated 8.23.1999, which created the Export Guarantee Fund (FGE). This article determined that Export Guarantee Fund resources can be utilized for coverage of guarantees provided by the federal government against risks of contractual obligations in the form of performance guarantees, reimbursement of advances guarantees and guarantees of supply terms and conditions, for operations involving capital goods or services.

6,322, dated 12.21.2007 – Altered the Bylaws of the National Bank of Economic and Social Development (BNDES), approved by Decree no. 4,418/2002. The possibility of financing investments made by national capital companies abroad was expanded, provided that such investments contribute to the social and economic development of the country (previously, this possibility was restricted to export promotion). At the same time, it made it possible for BNDES to make nonreimbursable investments targeted specifically to providing support to projects and investments of a social character in the area of water resources.

6,326, dated 12.27.2007 – Itemized the activities of the Growth Incentive Program (PAC) to be implemented through obligatory transfer.

6,337, dated 12.31.2007 – Introduced a new text into article 1 of Decree no. 5,821/2006, which reduced the rates of the Contribution to the Social Integration Program/Simples Service Asset Formation Program (PIS/Pasep) and the Contribution to Social Security Financing (Cofins), the Contribution to PIS/Pasep – Imports and Cofins – imports of products for use in hospitals, clinics and medical and dental offices, health campaigns carried out by the public authority, anatomical pathology, cytological and clinical analysis laboratories classified under positions 30.02, 30.06, 39.26, 40.15 and 90.18 of the Mercosul Common Nomenclature (NCM), according to the terms of the provisions in § 3 of article 2 of Law no. 10,637/2002, § 3 of article 2 of Law no. 10,833/2003 and § 11 of article 8 of Law no. 10,865/2004.

6,338, dated 12.31.2007 – Set the absolute value of the overall limit on deductions from Income Tax due under the heading of donations and sponsorships in direct support of sports and parasports projects.

Federal Senate Legislative Decrees

295, dated 10.29.2007 – Approved the text of the Fifth Protocol to the General Agreement on Commerce in Services of the World Trade Organization (WTO), concluded in Geneva on 2.27.1998.

296, dated 10.29.2007 – Approved the text of the Second Protocol to the General Agreement on Commerce in Services of the World Trade Organization (WTO).

National Monetary Council Resolutions

3,437, dated 1.22.2007 – Conditioning of Credits to the Public Sector – Alteration of limit – Inclusion of indent VI of article 9-B and of §§ 13 to 15 of Resolution no. 2,827, dated 3.30.2001.

3,438, dated 1.23.2007 – Conditioning of Credits to the Public Sector – Inclusion of article 9-I in Resolution no. 2,827, dated 3.30.2001, and authorized contracting of credit operations in the framework of the Federal Government Housing Program (Pró-Moradia).

3,439, dated 1.30.2007 – Altered the text of indent VIII and included indent IX in § 1 of article 9 of Resolution no. 2,827, dated 3.30.2001.

3,440, dated 2.2.2007 – Defined a new period for formalization of the credit operations cited in articles 15 and 15-A of Law no. 11,322/2006, referring to operations contracted under the terms of Resolutions no. 2,238/1996, no. 2,471/1998 and no. 2,681/1999, and later alterations, and deals with reimbursement to financial agents of the tax credit cited in article 2, I and II, of Law no. 10,437/2002.

3,441, dated 2.28.2007 – Dealt with Securities and Exchange Commission (CVM) analysis of requests involving issuances of securities on the Brazilian market by multilateral financial organizations authorized to contract funding in Brazil.

3,442, dated 2.28.2007 – Revised regulations on the constitution and operation of credit unions. Basically, the objective was to improve external auditing procedures, by determining that credit unions must follow the regulations applied to other financial institutions. In this sense, it was decided that, starting with the December 2007 accounting statements, such credit unions would be obligated to carry out external audits by an independent auditor or by a cooperative entity constituted by central cooperatives or their confederations. With respect to formation of membership, business persons and microentrepreneurs were allowed to combine their membership with professional or employed segments, thus broadening their possibilities of action.

3,443, dated 2.28.2007 – Altered and consolidated provisions on investments abroad of the available resources of banks authorized to operate with exchange. Revoked Resolution no. 3,368, dated 5.25.2006.

3,444, dated 2.28.2007 – Redefined Base Capital (PR), which refers to basic worth utilized in verifying whether the operational limits to which financial institutions are subject have been met. Tax credits with expectations of realization over more than five years and deferred fixed assets were excluded from the Tier I component of PR, after reduction of premiums paid in the acquisition of investments. In its turn, the balance of unrealized gains and losses consequent upon adjustment to the market value of stocks and securities classified under the heading "securities available for sale" and of the derivative financial instruments for cash flow hedge was included in Tier II of PR. In order to avoid artificially raising the system's capitalization tiers, some assets issued by other financial institutions, such as stocks and hybrid capital and debt instruments were also deducted from PR. With regard to authorization for a funding instrument to be included in some PR tier, the possibility that amounts of hybrid capital and debt instruments effectively paid-in could be included in Tier I was adopted, provided that various conditions were met, including that they be restricted to 15% of the cited tier.

3,445, dated 3.2.2007 – Altered Resolution no. 3,407/2006, which treats of renegotiation of debts originating in rural credit operations involving undertakings located in the area of jurisdiction of the Northeast Development Agency (Adene), in light of the modifications introduced into Law no. 11,322/2006 by means of Law no. 11,420/2006.

3,446, dated 3.6.2007 – Altered the Reference Rate (TR) calculation methodology.

3,447, dated 3.5.2007 – Dealt with the electronic declaratory registration of foreign currency at the Central Bank of Brazil, as treated in Law no. 11,371, dated 11.28.2006, and defined criteria for application of penalties for violations of the rules governing foreign capital registration in national currency. The capital in question should already be registered at the Central Bank, since such capital is subject to taxation; nonetheless, since formal conditions for such were not met – such as the absence of effective inflows of foreign currency to the country, in the manner required in article 1 of Law no. 4,131/1964 – it was impossible to obtain this registration. It is important to stress that the only capital that may be registered is that specified in the accounting records of the Brazilian corporate entity that receives the foreign capital, according to current legislation and regulations. Besides this, the central bank was authorized to publish the data cited in such registrations.

3,448, dated 3.30.2007 – Defined the Long-Term Interest Rate (TJLP) for the second quarter of 2007.

3,449, dated 3.29.2007 – Dealt with expenditures that may be attributed to the Farm Activity Guarantee Program (Proagro) as related to the earnings of agents in the 2006/2007 harvest.

3,450, dated 4.3.2007 – Dealt with granting of Federal Government Loans (EGF) to the 2006/2007 grape harvest.

3,451, dated 4.5.2007 – Dealt with credit lines targeted to financing of current outlays, harvesting, and stocking of coffee and for Coffee Acquisition Financing (FAC), backed by Coffee Economy Defense Fund (Funcafé) resources and revoked the resolutions cited therein.

3,452, dated 4.26.2007 – Altered article 1 of Resolution no. 3,334, dated 12.22.2005, which authorizes transfers to and from abroad related to investments made by investment funds that should obey the limits and other rules set down by the Securities and Exchange Commission in the exercise of its authority, without prejudice to the jurisdiction of the Central Bank of Brazil.

3,453, dated 4.26.2007 – Included article 9-J in Resolution no. 9,827, dated March 30, 2001, establishing a National Bank of Economic and Social Development (BNDES) financing line for the contracting of credit operations in the framework of the Path to School Program.

3,454, dated 5.30.2007 – Dealt with the conditions for contracting time deposits. Among the alterations introduced into the regulations on these deposits, emphasis should be given to authorization for credit, finance and investment companies to obtain time deposits without issue of certificates. On the other hand, contracting in the modalities of prior notification deposits, automatic reinvestment deposits and stockholder deposits represented by nonnegotiable deposit receipts that cannot be operated by check was forbidden, at the same time in which contracting of time deposits from financial institutions was prohibited, except in the case of micro entrepreneur credit companies. Furthermore, the conditions for rescission of time deposit contracts prior to maturity were eliminated, thus transferring the decision involving these conditions to the contracting parties, including the aspect of earnings on such deposits which had previously been prohibited. Finally, the acronyms CDB and RDB were institutionalized, the latter designating time deposits without issue of certificates, Bank Deposit Receipts, while the former designates Bank Deposit Certificates.

3,455, dated 5.30.2007 – Dealt with the electronic declaratory registration of foreign currency at the Central Bank of Brazil, as treated in Law no. 11,371, dated 11.28.2006, and defined criteria for application of penalties for violations of the rules governing foreign capital registration in national currency.

3,456, dated 6.1.2007 – Dealt with guidelines on investment of resources that guarantee benefit plans managed by closed complementary pension fund entities.

3,457, dated 6.4.2007 – Based on obligatory resources (MCR 6-2) and rural savings resources (MCR 6-4), instituted the special credit line designated Financing of Agribusiness Receivables (FRA), to be utilized in financing settlement of debts of rural producers and their cooperatives with suppliers of agricultural inputs.

3,458, dated 6.13.2007 – Dealt with financing for retention of sows, based on Obligatory Resources (MCR 6-2).

3,459, dated 6.13.2007 – Dealt with granting of Federal Government Loans (EGF) and the Special Trade Credit Line (LEC) for corn to be used in poultry and swine farming activities performed in the partnership system and of the LEC for pork for producers and swine farming enterprises operating in the partnership system.

3,460, dated 6.15.2007 – Dealt with granting of time for payment of investment installments maturing in 2007 and on postponement of installments maturing in 2007 involving postponed current expenditure credits referring to the 2004/2005 and 2005/2006 harvests.

3,461, dated 6.26.2007 – Dealt with requirements covering investments in rural credit operations based on obligatory resources (MCR 6-2) and rural savings (MCR 6-4).

3,462, dated 6.26.2007 – Set the Long-Term Interest Rate (TJLP) at 6.25% to remain in effect in the period extending from July 1 up to and including September 30, 2007.

3,463, dated 6.26.2007 – Set the inflation target for 2009 at 4.5%, with a tolerance interval of plus or minus 2.0 p.p.

3,464, dated 6.26.2007 – Dealt with implementation of the market risk management structure for operations with financial instruments, including derivatives, when such operations are carried out with the intention of negotiating or hedging other elements of the business portfolio, when such are not subject to limitations on their negotiability.

The market risk management structure to be implemented must be compatible with the nature of the operations, the complexity of the products and the dimensions of the market risk exposure of the institution. The institution is responsible for establishing systems capable of timely measuring, monitoring and controlling risk exposure. Furthermore, it should be stressed that policies and strategies for market risk management must be approved and revised at least annually by the Board of Directors of the institution and by the Council of Administration, when such exists. At the same time, a director charged with market risk management must be indicated. In this sense, a schedule was defined for implementing market risk management structures at financial institutions with a maximum time limit of June 30, 2008.

3,465, dated 6.29.2007 – Altered the time periods defined in the heading of articles 9-F and 9-G of Resolution no. 2,827, dated 3.30.2001, included by Resolutions no. 3,365, dated 4.26.2006, and no. 3,372, dated 6.16.2006, with subsequent alterations.

3,466, dated 6.29.2007 – Altered article 9-I of Resolution no. 2,827, dated 3.30.2001, with the text introduced by Resolution no. 3,438**,** dated 1.22.2007.

3,467, dated 7.2.2007 – Altered provisions of the National Program for Strengthening Family Agriculture (Pronaf) and instituted a credit line in the framework of this program.

3,468, dated 7.2.2007 – Dealt with granting of tax credit as treated in article 15 of Law no. 11,322/2006, with the text introduced by Provisional Measure no. 372/2007.

3,469, dated 7.2.2007 – Dealt with granting of additional time for operations involving renegotiation of debts originating in rural credit operations involving undertakings located in the jurisdiction of the Northeast Development Agency (Adene).

3,470, dated 7.2.2007 – Authorized the National Bank of Economic and Social Development (BNDES) to transfer resources equalized by the National Treasury to duly accredited single and central credit unions in the 2007/2008 harvest, for purposes of investment in agricultural current expenditure credit lines in Groups "D" and "E" of the National Program for Strengthening Family Agriculture (Pronaf).

3,471, 7.2.2007 – Altered Resolution no. 3,403/2006, in that which concerns granting of marketing credits targeted to financing of protection of prices and/or risk premiums and price equalization.

3,472, dated 7.2.2007 – Dealt with financial charges on rural credit operations with resources contracted through rural savings deposits (MCR 6-4).

3,473, dated 7.2.2007 – Altered the time periods defined by Resolution no. 3,434/2006 for rural credit operations based on resources of the Special Program of Credits to Agrarian Reform (Procera).

3,474, dated 7.3.2007 – Altered investment programs backed by resources equalized by the National Treasury with the National Bank of Economic and Social Development (BNDES).

3,475, dated 7.4.2007 – Dealt with reductions in financial charges applicable to financing with controlled rural credit resources and to the operations of the Rural Employment and Income Generation Program (Proger Rural), as well as with adjustments in the rules covering obligatory investments in rural credit based on obligatory resources (MCR 6-2), as of the 2007/2008 harvest.

3,476, dated 7.4.2007 – Dealt with adjustments in rural credit rules.

3,477, dated 7.26.2007 – Dealt with creation of the organizational component of the ombudsman by financial institutions and other institutions authorized to operate by the Central Bank of Brazil.

3,478, dated 7.31.2007 – Altered conditions of the Farm Activity Guarantee Program (Proagro).

3,479, dated 7.31.2007 – Extended the measure contained in article 2 of Resolution no. 3,460/2007 to current expenditure operations of the 2003/2004 harvest, and postponed the dates determined in that article by one month.

3,480, dated 7.31.2007 – Authorized granting of investment financing in the framework of the National Program for Strengthening Family Agriculture (Pronaf), based on resources of the National Bank of Economic and Social Development (BNDES) programmed for the 2007/2008 harvest, to family farmers included in group “D” whose contracts could not be formalized before June 30, 2007.

3,481, dated 7.31.2007 – Extended the time period for family farmers to request investment financing for reconversion and/or revitalization of production units and extended the benefit under the same conditions to farmers classified in beneficiary groups that are not holders of credit operations.

3,482, dated 7.31.2007 – Dealt with adjustments in the rules governing rural credit and the Program of Agricultural Modernization and Conservation of Natural Resources (Moderagro).

3,483, dated 7.31.2007 – Dealt with issue of the “Pronaf Aptitude Declaration” to farmers classified in groups “A” and “A/C” of the National Program for Strengthening Family Agriculture (Pronaf).

3,484, dated 8.1.2007 – Dealt with the new schedule and reprogramming of financing under the terms of the Bahia Cocoa Crop Recovery Program.

3,485, dated 8.2.2007 – Altered the texts of articles 3, 7 and 8 and revoked article 4 of the Regulations appended to Resolution no. 1,655, dated October 26, 1989, which disciplines constitution and operation of stock in security brokerage companies. This resolution revoked conditioning factors foreseen for the constitution and operation of brokerage companies, determining that such companies should be created in the form of corporations or limited liability companies, and remain dependent on Central Bank of Brazil authorization to operate. It was further determined that, should the brokerage company be a member of the stock exchange, the instrument determining ownership of the company will stand as a privileged guarantee based on real collateral of the debts that the company may have with the stock exchange and of settlement of the operations carried out on the exchange, such collateral being placed in the benefit of the exchange prior to the company initiating its operations. The company that in any way whatsoever transfers the instrument of ownership should immediately notify this fact to the respective stock exchange.

3,486, dated 8.3.2007 – Instituted a special credit line based on federal government economic grants for purposes of loans and financing provided to companies from the sectors of footwear and leather goods; textiles, with the exception of weaving; apparel, including that for home use, and wood furniture. Total financing and loans to be granted by the federal government were limited to R$2 billion, with resources from the National Bank of Economic and Social Development (BNDES).

3,487, dated 8.3.2007 – Dealt with conditioning factors applied to credits granted to the public sector in the framework of the Electricity Generation and Transmission Program and included indent X in §1 of article 9 of Resolution no. 2,827, dated March 30, 2001.

3,488, dated 8.29.2007 – Determined that the Base Capital (PR) limit, defined according to the terms of Resolution no. 3,444, for exposure in gold, foreign currency and operations subject to exchange variation, is 30%. Calculation of this exposure must include offices abroad and must be obtained in consolidated terms in those cases in which institutions belong to financial conglomerates and issue consolidated economic-financial statements, according to the terms of the Accounting Plan of the National Financial System Institutions (Cosif). Processes and controls related to the limit determined in this resolution are the responsibility of a director charged with risk management at the institution. Indication of that director must be permanently updated at the Central Bank of Brazil. The director in question may perform other functions, with the exception of those related to management of third-party resources and treasury operations. The above-cited limit may be altered at the discretion of the Central Bank of Brazil, observing the minimum and maximum limits of 15% and 75%.

3,489, dated 8.29.2007 – Altered Resolution no. 3,477/2007, which deals with institution of the organizational component of ombudsman by financial institutions and other institutions authorized to operate by the Central Bank of Brazil. This resolution added the ombudsman of real estate credit companies, leasing companies, exchange brokerage companies and savings and loan associations to the listing of institutions that, if they are not elements of a financial conglomerate, may formalize agreements with the professional associations to which they are affiliated in order to utilize their customer and advisory services. Furthermore, it excluded central credit unions from the requirement of constituting the organizational component of ombudsman, at the same time in which it determined that, in the case of financial conglomerates, any and all alterations in their bylaws or contracts required by this resolution may only be introduced by the institution that created the component in question. Finally, it determined that institutions that opt for the aforementioned possibility should ratify the corporate act at the time of the first general meeting of each one of them and at the first meeting of the board of directors that results in alteration of the articles of incorporation.

3,490, dated 8.29.2007 – Dealt with calculation of Required Base Capital (PRE) substituting Required Net Worth (PLE) as the concept of minimum regulatory capital. The purpose of the alteration is to further deepen the association of PRE with the concept of Base Capital (PR), with which it is compared in order to verify whether prudential limits are being met. The volume of regulatory capital to be maintained by member institutions of the National Financial System (SFN) is therefore to be determined by PRE, the composition of which consists of the sum total of six items, each one referring to a specific factor underlying financial risk: i) that referring to exposures weighted by the risk weighting factor attributed to them; ii) that referring to the risk of exposures in gold, foreign currency and operations subject to exchange variation; iii) that referring to the risk of operations subject to interest rate variations and classified in the business portfolio; iv) that referring to the risk of operations subject to variations in commodity prices; v) that referring to the risk of operations subject to variations in stock prices and classified in the business portfolio; vi) that referring to operational risk. This resolution also determined that the Central Bank of Brazil would have authority to determine procedures for calculating each one of these factors, issuing circulars that define the specific treatment given to each one of them. Basically, considering that PRE corresponds to the minimum required capital of institutions that allows them to absorb unexpected losses generated by credit risk, market risk and, in the future, operational risk, the volume of PR capital should be greater than the value of the PRE obtained through utilization of its own specific formula. Given the schedule for implementation of Basel II in Brazil, as well as adaptation of financial institutions to the new rules, one should note that this resolution goes into effect on the date of its publication, producing effects as of July 1, 2008.

3,491, dated 8.29.2007 – Based on federal government economic grants, instituted a special line of credit for financing and loans for companies from the sectors of footwear and leather goods; textiles, excluding weaving; apparel, including for home use; and wood furniture. Total financing and loans to be subsidized by the federal government was limited to R$1 billion, using resources of the Workers Support Fund (FAT).

3,492, dated 8.30.2007 – Defined the weighting factors applied to the balances of investments made with rural savings deposit resources (MCR 6-4), made by the Banco do Brasil S.A. for purposes of complying with requirements.

3,493, dated 8.30.2007 – Among the items that can be financed by the Investment Credit Line for Income Aggregation to Rural Activity (Pronaf Agroindústria), included payment in full of participation quotas earmarked to the project to be financed.

3,494, dated 8.30.2007 – Altered provisions of the credit line based on resources of the Coffee Economy Defense Fund (Funcafé).

3,495, dated 8.30.2007 – Dealt with granting of time for payment of investment installments maturing in 2007 and with extension of already postponed current expenditure credits maturing in 2007 referring to the 2003/2004, 2004/2005 and 2005/2006 harvests.

3,496, dated 8.30.2007 – Dealt with granting of rebates and extension of investment installments maturing in 2007.

3,497, dated 8.30.2007 – Dealt with granting of the rebates stated in Decree no. 6,200/2007 and with permission for partial postponement of financing installments under the terms of the National Program for Strengthening Family Agriculture (Pronaf).

3,498, dated 9.27.2007 – Maintained the Long-Term Interest Rate (TJLP) at 6.25% per year (six and twenty five one hundredths percent per year), for the period from October 1 up to and including December 31, 2007.

3,499, dated 9.27.2007 – Defined criteria for reclassification of rural credit operations that have been renegotiated or extended.

3,500, dated 9.28.2007 – Altered Resolutions no. 3,495, no. 3,496 and no. 3,497, all dated 2007.

3,501, dated 9.28.2007 – Dealt with adjustments in rural credit rules.

3,502, dated 9.28.2007 – Dealt with the new schedule and reprogramming of payments of financing debts under the terms of the Bahia Cocoa Crop Recovery Program.

3,503, dated 10.26.2007 – Dealt with independent auditing services provided to financial institutions, other institutions authorized to operate by the Central Bank of Brazil and to clearinghouses and providers of clearing and settlement services.

3,504, dated 10.26.2007 – Based on federal government grants, instituted a special credit line for financing and loans to companies from the sectors of ornamental stones, wood processing, leather processing, footwear and leather goods, textiles, apparel, including for home use, and wood furniture.

3,505, dated 10.26.2007 – Dealt with derivative operations carried out in the country on the over-the-counter market by financial institutions and other institutions authorized to operate by the Central Bank of Brazil. These operations are understood as those carried out outside the trading floor, the outcry auction or electronic systems, based on bilateral contracts and parameters determined by the parties. More than six years since the most recent updating, when Resolution no. 2,873/2001 was issued, the over-the-counter domestic derivatives market has developed sufficiently to consolidate its maturity and transparency. Based on the terms of that resolution, the National Monetary Council (CMN) sought to adjust the regulatory framework to the development environment of the over-the-counter market in Brazil. In doing so, efforts were made to enhance the flexibility of operations of this nature by granting institutions greater freedom of action and better conditions to meet demand for hedge, without compromising security, transparency and an adequate price formation.

3,506, dated 10.26.2007 – Dealt with investment of the resources of specific social security systems instituted by the federal government, states, Federal District and municipalities.

3,507, dated 11.1.2007 – Dealt with the special credit line denominated Financing of Agribusiness Receivables (FRA) designed to finance settlement of the debts of rural producers or their cooperatives with suppliers of crop/livestock inputs, and revoked Resolution no. 3,457/2007.

3,508, dated 11.30.2007 – Added §3 to article 7 and §3 to article 9, both of Resolution no. 2,827, dated March 30, 2001.

3,509, dated 11.30.2007 – Dealt with application of a weighting factor to rural credit operations backed by rural savings resources not subject to control (MCR 6-4), for purposes of compliance with required investments.

3,510, dated 11.30.2007 – Dealt with price guarantees in current expenditure financing for rice, bean, corn, manioc, soybean, milk, coffee, tomato, yam and cashew production, granted in the framework of the National Program for Strengthening Family Agriculture (Pronaf).

3,511, dated 11.30.2007 – Altered Resolution no. 2,827, dated March 30, 2001, and revoked Resolution no. 3,487, dated August 3, 2007.

3,512, dated 11.30.2007 – Defined criteria applicable to Brazilian export financing as specified in article 2-A of Law no. 10,184, dated February 12, 2001.

3,513, dated 11.30.2007 – Altered the time period referred to in article 4 of Resolution no. 3,427, dated December 21, 2006, which treats of the Risk-Based Supervision System (SBR) in the securities market.

3,514, dated 11.30.2007 – Altered rural credit rules regarding the National Program for Strengthening Family Agriculture (Pronaf).

3,515, dated 11.30.2007 – Authorized that expenditures related to options sale contracts in national commodities and futures exchanges may be debited against the current expenditure or marketing financing escrow account, under the terms of obligatory rural credit resources (MCR 6-2).

3,516, dated 12.6.2007 – Prohibited charging of fees as a result of anticipated settlement of credit contracts and leasing contracts and defined criteria for calculating current value for amortization or settlement of these contracts. Previously, the absence of homogeneous criteria applied to anticipated settlement of credit operations made it difficult for borrowers to move from one institution to another in pursuit of better cost conditions. This measure is one component of the effort to make it possible for borrowers to change from one institution to another, in this way fostering enhanced competition and ensuring equity in relations and reductions in information asymmetries among agents.

3,517, 12.6.2007 – Dealt with information and notification of total effective cost (CET) involving all charges and expenditures on credit and leasing operations contracted or offered to individual persons. The methodology for calculating total effective cost was also defined and must be included in publicity materials, together with the effective annual rate of interest charged in the operation.

3,518, dated 12.7.2007 – Disciplined charging of fees for services rendered by financial institutions and other institutions authorized to operate by the Central Bank of Brazil. Definition of fee modalities is an effort to standardize the names utilized by institutions in their fee tables, thus avoiding many complaints regarding difficulties in comparing the prices charged by different institutions.

3,519, dated 12.6.2007 – Extended the period for contracting operations in the framework of special credit line based on federal government grants for financing and loans provided to companies from the sectors of ornamental stones, wood processing; footwear and leather goods; textiles; apparel, including for home use; and wood furniture.

3,520, dated 12.20.2007 – Defined the Long-Term Interest Rate (TJLP) at 6.25% per year (six and twenty five one hundredths percent per year), for the period from January 1 up to and including March 31, 2008.

3,521, dated 12.20.2007 – Set the weighting factor applied to the balance of operations contracted in the framework of the special credit line designated Financing of Agribusiness Receivables (FRA), with resources originating in rural savings deposits (MCR 6-4), for purposes of compliance with investment requirements.

3,522, dated 12.20.2007 – Dealt with expenditures that can be attributed to the Farm Activity Guarantee (Proagro).

3,523, dated 12.20.2007 – Completed provisions included in Resolutions no. 3,496 and no. 3,497, both dated August 30, 2007, for purposes of granting performance bonuses to installments of rural financing maturing in 2007, and granted new deadlines for payment of rural investment installments maturing in 2007.

3,524, dated 12.20.2007 – Completed the provisions of Resolution no. 3,502, dated September 28, 2007, which deals with the new schedule and reprogramming of payments of financing debts under the terms of the Bahia Cocoa Crop Recovery Program.

3,525, dated 12.20.2007 – Dealt with opening and maintaining foreign currency accounts in the names of insurance companies, including those operating with export credits, local reinsurers, admitted reinsurers or reinsurance brokers at a bank authorized to operate on the exchange market, duly complying with regulations issued by the National Private Insurance Council (CNSP), while financing or holding of negative balances in such accounts is prohibited. The amounts registered in foreign currency cited in this Resolution may be freely converted into real, by means of the contracting and settlement of an exchange operation, based on the terms of current legislation, with the exception of amounts related to investments of resources utilized to guarantee technical provisions. In this case, conversion of these resources into reais is prohibited.

3,526, dated 12.20.2007 – Dealt with definition of the rates of the additional charge of the Farm Activity Guarantee Program (Proagro) for classification in the program of current expenditure operations involving the peanut, prune, nectarine, pear and peach harvests, duly observing Climate Risk Agricultural Zoning.

3,527, dated 12.26.2007 – Dealt with granting of federal government loans for the 2007/2008 grape harvest.

Foreign Trade Chamber Resolutions

1, dated 1.22.2007 – Altered the *ad valorem* rates of the Import Tax on the capital goods and integrated systems cited therein to 2% in the ex-tariff condition, through 12.31.2008, and altered Resolutions no. 28/2006 and no. 40/2006.

2, dated 1.22.2007 – Altered the *ad valorem* rates of the Import Tax on the informatics and telecommunications goods cited therein to 2% in the ex-tariff condition, through 12.31.2008.

11, dated 4.25.2007 – Maintained the temporary reduction of the Import Tax at the level of 2% for the sardine product, dealt with in Resolutions no. 7, dated 4.17.2006 and no. 41, dated 12.19.2006, for imports carried out on the basis of licenses registered in the Integrated Foreign Trade System (Siscomex) up to 4.18.2007.

12, dated 4.25.2007 – Dealt with the possibility of formalizing Brazilian exports with reception in real.

13, dated 4.25.2007 – Restored application of definitive anti-dumping rights on imports of high carbon ferrochrome classified under item 7202.41.00 of the Common Mercosul Nomenclature (NCM), originating in South Africa and Russia, according to the terms originally defined in Resolution no. 31, dated 10.5.2004.

14, dated 5.3.2007 – Altered the *ad valorem* rates of the Import Tax on the informatics and telecommunications goods cited therein to 2% in the ex-tariff condition, through 12.31.2008.

15, dated 5.3.2007 – Altered the *ad valorem* rates of the Import Tax on the capital goods specified therein to 2% (two percent) in the ex-tariff condition, through 12.31.2008.

16, dated 5.3.2007 – Dealt with application of provisional anti-dumping rights on imports of cranksets, NCM 8714.99.90, originating In the People's Republic of China.

17, dated 5.8.2007 – Altered article 1 of Resolution no. 5, dated 2.23.2007, published in the *Diário Oficial da União* (DOU) dated 12.26.2007, applying the specific anti-dumping right of US$2,092.47 per ton, on imports of methyl-methacrylate from Germany, Spain, France and the United Kingdom.

18, dated 5.18.2007 – Granted a temporary tariff reduction based on Common Market Group (GMC) Resolution no. 69/2000 for the product sardines (NCM 0303.71.00).

20, dated 6.27.2007 – Altered the Common Mercosul Nomenclature (NCM) and Common External Tariff (TEC), as treated in Appendix I of Resolution no. 43, dated 12.22.2006, according to the terms of Appendices I and II of this Resolution, and extended the period of validity of the List of Exceptions of Informatics and Telecommunications Goods (BIT).

21, dated 6.27.2007 – Altered the *ad valorem* rates of the Import Tax on the informatics and telecommunications goods (BIT) listed therein to 2% in the ex-tariff condition, through 12.31.2008, and extended the validity of the ex-tariff specified therein, as found in Resolution no. 14/2005, through 12.31.2008.

22, dated 6.27.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods to 2% in the ex-tariff condition, as well as on the components of the integrated systems listed therein, through 12.31.2008; extended the validity of the ex-tariff rates specified therein consequent upon Resolutions no. 32/2001, no. 40/2001, no. 24/2003, no. 29/2003, no. 14/2005, no. 21/2005, no. 27/2005 and no. 31/2005 and altered Resolutions no. 27/2002, no. 31/2005, no. 41/2005, no. 11/2006, no. 17/2006, no. 32/2006, no. 40/2006, no. 10/2007 and no. 15/2007.

23, dated 6.19.2007 – Terminated the process of reviewing anti-dumping rights applied to Brazilian imports of table fans of more than 15 cm with incorporated electric motors and power outputs of not more than 125 W, classified under Common Mercosul Nomenclature (NCM) 8414.51.10 originating in China, with maintenance of the anti-dumping rights in effect at the rate of 45.24% *ad valorem*.

24, dated 6.19.2007 – Terminated the investigation with setting of definitive anti-dumping rights on imports of dry and/or steam electric irons classified under Mercosul Common Nomenclature (NCM) 8516.40-00 originating in China, and excluded from application of anti-dumping rights electric irons for travel, electric irons for the hobby of model-making, wireless electric irons and industrial electric irons.

27, dated 7.25.2007 – Altered the *ad valorem* rates of the Import Tax on the informatics and telecommunications goods cited therein to 2% in the ex-tariff condition, through 12.31.2008.

28, dated 7.25.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods to 2% in the ex-tariff condition, as well as on the components of the integrated systems listed therein, through 12.31.2008 and altered resolutions no. 6/2006, no. 11/2006, no. 32/2006, no. 10/2007, no. 15/2007 and no. 22/2007.

29, dated 7.31.2007 – Dealt with Brazilian government support to exports of civilian aircraft. Official Brazilian support to exports of civilian aircraft should observe the terms, conditions and procedures stipulated by the new Sectoral Understanding on Export Credits for Civilian Aircraft of the Organisation for Economic Co-operation and Development (OECD).

30, dated 8.7.2007 – Altered the *ad valorem* rates of the Import Tax on the informatics and telecommunications goods classified under NCM code 8525.50.29 (digital television transmitters in VHF/UHF) to 0% (zero percent) in the special ex-tariff condition, through 12.31.2008.

35, dated 8.22.2007 – Determined guidelines for utilization of the Export Financing Program (Proex).

36, dated 9.6.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods to 2% in the ex-tariff condition, as well as on components of the integrated systems listed therein, through 12.31.2008, and modified Resolutions no. 2/2006, no. 17/2006, no. 32/2006, no. 15/2007, no. 22/2007 and no. 28/2007.

37, dated 9.6.2007 – Altered the *ad valorem* rates of the Import Tax on informatics and telecommunications goods (BIT) to 2% in the ex-tariff condition, as well as on components of the integrated systems listed therein, through 12.31.2008.

38, dated 9.6.2007 – Set annual import quotas for remolded tires classified under Mercosul Common Nomenclature (NCM) codes 4012.11.00, 4012.12.00 and 4012.19.00, originating in and coming from the Mercosul Member States under the terms of the Economic Complementation Agreement no. 18, authorized by article 41 of Foreign Trade Secretariat (Secex) Directive no. 35/2006.

40, dated 9.28.2007 – Altered the Import Tax rates included in the Common External Tariff (TEC) and the respective List of Exceptions, treated in the Appendices of Resolution no. 43/2006.

41, dated 10.3.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods to 2% in the ex-tariff condition, as well as on components of the integrated systems listed therein, through 12.31.2008, and altered Resolutions no. 8/2005, no. 2/2006, no. 10/2007, no. 15/2007, no. 22/2007 and no. 28/2007.

42, dated 10.3.2007 – Altered the *ad valorem* rates of the Import Tax on informatics and telecommunications goods (BIT) to 2% in the ex-tariff condition, as well as on components of the integrated systems listed therein, through 12.31.2008.

56, dated 11.20.2007 – Altered the *ad valorem* rates of the Import Tax to 0% on components of the integrated systems listed therein and extended the validity of the ex-tariff rates specified in Resolution no. 1/2006.

57, dated 11.20.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods to 2% in the ex-tariff condition, as well as on components of the integrated systems listed therein, through 12.31.2008 and modified Resolutions no. 2/2006, no. 20/2006, no. 10/2007, no. 22/2007, no. 28/2007, no. 36/2007 and no. 41/2007.

58, dated 11.20.2007 – Altered the *ad valorem* rates of the Import Tax on informatics and telecommunications goods listed therein to 2% in the ex-tariff condition, through 12.31.2008.

67, dated 12.11.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods and informatics and telecommunications goods cited therein to 0% in the special ex-tariff condition, through 12.31.2008.

71, dated 12.20.2007 – Altered the Mercosul Common Nomenclature (NCM) and the Income Tax rates included in the Common External Tariff (TEC), as treated in Appendix I of Resolution no. 43/2006.

72, dated 12.20.2007 – Altered the *ad valorem* rates of the Import Tax on informatics and telecommunications goods to 2% in the ex-tariff condition, through 12.31.2008, and extended the validity of the ex-tariff rates cited in Resolution no. 41/2005 and the ex-tariff rates mentioned in Resolution no. 5/2006.

73, dated 12.20.2007 – Altered the *ad valorem* rates of the Import Tax on capital goods to 2% in the ex-tariff condition, and on components of integrated systems through 12.31.2008, and extended the validity of the ex-tariff rates cited in Resolutions no. 36/2001, no. 40/2001, no. 1/2002, no. 29/2003, no. 46/2003, no. 35/2003, no. 46/2003, no. 3/2004, no. 41/2005, no. 2/2006 and no. 6/2006.

Central Bank of Brazil Circulars

3,340, dated 1.17.2007 – Released a sampling of the content of article 1 of Resolution no. 3,354, dated 3.31.2006, for purposes of calculating the Basic Financing Rate (TBF) and Reference Rate (TR).

3,341, dated 2.7.2007 – Extended the time period determined in article 8 of Circular no. 3,290/2005, for adaptation of the systems of financial institutions in order to comply with the provision in articles 2, 3 and 5.

3,342, dated 2.23.2007 – Dealt with granting of authorization to manage buyer groups, transfer stock control, effect split-ups, mergers, incorporations, other corporate acts and occupy positions in official or contractual organs of group buyer administration companies, as well as with cancellation of authorization to administer such groups.

3,343, dated 3.1.2007 – Dealt with the procedures to be adopted in requesting that funding instruments be included in Tier I and Tier II of Base Capital (PR), as treated in Resolution no. 3,444/2007, and other authorizations determined in that instrument.

3,344, dated 3.7.2007 – Regulated National Monetary Council (CMN) Resolution no. 3,447, dated 3.5.2007, which required registration in national currency of foreign capital included in the accounting of companies in the country (at the Central Bank), when such is not yet registered and is not subject to any other form of registration at the bank. The registration must be effected in compliance with the following time periods: up to 6.30.2007, capital existent on 12.31.2005; up to the final business day of the calendar year subsequent to the annual balance sheet in which the corporate entity is obligated to register capital, capital included in accounting as of and including 2006.

3,345, dated 3.16.2007 – Determined the form, limits and conditions on declaring goods of value held abroad by individuals or corporate entities resident, domiciled or headquartered in the country. Holders of total assets on 12.3.2006 with overall values of less than US$100,000, or an equivalent amount in other currencies, are exempted from providing this declaration.

3,346, dated 3.28.2007 – Dealt with transfers of resources as treated in articles 3 and 8 of Law no. 9,311/1996, and 85 of the Transitory Constitutional Provisions (ADCT), the opening, maintenance and operation of current deposit accounts for purposes of investment and the modality of savings deposits with additional yield.

3,347, dated 4.11.2007 – Dealt with creation of the National Financial System Client Reference File (CCS) at the Central Bank of Brazil.

3,348, dated 5.3.2007 – Altered the Index and Section 2 of Chapter 3 of Title 2 of the International Exchange and Capital Market Regulations (RMCCI), released by Circular no. 3,280/2005. Determined that transfers to and from abroad in national or foreign currency related to investments abroad by investment funds, must obey the limits and other rules set down by the Securities and Exchange Commission, in the exercise of its responsibilities.

3,349, dated 5.31.2007 – Extended the time period determined in Circular no. 3,345/2007, for providing information to the External Brazilian Census until 8 p.m. on 6.29.2007.

3,350, dated 6.8.2007 – Altered Chapter 4 of Title 3 of the International Exchange and Capital Market Regulations (RMCCI), released by Circular no. 3,280/2005. Regulated the declaratory electronic registration of foreign capital at the Central Bank of Brazil, as treated in Law no. 11,371, dated 11.28.2006. Circular reissued on 8.21.2007.

3,351, dated 6.8.2007 – Revised the methodology used in calculating and elaborating information related to monitoring and control of exposure in gold, foreign currencies and assets and liabilities subject to exchange variation. For purposes of calculating net exposure, this circular made it obligatory to utilize the methodology of jointly considering exposures in United States dollars, euros, pounds sterling, yen, Swiss francs and gold as a single currency. Given the perception that contrary positions in these currencies do not constitute a perfect hedge, an additional amount calculated through multiplication of the amount representative of the contrary position by a factor of 0.70 (seventy one hundredths) is required. This coefficient is obtained on the basis of the historic correlations among the currencies included in the group under consideration. Furthermore, the circular attributed specific treatment to exposures offset among institutions belonging to a single conglomerate, in the case of positions in Brazil and abroad. In this case, after calculating exchange exposure, the amount referring to the balance offset internationally by the conglomerate will be added to that value.

3,352, dated 6.8.2007 – Altered the limit on exposure in gold and in assets and liabilities referenced to the rate of exchange from 60% to 30%, as treated in Resolution no. 2,606/1999, which went into effect on the date of its publication. Circular no. 3,333, dated 12.5.2006, was repealed.

3,353, dated 6.8.2007 – Altered the F factor applicable to operations with gold and with assets and liabilities referenced to exchange, included in the formula for Required Net Worth (PLE), treated in the Regulations in Appendix IV to Resolution no. 2,099/1994, with later modifications, from 0.50 to 1.0. Consequently, capital requirements for coverage of exchange exposure were increased from 50% to 100%, effective as of 7.2.2007.

3,354, dated 6.27.2007 – Determined minimum criteria for classification of business portfolio operations, according to the terms of Resolution no. 3,464, dated 6.26.2007.

3,355, dated 7.11.2007 – Released the sampling cited in article 1 of Resolution no. 3,354/2006, for purposes of calculating the Basic Financing Rate (TBF) and the Reference Rate (TR).

3,356, dated 7.19.2007 – Dealt with the value of parameter “b” treated in Resolution no. 3,354/2006, altered by Resolution no. 3,446/2007.

3,357, dated 7.23.2007 – Determined earnings for execution of the Educational Credit Program, treated in Law no. 8,436/1992.

3,358, dated 8.16.2007 – Altered Circular no. 3,298, dated November 1, 2005, and the Regulations on the Custody of Cash Reserves at the Central Bank of Brazil, appended to that Circular.

3,359, dated 8.23.2007 – Dealt with institution of the organizational component of the ombudsman by group buyer administration companies.

3,360, dated 9.12.2007 – Defined procedures for calculating the share of Required Base Capital (PRE) referring to exposures weighted by risk factor, treated in Resolution no. 3,490/2007.

3,361, dated 9.12.2007 – Defined procedures for calculating the share of Required Base Capital (PRE) referring to exposures subject to variations in preset interest rates denominated in real, treated in Resolution no. 3,490/2007.

3,362, dated 9.12.2007 – Defined procedures for calculating the share of Required Base Capital (PRE) referring to exposures subject to variations in the coupon rate of foreign currencies, treated in Resolution no. 3,490/2007.

3,363, dated 9.12.2007 – Defined procedures for calculating the share of Required Base Capital (PRE) referring to exposures subject to variations in the coupon rate of price indices, treated in Resolution no. 3,490/2007.

3,364, dated 9.12.2007 – (Canceled and reissued on 9.25.2007) – Defined procedures for calculating the share of Required Base Capital (PRE) referring to exposures subject to variations in the coupon rate of interest rates, treated in Resolution no. 3,490/2007.

3,365, dated 9.12.2007 – Dealt with measuring the interest rate risk of operations not classified in the business portfolio.

3,366, dated 9.12.2007 – Defined procedures for calculating the share of Required Base Capital (PRE) referring to exposures subject to stock price variations, treated in Resolution no. 3,490/2007. Initially, it should be stressed that, for purposes of calculating capital requirements for stocks, only operations included in the business portfolio are to be considered. Adapting the standard methodology proposed by the Basel Bank Supervision Committee to the Brazilian reality, this circular called for calculation of a share related to specific risk and another share to general market risk. The first is obtained on the basis of the product between the specific risk factor, equal to 0.08, or 0.04 in the case of portfolios considered diversified according to criteria defined by this Central Bank, and the sum total of the absolute values of the net exposures of each issuer. The share of general risk, in its turn, makes offsetting possible among net long and short exposures of different issuers, being obtained on the basis of the product between the general risk factor, equal to 0.08, and the absolute value of the sum total of the net exposures of each issuer, considering net short exposures as a negative value. In analogous terms, treatment of positions in investment fund quotas can also be done by considering exposures in quotas in light of the composition of the fund portfolio or, should this not be possible, considering these quotas as the shares of an issuer. This circular goes into effect as of July 1, 2008.

3,367, dated 9.12.2007 – (Canceled and reissued on 9.17.2007) – Consolidated procedures for calculating and elaborating information related to the monitoring and control of exposures in gold, foreign currencies and assets and liabilities subject to exchange rate variation. Introduced improvements for existent convertibility risk in operations carried out abroad, emphasizing: i) calculation of exposures according to the sale price of the foreign currencies, based on market practice; ii) permission for institutions to define the currencies to be included in long exposures associated to the short position resulting from foreign participation; iii) permitted exposures related to resources obtained abroad that are the object of transfers to credit operations in the framework of the financial conglomerate to be excluded, up to 12.31.2007, for purposes of calculation of segmented exposure in Brazil and abroad. In calculating the volume of exchange exposure, three shares are considered that, added together, are multiplied by an “F” factor, currently set at 1.00. Alterations in the system of calculation of exchange exposure go into effect upon publication of this instrument.

3,368, dated 9.12.2007 – Determined procedures for calculating the share of Required Base Capital (PRE) referring to exposures subject to commodity price variations, treated in Resolution no. 3,490/2007.

3,369, dated 10.19.2007 – Dealt with corroboration of compliance with requirements on accessibility set down in Decree no. 5,296/2004, by financial institutions and other institutions authorized to operate by the Central Bank of Brazil.

3,370, dated 10.23.2007 – Dealt with complementary procedures related to implementation of the organizational component of the ombudsman.

3,371, dated 12.6.2007 – Instituted the standardized table of priority services and the basic standardized package, according to the terms of Resolution no. 3,518/2007.

3,372, dated 12.13.2007 – Announced the methodology for calculating the average rate of real/dollar exchange released by the Central Bank of Brazil (System of Exchange Rate Control and Information – PTAX) and altered the International Exchange and Capital Market Regulations (RMCCI) as regards procedures for registering electronic interbank exchange operations.

3,373, dated 12.21.2007 – Dealt with independent auditing services provided to administrators of buyer groups.

Foreign Trade Secretariat Circulars

3, dated 1.22.2007 – Announced the final result of the 2006 Annual Review of the United States Generalized System of Preferences (GSP), published in Volume 72, no. 10, pages 2,033 to 2,035 of the Federal Register, on 1.17.2007, in the document Generalized System of Preferences (GSP), available at the following electronic address: www.ustr.gov/assets/Trade_Development/Preference_Programs/GSP/asset_upload_file19_10292.pdf.

6, dated 2.15.2007 – Announced that the quota entitled to the benefit of 100% of tariff preference, corresponding to exports from Brazil to Uruguay in the period extending from 1.1.2007 to 6.30.2007, involving 3,250 automobiles and light commercial vehicles of up to 1,500 kg of cargo capacity, encompassed by the Mercosul Common

Nomenclature (NCM) codes shown in Appendix I of the 31st Additional Protocol to the Economic Complementation Agreement (ACE) no. 18 and that comply with the provisions contained in the 62nd Additional Protocol to ACE no. 2, was distributed among the companies cited.

25, dated 5.30.2007 – Announced that, according to the terms of the notification published in the 2007 Federal Register, United States authorities informed the public with regard to the start of the 2007 annual review of the Generalized System of Preferences (GSP). Brazilian entities interested in the question may send petitions by e-mail to the offices of the United States Trade Representative (USTR), with petitions for inclusion of products in the GSP system of the United States or for granting of waivers from the limits on competitiveness set down in the United States SGP program.

30, dated 6.18.2007 – Announced the system of redistribution among the companies mentioned therein of the quota resulting from application of the 65th Additional Protocol, involving 3,250 automobiles and light commercial vehicles with cargo capacity of up to 1,500 kg, included in the Common Mercosul Nomenclature (NCM) codes shown in Appendix I of the 31st Additional Protocol to Economic Complementation Agreement no. 18 and that comply with the provisions contained in the 62nd Additional Protocol to Economic Complementation Agreement no. 2, entitled to the benefit of 100% tariff preference in exports from Brazil to Uruguay.

35, dated 7.6.2007 – Announced that termination of the 2006 Annual Review of the United States General System of Preferences (GSP) was published in Volume 72, no. 125, of the *Federal Register*, on 6.29.2007, in document *Proclamation 8157, dated 6.28.2007 – To Modify Duty-Free Treatment under the Generalized System of Preferences, Takes Certain Actions under the African Growth and Opportunity Act, and for Other Purposes, by the President of the United States of America*, available on the official site of the United States government at the following electronic address: http://www.ustr.gov/assets/Trade_Development/Preference_Programs/GSP/GSP_Results_of_the_2006_Annual_ Review/asset_upload_file58_12946.pdf.

36, dated 7.11.2007 – Dealt with consolidation of the procedures applicable to imports, exports and drawback and repealed Directive no. 35/2006 and other normative instruments stated therein.

51, dated 9.17.2007 – Announced the system of redistribution among the companies mentioned therein of the quota of 6,500 automobiles and light commercial vehicles with cargo capacity of up to 1,500 kg, included in the Mercosul Common Nomenclature (NCM) codes shown in Appendix I of the 31st Additional Protocol To Economic Complementation Agreement no. 18 and that comply with the provisions contained in the 67th Additional Protocol to Economic Complementation Agreement no. 2, entitled to the benefit of 100% tariff preference in exports from Brazil to Uruguay.

61, dated 10.31.2007 – Announced that the United States Trade Representative (USTR), of the United States government, published a communiqué under the title: *Generalized System of Preferences (GSP): Import Statistics Relating to Competitive Need Limitations; 2007 Annual GSP Review; Petitions Requesting CNL* in the *Federal Register*, volume 72, 205, pages 60,395 to 60,396, on 10.24.2007, providing information on the availability of provisional statistics on United States imports in the period extending from January to August of the 2007 fiscal year.

Central Bank of Brazil Circulars Letters

3,277, dated 5.31.2007 – Elucidated the doubt raised by members of the financial system with regard to prior notification deposits, automatic reinvestment and deposits of stockholders in credit, finance and investment companies existent on the date of publication of Resolution no. 3,454. As stated in article 4, single paragraph, of the aforesaid resolution, it is possible to maintain these investments until their respective maturities.

Ministry of Agriculture, Livestock and Supply Directive

309, dated 10.9.2007 – Determined that allocation of the preferential quota of sugar exports targeted to Brazil by the United States will be done at sugar production units located in the north and northeast regions, in the volumes specified therein, after deduction of polarization for purposes of export in the 2007/2008 harvest year. The operation will observe the participation of each state in the allocation made in previous years and weighting of each industrial unit according to its production of sugarcane derivatives in the 2006/2007 harvest.

Ministry of Science and Technology Directive

685, dated 10.25.2007 – Dealt with procedures for inclusion of new product models already qualified for the fiscal incentive instituted by Informatics Legislation, as determined in §5 of article 22 of Decree no. 5,906/2006, and revoked Interministerial Directive of the Ministry of Science and Technology (MCT)/Ministry of Development, Industry and Foreign Trade (MDIC) no. 151/2006.

Ministry of Development, Industry and Foreign Trade Directives

7, dated 1.17.2007 – Regulated the rules and procedures for implementation of the 35th Additional Protocol to Economic Complementation Agreement no. 14 (Automotive Agreement), formalized between Brazil and Argentina on 6.28.2006.

232, dated 12.4.2007 – Replaced the Appendix to Directive no. 58, dated 4.10.2002, which listed the products apt for the Export Financing Program (Proex), post-shipment stage.

Foreign Trade Secretariat Directive

33, dated 10.30.2007 – Altered Foreign Trade Secretariat (Secex) Directive no. 35, dated 11.24.2006, aimed at implementing the Drawback Web, and revoked Secex Circular no. 39, dated 8.3.2007.

Ministry of Finance Directive

214, dated 8.28.2007, republished on 8.31.2007 – Created a Work Group to evaluate the possibility of closer cooperation between Brazil and the Organisation for Economic Co-operation and Development (OECD), in the framework of the Ministry of Finance.

National Treasury Secretariat Directives

177, dated 3.29.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), for the amount of R$45.046.120,97 (forty five million, forty six thousand, one hundred and twenty reais and ninety seven centavos), referenced to 3.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

350, dated 6.11.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$47.501.759,29 (forty seven million, five hundred and one thousand, seven hundred and fifty nine reais and twenty nine centavos), referenced to 5.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

403, dated 6.27.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$28.343.820,99 (twenty eight thousand, three hundred and forty three thousand, eight hundred and twenty reais and ninety nine centavos), referenced to 6.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

490, dated 7.23.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$17.036.383,11 (seventeen million, thirty six thousand, three hundred and eighty three reais and eleven centavos), referenced to 7.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

566, dated 8.28.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$39.986.517,65 (thirty nine million, nine hundred and eighty six thousand, five hundred and seventeen reais and sixty five centavos), referenced to 8.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

627, dated 9.24.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$17.929.912,60 (seventeen million, nine hundred and twenty nine thousand, nine hundred and twelve reais and sixty centavos), referenced to 9.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

692, dated 10.30.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$17.367.163,20 (seventeen million, three hundred and sixty seven thousand, one hundred and sixty three reais and twenty centavos), referenced to 10.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

735, dated 11.21.2007 – Authorized issuance of National Treasury Notes – Series I (NTN-I), in the amount of R$27.267.243,60 (twenty seven million, two hundred and sixty seven thousand, two hundred and forty three reais and sixty centavos), referenced to 11.15.2007, to be utilized in payment of interest rate equalization in financing of exports of Brazilian goods and services under the terms of the Export Financing Program (Proex).

Ministry of Justice Directive

2,258, dated 12.28.2007 – Approved the Internal Bylaws of the National Council for Combating Piracy and Crimes against Property and revoked Directive no. 1, 207/2005.

Normative Instructions Issued by the Federal Revenue Secretariat of Brazil

722, dated 2.12.2007 – Altered Normative Instruction no. 687/2006, which deals with submission of information related to foreign currency resources maintained abroad and consequent upon inflows of exports of merchandise and services.

726, dated 2.28.2007 – Dealt with exchange operations and maintenance of resources abroad in foreign currency related to exports of merchandise and services, and instituted the Declaration on the Utilization of Foreign Currency Resources Consequent upon Export Inflows (Derex).

731, dated 4.3.2007 – Altered Normative Instruction no. 680, dated 10.2.2006, which disciplines customs clearance of imports.

744, dated 5.31.2007 – Altered Normative Instruction no. 252/2002, which deals with the levying of the income withholding tax on earnings paid, credited, employed, delivered or rebated to individuals or corporate entities resident or domiciled abroad in the cases mentioned therein, such as participation in commercial promotion fairs and events.

794, dated 12.19.2007 – Altered Normative Instruction no. 560/2005, which deals with Customs Clearance of Imports and Express Remittance Exports.

799, dated 12.26.2007 – Dealt with customs clearance of imports of goods to be utilized in scientific and technological research.

Appendix

Members of the Conselho Monetário Nacional

Banco Central do Brasil Management

Central units (departments) of the Banco Central do Brasil

Regional offices of the Banco Central do Brasil

Acronyms

Members of the Conselho Monetário Nacional (December 31, 2007)

Guido Mantega
Minister of Finance – President

Paulo Bernardo
Minister of Planning and Budget

Henrique de Campos Meirelles
Governor of the Banco Central do Brasil

Banco Central do Brasil Management (December 31, 2007)

Board of Directors

Henrique de Campos Meirelles
Governor

Afonso Sant'Anna Bevilaqua
Deputy Governor

Alexandre Antonio Tombini
Deputy Governor

Alvir Alberto Hoffmann
Deputy Governor

Antero de Morais Meirelles
Deputy Governor

Antonio Gustavo Matos do Vale
Deputy Governor

Mario Gomes Torós
Deputy Governor

Mário Magalhães Carvalho Mesquita
Deputy Governor

Paulo Vieira da Cunha
Deputy Governor

Board of Governors Executive Secretariat

Executive Secretary:	Sérgio Almeida de Souza Lima
Secretary for the Board of Governors and for the Conselho Monetário Nacional:	Sérgio Albuquerque de Abreu e Lima
Secretary for Institutional Relations:	José Linaldo Gomes de Aguiar

Consultants for the Board of Governors

Carolina de Assis Barros
Dalmir Sérgio Louzada
Katherine Hennings
Sidinei Corrêa Marques
Sidinei Corrêa Marques
Clarence Joseph Hillerman Júnior
Flávio Pinheiro de Melo
Marco Antonio Belem da Silva

Central units of the Banco Central do Brasil (December 31, 2007)

Banking Operations Department (Deban)
Head: *José Antônio Marciano*
SBS – Quadra 3 – Edifício-Sede – 18º andar
70074-900 Brasília – DF

Congressional Affairs Office (Aspar)
Head: *Luiz do Couto Neto*
SBS – Quadra 3 – Edifício-Sede – 19º andar
70074-900 Brasília – DF

Currency Management Department (Mecir)
Head: *João Sidney de Figueiredo Filho*
Av. Rio Branco, 30 – Centro
20090-001 Rio de Janeiro – RJ

Department of Analysis and Control of Disciplinary Actions (Decap)
Head: *Claudio Jaloretto*
SBS – Quadra 3 – Edifício-Sede – 14º andar
70074-900 Brasília – DF

Department of Bank Liquidation (Deliq)
Head: *José Irenaldo Leite de Ataíde*
SBS – Quadra 3 – Edifício-Sede – 2º subsolo
70074-900 Brasília – DF

Department of Economics (Depec)
Head: *Altamir Lopes*
SBS – Quadra 3 – Edifício-Sede – 10º andar
70074-900 Brasília – DF

Department of External Debt and International Relations (Derin)
Head: *Ronaldo Malagoni de Almeida Cavalcante*
SBS – Quadra 3 – Edifício-Sede – 4º andar
70074-900 Brasília – DF

Department of Financial System Organization (Deorf)
Head: *Luiz Edson Feltrim*
SBS – Quadra 3 – Edifício-Sede – 19º andar
70074-900 Brasília – DF

Department of Financial System Regulation (Denor)
Head: *Amaro Luiz de Oliveira Gomes*
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Department of Human Resources Administration (Depes)
Head: *Miriam de Oliveira*
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Department of Information Systems Management (Deinf)
Head: *Fernando de Abreu Faria*
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Department of International Reserves Operations (Depin)
Head: *Márcio Barreira de Ayrosa Moreira*
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Department of Material Resources Administration (Demap)
Head: *Dimas Luís Rodrigues da Costa*
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Department of Off-site Supervision and Information Management (Desig)
Head: *Cornélio Farias Pimentel*
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Department of Open Market Operations (Demab)
Head: *João Henrique de Paula Freitas Simão*
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Department of Planning and Management Overview of Supervisory Activities (Decop)
Head: *Arnaldo de Castro Costa*
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Department of Supervision of Credit Unions and Non-banking Financial Institutions and Financial System Consumer Complaints (Desuc)
Head: *Gilson Marcos Balliana*
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Department of Surveillance of Illegal Activities and Supervision of Foreign Exchange and International Capital Flows (Decic)
Head: *Ricardo Liáo*
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Financial Administration and Budget Department (Deafi)
Head: *Jefferson Moreira*
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Internal Auditing Department (Deaud)
Head: *José Aisio Catunda Aragão*
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Legal Department (PGBC)
General Attorney: *Francisco José de Siqueira*
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Office of the Corregidor (CGBCB)
Corregidor: *Jaime Alves de Freitas*
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Office of the Ombudsman (Ouvid)
Ombundsman: *Hélio José Ferreira*
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On site Supervision Department (Desup)
Head: *Osvaldo Watanabe*
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Planning and Budget Department (Depla)
Head: *José Clóvis Batista Dattoli*
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Research Department (Depep)
Head: *Carlos Hamilton Vasconcelos Araújo*
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Security Department (Deseg)
Head: *Sidney Furtado Bezerra*
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Executive Office

Exchange and Foreign Capital Regulation Executive Office (Gence)
Head: *Geraldo Magela Siqueira*
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Executive Office for Monetary Policy Integrated Risk Management (Gepom)
Head: *Isabela Ribeiro Damaso Maia*
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Executive Office for Projects (Gepro)
Head: *Nivaldo Peçanha de Oliveira*
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Executive Office for Special Studies (Geesp)
Head: *Eduardo Fernandes*
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Executive Office for Supervisory Affairs (Gefis)
Head: *Andreia Lais de Melo Silva Vargas*
SBS – Quadra 3 – Edifício-Sede – 6º andar
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Executive Office on Bank Privatization (Gedes)
Head: *Geraldo Pereira Junior*
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Investor Relations Group (Gerin)
Head: *Renato Jansson Rosek*
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Proagro Executive Office (GTPRO)
Head: *Deoclécio Pereira de Souza*
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Regional offices of the Banco Central do Brasil (December 31, 2007)

1st Region – Regional Office in Belém (ADBEL)
Regional Delegate: *Maria de Fátima Moraes de Lima*
Jurisdiction: Acre, Amapá, Amazonas, Pará, Rondônia and Roraima
Boulevard Castilhos França, 708 – Centro
Caixa Postal 651
66010-020 Belém – PA

2nd Region – Regional Office in Fortaleza (ADFOR)
Regional Delegate: *Luiz Edivam Carvalho*
Jurisdiction: Ceará, Maranhão and Piauí
Av. Heráclito Graça, 273 – Centro
Caixa Postal 891
60140-061 Fortaleza – CE

3rd Region – Regional Office in Recife (ADREC)
Regional Delegate: *Cleber Pinto dos Santos*
Jurisdiction: Alagoas, Paraíba, Pernambuco and Rio Grande do Norte
Rua da Aurora, 1.259 – Santo Amaro
Caixa Postal 1.445
50040-090 Recife – PE

4th Region – Regional Office in Salvador (ADSAL)
Regional Delegate: *Antônio Carlos Mendes Oliveira*
Jurisdiction: Bahia and Sergipe
Av. Anita Garibaldi, 1.211 – Ondina
Caixa Postal 44
40210-901 Salvador – BA

5th Region – Regional Office in Belo Horizonte (ADBHO)
Regional Delegate: *Everaldo José da Silva Júnior*
Jurisdiction: Minas Gerais, Goiás and Tocantins
Av. Álvares Cabral, 1.605 – Santo Agostinho
Caixa Postal 887
30170-001 Belo Horizonte – MG

6th Region – Regional Office in Rio de Janeiro (ADRJA)
Regional Delegate: *Paulo dos Santos*
Jurisdiction: Espírito Santo and Rio de Janeiro
Av. Presidente Vargas, 730 – Centro
Caixa Postal 495
20071-900 Rio de Janeiro – RJ

7th Region – Regional Office in São Paulo (ADSPA)
Regional Delegate: *Fernando Roberto Medeiros*
Jurisdiction: São Paulo
Av. Paulista, 1.804 – Bela Vista
Caixa Postal 894
01310-922 São Paulo – SP

8th Region – Regional Office in Curitiba (ADCUR)

Regional Delegate: *Salim Cafruni Sobrinho*
Jurisdiction: Paraná, Mato Grosso and Mato Grosso do Sul
Av. Cândido de Abreu, 344 – Centro Cívico
Caixa Postal 1.408
80530-914 Curitiba – PR

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

Regional Delegate: *José Afonso Nedel*
Jurisdiction: Rio Grande do Sul and Santa Catarina
Rua 7 de Setembro, 586 – Centro
Caixa Postal 919
90010-190 Porto Alegre – RS

Acronyms

Abitrigo	Brazilian Association of the Wheat Industry
ACC	Advances on Exchange Contracts
ACC	Asian Consultative Council
ACE	Advance of Exchange Delivered
ACSP	São Paulo Trade Association
ADCT	Transitory Constitutional Provisions
Adene	Northeast Development Agency
Anatel	National Telecommunications Agency
Anda	National Association for Fertilizer Dissemination
ANP	National Petroleum Agency
ANS	National Supplementary Health Agency
Apex	Export Promotion Agency
Apex-Brasil	Export Promotion Agency of Brazil
b.p.	Basis point
BIB	Brazil Investment Bond
BIS	Bank for International Settlements
BIT	Informatics and Telecommunications Goods
BK	Capital Goods
BNDES	National Bank of Economic and Social Development
BNDESpar	BNDES Participações S.A.
BoE	Bank of England
BoJ	Bank of Japan
Bovespa	São Paulo Stock Exchange
CAF	Andean Development Corporation
Caged	General File of Employed and Unemployed Persons
Camex	Foreign Trade Council
CCA	Consultative Council for the Americas
CCR	Reciprocal Credit and Payment Agreement
CCS	National Financial System Client Reference File
CEF	Federal Savings Bank
Cemla	Centre for Latin American Monetary Studies
Cepal	Economic Commission for Latin America and the Caribbean
CET	Total effective cost
CGPAR	Interministerial Commission on Corporate Governance and Administration of Federal Stockholdings
CGSN	National "Simples" Management Committee
CLT	Consolidated Labor Legislation
CMN	National Monetary Council
CNI	National Confederation of Industry
CNSP	National Private Insurance Council
Cofins	Contribution to Social Security Financing
Conab	Companhia Nacional de Abastecimento
Copom	Monetary Policy Committee
Cosif	Accounting Plan of the National Financial System Institutions
CPMF	Provisional Contribution on Financial Operations

CSLL	Social Contribution on Net Corporate Profits
CVM	Securities and Exchange Commission
DAX	Deutscher Aktienindex
Derex	Declaration On Utilization of Foreign Currency upon Reception of Exports
DI	Interbank Deposit
DOU	Official Daily Government Newspaper
DPMFi	Internal Federal Public Securities Debt
DRU	Release of Federal Government Resources Entitlements
ECB	European Central Bank
EGF	Federal Government Loans
Eletrobrás	Brazilian Power Stations
Embi+	Emerging Markets Bond Index Plus
EPE	Energy Research Company
FAC	Coffee Acquisition Financing
FAT	Worker Support Fund
FDA	Amazon Region Development Fund
FDI	Foreign Direct Investments
FNDE	Northeast Development Fund
Fecomercio SP	State of São Paulo Trade Federation
Fenabrave	National Federation of Automotive Vehicle Distribution
FGE	Export Guarantee Fund
FGTS	Employment Compensation Fund
FGV	Getulio Vargas Foundation
FI-FGTS	Employment Compensation Fund Investment Fund
Finame	Special Industrial Financing Agency
FIP	Stock Investment Fund
FIP-IE	Infrastructure Participation Investment Fund
Fipe	Economic Research Institute Foundation
FIP-IE	Infrastructure Participation Investment Fund
FMP-FGTS	Mutual Privatization Funds – FGTS
FMP-FGTS-CL	Mutual Privatization Funds – FGTS – Free Portfolio
FNDCT	National Scientific and Technological Development Fund
FNPS	National Social Security Forum
FPM	Revenue Sharing Fund of Municipalities
FRA	Financing of Agribusiness Receivables
Franave	São Francisco Navigation Company
FSA	Financial Sector Analysis
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSSA	Financial System Stability Assessment
FTSE 100	Financial Times Securities Exchange Index
Funcafé	Coffee Economy Defense Fund
Funcex	Foreign Trade Studies Center Foundation
Fundeb	Fund for Maintenance and Development of Basic Education and Enhancement of Education Professionals
G-20	Group of 20
Gantec	High Level Group to Examine the Consistency and Dispersion of the TEC

GCF	Gross Capital Formation
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GFSR	Global Financial Stability Report
GLP	Liquefied petroleum gas
GMC	Common Market Group
GSP	Generalized System of Preferences
IA	Investment Account
IBGE	Brazilian Institute of Geography and Statistics
Ibovespa	São Paulo Stock Exchange Index
IBRD	International Bank for Reconstruction and Development
ICC	Consumer confidence index
Icea	Current Economic Conditions Index
ICMS	Tax on the Circulation of Merchandise and Services
ICT	Scientific and Technological Institution
ID	Interbank Deposit
IDB	Inter-American Development Bank
IE	Expectations Index
IEC	Consumer Expectations Index
IFC	International Finance Corporation
IGP-DI	General Price Index
IGP-M	General Price Index – Market
II	Import Tax
IIP	International Investment Position
IMF	International Monetary Fund
INC	National Confidence Index
INCC	National Cost of Construction Index
Inmetro	National Institute of Metrology and Industrial Quality
INPC	National Consumer Price Index
INPC-Br	National Consumer Price Index – Brazil
INSS	National Social Security Institute
IOF	Financial Operations Tax
IOSCO	International Organization of Securities Commissions
IPA-DI	Wholesale Price Index
IPA-OG-PA	Wholesale Price Index – Overall Supply – Agricultural Products
IPA-OG-PI	Wholesale Price Index – Overall Supply – Industrial Products
IPC	Consumer Price Index
IPC	Índice de Precios y Cotizaciones
IPCA	Extended National Consumer Price Index
IPI	lndustrialized Products Tax
IR	Income Tax
IRPF	Individual Income Tax
IRPJ	Corporate Income Tax
ISA	Current Situation Index
Jalsh	JSE All Share Index
Laia	Latin America Association of Integration
LEC	Special Trade Credit Line
LFT	National Treasury Financing Bills

Loas	Social Assistance Law
LTCM	Long-Term Capital Management
LTN	National Treasury Bills
MCT	Ministry of Science and Technology
MDIC	Ministry of Development, Industry and Foreign Trade
Mercosur	Southern Common Market
Merval	Buenos Aires Stockmarket Index
MME	Ministry of Mines and Energy
Moderagro	Program of Agricultural Modernization and Natural Conservation Resources
Moderfrota	Program of Modernization of the Farm Tractor and Associated Implements and Harvesters fleet
MTE	Ministry of Labor and Employment
MYDFA	Multi-Year Deposit Facility Agreement
Naladi/SH	Nomenclature of the Latin American Association of Integration/ Harmonized System of Merchandise Designation and Codification
NCM	Mercosul Common Nomenclature
NGL	Natural gas liquid
NTN-B	National Treasury Notes – Series B
NTN-C	National Treasury Notes – Series C
NTN-D	National Treasury Notes – Series D
NTN-F	National Treasury Notes – Series F
NTN-I	National Treasury Notes – Series I
Nuci	Installed capacity utilization level
OECD	Organisation for Economic Co-operation and Development
PAC	Growth Incentive Program
Padis	Program of Support to Technological Development of the Semiconductor Industry
PAF	Annual Financing Plan
PAM	Mercosul Automotive Policy
PAP	Agriculture and Livestock Plan
Pasep	Civil Service Asset Formation Program
PATVD	Program of Support to Technological Development of the Digital TV Equipment Industry
PIM	Monthly Industrial Survey
PIS	Social Integration Program
PLE	Required Net Worth
PMC	Monthly Retail Trade Survey
PME	Monthly Employment Survey
PND	National Development Program
PNDR	National Regional Development Policy
p.p.	Percentage points
PPI	Pilot Investment Project
PR	Base Capital
PRE	Required Base Capital
Proagro	Farm Activity Guarantee Program
Procera	Special Program of Credits to Agrarian Reform
Prodeagro	Agribusiness Development Program
Prodefruta	Program of Development of Fruit Farming

Proex	Export Financing Program
Proger Rural	Rural Employment and Income Generation Program
Pró-Moradia	Federal Government Housing Program
Pronaf	National Program for Strengthening Family Agriculture
Pronaf Agroindústria	National Program for Strengthening Family Agriculture – Agribusiness
Pronasci	National Program of Public Security with Citizenship
PSH	Program of Subsidies to Housing of Social Interest
PSND	Public Sector Net Debt
PTAX	System of Exchange Rate Control and Information
p.y.	Per year
RDB	Bank Deposit Receipt
Recap	Special Capital Goods Acquisition System for Exporting Companies
Reidi	Special System of Incentives for Infrastructure Development
Reporto	Tax System for Incentives to Port Structure Modernization and Expansion
Revitaliza	Program for Supporting the Revitalization of the Footwear, Furniture and Apparel Sectors
RFB	Federal Revenue Secretariat of Brazil
RFFSA	Federal Railway Network
RGPS	General Social Security System
RMCCI	International Exchange and Capital Market Regulations
ROSC	Reports on the Observance of Standards and Codes
RTU	Unified Taxation System
S&P 500	Standard and Poor's 500
SBPE	Brazilian System of Savings and Loans
SBR	Risk-Based Supervision System
SCPC	Credit Protection Service Center
SDA	Special Disbursement Account
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
Secex	Foreign Trade Secretariat
Selic	Special System of Clearance and Custody
SFN	National Financial System
Sibratec	Brazilian System of Technology
Siscomex	Integrated Foreign Trade System
Sisprom	Export Promotion Remittance Authorization System
SML	Local Currency Payments System
Sped	Public Digital Accounting System
STN	National Treasury Secretariat
Sudam	Amazon Region Development Authority
Sudene	Northeast Region Development Authority
TAF	Term Auction Facility
TBF	Basic Financing Rate
TEC	Common External Tariff
Tipi	Industrialized Products Tax Table
TJLP	Long-Term Interest Rate
TR	Reference Rate
Unctad	United Nations Conference on Trade and Development

USTR	United States Trade Representative
VIX	Chicago Board Options Exchange Volatility Index
WEO	World Economic Outlook
WIPO	World Industrial Property Organization
WTO	World Trade Organization
XU100	Istanbul Stock Exchange National 100 Index