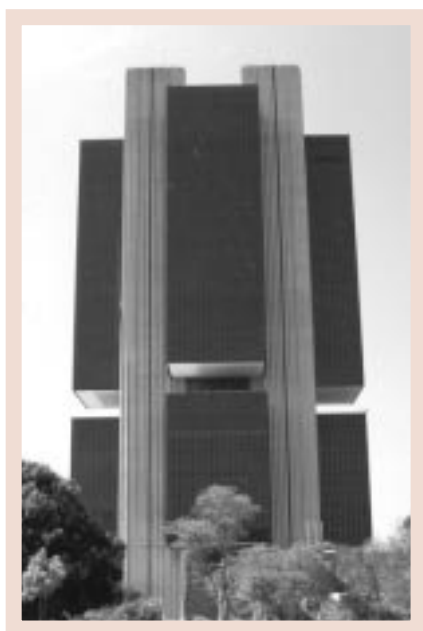


# ANNUAL REPORT

1 9 9 7



ISSN 0104-3307  
CGC 00038 166/0001-05

Boletim do Banco Central do Brasil	Annual Report 1997	Brasília October 1998	Volume 34	P. 1 - 216
------------------------------------	-----------------------	--------------------------	--------------	------------

# Boletim do Banco Central do Brasil

Published monthly by the Banco Central do Brasil/Economic Research Department (Depec). The contents and their correspondent statistical tables are under the charge of the following component parts:

**The Brazilian economy** - Consultative Group on Economic Analysis and Policy (Copec);

**Economic activity** - Consultative Group on Domestic Economic Activity (Coace);

**Financial markets** - Monetary and Banking Division (Dimob);

**Public finance** - Public Finance Division (Difin);

**Balance of payments** - Balance of Payments Division (Dibap).

**The international economy** - Balance of Payments Division (Dibap).

**International financial organization** - Department of Foreign Debt and External Relations (Derin).

**Balance sheet of the Banco Central do Brasil** - Department of Financial Administration (Deafi).

## Information on the Boletim:

Phone (061) 414-1016

Fax (061) 414-2036

Telex (061) 1299 (BCBR BR)

E-mail: depec.copin@bcb.gov.br

Subscription request: subscribers should complete the accompanying form at the last page and send it with a cheque for the appropriate amount payable to the Banco Central do Brasil at the following prices: R\$ 258.00 (domestic) and US\$ 801.11 (abroad) to the General Control of Subscription. Subscription to the Boletim includes twelve monthly issues and the Annual Report.

Reproduction permitted only if source is stated as follows: Boletim do Banco Central do Brasil, Volume 34, 1997 Annual Report.

## General Control of Subscription:

Banco Central do Brasil

Demap/Disud/Suimp

SIG - Quadra 8 - Lote 2025

70610-400 - Brasília (DF)

Phone (061) 344-1554

Fax (061) 344-2982

Single copy: R\$ 19,05

Number printed: 300 (1,600 in Portuguese)

## Statistical Conventions:

... data not available.

- nil or non-existence of the event considered.

0 ou 0,0 less than half the final digit shown.

\* preliminary figures.

A hipphen (-) between years (1970-75) indicates the years covered, including the beginning and ending years.

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.

Minor discrepancies between constituent figures and totals as well as percentage changes are due to rounding.

There are no references to sources in tables and graphs originated in the Banco Central do Brasil.

## Other publications of the Banco Central do Brasil (In portuguese, unless otherwise indicated)

Records of Documents

Foreign Capital in Brazil - Legislation

Foreign Capital in Brazil - Legislation (in English)

Consolidation of Exchange Norms

Consolidation of Exchange Norms (exchange transactions)

Consolidation of Exchange Norms (floating rates)

Consolidation of Exchange Norms (exports)

Accounting System of the National Financial System Institutions

Consortium Operation Position

Agribusiness Credit Manual

Rural Credit Manual

Norms and Instructions Information

## Banco Central do Brasil Information Bureau

phones: (061) 414-2401, 414-2402, 414-2403

address: Secretaria Executiva da Diretoria/Subsecretaria de Relações Institucionais/Divisão de Informação

Núcleo de Atendimento

Edifício-Sede, 2º subsolo

SBS - Quadra 3, Zona Central

70074-900 - Brasília (DF)

internet: <http://www.bcb.gov.br>



# SUMMARY

<b>I - THE BRAZILIAN ECONOMY</b> .....	9
Foreword .....	9
Production indicators .....	13
Investments .....	16
Productivity .....	19
Industrial production indicators .....	20
Energy .....	22
Crop and livestock production indicators .....	25
Employment indicators .....	30
Salary and wage indicators .....	32
Price indicators .....	33
<b>II - FINANCIAL MARKETS</b> .....	35
Monetary aggregates .....	37
Interest rates, federal security auctions and exchange premiums .....	44
Financial investments .....	46
Financial system .....	51
Financial system loans .....	56
<b>III - PUBLIC FINANCE</b> .....	61
Fiscal and budget policies .....	61
Public debt and public sector borrowing requirements .....	69
Federal securities debt .....	73
Privatization .....	77
National Treasury budget operations .....	85
Social security .....	87
State and municipal finances .....	89

(continues)

<b>IV - ECONOMIC-FINANCIAL RELATIONS WITH THE INTERNATIONAL COMMUNITY</b> .....	93
Foreign trade policy .....	93
Exchange policy .....	99
Exchange movements .....	103
International reserves .....	105
Balance of payments .....	106
Trade balance .....	106
Services .....	121
Unrequited transfers .....	123
Capital movement .....	123
Foreign indebtedness .....	127
Total foreign debt .....	127
Medium and long-term debt .....	131
Short-term debt .....	132
Net transfers of resources abroad .....	133
<b>V - THE WORLD ECONOMY</b> .....	135
Production .....	135
Employment .....	137
Interest rates and inflation .....	138
World trade .....	141
Balance of payments .....	144
International exchange market .....	145
Gold and petroleum .....	146
International reserves .....	147
Foreign debt .....	148
<b>VI - INTERNATIONAL FINANCIAL ORGANIZATIONS</b> .....	149
International Monetary Fund (IMF) .....	150
Bank for International Settlements (BIS) .....	152
World Bank Group .....	153
Interamerican Development Bank Group (IDB) .....	156
African Development Bank Group (ADB/ADF) .....	157
International Fund for Agricultural Development (IFAD) .....	158
Financial Fund for the Development of the River Plate Basin (Fonplata)	159
Andean Development Corporation (ADC) .....	160
Southern Common Market (Mercosul) .....	161
Free Trade Area of the Americas (FTAA) .....	163
World Trade Organization and GATS .....	164
<b>VII - MAIN ECONOMIC POLICY MEASURES</b> .....	165
National Monetary Council Resolutions .....	165
Banco Central do Brasil Circulars .....	177
<b>APPENDIX</b> .....	185

## Statistical Tables

### Chapter I

1.1	Gross domestic product (GDP) .....	14
1.2	GDP real annual growth rates .....	15
1.3	Gross capital formation (GCF) .....	17
1.4	Capacity utilization .....	21
1.5	Industrial production .....	22
1.6	Oil derivatives and fuel alcohol .....	23
1.7	Electric energy consumption .....	24
1.8	Agricultural production - major crops .....	27
1.9	Real average earnings of occupied people .....	32

### Chapter II

2.1	Monetary program .....	38/39
2.2	Factors affecting the monetary base .....	41
2.3	Collection rate on mandatory reserves .....	42
2.4	Financial assets .....	43
2.5	Secondary stock market .....	50
2.6	Primary stock market .....	50
2.7	Primary debenture market .....	51
2.8	Principal indicators of the banking system .....	54
2.9	Institutions allowed to operate by the Central Bank .....	55
2.10	Credits granted by the financial system .....	60

### Chapter III

3.1	Public sector borrowing requirements .....	70/71
3.2	Public accounts - uses and sources .....	72/73
3.3	Net debt of the public sector .....	74/75
3.4	Federal securities - balances in R\$ million .....	75
3.5	Federal securities - percentage share of index numbers .....	76
3.6	National Privatization Program .....	78
3.7	National Privatization Program - companies privatized 1991-1997 .....	80/81
3.8	Band B concessions .....	82
3.9	States Programs of Privatization (1997) .....	83
3.10	National Treasury budget operations .....	85
3.11	Gross inflow of federal revenues .....	86
3.12	Personnel expenditure in the Federal Government .....	87
3.13	Social security - cash flow .....	88
3.14	Main source of funds from the states and municipalities .....	90/91

**Chapter IV**

4.1	Exchange movement - free rate market .....	104
4.2	Balance of payments .....	107
4.3	Brazilian exports - FOB .....	109
4.4	Brazilian trade by area - FOB .....	115
4.5	Brazilian imports - FOB .....	117
4.6	Services .....	121
4.7	Sundry services .....	122
4.8	Capital flows .....	124
4.9	Official financing and suppliers'/buyers' credits .....	125
4.10	Gross foreign indebtedness .....	128
4.11	Public registered foreign debt .....	132
4.12	Brazil: Financial flow by foreign creditor .....	133

**Chapter V**

5.1	Annual growth rates of real GDP .....	136
5.2	Annual inflation rates - consumer prices .....	140
5.3	World trade indicators .....	142
5.4	World trade .....	143
5.5	Oil prices in the spot market .....	146
5.6	International reserves - end of period .....	147

## Graphs

### Chapter I

1.1	Industrial productivity .....	19
1.2	Industrial production .....	20
1.3	Grain production .....	25
1.4	Animal products .....	29
1.5	Level of employment .....	31
1.6	Price indices .....	33

### Chapter II

2.1	Banking reserves - valuated balances .....	38
2.2	Monetary base and money supply - monetary program and values confirmed .....	39
2.3	Monetary base and money supply - average daily balances .....	40
2.4	Financial assets - end of period .....	44
2.5	Interest rates .....	45
2.6	Nominal income deflated by the centered GPI-DS .....	47
2.7	Financial investment funds (FIF) .....	48
2.8	Mutual investment funds .....	49
2.9	National Financial System .....	52
2.10	Financial system loans .....	57

### Chapter III

3.1	Federal securities - breakdown by index number .....	76
3.2	Federal securities - average term in market (in days) .....	77
3.3	Domestic and foreign resources used in privatization .....	84

### Chapter IV

4.1	Exchange policy in the Real plan .....	100
4.2	International reserves .....	105
4.3	Brazilian foreign trade - FOB .....	108
4.4	Exports (FOB) by aggregate factor .....	109
4.5	Three month price and quantum indices of Brazilian exports .....	110
4.6	Brazilian trade by area - FOB .....	116
4.7	Brazilian imports (FOB) - by sector .....	118
4.8	Three month price and quantum indices of Brazilian imports .....	119
4.9	Indebtedness indicators .....	129
4.10	Prices of Brazilian securities abroad .....	130
4.11	Registered debt by creditor's nature .....	131
4.12	Registered foreign debt composition - December 1996 .....	131

### Chapter V

5.1	Unemployment rates .....	137
5.2	Interest rates .....	139
5.3	Exchange rates by USD .....	145





# I

## THE BRAZILIAN ECONOMY

### Foreword

In 1997, Brazilian economic policy implementation was, for the most part, dominated by the need to cope with the repercussions of the financial turbulence that exploded in Southeast Asian markets. However, despite the constraints imposed by changes in the international scenario, the level of economic activity closed the year on a positive note. Gross domestic product (GDP) growth of 3% was leveraged by industrial production, particularly in the sectors of capital goods and intermediate goods, while output of consumer goods – the locomotive of economic growth in the early years of the Real Plan – began losing steam. Investment level indicators reinforce this conclusion, registering expansion of 8.2% and 31.3% in production of inputs for the construction industry and imports of capital goods, respectively.

Notwithstanding occasional peaks in farm prices and the process of restructuring public sector tariffs, inflation continued on a downward trajectory in 1997, demonstrating that the policy of purging indexing from the Brazilian economy has clearly reached maturity. Aside from this, when viewed over a twelve month horizon, the prices of tradables and nontradables are evidently converging, mostly as a result of the decline in the expansion of the latter grouping.

Basic interest rates continued downward in the first quarter of 1997 and, as if sensing rising instability on the international scenario, leveled off and remained stable from April to October. With the flare-up of the Asian crisis toward the end of October, pressures on the exchange market began eroding the nation's reserves. In response to this situation, interest rates were raised in order to make it more costly to maintain foreign currency positions. At the same time, the adoption of restrictive fiscal measures signaled the country's intention of adjusting public sector accounts. Parallel to these measures, Banco Central issued measures aimed at stimulating foreign resources inflows. This was done by reducing the minimum average terms for amortization of new loans and renewals and extensions of already existent credit operations. Going beyond these steps, Banco Central increased the supply of papers indexed to exchange and effected definitive sale operations of longer term papers as a means of partially offsetting the drop in banking liquidity

that resulted from net outflows of exchange. These measures had the desired effect of stanching reserve losses, making it possible to recommence cutbacks in basic interest rates as of December 1997, with a sharper reduction of the TBC in relation to the TBAN.

Discount window operations consolidated their position as the major instrument for adjusting financial system liquidity. This is evident in the fact that monetary authority interventions through open market operations became increasingly less frequent, except in the period immediately following the deepening of the Asian crisis. At the same time, one can note a lengthening of the terms of the federal public securities placed on the primary market, a tendency that was partially reversed as of October.

In terms of financial savings, investments in variable income funds expanded sharply in the year, at the same time in which the volume of stock market trading also increased. In this context, one should cite creation of a new long-term savings system designated Individual Programmed Retirement Funds (Fapi), projected to provide workers with additional retirement benefits once they have stopped working. Parallel to this, alterations were introduced into the calculation of the Reference Rate (TR) reduction factor as of November 1997, making calculation of the factor considerably more transparent.

In structural terms, in comparison to the fragile financial systems of Asia, the Brazilian system clearly demonstrated its resilience in the midst of turbulence and was able to reverse international investor expectations more rapidly than many observers had expected. In this context, the national financial system was further strengthened in 1997 through creation of the Program of Incentives to Reductions in State-level Participation in Banking Activities (Proes), which is designed to foster restructuring of state-level public sector banks in the framework of the State Fiscal Adjustment and Financial Restructuring Program (Parafe). Aside from these items, the year was also marked by the first privatizations of state banks. In terms of prudential measures, particular emphasis should be given to creation of the Credit Risk Analysis Center, an entity projected to improve risk evaluation and classification in credit operations, while also implementing new measures rooted in the Basel Accord. Finally, the year was also marked by frequent mergers and acquisitions and the growing presence of foreign banking institutions. The major benefit to be drawn from this process should be enhanced efficiency.

In 1997, the National Privatization Program (PND) attained its objectives of reducing the public debt and stimulating the foreign investment inflows needed to restructure Brazil's productive system. Among the most significant steps taken in this direction, one should cite transfer of the Companhia Vale do Rio Doce to the private sector, together with the concession of mobile cell telephone services

(B Band) in four geographic areas and the concessions involving the Northeast Rail Network, the Federal Rail Network and the Port of Santos container terminal (Tecon I). One should underscore the fact that most privatization operations were effected at a significant premium in relation to minimum auction prices. Other factors that contributed to modernization of the nation's productive infrastructure were approval of enabling legislation on the constitutional amendments that ended the system of market reserve in inland waterways and took a more flexible approach to the state petroleum and telecommunications monopolies. Here, one of the high points was creation of the National Telecommunications Agency (Anatel).

At the state level, revenues on privatization accounted for 59% of total National Privatization Program income. The cause of this process was intensification of privatizations and sales of minority holdings in the electric and financial sectors. In relation to state government debts, special credits totaling R\$ 103.3 billion were set aside in the 1997 budget as a result of agreements formalized with various states under the terms of Proes and Parafe. Among these, particular mention should be made of the agreement between the federal government and the State of São Paulo for the purpose of refinancing the state debt and restructuring its financial system. The Federal Senate granted authorization for refinancing the debts of the States of Bahia and Ceará.

In 1997, the major infraconstitutional measures taken to finance the public sector were levying of the Provisional Contribution on Financial Transactions (CPMF) and extension of the Economic Stabilization Fund. At the same time, progress was achieved in efforts to approve needed structural reforms. In this sense, even though the Social Security Reform made its way through the two houses of Congress, the year came to a close without definitive approval of this important measure. However, one factor that contributed significantly to discussions on the need for structural reforms as the only instrument capable of truly adjusting public sector accounts was issue of the fiscal and monetary measures taken by the federal government in November to cope with the rapidly deteriorating Asian situation.

The current account result came to a deficit of 4.16% of GDP, reflecting the trade and service account results. However, on the other hand, inflows of long-term funding aided greatly in improving the level and quality of the financing of the current account deficit. In this sense, one should highlight strong growth in net direct foreign investments, emphasizing that just one third of these funds were channeled into privatization programs.

The fundamental guideline of 1997 exchange policy was preservation of the mechanism of gradual exchange rate devaluations. Banco Central defined the new exchange band parameters in February and sponsored spread auctions that resulted

in an average exchange devaluation of 0.6% per month during the course of the year.

Despite the US\$ 8.4 billion 1997 trade deficit, a number of positive points should be stressed with regard to Brazil's foreign trade profile. Among these, the most important is the upturn in export growth, moving in precisely the opposite direction of imports. The favorable performance of exports was a consequence of increased volume in a scenario of rising international prices. The major factors in this process were increased sales of farm products and the greater dynamism of manufactured goods of high aggregate value.

Insofar as imports are concerned, in structural terms, the downward slide in total imports has resulted from the increased pace of activities in economic sectors that have little demand for imported inputs, as well as from the effects of government measures taken to eliminate the tax and financial distortions that tended to give a competitive edge to foreign-made products. With respect to the composition of imports, the capital goods sector continues as the major product category and reflects the ongoing process of modernization and expansion of the nation's industrial structure that has further intensified with attainment of economic stabilization and implementation of the National Privatization Program.

Significant advances have also been obtained in terms of foreign trade policy with extension of the Integrated Foreign Trade System (Siscomex) to import operations and creation of the Export Guaranty Fund, designed to extend insurance coverage to export credits.

In terms of the service account, growth in net 1997 outflows resulted from increased remittances of profits and dividends. Expenditures on credit cards – the most representative component under the heading of international travel – declined as of the third quarter of the year as a result of measures taken to restrict installment payments of expenditures made abroad.

The strong upward movement in 1997 amortizations, coupled with the turnaround in the net flow of short-term capital in the fourth quarter of the year, particularly in the case of portfolio investments, generated a reduction in net foreign capital inflows in comparison to 1996. At the end of the year, net outflows of capital market resources were the result of profit-taking to meet losses incurred in other markets, at the same time in which international and domestic investors sought to redefine their portfolio profiles.

Following the opposite track, inflows of financial loans expanded sharply in 1997. Among these operations, the most important were issues of notes and 30 year Global Bonds in exchange for Brady Bonds (also exchanged for internal debt

securities). The result of all this was a highly favorable restructuring of the foreign debt. Medium and long-term import financing also contributed importantly to this result.

In this framework, important conclusions were drawn in 1997 with respect to the evolution of the Brazilian economy. Viewed under the prism of a complex and turbulent international situation, the level of economic activity revealed considerable vigor. This is evident in the fact that 0.2% per year average GDP growth between 1990 and 1993 rose to 4% following implementation of the Real Plan. This achievement is even more significant when viewed in a context of consistent downward movement in the pace of inflation.

The loss of reserves at the end of the year stands as an alert to the volatility of certain categories of foreign capital and is a powerful reminder of the need for maintaining strong macroeconomic foundations as the basic instruments required to cope with foreign shocks. As the Asian crisis heightened in intensity, the effectiveness of the measures adopted by the monetary authority clearly suggests that these foundations have reached a level of relative consistency in Brazil. The best evidence of this is the turnaround achieved not only in capital flows but, even more importantly, in the expectations of economic agents as to the dimensions of the impact of the Asian crisis on the Brazilian economy. However, the other side of the coin was an unmistakable signal of the importance of approving the structural reforms now before Congress so that it will be possible to achieve a truly effective adjustment of the nation's public accounts. Once this has been attained, the country would be in the position of being able to avoid the possibility of fiscal restrictions potentializing the effects of foreign-generated shocks or inhibiting the degree of economic development required to fully consolidate the stability born of the Real Plan.

### **Production indicators**

In 1997, GDP expanded by 3%. That was the fifth consecutive year of positive growth and demonstrated the continuity of a process of expansion that began in 1993 and was interrupted for a brief period of just a few months in 1995 when it became necessary to adopt a more stringent monetary policy. By the second half of that year, the country was able to adopt a more flexible approach and, consequently, growth picked up once again and continued throughout 1996.

In 1997, economic indicators for the first quarter of the year pointed to continuity of that process. GDP expanded by 0.9% in the seasonally adjusted series, as a consequence of an increased pace of activities in all sectors and particularly under crop and livestock farming (2.7%). In the industrial sector, the increase came to 1.5% while services closed with growth of 0.2%. In comparison to the same period of 1996, growth came to 3.8%, a level easily explained by the more favorable basis of comparison.

In the second quarter, GDP reduced by 0.5% in the seasonally adjusted series. The strongest drop (2.3%) occurred in the primary sector and was caused by a 5.2% falloff in crop production. Industry declined by 0.8%, while the sector of services remained stable.

An analysis of the results of the first half of the year indicates growth of 3.9% in relation to the same 1996 period. This expansion was concentrated in the industrial sector (6.9%), particularly construction and mineral extraction, which expanded by 8.4%. Manufacturing grew by 6.3% in the period. Important changes occurred in the composition of this growth, as the categories of capital goods and intermediate goods dethroned durable consumer goods as performance leaders.

In the first three years of Real Plan implementation (July 1994 to July 1997), GDP accumulated growth of 12.4%, based on the series of quarterly indices, with an average annual rate of 4%. In sectoral terms, accumulated growth closed at 11.9% under crop and livestock farming, 15.6% under industry and 8.9% in the service sector.

**Table 1.1 - Gross Domestic Product (GDP)**

Year	At 1997 prices R\$ million	Real change rate	Implicit deflator (%)	At current prices <sup>1/</sup> US\$ million	Population (million)	Per capita GDP		
						At 1997	Real	At current
						prices	change	prices <sup>1/</sup>
	R\$	rate	(%)	US\$		R\$	rate	US\$
1980	601 266	9.2	92.1	237 772	118.6	5 071	7.0	2 005
1981	575 712	-4.3	100.5	258 553	121.2	4 750	-6.3	2 133
1982	580 490	0.8	101.0	271 252	123.9	4 686	-1.3	2 190
1983	563 482	-2.9	131.5	189 459	126.6	4 452	-5.0	1 497
1984	593 910	5.4	201.7	189 744	129.3	4 594	3.2	1 468
1985	640 526	7.8	248.5	211 092	132.0	4 853	5.6	1 599
1986	688 501	7.5	149.2	257 812	134.7	5 113	5.4	1 915
1987	712 805	3.5	206.2	282 357	137.3	5 193	1.6	2 057
1988	712 378	-0.1	628.0	305 707	139.8	5 095	-1.9	2 186
1989	734 889	3.2	1 304.4	415 916	142.3	5 164	1.4	2 923
1990	702 921	-4.3	2 737.0	469 318	144.1	4 878	-5.5	3 257
1991	710 161	1.0	416.7	405 679	146.4	4 851	-0.6	2 771
1992	706 326	-0.5	969.0	387 295	148.7	4 751	-2.1	2 605
1993	741 078	4.9	1 996.2	429 685	150.9	4 910	3.4	2 847
1994	784 431	5.9	2 240.2	543 087	153.1	5 122	4.3	3 546
1995	817 534	4.2	77.6	705 449	155.3	5 264	2.8	4 542
1996	840 098	2.8	17.3	775 409	157.5	5 335	1.4	4 924
1997	865 552 <sup>2/</sup>	3.0	7.9 <sup>2/</sup>	802 999	159.9	5 414 <sup>2/</sup>	1.5	5 022

Source: IBGE

<sup>1/</sup> Estimates obtained dividing the GDP at current prices by the annual average rate of exchange.

<sup>2/</sup> Banco Central do Brasil estimates.

In the third quarter of 1997, GDP expanded once again (1.1% in the seasonally adjusted series). Growth in the level of activity was mostly a consequence of industrial performance (2.4%), while services expanded by 0.5%. Crop and livestock output dropped by 2.9%, with downward movement of 3.1% under crops and 1.2% under livestock.

GDP continued expanding in the fourth quarter, albeit with lesser intensity (0.5% in the seasonally adjusted series). The dropoff in the level of activity was caused mostly by exhaustion of the credit supply and high levels of default which followed the end-of-October interest rate hike aimed at neutralizing the impact of the Asian crisis. This fact, coupled with measures in the fiscal arena (increase in the tax on income, industrialized products and imports), provoked a drop in available income and made access to credit more difficult. The repercussions of these events were felt most strongly in the subsectors of commerce and manufacturing, both of which turned in sharp drops in the final two months of the year. The positive GDP result was caused by growth in the subsectors of animal production (5%), public utility industrial services (3.2%), transports (7.5%) and public administration (0.3%).

**Table 1.2 - GDP real annual growth rates(%)**

Itemization	1995	1996	1997
GDP	4.2	2.8	3.0
Agricultural and livestock sector	4.1	4.1	1.2
Vegetable production	0.1	2.8	2.8
Animal production	13.2	7.1	- 2.5
Industrial sector	1.9	3.7	5.5
Mineral extraction	3.7	6.7	7.3
Manufacturing	2.0	2.8	4.1
Building	- 0.4	5.2	8.5
Public utility industrial services	7.6	6.1	6.2
Service sector	4.5	1.9	1.3
Commerce	8.5	2.4	1.3
Transportation	6.6	3.2	4.5
Communications	22.9	10.9	0.6
Public administration	0.8	0.2	1.3
Other services	4.1	2.3	0.4

Source: IBGE

Analysis of GDP growth in the year shows that the 3% increase was generated mostly by the industrial sector (5.5%), while the sectors of services and crop and livestock farming turned in below average results (1.3% and 1.2%, respectively). The industrial sector registered across-the-board positive results, with the strongest performances under construction (8.5%) and mineral extraction (7.3%). This positive trajectory was also favored by a significant increase in the volume of funding channeled to this segment by BNDES (88% in 1996 and 380% in 1997). The manufacturing industry, which accounts for the major share of the sector's output, expanded by 4.1% (2.8% in 1996), while public utility industrial services grew by 6.2%. Growth under crop farming (2.8%) reflected the recovery of income levels in the agricultural sector, as a result of both improved prices for the major products and consolidation of the process of debt securitization.

Growth in the sector of services was explained mostly by the performance of transports, a segment that was positively impacted by the grain harvest. Commerce expanded by 1.3%, with deceleration in comparison to the strong rates of growth registered since 1993.

With 1997 GDP performance, average growth in the 1990s moved from 1.9% up to 1996 to 2.1% at the end of 1997. Per capita GDP expanded by 1.5% in the year with the average rate moving from 0.5% to 0.6% on the same basis of comparison.

## **Investments**

Methodological changes adopted by IBGE for elaboration of National Accounts sharply altered the information available on investments in the 1990s. According to the previous system, average growth in gross fixed capital formation, at constant 1980 prices, reached 4.2% in the 1990-95 period. According to the new system, which uses constant values at the previous year's prices, this growth came to 3% in the same period. The new methodology made it possible to calculate variations in stocks, that had been included under consumption as of 1986, together with the participation of the public administration and other activities in outlays on construction and acquisitions of machines and equipment.

IBGE information indicated that, in 1991 and 1992, real growth in gross fixed capital formation was negative (4.7% and 6.6%, respectively). Between 1993 and 1995, there was a sharp turnaround (6.3%, 14.3% and 7.3%, respectively), explained mostly by the opening of the economy and by cutbacks in import tariffs on capital goods in 1993. These effects were also felt in 1996, when gross fixed capital formation closed with positive growth (2.1%).

According to the new system, the relation between gross fixed capital formation and GDP closed 1992 at its lowest point (17%), based on the previous year's prices, and reached its apex in 1995 (21.4%). In 1996, the final figure was 20.4%, as real growth in GDP (2.7%) was higher than that of gross fixed capital formation (2.1%).

Average participation of the public administration in gross capital formation came to 14.5% between 1990 and 1996, as the importance of the public sector lessened during the period in question (18.5% in 1990 and 11.1% in 1996). When one considers such items as gross fixed capital formation, data show a drop in the participation of construction from 65.7% in 1990 to 61.3% in 1996. At the same time, there was a drop in the importance of machines and equipment (34% in 1990 and 25.6% in 1996), with imports assuming an increasingly more important role (10.6% in 1990 and 35% in 1996).

For 1997, Banco Central estimates pointed to growth of 9.3% in gross fixed capital formation. With this result, the participation of gross fixed capital formation in GDP came to 20% at current prices and 20.3% at the previous year's prices. All the different investment indicators pointed to positive results. Production of construction inputs expanded by 8.2% (5.2% in 1996). Following the example of the previous year, the increase in the average cost of construction (3.9%) was below

**Table 1.3 - Gross capital formation (GCF) <sup>1/</sup>**

Percent

Years	Share in GFCF			Change in inventory	GFCF/GDP	
	Building	Machines and equipments	Others		At current prices	Prices at previous year
1990	65.7	34.0	2.7	-2.4	20.7	-
1991	60.4	28.7	2.5	8.4	18.1	19.5
1992	64.8	26.3	6.3	2.7	18.4	17.0
1993	62.5	24.2	5.8	7.5	19.3	18.7
1994	60.6	27.2	5.8	6.3	20.7	20.8
1995	57.4	28.9	5.8	7.8	20.5	21.4
1996	61.3	25.6	5.6	7.5	19.1	20.4
1997 <sup>2/</sup>	66.3	27.6	6.1	...	20.0	20.3

Source: IBGE

1/ GFC = GFCF + stock variation.

2/ Banco Central do Brasil estimate.

the average increase in price indices in the period. The sector also benefited from the continued process of public service privatizations/concessions and from growth in financial system loans to the housing sector (+10.5% for the final borrower), backed by an increase of 34.8% in the balance of savings accounts in 1997. One should also stress the increase in operations involving the system of credit securitization in the real estate sector, which raised the production capacity of companies by making available greater volumes of working capital.

In the segment of machines and equipment, growth was registered under internal production (4.7%) and imports (31.3%) and exports (17.2%). The favorable performance of imports is partially explained by the level of international interest rates, as well as by the availability of financial resources. With recovery in farm income, growth in the production of farm machines came to 42.6%, following a 21.3% decline in 1996. Special mention should be made of the expansion registered under the building and mineral extraction industries.

Abimaq/Sindimaq information on mechanical capital goods points to a drop of 0.7% in 1997, following a reduction of 13.1% in 1996. The average level of utilization of installed capacity increased from 68.3% in the previous year to 68.7% in 1997. A breakdown by subsectors shows differentiated results, with growth under machine tools (28.7%), farm machines (18.3%) and heavy mechanics (1.9%). Negative results were registered under production of printing equipment (43.9%), machines for plastics (21.9%) and textile machinery (5.3%).

In 1997, consultations and disbursements on the part of the BNDES System, composed of BNDES, Finame and BNDESpar totaled US\$ 37.1 billion and US\$ 16.5 billion, respectively, with growth of 64% and 71% in relation to 1996. BNDES resources accounted for 70% of total disbursements, followed by Finame with 20.3% and BNDESpar with 9.7%. In a manner similar to 1996, an analysis of disbursements to the productive sector shows that the strongest growth (380%) was registered by resources channeled to the extractive industry, followed by commerce and services (97%). The inflow of resources to the crop and livestock sector expanded by 77% while the flow to manufacturing came to 32%.

The distribution of resources by region registered practically no change for the north and northeast of the country (2% and 13.5% in 1997, as against 2.1% and 13.7% in 1996, respectively). Participation of the southeast and central-west regions expanded from 54% to 56.1% and from 5.4% to 8.3%, respectively, while the participation of the southern region in these disbursements fell from 24.8% in 1996 to 20.1%.

## Productivity

The positive growth of investment indicators – principally for capital goods production and imports – has been accompanied by sharp gains in productivity over recent years. This behavior reflects the restructuring of productive segments, at both the technical and managerial levels, together with the process of economic deregulation. Productivity gains have contributed to economic stabilization, by reducing costs and prices. However, on the downside, they have also generated layoffs, particularly in the manufacturing industry.

Based on the ratio between growth in aggregate value, at the previous year's prices, and growth in the employed population, IBGE estimated labor productivity for the 1991-96 period. According to this calculation, with the exception of 1992, positive growth occurred in the total productivity of labor, as average growth for the period closed at 2.5%. The sharpest increase occurred in 1996 (5.2%), as four of the 43 activities surveyed registered gains of more than 20% and 11 turned in results between 10% and 20%. In relation to the average for the period, growth came to more than 10% in eight activities.

The following activities closed the period at an above average level: crop and livestock farming (4.5%) and several industrial segments, particularly steel (11.7%), electric equipment (10.7%), electronic equipment (13.3%), automobiles, trucks and buses (14.2%), other vehicles, parts and accessories (10.1%) and public utility industrial services (11%). In the case of services, the most important result was achieved under communications (14%).

According to information available for the industrial segment, productivity expanded sharply in 1997. Productivity is estimated as the quotient between industrial production and hours paid in production. Increases of 11% were registered under



general industry, 10.8% under the extraction industry and 10.7% under manufacturing. When one considers the different industrial segments, nine of them registered productivity gains above 10%. Only furniture closed the period with a decline (-2.4%).

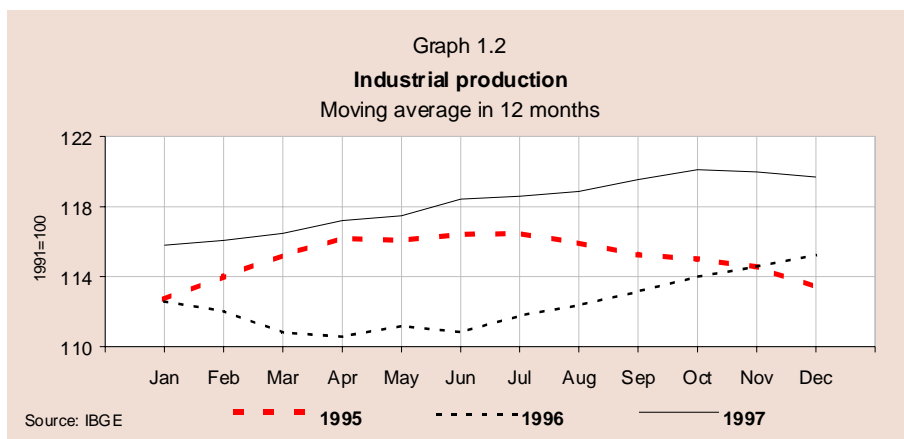
Confirming the efforts made to increase competitiveness, 892 new certificates were issued by the NBR ISO 9000 quality system in 1997, as compared to 636 in the previous year. The majority of these certificates were concentrated in the manufacturing industry.

### Industrial production indicators

According to the monthly IBGE industrial survey, industrial production expanded by 3.9% in 1997. This was the fifth consecutive year of growth and raised accumulated expansion to 24.5% since 1993. The result for the year surpassed accumulated growth of 3.5% in the 1995-96 period and was mostly a consequence of the performance of manufacturing (+3.6%), which accounts for 93% of general industry. At the same time, the mineral extraction sector expanded by 7.3%, principally as a result of growth under crude oil.

Notwithstanding the positive growth registered under manufacturing activity in 1997, the level of utilization of installed capacity measured quarterly by the Getúlio Vargas Foundation moved from 81% in January 1997 to 80% in January 1998. To some extent, this reduction was due to the decline in industrial production in the final two months of the year.

In the first quarter of 1997, industrial production (mineral extraction and manufacturing) registered a decline of 0.9% in relation to the final quarter of 1996, without taking seasonal factors into account. To some extent, this performance



**Table 1.4 - Capacity utilization** <sup>1/</sup>

Percent			
Itemization	1995	1996	1997
Manufacturing industry	79	81	80
Consumer goods	84	84	77
Capital goods	64	72	65
Building material	83	80	83
Other intermediate goods	83	84	84

Source: FGV

<sup>1/</sup> Quarterly survey. January figures of the following year.

reflected the high level of stocks in the industry that resulted from the negative performance of the retail trade sector at the end of 1996. In the second and third quarters of the year, the level of activity in the sector improved and registered respective growth levels of 2.7% and 1.2% in comparison to the immediately previous quarters. In the final quarter of the year, the fiscal and monetary measures implemented to ward off the effects of the Asian financial crisis generated an economic downturn and, consequently, a falloff in the activity level of the sector (2.8%).

A survey of the different industrial segments indicates that 1997 registered growth of as much as 22.2% in the segment of tobacco, in contrast to a drop of 6.8% under apparel, footwear and cloth goods. In the latter case, this was the fourth consecutive year of negative growth. Of the twenty industrial segments included in the survey, fourteen turned in positive results. In order of magnitude, these were as follows: tobacco, as mentioned above, followed by pharmaceutical products (11.2%), transportation equipment (9.8%), mechanics (7.3%), metallurgical products (5.8%) and chemicals (5.5%). Among those that closed with negative growth, the most important were textiles (5.5%), with declines in the last three years, electric and communications equipment (2.4%) and leather and hides (1.7%).

A breakdown by categories of usage shows that production of capital goods turned in the best performance in 1997 (4.7%), following three consecutive years in which durable consumer goods occupied the position of leadership. In the year in question, production of these goods (2.9%) fell below the average for industry as a whole. The segment of intermediate goods (4.6%) also turned in an above average performance, as output of semidurable and nondurable consumer goods closed with the lowest rates of growth (0.7%).

As of the second half of 1997, there was an evident change in the industrial growth profile. The sectors of capital goods and intermediate goods benefited from

**Table 1.5 - Industrial production**

Percent change

Itemization	Percentage share (1997)	1994	1995	1996
Total		1.8	1.7	3.9
By category of use				
Capital goods	7.5	0.3	- 14.1	4.7
Intermediate goods	64.0	0.2	2.9	4.6
Consumer goods	28.5	6.2	5.3	1.2
Durable	5.2	14.5	11.2	2.9
Nondurable	23.3	4.2	3.7	0.7

Source: Monthly Industrial Survey - IBGE

increased investments in farm machines and inputs, as well as from more intense activity in the construction sector, which stimulated production of equipment and inputs for this area of activity. The positive performance of the mineral extraction industry (particularly, petroleum) and chemicals (petroleum derivatives) was also reflected in the production of intermediate goods.

There was a clear loss of momentum in the production of durable consumer goods. The factors that explain this performance were deceleration in real wage and salary gains, the lesser impact of price reductions and easier access to financing. The area most strongly impacted was that of electric-electronic appliances, with a drop of 10.7% in industrial sales. According to Eletros data, the sharpest falloff occurred in the segment of “image and sound” (13.6%). In the case of the automotive industry, the final months of the year were marked by deceleration, a process caused mostly by interest rate hikes. Despite this process, the sector accumulated growth of 14.6% in 1997, based on Anfavea figures. Production of semidurable and nondurable consumer goods was impacted mostly by the drop in the production of footwear and clothing, offsetting the positive impacts generated by such items as foodstuffs and beverages, pharmaceutical products and fuels.

## Energy

National petroleum production, including natural gas liquid (NGL), came to a daily average of 866 thousand barrels in 1997, or 7.8% more than in the previous year. The quantity of petroleum processed moved from 76.8 to 79.9 million cubic meters, while refining capacity increased from 89.6 million to 98.1 million cubic meters. Imports of crude oil closed at the same level as in 1996 (181 million barrels), while

**Table 1.6 - Oil derivatives and fuel alcohol**

Apparent consumption - daily average (1,000 b/d)

Itemization	1995	1996	1997
Petroleum	1 454	1 552	1 677
Fuel oil	211	229	246
Gasoline	242	283	309
Diesel oil	518	535	564
Liquid gas	181	191	198
Aviation kerosene	63	67	73
Other derivatives	239	247	287
Fuel alcohol	225	220	210
Anhydrous	58	64	67
Hydrated	167	156	143

Source: Petrobras

foreign purchases of derivatives (145 million barrels) expanded by 12.2%. Investments in oil prospecting and production in Brazil totaled US\$ 1.8 billion, as against US\$ 1.7 billion in the previous year.

With 7,058 productive wells in operation (6,299 on land and 759 at sea), Petrobras has obtained its best result in the Campos Basin (RJ), which now accounts for about 80% of national petroleum output. The volume of proven reserves has expanded sharply (47.9%) to a level of 7.1 billion barrels at the end of 1997, based on the methodology of the *Society of Petroleum Engineers* (SPE), used by Petrobras. Natural gas reserves came to 227 billion cubic meters, 43.9% more than in 1996.

Apparent consumption of petroleum derivatives increased by 8%, reaching a daily average of 1,677 thousand barrels. Among the major derivatives, diesel oil accounted for 33.6% of international demand, with growth of 5.4%. Daily consumption of gasoline and fuel oils, the second and third most important products in the demand structure, increased from 283 to 309 thousand barrels and from 229 to 246 thousand barrels, respectively. Consumption of fuel alcohol dropped for the second consecutive year (225 thousand in 1995, 220 thousand in 1996 and 210 thousand barrels per day in 1997). This result was due to lesser consumption of hydrated alcohol (-8.3%), a falloff explained partly by a sharp drop in the production of alcohol-powered vehicles in recent years. Consumption of anhydrous alcohol, which is added to gasoline in a proportion of 22%, expanded by 4.7% in 1997.

The country's consumption of electrical energy increased by 6.5% in 1997 and, according to Eletrobrás figures, totaled 274,272 GWh. The commercial category led in terms of consumption growth during the year, with an increase of 9.8%,

**Table 1.7 - Electric energy consumption <sup>1/</sup>**

GWh

Itemization	1995	1996	1997
Total	243 129	257 631	274 272
By sectors			
Commercial	32 285	34 767	38 191
Residential	63 581	69 047	74 104
Industrial	111 708	116 516	122 245
Other	35 555	37 301	39 732

Source: Eletrobrás

<sup>1/</sup> Self-producers not included.

followed by residential consumption (7.3%). Industrial consumption of electrical energy accounted for about 45% of the market and expanded by 4.9% in 1997.

According to Eletrobrás, the strong growth in commercial consumption can be explained by the performance of the retail trade sector and lodging and food supply services. In the sector of commerce, the building of new and enormous supermarket facilities, expansion and inauguration of shopping centers and large scale leisure facilities and expanded operating schedules are the factors of greatest importance. In the segment of lodging and food supply, the most important categories have been “business tourism”, principally in the southeast region, and traditional tourism.

Residential consumption of electrical energy expanded by 7.3%, principally as a consequence of new residential connections in all parts of the country (approximately 1.4 million), reflecting growth of 4% in relation to the previous year, and of increased average consumption per user, which came to 175 Kwh/month, as compared to 170 Kwh/month in the previous year.

Industrial electrical energy consumption expanded at a higher pace in the southern region (7.1%), where production turned in the sharpest growth (7.1%). This was particularly true in the State of Rio Grande do Sul (9%). In the southeast and northeast regions, industrial consumption of electrical energy increased by 5.9% and 1.9%, respectively, while the northern region closed with a 1.3% decline.

According to data released by the Business Information System of the Electrical Energy Sector (Siese), the installed generating capacity of the nation's energy plants totaled 59,211 Mw in 1997, representing growth of 1,982 Mw in relation to 1996. Of this total, 53,828 Mw are hydraulic sources and 5,383 Mw are thermal (including 657 Mw

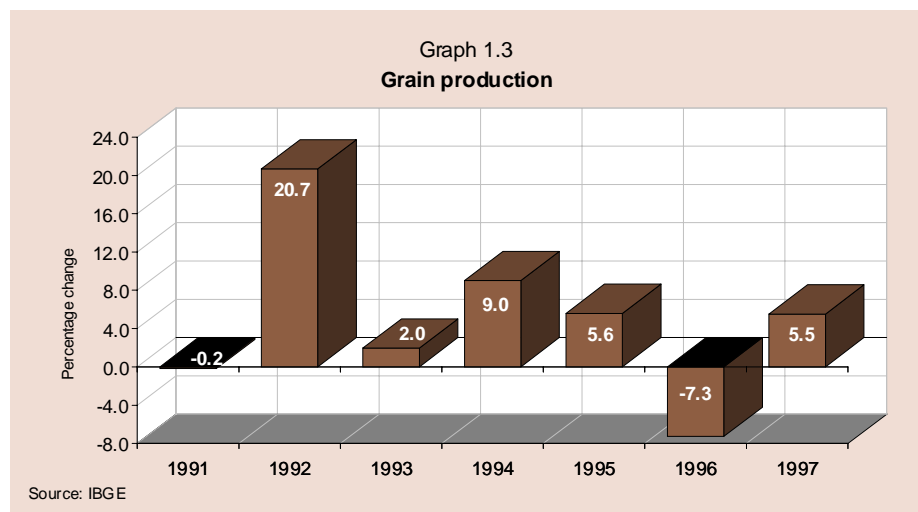
in nuclear generating capacity). Among the major generating units that went into operation, the most important were as follows: Xingó-Chesf (500 Mw), Corumbá I-Furnas (3 units with 125 Mw of output) and Jorge Lacerda C-Eletrosul (363 Mw). Investments in the electrical energy sector totaled R\$ 5.5 billion according to Eletrobrás estimates, with real growth of 3.8%, in comparison to 1996 investments.

### Crop and livestock production indicators

The crop and livestock sector registered growth of 1.2% in 1997, for expansion of 2.8% in crop production and a drop of 2.5% under livestock. In terms of crop performance, one should stress the highly positive results obtained under grains, legumes and oil-bearing crops (5.5%). This result reflecting the incentives generated by price recovery and resolution of farm debts. In the latter case, this was done through a process of securitization which provided producers with access to new current expenditure credits.

The measures taken to provide support to the 1996/97 harvest preserved the benefits and expanded the volume of resources allocated through the National Program for Strengthening Family Agriculture (Pronaf), with the objective of introducing a more dynamic structure into family-based farming, providing these undertakings with the possibility of producing on a modern and competitive basis.

Given the National Treasury's financial limitations and the opening of the economy to foreign competition, the systems used for intervening in farm production and marketing were altered significantly for this harvest. Federal government loans with sale option (EGF/COV) were suspended. This made it unfeasible to utilize the automatic mechanism through which current expenditure loans granted prior to sowing were tied to marketing loans.



By way of alternatives, less burdensome instruments were created, such as the sale option contract in which the buyer party (rural producer or cooperative) interested in avoiding the risk of fluctuations in the price of a specific product pays a premium in public auction in order to guaranty the sale of that product to the government at a floor price up to the final date of the contract. Aside from this, Directive no. 667, issued by the Ministry of Agriculture and Supply on 12.6.96, regulated the product outflow premium which consists of a credit acquired in public auction to be used to purchase stocks belonging to producers or cooperatives at the minimum guarantied floor price. The EGF was also created for agribusiness with the aim of streamlining the marketing of farm products. Based on the floor price as reference and coupled with already existent mechanisms – federal government acquisitions (AGF) and federal government loans without sales option (EGF/SOV) – these instruments preserved the government’s intervention capacity in farm markets at the minimum essential level, while leaving the task of choosing the more convenient alternatives to private agents.

Among the varied measures taken, particular stress should be given to the setting of the floor prices of products covered by the floor price guaranty policy at levels compatible with market conditions. This provision had the objective of fostering growth in the harvest of grain and regional products, particularly when agriculture is at the basis of the process of income formation and job creation. Aside from this, one should note that the floor price guaranty policy is an important price indicator and an essential element in the formation of the bank guaranties required for current expenditure and marketing financing.

Production of grain (grain, legumes and oil-bearing crops) totaled 77.7 million tons, with growth of 5.5% in relation to the past harvest (73.6 million tons), but below the volume produced in the 1994/95 harvest (79.4 million tons). Total area planted increased by 0.3%, with increases in the average yield of all crops, with the sole exception of wheat. The central south region and Rondônia accounted for 89% of production, with growth of 6.7%, while the north and northeast regions suffered a drop of 3.7%. In absolute terms, total production was distributed as follows: 36.4 million tons in the southern region, 20 million in the central-west, 12.6 million in the southeast, 6.5 million in the northeast and 2.2 million in the north.

The two corn harvests came to 34.6 million tons, with growth of 7.5%. Adequate climatic conditions contributed to the results of the first harvest (30.5 million tons), closing with production growth of 7.4%, despite the 3.5% decline in area planted. The good average yield was due to introduction of improved technologies in terms of soil management and expansion of the practice of direct sowing, coupled with the use of greater volumes of fertilizers. The second harvest produced a volume that was 8.1% higher than in 1996, even though area planted expanded by 19.7%.

**Table 1.8 - Agricultural production - major crops**

Millions of tons

Products	1995	1996	1997
Grain production	79.4	73.6	77.7
Cotton (seed)	1.0	0.7	0.6
Rice (in husk)	11.2	10.0	9.3
Beans	2.9	2.8	3.0
Corn	36.3	32.2	34.6
Soybeans	25.6	23.6	26.5
Wheat	1.5	3.4	2.4
Others	0.9	0.9	1.3
Other crops			
Bananas (millions of bunches)	568.0	561.9	577.9
White potatoes	2.7	2.7	2.8
Cocoa (beans)	0.3	0.3	0.3
Coffee (beans)	1.8	2.7	2.3
Sugarcane	303.6	325.9	336.6
Tobacco (in leaf)	0.5	0.5	0.6
Oranges (millions of fruits)	98.1	109.3	115.0
Cassava	25.3	24.6	24.4
Tomatoes	2.7	2.7	2.6
Change in real output of crop sector (%)	0.1	2.8	2.8

Source: IBGE

The positive performance registered in the central-west region was partly offset by lesser production in São Paulo and Paraná where the drought that started in March caused serious crop damage. Internal consumption, which totals about 37 million tons, with about 80% being used in the manufacture of feed, was completed through the use of 4.3 million tons in stocks left over from 1996. The marketing of corn was a rather drawn out process since the prices received by producers remained in the range of the floor price during most of the year. This situation has only changed in recent months as prices have begun recovering.

Production of 26.5 million tons of soybeans surpassed the former record production level of 25.6 million tons in 1995 and was 12.3% higher than the 1996 harvest. The area planted expanded by 7.6%, while productivity came to 2,298 Kg/ha, with growth of 4.7%. Soybean production benefited from favorable prices and, consequently, expanded. This performance was caused by statistical information released at the start of the year by the United States Department of Agriculture (USDA), indicating a drop in that country's harvest.

Soybean production was not larger due to the excess rains that occurred in Paraná and the drought that hit Rio Grande do Sul. In the other production regions, favorable climatic conditions benefited development of the crop. Particular mention should be made of the high technology now being used in the central-west region of the country, the nation's second largest producer. The region played a very important role in terms of the introduction of new species with greater potential and utilization of increased volumes of fertilizers, pesticides and lime. Average yield came to 2,617 Kg/ha, with the State of Mato Grosso turning in the best productivity results (2,778 kg/ha). Unlike previous years, marketing was processed rapidly as producers sought to take advantage of price levels even during the harvest period, when international prices were particularly high. Exports in the form of grain came to about 7.8 million tons, as compared to 3.6 million tons in the previous year.

For the second consecutive year, rice production declined as a result of cutbacks in the area under cultivation. The volume of unprocessed rice produced totaled 9.3 million tons and was 6.6% less than in the previous harvest. Production peaked toward the end of the 1980s, when the area under cultivation came to more than six million hectares. Later on, the area was gradually reduced until reaching the mark of about four million hectares planted in the last several harvests. Among the factors that contributed to this decline were farmer debts, the absence of policies capable of stimulating planting, unsatisfactory prices in recent harvests and, principally, competition from imports, particularly from Uruguay and Argentina where the quality of the product is higher and production costs are lower. The average yield of the national crop is about 2,595 kg/ha or 1.8% higher than in the previous harvest, with a minimum of 800 kg/ha in Amapá and a maximum of 5,100 kg/ha in Rio Grande do Sul. In Uruguay, productivity reaches a level of 5,900 kg/ha, while Argentina operates at a level of 5,100 kg/ha. Stocks were reduced from 1.8 million tons to 917 thousand tons.

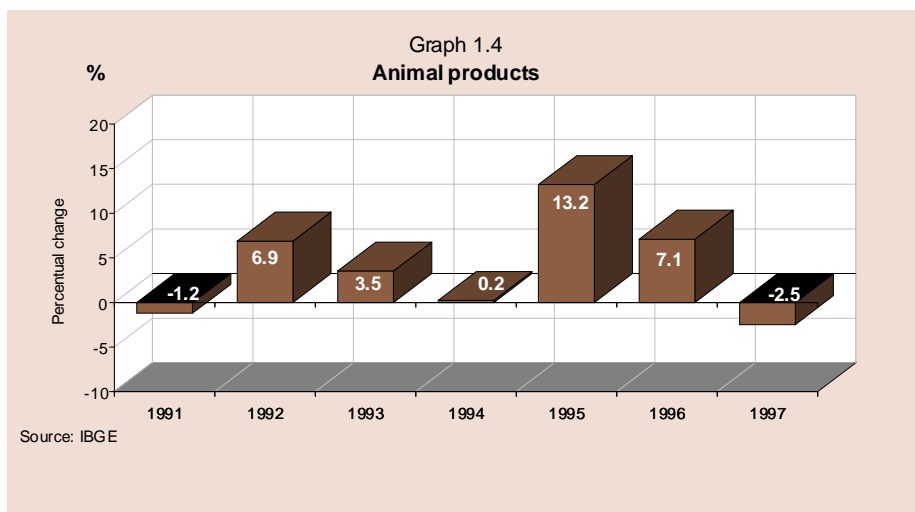
The three bean harvests totaled 3 million tons, for growth of 6.4% in production and 9.1% in average yield (623 kg/ha). In the southern region, the largest producer during the first harvest (1.4 million tons), the area harvested was reduced by 7.1%, while production expanded by 11.6%. Recovery of the volume produced in Rio Grande do Sul was a consequence of productivity increases which, as a result of adverse climatic conditions, had totaled only 300 kg/ha in 1996, but rose to 855 kg/ha in 1997. In the northeast region, which produced 49% of the second harvest total of 1.3 million tons, average yield dropped from 509 to 504 kg/ha. In the state of Bahia, the main producer of this harvest, productivity increased 1.6% (682 kg/ha). The third harvest (273 thousand tons) plays an only minor role in overall production and registered growth of 27.2% in production and 16.2% in area cultivated. Internal consumption estimated by Conab at 3.2 million tons was completed with imports of 100 thousand tons and stocks of 241 thousand tons left over from 1996.

Wheat production closed at 2.4 million tons, for a decline of 900 thousand tons in relation to the previous harvest. This reduction was caused by both a 16.6% cutback in the area cultivated and by the low level of technology applied to this crop. Drought during the period of crop development, coupled with the appearance of various crop diseases and excess rain in the period of maturation and harvest also caused significant damage to the wheat crop. Aside from losses in area and productivity, these factors also affected the quality of the wheat, principally in Rio Grande do Sul. To complete internal demand, an additional 5.5 million tons were imported.

Following the positive results of recent years, livestock production dropped by 2.5% in 1997, according to figures released by IBGE. The drop in production of cattle, swine and milk was responsible for this result. Production figures released in the IBGE Monthly Industrial Survey showed a cutback in slaughters and preparation of pork and beef (4.8%) and in the refrigeration and preparation of milk and milk-based products (2.6%). On the other hand, slaughters and preparation of poultry increased by 9.5%.

The excellent performance of the poultry sector was clearly perceived by the São Paulo Poultry Association (APA), according to which production expanded by 9.8%, with total output of 4.45 million tons. This result was positively impacted by low prices for corn, the sector's principal input. According to the Association, per capita consumption also expanded at a positive pace (6.8%) and totaled 23.7 kg.

In relation to exports, positive results were generated by all segments. Foreign sales of poultry expanded by 15.6% in comparison to 1996 and totaled 672.8 thousand tons. Exports of beef increased by 14.5% and totaled 59.3 thousand tons, while pork expanded by 4.1% to a level of 61.4 thousand tons.



## Employment indicators

Employment indicators registered declines in 1997. The persistence of negative results since 1995 was to some extent a result of the ongoing process of stabilization and Brazil's competitive integration into the world economy (technological advances in production and substitution of internal inputs by imports) and the high cost of the social charges generated by the labor force. This movement was reflected more intensively in the industrial sector and, among other causes, was also due to increased use of outsourcing.

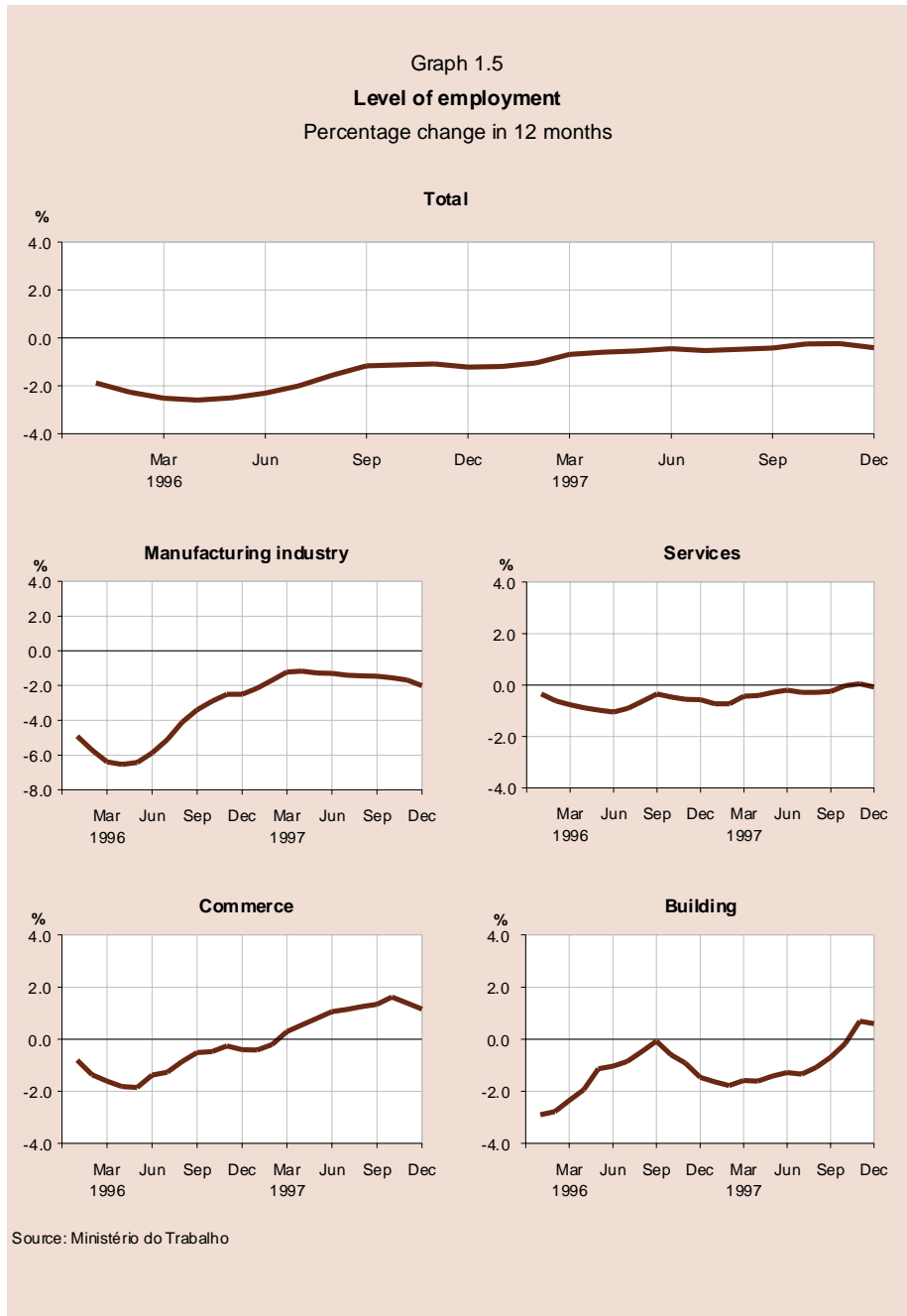
According to a Ministry of Labor survey, the level of formal employment in the country declined by 0.4% in 1997, with elimination of 121.9 thousand job positions. An analysis by sectors of activity shows that layoffs were concentrated in the manufacturing sector (-2%) and under services (-0.1%), with 122.9 thousand and 9.5 thousand job losses, respectively. Commerce (+1.1%) and construction (+0.6%) closed 1997 with 53.5 thousand and 6.2 thousand hirings, respectively.

The National Confederation of Industry (CNI) indicator, which includes information for the manufacturing industry in 12 states, showed a reduction of 5.5% in the employment level. In the case of São Paulo industry, the monthly survey undertaken by the Federation of Industries of the State of São Paulo (Fiesp) registered a decline of 4.3% in the employment level. Based on the weekly survey for São Paulo industries carried out by 47 employer associations, the decline came to 6.1% in 1997, with 113.1 thousand layoffs.

The average rate of open unemployment calculated by IBGE in six metropolitan regions increased in 1997 and closed December at 4.8%, as compared to 3.8% at the end of 1996. The average annual rate reached 5.7% in comparison to 5.4% in the previous year. An analysis by sector of activity shows an across-the-board increase in the level of unemployment, with the highest rate being registered in the manufacturing sector (5.8%). The number of persons employed declined by 0.8%, reflecting a loss of 141 thousand job positions. A breakdown of employment figures by worker category shows a reduction among registered workers and among employers, with an increase for unregistered workers and the self-employed.

Unemployment also increased in the Metropolitan Region of São Paulo during the course of 1997, according to the Employment and Unemployment Survey carried out by the Seade Foundation and Dieese, covering both the formal and informal job markets. The rate of total unemployment came to 16.6% in the moveable quarter ended in December, as compared to 14.2% in the same period of 1996, with the total number of employed persons declining by 114 thousand. An analysis by sector of activity shows a drop of 10% in the industrial workforce. This figure reflects

elimination of 162 thousand positions, mostly involving salaried registered workers, while the level of employment in the sector of commerce dropped by 1.6%, with elimination of 20 thousand jobs. In the sector of services, growth in employment came to 2.9%, with creation of 103 thousand openings, concentrated mostly among unregistered workers and the self-employed. In the segment of “other sectors”, 35 thousand jobs were eliminated, mostly in the construction industry.



## Salary and wage indicators

With introduction of the National Account System recently adopted by IBGE, it has now become possible to analyze distribution of the income generated in the 1990-96 period in the productive process by the different production factors – labor and capital – and public administration. Analysis of average participation in the period shows that the earnings of employed workers accounted for 41.8% of income generated and the earnings of the self-employed represented 6.3%. Participation of the gross operational excess came to 37.6%, while public administration came to 14.3%.

In 1997, wage and earnings indicators registered real gains, explained partly by lesser growth in price indices in the period. In comparison to 1996, growth was once again registered in all sectors and employment categories, albeit at a less intense pace.

According to the Monthly Employment Survey carried out by IBGE in six metropolitan regions, average real earnings of the employed increased by 2% in 1997, with gains in all sectors of activity. The strongest positive growth was registered under services (2.3%) and construction (2.2%), followed by manufacturing and commerce (1.2%). A breakdown by occupational category shows gains of 3.6% for unregistered workers, followed by 2.7% for registered workers and 2.2% for the self-employed.

**Table 1.9 - Real average earnings of occupied people <sup>1/</sup>**

Average percentage change

Itemization	1995	1996	1997
Total	10.4	7.4	2.0
Sectors of activity			
Manufacturing	5.9	6.0	1.2
Building	18.1	9.3	2.2
Commerce	11.8	6.9	1.2
Services	10.9	9.1	2.3
Position			
Registered	3.9	7.9	2.7
Unregistered	14.7	6.7	3.6
Autonomous	24.3	7.3	2.2

Source: IBGE

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

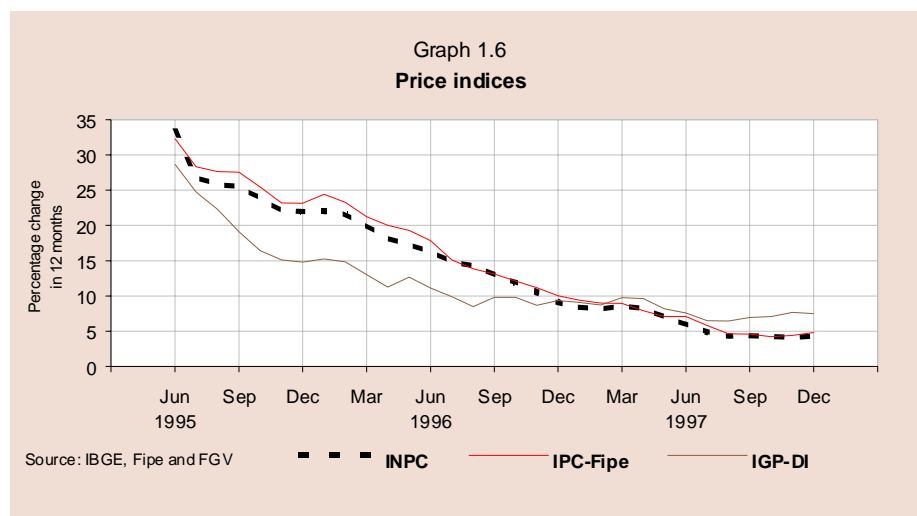
A 12 state CNI survey of the manufacturing sector showed an average increase of 1.5% in overall real wages in 1997. Considering the drop that occurred in the employment indicator, the average real wages of those who were able to preserve their jobs increased. Fiesp information indicates a similar performance, with positive average growth in real wages and overall salaries in São Paulo's industrial sector. The respective 1997 results were 5.5% and 1.2%.

The minimum monthly wage was set at R\$ 120.00 as of May, equivalent to US\$ 107.76 in December 1997.

### Price indicators

In 1997, inflation continued on a downward curve for the fourth consecutive year. Growth in the principal price indices closed at between 9.12% and 10.03% in 1996, compared to 4.34% to 7.74% in 1997. For the most part, the continuity of the downward movement resulted from a sharp drop in the prices of nontradable goods and services. The only reason why inflation did not drop at an even more accentuated pace were the fluctuations that occurred in farm prices, coupled with the restructuring of public utility tariffs.

The results of the different indicators showed that changes in general price indices were greater than those registered under consumer price indices. This performance can be explained by the continued recovery of farm prices, which had its strongest impact on the wholesale segment, at the same time in which the prices of goods and services that are nontradable abroad and significant in the composition of consumer price indices declined. These prices had accelerated more intensively in previous years, a phenomenon typical of periods of consolidation of economic stability.



The national consumer price index (INPC) registered growth of 4.34%. Among the factors that contributed to this result, one should cite growth of just 1.37% under food and beverage prices, which have considerable weight in terms of the composition of the index, and declines of 3.04% and 0.46% in the prices of residential articles and apparel, respectively. Upward pressures were generated principally by growth of 14.66% in the costs of transportation and communications. This expansion was due to the restructuring of telephone tariffs (value of each pulse and of the basic subscription) and to increases in fuel and public transportation costs. The grouping of housing (8.48%) was pressured by growth of 8.53% under rents, as well as by upward movement in residential public utility tariffs (electricity, water and sewage, gas and property taxes). In the cases of health and personal care (6.3%), pressures originated in price rises under pharmaceutical products and medical services, while the upward movement under personal expenditures was due basically to increases in the prices of education and cigarettes.

The consumer price index in the municipality of São Paulo, calculated by Fipe, registered a rate of 4.82%, as compared to 10.03% in 1996. Among the factors that contributed to the decline were a drop of 5.81% in apparel prices and a generalized downward price slide under the other product groupings, even though most of these did close at a level above that of the general index. The exception occurred in the grouping of foodstuffs which registered acceleration in relation to 1996, even though the accumulated rate was below the average (3.6%).

The general price index – internal supply (IGP-DI) calculated by the Getúlio Vargas Foundation registered growth of 7.48%, as compared to 9.34% in 1996. The wholesale price index – internal supply (IPA-DI) expanded by 7.78%, a result that was most strongly impacted by the behavior of foodstuff and raw material prices. In the concept of overall supply, pressure was generated by farm prices (17.72%), since industrial prices expanded by only 3.13%. With respect to the other components of the IGP-DI, the consumer price index – Brazil (IPC-Br), calculated in São Paulo and Rio de Janeiro, expanded by 7.21%, with its components turning in a performance similar to that of the other consumer price indicators. In comparison to most the consumer price indices, the higher rate registered under the IPC-Br can be explained by methodological questions that make this index more sensitive to public utility tariff changes. The national cost of construction index (INCC) expanded by 6.81%, with increases of 9.03% in labor costs and 4.14% in building materials.



# II

## FINANCIAL MARKETS

In 1997, monetary policy was applied with the aim of preserving the macroeconomic consistency of the stabilization program. The authorities adopted this posture in light of the highly varied scenarios that marked the international economy during the year, the absence of fiscal balance and expectations that this would only be attained once the ongoing constitutional reforms have been definitively approved.

Based on the quarterly goals stated in the monetary program, monetary policy instruments were used to ensure the integrity of the nation's currency. In this framework, one should note the sharp fluctuations that occurred under monetary aggregates, reflecting not only the process of monetization inherent to the stabilization process that – it should be mentioned – has yet to run its course, but also ups and downs in currency demand generated by introduction of the CPMF and the end-of-year interest rate hike.

Exchange and interest variables were managed in such a way that internal demand would not contribute to deterioration in the country's foreign accounts, at the same time in which the allure of the exchange coupon would be preserved at a level sufficiently high to ensure a continued inflow of needed foreign savings.

In light of uncertainties as to the trajectory of internal economic activities and of the world economy in general, the gradual decline in basic interest rates leveled off and stabilized from April to the end of October. The first signs of a worsening in the Southeast Asian crisis appeared in the middle of the year and were later accompanied by strong demand for dollars. The consequent pressures on the exchange market led the Monetary Policy Committee (Copom) to raise the TBC and TBAN temporarily on October 30, at the same time in which the government adopted a series of fiscal measures. The sharp rise in interest rates generated immediate and positive effects, stanching international reserve losses. With these results, Copom was able to reverse course and begin reducing rates in its final two 1997 meetings, reaffirming the government's overall objective of a gradual cutback in prevailing interest rates, at the same time in which it took a more flexible approach to monetary policy by widening the gap between the TBC and TBAN. In this case, this was done by introducing a sharper reduction in the TBC.

In this light, transformation of these rates into references for the other market rates demonstrates the importance of the alterations introduced in the second half of 1996 into Banco Central's discount window policy. This instrument took on new dynamics and consolidated the monetary authority's position as provider of credit to the financial system. As a matter of fact, the need for adjusting system liquidity during the year was marked by Banco Central open market interventions that were few and far between. These interventions were mostly concentrated toward the end of the year when, in the context of the primary securities market, it became difficult to agree to rates in line with the new interest rate levels set by the monetary authority, making it necessary to repurchase federal securities to ensure system liquidity.

The process of lengthening the terms of federal securities continued as Banco Central issued 365 day BBC and recommenced issues of 730 day NBC-E. The lengthening of the profile of these papers was more accentuated in the case of primary issues of National Treasury papers. These operations included placements of two year LTNs – last issued at the start of the 1970s - and five year NTN-D, an unprecedented issue for papers indexed to the dollar.

Aside from the effect of lengthening redemption terms, these papers were totally absorbed by the market at rates compatible with those obtained in shorter term auctions. This result signaled the possibility of placing longer term papers, principally securities tied to fiscal policy implementation. However, with the interest rate hike, the process was reversed as short-term Banco Central and National Treasury issues dominated the market, fully aware that the interest rate rise would be temporary.

However, the average term of the public debt was not altered in the period, since participation of papers referenced to the dollar in the securities debt stock increased. As a result, despite growing market uncertainty at the time, in the early days of December the average term of federal securities on the market returned to the October level of 6.7 months.

Aside from improvements introduced into monetary instruments and policy, 1997 was also marked by the ongoing structural changes demanded by the national financial system so that it would be able to enhance its efficiency in monetary transmission and, in this way, adapt itself to the growing complexity of the international financial system.

What is being sought is a reduction in the administrative and operational costs of financial institutions, coupled with a redirectioning of their asset operations with heavier concentration in credit operations as a major source of revenues. Based on Proer resources, this process began with private banks and was intensified in 1997 with approval of Proes, a program reserved to the restructuring of public sector

banks, particularly at the state level. This program is one component of the fiscal adjustment program being implemented by the states and should result in a sharp reduction in public sector involvement in banking activities. The process, coupled with the growing participation of foreign banks through mergers, acquisitions and privatizations represents a new stage in the structural transformation of the financial system.

The recent financial crises in the countries of Asia underscored the importance of reducing the probability of risk and, consequently, of broadening measures of a prudential nature, with particular emphasis on bank supervision. One fact that deserves mention in this context is creation of the Banco Central Credit Risk Center, a system containing data on the volume of client debts to financial institutions. Based on the Basel Accord, the formula for calculating required net worth for financial institutions was altered, so that these institutions would have to increase the participation of their own capital resources to guaranty asset and swap operations.

Also with respect to measures of a prudential nature, a point that should be stressed is the limitation imposed on the total amounts corresponding to margins deposited as guaranties and premiums paid on operations processed through financial investment funds and foreign capital fixed income funds on the derivatives market. In this regard, fixed income funds open to the public were obligated to state clearly in their bylaws and inform their clients that their investments are not guarantied either by the fund manager or by the Credit Guaranty Fund.

### **Monetary aggregates**

Monetary policy execution fully complied with the targets defined in the monetary program in the form of upper and lower parameters.

In terms of average daily balances, the restricted monetary base turned in highly distinct performances during the course of the year. The first quarter was marked by 22.8% expansion, as levying of the Provisional Contribution on Financial Transactions (CPMF) began, provoking migration of resources out of short-term financial investment funds and into demand deposits. The average monetary base balance accumulated 60.6% growth in the year. Currency issued increased by 19%. Banking reserves, which register operations between the banking system and Banco Central, expanded by 270.1% in the year and accompanied growth in demand deposits.

An analysis of the end-of-period balance shows annual monetary base expansion of 60.8%, corresponding to growth of 17.8% in the balance of currency issued and 344% in the banking reserve balance.

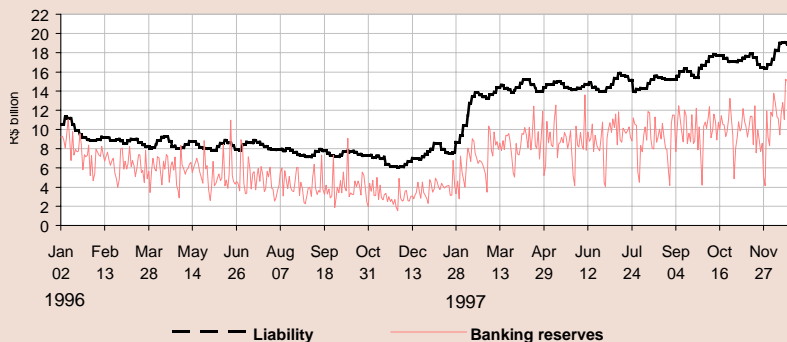
**Table 2.1 - Monetary program**

R\$ billion

Itemization	Restricted monetary base			Expanded monetary base		
	Minimum	Maximum	Confirmed	Minimum	Maximum	Confirmed
1996 1st Quarter	17.0	19.9	18.0	122.0	143.2	137.7
2nd Quarter	16.8	19.7	17.4	134.4	157.8	157.4
3rd Quarter	16.6	19.5	17.2	154.2	181.1	165.1
4th Quarter	20.6	24.2	20.1	159.4	187.1	184.1
1997 1st Quarter	23.3	27.3	24.7	191.5	224.8	194.2
2nd Quarter	24.0	28.1	24.7	220.3	258.7	203.2
3rd Quarter	22.7	26.7	26.2	225.8	265.1	224.0
4th Quarter	31.7	37.2	32.3	257.7	302.5	280.1

(continues)

Graph 2.1  
Banking reserves - valuated balances



In absolute terms, monetary authority asset and liability operations in 1997 generated R\$ 12 billion growth in the monetary base balance. Operations with the financial system were an important source of monetary pressure, with an impact of R\$ 4 billion. Among the components of this segment, the most important sources of expansionary pressures were releases of compulsory deposits on financial investment funds – FIF (R\$ 7.9 billion), mostly concentrated in the first three months of the year (R\$ 6.8 billion) and generated by migration of investments out of short-term funds and into other assets, when levying of the CPMF began. Discount window operations were another important source of monetary growth, with an impact of R\$ 3.2 billion, including both Proer and Proes operations. On the compression side, particular mention should be made of financial institution deposits (R\$ 8.8 billion), involving compulsory reserves on time deposits (R\$ 6.7 billion) and savings (R\$ 2.1 billion).

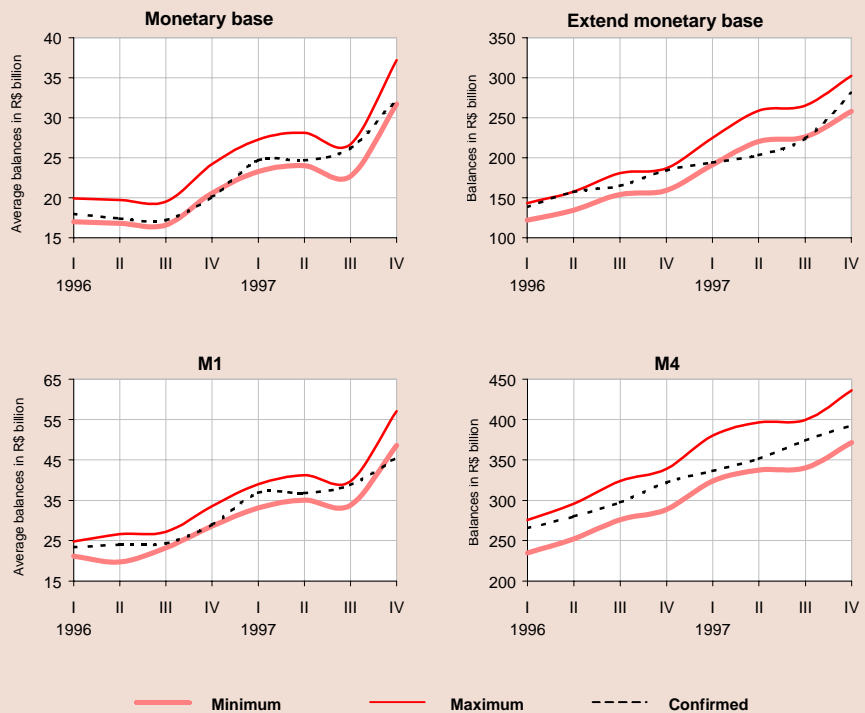
**Table 2.1 - Monetary program** (concluded)

R\$ billion

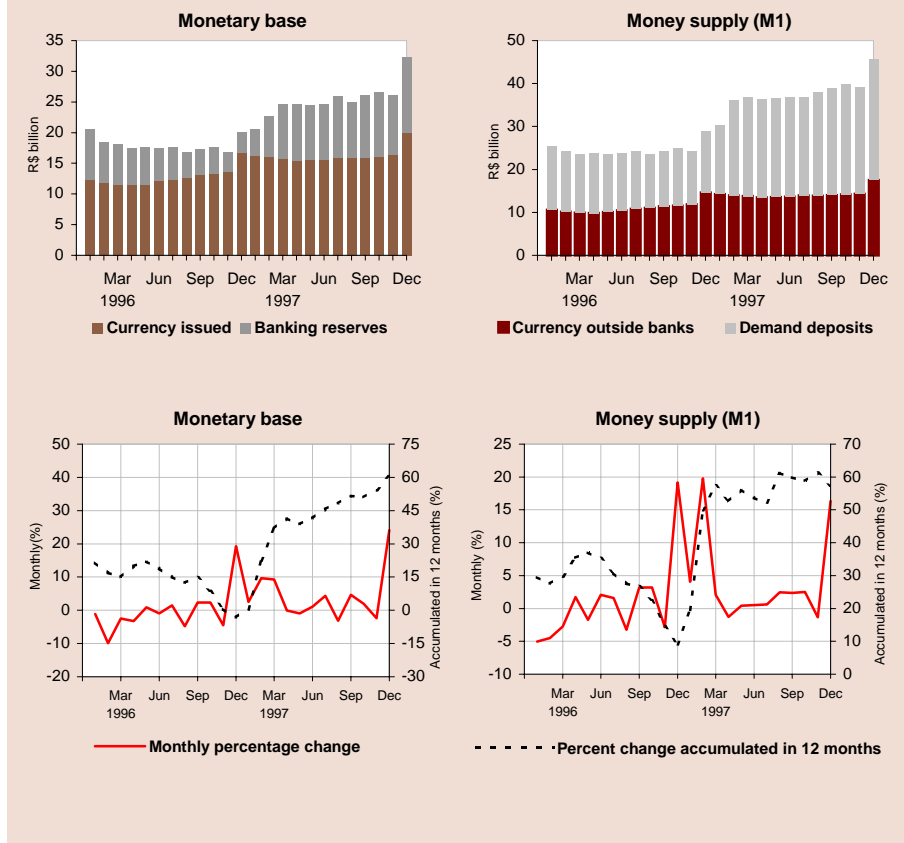
Itemization	Money supply (M1)			Money supply broader concept (M4)		
	Minimum	Maximum	Confirmed	Minimum	Maximum	Confirmed
1996 1st Quarter	21.2	24.8	23.4	234.8	275.7	265.3
2nd Quarter	19.7	26.6	24.0	252.3	296.1	280.2
3rd Quarter	23.2	27.2	24.3	276.1	324.1	297.4
4th Quarter	28.6	33.6	29.0	289.0	339.2	322.1
1997 1st Quarter	33.2	39.0	36.9	323.9	380.2	336.4
2nd Quarter	35.1	41.2	36.8	337.5	396.2	351.3
3rd Quarter	33.8	39.7	38.8	340.4	399.6	373.8
4th Quarter	48.6	57.1	45.6	371.4	436.0	392.8

Graph 2.2

**Monetary base and money supply**  
Monetary program and values confirmed



Graph 2.3  
**Monetary base and money supply (M1)**  
 Average daily balances



Foreign sector operations generated contraction of R\$ 9.1 billion and, to some extent, reflected the uncertainties that predominated toward the end of the year among economic agents with respect to future exchange policy, provoking net sales of exchange by Banco Central on the interbank exchange market. Here, specific mention should be made of the October result when net outflows of foreign resources allocated on the capital market generated monetary compression of R\$ 7.9 billion, as the international financial crisis deepened.

National Treasury accounts resulted in a R\$ 5.1 billion reduction in terms of annual flow. At the same time, the period was marked by larger transfers of tax resources to the Single Account in comparison to the preceding year.

Liquidity adjustment in the banking reserve market was achieved through net repurchases of federal public securities, equivalent to an injection of R\$ 22.2

**Table 2.2 - Factors affecting the monetary base**

Accumulated flows in the month (R\$ million)

Period	National Treasury	Operations with Federal securities	External sector operations	Discount window operations	Deposits			Other accounts	Monetary base change	
					Financial institutions	Investment funds	Total			
1996	Jan	2 403	-3 949	2 238	-168	1 003	-928	75	155	753
	Feb	687	-8 133	2 212	71	158	-305	-147	-117	-5 427
	Mar	231	-1 953	-25	1 064	34	-253	-219	79	-822
	Apr	-1 715	-1 858	1 131	886	397	-121	276	96	-1 184
	May	4 923	-10 274	2 085	3 555	890	-262	628	352	1 270
	Jun	279	-668	230	541	386	-57	329	-176	535
	Jul	-889	-2 985	872	4 637	564	-359	205	101	1 941
	Aug	-588	578	51	-2 925	387	-672	-286	108	-3 062
	Sep	283	4 246	-1 130	1 841	63	-406	-344	55	4 952
	Oct	-583	-3 705	1 066	1 117	-2 387	-589	-2 976	6	-5 074
	Nov	38	-3 279	1 023	-2	-2 241	-1 370	-3 611	5 935	104
	Dec	444	2 309	234	176	-1 399	-1 157	-2 556	3 520	4 127
1997	Jan	2 175	-566	-1 305	2 495	-816	2 026	1 210	55	4 064
	Feb	-560	1 166	-75	-6 738	-1 224	3 679	2 455	178	-3 575
	Mar	-326	-1 565	-611	2 742	-1 315	1 061	-254	2 053	2 039
	Apr	-2 043	1 237	-1 484	7 221	-656	685	29	8	4 967
	May	-2 871	-684	2 566	-3 481	-1 773	349	-1 423	343	-5 551
	Jun	167	1 215	-1 389	3 191	-707	253	-455	219	2 948
	Jul	-380	-163	2 397	-2 008	-941	205	-736	417	-472
	Aug	-1 727	-2 380	2 872	-1 299	-78	199	121	66	-2 348
	Sep	2 241	3 350	-1 669	2	29	17	46	-1 137	2 832
	Oct	342	3 779	-7 923	6 566	-968	-402	-1 370	52	1 447
	Nov	-478	7 040	-1 776	-7 646	231	-375	-144	-171	-3 175
	Dec	-1 614	9 732	-653	2 148	-572	209	-364	-392	8 856

billion into the system. Primary market redemptions totaled R\$ 14.8 billion, with an additional R\$ 3.1 billion on the secondary market. Banco Central secondary market interventions, which had become much less frequent since implementation of the new rediscount system, intensified as of the end of October when system liquidity began oscillating sharply on a daily basis as a result of acceleration in capital and exchange market operations caused by the worsening of the Asian financial crisis. In the extramarket segment, redemptions came to R\$ 4.3 billion. Here, mention should be made of R\$ 4.6 billion in net repurchases in December as a result of National Monetary Council Resolution no. 2,423, dated September 23, 1997, which determined that the available financial resources belonging to FAT, Funcafé and FNDE should be invested through Banco do Brasil. To make this possible, the Resolution in question authorized constitution of a financial investment fund, with a portfolio composed of federal public securities.

Insofar as the expanded monetary base is concerned, the balance turned in growth of 52.2%. Here, one should highlight December growth of 27.4% caused by issues of LFTs to be used in renegotiating the security and contractual debts of the State of São Paulo. This operation generated a 30.7% increase in the federal security stock in the month and raised growth under this component to 58% in the year. The balance of compulsory cash deposits increased by 18.9% in the year. Analysis shows that deposits not entitled to interest declined by 68.1%, while interest-bearing deposits increased by 88.6%. To some extent, this performance can be explained by the migration of funds out of short-term FIF into other financial assets, once levying of the CPMF had begun.

Annual growth in the money supply (M1) closed at 57.4% in average terms. This figure should be qualified by first quarter growth of 27.2% corresponding to reallocation of short-term financial investments into demand deposits when the

**Table 2.3 - Collection rate on mandatory reserves**

Period	Demand deposits	Time deposits	Savings deposits	Credit operations	FIF Short-term	FIF 30 days	FIF 60 days
Before the Real Plan	40%	-	15%	-	-	-	-
1994 Jun	100%	20%	20%	-	-	-	-
Aug	"	30%	30%	-	-	-	-
Oct	"	"	"	15%	-	-	-
Dec	90%	27%	"	"	-	-	-
1995 Apr	"	30%	"	"	-	-	-
May	"	"	"	12%	-	-	-
Jun	"	"	"	10%	-	-	-
Jul	83%	"	"	"	35%	10%	5%
Aug	"	20%	15%	8%	40%	5%	0%
Sep	"	"	"	5%	"	"	"
Nov	"	"	"	0%	"	"	"
1996 Aug	82%	"	"	"	42%	"	"
Sep	81%	"	"	"	44%	"	"
Oct	80%	"	"	"	46%	"	"
Nov	79%	"	"	"	48%	"	"
Dec	78%	"	"	"	50%	"	"
1997 Jan	75%	"	"	"	"	"	"

CPMF went into effect. Average balances of currency held by the public and demand deposits turned in annual growth rates of 19.8% and 95.7%, respectively.

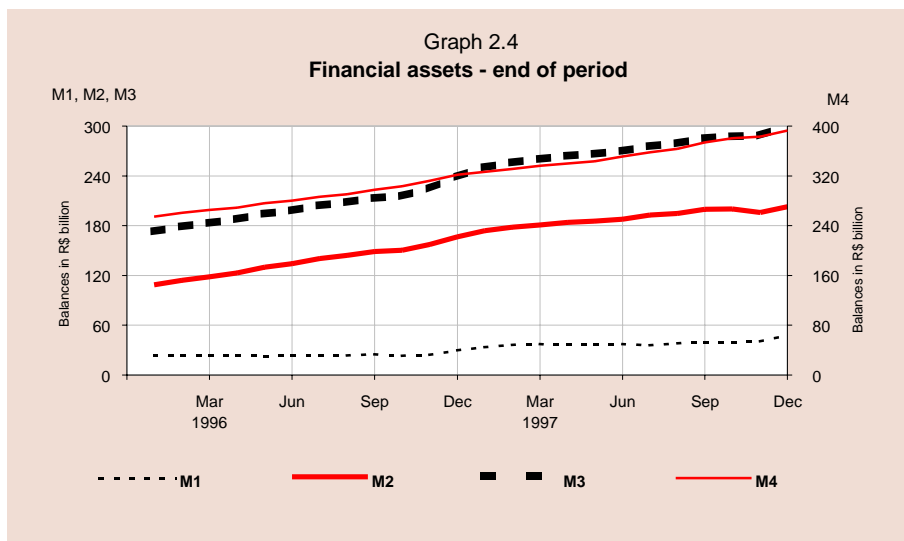
The monetary multiplier dropped from 1.44 at the end of the previous year to 1.41 in 1997, caused mostly by the increase in the banking reserves/demand deposits ratio from 0.23 in December of the preceding year to 0.44. This effect was partially offset by growth in public preference for demand deposits, as participation of these assets rose from 0.50 in 1996 to 0.62. The balance of the expanded money supply (M4) concept registered growth of 23.1% in the year, reaching a level of R\$ 392.8

**Table 2.4 - Financial assets**

Percentage share in GDP<sup>1/</sup> (%)

Period		M1	M2	M3	M4
1996	Jan	3.38	15.67	24.93	36.64
	Feb	3.30	16.29	25.53	37.18
	Mar	3.26	16.76	25.94	37.61
	Apr	3.24	17.13	26.14	37.45
	May	3.10	17.71	26.45	37.57
	Jun	3.15	17.95	26.53	37.50
	Jul	3.05	18.53	26.95	37.72
	Aug	3.06	18.85	27.17	37.89
	Sep	3.25	19.24	27.55	38.44
	Oct	2.96	19.19	27.52	38.72
	Nov	3.07	19.82	28.26	39.38
	Dec	3.68	20.60	29.49	39.80
1997	Jan	4.09	21.18	30.49	39.76
	Feb	4.38	21.49	30.89	39.96
	Mar	4.43	21.58	31.04	40.12
	Apr	4.26	21.78	31.28	40.23
	May	4.29	21.79	31.31	40.34
	Jun	4.37	21.88	31.46	40.94
	Jul	4.15	22.43	32.07	41.63
	Aug	4.39	22.56	32.34	42.10
	Sep	4.51	22.93	32.80	42.96
	Oct	4.50	22.80	32.75	43.33
	Nov	4.55	22.13	32.60	43.29
	Dec	5.34	22.70	33.57	43.97

1/ Last 12 month GDP at prices of indicated month (deflator GPI-DS) having the series disclosed by IBGE as a base.

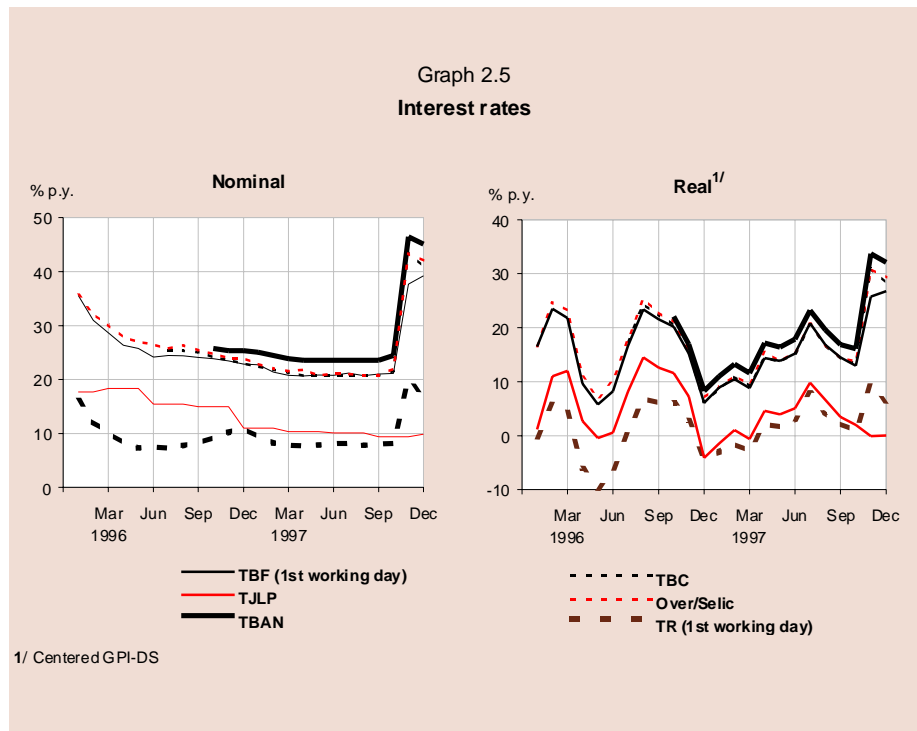


billion. Federal public securities held by the public turned in growth of 38.3% and came to represent 35.5% of this aggregate, as against 31.6% at the end of the preceding year. The savings deposit balance expanded by 34.8% in the year and, in December, assumed the position of second most important M4 component with participation of 24.7% (22.4% in the previous year). The stock of private securities, composed basically of Bank Deposit Certificates turned in 11% growth in the year, with a drop in its participation in financial savings (M4) from 26.2% at the end of the previous year to 23.7%.

### Interest rates, federal security auctions and exchange premiums

Banco Central creation of the Basic Interest Rate (TBC) and Banco Central Assistance Rate (TBAN) in the second half of 1996 was destined to play an important role in 1997. Reflecting the financing cost of discount window operations, the new rediscount mechanism made it possible to adjust liquidity through operations among financial institutions. As a result, notwithstanding the need for Banco Central security auctions, monetary authority market interventions became considerably less frequent. Thus, in 1997, discount window operations consolidated their position as an important monetary policy instrument in Brazil.

Definition of the TBC went through three distinct phases in 1997. In the first four months of the year, the TBC was gradually reduced each month, dropping from 1.7% per month in January to 1.58% in April, and clearly followed the policy of consistently lower interest. From May to September, the TBC held at 1.58% as a result of a worrisome international financial scenario and the possibility of change in American interest rates.



With the outbreak of the international financial crisis triggered by the countries of Southeast Asia and the repercussions of the crisis on Brazil's international reserve position, Copom met on October 30 and raised the TBC to 3.05% in the month, later revising this downward to 2.90% for December 1997.

Since it is considered a parameter for the other interest rates in the economy, the TBC trajectory strongly impacted the cost of money for interbank markets. With regard to such basic interest rates as the over Selic and over CDI (Interbank Deposit Certificates) in 1997, these rates closed at levels between the lower TBC limit and the upper TBAN limit. Despite the interest rate hike at the end of October, the accumulated 1997 rate closed at 24.8% or less than the 1996 level (27.4%).

It is worth recalling that, as of January 1998, the basic rates announced by Banco Central were expressed in annual terms, based on 252 business days per year. Aside from this, Copom meetings followed a regular predefined schedule with at least six meetings per year, with its decisions going into effect on the immediately subsequent business day.

The gross exchange premium – understood as the earnings of foreign financial investors in comparative international operations – oscillated in the range of 1% per month, with the exception of November and December when the rate came to an average of 2.4%. With these figures, the gross 1997 rate closed at 16.2%.

In the course of 1997, federal public security auctions managed to place papers with longer terms and at rates compatible with those rates on shorter term papers. The terms of the publicly offered papers stretched out from 87 days at the end of 1996 to 198 days in 1997. The most important operations involved placements of 365 day BBC, 2 year LTN and 5 year NTN-D, the latter of which were indexed to the rate of exchange.

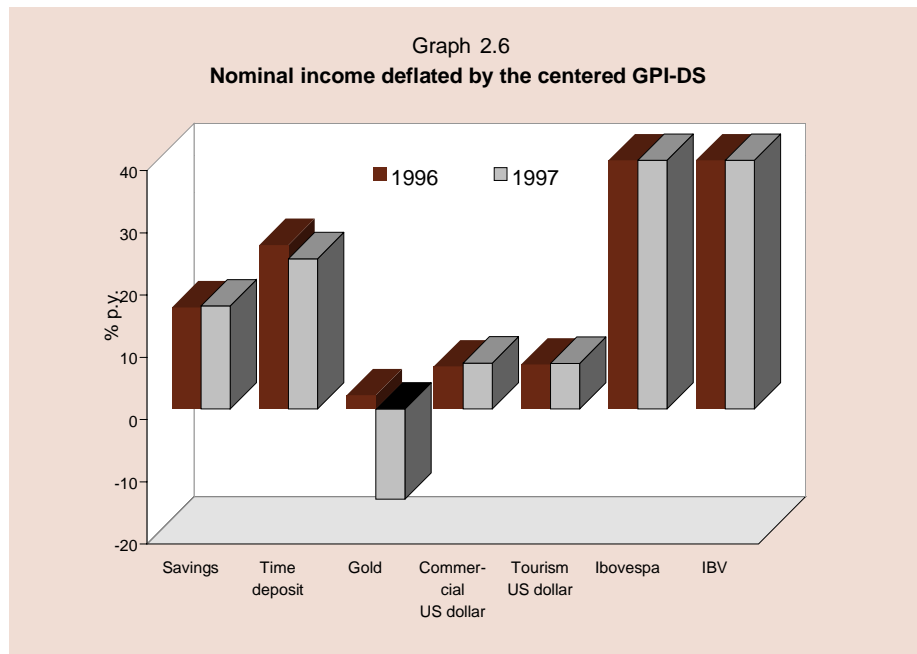
Measures were taken to reinforce growth in demand for papers indexed to the rate of exchange, as a means of hedging these operations. A good example of these measures is seen in the permission granted to invest foreign resources obtained for purposes of financing rural activities, construction and acquisitions of new real estate in NTN-D and the possibility of negotiating the coupons paid for these papers separately from principal.

On October 30 and 31, Banco Central announced anticipated purchase of preset federal securities held by the market with maturity as of January 1, 1998. The purpose of this measure was to adjust system liquidity when it became apparent in the primary security market that difficulties were being encountered in efforts to define rates compatible with the new levels of interest adopted in the wake of the Asian crisis. Aside from this, with the interest rate rise Banco Central concentrated its offers in very short-term preset papers and even reduced the terms of papers tied to exchange indexing.

### **Financial investments**

In 1997, changes in the net worth of the traditional fixed income funds (Financial Investment Funds – FIF) occurred mostly in the first and fourth quarters. When levying of the CPMF commenced in January 1997, resources began migrating from short-term FIF to longer term investments, particularly 60 day FIF. In the first quarter of 1997 alone, the net worth of short-term FIF dropped by about R\$ 14.5 billion (approximately 2/3 of net worth in December 1996). An analysis for all of 1997 shows a reduction of 73%, as short-term FIF closed with net worth of R\$ 6.3 billion, as compared to R\$ 22.8 billion in December of the preceding year.

In the final quarter of 1997, two factors generated changes in the composition of Financial Investment Funds: Banco Central's demand for express authorization of account holders for financial institutions to be able to automatically transfer current account resources into investment funds or savings accounts; and, principally, the change in the interest rate level at the end of October, reducing the value of fund quotas and, at the same time, increasing the profitability of savings accounts, thus generating significant flows of funding into these accounts which are covered by deposit insurance (FGC) up to the limit of R\$ 20 thousand.

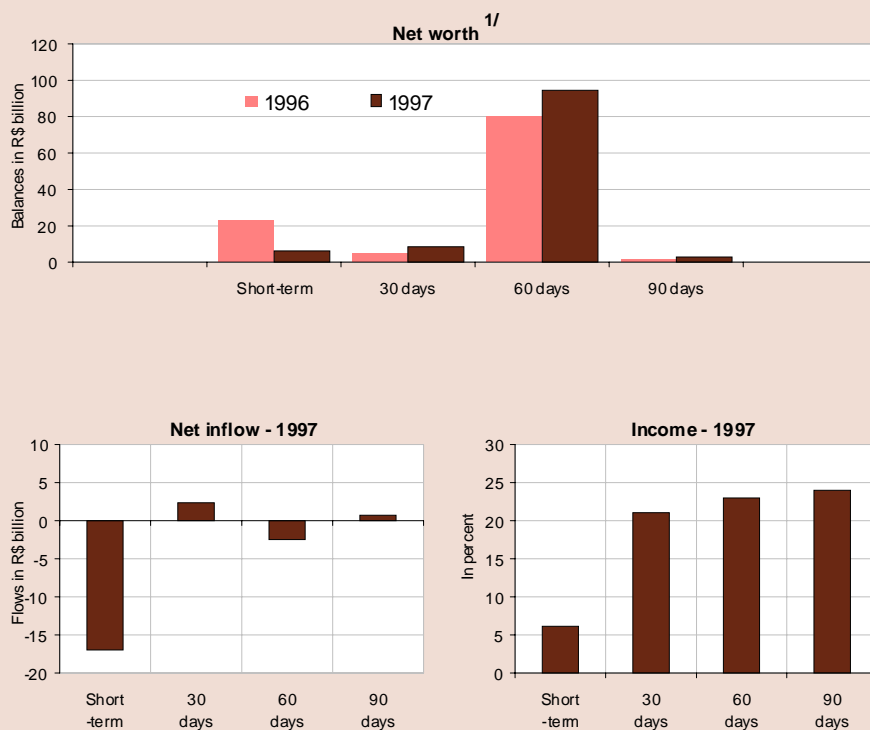


The changes introduced into the calculation of the Reference Rate (TR) reduction factor as of November made that calculation much more transparent and automatic, at the same time in which profitability levels of savings accounts became more competitive in relation to other financial investments. On 11.1.97, a new formula was introduced for calculating the TR reduction factor:  $R = a + bTBFm$ , in which  $a$  and  $b$  are parameters set by the National Monetary Council (CMN) and are subject to change with minimum notification of six months, while  $TBFm$  is the average of Basic Financing Rates (TBF) for the final five business days of the preceding month. In the previous system, the rate was determined six months in advance.

In December 1997, the formula for the reduction factor was altered to  $R = (1 + TBFm)/(a + bTBFm)$ . In this case, parameters  $a$  and  $b$  can be altered with minimum prior notification of 30 days. This methodological change in the calculation of the TR reduction factor was aimed at making the rate more flexible with more rapid incorporation of oscillations in the basic interest rates of the economy. With these measures, savings accounts closed 1997 with a balance of R\$ 97.1 billion and growth of 34.8%.

Despite these factors, FIFs closed the year with total net worth of R\$ 112.1 billion, an increase of 2.8% in relation to 1996. In December 1997, the assets of these investments were distributed as follows: short-term FIF, 5.6%, 30 day FIF, 7.6%, 60 day FIF with 84.3% and 90 day FIF with 2.5% or, in other words, approximately 87% of the assets of Financial Investment Funds were allocated to investments with terms equal to or greater than 60 days.

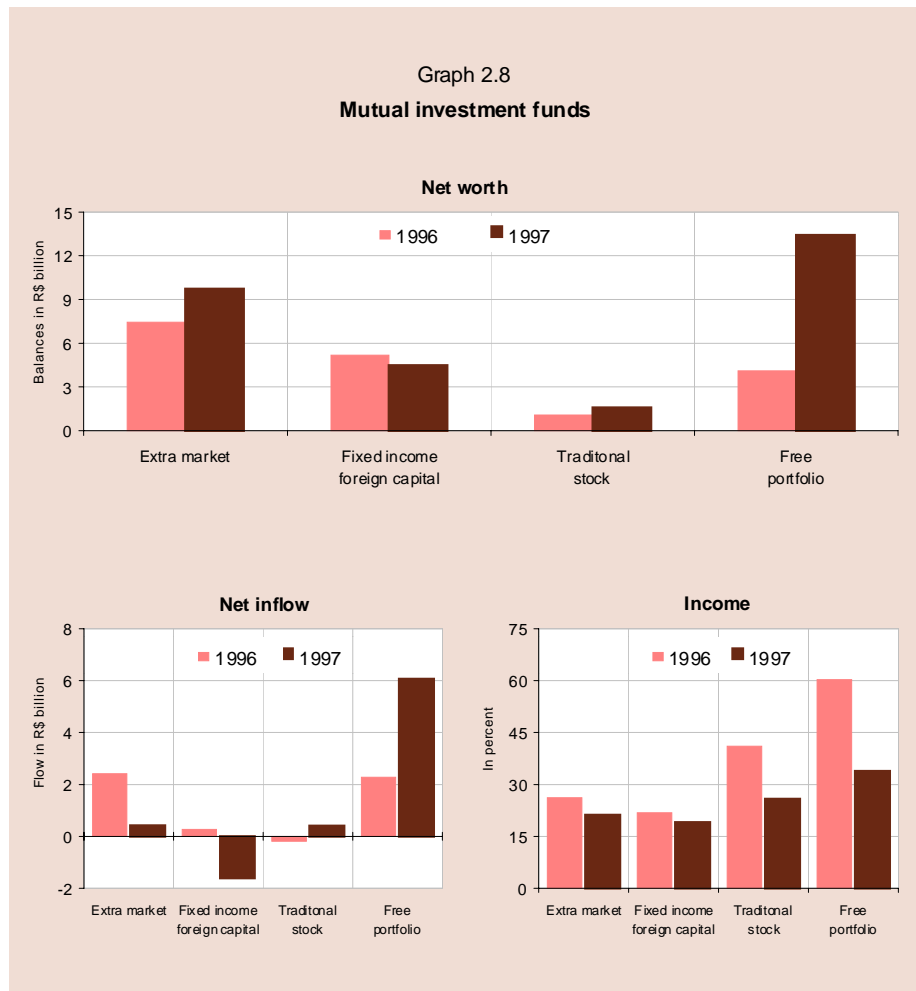
Graph 2.7  
Financial investment funds (FIF)



<sup>1/</sup>Net worth at end of period.

The balance of time deposits expanded by 7.9% in 1997. However, analysis of this result shows highly distinct performances during the course of the year. In the first half, the balance of time deposits dropped by 5.5% as a result of introduction of the CPMF. This had the effect of cutting into net earnings on short-term papers, which represented the majority of the securities involved. Starting in the second half of the year, the situation changed as banking institutions began creating financial investments with daily liquidity after the first 30 days and profitability equivalent to that of savings accounts. The funding of these investments was based mostly on Bank Deposit Certificates with repurchase clauses. With these steps, the balance of time deposits moved upward by 14.2% and reached an end-of-year total of R\$ 86.7 billion.

In 1997, another aspect that should be cited is growth in the net worth of variable yield investment funds. In December 1997, Traditional Stock Funds together with Free Portfolio Stock Funds registered R\$ 15 billion in net worth, approximately R\$ 10 billion more than in the same period of the preceding year. This result was



achieved despite much more stringent inspection by the Securities and Exchange Commission (CVM), particularly with respect to the operations of these funds in the derivatives market, and the performance of stock exchanges throughout the world in the final quarter of the year. However, notwithstanding market turbulence in the final months of the year, it was obvious that 1997 growth was rooted in a more stable investment climate and the consequent natural tendency of investors to accept greater risks in the pursuit of higher profits.

During the year in question, the Ibovespa and IBV indices moved upward at respective rates of 44.8% and 43.2%, despite the strong downward movement registered in August (17.6% and 16.1%) and in October (23.8% and 20.1%) caused by the crisis on international financial markets. Total trading at Bovespa and BVRJ came to R\$ 235.4 billion in 1997, as compared to R\$ 117.3 billion in 1996. The average daily volume of trading at Bovespa closed at R\$ 829.1 million, a growth of 108.8% in relation to the previous year.

A breakdown of the Bovespa market by type of investor shows significant alterations as institutional investors moved from 13.6% in 1996 to 19.6% in 1997, at the same time in which the share held by financial institutions declined from 45.1% to 40.1%. Foreign investors accounted for 25.9% of the 1997 purchase and sale volume, or slightly less than in the previous year (28.6%). However, the volume of overall purchase and sale operations by foreign investors moved from R\$ 56.3 billion in 1996 to R\$ 106.8 billion in 1997.

**Table 2.5 - Secondary stock market**

R\$ million

Itemization	1996			1997		
	Bovespa	BVRJ	Total	Bovespa	BVRJ	Total
Total	98 478	18 808	117 286	206 441	28 964	235 404
At sight	81 864	9 414	91 278	170 413	12 240	182 653
Termo	558	316	874	1 186	210	1 396
Put and call options	9 991	1 678	11 669	18 138	1 757	19 895
Options exercise	5 003	2 754	7 757	9 664	1 564	11 229
Other <sup>1/</sup>	1 062	4 646	5 708	7 038	13 192	20 231

<sup>1/</sup> Claims and receipts, Decree-Law no. 1,376 funds and privatization certificates, forward market put and call options exercise, auction and odd-lot market.

**Table 2.6 - Primary stock market**

Issuance registration at CVM (R\$ million)

Period	1996		1997	
	Month	Year	Month	Year
Jan	89.6	89.6	366.0	366.0
Feb	105.0	194.7	0.0	366.0
Mar	16.5	211.2	52.2	418.2
Apr	140.1	351.3	306.3	724.5
May	7 997.5	8 348.8	375.5	1 100.0
Jun	6.2	8 355.0	599.0	1 699.0
Jul	0.0	8 355.0	616.6	2 315.6
Aug	251.2	8 606.2	81.2	2 396.8
Sep	117.0	8 723.2	0.0	2 396.8
Oct	232.7	8 955.9	0.0	2 396.8
Nov	10.0	8 965.9	601.9	2 998.7
Dec	206.0	9 171.9	910.2	3 908.9

**Table 2.7 - Primary debenture market**

Issuance registration at CVM (R\$ million)

Period	1996		1997	
	Month	Year	Month	Year
Jan	450.2	450.2	1 200.9	1 200.9
Feb	262.5	7 12.7	350.0	1 550.9
Mar	1 247.9	1 960.6	1 000.5	2 551.4
Apr	176.0	2 136.5	205.0	2 756.4
May	403.6	2 540.1	238.0	2 994.4
Jun	688.6	3 228.7	503.6	3 498.0
Jul	399.5	3 628.2	1 124.3	4 622.3
Aug	625.9	4 254.0	1 068.4	5 690.7
Sep	1 293.5	5 547.5	179.2	5 869.9
Oct	539.8	6 087.3	693.1	6 563.0
Nov	876.2	6 963.5	485.0	7 048.0
Dec	1 432.0	8 395.5	469.7	7 517.7

With the instability spawned by the Asian crisis, Brazil adopted the circuit breaker mechanism on the stock exchange, which automatically interrupts trading when sharp and sudden fluctuations occur in the market. At the same time, the National Bank of Economic and Social Development (BNDES) opened a new line of credit targeted at repurchases of stocks by open capital corporations, backed by Securities and Exchange Commission (CVM) authorization for duplicating the maximum limit for such repurchase operations.

According to the CVM, total primary stock issues in 1997 came to R\$ 3 billion while debenture issues closed at R\$ 7.2 billion. No stock issues occurred in February, October and November. Debenture issues varied from a maximum of R\$ 1.2 billion in January to a minimum of R\$ 205 million in April.

### Financial system

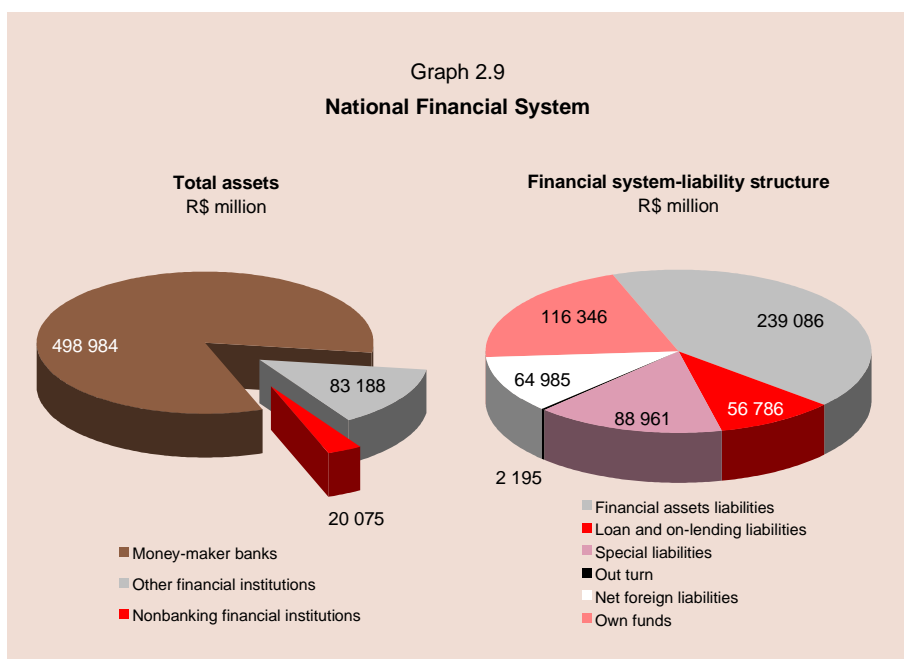
One of the highlights of 1997 was continuation of the ongoing process of restructuring the banking sector begun in 1995, with implementation of the Program of Incentives to the Restructuring and Strengthening of the National Financial system (Proer). This program was targeted at private banks and was expanded as of 2.28.97 to cover public sector banks, with creation of the Program of Incentives to the Reduction of State-level Participation in Banking Activities (Proes). The adjustment has the objective of adapting the financial system to the reality of economic stability, as well as to the continued process of integration into the international

financial system. The timeliness of this process became clear when Brazilian banking institutions were able to protect themselves from the adverse impacts of the crisis that hit Asian economies.

Among the highlights of the financial system restructuring process, particular mention should be made of the issue of Proes regulations and reorientation of the measures to be taken to restructure the financial sector, especially with regard to state-level public sector banks. The program is backed by financial assistance tied to securities or rights related to operations for which the National Treasury or its entities are liable, coupled with asset restructuring of state-level financial institutions. Both of these credit lines levy financial charges agreed upon between the federal government and the respective state. Disbursements in the context of these two lines totaled R\$ 810 million in 1997. Finally, an additional line was specified, allowing a federal financial institution to assume the liabilities of a state-level financial institution with the public. With this system, federal banks received a total of R\$ 160 million in the year.

The year was also marked by numerable acquisitions and mergers within the system. The most important aspect of this process was greater presence on the part of foreign banks, a factor that could well enhance competition among these institutions in their efforts to achieve higher efficiency levels. At the same time, entry of these institutions has the convenient impact of reducing the stock of financial institutions subjected to extrajudicial liquidation, since the acquiring institution is obligated to pay what has been termed “toll” on coming into the market.

Graph 2.9  
National Financial System



More detailed analysis shows that the number of foreign banks rose from 38 to 77, while branches increased from 385 to 1,614 in the period. National public and private banks moved in the opposite direction, declining from 200 to 168 institutions and from 15,136 branches to 13,268.

Since it is quite difficult to expand an institution's client base over the short-term, there is a general market perception that the increase in the presence of foreign institutions will occur principally through acquisitions of client portfolios. This is patent in the fact that foreign banks held just 6.2% of overall deposits in the monetary system in 1995, as compared to 11.7% in 1997. At the same time, private national banks moved in precisely the opposite direction, dropping from 34.1% to 27.9%.

With regard to the private segment, operations included 14 mergers of financial institutions, three split-ups and ten transfers of stock control, as well as one Proer-based acquisition of the assets of a financial institution.

Continuing the process of restructuring the public sector banking system, three institutions were privatized: Banerj was acquired by Itaú, Credireal by BCN and Meridional by Bozano, Simonsen.

Aside from the Proer and Proes mechanisms, which are designed for restructuring purposes, mention should also be made of the prudential measures taken. In this context, the National Monetary Council adopted a series of steps aimed at specifying limits for assumption of risks.

The Credit Risk Center was created by Resolution no. 2,390, dated 5.22.97, with the aim of increasing efficiency and reducing the costs of loan operations. The objective is to improve evaluation of the payment capacity of financial institution clients with debts of more than R\$ 50 thousand. At the same time, the system will make it possible to reformulate risk classification criteria, now based on the setting aside of provisions for the credit after default has occurred. The new system will be based on *ex ante* evaluation, thus facilitating adoption of a prospective approach by the creditor and Banco Central inspection staff.

Resolution no. 2,302, dated 7.25.97, specified an increase in the minimum required capital for opening banks and even for opening foreign branches of such institutions, while also granting permission for Banco Central to inspect these operations and those of any company with participation in financial institutions abroad. In those cases in which inspection is not permitted, all stock holdings in foreign companies that may exist at the time should be deducted from net worth. Here, one should also stress that institutions are obligated to provide information to Banco Central covering the entire conglomerate, including operations abroad, thus making it possible for Banco Central to perform effective consolidated global supervision.

Circular no. 2,784, dated 11.27.97 raised minimum capital requirements from 10% to 11% of assets weighted by risk. As a matter of fact, there was a decline from 48.8% to 42.1% in the participation of financial assets in the composition of total financial system liabilities (including the nonmonetary system) in 1997. With respect to the institutions' own capital holdings, on the other hand, participation in total resources increased from 25.9% in 1996 to 26.3%, particularly among state banks and private national banks.

**Table 2.8 - Principal indicators of the banking system <sup>1/</sup>**

Itemization	1994	1995	1996	1997*
1. Participation of net worth in total funds	25.6	27.0	25.9	26.3
2. Immobilization of net worth	52.9	57.4	56.7	51.6
3. Commitment of bank's funds with illiquid operations	7.4	8.2	7.1	7.6
4. Profitability of bank's funds	2.0	-0.4	-0.1	-1.1
5. Participation of non-paid funds in current asset operations	5.3	5.4	6.6	5.2
6. Participation of foreign currency inflows in liabilities	22.8	25.8	23.4	29.0
7. Cost of total inflow	2.6	2.6	1.9	1.5
8. Default rate of credit operations net of earnings appropriation <sup>2/</sup>	2.8	12.0	6.7	5.5
9. Provisioning level of credit operations	5.3	12.7	14.6	14.8
10. Remuneration rate of total adjusted asset	0.3	-0.4	0	-0.3
11. Bank's portfolio earnings of fixed yield securities	3.5	0.4	4.4	0.0
12. Contribution of exchange portfolio income	0.1	0.2	0.2	0.0
13. Share of administrative costs in the operational result	41.3	58.1	58.9	47.0
14. Recovery of administrative expenses through revenues of services rendered	21.0	18.6	22.8	16.3
15. Participation of personnel costs in the administrative expenses	51.0	52.9	49.6	50.3
16. Accumulation of capital referring to Basle Accord	-	11.2	10.9	11.6

<sup>1/</sup> Includes multiple banks, comercial banks, federal and state savings banks.

<sup>2/</sup> It refers to National Financial System.

<sup>3/</sup> Simple average (%)

\* Refers to Oct/97

**Table 2.9 - Institutions allowed to operate by the Central Bank**

Itemization	1994	1995	1996	1997
<b>Commercial and multiple banks</b>				
Headquarters	241	240	238	245
Offices and branches	16 191	15 648	15 521	14 882
<b>Public</b>				
<b>Federal (including Banco do Brasil)</b>				
Headquarters	4	4	4	3
Offices and branches	3 726	3 592	3 545	3 228
<b>States</b>				
Headquarters	23	26	26	22
Offices and branches	4 156	3 902	3 867	3 488
<b>Private</b>				
<b>Nationals</b>				
Headquarters	147	144	142	118
Offices and branches	7 549	7 501	7 466	5 360
<b>National with foreign participations</b>				
Headquarters	30	29	28	25
Offices and branches	314	257	258	1 192
<b>Foreign</b>				
Headquarters	37	37	38	77
Offices and branches	446	396	385	1 614
<b>Development banks (including BNDES)</b>				
Headquarters	6	6	6	6
Offices and branches	14	9	9	9
<b>Savings banks</b>				
Headquarters	2	2	2	2
Offices and branches	2 008	1 821	1 766	1 566
<b>Investment banks</b>				
Headquarters	17	17	17	22
Offices and branches	64	47	47	50
<b>Credit, investment and financing companies</b>				
Headquarters	42	45	48	48
Offices and branches	135	90	90	69
<b>Real estate companies</b>				
Headquarters	25	22	22	20
Offices and branches	68	32	32	30
<b>Savings and loan associations</b>				
Headquarters	2	2	2	2
Offices and branches	1	1	1	2
<b>Brokerage companies</b>				
Headquarters	278	273	269	200
Offices and branches	489	413	399	321
<b>Securities distributing companies</b>				
Headquarters	363	325	303	235
Offices and branches	764	530	514	356
<b>Total</b>				
Headquarters	976	932	907	780
Offices and branches	19 734	18 591	18 379	17 285

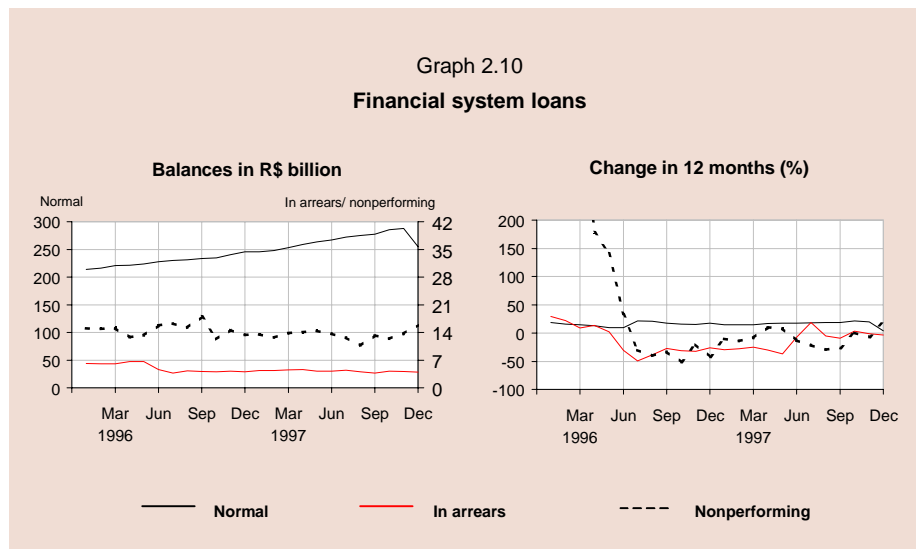
Based on the terms of the Basel Accord, changes were also introduced into the calculation of the required net worth of financial institutions, while swap operations and operations on the derivatives market were regulated. Measures that should be highlighted include: adjusted net worth factors were raised from 10% and 16% to 11% and 20%, respectively; procedures were adopted for regulating swap operations; for purposes of determining credit risks, the risk factor of the references used in swap operations and the respective correlation coefficients were announced; the risk factors used in calculating the percentages of the different types of credit and swap operations that financial institutions should maintain in relation to their net worth, in order to cover possible losses consequent upon such operations, were raised; ceilings were imposed on the total amounts corresponding to margins deposited as guaranties and premiums paid in operations processed through financial investment funds and foreign capital fixed income funds in derivative markets; and it was determined that the regulations of investment funds should state that their investments are not guarantied by the institution or entitled to Credit Guaranty Fund (FGC) coverage.

Finally, 1997 creation of the Individual Programmed Retirement Fund (Fapi) also deserves mention. This is a new long-term savings instrument in the form of complementary social security coverage. It is constituted in the form of an open fund to which both employers and employees contribute and the resources are to be invested in a diversified portfolio of financial assets and securities. Among the characteristics of this fund that deserve mention are its unspecified duration, easy access to resources, specific fiscal treatment and the obligation imposed on the financial management of the fund to provide specific information to Banco Central.

### **Financial system loans**

The balance of normally performing operations involving advances, loans, financing and leasing came to R\$ 255.1 billion in 1997, for growth of 3.8% in relation to the previous year, as compared to 17.5% expansion in 1996.

Individual banking debt liabilities came to R\$ 29.9 billion, for growth of 51.3% in the year. The period was marked by lesser use of personal credit and special overdraft checks and increased utilization of financing for acquisition of goods. Decree no. 2,219, dated 5.2.97, raised the rate of the financial operations tax (IOF) from 6% to 15% on personal credit operations. The result was a shift in the growth pattern of credit operations which had expanded by a monthly average of 4.8% in the first four months of the year, as compared to 2.9% per month during the remainder of the year. A side effect of the tax increase was migration of funding demand into leasing operations which, based on data released by the segment of



leasing companies, expanded by 971% in the year. Here, one should note that, unlike direct financing, these credit operations are exempt from the IOF.

In the case of business loans, this market was characterized by demand for working capital in detriment to shorter term hot money, despite a rise in the debt contracted in the form of very short-term guaranteed accounts. Insofar as financing lines backed by leasing operations are concerned, use of commercial invoice discounting and vendor operations expanded.

The balance of credit operations with the private industrial sector came to R\$ 56.8 billion, with growth of 12.2%. In relation to credits granted to public sector industries (R\$ 6.8 billion), the balance declined by 41.5% in the period as a consequence of renegotiation of part of the state-level public debt, which was transferred to the direct administration in the month of June.

In relation to the banking debt held by the sector of commerce, growth came to 2.4% and a balance of R\$ 22 billion, while credit operations with other services reached R\$ 23.7 billion, for growth of 9.3%.

It should be stressed that Resolution no. 2,352, dated 1.23.97 revoked the provisions that prohibited credit operations guaranteed by checks and the discounting of checks, as well as services involving physical and electronic custody of checks, a type of operation that made it possible for factoring companies to supply working capital to borrowers.

Resolution no. 2,389, dated 5.22.97, was issued to discipline foreign purchases. The specific purpose of this Resolution was to deal with the prohibition of financial

institutions carrying out credit card operations to obtain goods and services abroad.

Resolution no. 2,440, issued on 11.12.97, had the objective of contributing to recomposition of the exchange reserve level. Thus, it dealt with the right to invest foreign resources obtained for purposes of on-lending to export companies within the country as well as resources obtained under the terms of Resolution no. 63, dated 8.21.67, in NTN-D.

Circular no. 2,783, dated 11.13.97, was also issued to deal with credit lines involving on-lending operations based on foreign resources and carried out by financial institutions. This Circular determined that the average period of amortization for the foreign loan operation authorized to be contracted up to 3.1.98 would be a minimum of 12 months and that inflow (liquidation of the exchange operation) must occur by 3.31.98. At the same time, the average term of amortization for renewal or extension of foreign loan operations scheduled to mature up to 3.31.98 was set at a minimum of six months. These terms are followed by financial institutions in on-lending operations involving funding referenced to a foreign currency.

Resolution no. 2,441, dated 11.24.97, granted permission to banks authorized to operate in exchange to utilize trade credit lines available abroad for granting credits backed by commercial invoices issued by manufacturers of inputs included in the processes of production, assembly or packaging of merchandise to be shipped abroad. These credits must be representative of the value of the inputs sold and delivered to the final exporter companies against payment in installments. This is the point that differentiates these operations from Advances on Exchange Contracts (ACC), in that the new system does not demand compliance with export contracts.

The year under analysis was marked by the ongoing process of negotiating the banking debt of the state-level public sector. The balance of credit operations for typically government activities (federal, state and municipal) dropped by 17.2% and closed at R\$ 25.6 billion. In December, the balance of normal credit operations granted to the public sector as a whole came to R\$ 41.3 billion, as compared to R\$ 75.6 billion in November. This reduction was due to renegotiation of the debt of the State of São Paulo with the federal government. In greater detail, the contract made it possible to pay the controller's contractual debt of R\$ 26.7 billion to Banespa and R\$ 7 billion to "Nossa Caixa Nosso Banco", in federal securities, thus bringing an important chapter in the process of restructuring the state public debt to a close. The document in question reordered the finances of "Nossa Caixa Nosso Banco" and federalized Banespa in preparation for its privatization by the federal government. The overall objective here is to strengthen the national financial system and, at the same time, reduce traditional sources of financing of fiscal outlays.

In the institutional framework, Resolution no. 2,366 was issued on 3.17.97 with the objective of permitting implementation of a program of support to the fiscal restructuring of the states. August 29, 1997 was set as the deadline for the Federal Savings Bank to finalize contracts involving acquisitions of banking credits in the name of the states, including anticipated budget revenue operations (ARO). On 6.25.97, Resolution no. 2,404 was issued, setting 7.31.97 as the deadline for the Federal Savings Bank to formalize contracts on acquisitions of credits extended to the states and belonging to financial institutions. At the same time, these acquisitions were dispensed from the obligation of transferring these amounts to credits in arrears or in liquidation up to 12.31.97.

Financing to the rural sector, including agribusiness, increased by 26.2%, with the balance climbing to R\$ 23.1 billion. Here, the most important element was the 36.5% rise in investment credits. The latter increase was generated by the supply of funding with preset costs (14.5% per year – Resolution no. 2,401, dated 6.25.97) reserved to acquisitions of farm machines and implements. This credit line remained in effect up to the end of October. The balance of financing granted to marketing operations expanded by 48.2% in the year.

Current expenditure credits expanded by 12% in the year. Here, one should note that the government maintained an adequate and timely supply of financing available to the rural sector, at the same time in which debts with the financial system were renegotiated. Taken together, these elements had a positive impact on the activities of the sector. A good example was issue of Resolution no. 2,415, dated 8.11.97, permitting up to 1/3 of obligatory reserves held at Banco Central do Brasil on funding obtained in rural savings accounts for investment in rural financing to be used in current expenditure operations for the 1997/98 harvest, under the general conditions applicable to controlled resources-based operations, with particular attention to effective interest of 9.5% per year.

Also with respect to the rural sector debt, Resolution no. 2,413, dated 8.11.97, altered the period for final payment of rural credit operations contracted up to 6.20.95 and matured or maturing up to September 1997, with maturity up to December 1996 from 1.2.97 to 9.30.97, with renegotiation of amounts in excess of R\$ 200 thousand. On 9.10.97, anticipated amortization in operations involving lengthening of the terms of debts originating in rural credits was permitted through payment in kind, up to the limit of 100% of the value of installment due in 1997.

The balance of financing for the housing sector (individuals and housing cooperatives) came to R\$ 58.3 billion, for growth of 9.4% in 1997. In the year, disbursements came to R\$ 764 million for housing acquisitions based on use of savings account resources.

One should emphasize that, on 8.6.97, the National Monetary Council issued Resolution no. 2,412, determining that assigns of credits originating in loan, financing and leasing operations with persons that are not national financial system member institutions may be permitted in exceptional cases and with case-by-case authorization of Banco Central do Brasil, provided that such operations be carried out without a co-obligation on the part of the assigning institution, no requirement of repurchase of the assigned credit and liquidation of the operation in a single and immediate payment. Despite being a generic norm, contracts formalized in the real estate market are perfectly fitted as backing for credit assigns, since they already have real guaranties.

On 11.20.97, Law no. 9,514 was issued, dealing with the Real Estate Financing System (SFI). The purpose of this law was to protect the interests of savers, ensuring them of full refunding of amounts loaned with the necessary value adjustments and compliance with the terms of contracts, including insurance. At the same time, the business role in these operations is reserved to the private sector and, particularly, to financial institutions, while the public sector is charged with inspecting and supervising operations. The overall purpose of this measure is to create the conditions required to breathe new life into the construction sector, since increased activities will generate positive impacts on employment and income levels, particularly at a time of declining real rates of interest.

The balance of national financial system credit operations in arrears and in liquidation, deducted from income to be appropriated, came to R\$ 19.9 billion in 1997. A comparison of this value with total provisions made by the system (R\$ 26.9 billion) shows that the quality of this asset was preserved, analogously to 1996, when provisions climbed to R\$ 19.9 billion for a nonperforming credit stock of R\$ 17.6 billion.

**Table 2.10 - Credits granted by the financial system**

Percentage share

Itemization	1993	1994	1995	1996	1997
Total	100.0	100.0	100.0	100.0	100.0
Commercial and multiple banks	74.2	66.8	65.2	62.4	56.2
Banco do Brasil	16.1	18.4	18.1	18.2	16.2
Other public banks	21.3	10.5	11.1	10.3	5.8
Private banks	36.8	37.9	36.0	33.9	34.2
Development banks	6.5	5.8	6.0	7.2	10.0
Savings banks	15.4	19.6	20.3	22.7	26.0
Financial enterprises	0.4	1.3	0.6	1.2	1.5
SCI/APE	1.0	1.6	1.6	1.6	1.3
Investment banks	0.5	0.6	0.4	0.5	0.5
Leasing companies	2.3	5.2	5.7	4.4	5.1



# III

## PUBLIC FINANCE

### **Fiscal and budget policies**

On February 26, the President of the Republic sanctioned Law no. 9,438, estimating federal government revenues and defining expenditures for the 1997 fiscal year. The General Federal Government Budget encompasses the following:

- a) the Fiscal Budget, covering the federal government, its funds, organs and entities of the direct and indirect federal administration, including foundations instituted and maintained by the public authority;
- b) the Social Security Budget, covering the entities and organs subordinated to the Social Security System within the direct and indirect federal administration, as well as funds and foundations instituted and maintained by the public authority; and
- c) the Investment Budget of those companies in which the federal government directly or indirectly holds a majority share of the voting stock.

General Government Budget accounts target the primary surplus at 0.8% of GDP. The budget proposal sent to the Congress in August 1996 was elaborated on the basis of forecast average annual inflation of 10.6% and 3.9% GDP growth. However, as inflation dropped more quickly than expected and economic activity turned upward in February, these figures were revised to 6.33% and 4.3%, respectively.

The impact of the upward revision of forecast GDP growth on fiscal revenues was neutralized by expectations of even lower inflation, making it necessary to revise the tax inflow forecast downward. Consequently, the original forecast of total inflow was re-estimated from R\$ 178.8 to R\$ 173.4 billion, a loss of R\$ 5.4 billion. With this reduction, adjustments had to be introduced into the budget to adapt it to the new tax inflow reality. This adjustment was most evident in cutbacks under constitutional entitlements (R\$ 3.1 billion), other current and capital expenditures (R\$ 1.9 billion) and social security benefits (R\$ 0.4 billion). With these adjustments, it was possible to maintain the target of a primary surplus equivalent to 0.8% of GDP. Here, it is important to emphasize that these estimates took it for granted that

the Fiscal Stabilization Fund (FEF), originally scheduled to expire on 6.30.97, would be extended. If the extension were not approved, new cuts would have to be effected in budget expenditures since R\$ 1.9 billion in outlays on projects and activities scheduled for the second half of the year were based on financing with FEF funding.

In this regard, the FEF extension was only approved by the National Congress in the month of November. However, there was no need for further cutbacks in budget resources since the extension was made retroactive to 7.1.97. According to Constitutional Amendment no. 17, dated 11.22.97, the FEF will remain in effect until 12.31.99. In this second extension of the FEF, losses suffered by the municipalities were offset by channeling an increased volume of the income tax to that level of government. The only exception here was the withholding tax levied on payments effected by the federal government and its entities. The percentages of the income tax to be transferred to the municipalities by way of compensation are as follows: 1.56% in the period from 7.1.97 to 12.31.97; 1.875% in 1998 and 2.5% in 1999.

Law no. 9,490 was issued on September 1 with the objective of resolving the question of state-level debts. According to this Law, the executive branch was authorized to open a special line of credit in the federal government budget totaling R\$ 104.2 billion, of which R\$ 103.3 billion were to be used to refinance state debts in the framework of the Program of Incentives to Reductions in State-level Participation in Banking Activities (Proes) and the Program of Fiscal Adjustments and Financial Restructuring of the States (Parafe). The remaining R\$ 900 million was to be used to compensate states for tax revenue losses (ICMS) caused by passage of the Kandir Law, which eliminated certain taxes from semimanufactured industrial products channeled to the export market.

One should note that Proes implemented mechanisms aimed at encouraging the state-level public sector to reduce its participation in banking activities. These mechanisms include financing of privatization programs, extinction or transformation of financial institutions controlled by states into nonfinancial institutions, such as development agencies. In its turn, Parafe defined criteria for federal government consolidation, assumption and refinancing of the security debts and other debts specified therein and for which the states and Federal District are liable.

With R\$ 103.3 billion, the federal government would pay for acquisitions of stock control and credits and would grant the financing cited in these programs through issues of National Treasury securities or securitization of liabilities. The objective of the amount set aside was to pay 1997 outlays related to the servicing of the debt. The debt service was generated by assumption of liabilities, acquisitions of assets and financing granted to the states according to the terms of Provisional Measures no. 1,556, dated 12.18.96, and no. 1,560, dated 12.19.96. Here, it is important to

stress that the special credit line was only effectively utilized on September 23, based on issue of a decree by the Presidency of the Republic.

In the area of taxation, several norms were issued aimed basically at streamlining current legislation. Minifaz Directive no. 106, dated 5.15.97, defined the procedures to be observed by financial institutions in rendering information to the Secretariat of Federal Revenue with respect to the identification of CPMF taxpayers and the overall amounts of these operations. Based on the terms of legislation in this regard, the Secretariat will preserve the confidentiality of such information. Use of CPMF revenues to constitute tax credits related to other contributions or taxes is prohibited.

Decree no. 2,219, dated 5.2.97, announced the new regulations covering the Tax on Credit, Exchange and Insurance Operations or Related to Security Operations (IOF). One measure that should be highlighted is the increase in the IOF rate on credits granted to individuals from 6% to 15%. According to the new regulations, the rules covering business financing, including both internal and external operations, exchange transactions and Housing Finance System loans were not altered. For the most part, the rate increase impacted installment financing operations and credit card-based revolving credit operations.

Also with respect to the IOF, one should mention that the Ministry of Finance issued a directive extending that tax to exchange operations effected by credit card management companies to meet obligations generated by users of this system in foreign purchases of goods and services. In this case, the rate was set at 2%. This measure applied to acquisitions of goods and services as of 12.10.97.

On September 2, the Ministry of Financing and the Ministry of Planning and Budget issued Directive no. 213, introducing a new formula for calculating the compensation to be channeled to the states to cover their losses caused by elimination of taxation on export operations as a result of Complementary Law no. 87, dated 9.13.96. In the wide-ranging discussions held among representatives of the federal government and state governments, it was recognized that the states would suffer fiscal losses with introduction of the new ICMS system. Estimates are that this period will last for approximately five years.

Based on a type of revenue insurance formula, the federal government assumed part of the fiscal cost of the transition period. This mechanism ensures that the states will receive a minimum ICMS inflow during the transition period: the amount collected in the base period multiplied by the rate of real GDP growth (estimated at 3%) and by the relative efficiency factor. According to the aforementioned Complementary Law, if the ICMS inflow to the states drops below the minimum level, the federal government will pay the difference. Thus, the refund mechanism specified in the appendix to the law in question does not call for transfers to the

states of the amounts required to cover losses consequent upon the elimination of taxes on export operations and the granting of financial credits to investments and to electric energy consumption. Federal government refunds are limited to revenue insurance operations and any additional losses are to be absorbed by the states.

Despite congressional approval of Constitutional Amendments no. 7 and 8, both dated 8.15.95, and no. 9, dated 11.9.95, putting an end to the market reserves for interior and coastal shipping, taking a more flexible approach to state monopolies in the areas of telecommunications and petroleum, these measures could only go into effect with passage of enabling legislation.

On 1.8.97, Law no. 9,432 was approved, introducing regulations on interior and coastal shipping. The most important aspect of this law is that it created the Special Brazilian Registration (REB), which grants exemptions from fees and contributions, such as PIS and Cofins, and other advantages, to Brazilian vessels operated by national navigation companies. The REB was regulated by Decree no. 2,256, dated 6.17.97, which defined the complementary norms required for operation of this system and the conditions required to register a ship or cancel that registration.

Finally, Laws no. 9,472, dated 7.16.97, and no. 9,478, dated 8.6.97, were issued dealing with the organization of telecommunications services and of activities related to the petroleum monopoly. Law no. 9,472 authorized the executive branch to privatize the Telebrás System and created the National Telecommunications Agency (Anatel) to regulate the sector. The executive was also authorized to issue a decree defining the limits of foreign capital participation in the capital of telecommunications companies. In its turn, Law no. 9,478, which regulated the opening of the petroleum monopoly, also instituted the National Energy Policy Council and National Petroleum Agency (ANP). The law determines that the following activities will continue subject to federal monopoly power as defined in article 177 of the Constitution:

- a) research and working of petroleum and natural gas reserves and those of other fluid hydrocarbons;
- b) national and foreign petroleum refining;
- c) imports and exports of products and derivatives generated by the activities stated above;
- d) maritime transportation of nationally produced crude oil or the basic derivatives of petroleum produced in the country, as well as oil duct transportation of crude oil, its derivatives and natural gas.

However, concessions may be granted to private companies so that they will be able to participate in the working, development and production of petroleum reserves.

Decrees no. 2,338, dated 10.7.97, and 2,445, dated 1.14.98, approved Anatel and ANP regulations, respectively.

The government issued Decree no. 2,138, dated 1.29.97, regulating articles 73 and 74 of Law no. 9,430/96, permitting taxpayers to compensate credits consequent upon refunds and reimbursements with debits of federal taxes or contributions, even though they may involve different types of taxes and varied constitutional ends. The compensation is to be effected by the Secretariat of Federal Revenue and the value of the refund is to be deducted from the value due by the taxpayer in question. If the operations results in a credit balance, the Secretariat will pay the difference. Should the result be a debit balance, the remaining value will be charged to the taxpayer.

Generalized utilization of anticipated protection against entities governed by public law (a provisional decision through which the judge orders compliance with the claim presented by the plaintiff at the start of the judicial proceedings) was the target of Provisional Measure no. 1,570, issued on 3.26.97 (later converted into Law no. 9,494, dated 9.10.97). The overall purpose of this measure was to better defend public assets in the judicial framework.

Aside from the risk of granting undue advantages and the difficulties involved in obtaining refunds when such payments are judged to be unfounded, the utilization of this legal instrument had become a serious administrative headache for the government, since it was placed in the position of having to effect payments without the required budget coverage.

In response to this situation, the Provisional Measure determined that, in those cases in which there is a possibility of the entity governed by public law suffering losses as a result of a court order or any other measure that effectively anticipates payments prior to judgement, the judge or rapporteur will be obligated to demand presentation of real or financial guaranties.

The federal government issued Provisional Measure no. 1,567, dated 2.14.97, for the purpose of normalizing the legal situation and then divesting itself of real estate belonging to the government in all parts of the nation's territory. The process would be initiated with properties subject to emphyteusis, the system by which users of the property and their heirs are obligated to pay a fee to the government. According to the Secretariat of Federal Government Assets, approximately two million properties would be subject to sale, generating estimated revenues of R\$ 23 billion. The funds are to be used wholly in amortization of the federal public debt. Here, it should be stressed that this process is expected to extend over a period of almost 30 years.

In the month of November, the federal government announced an array of measures termed "short-term fiscal adjustment", involving steps with impact in the fiscal arena, on the level of competitiveness of the nation's economy and on its foreign accounts.

These measures were taken mostly as a result of the crisis that began in Southeast Asian and spread into other countries in various parts of the world, including Brazil. This new scenario demanded that the government adopt policies capable of simultaneously preserving the benefits already gained from the Real Plan while moving forward in pursuit of the economic and social development of the nation.

The fiscal adjustment did not limit itself to the federal sphere but also impacted states, municipalities and government companies. Most of the measures were taken through Provisional Measures – already duly discussed and transformed into law by the National Congress, while others were adopted by decrees, ministerial directives and National Monetary Council resolutions.

A combination of increased revenues and curtailments in expenditures is designed to generate a fiscal adjustment of approximately R\$ 19 billion. The most important aspects of the adjustment are listed below:

- a) eliminated incorporation of bonuses paid to occupants of commissioned positions into wages, prohibited payment of overtime to occupants of commissioned positions and abolished approximately 70 thousand vacant positions in the public administration;
- b) determined that the resources existent in deposit accounts that have yet to be updated according to the terms of CMN Resolution no. 2,078/94 should be transferred to the National Treasury and set 11.28.97 as the deadline for those who desire to claim such resources from financial institutions;
- c) determined that the following items will be channeled into amortization of the federal public debt:
  - i) National Treasury revenues consequent upon payment of stock holdings and dividends by member entities of the indirect federal public administration;
  - ii) the financial surplus of the funds, semi-autonomous agencies and foundations included in the fiscal and social security budgets, as stated in the 1997 balance sheet;
  - iii) available financial resources existent at the close of the 1996 fiscal year and to be channeled to the funds, semi-autonomous agencies and foundations, when such resources are not committed to payments to be made;
  - iv) the product of the inflow of interest on tax and contribution arrears, with the exception of social contributions collected by INSS;
- d) suspended the granting of federal government guaranties to foreign credit operations of any type whatsoever until 12.31.98. with the exception of operations related to export credit insurance operations;

- e) reduced outlays by 10% during the 1998 fiscal year when such involve the granting of new student and research scholarships as well as the maintenance or renewal of those already existent, in the framework of the Ministries of Education and Science and Technology;
- f) prohibited temporary contracting of exceptional public interest up to the end of 1998, as well as extensions of contracts in effect on 11.10.97, with the exception of those contracting operations aimed at substituting teaching personnel at federal education institutions and medical professionals at federal public hospitals;
- g) determined that the filling of effective positions within the executive branch in 1998 would be limited to one third of the vacancies created by retirements and other vacancies that opened in 1997;
- h) determined that, in 1998, entities belonging to the federal public direct administration should implement minimum reductions of 20% in overall expenditures on travel expenses, travel tickets, office material, telecommunications services, outside training and periodical publications, in comparison to outlays in 1996;
- i) raised the rates of the industrialized products tax on automobiles by five percentage points;
- j) defined norms aimed at implementing a more effective system of value estimates at customs offices, with the overall objective of avoiding the practice of stating values on invoices that are below the real value of the commercial operation;
- k) introduced a temporary increase in the prices of petroleum derivatives;
- l) for the 1998 and 1999 fiscal years, instituted an additional levy of 10% in the individual income tax on earnings of more than R\$ 1,800.00 per month (the rate was raised from 25% to 27.5%);
- m) reduced the fiscal incentives granted through the Northeast Investment Fund (Finor) and the Amazon Investment Fund (Finam) by 30% and the incentives granted through the State of Sergipe Recovery Fund by 25% and determined that these incentives would be gradually reduced until total elimination in 2014;
- n) prohibited all legal entities taxed on the basis of arbitrated or presumed profits to effect deductions in the form of fiscal incentives;
- o) revoked the tax exemption granted to educational institutions, health assistance institutions, professional sports organizations and sports administration entities;
- p) extended charging of the financial operations tax to factoring companies.

At the level of state and municipal finances, one should stress the restraints imposed on credit operations by National Monetary Council Resolutions no. 2,443 and 2,444, dated 11.14.97.

Resolution no. 2,443 determined that the balances of credit operations based on Anticipated Budget Revenues (ARO) would be restricted to the balances of these operations as calculated by financial institutions on 6.30.97. The financial institution that registers a level beyond this limit - consequent upon registration of a new operation or acquisition of credits originating in ARO operations – in its position on the final business day of each month should deposit the excess value at Banco Central do Brasil by the fifth business day of the second month following that in which the excess was found to exist and such deposits will not be entitled to interest. Such a deposit does not exempt the financial institution from other penalties and sanctions determined in current norms.

Aside from this, Resolution no. 2,443 prohibited new credit operations based on Anticipated Budget Revenues with those entities with debt balances in their operations transferred to the Federal Savings Bank according to the terms of Resolution no. 2,366, dated 3.17.97.

In their turn, Resolution no. 2,444 and a later instrument (Resolution no. 2,461, dated 12.26.97) determined that the overall value of national financial system investments with public sector entities and organs would be limited to the overall total of the balances calculated at financial institutions on 9.30.97. In this calculation, anticipated budget revenue operations are not to be taken into account.

Public sector organs is understood to mean:

- a) the direct administration of the branches of the federal, state, Federal District and municipal governments;
- b) state companies, joint capital corporations, their subsidiaries and all other companies directly or indirectly controlled by the federal government, states, Federal District and municipalities;
- c) semi-autonomous agencies and foundations instituted or maintained directly or indirectly by the federal government, states, Federal District and municipalities;  
and
- d) other organs or entities belonging to the branches of the federal government, states, Federal District and municipalities.

The Guaranty Fund for the Fostering of Competitiveness was created in the context of the short-term fiscal adjustment. This is a program of an accounting nature that has the purpose of providing funding to guaranty the risk in financing operations

carried out by BNDES and the Special Agency of Industrial Financing (Finame) with micro and small businesses. The support provided to micro and small businesses was further expanded with creation of the Export Promotion Agency (Apex) which operates in the framework of the Brazilian Service of Support to Micro and Small Businesses (Sebrae) with the objective of supporting implementation of trade programs oriented to the foreign market.

Law no. 9,514, dated 11.20.97, instituted the Real Estate Financing System (SFI) with the objective of fostering real estate financing in general, based on conditions compatible with those governing formation of the respective funds.

The law determined that savings banks, commercial banks, banks with real estate credit portfolios, real estate credit companies, savings and loan associations, mortgage companies and other entities may, at the discretion of the National Monetary Council, operate in the SFI. Particular attention should be given here to authorization to issue and place Certificates of Real Estate Receivables on the financial market. Creation of these papers occurred simultaneously with definition of the legal conditions required for effective securitization of real estate credits, based on very rigid criteria aimed at ensuring investor security and protection.

With issue of Law no 9,533, dated 12.10.97, the executive branch was authorized to grant financial support to minimum income guaranty programs instituted by municipalities that do not have sufficient financial resources to finance implementation of such programs in their entirety. This financial support is to be restricted to those municipalities that have per capita tax revenues (including current constitutional transfers) that are less than the state average and family income levels that are lower than the average family income of the state.

### **Public debt and public sector borrowing requirements**

In 1997, viewed under the nominal concept, public sector borrowing requirements registered deterioration of 0.2% of GDP in relation to 1996. The total result accumulated a deficit of R\$ 54.4 billion, corresponding to 6.1% of GDP, as against R\$ 47.2 billion in the previous year, equivalent to 5.9%. The central government (federal government and Banco Central) accounted for 43.1% of the result, while states and municipalities were responsible for 49.6% and state companies for the remaining 7.3%. In 1996, the respective levels of participation were 43.5%, 46.3% and 10.2%, clearly evincing the weight of the states and municipalities in the worsening of this result. When privatization revenues are included, borrowing requirements improve by 1.51% of GDP and the deficit drops from 5.73% to 4.22% between 1996 and 1997. Here, one should highlight the contribution of the states and municipalities since they concentrated an improvement of 0.91% of GDP.

**Table 3.1 - Public sector borrowing requirements**

Itemization	Privatization revenues not included			
	1994		1995	
	R\$ million	% of GDP	R\$ million	% of GDP
Total nominal	236 926	45.5	48 650	7.2
Federal government and central bank	92 681	17.8	15 632	2.3
State and local governments	100 865	19.4	24 141	3.6
State enterprises	43 381	8.3	8 877	1.3
Total operational <sup>1/</sup>	-7 139	-1.4	33 036	4.9
Federal government and central bank	-8 506	-1.6	11 280	1.7
State and local governments	3 028	0.6	15 929	2.4
State enterprises	-1 662	-0.3	5 827	0.9
Total primary	-27 555	-5.3	-2 415	-0.4
Federal government and central bank	-16 522	-3.2	-3 922	-0.6
State and local governments	-4 592	-0.9	1 149	0.2
State enterprises	-6 441	-1.2	358	0.1
Nominal interest	264 481	50.8	51 065	7.5
Federal government and central bank	109 203	21.0	19 555	2.9
State and local governments	105 456	20.3	22 992	3.4
State enterprises	49 822	9.6	8 519	1.3
Total real interest	20 416	3.9	35 451	5.2
Federal government and central bank	8 016	1.5	15 202	2.2
State and local governments	7 620	1.5	14 780	2.2
State enterprises	4 780	0.9	5 469	0.8

(continues)

<sup>1/</sup> Deflator: GPI-DS.

Annual GDP at December prices deflated by GPI-DS, based on a series published by the IBGE.

In the primary concept, which excludes outlays on nominal interest on the public debt stock, the deterioration came to 0.8% in relation to 1996. The deficit totaled R\$ 8.3 billion, corresponding to 0.9% of GDP, as compared to just R\$ 0.7 billion in the previous year, representing 0.1% of GDP. Here, one should emphasize the central government contribution to this result, representing deterioration of 0.6% of GDP, with a deficit of 0.3% in 1997 as compared to a 1996 surplus of 0.4%. For the most part, the worsening was due to the performance of the social security system which turned in a deficit equivalent to 0.8% of GDP. States and municipalities contributed with a deficit of 0.7% of GDP, as against 0.6% in the previous year, while state companies accounted for a surplus of 0.1%, the same level as in 1996. When privatization revenues are included, the primary result reflects improvement of 0.91% of GDP, with the surplus rising from 0.06% to 0.97% of GDP. This result

**Table 3.1 - Public sector borrowing requirements** (concluded)

Privatization revenues not included				Privatization revenues included			
1996		1997		1996		1997	
R\$ million	% of GDP	R\$ million	% of GDP	R\$ million	% of GDP	R\$ million	% of GDP
47 174	5.9	54 432	6.1	45 998	5.7	37 489	4.2
20 514	2.6	23 456	2.6	19 605	2.4	21 378	2.4
21 822	2.7	27 019	3.0	21 822	2.7	16 039	1.8
4 838	0.6	3 958	0.4	4 571	0.6	71	0.0
30 087	3.7	38 228	4.3	28 911	3.6	21 287	2.4
12 987	1.6	15 662	1.8	12 078	1.5	13 587	1.5
14 608	1.8	20 112	2.3	14 608	1.8	9 132	1.0
2 492	0.3	2 454	0.3	2 225	0.3	-1 432	-0.2
710	0.1	8 296	0.9	-466	-0.1	-8 628	-1.0
-3 072	-0.4	2 350	0.3	-3 981	-0.5	291	0.0
4 431	0.6	6 572	0.7	4 431	0.6	-4 408	-0.5
-648	-0.1	-625	-0.1	-915	-0.1	-4 511	-0.5
46 464	5.8	46 136	5.2	46 464	5.8	46 117	5.2
23 586	2.9	21 106	2.4	23 586	2.9	21 087	2.4
17 392	2.2	20 447	2.3	17 392	2.2	20 447	2.3
5 486	0.7	4 583	0.5	5 486	0.7	4 583	0.5
29 377	3.7	29 931	3.4	29 377	3.7	29 915	3.4
16 059	2.0	13 312	1.5	16 059	2.0	13 296	1.5
10 177	1.3	13 540	1.5	10 177	1.3	13 540	1.5
3 140	0.4	3 079	0.3	3 140	0.4	3 079	0.3

is explained mostly by improvement of 1.05% of GDP in the fiscal performance of states and municipalities.

In the operational concept, which excludes monetary indexing on the public debt stock, the result was deterioration of 0.6% of GDP, as the deficit rose from R\$ 30.1 billion in 1996, representing 3.7% of GDP, to R\$ 38.2 billion or 4.3% of GDP. This result is explained mostly by the primary performance, since outlays on interest dropped from 3.7% to 3.4% of GDP, despite a slight rise in value from R\$ 29.4 billion to R\$ 29.9 billion. This decline was caused by the reduction in interest rates in the period from January to October 1997. Of total outlays on interest, the central government accounted for 1.5% of GDP, the same level as the states and municipalities. The remaining 0.3% was registered under the heading of state companies. When one considers privatization revenues, the operational result was improvement of 1.2% of GDP, as the deficit dropped from 3.6% to 2.4% of GDP. This result is explained by improvement of 0.8% of GDP under states and municipalities.

**Table 3.2 - Public accounts - uses and sources**

Itemization	Privatization revenues not included			
	1994		1995	
	R\$ million	% of GDP	R\$ million	% of GDP
Uses	- 7 139	-1.4	33 036	4.9
Primary result	-27 555	-5.3	-2 415	-0.4
Domestic debt interest	16 672	3.2	31 824	4.7
External debt interest	3 743	0.7	3 626	0.5
Sources	- 7 139	-1.4	33 036	4.9
Domestic financing	-13 658	-2.6	42 060	6.2
External financing	-15 713	-3.0	-12 653	-1.9
Issue of money	22 232	4.3	3 628	0.5
Operational result <sup>1/</sup>	- 7 139	-1.4	33 036	4.9

(continues)

<sup>1/</sup> Annual GDP at December prices deflated by GPI-DS, based on a series published by the IBGE.

Of the total 1997 operational deficit of R\$ 38.2 billion, R\$ 19.6 billion (51.3%) were financed through internal indebtedness, R\$ 6.4 billion (16.7%) through foreign indebtedness and the remaining R\$ 12.2 billion (32%) through currency issues. In 1996, the operational deficit was totally financed through internal indebtedness, as is evident in the fact that both the foreign debt and monetary base declined in value. The strong contribution of currency issues in the financing of the 1997 deficit was partially due to an increase in the level of monetization of the economy generated by levying of the CPMF, which contributed to raising the participation of the monetary base from 2.4% to 3.6% of GDP.

Though the operational result registered a deficit of 4.3% of GDP in 1997, the total net debt increased by 1.2 percentage points from 33.3% to 34.5% of GDP between December 1996 and December 1997 and totaled R\$ 309 billion. The relative increase was attenuated by GDP growth and by asset adjustments effected over the course of the year. The adjustments resulted from the privatizations carried out within the framework of the National Privatization Program (PND) and incorporation of debts not previously acknowledged. The central government accounted for R\$ 168 billion (54.4%) of the total net debt, as compared to R\$ 128 billion (47.7%) in 1996. States and municipalities were responsible for R\$ 116 billion (37.6%), as compared to R\$ 93 billion (34.7%) and state companies for R\$ 25 billion (8.0%), as compared to R\$ 47 billion (17.6%) in the previous year.

The net internal debt came to R\$ 270 billion at the end of 1997, corresponding to 30.2% of GDP. The net foreign debt totaled R\$ 39 billion (4.3% of GDP), as

**Table 3.2 - Public accounts - uses and sources** (concluded)

Privatization revenues not included				Privatization revenues included			
1996		1997		1996		1997	
R\$ million	% of GDP	R\$ million	% of GDP	R\$ million	% of GDP	R\$ million	% of GDP
30 087	3.7	38 228	4.3	28 911	3.6	21 287	2.4
710	0.1	8 296	0.9	-466	-0.1	-8 628	-1.0
25 717	3.2	27 489	3.1	25 717	3.2	27 473	3.1
3 659	0.5	2 442	0.3	3 659	0.5	2 442	0.3
30 087	3.7	38 228	4.3	28 911	3.6	21 287	2.4
39 864	5.0	19 619	2.2	38 688	4.8	4 436	0.5
-7 529	-0.9	6 393	0.7	-7 529	-0.9	4 636	0.5
-2 249	-0.3	12 216	1.4	-2 249	-0.3	12 216	1.4
30 087	3.7	38 228	4.3	28 911	3.6	21 287	2.4

compared to R\$ 32 billion (3.9% of GDP) in 1996. The central government accounted for 55.7% of the internal debt, while the states and municipalities were responsible for 41.4% and state companies for 3%.

### Federal securities debt

The public federal securities debt outside Banco Central closed with a balance of R\$ 255.5 billion in December 1997, corresponding to 28.6% of GDP, as compared to R\$ 176.2 billion in December 1996, reflecting nominal growth of 45%. Among the factors that contributed to this growth, the most important was issue of National Treasury Financing Bills (LFT) totaling R\$ 56.7 billion, as an element of the debt renegotiation agreement with the State of São Paulo. Aside from this, other operations included direct placements of LFT for the National Social Security Institute, in the amount of R\$ 6 billion. There was also an issue of series P National Treasury Notes worth R\$ 7.6 billion, acquired by public institutions in exchange for securitized credits received as payment in property transfers in the framework of the National Privatization Program, and series A3 National Treasury Notes worth R\$ 5.9 billion. These papers were acquired by financial institutions for purposes of exchange for securities issued as a consequence of Brazilian foreign debt restructuring agreements.

Securities for which the National Treasury is liable came to R\$ 225.7 billion. Of these papers, R\$ 35.5 billion (15.7%) were held by Banco Central and R\$ 190.3

**Table 3.3 - Net debt of the public sector**

Itemization	1994		1995	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt	-	-	208 460	30.5
Inventory adjustment (basis Dec/95)	-	-	-	-
Total net debt	153 163	29.2	208 460	30.5
Federal government and the Banco Central	65 836	12.6	90 406	13.2
State and local governments	51 091	9.7	72 476	10.6
State enterprises	36 236	6.9	45 578	6.7
Domestic debt	108 806	20.8	170 328	24.9
Federal government and the Banco Central	33 395	6.4	66 693	9.8
State and local governments	49 285	9.4	70 211	10.3
State enterprises	26 126	5.0	33 424	4.9
External debt	44 357	8.5	38 132	5.6
Federal government and the Banco Central	32 441	6.2	23 713	3.5
State and local governments	1 806	0.3	2 266	0.3
State enterprises	10 110	1.9	12 153	1.8
<b>Memorandum</b>				
GDP in R\$ billion <sup>1/</sup>	524 249		683 282	

(continues)

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

billion (84.3%) were outside the monetary authority, corresponding to 74.5% of total papers on the market. Papers issued by Banco Central represented 25.5% of the total securities debt held by the market in December 1997, as compared to 47.2% in December 1996, as the balance dropped from R\$ 83.1 billion to R\$ 65.2 billion. One factor that contributed to this reduction was redemption of R\$ 17 billion in Banco Central Bills – Special Series (LBC-E), as part of the debt renegotiation agreement with the State of São Paulo. Furthermore, redemptions were effected as a result of operations aimed at sterilizing the contractive impact of the drop in reserves that occurred at the end of the year as a consequence of the Asian crisis.

An analysis on the basis of indexing factors shows an increase in the participation of federal public securities indexed to the over/Selic due mostly to issues of LFT which moved from 18.6% of the total in December 1996 to 34.8% in December 1997. On the other hand, the participation of preset papers dropped from 61% to 40.9% in the same period. Papers tied to exchange variations increased their participation from 9.4% to 15.4% due mostly to issues of Banco Central Notes – Special Series (NBC-E) and National Treasury Notes – Series A3. Securities indexed to the TR remained practically stable, rising from 7.9% to 8%. Other securities dropped from 3.1% to 0.9%.

**Table 3.3 - Net debt of the public sector** (concluded)

1996		1997		Itemization
R\$ million	% of GDP	R\$ million	% of GDP	
254 201	31.4	307 555	34.4	Fiscal net debt
14 992	1.9	993	0.1	Inventory adjustment (basis Dec/95)
269 193	33.3	308 548	34.5	Total net debt
128 413	15.9	167 742	18.8	Federal government and the Banco Central
93 338	11.5	116 013	13.0	State and local governments
47 442	5.9	24 793	2.8	State enterprises
237 600	29.4	269 968	30.2	Domestic debt
115 736	14.3	150 254	16.8	Federal government and the Banco Central
90 332	11.2	111 710	12.5	State and local governments
31 532	3.9	8 004	0.9	State enterprises
31 593	3.9	38 580	4.3	External debt
12 677	1.6	17 488	2.0	Federal government and the Banco Central
3 006	0.4	4 303	0.5	State and local governments
15 910	2.0	16 789	1.9	State enterprises
<b>Memorandum</b>				
809 349		893 188		GDP in R\$ billion <sup>2/</sup>

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

**Table 3.4 - Federal securities**

Balances in R\$ million

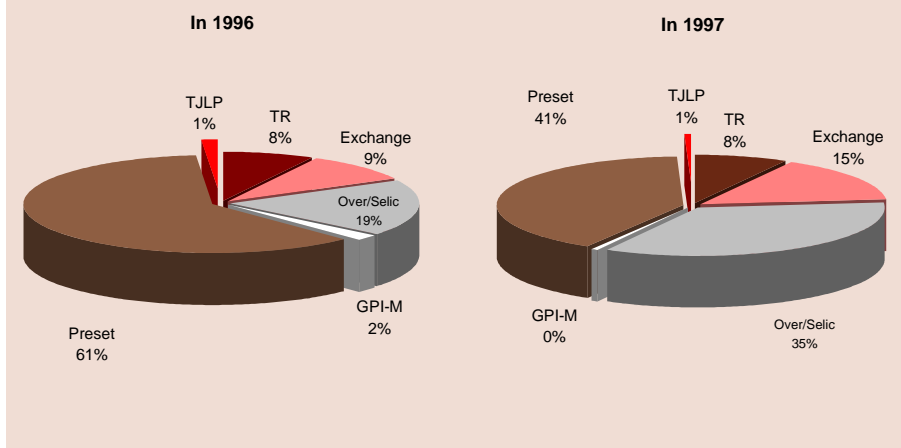
Itemization	1994	1995	1996	1997
National Treasury liabilities	59 302	84 596	114 775	225 732
BCB portfolio	23 973	25 456	21 669	35 461
LTN	-	53	1 024	22 302
LFT	-	43	-	8 588
NTN	23 973	25 361	20 645	4 571
Outside the BCB	35 329	59 140	93 106	190 271
LTN	519	19 535	48 077	64 755
LFT	7 771	18 417	-	63 592
BTN	41	50	54	60
NTN	26 999	21 137	44 975	61 865
BCB liabilities	26 453	49 346	83 105	65 238
LBC	2 133	22 561	32 789	25 282
BBC	24 320	26 784	50 316	28 327
NBC-E	-	-	-	11 629
Outside the BCB - Total	61 782	108 486	176 211	255 509
In % of GDP	11.8	15.9	21.8	28.6

**Table 3.5 - Federal securities**

Percentage share of index numbers

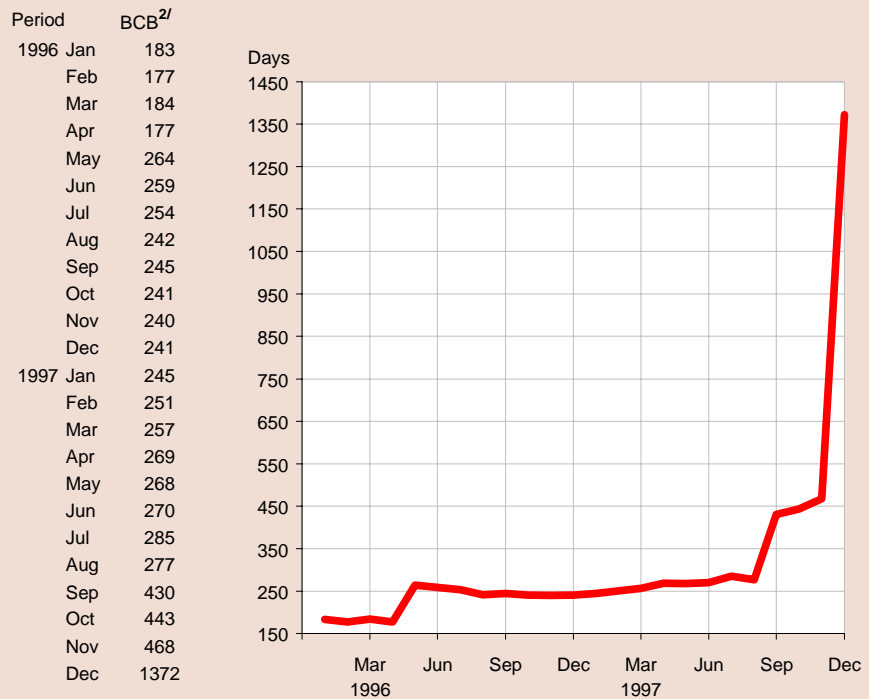
Index numbers	1994	1995	1996	1997
Total - R\$ million	61 782	108 486	176 211	255 509
Foreign exchange	8.3	5.3	9.4	15.4
Reference rate (TR)	23.0	9.0	7.9	8.0
GPI-M	12.5	5.3	1.8	0.3
Over / Selic	16.0	37.8	18.6	34.8
Preset	40.2	42.7	61.0	40.9
Long-term interest rate (TJLP)	-	-	1.4	0.6
Total	100.0	100.0	100.0	100.0

Graph 3.1

**Federal securities - breakdown by index number**

The average term of public securities increased slightly in the first half of 1997 and underwent important changes in the second half of the year. The first important change occurred in September and involved expansion from 277 to 430 days as a consequence of the issue of NTN-P used in the exchange for privatization currencies. The second important change came about in December and involved an increase in the average term from 468 days to 1,372 days as a result of issue of 15 year LFT-A and 26 year NTN-A3, as part of the process of renegotiating state debts.

Graph 3.2  
**Federal securities**  
 Average term in market (in days) <sup>1/</sup>



1/ Excludes extramarket.  
 2/ Considers all National Treasury Securities.

### Privatization

In 1997, privatization programs generated highly significant results. Revenues in the year came to US\$ 18.9 billion, of which R\$ 11.2 billion were obtained on sales of companies belonging to state governments. Consequently, state-level programs accounted for the major share of these operations (59.3% of total revenues). For the most part, state-level privatizations were concentrated in the electric energy sector, accounting for 88.6% of revenues.

Auction proceeds plus debts transferred to the private sector (US\$ 5.1 billion) and sales of minority stockholdings (US\$ 2.6 billion) raised total 1997 privatization revenues to US\$ 26.6 billion. Compared to the previous year's result which came to US\$ 6.3 billion, this figure is unquestionable proof of the progress attained in this area in 1997.

Revenue inflows through the National Privatization Program (PND) totaled US\$ 7.7 billion, including revenues obtained as a result of mobile band-B telephone service concessions, at a total value of R\$ 3.5 billion.

In the month of May, the Companhia Vale do Rio Doce was privatized. The Brazil Consortium, led by the Companhia Siderúrgica Nacional (CSN), in association with Nations Bank, pension funds and Banco Opportunity, acquired stock control for US\$ 3.1 billion, a premium of 20% over the minimum price. Total debts transferred to the new owners came to US\$ 3.6 billion.

In the PND framework, another fact that deserves mention was conclusion of the process of transferring the cargo transportation service of the Federal Rail System to the private sector. This was done on a concession basis and involved 21,659 kilometers of tracks, generating government earnings of US\$ 1.5 billion. The

**Table 3.6 - National Privatization Program**

Itemization	1993	1994	1995	1996	1997
Privatized companies	6	9	8	11	4
Steel	3	0	0	0	0
Petroquisa complex	2	6	7	5	0
Fertilizers	1	1	0	0	0
Electric sector	0	0	1	1	0
Railroad	0	0	0	5	1
Other	0	2	0	0	3
Revenues (US\$ million)	3 027	620	1 123	4 198	3 805
Steel	2 680	0	0	0	0
Petroquisa complex	141	411	604	212	0
Fertilizers	206	11	0	0	0
Electric sector	0	0	519	2 509	0
Railroad	0	0	0	1 477	15
Other	0	198	0	0	3 790
Liabilities transferred to buyer (US\$ million)	1 561	349	624	670	3 559
Steel	1 539	0	0	0	0
Petroquisa complex	2	84	622	84	0
Fertilizers	20	2	0	0	0
Electric sector	0	0	2	586	0
Railroad	0	0	0	0	0
Other	0	263	0	0	3 559

Source: BNDES

Northeast Network, the last segment in the system to be privatized, was acquired by the Manor Consortium, composed of CSN, CVRD, Bradesco and the Vicunha Group. Payment came to US\$ 15 million, for a premium of 37.9%.

In the month of September, the port concession process was initiated with leasing of the Santos container terminal – Tecon I, the largest in Latin America. The total price of the operation was US\$ 251 million. Privatization of Tecon I became possible as a result of the Law of Port Modernization (Law 8,630/93) which authorized privatization of port services. According to the lease model adopted, the winner of the auction will have to reduce maximum rates charged for moving each container from the current level of R\$ 500.00 to R\$ 150.00 within the next two years. Once this period has ended, the price will be released from controls and regulated only by competition among port operators.

With approval of the General Telecommunications Law (Law no. 9,472, dated 7.16.97) authorizing privatization of companies that render telecommunications services and that are directly or indirectly controlled by the federal government, the process of auctioning Band-B mobile telephone services was initiated. The concessions were divided into ten areas, of which four operations were completed in the year under analysis (central-west region, Metropolitan São Paulo, Bahia and Sergipe and the remaining northeastern states), with total revenues of US\$ 3.5 billion.

Band-B auctions were very successful, particularly in Greater São Paulo, where the premium came to 341.3%. This can be explained by the intense participation of foreign companies, strongly attracted to the telecommunications sector, considered as one of the most profitable investments available at the time.

In the context of the financing reordering of the State and redefinition of its role in the economy, 1997 witnessed privatization of the first federal financial institution: Banco Meridional. The buyer was Banco Bozano, Simonsen which paid US\$ 239 million, a premium of 55%. At the state level, Banco Itaú S.A. purchased the Rio de Janeiro state bank (Banerj) in June, thus kicking off the process of privatization of state-level banks. Banerj was sold for US\$ 289 million to be fully paid in Privatization Certificates. In the month of August, the government of Minas Gerais sold stock control in the Banco de Crédito Real de Minas Gerais S.A. (Credireal) to Banco de Crédito Nacional (BCN), at a total price of US\$ 112 million.

In terms of State Privatization Programs (PED), sales of electric energy companies gained in intensity following conclusion of the auction of the Companhia de Eletricidade do Estado da Bahia (Coelba) in July 1997. The company was sold for US\$ 1.6 billion to the Guaraniana Consortium, led by Iberdola of Spain. The premium paid came to 76% above the minimum price as a result of an intense dispute among foreign operating companies for control of Coelba.

**Table 3.7 - National Privatization Program**

Companies privatized 1991-1997

Sector/companies	Minimum price US\$ million	Selling price <sup>1/</sup> US\$ million	Premium (%)	Main auction date
Petroquisa complex				
Petroflex	179	234	31.1	Apr-10-92
Copesul	617	862	39.6	May-15-92
Álcalis	79	81	3.2	Jul-15-92
Nitriflex	26	26	0.0	Aug-06-92
Polisul	57	57	0.0	Sep-11-92
PPH	44	59	35.9	Sep-29-92
CBE	11	11	0.0	Dec-03-92
Poliolefinas	87	87	0.0	Mar-19-93
Oxiteno	54	54	0.0	Sep-15-93
PQU	270	288	6.5	Jan-24-94
Politeno	45	45	0.0	Aug-18-94
Coperbo	26	26	0.0	Aug-16-94
Ciquine	24	24	0.0	Aug-17-94
Polialden	17	17	0.0	Aug-17-94
Acrinor	12	12	0.0	Aug-12-94
Copene	254	270	6.5	Aug-15-94
CPC	90	100	10.5	Sep-29-95
Salgema	87	139	60.6	Oct-05-95
CQR	0	2	...	Oct-05-95
Pronor	63	64	1.0	Dec-05-95
Nitrocarbono	30	30	0.0	Dec-05-95
CBP	0	0	0.0	Dec-05-95
Polipropileno	81	81	0.0	Feb-01-96
Koppol	3	3	0.0	Feb-01-96
Deten	12	12	0.0	May-22-96
Polibrasil	99	99	0.0	Aug-27-96
EDN	17	17	0.0	Sep-26-96
Electricity				
Escelsa	345	519	50.5	Jul-11-95
Light	2 357	2 509	6.4	May-21-96

Source: BNDES

(continues)

<sup>1/</sup> Selling price was converted by selling commercial dollar at the date of settlement of the financial operation.

**Table 3.7 - National Privatization Program** (concluded)

Companies privatized 1991-1997

Sector/companies	Minimum price US\$ million	Selling price <sup>1/</sup> US\$ million	Premium (%)	Main auction date
<b>Steel sector</b>				
Usiminas	1 238	1 941	56.9	Oct-24-91
Cosinor	12	15	25.0	Nov-14-91
Aços Finos Piratini	42	107	153.8	Feb-14-92
CST	339	354	4.4	Jul-16-92
Acesita	348	465	33.9	Oct-22-92
CSN	1 267	1 495	18.0	Apr-02-93
Cosipa	174	586	236.6	Aug-20-93
Açominas	285	599	110.1	Sep-10-93
<b>Fertilizers</b>				
Indag	7	7	0.0	Jan-23-92
Fosfértil	139	182	30.7	Aug-12-92
Goiásfértil	13	13	3.1	Oct-08-92
Ultrafértil	199	206	3.1	Jun-24-93
Arafértil	11	11	0.9	Apr-15-94
<b>Railroads</b>				
Malha Oeste	61	63	3.6	Mar-05-96
Malha Centro-Leste	316	316	0.0	Jun-14-96
Malha Sul	152	209	37.0	Sep-20-96
Malha Sudeste	871	871	0.0	Nov-22-96
Malha Tereza Cristina	16	18	11.2	Dec-13-96
Malha Nordeste	11	15	37.7	Jul-18-97
<b>Other</b>				
Celma	73	91	25.7	Nov-01-91
Mafersa	19	49	163.8	Nov-11-91
SNBP	8	12	53.8	Jan-14-92
Caraíba	5	6	16.0	Jul-28-94
Embraer	182	192	5.9	Dec-07-94
CVRD	2 755	3 299	19.7	May-06-97
TECON 1	93	251	171.2	Sep-17-97
Meridional	155	240	55.0	Dec-04-97

Source: BNDES

<sup>1/</sup> Selling price was converted by selling commercial dollar at the date of settlement of the financial operation.

**Table 3.8 - Band B concessions**

Areas	Minimum price US\$ million	Selling price US\$ million	Premium (%)	Auction date
Area 7 (Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Distrito Federal)	250	314	25.6	10-Jun-97
Area 1 (Great São Paulo)	556	2 453	341.2	09-Jul-97
Area 9 (Bahia and Sergipe)	213	232	8.9	09-Jul-97
Area 10 (Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas)	212	512	141.5	08-Aug-97

Source: BNDES

Also at the state level, the auction of the Cachoeira Dourada Hydroelectric Plan earned US\$ 714 million for the government of the State of Goiás, while privatization of the Rio de Janeiro gas and gas distribution companies (Companhia Estadual de Gás – CEG and Riogás) generated approximately US\$ 576 million for the state treasury.

On September 9, Law no. 9,491 was sanctioned, defining new privatization norms to replace those included in Law no. 8,031, dated 4.12.90, the law that instituted the National Privatization Program. With the new law, workers were ensured of the right to make use of the resources deposited in their names in the Worker Compensation Fund (FGTS) in acquisitions of stocks in companies that have been privatized in the context of the PND and state privatization programs.

The new law allows workers to utilize up to 50% of the available balances of FGTS deposits in acquisitions of quotas in Mutual Privatization Funds (FMP), governed by Law no. 6,385, dated 12.7.96. Thus, this has become an alternative risk investment for workers and could well generate higher profitability levels than those earned by FGTS deposits, which are now indexed to the Reference Rate (TR) plus interest of 3% per year.

The Mutual Privatization Funds are expected to potentialize the role of the capital market in stimulating financing of productive activities, generating a positive impact on the entire privatization process by increasing demand at public stock offers. At the same time, these funds will contribute to broadening knowledge of the capital market since they will make it possible for a larger number of people previously excluded from the market by the lack of financial resources to participate in investment operations.

**Table 3.9 - States Programs of Privatization (1997)**

US\$ million

Companies	States	Revenues	Transferred debts	Final result
Coelba	BA	1 598	213	1 811
Cachoeira Dourada	GO	714	140	854
CEEE - Norte-Nordeste	RS	1 486	149	1 635
CEEE - Centro-Oeste	RS	1 372	64	1 436
Ceg	RJ	430	-	430
Riogás	RJ	146	-	146
Credireal	MG	112	-	112
Banerj	RJ	289	-	289
CPFL	SP	2 731	102	2 833
Enersul	MS	565	218	783
Cia. União de Seguros Gerais	RS	45	-	45
Cemat	MT	353	461	814
Energipe	SE	520	40	560
Cosern	RN	606	112	718
Metrô Rio de Janeiro	RJ	262	-	262
Minority positions	-	2 388	-	2 388
Total	-	13 617	1 499	15 116

Source: BNDES

In the final quarter of the year, the North-Northeast and Central-West distribution facilities belonging to the Companhia Estadual de Energia Elétrica (CEEE) of Rio Grande do Sul were sold for US\$ 2.9 billion. North-Northeast was sold to the VBC Consortium (Votorantim, Bradesco and Camargo Corrêa) for US\$ 1.5 billion, with a premium of 82.6%, while Central-West went to the AES Corporation of the United States for US\$ 1.4 billion, a premium of 93.6% above the floor price.

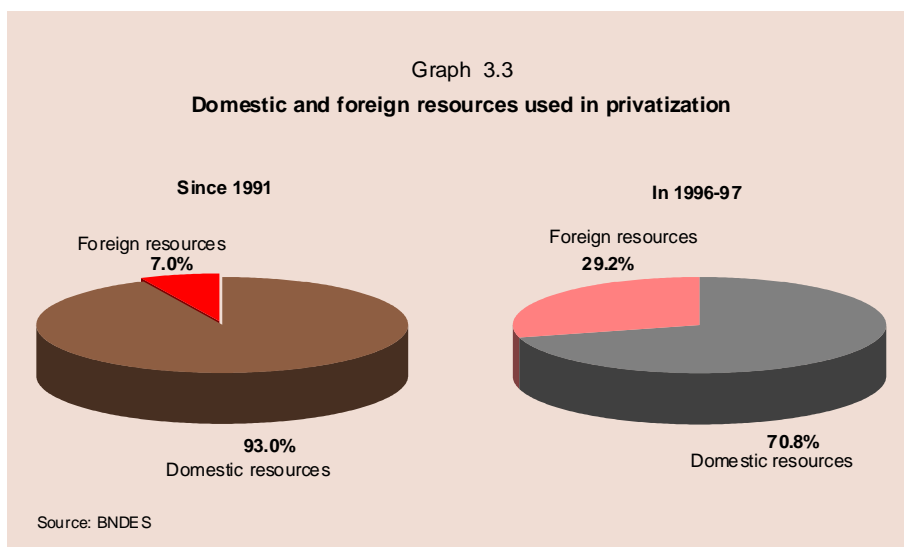
However, the highlight of the quarter was sale of the Companhia Paulista de Força e Luz (CPFL) to the VBC Consortium, which paid US\$ 2.7 billion for stock control of the company (premium of 70.2%). This was the first sale following the financial crisis that hit the international market and the results easily surpassed the rather pessimistic forecasts that had been made with respect to the ongoing privatization process. When the process was concluded, the results injected new life into the process and prepared the way for the coming year in which very important auctions are scheduled, involving significant market sectors and voluminous investments.

Continuing the ongoing process of selling state electricity distribution companies, Enersul (MS), Cemat (MT), Energipe (SE) and Cosern (RN) were sold for an overall total of US\$ 2 billion for the states involved.

Also in the context of the state privatization programs, the Companhia União de Seguros Gerais, belonging to the Banco do Estado do Rio Grande do Sul (Barrisul), was also auctioned. This insurance company was acquired by Bradesco Seguros S.A. for US\$ 45 million, a premium of 48.8%. Authorization was granted to the Oportrans Consortium, composed of Cometrans of Argentina and Sorocaba Empreendimentos e Participações, to operate the Rio de Janeiro subway system for twenty years. The value paid for the concession came to US\$ 262 million, or 921.2% higher than the minimum auction price.

With the cutback in the role of the State in the economy and introduction of competition among private companies, there was a need for both defining extremely clear rules and creating regulatory entities that would be responsible for administering these rules. This was particularly true in the electric energy sector, an area in which the privatization process has been most intense. It was in this context that the National Congress approved Law no. 9,427, dated 12.26.96, creating the National Electric Energy Agency (Aneel), with the objective of disciplining and inspecting the new electric sector structure.

One of the highlights of 1997 was foreign capital participation in the privatization process. The participation level came to approximately 30% of the total resources inflow and included operations in the context of both the National Privatization Program and state programs. The country with the highest participation level in 1997 was the United States with almost half of overall foreign participation (48.5%).



### National Treasury budget operations

In 1997, the National Treasury registered a deficit of R\$ 5.6 billion in the cash concept, representing a reduction of 38.1% in relation to the R\$ 9.1 billion 1996 deficit. Revenues climbed to R\$ 116 billion, while expenditures added up to R\$ 121.6 billion, for nominal increases of 19.5% and 14.5%, respectively. Eliminating the impact of inflation (measured by the IGP-DI), revenues and expenditures registered real increases of 10.2% and 5.6% in comparison to the previous year.

For the most part, the revenue increase was generated by three factors. The first was initial levying of the Provisional Contribution on Financial Transactions – CPMF in 1997, with a total inflow of R\$ 6.9 billion (6% of revenues). The second was the rise in the IOF rate on credit operations with individuals (from 6% to 15%) as of May 1997. Finally, the third factor was growth in imports of taxable products, generating respective inflow increases of 21.7% and 32.1% under the import tax and Earmarked-IPI.

**Table 3.10 - National Treasury budget operations**

R\$ million

Itemization	1995	1996	1997	Change %	
				96/95	97/96
A - Revenues	86 294	97 132	116 034	12.6	19.5
Tax revenue	81 147	91 878	108 731	13.2	18.3
Revenues of government credit operations	5 012	5 125	7 200	2.3	40.5
Earnings on available resources in B. do Brasil	135	129	103	-4.4	-20.2
B - Expenditures	90 256	106 257	121 680	17.7	14.5
Payroll and social levies	35 497	40 505	42 848	14.1	5.8
Transfers to states and municipalities	18 320	20 830	25 042	13.7	20.2
Other earmarkings	6 266	6 357	7 151	1.5	12.5
Federal securities charge <sup>1/</sup>	7 078	10 809	10 169	52.7	-5.9
Contracted debt charges - domestic and external	4 661	5 183	7 806	11.2	50.6
Government credit operations	3 443	2 288	2 522	-33.5	10.2
Current expenditures and investment	14 351	18 007	24 252	25.5	34.7
Residual to be paid	640	2 278	1 890	255.9	-17.0
C - Cash results (A-B)	-3 962	-9 125	-5 646	130.3	-38.1

Source: Secretaria do Tesouro Nacional

<sup>1/</sup>DPMF charges paid to Banco Central do Brasil are excluded.

**Table 3.11 - Gross inflow of federal revenues**

R\$ million

Itemization	1995	1996	1997	Change %	
				96/95	97/96
Income tax	28 970	33 696	36 525	16.3	8.4
Industrial product tax	13 637	15 512	16 833	13.7	8.5
Financial operation tax	3 224	2 854	3 784	-11.5	32.6
Social contribution for financing social security	15 227	17 893	19 118	17.5	6.8
Contribution on legal entity profits	5 851	6 597	7 700	12.7	16.7
Contribution to PIS/Pasep	6 123	7 390	7 590	20.7	2.7
Import tax	4 911	4 220	5 137	-14.1	21.7
Provisional contribution on financial movement	147	- 2	6 908	-	-
Other taxes	5 915	6 933	9 094	17.2	31.2
Total	84 005	95 093	112 689	13.2	18.5

Source: Secretaria da Receita Federal

Outlays on personnel and social charges absorbed R\$ 42.8 billion, with participation of 35.2% in overall expenditures. When compared to 1996, the nominal increase came to 5.8%. In real terms, using the IGP-DI as deflator, growth came to -2.4%. Aside from not granting a wage increase to executive branch civil servants during the year, the government adopted a series of measures at the end of 1996 that were reflected in payrolls during all of 1997. Among these measures, authorization was granted to release civil servants not entitled to stability, abolish benefits that made it possible for civil servants to be promoted at retirement time and eliminate payment of overtime.

Funding transfers to the states and municipalities came to R\$ 25.1 billion, as compared to R\$ 20.8 billion in 1996, for real growth of 10.8% (IGP-DI). One should note that overall 1997 transfers include R\$ 1.7 billion in the form of compensation paid to state governments as a result of ICMS losses caused by passage of the Kandir Law (Complementary Law no. 87/96) which removed this tax from exports of primary product. Aside from this, with approval of Constitutional Amendment no. 17, dated 11.22.97, which extended the existence of the Fiscal Stabilization Fund, municipalities received an additional 1.56% of the income tax inflow in the second half of 1997.

Disbursements to cover charges on internal and external debts contracted in 1997 expanded sharply, moving from R\$ 5.2 billion in 1996 to R\$ 7.8 billion (+50.6%). On the other hand, charges on the federal securities debt held by the public dropped by 5.9%.

**Table 3.12 - Personnel expenditure in the Federal Government**

R\$ million			
Itemization	1996	1997	Change %
By position - settled	41 199	38 384	-6.8
Working	24 635	21 968	-10.8
Retired	11 448	11 095	-3.1
Pensioners	5 116	5 321	4.0
By government branch - released	40 094	38 811	-3.2
Executive	35 365	33 568	-5.1
Judicial	3 713	4 073	9.7
Legislative	1 015	1 170	15.2

Source: Secretaria do Tesouro Nacional

### Social security

Social security accounts closed 1997 with an operational surplus of R\$ 2.3 billion, based on total revenues of R\$ 58.6 billion and overall expenditures of R\$ 56.3 billion. In relation to 1996, revenues and expenditures expanded at nominal rates of 15.5% and 8.2%, respectively. This result, however, did not reflect an improvement in the cash flow of the system, since social security debts with the banking system rose sharply to meet the lag between the inflow through the banking network and outlays on benefits. While the net inflow (inflow through banking system less transfers to third parties) expanded by 7% in relation to 1996, thanks mostly to more effective measures applied to the charging of already matured debts with the system, outlays on benefits expanded by 17.8% as a consequence of new benefit concessions. The result of this lag was a deficit of R\$ 5.6 billion that was mostly financed by National Treasury security issues.

Federal government transfers, equivalent to 6% of total social security revenues in 1996, turned in nominal growth of 69.6% in 1997 and closed at R\$ 5.2 billion, representing 8.8% of total revenues. This was a clear demonstration of the importance of these resources to covering the current expenditures of the social security system.

The major source of financing was Cofins which was used to finance the 84.5% increase in outlays on assistance and special benefits, which are the responsibility of the National Treasury.

When the “Simples” – simplified form of paying tax that is available to micro and small businesses – went into effect in February 1997, the result was a reduction in

**Table 3.13 - Social Security - cash flow**

R\$ million

Itemization	1995	1996	1997	Change %	
				96/95	97/96
Revenues	39 803	50 707	58 588	27.4	15.5
Banking inflow	35 139	43 686	47 034	24.3	7.7
Federal government transfers	3 130	3 043	5 162	-2.8	69.6
Others	1 534	3 978	6 392	159.3	60.7
Expenditures	40 000	51 977	56 253	29.9	8.2
Benefits	33 142	41 388	48 775	24.9	17.8
Personnel	2 487	2 090	2 055	-16.0	-1.7
Transfers to third parties	2 972	3 309	3 822	11.3	15.5
Others	1 398	5 190	1 601	271.2	-69.2
Cash result	- 197	- 1 270	2 335	...	...
Ratio expenditures / revenues	1.0	1.0	1.0	...	...
Ratio benefit / banking inflow <sup>1/</sup>	1.0	1.0	1.1	...	...

Source: Ministério da Previdência e Assistência Social

<sup>1/</sup> Corresponds to ratio between benefits paid and net banking inflow from transference to third parts.

tax and social contribution rates. Coupled with relative stagnation in the formal labor market, the overall impact on the revenue inflow of the system was sharply negative.

Information released by the Secretariat of the Social Security System indicates that, in 1997, financing of the system depended strongly on business contributions, which accounted for 60.3% of the year's total. The participation of individual contributions came to only 24.6%.

In relation to outlays, the benefit that generated the greatest pressure on overall outlays in 1997 was retirement by reason of time of service. The number of benefits granted in this category increased by 30.8% in relation to 1996, while retirements by age expanded by 29.7%.

At December 1997 prices, indexed by the INPC, average annual benefits granted came to R\$ 288.10 in 1997, for growth of 8.8% in relation to the average of the previous year.

Provisional Measure no. 1,571 was issued on 4.1.97 with the purpose of normalizing defaults on the part of states, municipalities and hospitals that are part of the Single

Health System – SUS with the National Social Security Institute (INSS). This measure allowed debtors to pay these debts off in an installment system. The states and municipalities were allowed to pay off all debts up to March 1997 by deducting 4% from the State Revenue Sharing Fund and 9% from the Municipal Revenue Sharing Fund. With a minimum deduction of 3% from the respective funds, the percentages established will be reduced or increased in such a way that the amortization term will not be less than 96 nor more than 240 months.

Until March 31, 1998, debts up to and including March 1997 owed to the system by employers and accessory liabilities owed by entities or hospitals contracted by the system as well as by entities or hospitals belonging to the direct and indirect administration and which are part of the system may be paid off in up to 96 months, through assigns of credits held with SUS. The debts of the aforementioned entities and hospitals consequent upon contributions deducted from employee wages should be divided into up to 30 monthly installments.

### **State and municipal finances**

The securities debt of the states and municipalities came to R\$ 41 billion and resulted in a drop of 20.7% in relation to the previous year. The states that had the largest volumes of issues were Minas Gerais, Rio Grande do Sul and Rio de Janeiro. The State of São Paulo dropped out of this grouping as a consequence of the general renegotiation of its debt with the federal government at the end of 1997.

The municipal securities debt refers almost entirely to the cities of Rio de Janeiro and São Paulo, accounting for 96.9% of the total. The balance at the end of the year came to R\$ 8.2 billion (R\$ 6.6 billion in 1996).

Credit operations based on anticipated budget revenues – a major source of revenues for the states and municipalities – remained at the same level as at the end of 1996, closing at R\$ 2.2 billion. These operations are limited to the balance on 6.30.97, as stated in Resolution no. 2,443, dated 11.14.97.

The inflow of the Tax on Merchandise and Services (ICMS) came to R\$ 59.6 billion in 1997 and closed at a level 7% above that of 1996. The southeast region, which concentrates the major share of the nation's industry, accounted for R\$ 36.1 billion, corresponding to 60.5% of the total inflow.

Among the states responsible for the highest inflows, only the State of São Paulo registered ICMS growth that was higher than inflation in the year. The overall total of R\$ 23.5 billion collected in the territory of the State of São Paulo (39.5% of the total) was 9.7% higher than the total registered in 1996.

**Table 3.14 - Main source of funds from the states and municipalities**

R\$ million

Itemization	ICMS				
	1995	1996	1997	Change %	
				96/95	97/96
North region	1 974	2 446	2 678	23.9	9.5
Acre	38	45	51	17.1	15.0
Amazonas	914	1 187	1 235	29.9	4.0
Pará	634	746	770	17.6	3.2
Rondônia	202	234	358	16.2	52.8
Roraima	36	44	53	21.3	22.2
Amapá	44	52	55	19.2	5.3
Tocantins	106	139	156	30.3	12.6
Northeast region	5 966	7 385	7 835	23.8	6.1
Maranhão	336	437	397	30.3	-9.3
Piauí	219	281	306	28.5	8.6
Ceará	951	1 184	1 254	24.5	6.0
Rio Grande do Norte	297	379	459	27.4	21.1
Paraíba	352	449	491	27.3	9.5
Pernambuco	1 182	1 466	1 611	24.0	9.9
Alagoas	277	352	370	27.3	5.0
Sergipe	264	307	376	16.4	22.3
Bahia	2 088	2 530	2 572	21.1	1.7
Southeast region	28 570	33 458	36 061	17.1	7.8
Minas Gerais	4 620	5 430	5 642	17.5	3.9
Espírito Santo	1 272	1 382	1 661	8.6	20.2
Rio de Janeiro	4 514	5 216	5 239	15.5	0.5
São Paulo	18 164	21 430	23 519	18.0	9.7
South region	7 658	8 743	8 879	14.2	1.6
Paraná	2 474	2 812	2 839	13.6	1.0
Santa Catarina	1 675	1 916	2 033	14.4	6.1
Rio Grande do Sul	3 509	4 016	4 007	14.4	-0.2
Central-west region	3 032	3 648	4 123	20.3	13.0
Distrito Federal <sup>1/</sup>	629	801	905	27.3	13.0
Goiás	1 136	1 438	1 588	26.6	10.4
Mato Grosso	706	799	957	13.1	19.8
Mato Grosso do Sul	560	611	674	9.0	10.3
Brazil	47 200	55 681	59 577	18.0	7.0

Source: Ministério da Fazenda

(continues)

<sup>1/</sup> Besides constitutional transfers, the Federal District receives funds from the Federal government to finance health, education and public security programs.

**Table 3.14 - Main source of funds from the states and municipalities** (concluded)

R\$ million

	Transfers of the Union <sup>2/</sup>				Itemization
	1995	1996	1997	Change %	
				96/95	
2 710	3 074	3 636	13.4	18.3	North region
307	347	391	13.2	12.5	Acre
327	370	416	13.1	12.6	Amazonas
820	934	1 231	13.9	31.8	Pará
286	324	365	13.2	12.7	Rondônia
214	242	272	13.1	12.3	Roraima
297	336	375	13.2	11.7	Amapá
460	521	586	13.3	12.4	Tocantins
7 039	7 995	9 178	13.6	14.8	Northeast region
908	1 030	1 174	13.4	14.0	Maranhão
538	610	688	13.3	12.9	Piauí
1 001	1 134	1 276	13.3	12.6	Ceará
524	593	667	13.1	12.5	Rio Grande do Norte
638	722	813	13.2	12.6	Paraíba
965	1 095	1 231	13.5	12.4	Pernambuco
515	585	651	13.7	11.3	Alagoas
434	491	556	13.0	13.2	Sergipe
1 516	1 737	2 121	14.6	22.2	Bahia
3 810	4 326	5 648	13.5	30.6	Southeast region
1 611	1 810	2 137	12.4	18.1	Minas Gerais
317	373	445	17.8	19.3	Espírito Santo
467	526	1 109	12.6	110.9	Rio de Janeiro
1 416	1 617	1 957	14.2	21.0	São Paulo
2 410	2 728	3 383	13.2	24.0	South region
888	1 006	1 389	13.3	38.0	Paraná
543	618	738	13.8	19.4	Santa Catarina
979	1 104	1 257	12.7	13.9	Rio Grande do Sul
1 177	1 350	1 692	14.7	25.4	Central-west region
77	87	98	13.2	12.5	Distrito Federal <sup>1/</sup>
527	601	677	14.2	12.7	Goiás
342	392	537	14.5	36.8	Mato Grosso
231	269	380	16.4	41.2	Mato Grosso do Sul
17 147	19 474	23 538	13.6	20.9	Brazil

2/ Transfer include state and municipalities equity funds (44% of IPI+IR), IOF-Ouro, 50% of ITR, export compensation funds (10% of IPI) and FUNDEF. In 1997, amounts related to ICMS refunding transfers are included, in accordance with LC no. 87/96 and MP no. 1.579/97.

In comparison to the previous year, ICMS growth in the four states classified from second to fifth position in terms of overall inflow ranking was as follows: Minas Gerais (+3.9%), Rio de Janeiro (+0.5%), Rio Grande do Sul (-0.2%) and Bahia (+1.7%) These states accounted for a total of 29.3% of the total ICMS collected in the country.

The states (state and municipal administrations) that received the largest volume of 1997 National Treasury resources were as follows: Bahia (R\$ 2.3 billion), Minas Gerais (R\$ 2.2 billion), São Paulo (R\$ 2.1 billion), Paraná (R\$ 1.6 billion) and Rio de Janeiro (R\$ 1.6 billion). Together, they accounted for 39.2% of overall transfers. However, the states that registered the highest growth rates in transfers received, in comparison to 1996, were: Rio de Janeiro (+211.7%), Mato Grosso do Sul (+70.4%), Paraná (+62.3%), Mato Grosso (+60.8%) and Bahia (+31.5%). This performance was a direct result of the elimination of certain taxes from export operations (Complementary Law no. 87/96). These five states taken together absorbed a full 68.3% of the compensatory funding.

# IV

## ECONOMIC-FINANCIAL RELATIONS WITH THE INTERNATIONAL COMMUNITY

### Foreign trade policy

With the trade liberalization process implemented since the early years of the decade, the Brazilian trade balance has registered increasingly higher deficits in recent years. In 1997, the nation's trade policy featured a series of measures aimed at achieving a balanced trade position, marked by full compliance with all the international agreements signed by the country. A wide-ranging trade promotion program is being developed and has the objective of increasing the foreign market penetration of Brazilian products. Among the many aspects of this program, one should highlight support to the export capacity of medium and small businesses, elimination of internal and external trade bottlenecks, international trade negotiations and international trade integration based on the terms of a single foreign trade law. One of the fundamental principles behind this policy is the need for a sharp reduction in the so-called "Brazil cost", with elimination of bureaucratic entanglements, optimization of export financing lines and legislative improvements.

The program will implement strategies aimed at disseminating information with regard to Brazilian products among potential foreign importers, while channeling data to the export sector on the characteristics of the foreign market. At the same time, the government will seek to strengthen its international negotiating position in an attempt to attain more balanced relations with foreign trade partners.

On January 1, the integrated foreign trade system, known as Siscomex, which has operated in the export sector since 1993, was extended to imports.

In the first quarter of the year, steps were taken to enhance the effectiveness of measures aimed at reducing taxation at the production level since this would bring obvious benefits to the export sector. Aside from this, other measures were taken in the framework of the trade defense instruments agreed upon at the WTO with the objective of safeguarding the domestic economy. Going further, the advantages offered to companies that desire to receive fiscal incentives available in the automotive sector were broadened, while the deadline for accreditation of these companies was extended. This was done in light of the fact that job creation has evident multiplying effects and contributes strongly to the process of regional development.

The government decided to slap definitive antidumping compensatory rights at rates of 202.3% and 301.5% on Chinese exports of charcoal, colored and lead pencils with the objective of neutralizing damages being caused to national industry. The aforementioned rates substituted the provisional 288.5% rate levied as of July 1996. This measure was taken on the basis of an investigation initiated in February 1996 that concluded that dumping practices were in fact being utilized. The drop in the participation of the Brazilian product in apparent consumption, lesser internal sales, maintenance of internal prices at a level below production costs and increased unemployment in the sectors were proof of the damages caused to national production.

Ministry of Finance Directive no. 38 was issued on 2.27.97 with the objective of regulating Law no. 9,363, dated 12.13.96, and had the objective of eliminating bureaucratic bottlenecks such as excess taxation levied on export operations, making it possible to utilize presumed credits to calculate refunds of social contributions (PIS/Pasep and Cofins) charged on internal acquisitions of raw materials, intermediary products and packaging material used in the production of goods for the export market. This instrument determined that the refund would be effected in the form of a reduction in the IPI due on internal sales, or in cash, in specific cases, based on a quarterly request submitted to the Secretariat of Federal Revenue.

The provisional measure on fiscal incentives for vehicle assembly and manufacturing companies that open factories in Brazil was transformed into Law no. 9,449, dated 3.14.97. On the same date, the provisional measure dealing with specific incentives for the North, Northeast and Central-west regions of the country was transformed into Law no. 9,440. On that occasion, the deadline for executive branch qualification of automotive companies was extended from March 31 to May 31, 1997. At the same time, Decree no. 2,179, dated 3.18.97, regulated the aforementioned Law and incorporated fiscal incentives not previously included into the automotive regime. Among these, one should mention broadening of the exemption bracket for the import tax on capital goods and inputs, with IPI and IOF exemptions in specific cases.

Provisional measure no. 1,569, dated 3.25.97, disciplined compliance with payment deadlines in import operations and, in terms of financial cost, brought the credit conditions available to imported goods more or less into line with those provided to internally produced goods. The central aspect of this measure concerns compliance with the payment deadline cited by the importer on the import declaration (DI), an obligatory document that specifies the characteristics of the operation, its value, quantity, origin and payment period. In operations with payment periods from one to 180 days, the importer is obligated to contract exchange for future liquidation in the amount of the import transaction. This operation should be effected one day prior to registration of the DI and is equivalent to customs clearance of the goods in question. In other words, payment is immediate. For payment periods between 181 and 360 days, exchange transactions for future liquidation should be effected between the first and the

180<sup>th</sup> day subsequent to that of registration of the DI. In this case, when effected under internal credit conditions, the period of financing extends from 1 to 180 days. Finally, if the payment term is greater than 360 days, the operation is characterized as long-term import financing registered at Banco Central, without the need for exchange contracting for future liquidation.

The measures implemented at that time also instituted a fine in cases of noncompliance. Exceptions to this norm were specified as imports of petroleum and its derivatives, operations under the drawback system, transactions worth less than US\$ 10 thousand and installment payments when the sum does not exceed 10% of the total value of the import operation and the equivalent of US\$ 10 thousand.

Imports worth less than US\$ 40 thousand and originating in the Mercosul member states, Chile and Bolivia, were excluded from the obligation defined in Circular no. 2,749, dated 4.3.97, when such goods have been shipped by 7.31.97, provided that the operations be carried out under the terms of Reciprocal Credit Agreements (CCR). Later on, Circulars no. 2,762, dated 6.25.97, and no. 2,778, dated 10.15.97, extended this exception to 10.31.97 and 2.28.98, respectively.

According to the terms of Circular no. 2,753, dated 4.30.97, the same treatment given to imports with payment periods of up to one year should be applied to installments on import operations with terms greater than 360 days when maturity occurs within less than one year.

Later on, when the money penalty was shown to be insufficient, the value of the daily fine was recalculated and practically doubled in value. According to the terms of Circular no. 2,777, dated 9.19.97, the indexing factor became the preset loan rate on working capital operations as announced by Banco Central. This rate substituted the LBC.

The major effect of the provisional measure and its later enabling legislation was to generate a sharp increase in the value of imports financed over periods of more than one year. These operations moved from 3% of total imports in 1996 to 37% at the end of 1997.

In the second quarter of the year, trade policy measures were targeted principally at improving the competitiveness of Brazilian products on the international market. Among these, the major step was to broaden the scope of the Export Financing Program (Proex) and make its operations accessible to a larger number of companies.

In this light, MICT Directives no. 33 and 34, issued on 4.8.97, unified and expanded the list of products eligible for Proex and increased payment terms, principally for products with payment periods of less than seven years. One hundred and five tariff groupings were included for equalization purposes and 221 groupings for financing. Among the products included were auto parts, copper pipes and aluminum pipes,

electric and electronic apparatuses and items with evident international market growth potential.

National Monetary Council Resolution no. 2,380, dated 4.25.97, redefined the criteria applicable to Proex operations, eliminating the reference to the clause contained in Resolution no. 2,214, dated 11.29.95, that states that National Treasury Notes may not be transferred to other parties, thus making it possible to negotiate these papers on the market.

Resolution no. 2,381, also issued on 4.25.97, reduced the value of the required guaranty to be provided by a first line financial institution in export financing operations from 100% to 70%.

At the institutional level, the Ministry of Industry, Commerce and Tourism issued Directive no. 53, dated 5.8.97, with the aim of broadening the instruments used to stimulate exports. This Directive defined the specific products - mostly capital goods - that would be entitled to Proex coverage of up to 100% in the equalization mode, provided that the unit value be equal to or greater than US\$ 40 thousand, with a national component index of more than 60%. Also in the Proex framework, Provisional Measure no. 1,574, dated 5.12.97, extended financing to pre-shipment operations that are part of the overall goods and services export operation and determined that the National Treasury would be permitted to grant sufficient equalization to the financing party to make financial charges compatible with those in effect on the international market.

Insofar as imports are concerned, Resolution no. 2,389, dated 5.22.97, prohibited financial institutions from granting credit to credit card users in operations involving financing of goods and services acquired abroad.

On June 12, Interministerial Directive no. 7 required application of provisional safeguards on imports of textiles from China and defined annual quantitative quotas. The safeguard mechanism is aimed at limiting damages to national industry caused by a sharp increase in imports of these products and the consequent loss of a large market share previously held by national producers. The aforementioned measure covered a series of categories of the apparel and garment industry and went into effect as of 7.1.97.

In the third quarter of the year, the measures adopted in the framework of foreign trade policy sought to bring a greater sense of security to export operations, at the same time in which measures were taken to correct failings found to exist in the system of import registration, as well as to alter the system of tariff exemptions.

On the export side, Provisional Measure no. 1,583, dated 8.27.97, created the Export Guaranty Fund which will provide funding for coverage of the guaranties rendered by the federal government for the total term of the operation in the case of political and extraordinary risks and for periods in excess of two years, in cases involving commercial

risks. The objective is to facilitate implementation of export credit insurance. BNDES is the managing entity of this system but will be subordinated to the decisions of the Foreign Trade Chamber and the Fund Board, an entity that pertains to the Ministry of Finance organizational structure. It is important to stress that, as of 8.19.97, Ministry of Finance Directive no. 196 had authorized the Brazilian Export Credit Insurance Company to operate in this sector.

In the case of import operations, Interministerial Directive no. 174, dated 7.24.97, altered the ex-tariff mechanism, revoking a series of Directives that permitted imports at a zero rate involving approximately three thousand capital goods items in relation to which similar nationally produced goods are not available. With this, the rates originally set down in the TEC were effectively levied. However, 107 products, principally from the areas of informatics and telecommunications, will continue to benefit from the reduction until the end of the year, since they are considered more sensitive to technological innovations and are utilized as important inputs in practically all sectors of the economy. The measure was not aimed at reducing the volume of imports, but rather at restructuring the system of tariff exceptions. It is important to add that petitions presented to Secex prior to elimination of the mechanism were processed normally and approved, with all of them remaining in force until December 31, 1997.

At the end of the year, the list of products that can be imported under the ex-tariff system was redefined by Ministry of Finance Directive no. 339, dated 12.18.97. The rate was set at 5%, a level that is thought to contribute importantly to the modernization of the Brazilian industrial structure while avoiding damage to national industry.

In the framework of the automotive system, Decree no. 2,307, dated 8.20.97, extended the import tax rate reduction for one year for the maximum quota of fifty thousand vehicles, provided that they be manufactured in and shipped from the European Union, Japan and Korea. In relation to the 1996 figure, there was an increase in the European Union's quota and reductions in the others.

Decree no.2,322, dated 9.9.97, determined that import operations registered in Sisbacen by importers themselves may be cancelled in those cases in which the importer does not submit to the unit responsible for customs clearance the documentation required for customs clearance within the period defined by the Secretariat of Federal Revenue. On the same date, Declaratory Act no. 53 issued by the Secretariat of Federal Revenue (SRF) cancelled the import declarations listed therein and registered at Siscomex by 6.30.97, since the customs clearance documents for these operations were not submitted by September 5. At a later date, operations that had been registered more than once were also cancelled. This had occurred mostly as a consequence of a lack of sufficient knowledge of the system and the procedures to be followed by importers. Delivery time for the documentation was reduced from 60 to 15 days, effective as of October 1, 1997 (SRF Normative Instruction no. 71).

In the final quarter, efforts were made to improve the balance of trade situation in the framework of the policy measures taken to cope with the Asian financial crisis. New programs were created while others were broadened and financing operations were greatly simplified, all with the aim of strengthening the export sector. On the other hand, steps were also taken to discipline imports through tariff alterations.

Decree no. 2,369, dated 11.10.97, altered some of the provisions of the Export Credit Insurance system and widened its scope. At the same time, the Decree extended government guaranties beyond the political and extraordinary risks already covered to cases of insurance against commercial risk. In this case, the federal government will guaranty up to 85% of the value of the operation for the period that exceeds two years and, in exceptional cases, may even provide the guaranty for the entire term of the operation, provided that the term is not less than two years. In the case of political and extraordinary risks, federal government coverage was raised from 85% to 90% of the value of the operation.

Among the programs created to stimulate exports is the Guaranty Fund for Fostering Competitiveness (FGPC), instituted by Provisional Measure no. 1,601, dated 11.11.97, later transformed into Law no. 9,531, dated 12.10.97. The FGPC will be managed by BNDES with the purpose of channeling resources into guaranties for the risk involved in BNDES and Finame financing operations with medium and micro businesses. Financing targeted to expansion, modernization and relocation of business activities will be entitled to coverage, together with the resources used in the production of goods for the export market.

Decree no. 2,398, dated 11.21.97, created the Export Promotion Agency (Apex) in the framework of the Brazilian Service of Support to Micro Businesses (Sebrae). This Agency will have the task of providing support to implementation of trade policy in the export sector and will allocate resources set aside in the annual Sebrae budget precisely for this purpose. The Trade Promotion Coordinating Committee was created as a result of this measure and is responsible for providing advisory services to Apex in the formulation of its operational guidelines.

Banco Central Resolution no. 2,441 and Circular no. 2,782, dated 11.12.97, determined that financial institutions with credit lines abroad may grant credits to manufacturers of inputs utilized in the assembly and packaging of merchandise to be shipped abroad.

In the Proex framework, Interministerial Directive no. 338, dated 12.17.97, dispensed the export financing granted by BNDES and Finame from prior Banco do Brasil examination and prior approval by the Export Credit Committee (CCEX).

Aside from this, National Monetary Council Resolution no. 2,452, dated 12.18.97, determined that, of total Proex funding for the 1998 fiscal year, R\$ 400 million are to be used in equalizing operations financed by BNDES and Finame.

With respect to customs policy, alterations were introduced with the objective of disciplining the flow of imports and, at the same time, avoiding competition that would have a predatory impact on national output. The major change (Decree no. 2,376, dated 11.12.97) introduced a three percentage point increase into the TEC and the rates specified on the list of exceptions.

Decree no. 2,412, dated 12.3.97, instituted the Special System of Industrial Depots subject to Standardized Controls (Recof), as a means of reducing the costs of exportable products. This system suspends taxation on merchandise imported for purposes of industrialization and production of goods for the export market. The period of the aforesaid suspension will be one year, with the possibility of an extension for one additional year.

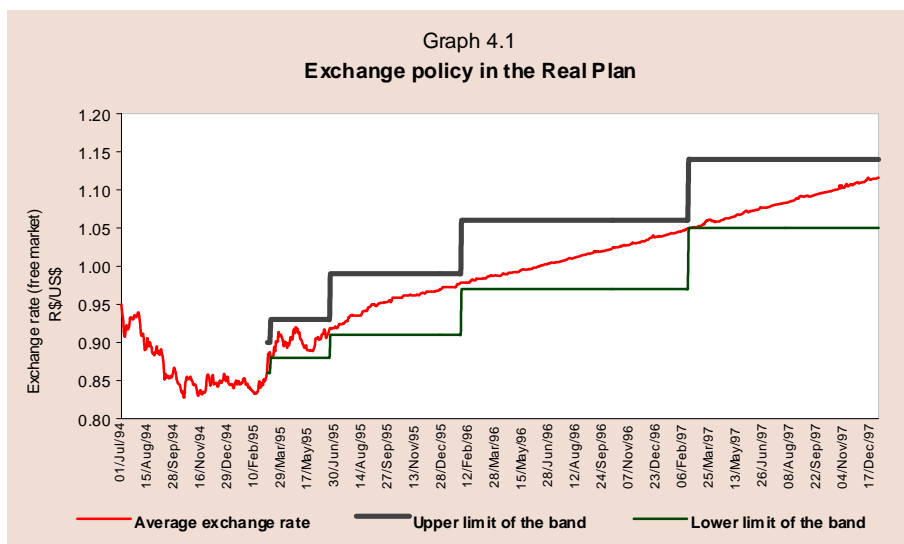
Changes were also made in the automotive regime, including that which concerns the special system for the North, Northeast and Central west regions. This was done through issue of Provisional Measure no. 1,602, dated 11.14.97, later transformed into Law no. 9,532, dated 12.10.97, altering Brazilian tax legislation. The percentages of the fiscal incentives for installation of new automotive production industrial facilities will be cut by half and will be restricted to those involving the rates of the import tax on acquisitions of inputs, raw materials and automotive vehicles.

On 12.17.97, Secex Communique no. 37 expanded the list of operations and products subject to non-automatic licensing in import operations, together with those products subject to special procedures in the process of automatic licensing. Parallel to this, Normative Instruction no. 98, dated 12.29.97, determined that payments of federal taxes due on imports should be effected by automatic debit against a bank account. The purpose of these measures was to discipline import procedures and, in this way, facilitate administration of these operations.

### **Exchange policy**

Between 1996 and 1997, the end-of-period rate of exchange on the free rate market (purchase rate) moved from R\$ 1.0386/US\$ to R\$ 1.1156/US\$, with a nominal devaluation of 7.41%, or 3.07 percentage points above the level of INPC growth. Monthly changes averaged 0.6% and fluctuated between a minimum of 0.43% and a maximum of 0.76%, while average monthly growth came to 0.64% since implementation of the spread auctions at the end of June 1995.

In 1997, there were no alterations in the exchange policy adopted as of 1995. On February 18, Banco Central introduced the year's only change in the exchange band, moving the lower and upper parameters from R\$ 0.97/R\$ 1.06 to R\$ 1.05/R\$ 1.14 per dollar, an increase of 8.6%. With this margin and the average pace of devaluation over



the previous 18 months, it was possible to estimate that the upper level would be reached in one year and it was precisely this that occurred.

It is important to note that movement of the exchange rate band was quite predictable. This is a factor of considerable importance in the current stage of development of the Brazilian exchange system, since the climate of reduced volatility is highly conducive to investment flows.

Once the fluctuation reference parameters have been defined, a series of successive spread auctions are held with the objective of gradually devaluing the rate of exchange so as to maintain it always within the intraband limits. In this way, it was possible to generate the conditions required for internal price stability, without detriment to control of the current account balance. Here, one can state that, within the limits of the maneuvering room permitted by WTO regulations, the basic policy orientation was to stimulate exports and control imports.

Incentives were also implemented to encourage capital inflows. This was done by reducing the minimum average terms of amortization and their respective tax costs. Aside from this, the differential between internal and external interest rates was maintained as a way of guarantying the domestic market's attractiveness to foreign capital. In a complementary manner, securities tied to exchange indexing (NTN-D) were offered, thus making it possible for investors to protect their positions in foreign currencies. This was one more mechanism used to guaranty stability and a more even pace of exchange market operations.

During the course of the year, Banco Central activities on the free rate market were almost exclusively limited to three auction modes: spread, purchase and sale

auctions. In the first case, there were 75 auctions in 1997 or approximately six per month, aimed at providing the market with the parameters needed to ensure the stability of both operations and rates. In the cases of the other two modes, Banco Central concentrated its attention mostly on buyer operations and held 64 dollar purchase auctions with the purpose of absorbing the excess foreign resources not incorporated by the market. There were only 19 sale interventions in the year and these were mostly concentrated in the final days of October and early November when 8 auctions were held and the normal minimum batch was raised from US\$ 500 thousand to up to US\$ 15 million.

At the end of October, the repercussions of the Asian crisis were an opportunity to reaffirm the nation's exchange policy. This stance, coupled with the measures taken by the government, dissipated uncertainties and maintained currency stability.

In the floating rate segment, rates accompanied growth in the free rate segment, moving from R\$ 1.0441/US\$ for purchase at the end of 1996 to R\$ 1.1210/US\$ at the close of 1997, representing devaluation of 7.37%. As has become characteristic of the exchange market in recent years, Banco Central acted more as a supplier of resources in its efforts to maintain the exchange premium at a relatively stable level in relation to the free rate segment. The difference oscillated in the range of 0.42% on average.

Aside from Banco Central auction-based interventions, regulations were issued that impacted the exchange market.

To stimulate foreign resources inflows, Ministry of Finance Directive no. 85 was issued on 4.24.97 reducing the Tax on Credit, Exchange and Insurance Operations and Operations involving Stocks and Bonds (IOF) from 3% to 0% in the case of exchange operations related to foreign financial loans; from 7% to 2% in operations involving inflows of foreign resources for purposes of investment in fixed income funds, in interbank operations with financial institutions abroad and in mobilization in the country of the available short-term resources of residents abroad; and from 5% to 0% on inflows to be invested in privatization funds.

In much the same way, Banco Central do Brasil Resolution no. 2,384, dated 5.22.97, encouraged foreign resources inflows to be invested in stock funds (Appendices I to IV). From that point forward, the managers of these funds were authorized to operate with derivatives in their portfolios, provided that this was to be done to protect their spot positions, and to acquire debentures. This was an exception to the rule that prohibits funds governed by Appendices I to IV of Resolution no. 1,289 from investing in fixed yield securities.

On 6.25.97, Banco Central Resolution no. 2,395 determined that resources entering the country for purposes of crop and livestock financing, construction or acquisitions

of real estate and loans to exporters and that have yet to be channeled into their final objective could be invested in NTN-D with terms of more than three months. Analogously, Circular no. 2,764, dated 6.25.97, permitted investment of funding obtained abroad and to be used in on-lending operations within the country under the terms of Resolution no. 63/67.

Another manner of broadening inflows of foreign resources was the authorization for constitution of investment funds in emerging companies - foreign capital. This was implemented by Resolution no. 2,406, dated 6.26.97, and permitted utilization of these resources in portfolios composed of the securities issued by these companies, provided they be headquartered in the country.

The decisive and opportune exchange market measures taken by the monetary authority, coupled with utilization of other policy instruments to cope with the repercussions of the Asian crisis, had the dual purpose of ensuring the stability of foreign resources flows and making it possible to maintain exchange rate alterations within the desired trajectory. The measures adopted on that occasion were concentrated mostly on efforts to reverse expectations of changes in the nation's exchange policy. The interest rate hike raised the opportunity cost of foreign currency positions and banks rapidly transformed their bought positions into sold positions. Evidently, this had a positive impact on international reserve stocks. Recovery of net foreign resources inflows was achieved as early as December when the measures taken interrupted the decline in the international reserve position at a still highly robust level, at the same time in which it was acknowledged that the country's financial system was quite healthy.

Following the October crisis, new measures were taken to implement a more flexible approach with respect to the different forms of investing foreign capital inflows within the country and, in this way, stimulate a continued inflow of these resources. Resolution no. 2,395 and Circular no. 2,764 were completed by Resolution no. 2,440, issued on 11.12.97, and by Circular no. 2,781, also dated 11.12.97, respectively. Resources not yet transferred could be invested not only in NTN-D, but also in such other papers as NBC-E and NTN-I, which are also tied to exchange indexing.

With the events that occurred in Asia toward the end of October, several measures were adopted including a reduction in the minimum average period of amortization for foreign loan operations contracted up to 3.1.98 from 36 to 12 months, for liquidation at the end of that month (Circular no. 2,783, dated 11.13.97). The same instrument reduced the period for renewal or extension of operations carried out up to 3.31.98 from 12 to 6 months. These measures did not include operations involving crop and livestock financing, construction or acquisition of real estate and financing for export companies which are subject to other already relatively short payment terms.

Another measure taken to attract resources was the doubling of the limits on the sold positions of banks in the free and floating rate exchange markets. This measure was taken through issue of Circulars no. 2,787 and 2,788, dated 11.27.97. In the case of the free rate market, the scaled limit moved to a minimum of US\$ 3.75 million for institutions with net worth of up to US\$ 25 million and a maximum of US\$ 15 million for those with net worth of more than US\$ 100 million. In the floating rate market, the minimum moved to US\$ 1.9 million and the maximum to US\$ 7.5 million.

In the floating rate market, measures were taken to regulate the use of credit cards. For example, utilization of credit cards in foreign purchases of goods and services that are classified as investments or that are covered by Circular no. 2,735, dated 1.9.97, and that, therefore, are considered as merchandise imports that require Siscomex registration, was strictly prohibited. The same instrument permitted foreign currency acquisitions up to the limit of US\$ 3 thousand or an equivalent value in another currency, provided that such funds are to be used to cover travel expenses abroad and, consequently, facilitate tourist operations. Banco Central Resolution no. 2,389 was issued on 5.22.97 and prohibited the financing of credit card operations abroad in an effort to limit excessive spending. Later on, Circular no. 2,792, dated 12.12.97, determined that the credit card management companies should formalize separate exchange contracts for operations involving payments and for operations involving inflows from abroad instead of registering these operations according to their net balance, as had been done up to that moment. Expectations are that, with this measure, it will be considerably easier to monitor these operations.

### **Exchange movements**

In overall exchange market operations, the net flow dropped from a 1996 level of US\$ 23.8 billion to US\$ 14.9 billion. The surplus in the free rate segment dropped from US\$ 25.2 billion to US\$ 17.7 billion as a consequence of the deficit of US\$ 2.7 billion in trade related operations as compared to a surplus of US\$ 8.7 billion in the previous year.

Though the performance of the export sector was better than in the previous year, it was not sufficient to offset growth under imports. In this case, there are two fundamental factors that must be considered. The first is the confirmation of the growth trend that has been registered since the second half of 1996 while the second is the obligatory contracting of exchange for future liquidation in import operations with payment periods of up to 360 days (Circular no. 2,747, 3.25.97). The immediate result was an increase in the volume of contracting operations to cover both new operations as well as those not affected by the change in regulations. With this, contracting operations remained at a relatively high level up to the final two months of the year when the restrictive economic policy adopted in response to the Asian crisis forced a reduction in operations.

**Table 4.1 - Exchange movement - free rate market**

US\$ million

Period	Commercial			Financial			Global balance
	Exports	Imports	Balance	Buying	Selling	Balance	
1995	53 142	41 546	11 596	49 804	47 748	2 056	13 652
1996	50 209	41 478	8 731	71 825	55 348	16 477	25 208
1997	55 902	58 582	-2 680	102 712	82 370	20 342	17 662
Jan	4 305	4 593	- 288	6 452	5 203	1 249	961
Feb	3 371	3 280	91	4 736	3 779	957	1 048
Mar	4 037	4 037	0	5 524	4 351	1 173	1 173
Apr	5 054	5 168	- 114	6 892	5 427	1 465	1 351
May	5 474	5 388	86	7 484	5 767	1 717	1 803
Jun	4 947	5 584	- 637	9 217	7 766	1 451	814
Jul	4 599	5 718	- 1 119	12 365	7 663	4 702	3 583
Aug	4 642	5 113	- 471	10 812	6 377	4 435	3 964
Sep	4 662	5 418	- 756	8 162	6 793	1 369	613
Oct	4 564	5 452	- 888	11 575	11 726	- 151	- 1 039
Nov	5 200	4 276	924	7 251	8 467	- 1 216	- 292
Dec	5 047	4 555	492	12 242	9 051	3 191	3 683

The rise in the volume of import contracting operations is evident in the reduction of the cash and physical differential. In 1996, import contracting operations were 22.2% below physical, as compared to 1997 when the difference diminished to 4.8%.

The increase in the surplus of operations in the financial segment attenuated part of the negative effect of the deficit in trade-related operations. This result was also positive from the qualitative point of view since direct investment inflows were the dominant type of inflow. This fact was clear confirmation of the positive expectations of foreign investors with respect to the country's economic recovery. By way of comparison, direct foreign investments came to a net total of US\$ 16.5 billion in 1997 as against US\$ 9.3 billion in the preceding year.

Other important factors that led to growth in the supply of exchange were foreign market placements of Brazilian securities and short-term capital inflows. However, despite the growth in direct loan operations, the supply of financial loans dropped in relation to the previous year as a consequence of the curtailment of operations with note issues. Net portfolio investments were impacted by the Asian crisis which reverberated throughout the world's stock markets. With this, these operations

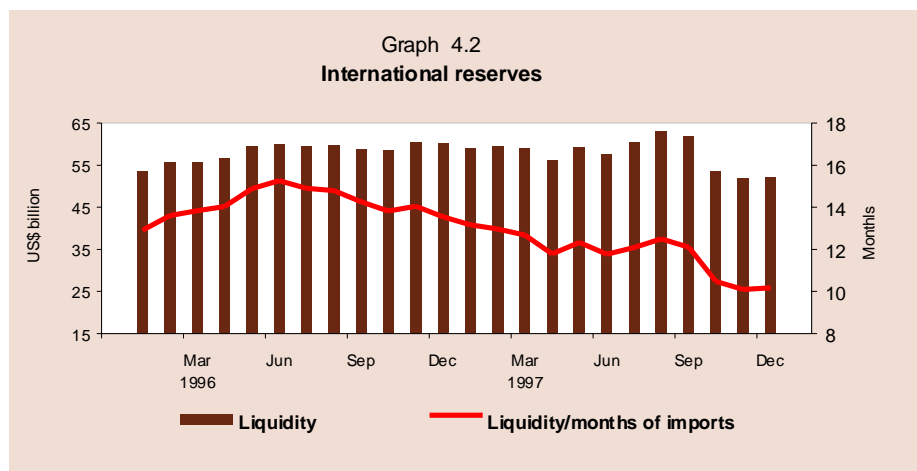
closed in a deficit position with strong declines in inflows. From the viewpoint of exchange demand, there was an increase in profit and dividend remittances and, to a lesser extent, in interest remittances.

The deficit in primary floating rate segment operations expanded from US\$ 1.4 billion to US\$ 2.7 billion as a result of the increase in financial remittances at the same time in which exchange inflows dropped. These deficits were registered in all months of the year, though the November and December results were relatively low in comparison to the rest of the period. In terms of exchange demand for operations with institutions abroad, significant growth was registered particularly in the final quarter of the year and was obviously generated by the Asian crisis.

Finally, the floating rate segment accounted for 4% of overall resources processed in the exchange market. This percentage represented a decline in relation to the previous year when participation reached a level of 5.2%. Total exchange market operations expanded in relation to the previous year and, for the most part, this growth was a consequence of the increase in the volume of transactions carried out on the free rate segment of the market.

### International reserves

In an environment of economic stability, the system of gradual exchange rate devaluations and maintenance of the exchange coupon at levels capable of attracting foreign capital resulted in exchange surpluses up to September 1997. This process was abruptly interrupted by the outbreak of the Asian crisis. The most critical period was October-November and forced Banco Central to take on the role of supplying exchange not only to the floating rate segment but also to the free rate exchange segment.



Even though the immediate effects of the Asian situation on international reserves were neutralized as early as December, the impact for the year was negative. Banco Central foreign sector operations closed in a deficit position. One reason for this was payment made to the Paris Club. Overall, the nation's reserves declined by US\$ 7.7 billion and US\$ 7.9 billion in the cash concept and international liquidity concept, respectively, closing at levels of US\$ 51.4 billion and US\$ 52.2 billion, in the same order.

### **Balance of payments**

In 1997, the balance of payments was characterized by a high level of long-term foreign capital absorption, concentrated in direct investments, and by a large volume of amortizations of both long and short-term foreign liabilities. Fluctuations in international reserves became more accentuated in October with the outbreak of the Asian crisis. The balance of payments closed 1997 with a deficit of US\$ 7.8 billion and was strongly affected by the crisis.

Current accounts mirrored the increase in both the trade and service deficits. The resources gap represented by the deficit in transactions with goods and services not related to production factors came to US\$ 17.7 billion or 53% of the total deficit. The remaining US\$ 15.7 billion was due to net transfers of income abroad or, in other words, services related to production factors and unrequited transfers. Growth in the resources gap, which closed 1996 at a level of US\$ 12.5 billion, is explained mostly by expansion registered under imports. In the case of remitted income, the increase was a consequence of a greater volume of profit and dividend remittances directly related to growth in presence of foreign investors in the country and, even more importantly, to higher business profitability.

### **Trade balance**

The year closed with a trade balance deficit of US\$ 8.4 billion, considerably higher than the 1996 deficit of US\$ 5.6 billion. Exports and imports closed at record levels of US\$ 53 billion and US\$ 61.4 billion, with growth of 11% and 15%, respectively. Expansion of 13.2% in the trade flow is clear evidence of the new dynamism of Brazilian foreign trade born of the intensification of the process of trade liberalization begun in 1990 and further deepened in the period following adoption of the Real Plan in 1994. In the case of imports, following sharp expansion from 1993 to 1995, growth has settled back to a more reasonable pace. At the same time, the export sector has gradually regained a rate of growth that is considerably higher than the pace registered in the years immediately following implementation of the stabilization plan.

**Table 4.2 - Balance of payments**

US\$ million

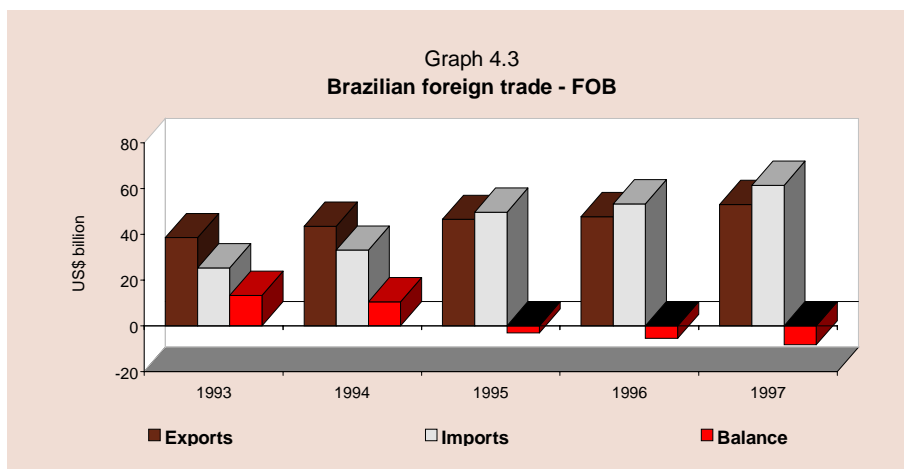
Itemization	1996			1997		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	-326	-5 228	-5 554	-3 752	-4 620	-8 372
Exports	22 903	24 844	47 747	24 786	28 200	52 986
Imports	23 229	30 072	53 301	28 538	32 820	61 358
Services (net)	-8 792	-11 691	-20 483	-12 264	-15 024	-27 288
Interest	-4 514	-4 658	-9 173	-4 505	-5 884	-10 390
Other services <sup>1/</sup>	-4 277	-7 033	-11 310	-7 759	-9 140	-16 899
Unrequited transfers	1 596	1 304	2 900	1 164	1 052	2 216
Current transactions	-7 522	-15 615	-23 137	-14 852	-18 592	-33 445
Capital	17 167	17 096	34 263	14 926	11 161	26 087
Investment (net) <sup>2/</sup>	8 704	7 367	16 071	12 904	7 911	20 815
Financing	1 782	2 525	4 307	6 002	12 407	18 409
Foreign	1 841	2 677	4 518	6 109	14 136	20 245
Brazilian	-58	-152	-211	-107	-1 729	-1 836
Amortizations	-6 955	-7 464	-14 419	-11 410	-17 305	-28 714
Paid <sup>3/</sup>	-6 955	-7 464	-14 419	-8 717	-17 305	-26 021
Refinancing	0	0	0	-2 693	0	-2 693
Currency loans	10 348	12 493	22 841	11 753	17 117	28 870
Banks	640	174	814	600	1 834	2 434
New inflows	391	174	565	600	1 834	2 434
Refinancing	249	0	249	0	0	0
Others <sup>4/</sup>	9 707	12 319	22 027	11 153	15 283	26 436
Short-term capital	3 380	2 373	5 752	-5 093	-12 423	-17 516
Other capital	-92	-198	-290	770	3 454	4 224
Errors and omissions	-1 059	-1 050	-2 109	-2 138	1 650	-488
Surplus (+) or deficit (-)	8 587	430	9 017	-2 064	-5 781	-7 845
Financing	-8 587	-430	-9 017	2 064	5 781	7 845
Assets (- = increase)	-8 225	-441	-8 666	2 147	5 760	7 907
Liabilities - IMF	-36	-36	-72	-23	-11	-34
Short-term liabilities	-326	46	-280	-60	32	-28
Arrears	-286	0	-286	0	0	0
Others	-40	46	6	-60	32	-28

1/ Includes reinvested earnings.

2/ Includes reinvestments.

3/ Includes US\$ 1,439.5 million in return of Brazilian investment, in the first quarter of 1996, relative to liquidation of MYDFA converted into NTN, by the Banco do Brasil.

4/ Includes bonds, commercial paper, fixed/floating rate notes, securitization and intercompany loans. In 1997, includes US\$ 2,244 million in debt exchange (bonds).



The twelve month accumulated deficit turned downward as of the third quarter of 1997. The final quarter of the year closed with improved trade balance results that can be summarized in a decline in the growth pattern of imports and continued upward movement in foreign sales. Imports expanded by only 0.3% in the final quarter of the year in relation to the same 1996 period. In the previous three quarters, growth had closed at respective rates of 22%, 23% and 19%. On the other hand, exports expanded by 11.8% in the final quarter of the year or about the same level as the 12% rate attained in the second quarter and the 15% level reached in the third quarter and sharply higher than the 3.6% rate registered in the first quarter of the year. The good performance of the final quarter of 1997 was achieved despite termination of soybean shipments and was due to more dynamic sales of goods with high aggregate values such as aircraft and automotive vehicles. Here, one should highlight that growth in 1997 export revenues was due more to quantity growth than to price growth.

Export performance in 1997 can also be analyzed in terms of price and quantum indices calculated by Funcex. The quantum index registered growth of 10.2%, with expansion of 12.6% under basic products and 12.7% under manufactured goods, while semimanufactured products closed with a decline of 0.1%.

Following a period of stability in 1996, the price index registered moderate 0.7% growth, with significant 8% expansion for basic products caused mostly by a sharp price hike under coffee sales. In contrast to this result, manufactured and semimanufactured products registered price declines of 1.9% and 1.5%, respectively.

Farm exports were the element most responsible for the good foreign sales performance in 1997 and were anchored in the excellent growth achieved by sales of basic products, particularly soybeans and coffee. The national harvest also set a new record and, consequently, generated strong growth in foreign sales volumes

together with a moderate increase in foreign market prices in sharp contrast to the performance that had been registered previously.

In much the same way, exports of manufactured goods closed with highly positive results due to a high volume of sales to other Latin American countries, now one of Brazil's truly major trading areas. Trade was particularly intense with countries that have preferential trade agreements with Brazil, such as those that operate under the Mercosul umbrella. Analysis shows that 1997 growth in sales of manufactured products was heavily concentrated in four products: aircraft, automotive vehicles, cargo vehicles and refined sugar.

**Table 4.3 - Brazilian exports - FOB**

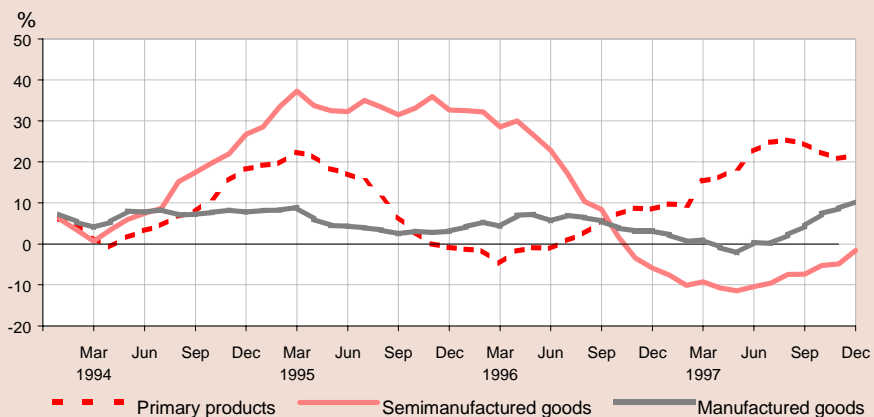
US\$ million

Itemization	1993	1994	1995	1996	1997
Total	38 555	43 545	46 506	47 747	52 986
Primary products	9 366	11 058	10 969	11 900	14 474
Industrial products	28 882	31 852	34 711	35 026	37 668
Semimanufactured goods	5 445	6 893	9 146	8 613	8 478
Manufactured goods	23 437	24 959	25 565	26 413	29 190
Special transactions	307	635	826	821	844

Graph 4.4

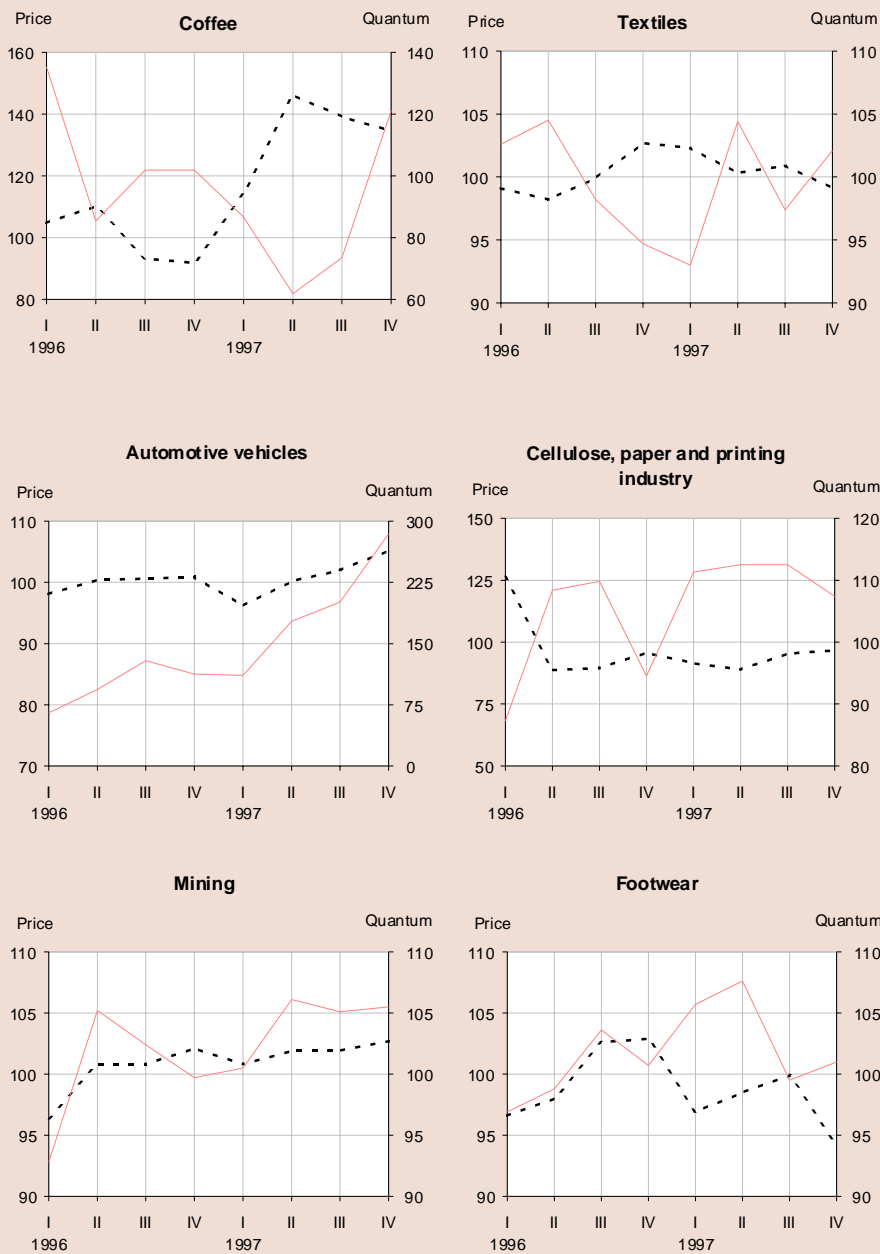
**Exports (FOB) by aggregate factor**

Last 12 months (% growth over the same period of last year)



**Graph 4.5**  
**Three month price and quantum indices of Brazilian exports**  
 Base: average of 1996 = 100

--- Price index      — Quantum index



Source: Funcex

Exports of soybeans and derivatives (beans, meal and oil) expanded by 27.8% in relation to 1996. This growth was achieved as a result of increased world demand and higher prices on the international market, at a time when Brazil was able to produce an excellent harvest and, consequently, make a larger share of the product available to foreign importers. Here, one can see the importance of removing the ICMS from these operations in the sense that it aided in stimulating soybean marketing operations, which totaled US\$ 2.5 billion. Expansion came to 141% and was divided between 129% growth in the volume shipped (8.3 million tons) and foreign prices that were 5.4% higher than in the previous year. Sales of meal and oil totaled US\$ 2.7 billion and US\$ 532 million, respectively. The 1.8% and 22.4% reduction in revenues earned on these products resulted from higher concentration of sales in beans since these had been released from ICMS payments.

In the case of coffee beans, exports earned revenues of US\$ 2.7 billion or 60% more than in 1996, representing additional revenues of US\$ 1 billion. These figures resulted from 43% growth in the average per bag price generated by the Colombian harvest failure and increased world consumption at a time when stocks available for grinding held by the major consumer countries were quite low. At the same time, the Brazilian harvest expanded by 57% and made it possible to increase the volume of shipments by 11.6%.

Exports of tobacco in leaf earned US\$ 1.1 billion and made Brazil the world's largest exporter of this product. Despite a 6% drop in prices caused by greater supply in the large producer countries, the excellent 590 thousand ton Brazilian harvest made it possible to expand foreign sales by 13%. One should note that this record level of revenues was 6.1% higher than in 1996 as the product was channeled mostly to the United States, Germany, the United Kingdom, Belgium and Japan.

The volume of iron ore shipments expanded by 4% and reached a level of 134 million tons. Prices remained practically stable, with an increase of just 1.6%.

Sales of chicken meat closed at US\$ 876 million, for growth of 4.3% in relation to 1996. This was due to 14% growth in the quantity of shipments since prices declined by 8.7%. The major buyer markets of Brazilian chicken were Saudi Arabia, Japan, Hong Kong, Argentina and Germany. Frustrating initial expectations, marketing of the product did not generate a larger volume of revenues, since devaluation of Asian currencies in relation to the dollar made trade among the countries of the region much more competitive. Besides this, alterations were introduced into the subsidies provided to the European product and this turned out to be damaging the Brazilian sales to the Middle East, the United States and Russia.

With respect to sales of industrialized beef, mad cow disease has caused a generalized reduction in world consumption of the product independently of its origin. Obviously, this had a negative impact on exports of the product to Europe, though this drop was offset by increased sales to the United States, Canada and Jamaica. Revenues on foreign sales of industrialized beef closed at US\$ 239 million or practically the same result as in the previous year.

Semimanufactured products turned in a revenue decline of 1.6% as a result of lower prices for pulp, sugar and some metallurgical products, among other major items classified under this heading. Positive performances were registered under iron and steel products, with growth of 5%. Sales of leather and hides closed with additional revenues of 10%. Reductions of 12% and 22% occurred under raw sugar and unrefined soybean oil exports, respectively.

Foreign sales of pulp closed at US\$ 1 billion, a revenue level quite close to the previous year. Following sharp highs in 1995, the prices of the product moved downward and remained low into the first half of the year. One factor that contributed to this decline was increased international production as new industrial plants came on line in Asia and Northern Europe. From June to December, prices moved upward as world market supply started to even out.

Sales of unrefined and refined sugar totaled US\$ 1.8 billion as the country continued in the position of second largest exporter of this product, with sales that were 10% higher than in the previous year. This result is considered good, despite the downward movement that has been registered in international marketing prices since 1995. The good sugarcane harvest made it possible for Brazil to increase its foreign sales volume by an additional 17.5% or 6.4 million tons, a volume sufficient to offset the price drop. Brazilian sugar exports were concentrated mostly in shipments to Russia and other Eastern European countries.

With regard to sales of leather and hides, growth was registered under both volume of shipments and prices, clearly demonstrating that the policy adopted by the sector with the aim of improving the quality of its products and diversifying its product line was an appropriate response to the demands of the consumer market. Growth in sales of leather was registered in operations with both traditional consumer markets, such as Italy, the United States and Hong Kong, and other less traditional customers, such as Mexico, Korea and Singapore.

Sales of manufactured products expanded by 10.5%, with most of this growth being registered in the second half of the year. Here, one should stress that the sector was able to open increased international market space for Brazilian products with higher aggregate value, particularly in the transportation equipment sector. Growth in this case came to a full 38.5%. The excellent performance achieved by this sector

generated additional revenues of more than US\$ 2 billion, raising the overall total to US\$ 7.3 billion. The industries that made the strongest contribution to this result were those that turned out passenger cars and aircraft.

In the case of the automotive sector, growth in the flow of vehicle exports and imports was generated by a combination of factors among which the most important were economic stability and the agreements formalized in the framework of the automotive regime. The sector has invested heavily in modernization and expansion of its production lines and has released new models that are fully in keeping with the most recent models available on the world market. The result has been growth in both production and internal and foreign sales. In terms of exports, the sharpest revenue gains were generated by passenger cars and cargo vehicles, with earnings of US\$ 1.5 billion and US\$ 895 million, respectively, representing growth of 136% and 60.4% in comparison to 1996. Sales were channeled not only to such traditional markets as Argentina and Italy, but also to Venezuela, South Africa, Mexico, Chile, Paraguay, Uruguay, Russia, Germany, Saudi Arabia and the United States. Aside from these results, positive growth figures were also registered in exports of engines, chassis, tractors and buses.

Going on to the aircraft industry, revenues came to US\$ 681 million for growth of 140%. This was the fourth largest growth rate in export operations and was mostly due to the sales success of the EMB-145 regional craft built by Embraer. At the same time, much of the credit for this success can be ascribed to the increased competitiveness of the sector that was obtained as a result of financing in the Proex framework.

Also among manufactured goods, one should stress the sales performance of mechanical apparatuses and machines, with growth of 7.7%. The largest gains were registered under foreign sales of earthmoving machines and equipment, computers and accessories and farm machines and apparatuses. These sectors invested in technological innovation and the development of new products. As a result, they were able to compete more effectively on the international market and began channeling sales to the markets of Latin America, the United States and Europe.

Insofar as electric and electronic equipment is concerned, overall sales came to US\$ 1.8 billion, for growth of 12.6%. Here, particular attention should be given to sales of transmitters/receivers, with growth of 25% in the period. Sales of electric and electronic goods such as automobile radios and parts were concentrated in operations with the United States and Mexico.

Revenues on foreign sales of paper, which had declined in 1996 as a result of low international prices, expanded by 3.3% in 1997 and closed at US\$ 966 million. Growth of 7.7% registered in the volume of exports clearly offset the 4% drop in international market prices.

Equal emphasis should be given to those sectors that turned in negative performances. The excess supply of orange juice generated by super harvests in São Paulo and Florida in the United State forced international prices down by 28%. Consequently, in volume terms, Brazilian exports evolved by 1.2 million tons while dropping in terms of average earnings. The final result was a balance of US\$ 1 billion in revenues. The major market was that of the Netherlands.

One should also stress the 28% revenue decline in exports of flat rolled steel or iron that resulted from the channeling of a greater volume of production into internal demand generated by the automotive industry.

Foreign sales of footwear (US\$ 1.6 billion) suffered the impact of increased Asian competition on the United State market, with a final 3.4% decline in the value of exports. The United States absorbed about 70% of Brazil's footwear sales and it is in this light that one should understand the 8.6% drop in sales to that market. Falloffs were also registered in operations with Russia (51%) and Germany (11%). On the other hand, footwear exports expanded in operations with Argentina (64%), Canada (33%) and the United Kingdom (23%). It is important to emphasize that the national footwear sector has taken measures to improve its competitive power, including strong investments in technologies and diversification of both products and markets.

In terms of final export markets, the European Union remains the largest single buyer of national production, with a total of US\$ 14.5 billion, raising its participation to 27.4% of the total, with growth of 13%. Expansion was registered in sales to Germany (25.2%), the Netherlands (12.7%) and France (22%). In the case of Germany, particular emphasis should be given to exports of coffee beans while sales of soybeans and derivatives to Netherlands expanded sharply.

Foreign sales to the Laia countries totaled US\$ 12.8 billion for strong 22.5% growth. Sales to the Mercosul member states came to US\$ 9 billion (+23.8%). In the last several years, Argentina has consolidated its position as the second largest importer of Brazilian goods and 1997 was no different as that country made a strong contribution to growth in Brazilian foreign sales. The Argentine market absorbed US\$ 6.8 billion in Brazilian products for growth of 31% in relation to the previous year. This volume represents 12.8% of overall Brazilian exports. Argentina is one of the major markets for such Brazilian manufactured goods as passenger cars, which turned in revenues that were double the previous year's results, totaling US\$ 671 million. At the same time, exports of Brazilian auto parts (US\$ 566 million, +5.8%) and cargo vehicles (US\$ 440 million, +84%) also expanded sharply. The broad margins of tariff preferences guaranteed by Mercosul integration agreements contributed greatly to these highly positive results and further deepened the growing interdependence that exists between the two neighboring countries.

**Table 4.4 - Brazilian trade by area - FOB**

US\$ million

Itemization	1996			1997		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	47 747	53 301	-5 554	52 986	61 358	-8 372
EFTA	503	1 028	- 525	378	1 150	- 772
LAIA <sup>1/</sup>	10 474	10 613	- 139	12 828	12 277	551
Mercosur	7 305	8 267	-962	9 043	9 631	- 588
Argentina	5 170	6 784	-1 614	6 767	8 120	-1 353
Paraguay	1 325	551	774	1 406	531	875
Uruguay	811	932	- 121	870	980	- 110
Chile	1 055	918	137	1 196	995	201
Mexico	679	948	- 269	828	1 186	- 358
Others	1 434	480	954	1 761	465	1 296
Canada	506	1 258	- 752	584	1 453	- 869
European Union	12 836	14 120	-1 284	14 513	16 335	-1 822
Germany	2 083	4 784	-2 701	2 608	5 131	-2 523
Belgium/Luxembourg	1 432	549	883	1 483	695	788
Spain	937	903	34	1 057	1 155	- 98
France	912	1 344	- 432	1 113	1 662	- 549
Italy	1 531	2 918	-1 387	1 709	3 470	-1 761
Netherlands	3 549	573	2 976	3 998	589	3 409
United Kingdom	1 324	1 250	74	1 259	1 488	- 229
Others	1 069	1 799	- 730	1 286	2 145	- 859
Central and Eastern Europe <sup>2/</sup>	1 056	977	79	1 314	907	407
Asia <sup>3/</sup>	7 523	7 355	168	7 382	8 926	-1 544
Japan	3 047	2 761	286	3 068	3 599	- 531
China, People's Rep.	1 114	1 129	- 15	1 088	1 188	- 100
Korea	838	1 159	- 321	737	1 368	- 631
Others	2 524	2 306	217	2 489	2 771	- 282
USA <sup>4/</sup>	9 312	11 865	-2 553	9 407	14 343	-4 936
OPEC	2 061	3 908	-1 847	2 651	4 116	-1 465
Others	3 477	2 177	1 300	3 929	1 851	2 078

1/ Venezuela included in Opec.

2/ Albania , Bulgaria, Hungary, Poland, Slovak Republic, Czech Republic, Romania and countries of the former Soviet Union.

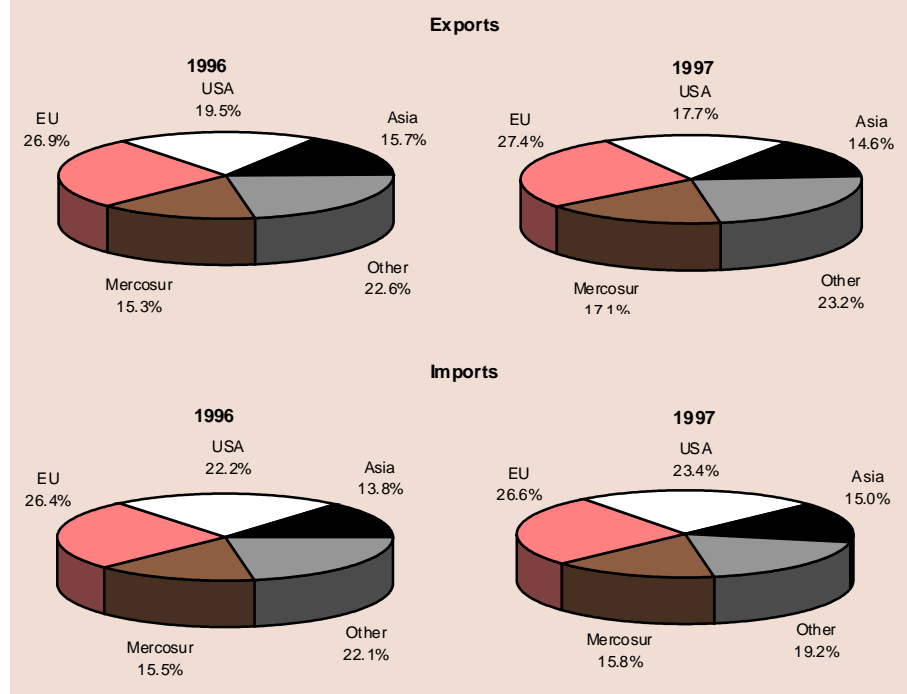
3/ Excludes Middle East and Indonesia included in Opec.

4/ Includes Puerto Rico.

In the cases of Paraguay and Uruguay, growth rates came to 6.1% and 7.3%, respectively. The most important sales to Paraguay were concentrated in cigarettes and tires while Uruguay absorbed significant volumes of cargo vehicles and automobiles. Trade operations with the other Laia countries, including Venezuela, generated US\$ 4.6 billion in revenues for Brazil, representing an increase of 25.7% and reversing the performance of the previous year. Here, the most important results occurred in operations with Venezuela (69%), Chile (13.4%), Mexico (21.9%), Bolivia (35.2%), Colombia (17.6%) and Peru (21.4%).

In the case of the United States, which is Brazil's largest single trading partner, sales came to US\$ 9.4 billion, or practically the same level as in 1996. In terms of participation, these sales dropped from 19.5% to 17.7%. Among the highlights of these operations were increases in sales of coffee beans (US\$ 423 million, +77.6%), gold for nonmonetary use (US\$ 345 million, +46.4%) and aircraft (US\$ 307 million, +49.8%). In 1997, the United States was the largest buyer of Brazilian footwear (US\$ 1.1 billion), iron and steel products (US\$ 449 million), piston engines (US\$ 405 million), transmitters/receivers (US\$ 391 million), aircraft (US\$ 307 million), pumps and compressors (US\$ 270 million), cellulose (US\$ 244 million), tobacco in leaf (US\$ 228 million) and flat rolled steel (US\$ 183 million).

Graph 4.6  
Brazilian trade by area - FOB



Sales to Asia dropped by 1.9% and closed at US\$ 7.4 billion. Exports to Japan represented 41.6% of total sales to the Asian bloc and came to US\$ 3.1 billion. Sales to Taiwan, Hong Kong, Indonesia and Malaysia increased, while operations with China, South Korea and Thailand fell.

Exports to Eastern Europe and the Middle East turned in growth. In the case of Eastern Europe, particular mention should be made of sugar, instant coffee and cigarette sales to Russia. Among the countries of the Middle East, sales were concentrated mostly in the Arab Emirates and Iran.

With respect to imports, the falloff in the growth pace was caused by declining purchases of fuels and lubricants and durable consumer goods.

The tendency toward deceleration in import growth partly reflected measures adopted to eliminate tax and financial distortions that tended to benefit foreign products. Besides this, one should also consider the process of substitution that has occurred as nationally produced inputs and intermediate goods have gained in competitiveness.

The leader among Brazilian imports continued to be capital goods, particularly purchases of machines and mechanical equipment. Imports came to US\$ 16.7 billion for growth of 31.3% over 1996. This was the heading that turned in the largest growth rate and mirrored the policy of modernizing and expanding the nation's industrial structure, a process that has been further stimulated by privatizations.

**Table 4.5 - Brazilian imports - FOB**

US\$ million

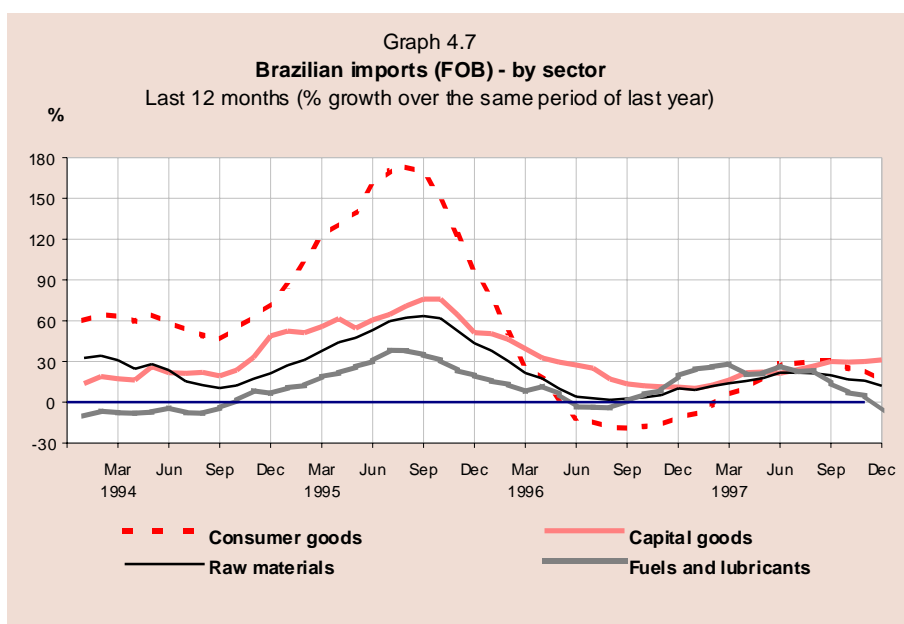
Itemization	1993	1994	1995	1996	1997
Total	25 256	33 079	49 972	53 301	61 358
Consumer goods	3 210	5 540	10 927	9 721	11 242
Durable	1 761	3 130	6 095	4 569	5 699
Non-durable	1 449	2 410	4 832	5 152	5 543
Raw materials	12 863	15 607	22 382	24 646	27 603
Fuels and lubricants	4 094	4 356	5 217	6 228	5 835
Capital goods	5 089	7 576	11 446	12 706	16 678

One should observe here that the change in the ex-tariff system has not had a significant impact on purchases of new machines and equipment. The most important items were machines and mechanical equipment (+27.9%) used to expand productive capacity.

Another important item was that of electric machinery, apparatuses and electric and electronic equipment and communications material, with growth of 23.4%. The major share of these purchases was channeled to the telecommunications industry, with sharp growth in investments in such sectors as telephone services and data transmission services at a time when the privatization process gained new momentum in these market segments.

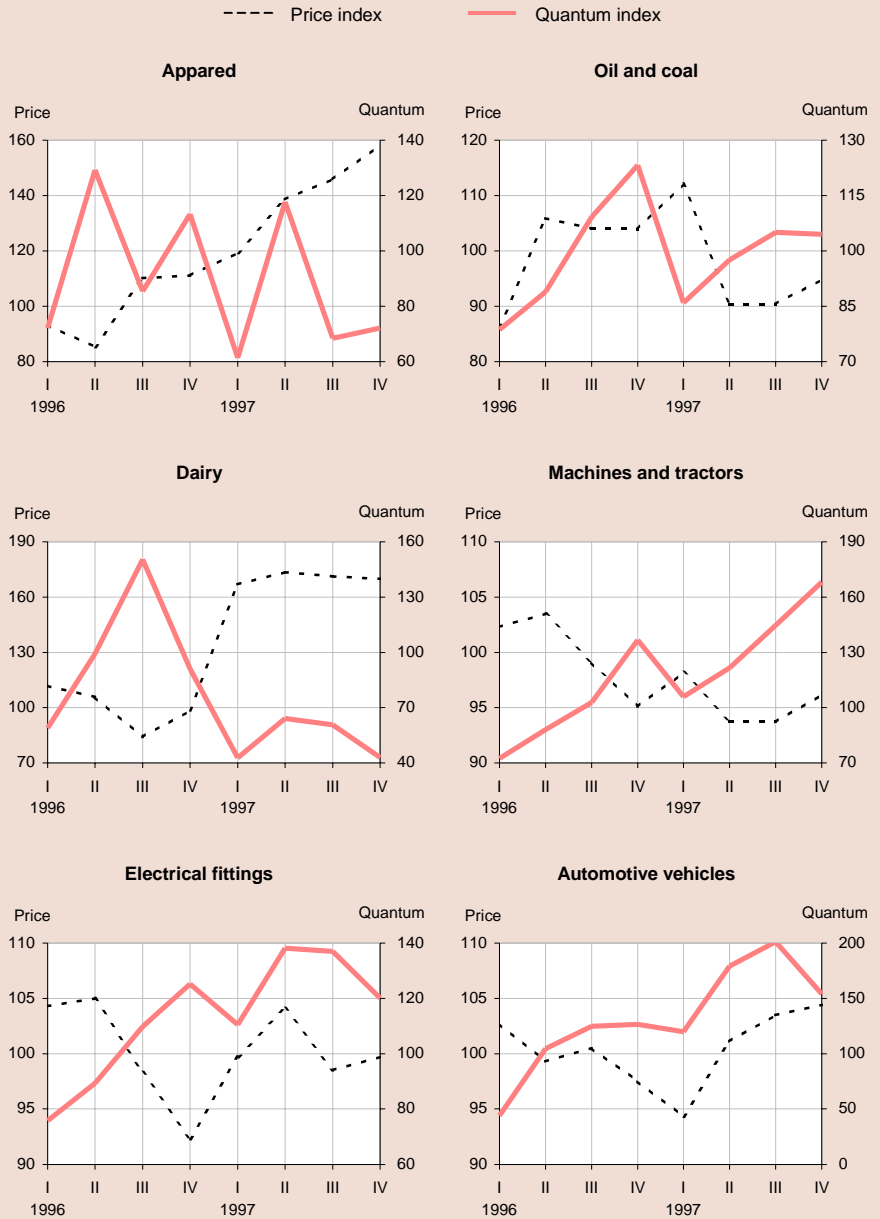
Purchases of raw materials and intermediate goods came to a value of US\$ 27.6 billion, with growth of 12%. In this category, the most important items were chemical and pharmaceutical goods, fertilizers and seeds. However, this was paralleled by a sharp reduction in purchases for the manufacturing sector, particularly under grains and goods generated by the grinding industry, particularly wheat (-36%), marked by low prices and a falloff in import volumes.

Foreign purchases of consumer goods expanded by 15.6%, with lesser growth under nondurable goods (7.6%) and more intensive expansion under durable consumer goods (24.7%). Purchases of automotive vehicles, tractors, bicycles and parts and accessories increased by 35.7%, particularly under passenger vehicles (57%). Among the factors responsible for growth in imports under this item, one should cite increased internal demand, a gradual reduction in tariffs agreed upon in the WTO framework and, principally, facilities that arose as a result of implementation of the automotive regime.



Graph 4.8  
**Three month price and quantum indices of Brazilian imports**

Base: average of 1996 = 100



Source: Funcex

However, one should also recall that automotive purchases declined in the final quarter of the year as a result of lesser internal demand and excess stocks held by industry, aside from the restrictive policies adopted in the wake of the Asian crisis. Other durable and nondurable consumer goods expanded, albeit at a level lower than the general average for imports.

In annual terms, the only category that registered a reduction was that of fuels and lubricants, with a decline of 6.3% in comparison to the previous year. This result was a consequence of a 4.9% drop in average prices and a decline of 7% in volume that was offset by greater internal production.

With respect to the origin of Brazilian imports, the United States strengthened its position as the largest individual supplier, with 20.9% growth. Also, United States' share in overall Brazilian imports increased to 23.4%, totaling US\$ 14.3 billion. Here, one should stress that these acquisitions were concentrated in goods with higher aggregate value and enhanced technology, including such products as integrated circuits, communications equipment, data processing equipment and aircraft.

In terms of economic blocs, the European Union played the lead role with growth of 15.7% and a total of US\$ 16.3 billion or 26.6% of the overall result. The major products imported from the EU were capital goods, raw materials and intermediate goods for the automotive industry. The largest exporter countries were Germany, Italy and France.

Laia occupied second position among suppliers of products to Brazil with a total of US\$ 12.3 billion. Here, the largest contribution was made by the Mercosul nations with 15.7% of Brazil's total purchases, representing growth of 16.5% and an evidently more intense trade flow. Argentina was the major supplier with growth of 19.7% in the year. Here, one should note that Brazil is now Argentina's principal market with 1997 outlays of more than US\$ 8 billion on Argentine goods. Aside from this, Brazil was one of the few countries with which Argentina managed to register a trade surplus in 1997. Argentine sales to Brazil were led by automotive vehicles, including CKD, followed by crude oil with a total of US\$ 902 million. With these results, Argentina consolidated its position as Brazil's largest petroleum supplier, easily surpassing Saudi Arabia. Other sales that deserve emphasis include wheat with a value of US\$ 703 million and cargo vehicles with US\$ 556 million.

Imports from Asia totaled US\$ 8.9 billion and increased by 21.4%, particularly in the segments of communications equipment, integrated circuits and vehicles, parts and spares, which registered growth of 273%. Japan was the bloc's major Brazilian supplier with growth of 30.4% in sales and a total of US\$ 3.6 billion. The following positions were held by South Korea (+18%), China (+5.2%), Taiwan (+14%) and Thailand (+49.5%).

## Services

Just as in the case of the balance of trade, net payments under the service balance increased in relation to 1996. The largest growth occurred under profits and dividends, with a net outflow of US\$ 5.6 billion or more than double the previous year's total. Of total remittances of US\$ 6.5 billion, 28% were related to dividends and stock bonuses, while the largest share corresponded to the profits generated by subsidiaries and branches. The most important single item was that of remittances in the form of capital earnings, concentrated in interest on direct investments totaling US\$ 1.5 billion.

Payment of interest on the foreign debt came to US\$ 14.4 billion, including remittances abroad of US\$ 5.7 billion related to the nonfinancial public sector debt. Of this latter total, US\$ 3.7 billion referred to the restructured part of the debt divided between US\$ 2.5 billion in Brady Bonds, US\$ 758 million to the Paris Club and US\$ 398 million related to IDU. Net interest remittances registered the lowest growth level as a result of accentuated expansion under revenues.

**Table 4.6 - Services**

US\$ million

Itemization	1996			1997		
	Revenue	Expenditure	Balance	Revenue	Expenditure	Balance
Total	10 377	30 860	-20 483	12 445	39 733	-27 288
International travel	840	4 438	-3 598	1 069	5 446	-4 377
Tourism	812	4 252	-3 440	1 037	5 232	-4 195
Credit Cards	135	2 955	-2 820	398	3 467	-3 069
Other	677	1 297	- 620	639	1 766	-1 126
Others	28	186	- 159	32	213	- 181
Transport	1 431	4 186	-2 755	1 963	6 477	-4 514
Freight	518	1 619	-1 102	586	3 526	-2 940
Other	913	2 566	-1 653	1 377	2 951	-1 574
Insurance	237	300	- 63	412	338	74
Capital income	5 058	17 136	-12 078	4 930	21 068	-16 138
Interest	3 591	12 764	-9 173	4 020	14 410	-10 390
Profits and dividends	1 467	3 841	-2 374	910	6 508	-5 597
Reinvested earnings	-	531	- 531	-	151	- 151
Governmental (n.i.e.)	203	507	- 304	501	851	- 350
Sundry	2 607	4 293	-1 686	3 570	5 553	-1 984

The deficit on international travel came to US\$ 4.4 billion, of which 70% referred to utilization of credit cards. As of the third quarter of the year and the restrictive measures taken to inhibit installment payments of foreign currency outlays, credit card spending turned downward. As expected, in the fourth quarter, the result was 8% below the same period of the previous year. Simultaneously to this, credit card spending by foreign tourists in Brazil moved sharply upward.

Outlays on transportation services are closely tied to the nation's trade operations and closed with a deficit of US\$ 4.5 billion. Aside from the freight generated by merchandise transportation, this item also includes ships charters, travel tickets and other revenues and expenditures related to the utilization of ports and airports.

**Table 4.7 - Sundry Services**

US\$ million

Itemization	1996			1997		
	Revenue	Expenditure	Balance	Revenue	Expenditure	Balance
Total	2 607	4 293	-1 686	3 570	5 553	-1 984
Related to production factors	2 108	3 566	-1 458	3 173	5 015	-1 842
Equipment rent	4	653	- 649	40	694	- 654
Contractual commissions	388	382	7	437	492	- 55
Administrative services	877	434	444	1 113	500	614
Copyright	7	201	- 195	7	185	- 178
Salaries and wages	192	255	- 62	248	202	46
Hedge operations	83	89	- 6	62	556	- 494
Supply of industrial technology	2	379	- 378	11	514	- 503
Specialized technical services	209	366	- 157	737	762	- 25
Software (copy)	1	326	- 324	4	509	- 505
Other	344	482	- 138	515	601	- 87
Non-related to production factors	500	727	- 227	397	539	- 142
Communications	227	68	159	142	34	108
Courses and congresses	11	155	- 144	15	117	- 102
Advertising	55	33	22	92	52	40
Other	207	471	- 264	147	335	- 188

In recent years, there has been considerable growth in the flows of various types of services, with stronger expansion under revenues than under outlays.

Between 1996 and 1997, diverse services not related to production factors registered a reduction from US\$ 227 million to US\$ 142 million in the deficit. This was due to declining expenditures and increased service revenues under communications, banking and publicity. In the case of spending, the most important items were banking services, courses and congresses and publicity. Diverse services related to production factors registered net outflows of US\$ 1.8 billion, concentrated mostly under specialized technical services, equipment rentals, hedging operations, industrial technology supply, software acquisitions and administrative services, all of which came to more than US\$ 500 million each. In the case of revenues, the most important groupings were administrative services, with US\$ 1.1 billion, specialized technical services with US\$ 737 million and contractual commissions with US\$ 437 million.

### **Unrequited transfers**

Unrequited transfers turned in a positive balance of US\$ 2.2 billion or less than the 1996 result of US\$ 2.9 billion. In the revenue column, one should highlight support of residents (US\$ 969 million), donations (US\$ 581 million) and patrimony (US\$ 407 million). The heading of foreign currencies available for unidentified purchases registered an inflow of US\$ 354 million.

### **Capital movement**

Net inflows of foreign capital totaled US\$ 26.1 billion or less than the 1996 total. This figure includes a rise of 80% in payments of amortizations on long-term foreign liabilities and the strong reversal of short-term net capital flows.

Net direct foreign investments, including reinvestments, registered a sharp increase in comparison to previous years and closed at US\$ 17.1 billion or 51.1% of the current account deficit. Inflows generated directly by the privatization process totaled US\$ 5.2 billion of which US\$ 3.1 billion were channeled into the electricity sector. These funds represented just below one third of total privatization investments, reflecting the capacity of this process to absorb long-term risk capital.

Net foreign portfolio investments totaled US\$ 8.1 billion up to the month of September, but closed the year at US\$ 5.3 billion as a consequence of strong fourth quarter outflows provoked by the Asian crisis. Portfolio investments include

resources obtained through the stock market under the regulations contained in Appendices I to V of Resolution no. 1,289, as well as resources for investment in fixed income funds-foreign capital, privatization funds, real estate investment funds and mutual investment funds in emerging companies.

Even in the months of October and November when portfolio investments turned in a net outflow of resources, the Depositary Receipts (DR) program generated a positive flow of US\$ 332 million, accumulating US\$ 4.3 billion in the year, or 80% of net portfolio revenues.

**Table 4.8 - Capital flows**

US\$ million

Itemization	1996			1997		
	Inflow	Outflow	Balance	Inflow	Outflow	Balance
Total	71 869	37 605	34 263	113 334	87 246	26 087
Investments	37 776	22 236	15 540	58 953	38 289	20 664
Brazilian	1 733	1 677	56	807	2 377	-1 569
Foreign	36 043	20 559	15 484	58 145	35 912	22 233
<i>Portfolio</i>	26 078	20 038	6 040	39 552	34 252	5 300
Direct	9 965	520	9 445	18 594	1 660	16 933
Privatizations	2 645	-	2 645	5 249	-	5 249
Other	7 320	520	6 799	13 345	1 660	11 685
Reinvestments	531	-	531	151	-	151
Loans and financing at medium-term and long-term 1/	27 809	15 080	12 729	50 006	31 441	18 565
Brazilian	450	661	-211	891	2 727	-1 836
Foreign	27 359	14 419	12 940	49 115	28 714	20 400
Multilateral organizations	2 875	1 708	1 167	3 150	1 520	1 630
Government agencies	394	2 491	-2 096	1 260	1 814	-555
Suppliers'/buyers' credit	1 248	2 324	-1 076	15 835	3 128	12 707
Banks	814	3 640	-2 826	2 434	2 569	-135
Bonds	1 263	571	691	4 995	10 317	-5 321
Notes	17 242	2 491	14 750	15 591	6 622	8 969
Commercial papers	653	323	329	315	570	-255
Other	2 870	870	2 000	5 534	2 174	3 361
Short-term capital (net)	5 752	-	5 752	-	17 516	-17 516
Other capitals (net)	-	290	-290	4 224	-	4 224

1/ Includes refinancing.

Fixed income funds registered a net outflow of US\$ 1.7 billion up to the month of November and, following the hike in internal interest rates, began attracting investors back to the country. The result was an inflow of US\$ 327 million in the month of December. In the case of privatization funds, inflows came to US\$ 1.2 billion and outflows to US\$ 663 million in 1997.

The DR program closed 1997 with a stock of US\$ 17.9 billion in certificates representative of stocks in Brazilian companies. The most important of these holdings were US\$ 1 billion in Cemig shares, US\$ 10.9 billion in Telebrás and US\$ 2.3 billion in Unibanco. The stock of funding invested under Appendix IV (stock and security portfolios held by foreign institutional investors) announced by the CVM came to US\$ 32 billion at the end of the year, after reaching a end-of-July total of US\$ 46.1 billion. The net worth of the privatization funds and fixed income funds-foreign capital closed the year at respective levels of US\$ 1.5 billion and US\$ 4 billion.

Medium and long-term financing increased sharply in 1997. Alterations in the exchange norms that had made it obligatory to contract exchange for future liquidation in imports over terms of up to 360 days resulted in an increase in registrations of long-term financing. These financing operations moved from approximately 3% to 37% of imports with exchange coverage between 1996 and 1997. Consequently, financing related to buyer and supplier credits expanded from US\$ 1.2 billion in 1996 to US\$ 15.8 billion in 1997.

**Table 4.9 - Official financing and suppliers'/buyers' credits**

Disbursements to Brazil

Itemization	1996			1997		
	Currency	Goods	Total	Currency	Goods	Total
Total	2 842	1 675	4 517	4 007	16 238	20 245
International entities	2 557	318	2 875	3 110	40	3 150
IDB	786	46	832	1 346	24	1 369
IBRD	1 229	272	1 501	1 194	17	1 211
IFC	542	-	542	570	0	570
Government agencies	285	109	394	897	363	1 260
Eximbank - Japan	15	-	15	386	70	456
KFW	12	19	31	295	81	376
Other	258	90	348	216	212	428
Suppliers'/buyers' credits	-	1 248	1 248	-	15 835	15 835

Net disbursements from international organizations totaled US\$ 1.6 billion or 40% more than in the previous year. This was due to growth of 65% in financing received from the IDB. Financing from government agencies came to US\$ 1.3 billion or three times the 1996 level. Here, the most important operations were those of the German KfW agency worth US\$ 463 million and the US\$ 385 million operation with Eximbank of Japan. Amortizations of financing operations with government agencies dropped from US\$ 2.5 billion to US\$ 1.8 billion as a consequence of payments to the Paris Club which fell from US\$ 2.1 billion to US\$ 1.5 billion. Amortizations of suppliers and buyers credits totaled US\$ 3.1 billion.

Loan operations came to US\$ 28.9 billion and were an important source of foreign funding. In 1997, once US\$ 2.2 billion in exchanges of Brady Bonds for Global Bonds are deducted, inflows of resources were US\$ 3.8 billion greater than in the preceding year. Effective amortizations of financial loans came to US\$ 14.3 billion, excluding refinanced shares (US\$ 2.6 billion) and those paid off through NTN-A3 issues (US\$ 5.3 billion).

Among loans related to security issues, emphasis should be given to net inflows of US\$ 9 billion in notes, while placements of new bonds absorbed US\$ 2.8 billion. Intercompany loans generated a net inflow of US\$ 2.6 billion.

With the outbreak of the Asian crisis, Banco Central took measures aimed at stimulating foreign resources inflows. Among these, one should stress the reduction – for a predefined period of time – of the minimum average term of amortization of new loans from three years to one and of renewals and extensions from one year to six months. With this measure, inflows in December increased to US\$ 3.6 billion, a level surpassed only by the July mark of US\$ 3.8 billion.

Short-term capital registered a net outflow of US\$ 17.5 billion, as compared to a net inflow of US\$ 5.8 billion in 1996 due, for the most part, to net remittances of US\$ 21.3 billion in operations among financial institution in the country and abroad. On the other hand, net short-term loans to the agribusiness sector came to US\$ 2.7 billion. Other items classified under short-term operations are assets and liabilities of commercial banks, trade credit lines, resources available in the country and abroad and resources used to offset operations with reais in transactions with nonresidents.

Under other capitals, one should stress exchanges of Brady Bonds for Global Bonds and payment of Bradies with internal debt securities. This made it possible to release US\$ 2.1 billion in zero coupon bonds tied to the guaranties offered at the time of the restructuring of the Brazilian foreign debt.

### **Foreign indebtedness**

Continuing the Brazilian foreign debt restructuring process in the Brady Plan framework, the Federative Republic of Brazil effected various bond issues in 1997, totaling US\$ 4.8 billion. Of this total, US\$ 3 billion were generated by the launching of 30 year Global Bonds (BR-27) with half yearly interest at 10.125% per year. This issue lengthened the term of the renegotiated debt and made it possible to release the guaranties required for some of the papers, particularly par bonds and discount bonds, in the form of American Treasury papers.

The volume of Bradies eliminated in exchange for Global Bonds came to US\$ 2.7 billion, of which US\$ 716 million referred to Par Bonds, US\$ 1.9 billion to Discount Bonds and US\$ 100 million to C. Bonds, at face value. At market prices, the value of outlays came to US\$ 2.2 billion (US\$ 502 million in Par Bonds, US\$ 1.6 billion in Discount Bonds and US\$ 94 million in C. Bonds). Aside from these exchanges, Global Bonds also generated an inflow of new funding totaling US\$ 756 million.

In the first half of the year, the Brazilian government made Eurobond market placements equivalent to one billion German marks. These were ten year operations at a rate of 8% per year with a spread of 242 base points; 400 million Dutch guilders, with five year terms and interest of 6.625% per year and a spread of 190 base points; one billion French francs with five year terms, at a rate of 6.625% per year plus 195 base points; 2 billion in Austrian shillings with five year terms and interest of 6.625% and a spread of 190 base points; and 750 billion in Italian lira, with inflows in two stages, 500 billion on June 26 and 250 billion on July 10, with terms of 20 years and interest of 11% per year, with a spread of 384 base points. In the second half of the year, the only placement was in pounds sterling and totaled 150 million with a term of ten years and interest of 10% per year and a spread of 268 base points at placement.

In the month of December, US\$ 5.3 billion in Brazilian foreign debt papers – Par Bonds held by national banks – were paid off in exchange for National Treasury Notes – Special Series A3 (NTN-A3). This operation was carried out according to the terms of Provisional Measure no. 1,538-47, dated 11.27.97 and, once again, made it possible to release funding that had been immobilized in the form of US\$ 1.5 billion in guaranties for zero coupon bonds, United States Treasury papers.

### **Total foreign debt**

The overall Brazilian foreign debt estimated in December 1997 totaled US\$ 193.7 billion or 7.6% more than in December 1996. The medium and long-term debt

moved from US\$ 142.1 billion to US\$ 158.5 billion, for an increase of 11.5%. At the same time, the short-term debt moved from US\$ 37.8 billion to US\$ 35.2 billion, with a decline of 6.7%.

In net terms, the accentuated 18.1% foreign debt growth was caused by the drop in international reserves at the end of the year. Despite this, however, the indicator represented by the ratio between total debt and exports moved from 3.77 to 3.66. At the same time, proportion of the debt service in relation to exports rose from 57% to 76% and the debt service/GDP ratio climbed from 3.5% to 5%.

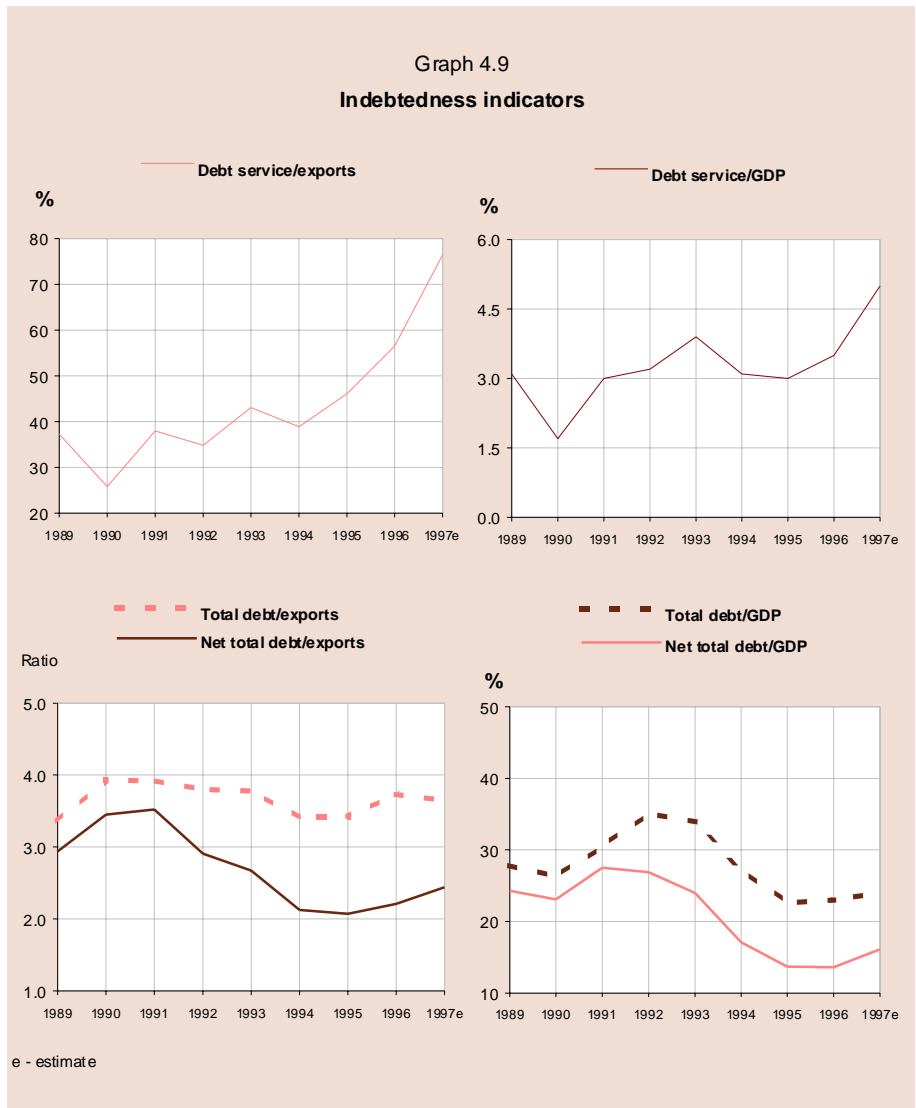
**Table 4.10 - Gross foreign indebtedness**

US\$ million

Itemization	1993	1994	1995	1996	1997 <sup>e</sup>
A. Total debt (B+C)	145 726	148 295	159 256	179 935	193 698
B. Registered debt <sup>1/</sup>	114 270	119 668	128 732	142 148	158 454
IMF loans	305	186	142	68	32
Renegotiated debt bonds	8 363	51 538	51 451	51 239	41 930
Other bonds	1 907	1 616	2 452	3 637	6 707
Import financing	36 282	35 711	36 113	34 165	45 325
International Organizations	10 561	10 473	10 680	11 325	12 132
Government Agencies	19 629	19 473	18 976	15 821	14 160
Other financing sources	6 092	5 765	6 457	7 019	19 033
Currency loans	67 179	30 387	38 347	52 836	64 278
Other loans	234	230	227	203	182
C. Nonregistered debt	31 456	28 627	30 524	37 787	35 244
Credit line for petroleum imports	2 366	2 530	3 067	4 985	5 695
Other credit lines	11	56	354	177	-
Commercial banks (liabilities)	21 981	25 575	26 235	30 611	26 500
Resolution no. 2148 - Rural financing	-	-	581	1 944	3 007
Special operations	7 098	466	287	70	42

<sup>1/</sup> Data refer to capital registration in the Banco Central do Brasil. They are not compatible with the balance of payments figures, which represent inflows and outflows effectively occurred in the period.

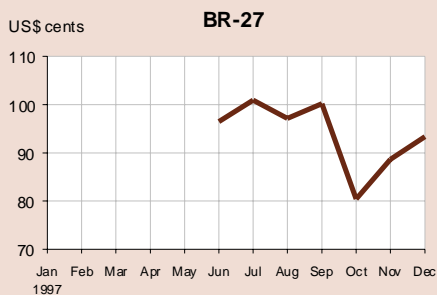
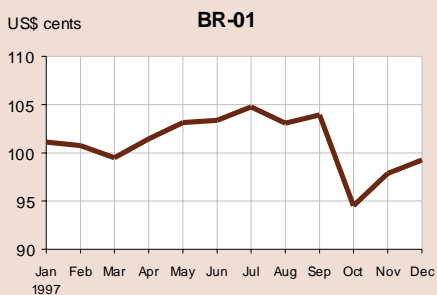
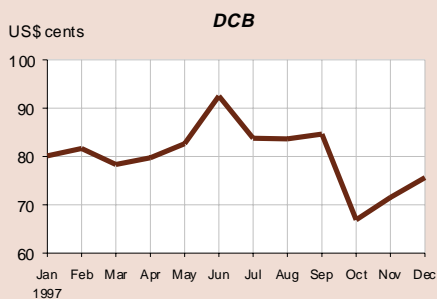
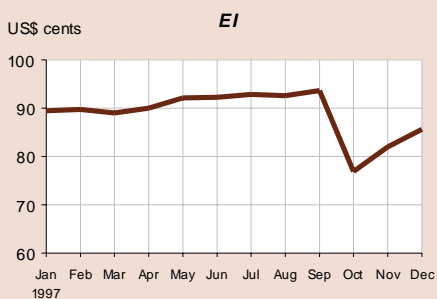
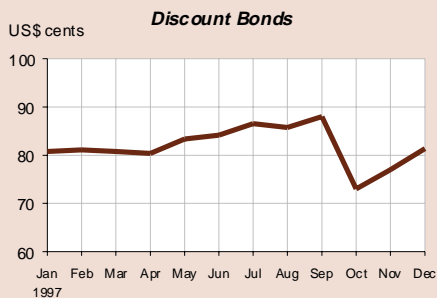
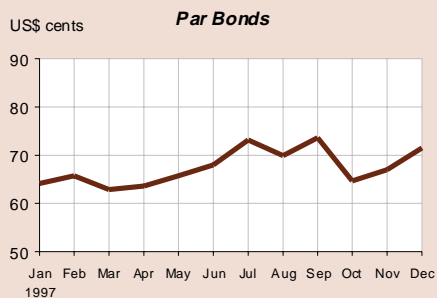
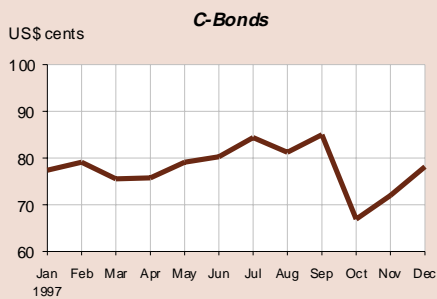
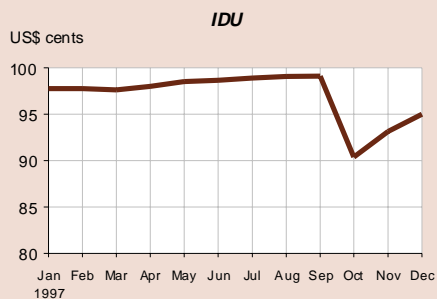
<sup>e</sup> - Estimated.



The secondary market for Brady Bonds – the foreign debt papers used by countries that restructured their debts in the Brady Plan framework – remained sensitive to economic events in 1997. With the Asian crisis, Brazilian foreign debt papers, which had registered value gains up to September, dropped sharply in October, only to recover in the final two months of the year. Despite this, however, the Interest Due and Unpaid (IDU) Bonds, Eligible Interest Bonds (EI) and Debt Conversion Bonds (DCB) closed the year with losses. The EI, which had registered 12.3% negative growth in October, ended the year with a loss of just 2.3%. With regard to papers that turned in positive growth, the Capitalization Bond (C. Bond) registered upward movement of 4.7% in the year while the value of Par Bonds increased by 13.5%. One of the factors that contributed to this result was the 8.6% drop in interest rates on 30 year American Treasury securities.

Graph 4.10

**Prices of Brazilian securities abroad**  
Secondary market - end of period

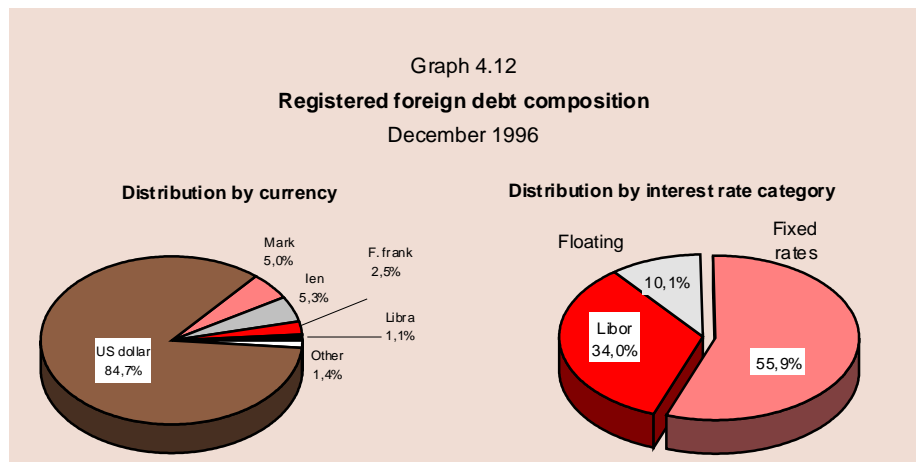
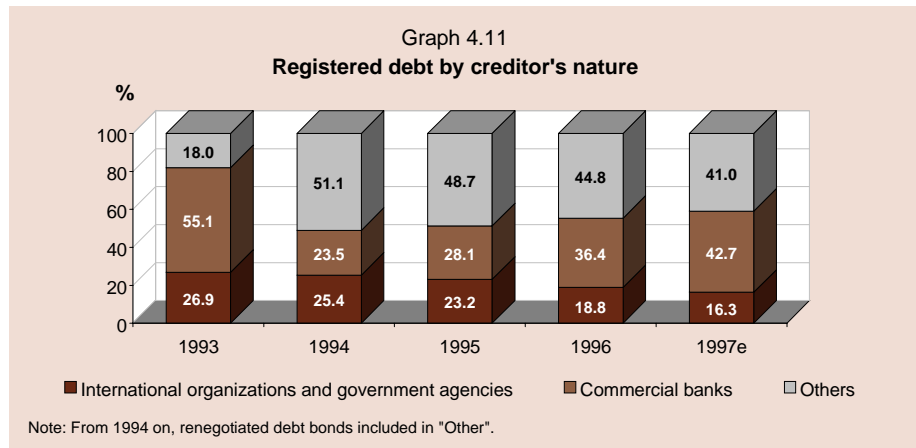


**Medium and long-term debt**

On the one hand, the increase in the medium and long-term debt was due to US\$ 28.9 billion in financial loan inflows and US\$ 20.1 billion in new financing and, on the other, to amortizations totaling US\$ 28.8 billion. Another factor to be considered in this context was the reduction of US\$ 3.3 billion in the debt as a consequence of upward movement in the value of the dollar in relation to the debt position expressed in other currencies.

Despite a net inflow of US\$ 1.1 billion, there was a reduction in the participation of commitments with international organizations and government agencies. Buyers' and suppliers' financing was used intensively during the year.

Financial loans registered growth of 21.7% and an increase in participation from 29.4% to 33.2% between 1996 and 1997. Among the factors that contributed to this result, one should cite placements of Notes in a total value of US\$ 15.6 billion.



**Table 4.11 - Public registered foreign debt**

Breakdown of principal by debtor and by guarantor - US\$ million

Itemization	1993	1994	1995	1996	1997 <sup>e</sup>
Federal government (direct)	33 717	75 701	76 031	74 010	66 081
States and municipalities	4 463	2 140	2 333	2 796	3 851
Direct	47	234	229	347	...
Guaranteed by the federal government	4 416	1 906	2 104	2 449	...
Semi-autonomous entities, public					
Companies and mixed companies	53 588	16 685	16 264	15 742	16 600
Direct	7 333	6 377	6 147	7 668	...
Guaranteed by the federal government	46 255	10 308	10 117	8 074	...
Private sector (garanteed by the public sector)	1 429	394	485	370	509
Total	93 197	94 920	95 113	92 918	87 041
Direct	41 097	82 312	82 407	82 025	...
Guaranteed by	52 100	12 608	12 706	10 893	...
Federal government	51 634	11 929	11 933	10 255	...
States and municipalities	23	1	2	1	...
Semi-autonomous entities, public					
Companies and mixed companies	443	678	771	637	...

The estimated public sector foreign debt for 1997 rose to US\$ 87 billion or 6.3% less than in December 1996, due mostly to cancellation of Bradies.

Brady Plan bonds totaled US\$ 43.8 billion in December 1996, representing a reduction of 18.3% during the course of the year. Consequently, total value in December 1997 was down to US\$ 35.8 billion, distributed as follows: DCB, US\$ 8.5 billion (23.7%); C. Bonds, US\$ 8.3 billion (23.2%); Discount Bonds, US\$ 5.4 billion (15.1%); EI Bonds, US\$ 5.3 billion (14.9%); Par Bonds, US\$ 4.3 billion (12.0%); NMB-94, US\$ 2.2 billion (6.2%); and FLIRB, US\$ 1.7 billion (4.9%).

### Short-term debt

For the most part, the short-term debt consists of nonregistered debt. In 1997, the volume of this debt declined as a consequence of falloffs in foreign trade credit lines (13.4%), corresponding to practically the entirety of commercial bank liabilities. However, on-lending operations with the farm sector (Resolution no. 2,148) increased by 55%, at the same time in which lines extended to Petrobrás for purposes of oil imports rose by 14.2%.

## Net transfers of resources abroad

Table 4.12 - Brazil: Financial flow by foreign creditor<sup>1/</sup>

US\$ million

Itemization	1993	1994	1995	1996	1997
Total	-5 229	-6 407	-3 493	- 24	-8 706
Inflows	11 370	10 535	17 938	26 942	31 422
Amortizations <sup>2/</sup>	8 668	9 118	11 032	14 448	26 009
Interest <sup>3/</sup>	7 931	7 824	10 399	12 518	14 119
IBRD <sup>4/</sup>	-1 379	-1 352	- 887	178	122
Inflows	634	718	1 133	2 043	1 781
Amortizations	1 355	1 468	1 434	1 362	1 166
Interest	658	602	586	503	493
IDB	- 115	- 100	- 41	292	807
Inflows	336	416	522	832	1 369
Amortizations	267	288	311	300	262
Interest	184	228	252	240	300
IMF	- 551	- 164	- 83	- 96	- 56
Inflows	-	-	-	-	-
Amortizations	495	129	47	72	34
Interest	56	35	36	24	22
Bonds	- 134	-1 770	-1 987	-2 548	-8 369
Inflows	500	200	1 819	1 263	2 751
Amortizations <sup>5/</sup>	399	480	629	571	7 624
Interest	235	1 490	3 177	3 240	3 496
Intercompanies	- 242	- 193	282	474	1 324
Inflows	541	632	1 133	1 578	3 062
Amortizations	487	454	402	355	494
Interest	296	371	449	749	1 244
Banks <sup>6/</sup>	-4 653	-3 817	-3 205	-5 467	-3 056
Inflows	817	896	1 426	562	2 434
Amortizations	1 878	1 781	1 456	3 640	2 569
Interest	3 592	2 932	3 175	2 389	2 921
Government agencies	-3 073	-1 691	-2 976	-3 988	-1 491
Agencies	- 490	- 173	- 374	- 155	760
Inflows	48	306	403	394	1 260
Amortizations	232	354	550	355	319
Interest	306	125	227	194	181
Paris Club	-2 583	-1 518	-2 602	-3 833	-2 252
Amortizations	938	643	1 493	2 136	1 496
Interest	1 645	875	1 109	1 697	756
Others	4 918	2 680	5 404	11 131	2 013
Inflows	8 494	7 367	11 502	20 270	18 766
Amortizations	2 617	3 521	4 710	5 657	12 046
Interest	959	1 166	1 388	3 482	4 706

1/ Excludes refinancing and payments in domestic currency.

2/ Excludes arrears with banks of US\$ 631 million (1994).

3/ Excludes arrears of US\$ 284 million in 1994 (banks).

4/ Includes IFC.

5/ In 1997 includes US\$ 5.296 billion related to exchange of debt for NTN.

6/ Excludes buyers.

Financial flows with foreign creditors registered net payments of US\$ 8.8 billion in 1997, as a result of the more accentuated increase in long-term amortizations of notes and bonds.

Net inflows from international organizations increased by 88% with strong growth occurring under IDB financing. Net remittances of resources to government agencies dropped to less than half of total 1996 remittances. Payments to the Paris Club totaled US\$ 2.3 billion, of which US\$ 1.5 billion referred to amortizations of principal and US\$ 756 million to interest payments. Both of these values were below the preceding year's totals. The net flow with agencies in the strict sense of the term was just the opposite of the 1996 figure as a result of increased inflows. In this case, the most important operations were the US\$ 463 million transaction with KFW and the US\$ 385 million Eximbank Japan operation.

Intercompany loans practically doubled in 1997 in comparison to the previous year. This is explained by the close ties between these operations and direct foreign investments, which also registered strong growth. The increase in interest expenditures is explained by the accumulation of liabilities registered under this heading in recent periods.

Net remittances on bond operations were inflated by amortizations of US\$ 5.3 billion in Brady Bonds in the month of December. Brazilian placements on foreign markets, however, expanded by 118% in comparison to the previous year.

Operations in the form of notes and included under sundry accounted for inflows of US\$ 15.6 billion, while amortizations came to US\$ 6.6 billion and were concentrated in the fourth quarter of the year.

A decorative graphic consisting of a large, dark brown letter 'V' on the left, and a series of horizontal lines of varying lengths extending to the right, creating a textured, striped effect.

## THE WORLD ECONOMY

### Production

The economic and financial crisis that erupted in Thailand in mid-1997 soon spread into other Southeast Asian countries, engulfing Japan and South Korea in the second half of the year, and threatening to hit other countries well beyond the Asian continent. However, with the assistance of other nations and international institutions, under IMF coordination, the impact of the crisis was somewhat attenuated as one country after another adopted measures to deal with the situation.

World economic growth was strongly impacted, dropping from a forecast 4.25% to 4.1% in 1997. However, this was still the highest rate in a decade. The countries that are members of the Organization for Economic Cooperation and Development – OECD closed with average GDP growth of 3.0%, surpassing the previous year's mark of 2.8%.

Among other factors, expansion was based on solid growth and low inflation in the United States and United Kingdom, strong recovery in the Canadian economy, improvement in the economic conditions of Western Europe in general, a trend toward robust growth in most of the developing world, particularly in China, and the end to the production drop that had marked economic performance in the transition nations.

The United States turned in the strongest expansion among the seven highly industrialized nations, with GDP growth of 3.8%, higher than the previous year's mark of 2.8%. In the first three quarters of the year, economic activity accelerated at a compound annual rate of approximately 4%, following a rate of 3% in the second half of 1996. In general, the economy operated at about one percentage point above its potential. Real income increased and the stock market proved to be unexpectedly robust and these factors generated a rise in personal spending to a compound annual rate of 5.75% in the third quarter of the year. Despite the strengthening of the dollar, exports of goods and services expanded by 12.6%, following a 1996 increase of 8.3%. There was a substantial and intentional process of stock formation during the period and these factors, taken together, contributed to the strong upward movement in the pace of the nation's economic activity.

**Table 5.1 - Annual growth rates of real GDP**

Percentage change

Countries	1992	1993	1994	1995	1996	1997
Total OECD	1.9	1.2	2.9	2.2	2.8	3.0
Seven major countries	1.8	1.0	2.8	2.0	2.4	2.7
Germany	2.2	-1.2	2.7	1.8	1.4	2.4
Canada	0.8	2.2	4.1	2.3	1.5	3.6
United States	2.7	2.3	3.5	2.0	2.8	3.8
France	1.2	-1.3	2.8	2.1	1.5	2.3
Italy	0.6	-1.2	2.2	2.9	0.7	1.3
Japan	1.0	0.3	0.6	1.4	3.5	0.5
United Kingdom	-0.5	2.1	4.3	2.7	2.3	3.4

GDP growth in Germany closed the first half of the year at 1.8%, before giving way to strong acceleration in the second half of the year. With these results, the year ended with real expansion of 2.4%, following a pace of 1.4% in 1996. Growth in exports (10.4%) and expansion in orders for manufactured goods, a sector that registered strong growth in the second half of the year, were the elements most responsible for 1997 economic performance. This could be a sign that the economic growth process is gaining in consistency and that companies are starting to accumulate stocks. For the coming year, it is expected that enhanced competition, higher profitability levels and growing domestic income will be reflected in growth in private sector consumer spending which, in 1997, expanded by only 0.9%, following growth of 1.3% in 1996 and 1.9% in 1995.

In France, real GDP growth (1.9%) was only moderate in the first half of the year as exports expanded sharply, while domestic consumption remained stable and investments declined. In the second half of the year, the development process accelerated as a result of strong external demand that was further intensified by cutbacks in the real effective rate of exchange. The result was real economic growth of 2.3% in 1997. In the United Kingdom, GDP expanded at a rather accentuated pace of 3.4% in the year, as compared to 2.3% in 1996 despite the rather strong pressures exerted by macroeconomic policy-makers.

In Japan, economic activity lost momentum in 1997 after having registered accelerated 3.5% growth in the previous year. In the year under analysis, GDP growth is estimated at no more than 0.5%. The factor most responsible for this behavior was the fiscal squeeze of 1996 and early 1997 when public sector spending was curtailed and growth in available real personal income was impacted

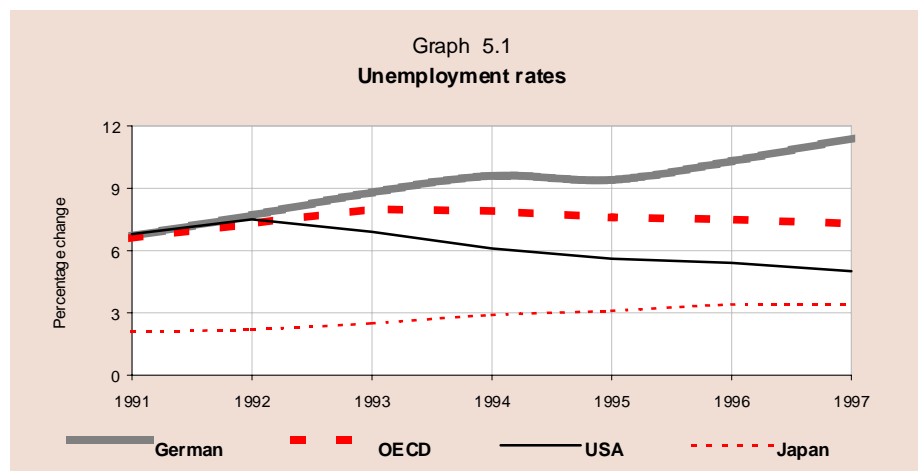
by additional indirect taxation. The factor that offset this deceleration was the strong performance of the export sector, reflecting both foreign market euphoria and improved competitiveness.

With respect to the developing countries, according to IMF data there was a reduction in average growth rates from 6.4% in 1996 to 5.9% in 1997. The activity level in the countries of Asia dropped from 8.1% in 1996 to 6.8% in 1997, due partly to the crisis that hit Southeast Asia during that period. In those economies that were less affected by the crisis – China, Singapore, Taiwan and Hong Kong – growth continued strong, particularly in China, where expansion came to 9.2%.

In Latin America and the Caribbean, average economic growth moved from 0.2% in 1995 to 3.5% in 1996 and 5.3% in 1997 and was particularly strong in Argentina (8.0%), Peru (7.0%) and Chile (6.5%). The new opportunities generated by trade liberalization, lower internal interest rates and the rapidly expanding consumer market that accompanied the end of the period of hyperinflation quickly attracted new investments into the region.

## Employment

Growth of 3% in the production of the OECD countries resulted in 1.4% expansion of the job market in 1997, as against growth of 1.1% in the previous year, thus forcing unemployment down from 7.5% to 7.3%. The seven largest industrialized countries also registered a drop in unemployment from 7% to 6.8% due particularly to declines in such major economies as the United Kingdom, the United States and Canada. In the case of the United Kingdom, economic activity expanded by 3.4%, while employment levels rose by about 1.7%. With these figures, unemployment dropped from 8% to 6.9%.



In the United States, the rate of unemployment dropped to 4.6% in November after having opened 1997 at a level of 5.25%. At the end of the period, unemployment stood at 4.7%. This performance was due to strong economic growth and very low inflation and, consequently, an increase of 2.2% in job levels. In the case of Japan, despite the drastic falloff in GDP growth, unemployment remained at 3.4%, the same level as in the previous year. It should be stressed that even this rate is very high by Japanese standards.

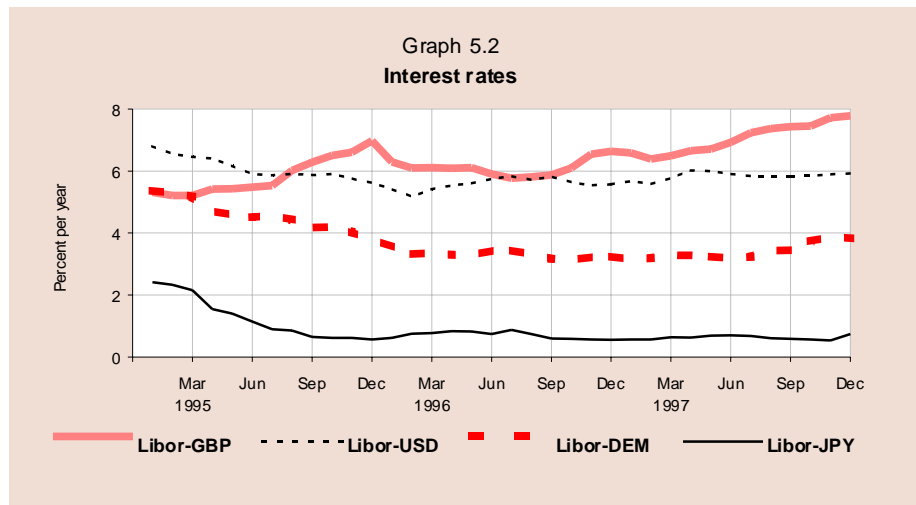
In Germany, unemployment rose from 10.3% in 1996 to 11.4% in 1997, as a result of significant problems in the construction industry in the eastern sector of the country and to cutbacks in job creation programs. In France, despite economic growth of 2.3% in 1997, job market conditions did not improve as the final 12.3% rate of unemployment was quite close to the 1996 result of 12.4%.

According to Cepal figures, urban unemployment in Latin America and the Caribbean dropped slightly to 7.5% following a final 1996 figure of 7.7%. However, even with this drop, the rate was still considered high in terms of the historical series. The reduction was not a result of job creation programs but rather a cutback in the number of people seeking employment. The major exceptions were Mexico and Argentina where high rates of economic expansion contributed sharply to expansion of the job market. Parallel to this, Brazil, Colombia and Uruguay registered drop-offs in the employment rate. Efforts to overcome the Mexican crisis and eliminate high levels of inflation, coupled with the initially recessive impact of stabilization programs, created a situation in which there was very little room for dispersion in terms of real wage growth in the formal employment sector. As a result, real wages expanded at a moderate pace in Brazil, Chile and Colombia or remained stable, as happened in Argentina, Peru and Uruguay.

### **Interest rates and inflation**

With the exceptional 4.9% rate of compound annual GDP growth registered in the first quarter of the year and the presence of inflationary pressures, at the end of March 1997, the United States Federal Reserve Monetary Policy Committee raised the rate on federal funds to 5.5%, an increase of 25 base points, and held the discount rate at 5%, thus creating the conditions required for the major banks to raise their prime rate from the then current 8.25% to 8.5%. Interest rates held at this level up to the end of 1997, even though, on several occasions during the year, the Federal Reserve had to cope with the dilemma of whether its restrictive policy was or was not sufficient to avoid the possibility of an excessive supply of credit at the market level.

In the first quarter, the high level of economic growth made it possible for the market to practice higher long-term interest rates. These rates reached their



maximum of 7.17% in April as compared to 6.54% at the end of 1996. In the final months of 1997, changes in the economic scenario, including less intense GDP growth and a falloff in price pressures, curtailed market expectations of monetary policy alterations, despite lower rates of unemployment. Consequently, the rate of return on thirty year American Treasury papers dropped during the period and closed the year at 5.98%.

In Germany, interest rates remained at 1996 levels up to the end of the year: discount rate of 2.5%, Lombard of 4.5% and repo (security repurchase rate) of 3%. In October, for the first time in five years, the Bundesbank increased the cost of loans for German banks. The institution raised the repo to 3.3% as a preventive measure against rising inflationary pressures. In the final quarter of the year, M3 – the major aggregate subject to monetary policy control – registered a compound annual growth rate of 4.8% in relation to the same quarter of 1996, when expansion came to 8.1%.

The rise in the German repurchase rate diminished the differential among the rates in effect in the European Union prior to introduction of the euro, the single currency to be used by the Union. Expectations at the time indicated that short-term interest rates in Europe will converge to 4.5%, when the member States are to adopt the official rate of interest defined by the European Central Bank.

In Japan, monetary policy remained highly flexible in 1997. The official rate of interest remained at just 0.5%, and any expectations of a short-term rise were dissipated when the ongoing process of recovery was abruptly halted during the year. However, this policy did stimulate GDP growth, though this was due more to the weakening of the yen and the consequent rise in net exports than to growth in bank loans and domestic demand.

In the other developed countries, short-term interest rates dropped in Italy from 8.8% in 1996 to 6.9%, while rates in Canada fell from 4.4% to 3.4% and those in effect in France fell from 3.9% to 3.4%. In the case of the United Kingdom, interest rose from 6% to 6.7% in 1997.

Contrary to what occurred in the euromarket in 1996, interest rates denominated in a basket of currencies moved upward for the most part and accompanied growth in the internal rates of these countries. The average six month Libor, referenced to the dollar, closed 1997 at 5.84%, as against 5.58% at the end of the previous year. The Libor for the German mark and pound sterling performed in much the same way with final annual rates of 3.41% and 7.06% in 1997, as against 3.31% and 6.11% in the previous year, respectively. However, the Libor in yen dropped from a 1996 average of 0.7% to 0.63% in 1997.

Countries with more advanced economies were successful in controlling price growth in 1997, as percentage expansion of the consumer price index dropped to 2.2%, following a 2.4% result in the previous year, despite accelerated economic growth in the region in general. In its turn, inflation in the OECD member states dropped from 5% in 1996 to 4.3%. Once the higher inflation countries are eliminated from this calculation, the rate for the other members closed at below 2%.

Notwithstanding accelerated economic activity and low rates of unemployment, the pace of price growth in the United States declined, due, for the most part, to the strengthening of the dollar and moderation in costs like health insurance. Consequently, the year closed at a level of 2.3% against 2.9% in 1996. In Japan, the increase in the sales tax in April 1997 was the factor most responsible for the 1.7%

**Table 5.2 - Annual inflation rates - consumer prices**

Percentage change

Countries	1992	1993	1994	1995	1996	1997
Total OECD	5.1	4.4	5.0	5.6	5.0	4.3
Seven major countries	3.1	2.7	2.2	2.4	2.3	2.1
Germany	5.1	4.5	2.7	1.8	1.5	1.8
Canada	1.5	1.8	0.2	2.2	1.6	1.6
United States	3.0	3.0	2.6	2.8	2.9	2.3
France	2.4	2.1	1.7	1.7	2.0	1.2
Italy	5.3	4.2	3.9	5.4	3.8	1.8
Japan	1.7	1.2	0.7	-0.1	0.1	1.7
United Kingdom	3.7	1.6	2.5	3.4	2.4	3.1

rise in the consumer price index, following an increase of just 0.1% in the previous year. In some of the countries that have accepted the European Exchange Rate Mechanism (ERM), including Germany and France, currency depreciation has forced a high in the prices of imported goods and this, in turn, generated slight upward movement in the producer price index and, to a lesser extent, in the consumer price index. In 1997, inflation came to 1.8% in Germany, surpassing the 1996 mark of 1.5%, while consumer price index growth in France came to 1.2%, less than the preceding year's level of 2%, due to both deregulation and increased competitiveness.

In the case of the developing countries, average growth in the consumer price index closed at a 1997 level of 9%, as against 13.3% in 1996. Obviously, this performance reflects the success attained by the stabilization programs adopted in several of these nations. In the case of Asia – excluding China and India – average inflation closed at 7.2%, remaining at practically the same level as in the previous year (7.1%). When these two countries are included in the calculation, average inflation in Asia dropped from 6.8% in 1996 to 4.1% in 1997.

According to Cepal, the region of Latin America and the Caribbean has registered successive drops in inflation during recent years, as the rate has fallen from 33.5% in 1994 to 26% in 1995, 18% in 1996 and 11% in 1997, the lowest level of the last fifty years. This result has been achieved as a consequence of economic policies that have targeted reductions in inflation as their priority goal, while, at the same time, they have introduced a number of important institutional reforms. All of this, of course, goes without even mentioning a highly favorable international scenario.

### **World trade**

Despite the economic-financial crisis that hit Southeast Asia as of July and reverberated throughout the world economy in 1997, IMF data shows that the volume of world trade expanded by 8.6%, considerably more than the 5.9% level of the previous year. This increase was due to downward movement of about 4.8% in the prices of merchandise (in American dollars) and to higher rates of economic growth, particularly among the seven largest industrialized economies, with the exception of Japan, and in the European Union as a whole.

In volume terms, imports of merchandise by the more advanced economies expanded by 8.2%, as against 5.5% in the previous year. The United States and Canada registered the highest rates of growth among the seven industrialized nations and also led the way with strong expansion in import volumes. On the other hand, Japan turned in the lowest rate as a consequence of devaluation of the yen and reductions in domestic demand caused by an increase in the sales tax.

**Table 5.3 - World trade indicators**

Percentage change

Itemization	1992	1993	1994	1995	1996	1997
Volume of trade						
World total	5.5	4.2	10.2	10.1	5.9	8.6
Exports						
Advanced economies	4.8	3.0	9.5	9.4	5.6	9.0
Developing countries	10.1	7.1	12.6	12.3	7.5	9.6
Fuel exporters	11.1	-0.4	6.3	3.5	9.5	5.5
Non-fuel exporters	9.7	10.3	14.9	15.0	7.0	10.8
Imports						
Advanced economies	4.9	2.2	11.1	9.3	5.5	8.2
Developing countries	15.0	10.4	8.1	12.1	7.3	9.1
Fuel exporters	25.4	-5.9	-8.8	1.1	1.7	11.9
Non-fuel exporters	12.0	14.9	12.0	14.0	8.2	8.6
Terms of trade						
Advanced economies	1.4	1.8	0.6	0.1	-0.8	-1.1
Developing countries	0.3	-2.3	0.5	0.6	1.4	-0.4
Fuel exporters	4.7	-6.7	-1.5	-5.1	4.2	-1.1
Non-fuel exporters	-0.6	-0.6	1.7	1.7	0.4	-0.2

Growth in the volume of merchandise imports by developing countries remained high and closed 1997 at 9.1% as compared to 7.3% in the preceding year. The oil exporting countries expanded their imports by 11.9%, against just 1.7% in 1996.

Latin America and the Caribbean nations registered growth of 14% in 1997, compared to 11.7% in the previous year. The causes of this performance were adoption of more liberal trade policies and increased domestic demand.

The more advanced economies registered expansion of 9% in the volume of merchandise exports. This result was sharply higher than the 5.6% level registered in 1996 and quite close to the 1995 (9.4%) and 1994 (9.5%) rates. The United States, Japan and Germany registered the strongest rates of growth. In the case of the developing countries, expansion of 9.6% was higher than the 7.5% mark of the preceding year. In Latin America and the Caribbean, the volume of exported products expanded by 8.8% or less than the 10.4% level registered in 1996. This performance was due to strong upward movement in the value of the currencies of some of the nations involved, including Venezuela (20%) and Colombia (9.6%).

**Table 5.4 - World trade<sup>1/</sup>**

US\$ billion

Countries	1995		1996		1997 <sup>2/</sup>	
	Exports	Imports	Exports	Imports	Exports	Imports
Total	5 082.0	5 118.2	5 263.2	5 351.3	5 411.8	5 502.4
United States	584.7	770.9	625.1	822.0	677.9	894.7
Japan	443.1	335.9	410.9	349.2	419.8	342.3
Canada	192.2	168.4	201.6	175.2	210.4	199.0
EEC	2 049.6	1 951.4	2 103.9	1 994.6	2 058.7	1 948.5
Germany	523.8	464.3	521.1	455.7	498.3	424.2
United Kingdom	242.0	263.7	260.8	286.0	278.3	305.2
France	286.7	275.3	288.5	277.7	275.9	255.9
Italy	234.0	206.0	250.9	206.9	234.8	208.0
Netherlands	196.3	176.9	197.4	180.6	194.0	178.3
Belgium-Luxembourg	171.2	156.8	170.3	161.3	171.3	160.0
Other	395.6	408.4	414.9	426.4	406.1	416.9
EFTA	121.8	111.7	127.1	112.2	118.1	106.0
Switzerland	78.0	77.0	76.2	74.5	69.6	69.7
Other	43.8	34.7	50.9	37.7	48.5	36.3
LAIA <sup>2/</sup>	174.6	183.4	200.5	205.0	210.5	233.9
Brazil	46.5	53.8	47.8	57.0	53.0	65.0
Argentina	21.0	20.1	23.8	23.8	25.1	29.9
Mexico	48.4	46.9	59.4	61.2	64.0	70.4
Other	58.7	62.6	69.5	63.0	68.4	68.6
Other countries	1 516.0	1 596.5	1 594.1	1 693.1	1 716.4	1 778.0

<sup>1/</sup> IMF member countries including Taiwan. Exp. FOB; Imp. CIF.

<sup>2/</sup> Estimated.

In terms of prices referenced to the American dollar, manufactured products turned in the sharpest reduction (7.3%), followed by petroleum (5.1%), while the prices of other primary products declined at a lesser pace (2.7%), when compared to the previous year's performance. In that period, petroleum prices climbed by 18.9%, while those of manufactured goods and other commodities dropped by respective rates of 3.1% and 1.3%.

Terms of trade registered a loss of 1.1% for the advanced economies and 0.4% for the developing countries in 1997, when compared to a loss of 0.8% for the former grouping and a gain of 1.4% for the latter, due to upward movement in petroleum prices, in 1996.

## Balance of payments

The more advanced economies turned in a current account surplus of US\$ 22 billion in 1997, as compared to US\$ 19 billion in the preceding year. However, following a negative result of US\$ 32 billion in 1996, the seven largest industrialized economies increased their deficit on the balance of payments to US\$ 35 billion. The United States moved from a 1996 deficit of US\$ 148 billion (1.9% of GDP) to US\$ 182 billion or 2.3% of GDP in 1997, as a consequence of increased demand for imports. Germany continued registering reduction of deficits: the final result dropped from US\$ 13 billion in the preceding year to US\$ 9 billion in 1997 as a consequence of the performance of internal demand. In its turn, Japan turned in strong growth as its surplus moved from US\$ 66 billion in 1996 to US\$ 95 billion in 1997, as explained by an excellent trade balance recovery and weak internal demand. One should also mention the strong surpluses achieved in Italy (US\$ 37 billion) and France (US\$ 33 billion).

In 1997, the developing countries closed with a current account deficit equivalent to US\$ 87 billion, following a US\$ 79 billion deficit in the previous year. The countries of Latin America and the Caribbean made the largest contribution to this result, with a deficit of US\$ 63 billion compared to US\$ 38 billion in the previous year. This result was generated mostly by trade balance deterioration caused by rising internal demand. In the case of Asia, there was a substantial reduction in the deficit from a level of US\$ 38 billion in 1996 to a final 1997 figure of US\$ 17 billion.

Just as occurred in 1996, the negative current account result of the developing countries up to the first half of 1997 was easily financed through foreign capital inflows, thanks to strong growth in the emerging markets and low rates of interest in the industrialized world. Starting in June, however, the economic-financial crisis that began in Southeast Asia and lasted through the end of the year, provoked a process of capital flight from a number of emerging economies, particularly in Asia. The countries that were most strongly impacted by this were Thailand, Malaysia, the Philippines and Indonesia, countries that were then carrying large current account deficits and an excessive volume of short-term loans. To avoid further deterioration of this situation, several financial assistance agreements were formalized between the countries that had been most severely affected and the IMF as coordinator of these operations. Particular mention should be made of the US\$ 57 billion package made available to South Korea.

In order to avoid a similar phenomenon in the Latin American and Caribbean economies, several countries of the region adopted adjustment measures aimed at guarantying a net inflow during the year that would be satisfactory to finance the current account deficit.

### International exchange market

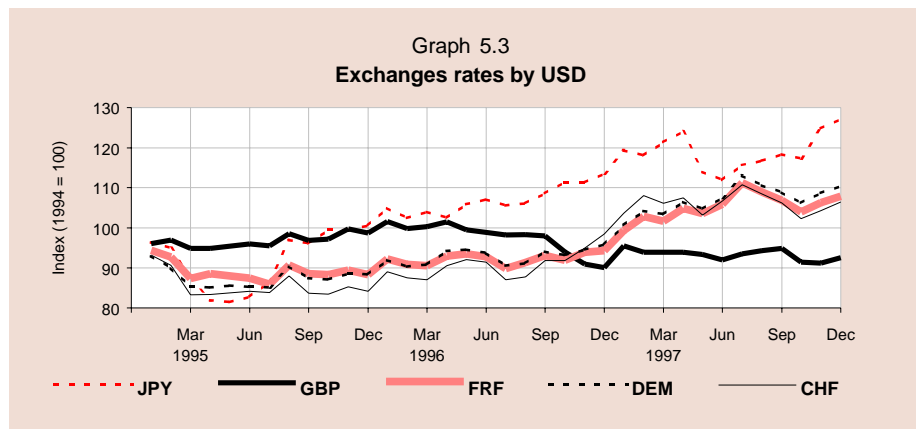
In general, in 1997, the exchange rates in effect among the OECD member states registered favorable movements, which, since early 1995, have tended to support activities in those countries with weaker economies while dampening the activity pace in the stronger ones.

In 1997, the American dollar rose sharply in nominal terms against some of the major currencies, with the exception of the pound sterling. When compared to the end of 1996, the following levels of appreciation were registered: against the Dutch guilder (16%), Belgian franc (15.7%), German mark (15.5%), Italian lira (15.3%), French franc (14.6%) and Japanese yen (12.1%). The currencies covered by the ERM turned in a rather weak performance (depreciated value) during the course of the year and this contributed to the growth in exports and was the major support to the economic growth of these nations.

Up to the end of the first half of the year, exchange rates in the developing nations were generally stable. However, as of the month of July and the outbreak of the Asian crisis, the currencies in that region of the world began to devalue sharply, including in some of the more advanced economies such as South Korea, Singapore and Taiwan.

Consequently, the dollar value rose against the currencies of Indonesia (115.8%), South Korea (100.5%), Thailand (86.4%), Malaysia (53.7%), the Philippines (52.3%), Singapore (20.4%) and Taiwan (18.7%), in relation to December 1996.

In Latin America and the Caribbean, strong foreign capital inflows during the major part of the year pressured exchange policy and pushed nominal rates downward. However, with the turbulence on international financial markets caused by the outbreak of the Asian crisis, several countries in the region adopted measures such as interest rate hikes, cutbacks in government spending and, in the case of countries like Mexico and Chile, exchange rate adjustments.



## Gold and petroleum

In 1997, international gold prices registered only small oscillations, imitating the downward movement that had marked the previous year. In November, prices dropped below US\$ 300 per troy ounce. This had not occurred for more than a decade and followed a high of US\$ 369 at the end of 1996. When 1997 came to a close, gold on the London market came to a price of US\$ 293 per troy ounce.

Lesser gold prices were caused by sales on the part of central banks and investment funds as the lower price had a negative impact on the feasibility of a number of mines, particularly in Australia.

Petroleum prices moved downward from January to March and then leveled off with some slight fluctuations up to the month of November. In December, prices dropped sharply as a consequence of the OPEC decision taken in the previous month to increase production by about 10% above the 25 million barrel/day ceiling then in effect. This level had remained in force during practically all of 1997. The price of Brent-type petroleum dropped in March to US\$ 18.55 per barrel, after closing 1996 at the level of US\$ 23.89. At the end of the year, this same type of petroleum that had been marketed at US\$ 18.91 per barrel in November, dropped to US\$ 16.41 per barrel, representing a drop of 31% in relation to the end of the preceding year.

According to OECD estimates, world petroleum demand increased to 73.8 million barrels per day in 1997, as compared to 71.8 million in the preceding year. The OECD member states accounted for 57% of this demand, with Canada and the United States absorbing 20.8 million barrels per day followed by Europe with 14.5 million and the Pacific nations with 6.7 million.

**Table 5.5 - Oil prices in the spot market**

US\$/barrel

Countries	1992	1993	1994	1995	1996	1997
Saudi Arabia	18.9	15.4	14.9	16.8	19.6	18.8
United Arab Emirates	17.2	15.0	14.7	16.1	18.6	18.2
United States	20.6	18.5	17.2	18.4	22.1	20.7
Iran	17.7	15.5	15.2	16.2	18.8	18.4
Nigeria	19.9	17.6	16.3	17.4	21.2	19.5
United Kingdom	19.3	17.1	15.8	17.0	20.5	19.1

### International reserves

In October 1997, total world foreign reserves came to US\$ 1.7 trillion, for expansion of 5.7% in relation to the previous year's final level. The criteria used in this calculation are those elaborated by the IMF, with gold assets being assessed at SDR 35 per troy ounce.

The industrialized countries turned in growth of 1.5% in their overall international reserve positions, registering a total of US\$ 839 billion up to October, as compared to the final 1996 position. Among these countries, Japan held the highest volume of reserves, with a total of US\$ 228 billion, in contrast to the final 1996 result of US\$ 218 billion, followed by Germany (US\$ 83 billion), the United States (US\$ 70 billion) and Spain (US\$ 69 billion).

The developing economies registered 10.2% growth in their foreign reserves, rising to US\$ 868 billion in the first ten months of the year. Asia closed with a total US\$ 459 billion and accounted for 52.9%. Among these countries, the most important were China (US\$ 140 billion), Taiwan (US\$ 87 billion), Singapore (US\$ 77 billion) and Hong Kong (US\$ 72 billion). With the Asian crisis, capital flight from the countries of the region intensified and may well have reduced the international reserve position by the end of the year.

In Latin America and the Caribbean, the volume of foreign reserves expanded by 7.6% up to October, totaling US\$ 169 billion. Notwithstanding the fact that the region carried the highest 1997 current account deficit (US\$ 63 billion), maintenance of significant foreign capital flows to the region resulted in growth in international reserves and, in general, overcame the adverse impacts of the Southeast Asian

**Table 5.6 - International reserves<sup>1/</sup> - end of period**

US\$ billion

Itemization	1992	1993	1994	1995	1996	1997 <sup>2/</sup>
Total	998	1084	1233	1401	1615	1707
Industrial countries	583	605	673	761	827	839
Developing countries	415	479	560	640	788	868
Africa	18	19	23	25	30	42
Asia	226	262	335	373	431	459
Europe	21	24	29	47	89	104
Middle East	61	65	68	75	81	94
Western Hemisphere	89	109	105	120	157	169

1/ Gold priced at SDR 35 per troy ounce.

2/ Position in October.

crisis. For the most part, these capital flows were attracted to the region by the situation of political and economic stability, expanded investment opportunities generated by the privatization programs and high rates of interest. The largest volumes of reserves were held by Brazil with US\$ 52 billion, followed by Mexico with US\$ 28 billion, Argentina with US\$ 20 billion and Chile with US\$ 18 billion. In the specific case of Brazil, this reserve position represents a falloff in relation to the previous year, while Mexico, Argentina and Chile were able to increase their reserve stocks. An IMF estimate of the international reserve/imports of goods and services ratio pointed to a final figure of 45.3% in 1997 for the developed countries and to 54.2% in the case of the Latin American and Caribbean nations, as compared to 44.7% and 57% in the previous year, respectively.

### **Foreign debt**

According to IMF data, among the developing countries, the accumulated foreign debt came to US\$ 1.79 trillion at the end of 1997, as compared to US\$ 1.76 trillion at the end of the previous year, for growth of 1.7%. The region with the highest level of indebtedness was Latin America and the Caribbean, with US\$ 699 billion, followed by Asia with US\$ 585 billion. Both of these regions increased their indebtedness levels by respective rates of 4.3% and 1.9%, in comparison to the previous year.

The debt profile of the developing countries improved in 1997, as the share of the long-term debt increased to 82.7% of the total as against 81% in the previous year. In the case of the countries of Latin America and the Caribbean, long-term liabilities increased from 83.6% to 84.7% of the total between 1996 and 1997, reflecting improved conditions in negotiations involving foreign resources inflows.

A breakdown on the basis of type of creditors indicates that government entities accounted for US\$ 729 billion of all the funding owed by developing countries, as compared to US\$ 745 billion in the previous year. This indicates that resources flows are shifting in the direction of private entities. The credit position of private banks increased from US\$ 427 billion in 1996 to US\$ 432 billion in 1997. In the specific case of the Latin American and Caribbean nations, other private entities were the largest holders of credits, with US\$ 379 billion as compared to US\$ 341 billion in the preceding year.

In 1997, the total foreign debt/exports of goods and services ratio for the developing countries dropped to 147.2%, following a 155.6% result in the previous year. For Latin America and the Caribbean, this ratio also declined, moving from 247.8% in 1996 to 241.9%. Insofar as the foreign debt/GDP ratio is concerned, the result dropped from 34.2% in 1996 to 32% in the year under analysis, for the developing countries as a whole. For the nations of Latin America and the Caribbean, this ratio dropped from a 1996 level of 36.9% to 35.7% in 1997.



# VI

## INTERNATIONAL FINANCIAL ORGANIZATIONS

In 1997, several Asian economies plunged into a severe economic-financial crisis. The first outbreak occurred in Thailand in January and rapidly spread into Indonesia, Malaysia and the Philippines. By the middle of the year, the crisis had already begun impacting the economy of Hong Kong and by October had disseminated into South Korea and, consequently, begun generating repercussions in Japan. The month of October marked the start of a generalized international economic crisis. The response was led by the International Monetary Fund (IMF) with a series of measures aimed at salvaging the affected economies. Resources injected into these economies totaled US\$ 17 billion in Thailand, US\$ 40 billion for Indonesia and a US\$ 55 billion rescue package for South Korea.

The Asian crisis placed international organizations squarely in the world spotlight, transforming them into the last bastion of defense of the world financial system and, at the same time, the target of intense criticism with respect to the nature of the measures adopted. International debate centered on the need for making sufficient funding available to these organizations and for creating mechanisms sufficiently agile to respond to the demands of member countries that come under speculative attacks on their currencies. One can clearly affirm that the turbulence in world financial markets in 1997 forced authorities to revise and strengthen IMF intervention capacity, while adopting agile and flexible instruments and procedures at other multilateral organizations that would make it possible for them to continue in their role of coping with such critical problems as those that threatened to cripple the world economy in 1997.

One element that remained on the 1997 calendar of international organizations was relief from the heavy debt charges levied on the highly indebted poor nations. The Initiative for Debt Reduction of the Highly Indebted Poor Countries (HIPC), approved at the IMF/World Bank Annual Meeting in September 1996, has the objective of fostering the sustainability of eligible country debts on a case-by-case basis. It further determines that these efforts should be coordinated in such a way as to draw all creditors into the process in a broad and proportional manner, while preserving the position of multilateral organizations as preferential creditors in order to guaranty their financial integrity.

In April 1997, Uganda became the first country to reach the decision point and, thus, become eligible to receive the benefits of the initiative. In September, Bolivia and Burkina Faso were also included in the program.

### **International Monetary Fund (IMF)**

The International Monetary Fund expanded its membership to 182 countries in 1997. Fund operations emphasized surveillance and transparency of information as the fundamental instruments to be used in preventing and managing international crises. These questions are directly related one to another since, from the viewpoint of the Fund, the lack of transparency in public or private sector financial data is clearly damaging to its task of market surveillance and evaluation. It was with this in mind that the Special Data Dissemination Standard (SDDS) was created in 1996. This system is centralized at the IMF and determines standards as to the time periods and quality of the economic-financial data to be released by participating countries. This was followed in 1997 by definition of the scope of the General Data Dissemination Standard (GDDS), a system based on less rigid criteria than the SDDS. Brazil has yet to subscribe to either of the systems.

The policy of enhancing the transparency and accessibility of economic-financial information flows from the member countries was further strengthened with the outbreak of the Asian crisis toward the end of the year. According to the IMF diagnosis, the crisis was generated by a lack of market information, banking system fragility and an incomplete and incorrect process of financial liberalization. It was in this context that the Fund proposed an amendment to its Constitutive Agreement that would adopt liberalization of capital movements as one of its objectives, while expanding its jurisdiction to include capital account transactions. At the general meeting held in Hong Kong in September 1997, the organization approved a declaration in this sense and the first steps aimed at approving the aforementioned amendment were taken.

In 1997, the Fund approved 21 new loans, setting an historic record total of SDR 29,424.75. Of this amount, SDR 27 billion correspond to stand-by loans and include operations involving SDR 15.5 billion with Korea and SDR 7.4 billion with Indonesia. Up to that point, the largest loan ever granted by the Fund had been provided to Russia, totaling SDR 6.9 billion in 1996. It should be stressed that all 21 loans approved in that year came to less than SDR 9.5 billion. At the end of 1997, the Fund had 57 programs in operation.

Since the 1994 Mexican crisis, it has been clear that the institution would have to be provided with alternative systems of obtaining resources to meet its needs as they arise. This was confirmed by the large amounts demanded to re-establish equilibrium in the Asian countries. In January 1997, the New Arrangements to Borrow (NAB) were approved, making it possible for the Fund to obtain an additional SDR 34 billion should exceptional needs arise. This new mechanism, which will be added to the former General Arrangements to Borrow (GAB), has yet to go into effect.

The need for new forms of financing for countries now immersed in crisis was also evident in the December 1997 approval of a new IMF mechanism known as the Supplemental Reserve Facility (SRF). This facility was designed exclusively to respond to short-term crises. In more specific terms, the new mechanism makes it possible to provide financial assistance to member countries that are involved in credibility crises that generate adverse impacts on their capital accounts. This facility is, naturally, reserved to those nations for which there is a reasonable expectation of a rapid solution to the crisis through implementation of adequate policies and an appropriate financing package. Payment of these loans is to be effected in two installments to mature twelve and eighteen months after the purchase operation is completed. However, there is a possibility of extending the repurchase period for up to one additional year. In terms of charges on the operation, an initial rate of 300 base points above the normal IMF base rate was determined and will remain in effect for one year as of the date on which the financing is granted. The rate will increase by 50 base points at the end of this period and, subsequently, will increase by the same amount at six month intervals. This reflects an average rate of 340 base points for those countries that effect the repurchase in the specified period without requesting an extension. Should the repurchase term be extended for one year, the average rate of these charges will move to 389 base points.

IMF participation in the initiative for highly indebted countries (HIPC Initiative) was better defined with transfer of SDR 180 million to the HIPC/ESAF Trust Fund. The September meeting also witnessed an agreement with respect to the special allocation of Special Drawing Rights for countries participating in the SDR Department, which determined a benchmark of 29.32% of quotas. In the case of Brazil, this measure reflects a rise of SDR 277.7 million (approximately US\$ 389 million) in assets expressed in that currency. These resources are unconditionally available for use and can be returned according to the country's possibilities. The amendment also deals with special automatic allocations, applicable at anytime and under the same terms to countries that join the organization at a later date.

Negotiations on the 11<sup>th</sup> General Quota Review were concluded on the same occasion and called for an increase of 45% in current quotas, adding SDR 65 billion to the current Fund level of SDR 145 billion. According to the terms of the agreement, the increase will be distributed as follows:

1. an addition in proportion equivalent to current quotas will account for approximately 75% of the total increase;
2. a selective share of about 15%, calculated according to the method that calls for quota allocations in proportion to the participation of each IMF member country;

3. an ad hoc share of 10% of the total increase is to be distributed among member whose current quotas are significantly out of kilter with their respective economic potential at the international level.

The relative participation of Brazil and the other developing countries declined in relation to the Fund's overall capital. In the specific case of Brazil, the country's voting power dropped from 1.485% to 1.432%, since the criterion of calculated quotas used by the Fund does not reflect the growth of the country in the period subsequent to 1994. The same thing occurred with the other developing countries. Since this fact suggests that the formulas in use may not be able to mirror the accelerated growth rates achieved by these nations, it was determined that the formulas would be revised in the future in order to correct distortions in the model.

### **Bank for International Settlements (BIS)**

BIS was founded on 1.20.30 during the Conference of the Hague, in Holland. This occurred during debates on the so-called Young Plan, conceived with the objective of contributing to liquidation of war debts ascribed to Germany as a result of its participation in World War I. The founding members of BIS were as follows: the central banks of Germany, Belgium, the United States, France, Italy and the United Kingdom. Switzerland was chosen as the headquarters of the organization. BIS initiated its activities on 5.17.30 in Basel, Switzerland, and is now the oldest organization in the field of international finance and a center to which monetary authorities tend to converge.

As an international organization, BIS has not restricted itself, as initially planned, to the function of a trust fund for the Young Plan. It also assumed responsibility for fostering cooperation with central banks and providing additional facilities for the carrying out of international financial operations. BIS has three administrative entities: the General Assembly, the Executive Board and the Administration.

Up to 1997, BIS membership included 41 associated central banks, of which 21 represented developed countries and 20 participated in the name of developing nations, aside from a number of private institutions. Countries are entitled to participate and vote in the general meetings in proportion to the number of shares held by each nation. The BIS Executive Board is composed of the Central Bank Governors from Belgium, Canada, the United States, France, Germany, Italy, Japan, Holland, Sweden, Switzerland and the United Kingdom, plus the directors designated by six of these nations.

BIS has the legal structure of a limited company and invests resources in international capital markets. Since 1982, it has made bridge loans to the countries most severely

hit by balance of payments crises. In 1997, its equity totaled US\$ 129.6 billion of which US\$ 4.6 billion represent its own resources (capital and reserves). BIS authorized share capital corresponding to US\$ 2.9 billion, divided into 600 thousand shares at a nominal value of US\$ 4,850. Issues up to 1997 totaled 517,125 shares. Although all shares are entitled to annual dividends, private investors may not participate nor hold voting power in the organization's general meetings, since this right is reserved exclusively to central banks.

Brazil's adhesion to BIS was concluded with publication of Legislative Decree no. 15, dated 3.19.97, which ratified and promulgated the organization's Constitutive Agreement. In compliance with the final stage of the adhesion process, Banco Central do Brasil deposited US\$ 35,877,696.37 on 3.25.97, corresponding to the 3,000 shares offered to Brazil. The amount deposited corresponds to full paid-in BIS capital, plus the issue premium.

### **World Bank Group**

The World Bank Group is a multilateral financing agency composed of five institutions that work in an intensely cooperative manner: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guaranty Agency (Miga) and the International Centre for Settlement of Investment Disputes (ICSID).

Founded in 1944, the **International Bank for Reconstruction and Development** is the principal financing agent for development projects in middle income developing nations and the major catalyst for similar financing generated by other sources. In 1997, IBRD had 181 members. The organization obtains its capital mostly by contracting funding on international capital markets.

In 1997, IBRD disbursed US\$ 17.8 billion, for growth of 31.5% in relation to disbursements in the previous year (US\$ 13.5 billion). New financing approved totaled US\$ 17.9 billion or 16.5% more than 1996 commitments. This total reflects the emergency financial assistance provided to a number of Asian nations. Most of the funding is channeled into the financial sector (US\$ 3.9 billion), followed by agriculture (US\$ 2.5 billion) and transportation (US\$ 2.1 billion).

The largest beneficiaries were the countries of Eastern Asia and the Pacific and Southern Asia, absorbing a total of US\$ 7.3 billion, or 41% of the Bank's total commitments. Second place is occupied by Europe and Central Asia, with US\$ 5.7 billion or 32% of the total, followed by Latin America and the Caribbean, with US\$ 4.3 billion, or 24%.

Brazilian projects approved by the institution totaled US\$ 1.7 billion, for growth of 85%, when compared to the preceding year. The financing is to be used in projects aimed at relieving rural poverty in various northeastern states, reforms in the states of Rio Grande do Sul and Rio de Janeiro and improvements in banking supervision activities performed by Banco Central. Disbursements for projects underway in 1997 came to US\$ 1.4 billion.

The **International Development Association** now has 159 members and is the major source of concessional financing for countries with per capita income levels below US\$ 925. In 1996, IDA approved credits totaling US\$ 5.7 billion, for a decline of 11.6% in relation to the previous year. Of this total, only 1% was channeled into projects in the countries of Latin America and the Caribbean. The region that benefited most from these operations was Africa (38%), followed by Southern Asia (33%). The sectors with the largest volumes of credit were agriculture (19%), energy (12%) and health and nutrition (12%). Disbursements were smaller in 1997, reaching a level of US\$ 6.0 billion, or 4% less than the 1996 total.

World Bank participation in the HIPC Initiative is based on a combination of transfers of IBRD net income to the HIPC Trust Fund, IDA concessional loans and supplementary IDA allocations. When such operations are concluded, the Bank – in common agreement with other creditors – commits itself to take steps to reduce the current value of these debt to sustainable levels. The share of the costs of the Initiative assumed by the World Bank totals US\$ 1.6 billion. By July 1997, IBRD transferred a total of US\$ 750 million of its net income to the HIPC Trust Fund. This amount, together with IDA credits, should be enough for already approved operations.

The **International Finance Corporation** orients itself into financing operations designed to contract funding that is then on-lend to the private sector of developing countries. Aside from these operations, the institution also provides consulting services. At the end of 1997, the Corporation had a total of 170 members states. Since its creation in 1956, the IFC has accumulated commitments totaling US\$ 35.9 billion, of which US\$ 21.2 billion refer to IFC loans and US\$ 14.7 billion involve syndicated loans. Brazil is the institution's second largest borrower with US\$ 3.7 billion (10.3% of the total) and is surpassed only by Argentine with 10.8% of total financing granted.

In the 1997 fiscal year – 7.1.96 to 6.30.97 – 276 projects were approved in 84 countries with IFC stock participation and financing totaling US\$ 6.7 billion. Of this total, US\$ 3.3 billion are resources belonging to the Corporation itself and the remainder has been generated by co-financing operations. These data should be compared with the figures for the 1996 fiscal year – US\$ 8.1 billion and US\$ 3.2 billion, respectively. Playing its role as a catalyst of financing resources, the IFC

leveraged products with a total cost of US\$ 17.9 billion. These projects involve several different areas of activity and were concentrated most heavily in financial operations (22.5% of the total), infrastructure (20.0%) and agribusiness (12.3%).

Latin America and the Caribbean were able to obtain the largest volume of IFC funding – US\$ 2.8 billion, or 41% of the total. Of this amount, Brazilian companies raised US\$ 1.3 billion in loans that will be used to finance 14 projects at a total cost of US\$ 3.4 billion.

The **Multilateral Investment Guaranty Agency** has subscribed capital of US\$ 1.07 billion and has the objective of providing guaranties to foreign private investments in developing countries against noncommercial risks, while aiding the governments of these nations in their efforts to attract foreign investment. By 1997, 160 countries had accepted the constitutive agreement and 143 of these had ratified their adhesion and become effective members of the agency.

In the 1997 fiscal year, the agency approved 70 insurance contracts with total coverage of US\$ 614 million. Overall direct investments facilitated by these projects and guaranteed by Miga came to approximately US\$ 4.7 billion. Most of these operations were channeled to the financial sector (36%), followed by manufacturing (25%) and infrastructure (17%).

Up to the 1997 fiscal year, total approvals of guaranties for Brazil came to approximately US\$ 201 million, making it the Agency's largest client, with 8% of total guaranties issued.

At the Annual Joint World Bank/IMF Assembly held in Hong Kong in September 1997, an agreement was reached on the increase of Miga funding. Composition of this increase was defined as follows:

1. IBRD donation of US\$ 150 million;
2. increase of US\$ 150 million in paid-in capital;
3. increase of US\$ 700 million in callable capital.

The process of Brazilian adhesion to the **International Centre for Settlement of Investment Disputes (ICSID)** is being analyzed at the Office of the Attorney General of the National Treasury. Utilizing arbitration and conciliation as its basic instruments, the Agency ensures the flow of foreign investments to developing countries. The ICSID, which initiated its operations on 10.14.66, now has 139 member countries of which 21 are located in Latin America and the Caribbean.

### **Interamerican Development Bank Group (IDB)**

The Interamerican Development Bank Group (IDB) is composed of the Bank itself and the Interamerican Investment Corporation (IIC). At the end of 1997, IDB had 46 member countries, of which 20 are borrowers.

In 1997, IDB approved 107 operations with ordinary and concessional resources, raising the total loan volume to US\$ 6 billion. In its third year of operation, the Private Sector Department expanded sharply, reaching a volume of US\$ 320 million in type A loans (IDB contributes its own resources) and US\$ 563 million in type B loans (IDB mobilizes third party funding and acts as lender-of-record). These figures reflect growth of just over 60% in type A loans and 136% for type B operations. It is important to stress that IDB's role as catalyst of private lending has increased: the B/A ratio was 195% in 1997, as compared to 120% in 1996 and just 38% in 1995. Of the 16 projects approved, one was targeted to Brazil (Itá hydroelectric plant) with US\$ 75 million in a type A loan and US\$ 300 million in a type B operation. The ceiling for private sector operations is 5% of the total loan program.

Disbursements in convertible currencies came to US\$ 5,468 million in 1997. When payments of principal are deducted (US\$ 2,558 million), the net IDB loan flow came to US\$ 2,910 million. Once debt service payments are considered (US\$ 2,030 million), there was a net positive transfer of US\$ 880 million. Nine projects were approved for Brazil, with a total value of US\$ 1.44 billion, US\$ 180 million more than the amount granted to Argentina, which is classified in second position. Disbursements rose to a level of US\$ 1,333 million.

The **Special Operations Fund (SOF)**, the IDB concessional arm, obtained a funding increase of US\$ 1 billion in IDB-8. In 1997, the SOF approved 13 loans to the poorer countries of the region that are included in the subgroup of Group D (Bolivia, Guiana, Haiti, Honduras and Nicaragua) with a total of US\$ 283.4 million or 17% less than in 1996 and corresponding to less than 5% of the total loaned by IDB.

Three hundred and eighteen non-reimbursable technical cooperation operations were approved for a total of US\$ 77 million. The Technical Cooperation Agreement was financed by a combination of sources, as follows: SOF – foreign currency (32%); SOF – local currency (49.8%); and the remainder by the other funds managed by the Bank under the terms of the Funds/CT program.

The **Interamerican Investment Corporation (IIC)**, the IDB's private arm, supplies loans and stock participation to small and medium businesses in Latin America and the Caribbean. In 1997, 25 operations were approved at a total value

of US\$ 150.4 million, of which US\$ 58.5 million involved stock participation. Three operations were approved for Brazil, with a total value of US\$ 20 million.

The **Multilateral Investment Fund (MIF)** was created in 1993 with the objective of stimulating increases in private domestic and foreign investment levels in regional developing countries that are members of IDB and the Caribbean Development Bank (CDB). Currently, MIF financing is available to the 25 member countries and for the Organization of Western Caribbean States (OWCS).

MIF resources are managed by the Bank in the name of the member countries and are an integral part of the loans made by the Bank, though they are not registered as IDB-8 financial resources. On 12.31.97, 24 countries had committed themselves to contributing to MIF, raising commitments to a level of US\$ 1.1 billion. Japan and the United States are the major contributors with US\$ 500 million each. Brazil accounts for US\$ 20 million and, alongside Mexico and Argentina, is the largest contributor in the region.

In 1997, MIF approved 47 operations worth a total of US\$ 61.6 million. Since its creation, 184 projects were approved with a total value of US\$ 274.7 million. A breakdown by mechanism shows the following results:

- mechanism I (technical cooperation): US\$ 16.7 million (26%);
- mechanism II (human resources): US\$ 19.8 million (34%);
- mechanism III (small businesses): US\$ 15.9 million (26%).

For the most part, MIF assistance is non-reimbursable. The Small Business Investment Fund (SBIF) was created to complete the activities of mechanism III and has the role of granting small loans and investments to intermediate financing agents. In 1997, projects financed by SBIF came to 14% of overall projects approved.

### **African Development Bank Group (ADB/ADF)**

The ADB/ADF Group, which includes the **African Development Bank (ADB)**, the **African Development Fund (ADF)** and the Nigerian Trust Fund (NTF), is designed to contribute to the economic and social development of Africa. At the present time, it has 77 member countries, including 53 from the region itself and 24 non-regional members.

In 1997, ADB approved a quantity of loan operations that was significantly larger than in 1996, particularly in the area of concessional operations. In the year under analysis, total approved loans and donations, reallocations and stock investments

came to US\$ 1.9 billion, a sharp increase over the 1996 total of US\$ 764 million. With respect to loans and donations by ADF, the concessional arm of the group, the 1997 value came to US\$ 1 billion or approximately four times the previous year's total (US\$ 269 million). The increase in the number of operations was accompanied by implementation of mechanisms designed to ensure the quality of these operations and ranging from the stage of initial project analysis, to supervisory activities, and final evaluation. Simultaneously to this, financial management of the Fund was strengthened through specification of measures aimed at reducing both administrative costs and arrears in loan payments. Consequently, the net income of the Bank in 1997 increased by approximately 14% in relation to 1996 and closed at US\$ 140 million.

The major concern of the ADB/ADF Group is attenuating poverty and achieving sustainable development among its member countries. This is evident not only in the African Fund Loan Policy approved by the Executive Board, but especially in the support given to the Initiative for Highly Indebted Poor Countries (HIPC). In this framework, the Bank has collaborated with other multinational and binational organizations with the aim of fostering progress in negotiations of the initiative and its eventual implementation. The initial contribution of the Group is estimated at US\$ 310 million and is being channeled through the HIPC Trust Fund, under the management of the International Development Association (IDA).

Negotiation of ADB's Fifth Capital Increase (GCI-V) continued in 1997 with creation of a Subcommittee by the GCI-V Ad-hoc Committee. The Ad-hoc Committee is now analyzing the report submitted by the Subcommittee and will present its recommendations to the Assembly of Governors (May/98).

In 1997, ADB continued the wide-ranging and profound institutional reform initiated in 1995. This was concentrated on four large areas: operational policy, financial management, administrative restructuring and institutional governance.

### **International Fund for Agricultural Development (IFAD)**

In 1997, IFAD approved 30 new projects at a total value of US\$ 400 million, reflecting a reduction of 2% in relation to the previous year. Of this amount, 44% was channeled to Asia, 20% to Latin America and the Caribbean and 20% to North Africa and the Near East. Due to the unsatisfactory performance of ongoing projects and accumulated arrears, the participation of Sub-Sahara Africa in the approved portfolio has fallen sharply. Approximately 75% of total approved operations went to agricultural and rural development projects and 73% of the total was granted under highly concessional terms.

The 4<sup>th</sup> IFAD Capital Replenishment went into effect in August 1997 when the instruments representing 51% of the agreed total were duly deposited. By the end of the year, the instruments representing 80% of the Replenishment, in the amount of US\$ 420 million, had been deposited. Negotiations on IFAD-IV extended over several years and were only concluded in 1997, with active participation on the part of Banco Central do Brasil. The Brazilian contribution was approved by Banco Central on 6.7.95 and consists of transformation of balances in non-convertible currencies into deposits in convertible currency totaling US\$ 7.9 million. This amount ensures the country of second position among Latin American and Caribbean contributors and third position among all the developing member states. Since voting power will be proportional to the value of contributions as of IFAD-IV, this level of participation will ensure that Brazil occupies a seat on the IFAD Executive Board.

### **Financial Fund for the Development of the River Plate Basin (Fonplata)**

The Financial Fund for the Development of the River Plate Basin (Fonplata) was created in 1974 with the objective of meeting the financing needs consequent upon the economic development and physical integration of the River Plate Basin and its areas of influence, particularly those needs that are not being adequately met by other outside sources of financing. The member countries include Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Brazil and Argentina participate with 33.34% of the capital, while Bolivia, Paraguay and Uruguay hold shares equivalent to 11.11% each. Total subscribed capital on 12.31.97 came to US\$ 308 million, of which US\$ 268 million has been fully paid-in and US\$ 40 million is classified as callable capital.

From the time it initiated its activities up to 12.31.97, 50 loans were approved at a total value of US\$ 348.7 million. Brazil participates with four loans totaling US\$ 37.1 million, corresponding to 10.7% of total loans granted by the organization. In 1997, a loan of US\$ 13.4 million to Brazil (transportation sector) was approved while another to Argentina was increased with incorporation of an additional US\$ 0.6 million.

In granting loans and technical cooperation, Fonplata gives preferential treatment to the countries that have attained a lesser relative degree of development (Bolivia, Paraguay and Uruguay). Up to 12.31.97, the organization had granted approximately 78% of total financing to these countries. In 1997, it continued providing support to the Paraguay-Paraná Waterway project and defined the bases for cooperation in coming years.

The work of the Committee of Representatives of the Governors, which was created by the Declaration on Financial Mechanisms for Regional Integration in Fortaleza

in December 1996, with the objective of finalizing creation of a financial mechanism that will replace Fonplata in the entire array of financial, legal and administrative operations aimed at achieving regional integration, was temporarily suspended as a result of the difficulties arising out of the Asian crisis.

### **Andean Development Corporation (ADC)**

Headquartered in Caracas, Venezuela, the Andean Development Corporation (ADC) is a financial institution founded in 1970 by the Andean Community of Nations (former Andean Pact) and has the dual objective of supporting regional integration and development of member states. Aside from the regional members (Bolivia, Colombia, Ecuador, Peru and Venezuela), other countries from outside the region (Brazil, Chile, Mexico, Trinidad-Tobago, Paraguay, Panama and Jamaica) also hold shares in the organization. The latter three of these countries represent expansion of the organization's stock base in 1997.

Authorized capital of US\$ 2.5 billion is divided into three classes of shares: series "A" shares, reserved to the Andean Community countries and subscribed by governments and entities that pursue social-oriented objectives and are governed by public or private law; series "B" shares that may be subscribed by private entities from the region and that do not necessarily have social-oriented objectives; series "C" shares, subscribed by legal entities or individuals from outside the Andean Community.

Brazil has been an extra-regional member since 1995 when it subscribed to 2,700 "C" series shares valued at US\$ 24.8 million and, by 12.31.97, had paid-in US\$ 16.6 million.

During the course of 1997, operations worth US\$ 2.9 billion were approved, representing an increase of 25% over 1996 approvals. This figure is seen to be even more significant when compared to the 8.4% annual average growth rate of the five year period.

Without abandoning the ADC investment policy, the major share of funding has been channeled to the sector of infrastructure, with emphasis on transportation and energy (63% of the total), as a result of the increasing importance of efforts to achieve continental integration. The year under analysis also witnessed creation of several new lines of support, including programs oriented toward privatization efforts, institutional reforms and financial sector support, principally aimed at meeting the needs of the small business sector.

Two of the most important financing operations were granted to Brazil and involve integration of the South American energy sector: US\$ 215 million for participation

in construction of the Brazil/Bolivia gas pipeline project and US\$ 86 million for interconnecting the Brazilian and Venezuelan electric energy grids.

### **Southern Common Market (Mercosul)**

During the course of 1997, the Southern Common Market (Mercosul) continued its efforts to consolidate the free trade zone while further deepening the customs union among member countries. At the same time, Mercosul continued its pursuit of more intense international relations with economic blocs and individual countries, while also achieving progress in discussions of a series of topics, the most important of which are as follows:

- a) customs code and customs management;
- b) intra-zone circulation of merchandise subject to payment of the Common External Tariff (TEC);
- c) nontariff measures and restrictions;
- d) technical regulations;
- e) automotive regime;
- f) sugar regime;
- g) compatibility regime;
- h) antidumping and subsidies;
- i) consumer defense;
- j) public policies that distort competitiveness;
- k) special import regimes;
- l) government procurements;
- m) services;
- n) intellectual property.

### **Mercosul foreign relations**

Mercosul is a legal entity governed by international law. The bloc coordinates the activities of delegations representing the governments of the member states before a variety of international economic and commercial organizations, while also coordinating the efforts of permanent representatives to international economic organizations with the aim of coordinating positions and joint activities with respect to themes related to the common trade policy of the Customs Union.

Bolivia (on 10.1.96) and Chile (on 2.28.97) became associate members of Mercosul. The economic agreements have the objective of creating a free trade zone within ten years.

In the framework of the inter-regional cooperation agreement formalized with the European Union, the Joint Mercosul/European Union Commission has been discussing the agreement that will define the bases for an inter-regional association of the two blocs. These efforts have the purpose of defining the different aspects of trade relations among the parties involved, including a customs assistance protocol, rules of origin and similar rules to deal with cases that require settlement of controversies. In the context of the Mercosul-European Union Trade Subcommittee, three work groups have been formed (goods, services and trade facilitation mechanisms), and are charged with surveying norms for flows in the trade of goods and services between the two blocs. The conclusions reached by these groups will be used as a foundation for future discussions. In November 1997, the reports presented by the groups were approved by the Trade Subcommittee and by the Joint EU-Mercosul Commission.

#### Evolution of Negotiations on Financial Affairs

Subgroup no. 4 – Mercosul Financial Affairs is coordinated by Banco Central do Brasil and, during the course of 1997, continued its task of completing the subjects on its agenda. The principal themes debated by the subgroup are: global consolidated banking supervision, improvement in procedures for interchanging information on financial systems, operations with derivatives, money laundering, harmonization of norms and banking procedures, harmonization of insurance market conditions, improvement of capital market norms, review of the lists of exceptions on agreements to promote and protect investments and exchange of information on macroeconomic indicators.

Formalized in December 1997, the Montevideo Protocol on Mercosul Trade in Services defined a period of ten years for the conclusion of a liberalization program.

In the first half of 1998, each Mercosul member state will utilize a list of specific commitments to define the sectors, subsectors and activities with respect to which it will assume commitments and will indicate, for each type of corresponding service, the terms, limitations and conditions as regards market access and national treatment. Each member state may also specify additional commitments.

For the medium-term (up to the year 2000), the SGT-4 agenda calls for discussion of the questions of market access and constitution of financial, insurance and reinsurance companies. At present and until such time as Article 192 of the Federal Constitution is regulated, Ministry of Finance Justification no. 311, dated 8.23.95, which was approved by the President of the Republic, determines the principles according to which increased foreign participation or admittance of foreign participation in the Brazilian financial market is considered to be a question of national interest.

In the context of the processes of privatization and restructuring of the Brazilian financial sector, this instrument has given rise to entry of a rather significant number of foreign financial institutions into the Brazilian market.

In its turn, the opening of the state monopoly in reinsurance operations has made it possible to achieve significant progress in this area. Aside from this, the Federal Government Legal Staff issued a statement of position in June 1996 confirming that, until such time as enabling legislation on Article 192 of the Constitution is issued for the purpose of regulating foreign capital participation in insurance companies, there is nothing in Brazilian legislation that would restrict the participation of foreign capital in these companies..

SGT-4 has the task of harmonizing regulations. Despite the existence of such important harmonization efforts as GATS and Basel, which are not related to any specific process of financial integration, this effort is much more efficacious when included in the framework of an integration process. In the case of Mercosul, negotiations helped to accelerate the adoption of the Basel norms on minimum capital and consolidated bank supervision.

Another important theme in the context of regional cooperation is legislation on financial crimes and money laundering. Mercosul has already moved forward in this area and has adopted similar parameters designed to combat financial crimes.

### **Free Trade Area of the Americas (FTAA)**

The Summit of the Americas, held in December 1994 in the city of Miami, was the launching pad for the Free Trade Area of the Americas (FTAA). In the First Ministerial Meeting on Trade in Denver, USA, on 6.30.95, seven work groups were created: market access, customs rights and rules of origin, investments, technical norms and barriers to trade, health and plant health measures, subsidies, and smaller economies. These groups were given the task of initiating preparation for FTAA negotiations that, as of the final negotiating date in 2005, would gradually remove trade and investment barriers.

At the Second Ministerial Meeting on Trade, held in Cartagena, Colombia, in March 1996, four more work groups were created: services, government procurements, defense of competition and intellectual property rights.

These work groups met during the course of 1995, 1996 and 1997. Banco Central do Brasil participated in the Work Group on Investments and the Work Group on Services.

The Fourth Ministerial Meeting on Trade was held in San Jose, Costa Rica, in March 1998, and defined the following items with respect to FTAA negotiations:

- a) formal start in 1998;
- b) the final agreement will be balanced, broad in scope, in keeping with WTO principles and will be a single commitment. It will take account of the needs, economic conditions and opportunities of the smaller economies. Negotiations will be transparent and decisions will be taken on a consensus basis;
- c) FTAA can coexist with bilateral and subregional agreements. Negotiations are to be concluded at the latest by 2005.

The institutional structure for negotiations will be as follows: Trade Negotiation Committee at the Deputy Minister level; nine negotiating groups dealing with market access, investments, services, government procurements, settlement of controversies, agriculture, intellectual property rights, subsidies, antidumping and compensatory measures and policies on competition. The negotiating meetings should begin in September 1998 and will be held at a single headquarters: Miami (5.1.98 to 2.28.01); Panama City (3.1.02 to 2.28.03); and Mexico City (3.1.03 to 12.31.04).

### **World Trade Organization and GATS**

In the framework of the World Trade Organization (WTO), Banco Central do Brasil is involved in the areas dedicated to the question of financial service trade (banks and other services, including the capital market), included in the General Agreement on Trade in Services (GATS).

In 1997, the Committee on Trade in Financial Services met seven times. By November 1997, 46 member countries had presented their positions. Brazil committed itself to continuing its strategy of permitting foreign banks to operate in the country, on the basis of a case-by-case analysis. This restriction has no bearing on the privatization program since international financial institutions are permitted to participate freely in this program. This position represents progress in relation to the previous position (1995) since it consolidates the current situation and transforms it into an international commitment regulated by the WTO.



# VII

## MAIN ECONOMIC POLICY MEASURES

### National Monetary Council Resolutions

**2,352, 1.23.97** - Revokes Resolution no. 2,154, dated 4.27.95, which prohibits financial institutions from carrying out credit operations guaranteed by checks and from rendering physical and electronic check custody services.

**2,353, 1.23.97** - Defines conditions related to callable reserves as determined in the Rural Credit Manual (MCR 6-2) for the period from February to June 1997.

**2,354, 1.23.97** - Abolishes the commission of 1.25% (one point twenty-five percent) on federal government loan operations (EGF) as treated of in MCR 4-1-9.

**2,355, 1.23.97** - Determines that the “R” reduction factor of the Reference Rate (TR) defined in Resolution no. 2,097, dated 7.27.94, will be 1.0095 (one point ninety five tenths of a thousand), as of the TR calculation for 7.1.97.

**2,356, 2.27.97** - Authorizes investments by national investors in Depositary Receipts (DR) issued abroad and backed by the securities of companies headquartered in the country.

**2,357, 2.27.97** - Deals with required investments in rural credit (MCR 6-2), as treated in article 1, indent II of Resolution no. 2,353, dated 1.23.97.

**2,358, 2.27.97** - Determines that the “R” reduction factor of the Reference Rate (TR) defined in article 3, paragraph, indent I, line “b” of Resolution no. 2,097, dated 7.27.94, will be 1.0095 (one and ninety five tenths of a thousand) for calculating the TR in the month of August.

**2,359, 2.28.97** - Treats of the granting of federal government loans without a sales option involving corn for processing facilities, industries and producer cooperatives that process or industrialize the product.

**2,360, 2.28.97** - Treats of rural credit based on controlled resources, when such credit is channelled to financing the expenditures of the corn, soybean and sorghum crops in the 1997 “minor harvest” in the central-south region of the country.

**2,361, 2.28.97** - Authorizes extension to 4.30.97 of the maturities of installments of rural credit operations involving current expenditures of the 1996 wheat harvest.

**2,362, 2.28.97** - Authorizes granting of a period up to 5.28.97 for payment of operations contracted with resources of the Coffee Economy Defense Fund (Funcafé), provided that the conditions in this Resolution are duly observed.

**2,363, 2.28.97** - Determines conditions for financing the Bahia Cocoa Crop Recovery Program in 1997, when such is to be used in controlling a disease known as the “witch’s broom” and in recovering the productivity of that product.

**2,364, 2.28.97** - Treats of the granting of time periods for rural credit operations and for renegotiation of amounts in excess of R\$ 200,000.00, as treated in article 1, indent IX of Resolution no. 2,238, dated 1.31.96.

**2,365, 2.28.97** - Institutes the Program of Incentives to the Reduction of the State Public Sector in Banking Activity (Proes), in the framework of the mechanisms defined in Provisional Measure no. 1,556-7, dated 2.13.97.

**2,366, 3.17.97** - Authorizes the Federal Savings Bank to acquire National Financial System credits under the terms of the Program of Support to the Restructuring and Fiscal Adjustment of the States and introduces adjustments into public sector credit limits, as treated in Resolution no. 2,008, dated 7.28.93, and no. 2,237, dated 1.31.96.

**2,367, 3.18.97** - Determines that indent III of article 2 of Resolution no. 2,365, dated 2.28.97 will have the following text: “III - federal financial institution assumption of state financial institution liabilities with the public, a line that will be subject to financial charges equivalent to the Banco Central Base Rate (TBC)”.

**2,368, 3.25.97** - Determines that the “R” reduction factor of the Reference Rate (TR) defined in article 3, paragraph, indent I, line “b” of Resolution no. 2,097, dated 7.27.94, will be 1.0095 (one point ninety five thousandths) for calculation of the TR in the month of September.

**2,369, 3.26.97** - Introduces a provision in Resolution no. 2,208, dated 11.3.95, which treats of the Program of Incentives to the Restructuring and Strengthening of the National Financial System (Proer).

**2,370, 4.3.97** - Treats of agricultural zoning for the wheat crop and reduction in the rate of the additional fee of the Agricultural Activity Guaranty Program (Proagro).

**2,371, 4.3.97** - Treats of the granting of financing for acquisition, transportation and application of lime under the terms of obligatory resources (MCR 6-2).

**2,372, 4.3.97** - Treats of the granting of Federal Government Loans with Sale Options (EGP/SOV) for marketing of the 1997 winter harvest.

**2,373, 4.3.97** - Treats of the conditions and procedures applicable to operations involving lengthening of the terms of debts originating in rural credit, as specified in Law no. 9,138, dated 11.29.95, and Resolution no. 2,238, dated 1.31.96.

**2,374, 4.24.97** - Alters the period for contracting operations involving financing of payments of quota shares of cooperatives from 3.31.97 to 7.1.97, as treated in Resolutions nos. 2,185, dated 7.26.95, and 2,270, dated 4.12.96.

**2,375, 4.24.97** - Includes mortgage companies among the institutions allowed to operate as fiduciary agents in real estate credit operations with mortgage guaranties.

**2,376, 4.24.97** - Determines that the reduction factor "R" of the Reference Rate will be 1.0095 (one and ninety five ten thousandths) for calculating the TR in the month of October 1997.

**2,377, 4.24.97** - Determines that verification of compliance with rural credit investment requirements (MCR G-2) will be effected on the first business day of March and September, based on the daily average of obligatory investments and investments in the immediately previous half-year period will begin in September 1997.

**2,378, 4.24.97** - Treats of the granting of loans or financing based on resources from 3.16.95 for industrial facilities designed for production of fertilizers and pesticides for agricultural use.

**2,379, 4.24.97** - Alters the basis of calculation for the channelling of resources originating in savings deposits.

**2,380, 4.25.97** - Redefines criteria applicable to the terms of article 2 of Law no. 8,187, dated 6.1.91, in operations under the terms of the Export Financing Program - Proex.

**2,381, 4.25.97** - Alters Resolution no. 2,224, dated 12.20.95, which treats of financing operations in the framework of the Export Financing Program (Proex).

**2,382, 5.19.97** - Institutes a credit line that will utilize resources from the Coffee Economy Defense Fund (Funcafé). The credits are to be used in financing coffee harvest current expenditures in the 1996/1997 agricultural cycle.

**2,383, 5.22.97** - Defines criteria for accrediting and authorizing foreign credit operations of interest to the states, Federal District, municipalities, their semi-autonomous entities, foundations and companies, when such do not have federal government guaranties, as well for foreign resources inflows contracted by state banks.

**2,384, 5.22.97** - Deals with investment of the funding belonging to investment companies, funds and portfolios instituted by the Regulations in Appendices I, II, III and IV to Resolution no. 1,289, dated 3.20.87, in debentures convertible into publicly distributed stock and the carrying out of derivative operations on organized markets.

**2,385, 5.22.97** - For purposes of verifying compliance with the limit on investments of permanent asset resources, deals with exclusion of the capital quotas of the Security Custody and Liquidation Center (Cetip) and of seats on stock exchanges, commodities and futures markets.

**2,386, 5.22.97** - Provides a new text for article 9 of the regulations appended to Resolution no. 1,980, dated 4.30.93, which disciplines the channelling of the resources contracted by entities that are part of the Brazilian System of Savings and Loans as well as financing operations in the framework of the Housing Finance System (SFH).

**2,387, 5.22.97** - Defines a new formula for calculating the “R” reduction factor of the Reference Rate (TR), defined in article 3, paragraph, indent I, line “b”, of Resolution no. 2,097, dated 7.27.94.

**2,388, 5.22.97** - Alters indent X of article 4 of Resolution no. 2,008, dated 7.28.93, which shall henceforward read as follows: “X - new credit operations or refinancing operations that are contracted with Employment Compensation Fund (FGTS) resources in which the final borrower is the public authority, restricting annual disbursements to amounts defined by the National Monetary Council”.

The indent above refers to one of the types of operations that are not subject to conditioning factors on public sector credits as treated in Resolution no. 2,008/93 and was included in this norm as a result of Resolution no. 2,153, dated 4.27.95, with the following text: “X - new credit operations to be contracted in 1995 and 1996 with FGTS resources, provided that the respective disbursements are restricted to R\$ 500 million and R\$ 530 million”.

Later, Resolution no. 2,285, dated 6.5.96, altered the aforementioned indent X as follows: “X - new credit operations to be contracted in 1996 and 1997 with FGTS resources and with the public authority as final borrower, provided that disbursements be restricted to R\$ 1,360 million in 1996 and R\$ 2,826 million in 1997”.

**2,389, 5.22.97** - Prohibits financial institutions from granting credit operations to credit card users when such operations are to be used in financing goods and services abroad, effective as of the date of this Resolution.

**2,390, 5.22.97** - Determines that multiple banks, commercial banks, savings banks, investment banks, development banks, real estate credit companies, credit, finance

and investment companies, mortgage companies, development agencies and leasing companies should provide information to Banco Central do Brasil on the volume of debts and liabilities for client guaranties. With respect to debts and liabilities, the information should be consolidated by client and will represent the first step in implementing the Credit Risk Center.

**2,391, 5.22.97** - Treats of the issue of securities representative of the debt paid-in by companies directly or indirectly controlled by states, municipalities and the Federal District.

**2,392, 5.28.97** - Treats of the extension of the maturities of cotton, rice and corn current expenditure operations for the 1996/97 harvest.

**2,393, 6.25.97** - Treats of payment of the financial charge instituted by Law no. 7,738, dated 3.9.89.

**2,394, 6.25.97** - Alters the conditions for forward sales of Banco Central do Brasil Bills, as treated in Resolution no. 2,081, dated 6.24.94.

**2,395, 6.25.97** - Permits investment of resources obtained for the purposes foreseen in Resolution no. 2,148, dated 3.16.95, no. 2,170, dated 6.30.95, and no. 2,312, dated 9.5.96, in National Treasury Notes, Series "D" (NTN-D).

**2,396, 6.25.97** - Institutes offices of banking institutions designated Advanced Service Centers (PAA).

**2,397, 6.25.97** - Institutes financial charges for rural credit operations contracted with resources of government credit operations, as of 1.15.89.

**2,398, 6.25.97** - Determines that, in the first half of 1997, financing of agroindustrial credits formalized as of 1.15.89, with resources originating in government credit operations, are subject to basic earnings according to the Long-Term Interest Rate (TJLP), plus effective interest of 9% per year.

**2,399, 6.25.97** - Alters the formula for calculating the net assets treated of in the Regulations in Appendix IV to Resolution no. 2,099, dated 8.17.94.

**2,400, 6.25.97** - Alters regulations on the utilization of budget resources of government credit operations when the same are targeted to financing stocks of crop and livestock products.

**2,401, 6.25.97** - Alters the interest rate applicable to financing targeted to acquisition and maintenance/recovery of machines, tractors, harvesters, farm machinery and equipment, as treated in Resolutions nos. 2,314/96 and 2,339/96.

**2,402, 6.25.97** - Treats of the channelling of controlled rural credit resources, financial charges and other conditions.

**2,403, 6.25.97** - Treats of agricultural zoning for the cotton, rice, bean, corn and soybean crops and reduction of the additional Proagro rate.

**2,404, 6.25.97** - Dispenses with the transfer of credits being acquired by the Federal Savings Bank to credits in arrears or in liquidation.

**2,405, 6.25.97** - Treats of the investment of resources by financial institutions, other institutions authorized to operate by Banco Central do Brasil, private social security entities, insurance companies, capitalization companies and financial investment funds in acquisitions of certificates representative of forward purchase and sale contracts involving electrical energy.

**2,406, 6.26.97** - Authorizes constitution and financing of foreign capital emerging business investment funds to operate in obtaining foreign resources for investment in diversified portfolios of securities issued by emerging companies headquartered in the country.

Acquisition of quotas in the funds treated in this Resolution is reserved to individuals or legal entities, resident, domiciled or headquartered abroad, funds, and other foreign collective investment entities.

The Securities and Exchange Commission (CVM) should regulate the constitution, operation and management of foreign capital emerging business investment funds. The regulations should at least cover the following:

- a) obligatory nature of constituting the fund in the form of a closed condominium;
- b) criteria for exercising management of the fund;
- c) requirements for composition and diversification of the fund's investments;
- d) conditions for issue, placement and tradability of the fund's quotas; and
- e) maximum period of the fund's duration.

According to the provisions of article 2 of Executive Act no. 22,285, dated 7.23.86, the tax treatment specified in article 81 of Law no. 8,981, dated 1.20.95, applies to foreign capital emerging business investment funds.

Determines that, having complied with the terms of this Resolution, for a period of one hundred and eighty days as of the date on which this Resolution goes into effect (6.27.97), with renewal of said period for an equal period being permitted at the

discretion of the CVM, emerging business mutual investment funds, constituted in the form of CVM Instruction no. 209, dated 3.25.94, and subsequent regulations, may be transformed or broken up into or incorporated into or merged with foreign capital emerging business investment funds.

Banco Central and the CVM are, each in its own specific area of competence, duly authorized to adopt measures and issue complementary norms deemed necessary for execution of the provision in this Resolution.

**2,407, 7.4.97** - Approves the regulations that define norms for investment of Merchant Marine Fund resources to be used in support of vessels registered in the Brazilian Special Registry (REB).

**2,408, 7.31.97** - Alters the maximum date for signing contracts involving Federal Savings Bank (CEF) acquisitions of credit operations for which the states are liable from 6.30.97 to 8.29.97, under the terms of Resolution no. 2,366, dated 3.17.97.

**2,409, 7.31.97** - Treats of rural financing under the terms of the National Program for Strengthening Family Agriculture (Pronaf).

**2,410, 7.31.97** - Treats of rural current expenditure financing in the revolving credit modality, under the terms of the National Program for Strengthening Family Agriculture (Pronaf).

**2,411, 7.31.97** - Prohibits automatic transfer of demand deposit resources to any type of investment without the express and prior authorization of the account holder.

**2,412, 8.6.97** - Treats of operations involving assigns of credits generated by loan, financing and leasing operations.

**2,413, 8.11.97** - Treats of the granting of additional time for rural credit operations and for renegotiation of amounts in excess of R\$ 200 thousand, as treated in article 1, indent IX, of Resolution no. 2,238, dated 1.31.96.

**2,414, 8.11.97** - Treats of the granting of additional time for operations to be used in financing payment of quota-shares in cooperatives, as treated in Resolutions no. 2,185, dated 7.26.97, and no. 2,270, dated 4.12.96.

**2,415, 8.11.97** - Treats of release of obligatory reserves on resources obtained in rural savings accounts and to be used in rural financing.

**2,416, 8.14.97** - Treats of the consolidation and rescheduling of rural credit debts contracted under the terms of the Coffee Economy Defense Fund (Funcafé).

**2,417, 8.28.97** - Treats of the obligation to effect investments in rural credit (MCR 6-2).

**2,418, 8.28.97** - Authorizes granting of extensions up to 9.30.97 for federal government loan operations with sale options, in those cases in which maturity occurred up to 12.31.94 and in those involving the 1994/95 summer harvest.

**2,419, 9.2.97** - Alters the deadline for the Federal Savings Bank to acquire credits held by the National Financial System in operations with those states that have already renegotiated their debts with the federal government, under the terms of the Program of Support to Restructuring and Fiscal Adjustment of the States.

**2,420, 9.2.97** - Treats of rural financing under the terms of the National Program for Strengthening Family Agriculture - Pronaf (MCR 8-10).

**2,421, 9.10.97** - In operations aimed at lengthening the terms of debts generated by rural credit operations, permits anticipated amortization through payment in kind, as treated in article 1 of Resolution no. 2,373, dated 4.3.97. The maximum limit was set at 100% (one hundred percent) of the value of installments due in 1997.

**2,422, 9.10.97** - Treats of Proagro regulations, agricultural zoning and “direct planting”.

**2,423, 9.23.97** - Determines that investment of available resources belonging to the Worker Support Fund (FAT), the Coffee Economy Defense Fund (Funcafé) and the National Education Development Fund (FNDE) should be effected only through Banco do Brasil S.A. or an institution that is part of the financial conglomerate led by that institution.

**2,424, 10.1.97** - Approves the regulations that discipline constitution and operation of Individual Programmed Retirement Funds (Fapi) and treats of institution of Individual Programmed Retirement Incentive Plans.

**2,425, 10.1.97** - Treats of utilization of Long-Term Interest Rates (TJLP) in operations involving National Development Fund resources (FND).

**2,426, 10.1.97** - Regulates utilization of resources drawn from budget unit “Government Credit Operations” to be used for coverage and financing of expenditures on formation and maintenance of public stocks of crop and livestock products.

**2,427, 10.1.97** - Treats of agricultural zoning for the dry season cotton crop and irrigated rice crop and retroactive application of the measures introduced in Resolution n° 2,422, dated 9.10.97.

**2,428, 10.1.97** - Treats of the financing of fishing activities under the terms of controlled rural credit resources.

**2,429, 10.2.97** - Authorizes granting of additional period up to 10.31.97 for Federal Government Loan Operations with Sale Options (EGF/SOV).

**2,430, 10.2.97** - Treats of the granting of additional time for operations to be used in financing payment of quota-shares in cooperatives, as dealt with in Resolutions n° 2,185, dated 7.26.95, and n° 2,270, dated 4.12.96.

**2,431, 10.2.97** - Institutes a credit line under the terms of the Coffee Economy Defense Fund (Funcafé), to be utilized in financing current expenditures of the coffee crop in the 1997/98 agricultural year.

**2,432, 10.13.97** - Treats of the granting of Federal Government Loans without Sale Options (EGF/SOV) for products from the 1997 and 1997/98 harvests.

**2,433, 10.16.97** - Deals with the conditions and procedures to be observed in the process of lengthening the terms of debts originating in rural credit operations, as treated in Law n° 9,138, dated 11.29.95, and complementary norms.

**2,434, 10.16.97** - Deals with the granting of additional time for rural credit operations and for renegotiation of amounts in excess of R\$ 200,000.00 (two hundred thousand reais), as treated in article 1, indent IX of Resolution n° 2,238, dated 1.31.96.

**2,435, 10.21.97** - Dealt with the period for contracting financing to be used in acquisitions of farm tractors and harvesters, under the terms of funds managed by BNDES.

**2,436, 10.21.97** - Institutes a special line of credit to be used in crop and livestock current expenditure financing under the terms of the National Program for Strengthening Family Agriculture (Pronaf).

**2,437, 10.30.97** - Alters the calculation methodology of the Reference Rate (TR) applicable to nonbusiness days and consolidated norms on the TR and Basic Financing Rate (TBF).

**2,438, 10.30.97** - Deals with the period for contracting current expenditure financing of the coffee crop in the 1997/98 agricultural period.

**2,439, 10.31.97** - Treats of the release of obligatory reserves on rural savings account resources set aside for investment in rural sector financing.

**2,440, 11.12.97** - Permits investment of resources obtained abroad under the terms of Resolutions no. 2,148, dated 3.16.95, no. 2,170, dated 6.30.95, and no. 2,312, dated 9.5.96, in Banco Central do Brasil Notes - Special Series (NBC-E) and in National Treasury Notes - Series "I" (NTN-I), exclusively for the periods stipulated in the respective registrations and authorizations, until such time as the resources in question are utilized for the purposes defined in the aforementioned normative instruments.

**2,441, 11.12.97** - Regulates Provisional Measure no. 1,598, dated 11.12.97, which deals with the granting of credits to manufacturers of inputs included in the productive process, assembly and packaging of merchandise reserved to the export market.

With this Resolution, banks authorized to deal in exchange were permitted to utilize their trade credit lines abroad to grant credits backed by trade bills issued by manufacturers of inputs utilized in processes of production, assembly or packaging of merchandise reserved for the export market, when such notes are representative of the value of the inputs sold or delivered to final exporter companies, to be paid in installments.

The trade bills in question may be issued in United States dollars or Real, depending on the type of transaction agreed upon among the parties involved and on the terms of regulations issued by Banco Central do Brasil.

**2,442, 11.12.97** - Deals with the utilization of saving account resources.

**2,443, 11.14.97** - Determines that the balances of credit operations based on Anticipated Budget Revenues (ARO) are restricted to the balances of these operation calculated by financial institutions on 6.30.97.

The financial institution that, in relation to the aforementioned ceiling, registers excess amounts as a result of registration of new operations or acquisition of credits based on ARO operations in the final business day positions of each month will, without detriment to other applicable penalties and sanctions specified in current norms, be obligated to deposit the excess amount in Banco Central do Brasil by the fifth business day of the second month subsequent to that in which the irregularity occurred. Such deposits will not be entitled to earnings.

The total or partial release of the amounts deposited will occur on the fifth business day of the second month subsequent to that of the balance sheet in which the reduction or elimination of the excess is registered.

New credit operations based on Anticipated Budget Revenues with the holders of debt balances under ARO operations transferred to the Federal Savings Bank

according to the terms of Resolution no. 2,366, dated 3.17.97, are hereby prohibited. The said Resolution also takes other measures.

**2,444, 11.14.97** - Redefines the rules for the conditioning of credits to the public sector and defines the limits for such operations.

The overall volume of National Financial System investments with public sector entities is limited to the sum of the balances registered by financial institutions on 9.30.97, excluding operations based on anticipated budget revenues.

By public sector entities, the following are understood:

- i) the direct administration of the federal, state, municipal and Federal District governments;
- ii) public companies, joint capital companies, their subsidiaries and other companies directly or indirectly controlled by the federal government, states, Federal District and municipalities;
- iii) semi-autonomous agencies and foundations created or maintained directly or indirectly by the federal, state, municipal and Federal District administrations;
- iv) other entities subordinated to the federal, state, municipal and Federal District governments. The said Resolution also takes other measures.

**2,445, 11.26.97** - Defines the conditions applicable to operations under the terms of the Special Credit Program for Agrarian Reform (Procera) and authorizes extension of already matured debts and/or debts scheduled to mature in 1997.

**2,446, 11.27.97** - Treats of the obligatory nature of rural credit investment operations (obligatory resources - MCR 6-2).

**2,447, 11.27.97** - Treats of the granting of additional terms for operations reserved to financing payment of quotas in cooperatives, as treated in Resolution no. 2,185, dated 7.26.95.

**2,448, 11.27.97** - Treats of the granting of additional terms for EGF/GOV operations.

**2,449, 11.27.97** - Defines the financial charges for agro-industrial credit operations contracted with resources of government credit operations.

**2,450, 11.27.97** - Defines the financial charges for rural credit operations contracted with resources of government credit operations.

**2,451, 11.27.97** - Treats of the segregation of the administration of third party resources from that of the institution's other activities.

**2,452, 12.18.97** – Deals with the utilization of budget resource for equalization payments and establishment of special rules for export financing operations carried out by BNDES and Finame.

**2,453, 12.18.97** – Determines procedures for adapting automated electronic information systems to the millenium change in the year 2000.

**2,454, 12.18.97** – Treats of the limit on credits to be used in the financing of current expenditure outlays under the terms of the Special Program of Agrarian Reform Credits (Procera).

**2,455, 12.18.97** – Treats of the granting of Federal Government Loans with a Sale Option (EGF/SOV) and criteria covering current expenditure credits for the 1998 North/Northeast harvest.

**2,456, 12.18.97** – Treats of the granting of Federal Government Loans without a Sale Option (EGF/SOV) for the 1997 winter oats harvest.

**2,457, 12.18.97** – Treats of the granting of terms for rural credit operations and for renegotiation of amounts in excess of R\$ 200 thousand, as treated in article 1, indent IX of Resolution no. 2,238, dated 1.31.96.

**2,458, 12.18.97** – Treats of the purposes to which the resources obtained through savings deposits by member entities of the Brazilian System of Savings and Loans (SBPE) are to be put.

**2,459, 12.18.97** – Alters the calculation formula of the “R” reduction factor in the Reference Rate (TR) and redefines the minimum time period that must elapse before later alterations can be adopted.

**2,460, 12.19.97** – Treats of the investment of the technical reserves of social security systems instituted by open social security entities and insurance companies.

**2,461, 12.26.97** – Redefines rules for the conditions imposed on credits to the public sector and defines limits for such operations.

**Banco Central do Brasil Circulars**

**2,733, 1.2.97** - Treats of procedures to be observed by financial institutions at the time of resources transfers during the period in which the Provisional Contribution on Financial Transactions (CPMF) is in effect.

**2,734, 1.2.97** - Institutes and disciplines savings deposits with quarterly earnings.

**2,735, 1.9.97** - Prohibits utilization abroad of international credit cards issued in the country for purchases of goods and services that constitute investments abroad or for imports of goods subject to Siscomex registration. For purposes of acquiring foreign currency up to the limit of US\$ 3 thousand or its equivalent in another currency to be used in meeting travel expenditures, permits cash payment in national currency.

**2,736, 1.15.97** - Releases the listing of financial institutions included in the sampling utilized for purposes of calculating the Reference Rate (TR) and Basic Financial Rate.

**2,737, 1.16.97** - Defines norms for appropriation of earnings into investment funds.

**2,738, 1.23.97** - Defines norms to be observed by financial investment funds and funds involving acquisitions of investment fund quotas.

**2,739, 2.19.97** - Sets the procedures for the registration of equity capital earning.

**2,740, 2.19.97** - In relation to financial investment funds and funds reserved to application in investment fund quotas, as regulated by Circular no. 2,616, dated 9.18.95, and later alterations, determines that the total quotas held by a single fund member must not be equivalent to more than 20% of the fund's net worth.

**2,741, 2.27.97** - Defines conditions for registration of Brazilian investments abroad in depositary receipts (DR), backed by securities issued by companies headquartered in the country.

**2,742, 2.28.97** - Defines conditions for access to the Program of Incentives to the Reduction of the State Public Sector in Banking Activity (Proes).

**2,743, 2.28.97** - Regulates the special line of financial assistance, connected to securities or rights related to operations for which the National Treasury or entities belonging to the federal indirect public administration are liable, as defined in the Program of Incentives to the Reduction of the State Public Sector in Banking Activity (Proes).

**2,744, 2.28.97** - Regulates the special line of restructuring of the asset and/liability portfolios of state financial institutions, as defined in the Program of Incentives to the Reduction of the State Public Sector in Banking Activity (Proes).

**2,745, 3.18.97** - Regulates the special line of financial assistance tied to federal financial institution assumption of state financial institution liabilities with the public, within the framework of the Program of Incentives to Reduction of the State Public Sector in Banking Activity (Proes).

**2,746, 3.20.97** - Defines procedures for acknowledging and recording tax credits in accounting.

**2,747, 3.25.97** - Introduces alterations into the regulations instituted by Circular no. 2,730, dated 12.13.96, related to payment of Brazilian imports, determining:

- i) obligatory contracting of the exchange operation for future settlement in imports with terms of up to 360 days, when shipment abroad occurs after 3.31.97;
- ii) procedures for calculating and charging the fine instituted by Provisional Measure no. 1,569, dated 3.25.97.

**2,748, 3.26.97** - Regulates the special line of financial assistance of the Program of Incentives to the Restructuring and Strengthening of the National Financial System (Proer), as treated in Resolution no. 2,208, dated 11.3.95.

**2,749, 4.3.97** - Excludes exchange operations for payment of imports shipped from abroad up to and including 7.31.97 from the obligation of exchange contracting for future settlement, as treated of in indent I of article 1 of Circular no. 2,747, dated 3.25.97, provided that the following conditions be cumulatively observed:

- i) the operations involve imports valued at less than US\$ 40,000.00 or its equivalent value in other currencies;
- ii) the country in which the merchandise originated is a member of Mercosul, Bolivia or Chile and is a signatory of the Laia Mechanism for Dispute Resolution; and
- iii) the exchange operations are settled by the final day of the second month subsequent to the month of registration of the Import Declaration, under the terms of the Laia Reciprocal Payments and Credit Agreement (CCR).

**2,750, 4.9.97** - Defines procedures for the accounting of subscriptions, increases and reductions of the capital stock of financial institutions.

**2,751, 4.9.97** - Treats of corroboration of investment of credits obtained abroad in the financing of Brazilian export operations.

**2,752, 4.23.97** - Treats of the definition of criteria for the charging of fines for reasons of delay or rectification of information regarding reserve requirements/obligatory reserves.

**2,753, 4.30.97** - Determines that the opening of letters of credit for purposes of import operations, as well as liquidation of exchange operations for purposes of anticipated or immediate payment of imports subject to non-automatic licensing are dispensed from the requirement of prior import licensing when, based on the regulations issued by the Secretariat of Foreign Trade of the Ministry of Industry, Commerce and Tourism, such a license was not required prior to foreign shipment of the merchandise.

Exchange operations carried out for the purpose of payment of financial imports with maturities of more than 360 days registered at Banco Central should be finalized for future liquidation, when such involve payments of installments scheduled to mature up to the final day of the month subsequent to the month of registration of the corresponding Import Declaration.

**2,754, 5.7.97** - Determines that payments of liabilities resulting from contracts involving membership in group buyer plans created as of the date of publication of this circular will be subject to interest of up to 1% per month and a fine on arrears of not more than 2% of the updated value of the installments in arrears. Application of the provision above to group buyer associations formed prior to the publication date of this circular may occur at the decision of the general meeting.

**2,755, 5.22.97** - Regulates the provision in Resolution no. 2,383, dated 5.22.97, with respect to the criteria for accreditation and authorization of foreign credit operations of interest to the states, Federal District, municipalities, their semi-autonomous agencies, foundations and companies, when such are not guaranteed by the federal government, and introduced a new text for article 4 of Circular no. 2,384, dated 11.26.93.

**2,756, 5.22.97** - Defines procedures for monthly remittances of client-related information for purposes of implementing the Credit Risk Center System.

**2,757, 5.23.97** - Sets the value of 1.05 (one and five one hundredths) for the Wage Equivalency Coefficient (CES) cited in article 8 of Law no. 8,692, dated 7.28.93. The stated law defines readjustment plans for monthly charges and debt balances in financing contracts in the Housing Finance System (SFH) framework.

**2,758, 5.23.97** - Defines procedures for making the deposit stated in article 91, paragraph 11 of Resolution no. 1,980/93, and alters the earnings on resources corresponding to letters of credit deposited in Banco do Brasil.

**2,759, 6.4.97** - Redefines the rules for compulsory deposit/obligatory reserves on time deposits, exchange acceptance resources, debenture collateral bills and securities issued by the institution itself.

**2,760, 6.11.97** - Redefines compulsory deposits on resources registered in the subgroups/ accounting headings of the Accounting Plan of National Financial System Institutions (Cosif) specified therein.

**2,761, 6.18.97** - Alters the manner in which the adjusted average rate of financing calculated in the Special system of Liquidation and Custody (Selic) is to be expressed for federal securities, as well as the percentage expression for setting the Banco Central Base Rate (TBC) and the Banco Central Assistance Rate (Tban).

**2,762, 6.24.97** - Alters the date treated in article 1 of Circular no. 2,749, dated 4.3.97, to 10.31.97. The cited Circular excludes exchange operations effected as payment for imports loaded abroad by and including 7.31.97, from the obligation of contracting exchange for future liquidation as treated in indent I of article 1 of Circular no. 2,747, dated 3.25.97.

**2,763, 6.25.97** - Defines procedures to be observed for charging the financial levy instituted by Law no. 7,738, dated 3.9.89, in cases of the bankruptcy of the exporter or of intervention or extrajudicial liquidation of the bank buying the foreign currency.

**2,764, 6.25.97**- Defines permitted investment modes of resources obtained under the terms of Resolution no. 63, dated 8.21.67.

**2,765, 7.2.97** - Reduces the minimum period for depositors in earmarked savings accounts to make use of their credits for residential real estate acquisitions from 36 months to 12 months.

**2,766, 7.3.97** - Institutes the regulations that discipline the constitution and operation of group buyer associations.

**2,767, 7.11.97** - Reduces the export tax rate on various types of sugar, cane molasses and ethyl alcohol to zero.

**2,768, 7.16.97** - Defines procedures for monthly remittances of client information to be used in implementing the Credit Risk Analysis Center system.

**2,769, 7.30.97** - The date on which Circular no. 2,766, dated 7.3.97, goes into effect is extended to 9.1.97. This Circular instituted the regulations that discipline the constitution and operation of group buyer associations.

**2,770, 7.30.97** - Defines procedures for registration of swap operations.

**2,771, 7.30.97** - For purposes of defining credit risks, announces the risk factors in swap operations, together with their respective correlation coefficients.

**2,772, 8.6.97** - Disciplines operations involving assigns of credits treated of in article 11 of Resolution no. 1,962, dated 8.27.92.

**2,773, 8.13.97** - Announces the listing of financial institutions that are part of the sample constituted for purposes of calculating the Reference Rate (TR) and Basic Financing Rate (TBF).

**2,774, 8.27.97** - Alters provisions of the Regulations appended to Circular no. 2,766, dated 7.3.97, which deals with the constitution and operation of collective buyer groups.

**2,775, 9.5.97** - Includes paragraph 5 in article 1 of Circular no. 2,367, dated 9.23.93, which instituted the System of Registration of Credit Operations with the Public Sector. For purposes of the securities debt, the aforementioned paragraph determines that public sector organs and entities be considered in default when they hold matured and unredeemed debts on the business day immediately subsequent to that of maturity.

**2,776, 9.10.97** - Prohibits financial institutions from charging tariffs for maintenance of demand and savings accounts that were not registered according to the terms of Resolution no. 2,025, dated 11.24.93.

**2,777, 9.19.97** - Alters the formula for calculating the fine introduced by Provisional Measure no. 1,569, dated 3.25.97, which will henceforward utilize the preset rate for working capital loans as announced by Banco Central do Brasil as its indexing factor.

**2,778, 10.15.97** - Alters the regulations that govern payments of imports with terms of up to 360 days.

**2,779, 10.29.97** - Presents clarifications with respect to verifying risks in derivative operations (RCD) and evaluating operations at market value.

**2,780, 11.12.97** - Determines that the period of validity of the Banco Central Basic Rate (TBC) and the Banco Central Assistance Rate (Tban) will begin on the business day following each meeting of the Monetary Policy Committee (Copom). Alters the regulations that define the objective, structure, operation and responsibilities and duties of Copom.

**2,781, 11.12.97** - Defines the types of investments of resources obtained under the terms of Resolution no. 63/67.

**2,782, 11.12.97** - Regulates the provision in Resolution no. 2,441, dated 11.12.97, which deals with the granting of advances to manufacturers of inputs included in the process of production, assembly and packaging of merchandise reserved to export operations.

**2,783, 11.13.97** - Defines minimum terms for contracting, renewing and extending foreign loan operations.

**2,784, 11.27.97** - Announces the new risk factors to be used as references in swap operations and the respective correlation coefficients for purposes of determining the risks of derivatives (RCD) and alters factors "F" and "F".

**2,785, 11.27.97** - Treats of the activities of financial investment funds and foreign capital fixed yield funds on derivative markets.

**2,786, 11.27.97** - Treats of the providing of information on the investment funds specified therein.

**2,787, 11.27.97** - Defines new limits for sold exchange positions on the free rate exchange market and maintains the other provisions in effect.

**2,788, 11.27.97** - Defines new limits for sold exchange position of banks accredited to operate on the floating rate exchange market, as instituted by Resolution no. 1,552, dated 12.22.88.

**2,789, 11.28.97** - Announces the conditions for transferring resources from deposit accounts that have not been re-registered.

**2,790, 12.3.97** – Disciplines the operations of the Fund to be used to receive FAT, Funcafé and FNDE investments.

**2,791, 12.10.97** – Treats of deposits of resources obtained in savings deposits.

**2,792, 12.12.97** – Alters title 14 of the Regulations on the Floating Rate Exchange Market (chapter 2 of the Consolidation of Exchange Norms - CNC).

**2,793, 12.17.97** – Determines that investments in public state securities corresponding to the debt that has been assumed and refinanced by the federal government in the framework of the Program of Support to the Restructuring and Fiscal Adjustment of the States should be classified as "nil risk – weighting factor 0%" for purposes of the provision in the regulations in Appendix IV of Resolution no. 2,099, dated 8.17.94.

**2,794, 12.17.97** – Alters Floating Rate Exchange Market Regulations to permit Brazilian investments abroad by individual investors.

**2,795, 12.18.97** – Alters the provisions that govern authorization and registration of foreign loan operations.

**2,796, 12.23.97** – Prohibits formation of purchase groups referenced to international tourism services.

**2,797, 12.23.97** – Treats of utilization of the chattel mortgage in real estate group buyer association contracts.

**2,798, 12.23.97** – Treats of the activities of financial investment funds and foreign capital fixed income funds in derivatives markets, while extending the deadline for adapting to the term of Circular no. 2,786, dated 11.27.97.



# APPENDIX

**Balance sheet of the Banco Central do Brasil**

**Explanatory notes on accounting statements**

**Members of the National Monetary Council**

**Banco Central do Brasil management**

**Central units (department) of the Banco Central do Brasil**

**Regional offices of the Banco Central do Brasil**

**Acronyms**

## Balance sheet of the Banco Central do Brasil (31-December-97)

				In R\$	
ASSETS		1997	1996	LIABILITIES	
		1997	1996	1997	1996
LONG-TERM CURRENT ASSETS AND RECEIVABLES	182 021 666 237.65	170 323 241 985.17	170 323 241 985.17	LONG-TERM CURRENT AND CALLABLE LIABILITIES	163 896 109 035.84
FOREIGN	61 663 971 697.74	66 033 269 068.22	66 033 269 068.22	FOREIGN (Note 9)	7 887 887 078.37
-Foreign Sector Operations (Note 4)	63 847 308 917.13	68 402 620 147.00	68 402 620 147.00	-Foreign Currency Liabilities	3 619 532 877.68
(Provision for Hard-to-Recover Credits)	(2 183 337 219.39)	(2 369 351 078.78)	(2 369 351 078.78)	-Deposits of International Financial Organizations	4 045 388 916.06
INTERNAL	120 357 694 539.91	104 289 972 916.95	104 289 972 916.95	-Earmarked Resources	127 757 840.01
-Operations	53 658 346 205.61	37 027 951 721.43	37 027 951 721.43	-Other Accounts	421 300.08
Loans to Financial Institutions	15 769 430 504.42	9 488 481 340.09	9 488 481 340.09	INTERNAL	156 103 008 102.01
Federal Public Securities - Open Market (Note 5)	35 102 562 110.23	25 145 316 905.32	25 145 316 905.32	-Financial Institution Deposits	42 181 116 148.87
(Provision for Reduction to Market Value)(Note 5)	(260 395 601.92)	(544 295 990.15)	(544 295 990.15)	Banking Reserves	11 555 306 266.41
Security Operations - Resale Commitments	1 050 687 377.65	999 827.10	999 827.10	Deposits of Brazilian Savings and Loan System	14 096 937 463.60
National Treasury Notes-NTN-L (Note 5)	1 981 787 410.47	2 927 733 790.74	2 927 733 790.74	Compulsory Reserves on Time Deposits	16 766 345 302.89
Operations with Non-earmarked Resources	9 687 510.54	5 078 886.63	5 078 886.63	Compulsory Reserves on Judicial Deposits	3 298 776 665.52
Other Securities	4 588 885.22	4 638 961.50	4 638 961.50	Other Reserves	379 891 037.07
-Other Credits	56 421 164 324.50	59 140 384 416.10	59 140 384 416.10	(Deposits in Public Securities) (Note 10)	(3 915 670 586.62)
Credits Receivable	33 148 456 270.95	28 561 402 321.65	28 561 402 321.65	-Deposits at Orders of Federal Government	41 135 317 817.91
Securities Receivable (Note 6)	25 890 941 773.78	32 903 577 745.46	32 903 577 745.46	Single National Treasury Account (Note 11)	32 189 326 324.27
Credits Registered under Debts in Execution	781 395 483.68	782 024 999.58	782 024 999.58	Resources of Diverse Origins (Note 11)	-
Debtors of Real Estate Commitments	6 905 105.63	7 584 808.35	7 584 808.35	Compulsory Loans - Vehicles (Note 12)	1 735 192 741.53
(Provision for Hard-to-Recover Credits)	(3 394 534 309.54)	(3 114 205 458.94)	(3 114 205 458.94)	Compulsory Loans - Fuels (Note 12)	7 210 798 752.11
-Other Accounts	10 264 789 652.42	8 107 455 740.00	8 107 455 740.00	-Other Deposits	4 150 615 262.10
Amounts Registered in Foreign Currencies	12 290 359.24	26 889 276.40	26 889 276.40	Financial Investment Funds (Note 13)	3 726 163 757.91
Fines	358 055 496.55	60 137 647.50	60 137 647.50	Deposits Registered in Foreign Currency	12 313 689.91
Deposits Earmarked to Appeals	209 859 384.27	209 806 687.12	209 806 687.12	Earmarked Deposits - Financial Institutions under Intervention (P)	403 076 234.17
Results to Offset (Note 7)	11 603 432 991.91	7 750 548 629.68	7 750 548 629.68	Other Accounts	9 059 570.11
Other Accounts	79 888 935.44	60 351 415.87	60 351 415.87	-Other Liabilities Callable	68 037 623 002.11
(Provision for Hard-to-Recover Credits)	(1 998 737 510.99)	(277 918.57)	(277 918.57)	Banco Central Bonds - BBC (Note 15)	28 326 937 946.94
-Securities and Goods	13 291 458.67	14 139 299.11	14 139 299.11	Banco Central Bills - LBC (Note 15)	25 766 111 285.44
Inventory	3 337 796.99	3 152 472.93	3 152 472.93	Banco Central Notes - NBC (Note 15)	11 628 843 030.14
Real Estate not Reserved to Use	9 953 661.68	10 986 826.18	10 986 826.18	Security Operations - Repurchase Commitments	2 103 346 927.28
-Expenditures Anticipated or to be Appropriated	102 894.71	41 740.31	41 740.31	Funds and Programs - Available at Banco Central (Note 20)	77 728 964.43
PERMANENT	5 695 701 267.04	5 448 534 504.80	5 448 534 504.80	Remainder to be Paid - Expenditures Processed	24 130 282.91
INVESTMENTS	4 935 992 606.13	4 690 786 827.88	4 690 786 827.88	Remainder to be Paid - Expenditures not Processed	-
-Capital Quotas in International Financial Organizations (Note 8)	4 935 992 606.13	4 690 786 827.88	4 690 786 827.88	Other Accounts	111 124 564.97
International Monetary Fund - IMF	3 264 297 084.00	3 229 325 496.00	3 229 325 496.00	-Other Accounts	598 335 871.02
Interamerican Development Bank - IDB	1 087 410 972.85	973 536 172.29	973 536 172.29	Other Liabilities Registered in Foreign Currency	141 342 222.05
International Bank for Reconstruction and Development - IBRD	206 544 586.52	192 288 640.69	192 288 640.69	Earnings on Federal Government Deposits, to be Deposited	226 425 309.41
Other Organizations	377 739 962.76	295 636 518.90	295 636 518.90	Other Accounts	230 568 339.56
IMMOBILIZED	759 708 660.91	757 747 676.92	757 747 676.92	CURRENCY	20 250 731 906.63
-Movable Properties	86 263 848.49	78 790 000.00	78 790 000.00	NET WORTH	3 592 497 696.57
-Real Estate	753 834 099.94	742 781 435.22	742 781 435.22	-Equity	2 576 356 440.43
-Accumulated Depreciation	(80 518 204.86)	(63 952 059.32)	(63 952 059.32)	-Contingency Reserves (Note 16)	467 818 844.79
-Intangible Goods	128 917.34	128 301.02	128 301.02	-Re-evaluation Reserves	526 351 277.00
TOTAL	187 717 367 504.69	175 771 776 489.97	175 771 776 489.97	TOTAL	187 717 367 504.69

				In R\$	
STATEMENT OF RESULTS		1st SEMESTER/97	2nd SEMESTER/97	YEAR/97	YEAR/96
OPERATING REVENUES	14 905 913 958.60	18 674 820 422.54	18 674 820 422.54	33 580 734 381.14	27 703 750 812.95
-Security Operations	2 654 856 055.36	2 589 176 106.10	2 589 176 106.10	5 244 032 161.46	4 436 798 711.23
-Foreign Sector Operations	4 887 316 902.87	5 662 123 490.35	5 662 123 490.35	10 549 440 393.22	9 654 921 603.92
-Banking Sector Operations	4 751 321 188.24	7 053 306 178.34	7 053 306 178.34	11 804 627 366.58	10 176 375 006.88
-Operations with Institutions under Special Systems	1 345 786 878.39	1 870 467 198.91	1 870 467 198.91	3 216 254 077.30	949 412 744.99
-Earnings	800 496 265.83	1 197 937 386.73	1 197 937 386.73	1 998 433 652.56	1 680 855 821.29
-Reversion of Provisions	451 777 132.82	287 429 473.50	287 429 473.50	739 206 606.32	773 356 947.90
-Other	14 359 535.09	14 380 588.61	14 380 588.61	28 740 123.70	32 029 976.70
OPERATING EXPENDITURES	(15 627 008 080.80)	(20 116 138 786.84)	(20 116 138 786.84)	(35 743 146 867.64)	(28 504 027 195.23)
-Security Operations	(9 113 659 964.42)	(10 606 071 003.71)	(10 606 071 003.71)	(19 719 730 968.13)	(17 885 210 211.36)
-Foreign Sector Operations	(1 253 581 097.68)	(1 392 851 100.25)	(1 392 851 100.25)	(2 646 432 197.93)	(2 296 448 362.35)
-Banking Sector Operations	(1 668 589 586.77)	(2 870 421 709.68)	(2 870 421 709.68)	(4 539 011 296.45)	(1 890 555 126.44)
-Earnings on Deposits at Orders of Federal Government	(2 125 837 026.75)	(3 136 833 409.66)	(3 136 833 409.66)	(5 262 670 436.41)	(4 406 921 993.52)
-Constitution and Monetary/Exchange Updating of Provisions	(1 066 255 812.34)	(1 498 687 744.83)	(1 498 687 744.83)	(2 564 943 557.17)	(931 430 851.30)
-Management Expenditures	(393 581 086.01)	(603 741 405.44)	(603 741 405.44)	(997 322 491.45)	(833 333 875.04)
-Other	(5 503 506.83)	(7 532 413.27)	(7 532 413.27)	(13 035 920.10)	(260 128 775.22)
OPERATING RESULT	(721 094 122.20)	(1 441 318 364.30)	(1 441 318 364.30)	(2 162 412 486.50)	(800 276 382.28)
NON-OPERATING REVENUES	205 910 449.59	313 972 863.23	313 972 863.23	519 883 312.82	888 907 015.22
NON-OPERATING EXPENDITURES	(127 571 115.89)	(105 288 389.95)	(105 288 389.95)	(232 859 505.84)	(256 358 709.85)
NON-OPERATING RESULT	78 339 333.70	208 684 473.28	208 684 473.28	287 023 806.98	632 548 305.37
RESULT IN PERIOD (Note 17)	(642 754 788.50)	(1 232 633 891.02)	(1 232 633 891.02)	(1 875 388 679.52)	(1 677 280 076.91)

				In R\$	
UTILIZATION OF RESULT		1st SEMESTER/97	2nd SEMESTER/97	YEAR/97	YEAR/96
RESULT IN PERIOD (Note 17)	(642 754 788.50)	(1 232 633 891.02)	(1 232 633 891.02)	(1 875 388 679.52)	(1 677 280 076.91)
TRANSFER TO RESULT TO BE OFFSET	642 754 788.50	1 232 633 891.02	1 232 633 891.02	1 875 388 679.52	1 677 280 076.91

## Explanatory notes on accounting statements (31-December-97)

### Note 1 - THE BANCO CENTRAL AND ITS RESPONSIBILITIES

Banco Central do Brasil (hereafter known as **Banco Central**) is a semi-autonomous federal agency created by Law no. 4,595, dated 12.31.64. Its task is to comply with and oversee the compliance of the determinations of the relevant current legislation and norms issued by the National Monetary Council (CMN).

The major responsibilities of the Banco Central are as follows:

- a) to issue bank notes and coins under the conditions and limits authorized by the National Monetary Council and to execute currency services;
- b) to receive compulsory banking reserves and voluntary deposits of financial institutions;
- c) to perform rediscount operations and loans to banking institutions;
- d) to exercise credit control in all forms;
- e) to exercise foreign capital control;
- f) to act as recipient of government reserves in gold, foreign currencies and Special Drawing Rights, and, with the latter, to carry out whatever operations specified in the Articles of Incorporation of the International Monetary Fund;
- g) to inspect financial institutions and to apply the appropriate penalties;
- h) to authorize financial institutions to operate in the country, to settle or to transfer their headquarters or offices, to modify their statutory regulations, etc.;
- i) to perform, as an instrument of monetary policy, open market operations with federal government securities;
- j) to receive as deposits the federal government cash funds;
- l) to come to understandings, on the behalf of the Brazilian Federative Republic and in the name of the Brazilian government, to deal with foreign and international financial institutions;
- m) to take the necessary measures to ensure: i) the regular operation of the exchange market; ii) the relative stability of the exchange rates and iii) the balance of payments equilibrium. To accomplish these goals, the Banco Central is authorized to purchase and sell gold and foreign currencies, as well as to carry out credit operations abroad;
- n) to buy and sell securities of public and private joint ownership companies, and state owned companies;
- o) to issue its own securities, based on the conditions defined by the National Monetary Council;
- p) to regulate the implementation of clearing services of checks and other papers.

## **Note 2 - PRESENTATION OF ACCOUNTING STATEMENTS**

In compliance to article 4 of Law no. 7,862/89, and in order to standardize consolidated data relative to the National Financial System, the Banco Central elaborates half-year balance sheets on June 30 and December 31 yearly, in a similar fashion of other financial institutions.

The accounting balance sheets were elaborated according to the legislation applicable to the Banco Central, particularly Law no. 4,320/64, Law no. 4,595/64 - modified by Executive Act no. 2,376/87, Executive Act no. 278/67, Law no. 7,862/89.

## **Note 3 - BASIC ACCOUNTING GUIDELINES**

The Banco Central adopts the period based (competence) accounting regime as the basis for appropriation of revenues and expenditures inside the fiscal year, broken down into monthly periods.

Given the peculiarities of the operations of the Banco Central, there is no discrimination between Current and Long Term assets and liabilities. Hence, domestic and foreign currency assets and liabilities are classified as Internal and External, respectively.

Assets and Liabilities in foreign currency and those subject to indexing are adjusted to the exchange rates in effect on the date of the balance sheet, according to the legal and contractually agreed upon indices.

Gold investments are adjusted by the market value, according to prices quoted by the Banco Central.

The provision for doubtful debtors is constituted or adjusted for each semester, in amounts large enough to cover possible losses resulting from unpaid credits.

Investments are updated by variations of the original currencies in which they were contracted. The depreciation of the Fixed Assets is calculated by the linear method, based in rates that reflect the economic life of assets.

## **Note 4 - FOREIGN SECTOR OPERATIONS**

The government's international reserves for which the Banco Central is recipient (Law no. 4,595/64) are registered as Current Foreign Assets and Long-Term Foreign Receivables.

The reduction in the level of international reserves, mostly noticed in the last quarter of the year, is the result of the exchange crisis in southeast Asia, and from external debt payments. Nevertheless, this downward trend has been reverted, with a partial recovery in December.

### Note 5 - FEDERAL PUBLIC SECURITIES

The federal public securities purchased by the Banco Central with the aim of implementing monetary policy are registered at their acquisition cost and adjusted by monetary updating indices and interest rates, incorporated “pro rata die”, on an accrual basis.

The Provision for Reduction to Market Value has the aim of adjusting the accounting value of Series “B” and “C” National Treasury Notes (NTN) received by this Banco Central at par at the time of the economic-financial measures adopted by the federal government, based on the terms of CMN Vote no. 116/93, BCB nos. 753/93 and 760/93 and Notification no. 1,176/GMF/93.

On the balance sheet date, the portfolio of securities had the following composition:

	December 1997		December 1996	
	Quantity	Value in R\$	Quantity	Value in R\$
Federal domestic securities				
1) Free				
LTN	23,288,607	22,290,386,250.18	1,130,000	1,023,980,158.60
NTN-B	137,011,063	2,117,881,035.48	174,172,554	2,375,042,581.05
NTN-C	-	-	161,096,511	3,284,830,159.98
NTN-D	412,450	472,832,283.55	7,471,970,855	12,009,122,142.42
LFT-A	7,967,000	8,021,830,467.32	-	-
Sum 1	168,679,120	32,902,930,036.53	7,808,369,920	18,692,975,042.05
2) With repurchase commitment				
LTN	1,592,348	1,518,789,371.84	-	-
NTN-B	37,161,491	574,432,570.01	-	-
NTN-C	-	-	138,985,478	2,866,007,522.71
NTN-D	91,801	106,410,131.85	3,133,547,746	3,586,334,340.56
Sum 2	38,845,640	2,199,632,073.70	3,272,533,224	6,452,341,863.27
Subtotal (1+2)	<b>207,524,760</b>	<b>35,102,562,110.23</b>	<b>11,080,903,144</b>	<b>25,145,316,905.32</b>
3) Non-negotiable				
NTN-L	1,883,775	1,981,787,419.47	2,461,360,827	2,927,733,790.74
NTN-P	4,996	8,952.89	4,996	7,706.62
TDA	342	39,781.44	859	91,454.62
Sum 3	1,889,113	1,981,836,153.80	2,461,366,682	2,927,832,951.98
<b>Total</b>	<b>209,413,873</b>	<b>37,084,398,264.03</b>	<b>13,542,269,826</b>	<b>28,073,149,857.30</b>

National Treasury Notes (NTN-L) were created by Decree no. 916/93, with value limited to the Banco Central's Foreign Liabilities to be assumed by the National Treasury, based on the terms of the Medium and Long-term Foreign Debt Restructuring Agreement (MYDFA) with the private banks and the Paris Club.

With the aim of adjusting the balance of these securities to the Banco Central's external balance to be transferred to the National Treasury, the CMN Vote no. 112/97, authorized the Banco Central to exchange, at the maturity date, R\$ 1,295.2 million of NTN-L for LTN, effective in August 1, 1997.

### Note 6 - SECURITIES RECEIVABLE

Of the total registered under this heading, R\$ 25,766,063,171.85 refer to state securities debt with the respective state banks exchanged for LBC according to the terms of Resolution no. 2,081/94. Earnings on these papers are calculated according to the Selic rate which is also used for LBC.

Within the process of debt renegotiation between the Federal Government and the State of São Paulo government, the Banco do Estado de São Paulo (Banespa) wrote off its debts to the Banco Central.

### Note 7 - RESULT TO BE OFFSET

This item refers to the balance of the results as of the second half of 1994 which are still registered at Banco Central until such time as they can be offset with positive results in future fiscal years, as determined in Executive Act no. 2,376/87. The amount receives earnings based on the Selic rate, as required by BCB Vote no. 217/96 and CMN Vote no. 100/96. A provision was setup, with an identical amount to the remuneration starting from January 1997, in compliance to the Banco Central's Communiqué no. 182/97.

In period, the heading Results to be Offset showed the following results:

	1997	1996
Previous balance	7,750,548,629.68	5,901,964,731.48
Earnings	1,998,433,652.56	1,680,855,821.29
Result - 1st Semester	642,754,788.50	504,389,016.16
Result - 2nd Semester	1,232,633,891.02	(336,660,939.25)
Realization of revaluation reserve	(20,937,969.85)	-
Result to be offset	11,603,432,991.91	7,750,548,629.68
Provision for losses	(1,998,433,652.56)	-
Balance	9,604,999,339.35	7,750,548,629.68

**Note 8 - PARTICIPATION IN INTERNATIONAL FINANCIAL ORGANIZATIONS**

The Capital Shares in International Financial Organizations in which Brazil participates are paid-in by the Banco Central as soon as the National Congress approves the respective articles of incorporation. These shares are classified under Permanent Assets - Investments and are revised by the rate of exchange. On December 31, Brazil had the following shares in international financial organizations:

Financial organization	1997		1996	
	In US\$	In R\$	In US\$	In R\$
International Monetary Fund (IMF)	2,926,046,149.16	3,264,297,084.00	3,109,306,273.83	3,229,325,496.00
Interamerican Development Bank (IDB)	974,731,958.45	1,087,410,972.85	937,354,296.45	973,536,172.29
International Bank for Reconstruction and Development (IBRD)	185,142,153.56	206,544,586.52	185,142,153.56	192,288,640.69
International Development Association (IDA)	102,296,099.39	114,121,528.48	98,944,166.76	102,763,411.60
Financial Fund for the Development of the River Plate Basin (Fonplata)	75,003,999.00	83,674,461.28	75,003,999.00	77,899,153.36
International Financial Corporation (IFC)	36,046,000.00	40,212,917.60	36,046,000.00	37,437,375.60
Bank for International Settlements (BIS)	35,877,696.37	40,025,158.07	-	-
International Fund for Agricultural Development (IFAD)	28,088,090.28	31,335,073.52	28,406,760.60	29,503,261.56
Interamerican Investment Corporation (IIC)	23,270,000.00	25,960,012.00	23,270,000.00	24,168,222.00
Andean Development Corporation (ADC)	16,560,000.00	18,474,336.00	8,280,000.00	8,599,608.00
African Development Fund (ADF)	14,885,810.80	16,606,610.53	7,916,752.66	8,222,339.31
African Development Bank (ADB)	3,369,778.60	3,759,325.01	3,580,829.97	3,719,050.01
Multilateral Investment Guaranty Agency (Miga)	3,200,556.00	3,570,540.27	3,200,556.00	3,324,097.46
<b>Total</b>	<b>4,424,518,291.61</b>	<b>4,935,992,606.13</b>	<b>4,516,451,788.83</b>	<b>4,690,786,827.88</b>

According to the terms of Decree no. 15/97, the Federative Republic of Brazil, represented by the Banco Central, became a shareholder of the Bank for International Settlements (BIS), subscribing to 3,000 shares of its capital. The total value of these shares was gold-francs 16,554,000. In compliance to the BIS statutory regulations, in March 25, 1997, 25% of this amount, equivalent to US\$ 35,877,696.37, were paid-up.

**Note 9 - FOREIGN LIABILITIES**

The Banco Central's foreign currency liabilities are converted into national currency by the exchange rate in effect on the date of the balance sheet and include interest to be paid at contracted rates. In summarized form, these liabilities were as follows on December 31:

Type of liabilities	1997		1996	
	In US\$	In R\$	In US\$	In R\$
Brazilian Financing Plan	1,434,033,427.40	1,599,807,691.61	1,608,538,809.52	1,670,628,407.57
Paris Club/exchange centralization - Resolution no. 1,564	542,196,781.39	604,874,729.32	226,238,060.19	234,970,849.31
Reciprocal credit agreements	624,651,272.55	696,860,959.66	660,997,567.74	686,512,073.85
Deposits of international financial organizations	3,626,200,175.74	4,045,388,916.06	3,848,042,911.01	3,996,577,367.37
Deposits earmarked to the exchange market	36,568,490.55	40,795,808.06	386,873,185.59	401,806,490.55
Resources earmarked to loans and financing in foreign currencies	114,519,397.64	127,757,840.01	222,671,380.28	231,266,495.56
SDR allocations (IMF)	486,690,382.84	542,951,791.10	517,456,383.45	537,430,199.85
Other liabilities	120,709,212.97	134,663,198.01	123,912,184.01	128,695,194.31
<b>Total</b>	<b>6,985,569,141.10</b>	<b>7,793,100,933.83</b>	<b>7,594,730,481.78</b>	<b>7,887,887,078.37</b>

The increased value of Paris Club / Exchange Centralization - Resolution no. 1,564, is explained by the reclassification of values previously not included in the external debt renegotiation.

**Note 10 - RESERVE REQUIREMENTS/COMPULSORY DEPOSITS IN PUBLIC SECURITIES**

The Banco Central's Circular no. 2,709/96 redefined the rules for reserve requirements/ compulsory deposits in public securities. As from January 1, 1997, the reserve requirements on time deposits, exchange bills acceptance, mortgage bonds, and own issued securities, became operational only in cash form, thereby reducing the heading "Public Securities Compulsory Deposits".

**Note 11 - FEDERAL GOVERNMENT CASH ASSETS**

Based on a provision in paragraph 3 of article 164 of the Federal Constitution, federal government cash assets are deposited at the Banco Central and, in compliance to the Law no. 9,027/95, they generate earnings at the Selic rate. Expenditures on the earnings credited to federal government cash availabilities were as follows:

1997 R\$ 3,999,211,382.38  
1996 R\$ 3,351,433,185.65

By request of the National Treasury Secretariat (STN), the balance of “Funds from Other Origins” was transferred to the National Treasury Single Account in December 31, 1997, in order to facilitate the STN management and control of these funds.

#### **Note 12 - DEPOSITS GENERATED BY COMPULSORY LOANS**

Executive Act no. 2,288/86 instituted the compulsory loan on gasoline or automotive alcohol consumption for motor vehicles and on acquisitions of passenger and utility vehicles. It was determined that the funds would be deposited at the Banco Central. Later on, Law no. 7,862/89 determined that the balance of these deposits — plus earnings — would be made available exclusively for acquisition of National Development Fund (FND) quotas.

In 1997, the amount of R\$ 101,629,589.28 million was transferred from the National Treasury Single Account to this Fund, relative to overdue deposits. The funds that are not released yet, receive earnings equivalent to those of savings accounts, generating total expenditures as follows:

1997 R\$ 1,263,459,054.03

1996 R\$ 1,055,488,807.87

#### **Note 13 - FINANCIAL INVESTMENT FUNDS (FIF)**

When CPMF - Financial Transaction Provisional Contribution became effective in January 23, 1997, a substantial reduction in compulsory deposits on FIF took place, due to the transfer of a great amount of these funds to savings deposits and demand deposits. As a result, there was an increase in the levels of reserve requirements of these headings.

#### **Note 14 - RESOURCES FROM UNREGISTERED ACCOUNTS**

Aiming at a greater transparency of the National Financial System (SFN), and in order to avoid the transactions in the banking system with illegal funds, all banking deposit accounts had to be recorded once again, in compliance to Resolutions no. 2,025/93 and no. 2,078/94. According to Law no. 9,526/97 the balances of deposits unaccounted for were transferred to the Banco Central, where they are available for complaints that will eventually arise. After the scheduled deadline, the remaining balance will be transferred to the National Treasury.

**Note 15 - BANCO CENTRAL'S OWN SECURITIES**

Securities issued by the Banco Central for monetary policy purposes are registered at their issue value and adjusted "pro rate die" from the accrued interest until the balance sheet date.

Securities in the portfolio stock are those held by the Banco Central, and are registered as deductions (rectificative accounts) from the corresponding headings. On December 31, these securities were distributed as follows:

							In R\$
<b>1997</b>							
Securities	Issued		In portfolio		On market		
	Quantity	Value	Quantity	Value	Quantity	Value	
BBC	81,300,000	75,654,577,514.84	51,847,926	47,327,639,567.90	29,452,074	28,326,937,946.94	
LBC	25,486,279	25,766,111,285.44	-	-	25,486,279	25,766,111,285.44	
NBC	24,300,000	23,151,470,419.14	12,500,000	11,522,627,389.00	11,800,000	11,628,843,030.14	
Total	131,086,279	124,572,159,219.42	64,347,926	58,850,266,956.90	66,738,353	65,721,892,262.52	
<b>1996</b>							
Securities	Issued		In portfolio		On market		
	Quantity	Value	Quantity	Value	Quantity	Value	
BBC	114,000,000	112,305,798,291.47	63,001,004	61,988,819,110.54	50,998,996	50,316,979,180.93	
LBC	32,593,103	32,788,918,998.63	-	-	32,593,103	32,788,918,998.63	
NBC	2,000,000	2,021,567,724.52	2,000,000	2,021,567,724.52	-	-	
Total	<b>148,593,103</b>	<b>147,116,285,014.62</b>	<b>65,001,004</b>	<b>64,010,386,835.06</b>	<b>83,592,099</b>	<b>83,105,898,179.56</b>	

**Note 16 - PROVISION FOR CONTINGENCIES (CONTINGENCY RESERVES)**

Provision for Contingencies (Contingency Reserves) are constituted according to the terms of BCB Votes nos. 1,058/89 and 753/93 and have the purpose of covering possible losses from ongoing lawsuits.

**Note 17 - RESULT OF FISCAL YEAR**

The Banco Central had a negative result of R\$ 1,232,633,891.02 in the second half of 1997 and of R\$ 1,875,388,679.52 in the fiscal year, mostly due to the still unfavorable differential rates between the origin of funds in national currency (more expensive) and fund uses in foreign currency (lower return), given the fact that 33.4% of its assets are remunerated by international interest rates, and about 74.3% of its liabilities are linked to domestic rates.

**Note 18 - FINANCIAL RELATIONSHIP WITH THE NATIONAL TREASURY**

The accounts showing financial relationship with the National Treasury registered the following positions:

	In R\$	
<b>Financial relationship with the National Treasury</b>	<b>In 12.31.97</b>	<b>In 12.31.96</b>
<b>Debt balances</b>	<b>38,118,699,344.40</b>	<b>29,052,921,257.91</b>
National Treasury Notes (NTN)	5,253,352,393.25	27,049,078,244.08
National Treasury Bills (LTN)	23,809,175,622.02	1,023,980,158.60
National Treasury Financing Bill (LFT-A)	8,021,830,467.32	-
Agrarian Debt Securities (TDA)	39,781.44	91,454.62
State/municipal debt program	1,025,531,959.31	971,352,085.16
Judicial deposits	3,701,028.35	3,701,028.35
External debt - MYDFA - bonds issued unduly	5,068,092.71	4,718,287.10
<b>Credit balances</b>	<b>41,928,199,343.16</b>	<b>25,766,010,445.54</b>
National Treasury resources	32,189,326,324.27	17,562,488,224.46
Compulsory loans (vehicles and fuels)	8,945,991,493.64	7,580,902,850.33
Earnings on federal government cash availabilities - to be deposited	226,425,309.41	70,105,060.96
Social Security Plan to be deposited	6,108,905.85	4,558,740.40
Farm Activity Guaranty Plan (Proagro)	10,288,040.61	593,789.49
Foreign currency deposits - Paris Club and Res. 1,564/89	491,655,391.62	493,401,663.47
Resources earmarked to foreign debt administration	54,913,962.41	50,861,653.88
Available monetary reserve resources	593.09	1,525.80
Finex/Proex credits written off with "Zero Coupon Bonds"	3,489,322.26	3,096,936.75

## Note 19 - FINANCIAL FLOW WITH THE NATIONAL TREASURY

In the fiscal year, the financial flow with the National Treasury was:

	In R\$	
<b>Federal public securities</b>	<b>1997</b>	<b>1996</b>
Acquisitions	21,625,964,146.80	9,002,696,629.69
Redemptions	(23,485,152,211.01)	(10,886,507,699.88)
Interest	(1,061,324,234.49)	(1,669,109,786.85)
<b>Sundry deposits</b>		
Earnings on available resources	3,842,891,133.93	3,386,180,888.58
<b>Net financial flow</b>	<b>922,378,835.23</b>	<b>(166,739,968.46)</b>

## **Note 20 - FUNDS AND PROGRAMS MANAGED BY BANCO CENTRAL**

Based on legal and regulatory provisions, Banco Central is responsible for managing:

- a) Reserve for Maintenance of Currency Stability and Check Utilization (Recheque);
- b) Deposit and Real Estate Bond Guaranty Fund (FGDLI);
- c) Farm Activity Guaranty Program (Proagro);
- d) Monetary Reserves.

The reserves, funds and programs managed by Banco Central comply with basic accounting norms and the accounting guidelines applied to the institution, including:

- a) fiscal year accrual basis distributed into monthly periods;
- b) half-yearly elaboration of the balance sheets and calculation of results.

Available resources are invested in federal public securities in order to preserve their purchasing power.

A fee is paid to Banco Central to refund its administrative costs, as authorized by Votes CMN no. 376/81, BCB no. 375/92 and BCB no. 266/93.

On November 16, 1995, Resolution no. 2,211/95 regulated the Credit Guaranty Fund (FGC), a private nonprofit institution charged with managing credit security protection mechanisms against financial institutions. According to Resolution no. 2,197/95 which authorized creation of this Fund, Recheque and FGDLI assets would be transferred to FGC.

However, the transfer was suspended as a result of an injunction granted by the Federal Supreme Court (STF) in response to a request for a declaration of unconstitutionality no. 1398/96 brought by the Workers Party, until such time as the case comes to a final decision.

Effective since January 1996, the responsibility of the guaranties embodied in the existing regulations, as well as the fund raising and administration of the financial flows generated by the contributions of the financial institutions, were transferred to the FGC. Therefore Recheque and the FGDLI are responsible only for the administration of the operations contracted before the aforementioned judicial injunction.

The Assets Balance Sheet and Statements of Income (Revenues minus Expenditures) of Recheque, FGDLI, Proagro and the Monetary Reserve are presented below with their respective comments.

**Reserve for fostering currency stability and check utilization (Recheque)**

Balance sheet (12.31.97)

	In R\$	
	1997	1996
<b>ASSETS</b>		
LONG-TERM CURRENT ASSETS AND RECEIVABLES .....	695,460,480.18	591,739,285.12
- Available at Banco Central .....	200.52	14.52
- Investments in federal public securities .....	221,395,890.63	180,108,512.29
- Refinancing program of credits guaranteed to Federal Government .....	185,969.67	176,144.51
- Service fee debtors (CCF) .....	35.13	32.00
- Credits in execution .....	598,677.13	598,677.13
- Credits with Institutions subject to intervention or liquidation .....	473,878,419.36	411,454,613.80
- (Provision for hard-to-recover credits) .....	(598,712.26)	(598,709.13)
Total .....	<b>695,460,480.18</b>	<b>591,739,285.12</b>
<b>LIABILITIES</b>		
NET WORTH .....	695,460,480.18	591,739,285.12
- Accumulated results .....	638,263,455.21	517,289,920.15
- Results in half-year period .....	57,197,024.97	74,449,364.97
Total .....	<b>695,460,480.18</b>	<b>591,739,285.12</b>

**Statement of income**

	In R\$			
	1st semester/97	2nd semester/97	Fiscal year 1997	Fiscal year 1996
REVENUES .....	46.842.054,37	57.443.667,09	104.285.721,46	93.360.901,00
- Interest/monetary updating .....	29.266.869,59	33.184.909,46	62.451.779,05	25.944.729,04
- Earnings on investments in federal public securities	17.390.000,65	24.258.757,63	41.648.758,28	34.427.669,59
- Service fee for including in the CCF .....	-	-	-	2.070.852,08
- Annulment of expenditures in previous semesters .	185.184,13	-	185.184,13	-
- Revenues of previous semesters .....	-	-	-	30.917.650,29
EXPENDITURES .....	317.884,28	246.642,12	564.526,40	1.063.119,18
- Management fee .....	317.882,98	246.640,29	564.523,27	732.571,00
- Banco do Brasil earnings .....	-	-	-	103.542,60
- Promotional campaigns .....	-	-	-	227.002,77
- Variations consequent upon provisions .....	1,30	1,83	3,13	2,81
RESULT .....	46.524.170,09	57.197.024,97	103.721.195,06	92.297.781,82

Regulated by BCB Circular no. 1,590/90 with alterations introduced by CMN Resolution no. 2,155/95, Recheque had the following objectives, up to the creation of the FGC:

- a) to promote and support the defense of the stability of national currency;
- b) to stimulate a greater use of the check as a payment instrument;
- c) to contribute to the improvement of banking operations as information and instructions are announced with respect to adequate use of checks, in such a way as to give this instrument greater credibility;
- d) to finance expenditures for the elaboration and dissemination of the File of Issuers of Checks with Insufficient Funds.

The amount registered as Revenues of Previous Half-Year-Periods in 1996 refers to monetary updating and interest on Credits with Institutions under Intervention or Liquidation not previously acknowledged.

### Real Estate Bonds and Deposits Guaranty Fund (FGDLI)

Balance sheet (31-December-97)

	In R\$	
	1997	1996
<b>ASSETS</b>		
LONG-TERM CURRENT ASSETS AND RECEIVABLES .....	987,660,985.46	836,601,957.57
- Available at Banco Central .....	201.80	0.98
- Investments in federal public securities .....	117,979,927.78	92,909,438.80
- Credits with on-lending institutions .....	757,960,237.17	1,674,870,619.73
- Credits with entities in liquidation .....	4,578,169.98	4,981,219.83
- Mortgage bonds .....	144,062,774.38	132,882,585.46
- Credits with institutions subject to intervention .....	409,671,070.96	373,755,320.50
- Credits with FCVS .....	542,228,887.64	437,012,543.13
- Other credits .....	260,040.63	137,359.12
- Credits registered under debts in execution .....	1,023,193,369.15	-
- (Provision for hard-to-recover credits) .....	(2,012,273,694.03)	(1,879,947,129.98)
Total .....	<b>987,660,985.46</b>	<b>836,601,957.57</b>
<b>LIABILITIES</b>		
LONG-TERM CURRENT AND CALLABLE LIABILITIES .....	13,378,920.98	11,698,651.76
- Liabilities with institutions receiving savings and real estate bonds .....	9,449,899.56	8,114,500.75
- Liabilities for real estate bonds - earmarked to foreign loans .....	2,768,204.99	2,526,979.59
- Liabilities with savers .....	1,075,741.52	979,633.31
- Other liabilities .....	85,074.91	77,538.11
<b>NET WORTH</b> .....	974,282,064.48	824,903,305.81
- Accumulated results .....	893,926,956.59	753,178,408.66
- Results in semester .....	80,355,107.89	71,724,897.15
Total .....	<b>987,660,985.46</b>	<b>836,601,957.57</b>

### Statement of income

	In R\$			
	1st semester/97	2nd semester/97	Fiscal year 1997	Fiscal year 1996
REVENUES .....	2,180,834,135.74	152,832,597.91	2,333,666,733.65	417,927,370.02
- Interest .....	27,238,644.17	23,733,501.57	50,972,145.74	99,349,767.94
- Monetary updating .....	97,846,668.05	115,440,570.91	213,287,238.96	267,524,685.81
- Ordinary contributions .....	-	-	-	7,738,064.81
- Earnings on investments in federal public securities .....	9,022,389.38	12,748,967.87	21,771,357.25	19,844,118.36
- Income from debts in execution .....	1,023,193,369.15	-	1,023,193,369.15	-
- Reversion of provisions .....	1,023,193,369.15	-	1,023,193,369.15	3,267,440.13
- Annulment of expenditures in previous semesters ..	-	-	-	378,896.52
- Revenues of previous semesters .....	-	2,982.06	2,982.06	19,824,396.45
- Other revenues .....	339,695.84	906,575.50	1,246,271.34	-
EXPENDITURES .....	2,111,810,484.96	72,477,490.02	2,184,287,974.98	268,730,433.63
- Interest/monetary updating .....	724,836.93	955,470.97	1,680,307.90	3,520,968.46
- Management fee .....	408,706.68	317,108.94	725,815.62	1,503,097.63
- Constitutions and adjustments of provisions .....	1,087,019,496.38	68,500,436.82	1,155,519,933.20	263,414,643.80
- Credits offsetting .....	1,023,193,369.15	-	1,023,193,369.15	-
- Expenditures in previous semesters .....	-	-	-	5,731.88
- Annulment of revenues in previous semesters ..	-	2,009,198.11	2,009,198.11	147,947.74
- Other expenditures .....	464,075.82	695,275.18	1,159,351.00	138,044.12
RESULT .....	69,023,650.78	80,355,107.89	149,378,758.67	149,196,936.39

FGDLI was created by Resolution no. 3/67 issued by the Council of Administration of the now extinct National Housing Bank. Its administration was transferred to Banco Central by Executive Act no. 2,291/86 and CMN Resolution no. 1,219/86.

Until the creation of the FGC, the FGDLI had the objective of guarantying savings deposits (with the exception of rural savings accounts) and mortgage bonds in those modalities, conditions and amounts defined by the National Monetary Council against risks of insolvency of the contributing institutions that received such savings deposits and mortgage bonds.

The rights and obligations of the fund are subject to updating based on the Reference Rate (TR), in full compliance with the terms of such contracts and the legal and normative precepts to which they are subordinated.

Credits to receive are classified as Doubtful, and have been set aside, including the totality or part of the debts of institutions in the process of intervention or liquidation, or already liquidated. In the case of institutions under intervention, the relevant aspects are the amounts not acknowledged in contracts or whose Net Worth is negative or insufficient to cover such credits.

In the first semester of 1997, Banco Central registered in Amount Outstanding (debts in execution) the amount of R\$ 1,023,193,369.15, as the trustee of FGDLI.

Approximately 69% of the fund's assets — including the provision above — are composed of mortgage bonds received from already liquidated institutions as payment-in-kind and of credits with FCVS generated by anticipated liquidations or termination of the contracts to which they are tied. At the present time, management of such credits is the responsibility of grantor institutions and accounting records reflect projections based on such data.

Contributions on savings deposits obtained by financial institutions were due to FGDLI up to December 1995 and were deposited in January 1996.

#### Farm Activity Guaranty Program - Proagro (Decree no. 175/91)

Balance sheet (31-December-97)

	In R\$	
	1997	1996
<b>ASSETS</b>		
LONG-TERM CURRENT ASSETS AND RECEIVABLES .....	91,577,278.31	4,957,444.23
- Available at Banco Central .....	77,127,969.02	5,129.57
- Investments in federal public securities .....	14,449,309.29	4,952,314.66
Total .....	<b>91,577,278.31</b>	<b>4,957,444.23</b>
<b>LIABILITIES</b>		
LONG-TERM CURRENT AND CALLABLE LIABILITIES .....	790,781,742.17	819,962,839.84
- Loss corroboration service, to be paid .....	2,143,794.10	13,175,800.07
- Coverages to be paid .....	107,223,499.34	772,126,462.12
- Other liabilities to be paid .....	44,418,765.79	34,660,577.65
- Values in the securitization process .....	636,995,682.94	-
<b>NET WORTH</b> .....	(699,204,463.86)	(815,005,395.61)
- Accumulated results .....	(766,923,369.20)	(787,888,719.32)
- Results in semester .....	67,718,905.34	(27,116,676.29)
Total .....	<b>91,577,278.31</b>	<b>4,957,444.23</b>

## Statement of income

In R\$

	1st semester/97	2nd semester/97	Fiscal year 1997	Fiscal year 1996
REVENUES .....	93,015,741.40	102,010,981.57	195,026,722.97	284.875.712.42
- Additional .....	6,587,948.47	10,491,905.22	17,079,853.69	23.222.547.72
- Earnings on investments in federal public securities	321,837.21	949,521.11	1,271,358.32	1.764.869.53
- Annulment of expenditures in previous semesters ..	86,105,955.72	13,569,555.24	99,675,510.96	259.886.799.01
- Transfers of State budgetary allocations .....	77,000,000.00	77,000,000.00	-	-
- Other revenues .....	-	-	-	1.496,16
EXPENDITURES .....	44,933,714.99	34,292,076.23	79,225,791.22	454,599,138.13
- Loss corroboration service .....	954,755.32	646,693.78	1,601,449.10	4,080,894.50
- Coverages .....	38,484,125.27	29,370,589.65	67,854,714.92	436,289,437.35
- Management fee .....	5,494,834.40	4,263,353.74	9,758,188.14	14,223,015.98
- Annulment of revenues in previous semesters ..	-	11,439.06	11,439.06	5,790.30
RESULT .....	48,082,026.41	67,718,905.34	115,800,931.75	(169,723,425.71)

Proagro - Decree no. 175/91 was instituted by Law no. 5,969/73 and regulated by Decree no. 175/91 and CMN Resolution no. 1855/91 and has the following objectives:

- a) to release rural producers from financial liabilities consequent upon rural credit current expenditure operations when settlement of such is made difficult as a consequence of natural phenomena, plague and disease in their plantations and herds;
- b) to compensate resources utilized by producers in rural current expenditure operations, when losses occur as a result of the aforementioned events.

The Decree no. 1947, of June 28, 1996, sets the mechanisms and conditions for the liquidation, with Federal funds, of the debt with coverage to be paid, and with services of proof of losses to be paid, estimated up to June 14, 1996. The decree determines that:

- a) the parts of the debt directed to the compensation of farmers own resources, as well as the amortization of financing granted by credit cooperatives, and by institutions in special regimes, are to be paid in cash;
- b) the remaining parts of the debt, directed to the amortization of financing, are to be written off by means of a securitization process;

In the terms of the above mentioned Decree, more than 90% of the debts subject to securitization were already materialized in contracts between the National Treasury and the agents. As soon as the National Treasury notifies the signatures of those contracts, the Banco Central will perform the revenue appropriation, corresponding to the securitized amounts. Thus, a significant reduction of both liabilities and the negative net assets of the Program will be achieved.

In December 30, 1997, R\$ 77,000,000.00 were transferred to Banco Central, directed to the liquidation of the non-securitized parts of the Program, and were transferred to the agents in January of 1998, for the payment of the end beneficiaries.

With regard to the Balance Sheet, it should be pointed out that:

- a) the heading Other Liabilities Callable registers the Administration Fee to Banco Central, whose payment was suspended by Vote BCB no. 100/94;
- b) the negative net worth originates from the payment of responsibilities of coverages to be paid, and with the appearance of losses that were proven to be above of additional revenues and other receipts of the Program.

### Monetary Reserve

Balance sheet (31-December-97)

	In R\$	
	1997	1996
<b>ASSETS</b>		
LONG-TERM CURRENT ASSETS AND RECEIVABLES .....	930,118,227.36	809,858,914.30
- Available at Banco Central .....	593.09	1,525.80
- Investments in federal public securities .....	24,110,383.50	539,423,111.23
- Advances to institutions in liquidation .....	113,845,515.28	97,875,770.54
- Credits receivable .....	1,028,229,482.87	944,499,712.26
- Credits with FCVS .....	25,084,811.20	25,084,811.20
- Credits with FAHBRE .....	7,079,154.55	6,792,419.53
- Rights receivable through debts compositions .....	829,018,596.17	665,933,016.64
- Stock and bonds .....	43,372.75	59,770.29
- Other securities and goods .....	2,346,455.53	5,667,768.11
- Credits in execution .....	1,632,546,802.00	1,645,106,364.62
- Mortgage bonds .....	6,490,406.69	5,549,362.12
- FND/FDS quotas .....	8,654,155.90	7,149,100.48
- Contract for debt assumption .....	15,082,385.40	-
- Debentures .....	594,887,003.27	-
- Debts to be classified .....	4,019,000.00	-
- (Provision for hard-to-recover credits) .....	(3,361,319,890.84)	(3,133,283,818.52)
<b>Total .....</b>	<b>930,118,227.36</b>	<b>809,858,914.30</b>
<b>LIABILITIES</b>		
LONG-TERM CURRENT AND CALLABLE LIABILITIES .....	0.01	0.01
- Remaining creditors of institutions in liquidation .....	0.01	0.01
<b>NET WORTH .....</b>	<b>930,118,227.35</b>	<b>809,858,914.29</b>
- Accumulated results .....	895,069,492.45	742,563,404.77
- Results in semester .....	35,048,734.90	67,295,509.52
<b>Total .....</b>	<b>930,118,227.36</b>	<b>809,858,914.30</b>

## Statement of income

In R\$

	1st semester/97	2nd semester/97	Fiscal year 1997	Fiscal year 1996
REVENUES .....	211,589,229.70	190,426,416.78	402,015,646.48	4,454,587,095.43
- Interest .....	53,524,797.91	53,044,044.15	106,568,842.06	377,252,353.39
- Monetary/exchange updating .....	94,721,825.68	103,757,071.73	198,478,897.41	560,274,858.98
- Earnings on debt compositions .....	461,862.98	462,570.16	924,433.14	1,491,312.81
- Income from debts in execution .....	-	-	-	1,586,676,397.05
- Earnings on investments in federal public securities	49,695,117.85	8,733,069.24	58,428,187.09	86,903,428.48
- Reversion of provisions .....	12,559,562.62	22,758,284.91	35,317,847.53	1,841,988,744.72
- Other revenues .....	626,062.66	1,671,376.59	2,297,439.25	-
EXPENDITURES .....	126,378,651.54	155,377,681.88	281,756,333.42	4,169,694,990.71
- Management fee .....	726,589.68	563,749.23	1,290,338.91	1,103,715.13
- Variations consequent upon provisions .....	122,424,577.98	140,929,341.87	263,353,919.85	2,486,872,367.34
- Assets disincorporation .....	3,218,852.08	335,305.87	3,554,157.95	-
- Credits offsetting .....	-	-	-	1,681,699,219.82
- Annulment of earnings in previous semesters .....	1,465.18	13,548,793.80	13,550,258.98	-
- Other expenditures .....	7,166.62	491.11	7,657.73	19,688.42
RESULT .....	85,210,578.16	35,048,734.90	120,259,313.06	284,892,104.72

The Monetary Reserve was created by Law no. 5,143/66 and altered by Executive Act no. 1,342/74 and has the role of ensuring the normality of financial and capital markets.

Monetary Reserve resources are invested by Banco Central in financial and capital market interventions with authorization of the National Monetary Council and are used to safeguard the legitimate interests of creditors of the institutions subjected to intervention or extrajudicial liquidation.

Uncertainties regarding recovery of almost all of the credits against financial institutions subjected to a special system is taken into consideration for purposes of constituting the Provision for Hard -to- Recover Credits. And it is precisely for this reason that this provision is very important.

The purchase of debenture bonds along the fiscal year has taken place in accordance to CMN Vote no. 46/97.

## BANCO CENTRAL DO BRASIL

President: GUSTAVO HENRIQUE DE BARROSO FRANCO

Directors: CARLOS EDUARDO T. DE ANDRADE, CLÁUDIO NESS MAUCH,  
DEMOSTHENES MADUREIRA DE PINHO NETO, FRANCISCO  
LAFAIETE DE PÁDUA LOPES, PAOLO ENRICO MARIA ZAGHEN  
E SÉRGIO DARCY DA SILVA ALVES

Head of Financial Administration Department: JEFFERSON MOREIRA

Accountant - CRC-DF 7333 - CPF 119.361.931-91

## Members of the Conselho Monetário Nacional (31-December-97)

### **Pedro Sampaio Malan**

*Minister of Finance - President*

### **Antônio Kandir**

*Minister of Planning and Budget*

### **Gustavo Henrique de Barroso Franco**

*President of the Banco Central do Brasil*

## Banco Central do Brasil Management (31-December-97)

### **Board of Directors**

Gustavo Henrique de Barroso Franco  
*President*

Sérgio Darcy da Silva Alves  
*Director*

Carlos Eduardo Tavares de Andrade  
*Director*

Cláudio Ness Mauch  
*Director*

Francisco Lafaiete de Pádua Lopes  
*Director*

Demósthene Madureira de Pinho Neto  
*Director*

Paolo Enrico Maria Zaghen  
*Director*

### **Board of Director Executive Secretariat**

*Executive Secretary:* Edison Bernardes dos Santos

*Assistant Executive Secretary:* Maria Celina Berardinelli Arraes

*Administrative Secretary:* Sérgio Albuquerque de Abreu e Lima

*Secretary for the Board of Directors  
and for National Monetary Council:* Luiz do Couto Neto

*Secretary for Institutional Relations:* Gerson Bonani

*Parliamentary Secretary:* Solimar José Wichrowski

### **Board of Directors Consultants**

*Office of the Presidente:* Antônio Carlos Monteiro  
Eliana Nogueira de Souza

*Senior Advisor:* Antônio José Barreto de Paiva

*Senior Advisor:* Alexandre Pundek Rocha

*Senior Advisor:* João Alberto Magro

*Senior Advisor:* Neuza Shizue Tomizawa

*Senior Advisor:* Dalmir Sérgio Louzada

*Senior Advisor:* Sérgio Rodrigues Prates

## Central Offices of the Banco Central do Brasil (31-December-97)

### **Financial Administration Department (Deafi)**

Ed.-Sede - 19º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Jefferson Moreira*

### **Department of Human Resources Administration (Depes)**

Ed.-Sede - 18º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Mardônio Walter Sarmiento Pereira Silva*

### **Department of Material Resources Administration (Demap)**

Ed.-Sede - 9º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *José Anderson Montalvão Sousa*

### **Internal Auditing Department (Deaud)**

Ed.-Sede - 15º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Luiz Pereira Leite*

### **Department of Records and Information (Decad)**

Ed.-Sede - 14º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Sérgio Almeida de Souza Lima*

### **Exchange Department (Decam)**

Ed.-Sede - 3º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *José Maria Ferreira de Carvalho*

### **Department of Control of Administrative Processes and Special System (Depad)**

Ed.-Sede - 13º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Francisco Munia Machado*

**Internal Public Debt Department (Dedip)**

Ed.-Sede - 14º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Pedro Alvim Júnior*

**Economic Research Department (Depec)**

Ed.-Sede - 10º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Altamir Lopes*

**Department of Special Studies and Financial System Analysis (Deasf)**

Ed.-Sede - 17º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Ronaldo Fonseca de Paiva*

**Department of Supervision and Inspection (Defis)**

Ed.-Sede - 12º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Luiz Carlos Alvarez*

**Foreign Capital Department (Firce)**

Ed.-Sede - 7º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Fernando Antônio Gomes*

**Department of Information System Management (Deinf)**

Ed.-Sede - 2º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Roberto Ozu*

**Legal Department (Dejur)**

Ed.-Sede - 11º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
General Attorney: *José Coelho Ferreira*

**Currency Management Department (Mecir)**

Avenida Rio Branco, 30  
20071-001 Rio de Janeiro (RJ)  
Head: *José dos Santos Barbosa*

**Department of Financial System Regulation (Denor)**

Ed.-Sede - 15º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Lúcia Maria Rocha e Benevides*

**Department of Banking Operations (Deban)**

Ed.-Sede - 18º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Luis Gustavo da Matta Machado*

**Department of Open Market Operations (Demab)**

Av. Pres. Vargas, 730 - 6º andar  
20071-001 Rio de Janeiro (RJ)  
Head: *Eduardo Hitiro Nakao*

**Department of International Reserves Operations (Depin)**

Ed.-Sede - 5º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Maria do Socorro Costa de Carvalho*

**Department of Foreign Debt and International Relations (Derin)**

Ed.-Sede - 4º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *José Linaldo Gomes de Aguiar*

**Department of Financial System Organization (Deorf)**

Ed.-Sede - 16º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Carlos Henrique de Paula*

**Department of Planning and Organization (Depla)**

Ed.-Sede - 13º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Paulo dos Santos*

**Regional offices of the Banco Central do Brasil** (31-December-97)**1st Region - Regional Office in Belém (Debel)**

Boulevard Castilhos França, 708 - Comércio

Caixa Postal 651

66010-020 Belém (PA)

Regional Delegate: *Eduardo Sérgio Holanda Araújo*

Jurisdiction: Acre, Amapá, Amazonas, Pará,  
Rondônia and Roraima

**2nd Region - Regional Office in Fortaleza (Defor)**

Av. Heráclito Graça, 273 - Centro

Caixa Postal 891

60140-061 Fortaleza (CE)

Regional Delegate: *Mônica Cysne Soares*

Jurisdiction: Ceará, Maranhão and Piauí

**3rd Region - Regional Office in Recife (Derec)**

Rua Siqueira Campos, 368 - Santo Antônio

Caixa Postal 1445

50010-010 Recife (PE)

Regional Delegate: *Fernando Clemente da Silva (acting)*

Jurisdiction: Alagoas, Fernando de Noronha,  
Paraíba, Pernambuco and  
Rio Grande do Norte

**4th Region - Regional Office in Salvador (Desal)**

Av. Anita Garibaldi, 1211 - Ondina

Caixa Postal 44

40176-900 Salvador (BA)

Regional Delegate: *Marcelo Augusto Borges Nery*

Jurisdiction: Bahia and Sergipe

**5th Region - Regional Office in Belo Horizonte (Debho)**

Av. Álvares Cabral, 1605 - Santo Agostinho

Caixa Postal 887

30170-001 Belo Horizonte (MG)

Regional Delegate: *João Antônio Fleury Teixeira*

Jurisdiction: Minas Gerais, Goiás and Tocantins

**6th Region - Regional Office in Rio de Janeiro (Derja)**

Av. Presidente Vargas, 730 - Centro  
Caixa Postal 495  
20071-001 Rio de Janeiro (RJ)  
Regional Delegate: *Henrique Gomes da Rosa (acting)*

Jurisdiction: Espírito Santo and Rio de Janeiro

**7th Region - Regional Office in São Paulo (Despa)**

Av. Paulista, 1804 - Cerqueira César  
Caixa Postal 8984  
01310-922 São Paulo (SP)  
Regional Delegate: *Antônio Carlos Feitosa*

Jurisdiction: São Paulo

**8th Region - Regional Office in Curitiba (Decur)**

Rua Marechal Deodoro, 568 - Centro  
Caixa Postal 1408  
80010-010 Curitiba (PR)  
Regional Delegate: *Jackson Pitombo Cavalcante Filho*

Jurisdiction: Paraná, Mato Grosso and Mato Grosso do Sul

**9th Region - Regional Office in Porto Alegre (Depal)**

Travessa Araújo Ribeiro, 305 - Centro  
Caixa Postal 919  
90010-010 Porto Alegre (RS)  
Regional Delegate: *Josué Biachi Piccini*

Jurisdiction: Rio Grande do Sul and Santa Catarina

## ACRONYMS

<b>Abimaq</b>	Brazilian Association of Machinery and Equipment Industry
<b>ACC</b>	Advances on Exchange Contracts
<b>ADB</b>	African Development Bank
<b>ADC</b>	Andean Development Corporation
<b>ADF</b>	African Development Fund
<b>ADR</b>	American Depositary Receipts (USA)
<b>AGF</b>	Federal Government Acquisitions
<b>Aladi</b>	Latin American Integration Association (LAIA)
<b>Anatel</b>	National Agency of Telecommunications
<b>Aneel</b>	National Agency of Electric Energy
<b>Anfavea</b>	National Association of Automotive Vehicles
<b>APA</b>	São Paulo State Poultry Raisers Association
<b>ANP</b>	Petroleum National Agency
<b>APE</b>	Savings and Loan Association
<b>Apex</b>	Export Promotion Agency
<b>ARO</b>	Anticipated Budgetary Revenues
<b>Asean</b>	Association of South East Asian Nations
<b>Banerj</b>	Rio de Janeiro State Bank
<b>Banespa</b>	São Paulo State Bank
<b>Banrisul</b>	Rio Grande do Sul State Bank
<b>BB</b>	Bank of Brazil
<b>BBC</b>	Central Bank Bond
<b>BCB</b>	Central Bank of Brazil
<b>BCC</b>	Commercial Credit Bank
<b>BCN</b>	National Credit Bank
<b>BIS</b>	Bank for International Settlements
<b>BM&amp;F</b>	Commodities & Futures Exchange
<b>BNDES</b>	National Bank of Economic and Social Development
<b>BNDESpar</b>	BNDES - Participations
<b>Bovespa</b>	São Paulo Stock Exchange
<b>BTN</b>	National Treasury Bond
<b>BTN-E</b>	Special National Treasury Bond
<b>BTNF</b>	Fiscal National Treasury Bond
<b>BUA</b>	Unit of Account of the African Development Bank
<b>BVRJ</b>	Rio de Janeiro Stock Exchange
<b>Cadin</b>	Information File of Unpaid Credits of the Federal Public Sector
<b>Cadip</b>	Registration System of Credit Operations with the Public Sector
<b>Cbond</b>	Capitalization Bond
<b>CCE</b>	Coordination Council of State-owned Enterprises
<b>CCEx</b>	Export Credit Committee
<b>CCF</b>	File of Issuers of Returned Checks
<b>CCFF</b>	Compensatory and Contingency Financing Facility (IMF)
<b>CCM</b>	Mercosul Trade Commission
<b>CCR</b>	Reciprocal Payment and Credit Agreement
<b>CD</b>	Certificate of Deposit

<b>CDB</b>	Bank Deposit Certificate
<b>CDB</b>	Caribbean Development Bank
<b>CDI</b>	Interfinancial Deposit Certificate
<b>CEEE</b>	State Electricity Company
<b>CEG</b>	Gas State Company
<b>CEI</b>	Community of Independent States (Former Soviet Union)
<b>Celg</b>	Goiás State Power Stations
<b>Cemat</b>	Mato Grosso State Power Stations
<b>Cemig</b>	Minas Gerais State Power Stations
<b>Cepagro</b>	Special Commission of Planning, Control and Evaluation of Agricultural Statistics
<b>Cepal</b>	Economic Commission for Latin America and the Caribbean
<b>CER</b>	Australia/New Zealand Closer Economic Relation Trade Agreement
<b>Cerj</b>	Rio de Janeiro State Electricity Company
<b>CES</b>	Wage Comparison Coefficient
<b>Cesp</b>	São Paulo State Electricity Company
<b>Cetip</b>	Center of Financial Custody and Liquidation of Securities
<b>CFE</b>	Export Financing Committee
<b>Chesf</b>	São Francisco River Electricity Power Company
<b>Cief</b>	Center of Fiscal-Economic Information (MF)
<b>CIF</b>	Cost, Insurance and Freight
<b>CMC</b>	Common Market Council
<b>CMN</b>	National Monetary Council
<b>CNC</b>	Trade Negotiations Committee
<b>CNC</b>	Exchange Norms Consolidation
<b>CNI</b>	National Confederation of Industry
<b>Codefat</b>	Deliberative Council of the Worker Support Fund
<b>Coelba</b>	Bahia State Electricity Company
<b>Cofix</b>	External Financing Commission
<b>Cofins</b>	Contribution to the Financing of the Social Security System
<b>Cohab</b>	Housing Companies
<b>Conab</b>	National Supply Company
<b>Copesul</b>	South Petrochemical Company
<b>Copom</b>	Monetary Policy Committee
<b>Cosif</b>	Accounting Plan of National Financial System Institutions
<b>Cosipa</b>	São Paulo State Steel-works
<b>CP</b>	Privatization Certificates
<b>CPFL</b>	São Paulo State Electricity Company
<b>CPMF</b>	Provisional Contribution on Financial Transactions
<b>CPR</b>	Rural Producer Note
<b>CRC</b>	Result Accounts to Offset
<b>Credireal</b>	Minas Gerais State Royal Credit Bank
<b>CRT</b>	Telecommunications Company of the State of Rio Grande do Sul
<b>CSLL</b>	Social Contribution on the Net Profits
<b>CSN</b>	National Steel-works Company
<b>CST</b>	Tubarão Steel-works Company
<b>CVM</b>	Securities and Exchange Commission
<b>CVRD</b>	Vale do Rio Doce Company

<b>DCB</b>	Debt Conversion Bond
<b>Demab</b>	Department of Open Market Operations (BCB)
<b>DER</b>	Special Earnings Deposits
<b>DI</b>	Domestic Supply
<b>Dieese</b>	Interunion Department of Statistics and Social-Economic Studies
<b>DIR</b>	Interfinancial Deposits
<b>Disec</b>	Securitized Debt of the Federal Government
<b>Divex</b>	Foreign Debt Securities
<b>DLSP</b>	Net Public Sector Debt
<b>Dnaee</b>	National Department of Water and Electrical Energy
<b>DOU</b>	Official Daily Government Newspaper
<b>DPMF</b>	Federal Public Securities Debt
<b>DR</b>	Depositary Receipts
<b>DRA</b>	Automatic Reinvestment Time Deposits
<b>DSBB</b>	Data Standard Bulletin Board (IMF)
<b>DVR</b>	Matured and Renegotiated Debts
<b>ECU</b>	European Currency Unit
<b>EEC</b>	European Economic Community
<b>EFF</b>	Extended Fund Facility (IMF)
<b>EFTA</b>	European Free Trade Association
<b>EGF</b>	Federal Government Loans
<b>EGF-COV</b>	Federal Government Loans with Sale Option
<b>EGF-SOV</b>	Federal Government Loans without Sale Option
<b>EI</b>	Eligible Interest Bonds
<b>Eletrobrás</b>	Brazilian Power Stations
<b>Eletropaulo</b>	São Paulo State Electricity Company
<b>Eletros</b>	Social Security Eletrobrás Foundation
<b>Eletrosul</b>	Southern Brazil Power Stations
<b>Embraer</b>	Air Force Brazilian Company
<b>EMS</b>	European Monetary System
<b>Enersul</b>	Mato Grosso do Sul State Energy Company
<b>ERM</b>	Exchange Rate Mechanism
<b>ESAF</b>	Enhanced Structural Adjustment Facility (IMF)
<b>Estfin</b>	Financial and Economic Statistics
<b>EU</b>	European Union
<b>Eximbank</b>	Export Import Bank
<b>FAF</b>	Financial Investment Fund
<b>Fahbre</b>	House Building Support Fund for the Low-income Population
<b>Fapi</b>	Individual Programmed Retirement Fund
<b>FAT</b>	Laborer Assistance Fund
<b>FBC</b>	Gross Capital Formation
<b>FBCF</b>	Gross Fixed Capital Formation (GFCF)
<b>FCVS</b>	Wage Variation Compensation Fund
<b>FDS</b>	Social Development Fund
<b>FEF</b>	Fiscal Stabilization Fund
<b>Ferroeste</b>	Paraná West Railroad
<b>FGC</b>	Credit Guaranty Fund
<b>FGDLI</b>	Deposit and Real Estate Bond Guaranty Fund

<b>FGPC</b>	Guarantee Fund for Promoting Competitiveness
<b>FGTS</b>	Severance Fund Contribution
<b>FGV</b>	Getúlio Vargas Foundation
<b>Fiesp</b>	Federation of Industries of the State of São Paulo
<b>FIF</b>	Financial Investment Funds
<b>FIF-CP</b>	Short-term Financial Investment Funds
<b>Finam</b>	Amazon Region Investment Fund
<b>Finame</b>	Special Agency of Machine and Equipment Financing
<b>Finor</b>	Northeastern Region Investment Fund
<b>Finsocial</b>	Social Investment Fund
<b>Fipe</b>	Institute of Economic Research Foundation (USP)
<b>FLIRB</b>	Temporary Interest Reduction Bonds
<b>FMP</b>	Privatization Mutual Funds
<b>FND</b>	National Development Fund
<b>FNDE</b>	National Fund for the Development of Education
<b>FOB</b>	Free on Board
<b>Fonplata</b>	Financial Fund for the Development of the River Plate Basin
<b>FPE</b>	State Revenue Sharing Fund
<b>FPM</b>	Municipal Revenue Sharing Fund
<b>FRF</b>	Fixed Income Fund
<b>FRF-CP</b>	Short-term Fixed Income Fund
<b>FSE</b>	Emergency Social Fund
<b>FTAA</b>	Free Trade Area of the Americas
<b>FUA</b>	Fund Unit of Account (ADB)
<b>Funcafé</b>	Coffee Economy Defense Fund
<b>Funcex</b>	Foreign Trade Study Center Foundation
<b>Funcheque</b>	Fund for Enhancing Bank Operations and the Appropriate Use of Checks
<b>Fundef</b>	Fund for the Management and Development of Basic Education and for the Valuation of Professorship
<b>Funres</b>	Economic Recovery Fund of the Espírito Santo State
<b>G-7</b>	Group of Seven
<b>GAB</b>	General Arrangements to Borrow (IMF)
<b>Gats</b>	General Agreement on Trade in Services
<b>Gatt</b>	General Agreement on Tariffs and Trade
<b>GMC</b>	Common Market Group
<b>Gran</b>	Andean Group
<b>HIPC</b>	Highly Indebted Poor Countries
<b>IBGE</b>	Brazilian Institute of Geography and Statistics Foundation
<b>Ibovespa</b>	Quotation Index of the São Paulo Stock Exchange
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IBV</b>	Quotation Index of the Rio de Janeiro Stock Exchange
<b>IBVRJ</b>	Index of the Rio de Janeiro Stock Exchange
<b>ICCO</b>	International Cocoa Organization
<b>ICMS</b>	Tax on Circulation of Goods and Services
<b>ICO</b>	International Coffee Organization
<b>ICSID</b>	International Centre for Settlement of Investment Disputes
<b>IDA</b>	International Development Association
<b>IDB</b>	Interamerican Development Bank

<b>IDU</b>	Interest Due in Arrears
<b>IEA</b>	International Energy Agency
<b>IFAD</b>	International Agricultural Development Fund
<b>IFC</b>	International Financial Corporation
<b>IGP-DI</b>	General Price Index-Domestic Supply
<b>IGP-DI (C)</b>	General Price Index-Domestic Supply (centered)
<b>IGP-M</b>	General Price Index-Market
<b>IIC</b>	Inter-American Investment Corporation
<b>IMF</b>	International Monetary Fund (IMF)
<b>INA</b>	Activity Level Indicator for the State of São Paulo
<b>INCC</b>	National Cost of Construction Index
<b>INPC</b>	National Consumer Price Index
<b>INSS</b>	National Institute of Social Security
<b>IOF</b>	Financial Operation Tax
<b>IPA</b>	Wholesale Price Index
<b>IPA-DI</b>	Wholesale Price Index-Domestic Supply
<b>IPC</b>	Consumer Price Index
<b>IPC-A</b>	Consumer Price Index-Extended
<b>IPC-Br</b>	Consumer Price Index-Brazil
<b>IPC-r</b>	Consumer Price Index-Restrict
<b>Ipea</b>	Institute of Applied Economic Research
<b>IPI</b>	Industrialized Products Tax
<b>IPMF</b>	Provisional Tax on Financial Transactions
<b>IR</b>	Income Tax
<b>IRPJ</b>	Income Tax on Legal Entities
<b>IRSM</b>	Index of Minimum Wage Adjustment
<b>ISO</b>	International Standard Organization
<b>ISO</b>	International Sugar Organization
<b>ITA</b>	Information Technology Agreement
<b>ITR</b>	Rural Land Tax
<b>LBC</b>	Central Bank Bill
<b>LBC-E</b>	Central Bank Bill - Series E
<b>LC</b>	Complementary Law
<b>LDO</b>	Budget Guideline Law
<b>LFT</b>	National Treasury Financing Bill
<b>LFT-A</b>	National Treasury Financing Bill - Series A
<b>LFTE</b>	Special National Treasury Financing Bill
<b>LGN</b>	Natural Gas Liquid (NGL)
<b>LHCEF</b>	Federal Savings Bank Mortgage Bonds
<b>LTN</b>	National Treasury Bill
<b>LTN-E</b>	Special National Treasury Bill
<b>MCA</b>	Manual of Agro-industrial Credit (BCB)
<b>MCR</b>	Rural Credit Manual (BCB)
<b>Mercosul</b>	Common Market of the South
<b>MF</b>	Ministry of Finance
<b>MICT</b>	Ministry of Industry, Trade and Tourism
<b>MIF</b>	Multilateral Investment Fund
<b>Miga</b>	Multilateral Investment Guaranty Agency


<b>MP</b>	Provisional Measure
<b>MYDFA</b>	Multiyear Deposit Facility Agreement
<b>NAB</b>	New Arrangements to Borrow (IMF)
<b>NAFTA</b>	North American Free Trade Agreement
<b>NBC</b>	Central Bank Note
<b>NBC-E</b>	Central Bank Note - Series E
<b>NBM</b>	Brazilian Products Nomenclature
<b>NBR</b>	Brazilian Registered Rule
<b>NFSP</b>	Public Sector Borrowing Requirements
<b>NMF</b>	Most-favoured Nations
<b>NPR</b>	Rural Promissory Note
<b>NTN</b>	National Treasury Note
<b>NTN-A</b>	National Treasury Note - Series A
<b>NTN-A3</b>	National Treasury Note - Series A3
<b>NTN-C</b>	National Treasury Note - Series C
<b>NTN-D</b>	National Treasury Note - Series D
<b>NTN-I</b>	National Treasury Note - Series I
<b>NTN-L</b>	National Treasury Note - Series L
<b>NTN-M</b>	National Treasury Note - Series M
<b>NTN-P</b>	National Treasury Note - Series P
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OFND</b>	National Development Fund Obligations
<b>OGU</b>	General Federal Government Budget
<b>Opec</b>	Organization of Petroleum Exporter Countries
<b>Opic</b>	Overseas Private Investment Corporation (USA)
<b>OTN</b>	National Treasury Obligation
<b>PAA</b>	Attendance Outpost
<b>PAI</b>	Immediate Action Plan
<b>PAPP</b>	Program of Support to Small Rural Producers
<b>Parafe</b>	Program of Fiscal Adjustment and Financial Restructuring of the States
<b>Pasep</b>	Program of Asset Formation of Public Employees
<b>PBF</b>	Brazilian Financing Plan
<b>PDV</b>	Voluntary Dismissal Program
<b>PEA</b>	Active Working Population
<b>PED</b>	Electronic Data Processing
<b>PEP</b>	Premium for Marketing the Production
<b>PES/CP</b>	Wage Equivalence Plan by Professional Category
<b>Petrobras</b>	Brazilian Petroleum Company
<b>PGPM</b>	Floor Price Guaranty Policy
<b>PIB</b>	Gross Domestic Product (GDP)
<b>PIM</b>	Monthly Industrial Survey (IBGE)
<b>PIS</b>	Social Integration Plan
<b>PLE</b>	Buffer Stock Release Price
<b>PME</b>	Monthly Employment Survey (IBGE)
<b>PNB</b>	Gross National Product (GNP)
<b>PND</b>	National Privatization Program
<b>PNDA</b>	National Development Program for Agriculture and Industry
<b>PNDR</b>	National Rural Development Program

<b>PPA</b>	Multi-year Plan
<b>Proagro</b>	Farm Activity Guaranty Program (BCB)
<b>Procera</b>	Special Program of Credit for Agrarian Reform
<b>Prodea</b>	Emergency Food Distribution Program
<b>Prodecer</b>	Japanese-Brazilian Program of Cooperation for Development of the Savannahs
<b>Proer</b>	Program of Incentives to the Restructuring and Strengthening of the National Financial System
<b>Proes</b>	Program of Incentives to Reduce the Presence of State Public Sector in the Banking Activity
<b>Proex</b>	Export Financing Program
<b>Pronaf</b>	National Program for Family Agriculture Strengthening
<b>Pronagri</b>	National Agriculture Program
<b>Provape</b>	Program of Small Rural Production
<b>Raet</b>	Special Temporary Administration Regime
<b>RDB</b>	Bank Deposit Receipt
<b>REB</b>	Brazilian Special Registration
<b>Recheque</b>	Reserve for Fostering Currency Stability and Checks Utilization
<b>Recof</b>	Special System for Industrial Deposit with Unified Control
<b>Reforsus</b>	Reform of the Single Health System
<b>RER</b>	Special Earnings Collection
<b>RFFSA</b>	Federal Railway Company
<b>ROF</b>	Financial Operations Registration (BCB)
<b>SAF</b>	Structural Adjustment Facility (IMF)
<b>SBIF</b>	Small Business Investment Funds
<b>SBPE</b>	Brazilian System of Savings and Loans (SFH)
<b>SCCOP</b>	Clearance Service for Checks and Other Documents
<b>SCI</b>	Real Estate Credit Companies
<b>SDDS</b>	Special Data Dissemination Standard (IMF)
<b>SDR</b>	Special Drawing Rights (IMF)
<b>Seade</b>	State System of Data Analysis Foundation (SP)
<b>Sebrae</b>	Supporting Service for Small-scale Companies and Microbusinesses
<b>Secex</b>	Foreign Trade Secretariat
<b>Selic</b>	Special System of Clearance and Custody
<b>Senalca</b>	FTAA's National Session
<b>SFH</b>	Housing Financing System
<b>SFI</b>	Real Estate Financing System
<b>SFN</b>	National Financial System
<b>SGT</b>	Working Subgroups
<b>SIBR</b>	Siderbrás Debentures
<b>Siderbrás</b>	Brazilian Steel-works
<b>Siese</b>	Corporated Information System of the Electric Energy Sector
<b>Simples</b>	Integrated System of Tax Payments and Contributions by Microbusinesses and Small-scale Companies
<b>Sindmaq</b>	Machinery Industry National Union
<b>Sisbacen</b>	Central Bank Information System
<b>Siscomex</b>	Integrated Foreign Trade System
<b>SMC</b>	Mobile Cellular Telephone System

<b>SNCR</b>	National System of Rural Credit
<b>SOE</b>	Agency for the Securitization of Receivable
<b>SOF</b>	Special Operations Fund (IDB)
<b>SRF</b>	Secretariat of Federal Revenue
<b>STF</b>	Program for the Systemic Transformation (IMF)
<b>STF</b>	Federal Supreme Court
<b>STN</b>	Secretariat of the National Treasury
<b>Sunab</b>	National Superintendency of Supply
<b>SUS</b>	Health Unified System
<b>TAB</b>	Customs Tariffs of Brazil
<b>TBAN</b>	Banco Central Assistance Rate
<b>TBC</b>	Banco Central Base Rate
<b>TBF</b>	Basic Financing Rate
<b>TDA</b>	Agrarian Debt Security
<b>TEC</b>	Common External Tariff
<b>Telebrás</b>	Brazilian Telecommunications Company
<b>TEP</b>	Equivalent Ton of Petroleum
<b>TJLP</b>	Long-term Interest Rate
<b>TR</b>	Interest Reference Rate
<b>Ufir</b>	Fiscal Reference Unit
<b>Uref</b>	Rural and Agroindustrial Reference Unit
<b>UR</b>	Uruguay Round
<b>URV</b>	Real Unit of Value
<b>USAID</b>	US Agency for International Development
<b>USDA</b>	US Department of Agriculture
<b>Usiminas</b>	Minas Gerais State Steel-works
<b>VBC</b>	Basic Cost Value
<b>VOB</b>	Amounts at Order of the Banco Central
<b>VSR</b>	Values Subject to Reserve Requirements
<b>WCISO</b>	West Caribbean States Organization
<b>WTO</b>	World Trade Organization
<b>ZLC</b>	Free Trade Zone
<b>ZPE</b>	Export Processing Zones

# SUBSCRIPTION CARD

FOR INTERNAL USE ONLY



**BANCO CENTRAL DO BRASIL**

CGC: 00038166/0001-05

---

NAME OF MANUAL

NEW

RENEWAL

FOR INTERNAL USE ONLY

PARTIDA N°	DATA
VALOR R\$	
CARIMBO E ASSINATURA	

NAME			
ADDRESS			
CITY	STATE	ZIP CODE	COUNTRY
DDD	PHONE	EXTENSION	CONTACT
FAX			FAX

OBS.:

**HEADQUARTERS - PAYMENTS**

DEMAP/DISJID - RECEPÇÃO DO PROTOCOLO  
 SBS - ED. SEDE - 2º SUBSOLO - C. P. 08670  
 70074-900 - BRASÍLIA-DF

**GENERAL SUBSCRIBERS RECORD**

BANCO CENTRAL DO BRASIL - DEMAP/DISJID/SJUMP  
 SIG - QUADRA 8 - LOTE 2025 - TEL.: (061) 344-1554 E 344-1888 R. 253  
 70610-400 - BRASÍLIA-DF FAX: (061) 344-2982

**IN REGIONAL OFFICES**

REGION	DELEGACIA REGIONAL	
1a.	BELEM - ACRE, AMAPA, AMAZONAS, PARA, RONDONIA E RORAIMA	AV. CASTILHOS FRANÇA, 708 - 3º ANDAR - C.P. 651 - FONE: 224-2456 66010-020 - BELEM-PA
2a.	FORTALEZA - CEARÁ, MARANHÃO E PIAUÍ	AV. HERÁCLITO GRAÇA, 273 - 3º ANDAR - CENTRO - C.P. 891 FONE: 211-5436 60140-061 - FORTALEZA-CE
3a.	RECIFE - ALAGOAS, PARAÍBA, PERNAMBUCO E RIO GRANDE DO NORTE	RUA SIQUEIRA CAMPOS, 368 - C.P. 1 445 - FONE: 424-1143, R. 132 50010-010 - RECIFE-PE
4a.	SALVADOR - BAHIA E SERGIPE	AV. GARIBALDI, 1.211 - 2º ANDAR - C.P. 44 - FONE: 203-4658 40176-900 - SALVADOR-BA
5a.	BELO HORIZONTE - MINAS GERAIS	AV. ALVARES CABRAL, 1.605 - TÉRREO PROTOCOLO - FONE: 275-3755 R.132 30170-001 - BELO HORIZONTE-MG
6a.	RIO DE JANEIRO - ESPÍRITO SANTO E RIO DE JANEIRO	AV. PRESIDENTE VARGAS, 730 - SUBSOLO - C.P. 495 - FONE: 216-2370 20071-001 - RIO DE JANEIRO-RJ
7a.	SÃO PAULO - MATO GROSSO DO SUL E SÃO PAULO	AV. PAULISTA, 1.804 - TÉRREO - C.P. 8.894 - FONE: 252-1320 01310-922 - SÃO PAULO-SP
8a.	CURITIBA - PARANÁ E SANTA CATARINA	RUA MAL. DEODORO, 568 - TÉRREO - C.P. 1.408 - FONE: 321-2700 R.2865 80010-010 - CURITIBA-PR
9a.	PORTO ALEGRE - RIO GRANDE DO SUL	TRAV. ARAÚJO RIBEIRO, 305 - C.P. 919 - FONE: 220-5167 90010-010 - PORTO ALEGRE-RS
10a.	BRASILIA - DISTRITO FEDERAL, GOIÁS, MATO GROSSO E TOCANTINS	SIG. QUADRA 8 - LOTE 2025 - FONES: 344-1554 - 344-1888 R. 247 - FAX: 344-2982 70610-400 - BRASILIA -DF

**INSTRUCTIONS**

- 1 - THE INITIAL SUBSCRIPTION COVERS THE MANUAL ITSELF AND SUBSEQUENT UPDATINGS FOR A PERIOD OF ONE YEAR.
- 2 - SUBSCRIPTION RENEWAL ENTITLES THE SUBSCRIBER TO UPDATINGS FOR AN ADDITIONAL PERIOD OF ONE YEAR.
- 3 - FAILURE TO PAY THE RENEWAL FEE WILL RESULT IN SUSPENSION OF REMITTANCES, IN WHICH CASE THE SUBSCRIBER WILL BE RESPONSIBLE FOR ANY ADVERSE CONSEQUENCES.
- 4 - IF NOTIFICATION OF RENEWAL IS NOT RECEIVED BY MAIL, THE SUBSCRIBER SHOULD CONTACT THE SUBSCRIBER CONTROL OFFICE.
- 5 - PAYMENT SHOULD BE MADE BY CHECK TO "BANCO CENTRAL DO BRASIL".